

National Reform Programme of the Slovak Republic 2014

April 2014



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Summary

The National Reform Programme (NRP) describes structural measures aimed at achieving a sustainable economic growth, creation of new work positions and improving the quality of life. Even though the NRP provides a summary of consolidation measures, the key document of the Slovak Government in this respect is the Stability Programme. After the current successful consolidation of public finance, employment represents the biggest challenge of the economic policy; it is therefore the key topic of the NRP 2014.

One of the key tasks of the Slovak Government is to consolidate public finances in sustainable manner so that the deficit is kept below 3% of GDP in 2013. In 2013, the general government deficit amounted to 2.77 % of GDP, below the budgeted target of 2.94 % of GDP. The consolidation effort in the amount of 1.9% of GDP was one of the highest ones since joining the EU. The extent of measures, compared to the no-policy-change (NPC) scenario, amounted to 2.2 % of GDP.

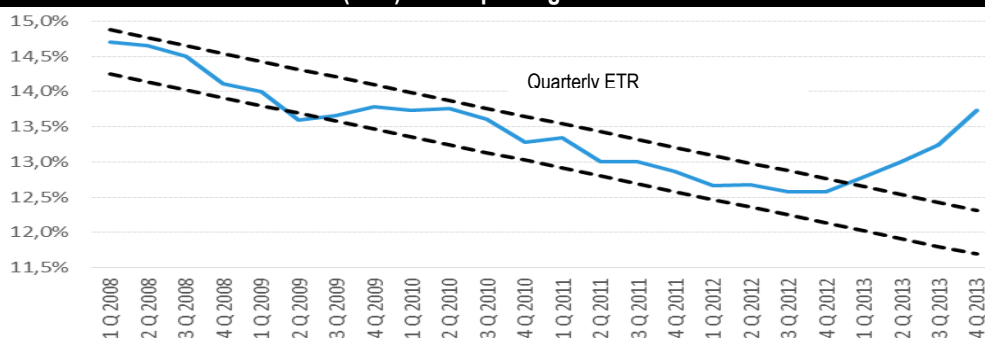
The target in 2014 remains to be the public finance deficit of 2.64% of GDP, in harmony with the approved General government budget 2014 – 2016. This year the Government expects Slovakia to leave the Excessive Deficit Procedure. In the upcoming years, the deficit is expected to diminish gradually in line with the provisions of the Stability and Growth Pact and the Fiscal Compact respecting the constraints given by the national fiscal rules. The target deficit value has been set at 2.49 % of GDP in 2015, 1.61 % of GDP in 2016 and 0.54 % of GDP in 2017. The meeting of these targets would stop the public debt-to-GDP with the aim not to exceed the limit of 57 % of GDP, and at the same time it will enable its gradual decrease from 2016.

The adopted amendment of the **Budgetary Rules** Act of general government is implementing the Fiscal Compact and introducing the balanced structural budget rule and the accompanying corrective mechanism. The amendment of the Budgetary Rules Act applicable to municipalities and self-governing regions is introducing a sanction mechanism for even lower debt levels.

In order to **combat tax evasion**, 50 measures were adopted in the Action Plan, focused mainly on improving VAT collection. The recapitulative statement valid from 2014 is one of the most important currently implemented measures. It enables to track particular business transactions of tax-payers, confront them with the data which the tax payers stated in their tax returns and identify tax fraud even in complicated chains of companies.

The measures adopted to **improve tax collection are bringing important outcomes**. The VAT gap, defined as the difference between theoretical and actual VAT collection, could be reduced by 10%. The gap between an average VAT collection in the EU and in our country has thus shrunk by 20%. The Government will introduce other measures to decrease tax evasions regarding VAT as well as corporate income tax, such as centralization of information from the toll system, motor vehicles and population register, or access of the Financial Administration to the information about accounts of investigated persons and companies. The Registry of Insolvent Entities, the Registry of Disqualified Persons, disclosure of corporate income tax payment and rating of tax entities will also contribute to a higher transparency. Specialized senates at regional courts focused on taxes will be established

Chart 1: Effectiveness in VAT collection (EDS) was improving also in the second half of 2013



Source: IFP



The Government will continue **increasing the efficiency of public expenditures**. Some of the **expenditure priorities** include in particular **wages of teachers and employees of the offices of labour, social affairs and family (labour offices), and increasing the capacities of pre-school education**. Wages of pedagogic and expert staff in regional education increased by 5% in 2013. The same growth is expected in 2014. Wages of labour offices employees providing counselling services will increase to the average wage level in public administration in 2014. Higher capacities in kindergartens will enable to provide care for 95% of children aged 4+.

The long term sustainability of the pension scheme has increased. Most significant changes include a change in the pension rise mechanism, automatic increase of the retirement age and increasing the solidarity in granting pension benefits in the pay-as-you go pillar. As for the social security of policemen and soldiers, in 2013 the minimum number of years of service necessary to obtain retirement pension increased, and changes which motivate them to prolong their career were introduced.

The active labour market policies reform (ALMP) abolished duplicate and inefficient programmes and introduced the facultative nature in their provision. Other measures to increase employment will focus on **implementation of the amendment of the Act on Employment Services, implementation of the guarantee system for the youth and functioning of labour offices**. Improved public employment services at labour offices will decrease the information asymmetry between the supply and demand for work, but will also enhance the awareness of the offered ALMP programmes options.

The **labour costs** of low-income workers will continue decreasing. The implemented contribution relief waived social contributions of newly-hired employees, who were long-term unemployed before, for the period of one year. Creation of new jobs for young people under 29 years of age continues to be subsidized. After the efficiency of these programmes has been assessed, their extension will be considered. In addition, **in-work benefit within the system of assistance in material need** will be provided simultaneously up to a certain wage threshold, which will increase the disposable income of unemployed or inactive persons for several months after their hiring.

The public administration system will undergo a considerable reform to improve the quality of services provided to the citizens and make its functioning more efficient, what will bring savings in functioning of the state. Regional offices were integrated in district offices in the regional capitals and specialized local general government offices in county offices. Client centres are being established which will ensure the contact of the population with all integrated offices. Nine of them were established until March 2014.

Transformation and integration of budgetary and contributory organizations is continuing at the central level. Until now 25 subordinate organizations have been affected by reorganization, with savings of operating costs amounting to 14% in 2014. A new Act on Civil Service will increase the quality of state administration. Analytical units have been established at ministries and their capacities are strengthening.

Vocational schools and universities have also undergone significant changes. Conditions for enrolment of students at secondary grammar schools and for awarding titles of university professors have become more strict and external university studies have been prolonged. Inclusion of marginalized groups is continuing, also through school assistants, in addition to other measures. Measures in **science and research** will be mainly based on the adopted Research and Innovation Strategy for Smart Specialization of SR (RIS3). They will focus on stabilizing public resources and promoting private funding of science and research. The existing network of government implementation institutions will be merged into two independent agencies – research and technological one.

The effort in healthcare is focused on construction of a new hospital in Bratislava, accompanied by optimizing other capacities, stopping the indebtedness of hospitals and introducing a payment for a diagnostic group (DRG). Construction of missing sections of motorways and expressways as well as renewal and maintenance of A-class roads are continuing in the transport sector. Planned constitutional changes in the judiciary will include the immunity restriction of judges and other changes, including the function of the President of the Supreme Court and Chief of the Judicial Council. Measures in power engineering will focus on higher energy efficiency.



Introduction

The global and the European economy is recovering from the crisis second half-time. According to the EC's forecast, the Slovak economy will be the sixth fastest growing economy of the EU this year. However, these signs of recovery are reflected only gradually in the employment development.

The current consolidation of public finance enables the country to achieve healthy, efficient and long term sustainable public finance in the medium term. In 2014 the Government expects Slovakia to leave the Excessive Deficit Procedure. The Government will in line with the domestic and foreign commitments continue recovering public finance also in 2014 and 2015, until meeting the medium-term budgetary target of the structural deficit of 0.5% of GDP in 2017. Such consolidation tools will be selected with respect to have the smallest negative impact on economic growth and on population, with the effort to protect expenditures which increase the economic growth, productivity and employment in Slovakia.

In the upcoming years, the Government of SR will focus on dealing with structural issues. The biggest challenge after the current consolidation is to tackle the unemployment problems which form the crucial topic of NRP 2014. The average unemployment duration and unemployment rate in Slovakia exceed the average of V3 countries (V4 except for Slovakia) and EU for all age groups. The activity rate and unemployment rate of low-educated population is one of the lowest or highest ones respectively from among the EU countries. In addition to a positive social aspect, tackling the unemployment problems has an important impact on performance of the economy. It is necessary to prevent the loss of skills of the labour force by maintaining employment and increasing the qualification of those who have problems finding a job. Measures in this respect will focus on improving the motivation of the labour market actors on the side of the supply and demand, improving employment services, employment of vulnerable groups including young people, and integration of marginalized Roma communities.

The necessary policies have been identified by analysing major obstacles to economic growth, however, the key challenges have been chosen by taking into account some other factors, as well. They do not necessarily increase GDP but they contribute to a higher quality of life. Even after considering specific Council recommendations, the most important areas increasing the quality of life are healthy public finance, employment, social inclusion, education, science and innovation, health, well-functioning and transparent business conditions, law enforcement, infrastructure, efficient public administration and sustainable environment.

NRP describes structural measures aimed at achieving a sustainable economic growth, creation of new work positions and improving the quality of life. The Government of SR indeed realizes the limits caused by the need to recover the public finance. Many short-term expenditure policies promoting aggregate demand also permanently strengthen the Slovak economy. They include e.g. education of the unemployed or building the transport infrastructure. Conditions for a further development of regions and elimination of differences among them will be prepared based on the National Strategy for Regional Development of SR, mainly by building infrastructure, strengthening the regions through production investments as well as through an economical, effective and purposeful use of EU funds.

At the international level, this material represents measures to meet the targets contained of the Europe 2020 strategy, defined in the Annual Growth Survey for 2014 and Integrated Guidelines for the Europe 2020 Strategy, as well as to meet the specific recommendations of the Council for SR. Cohesion Policy is an important tool to meet the targets of the Strategy, while its new 7-year programming period started in 2014.

Financing of NRP measures will be ensured within the set expenditure limits of budget chapters. It is thus in line with the consolidation effort of the Government of SR. NRP also summarizes consolidation measures; however, the Stability Programme is a crucial document of the Government of SR in this regard.

The information on the tasks resulting from central state administration authorities from the National Reform Programme SR 2014, the manner, deadline and budgetary costs of their implementation as well as the status of the current implementation of assigned tasks and their link with other strategic EU documents are contained in the Action Plan for the National Reform Programme SR 2014.



NRP is based on the Manifesto of the Government of SR for 2012 –2016 with 10 key tasks set by the Government of SR. Some of the most urgent ones include consolidation of public finance, decreasing the high unemployment of young people and a systemic solution of the long-term, mainly regional, unemployment. NRP also details the Government targets related to promoting long-term tendencies for the economic, social, environmental and scientific-technical development of Slovakia, improving the quality of life, increasing law enforcement and a systemic elimination of corruption at all levels of society. The basic focus of the measures contained in NRP 2014 is also determined by sector strategies, in particular the economic policy strategy, future financial policy strategy and the employment strategy which is under preparation.

Ministers responsible for the economic and social agenda such as the labour market, social inclusion, education, business environment, energy, environment, healthcare, transport, regional development, etc. are primarily involved in NRP preparation and implementation. Other ministers, Government plenipotentiaries and representatives of other state administration authorities participate in delivering the strategy through cooperation in selected areas. Consultations with partners, including the third sector, are held continuously throughout the year in the form of seminars and presentations focused on current topics.

Box 1: NRP basis in the context of EU policy coordination

The crisis has revealed crucial problems and unsustainable trends in many European countries and showed the deep interconnections among Member States' economies. Stronger economic policy coordination within the entire EU, as defines in the Europe 2020 strategy, should contribute to addressing the aforementioned problems, enhancing economic growth, creating jobs in the future and as well as to an overall improvement in the quality of life. Reinforcing the European Semester with the Macroeconomic Imbalances Procedure will even more strengthen coordination across macroeconomic, fiscal and structural policies of EU Member States.

Given the deep interconnections among EU economies, it is more effective to coordinate Member States' structural policies at the EU level. Even though they fall within the national competences of individual Member States. Member States may draw inspiration from examples of their successful peers. There is an EU wide consensus as regards the general course of economic and employment policies of its Member States. The coordination procedure under the Europe 2020 strategy, the so-called European Semester, begins with the Annual Growth Survey (ASG) which contains an analysis of the EU economy and sets key priorities for macroeconomic and microeconomic reforms, as well as for labour market reforms. Member States then incorporate the ASG priorities in their own strategic documents that contain specific measures for economic development – National Reform Programmes. In order to boost growth and employment and enhance the ability to respond to fiscal, macroeconomic and structural challenges, it is urgently necessary to complete and implement the framework for better economic governance and reinforce links among individual policies, for example between the cohesion policy and EU economic governance, macro-regional strategies, etc. The European Commission will assess the reform progress made by individual countries and measures proposed under their NRPs and stability programme and/or the convergence programme and, based on its findings, will provide country-specific recommendations of reform measures. The European Semester ends with their approval by the EU Council.. The semester roughly corresponds to the period of the first half of a year.

With respect to the fact that many problems have persist in European economy, the priorities of the 2013 Annual Growth Survey remain the same as the year before. They are:

- Pursuing differentiated growth-friendly fiscal consolidation;
- Restoring normal lending to the economy;
- Promoting growth and competitiveness for today and tomorrow;
- Tackling unemployment and the social consequences of the crisis;
- Modernising public administration.

To meet the long-term objectives under the Europe 2020 strategy and AGS priorities, it is essential that the Slovak Republic adopts structural reforms that will contribute to sustainable economic development and growth in employment. In this respect, NRP provide an analytical assessment of the development and conditions of the Slovak economy with an focus on identification of key challenges stemming from AGS priorities and taking into account Slovakia's specifics. The present measures will enable to progress in these areas and convergence towards the Europe 2020 strategy objectives.



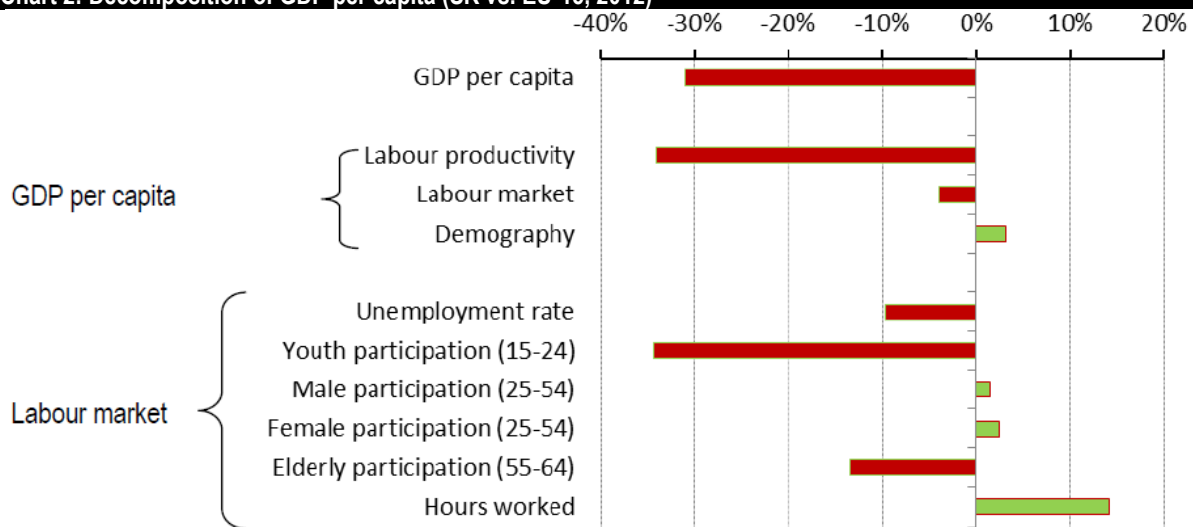
1 NRP topics

The economic growth, measured as a growth in GDP, and improvements in the quality of life are mutually interconnected objectives because economic growth is also prerequisite to non-material sustainable advancement of countries. Therefore, NRP priorities were largely identified by comparing GDP decomposition for Slovakia with the EU-15 average. Key Programme areas thus take into consideration also other factors which do not necessarily increase the GDP, but contribute to a higher quality of life.

Problematic issues in GDP creation have been determined by decomposing the SR production. We have based these efforts on a Commission database which divides GDP per capita to its three basic components: (1) labour productivity; (2) labour market; and (3) demography. The labour market component is sub-divided into other subcomponents. In general, we can identify eight components of GDP. Comparing these components against advanced EU Member States we identify those production factors in which the Slovak economy lags most behind and which, therefore, have the greatest potential for future growth in GDP in Slovakia.

Labour productivity has grown by 33% since 2004, considerably overrunning the growth in EU-15 (6%). Unit labour costs¹ still remain to be markedly competitive (0.44 in SR compared to 0.61 in EU-15 in 2013). Since the crisis in 2009, Slovakia has improved in this indicator, contrary to the EU average. Nonetheless, labour productivity remains to be the major cause of a lower GDP per capita compared to EU-15. Similarly to other new Member States, the difference in labour productivity reflects a lower capital stock per worker and a lower level of overall factor productivity. The second negative contribution to GDP per capita comes from the labour market participation, though to a lesser degree than from labour productivity. The demographic component contributes positively to overall GDP per capita when compared to the EU.

Chart 2: Decomposition of GDP per capita (SR vs. EU-15, 2012)



Source: LAF database EC, MoF SR

Based on the aforementioned GDP decomposition we have identified five components with the strongest potential for growth in GDP per capita in Slovakia:

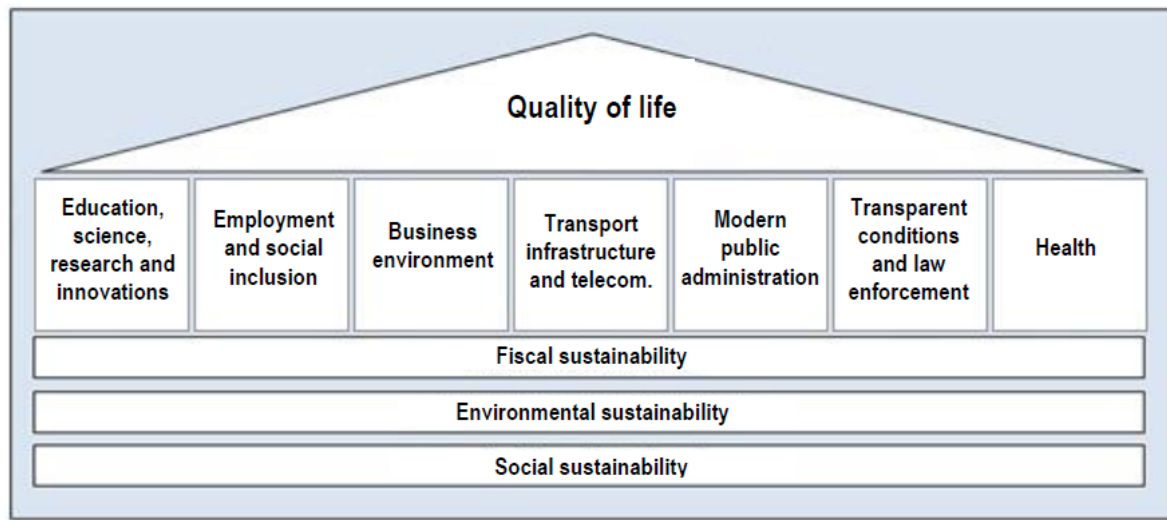
- Labour productivity has since 2001 made the largest contribution to the economic growth in Slovakia. Nevertheless, it has clearly remained the most important factor affecting the low level of GDP per capita. The growth in productivity is mostly driven by capital formation and increasing productivity of capital.

¹ Unit labour costs are calculated as a share of remunerations per employee to the labour productivity of the employed population. It expresses the costs of a unit of production and enables to compare the competitiveness of similarly or equally productive countries.



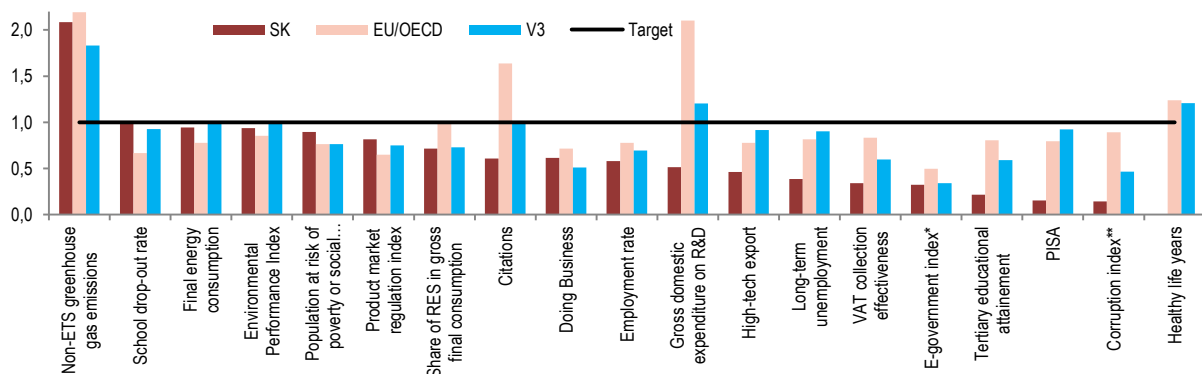
- With respect to the labour market, three components deserve attention. The first one is the employment rate of young people which considerably fell between 2001 and 2011 and has moved downwards from the EU-15 average even more. However, it is more than offset by their increased participation in tertiary education which will have a positive impact on labour productivity in the future. The second important component is the employment rate of older people which considerably lags behind the EU-15 average, despite having increased due the increase in retirement age. The third component is the unemployment rate which remains relatively high in spite of its considerable decrease in the recent years.
- The relevance of the demographic component will become more prominent in the future when the share of working age population begins to shrink, having a negative impact on the overall economic growth. Therefore, it is necessary to also take account of the problems associated with, for example, the fiscal sustainability of pension and healthcare systems. At this moment, the share of working age population is greater in Slovakia than in the EU-15 which means that the demographic component makes a positive contribution to Slovakia's GDP per capita in comparison to the average of the old EU members.

Chart 3: Approach to increasing the quality of life in SR



With regard to the targets set until 2020, Slovakia has the best achievements mainly in environmental policy and power engineering. Slovakia more than doubled the target to decrease the emissions not covered by the ETS already in 2012. Other areas in Slovakia, close to the target value or even higher than the EU or V3 average, include school drop-out rate and a decrease in the final energy consumption.

Chart 4: Comparison of achieving different objectives in the main National Reform Programme areas (1= SK objective for 2020)



Note: most indicators are updated for the last available year (2013, 2012) except for *(2010) and **(2011)

Source: MoF SR



On the contrary, the areas where Slovakia is most lagging behind, compared to the EU or its neighbours, represent the biggest challenges: number of healthy life years, corruption and results of pupils testing at primary schools (PISA). It will be necessary to continue in the recent achievements in improving VAT collection.

The key priority for the future of the economy is the sustainability and quality of public finances. A long-term fiscal stability is an important prerequisite for macroeconomic stability and winning the confidence of financial markets. In order to ensure the provision of public services on a satisfactory level without the need to increase the overall tax burden while continuing fiscal consolidation, it is absolutely essential to improve the quality of public finances namely through more effective allocation of public expenditures and improved collection of taxes and social security contributions. An emphasis will also be placed on better utilisation and effective management of state-owned assets. They have a considerable development potential both for the consolidation and sustainability of public finances, as well as for the promotion of economic growth. With respect to the future demographic development, attention should also be paid to areas sensitive to population ageing, the pension system and healthcare sector in particular.

Structural measures that improve the business environment, also including productivity and profitability of all economic activities, are most important for the growth in labour productivity and capital stocks from the medium- and long-term perspective. Another contribution to the growth in GDP is the transport and telecommunication infrastructure which enhances the productivity of invested capital. The productivity is equally affected by the quality of public institutions, for example, their ability to communicate by electronic means, costs and duration of business lawsuits, and predictability and transparency of decision-making by state authorities.

In the long term, sources of growth in labour productivity are different. A progress in technologies is linked to the innovation in businesses and application of the results of science, research and development in practice. The human capital is mainly affected by education. It is therefore extremely important to create an environment that will encourage private investments in innovation, increase effectiveness of research and development, and improve the transfer of theoretical knowledge into practice. Therefore, one of the Government's key priorities is to increase the quality of education, science, research and innovation.

The level of education and productivity of population indirectly influences employment, as well. The labour force supply can also be improved through interventions in the employment services, for example, through counselling, education and practical training for graduates. The state may further intervene in the functioning of the labour market through the Labour Code, wage formation or targeted incentives to support marginalised groups. These measures are included under the unified employment priority.

Social sustainability is primarily associated with income inequalities where Slovakia, along with the Czech Republic and Slovenia, ranks among the most egalitarian countries of the European Union. Therefore, it is necessary to focus rather on the efficiency and effectiveness of redistribution policies, in particular when addressing problems of marginalised social groups. The most effective way to ensure growth in population's income is by increasing employment, therefore, social inclusion and poverty reduction are included under the employment and social inclusion priority.

Improvements in the quality of life are closely related to the GDP growth. Naturally, other extremely important factors for the quality of life have therefore been included among the aforementioned priorities related to improvements in the business environment and functioning of public institutions. For example, public confidence, enforceability of judicial protection of rights and elimination of corruption contribute to the private welfare in an equally substantial manner as to the economic growth. The quality of life also depends on the health conditions of an individual. It is therefore the state's responsibility to organise the system of public health insurance and ensure access to, and availability of quality healthcare services. Inclusion of the art and culture development in strategic documents and scientific and research institutions with a nation-wide competence will also be enforced.

Structural policies often neglect some of the limitations a public policy must respect. It should therefore be noted in this regard that the efforts to improve the quality of life must also take into consideration environmental sustainability. The environmental sustainability is most frequently associated with the climate change and



reductions in energy intensity of an economy. Important restrictions in this area also include costs of long-term storage, processing and disposal of burnt nuclear fuel and of elimination of the existing environmental burdens.

Outcome indicators		Sponsor
Fiscal policy and public finance		
1	Long-term sustainability indicator (GAP)	MoF SR
2	VAT collection effectiveness	MoF SR
Education, science and innovation		
3	PISA	MoESRS SR
EU	4 School drop-out rate	MoESRS SR
5	Citations per researcher	MoESRS SR
EU	6 Tertiary educational attainment	MoESRS SR
EU	7 Gross domestic expenditure on R&D (GERD)	MoESRS SR, MoE SR
8	High-tech export	MoE SR
Employment and social inclusion		
9	Long term unemployment rate	MoLSAF SR
EU	10 Employment rate	MoLSAF SR
EU	11 Population at risk of poverty or exclusion	MoLSAF SR, Mol SR, Government Office of SR, MoTCRD SR
Business environment		
12	Doing Business	MoE SR, MoJ SR, MoF SR
13	Product market regulation index	MoE SR, MoF SR, MoH SR, MoTCRD SR
Modernising public administration		
14	E-government index	MoF SR, Mol SR
Transparent conditions and law enforcement		
15	Corruption	MoJ SR
Health		
16	Healthy life years	MoH SR
Environmental sustainability		
EU	17 Non-ETS greenhouse gas emissions	MoEnv SR, MoE SR, MoTCRD SR, MoARD SR
EU	18 Share of RES in gross final consumption	MoE SR, MoEnv SR
EU	19 Final energy consumption	MoE SR, MoTCRD SR, MoARD SR
20	EPI trend	MoEnv SR

Box 2: General government efficiency indicators

Increasing the efficiency of general government should be built on comparing the costs and outcomes of individual products, services or activities of general government. Systematic monitoring of performance of general government by applying exact and unambiguous indicators will enable to assess the outcomes and success rate of not only the cross-cutting targets of the Government of SR but also of activities of ministries and all other chapters of public finance.

NRP indicators define basic indicators for the whole general government. They are divided thematically according to the areas which contribute most to increasing the quality of life. However, their disadvantage is that the responsibility for individual indicators cannot be assigned to a particular ministry. We therefore propose additional Outcome indicators which will enable to monitor the main agenda of individual ministries and to increase the quality of the decision-making process. They will increase the ability of the ministries to analyse, make decisions and plan, as they will provide information necessary for identification of developmental needs, decision-making and choice of policies. They will also enable to trace the outcomes of selected policies,

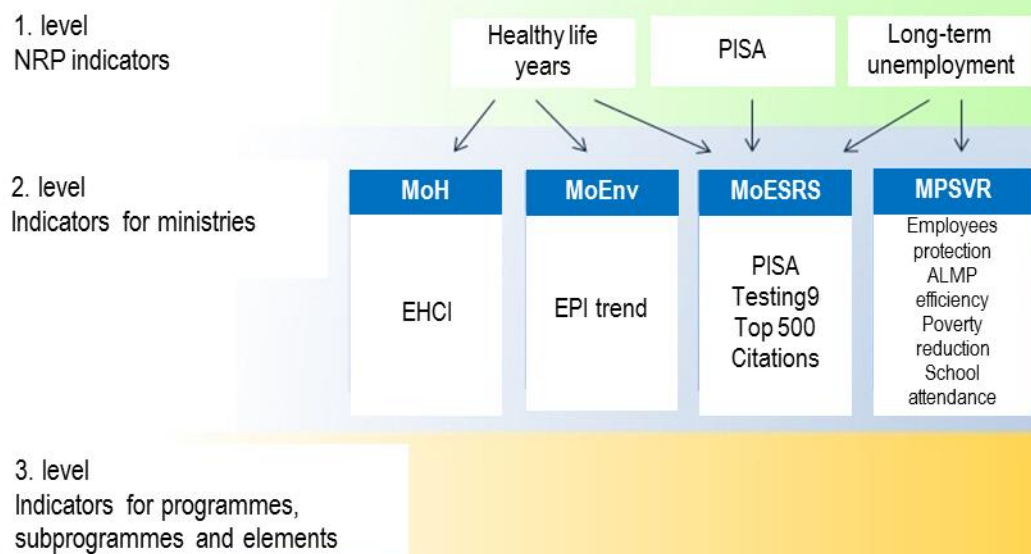


their functioning and sustainability. They should contribute to transparency and better information about outcomes of general government and thus to improve public discussion about the activity and outcomes of Government policies. This will also strengthen the responsibility of ministries and their management in the eyes of the public.

The list of indicators for ministries forms an annex of this NRP. It is necessary to choose the indicators which are most objective, independent, based on facts and transparent. The indicators themselves offer only partial information about the success of public finance in the given areas. Each assessment of them should also compare outcomes with inputs and take into consideration other relevant impacts. A more comprehensive assessment of efficiency and effectiveness of public policies of ministries must still be the subject of individual analyses. The set of indicators will further develop in the future. Comments from ministries and expert public, development and trends abroad and in international institutions as well as new data resources will contribute to it.

Both sets should be supplemented by partial, mostly input and output, indicators for the ministries which will enable a deeper analysis of ministerial policies. It is also necessary to simultaneously create indicators for local governments and other general government entities.

Picture of three levels of indicators for general government





2 Implementation of measures of the National Reform Programme 2013

2.1 Assessment of implementation of the measures as per individual specific recommendations

1. Consolidation of public finance and sustainability²

Implement as envisaged the budget for the year 2013, so as to correct the excessive deficit in a sustainable manner and achieve the fiscal effort specified in the Council recommendations under EDP. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable Slovakia to reach the medium-term objective by 2017. Avoid cuts in growth enhancing expenditure and step up efforts to improve the efficiency of public spending. Building on the pension reform already adopted, further improve the long term sustainability of public finance by reducing the financing gap in the public pension system and increasing the cost-effectiveness of the health-care sector.

Under the General government budget for 2013 –2015, the Government's fiscal target for 2013 was defined as reaching the general government deficit of 2.94 in % of GDP. This target reflects the recommendations of the Council of EU and it is a necessary condition for leaving the Excessive Deficit Procedure. The resulting **deficit in 2013 amounted to 2.77 % of GDP**, which means an improvement by 0.17 % of GDP compared to the budget. This target could be met also thanks to consolidation of public finance in line with the Government plan.

The effort to decrease the impact of consolidation on the economic growth is also reflected in the **prioritization of productive expenditures** in the state budget on areas promoting growth and employment. They include in particular education, science, research and transport infrastructure. Higher expenditures in education are mainly spent on wages. Salaries of pedagogic employees of regional education have increased by 5% and a similar growth in the regional and university education is also expected in 2014. Expenditures on science and technology increased by 8% in 2013. Investments in transport infrastructure have remained at a comparable level than in the past. Increasing the efficiency of public expenditures and promotion of pro-growth expenditures will continue also in 2014, in line with the approved general government budget. Measures in this area are described in detail in the part 4.1.

Amendment of the state administration Budgetary Rules Act transposed provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the so-called Fiscal Compact). In January 2014, the balanced structural deficit rule and the accompanying corrective mechanism, including a limit of general government expenditures, came into force. Compliance with the rule is usually assessed twice a year and it is also performed by the fiscal responsibility council.

Amendment of the local government Budgetary Rules Act tightens the rules for financial management of local governments by introducing sanction mechanisms even for lower debt levels of local governments and increases the information obligations. The adopted measures will enable a better control of local governments financial management, representing approximately 14% of public expenditures. Both amendments became effective in January 2014.

Changes in pension insurance, which form a part of the social insurance system, have increased its long term sustainability. Most significant changes include a change in the pension adjustment mechanism, automatic increase of the retirement age and modification of the solidarity coefficient in granting pension benefits in the pay-as-you go pillar. At the same time, opt-in conditions for the capitalisation pillar have been modified, the rate of obligatory contributions for old-age pension saving has been decreased (from the original 9% to 4% of the assessment base) and the possibility to pay voluntary contributions to the old-age pension saving with a reduced

² Consolidation measures will be added to the NRP after finalization of the Stability Programme in the following days.



rate of taxation has been introduced (the reduced rate of taxation may be applied until the end of 2016). The number of mandatory managed pension funds with the possibility to create any other pension funds by pension fund management companies has been reduced. In February 2014, an amendment of the Act on the Old-Age Pension Saving Scheme was submitted to the National Council of SR, regulating the payment of pensions from the capitalisation pillar. Since the first claims for pensions from the pension system's fully-funded pillar will arise in 2015, the amendment regulates the form of their payment. Pensions will be paid in the form of a life pension by concluding an insurance contract, yet for some savers also remains the option of a temporary pension or programme choice. The amendment is also introducing a new institutional framework for old-age pension saving entities (central information system of offers).

There were also changes in the **social welfare system of policemen and soldiers** which are also aiming at improving its long term sustainability. The amendment is increasing the minimum number of years of service necessary for the entitlement to the retirement pension, retirement contribution and payment of severance and survivor benefits, while the base for their calculation is gradually decreasing. Insurance premium rates for both employers and employees for the retirement pension are increasing. The system of increasing retirement pensions is changing (It is gradually becoming similar to the pension insurance which is a part of the social insurance managed by the Social Insurance Company) and the maximum replacement rate is increasing, motivating soldiers and policemen to prolong their career.

2. Combating tax fraud

Speed up the implementation of the action plan to combat tax fraud and continue efforts to improve VAT collection, in particular by strengthening the analytical and audit capacity of the tax administration. Improve tax compliance. Link real-estate taxation to the market value of property.

In 2012, the **Action Plan to Fight Tax Fraud** was approved, in which 50 measures were adopted, focused mainly on decreasing VAT evasions. **In the first stage** of the Action Plan, a measure enabling to cancel registration of non-communicating persons and persons who could not be contacted in the payers' register, and the institute of joint and several liability for tax was introduced. The amendment of the act introduced the obligation for risk persons to lodge a financial guarantee in VAT registration, obligatory monthly taxation period for new VAT payers for 12 months and the turnover level for the obligatory monthly taxation period was reduced. New criminal acts of tax fraud and obstruction of tax administration have been defined. In July 2012, the pilot project of "Tax Cobra" was launched, in which cases of major tax frauds are dealt with in cooperation with the Police and prosecution.

In the second stage the regime of a stricter tax surveillance over risk entities was introduced, the obligation of the administrator to deposit monetary deposits of partners in Ltd companies on a bank account. An anti-corruption programme was launched within the Financial Authority of SR and with the intention to prevent issuing fictitious receipts, the obligation of cashless payment with the limit over EUR 5,000 has been introduced.

Implementation of a lottery of receipts is an additional tool to promote fair payment of taxes and the effort to combat tax evasion in VAT. Since September 2013, consumers have a possibility to register their receipts from the purchase of goods and services to a lottery which is drawn regularly twice a month. The aim of the measure is to motivate customers to request a receipt when purchasing goods and services. Since launching the lottery in September 2013, high interest of the population was seen and 58.8 million receipts were registered until the end of March 2014. The lottery does not only motivate consumers to require receipts with each purchase, but it also helps identify "black" cash registers.

Since 1 January 2014, tax payers have the obligation to send electronic monthly statements on national supplies of goods and services. The implementation of a **recapitulative statement** on particular business transactions of tax payers should help efficiently combat tax frauds. Selected data from the recapitulative statement may be confronted with the data which the tax payers stated in their tax returns. An analytical software of the FA SR will be able to assess the data stated in statements in real time and to match VAT in input and output based on the VAT identification numbers, but mainly the justness of VAT on input. This will create an efficient option to cross-



check this data with the data of individual trading partners and to identify frauds in VAT also in complicated networks of companies, what will be directed at strengthening the revenues of the state budget.

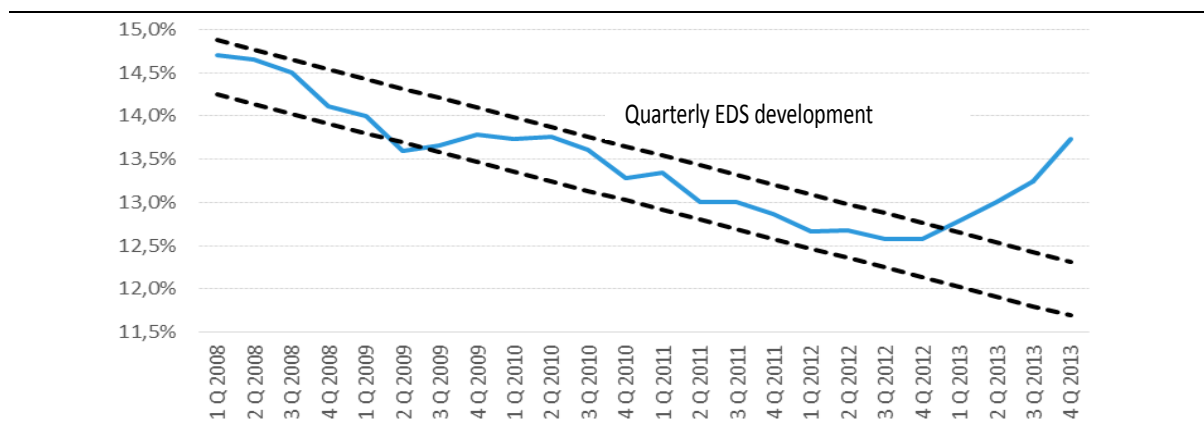
Since January 2014, the national transfer of tax obligation on the beneficiary (the so-called **reverse charge**) has been extended to include risk commodities, limiting carousel trades with them. In addition, specialized senates at regional courts focused on taxes will be established.

Other measures introduced are the obligations of the deposit administrator to deposit monetary deposits of partners on establishing limited liability companies on bank accounts and modification of erasure of companies "ex off". Financial investigation institute establishment analysis has been prepared as an instrument to increase the efficiency of finding out financial circumstances of perpetrators in particular in relation to tax criminal acts.

Introduction of a tax licence, which will be differentiated according to the types of companies, is a new measure. The measure is focused on preventing evasion of corporate income taxes.

Measures intended to improve tax collection are manifested in the outcomes. After a several years of decreases, reversion of the negative trend of VAT collection effectiveness measured through an efficient tax rate was successful. Since 4Q 2012, it has seen growth in four subsequent quarters and currently it is at the level of 2010. According to the current estimate, the improvement of effectiveness in the collection between 2012 and 2013 increased the VAT collection by EUR 289 million (0.4% of GDP).

Chart 5: Effectiveness in VAT collection (EDS) was improving also in the second half of 2013



Source: IFP

3. Public employment services and long-term unemployment

Take measures to enhance the capacity of public employment services to provide personalised services to jobseekers and strengthen the link between activation measures and social assistance. More effectively address long-term unemployment through activation measures and tailored training. Improve incentives for women employment, by enhancing the provision of child-care facilities, in particular for children below three years of age. Reduce the tax wedge for low-paid workers and adapt the benefit system.

The **ALMP reform** abolished duplicate and inefficient programmes. Other seven tools are no longer legally claimable. As a result of this change, a new process of their approval has been introduced. At the same time, principles for using finances to apply active measures in the labour market with no legal claims. The spare administrative resources will be used for individualisation of professional and information-counselling for disadvantaged job seekers (young people, long-term unemployed, etc.). Assessment of efficiency and effectiveness of ALMP tools will improve. In the first stage of improvement of labour offices, an E-guide of the labour market was made available which should help job seekers select a suitable job and also help employers select a suitable employee based on matching vacancies with job-seeker profiles. 153 programmes have been



implemented until now with the aim to improve the managerial and communication skills of workers in public administration. Emphasis was laid on workers at client centres.

Provision of the so-called loan guarantee was introduced as a part of the Act on Employment Services in order to promote maintaining employment in SMEs. The loan guarantee is a product of Slovenská záručná a rozvojová banka and it is provided in the form of a guarantee for a loan and/or in the form of an interest rate subsidy. The aim is to help companies which, with regard to their risk profile and potential liabilities towards Social Insurance Company and health insurance companies, find it difficult to obtain a loan or a loan with acceptable conditions for their further development.

In November 2013, an amendment of the Social Insurance Act introduced a **contribution relief** for employees who were long-term unemployed before and for their employers for one year. The hired employers had to be recorded in the job-seekers' register before, at least for 12 months, and their income must not exceed 67% of the average wage two years ago. The measure should improve work habits and skills of the long-term unemployed and to increase their employment. Almost 1,900 of such employees were recorded in late February 2014.

In the second stage of **benefit system modification** was adopted the Act on Assistance in Material Need which restricts the entitlement to activation benefit by increasing the minimum number of hours worked in the extent of at least 64 hours per month. At the same time, the new act conditions the entitlement to the benefit in material need of an adult employable household member by working 32 hours per month if such activity has been offered to him/her. The third stage of the benefit system modification included modification of conditions for providing benefits to support of families with children if their purpose is not being fulfilled.

Capacities of pre-school facilities are being enhanced, also by modifying the existing premises of primary schools, in order to increase employment of women and improve inclusion of marginalized communities. Compared to the school year 2012/2013, the number of classes in kindergartens has increased from 7,395 to 7,525; the number of kindergartens has increased by 9 and 3,548 more children have been enrolled to kindergartens. Measures will be implemented to stimulate the demand of marginalized groups for pre-school education.

The **amendment of the Act on Lifelong Learning** of 2012 facilitated the access of adults to new qualifications based on their previous experience or after undergoing educational programmes of further education by extending the group of institutions entitled to verify competence and by loosening the rules for qualification acknowledgement. Contents of educational programmes, material equipment and staffing necessary for courses are continuously updated, while employers are involved as well.

4. Youth unemployment and connection of education and practice

Step up efforts to address high youth unemployment, for example through a Youth Guarantee. Take steps to attract young people to the teaching profession and raise educational outcomes. In vocational education and training, reinforce the provision of work-based learning in companies. In higher education, create more job-oriented bachelor programmes. Foster effective knowledge transfer by promoting cooperation between academia, research and the business sector. Step up efforts to improve access to high-quality and inclusive pre-school and school education for marginalised communities, including Roma.

ESF funds are also used to support projects to **create new jobs for job seekers under 29 years of age** in the form of labour costs subsidies for employers. After assessment of the current provision, a part of finances has shifted from supporting employment in the public sector to supporting employment in the private sector. Boosting job creation for young people less than 29 years of age is financed also through Structural Funds within the Operational Programme Competitiveness and Economic Growth.

The national plan for implementing a **guarantee for young people in the Slovak Republic**, discussed by the Government of SR in February 2014, contains legislative reforms and project initiatives for 2014 – 2020 with the aim of an early intervention, activation and integration of the young people in the labour market.



The **amendment of the Act on Vocational Education and Training** regulates the conditions of enrolment of students at secondary grammar schools and for full secondary vocational education programmes. Self-governing regions decide about the number of first classes based on analyses and forecasts of the labour market, the preparation of which has been transferred from the responsibility of professional organizations to the Central Office of Labour, Social Affairs and Family (COLSAF) and labour offices. The amendment of the **Act on the Higher Education Institutions** improves the internal system of ensuring the quality of education by prolonging part-time studies, tightens the rules for awarding degrees of tertiary school teachers and strengthens the motivations of tertiary schools to cooperate with high-quality schools abroad.

Wages of pedagogic and professional staff in **regional education** increased by 5% in 2013. Similar growth is expected in 2014 as well, also for tertiary school teachers. The increase of wages in education should motivate for higher performances and attract higher-quality teachers. New testing of school quality should help increase the quality of education at primary and secondary schools. Testing has been extended to classes 1 – 4 of primary schools and pupils of 8-year secondary grammar schools were involved in Testing 9. The outcome indicators will be used to modify the existing legislation and to compare the quality of schools at the national level.

An analysis of the labour market needs was performed and on its basis a list of redundant professions and professions in the greatest demand on the labour market is being prepared. The list will be reflected in normative financing changes of vocational regional education which are expected starting from 2015.

The Government has prepared a scheme of **innovation vouchers** through which it subsidized cooperation of the business sector and R&D facilities. 20 projects for which the Ministry of Economy has earmarked EUR 70,000 are being implemented through the scheme.

As a part of **inclusion of marginalized communities**, measures to integrate pupils in pre-school and primary education and the project of education of teachers about working with marginalized groups are in progress. More than 20,000 pupils have been successfully involved in the full day's schooling system. Public procurement for the purchase of textbooks in the Roma language is being prepared and textbooks for purblind and blind students are continuously prepared.

5. The functioning of the energy market

Step up efforts to make the energy market function better; in particular, to increase the transparency of the tariff-setting mechanism, enhance the accountability of the regulator. Strengthen interconnections with neighbouring countries. Improve energy efficiency in particular in buildings and industry.

Transparency in decision-making processes has been increased by **transposing the third energy package** to the Act on Energy and Regulation in Network Industries. The competence scope of the Regulatory Office for Network Industries has been extended. Both acts will contribute to better functioning of the energy market, including further development of competitive environment.

A successful launching of the **daily energy market coupling** project with the Czech Republic and the Republic of Hungary has significantly improved liquidity and prices for the participants. Coupling of the daily market with Romania is being prepared. Feasibility of a gas connection to Poland, which is a part of the concept of the north-south corridor and has also been supported by the EC, is currently being assessed.

Implementation of the third energy package has enabled a simpler change of electricity consumer, shortened the terms for changes to not more than 21 days, and also ensured better protection of consumers. A growing number of electricity and gas consumers who have changed their supplier is a demonstration of a gradual liberalization.

The system of obligatory **energy audits** has significantly contributed to decreasing the energy consumption of economy. Promoting energy audits for SMEs and promoting implementation of saving measures will help decrease the energy consumption in businesses and increase their competitiveness.



Since June 2013, the State Fund for Housing Development has been offering advantageous loans – through the **JESSICA** project – with a zero interest rate and 15-year repayment period for restoration of residential and non-residential buildings in urban areas. EUR 11.5 million were earmarked for this purpose in 2013. After meeting minimum thermal and technical requirements for the reconstruction quality, it is possible to fund even 80% of total costs.

6. Improved functioning of general government

Take measures, including by amending the Act on Civil Service, to strengthen the independence of the public service. Improve the management of human resources in public administration. Step up efforts to strengthen analytical capacities in key ministries, also with a view to improving the absorption of EU funds. Implement measures to improve the efficiency of the judicial system. Promote alternative dispute resolution procedures and encourage their greater use.

The **ESO Programme** (efficient, reliable and open state administration) was approved by the Government of SR in April 2014. Its implementation should simplify the provision of services ensured by the state to the citizens. From the point of view of citizens and business entities, general government should be simple, well-arranged and accessible, it should work sustainably, transparently and with efficiently spent financial means. The pillars for achieving this target include:

- integration of local government offices;
- client centres;
- rationalization of the structure and infrastructure of state organizations.

In the **first stage** of local government integration, regional school authorities, regional construction authorities and territorial military administrations with regional competence have been integrated in district authorities in regional capitals since January 2013. At the same time, other regional structures of specialized local government have been abolished. 64 bodies of specialized local government at the regional level and 74 organizations of the Ministry of Interior of the Slovak Republic were abolished as of 31 December 2013

In the **second stage**, 248 offices of specialized local government were abolished and integrated in district offices, effective from 2013 (district environmental offices, district road transport offices, district forest services, district land registries and cadastre administrations). 72 county authorities have been formed from the original district offices. The agenda of the merged district offices is formed by the agenda of the original district offices (local government, trade licences, birth records, citizenship, offences, etc.) as well as the involved specialized general government offices.

In the **third stage** until March 2014, 9 client centres (CC) were established which will ensure contact of the citizens with the integrated local government. The Government surveyed the processes performed by the local government based on which a catalogue of services provided in front-office workplaces of district offices (CC) has been prepared. CCs deal with the agenda of trade business, road transport, vehicle registration, documents register, environment, general internal administration, cadastral (Snina, Svidník, Topoľčany, Nitra), land and forest. Cash registers have been installed at CCs where people can pay administrative fees. Since a large part of the activities of the local government has to be performed in the offices (e.g. the activity of the cadastre requires an access to a map archive), the extent of the provided services mainly depends on spatial possibilities in regions and districts.

The **merge of local government offices** has also brought savings for the general government budget. Expenditures on operation and administration of buildings and costs of public procurement have particularly dropped. 8 support centres have been established in regional capitals in which administrative support of district offices has been centralized, such as accounting or personnel management. Data about activities of offices and staff performances is now being collected. Their analysis will enable to strengthen certain undersized services (e.g. inspection), eliminate bottlenecks and eventually also redesign local government processes.



An important task of the current period was to create a legislative framework and define conditions for a general **electronic access to basic public services** with interconnected general government registers and to enable a full electronic exchange of data among the citizens, public and private sector. The Act on Electronic Form of Exercising the Competences of Public Authorities (act on e-Government) was adopted, effective from 1 November 2013, enabling to perform electronic services of public authority in a uniform manner.

2.2 Other implemented measures

Business environment

Measures to **improve business environment** were focused on minimization of barriers in access to doing business through the shortening of the deadline for incorporation of a company in the Business Register by a registration court from five to two days and the deadline for the award of a trade licence from five to three days. In late 2013, 64 out of the adopted 94 measures were fulfilled, 15 measures are being fulfilled and 4 were not fulfilled.

A large part of support of small businesses is performed by **improving the access to financing**. Until now, loans have been provided mainly through SGDB, while the venture capital from public resources was covered by products of Fond fondov, s.r.o. In 2011, the holding fund JEREMIE, with capitalization of EUR 100 million from OP competitiveness and economic growth, OP science and research and OP Bratislava region, was added to these resources. After SZRF and EIF have signed guarantee agreements with three commercial banks as financial intermediaries in late March 2013, these banks started to provide advantageous loans for small and medium entrepreneurs in late June and early July 2013. At the end of 2013, the contracted loans amounted to over EUR 8 million. In the second half of November 2013, the first loss portfolio guarantee instrument was extended by a fourth financial intermediary.

Contractual discussions with the manager of venture capital funds, JEREMIE, were terminated and the funds registration process was launched, resulting in launching this tool in February 2014. Similarly, a shared risk portfolio loan tool was launched after an agreement with a commercial bank had been signed in February 2014, from which advantageous loans will be provided to small and medium entrepreneurs. All three tools within the JEREMIE initiative have been launched until now; they might also be extended through other financial intermediaries though.

Health

The system of risk compensation in public health insurance was extended by adding the morbidity parameter through classification of policy holders in pharmaceutical cost groups (PCG). Since the second half of 2012, the revenues of insurance companies have thus been following real costs of treatment of their policy holders.

Fulfilment of the objective to **make the profession of a general practitioner more attractive** is continuing, in order to achieve gradual rejuvenation of district doctors' offices. The Ministry of Health has legislatively defined a new form of preparation of general practitioners already during their university studies, and from 1Q 2014, it plans to promote the demand for GP's profession by extending the possibility to perform pre-operation examinations of adults.

Indebtedness of state hospitals has slightly slowed down thanks to gradual rationalisation steps and better production assessment. At the same time, the operating loss of state hospitals has decreased.

Telecommunications

In order to increase the competitiveness of a country, it is necessary to develop also the area of electronic communication, in particular the broadband access to the Internet. The Regulatory Authority for Electronic Communications and Postal Services of SR (former Telecommunications Authority), as an independent regulator and price body for electronic communication, made an e-auction in 2013 to assign frequencies in the bands of 800 MHz, 1800 Mhz and 2.6 GHz. Four bidders participated in the auction and all offered frequency blocks were



auctioned. The Authority issued the necessary permissions in December 2013. In addition to a positive impact on the state budget (revenue of EUR 164 million from the so-called digital dividend), assigning frequencies has also a new player in the telecommunications market and thus strengthens the competitiveness in the industry.



3 Macroeconomic framework and medium-term forecast

The Government of SR considers the macroeconomic and fiscal stability to be a basic precondition for a healthy development of the economy and better quality of life. The following chapter contains a basic macroeconomic framework which is necessary to ensure a sound development of the Slovak economy.

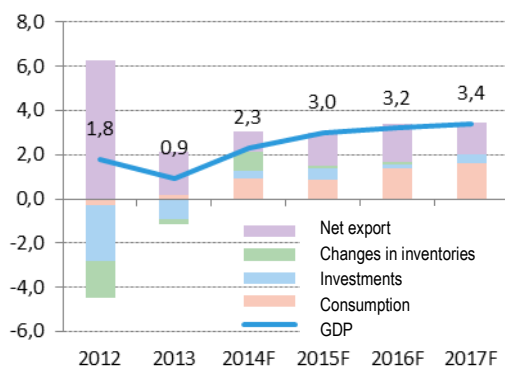
Slow economy growth in 2013

The growth of the Slovak economy slowed down last year from 1.8% to 0.9%, particularly as a result of an unfavourable situation in the euro area. The domestic demand considerably dropped, only the consumption of general government was increasing. Household consumption and investments also decreased significantly in 2013. The main source of growth was thus the net export. Even though the exports growth slowed down, it was still higher than the slow growth of imports which was increasing only slightly with regard to the reduced domestic demand. Slovakia thus saw the highest trade surplus in the history since 1993.

Employment was at a stable level 65% in the last years, while the unemployment rate (according to the LFS methodology) amounted to 14.2% in 2013, and remained above average compared to EU countries. The issue of long-term unemployment continued, when approximately two out of three jobless were unemployed for longer than one year. Nominal wages increased by 2.4%, similarly to the previous year. With regard to a slow growth of prices, real wages increased by 1% as well. It was the first real wage increase since 2010.

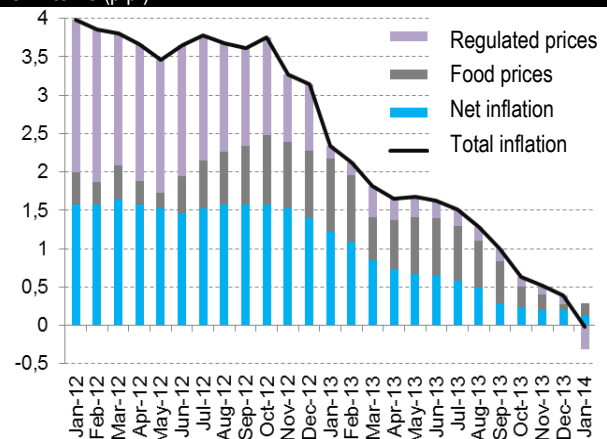
In 2013, price growth considerably slowed down. The inflation in Slovakia amounted to 1.5% (HICP) and it was lower even when compared to the euro area average. The slower growth of prices was caused by both domestic and foreign factors. The stabilization of prices of energy commodities in global markets, including the introduction of systemic regulatory measures, was reflected in a low growth of regulated prices. The above-average domestic and foreign crops gradually decreased the dynamically rising prices of food. Therefore, the YoY growths of food prices were continually decreasing last year. Some of the domestic factors which have an effect on slowing-down the inflation are mainly the continuing weak domestic demand and a low level of consumer trust. These factors shrink the potential transfer of demand factors to the growth of domestic prices. Weak demand pressures were demonstrated in the dynamics of net inflation which dropped YoY by 1.5 p.p.

Chart 6: Contributions to GDP growth in Slovakia, 2010 – 2016



Source: Eurostat

Chart 7: Consumer inflation structure – YoY contributions of CPI items (p.p.)



Source: Eurostat

Gradual recovery of the Slovak economy in the following years³

In this year, the Slovak economy will gradually accelerate, mainly as a result of the recovery of economic growth of our trading partners. Domestic demand should also recover. Households' consumption will increase as a result

³ The latest official MoF SR forecast of February 2014 used in the budget framework draft for 2014 – 2016.



of low price growth and recovery of the labour market. The investments which were decreasing the growth should start rising again, particularly for highway construction and, thanks to planned projects, in the automotive industry. Government consumption will continue having a positive impact on the GDP growth. In the upcoming years, the GDP growth should gradually accelerate to amount to 3.4% in 2017.

The faster growth of economy should be manifested in the growth of new jobs. Employment is expected to increase by 0.3% in 2014. The employment growth will gradually accelerate to reach pre-crisis levels in 2017. The rise in nominal wages in 2014 will be approximately at the 2013 level, particularly as a result of the expected low price growth. In the upcoming years, the growth of labour productivity should be increasingly more manifested, and the real wage should be increasing faster.

Prices will grow even more slowly this year than the last year. The expected YoY growth of consumer prices is 0.8%. The joint effect of domestic and foreign factors, which was decreasing the inflation pace last year, will also have an impact this year. The outlook for the next period of 2015 –2017 says that the inflation dynamics should gradually accelerate to the level of approximately 2%.

3.1 Macroeconomic impact of structural reforms

Assessment of impacts of the reforms which are being prepared is an important part of the analysis when deciding about the economic policy steps. High-quality reform estimates, either from the micro or macroeconomic perspective, significantly help good decision-making and fostering good policies. Each legislative or non-legislative standard containing a resolution of the Government contains a clause of selected impacts which assesses its impacts on the general government budget, business environment, environment, informatization of society and social impacts.

Modelling of measures with an impact on growth and employment also contributes to increasing the quality of discussion about the economic policy. There are several approaches how to perform this analysis. In the NRP preparation we used a macroeconomic DSGE model of the European Commission - QUEST III. We simulated macroeconomic impacts on three selected measures. Their list as well as the channel of their causal impact through which they are entering the model are shown in the table below. Each reform is simulated in several scenarios according to the intensity of its impact on the economy. More detailed explanation of the simulations of individual reforms, their preconditions as well as the outcomes are stated in the Annex 3.

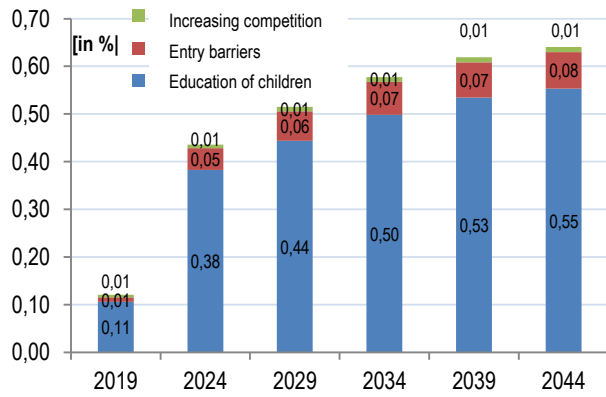
Tab. 2: List of structural reforms matched to the variables in the Quest III model

Measure contained in NRP	Area	Description of the variable implemented as a shock
Education of children from socially vulnerable environment and MRC	Regional education system	Shift of the share of low-qualified population (SL) to medium-qualified population (SM)
Decreasing entrance barriers for starting a business	Domestic market	Decreasing entry costs
Increasing competition (final product market)	Domestic market	Decreasing the mark-up in the final product market

Results show that all simulated reforms have a positive impact on GDP, particularly in the long run. We expect the most significant impact on GDP and employment in education of children – its contribution is increasing considerably from the long-term point of view. Decreasing barriers for new companies and increasing competition, mainly in the energy industry, have a positive impact on growth, though in a smaller extent. Mainly the school reform, as well as increasing competition or decreasing administrative barriers, have a positive impact on employment. It is the ambition of the Institute for Financial Policy of the Ministry of Finance of the Slovak Republic to continue improving these estimates and to extend them to include the highest possible number of planned reforms.

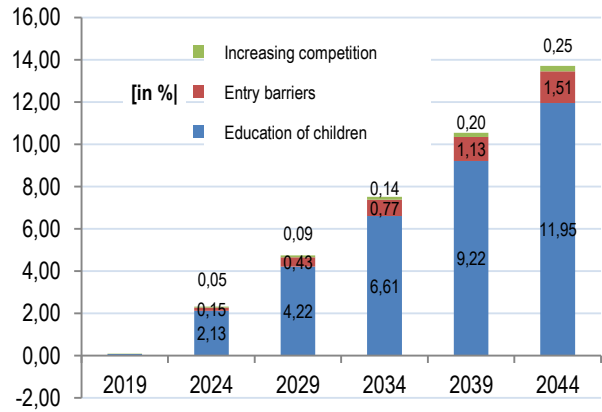


Chart 8: Contributions of individual reforms to GDP (medium scenario variant)



Source: Quest III simulations

Chart 9: Cumulative contributions of individual reforms to GDP (medium scenario variant)



Source: Quest III simulations



4 Planned measures in structural topics

This chapter describes the measures which the Government undertakes to implement in the upcoming years. The measures are related to the areas of Fiscal policy and public finance, Education, science and innovation, Employment and social inclusion, Business environment, Transport infrastructure and telecommunications, Modernising public administration, Transparent conditions and law enforcement, Health and Environmental sustainability and energy. The following table includes the most important planned measures which respond to individual specific recommendations of the Council. The full list of measures in the Action Plan of NRP contains a reference for specific recommendations regarding all measures.

Tab. 3: Most important measures according to CSR		
Recommendation	Area	Planned measure
CSR1	Consolidation measures 2015 – 2017	Maintaining the revenue and increasing the effectiveness in VAT
		Cash registers for doctors and other professions
		Withholding income tax and financial and non-financial benefits from pharmaceutical companies for doctors
		Annual account of the Social Insurance Company
		Savings in wages (ESO)
		Savings in intermediate consumption (ESO)
	Public expenditures efficiency	Transformation and merging of subordinate organizations of chapters of the state budget within ESO.
		Improvement of financial management and fiscal performance of healthcare providers.
		Balanced financial management of faculty and university hospitals
		Implementation of the first e-health eSO1 phase
		Expenditure priorities – increasing the wages of teachers, employees of labour offices, capacities of kindergartens
CSR2	Combating tax fraud and analytical capacities	The third stage of the Action Plan in the form of measures to improve tax collection: in particular centralization of information from the toll system, motor vehicle and population register, access to information on accounts of investigated persons and companies. Introduction of the Electronic Registry of Insolvent Entities, Register of Disqualified Persons and rating of tax entities. In addition, specialized senates at regional courts focused on taxes will be established.
		Strengthening analytical capacities and building an analytical unit at the Financial Administration of SR
		Disclosure of corporate income tax payment
CSR3	Employment services and long-term unemployment	Prioritisation of counselling and personalised public employment services, including an increase in their administrative capacities with the aim to improve the access to employment for long-term unemployed persons, low-skilled workers, older people and women.
		Career counselling for adults to improve their employability in the labour market.
		Centralisation of the database of job seekers and beneficiaries of social benefits, assembly and connection with relevant institutions.
		Analysis of net efficiency and effectiveness of expenditures of individual measures of the ALMPs.
	Pre-school establishments	Strengthening the financial motivation to find employment – in-work benefit within the system of assistance in material need.
		Building of new child-care facilities.
		Extending the capacities of kindergartens, extending the existing forms of education by preparatory kindergarten classes and extending the time subsidy for pre-school education.
CSR4	Youth unemployment	Adoption of the Youth Guarantee system for young people under 29 years of age.
		Identification of the sector need for skills in the labour market and the demand for qualified labour force through the National System of Professions (NSP).
	Expert education and position of	Increase of teachers' wages



	teachers	Better involvement of employers and associations of employers in the system of vocational education and training, support of internships, and changes in normative financing of vocational education with the aim to strengthen the quality of vocational education.
	Marginalized communities	Increasing the number of assistant teachers
		Publishing textbooks and educational texts in the Slovak and Roma languages
	Research and development	Measures from the RIS3 Strategy Action Plan
CSR5	Transparency in the regulation of network industries	Assessment of the need for further regulation
		Disclosure of an analysis of all major changes in the regulatory period policies
		Building a data centre on the web site of the Regulatory Office for Network Industries
	Connections of systems and networks	Connection of gas networks with Poland and Hungary
		Connection of electricity systems with Hungary
	Energy efficiency in companies	Support of energy audits for SMEs
Implementation of the Directive on Energy Efficiency		
CSR6	Public service	Civil service reform
		Model of Integrated Service Points operation
		Grant programme to strengthen analytical capacities in GG
		ESO – Efficient, reliable and open state administration
	Justice	Shortening the length of legal proceedings
		Electronic Case File
		Introduction of the Electronic Legal Code

4.1 Fiscal policy and public finance

Tab. 4: Outcome indicators for fiscal policy and public finance

		2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
Long-term sustainability indicator (GAP) (in % of GDP)	SK	-	-	-	-	9.5	9.2	6.8	4.3	-	0
	EU	-	-	-	-	-	-	-	-	-	-
VAT collection effectiveness (%)	SK	74.8	69.7	64.1	65.1	57.9	56.7	57.6	53.0	-	72
	EU-22	71.3	72.7	72.8	71.0	65.8	66.8	67.2	67.2	-	-

The main objective of the fiscal policy strategy is to ensure efficient and long-term sustainable public finances which support sustainable economic development and a higher quality of life in the context of population ageing, and with due account of contingent liabilities. This objective is also laid down in the constitutional Fiscal Responsibility Act⁴.

After a better-than-planned deficit amounting to 2.77% of GDP and the achieved significant consolidation effort amounting to 1.9% of GDP in 2013, which was one of the highest ones since Slovakia joined EU⁵, the **main short-term objective** is to achieve a deficit of 2.64% of GDP in 2014 and thus to keep the deficit below 3% of GDP. In 2014, structural consolidation is temporarily slightly loosened. Even without making use of the investment clause, there should be no significant deviation as defined by the rules of the preventive arm of the Pact which would require activation of the corrective mechanism of the Fiscal Compact.

In order to achieve a long-term sustainability of public finances, the Government will **continue consolidating public finances also after 2013** in line with provisions of the Pact and respecting the constraints of national

⁴ Constitutional Act No. 493/2011 on Fiscal Responsibility

⁵ In 2013, the consolidation effort amounted to 1.86% of GDP, and in 2011 to 2.05% of GDP. Slovakia achieved the highest consolidation effort in the amount of 3.3% of GDP in 2003.



budgetary rules. **The deficit target values have therefore been set at 2.49% of GDP in 2015, 1.61% of GDP in 2016 and 0.54 in % of GDP in 2017.**

The proposed targets for 2015 – 2017 respect the national budgetary rules and the limits of the general government debt defined by the constitutional act. Achieving the fiscal targets will lead to public debt peaking at 56.2 in % of GDP in 2015 and its subsequent decrease from 2016. Thus the level of 57% of GDP should not be breached; that would mean the obligation to prepare a balanced budget proposal in 2017, which would be linked to further significant fiscal restriction.

If Slovakia continues reducing its deficit, it will move towards its **medium-term budgetary objective of a structural deficit amounting to 0.5% of GDP** which should be achieved in 2017⁶ assuming fiscal targets are met. Structural balance should improve by approximately 0.5% of GDP in 2015 and 2016 and by 0.6% of GDP in 2017. At the same time, the Government expects an increase in public expenditure in 2013 – 2017 in line with the reference value of the expenditure benchmark.

Tab. 5: General government revenues and expenditures (% of GDP)

	ESA code	2011	2012	2013	2014RE	2015F	2016F	2017F
Total revenues	TR	34.1	33.7	35.9	35.2	33.7	32.9	32.8
Total taxes (a+b+c)		16.0	15.5	16.3	16.3	15.9	15.7	15.4
a. Taxes on production and imports	D.2	10.5	9.9	10.4	10.1	9.9	9.7	9.5
b. Current taxes on income, wealth	D.5	5.5	5.6	5.9	6.1	5.9	6.0	5.9
c. Capital taxes	D.91	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions	D.61	12.5	12.7	13.8	13.3	13.1	13.1	13.0
Property income	D.4	0.9	1.1	0.9	0.9	0.7	0.7	0.7
Other	[4]	4.6	4.4	5.0	4.7	4.0	3.5	3.6
Total expenditures	TE [2]	38.9	38.3	38.7	38.0	36.5	34.9	34.0
Compensation of employees	D.1	7.4	7.3	7.6	7.0	6.7	6.4	6.2
Intermediate consumption	P.2	4.8	4.7	4.6	4.6	4.3	4.0	3.9
Social transfers	[3]	18.5	18.7	18.9	18.4	17.9	17.7	17.4
Interest payments	EDP D.41	1.6	1.9	2.0	1.8	1.8	1.8	1.7
Subsidies	D.3	0.9	1.0	1.1	1.0	0.9	0.8	0.8
Gross fixed capital formation	P.51	2.7	2.2	2.1	2.1	2.1	1.9	2.1
Capital transfers	D.9	1.2	0.9	0.6	0.6	0.7	0.3	0.3
Other	[4]	1.8	1.5	1.8	2.4	2.2	1.9	1.8
GG balance		-4.8	-4.5	-2.8	-2.8	-2.8	-2.0	-1.3
Targeted deficit of GG budget					-2.6	-2.4	-1.4	-0.5
Necessary additional measures					0.2	0.4	0.5	0.8

[1] P.11+P.12+P.131+D.39+D.7+D.9 (except for D.91)

[2] Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9

[3] D.6311+D.63121+D.63131+D.62

[4] D.29+D4 (other than D.41)+ D.5+D.7+P.52+P.53+K.2+D.8.

RE - reality estimate

F - GG budget framework draft

Source: SO SR, MoF SR

Nominal revenues will increase by EUR 385 million in 2014. However, all categories of expenditures will be dropping in proportion to GDP in the budgeted period until 2017. Personal income taxes and property taxes the revenue from which will stagnate around 6% of GDP represent exceptions. The most significant revenue items

⁶ According to the Treaty, if the deviation of the structural balance from the medium-term budgetary objective is smaller than 0.25 p.p. of GDP, the MTO is considered to be achieved.

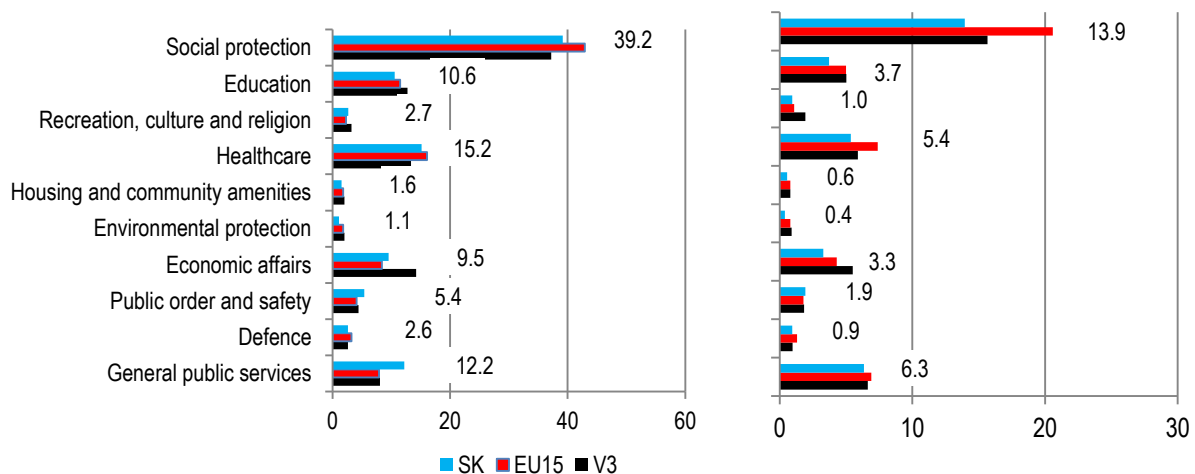


are contributions and revenues from production. The budget expects the most significant decrease in other (in particular one-off) revenues.

In 2014, general government expenditures will amount to EUR 28.3 billion, representing a nominal increase by EUR 0.4 billion compared to 2013. According to the draft general government budget framework (GGB) for 2015 – 2017, in the budgeted period the share of general government expenditure to GDP will decrease from 38.7% in 2013 to 34.0% in 2017. In relation to GDP, wage expenditures are decreasing the most, as well as social transfers thanks to a better forecast of employment. Intermediate consumption, interest payments and capital transfers will see a slight decrease. Subsidies and investment (gross fixed capital formation, GFCF) will be comparable to the previous period. The Government is thus complying with the commitment from the Partnership Agreement to maintain the average level of GFCF above 2% of GDP during the third programming period for EU funding.

In 2014 public expenditure in Slovakia will reach 38% of GDP, which will rank us among countries with the smallest government within the EU. The EU average is in fact 49% of GDP. Compared to the Western Europe, and according to the COFOG methodology, in 2014 Slovakia will give relatively smaller proportion of public expenditures to social protection in spite of a high increase in spending in this area, mainly on pensions. Financing of health, defence, environmental protection, education, and housing and community amenities will be relatively lower. In 2014, a higher share of public expenditures than in EU15 will also flow to the economic area (e.g. transport, investment aid, agriculture) and to public order and safety (e.g. police and justice). Expenditures of the public sector on general public services (e.g. administration and offices) will rise again, though when expressed in relation to GDP, they still do not achieve the EU15 level.

Chart 10: General government expenditures (left chart - % of total expenditures, right chart - % of GDP)



Note: SK=2014; EU15, V3=2012 The numeric values are for SK.

Source: MoF SR, Eurostat, SO SR

Efficiency of public expenditure

Even after a thorough consolidation there are public expenditures which do not fully contribute to meeting their targets. Inefficiently spent finances increase the expenditures of the state budget to the detriment of priorities. This can be felt mainly at the time of the ongoing consolidation. The Government's priority is to increase expenditure on areas which provide the necessary public services to citizens, and promote the long-term economic potential of the country. This is reflected in prioritization of public expenditures in areas promoting the economic growth which grow year-on-year by 21% in 2014 (including the EU funds and co-financing). Expenditure from the state budget will be raised particularly in education, R&D and the development of transport infrastructure.

**Tab. 6: Growth-enhancing expenditure (EUR mill. including EU and co-financing)**

	2011	2012	2013	2014
Growth enhancing expenditure, of which	3,447	3,632	3,761	4,560
Education	1,776	1,833	1,868	1,916
Research and development	318	379	410	495
Road and railway infrastructure	1,353	1,420	1,482	2,149

Note: 2013 preliminary reality, 2014 – budget

Source: MoF SR, GGB 2014-2016

The increase in growth-enhancing expenditures in 2014 is a result of several measures. Wages of pedagogic and professional staff in regional education will increase by 5%. Tariffs of university employees will increase by EUR 16; moreover, the wage bill will increase by further 3%. The overall impact of the wage increase is EUR 124m compared to the NPC scenario. Wages of employees of labour offices providing consultancy services will increase to the average wage level in public administration in 2014. New capacities in kindergartens will enable to provide care for 95% of children aged 4+.

Allocation of EU resources represents a crucial resource for investment and growth priorities of Slovakia: human resources, competitiveness and innovation, transport infrastructure and rural and regional development. The general government budget for 2014 and the budget framework for 2015 – 2017 therefore assumes faster drawdown of EU resources from the second programming period. Part 6 of this Programme deals with the Cohesion Policy in more detail.

Development of public finance in 2014

The expected development in 2014 is based on the updated macroeconomic and tax forecast and the development of other items of the general government budget. The current GG balance estimate in 2014 is 2.84% of GDP, indicating risks in the amount of 0.2 in % of GDP compared to the approved GG budget with the projected deficit of 2.64% of GDP. The impact on the balance was positive on the side of the state budget, outweighed by a negative impact on the side of other GG entities. The negative impact on the estimate may be attributed to several factors, in particular to lower revenues from dividends and a lower revenue from the sale of frequency licences to telecommunication operators.

Tab. 7: Development in 2014 (ESA 95)

	EUR mill.	in % of GDP
1 General government balance – budget	-2,000	-2.64
State budget	293	0.39
Tax and levy revenues	-51	-0.07
- dissolution of the reserve for VAT	-250	-0.34
- updated tax-levy forecasts, including changes in local taxes estimates	199	0.27
Non-tax revenues	-41	-0.06
- loss of revenues from the digital dividend	-86	-0.12
- penalty from a cartel agreement in transport (Antimonopoly Authority of SR)	45	0.06
Dissolution of the reserve for better tax collection (on the side of expenditures)	250	0.34
Special revenue from a levy on enterprises in regulated industries	176	0.24
SEPS dividends	-78	-0.10
Decreased transfer to the Social Insurance Company	31	0.04
Other	6	0.01
Other general government entities	-408	-0.55
Municipalities and higher territorial units	-26	-0.03
NPF	-381	-0.51
out of that: SPP dividends	-365	-0.49
Other entities	-2	0.00
2 General government balance - current estimate	-2,115	-2.84

*p.m. change in budget balance due to downward revision of nominal GDP estimate (2 – 1)*

-0.05

Note: (+) means a positive effect and (-) negative effect on GG balance

Source: MoF SR

The most significant negative impact compared to the budget is the shortfall of the NPF revenues from SPP dividends in the amount of EUR 365m from the 2012 operational profit, which were supposed to be paid out in 2014 according to the approved budget, but the SPP General Assembly decided to pay them out already in 2013 with an accrual impact in 2013. At the same time there was a shortfall of revenues from SEPS dividends from the 2012 operating profit in the amount of EUR 78m which were paid already in 2013.

As for non-tax revenues, a negative impact of EUR 41m is expected. It was caused by a lower revenue from auctions of frequency licences (digital dividend). Additional revenues from the fine imposed by the Antimonopoly Office of SR (PMU) for a cartel agreement in construction industry, which became effective in March 2014, were supposed to have a positive impact on the budget. In 2006, PMU imposed a fine of EUR 45m on six construction companies for having concluded a cartel agreement. The construction companies challenged the decision in court. In March 2014, the ruling of the Supreme Court became effective which dismissed the objections of the construction companies and confirmed the PMU fine in the matter of the cartel agreement. The fine will increase the non-tax revenues by 0.06% of GDP in 2014.

As for other GG entities, local governments contributed to worsening the general government balance by the amount of EUR 26m, particularly as a result of a lower collection of proportional taxes.

Update of the macroeconomic and tax forecast lead to a higher estimate of tax revenues for 2014 compared to the previous tax forecast. Although the tax and levy revenues are lower by EUR 51m compared to the budget, it is a result of dissolving the reserve of EUR 250m allocated for improvement of tax collection. The reserve was both on the revenues and expenditures side, it had no impact on the GG deficit as a result. Thanks to the cancellation of the reserve on the expenditures side as well, the total impact on the GG balance is positive, amounting to EUR 200m.

In 2014, there is a one-off increase in a special Levy on enterprises in regulated industries by EUR 176m (0.25% of GDP) in the context of significant changes in the ownership structure of SPP.

Other state budget savings are related to the expenditures side of the budget. Transfer to the Social Insurance Company is reduced, mainly due to higher estimated revenues from social insurance in the amount of EUR 31m. Update of the macroeconomic forecast has also an impact on the budget. As a result of decreasing the estimate of the nominal GDP, it is necessary to adopt additional measures amounting to 0.05% of GDP in order to meet the deficit target of the general government (expressed as a share on GDP).

As the estimate of the expected reality is only based on cash data for the first few months of the year, there are still risks of achieving the budgetary objectives connected to a different macroeconomic development and to a related impact on revenues of general government. Another risk is the financial management of municipalities and self-governing regions and potential indebtedness of hospitals.

Consolidation measures in 2015

This part deals with measures included in the draft GG framework for 2015 – 2017, submitted to the Government of the SR. The overall impact of quantified measures on the general government balance amounts to 0.5% of GDP in 2015, 0.6% of GDP in 2016 and 2017.

Tab. 8: Measures incorporated in the General government budget framework draft 2015 – 2017 (ESA95)

	EUR mill.			in % of GDP		
	2015	2016	2017	2015	2016	2017
Revenue measures	303	368	383	0.39	0.45	0.44
1 Maintaining the revenue and increasing the effectiveness in VAT	227	236	248	0.29	0.29	0.29
2 Cash registers for doctors and other professions	71	71	71	0.09	0.09	0.08



3 Withholding income tax and financial and non-financial benefits from pharmaceutical companies for doctors	5	5	5	0.01	0.01	0.01
4 Annual account of the Social Insurance Company	0	56	59	0.00	0.07	0.07
Expenditure measures	106	102	107	0.14	0.12	0.12
5 Savings in wages (ESO)	66	66	66	0.08	0.08	0.08
6 Savings in intermediate consumption (ESO)	40	36	41	0.05	0.04	0.05
TOTAL	409	470	489	0.53	0.57	0.57

Note: (+) indicates positive and (-) negative effects on the budget balance in ESA 95 methodology

Source: MoF SR

1. Keeping VAT revenue and increasing the effectiveness in VAT collection

Maintaining the VAT revenue and increasing the effectiveness of VAT collection will raise an additional annual revenue of EUR 227 – 248 million in 2015 – 2017.

2. Broadening the obligation to use electronic cash registers for doctors and other professions

The Government will broaden the obligation to use electronic cash registers (ECR) to record the revenues to outpatient general practitioners, specialists, dentists, in the area of expert, scientific and technical activities and accommodation services. It also assumes introducing the obligation to attach a payment confirmation (receipt or electronic transfer confirmation) to official documents issued by private entities (e.g. public notaries, lawyers, doctors, experts). The measure will support the effort to combat tax evasion. For medical services only, the difference between the expenditures of households (according to the SO SR) and the reported revenues of relevant doctors' offices (according to the data of the Ministry of Health) was approximately EUR 214m in 2011. As for expert, scientific and technical activities and accommodation services, the estimated gap in VAT represents more than the half of the potential level. The expected revenue from this measure is EUR 71m as of 2015. The resulting impact of the measure is based mainly on estimates of the sector VAT gap in Box 7.

3. Implementation of the withholding income tax on cash and in-kind benefits from pharmaceutical companies and revenues from the sale of iron scrap

Revenues of doctors and healthcare providers from cash and in-kind benefits from pharmaceutical companies and revenues from the sale of iron scrap will be subject to direct taxation upon a payment in the form of a withholding income tax (19%). This change will increase the efficiency of tax collection. In the case of revenues from pharmaceutical companies, there has been identified a significant difference between official reporting of these companies based on the legislative obligation from 2011 (approximately EUR 40m annually), reports of individual natural persons in their tax returns. The data concerning cash and in-kind benefits of pharmaceutical companies to individual doctors and healthcare providers will be published on the internet. With regard to the overall volume of funds for marketing, promotion and in-kind benefits in the amount of EUR 40m and the current level of personal income taxation of these revenues, we expect a positive impact of EUR 5m annually. Revenues from the sale of iron scrap will be taxed similarly.

4. Introduction of annual clearing in SSC

Introduction of annual clearing of social contributions (clearing of the SSC advances at the end of the calendar year) will remove the possibility to optimize SSC in the form of accumulation of high one-off monthly remunerations in order to exceed the maximum assessment base in the particular month. Social contributions will thus reflect the incomes of individuals for the whole year in a more faithful way. Currently there are several alternatives, while the above-stated positive impact corresponds to the most preferred one of them. A positive budgetary impact of the measure is expected as late as in 2016.

5. Additional measures within the ESO reform

Other savings in public expenditures will be achieved since 2015 within the ESO reform in the amount of EUR 106m annually. Out of that EUR 40m will be saved in goods and services and EUR 66m in wage expenditures. Savings will be achieved mainly through optimization of the number of budgetary and contributory state organizations. Implementation of limits based on efficiency of the organizations, will be considered in order to rationalize expenditures on performance of their activities. Moreover, steps to



unify and reorganize the communication infrastructure with the aim to achieve particular savings in the following years are currently being prepared. Expenditures on air tickets and travel expenditures will also be included in the savings.

Compared to the draft budget framework, achievement of the budget target for 2015 requires adoption of additional measures in the amount of 0.3% of GDP, 0.4% of GDP for 2016 and 0.7% of GDP for 2017. These measures will be specified in the course of preparation of the budget for 2015 – 2017 during 2014. The obligation not to increase expenditures of the general government above the previous approved budget resulting from breaching the 55% debt threshold of the constitutional act – indicates that also additional measures beyond the budget framework draft will be on the expenditure side.

Regarding the taxation of real In the next period the Slovak Government will focus on measures in the following areas:

- estate, the possibilities to introduce a minimum tax rate (depending on the location and other relevant characteristics of the real estate) will be considered, in line with recommendations of the EC and OECD. Increase of the property tax would create room for a decrease in other more distortionary taxes with regards to economic growth.
- A set of measures is being prepared, related to cancellation or modification of the existing tax expenditures in direct taxation.

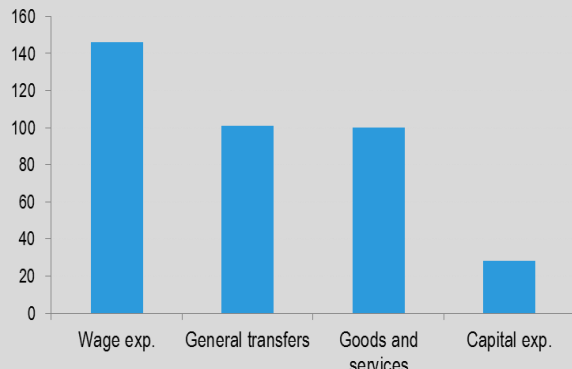
Box 3: Savings in the state budget

Compared to the no-policy-change scenario (NPC)⁷, expenditures of budgetary and contributory organizations of the state budget will drop by EUR 117 million (0.2% of GDP) in 2014 and EUR 375 million (0.5% of GDP) in 2015. Personnel expenditures will decrease by EUR 78 million in 2014 and other EUR 146 million in 2015. Savings will also be achieved in goods and services which will drop by EUR 72 million or EUR 100 million respectively. Capital expenditures will decrease by EUR 171 million in 2014 and other EUR 28 million in 2015. The only increasing category this year will be common transfers which will grow by EUR 203 million. However, in 2015 they will decrease again compared to the NPC by EUR 100 million. ESO will generate also revenues from the sale of buildings in the amount of EUR 54 million (0.1% of GDP).

Chart 11: Savings in the state budget in 2014 (EUR mill.)



Chart 12: Savings in the state budget in 2015 (EUR mill.)



Most savings in the current expenditure of the state budget will be achieved thanks to planned changes in the structure and functioning of state organizations. The Ministry of Interior of the Slovak Republic as the sponsor of the ESO reform performed an analysis of over 400 contributory organisations and budgetary organizations, funds and special organizations established by law. The aim of the assessment was to identify duplicate and unused functions. In 2014, most organizations realizing for savings by increasing the efficiency of their activities internally. There is, however, increasingly more merging, closing down or sharing of supporting activities, operating costs and material equipment sharing of these subordinate

⁷ Real revenues and expenditures for 2013 were used as the basic year for NPC for 2014. An estimate of actual expenditures for 2014 will be used as a base for NPC for 2015.



organizations, which enables significant savings without decreasing the performance of the general government and its services for the citizens.

Table 9 shows nominal year-on-year savings in main categories of operating expenditures: wage expenditure and expenditure on goods and services. Decreasing expenditures at most ministries shows the extent of savings in 2014 and 2015. Major exceptions are only defence and education (regional education financed through the Ministry of Interior of the Slovak Republic and the Ministry of Education, Science, Research and Sport).

Tab. 9: YoY nominal savings in operating expenditures of ministries (EUR million)

	Expenditures ⁸			Savings	
	S2013 ⁹	OS2014	R2015	2014	2015
Chancellery of the National Council of SR	23.0	22.9	22.4	0.1	0.5
Office of the President of SR	4.0	3.9	3.8	0.1	0.1
Government Office of SR	12.2	11.5	11.8	0.7	-0.2
Office of the Constitutional Court of SR	3.4	3.3	3.3	0.2	0.0
Supreme Court of SR	8.7	8.6	8.6	0.1	0.0
Prosecution Office of SR	67.8	68.1	68.6	-0.3	-0.5
Supreme Audit Office of SR	7.7	7.8	7.7	-0.1	0.0
Ministry of Foreign and European Affairs of SR	97.3	89.2	88.2	8.2	1.0
Ministry of Defence of SR	560.2	596.3	643.7	-36.2	-47.4
Ministry of Interior of SR	1005.0	1047.5	1034.3	-42.5	13.2
Ministry of Justice of SR	299.3	287.0	286.3	12.3	0.6
Ministry of Finance of SR	302.7	261.0	256.9	41.7	4.1
Ministry of the Environment of SR	24.3	21.3	3.0	3.0	18.3
Ministry of Education, Science, Research and Sport of SR	61.9	73.2	45.7	-11.3	27.4
Ministry of Health of SR	42.0	38.1	38.4	4.0	-0.3
Ministry of Labour, Social Affairs and Family of SR	195.1	197.8	181.0	-2.6	16.7
Ministry of Culture of SR	27.0	28.2	18.3	-1.2	10.0
Ministry of Economy of SR	22.0	23.4	19.3	-1.4	4.1
Ministry of Agriculture and Rural Development of SR	76.7	64.7	52.0	12.0	12.7
Ministry of Transport, Construction and Regional Development of SR	206.5	203.0	189.3	3.5	13.6
Geodesy, Cartography and Cadastre Office of SR	35.2	14.2	14.2	21.0	-0.1
Statistical Office of SR	18.7	18.1	13.4	0.6	4.7
Office for Public Procurement	4.8	5.1	6.3	-0.3	-1.2
Regulatory Office for Network Industries	2.8	2.9	2.9	-0.1	0.0
Nuclear Regulatory Authority of SR	4.0	7.7	7.6	-3.7	0.1
Industrial Property Office of SR	2.5	2.5	2.5	0.0	0.1
Bureau of normalization, meteorology and testing	2.5	3.6	2.8	-1.2	0.8
Antimonopoly Office of SR	2.0	2.0	1.3	0.1	0.6
State Material Reserves of SR	26.9	8.4 ¹⁰	7.9	18.5	0.6
Slovak Academy of Sciences	43.4	36.2	28.7	7.2	7.5
Total	3,189.7	3,157.2	3,070.3	32.4	87.0

This year reorganization will affect 23 subordinate organizations to the state budget and the Slovak Academy of Sciences. The Table 10 shows that it will bring significant savings already in the first year, almost 14% of their expenditures. In 2014, the Telecommunications Regulatory Authority and the Postal Regulatory Authority will merge in the Regulatory Authority for Electronic Communication and Postal Services. In addition, the Railway Regulatory Authority, Civil Aviation Authority and State Navigation Administration have merged in the Transport Authority. The Centre for chemical substances and preparations became a part of the apparatus of the Ministry of Economy, and the Museum of Trade has been transformed into a contributory organisation. A merge of the State Energy Inspection with the Slovak Trade Inspection has been prepared

⁸ Includes personnel expenditures and expenditures on goods and services

⁹ As for 2013, there are only preliminary facts RE - reality estimate; R - budget framework draft

¹⁰ Net of the one-time expenditure of EUR 100 million for VAT to be paid on the sale of oil reserves.



to take place in May 2014. Slovak Office of Standards has become a part of the Bureau of normalization, meteorology and testing and the Slovak Institute of Metrology has been transformed into a non-profit organization. In addition, the Ministry of Agriculture and Rural Development has prepared a merge of three state veterinary and food institutes and the State Veterinary Institute into one organization. It also merges its 7 scientific centres and institutes into the National Agricultural and Food Centre. The Institute of Information and Prognoses of Education has become a part of the Centre of Scientific and Technical Information. Organizations of the Slovak Academy of Sciences will be transformed into a new form of independent legal entities – public research institutions.

Tab. 10: The impact of reorganization of 23 subordinate organizations on their expenditures in 2014 (savings in state budget resources)

EUR mill.	2013 estimate	Transformation	2014 budget	Savings
Telecommunications Regulatory Authority	4.74	Regulatory Authority for Electronic Communication and Postal Services	4.59	0.78
Postal Regulatory Authority	0.64			
Railway Regulatory Authority	1.46			
Civil Aviation Authority	2.31	Transport Authority	4.87	0.34
State Navigation Administration	1.44			
State Energy Inspection	0.81	Merge on 1 May 2014	0.57	0.24
Slovak Trade Inspection	4.51	Merge on 1 May 2014	4.51	0.00
Centre for Chemical Substances	0.37	Part of the ME SR	-	- ¹¹
Museum of Trade	0.23	Transformation into a CO	0.13	0.10
Slovak Institute of Metrology	2.18	Transformation into a NPO	0.90	1.28
Slovak Office of Standards	0.78	Part of BNMT	-	-
State Veterinary and Food Institute Bratislava	1.30			
State Veterinary Institute Zvolen	1.39			
State Veterinary and Food Institute Košice	0.42	State Veterinary and Food Institute in Dolný Kubín	3.73	0.45
State Veterinary and Food Institute DK	1.06			
Plant Production Research Institute PN	2.30			
Research Institute for Animal Production Nitra	1.92			
Soil Science and Protection Research Centre	0.98	National Agriculture and Food Centre	5.65	1.62
Food Research Institute	0.96			
Research Institute of Agricultural and Food Economics	0.85			
Technical and Testing Institute of Agriculture	0.26			
SAPV Agency	0.07			
Institute of Information and Prognoses of Education	11.09	SCSTI Ministry of Education, Science, Research and Sport of SR	4.23 7.20	-1.78
Slovak Academy of Sciences	72.08	Transformation of 68 organizations into 10 public research institutions	60.80	11.28
Total	113.0		97.7	15.3

Increasing the efficiency of state administration and the transformation and integration of budgetary and contributory organisations will continue in 2015 and 2016 as well.

¹¹ Impact on expenditures cannot be estimated in the case of integration in a bigger organization.



Tax collection efficiency

Data about payment of the corporate income tax at the level of individual companies together with revenues, costs and profit/loss will be disclosed. Specialization of courts and prosecution in the area of tax criminal acts will be introduced at the organizational level as well as at the level of specialized education. This intention is currently being elaborated by a working group lead by the Ministry of Justice of SR, with participation of representatives of the Ministry of Interior and Financial Administration.

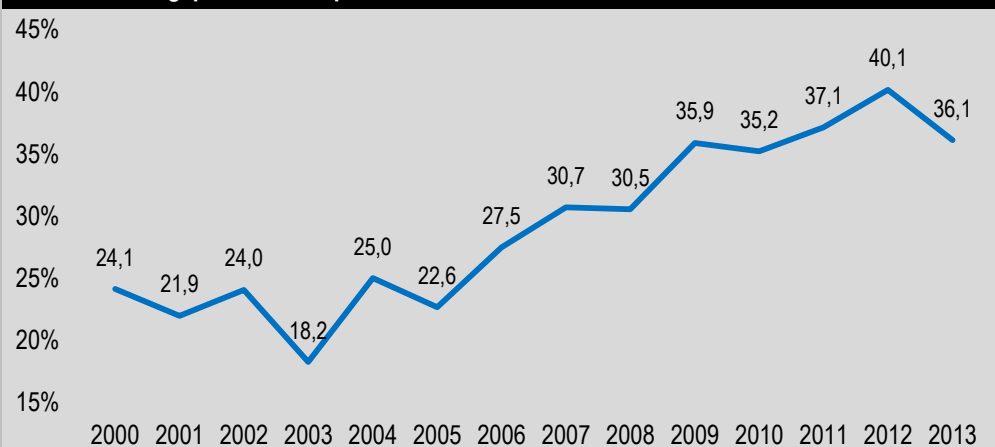
Compared to other OECD or EU countries, property taxes in Slovakia represent a less significant part of tax revenues of municipalities and self-governing regions. The current setting of the system (tax rate in EUR according to the floorage) is less efficient and fair because the tax base does not reflect the actual property value (defined by the size of the building, property location, age, facilities pertaining to the property and other characteristics), but only the size. This is then the basis of different efficient tax burden of individual properties (the share of paid tax compared to the property price) and the regressivity of the system. From the point of view of tax fairness and efficiency, the optimum solution is to set the system so that the tax base is linked to the estimated market value of the property. A system set-up in such a way would ensure that the tax base changes together with the market price of the property and that the efficient taxation conditional upon unchanged rate would be constant.

MoF SR has prepared a new property taxation proposal based on the estimated market value. Based on the data obtained about the prices of advertised residential properties a model was proposed which, after considering input characteristics, enables to estimate the market value of the property. The first steps in implementation of the new system will be carried out after 2015.

Box 4: VAT gap

Slovakia is one of the EU countries with the highest VAT gap. According to a CASE study,¹² in 2011 SR saw the fourth highest VAT gap as % of potential among the EU countries. The IFP and CASE estimates coincide that the VAT gap in SR was growing since the SR joined EU from 20 – 25% from the potential collection to approximately 40% in 2012. The VAT collection effectiveness was lowest in the middle of 2012. Corresponding to implementation of measures of the Action plan to combat tax evasion, the collection effectiveness has been improving since then continuously for four subsequent quarters. In 2013, the VAT gap dropped approximately to 36%. This represents a similar level than in 2009 and corresponds to closing approximately 10% VAT gap of 2012.

Chart 13: VAT gap as % of the potential VAT



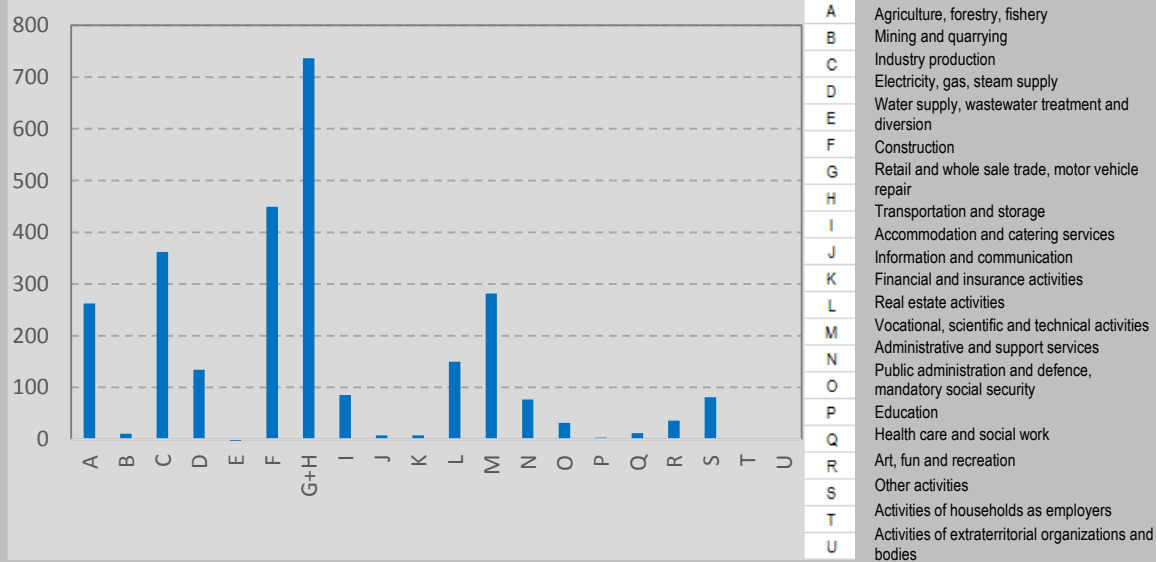
Source: SO SR, IFP

¹² More detail in: "Study to quantify and analyse the VAT Gap in the EU-27 Member States"; http://ec.EURpa.eu/taxation_customs/resources/documents/common/publications/studies/vat-gap.pdf



A big part of the VAT gap is present in several areas of the economy. Mainly retail trade and wholesale, construction, industrial production, professional, scientific and technical activities and agriculture are risky from the point of view of VAT evasion. The estimated outcomes are based on the methodology used in the Revenue Administration Gap (RA-GAP) programme of the International Monetary Fund. This methodology works with aggregated macroeconomic data from supply and use table of national accounts, which enables to estimate the VAT gap at the level of individual sectors. The disadvantage is that the supply and use tables are prepared with rather long delays. The latest ones available today are for 2010.

Chart 14: VAT gap according to NACE2 sectors (EUR million, average for 2008 – 10)



Source: SO SR, IFP

The sector estimate of a VAT gap will enable to focus the inspection activities of the financial administration more efficiently, prepare better targeted measures to combat tax evasion and to estimate their potential impact on tax collection. An example is the introduction of cash registers which is being prepared, and the obligation to attach invoices to administrative documents used for official purposes for hotels and for professional, scientific and technical activities.

Uniform Collection of Taxes, Customs Duties and Insurance Contributions

The UNITAS project adopted as part of The Concept of Tax and Customs Administration Reform approved by the Government in 2008 has been implemented in the form of activities aimed at unifying collection of taxes and customs duties at the technological, organisational and procedural level (UNITAS I). The organisational changes that had to be made in order to integrate taxes and customs were completed at the beginning of 2012 when the Customs Directorate and the Financial Directorate merged into the Financial Directorate¹³. Repressive activities in tax collection are internally provided by the Criminal Office of the Financial Administration. The Financial Administration Portal has made the communication with the public and with business entities much more efficient since January 2014; and the Single Window will contribute to electronization of communication. Initiation of the production operation from January 2015 is expected within the project Integrated Information System of the Financial Administration. Initiation of annual accounts of social contributions is expected from January 2016 with regard to unification of social insurance contributions (second stage of the UNITAS II project).

Increasing the profitability of state assets

¹³ The initial collapse of IT systems of the Financial Administration was overcome in the course of 2012.



Pivotal for better utilisation and more effective management of state assets is to increase their rate of return. It is an area which directly results from the Manifesto of the Government. A unit will be established for this purpose at the Ministry of Finance, the task of which will be to perform financial analyses of companies with state equity which will use standards, analyses, reporting, etc., as in private holdings¹⁴. The basic objective of increasing the profitability of state assets will be to increase revenues or profit per one unit of state assets. From the point of view of the current situation, an increase in profitability of state assets and their further improvement will require in particular:

- consolidation of state assets;
- comprehensive optimization of state assets; and
- linking the use of state assets with the needs of public finance and development of real economy.

4.2 Education, science and innovation

Tab. 11: Outcome indicators for education, science and innovation

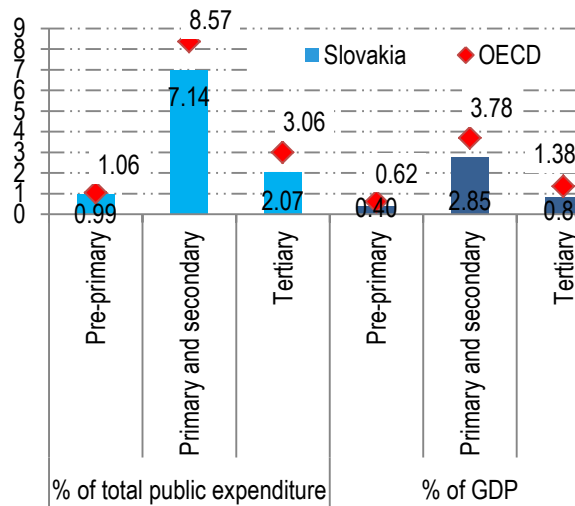
		2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
PISA (arithmetic average of the scores)	SK	-	482	-	-	488	-	-	472	-	505
	OECD	-	496	-	-	496	-	-	497	-	-
School drop-out rate (%, population age 18 – 24)	SK	6.3	6.6	6.5	6.0	4.9	4.7	5.1	5.3	6.3	6
	EU	15.7	15.4	14.9	14.7	14.2	13.9	13.4	12.7	12.0	10
Citations per researcher (%, 100 = EU average)	SK	36	40	38	41	36	35	38	52	-	70
	EU	-	-	-	-	-	-	-	-	-	-
Tertiary educational attainment (%, population age 30 –34)	SK	14.3	14.4	14.8	15.8	17.6	22.1	23.4	23.7	26.2	40
	EU	28	28.9	30	31	32.2	33.5	34.6	35.7	36.6	40
Gross domestic expenditure on R&D (GERD) (in % of GDP)	SK	0.51	0.49	0.46	0.47	0.48	0.63	0.68	0.82	-	1.2
	EU	1.82	1.85	1.85	1.92	2.02	2.01	2.03	2.06	-	3
High-tech export (% of total export)	SK	6.4	5.8	5.0	5.2	5.9	6.6	6.6	8.2	-	14
	EU	14.1	13.8	12.3	12.3	13.1	12.3	11.6	11.6	-	-

The quality and productivity of human capital is an important factor having an impact on economic growth and the quality of life of the population. Educated workforce increases the labour productivity and can flexibly adapt to increasing work requirements and changes in required skills. According to quantitative indicators, Slovakia is not significantly lagging behind the EU average. School drop-out rate slightly increased last year, though it is still low compared to the EU. The share of young people with completed tertiary education is quickly approaching the EU average. But the quality of education is where Slovakia clearly falls behind. The insufficient quality of primary schools has been confirmed by below-average results in PISA testing, while small number of scientific publications and citations per researcher shows the poor quality of tertiary schools. The education system cannot respond to the needs of the labour market flexibly enough, which turns out to be one of the causes of high structural unemployment. Moreover, the labour market will increasingly demand higher-level skills which will call for an enhanced flexibility of the educational system.

¹⁴ Its activity will not be duplicate and will not collide with the activity of the units of the Ministry of Economy: department of mergers and acquisitions, department of shareholder's rights and department of state assets management.

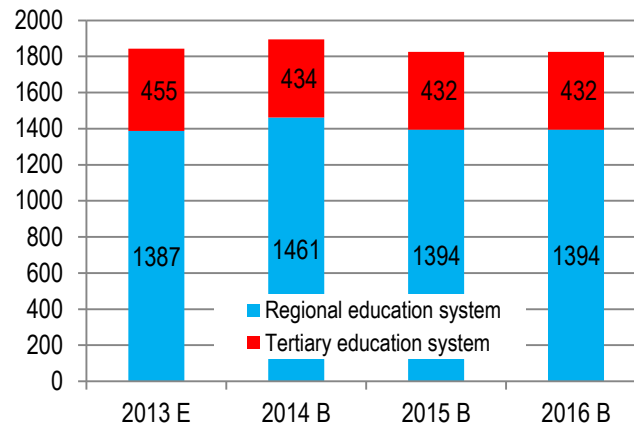


Chart 15: YoY comparison on expenditures on education



Source: OECD (Education at Glance, 2013)

Chart 16: Expenditure on regional schools and tertiary schools from the state budget (GGB 2014 – 2016; EUR mill.)

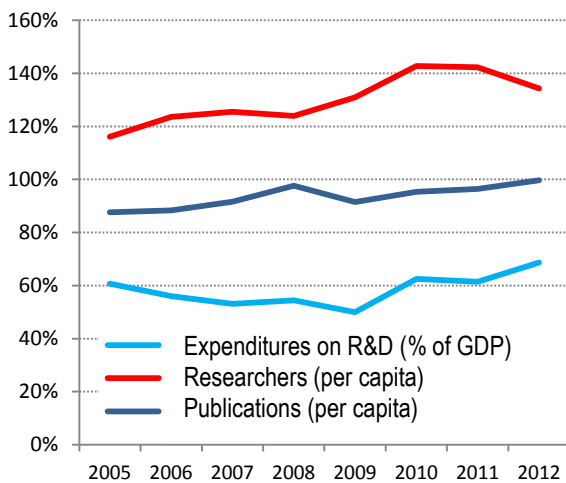


Source: MoF SR

In spite of their growth, Slovakia has one of the lowest rates of public spending on education in the EU. One of the underlying topics of the current economic policy is to find out how to invest into education while complying with the set fiscal targets. It is the intention of the Government to increase expenditures on education from public resources to the average level of OECD countries in 2020. It would mean increasing the resources approximately by EUR 110 million in regional education and EUR 20 million in tertiary education annually. The Government made a commitment to increase the salaries of teachers to 1.2 times the average wage in the national economy. However, the funds have to be provided in an efficient manner.

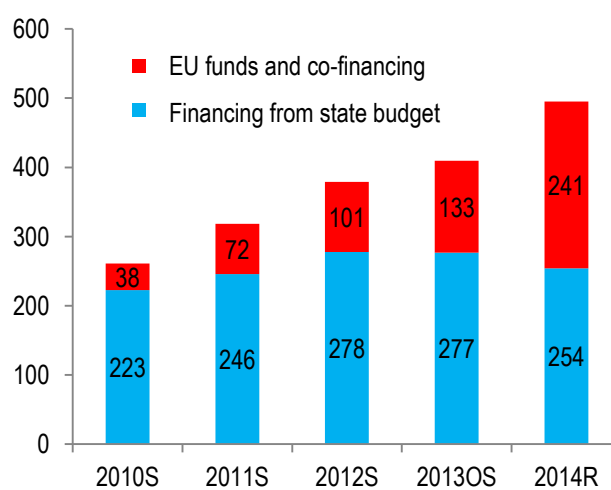
Expenditures on science and research saw a relatively quick rise in the last years. The increasing number of researchers is not reflected in the number of outputs such as publications and citations. High-tech export as an indicator of innovation performance remains considerably below the EU average.

Chart 17: Inputs and outputs of R&D as a percentage of V3 average



Source: Eurostat, Web of Knowledge, IFP

Chart 18: R&D funding from the General Government Budget (EUR mill.)



Source: General government budget for 2014 – 2016

Structural changes in the education system focus on encouraging integration of marginalised communities from pre-primary education through to further training, linking vocational education and training with practice, changing internal organisation of the tertiary school sector in order to improve its quality, and improving the quality of pedagogical employees. Measures to support science, research and innovation should stabilise the volume of public spending and enhance efficient use of these funds. An increase in private R&D investments should considerably contribute to meeting the targets under the Europe 2020 strategy.



4.2.1 Regional education system

Financing

The current system of financing is not creating sufficient pressure on optimization of the schools network. At the primary school level, this problem can be seen in a high proportion of schools with low numbers of students that still exist. As for secondary schools, it involves issues related to the types of schools in the education network (grammar schools, different types of vocational schools). The major problem with the current funding model at the system level is in that the funds are not allocated according to the objectively needed number of classes, but according to the number of students. In addition, the current system of per-pupil norm motivates schools to have the highest number of students possible, without providing tools against misuse of this competition.

This funding system will therefore be adjusted such that the current condition will be improved. A new funding model will also take into account how the graduates perform on the labour market (in particular in vocational education). The funding of extracurricular education (educational vouchers) will be reviewed and the amount of normative payments will be updated to reflect higher costs of practical training at vocational schools.

New capacities in pre-school education

In order to improve the achievements of pupils at school and integration of marginalized Roma communities and to increase the participation of women in the labour market, the Government of SR will support participation in pre-primary education in kindergartens. Systemic measures will be adopted in the coming years to gradually achieve, by 2020, a 95-percent attendance of children over 4 in the pre-primary education in kindergartens (currently approximately 74% of 4-year-old and 82% of 5-year old children attend kindergartens). The measure will affect approximately 20,000 children with the estimated costs of EUR 17 million in 2014.

Inclusion of children from marginalized communities

Due to an early selection of children, the Slovak educational system further widens the original inequalities among pupils. Children from socially vulnerable groups (SVG¹⁵), marginalized Roma communities (MRC) in particular, have thus a small chance to escape the bad socio-economic situation and acquire education. Measures to include such children are described in the Action Plan of the Strategy of SR for Integration of the Roma. The Ministry of Education will introduce free pre-primary education for children from SVG aged over 3 years by 2015. The measures also concern special education of pedagogues for MRCs, prevention of incorrectly placing children from SVG in special schools, a higher number of assistant teachers and the resulting higher subsidy per student, provision of leisure-time care, possibilities to complete the primary education of pupils who have dropped out of primary schools and also education of the Roma in their mother tongue.

Position of teachers

The Government considers it crucial to reinforce the role, status and remuneration of teachers at all levels of the school system. The presence of high quality teachers in the education sector depends on several factors – financial remuneration and opportunities for career development, but also on working environment and social prestige.

Similarly to 2013, wages of teachers will rise by 5% in 2014. The Ministry of Education will prepare an amendment which will set the conditions for a gradual increase of starting salaries of teachers, regardless of their education. The process of awarding credits for further education will be simplified and made more efficient, while the period of validity of credits will be directly proportional to the intensity of the programme. Criteria for submitting continuous education programmes will be set so that they correspond to professional standards.

¹⁵ Not only the children from households receiving social assistance benefit, but also children from families living in unsuitable conditions, children whose mother tongue differs from the instruction language and children whose parents have primary or lower education.



To enhance the quality in the education sector it is absolutely necessary to ensure that teachers receive adequate financial remuneration, a larger portion of which will be determined by the pedagogical performance of teachers. On the other hand, a better financial remuneration will also be achieved through an appropriately determined number of teachers in the regional school sector to correspond with demographic development. Professional standards for beginner teachers will be prepared and binding for the preparation of national educational programmes in relevant fields of study. Future teachers will spend more time in practical training (practical pedagogical training should represent 20 to 40% of their study programme).

Quality of studies

Legislative measures will be taken in order to merge the external testing of primary students with admission exams for secondary schools and thus the external testing date will be postponed. The aim of this measure is to motivate students in the last year of their primary education and to prevent potential deceits by changing the place of external testing.

External forms of assessment of schools at individual levels of the education system (especially Testing 5, Testing 9 and external secondary school-leaving exam) will be aligned to make it possible to clearly assess the added value of education services provided by individual schools. A reliable measurement of the quality of educational outputs and results will allow for more autonomy in the management of kindergartens, primary and secondary schools and school facilities.

A necessary limitation of the number of newly-enrolled students at 8-year secondary grammar schools from 2016 will be based on the outcomes of Testing 5. In order to increase the employment of graduates in the labour market in the technical sector, a discussion will be prepared on a potential introduction of the obligatory school leaving exam in mathematics at secondary grammar schools.

The Government of SR will gradually ensure that alternative textbooks and educational texts are available at primary and secondary schools. Digital textbooks and electronic versions of textbooks for purblind and blind students will be made available. The number of mathematics and natural sciences lessons will increase at secondary grammar schools and curriculum will be modified so that it develops practical skills.

Vocational schools

The Government of SR will ensure a tighter connection of vocational schools with practice. Several projects will be implemented in 2014 where private companies cooperate with vocational schools to educate students directly at the workplace. Changes in normative financing, based on analyses and forecasts of the labour market, will become effective in 2015. A new Act on Vocational Education and Training is being prepared which will also contain formal introduction of dual education. The system of education and re-qualification of the unemployed will take into consideration the need for skills with the aim to renew the cultural heritage.

4.2.2 Tertiary schools

Funding

The system of tertiary schools funding will be changed so that primarily study fields connected to the development of economy or to ensuring public needs (healthcare, teachers, etc.) are provided and so that an optimum number of graduates is ensured in all study fields. A system of measurable targets which the university will achieve in a relevant period will be introduced in financing education and in institutional financing of research activities of universities. These targets will be based on the mission and the long-term plan of the universities or on the need for a systemic change (in 2015 – 2020 a preference to create professionally-oriented bachelor's study programmes) and their setting will be the subject of discussions between the university and the Ministry. The amount of the subsidies will eventually depend on the ability of the university to achieve the agreed targets.

Quality of studies



A new Act on the Higher Education Institutions will be based on strengthening the autonomy of public and private tertiary schools in academic matters, strengthening the responsibilities and competencies of tertiary school managements and a closer connection of public tertiary schools with private sector. The new act is planned to be effective from September 2015 and the draft will be submitted in the course of 2014.

The intention is to simplify the accreditation process. Study fields will be accredited instead of study programmes. As a part of opening tertiary schools, cancellation of scientific-pedagogic and artistic-pedagogic titles of assistant professor and professor will be proposed, while retaining only the relevant functional positions. This will make the academic career more flexible and the system will open also for persons interested from abroad or from practice. It will be necessary to improve funding of the system in order to increase the attractiveness of the academic environment. One of such steps is to increase the wages of tertiary school teachers by 5% in 2014.

4.2.3 Further learning

Due to quick changes in the labour market, individuals are often required to obtain a re-qualification and further education. The aim is to create a functioning system of life-long learning and counselling. In doing so, it will be crucial to define the requirements for educational programmes, lecturers, managers and institutions. At the same time, it will be necessary to provide information on available educational programmes and their outputs, as well as counselling.

A national programme is being performed which plans to ensure the quality of educational programmes (purpose, content, form and methods) and the quality of educational institutions (personnel, material and technical equipment and premises). A network of counselling institutions and, for the most part, bringing in employers to participate in further education for adults will be ensured; currently it is voluntary. Legislative changes are planned in 2015 focused on financial motivation of employers who will invest in education of their employees. Legislation will be amended with respect to the recognition of non-formal education.

4.2.4 Science, research and innovation

Science and research

Adoption of the Research and Innovation Strategy for Smart Specialization of SR (RIS3) is an important step in the area of coordination of the R&D agenda. Based on an analysis of the existing capacities and assumptions of economic development, it sets the priorities of research, development and innovation and identifies key measures necessary to improve the current condition. In the upcoming years, material research and nanotechnology, information and communication technologies, biomedicine and biotechnology, industrial technology, power engineering, agriculture and environment will therefore play key roles. They will be supplemented by selected areas of social sciences with regard to the major problems of the Slovak economy.

The implementation schedule will be contained in the RIS3 Action Plan. The measures will be focused on stabilizing public resources and promoting private financing of R&D. The existing network of governmental implementation institutions will be merged into two integrated agencies: Agency of Research and Agency of Technology. Financing will be focused on increasing the quality of research, promoting the infrastructure built from EU funds in the second programming period and connecting universities, academy of sciences, research institutions and partners from the area of industry.

Organizations of the Slovak Academy of Sciences will be transformed into a new form of independent legal entities - public research institutions. This will eliminate the barriers preventing more intensive cooperation with the private sector in R&D and enable to use private resources to finance their R&D activities.

One of the key priorities in 2014 will also be to intensify the support of involvement of Slovak organizations in the European networks and programmes such as the Horizon 2020, Danube Strategy, ECSEL, EIT, ESFRI. In January 2014 a new professional office of national points was established with the task to inform and actively look for opportunities for involvement of Slovak participants in the Horizon 2020 programme. Liaison Office of SR for



R&D in Brussels was also established. In addition to establishing contacts, the Office will foster Slovak interests in the community (European) R&D programmes. The supporting structures will be supplemented by a new financial programme to prepare projects for Horizon 2020.

Innovation

According to an international comparison of the Innovation Union Scoreboard, innovation performance of SR is an area where an improvement is necessary, particularly as regards using the venture capital.

With the aim to increase the share of private resources in R&D, the Government will promote building industrial research, development and innovation capacities in companies. Loan and guarantee schemes and starting and venture capital funds have been a part of the Jeremie programme since 2014. Innovative forms of financing will also be used in the upcoming years. Pilot projects for establishment of technological and prototype centres, testing centres and semi-operations for production of innovative products will be created. Transition of companies, particularly subsidiaries of multinational corporations, from assembly and production to the development of their own products and technologies will be supported through clustering and other forms of networking at the local, regional, national and macro-regional level. National policies and programmes of financing will lay more emphasis on motivating the cooperation between corporate research and innovation with basic research institutions and academic sector.

4.3 Employment and social inclusion

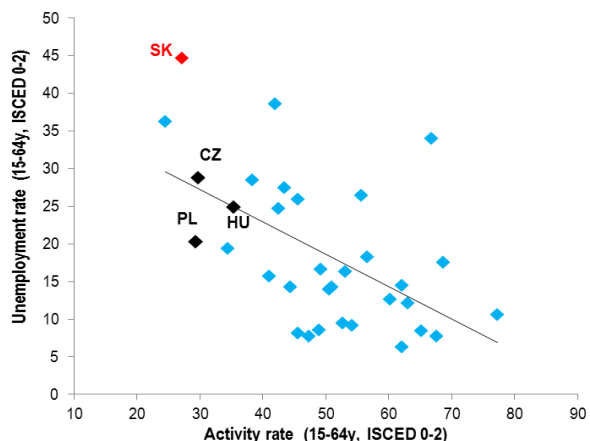
Tab. 12: Outcome indicators for employment and social inclusion

		2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
Long term unemployment rate (% of active population aged at least 15)	SK	11.8	10.3	8.3	6.7	6.5	9.3	9.3	9.4	10.0	3
	EU	4.2	3.8	3.1	2.6	3	3.9	4.2	4.7	5.1	-
Employment rate (% of population aged 20 - 64)	SK	64.5	66	67.2	68.8	66.4	64.6	65.0	65.1	65.0	72
	EU	67.9	68.9	69.8	70.3	68.9	68.5	68.5	68.4	68.3	75
Population at risk of poverty and social exclusion (% of the population)	SK	32	26.7	21.3	20.6	19.6	20.6	20.6	20.5	-	17.2
	EU	25.7	25.3	24.4	23.7	23.2	23.7	24.3	24.8	-	19.4

The labour market has been one of the key challenges in Slovakia's economy in the long term. After a successful consolidation in the past, employment will be a crucial topic in the economic policy in the following years. In comparison with other EU Member States, employment rate is quite low in Slovakia, in particular as regards young job seekers, older people and women, while the unemployment rate is high – mostly driven by high numbers of the long-term unemployed. Hitting the 10% mark, it is one of the highest in the EU-28. Low-skilled persons have the biggest difficulties in the labour market, while the activity rate and unemployment rate of this group is one of the lowest ones or the highest ones respectively among the EU countries (chart 19).

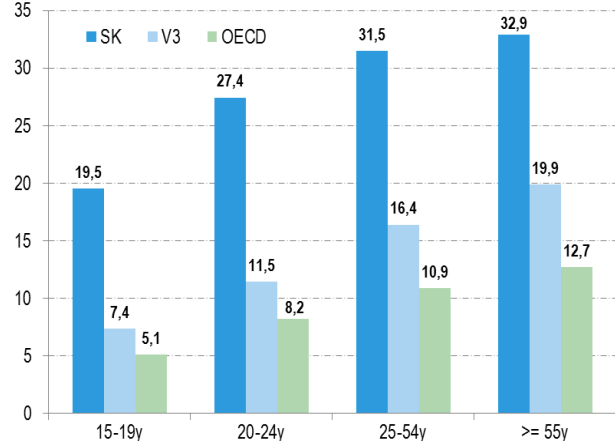


Chart 19: Low-skilled workforce in the labour market (in %, 2012)



Source: Eurostat

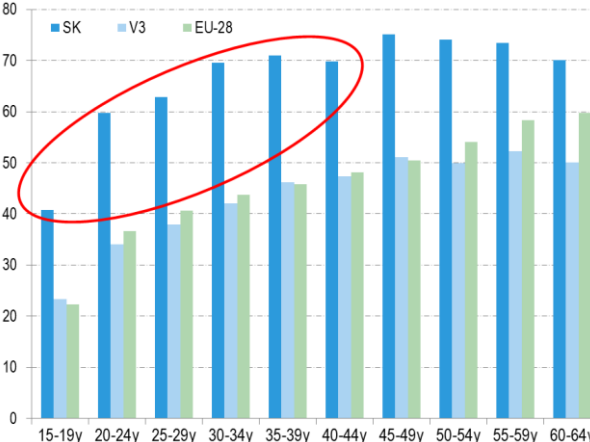
Chart 20: Average unemployment length in months as per age groups (2012)



Source: OECD

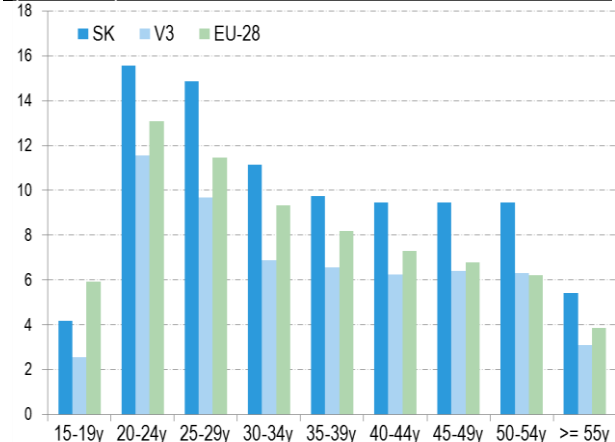
The average duration of unemployment in Slovakia largely exceeds the average of V3 and OECD countries for all age groups (chart 20). Even young people after completing their studies to the group of long-term unemployed (chart 21). Youth unemployment in Slovakia under the age of 25 is among the highest in the EU, reaching more than 33.6% in 2013, while the EU-28 average was 23.5%. Taking into consideration the number of young people in the educational process and in inactivity, the unemployment measured in the age group of 15 – 29 reaches 12%. It is still above the EU-28 countries average (10.3%), though with a smaller difference.

Chart 21: Share of long-term unemployed population by age groups (in %, 2012)



Source: Eurostat

Chart 22: Unemployment rate in population by age groups (in %, 2012)

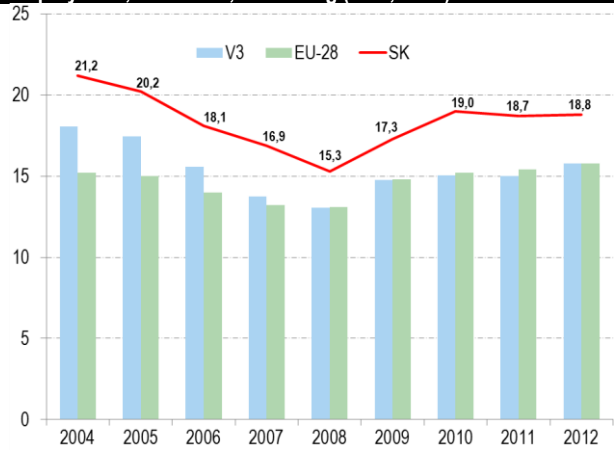


Source: Eurostat

The inactivity rate of the youth up to the age of 29 (those who are not employed or involved in the educational process or work-related training – the so-called NEET) amounted to 18.8% in Slovakia in 2012, while the EU-28 and V3 countries average was 15.8% (chart 23). When comparing the unemployment rate of the age group under 29 years of age with the age group over 30 years of age, Slovakia reaches the average of the EU countries (chart 24). It means that unemployment in Slovakia represents a problem in each age group. It is more striking though in the group of low-skilled workforce.

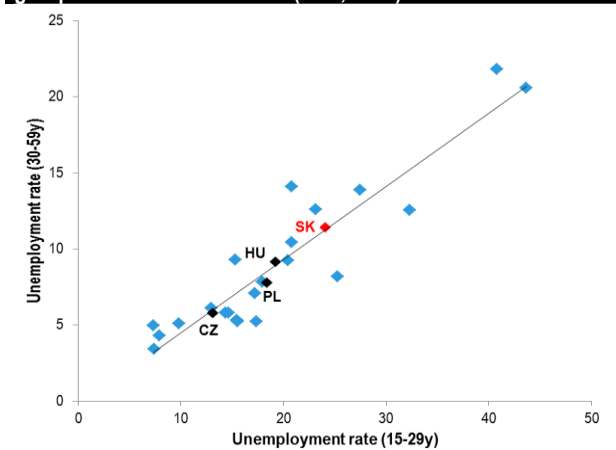


Chart 23: NEET indicator - young people aged 15 – 29 not in employment, education, or training (in %, 2012)



Note: NEET - not in employment, education and training. Source: Eurostat

Chart 24: Relationship of the unemployment rate of the age groups of 15 – 29 and 30 – 59 (in %, 2012)

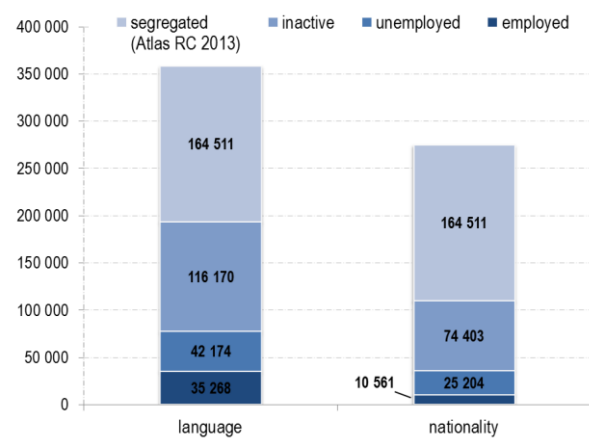


Source: Eurostat

Slovakia has set a target to increase the employment rate of the population aged 20 – 64 to 72% by 2020 (in 2012 and 2013 the employment rate was at 65%). Apart from positive social implications, reducing unemployment and increasing employment also would significantly affect the performance of the economy by increasing labour force participation and productivity. Mainly the Roma population has a low participation in the labour market. According to IFP, based on the data of the labour force survey, the share of the economically active Roma is only 40% of their total population. According to other surveys (UNDP, 2010), the activity rate of the Roma in their population over age 15 amounted to 55.8%. Special attention in case of low-skilled labour force therefore must be paid to the integration of relatively numerous marginalised Roma communities and the mismatch between the needs of the labour market and the educational structure. Other parts of the Programme, in particular those related to education, deal with these topics as well.

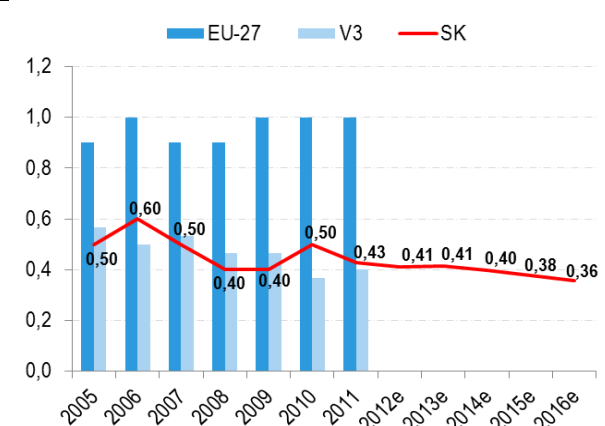
Low labour market performance is associated with a higher risk of poverty and social exclusion. Some 20% of the Slovak population are at risk of poverty and social exclusion, which is less than the EU-28 average (24.8%). The Government undertakes to further continue decreasing this proportion by 2020 to achieve 17%. Slovakia expends comparable resources in proportion to GDP as its neighbouring countries on social benefits related to social inclusion, but considerably less than the average of EU-28 countries. The system of assistance in material need just represents a tool which enables to target and activate the long-term unemployed and inactive persons (e.g. in-work benefit, modification of activation works for more efficient activation tools).

Chart 25: Economic activity of the Roma



Source: LFS, Atlas of the Roma Communities 2013

Chart 26: Expenditures on social exclusion (in % of GDP)



Note: since 2012, the actual and budgeted expenditures include an estimate of benefits in kind related to social inclusion.

Source: ESSPROS, GG budget for 2014 – 2016, SO SR, Central Office of Labour, Social Affairs and Family



The current situation in the labour market calls for an adequate solution. The Slovak Government is committed to taking the necessary steps in order to improve the performance of the labour market. Main measures related to employment include implementation of the amendment of the Act on Employment Services aiming at a more efficient and effective support of disadvantaged job-seekers, implementation of the Youth Guarantee scheme for the youth under the age of 29, and, based on their assessment, introduction or modification of measures increasing the motivation of participants in the labour market on the supply- and demand-side. The Government will promote economic and social inclusion of the marginalised Roma communities.

On top of that, the policies described in other sections of this chapter of the National Reform Programme will considerably contribute to employment. It is in particular the measures aimed at improving business environment, modernising the infrastructure and streamlining the public administration which have the potential to significantly contribute to the development of businesses and job creation. In a similar vein, the employment and social inclusion will be supported by a new financial instrument – the Fund of Social Development Capital Funds – as a combination of repayable and non-repayable financial support for entrepreneurship by marginalised groups. A more detailed description of the fund can be found in the chapter on business environment.

4.3.1 Employment

Employment services

Provision of targeted personalised public employment services (PES) to registered job seekers (RJS) at labour offices represents another stage of the ALMP reform. The aim is to decrease the information asymmetry between supply and demand for work as well as to provide better general information to RJS about the options of ALMP programmes.

Public employment services institutions will be modernised and strengthened with regard to guidelines of the employment policy. The intention is mainly to review the system of PES institutions and the efficiency of their management in order to increase the flexibility and capacity of the provided personalised employment services. The measure will be also focused on restricting institutional shortcomings. In the first step (2014 – 2015), the general directorate as well as branches of labour offices will be integrated into one subject as a part of the ESO reform. The change in the management will enable the Central Office of Labour, Social Affairs and Family (COLSAF) to better manage the individual labour offices and their staffing. A fully functional three-pillar system of employment services – information-counselling services, professional services and administration of the labour offices – will be created by 2020. However, a sufficient number of employees will be needed to provide better client professional and counselling services. The labour offices could obtain this capacity through an internal relocation and increasing the efficiency of its functioning. This may be achieved also through centralisation and automation of administrative activities using an information system.

To provide high-quality services, competitive wages based on outcome indicators also need to be provided to employees of the labour offices. The current financial remuneration of employees of the labour offices is below the average in public administration. Based on the outcome indicators, employees providing professional and information-counselling services will receive wages corresponding to the average wage in public administration. The budget will be allocated to the labour offices according to the labour market needs (e.g. unemployment rate) and outcomes (e.g. number of RJS hired that remained in the job, suitable offer of ALMP programmes).

Based on inputs from regional labour offices, COLSAF will assess functioning of ALMP tools in regular reports. In order to make the ALMPs even more effective, the net efficiency of the individual programmes will be analysed with the aim to achieve better response to the labour market needs. In order to comply with this requirement, the individualised central database, which is about to be finalised, is needed.



Promoting youth employment

Two ESF-funded projects within the ALMP system, primarily focused on promoting newly-created jobs for RJS under age of 29, are currently under way. The employment support is carried out by subsidising a part of employer's total labour costs of employees. During 2012 – 2015 it will lead to creation of almost 14,000 jobs. 11,623 jobs for the young unemployed were supported until the end of January 2014. The task of the responsible institutions (COLSAF and MoLSAF) will be to assess the efficiency of these projects with an emphasis on finding out if such measures have also a permanent effect on increasing employment. Based on the assessed success rate of the projects, extension of this form of employment support is being considered.

Youth employment is being promoted also through Structural Funds within the operational programme Competitiveness and Economic Growth. Projects of companies in the areas of tourism, innovations and technological transfers are promoted in the form of non-returnable financial contributions in the total volume of EUR 600 million. Creation of 2,800 new jobs is expected indirectly, while one of the criteria of assessing the projects is to create jobs for young people.

Legislative reforms and new projects to promote youth employment form a part of the Youth Guarantee scheme for young people under the age of 29, which is focused on the long-term unemployed young people (over 12 months) or at least over 6 months in the age group of 25 – 29. The aim of the measures is to ensure that all young people under the age of 29 are offered a high-quality job, further education, vocational preparation or internship not later than 4 months after losing their job or finishing their studies. The Ministry of Labour in cooperation with the MoESRS has prepared an implementation plan in the form of the National Youth Guarantee Implementation Plan in the Slovak Republic, which the Government took note of on 5 February 2014. The National Plan contains reforms and projects in two main areas:

- early intervention and activation;
- support measures for integration in the labour market.

Early intervention is mainly focused on young people at school age (primary and secondary school), but it is also focused on inactive young people (the so-called NEETs). A reform of the Act on Youth Work Support and financial support of projects focused on work with the youth is planned in 2014. Another initiative for 2014 – 2015 is to increase the motivation and attractiveness of vocational education and preparation through cooperation with employers in connection to parent companies in countries with a dual apprenticeship system.

As a part of support measures of integration in the labour market, a draft bill on recognizing the outcomes of informal education is planned in 2014 – 2015 in addition to legislative changes in the Act on Vocational Education and Training (more details to be found in the part Education) and the Act on Employment Services. This legislation will ensure changes in the position of graduates in the labour market (internship, promoting the first employment) and equal positions for graduates with informal education compared to graduates of the school educational system. The support measures include the already existing initiatives of labour offices (information and counselling services, education and preparation for the labour market). The new measures will include modification of practical trainings for graduates, promoting the creation of jobs for people under the age of 29 (specifically also for disabled young people), "tailor-made" counselling in the so-called Youth centres at labour offices, a new programme enabling to finish compulsory school attendance, promoting professional qualification, non-repayable financial contributions to establish start-ups, etc. In addition to a special allocation of the Youth guarantee, implementation of the new measures is conditioned by financing from ESF resources.

Box 5: Preparation and adoption of the youth guarantee scheme for young people under 25 years			
Reforms/initiatives	Target and target group	Implementation schedule	Costs
Early intervention and activation			



The amendment of the Act on Youth Work Support	Enabling accreditation of informal education programmes and creating youth centres; young people aged 13 – 25	12/2014	Legislation
Subsidies from the state budget	Promoting accredited informal education programmes; specifically for NEETs aged 15 –25	2014 – 2020	EUR 10.5 mill.
Projects of cooperation of VEP with employers	Increasing the attractiveness of vocational education and preparation (VEP) for primary school students	09/2014 – 2015	EUR 20 mill.
Support measures for integration in the labour market			
Act on Vocational Education and Training	Fluent transition from education to the labour market for vocational school students	2Q 2014	Legislation
Amendment of the Act on Employment Services	Setting the conditions for promoting the first employment for graduates; modification of practical training for graduates into labour relation; job seekers after termination of their studies under 26 years of age	3Q 2015	Legislation
Practical training for graduates (within the ALMP system)	Acquiring expert skills and practical experience with the employer; job seekers after termination of their studies under 26 years of age	functioning	National ESF allocation to internship
Act on Recognizing the Outcomes of Informal Education	Achieving equal position of graduates in formal and informal education; young adults + people at a later productive age	12/2015	Legislation
Information and counselling services	Provision of information about the possibilities to find employment in the labour market; primary and secondary school students; graduates from secondary schools and universities	functioning	EUR 45,800 (EURES); new programming period (COLSAF)
Education and preparation for the labour market	Theoretical and practical preparation (re-qualification) for young unemployed people	functioning	National ESF allocation
Placement of the disadvantaged job-seekers in the labour market – national project	Provision of "tailor-made" counselling, diagnosing and education; generally long-term unemployed persons	2014 –2015	National ESF allocation EUR 15 mill.
"Youth centres"	Provision of "tailor-made" counselling for the unemployed under 29 years of age	2014 – 2015	National ESF allocation
"Chance for the youth to find employment"	Subsidising the costs of full-time employment or internship in the form of employment; job-seekers under 29 years of age	2014 – 2015	Special YEI allocation EUR 51.5 mill.
"My second chance for education"	Enabling completion of compulsory school education or vocational training; job seekers under 29 years of age	2014 – 2015	Special YEI allocation EUR 20.7 mill.
Specific programmes to support disabled graduates	Support in looking for the first job for disabled graduates	2016 – 2020	National ESF allocation
Non-returnable financial contributions to maintain and increase youth employment	Intermediate labour market to acquire practical skills; young graduates from among the unemployed, young disadvantaged job-seekers	2015 – 2018	National ESF allocation EUR 20 mill.
Non-repayable financial contributions with an emphasis on supporting start-ups	Aid and support for starting business; young graduates from among the unemployed, young disadvantaged job-seekers	2015 – 2018	National ESF allocation EUR 10 mill.



Community centres – national programme	Aid and support to young NEETs from MRC (trainings, mentoring, looking for jobs); young people not registered in the labour offices and threatened by social exclusion	2014 – 2016	National ESF allocation EUR 18 mill.
Commitments of public administration institutions when promoting creation of jobs for young people	Considering the %-share of the newly-created or supported jobs when providing state aid for the unemployed under 25 years of age	2014 – 2020	National resources, structural funds
Competencies for practice – national project	Developing skills necessary in the labour market through informal education; young people aged 13 – 17 (7,000 young people)	2011 – 2015	EUR 8 mill.

Long-term unemployment

All the above-mentioned reforms and measures are targeted at young people under 29 years of age. However, long-term unemployment is also a problem in older age groups. The tax burden faced by low-income workers represents one of the main obstacles in improving the situation of the long-term unemployed in Slovakia. Exemption from social and health insurance contributions for employers and employees up to a defined level of the average wage, the so-called contribution relief, for employing long-term unemployed persons became effective in November 2013. Setting of this tool in the next period will be reviewed based on the outcomes of an analysis.

Exemption from social security contributions and their subsidising on the side of expenditures through ALMP tools meet the same objective – decreasing the labour costs and thus motivating the long-term unemployed and inactive population to work and employers to hire them. These tools must therefore be evaluated jointly. Pursuing the same objective, the Government will introduce in-work benefit within the system of assistance in material need. In the current system a person is losing his/her entitlement to assistance in material need immediately when he/she starts to be employed, earning minimum wage. The in-work benefit will be performed by modification of the existing tools within the system of assistance in material need focused on the long-term unemployed who find employment (increasing the financial support and its gradual decreasing throughout a defined period of e.g. 6 or 12 months after hiring). The support will also be extended to include inactive people who have not been registered in labour offices until now.

Improvement of financial assistance of municipalities and higher territorial units in organizing the so-called activation works will be considered to support activation of people in material need so that everyone who would like to be activated has this option and can thus obtain an activation benefit in addition to the basic benefit.

The Ministry of Labour is currently also preparing a project of "tailor-made" specific services for the target group of the long-term unemployed. Specific services which include advisory, diagnosing and education will be offered through non-public providers of employment services and employers. Due to the new programming period, the implementation of the project is expected to start only towards the end of 2014. The budget of the project is expected to amount to EUR 15 million and it will be financed from ESF.

Involvement of job-seekers in the renewal of national cultural monuments with the potential to boost tourism in the regions and create work opportunities for the long-term unemployed is also financed from ESF resources.



4.3.2 Social inclusion

Balance between employment and parenting

Childcare allowance, financed predominantly from the ESF, will again be used in the 2014 – 2020 programming period. With this allowance, the state pays the parent (or the natural person having custody rights) a portion of expenditures incurred in connection with child care while in employment or in education.

At the same time, it is also necessary to lay the groundwork for increasing the availability of high-quality, sustainable and affordable facilities for child-care services, in particular nursery schools and kindergartens, with a view to expanding the range of child-care providers. Further details concerning the criteria for the provision of financial resources from the Structural Funds with respect to accomplishing the above goal will be specified in the new operational programmes which are being prepared.

Supporting marginalized Roma communities

Significant tools to deal with hugely disadvantageous position of marginalized Roma communities (MRC) are field social work and community centres. The aim of both tools is to support integration of vulnerable groups, including MRCs, in the society, particularly to ensure access to high-quality pre-school and school education, employment and healthcare. Legal conditions for operation of community centres have also been created, unifying the content of their activities and increasing the efficiency of work focused on this target group.

Marginalized communities have a complicated access to the labour market. In order to well design and target the programmes to improve their perspectives in the labour market or in education, it is necessary to obtain high-quality and reliable data about these people and their needs. One of the possibilities is a better use of primary data from the currently available source of data – Atlas of Roma Communities – and its connection to the data available to COLSAF, already at the level of primary data. Another possibility is to monitor the ethnicity of job seekers. The collected data will be immediately anonymised and the processes and information systems will prevent misuse of the data or use it in contradiction to the objective of supporting disadvantaged individuals and communities. Better data will serve for a statistical survey of problems of the people on the margin of the labour market and to better target support programmes to improve their perspectives in the labour market.



Box 6: Statistics regarding unemployment of minorities and foreigners

In many countries there is a possibility to identify total unemployment by using statistical surveys of households (labour force surveys in EU countries, Current Population Survey in the USA). This data from a sample of population makes it possible to include also the unemployed who are not registered due to receiving unemployment benefits or participating in the programmes of labour market policies. In this data it is possible to determine the unemployment rate also according to different characteristics – e.g. education, age and nationality (or ethnicity). Some countries publish the data about nationality, ethnicity or race also in connection to registered unemployment, it means mainly in the period of receiving unemployment benefit. The method used in identification of race and ethnicity in the USA and Great Britain is based on how a person identifies himself/herself when applying for the unemployment benefit and in surveys.

Statistics of unemployment of minorities and foreigners in other countries

Country	Statistics about race, ethnicity or nationality in registered unemployment/receiving benefits
Germany	Statistics for the group of foreigners (Ausländer) is published in connection to registered unemployment.
Austria	Statistics for the group of foreigners (Ausländer) is published in connection to registered unemployment – countries in and beyond EEA.
Netherlands	On its web page, the Statistical Office states the unemployment rate based on ethnicity (Native Dutch, Western foreign background, Non-western foreign background: Turks, Moroccans, Surinamese, Arubans/Antilleans, Other).
Ireland	Statistics for the group of foreigners is published in connection to registered unemployment – Irish nationals, Non-Irish nationals (UK, EU-15 excl. UK, EU-15 to EU-28, Other nationals).
Great Britain	Self-definition of ethnicity in registered unemployment, i.e. for example when receiving unemployment benefits. Approximately 25 – 26% of the beneficiaries did not state their ethnicity because they did not want or could not say (Prefer not to say; Unknown). Ethnicity stated in the statistics (Department for Work & Pensions): White: British, Irish or Other White/Mixed: White & Black Caribbean, White & Black African, White & Asian or Other Mixed / Asian or Asian British: Indian, Pakistani, Bangladeshi or Other Asian/Black or Black British: Black Caribbean, Black African, Other Black/Chinese or Other Ethnic Group: Chinese or Other Ethnic Group.
USA	Self-definition of ethnicity and race in registered unemployment, i.e. for example when receiving unemployment insurance. Options to select ethnicity: Hispanic or Latino, Not Hispanic or Latino, Prefer not to say. Options to select race: White, Black/African American, American Indian or Alaskan Native, Asian, Native Hawaiian or Other Pacific Islander, Prefer not to say. Questions about ethnicity and race are also used in monthly surveys of households – CPS (Current Population Survey) which the total unemployment rate is identified from.

Availability and quality of social services and other measures related to social inclusion

The measures under the Strategy for the deinstitutionalisation of the social services system and substitute care will continue to be implemented, while also involving social partners, non-profit organisations and regional and local governments. The strategy is designed, inter alia, to substitute institutional isolation and segregation of people in specialised establishments by an alternative model of a network of cooperating and interlinked social services provided on an integrated basis and at home within local communities.

The new act will comprehensively regulate social work in a way that will ensure its usability in all areas to which it applies. The criteria for the pursuit of social work as profession and the conditions for the professional performance of social work will be defined.

Sustainability of housing for the poor

Access to housing will improve, mainly for the people who are looking for work beyond their domicile with the aim to increase their income. Legislative regulation will introduce financial support in order to obtain and maintain housing as well as work mobility. The framework intentions under the state housing policy, as well as specific tasks related to the development of housing for the period until 2015, are set out in the Concept of State Housing Policy until 2015. The introduction of the instrument will only be possible if there is support for the construction of rental housing units and financial support from the Structural Funds.



4.4 Business environment

Tab. 13: Outcome indicator for business environment												
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
Doing Business (World Bank ranking)	SK	-	-	-	37	35	40	43	46	43	49	15
	EU	-	-	-	37	38	38	37	40	40	40	-
Product market regulation index (points)	SK		-	-	-	1.57	-	-	-	-	1.31	1.2
	OECD		-	-	-	1.51	-	-	-	-	1.41	-

A high-quality and transparent business environment, including clear and understandable legal regulations, is an important precondition for a stable and competitive market, establishment of new companies and inflow of investments. Measures contributing to improvement of business environment have eventually a positive impact on employment, wages, economic growth and overall prosperity of the country. Slovakia has been sliding down in the World Bank's Doing Business chart for several years in a row. It is currently on the 49th place, what is a below-average ranking within the EU countries (40).

The Government will therefore adopt measures focused on decreasing the administrative burden on establishment of a company, paying taxes, cross-border trade and improvement of regulation and information of companies. Assessment of impacts of the new and the existing legislation on business environment will improve. Obstacles to entering in traditionally monopoly sectors will be reduced. Introduction of the Electronic Registry of Insolvent Entities and the Register of Disqualified Persons will contribute to higher transparency. Electronizing the Government services, building infrastructure, increasing the quality of public administration and promoting the development of creative industry help develop the business environment.

In order to monitor the development of the extent of regulation of the goods market, OECD has developed a composite PMR indicator (Product market regulation) which contributes to wording recommendations within the Going for Growth and OECD Economic Surveys. Since its joining the Survey in 2003, the Slovak Republic can see a gradual improvement.

Financing the development of businesses

The Slovak Investment Holding (SIH) will primarily invest in new strategic investments related to infrastructure, environment and supporting small and medium businesses. Particular areas and products will be determined only based on ex ante evaluation prepared by the Ministry of Finance of the Slovak Republic in cooperation with the European Investment Bank. The purpose of the holding fund is to multiply the effect of public investments from EU funds through the so-called leverage effect – every euro invested in the fund through direct capital contribution from the operational programmes would bring in approximately additional resources from the private sector or from international financial institutions. SIH will not be a part of the public sector of the general government, and participating institutions, which will be approving the investment strategy, will be represented in its Supervisory Board. Selected financial mediators will make decisions about particular investments, based on the approved investment strategy, in order to achieve the commercial nature of the fund attractive also for investors. The holding is planned to start operating in the first half of 2015.

The Fund of Social Development Capital Funds should be integrated in the SIH structure and its investment plan should be exactly defined based on an ex ante evaluation. It should be social development capital with the aim to finance SMEs the purpose of which is also to achieve positive social impacts. Positive social impact is considered to be mainly provision of social services and goods to vulnerable, marginalized, disadvantaged and excluded persons or, in the case of other goods and services, use of a production method which meets a socially beneficial target of the company.



In the upcoming 2014 – 2020 programming period the Slovak Guarantee and Development Bank (SGDB) is expected to play more active role in implementation of tools of non-returnable assistance through its subsidiaries – Slovak Investment Holding a.s. and Slovak Guarantee and Development Bank Asset Management, a.s. The investment areas of SIH should also include support of SMEs.

When supporting business, the Government in cooperation with expert public will create a motivating environment which will stimulate establishment and development of starting innovative companies – the so-called startups. It will prepare several programmes and measures which will contribute to their development. The state will ensure information, educative and networking activities for startups, organize startup events as well as a direct support of particular business plans and involvement of Slovak startups with the biggest potential in international startup networks. The state will also support implementation of educative and information activities for entrepreneurs, focused on increasing the use of different e-tools and services in enterprising which will help their companies increase the chance to be successful in the global market.

In line with the set key challenges of the strategic development of the Slovak economy, a mechanism and rules for classification of entities which may use the newly-established special business support tools will be created in cooperation with expert representatives of these strategic sectors.

Improving business environment

In the first half-year of 2014, the Government will prepare measures to improve business environment with the aim to decrease the administrative burden, mainly in the areas of establishment of business companies, tax collection and cross-border trade. Proposals are prepared in cooperation of several ministries, mainly the Ministry of Finance of SR and the Ministry of Economy of SR, along with representatives of the business sector.

Several proposals will be considered, aiming at increasing the efficiency of the starting business process. The administratively difficult procedure of repayment of the monetary deposit to the fixed capital before establishment of the company will be simplified and the amount of fixed capital will be reassessed. The quality of the rules for registration will be increased towards a more frequent use of electronic services and measures will be adopted to simplify the payments for their use, such as introduction of the possibility of immediate settlement of fees through payment cards. Cooperation among individual public administration bodies will be deepened in order to ensure efficient communication and exchange of information, resulting in decreasing administrative and financial costs expended by business entities. Determination of a coordination institution for specific actions related to registration of an employer or monthly reporting of insurance premium should contribute to provision of information which is available to any public administration body at the particular time. Case file, Legal Code, Electronic Registry of Insolvent Entities and Registry of Disqualified Persons will have electronic forms. Electronization of the building code, zoning procedures and regional development will help entrepreneurs arrange the whole process electronically – from filing a request to issuing a lawful decision according to the building act.

Actions related to tax payment form a part of the contact of entrepreneurs with the state. A separate part of the material deals with increasing the efficiency in tax collection, while one of the important qualities of the measures is not to create an unnecessary burden of entrepreneurs. On the contrary, contact with the state in tax administration and payment will be simplified where possible.

Business environment related to the customs may be improved by building information systems so as to enable full electronic communication between the private sector and customs authorities or other competent authorities. Along with export and transit of goods, where the customs process is already electronic at the moment, electronic communication is planned to be launched also for import by 2016, in line with the EU legislation.

Measurement and decrease of administrative burden will continue. In order to increase the quality of the legislation creation process and to increase its transparency, a methodology for assessment of selected effects of legislative and non-legislative proposals on the business environment will be updated, while the methodology should introduce regular consultations with the affected entities as well as obligatory analysis of alternative solutions. It is necessary to ensure provision of information among the public administration bodies, but also an efficient communication between citizens and business entities with the state, with the aim to ensure a stable legislative environment.

**Regulation of network industries**

Competition started to develop recently in several industries that had been traditionally monopolistic (sale of electricity and gas, telecommunication services). A more profound onset of competition will help improve the quality of services and bring down price levels compared to the prices charged by monopolies. The Government will support this positive trend by defining the methods to be applied by companies in collecting, processing and publishing information on quality, fees, overall costs and unit prices of products. If necessary, legislative changes will further reduce barriers to the entry of new players into these markets. On the other hand, the Government will assert strong and high-quality state regulation wherever a competitive environment cannot develop. This should prevent monopoly companies from abusing their dominant position in the given market to the detriment of other businesses and consumers.

Better regulation

The effort will continue to measure and decrease the administrative burden which business entities experience in relation to meeting the information obligations resulting from the legislation with the aim to improve competitiveness of the business environment in SR. In order to increase the quality of the legislation creation process and to increase its transparency, a methodology for assessment of selected effects of legislative and non-legislative proposals will be updated, while the methodology should introduce obligatory consultations with the affected entities as well as obligatory analysis of alternative solutions.

Transparency of business environment

Electronic Registry of Insolvent Entities will be introduced. This will considerably improve the efficiency of the process of satisfying creditor claims including the claims of the state and the state institutions. This will thus ensure nearly full publicity of information about the entire process and course of bankruptcy proceedings. The introduction of such a registry abroad typically resulted in higher proceeds from bankruptcy proceedings. New legislation will also introduce predictable and transparent processes of winding up a business, and better define the responsibility of board members of the companies being wound up.

The introduction of the Registry of Disqualified Persons will be part of this initiative. The existing solutions for the responsibility of corporate bodies, members of corporate bodies and the supervisory boards of companies are not likely to suffice. The problem is mainly reduced confidence in the concept of fixed capital and its role in protecting the creditors' interests vis-à-vis the companies. In setting up the Registry of Disqualified Persons, only objective information will be used to prevent harming honest entrepreneurs.

Since 2013, assessment of investment assistance has been based on the financial analysis of sustainability of the investment. The Government will further extend the assessment by a review of input and output data about the investment plan and the proposed assistance. Such tool will enable to better compare the benefits of investment plans with the proposed assistance.

Tab. 14: Input and output data on the investment plan	
Indicator	Source:
Total amount of investment assistance	MoE SR
Investment assistance intensity	MoE SR/Investor
Share of a direct investment assistance	MoE SR/Investor
Number of created jobs	Investor
Amount of assistance per one newly-created job	MoE SR/Investor
Number of qualified applicants in the county per 1 newly-created job	OLSAF
Average gross monthly wage of the employee in the created job	Investor
Average gross monthly wage in NACE branch in the county (2012)	SO SR
High-tech or Knowledge-intensive branch	Investor



Number of newly-created jobs in R&D	Investor
Share of the companies in SR which in the last 2 years have acted as sub-suppliers	Investor
Brownfield/Geenfield	MoE SR/Investor
Investments in education and re-qualification	Investor

There is a plan to improve monitoring of systemic risks related to transactions aiming at financing stocks in order to increase the transparency in financial markets. At the same time, information about such transactions will be disclosed to investors whose assets are used in these or equivalent transactions. The activity related to the use of stocks as collateral will be made more transparent.

The Ministry of Finance of SR will continue decreasing the information asymmetry between providers and consumers of financial services. In addition to reports about performance of funds of the second and third pillar, reports about events in financial markets and the so-called banking fees index will start to be disclosed in 2014. The banking fees index will monitor the price level of services provided by banks to natural persons. Clients and regulatory authorities may use this index to monitor the amount of fees in time.

Regional development

In order to decrease regional differences, the economic development of regions will strengthen with an emphasis on promoting SMEs and tourism as a perspective branch for creation of new work opportunities. Conditions will be created to increase the quality and innovate activities of regional agencies. In this regard a successful termination of receiving assistance from the Regional Operational Programme (ROP) in 2007 – 2013 will be crucial, the key objective of which is to increase the availability and quality of civil infrastructure and amenities in the regions.

Building act

A new building act, which is planned to be approved by the end of 2014, should bring a more transparent environment and simpler rules in land-use planning and the building code. It is currently in the legislative process and it should become valid in the course of 2015. Its adoption will simplify and accelerate the permission processes while preserving the quality of the buildings being approved and erected. The most important change related to zoning lies with the municipalities' obligation to have a zoning plan prepared regardless of their population and size.

4.5 Transport infrastructure and telecommunication

Quality and efficiency of transport infrastructure are necessary to maintain and increase the competitiveness of the Slovak economy. It should respond in the widest possible extent to elimination of continuing shortcomings, development and needs of the economy and reduction of disparities among the regions. Better accessibility will increase the attractiveness of the regions in the east and south of Slovakia where the insufficient transport connection is a significant cause of high unemployment.

The key measures in transportation include the construction of the lacking motorway and expressway sections and construction, renewal and maintenance of A-class roads. Furthermore, the measures concern increasing the safety, accessibility and efficiency of transport and decreasing the volume of transit across towns and municipalities. An important target will be a systemic increasing of the importance of rail transport; investments will be also directed to water transport and to a more efficient connection of all forms of transport both at the urban and regional level. With the aim to ensure sustainability of urban mobility, clean and energy efficient forms and means will be preferred in combination with motivational measures.

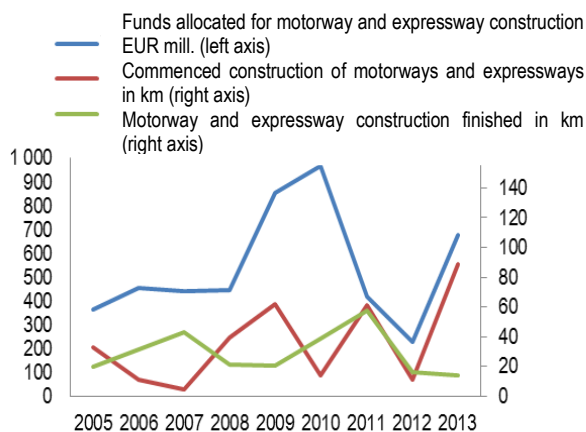


Roads

At present, there are over 110 km of motorways and expressways under construction (sections of the main motorway route D1, highway D3 and the R2 expressway), out of that 36 km were started at the beginning of this year. The construction of further 26 km of motorway and expressway sections will be launched in the following months in 2014. When this plan is met, all missing sections of the D1 highway between Bratislava and Košice will be under construction except for one.

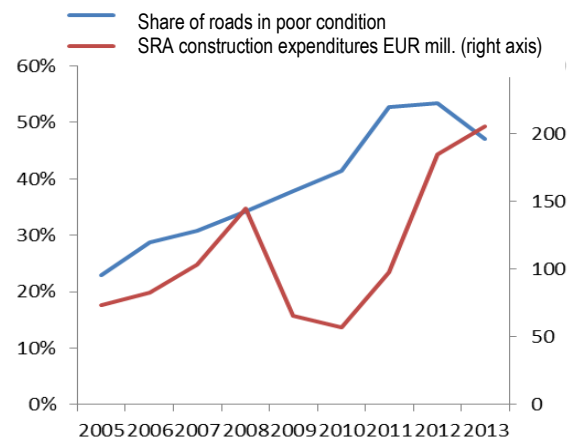
The R4 expressway from Košice to the state border with Hungary (14.2 km) was finished in 2013. Over 60 km of highways and expressways will be put into operation in this and the future year, mostly in the eastern and central Slovakia, i.e. in regions with a lower economic performance and a high unemployment rate where also most sections under construction are currently located.

Chart 27: Highways and expressways



Source: MoF SR, FPI, MTCRD SR

Chart 28: A-class roads



Source: IFP, Slovak Road Administration, MTCRD SR

More attention, compared to the past, must be paid to A-class roads; since 2000 the share of roads in inappropriate condition has increased 2.5 times. Based on 2013 data provided by the Slovak Road Administration, 39% of A-class roads are in poor condition. Further 8% of roads are in emergency condition. Approximately 50 percent of all transport in Slovakia passes through A-class roads. Between 2011 and 2016, more than one quarter of A-class roads should undergo reconstruction.

Along with the effort to ensure basic traffic functions, it is also necessary to take into consideration safety and decreasing the impact of negative externalities on environment and on the health of the population. Negative aspects are most apparent in important transport routes crossing built-up areas. The situation will be significantly improved by building bypass roads around towns and municipalities, construction of relocations, modernisation of crossroads and bridges and elimination of dangerous locations – the so-called critical accident locations and narrow sections.

Railways

The quality and capacity of rail transport is lagging behind road transport. The number of passengers transported by rail per 1000 people is ten times lower than the EU average. An increased importance of railways in the sector would reduce negative impacts on environment, relieve roads and increase the efficiency of expended resources.

In accordance with the intentions of the European policy to relieve congested road infrastructure by shifting traffic to railways, massive investments into the modernisation of railway corridors are underway. 18-km long section from Nové Mesto nad Váhom to Zlatovce (close to Trenčín) was modernised last year. The next three years will see the completion of modernisation works that will enable the speed of 160 km/h on more than 40 km of



railroads from Nové Mesto to Púchov. Modernisation works on additional 25 km from Púchov in the direction to Žilina should be launched.

A rolling stock renewal project for suburban and interregional public rail passenger transport in SR was successfully finished in 2013 with the support from European funds, while one fifth of train sets have been replaced. Another renewal project will fluently follow (2014 – 2015) in which 9 electric double-deck and 20 diesel motor sets will be added. More than 60 new trams and 80 trolleybuses should be added in Bratislava and Košice in the same period.

An analysis of traffic in the individual sections of rail transport identifies inefficient sections. The results will make it possible to set priorities in railroad transportation and streamline the railroad network.

Water transport

Measures in water transport will be focused on reconstruction and termination of construction of port edges and infrastructure of the public port in Bratislava so that it can serve both cargo and passenger ships. Navigability of the Danube waterway between Bratislava and the mouth of the Morava river is planned to be improved.

Public passenger transport and urban mobility

The Slovak Government will increase the efficiency of public passenger transport and improve the coverage of the Slovak territory by public passenger transport. Clean and energy efficient means of transport (trams, trolleys) will be preferred in the vehicle fleet renewal. It is necessary to determine clear rules for setting priorities in construction, which form a basis for decision-making in planning, in order to achieve the highest possible efficiency of solutions in transport development. The Slovak Government contemplates introducing the Act on Traffic Authority which would be responsible for ensuring smooth, functional and economical strategic planning of transport in the Slovak Republic. So far, no budget for such measure has been prepared; however, the financing mechanism could be based on fees received from market participants.

As regards support for non-motorised transport, the Government of SR approved in 2013 National Cycling Transport and Cycle Touring Development Strategy in SR. Strategic measures include construction of 1,000 km of cycling trails by 2020, changes in the legislation and creation of a permanent financial mechanism from European funds and local governments. The expected budget for 2014 – 2016 is approximately EUR 45 million.

4.6 Modernising public administration

Tab. 15: Outcome indicator for modernising public administration		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
E-government index	SK	25.5	-	37.3	42.3	-	58.6	62	-	90
(%)	EU	-	-	47	52.9	-	61.4	69.1	-	-

A significant tool for achieving the necessary changes which will lead to a major increase in efficiency of the state is modernising public administration. The global objective of the Government's activities in public administration management will be to improve the activities of public administration entities and public services in order to support social and economic growth of the SR and increase the quality of lives of the population. This goal should be met through economisation, informatization and personal development in all public administration structures. This will require a systematic approach in improving the legal framework of the public administration, while respecting the principle that it is the people and their living needs which must be the cornerstone of how the operation of public administration is organised.

The state administration will be modernised through the ESO reform focusing on the optimisation of public authorities in order to save on public finances, streamline their activities and provide better services to the citizens



and businesses. One of the means to achieve this is a wider use of electronic means and reinforced analytical capacities in the state administration. A public administration reform will bring its de-politicisation and more transparency at all levels, from hiring staff to remuneration.

Box 7: OECD recommendations for human resources management in public administration

Decrease politicisation: SR should focus on restricting the politicisation of civil service. A clearly defined competence of the civil service, which separates politics from administration, would be suitable. Political nominations may be needed to occupy certain government positions, but they should be clearly separated and differentiated from administrative or expert ones.

Strengthen a new type of professionalism: service-oriented public administration should be a permanent target. Other elements may be helpful in strengthening professionalism along with open competition based on merits: trainings, transparent rules for career growth and appropriately acceptable level of financial remuneration which is possible for the country. These are the required preconditions for building a professional and democratic civil service. A clear line of responsibility strengthens not only the responsibility of civil servants but also their professionalism.

Skills, trainings and motivation: trainings focused on the skills which are really needed should be introduced, mainly in relation to IT systems use. It is a good practice for a long-term stable performance of the staff to introduce motivational elements, such as promotion, education, satisfactory financial remuneration, appropriate communication and involvement of all participants.

Consider extending and strengthening analytical capacities at ministries: analytical centres may perform a comprehensive analysis and data collection. In order for their work to be efficient, analytical experts should be able to use data in preparing policy proposals. As for analytical capacities at line ministries, there is relatively little data available. In relation to the OECD Survey (2010) on strategic management of human resources, the Slovak Republic did not provide any data regarding division of the staff into experts and clerks.

Customer satisfaction and quality management tools: it is necessary to design a customer satisfaction survey which would be focused on identification of practical measures with the aim to improve the services, including waiting times and the number of visits of the particular office necessary for a successful termination of the administrative process. IT systems may be used to monitor the satisfaction of citizens and companies. Similarly, a mass operation system may be used which also monitors waiting times.

Source: OECD (2014), *Slovak Republic: Developing a Sustainable Strategic Framework for Public Administration Reform*, OECD Public Governance Reviews. OECD Publishing.

Follow up to ESO – effective, reliable and open public administration

Third stage of the ESO reform will continue in 2014. 40 client centres (CC) should be open until the end of the year. Since a large part of the activities of the local government has to be performed in the offices (e.g. the activity of the cadastre requires an access to a map archive), extension of the offer of CC services will depend mainly on the possibility of further spatial merging of departments of district offices.

Integration of the offices will enable the Government to intensively work on optimisation of public administration services and on simplifying the processes needed to settle the matters of natural persons and legal entities already in 2014 and in the future. Data is now being collected about activities of offices and staff performance. It will identify bottlenecks, the need to redesign some processes of local governments and to reorganize staff accordingly. Monitoring the performance and measurement and optimisation of processes of district offices should be regular and systematic in the future. It will be supplemented by a measurement of satisfaction of visitors of client centres.

Civil service reform

A new Act on Civil Service will be prepared in 2014 based on an analysis and comparison of the civil service in selected Member States of the EU and OECD. The reform will be in line with the principles of a stable, professional and politically neutral civil service. Some basic principles will include transparent employment,



remuneration based on merits, performance-based and efficient management, life-long learning and political neutrality.

The new act will also establish the Civil Service Council as a coordination and monitoring body for protection of application of basic principles of civil service and it will set a division line between political and non-political functions with the aim to eliminate the negative impact of the political cycle on civil servants. This will eliminate the shortcomings identified in the recommendations of the Council of EU and the Position Paper of the EC for SR.

Analytical capacities

One of the positive effects of the state administration reform will be that the best experts in Slovakia would find it an attractive place to work. Analytical units, which are being set up by key social and economic ministries, represent one of the ways to achieve this. Their task is to elaborate reform steps based on the priorities of the Government and the strategic control by a political management of the ministries and their connection to the budget, monitoring and assessment. The effort is to ensure full operation at all economic and social ministries as well as in crucial subordinate state administration organizations. An analytical unit will also be created soon at the Financial Administration with the aim to ensure a more efficient tax administration and revelation of tax evasion. The Government will continue to reinforce the capacity of the existing units at the Ministry of Finance (Institute for Financial Policy), Ministry of the Environment (Department for Economic Instruments and Analyses), Ministry of Labour, Social Affairs and Family (Analytical centre), Ministry of Transport, Construction and Regional Development (Strategy Institute), Ministry of Health (Institute of Health Policy), Ministry of Interior, Ministry of Education, Science, Research and Sport (Educational Policy Institute) and the Ministry of Economy (Department of Mergers and Acquisitions) while setting up other units.

The Government will approve a grant programme which will financially subsidize studies at renowned foreign universities to selected applicants. In return, they will commit to working in the public administration for a certain period of time, thus strengthening the high-skilled professional capacities. A project has been approved which will contribute to increasing the quality of analytical units and it will enable their employees to participate in foreign expert courses and stays financed from the EU funds.

eGovernment

The eGovernment grants citizens and businesses access to information and services. Its greatest benefit lies in improving public administration efficiency, reducing the administrative burden placed on individuals and businesses in communication with the government, and increasing public administration transparency. A large majority of measures related to informatization remains valid from 2013.

Due attention remains to be paid to ensuring information security. The most sensitive areas comprise critical infrastructure, banking, energy, transport, healthcare, electronic communication and public administration. Therefore, the aim is to increase the level of protection with respect to incidents, risks and threats related to network and information security in the Slovak Republic. The draft Act on Information Security will unify the requirements and competences concerning the security of ICT.

Adoption of measures in order to facilitate effective development of an integrated public administration information system and to improve the interoperability of its services will continue. In terms of mutual cooperation among information systems, it is necessary to streamline and simplify the linking of information systems in the individual sectors of public administration, both at the level of state administration and local governments. In order to ensure the operation of existing public administration information systems, as well as their innovation or development of other systems for entities falling under the integrated local state administration, it is necessary to build a reasonably efficient and secure integrated communication and technological infrastructure.

Public services will be accessible through various electronic channels; support will focus especially on the development of functionalities of the Central Public Administration Portal. Activities related to e-Government, e-Culture, e-Education, e-Inclusion and e-Health will be supported. The implementation of electronic services



provided by the individual bodies of public administration will proceed in line with the priorities and the time schedule of the Operational Programme Information Society. The completed Central Public Administration Portal and the services of its shared modules will create an effective electronic channel for communication of the public with the public administration.

An information system of Integrated Service Points will be launched to make e-Government services accessible to at least 85% of the Slovak population. The key services to be provided by the Integrated Service Points will include access to e-Government services for a requested person (in particular the filing of petitions, applications and other submissions) and also access to outputs from the handling of such submissions or other documents, confirmations or information.

This year will see the launch of the project aimed at creating an electronic Building Code, as well as the use of electronic means in zoning procedures and regional development (e-STAK). Public procurement for the supplier of the service is now in progress. It should prepare and put in place a programme for e-services provided by building authorities, second-instance appellate bodies and the Ministry of Transport, Construction and Regional Development of the Slovak Republic so that the citizens and entrepreneurs are able to handle the entire procedure – from submitting their requests to the issuance of a valid decision pursuant to the Building Act – by electronic means.

4.7 Transparent conditions and law enforcement

Tab. 16: Outcome indicator for transparent conditions and law enforcement

		2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
Corruption	SK	59	-	59	-	61	-	56	-		80
(%)	EU	67	-	78	-	80	-	77	-		-

A transparent environment free of corruption promotes efficiency and economic growth and contributes to equal opportunities in the economy, ultimately improving social welfare. In order to combat corruption effectively, it is necessary to increase transparency and restrict room for unfair practices in any handling of the property owned by the state, public institutions and local governments. Unfortunately, the corruption index in Slovakia followed an opposite trend than that seen in other EU countries: since 2005, this transparency indicator has slightly worsened in Slovakia. In 2012, the expenditures of the Slovak judicial system reached EUR 41 per capita, that is at a slightly lower level than the average of the V3 countries. In the period from 2014 to 2016, the budgeted resources of the courts will undergo a slight decrease.

In order to achieve a level of the Corruption Perception Index comparable to the EU average, the Slovak Government will continue with the implementation and adoption of further measures aimed at curbing corruption, increasing the efficiency of the courts, as well as simplifying and facilitating – to the largest extent possible – the processes related to law enforcement through a wider use of electronic means. Planned constitutional reform of the judiciary will include restriction of the judges' immunity and other changes, including separating the functions of the President of the Supreme Court and the President of the Judicial Council.

A more efficient judiciary system

The amendment of the Constitution of SR will limit the penal immunity of judges and separate the function of the President of the Supreme Court and the President of the Judicial Council. Nonetheless, similarly to MPs, judges will have the immunity for their decision-making activities. Eight members for the judicial council will be proposed by judges, four by the Government and four by the Parliament. Their number will thus decrease from 18 to 16. Verification of meeting the precondition of judicial competence for all judges is still pending in the amendment of the Constitution of SR.



The Slovak Government will prepare rules in support of accelerating court proceedings and streamlining the work of judges, so that citizens can exercise their rights within a reasonable time and at the right place. Namely, this will involve a major revision of the Code of Civil Procedure, which will also include specific rules for cases heard in non-adversarial proceedings (ex-parte procedure) and the fine-tuning of the rules for the judicial review of decisions made by administrative authorities. The recast of the civil procedure will focus in particular on streamlining communication with the parties concerned, accelerating the process by lightening the burden on judges through the division of decision-making powers and by preventing lengthy proceedings on grounds of absence from the hearing.

Efficient judiciary may also be achieved by promoting specialization of the court system and of judges. Specialization will be carried out at the level of changes in the system of courts and organization of work at courts as well as by ensuring specialized education of judges, also in relation to "non-judicial" knowledge (economy, sociology, psychology, ethics, communication). The Government of SR will therefore propose specialization of courts and judges in the most important areas of public life, in particular tax law and intellectual property rights.

Electronization

In addition to the approved changes in the procedural codes, court proceedings will also be accelerated through continuous computerisation of the judiciary system. Several projects help electronize the Case File, the Legal Code, the Registry of Insolvent Entities and the Registry of Disqualified Persons, including electronic monitoring of the accused and sentenced. Some projects are funded from the state budget and the rest will be financed under the Swiss Financial Mechanism.

The preparation of a legally binding Electronic Legal Code of the Slovak Republic as the official source of Slovak law and the preparation for the introduction of electronic case-files will continue in line with the schedule. The Electronic Case File will make it possible to maintain any case-file in a fully electronic form for the duration of its life cycle. The Electronic Legal Code will make it possible for the users of the law to efficiently access the sources of applicable law and will enable the introduction of new instruments for automating the communication and exchange of documents during the law-making process. The measure will contribute to the stability and transparency of the law of the Slovak Republic.

The introduction of the Registry of Insolvent Entities will facilitate the resolution of property claims asserted by creditors and will lead to almost full publication of information concerning the entire bankruptcy and restructuring proceedings which is currently insufficient. This measure will also reduce the costs associated with the monitoring of such proceedings. With the Registry of Disqualified Persons, it will be possible to sideline, for instance, the persons (companies) violating the laws in the areas of tax and social contributions, bankruptcy or commercial law. The measure will also be precautionary in that it would allow entrepreneurs to check up on their future business partners.

Asset recovery and public procurement

Comprehensive amendment of the Asset Recovery Code will also be carried out. It will address status-related and procedural issues. The key objective is to prevent lengthy factual recovery of adjudicated claims. At the same time, the Slovak Government will supervise and evaluate the practical application of the Act on Public Procurement.

4.8 Health

Tab. 17: Outcome indicator for health

		2005	2006	2007	2008	2009	2010	2011	2012	Target 2020
Healthy life years	SK	55.9	54.5	55.8	52.3	52.5	52.3	52.2	53.3	60
(expected number of years at birth)	EU	61.8	62.1	62.1	61.6	61.6	62.1	61.8	61.6	-

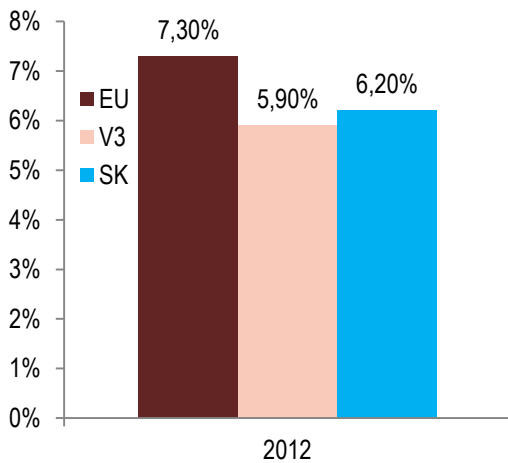


Health of the population affects the equality of opportunities and productivity in every country. Worse health condition has also a significant impact on public finance. The public funds flowing into Slovakia's health care system amounted to EUR 811 per capita in 2011, i.e., approximately 6.2% of GDP. The expenditures were down by 1.1% of GDP compared to the EU average, but by 0.3% of GDP above the V3 average. Over the recent years, they grew much more rapidly than in countries with a similar GDP per capita. The EC expects Slovakia to rank among the countries with the highest population ageing rate, which will further escalate the health care expenditures.

A steep rise of resources is not being manifested sufficiently in improving the health condition of the Slovaks. Even though the V3 countries have nearly managed to erase the gap vis-à-vis the EU countries in terms of healthy life years, Slovakia still lags behind the EU and V3 at an almost 10-year difference.

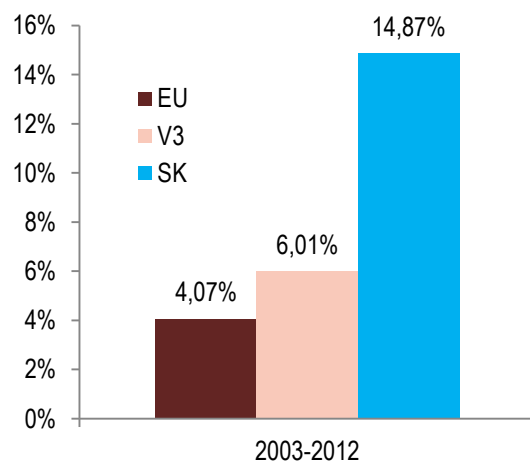
A steep rise in healthcare expenditures, coupled with a relatively slow life expectancy growth in Slovakia, indicates worsening efficiency of health care sector. Even though Slovakia managed to keep up with the average efficiency pace seen in OECD countries roughly until 2003, a steep decline followed afterwards. If sources were used more efficiently, the Slovak population could live 2 years longer, with an unchanged amount of expenditures.

Chart 29: Healthcare expenditure (% of GDP)



Source: Eurostat

Chart 30: Average annual expenditure growth 2003 – 2012



Source: MoF SR

The Slovak Government will therefore adopt measures to achieve the highest possible efficiency without compromising the availability and quality of treatment. Short-term and long-term financial sustainability of health care expenditures are the crucial issues to be addressed. Measures are focused on stopping the indebtedness of 13 state university and faculty hospitals, optimisation of their bed capacity and investments in new, more efficient hospitals. An integrated model of healthcare provision will be introduced, hand in hand with the unification of generally accepted standards and guidelines of treatment, better dissemination of information to patients by publishing quality indicators and waiting lists and diagnosis-related group payment system.

The Government will reinforce the public health system and health care surveillance. It will continue working on strategic documents, including the plan to gradually move towards a comprehensive approach to public health care, as well as national health support programmes and preventive programmes in the most pressing areas. High quality, availability and effectiveness of healthcare is central to achieving people's satisfaction and confidence in the provision of healthcare, as well as the way it is organised, managed, controlled and performed. The Government will strive to continue providing healthcare in the entire territory of the Slovak Republic that is on par with the latest knowledge in the field of medicine and healthcare systems management.



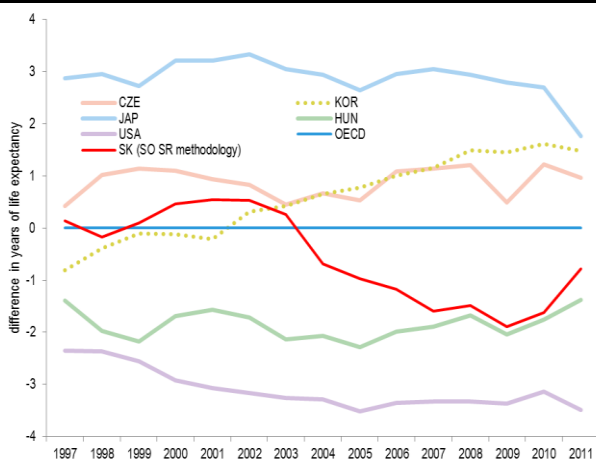
Improving the financial management and economy of providers

The Slovak Government undertakes to ensure that, on average, the health care facilities established by the Ministry of Health of the Slovak Republic will operate on a balanced budget without needing additional financial assistance from the state budget and that their indebtedness will be considerably reduced. The measures aimed at streamlining the use of financial resources from health insurance companies and own revenues will ensure a balanced performance of hospitals by 2015.

The financial management of hospitals must be set in a manner that rewards performance and efficiency. However, prior to introducing performance-based remuneration of executive managers, it will be necessary to ensure systematic collection, monitoring and evaluation of the relevant indicators. Correctly set financial management of hospitals may considerably help prevent the accumulation of their debts and thus increase the efficiency of spending.

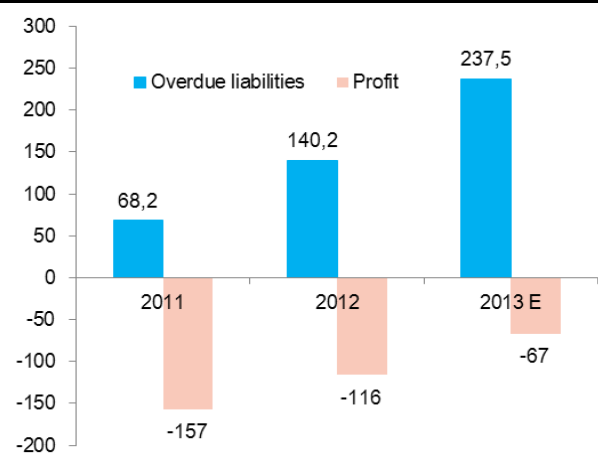
The savings in the procurement of energy, materials, services and other inputs used by hospitals can be achieved by centralising purchases at the level of hospitals' managements. With the introduction of central procurement, it will be possible for the hospitals to spend their funds more effectively without compromising the treatment of patients. Hospital managements will also focus on operational savings by curtailing duplication of processes and personnel.

Chart 31: Effectiveness of the Slovak healthcare system



Source: IFP according to OECD

Chart 32: Debt and profit/loss of 13 state hospitals



Source: IFP according to the MoH SR

Improving the long-term sustainability of healthcare financing

The long-term sustainability of health care and long term care financing with respect to population ageing is becoming an increasingly important issue which needs to be addressed accordingly. One of the steps conducive to stabilised financing is the introduction of an integrated model of health care provision. The position of general practitioners will be reinforced in order to reduce more expensive treatment in hospitals and by specialist physicians. The residency programme will bring a new generation of general practitioners and help improve the treatment management process. Medical students will be required to undergo a period of training in outpatient facilities already during their university studies. Following the completion of their study programmes, graduates will be required to work for a certain number of years in outpatient facilities in Slovakia. The financing will be based on financial resources from the EU. One of the key components of the integrated model of health care provision will include the application of e-Health in practice.

Better integration of healthcare provision

An insufficient coordination of the current types of establishments in the treatment process often causes that e.g. a more specialized or knowledgeable and costly healthcare provider (HC) than necessary is dealing with a simple medicinal case. A clear definition of the types of hospitals and the extent of the care provided by them and a



better coordination of involvement of outpatient and inpatient facilities in individual stages of treatment could help increase the efficiency in the use of capacities.

Types of hospitals will be defined according to the extent of healthcare provision. The portfolio of healthcare provision will reflect the variability of cases and the levels of difficulty so that adequate capacity is achieved for the needs of the catchment area.

At the same time, coordination between outpatient and inpatient establishments will improve. The aim will be to set the system so that providers at such level are used in individual cases that staff and physical resources would not be wasted. Particular setting and detailed definitions will be gradually profiled in the Strategic Healthcare Framework for 2014 – 2030 which is an ex ante conditionality for using EU financial resources.

Unification treatment procedures

Unified best practice standards and guidelines of treatment represent a common handbook for health professionals in developed countries. The unification will not stand in the way to adopting innovative treatments, and the opportunities for experimental treatment will remain intact. Differences in the treatment of patients have a negative impact on health care provision. With a variety of methods being used, the treatment process becomes less transparent, which makes the work of medical experts more difficult and poses a burden to health insurance companies in making their decisions on payments. And, equally so, non-uniform procedures complicate the planning processes concerning the utilisation of capacities in health care facilities and therefore reduce the efficiency of the system. The unification will not stand in the way to adopting innovative treatments, and the opportunities for experimental treatment will remain intact.

Informing patients about health care quality and access

The Slovak Government will promote healthcare quality by introducing a comprehensible system of quality measurement and accreditation of providers, including hospitals. It will adopt extended list of quality indicators and will define them also for other medical disciplines and therapeutic and diagnostic procedures. Contrary to the present situation, the healthcare provider quality indicator values will be set so as to actually and meaningfully differentiate the providers. The indicator values and the healthcare provider quality rankings will be published at least once a year in a user-friendly form, with a view to improving the awareness of patients. The indicator list will be revised once every three years.

The process of registering insureds on the lists of planned healthcare procedures maintained by individual health insurance companies will become more transparent. Waiting lists will be drawn up for those diagnostic and therapeutic procedures that will be provided later than within 3 months of indication. To allow comparison, the health insurance companies will be obliged to publish the waiting times structured by provider.

Introduction of diagnosis-related group (DRG) payments

With the introduction of diagnosis-related group payments, it will be possible to identify internal reserves of resources in the public health insurance system, increase transparency in the relations between insurance companies and hospitals and manage them in a meaningful and effective manner. For every hospital case, the DRG system will assign a portion of funds set in advance – based on diagnosis, procedure, age, gender, presence of other diseases or complications and other measurable criteria. If an identical procedure is performed during the treatment of an identical diagnosis, every hospital will receive the same amount from an insurance company. DRG payments will provide a transparent healthcare funding system for in-patient healthcare facilities, thus bringing more fairness to the funding of healthcare providers. The creation of a uniform platform for the funding of the provided hospital services in the form of the DRG system will contribute to the possibility to compare healthcare provided in the individual healthcare facilities, and a broader scope of information will be collected for decision-making and control. The expected start of a pilot reporting according to DRG from the selected healthcare providers is 4Q 2013. After assessing the outcomes and verification of predictions set at the beginning, the DRG payment mechanism should start to be used from January 2016.



Construction of a modern hospital in Bratislava

Along with the adoption of measures aimed at stopping the growing indebtedness of hospitals, investments will be made in acute hospitals which will replace some of the most obsolete and least efficient facilities. Investments in the construction of new and the reconstruction of existing facilities will be made without an additional impact on public finance. Investments in the construction of new and the reconstruction of existing facilities will be made without an additional impact on public finance.

4.9 Environmental sustainability and energy

Tab. 18: Outcome indicator for environmental sustainability and energy											
		2004	2005	2006	2007	2008	2009	2010	2011	2012	Target 2020
Non-ETS greenhouse gas emissions (%, change against to 2005)	SK	-	-	-1.7	-5.8	0.8	-5.1	2.7	-2.1	-8.4	+13
	EU	-	-	-1.0	-3.4	-2.7	-6.8	-5.2	-9.4	10.6	-
Share of RES in gross final consumption (%)	SK	5.3	5.5	5.9	7.3	7.5	9.3	9.0	10.3	10.4	14
	EU	8.1	8.5	9.0	9.7	10.4	11.6	12.5	13.0	14.1	20
Final energy consumption (%, change against average of 2001 – 2005)	SK	-	-	0.0	-1.8	0.9	-7.0	0.9	-5.3	-9.6	-11
	EU	-	-	1.8	0.1	0.5	-5.3	-0.8	-5.3	-5.6	-
EPI trend	SK	72.5	72.6	72.7	73.0	74.3	74.7	74.8	74.4	74.5	76.2
	EU	70.2	70.5	70.8	71.1	71.9	72.2	72.4	72.2	72.4	

Growth-oriented policies should be sustainable in the long term, be it in financial and social terms or from the environmental point of view. Analyses of renowned science organisations, in particular the Intergovernmental Panel on Climate Change, confirm permanently increasing greenhouse gas concentration in the atmosphere due to human activity. This leads to an increase in the average temperature, thus resulting in the melting of icebergs, the rising sea level and extreme weather changes.

Chart 33: GDP and emissions growth (index 1995 = 100)

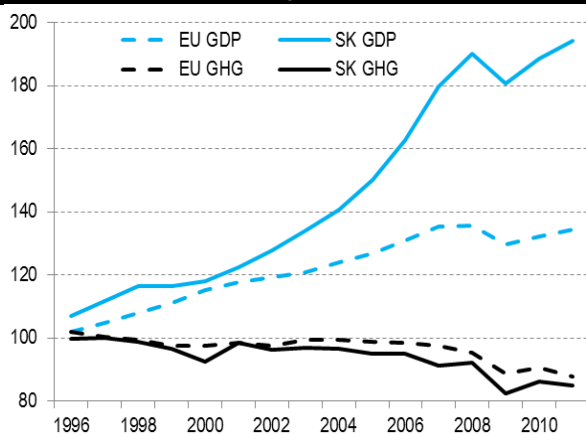
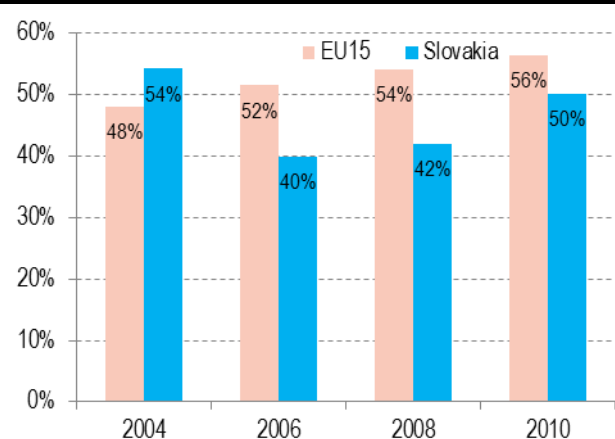


Chart 34: Treatment of waste (%).



Source: Eurostat, IFP

The Slovak Republic is one of the countries that have managed to curb down greenhouse gas emissions considerably since 1990. At the same time, it is progressing well in decoupling the economic growth from emissions. Slovakia is on the right path to achieving this goal by considerably changing the structure of fossil fuel consumption coupled with technological restructuring of the industry. Emissions are on the decline also due to a rising share of services in GDP formation and development of renewable resources.

The quality of the environment is according to the composite EPI index in Slovakia is very good when compared to many other countries. SR has been ranked 21st from among the assessed countries. On the contrary, waste



recycling is showing a very negative trend. As the advanced economies are increasing their share of waste recycling, Slovakia has been sliding down from its good initial position over the recent years.

The Government will prepare an environmental strategy to respond to the current trends and the situation of the environment and economy. A Low-Carbon Strategy of SR will be elaborated in cooperation with the World Bank which will identify the reduction potential and the efficient forms of decreasing emissions also in relation to the proposed EU objectives by 2030. A new Act on Waste will strengthen the motivation to prevent generation of waste and its material and energy recycling.

Higher energy efficiency in companies will be achieved through energy audits and the JESSICA initiative which will continue providing advantageous loans. The planned gas connection with Poland and Hungary will increase the energy safety of SR. Connection of electricity systems with Hungary in the future will eliminate bottlenecks and increase the cross-border capacity.

Greenhouse gas emissions

Approximately 50% of the total emissions in Slovakia were produced by companies in the Emission Trading System (ETS). Thanks to the principles of trading in emission allowances, a further cost-effective reduction can be expected in ETS sectors to the defined target of 21% compared to 2005. According to the current emission projections, SR will achieve its objectives without an extra effort. However, in order to meet the currently proposed ambitious targets of EU until 2030, reductions of emissions of greenhouse gases in ETS will not be sufficient for SR. In order to comply with these requirements, major reduction measures will be necessary in other sectors as well, in particular transportation, agriculture and buildings.

An overview of the reduction potential of various measures and the expected costs of their implementation will be provided in the Low-carbon Development Strategy of the Slovak Republic until 2030, which SR will prepare in cooperation with the World Bank. The aim is to identify and support most cost-efficient opportunities for emissions reduction. The measures will include the modernisation of the public lighting systems, higher energy efficiency of buildings including central heating, support for transport infrastructure as well as inter-modal transport, public passenger transport and cycling, recycling and energy recovery of waste. Besides sensitivity analysis of selected parameters (fuel prices, investment intensity) and projections for greenhouse gas emissions, the emission reduction marginal cost curves will be part of the basic background analyses for the preparation of the Low-carbon Strategy. At the same time, it is necessary to support the efforts of other Member States, such as Great Britain, to acknowledge also nuclear-energy resources as low-carbon technologies.

In connection with the European Commission's green paper "A 2030 framework for climate and energy policies", the Slovak Government will prepare an analysis of possibilities to comply with more stringent reduction targets by 2030. The analysis will assess – based on input data taken from macro-economic projections and the emission reduction marginal cost curves – the impacts of individual reduction targets on the Slovak economy until 2050, taking into account the optimal configuration of policies.

Waste treatment

In the upcoming period it will therefore be necessary to systematically support waste recycling. The legislation adopted in 2013 increased the responsibility of producers when processing batteries and the fees for placing waste on dumping places. This should lead to a higher rate of waste recycling and a lower rate of landfilling. A new Act on Waste should be focused on increasing the producers responsibility, strengthening the motivation to prevent waste production and its material and energy reuse.

Increasing the energy efficiency

Slovakia is implementing the EU's Energy Efficiency Directive with its target to reduce primary energy consumption by 20% by 2020. The greatest potential for savings can be tapped in public buildings, households and the industry. Households should also have more information available on their own energy consumption. Energy Efficiency Action Plan for 2014-2016 and the Thermal Map of the Slovak Republic started to be prepared.



The Ministry of Economy will draw up an analysis of the potential energy savings in high-efficiency cogeneration of power and heat and in effective central heating systems.

Higher energy efficiency in companies will be achieved through energy audits which will reveal hidden savings and possible solutions. Large companies will have the obligation to perform such audit automatically. Audits for SMEs will be supported from the operational programme Quality of Environment. A comprehensive renewal of public buildings will be financed from the same operational programme.

The JESSICA initiative will continue providing advantageous loans to improve the energy efficiency of buildings in urban areas. It is assumed that through this approach, the EU Structural Funds would support energy efficiency projects in roughly 1000 housing units. The State Fund for Housing Development will be the administrator of the fund. This initiative should continue through to the new 2014 – 2020 programming period, while simultaneously strengthening the role of the State Guarantee and Development Bank during its implementation.

Slovseff3 programme is expected to be launched in the first half of 2014. The project has been approved by the EBRD Council and a Slovak bank has been selected to provide loans. After meeting the condition of achieving the targeted saving, the total allocation of EUR 40 mill. will be used to provide advantageous loans related to increasing energy efficiency in companies, increasing the energy performance of buildings and households and supporting renewable energy sources.

Building energy connections between countries

Several priority projects are being implemented (common interest projects) focused on increasing the cross-border energy capacity. When implementing these projects, the Government of SR will support relevant energy companies in their effort to obtain co-funding within the EU tool for infrastructure financing – "We Connect Europe".

As a part of building a cluster of Polish-Slovak gas connection, an intergovernmental agreement was signed in November 2013 to support this project. The Slovak-Hungarian gas connection is planned to be commissioned on 1 January 2015.

The planned connections of electricity systems with Hungary will eliminate bottlenecks and increase the cross-border capacity. This will increase the safety and reliability of operation of both transmission systems and increase the total marketable capacity in the common profile.

Improving transparency of the regulatory practice

All conditions have been met in SR for opening the market and for healthy competition, and relevant EU legal acts have been fully transposed which have opened the room for decreasing the regulatory burden in energy industry in the future with a sufficient rate of market liberalization. However, before decreasing or terminating the regulation, it is necessary to ensure the necessary protection of vulnerable customers. At the same time, it is important to take into consideration the size and structure of the Slovak gas and electricity market, while we expect improvement of the situation in the form of the necessary competition and pressure on prices also after building a fully functional and integrated internal EU market. The following measures will be implemented to achieve further improvement.

Assessment of the need for further regulation

In line with the competencies assigned to it by the Act on Regulation, the Regulatory Office for Network Industries will assess the need for further regulation in the upcoming regulatory period when preparing the regulatory policy for the upcoming period, including the justification of the proposed extent of price regulation and the form of its performance. The assessment should be based mainly on analytical indicators (e.g. market concentration or the extent of change of the provider) which the Office does not fully publish at the moment.



Disclosure of an analysis of all major changes in policies

The common practice of the regulator will include disclosure of supporting analyses. Each change of rules in the regulatory policy will therefore be accompanied by disclosing calculations and underlying analyses, including impacts on consumers or stakeholders. When secondary or tertiary legislation is issued (decrees, operating instructions), the analysis of factors with an impact on the regulated price will be disclosed as well, including a justification of their development and the share in the end price. The analysis will not contain any information which is the subject of business secret.

Data centre on the web page of the regulator

There is a lack of data in the energy industry. Currently the Regulatory Office for Network Industries discloses some data in different documents and forms (sometimes only charts) which are often unusable for most users. In the first step all the currently disclosed data will be aggregated and the Regulatory Office for Network Industries will publish its time series at one place in an available format (e.g. .xml or .csv) on its web page, like institutions with the largest competencies and availability of data. It is mainly the data published in all regulations, Annual Reports, Reports of Compliance with Electricity and Gas Market Rules or National Reports. This will increase the pressure on the usability of information and awareness of entities, and it will help prevent a number of unnecessary requests for data provision.

The second step involves a public discussion about the possibilities and the need to disclose other data which has not been published yet. Unification of terminology and introduction of electronic data collection from regulated entities will help decrease the administrative burden. This will prevent duplicate sending of basically the same data to different institutions. Good experience with the rules of accounting deviations in electricity may be largely transferred to the area of gas as well.

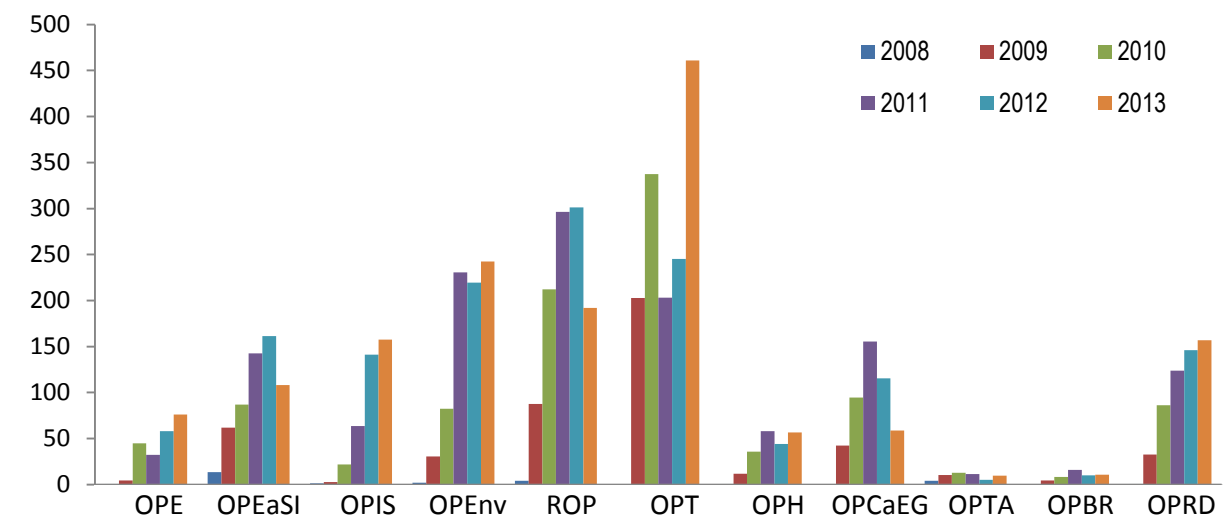


5 EU's cohesion policy

The EU Cohesion Policy is one of key instruments for meeting the targets of the Europe 2020 strategy and of social and economic development of SR. One of the priorities of the Government of SR for the next period remains to be an efficient use of Structural Funds and the Cohesion Fund 2007 – 2013 and preparation of the European Structural and Investment Funds of the programming period 2014 – 2020.

Intensity of work related to the Cohesion Policy increased in Slovakia in 2013. Creation of the position of the Deputy Prime Minister of SR for Investments, whose portfolio includes also coordination of preparation and implementation of the Partnership Agreement of SR for 2014 – 2020, has considerably contributed to the progress achieved. As a result of another modification of its competencies, the Government Office of the Slovak Republic has become a central coordination body for Structural Funds (SF) and the Cohesion Fund (CF) or the European Structural and Investment Funds (ESIF).

Chart 35: Drawing the European Structural Funds and Cohesion Fund (EUR mill.)



Source: MoF SR

Total contracting of SF and CF in 2007 – 2013 amounted to over 93% at the end of 2013. However, barely 51% of the budget was drawn up.¹⁶ Implementation and drawing are unsatisfactory with regard to the time framework. The possibility of benefiting from obligations of 2011 and 2012 was prolonged by one year (n+3 rule) in late 2013 by a change in the EU legislation for the Slovak Republic. This change enabled mainly the operational programmes with a low drawing rate to avoid automatic expiry of finances in late 2013. At the same time, this change enables these operational programmes to better meet their objectives.

Most regulations for European Structural and Investment Funds of 2014 – 2020 became effective in December 2013. Altogether 11 thematic objectives have been set:

1. strengthening research, technological development and innovation;
2. enhancing access to, and use and quality of, information and communication technologies;
3. enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector;
4. supporting the shift towards a low-carbon economy in all sectors;

¹⁶ Report on implementation and drawing of Structural Funds and the Cohesion Fund within operational programmes of the National Strategic Reference Framework for the period of 1 July 2013 - 31 December 2013, resolution of the Government of SR No. 56/2014 of 5 February 2014 <http://www.rokovania.sk/Rokovanie.aspx/BodRokovaniaDetail?idMaterial=23234>



5. promoting climate change adaptation, risk prevention and management;
6. protecting the environment and promoting resource efficiency;
7. promoting sustainable transport and removing bottlenecks in key network infrastructures;
8. promoting employment sustainability and quality and supporting labour mobility;
9. promoting social inclusion, combating poverty and discrimination;
10. investing in education, skills and lifelong learning;
11. enhancing institutional capacity and an efficient public administration.

In February 2014, the Government of SR approved the Partnership Agreement of SR¹⁷ for 2014 – 2020 which subsequently submitted for commentary to the EC on 14 February 2014. The responsible sponsors started sending operational programme proposals. Within the 2014 – 2020 ESIF target "**Investing in growth and employment**", the following operational programme proposals are currently in the last stage of preparation in Slovakia:

- OP Research and Innovation (OP Ral)
- OP Integrated Infrastructure (OP II)
- Integrated regional OP (IROP)
- OP Human Resources (OP HR)
- OP Quality of Environment (OP QE)
- OP Efficient Public Administration (OP EPA)
- OP Technical Support (OP TS)

Slovakia proposes allocations of EU resources to the individual operational programmes and within them to the thematic objectives as follows:

Tab. 19: Proposed EU resources allocation for operational programmes and thematic objectives (EUR million)

TO/OP	OP Ral	OP II	OP HR	OP QE	IROP	OP EPA	OP TS	TOTAL for TOs
1	1,704				324			2,028
2		841						841
3	455							455
4				891	111			1,002
5				749				749
6				1 442	88			1,530
7		3,111			421			3,532
8			929					929
9			634		595			1,229
10			326		263			589
11						267		267
TA	68	85	77	75	60	11	169	545
TOTAL for OPs	2,227	4,037	1,966	3,157	1,862	278	169	13,696

Source: GO SR

Within the 2014 – 2020 ESIF target "**European territorial cooperation**" there will be managing authorities for OP SK – CZ 2014 – 2020, OP INTERACT III 2014 – 2020 in Slovakia, while the option to manage also OP SK – AT 2014 – 2020 is being discussed. As for other OPs, SR is a participant with its own national authority. Slovakia is involved in five programmes of cross-border cooperation, two programmes of multinational cooperation and four programmes of inter-regional cooperation. Programmes for 2014 – 2020 are currently being prepared.

¹⁷ Partnership Agreement for 2014 – 2020 was approved by the Resolution of the Government of SR No. 65/2014 of 12 February 2014



Compared to the previous period, the total number of OPs has decreased. On the other hand, a higher number of intermediate bodies was created as a result of reflecting all thematic objectives and new ESIF elements, which will create greater requirement for coordination within the system, among operational programmes and among managing authorities and intermediate bodies of individual programmes.

Crucial changes for the new period, leading to clearer rules, higher flexibility and more efficient implementation, include also expanding the possibility to use financial instruments. Their implementation will be possible through tailor-made tools (which will enable the application of specific national or local requirements) or instruments prepared by the EC (faster implementation thanks to prepared designs). The rules allow combining financial instruments with other forms of support such as grants, subsidies of interest rates or subsidies of loan guarantees. Financial contributions of the private sector in the financial instrument may also be included in the national co-financing.



6 Institutional aspects of the implementation of the Europe 2020 strategy in Slovakia

In response to the developments in the coordination of the Member States' economic policies at EU level, the Slovak Government reinforced the structural reforms agenda. National coordinators of the Europe 2020 strategy are the Prime Minister and the Deputy Prime Minister and Minister of Finance.

The preparation and implementation of the National Reform Programme primarily involves ministers responsible for the economic and social agendas such as labour market, social inclusion, education, business environment, energy sector, the environment, health care sector, transport, regional development, public administration, etc. Other ministers, government plenipotentiaries, representatives of other central government bodies, local governments, academia, business sector and the third sector participate in delivering the strategy through cooperation in selected areas.

New government plenipotentiaries were appointed to take charge of several key agendas related to some of the central government bodies. Government Plenipotentiary for the Roma Communities proposes, coordinates and supervises activities addressing the problems of the Roma minority and implements, following an approval by the Slovak Government, systematic solutions aimed at ensuring equal treatment of citizens belonging to the Roma minority. Government Plenipotentiary for Civil Society is responsible for building effective communication between the public sector and the non-governmental non-profit sector and other segments of the civil society.

At the working level, the preparation and implementation of measures under the NRP is coordinated by a working group of state secretaries of the ministries involved. During the phase of public inter-ministerial review procedure, which is a standard instrument used in the Slovak Republic for the adoption of government proposals, all stakeholders, including the public, are free to comment on the NRP. Consultations with partners, including the third sector, are held continuously throughout the year in the form of seminars and presentations focused on current topics. Such measures are co-organized e.g. by Permanent representation of the European Commission to Slovakia.

At the top political level, the most important measures of the Government are discussed by the Solidarity and Development Council as a platform for discussion, solutions and consensus between the representatives of the Slovak Government and the representatives of social partners, churches and expert institutions in the making of important decisions influencing the development of the entire society.

The Council is chaired by the Prime Minister; the other permanent members representing the Slovak Government are the Deputy Prime Minister, the Minister of Finance and the Minister of Labour, Social Affairs and Family. Depending on the subject discussed, other members of the Slovak Government may be invited to attend the sessions on an as-needed basis. The partners also participate in the process through various informal platforms, such as conferences and expert seminars. The Government deems it important that the dialogue runs on a continuous basis, which is a precondition for high quality implementation of proposed changes. Consultations with partners, including the third sector, are held continuously throughout the year in the form of seminars and presentations focused on current topics. The platform of these events are seminars organized by the Representation of the European Commission in Slovakia.

The NRP is usually discussed by the Economic and Social Council, as well as by the European Affairs Committee and the Finance, Budget and Currency Committee of the National Council of the Slovak Republic.



Annex 1 - The national Europe 2020 targets

Tab. 20: Europe 2020 strategy indicators			2005	2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
Fiscal policy and public finances												
1	Long-term sustainability indicator (GAP) (in % of GDP)	SK	-	-	-	-	9.5	9.2	6.8	4.3	-	0
		EU	-	-	-	-	-	-	-	-	-	-
2	VAT collection effectiveness (%)	SK	74.8	69.7	64.1	65.1	57.9	56.7	57.6	53.0	-	72.0
		EU-22	71.3	72.7	72.8	71.0	65.8	66.8	67.2	67.2	-	-
Education, science and innovation												
3	PISA (arithmetic average of the scores)	SK	-	482	-	-	488	-	-	472	-	505
		OECD	-	496	-	-	497	-	-	497	-	-
4	School drop-out rate (%, population aged 18 - 24)	SK	6.3	6.6	6.5	6.0	4.9	4.7	5.1	5.3	6.3	6.0
		EU	15.7	15.4	14.9	14.7	14.2	13.9	13.4	12.7	12.0	10.0
5	Citations per researcher (%, 100 = EU average)	SK	36	40	38	41	36	35	38	52	-	70
		EU	-	-	-	-	-	-	-	-	-	-
6	Tertiary educational attainment (%, population age 30-34)	SK	14.3	14.4	14.8	15.8	17.6	22.1	23.4	23.7	26.2	40
		EU	27.9	28.8	29.9	31.0	32.1	33.5	34.5	35.7	36.6	40
7	Gross domestic expenditure on R&D (GERD) (in % of GDP)	SK	0.51	0.49	0.46	0.47	0.48	0.63	0.68	0.82		1.2
		EU	1.82	1.84	1.84	1.91	2.01	2	2.04	2.06		3.0
8	High-tech export (% of total export)	SK	6.4	5.8	5.0	5.2	5.9	6.6	6.6	8.2		14.0
		EU	14.1	13.8	12.3	12.3	13.1	12.3	11.6	11.6		-
Employment and social inclusion												
9	Long term unemployment rate (% of active population aged at least 15)	SK	11.8	10.3	8.3	6.7	6.5	9.3	9.3	9.4	10.0	3.0
		EU	4.2	3.8	3.1	2.6	3.0	3.9	4.2	4.7	5.1	-
10	Employment rate (%, population age 20-64)	SK	64.5	66.0	67.2	68.8	66.4	64.6	65.0	65.1	65.0	72.0
		EU	67.9	68.9	69.8	70.3	68.9	68.5	68.5	68.4	68.3	75.0
11	Population at risk of poverty and social exclusion (% of the population)	SK	32.0	26.7	21.3	20.6	19.6	20.6	20.6	20.5		17.2
		EU	25.7	25.3	24.4	23.7	23.2	23.7	24.3	24.8		19.4
Business environment												
12	Doing Business (World Bank ranking)	SK	-	-	-	37	35	40	43	46	43	15
		EU	-	-	-	37	38	38	37	40	40	-
13	Product market regulation index (points)	SK	-	-	-	1.57	-	-	-	-	1.31	1.2
		OECD	-	-	-	1.51	-	-	-	-	1.41	-
14	E-government index (%)	SK	-	37.3	42.3	-	58.6	62.0				90
		EU	-	47.0	52.9	-	61.4	69.1				-
Transparent conditions and law enforcement												
15	Corruption (%)	SK	59	-	59	-	61	-	56	-	-	80
		EU	67	-	78	-	80	-	77	-	-	-
Health												
16	Healthy life years (expected number of years at birth)	SK	55.9	54.5	55.8	52.3	52.5	52.3	52.2	53.3	-	60
		EU	61.8	62.1	62.1	61.6	61.6	62.1	61.8	61.6	-	-
Environmental sustainability												
17	Non-ETS greenhouse gas emissions (%, change against to 2005)	SK	-	-1.7	-5.8	0.8	-5.1	2.7	-2.1	-8.4	-	+13
		EU	-	-1.0	-3.4	-2.7	-6.8	-5.2	-9.4	-	-	-
18	Share of RES in gross final consumption (%)	SK	5.5	5.9	7.3	7.5	9.3	9	10.3	10.4	-	14
		EU	8.5	9	9.7	10.4	11.6	12.5	13	14.1	-	20
19	Final energy consumption (%, change against average of 2001 – 2005)	SK	-	0	-1.8	0.9	-7.0	0.9	-5.3	-9.6	-	-
		EU	-	1.8	0.1	0.5	-5.3	-0.8	-5.3	-5.6	-	11.0
20	EPI	SK	72.6	72.7	73.0	74.3	74.7	74.8	74.4	74.5	-	76.1
		EU	70.5	70.8	71.1	71.9	72.2	72.4	72.2	72.4	-	-



The national Europe 2020 targets represent a set of structural indicators chosen by the Slovak Government in order to monitor progress made in structural policies. The above set comprises the EU2020 indicators defined by the European Commission for all Member States, as supplemented by several other indicators covering all priorities of the Slovak Government. In 2015, the trends and progress towards attaining the 2020 targets will be the subject of evaluation of the Slovak Government.

Tab. 21: List of Europe 2020 strategy Outcome indicators

Indicator name	Definition and source
Long-term sustainability indicator (GAP)	The long-term sustainability indicator represents the difference between the current value and the sustainable value of the structural primary balance. The sustainable value is determined using the current legislation and long-term demographic and economic forecasts that affect general government revenue and expenditure (implicit liabilities) while also taking account of contingent liabilities (e.g., PPP projects). Source: OECD/Eurostat, calculation: MoF SR
VAT collection effectiveness	$\text{VAT collection effectiveness} = \frac{\text{VAT collected}}{[(\text{final consumption of households} + \text{gross fixed capital formation of the general government} + \text{intermediate consumption of the general government} - \text{VAT collected}) * (\text{basic VAT rate} / 100)]}$ The index compares actual VAT collection to potential VAT collection. The larger the indicator value, the more efficient the VAT collection. Potential VAT collection indicates how much VAT can be collected on the macroeconomic base at the basic VAT rate. Source: OECD / Eurostat, calculation: MoF SR
EPI	The Environmental Performance Index is published by the Yale University and Columbia University in cooperation with the World Economic Forum and the European Commission. As a composite indicator consisting of 20 output sub-indicators, it compares 178 countries in ten basic categories of environmental performance. Source: http://epi.yale.edu/
Non-ETS greenhouse gas emissions	Emissions of greenhouse gases outside the ETS in CO ₂ -equivalent as a percentage change against 2005. The indicator express the trends in aggregate anthropogenic CO ₂ , NO ₂ , CH ₄ , HFC, PFC and SF ₆ emissions, together called 'greenhouse gases', and expressed as a CO ₂ equivalent. The indicator expresses trends in aggregate anthropogenic emissions of CO ₂ , NO ₂ , CH ₄ , HFC, PFC a SF ₆ , collectively called greenhouse gasses and expressed in CO ₂ -equivalent. The total quantity does not include emissions from land use, land-use change and forestry (LULUCF). Source: Eurostat
Share of RES in gross final consumption	The share of final consumption of energy from renewable sources and the gross final energy consumption. The final consumption of energy from renewable sources is calculated as the sum of gross final consumption of electricity from renewable energy sources, gross final consumption of energy from renewable sources for heating and cooling, and final consumption of energy from renewable sources in transport. Source: Eurostat
Final energy consumption	Final energy consumption represents the difference between final consumption and final non-energy consumption. Final non-energy consumption includes energy products used as feedstock in various industries, i.e. those that are neither consumed as fuel nor transformed to another fuel. Final consumption is calculated as gross inland consumption – transformation (input) + transformation (output) + exchanges and transfers, backflows – consumption of the energy sector – distribution losses. Source: calculation by MoF SR based on data from the SO SR
School drop-out rate	The share of population aged 18 – 24 with the lowest education (ISCED 0, 1, 2, 3C), who do not continue further studies. A pupil is considered not to continue further studies if in the four weeks preceding the survey he/she did not receive any type of education or training; the relevance of education to the respondent's current or future work is not taken into account. Source: Eurostat
PISA	Internationally standardised assessment of the knowledge and skills of 15-year-old students. It evaluated students in three areas: mathematics, reading and natural sciences. The index is an arithmetic average of the scores obtained in the individual areas. Source: OECD
Tertiary educational attainment	The share of tertiary graduates aged 30 – 34 in the total population in the same age group. University or PhD studies correspond to ISCED 5 – 6.



	Source: Eurostat
Citations per researcher	The proportion of the number of citations in renowned international magazines (SCImago Journal & Country Rank) per number of researchers in the country (Eurostat). The indicator is expressed relative to the average of European Union countries. Source: http://www.scimagojr.com/ , Eurostat, MoF SR calculations
Gross domestic expenditure on R&D (GERD)	The percentage share of total R&D expenditure in GDP. Source: Eurostat
High-tech export	The share of high-tech export in the country's total export. High-tech products include selected products from the following industries: aerospace, computers and office machinery, electronics-telecommunications, pharmaceuticals, scientific instruments, electrical machinery, chemistry, non-electric machinery and armament. Source: Eurostat
Employment rate	Share of the employed aged 20 – 64 in the total population in the same age group. The indicator covers the total population living in independent households; it excludes collective households, people living in boarding and lodging houses, dormitories, and those hospitalised in healthcare facilities. The employed population is made up of those people who, during the reference week, carried out some type of remunerated work (either wage or benefit) for at least one hour, or who did not work but had a job from which they were temporarily absent. Source: Eurostat
Long term unemployment rate	The share of persons aged at least 15, who have been unemployed for 12 months and more, not living in collective households who are without work despite actively seeking work. Source: Eurostat
Population at risk of poverty and social exclusion	The indicator represents the sum of people at risk of poverty (after social transfers) and/or those materially deprived and/or living in households with very low work intensity, expressed as a percentage of the total population. The risk of poverty represents the number of persons with disposable income below 60% of the national median disposable income (after social transfers). The materially deprived are those who cannot afford at least four of the following nine items: ii) pay the rent/mortgage or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or protein equivalent energy every second day, v) one week of vacation away from home, vi) car, vii) washing machine, viii) colour TV or ix) telephone. Population in households without work includes persons aged 0 – 59 living in a household where the adults worked less than 20% of their total work potential during the past year. Source: Eurostat/EU-SILC
Doing Business	A country's position in the Doing Business ranking, which measures regulation of small and medium-sized enterprises throughout the nine stages of their lifecycle: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The data is based primarily on national laws, various other forms of regulation and administrative requirements. Source: World Bank
Product market regulation index	The assessment of a country using the product market regulation index. It measures regulation and barriers in three areas: state control, barriers to entrepreneurship and barriers to trade and investment (each with a weight of one third). The product market regulation index targets not only the business activities of regular enterprises, but also measures broader regulation (for example regulation in network industries). Source: OECD
E-Government Index	The index is calculated for a country as a weighted average of the following three indicators: e-government availability (weight 50%), use of e-government by individuals (25%) and use of e-government by companies (25%). The eGovernment availability measures the offer of 20 basic eGovernment services. Of the 20 defined public services, the indicator specifies the share of services available via the Internet. For a service to be deemed available, it must achieve a certain degree of sophistication. The use of eGovernment by individuals/businesses measures the percentage of people/businesses who have, in the last three months, used the Internet in communication with public institutions (obtaining information from a website, downloading an official form or sending a filled-in form). Source: Eurostat, calculations of MoF SR
Corruption	The corruption indicator represents an average of two indices focusing on different types of corruption:



	<p>Corruption experience among the general population – a Eurobarometer survey It is targeting individual sectors, such as the police, customs administration, courts, national politicians, regional politicians, local politicians, tenders, building permits, business permits, healthcare system, school system, inspection. The Corruption Perception Index (CPI) – Transparency International – measures the perception of corruption based on 5 – 10 source surveys of entrepreneurs and experts in each country. In Slovakia, eight corruption perception surveys are included, with 50% weight assigned to the views of entrepreneurs and 50% to the views of experts.</p> <p>Source: Transparency International, Eurobarometer, calculation: MoF SR</p>
Healthy life years	<p>The number of years lived in a healthy condition that can be expected at birth. This indicator combines information on mortality and morbidity in the given country. Good health is defined by the absence of disabilities or restrictions on everyday activity. It is also called disability-free life years (DFLY).</p> <p>Source: Eurostat</p>