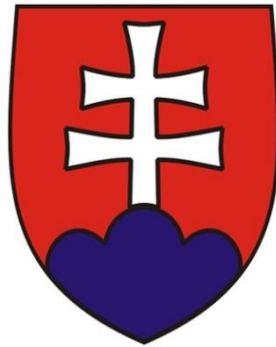


Ministry of Finance of the Slovak Republic



National Reform Programme of the Slovak Republic 2018

April 2018

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Summary

The National Reform Programme of the Slovak Republic 2018 (NRP) describes the structural measures planned by the Slovak government to be taken in the next two years. The new complex approach to the priorities identification taking into account GDP, as well as other life quality aspects, identified the labour market, the healthcare system and primary education again as the biggest challenges of the Slovak economy.

In 2017, 51 thousand of new job positions were created, and the **unemployment rate dropped to the lowest level in the history of the Slovak Republic** (7.7 % in the fourth quarter 2017). It should continue to fall down owing to the measures focusing particularly on the reduction of long-term unemployment rate which should continue to be taken also in 2018. Requalification and education of employees and jobseekers (JS) will be supported based on requirements of employers in the selected industries. Furthermore, **expansion of childcare facilities for children up to three years of age** will be supported in order to help mothers return to the labour market. New project calls for the support of integration of people from marginalized Roma communities (MRC) will be announced throughout the year 2018.

The department of education will take measures identified in the education spending review carried out in 2017. The **attractiveness of teaching profession** continues to be increased mainly through increasing teachers' pay in accordance with the Manifesto of the Government of the SR. The relationship between teachers' pay and quality will be improved. The amendment act will motivate more schools and employers to join the **dual education system**. With respect to tertiary education, the **accreditation commission** and the accreditation process will be **reformed**, the internal management of universities will be modified, and the professional study programs of universities will ensure better relationship between education and the labour market. The renovation of university dormitories will be supported in 2018 and 2019.

The 2016 healthcare spending review identified several significant system issues and possible solutions. The implementation of the measures identified in the review gradually improves the cost efficiency of several components of the system. Some of the **eHealth** functionalities started to be fully operational in 2018. Throughout this year, the ambulance service providers are planned to be integrated into that system. Gradual implementation of **diagnostic-related group (DRG)** payments system continues. Approximately 93% of hospitals adopted the DRG payment system in 2017 at least partially. The five-year long convergence process of individual rates of individual hospitals into a single nation-wide basic rate was launched in early 2018. As regards the pharmaceutical policy, measures are taken to reduce the prices and to tackle the overconsumption of prescription drugs. **Public procurement** is planned to be extended and hence, to cover the procurement of cost-ineffective medications. Persisting issue of re-export of drugs is about to be addressed, as this problem emerged again despite passing the Drugs and Medical Aids Act. A network of urgent care providers on top of the already existing emergency rooms operators is planned to be introduced. Standard diagnostic and therapeutic procedures will be gradually introduced in the area of diagnostics.

The **Value for Money project** is a governmental instrument to improve efficiency of public expenditure; through this project the government intends to increase the value of public services and contribute to a balanced budget. The assessment process of big investment projects with a more active role for The Ministry of Finance has been set up. This year, spending reviews focus on the agriculture, integration of groups at risk of poverty or social exclusion, and employment and remuneration in public sector. At the same time, an Implementation Unit has been set up to monitor implementation of the measures defined in the spending reviews.

Fight against tax evasion and the positive trend of VAT collection continue. To fight tax evasion and improve tax collection, the Financial Administration will implement an internal tax entity reliability assessment procedure. To increase the efficiency of collection of the arrears of taxes, a tax debtor risk assessment system will be implemented. The analytical capacities of the Financial Administration will be reinforced by the development of a central analytical unit. Electronic invoicing system and electronic cash registers

interconnected on-line with the Financial Administration's systems will be implemented. Legislation for the annual clearance of social security contributions will be prepared.

Better-working public administration should be ensured by multiple measures. The so-called anti-letterbox companies entered into force in 2017; this law should make the transactions between the government and the private sector transparent. The analytical capacities of the state will be reinforced at multiple ministries and other institutions.

The expanding support of electronic and automated communication with the Financial Administration, the implementation of better regulation measures and further optimisation of the business register services will contribute to the **reduction of the administrative burden for the business environment**. The Ministry of Economy SR (ME SR) will prepare a new package of measures which should reduce the administrative burden for businesses and will make doing business easier in Slovakia.

The attention in judiciary will focus on the **solution of the issue of old distraint proceedings** and on the implementation of the conclusions and recommendations resulting from the *State of the Judiciary Report* elaborated by the CEPEJ organization¹. A reform will be prepared with regard to the legal guardianship law with the aim to improve the standing of individuals with disability and improve protection of senior individuals. An act governing judicial civil duty will be prepared in accordance with the Manifesto of the Government of the SR.

The NRP is based on the country specific recommendations of the EU Council for Slovakia from 2017, as well as on the assessment of their implementation by the European Commission from March 2018. The financing of measures from the NRP will be ensured within the allocated expenditure and personnel limits of individual budget chapters.

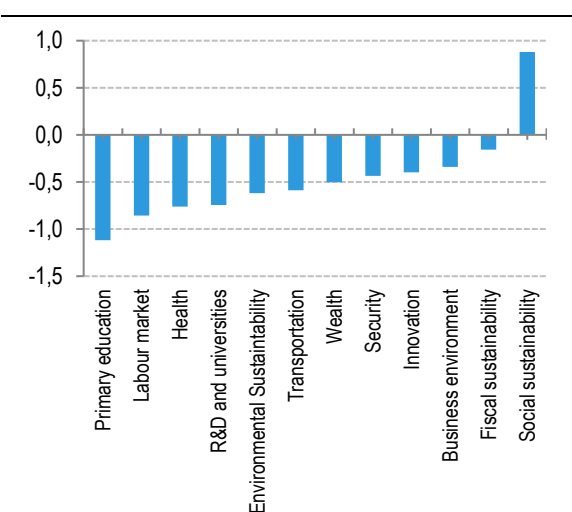
¹ The European Commission for the Efficiency of Justice.

1 Identification of challenges in the Slovak economy

The greatest challenges, as regards lagging behind other countries, are represented by the quality of primary education, the labour market, and the quality of healthcare². Except for social sustainability measured by income inequality, Slovakia reaches below-average values in all other performance indicators monitored.

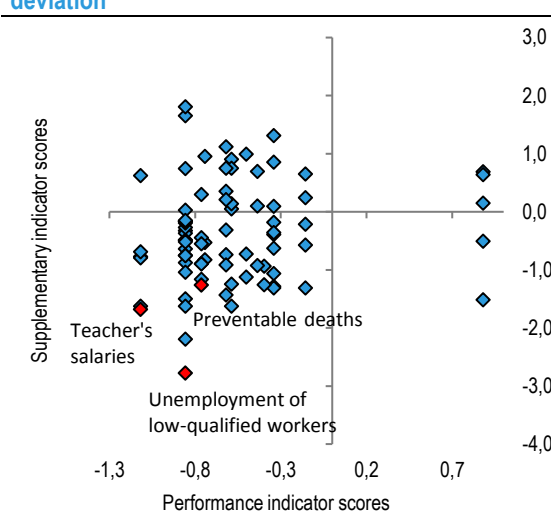
Performance indicators are matched with supplementary indicators (Figure 2), which disaggregate a broadly defined problem (e.g. the labour market) into smaller, better understandable areas (e.g. unemployment of low-qualified workers or preventable mortality in the healthcare quality³). Thus, the points in the lower left quadrant contain substandard performance indicators, as well as supplementing indicators. The upper left quadrant shows the areas where below average outcomes are attained, nevertheless with above-average inputs (e.g. low number of citations and a high level of PhD study graduates).

Figure 1: Performance indicators, standard deviation from the sample average (OECD/EU)



Source: IFP

Figure 2: Disaggregation of performance indicators by means of supplementary indicators, standard deviation



Source: IFP

Internationally comparable outcomes are measured at the level of primary schools through PISA testing of 15 year old students. Slovakia's results got worse again in 2015, we continue to lag behind both the OECD countries and the region. While worse results used to be achieved mainly by disadvantaged groups (also compared to foreign countries) in past, the 2015 results were worse for all children. As the number of students in regional schools has been falling since 1990, the expenditures per student relative to the GDP have gradually grown. Nevertheless, they continue to be significantly below the OECD average. Equalization of chances of disadvantaged children through education is a great challenge for Slovakia.

Supplementary indicators imply that the long-term unemployment and the employment of low-qualified JS is the main challenge for the labour market. Long-term unemployment and the related loss of skills represent another barrier impeding better outcomes on the labour market. From the point of view of age distribution of the unemployed, labour market situation is worse mainly for older workers (55-64) or women. The share of unemployed young people in the total unemployment rate is lower than the average of OECD countries, even though their unemployment rate is higher than the average.

² These priorities have been identified in the updated methodology of Slovakia's priority identification (Lafféřsová, 2017).

³ The avoidable mortality rate is frequently used as a health care quality indicator and comprises two indicators. The first indicator - *amenable deaths*, accounts for deaths which could have been averted if timely and appropriate healthcare and treatment was provided. In addition to amenable mortality, the *preventable deaths* indicator (presented above) is used. Preventable mortality comprises deaths which could have been avoided through public health interventions and early diagnostics. Together, both indicators represent a complex indicator known as *avoidable mortality*.

Slovakia lags behind in the number of preventable deaths which could have been averted by a quality healthcare, and furthermore Slovaks enjoy the fewest healthy life years in the EU. An updated model that was used in studying healthcare system ⁴ suggests high ineffectiveness of used resources

⁴ Filko, M. et al. (2012): (2012), [Málo zdravia za veľa peňazí \(Little Health for Much Money\): Analýza efektívnosti slovenského zdravotníctva](#) (An Economic Analysis of Slovak Healthcare System), Economic Analysis No. 28, Institute for Financial Policy

2 Measures taken in 2017

Review of the fulfilment of the NRP action plan tasks is arranged by individual specific recommendations which were approved in the June summit of the European Council and adopted by the Council in July 2017⁵.

1. Fiscal policy and healthcare efficiency

Specific recommendation of the Council: Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which translates into a substantial fiscal effort for 2018. When taking policy action, consideration should be given to achieving a fiscal stance that contributes to both strengthening the ongoing recovery and ensuring the sustainability of Slovakia's public finances. Improve the cost effectiveness of the healthcare system, including by implementing the value for money project.

Implementation of measures identified within the 2016 healthcare spending review continued in 2017. Total savings in 2018, if measures are fully implemented, can be equal to 190 million EUR. The awaited eHealth system and the diagnostic-related group payments system are gradually implemented and they remain the main priorities in the sector of healthcare. A basic network of urgent care providers has been defined. A legislative amendment was passed, which clarifies conditions for reimbursement of drugs subject to exception. This amendment also defines conditions and simplifies the entry of innovative and generic drugs into the market.

Fiscal policy

The results and objectives of budgetary policy are detailed in the Stability Programme of the Slovak Republic for 2018-2021. The general government deficit in 2017 exceeded the budgetary target and reached 1.04% of GDP. In addition to the historically lowest general government deficit, this result also means the first primary surplus (the nominal balance net of interest expense). Structural consolidation efforts have significantly exceeded the required amount. The current estimate of the deficit for 2018 is 0.80% of GDP, approximately at the level of the budgetary target. The consolidation efforts in 2018 are in line with the European requirements reflecting the 2017 development. The gross debt of general government has also exceeded budgetary expectations. According to spring notification, it reached 50.9% of GDP in 2017 and declined for the fourth consecutive year. The better outcome also stems from the better-than-planned primary general government surplus. The interest rate of the GG will also fall to its historically lowest level to the GDP ratio.

In line with the government's program statement, the fiscal framework is projected to achieve a balanced budget in 2020 and its sustainability in 2021. Since 2019, Slovak public finances will be at the level of its medium-term budgetary objective (MTO) and should reach it to the fullest in 2020. This means that public finance should reach structural recovery by more than 6 p. p. over a decade since the financial crisis peak in 2009. Compliance with the budgetary targets will lower GG debt at the end of the forecast below 45% of GDP, which is significantly below the lowest sanctioning band of the Constitutional Fiscal Responsibility Act. Since its culmination in 2013, the gross debt to GDP ratio will drop by more than 11 p. p.

Healthcare system

The 2016 healthcare spending review identified opportunities leading to increased efficiency of the entire system. If the 2018 saving measures are fully implemented, total savings in the system can be equal to 190 million EUR. These funds may then remain in the system so as to efficiently contribute to the reduction of the avoidable mortality through the system of timely healthcare.

⁵ [Specific recommendations for Slovakia 2017](#)

MH SR's measures and their implementation

Mil. EUR	2017	31/12/2017 Status	2018	2019	Potential savings
Measures decreasing expenditures	143	83.9	159	165	268
Overconsumption of prescription drugs - introduction of prescription restrictions for healthcare providers	20	22.2	20	20	59
Introduction of conditions for reimbursement of drugs subject to exceptions	10	1.7	10	10	10
Potentially cost-ineffective drugs - central procurement of medications by health insurance companies	25	-4.5	25	25	42
Special medical material - price reductions (referencing)	35	13.2	45	45	55
Medical aids - referencing and revision activities	15	10.5	15	15	15
Lower unit prices and limits for CT scans and MRI (SVLZ)	10	11.2	16	22	25
Introduction of limits for healthcare providers (SVLZ)	3	2.4	3	3	37
Improvement of the national health insurance provider's revision work	25	27.2	25	25	25
Measures reducing spending of hospitals (controlled by the MH SR)	31	-4.1	31	31	95
Optimization of operating expenses	5	-3.1	5	5	10
Optimization of medical processes	15	-23.4	15	15	74
Optimization of drug and special medical material procurement	8	6.8	8	8	8
Economic procurement of medical technology	3	15.6	3	3	3

Source: Implementation unit (ÚPPVII), MH SR, Health insurance companies

Gradual implementation of several long-term projects, which are expected to increase the efficiency and transparency of the healthcare system, continues:

- **Implementation of e-Health.** Gradual connection of all doctors to the *eHealth* environment took place throughout 2017. Electronic health insurance cards (ePZP) allowing access to the system were distributed. Passed legislation simplifies the use of the Patient Summary (*one of the eHealth functionalities*). Data cleansing is in progress in order to ensure that the Patient Summary feature contains all life-saving data required to provide high-quality healthcare.
- **Introduction of the diagnostic-related group payments system.** Legislative changes made in 2016 allowed the hospitals to introduce the DRG system as a method of payment of the contracts with health insurance companies. At least 20% of all payments must be made using this system. Approximately 93% of hospitals adopted the DRG payment system in 2017 at least partially⁶.
- **Redefining the types of hospitals and improving the efficiency of healthcare.** The Ministry of Health prepared their own strategy proposal, which was published as part of annexes to EU funding drawdown within the Integrated Regional Operational Programme (IROP) in the first half of November 2016. A legislation passed in 2017 defines the network of urgent care providers. This system defines a fixed network of urgent care providers and specifies personal and technical equipment requirements.

A legislative amendment prepared in 2017 has changed the system of drug reimbursement and it has increased the availability of new drugs. This amendment presents exact conditions which specify the reimbursement of drugs subject to exceptions. This amendment also ensures faster entrance of innovative and generic drugs into the Slovak market.

⁶ [Interim implementation report](#) (October 2017).

2. Long-term unemployment, unemployment of women and education

Specific recommendation of the Council: Improve activation measures for disadvantaged groups, including by implementing the action plan for the long-term unemployed and by providing individualised services and targeted training. Enhance employment opportunities for women, especially by extending affordable, quality childcare. Improve the quality of education and increase the participation of Roma in inclusive mainstream education.

Several measures have been implemented in order to integrate the long-term unemployed, including profiling and individualised counselling. Allowances supporting labour force mobility were made more attractive and legislation was passed to develop and promote social economy. Once the legislative framework for the childcare facilities for children up to three years of age had been created, the conditions for the financial support were prepared for EU fund drawing. The projects supporting field social work, community centres and inclusive education model are ongoing. A monitoring and assessment project for the Slovakia's Strategy for Roma Integration until 2020 was launched within the MRC inclusion assessment. The capacity of kindergartens continues to be expanded. The salaries of pedagogical employees have been rising since 2013 - they were increased twice in 2016 - by 4% in January and by additional 6% in September, and again by additional 6% in September 2017.

Public employment services

Reviews of the expenditures on the labour market policies⁷ identified opportunities for improving the operating efficiency of labour offices and opportunities for reallocation of funds for active labour market policies (ALMP) and operation. Internal evaluations of efficiency of labour offices led to the continued employee relocations in 2017 to more frequent and demanding activities.

In 2016, the MLSAF SR adopted an **action plan**⁸ to implement several forms of support of the **integration of long-term unemployed in the labour market**:

- **Profiling** based on individual JS assessment was implemented throughout 2017. The profiling results is relevant for the recommendation and provision of appropriate employment services and allocation of activation measures.
- Active support was launched in September 2017 for hard-to-place long-term unemployed JS in the form of **individualized counselling activities** focusing particularly on the assessment of the overall JS's potential from the perspective of their employability in the labour market. The expected number of supported individuals of the target group amounts to 32,000 until 2020⁹.
- The activities of individualized counselling will be carried out by **129 new specialized counsellors** in the maximum extent of 45 hours/15 meetings for one long-term unemployed JS.
- The national project "*The road to the labour market*" was launched in March 2017 to **help reduce particularly the long-term unemployment in the least developed districts** with high registered unemployment rate. All activities led to the creation of 4,653 job positions in 2017. 53 specialized counsellors were hired by labour offices in the least developed districts throughout the year to provide individualized services to JS.
- The national project "*Restart - a chance for the long-term unemployed to return to the labour market*" is expected to **motivate the long-term unemployed JS to find employment** (from July 2017). This **measure** will help the group of long-term unemployed for a period longer than 24 months **build and re-establish work habits** with the employers engaged in the programme. Until the end of 2017, 1,907 individuals of the target group were supported.

⁷ [Pilot study of the review of expenditures on public employment services](#) (October 2016) and the [Labour Market and Social Policies spending review](#) (July 2017).

⁸ [Action plan to promote integration of long-term unemployed in the labour market in the SR](#)

⁹ The number of JS unemployed for more than 12 months reached around 85,000 in January 2018.

In 2017, several new or modified **national projects** continued to be **implemented** with the aim to **support the employment of other disadvantaged groups in the labour market** (JS under 29 years of age, 50+ years old JS, and individuals with disability).

In order to support development of the **social economy**, the parliament passed a new act in March 2018 governing social economy and social enterprises laying down the rules for social enterprises and the forms of their support. This act also aims to support the employment of disadvantaged JS including the long-term unemployed, the individuals with disability, and the vulnerable groups in integration social enterprises.

Work-life balance

In order to promote the work-life balance of parents, the childcare facilities for children up to 3 years of age and kindergartens (for children aged 3 to 6 years) continue to be supported. When the so-called nursery law was passed in 2017 that defines the legislative framework for the **childcare facilities for children up to three years of age**, the conditions were prepared for the financial support for EU fund drawing in the programming period 2014-2020.

Calls were announced in the period from October 2017 until June 2018 in order to support flexible forms of childcare and flexible job positions with a financial allocation of EUR 3.3 mil. for more developed, or EUR 10 mil. for less developed regions¹⁰.

Education

158 projects totalling EUR 43 million were approved in 2017 out of EUR 77.2 million allocated for the expansion of childcare capacities within the Integrated Regional Operational Programme (IROP); this should lead to the creation of 4,780 new placements at kindergartens. The amount of EUR 14.5 million singled out in the Department of Education was used by the end of 2017 for the expansion of kindergartens by 204 new classes (out of the 227 planned) and 19 classes were kept operated (e.g. through renovation, solution of emergency conditions; out of 22 planned).

Since January 2018, the state pays the **allowance for partial payment of the cost for families** in need for approximately 5,400 children during the entire time of their kindergarten attendance supporting their participation in pre-primary education.

The salaries of pedagogical, professional employees and university teachers **grew by 6%** in September 2017.

The final version of the *Learning Slovakia* document was published in September 2017. This document will be used for the **National Programme for Development of Upbringing and Education in Slovakia until 2027**.

Integration of socially excluded individuals and marginalized Roma communities

Within the "School open for all" project with EUR 25 mil. allocation from the ESF, 130 schools were supported as of January 2018 which apply the **inclusive model of education**; 17,831 primary school students with special education needs at schools engaging in activities focusing on the support of the inclusive model of education; and 1,301 of pedagogical and specialized employees engaging in the activities to improve professional skills. The "More successful at primary school" call with a financial allocation of EUR 50 million from the ESF aims to support inclusive education. Primary schools may apply for a grant for their own projects developed for the creation of new job positions for pedagogical assistants, teacher assistants, and inclusive team. 215 contracts totalling EUR 19 million were approved as of January 2018. The implementation of contracted projects is already in progress.

¹⁰Work-life balance support ([OP Human Resources DOP 2017/3.2.1/01](#) and [OP Human Resources DOP 2017/3.2.1/02](#)).

The projects **supporting the inclusion of excluded communities** under the responsibility of the MLSAF SR continues. The aim of the national project supporting the development of providers of the **selected social services of crisis intervention at the community level** is the social inclusion of individuals in a difficult social situation, at risk of social exclusion, or with restricted capacity to integrate into society and solve their problems on their own. As of October 2017, 96 providers were deployed in a community centres, low-threshold day centres, or low-threshold social services for children and family (whereof 60 public providers and 36 non-public providers, employing 264 employees in total). The number of clients engaging in regular activities amounts to 25,311 (whereof 14,517 of women and 10,740 of men).

The field social work under the responsibility of the MLSAF SR is financially supported within the national project "*Field social work in municipalities I*" (October 2015 - September 2019). The project focuses on the help to individuals at risk of poverty, at risk of social exclusion, or those who face exclusion from society. The help is provided in the form of direct support of such individuals or through improvement of accessibility and quality of services, comprehensive social infrastructure, and other instruments of help in the form of e.g. preventive measures, education, professional preparation, or healthcare. 235 entities (224 towns and 9 non-governmental organizations) and 556 field social workers are engaged in the project right now. This project follows up to the support from the previous programming period.

The inclusion and integration of people from MRC is also supported by several projects funded from the EU funds under the responsibility of the Slovak Government Plenipotentiary for Roma Communities (SGPRC) and the MI SR. Until the end of 2017, 142 towns¹¹ and 55 providers¹² engaged in the support projects of **field social work** and **community centres in municipalities with presence of MRC**. The opportunities to engage the selected municipalities in several national projects which should improve the social standing and situation of Roma people have improved.

A call was announced in December 2017 for the project to **support pre-primary education** with the aim of increasing the number of children from the MRC in kindergartens. The national project "*Monitoring and evaluation of inclusive policies and assessment of their impact on the marginalized Roma communities*" was launched in 2017. This project focuses on the monitoring and evaluation of the progress achieved including the objectives attained within the Slovakia's Strategy for Roma Integration until 2020.

¹¹ National project "*Field social work and field work in municipalities with presence of marginalized Roma communities*"

¹² National project "*Community centres in municipalities with presence of marginalized Roma communities - 1st Phase*".

3. Efficiency and transparency of public administration, business environment

Specific recommendation of the Council: Improve competition and transparency in public procurement operations and step up the fight against corruption by stronger enforcement of existing legislation. Adopt and implement a comprehensive plan to lower administrative and regulatory barriers for businesses. Improve the effectiveness of the justice system, including a reduction in the length of civil and commercial cases.

The so-called anti-offshore law was passed, effective as of February 2017, in order to improve transparency of public procurement. The amendment act on bankruptcy and restructuring has brought a more affordable option of personal bankruptcy for individuals and a more strict regulation of the so-called large restructuring. Changes with a positive impact on the business environment have been adopted in the process of judicial restructuring, in the Commercial Code, and debt collection (judicial enforcement).

Public procurement and analytical resources

The amendment to the act on the registry of public sector partners (the so-called anti-offshore act) effective as of February 2017 has brought greater transparency into the relations between the state and the entities that tender for public funds. The act uncovers the ownership structure of companies down to the beneficial owner. The amendment act is estimated to uncover the heretofore officially unknown ownership for around 10% of companies in the new registry (roughly 800 companies)¹³.

The Office for Public Procurement (ÚVO) developed a methodological guideline based on the *European Single Procurement Document*. The document should ensure a better application of the European directive.

The resources of public administration continued to be supported within the Operational Programme Effective Public Administration (OP EPA) - projects *Value for Money* and *Strengthening Analytical Capacity*. The existing analytical departments were strengthened by hiring more employees. Throughout 2017, new analytical departments were created at the Departments of Agriculture, Labour and Culture, Office for Public Procurement, and the Deputy Prime Minister for Investments and Informatization Government Office (ÚPPVII).

The **Martin Filko Internship programme** supported, through the call of the MESRS SR, seven students to study at the best universities in the world. The interest to hire an internship student who would commit to work 3 years in the state administration once such student completes his/her studies was shown by six ministries and the Government Office of the SR. In addition, 33 positions of eligible institutions were approved in 2017 within the **Support Scheme for Return of Experts from Abroad**. Five positions were occupied, representing a decrease compared to the eight occupied positions in 2016.

Judiciary

The amendment to the **act on judges and lay judges** entered into force in July 2017. The aim of this act is to occupy judicial vacancies in a faster and more transparent manner. The amendment to the act introduces the concept of mass selection procedures to occupy vacant positions of judges. At the same time, professional assessment commissions of judges will be set up. This amendment to the act improves the transparency of the selections of judges triggered in June 2016 when the assessment criteria for the rules applicable to the selection procedures for judges were made more objective. The same assessment sheets were also introduced for the verbal part of the selection procedure and they started to be published on the Internet.

The amendment to the bankruptcy and restructuring act (the so-called bankruptcy act), effective at the beginning of 2017, decreases the cost connected with initiation of the **personal bankruptcy** proceeding. The new legislation aims to improve the opportunity to break free from debt trap for individuals without income and property, including protection against complete loss of home. However, in no way does it decrease

¹³ Resulting from the [Transparency International Slovakia analysis](#).

satisfaction of eligible claims by creditors. The number of personal bankruptcies of the amendment act reached 4.3 thousand¹⁴ one year after the effective date.

Amendments in the act also applied to the **so-called large restructuring**. The amendments aim to prevent speculative restructuring and to strengthen the standing of small, unsecured, creditors. The restructuring must result in the satisfaction of the enterprise's creditors to the minimum extent of 50% of each claim. If debtor is unable to offer the creditors within restructuring at least 50% of their claims, the debtor will have to go bankrupt.

Business environment

A package of 35 measures was approved in 2017 in response to the challenge to improve the business environment. One of the first measures out of this package which has already been approved by the Government includes the **optimisation of the occupational health service** which presupposes reduction of administrative costs for businesses. At the same time, the obligations of businesses towards the Social Insurance Company were simplified (extension of the period for employee deregistration).

The amendment to the **Distraint Code** that took effect in April 2017 has brought such changes as the establishment of single specialised court to hear distraint cases in Banská Bystrica, random selection of distraint officer and the introduction of lump-sum remuneration for distraint officers. These changes should lead to more transparent and fair distraint proceedings, clear and fair rules applicable to debtors, more effective collection of creditor's claims, and freeing the other courts from debt enforcement agenda. More than 18 thousand debt enforcement actions were brought to the Banská Bystrica County Court from the effective date of the act until the end of November 2017, and the court issued 14,501 writs of enforcement.

The amendment to the **Commercial Code** effective as of January 2018 addresses unfair practices concerning liquidation and consolidation of businesses and cooperatives. The new legal regulation introduces, for example, effective tools against the so-called "cat's paws". It also permits mergers and consolidations of businesses only if they do not go bankrupt as a result of the merger. Unfair debt settlement process of businesses and cooperatives will be prevented. Furthermore, greater responsibility is laid on the statutory bodies and members of companies.

The Dunning Procedure Act that took effect in February 2017 introduces a fully-fledged electronic alternative to the existing payment order regime which speeds up and streamlines the debt collection process. The concentration of the agenda of electronic payment orders under a single court (Banská Bystrica County Court) is also expected to help accelerate the entire process. The Act governs the implementation of the electronic payment order filing process by way of standardized electronic forms.

The amendment to Tax Procedure Code effective as of January 2017 simplified the conditions for the **tax deferment and instalment permit** allowing the business sector taxpayers to settle the amounts under EUR 3,000 without the need to secure the amount owed by a pledge. Reminders known as **soft warnings** have already started to be distributed to the selected clients of the Financial Administration. This measure is a pro-client measure and constitutes one of the elements of financial administration upgrade and is expected to support voluntary compliance with tax liabilities.

4. Most significant changes in other areas

Tax and customs collection

The Financial Administration continued in 2017 in the activities related to the **creation of the central analytical unit** and **strengthening of analytical capacity**. A new Analyses and Prognoses department was set up within the Section of Fight against Fraud and Risk Analysis. The linking of individual information systems constituted the ongoing building of a single customs analytics with the purpose to interconnect it with the tax analytics. New functionalities of the VAT control report analysis system were added - this system

¹⁴ The Legal Aid Centre provided around 90 consultations during the one year of the amendment validity. More information [here](#).

constitutes the basic analytical system operated by the department of Fight against Fraud. The first phase of the RAN project (reliability of entities and their segmentation) continued with the work regarding legislative changes (enacting the institute of tax reliability index for entities), the creation of the regime worksite and methodological, IT and data consulting including testing.

Effective as of January 2018, a summary report has been introduced. This report is compiled from multiple tax audits carried out concurrently at multiple tax entities. This report will provide a complex view and it will ensure overall assessment of conduct of all audited tax entities and improve the quality of tax audits.

The integrated **information system of Financial Administration** currently covers the processes of tax offices, e.g. the registration of tax entities, processing of all types of tax returns, accounting of state revenues, connection to the State Treasury, debt collection, tax audits, and various service processes such as administration of fees or generation of correspondence. 74.4% of tax documents out of the total number of the tax documents filed and processed were filed and processed in 2017. 94.1% of tax returns and supplementary tax returns were filed and processed in 2017 for excise taxes. 99.7% of customs declarations were filed electronically by the end of 2017. The work on two-way electronic communication (Financial Authority Portal) in the area of excise taxes continued throughout 2017. The work on *eDovoz* (second phase) also continued in that period.

The Ministry of Finance implemented a **tax allowance reducing tax liability for young for mortgage loans** in 2018. This form of tax bonus replaced the actual direct interest rate subsidy by way of a housing benefit for young. The tax relief will benefit the supported bank clients under the same conditions and interest rates as other clients of banks. The measure made the housing support more direct and increased its value, while keeping the expenses of the state at the same level.

Research, development and innovation support

The so-called **super deduction for research and development** was increased in January 2018 to 100% as well as the deduction of the y/y accrual of expenses on research and development grew to 100%. The aim of the measure is to motivate the private sector to use more of their own sources on research and development and to get closer to the EU average (expenditures of companies on R&D as a % GDP in 2016: SK 0.3; EU 1.1). At the same time, the so-called **patent box** was introduced; this patent box constitutes a special regime of income taxation in connection with commercial use of intangible assets including the software which are the result of the taxpayer's own development. Exemption will apply to a portion of license fees on registered patents, utility models, and software, and the income from the sale of the goods which are manufactured using a registered patent or utility model.

The act on public research institutions took effect in January 2018. Based on this act, the **Slovak Academy of Sciences (SAV) organisations** are transformed to public research institutions which will allow them to cooperate more closely with the economic and industrial sphere and use more efficiently the funds.

The European Commission accepted the *Research and Innovation Strategy for Smart Specialization of SR* in July 2017. This has built the basic precondition for EU funds drawing within the Operational Programme *Research and Innovations* as a significant source of funding of research, development and innovations.

Labour Code

In the area of payment obligations of employers, the Government approved in May 2018 the **increase in the minimum amount of extra pay** for night work and work on weekends and holidays.

In order to improve transparency of wage negotiations in recruitment of employees, the obligation has been introduced for the employers to **state the basic component of the wage in job offers**. This amount must not be lower in the employment contract than the amount offered in the job offer.

Parental benefits

After the 2016 increase, the **maternity benefit** was increased in May 2017 again from 70% of the daily assessment base to 75%. An individual who earns an average salary and is eligible to receive maternity benefit will then receive nearly full compensation of his/her net income. Also the parental benefit was increased in May from the current EUR 203.20 to EUR 213.20¹⁵. The annual impact of the parental benefit and the maternity benefit increase will amount to EUR 29.9 mil.

Effective as of January 2017, also the maximum assessment base for benefits from sickness insurance scheme (i.e. also the maternity benefit) grew from 1.5 to double the average wage two years ago.

Social inclusion

Effective as of May 2017, the incentives were increased **mainly for the long-term unemployed** by strengthening the support for the **social assistance benefit concurrence** when the recipient or the co-assessed member of a household starts employment. Including a smaller portion of the assessed income from work into the calculation of this benefit, the disposable income of a household of parents with two children grew by roughly 20% if one of the parents found work with a wage amounting to the minimum wage.

An increased allowance for the care of disabled persons is provided from 2017 within **welfare services for the disabled**. The budget counts on additional annual expenditure in the amount of EUR 29.5 mil. for this purpose.

In November 2017, the Government passed the **amendment act on social services** which changes particularly the method of calculation of the financial allowance for the providers of social service in dependency care homes¹⁶. The list of entities eligible to claim financial allowance for social service provision (besides municipalities and non-public providers, also non-public providers under the competence of the higher territorial units) will be extended.

Social insurance and pension saving scheme

A minimum adjustment of retirement benefits was introduced for 2018-2021¹⁷. The retirement benefits of pensioners will be increased by % of y/y growth of consumer prices of pensioners' households, but no less than by a fixed amount determined as 2% of the average amount of the relevant type of retirement benefit. Due to this measure, the below-average pensions will grow faster. This will make the system more solidary and ensure greater compensation of income for pensioners with lower retirement benefits. The expenditures on this measure are estimated in 2018 to reach more than EUR 80 mil.

The conditions applicable to the eligibility for unemployment benefit have been liberated and unified since 2018. Based on the above, a person eligible for the unemployment benefit must be insured for a period at least two years during the last four years before included in the register of JS. The annual expenditures on the above measure are estimated to reach nearly EUR 10 mil. since 2018.

Public administration - ESO reform

55 **Client Centres** were set up by January 2018 within the ESO reform and more are planned to be opened. The Client Centres started to be opened in 2013. The fundamental goal of the ESO public administration reform is to make the state administration more efficient, cheaper, and more modern for the citizens. The aim of the second phase of the reform is to create a uniform and transparent structure of local public authorities through concentrating their activities. The selected impacts have been updated in the legislative process to include the *Impact of Public Administration Services on Citizens* and *Impacts on the Processes of Services in Public Administration* owing to the ESO Reform.

¹⁵ After adjustment, the parental benefit grew to EUR 214.7 in January 2018.

¹⁶ The financial allowance is now based on the structure of social service recipients depending on the level of dependency on the care of another person and based on the form of the social service which pre-determine the cost intensity of the social service provided.

¹⁷ This also applies to the injury benefit.

Implementation of eGovernment

The national concept of eGovernment has defined 10 strategic priorities, 9 of which were processed and published until the end of 2017 (except the Cybernetic and Information Security which will be finished in 2018).

The action plan for eGovernment for 2017 through 2020 was approved in November 2017 by the Slovak Government Council for Public Administration Digitalization and Uniform Digital Market. The material will result in the implementation of key eGovernment projects and the solution of 25 life situations which the authorities will be able to solve based on the one strike rule. These services should be launched gradually, equally as the on-line payments to the state by way of a payment card¹⁸ and login with electronic signature using a smartphone. The activities are grouped in 4 knowledge areas - "*Better Data*" and "*Better Services*" focus on the improvement of the services provided to individuals and entrepreneurs. "*Shared Services of (Hybrid) Government Cloud*" concentrate on the improvement of efficiency of the public government and the "*Cross-section Activities*" to strengthen e-Government from the perspective of legislation, personal data protection, etc.

The **amendment to the act on eGovernment** was passed in September 2017. The aim of the amendment to the act particularly was the unification of the used tools, simplification of the use of electronic services, and implementation of a mechanism of inspection of compliance with obligations. The amendments include, for example, the introduction of the obligation to use the central electronic filing room, simpler "signature" of electronic applications, institutionalization of the governmental cloud, and introduction of sanctions for violations of the law. The implementation of the central filing system aiming to reduce the administrative burden and introduce inspection mechanisms have had the most significant impact. Central filing system will be mandatory for all state-funded organisations (*rozpočtové organizácie*) from November 2018 latest. Another key measure is the accessibility of the on-line card payments which allows the users of electronic services to pay the administrative, judicial, and other fees.

The draft act on administration in the area of public administration information technologies (ITVS) is in the legislative process. The new legislation brings uniform regulation of the rules in the area of ITVS from the planning and organisation phase until monitoring and assessment.

At the same time, the preparation of methodological guidelines has been initiated within informatization for the projects funded from the state budget and the EU funds. Furthermore, in accordance with the Public Investment Assessment Methodological Framework, all **new IT projects** over EUR 10 million will be reviewed by the MF SR irrespective of the funding source from the value for money perspective.

Transport

The MF SR is gradually reviewing all investment projects over EUR 40 million within the *Value for Money* project within the fulfilment of the tasks from the 2016 **transport spending review**. MF SR published the review of 3 sections of highways¹⁹ totalling EUR 713.8 mil. The expected value of job orders decreased by EUR 228 mil. under unit prices compared to the previous documentation. The **methodology of transport project assessment** (CBA) was **updated** within cooperation with the MF SR.

24.4 km of sections of **motorways and highways**; 7.7 km of new **1st class roads** were built, and 75.3 km of 1st class roads were upgraded in 2017 through co-funding from the OP Integrated Infrastructure (OPII). The upgrade of the Bratislava - Žilina corridor continued in the area of **rail transport**. 17 projects totalling EUR 288 mil. were contracted within OPII in 2017 and EUR 350 mil. were drawn. A tender was announced to select the contractor of Devínska Nová Ves - SK/CZ border railway line upgrade. This project will be funded from the Connecting Europe Facility (CEF).

¹⁸ On-line payments to the state may be used for 26 services from January 2018.

¹⁹ The Value for Money department assessed the sections R2 Mýtňa – Lovinobaňa, R3 Tvrdošín – Nižná nad Oravou and the R4 Northern Bypass of Prešov.

Ministry of Transport and Communication (MTC SR) started to **publish the costs** of the selected key activities of repairs and maintenance of the 1st class roads, motorways and highways on the web sites of SSC and NDS.

Environmental sustainability and energy sector

The **Green Economy Information Platform** was launched in November 2017. The pilot phase of the platform focused on the business sphere. The aim of this initiative is to increase environmental awareness, point out the benefits of doing business in line with the green economy concept, and help understand the significance and use of alternative environmental options.

The **Action Plan to resolve the consequences of draught and water shortage - VALUE OF WATER** was adopted in March 2018. The basic element of the Action Plan includes the programme of measures aiming to reduce the adverse consequences of draught and water shortage on human health, environment, cultural heritage and economic activity. These measures are taken in multiple areas and sectors such as environment, forestry, agriculture, measures in towns and villages.

3 Macroeconomic framework and medium-term forecast

The macroeconomic and fiscal stability is understood by the Slovak Government as the basic condition for healthy development of economy and growth of the quality of life. This chapter contains the basic macroeconomic outlook.

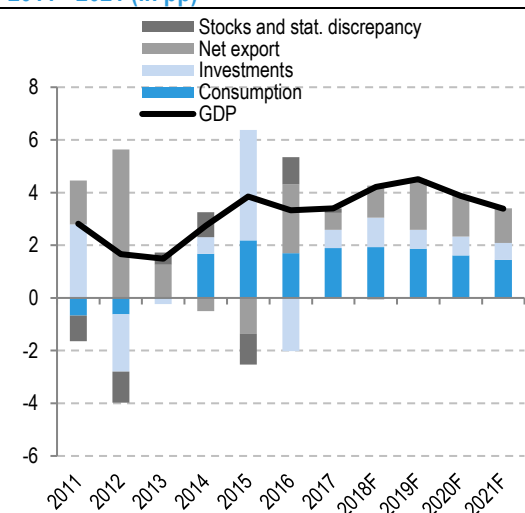
Growth was driven by household consumption and net exports

The Slovak economy grew by 3.4 % last year. The household consumption which reacted to the positive development in the labour market was the main source of growth. The export has been growing more slowly compared to foreign demand fundamentals, which is a consequence of multiple temporary factors, e.g. the life cycle of some car models manufactured in Slovakia coming to end. The investments have been growing slowly under the influence of a strong base effect particularly in the first six months of the year. This effect is connected with the drawing of EU funds in the same period of the previous year. In the second half of the year, the investments gradually started to accelerate, with export joining the acceleration. The government spending had a dampening effect on the economy and stagnated in real terms.

The 2017 was again one of the best years for the labour market. The increase in the number of employed by 51 thousand²⁰ reduced the unemployment rate (according to the LFS methodology)²¹ to the level of 8.1%²². Vacant positions were opened in all sectors of the domestic economy, but most significantly in industry. The growth of the number of foreigners working in Slovakia was record-breaking (increase by 12 thousand); foreigners have filled each fourth of the new job positions. Nominal wages experienced 4.6 % rise. Real wages have grown again by more than 3%, a fourth year in a row!

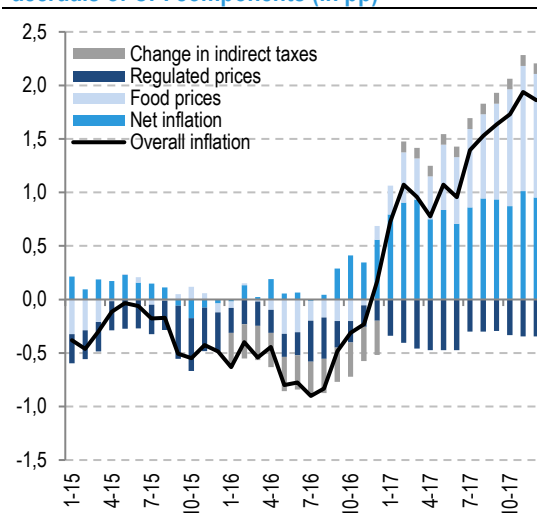
The inflation reached positive figures in the last year after three-years of deflation. The annual inflation reached 1.3% (HICP²³ 1.4 %). Inflation was pushed upward particularly by steep growth of food prices and higher prices of fuels and services. The prices of marketable goods have only been developing moderately which was also supported by the strengthening of the euro. The effect of higher food prices which accelerated particularly at the end of year will be partially transferred to the next period as well. However, the inflation of services that reacts to the steep growth of wages will gradually take the lead.

Figure 3: Contributions to GDP growth in Slovakia, 2011 - 2021 (in pp)



Source: SO SR, MoF SR

Figure 4: Structure of consumer inflation - y/y accruals of CPI components (in pp)



Source: SO SR

²⁰ Based on the national accounts system (ESA).

²¹ LFS methodology (SO SR)

²² Year-long average.

²³ Harmonised index of consumer prices (HICP)

Culmination of the Slovak economy growth in the upcoming year with gradual return to the potential

The economy will accelerate to 4.2% in 2018. The growth will be built on two pillars. The export benefiting from positive prospects of growth in Europe and the beginning of the new production at Volkswagen Slovakia will join the ongoing robust development of household consumption. Investments will accelerate compared to the previous year, this acceleration will also be driven by the investment in the Jaguar Land Rover (JLR) plant and the start of the Bratislava bypass construction. Public spending will only grow slowly which will be dampened by gradual overheating of economy.

Next year, the economy will reach 4.5%. The acceleration will be driven by more dynamic export benefiting from the positive development abroad as well as the start of the JLR plant production. Household consumption will maintain its stable growth over 3 %. Investments will face a moderate slowdown due to completion of larger automotive investments. The positive output gap should culminate in 2019 moderately above the 1% GDP threshold. The economic growth will slow down to 3.9% and 3.4% in 2020 and 2021, respectively. The effect of the beginning of a new automotive production will gradually cool down and also the foreign demand will slow down due to a more restrictive monetary policy and closing of the economic cycle. The household consumption and investments will slow down in line with the long-term potential of the economy. We expect the overheating of economy to gradually slacken at the end of the forecasting horizon.

The labour market will continue to significantly grow in 2018 when the employment rate grows by 1.7%. This will result in more than 40 thousand new job positions (more than half of them in the market services sector). The number of Slovaks working abroad will fall down and, at the same time, there will be more foreigners in the Slovak labour market. In the upcoming years, we expect gradual slowdown of employment growth which will come closer to the growth of potential employment rate at the end of the forecasting horizon. The unemployment rate based on the LFS methodology will thus drop down this year to the level of 7.3% and, at the end of the forecasting horizon, it will get tightly under 6%.

The 2018 price growth will accelerate to 2.0%. The main reason is the acceleration of the demand-pull inflation supported by the wage growth. This acceleration will be joined by the continued influence of higher food prices from the last year's end. However, it should gradually die down throughout the year. The regulated prices will only grow moderately with regard to the development of the prices of energy commodities and the subsequent decision of the regulatory authority. Higher prices of oil will lead to the acceleration of fuel prices. Stronger euro will dampen the growth of prices of marketable goods. The price growth will slightly accelerate in the upcoming years. Higher wages will push the prices upwards especially in the area of services. Based on the development of energy commodity prices in global markets and the development of future contracts, the regulated energy prices are expected to rise in the coming year. Due to convergence of the Slovak economy to the Euro area countries, the inflation will cross the 2.3% threshold in the medium-term horizon.

4 Planned measures in structural topics

This chapter describes the measures that the Government of the Slovak Republic has committed to take in the upcoming period. The measures concern the area of economics and social agenda, as well as public administration. The following table includes the most important planned measures, which respond to individual country specific recommendations of the Council (CSR).

The most important measures planned in the NRP structured by CSR

CSR	Task name	Deadline	Sponsor
1	Legislative regulation of annual clearance of social security contributions	31/12/2018	MLSAF SR
1	Implementation of measures identified in the healthcare spending review	31/12/2018	MH SR
2	Employment services and ALMP focused on disadvantaged groups	31/12/2018	MLSAF SR
2	Development of childcare services for children up to three years of age	31/12/2018	MLSAF SR, MESRS SR, MARD SR
2	Integration of marginalized Roma communities (education, labour market, social inclusion, and other areas)	31/12/2018	MLSAF SR, MESRS SR, MI SR, SGPfRC
2	Higher quality and better support for teachers	31/12/2018	MESRS SR
2	Linking education and labour market needs (dual education)	31/12/2018	MESRS SR
2	Increasing funding of universities and other research institutions through grants	31/12/2018	MESRS SR
2	Reform of accreditation commission and accreditation process	31/12/2018	MESRS SR
3	Packages of measures to decrease the administrative and regulatory burden for businesses	31/12/2018	ME SR
3	Action plan for the implementation of the conclusions and recommendations from the State of the Judiciary Report (CEPEJ 2017)	31/12/2018	MJ SR
3	Resolving the high number of distraints	31/12/2018	MJ SR
3	eGovernment implementation	31/12/2018	ÚPPVII, MJ SR, MF SR,
3	Analytical capacities of the Financial Administration	31/12/2018	FA SR

4.1 Fiscal policy and public finance

To fight tax evasion and improve tax collection, the Financial Administration will implement an internal tax entity reliability assessment procedure. To increase the efficiency of collection of the arrears of taxes, a tax debtor risk assessment system will be implemented. Legislation for annual clearance of social security contributions will be prepared.

The third round of spending review will be implemented with focus on the agriculture, integration of the at-risk-of-poverty-and-social-exclusion groups, and employment and remuneration in public administration. Interim reports will be published in October 2018, and the final reports with measures will be published in March 2019.

The 2016 amendment to the act on budget rules will continue to be implemented in 2018. Main changes include the improvement of comparability of budget data against the reported data. The Ministry of Finance SR will launch testing of spending caps for the public budget in 2019. The institutional framework of the Value for Money project will also continue to be strengthened. Legislative anchoring of the value for money in terms of public spending and big investments as well as the uniform methodology will increase the robustness of the revision process and investment assessment. The ministry will elaborate on a detailed methodology of spending review and its link to the budget process.

Outcome indicators for fiscal policy and public finance

		2008	2009	2010	2011	2012	2013	2014	2015	2016	Target 2020
Long-term sustainability indicator (GAP)²⁴ (% of GDP)	SK	-	9.5	9.2	7	4	1.9	1.4	0.4	-0.1	0
	EU	-	-	-	-	-	-	-	-	-	-
Effectiveness of VAT collection (% of GDP)	SK	62.3	55.5	54.3	54.3	49.8	54.7	57.2	58.1	60.1	-
	EU	69.6	64.1	65.4	66.0	66.0	66.4	67.8	67.2	69.1	-
VAT gap (% of the potential revenue)	SK	31.3	34.9	35.6	38.2	41.0	37.2	32.3	31.6	28.3	-
	EU	-	-	13.5	14.4	15.0	14.8	14.0	12.8	-	-

Fiscal policy strategy is based on the main objective of ensuring effective and sustainable public finances which promote sustainable economic development and improvement of the quality of life in the context of ageing population and by taking into account contingent liabilities. This objective is also stated in the constitutional law on fiscal responsibility which influences the regular update of the public finance management strategy. In accordance with the April 2017 Council for Budget Responsibility Report, the long-term sustainability condition was achieved in 2016 for the first time. This means that the upper threshold of the debt brake set by the constitution (at the level of 50% GDP) should not be exceeded in the long-term horizon while taking the macroeconomic scenario, the demographic trend, and existing policies into consideration.

Reforms of budgetary rules

The MF SR has started to work on spending caps within the public government budget management in 2018. The binding spending caps have been demonstrated by the international practice to be one of the best operative instruments for public government budget planning and compliance. Their implementation is presupposed by the constitutional law on fiscal responsibility. In the initial phase, the MF SR will prepare spending cap simulations based on budget data. The evaluation of individual simulations should then be used as a background for decision-making process concerning the shape of implementation of spending caps in future. The first true testing within budget setting and budget compliance monitoring will take place in 2019 (more detailed information in the Stability Programme of the Slovak Republic for 2018-2021).

²⁴ Data is available for Slovakia only.

The 2016 amendment to the act on budget rules will continue to be implemented also in 2018. Approving the Act of the National Slovak Council in October 2016, the acts regarding budget rules applicable to the public administration and local government have been amended. Some of the initiated changes entered into force as early as in January 2017, while other parts of the amendment act will enter into force in 2018 or in 2019. The main changes valid from January 2018 include amendments relating to the **planning of all budget revenues and expenditures including separate accounts**. The budget is now prepared by planning revenues and expenditures in all accounts of a state-funded organisation (*rozpočtová organizácia*). The aim of the process is to make the budget data more comparable against the actually reported data.

Expenditure efficiency

While applying the **Value for Money initiative**, the government will continue in a regular and systematic evaluation of public spending effectiveness within the budget planning process. The conclusions of individual reviews will form a part of the general government budget and proposal of the budget plan.

The first round of spending review focused on health service, transport, and informatization which represent approximately 8.6% of GDP. The review identified potential measures corresponding approximately to 9% of the total revised spending on health service or informatization. The public administration budget for 2017-2019 includes measures in health service amounting to EUR 174 million (corresponding to 3.9% of health spending).

The second round of spending review assessed the labour market and the social system, education, and the environment. Final reports were published in June 2017. The spending reviewed amounted to 7.3% GDP. The value of identified measures totalled EUR 277 million. This figure comprises EUR 88 mil. within education, EUR 59 mil. within labour market policies and social policies, and EUR 130 mil. within the environment. Higher teacher wages, reform of research funding and accreditation process, and collection of relevant information will give higher value to the education. More efficient operations, particularly in the Slovak Water Management Company, and higher dumping fees reduce the expenditures in the area of environment. The value will be increased by the dampened generation of electricity from coal, prioritization of flood protection measures, and connection of more citizens to the waste water treatment plants. In the area of labour market and social affairs, the identified measures include improved targeting of family benefits, annual clearance of social security contributions, and lower cost and appreciation of funds in the second and third pillar.

The third round of spending review focuses on the agriculture, integration of the at-risk-of-poverty-and-social-exclusion groups, and employment and remuneration in public administration. Interim reports will be published in October 2018, and the final reports with measures will be published in March 2019. The review results will be incorporated into the public government budget for 2020-2022. At the same time, the investments in IT amounting to more than EUR 230 million and transport investments amounting to nearly EUR 8 billion are being reviewed.

The reviews in the first two years covered expenditures amounting to 15.2% GDP, including IT expenditures also in the non-reviewed chapters of the state budget. 5.9% of GDP remained non-reviewed, and currently reviewed is the Ministry of Agriculture. Other actual reviews are cross-sectional and focus on several sectors of public government.

The institutions will continue to be strengthened by the improvement of processes and methodologies. The spending reviews and the role of the MF SR in reviewing public investments will be strengthened and embedded in legislation, and a detailed methodology will be prepared for the preparation of future spending reviews. The uniform investment methodology ensures comparability of contributions of investment projects, and the methodological instruction of the MF SR on the investments details the process and role of the MF SR. These documents will be followed up by more detailed investment methodologies in all sectors (in the manner of the transport methodology).

Efficiency of tax collection

Fight against tax evasion and the positive trend of VAT collection continue. This is also supported by the decrease in the VAT gap which fell from 41 % to 28.3 % from 2012 to 2016. Based on preliminary estimates, the MF SR expects continued decrease in the VAT collection gap in 2017. The growing trend of VAT collection success is also confirmed by the growth of the effective VAT rate²⁵. This rate grew to 15.8% in the fourth quarter 2017, which corresponds to the level achieved in the second quarter 2005. The effective corporate income tax rate has been growing rapidly in recent years, which may be, in addition to the procyclical nature of this tax, attributed to the VAT measures which also translate into the corporate income tax revenues and the corporate income tax yield.

Figure 5: Effective VAT tax rate (%)

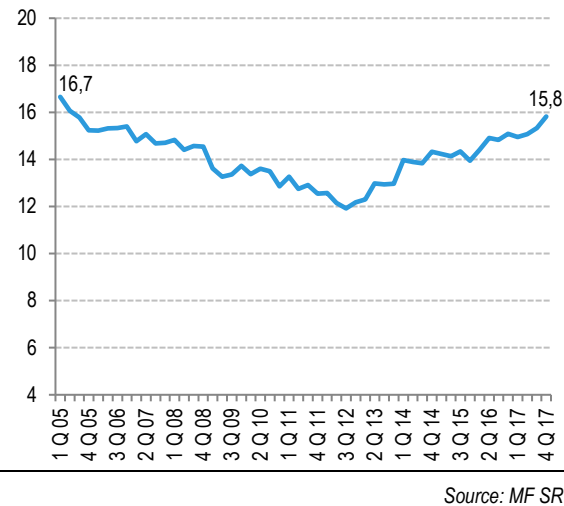
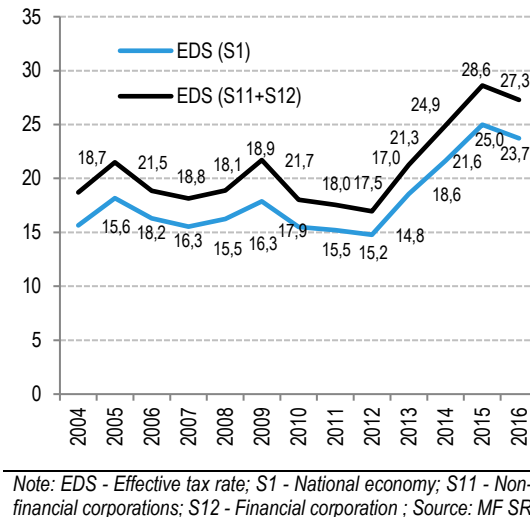


Figure 6: Effective corporate income tax rate (%), tax collected from the net operational surplus



In addition to VAT, efforts also focus on the excise taxes, which is an area where multiple measures have been also taken in order to restrict the space for optimisation or to generally fight excise tax evasions. The updated mineral oil tax gap shows that the tax gap has been stabilised in recent years. The tax gap narrowed a bit in 2016; at that time its estimate ranged from 17.2 % to 20.5 % of the potential revenue from this tax (corresponding to EUR 247 to 305 million).

Within implementation of the reform plans, the Financial Administration SR continues in the **fight against tax frauds** through the implementation of the measures from the approved third **Action Plan to fight against tax fraud for 2017 – 2018** ([approved by the Government in April 2017](#)).

The proposed measures relating to the Financial Administration include the introduction of the **internal assessment of tax entity reliability (tax reliability index)**. This index will assess the tax entity based on the tax entity's compliance with the obligations in relation to the Financial Authority, and should be of a motivational and preventive nature. The primary objective of this measure is also the support of voluntary compliance with tax liabilities and increased legal certainty in business relations. The secondary effect of this measure should lie in helping the tax entities which meet their liabilities to the state budget and Financial Administration improve their standing and avoid any possible unintentional engagement in fraud committed by other tax entities.

In order to restrict immediate tax evasions connected with the sale of goods and provision of services, the obligation will be introduced for selected services to keep records of receipts by way of the **electronic cash register** or by way of the **virtual cash register** connected on-line to the Financial Administration.

²⁵ The effective tax rate is calculated as a ratio of tax collection to the relevant macroeconomic base. In the case of VAT, the base comprises consumption of households, investments, and the intermediate consumption of the government.

In cooperation with other general government departments, an **interdepartmental analytical center (JACK) dealing with financial crime and tax evasion** will be set up by the end of 2018. The aim is to improve the cooperation between the Financial Administration and the Police including collection of all available information. The aim is to eliminate breach of tax obligations and to prevent further arrears, as well as to eliminate duplicate checks by state authorities. The analytical part is currently being developed for the area of customs frauds in order to automate the identification of individual customs risks. The solution will allow targeted focus of the inspection activity and thereby reduce the burden for economic entities which duly meet their customs obligations at the time of customs proceeding or after the goods have been released to the proposed customs procedure.

Another goal of the Financial Authority is to continue using the **soft warning** institute in the sense of "soft, moderate warning" for the FA client to remind the client of his obligations while stating the legal consequences of the failure to meet such obligations. The aim of this measure is to achieve the cooperation of the FA SR's clients in their compliance with obligations which have not been met in a proper and timely manner, and thus, support the voluntary compliance with the tax liabilities by the FA SR's clients on their own.

Information systems for the automatic exchange of information on financial accounts are being prepared. Information system modifications are being made, which will give the Financial Administration information on the revenue of Slovak residents on financial accounts held abroad.

Annual clearance of social security contributions

A legislation to **implement the annual clearance of social security contribution** will be adopted by the end of 2018 **as an effective instrument to prevent optimisation of contributions by entities**²⁶. This should decrease the motivation to report high remunerations in one month which should lead to a fairer tax wedge on labour and higher government revenue.

²⁶ The sponsor is the MLSAF SR in cooperation with the Social Insurance Company and the MF SR.

4.2 Education, science, and innovations

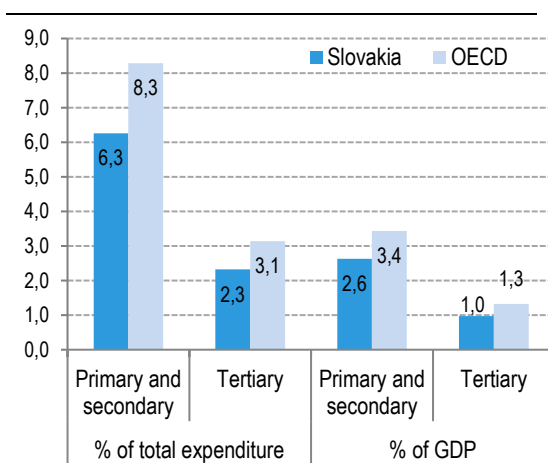
The department of education will take measures identified in the education spending review carried out in 2017. The attractiveness of teaching profession continues to be increased mainly through increasing the teachers' pay in accordance with the Manifesto of the Government of the SR. The relationship between teachers' pay and quality will be improved. The amendment act will motivate more schools and employers to join the dual educational system. With respect to tertiary education, the accreditation commission and the accreditation process will be reformed, the internal management of universities will be modified, and the professional study programs of universities will ensure better relationship between education and the labour market. The renovation of university dormitories will be supported in 2018 and 2019.

Outcome indicators for education, science and innovation

		2009	2010	2011	2012	2013	2014	2015	2016	Target 2020
PISA (average score)	SK	488	-	-	472	-	-	463	-	505
	OECD	497	-	-	497	-	-	492	-	-
School drop-out rate (% of population aged 18 - 24)	SK	4.9	4.7	5.1	5.3	6.4	6.7	6.9	7.4	6
	EU	14.2	13.9	13.4	12.7	11.9	11.2	11	10.7	10
Citations (%, 100 = EU average)	SK	35	34	35	45	47	44	50	55	70
	EU	-	-	-	-	-	-	-	-	-
Tertiary education attainment (% of population aged 30 - 34)	SK	17.6	22.1	23.2	23.7	26.9	26.9	28.2	31.5	40
	EU	32.3	33.8	34.8	36	37.1	37.9	38.7	39.1	40
Expenditure on R&D (% of GDP)	SK	0.47	0.62	0.67	0.81	0.83	0.89	1.18	0.79	1.2
	EU	1.94	1.93	1.97	2.01	2.03	2.04	2.03	2.03	3
High-tech export (% of total export)	SK	5.9	6.6	6.6	8.2	9.5	9.7	9.8	-	14
	EU	17.1	16.1	15.4	15.7	15.3	15.7	17	-	-

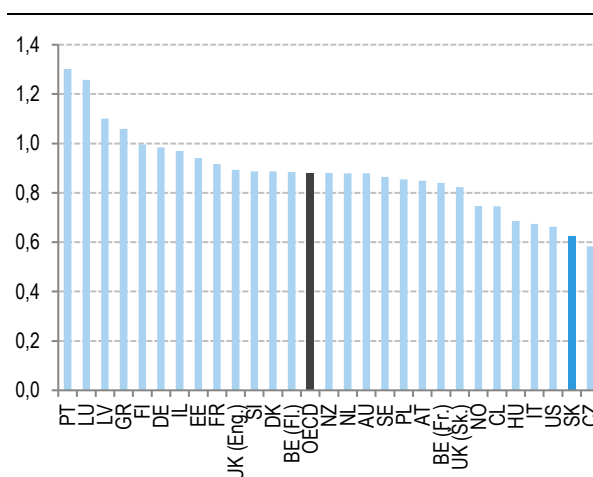
Compared to developed countries, expenditure on education is below average, with the largest gap in primary and secondary education. The total expenditures on science and research grew in 2015 on a one-off basis to 1.2% of GDP due to EU fund drawing, but returned back to the level of 0.8% of GDP in 2016 mainly due to insufficient drawing of the funds from the OP Research and Innovations. The goal of the Europe 2020 strategy is 1.2% of GDP. The wages of teachers are one of the lowest in the OECD even though the difference was reduced by teachers' pay increases in 2016 and 2017.

Figure 7: Expenditure on education, 2014



Source: OECD (Education at a Glance 2017, Fig. B4.1)

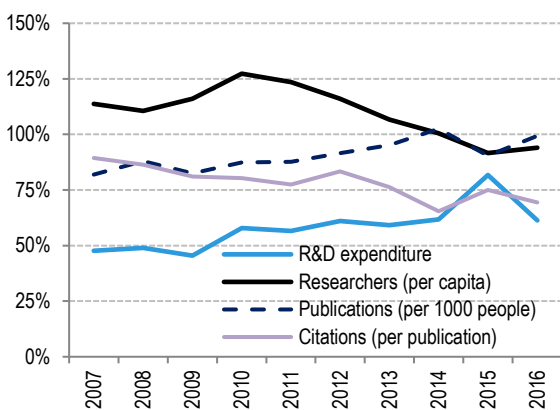
Figure 8: Wages of primary school teachers as a ratio of average wage of employees with tertiary education (2015)



Source: OECD (Education at a Glance 2017, Fig. D3.2)

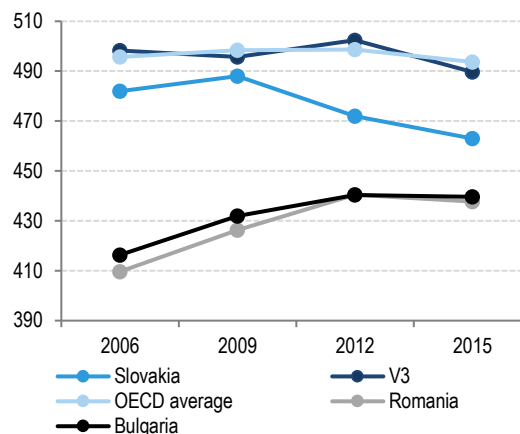
Higher expenditures on research and development from the EU funds from the program period 2007-2013 were invested mainly in the infrastructure, instruments, and equipment. They have not been reflected in results yet. The falling number of researchers produced slightly more publications with mildly lower citation; the citation index has been falling on a long-term basis and is 25% under the V3 average. The high-tech export has seen a moderate increase, but is significantly lower than the EU average and far from the national objective of the Europe 2020 strategy.

Figure 9: Inputs and outputs of R&D as a percentage of V3 average



Source: Eurostat (rd_e_gerdsc), (rd_p_persocc), (nama_10_pe), OECD Scimago Journal Rank

Figure 10: PISA testing results (average score)



Source: PISA 2015, OECD

The quality of tertiary education remains to be priority, but the legislative process related to the acts reforming the accreditation commission, the accreditation process, and the creative work assessment and funding was interrupted. The proceeding initiated in 2015 by the European Commission against Slovakia for the systematic discrimination and segregation of Roma children in education continues²⁷. The change in the area of continuous education of pedagogical and professional employees seems to be in contradiction to the recommendation of the educational spending review. Instead of terminating increases in pay for obtaining educational credits within the continuous education scheme, the time validity of credits (7 years) was revoked. This way, the pay increase for obtained educational credits is fixed for an indefinite period of time and²⁸, moreover, without the need of continued education.

National Program for Development of Upbringing and Education (NPDUE)

The final version of the document [Learning Slovakia](#) which formulates the proposals of substantial systematic changes and objectives to tackle challenges of the Slovak educational system was published in November 2017. The material will constitute the background for the **National Program for Development of Upbringing and Education**. This document will also contain the long-term concept of the upbringing and education content and will cover long-term plans and objectives of the Slovak Republic in the area of upbringing and education for the period of 10 years. The document will be presented to the Government SR for discussion and will also contain action plans and estimates of expenditures on individual measures. The first action plan will be prepared for the academic year 2018/2019.

Spending review within the Value for Money Project

The educational spending review was carried out in 2017. With respect to regional school system, the revision focused particularly on the optimisation of primary school network, increasing the attractiveness of teacher's profession including the remuneration system and, regarding the tertiary education, it focused particularly on the accreditation process, funding and assessment of the university research results. The Department of Education will be implementing a part of measures defined in the final spending review report

²⁷ [Amnesty International Report 2017/2018](#)

²⁸ <https://www.minedu.sk/data/att/12686.pdf>

in 2018 and 2019. The measures with a longer horizon of implementation contain: rationalization of the primary school network, increase in the average salaries of pedagogical and professional employees and university teachers, introduction of the so-called *informed peer review* of the creative work of universities, and membership of the reformed accreditation authority in ENQA.

4.2.1 Regional education

Higher quality and better support for teachers

Wage rates of teaching and professional employees in regional education will be increased in accordance with the Manifesto of the Slovak Government, which should help increase the **attractiveness of teaching profession**. Effective as of January 2019, the number of years of experience of pedagogical employees will start to be reflected in the allocation of funds to schools for personal expenses which will more accurately reflect the cost of schools. Within the planned increases in wages, discussion will be held with regard to the support of a faster growth in salary rates for teachers in the beginning of their career in order to increase the attractiveness of teaching profession.

The **conditions for improving the relationship between compensation and quality of pedagogical and professional employees** will be included within the act on pedagogical employees which is being prepared. Changes will be prepared with regard to attestations which should better differentiate between levels of professional skills when pedagogical and professional employees are promoted to a higher career level that is connected with a higher pay.

The **accreditation process** will be implemented **for the providers of continuous education** based on their results. Changes will be made in the content of training and assessment of pedagogical employees and professional employees in leading positions.

Linking education and labour market needs

The methodological approach to the **regulation of high schools** will be unified and objectified **depending on needs of the labour market**. Binding criteria will be created for the determination of the highest possible number of freshmen students in high schools and vocational schools in the territorial jurisdiction of self-governing regions.

Only less than **4 % of secondary vocational school freshmen students** have joined **dual education** in the third year of its existence. Schools are discouraged from joining the programme by reduced financial transfers. The upcoming amendment act on professional education will support the entrance of small and medium enterprises into the dual educational system, simplify the verification and the assessment of eligibility of employers to provide practical education, and will introduce option to undergo practical education outside employer's facilities. Financial incentives have been proposed to motivate employers more effectively to join the system. The proposal also counts with the removal of financial barriers of vocational schools that currently discourage them from joining the system.

In order to cover activities and content of **career counselling for students**, a specific category of career counsellor as a professional employee will be introduced.

To ensure more objective monitoring of graduate placements in the labour market, it is necessary to allow, through legislative regulation, the connection of the administrative database of the Social Insurance Company of the SR and the data of the MESRS SR. The monitoring and assessment of graduate placements in the labour market based on administrative data is essential. The data will be used for improvement of decision-making processes (regulation, creation of educational policies) and for reduction of informational asymmetry in the decision-making by prospective students of secondary schools and university studies.

The MESRS SR plans to launch a project with the European Centre for the Development of Vocational Training (CEDEFOP) concerning the vocational preparation scheme in Slovakia. The objective of the project is to assess the vocational education schemes within formal and informal education, set the management

coordination system, connection between the initial and continued vocational education, and examples of best practices from abroad.

Inclusive education

Improvement of inclusion of students from socially disadvantaged backgrounds remains to be a priority. The national project *School open for all* with the allocation of EUR 25 million from the ESF and the call *More successful at primary school* with the allocation of EUR 50 million from ESF will continue to be implemented. Their joint objective is to increase inclusiveness and equal access to high-quality education and improve the results and skills of children and students from disadvantaged backgrounds or the MRC and of students with disability.

The department of education will hold a discussion in 2018 with experts on a more transparent, objective, and fair process of allocation of funds for teacher assistants for students with disability. Its implementation in the form of legislation will then follow.

The **system of pedagogical and psychological**, and of **special pedagogical counselling** is planned to be made more effective and of higher quality. Conditions will be amended for inclusion of non-state counselling facilities into the network so as to harmonise the supply of provided services with the demand in individual cities and regions. In order to include a non-state facility into the network, an opinion of the county authority in the city of the region will be required. This will be followed by the discussion on possible regulation of the state and non-state facilities funding system.

In order to prevent **unwanted motivations in the diagnostics of special education needs of students**, the SPCC²⁹ will have to be independent from special schools; these will be established as two separate entities. The state and private PPCP³⁰ and the SPCC will also follow the uniform methodological guidance from the Research Institute for Child Psychology and Pathopsychology (VÚDPaP).

Support of education of national minorities

Education of students in their mother tongue will be supported. Effective as of January 2018, financial transfer to schools was increased for primary school students who learn a minority language or are educated in a minority language. The changed methodology of the Slovak language classes in minority schools will be supported in order to achieve that students master Slovak better.

4.2.2 Tertiary schools

Reform of accreditation commission and accreditation process

The draft acts focusing on the **reform of the Accreditation Commission**³¹ and the **accreditation process** were presented in April 2017. The draft acts transformed the institutional standing of the Accreditation Commission from the advisory body of the Slovak Government to a separate independent agency, put emphasis on the implementation of standards and recommendations of the ESG 2015, and replaced the accreditation of the study programme with institutional accreditation. The legislative process was interrupted in 2017, both draft acts were re-submitted to the Legislative Council of the Slovak Government and to the Slovak Government for debate in April 2018.

Higher education quality and accessibility

The salaries of university teachers will be increased as well in line with the Manifesto of the Slovak Government. Drafts **regulating the internal management of public universities** will be submitted for expert debate. The drafts will be prepared based on the counselling process in cooperation with the European Commission and inspired by examples of best practices in the selected Member States. The counselling will

²⁹ Special-pedagogical counselling centre

³⁰ Pedagogical and psychological counselling and prevention centre

³¹ The reformed accreditation commission will be called *Slovak Accreditation Agency for Higher Education*.

take place within the so-called *Peer Counselling* process which is an instrument of the European Commission designed to assist the Member States in the development and implementation of new policies.

Separate accreditation criteria were approved in support of the creation of **professionally oriented bachelor study programmes**. The option to support these study programmes using EU structural and investment funds will be assessed³². The department of education will also continue discussion about the desirable degree composition of university graduates and the available instruments to achieve such composition with possible connection to financing.

Lifelong learning

The national project *Qualification Recognition System* being prepared will support the system of validation of the formal education and informal learning results. The aim is to accelerate and simplify the road to acquisition of qualification for those individuals who already possess given skills.

The National Lifelong Learning Institute (NÚCV) will be gradually dissolved as a result of optimisation of directly controlled organisations of the ministry and its agenda will be transferred to the ministry itself.

4.2.3 Research and development

Support of science, research, and innovation

Support for targeted research will be increased through the Operating Programme Research and Innovations (OP R&I); this support should connect businesses, academia and universities.

State programmes will be launched for the research and development for the period 2018-2020 with the outlook until 2028 based on the Implementation Plan RIS3 and its domains. A registry of public research institutions will be established.

International cooperation

More intensive support will go for internships at European and international research infrastructures in which Slovakia is engaged. Joint international research projects and the creation of own research teams will be supported through the Research and Development Agency.

International networking of national platforms developed by the academic, research and economic entities into the European structures will be supported. Participation in research infrastructures within the ESFRI will be particularly developed. The potential of research parks and research centres of universities built using the EU structural and investment funds will be used in developing the platforms.

Cooperation within the EU

Slovakia's participation in building of the European research area will intensify mainly through the introduction of measures to support the participation of Slovak entities in the EU's framework programmes for research and innovations and in other European grant schemes.

³² The counselling within the so-called *Peer Counselling* process which is an instrument of the European Commission designed to assist the Member States in the development and implementation of new policies was initiated in March 2018.

4.3 Employment, pension scheme, and social inclusion

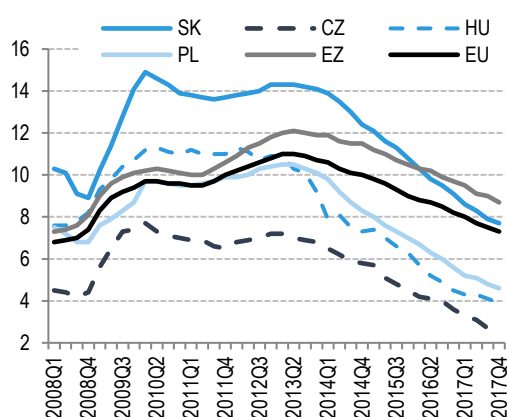
In 2017, 51 thousand of new job positions were created, and the unemployment rate dropped to lowest level since 1993. In the fourth quarter of 2017, it reached the level of 7.7 %. The measures to integrate the target group of long-term unemployed will continue to be implemented. Requalification and education of employees and JS based on requirements of employers in the selected industries. Expansion of childcare facilities for children up to three years of age will be supported. New project calls for the support of integration of people from MRC will be announced throughout 2018.

Outcome indicators for employment, pension scheme and social inclusion

		2009	2010	2011	2012	2013	2014	2015	2016	2017	Target 2020
Long-term unemployment rate (% of active population aged at least 15)	SK	6.5	9.2	9.2	9.4	10.0	9.3	7.6	5.8	5.1	3.0
	EU	2.9	3.8	4.1	4.6	5.1	5.0	4.5	4.0	3.4	-
Employment rate (% of population aged 20 - 64)	SK	66.4	64.6	65.0	65.1	65.0	65.9	67.7	69.8	71.1	72.0
	EU	69	68.6	68.6	68.4	68.4	69.2	70.1	71.1	72.2	75.0
Population at risk of poverty and social exclusion (% of population)	SK	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1	-	17.2
	EU	23.3	23.7	24.3	24.7	24.6	24.4	23.8	23.5	-	19.4
Benefit ratio (average pension benefit, % of average salary)	SK	-	43.7	-	-	45.7	-	-	46.6	-	-
	EU	-	41.4	-	-	44.0	-	-	43.5	-	-

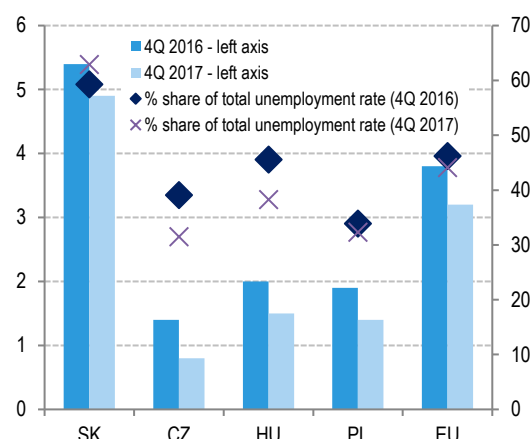
51 thousand job positions³³ were created in 2017. Workers from abroad occupied each fourth of the new job positions. The unemployment rate reaches the lowest figures since 1993. The seasonally adjusted overall unemployment rate fell down in the fourth quarter 2017 to 7.7 %, the best figure in the history of the Slovak Republic. Nevertheless, it remains well above the V3 average. In spite of the current positive development, the labour market remains to be the main challenge and priority of structural policies.

Figure 11: Quarterly unemployment rate (% active population, seasonally adjusted data, LFS)



Source: Eurostat (une_rt_q), SO SR

Figure 12: Long-term unemployment (% active population, seasonally adjusted data, LFS)



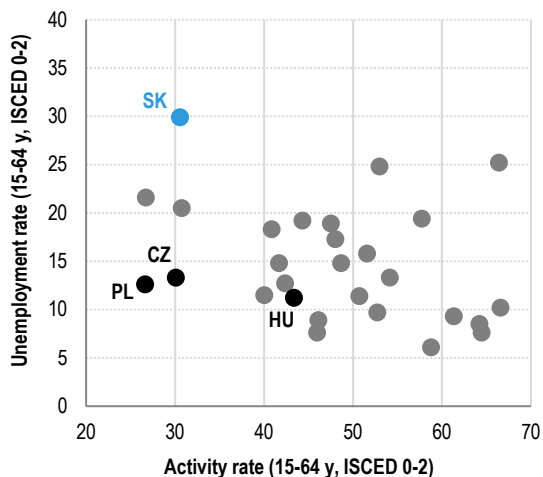
Source: Eurostat (une_ltu_q), SO SR

The long-term unemployment rate fell year-on-year in the fourth quarter 2017 to 4.9% from 5.4%. However, the ratio of long-term unemployed to the total number of unemployed remained unchanged and reaches the

³³ Based on the national accounts system (ESA).

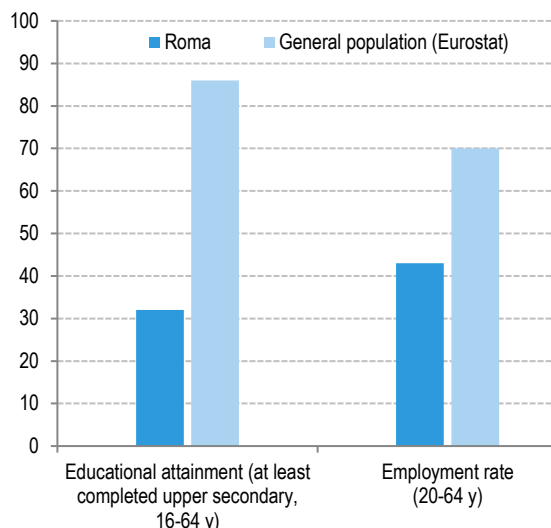
second highest value within the EU countries (62.9%), which is well above the V3 and EU average (34% and 44.1%, respectively). Long-term unemployment is also closely related to the qualification of the unemployed. Only 32% of Roma population completes secondary and higher education. Poor qualification is a significant barrier in the labour market for the Roma population. As a consequence the employment rate of Roma significantly lags behind the employment rate of the entire population³⁴.

Figure 13: Low-skilled workforce in the labour market (% , 2017)



Source: Eurostat (lfsa_argaed), SO SR

Figure 14: Education and labour market outcomes of Roma in Slovakia (2016)



Source: FRA, EU-MIDIS II (2016), Eurostat

The differences in the employment rates between men and women in Slovakia are most noticeable during the years of care for a child aged 6 or less, and reaches as much as 45.2 p. p. (42.7% for women and 87.3% for men aged 15 to 64 years), while the difference in the EU countries is well below that figure on average (only 26.8% p. p.). The differences decrease with children getting older. The average difference in the gender-related employment rate in the EU countries during the years of care for children aged 6 to 11 years is already higher than in Slovakia (15.3 p. p. compared to 9.6 p. p.) and the gender-related difference in the case of children aged 12 or more years in Slovakia is only 2.3 p. p. (compared to the EU's 9.8 p. p.). The employment rate of childless women aged 25 to 54 years in Slovakia is similar to the employment rate of men (82.0%) and is higher than the employment rate of childless women in the EU countries (76.6%).

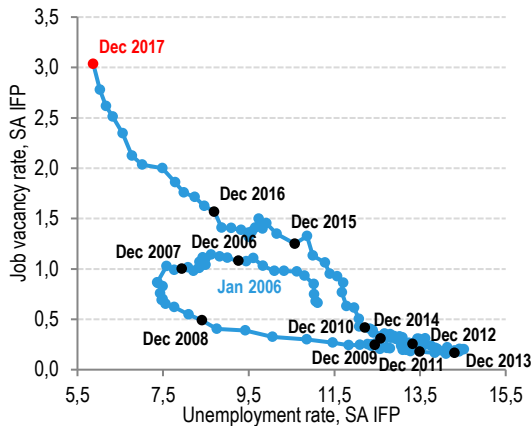
At-risk-of-poverty or at-risk-of-social-exclusion rate is under the EU average in Slovakia reaching the level of 18.1%, while the average figure for the entire EU was 23.5% in 2016. The national objective is currently met to the extent of approx. 95% and the most recent survey revealed that 161 thousand of people managed to escape the risk of poverty or the risk of social exclusion.

A new challenge in the labour market in several districts and industries may result from the **shortage of qualified workers**. With the unemployment rate reaching record low, employers in some regions and industries may expect issues when hiring qualified workforce and pressures on faster salary growth. The number of vacancies advertised by labour offices reaches highest figures in history while the unemployment is falling down. Based on the conjunctural analysis of industry, the lack of workers was identified as a restricting factor of production by the largest number of employers in history³⁵.

³⁴ [Second European Union Minorities and Discrimination Survey - Main results](#)

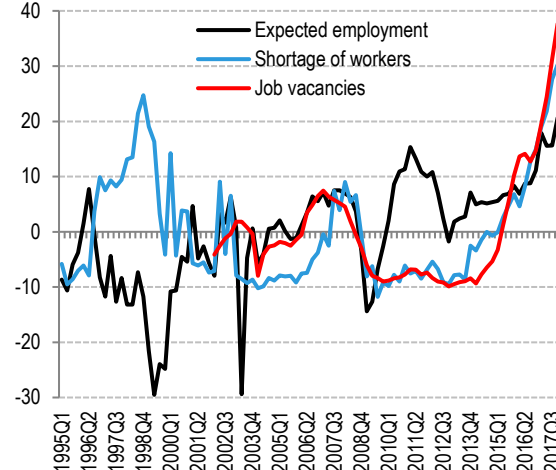
³⁵ [Conjunctural analysis of industry \(SO SR, January 2018\)](#)

Figure 15: Relationship between unemployment and the job vacancy rate in time (Beveridge curve)



Source: IFP based on the data of the Office of Labour, Social Affairs, and Family

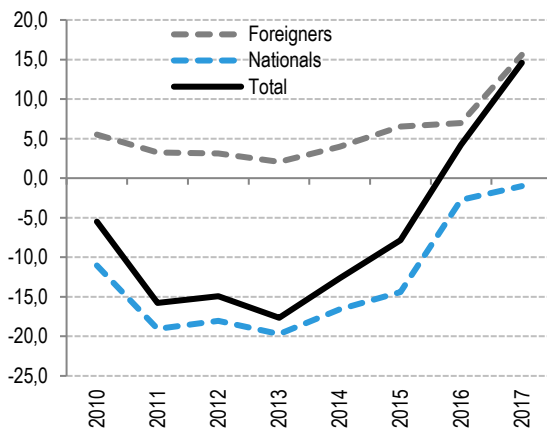
Figure 16: Indicators of labour market overheating (normalized in %)³⁶



Source: IFP based on the data of the SO SR, and of the Office of Labour, Social Affairs, and Family

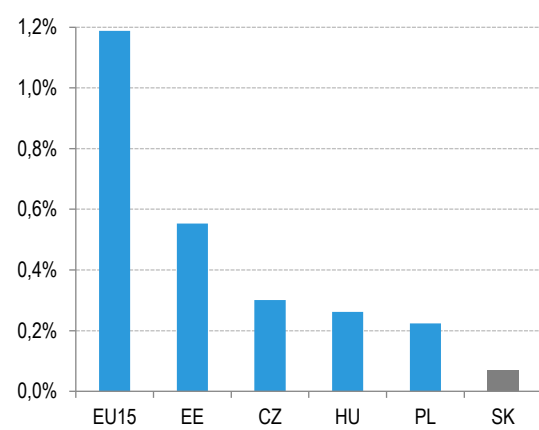
Shortage of labour force started to be moderately compensated by positive migration. Based on the public health insurance data in Slovakia, there were more individuals being newly registered for the public health insurance than deregistered in 2016. The crisis year 2009 was the lastly observed year when positive migration balance was reported. Both the number of Slovaks coming back and foreigners immigrating to Slovakia has been growing. However, the number of foreigners immigrating to Slovakia is far lower than in the EU and the V3 countries. Foreigners mainly come to the regions facing shortage of labour force, revealing the insufficient mobility of the domestic labour force.

Figure 17: Migration balance by country origin (thousands of persons)³⁷



Source: IFP based on CRI and Population Registry

Figure 18: Percentage of immigrants in population for the selected OECD countries (% , 2015)



Source: OECD

Sufficient mobility of employees in the labour market helps workers find better employment and supports more efficient allocation of labour force between companies. International comparison reveals that Slovaks migrate to find work much less than in the neighbouring EU countries.

The public housing market is underdeveloped in Slovakia. Compared to the EU countries, the percentage of apartments owned by citizens is above the average in Slovakia. On the contrary, the percentage of apartments subject to regulated rent is one of the lowest in the EU (only 1.6%, EU average

³⁶ IFP's policy brief: Na trhu práce bude horúco (February 2018)

³⁷ The 2017 data represents an expert estimate based on the data for the period ended 30/09/2017 and expects that the 2017 development dynamics also continued in the last quarter.

was 10.8% in 2016). Also the percentage of apartments subject to the market rent is below the average in Slovakia (8.9% vs. 19.9% in the EU). The shortage of public housing is one of the factors which may have a negative impact on the insufficient mobility in the labour market.

4.3.1 Employment

Public employment services and integration of long-term unemployed

Reviews of the expenditures on the labour market policies³⁸ identified long-term unemployed as the priority target group of JS for the public employment services. The public employment services and the ALMP will continue to move towards greater integration of long-term unemployed JS in 2018. This should be achieved by means of **complex personalized services** - provision of specialized counselling, identification of skills of disadvantaged JS, continued implementation of the new profiling system, and provision of targeted programmes of requalification and professional preparation proposed by employers based on requirements of the regional labour market.

Shortage of labour force

The national project "*With sector-specific innovations towards more efficient labour market in Slovakia*" represents a system-based preventive measure of joint interest of all social partners which should also contribute to resolving current shortage of qualified labour force. **A coordinated development of sector-specific strategy of employment** which is able to react to economic changes, technological development and innovations in individual industries will be supported taking into consideration the need to provide for the qualified labour force. The identification of skills in the labour market and demand for qualified labour force in selected industries is expected to improve. Also the impacts of the Smart industry for Slovakia (Industry 4.0) and of the digital transformation on employment rate, occupations, job positions, labour forms, etc. will be equally identified.

The emerging and disappearing job positions will be identified within the national project "*Labour market development prognoses in the Slovak Republic II*" and the requirements for qualified labour force will be forecasted in Slovakia both from the quantitative and the qualitative points of view.

In cooperation with employers, financial support will promote **trainings and specialized professional preparation (the so-called in-company training)** of their own employees or the hired JS. The aim is to improve skills in the industries reporting greatest demand for qualified labour force. The overall financial allocation on this project amounts to EUR 10 million in 2018.

Mobility in the labour market³⁹

Effective as of May 2018, more attractive conditions for eligibility for the **commuting allowance** and the **labour mobility allowance** will be implemented. These will cover the increase in the maximum monthly allowances, provision of the commuting allowance irrespective of the means of transport to employment, or extension of its provision for disadvantaged JS.

The **relocation allowance** will be re-implemented. This allowance is intended to cover the costs related to relocation to a new place of permanent residence within the country.

Effective as of May 2018, the amendment act on the public employment services **also simplifies the conditions for employment of the nationals of third countries in selected professions** which are proved to suffer from the shortage of qualified labour force and in districts reporting the average registered unemployment rate lower than 5%.

³⁸ [Pilot study of the review of expenditures on public employment services](#) (October 2016) and [Labour Market and Social Policies spending review](#) (July 2017).

³⁹ The Government passed amendments in January 2018 with the effective date of May 2018 in order to support mobility of employees in the labour market.

Reducing regional disparities

Multiple project plans to support business, social economy, link between the labour market and school specialisations, and to increase the attractiveness of a location have been implemented in a short-term and mid-term horizon in order to increase the employment. The support of regional development by way of engaging local stakeholders and the use of local sources is the priority.

Several tools will be prepared in 2018 and 2019 to **decrease the excess of demand in the labour market** and to **strengthen capacities for the regional development management**.

Support of employment of mothers with children

The new legislation framework (the so-called nursery law⁴⁰) will allow for the improvement of the availability of quality, sustainable and affordable **childcare facilities for children up to three years of age**. Construction of 90 childcare facilities with a capacity of 1,800 children with a financial allocation of EUR 40.2 million is expected within the IROP and the OP Human Resources in 2017-2020. Calls will be announced in the first half 2018.

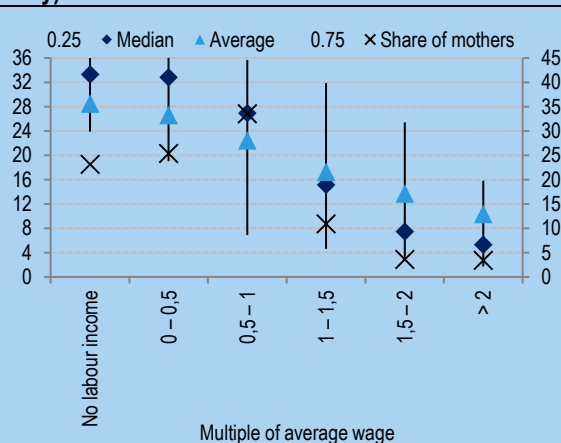
Box 1: Employment rate of mothers in Slovakia

Higher income, higher education, and longer work experience have a positive impact on the probability of employment during parental leave⁴¹. The probability of employment of mothers is 10 to 50 p. p. higher during parental leave compared to mothers with no or low previous income. Approximately a half of mothers found employment during or one year after the period of parental leave.

Mothers with higher labour income prior to childbirth spend on average less time on parental leave than mothers with no or low income. Out of the three years, mothers with higher than average income stay at home with their children less than 16 months. Mothers with no or low income stay at home for as many as 26 months. At the same time, the duration of parental leave of as many as one half of mothers reaches more than 30 months.

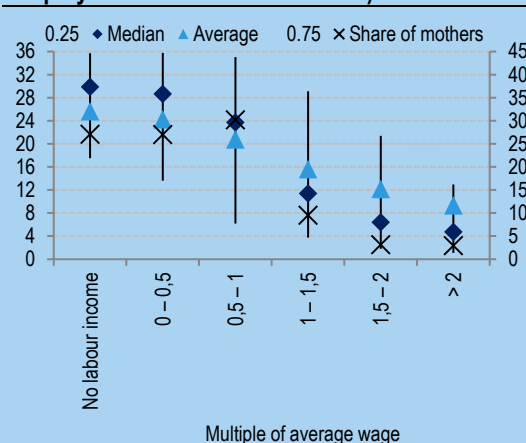
Flexible work arrangements such as contractual work may help speed up mother's decision to (re) enter the labour market. If only permanent employment is taken into consideration, a half of all women stay at a parental leave more than 29 months. If we also take the contractual work into account, the median of the parental leave duration falls down to 26 months.

Figure 19: Entrance or return to the labour market after childbirth in months (permanent employment only)



Source: IFP based on data of SIA and Population Registry

Figure 20: Entrance or return to the labour market after childbirth in months (permanent employment and contractual work)



Source: IFP based on data of SIA and Population Registry

⁴⁰ Act No. 448/2008 Coll. on social services.

⁴¹ The concept of *parental leave* means a work leave after the birth of a child which normally takes three years. At the same time, the state provides a *parental benefit* (after the *maternity benefit*) which is also granted to mothers who were not employed before the child was born.

Note: The lower end of the line segment (0.25 in the legend) represents 25th percentile, the upper end of the line segment (0.75 in the legend) represents 75th percentile in the relevant income group.

Chance to find employment during the three-year parental leave is lower for lone mothers and mothers with multiple births. Both factors represent objective barriers for employment and may also be related to the shortage of affordable formal childcare. On the contrary, the **help of grandparents in childcare** as a substitute for the formal care has a positive impact on the mother's opportunity to enter or return to the labour market.

4.3.2 Pension scheme

Spending review

The labour market policies and the social policies spending review approved by the Government in October 2017 also proposes multiple measures to increase the efficiency of the pension saving schemes. All these measures may help contribute to higher pensions of savers in future and, consequently, to lower dependency on the first pillar which remains under strong influence of population ageing. Based on the population ageing report, which is currently being prepared, the expenditures on pensions will grow by 1.2 p. p. until 2070 and the replacement rate (average pension benefit to the average wage in economy) will drop by nearly 10 p. p. Each measure which increases the replacement rate by adding income from personal savings can thus compensate for the lower replacement rate of future generations of pensioners.

The investment strategy needs to be put in -line with the saving horizon. It follows from the revision that optimum solution needs to be identified in order to put in line with the investment strategy of savers with their saving time horizon. This could be improved through regulation or better awareness of savers.

In accordance with the Implementation Plan 2018 pertaining to the labour market policies and social policies spending review, an Analysis of measures supporting more efficient diversification of savings between the asset classes in the second and third pillars of the pension saving scheme should be elaborated until the end of 2018. The revision identified the following options as possible solutions:

- introduction of an index fund in the third pillar;
- making the pension saving scheme more attractive by introducing a mixture of policies including increasing the competition;
- give thought to the option allowing employers to send voluntary contributions to the second pillar as well;
- mandatory harmonization of the investment strategy of actual savers with the time horizon of their saving scheme;
- amendment of remunerations to agents motivating them more to provide clients in the second and third pillar with more accurate and appropriate recommendations;
- increasing the awareness of clients in the second and third pillar clients with regard to the yield, the possible earning in other funds, saving diversification in funds, comparison with foreign funds;
- changing the distribution of remuneration to the pension account managers in order to provide higher portion of remuneration conditional upon performance of individual funds

4.3.3 Social inclusion

Increasing motivation of persons in need

Effective as of January 2019, tools focusing on **active participation of individuals in the social assistance benefit system** will be promoted and enhanced. The aim is to make the social measures more targeted, focusing on people who really need the assistance.

Social assistance to people with severe disability

The effectiveness of the policies promoting social integration of persons with disability will be improved⁴². A thought will be given to the increase in the **guardian's allowance** up to the net minimum wage until 2020 particularly for the working-age recipients.

Support to marginalized Roma communities

In the first half 2018 towns and municipalities are being contracted within the project **supporting the settlement of land in MRC**.

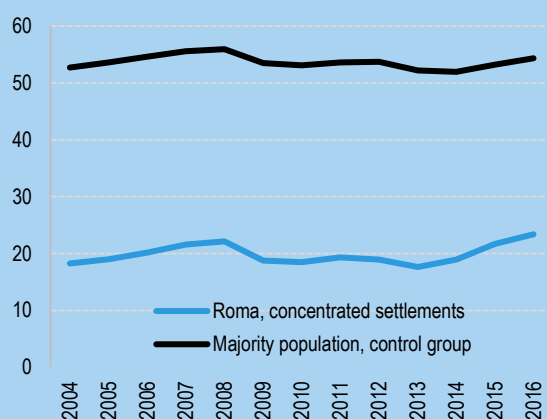
Projects will be launched to **improve the housing conditions** and to **increase employment rate, education and financial literacy** of the MRC population. Throughout 2018, project calls will be announced with the overall financial allocation of EUR 33.5 million focusing on:

- support of transitional housing programmes
- completion of the basic technical infrastructure (roads)
- increasing the employment rate of MRC in social economy entities
- paying scholarship to high school students
- housing assistants

Box 2: Integration of marginalized Roma communities

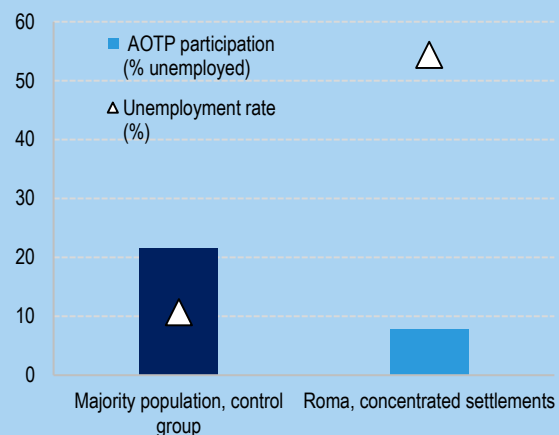
Due to the economic cycle, the employment rate of Roma people from concentrated settlements has seen a moderate improvement. However, the difference in the labour market outcomes remains huge compared to the majority population. The employment rate remains roughly at one third compared to the majority population living in the same municipalities. The unemployment rate of Roma people in concentrated settlements reached 54% at the end of 2016. At that time, the unemployment rate of the majority population reached around 11% in the same municipalities. Nevertheless, the participation of unemployed Roma in the ALMP programmes without activation works is just one third compared to the majority population (7.8% compared to 21.5% of the unemployed). Roma people face several obstacles hindering their entrance to the labour market due to lack of education, prejudice, or cultural differences. Well-functioning labour market policies constitute one of the possible forms of support of employment of this disadvantaged group in overcoming the barriers hindering their entrance to the labour market. It could help mitigate the lack of qualification and skills which result from poor integration in education at earlier age.

Figure 21: Employment rate with at least 6 months worked in a year (% in the age group of 20 - 64 years)



Source: IFP's own calculations based on the data of SIA, Population Registry and the Atlas of Roma Communities 2013

Figure 22: Comparison of participation in the ALMP programmes and the unemployment rate (%)



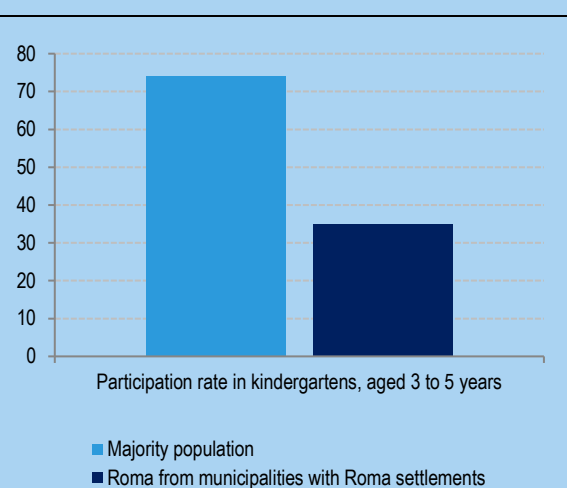
Source: IFP's own calculations based on the data of SIA, COLSAF, Population Registry and the Atlas of Roma Communities 2013

⁴² Governed by the Act No. 447/2008 Coll. on Financial Benefits to Compensate Severe Disability.

Roma children are not doing well in the Slovak education system, they drop out early and with poor results. Disadvantaged children benefit from pre-school attendance⁴³. However, the attendance of Roma children in kindergartens is roughly one half compared to the majority in Slovakia, and even the overall percentage of 4+ years old children attending kindergartens is low (78% compared to 95% in the EU⁴⁴). The success of Roma students in the nationwide testing of fifth and ninth grade students of primary schools is approximately half the results of the majority. At the same time, the numbers of tested Roma students reveals that around one half of them doesn't even get it to the ninth grade (which is caused by grade repetition and the end of the compulsory school attendance in the 16th year of life).

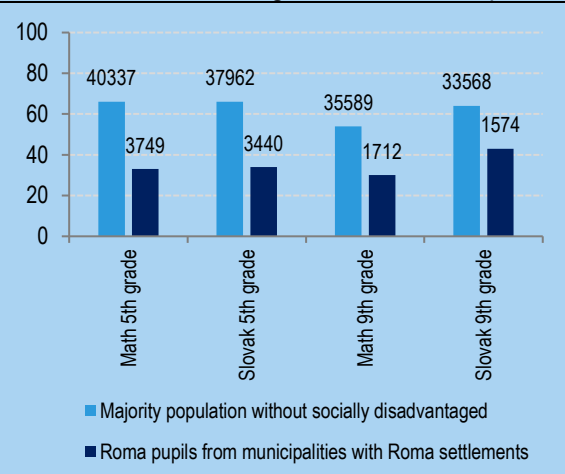
PISA testing⁴⁵ shows that high-quality education system can be a great help for children from disadvantaged socio-economic environments. Such countries as Estonia and Finland reporting minor score variations of students are the proof that good results may be attained by the entire population of students. The stratification of students is associated with poorer equality in education, both vertical (grade repetition) and horizontal (division of students at a young age based on skills into different education streams).

Figure 23: Participation in pre-primary education (%)



Source: IFP's own calculations based on the data of the Ministry of Education's information system, Population Registry and the Atlas of Roma Communities 2013

Figure 24: Results of nationwide testing of fifth grade and ninth grade primary school students (2016, success rates considering the full scores in %)



Source: IFP's own calculations based on the data of NÚCEM, Population Registry and the Atlas of Roma Communities 2013

⁴³ PISA (OECD): Low-Performing Students

⁴⁴ Eurostat [educ_uoe_enra10]

⁴⁵ PISA 2015

4.4 Health

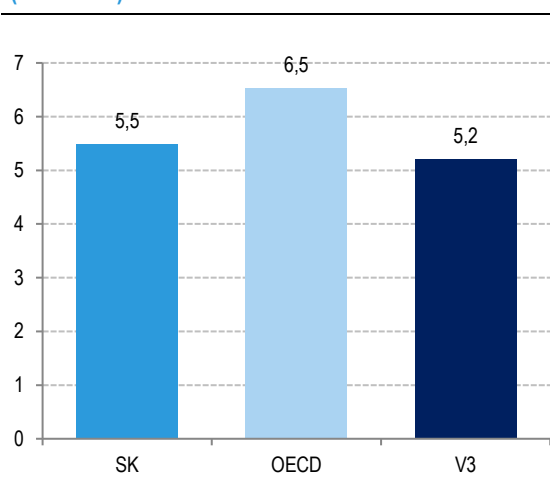
The 2016 healthcare spending review identified several significant system issues and possible solutions. The implementation of the measures identified in the review gradually improves the cost efficiency of several components of the system⁴⁶. Some of the eHealth functionalities started to be fully operational in 2018. Throughout this year, the ambulance service providers are planned to be integrated into that system. Gradual implementation of diagnostic-related group (DRG) payments system continues. The five-year long convergence process of individual rates of individual hospitals into a single nation-wide basic rate was launched in early 2018. As regards the pharmaceutical policy, measures are taken to reduce the prices and to tackle the overconsumption of prescription drugs. Persisting issue of drugs re-export is about to be addressed. A network of urgent care providers on top of the already existing emergency rooms operators is planned to be introduced. Standard diagnostic and therapeutic procedures will be gradually introduced in the area of diagnostics.

Health indicator

	2008	2009	2010	2011	2012	2013	2014	2015	Target 2020	
Healthy life years (expected number of healthy years at birth)	SK males	52.1	52.4	52.4	52.1	53.4	54.5	55.5	54.8	59.0
	EU males	61.1	61.3	61.8	61.7	61.5	61.4	61.4	62.6	-
	SK females	52.5	52.6	52.0	52.3	53.1	54.3	54.6	55.1	62.0
	EU females	62.2	62.0	62.6	62.1	62.1	61.5	61.8	63.3	-

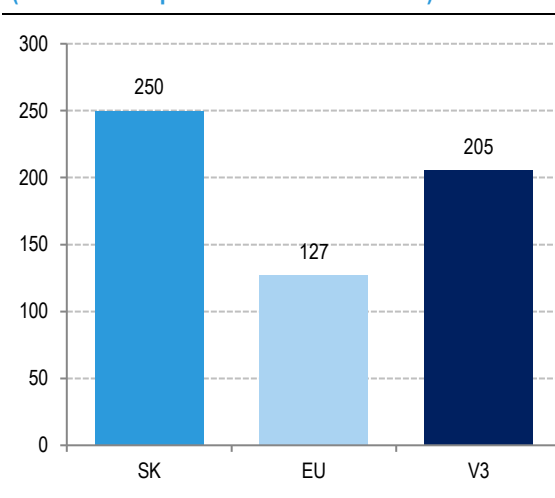
A well-functioning healthcare system is one of the priorities of economically developed countries. The health of population influences not only the individual quality of life, but also the economic and social development of the entire society. Moreover, healthcare expenditure is one of the greatest expenditure items. This cost is expected to grow significantly in the future due to population ageing. This will create an additional challenge for the cost efficiency of the entire system. Since 2010, Slovakia has managed to maintain a stable level of public expenditures on health care system (5.5 % of GDP). Healthcare expenditure as a share of GDP is significantly below the OECD average, although moderately above the V3 countries average.

Figure 25: Public expenditure on healthcare, 2016 (% of GDP)



Source: OECD

Figure 26: Amenable mortality, 2015 (standardized per 100 thousand citizens)



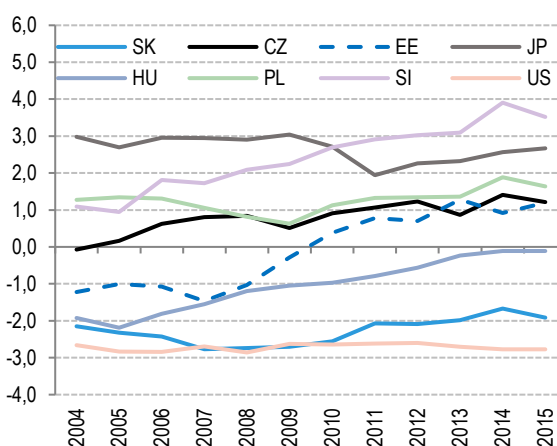
Source: Eurostat (hlth_cd_apr)

⁴⁶ [Implementation Plan for healthcare](#) (November 2017).

Slovakia lags behind in terms of the main performance indicators. A comparison shows that our results are worse than the EU and the other V4 countries average. We enjoy significantly fewer healthy life years and the amenable mortality⁴⁷ is double the average mortality in the EU. Update of the analytical model evaluating efficiency of healthcare systems has confirmed weak performance of Slovak healthcare system compared to the Czech Republic or Poland. Other post-Soviet countries, such as Estonia, overtook us as well even though they had comparable results as Slovakia in 2005. Increased implied efficiency of Slovak healthcare system after 2010 can be explained by the decrease in the total expenditures used for healthcare (drug reference pricing was the main factor causing sharp expenditure decrease). The impact of the spending review and identified measures cannot be observed and evaluated just yet⁴⁸.

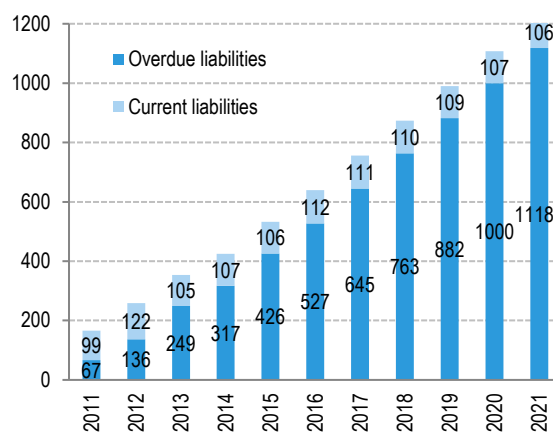
13 state-run hospitals continue to incur debt. Their liabilities amounted to 756 million EUR in 2017. After moderate slowdown in the previous year, the growth of overdue liabilities increased again. When compared to the previous year, these liabilities increased by 118 million EUR. Not one of the 13 state-run hospitals managed to decrease overdue payables. In November 2017, the Parliament approved the resolution specifying use of state assets for the health care facility (HCF) debt settlement concept. This resolution singled out 585 million EUR on HCF debt settlement. This finance is intended to settle the overdue liabilities of HCF. The first debt settlement round is expected to start in March/April 2018 and it will focus on the settlement of the oldest debts. The participation in this round will not be conditional upon approval of the stabilization plan. The second round is planned to take place in 2018 again, but the participation will be conditional. The last debt settlement round is planned to take place in 2019.

Figure 27: Efficiency of healthcare systems of OECD countries⁴⁹



Source: IFP based on the data from OECD

Figure 28: Liabilities of 13 state-run hospitals (31/12/2017; millions EUR)



Note: Linear projection for 2018-2021
SR

Source: MH

eHealth implementation

Several eHealth functionalities are fully operational starting from 2018. Individual healthcare providers are now being connected to the National Healthcare Information System (NHIS). Providers thus may take the possibility to edit or read individual medical information within the *Patient Summary* feature or to use electronic prescriptions. Nurses, delivery nurses and healthcare assistants are being integrated as well in

⁴⁷ The avoidable mortality rate is frequently used as a health care quality indicator and comprises two indicators. The first indicator **amenable mortality** (presented above), includes deaths which could have been averted if timely and appropriate diagnostics or appropriate healthcare and treatment was provided. In addition to amenable mortality, also the **preventable mortality** indicator is used. This mortality rate can be improved with the help of measures focusing on disease prevention (e.g. propagation of healthy lifestyle).

⁴⁸ Significant increase in efficiency between 2010 and 2011 can be explained by the decrease in the healthcare expenditure (from 5.2% GDP in 2010 to 4.8% GDP in 2011) due to drug policy reform. The increase in the efficiency between 2013 and 2014 is due to life expectancy increase. The efficiency decrease in 2015 can be explained by growth of expenditures up to the level of 5.1% GDP and also by the life expectancy decrease.

⁴⁹ The model is based on the 2012 IFP analysis [Málo zdravia za veľa peňazí: Analýza efektívnosti slovenského zdravotníctva](#). This model estimates the implied life expectancy based on the sources used to finance the system in different countries. Positive values mean that the country in fact enjoys longer life expectancy than is predicted based on the inputs. On the contrary, negative values mean lower than the average efficiency of the system and non-optimal use of sources. The estimate was developed using the OLS estimation.

order to decrease the administrative burden for GPs. Throughout this year, also the ambulance service providers are planned to be integrated into the system.

Introduction of DRG

A diagnostic-related group payment system was launched in 2017. Even the specialized institutions, which have not implemented this system yet, currently negotiate with public health insurance companies over possible utilization of this form of payment. The five-year convergence process of individual rates of individual hospitals was launched in 2018. The objective is their complete convergence into a single nationwide basic rate. The convergence process is expected to be finished by 2022.

Drugs and medical aids

Several **legislative changes** were made in 2017. The intention was to specify conditions for reimbursement of drugs subject to exceptions and to regulate the entry of innovative and generic drugs to the market. Prescription limits for healthcare providers are planned to be introduced in 2018 in order to address the drug overconsumption. Cost-ineffective drugs will be procured and purchased centrally to an even greater extent. Moreover, physicians will be allowed to give patients prescriptions specifying only the effective substance instead of a specific drug⁵⁰. Reference pricing of special medical material and aids will be gradually implemented throughout this year. Persisting issue of drugs re-export, which emerged again despite passing the amendments to the Drugs and Medical Aids Act, will be address, as well.

Optimization of the network of healthcare providers

The medicinal processes will be optimized and this should be achieved by restructuration of the network of emergency rooms operators. A network of urgent care providers on top of the already existing emergency room operators will be gradually built up from 2018. This network will consist of urgent care facilities of the 1st and 2nd type. The original network of emergency room operators will be reduced as more urgent care facilities become fully operational. The draft act defined the minimum network of providers and these providers will be eligible to receive a financial transfer from the state. The first three 2nd type urgent care facilities are planned to be built in 2018 - two in Bratislava (one for children and youth, and one for adults) and one in Poprad. Three more 2nd type urgent care facilities will be built in 2019 (two in Banská Bystrica and one in Košice). The entire network is expected to be completed by 2021 with the development of three more 2nd type urgent care facilities in Nitra, Košice, and Prešov. Also seven 1st type urgent care facilities will be built in 2018. All in all, 32 1st type urgent care facilities should be built by 2021. No additional financial sources to be allocated within the national budget, the cost of construction are covered.

Optimization of processes

During 2018, standard diagnostic and therapeutic procedures will be gradually introduced in the area of diagnostics. Also, precise competencies of general practitioners, specialists, nurses, healthcare assistants, and other healthcare workers are planned to be defined. Another goal is to legislatively define a new healthcare provider - provider of a transport service. The communication between operations centre and the ambulance service providers will be based on an exact GPS coordinates which should make the entire system faster and more effective.

Transparency

VšZP (state-owned health insurance company) plans to increase the **number of revision audits and proceedings**. Amount of **publicly available data** in a user-friendly format will continue to increase. **Reorganization of job hearings for the categorization committees members** will result in higher transparency. Also, the number of independent foreign inspectors of categorization committees will increase.

⁵⁰ [Implementation Plan for healthcare](#) (November 2017).

4.5 Modernization of public administration and the business environment

The expanding support of electronic and automated communication with the Financial Administration, the implementation of better regulation measures, or further optimization of the business register services will contribute to the decrease in the administrative burden for businesses. The ME SR in cooperation with MI SR will prepare a new package of measures which should reduce the administrative burden for businesses and make doing business easier in Slovakia.

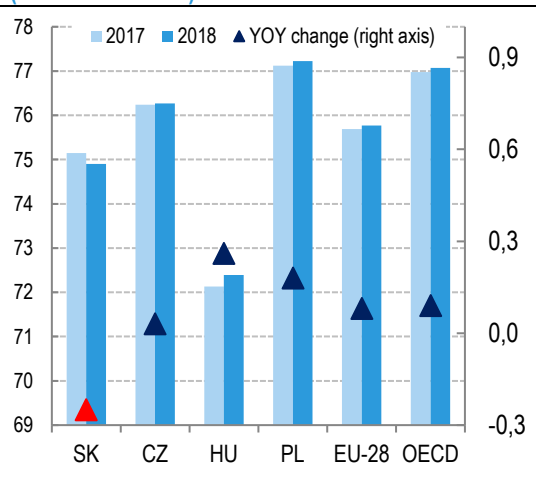
The attention in judiciary will focus in 2018 on the solution of the issue of old enforcement procedures. A reform will be prepared with regard to the legal guardianship law with the aim to improve the standing of individuals with disability and protection of senior individuals. An act governing judicial civil duty will be prepared in accordance with the Manifesto of the Government of the SR. The department of justice plans to continue in the judiciary audit. Action plan will be elaborated for the implementation of the conclusions and recommendations from the State of the Judiciary Report (CEPEJ 2017). The analytical capacities of the state will be reinforced at multiple Ministries and other institutions.

Outcome indicators for modernising public administration and the business environment

		2008	2011	2012	2013	2014	2015	2016	2017	Target 2020
Doing Business (World Bank ranking)	SK	-	-	-	-	-	33	34	39	15
	EU	-	-	-	-	-	30	32	34	-
	V3	-	-	-	-	-	31	31	35	-
Product market regulation index (number of points)	SK	1.62	-	-	1.29	-	-	-	-	1.2
	OECD	1.53	-	-	1.44	-	-	-	-	-
E-government index (%)	SK	40	48	42	33	57	51	48	47	71.7
	EU	35	41	44	41	47	46	48	49	-
Corruption perception (%)	SK	-	-	-	39.5	-	45.6	-	46.4	62.6
	EU	-	-	-	61.1	-	63.1	-	62.4	-

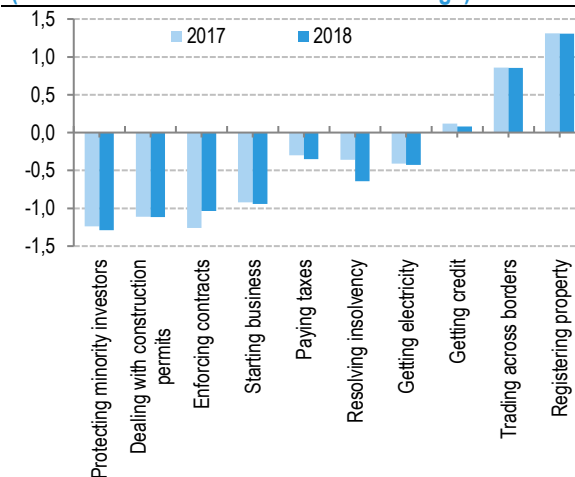
With the total score of 74.9, Slovakia ranked 39th out of 190 evaluated countries in the assessment of the regulatory business environment according to Doing Business 2018. We moved five ranks down (from the 34th to the 39th rank) year over year based on the updated methodology of the World Bank. Within the V4 region, only Hungary scored worse (48th rank). The position of Slovakia in the ranking deteriorated mainly because of other countries' improvement and our stagnation in several assessed areas. The total score of Slovakia slightly decreased compared to the previous year (decrease by 0.25 points).

Figure 29: Scores in the Doing Business ranking (DB 2018 method)



Source: DB 2018

Figure 30: Comparison of areas in the DB ranking (standard deviation from the OECD average)

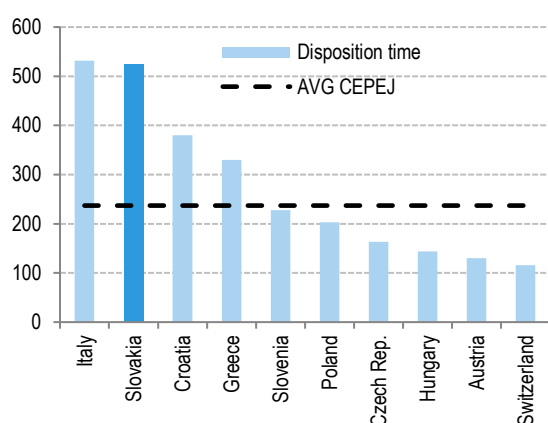


Source: DB 2018

The improvement of the score in the enforcement of contracts due to pre-trial conference was the greatest contribution. On the contrary, our score in the area of resolving insolvency has dropped down. Based on Doing Business, the most lagging areas include again protecting minority investors, getting building permits and enforcing contracts. The planned implementation of electronic building permits could be helpful in future.

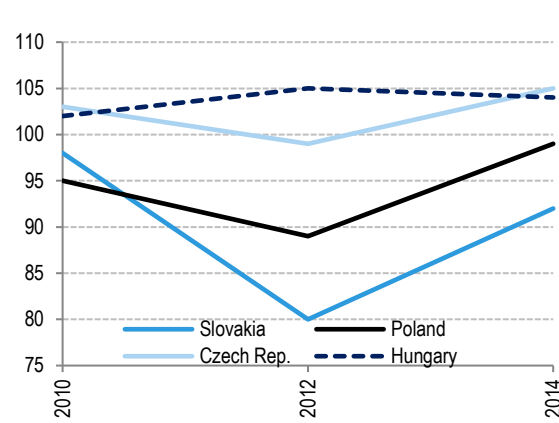
The enforceability of law is key in a well-functioning business environment. The Slovak judiciary lags behind the best countries mainly in the disposition time and in the clearance rate. The disposition time of civil, commercial, administrative, and criminal proceeding is above the average in international comparison. As regards the clearance ratio, there is room for improvement in civil and commercial matters. Although improvements have been observed in this area, it remains to be under the average of the V3 countries⁵¹.

Figure 31: Disposition time in days, civil and commercial matters, 2014



Source: CEPEJ 2016⁵³

Figure 32: Clearance rate in V4, civil and commercial matters in %, 2010-2014⁵²



Source: CEPEJ 2016⁵⁴

A transparent environment free of corruption has a positive impact on the economic growth through such key factors as public and private investments, human capital development, and macroeconomic and financial stability⁵⁵. Slovakia is lagging behind the best EU countries in the combined corruption indicator. Effective fight against corruption calls for transparency, quality public institutions, and narrowing the room for unfair practices in any disposal of the property of the state, public institutions, or local governments.

Another area with a potential to improve the public spending efficiency and quality of public services applies to ineffective institutional structure. The fragmentation is a barrier to better effectiveness of administration at the level of local government (Box 3).

Box 3: Effectiveness of local governments

The actual structure of local government is not effective. The option of concentrating the administration of municipalities into larger units offers additional sources for the development of local governments and the provision of better services to citizens without the need to increase the taxes.

⁵¹ The entire comparison applies to the first instance courts.

⁵² The calculation of the clearance rate and disposition time for Slovakia uses a different calculation methodology than the one used by other countries monitored by CEPEJ. The Slovak statistics of clearance rate only contains those cases which have been finally completed and closed - in the event of appeal and then judgement with regard to the case or the case was returned back to the initial first instance court and the matter has been finally decided in repeated proceeding. Other countries understand all cases which leave the first instance court after judgement as clearance rate irrespective of whether or not the judgement has been changed by a different court.

⁵³ <https://www.coe.int/t/DGHL/cooperation/cepej/evaluation/2016/STAT/default.asp>

⁵⁴ <https://www.coe.int/t/DGHL/cooperation/cepej/evaluation/2016/STAT/default.asp>

⁵⁵ International Monetary Fund (2016): *Corruption: Costs and Minitiating Strategies*.

- Local governments in Slovakia are very fragmented. As many as 92 % of municipalities have less than 3,000 citizens. The average number of citizens of a municipality in Slovakia is 3-times smaller than the EU average and 5-times smaller than the OECD average.
- **The fragmentation of local governments is reflected in the ineffective performance of their competencies.** Municipalities with less than 1000 citizens use as much as 40 % of all their expenditures on their executive performance (part of administrative cost). There is space for improvement also in the arrangement of the largest cities with two-level local government - Bratislava and Košice.
- **Even the smallest municipality is expected to provide the same services to citizens as the services provided by the largest towns; however, this is objectively not possible.** Therefore, joint local authorities are established and majority of municipalities have, *de facto*, already transferred a part of their competencies to other municipalities through such joint authorities.
- From the short-term perspective, we recommend to concentrate the administration of municipalities in county registries. Steps taken in medium term should focus on concentrating the administration in micro regions based on functional ties. Larger number of citizens allows economically more efficient administration and better use of the existing sources in the micro-region environment. **This could bring savings of hundreds of millions of Euro a year.**
- **At the same time, the municipalities would not lose their identity by concentrating the administration in this manner.** Also, the allocation of financial sources should not be decreased for a given location and municipalities would not lose the power to influence the decision-making with regard to the use of the sources.

More in the analysis: [A treasure hidden in local government](#)

Effectiveness of local governments by size groups (2016)

Size groups of municipalities	Number of municipalities	Share of people living in municipalities (in %)	Average effectiveness (in %)
up to 1,000	1,906	15.6	60.4
1,001 - 3,000	761	23.1	79.7
3,001 - 5,000	103	7.0	84.7
5,001 - 10,000	67	7.7	87.1
10,001 - 20,000	35	8.6	88.3
20,001 - 50,000	43	15.5	89.2
50,001 - 100,000	9	10.3	87.7
over 100,001	2	12.1	81.8
Slovakia	2,926	100	82.4

Note: Effectiveness is calculated as the ratio of the expenditures of local governments for the purposes outside the Classification of the Functions of the Government COFOG - 01.1.1 Executive and legislative organs.

4.5.1 Modernization of public administration

Strengthening capacities and improvement of public government efficiency

The practical functioning of analytical units including the type of roles, quality and publicity of their outcomes has been heterogeneous. Improvement has been brought about by the **binding methodology of analytical unit functioning** laying emphasis on the quality selection of analysts and the mechanism of quality assurance of significant outcomes (e.g. peer-review). The qualification of the analytical units continues to be deepened by way of an educational project which enables their employees to join specialised courses and internship programmes abroad.

The **analytical units** are expected to be **established** in 2018 in the departments of Defence, Foreign and European Affairs, and in the DPMIIGO (ÚPPVII). The **analytical capacities for the impact assessment (RIA)** in 2017 were not strengthened, there is still the plan to occupy 26 new positions.

The European Commission launched the *Structural Reform Support Programme 2017 - 2020* in March 2017⁵⁶. The aim of the programme is to contribute to the institutional, administrative and structural reforms in the Member Countries by way of technical assistance.

⁵⁶ [SRSP \(Structural Reform Support Programme\)](#)

Projects within the Structural Reform Support Programme 2017-2020

Project title (department)	Indicative timeline	Brief description/objective
Spending revision in Slovakia (MF SR)	2017 – 2020	Improvement of public expenditures efficiency and sustainability of public finance. Support of cooperation with international institutions, specific strategic counselling on the setting of the Slovak spending reviews, methodologies, and short expert missions.
Building the reservoir of investment projects in SR (SZRB AM)	2017 – 2020	Collection, assessment, and financial consulting services in the area of investments funded through refundable financial assistance. Focus on projects which may be financially viable even with refundable financial assistance.
Strategy of voluntary tax liability compliance (FD SR)	2017 – 2018	Elaboration of the strategy of voluntary compliance with tax liabilities and action implementation plan of this strategy.
Stratification/Optimization (MH SR)	2017 – 2018	Effective planning of healthcare provider network which will better reflect patient's needs and, at the same time, take into consideration the system sustainability.
Competence model (MH SR)	2017 – 2018	Increasing the attractiveness of general practitioner profession, increasing the number of general practitioners and, consequently, improvement of the quality of primary care.
Transparent management (MH SR)	2017 – 2018	Improving the public procurement transparency, particularly improving the reference pricing and transparent procurement of medical technology and material.
Family business in Slovakia (ME SR)	2017 – 2018	Increasing the awareness of family business including transfers, removal of barriers, etc. Improving the business environment in Slovakia and the competitiveness of the national economy.
Sustainability and assurance of quality in screening and diagnostics of colorectal cancer in Slovakia (MH SR)	2018 – 2020	Strengthening the planning, implementation, and assessment of the screening programme using the verified performance barriers focused on the barriers and needs identified as priority ones.
Optimum architecture of departmental IS and the HR matrix of key IT experts (MJ SR)	2018 – 2019	Optimization of IT infrastructure for both the existing and new information systems.
Development of criteria tests for primary and lower secondary education (MESRS SR/NUCEM)	2018 – 2020	Preparation of a new type of tests of the Slovak language and mathematics for primary school.
Creative industry (MC SR)	2018	Analysis of the options of public and private investments in the culture and creative industry with the overall impact on the employment.
The reform of the Upper Nitra coal mining region (ME SR)	2018 – 2019	The preparation of the strategy for the coal mining region transition to decarbonized economy in compliance with the objective of the energy union to reduce the greenhouse gas emissions and transition to a safer and more sustainable energy system.
Strengthening the capacities for the Informatization Office (ÚPPVII)	2018 – 2019	Strengthening the capacities in the area of data administration and within management of IT supplies; digital transformation.
Development of a support environment of FinTech companies in Slovakia (MF SR)	2018 – 2020	Strategy and measures to improve the environment of FinTech companies in Slovakia.

Judiciary

Action plan will be elaborated for the **implementation of the conclusions and recommendations from the State of the Judiciary Report** (CEPEJ 2017⁵⁷) in 2018. Based on the assessment report, old debt enforcement proceedings are the main issue of judiciary in Slovakia. Political intervention taking the form of a special law should, based on the report, simplify and accelerate the settlement of old enforcement proceedings. Slovak judges should specialize more in one of the main agendas (commercial, civil, administrative, or family law). The judicial map reform should allow this specialization. The first step was the establishment of the specialized court in Banská Bystrica. This study also sees as a drawback slow occupation of vacant positions of judges.

Attention will be paid to the **solution of the issue of old debt enforcement proceedings**. Despite the introduction of new enforcement rules effective as of April 2017 there still are around 3.7 million of old enforcement proceedings laying on the court tables. Although these enforcement proceedings are solved by a substantial number of court officials and judges, we do not see any noticeable progress here.

A reform of the legal guardianship will be prepared with the aim to improve the standing of individuals with health disability, improve the protection of seniors against risks of property frauds, protection of pensioners against domestic violence. The actual legal regulation based on the Civil Code does not reflect changes in the property and social structure of the population after 1989. A document of the legal guardianship reform will be submitted in 2018 for inter-departmental review and, thereafter, a package of the necessary legislative changes in this area will be prepared.

A new legal regulation covering crime victims that took effect in January 2018 **will be implemented**. The new legal regulation puts the services for victims under one roof. The services apply to legal and psychological counselling and other necessary interventions.

An act governing judicial civil duty will be prepared in accordance with the Manifesto of the Government of the SR. The aim is to solve, in a complex manner, the standing of judicial employees including their career growth and remuneration schemes.

The judicial audit continues to be conducted in cooperation with the partner CEPEJ⁵⁸. The audit will include particularly mapping the condition of actual judicial management at individual courts, examination of the effectiveness of judge team settings at selected courts, and examination of deployment of courts with respect to the Slovak territory. An analysis of the structure of cases and findings significantly translating into delays in proceedings will be prepared.

Work continues on the project aiming at improved provision and better accessibility of legal aid by way of a **Legal Aid Centre** for socially or economically excluded population. Changes apply to the construction of contact points and their infrastructure in the form of a web site, call centre, and interconnection with the relevant institutions.

The EU Council issued an ordinance in October 2017 strengthening cooperation for the purposes of the **European Public Prosecutor's Office** set up. This institution should be competent to investigate suspicions of crimes falling under its jurisdiction (financial crimes, EU fund management, and terrorism). The EPPO should start operating in 2020. Slovakia will delegate a representative to this institution throughout 2018 and 2019.

⁵⁷ <https://www.justice.gov.sk/Stranky/Ministerstvo/Sprava-k-stavu-justicie.aspx>

⁵⁸ The European Commission for the Efficiency of Justice. 12 courts were audited last year.

Implementation of eGovernment

All **new IT projects** over EUR 10 million will be reviewed again in 2018 by the MF SR irrespective of the funding source from the value for money perspective. Furthermore, based on the IT spending review report, the rules to assess investments from the state budget and the EU funds will be made uniform.

The IT project approval process is preceded by the **process audit phase** (the so-called business analysis) carried out by the MI SR. The process audit is based on the defined coordination mechanism and the joint methodology of optimization of public administration processes.

Based on one of the main recommendations of the Summary Implementation Report for 2017⁵⁹, the ÚPPVII will initiate the reevaluation of the informatization spending review measures aiming to achieve higher value for the citizens in cooperation with the MF SR (ÚHP) to ensure that the informatization spending review measures better correspond to the tasks of the approved detail action plan of public administration informatization. Detail action plan of public administration informatization and measures of the IT spending review report implementation plan will be implemented.

Act on Certain Arrangements for Reducing Administrative Burdens by Using Public Information Systems and on the Amendment and Supplement of Certain Acts (Anti-Bureaucracy Law) will enter into force in 2018. The aim of the amendment act is to establish the *once-only principle*, i.e. to cancel the obligation to submit to the public authorities paper extracts that the public authorities can acquire on their own. Such extracts will include the extract from the title deed, from the companies register, from the trade register, and extracts from the crime register. The act should enter into force in July 2018.

4.5.2 Business environment

Reduction of the administrative burden of businesses and better regulation

The **Centre for Financial Innovations** (CFI) was established in the Department of Finance early in 2018 which will focus on the FinTech companies and the related identification of possible barriers for their formation and activity in Slovakia. The CFI's priority activity is to map the environment influencing the implementation of new technologies in the financial market, the identification of drawbacks or the opportunities to improve such environment, and active removal of barriers for the formation and activity of FinTech companies in Slovakia.

In order to improve the transparency and competitiveness of business environment including the improvement of the SME's access to the public sector contract, conditions for the **upgrade of the EVO (Electronic Public Procurement) system** will be prepared. The entire public procurement process should be digital and done through electronic encryption.

The Financial Administration (FA) will continue in reducing the administrative burden of businesses by expanding **two-way electronic communication with businesses** with regard to the tax and customs paperwork.

A standard for **electronic invoicing** was prepared in 2017 within the public procurement area. The validity of the legislation and practical launching of the so-called *e-Invoicing* is expected to take place in April 2019 for the contracting authorities at the central level of public administration, and a year later for the contracting authorities at all public administration levels.

Based on the *once-only principle*, the aim is to provide clients with pre-filled data that the FA SR already has at its disposal. At the same time, **soft warning** messages which have already been implemented are planned to be automated to function as preventive communication with the entities of Financial Administration in order to meet their obligations in the paperwork of the FA SR and prevent administrative offences and violations

⁵⁹ All planned measures are available [here](#).

of laws. For example, tax entities will be regularly notified of their arrears in the form of SMS messages and e-mails. The second stage of automation of the customs surveillance over import of goods by way of the **e-DOVOZ** system is being finalized.

The support of voluntary compliance with tax liabilities also contains the intent of the FA SR to continue in the implementation of the **tax reliability index**. This measure which is both of motivational and preventive nature assesses tax entity based on such entity's compliance with tax liabilities. In order to increase the comfort of the Financial Administration clients, the **Office for the Selected Business Entities** will be created by transformation of the tax office. Besides making the procedures applicable to largest importers easier, the office will also contribute to the prevention and observance of tax and customs regulations by business entities. Moreover, it will enhance the retention of key customs duty payers in Slovakia and the acquisition of new ones.

The Department of Justice will continue in taking specific measures to improve the **business register**. The proposal of these measure including deadlines was approved by the Government in March 2018. These measures also aim to contribute to the reduction of administrative burden for businesses. Within the first phase, the implementation of electronic processes should be completed until the end of 2018 aiming to improve the accuracy and reduce the error rate in the registered data. The collection of deeds should be made fully digital in order to accelerate and streamline the information retrieval. Within the second phase, measures focusing on the optimization of the registry court network should be taken until the end of 2020 with the aim to improve the predictability of decision-making and processes of the court during data registration. Furthermore, measures focus on establishing more efficient link between the companies register and the reference registers and other source registers.

Within the agenda aiming to improve the business environment, the ME SR plans to prepare **three up to four packages of business measures** until the end of the current term. The first proposal with 35 measures was approved by the Government last year. The second package, based on suggestions from businesses, should be approved in 2018. At the same time, the statement of already implemented measures from the approved packages will be published on an annual basis.

Information portal for businesses is also being prepared with the aim, for example, to enable better orientation in the legislation or quick navigation when searching state institutions that the businesses should contact in individual situations.

The **strategic better regulation document RIA 2020** was approved by the Government early in 2018. This document presupposes the establishment of the regulation reduction principle *one-in, one-out*⁶⁰ in the legislative process, implementation of the pilot project for ex-post assessment of the selected regulation, or the creation of a complex IT platform for better regulation (simulation of impacts of proposed regulations, automation of the ex-ante regulation impact assessment process).

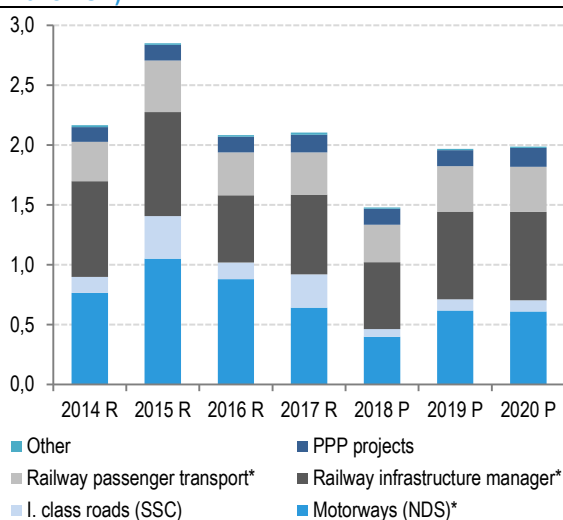
⁶⁰ *one-in, one-out* is a mechanism to reduce regulations which, in the event of adoption of one regulation with an impact on the business environment, requires to eliminate the older regulation to the same extent of impacts on the business environment

4.6 Transport infrastructure

Ministry of Transport and Communication is gradually implementing the measures of the 2016 transport spending review. Crucial for the increase in the transport investment value is the setting of clear and analytically justified investment priorities. Within its internal budget, the Department is looking for a way to increase the expenditures on repair and maintenance of the 1st class roads. The extent of published data in transport projects drawing public funds will be made bigger. The analysis of the Slovak approach to motorway and highway construction cost estimation in cooperation with OECD recommends to create a public database of the history of unit prices for motorways and other sectors of public work, and hire professional resources supporting cost estimation.

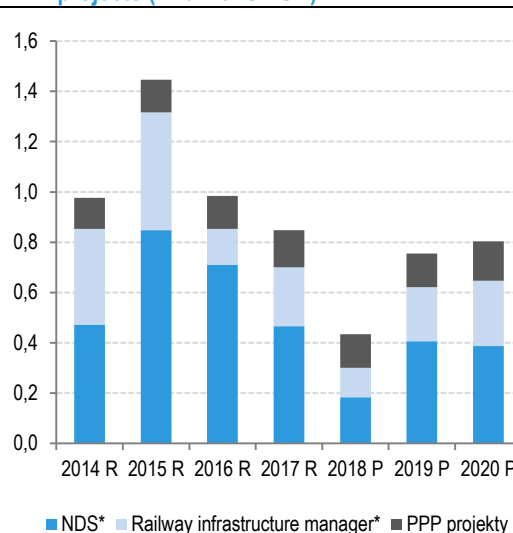
Expenditure of MTC SR and organisations set up by MTC SR on transport will fall down to EUR 1.5 billion in 2018. The expenditure on the construction of motorways and highways falls down in 2017 compared to 2016; also the ŽSR's expenditures on infrastructural projects decreased.

Figure 33: Expenditure of the MTC SR chapter and the organisations set up by the MTC SR on transport (in billions EUR)⁶¹



*Funding from the state budget, the EU and co-funding, own funds (without expenditures on the repayment of loan principals - category 820); Source: RVS, MTC SR

Figure 34: Capital expenditure of NDS and Slovak railways + payment for availability in the PPP projects (in billions EUR)



Source: RVS, MTC SR

The Bratislava D4/R7 bypass project will require increased efforts, whereas it is behind the schedule. Earlier date of completion was, based on the MF SR's analysis⁶², a significant reason why to fund the bypass by PPP and not from the state budget. The expenditures on the life cycle and the capital expenditures favoured the PPP, however the funding by PPP would be advantageous only if the construction started a year earlier than if the project was funded by the state.

Measures from the spending review

Crucial for increasing the value of transport investment is the setting of clear and analytically justified investment priorities in all transport sectors and publication of a binding and regularly updated investment plan of MTC SR. Better planning of projects also improves the targeting of limited capacities and finance on priority projects. The implementation of the measures from the transport spending review remains a priority.

⁶¹ Until 2015, the expenditures on the passenger rail transport only consist of the MTC SR funds based on a Public Transport Service Agreement and based on non-refundable financial aid agreements from the OP Transport. Eurostat included ZSSK in the public administration sector in 2016. This is why the actual expenditures for 2016 and 2017 and the proposed budget for 2018-2020 includes all expenditures on the passenger rail transport by ZSSK (less the expenditures on repayment of the principals of loans - category 820).

⁶² <http://www.finance.gov.sk/Default.aspx?CatID=10621>, Table 3

Within preparations for the contracting process for the feasibility study, **MTC SR** will assess the adequacy of application of multi-modal variants and conduct such assessment for every new investment project over EUR 20 million.⁶³ MTC SR conducts feasibility studies at the beginning of the pre-investment process. Elaboration of the methodology reflecting the multimodal assessment and its publication is expected by 2018 end.

Work is being done in cooperation with non-governmental organisations to ensure that **data about the implemented projects be published in the requested extent and user-friendly form**. The scope of projects drawing public funds which will be required to publish relevant data will be extended in future. First datasets are currently published on the open data portal.

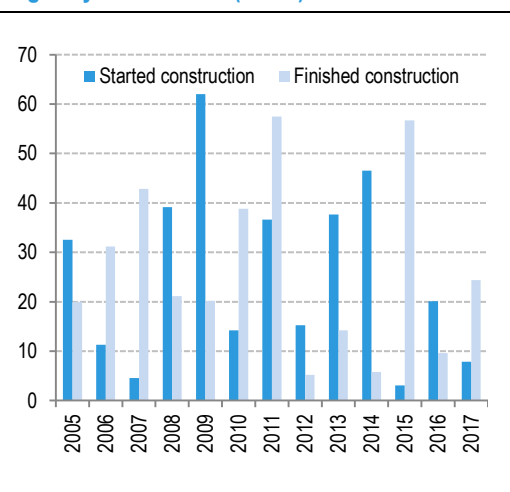
The MTC SR will continue in the intensive **search for the option to increase the expenditures on renovation and maintenance of 1st class roads**; the funds intended for the renovation and maintenance of the 1st class roads were increased in 2017 by EUR 30.5 million. The MTC SR will try to find a solution to provide for increased funding of the 1st class roads in a sustainable manner at the expense of the expenditures of the chapter of lower priority.

In the railway infrastructure, the MTC SR **saves costs through the implementation of the remote control of transport** through lower-cost investments, within the first step, with high return. It will also optimize unit costs and will increase the yield together by 20% in the subsidized public passenger rail transport. Within optimization, the MTC SR is already preparing an impact analysis of eventual elimination of 234 km of rails which are used sporadically and with no passenger transport⁶⁴ and additional 91 km of rails with minimum passenger transport. The MTC SR will take care that the priority projects of railway infrastructure be also submitted to the MF SR for review prior to public procurement to find a construction work contractor.

Motorways, highways and 1st class roads

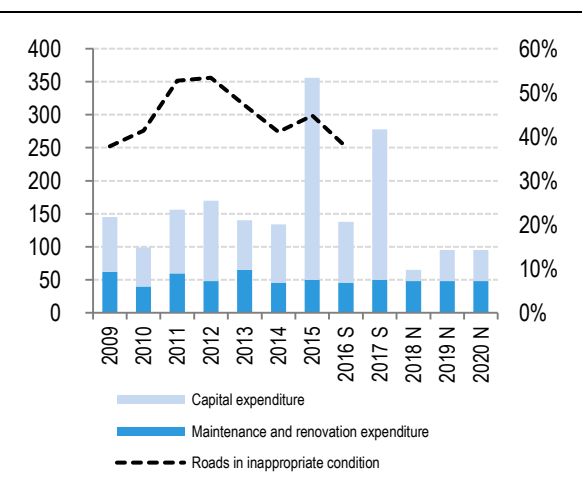
The 2017 budget allocated EUR 760 million on capital expenditures on the construction of motorways and highways, on the settlement of structures in operation, and on operational investment expenditures, while funds drawn amounted to EUR 466 million.⁶⁵ Capital expenditures in 2017 were lower than planned due to non-uniformity of the construction project cycle, solution of environmental requirements⁶⁶, and restricted sources for the preparation of projects in previous years. Capital expenditures of NDS allocated in 2018 within the approved budget amount to EUR 183 million while the Department has also at disposal the unused funds of previous years.

Figure 35: Construction of motorways and highways in Slovakia (in km)



Source: NDS, MTC SR

Figure 36: SSC's expenditures (million EUR) and condition of the 1st class roads



Source: RVS, SSC

⁶³ In accordance with the output of the task from the Spending Review (Resolution of the Slovak Government No. 461/2016): "Develop methodology and the min. standards for transport modelling which will set the limits for the developers of models depending on the type of the transport model."

⁶⁴ MTC SR and the Slovak railways will specify the cost saving estimate of EUR 6 mi. a year with potential one-time cost of maximum EUR 70 mil.

⁶⁵ The capital expenditures also include the purchase of land and creation of gross fixed capital (investments).

⁶⁶ The MTC SR in cooperation with beneficiaries actively addressed environmental issues in order to accelerate the drawing of funds and implementation of projects.

The running **expenditures of the Slovak Road Administration authority (SSC)** on maintenance and repairs of 3,176 km of the 1st class roads **remain to be insufficient**. In 2016, there still were 38 % of roads either in bad or critical condition and even the roads which currently are in a good condition will gradually deteriorate taking into consideration the actual level of funds allocated to maintenance and repair and will require expensive reconstruction. The budget of expenditures on maintenance and repairs reached EUR 50 million in 2017, the budget for 2018-2019 expects the expenditure to get to EUR 48 million a year, while the optimum annual level (without including the sections which already are in emergency condition) should be EUR 64 million based on the spending review⁶⁷.

In cooperation with OECD and MF SR, the MTC SR **analysed the Slovak approach to motorway and highway construction cost estimation** and confronted it with the international approach. The analysis⁶⁸ showed that the final costs of Slovak projects were on average 20% lower than the estimate of the state's expert opinion which is prepared in the early phase of the project. The values reached are in contrast with international experience where budget was exceeded by 20% on average. The primary cause seems to be the use of unreasonably high unit prices for preparations of estimates, which is the result of insufficient database of historical unit prices and insufficient risk assessment. The use of inaccurate (too high or too low) estimates may potentially have a negative impact on the cost-benefit analyses and on the project selection process. Therefore, the analysis recommends to, for example, **create a public database of historical unit prices for motorways and public work within the Department of Transport** and to **hire professionals to support cost estimation**.

Railways

Work continues on the ongoing **upgrade of the railway corridor Bratislava - Žilina** and the procurement of train units, the upgrade of corridors Bratislava- Kúty state border and Žilina - Košice is being launched. The maximum operating speed of trains will increase to 160 km/hour in the selected sections within the northern railway corridor. Also the comfort of passengers will improve.

There is a potential of more efficient use of train sets, if the run-up and occupancy of trains is increased. The cost per train kilometre is mainly influenced by the high charge for the railway infrastructure⁶⁹, structure of average train set, poor utilization of vehicles, limitation by train kilometres⁷⁰, different ratio of remote and regional transport, or operation of transport in locations with low demand for rail transport. Average cost per train kilometre of ZSSK is 76% (or 53 % if we disregard the transport route fee) higher than in the Czech Republic (Czech railways). Hence, the MTC SR will continue to search for measures to optimize the unit cost and increase revenues by 20% in aggregate in the subsidized public passenger rail transport in accordance with the Transport Spending Review.

The MTC SR will strengthen the rail transport on most significant routes by 3.4%. Another strengthening, by 1.6% for now, is also possible without the need to increase the subsidies by re-distribution of non-productive transports - subsidized trains that do not carry passengers (train sets) to productive transports with the aim to achieve more efficient utilization of individual vehicles.

In order to support the demand for public transport, making it more efficient, **competition could be increased** and tenders for individual rail routes could be launched. In tenders, the state could choose from the offer of multiple carriers and reduce the requirements for subsidies, increase the number of lines, or improve the travelling quality. Before the liberalization, the data about the number of passengers and the economy of individual lines needs to be put together, ensuring the protection of confidential commercial information⁷¹. In the first phase, the MTC SR is preparing tenders mainly for local routes.

⁶⁷ Additional sources from the EU funds that the Department of Transport invests in the first class roads cannot be used for routine maintenance.

⁶⁸ [OECD: Motorway Cost Estimation Review - Example of Slovakia](#)

⁶⁹ Based on the EC report, the average fee for the use of transport route per kilometre for a 500 ton long-distance train was 50% on average higher than in the Czech Republic in 2014 and, in the case of 140 ton regional train, the difference equalled to 2.36 multiple.

⁷⁰ The Czech carrier uses vehicles more (more trains relatively to the length of rails), they monitor not only the train kilometres but also the cost.

⁷¹ In accordance with the European legislation (particularly the Regulation of the European Parliament and of the Council 2016/2338 of 14 December 2016 amending Regulation (EC) 1370/2007).

The optimization of the financial situation of ZSSK is also possible if investment projects are planned more carefully. **Alternatives to investments, such as long-term leases, should undergo thorough analyses** and compared against the option of acquisition. Optimum solution should be implemented.

4.7 Environmental sustainability and energy sector

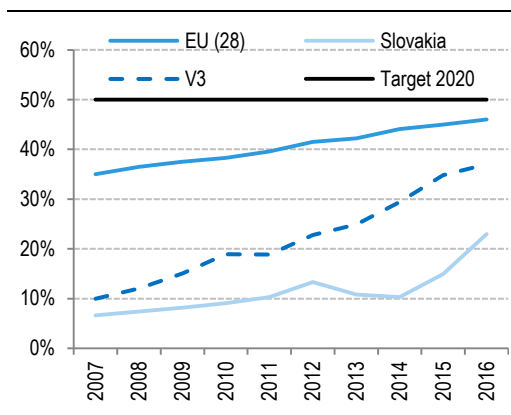
Implementation of measures identified in the environmental spending review will increase the value for money for measures in the area of environmental quality improvement. The adoption of strategic documents will create a framework for the direction of individual environmental policies and propose systemic solutions for the greatest environmental challenges of Slovakia. Aiming to increase the recycling rate in the area of waste management, the amendment act on fees putting dumping at disadvantage will be implemented in January 2019. A framework will be created for the transition to the circular and green economy. Support will go to environmental education.

Performance indicators for environmental sustainability and energy

		2009	2010	2011	2012	2013	2014	2015	2016	Target 2020
Non-ETS greenhouse gas emissions⁷² (%, change against 2005)	SK	-8.1	-5.1	-11.2	-14.7	-19.5	-24.4	-23.2	-	13
	EU	-6.0	-3.9	-7.9	-8.7	-9.9	-13.0	-	-	-10
Share of RES⁷³ on gross final consumption (%)	SK	9.4	9.1	10.3	10.4	10.1	11.7	12.9	12.0	14
	EU	12.4	12.9	13.2	14.4	15.2	16.1	16.7	17.0	20
Final consumption of electricity (%, change against average of 2001-2005)	SK	-7.0	0.9	-5.3	-9.6	-7.0	-12.3	-11.4	-8.8	-11
	EU	-4.8	-0.7	-5.3	-5.4	-5.4	-9.3	-7.3	-5.5	-7.3

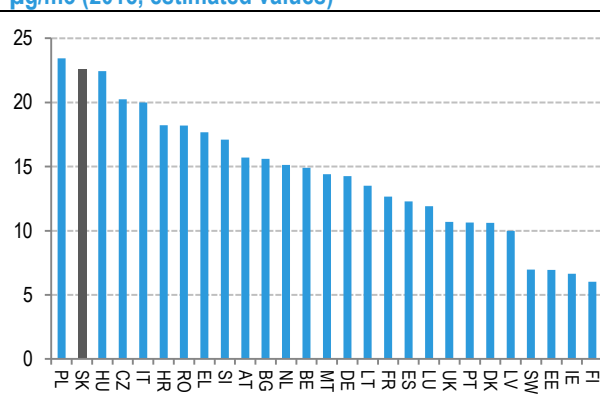
According to the composite EPI index⁷⁴, Slovakia has ranked 28th in the world in 2018 in the overall quality of the environment, falling four ranks lower compared to 2016. There are still areas such as waste management and air quality where we significantly lag behind. Slovakia ranks below the EU and V3 average in the recycling rate although it is improving at a greater pace than the average pace in the EU. The number of Slovak residents who are exposed to harmful dust particles PM_{2.5} is above the average.

Figure 37: Municipal waste recycling ratio



Source: Eurostat

Figure 38: Average exposure of population to PM_{2.5} in µg/m³ (2015, estimated values)



Source: OECD

Spending review implementation

The measures of the environmental spending review will continue to be taken based on the Implementation Plan 2018 in cooperation with the Deputy Prime Minister's Office for Investments and Informatization. Their implementation will lead to the EUR 24 million higher value in the area of improvement of the environmental quality in 2018.

⁷² ETS - emission trading system

⁷³ RES - renewable energy sources

⁷⁴ The Environmental Performance Index assesses states from the perspective of overall consideration regarding the environment. This index was developed at the Yale University where it is also assessed for individual countries.

Information platform - Green economy

After the pilot year 2017, the Green Education Fund will continue in funding the educational environmental activities by supporting non-governmental organizations. After the pilot phase, which was launched in 2017 and focused on the business sphere, the information platform Green Economy will be extended to include other entities as well. It will help increase environmental awareness and provide relevant information about the funding with respect to circular economy⁷⁵ transition.

Environmental strategies

In 2018, the **Environmental Policy Strategy until 2030** will be submitted to the Slovak Government for approval. It sets measurable objectives and proposes systemic solutions for largest environmental challenges of Slovakia, particularly the air quality, wastes, and forests.

In the first half of 2018, a low-carbon development study will be published. This study is being prepared by the ME SR in cooperation with the World Bank and experts from other departments. The **Low-Carbon Strategy** will be prepared as a follow-up to the study and will identify the opportunities for the development of the Slovak economy and the potential for the reduction of emissions in a cost-efficient manner with the outlook until 2050.

The update of the **Adaptation Strategy of the Slovak Republic to Adverse Impacts of Climate Change**⁷⁶ will also undergo the approval process in 2018. The aim of this update is to ensure efficient implementation of adaptation measures and the increase in overall awareness about this issue.

A **National Air Pollution Control Programme** and the **Air Quality Improvement Strategy** will be prepared and will contribute to the improvement of air quality and compliance with the Slovakia's international commitments in the area of emission reduction.

Waste management

The amendment act on the **fees for waste dumping** (probably effective as of January 2019) will help **decrease dumping and also support greater recycling**. The creation of a specific road map to circular economy will be initiated. This map will develop the aspects of the environmental policy contained in the upcoming Environmental Policy Strategy of Slovakia for 2030. Emphasis will be laid on the entire life cycle of products and services with accent on eco-innovations, rational use of natural sources, product design, sustainable production and consumption.

A new **Waste Prevention Programme** of the Slovak Republic for 2019-2025 will be adopted in 2018. The programme will aim at minimizing the generation of waste and careful compliance with the waste management hierarchy. The new waste management information system will help improve the control over the waste flows.

Protection of nature and biodiversity

More intensive attention will be paid to the solution concerning the issue of ownership relationships in the protected areas. The implementation of innovative funding sources for the protection of nature will be considered.

⁷⁵ The aim of the circular economy is to maintain the value of products and materials for as long as possible. If the product reaches the end of its life cycle, the sources will not be removed from the economy but will be used again and again to create a new value minimizing the impact and use of new sources.

⁷⁶ The Adaptation Strategy of the Slovak Republic to Adverse Impacts of Climate Change was approved in 2014. Employing integrated approach, this document also deals with the adaptation of species and ecosystems to the adverse impact of climate changes. Adaptation measures were adopted for: protection and natural renewal of forests, diversification of the countryside and country structures, building of connectivity and green infrastructure, and control/elimination of invasive species.

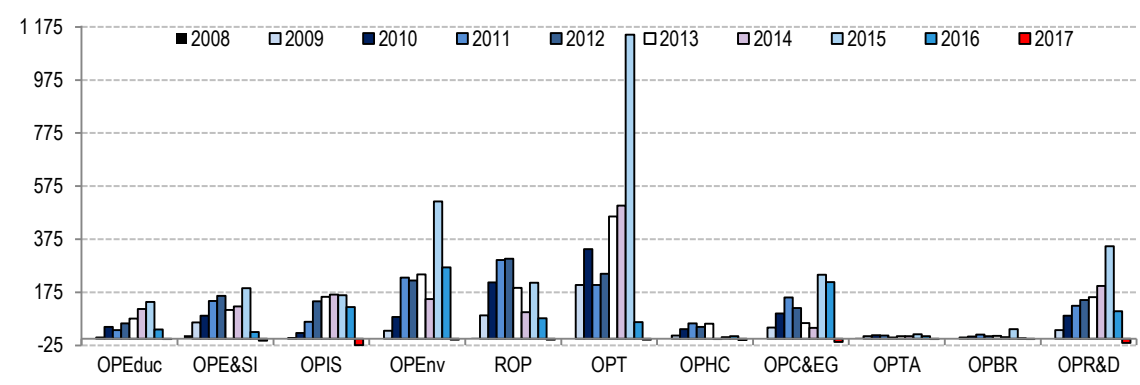
5 EU cohesion policy

The EU cohesion policy has been, on a long-term basis, one of the key instruments of social and economic development of Slovakia and attainment of the Europe 2020 strategy targets, and implementation of a part of measures of annual country specific recommendations of the EU council for Slovakia. Cohesion policy funds are the main source of financing public investment in Slovakia. The investments reached 61 % out of the total volume of EU resources⁷⁷ in the programming period 2007-2013.

The eligible period for drawing resources under the programming period 2007-2013 ended in 2015⁷⁸. In accordance with the EU legislation, the complete final documentation for the operating programmes (OP) of the **programming period 2007-2013** was sent to the European Commission (EC) by 31 March 2017. This documentation was discussed during 2017 with the EC. Until the end of 2017, the first operating program of the programming period 2007-2013: INTERACT II was closed by the EC.

Out of all the 14 OPs under the control of Slovakia (including the OP Fishery and the OPs SR/CZ Cross-border Cooperation and the OP INTERACT II), the drawing of EU funds was in aggregate 97% in 2017 (funds drawn amounted to EUR 11.3 billion out of the overall EU allocation of EUR 11.6 billion). The final figures of drawn funds will be known after the final requests for payment, final documentation for individual programmes are accepted by the EC and after settlement of open cases.

Figure 39: Drawing of structural funds and the Cohesion Fund, the second PO 2007-2013 (EUR million)



Source: MF SR

Slow beginning of the third programming period drawing poses a risk of low drawdown until 2020.

As in the previous programming period, Slovakia starts drawing the funds with a two-year delay. The delay is caused by the focus of administrative capacities on the closure of the programming period 2007-2013 and by the delayed preparation and complexity of the EC legislation for the programming period 2017-2020. The partnership agreement of the SR and the OP funded from ESIF in the programming period 2014-2020 was approved by the EC gradually in 2014 through 2015. The EU fund drawing is also conditional upon the compliance with 43 ex-ante conditionalities which were set at the EU level for all thematic objectives of ESIF and other related areas. The verification process of EC conditionalities was finalized in July 2017 and the ÚPPVII played a significant role in the process.

Considering the higher GDP in the period of consideration compared to the initial expectations, the financial envelope underwent technical revision in accordance with the EU legislation (reduction by EUR 68.8 million). Based on this, the Partnership Agreement SR for 2014-2020 and three programmes were revised: OP Research and Innovations, Integrated Regional OP, OP Integrated Infrastructure. On the contrary, in accordance with the decision allocating additional funds to the Slovak Republic from the separate sources of the Youth Employment Initiative, the OP Human Resources allocation grew by EUR 12.4 million.

⁷⁷ Expenditures from SF, CF, European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD), cross-border cooperation, etc.

⁷⁸ With the exception of the implementation of the financial instruments where the eligible period expired at the end of March 2017.

Out of the total allocation to 12 OPs amounting to EUR 15.5 billion, the amount of EUR 1,747.9 million was drawn at the end of 2017, which ranges at the level of 11.3 %. The total volume of contracted projects reached EUR 5,327.4 billion, which is 34.4%. The compliance with the n+3 rule was checked as of 31 December 2017 for 7 OPs approved by the EC in 2014. As of 31 December 2018, the n+3 rule will already be monitored for all OPs. This means that Slovakia will be able to draw funds from the third programming period until 2023. Until the end of 2018, also the amounts set in the financial indicator of the performance framework of individual programmes will have to be declared to the EC and, based on their compliance, the EC will either allocate or not allocate a performance reserve to the OP.

According to the analytical scenario⁷⁹ and with the slow beginning observed in the first three years, Slovakia might draw approximately a half of the allocated funds from the ESIF until the end of 2020. However, the experience gained during implementation of the EU funds within the previous programming period imply that funds are normally most drawn in the last years of the eligible period which ends on 31 December 2023 (based on the n+3 rule) for the third programming period 2014 - 2020.

EU fund allocation and drawing for the period ended 31/ 03/ 2018, third PP 2014-2020

Operating programme	Managing authority	Allocation from EU funds (EUR million)	Drawing (EUR million)	Contracting rate of projects (EUR million)
Research and innovations	MESRS SR	2,204.1	97.2	890.4
Integrated infrastructure	MTC SR	3,949.2	711.4	1,139.9
Human resources	MLSAF SR	2,217.3	335.5	1,124.8
Environmental quality	ME SR	3,137.9	224.4	1,096.6
Integrated regional OP	MARD SR	1,738.8	81.9	416.9
Efficient administration	public MI SR	278.4	13.1	95.0
Technical assistance	GO SR	159.1	33.8	77.7
Fisheries	MARD SR	15.8	0.0	0.03
Interreg V-A SK-CZ	MARD SR	90.1	0.0	0.3
Interreg V-A SK-AT	MARD SR	75.9	0.0	0.0
PS INTERACT III	BSK	39.4	6.1	39.4
Total		13,906.0	1,503.4	4,881
Rural development	MARD SR	1,559.7	434.1	835.8
Total		15,465.7	1,937.5	5,716.8

Source: MF SR, ITMS, CKO

A Deputy Prime Minister for Investments and Informatization Government Office of the Slovak Republic (ÚPPVII) was set up in June 2016 as a new central body of the state administration for the management, coordination, and surveillance of the use of the EU funds for the areas of information society and investments. New rights have been added to the EU fund management area, namely the right to review calls and written notices before their announcement, and the right to set up crisis management of the relevant managing authorities if the binding plans of OPs are not met. Assessment of draft calls and incorporation of the ÚPPVII's comments (as of 31/ 12/ 2017, more than 2,800 in total) into the final proposals has significantly contributed to the higher quality of the calls announced.

In the summer 2017, the ÚPPVII prepared an Action Plan to strengthen transparency and simplify the implementation of the ESIF and was approved by the Slovak Government in September 2017. The plan introduces, for example, the simplified expenditure reporting, fully electronic communication for selected processes, it radically changes the criticized professional evaluator selection system (only experts from the

⁷⁹ The forecast until 2020 is based on the assumption of an adjusted scenario of unchangeable policies for a 12-month EU fund drawing profile in the given programming period. The 12-month EU fund drawing profile in the third programming period is similar to the profile of the previous one in the forecast. Specific items of expenditures are then indexed with the forecast growth of salaries, inflation, and nominal growth of GDP in line with the actual forecast of the MF SR.

area that is covered by the project assessed), introduces mandatory use of the ARACHNE⁸⁰ EU tool within the fight against corruption and prevention of conflict of interest, etc.

Slovakia takes an intensive part in the continuous discussions about the future form of cohesion policy after 2020. After an extensive survey by way of questionnaires in Slovakia, the ÚPPVII prepared an Initial Position of the Slovak Republic to the Cohesion Policy post 2020 that was approved by the Slovak Government in January 2018.

⁸⁰ [ARACHNE risk scoring tool](#)

6 Institutional framework for the Europe 2020 strategy and NRP

The NRP is based on the new Manifesto of the Government of the SR in which the Slovak Government set out to strengthen social and political stability, respond in a flexible way to opportunities and negative external environment, steadily continue to support the economic, social and environmental development, deepen economic, social and territorial cohesion of Slovakia, strengthen the role of the state and the protection of the public interest. The basic focus of the measures contained in the NRP is also determined by sectoral strategies. The Deputy Prime Minister and the Minister of Finance of the Slovak Republic is the NRP coordinator. They also cooperate with GO SR. The Deputy Prime Minister for Investments and Informatization Government Office of the Slovak Republic continuously supervises the reflection of the strategy into SF, CF, and ESIF.

Ministers responsible for economic, social, and school agenda are primary involved in the preparation and implementation of the NRP. 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 tertiary sector, are regularly held during the year. During the NRP preparation, a meeting of state secretaries from all involved government departments took place. The financing of measures from the NRP will be ensured within the set expenditure and personnel limits of the chapters of the state budget.

At the international level, this material presents measures to meet the targets contained in the Europe 2020 strategy defined in the 2018 Annual Growth Survey and Integrated Guidelines for the Europe 2020 Strategy, as well as to meet the country-specific recommendations of the EU Council for the Slovak Republic. The NRP also reacts to the assessment of the implementation of the specific recommendations from 2017 made by the European Commission and published in March 2018⁸¹. The cohesion policy is an important tool for the fulfilment of the strategy targets. In 2014 a new seven-year programming period started.

An independent Action Plan comprising the most important measures with a significant fiscal impact together with the deadline for their implementation and responsibility makes an independent appendix to the NRP.

⁸¹ [Country Report](#), Slovakia 2018, SWD(2018)

Annex 1: National targets under the Europe 2020 Strategy and other indicators

Europe 2020 Strategy and other performance indicators

			2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Target 2020
Fiscal policy and public finance													
1	Long-term sustainability indicator (GAP) (% of GDP)	SK	-	9.5	9.2	7	4	1.9	1.4	0.4	-0.1	-	0
		EU	-	-	-	-	-	-	-	-	-	-	-
2	Effectiveness of VAT collection (%)	SK	62.3	55.5	54.3	54.3	49.8	54.7	57.2	58.1	60.1	-	-
		EU	69.6	64.1	65.4	66.0	66.0	66.4	67.8	67.2	69.1	-	-
3	VAT gap (%)	SK	31.3	34.9	35.6	38.2	41.0	37.2	32.3	31.6	28.3	-	-
		EU	-	-	13.5	14.4	15.0	14.8	14.0	12.8	-	-	-
Education, science, and innovations													
4	PISA (average score)	SK	-	488	-	-	472	-	-	463	-	-	505
		OECD	-	497	-	-	497	-	-	492	-	-	-
EU 5	School drop-out rate (% of population aged 18 - 24)	SK	6	4.9	4.7	5.1	5.3	6.4	6.7	6.9	7.4	-	6
		EU	14.7	14.2	13.9	13.4	12.7	11.9	11.2	11	10.7	-	10
6	Citations (% , 100 = EU average)	SK	40	35	34	35	45	47	44	50	55	-	70
		EU	-	-	-	-	-	-	-	-	-	-	-
EU 7	Tertiary education attainment (% of population aged 30 - 34)	SK	15.8	17.6	22.1	23.2	23.7	26.9	26.9	28.2	31.5	-	40
		EU	31.2	32.3	33.8	34.8	36	37.1	37.9	38.7	39.1	-	40
EU 8	Expenditure on R&D (% of GDP)	SK	0.46	0.47	0.62	0.67	0.81	0.83	0.89	1.18	0.79	-	1.2
		EU	1.85	1.94	1.93	1.97	2.01	2.03	2.04	2.03	2.03	-	3
9	High-tech export (% of total export)	SK	5.2	5.9	6.6	6.6	8.2	9.5	9.7	9.8	-	-	14
		EU	15.4	17.1	16.1	15.4	15.7	15.3	15.7	17	-	-	-
Employment and social inclusion													
10	Long-term unemployment rate (% of active population aged at least 15)	SK	6.6	6.5	9.2	9.2	9.4	10.0	9.3	7.6	5.8	5.1	3
		EU	2.6	2.9	3.8	4.1	4.6	5.1	5.0	4.5	4.0	3.4	-
EU 11	Employment rate (% of population aged 20 - 64)	SK	68.8	66.4	64.6	65.0	65.1	65.0	65.9	67.7	69.8	71.1	72
		EU	70.3	69.0	68.6	68.6	68.4	68.4	69.2	70.1	71.1	72.2	75
EU 12	Population at risk of poverty and social exclusion (% of population)	SK	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4	18.1	-	17.2
		EU	23.7	23.3	23.7	24.3	24.7	24.6	24.4	23.8	23.5	-	19.4
13	Benefit ratio (average pension benefit, % of average salary)	SK	-	-	43.7	-	-	45.7	-	-	46.6	-	-
		EU	-	-	41.4	-	-	44.0	-	-	43.5	-	-
Modernization of public administration and the business environment													
14	Doing Business (World Bank ranking)	SK	-	-	-	-	-	-	-	33	34	39	15
		EU	-	-	-	-	-	-	-	30	32	34	-
		V3	-	-	-	-	-	-	-	31	31	35	-
15	Product market regulation index (number of points)	SK	1.62	-	-	-	-	1.29	-	-	-	-	1.2
		OECD	1.53	-	-	-	-	1.44	-	-	-	-	-
16	E-government (%)	SK	40	38	50	48	42	33	57	51	48	47	71.7
		EU	35	37	41	41	44	41	47	46	48	49	-

	17	Corruption perception (%)	SK	-	-	-	-	-	39.5	-	45.6	-	46.4	62.6
			EU	-	-	-	-	-	61.1	-	63.1	-	62.4	-
Health														
			SK men	52.1	52.4	52.4	52.1	53.4	54.5	55.5	54.8	-	-	59.0
	20	Healthy life years (expected number of years at birth)	EU men	61.1	61.3	61.8	61.7	61.5	61.4	61.4	62.6	-	-	-
			SK women	52.5	52.6	52.0	52.3	53.1	54.3	54.6	55.1	-	-	62
			EU women	62.2	62.0	62.6	62.1	62.1	61.5	61.8	63.3	-	-	-
Environmental sustainability														
EU	21	Non-ETS greenhouse gas emissions (% change against 2005)	SK	-5.1	-8.1	-5.1	-11.2	-14.7	-19.5	-24.4	-23.2	-	-	13
			EU	-2.2	-6.0	-3.9	-7.9	-8.7	-9.9	-13.0	-	-	-	-10
EU	22	Share of RES on gross final consumption (%)	SK	7.5	9.4	9.1	10.3	10.4	10.1	11.7	12.9	12.0	-	14
			EU	11	12.4	12.9	13.2	14.4	15.2	16.1	16.7	17.0	-	20
EU	23	Final consumption of electricity (% change against average of 2001-2005)	SK	0.8	-7.0	0.9	-5.3	-9.6	-7.0	-12.3	-11.4	-8.8	-	-11
			EU	1.0	-4.8	-0.7	-5.3	-5.4	-5.4	-9.3	-7.3	-5.5	-	-7.3

Description of indicators of Europe 2020 Strategy performance and of other areas

Name of indicator	Definition and source
Long-term sustainability indicator (GAP)	<p>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)</p> <p>Source: OECD / Eurostat, calculation Council for Budget Responsibility</p>
VAT collection effectiveness	<p>VAT collection effectiveness = VAT collected / [(final consumption of households + gross fixed capital formation of the public administration + intermediate consumption of the public administration – VAT collected) * (basic VAT rate / 100)]</p> <p>This index compares the actual VAT collection against the 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.</p> <p>Source: OECD / Eurostat, calculation: MoF SR</p>
VAT gap	<p>The difference between the amount of VAT the state could potentially collect, if all economic entities acted in line with the act and the interpretation thereof in the form in which it was adopted, and the amount of VAT actually collected.</p> <p>VAT gap = [theoretical (potential VAT) – actually collected VAT]*theoretical (potential VAT)</p> <p>Source: European Commission / CASE, calculations: MoF SR</p>
School drop-out rate	<p>The share of population aged 18-24 with the lowest education (ISCED 0, 1, 2, 3C), who do not continue further studies. A student 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.</p> <p>Source: Eurostat (edat_ifse_14)</p>
PISA	<p>Internationally standardised assessment of the knowledge and skills of 15-year-old students. It assesses students in three areas: mathematics, reading and natural sciences. The index is an arithmetic average of the scores obtained in the individual areas.</p> <p>Source: OECD - PISA 2015 Results (Volume I) [Tab I.2.3; I.4.3; I.5.3]</p>
Tertiary education attainment	<p>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.</p> <p>Source: Eurostat (edat_ifse_03)</p>
Citations per researcher	<p>The proportion of the number of citations in renowned international journals (Scimago Journal & Country Rank) per number of researchers in the country (Eurostat). The indicator is expressed relative to the average of European Union countries.</p> <p>Source: http://www.scimagojr.com/, Eurostat (rd_p_persocc), calculation by MF SR</p>
Expenditure on R&D	<p>The percentage share of total R&D expenditure in GDP.</p> <p>Source: Eurostat (rd_e_gerdsc)</p>
High-tech export	<p>The share of high-tech export in the country's total export. High-tech products are represented by selected products in the following industries: aerospace, computers and office machinery, electronics-telecommunications, pharmaceuticals, scientific instruments, electrical machinery, chemistry, non-electric machinery and armament.</p> <p>Source: Eurostat [htec_si_exp4]</p>
Employment rate	<p>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 salary or benefit) for at least one hour, or who did not work but had a job from which they were temporarily absent.</p> <p>Source: Eurostat (t2020_10), SO SR</p>
Long-term unemployment rate	<p>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</p> <p>Source: Eurostat, SO SR</p>

Population at risk of poverty and social exclusion	<p>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 seriously materially deprived are those who cannot afford at least four of the following nine items: i) 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 or with a very low intensity of 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.</p> <p>Source: Eurostat (EU-SILC, t2020_50), SO SR</p>
Benefit ratio	<p>Benefit ratio - an indicator of pension adequacy. It is calculated as a ratio of the average pension (all pension types included - disability, old-age, minimum) to the average gross salary in the economy. The indicator shows a simple average for the EU countries. Values comparable on an international basis are published in a regularly updated Ageing Report of the European Commission.</p> <p>Source: Ageing report, European Commission</p>
Doing Business	<p>A country's position in the Doing Business ranking, which measures regulation of small and medium-sized enterprises throughout the nine stages of their life cycle: 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.</p> <p>Source: World Bank</p>
Product market regulation index	<p>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).</p> <p>Source: OECD</p>
E-government	<p>The percentage of individuals aged 16-74, who use the internet for communication with the public administration.</p> <p>Source: Eurostat (tin00012)</p>
Corruption	<p>The corruption indicator is set as a mean value of two indices: The perception and the experience of corruption by businesses - Eurobarometer survey The survey includes the issues relating to the extension of corruption practices, public procurement tender, spreading of corrupt behaviour in public tenders, experiences with bribes in public job orders, and opinions on how the corruption is punished. 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, calculations by IFP</p>
Healthy life years	<p>The number of years lived in a good state of health that may 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). It is calculated separately for males and females.</p> <p>Source: Eurostat (hlth_hlye)</p>
Non-ETS greenhouse gas emissions	<p>Non-ETS greenhouse gas emissions, such as CO² equivalents, represent the percentage change compared to 2005. The indicator shows the trends of aggregated anthropogenic emission of CO₂, NO₂, CH₄, HFC, PFC and SF₆ called greenhouse gasses and presented as CO₂ equivalents. The total quantity does not include emissions from land use and forestry (LULUCF).</p> <p>Source: SHMI</p>
Share of RES on gross final consumption	<p>The share of the 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.</p>

Source: Eurostat (t2020_31)

**Final consumption
of electricity**

The final consumption of electricity includes all energy supplied to final consumers (in industry, in transport, in households, and in other industries) for all types of energy needs. It does not include the supplies of energy for transformation and/or own consumption by energy industries or the losses in the network.

Source: Eurostat (t2020_35)
