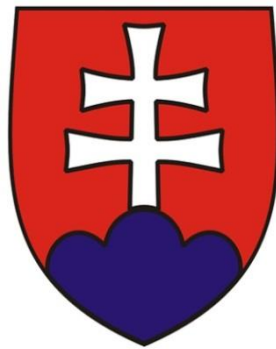


**Ministry of Finance of the Slovak Republic**



**| National Reform Programme  
of the Slovak Republic 2017**

April 2017

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## Summary

The National Reform Programme of the Slovak Republic 2017 (NRP) describes the structural measures that the Slovak government plans to implement in the next two years. The new complex approach to the identification of priorities taking into account GDP, as well as other life quality aspects, identified the labour market, the healthcare system and the primary education as the biggest challenges of the Slovak economy.

In 2016, 54 thousand of new job positions were created, the second most successful year in the Slovak history, and the unemployment rate dropped to lowest level since the end of 2008 (9 % in the fourth quarter 2016). Measures focusing particularly on the **decrease in long-term unemployment rates** should result in further decrease in unemployment. Therefore, job seeker profiling, personalised consulting and new active labour market policies (ALMP) will be introduced within the public employment services. Furthermore, **expansion of childcare facilities for children up to three years of age** and flexible employment of mothers with children will be supported. Several project calls for the **support of integration of people from the marginalized Roma communities** (MRC) will be announced throughout the year. The arrival of several foreign investments in the area of services and car production will help increase the employment rate as well.

**The efficiency of tax collection** has had the best results since 2012. In order to increase the efficiency of tax collection, the Financial Administration plans to implement internal assessment of tax entity reliability. To improve the efficiency of collection of the arrears of taxes, the risk of tax debtors will be assessed as well. In order to support the fight against tax evasion, a central analytical unit will be built up.

The **Value for Money project** serves as an instrument of the government to improve the efficiency of public spending. The healthcare, transport and informatization spending reviews have brought first results. A big investment project assessment process defining a more active role for the Ministry of Finance has been set up. The spending reviews focusing on the labour market and the social system, regional and tertiary school system, and the environment will be finished by June 2017.

The aim of the ongoing **spending reviews as regards the regional and tertiary education system** is to ensure efficient allocation of additional sources flowing to the education with emphasis on the improvement of students' results. The regional education results have got worse even though the expenditures have been higher in recent years. The measures in the area of education focus on the increasing the attractiveness of teaching profession particularly by way of teacher pay rises, expansion of kindergartens, and support of MRC integration. Measures taken to improve **science, research and innovations** should improve the control of the quality of tertiary education, and the efficiency of expenditures in this area. The link between education and labour market will get tighter.

The **transport spending review** identified a significant space for improvement of spending efficiency. More efficient spending would be attained particularly by better measurement of the results in the area of assessment, prioritization and preparation of investment projects, funding of the class A roads maintenance and repairs, and decrease in the cost of railway infrastructure operation. The construction of the missing sections of motorways and highways and the construction, reconstruction, and maintenance of the class A roads are in progress. The significance of railway transport and the efficiency of the public passenger transport should continue to be systemically increased in the public transport area.

**Better-working public administration** should be ensured by various measures. The so-called anti-offshore companies law will come into effect in 2017; this law should bring transparency to the transactions between the government and the private sector. Aiming to improve the professionalism and to de-politicize the civil service, a civil service law was adopted. The obligations of public companies to publish commercial contracts will be expanded and specified in more detail and a space to publish contracts of local governments in a single point will be created. 50 client centres have been set up by January 2017 within the ESO reform and more are planned to be opened.

The **administrative burden for the business environment** will be reduced by the electronization in the area of tax payment and debt collection, and the optimization of the health service and the services of the commercial register. Changes with a positive impact on the business environment have also been adopted in the process of judicial restructuring and debt collection (distrain proceeding).

Collective selection procedures to occupy vacant positions of judges will be implemented in **judiciary** and committees to assess the work of judges will be set up. The Ministry of Justice plans to audit judiciary in 2017. The amendment to the bankruptcy law brings a more accessible personal bankruptcy for individuals in debt trap.

The implementation of the conclusions of the 2016 spending review will increase the efficiency of **healthcare spending**. The payments for hospitals were changed to payments for diagnostic-related group (DRG) since 2017. The implementation of *eHealth* continues to progress and should be fully functional in 2018. The network of urgent care centres will be completed. The emergency care system and the competence model will be reorganized. The transparency will be strengthened and maximum waiting times will be introduced for additional procedures within walk-in care.

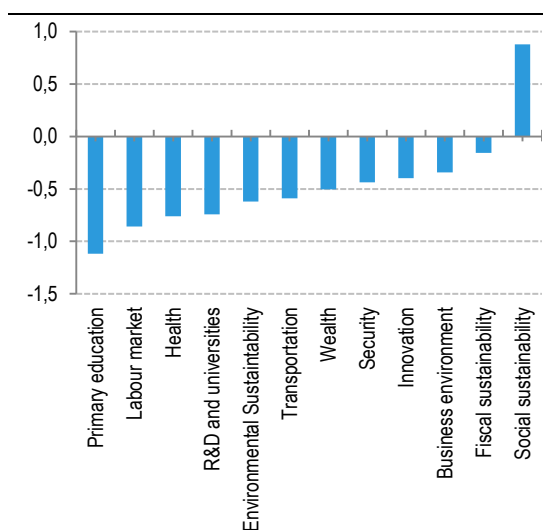
The NRP is based on the country specific recommendations of the EU Council for Slovakia from 2016, as well as on the assessment of their implementation by the European Commission from February 2017. The NRP measures will be funded within the allocated expenditure and personnel limits of individual budget chapters.

# 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 healthcare<sup>1</sup>. Compared to the assessment in 2015, improvement has been observed particularly in the labour market area. With the exception of income inequality (social sustainability), Slovakia attains substandard values in all other monitored performance indicators (Figure 1).

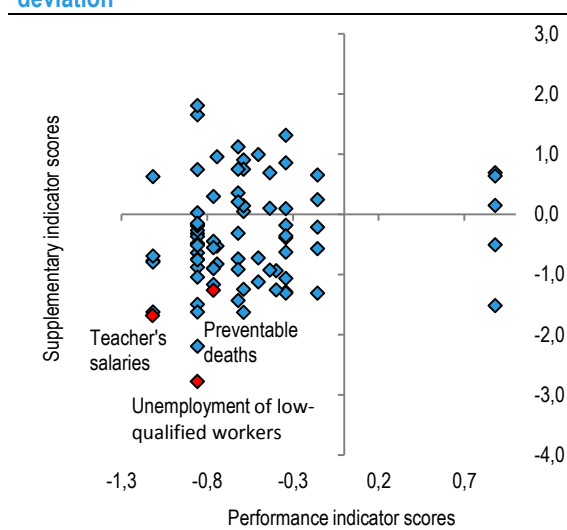
Performance indicators are matched with supplementary indicators (Figure 2), which disaggregate a broadly defined problem (e.g. the labour market) into smaller, better understandable areas (e.g. unemployment of low-skilled workers or preventable mortality in the healthcare quality<sup>2</sup>). Thus, the points in the lower left quadrant contain substandard performance indicators, as well as supplementary 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 the 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

The supplementary indicators suggest that the main labour market problem resides in employing low-skilled workers and in long-term unemployment. 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.

Slovak Republic 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<sup>3</sup> suggests high ineffectiveness of used resources.

<sup>1</sup> These priorities have been identified in the updated methodology of Slovakia's priority identification (Lafféřová, 2017).

<sup>2</sup> The preventable mortality forms a part of a more complex indicator – avoidable mortality. The avoidable mortality is split to preventable mortality (indicated above) and amenable mortality. The preventable deaths may be averted by the public healthcare actions and policies which focus on broader determinants of health associated with behaviour, life style, socioeconomic status, and the environment. Amenable deaths are frequently used as a healthcare quality indicator, since they also include deaths which could have been averted if timely and appropriate healthcare and treatment was provided.

<sup>3</sup> Filko, M. et al. (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, Ministry of Finance of the Slovak Republic

Internationally comparable outcomes in education can so far only be measured at the level of primary schools in the form of PISA testing of 15 year old students. These outcomes declined significantly in 2015. Education has important impact in other areas as well, such as labour market outcomes and labour productivity. The government addresses these challenges by adopting measures that are described in the relevant chapters of the NRP.

## 2 Implementing the measures under the National Reform Programme 2016

The level of implementation of the NRP Action Plan tasks is organised according to the particular country specific recommendations for Slovakia, which have been approved by the June summit of the European Council and adopted by the EU Council in July 2016.

### 1. Efficiency of healthcare and tax collection

**Specific recommendation of the Council: Achieve an annual fiscal adjustment of 0.25 % of GDP towards the medium-term objective in 2016 and of 0.5 % of GDP in 2017. Improve the cost-effectiveness of the healthcare system. Take measures to increase tax compliance.**

*The healthcare spending review was finalized in 2016 and it identified significant room for cost efficiency improvements in amount of 174 to 363 million EUR a year. The hospitals administered by the Ministry of Health of the Slovak Republic were asked to terminate the existing contracts and select new suppliers in compliance with then actual market prices. After pharmaceuticals, the international reference pricing also extended to medical devices and specialised medical material. Although the long-lasting preparations for electronization (eHealth) and for the introduction of payments for diagnostic-related group lag behind as regards the rate of implementation, they remain to be the main priorities of healthcare in the next two years.*

*The efficiency of VAT collection and corporate income tax continues to be successfully improved. The mineral oil tax gap has been stabilized. Several measures focusing on more efficient tax administration will come into force in 2017; these include particularly the introduction of the institute of a simplified tax assessment proceeding, amendment to the institute of preliminary measure and the provisions concerning recusal proceeding.*

#### **Fiscal policy**

The results and objectives of budgetary policy are detailed in the Stability Programme of the Slovak Republic for 2017-2020.

In the tax area were taken **measures with the overall positive impact** on the tax yield amounting to 317 million EUR (0.4 % of GDP) in 2017. Measures with emphasis on the minimization of negative impact on the economic growth have been taken in the context of public finance consolidation. The measures apply to the sectors with imperfect competition, indirect tax increases, and improvement of tax fairness in taxation of capital gains and dividends. They include particularly the extension and changes in special levy in regulated sectors, changes in the special contribution of financial institutions, introduction of withholding tax on dividends, and increase in the excise tax on tobacco products. Furthermore, measures having a positive impact on the business environment have been taken, and they include such measures as corporate income tax rate reduction, cancellation of tax licenses (since 2018), and increase in the lump-sum allowance for the self-employed.

#### **Healthcare system**

**The 2016 healthcare spending review** identified measures to **increase efficiency ranging from 174 to 363 million EUR**. Specific cost saving measures for 2017 amount to 174 million EUR and will be used for healthcare to efficiently contribute to the reduction in the mortality rate amenable by the healthcare system.

The processes to improve spending by the hospitals administered by the Ministry of Health of the Slovak Republic continue to progress. In order to improve the efficiency of the procurement process with regard to utilities and services, as well as pharmaceuticals and medicinal material, the hospitals were asked to terminate the existing contracts. The **selection of new suppliers** should be **in compliance with the actual market prices** of utilities and the average market prices of the selected services and goods. In September 2016, hospitals were provided a price list of pharmaceuticals representing the maximum possible price levels



at which the individual items should be purchased. If all hospitals purchased pharmaceuticals for the lowest possible prices, the savings attained could reach EUR 6.5 million.

The international **reference** pricing also **extended to medical devices and specialised medical material**. The prices of medical devices subjected to the reference pricing for the first time came into force in June 2016. When the medical devices reference pricing was introduced in 2016, the prices of 535 medical devices (11.1 % of all devices) dropped by 21 % on average compared to the prices valid in 2015<sup>4</sup>. The pricing of the selected special medical materials (pacemakers, stents, and defibrillators used in cardiac institutes) was referenced for the first time in 2016 against the pricing valid in the Czech Republic. The scope of referenced materials was extended in October to include all materials and the impact attained by referencing is estimated by the Ministry of Health to reach EUR 35 million.

Several projects which should contribute to better efficiency and transparency of the healthcare system have been implemented on a long-term basis:

- **Implementation of eHealth and electronic healthcare services.** From November 2015 the testing of the system was performed in four pilot facilities; now legal and other technical areas required for the preparation of additional functionalities are being prepared.
- **Introduction of payments for diagnostic-related groups.** Comprehensive collection of clinical and economic data in the DRG structure without the impact on financing is being carried out since 2016. The MoH SR prepared a methodology to calculate the basic rates which shall converge to a single rate in the medium term horizon.
- **Redefining the types of hospitals and care.** The MoH SR has prepared their own proposal for the stratification which was published as a part of annexes to EU funding drawdown within the Integrated Regional Operational Programme (IROP) in the first half of November 2016. The staffing limits and the material and technical equipment, and the typology of hospitals will be treated throughout 2017 in order to make the cost objective and improve the efficient allocation of resources.

### **Tax collection**

The **fight against tax evasion** remains the key priority of the Slovak government. The additional revenue resulting from the improvements in VAT collection in 2016 stemming from the measures taken to fight tax evasions has been estimated to reach EUR 1.04 billion (1.3% of GDP) compared to 2012. The effective corporate income tax rate has been growing rapidly in recent years, which is owing to the procyclical nature of this tax and particularly to the VAT measures which also translate into the corporate income tax revenues.

In addition to VAT, efforts also focus on the **excise taxes**, an area where **several measures have been taken in order to restrict the space for optimisation** of the excise tax on tobacco products or to generally fight excise tax evasions. The updated mineral oil tax gap shows that the tax gap has been stabilised in recent years. Unlike in the case of VAT, the mineral oil excise tax gap is formed not only by evasion but by cross-border purchases as well. The tax gap trend is also under significant influence of the exchange rate development in relation to the neighbouring countries.

Effective as of 2017, several measures focusing mainly on a **more efficient tax administration** have been taken. The **preliminary measure** has been amended; this institute is an efficient aid leading to the fulfilment of future obligations by tax entities. It will allow the tax administration to react more flexibly in case of reasonable concerns that the tax which is not payable or assessed yet would not be paid or would be non-recoverable once it becomes due. The **recusal provision** is amended to include the obligation for the tax entity to provide grounds for the recusal submitted and give the name of the person recused. The aim is to prevent obstruction of tax administration by repeated filing of objections which are frequently ungrounded. The latest changes effective as of January 2017 as regards the **sanctions applicable to ungrounded tax base reduction** by way of an incorrect transfer pricing method benefit those taxpayers who accept the decision of tax administration concerning tax difference assessment and who do not use the appeal option.

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<sup>4</sup> June 2016/December 2015 price comparison. The prices of devices did not change between December 2015 and March 2016 (before referencing), this is why the decrease may be attributed to referencing.

A new **simplified assessment procedure** (assessment order) has been introduced as a new flexible tax assessment method. The assessment order will be issued by a tax administration if doubting the accuracy or truth of the tax return filed and the tax entity does not react to their request for removal of such irregularities.

**Electronic property taxation was reinforced.** From 2017, the property tax data is submitted in the electronic form only by way of the budgetary information system for local governments.

The preparation phase of the **central analytical unit development and completion of analytical capacities of the Financial Administration** took place in 2016. The Ministry of Finance of the SR prepared a pilot study of the Financial Administration spending review which identifies the opportunities of further improvement of efficiency of tax collection, customs collection, and decrease in the administrative cost per every euro collected.

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

***Specific recommendation of the Council: Improve activation measures for the long-term unemployed and other disadvantaged groups, including individualised services and targeted training. Facilitate the employment of women, in particular by extending the provision of affordable, quality childcare. Improve educational outcomes by making the teaching profession more attractive and by increasing the participation of Roma children from early childhood in mainstream education.***

*The reform of public employment services continues through increasing efficiency of activities and employee training at labour offices. Several changes have been made in the ALMP tools in order to support the disadvantaged groups of jobseekers in the labour market. A legislative framework for the childcare facilities for children up to three years of age has been set up and conditions for their financial support are being defined. The childcare allowance was raised from January 2016 and the maternity benefit and the parental allowance have been increased.*

*The salaries of pedagogical employees have been rising since 2013 – they were increased by 4 % in January 2016 and by additional 6 % in September 2016. The capacities of kindergartens have been expanded.*

### **Public employment services**

The October 2016 pilot study of the public employment service spending review identifies opportunities to improve operational efficiency of labour offices and to reallocate resources used for the ALMP tools and operation. The main goal is enhancing employability of the long-term unemployed jobseekers<sup>5</sup>.

The improvement of public employment services continued through trainings of labour office employees. Based on evaluations of activity efficiency at labour offices employees are being relocated to more frequent and demanding activities. The MoLSAF SR adopted an **action plan** in November 2016<sup>6</sup> to implement various forms of support for the integration of long-term unemployed in the labour market, particularly the **individualised consultancy including jobseeker profiling, or education and requalification programmes**.

Several changes have been made in the ALMP tools focusing on the **disadvantaged groups of jobseekers** in the labour market. Projects have been launched to support job creation for **low-skilled and long-term unemployed** and for **jobseekers aged 50 and older**. The **graduate practice programme** was extended to include a broader group of young jobseekers including the mentoring scheme with job creation with employers. Changes in **labour mobility allowances** made the conditions for their use more flexible.

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<sup>5</sup> The joint study of the Ministry of Finance of the SR and the Ministry of Labour, Social Affairs and Family of the SR: A lot of work at labour offices: Efficiency and effectiveness of public employment services (2016).

<sup>6</sup> Action plan to promote integration of long-term unemployed in the labour market in the Slovak Republic.

### **Work-life balance**

The parliament adopted legislation in January 2017 (the so-called nursery law) implementing the legislative framework for **childcare facilities for children up to three years of age**, effective as of March 2017. Their activity used to be governed under notifiable trade regulations. The legislation has introduced the qualification requirements for employees, staffing standards, scope and method of provision of these services, inspection activity, and registration of the providers of such services. In order to develop childcare for children up to three years of age, funding conditions are being prepared for the funding drawdown in the programming period 2014-2020.

To support employment of mothers with children, the maximum **childcare allowance** was increased from EUR 230 to EUR 280 from January 2016 to cover the costs of childcare incurred by parents. Furthermore, the administrative burden associated with the allowance has also been reduced.

### **Parental benefits**

After the 2016 increase, the **maternity benefit** was increased in May 2017 again from 70 % of the daily assessment basis 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. The maximum maternity benefit will grow from EUR 1,260 to EUR 1,350 per month in January 2017. Also the parental allowance will be increased in May from the current EUR 203.20 to EUR 213.20. The impact of the parental and maternity benefit increases will amount to EUR 29.9 million in 2018.

### **Social inclusion**

An increased allowance for the care of disabled persons will be provided from 2017 within **welfare services for the disabled**. The 2017 budget counts on additional spending of EUR 29.5 million to that effect.

The support of **field social work and social services** (community centres, daily low-threshold centres, and low-threshold social services for children and family) continues<sup>7</sup>. The projects focus on the improvement of the social situation of individuals affected or threatened by social exclusion, including the people living in MRC, through preventive activities, assistance in preparation for school, provision of social consultancy, and better access to employment or healthcare. The financial allocation for the implementation period from October 2015 to September 2019 amounts to EUR 29.3 million for the first and EUR 20.9 million for the second project.

**Inclusion of people from MRC** will be supported by several EU funded projects. They will focus on the support of kindergartens, community centres, field social work, and access to drinking water. The overall financial allocation of the calls for project proposals announced in 2016 totalled EUR 121.4 million. The projects approved by March 2017 focus on the construction and reconstruction of kindergartens (36 projects amounting to EUR 14.5 million) and community centres (7 projects valued at EUR 1.1 million). The solution of social inclusion issues is also promoted by the measures aimed at the support of regional development and job creation in regions with higher MRC share.

### **Education**

The salaries of pedagogical employees and specialised staff in regional and tertiary schools **grew by 4 %** in January 2016 and by **additional 6 %** in September 2016. As regards the pay rise in future, faster growth of salaries of beginning teachers are expected to be supported in order to increase the attractiveness of teaching profession for the most talented young people.

Throughout 2015, municipalities and towns were provided EUR 14.5 million to **expand the capacity of kindergartens**. 185 applicants received support and 125 new classes were built by the end of 2016 (target: 227 classes until 2018) and 13 classes were kept in operation (target: 22 classes). This will allow for gradual acceptance of approximately 5 thousand new children and the creation of around 460 jobs for teachers.

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<sup>7</sup> Projects: *Field social work in towns I*. and *Support of selected social services of crisis intervention at the community level*.

### 3. Efficiency and transparency of public administration, business environment

**Specific recommendation of the Council: Consolidate governance, reinforce the shift from price only to quality-based competition and improve the prosecution of illicit practices in public procurement. Improve the transparency, quality and effectiveness of human resources management in public administration, in particular by adopting a new civil service act, and the effectiveness of the justice system. Adopt a comprehensive plan to address administrative and regulatory barriers for businesses.**

*The so-called anti-offshore law was passed effective as of February 2017 in order to improve the transparency of public procurement. Effective as of June 2017, the amendment to the civil service law for the efficient and transparent human resources management will come into force. The amendment to the bankruptcy law brings a more accessible option of personal bankruptcy for individuals. Changes with a positive impact on the business environment have been adopted in the process of judicial restructuring and debt collection (distrain proceeding).*

#### **Public procurement**

The law laying down the register of public sector partners (the so-called **anti-offshore law**) passed by the parliament introduced effective as of February 2017 an obligation for the companies to publish the ownership structure going down to the ultimate beneficiary in transactions with the government.

#### **Human resources management**

The parliament passed an amendment to the **civil service law** in February 2017 effective as of June 2017. The new legislation focuses on the improvement of transparency and efficiency in hiring state employees, increasing the stability of state job position through their de-politization, or performance assessment and remuneration in public service. Furthermore, the central information system of the public service has been set up for better planning and management of human resources.

#### **Judiciary**

Effective as of March 2017, the amendment to the bankruptcy and restructuring law (the so-called bankruptcy law) decreases costs connected with initiation of the **personal bankruptcy** proceeding. The new legislation makes the instrument allowing to break free from debt trap more accessible also for individuals without income and property, including protection against loss of home. However, in no way it does decrease the satisfaction of eligible claims by creditors. Debtors will be provided with legal aid by the Legal Aid Centre.

In November 2016, the parliament approved changes in **distrain proceeding** which should accelerate the debt collection processes. The amendment to the Distraint Code introduces the random selection of distraint officer in order to enhance his/her impartiality in the distraint proceeding, lump-sum remuneration for distraint officers, stronger electronic communication and the central registry recording distraint proceedings in order to ensure transparency of the distraint proceeding. Changes should also relieve courts of unnecessary work in this area, since one of the key changes in the new amendment includes the establishment of a single **specialised court** to hear distraint cases in Slovakia. The judges and other court employees working in this new workplace will be highly specialised in distraint matters, accelerating qualified and quick decision of the cases.

#### **Business environment**

Changes in the **judicial restructuring process** (amendment to the Bankruptcy and Restructuring Law) will also have a positive impact on the businesses as regards the establishment of relationships between debtors and creditors. Effective as of March 2017, the amendment to the so-called Bankruptcy Law revokes the option of forgiving more than a half of debts and changes the maturity of the remaining debts to five years in the company restructuring process, unless the creditors give a voluntary consent.

In order to simplify the tax payment administration, a **two-way electronic communication** in relation to businesses has been implemented in the excise tax administration area since January 2016.

## **eGovernment**

The **informatization spending review** took place in 2016 within the *Value for Money* project. The final report identified direct cost savings roughly amounting to 5 to 9 % of IT spending for 2017 (EUR 22 to 40 million a year) attained by the implementation of centralized support services such as telecommunication and connectivity, Microsoft product licenses, and the more efficient use of the governmental cloud.

The powers concerning the information society were transferred in 2016 from the Ministry of Finance to a newly established Deputy Prime Minister for Investments and Informatization Government Office of the Slovak Republic (DPMIIGO). In September 2016, the government passed the National eGovernment Concept (NeGC), a key document laying down the central architecture and the central components of the eGovernment architecture, and the rules for information system development. In February 2017, the Slovak Government Council for Public Administration Digitalization and Uniform Digital Market approved four of ten strategic NeGC priorities in separate control documents - *Governmental Cloud*, *Data management*, *Multi-Channel Approach* and *Integration and Orchestration*<sup>8</sup>. The remaining NeGC priorities will be developed throughout 2017.

There are currently 1,693 **integrated service points** (1,010 administered by towns and municipalities; 603 by the Slovak Post; 80 by the Ministry of the Interior of the SR) which provide public administration e-services made accessible on the Central Public Administration Portal by way of assistance to individuals and businesses.

## **Progress in other areas**

### **Social insurance and pension saving scheme**

The implementation of the 2012 **pension reform** continues; this reform made the retirement age dependent on the life expectancy increase. For the first time it will be automatically extended by 76 days in 2017. Despite the higher one-off indexation in 2017, the reform helps dampen the growth of pension expenses which would be EUR 275 million higher without the reform.

In December 2016, the government passed an amendment effective as of February 2018, which will enable **programmed pension withdrawal and temporary pension scheme in the second pension pillar** to a wider number of participants. One-time withdrawal of the money saved up (in the event of a programmed withdrawal) at retirement will be made accessible to savers who would have higher pension<sup>9</sup> than the average pension awarded after 2003<sup>10</sup>.

### **Transport**

The **transport spending review** was conducted in 2016 within the *Value for Money* project. Based on the conclusions of the review, the Ministry of Finance of the SR will perform an economic assessment of the investment projects being developed in the transport sector throughout 2017 with the estimate of total cost amounting to EUR 7.5 billion.

The main priority within transport infrastructure construction<sup>11</sup> remains to be the **completion of the D1 motorway from Bratislava to Košice**. In 2016, the construction of Budimír – Bidovce section (14.4 km) was underway within D1, a tender for a Prešov bypass took place, and the last section not tendered yet is the Turany – Hubová section. Also the construction of the Čadca, Bukov – Svrčinovec (5.7 km) D3 section began and the BA bypass – D4/R7 (58.7 km) got the green light as well. All in all, based on the February 2017 data this makes nearly 143 km of motorways and highways in construction, thereof approximately 17 km of tunnels

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<sup>8</sup> Strategic priorities of NeGC.

<sup>9</sup> The sum of all pension types (old-age, early old-age, widow's, widower's, invalidity from the first pension pillar, old-age life annuity, early old-age life annuity from the second pillar, pension for years of service or similar pension plans from other countries).

<sup>10</sup> The average sum of first pillar pension plans awarded after 2003 which are not paid concurrently with other pension plan and are in full amount (not reduced owing to participation in the second pillar).

<sup>11</sup> Based on the strategy of the Ministry of Transport and Construction of the SR.

and more than 20 km of bridges. A 9.6 km long Bánovce nad Bebravou bypass in half profile was finished on R2 in October 2016.

Investments continue to flow into modernization of railway corridors, purchase of new and the restoration of the existing train units. Three of the main **corridor structures in railway infrastructure** are being built. It includes a nearly 12 km long section between Zlatovce and Trenčianska Teplá near Trenčín. This year, the construction of the missing not upgraded section on the Bratislava - Žilina: Púchov - Považská Teplá (16 km) was begun. Construction work also continues on the last section before Žilina at Považská Teplá - Žilina (22.7 km)

In January 2017, the Slovak government approved the **Strategic Development Plan for Transport until 2030** (second phase of the *MASTER* plan). It sets up strategic priorities, i.e. measures (e.g. completion of a specific road axis, upgrade of specific routes, change of organisation in some areas) which have been reviewed and given preference from the perspective of their potential contribution and economic efficiency. For example, in the evaluation section it lists the sections of motorways which may be reviewed as to their width bringing more economical construction.

In the development and evaluation of measures, also the first outputs of the **Slovakia Traffic Model** were used. Once it is made fully functional in future, it should become one of the basic tools to develop and assess the transport policy and its impacts, and it should help assess the transport infrastructure projects being prepared and planned. It should be able to determine the traffic load, the characteristics of traffic stream, compare various scenarios of changes in traffic, and the like.

The **uniform standardized methodology of CBA for investment projects** with consistent and validated assumptions is being developed in cooperation with the Ministry of Finance of the SR and JASPERS<sup>12</sup>.

### **Reducing regional disparities**

**Action plans for 12 lagging regions** were approved in 2016<sup>13</sup>. They contain a list of specific project plans focusing on the support of business and investors, human resources development, and improvement of local infrastructure with the expected total financial allocation of EUR 50.3 million. The 2016 regional aid was provided for the reconstruction of elementary schools, development of infrastructure, pilot projects of social housing, and the activity of development centres in amount of EUR 1.7 million. The powers within regional development including the support to the lagging regions were shifted in January 2017 from the Ministry of Transport and Construction of the SR to the Government Office of the SR to improve coordination between individual departments.

The **tax relief on social security and healthcare contributions for employers employing individuals with residence in lagging regions** is valid since December 2015 and, further, the target group of unemployed has been extended. The extended tax relief on contributions applies to a new group of employees who were kept in records as unemployed for at least 6 successive months and whose income is less than 67 % of the average wage valid two years ago (EUR 591.61 in 2017). Employers will pay contributions on behalf of these employees only for accident insurance and guarantee insurance up to 12 calendar months.

Further, the modified investment aid rules also introduced less strict conditions for the **drawdown of investment aid in lagging regions for the manufacturing sector**. While investment aid is normally only provided for projects with a minimum investment for acquisition of assets of EUR 3 million up to EUR 10 million (depending on the region), this limit is decreased to EUR 200 thousand in lagging regions. As regards small and medium enterprises operating in lagging regions, this limit is decreased down to EUR 100 thousand.

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<sup>12</sup> JASPERS is a partner of the European Commission and the European Investment Bank, it assists countries aiming to improve the quality of investments funded through EU funds.

<sup>13</sup> The criterion qualifying a region as a lagging region is the unemployment rate which was 1.6 times higher than the average unemployment rate in Slovakia during at least 9 of the previous 12 quarters (Act No. 336/2015 Coll. on the Support of Lagging Regions effective as of December 2015).

### **Public administration – ESO reform**

50 **client centres** were set up by January 2017 within the ESO reform and more are planned to be opened. The opening of the client centres started in 2013. 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.

### **Innovation support**

The **tax relief for expenditure on research and development** adopted in 2015 should support investments by businesses in research and development. This tax relief was claimed in 2015 tax period by 85 entities in amount of EUR 9.2 million, meaning that the negative fiscal impact amounted to EUR 2 million. These entities paid tax in amount of EUR 63.3 million (2.2 % of the total corporate income tax revenue). The tax relief did not have a substantial motivating effect on new and small enterprises. It was claimed particularly by well-established and successful enterprises. Around 60 % of the volume was claimed by large enterprises employing 250 or more employees. The share taken by small and medium enterprises from this relief amounted to 40 %.

### **More prudent lending to households**

The indebtedness of Slovak households has been constantly growing since 2003 and has been highest within the EU countries since 2010. The long-lasting growth in loans granted to households is supported by low interest rates. However, the overall indebtedness ratio of households in relation to GDP and to disposable income of households remains to be significantly under the EU average<sup>14</sup>.

To **reinforce prudent lending**, the Ministry of Finance and the NBS have taken several measures. The mortgage loan and consumer loan conditions have been<sup>15</sup> amended<sup>16</sup>. Changes apply to the client's loan repayment capacity indicator taking into consideration the potential increase in interest rates or client's income verification. As regards consumer loans, limits of maximum maturity have been adopted and these loans may only be granted by licensed entities. Furthermore, effective as of January 2017 a measure taken by the NBS introduces restrictions on loans for housing amounting to 90 % of the property value and with maturity over 30 years.

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<sup>14</sup> While the average indebtedness ratio to GDP reaches 63.4 % in the EU, it is only 34.7 % in Slovakia. While the ratio of household loans to their disposable income reaches on average 100 % in the EU countries, in Slovakia it is 57.5%.

<sup>15</sup> Amendment to the Act No. 90/2016 Coll. on Housing Loans and on amendments to certain acts as amended by Act No. 299/2016 Coll. and the NBS Measure No. 10/2016 of December 2016 effective as of January 2017.

<sup>16</sup> Amendment to the Act No. 129/2010 Coll. on Consumer Loans and Other Loans and Borrowings for Consumers effective as of March 2016.

### 3 Macroeconomic framework and medium-term forecast

The macroeconomic and fiscal stability is understood by the Slovak Government as the necessary condition for economic development and improvement of quality of life. This chapter looks at Slovak macroeconomic outlook.

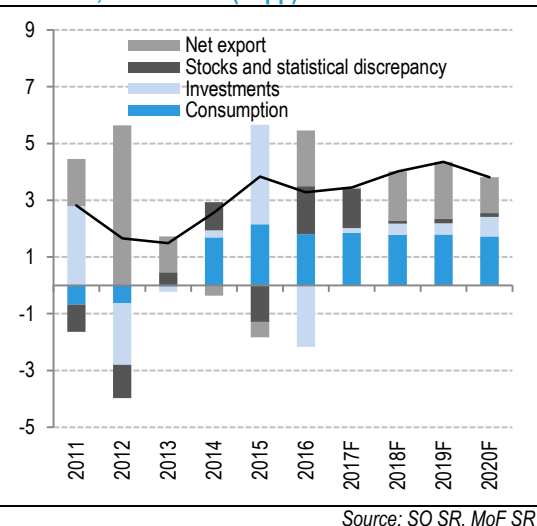
#### **Growth was driven by household consumption and net exports**

The Slovak economy grew by 3.3% last year. This growth was mainly driven by the consumption of household and, after a two-year period, also by net exports. The slackening of growth compared to the last year is particularly owing to lower EU funding drawdown in the new programming period, resulting in 9 % decrease in investments in the whole economy. A positive sign was the growth of household consumption which has hit the highest figures since 2008 owing to excellent labour market condition and falling prices. The export did not manage to hit the strong growth figures of 2015 again in spite of record-breaking production in the automotive industry which could not have compensated for the slowdown in the V3 countries.

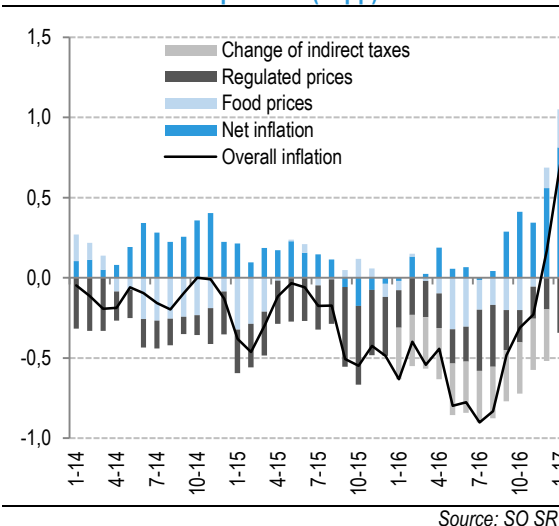
The 2016 was one of the best years for the labour market. The increase in the number of employed by 54 thousand<sup>17</sup> reduced the unemployment rate (according to the LFS methodology) to the level of 9.6 %. It got down to the level of the record-breaking year 2008. Job creation occurred evenly across all sectors of domestic economy. The growth of the number of foreigners working in Slovakia was record-breaking (increase by 8 thousand); foreigners have occupied 15 % of all new job positions. Nominal wages grew by 3.3 %. Real wages have been growing even more at the rate of 3.8 % thanks to the deflationary trend. It was the third year in a row that they have surpassed the labour productivity growth.

Inflation hit the bottom in 2016. The year-long price decrease deepened and reached 0.5 %. It was caused particularly by exceptionally low prices of food and slow growth of the prices of marketable goods. Around the end of year the inflation rate reached positive figures particularly because of the growth of food and fuel prices which reacted to the growing oil price. The service price growth accelerated as well, while the prices of marketable prices stagnated. The inflation continued to accelerate at the beginning of 2017.

**Figure 3: Contributions to GDP growth in Slovakia, 2012 - 2020 (in pp)**



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



#### **Gradual acceleration of the Slovak economy growth in the following years**

The economy will repeat the 3.3% growth in 2017. The growth structure will be well-balanced, the economy will be driven by both the domestic and the foreign demand. The revival of inflation will slightly slow down the real growth of household income and, consequently, also their consumption. The growing investments

<sup>17</sup> Based on the national accounts system (ESA).



will be driven by the public sector, automotive industry and the D4/R7 construction. On the contrary, the recovery of private investments will be moderate. The export activity will accelerate and surpass the dynamics of the foreign demand. The increase in investments with great demand for import and connected with the construction of a new car factory will contribute to the acceleration of imports, which will result in a decrease in the contribution of net exports to GDP on a y/y basis. The economy will accelerate to 4 % or 4.3 % in 2018 and 2019 thanks to new production capacities. At the end of the mid-term horizon, the economic growth will slow down towards the long-term potential of economy to 3.8 %.

The employment rate in this year will grow by 1.8 %. This will result in more than 42 thousand new job positions, 26 thousand of which in the market services sector. A positive labour market development will decrease the unemployment rate to 8.4 %. A brisk growth of employment rate supported by all economy sectors is also expected in the years to come. The unemployment rate will thus attack the 6 % threshold at the end of the mid-term horizon.

Inflation will get out of negative figures in 2017 and the prices will grow by 1.1 % on average. This development will be most driven by the net inflation. A higher oil price will translate into fuel prices and, secondarily, also into food and service prices. The regulated prices will continue to moderately dampen the inflation. The demand-pull inflation will continue to accelerate in the following years. The prices of market services will grow most quickly out of all inflation items; the link between the growth of wages and prices will be restored in economy. However, higher energy prices, and particularly the gas and heat prices are expected based on the development of future contracts covering energy commodities. Inflation will hit the 2 % at the end of 2019 and it should, based on the expectations associated with convergence of the Slovak economy, slightly accelerate at the end of the horizon forecast.

## 4 Planned measures in structural topics

This chapter describes the measures which the Slovak Government undertakes to implement in the upcoming years. The measures concern the area of economy 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	<i>eHealth</i> implementation	01/01/2018	MoH SR
1	DRG – complete convergence of basic rates	31/12/2022	MoH SR
1	Analytical capacities of the Financial Administration	31/12/2017	FA SR
1	Annual clearing of social insurance	31/12/2018	MoLSAF SR
1	Implementation of the healthcare spending review outcomes	31/12/2017	MoH SR
1	Implementation of the transport spending review outcomes	31/12/2017	MoTC SR
1	Implementation of the informatization (IT) spending review outcomes	31/12/2017	DPMIIGO
2	Reform of employment services and ALMP	31/12/2017	MoLSAF SR
2	Expansion of kindergarten capacities and development of childcare for children up to three years of age	31/12/2017	MoLSAF SR, MoESRS SR, MoARD SR
2	Integration of marginalized Roma communities (education, labour market, and social inclusion)	31/12/2017	MoLSAF SR, MoESRS SR, MoI SR, SGPIRC
2	Changes of funding in regional education and its rationalization	31/12/2017	MoESRS SR
2	Higher quality and better support of teachers	31/12/2017	MoESRS SR
2	Increasing grant funding of tertiary education	31/12/2018	MoESRS SR
2	Reform of accreditation commission and accreditation process	31/12/2017	MoESRS SR
3	<i>eGovernment</i> implementation	31/12/2017	DPMIIGO, MoJ SR, MoF SR, MoTC SR
	Research and innovation support		MoF SR
	Transformation of the Slovak Academy of Sciences (SAV)	31/12/2017	MoESRS SR
	More efficient public passenger transport	31/12/2018	MoTC SR
	Construction of motorways and highways, upgrade of class A roads and railway corridors	31/12/2020	MoTC SR

## 4.1 Fiscal policy and public finance

In 2016, the government initiated a wide expert and political discussion in order to win constitutional majority with respect to the reform of the constitutional law on fiscal responsibility. The assessment of public spending effectiveness is a tool to achieve a balanced budget and to increase the value for money. The outcomes of spending reviews in the area of labour and social affairs, education, and environment will form a part of the 2018-2020 budget.

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. The annual clearance of the social security contributions is being implemented.

### Outcome indicators for fiscal policy and public finance

		2008	2009	2010	2011	2012	2013	2014	2015	2016	Target 2020
<b>Long-term sustainability indicator (GAP)<sup>18</sup></b> (% of GDP)	<b>SK</b>	-	9.5	9.2	7	4	1.9	1.4	1.4	-	0
	<b>EU</b>	-	-	-	-	-	-	-	-	-	-
<b>Effectiveness of VAT collection</b> (% of GDP)	<b>SK</b>	62.3	55.5	54.3	54.3	49.8	54.7	57.2	58.1	-	-
	<b>EU</b>	69.7	64.3	65.3	65.9	66.0	66.3	67.7	67.4	-	-
<b>VAT gap</b> (% of the potential revenue)	<b>SK</b>	31.3	34.9	35.6	38.2	41.0	37.0	33.1	31.4	28.6	-
	<b>EU</b>	-	-	13.5	14.4	15.0	14.8	14.0	-	-	-

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.

The **budgetary framework of the Slovak Republic is evaluated positively for 2015** in the area of **fiscal rules**, but the European Commission (EC) has identified opportunities for improvement in the medium-term budgetary framework [The index of national fiscal rules](#)<sup>19</sup> reached the same value as in 2014 (2.5), which ranks Slovakia among the top 10 countries in the EU. Since 2015, the local government is liable to pay fine<sup>20</sup> for exceeding the debt rule.

The quality of the **medium-term budgetary frameworks** is in line with the EU average and is one of the best among the V4 countries. The index for medium-term budgetary frameworks<sup>21</sup> achieves the EU average (0.6 out of a maximum 1) owing to detailed description and scope of information contained<sup>22</sup>, link to the budget, and clearly defined correction mechanisms in the event of failure to meet objectives. The EC has identified the opportunities for improvement particularly in making the medium-term framework more binding,

<sup>18</sup> Data is available for Slovakia only.

<sup>19</sup> The index of national fiscal rules is compiled by the European Commission. It periodically evaluates the effectiveness of various dimensions of fiscal rules (legal basis, space for changes of objectives and binding rules, monitoring institutions, correction mechanisms, resistance to events outside the control of the Government), designed to ensure budgetary discipline

<sup>20</sup> If the total amount of the debt of the municipality or higher territorial unit reaches 60 % of the actual current revenues of the previous financial year or more, the municipality or higher territorial units are obliged to pay the fine imposed by the Ministry of Finance, amounting to 5 % of the difference between the total debt and 60 % of real current revenues of the previous financial year. The government does not ensure the ability to pay and is not responsible for the solvency of the municipality or higher territorial unit.

<sup>21</sup> Medium-term budgetary frameworks allow fiscal policy planning beyond the one-year horizon of the budget, which does not provide an adequate basis for effective financial planning. Based on the new method, this pillar, among other things, evaluates the scope of public administration included in the medium-term budget, relationship of objectives between the annual budget and medium-term budget, coordination of the budget planning process, and involvement of the national parliament and an independent budget institution, and the level of compilation of medium-term budgetary frameworks.

<sup>22</sup> The medium-term budgetary framework of the Slovak Republic is included in the Stability Programme.

whereas save for the first year the objectives are indicative, and in the implementation of binding spending ceilings.

Figure 5: National fiscal rules (index)

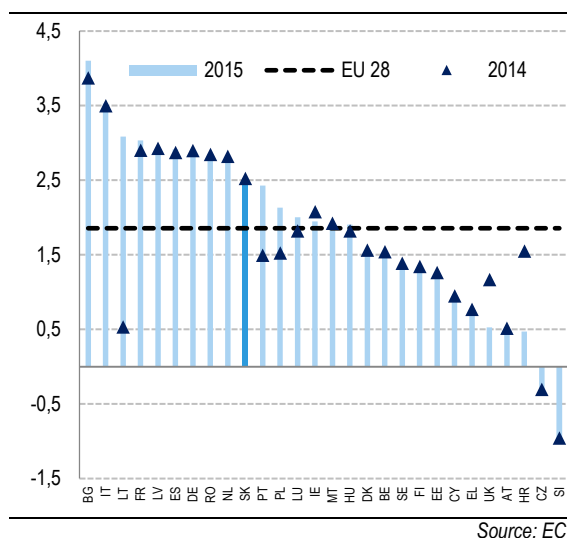
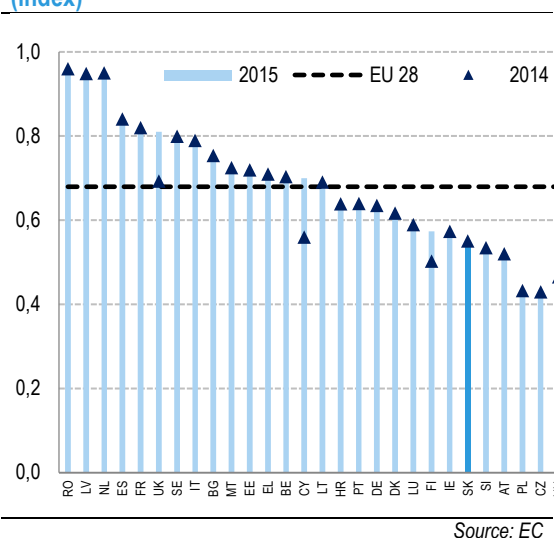


Figure 6: Medium-term budgetary frameworks (index)



### Reforms of budgetary rules

In order to win constitutional majority, the government initiated a wide specialised and political discussion in 2016 with respect to the reform of the constitutional **law on fiscal responsibility**. The ongoing discussion aims to achieve neutrality of the so-called debt brake in the management of public debt by linking sanctions bands of the constitutional law with the net public debt in lieu of the gross public debt, setting of the sanction band parameters supporting the economic development of Slovakia, and taking into account the public investments in applying the sanctions. It is solely at discretion of the government which of the areas will be given preference within its mandate and the Manifesto of the Government. The Ministry of Finance will carefully monitor the discussion with respect to the application of a professional approach in the formation of this legislative amendment.

### Higher value for money

The government will, within the budget planning process applying the **Value for Money initiative**, continue in regular and systematic evaluation of public finance spending effectiveness. 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 spending on health service or informatization. The general government budget for 2017-2019 includes measures in health service amounting to EUR 174 million (corresponding to 3.9 % of health spending).

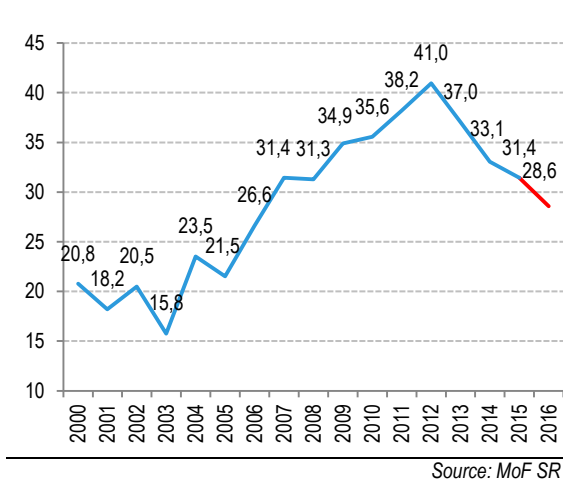
The second round of spending review focuses on the labour market and the social system, education, and the environment. From this year, the reviews will be completed by the end of June allowing the review outcomes to be taken into consideration in the general government budget. The outcomes of these spending reviews will form a part of the 2018-2020 budget. Significant transport investments valued at EUR 8 billion are being assessed as well.

### Efficiency of tax collection

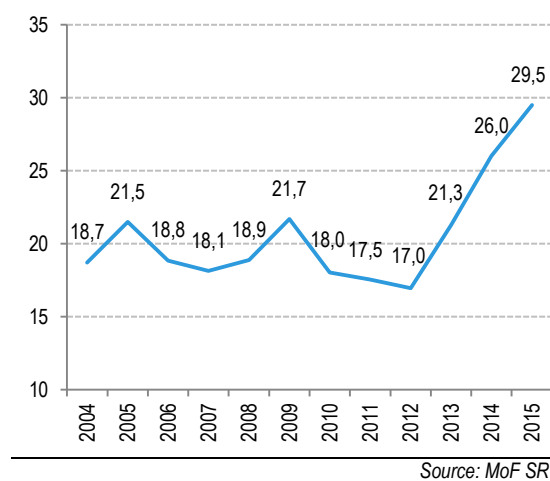
The measures of the three-phase action plan taken throughout 2012-2016 helped avert the long-lasting adverse development of VAT collection success. This is also supported by the decrease in the VAT gap which fell from 41 % to 31.3 % from 2012 to 2015. Based on preliminary estimates, the Ministry of Finance expects continued, even though more moderate, decrease in the VAT collection gap in 2016. 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<sup>23</sup>, attributed to the VAT measures which also translate into the corporate income tax revenues.

**Figure 7: VAT gap (% of potential revenue)**



**Figure 8: Effective corporate income tax rate (tax collected from the net operational surplus)**



In addition to VAT, efforts also focus on the **excise taxes**, an area where several measures have been taken as well in order to restrict the space for optimisation of the excise tax on tobacco products<sup>24</sup> 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 2015; at that time its estimate ranged from 17.1 % to 19.2 % of the potential revenue from this tax (corresponding to EUR 234 to 296 million).

In conjunction with the fulfilment of the action plan, additional measures focusing on the **fight against tax evasion** will be taken effective as of 2017. One of the proposed measures is the implementation of the **tax reliability index** as an internal instrument of preventive and motivational nature to assess the reliability of tax entities including special tax regimes for reliable tax entities.

To increase the efficiency of collection of the arrears of taxes, a **tax debtor risk assessment system** will be implemented. Bilateral electronic communication between distraint officers and banks will also be enabled in order to facilitate collection of arrears from accounts of tax entities.

The central analytical unit and addition of tax and customs analytics including risk management will be set up until 2020 to reinforce the **analytical capacities of the Financial Administration**<sup>25</sup>. An **interdepartmental analytical centre** dealing in financial crimes will be set up in cooperation with other public administration sectors, and this centre will actively cooperate in the preparation of drafts of legislative changes to prevent tax frauds.

In order to eliminate evasion of tax on the receipts, the Financial Administration plans to link the **electronic cash registers** with the financial administration systems.

The Financial Administration will allow to use the **ALLADIN system in support of inspections** carried out not only by customs authorities, but also by tax authorities, and will continue in the exchange of information concerning tax residents within international cooperation.

<sup>23</sup> The corporate income tax elasticity trend in relation to the macro base is procyclical. The effective tax rate was falling during the financial crisis years (2008-2012), and has been growing in the following years along with the growth of economy.

<sup>24</sup> Taxation of cigars and cigarillos depending on the weight rather than on the number of pieces.

<sup>25</sup> This plan will be implemented within the operational programme of the programming period 2014-2020, namely within the Operational Programme Effective Public Administration and the Operational Programme Integrated Infrastructure.

**Annual clearing of social insurance**

A legislation to implement the annual clearing of social insurance will be adopted by the end of 2018 as an effective instrument to prevent optimisation of social security contributions by entities<sup>26</sup>. This should decrease the motivation to report high remunerations in one month and it should lead to a fairer tax wedge on labour and higher government revenue. Payment of advances on social insurance will be possible since January 2019 and annual clearance of social security contributions in 2020 for the previous year. The estimated positive impact on the revenues from taxes and social security contributions amounts to approximately EUR 49 million depending on the final draft and without the cost of implementation. Looking at the actual accrual of social security contributions, the accrual impact is not expected to appear before 2020.

**Tax relief to promote housing**

The Ministry of Finance plans to implement a tax allowance reducing tax liability for youth for mortgage loans. Effective as of 2018, this form of tax bonus will replace the actual housing support for youth through the direct interest rate subsidy. The tax relief will benefit bank clients under the same conditions and interest rates as other clients of banks. The measure will make the housing support more targeted and more valuable keeping public expenses at the same level.

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<sup>26</sup> The sponsor is the MoLSAF SR in cooperation with the Social Insurance Agency and the MoF SR.

## 4.2 Education, science, and innovations

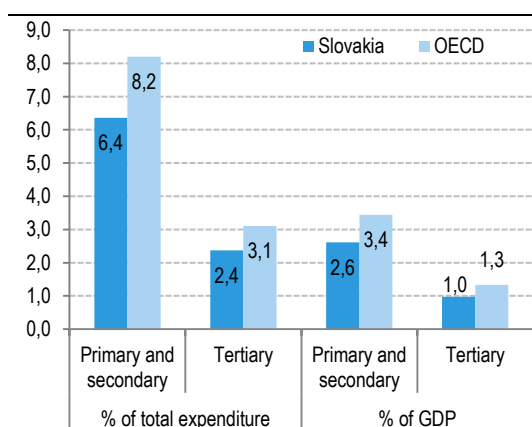
In spite of increase in funding in recent years, the outcomes of regional schools are getting worse. A spending review of regional and tertiary education will take place in 2017 aiming to effectively allocate additional resources flowing to education. The attractiveness of teaching profession continues to be increased mainly through increasing the teachers' salaries in accordance with the Manifesto of the Government of the SR. The capacities of kindergartens will be expanded and integration of children from MRC into education will be supported. As regards the tertiary education, the accreditation commission and the accreditation process is being reformed, the instruments to increase affordability of tertiary education will be made more direct, the professional study programs in higher education will ensure better relationship between education and the labour market. Measures to improve science, research, and innovations should increase the grant funding of the science and research activities; the Slovak Academy of Sciences will be transformed.

### Outcome indicators for education, science and innovation

		2008	2009	2010	2011	2012	2013	2014	2015	Target 2020
<b>PISA</b>	<b>SK</b>	-	488	-	-	472	-	-	463	505
average of the scores	<b>OECD</b>	-	497	-	-	497	-	-	492	-
<b>School drop-out rate</b>	<b>SK</b>	6	4.9	4.7	5.1	5.3	6.4	6.7	6.9	6
(% of population aged 18 - 24)	<b>EU</b>	14.7	14.2	13.9	13.4	12.7	11.9	11.2	11	10
<b>Citations</b>	<b>SK</b>	40	35	34	35	45	47	44	50	70
(%, 100 = EU average)	<b>EU</b>	-	-	-	-	-	-	-	-	-
<b>Tertiary education attainment</b>	<b>SK</b>	15.8	17.6	22.1	23.2	23.7	26.9	26.9	28.2	40
(% of population aged 30 - 34)	<b>EU</b>	31.2	32.3	33.8	34.8	36	37.1	37.9	38.7	40
<b>Expenditure on R&amp;D</b>	<b>SK</b>	0.46	0.47	0.62	0.67	0.81	0.83	0.89	1.18	1.2
(% of GDP)	<b>EU</b>	1.85	1.94	1.93	1.97	2.01	2.03	2.04	2.03	3
<b>High-tech export</b>	<b>SK</b>	5.2	5.9	6.6	6.6	8.2	9.5	9.7	9.8	14
(% of total export)	<b>EU</b>	15.4	17.1	16.1	15.4	15.7	15.3	15.7	17	-

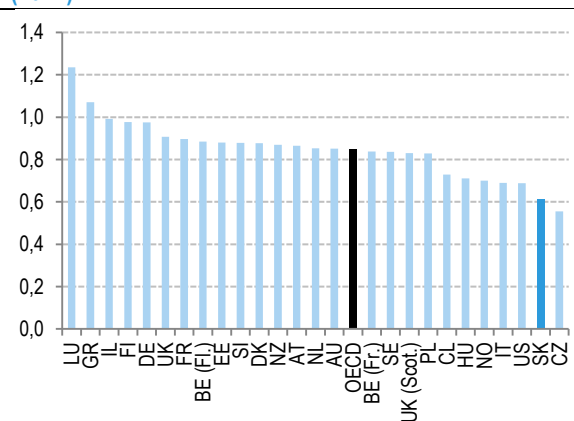
Compared with developed countries, expenditure on education and research is below average, with the largest gaps in primary and secondary education. But the expenditure on R&D as a share of GDP has seen a steady growth and comes close to the Europe 2020 strategy objective. Salaries of teachers have long been among the lowest in the OECD, although the difference has been partially alleviated by increasing the salaries of teachers in recent years. After adjustment for EU funds, the resources in education were growing in 2016 mainly due to increases in the salaries of teachers.

Figure 9: Expenditure on education, 2013



Source: OECD (Education at a Glance 2016)

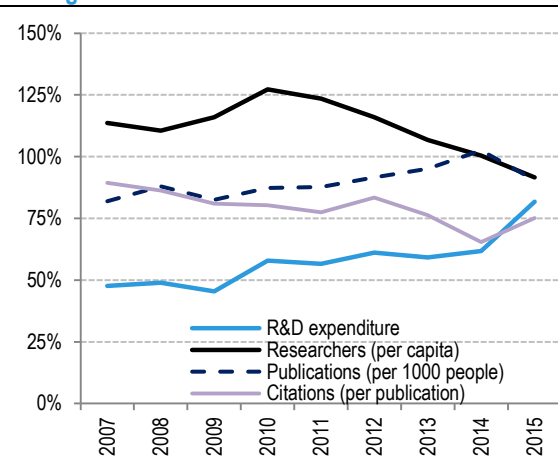
Figure 10: Wages of primary school teachers as a ratio of average wage of employees with tertiary education (2014)



**Slovakia's results of 15 year olds in the PISA 2015 testing have worsened again.** Slovakia continues to lag behind both the OECD countries and the region. While worse results were attained mainly by disadvantaged groups in the past (also compared to foreign countries), the 2015 results were worse for all of the children<sup>27</sup>. The experience from abroad shows that quality education system can significantly help children from disadvantaged socio-economic background and that the improvement is not necessarily at the expense of the best. The example of OECD countries also indicates that the increase in expenditure per student in excess of a certain level does not necessarily lead to better results.

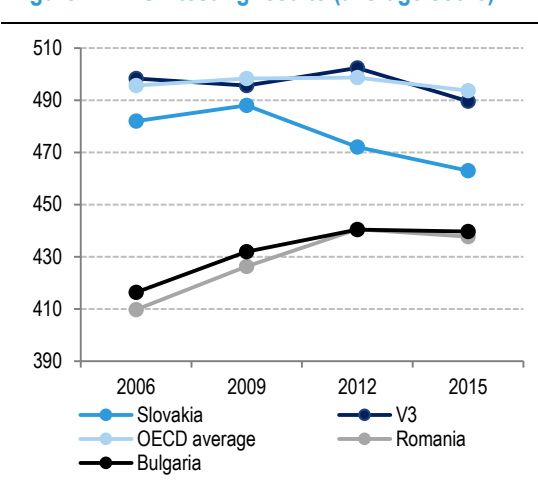
The growing expenditure on research and development have not been shown in the results to a significant extent. The decreasing number of researchers produce fewer publications, their citation has moderately grown, but remains to be 25% under the average of V3 countries. The high-tech export has seen a moderate increase, but is significantly lower than the EU average and far from the national objective of the Europe 2020 strategy.

**Figure 11: Inputs and outputs of R&D as % of V3 average**



Source: Eurostat, Scimago

**Figure 12: PISA testing results (average score)**



Source: PISA, OECD

### **National Program for Development of Training and Education (NPDTE)**

A draft of the core reform document for the area of training and education for the next 10 years was published. It lays down the essential system changes and objectives which need to be attained in order to cope with the challenges posed by the Slovak school system. After public debate, the document will be approved by the Slovak government in the first half of 2017. An action plan containing measures for the next two years will be developed based on the document. The level of implementation of action plans will be reviewed on an annual basis.

### **Spending review within the Value for Money project**

A spending review for regional and tertiary education is underway in 2017 aiming to effectively allocate additional resources flowing to education. The MoESRS SR in cooperation with the MoF SR will prepare a provisional and final report to be submitted for debate to the Slovak government. As regards the regional education system, the review focuses predominantly on the optimisation of the school network, increasing the attractiveness of teacher's profession including the remuneration system. The accreditation process and funding method of research done by universities is being reviewed in the tertiary education. The system to monitor employment of graduates of secondary schools and universities in the labour market is being reviewed as well.

<sup>27</sup> The impacts of reforms and investments in education usually come to the surface after some time.



## 4.2.1 Regional education

### ***Expanding the capacities of kindergartens***

Expansion of kindergarten capacities will continue in 2017 with the use of structural funds. Construction of new kindergartens and expansion of existing capacities will be supported by almost EUR 80 million from EU funds. The submitted projects will be reviewed based on a call announced in December 2016. In parallel, contracting and assessment of the applications for financial aid aimed at capacity expansion of kindergartens with a higher share of children from MRC in amount of EUR 17 million.

### ***Changes of funding in regional schools***

Effective as of January 2016, the Department of Education plans to ensure more accurate records of the expenditure of schools on teacher's salaries. The financial formula will be based on the exact number of years of teacher's work history determining to a significant extent the tariff salary. The structure and update of normatives for the material and technical equipment and for classes for the vocational school specialisations and for music schools will be reviewed.

The network of primary schools is currently less effective than it used to be in past due to the negative demographic trend and decrease in the number of students. The **funding system** does not motivate merging of smaller schools in various municipalities which are located close to each other, and also supports small schools of other operators in large towns or several smaller schools of various operators. This is also because of a fragmented public administration, meaning that there are plenty of municipalities which function as operators of a single school. The demography and the school network will have to be put in harmony with the conclusions of the *Value for Money* project pilot study in the medium-term horizon. This will basically mean expansion or new capacities of schools in some locations and, on the contrary, reconsidering whether or not they are needed in other locations. The possibilities of rationalisation of school network will be tested within the pilot project of school buses in Dobrohošť. If the project shows to be effective, it is expected to be also used in other municipalities in Slovakia.

### ***Higher quality and better support for teachers***

The **attractiveness of teaching profession** will be increased. Wage tariffs of teaching and professional staff in regional education will be increased in accordance with the Manifesto of the Slovak Government. In the context of salary increases, faster growth will be supported for new teachers in order to increase the attractiveness of the teaching profession for the most talented young people.

In addition to pay rises, the **relationship between the remuneration system and quality** will also have to be strengthened. The actual system generates unwanted motivations, the allowance for the number of credits earned when teachers pass the accredited continuing education programmes irrespective of its contents decreases its quality. The certification processes are not linked to competences, they do not differentiate between teachers depending on their work. Personal bonus based on assessment of the teacher is not claimable and depends on the financial standing of the school. Some thought should be given to the amendment of the system in order to increase remuneration for the better teachers.

The **reduction of the administrative burden** will be supported by systemic changes in the form of a set of drafts for reduction, simplification and electronization of reporting, administrative work, and administration of pedagogical documentation at all school types and levels.

### ***Transparent data - results of students and identification of labour market needs***

Slovakia's share of graduates of vocational education is the highest in OECD (nearly 70%), but the link between the secondary vocational education and the working experience and the labour market is weak. The skill mismatch has also been observed at the tertiary level in some of the industries (e.g. IT). The current system does not have a sufficient statistical database of employment and skills of graduates.

Slovakia will join the *Governance of EU Skills Anticipation and Matching Systems* project covered by the European Centre for the Development of Vocational Training (CEDEFOP).

Within the project, external assessment of the system of anticipation of **skills required by the labour market** and **monitoring of employment of graduates in the labour market** will be carried out. The aim is to build a system providing comprehensive information about the skills and employment of graduates of secondary and tertiary schools in the labour market.

The anonymous individualised data of individual **national testing** (Testing 5, Testing 9, school leaving exam, PISA testing, TIMSS, PIRLS, etc.) is planned to be made accessible to the public in 2017 to enable their use for secondary analyses. A proposal of data and information concept of the department in terms of application of the *one strike rule* and *open data*, and the setup of a central storage of digital education content with free licenses will be developed. **Linking education and labour market needs**

Only **1% of secondary vocational school students** has joined **dual education** in the second year of its existence. Schools are discouraged from joining the programme by reduced financial normatives. The experience in the first year of the dual education system should be reflected in the upcoming amendment to the vocational education law. Activities aimed at promoting dual education and increasing the attractiveness and quality of vocational education and preparation will be carried out within the national project<sup>28</sup> which was allocated EUR 28 million from the European Social Fund.

### **Inclusive education**

**Improvement of inclusion of students from socially disadvantaged backgrounds** remains to be a priority. The department of education reacts to the action taken by EC against Slovakia owing to alleged violation of the EU anti-discrimination legislation in Roma children education. The NPDTE being developed counts on the creation of preconditions for extensive implementation of individualised education and development of inclusive education in Slovakia.

The 2015 amendment to the school act should have prevented and averted the mistaking of pupils with special educational needs that arise solely from their socially disadvantaged backgrounds, with those which result from physical handicaps. Now it is not possible to unambiguously assess the consequences of the implementation of the measures adopted within the school act amendment since they have been in effect for a short time only<sup>29</sup>. The department of education will evaluate the application of the equal access to education in admitting students to primary special school in 2018 based on the outcomes of the State School Inspection Authority.

Furthermore, effective as of November 2016 the amendment to the school act introduced a new rule applicable to the assessment of applications for allowances for students from socially disadvantaged backgrounds<sup>30</sup>. This change brought about decrease in the number of students awarded this allowance from 57 thousand to 22 thousand and the allowance per one student grew in 2017 from EUR 109 to EUR 260 a year<sup>31</sup>.

The national project *School open for all* with the allocation of EUR 25 million from ESF will support implementation of inclusive education within kindergartens, primary schools, informal education of children from MRC and the children outside the education system. 500 positions of assistant teachers and specialised staff (school psychologist, special education teacher, social pedagogue) will be created in 50 kindergartens and 130 primary schools.

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<sup>28</sup> Dual education and increasing attractiveness and quality of vocational education and preparation; the agreement on non-refundable financial aid was executed in November 2016 with the project implementer (SVEI).

<sup>29</sup> Based on the statistical data of the Slovak Centre of Scientific and Technical Information (CVTI SR) the number of new students admitted to the first grade of primary special schools (intellectual disability - variant A) fell by 23 % from 837 in 2015 to 640 in 2016. The number of new students admitted to the preschool has not changed and remains to range around 440.

<sup>30</sup> Moreover, students now have to undergo a diagnostic examination by the Centre of Educational and Psychological Counselling and this Centre issues an opinion that he/she has special educational needs resulting from his/her upbringing in a socially disadvantaged background. Furthermore, the allowance will not be granted to students of primary special schools, special classes at primary schools, and individually integrated students owing to physical handicap and general talent at primary schools. Source: <http://www.minedu.sk/data/att/9389.pdf>

<sup>31</sup> <https://www.minedu.sk/socialne-znevychodnene-prostredie-prispevok/>

Primary schools and their operators will have an opportunity to apply for a financial aid for their own projects within the announced call *More successful at primary school* with the allocation of EUR 50 million from ESF (resources will be used for wages of assistants, teacher assistants, school psychologists, special education employees, etc.). The support will focus on joint education of a majority and the students with special educational needs and those coming from MRC, development of cooperation with parents and the community, development of an intercultural environment, better diagnostics and re-diagnostics to prevent unjustified postponement of compulsory school attendance, and inclusion of students in special education classes and schools.

The children from socially weaker families will have better access to preschool education. An option to cover for the tuition of kindergartens for children from families in need will be considered, even though these children would be expected to start compulsory school attendance in more than a year.

## 4.2.2 Tertiary schools

### ***Reform of accreditation commission and accreditation process***

The department of education has been drafting an **institutional reform of the Accreditation Commission**<sup>32</sup> in order to meet the conditions for membership of the European Association for Quality Assurance in Higher Education (ENQA). The Commission should change from an advisory to a decision-making accreditation body with emphasis on independent and transparent decision-making process. The processes should also include regular external assessments of the agency. A complex accreditation should be replaced by a system based on components of institutional accreditation focused primarily on the audit of internal quality assurance system of a higher education school. More emphasis should be laid on the evaluation of education results.

### ***Higher education quality and affordability***

The salaries of university teachers will be increased as well in line with the Manifesto of the Slovak Government. Changes allowing to take into consideration the differences in quality between individual universities will continue to be made within the funding system. The two-way mobility of university students and workers between Slovakia and foreign countries will be financially supported.

Self-profiling and the related diversification of universities will be supported. The admission requirements of universities and educational standards of secondary schools will be put in harmony. Systemic support will be given to the expansion of professional study programmes particularly within bachelor's programmes. An option of liberal/interdisciplinary model of studies will be introduced. The instruments to increase affordability of higher education for groups with economic barriers and for groups with specific needs will be made more targeted.

## 4.2.3 Science and research

### ***Support of Science, research, and innovation***

The government will support investments in research and development through significant increase in the tax relief for expenditure on research and development in businesses.

Conditions for effective coordination of research and innovation ecosystem, including the funding and human resources conditions reform, will be created. Measures to improve the conditions for the implementation of the Operational Programme (OP) Research and Innovations will be adopted in 2017. A management structure of the Research and Innovation Strategy for Intelligent Specialization (RIS3) going beyond the borders of individual departments will be set up and a procedure to implement measures and policies in order to take care of the budgetary and legislative liabilities of RIS 3 will be defined. A schedule of continuing specialisation process including an effective monitoring mechanism of activities will be prepared.

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<sup>32</sup> The reformed accreditation commission will be called *Slovak Accreditation Agency for Higher Education*.

### ***Transformation of the Slovak Academy of Sciences (SAS)***

The transformation of the organisations of the Slovak Academy of Sciences (SAS) to public-law institutions will allow closer cooperation between them and the businesses and industries, and use their funds more effectively. Within the trial mode, the SAS will implement a performance-based funding model depending on quality also based on new results of the independent accreditation by foreign experts.

### ***Assessment and funding of science and research at universities***

A new assessment system and institutional funding of creative activities at universities will be developed; this system will take into consideration their differentiation in quality and profiling of universities with the potential to develop into a national assessment system of research institutions both at universities and non-university institutions. The transparency of decision-making process concerning the SRDA projects will improve and the share of purpose-bound funding through grant agencies will be gradually increased within the state support of research and development at public universities.

### ***Science parks and research centres***

7 science parks and 5 research centres were set up in Slovakia thanks to support from the European Structural Funds, but when the programming period 2007 – 2013 came to an end<sup>33</sup>, the model of their operation and sustainable funding has not been developed. The planned resources and the EU funds available in the programming period 2014 - 2020 will be targeted on the further development of science parks and centres in universities and on the implementation of projects in the national action plan of the research infrastructure with emphasis on universities. After the initiation phase, the operation of parks and centres will continue to be substantially ensured based on effective cooperation of research and industry, or based on projects won within grant funding.

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<sup>33</sup> With the option to complete projects until 2015.

## 4.3 Employment and social inclusion

In 2016, 54 thousand of new job positions were created, the second most successful year in the Slovak history, and the unemployment rate has dropped to lowest level since the end of 2008. In the fourth quarter of 2016, it reached the level of 9%. Within the ongoing reform of employment services, the employment of the prioritised group of long-term unemployed in the labour market will be supported by profiling and individualised consulting. Also new ALMP instruments for the support of this target group will be introduced. Expansion of childcare facilities for children up to three years of age and flexible employment of mothers with children will be supported. Several project calls for the support of integration of people from MRC will be announced throughout the year.

### Outcome indicators for employment and social inclusion

		2008	2009	2010	2011	2012	2013	2014	2015	2016	Target 2020
<b>Long-term unemployment rate</b> (% of active population aged at least 15)	<b>SK</b>	6.7	6.6	9.3	9.3	9.4	10.0	9.3	7.6	-	3.0
	<b>EU</b>	2.6	3.0	3.8	4.1	4.6	5.1	5.0	4.5	-	-
<b>Employment rate</b> (% of population aged 20 - 64)	<b>SK</b>	68.8	66.4	64.6	65.0	65.1	65.0	65.9	67.7	-	72.0
	<b>EU</b>	70.3	69	68.6	68.6	68.4	68.4	69.2	70.1	-	75.0
<b>Population at risk of poverty and social exclusion</b> (% of population)	<b>SK</b>	20.6	19.6	20.6	20.6	20.5	19.8	18.4	18.4	-	17.2
	<b>EU</b>	23.7	23.3	23.7	24.3	24.7	24.6	24.4	23.7	-	19.4
<b>Benefit ratio</b> (average pension benefit, % of average salary)	<b>SK</b>	-	-	43.7	-	-	45.7	-	-	-	-
	<b>EU</b>	-	-	41.4	-	-	44.0	-	-	-	-

54 thousand job positions<sup>34</sup> were created in 2016, the second most successful year in the history of the Slovak Republic. Despite recent positive developments, the labour market remains one of the main long-term challenges of the Slovak economy. The seasonally adjusted overall unemployment rate fell down in the fourth quarter of 2016 to 9 %, the best figure since the fourth quarter of 2008. Nevertheless, it remains well above the V3 average.

Figure 13: Quarterly development of the unemp. rate according to the LFS (SA data, %)

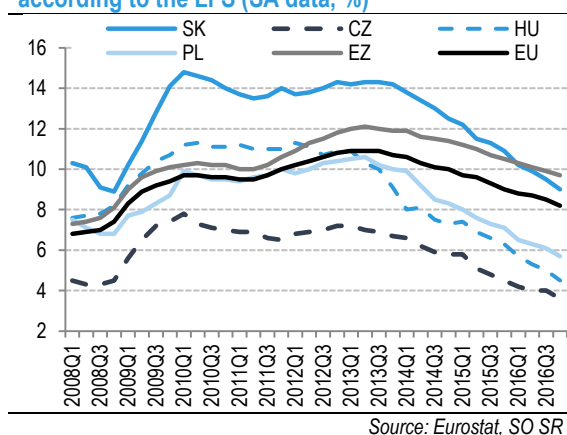
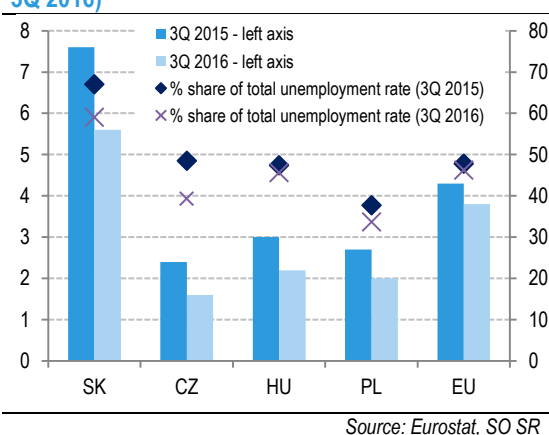


Figure 14: Long-term unemployment (%), 3Q 2015, 3Q 2016)



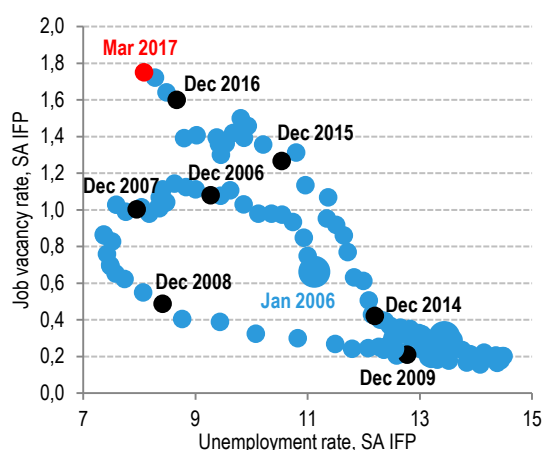
The share of long-term unemployed in the total number of unemployed fell from 67 % to 59 % in the third quarter of 2016, but still represents one of the highest values among EU countries. Long-term unemployment is also closely related to the qualification of the unemployed. More than a half of low-skilled jobseekers finds job after a one-year period, and more than one third needs more than two years. Low qualification represents

<sup>34</sup> Based on the national accounts system (ESA).

a significant barrier in the labour market for the Roma population where as many as 77 % of unemployed Roma people are unqualified workforce<sup>35</sup>.

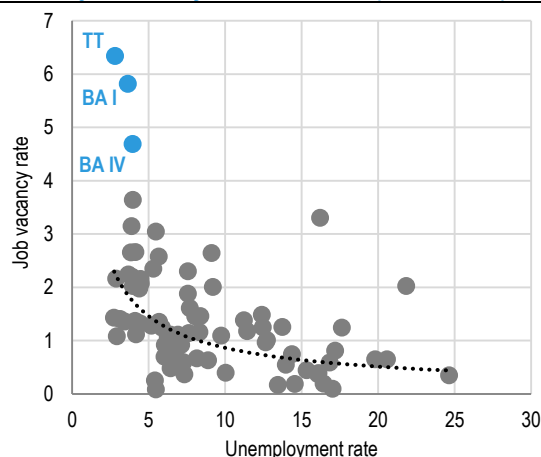
A new challenge in the labour market several districts and industries that may loom in the near future is the **shortage of qualified workers**. With the unemployment rate coming close to historical minima, some regions and industries may expect issues when hiring qualified workforce and pressures on faster salary growth. With falling unemployment the number of vacancies advertised by labour offices is reaching an historical high. The highest number of vacancies are recorded by labour offices in the districts with the lowest unemployment rate. Based on the industrial confidence indicator, the lack of workers was identified as a restricting factor of production by the largest number of employers in history<sup>36</sup>.

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



Source: IFP based on the data of the COLSAF

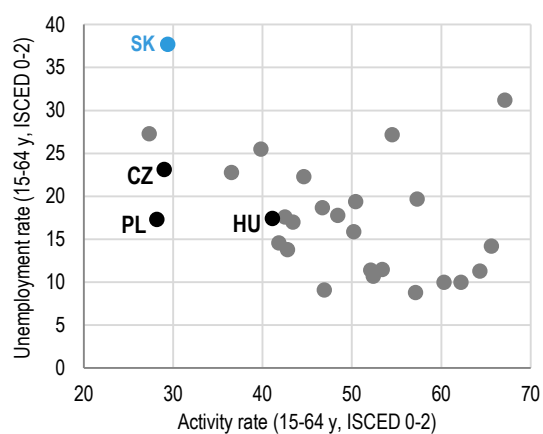
Figure 16: Relationship between unemployment and the job vacancy rate in districts (March 2017)



Source: IFP based on the data of the COLSAF

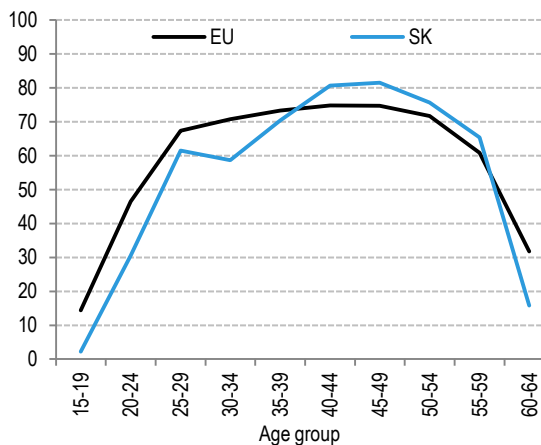
Considering the cost associated with unemployment duration and significant lagging behind the average of the EU countries, the target groups of unemployed in the labour market are represented by **long-term unemployed** and **low-skilled jobseekers**. The unit costs of the government incurred in connection with passive policies for the group of persons with longest period of unemployment amount to approximately EUR 7,300 with the average duration of unemployment of 5.2 years. The cost of average unemployment amounts to around EUR 2,300 in 2.6 years. In addition to positive social impacts, the measures focusing on this priority group should also bring significant public finance saving (Box 1).

Figure 17: Low-skilled workforce in the labour market (% , 2015)



Source: Eurostat, SO SR

Figure 18: Unemployment rate of women by age groups (% , 2015)



Source: Eurostat, SO SR

<sup>35</sup> UNDP-WB-European Commission regional Roma survey 2011.

<sup>36</sup> Industrial confidence indicator (SO SR, March 2017).

**Low employment rate of mothers with children** related to parental leave is one of the challenges of the Slovak labour market. The largest differences in the employment of women compared to the EU average apply to young age groups due to studies or care for children. The rest of the women population in Slovakia attains the same as, or even higher employment rate than the one in the EU (except for the age group 60 – 64 due to lower retirement age and more frequent retirements).

**Pension system provides adequate income in old age.** The ratio between the average pension (sum of all types of public pensions) and the average salary in the economy reached nearly 45.7 % in 2013, which is slightly above the EU average<sup>37</sup> and above the V3 average. The net pension replacement rates are slightly above the European average in Slovakia, since the pensions in some countries are subject to income tax. According to OECD<sup>38</sup>, Slovakia is one of the countries where the income from work and capital amounts to less than 20 % of income in the old age, which is less than the average.

#### **Box 1: Pilot assessment of the effectiveness and efficiency of the public employment services**

**The pilot public employment service effectiveness and efficiency assessment study** conducted by the MoF SR in cooperation with the MoLSAF SR identifies the possible opportunities for improvement of the labour market outcomes keeping the resources at the same level particularly by more efficient labour offices and allocation of a relatively larger share of resources to the long-term unemployed:

- As regards the **success of the public employment services**, individual labour offices show **substantial differences even after controlling for regional conditions in the labour market**. The results are negatively influenced mainly by higher workload of the labour office employees and longer duration of unemployment of jobseekers. More effective public employment services could bring about additional employment for nearly 6 thousand unemployed and public finance savings of EUR 7 million a year.
- The organizational reform of labour offices increased the human resources for work with the unemployed, but the **workload of workers continues to be higher than it is in foreign countries**. The workload remains to be higher mainly in those districts of Slovakia which have high long-term unemployment rates.
- **The most used instruments to activate the unemployed differ from those most used in foreign countries, and are not targeted on prioritised groups**. A larger share of the ALMP expenditure is directed to the short-term unemployed (approximately 60 %), with around 40 % of resources retained for worse employable groups of the long-term unemployed.
- **The support of public employment** (activation jobs, support to regional and local employment) does **not seem to be successful** in Slovakia for the target group of the long-term unemployed jobseekers.
- **On the other hand, relatively more successful programmes are not targeted on the employment of long-term unemployed**. Wage subsidy programmes aiming at young people under 29 years of age have been improving the results of the participants, but their cost efficiency remains relatively low. Short-term graduate practice programmes and voluntary activity are relatively successful from the perspective of cost-effectiveness.

More in the analysis: [A lot of work at labour offices: Efficiency and effectiveness of public employment services](#).

<sup>37</sup> The value applies to a simple arithmetic average of the EU countries. The weighted average of the indicator for the EU reaches 46.9 %.

<sup>38</sup> OECD Pensions at a Glance (source data of OECD).

### 4.3.1 Employment

#### ***Public employment services and integration of long-term unemployed***

The pilot study of the labour office spending review identified the long-term unemployed as a prioritised group of jobseekers for the public employment services. The integration of this target group into the labour market will be supported from 2017 by **profiling** of jobseekers and **personalised counselling** including **competency evaluation**. Intensive professional counselling will be provided by own resources and through the **increased number of human resources at labour offices** (professional counselling). External services will be used to evaluate the skills of jobseekers. The financial allocation from the ESF to this project amounts to EUR 34.9 million.

Employment of the long-term unemployed will also be supported through **non-state public employment services**. Financial aid will be provided to support temporary employment agencies aiming to find employment in the open labour market for jobseekers kept in records for more than 24 months. The project will receive support from the ESF in amount of EUR 10 million in the period from 2017 to 2020.

From 2017, the improvement of employment prospects of the long-term unemployed in the labour market will be promoted by the **education and requalification programmes** (national projects *Education of jobseekers* and *Education of young jobseekers* with the financial allocation of EUR 28.9 million until 2022 and EUR 30.9 million until 2019). New projects will also be launched in 2017 to financially **support job creation for long-term unemployed** (national projects *The road to the labour market* and *RESTART* with a financial allocation of EUR 49.5 million and EUR 15.7 million until 2021 from ESF).

An act treating support to the **social economy** development will be drafted in 2017. The financial allocation from the ESF for the support of social economy amounts to EUR 39 million (2017-2020).

#### ***Labour market incentives***

Effective as of May 2017, the incentives will be 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 will rise roughly by 20 % if one of the parents finds work with an income amounting to the minimum wage.

The conditions and inspection of jobseeker records in labour offices will be made stricter at the same time. So far, it was possible to work under an agreement to perform work as a jobseeker under no time restrictions up to 75 % of the subsistence minimum. The amendment to the act limits the gainful employment along with a jobseeker being kept in labour office records to 40 days a year in aggregate. Labour offices will be allowed to remove a jobseeker from their records for a specific period of time, if the jobseeker refuses an offer to take part in an ALMP programme or if the jobseeker terminates employment arranged by the labour office on a repeated basis.

#### ***Support to employment of mothers with children***

The new legislation framework 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. The MoLSAF SR will also support flexible forms of care for older children for working mothers.

The ALMP instruments will be used to **support integration of mothers with children into the labour market when they return from the parental leave**. Calls were announced in 2017 for the subsidies of employers for flexible job positions (e.g. part-time job, shared job, work from home or telework) occupied by a mother with a preschool child, and for the creation or expansion of flexible childcare facilities.



### ***Reducing regional disparities***

Several 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 amendment to the act on the support of lagging regions will reduce the **unemployment rate criterion for the most lagging regions**, increasing their number up to 17. The **bureaucratic burden in obtaining the regional allowance** will also be decreased (only 12 applications out of the total 120 led to execution of contract in 2016) and the **administrative preparation and project implementation** in the most lagging regions will be made **simpler** as well.

Based on the analysis, the Government Office of the Slovak Republic will prepare in 2017 a new draft of an integrated policy of **regional development** and of the regional development strategy up to 2030. In 2018, a consideration will be given to the adoption of an amendment to the regional development support act. An effective regional development monitoring system will be implemented in order to assess the effectiveness of regional policies.

## **4.3.2 Social inclusion**

### ***Increasing motivation of persons in need***

The instruments focusing on the active participation of persons in the social assistance benefit system, and on making the social measures more targeted on people who really need the assistance will be supported in 2017.

### ***Social services***

A new **social service co-funding system** will be implemented for the services provided in the social services homes to persons dependent on help with self-care, to public and non-public providers at a local level, and non-public providers at a regional level. The co-funding will be based on the structure of social service recipients depending on how much assistance they need and from the perspective of the form of the provided social service which determine the cost of the social service provided. For this purpose, the MoLSAF SR will prepare legislation until September 2017<sup>39</sup>.

### ***Social assistance to people with severe disability***

The effectiveness of the instruments for social integration of persons with disability will be improved<sup>40</sup>. A thought will be given to the increase in the **carer's allowance** up to the net minimum wage until 2020 particularly for the working-age recipients. If the measure was implemented as early as in 2017, the impact on the general government budget would amount to EUR 65 million in 2017 and EUR 78 million in 2018.

### ***Services to the domestic violence victims***

The development of specific **services for the victims of domestic violence** covering particularly **women and their children** will continue to be supported with the aim of their protection and subsequent integration into the working life. A draft systemic solution to lay down these services and their financial stabilisation will be prepared in 2017.

### ***Support to marginalized Roma communities***

**Micro loan programmes** focused on **self-help construction of dwellings** and **increase in the employment rate at social economy entities** in the locations with MRC will be supported by way of a refundable financial aid in the amount of EUR 11.5 million from the EU funds<sup>41</sup>.

Calls for **several projects in the municipalities with MRC** will be announced throughout 2017:

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<sup>39</sup> Draft act which changes and amends the Act No. 448/2008 Coll. on social services and on amendments to Act No. 455/1991 Coll. on Trade Licensing (Trace Act).

<sup>40</sup> Governed by the Act No. 447/2008 Coll. on Financial Benefits to Compensate Severe Disability.

<sup>41</sup> The MoI SR signed a contract for funding with Slovenská záručná rozvojová banka Asset Management and the Slovak Investment Fund in 2016 with a financial allocation amounting to EUR 11.5 million from the EU funds.

- **Preschool attendance** of children from MRC, which is a key factor to handle the beginnings of the primary education, will be supported.
- With the emphasis on successful **completion of the primary school and smooth transition to a secondary school**, students from MRC will be supported through tutoring, mentoring, and scholarships.
- Projects aimed at the land settlement assistance, support of lower-level social housing, and disposal of municipal waste will contribute to the **improvement of the quality of housing and completion of the basic infrastructure**.
- **Construction and reconstruction of community centres and work of local neighbourhood watch schemes** in the municipalities with MRC will be supported.
- The project aimed at better use of healthcare services by people from MRC will contribute to the **better quality of life**; this would include data collection and reinforcement of cooperation with the relevant institutions.
- **Complex monitoring and evaluation of inclusive policies and assessment of their impact on MRC** will be taken care of within a separate project.

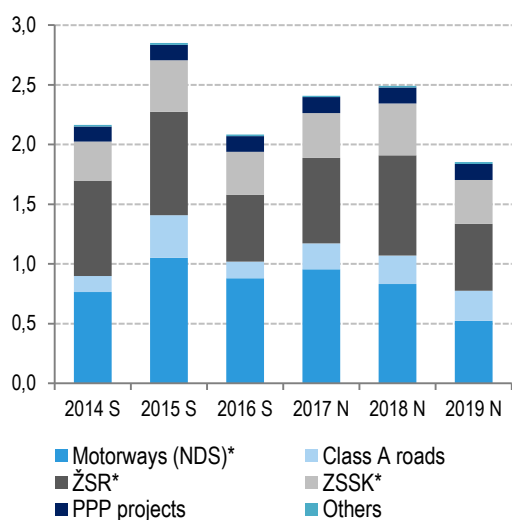
## 4.4 Transport infrastructure

The transport spending review identified a great opportunity to increase effectiveness of expenditures and better measurement of the outcomes in the area of evaluation, priority identification, and preparation of investment projects. It also pointed out the need to reduce the cost of railway infrastructure operation and to upgrade funding of maintenance and repairs of class A roads, where it is necessary to look for additional ways of increasing the funds within the allocated resources. The construction of the missing sections of motorways and highways and the construction, reconstruction, and maintenance of class A roads are continued within the main investment activities in transport. The significance of railway transport and the efficiency of the public passenger transport should continue to be systemically increased in the public transport area.

A **transport spending review** under the MoTC SR chapter was conducted in 2016 within the *Value for money* project with the aim to prepare measures to improve the efficiency of the actual budget envelope keeping its current size and to improve the efficiency of operational unit expenditures. The review identified measures with a significant space for improvement of cost effectiveness and better measurement of the results in transport which have not been a part of the general government budget for 2017 – 2019.

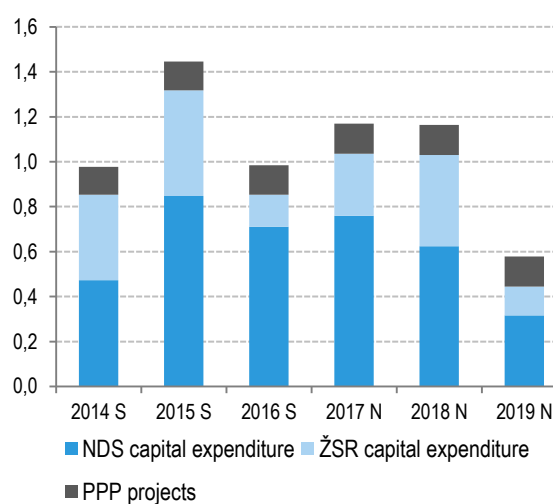
**Expenditures of the MoTC SR and organisations set up by the MoTC SR on transport will amount to EUR 2.2 billion in 2017.** After 2015 when the investments have grown significantly predominantly due to the approaching end of the second programming period of the EU funds, the expenditures on the construction of motorways and highways have slightly fallen in 2016 and decrease has also been observed in the expenditures of the ŽSR on infrastructure projects.

**Figure 19: Expenditures of the MoTC SR and the organisations set up by the MoTC SR on transport (EUR million)<sup>42</sup>**



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

**Figure 20: Capital expenditures of NDS and ŽSR + availability payments in the PPP projects (EUR million)**



Source: RVS, MoTC SR

### Measures in the area of investments resulting from the spending review

The MoF SR will, based on the conclusions of the spending review of the MoTC SR, throughout the year 2017 prepare economic evaluation of the investment projects prepared in the transport sector with total cost estimate amounting to EUR 7.5 billion, whereof EUR 5.4 billion goes to motorway and highway construction

<sup>42</sup> Until 2015, the expenditures on the passenger rail transport only consist of the MoTC 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 the proposed budget for 2017-2019 includes all expenditures on the passenger rail transport by ZSSK (less the expenditures on repayment of the principals of loans - category 820).

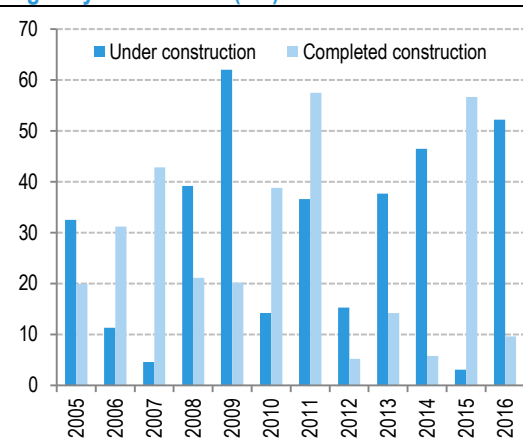
projects, EUR 1.1 billion to the class A roads, and approximately EUR 1 billion to priority railway investments. The goal is to prepare a new list of transport investment priorities implementable within the actually valid fiscal framework. All future investment projects with the estimated investment cost in excess of EUR 40 million will also undergo a cost - benefit analysis by the MoF SR within the feasibility study preparation phase (if applicable).

The MoTC SR will also **improve the processes for planning and preparation of investment projects**, it will e.g. update the feasibility study methodology (CBA) and the method of selection of the recommended solution, it will create a methodology and minimum requirements for transport modelling and improve the quality of internal expert resources of customers in the MoTC SR. At the same time, it will also provide the public with relevant documents about the prepared investment projects (as is usual abroad), or examine the legislative potential to minimize the investments not connected with the project.

### Motorways and class A roads

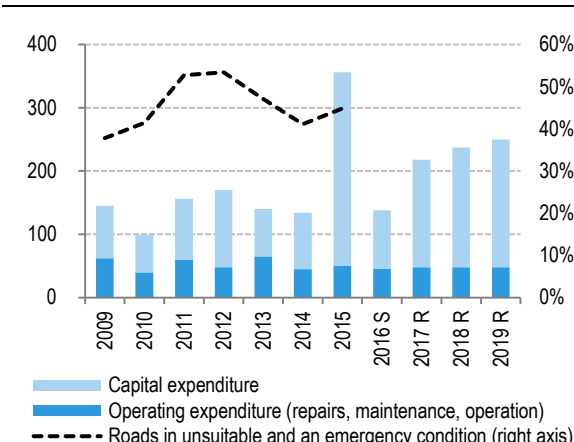
The total 2015 capital expenditures of Slovakia on the construction of motorways and highways were the highest in history also due to the approaching end of the second programming period of the EU funds - nearly EUR 850 million, and dropped to EUR 711 million in 2016<sup>43</sup>. The capital expenditure will continue to be high also in 2017-2019 when EUR 1.7 billion is allocated to the construction of new sections, a great portion from the OP Integrated Infrastructure.

Figure 21: Construction of motorways and highways in Slovakia (km)



Source: NDS, MoTC SR

Figure 22: SSC's expenditures (EUR million) and condition of the class A roads



Source: RVS, MoTC SR

The operating **expenditure of the Slovak Road Administration (SSC)** on maintenance and repairs of 3,176 km of the class A roads **are insufficient**. In 2015, as many as 45% of roads was either in bad or emergency condition and taking into consideration the actual level of funds allocated to maintenance and repair, even the roads which currently are in a good condition will gradually deteriorate and will require expensive reconstruction. The expenditures on maintenance and repairs in 2009-2016 reached on average EUR 45 million a year, the budget for 2017-2019 expects the expenditure to get to EUR 49 million a year, while the optimum annual level should be EUR 64 million based on the spending review. The MoTC SR will look for opportunities of its increase within the allocated funds. Based on the spending review, SSC used in 2009-2015 EUR 779 million for the construction, upgrade, and reconstruction of the class A roads, as a consequence the share of roads in a bad condition started to fall down.

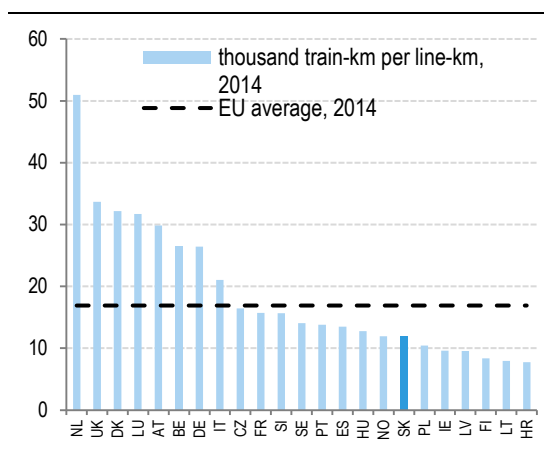
### Railways

Considering the total area, Slovakia operates 40% more railroad tracks than the average EU 15 country. The number of train kilometres per km of railway lines amounts to around 11 thousand a year, which is well under the EU average. **The fixed costs of rail operation are high and therefore it is efficient to increase the volume of passenger and freight transport by rail.** By January 2018 the MoTC SR and the ŽSR will

<sup>43</sup> The capital expenditures also include the purchase of land and creation of gross fixed capital (investments).

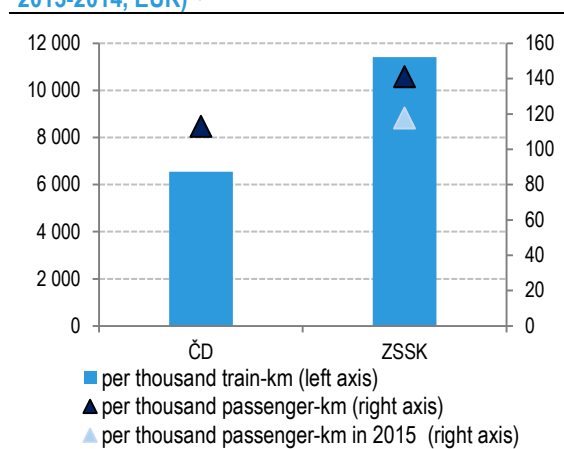
prepare an impact analysis of eventual elimination of 234 km of rails which are used sporadically and with no passenger transport<sup>44</sup> and additional 91 km of rails with minimum passenger transport.

**Figure 23: Annual rail network utilisation rate**



Source: EC monitoring of rail markets

**Figure 24: Unit costs of rail carriers (average for 2013-2014, EUR)<sup>45</sup>**



Source: SŽDC, Annual reports of the Czech railways and the Slovak railways

A large part of railway tracks is in a **deteriorated condition which causes low average speed and frequent speed decreases**. An obsolete railway infrastructure requires more manual work, and this is why it employs the fourth largest number of employees per km of railway lines in the EU. Average staffing dropped by 1% in 2015 to 14,018. The salary envelope has been frozen for 2017-2019 and the ŽSR will continue to decrease the number of their employees.

**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)**. This cost is influenced e.g. by low utilisation of vehicles, limitation by the maximum number of train kilometres<sup>46</sup>, or operation on low-demand routes. The MoTC SR will be searching for measures to optimize the unit cost and to increase revenues by 20% in aggregate in the subsidized public passenger rail transport.

**National traffic plan**

The national traffic plan should bring a complex view to the solution of transport relations in Slovakia and set long-term priorities in transport and in transport infrastructure. This plan should also contain the target train diagram until 2020/2030 and a complex plan of the Slovak rail and bus transport services.

**Coordination of the public passenger transport**

Interest in the public passenger bus transport in Slovakia has had a decreasing trend; demand for suburban bus connections dropped by as many as 40% between 2006-2015 while the offer has fell down by 3% only. The issue is a low load factor of some trains and buses, which may also be caused by unwanted concurrence. Therefore, the MoTC SR plans to set up a **transport authority** which should coordinate the passenger trains, suburban buses, and eventually also the city transport. The objective is to increase the accessibility, comfort, and hence the attractiveness of the public passenger transport. The Slovak transport service plan which should be compiled within the National Traffic Plan will be the basic programme document for the operation of the transport authority.

<sup>44</sup> The MoTC SR and the Slovak railways will specify the cost saving estimate of EUR 6 million a year with potential one-time cost of maximum EUR 70 million.

<sup>45</sup> Converted at the NBS rate valid on 01/01/2014

<sup>46</sup> 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.

## 4.5 Modernization of public administration and the business environment

Expansion of the support to the electronic and automated communication with the Financial Administration, changes applicable to the provision of occupational health service, or continued optimization of the commercial and trade register services will contribute to the decrease in the administrative burden for businesses. The dunning procedure act should accelerate and improve the process of debt collection.

The effectiveness and transparency of judiciary will be strengthened by the implementation of a collective selection procedure in occupying vacant judiciary positions at district courts. The department of justice plans to audit judiciary in 2017. The obligations of public companies to publish commercial contracts will be expanded and specified in more detail and a space to publish contracts of local governments in one place will be created.

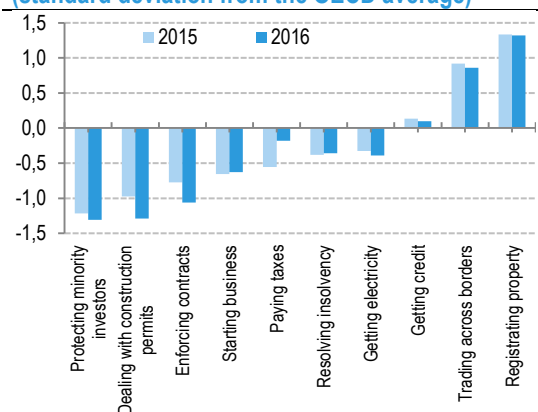
The analytical capacities of the state will be reinforced at various ministries and other institutions.

### Outcome indicator for modernising public administration and the business environment

		2008	2009	2010	2011	2012	2013	2014	2015	2016	Target 2020
<b>Doing Business</b> (World Bank ranking)	<b>SK</b>	-	-	-	-	-	-	-	30	33	15
	<b>EU</b>	-	-	-	-	-	-	-	29	30	-
<b>Product market regulation index</b> (number of points)	<b>SK</b>	1.62	-	-	-	-	1.29	-	-	-	1.2
	<b>OECD</b>	1.53	-	-	-	-	1.44	-	-	-	-
<b>E-government index</b> (%)	<b>SK</b>	40	38	50	48	42	33	57	51	48	71.7
	<b>EU</b>	35	37	41	41	44	41	47	46	48	-
<b>Corruption perception</b> (%)	<b>SK</b>	-	61	-	56	-	62	-	-	-	68.4
	<b>EU</b>	-	80	-	77	-	78	-	-	-	-
<b>Disposition time</b> Number of days	<b>SK</b>	-	-	367	-	437	-	524	-	-	-
	<b>CEPEJ</b>	-	-	266	-	243	-	237	-	-	-
<b>Clearance rate</b> (%)	<b>SK</b>	-	-	98	-	82	-	92	-	-	-
	<b>CEPEJ</b>	-	-	98	-	104	-	100	-	-	-

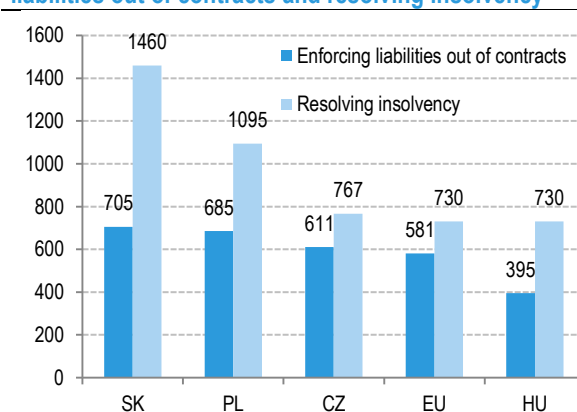
Slovakia has done slightly better and ranked 33<sup>th</sup> out of 190 evaluated countries in the **assessment of the regulatory environment for business** according to Doing Business 2016-2017. Despite better score, it means ranking three positions lower (from 30<sup>th</sup> to 33<sup>th</sup>) compared to the previous year based on the new methodology. The point score was positively influenced particularly owing to the decrease in the administrative processes connected with property tax payments and evaluation of the processes the companies undergo after they meet their tax liabilities (VAT refunds, tax inspections, and appeals against decisions of tax administration).

Figure 25: Comparison of areas in the DB ranking (standard deviation from the OECD average)



Source: DB 2016-2017

Figure 26: Number of days necessary for enforcing liabilities out of contracts and resolving insolvency

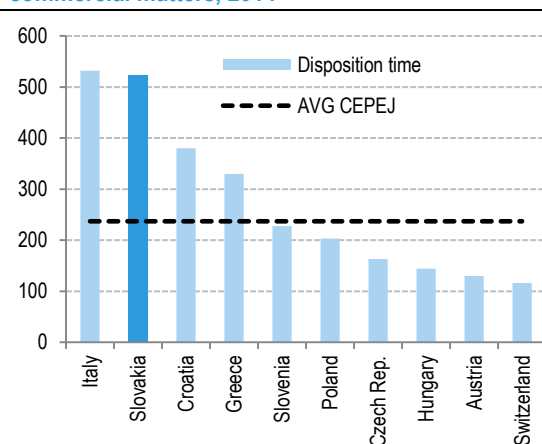


Source: DB 2017

Based on Doing Business, the most lagging areas again include the protection of minority investors, dealing with construction permits and enforcing contracts. The number of calendar days required to enforce the liabilities out of contracts<sup>47</sup> and to address insolvency<sup>48</sup> is the highest not only compared to the EU average, but also within the V4 countries. On the contrary, Slovakia achieves above-average score in cross-border trade and property registration.

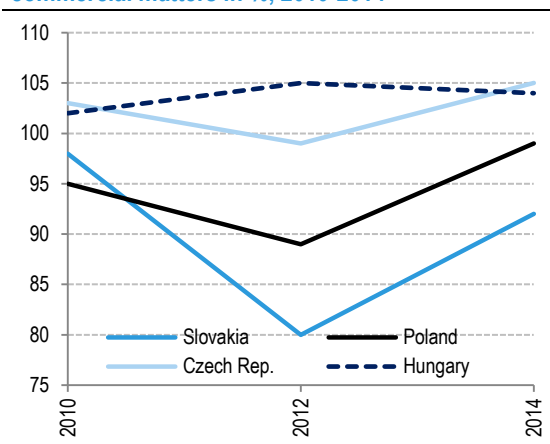
The enforceability of law is key in a well-functioning business environment. The Slovak judiciary lags mainly behind the best countries in the disposition time and in the clearance rate. The disposition time of civil, commercial, administrative, and criminal proceeding is above the average from the international perspective. As regards the clearance ratio, there is room for improvement in civil and commercial matters. Improvements have been observed in this area, but it remains to be under the average of the V3 countries<sup>49</sup>.

**Figure 27: Disposition time in days, civil and commercial matters, 2014**



Source: CEPEJ 2016

**Figure 28: Clearance rate in V4, civil and commercial matters in %, 2010-2014<sup>50</sup>**



Source: CEPEJ 2016

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 stability<sup>51</sup>. 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 value for money 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 2).

### Box 2: Effectiveness of local governments

The actual structure of local government is not effective. **Slovakia's share of mayors is more than 3.5 times higher and the share of municipal council members per 100 thousand citizens is more than two times higher than the average of the EU.** The reason for that is the fragmentation and rural

<sup>47</sup> Number of calendar days from filing a suit until the settlement of debt.

<sup>48</sup> Number of calendar days until the creditor recovers debt. Possible "dilatatory tactics" employed by debtors, such as appeals, or applications for extension, have been reckoned in.

<sup>49</sup> The entire comparison applies to the first instance courts.

<sup>50</sup> 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.

<sup>51</sup> [International Monetary Fund \(2016\): Corruption: Costs and Mitigating Strategies.](#)

character of the country which lead to high expenditures on administration. As many as 92 % of municipalities have less than 3 thousand citizens.

The fragmentation has a negative impact on the provision of public services and development of municipalities. **Municipalities which have less than a thousand inhabitants spend as much as one third of all their expenditures on administration**<sup>52</sup>. On the contrary, the municipalities with 20 up to 50 thousand can allocate as much as 90 % of their expenditures on the development of the municipality and public services outside the administration. This has triggered set up of a joint local authority. A majority of smaller municipalities has already transferred a portion of their powers to other more effective municipalities.

Significant differences in the effectiveness of administration between individual size groups of municipalities and set up of joint local authorities indicate an opportunity of releasing funds for their further use at a local level, if the municipalities formed larger, more effective local government units to address public administration services.

#### Effectiveness of local governments by size groups

Size groups of municipalities	Number of municipalities	Share of people living in municipalities (in %)	Average effectiveness (in %)
up to 1,000	1,907	15.6	67.6
1,001 - 3,000	761	23.1	80.8
3,001 - 5,000	103	7.0	83.7
5,001 - 10,000	67	7.7	88.1
10,001 - 20,000	35	8.6	88.9
20,001 - 50,000	43	15.5	89.3
50,001 - 100,000	9	10.3	88.4
over 100,001	2	12.1	79.1
<b>Slovakia</b>	<b>2,927</b>	<b>100</b>	<b>82</b>

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

### Analytical capacities

One of the intents of the *Value for Money* project includes the intent to **build analytical units in public administration**. These should be gradually set up in all ministries, at the Government Office of the SR, and in all other large institutions, and the Supreme Audit Office of the SR. Seven new units have been added to the existing analytical units since the beginning of 2016. Improvement of the expert capacities of the state is funded from the EU to a great extent. Here, emphasis is laid on the assuring quality in the selection of future analysts and of the deliverables of the analytical units. Quality will be supervised by the steering committee consisting both of the analysts of the government and the external members. All in all, 52 new analysts should be hired until 2020. The analytical capacities of the state will also be strengthened in the impact assessment process (*RIA*) by 26 employees.

A reinforced internship programme and the continued education programme contribute to the **improvement of the analytical capacities** in public administration as well. The grant programme to strengthen the analytical capacities in public administration changed to the Martin Filko Scholarship and the budget of the programme was increased by EUR 100 thousand a year. The Martin Filko Scholarship programme is aimed at the support of talented students studying abroad who wish to work in public administration. The

<sup>52</sup> The administration includes particularly the work of mayors, chief supervisor, and council members.



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.

### **Judiciary**

The **judicial audit** will be carried out in cooperation with CEPEJ<sup>53</sup> at 12 courts. 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.

A new enactment will be adopted which should come into force in January 2018 in order to set up **personal material responsibility of persons disposing of public finance**. The aim is to subject the pre-defined categories of individuals with direct decision-making powers in relation to the administration of the public property to a uniform material responsibility for the resources entrusted.

A project aiming at improved provision and better accessibility of legal aid by way of a **Legal Aid Centre** for socially or economically excluded population is being prepared. 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.

### **Transparency in public administration**

The measures to expand the extent of mandatorily published information will be finalized – the obligations of public companies to publish commercial contracts will be nailed down and a space to publish contracts of local governments in one place will be created. Contracts will be published five years longer, i.e. for 10 years. Mandatory publication of CVs and salaries of political nominees will also be established.

The **scope of published information about local governments** will be expanded – the obligation of mandatory publication will include official documents of municipalities and regions, such as council meeting and committees minutes, including voting by the council members. As regards the surveillance of the exercise of the right to information, the government will examine the option of extending the sphere of competence of the Office for Personal Data Protection.

A standard for electronic invoicing will be 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 November 2018 for the contracting authorities at the central level of public administration, and a year later for the contracting authorities at all public administration levels.

### **Implementation of eGovernment**

All **new IT projects** over EUR 10 million will be reviewed by the MoF SR irrespective of the funding source from the value for money perspective. The DPMIIGO is working on a detailed eGovernment Action Plan for 2016-2020. A **draft act of administration in the area of public administration information technologies**, will be submitted to the government, which will set forth individual rules in the IT area from the planning and organization phase until monitoring and assessment.

The DPMIIGO will submit to the government in 2017 an initiative material *Action Plan for Uniform Digital Market - Opportunity for Slovakia for 2017-2020* in response to the initiative of the EU in the area of digital market building. The top topics of the action plan include building of data management for better use of data, digitalization of public services for inclusive information society, online platforms for the support of a collaborative economy and Smart Industry, and also education and digital skills for modern era.

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<sup>53</sup> The European Commission for the Efficiency of Justice.

## 4.5.2 Business environment

### **Reduction of the administrative burden of businesses and better regulation**

The Financial Administration will continue in reducing the administrative burden of businesses by expanding the options of **two-way electronic communication with businesses** with regard to tax paperwork, and particularly the VAT, and by providing pre-filled forms of certain types of tax returns. At the same time, **soft warning** messages are planned to be introduced to function as preventive communication with entities of the Financial Administration in order to meet their obligations in the financial administration tasks and prevent administrative offences and violations of laws. Furthermore, the **tax deferment and instalment permit** will allow the business sector taxpayers to settle the amounts under EUR 3,000 without the need to secure the amount owed by a pledge. **Payment of a financial compensation from the retained excess** during tax audit was introduced in 2017. The right to financial compensation is awarded to a taxpayer if the tax authority refunds excess after the lapse of six months since the excess should have been refunded. The second stage of the automation of the customs surveillance over goods import by way of *e-DOVOZ* (e-IMPORT) will be finished in 2017.

An **office for selected business entities** will be set up in connection with imports by way of transformation of a tax authority for the selected tax entities. This measure will improve the quality of the services provided to the clients of the Financial Administration. Besides facilitating the procedures applicable to large import volumes for the largest importers, the office will also contribute to the prevention and observance of tax and customs regulations by business entities. This measure is also expected to retain key payers and acquire new payers of customs in Slovakia.

The dunning procedure act should speed up and streamline the debt collection process, reducing the time period in which an entrepreneur recovers money to a significant extent. The regulation **implements a fully-fledged electronic alternative to the existing payment order regime**. This regulation requires the implementation of the electronic payment order filing process by way of standardized electronic forms.

Effective as of October 2017, the amendment to the Commercial Act will **increase the protection of creditors**. The obligations of statutory bodies will be made stricter in the cases of the use of the services of the so-called cat's paws. Further, the amendment reacts to the issues connected with corporate consolidations aiming to avoid their obligations. For example, a partner will not be able to transfer an ownership interest to another person or company, if the equity of the legal successor is negative, or a dissolution proceeding is held against the legal successor or the dissolved company.

Changes connected with the **commercial register** will reduce the administrative burden of businesses and courts during company formation process. The fees will be decreased and the electronic services for businesses will be improved (uniform documentation for the incorporation of changes, standardized forms for small and medium enterprises). The availability of services will be better, whereas the number of external registrars, that will be entitled to incorporate an entity into commercial register, will be higher. The obligation to prove the qualification for specific trade licenses will be cancelled if such qualification was already proved by the entrepreneur in past when applying for the license as a responsible representative. An **extract from the trade register** could also be newly obtained from the branches of *Slovenská pošta* (Slovak Post). The application fees for temporary residence permit needed by aliens in order to do business in Slovakia are planned to be decreased as well.

The change of the act on the protection, support, and development of public health will mean a decrease in indirect and administrative costs of businesses in ensuring health supervision by way of the **occupational health service**. Employers will not be obliged to take care of the occupational health service for their employees by way of a permanent contractual relationship anymore. Further, the obligation of employers to assess the health service on an annual basis will be left out.

The implementation of electronic processes will make the **building permit procedures** simpler and faster. This will apply to the construction code, zoning and planning, and the economic and social development

programmes within the *Construction Information System* project. It should go live in 2021 latest. Time periods for obtaining the building permits will be revised along with the competent bodies (water company, local governments, other building authorities).

The MoE SR plans to prepare a **strategic document of better regulation RIA 2020** until the end of 2017 and give thought to the implementation of the so-called **sunset clause** based on which each new regulation having impacts on some of the selected areas will be automatically reviewed after specific period of time from adoption (e.g. after three years).

## 4.6 Health

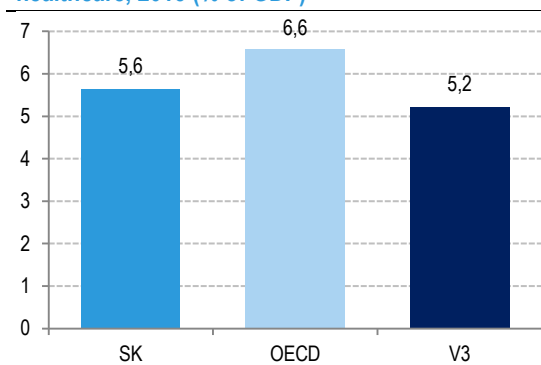
The implementation of the conclusions of the 2016 spending review will increase the efficiency of the expenditures on the healthcare system. The implementation of eHealth is in progress; all healthcare providers should be connected to eHealth from 2018. Payments of diagnostic-related groups are being implemented. Individual hospitals will have individual rates in 2017; these will converge to a single nationwide rate until 2022. The network of emergency departments will be completed. The emergency care system and the competence model will be reorganized. The transparency will be strengthened and maximum waiting times will be introduced for additional procedures within outpatient care.

### Outcome indicator for health

		2008	2009	2010	2011	2012	2013	2014	2015	Target 2020
<b>Healthy life years<sup>54</sup></b>	<b>SK</b>	52.3	52.5	52.2	52.2	53.3	54.4	55.1	-	60.0
(expected number of years at birth)	<b>EU</b>	61.7	61.7	62.2	61.9	61.8	61.5	61.7	-	-

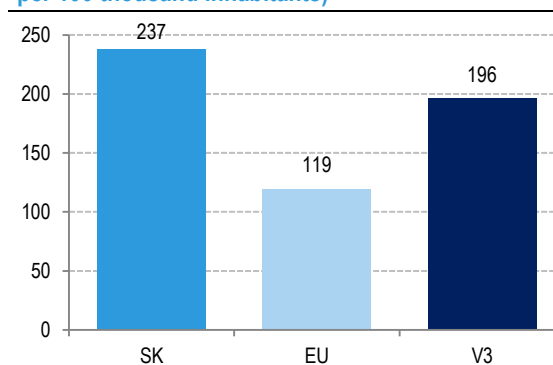
The health of population influences not only the individual quality of life, but also the economic and social development. A functioning healthcare system is one of the main priorities of economically developed countries. In the context of aging population, additional increase in expenditures is expected, and therefore it is very important to spend them effectively. Since 2010, Slovakia has managed to maintain a stable level of public expenditures on healthcare system - 5.6% of GDP. Although the share of expenditure in GDP is below the OECD average (by 1 pp, 2015), it remains to be above the V3 average (by 0.4 pp, 2015).

**Figure 29: Current public expenditure on healthcare, 2015 (% of GDP)**



Source: OECD

**Figure 30: Amenable mortality, 2013 (standardized per 100 thousand inhabitants)**



Source: OECD

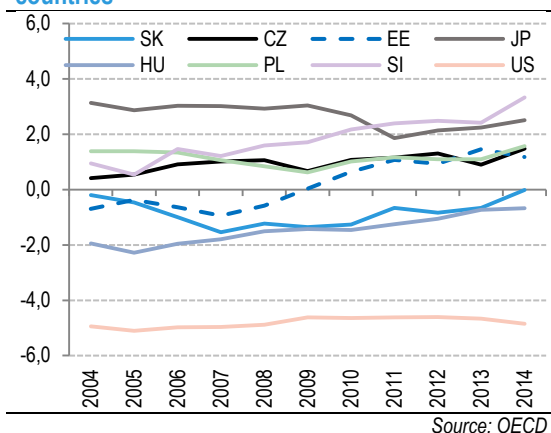
Slovakia lags behind in terms of performance indicators. Our results are worse both compared to the OECD average and the V3 countries although we spend more of the GDP on healthcare. We enjoy fewer healthy life years (by 6.7 years), and our amenable mortality<sup>55</sup> is 17% higher. The effectiveness of the Slovak healthcare has been worse than in the Czech Republic and Poland on a long-term basis. We have also been overtaken by other former Soviet countries, such as Estonia which reported worse results than Slovakia before 2005. The effectiveness of the Slovak healthcare has improved as a result of stabilization of expenditures in recent years, e.g. thanks to the measures in the pharmaceutical policy (reference pricing).

<sup>54</sup> The healthy life years indicator is calculated separately for males and for females. For the purposes of NRP, it is reported as an average of both sexes. As is true for the life expectancy, males and females attain different values, but the differences are smaller. Based on the EU average, women enjoy a one year longer healthy life. The trend in Slovakia has been opposite from 2012. The expected healthy life years was one year shorter for women than that for men in 2015.

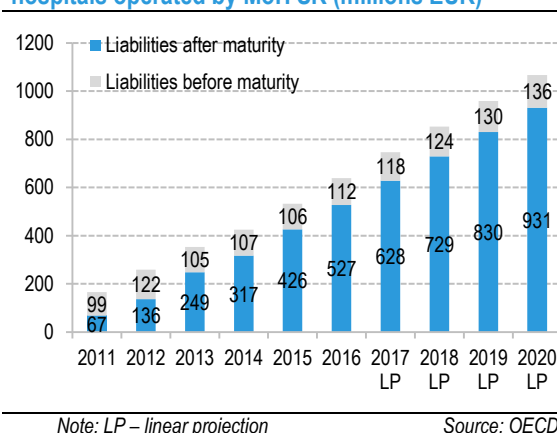
<sup>55</sup> Amenable deaths are frequently used as a healthcare quality indicator, since they also include deaths which could have been averted if timely and appropriate healthcare and treatment was provided. Besides amenable deaths, an indicator of preventable deaths is used as well (mentioned in Chapter 1 Identification of challenges in the Slovak economy); both types constitute a complex indicator called avoidable mortality.

Opportunities for improvement of the effectiveness of healthcare expenditures have also been confirmed by the spending review - potential savings in a three-year horizon amount to as much as EUR 363 million.

**Figure 31: Healthcare efficiency of the OECD countries**



**Figure 32: Liabilities of 13 teaching and university hospitals operated by MoH SR (millions EUR)**



Teaching and university hospitals continue to incur debt, with their liabilities mounting to EUR 639 million in 2016. The growth of overdue liabilities has been slower compared to the last year, reaching EUR 101 million increase on a y/y basis. Out of the 13 teaching hospitals operated by the MoH SR, only the Children's Teaching Hospital in Banská Bystrica managed to decrease the overdue liabilities by 5.1% (EUR 31 thousand). It is the smallest and least indebted hospital out of the 13 hospitals monitored (total liabilities at the end of 2016 amounted to EUR 2 million).

### Box 3: Healthcare spending review

The review identified measures corresponding in aggregate to EUR 174 up to 363 million in 2017. Of the total amount, EUR 143 million falls on the expenditures of the public health insurance. Based on the measures identified, the expenditures on public health insurance will undergo internal restructuring without prejudice to healthcare. A significant portion of measures applies particularly to medications, medical devices, and special medical devices.

Efficient operation and more economical procurement by the hospitals operated by the MoH SR will release additional EUR 31 million. Improvements of the operation and procurement processes will help stop the hospital to incur debts and will create a room for capital investments into reconstructions and equipment.

#### Cost saving measures (EUR million)

	2017	2018	2019	Potential savings
<b>Measures decreasing expenditures of the public health insurance</b>	<b>143</b>	<b>159</b>	<b>165</b>	<b>268</b>
Overprescription of medications – introduction of prescription limits for outpatient service providers	20	20	20	59
Exceptions for medications – introduction of rules on refund of exceptions	10	10	10	10
Cost-ineffective medications - central procurement of medications covered by health insurance company	25	25	25	42
Special medical material - price reduction through reference pricing	35	45	45	55
Medical devices - reference pricing and inspection activities	15	15	15	15
Diagnostic exams - reduction of unit prices and limits to CT and MRI examinations	10	16	22	25
Diagnostic exams– introduction of limits for outpatient service providers	3	3	3	37
Improvement of inspection activities of VŠZP	25	25	25	25
<b>Measures reducing spending of hospitals (subordinate organisations of the MoH SR)</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>95</b>
Optimisation of operating expenses	5	5	5	10

Optimisation of medical processes	15	15	15	74
Optimisation of medication and special medical material procurement	8	8	8	8
Economic procurement of medical equipment	3	3	3	3

Source: MoF SR

More in the Final Report of the [Healthcare Spending Review](#).

### ***Improving financial management and results of hospitals operated by the MoH and construction of a new hospital***

A newly established unit for the management of organisations operated by the MoH SR and set up of supervisory bodies in hospitals should reinforce surveillance and help improve financial management of state-owned hospitals. The centralized procurement process continues to be implemented for the state-owned hospitals at the level of the MoH SR. After the execution of a framework agreement for the supply of CT technology, also the MRI technology and beds are planned to be procured in a similar manner. **The construction project of a new University Hospital in Bratislava will be funded from public finance.** The public procurement is expected to start in 2017. The PPP construction was stopped in 2016 since additional risks had been identified.

### ***Introduction of DRG***

A diagnostic-related group-linked payment mechanism was launched in 2017. In the first year, individual hospitals have individual rates in order to avoid significant financial fluctuations and destabilization of the system. Each of the health insurance companies have their own "rescue networks" system, should the payment to the hospital based on DRG substantially deviate from the original payment mechanism (payment for hospitalization). The five-year taking convergence process of individual rates to a single nation-wide basic rate will be initiated in 2018 and should be completed in 2022.

### ***eHealth implementation***

Gradual connection of all doctors to the *eHealth* environment will take place throughout 2017. The selected parts of *eHealth - National health portal, ePrescription and eMedication, Electronic health documentation and eAllocations*, should be fully functional at the beginning of 2018. Data contained in the health documentation on paper will not be rewritten to *eHealth*. The fact that some of the functionalities (prescription, patient's summary) will have to be modified in future is already known.

### ***Competence model, remuneration system, and extension of the residency programme***

The powers of individual groups of medical professionals will be re-defined particularly for the inpatient care. A new competence model will take into consideration the content and scope of education attained, skills and experience attained, and the effectiveness and safety of healthcare. The extension of powers aims to increase the attractiveness of medical professions. The MoH SR has been seeking on a long-term basis to support and implement a merit-based remuneration of medical professionals. The residency programme will be extended to include additional specialisations.

### ***Redefining healthcare facilities and New Emergency Care***

The terminal network of hospitals and the network of outpatient care providers will be optimized with the emphasis on regional-based needs and patient's safety. Medically demanding and specialised activities will be centralized. Inpatient capacities will be adapted to regional needs and the long-term care capacities will be strengthened.

The emergency department system will undergo a reform in 2017 and the network of emergency department in hospitals will be completed including heliports and trauma centres. Expanding the network of urgent care centres, the capacity occupancy and the availability of urgent care will improve in regions. Further to the emergency departments in hospitals, also the emergency departments in primary care will be redefined. A fixed network of uninterrupted providers of *New Emergency Care* will be designed from the perspective of accessibility, purpose, and efficiency.

### ***Transparency and waiting times***

The list of publicly available data in a user-friendly format will be expanded. Transparency will also be improved by the re-organization of selection processes with a view to prevent the conflict of interests or

inviting independent representatives (e.g. from the third sectors) to take a seat in the supervisory bodies of state-owned institutions. The lists of performances with a maximum waiting time will be extended - besides surgeries, it will also contain specialised examinations and diagnostic examinations.

***Multisource funding***

Transparent rules treating payments by patients will be implemented. This will create conditions for the system of multisource funding with a guarantee of free access to healthcare for the citizens from socially poorest and disadvantaged backgrounds. There are no clear rules in the currently valid system. Doctors charge patients fees for medical services - the list of services subject to fees and the amount of fees vary from doctor to doctor.

## 4.7 Environmental sustainability and energy

The environmental spending review is being carried out in 2017 with the aim of increasing its effectiveness and efficiency. The environmental policy strategy until 2030 will set forth framework measures for the direction of environmental protection. The transition to circular economy will be systemically supported by increasing the recycling ratio by enacting higher dumping fees. The promotion of green public procurement and creation of an information and educational platform will support the implementation of green principles into practice.

### Performance indicators for environmental sustainability and energy

		2008	2009	2010	2011	2012	2013	2014	2015	Target 2020
<b>Non-ETS greenhouse gas emissions</b> (%, change against 2005)	<b>SK</b>	-5.1	-8.1	-5.1	11.2	14.7	19.5	24.4	23.2	13
	<b>EU</b>	-2.2	-6.0	-3.9	-7.9	-8.7	-9.9	13.0	-	-10
<b>Share of RES on gross final consumption</b> (%)	<b>SK</b>	7.5	9.3	9.0	10.3	10.4	10.1	11.6	-	14
	<b>EU</b>	11.0	12.4	12.8	13.1	14.3	15.0	16.0	-	20
<b>Final consumption of electricity</b> (%, change against average of 2001-2005)	<b>SK</b>	0.8	-6.7	1.4	-5.4	-9.2	-6.9	11.7	-	-11
	<b>EU</b>	1.0	-4.6	-0.5	-5.5	-5.5	-5.4	-9.2	-	-

According to the composite EPI index, Slovakia ranks 24th in the world in the overall quality of the environment. In spite of this fact, there still are areas such as waste management and air quality, where we lag significantly behind. Slovakia is well below the average of the EU and V3 countries when it comes to the recycling ratio. In spite of improvement, too many Slovak nationals are exposed to harmful dust particles PM<sub>2.5</sub>.

Figure 33: Municipal waste recycling ratio

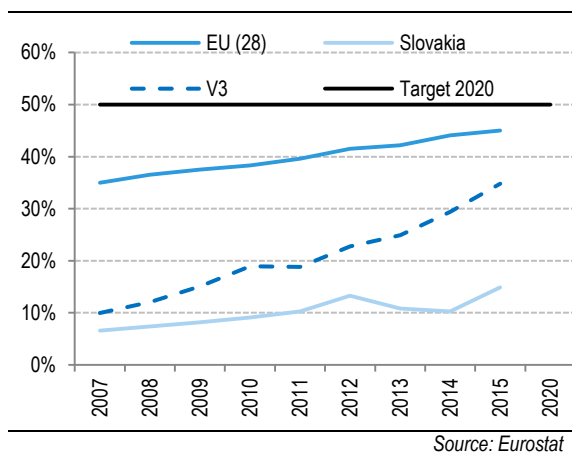
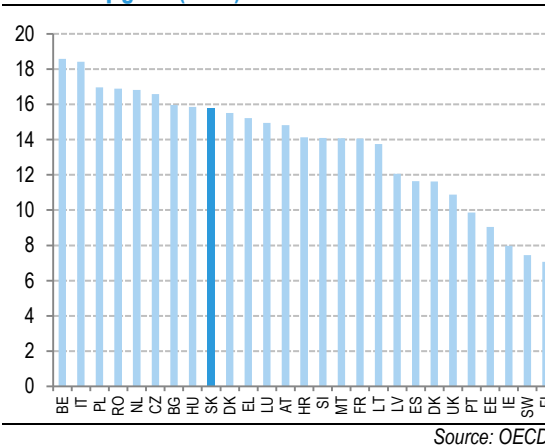


Figure 34: Average exposure of population to PM<sub>2.5</sub> in µg/m<sup>3</sup> (2013)



### Environmental spending review

The review will propose the spending and structural measures to improve the efficiency of the budget envelope and the environmental protection programmes. Emphasis will be laid predominantly on the waste water management, flood control, waste management, and air pollution. The efficiency of the operation of organisations controlled by the MoE SR will be reviewed.

### Environmental strategies

The **Environmental Policy Strategy until 2030** which will set forth framework measures for the direction of environmental protection will be presented in the course of 2017. The **Low-Carbon Strategy until 2050** identifies the reduction potential and the cost-efficient forms of decreasing emissions. The **Air Quality Improvement Strategy** will present the measures helping to reduce air pollution.



### ***Waste management***

As regards waste management, gradual **increase in the fees for the municipal waste dumping** will decrease dumping and increase recycling. The actual fees for the municipal waste dumping in Slovakia are too low and do not motivate municipalities to change their waste policy at all.

### ***Information platform – Green economy***

A space for information exchange in connection with the implementation of Green Economy principles will be created until March 2018 in line with the approved National Action Plan for Green Public Procurement in the SR for 2016-2020. The **information platform – Green Economy** will increase environmental awareness, point out the benefits of doing business in line with the green economy concept, and help in understanding the significance and use of environmental alternative options.

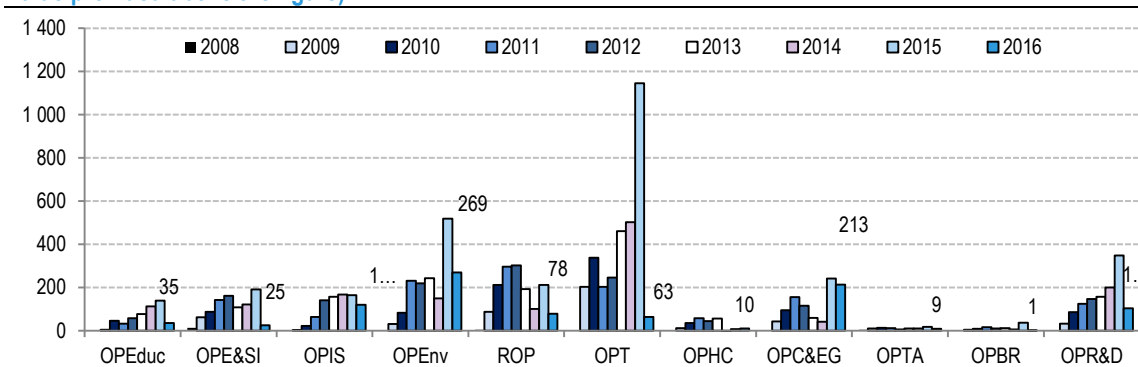
## 5 EU cohesion policy

EU cohesion policy remains one of the key tools of socio-economic development in the SR and for achieving the objectives of the Europe 2020 strategy. Cohesion policy funds are the main source of financing public investment in Slovakia, with a share of over 80 %.

In 2016 and the first quarter of 2017 the main focus was on the financial settlement of resources drawn from the Structural Funds and the Cohesion Fund 2007-2013 (SF and CF), on launching the implementation of the European Structural and Investment funds 2014-2020 (ESIF), and on the preparation and arrangement of the events in the area of cohesion policy within the Slovak Presidency of the Council of the EU.

The eligible period for drawing resources under the programming period 2007-2013 ended in 2015<sup>56</sup>. The total drawing of SF and CF in 11 main OPs amounted to 97.1 % of the EU resources and 94.7 % of the state budget by the end of March 2017 (out of the total allocation of EUR 11.1 billion of EU resources and EUR 1.9 billion of state budget). Out of all the 14 OPs (including the OP Fishery and the OPs SR/CZ Cross-border Cooperation and the OP Interact II), the drawing of funds totalled in aggregate 97 % corresponding to the funds of EUR 11.3 billion. The unused funds of the programming period 2007-2013 amounted to EUR 347 million at the end of March 2017. The final amount of unused funds will be, similarly as the final level of drawing, known after acceptance of the final applications for payment and the final documentation of individual programmes by EC.

**Figure 35: Drawing of structural funds and the Cohesion Fund, the second PP 2007-2013 (EUR million, 2016 value provided above the figure)**



Source: MoF SR

The investments reached 61 % out of the total volume of EU resources<sup>57</sup> in the programming period 2007-2013. The largest share in total expenditures was attained by investments in 2015 (70 %). The largest portion of investments went particularly to the OP Transport and a quadruple increase in 2015 compared to the previous year was also observed for capital transfers outside the public administration sector. The remaining part of the expenditures of the programming period consisted mainly of direct payments to farmers funded from EAGF and other current expenditures.

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

The amount allocated to Slovakia within ESIF for the period of 2014-2020 totals EUR 15.5 billion. As in the previous programming period, Slovakia starts drawing the funds with a two-year delay. Within the third programming period 2014-2020, the drawdown reached the level of EUR 924.1 million, which is 5.9 % of the total allocation. EC approved 12 OPs funded from ESIF in 2014-2015. Out of the total allocation to 11 OPs of the programming period 2014-2020 (EUR 13.9 billion), the amount of EUR 660.8 million was drawn at the

<sup>56</sup> With the exception of the implementation of the financial instruments where the eligible period expired at the end of March 2017.

<sup>57</sup> Expenditures from SF, CF, European Agricultural Guarantee Fund (EAGF), European Agricultural Fund for Rural Development (EAFRD), cross-border cooperation, etc.

end of March 2017, which ranges at the level of 4.7 %. According to the analytical scenario<sup>58</sup>, Slovakia might draw approximately only a half of the allocated funds from the ESIF with the slow beginning observed in the first three years. However, the experience of the implementation of the EU funds indicates that the highest drawing usually occurs in the last years of the programming period and the option of drawing is also frequently extended by several years.

#### Allocation and drawing of EU resources, third PO 2014-2020

Operating programme	Managing authority	Allocation from EU funds (EUR million)	Drawing at 31/ 03/ 2017 (EUR million)	Contracting rate of projects (EUR million)
Research and innovations	MoESRS SR	2,267	24.3	108.6
Integrated infrastructure	MoTC SR	3,967	376.5	860.6
Human resources	MoLSAF SR	2,205	159.3	755.5
Environmental quality	MoE SR	3,138	56.7	898.3
Integrated regional OP	MoARD SR	1,754	31.1	129.4
Efficient public administration	MoI SR	278	1.0	32.4
Technical assistance	GO SR	159	11.5	75.7
Fisheries	MoARD SR	16	0.0	0.0
Interreg V-A SK-CZ	MoARD SR	90	0.0	0.0
Interreg V-A SK-AT	MoARD SR	76	0.0	0.0
PS INTERACT III	MoARD SR	39	0.4	39.4
<b>Total</b>		<b>13,989</b>	<b>660.8</b>	<b>2,899.9</b>
Rural development	MoARD SR	1,560	263.3	654.4
<b>Total</b>		<b>15,549</b>	<b>924.1</b>	<b>3,554.3</b>

Source: MoF SR, ITMS

The SF and CF/ESIF contribute to the fulfilment of the country specific recommendations of the Council for Slovakia to a great extent. A *Methodology of ESIF Synergy Effect Assessment in the Context of the Europe 2020 Strategy*<sup>59</sup> was finalized in 2016 in order to evaluate and set the evaluation methodology of the EU fund contribution to the strategy.

A Deputy Prime Minister for Investments and Informatization Government Office of the Slovak Republic (DPMIIGO) 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 informatization of the 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. The objective of the DPMIIGO in the area of the EU funds also includes smooth deepening of cooperation: at the national level, particularly in relation to the applicants, leading to the establishment of new regional information and counselling centres, and also in relation to partners. On the international basis, the deepening of cooperation is important not only within the V4 countries, but also in the context of the entire EU. The primary goal is to consolidate the position of the receiving countries both from the perspective of the position and shape of the cohesion policy after 2020, and the continued simplification of the mechanism of its implementation at the level of the EU and SR.

<sup>58</sup> 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 MoF SR.

<sup>59</sup> Published on the website of Partnership Agreement of Slovakia for 2014-2020: <http://www.partnerskadohoda.gov.sk/hodnotenie-esif/>

## 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 Minister of Finance of the Slovak Republic is the NRP coordinator. He also cooperates with the 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 and social 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 allocated 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 2017 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 February 2017<sup>60</sup>. 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.

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<sup>60</sup> [Country Report](#), Slovakia 2017, SWD(2017)

# 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	Target 2020
<b>Fiscal policy and public finance</b>												
1	Long-term sustainability indicator (GAP) (% of GDP)	SK	-	9.5	9.2	7	4	1.9	2.4	-		0
		EU	-	-	-	-	-	-	-	-	-	-
2	Effectiveness of VAT collection (%)	SK	62.3	55.5	54.3	54.3	49.8	54.7	57.2	58.1		-
		EU22	69.7	64.3	65.3	65.9	66	66.3	67.7	67.4		-
3	VAT gap (%)	SK	31.3	34.9	35.6	38.2	41	37	33.1	31.4	28.6	-
		EU	-	-	13.5	14.4	15	14.8	14	-	-	-
<b>Education, science, and innovations</b>												
4	PISA average of the scores	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		6
		EU	14.7	14.2	13.9	13.4	12.7	11.9	11.2	11		10
6	Citations (% , 100 = EU average)	SK	40	35	34	35	45	47	44	50		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		40
		EU	31.2	32.3	33.8	34.8	36	37.1	37.9	38.7		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		1.2
		EU	1.85	1.94	1.93	1.97	2.01	2.03	2.04	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		-
<b>Employment and social inclusion</b>												
10	Long-term unemployment rate (% of active population aged at least 15)	SK	6.7	6.6	9.3	9.3	9.4	10	9.3	7.6		3
		EU	2.6	3	3.8	4.1	4.6	5.1	5	4.5		-
EU 11	Employment rate (% of population aged 20 - 64)	SK	68.8	66.4	64.6	65	65.1	65	65.9	67.7		72
		EU	70.3	69	68.6	68.6	68.4	68.4	69.2	70.1		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		17.2
		EU	23.7	23.3	23.8	24.3	24.7	24.6	24.5	23.7		19.4
13	Benefit ratio (average pension benefit, % of average salary)	SK	-	-	43.7	-	-	45.7	-	-		-
		EU	-	-	41.4	-	-	44.0	-	-		-
<b>Modernization of public administration and the business environment</b>												
14	Doing Business (World Bank ranking)	SK	-	-	-	-	-	-	-	30	33	15
		EU	-	-	-	-	-	-	-	29	30	-
15	Product market regulation index (number of points)	SK	1.6	-	-	-	-	1.3	-	-		1.2
		OECD	1.5	-	-	-	-	1.4	-	-		-
16	E-government (%)	SK	40.0	38.0	50.0	48.0	42.0	33.0	57.0	51.0	48.0	71.7
		EU	35.0	37.0	41.0	41.0	44.0	41.0	47.0	46.0	48.0	-
17	Corruption perception (%)	SK	-	61	-	56	-	62	-	-		68.4
		EU	-	80	-	77	-	78	-	-		-

18	Disposition time Number of days	SK	-	-	367	-	437	-	524	-	-	
		CEPEJ	-	-	266	-	243	-	237	-	-	
19	Clearance rate (%)	SK	-	-	98	-	82	-	92	-	-	
		CEPEJ	-	-	98	-	104	-	100	-	-	
<b>Health</b>												
20	Healthy life years (expected number of years at birth)	SK	52.3	52.5	52.2	52.2	53.3	54.4	55.1	-	60	
		EU	61.7	61.7	62.2	61.9	61.8	61.5	61.7	-	-	
<b>Environmental sustainability</b>												
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	-3.9	-7.9	-8.7	-9.9	-13	-	-10
EU	22	Share of RES on gross final consumption (%)	SK	7.5	9.3	9	10.3	10.4	10.1	11.6	-	14
			EU	11	12.4	12.8	13.1	14.3	15	16	-	20
EU	23	Final consumption of electricity (%, change against average of 2001-2005)	SK	0.8	-6.7	1.4	-5.4	-9.2	-6.9	-11.7	-	-11
			EU	1.0	-4.6	-0.5	-5.5	-5.5	-5.4	-9.2	-	-

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

Name of indicator	Definition and source
<b>Long-term sustainability indicator (GAP)</b>	<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>
<b>VAT collection effectiveness</b>	<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>The index compares actual VAT collection to potential VAT collection. The larger the indicator value, the more efficient the VAT collection. Potential VAT collection indicates how much VAT can be collected on the macroeconomic base at the basic VAT rate.</p> <p>Source: OECD / Eurostat, calculation: MoF SR</p>
<b>VAT gap</b>	<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 = 1 – [(theoretical (potential VAT) – actually collected VAT)]/theoretical (potential VAT)</p> <p>Source: European Commission / CASE, calculations: MoF SR</p>
<b>School drop-out rate</b>	<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</p>
<b>PISA</b>	<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</p>
<b>Tertiary education attainment</b>	<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</p>
<b>Citations per researcher</b>	<p>The proportion of the number of citations in renowned international magazines (Scimago Journal &amp; 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: <a href="http://www.scimagojr.com/">http://www.scimagojr.com/</a>, Eurostat, calculation: MoF SR</p>
<b>Expenditure on R&amp;D</b>	<p>The percentage share of total R&amp;D expenditure in GDP.</p> <p>Source: Eurostat</p>
<b>High-tech export</b>	<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</p>
<b>Employment rate</b>	<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, SO SR</p>
<b>Long-term unemployment rate</b>	<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>

<b>Population at risk of poverty and social exclusion</b>	<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), SO SR</p>
<b>Benefit ratio</b>	<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>
<b>Doing Business</b>	<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>
<b>Product market regulation index</b>	<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>
<b>E-government</b>	<p>The percentage of individuals aged 16-74, who use the internet for communication with the public administration.</p> <p>Source: Eurostat</p>
<b>Corruption</b>	<p>The corruption indicator represents an average of two indices focusing on different types of corruption: Experience with corruption among the common population – a Eurobarometer survey. Eurobarometer survey targeting individual sectors, such as the police, customs administration, courts, national politicians, regional politicians, local politicians, tenders, building permits, business permits, healthcare system, school system, inspection. The Corruption Perception Index (CPI) - Transparency International – measures the perception of corruption based on 5-10 source surveys of entrepreneurs and experts in each country. In Slovakia, eight corruption perception surveys are included, with 50 % weight assigned to the views of entrepreneurs and 50 % to the views of experts.</p> <p>Source: Transparency International, Eurobarometer, calculations of IFP</p>
<b>Disposition time</b>	<p>Disposition time - an indicator measuring how long it takes for a case to be resolved by a court. It is calculated as a ratio of unresolved cases at the end of the year and the number of resolved cases in a year. This ratio is then converted to a number of days. It is a theoretical and internationally comparable indicator which allows comparison of disposition times of judicial proceedings across all kinds of judicial systems.</p> <p>Source: CEPEJ</p>
<b>Clearance rate</b>	<p>Relationship between the new cases and the completed cases within a year. The indicator measures the ability of a court to complete cases relative to the total number of received cases. A ratio greater than 1 indicates that the court handles more cases as was the number of accepted cases in the given year. The number of unresolved cases of the past years is thus reduced. A ratio less than 1 indicates an increase in the unresolved cases transferred to the next period.</p> <p>Source: CEPEJ</p>
<b>Healthy life years</b>	<p>The number of years lived in a healthy condition that can be expected at birth. This indicator combines information on mortality and morbidity in the given country. Good health is defined by the absence of disabilities or restrictions on everyday activity. It is also called disability-free life years (DFLY). It is calculated separately for males and females.</p> <p>Source: Eurostat</p>



**Non-ETS  
greenhouse gas  
emissions**

Non-ETS greenhouse gas emissions, such as CO<sub>2</sub> equivalents, represent the percentage change compared to 2005. The indicator shows the trends of aggregated anthropogenic emission of CO<sub>2</sub>, NO<sub>2</sub>, CH<sub>4</sub>, HFC, PFC and SF<sub>6</sub> called greenhouse gasses and presented as CO<sub>2</sub> equivalents. The total quantity does not include emissions from land use and forestry (LULUCF).

Source: SHMI

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**Share of RES on  
gross final  
consumption**

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.

Source: Eurostat

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**Final consumption  
of electricity**

Final consumption of electricity represents the difference between final consumption and final non-energy consumption. Final non-energy consumption includes energy products used as feedstock in various industries, i.e. those that are neither consumed as fuel nor transformed to another fuel. Final consumption is calculated as gross inland consumption – transformation (input) + transformation (output) + exchanges and transfers, backflows – consumption of the energy sector – distribution losses.

Source: calculation by MoF SR based on data from SO SR

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