

# **National Reform Programme of the Slovak Republic 2013**

April 2013



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## Introduction

The global and European economy is in the fifth year of crisis. The current economic situation in Slovakia is characterised by the ongoing slow economic growth and related stagnation in employment. The situation is getting worse in light of the necessary fiscal consolidation at home, as well as at our major trade partners. Therefore, the Slovak Government is confronted with a difficult situation; on the one hand, it is necessary to comply with the fiscal discipline required for the stabilisation and prosperity of the country, on the other hand, economic growth must be boosted as soon as possible, along with mitigating the adverse effects of the European crisis and consolidation efforts. At the same time, the Government keeps in mind the need to create conditions to facilitate Slovakia's progress in the long term, and its convergence to advanced Western European economies.

The Slovak Government started adopting solutions immediately after its appointment and passed a number of key policies last year, including additional measures that were necessary to comply with the general government deficit target set for 2012. The pension system was reformed to improve its long-term sustainability. In order to enhance employment, measures to support employment of young people and increase efficiency of active labour market policies were approved. Changes in the education sector concentrated on quality improvements and better linking of the education sector with labour market requirements.

The National Reform Programme (NRP) of the Slovak Republic represents a set of policies that are necessary in order to exit the current crisis and boost growth in economy and employment. Structural measures respond to the need to revive economy and ensure its long-term growth. Short-term instruments will prevent the loss of capacity and the occurrence of a situation when "barely surviving" companies cannot invest in enhancing their own competitiveness. Equally important is to forestall the loss of labour force skills by maintaining employment and increasing qualification of people who have problems finding a job. The Slovak Government is aware of the constraints stemming from the need for the recovery of public finances. To that end, a variety of short-term expenditure policies that support aggregate demand also strengthen our economy from the long-term perspective. They cover, for example, training courses for the unemployed or completion of transport infrastructure.

The necessary policies have been identified by analysing major obstacles to economic growth, however, the key challenges have been chosen by taking into account some other factors, as well. They do not necessarily increase GDP but they contribute to a higher quality of life. The key challenges for Slovakia to achieve sustainable development include fiscal policy and public finances, education, science and innovations, employment and social inclusion, business environment, transport infrastructure and telecommunications, advanced and efficient public administration, health, environmental sustainability and energy.

The NRP provides a summary of consolidation measures but the key document of the Slovak Government in this respect is the Stability Programme. The consolidation of public finances will allow the country to attain healthy, efficient and sustainable general government budgets and comply with the European Union rules which we have committed to observe. The selected instruments reflect the objective of ensuring the least possible negative impact on economic growth and population, and efforts to protect expenditures that enhance Slovakia's productivity and competitiveness. Other NRP measures will be funded within the set expenditure ceilings of individual budget chapters. It means their funding complies with the Government's consolidation efforts.

The cohesion policy will play a significant role in the funding of structural policies. To that end, based on an agreement with the European Commission, the Slovak Government has opted in 2013 for a more intensive use of EU funds to enhance economic growth, basic infrastructure development and employment. A discussion is currently underway regarding the future shape of the cohesion policy for the 2014-2020 programming period. The Slovak Government intends to increase efficiency of using these funds, namely by concentrating on key areas and priorities under Slovak economic policy. Repayable forms of assistance will be used to a larger degree. Restricting the provision of customary non-repayable grants to such cases where a public good is created and where the occurrence of positive externalities (i.e., the inability to internalise the whole profit) gives rise to market



failures will also contribute to savings and higher efficiency of the funds spent. The public funds will support such activities so that their level approaches what is deemed an optimum for society.

The NRP is the main strategic document of the Slovak Government with respect to economic development and structural policies. It contains national-level measures to attain a sustainable economic growth, growth in employment and higher quality of life. At the international level, the document presents measures to meet the objectives contained in the Europe 2020 strategy as defined in the 2013 Annual Growth Survey and the Europe 2020 Integrated Guidelines, as well as to comply with the country-specific recommendations made by the EU Council to Slovakia. The NRP does not put any additional demands on the general government budget. Along with the Stability Programme, it defines priorities to be pursued by the Slovak Government in its economic and fiscal policies in the upcoming period.

In keeping with the Manifesto of the Government of the Slovak Republic and Government's sectoral strategies, it represents a medium-term framework to forge the growth potential of Slovak economy and employment. The short-term aspects of the Government's economic policy are defined in a document entitled 'Economic policy measures to support economic growth'. The aforementioned document is a comprehensive set of measures that affect not only the so-called production base, i.e., economic sectors and industries, but also apply to its extension, i.e., healthcare, education, armed forces and public administration, and therefore serves as a supplement to the NRP 2013 and the necessary basis to meet its priorities.

Information about the tasks to be fulfilled by central government bodies under the National Reform Programme 2013, the manner, deadlines and budgetary costs of their implementation, as well as the progress in the implementation of the tasks already imposed and their linkages to EU strategic documents are included in the Action Plan for the National Reform Programme 2013.

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

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

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

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

- Pursuing differentiated growth-friendly fiscal consolidation
- Restoring normal lending to the economy



- Promoting growth and competitiveness for today and tomorrow
- Tackling unemployment and the social consequences of the crisis
- Modernising public administration

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

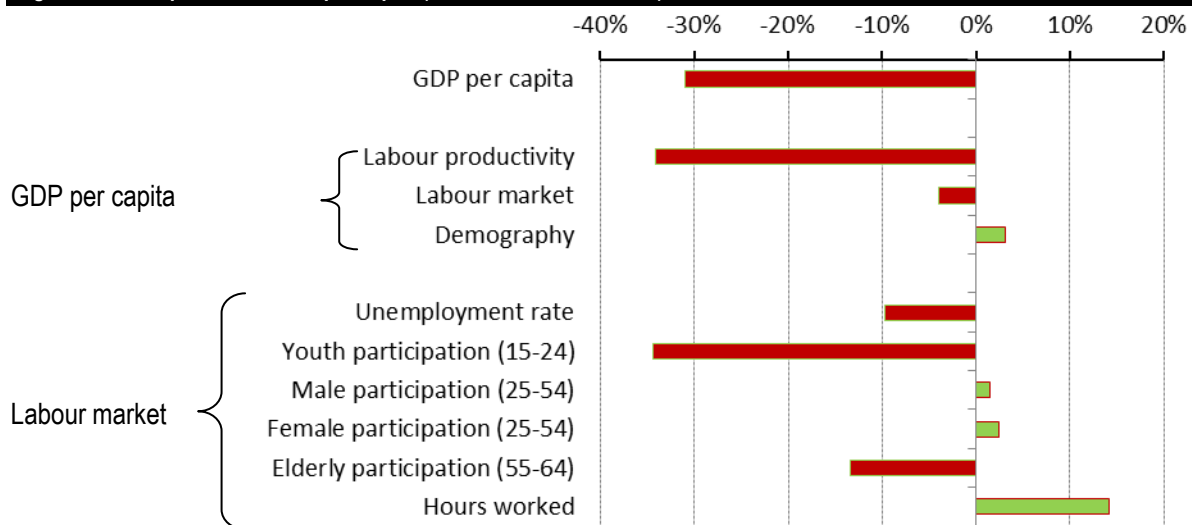
## 1 Priorities under the National Reform Programme

The economic growth, measured as a growth in GDP, and improvements in the quality of life are mutually interconnected objectives because economic growth is also prerequisite to non-material sustainable advancement of a country. Therefore, the NRP priorities were largely identified by comparing GDP decomposition for Slovakia with the EU-15 average. On the other hand, there are many other aspects of life important for Slovakia's welfare and prosperity which can be affected by public policies. Thus, the priorities also take into account other factors that do not necessarily increase GDP but contribute to a better quality of life.

Problematic issues in GDP creation cannot be identified without decomposition of Slovakia's output. We have based these efforts on a Commission database which divides GDP per capita to its three basic components: (1) labour productivity; (2) labour market; and (3) demography. The labour market component is further subdivided into other subcomponents. In general, we can identify eight components of GDP. Comparing these components against advanced EU Member States we identify those production factors in which the Slovak economy lags most behind and which, therefore, have the greatest potential for future growth in GDP in Slovakia.

The low level of GDP per capita compared to the EU-15 average is largely caused by lower labour productivity in Slovakia. Similarly to other new Member States, the difference in labour productivity reflects a lower capital stock per worker and a lower level of overall factor productivity. The second negative contribution to GDP per capita comes from the labour market participation, though to a lesser degree than from labour productivity. The demographic component contributes positively to overall GDP per capita when compared to the EU-15.

**Figure 1: Decomposition of GDP per capita (Slovakia vs. EU-15, 2012)**



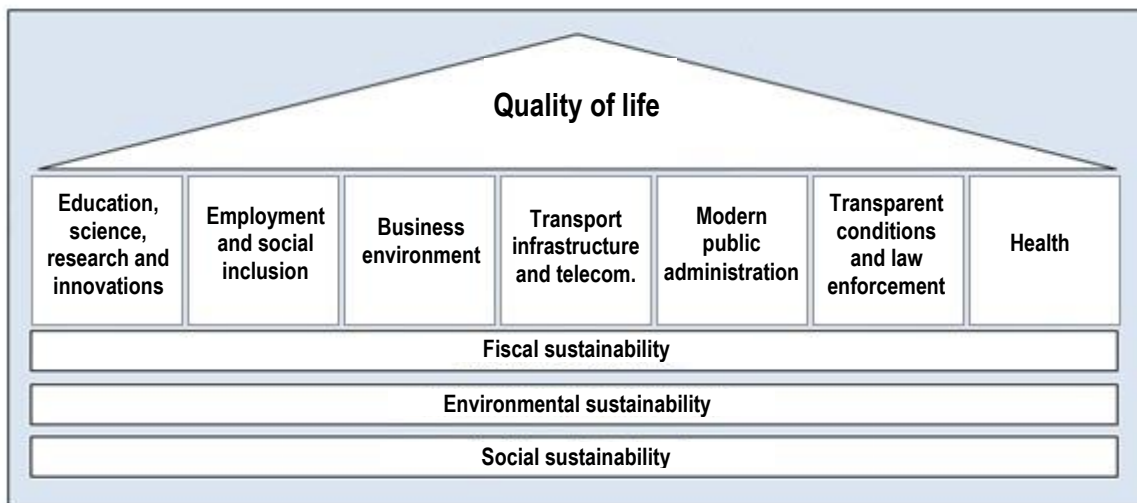
Source: LAF database EC, MoF SR



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

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

Figure 2: Approach to increasing the quality of life in Slovakia



Until recently the capital stock and productivity were mainly driven by foreign direct investments and related imports of technologies. Their direct support, however, distorts economic environment and puts a burden on the state budget. In addition, an increase in public spending to support private investments increases government debt. The debt has a very tight ceiling, determined by the EU and the Fiscal Responsibility Act, in addition to markets. In the medium- to long-term horizon, the increase in government debt will translate either into lower government expenditures or into a higher tax burden.

A long-term and sustainable economic growth can be achieved through systematic structural changes in the economy which will largely show in the medium- and long-term horizon. To that end, the Government particularly concentrates on the output side of the economy in its efforts to increase the level of GDP. It will also seek ways to boost growth in the short term by stimulating domestic demand. However, the ongoing fiscal consolidation puts limits on the possibilities to support Slovakia's economic growth by increasing the dynamics of domestic demand. Another constraining factor in this respect is the fact that Slovakia has a small, open economy and its short-term growth in GDP is most dependent on foreign demand. The foreign demand is currently pushed downwards by a slow or negative economic growth among the majority of our trade partners.



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

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

In the long term, sources of growth in labour productivity are different. In the context of the Europe 2020 strategy outlook, they are equally important, though. A progress in technologies is linked to the innovation in businesses and application of the results of science, research and development in practice. The human capital is mainly affected by education. It is therefore extremely important to create an environment that will encourage private investments in innovation, increase effectiveness of research and development, and improve the transfer of theoretical knowledge into practice. Therefore, one of the Government's key priorities is to **increase the quality of education, science, research and innovation**.

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

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

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

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

Tab. 1: Sponsorship of the Europe 2020 Strategy indicators

Indicators

Sponsors





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

Note: MoF SR – Ministry of Finance of the Slovak Republic, MoESRS – Ministry of Education, Science, Research and Sport of the Slovak Republic, MoE SR – Ministry of Economy of the Slovak Republic, MoLSAF SR – Ministry of Labour, Social Affairs and Family of the Slovak Republic, Mol SR – Ministry of Interior of the Slovak Republic, MoTCRD SR – Ministry of Transport, Construction and Regional Development of the Slovak Republic, MoJ SR – Ministry of Justice of the Slovak Republic, MoH SR – Ministry of Health of the Slovak Republic, MoEnv SR – Ministry of Environment of the Slovak Republic, MoARD SR – Ministry of Agriculture and Rural Development of the Slovak Republic



## 2 Implementing the measures under the National Reform Programme 2012

One of the crucial tasks pursued by the Slovak Government last year was the consolidation of public finances. Due to the adverse development in tax revenues, additional measures amounting to 1% of GDP had to be adopted in the course of the year. The general government budget for 2013 anticipates consolidation efforts in the amount of EUR 2.5 billion and government deficit of 2.9% of GDP, which creates conditions to end the excessive deficit procedure.

The Government stepped up efforts to combat tax evasion, which will enhance the ongoing consolidation process and release resources to boost growth and quality of life. Concrete measures have already been implemented. In order to strengthen justice across the tax and contribution system and to avoid losses of contribution revenues, the Government made changes in the legislation on social and health insurance which have put the contribution burden on the income from work 'by agreement' and income of self-employed individuals on equal footing with the income from employment.

Conditions were created to reinforce sustainability of the pension system. The changes made to the pension system have linked the retirement age to life expectancy, increased solidarity and adjusted indexation of pensions to a pensioners' consumer basket. The adopted measures will gradually cut the future costs of pensions paid from the pay-as-you-go pillar. A Council for Budget Responsibility was set up and its members appointed.

Changes in the active labour market policies aimed at improving their efficiency and effectiveness will ensure better inclusion of marginalised applicants in the labour market, along with more effective utilisation of existing instruments, and create good conditions to encourage employment of the long-term unemployed through their education, training for the labour market and career counselling. The financially most demanding measure to encourage employment of young people is the project to provide financial contributions for newly created jobs for young people. A youth action plan was also adopted.

As regards the system of social benefits, changes were made with respect to benefits paid in material need that reduce administrative burden and prevent the misuse of the system of assistance in material need. A Strategy for the Integration of Roma until 2020 was adopted, reflecting the need to move away from the passive provision of social services by general and local government authorities to the Roma community to activation assistance.

An amendment to the Act on Tertiary Schools was adopted to improve the internal education quality assurance system, implement changes in part-time studies, tighten rules on the award of assistant professor and professor titles and encourage cooperation between Slovak tertiary schools and high-quality tertiary schools abroad. Changes made in the vocational training system have reinforced the means to coordinate vocational education and training to better match the needs of the labour market.

The public administration system will undergo a considerable reform to improve the quality of services provided to the citizens and make its functioning more efficient. During its initial stage, the existing structure of state administration bodies was reviewed. Sixty-four specialised regional offices were closed down as part of the integration process of specialised state administration performance into a single state authority. New analytical units were set up at some ministries to provide higher quality and better informed public policy-making.

### 2.1 Assessment of the implementation of measures against individual country-specific recommendations

#### 1. Consolidation of public finances



***(CSR1) Take additional measures in 2012 and specify the necessary measures in 2013, to correct the excessive deficit in a sustainable manner and ensure the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Implement targeted spending cuts, while safeguarding growth-enhancing expenditure, and step up efforts to improve the efficiency of public spending. Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark. Accelerate the setting up of the Fiscal Council and adopt rules on expenditure ceilings.***

The Government's key fiscal target for 2012 was defined under the 2012-2014 general government budget in the form of a general government deficit at the level of 4.64% of GDP. Amidst the adverse development in tax revenues, the Slovak Government had to adopt additional measures, consisting of restrictive measures in the state budget and re-assessment of some expenditure titles, in order to meet the fiscal objective for 2012. In addition, some impacts were partially felt in 2012 of the legislation approved under the consolidation package for 2013 (namely of the amendment to the Act on Social Insurance, the Act on Special Levy on Selected Financial Institutions, the Act on Special Levy on Business Activities in Regulated Sectors, and the Act on Administrative Fees). The Government's efforts to keep the general government deficit below the set target were also largely and unexpectedly affected by adverse macroeconomic development. The Government outperformed its 2012 fiscal target (the deficit was 0.3 percentage points lower, at 4.35% of GDP), owing to the adoption of additional consolidation measures in the amount of more than 1% of GDP.

One of the key tasks of the Slovak Government is to consolidate public finances so that the general government deficit **is kept below 3% of GDP in 2013 (its target value is set at the level of 2.9% of GDP)**. Meeting this fiscal consolidation target is prerequisite to ensuring Slovakia's sustainable development. To that end, measures were adopted, with effect from 2013, to reduce general government deficit by 3.3 p.p. of GDP (EUR 2.5 billion compared to the no-policy-change scenario). When selecting the appropriate measures, the Slovak Government took care to make sure that the efforts to cut government deficit lead to the least possible slowdown in Slovakia's economic activity and growth and that they have no disproportionately large impact on the most vulnerable social groups.

The efforts to mitigate consolidation impacts are also reflected in **prioritising productive expenditures** in the state budget. The largest ever volume of funds has been allocated for **infrastructure development** in 2013, mainly thanks to a substantial package of EU funds. The volume of funds allocated for motorway and expressway construction has grown by more than 300% between 2012 and 2013, while the volume of funds allocated for road network construction and reconstruction has increased by 75%. Expenditures on **education** will also increase. Wages for primary and secondary school teachers will rise by 5 percent. A year-on-year increase in expenditure per student is 2.6% in the tertiary school sector. The expenditures of the Ministry of Education on **science and technology** have grown nearly by one quarter. This growth was caused by a transfer of expenditures allocated to PhD scholarships to be used to support scientific activities in the tertiary school sector. This has primarily translated into higher wage expenditures on pedagogical employees at tertiary schools engaged in scientific research.

**Council for Budget Responsibility (CBR)** was established in 2012 as an independent body to monitor and assess development in Slovakia's economic performance, namely as regards long-term sustainability and evaluation of compliance with the fiscal responsibility rules. Through its highly professional work backed by modern analytical tools, the council should hold the mirror up to the Government efforts, provide better information on public finances to the public and enable better decision-making by the National Council of the Slovak Republic. One of the first outputs prepared by the CBR was an assessment report on the general government budget proposal for 2013-2015, submitted by the Government to the parliament for discussion.

*Other measures, as detailed in Chapter 4.1 and the action plan, will also contribute to meeting this recommendation.*

## **2. Improving tax discipline and the tax policy**



***(CSR2) Increase tax compliance, in particular by improving the efficiency of VAT collection; reduce distortions in taxation of labour across different employment types, also by limiting tax deductions; link real estate taxation to the market value of property; make greater use of environmental taxation.***

In May 2012, the Slovak Government adopted the **Action plan to fight tax fraud** containing 50 specific measures primarily aimed at improving the collection of value-added tax, and approved several amendments to related legislation. The action plan is divided into three implementation stages. At its first stage, registrations for VAT purposes of persons that do not communicate and/or cannot be contacted were cancelled, and joint and equal tax guarantees introduced. A legislative amendment introduced the requirement for high-risk persons to deposit a financial guarantee upon their registration for VAT purposes and cancelled VAT registration for persons that cannot be contacted, do not communicate with a tax administrator or fail to comply with their statutory obligations. A new condition was introduced under which new companies can be established and majority shares in a company transferred only after their tax reliability has been verified and confirmed by a tax administrator. New elements of crime were defined, namely the crime of tax fraud and of obstructing the performance of tax administration.

Further key measures implemented under the action plan include the introduction of the obligation to use non-cash payments in trade transactions above a certain limit in order to prevent the issuance of fictitious invoices and receipts not backed by a real cash flow. Specialisation of courts to deal with tax crimes was enhanced, the Financial Directorate launched an anti-corruption programme in the financial administration to eliminate corruption practices inside the financial administration. A 'Tax Cobra unit', a special unit to deal with serious tax crimes, was established and the organisational structure of the police force changed in order to set up specialised task forces to combat serious economic crimes.

Legislative amendments on social and health insurance have largely **equalised the contribution burden on the income** from work 'by agreement' and income of self-employed individuals with that on the income from employment. Exemptions will continue to be applied to the contributions from work 'by agreement' for secondary school students and full-time tertiary school students whose income from a single employer does not exceed, respectively, EUR 66 per month (until the end of a calendar month in which a student attains 18 years of age) and EUR 155 (until the end of a calendar year in which a student attains 26 years of age). Partial exemptions regarding social contributions from work 'by agreement' have also been preserved for old-age and disability pensioners who, in addition, will also be exempt from the obligation to pay health insurance contributions. In the case of self-employed persons, the calculation of assessment bases for contribution payments has been adjusted in order to equalise the contribution burden on the income from work. All the aforementioned changes, along with the adjustment of the minimum assessment base (applies to approximately 87% of self-employed individuals), will contribute to their higher pension entitlements in the future. An amendment to the Income Tax Act has also introduced nominal ceilings on lump sum expenditures.

The introduction of a **registration tax on motor vehicles** has increased the share of taxes on wealth in the tax mix. Since the amount of the fee is linked to the engine power of a motor vehicle, thus also to its emissions in a majority of cases, this tax partially serves an environmental function, as well. The first auctions for emission allowances for connected installations have been organised under the European emissions trading scheme (EU ETS). Unlike some of the other new Member States, Slovakia did not choose to further allocate a major portion of allowances to the energy sector free of charge. Starting from 2013, a majority of allowances will be auctioned, which will *de facto* make CO<sub>2</sub> emissions under ETS chargeable.

*Other measures, as detailed in Chapter 4.1 and the action plan, will also contribute to meeting this recommendation.*

### 3. Pension system

***(CSR3) Further adjust the pay-as-you-go pension pillar, mainly by changing the indexation mechanism, introducing a direct link between the statutory retirement age and life expectancy and introducing a***



***sustainability factor in the pension calculation formula reflecting demographic change. Ensure the stability and viability of the fully funded pillar.***

Changes made in the **pension system** have enhanced its long-term sustainability. As regards the pay-as-you-go pension system pillar, an increase in pensions by a fixed amount was introduced, with a gradual transition back to the pensioners-inflation-based percentage increase in pensions expected to be completed in 2018. In addition, the retirement age will automatically be adjusted in relation to life expectancy, starting from 2017. The adjustment in solidarity coefficients has moderately increased solidarity in awarding pensions from the pay-as-you-go pillar. This measure has slightly increased low pensions, while higher pensions have been reduced moderately. No adjustment was made in the calculation formula for newly awarded pensions which would directly reflect demographic developments, though such an adjustment may be required in the future.

Under the new rules, the rate of mandatory contributions to the fully-funded pillar has been set to 4% of the assessment base, and should gradually increase to the final level of 6% between 2017 and 2024. On a voluntary basis, pension savers can contribute any amount to the fully-funded scheme; the state will provide a limited tax relief on such contributions up to the amount of 2% of their tax base, until the end of 2016. At the same time, the entry to the fully-funded pillar has become voluntary for the newly employed, anyone can decide whether to enter this scheme until the age of 35. The number of mandatory managed pension funds in the fully-funded pillar was reduced to two, one guaranteed and one non-guaranteed pension fund. On the other hand, pension funds management companies have been given the opportunity to flexibly create and manage any guaranteed and non-guaranteed pension funds. The Government has initiated a discussion with the opposition parties on the stabilisation of fundamental parameters of the pension system through a constitutional act.

*Other measures, as detailed in Chapter 4.1 and the action plan, will also contribute to meeting this recommendation.*

#### **4. Employment and labour market**

***(CSR4) Enhance the administrative capacity of public employment services with a view to improve the targeting, design and evaluation of active labour market policies to ensure more individualised employment services for the young, long-term unemployed, older workers and women. Ensure the provision of childcare facilities. Reduce the tax wedge for low-paid workers and adapt the benefit system.***

The reform in the **active labour market policies**, introduced under an amendment to the Act on Employment Services, has cancelled programmes with a marginal or negative contribution to public finances. Eleven of the existing programmes will be cancelled while another seven will no longer be legally claimable. The spare administrative capacities will be used to provide professional and counselling services to disadvantaged (marginalised) job seekers (young people, the long-term unemployed, etc.) on an individual basis and to improve the quality of assessment of active policies which would be targeted more effectively. An increased emphasis will be placed on promoting the employment of marginalised job seekers.

As part of stage one **in adjusting the benefit system**, an amendment to the Act on Assistance in Material Need has been in force since January 2013 which removes application deficiencies in the existing legislation. In addition, it reduces administrative requirements and prevents the misuse of assistance in material need.

*Other measures, as detailed in Chapter 4.3 and the action plan, will also contribute to meeting this recommendation.*

#### **Box 2: Reform of the active labour market policies (ALMPs)**

The amendment to the Act on Employment Services (Act No. 5/2004 Coll.) improves efficiency and effectiveness of ALMPs. Through the reduction in the number of instruments (the amendment cancelled eleven, mostly duplicate instruments), the system has become simpler and administrative requirements on ALMPs implementation have been reduced. More emphasis is placed on marginalized groups of job seekers/applicants in order to increase employment of young people, the long-term,



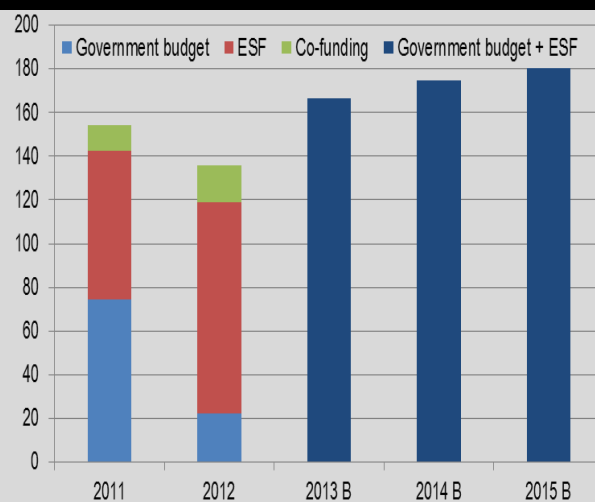
low-skilled unemployed, older people and people with disabilities. In addition, the seven obligatory ALMP benefits claimable under the law have been replaced by optional instruments to which there is no legal entitlement. The objective of this measure is to increase effectiveness based on the real utilisation and prevention of the misuse of these instruments.

ALMP instruments concentrate on the following areas:

- Support for self-employment activities (start-up incentives, supported employment and rehabilitation);
- Support for employment of marginalised job seekers (employment incentives, supported employment and rehabilitation);
- Support to retain jobs (employment incentives);
- Support to labour force mobility (employment incentives);
- Practical training for graduates (employment incentives);
- Information and counselling services, professional counselling;
- Education and training for the labour market (training);
- Projects and programmes (employment incentives).

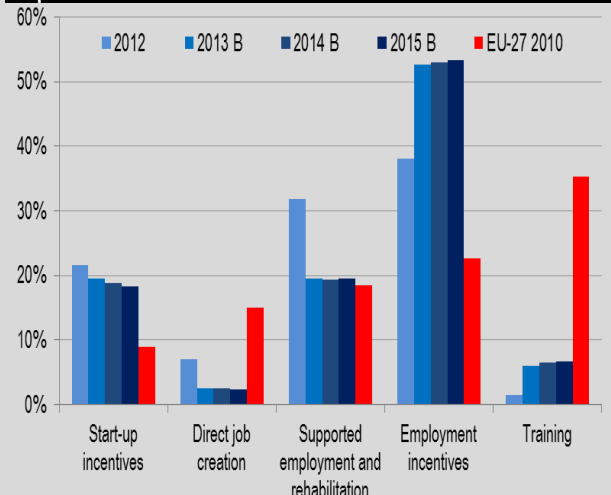
A better use of EU funds is expected to be made in order to finance ALMPs. The planned budget for ALMP programmes, including funds from the state budget and the ESF, represents EUR 166 million for 2013 under the amended Act on Employment Services. The amendment also anticipates improved planning and reporting of expected expenditures on individual programmes, disaggregated by EU funds and state budget funds.

**Figure 3: Expenditures on ALMPs (EUR million)**



Source: Central Office of Labour, Social Affairs and Family; Ministry of Labour, Social Affairs and Family

**Figure 4: ALMPs expenditures structure, % of total expenditures**



Source: Central Office of Labour, Social Affairs and Family; Ministry of Labour, Social Affairs and Family; Eurostat (the UK not included)

Slovakia spends roughly 0.23% of GDP on ALMPs, while the average EU spending in this area represented approximately 0.7% of GDP in 2010. ALMP instruments that receive the largest funding in the EU and OECD (more than one third of expenditures in EU countries on average) include educational and training programmes and activities which considerably contribute to reintegration of the unemployed into working life. Slovakia spends less than 10% of its total ALMP expenditures on this particular type of instruments. From the medium-term perspective, it is therefore advisable to increase the share of educational and training programmes and ensure their effectiveness in line with OECD recommendations. In order to increase their effectiveness, education and training need better be linked to the needs of local employers and the local demand for education/skills needs be monitored and projected.

## 5. Quality education and chances on the labour market for young people

**(CSR5) Adopt and implement the Youth Action Plan, in particular as regards the quality and labour market relevance of education and vocational training, including through the introduction of an apprenticeship scheme. Improve the quality of higher education by strengthening quality assurance and result orientation.**



In November 2012, the Central Office of Labour, Social Affairs and Family published the first call for applications for a **financial grant to support job creation**. To be eligible for the grant, applicants will be required to submit a proof that the jobs for people under 29 are newly created ones. The emphasis will be placed on supporting job creation in regions with the highest unemployment rates. The project is financed from EU Structural Funds.

A **Youth Action Plan (YAP)** has been adopted. The action plan contains seven measures primarily focused on the quality and relevance of education, including vocational education and training. Priority activities include vocational education and training in companies, identification of sectoral demand for particular skills on the labour market, and the transfer of the description of skills into the vocational education and training curriculum.

**Practical training for graduates** will be modified as part of the ALMP reform. Practical training should be linked to occupation for which the graduates were prepared. The introduction of this principle is estimated to improve effectiveness of the instrument and to strengthen components of vocational training. Applicants will have an opportunity to individually learn and train for the labour market in those areas where the Central Labour Office cannot provide training. Applicants may be refunded the costs (up to the amount of EUR 600) of individual education and training for the labour market which they have procured of their own initiative if they find a job owing to that training. The amendment also creates a legislative framework for the establishment of sectoral councils consisting of professional and expert associations, educational institutions, government authorities, local governments and social partners. The purpose of such councils is to identify sectoral demand for particular skills and qualified labour force.

The National Council of the Slovak Republic approved an **amendment to the Act on Vocational Schools** in September 2012 which aims at reinforcing the instruments to coordinate vocational education and training activities so that vocational education and training match the labour market demand. The amendment has introduced a new mechanism to determine the number of first grade classes at secondary schools; their number will primarily be determined by relevant local government. With effect from 1 September 2014, new conditions will apply to the admission of first grade students to four-year study programmes at grammar schools, bilingual study programmes and complete secondary vocational education programmes. One of the admission conditions will be that the average school report grades for the last two years at a primary school must be below a set threshold.

**The amended Act on Tertiary Schools** has been in force since 1 January 2013. The amendment is primarily aimed at creating legislative conditions to facilitate solutions to urgent problems with the quality of tertiary schools in Slovakia. They involve issues related to the internal education quality assurance system, part-time studies, enhancing the quality of tertiary school teachers and encouraging cooperation between domestic tertiary schools and high-quality tertiary schools abroad.

### Box 3: Amendment to the Act on Tertiary Schools

From 2013 on, the tertiary schools are required to prepare and implement their internal education quality assurance systems. These quality assurance systems should be prepared in compliance with the standards and guidelines for quality assurance in the European Higher Education Area. The purpose is to underline the role that tertiary schools themselves play in assuring the quality of education they provide in compliance with formalised rules and pre-set procedures. The quality assurance systems and their implementation will be assessed by the Accreditation Commission in the upcoming comprehensive accreditation of activities performed by tertiary schools.

In order to enhance the quality of part-time study programmes, the amendment to the Act on Tertiary Schools has changed the approach to full-time and part-time study programmes so that they better correspond to what is commonly known as full-time and part-time study abroad. With effect from 1 January 2013, tertiary schools are only allowed to submit accreditation applications for part-time study programmes in the form corresponding to the new structure of credits under which a lower number of credits per year is required which, in turn, extends the standard duration of a part-time study programme. The scope of study programmes for part-time students should be the same as of those provided to full-time students; the only difference should be the scheduling of study programmes which should allow part-time students to work in regular employment alongside their studies.

The quality of tertiary schools should also be enhanced by reinforcing their international cooperation. In addition to changes



in the provisions on joint study programmes, public tertiary schools will also be permitted to charge a tuition fee for study programmes provided in other than the official state language. The schools are expected to use this opportunity and take the necessary steps for their self-promotion abroad to help them attract foreign teachers as well as students.

*Other measures, as detailed in Chapter 4.2.1 and 4.2.2 and the action plan, will also contribute to meeting this recommendation.*

## 6. Social inclusion and further learning

***(CSR6) Take active measures to improve access to and quality of schooling and pre-school education of vulnerable groups, including Roma. Ensure labour market reintegration of adults through activation measures and targeted employment services, second-chance education and short-cycle vocational training.***

**An amendment to the Act on Lifelong Learning**, approved by the Slovak parliament in September 2012, should facilitate access of adult individuals to new qualifications based on their previous practice or participation in further learning programmes. The amendment extends further learning to also include the possibility of individual studies for natural persons and employers' activities, such as on-the-job training for employees to acquire the necessary professional aptitude. In order to ensure higher expertise of guarantors and lecturers, conditions and procedures of their selection have been adjusted.

Another important step was to expand the scope of eligible institutions to include professional organisations and associations that will be entitled to organise tests and examinations to verify professional aptitude. The amendment also includes a transitional provision that links the Act on Lifelong Learning with the Trades Act. Under this provision, individuals who have received a qualification examination certificate pursuant to the Trades Act but have not managed to take the necessary practical training or meet other requirements are entitled to apply for a trade licence because qualification examination certificates will be considered certificates of partial qualification or certificates of full qualification under the Act on Lifelong Learning.

The previously mentioned **amendment to the Act on Employment Services** have created conditions for effective short-term vocational education. It has aligned education and training for the labour market with further learning under the Act on Lifelong Learning, and placed more emphasis on counselling.

As part of an **integration of marginalised communities** programme, the Social Development Fund implements a national project focused on social field work in municipalities, the aim of which is to promote social inclusion by improving access to and quality and effectiveness of social services for persons at risk of social exclusion or excluded persons, with the focus on increasing their chances of employment.

In January 2012, the Slovak Government adopted the **Strategy for the Integration of Roma** until 2020. The strategy reflects the need to move away from the passive provision of social services by general and local government authorities to the Roma community to activation assistance. The strategy seeks to minimise the impacts of individual types of social exclusion in relation to Roma communities and to develop an inclusion policy. It covers such areas as education, employment, healthcare services, housing, access to financial services, non-discrimination, and perception by majority population.

Through progressive steps, **a full day's schooling** is established which should teach children how to spend their free time. The full day's schooling is being tested at 200 primary schools participating in the project, starting from the 2012/2013 school year. Its aim is to relieve parents of the burden of assisting children in their preparation for school classes, intensify education of children from a socially disadvantaged environment and, ultimately, improve their grades, conduct and school attendance.

In order to facilitate employment of women and inclusion of marginalised communities, **kindergarten capacities** have continuously been enhanced, within the constraints of financial possibilities of their founders, in particular for children one year prior to the beginning of their compulsory school attendance. Compared to the 2011/2012





school year, the total number of kindergarten classes increased by 118 - from 7,277 to 7,395. In order to improve education level of marginalised groups, such measures are continuously implemented as the publication of textbooks in Slovak and Roma language and teachers' training through accredited programmes to further develop their communication and pedagogical skills necessary for the inclusion of marginalised communities.

*Other measures, as detailed in Chapter 4.2.1, 4.2.3, 4.3 and the action plan, will also contribute to meeting this recommendation.*

## 7. Effective, reliable and open public administration

***(CSR7) Strengthen the quality of the public service, including by improving management of human resources. Further shorten the length of judicial proceedings and strengthen the role of the Public Procurement office as an independent body.***

The **ESO programme** [from the Slovak title **Efektívna** (effective), **Spoločná** (reliable) a **Otvorená** (open) state administration] was approved by the Slovak Government in April 2012. The ESO programme should simplify administrative procedures and services provided by the state both to individuals and businesses. The public administration should be simple, well-arranged and accessible, sustainable, transparent and cost-effective. This goal should be met through:

- streamlining the structure and infrastructure of state administration;
- integration and optimisation of the processes in the performance of public authorities and the functioning of state administration entities,
- Citizen's Contact Administrative Points,
- new methods, procedures and tools to monitor and assess performance efficiency and quality of state administration – a quality management system.

Within stage one of the ESO programme, the existing structure of state administration authorities has been reviewed in order to increase their efficiency and contribute to reducing expenditures spent on their operation. Sixty-four specialised regional offices were closed down as part of the integration process of specialised state administration performance into a single state authority, namely regional school offices, regional building authorities and territorial military administrations. With effect from the beginning of 2013, their powers and competences have been transferred to existing district authorities within the remit of the Ministry of Interior. This will narrow down the number of entities that have so far disposed of state property, performed public procurement and decided on personnel issues. This measure also has an anti-corruption dimension as it will make the management and control of public funds more transparent. It cuts the expenditures down, too – by centralising auxiliary, cross-sectoral and servicing operations.

With the aim of **reinforcing analytical capacities**, the key ministries have set up their own analytical units. In addition to the already existing Institute for Financial Policy at the Ministry of Finance, similar units were established at the Ministry of the Environment (Department for Economic Instruments and Analyses), at the Ministry of Labour, Social Affairs and Family (Analytical Centre), at the Ministry of Transport, Construction and Regional Development (Strategy Institute), at the Ministry of Health (Institute for Health Policy), at the Ministry of the Interior, and at the Ministry of Education, Science, Research and Sport (Educational Policy Institute). Following the merger of the Institute for Economic Analyses with the Strategy Section at the Ministry of Economy, the Department for Economic Analyses was established to partially serve as an analytical unit. Once its personnel capacities are reinforced, the department may perform more complex analytical tasks as well.

The Ministry of Justice set up a Working Group for Asset Recovery Code with the goal of **shortening the duration of court proceedings**. The working group will prepare an amendment to the Asset Recovery Code and set up a Revision Committee for Civil Procedural Law to propose a revision of the Code of Civil Procedure. A legislative proposal for a new Code of Civil Procedure (March 2013) was included in the Plan of Legislative Tasks for 2013 (currently under the inter-ministerial review procedure).



*Other measures, as detailed in Chapter 4.6 and 4.7 and the action plan, will also contribute to meeting this recommendation.*

## 2.2 Other implemented measures

### ***Business environment***

Measures to improve the business environment concentrated on minimising the barriers in access to doing business through the shortening of the deadline for incorporation of a company in the Business Register by a registration court from five to two days and the deadline for the award of a trade licence from five to three days. Of the total of 94 measures adopted, 53 measures were implemented in full and three measures in part by the end of 2012. The implementation of the proposed measures removed the administrative burden in the amount of EUR 64.5 million, which represents approximately 60% of the measured burden in years 2009-2011 (EUR 109 million).

### ***Health***

The risk compensation system in the public health insurance was extended to include a morbidity parameter through the classification of insureds into **pharmaceutical cost groups (PCGs)**. Since the second half of 2012, revenues of health insurance companies reflect real costs of treatment more objectively.

Temporary or conditional categorisation applies to financially demanding and innovative drugs. Original drugs not registered in any other EU Member State receive a temporary registration for 24 months. The data submitted during their temporary categorisation then serve as a basis for pharmacoeconomic analysis to assess the adequacy of insurance coverage.

### ***Environmental sustainability and energy***

**The Commission for the Coordination of Climate Change Policies (CCCCP)** at the level of state secretaries was established in May 2012. The commission primarily monitored Slovakia's compliance with its international obligations and commitments under the climate change policy, enhanced cooperation among ministries in preparing an inventory of greenhouse gas emissions in individual sectors, and ensured higher quality input data for the preparation of an inventory in the energy sector. A working group was set up at the CCCCCP to prepare and coordinate a Slovak adaptation strategy for adverse effects of climate change and a Slovak low-carbon development strategy until 2030.

In addition, the Government adopted the **PM10 Reduction Strategy** which contains specific measures to monitor and reduce concentration of dust particles in local heating systems, transport, soil and land management. The strategy also proposes measures to mitigate adverse effects of PM10 on public health. An inter-ministerial working group drafted a **set of green growth indicators**. These indicators will enable monitoring the progress made towards the green growth, in particular policy measures and economic instruments, their effects on environmental and resource productivity, preservation of natural capital and monitoring of environmental aspects in the quality of life.

Amendments to the Act on Energy and the Act on Regulation in Network Industries have transposed EU's 3<sup>rd</sup> Energy Package into national legislation. The most important measures under the Act on Energy include the complete ownership unbundling of electricity generation and supply from electricity transmission and the unbundling of gas production and supply from gas transmission using the independent transmission network operator (ITO) model. In addition, the rights of electricity and gas customers have been reinforced. Customers are allowed to switch to a different supplier of electricity or gas and are entitled to receive the final settlement invoice within four weeks of making the switch, including the relevant data on electricity and gas consumption. The access for companies from other countries of the European Economic Area to the electricity and gas supply market was simplified. The amended Act on Regulation in Network Industries has introduced a number of obligations which the players on the energy market must meet, and strengthened the powers and independent position of the regulatory authority. The amended legislation created conditions for the RONI to cooperate with



regulatory authorities from other Member States by exchanging information to facilitate integration of their energy systems.

**Box 4: Methodology for the calculation of a national indicative target under 2012/27/EU**

Pursuant to Article 3 of Directive 2012/27/EU, Member States shall also express their national indicative targets in terms of an absolute level of primary energy consumption and final energy consumption in 2020 and shall explain how, and on the basis of which data, this has been calculated. Primary energy consumption means gross inland consumption, excluding non-energy uses. The time-limit for the transposition of this directive into national law is 5 June 2014. Therefore, the presented proposal for national indicative target is only provisional and may be adjusted in the future, in keeping with new updates resulting from the transposition of Directive 2012/27/EU. The directive describes parameters that need to be considered when proposing the indicative target. When determining the indicative target, account should be taken of the PRIMES Reference scenario of 2007, as specified in the first indent. The measures contained in the new directive can only be taken into consideration after it will have been transposed, i.e., after 5 June 2014. Measures under Directive 2006/32/EC are contained in the 1<sup>st</sup> and 2<sup>nd</sup> energy efficiency action plan. These measures are monitored and their savings counted towards the existing target, therefore they will automatically be included in a new target, set for the period until 2020, as well. The potential of cost-effective measures is defined in the Energy Efficiency Concept of 2007. The quantification of the potential in the industry sector is currently underway and should be available in 2014. Earlier in January 2013, the European Commission prepared a reference scenario on the development in energy consumption across the entire EU and for individual Member States, including Slovakia, using the PRIMES 2013 model. This scenario covers all policies and measures adopted before the spring of 2012. For the period from 2010 to 2020, the PRIMES 2013 estimates an annual GDP growth at a rate of 2.5%, and later at a rate of 2.3%. The PRIMES 2013 Reference scenario estimates that final energy consumption will increase by 11.65% in Slovakia by 2020. The gross inland energy consumption after 2011 is projected to first increase, then stagnate and finally gradually decrease after 2020. Slovakia is an energy importer. The planned commissioning of the EMO3,4 nuclear power plant will enable Slovakia to export electricity. Recent developments in renewable energy sources change the structure of the country's energy mix and the ratio between primary energy consumption and final energy consumption. The estimated twofold increase in the volume of RES used as primary energy sources will permit to reduce consumption of fossil fuels, coal and natural gas in particular. No CCS has so far been planned in Slovakia.

**Impacts of EMO3,4 commissioning on primary and final energy consumption**

Based on decommissioning experience, a new nuclear power plant will cause a 60 PJ increase in gross inland consumption (GIC), with the volume of final energy consumption (FEC) remaining unchanged. This increase is caused by the technology of electricity generation. When determining primary energy savings, this factor may be applied to the conversion of final savings to primary savings and offset the change in primary energy by as much as 60 PJ.

**Expression of target**

Slovakia primarily expresses its indicative target as energy savings in terms of final energy consumption, including savings from conversion, losses and energy sector. This approach is necessary because it permits to directly measure and calculate these values, i.e., savings, from individual measures on the energy consumption side. At the same time, all sectors that enter the statistical calculation of primary energy will be covered.

**Target calculation pursuant to Directive 2012/27/EU**

It is assumed that the measures under this directive can be applied using a support scheme pursuant Article 7. Only final energy consumption target can be determined pursuant to Article 7 of Directive 2012/27/EU. The basis for the target calculated pursuant to Article 7 is 1.5% of final energy consumption for years 2010 to 2012, exclusive of transport. Only the 2010 and 2011 data are currently available, therefore this target will be adjusted next year. The annual target expressed as 1.5% of the target base for years 2010 and 2011 represents 4,667.5 TJ. The cumulative target for the 2014-2020 period is set at 130,690 TJ (3.12 Mtoe), which indicates the energy savings achieved between 2014 and 2020 by which final energy consumption in 2020 will also be reduced compared to the PRIMES 2007 Reference scenario. The target was calculated using the final energy consumption data provided by the Statistical Office of the Slovak Republic (Statistical Office). Since the methodology applied by the Statistical Office differs from that applied by Eurostat, the target will also be revised in the future in terms of improvements made in the methodology for the calculation of final energy consumption.

<b>National energy efficiency indicative targets</b>	
Energy savings expressed in terms of final energy consumption for the 2014-2020 period	130.69 PJ (3.12 Mtoe)
Energy efficiency target expressed in terms of an absolute level of final energy consumption in 2020	435.09 PJ (10.39 Mtoe)



Energy efficiency target expressed in terms of an absolute level of primary energy consumption in 2020	680.62 PJ (16.2 Mtoe)
Energy efficiency target expressed as % in terms of final energy consumption	23% (3.12 Mtoe)
Energy efficiency target expressed as % in terms of primary energy consumption	20% (4.07 Mtoe)

The energy efficiency target expressed in terms of an absolute level of final energy consumption in 2020 is calculated as the reduction in final energy consumption set under the PRIMES 2007 Reference scenario by the level of cumulative savings calculated pursuant to Article 7 of the Directive. **The level of final energy consumption is 23% (3.12 Mtoe) lower compared to the PRIME 2007 Reference scenario.** The absolute level of primary energy consumption is calculated using the ratio between primary and final energy consumption in 2007 (65.22%) and the calculated reduction in FEC. This results in a reduction in primary energy consumption to the level of 650.88 PJ (15.55 Mtoe).

**EMO correction:** The primary energy consumption target will be affected by a 60 PJ increase in primary energy consumption due to the commissioning of the EMO3,4 NPP between 2015 and 2016 and a 30 PJ decrease in 2008 resulting from the shutdown of block 2 of the V1 nuclear power plant. Therefore, it is now known that the target will be affected by a 30 PJ increase in the absolute level of primary energy consumption. Following the EMO correction, the absolute target level represents 680.62 PJ, or 16.26 Mtoe. **Correction included, the reduction in the target represents 4.07 Mtoe, or 20% of primary energy consumption as per the PRIMES 2007 Reference scenario.**

**GDP correction:** With a year-on-year GDP growth at a rate as estimated by the Ministry of Finance, the curve of final energy consumption will also be adjusted. The absolute level of energy consumption in the industry sector will change in proportion to GDP. With a 3-percent growth in GDP projected for the second half of the decade, the final energy consumption is also expected to increase.

#### Energy consumption development in Slovakia

Energy efficiency baseline for 2011	
Data	Year 2011
primary energy consumption (TJ)	664,367
final energy consumption (TJ)	390,630
final energy consumption - industry (TJ)	135,575
final energy consumption - transport (TJ)	92,851
final energy consumption - households (TJ)	92,918
final energy consumption - services (TJ)	62,741
gross added value - industry - EUR million in current prices	16,830.11
gross added value - services - EUR million in current prices	37,856.04
electricity produced in thermal power plants (GWh)	8,619
electricity from co-generation (GWh)	18,485
heat produced in thermal power plants (TJ)	96,131
heat produced from co-generation facilities, including waste heat in the industry (TJ)	28,351
fuel inputs in thermal power plants (TJ)	131,946
disposable income of households (EUR) EU SILC 2011	582
gross domestic product (GDP) - fixed prices of 2005 (EUR billion)	63.9
person-kilometres (pkm)	4,611,000,000
tonne-kilometres (tkm)	29,044,500,000
Population at 31 December 2011	5,404,322
	Source: Statistical Office

Final energy consumption follows a downward trend. Traditionally, the largest share in energy consumption in Slovakia is that of the industry sector, followed by the transport sector, households, commercial and public services, while the share of the agricultural sector in overall FEC is the smallest one.

Energy consumption by individual sectors, in TJ											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Overall FEC	444,372	443,301	420,963	414,612	404,068	406,458	409,033	418,291	388,725	418,853	390,630
Industry	158,873	152,049	154,734	143,898	148,785	148,381	153,704	150,591	130,038	134,268	135,575
Transport	61,528	74,834	66,932	64,469	74,846	76,496	85,004	91,490	81,895	94,303	92,851



<b>Households</b>	128,947	123,805	118,887	111,645	106,059	96,721	87,248	89,209	89,994	96,595	92,918
<b>Agriculture</b>	7,689	6,872	6,608	6,920	6,847	5,895	5,673	5,839	5,393	5,589	6,545
<b>Commercial and public services</b>	87,335	85,741	73,802	87,680	67,531	78,965	77,404	81,162	81,405	88,098	62,741

Source: Statistical Office

**Industry:** The industry sector is the largest energy consumer. Final energy consumption in the industry sector amounted to 135,575 TJ in 2011, which accounts for 34.7% of overall final energy consumption in Slovakia. In the period under review, energy consumption in industry fell by 23,298 TJ compared to its 2001 level. In the past three years, energy consumption in the industry sector has moved slightly upwards, recovering from the sudden slump in 2009 caused by the economic crisis. Main drivers behind the decrease in energy consumption in the industry sector included the ongoing restructuring, technology modernisation and innovation, implementation of new advanced management approaches, actuation of energy efficiency support mechanisms, as well as the impacts of the 2009 economic crisis.

**Transport:** The transport sector is the only economic sector in Slovakia and the EU that has continuously shown a long-term increase in energy consumption. Logistics services in freight transport combined with a constantly growing number of new vehicles account for the largest share in the energy consumption growth in the transport sector which even the improving fuel-economy of passenger cars and trucks cannot offset, therefore, there are no energy savings in absolute terms in this sector. Factors encouraging this growth primarily include improving living standards and road infrastructure development. Energy consumption in passenger railway transport shrunk by more than one third and its performance dropped by 20%. Public road transport performance fell by 40%. A continuous gradual shift from public to individual transport and from railway to road transport represents a risk of increasing energy intensity of the transport sector.

**Households:** Energy consumption by households was falling until 2007 and has since remained stable.

**Commercial and public services:** The commercial and public services sector faced a considerable slump in energy consumption in 2011, compared to a moderate growth in energy consumption in the previous years.

**Agriculture:** Energy consumption in agriculture had been stable until 2011, when a moderate increase occurred.



### 3 Macroeconomic framework and medium-term forecast

The Slovak Government considers a stable macroeconomic and fiscal policy fundamental to healthy economic development and a better quality of life. The following chapter outlines the basic macroeconomic framework essential to ensuring a sound development of the Slovak economy.

#### *Economic development in Slovakia in 2012*

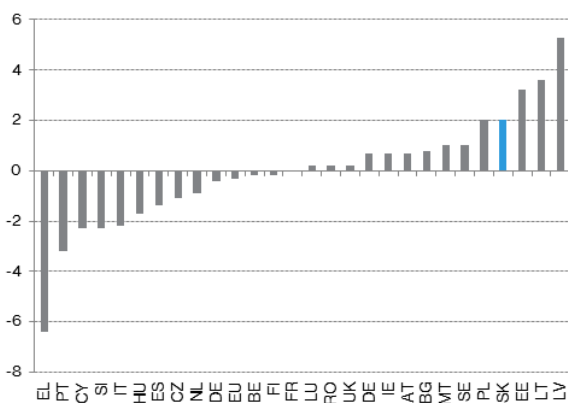
Despite the adverse economic development in the euro area countries, Slovakia's economy grew at a rate of 2% in 2012. Along with Poland, Slovakia was the fourth fastest growing economy in the EU.

The key driver of this positive development was the launch of new production capacities in the automotive industry. New investments coupled with the launch of new production capacities had a considerable positive effect on the growth of manufacturing output and exports in the first half of the year. The Slovak automotive industry continued increasing its market shares on the existing European markets while, at the same time, its export to Russia and China grew considerably in the first half of the year. Without this positive input from the automotive industry, Slovak economy would have probably stagnated, owing to a low foreign demand.

This positive development in the export-driven part of national economy was, however, insufficient to translate into a positive development in domestic demand. Domestic demand had a negative contribution to economic growth in 2012. The growth in productivity in export-driven sectors was fuelled by a higher labour productivity rather than by the recruitment of new workers. Measured by the ESA95 methodology, the overall employment stagnated throughout 2012 and the unemployment began to swell at the end of the year. The rate of unemployment (using the LFS methodology) increased to 14%, keeping Slovakia among the EU countries with the highest unemployment rates. In addition, the long-term unemployment remained a problem, accounting for nearly 64% of overall unemployment. Real wages continued declining for a second year in a row. The negative situation on the labour market along with general uncertainty regarding the development of debt crisis in the euro area had a negative impact on household consumption. Investments were not such a robust driver in 2012 as they had been in 2011 when massive investments had been made in the automotive sector. Overall investments fell in 2012, also muffled by the uncertainty with respect to the development in debt crisis.

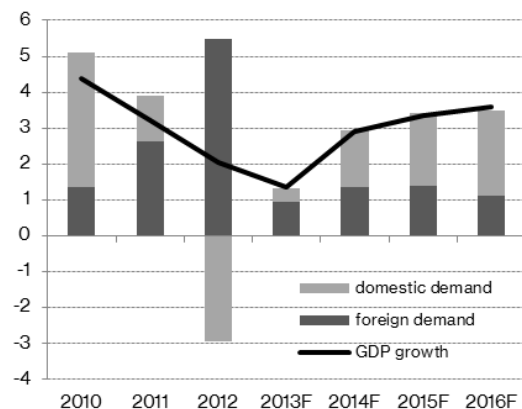
Prices in Slovakia showed a rather moderate development compared to the previous year. Average inflation (HICP) amounted to 3.7% in 2012, a slightly higher level compared to the euro area average at 2.5%. Prices were primarily affected by a growth in global commodity prices in the second half of the year.

**Figure 5: Real GDP growth in 2012 in the EU (%)**



Source: Eurostat

**Figure 6: Contribution to GDP growth, 2010 - 2016**



Source: Eurostat

#### *Medium-term forecast of economic development in 2013-2016*



The most recent official forecast published by the Ministry of Finance in January 2013, used in drafting the budget framework for 2014-2016, reflects an expected downturn in external factors. Compared to the previous year, a slightly slower GDP growth of 1.2% is expected in 2013, mainly due to decelerated growth of our trade partners. The growth will continue being largely driven by foreign demand and investments. Household consumption is expected to further decrease due to the adverse situation on the labour market, while the reduction in general government deficit by 3.3 p.p. of GDP as planned will result in lower public expenditures. The GDP growth should gradually accelerate to as much as 3.6% in the following years; the contribution by household consumption to GDP growth will start increasing.

This year's economic growth will probably be accompanied by decreasing employment. Employment is expected to fall by 0.5% in 2013. Its growth should be restored in 2014, driven by a faster GDP growth. A further growth in employment expected for the years to come should bring the number of employed individuals closer to the pre-crisis levels in 2016. In 2013, the unemployment rate is expected to swell to 14% but should gradually fall over the next years to the level of 12% in 2016, owing to the growth in employment.

An average nominal wage should amount to EUR 823 this year, up by 2.3% (EUR 19) compared to 2012. Real wages should stop declining this year, owing to a considerably decelerated growth in prices. Along with the expected decrease in unemployment, the development in wages in the private sector should better reflect the growth in labour productivity in the following years. The growth in real wages is expected to exceed a 2% level in 2016.

The price level will grow at a significantly slower pace than in 2012. Consumer prices are expected to grow at a rate of 2.3% year-on-year. The slowdown in inflation will be driven by several factors - a weak domestic demand means a lower net inflation, while stabilisation of prices on the global markets will result in a less dynamic growth in regulated prices and food prices. The 2014-2016 outlook is positive, with the average growth in consumer prices being considerably slower than in the two previous years.



## 4 Measures under structural priorities

### 4.1 Fiscal policy and public finances

The primary objective of Slovak fiscal policy is to ensure effective and sustainable management of public finances in the context of the ageing of population and taking into account contingent liabilities. This objective is also enshrined in the constitutional Fiscal Responsibility Act. With respect to the future demographic development, attention should also be paid to areas sensitive to population ageing, the pension system and healthcare sector in particular. It was also for this reason that a pension system reform was implemented in 2012 to considerably strengthen the long-term sustainability of the public finances.

Along with another 19 EU Member States, Slovakia is currently subject to an excessive deficit procedure which requires it to remove the excessive deficit by 2013. The consolidation of public finances continues as planned by the Government. The estimated general government deficit amounted to 4.3% of GDP in 2012, an improvement by 0.3 p.p. compared to the deficit target of 4.6% of GDP. For 2013, general government deficit is planned at 2.9% of GDP. Based on the most recent information and taking into account some of the additional measures taken, this target is expected to be met.

A strategy to exit the excessive deficit procedure as early as next year and to achieve a fiscal position the will create conditions to ensure the long-term sustainability of public finances is presented in the Stability Programme. This will require that the fiscal consolidation efforts continue even beyond 2013 in line with national and European fiscal rules so that Slovakia continues heading towards its medium-term objective (MTO).

The key fiscal policy objectives as defined in the Stability Programme until 2018 are as follows:

- The basic objective is to reduce the general government deficit to 2.9% of GDP in 2013 on a permanent and sustainable basis in order to comply with the EDP requirements.
- In the following years, the deficit is expected to be further reduced in compliance with the provisions of the Stability and Growth Pact and respecting constraints stipulated by national fiscal rules. Hence, the target deficit values have been set at 2.6% of GDP for 2014, 2.0% of GDP for 2015, and 1.3% of GDP for 2016. Once these targets are achieved, the growth in the government debt to GDP ratio should stop and the ratio should start gradually decreasing from 2015 onwards. The levels of consolidation measures to achieve these targets are 1.0% of GDP in 2014, 1.6% of GDP in 2015, and 1.8% of GDP in 2016. Some of the necessary measures have already been incorporated in drafting of the General Government Budget Framework for 2014-2016. Other measures will be specified in detail during the preparation of a budget proposal.
- Further consolidation of public finances even beyond 2016 and **meeting the medium-term objective set as a structural general government deficit of 0.5% of GDP by 2018.**

**Tab. 2: Outcome indicators for fiscal policy and public finances**

		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
<b>Long-term sustainability indicator (GAP)</b> (% GDP)	<b>SK</b>	-	-	-	-	-	9.5	9.2	6.8	0
	<b>EU</b>	-	-	-	-	-	-	-	-	-
<b>VAT collection effectiveness</b> (%)	<b>SK</b>	-	74.8	69.7	64.1	65.1	57.9	56.7	57.8	72
	<b>EU22</b>	-	71.4	72.9	73	71.1	66	66.9	66.9	-

#### **Fiscal rules**

In the course of 2013, the existing fiscal rules will be updated to include additional ones, through implementation of the provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the so-called fiscal compact) in Slovakia's national law. The introduction of **expenditure ceilings** should also contribute to reinforcing fiscal discipline, which should serve as an operative instrument to comply with all the fiscal rules that govern fiscal policy (the fiscal compact and the Fiscal Responsibility Act).





In addition, **more stringent rules will be applied to local governments**, introducing graduated sanctions for local authorities whose debt exceeds a certain level in a way similar to the limits set for general government debt under the Fiscal Responsibility Act.

### **Tax mix**

One of the key challenges related to the tax system is to implement a reform in the system of property taxes which would result in a fairer taxation of property and, at the same time, increase general government tax revenues, or even provide room for reducing other taxes which have a more adverse impact on future economic growth. In light of the experience from neighbouring countries and taking into account their less negative impact on economic growth, high effectiveness in their collection and little room for evasion, property taxes should play a more significant role in the entire tax system than they do now.

When compared to other OECD countries or EU Member States, **property taxes** represent a less important portion of tax revenues for local governments in Slovakia. The system in its current configuration (the property tax is calculated based on the size of a living area) is unfair because that tax base does not reflect the real value of an immovable property (defined by its location, age, accessories and other parameters) but only its size in square meters. This, in turn, leads to a different effective tax burden on the property (as a ratio between the tax paid and the price of the immovable property) and regressive effects of the system. As far as tax justice is concerned, an optimum solution is to configure the system in such a way that the tax base be linked to an estimated market value of the particular real estate property. This would ensure that tax base would be changing along with the market value of the property and the effective taxation would remain constant at an unchanged rate. The Ministry of Finance is currently examining possible alternatives to introduce a property tax system based on the market value of real estate properties. Concrete proposals will be finalised in the course of 2013 and a new system introduced by 2015, at the latest.

Another way to improve the quality of public finances by altering the tax mix is to increase the share of **energy taxes** in the overall national tax burden. Slovakia has little room to increase rates of taxes on fossil fuels. In the case of excise duty on motor fuels (petrol and diesel in particular), limits are given by their final price which should remain competitive within the region. The price of petrol in Slovakia is already higher than its average price in neighbouring countries. The price of diesel, whose consumption is very elastic in terms of prices, has already reached the region's average. In this context, an excessive tax burden imposed on motor fuels would pose a risk that expected revenues from this type of tax will not be met in Slovakia, given its geographical specifics.

Any considerable increase in other energy taxes (electricity, coal, natural gas) would have an extremely regressive effect, i.e., it would impose a disproportionate burden on low-income households as it currently is impossible to estimate the actual wealth of Slovak households with sufficient accuracy solely on the basis of consumption, of natural gas in particular. However, increasing their rates is not the only option how to increase the share of energy taxes in the overall tax mix in Slovakia. Slovakia has a relatively large number of optional (i.e., voluntary) exemptions from the aforementioned energy taxes (electricity, coal, natural gas). If these exemptions were cancelled, tax revenues would increase by some EUR 50 million a year.

### **Effective collection of taxes**

In May 2012, the Slovak Government adopted the Action plan to fight tax fraud containing 50 specific measures primarily aimed at improving the collection of value-added tax. Since then, several amendments to related laws have been approved. **Stage two and three** of the Action plan to fight tax fraud will introduce the obligation to provide information on domestic supplies of goods and services to a tax administrator in an electronic form (recapitulative statement). This solution will improve effectiveness in tax collection through a real-time analysis of detailed data from the business sector and better targeted tax audits. A taxpayer rating system will be introduced to provide information about taxpayers' financial stability and tax reliability. The Financial Directorate will ensure that its databases are interconnected with information systems of banks and building authorities, with the register of motor vehicles, the population register and the toll system, and subsequently will identify and analyse risks in



the management of taxes and selection of entities to be subject to a tax audit. Specialised courts to deal with tax crimes will be introduced.

Even though all the measures envisaged under the Action plan to fight tax fraud for the 2012-2016 period are implemented as scheduled, efforts to fight tax fraud cannot be taken for completed. An ambition shared between the Ministry of Finance and the Financial Authority of the Slovak Republic is to gradually update the already adopted measures to fight tax fraud with new ones, corresponding to the findings from their application in practice. The use of instruments to protect national tax base against erosion caused by cross-border tax planning is currently being assessed, to be followed by the drafting of relevant legislation (expected to come into force in 2014) and preparation of organisational changes that will become effective in the course of 2013. The measures will be supplemented with an analysis of possible options to implement an automatic reporting system for financial institutions in Slovakia to provide information to the Financial Administration about executed transactions above a certain limit flowing to other countries.

Preparations are made to introduce a cash receipt lottery to encourage customers to request cash receipts from electronic cash registers for their payments, thus avoiding tax evasion. The lottery will be organised by Tipos, a.s., a state-run lottery company, through its network and established communication channels. The Financial Authority and the Ministry of Finance organise a campaign to engage all state and public employees in improving the effectiveness of tax collection which will also affect the growth in their wages.

One of the strategic objectives pursued by the Slovak Financial Authority is to provide better information to natural and legal persons to help them better comply with their obligations arising from tax and customs regulations.

### ***Efficient public spending***

There are certain public expenditures that do not fully contribute to meeting the targets for which they have been allocated and to strengthening sustainable economic growth. Ineffectively spent funds uselessly increase the volume of state budget expenditures which is especially badly felt during the ongoing process of fiscal consolidation. In order to improve efficiency of public spending and encourage growth, the Government will identify expenditures which do not fully contribute to meeting the targets for which they have been allocated. The real need to fund certain measures will be assessed; the results of this assessment will also be reflected in a general government budget for 2014.

In accordance with the government manifesto, cost-cutting measures in the public administration will be based on a cost analysis of individual products and/or services provided by the public administration. As a follow-up, a systematic assessment of the public administration performance will have to be ensured through the application of accurate and clear **indicators for public administration** which will enable to evaluate the results and success rate not only of cross-sectoral targets pursued by the Slovak Government, but also of activities performed by individual ministries and all other public budget chapters. The Government will improve monitoring by creating a set of such indicators. As the first step, indicators will be set for ministries which will be responsible for the collection, monitoring and publication of such data. The monitoring of results will later be expanded to also cover other public administration organisations and entities. In addition, these indicators will be published on a regular basis and used in the assessment of the effectiveness of public administration and included in key documents such as general government budget and NRP.

### ***Integrated collection of taxes, customs, and contributions***

Based on the concept for the reform of tax and customs administration, adopted by the government in 2008, the UNITAS programme launched activities to integrate the collection of taxes and customs on technological, organisational and process levels (UNITAS I). The organisational changes that had to be made in order to integrate taxes and customs were completed at the beginning of 2012 when the Customs Directorate and the Financial Directorate merged into the Financial Authority. The Financial Authority Criminal Office oversees more effective collection of taxes.



From mid-2014, an integrated information system of the Financial Authority will run in a trial mode. The system should be put into regular operation in 2015. Two interconnected internet portals, the Central Electronic Folder run by the Customs Directorate and the Financial Authority Portal run by the Financial Directorate, will considerably enhance effective communication with the public and business entities. As far as the integration of contribution systems is concerned (the second stage of the programme – UNITAS II), task and activity schedules are currently being prepared in cooperation with all stakeholders.

### **Increasing return on state assets**

Pivotal for better utilisation and more effective management of state assets is to increase their rate of return, as directly indicated in the government manifesto. The key objective in this respect will be to increase revenues and/or profit per unit of state assets. In view of the current situation, increasing the return on state assets and their further effective management will in particular require the following:

- consolidation of state assets;
- overall optimisation of state assets; and
- matching the use of state assets with the needs of public finances and development of real economy.

## **4.2 Education, science and innovation**

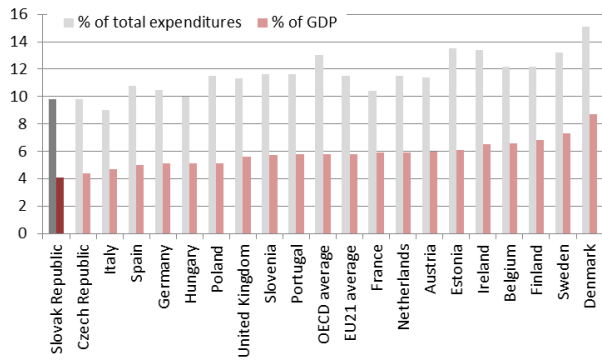
**Tab. 3: Outcome indicators for education, science, and innovation**

		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
<b>PISA</b> (arithmetic average of the scores)	<b>SK</b>	-	-	482	-	-	488	-	-	505
	<b>OECD</b>	-	-	496	-	-	496	-	-	-
<b>School drop-out rate</b> (%, population aged 18 - 24)	<b>SK</b>	6.8	6.3	6.6	6.5	6	4.9	4.7	5	6
	<b>EU</b>	16	15.8	15.5	15.1	14.9	14.4	14.1	13.5	10
<b>Citations per researcher</b> (%, 100 = EU average)	<b>SK</b>	35	33	40	38	41	37	34	39	70
	<b>EU</b>	-	-	-	-	-	-	-	-	-
<b>Tertiary education attainment</b> (%, population aged 30 - 34)	<b>SK</b>	12.9	14.3	14.4	14.8	15.8	17.6	22.1	23.4	40
	<b>EU</b>	26.9	28	28.9	30	31	32.2	33.5	34.6	40
<b>Gross domestic expenditure on R&amp;D (GERD)</b> (% GDP)	<b>SK</b>	0.51	0.51	0.49	0.46	0.47	0.48	0.63	0.68	1,2
	<b>EU</b>	1.83	1.82	1.85	1.85	1.92	2.02	2.01	2.03	3
<b>High-tech export</b> (% of total export)	<b>SK</b>	4.7	6.4	5.8	5	5.2	5.9	6.6	6.6	14
	<b>EU</b>	18,5	18.7	16.6	16.1	15.4	17.1	16.1	15.4	-

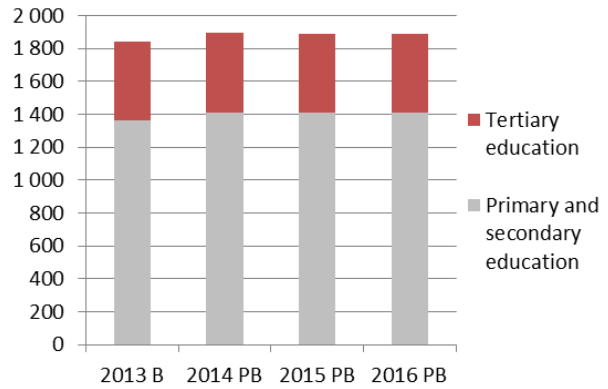
The quality and productivity of human capital is an important factor influencing economic growth and quality of people's life. An educated workforce boosts labour productivity and is able to more flexibly respond to the increasing labour requirements and changes in demanded skills. According to quantitative indicators, Slovakia has a relatively good position when compared to the EU average. It has a very low school drop-out rate and the share of young people with completed tertiary education is quickly approaching the EU average. But the quality of education is where Slovakia clearly falls behind. The insufficient quality of primary schools has been confirmed by below-average results in PISA testing, while small number of scientific publications and citations per researcher shows the poor quality of tertiary schools. The education system cannot respond to the needs of the labour market flexibly enough, which turns out to be one of the causes of high structural unemployment. Moreover, the labour market will increasingly demand higher-level skills which will call for an enhanced flexibility of the educational system.

**Figure 7: International comparison of educational expenditures**

**Figure 8: Central Government Budget educational expenditures (provisional budget for 2014 - 2016)**



Source: OECD (Education at Glance, 2012)

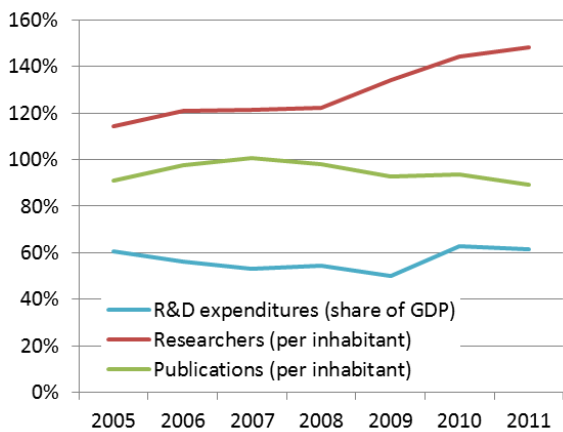


Source: Provisional Budget of the General Government, MoF SR

Slovakia has one of the lowest rates of public spending on education in the EU. One of the underlying topics of the current economic policy is to find out how to invest into education while complying with the set fiscal targets. The Slovak Government intends to increase expenditures on education to 6% of GDP by 2020. It must be noted, however, that the funds have to be provided in an efficient manner. To that end, sources of inefficient spending in education will be searched for, which should provide room for improved funding. The Government will primarily focus on the streamlining of the network of schools and adjusting the number of teachers to demographic development.

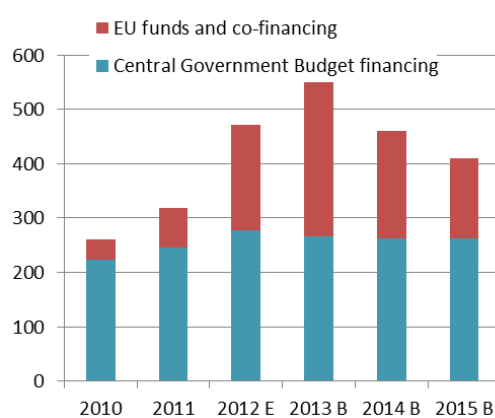
A fast increase in expenditures on science and research in Slovakia in the past, compared to the countries of the V3 group<sup>1</sup>, was most reflected in an increase in the number of researchers, which had already been relatively high, yet the results do not correspond to the growth in inputs. Research outputs in the form of scientific publications and citations are decreasing when compared to the average in our neighbouring countries, the high-tech export, as an indicator of innovation performance, still remains considerably below the EU average.

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



Source: Eurostat, Web of Knowledge, IFP

Figure 10: R&D funding from the General Government Budget (EUR million)



Source: General Government Budget for 2013 - 2015

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

<sup>1</sup> i.e., the Czech Republic, Hungary and Poland.



## 4.2.1 Regional education system

### ***Funding***

The most critical deficiency of the funding system is that it does not create any pressure towards optimisation of the network of schools through efficient use of financial resources. At the primary school level, this problem can be seen in a high proportion of schools with low numbers of students that still exist. At the secondary school level, it involves issues related to the types of schools in the education network (grammar schools, different types of vocational schools). The major problem with the current funding model at the system level is in that the funds are not allocated according to the objectively needed number of classes, but according to the number of students. The existing system encourages schools to compete for the highest possible number of students, without providing any safeguards against the misuse of this competition.

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

### ***Inclusion of children from marginalised communities***

The existing education system in Slovakia further widens original inequalities among pupils through their early selection to educational streams of different quality, and contributes to reproduction in education, meaning that children tend to attain the same level of education as their parents. In such a system, children from socially vulnerable groups, socially marginalised communities in particular, have only a minimum chance to obtain education, because they are disadvantaged due to their cultural and language difference, amplified by their bad socio-economic situation. Tasks under the Revised National Action Plan and the Strategy for Integration of Roma Population will further be implemented in 2013.

In order to support integration of marginalised Roma communities, as well as women's participation in the labour market, the Slovak Government will encourage pre-primary education in kindergartens by extending the existing forms of education and training. System-level measures will be adopted in the coming years to gradually achieve, by 2020, a 95-percent attendance of children over 4 in the pre-primary education in kindergartens. Especially, the existing forms of education will be extended to include preparatory classes in kindergartens. In cooperation with their founders, kindergarten capacities will further be adjusted to meet the aforementioned objective. Kindergartens are largely funded by municipal authorities. The founders seek to address the bad situation with admission of children to kindergartens by enlarging capacities of the existing facilities or by adapting suitable premises to be used as kindergarten classes. A new provision will come into force in September 2013, allowing kindergarten directors to increase the maximum number of children if necessary due to certain reasons.

### ***Position of teachers***

The Government considers it crucial to reinforce the role, status and remuneration of teachers at all levels of the school system. The presence of high quality teachers in the education sector depends on two factors. The first one is their preparation and training prior to the beginning of their professional career, and the possibility to improve their training throughout their career. The second one is willingness to work in the education system, which depends on how attractive this occupation is, first in terms of financial remuneration, but in terms of working environment and social prestige, as well.

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



### ***Quality assessment for schools***

The Slovak Government will improve the internal and external school quality assessment system designed to increase the quality of education and training and their management, will support comparisons of the added value of educational process at individual schools, both at the regional and nation-wide levels, and provide the public with reliable and comprehensible information on the quality of individual schools.

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

### ***Textbooks***

The Slovak Government will gradually ensure that alternative textbooks and alternative teaching texts are available at primary and secondary schools. Teachers and schools will be given the option to choose a textbook that best suits the educational needs of their students. Within the system of normative financing, options will be provided for schools to directly purchase textbooks of their choice. A central archive of digital learning content will be set up and conditions for the preparation and use of digital content improved. The Government will temporarily retain the right to review and confirm the compliance of textbook content with state educational programmes, and establish National Textbook Register. One of the 2013 priorities will also be to procure additional licences in order to provide access to digital copies of new reformed textbooks and procure electronic versions of other new reformed textbooks for purblind and blind students. In the medium-term horizon, the Government will assess the transfer of the powers to review the compliance of textbooks, teaching texts and workbooks with the goals and principles of education and training and with state educational programme to headmasters.

### ***Vocational schools***

The Government will ensure a closer linkage between vocational schools and practice. In particular, the Government will adjust the competencies of individual entities participating in vocational education and training for the labour market. Engagement of employers and employer associations in the system of vocational education and training will be improved. Incorporation of the elements of dual education into the vocational education and training system at vocational schools will ensure that practical training will to a greater degree be provided directly in companies so as to ensure a smooth transfer of school graduates to practice. The system of normative financing will be adjusted to make sure that the network of vocational schools is able to flexibly respond to labour market requirements and to the demand for higher-level education in a knowledge-based economy.

## **4.2.2 Tertiary education and science**

### ***Funding***

The funding system will further be adjusted to discourage tertiary schools from retaining non-performing students, with a stronger emphasis placed on the quality of their performance. While a number of changes in allocations of state budget subsidies to public tertiary schools have occurred in the recent years with respect to the portion of subsidies that is based on creative activities of public tertiary schools, the portion of subsidies determined by educational services still includes negative incentives for public tertiary schools to retain students who do not deliver the necessary academic results. Starting from 2014, the ministry will encourage the use of such instruments when allocating state budget subsidies which will ensure that public tertiary schools are not negatively affected, in terms of subsidies awarded, when they expel students with dissatisfactory study results.

### ***A new concept of further development for tertiary schools***



Based on the report on the implementation of the Concept of further development for tertiary schools in Slovakia for the 21<sup>st</sup> century, a new concept for the years 2013 - 2020 will be prepared in consultations with representative bodies of tertiary schools and trade unions representatives. The new concept should cover five areas for development – (i) providers of tertiary education, (ii) tertiary education system and access to tertiary education, internationalisation of education, (iii) employees of tertiary schools, creative activities at tertiary schools, academic rights and freedoms, academic ethics, (iv), quality assurance system, funding of tertiary schools, information systems in tertiary education and (v) internationalisation as a cross-sectoral issue, other auxiliary issues, issues of special concern. The concept in the form as discussed by the Slovak Government will serve as the basis for the preparation of a new act on tertiary schools.

### ***Accreditation***

The concept will primarily concentrate on reforming the accreditation procedure for tertiary schools and enhancing the quality of top academic establishments. The Accreditation Commission will be more encouraged to examine the real performance and quality of guaranteeing teams instead of their academic titles. Guarantees for a particular study programme will no longer be linked to a single person but rather to a team of tertiary school teachers who comply with the set criteria. The aim is to stabilise the situation and avoid such cases when a loss of a single person (guarantor) may make an excellent study programme non-functional. At the same time, it will enhance impartiality of, and increase demands on the accreditation procedure because to “buy” a single professor will not be enough.

Accreditation of study programmes (nearly 8,000 at the moment) will change into accreditation of fields of study (364 at the moment), thanks to which a tertiary school will be able to flexibly open new study programmes within a particular accredited field of study. Also, it will considerably reduce information asymmetry and enhance competition. In order to obtain accreditation, the decisive factor will be that members of the guaranteeing team are internationally recognised scholars. This will be examined through benchmarking publication and citation criteria against international standards applicable in the particular field of study.

A consideration will be given to switching to a standard global model and stop awarding the assistant professor and professor titles. Given the low criteria for their awards, these titles have no adequate value.

### ***Science and research***

Because science, research and innovation (SR&I) fall within the remit of several ministries, coordination of the agenda and policies at the inter-ministerial level is paramount to the efficient spending of funds. In the years to come, this will be the responsibility of the Slovak Government's Council for Science, Technology and Innovation. In 2013, the Slovak Government will ensure the preparation of a Smart Specialisation Strategy for Slovakia until 2020 (S3) which will define, based on an analysis of the conditions and needs of Slovak economy, development priorities in the area of science, research, development and innovation in Slovakia. The strategy will propose a reform of the SR&I sector, including its management and financing, to boost international competitiveness of Slovak economy through support to education, research, development and innovation and create conditions in science, research and innovation sector in a close synergy with the industry sector to facilitate sustainable economic growth, increase employment and improve quality of people's life.

According to the Government, the major problems encountered by the Slovak science and research sector include insufficient funding, fragmentation of expertise and management system, and unstable support for science and research providing little encouragement. In order to ensure successful development of the science and research sector, the state will provide long-term, effective, predictable and stable funding. In addition, Slovakia wants to create conditions for increasing the share of private funding of science, research and innovation to a 2:1 ratio with public funding, a ratio common to EU countries successful in innovation. Overall expenditures on science, research and innovation should amount to 1.2% of GDP in 2020. State support will concentrate on the development of excellent science, research and development to resolve society-wide problems, including problems of the industry sector, and industry-initiated research and development. In areas where necessary potential exists, the support to excellent science will concentrate on creating new, original knowledge that pushes further the limits of human knowledge and opens the road towards new scientific and



technological achievements and new areas of research with potential for application in the industrial and social domain. Research and development focused on resolving society-wide problems will seek new knowledge to address research problems in priority areas. Priorities will be defined through identification of Slovakia's comparative advantages or possible future risks typical of Slovakia. The industry-initiated applied research and development will aim at resolving specifically defined current or future problems of industrial manufacturers operating in Slovakia. Requirements for research and development which should retain and enhance their competitiveness will be defined by the industry sector itself, through its representatives, professional associations, clusters, etc.

Slovakia is a full member of the European Research Area (ERA). As regards international R&D cooperation, the Government will support Slovakia's participation in the Horizon 2020 framework programme, common SR&I projects under the EU Strategy for the Danube Region (Slovakia is a coordinator of its priority area 7 – Knowledge society based on research, education and information and communication technologies), European Research Council (ERC) projects and numerous other European research and development initiatives which will encourage SR&I development in Slovakia and represent another important additional source of funding for the Slovak science and research sector. In order to strengthen participation of Slovak organisations when compared to FP7, it will be crucial to set up an effective system of national financial and administrative support structures for Horizon 2020 to provide support and assistance in project preparation and provide information and consultancy services to participants.

European structural and investment funds cannot be effectively used to finance science, research and innovation activities unless the administrative burden related to their drawing is considerably reduced. The evaluation process of the current programming period and the preparations for the next period will be reviewed to relieve scientific teams supported from the European funds of an inadequate burden connected with the administration of the Structural Funds. To ensure effective use of these resources, including in compliance with European Commission requirements, a complementary system for the funding of projects from the state budget and EU framework programmes will be set up.

Amendments to the Act on Research and Development Incentives and the Act on the Organisation of State Support for Research and Development will introduce a major change to the grant and assistance system which will create means to systematically support science, research and development (basic research, applied research, experimental development carried out by universities and companies). Clear, predictable and equal criteria will be prepared for the funding of applied research and development in public organisations, including the Slovak Academy of Sciences, and private companies. The financing model for public research institutions will be reassessed to ensure that these organisations are better motivated to improve cooperation with the private sector and recruit high-quality researchers. The new system will ensure that funds concentrate on demanding, high-quality projects.

In order for Slovakia to boost its competitiveness, it is necessary to have an effectively functioning system for the transfer of knowledge and scientific discoveries from public institutions (public research facilities, universities and SAS) to the private sector in place. The Government will therefore provide a stable system environment to encourage the transfer of knowledge to practice. Workplaces will be established to manage administrative contacts and exchange of information between R&D facilities and businesses. In the medium- to long-term horizon, the Government will support physical and virtual (both thematic and regional) pooling of scientific and research institutions. Research facilities of top Slovak universities, or SAS, that conduct excellent applied research or research on particular selected topics will be clustered in university scientific parks. They will enhance interactions among individual research centres, as well as their external communication with both established and new innovative companies. The transfer of academic knowledge to economic and social practice will be facilitated through the transfer of technologies (licences, spin-offs, other forms of processing knowledge). On the other hand, scientific and basic research activities will be concentrated in academic centres. The centres will bring together top-level research teams which, in addition to easier exchange of knowledge and information with domestic and foreign researchers, will gain access to equipment which could not be provided in case of their greater disaggregation.





In addition to the institutional arrangements, legislative conditions will need to be created for better cooperation in terms of financial and organisational arrangements and human capital between the private sector and public research institutions through partnerships, joint ventures and long-term contracts. The rules and procedures applicable to intellectual property protection will be reassessed with a focus on their effectiveness and predictability, taking the advantage of the conditions created by a single EU patent system. By adopting the necessary legislative changes, the protection of intellectual property in the academic environment and public R&D institutions will be simplified and unequivocally regulated. For the most part, these organisations should be allowed to own and license the patents and utility designs, invest them in independent legal entities in which they may hold equity capital, and make profit without constraints. At the same time, academic institutions will consider drawing up internal regulations on the use of intellectual property and train their employees to use these regulations in the best way possible.

### 4.2.3 Further learning

Due to a rapidly changing labour market, people are often required to improve their education or skills. The goal is to create a functioning system of lifelong learning and counselling. In doing so, it will be crucial to define the requirements for educational programmes, lecturers, managers and institutions. At the same time, it will be necessary to provide information on available educational programmes and their outputs, as well as counselling. The first-ever and internationally comparable results of the Programme for the International Assessment of Adult Competencies/PIAAC<sup>2</sup> will be a valuable source of information for matching the education system with the labour market.

The implementation of a national project aimed at ensuring the quality of educational programmes of further learning (purpose, content, form and methods of educational programmes) and the quality of educational institutions (personnel and logistical requirements), setting up a network of counselling institutions and, for the most part, bringing in employers to participate in further education for adults have already begun. Furthermore, legislation will be amended with respect to the recognition of non-formal education in order to facilitate the access for adults to new qualifications based on previous experience or knowledge, skills and abilities gained in educational programmes of further learning.

### 4.2.4 Innovation

The main goal of innovation activities is to make products, manufacturing and logistical methods, as well as services more competitive by leveraging new knowledge and results of domestic or international research. Innovation is a comprehensive process, partially or fully covering a number of activities ranging from research and development of products and processes through to the establishment of new companies and the development of existing businesses. A comprehensive set of measures based on a holistic approach and complementing each other with a view to promoting R&D, innovation and the innovation process will be defined in the Smart Specialisation Strategy in Research, Development and Innovation in the Slovak Republic by 2020 and the ensuing action plans. At the same time, the strategy will serve as the basic document in this area for the preparation of the operational programmes for the EU Structural Funds for 2014 - 2020.

The strategy will also improve the environment for the establishment and development of innovative businesses. High-quality administrative and technical support will be provided to facilitate entrepreneurship, export and transfer of technology from public research and development institutions in business incubators. Such incubators will be set up in the premises of the universities' scientific parks, selected public science and research institutions and business clusters. Where applicable, the incubators will be linked to international networks. The Ministry of Economy has prepared a Cluster Organisations Support Scheme in cooperation with the Slovak Innovation and

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<sup>2</sup> Typically denoted as PISA for adults.



Energy Agency (SIEA). The formation and operation of innovative clusters will be supported by financial and non-financial instruments to encourage better networking, wider participation in international projects and increased competitiveness of the members of a cluster organisation. An internationally acclaimed programme for promoting small businesses, which has already been implemented in many countries (known as Small Business Innovation Research (SBIR) programme in the U. S.), will facilitate experimental development and implementation of innovative solutions. This programme will provide start-ups with grants for preparing the proof of concept and with loans at low interest rates for the development of a prototype.

The Slovak Government has prepared a JEREMIE holding fund in cooperation with the European Investment Fund. The main objective of the initiative is to provide venture capital to innovative small and medium-sized enterprises with good business plans and innovative ideas with good commercial prospects. The JEREMIE initiative in Slovakia covers debt instruments (bank guarantees and credits) and capital instruments (venture capital). The capital of the fund totalling EUR 100 million will be spent through selected financial intermediaries (commercial banks, managers of venture capital funds). Venture capital instruments primarily concentrate on support to applied research and development and the transfer of technological know-how into practice. The Ministry of Economy plans to increase OP C&EG contribution in the JEREMIE initiative by an additional EUR 25 million.

The key to increasing the companies' propensity to innovate is their stronger involvement in research and development activities. The Government is therefore implementing a scheme of innovation vouchers that may be traded by small and medium-sized enterprises for a certain volume of research and development activities in state research institutions. This instrument will motivate the companies to establish the first contact with state research and development organisations and tap the innovation potential of their own business. Within the reform of the R&D funding system, the private sector – in its role as an applicant – will be equally involved in the schemes supporting research and development projects.

The Government will support the development of technically-oriented labour force which is necessary for the growth of innovative and high-tech enterprises. Considering the fact that Slovakia has a relatively high number of university graduates in technical disciplines, the focus will primarily be on increasing the quality of such specialisations and adequate technical and logistical background.

### 4.3 Employment and social inclusion

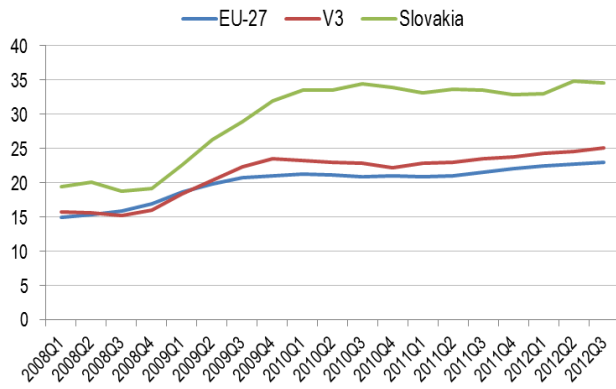
Tab. 4: Outcome indicators for employment and social inclusion											
		2004	2005	2006	2007	2008	2009	2010	2011	2012	Target 2020
<b>Long term unemployment rate</b> (% of active population aged at least 15)	<b>SK</b>	11.9	11.8	10.3	8.3	6.7	6.5	9.3	9.2	9.4	3
	<b>EU</b>	4.3	4.1	3.7	3.1	2.6	3	3.9	4.1	4.6	-
<b>Employment rate</b> (% of population aged 20 - 64)	<b>SK</b>	63.7	64.5	66	67.2	68.8	66.4	64.6	65.1	65.1	72
	<b>EU</b>	67.4	68	69	69.9	70.3	69	68.6	68.6	68.5	75
<b>Population at risk of poverty and social exclusion</b> (% of population)	<b>SK</b>	-	32	26.7	21.3	20.6	19.6	20.6	20.6	-	17.2
	<b>EU</b>	-	25.6	25.2	24.4	23.6	23.1	23.6	24.2	-	19.4

The labour market has been one of the key challenges in Slovakia's economy in the long term. In comparison with other EU Member States, Slovakia's employment rate is quite low, in particular as regards young job seekers, older people and women, while the unemployment rate is high – mostly driven by high numbers of the long-term unemployed. Hitting the 9 percent mark, the long term unemployment rate is among the highest in the EU-27. This is primarily due to a high youth unemployment rate and the long-term unemployment of low-skilled workforce.



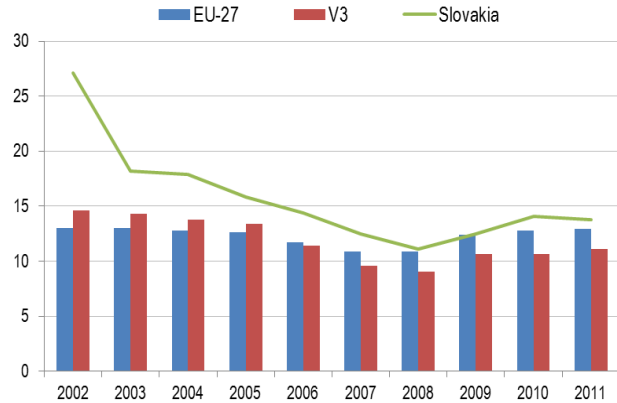
Youth unemployment in Slovakia is among the highest in the EU, reaching more than 32% in 2012. When considering the number of young people in education, the inactivity rate of people under 25 years of age (i.e., those who are not in education, employment or training – the so-called NEET) represented 13.8% in Slovakia in 2011, which is still more than the EU-27 average and the V3 countries average (12.9% and, respectively, 11.1%), albeit the difference is smaller. In general, youth unemployment is influenced by a mismatch between the skills and the needs of the labour market, as well as insufficient demand for labour force.

Figure 11: Youth unemployment rate (% , aged 15 – 24)



Source: Eurostat

Figure 12: NEET indicator (% , aged 15 – 24 not in employment, education, or training)

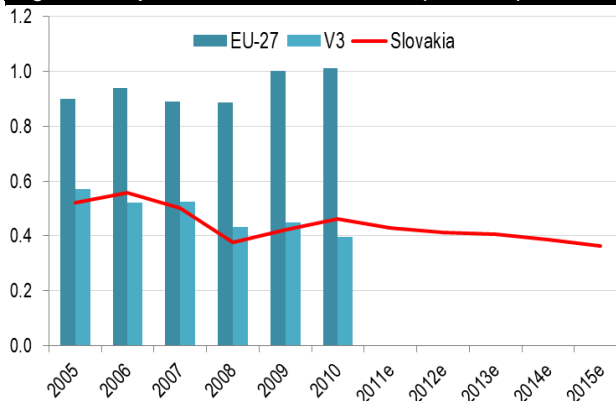


Source: Eurostat

Slovakia has set a target to increase the employment rate to 72% by 2020 (in 2012, the employment rate was at 65%). Apart from positive social implications, reducing unemployment and increasing employment also significantly affects the performance of the economy by increasing labour force participation and productivity. Special attention must be paid to the integration of relatively numerous marginalised communities and the mismatch between the needs of the labour market and the educational structure. These issues are also discussed in other chapters of the document, education in particular.

Low labour market performance poses a higher risk of poverty and social exclusion. Some 20% of the Slovak population are at risk of poverty and social exclusion, which is less than the EU-27 average. The Government is committed to reducing this share to 17% by 2020. In comparison with its V3 neighbours, Slovakia is spending comparable funds (relative to GDP) on social benefits in the area of social inclusion and support for families with children; however, the amounts are significantly below the EU-27 average.

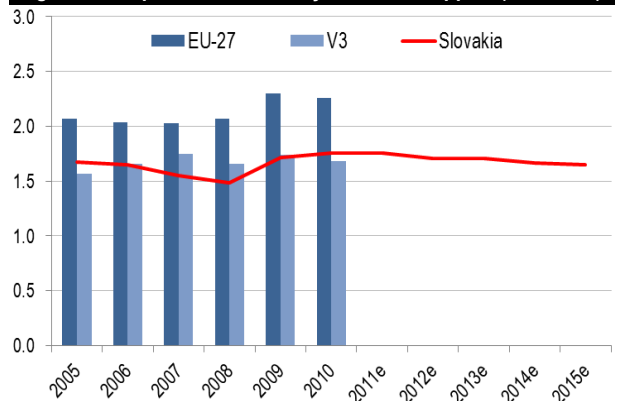
Figure 13: Expenditure on social exclusion (% of GDP)



Note: real and budgeted expenditure contain an assumption for social exclusion benefits in kind from 2011.

Source: ESSPROS; Public Administration Budget 2013 – 2015; Central Office of Labour, Social Affairs and Family; Statistical Office of the Slovak Republic

Figure 14: Expenditure on family and child support (% of GDP)



Note: real and budgeted expenditure does not contain benefits in kind and social services provided by municipalities.

Source: ESSPROS; Public Administration Budget 2013 – 2015; Central Office of Labour, Social Affairs and Family; Institute of Information and Prognoses of Education; Statistical Office of the Slovak Republic



The current situation in the labour market calls for an adequate solution. The Slovak Government is committed to taking the necessary steps to see a considerable improvement in the performance of the labour market. As regards efforts to increase employment and social inclusion, the key measures include reforming the system of social benefits to ensure that they are better targeted, as well as the administrative implementation of the amendment to the Act on Employment Services so that marginalised applicants are supported more effectively and efficiently. The Government will encourage economic and social inclusion of the marginalised Roma communities and introduce new legislation to increase the availability and quality of social services. Financial instruments implemented in the area of state housing policy will improve the sustainability of housing for low-income households.

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

### 4.3.1 Employment

#### *Active labour market policies*

With the amendment of the Act on Employment Services, active labour market policies (ALMPs) were subjected to a significant reform (as described in Chapter 2.1). However, the amended act is only one of a number of measures undertaken by the Government in this area. As a follow-up action, it will be necessary to internally unify organisational structures of the offices of labour, social affairs and family (hereinafter referred to as the “labour offices”) and the provision of public employment services all around Slovakia. By making personnel capacities of the labour offices more effective, the services can be better targeted and tailored to the needs of job seekers in many ways.

The transformation of mandatory ALMP programmes into facultative will require a new approval process. Rules will be prepared for the spending of funds for the application of non-claimable programmes. They will also contain a compliance monitoring mechanism and guidelines concerning the obligation to publish information on the contributions as prescribed by law. The process will be transparent thanks to the publication of justifications at the labour offices’ websites, thus preventing possible cronyism and corruption. The provision of contributions will be approved by the newly-created committees for employment affairs.

The changes in ALMPs and dynamic developments in the labour market will require continuous monitoring and evaluation of the individual programmes to ensure swift response in the public policy. Following the effective date of the amendment to the Act on Employment Services, the Central Office of Labour, Social Affairs and Family will assess and regularly prepare a report on the functioning of the ALMP measures based on inputs from the individual labour offices. In order to make the ALMPs even more effective, the Ministry of Labour, Social Affairs and Family will analyse the net efficiency of the individual programmes. In order to comply with this requirement, the individualised central database will be finalised and available for access.

#### *Promoting youth employment*

As one of the countries facing the lowest youth employment, Slovakia underwent EC’s evaluation procedure in order to be able to reallocate EU funds for tackling youth employment. In addition to other ALMP instruments, the system also includes two projects<sup>3</sup> (“Boosting job creation” and “Promoting the employment of jobless in local

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<sup>3</sup> The beneficiary in both projects is the Central Office of Labour, Social Affairs and Family.



government“) under the Operational Programme Employment and Social Inclusion which are financed from the ESF and focus primarily on promoting the creation of jobs for applicants up to 29 years of age. The support is implemented through the financing of a portion of employers’ costs incurred in connection with social security contributions paid for their employees. The projects were launched in November 2012 and will continue during 2013. By August 2015, some EUR 70 million should be received from the ESF. Simultaneously, further projects under the Operational Programme Competitiveness and Economic Growth<sup>4</sup> are being implemented in order to intensify support for small and medium-sized enterprises, containing – as a key criterion – the requirement to support the employment of young people under 29 years of age. In addition to young people, employment of older (above 50 years of age) disadvantaged job seekers will be supported as well.

The ALMP instruments and projects aimed at boosting youth employment will form part of the prepared youth guarantee schemes for young people under 25 years. The purpose of this measure is to ensure that all young people under 25 years of age receive a high-quality offer of employment, further training, apprenticeship-type training or internship within four months of losing their job or completing formal education. The financial resources necessary for attaining this goal will be available from the Structural Funds in the new 2014-2020 programming period. In implementing the guarantee scheme, the key activities will focus on professional consultancy services of the labour offices, introduction of better targeted and individualised activities and, on their basis, identification of those young people who are at risk of not being able to find a job or continue in other form of education. This will entail gathering comprehensive information on available employment services and forms of support, such as promotion and provision of information and advice on the possibilities to complete training for the pursuit of an individual’s own gainful activity. Projects will be prepared to increase the quality of graduate practice. An updated overview of funds allocated for the implementation of the guarantee system for young people will be introduced and a separate information section will be created at the website of the Central Office of Labour, Social Affairs and Family.

### ***Long-term unemployment***

Long-term unemployment is one of the major problems faced by the Slovak economy. The main obstacles to improving the situation in this area can be attributed to a mismatch between the education system and the labour market needs, as well as to the tax burden faced by low-income earners. In addition to measures defined in the chapter on education, the first problem is handled by the National System of Occupations as a measure aimed at creating a sustainable mechanism for the monitoring and forecasting of the labour market needs, a lifelong learning system attuned to the requirements of employers and the preparation for the labour market with active involvement of the social partners.

The tax burden faced by low-income employees is addressed by the above ALMP programmes which provide subsidies to private employers or local governments to compensate for their cost of labour if they fill job openings with disadvantaged job seekers. The problem of tax burden is partially solved by the self-employment allowance which encourages disadvantaged job-seekers to become self-employed. A more significant reduction in social security contributions of low-income employees, which could be achieved, for instance, by cancelling or forgiving health insurance contributions for low-income employees, would have a positive impact on employment but, on the other hand, a significantly negative impact on public finances; such a reduction would therefore be feasible only if this shortfall is compensated for by other taxes. The Government will continue to explore these avenues and seek methods to activate the long-term unemployed and motivate employers to hire such job seekers.

## **4.3.2 Social inclusion**

### ***Reform of social benefits***

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<sup>4</sup> The managing authority is the Ministry of Economy of the Slovak Republic.



In order to continue to better target social benefits and positively motivate their recipients to participate in the labour market, the Government will continuously analyse the possibilities of better and more effective targeting of social benefits. At present, the main problem to be tackled in this area is better targeting of the social benefits scheme to supporting those families with children that are, to a large extent, not means-tested. The system will be comprehensively revised in order to simplify the state's social support in terms of the number of benefits and administrative challenges posed by better targeting. As part of an analysis, the Government will consider administrative costs associated with means-testing and the potential negative impacts on public solidarity with the poorest groups of population, which were likely caused by the departure from the universal principle of supporting families with children.

The new Act on Assistance in Material Need will be prepared to ensure better targeting, a merit-based approach and rewarding schemes for those who are willing to land low-paid jobs or participate in activation schemes. The reform seeks to create a system that would act in unison with ALMPs in order to increase the motivation of social benefit recipients to find a job. At the same time, a more efficient coverage of lowest-income groups of the population will be ensured. The system of assistance in material need will be linked and harmonised with changes concerning active measures of the labour market, social insurance scheme and the system of other social benefits provided by the state.

### ***Balance between employment and parenting***

Childcare allowance, financed predominantly from the ESF, will again be used in the 2014 - 2020 programming period. With this allowance, the state pays the parent (or the natural person having custody rights) a portion of expenditures incurred in connection with child care while in employment or in education. In order to make child-care allowance more efficient, the options of increasing the amount and the age limit from three to a maximum of five years of the child's age are investigated. The parents and payers will enjoy lower administrative costs and the provision of parental allowance will be aligned with child-care allowance.

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

### ***Support for marginalised communities***

With support for community centres, there will be better options to improve access to and quality of schooling and pre-school education of vulnerable groups, including the Roma communities. The national project entitled "Inclusive Pre-primary Education Model" will be continued, including the authoring and publishing of text books in the Roma language. Financial literacy of marginalised Roma communities will improve, as will their access to financial services. Protection against usury and illegal practices of credit companies will be increased and the development of micro-financing programmes in marginalised areas will be supported.

The full economic and social inclusion of Roma requires a change in the attitude of the majority population and the Roma communities. Further initiatives are geared towards removing the stigmatisation of the Roma population by its targeted social inclusion. Through education and awareness-raising campaigns, this should also help the majority population to objectively learn about and accept the Roma people.

Legislative environment will be created to stop the increase in the number of marginalised Roma communities and facilitate their gradual integration into society based on merits and individual responsibility. Simultaneously, legal conditions will be established to eliminate inter-generational reproduction of social exclusion.

### ***Improving the living conditions of people with disabilities***

The new National Programme for the Development of the Living Conditions of People with Disabilities will be prepared. The national programme will focus on achieving the maximum level of social inclusion of persons with



disabilities and their families by better enforcement of their rights and by creating conditions for the application of the equal opportunities principle, by adopting measures to prevent and address disadvantages, and by combating discrimination on grounds of disability.

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

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

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

#### **Sustainability of housing for the poor**

In connection with the construction of rental flats, low-income households will be receiving direct financial support based on new legislation aimed at reducing poverty and social exclusion. The framework intentions under the state housing policy, as well as specific tasks related to the development of housing for the period until 2015, are set out in the "Concept of State Housing Policy until 2015". The introduction of the instrument will only be possible if there is support for the construction of rental housing units and financial support from the Structural Funds. The state housing policy is implemented through the State Fund for Housing Development, which has at its disposal a budget of EUR 176.7 million (own revenues) and an expected transfer from the state budget in the amount of EUR 66.4 million, and through the "Construction and Renewal of the Housing Fund" instrument with a budget of EUR 25 million for 2013.

Better access to housing for at-risk groups can also be achieved by better targeting of other types of housing support. As with several social benefits, the Government will consider the possibility to adjust the amount of the state bonus provided under the construction savings plan based on the saver's income. Furthermore, the Government will also analyse options to better target its other housing support instruments, such as state-subsidised mortgages for young people and the schemes of the State Fund for Housing Development.

## **4.4 Business environment**

**Tab. 5: Outcome indicator for business environment**

		2004	2005	2006	2007	2008	2009	2010	2011	2012	Target 2020
<b>Doing Business</b>	<b>SK</b>	-	-	-	-	-	40	43	46	46	15
(World Bank ranking)	<b>EU</b>	-	-	-	-	-	37.5	37.2	40.3	40.1	-

High-quality and transparent business environment is an essential prerequisite for a stable and competitive market, establishment of new firms and the influx of investments. Measures contributing to a better business environment have a positive impact on employment, wages, economic growth and overall prosperity of a country. Slovakia has been sliding down the World Bank's Doing Business chart for several years in a row. The current 46th position indicates that Slovakia is below the EU average (40).

It is therefore necessary to take measures to reduce administrative burden, ease regulation and raise awareness among companies. Also improved will be the assessment of the impacts of new and existing legislation on the business environment. The Government will simplify the procedure for obtaining building permit and reduce



obstacles to entering the sectors of traditional monopolies and liberal professions. The Registry of Insolvent Entities and the Registry of Disqualified Persons will contribute to better transparency. The development of the business environment is also facilitated by eGovernment services and by building the infrastructure and improving the quality of public administration.

### ***Financing the development of businesses***

The primary role of the Slovak Growth Support Fund is to provide loans for the financing of new strategic investments, in particular as regards infrastructure and the environment. The purpose of the fund is to multiply the effect of public investments from EU funds through the so-called leverage effect – every euro invested in the fund through direct capital contribution from the operational programmes would bring in approximately EUR 5 from the funds of domestic and foreign private investors. The Slovak Growth Support Fund will be classified outside the general government sector and will not be subject to direct political control, because the state will only hold a minority stake.

The Fund of Social Development Capital Funds should focus on the segment of economic activities which, although not in red figures, are not profitable enough to be commercially attractive and, therefore, are not in the spotlight of standard investors. It will focus, for the most part, on activities that are beneficial to society but are not valued by the market (positive externality). The state support to such segment of activities could help fill the gap in the market and create viable companies or non-profit organisations which, after receiving initial support, would be capable of functioning on their own, thus increasing economic growth and employment. As is the case with other measures, this institution would be based on EU funds and leveraged by private funds. The Fund should provide combined support – in the form of a grant coupled with a credit – to microenterprises with more difficult access to lending, in particular those focusing on activities beneficial to society. The institution has the potential to significantly help increase the employment rate in the lagging regions of Slovakia that are suffering from a lack of investments in the long term.

In the upcoming 2014-2020 programming period, the Slovak Guarantee and Development Bank (SGDB) is expected to play a more active role in the administration of repayable aid instruments for small and medium-sized enterprises. SGDB would directly have at its disposal a certain volume of funds for the provision of credits and guarantees for SMEs as part of the JEREMIE initiative. In the case of spending under the JESSICA initiative, SGDB would also finance the projects of towns and municipalities. In this way, SGDB will be transformed into a banking and financial institution capable of pursuing the state's economic policy targets.

### ***Administrative burden***

Slovakia needs to adopt measures aimed at improving the business environment. In this regard it will strive to further improve transparency and reduce administrative burden. Measures will be taken to allow the issuance of electronic statements from certificates of title and the Land Registry will also collect information on real estate prices indicated in the public instruments and other documents presented for registration in the Land Registry. Furthermore, the Government will simplify the paperwork of companies by creating a comprehensive portal solution allowing them to report, by electronic means, all essentials requested from business entities.

The process of property registration will become cheaper and faster by reducing the number of steps required. The Government will update the methodology for assessing the impacts of legislation on the business environment, primarily by using good practices applied by other countries and by integrating the Regulatory Impact Assessment system in the process used for assessing the impacts of adopted legislation. The quality of submitted laws will be improved by building sufficient analytical capacities. The Government will also focus on the existing legislation. The transposition of selected European legal acts introducing changes aimed at reducing the administrative burden will be considered. Furthermore, the Ministry of Economy will launch a publicly accessible portal for reporting duplicate information obligations required from businesses pursuant to the law. The Government will assess the costs of administrative burden in Slovakia again in 2014.

### ***Regulation***





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

Liberal professions are subject to relatively stringent regulation distorting competition between the providers of these services in some cases. It is therefore necessary to identify and remove those regulatory rules that are needlessly impeding the development of economic competition which has an adverse impact on the prices and the quality of services rendered. Where applicable, the possibilities of restricting mandatory membership in professional chambers should be explored. In relaxing the rules, attention will be given to preserving the required qualification standards and ensuring the quality control of performed activities and the protection of interests guaranteed by law.

### ***Transparency of business environment***

An electronic insolvency registry will be set up, considerably improving the efficiency of satisfying creditor claims (in which the state and its institutions typically have a significant share), making the system more transparent and ensuring nearly full publicity of information about the entire process and course of bankruptcy proceedings. The introduction of such a registry abroad typically resulted in higher proceeds from bankruptcy proceedings. New legislation will also introduce predictable and transparent processes of winding up a business, and better define the responsibility of board members of the companies being wound up.

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

The Government will arrange the preparation of amendments to the relevant implementing regulations for the Investment Aid Act. By extending the mandatory input data, they will be designed to create an instrument that will make the amount of state aid more predictable based on objective input data known beforehand. Better transparency and simpler rules will also make it possible to speed up the aid approval process. This approach will reduce the risks for potential investors while achieving the same efficiency of aid at a lower cost.

### ***Building Act***

The new Building Act will address the entire zoning procedure, including the Building Code, in a comprehensive manner. The approval processes will be simplified and accelerated while preserving the quality of buildings being approved and erected. The most important change related to zoning lies with the municipalities' obligation to have a zoning plan prepared regardless of their population and size.

## **4.5 Transport infrastructure and telecommunications**

The dynamism seen in economic development should be matched by a corresponding progress in the building of transport infrastructure. Its further development indicates strong potential for reducing inter-regional disparities and, subsequently, for the growth and development of employment particularly in the eastern and southern Slovak regions facing high unemployment. Well-kept roads and railways are vital to shortening the time spent



travelling to economic and urban centres. They are one of the key factors affecting the future economic development, because they have a considerable impact on the possibilities of improving the competitiveness of Slovakia's economy.

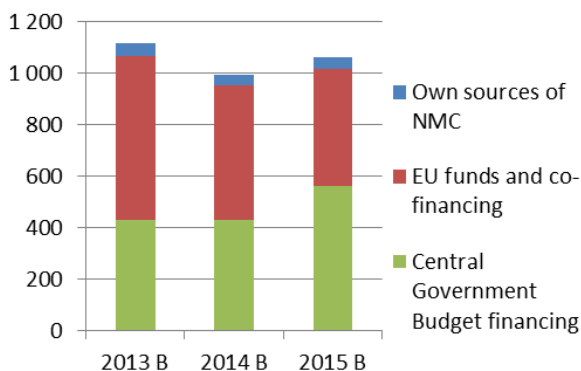
With a growing intensity of road transport, it is necessary to address the questions of safety and comfort for passengers, as well as alternative modes of transport such as public passenger transport and non-motorised transport. The Slovak Government faces another challenge with respect to handling the negative externalities of road transport – the impact on the environment and the health of people, predominantly in those cases where important transport routes cross the built-up areas of municipalities. These targets can be attained by making the process of setting construction priorities more objective and by laying more emphasis on effectiveness throughout the entire phase of investment preparation, while ensuring a more effective competition among contractors in a transparent procurement process.

The key measures in transportation include the construction of the lacking motorway and expressway sections, renewal of A-class roads, improvement of other road infrastructure parameters to increase safety in road transport, curbing down the number of cars passing through towns and municipalities and the modernisation of railway corridors. These measures are part of the prepared Strategic Plan for Road Infrastructure Development by 2020 which will serve as an important background document for the spending of EU funds during the 2014-2020 programming period. More attention should be paid to streamlining public passenger transport, including the support for integrated transport systems. The issues of sustainable urban mobility should be brought to the forefront as well. With regards to telecommunications, a fee on the use of frequency bands in telecom services will be introduced.

### Road and railway infrastructure

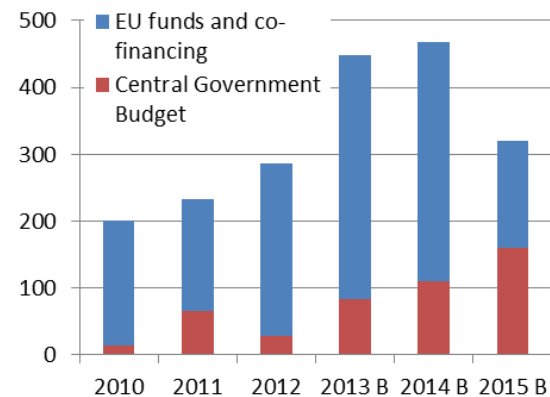
The need to improve the quality of Slovakia's road and railway infrastructure is reflected in the financial resources earmarked for its development, which are rising. The amount allocated for the road and railway transport in 2013 in the budget is the highest ever, even due to a considerable share of the European funds. The key areas for an increase of funds in road transport correspond to high-priority problems – in addition to the construction of motorways and expressways and the modernisation of A-class roads, the funds are also earmarked for the modernisation and reconstruction of critical and potentially dangerous sections of the road network (such as bridges and junctions).

Figure 15: Road infrastructure expenditures (EUR million)



Source: General Government Budget - MoF SR, IFP

Figure 16: Railway construction expenditures (EUR million)

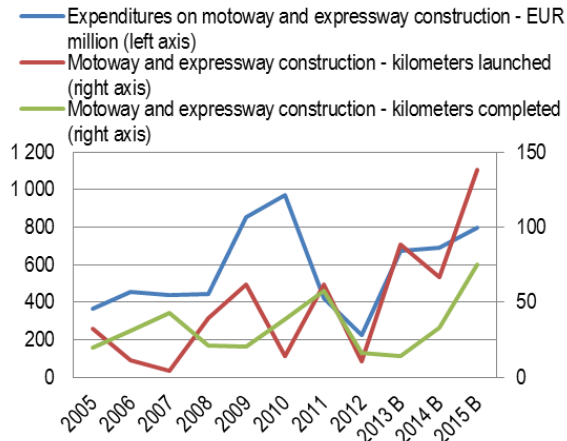


Source: General Government Budget - MoF SR, IFP

At present, there are 60 km of motorways and expressways under construction (sections of the main motorway route D1 and the R4 expressway). The construction of a further 120 km of the most needed motorway and expressway sections will be launched in the period from 2013 to 2014. In these two years, more than 45 km of motorways and expressways should be completed, with an additional 75 km expected to be finished in 2015. Majority of the construction sites are located in the regions with lower economic performance and high unemployment.

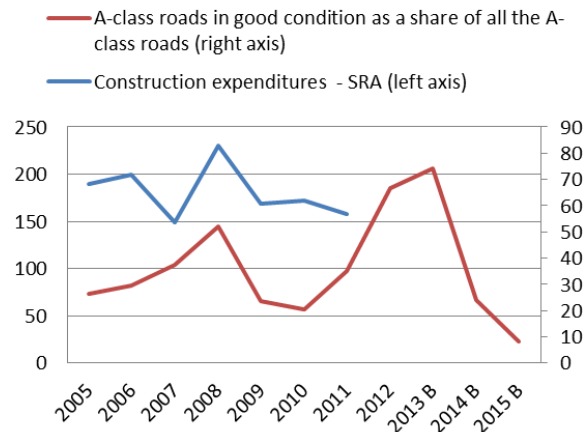


Figure 17: Motorways and expressways



Source: MoF SR, IFP, MoTCRD SR

Figure 18: A-class roads



Source: IFP, Slovak Road Administration, MoTCRD SR

The modernisation and development of A-class roads should be given much more attention than before, because the share of roads in poor condition has increased 2.5 times since 2000. Based on 2012 data provided by the Slovak Road Administration, 44% of A-class roads are in poor condition, with a further 5% of roads being in emergency condition. Approximately 50 percent of all transport in Slovakia passes through A-class roads. Between 2011 and 2016, more than one quarter of A-class roads should undergo reconstruction.

In order to increase safety and comfort of travel, it is necessary to focus on improving other parameters of road infrastructure, such as the construction of bypass roads around towns and municipalities, relocations, roundabouts, reconstruction of intersections (gradual construction of additional lanes) and bridges, as well as fixing dangerous road sections – the so-called high accident locations. In the same vein, other parameters such as road width and radius, visibility conditions and homogeneity of routes, as well as the construction of traffic noise barriers and anti-flood measures for bridges and roads, will be adjusted as well. The continuous deployment of smart traffic systems, which is currently taking place, will also play a positive role.

It is necessary to increase the quality and capacity of rail transport which is utilised less than road transport. The number of passengers transported by rail per 1000 people is ten times lower than the EU average. The Slovak Republic is aware of the fact that the role of railways in the transport sector must be strengthened in order to increase the efficiency of spending, reduce negative impacts of transportation on the environment and transfer traffic away from roads.

In accordance with the intentions of the European policy to relieve congested road infrastructure by shifting traffic to railways, massive investments into the modernisation of railway corridors are underway. Launched in 2010 with support from EU funds, the rolling stock renewal project of the Železničná spoločnosť Slovensko railway company for suburban and interregional public rail transport should be completed this year. In total, approximately one fifth of trains operated in regional and suburban rail transport will be replaced. The next three years should see the completion of modernisation works at roughly 60 km of railroads, with modernisation works commencing at an additional 67 km of railroads. The Ministry of Transport, Construction and Regional Development of the Slovak Republic has prepared a detailed analysis of traffic in the individual railroad sections in order to identify less effective sections. The results will make it possible to set priorities in railroad transportation and streamline the railroad network.

### Public passenger transport and urban mobility

The Slovak Government will increase the efficiency of public passenger transport and improve the coverage of the Slovak territory by public passenger transport by removing overlapping urban bus transport and regional rail transport and by better aligning bus schedules to rail transport – by interlinking both modes of transport while creating a unified system. The Slovak Government contemplates introducing the Act on Traffic Authority which would be responsible for ensuring smooth, functional and economical strategic planning of transport in the Slovak



Republic. So far, no budget for such measure has been prepared; however, the financing mechanism could be based on fees received from market participants.

As regards support for non-motorised transport, the Ministry of Transport, Construction and Regional Development of the Slovak Republic is preparing a cycling development strategy under which some 1,000 km of biking routes should be completed by 2020, including changes in the regulations and technical standards, as well as the creation of a permanent mechanism of financing from European funds and local governments. The budget for the period between 2014 and 2016 is estimated to reach some EUR 45 million.

### **Telecommunications**

Electronic communication and, in particular, broadband Internet access are central to increasing the country's competitiveness. As an independent national regulatory and pricing authority for electronic communication, the Telecommunications Regulatory Authority of the Slovak Republic will organise an electronic auction for frequencies within the 800 MHz, 1800 MHz and 2.6 GHz bands. Aside from a positive impact on the state budget (some EUR 130 million in revenues from the so-called digital dividend), this move will help improve the competition in this sector by opening the Slovak market to other potential operators.

## **4.6 Modernising public administration**

<b>Tab. 6: Outcome indicator for modernising public administration</b>										
		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
<b>E-government index</b>	<b>SK</b>	25.5	-	37.3	42.3	-	58.6	62	-	90
(%)	<b>EU</b>	-	-	47	52.9	-	61.4	69.1	-	-

The modernisation of public administration is an important instrument aimed at making the necessary changes that will allow the state to operate much more efficiently in all of its dimensions. The global objective of the Government's activities in public administration management will be to "improve the activities of public administration entities and public services in order to support social and economic growth of the Slovak Republic and increase the quality parameters of the lives of citizens. The pillars supporting this objective will consist of economisation, computerisation and personnel development in all structures of public administration". This will require a systematic approach in improving the legal framework of the public administration, while respecting the principle that it is the people and their living needs which must be the cornerstone of how the operation of public administration is organised.

The state administration will be modernised through the ESO reform focusing on the optimisation of public authorities in order to save on public finances, streamline their activities and provide better services to the citizens and businesses. One of the means to achieve this is a wider use of electronic means and reinforced analytical capacities in the state administration.

The Slovak Government will maintain a permanent dialogue with local governments to explore avenues of improving the quality of public administration within the ambit of local and regional governments. In the context of the "Strategy for the Modernisation of Local Governments" which is currently being prepared, the Government will encourage setting up a network of "Common Local Offices" equipped with the necessary information and communication technology. They should represent the basic network for communication between the citizens and offices at local level. At the same time, they should contribute to streamlining and improving the quality of local governments' operation.

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

The Slovak Government will continue to review the existing structure of state administration bodies in order to increase their effectiveness and contribute to reducing expenditures spent on their operations. In this connection,



savings in public administration for 2013-2016 are expected to reach EUR 513 million, of which savings in the amount of EUR 130 million should be made in 2013 and the largest share, EUR 173 million, in 2014. In the period between 2013 and 2014, the number of specialised state administration offices and inspection bodies will be slashed by 483, with 244 budgetary organisations of the state included in that figure.

During the second phase of the ESO programme the Government will comprehensively restructure selected offices of the state administration. By the end of 2013, specialised regional offices of the state administration will be integrated into a single local state administration authority. One of the important goals is to preserve and improve the functions of the state. The merging of offices will not limit itself to reducing multiplicities in their operations. The responsibility of central government agencies for the relevant sectors and their professional and personnel management will be kept in the new structure. Communication will be simplified by building Citizen's Contact Administrative Points where both citizens and entrepreneurs will be able to handle all specialised administrative procedures in one place, with ease and at minimum costs.

In the next phase, the processes related to the exercise of public authority will be optimised, and the same will apply to auxiliary processes in the integrated local state administration. The administration of the property of the state will be streamlined and the integrated offices and citizen's contact points will reside in buildings solely owned by the state. Based on an audit of the public administration, the Government will review the existing model of devolved powers of the state to other spheres of society, including external cooperation with social partners.

The Government will clearly define the objectives, vision and the mission for the civil service as a whole and for the individual ministries. There are several examples of good practices abroad: redesign of the existing processes with a focus on measurability, the introduction of performance indicators, central recruitment, more flexibility in terms of workplace or working time, and strategic development of skills through high-quality internal training.

### ***Analytical capacities***

One of the positive effects of the state administration reform would be that the best experts in Slovakia would find it an attractive place to work. In order to strengthen the analytical capacity of the state and improve the quality of public administration, it should be attractive enough to employ several dozens of best experts. Analytical units, which are being set up by key ministries, represent one of the ways to achieve this. Their role is to analyse proposed measures and link them to the budget, monitoring and evaluation. Such units should be set up at least within all key economic and social ministries. The Government will continue to reinforce the capacity of the existing units, while setting up other units at other ministries.

In order to build capacities in the state administration systematically, a scholarship programme will be introduced to financially support selected applicants during their studies at renowned foreign universities. In return, they will commit to working in the public administration for a certain period of time, thus strengthening the high-skilled professional capacities. The possibility of expert training courses and stays financed from EU funds will also help increase the quality of analytical units.

### ***eGovernment***

The eGovernment grants citizens and businesses access to information and services. Its greatest benefit lies in improving public administration efficiency, reducing the administrative burden placed on individuals and businesses in communication with the government, and increasing public administration transparency.

Currently, the key task is to set up a legislative framework and define the conditions for universal electronic access to basic public services with interlinked public administration registers, and to enable full electronic exchange of data between the citizens as well as the public and private sector. The act on eGovernment and public administration registers will be enacted to lay down the general regulation for the exercise of public powers by electronic means. This will enable uniform implementation of e-services by public authorities.

Due attention will be given to ensuring information security. The most sensitive areas comprise critical infrastructure, banking, energy, transport, healthcare, electronic communication and public administration.



Therefore, the aim is to increase the level of protection with respect to incidents, risks and threats related to network and information security in the Slovak Republic. The draft Act on Information Security will unify the requirements and competences concerning the security of ICT.

Measures will be taken in order to facilitate effective development of an integrated public administration information system and to improve the interoperability of its services. In terms of mutual cooperation among information systems, it is necessary to streamline and simplify the linking of information systems in the individual sectors of public administration, both at the level of state administration and local governments. In a broader context, the implemented standards will have a positive impact on the population by increasing the quality of life while enabling a more effective management of an information society.

In order to ensure the operation of existing public administration information systems, as well as their innovation or development of other systems for entities falling under the integrated local state administration, it is necessary to build a reasonably efficient and secure integrated communication and technological infrastructure for the local state administration and local governments (in particular due to the devolved state administration powers). Such infrastructure is vital for the efficient provision of services by the Citizen's Contact Administrative Points.

Public services will be accessible through various electronic channels; support will focus especially on the development of functionalities of the Central Public Administration Portal. Activities related to e-Government, e-Culture, e-Education, e-Inclusion and e-Health will be supported. The implementation of electronic services provided by the individual bodies of public administration will proceed in line with the priorities and the time schedule of the Operational Programme Information Society.

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

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

## 4.7 Transparent conditions and law enforcement

<b>Tab. 7: Outcome indicator for transparent conditions and law enforcement</b>		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
<b>Corruption</b> (%)	<b>SK</b>	-	59	-	59	-	61	-	56	80
	<b>EU</b>	-	67	-	78	-	80	-	77	-

A transparent environment free of corruption promotes efficiency and economic growth and contributes to equal opportunities in the economy, ultimately improving social welfare. In order to combat corruption effectively, it is necessary to increase transparency and restrict room for unfair practices in any handling of the property owned by the state, public institutions and local governments. Unfortunately, the corruption index in Slovakia followed an opposite trend than that seen in other EU countries: since 2005, this transparency indicator has slightly worsened in Slovakia. In 2012, the expenditures of the Slovak judicial system reached EUR 45 per capita, corresponding roughly to the average of the V3 countries. In the period from 2013 to 2015, the courts will enjoy a continuous rise in budgeted resources.



In order to achieve a level of the Corruption Perception Index comparable to the EU average, the Slovak Government will continue with the implementation and adoption of further measures aimed at curbing corruption, increasing the efficiency of the courts, as well as simplifying and facilitating – to the largest extent possible – the processes related to law enforcement through a wider use of electronic means.

### ***A more efficient judiciary system***

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

### ***Electronisation***

In addition to the approved changes in the procedural codes, court proceedings will also be accelerated through the computerisation of the judiciary system – a project consisting of several sub-projects implemented on a continuous basis. Several projects are underway in order to create the Electronic Case File, the Electronic Legal Code, the Electronic Registry of Insolvent Entities and the Electronic Registry of Disqualified Persons, including electronic monitoring of the accused and sentenced. Some projects are funded from the state budget and the rest will be financed under the Swiss Financial Mechanism.

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

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

### ***Asset recovery and public procurement***

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

## **4.8 Health**

**Tab. 8: Outcome indicator for health**

		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
Healthy life years	SK	-	55.9	54.5	55.8	52.3	52.5	52.3	52.2	60

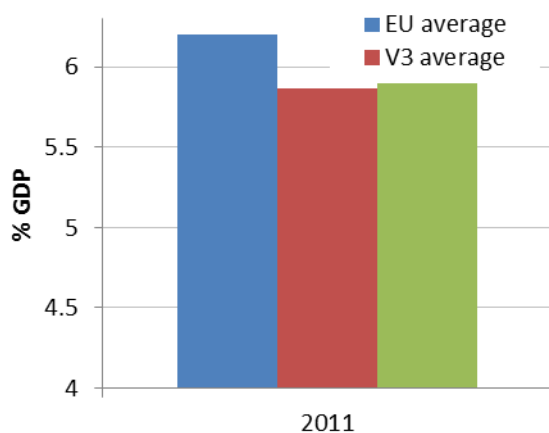


(expected number of years at birth)	EU	-	61.8	62.1	62.1	61.6	61.6	62.1	61.8	-
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Health of the population affects the equality of opportunities and productivity in every country – it is therefore necessary to maintain such level of health care provision which will meet its purpose to the best extent possible. The public funds flowing into Slovakia's health care system amounted to EUR 760 per capita in 2011, i.e., approximately 6% of GDP. The expenditures were down by 0.3% of GDP compared to the EU average, but slightly above the V3 average. Over the recent years, they grew much more rapidly than in countries with a similar GDP per capita. The EC expects Slovakia to rank among the countries with the highest population ageing rate, which will further escalate the health care expenditures.

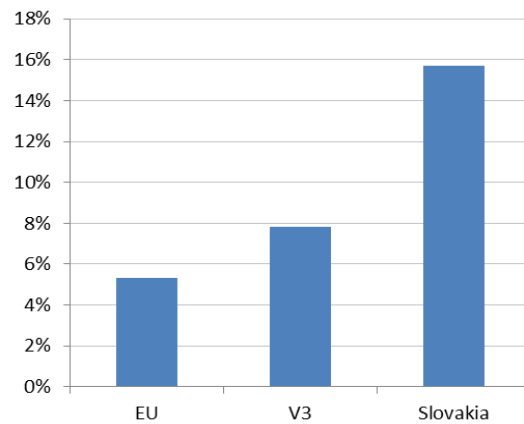
However, health care performance results did not sufficiently follow the steep rise in resources. Even though the V3 countries have nearly managed to erase the gap vis-à-vis the EU countries in terms of healthy life years, Slovakia still lags behind the EU and V3 at an almost 10-year difference.

Figure 19: Healthcare expenditure (% of GDP)



Source: Eurostat

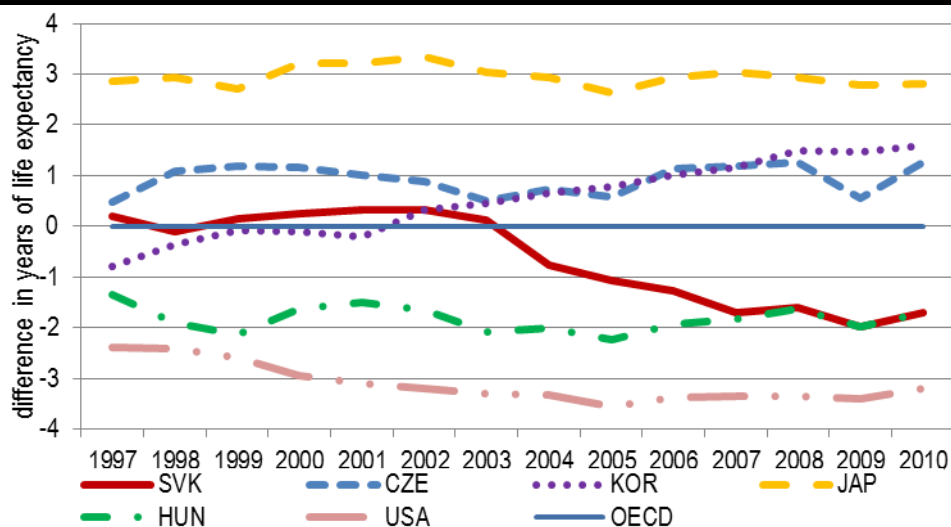
Figure 20: Average annual expenditure growth 2001 - 2011



Source: Eurostat

A steep rise in healthcare expenditures, coupled with a relatively slow life expectancy growth in Slovakia, indicates worsening efficiency of spending in the health care sector. Even though Slovakia managed to keep up with the average efficiency pace seen in OECD countries roughly until 2003, a steep decline followed afterwards. By now, the life expectancy of the Slovak population could have increased by two years with the same amount of expenditures.

Figure 21: Efficiency of Slovak healthcare system



Source: IFP, OECD





The Slovak Government will therefore adopt measures to achieve the highest possible efficiency without compromising the availability and quality of treatment. Short-term and long-term financial sustainability of health care expenditures are the crucial issues to be addressed. The measures will be geared towards stopping the growing indebtedness of hospitals, optimising their network and investing into new and more efficient hospitals. An integrated model of healthcare provision will be introduced, hand in hand with the unification of generally accepted standards and guidelines of treatment, better dissemination of information to patients by publishing quality indicators and waiting lists, introduction of the unitary health insurance system, diagnosis-related group payment system and the continuing drug policy reform.

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

### ***Improving the financial management and economy of providers***

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

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

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

Following the adoption of measures aimed at stopping the growing indebtedness of hospitals, investments will be made in acute hospitals which will replace some of the most obsolete and least efficient facilities. At the same time, the Government will encourage the creation of a network of rehabilitation facilities and long term care facilities, including the preparation of the relevant legislation. Investments in the construction of new and the reconstruction of existing facilities will be made without an additional impact on public finance.

### ***Improving the long-term sustainability of healthcare financing***

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



### ***Unification of generally accepted standards and guidelines of treatment***

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

### ***Informing patients about health care quality and access***

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

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

### ***Introduction of diagnosis-related group (DRG) payments***

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

### ***Introducing unitary health insurance system***

The introduction of a unitary system is one of the measures capable of significantly increasing the efficiency in health care spending. The system, currently positioned in the halfway between a monopoly and a competitive environment, is not optimal in terms of market structure. Oligopolistic structure of the public health insurance market in Slovakia limits the maximisation of efficiency in the use of resources.

### ***Medicines policy***

Following the approval of the drug policy reform which introduces generic prescription of medicines, sets the rules for the determination of payments from public health insurance, puts in place stricter pricing, as well as defines the rules of transparency for the bodies responsible for the medicines policy, the Government will review and evaluate the efficiency of measures adopted. The reasonability of payments made by health insurance



companies for relevant groups of medicines covered by public health insurance will be assessed by the Ministry of Health on the basis of pharmacoeconomic criteria.

The Slovak Government will further increase the transparency of the categorisation and pharmacoeconomic assessment process by publishing expert recommendations adopted by advisory bodies on the ministry's website. The purpose of publication is to prevent subjective decision-making to the largest extent possible. Purchase of medicines, medical aid tools and dietetic foodstuffs will be more effective following the reinforcement of the institute of public procurement in state-run health care facilities.

## 4.9 Environmental sustainability and energy

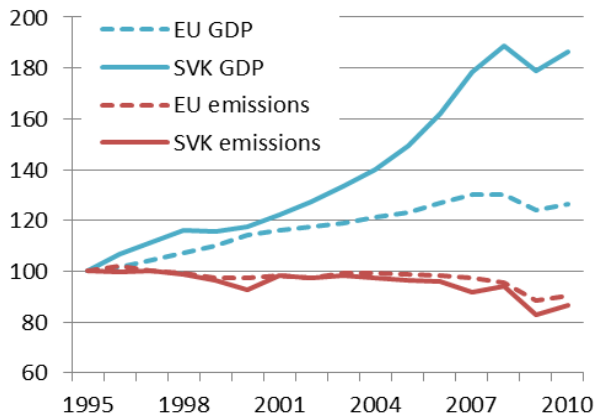
Tab. 9: Outcome indicators for environmental sustainability and energy										
		2004	2005	2006	2007	2008	2009	2010	2011	Target 2020
<b>Greenhouse emissions outside ETS</b> (%, change against 2005)	<b>SK</b>	-	-	-1.8	-6.0	-4.6	-12.6	-6.0	-9.5*	<13
	<b>EU</b>	-	-	-	-	-	-	-	-	-
<b>Share of RES on gross final consumption</b> (%)	<b>SK</b>	6.1	6.2	6.6	8.2	8.4	10.4	9.8	11.3*	14
	<b>EU</b>	8.1	8.5	9	9.9	10.5	11.7	12.5	-	20
<b>Final consumption of electricity</b> (%, change against average of 2001- 2005)	<b>SK</b>	-	-	-0.9	-2.3	1.2	-6.3	6.1	-1.0	-11
	<b>EU</b>	-	-	2.3	0.0	0.7	-4.6	-1.2	-5.3	-
<b>EPI Trend</b>	<b>SK</b>	-	64.0	64.8	66.1	66.3	66.6	66.6	-	68.3
	<b>EU</b>	-	-	-	-	-	-	-	-	-

\* Estimate of SHMÚ.

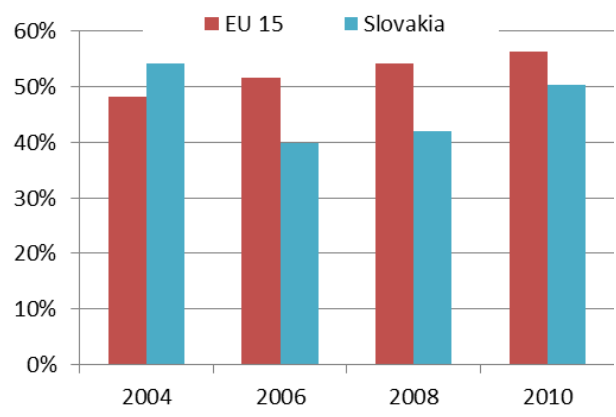
It is essential that the growth-oriented policies be sustainable in the long term, be it in financial and social terms or from the environmental point of view. However, Slovakia is not isolated from the external environment. Analyses of renowned science organisations, in particular the Intergovernmental Panel on Climate Change, confirm that global warming has not stopped and, quite the contrary, permanently increasing green house gas concentration in the atmosphere due to human activity leads to an increase in the average temperature of the Earth's surface, thus resulting in the melting of icebergs and the rising sea level and ocean acidity. At the same time, the frequency and intensity of extreme weather events are changing, which brings direct and negative social and economic implications. The Slovak Republic is one of the countries that have managed to curb down greenhouse gas emissions considerably since 1990. At the same time, it is progressing well in decoupling the economic growth from emissions. Slovakia is on the right path to achieving this goal by considerably changing the structure of fossil fuel consumption coupled with technological restructuring of the industry. Emissions are on the decline also due to a rising share of services in GDP formation. However, this transformation is not limitless and the Government will have to seek avenues of further cost-effective emissions reduction, in particular as regards buildings, households, transportation and agriculture.

Figure 22: GDP and emissions growth (index 1995 = 100)

Figure 23: Treatment of waste (%)



Source: Eurostat



Source: Eurostat

The quality of the environment in Slovakia is very good when compared to many other countries. This fact is also confirmed by one of the composite indicators, the Environmental Performance Index (EPI), in which Slovakia ranks twelfth among all of the monitored countries. On the contrary, waste recycling is showing a very negative trend. As the advanced economies are increasing their share of waste recycling, Slovakia has been sliding down from its good initial position over the recent years. In the upcoming period it will therefore be necessary to systematically support waste recycling. High dust particle pollution remains a problem, which is already tackled by an already approved PM10 reduction strategy.

According to international studies, economic growth coupled with emissions reduction and the development of related industries could create more than 20 million new jobs by 2030. Other benefits of such development include energy savings for companies and households, improved health condition of the population or lower energy dependency. As a society-wide issue, green growth and the development of green economy will be incorporated in the preparation of all relevant policies and will be reflected in the Government's measures aimed at supporting employment, investments, innovation, business environment, transport and energy sectors.

Environment is a phenomenon that stretches beyond the boundaries of a single ministry, and covers all areas of economy. The Government will therefore strengthen the coordination of the environmental policy. It will prepare an environmental strategy to respond to the current trends and the situation of the environment and economy. The strategy will be drawn up in close cooperation with the individual ministries. The coordination and alignment of various sectoral policies will be the key to producing a synergic effect and applying an issue-based rather than ministry-based approach.

### **Greenhouse gas emissions, air**

Approximately 50% of the total 2010 emissions were produced by companies in the Emission Trading System (ETS). In order to meet the national reduction targets for greenhouse gas emissions by 2020, the Slovak Republic will continue to control the production of emissions in EU-ETS installations aimed at achieving the defined reduction target of 21 % compared to 2005. The Government will also support a stable and due functioning of the scheme at EU level. A further cost-effective reduction can be expected in ETS sectors thanks to the principles of trading in emission allowances. As of 2013, operators will be required to purchase almost one half of emission allowances at an emission allowance auction, the yield of which will increase the revenues of the Slovak Republic.

The reduction in greenhouse gas emissions in the ETS scheme will no longer be sufficient in order to meet the ambitious EU targets. As of 2013, Slovakia's emission curve until 2020 is set precisely also for non-ETS scheme sectors with an annual target value of released emissions. In order to comply with this requirement, major reduction measures will be necessary in other sectors as well, in particular transportation, agriculture and buildings. An overview of the reduction potential of various measures and the expected costs of their implementation will be provided in the Low-carbon Development Strategy of the Slovak Republic until 2030, including an impact study. The measures will include the modernisation of the public lighting systems, higher



energy efficiency of buildings including central heating, support for transport infrastructure as well as inter-modal transport, public passenger transport and cycling, recycling and energy recovery of waste. The Low-carbon Development Strategy until 2030 and the Climate Change Adaptation Strategy of the Slovak Republic will be prepared in cooperation with social and economic partners, as well as civic associations.

Besides sensitivity analysis of selected parameters (fuel prices, investment intensity) and projections for greenhouse gas emissions, the emission reduction marginal cost curves will be part of the basic background analyses for the preparation of the Low-carbon Strategy, thus making it easier to choose the most cost-effective reduction-oriented measures. Lessons learned from other countries imply that the least expensive measures (or net benefit measures) include the use of energy saving bulbs and thermal insulation of public and private buildings. On the other hand, the most expensive measures include the use of hybrid vehicles and biomass.

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

Considering the expected impacts of climate change, it is necessary to come up with measures that will address them. For this reason, the Climate Change Adaptation Strategy of the Slovak Republic will be prepared by Ministry of Environment in cooperation with other ministries involved. The document will propose, based on an objective analysis of adverse impacts of climate change, the principles and instruments to mitigate the negative effects of climate change on ecosystems, as well as on the social and economic areas.

### ***Energy sectors and renewable energy sources***

Slovak Government will take further steps to eliminate disproportionately high final electricity prices caused by the robust financial support to renewable energy sources (RES) and electricity and heat cogeneration. Measures adopted so far have tightened the rules on the payment of premiums for electricity generated in the aforementioned way. These efforts will continue by redefining the support provided to RES in order to meet the set targets in a cost-effective manner, while preventing disproportionate increases in electricity prices. Feed-in tariffs should depend on a development potential of individual types of RES and should be set as a complementary instrument to other environmental measures which may affect RES development (subsidies, ETS) in order to avoid the over-lapping of individual instruments. In addition, the feed-in tariffs should be sufficiently flexible to respond to market developments and, at the same time, sufficiently firm to attract new investments. This can be achieved through clearly set rules on changes in feed-in prices. The roadmap for meeting the targets will be adjusted so that the biggest portion of support, in particular that allocated for the production of electricity, is provided in the years close to 2020. A single purchaser of supported electricity produced from RES and by cogeneration will be established to ensure a more transparent use of such electricity and to better set up the system of public support.

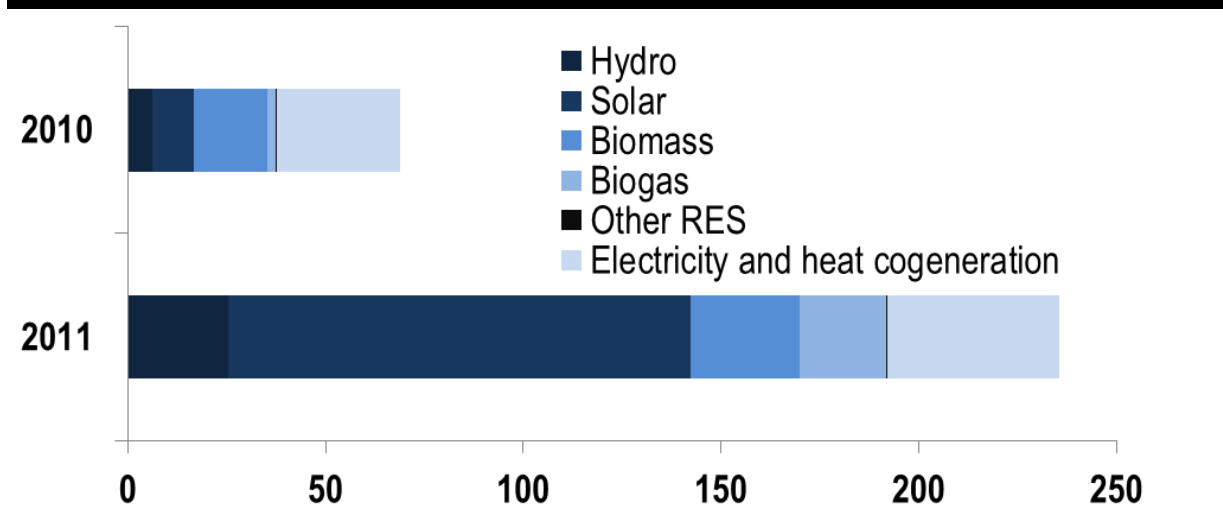
Regarding the emissions reduction target in energy sectors, it is necessary to review subsidies for coal production. Slovakia has been supporting electricity produced from domestic coal since 2005. This is done by refunding the costs of production included in the tariff for electricity supply paid by customers. In 2011, the customers thus paid almost EUR 71 million more in their bills. On the other hand, coal production and consumption have a detrimental effect on human health and pose an excessive burden on the environment. Therefore, the Slovak Government will seek optimal ways to support coal production in Slovakia in the future, with the aim of minimising the impacts on the final price of electricity for households and businesses and on the environment.

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



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

Figure 24: Value of RES and cogeneration price subsidies in Slovakia (EUR million)



Source: Ministry of economy, IFP

In order to improve the energy efficiency of the existing residential buildings in urban areas, a credit fund will be established under the JESSICA initiative. Through this fund, financial resources worth EUR 11.529 million from the European Structural and Investment Funds will be implemented during the 2007-2013 programming period. Soft loans will be provided for projects in combination with beneficiaries' own funds or loans from commercial banks. It is assumed that through this pilot approach, the EU Structural Funds would support energy efficiency projects in roughly 1000 housing units. The State Fund for Housing Development will be the administrator of the fund. This initiative should continue through to the new 2014 – 2020 programming period, while simultaneously strengthening the role of the State Guarantee and Development Bank during its implementation.

### **Efficient use of resources**

Thanks to its varied landscape and mild climate, Slovakia is relatively rich in natural resources. However, permanently increasing requirements of the economy and the pressure caused by climate change imply the need for better protection and more efficient use of natural resources. The Government will prepare the waste management reform by 2016. In the case of municipal waste, a transition from landfilling to waste recycling is planned – both as regards the recovery of energy and material. Economic instruments for incentivising the population to reduce or recycle waste will be used. With respect to actions taken in the area of water management, the Water Plan of the Slovak Republic and the Flood Management Plans will apply. They will be updated every six years in accordance with the EU Directive establishing a framework for Community action in the field of water policy.



## 5 EU's cohesion policy for the 2014-2020 programming period

The EU's cohesion policy is one of the key instruments of social and economic development of the Slovak Republic. In this connection, consistent implementation of EU legislation for the cohesion policy, in particular with respect to new elements introduced for the 2014-2020 programming period, is of key importance. Effective spending of EU funds in the current programming period (2007-2013) and the preparation of the new 2014-2020 programming period are the utmost priorities of the Slovak Government with respect to the EU's cohesion policy. The year 2012 saw the establishment of the Government Council for the preparation of the Partnership Agreement for 2014-2020 which is chaired by the Prime Minister of the Slovak Government, with members comprising a whole range of general government representatives and partners.

The principal objective of the 2014-2020 programming period is to increase the efficiency of compliance with a limited number of objectives defined by the EU in connection with the Europe 2020 strategy. The following new and accentuated elements are aimed at facilitating this objective:

- Common Strategic Framework – based on this document, the intentions and objectives of the Europe 2020 strategy are pursued through the European Structural and Investment Funds<sup>5</sup> ;
- Linkage between the strategic programming at national level and the European Semester<sup>6</sup> through specific recommendations of the Council;
- Partnership principle – in accordance with multi-tier governance, Member States will involve social and economic partners in the preparation of the Partnership Agreement;
- Thematic concentration mechanism - mandatory allocation of the minimum share of EU funds for specifically identified areas of support with regard to the defined categories of regions in order to ensure sufficient funding for the main Europe 2020 priorities;
- Multi-fund approach – the possibility to finance a single operational programme from multiple funds as part of the “Investing in growth and employment” objective. This means that a single operational programme may contain separate priority axes for the European Regional Development Fund, the European Social Fund and the Cohesion Fund;
- Integrated approach to regional development strategy – promoting regional development through the European Structural and Investment Funds;
- Compliance with the so-called conditionalities – the preconditions which are to be fulfilled prior to and during the 2014-2020 programming period with a view to ensuring the smooth spending of EU funds;
- Additionality principle – EU funding is used alongside national public funding;
- Results-oriented approach – representing a defined range of priorities of support from EU funds which may be qualitatively and quantitatively evaluated during and towards the end of the programming period.

In terms of public finance consolidation, the measures designed to promote economic growth play the key role and represent an important priority for the Slovak Republic in its current economic situation. Due to limited options of the state budget, the resources used within the framework of aid and support from EU funds are becoming increasingly important. In the upcoming period, it will be necessary to direct the use of the European Structural and Investment Funds to the financing of priorities with the highest growth enhancing potential in combination with a stronger use of repayable financial resources and national funding. Support should be channelled to areas which are the drivers of economic growth and employment, while taking account of the needs and specificities in an integrated manner. The public funds will support such activities so that their level approaches what is deemed an optimum for society. In order to ensure more effective implementation of the EU's

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<sup>5</sup> The European Structural and Investment Funds (formerly known as funds covered by the EU Common Strategic Framework) – the European Regional Development Fund (ERDF), the European Social Fund (ESF), the Cohesion Fund (CF), the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

<sup>6</sup> The “European Semester” is a six-month cycle during which EU Member States effectively coordinate their budgetary, macroeconomic and structural policies every year. This process enables the Member States to take into account EU recommendations at an early stage of preparation of their budgets and in drafting their economic policies.



cohesion policy, Slovakia will apply a more flexible approach to assisting different categories of regions, as well as to financing operations eligible for funding from a different Fund and outside the eligible area of a given operational programme.

Innovative financial instruments (the use of public funds in order to leverage private funding) with the framework of EU funds have been used since the 1994-1999 programming period, yet their relative importance has increased as late as during the current 2007-2013 programming period. During the 2014-2020 programming period, the European Commission proposes to additionally extend and reinforce the role of innovative financial instruments and allow more flexibility in their use (for all thematic objectives, all final beneficiaries and in combination with other forms of support, such as grants). As regards the spending of EU funds, employing various financial instruments has several advantages over non-repayable financial contributions in the form of grants. Because the use of financial instruments involves repayable aid, these resources can later be spent again for the defined objectives, and the same applies to potential profit that can be generated through their use. The resources can be multiplied by leveraging private sector resources. The added expertise and motivation of the private sector will ensure more effective allocation of funds and better financial discipline at project level. If support is directed to viable projects that can exist on their own, repayable aid would represent a more appropriate form of support, one that does not distort economic competition and the market environment. It is therefore important to comply, in the preparation of the Partnership Agreement and operational programmes, with the commitment of a higher share of innovative financial instruments as a form of support in the total volume of funds from the European Structural and Investment Funds which will be available to Slovakia in the 2014-2020 programming period. This commitment should be at least 5% of the new allocation of the total volume of all funds in current prices for the years 2014-2020.

Based on experience gained in the current 2007-2013 programming period and having realised the extraordinary complexity of the implementation system, it is necessary to simplify the entire mechanism as much as possible while simultaneously pooling the resources. From the perspective of the Slovak Republic, the aforementioned elements will translate into a limited number of operational programmes focusing on a defined range of supported areas which will serve the basis for the preparation of the Partnership Agreement of the Slovak Republic and operational programmes for 2014-2020:

- Basic infrastructure
- Human resources, employment and social inclusion
- Science, research and innovation with a focus on promoting economic growth while ensuring efficient spending of resources

In the “Position of the Commission Services on the development of the Partnership Agreement and programmes in Slovakia for the period 2014-2020”, the European Commission presented its vision concerning the identification of the key development needs and the selection of thematic objectives and priorities to be financed from the individual EU funds. In this position paper, the Commission defined five funding priorities to be supported by Slovakia through the European Structural and Investment Funds: innovation-friendly business environment; infrastructure for economic growth and jobs; human capital growth and improved labour market participation; sustainable and efficient use of natural resources; and a modern and professional public administration.

In the 2014-20 programming period, local governments and socioeconomic partners should be more involved in the preparation and implementation of the Partnership Agreement and the upcoming operational programmes. In order to streamline the implementation of aid from the European Structural and Investment Funds<sup>3</sup>, Slovakia will be keen to also employ integrated territorial instruments, such as integrated territorial investments and community-led local development (the LEADER approach) and global grants.

After analysing the plans of the individual ministries and draft EU regulations, as well as based on experience gained in the 2007-13 period, Slovakia drew up a list of five thematic indicative areas of support and one integrated area of support for Slovak regions, which correspond to draft operational programmes for the upcoming budgetary period:

- Research and innovation





- Integrated infrastructure,
- Human resources, employment and social inclusion
- Environmental quality
- Efficient public administration
- Integrated regional operational programme

The proposed structure is in line with the position paper as regards the preparation of the Partnership Agreement and programmes in Slovakia for the period 2014-2020 in which the EC defines the priorities for funding as follows:

- Innovation-friendly business environment
- Infrastructure for economic growth and jobs
- Human capital growth and improved labour market participation
- Sustainable and efficient use of natural resources
- A modern and professional public administration

Separate areas of support are required for Technical Assistance, Rural Development, Fisheries Management and European Territorial Cooperation which are governed by specific Commission guidelines.

The above thematic indicative areas of support from EU funds, as defined by the Slovak Republic, are largely identical with the Commission's requirements for the priorities for funding from EU funds in the period 2014-2020. At the same time, the European Commission identified those areas of support which are no longer recommended for further funding from the EU: general education infrastructure (with the exception of pre-primary education, vocational education and training, and life-long learning), health infrastructure, local roads and their maintenance, public lighting systems and commercial tourism facilities (hotels, boarding houses, water parks, etc.). The eligibility of support for some of these areas will therefore be discussed by the European Commission and the Slovak Republic in the future. Informal negotiations with the European Commission concerning the individual funding priorities are already taking place.

In the previous period, Slovakia focused its activities in the area of the cohesion policy on laying the foundations for the successful drawing of the Structural Funds and the Cohesion Fund in the period between 2007-2013 and on the preparation of the Partnership Agreement of the Slovak Republic for 2014-2020 as the basic national strategic document for an integrated use of the European Structural and Investment Funds.

Approved by Slovak Government Resolution No. 305 of 27 June 2012, the document entitled "Application of ex-ante conditionalities in the preparation of the EU's cohesion policy implementation mechanism in the Slovak Republic after 2013" will be an important source of information in the preparation of the Partnership Agreement. The document provides information on the manner in which ex-ante conditionalities will be applied as preconditions for the successful and efficient spending of EU funds in the 2014-2020 programming period. Another important source of information for the preparation of the Partnership Agreement is the document entitled "Proposal of basic principles for the preparation of the Partnership Agreement for the 2014-2020 programming period", as approved by Slovak Government Resolution No. 657 of 28 November 2012. The document evaluates experience gained in the implementation of the EU's cohesion policy, rural development and fisheries policy in the current programming period and defines the strategic approach in draft EU legislation for the cohesion policy. It also contains information on the preparation of the Partnership Agreement for the 2014-2020 programming period, a description of the basic programming principles, as well as an overview and selection of thematic objectives and investment priorities for the Partnership Agreement for 2014-2020. Also included is the reflection of basic principles in the "European territorial cooperation" objective and the horizontal principles.

Based on experience from the 2007-2013 programming period, it will be necessary to improve the quality of processes related to public procurement by aid beneficiaries and support from EU funds, as well as the processes of ex-ante control over tendering on the part of managing authorities with a view to reducing the percentage of errors that were made on this account and require subsequent corrections.



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

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

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

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

At the working level, the preparation and implementation of measures under the NRP is coordinated by a working group of state secretaries of the ministries involved. During the phase of public inter-ministerial review procedure, which is a standard instrument used in the Slovak Republic for the adoption of government proposals, all stakeholders, including the public, are free to comment on the NRP.

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

The Council is chaired by the Prime Minister; the other permanent members representing the Slovak Government are the Minister of Finance and the Minister of Labour, Social Affairs and Family. Depending on the subject discussed, other members of the Slovak Government may be invited to attend the sessions on an as-needed basis. The partners also participate in the process through various informal platforms, such as conferences and expert seminars. The Government deems it important that the dialogue runs on a continuous basis, which is a precondition for high quality implementation of proposed changes.

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



## Annex 1 – National targets under the Europe 2020 strategy

Tab. 10: Europe 2020 Strategy indicators			2004	2005	2006	2007	2008	2009	2010	2011	2012	Target 2020
<b>Fiscal policy and public finances</b>												
1	Long-term sustainability indicator (GAP) (% GDP)	SK	-	-	-	-	-	9.5	9.2	6.8	-	0
		EU	-	-	-	-	-	-	-	-	-	-
2	VAT collection effectiveness (%)	SK	-	74.8	69.7	64.1	65.1	57.9	56.7	57.8	-	72
		EU22	-	71.4	72.9	73	71.1	66	66.9	66.9	-	-
<b>Education, science, and innovation</b>												
3	PISA (arithmetic average of the scores)	SK	-	-	482	-	-	488	-	-	-	505
		OECD	-	-	496	-	-	496	-	-	-	-
4	School drop-out rate (%, population aged 18 - 24)	SK	6.8	6.3	6.6	6.5	6	4.9	4.7	5	-	6
		EU	16	15.8	15.5	15.1	14.9	14.4	14.1	13.5	-	10
5	Citations per researcher (%, 100 = EU average)	SK	35	33	40	38	41	37	34	39	-	70
		EU	-	-	-	-	-	-	-	-	-	-
6	Tertiary education attainment (%, population aged 30 - 34)	SK	12.9	14.3	14.4	14.8	15.8	17.6	22.1	23.4	-	40
		EU	26.9	28	28.9	30	31	32.2	33.5	34.6	-	40
7	Gross domestic expenditure on R&D (GERD) (% GDP)	SK	0.51	0.51	0.49	0.46	0.47	0.48	0.63	0.68	-	1.2
		EU	1.83	1.82	1.85	1.85	1.92	2.02	2.01	2.03	-	3
8	High-tech export (% of total export)	SK	4.7	6.4	5.8	5	5.2	5.9	6.6	6.6	-	14
		EU	18.5	18.7	16.6	16.1	15.4	17.1	16.1	15.4	-	-
<b>Employment and social inclusion</b>												
9	Long term unemployment rate (% of active population aged at least 15)	SK	11.9	11.8	10.3	8.3	6.7	6.5	9.3	9.2	9.4	3
		EU	4.3	4.1	3.7	3.1	2.6	3	3.9	4.1	4.6	-
10	Employment rate (% of population aged 20 - 64)	SK	63.7	64.5	66	67.2	68.8	66.4	64.6	65.1	65.1	72
		EU	67.4	68	69	69.9	70.3	69	68.6	68.6	68.5	75
11	Population at risk of poverty and social exclusion (% of population)	SK	-	32	26.7	21.3	20.6	19.6	20.6	20.6	-	17.2
		EU	-	25.6	25.2	24.4	23.6	23.1	23.6	24.2	-	19.4
<b>Business environment</b>												
1	Doing Business (World Bank ranking)	SK	-	-	-	-	-	40	43	46	46	15
		EU	-	-	-	-	-	37.5	37.2	40.3	40.1	-
3	Product market regulation index (number of points)	SK	-	-	-	-	1.54	-	-	-	-	1.2
		OECD	-	-	-	-	1.35	-	-	-	-	-
<b>Modernising public administration</b>												
1	E-government index (%)	SK	25.5	-	37.3	42.3	-	58.6	62	-	-	90
		EU	-	-	47	52.9	-	61.4	69.1	-	-	-
<b>Transparent conditions and law enforcement</b>												
1	Corruption (%)	SK	-	59	-	59	-	61	-	56	-	80
		EU	-	67	-	78	-	80	-	77	-	-
<b>Health</b>												
1	Healthy life years (expected number of years at birth)	SK	-	55.9	54.5	55.8	52.3	52.5	52.3	52.2	-	60
		EU	-	61.8	62.1	62.1	61.6	61.6	62.1	61.8	-	-
<b>Environmental sustainability and energy</b>												
1	Greenhouse emissions outside ETS (%, change against 2005)	SK	-	-	-1.8	-6.0	-4.6	-12.6	-6.0	-9.5	-	<13
		EU	-	-	-	-	-	-	-	-	-	-
1	Share of RES on gross final consumption (%)	SK	6.1	6.2	6.6	8.2	8.4	10.4	9.8	11.3	-	14
		EU	8.1	8.5	9	9.9	10.5	11.7	12.5	-	-	20
1	Final consumption of electricity (%, change against average of 2001- 2005)	SK	-	-	-0.9	-2.3	1.2	-6.3	6.1	-1.0	-	-11
		EU	-	-	2.3	0.0	0.7	-4.6	-1.2	-5.3	-	-
2	EPI Trend	SK	-	64.0	64.8	66.1	66.3	66.6	66.6	-	-	68.3
		EU	-	-	-	-	-	-	-	-	-	-



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

Name of indicator	Definition and source
<b>Long-term sustainability indicator (GAP)</b>	The long-term sustainability indicator represents the difference between the current value and the sustainable value of the structural primary balance. The sustainable value is determined using the current legislation and long-term demographic and economic forecasts that affect general government revenue and expenditure (implicit liabilities) while also taking account of contingent liabilities (e.g., PPP projects). Source: OECD / Eurostat, calculation: MFSR
<b>VAT collection effectiveness</b>	$\text{VAT collection effectiveness} = \frac{\text{VAT collected}}{[(\text{final consumption of households} + \text{gross fixed capital formation of the general government} + \text{intermediate consumption of the general government} - \text{VAT collected}) * (\text{basic VAT rate} / 100)]}$ The index compares actual VAT collection to potential VAT collection. The larger the indicator value, the more efficient the VAT collection. Potential VAT collection indicates how much VAT can be collected on the macroeconomic base at the basic VAT rate. Source: OECD / Eurostat, calculation: MFSR
<b>EPI trend</b>	The Environmental Performance Index is published by the Yale University and Columbia University in cooperation with the World Economic Forum and the European Commission. As a composite indicator consisting of 22 output sub-indicators, it compares 132 countries in ten basic categories of environmental performance. Source: <a href="http://epi.yale.edu/">http://epi.yale.edu/</a>
<b>Non-ETS greenhouse gas emissions</b>	Emissions of greenhouse gases outside the ETS in CO <sub>2</sub> -equivalent as a percentage change against 2005. The indicator expresses trends in aggregate anthropogenic emissions of CO <sub>2</sub> , NO <sub>2</sub> , CH <sub>4</sub> , HFC, PFC a SF <sub>6</sub> , collectively called greenhouse gasses and expressed in CO <sub>2</sub> -equivalent. The total quantity does not include emissions from land use, land-use change and forestry (LULUCF). Source: Eurostat
<b>Share of RES in gross final consumption</b>	The share of final consumption of energy from renewable sources and the gross final energy consumption. The final consumption of energy from renewable sources is calculated as the sum of gross final consumption of electricity from renewable energy sources, gross final consumption of energy from renewable sources for heating and cooling, and final consumption of energy from renewable sources in transport. Source: Eurostat
<b>Final energy consumption</b>	Final energy consumption represents the difference between final consumption and final non-energy consumption. Final non-energy consumption includes energy products used as feedstock in various industries, i.e. those that are neither consumed as fuel nor transformed to another fuel. Final consumption is calculated as gross inland consumption – transformation (input) + transformation (output) + exchanges and transfers, backflows – consumption of the energy sector – distribution losses. Source: calculation by MFSR based on data from the Statistical Office of the Slovak Republic
<b>School drop-out rate</b>	The share of population aged 18-24 with the lowest education (ISCED 0, 1, 2, 3C), who do not continue further studies. A pupil is considered not to continue further studies if in the four weeks preceding the survey he/she did not receive any type of education or training; the relevance of education to the respondent's current or future work is not taken into account. Source: Eurostat
<b>PISA</b>	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. Source: OECD
<b>Tertiary educational attainment</b>	The share of tertiary graduates aged 30-34 in the total population in the same age group. University or PhD studies correspond to ISCED 5-6. Source: Eurostat
<b>Citations per</b>	The proportion of the number of citations in renowned international magazines (SCImago Journal & Country



<b>researcher</b>	Rank) per number of researchers in the country (Eurostat). The indicator is expressed relative to the average of European Union countries. Source: <a href="http://www.scimagojr.com/">http://www.scimagojr.com/</a> , Eurostat, MoF SR calculations
<b>Gross domestic expenditure on R&amp;D</b>	The percentage share of total R&D expenditure in GDP. Source: Eurostat
<b>High-tech export</b>	The share of high-tech export in the country's total export. High-tech products include selected products from the following industries: aerospace, computers and office machinery, electronics-telecommunications, pharmaceuticals, scientific instruments, electrical machinery, chemistry, non-electric machinery and armament. Source: Eurostat
<b>Employment rate</b>	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. Zdroj: Eurostat
<b>Long term unemployment rate</b>	The share of persons aged at least 15, who have been unemployed for 12 months and more, not living in collective households who are without work despite actively seeking work. Source: Eurostat
<b>Population at risk of poverty and social exclusion</b>	The indicator represents the sum of people at risk of poverty (after social transfers) and/or those materially deprived and/or living in households with very low work intensity, expressed as a percentage of the total population. The risk of poverty represents the number of persons with disposable income below 60% of the national median disposable income (after social transfers). The materially deprived are those who cannot afford at least four of the following nine items: 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 includes persons aged 0 – 59 living in a household where the adults worked less than 20% of their total work potential during the past year. Source: Eurostat/EU-SILC
<b>Doing Business</b>	A country's position in the Doing Business ranking, which measures regulation of small and medium-sized enterprises throughout the nine stages of their lifecycle: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The data is based primarily on national laws, various other forms of regulation and administrative requirements. Source: the World Bank
<b>Product market regulation index</b>	The assessment of a country using the product market regulation index. It measures regulation and barriers in three areas: state control, barriers to entrepreneurship and barriers to trade and investment (each with a weight of one third). The product market regulation index targets not only the business activities of regular enterprises, but also measures broader regulation (for example regulation in network industries). Source: OECD
<b>E-Government Index</b>	For any given country, the index is calculated as a weighted average of the following three indicators: eGovernment availability (50% weight), individual eGovernment usage (25% weight) and business eGovernment usage (25% weight). The eGovernment availability measures the offer of 20 basic eGovernment services. Of the 20 defined public services, the indicator specifies the share of services available via the Internet. For a service to be deemed available, it must achieve a certain degree of sophistication. The use of eGovernment by individuals/businesses measures the percentage of people/businesses who have, in the last three months, used the Internet in communication with public institutions (obtaining information from a website, downloading an official form or sending a filled-in form). Source: Eurostat, calculations: MFSR
<b>Corruption</b>	The corruption indicator represents an average of two indices focusing on different types of corruption: Corruption experience among the general population - a 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



	<p>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. Source: Transparency International, Eurobarometer, calculation: MFSR</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). Source: Eurostat</p>