

# European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

**PURPOSE:** draft Recommendation for a COUNCIL RECOMMENDATION on Slovakia's 2012 national reform programme and delivering a Council opinion on Slovakia's stability programme for 2012-2015.

**BACKGROUND:** the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

**CONTENT:** on 30 April 2012, Slovakia submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme **is plausible. It is broadly in line with the Commission's 2012 spring forecast**, although the latter assumes somewhat higher real GDP growth in 2012.

**The objective of the budgetary strategy** outlined in the programme is to ensure the long-term sustainability of public finances. The intermediary steps defined to reach this are a rigorous implementation of the 2012 budget and a reduction of the headline deficit below 3% of GDP in 2013, the deadline for correction of the excessive deficit set by the Council. The achievement of the headline deficit target in 2013, however, may fall short of plans.

The target for 2013 is subject to risks, as suggested revenue measures may fall short of the objective.

According to the Commission, the **main policy challenges** for the country are as follows:

- While Slovakia passed legislation establishing the Fiscal Council, so far it has not been set up and the legislation on expenditure ceilings has not yet been adopted.
- There is scope for measures aimed at broadening the tax base, limiting tax avoidance and improving tax compliance, without hurting near-term growth prospects. Tackling one of the largest VAT gaps

in the EU could bring significant additional revenue. There is also room for increasing receipts from taxes that are least harmful to growth, including real estate taxation, and environmental taxation. Effective taxation of labour income varies according to different types of employment.

- Slovakia has only partially addressed the long-term sustainability of its public finances, as it has not implemented the envisaged changes to the pay-as-you-go pillar of its pension system. However, an unstable legal environment with frequent significant changes in the past entailed non-negligible adjustment costs and introduced uncertainty in the fully funded pillar.
- No significant measures have been taken to address Slovakia's unemployment problem. There is still a need : (i) to improve the effectiveness of active labour market policies and the capacity of the public employment service; (ii) for measures to increase the labour market participation of older workers and women, in particular through childcare provision. The tax wedge, including all compulsory payments, remains relatively high for low-income workers and a proportion of jobseekers have little incentive to move from social assistance to a low-paid job.
- Only limited measures were adopted to improve the low quality of the education and training system. To tackle Slovakia's high youth unemployment, the Youth Action Plan should be adopted and implemented without delay. An updated strategy on lifelong learning was adopted. However, no particular incentives were introduced to ensure higher participation rates.
- Marginalised communities, including the Roma, are largely excluded from the labour market and the mainstream education system, representing a significant underutilised labour potential in the Slovak economy.
- Slovakia has substantially enhanced the transparency of public procurement rules and judiciary, although judicial proceeding remains long and costly. However, the overall quality and capacity of public institutions remains weak.

### **Recommendations proposed for Slovakia for the period 2012-2013:**

#### **Budgetary measures:**

- 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 growthenhancing 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.

#### **Taxation:**

- 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.

#### **Pension system:**

- 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.

#### **Employment:**

- 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.

**Education, training:**

- 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.

**Vulnerable groups:**

- 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.

**Public service:**

- 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.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.