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Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Slovakia and delivering a Council opinion on the 2023 Stability Programme of Slovakia

{SWD(2023) 625 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and social recovery and to the implementation of sustainable reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[4], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it identified Slovakia as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on Slovakia's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[5] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[6], structured along nine mutually reinforcing drivers with the objective to work towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans (RRPs) remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain

4 COM(2022) 780 final.
5 COM(2023) 62 final.
6 COM(2023) 168 final.

equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) The REPowerEU Regulation[7] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[8]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated and be formulated on the basis of net primary expenditure as proposed in its Communication on orientations for a reform of the EU economic governance framework[9]. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and

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7 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

8 COM(2023) 141 final.

9 COM(2022) 583 final.

inclusive growth in all Member States through reforms and investments. The proposals aim at providing Member States with more control over the design of their medium-term plans, while putting in place a more stringent enforcement regime to ensure that Member States deliver on the commitments undertaken in their medium-term fiscal-structural plans. The objective is to conclude the legislative work in 2023.

(9) On 29 April 2021, Slovakia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Slovakia[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Slovakia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed. On 26 April 2023, Slovakia submitted a modified national RRP, including a REPowerEU chapter to the Commission in accordance with Article 21c of Regulation (EU) 2021/241. The modified RRP also takes into account the updated maximum financial contribution, in accordance with Article 18(2) of Regulation (EU) 2021/241 and includes a reasoned request to the Commission to amend Council Implementing Decision of 13 July 2021 in accordance with Article 21(1) of Regulation (EU) 2021/241, because Slovakia considered the RRP to be partially no longer achievable due to objective circumstances.

(10) On 27 April 2023, Slovakia submitted its 2023 National Reform Programme and, on 27 April 2023, its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Slovakia's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2023 country report for Slovakia[11] on 24 May 2023. It assessed Slovakia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Slovakia's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Slovakia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Slovakia and published its results on 24 May 2023[12]. It concluded that Slovakia is not experiencing macroeconomic imbalances. In particular,

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10 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovakia (ST 10156/2021; ST 10156/2021 ADD 1; ST 10156/2021 COR 1).

11 SWD(2023) 625 final.

12 SWD(2023) 643 final.

vulnerabilities relating to competitiveness, housing, household debt and external balance have been increasing, but overall seem contained in the near future and are expected to ease as economic conditions normalise. The economy was strongly hit by the energy prices shock with inflation rising fast. Core inflation and unit labour costs growth are well above the euro area average. While they are forecast to normalise, there is the risk that pressure on cost competitiveness could take time to unwind, and that strong domestic demand will continue to put pressures on external accounts. The current account deteriorated markedly in 2022 owing to higher energy import prices as well as marked falls in net exports of non-energy goods. The current account deficit is forecast to improve mildly but to remain large in 2023 and 2024, despite the falling energy prices. Nonetheless, external sustainability risks are assessed to be limited in the near term. Government deficits are forecast to be significant this year and next and to correct from 2024. House prices appear to be mildly overvalued after several years of marked growth. That occurred alongside high borrowing, which is now cooling, and a strong increase in household debt, which altogether present some risk for financial stability. However, the banking sector remains well capitalised, highly profitable and recording low non-performing loans. Continued efforts are needed to tackle Slovakia's economic vulnerabilities. In particular, excess demand should be reined in to support the correction of the current account deficit and the core inflation differential vis-à-vis the rest of the euro area. That can be achieved by ensuring adequate fiscal consolidation and measures to address household debt, while retaining housing affordability through property taxation and measures supporting housing supply.

(13) Based on data validated by Eurostat,[13] Slovakia's general government deficit decreased from 5.4% of GDP in 2021 to 2.0% in 2022, while general government debt fell from 61.0% of GDP at the end of 2021 to 57.8% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[14] the report discussed the budgetary situation of Slovakia, as its general government deficit is planned to exceed 3% of GDP in 2023. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 8 March 2023,[15] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Slovakia should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

(14) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such expenditure-increasing measures included benefits for households most exposed to high inflation, a one-time increase in the child allowance, a one-time payment of the "14th pension", a one-time bonus paid to all employees in public sector, and capped electricity and gas prices for unregulated companies. The cost of these measures was partly offset by new taxes on windfall profits of energy producers and suppliers, namely the solidarity contribution provided according to the EU regulation. The Commission estimates the net budgetary cost of these measures at 0.2% of GDP in 2022. The general government balance has also been impacted by the

[13] Eurostat-Euro Indicators, 47/2023, 21.4.2023.

[14] COM(2023) 631 final, 24.5.2023.

[15] COM(2023) 141 final, 8.3.2023.

budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.8% of GDP in 2022, from 3.2% in 2021.

(15) On 18 June 2021, the Council recommended that in 2022 Slovakia[16] maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(16) According to the Commission estimates, the fiscal stance[17] in 2022 was contractionary, at 1.3% of GDP which was appropriate in a context of high inflation. As recommended by the Council, Slovakia continued to support the recovery with investments to be financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.2% of GDP in 2022 (1.3% of GDP in 2021). The decrease in expenditure financed by Recovery and Resilience Facility grants and other EU funds in 2022 was due to the low absorption of the structural EU funds and postponements of the realised expenditures from the Recovery and Resilience Facility grants. Nationally financed investment provided an expansionary contribution of 0.2 percentage points to the fiscal stance.[18] Slovakia therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided a contractionary contribution of 1.3 percentage points to the fiscal stance. Slovakia therefore sufficiently kept under control the growth in nationally financed current expenditure.

(17) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is realistic in 2023 and thereafter. The government projects real GDP to grow by 1.3% in 2023 and 1.8% in 2024. By comparison, the Commission 2023 spring forecast projects a higher real GDP growth of 1.7% in 2023 and 2.1% in 2024, mainly due to a faster than expected recovery in exports as supply chain bottlenecks are expected to disappear and the economic outlook of Slovakia's main export destinations improved.

(18) In its 2023 Stability Programme, the government expects that the general government deficit ratio will increase to 6.3% of GDP in 2023. The increase in 2023 mainly reflects the measures adopted to mitigate the economic and social impact of the increase in energy prices, as well as other measures like increasing the tax bonus and child allowances, and introducing a parental bonus. According to the Programme, the general government debt-to-GDP ratio is expected to increase from 57.8% at the end of 2022 to 58.7% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 6.1% of GDP for 2023. This is in line with the deficit projected in the Stability Programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 58.3% at the end of 2023.

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16 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Slovakia, OJ C 304, 29.07.2021, p. 121.

17 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

18 Other nationally financed capital expenditure is provided an contractionary contribution of 0.1 percentage points of GDP.

(19) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022, notably a cap on electricity and gas prices for unregulated companies, and new measures such as a cap on electricity, gas and heating supply prices for households and for regulated (small) companies. The cost of these measures is partly offset by taxes on windfall profits of energy suppliers, namely the solidarity contribution linked to the EU regulation, the special levy for water management construction company, and the cap on revenue for electricity producers with excessive profits. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 2.0% of GDP in 2023[19]. The measures in 2023 do not appear targeted to the most vulnerable households or firms, and they do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, no targeted support measures are to be taken into account in the assessment of compliance with the recommendation for 2023 (compared to 0.2% of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to decrease by 0.1 percentage points of GDP compared to 2022. Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 0.8% of GDP.

(20) On 12 July 2022, the Council recommended[20] that Slovakia take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[21], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Slovakia should stand ready to adjust current spending to the evolving situation. Slovakia was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

(21) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary (- 6.2% of GDP), in a context of high inflation. This follows a contractionary fiscal stance in 2022 (1.3% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 4.4% of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is driven by untargeted energy measures, permanent wage increases for healthcare professionals, and the reduction in VAT rates on the food and leisure

19 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as capital expenditure measures.

20 Council Recommendation of 12 July 2022 on the National Reform Programme of Slovakia and delivering a Council opinion on the 2022 Stability Programme of Slovakia OJ C 334, 01.09.2022, p. 205.

21 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Slovakia, which is used to measure the fiscal stance, is estimated at 12.0% in nominal terms.

sectors. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation.

Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 2.8% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points[22]. Slovakia plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it projects to preserve nationally financed investment.[23] It plans to finance public investment for the green and digital transitions, and for energy security, such as the National Strategy for Research, Development and Innovation, aiming to increase flexibility and shorten the time of purchasing services and involve a wider range of suppliers, including small and medium-sized companies.

(22) According to the Stability Programme the general government deficit is expected to decline to 4.7% of GDP in 2024. The decrease in 2024 mainly reflects the phasing-out of measures mitigating the economic and social impact of the increase in energy prices. The programme expects the general government debt-to-GDP ratio to increase to 59.3% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 4.8% of GDP in 2024. This is in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 58.7% at the end of 2024.

(23) The Stability Programme envisages the phasing out of all of the energy support measures in 2024. The Commission also assumes full phasing out of energy support measures in 2024. This hinges upon the assumption of no renewed energy price increases.

(24) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[24] Taking into account fiscal sustainability considerations,[25] and the need to reduce the deficit to below the 3% of GDP reference value, an improvement in the structural balance of at least 0.7% of GDP for 2024 would be appropriate. To ensure such an improvement, the growth in net nationally financed primary expenditure[26] in 2024 should not exceed 5.7%, as reflected in this recommendation. This will also contribute

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22 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.1 percentage points of GDP.

23 Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.0% of GDP in 2023, while nationally financed investment provided an expansionary contribution to the fiscal stance of 1.3 percentage points. Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.1 percentage points of GDP.

24 Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

25 The Commission estimated that Slovakia would need an average annual increase in the structural primary balance as a share of GDP of 1 percentage points to achieve a plausible debt reduction or ensure that government debt is kept at prudent levels in the medium term. This estimate was based on the Commission autumn 2022 forecast. The starting point for this estimate was the projected government deficit and debt for 2024 which assumed the withdrawal of energy support measures in 2024.

26 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

to reducing core inflation, which is well above the euro area average, and which could lead to competitiveness losses if persistent, and strengthening the external position.

At the same time, the remaining energy support measures (currently estimated by the Commission at 2% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024.

In addition, according to the Commission 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the recommendation of the Council. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(25) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 2.5% in 2024, which is below the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures, which is due to permanent expenditure measures such as higher compensation of public employees, the family package including a tax bonus and increased child allowances, as well as the introduction of a parental bonus under the pension reform.

(26) According to the programme, government investment is expected to decrease from 5.1% of GDP in 2023 to 4.0% of GDP in 2024. The lower investment reflects lower investment financed by the EU, namely through the Structural Funds. The programme refers to reforms and investments, that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include a recently approved reform introducing expenditure ceilings and pension reform, which are also part of the Recovery and Resilience Plan.

(27) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the government targets project the deficit to reach 3.2% of GDP in 2025 and 2.2% in 2026. The government deficit is hence expected to fall below the 3% reference value in 2026.

(28) Slovakia’s tax system shows potential to be reformed to boost economic efficiency, promote environmental and fiscal sustainability and improve fairness. The labour tax burden is particularly high for low-income earners compared to other EU countries. In contrast, environmental and property taxation is not used to its full potential. Changing the tax mix could support growth and also help encourage the green transition and environmental sustainability. Despite the economy’s high energy intensity, revenue from environmental taxes stood at 2.5% in 2021, close to the EU average. Environmental charges relating to waste management and air pollution do not sufficiently promote efficient use of resources and do not reduce costs for the environment and society. Environmental taxes and charges are not indexed, and this reduces green revenue over time. Road taxes and vehicle registration fees do not sufficiently reflect emission intensity. Overall, the transport taxation share of total tax revenues is only 0.58% (EU average 1%). On property taxation, revenues from recurrent taxes on property were relatively low in 2021 (0.5% of GDP, compared to the EU average of 1.2%). Slovakia does not currently have sufficient data to enable the property tax base to be updated and indexed in line with market values, although this could also partly curb the continuing strong demand for housing and related strong house price growth. In addition, further efforts to simplify taxes and improve tax

compliance can increase public revenues and in turn support fiscal sustainability and improve fairness. In 2020, the VAT tax compliance gap in Slovakia continued its downward trend. It fell from 15% in 2019 to 13.9% of total expected VAT revenues in 2020 but still remains above the EU average (9.1%). Further improvements in tax administration, including in electronic invoicing, pre-filled tax returns and more digitalisation, could help further reduce the leaks in the tax system.

(29) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Slovakia's recovery and resilience plan has so far been well underway, however it is facing some challenges going forward. Slovakia submitted two payment requests, corresponding to 30 milestones and targets in the plan and resulting in an overall disbursement of EUR 1.11 billion. Slovakia has been among the Member States with the fastest progress in the implementation of the recovery and resilience plan, but potential headwinds due to administrative capacity bottlenecks, together with the need to start working on additional measures of the REPowerEU chapter submitted by Slovakia as part of its plan revision on 26 April 2023, call for strengthened focus on implementation. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Slovakia's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all of Slovakia's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience, as well as achieving balanced territorial development in Slovakia.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan, Slovakia faces a number of additional challenges related to energy and the green transition.

(32) Progress by Slovakia in reducing net greenhouse gas emissions has largely stalled in recent years. The country remains a structurally energy-intensive economy with a high dependency on fossil fuel imports. The primary energy intensity of Slovakia stood at around 80% above the EU average in 2020, while its final energy consumption increased by 13.5% between 2015 and 2021. Slovakia achieved some progress on energy import diversification in 2022, but gas saving measures have not been sufficiently deployed. Slovakia's consumption of natural gas has dropped by 1%[27] in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, well below the 15% reduction target. Slovakia is encouraged to enhance efforts to temporarily reduce gas demand until 31 March 2024[28]. The share of imports of natural gas from Russia has

[27] Data for Slovakia is currently under validation by Eurostat.

[28] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706.

been reduced from 85% to about 50% since summer 2022. While the reforms included in the recovery and resilience plan have led to a significant increase in the available capacity for connecting renewables to the grid in Slovakia, only a small share of the free capacity has been used to connect new renewable installations. A faster uptake of renewables would help achieve climate goals and reduce Slovakia's dependence on fossil fuel imports (including from Russia), easing the risk of energy poverty amid volatile energy prices. The cumulative installed capacity of solar and wind energy was around 7% of total installed capacity in 2022, the second lowest level in the EU.

(33) Slovakia enacted reforms in the area of market design and support for renewables in 2022 as part of its recovery and resilience plan, but further measures would allow a faster roll-out of renewables, particularly for wind, solar, geothermal, biomethane and hydrogen. These include simplifying permitting and administrative procedures, including by establishing administrative 'one-stop-shops' and 'go-to' areas for renewables. Slovakia would benefit from making the procedures for grid access for renewables more efficient, in particular by reforming the capacity reservation system, making the grid connection less administratively burdensome and revising the grid connection fees, in line with EU benchmarks and best practice. To accommodate the increasing volume of intermittent renewables, Slovakia has large potential for modernising its electricity networks (as regards both transmission and distribution), building new electricity storage facilities and advancing with the creation of the regulatory framework for renewable hydrogen. Further progress in developing geothermal energy and biomethane sectors would substitute for natural gas, widely used as an energy source in district heating systems and where the deployment of renewable heat sources remains underdeveloped.

(34) While Slovakia is progressing in the energy efficiency of residential buildings as a result of ambitious Recovery and Resilience Facility and Cohesion Fund investment, more effort is needed, especially on deep renovations of public and private non-residential buildings, together with renovation measures targeting energy poverty and vulnerable households. Slovakia would benefit from addressing several bottlenecks to accelerate building renovations and attract more private investment, namely by: (i) adapting renovation schemes; (ii) providing technical assistance; (iii) developing the 'one-stop shop' approach; (iv) collecting relevant energy data on public buildings to help prioritise investment; and (v) improving coordination between different public authorities and funding programmes. Additional effort is needed to structurally address energy poverty, in particular through dedicated housing renovation schemes and technical and administrative assistance that reflects the needs of vulnerable households, together with reforms and investment in social housing. Greater ambition in reducing greenhouse gas emissions and increasing targets for renewables and energy efficiency will be needed for Slovakia to be in line with the 'Fit for 55' objectives.

(35) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. Slovakia has one of the highest shares of employment in the automotive manufacturing and the steel industry in the EU, sectors highly

affected by the green transition. At the same time, in 2022, labour shortages were reported for 24 occupations that require green skills, including insulation workers, plumbers and pipe fitters, as well as building and related electricians. This calls for effective policy levers to accelerate the green transition across a broad range of sectors, while ensuring fairness.

(36) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[29] is reflected in recommendation (1) below.

(37) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For Slovakia, recommendations (1), (2) and (3) contribute to the implementation of the first, second, third and fifth euro area recommendations.

HEREBY RECOMMENDS that Slovakia take action in 2023 and 2024 to:

1. Wind down the energy support measures in force by the end of 2023, using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 5.7%.

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

   Make the tax mix more efficient and more supportive of inclusive and sustainable growth, including by leveraging the potential of environmental and property taxation. Continue to strengthen tax compliance, including by further digitalising the tax administration.

   Reduce the risks related to household debt by supporting housing supply and the expansion of the rental market.

[29] Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

2. Maintain the momentum in the steady implementation of the recovery and resilience plan and swiftly finalise the addendum, including the REPowerEU chapter, with a view to rapidly initiating its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Reduce the economy's reliance on fossil fuels, in particular natural gas in industry and heating, and diversify imports of fossil fuels. Accelerate the deployment of renewables, particularly for wind, solar, geothermal and renewable gases, in line with relevant sustainability criteria. Simplify permitting and administrative procedures for deploying renewables, including by establishing 'one-stop shops' and 'go-to' areas. Modernise the electricity network and make the procedures for connecting renewables to the grid more efficient and less costly. Accelerate and incentivise deep renovations of public and private buildings, address energy poverty through housing renovations for low-income households, and step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.

Done at Brussels,

For the Council
The President