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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Slovakia

{SWD(2024) 600 final} - {SWD(2024) 625 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Slovakia

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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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 investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reform6s and investments, in particular to promote the green and digital transitions 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.

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1 OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

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), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

(2) The REPowerEU Regulation[4], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Slovakia added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[5], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[6]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[7], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 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. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 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 11 March 2024. On 16 January 2024, the Commission adopted an opinion on the 2024 Draft Budgetary Plan of Slovakia.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[8]. The objectives of the

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4 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), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

5 COM(2023) 168 final.

6 COM(2024) 77 final.

7 COM(2023) 901 final.

8 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of

new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[9] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain 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.

(7) 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

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29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

9 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

recovery and resilience plan for Slovakia[10], which was amended on 14 July 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[11]. 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.

(8) On 24 April 2024, Slovakia submitted its 2024 National Reform Programme and its 2024 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Slovakia's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Slovakia[12] on 19 June 2024. It assessed Slovakia's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 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.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Slovakia. The main findings of the Commission's staff assessment of macroeconomic vulnerabilities for Slovakia for the purposes of that Regulation were published in March 2024[13]. On 19 June 2024, the Commission concluded that Slovakia is experiencing macroeconomic imbalances. In particular, Slovakia faces vulnerabilities related to cost competitiveness, external balance, housing market and household debt which persist despite some recent improvements, and policy action has not been forthcoming. Slovakia was subject to an In-depth review in 2023, and its vulnerabilities were assessed as not amounting to macroeconomic imbalances as they were expected to ease over the medium term. These vulnerabilities have eased, but not as quickly as expected one year ago. The improvements moreover appear to be cyclical, with structural vulnerabilities appearing to be entrenched, while policy action has been lacking. The large current account deficit improved last year, but it is expected to remain visibly negative, leading to the persistence of the significantly negative Net International Investment Position. Core inflation has proven stickier than expected and has remained higher than the euro area average, while unit labour costs continue growing more than in most trading partners. These price and cost pressures are not expected to dissipate markedly this year or next, potentially hampering

[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] Council Implementing Decision of 14 July 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Slovakia (ST 11205/2023 INIT, ST 11205 2023 ADD 1.).

[12] SWD(2024) 625 final.

[13] SWD(2024) 84 final.

improvements in competitiveness and the trade balance. Household borrowing has been rising significantly over the years and decelerated in 2023 amid a drop in mortgage credit. House prices have fallen but are still somewhat overvalued and are expected to rise again as housing supply remains constrained. Housing demand is supported by policy interventions such as the recently adopted mortgage allowances that hamper monetary policy transmission and are fiscally costly. Fiscal adjustment has been delayed, and the high government deficit is forecast to worsen this year, while the government debt-to-GDP ratio is expected to edge up in 2024 and 2025 despite supportive GDP growth, which puts upward pressure on the domestic demand. Overall, policy action has not been sufficient to address the identified vulnerabilities, contributing to their entrenchment. Fiscal adjustment would contribute to reducing core inflation and strengthening the external position as well as containing rises in government debt; the launch of the Excessive Deficit Procedure should underpin such an adjustment. Action is also needed to improve price and non-price competitiveness and to reduce risks related to the housing market and household debt accumulation, including by developing a functioning rental market.

(11) Based on data validated by Eurostat[14], Slovakia's general government deficit increased from 1.7% of GDP in 2022 to 4.9% in 2023, while the general government debt fell from 57.7% of GDP at the end of 2022 to 56.0% at the end of 2023. As announced in the fiscal policy guidance for 2024[15], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[16]. That report assessed the budgetary situation of Slovakia, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission intends to propose in July to open an excessive deficit procedure, by recommending to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit for Slovakia.

(12) On 12 July 2022, the Council recommended[17] that Slovakia ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[18], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, 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. In 2023,

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14 Eurostat-Euro Indicators, 22.4.2024.

15 COM(2023) 141 final.

16 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024)598 final.

17 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Slovakia and delivering a Council opinion on the 2022 Stability Programme of Slovakia, OJ C 334, 1.9.2022, p. 205.

18 Based on the Commission 2024 spring forecast, the medium-term potential output growth of Slovakia in 2023 is estimated at 12.4% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

according to the Commission estimates, the fiscal stance[19] was expansionary, by 6.1% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 3.8% of GDP. This includes the reduced cost of the targeted emergency 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 primary current expenditure in excess of medium-term potential output growth was therefore not due to the targeted emergency 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) was driven by untargeted emergency energy measures, permanent increases in public sector wages and social benefits, higher spending on healthcare and the reduction in VAT rates on selected items. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 3.2% of GDP in 2023. Nationally financed investment amounted to 3.2% of GDP in 2023, representing an annual increase of 0.8 percentage points as compared to 2022. Slovakia financed additional investment through the Recovery and Resilience Facility and other EU funds. It financed public investment for the green and digital transitions, and for energy security, such as investments in energy infrastructure and transport with zero emissions and energy efficiency of buildings, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(13) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP growth at 2.0% in 2024 and 3.1% in 2025, while it projects HICP inflation at 3.2% in 2024 and 4.4% in 2025. The general government deficit is expected to increase to 5.9% of GDP in 2024 and decline to 5.4% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 58.6% by the end of 2024 and 59.8% by the end of 2025. After 2025, the general government deficit is projected to decrease gradually to 5.2% of GDP in 2026 and increase to 5.5% in 2027. Therefore, the general government balance is not planned to return below the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to increase to 63.6% in 2026 and to 67.8% in 2027.

(14) The Commission Spring 2024 Forecast projects real GDP to grow by 2.2% in 2024 and 2.9% in 2025, and HICP inflation to stand at 3.1% in 2024 and 3.6% in 2025.

(15) The Commission Spring 2024 Forecast projects a government deficit of 5.9% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 58.5% by the end of 2024. The increase of the deficit in 2024 mainly reflects a continuation

[19] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds. A negative (positive) sign of the indicator indicates an expansionary (contractionary) fiscal policy.

of existing energy prices support measures and new measures increasing expenditure such as a permanent increase in the 13th pension payment, increased spending on healthcare, the creation of a new Ministry of Tourism and Sports, an amendment to the Education Act introducing a legal right to admission to the kindergarten for children older than 3 years and improving rights of children with special education needs, and the introduction of performance-based contracts at public universities. Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 1.4% of GDP in 2024.

(16) Expenditure amounting to 1.2% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.5% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Slovakia.

(17) On 14 July 2023, the Council recommended[20] that Slovakia ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[21] in 2024 to not more than 5.7%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Slovakia's net nationally financed primary expenditure is projected to increase by 6.2% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.2% of GDP in 2024. This risks being not fully in line with what was recommended by the Council.

(18) Moreover, the Council recommended that Slovakia take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Slovakia should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[22] of emergency energy support measures is estimated at 2.1% of GDP in 2023 and projected at 0.4% in 2024, and 0.0% in 2025. In particular, a cap on gas prices for households is assumed to remain in force in 2024. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.7% of GDP in 2024, whereas net nationally financed primary expenditure[23] provides a contractionary contribution to the fiscal

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20 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Slovakia and delivering a Council opinion on the 2023 Stability Programme of Slovakia, OJ C 312, 1.9.2023, p. 233.

21 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

22 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

23 This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (i) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the

stance of 0.2% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. This also risks being not in line with the Council recommendation. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at 0.0% of GDP in 2024 (0.0% in 2023).

(19) In addition, the Council also recommended that Slovakia preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 3.0% of GDP in 2024, from 3.2% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023. This is also due to the postponement of a delivery of military equipment until 2025. Taking into account these additional factors, public investment in 2024 is assessed as respecting the Council recommendation. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 2.0% of GDP in 2024 from 3.2% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023.

(20) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 5.4% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects stronger revenues due to higher nominal GDP on the back of stronger inflation. The general government debt-to-GDP ratio is set to increase to 59.9% by the end of 2025. Prudent fiscal policy should contribute to reducing core inflation, which is well above the euro area average and could lead to competitiveness losses if persistent, and strengthening the external position too.

(21) Slovakia's tax system could benefit from a more growth-friendly tax mix to boost labour market participation, while promoting environmental protection and fiscal sustainability and improving fairness. Currently, taxes on labour income as a percentage of total taxes are the fifth highest in the EU at 52.4%. Slovakia has a relatively high tax wedge for lower income earners, disincentivising labour market participation, in a context where taxation of labour income is less progressive than the EU average. Public revenues and working conditions are negatively impacted by a large gap in tax, social contributions and non-tax compulsory payments between employees and self-employed people, resulting in the highest share of self-employed people who display characteristics of dependency in the EU. In Slovakia, recurrent property tax revenues lag behind those of the EU, standing at just 0.4% of GDP, compared to an EU average of 2.1%. This discrepancy stems from Slovakia's area-based taxation system, which calculates taxes based on property size rather than market value, leading to stagnant tax revenues, while house prices have risen in recent years. In the area of environmental taxation, Slovakia performed remarkably well in 2022, surpassing the EU average in environmental taxes, both relative to GDP and as a share of total taxation. However, this was mostly due to robust energy tax revenues

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Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

stemming from a considerable tax base. Conversely, revenues derived from taxes on transport, pollution and resources were below the EU average, indicating potential to strengthen the application of the 'polluter pays' principle. Despite marked improvements in recent years, the value added tax compliance gap remains above the EU average. However, Slovakia was able to significantly reduce it from 2010 to 2021, due to the mandatory reporting of all domestic and intra-EU transactions introduced since 2014, coupled with a wider application of the reverse charge mechanism. Action to streamline the tax, social contribution, and non-tax compulsory payment systems, along with measures to reduce administrative and compliance costs, can boost public revenues and support fiscal sustainability. In recent years, Slovakia has adopted several untargeted measures with potential negative effects on, for instance, property prices and price competitiveness, also leading to an unfair resource distribution. Additionally, the insufficient implementation of existing spending reviews in the budgetary process prevents the realisation of identified savings that could benefit public finances. Moreover, further improvements in the digitalisation of tax administration, especially in the domains of electronic invoicing and pre-filled tax returns, could help further reduce the leaks in the tax system, make tax compliance easier and reduce its cost.

(22) 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. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Slovakia's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Slovakia to continue the implementation of reforms and to accelerate investments by addressing emerging delays while ensuring effective governance and strong administrative capacity. Slovakia faces various obstacles hampering the successful implementation of the recovery and resilience plan, with several large investment projects at risk of not being implemented. Implementation of investments is slowing down especially in the areas of healthcare, building renovations, industry decarbonisation, nature protection and water management. Some ongoing reforms are also not progressing as planned, for example in the area of landscape planning, and may present further obstacles. The Slovak public administration suffers from structurally low effectiveness and a lack of administrative capacity at various levels of government for the implementation of complex reforms and investments. Other obstacles to be addressed are linked, for instance, to public procurement and lengthy permitting procedures, which cause substantial delays. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(23) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Slovakia is required to review its programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Slovakia has made progress in implementing cohesion policy and the European Pillar of Social Rights, but significant regional disparities in economic and social development persist between the capital region and

the other regions. It is crucial to accelerate the implementation of the cohesion policy programme and continue to implement the priorities agreed in the programme, which remain relevant. It is particularly important to strengthen the administrative capacity of local, regional and national authorities, and to improve partnership and ownership, including through stronger involvement of civil society stakeholders. Strengthening the social and economic inclusion of marginalised Roma communities, by improving their living conditions, ensuring access to high-quality non-segregated education and training and supporting their integration in the labour market will still require effort. At the same time, the planned drinking water and wastewater infrastructure investments need to be completed. Additionally, planned investments in the circular economy, waste management and greater energy efficiency in public and residential buildings are key to the green transition. Making further progress in developing renewable energy sources and decarbonising the economy remains equally essential. Active labour market policies need to be strengthened to combat long-term unemployment. In this regard, effective reskilling and adult learning schemes are key. Finally, providing quality and affordable early childhood education and care for children under the age of 3 is essential to boost gender equality in the labour market and society.

(24) In the context of the mid-term review of the cohesion policy programme, it is worth paying further attention to the potential to boost investment in the sustainable use of natural resources, especially given the backlog of investments in this area from the previous programming period. Slovakia could also make use of the Strategic Technologies for Europe Platform initiative in the areas of digital technologies and deep-tech innovation, clean and resource-efficient technologies, and biotechnology to support the transformation of industry.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Slovakia faces several additional challenges related to the judicial and anti-corruption framework, the lack of transparency and competition in public procurement procedures, the labour market, the insufficient basic skills attainment, the lack of inclusion and low enrolment rates in early childhood education and care, and climate adaptation, conservation of natural resources and the circular economy framework.

(26) Recent legislative changes, in particular the amendments to the Criminal Code and the dismantling of the Special Prosecutor's Office, lead to serious concerns about the independence and integrity of the justice and law enforcement system in Slovakia. Without appropriate safeguards, these developments risk weakening the capacity of the criminal justice system and the effectiveness of the fight against corruption, including the deterrence, investigation and prosecution of high-level corruption and fraud cases. The situation risks being further impacted by the envisaged reorganisation of the police specialised in tackling corruption (NAKA). Furthermore, the recent dismissal of several members of the Judicial Council before the end of their term and the lack of safeguards to ensure the Judicial Council's independence also raise concern. These developments risk hampering Slovakia's business and regulatory environment, and hence its competitiveness.

(27) The fragmented governance system in Slovakia and weak coordination between various public administration layers hamper the business environment and, especially, the country's ability to effectively implement policies and investment projects. Moreover, the provision of quality public services and the financial independence of local and regional governments are generally weak. This, together with the continued

use of fast-track legislative procedures, results in a lack of predictability in the regulatory framework. At the same time, while the recovery and resilience plan seeks to simplify public procurement procedures in Slovakia, challenges linked to the lack of transparency and competition in public procurement persist. This is exemplified by the fact that in 2023, 33% of public procurement contracts were awarded to single bidders. As a result of these challenges, public procurement is not sufficiently and strategically used to advance important policy objectives, stifling progress towards the green and digital transitions and hampering Slovakia's ability to improve its economic potential. Recently proposed changes to the public procurement framework and new legislation on strategic investments may further hamper transparency and competition in public procurement and risk reducing appropriate safeguards, especially for large-scale investments.

(28) A relatively high proportion of Slovakia's young students lack a minimum level of proficiency in basic skills in the areas of mathematics, reading and science. The 2022 Programme for International Student Assessment (PISA) survey of the Organisation for Economic Co-operation and Development shows that Slovakia is among the worst performing countries in basic skills, with over 30% of students underperforming in mathematics and reading, and a decline in the share of top performers, which hampers the country's long-term innovation potential and competitiveness. The results also show a pronounced attainment gap for students from socio-economically disadvantaged backgrounds, including from marginalised Roma communities, with 62.6% not obtaining basic skills in mathematics. This matches wider disparities in the Slovak education system. The Slovak recovery and resilience plan contains many measures in the domain of education but is insufficiently targeted to increase the share of children with basic skills. The education and training of teaching professionals would benefit from being more focussed on supporting basic skills development among pupils. In addition, the teaching profession is insufficiently attractive to address the shortage of qualified staff and there is scope to improve the quality of the education and training of teachers and to increase the availability of teaching assistants, as well as peer learning and mentoring opportunities. Moreover, there is large potential for increasing the enrolment of children in early childhood education and care (ECEC) by increasing the availability of ECEC places and incentivising their use by parents. Whereas the Slovak recovery and resilience plan supports increasing the enrolment rate of children from the age of 3, only 1% of all children under the age of 3 participated in ECEC in 2023, which is the lowest enrolment rate in the EU. Increasing the participation in ECEC helps to better prepare children to learn skills later in life, reduces early school leaving, and fosters the labour market participation of parents, in particular women.

(29) Slovakia's net carbon removals in the land-use, land-use change and forestry sectors are projected to significantly decline, indicating that the country will fall short of its target of –6 821 kt of CO_2 equivalent by 2030 under the LULUCF Regulation. This goes hand in hand with Slovakia's insufficient climate risk assessment and challenges in translating climate risk information into practical solutions. To reverse this trend in the coming years, it will be important to advance climate-adaptation measures, including nature-based solutions, and integrate them into relevant national policies, to complete the zonation of nature protected areas and to promote sustainable use of natural resources. At the same time, further policy action is needed to boost the transition towards a circular economy. Slovakia is at risk of not meeting its 2025 target for municipal solid waste, for which it still fell 19.2 percentage points short of the 2025 target of 55% in 2020, as well as its target for packaging waste, for which it fell

5.3 percentage points short of the 2025 target of 65% in 2020[24]. Slovakia would benefit from improved resource waste management to curb landfilling and increase the reuse of municipal and packaging waste, and the use of circular material in industry and construction.

(30) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Slovakia, recommendations (1), (2) and (3) help implement the first, second, third, fourth and fifth euro area recommendations.

(31) In light of the Commission's in-depth review and its conclusion on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (3) below. Policies referred to in recommendation (1) help to address vulnerabilities linked to the housing market, household debt and the external position. Policies referred to in recommendation (3) help to address vulnerabilities linked to cost competitiveness. Recommendations (1) and (3) contribute to both addressing imbalances and implementing the recommendation for the euro area, in line with recital 30.

HEREBY RECOMMENDS that Slovakia take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[25] in 2025 to a rate consistent with reducing the general government deficit towards the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Make the tax mix more efficient, including by reducing disincentives on the labour market, and making a stronger use of environmental and recurrent property taxation. Reduce costly spending measures, also by implementing spending reviews. Continue to strengthen tax compliance, including by further digitalising tax administration. Reduce the risks related to household debt by supporting housing supply and the expansion of the rental market.

2. Ensure effective governance, strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of the cohesion policy programme. In the context of its mid-term review, continue focusing on the agreed priorities, taking action to better address the investment needs in the sustainable use of natural resources, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

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[24] EEA and ETC/CE (2022). Early Warning Assessment Related to the 2025 Targets for Municipal and Packaging Waste (https://www.eea.europa.eu/publications/country-profiles-early-warning-assessments)

[25] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

3. Strengthen the effectiveness, independence and integrity of the judicial and anti-corruption system, including by ensuring that adequate safeguards for the effective investigation and prosecution of high-level corruption cases are in place. Improve competitiveness and productivity, including by ensuring transparency and competition in public procurement processes, to promote good governance and improve the effectiveness of public spending. Strengthen the teaching of basic skills, including for children from disadvantaged backgrounds such as from marginalised Roma communities, and increase the availability and use of affordable high-quality early childhood education and care for children under the age of 3. Strengthen resource waste management and reuse of municipal and packaging waste, and the conservation of natural resources by mainstreaming nature-based solutions and finalising zonation of nature-protected areas.

Done at Brussels,

For the Council
The President