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COUNCIL RECOMMENDATION

of 21 October 2024

on economic, budgetary, employment and structural policies of Slovakia

(C/2024/6832)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 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 ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable reforms and investments, in particular reforms and investments to promote the green and digital transitions and to 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 Union and support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council ([4]) ('the REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of

([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).
([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).

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 entitled 'Long-term competitiveness of the EU: looking beyond 2030', in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning 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 Union and its Member States. On 14 February 2024, the Commission issued a communication entitled 'The 2024 Annual Single Market and Competitiveness Report'. That communication details the competitive strengths and challenges of the European 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, marking the start of the 2024 European Semester for economic policy coordination. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. 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. On 16 January 2024, the Commission adopted an opinion on the 2024 draft budgetary plan of Slovakia. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2024 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area ([5]) ('the 2024 Recommendation on the euro area') on 12 April 2024 and the Joint Employment Report on 11 March 2024.

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97 ([6]) on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Directive 2011/85/EU ([7]) on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure ([8]) path in the national medium-term fiscal-structural plans has to 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, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3 %-of-GDP Treaty 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 can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the

([5]) Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

([6]) Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

([7]) Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

([8]) Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (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.

Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the 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 for the recovery and resilience plans which have been 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 set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Slovakia ([9]), which was amended on 14 July 2023 pursuant to 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 ([10]). The release of instalments is conditional on the adoption of a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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 Council Regulation (EC) No 1466/97 ([11]). 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) On 19 June 2024, the Commission published the 2024 country report for Slovakia. 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. On the basis of that analysis, the country report identified gaps with regard 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 in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations 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 staff's assessment of macroeconomic vulnerabilities for Slovakia for the purposes of that Regulation were published in March 2024. 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. Those 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. Those price and cost pressures are not expected to dissipate markedly this year or next, potentially hampering 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

([9]) ST 10156/21; ST 10156/21 ADD 1.

([10]) 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 11205/23 INIT; ST 11205/23 ADD 1).

([11]) 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 (OJ L 209, 2.8.1997, p. 1, ELI: http://data.europa.eu/eli/reg/1997/1466/oj).

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 opening 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) According to data validated by Eurostat, 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 Commission's communication of 8 March 2023 entitled 'The fiscal policy guidance for 2024', 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 issued a report under Article 126(3) of the Treaty. That report assessed the budgetary situation of Slovakia, as its general government deficit in 2023 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that, in light of that assessment, and after considering the opinion of the Economic and Financial Committee formulated pursuant to Article 126(4) of the Treaty, the Commission intends to propose in July 2024 to open an excessive deficit procedure for Slovakia, by proposing that the Council adopt a decision under Article 126(6) of the Treaty establishing the existence of an excessive deficit situation in Slovakia.

(12) On 12 July 2022, the Council recommended ([12]) that Slovakia take action to 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 ([13]), 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 was recommended to 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 Facility and other Union funds. In 2023, according to the Commission's estimates, the fiscal stance ([14]) 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 0,2 %-of-GDP reduction in the cost of the targeted emergency support measures for households and firms most vulnerable to energy price hikes, as well as the 0,1 %-of-GDP reduction in the cost of offering temporary protection to displaced persons from Ukraine. 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 rates of value added tax (VAT) on selected items. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union 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 Facility and other Union funds. It financed public investment

([12]) 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).

([13]) On the basis of the Commission's 2024 spring forecast, the medium-term potential output growth of Slovakia in 2023 is estimated at 12,4 % in nominal terms, on the basis of the 10-year average real potential growth rate and the 2023 GDP deflator.

([14]) 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 Union 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) under the Facility and other Union funds. A negative sign of the indicator indicates an expansionary fiscal policy, whereas a positive sign of the indicator indicates a contractionary fiscal policy.

for the green and digital transitions and for energy security, such as investments in energy infrastructure and transport with zero emissions and the energy efficiency of buildings. That public investment is partly funded by the Facility and other Union funds.

(13) In the 2024 Stability Programme, the macroeconomic scenario underpinning the budgetary projections projects real GDP growth at 2,0 % in 2024 and 3,1 % in 2025, while projecting inflation measured by the harmonised index of consumer prices (HICP) 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 Treaty 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's 2024 spring forecast projects real GDP to grow by 2,2 % in 2024 and 2,9 % in 2025, and inflation measured by HICP to stand at 3,1 % in 2024 and 3,6 % in 2025.

(15) The Commission's 2024 spring 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 of existing support measures for energy prices 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. According to 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') under the Facility in 2024, compared to 0,5 % of GDP in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Slovakia.

(17) On 14 July 2023, the Council recommended ([15]) that Slovakia ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure ([16]) 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 on the basis of the outturn data for 2023. According to the Commission's 2024 spring 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. That excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0,2 % of GDP in 2024. There is a risk that thiss will not be 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 recommended that, if renewed energy price increases necessitate new or continued support measures, Slovakia ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost ([17]) 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,

([15]) 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).

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

([17]) 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.

those projections would imply a fiscal adjustment of 1,7 % of GDP in 2024, whereas net nationally financed primary expenditure ([18]) provides a contractionary contribution to the fiscal 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. There is a risk that this will not be 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. There is a risk that this, too, will not be 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 grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to decrease from 3,2 % of GDP in 2023 to 3,0 % of GDP in 2024. This decrease is driven by the end of the 2014–2020 programming period of Union 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 those additional factors, public investment in 2024 is assessed as being in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to decrease from 3,2 % of GDP in 2023 to 2,0 % of GDP in 2024. This decrease is driven by the end of the 2014–2020 programming period of Union structural funds, for which funds were available until 2023.

(20) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring 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 to strengthening the external position.

(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 Union 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 Union average. Public revenues and working conditions are negatively impacted by a large gap in taxes, 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 Union. In Slovakia, recurrent property tax revenues lag behind those of the Union, standing at just 0,4 % of GDP, compared to an Union average of 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 Union 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 stemming from a considerable tax base. Conversely, revenues derived from taxes on transport, pollution and resources were below the Union average, indicating potential to strengthen the application of the 'polluter pays' principle. Despite marked improvements in recent years, the VAT compliance gap remains above the Union average. However, Slovakia was able to significantly reduce it from 2010 to 2021, due to the mandatory reporting of all domestic and intra-Union 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

([18]) This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures; (ii) one-offs; (iii) cyclical unemployment expenditure; and (iv) expenditure financed by non-repayable support (grants) under the Facility and other Union funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

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), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Those reforms and investments 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 recovery and resilience plan, including the REPowerEU chapter, is essential to boost Slovakia's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Slovakia to continue the implementation of reforms and to accelerate investments by addressing relevant challenges 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 in order 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 programmmes, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council ([19]), Slovakia is required to review its programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) 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. That review forms the basis for the definitive allocation of the Union funding included in each programme. Slovakia has made progress in implementing cohesion policy programmes 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 programmes and continue to implement the priorities agreed in the programmes, 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 programmes, 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 that area from the previous programming period. Slovakia could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council ([20]), in the

([19]) Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

([20]) Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: http://data.europa.eu/eli/reg/2024/795/oj).

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 Union 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, those 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. Those 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 those 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 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 focused 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, according to Eurostat data ([21]) only 1 % of all children under the age of 3 participated in ECEC in 2023, which is the lowest enrolment rate in the Union. 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.

([21]) EU SILC survey.

(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 Regulation (EU) 2018/841 of the European Parliament and of the Council ([22]). This goes hand in hand with Slovakia's insufficient climate risk assessment and challenges in translating climate risk information into practical solutions. To reverse that 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, in order to complete the zoning of natural protected areas and to promote the 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 ([23]). 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 their collective contribution to the functioning of the economic and monetary union, in 2024 the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to implement the 2024 Recommendation on the euro area. For Slovakia, recommendations (1), (2) and (3) help implement the first, second, third, fourth and fifth recommendations set out in the 2024 Recommendation on the euro area.

(31) In light of the Commission's in-depth review and conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (3). 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 recommendations set out in the 2024 Recommendation on 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 ([24]) in 2025 to a rate consistent with, inter alia, 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, including by implementing spending reviews. 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.

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

([22]) Regulation (EU) 2018/841 of the European Parliament and of the Council of 30 May 2018 on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry in the 2030 climate and energy framework, and amending Regulation (EU) No 525/2013 and Decision No 529/2013/EU (OJ L 156 19.6.2018, p. 1, ELI: http://data.europa.eu/eli/reg/2018/841/oj).

([23]) 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).

([24]) According to Article 2, point (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, in order 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 the zoning of natural protected areas.

Done at Luxembourg, 21 October 2024.

For the Council

The President

NAGY I.