COUNCIL RECOMMENDATION

of 10 July 2012

on the National Reform Programme 2012 of Slovakia and delivering a Council opinion on Stability Programme of Slovakia, 2012-2015

(2012/C 219/22)

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 July 2011, the Council adopted a recommendation [3] on Slovakia's National Reform Programme for 2011 and delivered its opinion on Slovakia's updated Stability Programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of *ex ante* and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of 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 [4], adopted the Alert Mechanism Report, in which it did not identify Slovakia as one of the Member States for which an in-depth review would be carried out.

(5) On 1 December 2011, the Council adopted conclusions calling on the Social Protection Committee, in cooperation with the Employment and other Committees, to present its views on actions recommended within the Europe 2020 policy cycle. These views form part of the opinion of the Employment Committee.

(6) The European Parliament has been duly involved in the European Semester, in accordance with Regulation (EC) No 1466/97, and, on 15 February 2012, adopted a resolution on employment and social aspects in the Annual Growth Survey 2012 and a resolution on the contribution to the Annual Growth Survey 2012.

(7) On 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(8) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

(9) On 30 April 2012, Slovakia submitted its Stability Programme covering the period 2012-2015 and its 2012 National Reform Programme. In order to take account of their interlinkages, the two Programmes have been assessed at the same time.

[1] OJ L 209, 2.8.1997, p. 1.
[2] Maintained for 2012 by Council Decision 2012/238/EU of 26 April 2012 on guidelines for the employment policies of the Member States (OJ L 119, 4.5.2012, p. 47).
[3] OJ C 272, 15.9.2011, p. 1.
[4] OJ L 306, 23.11.2011, p. 25.

(10) Based on the assessment of the Stability Programme pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the Programme is plausible. It is broadly in line with the Commission services 2012 spring forecast, although the latter assumes somewhat higher real GDP growth in 2012. The stated objective of the budgetary strategy outlined in the Stability Programme is to ensure the long-term sustainability of public finances. The intermediary steps defined to reach this are a rigorous implementation of the 2012 budget and a reduction of the headline deficit below 3 % of GDP in 2013, the deadline for correction of the excessive deficit set by the Council. The achievement of the headline deficit target in 2013, however, may fall short of plans. The Stability Programme has changed the medium-term budgetary objective (MTO) from a close-to-balanced budget to a structural deficit of 0,5 % of GDP, which is not foreseen to be achieved within the programme period. The new MTO adequately reflects the requirements of the Stability and Growth Pact. Based on the (recalculated) structural budget balance [1], the average annual fiscal effort in 2010-2013 amounts to 1,3 % of GDP, well above the required value recommended by the Council, whereby the residual fiscal effort is somewhat back loaded to 2013. The target for 2013 is subject to risks, as suggested revenue measures may fall short of the objective; simultaneous implementation of all small-scale measures can be difficult to implement; and in light of upwards revisions of the deficit targets that took place in the past.

In addition, further across-board expenditure cuts may prove unsustainable in the medium term. In 2014 and 2015, the average fiscal effort stands at 0,3 % of GDP annually, which is below the required adjustment of 0,5 % of GDP for countries which have not yet reached the MTO. Nevertheless, according to the Stability Programme the growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the expenditure benchmark of the Stability and Growth Pact in the outer years of the Stability Programme. Government debt would remain well below 60 % of GDP. While Slovakia passed legislation establishing the Fiscal Council, so far it has not been set up and the legislation on expenditure ceilings has not yet been adopted.

(11) Given the diminishing scope for further expenditure-based consolidation and the need to support continuing convergence through expenditure in key areas such as education, innovation and transport infrastructure, there is scope for measures aimed at broadening the tax base, limiting tax avoidance and improving tax compliance, without affecting near-term growth prospects. Tackling one of the largest VAT gaps in the EU could bring significant additional revenue. There is also room for increasing receipts from taxes that are least harmful to growth, including real estate taxation, and environmental taxation. Effective taxation of labour income varies according to different types of employment. This encourages a shift towards more flexible job arrangements with negative short- and long-term impacts on public accounts.

(12) Slovakia has only partially addressed the long-term sustainability of its public finances, as it has not implemented the envisaged changes to the pay-as-you-go pillar of its pension system. Measures were taken to enhance the viability of the fully funded pension pillar. However, an unstable legal environment with frequent significant changes in the past entailed non-negligible adjustment costs and introduced uncertainty in the fully funded pillar.

(13) No significant measures have been taken to address Slovakia's unemployment problem. There is still a need to improve the effectiveness of active labour market policies and the capacity of the public employment service. There is also a need for measures to increase the labour market participation of older workers and women, in particular through childcare provision. The tax wedge, including all compulsory payments, remains relatively high for low-income workers and a proportion of jobseekers have little incentive to move from social assistance to a low-paid job.

(14) Only limited measures were adopted to improve the low quality of the education and training system. To tackle Slovakia's high youth unemployment, the youth action plan should be adopted and implemented without delay, in line with the outcome of the Slovakia-Commission joint action team on youth unemployment, including the reform of vocational education and training as well as higher education. An updated strategy on lifelong learning was adopted. However, no particular incentives were introduced to ensure higher participation rates.

(15) Marginalised communities, including the Roma, are largely excluded from the labour market and the mainstream education system, representing a significant underutilised labour potential in the Slovak economy. In order to tackle this problem, Slovakia should step up efforts to improve educational outcomes of marginalised groups and reinforce its reintegration policies for adults.

[1] Cyclically-adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the Programme, using the commonly agreed methodology.

(16) Slovakia has substantially enhanced the transparency of public procurement rules and of the judiciary, although judicial proceeding remains long and costly. However, the overall quality and capacity of public institutions remains weak. The public administration lacks a strategic approach, suffers from high turnover of staff and insufficient capacity building, which hampers policy development and the implementation and delivery of public services.

(17) Slovakia has made a number of commitments under the Euro Plus Pact. The commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness, enhancing sustainability of public finances and reinforcing financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Slovakia's economic policy. It has assessed the Stability Programme and National Reform Programme. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Slovakia but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(19) In the light of this assessment, the Council has examined the Stability Programme, and its opinion [1] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Slovakia take action within the period 2012-2013 to:

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

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

3. Further adjust the pay-as-you-go pension pillar, mainly by changing the indexation mechanism, introducing a direct link between the statutory retirement age and life expectancy and introducing a sustainability factor in the pension calculation formula reflecting demographic change. Ensure the stability and viability also of the fully funded pillar.

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

5. Adopt and implement the youth action plan, in particular as regards the quality and labour market relevance of education and vocational training, including through the introduction of an apprenticeship scheme. Improve the quality of higher education by strengthening quality assurance and result orientation.

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

7. Strengthen the quality of the public service, including by improving management of human resources and strengthening analytical capacities. Further shorten the length of judicial proceedings and strengthen the role of the Public Procurement office as an independent body.

Done at Brussels, 10 July 2012.

For the Council

The President

V. SHIARLY

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[1] Under Article 5(2) of Regulation (EC) No 1466/97.