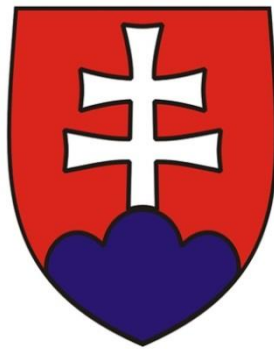


**Ministry of Finance of the Slovak Republic**



**| National Reform Programme of  
the Slovak Republic 2016**

April 2016

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## Summary

The National Reform Programme of the Slovak Republic 2016 (NRP) describes the structural measures planned by the Slovak government for implementation in the next two years. The new complex approach to the priorities identification taking into account GDP, as well as other life quality aspects, identified the labour market, the healthcare system and primary education as the biggest challenges of the Slovak economy. The material takes into account the Programme Manifesto of the government of the Slovak Republic for 2016-2020.

**In the coming years a gradual reduction of the general government deficit will continue until the attainment of the medium-term budgetary objective (MTO) in 2019.** The fiscal objectives are fully in line with the rules of the Stability and Growth Pact and enable the financing of investment priorities of the new government. During 2017-2019 the fiscal framework expects a gradual reduction of the general government deficit to 1.29 % of GDP in 2017, 0.44 % of GDP in 2018 and the achievement of a budget surplus of 0.16 % of GDP in 2019.

**An assessment of public spending effectiveness (spending review) represents a new instrument for achieving a balanced GG budget and increase the value for money.** The government will, under the leadership of the Ministry of Finance, and in close cooperation with the Government Office and all government departments, reform the rules, set up the processes and strengthen the institutions to support clear decision making process for every public decision and higher value for money in the Slovak public sector. Decisions on key investments, policies, regulations of public and business behaviour and operational expenditure of the state will undergo a complex economic assessment.

The government will adopt a number of **changes in the tax system**. Corporate income tax will be reduced to 21 % and from 2018 tax licenses will be abolished. The government will continue in the application of specific levies and taxes in regulated industries with the option to extend them to other sectors. The technical prerequisites will be created in order to change the system of **real estate taxation** towards determining the tax base by the valuation principle. The implementation of the updated Action Plan to Combat Tax Fraud for 2012-2016 will increase the efficiency of tax collection.

Changes in the area of **education** are aimed at increasing the attractiveness of the teaching profession in particular by increasing teachers' salaries, expanding kindergarten capacities, promoting dual education and support for inclusion of marginalized communities. In the area of tertiary education, plans include an institutional reform of the Accreditation Commission and changes in the system of financing to increase the differentiation of schools based on their quality. Measures to improve the **science, research and innovation** should improve effectiveness of public spending and increase motivations for private investments in R&D activities.

In the next four years 100 thousand jobs will be created in the **labour market** through support of the economic growth. Requirements for the provision of social benefits will tighten to promote the activation of people out of work. Social economy enterprises will be supported. Changes in public **employment services** and the introduction of new tools of active labour market policies (ALMP) will support the integration of less employable groups of jobseekers in the labour market. National projects will continue to aim at supporting community centers and field social work in municipalities with marginalized Roma communities (MRC). A programme aimed at the promotion of education of children from MRC in early childhood will be launched.

Changes to the **pension system** will be adopted. Indexation of pensions in the PAYG pension pillar will be adjusted while maintaining long-term sustainability of public finances, and the option for withdrawal of savings in the second pension pillar will be introduced.

A number of measures will be aimed at improving healthcare. A gradual centralization of procurement in public hospitals at the level of the MoH SR as well as the publication of comparative price lists will begin. New rules for the procurement of medical equipment using **pricing benchmarks** as well as **mandatory external financial audits** will be introduced in order to increase the efficiency of the management of public

hospitals. The construction project for the **new university hospital** in Bratislava continues. The process of financing of healthcare facilities will be made more efficient by introducing payments for diagnostic group. Primary healthcare will be reinforced and an integrated model of healthcare provision will be introduced.

Improvements of the efficiency of the **judiciary** will consist mainly of specialization of the judicial system and judges, expansion of the competencies of senior judicial officials, and a review of the Code of Civil Procedure, the re-codification of the civil procedure. Transparency will be enhanced through the adoption of an effective anti-letterbox companies law and through publishing information on the management of state companies and municipal decision making. The ongoing creation of the Electronic Case File, the Electronic Legal Code, the Electronic Registry of Insolvent Entities and the electronic monitoring of the accused and sentenced will contribute to the speeding up of court proceedings.

The main measures in the area of transport will be the **construction of missing sections of motorways and expressways**, as well as the construction, renewal and maintenance of class A roads. For the first time transport priorities will be selected using a national multimodal transport model. The systematic increase of the significance of railway transportation, as well as the improvement of public passenger transport efficiency, will continue in the area of public transport.

The **reform of public administration** will further simplify the provision of services to citizens provided by the state. The opening of another circa 30 client centers for the contact between the local and specialized state administration with the public will continue. Public administration reform will bring greater transparency at all levels from recruitment to remuneration.

The NRP is based on the country specific recommendations of the EU Council for Slovakia from 2015, as well as on the assessment of their implementation by the European Commission from February 2016<sup>1</sup>. The NRP measures will be funded within the set expenditure and personnel limits of individual budget chapters.

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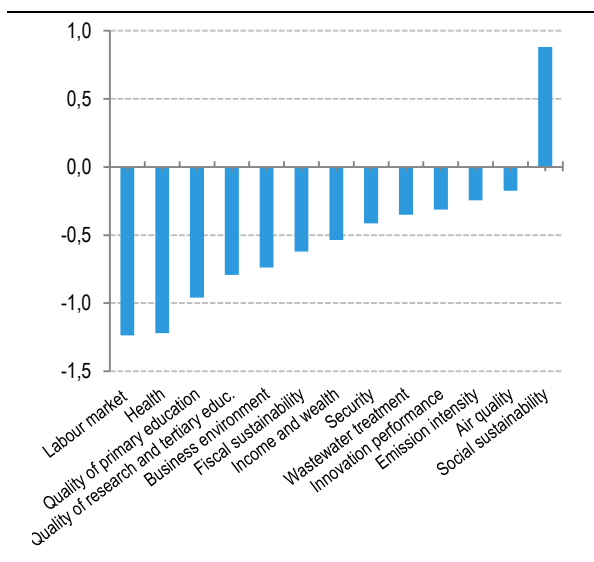
<sup>1</sup> Staff working document of the Commission SWD (2016) 93 final (26.2.2016): 2016 Country Report - Slovakia

# 1 Identification of challenges in the Slovak economy

The greatest challenges, as regards lagging behind other countries, are represented by the labour market, the quality of healthcare, and primary education. With the exception of income inequality (social sustainability), Slovakia attains substandard values in all other monitored performance indicators (Figure 1).

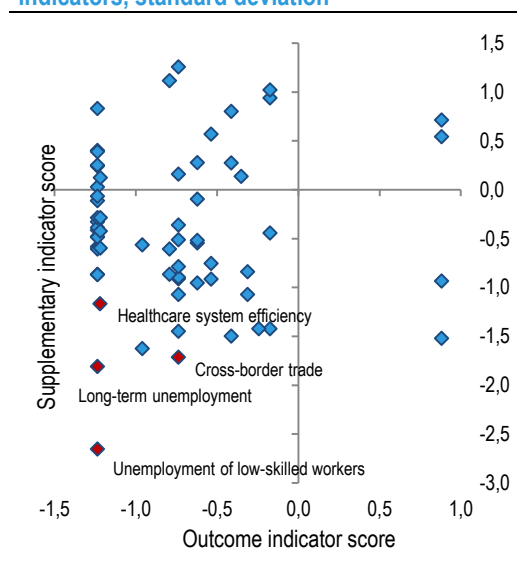
Performance indicators are matched with supplementary indicators (Figure 2), which disaggregate a broadly defined problem (e.g. the labour market) into smaller, better understandable areas (e.g. long-term unemployment or cross-border trade<sup>2</sup> in the business environment). Thus, the points in the lower left quadrant contain substandard performance indicators, as well as supplementing indicators. From this perspective Slovakia stands out with regards to the unemployment of low-qualified workers. The upper left quadrant shows the areas where below average outcomes are attained, nevertheless with above-average inputs. For example we show a very low number of quotations and a high level of the PhD study graduates or substandard outcomes in security with above-standard numbers of policemen.

**Figure 1: Performance indicators, standard deviation from the sample average (OECD/EU)**



Source: IFP

**Figure 2: Disaggregation of performance indicators by means of supplementary indicators, standard deviation**



Source: IFP

The supplementary indicators suggest that the main labour market problem resides in employing low-qualified workers and in long-term unemployment. Long-term unemployment and the related loss of skills represent another barrier impeding better outcomes on the labour market. From the point of view of age distribution of the unemployed, labour market situation is worse mainly for older workers (55-64) or women. The share of unemployed young people in the total unemployment rate is not significantly higher than in other EU countries, even though their unemployment rate is relatively higher.

Slovaks live significantly shorter and, enjoy the fewest healthy life years in the EU. An updated model that was used in studying healthcare system<sup>3</sup> suggests high ineffectiveness of used resources.

Internationally comparable outcomes in education can so far only be measured at the level of primary schools in the form of PISA testing of 15 year old students. These outcomes declined significantly in 2012. Education has important impacts in other areas as well, such as labour market outcomes and labour productivity. The government addresses these challenges by adopting measures that are described in relevant chapters of the NRP.

<sup>2</sup> In the latest edition of the Doing Business ranking, the changes in methodology took into account more realistic costs, time and administrative procedures for import and export for the landlocked countries of the EU. Identification of challenges is updated every two years, data will be updated in the NRP 2017.

<sup>3</sup> Filko, M. et al. (2012), Málo zdravia za veľa peňazí (Little Health for Much Money): Analýza efektívnosti slovenského zdravotníctva (An Economic Analysis of Slovak Healthcare System), economic analysis no. 28, Institute for Financial Policy, Ministry of Finance of the Slovak Republic

## 2 Implementing the measures under the National Reform Programme 2015

The level of implementation of the NRP 2015 Action Plan tasks is organised according to the particular country specific recommendations for Slovakia, which have been approved by the June summit of the European Council and adopted by the EU Council in July 2015.

### 1. Efficiency of healthcare and tax collection

**Specific recommendation of the Council: Improve the cost-effectiveness of the healthcare sector, including by improving the management of hospital care and strengthening primary healthcare. Take measures to increase tax collection.**

*Preparations for the introduction of payments for diagnostic-related group (DRG), e-Health implementation and recovery programme of hospitals continued in 2015. The plan to build a new hospital is in the process of competitive dialogue with the candidates. The planned price ceilings on purchases, the central procurement and five-year development plans of hospitals have not yet been implemented.*

*In 2015 a stabilization of the effective tax rate and the amendment of tax laws took place. Most of the measures are coming into force in 2016. Among the most important measures is the introduction of reverse charge of tax duty (VAT) on beneficiaries in the area of construction work if both the supplier and the recipient are in the position of a VAT payer (so-called domestic self-assessment). The amount information that is exchanged automatically will be expanded and the periodicity of the compilation of the list of tax debtors is changed from annual to monthly.*

#### **Cost effectiveness of healthcare**

The **recovery programme of hospitals** continued in 2015. At the end of October all 14 hospitals in the ownership of the Ministry of Health of SR<sup>4</sup> completed financial audits in order to rectify the discovered shortcomings and increase the transparency of reporting of these facilities. Within the programme, a methodology for recovery plans and single accounting structure is being prepared. An **expert information system** is being implemented that will help control efficiency and provide economic, personnel and clinical data for internal/external benchmarking. In 2015, hardware was installed in all teaching and university hospitals, with the exception of three, and providers agreed the interface for the provision of basic data from hospital systems.

The realization of the planned investments in in-patient facilities continues. The largest and most important of them is the **construction of the new University Hospital in Bratislava**. The project continued by the public procurement of service concessions<sup>5</sup>. Four candidates have submitted preliminary proposals for solutions.

Several projects are implemented in the long term that will improve the efficiency and transparency of healthcare:

- **Implementation of e-Health and electronic healthcare services.** By November 2015 the testing of the system was performed in four pilot facilities and from December 2015 it should be launched in these facilities. Other healthcare providers will connect continuously. Compared with the planned schedule the handover occurs with more than six months' delay.
- **The introduction of payments for diagnostic-related groups.** An impact study for the introduction of payments for diagnostic-related groups was completed. Furthermore, an ongoing collection of clinical and economic data from the hospital in the DRG structure is being carried out.

<sup>4</sup> The financial audit was performed at 13 university and teaching hospitals and at the National Oncology Institute.

<sup>5</sup> The title of the procurement is Concession for the design, construction, financing, operation and maintenance of the new University Hospital in Bratislava with an expected 30-year provision of healthcare in this hospital, including the provision of capacity for teaching procured by competitive dialogue procedure.

- **Redefining the types of hospitals and care.** Ministry of Health of the SR is currently analyzing a proposal for the stratification of hospitals prepared by the association of private hospitals. From the end of 2016 a stratification of the types of hospitals and the scope of healthcare they provide should take place.

### **Increasing tax collection**

As a result of the fight against tax evasion, the improvement of the collection of VAT in 2015 brought additional revenue of 0.9 % of GDP compared with 2012. The higher effectiveness of VAT collection also reflected positively on tax revenues from the corporate income tax (CIT), for which the effective tax rate significantly increased in 2014.

The integrated **information system of the financial administration** was deployed, which covers the processes of the tax offices, such as the registration of taxpayers, processing of all types of tax returns, accounting for government revenue, connection to the State Treasury, debt collection, tax inspections and various operating processes such as fees management and correspondence generation. The administrative information system of the financial administration for to support administrative processes was also implemented. Currently, 95 % of customs declarations are executed electronically.

With effect from January 2016 a reverse charge mechanism was introduced for the beneficiaries undertaking construction work, so-called **domestic self-assessment**. The construction sector is one of the most risky from the point of view of tax fraud. Since 2016, the legal period for the application for a tax refund was shortened from 6 to 3 months for cases when the tax payer does not allow the inspection of eligibility for a VAT refund. In November 2015 the financial administration launched a two-way electronic communication for indirect taxes.

In addition to VAT, efforts are also concentrated on **excise taxes**; in this area from January 2016 the taxation of cigars and cigarillos based on their weight was introduced, compared with the original state when the excise duty was tied to the number of products in pieces. With effect from the same date, all businesses were given the option to use a virtual cash register.

The calculation of fines from the levy of additional taxes after a tax inspection or an additional tax return submission was changed with effect from January 2016. The new method of calculation takes into account the length of the delay, so that in the event of a delayed tax levy a higher penalty is imposed. At the same time a provision for aggregated fine was established, to be applied to businesses who committed more than one administrative offense.

## **2. Long-term unemployment and unemployment of women**

***Specific recommendation of the Council: Take additional measures to address long-term unemployment by improving activation measures, second chance education and introducing high-quality training tailored to individuals' needs. Improve the incentives for women to remain in or return to employment by improving the provision of childcare facilities.***

*The points of first contact at labour offices were strengthened in order to increase the quality of public employment services. The positive development in the labour market is further supported by several new or modified ALMP tools in the form of activation, education, training and support for labour mobility.*

*In the context of promoting women's employment the childcare allowance to cover the costs of parents for childcare services is increased while at the same time the administrative burden in its provision is reduced. Employment of mothers with children was supported by the formation of children's corner in the workplace. Budget resources for the support of kindergartens' capacity building were increased. Calls were announced for the expansion of the capacity of kindergartens from the operational programmes.*

**Strengthening the capacity and quality of public employment services** is one of the key measures to reduce long-term unemployment. An amendment from October 2014 allowed the execution of internal reallocation of labour office staff and the unification of their organizational structure. In practice, the



effectiveness of cross-sectional supportive activities was increased and the points of first contact were strengthened. In one place it is thus possible to place citizens in the jobseekers' register, facilitate work placement, provide advice, or request for any state social benefits. The workload of employees, measured by the number of clients, decreased approximately to one third compared with the situation before the reform. In total there is currently around 2,000 employees in the departments of services for citizens at labour offices. At the end of 2015, the number of clients per employee at the departments of services to citizens fell from an average of 566 to 189. The number of clients per one expert counsellor is nonetheless still high, at 2,280 clients.

In 2015 a number of new or modified **ALMP tools** financed by the ESF was launched to support a wider group of disadvantaged jobseekers, as well as specific groups of young people under 29 and disabled unemployed:

- The educational programme promoting requalification of jobseekers was attended by 15,000 jobseekers by the end of 2015. Allocated expenditure for the measures represents EUR 6.8 million and EUR 3 million in 2015 and 2016.
- As part of the initiative to promote youth employment, the contributions to support job creation for the first regularly paid employment supported more than 3,200 jobs from January to November 2015. In 2015, the financial allocation for the programme amounted to EUR 11 million and another EUR 10 million within the framework of the national project *Employment support of jobseekers*. The planned budget for 2016 is set at EUR 15 million.
- The implementation of projects to support the acquisition of professional skills among employers and self-employment of young people has begun. Financial allocation from ESF for national projects *Employment through in-job training*, *Graduate practice starts employment* and *Successfully in the labour market* is EUR 36 million in 2016.
- Nearly 8,200 jobs were supported in 2015 with a budget of EUR 15 million in the form of subsidized labour costs of public employers.
- The implementation of the national project *Employment support of persons with disabilities*, which represents a continuation of the support for this target group in the new programming period, has started. The financial allocation for 2016 is estimated at EUR 22.4 million.
- A modified resettlement allowance is offered from the beginning of 2016 that also considers temporary residency. In 2016, the cost of the measure is estimated at EUR 1.2 million.

The project of providing practical training in the system of **dual education** was successfully launched. Employers who sign contracts with secondary technical schools and provide such training can reduce their tax base by EUR 3,200 or EUR 1,600, depending on the length of training. In the school year 2015/2016 a total of 422 participating high school students will spend half of the length of their studies in practical training in 89 companies. 298 new employers gained certification for the academic year 2016/2017 who will offer 2,763 places in the dual education system.

### **Reconciling work and family life**

From January 2016 the maximum amount of the **childcare allowance** increases from EUR 230 to EUR 280 in order to cover the costs of parents for childcare services. Administrative burden of its provision is also reduced. The budgeted amount for 2016 is EUR 9.4 million, of which EUR 6.8 million is planned to be financed by the ESF.

From January 2016, the **maternity benefit** increased from the current 65 % of the daily assessment base to 70 %. Due to the tax wedge on labour income, this measure has reached a level of reimbursement of net salary at around 90 %. This support is aimed at parents of children who were in paid employment and were insured against sickness before taking maternity leave. Additional budgetary impact is expected to be EUR 8.7 million in 2016.

The national project *Family and work* for the **promotion of the employment of mothers with children** was realized until October 2015 with an overall ESF allocation of nearly EUR 23 million. The project helped 1,329 people find a job with flexible forms of work and encouraged the creation children's corner at 33 employers.

Based on these figures the amount allocated for children's corners and its employees was nearly EUR 6 million. At the same time a new follow-up call for offers is prepared in the new programming period.

For the capacity extending of kindergartens EUR 15 million in two rounds was earmarked in 2015. Overall, this will support 227 new classrooms and maintain existing capacity in 22 additional classrooms which will be attended by 5,000 additional children. Calls for the expansion of the capacities of kindergartens from the Integrated Regional Operational Programme (EUR 80 million) and the Operational Programme Human Resources (EUR 58 million) were announced. New places for children aged 3-6 years will also be created in the regions with the presence of MRC. In order to promote the development of care services for children under three years, conditions for the implementation of this measures in the new programming period were set in both the ERDF and ESF.

### 3. Education and social inclusion

***Specific recommendation of the Council: Improve teacher training and the attractiveness of teaching as a profession to stem the decline in educational outcomes. Increase the participation of Roma children in mainstream education and in high-quality early childhood education.***

*Salaries of teachers were increased by 5 % in 2015 and based on the approved budget an increase of 4 % from January and an additional 6 % from September is expected in 2016. From September 2015 there has been progress in reducing administrative burdens teachers. New Education Act introduced a number of innovations that should prevent the placing of pupils in special schools solely on the ground that they come from socially disadvantaged backgrounds.*

#### **Status of teachers**

As in 2013 and 2014, **salaries of teaching staff in regional education were increased** by 5 % also in 2015. The average salary of teaching staff financed from the state budget reached 116 % of the average wage in the national economy in 2015, while in 2012 it was only 105 %. In 2016 a further increase of tariff salaries by 4 % was approved for all employees including non-teaching staff and the government has resolved to implement a further increase by 6 % for teaching staff from September 2016.

Measures taken to reduce the **administrative burden** should also improve the working conditions of teachers. For example, since September 2015 several forms and administrative documents were abolished and simplified. At the same time it was allowed to keep the class book in electronic form as well. Where schools follow the state education programme, they need not create a curriculum, because it is now defined in the educational standards in the state education programme itself.

#### **Integration of Roma children**

The main purpose of the **amendment to the Education Act** is to prevent the mistaking of pupils with special educational needs that arise solely from their socially disadvantaged backgrounds with those which result from physical handicaps. Origin from socially disadvantaged backgrounds cannot be a satisfactory reason for inclusion of children in special schools or special classes. The period for placement of pupils in specialized classes, in which a pupil can catch up with the missing knowledge, was shortened to a maximum of one school year. The allowance for pupils from socially disadvantaged backgrounds will be provided to the schools only for those students who will be enrolled in a regular classroom with other students. Compared with the past, the competences of the State School Inspection were clarified in order to inspect and impose sanctions and corrective measures on institutions which perform the diagnosis of children with special educational needs.

The project *Inclusion of marginalized Roma communities through education of teachers* (MRK 1) introduced all-day educational system for 43,614 students in 200 primary schools. The project *Inclusive education model in the pre-primary level of education* (MRK 2) prepared 6,415 children from the environment of MRC in kindergartens for entry into primary school. The last national project is the *PRoject for INclusive EDucation* (PRINED), which aims to strongly promote inclusive environment in kindergartens and primary schools in order to ensure the prevention of unwarranted enrollment of pupils into special education.

In 2015 more towns joined the project of **field social work** that promotes the integration of MRC. Their number thus increased to 294, and 895 field social workers and assistants worked in them. The financial allocation for the project from the ESF was EUR 30 million in 2015. 168 community centers were contracted in the project **Community centers**, which provide social services to socially excluded communities, with emphasis on the MRC, such as assistance with job seeking and promotion of meaningful use of free time for children at preschool and school age. A total of 620 jobs was created and supported. A sum of EUR 17 million from the ESF was allocated for community centers in 2015.

#### **4. Investment, better regulation and public procurement**

***Specific recommendation of the Council: To boost infrastructure investment, improve and streamline the administrative procedures for obtaining land-use and construction permits. Increase competition in public tenders and improve supervisory mechanisms in public procurement.***

*After an increase of 60 %<sup>6</sup> in 2015, investment in transport infrastructure will slightly decrease. The budget for 2016 is 18 % higher than actual spending in 2014. 22.8 km of railway lines were modernized and over 57 km of motorways and expressways were delivered in 2015. In the same year the renovation of nearly 170 km of class A roads in central and eastern Slovakia was carried out. The first phase of the implementation of the project for computerization of the building code and land planning (e-STAK) was completed. The project continues by public procurement for the supplier of software solutions.*

##### ***Strengthen infrastructure investment***

The expenditure on construction of highways and expressways reached historic highs in 2015. 70 % of this expenditure were EU resources, which were higher than in previous years because of the end of the programming period. Total expenditure in 2015 was thus close to a billion euros (about 1.2 % of GDP). After 2016, their significant decline is still not expected. Expenditure on modernizing the railways is also rising.

The main priority in the area of construction of transport infrastructure<sup>7</sup> is the **completion of the D1 motorway from Bratislava to Košice**. 4 new sections of this motorway with a total length of 47 km were opened in 2015. Drivers will thus be able to travel 74 % of their journey from Bratislava to Košice on the D1 motorway. In addition, the section Pstruša - Krivan on the expressway R2 with a length of 10.4 km also became operational in 2015. Currently a large-scale project *Construction and safety measures for class A roads* is under way, within which nearly 192 km of class A roads in the eastern and central Slovakia and in the Trenčín region should be renewed.

Several **public transport** projects are being implemented in order to increase its attractiveness. In the area of railway transportation, the modernization of railway infrastructure is under way and the fleet of the Railway Company Slovakia was renewed (in total 181 vehicles were purchased or renovated from the OP Transport since 2014). Several cities have new trams and trolleybuses, which offer greater comfort in public transport. In total 33 new trams for EUR 57 million were purchased in Košice and 45 new trams and 120 trolleybuses for EUR 211 million were bought in Bratislava with a significant contribution from the EU funds.

##### ***Improve and streamline administrative procedures for obtaining planning and building permission***

The electronisation of the procedures of the building code and land planning within the e-STAK project will contribute to the simplification and speeding up of the construction procedure. The first phase of the project was completed in 2015, which consisted of an analysis of the current state of processes in the construction procedure and land planning; a proposal for a future state for these processes; defining of the requirements for a software solution and a proposal for legislative changes. Public procurement for the developer of the software is currently under way with the plan of signing the contract in the second quarter of 2016. The information system should be deployed into full operation within four years of the signing of the contract.

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<sup>6</sup> State budget and EU sources for investment into road and rail infrastructure, including concession payment for the PPP project R1.

<sup>7</sup> According to the strategy of MTCRD SR.

In September 2015 an amendment to the Building Act was approved, which allows for more efficient land and construction procedures in order to allow for the approval of buildings within investments of high importance in a shorter timeframe<sup>8</sup>.

### ***Improve oversight mechanisms in public procurement***

The live operation of the electronic marketplace in the e-contracting system for public procurement for sublimit contracts was launched in February 2015, and the dynamic purchasing system and the support for public procurement processes were launched in October 2015. Based on an amendment to the Public Procurement Act, another part of the portal was prepared and in December 2015 a pilot version was launched - the above-limit electronic marketplace.

In the **combat against letterbox companies**, the amendment to the Public Procurement Act effective from November 2015 made it impossible to participate in public procurement for companies that do not show their ownership relations at the level of the individual. Because of the transposition of the anti-money laundering directive from May 2015 further steps in the fight against letterbox companies beyond the public procurement framework are expected within two years.

## **Measures taken in other areas**

### ***Social insurance and retirement saving***

In 2015 the second pillar was re-opened and minimum pension was introduced. From July 2015 pensioners with 30 or more years of qualified pension insurance are entitled for the minimum pension<sup>9</sup>. As the minimum pension will be calculated as a multiple of the subsistence minimum and will increase with the number of qualifying years of pension insurance, it can motivate insured persons to extend their working careers. Already 38 thousand pensions have been increased by this measure on average by EUR 28<sup>10</sup>. From March 15, 2015 the second pension pillar was re-opened for three months, allowing people to enter or leave the pillar at their discretion. The result of the opening was a one-time transfer to the Social Insurance Agency in the amount of EUR 579.2 million, 159 thousand participants left the second pension pillar while 25 thousand participants entered.

The second pension pillar payout phase has started in 2015. 871 applications for pensions from the second pillar were received in 2015, and, by the end of 2015, the pension from the second pillar was paid to 328 participants. On average, annuity paid from the second pillar was EUR 25.84.

### ***Reducing regional disparities***

In December 2015 a law<sup>11</sup> to support the least developed districts came into force. There are currently twelve such districts. Support is based on the cooperation between public authorities, employers and civil society, positive discrimination of the regions (e.g. in the use of EU funds and in obtaining investment incentives), the development of mandatory, usually five-year action plans, and the joint implementation of these action plans. Action plans are financed from private funds, European funds, existing departmental programmes, own budgets of municipalities and higher territorial units, and from special regional aid in the areas of business, investment support, development human resources (e.g. ALMP projects) and infrastructure improvement (e.g. housing support, development of social services). In February the Action Plan of the Kežmarok district was approved with a total estimated investment in the period of 2016-2020 of at least EUR 52 million, of which EUR 44 million is covered by public funds (regional aid of EUR 4 million and resources from operational programmes of EUR 40 million) and EUR 8 million are from private funds. Action plans for all 12 least developed districts identified in December 2015 will be approved during 2016.

In order to assist poor regions, social security and healthcare contribution relief to promote employment in the least developed districts is valid from December 2015. The extension of the contribution relief applies to a new employees who have been registered in unemployment for at least six months. For up to 12 calendar

<sup>8</sup> Amendment to the act approved 30.9.2015 (parliamentary list [1782](#)).

<sup>9</sup> Only the years of pension insurance during which the personal income was corresponding to point value of 0,241 are considered as qualified years.

<sup>10</sup> According to the data of the Social Insurance Agency for December 2015

<sup>11</sup> Act No. 336/2015 Coll. on the support for the least developed districts effective from 15 December 2015.

months, the employers will only pay contributions for accident insurance and guarantee insurance for these employees.

### ***Business environment - support startups and innovation***

In June 2015 the Concept for Supporting Startups and Startup Ecosystem in the Slovak Republic was approved. It contains 18 measures from legislative, tax, and financial areas, as well as from the areas of education, which should contribute to significantly facilitate business and startups creation. In 2015 a new form of company was introduced (simplified joint stock company). The tax legislation introduced an exemption from the obligation to pay the tax license for a period of three years for startups and from January 2016, the guarantee required with the voluntary VAT registration was abolished for those entities that are only preparing for conducting business.

From January 2015, a tax relief for expenditure on research and development was introduced. The measure allows for the deduction of 25 % of annual expenditure on research and development, 25 % of year-on increase in expenses and 25 % of the expenses for salaries of newly recruited graduates from the tax base for the corporate income tax. In March 2015 the Ministry of Economy supported a total of 68 projects totaling EUR 347.7 thousand in the scheme of innovation vouchers. In 2015, 7 projects totaling EUR 130 thousand received subsidies to promote industrial cluster organizations.

In 2015, additional measures were adopted with a positive impact in the areas of paying taxes and starting a business. In the area of paying taxes by businesses, with effect from January 2016 the conditions for faster VAT refunds are simplified, and motivating sanctions and special arrangements for the accounting for VAT on the basis of the receipt of payment for the supply of goods or services (cash accounting) are introduced. Furthermore, the obligation to hold capital in a preliminary bank account before setting up a limited liability company is also abolished and the legal fees for the registration in the Register of Companies are lowered, thus reducing the costs associated with starting a business. With effect from September 2015, the areas of tax law, for which it is possible to issue a legally binding opinion to further a common application of the procedures for entrepreneurs, were expanded.

Further measures that will have an impact on the assessment of the regulatory environment for businesses in the coming years were also adopted: a reduction of legal fees for the registration in the Register of Companies (effective from 2016), and the improvement in the efficiency of obtaining building permits by the electronization of the building code, the land planning, and of the regional development - project e-STAK (latest in 2020). In 2016 the electronization of the communication with the tax offices and the electronization of customs supervision over the import of goods will contribute to reduction of the administrative burden for businesses.

### ***E-Government - slovensko.sk***

The following services were made available to individuals and businesses in 2015: services of the portal slovensko.sk, electronic services of the MoLSAF of the SR, and electronic services of the central electronic folder, the central registration office, national vehicle database, electronic identity cards, vehicle registration, and many more. Over 1,500 electronic services of public administration at the central level are available through the portal slovensko.sk and the integrated service points. The electronic services of 6 higher territorial units were implemented at the regional level (excluding the Bratislava and Trenčín region), while the higher territorial units provide 49 to 73 services as well as the electronic services of 3 towns. By the end of 2015 the following measures were also taken:

- the issue of almost 1.2 million identity cards allowing the access to personal electronic mailbox and e-services,
- the project Data center of villages and towns, which allows the municipalities to provide 138 public services in one information system
- the launch of important reference registers, mainly the register of individuals, addresses, and the register and identification mechanism of businesses.

As part of the information system for payments and record keeping of administrative and legal fees, a new system was created that enables a full transition from the original printed stamps to modern methods of payment of these fees (so-called eStamps).

### ***Law enforcement - a new Civil dispute, Civil non-dispute and Administrative procedure codes and electronization***

The electronization of processes will simplify and facilitate the processes also in the area of law enforcement. The so-called register of disqualified persons was established which is used to eliminate e.g. entities (companies) that infringe tax, contributions, bankruptcy or trade regulations. The ongoing electronisation of the case file will contribute to the acceleration of legal proceedings. Currently some processes related to the court proceedings are already computerized.

The work on the electronic form of the Collection of Law as the official source of law in Slovakia was completed with the launch date in April 2016. At the same time the electronisation of the case file, electronic monitoring of charged and sentenced persons, and the addition of data in the electronic register of bankrupt entities continues. Services allowing for the electronic filing of legal action, the central registry of court-ordered debt collections, and the electronic diary of court experts, translators and interpreters also entered into operation.

The new Civil dispute procedure, Civil non-dispute procedure, and Administrative procedure, which become effective from July 2016, can help improve the justice system. The amendments will positively impact the specialization of the judicial system and judges as well. In the area of the combat against letterbox companies, the amendment to the public procurement act prevented the participation in public procurement of companies that do not reveal their ownership relations at the level of the individual. Because of the transposition of the anti-money laundering directive from May 2015 further steps in the fight against letterbox companies beyond the public procurement framework are expected within two years.

Alternative dispute resolution forms should contribute to the relief of courts. A new institution of out-of-court resolution of consumer disputes is introduced in 2016, bringing faster, cheaper and less formal procedure for resolving disputes between sellers and consumers.

### **Efficient, reliable and open public administration (ESO)**

The ESO programme continues in the area of improving public administration. Support services, such as facilities management, accounting, human resources, IT and procurement, are gradually being separated from state and local public administration bodies and subsequently reorganized.

The opening of client centers continues. At the end of 2015, 43 client centers were established at district offices and by the end of February 2016 another 4 centers were launched. During March 2016 another 2 client centers were open. Overall, the Ministry of Interior aims to open 79 client centers.

An integral part of the ESO reform is the rationalization of processes and the increasing of internal efficiency of all organizations of the state. Three project plans<sup>12</sup> were approved in the monitoring committee for the Operational Programme Effective public administration (OP EVS) in May 2015 and two additional project plans<sup>13</sup> were approved in September 2015, based on which grant applications are currently being prepared.

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<sup>12</sup> Optimization of processes in public administration, Building of quality management systems in the public administration in order to promote efficiency of services and improve performance of organizations through the introduction of a comprehensive quality management, and Measurement of the effectiveness of public service delivery, institutional development client centers and integration of client feedback.

<sup>13</sup> Building and capacity development of analytical units in selected central state administration bodies, Support for international cooperation aimed at strengthening the exchange of experience and good practice between EU and OECD countries in the field of public administration reform

### 3 Macroeconomic framework and medium-term forecast

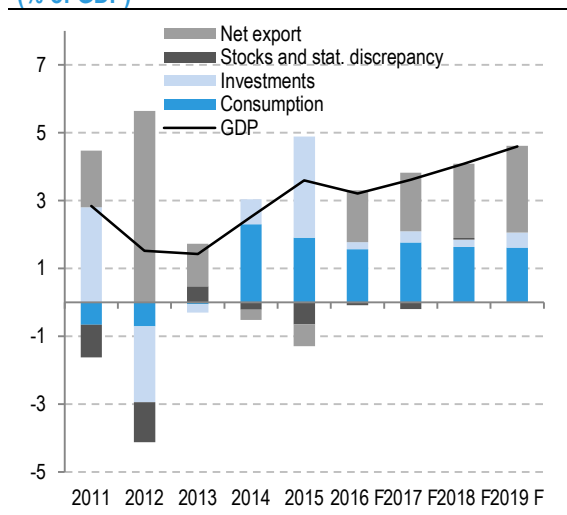
#### **Acceleration of growth in 2015 mainly due to the drawing of EU funds**

The growth of the Slovak economy accelerated to 3.6 % in 2015. For the second consecutive year, domestic demand was the main driver of growth. Main contribution to the growth was public investment in the form of accelerated drawing of EU funds from the 2007-2013 programming period. Significant employment growth coupled with falling prices led to the growth of real incomes and encouraged the consumption of households. Government consumption also contributed positively to the GDP growth. Net foreign trade lowered GDP growth again. The sharp rise of investments with high import intensity led to the growth of imports, which outpaced the acceleration of exports.

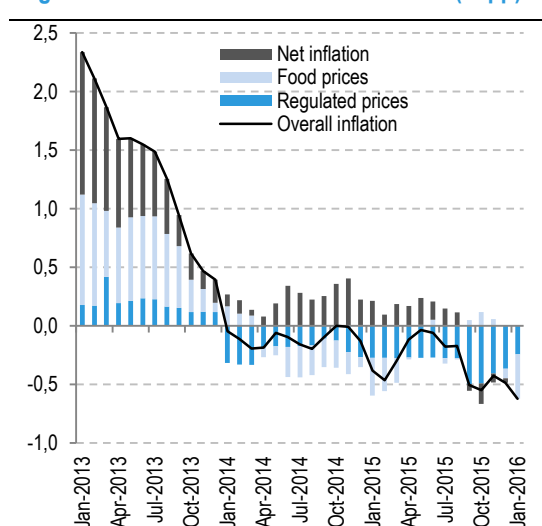
The labour market continued improving in 2015. The number of employees increased by 44 thousand (according to the ESA methodology) which was reflected in a decrease of the unemployment rate (according to the LFS methodology) to 11.5 %. This was the lowest level of unemployment since the crisis in 2009. New jobs were created equally in all sectors of the national economy except construction. Foreign labour markets, where additional 14 thousand workers found employment, have also contributed significantly to the decline in unemployment. Nominal wages grew by 2.9 %, real wages grew even faster (3.2 %) due to declining prices. Second year in a row wages overtook the real growth of labour productivity and they partly closed the gap in their development in the previous years.

The price level decreased again in 2015. Prices in Slovakia fell by 0.3 % in accordance with the development in the euro area. The decline was caused by domestic and foreign factors. The decrease in the price of oil and energy commodities on the world markets together led to decreasing fuel prices as well as decreases in regulated prices of electricity and gas. The decline in prices of agricultural products, in turn, reflected in lower food prices. Despite largely positive labour market outcomes, the prices of services increased only slightly. The net inflation thus remained near zero in 2015.

**Figure 3: Contributions to GDP growth in Slovakia (% of GDP)**



**Figure 4: Structure of consumer inflation (in pp)**



Source: SO SR, MoF SR

#### **Gradual acceleration of the Slovak economy in the following years<sup>14</sup>**

GDP growth will maintain a solid pace of 3.2 % in 2016. Slower initial drawing of EU funds from the new programming period will likely lead to a decline in public investment. However, the growth of private investment will accelerate, particularly in the automotive industry. Export growth will lag slightly behind foreign demand due to partial restrictions of production in relation to the expansion of production capacity of automobile production. The continued positive development on the labour market and low price growth will

<sup>14</sup> Last official forecast of the MoF SR from February 2016, which is used in the Stability Programme for 2017-2019.

support private consumption, which will grow at the fastest rate since the economic crisis. Growth of imports will slow down along with a decline of investment and foreign trade will thus contribute positively to GDP growth again. In the subsequent years GDP growth will accelerate again and should exceed 4 % between 2018 and 2019 thanks to new production capacities in the automotive industry.

The labour market will continue in its positive development from last year. Approximately 30 thousand new jobs will be created in the economy and the unemployment rate will decrease to 10.4 %. Low inflation will again lead to a robust growth of real wages by more than 3 % per annum. The wage growth will be faster than labour productivity growth until 2018. Relatively strong growth of employment will continue in the coming years and by the end of the forecasting period unemployment rate should fall to 7.3 %.

Prices will only increase marginally this year. Inflation is suppressed in the whole euro area by global commodity prices, which also led to a decrease in the regulated prices of electricity and gas at the beginning of the year. Food prices should start to slowly rise during the year. Towards the end of the year growing domestic demand will also have a slightly pro-inflationary effect. The extension of the programme of quantitative easing by the ECB should bring an acceleration of price growth in the euro area as well as in Slovakia in the second half of the year. In subsequent years the inflation rate will slowly rise as the negative output gap closes and in 2018 it will reach above the inflation target of the ECB.



## 4 Planned measures in structural topics

This chapter describes the measures which the Slovak Government undertakes to implement in the upcoming years. The measures concern the area of economics and social agenda, as well as public administration. The following table includes the most important planned measures, which respond to individual country specific recommendations of the Council (CSR) and the assessment of their implementation by the EC from February 2016.

### Overview of the most important measures of the NRP 2016

CSR	Task name	Deadline	Sponsor
1	Diagnosis-related groups (DRG) payments	1.1.2017	MoH SR
1	Implementation of e-Health	1.1.2017	MoH SR
1	Construction of a new hospital		MoH SR
1	Integration of healthcare provision	31.12.2016	MoH SR
1	Analytic capacities of the Financial Administration	31.12.2019	FA SR
2	Extension of kindergarten capacities	31.12.2016	MoLSAF SR, MoESRS SR, Mol SR
2	Development of child care services for children under 3 years of age	31.12.2016	MoLSAF SR, MoARD SR
2	New or innovated active labour market policy programmes (ALMPs)	31.12.2016	MoLSAF SR
2	Continued public employment services reform	31.12.2016	MoLSAF SR
3	Integration of marginalized Roma communities	31.12.2016	MoLSAF SR, OPGRC, Mol SR, MoH SR, MoESRS SR
4	Construction of motorways and expressways, modernization of A-class roads and railway corridors	31.12.2015	MoTCRD SR
x	Reform in R&D funding	31.12.2016	MoESRS SR
x	Transformation of the Slovak Academy of Sciences (SAS)	31.12.2016	MoESRS SR
x	Effective, reliable and open public administration – ESO programme – further phases	31.12.2016	Mol SR
x	Changes in the pensions system		MoLSAF SR
x	Higher value for money		MoF SR
x	Real estate property taxes		MoF SR
x	Introduction of personal bankruptcy procedure		MoS SR
x	Reform of budgetary rules		MoF SR
x	Changes in accreditation commission		MoESRS SR
x	Anti-corruption regulatory impact assessment		MoJ SR
x	Anti-letterbox companies law	31.12.2016	MoJ SR
x	More effective public passenger transport	31.12.2017	MoTCRD SR

## 4.1 Fiscal policy and public finance

According to Eurostat's notification the general government deficit reached 2.97 % of GDP in 2015. The original budgetary objective of 2016 will remain at 1.93 % of GDP. In the following years a gradual reduction of the GG deficit will continue until it reaches its medium-term budgetary objective (MTO) in 2019. At the same time, fulfilling the MTO will enable a decline of the GG gross debt below 50 % of GDP. An assessment of the efficiency of public expenditure is a new instrument for the achievement of a balanced budget and increasing the value for money. From 2015, a new debt rule applies to local governments which creates the possibility of sanctions for municipalities and higher territorial units. The government will amend the act on the budgetary rules of the general government initiate a debate on the reform of the constitutional law on fiscal responsibility.

The government will adopt a number of changes in the tax system. Corporate income tax will be reduced to 21 % and from 2018 tax licenses will be abolished. The government will continue in the application of specific levies and taxes in regulated industries with the option to extend them to other sectors. The technical prerequisites will be created in order to change the system of taxation of real estate towards determining the tax base by the value principle.

After the success in the combat against tax evasion, several measures of the Financial administration will contribute to further increasing the efficiency of tax inspection and the reduction of administrative burden. In 2015 the range of services provided by Financial administration was expanded and currently the introduction of an electronic tax inspection in the form of a tax audit is being prepared.

### Outcome indicators for fiscal policy and public finance

		2007	2008	2009	2010	2011	2012	2013	2014	Target 2020
<b>Long-term sustainability indicator (GAP)</b> (% of GDP)	<b>SK</b>	-	-	9.5	9.2	7	4	1.9	2.4	0
	<b>EU</b>	-	-	-	-	-	-	-	-	-
<b>VAT collection effectiveness</b> (%)	<b>SK</b>	62	62.7	55.9	54.7	54.7	50.3	55.3	57.4	72
	<b>EU</b>	71.9	69.9	64.5	65.6	65.9	66	66.3	67.4	-

Fiscal policy strategy is based on the main objective of ensuring effective and sustainable public finances which promote sustainable economic development and improvement of the quality of life in the context of aging population and by taking into account contingent liabilities. This objective is also stated in the constitutional law on fiscal responsibility.

The budgetary framework of the SR is evaluated positively in the area of fiscal rules, but there is space for improvement in the medium-term budgetary framework. [The index of national fiscal rules](#)<sup>15</sup> has increased from 2.2 to 2.9 in 2014 (maximum of 4.0), which ranks Slovakia among the top 5 countries in the EU. A balanced budget rule, including a correction mechanism, was introduced as a transposition of the Fiscal Compact. As a result, for the first time for the year 2015, the local government will be liable to pay fine<sup>16</sup> for exceeding the debt rule, which will further improve the assessment of Slovakia in the area of fiscal rules.

Slovakia's index for medium-term budgetary frameworks<sup>17</sup> achieves the EU average (1.6 out of a maximum 2.0). Slovakia reaches full score in the areas of the scope of the budgetary framework, linking of the annual budget process with the medium-term framework, and the involvement of the National Council into the preparation of the medium-term framework. The medium-term budgetary framework of the SR is included in

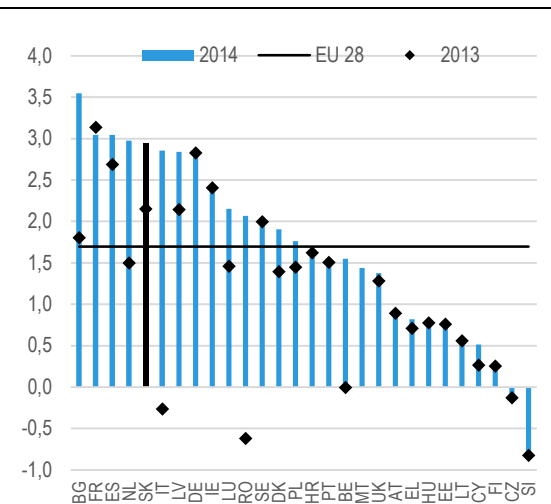
<sup>15</sup> The index of national fiscal rules is compiled by the European Commission. It periodically evaluates the effectiveness of multiple dimensions of fiscal rules (legal basis, binding rules, monitoring institutions, enforcement mechanisms), designed to ensure budgetary discipline.

<sup>16</sup> If the total amount of the debt of the municipality or higher territorial unit reaches 60 % of the actual current revenues of the previous financial year or more, the municipality or higher territorial units are obliged to pay the fine imposed by the Ministry of Finance, amounting to 5 % of the difference between the total debt and 60 % of real current revenues of the previous financial year. The government does not ensure the ability to pay and is not responsible for the solvency of the municipality or higher territorial unit.

<sup>17</sup> Medium-term budgetary frameworks allow fiscal policy planning beyond the one-year horizon of the budget, which does not provide an adequate basis for effective financial planning. This pillar, inter alia, evaluates the coordination within the budget process, the involvement of national parliaments and monitoring of implementation.

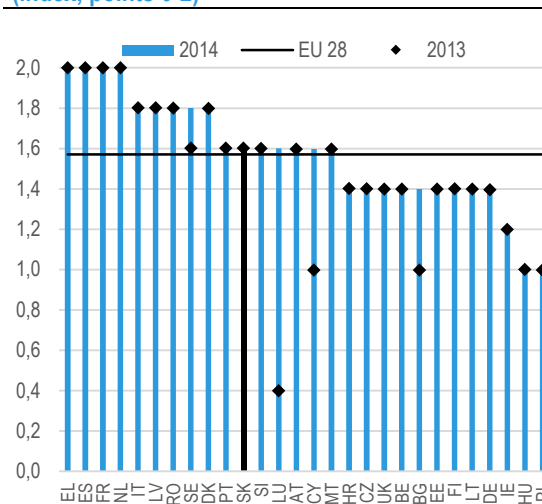
the Stability Programme, which, by the way of an amendment to the act on the budgetary rules, replaced the previous general government budget framework in 2015. Slovakia attains below-average score within the EU in the area of monitoring and the level of obligation of their MTOs.

Figure 5: National fiscal rules (index, points 0-4)



Source: EC

Figure 6: Medium-term budgetary frameworks (index, points 0-2)



Source: EC

Based on estimates of the European Commission (CASE<sup>18</sup>) and of the MoF of the SR, Slovakia managed to **reduce the VAT gap** from the level of 40 % in 2012 to 29.5 % in 2014. Based on preliminary estimates of the MoF of the SR, additional, albeit more modest decrease in the size of the VAT gap is also expected to be achieved in 2015. Despite the significant decreases, Slovakia still does not attain the level of the average VAT gap in the EU of 18 %. The action plan to combat tax fraud was updated in 2015, which includes measures to combat tax evasion, but also to increase the efficiency of tax collection and enforcement.

Slovakia is also involved in the BEPS project of the OECD. The project represents a coordinated action by the member states of the OECD as well as other countries in the **combat against aggressive tax planning** and it comprises 15 actions aimed at combating distortions of the tax base. Some of these measures have already been partially implemented by the Slovak Republic within the act on income tax. In particular, these include the adoption of rules for low capitalization, the introduction of transfer pricing documentation and the neutralization of hybrid discrepancies in relation to the implementation of the new directive on the taxation of parent companies and subsidiaries in the context of EU legislation. The MoF of the SR is also analyzing further measures within the BEPS.

### Higher value for money

An assessment of public spending effectiveness (spending review) represents a new instrument for achieving a balanced GG budget and increase the value for money. The government will, under the leadership of the MoF of the SR, and in close cooperation with the Government Office and all government departments, will reform the rules, set up the processes and strengthen the institutions to support clear decision making process for every public decision and higher value for money in the Slovak public sector. Decisions on key investments, policies, regulations of public and business behaviour and operating expenditure of the state will undergo a complex economic assessment.

### Reform of budgetary rules

In order to find a constitutional majority, the government will initiate a broad expert and political debate on the reform of the **constitutional act on fiscal responsibility** based on past experience with its practical application. The aims are mainly to achieve neutrality of the so-called debt brake in the management of public debt by binding sanctions bands of constitutional law to net public debt rather than gross debt, to take into account strategic public investment in the application of sanctions, and to set the parameters of sanction

<sup>18</sup> Study to quantify and analyse the VAT Gap in the EU Member States, 2015 Report. Sponsor of the study: EC, TAXUD.

bands that support the economic development of Slovakia. Discussion should also focus on neutralizing the impact of methodological changes on the level of debt.

The government also plans to prepare an amendment to the **act on budgetary rules** in order to harmonize national legislation with European budgetary rules and to further modernize the budget process. As part of the budgetary process, the government will regularly and systematically reviewed public expenditure and the conclusions of the spending reviews will be included in the general government budget and the draft budgetary plan.

#### ***Current development and budgetary targets for 2017-2019***

**According to the data notified by Eurostat, the general government deficit reached 2.97 % of GDP in 2015.** The exceeding of the planned deficit of 2.49 % of GDP is, among other things, due to the non-recognition of a number of income items totaling 0.4 % of GDP as accrual revenue in the ESA2010 methodology. Compared with the assumptions of the budget, tax and contribution revenues were significantly higher due to better macroeconomic developments and more successful collection. These positive effects were offset by higher investments associated with accelerated drawing of EU funds, as well as higher spending on healthcare and compensation of employees. Another difference was the correction of irregularities in the allocation of EU funds, which cannot be affected by the budgetary policy of the government.

**The original budgetary objective for 2016 of 1.93 % of GDP remains unchanged.** The estimate of the general government deficit which is based on continuous monitoring currently stands at 2.13 % of GDP. An upward revision of tax forecast partly compensates for the higher investment related to the preparation of a strategic industrial park in Nitra and Bratislava bypass D4 / R7, which were not confirmed at the time the drafting of the budget. The slightly higher expenditure of public health insurance is offset by higher revenues and savings especially in social benefits and interest expense. Compared with the assumptions of the budget, higher current and capital expenditure of municipalities is expected, which are fully covered by the expected higher tax collection and better drawing of EU funds. Higher tax and contribution revenues from continuing effectiveness of tax collection as well as active management of the expenditure that is available to the government can contribute to the fulfillment of the original budgetary target.

**In the coming years a gradual reduction of the general government deficit will continue until reaching the medium-term budgetary objective (MTO) in 2019.** The fiscal objectives are fully in line with the rules of the Stability and Growth Pact and enable the financing of investment priorities of the new government. During 2017-2019 the fiscal framework expects a gradual reduction of the general government deficit to 1.29 % of GDP in 2017, 0.44 % of GDP in 2018 and the achievement of a budget surplus of 0.16 % of GDP in 2019. Compared with the general government budget for 2016 to 2018, there is a change to the ambitiously-set original deficit targets, which should increase by about 0.9 percentage points in 2017 and by 0.4 pp in 2018. The fiscal framework does not yet reflect measures of the new government in the exception of priority investments and part of the tax measures.

**Budgetary targets of the general government are in line with European and national fiscal rules.** The small deviation from the consolidation requirements identified in 2015 is fully offset by larger than the required decrease of the structural balance in 2016. The expected balance in 2016 and the budgetary targets correspond to the annual rate of structural consolidation of 0.7 % of GDP in 2017 and 0.5 % of GDP in 2018. With nearly neutral fiscal policy, Slovakia will achieve its medium-term budgetary objective (MTO) of a structural deficit of 0.5 % of GDP in 2019.

A number of temporary measures and forecasted tax collection enable a decrease in the GG deficit of 0.9 % of GDP in 2017 based on a no-policy-change scenario. Fiscal space of 0.4 % of GDP will be particularly used for the government's priorities in the areas of lower corporate taxes and higher investments related to the preparation of a strategic industrial park in Nitra and Bratislava bypass D4 / R7. On the expenditure side a mild stimulus is assumed in government intermediate consumption compensated by savings in employees' compensations. Consolidation measures amounting to 0.2 and 0.3 % of GDP, respectively, will contribute to fulfill the objectives in 2018 and 2019. Expenditure on the government's priorities should be financed by slow

growth of wage costs, higher effectiveness of spendings after their revision, continued more efficient tax collection and, partially, by savings in intermediate consumption.

The fulfillment of the medium-term budgetary plan will enable the **decline of the gross general government debt below 50 % of GDP over the forecast horizon**. Until 2017, the public debt level will remain without significant changes below 53 % of GDP. Starting in 2018, a faster pace of debt reduction is forecasted. Due to the expected acceleration of the economic growth, the recovery of growth of prices, and the expected surplus of general government, in 2019 the debt will move below the lowest sanction band of that year, amounting to 48 % of GDP.

#### ***Changes in the area of taxes and contributions***

In the area of taxes several changes will be adopted:

- the corporate income tax will be reduced to 21 %,
- tax licenses will be abolished starting with the tax year 2018,
- the limit for the application of flat-rate expenses for sole proprietors will increase,
- the application of specific levies and taxes in regulated industries with the option to extend them to other sectors will continue,
- tax and accounting legislation will be revised with the aim to encourage investment,
- in cooperation with the Association of Towns and Municipalities, technical prerequisites will be created in order to change the system of taxation of real estate towards determining the tax base by the value principle.

#### ***Efficiency of tax collection***

In line with the challenges identified by the European Commission in February 2016, the analytical capacities of the Financial administration will be built up in the years 2016-2019. The roles of the central analytical unit of the Financial administration will include analytical and forecasting activities, and the identification of potential risk subjects and the patterns of their fraudulent behavior (“analytical activity”); whereby especially analytical activity will be reinforced to identify transfers of profits abroad. This project will be implemented within the OP EVS and OP II in the programming period 2014 – 2020. Work has started on the second stage of the project of the Financial administration portal, the result of which will be the start of two-way electronic communication for direct taxes as well from 2016. Information systems for automated exchange of information on financial accounts are being prepared and adjustments of information systems are being implemented that will provide the Financial directorate information on the income of Slovak residents on their financial accounts held abroad. Lists of tax debtors will be published on a monthly basis. At the same time taxpayers will be regularly notified of their arrears by SMS and email. In 2016 the automation of the customs supervision of imports of goods - eDovoz - will be implemented.

The Action plan to combat tax evasion for the years 2012 – 2016 was updated in 2015. It consists of a summary of 30 measures across tax, criminal and commercial law. These measures include, for example, the introduction of criminal liability of business entities, a number of measures against tax evasion in excise duties and the establishment of a register of risky taxpayers.

#### **Box 1: Value for money and spending review**

**Spending reviews will cover the most of the central government spending over the four-year parliament.** It will assess efficiency and effectiveness of public expenditure and identify measures, which will increase the value for money, and thus enabling fiscal savings, better public services for citizens (results) and/or reallocation of financial resources towards the government's priorities.

**Strategic decisions related to spending reviews will be taken by the government.** It will take the most important decisions – mandates of reviews and their conclusions - concurrently with the Stability Programme and the GG budget, respectively, The MoF as a project sponsor designs objectives, organisation and technical parameters of reviews. A new unit will be created at the MoF, which will be

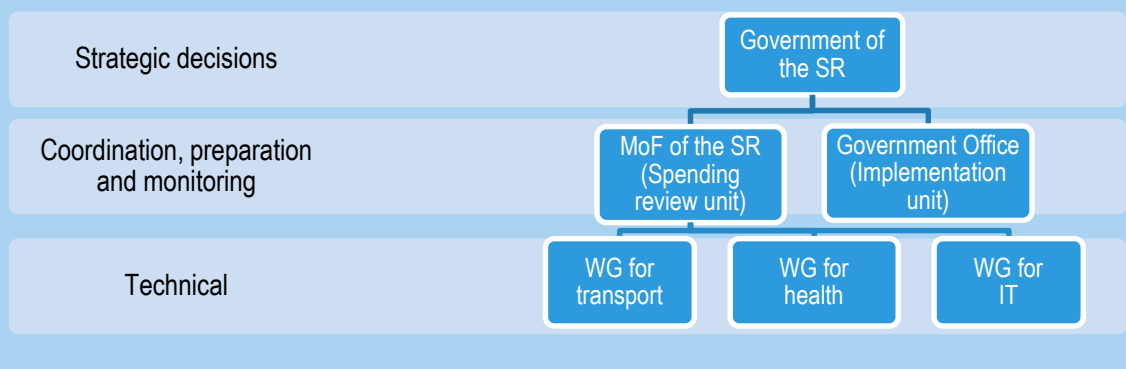
responsible for spending review project management, preparation and coordination of spending reviews including their involvement in the budgetary process.

**Joint teams of the MoF and a concerned government department will be responsible for particular sectoral reviews.** It assumes formation of operational working groups (WG) with participation of analytical units, budgetary units and most important organisations of the concerned government departments.

**During the pilot implementation of the instrument for public expenditure management the timetable for the first year of reviews is flexible.** Its flexibility should primarily ensure sufficient space for quality execution of report proposals with participation of other government departments in the first year of spending reviews. The objective is to include the spending review reports in the GG budget approved by the government by 15<sup>th</sup> October.

**Effective from 2017 spending review teams deliver reports by 30<sup>th</sup> June. The government approves the reviews together with the GG budget by 15<sup>th</sup> October.** The final report will include an action plan with measures. Their implementation will be monitored by the Implementation unit of the Government Office of the SR together with the Spending review unit of the MoF. Topics of spending reviews in the second and following years and their mandates will be determined by the government during yearly negotiations about the Draft Budgetary Plan in October.

The MoF is responsible for the final spending review reports, which are conducted in cooperation with concerned government departments. Other government departments undertake to collaborate on provision of complete and detailed data to conduct an analysis in the above mentioned areas.



## 4.2 Education, science, and innovation

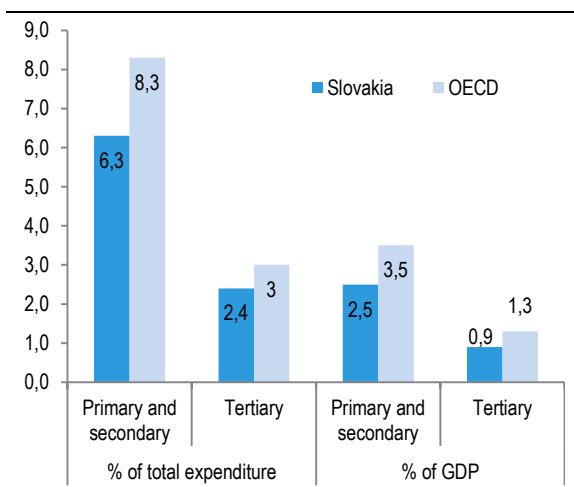
In line with the evaluation by the European Commission from February 2016, changes in the area of education are aimed at increasing the attractiveness of the teaching profession in particular by increasing teachers' salaries, expanding kindergarten capacities, promoting dual education and support for inclusion of marginalized communities. Measures to improve the science, research and innovation should stabilize state spending and increase the efficiency of use of these funds. An increase in private expenditure on R&D should significantly contribute to reaching the Europe 2020 target for expenditure on science and research.

### Outcome indicators for education, science and innovation

		2007	2008	2009	2010	2011	2012	2013	2014	Target 2020
<b>PISA</b> (arithmetic average of the scores)	<b>SK</b>	-	-	488	-	-	472	-	-	505
	<b>OECD</b>	-	-	497	-	-	497	-	-	-
<b>School drop-out rate</b> (% of population aged 18 - 24)	<b>SK</b>	6.5	6	4.9	4.7	5.1	5.3	6.4	6.7	6
	<b>EU</b>	14.9	14.7	14.2	13.9	13.4	12.7	11.9	11.2	10
<b>Citations</b> (%, 100 = EU average)	<b>SK</b>	38	40	35	34	35	45	47	44	70
	<b>EU</b>	-	-	-	-	-	-	-	-	-
<b>Tertiary education attainment</b> (% of population aged 30 - 34)	<b>SK</b>	14.8	15.8	17.6	22.1	23.2	23.7	26.9	26.9	40
	<b>EU</b>	30.1	31.2	32.3	33.8	34.8	36	37.1	37.9	40
<b>Expenditure on R&amp;D</b> (% of GDP)	<b>SK</b>	0.45	0.46	0.47	0.62	0.67	0.81	0.83	0.89	1.2
	<b>EU</b>	1.78	1.85	1.94	1.93	1.97	2.01	2.03	2.03	3
<b>High-tech export</b> (% of total export)	<b>SK</b>	5	5.2	5.9	6.6	6.6	8.2	9.5	9.7	14
	<b>EU</b>	12.3	12.2	13.1	12.2	11.6	11.6	11.6	11.4	-

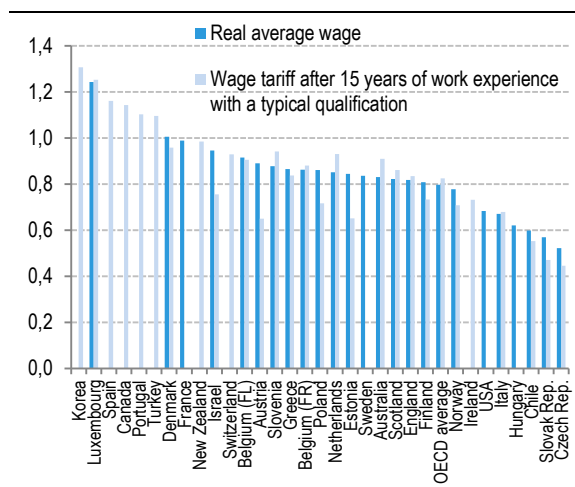
Compared with developed countries, expenditure on education and research is below average, with the largest gaps in primary and secondary education. Salaries of teachers have long been among the lowest in the OECD, although the difference has been partially alleviated by increasing the salaries of teachers in recent years. Expenditure on R&D as a share of GDP have seen an increase in comparison with the neighboring countries in recent years but are still below EU average.

Figure 7: Expenditure on education, 2012



Source: OECD (Education at a Glance 2015)

Figure 8: Wages of primary school teachers as a ratio of average wage of employees with tertiary education, 2013



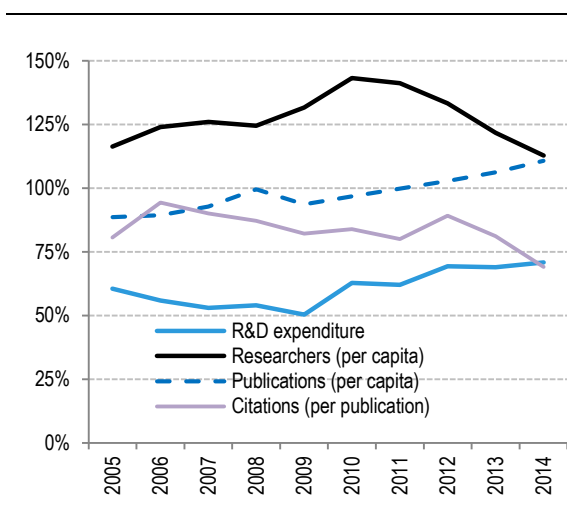
Source: OECD

A deterioration as well as a long-term lagging behind in the results of 15 year olds in the PISA testing indicates the poor quality of primary education. At the same time, the low number of citations reveals lagging quality

of higher education and science. The education system is not sufficiently responsive to labour market needs, which proves to be one of the reasons for the high structural unemployment.

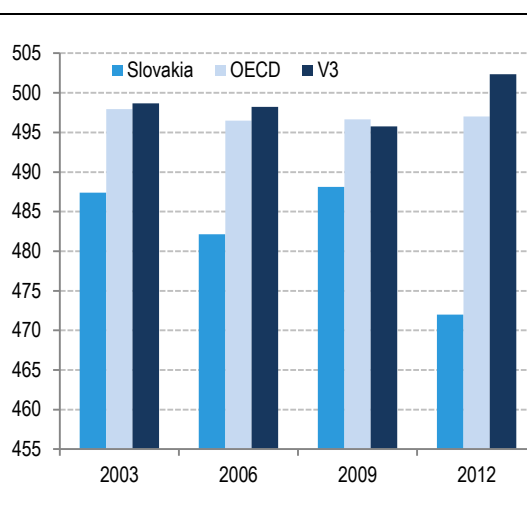
Rising expenditure on science and research has not shown in the results. While the decreasing number of researchers produces more publications, their citation does not increase and even in comparison with neighboring countries is below average. High-tech exports, which are used as an indicator for innovation performance, accelerated again slightly and moved towards the EU average.

**Figure 9: Inputs and outputs of R&D as a percentage of V3 average**



Source: Eurostat, Scimago

**Figure 10: PISA testing results (average score)**



Source: OECD

## 4.2.1 Regional Education

### **Expanding the capacities of kindergartens**

Expansion of kindergarten capacities will continue in 2016 with the use of structural funds. Construction of new kindergartens and expansion of existing capacities will be supported by almost EUR 80 million from EU funds, for which municipal, church as well as private operators will be able to apply. In parallel, calls for projects aimed at capacity expansion of kindergartens with a higher representation of children from MRC have been open with the allocation of EUR 58 million.

### **Higher quality and better support for teachers**

**The attractiveness of teaching profession** will be increased. Wage tariffs of teaching and professional staff in regional education will be increased from September 2016, and consequently from January 2018 annually by an average of 6 %. In the context of salary increases, faster growth will be supported for new teachers in order to increase the attractiveness of the teaching profession for the most talented young people.

The rules for continuing education and the remuneration system will be adjusted so that the system does not motivate teachers to gain credits regardless of the quality and meaningfulness of the training (new professional competences). At the same time the assessment of the quality continuing education programmes will be strengthened. In the area of undergraduate education discussions will be open with universities on possibilities to increase the pedagogical practice during the education of future teachers.

Furthermore, the **reduction of the administrative burden** will be supported by systemic changes, e.g. reduction of the structure of certain documents and by simplifying processes that are perceived as an unnecessary administrative burden.

The government will continue meeting the demand of school for textbooks, when the amount of textbooks will increase by 10 % in the school year 2016/2017. The procurement of 13 all-new titles for the general-education and vocational subjects is planned, which will also include an open license "Creative Commons -



Attribution", which will improve availability and access to educational content. Gradually the digital curriculum will be built up and access to it will be improved for all levels of education through national and demand-oriented projects in the OP Human Resources 2014-2020.

#### ***Linking education and labour market needs in vocational education***

Activities aimed at promoting dual education and education in technical fields will be supported. The Ministry of Education, in cooperation with the State Institute of Vocational Education, employers and secondary vocational schools, will continuously evaluate the functioning of the dual education and take action to optimize the system.

Ministry of Education will work with the Ministry of Labour on obtaining relevant data on the success of secondary vocational school graduates in the labour market. The ultimate goal is a systematic acquisition of quality data on the success of secondary vocational school graduates in the labour market, even several years after graduation.

#### ***Inclusive education***

The quality of education for pupils with special educational needs, including pupils from socially disadvantaged backgrounds, will be improved. The experience from schools that successfully implement inclusive education in practice will be transferred to other professional staff and teaching assistants through continuing education. Special attention will be paid to the enforcement of the provisions of the amendment to the education act, which is intended to prevent and avert the mistaking of pupils with special educational needs that arise solely from their socially disadvantaged backgrounds, with those which result from physical handicaps. Emphasis will be on improving diagnosis and reassessment of students in order to enhance its objectivity.

In the new programming period of 2014–2020, projects in the area of inclusion will follow up on the currently functioning all-day educational system, the development of inclusive education of children from MRC in the early childhood, work of teacher assistants and educational activities in Roma communities. These measures will also contribute to increasing the share of MRC children attending kindergartens.

## **4.2.2 Tertiary schools**

The preparation of an institutional reform of the **Accreditation Commission** will begin so that after meeting international standards it can become a member of the European Association for Quality Assurance in Higher Education (ENQA). The transparency and public control of the accreditation process will increase. The process will provide information on learning outcomes and the success of graduates. Gradually a shift from the accreditation of study programmes to the accreditation study fields will be implemented. The new accreditation process will meet the European standards in the coming years, making it impossible to provide tertiary education by institutions with an insufficient level of quality.

Within the financing system changes will be made to enable better differentiation based on quality of individual universities. In the area of social support for students, conditions will be created in order for the Fund for the Support of Education to have sufficient resources to support a greater number of applicants for a student loan. University teachers' wage tariffs will also be increased from September 2016, and from January 2018 an average of 6 % per annum.

## **4.2.3 Science and research**

#### ***Science and research***

After the adoption of the Research and Innovation Strategy for Intelligent Specialization (RIS3), the implementation of individual measures will begin with the aim of establishing structural changes in science and research as a significant driver of economic growth and employment. The measures will be mainly focused on the targeted use and the stabilization of public funds as well as support for the engagement of

private sector in R&D activities. Financing will be focused on increasing the quality of research, promoting the infrastructure built from EU funds in the second programming period and connecting universities, science academies, research institutions and partners from the area of industry.

One of the priorities will be to support the involvement of Slovak organizations in the European and international programmes of research and development. Further development of the successful international cooperation within the Danube Strategy, in which Slovakia coordinates priority area 7 (Knowledge society) as well as the development of cooperation in the area of research and development and dual education. Slovakia will continue to develop cooperation with the European Space Agency (ESA) in the prospective space technologies and within the Plan for European Cooperating States (PECS), Slovakia will contribute to the preparations for full membership of ESA. The involvement of Slovak organizations and innovative companies in the calls issued in the implementation of PECS will also continue to be promoted. The signed contract entered into force in January 2016, which will allow for the financing of the first seven PECS projects in the first call. The second call is scheduled for June 2016. It will mainly support the areas of Space Science, Earth Observation and GSTP (space technology).

The Ministry of Education will initiate a large audit of the whole Slovak research and science sector in cooperation with experts from abroad. The objective of this audit is to objectively and independently assess science and research in Slovakia as well as to enable comparison with other countries. The priority will be the identification of excellent and promising scientific research institutions. This will serve as a basic prerequisite for a targeted increase of funding for science and research.

Support will be targeted at the creation of a better information base about Slovak science, which would contain information about technological equipment of laboratories and competencies of scientists in scientific institutions. This has the potential to promote international cooperation and to attract foreign capital into research and development in Slovakia.

### ***Innovation***

The support for building industrial research, development and innovation capacities in companies should increase **private investment into innovation and research**, thus increasing the share of private resources in R&D. Given the large interest in the past, the scheme of innovation vouchers, through which cooperation of the business sector and R&D facilities is subsidized, will continue. Through this scheme, the state will support not only business entities with the potential to increase their competitiveness by means of innovation of their own products, services or technologies but also the domestic R&D base.

A scheme to **support industrial cluster organizations** is being implemented. Clusters and other forms of networking at the local, regional, national and macroregional level will increase the competitiveness of the cluster organization members by means of making their cooperation more effective and enhancing industrial clusters on the international scale. The calls in the programme to support innovative projects by the Ministry of Economy will be open in the second quarter of 2016 and the allocated funds are EUR 500 thousand. In the area of support for international cooperation in the field of industrial research and experimental development a call will be open in 2016 with a total allocation of EUR 500 thousand.

Within the implementation of the Smart Industry for Slovakia strategy, activities aimed at introducing innovation, digitalization and companies' processes' automation will be supported, which will promote competitiveness in an international environment.

### 4.3 Employment, pension system, and social inclusion

Measures in the areas of employment and social inclusion focus on continued reform of employment services, changes in the provision of social benefits, and support for childcare in order to increase women's employment. Tools for the integration of low-skilled and long-term unemployed into the labour market will be introduced. An evaluation of the net efficiency of ALMP is planned. Existing national projects will continue while new projects aimed at promoting socio-economic integration of MRC will be launched. Requirements for the provision of social benefits will tighten to promote the activation of people out of work. Social economy entities will be supported. Several changes in the pension system will be adopted, in particular indexation of pensions in the PAYG pension pillar will be adjusted while maintaining long-term sustainability of public finances, and the option for programmed withdrawal in the second pension pillar will also be adjusted.

#### Outcome indicators for employment and social inclusion

		2007	2008	2009	2010	2011	2012	2013	2014	2015	Target 2020
<b>Long term unemployment rate</b> (% of active population aged at least 15)	<b>SK</b>	8.3	6.7	6.5	9.3	9.3	9.4	10.0	9.3	7.6	3.0
	<b>EU</b>	3.1	2.6	3.0	3.8	4.1	4.7	5.1	5.1	4.5	-
<b>Employment rate</b> (% of population aged 20 - 64)	<b>SK</b>	67.2	68.8	66.4	64.6	65.0	65.1	65.0	65.9	67.7	72.0
	<b>EU</b>	69.8	70.3	69	68.6	68.6	68.4	68.4	69.2	70.1	75.0
<b>Population at risk of poverty and social exclusion</b> (% of population)	<b>SK</b>	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4		17.2
	<b>EU</b>	24.4	23.7	23.3	23.8	24.3	24.7	24.6	24.5		19.4

Despite recent positive developments, the labour market remains one of the main long-term challenges of the Slovak economy. The seasonally adjusted overall unemployment rate has been decreasing since the third quarter of 2013. In the fourth quarter of 2015 it amounted to 10.8 % and thus approached the unemployment rate in the eurozone countries. The forecast of the MoF of the SR from February 2016 expects a decline in the seasonally adjusted unemployment rate to single digit levels in 2017. Nevertheless, the overall unemployment rate as well as the long-term unemployment rate remain well above the average of EU and V3 (Poland, Hungary, Czech Republic) countries. The share of long-term unemployed in the total number of unemployed fell from 67.3 % to 62.6 % in the fourth quarter of 2015, which still represents one of the highest values among EU countries.

Figure 11: Quarterly development of the unemp. rate according to the LFS (SA data, %)

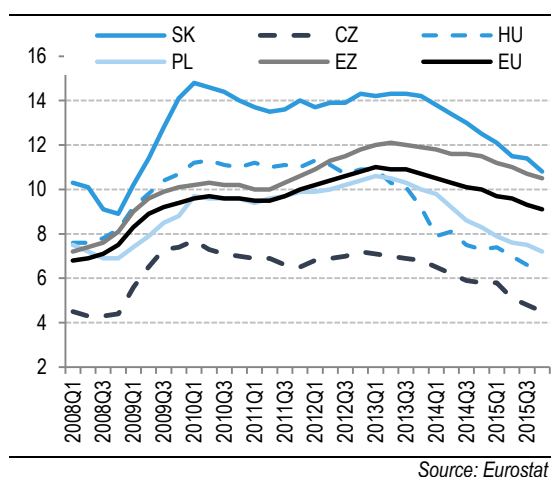
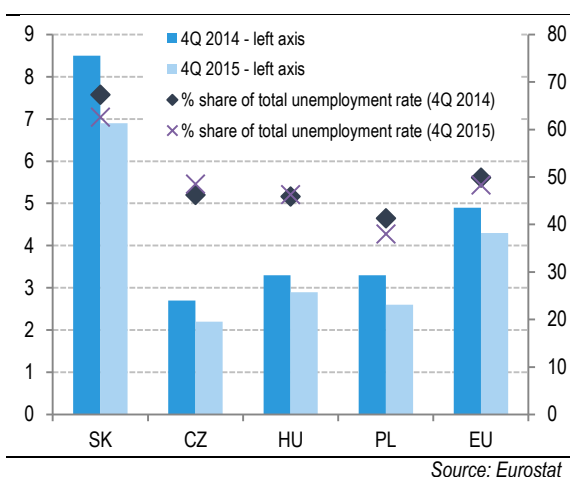


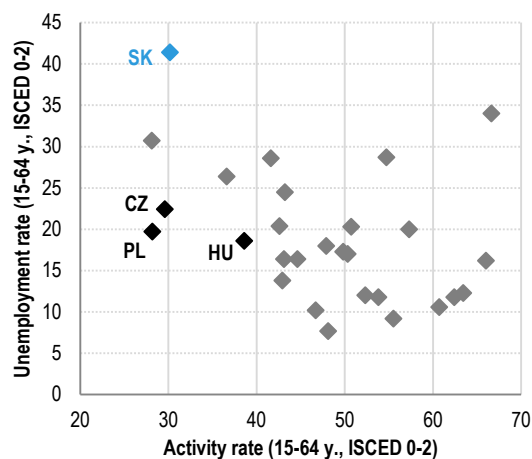
Figure 12: Long-term unemployment (%), 4Q 2014, 4Q 2015)



Targeted ALMP tools can enhance the employability and labour mobility of low-skilled and long-term unemployed, which are among the least employable groups in the labour market even according to the assessment by the European Commission. Particular attention should be given to discrepancies between labour market needs and educational structure of low-skilled labour and the integration of a relatively large

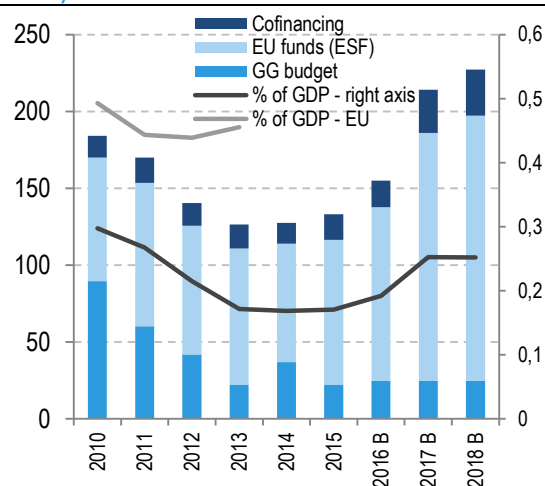
number of inactive people from MRC<sup>19</sup>. Expenditure on employment services related to professional and information-counselling services for the unemployed in Slovakia are among the lowest in the EU countries. The share of expenditure on ALMP tools in Slovakia represents about 0.17 % of GDP, well below the EU average (0.42 %). The effective drawing of EU funds could, however, increase this share to 0.25 % of GDP by 2018.

**Figure 13: Low-skilled workforce in the labour market (% , 2014)**



Source: Eurostat

**Figure 14: Expenditure on ALMP tools (EUR million)**



Source: MLSAF SR, RIS

### 4.3.1 Employment

#### **More efficient employment services**

Further changes are planned to improve the quality of public employment services by strengthening individualized and targeted services provided for jobseekers in the medium term. The result should be a fully functional three-pillar system governing information-counselling services, professional services and administration of labour offices with a plan of implementation until 2020.

In order to further **increase the efficiency of ALMPs**, the net efficiency of individual programmes will be comprehensively evaluated with the aim to provide a better response to labour market needs. An analytical tool for the introduction of PERFORMANCE management will enable the monitoring of the functioning of ALMPs. The national project *Effective services for citizens* (ESKO) will increase the efficiency of labour offices and enable clients to submit various applications from home as well.

#### **Integration of the long-term unemployed**

The integration of the long-term unemployed into the labour market will also take the form of **provision of personalized employment services through non-government providers**. Non-public employment services will focus mainly on the long-term unemployed jobseekers who will obtain specific services, including a competency evaluation, counselling and education. The financial allocation of the project amounts to EUR 3 million in 2016.

New projects focused on the financial support for the **creation of jobs for long-term unemployed** (national projects *The way out of the circle of unemployment* and *The road to the labour market* with a financial allocation of EUR 12 million and EUR 10 million, respectively, in 2016) and older unemployed jobseekers over 50 years (national project *We want to be active in the labour market (50+)* with a financial allocation of EUR 10 million in 2016) will be also prepared. **Social economy** entities (social enterprises) will be supported not only by appropriate financial instruments, but also by the creation of the regulatory environment, including positive discrimination in public procurement.

<sup>19</sup> Participation rate of this population is only 20 % for men and 9 % for women (World Bank, 2012).

**The requirements for the provision of social benefits will tighten** for persons refusing to accept suitable employment. The system and the amount of benefits will be reviewed, and existing measures will be strongly enforced and new measures will be adopted to prevent and eliminate the abuse of the system of social benefits and of the public employment services system.

#### ***Support for the acquisition of skills***

Effective measures to increase the productivity of low-skilled unemployed include educational programmes. A so-called "second chance education" will be introduced in the form of requalification and education programmes within ALMPs. New procedures for obtaining or supplementing the qualifications of jobseekers according to the needs of individual sectors of the economy will be considered, for example in the form RE-PAS, which, by contributing to the re-training for the unemployed, has enabled a relatively free choice of requalification course and provider.

#### ***Reducing regional disparities***

Action plans for all current least developed districts will be approved in 2016. The scope of the act to support the least developed districts will be expanded to other districts and the eligibility for tax breaks for small and medium sized enterprises will be outlined, with an emphasis on the least developed districts.

### **4.3.2 Pension system**

The government will adjust the **indexation of pensions**, while maintaining the long-term sustainability of public finances. The Christmas allowance for pensioners will be also increased, with an emphasis on older pensioners.

The government will adjust the option for a **programmed withdrawal** in the 2<sup>nd</sup> pension pillar. The current conditions for the payment of a pension from the 2<sup>nd</sup> pillar by a programmed withdrawal allow only a small number of participants to use this option. Participants will be allowed to decide freely on how to use their savings.

### **4.3.3 Social inclusion**

#### ***Support of childcare facilities and childcare benefits***

The availability of high-quality, sustainable and affordable childcare facilities for children up to 3 years of age will improve. Along with the continuation of providing the childcare allowance, the building of new facilities will also be supported in the new programming period 2014-2020. 90 facilities are planned to be built by 2023, which will create approximately 1,800 places for children up to 3 years old. In the first phase, a definition of childcare for children up to three years of age will be enacted and the conditions for their establishment and operation will be set. Conditions for a greater flexibility of receiving allowances while providing parental care will be created.

#### ***Social services***

The existing possibility of multi-source financing of social services will be made more efficient and expanded by creating a systemic solution for cofinancing from the public funds. It will help to finance the costs of dependence on others in self-help activities in order to support the deinstitutionalisation of social services.

#### ***Welfare services for the disabled***

Tools of social integration of people with disabilities<sup>20</sup> will be made more effective in order to achieve the highest possible level of integration and to improve the situation of persons performing care. Currently it is expected that in 2016 there will be changes in the conditions for the provision of allowance for the care for disabled persons.

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<sup>20</sup> Governed by Act no. 447/2008 Coll. on Cash allowances for the compensation of severe disabilities.

### **Support for marginalized Roma communities**

Several national projects financed by the ESF will be implemented in the new programming period:

- 3 programmes are being implemented financed from the new programming period 2014-2020 within the framework of the national project *Take away - Phase 1 Comprehensive support for the integration of inhabitants of MRC*. Total costs of the national project are preliminarily estimated at EUR 48.6 million. A programme for the support of education of children in the early childhood aims to increase the participation of children living in an environment of MRC in pre-primary education. A second compulsory programme of land settlement assistance and legalization of housing will help to reduce the number of illegal houses, which are often occupied by inhabitants from MRC. This intervention will ensure the improvement of living standards and the completion of basic infrastructure. Field social work and field services represent a third mandatory programme, which aims to contribute to employability and employment of members of MRC.
- The national project *Community centers in towns and villages with the presence of MRC - Phase 1* with an estimated allocation of EUR 25.9 million focuses on the operation of community centers and the development of community work aimed at social inclusion of members of MRC and the improvement of interethnic relations in villages and towns.
- National programmes *Field social work in towns I* and *Support of selected social services of crisis intervention at the community level*, which, including also community centers, foster the integration of vulnerable groups into the society through access to pre-school and school education, employment and healthcare. Projects are carried out in communities in the natural environment of the client and focus mainly on persons in social need and in an acute crisis situation.
- The national project *Healthy communities* will be funded from the OP Human Resources in the new programming period 2014-2020 as well. The project aims to promote the health of inhabitants of the MRC, and expand prevention and education in marginalized areas.

Furthermore, self-help construction of houses will be supported and the number of assistants in primary and secondary schools as well as extracurricular activities in all-day education will be increased.

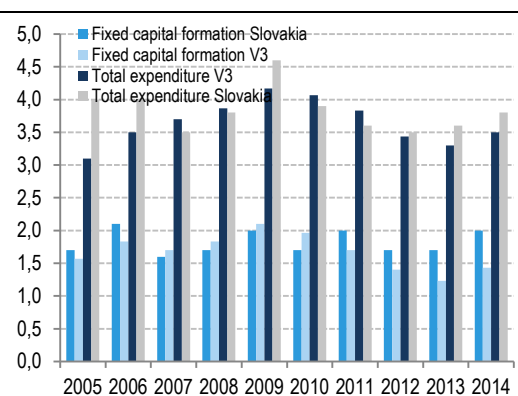
A reform of bankruptcy and debt relief procedures for individuals will also improve the status of the population in the least developed regions. New legislation in this area will be in line with the valid government resolution adopted in 2016.

## 4.4 Transport infrastructure and electronic communication

In line with the assessment by the EC from February 2016, the main measures in the area of transport will be the construction of missing sections of motorways and expressways, as well as the construction, renewal and maintenance of class A roads. For the first time transport priorities will be selected using a national multimodal transport model. The systematic increase of the significance of railway transportation, as well as the improvement of public passenger transport efficiency, will continue in the area of public transport.

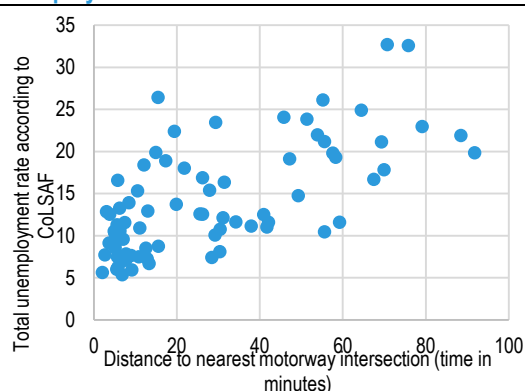
Total expenditure on transport in Slovakia is, similarly to V3 countries, around 3.5 % of GDP, which is more than the EU average (2 % of GDP). Transport investment, which has been higher than in the V3 region in the past 3 years, should have a positive impact on economic growth and the reduction of regional disparities. District towns, which are closer to motorways report lower unemployment. It is therefore necessary to maximize the value for money of all investments. Firstly, while selecting a particular investment project (new rail, road, reconstruction), as well as in the implementation phase (efficient use of resources).

Figure 15: Expenditure on transport (% of GDP)



Source: Eurostat

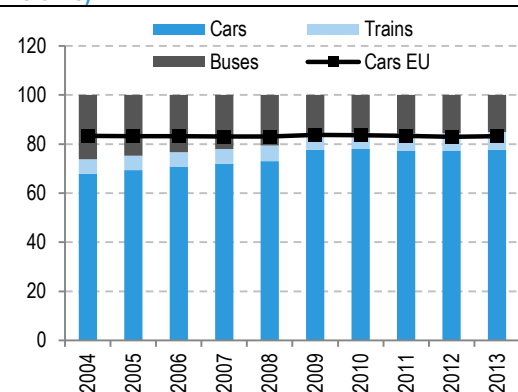
Figure 16: Time to nearest motorway vs unemployment in the district



Source: IFP, Google, OLSAF

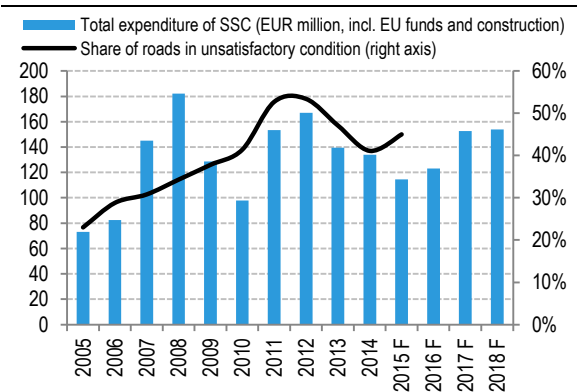
The growing use of individual automobile transportation can have a negative impact on the quality of roads and potentially create congestion. The trend of increasing passenger cars share on transport volume is associated with growing wealth and convergence within the EU. However, in the absence of sufficient investments, this will be reflected in a reduction of the quality of roads and the creation of congestion. The share of class A roads in unsatisfactory condition reached 45 % in 2015 (an increase of 4 pp). Traffic jams are frequent, mainly in larger cities. In Bratislava drivers spend 23 %<sup>21</sup> of their time in traffic jams, which is comparable with European cities of similar size.

Figure 17: Evolution of transport volumes in persons by mode of transport (% of transport volume)



Source: Eurostat

Figure 18: Quality of class A roads and expenditure (EUR million)



Source: IFP, Google, OLSAF

<sup>21</sup> Based on the [congestion index](#) by TomTom.

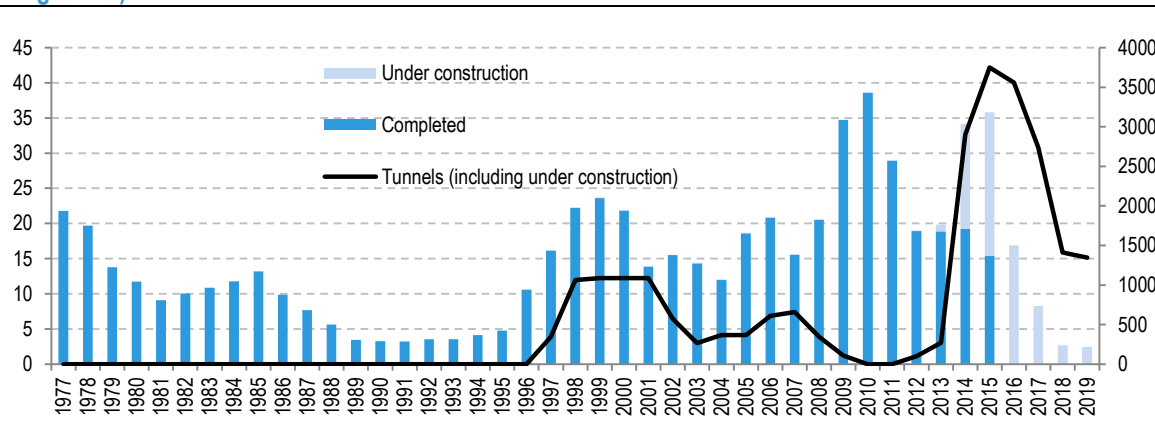
In order to mitigate the fall in the demand for public transport, it is necessary to increase its quality, speed, availability, reliability, and introduce competition, where possible. The use of bus services is gradually declining since 2004. With an average effective fare of 4.4 cents per passenger-km<sup>22</sup>, rail passenger transport in Slovakia was among the cheapest in the EU, even before the introduction of free train transport for pensioners and students. The implementation of free rail transport for students and pensioners in 2015 together with more trainkilometers resulted in higher transport volume. Passenger-kilometers increased by 31 %<sup>23</sup>. Based on the maximum achievable speeds, it can also be inferred that Slovak railways are among the slower ones in the EU<sup>24</sup>. Further development of competition can bring new investment and better quality of services.

### The construction of transport infrastructure

The government will **maintain a high pace of construction of motorways and expressways**. Greater attention will be paid to the expressways R2, R3, R4, R7 and the interconnection with Poland. The rate of motorway construction in Slovakia in 2015 was close the historically highest values. NDS delivered a total of 57 km of motorways and expressways. Uncompleted sections of the D1 are among the more technically challenging because they include 16.7 kilometers of tunnels, which is almost twice the length of all currently operated motorway tunnels in Slovakia. Between Bratislava and Košice the construction of two sections of the D1 motorway has begun, of which 6.6 km are tunnels. Geologically easier sections have already been built and 50 km of the D1 motorway between BA and KE are still planned, of which one third consists of tunnels.

The government will **renovate another 180 km of class A roads**, mainly those in the worst condition and in regions where there are no motorways and expressways. Preparatory work for the modernization of about 250 km of railway lines will begin. At the same time the extension and modernization of the currently overused regional lines will be considered. In recent years increased attention has been paid to class A roads, which carry half of all transport volumes<sup>25</sup>. Important structures have been delivered and the construction of others continues. Nearly 192 km of roads were renovated in Central and Eastern Slovakia and the Trenčín region in 2015 as part of projects aimed at improving the structural and safety parameters of class A roads. Depending on the financial possibilities, the improvement of security measures on another ca. 40 km class A roads is being prospectively considered.

Figure 19: Approximate rate of motorway construction (kilometres per year – left axis, construction of tunnels – right axis)



Source: IFP, NDS

<sup>22</sup> The price is calculated for the year 2014 by dividing revenue by passenger kilometers realized by ZSSK. This is a low cost even in comparison with European countries (according to data from [EC monitoring](#)).

<sup>23</sup> Free trains were implemented from mid-November 2014, while in February 2015 less expensive travel was also introduced for the employed (50 % discount on weekly and monthly tickets).

<sup>24</sup> Slovakia, together with other six countries, has the lowest maximum speed at railways of 160 km / h. Trains in France and Belgium reach a maximum speed of 320 km / h.

<sup>25</sup> According to a national traffic census carried out by the SSC in 2010 class A roads carry 44 % of all vehicle-kilometers. A new census was performed in 2015, but it has not been published, yet.



From April 2016 a **multimodal transport model** of the SR should become one of the essential analytical tools for the development of transport policy. It will enable to assess the merits of prepared and planned investments in transport infrastructure. Its main task will be to identify the most heavily used points of the transport infrastructure. The model will also be able to quantify the impact of transport policies (e.g. changes in public transport, parking policy changes, etc.). Given that it is a macroscopic model, it will not allow for the quantification of the benefits of alternative solutions to the transport problem at a local level. It will, however, be able to assess the suitability of alternative routes at inter-regional level (e.g. R3 through Kremnica / R3 through Handlová or R3 / R1). The model should be an important input into the second phase of the Strategic Transport Infrastructure Development Plan of the Slovak Republic until 2030 (so-called Master Plan II).

The completion of 1.5 kilometers of motorway D1, 9.6 km of ½ profile on the R2 highway and 7.9 km of full profile on the expressway R2 is planned in 2016. At the same time the start of the construction of 27.8 km<sup>26</sup> of motorways on the D1 in eastern Slovakia and on the D3 in Kysuce is planned for 2016. In February 2016 the government approved the construction of a 59 km long bypass of Bratislava (D4 motorway and expressway R7).

### ***Increasing the attractiveness of public transport***

**The National Transportation Agency (NADA)** will ensure an effective coordination of passenger train, commuter buses and urban transport. NADA should address the problem of unclear competencies in ordering and harmonization of the timetables of all public transport (bus and rail). Transfer times should be reduced and undesirable competition between bus and rail transport should be prevented. The creation of a traffic authority is, according to the current negotiations, also a requirement of the European Commission for a further modernization of the rolling stock of the ZSSK in the programming period 2014-2020. The next step should be to optimize rail transport timetables, which should ensure regular, frequent and reliable connection on sufficiently significant lines.

The ongoing **modernization of railway corridors** and procurement of trains will continue. This will increase the operating speed of trains and offer passengers more comfort. EUR 47 million is allocated for the modernization of the train fleet from the Operational Programme Integrated Infrastructure in 2016 and EUR 218 million in the period 2017-2018 (including co-financing from the state budget).

The comfort of travel can also be increased by the integration of various travel modes - the objective is an **optimized transport coordination** of all modes of public passenger transport (mainly trains and commuter buses) and the ability to buy one ticket for the whole journey, regardless of the mode of transport used (tariff integration). Tariff integration was launched in the Bratislava region from 1 November 2015, and is working already for a few years on the Žilina-Rajec route.

Demand for public transport can also be increased by liberalization. The arrival of a private operator on Slovak rails brought about approximately 70 % higher number of trains, offered passengers a modern fleet together with premium services and managed to significantly increase the number of passengers (from 800 thousand in 2011 to 2 million in 2014). A tender is currently under way for the Bratislava-Banská Bystrica route.

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<sup>26</sup> Web site of the National Highway Company provides a significantly higher number of km of roads, the number provided here was consulted with the MTCRD SR.

## 4.5 Modernization of public administration and the business environment

The optimization of district offices should increase the efficiency of their operation and improve the services offered to citizens and businesses, for example by electrification. Analytical capacities of the public administration will be strengthened. A public administration reform will de-politicize it and create greater transparency in all stages from recruitment to remuneration. The Central Register of foreclosures will be also completed as part of the reform.

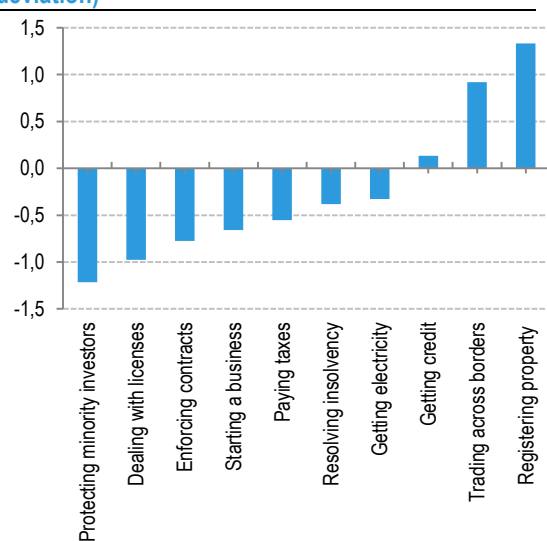
### Outcome indicator for modernising public administration and the business environment

		2008	2009	2010	2011	2012	2013	2014	2015	Target 2020
<b>eGovernment index</b> (%)	<b>SK</b>	-	38	50	48	42	33	57	51	71.7
	<b>EU</b>	-	37	41	41	44	41	47	46	-
<b>Doing Business</b> (World Bank ranking)	<b>SK</b>	-	-	-	-	-	-	29	29	15
	<b>EU</b>	-	-	-	-	-	-	31	31	-
<b>Product market regulation index</b> (number of points)	<b>SK</b>	1.62	-	-	-	-	1.29	-	-	1.2
	<b>OECD</b>	1.53	-	-	-	-	1.44	-	-	-

Slovakia has kept its last year's 29th position out of 189 evaluated countries in the assessment of the regulatory business environment according to Doing Business (DB) 2016. The total point score of the country has improved slightly again from previous year. The most lagging areas again include protection of minority investors, obtaining building permits and law enforcement. In DB 2015 and 2016 Slovakia improved mainly due to faster processes and by reducing the costs required to start a business. The administrative processes related to VAT payments have also been reduced. Cross-border trade was positively influenced by a change in the methodology, which made the costs, time, and administrative procedures for the import and export in the landlocked countries of the EU more realistic. In the assessment of the competitiveness of countries according to the Global Competitiveness Index Slovakia lags mainly in the quality of institutions.

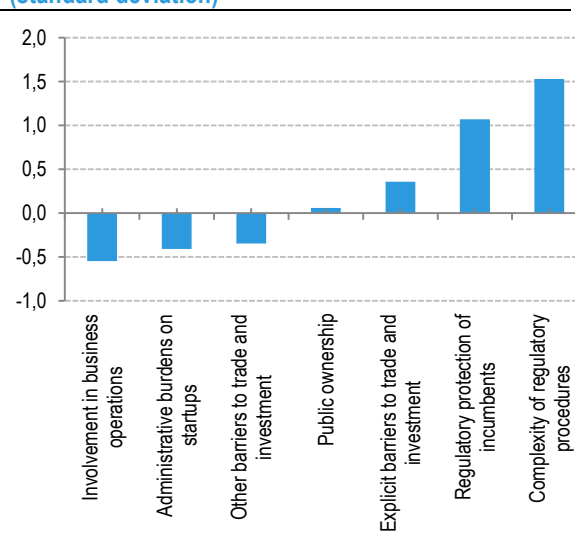
The product market regulation index identifies challenges in the areas of state involvement in business, administrative burden on starting a business and administrative obstacles to cross-border trade.

**Figure 20: Areas lagging behind OECD average according to the Doing Business index (standard deviation)**



Source: World Bank (Doing Business 2016)

**Figure 21: Areas lagging behind OECD average according to the product market regulation index (standard deviation)**



Source: OECD

Based on an analysis of the public administration reform strategy, OECD<sup>27</sup> has identified a number of challenges of the SR. Strategic planning and monitoring of the implementation of the most important policies requires cooperation and coordination of key ministries and of the Government Office ("center of the government"). At the same time OECD stresses the need for decision making, planning and monitoring of public policies based on data, measurable outcome indicators and strategic analytical outputs. Further development of analytical units, ex-ante and ex-post evaluation of the plans and implemented measures and consistent use of impact assessments of proposed policies are all important. In the area of civil service, OECD recommends more transparent system of selection and remuneration, but also the need to collect data about the civil service as a whole. In the field of electronization, OECD recommends to clearly identify strategic objectives and to delegate a single person with the strategic coordination and communication.

### ***Optimization of processes and services of the public administration***

The implementation of the reform ESO (Efficient, reliable and open public administration) should simplify and improve access to state services. Through the reform a large part of the specialized local administration was merged into the integrated district offices. In the upcoming period the opening of about 30 client centers for the contact between the public and the local and specialized state administration will continue. The total planned number of client centers should reach 79.

### ***Civil service reform***

**A new act on civil service** will build on the approved strategy for the management of human resources in the state administration 2015-2020. It will be submitted to the government for approval in the first half of 2016. The new act on civil service will be based on the principles of political neutrality, legality, transparent employment, effective management of civil servants, impartiality, professionalism, transparent and equal remuneration, stability and equal treatment. The above principles will be reflected in the creation of new or in changes to the existing rules, such as the abolition of the possibility to suspend a senior manager, who is directly subordinate to the head of the service office or the statutory body, without a reason, as well as the introduction of systemization, the creation of the Civil Service Council as an independent coordinating and monitoring body for the protection of the principles of the civil service, and the strengthening of the capacities of the Government Office of the SR in the context of the new competences of the GO SR.

### ***Analytical capacities***

The improvement of professional capacities in the public administration continues. Existing analytical units will be strengthened or **new analytical units<sup>28</sup> will be created in all ministries** and other key public administration organizations, mainly through the Operational Programme Effective public administration. Strengthening of analytical units in Slovakia is also recommended by the [OECD](#). It notes that the institutional position of the analytical units is fragile, cooperation between them is limited and the demand for analytical inputs is relatively low. OECD considered the establishment of a **new analytical unit at the GO SR** as key in the coordination of horizontal policies. An analytical unit will be created at the financial administration in the period 2015 - 2018. Its role will be mainly more systematic risk assessment of taxpayers that will lead to increasing the effectiveness of tax inspections.

The role of the analytical units will be to strengthen as much as possible the concept of "value for money" in public policy. The assessment of individual measures will be gradually complemented by a comprehensive and regular review of the effectiveness of public spending (the so-called "spending reviews"). A systematic review of public spending will allow analytical units to contribute to fiscal consolidation by increasing the

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<sup>27</sup> <http://www.oecd.org/slovakia/slovak-republic-better-co-ordination-for-better-policies-services-and-results-9789264247635-en.htm>

<sup>28</sup> Analytical units in terms of the Framework for Analytical Capacities in the Public Administration approved by the Steering Committee for the coordination of the public administration reform are: Ministry of Finance - Institute for Financial Policy, Ministry of Education, Science, Research and Sport - Institute for Educational Policy, the Ministry of Interior - Analytical Methodology Unit, Ministry of Labour, Social Affairs and Family - Analytical Centre, Ministry of Environment - Department of Economic Tools and Analysis, Ministry of Transport, Construction and Regional Development - Institute of Strategy, Ministry of Health - Institute of Health Policy, Office of the Government - Department of Analyses of the CKO. Other public sector organizations which by the virtue of their activities and staffing for the most part fulfill the characteristics of analytical units, but have special status are Antimonopoly Office - Department of the Chief Economist and the Council for Fiscal Responsibility. The institutions where analytical units are being created or the creation of departments whose activities and staffing for the most part be fulfill the characteristics of Analytical Units is being planned are: the Ministry of Economy, Ministry of Culture, Ministry of Defence, Ministry of Agriculture and Rural Development, Ministry of Justice, Ministry of Foreign Affairs, Financial Administration, Central Office of Labour, Social Affairs and Family, Government Office, Office of the President, Public Procurement Office and the Supreme Audit Office.

effectiveness of expenditure or by creating space for new priority expenditures. Another duty of analytical units should be the comprehensive assessment of the impacts of departmental policies.

### ***E-Government***

In 2016, the National Framework for the Informatization of the Public Administration will be updated. Its aim is to elaborate, model and coordinate IT solutions in the public administration. The centralized definition of rules and the implementation of the strategic architecture of the public administration will serve as a tool for the achievement of these aims. Individual strategic priorities, which are defined by the framework, will then be developed to the level of initial analyses and proposals for projects in the Operational Programme Integrated Infrastructure (OP II). Within OP II, the implementation of several national projects will be carried out in individual ministries in 2016. The time needed for obtaining a building permit will be reduced.

### ***Business environment***

The **administrative burden** for the business environment will be reduced, for example by the abolition of a compulsory health service.

The government will adopt a long-term strategy for reducing the **regulatory burden on businesses** in the Slovak Republic "RIA 2020".

A National Center for Businesses will be established as a part of the already adopted Framework for the Support of Startups. The center should represent a one-stop-shop providing a broad portfolio of services for startups, as well as existing companies. Within the National Center for Businesses the possibilities of startup funding will be improved by the introduction of incentives for angel investors and by using the structure of the Slovak Investment Holding. In the former case funding through subsidies from the Ministry of Economy will be used, in the latter case funds from the OP Research and Innovation will be used. In order to attract innovative companies from outside the EU, the process of granting national visas to startups from outside the EU will be simplified and accelerated.

## 4.6 Transparent society and law enforcement

Improvements of the efficiency of the judiciary will consist mainly of specialization of the judicial system and judges, expansion of the competencies of senior judicial clerks, and a review of the Code of Civil Procedure (re-codification of the civil procedure). Transparency will be enhanced through the adoption of an effective anti-letterbox companies law and through publishing information on the management of state companies and municipal decision making. The ongoing creation of the Electronic case file, the Electronic legal code, the Electronic registry of insolvent entities and the electronic monitoring of the accused and sentenced will contribute to the speeding up of court proceedings.

### Outcome indicator for transparent environment and law enforcement

		2006	2007	2008	2009	2010	2011	2012	2013	Target 2020
<b>Corruption</b> (%)	<b>SK</b>		59		61		56		62	68.4
	<b>EU</b>		78		80		77		78	-

Transparent environment free of corruption promotes efficiency and economic growth and contributes to equal opportunities in the economy, ultimately improving social welfare. In order to combat corruption effectively, it is necessary to increase transparency and restrict room for unfair practices in any handling of property owned by the state, public institutions and local governments. In terms of the combined corruption indicator<sup>29</sup> Slovakia ranks at the very bottom of the list of EU countries and significantly lags behind the top countries.

In order to achieve a level of the Corruption Perception Index comparable to the EU average, the Slovak Government will continue with the implementation and adoption of further measures aimed at curbing corruption, increasing the efficiency of the courts, as well as simplifying and facilitating – to the largest extent possible – the processes related to law enforcement through a wider use of electronic means. A ban on offering and accepting unethical advantages and the standardization of personal material accountability of the public officials in the management of public property are among the new measure to promote clean public administration.

In the area of the legislative process, an **anti-corruption impact assessment** will be introduced for draft legislation. Parliamentary bills submitted in the second reading will have to undergo mandatory inter-ministerial consultation process with public participation.

### **Organizational changes of the judiciary**

The government will consider the separation of non-dispute agenda (registers) from general judiciary and create conditions for the specialization of judges. It will consider an expansion of competencies of senior judicial officials. The government will prepare a new act on judicial service in order to stabilize the courts staffing. The government will continue improving the publication of judicial decisions and will oversee the access to the decisions of law enforcement bodies.

The government will strengthen the transparency of the selection and control of the acts of the judiciary. It will also strengthen the objective (criteria-based) elements in the selection process and will introduce measures to ensure that persons from outside of the judicial environment participate in the selection of court chairmen and judges. The government will consider the establishment of special evaluation senates, which would carry out regular evaluation of judges; for other professions authorized to perform public authority (e.g. notaries) it will introduce elements of public oversight. It will also ensure public access to the results of the evaluation of judges, disciplinary decisions of all legal profession.

### **More efficient courts**

The adoption of the Civil dispute procedure, Civil non-dispute procedure, and Administrative procedure created conditions for the acceleration of court proceedings and increasing the efficiency of the courts. The

<sup>29</sup> The index comprises the indicator of the inhabitants' experience with corruption (survey Eurobarometer, EC) and the index of corruption perceived by experts and entrepreneurs (Corruption Perceptions Index, Transparency International).

reforms mainly aim to create more efficient communication with affected parties, accelerate the process of decreasing the burden on the judges by dividing decision-making powers, prevent delays due to absences at the hearings. The changes will take effect in the second half of 2016.

Efficient judiciary may also be achieved by promoting specialization of the court system and of judges. Specialization will be carried out at the level of changes in the system of courts and the organization of work at courts as well as by ensuring the specialized education of judges. Preconditions will be established for the specialization of courts and judges in the most important areas of public life, in particular tax law and intellectual property rights.

In 2016 the Ministry of Justice will continue to promote in particular the improvement of material and technical equipment of the courts and the implementation of projects from relevant Operational Programmes (OPs Integrated Infrastructure and OP Efficient Public Administration).

### **Greater transparency**

The scale and form of the mandatory disclosure of information will be significantly expanded and revised – the obligation of public companies to disclose contracts will be specified and a shared space for the publication of local government contracts will be created. Contracts will be made public for five years longer than now, i.e. for 10 years. Mandatory publication of CVs and salaries of political nominees will also be established.

The scope of information published about local government will be extended – it will be mandatory to disclose official documents of municipalities and regions, such as minutes of meetings of local council and committees, including voting of representatives. In the area of the exercise of the right of citizens to information, the government will consider the possibility of extending the responsibilities of the Office for Personal Data Protection.

Beyond its international legal obligations in the fight against money laundering, the government will revise the so-called **anti-letterbox companies law** in the area of the public oversight of the register of final beneficiaries and will expand the scope of persons in the register to all entities that receive payments from the state, including the sale of state property. The government will increase the real-life enforceability of the law by introducing deterrent penalties.

### **Electronisation**

The finalization of the projects of the electronisation of the judiciary will contribute to the acceleration of court procedures. Work on the electronisation of the case file, which will allow for the management of its life cycle in a fully electronic form, as well as work on the use of the insolvency register as a tool for transparency in the process of bankruptcy proceedings, will continue. In 2016-2018, the effective court management will be also supported by the project *Centralized system of judicial management*. Other informatisation projects will be based on a thorough reform of processes in public administration, and will serve as an important support tool for the implementation of these reforms.

## 4.7 Health

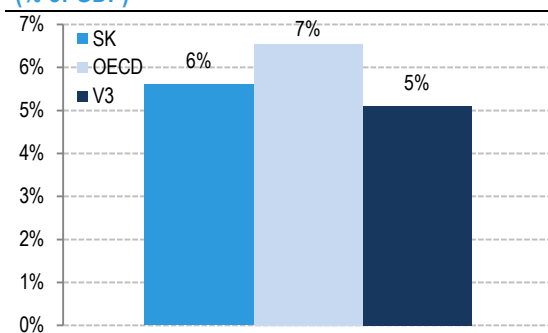
New rules for the procurement of medical equipment using pricing benchmarks are being introduced. A gradual centralization of procurement in public hospitals at the level of the MoH SR as well as the publication of comparative price lists will begin. The construction project for the new University Hospital in Bratislava continues. General healthcare is being reinforced. The process of financing of healthcare facilities will be made more efficient by introducing payments for diagnostic group and by gradually unifying treatments procedures.

Figure 22: Outcome indicator for health

		2007	2008	2009	2010	2011	2012	2013	Target 2020
Healthy life years (expected number of years at birth)	SK	55.9	52.3	52.5	52.2	52.2	53.3	54.4	60
	EU	62.2	61.7	61.7	62.2	61.9	61.8	61.5	-

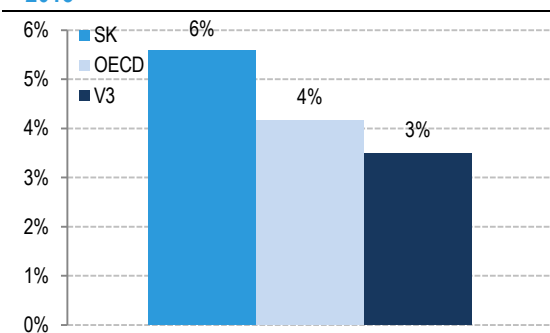
A functioning healthcare system is one of the main priorities of economically developed countries. The health status of the population has an impact on economic and social development and affects the quality of life. In terms of spending on healthcare, we are now converging with the OECD average and exceeding the V3, yet despite this the number of healthy life years is declining. In 2013 the current<sup>30</sup> public expenditure on healthcare in Slovakia was 5.6 % of GDP, below the OECD average (by 1 pp), but above the V3 average (by 0.5 pp). Over the last 10 years, expenditure on healthcare in Slovakia has risen faster than the V3 average (by 2.1 pp) and faster than the OECD average (1.4 pp).

Figure 23: Current expenditure on healthcare, 2013 (% of GDP)



Source: OECD

Figure 24: Average annual expenditure growth 2003 - 2013



Source: OECD

Despite the rapid growth of spending life expectancy is increasing slowly, thereby decreasing the efficiency of Slovak healthcare, which the European Commission has also identified in its report from February 2016. The efficiency of Slovak healthcare has long been below the average of the V3 countries. A positive turn in the deterioration of the efficiency of the Slovak healthcare occurred in 2009, but we still live about half a year less than we could in a more efficient healthcare system.

Indebtedness of teaching and university hospitals continues faster than in 2014. The average month-on-month growth of overdue liabilities was EUR 5.7 million in 2014, in 2015 it was EUR 9.1 million. Last year total liabilities reached EUR 533 million. At the current rate of debt creation total liabilities could reach the level of EUR 857 million in 2018.

### **Improving financial management and results of providers and construction of a new hospital**

Based on the new Manifesto of the Government of the SR for 2016-2020 a number of systemic changes in the areas of rationalization of providers and optimization of ambulance and hospital networks are planned. Of the planned measures, the single accounting structure of hospitals will be completed in 2016. As a part of it 14 hospitals operated by the Ministry of Health performed financial audits in order to rectify the discovered

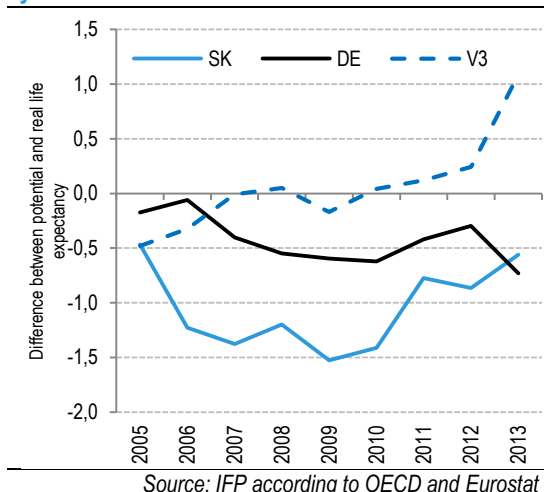
<sup>30</sup> Expenditure less capital expenditure.

errors and increase the transparency of reporting of the facilities. The expert information system is in the implementation phase, at the moment data validation and training are ongoing.

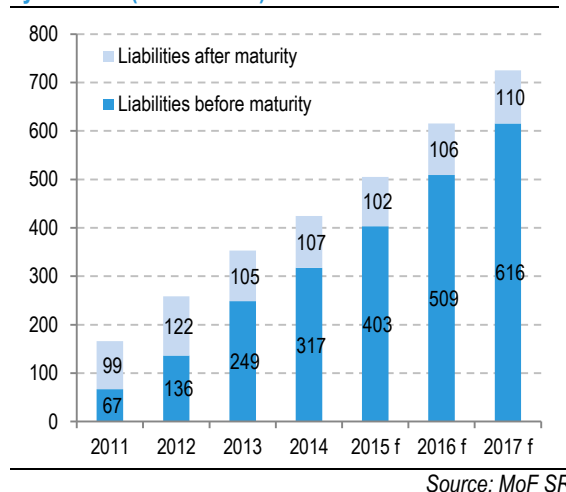
A gradual centralization of the procurement of public hospitals at the level of the Ministry of Health as well as the publication of comparative price lists will begin. The Ministry of Health modified the rules of procurement of medical equipment, which replaced the planned introduction of price ceilings. Under the new rules public hospitals are obliged to use **benchmark prices** of medical technology of the Ministry of Health in determining the estimated value of contracts and in evaluating the results of the tenders for technology worth more than EUR 50 thousand. By the end of 2016 the limit will be tightened to EUR 20 thousand. In the future benchmarking will be extended to non-essential medical services and purchases worth over EUR 200 thousand will be subjected to a mandatory cost-benefit analysis.

The designing phase of construction of the new University Hospital in Bratislava continues. The new hospital is planned to replace three existing hospitals (Kramáre, Staré mesto, Ružinov). The result of this phase will be a launch of the implementation phase in the areas of design, construction, financing, operation and maintenance to provide the provision of healthcare in this hospital, including the provision of teaching capacities.

**Figure 25: Efficiency of the Slovak healthcare system**



**Figure 26: Liabilities of facilities operated by MoH SR (in EUR mill.)**



**The introduction of payments for diagnosis related group (DRG)**

The preparation of DRG continues by a trial operation planned by 2016. The Ministry of Health is currently developing a methodology for calculating and determining one or more base rates that will converge to the base rate in the medium-term horizon. During the trial operation period, a full collection of data will be performed without affecting the financing. From 2017, DRG financing will be gradually introduced into the payment mechanism.

**Implementation of e-Health and the strengthening of primary care**

An important part of the integrated healthcare delivery model is the electronization of healthcare (e-Health) with operation from 2017. The preparation and launch of the 2nd phase of implementation of eHealth Programme is currently ongoing. At this stage a nation-wide deployment of electronic services of health care and connection of information systems of healthcare providers will take place. By 2018, the National Health Portal, ePrescription and eMedication, Electronic Medical Record of Citizens, and eAllocations will be gradually launched.

A residency programme to strengthen the capacities of general practitioners, as well as increasing their education, will continue to strengthen primary care, and thus reduce the number of patients of specialized outpatient care and save money for the transportation of patients to specialized clinics.



### ***The integration of healthcare provision***

By redefining the types of hospitals and care, a better coordination of the involvement of facilities in treatment will be achieved and the efficiency of the use of bed capacities will be increased. A stratification of the types of hospitals and the scope of healthcare they provide will be implemented. The Ministry of Health is currently analyzing a proposal for the stratification of hospitals prepared by the Association of Private Hospitals. Specific settings and detailed definitions will be gradually profiled in the Strategic Framework of Healthcare for 2014 - 2030, which is an ex-ante conditionality for the use of EU funds.

### ***Medications and medical devices***

The limits for maximum co-payments for medications were reduced and at the same time the scope of insured persons to whom they apply was extended in 2015. The limit per calendar quarter was lowered to EUR 25 for old-age and disability pensioners, to EUR 8 for children up to 6 years of age and to 0 for children with disabilities up to the age of 6. It is expected that this measure will increase the cost of health insurance by about EUR 8 million per year.

Referencing of the prices of medical devices was performed for the first time in January 2016. According to the preliminary results, referencing will reduce the prices of nearly 600 devices by more than 21 per cent. Estimated savings represent EUR 8.6 million per year. According to valid legislation, the officially determined price of the device must not exceed the average of three lowest prices for which this device is sold in other EU countries. Referencing of medical devices works in the same way as for medicines that have been internationally benchmarked since 2009.

### ***Limiting the profits of health insurance companies***

Rules for the effective use of public resources will be prepared that will be implemented among others through restrictions on the profit of health insurance companies, in accordance with the EU and Slovak law.

### ***Multi-source financing***

The implementation of clear rules for the co-payments of patients and the development of a multi-source system of financing will be prepared. For this purpose, it is necessary to separate the patient's needs that are not subject to necessary treatment given the current knowledge on the basis of medical evidence from the needs leading to healthcare services.

## 4.8 Environmental sustainability and energy

The Low-Carbon Strategy of the SR identifies the reduction potential and the cost-efficient forms of decreasing emissions also in relation to the proposed EU objectives by 2030. The planned gas connection with Poland and Hungary, as well as the Easting project, will increase the energetic security of the SR. The connection of electricity systems with Hungary will eliminate bottlenecks and increase the cross-border capacity.

### Outcome indicators for environmental sustainability and energy

		2007	2008	2009	2010	2011	2012	2013	Target 2020
<b>Non-ETS greenhouse gas emissions</b> (%, change against 2005)	<b>SK</b>	-4.8	-5.2	-8.4	-5.3	-10.6	-14.9	-19.7	13
	<b>EU</b>	-3.4	-2.7	-6.8	-5.2	-9.4	-11	-9.8	-10
<b>Share of RES on gross final consumption</b> (%)	<b>SK</b>	7.3	7.5	9.3	9	10.3	10.4	10.1	14
	<b>EU</b>	10.4	11.0	12.4	12.8	13.1	14.3	15.0	20
<b>Final energy consumption</b> (%, change against average of 2001–2005)	<b>SK</b>	-1.8	0.81	-6.7	1.35	-5.4	-9.2	-6.9	-11
	<b>EU</b>	0.35	0.96	-4.6	-0.5	-5.5	-5.5	-5.4	-

The Slovak Republic is one of the countries that have managed to curb down greenhouse gas emissions considerably since 1990. At the same time the country is successfully achieving the decoupling of economic growth from emissions. Slovakia shall not experience any problems in reaching its EU 2020 targets.

Figure 27: Communal waste recycling rate

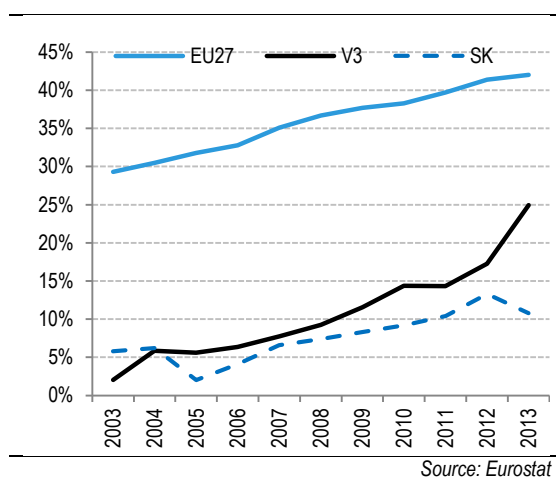
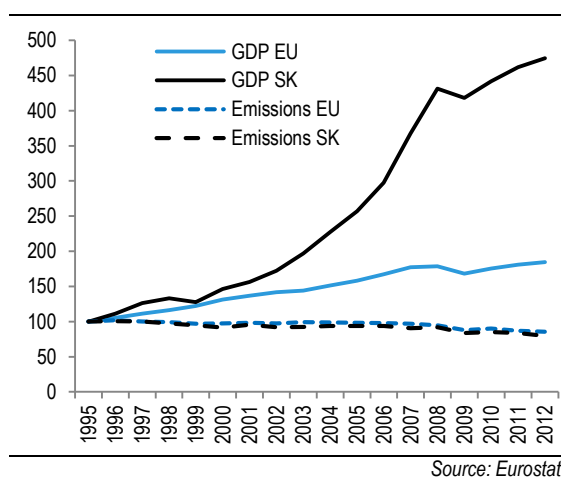


Figure 28: GDP and emissions growth (100 = 1995)



According to the composite [EPI](#) index, Slovakia ranks 24th in the world in the overall quality of the environment. In spite of this fact there are areas where we lag significantly behind the EU average. In spite of the positive trend we still recycle lower amounts of communal waste than V3 countries. Air quality represents a similar problem.

### Effective decision-making about greenhouse gas emissions reduction policies

Effective decision-making will be facilitated by the creation of Environmental Strategy, Low-Carbon Strategy and an Analysis of the Fulfillment of More Stringent Reduction Targets by 2030. An overview of the reduction potential of various measures and the expected costs of their implementation will be provided in the Low-Carbon Strategy of the Slovak Republic until 2030. Its aim is to identify and support most cost-efficient opportunities for emissions reduction. Besides sensitivity analysis of selected parameters (fuel prices, investment intensity) and projections for greenhouse gas emissions, the emission reduction marginal cost curves will be part of the basic background analyses for the preparation of the Low-carbon Strategy.

### ***Support for the use of renewable energy sources***

The national project *Green households* provides financial support to households for the installation of more than 15,000 small renewable energy sources (photovoltaic panels, wind turbines, solar panels, biomass boilers and heat pumps). The primary desired effect of the measure is to increase the proximity of electricity and heat production with the point of consumption with a higher use of renewable energy sources. The total support for the installation of small RES facilities remains at the level of the original EUR 115 million from European and national funding. The government will also contribute to the development of electric vehicles by supporting the construction of the necessary infrastructure.

### ***Increasing energy efficiency***

In the area of improving the energy efficiency of small and medium-sized enterprises within the Operational Programme Quality of the Environment, support of as many as 200 energy audits is expected, which will identify cost-optimal measures to save energy. Large companies have an obligation to perform such audits automatically. Furthermore, projects to implement measures from the energy audits, projects of energy efficiency in public buildings, projects for the development of CHD systems and projects for the development of highly efficient combined heat and power generation will be supported through the same operational programme.

Moreover, from 2016 homeowners will be entitled to an allowance of up to 30 % of eligible and paid costs not exceeding EUR 6,500 for improving the energy efficiency of their houses. Budgeted resources for the insulation of houses are EUR 30 million in 2016.

### ***Building energy connections between countries***

The planned two new connections of electricity systems with Hungary will eliminate bottlenecks and increase the cross-border capacity. This will increase the safety and reliability of operation of both transmission systems and increase the total marketable capacity in the common profile. In 2014, a contract for cooperation was signed and negotiations are currently being held to prepare the construction contract for a power line, which has not yet been signed. The completion of both power lines is planned for 2019.

The Easting gas pipeline project has the ambition to create a link between natural gas trading hubs in the Western Europe and natural gas markets of Southeast Europe. It will thus contribute to diversification, commodity price reductions and increased security of gas supply. In the future it will be also possible to use this pipeline to transport gas from sources in the Southern Corridor, respectively from the expected gas extraction in the Black Sea, to the EU. The project was included in the second list of projects of common interest of the EU (PCI).

In the context of building of the Polish-Slovak gas connection, an intergovernmental agreement was signed in November 2013 and the project gained the status of a project of common interest in EU. In October 2014 EUR 4.6 million was allocated to it for studies from the Connecting Europe Facility (CEF). By being registered on the PCI list and on the list of key EU projects in the European Energy Security Strategy, the project has demonstrated its regional and European importance. The project managers are currently seeking to receive an allocation of funds from the CEF Fund in the next CEF call, which should take place in 2016.

Reconstruction and increasing of the Adria pipeline capacity and the connection of Bratislava-Schwechat (BSP) projects will increase the security of oil supplies in Slovakia and in Central and Eastern Europe.

### ***Waste treatment and circular economy***

In the upcoming period it will be necessary to systematically support waste recycling. A new act on wastes valid from 2016 is focused on increasing the producers responsibility, strengthening the motivation to prevent waste production and its material and energy reuse. This should lead to a higher rate of waste recycling and a lower rate of landfilling.

A systemic change and the transition to a circular economy is needed in the area of efficient use of resources. This will promote the use of secondary raw materials, reuse of waste and will help prevent its creation. The transition to a circular economy is a comprehensive approach to the efficient use of resources in order to maintain long-term economic, social and environmental prosperity of the economy.

## 5 EU cohesion policy

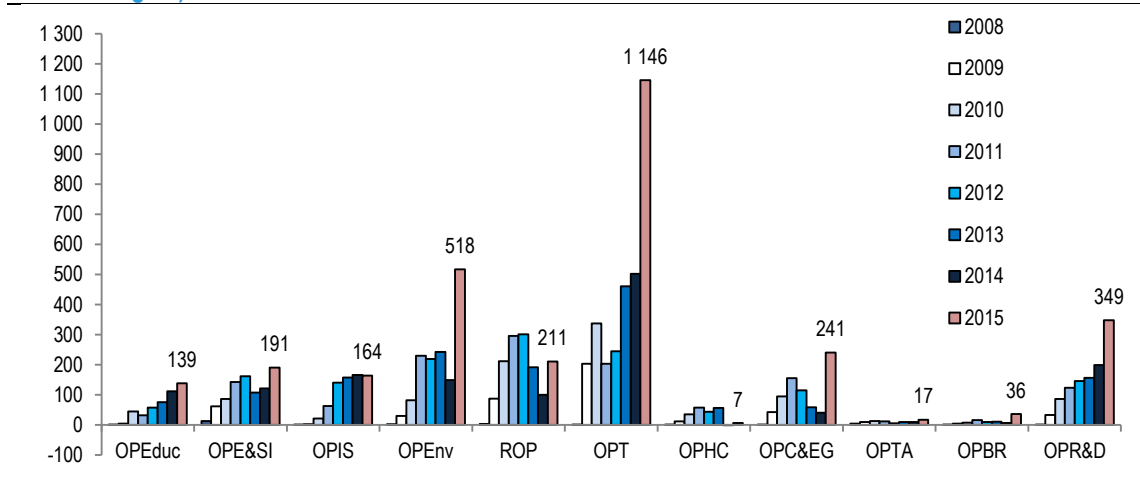
EU cohesion policy remains one of the key tools of socio-economic development in the SR and for achieving the objectives of the Europe 2020 strategy<sup>31</sup>. Cohesion policy funds are the main source of financing public investment in Slovakia, with a share of over 80 %.

In 2015 the main focus was on the completion of project activities and drawing of resources from the Structural Funds and the Cohesion Fund 2007-2013 (SF and CF). Moreover, the actual implementation of the European structural and investment funds 2014 - 2020 (ESIF) began.

**At the end of 2015, the drawing at the national level** doubled compared with the previous year and rose by 26.29 pp. The preliminarily drawing of funds from the whole programming period 2007-2013 amounted to EUR 10.28 billion, which represents slightly less than 90 % of the allocation. The highest drawing of all operational programmes was achieved by OP Transport with 98 % drawing, OP Bratislava Region 97 %, OP Employment and Social Inclusion 94 %, and OP of Research and Development with 90 % drawing. The final level of drawing will be known only after the conclusion of the programming period 2007-2013 on the basis of the final documentation.

**Improved implementation of the riskiest operational programmes** was achieved mainly by intensifying the cooperation between the managing authorities of the programmes with the European Commission, phasing of projects (where the second phase of the project will continue in the programming period 2014-2020), application of financial instruments JESSICA and JEREMIE, project revisions, as well as through flexibility of 10 %. In order to draw all the resources from the programming period 2007-2013, the MoF of the SR is to approve eligible expenditure of EUR 1.2 billion for 2016.

**Figure 29: Drawing of structural funds and the Cohesion Fund (EUR million, the value from 2015 provided above the figure)**



Source: MoF SR

To a great extent SF and CF in Slovakia contribute to the performance of European objectives within the Europa 2020 strategy and to the performance of specific recommendations of the EU Council for Slovakia.<sup>32</sup> With the aim of more deeply assessing and setting up the methodology evaluating the EU funds contribution to the strategy in the future, pilot projects assessing the SF and CF contributions to the objectives of the

<sup>31</sup> Under the objective of ESIF 2014-2020 Investment for Growth and Employment, the European Commission approved seven operational programmes financed from Structural funds and Cohesion fund, Rural Development Programme of Slovak republic 2014-2020 financed from the European Agricultural Fund for Rural Development and Operational Programme Fisheries, which is financed from the European Maritime and Fisheries Fund.

<sup>32</sup> Annual report on the performance of the National Strategic Reference Framework for 2013, chapter 2.3.10 Contribution to Lisbon Process / Europa 2020 strategy

Europe 2020 strategy in education, *research and development*, and *climate and energy*<sup>33</sup> were performed and concluded by final reports during 2015. At the end of 2015 the preparation of a *Methodology for Assessing Synergic Effect of the ESIF* began, which aims to evaluate the used methods and create a system of indicators and methods for continuous and ex-post evaluation of the ESIF contribution to the Europe 2020 strategy.

Under the objective Investment for Growth and Employment, the European Commission approved seven operational programmes financed from ESIF 2014-2020. At the end of 2015 the drawing reached EUR 136.1 million at the level of managing authorities and zero the level of certification bodies.

Operational Programmes	Managing authority	Allocation from EU funds (EUR million)	Drawing at 31.12.2015 (EUR million)	Contracting rate of projects (%)
Research and innovation	MoESRS SR	2,267	-	0
Integrated infrastructure	MoTCRD SR	3,967	35.9	1.63
Human resources	MoLSAF SR	2,205	-	14.25
Environmental quality	MoEnv SR	3,138	3.2	1.19
Integrated regional OP	MoARD SR	1,754	-	6.63
Efficient public administration	MoI SR	278	-	-
Technical assistance	GO SR	159	-	-
Rural Development Programme	MoARD SR	1,545	97	-
Fisheries	MoARD SR	16	-	-
<b>Total</b>		<b>15,329</b>	<b>136.1</b>	<b>4.32</b>

Operational programmes in the programming period 2014-2020 allocate part of their funds for repayable forms of assistance in the form of **financial instruments through Slovak Investment Holding (SIH)**, which should reach a total capitalization of EUR 552 million (including co-financing from the state budget). In the area of energy efficiency, the SIH will, through financial intermediaries, provide soft loans for residential buildings, promote energy efficiency in small and medium-sized enterprises as well as waste management and energy production from renewable sources. The SIH will also provide financial tools in the areas of transport infrastructure, social economy and support for small and medium-sized enterprises.

<sup>33</sup> Final reports from the pilot projects are published on the [website](http://www.nsrr.sk/sk/hodnotenie/programove-obdobie-2007---2013/) NR SR <http://www.nsrr.sk/sk/hodnotenie/programove-obdobie-2007---2013/>

## 6 Institutional framework for the Europe 2020 strategy and NRP

The NRP is based on the new Manifesto of the Government of the SR in which the Slovak Government set out to strengthen social and political stability, respond in a flexible way to opportunities and negative external environment, steadily continue to support the economic, social and environmental development, deepen economic, social and territorial cohesion of Slovakia, strengthen the role of the state and the protection of the public interest. The basic focus of the measures contained in the NRP is also determined by sectoral strategies. The Minister of Finance of the Slovak Republic is the NRP coordinator. He also cooperates with GO SR that continuously supervises the reflection of the strategy into SF, CF and ESIF.

Ministers responsible for economic and social agenda are primary involved in the preparation and implementation of the NRP. Other ministers, government plenipotentiaries and representatives of other state administration authorities participate in delivering the strategy through cooperation in selected areas. Consultations with partners, including the tertiary sector, are regularly held during the year. During the NRP preparation, a meeting of state secretaries from all involved government departments took place. The financing of measures from the NRP will be ensured within the set expenditure and personnel limits of the chapters of the state budget.

At the international level, this material presents measures to meet the targets contained in the Europe 2020 strategy defined in the 2016 Annual Growth Survey and Integrated Guidelines for the Europe 2020 Strategy, as well as to meet the country-specific recommendations of the EU Council for the Slovak Republic. The NRP also reacts to the assessment of the implementation of the specific recommendations from 2015 made by the European Commission and published in February 2016<sup>34</sup>. The cohesion policy is an important tool for the fulfilment of the strategy targets. In 2014 a new seven-year programming period started.

An independent Action Plan comprising the most important measures with a significant fiscal impact together with the deadline for their implementation and responsibility makes an independent appendix to the NRP.

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<sup>34</sup> [Country Report](#), Slovakia 2016, SWD(2016)

# Annex 1 – National targets under the Europe 2020 Strategy

## Europe 2020 Strategy performance indicators

		2007	2008	2009	2010	2011	2012	2013	2014	2015	Target 2020	
<b>Fiscal policy and public finance</b>												
1	Long-term sustainability indicator (GAP) (% of GDP)	SK	-	-	9.5	9.2	7	4	1.9	2.4	0	
		EU	-	-	-	-	-	-	-	-	-	
2	VAT collection effectiveness (%)	SK	62.0	62.7	55.9	54.7	54.7	50.3	55.3	57.4	72	
		EU22	71.9	69.9	64.5	65.6	65.9	66.0	66.3	67.4	-	
<b>Education, science, and innovation</b>												
3	PISA (arithmetic average of the scores)	SK	-	-	488.1	-	-	472	-	-	505	
		OECD	-	-	496.7	-	-	497	-	-	-	
EU 4	School drop-out rate (% of population aged 18 - 24)	SK	6.5	6.0	4.9	4.7	5.1	5.3	6.4	6.7	6	
		EÚ	14.9	14.7	14.2	13.9	13.4	12.7	11.9	11.2	10	
5	Citations (%, 100 = EU average)	SK	38	40	35	34	35	45	47	44	70	
		EU	-	-	-	-	-	-	-	-	-	
EU 6	Tertiary education attainment (% of population aged 30 - 34)	SK	14.8	15.8	17.6	22.1	23.2	23.7	26.9	27	40	
		EU	30.1	31.2	32.3	33.8	34.8	36.0	37.1	38	40	
EU 7	Expenditure on R&D (% of GDP)	SK	0.5	0.5	0.5	0.6	0.7	0.8	0.8	0.89	1.2	
		EU	1.8	1.9	1.9	1.9	2.0	2.0	2.0	2	3	
8	High-tech export (% of total export)	SK	5.0	5.2	5.9	6.6	6.6	8.2	9.5	10	14	
		EU	12.3	12.2	13.1	12.2	11.6	11.6	11.6	11	-	
<b>Employment and social inclusion</b>												
9	Long term unemployment rate (% of active population aged at least 15)	SK	8.3	6.7	6.5	9.3	9.3	9.4	10.0	9.3	7.6	3
		EU	3.1	2.6	3.0	3.8	4.1	4.7	5.1	5.1	4.5	-
EU 10	Employment rate (% of population aged 20 - 64)	SK	67.2	68.8	66.4	64.6	65.0	65.1	65.0	65.9	67.7	72
		EU	69.8	70.3	69.0	68.6	68.6	68.4	68.4	69.2	70.1	75
EU 11	Population at risk of poverty and social exclusion (% of population)	SK	21.4	20.6	19.6	20.6	20.6	20.5	19.8	18.4	17.2	
		EU	24.4	23.7	23.3	23.8	24.3	24.7	24.6	24.5	19.4	
<b>Business environment</b>												
12	Doing Business (World Bank ranking)	SK	-	-	-	-	-	-	29.0	29.0	15	
		EU	-	-	-	-	-	-	31.0	31.0	-	
13	Product market regulation index (number of points)	SK	-	1.6	-	-	-	-	1.3	-	1.2	
		OECD	-	1.5	-	-	-	-	1.4	-	-	
14	eGovernment (%)	SK	0.0	40.0	38.0	50.0	48.0	42.0	33.0	57.0	51.0	71.7
		EU	0.0	35.0	37.0	41.0	41.0	44.0	41.0	47.0	46.0	-
<b>Transparent conditions and law enforcement</b>												
15	Corruption (%)	SK	59	-	61	-	56	-	62	-	68.4	
		EU	78	-	80	-	77	-	78	-	-	
<b>Health</b>												
16	Healthy life years (expected number of years at birth)	SK	55.9	52.3	52.5	52.2	52.2	53.3	54.4	0.0	60	
		EU	62.2	61.7	61.7	62.2	61.9	61.8	61.5	0.0	-	
<b>Environmental sustainability</b>												
EU 17	Non-ETS greenhouse gas emissions (%, change against 2005)	SK	-4.8	-5.2	-8.4	-5.3	-10.6	-14.9	-19.7	-	13	
		EU	-3.4	-2.7	-6.8	-5.2	-9.4	-10.6	-9.8	-	-10	
EU 18	Share of RES on gross final consumption (%)	SK	7.3	7.5	9.3	9.0	10.3	10.4	10.1	11.6	14	
		EU	10.4	11.0	12.4	12.8	13.1	14.3	15.0	16.0	20	
EU 19	Final consumption of electricity (%, change against average of 2001–2005)	SK	-1.8	0.8	-6.7	1.4	-5.4	-9.2	-6.9	-11.7	-11	
		EU	0.4	1.0	-4.6	-0.5	-5.5	-5.5	-5.4	-9.2	-	

## Description of Europe 2020 Strategy performance indicators

Name of indicator	Definition and source
<b>Long-term sustainability indicator (GAP)</b>	<p>The long-term sustainability indicator represents the difference between the current value and the sustainable value of the structural primary balance. The sustainable value is determined using the current legislation and long-term demographic and economic forecasts that affect general government revenue and expenditure (implicit liabilities) while also taking account of contingent liabilities (e.g., PPP projects).</p> <p>Source: OECD / Eurostat, calculation: MoF SR</p>
<b>VAT collection effectiveness</b>	<p>VAT collection effectiveness = <math>\text{VAT collected} / [(\text{final consumption of households} + \text{gross fixed capital formation of the public administration} + \text{intermediate consumption of the public administration} - \text{VAT collected}) * (\text{basic VAT rate} / 100)]</math></p> <p>The index compares actual VAT collection to potential VAT collection. The larger the indicator value, the more efficient the VAT collection. Potential VAT collection indicates how much VAT can be collected on the macroeconomic base at the basic VAT rate.</p> <p>Source: OECD / Eurostat, calculation: MoF SR</p>
<b>Non-ETS greenhouse gas emissions</b>	<p>Non-ETS greenhouse gas emissions, such as CO<sub>2</sub> equivalents, represent the percentage change compared to 2005. The indicator shows the trends of aggregated anthropogenic emission of CO<sub>2</sub>, NO<sub>2</sub>, CH<sub>4</sub>, HFC, PFC and SF<sub>6</sub> called greenhouse gasses and presented as CO<sub>2</sub> equivalents. The total quantity does not include emissions from land use and forestry (LULUCF).</p> <p>Source: Eurostat</p>
<b>Share of RES on gross final consumption</b>	<p>The share of the final consumption of energy from renewable sources and the gross final energy consumption. The final consumption of energy from renewable sources is calculated as the sum of gross final consumption of electricity from renewable energy sources, gross final consumption of energy from renewable sources for heating and cooling, and final consumption of energy from renewable sources in transport.</p> <p>Source: Eurostat</p>
<b>Final consumption of electricity</b>	<p>Final consumption of electricity represents the difference between final consumption and final non-energy consumption. Final non-energy consumption includes energy products used as feedstock in various industries, i.e. those that are neither consumed as fuel nor transformed to another fuel. Final consumption is calculated as gross inland consumption – transformation (input) + transformation (output) + exchanges and transfers, backflows – consumption of the energy sector – distribution losses.</p> <p>Source: calculation by MoF SR based on data from SO SR</p>
<b>School drop-out rate</b>	<p>The share of population aged 18-24 with the lowest education (ISCED 0, 1, 2, 3C), who do not continue further studies. A pupil is considered not to continue further studies if in the four weeks preceding the survey he/she did not receive any type of education or training; the relevance of education to the respondent's current or future work is not taken into account.</p> <p>Source: Eurostat</p>
<b>PISA</b>	<p>Internationally standardised assessment of the knowledge and skills of 15-year-old students. It assesses students in three areas: mathematics, reading and natural sciences. The index is an arithmetic average of the scores obtained in the individual areas.</p> <p>Source: OECD</p>
<b>Tertiary education attainment</b>	<p>The share of tertiary graduates aged 30-34 in the total population in the same age group. University or PhD studies correspond to ISCED 5-6.</p> <p>Source: Eurostat</p>
<b>Citations per researcher</b>	<p>The proportion of the number of citations in renowned international magazines (SCImago Journal &amp; Country Rank) per number of researchers in the country (Eurostat). The indicator is expressed relative to the average of European Union countries.</p> <p>Source: <a href="http://www.scimagojr.com/">http://www.scimagojr.com/</a>, Eurostat, MoF SR calculations</p>
<b>Expenditure on R&amp;D</b>	<p>The percentage share of total R&amp;D expenditure in GDP.</p> <p>Source: Eurostat</p>
<b>High-tech export</b>	<p>The share of high-tech export in the country's total export. High-tech products are represented by selected products in the following industries: aerospace, computers and office machinery, electronics-telecommunications, pharmaceuticals, scientific instruments, electrical machinery, chemistry, non-electric machinery and armament.</p> <p>Source: Eurostat</p>



<b>Employment rate</b>	<p>Share of the employed aged 20-64 in the total population in the same age group. The indicator covers the total population living in independent households; it excludes collective households, people living in boarding and lodging houses, dormitories, and those hospitalised in healthcare facilities. The employed population is made up of those people who, during the reference week, carried out some type of remunerated work (either salary or benefit) for at least one hour, or who did not work but had a job from which they were temporarily absent.</p> <p>Source: Eurostat</p>
<b>Long term unemployment rate</b>	<p>The share of persons aged at least 15, who have been unemployed for 12 months and more, not living in collective households who are without work despite actively seeking work.</p> <p>Source: Eurostat</p>
<b>Population at risk of poverty and social exclusion</b>	<p>The indicator represents the sum of people at risk of poverty (after social transfers) and/or those materially deprived and/or living in households with very low work intensity, expressed as a percentage of the total population. The risk of poverty represents the number of persons with disposable income below 60 % of the national median disposable income (after social transfers). The seriously materially deprived are those who cannot afford at least four of the following nine items: ii) pay the rent/mortgage or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or protein equivalent energy every second day, v) one week of vacation away from home, vi) car, vii) washing machine, viii) colour TV or ix) telephone. Population in households without work or with a very low intensity of work includes persons aged 0–59 living in a household where the adults worked less than 20 % of their total work potential during the past year.</p> <p>Source: Eurostat/EU-SILC</p>
<b>Doing Business</b>	<p>A country's position in the Doing Business ranking, which measures regulation of small and medium-sized enterprises throughout the nine stages of their life cycle: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. The data is based primarily on national laws, various other forms of regulation and administrative requirements.</p> <p>Source: World Bank</p>
<b>Product market regulation index</b>	<p>The assessment of a country using the Product Market Regulation Index. It measures regulation and barriers in three areas: state control, barriers to entrepreneurship and barriers to trade and investment (each with a weight of one third). The product market regulation index targets not only the business activities of regular enterprises, but also measures broader regulation (for example regulation in network industries).</p> <p>Source: OECD</p>
<b>eGovernment</b>	<p>The percentage of individuals aged 16-74, who use the internet for communication with the public administration</p> <p>Source: Eurostat</p>
<b>Corruption</b>	<p>The corruption indicator represents an average of two indices focusing on different types of corruption: Experience with corruption among the common population – a Eurobarometer survey. Eurobarometer survey targeting individual sectors, such as the police, customs administration, courts, national politicians, regional politicians, local politicians, tenders, building permits, business permits, healthcare system, school system, inspection. The Corruption Perception Index (CPI) - Transparency International – measures the perception of corruption based on 5-10 source surveys of entrepreneurs and experts in each country. In Slovakia, eight corruption perception surveys are included, with 50 % weight assigned to the views of entrepreneurs and 50 % to the views of experts.</p> <p>Source: Transparency International, Eurobarometer, calculations of IFP</p>
<b>Healthy life years</b>	<p>The number of years lived in a healthy condition that can be expected at birth. This indicator combines information on mortality and morbidity in the given country. Good health is defined by the absence of disabilities or restrictions on everyday activity. It is also called disability-free life years (DFLY).</p> <p>Source: Eurostat</p>