# Slovakia

## Macroeconomic outlook and forecasts

Slovak economic activity was hit hard by the Covid-19 pandemic and the corresponding containment measures, resulting in a sharp fall in real output during the first half of 2020. During the first and second quarter 2020, Slovak GDP contracted by respectively 4.6% and 7.5% (q-q change). Yet, GDP rebounded in the third and fourth quarter 2020 by respectively 9.9% and 0.8%, and by the end of 2020 the GDP contraction was equal to 5.2%, comparatively lower than other EU countries. The increase in COVID cases and the accompanying restrictive measures between late 2020 and early 2021 led to a 2% contraction in GDP in the first four months of 2021. In the second quarter of 2021, however, a recovery of 2% is observed, linked to progress in vaccination and the reopening of the economy. According to the European Commission's latest summer forecast and following the dynamics of countries such as Germany, Slovakia should reach its pre-crisis level in the third quarter of 2021.

To cushion the effects of the pandemic, the Slovak government put in place a significant package of fiscal measures equal to 5% of its GDP, which accompanied traditional automatic stabilizers. It introduced discretionary expenditure measures to support employment (1.8% of GDP) and health (0.3% of GDP). This cushioned the hit, with unemployment in 2020 increasing by a limited 0.9% and the employment rate decreasing by just 1.9% compared to the previous year, with the latter expected to recover its pre-pandemic levels in 2023. In addition to discretionary revenue measures, fiscal measures and guarantees were adopted for an amount equivalent to 0.5%, 1% and 1.7% of GDP respectively. By the end of 2020, the budgetary impact of the fiscal stimulus was around 2% of GDP and is expected to be around 1% of GDP in 2021.

Fiscal support measures together with weaker tax revenues have largely impacted on the government budget deficit, which amounted to 6.2% of GDP in 2020 and is expected around 6.5% of GDP in 2021. Public debt to GDP ratio increased to 60.6% in 2020 from 48.2% in 2019. As a result of the severe recession and the needed fiscal response, Slovakia is projected to face both short- and medium-term risk of fiscal stress mainly driven by more adverse macro-financial developments or to weaker fiscal improvement. Population ageing represents also a high fiscal sustainability risk for the Slovak public finances in the long term.

Table 1 Macroeconomic development and forecast Slovakia

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|
| GDP Growth (y-y % change) | 2.50 | -5.20 | 3.30 | 6.30 | 2.80 | 0.30 | n.a. | n.a. |
| Employment (% change) | 1 | -1.9 | -0.4 | 0.9 | 1.20 | 0.30 | n.a. | n.a. |
| Unemployment rate (%) | 5.8 | 6.7 | 7.1 | 6.5 | 5.40 | 4.70 | n.a. | n.a. |
| HICP inflation (% change) | 2.80 | 2.00 | 1.10 | 2.20 | 2.50 | 2.30 | n.a. | n.a. |
| Gov balance | -1.30 | -6.20 | -6.50 | -4.10 | n.a. | n.a. | n.a. | n.a. |
| Debt to GDP (% GDP) | 48.20 | 60.60 | 59.50 | 59.00 | n.a. | n.a. | n.a. | n.a. |

Source: Own elaboration, based on Slovak NRRP

Country sheets produced by Francesco Corti, Jorge Núñez Ferrer, Tomas Ruiz de la Ossa and Pietro Regazzoni, CEPS.

This country sheet is part of the research programme on the preparation and implementation of the EU's Recovery and Resilience Facility. Image credit: Vecteezy.com © CEPS 2021

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CEPS ▪ Place du Congrès 1 ▪ B-1000 Brussels ▪ Tel: (32.2) 229.39.11 ▪ www.ceps.eu

## Slovakia structural challenges before Covid-19

After accession to the EU, Slovakia has experienced a progressive catching up with the EU average in many areas, mostly driven by an export based industrial production, based on attractive labour costs, notably in the automotive sector, and driven by foreign direct investments. This convergence trend has slowed down in the years preceding Covid-19, mostly due to persisting labour productivity gap and increasing domestic labour cost. Structural challenges thus characterized the Slovak economy, mainly in the field of labour market, education and skills, research, and innovation and – in part – product market (see Table 2).

With respect to the labour market, despite an overall positive trend, three main challenges affected Slovakia: i) a high share of long-term unemployment especially among young people and high NEET rate; ii) low women's participation in the labour market, mainly due to a shortage of measures to cope with family obligations, with the proportion of women inactive due to caring responsibilities being 6.3% higher than the EU average (Country Report for Slovakia 2020); and iii) low investments in active labour market policies.

In the area of education and skills, Slovakia is affected by three main challenges that prevent the country from fulfilling its economic potential: i) participation in early childhood education and care (ECEC) is among the lowest in the EU, in particular among vulnerable groups; ii) investment in high-quality and inclusive education (including the teaching profession) and training remains insufficient, affecting educational outcomes across all levels, including vocational training and schemes for upskilling and reskilling of workers; iii) a significantly high rate of early school-leavers (around 8.6%) further accentuated labour skills' mismatch.

An underperforming public administration is a bottleneck for public investment, while low trust in the justice system undermines business confidence and private investment. The low effectiveness of public institutions, administration and regulatory environment significantly hampers the Slovak business environment. At the same time, complex public procurement procedures, slow procedures to start a business and lengthy processes to get construction permits or to resolve insolvency hinder economic efficiency, affect Slovak product market (Doing Business data by the World Bank for Slovakia 2020). In addition, major independence and integrity concerns characterize the judicial system.

Low public and private investment in R&D further hamper the economic potential of the country. The low quality of public research and limited cooperation of universities and research organizations with businesses, partly explained by inefficiencies related to a fragmented governance system - constrain the development and sharing of knowledge and skills. Finally, with respect to social policies, Slovakia wasaffected by territorial inequalities, especially between Bratislava and the Eastern regions, in terms of people at risk of poverty and social exclusion. One out of four children coming from socially disadvantaged families faces a risk of poverty or social exclusion (AROPE). Slovakia, in turn, lacks systematic support for children experiencing poverty and disability, low access to long-term care, as well as difficulties for some groups, such as marginalised Roma communities, the elderly and the low-skilled in accessing social protection and care services.

Table 2. Slovakia country specific challenges before Covid-19

| Policy area | Challenges |
|---|---|
| Labour market | High NEET rate |
| | Low spending on ALMP |
| | Low female employment and still high gender pay gap |
| Education and skills | High inequality in educational outcomes |
| | Insufficient investment in education and training |

| | |
|---|---|
| | Gaps in the provision of early childhood education and care facilities, aggravating regional and social disparities. |
| | Low adult learning participation |
| | High rate of early leavers from education and training |
| Justice | Concerns on the independence and integrity of the justice system |
| | High administrative workload |
| Research and innovation | Low investment in R&D |
| | Complex funding mechanism of the Innovation and Industry Fund |
| | Low efficiency of public research |
| Public administration | Underperforming PA in policy planning, human resources, and service delivery |
| | Burdensome regulatory process |
| | Low digitalization of PA |
| Taxation | Revenue from labour taxes is still the biggest source of tax revenue. Limited role of property, consumption, and environmental taxes |
| Product market | Supporting entrepreneurship below EU average |
| | Exit policies and the insolvency framework to be improved |
| Social Policies | AROPE rate high in some regions |
| | Low social mobility |
| | Low access to long-term care |
| | High inequality (S80/S20) |
| | Limited access to social protection and care services for some population groups. |

Source: Own elaboration, based on the Country Report for Slovakia 2020

In addition to structural challenges, Slovakia experienced some challenges related to the green and digital transitions. Slovakia is not meeting the Greenhouse gas (GHG) emissions' target, the target of 19.25% of renewables in the energy mix is below the EU 24% threshold, self-fixed targets for energy efficiency are modest, and the performance on waste management is insufficient with low recycling rates and a strong dependence on landfilling. Slovakia also performs far below the EU average in all DESI index areas, including low connectivity, scarce digital literacy, low use of internet service, low integration of digital technology and scarce digitalisation of public services.

## The Slovakian NRRP: key numbers and timeline

On 13 July 2021, the ECOFIN Council approved the implementing decision on the approval of the Slovak plan, which will be financed by EUR 6.58 billion in grants. The plan includes 55 investments' projects and 58 reforms to address the problems of the Slovak economy. While the 68.96% of the reforms will already be implemented as early as 2023, 88.52% of the investments' projects will be completed in 2025 and 2026 (see Figure 1).

Figure 1. Timeline for completion of reforms and investments under Slovak NRRP, by year (% total)

| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | TOT |
|---|---|---|---|---|---|---|---|---|
| RRF Investments' projects [EUR billion] | 0,00 | 0,00 | 0,03 | 0,02 | 0,71 | 1,60 | 4,25 | 6,61 |
| RRF Investments' projects (%total) | 0% | 0% | 0,42% | 0,32% | 10,74% | 24,16% | 64,36% | 100% |
| RRF Reforms [number] | 0,00 | 6,00 | 19,00 | 15,00 | 3,00 | 11,00 | 4,00 | 58,00 |
| RRF Reforms (% total) | 0,00% | 10,34% | 32,76% | 25,86% | 5,17% | 18,97% | 6,90% | 100,00% |

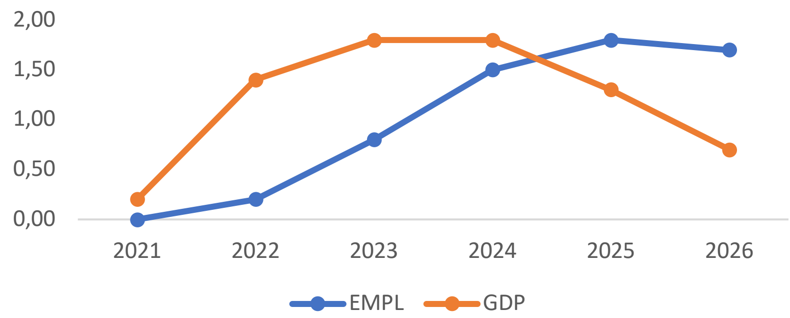
Source: Own elaboration, based on Slovak NRRP

The completion of the projects goes along with the request for payments to the Commission. Contrary to other member states, however, Slovakia does not provide information on the annual breakdown of spending under RRF grants, which does not allow to understand the timeline for the payments' disbursement from the Commission.

With respect to the governance of the plan, the functions and the responsibilities of the institutional actors involved in the NRRP are defined by a special law. The implementation of the NRRP will be supervised by the Government of the Slovak Republic in the position of a steering authority, together with the National Implementation and Coordination Authority ("NIKA") and in liaison with national ministries.

According to stylized impact simulations carried out by the Slovak government with QUEST, the NRRP is expected to have a very positive impact on employment and a first positive impact, with a subsequent reduction in GDP in the medium term. More in details, the plan foresees an increase in the average annual GDP growth rate of 1.2 percentage points (pp.) until 2022 and 0.4 pp. until 2024, with a subsequent decline of 0.5 pp. in the years 2025 and 2026. In terms of the labour market, in 2026 the unemployment rate is expected to be 1.5 pp. below the scenario without NRRP.

Figure 2. NRRP impact on GDP and employment - deviations from baseline scenario

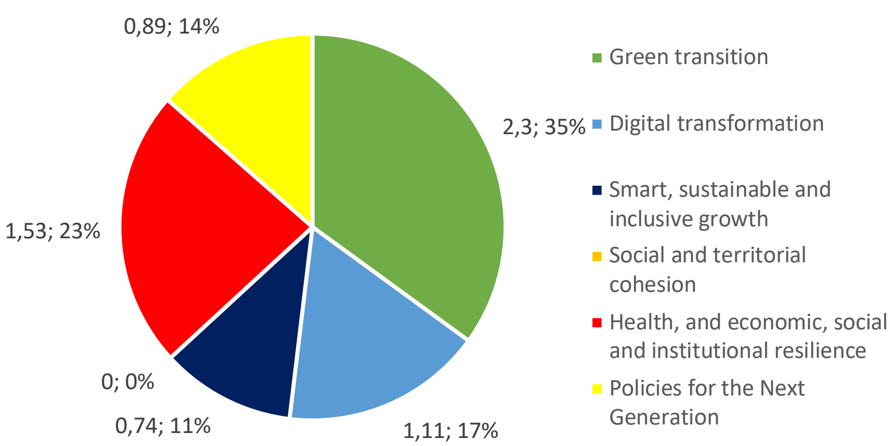



Source: Own elaboration, based on Slovakia NRRP

## Investments in the Slovak NRRP

In line with the Commission guideline, the Slovak NRRP investments' projects can be classified based on the objectives included in the six pillars of RRF. Notably, the plan allocates 52% of its investments on the *Green transition* (35% of total) and *Digital transformation* (17%) pillars of the RRF. The remaining 48% of investments is allocated respectively for *Policies for the Next Generation* pillar (14%) *Smart, sustainable and inclusive growth* pillar (11%) and *Health, and economic, social, and institutional resilience* pillar (23%). With respect to the distribution of the funding across economic activities, the Slovak plan distributes the resources evenly, with the largest share allocated to Human health and social work activities (23.3%), Education (13.3%), Professional, Transportation and Storage (12.2%), Scientific and technical activities (11.3%), and Construction (11.3%).

Figure 3. Investments by 6 RRF pillars (€ billion)



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Source: Own elaboration, based on Slovak NRRP

A closer look at the breakdown of the five pillars, in which the Slovak NRRP invests, gives us a better understanding of the investments' prioritization.

Under the *Green transition* pillar, Slovakia includes five components on renewable energy sources, renovation of buildings, sustainable transport, decarbonisation of industry and adaptation to climate change. In this respect, the most relevant projects are investments in the development of low-carbon transport infrastructure (€0.66 billion), improving the energy efficiency of family houses (€0.58 billion), an industry decarbonisation scheme (€0.36 billion) and the renovation of historical and listed public buildings (€0.21 billion). Under the *Digital transformation* pillar, four components are included on improving the business environment, reforming the judicial system, fighting the corruption and money laundering, and introducing a digital plan for Slovakia. Among the most relevant projects, investments in the digital transformation of public services delivery (€0.13 billion), the renovation and creation of new judicial buildings (0.21 billion) and the digitalization of public services for citizens and businesses (0.18 billion). Under the *Policies for the Next Generation* pillar, Slovakia includes various projects aimed to improve the availability, development, and quality of inclusive education (€0.21 billion), create an education for the 21st century (€0.47 billion) and improve the performance of Slovak universities (€0.21 billion). Under the *Health, economic, social, and institutional resilience* pillar, the most relevant projects are the construction, reconstruction, and equipment of new hospital network (€1 billion) and enhancing community-based social care capacities, to allow patients to be transferred from large-scale facilities to smaller community-type facilities (€0.2 billion). Finally, under the *Smart, sustainable and inclusive growth* pillar, the main project consists in €0.18 billion investment in supporting cooperation between companies, academia, and R & D organisations, in order to mobilise private participation in RDI and increase the share of innovative businesses, and €0.13 billion investment in research and innovation for the digitalisation of the economy. **Error! Reference source not found.** summarizes the 10 largest investments' projects indicated in the Slovak recovery and resilience plan.

Table 3. Slovakia 10 strategic projects financed by RRF

| Projects | € bn | Description | Timeline |
|---|---|---|---|
| New hospitals network | 1.00 | Improving quality of medical services and renovating existing hospitals and constructing new ones while ensuring fair geographical distribution and accessibility. | Q42025 |
| Low-carbon transport | 0.66 | Supporting the roll-out of charging stations for alternative fuels and the modernization of railways and new cycling infrastructure. | Q22026 |
| Energy efficiency in family houses | 0.53 | Financing a large-scale renovation wave to improve energy and green performance of at least 30,000 residential units. | Q22026 |
| Decarbonization of industry | 0.37 | Promoting energy efficiency and investing in innovative decarbonization technologies in industry. | Q22026 |
| Reorganizing the judicial system | 0.26 | Strengthening the efficiency and independence of the justice system and investing in digital infrastructure | Q42024 |
| Enhancing community-based social care capacities | 0.19 | Investing in long-term care for those in need through focusing more on community- based solutions | Q22026 |
| Digital infrastructure in schools | 0.19 | Financing digital equipment, including for children from socially disadvantaged backgrounds, to enhance digital skills and create a new learning ecosystem which will be further strengthened by curriculum reforms. | Q42024 |
| Better services for citizens and businesses | 0.18 | Introducing user- friendly e-government solutions for citizens. | Q22026 |
| Climate adaptation | 0.16 | Increasing the resilience of forests to the impacts of climate change, revitalizing watercourses, and supporting biodiversity. | Q22026 |
| Investing in childcare | 0.14 | Promoting access to childcare services by investing in pre-school facilities. | Q22025 |

Source: Own elaboration, based on SK NRRP (2021)

## Slovakia key structural reforms

Slovakia NRRP includes 58 reforms, that aim to address the structural problems of the Slovak economy and contributing to the structural impact of the NRRP in the medium to long term. Table 4 summarizes the main reforms included in the Slovak plan, divided in key policy areas.

In the labour market area, the main reform consists of amending the legislative provisions governing the recognition of professional qualifications for foreigners, with the aim to simplify the recognition process. Of particular relevance are the reforms on the education and skills area. The main reforms will be in the financing of pre-school education, making it more transparent and increasing access opportunities, the creation of a working group to identify and address early school leaving, a more in-depth monitoring of school accreditation criteria, creating common criteria and a professionalization of university management positions, as well as bringing them closer to society, with the possibility to participate in selection procedures.

Equally important is the reform of the judicial system, which aims at improving the efficiency and quality of the judiciary allowing for a greater specialisation of judges in criminal, civil, commercial, and family justice, paving the way for better and faster court decisions. The main reform in the research and innovation area aims at enhancing the RDI governance structure. Of relevance are also the reforms of public administration with new forms of eGovernment solutions

The reform of the pension system aims to make it more sustainable, introducing a new compulsory life cycle-based savings strategy, to be implemented by the first quarter of 2023. In the product market area, the main aim is to improve the business environment, digitalizing it and reducing the regulatory burden. Most of the reforms will be implemented by 2023.

Finally, the Slovak plan has foreseen 11 reforms in the social policies area. These reforms mostly deal healthcare challenges through the modernization of the health care system, as well as making it more accessible. The Slovak Ministry of Health will adopt the plan for all the health projects, and it will coordinate all of them. Most of the reforms will be implemented in 2022 and 2025.

Table 4. Key Slovak structural reforms

| Area | Measure | Description | Timeline |
|---|---|---|---|
| Labour market | Qualifications recognition. | Simplification of the regime for the recognition of qualifications and professional qualifications for the exercise of regulated professions. | Q12022 |
| Education and skills | Legal entitlement to ECEC | Providing conditions for the implementation of compulsory pre-primary education for children from the age of 5 and introducing a legal entitlement to a place in kindergarten or other pre-primary education providers from the age of 3 | Q42025 |
| | Early school leaving prevention. | Changes to the relevant legislative provisions aimed at increasing the possibility for young people, without completing lower-secondary education, to achieve a higher level of education by providing for the possibility of completing lower secondary education in secondary vocational schools (NSOV) in a two- and three-year combined programme. | Q22025 |
| | New approach to accreditation of higher education. | Setting out the new standards and criteria for the accreditation of curricula that tighten the conditions for guaranteeing and delivering study programmes, improve their quality and introduce long-term quality monitoring processes. | Q42022 |
| | Reform of the governance of universities | Increasing the power of rector and the Board of Directors via the amendment of the Higher Education Act so that it better reflects responsibility and allows greater flexibility within the higher education institution. | Q42021 |

| | | | |
|---|---|---|---|
| | A strategic approach to education in digital skills | Drawing up a national strategy for the development of digital skills through life-long-learning. The strategy shall be prepared in cooperation with competent Ministries and representatives of key stakeholders. | Q42022 |
| Justice | Reorganizing the judicial map | Improving the efficiency and quality of the judiciary allowing for a greater specialisation of judges in criminal, civil, commercial, and family justice, paving the way for better and faster court decisions. A new network of first instance administrative and ordinary courts (including municipal courts), appeal courts, and a Supreme Administrative Court. | Q12023 |
| Research and innovation | Reform of governance, evaluation and support in science, research, and innovation | Amendment of the RDI relevant legislation, which shall enhance the RDI governance structure, strengthen and professionalize inter-ministerial coordination of RDI policies. | Q32022 |
| Public administration | Anti-corruption and money laundering legislation | Enhancing the fight against money laundering and corruption and improving the legal framework for asset freezing including the setting up of an office managing such assets and the competence of the police to verify their origin. | Q12022 |
| | eGovernment | Enabling citizens and businesses to resolve administratively such life situations in one location quickly and easily. | Q42023 |
| Taxation | - | - | - |
| Product market | Harmonising and digitalising insolvency procedures | Establishing unified and digitalised insolvency and restructuring procedures that improve their transparency, time and cost and putting in place an improved and harmonised insolvency framework, including early warning tools and insolvency specialisation in business courts. | Q12023 |
| | Public procurement procedures | Simplifying and accelerating procedures while ensuring proper safeguards and improving control by digitalising and automating award and evaluation of contracts, and price collection and analysis. | Q22023 |
| Social policies | Optimising the acute healthcare network and the new definition of emergency healthcare | Addressing the legal changes needed to increase the universal availability of ambulances within 15 minutes for the required more than 90 % of the country's population. | Q12023 |
| | Reform of primary care provision for adults, children, and youth | Ensuring access to primary care services in those regions that suffer from a deficit of practising general practitioners (GPs) and paediatricians. | Q22022 |
| | Coordinated inter-ministerial cooperation and regulation | Coordinating mental health policy and improving cooperation across different sectors of public administration. | Q22025 |
| | Improving the sustainability of the pension system | Improving the long-term fiscal sustainability of the pension system and increasing transparency by regularly informing people about their expected pensions. | Q12023 |
| | Integration and financing of long-term social and health care | Overhauling the structures of long-term social and health care to ensure better coordination between types of care and to make financing more effective. | Q42025 |

Source: Own elaboration

## Overall assessment on the Slovak plan

Slovakia entered the pandemic with a sustained economic growth (+2.5% GDP y-y in 2019). Yet the fast progress in catching up with the EU countries in many areas that characterised the post accession period experienced a significant slowing down. Structural weaknesses slowed down the Slovak economic development at the time of the Covid-19 crisis arrival.

The positive aspect of the plan is that it provides a quasi-comprehensive identification of Slovakia's structural problems, and consequently proposes a series of investments and reforms to address them. The proposed interventions are also in line with the priorities identified in the country specific recommendations for Slovakia. The relevance of the plan is increased by its

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alignment with the objectives set out in the RRF regulations. For example, the plan intervenes in simplifying the regime for the recognition of professional qualifications, promoting the school desegregation, reorganising the judicial map, modifying governance, evaluation and support in science, research, and innovation, digitalising public administration, reducing the regulatory burden for businesses, or modernising and improving access to healthcare. By contrast, the measures in the taxation area are not particularly relevant, which represents a missed opportunity to address some of the country's structural challenges.

In terms of effectiveness, the plan does not seem ambitious enough, whereby the envisaged measures do not seem always to properly address the challenges. For instance, weaknesses seem to be present also in the social policy area, i.e. the plan is exclusively focused on healthcare, without providing relevant reforms to properly address the high risk of poverty or social exclusion, the high level of inequality and the limited access to social protection for some population groups. In the labour market area, the challenges are not really addressed: the interventions do not really address the problems of high NEET rate, high female unemployment rate and low investments in active labour market policies. In the education and public administration areas, the effectiveness of reforms can be hampered by lack of clear identification of the bodies involved and responsible and the tight timeline for implementing reforms.

Finally, with respect to the green and digital transitions, the plan is aligned with the RRF's green and digital objectives. Especially in the green area, the plan includes the most ambitious measures and investments. These include measures for the renovation of buildings, such as the harmonisation of support mechanisms for the renovation of family houses, the conversion of public transport, making it more sustainable, the decarbonisation of industry, reducing greenhouse gas emissions, and digitalisation measures, such as the management of the digital transformation of economic and social governance.