



# The 2018 Country Report for Slovakia

## Main findings

Brussels, 28 September 2018

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DG Economic and Financial Affairs (DG ECFIN)

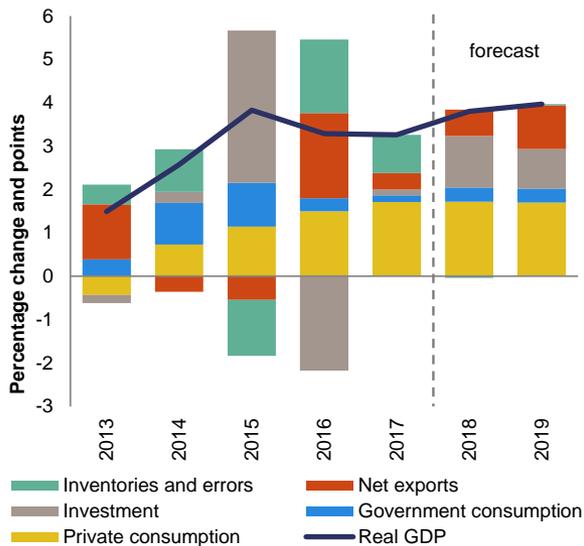
# Overview

- *Economic context*
- *Implementation of 2017 country-specific recommendations (CSRs)*
- *Reform priorities*
- *2019 Country Report*

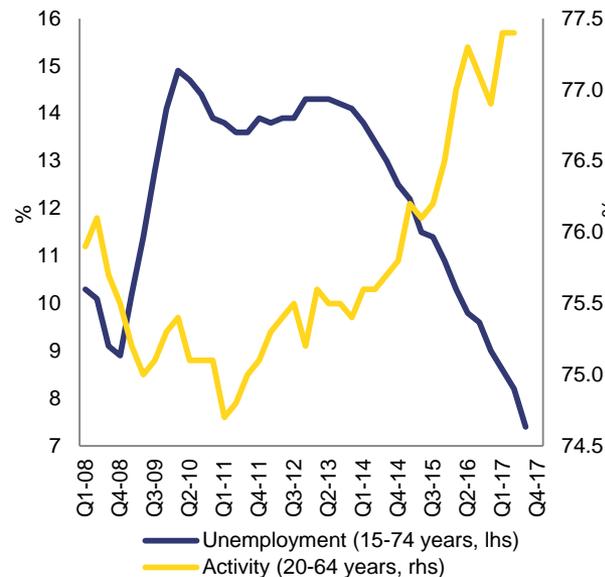
# Economic Context

- GDP growth to accelerate in 2018 and 2019
- Real wages growing at ~3% p.a., boosting private spending
- Unemployment likely to decline further, but labour shortages rising
- Investment activity uneven and still below 2015 peak

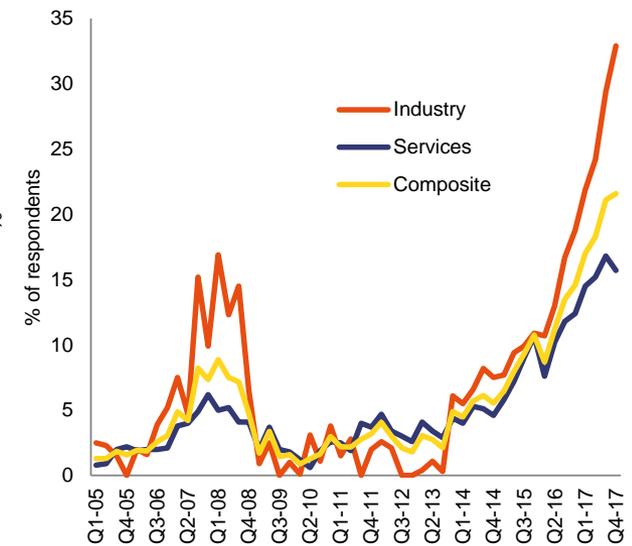
## GDP growth



## Unemployment and activity



## Labour shortages



# Implementation of 2017 CSRs

- **Some progress:**
  - Generating cost-savings in the healthcare sector
  - Improving activation measures for disadvantaged groups
  - Improving accessibility of childcare
  - Adopting and implementing a plan to address administrative and regulatory barriers for business
- **Limited progress:**
  - Improving the quality of education
  - Increasing the participation of Roma in inclusive mainstream education
  - Improving competition and transparency in public procurement
  - Improving the effectiveness of the justice system
- **No progress:**
  - Fighting corruption through stronger enforcement of existing legislation



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# Reform Priorities

# Public Finances and Taxation

- **Taxation:**
  - Revenues are increasing but large VAT gap persists
  - Anti-fraud measures planned for 2018 to be assessed
  - Property taxation underdeveloped
  - 'Value for Money' spending reviews are good practice
- **Long-term sustainability**
  - Increases in pension age will mitigate adverse demographics
  - Healthcare is main driver of age-related spending increases

# Financial sector

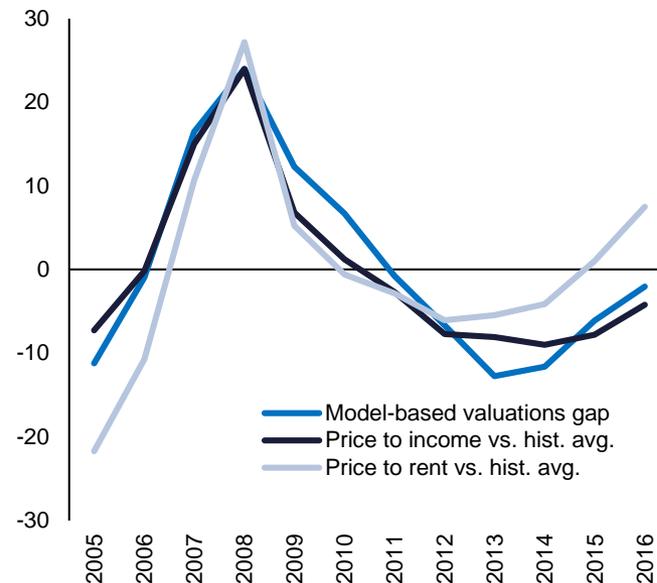
- **Banking sector:**

- Small, mainly foreign-owned
- Highly profitable, low leverage, solid capitalisation

- **Housing Market**

- House prices and lending growth accelerating
- No signs of significant overvaluation (yet)

House price overvaluation gap



# Labour market, education & social policies

- **Labour market:**

- High LTU being addressed via action plan
- Participation in ALMPs still low; little 'upskilling'
- Vulnerable groups: Young, low-skilled, Roma
- High gender employment gap (→ childcare)

- **Education:**

- Low teachers' pay limits attractiveness of teaching
- Weak performance in students' basic skills
- Underfunded at all levels

- **Social policies:**

- Risk of poverty low but intensity of poverty is high

# Investment

- **Barriers:**
  - Labour shortages
  - Corruption
  - Complex procedures, changing regulations (esp. tax), weak regulatory bodies
- **Business environment**
  - Governance survey results mediocre (WEF, World Bank)
  - RIAs are a step in right direction, increasingly used
- **Public procurement**
  - Modernisation underway, anti-competitive practices less frequent
- **Justice System**
  - Length of proceedings decreasing, but is improvement lasting?
  - Perceived independence lowest in EU (screening, appointment)

# Sectoral policies

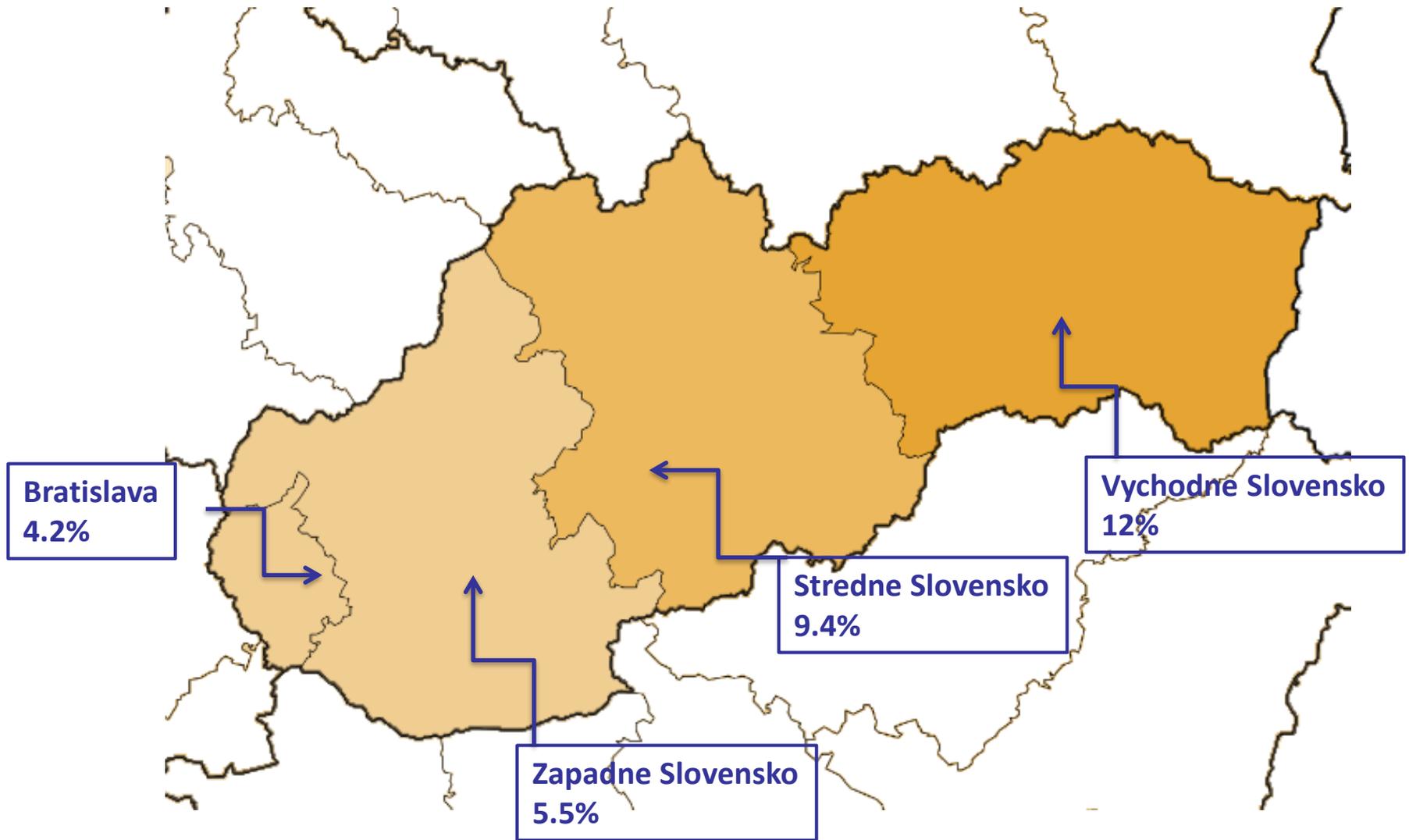
- **Research, development and innovation (RDI)**
  - Total R&D investment on rising trend but volatile
  - Business R&D among lowest in EU
  - RDI framework weak, fragmented
  - Future: Smart Industry and better business cooperation
- **Digital economy:**
  - Slovak ICT sector one of the most productive in SK
  - 13,000 specialist vacancies
  - Digital Single Market and e-government underdeveloped
- **Energy**
  - 'Stop status' uncertainty, hinders renewables investment



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# Looking ahead: The 2019 Country Report

# Regional divide: Unemployment rates (2017)



# Latest CSRs (July 2018)

1. Ensure that the nominal growth rate of net primary government expenditure does not exceed 4.1 % in 2019, corresponding to an annual structural adjustment of 0.5 % of GDP. Implement measures to increase the cost-effectiveness of the **healthcare system** and develop a more effective healthcare workforce strategy.

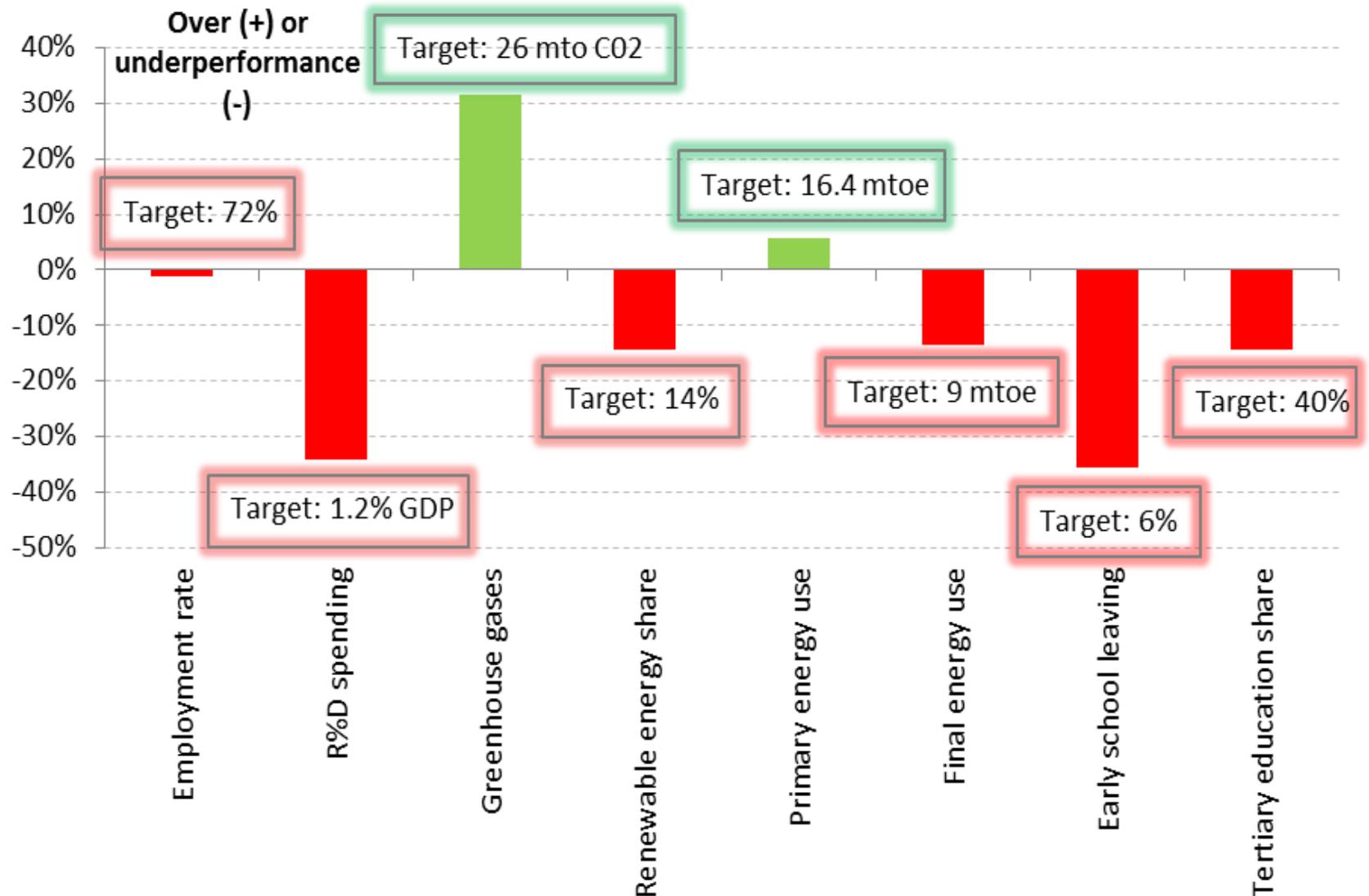
2. Reinforce **activation and upskilling** measures, including quality targeted training and individualised services for disadvantaged groups, in particular by delivering on the action plan for the long-term unemployed. Foster women's employment, especially by extending affordable, quality **childcare**. Improve the **quality and inclusiveness of education**, including by increasing the participation of Roma children in mainstream education from early childhood onwards.

3. Increase the use of quality-related and lifecycle cost criteria in **public procurement** operations.

Tackle **corruption**, including by ensuring enforcement of existing legislation and by increasing accountability at the level of police and prosecution. Improve the effectiveness of the **justice system**, in particular by safeguarding independence in judicial appointment procedures.

Reduce the fragmentation of the public **research system** and stimulate business innovation, including for small and medium-sized enterprises.

# Europe 2020 targets: Challenges in R&D, energy and education



# Higher education: The good news

- **Participation**

- Tertiary attainment rates rising ( 31.5% in 2016, +8 p.p. since 2012)
- Women strongly outweigh men in student population

- **Job market**

- High employment rates of graduates (82.5% in 2016, similar to EU)

- **Ambitions**

- How to get to top ten in EU? (National Education Development Plan)

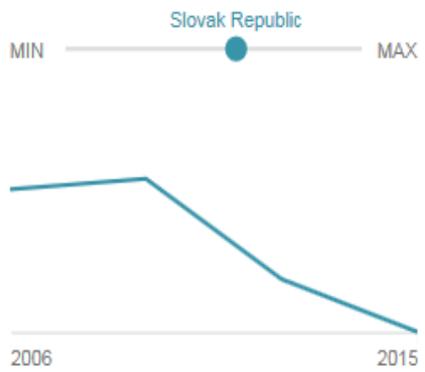
# Higher education: Challenges

- **University funding**
  - Funding per student low but similar to CEE peers
- **Quality**
  - Lack of internationalisation
  - Mismatch with labour market needs
  - Revision of accreditation and evaluation procedures? (April 2018 reform proposal now agreed?)
- **Administration**
  - Rigid and complex power relations (Powerful deans?)
  - Low level of autonomy (28<sup>th</sup> out of 29, EUA University Autonomy Scorecard)
  - Opportunities to raise external funds?

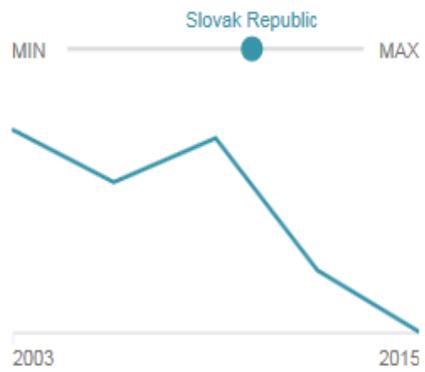
# Education: PISA (2003-2015)

## Average performance

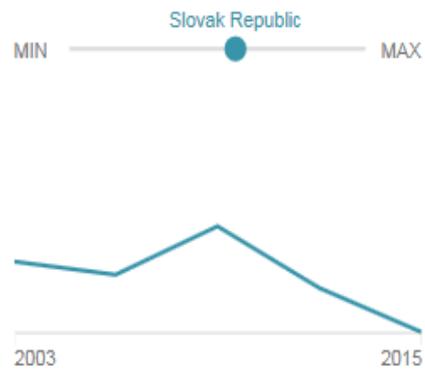
### Science



### Mathematics

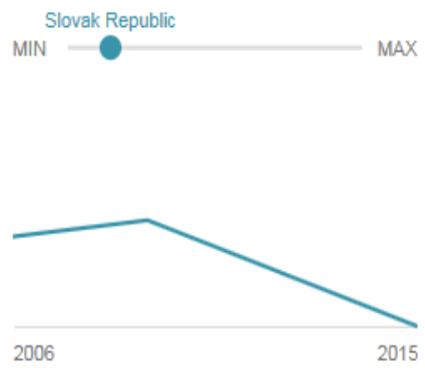


### Reading

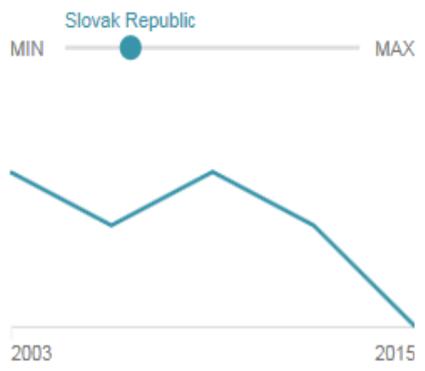


## Share of top performers

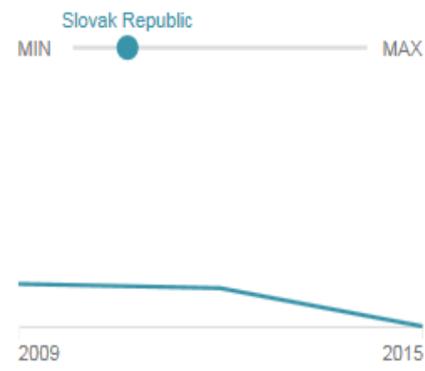
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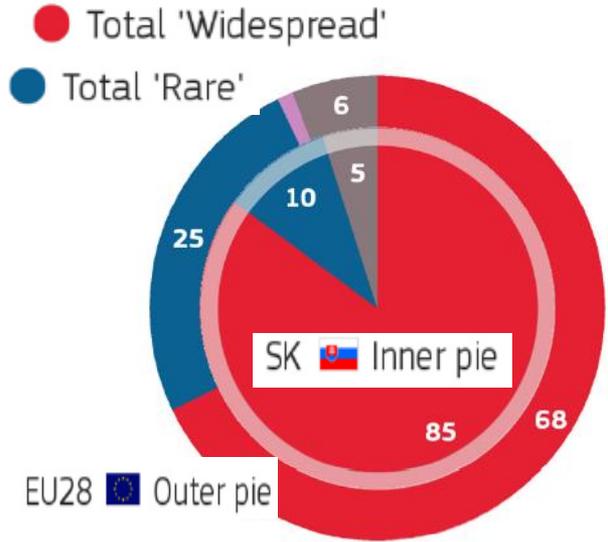


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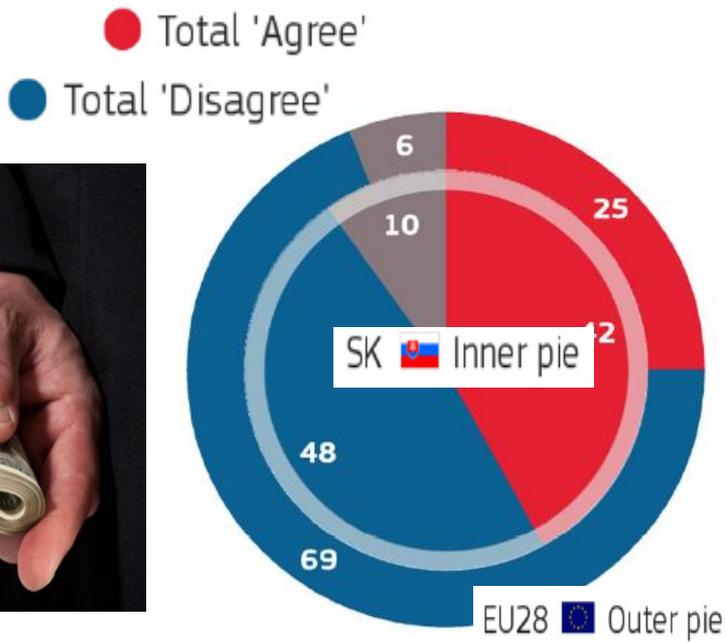


# Corruption: Eurobarometer (Oct 2017)

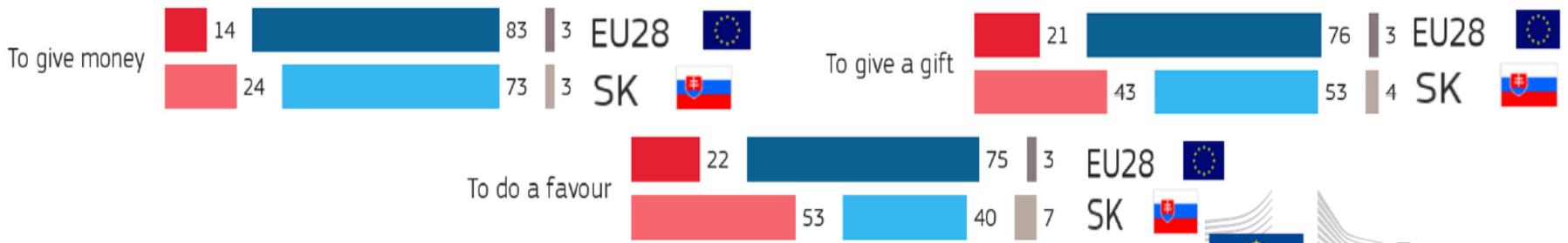
## How widespread?



## Affects daily personal life?



## When wanting something from the public administration, it acceptable to...?



Source: European Commission



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# Thank you

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## Q&A