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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2022 National Reform Programme of Slovakia and delivering a Council opinion
on the 2022 Stability Programme of Slovakia**

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THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council², which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.
- (2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual

¹ OJ L 209, 2.8.1997, p. 1.

² Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Slovakia as one of the Member States for which an in-depth review³ would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

- (3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered⁴ for the first time, granting displaced persons from Ukraine the right to legally stay in the EU as well as access to education and training, labour market, healthcare, housing and social welfare. Exceptional support is made available to Slovakia under the Cohesion's Action for Refugees in Europe (CARE) initiative and through additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme to urgently address reception and integration needs for those fleeing Ukraine.
- (4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated, or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.
- (5) The General Escape Clause has been active since March 2020⁵. In its Communication of 3 March 2021⁶, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative

³ Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011.

⁴ Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1.

⁵ Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

⁶ Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

- (6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth⁷. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed⁸ primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.
- (7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination⁹. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.
- (8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.
- (9) On 29 April 2021, Slovakia submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant

⁷ The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

⁸ Not financed by grants from the Recovery and Resilience Facility and other EU funds.

⁹ Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Slovakia. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Slovakia has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

- (10) On 29 April 2022, Slovakia submitted its 2022 National Reform Programme and, on 28 April 2022, its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Slovakia's bi-annual reporting on the progress made in achieving its recovery and resilience plan.
- (11) The Commission published the 2022 country report for Slovakia¹⁰ on 23 May 2022. It assessed Slovakia's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Slovakia's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Slovakia's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.
- (12) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Slovakia, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled while the debt criterion was complied with. In line with the Communication of 2 March 2022, the Commission considered, within its assessment of all relevant factors, that compliance with the debt reduction benchmark would imply a too demanding frontloaded fiscal effort that risks to jeopardise growth. Therefore, in the view of the Commission, compliance with the debt reduction benchmark is not warranted under the current exceptional economic conditions. As announced, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will reassess the relevance of proposing to open excessive deficit procedures in autumn 2022.
- (13) On 20 July 2020, the Council recommended Slovakia to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Slovakia to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt

¹⁰ SWD(2022) 627 final.

sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Slovakia's general government deficit increased from 5.5% of GDP in 2020 to 6.2% in 2021. The fiscal policy response by Slovakia supported the economic recovery in 2021, while temporary emergency support measures increased from 2.3% of GDP in 2020 to 3.3% in 2021. The measures taken by Slovakia in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of increases in the 13th pension, changes in the retirement age for parents, a reduction in the motor vehicles tax and the cancellation of the bank levy. Based on data validated by Eurostat, general government debt stood at 63.1 % of GDP in 2021.

- (14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic in 2022 and favourable in 2023. The government projects real GDP to grow by 2.1% in 2022 and 5.3% in 2023. By comparison, the Commission's 2022 spring forecast projects a higher real GDP growth of 2.3% in 2022 and a lower real GDP growth of 3.6% in 2023, mainly due to an estimated higher impact of inflation on private consumption and a slower rebound of exports. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 5.1 % of GDP in 2022, and to 2.4% in 2023. The decrease in 2022 mainly reflects the unwinding of most emergency measures and a strong growth of nominal GDP. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 61.6% in 2022, and to decline to 58.0% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 3.6% of GDP and 2.6% respectively. This is lower than the deficit projected in the 2022 Stability Programme for 2022 and higher for 2023, mainly due to a forecasted more optimistic labour market development in 2022. The Commission 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 61.7% in 2022 and 58.3% in 2023.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 2.0 %. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Slovakia's potential growth.

- (15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 3.3% of GDP in 2021 to 1.0% in 2022. The government deficit is impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.1% of GDP in 2022 and 0.2% in 2023.¹¹

¹¹ The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

- (16) On 18 June 2021, the Council recommended that in 2022 Slovakia¹² maintains a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally-financed investment. It also recommended Slovakia to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.
- (17) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Slovakia's 2022 Stability Programme, the fiscal stance is projected to be contractionary at +0.3% of GDP, while the Council recommended a supportive fiscal stance.¹³ Slovakia plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.7 percentage points of GDP compared to 2021. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.4 percentage points in 2022.¹⁴ Therefore, Slovakia plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide a contractionary contribution of 1.6 percentage points to the overall fiscal stance. This includes the additional impact of the costs to offer temporary protection to displaced persons from Ukraine (0.1 % of GDP). Due to a lagged indexation with inflation, major government expenditures like social benefits other than in kind or compensation of employees have a growth rate lower than inflation in 2022 and contribute to the contractionary stance.
- (18) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at -0.8% of GDP on a no-policy change assumption.¹⁵ Slovakia is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 1.0 percentage points of GDP compared to 2022. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points in 2023.¹⁶ At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0.2 percentage points to the overall fiscal stance. This includes additional costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP).

¹² Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Slovakia, OJ C 304, 29.7.2021, p. 121.

¹³ A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

¹⁴ Other nationally-financed capital expenditure is projected to provide an expansionary contribution of 0.2 percentage points of GDP.

¹⁵ A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

¹⁶ Other nationally-financed capital expenditure is projected to provide a contractionary contribution of 0.1 percentage points of GDP.

- (19) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 2.3% in 2024 and to 2.0% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2023 and remain below 3% of GDP over the Programme horizon. These projections assume limiting the growth of public expenditure - including compensation of employees and social transfers in kind - at a pace lower than that of revenue and below the robust nominal GDP growth. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with an increase to 58.2% in 2024 and a decline to 57.3% in 2025. Based on the Commission's analysis, debt sustainability risks appear high over the medium term.
- (20) Slovakia's tax system could be reformed to boost economic efficiency, foster environmental and fiscal sustainability, and improve fairness, while also supporting broader policy objectives. The labour tax burden is particularly high for low-income earners compared to other EU countries. In contrast, environmental and property taxation is not used to its full potential. Changing the tax mix could support growth and also help foster the green transition and environmental sustainability. The economy's energy intensity is significantly above the EU average, but the revenue from environmental taxes stood at 2.4% in 2020, close to the EU average. Environmental charges relating to waste management and air pollution do not sufficiently promote efficient use of resources and reduce costs for the environment and society. Road taxes and vehicle registration fees do not reflect emission intensity well. Environmental taxes and charges are not indexed, and this reduces green revenue over time because of inflation. On property taxation, revenues from recurrent taxes on immovable property were relatively low in 2020 (0.5% of GDP compared to the 1.2% EU average). Slovakia does not currently have sufficient data to enable updating and indexing the property tax base in line with market values, which could also partly mitigate the continuing strong demand for housing and related strong house price growth. In addition, further efforts in simplifying taxes and improving compliance can increase public revenues and thus support fiscal sustainability and improve fairness. Despite improvements, the VAT tax compliance gap remained high in 2019 (16.1% compared to 10.4% in the EU). Further improvements in tax administration, including in electronic invoicing, pre-filled tax returns and more digitalisation, could help further reduce the leaks in the tax system.
- (21) In accordance with Article 19(3), point (b) of Regulation (EU) 2021/241 and Annex V, criterion 2.2, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Slovakia by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, the plan's strong focus on inclusive education, public governance and productivity-enhancing investment in the green and digital transition, as well as its planned contribution to decreasing regional disparities, can be considered a comprehensive and adequate response to the challenges Slovakia is facing. The challenge of accelerating the green and digital transition is tackled with determination and a wide range of measures. Long-standing challenges in education, childcare, healthcare, and research and innovation (R&I) are also addressed with comprehensive measures for the most serious shortcomings, such as the low quality and inclusiveness of education, fragmented R&I policy coordination, insufficient public-private cooperation, and weak R&I performance. Additional measures proposed in the plan to improve the justice

system, public procurement and the fight against money laundering have the potential to address many of the underlying challenges, if adopted and implemented in line with EU law requirements on proper safeguards and judicial independence and with due involvement of stakeholders. Lastly, several reforms are expected to improve the long-term sustainability of public finances. Overall, the plan thereby provides for ambitious reforms and investments, particularly in healthcare, the green and digital transition, and public administration, which are moreover geared towards further improving convergence in the eurozone and boosting economic growth.

- (22) The implementation of the recovery and resilience plan of Slovakia is expected to contribute to making further progress on the green and digital transition. Measures supporting the climate objectives in Slovakia account for 45% of the plan's total allocation, while measures supporting digital objectives account for 21% of the plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Slovakia swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.
- (23) Slovakia submitted the Partnership Agreement on 8 April 2022, but has not yet submitted other cohesion policy programming documents¹⁷. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Slovakia shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment, to support the green and digital transition and balanced territorial development. In particular, regional disparities in competitiveness and social indicators should be addressed by using a combination of the different funds available.
- (24) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.
- (25) Since 2015, progress to reduce net greenhouse gas emissions has largely stalled. The Slovak economy has a high energy intensity, partly due to the extensive industrial sector's dependency on fossil imports. According to 2020 data, Slovakia is particularly dependent on Russia for natural gas (85% compared to the EU average of 44%) and

¹⁷ Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

crude oil (100% compared to the EU average of 26%). However, the dependence on Russia for hard coal is less than the EU average (35% compared to 54%)¹⁸. The share of natural gas in the energy mix is slightly above the EU average (24.9% compared to 24.4% for the EU) and solid fossil fuels (14% compared to 10.8% for the EU), while the share of oil is lower (21.9% compared to 32.7% for the EU). The share of nuclear energy in the energy mix stood at 24.6% in 2020 (compared to 13.1% for the EU). A faster uptake of renewables would help reduce Slovakia's dependence on fossil fuel imports from Russia and ease the risk of energy poverty amid increasing energy prices. Further reforms in the area of market design and support to renewables are planned in 2022 as part of the recovery and resilience plan. Uptake of renewable energies can be further accelerated by increasing the thresholds for exemptions to building permits for small scale renewables, streamlining administrative and permit procedures in a one-stop-shop, lowering grid connection fees and improving access to available grid capacity. Slovakia ended the moratorium for connecting new renewables to the grid in April 2021. However, a forward-looking mechanism providing transparent and reliable information on the capacity for connecting new intermittent renewables to the grid still needs to be implemented. To accommodate the increasing volume of renewable electricity, Slovakia should modernise the transmission and distribution networks, create new energy storage facilities and complete the regulatory framework for renewable hydrogen. Additional investments in geothermal energy, sustainable bio-methane stations and renewable hydrogen-based solutions, which respect relevant sustainability criteria, would help address the high domestic consumption of natural gas. There is also scope to increase the energy efficiency of district heating systems and swiftly deploy renewable heat sources substituting for natural gas. The decarbonisation effort can be also improved at regional level by setting up regional sustainable energy centres.

- (26) Further efforts will be needed on energy efficiency. In particular, there is a need to focus on deep and green renovations, reduce heat consumption and increase investment in renewable heat sources, including heat pumps. Slovakia could further accelerate building renovations by attracting more private investments, including for public buildings, providing technical assistance, improving the implementation capacities and “one-stop-shop” approach and investing in green skills. Moreover, high levels of skills mismatches in the economy call for strengthening adult learning policies, including in relation to the green transition. Additional effort is needed to address energy poverty and reform investment in social housing. Furthermore, several regulatory and administrative measures should be put in place to accelerate the construction permit process, simplify implementation rules, adapt renovation schemes and improve coordination between different public authorities and funding programmes. Additional measures and incentives could address the high energy intensity in industry, including in small and medium-sized companies. This includes investment schemes to improve energy efficiency based on energy audits. Support schemes should be complementary (e.g. with the decarbonisation scheme) and be supported by private funding and financial instruments. Further increase in ambition for reducing greenhouse gas emissions, and increasing renewables and energy efficiency targets will be needed for Slovakia to be in line with the ‘Fit for 55’ objectives.

¹⁸ Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Slovakia, total imports include intra-EU trade. Crude oil does not include refined oil products.

- (27) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Slovakia can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate socio-economic impact of the transition in the most affected regions. In addition, Slovakia can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.
- (28) In light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion¹⁹ is reflected in recommendation (1) below.
- (29) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Slovakia, this is reflected in particular in recommendations (1) and (2) below.

HEREBY RECOMMENDS that Slovakia take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Make the tax mix more efficient and more supportive to inclusive and sustainable growth, including by leveraging the potential of environmental and property taxation. Continue to strengthen tax compliance, including by further digitalising tax administration.
2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Submit the 2021-2027 cohesion policy programming documents with a view to finalising their negotiations with the Commission and subsequently starting their implementation.
3. Reduce overall reliance on fossil fuels and diversify imports of fossil fuels. Accelerate the deployment of renewables by further facilitating grid access, introducing measures to streamline permitting and administrative procedures and modernising the electricity network. Reduce reliance on natural gas in heating and industry. Adjust renovation policies to accelerate and incentivise deep renovations of buildings.

Done at Brussels,

*For the Council
The President*

¹⁹ Under Article 5(2) of Council Regulation (EC) No 1466/97.