

**NATIONAL REFORM PROGRAMME  
OF THE SLOVAK REPUBLIC  
FOR 2008 – 2010**

October 2008



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## Introduction

In 2008, the member states of the European Union will enter the new three year cycle of the Lisbon Strategy and submit their new national reform programmes until 2010. The session of the European Council in March 2008 confirmed that the same four key challenges which the Council agreed upon at its session in 2006 would remain the basis for the next programme period and that the Integrated Guidelines would also remain valid for 2008 – 2010 for economic policy and employment policy. In the new programme, an increased emphasis will be placed on the implementation of the measures and on the external aspect in the context of dynamic changes brought about by globalization.

The European Council called upon the member states to submit detailed and specific steps in their national reform programmes through which they will respond to the integrated guidelines, specific recommendations and points to watch. It also recommended that they base their efforts on the exchange of best experience with other EU member states and that they strengthen the involvement of all relevant subjects including all levels of the public administration. It emphasized the importance of macroeconomic stability, economic, social and territorial coherence and it again stressed the significance of the social dimension as an integrated part of the Lisbon Strategy.

The Slovak Republic has already in 2005 adopted the priorities of the Lisbon Strategy and it considers their fulfilment as the basic precondition for increasing competitiveness of the economy, accelerating the development of the knowledge society and ensuring the employment of Slovak labour force. National Reform Programme for 2006 – 2008 and the progress reports during implementation process further confirmed this commitment.

The results of the implementation of the measures envisaged for the previous programme period urge Slovakia to make an increased effort in the upcoming period. The recent evaluation by the European Commission also emphasizes the need for a more vigorous approach to the implementation of the policies in the areas of key challenges for Slovakia. The Government of the Slovak Republic kept this evaluation in mind while preparing the new national reform programme and also aims to fully respond to the recommendations of the European Council from March 2008.

High economic growth, a stable economic environment, employment growth, unemployment decline in the previous years and a gradual consolidation of the public finance have created the preconditions for further growth of the Slovak economy and increased standards of living in the country.

However, Slovakia can not expect that the transfer of basic industrial technologies from abroad will provide a sufficient long-term source of economic growth. It is necessary to create the preconditions for real long-term convergence of the Slovak economy based on creation and effective utilization of new knowledge. Complementary to economic growth is the objective of social coherence, in order to distribute the benefits of economic growth to the widest possible group of the population.

The adoption of the Euro on January 1, 2009 will constitute a distinct milestone for the country and also reflects the success of Slovak economic policy. Slovakia will benefit from several advantages; however at the same time it will have to face the challenges related to the loss of autonomous monetary policy, fixed exchange rate and the pressure from faster real convergence with resulting inflation pressures. In new conditions with a stable macroeconomic environment and consolidated public finances, Slovakia will have to react vigorously to the challenges of the economy, especially through structural policies.

**The main challenges** for the Slovak economy for ensuring long-term sustainable economic growth, increasing the competitiveness of the economy and fast real convergence are **increasing the quality of education, and outputs of research and development, reducing long-term unemployment and further elimination of the barriers to business.**



The gradual increase of expenditure on education and research and development in the public and the private sectors are equally significant for the growth of productivity. Institutional reform in these areas with the objective of effective allocation of resources will be at the centre of attention of Slovakia in the upcoming period.

The Government is aware of the current economic challenges in the conditions of globalisation and implications of the new common currency adoption when it aims to fulfil the Lisbon objectives. The **Slovakia 21 Modernization Programme**, approved by the Government in June 2008, constitutes a set of concrete short-term and medium-term measures addressing the key challenges of Slovakia and is the basic starting point for the new National Reform Programme.

The measures of the National Reform Programme for 2008 – 2010 are outlined with the goal of creating the preconditions for fast and in the long-term sustainable economic growth, increased social mobility, strengthen social cohesion, moderate the effects of demographic development and improved adaptability of the economy to the changes in the external and external economic environment in conditions of the absence of its own currency.

This document is divided into three parts with three additional attachments. The first part presents the most recent progress of the fulfilment of structural policies in the past 12 months and evaluates the measures of the National Reform Programme of the Slovak Republic for 2006 – 2008 and the short-term measures of the Slovakia 21 Modernization Programme.

The second part focuses on macroeconomic and fiscal policies and emphasizes the continuity of the objectives presented in the Convergence Programme of Slovakia within the framework of fiscal and monetary policy in December 2007. It also updates the basic indicators of the macroeconomic framework and informs about the financing of the measures of the NRP SR.

The third part is the focal point of this document and introduces the new measures for the second programme period of the renewed Lisbon Strategy in the five key challenges: 1) research, development and innovations, 2) education, 3) employment, 4) the business environment, and 5) climate change and the energy industry.

The document also includes the attachments which provide an overview of the development of the structural indicators, the institutional arrangements of the Lisbon Strategy in the SR and the action plans which detail the concrete measures from the Modernization Programme Slovakia 21 and form part of the National Reform Programme of the SR.

The action plans provide detailed information with the focus on the description, objectives and analytical justification of measures and present their connection with the European Council recommendations, Integrated Guidelines. Greater attention was devoted to the financial arrangements of the proposed measures and a detailed plan of the timetable of tasks. This timetable will ensure an easy monitoring of the tasks, which will be carried out on the government level twice a year and thus strengthen the emphasis on the implementation of structural policies. An effective process of implementation constitutes the basic precondition for a success in managing the Lisbon agenda on the member state level.

The Assessment grid contains a brief overview of implemented measures but does not constitute a part of the printed version of this document. However, with accordance to the requirements of the European Commission, it will be completed and forwarded to the EC in electronic form.

The National Reform Programme of the SR has been approved by the Government prior to being forwarded to the European Commission. It was submitted to the Economic and Social Council, and the Council of the Government for the European Union Affairs in advance to the meeting of the Government. At the same time, it will be discussed by the Committee for Finances, Budget and Currency, the Committee of European Affairs of the National Council of the Slovak Republic (NC SR), and the plenary meeting of the National Council of the Slovak Republic. Particular action plans were also discussed by the NC SR committees with the responsibility for the related agenda.



## 1 Implementation of the Lisbon measures in the previous year

The following chapter contains an overview of the most significant reform measures implemented in Slovakia in the course of the past twelve months. The measures are divided according to the key challenges. During their selection, the emphasis was placed on the measures that react to the European Council recommendations, specific recommendations for Slovakia and points to watch. The objective of this chapter is not to provide a detailed list of all of the measures and tasks that the Government of the SR (the "Government") carried out but to focus on those, which have the potential to provide the biggest contribution to economic growth and the creation of jobs with a high added value.

### 1.1 Research, Development and Innovations

In September 2007, the Government approved the **Long-Term Intention of the State Scientific and Technological Policy until 2015**, which incorporates the objectives and intentions in the areas of investment support in research and development, the development of human resources in research and development, and in international scientific and technical cooperation. It also contains the topics of the state research and development programmes.

An amendment to the Act that regulates **the organization of state support for research and development** was approved in May 2008. The amendment defines the types of specialized organizations focused on the transfer and support of the transfer of results of research and development into practice. These organizations of science and technology will constitute legal entities pursuant to the Commercial Code. It also establishes the research excellence centre, as a special category of research and development organization.

The above mentioned amendment also regulates the existence of the **central information portal for science, technology and innovations**. The new comprehensive information system for the field of science, research and innovations and the central information portal (CIP) established in July 2008, is focused on supporting the mobility of Slovak employees in the field of research and development within the framework of the European Union and the sectors of research and development through the introduction of new information resources on mobility grants offered for research and development employees on the national level. The portal serves experts and the general public, as the central point within the framework of the central portal of the general government. It also provides a comprehensive source of information on programmes, activities and interesting news in this field.

The resources are provided from the public resources to the applicants for project financing under the condition that the technical infrastructure acquired from the state budget or the European Union means will be published on the central information portal and thus will be available for every institution active in research and development sector. At the same time, the system will allow individuals to acquire, process and publish information relevant to the research and development. The analysis acquired from the information system will also help with the planning of the budget of allocation of public financial resources within the framework of the National Programme of Science and Technology Development. The popularization of science and technology is another mission of this portal.

At the same time, the Slovak Republic also transposes the Council Regulation on special methods of accepting the citizens of third countries (outside the territory of the EU) into scientific research through its Act from 2008. It establishes the terms and conditions under which research and development organizations can accept foreign citizens from third countries.

An important provision of this Act is the obligation to approve any proposal for financial support of the membership of the Slovak Republic in international research and development centres, initiatives and European Union communitarian programmes for research, technological development and demonstrations and the proposal for financial arrangements for participation in international programmes in the field of research and development on the government level. The motivation behind this obligation is to pay greater attention to the financial arrangements of activities in the field of science and technology.



The participation of Slovak organizations in international research and development projects, particularly in the framework EU programmes for research and development, guarantees that public funds will be allocated to the teams with highest quality of research in Slovakia. The **financial scheme for the co-financing of research teams in international research projects** defined in the Slovakia 21 Modernization Programme will allow for a transparent allocation of finance with a low administrative burden of up to additional 25% of the planned budget for the programmes that already acquired financial support from the European Union.

In the Modernization Programme Slovakia 21, the Government approved the decision to ensure that foreign experts will take greater part of up to 30% share of the total participation in the evaluation of the applications for research and development projects regarding state research and development programmes and calls and programmes financed through the Agency for Research and Development Support. The principle behind **increasing the share of top foreign experts as evaluators of submitted projects in public grant schemes** will be applied in all evaluations of new schemes. The goal is to improve the transparency of the allocation of financial resources in the public grant schemes, and the effectiveness of the use of public resources by identifying and supporting our top research on the international level.

**The Innovation policy of the SR for 2008 – 2010**, approved by the Government in February 2008, will create the framework for coordination of innovation development in the period from 2008 to 2010. Its also aims to complete the building of a support innovation structure capable of absorbing financial means designated for innovations in compliance with the Innovation Strategy of the SR and effectively converting them into innovation processes. It will introduce an effective monitoring system that would make it possible to react to external and internal changes and modify the system to optimize the output. The Act on innovations, which will be submitted for the session of the Government by the end of the year 2008, constitutes a continuation of the innovation policy.

## 1.2 Education

Extensive positive legislative changes were recently implemented in the field of elementary and secondary school system reform. The newly established legal framework serves the following purposes: the introduction of a transparent normative method of financing, the transformation of the state administration system, the introduction of a new school-leaving examination, the free choice of educational opportunity, independent state school inspection, the free choice of forms of learning, adaptation of the system of programmes of studies to the requirements of the labour market and the introduction of internet and PC classrooms to every school.

The adoption of the new **School Act** and the elaboration of documents necessary for its implementing significantly moved the reform of the elementary and secondary school forward. The emphasis of this Act is put on the contents of education in a way to ensure basic skills and quality for all students and to resolve content changes in the field of upbringing and education in the regional school system. The basic element of the reform is the change which ensures that upbringing and education at schools will be carried out by means of upbringing-education programmes. The Act defines the state and a school education programme. Each school will determine a section of their teaching material alongside the common curriculum for all schools. This measure establishes greater independence of the schools. Educational standards defined by law consist of a set of requirements for learning knowledge, skills and competencies which children and students need to acquire in order to progress with education in the consecutive part of the education programme. The overall change of the teaching content is a move from memorizing information toward the objective to teach students how to acquire, evaluate and use information. The change constitutes the result of the transformation of a traditional to a modern school model.

The Act established obligatory school attendance at ten years with the possibility of enrolling students in the zero grade, which is designated for children who reach the physical age of six as of September 1 but who are not yet ready for school. The new Act strengthens the teaching of foreign languages, information and communication technologies and related training. This Act also harmonizes the achieved levels of education at our schools with the ISCED international classification. The introduction of individual education, which will take place without regular school attendance, also constitutes a new element in Slovakia. This will be permitted for students whose health status prevents their regular school attendance.



From as the 1<sup>st</sup> September 2008, the School Act also introduces **free pre-school education for children in kindergarten** one year in advance of the compulsory school attendance. Pre-school upbringing in kindergarten is free of charge for all years for children whose parents are in material need. Kindergartens were re-classified from the category of school facilities to the category of schools which provide pre-primary education. Thus, kindergartens will acquire higher prestige which ought to increase the interest of the society and the parents in placing their children in kindergarten will increase. A variable operation of kindergartens will allow municipalities to meet the needs of parents and ensure better cooperation with parents including their participation in the pedagogical process and the composition of the school education programme. Within the framework of the content reform, the State Education Programme was approved and financial means were allocated for the composition of model school education programmes and the training of the lecturers. These will in turn re-train the directors of the kindergartens.

In **vocational education and training**, the educational content has been renewed and re-innovated in a majority of education programmes. The establishment of state and school educational programmes has led to modifications in the structure of programmes of studies and training, and professional orientations and created the precondition for greater cooperation between the needs of the economic and the social sphere, thus resulting in greater flexibility in modifying the contents of education to the labour market needs. By designing a new system of public sector cooperation, central and state administration authorities in the competence of the Ministry of Education and Labour, the Ministry of Social Affairs and Family will create together with the employers the conditions for the operation of the mechanism of the ongoing identification of labour market needs and better use of the capacity for the acquisition and continuous maintenance of required qualifications. This is done by means of offering employees formal and informal education, which will have an impact on the employment rate in Slovakia.

**The Act on vocational education and training** will be based on the legislative intention approved by the Government in August 2008. The Government will adopt it by the end of 2008 and it will constitute the continuation of the already approved Act on upbringing and education and the prepared Acts on pedagogical employees and lifelong learning. The Act will employ a two-level model of education (state and school programmes). The school education programmes are expected to ensure the active participation of employers on regional and local levels. The goal of this Act is to create a functioning system of the coordination of vocational education and training for the labour market needs. The motivational criteria for the entry of employers and employers' unions in vocational education will be introduced and space for the entry of private investment capital will be created.

The Government has enabled students of secondary schools to acquire **social scholarships** for one year of study at selected secondary schools abroad. Starting in the academic year of 2008/2009, foreign secondary school scholarships will be provided as a priority to students from socially disadvantaged families and from the socially disadvantaged environment. In addition to the social disadvantages, the quality and preparedness of the interested students for study at foreign secondary schools will constitute the main criteria. The sum of the scholarship is established to sufficiently cover the costs connected with their stay.

In the area of the **tertiary education system**, an amendment of the Act on higher education institutions entered into effect in September 2007. This Act enables higher education institutions to create specialized science and research workplaces, and to provide common study programmes within the country and also in cooperation with foreign higher education institutions. At the same time, it enables access to loans for study at public higher education institutions. Within the framework of the transformation of the classification of higher education institutions, the category of research higher education institutions was removed and the terms and conditions for universities were tightened. Presently, the comprehensive certification of higher education institutions is ongoing and will result in the recommendation of the Accreditation Commission for the incorporation of higher education institutions in separate categories by September 2009. In terms of financing, the percentage of outcomes in science in the financing of public higher education institutions at the expense of the number of students was strengthened.



### 1.3 Employment

The most significant change of legislation in the field of employment in the past year was the **amendment of the Labour Code**. The amendment had the objective to improve the legal terms and conditions for a dignified and good employment and to ensure a balanced legal status between the participants of employment relations and a deepening of the social dialogue between employers, employees and their representatives. The amendment increased the protection of employees with part-time contracts and in the case of consecutive job contracts with fixed time period contract. To ensure more effective protection of employees, the legislation concerning dependant labour was made more precise in order to prevent the concealment of employment by other than employment relations, especially in relation to the performance of sole traders. The amendment also provided a better definition of the legislation implementing the principle providing women and men with equal remuneration for equal work, and for work to which equal value is attributed.

The reconciliation of family and work is also simplified by the valid legislation of state social assistance. By means of increased state social benefits – parental allowance, parents are provided with a parental allowance in its full amount even in the event that they are employed and care for their child of age up to three or six years (if such care is provided by another physical or legal entity).

After the extensive amendment to the Labour, Code the Government prepared another extensive amendment to the **Act on employment services** which entered into effect on May 1, 2008. The principal changes in active labour market measures were re-evaluated and new measures were introduced. These new measures on the labour market allow the Offices of Labour, Social Affairs and Family to select and target more effectively such instruments at disadvantaged groups which will allow them the opportunity to enter and remain on the labour market and increase their employability. The amendment constitutes a set of new active measures of the programme and project approach targeted at the prevention from exclusion and the support of the integration of disadvantaged groups regarding employment; this especially relates to school graduates, disabled, mothers with children and persons close to the retirement age.

The amendment of this Act created the conditions to address the long-term unemployment problem by means of the introduction of allowances for training disadvantaged jobseekers for new jobs, for the support of maintaining a job in the case of employees with low wages, for the support of the employment of graduates of labour market education and training, and for moving to places with employment opportunities and transportation to work. It supports the creation of jobs through self-employment. At the same time, it establishes a new institution – social enterprise - which is primarily oriented towards reaching social goals, to the creation of jobs for disadvantaged groups of jobseekers and for the support of their integration in the open labour market. The main goal of these instruments is to decrease regional differences in employment and unemployment rates and work productivity, especially in underdeveloped regions with high unemployment rates.

The system of labour market education and training, which is implemented as a priority in compliance with the requirements of the employers' sphere in the given region and for the purpose of applicants' acquiring professional skills and practical experience, especially in professions where there is a labour market shortage of employees, was also essentially transformed. In the course of longer-term educational programmes (6-24 months) the jobseekers were provided with a monthly subsistence level benefit. It is continuously possible to provide the employer with the allowance for labour market education and training of its employees in order to protect mass dismissals.

**The Act on social services**, which was approved by the Government in August 2008, created the legislative environment for the development of social services. The goal of the new arrangement of conditions for the provision of social services is to increase the availability of social services for physical persons that depend on them. New (modern) types of social services are regulated (such as support, services targeting marginalized groups, relief services). Equal conditions for the registration and provision of social services by public and non-public providers have been established. The financing of social services will not be established primarily on the financing of institutions, but based on client demand. The amendment also regulates the interconnection of social services and healthcare (nursing care) and introduces the system of community planning. It establishes the





qualification requirements necessary for performing work in the field of social services and for a number of professional employees it facilitates and regulates the education of employees in social services with the goal of ensuring the professionalizing of the provision of social services. It regulates the supervision of the provision of social services and the so-called quality standards of social services, including the system of their evaluation in order to increase their quality. This Act is expected to take effect on January 1, 2009.

The subject of the **Act on the support of the social inclusion of severely disabled persons into society** constitutes the legal relations for the support of the social inclusion of the severely disabled into society. The provision of a financial allowance for the compensation of the social consequences of a severe disability, the issuance of a card to a physical entity with a severe disability, to a physical entity with a severe disability with an accompanying person and a parking card for a physical entity with disability constitutes the means of inclusion. The goal is to provide assistance to severely disabled citizens in everyday life in order to provide them with equal opportunities as non-disabled citizens. This material is in the legislative process and it is expected to take effect on January 1, 2009.

#### *Lifelong Learning and Lifelong Career Counselling*

In the field of lifelong learning and lifelong career counselling, the Government adopted the **Strategy of Lifelong Learning and Lifelong Career Counselling** at the beginning of 2007. The Action Plan for implementing the strategies of lifelong learning and lifelong career counselling was elaborated for the implementation of the priorities established in it and is being gradually implemented. In September 2008, the draft of the new statute of the Accreditation Commission for further education will also be approved, the goal of which is to ensure greater flexibility in the system of work of this Accreditation Commission by means of increasing control over the quality of lifelong learning. Thus, the system of evaluation and testing of programmes of informal education will be put into operation and within its framework, the system of evaluation of educational institutions, which will ensure the standards of the content and quality of the education programmes of informal education and education institutions.

## 1.4 Business Environment

### *Better Regulations*

The concept for the establishment of **one-stop-shops** in Slovakia was approved in 2006. Phase One of the establishment of one-stop-shops was implemented through the amendment to the Trade Act in September 2007 and it serves for freelance sole traders doing business based on their issued business license in the regime of the Trade Act. Several years of the trade office infrastructure operation and the experience of the employees of these offices with the registration of entrepreneurs were used in the establishment of one-stop-shops. The one-stop-shop services for citizens of the European Union are provided at the trade offices in the seats of each region. One-stop-shops presently provide applications for trade license issuance (also in electronic form), business license issuance, BIN allocations to physical and legal entities, extracts from the Criminal Records free of charge, forwarding of data regarding entrepreneurs to the Central Tax Authority of the SR for the purposes of registration, the provision of data regarding entrepreneurs to the pertinent health insurance company for the purposes of registration and the provision of information for doing business with contacts to other authorities. In the fourth quarter of 2007, the Trade Register of the SR introduced simplified electronic registration of the trades at one-stop-shops within which the communication of citizens with the Criminal Record Registry, health insurance companies and tax offices was simplified. From October 2007 to March 2008, the services of one-stop-shops were used for the registration of business activities or the notification of changes in the businesses by 67,429 sole traders, of which 60,794 were physical persons and 6,635 were legal entities. The implementation of Phase Two constitutes the subject of the one part of the document containing the tasks for the new programme cycle.

The **complex evaluation of the administrative burden** is implemented on the base of the Action Programme for the Decreasing of the Administrative Burden on Business in the SR for 2007 – 2012, which was approved by the Government in October 2007. The Action Programme for the Reduction of the Administrative Burden on



Business in the SR was submitted as part of the fulfilment of the agenda of better regulation in the SR. Its goal is to measure the administrative burden in the SR, adopt measures for its reduction and thus create an improved quality business and regulation environment and support SMEs and employment growth. The implementation of public procurement for companies is currently being prepared and will follow up in implementing the measurement of the administrative burden in the SR in order to achieve its implementation by the end of 2008. Other instruments and tasks within the framework of this measure are elaborated within the framework of the measures for the new programme period.

**The system of monitoring the legislative process** was created, and in June 2008 was launched with the goal of unifying the legislative process in Slovakia. The system incorporates the portal of legal regulations designated for publicizing the draft of the legal regulations and monitoring of the legislative process. The portal constitutes the public part of the project. The general public expresses its opinion towards the drafts of the legal regulations by means of comments, mass comments, and at the same time they can read the other comments and their processing and evaluation. Thus, a simplified process of orientation and searching in legislative materials for citizens and other subjects was ensured by means of the introduction of this system, making it easier to comment on the legislative proposals.

In May 2008, the Government approved **the unified methodology for the assessment of the effects of legislative measures** on the general government budget, employment and the business environment, social effects (on the money-managing of the population, social exclusion, equality of opportunities, gender equality), effects on the environment and on the informatization of society. The unified methodology regulates the present process of the preparation of policies, legislation, and the inter-ministerial comment procedure. By the end of July 2008, the subjects in charge of the unified methodology designed generic e-mail addresses ([dolozka@rezort.sk](mailto:dolozka@rezort.sk)), to which the submitters of materials will send the material outline (tentative information). Presently, the implementation of the 6-month pilot project was launched and the regular application of the Unified Methodology for Assessment of the Selected Effects will be ensured by June 2009. Further steps are part of the new programme – the creation of a functioning system of preliminary and follow up evaluation of the effects of legislative measures.

#### *Informatization*

**The Informatization Strategy of the General Government**, approved by the Government in February 2008 constitutes the key document for the development of the general government's electronic services. **The National Concept of General Government Informatization (NCGGI)**, which brings a new approach into the resolution of general government informatization issues, is the continuation of this Strategy. The building of general government information systems will be carried out on the common basis and principles. Implementation of this concept in practice will create conditions for electronic communication between the general public and the public administration in official matters, decreasing non-productive time spent by managing official administrative tasks, create a precondition for the decrease of administrative fees and the elimination of duplication of acts. The National Concept was approved by the Government in May 2008. The NCGGI grew into the design of **Feasibility Studies** of the priority axes of the Operation Programme Informatization of Society. The Feasibility Studies identify the set of information system projects; define the architecture of the legal framework and the necessary scope of changes in the present laws. **The Decree of the Ministry of Finance of the SR on standards for general government information systems and the National Strategy for Information Safety in the SR** constitute the subject of the legislative process.

On April 30, 2007, **the electronic public procurement system (EPP)** was launched; it presently supports the phases of the public procurement process including the electronic sending of notifications, the submission phase of offers and part of the electronic evaluation phase. In October 2007, the Government approved the Report on the Implementation of the Electronic Public Procurement System through which it ordered the ministers and chairs of the other central state administration authorities of the SR to assign a minimum of 30% of the volume of its orders for the supply of goods by means of the EPP System in 2008 and the entire volume of orders for the supply of goods from 2009.



At the centre of attention of last year was also the project of Managing the Introduction of Electronic Cadastral Services through an electronic registry and electronic files with the Geodesy, Cartography and Cadastre Office of the SR. The Commercial Register of the SR introduced the electronic entry, change and deletion of data with the use of certified electronic signatures and the provision of electronic excerpts usable for legal purposes, copies and certifications.

The amendment to the Act on electronic signatures, with effect as of January 1, 2009, ensures, specifies and supplements the terminology in the field of electronic signatures, specifies and supplements the tasks of the National Security Authority (NSA) and specifies the proceedings regarding the course of action of the NSA in its assessment of the compatibility of safe equipment for the execution and verification of certified electronic signatures with safety requirements, especially with the establishment of the decision making period. The amendment also changes the provisions related to the cancelling of certificates, requirements for the products for electronic signatures and regulates infractions and fines for the violation of obligations related to the issuance and cancelling of certificates.

#### *Law Enforcement*

In May 2008, the Government approved the proposed amendment to the Civil Procedure Code which introduces **a new form of judicial decision issued in summary proceedings – the fulfilment order**. The goal of this proposition is the acceleration and increased effectiveness and economy of judicial proceedings by means of the introduction of a new institution (form of decision making) – the fulfilment order, through which it will be possible to decide all matters for fulfilment other than financial obligations. For example, by means of the fulfilment order it will be possible to impose the obligation to surrender property, the obligation to apologize, the obligation to refrain from a certain action, the obligation to conclude a contract, the obligation to vacate non-residential spaces, etc. This will ensure the acceleration of judicial proceedings and the elimination of unnecessary delays.

#### *The Energy Industry*

The April 2007 Concept of the Higher Use of Renewable Energy Sources in the SR, whose implementation will contribute to the increase of the present approximately 4% share of renewable energy sources in overall energy consumption, is one of the most significant of the adopted measures in the field of the energy industry. The Concept of Energy Effectiveness, approved by the Government in July 2008, is another significant measure that has been adopted. The main aim of the Concept of Energy Effectiveness in the SR is to achieve a gradual reduction in energy consumption on the European Union level, to motivate the population and market participants to follow energy efficient practices and to support sustainable energy solutions and the introduction of new innovations and energy efficient technologies in all sectors of the national economy.

Support for a competitive environment and transparency on the electricity and gas markets is provided by the market operation rules established by the regulation office. In 2007, the Office amended the Market Operation Rules where it established non-discriminating terms and conditions and possibilities for the entry and operation of all participants on the electricity market and also created clear legislative conditions for the liberalized natural gas market. The established terms and conditions ensured the reduction of the fee for the system services for invoicing of final consumers in the electro-energy industry. A further reduction of fees for network services will be adopted in 2009. Opening the market of support services to suppliers from abroad was also supported. The integration of electricity markets by means of coordinated explicit auctions at cross-border profiles on the basis of the flow based method is being prepared.

A reduction of time period for the submission of applications for access to the network in the gas industry will help to increase economic competition in energy supplies. The terms for concluding contracts on access to distribution networks were also established and the institute of testing operations in gas distribution was introduced. The process of changing a gas supplier and the course of action in the case of gas supply by several customers to one consumption point was established.

## 2 Macroeconomic Framework, Fiscal Policy and NRP SR Financing

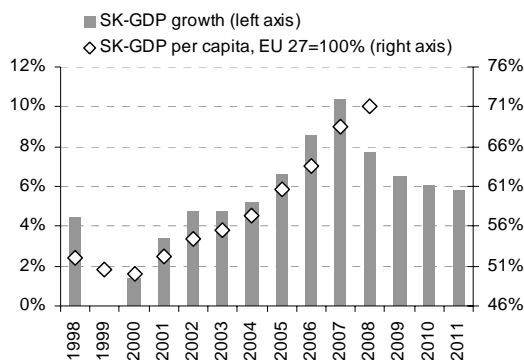
The long-term economic policy goal of the SR is to establish a long-term stable macroeconomic environment, the necessary precondition of which is fiscal consolidation oriented to the fulfilment of the medium-term objective (general government deficit 0.8% of GDP in 2010). Such terms create the precondition for long-term sustainable economic growth and living standard growth of the population. This chapter describes the macroeconomic framework of the SR, its fiscal policy and the financing of the structural policies incorporated in the NRP SR.

### 2.1 Macroeconomic Framework

The performance of the economy of the SR has recently reached historical highs. The 10.4% growth of GDP in 2007 was not only the culmination point of the development of the SR, but also in the entire European Union. The impetus of the economy of the SR is constituted by the activities of foreign investors which essentially contributed to the present acceleration of the GDP growth, competitiveness and export performance. The structure of the GDP growth, pulled evenly by domestic and foreign demand, confirms the strong and sound economic development of the SR.

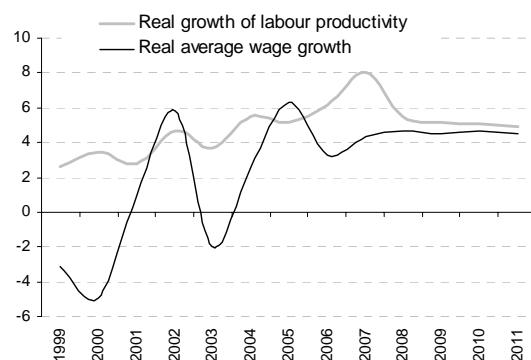
The present acceleration has significantly increased the level of convergence of the SR towards developed economies; in terms of purchasing power parity, the SR has already reached approximately 70% of the GDP per capita level in the EU 27, while in 2000 this figure was only 50%. After the unique pace in 2007, the growth of GDP has gradually moderated in compliance with the forecasts of the MoF SR and the expectations of domestic and foreign analysts (to approximately 6% in 2011). However, the dynamics continue to remain high and reflect the improvement in the business environment and public finance consolidations.

**Growth of GDP in the SR, GDP per capita in the SR vs. EU27 (PPS)**



Source: ŠÚ SR, Eurostat, from 2009 forecast of the MoF SR

**Labour productivity growth vs. average wage growth (%)**



Source: MoF SR, from 2009 forecast of the MoF SR

The high overall growth of the economy will continue to support the creation of new jobs, employment and a reduction of unemployment rate (from 11% in 2007 to gradually below 9% in 2011). This improving situation on the labour market will increase population income, private consumption and living standards as well as a moderation of disparities among regions. The labour productivity growth, which exceeds the pace in other EU countries, is in compliance with the growth of wages and confirms the sound character of economic development.

The proceeding economic growth also favourably affects the balance of payments - the foreign trade as well as current account deficit. The real growth of Slovak exports has also reached a high pace during a period of external financial crisis and the slowdown of many significant economies. The foreign direct investments inflow in past years has created export capacities in Slovakia and good terms for a balanced and mildly surplus foreign trade after 2008. Due to the improvement of the foreign trade balance, the balance of payments deficit has rapidly decreased.



In the last year, the prices of oil, energy and food grew markedly; this was also reflected in a higher inflation rate in the SR, especially in the growth of food prices, prices for services in interconnected sectors and regulated prices of energy. Nevertheless, the inflation rate in the SR reached historical minimums in 2007 (HICP for 2007 1.9% in average) and since August 2007 it has been below the reference value. Presently, the inflation rate is relatively stable especially due to the balanced growth of wages, public finance consolidation and exchange rate appreciation.

Based on the current development of economic indicators and the domestic and foreign conditions, we expect a balanced development of the Slovak economy in the medium term horizon with stable macroeconomic growth at relatively high levels. The medium-term development of the main economic indicators points the following trends:

- moderate but still high GDP growth not putting balanced economy development at risk;
- growth based on qualitative changes in economy – on the total factors productivity growth and increasing competitiveness, especially by foreign direct investments effects and the implementing of structural policies and action plans in compliance with the National Reform Programme of the SR and the Modernization Programme Slovakia 21;
- growth stimulated not only by domestic (consumption and investments) but also by foreign demand;
- growth of structural employment reflecting the creation of new jobs and the benefits of structural reforms;
- the further gradual reduction of the unemployment rate reflecting several factors, especially the creation of new jobs but also the development of an economically active population – the entry of strong population age-groups on the labour market and the simultaneous increase of the retirement age for women to 62,
- real average wage growth approaching the growth of productivity and increasing growth of living standards however still remaining below the growth of labour productivity – without the risk of demand inflation pressures,
- inflation rate development in compliance with the reference value within the framework of the Maastricht Criteria,
- gradual improvement of the current account balance in the period 2009 – 2011.

Forecast of selected indicators of the SR economy development (June 2008, in %)

Indicator	Reality				Forecast			
	2004	2005	2006	2007	2008	2009	2010	2011
GDP (real growth)	5.2	6.6	8.5	10.4	7.7	6.5	6.1	5.8
Average monthly wage for economy (real growth)	2.5	6.3	3.3	4.3	4.7	4.5	4.7	4.5
Average employment growth (VZPS)	0.3	2.1	3.8	2.4	2.2	1.3	1.0	0.8
Average unemployment rate (VZPS)	18.1	16.2	13.3	11.0	9.9	9.4	9.1	8.7
Harmonized index of consumer prices (HICP)	7.5	2.8	4.3	1.9	3.8	3.4	3.1	3.5
Balance of current account (share on GDP)	- 7.8	- 8.5	- 7.0	- 5.3	- 4.1	- 2.5	- 1.5	- 0.7

Source: MoF SR

## 2.2 Fiscal Policy

The fiscal policy in the period of 2005 – 2007 was especially affected by the efforts to continue the public finance consolidation and it was focused on two objectives, which are the fulfilment of the Maastricht criterion of general government balance and the creation of conditions for the long-term sustainability of public finances.

The planned deficits presented in convergence programme updates anticipated the fulfilment of the first objective in 2007 and the general government budget for the above mentioned year established the target value of the general government deficit in the amount of 2.9% of GDP, including costs for pension reform. After the Eurostat deficit and debt notification as of April 1, 2008, the general government deficit reached 2.2% of GDP in 2007. The necessity of fiscal consolidation by means of fulfilment of the objective in 2007 does not cease to exist in the



upcoming period. The approved general government budget for the period 2008 – 2010 also created the base for the further decreasing of the general government deficit.

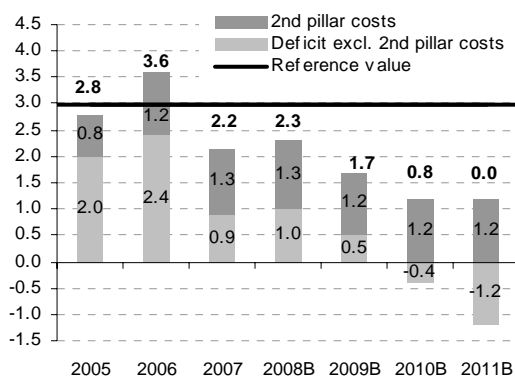
Macroeconomic stability is the key factor for maintaining sound economic growth, and this requires the implementing of a countercyclical fiscal policy which is expected to slow down potential inflation pressure after entry to the Eurozone. Another reason for consolidation is the expected demographic development and its negative effects on public finances. For these reasons the long-term sustainability of public finances remains the main objective of fiscal policy in the upcoming years.

Transposing this long-term goal into a concrete medium-term objective according to the rules of the Stability and Growth Pact, aims to decrease the cyclically adjusted general government deficit net of one-off effects under 1% of GDP by 2010. This commitment was also presented in the Convergence Programme update and for the first time it was incorporated in the form of a general government deficit in the amount of 0.8% of GDP including the costs for the pension system reform in the budgeting process within the framework of the preparation of the general government budget for the period 2008 – 2010.

A general government deficit in the amount of 2.3% of GDP is budgeted for 2008 and the current estimate <sup>1</sup> of the deficit is on the level of 2.2% of GDP. The general government budget for the period 2009 – 2011, which is currently being prepared, is proposed in compliance with the consolidation plans of the Government, and by 2011 Slovakia is expected to achieve a balanced general government budget for the first time including costs connected with pension system reform. The proposed goals also comply with the rule of the Stability and Growth Pact on minimum consolidation effort in the amount of 0.5% of GDP for countries that have not yet met their medium-term objective. Based on the above mentioned development, further decreases in the general government gross debt are expected on the level under 25% of GDP in 2011.

Fulfilment of the established consolidation goals necessarily also places greater emphasis on the improvement of the qualitative aspect of public finances in the form of the growth of their effectiveness and orientation towards increasing the potential economic growth. The basis of this process is to design a public finance management system of high quality and the priority in this field is the continual improving of programme budgeting. The gradual introduction of the unified general government accounting system based on the accrual principle in compliance with the international general government accounting standards as of January 1, 2008 constitutes another significant step which was described in detail in the last Convergence Programme update. The planned measures of structural policies described in this document play a significant role in increasing the quality of public finances along with the improvements of the public finance management system.

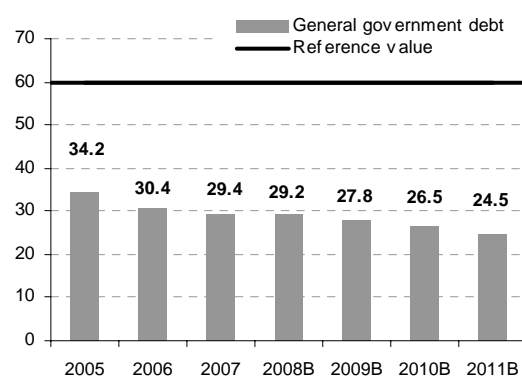
**General government deficit in the period 2005-2011 (ESA 95, % GDP)**



Note: B - budget

Source: MoF SR

**General government debt in the period 2005-2011 (Maastricht definition, % GDP)**



Note: B - budget

Source: MoF SR

<sup>1</sup> Estimate of the general government deficit for 2008 was presented in July within the "Report on the Macroeconomic Environment and Public Finance Development in the SR for the First Half of 2008 and the End of the Year Forecast."



### BOX No. 1: The Slovak Republic in Eurozone

The Eurozone entry of the SR constituted the priority goal of the Government. Stable macroeconomic and fiscal policy oriented on fiscal consolidation will result in the successful fulfilment of this ambition on January 1, 2009. The gross general government debt reached 29.4% of GDP by the end of 2007, this is well below the reference line and continues to decrease. The long-term interest rate criterion was also trouble free and the SR has been below the reference line for a long time. The development of the ERM II exchange rate with an established central parity and fluctuation zone was also stable.

The criterion of price stability and general government deficit was decisive for the decision on entry. The proof of healthy economic development was the gradual decreasing of inflation to historical lows through which its level fell below the reference line in August 2007. From the beginning of 2008, price growth was again recorded but in compliance with the global trend and remains below the inflation criterion with a reserve close to 1 p.p.

Based on the Eurostat deficit and debt notification data as of April 1, 2008, the general government deficit reached the value of 2.2% of GDP in 2007, i.e., it was distinctively below the reference line of the Maastricht criterion and also below the budgeted value of 2.9% of GDP. The approved general government budget for the period 2008 – 2010 also created the conditions for the sustainable fulfilment of fiscal criterion, which constituted the last condition on the road of the SR to the Eurozone.

The fulfilment of all Maastricht criteria on a sustainable level led the European Council to approve of the membership of the Slovak Republic in the European Monetary Union as of January 1, 2009. The EU Council subsequently established the conversion rate on the level of the current central parity of 30.126 SKK for 1 Euro.

## 2.3 NRP SR Financing

The issue of the quality of public finances will be in upcoming years dominated by the theme of the effectiveness and efficiency of expenditure policies and more vigorous relocation of resources for the benefit of the Lisbon Strategy objectives. The financing of the presented Lisbon tasks is implemented from the public resources of the SR and EU funds. Implementation of the NRP SR is in compliance with the medium-term objective of fiscal consolidation and consequently long-term sustainability of public finances. For this reason, within the framework of designing the budget for the general government, the fulfilment of the particular priorities is based on the adopted fiscal framework.

The specification and allocation of financial means for the implementation of the presented objectives are necessary for the strengthening of the success of the Lisbon Strategy implementation on the national level. Their clear identification in the general government budget constitutes one of the main initiatives of the Slovak Republic in the Lisbon agenda management from which it is expected that it will ensure a high level of consistency between the NRP SR and the Convergence Programme and thus will contribute to the successful implementation of the proposed measures.

The Government presents the aims and measures in the NRP SR for the new cycle of the Lisbon Strategy which have been discussed on the expert level and whose claim for financing from public sources will be ensured in the general government budget. Lack of clarity in the financing of other measures is determined either by incomplete expert discussion, especially in the field of climate and the energy industry or by strict adherence to budget limitations. Consequently, the Government does not present them at this point as an obligatory goal in the NRP SR for the period 2008 – 2010. They will be introduced in the following phase, i.e. the next year's Progress report on the implementation of the NRP SR.



Part of the NRP SR measures is targeted on the change of the existing environment, especially in the form of legislative changes without any need for financial support. In the case of the remaining measures which require support from the general government budget, any change in the volume of transfers from public sources will fully respect the fiscal framework. So far, it was impossible to precisely quantify the financial requirements of all measures defined in the NRP SR because several of them depend on deeper analysis or concrete parameters of measures.

Based on the current estimates, the overall expenditures of the general government budget on the Lisbon measures will constitute approximately SKK 74 billion (EUR 2.5 billion) in the period 2008 – 2010. This estimate also incorporates the costs for the building of highways, which constitutes over 50% of the overall costs. In terms of expenditures, the measures dealing with informatization of the society and some measures in the field of employment and the financing of science play a greater role. It must be noted that the importance of measures is not directly proportional to the volume of their allocated financial means.

The EU Structural Funds and the Cohesion Fund constitute a complementary source of financing of the structural policies of the SR. In the programme period 2007 – 2013, Euro 11.3 billion will be allocated from the EU resources for the SR, a certain part of which will be allocated for the fulfilment of the Lisbon objectives. The EU financial resources constitute less than 40% of the overall financial requirements of the NRP SR measures. The financing of individual measures is presented in detail in the annex to this document.

Estimate of the expenditures for NRP SR measures 2008 – 2010 (in mil.)						
	2008		2009		2010	
	SKK	EUR	SKK	EUR	SKK	EUR
Research, development and innovations	119	4	4,246	141	4,686	156
Education	7	0,2	275	9	1,773	59
Employment	1,218	40	4,496	149	4,944	164
Business environment	11,021	366	17,631	585	24,189	803
- of which highway construction	10,300	342	12,000	398	16,110	535
<b>Total</b>	<b>12,365</b>	<b>410</b>	<b>26,649</b>	<b>885</b>	<b>35,592</b>	<b>1,181</b>

Source: MoF SR





### 3 Reform Measures for 2008 - 2010

This chapter constitutes the main part of this document. The measures of the National Reform Programme for 2008 – 2010 are a part of it. The first section contains a short summary of the measures and their relation to the country-specific recommendations for Slovakia. The following five sections contain the measures in relation to the particular key challenges. Each of these chapters has an analytical introduction followed by a description of the planned measures. The description of the measures consists of the identification of the issue and the form of reaction to this issue. The titles of the measures are in bold which allows their identification in the annex. The measures are detailed in annex in the form of action plans.

#### 3.1 Reaction to European Council Recommendations

The Government has submitted a set of specific, clearly defined measures for the key challenges for the new three-year period. These react as a priority to the conclusions of the European Council, its country-specific recommendations for Slovakia and points to watch. In addition, due to the entry of the SR to the Eurozone, they take the Eurozone recommendations into consideration. They also take into account the Integrated Guidelines for Economic Policy and Employment Policy which have been adopted for the upcoming three year period.

Some measures are a continuation of the adopted activities whose implementation exceeds the period of the first cycle or which were introduced in the course of its duration. This chapter also contains new initiatives identified by the Government as key initiatives for the strengthening of the competitiveness of the Slovak economy through the approval of the Slovakia 21 Modernization Programme. The following three paragraphs in italics constitute the European Council country-specific recommendations for Slovakia and are followed by the measures of the NRP SR which respond to them.

- *To duly implement a coherent R&D and innovation strategy with a particular focus on the institutional reform of the public research sector and substantial improvement of business-research cooperation while reallocating resources to R&D and innovation and education.*

The science and technology financing reform, the building of regional innovation centres and a new mechanism for the allocation of financial means for doctoral scholarships are a continuation in the current activities carried out in the field of research, development and innovations. At the same time, the transfer of knowledge between the academic and business sectors and contractual research for the needs of the general government will be encouraged.

- *To improve the regulatory environment, notably by implementing a comprehensive better regulation strategy covering both impact assessment and simplification of existing legislation.*

The regulatory environment will be strengthened especially by making the regulated markets more transparent, through the reform of public procurement, including an extension of electronic procurement (e-procurement), through the creation of a functioning system of preliminary and follow up evaluations of the effects of legislative measures and through a comprehensive evaluation of the administrative burden and obstacles to business and employment creation.

- *Within an integrated flexicurity approach, ensures implementation of the lifelong learning strategy addressing the needs of the labour market, completes the reforms of primary, secondary and tertiary education to improve qualification and skill levels, and enhance access to employment, notably for the long-term unemployed and vulnerable groups.*

Several new and already adopted measures respond to the recommendations in the key challenges of education and employment. The informatization of the school system and the preparation of new innovative study materials and aids will be improved. The establishment of new top grammar schools (gymnasium) and the development of



entrepreneurial skills will be encouraged. Students will also acquire basic business and the economic knowledge at the level of secondary schools.

Loans for university education abroad will be introduced, the transformation in motivation to achieve higher productivity of schools in the regional school system and university education will occur. The training programme for students in doctoral studies with the focus on pedagogical qualifications and undergraduate study programmes for students from geographically and culturally close non-member EU countries and graduate students at the Slovak universities and colleges will be created.

The entry process to certified public universities and colleges accredited abroad will be simplified. A career system will be introduced in the professional development of pedagogical employees in the regional school system. Furthermore, more flexible forms of the management of universities and institutions of higher education and the differentiation of institutions of higher education into universities, institutions of higher education and professional institutions of higher education will also be introduced. Profession-oriented tertiary education programmes on the Bachelor level and post-leaving exam study will be supported, the accreditation process of institutions of higher education will be changed to shift the emphasis from input indicators to output indicators criteria. The demographic transition (exchange of generations) at the institutions of higher education will be supported.

In order to strengthen the labour market flexibility, a national system of flexicurity will be created and the interconnection between the education syllabus and the requirements of the labour market and the system of lifelong learning will be strengthened. The analysis of the housing market will strengthen mobility on the labour market where the emphasis will be placed on the support of rental housing. One of the goals of the in-work benefits is the inclusion of the long-term unemployed into active labour force.

The following section incorporates the measures through which Slovakia reacts to the points to watch established by the European Council (in italics).

Further *developing of ICT policies, especially for the broadband infrastructure* will be ensured through measures targeted on increasing the availability and support of the infrastructure of broadband access, informatization of the general government, consistent implementing of electronic register services and their mutual interconnecting, through the reform of public procurement including the spreading of e-procurement, informatization of the education system and the designing of innovative study materials and aids. The measured development of one-stops aims at the *full introduction of the one-stop shop system for start-up companies. Entrepreneurial education will be introduced through the measure* of the acquiring of basic knowledge of business and economics in secondary schools which also constitutes a reaction to the point to watch.

*Addressing the gender gap in remuneration and employment, developing active aging strategies and creating job opportunities for young people* are addressed by the following measures: creation of the national flexicurity system, improvement of the connection between the contents of education with the requirements of the labour market, the system of lifelong learning, housing concepts, inclusion of the long-term unemployed in the labour market and improvement of the quality of labour sources for the labour market.



## BOX No. 2: European Council Recommendations

### Country-specific Recommendations for Slovakia (CSR):

- To duly implement a coherent R&D and innovation strategy with a particular focus on the institutional reform of the public research sector and substantial improvement of business-research cooperation while reallocating resources to R&D and innovation and education.
- To improve the regulatory environment, notably by implementing a comprehensive better regulation strategy covering both impact assessment and simplification of existing legislation.
- Within an integrated flexicurity approach, ensures implementation of the lifelong learning strategy addressing the needs of the labour market, completes the reforms of primary, secondary and tertiary education to improve qualification and skill levels, and enhance access to employment, notably for the long-term unemployed and vulnerable groups.

### Points to watch (PTW):

- To further develop ICT policies, especially for broadband infrastructure,
- To fully implement of one-stop shops for start-up companies,
- To introduce entrepreneurship education,
- To increase competition in power supply,
- To address the gender gap in pay and employment,
- To develop an active ageing strategy,
- To create job opportunities for young people.

## 3.2 Research, Development and Innovations

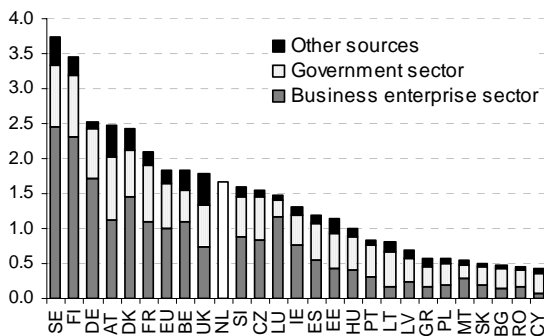
Research, development and innovations constitute the source of wealth and long-term economic growth in developed countries. Their support is the main goal of the knowledge-oriented society. The Slovak Republic is also aware of the significance of knowledge in economic development.

The small and decreasing share of expenditures in research and development in the GDP is partially the consequence of the extreme pace of the GDP growth which has recently overtaken the pace of the growth of absolute expenditures on research and development.

Although the results of Slovak science in selected branches have achieved an international level, the conditions for implementing research and development in Slovakia are not comparable with international standards. The growth of expenditures from the state budget for the improvement of the status of Slovak research and development and an institutional reform for more effective spending of additional means are necessary, and the Slovak Republic will focus on this reform in the next years.

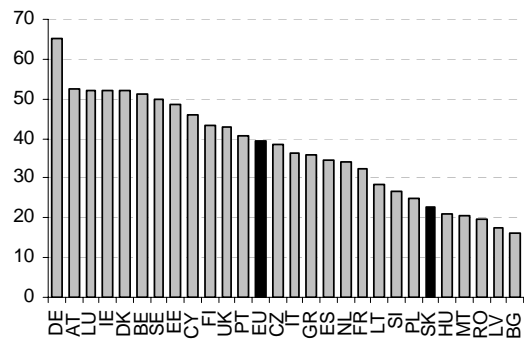
Slovak science is relatively effective in transforming inputs to outputs and employing a large share of persons in the high-tech sectors. However, these persons do not carry out research and development, which is one of the reasons why the Slovak Republic is situated well below the average of EU member states in terms of innovation productivity. The small share of innovative businesses in Slovak industry is caused by the weak interconnection with the academic sphere. It will be necessary to renew the knowledge triangle based on intensive cooperation of research and development organizations, universities and the business environment for the successful operation of the knowledge-oriented society. Wrong incentives in the system also constitute a challenge that needs to be addressed when preparing a solution for the problems in the field of Slovak science and research.

Expenditures for research and development according to the source of funding (% GDP, 2006)



Source: Eurostat

Share of innovating and innovative SMEs in overall SMEs (% SME, 2004)



Source: Eurostat

### Financing of Science and Technology

The Government intends to strengthen the level of science and technology in Slovakia and the social status of scientific workers by means of increased expenditures for research and development from public sources and from private sources in particular. In the upcoming period, the Government will focus on the identification and support of research that has the potential to provide the highest added value to the Slovak economy.

Currently, the institutional support gets a greater share of funding than purpose-oriented support (approximately in the ratio of 65:35) in the support of Slovak science and technology in the state budget. Institutional financing from state budget is provided to the public sector institutions of research and development to support them in solving partial tasks as defined by the institutions in question. As opposed to the purpose-oriented support of science and technology, which is targeted at a certain area of science and technology or integral issues of research and development, the institutionally allocated financial means system can not ensure a comprehensive solution of research-development tasks.

Despite the fact that the subject-matter priorities of research and development in the Long-term Intention of the State Scientific and Technological Policy until 2015 are approved, no programmes related to the target-oriented solution of given subject matter issues exist. After paying a membership fee, Slovak research and development organizations can annually participate in European Union research and development initiatives and programmes. However, the level of participation of Slovak research-development organizations in European Union research and development programmes has decreased since the entry of Slovakia to the EU.

**Science and technology financing reform** will be implemented based on the procedures anchored in the document, The New Module of Science and Technology Financing. In this document, the Government plans to increase the share of purpose-oriented grant financing of science and technology and support particular projects which are already partially financed from international or private entrepreneurial sources. The basic research will be supported without thematic limitations and based on the criteria of scientific excellence, and support in the field of applied research will be focused on a number of priority areas. These will be oriented to address the strategic challenges of the Slovak economy.

Besides the fact that the method for increasing the share of purpose-oriented – grant financing for the support of science and technology from the state budget means will be established in the new module, it will also establish the priority fields of science and technology supported from state budget means; in particular, they will incorporate the programmes of international scientific-technological cooperation of Slovakia with other EU member countries. Based on the established subject matter priorities of research and development, the criteria for the purpose-oriented support of applied research and evaluation methods for the efficiency of outputs



achieved through this support will also be designated. The document also determines the amount of the state budget means by which it will be necessary to increase expenditures from the state budget allocated in the budget programme, the National Programme of Development of Science and Technology and implement the objectives of the priority areas of the science and technology system and the subject matter priorities of research and development. One of these priorities is the increased participation of Slovak organizations in the solution of European research and development programmes and European research centre programmes. The new module will also anchor the system of monitoring and updating of the state science and technology policy which is expected to ensure a flexible reaction of the science and technology system to Slovakia's current development needs.

Within the framework of the schemes of financing public institutions of higher education, the weight of publication outputs in respected foreign journals (ISDN registered) will increase (the sum of financial means allocated to one published output in a respected journal (ISDN registered) and provided subsidies to a public institution of higher education). **Increasing the significance of international scientific outcomes in the financing of institutions of higher education** will be incorporated into the methodology of the financing of public institutions of higher education from January 2009.

The participation of foreign experts in the selection and evaluation commissions, which will select the research managers of projects of the state research and development programmes or select and approve the tasks of research and development financed by the Agency for the Support of Research and Development, will increase to 30%. The goal of **increasing the share of top foreign experts in the evaluation of submitted projects in public grant schemes** is to increase the efficiency of public sources spent on research and development by supporting top research of international level quality. It is expected that this measure will also increase the transparency of the provision of financial means in the public grant schemes.

The present system of support of PhD students, which does not create direct competition among the universities in acquiring PhD students for the best projects, is a weakness of the support of science and technology in Slovakia. Listed dissertations are not always connected to the research on which the supervisor works. The supervisor actively acquires grants and is integrated into the international cooperation. A substantial part of the financial means for doctoral scholarships is presently determined according to the rules of the Ministry of Education of the SR which are based on established qualitative and quantitative indicators. Some institutions of higher education provide doctoral scholarships from their own resources.

**The new mechanism for the allocation of financial means for doctoral scholarships** will also create the possibility of acquiring financial means for doctoral scholarships within the framework of grant schemes financed from state budget. Thus, the responsibility of the supervisor for the outcomes and activities of the PhD student will be increased and his/her direct involvement in the work of the research team will be ensured, even in the case of international cooperation. The new mechanism also resolves the issue of the allocation of scholarship places within newly certified programmes of studies. The institution of higher education that acquires the project will also have financial resources to support the needed PhD students. Due to the fact that a PhD student is not an employee of the school and his/her studies consists of educational and research activities, it will be necessary to acquire complementary financing in addition to acquired grants so that project costs will not be distorted by the educational costs of the doctoral study.

Besides the classical form of the scholarship provision, whose provision arises from the Act on institutions of higher education, the financial means for doctoral studies will be provided to full-time PhD students through research projects from the new grant scheme of the Agency for the Support of Research and Development, which will allow for the financing of the scientific part of the doctoral study. The new system of allocation of financial means for doctoral scholarships will gradually increase the share of financing of doctoral scholarships from grants. New grant schemes will appear or existing grant schemes will be modified so that it will be possible to include the costs for PhD students into the projects. Simultaneously, the support of the quality of doctoral studies will be strengthened when the most active PhD students will acquire significantly higher scholarships by working on scientific projects. Approval of research projects from which it will be possible to finance doctoral scholarships



will contribute to the increased quality of doctoral and undergraduate studies and the improvement of the scientific training and research capacity of PhD students.

### *Innovations*

The transfer of knowledge from institutions of higher education, research institutes of the Slovak Academy of Sciences, ministerial research institutes and other institutions implementing research-development activities into economic practice is still insufficient. Insufficient cooperation between research, development and the business sector is the cause and consequence of the limited social-economic impact of research and development projects financed from public sources and the insufficient "innovation" culture of small and middle-sized entrepreneurs. According to the data of the Statistical Office of the Slovak Republic, recently no SMEs have been established in Slovakia with such an orientation that could be characterized as "innovative" or "high-tech" and which would be able to cooperate with research institutions.

The speed of the transfer of scientific knowledge into practice also depends on the quality of the public policy; following this principle, the Government **will support of the transfer of knowledge between academic and business sectors and contractual research for the needs of the public administration**. The main implementation instrument for this measure will be the provision of financial means co-financed from structural funds through the Operation Programme Research and Development and the Operation Programme Competitiveness and Economic Growth. Various aspects of mutual cooperation between businesses and academic research institutions will be supported through these operation programmes. The support will target the establishment of contact points at research and development workplaces fostering contact with the industry (SMEs and large enterprises), the processing of projects and the establishment of institutions and departments serving the institutions of higher education and academic workplaces for the transfer of technologies and knowledge. (including institutions and entities which serve the purpose of valorization and commercialization). These will be equipped with know-how, pertinent training, experience, understanding of the needs of researchers, knowledge of legal norms for business and issues of technology development. Activities leading to the elimination of barriers between research and development, and the society and the economy will also be encouraged. The interconnection between the business and academic sphere will also enable the access of businesses to the research facilities of the academic sphere, constituting part of their cooperation.

The Slovak Republic significantly lags behind the EU 15 countries in regional innovation productivity. The individual regions of the SR lack institutional innovation structures, which are capacities for implementing state innovation policy and the transfer of innovations, new technologies and activities with higher added value. The **building of Regional Innovation Centres (RIC)** will promote the improvement of cooperation of the production sphere (especially SMEs) with research and development organizations, universities and institutions of higher education on regional, supra-regional and international levels.

The main mission of the RIC will be to facilitate increased interconnection of the business sphere in the field of innovation activities with the Slovak research and innovation potential and the preparation and implementation of innovation tools in the regions. The RIC will mediate the direct contact of business people with the providers of the solutions to given problems (universities, research and development centres), design proposals for acquiring financial sources (grants, subsidies, loans, structural funds) for the solution of innovation projects, maintain databases of solved problems and provide the possibility of using existing results. Connecting several business subjects with equal or closely related problems will lead to faster and more comprehensive solutions and will allow for the concentration and use of the knowledge potential of the region. Material and technical equipment suitable for innovative business activities and improved access to information in the field of innovations will contribute to faster development of innovation activities in the regional as well as the global framework and will establish conditions for the creation of new and higher quality jobs. Also it will increase employment in compliance with the process of the introduction of innovations.

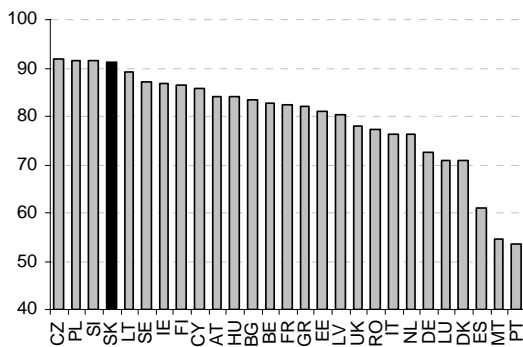
### 3.3 Education

The experience of economically developed countries shows that well operating systems of formal and further education significantly affect the operation of the labour market. It is obvious that education of a young person is not only the preparation for his/her inclusion in the labour process but also determines the quality of his/her personal development, self-fulfilment and inclusion in society. The Slovak education system has a number of positive aspects. However its development has not been supported by an adequate amount of expenditures from the public finance, which is below the average of the EU countries. Nevertheless, the quality of education remains the main challenge.

Slovakia ranks among the top 4 countries of the EU in terms of having the highest share of young people with completed secondary education. In comparison with the OECD average, the Slovak system of secondary schools is more oriented to the professional school system which focuses on acquiring labour skills at secondary vocational schools.

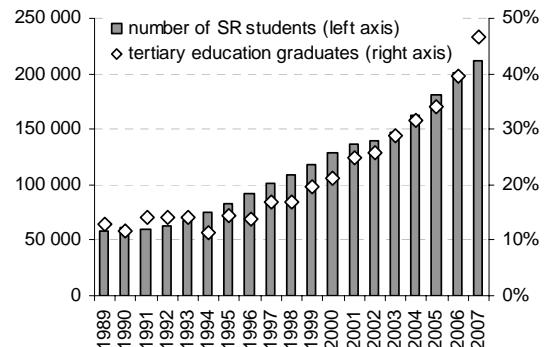
The total number of graduates from various programmes of studies and training programmes only shows one aspect of the education system, as it doesn't tell much about the quality of the achieved education. More information on the quality of education is provided by standardized international tests. OECD – PISA survey of the knowledge and skills of 15 year old students is the most known international survey. In the last PISA survey in 2006, Slovak students achieved comparable results with the year 2003 but in all three examined areas their results were lower than the average results of the OECD countries and had mildly deteriorated in comparison with 2003. From these comparisons it is obvious that our elementary and secondary schools can not sufficiently prepare students for finding jobs in the labour market. Approximately only half of the young people between the age of 15 and 19, who are part of the labour force, are unemployed. Approximately one fifth of young people in the age group 20 – 24 are unemployed.

**Youth education attainment level (% , 20-24 of age, 2007)**



Source: Eurostat

**Development of the number of tertiary education students and share of tertiary education graduates**



Source: Infostat, UIPS, MoF SR

A sufficient supply of workers with tertiary education is a necessary condition for the development of research and development, and innovation activities, which should contribute to the growth of labour productivity. In international comparisons, Slovakia has a very low share of tertiary education graduates. However, more than ten years ago, the number of tertiary education students and also the share of graduates began to grow significantly. Despite this distinctive growth of Slovak graduates, their share among their contemporaries in the population year is still lower than the average of the OECD countries. The share of graduates of technical programmes of studies is also mildly lower in Slovakia.

Due to the conditions of the global economy and dynamic structural changes, citizens must renew, supplement and broaden their knowledge, competencies and skills throughout their entire life. The situation relating to older workers in which the renewal of acquired skills is not sufficient is especially difficult; they must acquire new skills



in order to react to the offers of the labour market. Slovakia significantly lags behind the EU countries in terms of the participation of individuals in lifelong learning; in 2007, the Slovak population involved in this form of education was only half of that of the EU average.

### *Primary and Secondary Education*

The present school system does not provide students with sufficient preparation for their participation in the information society. Shortages in this system consist of outdated teaching materials, a shortage of textbooks, an insufficient supply of educational SW and ICT literature and the absence of central education portals and digital resources. Schools lack an adequate equipment of information and communication technologies. Consequently, we plan to address the issue within the framework of measures targeted on the **informatization of education and the design of innovative study materials and aids**. An adequate communication and information infrastructure will be built at all types of schools and school facilities of Slovakia. Within the framework of these activities, innovations in the content of education will be implemented, new textbooks and teaching texts will be provided and pedagogical employees will receive further training and education.

Improvement of the quality of the education process and an increased competition between schools is expected from the introduction of **top grammar schools**. These will provide education on a top international level. The role of the central state administration authorities and the local governments will be to create conditions for the support of top grammar schools and provide them with assistance in joining the international network and in cooperation with the universities and research and development institutions.

Based on the participation of students in national and international competitions, the top grammar schools will be provided with financial support and within the European Commission communitarian programme – the programme of lifelong learning 2007 – 2013, the teachers of these grammar schools will be given the opportunity to participate in study visits abroad. Based on the established criteria, eight top grammar schools will be selected in the first year. One such grammar school will exist in every region. In the following years it will be possible to change this number based on the results of individual grammar schools in education programmes and fulfilment of the criteria established for top grammar schools and based on a re-evaluation of the expediency of this measure. Top grammar schools will be selected based on the results of their students in national school leaving examinations and other established objective criteria.

At present, the status of pedagogical employees is not comprehensively regulated by a separate legal norm. The goal of the measure, **the introduction of the careers system regarding the professional development of pedagogical employees in regional education** is to react to the needs of the market, to enhance the quality of upbringing and education, to raise the social status of teachers and to motivate career promotion in the educational system. Implementation of this measure will consist of several steps: professional standards will be established, a system of continual education will be introduced, a new career and credit system will be created and new evaluation principles in the remuneration of pedagogical employees will be applied. After these steps, essential changes in the system of continual education financing are expected.

The European experience shows that formal education does not support independent private entrepreneurship or self-employment. At the same time it is clear that education systems have the potential to contribute to the formation of a positive business culture which is in general considered as the source of competitiveness, innovations and economic growth. This information also inspired the European Commission to prepare analyses within the framework of the European Project Entrepreneurship in Vocational Education in order to outline adequate measures to facilitate an improvement of the situation. It is expected that the analyses will be completed in the first half of 2009.

The analyses will also provide a foundation for Slovak plan **to support entrepreneurial skill development and acquisition of basic business and economic knowledge at the secondary school level**. Slovakia based the plan on the information that the acquisition of business skills or abilities is relevant not only for the performance of business but is also the source of creativity and self-esteem of young people in their self-fulfilment or in finding





jobs. Implementing business education will be based on the system of state and school education programmes which will arise from the cooperation of schools and the business sector.

The goal of the prepared measures is to create a study environment for young people in which they will simultaneously develop their personal qualities and professional knowledge and acquire business skills in the actual field of national economy. Based on this they will be able to creatively contribute to innovation activities, assess and accept risks, proactively manage projects, effectively represent enterprises and negotiate.

### *Tertiary Education*

In the last decade, the number of students at Slovak higher education institutions has multiplied several times. The broadening of access to university education began before the introduction of the three-level system of tertiary education. Students usually enrolled in five-year programmes. The introduction of a three-level tertiary education differentiates between the length of the tertiary education programmes.

Three-year Bachelor programmes of studies provide students with a sufficient level of education for the performance of their profession. From the aspect of public finance expenditures, it is desirable that the increased demand for tertiary education will be satisfied mostly on the first level of tertiary education, and especially technical institutions, with a wide selection of Bachelor programmes of studies. These programmes prepare students for a particular profession with accordance to labour market demand.

Only graduates of Bachelor study the potential for creative involvement in research and development should continue to the second level of tertiary education. These students should also have the opportunity to continue to the third level of tertiary education, that is doctoral studies. The rules for financing the higher education institutions will provide the incentives to facilitate this study environment. These rules do not presently allow for a differentiated approach to the higher education institutions because all of higher education institutions are currently considered universities.

The Ministry of Education will prepare **the long-term plan for higher education institutions** by the end of 2008. The plan will constitute the fundamental document for the field of tertiary education. It will be based on the measures of the Modernization Programme Slovakia 21, recommendations from the report of the European Association of Universities, discussions on various levels and current documents adopted within the framework of the European higher education area. The long-term plan will define the state policy in the field of higher education institutions activities for the upcoming five year period with an annual revision. This will create a framework for the assessment of the long-term plans of individual higher education institutions, define the framework for the assessment applications of higher education institutions in submitting development projects, and strengthen the orientation on quality in the provision of tertiary education.

The condition for enforcement of new rules of financing is constituted by the completion of the currently implemented comprehensive accreditation of higher education institutions. The proposal for the **differentiation of higher education into universities, higher education institutions, and professional higher education institutions** will constitute one of the results of the comprehensive accreditation of the institutions of higher education. Then the special function of institutions of higher education, their classification and their long-term plan will be taken into consideration in allocating subsidies from the state budget according to the valid methodology. Such course of action should contribute to the optimizing of expenditures on tertiary education while not limiting its availability, quality and preparation of quality human resources for research and development.

The **change of the accreditation process at higher education institutions with the shift of the emphasis from criteria focused upon input to output indicators** will be a continuation of the above mentioned measure. Presently, the accreditation of the programmes of studies is based criteria which put more weight on inputs (such as material, technical and information arrangements, staffing, applicant requirements, and the method of their selection and the content of the programmes of studies). This unilateral and too general assessment renders the evaluation of the quality of higher education institutions problematic. Furthermore, the entire process of accreditation is accompanied by a considerable administrative burden and tight deadlines established by the law for the individual stages of accreditation activities. It is expected that the change in the accreditation process will



create an effective system of monitoring and assessment of the quality of activities of higher education institutions. Also the emphasis of the accreditation process will be shifted to the outputs achieved in the particular activities of the institution of higher education (level of research or artistic activities, level of knowledge of students and graduates of the programme of studies).

The present school system in Slovakia doesn't enable a student to acquire profession-oriented tertiary education because no profession-oriented programme of studies exists and all programmes of studies on the first level of tertiary education prepare students for the performance of a profession and for the possibility of continuing to a higher level of study. It means that the criteria for accreditation of the programmes of studies of tertiary education do not differentiate between those programmes of studies which should orient the students on the preparation for future practice as a priority and those which should prepare graduates for higher levels of education or for research and development. The measure which will **support of professionally orientated higher education programmes at bachelor level and post-secondary level** will begin to apply to the selection of the programmes of studies which will not prepare graduates for a higher level of education but for the performance of a profession as the priority. The obligatory practice of students in the pertinent field and the participation of specific companies and employers in the training of their future employees will constitute an inseparable part of this type of programme of studies.

The present Act on the higher education institution regulates in too much detail the organization, management and decision-making processes of the higher education institutions; in comparison with other states, its provisions exceed the necessary framework. That is why the aims in this field are focused on the introduction of a more flexible and autonomous management of higher education institutions, reducing the administrative burden of the tertiary education teachers and researchers, and broadening the cooperation of higher education institutions with the region and business.

**More flexible forms of higher education management** will commence implementation through the amendment of the Act on higher education institutions, and a number of provisions related to self-governing competencies will be reduced. The Act will regulate only those matters which can not be left to internal regulations of the higher education institutions. The separation of academic and administrative management will be encouraged, without any limitation of academic freedoms and autonomy of universities. The higher education institutions will have a greater possibility to regulate their system of management and the status and competencies of their parts and to create greater autonomy through internal regulations. Thus, a greater organizational differentiation of higher education institutions may occur. The system of higher education institutions management will be focused on the fulfilment of goals expressed by measurable indicators and on the more consequent fulfilment of the function of the higher education institutions (development of the society, region, education, research, development, artistic activities).

The improvement of the pedagogical abilities of PhD students should contribute to the improved quality of the pedagogical process. Fresh graduates of the second level of tertiary education have no practical experience in pedagogical practice. Since PhD graduates constitute the main source of tertiary education teachers, they must also acquire pedagogical competency. This requirement will be addressed by **an education programme for PhD students with the focus on acquiring teaching skills**. The programme will be introduced at all higher education institutions with doctoral studies. Every new PhD student will take this programme with the exception of graduates of the second level of tertiary teacher training education. All young tertiary education teachers will be included in this programme in the next phase.

Slovak tertiary education will also have to face another potential problem. In the past two decades, the average age of tertiary education teachers has sharply risen and from the aspect of international comparison it is alarmingly high (in the EU 18.9% of the tertiary education teachers are over 55; in Slovakia in 2005, 28.9% of the teachers were in this age category, in 2006, the number rose to 31.8% and in 2007 to 33.2%). This average also shows the low representation of the middle generation. That is why an exchange of generations is expected at the higher education institutions in the upcoming years. It will be necessary to prepare for this development in order to protect the quality of education. In the management of the entire process, a greater attention has to be



devoted to the requirements of continuity in transition and stabilization of the number of the middle-aged pedagogues.

The demographic transition (exchange of generations) in higher education institutions will be preceded by an analysis of the present situation of human capital at the higher education institutions. In the interest of the sustainable development of tertiary education and the facilitation of entry to the academic environment, the problems related to attracting and maintaining quality of tertiary education teachers and research workers will be resolved. The mechanisms for improving the policies of individual higher education institutions addressing human capital issues has been proposed and existing legal ways of employing young research workers in the form of external pedagogical activities or within the framework of their training for scientific-pedagogical degrees such as assistant professor or professor will be used. Based on measurable criteria, the top teachers and researchers will be awarded above-average wages. The institution of excellent professorships with above-average conditions financed by the private sector will be created. The institution of external/visiting professors will be broadened. Thus, teaching and cooperation with the universities will be enabled.

A more flexible system of education based on the activities of educational and incentive programmes will be ensured by the measure targeted on the **change of motivation with the objective to achieve performance efficiency at the regional and higher education school level**. The quality of upbringing and education will be monitored by the National Institute of Certified Education Measurements, the State School Inspectorate, the schools themselves and the school facilities. The methodology of the allocation of subsidies from the state budget in the case of public higher education institutions will involve other indicators which will express the quality of the tertiary education.

The motivation behind the introduction of **loans for higher education abroad** is to increase the quality of education and consequent transfer of knowledge from abroad to Slovakia. For many young people, studying at universities abroad is problematic due to high financial costs. Presently, they have the possibility of using the means of the Student Loan Fund. However a loan in the amount of SKK 40,000 (EUR 1,328) per academic year will not cover the full tuition costs or even a part of their living costs.

In order to address the problems with studying abroad, we are considering the introduction of a new loan scheme which would allow students with permanent residency in the Slovak Republic to acquire loans to finance their study and possibly part of their living costs abroad. The scheme would contain mechanisms which would motivate the students and graduates to return and work in Slovakia after the completion of their studies or a part thereof. The loans will be guaranteed by the state and provided under the terms and conditions similar to the market ones; debt repayment would be determined by the level of income. Assuming that there is an effective solution to guarantee of payment discipline, the system should become self-financing in the medium-term horizon.

#### *Financial Education*

Basic information and expertise asymmetry pertains on the financial market. The supply side is characterized by financial institutions with appropriate expertise and financial education. The demand side for financial services is characterized by a large group of individual consumers. This group can be easily influenced and is vulnerable since their knowledge and information regarding the operations of the financial market and financial services is not sufficient to make qualified and independent decision making.

The state has a responsibility to improve the general knowledge of the population about financial markets and services in order to protect them from making unqualified decision with negative consequences. An increase in the expertise constitutes the most effective tool to address the information asymmetry in the Slovak market.

The objective of the measure for **improving the teaching of and general public awareness about finance** is to increase the knowledge of the population about the financial market. The basis for the introduction of financial education will be the creation of financial literacy standards levels, which would correspond to the existing levels of education. Financial literacy will constitute a set of knowledge and value attitudes of a citizen based on which

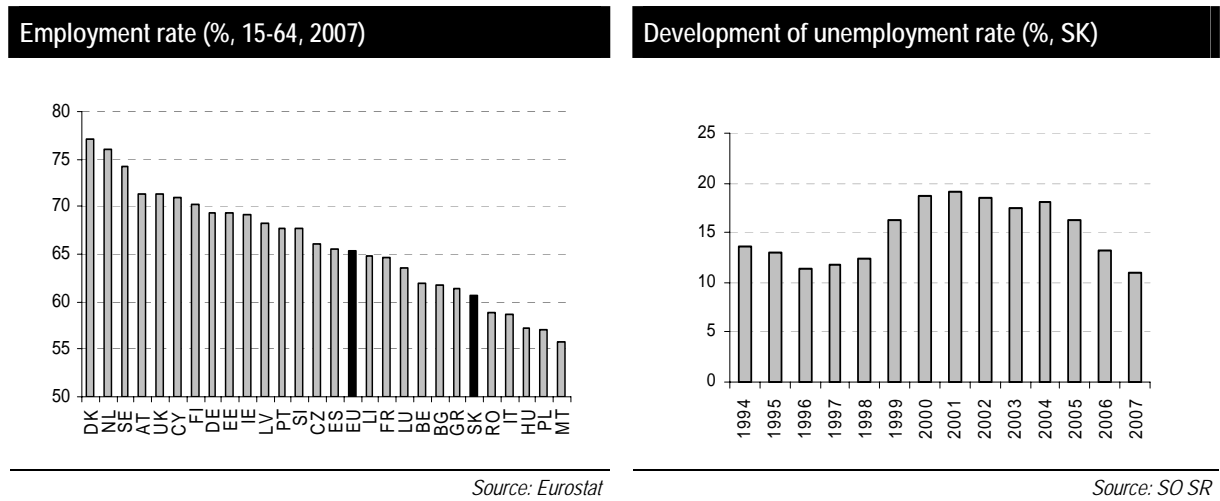


he/she will know how to manage personal and family finances in the changing conditions of his/her life and the financial market and its products.

Within the framework of implementing this measure, financial education will be incorporated into education programmes within the competencies of the Ministry of Education. Also qualified financial consulting services for the general public and mediators on the financial market will be introduced. In the prepared Act on consumer rights protection on the financial market, a legal framework for the existence and effective operation of financial education will be created, and it will ensure the coordination and methodological management of financial education.

### 3.4 Employment

Slovakia considers the situation in the labour market as one of the basic indicators of success of its economic policy, because employment is one of the main sources of economic growth and thus also of the improvement of living standards of the population. Recently, the reduction in the unemployment rate and the growth of employment is the most obvious trend in the labour market. The strong economic growth stimulated by structural reforms, the accession of the SR to the European Union, the inflow of foreign investments and an economic policy oriented on the fulfilment of convergence criteria for the adoption of the Euro are considered as the main factors behind this positive development. From the beginning of 2005, the number of unemployed dropped by almost 40% and by the middle of 2008, unemployment reached the level of 10.3%. Improvements in the labour market (2005-2007) were also reflected in an essential drop of social unemployment benefit recipients when the volume of paid benefits in 2007 constituted only 73.6% of the level from 2005.



We expect the continuation of this positive development on the labour market in the upcoming period. In 2011, the unemployment rate is expected to drop to 8.7%. Employment is expected to continue to grow, although the pace of its growth will decrease.

Long-term unemployment remains a problem area. The long-term unemployed still constitute the largest group of jobseekers (approximately 70%). Their inclusion in the labour process is especially complicated by the unsuitable education structure. A similar problem is constituted by the persons (the so-called discouraged) who are interested in work but do not seek out employment because they do not believe that they will be able to find an adequate job. Presently, the unused labour force is not able to meet the professional and qualification requirements of some sectors of the economy which is manifested in a shortage of workers.



Within the framework of efforts aimed at providing a suitable and flexible labour force, it is necessary to pay attention to the efficiency of the instruments of active labour market policy, control of expenditures for passive labour market measures (those still prevail over the active) and deepening of links between the education system and the labour market.

### *Flexicurity*

In an effort to maintain competitiveness, Slovak businesses face the challenge of restructuring the organization of work in context of the technological change, which makes it impossible to ensure job security. That is why the Government strives through active labour market policies to create such conditions which will support the process of modifying the skills and knowledge of the labour force to the changing needs of the economy. At the same time, they will create the preconditions for finding other work (external flexibility) and the conditions for working time flexibility (internal flexibility). That is why the **development of a national system of flexicurity** will be the supporting pillar of the employment policy of the SR.

Within the framework of the solution of internal flexibility, a form of flexibility of working time will be analyzed which would be beneficial for employees and facilitate a reconciliation of work and family life. The cooperation of the employer and employee representatives plays a key role in this process. In the process of adopting solutions, compliance with health and safety at work regulations will be respected.

The present legislation makes a distinction between employees with typical employment contracts and physical persons working in alternative employment contracts in terms of the amount of their social security contribution burden. It also differentiates between these categories of employees in terms of social protection. Within the framework of the national project – The National System of Flexicurity, based on the outcomes of an analysis, such measures will be outlined which will create the conditions for the functioning of socially adequate motivation and a financially sustainable system of social protection. The design of the measure's proposals will be based on the outcomes of the analyses examining the possible impacts of implementing and harmonizing the rates of social insurance.

The elaboration of measures in the field of external flexibility will pay attention to the new categories of working subjects – economically dependent employees who, from the aspect of personal competency, do not belong to either the category of employees or the category of entrepreneurs. Increasing the employment of women and creating facilities for pre-school age children will also constitute a subject in the preparation of the National Strategy of Gender Equality as many analyses show that often the objects of discrimination on the labour market are especially parents with small children.

### *Long-term Unemployment*

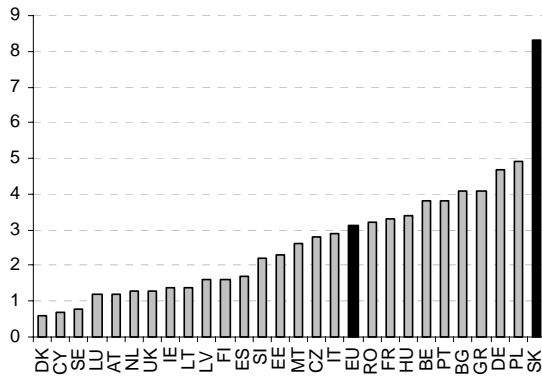
Despite gradual decreases, the unemployment rate in Slovakia is among the highest in the European Union and the issue of long-term unemployment continues to exist. The high share of long-term unemployed jobseekers, which has been higher than 50% for several years, and which according to the Eurostat data, reached 74.2% in 2007, is caused in particular by the unsuitable educational structure. The group of long-term disadvantaged jobseekers predominantly consists of jobseekers with low qualifications who frequently have little or no work experience and work habits. The level of unemployment of the population with elementary education is 45.7% and within the framework of the unemployed, they constitute the second largest group with a share of 30.6%, the largest group being represented by citizens with apprentice school education without a completed leaving examination - maturita (30.0%).

**The inclusion of long-term unemployed into the labour market**, registered at the office of labour, social affairs and family for more than 24 months will be part of the solution within the process of preparing the National Project which will introduce a new instrument of active labour market policy – an allowance for the support of employment of disadvantaged jobseekers. The implementation of this instrument should facilitate access to the labour market for disadvantaged jobseekers and thus gradually contribute to the evening up of regional differences in unemployment. Purpose-oriented forms of support will allow workers to remain on the labour market for at least 6



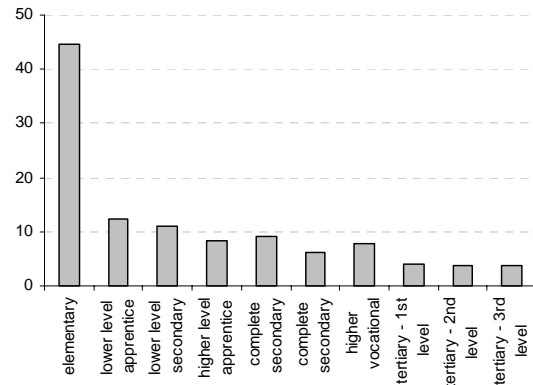
months. It will assist them in looking for employment, in training for the performance of work activities, in starting a job in cases when this start would not be possible without assistance and after starting new job, it will help them to remain employed. It is expected that the complex of active measures based on such an approach, which will take into consideration the individual needs of the client – the long-term unemployed – will distinctively contribute to the placement of the free labour force on the labour market.

Long-term unemployment rate(% , 15-64, 2007)



Source: Eurostat

Education related unemployment rate (% , SK, 2007)



Source: SO SR

In the case of disadvantaged jobseekers, it is usually not only qualifications that are missing, but also the interest to work for minimum wages; they prefer to receive social benefits. One reason behind this is the relatively high tax-social security contribution burden of low income groups, which decreases the attractiveness of work in comparison with the level of social benefits. The employee tax credit is expected to increase the motivation to look for a job and to remain on the labour market for a longer time also in the case of income on the level of minimum wages. The concept of employee tax credit (Box No. 3) complements the present tax system and operates on the negative tax principle. The income from employment which will be lower than the established line will be complemented by the transfer of the state to the employee. It is expected that employee tax credit will ensure a more continuous transfer of jobseekers between unemployment and employment and the higher available income of low-income groups will increase the rate of participation on the labour market.

### Social Inclusion

The Ministry of Labour, Social Affairs and Family of the SR will prepare a **comprehensive methodology for the support of systematic preventative work with children and youth from groups at high risk** by the end of 2008. This activity aims to build a comprehensive system supporting organizations in local governments which will work with children and youth through expert preventative workers and field social workers within the framework of the system of psychological and special pedagogical support in an open environment. The goal of this measure is to affect this group of the population and prevent any possible risky behaviour (crime, abuse of addictive substances, school truancy, risky sexual behaviour, etc.). The methodology is based on initiating contact with such groups of children and youth, on motivating them to spend their free time in a meaningful way and developing their skills and their transition to the network of the organizations working with children and youth (leisure time centres, civic associations oriented on children and youth, sports clubs, etc.). Depending on the local situation and needs, centres for marginalized groups will be created where trained workers will be able to work with such children and youth.

### BOX No. 3: Employee Tax Credit

The employee tax credit concept complements the present tax system while the basic tax allowance remains in validity. The principle of the functioning of the employee tax credit is the same as the existing tax bonus for a child: when an employee's wage drops below a certain level (if the tax base drops below the amount of basic tax allowance) the employee will not pay zero tax as at present but he/she will receive a transfer from the state in the proportional amount. Since it is related only to low-income tax payers, it is also highly targeted measure.

In compliance with the defined goals, the employee tax credit was designed in such a way that only low-income employees whose wages are burdened by social and health insurance contributions will be eligible for this credit. Due to these reasons:

- the employee tax credit is strictly connected with income from dependent employment – i.e., income from regular employment and parallel incomes with only income arising from contracts and income taxed by withholding tax (interest, mutual fund certificates, etc.) is possible if the tax payer considers the tax arising from them as settled (the tax payer will avoid applying the basic tax allowance on them in the tax return);
- there is no eligibility occurring in the case of other types of income or in other parallel incomes – business, renting, profit share, etc.

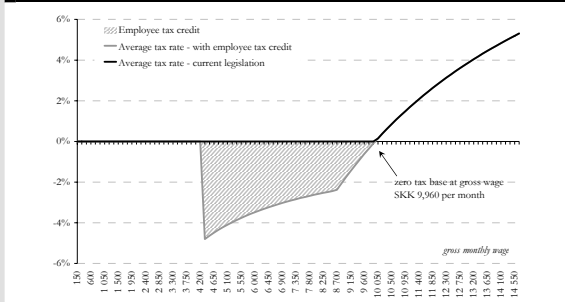
From the aspect of eligibility for employee tax credit, it is important that it is motivating, not a subject to abuse. Due to the above mentioned reason, eligibility for employee tax credit arises only under the following terms and conditions: the tax payer must reach an income in the amount of at least 6 times the minimum wage (MW) in the given tax period; and he/she must work for at least 6 months.

The work period is defined as the period, in which the income from dependent employment is achieved – the months in which the employee receives only benefits (sickness, maternity, etc.) or receives only income from dependent employment based on contracts or a combination of benefits and incomes arising only based on contracts are not included in this period. However, it is necessary to add that pursuant to the present tax practice, one worked month is defined as every month in which work income was shown (theoretically it may be even for one day).

The highest employee tax credit in the amount of SKK 2,508 per year (in 2009) will be received by employees with income in the income interval from half of the minimum wage up to the minimum wage if they work for 12 months (increasing the disposable income by 5.3% or 2.8%). Since employee tax credit is designed to remunerate working individuals, its amount will be adequately reduced depending on the number of worked months in the calendar year. Due to administrative difficulties, the employee tax credit will be settled within the framework of an annual settlement of advance tax payments or by filing a tax return. The possibility of the simultaneous provision of employee tax credit and benefit for the support of maintaining employees with low income in employment is not anticipated.

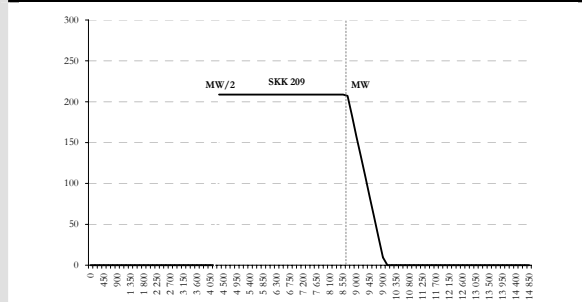
The introduction of employee tax credit will decrease the effective tax burden of low-income tax payers. The tax wedge will decrease by 1.8 percent point (p.p.) at the level of the minimum wage and by 3.6 p.p. at the level of half of the minimum wage.

**Average tax rate  
(tax / gross wage, in %)**



Source: MoF SR

**Amount of the paid employee tax credit  
(monthly average, in SKK)**



Source: MoF SR



### *Interconnection of Employment and Education*

Besides the long-term unemployed, secondary vocational school graduates have also problems with finding work. The high rate of unemployment of young people contributes to the shortage of qualified labour force. They lack working habits and professional experience. The insufficient coordination of labour market needs (requirements of employers) with the contents of vocational education causes a shortage of employees in specific sectors. Furthermore, the low remuneration in these fields does not encourage employees to extend their qualifications. It is expected that by means of the public sector bodies and central state administration authorities in the competency of the Ministry of Education, Labour, Social Affairs and Family cooperating with employers (social partners) space for the **improvement of employability through increased interconnection between the content of education and the demands of the labour market** will be created and thus also employability will increase. The new system should ensure such flexibility of the educational contents which will correspond with the labour market needs and contribute to more effective education and vocational training, the creation of jobs for young people and also allow for the involvement of older employees in informal education which would be certified. And so, the system should serve as a mechanism for the ongoing identification of labour market needs and the compliance of labour force qualifications with the labour market needs.

Employment services, such as the system of institutions and instruments of support and assistance to labour market participants, will ensure their education and preparation for the labour market in a target-oriented fashion according to the needs of employers so that the demand of employers for a qualified labour force will be satisfied at least partially from the group of jobseekers. The requirement of **improvement of human capital in the labour market** arises from the unsuitable qualification structure of graduates of secondary schools in particular and from the low rate of innovation of qualifications, especially in the case of older jobseekers and employees. Education based on the specified requirements of employers who would establish the contents and length of education or training in the scope which would enable the jobseeker to acquire professional skills and practical experience in the required quality should overcome this status. The system of employment services relies on the participation of employers in the innovation of the qualifications of older employees and in the application of the active aging principle. The goal of education in certified education programmes of further education is to increase the motivation of the labour force to adapt their qualifications to the labour market needs.

In the interest of improving the system which supports access to work among disadvantaged jobseekers, efficiency analyses of active labour market measures and programmes targeted at persons with a low probability of finding a job (especially the long-term unemployed, young people, older people, people with disabilities, under-qualified employees) and analyses of programmes targeted at education and training for the labour market and the evaluation of spent means for active and passive labour market policies according to the type of measures will be prepared.

In order to increase the efficiency of applied active measures on the labour market and to improve their effectiveness and targeting of the support of persons from disadvantaged groups upon their entry to employment and their ability to linger, it will be necessary to ensure flexible and ongoing changes in the system of education and training for the labour market and effective implementation of the Strategy of Lifelong Learning and Life-long Career Counselling adopted by the Government.

### *Lifelong Learning and Lifelong Career Counselling*

The low level of lifelong learning participation remains an obstacle to the dynamically changing structure of the human capital in relation to demand. Passing the bill on lifelong learning, which is planned for the end of March 2009, will be a significant step in this field. The main objective of this bill is to create the preconditions for ensuring the functioning of informal education as a part of lifelong learning and to regulate basic social relations among formal, non-formal and informal education. Thus, the quality of non-formal education will be increased and the results of such education leading to partial or full qualifications will also be acknowledged. The bill on lifelong learning will be based on and will build on the laws regulating the system of formal education, i.e., the School Act, the Act on vocational education and training, the Act on pedagogical employees and the Act on Institutions of Higher Education, and will thereby create an integral system of lifelong learning.





At present, there is no unified system of lifelong career counselling in Slovakia that would connect individual counselling subsystems (career counselling, counselling services at the offices of labour, social affairs and family of the SR, etc.) and mediate to citizens the complete information on educational and employment possibilities. Systems operating within the competency of the Ministry of Education (pedagogical-psychological counselling, upbringing counselling, etc.) and the Ministry of Labour, Social Affairs and Family are closely specialized, provided in an isolated fashion, without mutual coordination and used especially for their own information sources. The present system of counselling can not comprehensively cover the whole scale of population groups (the employed population, craftsmen and tradesmen, unregistered unemployed, the post-productive age population and marginalized groups). Sufficient and evenly covered counselling services for specialized target groups with specific needs (the disabled, socially disadvantaged citizens, etc.) are also missing.

That is why the Government will create conditions for the operation of a **unified system of lifelong career counselling** so that citizens can acquire comprehensive information on the possibilities of education and employment throughout their entire lives. The system will guide individuals in their selection of the type and level of education in relation to the job. In the interest of the implementation of this goal, a database of information for citizens and institutions which will provide counselling services will be created.

#### *Labour Force Mobility*

The low mobility of the labour force is another reason for the high rate of long-term unemployment. The high dispersion of the unemployment rate in individual regions is proof of the low mobility of the labour force in the SR (the unemployment rate in Banská Bystrica region was 20% in 2007, which is almost five times more than that in the Bratislava region - 4.2%). The shortage of rental housing constitutes a distinctive limitation for labour force mobility. The factual absence of a private rental market is one of the barriers to regional labour mobility and contributes to long-term low employment rates in the eastern regions of the SR, high structural unemployment and the slow transition of young people from schools to jobs. International comparisons show that the percentage of the population (or households) in Slovakia living in rental housing is three times lower than the average in the EU 15 countries.

In the case of most state sources designated for the support of housing development, ownership is preferred. A new conception of **housing support with the emphasis on increased labour force mobility** which respects the requirements of the labour and housing markets, will increase the availability of rental housing and contribute to higher labour force mobility because it will not prefer a specific form of solution of housing issues (ownership versus rental) and enable flexible adapting to the needs of individuals or families to the needs of the labour market and housing. The concept will aim to change the instruments and increase their effectiveness instead of increasing the volume of financial means spent in the support of housing.

Through an integrated approach to the housing support policy, more vigorous assistance will be provided to the socially weaker layers and the population will become more mobile socially and geographically without unnecessary market deformations. A more comprehensive approach to housing support will take into consideration the need to ensure the social minimum for each citizen; at the same time it will provide clear vision in the process of social integration. The presently used instruments (especially state bonuses for savings in the building society, mortgage bonuses, subsidies for construction and the renewal of the housing fund and the State Fund of Housing Development) are targeted at a relatively wide income spectrum of households. That is why it is probable that part of the means is spent inefficiently, i.e., not used efficiently for the population groups that need it most (low-income employees, groups at social risk). The analysis of the efficiency and correct social targeting of savings in building state support, mortgage bonuses and a complex analysis of the housing policy in the SR will constitute part of the Concept of State Housing Policy until 2015, which will be prepared by the end of September 2009.

### 3.5 Business Environment

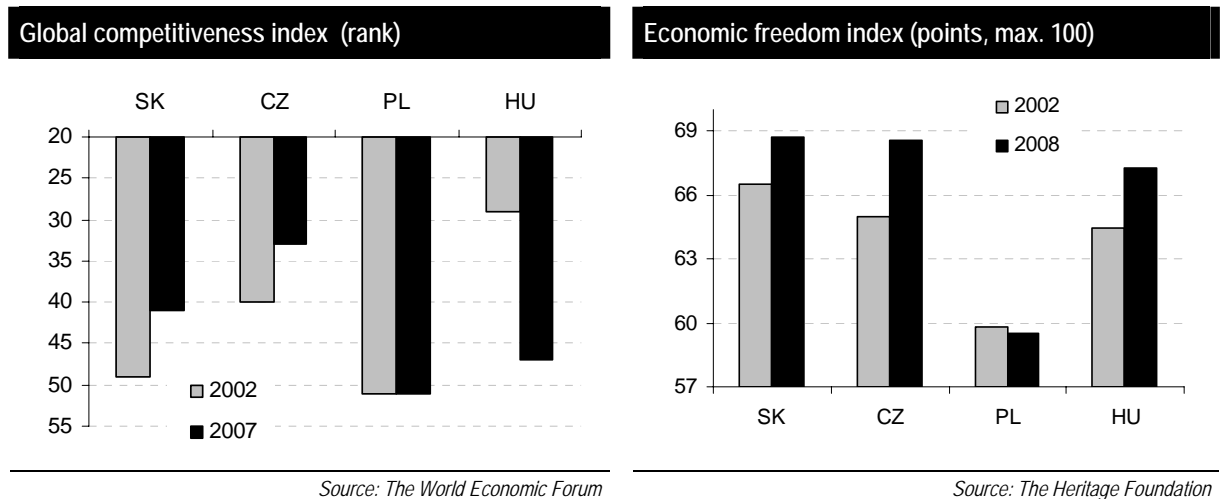
The previous period of fundamental reforms in the Slovak economy aimed to elimination of obstacles in the business environment which significantly affected the position of Slovakia in the eyes of foreign investors and domestic businesses. After these reforms, the conditions of the Slovak business environment are comparable to the developed countries. Still, the Government is aware that additional space for improvement exists to increase the efficiency in the economy.

The most significant qualitative changes took place in the openness of the economy towards foreign businesses and in the field of taxation. The registration of enterprises was simplified, the payment discipline was improved and the adherence to ethical principals of business was strengthened. Improved conditions for business have also been strengthened by the stable macroeconomic environment.

Despite these positive aspects, as a result of insufficiently vigorous solutions, a number of problems remain in the business environment which can weaken the present positive effects of the previous reforms. That is why in the upcoming programme period of the National Reform Programme, the Government plans to implement a number of other measures from which we expect a significant strengthening of the present positive effects.

Improved quality of decision-making is directly proportional to the quality of the passed legislation. The present efforts of the Government to create a functioning system of an ongoing and follow-up evaluation of the effects of legislative measures are based just on this dependence and from analyses carried out on the European level. These analyses show that internal state legislation constitutes the largest regulation burden. The size of the administrative burden of businesses constitutes another significant indicator of the business environment quality. Reduction of the burden is one of the fundamental objectives.

Further optimizing of business conditions will also require making the present management of the tax and customs administration system more effective and simplifying the processes related to tax, customs and insurance contribution collection. Increased satisfaction of businesspeople is also determined by the informatization level in public administration processes which is related to the level of its efficiency. Implementing the reform of public procurement will be a significant step which will also create conditions for the broadening of e-procurement.



#### *Informatization of the Society*

Utilization of information-communication technologies (ICTs) in Slovakia is affected by the insufficient technological infrastructure, low availability of electronic services and insufficient preparedness of users for effective use of ICT on the level of the general government and citizens. In 2007, the SR ranked 24<sup>th</sup> out of the 27 EU countries in terms of the on-line availability and sophistication of 20 eGovernment basic services.



Two strategic documents respond to the present situation of **informatization in public administration** – the Strategy of Informatization of the General Government in the SR and the National Concept of General Government Informatization. They frame further courses of action for decreasing the administrative burden of citizens and companies, increasing effectivity, productivity and competence of the public administration. These documents define the integrated architecture, principles and priorities for building of the public administration information system. The establishment of the conditions for universal electronic access to basic services with mutually interconnected general government official registers, which allows for full electronic data exchange among citizens and the public and private sectors will continue from these premises. The strengthening of information security and personal data protection is a parallel goal of these activities.

**The consequent implementation of electronic official register services and their interconnection** will continue in the general government informatization plan. Presently, public databases and official registers are not sufficiently compatible; they can not be interconnected simply and cheaply. The effective use of electronic official register services requires a number of further necessary technical, organizational and legislative solutions to the extent that through a Central General Government Portal, consolidated and official register-integrated electronic access to information for citizens and businesspeople will be created. In order to achieve this goal, the currently lacking systems of basic official registers, their administrators and pertinent data will be defined and introduced. Communication interfaces for data exchange among general government institutions, physical entities and organizations will be created and organizational and technical adjustments for access of the general government institutions and the general public to the reference data of basic official registers will be carried out. These changes will be accompanied by the necessary legislation that also allows for the use of data acquired in electronic form for legal purposes. Eventually, the official registers used by business subjects (trade, commercial, land official registers and other cadastres) will be interconnected and integrated with other official registers which will provide all data in certified electronic form.

In Slovakia, households widely use mobile networks to connect to the internet which broadens the access of the population to internet, despite the fact that the overall coverage of the SR is relatively low. The reason for the low broadband penetration in the SR, besides insufficient offer of quality electronic services, is the insufficient development of access networks in the rural areas. Low broadband penetration also pertains in the general government sector, in particular for municipal authorities. According to a survey of the Association of Towns and Municipalities of Slovakia, approximately one third of all municipal authorities have no internet connection. The Government is reacting to this issue by measures which are aimed at **increasing the availability and support for broadband internet access infrastructure**.

Within the framework of the consequent application of the European regulation framework for electronic communications and the principles of European policy for broadband penetration, the investments of the private sector in the development of the infrastructure of the broadband penetration networks will be also encouraged. Households and municipal authorities in rural and remote areas will catch up in this area through the financial means of the Operation Programme Informatization of Society (OPIS), since the financing of the broadband penetration network for the private sector is not sufficiently lucrative from the aspect of long-term investment returns. By implementing these measures, the precondition for further development in this area will be created in compliance with the EU trends such as the introduction of future generation networks and the introduction of the IPv6 internet protocol.

The gradual transition to electronic public procurement also constitutes part of the informatization of society strategy. The electronic public procurement system (EPP) in Slovakia presently covers only some public procurement procedures (public tenders, short-list tenders) and some public procurement phases – the preparation and planning phases, (partially, the eNotification, eTendering and eAwarding phases). The **reform of public procurement including the extension of e-procurement** will provide electronic communication in all procedures and phases of public procurement and create access to its use for all subjects of general government, organizations fully funded from the State Budget, those receiving contributions from the State Budget and selected subjects. In the process of the development of the procurement system, all requirements and technical standards for ensuring national and supranational interoperability will be followed.



During the implementation process, attention will be paid to ensure that the EPP will not have a discriminating effect within the framework of the business environment and that it will guarantee the trustworthiness and security of information on the basis of certified electronic signatures and advanced coding instruments. It is expected that the consequent implementing of the EPP system will make public procurement processes more effective and increase the efficiency of public financial spending. The introduction of standard public procurement procedures will create the preconditions for minimizing mistakes in its procedures and limiting the space for corruption and clientelism.

#### *Improved Regulation and Reduced Administrative Burden*

The transposition of the Regulation on the internal market services constitutes one of the steps leading to the reduction of the administrative burden and legal obstacles for businesspeople and to the strengthening of competitiveness in the field of service provision. The Regulation in the Slovak Republic is in the process of being transposed into national legislation and implementation which is expected to be completed by the end of 2009. The paragraph wording of the Act on services which will cover all services belonging to the competency of this Regulation is being prepared. The Act on services specifies the rights and obligations of service providers with official registered seats in the Slovak Republic and for those businesses who provide services in the Slovak Republic temporarily. Besides others, it also defines the establishment of the one-stop-shops.

After establishing and launching of the one-stop-shops for entrepreneurs – sole traders, the next phase of **development of one-stop-shops for entrepreneurs** will be implemented. Presently, entrepreneurs (except for those conducting business under the Trade Act regime) are forced to contact several institutions and authorities (the professional chamber, commercial official register, excerpt from criminal records, Statistical Office, etc.) when acquiring a licence for doing business. The next phase of development in this field will ensure that the one-stop-shops are also functional and electronically available for subjects conducting business in activities dependent on special legal regulations (not trade licence based) and based on licences issued by relevant state administration authorities and professional chambers. The new concept of one-stop-shops will enable entrepreneurs to conduct all of the administrative acts necessary especially at the start up and performance of business in one place; at the same time it will intermediate the arranging of all other formalities in relation to the competent bodies (for example at the pertinent tax office – tax subject registration, the health insurance company – registration of the entrepreneur, the Criminal Records Registry of the Public Prosecution of the SR – verifying of entrepreneur's suitability, at the Statistical Office – allocation of BIN, etc.), by means of which the administrative procedures for entrepreneurial subjects will become significantly shorter and more efficient. The role of one-stop-shops also involves the provision of information related to the starting up and performing of the provision of services.

Almost two thirds of the existing administrative burden of entrepreneurs in Slovakia can be attributed to the general government. That is why in October 2007 the Government adopted the Action Plan for Reducing the Administrative Burden in Business in the SR for 2007 – 2012. The basic starting point for implementing the Action Plan objectives was constituted by the **comprehensive evaluation of the administrative burden and obstacles in business and employment**. After the preparation of the tools and defining of the conditions for measuring the administrative burden, this will be quantified. Based on the outcomes of this assessment, the outlining of relevant measures to reduce the administrative burden and the implementation process will begin.

It is expected that the **creation of a functional system of preliminary and follow-up assessments of the effects of legislative measures** will contribute to ensuring of a higher quality of decision-making in the process of public policy-making. The assessment system will be based on the analysis of expected costs and the consequences and side effects of the planned tools of public policy. In the so called Impact Assessment, the effects on the general government budget, employment and the business environment, society (effects on the economy of the population, social exclusion, equality of opportunities, gender equality), effects on the environment and informatization of society will be identified in individual policies proposed by the Government. The Impact Assessment will also be focused on and will quantify all costs, benefits and side effects that could occur in relation to the implementing of new policies. This measure is expected to prevent the preparation and implementing of legal regulations which would put an unnecessary or too great a burden on the population, public



finances, business subjects and the environment. A pilot project is being implemented and will take 6 months to complete. In the course of this pilot project, the proposed Unified Assessment Methodology will be applied to assess the prepared Acts before their submission to the interministerial comment procedure. After completion of this pilot project, of the outcomes of the application of the Unified Assessment Methodology will be assessed and evaluated, and in connection with any detected shortcomings, this process will be updated. The application of the Unified Assessment Methodology for the assessment of selected effects will be ensured from June 2009.

Decreasing the administrative burden of subjects in the tax and customs agenda and in the collection of insurance contributions constitutes the main goal of the **reform of the tax and customs administration, and unification of tax, customs and insurance contribution collection**. The implementing of this measure is expected to contribute to a more effective operation of the tax and customs administration especially by means of decreasing their costs, eliminating duplicate activities and increasing the effectivity of state income collection. It is expected to make the processes connected with the tax and insurance contribution obligations simpler and more transparent. Elimination of the unnecessary administrative burden on the side of eligible subjects is expected from the unified collection of taxes, customs and insurance contributions. A new module of the organizational structure in this field or a new Financial Authority of the SR which will arise from the merging of the tax and customs authorities will be the vehicle for these changes.

The existing markets of secondary and tertiary education, health insurance, the provision of healthcare, bank and loan products, telecommunications and networking sectors are characterized by a low level of transparency, significant information asymmetries and a high level of monopolistic competition, which enables subjects on the supply side to extract a high economic rent from consumers or other payers and does not enable the effective operation of these markets. The goal of making highly regulated markets more transparent is the introduction of the obligations to collect, process and to make accessible in a clear and comparable form the information necessary for the effective operation of these markets to the general public and other purchasers and regulation authorities. In the school and healthcare systems this refers to comparable information on the quality of education or healthcare; in the banking, credit and telecommunications markets and the networking sectors, we are referring to providing comparable data on fees, total costs and individual prices. Due to the complex character of this issue and different legislation, individual competent authorities will change legislation within their competence in order to define the minimum framework of collected and provided data, standards and processes of their collection and communication with the general public and other related subjects. The outcomes of communication with the general public will be sufficiently specific so that the general public will become adequately aware of low-quality service provision by actual providers or their discriminatory price policies.

#### *Law Enforcement*

Shortcomings continue also in the field of the judiciary and are related to the present status of law enforcement, the transparency and efficiency of judiciary bodies and the unsatisfactory level of informatization in this field. The current situation in the field of legislation has enabled electronic court applications since 2003. However, this was only a formal support of informatization because the legislative framework for electronic signatures in administrative relations and related instruments has yet to be resolved in Slovakia. And so, the current solution is insufficient and not in compliance with the goals of the European Commission for eJustice. It is expected that the **informatization of the judiciary system** will create an information system for communication with citizens and the development of an information system for electronic services. The outcome of this process is improved law enforcement, the simplifying of access of citizens and entrepreneurs to courts and the acceleration of court proceedings.

#### *Transportation Infrastructure*

The fundamental condition for the accelerated development of underdeveloped regions is the ensuring of their improved accessibility by means of a network of motorways and roads and the creation of a complete connection between Bratislava, Žilina, Banská Bystrica and Košice. Presently, one third of the territory of Slovakia is located more than 45 minutes by car from the motorway or road. This is perceived negatively by new investors Slovakia. The ratio of the motorway kilometres to the area of the territory is approximately 7.11 km/thousand km<sup>2</sup> (together

with roads it is 9.89), which constitutes one of the lowest values within the framework of the EU member countries (the EU average is 20 km/km<sup>2</sup>).

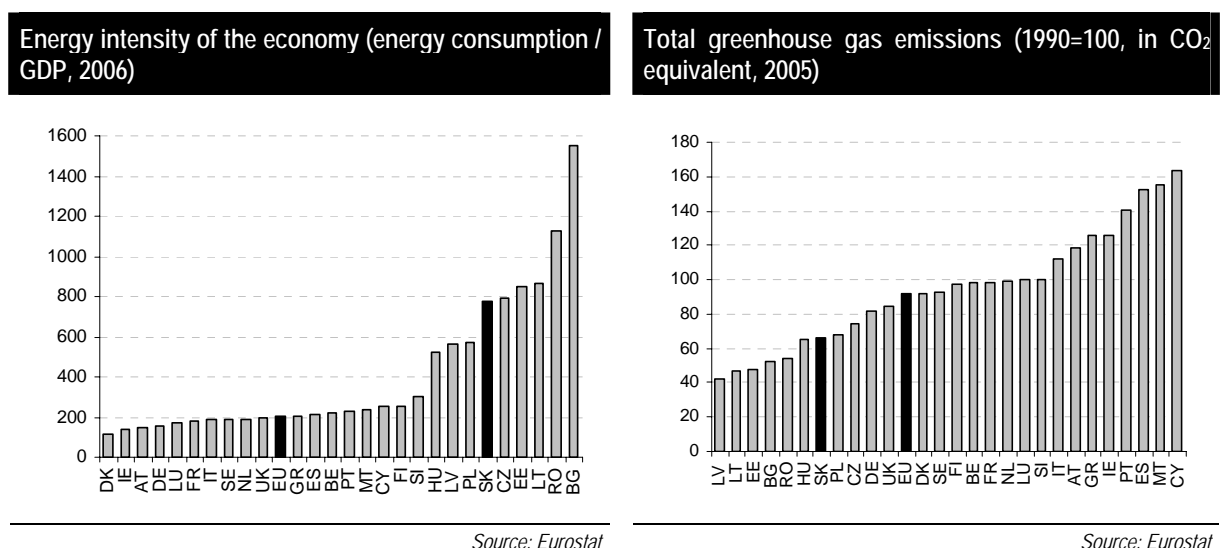
Within the framework of the intensive construction of motorways and high speed transit roads, approximately 165 km of motorways and 86 km of roads will be opened for use by 2010 in compliance with the approved Programme of the Preparation of Construction of Motorways and high speed transit roads. The financing will be ensured from public sources (the State Budget) within the Operation Programme Transportation 2007 – 2013, income from electronic toll collection and the use of the cooperation of public and private sectors (PPP). The financing from EU funds is determined by the elaboration of transportation projects and their submission to the European Commission for approval. The implementing of the projects requires completion of public procurement for the supplier and operator of the toll system and concessionaires for implementing of all of the groups of PPP projects.

It is expected that the intensive construction of motorways and high speed transit roads will increase the accessibility of less developed regions and thus help decrease regional disparity. It will also ensure the interconnection to the TEN-T network and decrease the overloading of critical sections of the road network. This will contribute to the improvement of the quality of the business environment within the framework of the entire territory of the SR.

### 3.6 Climate Change and Energy Industry

The Government perceives the integrated climate-energy package (CEP) as a comprehensive and ambitious solution, which responds to the global challenges arising from the negative consequences of the climate change. This package will significantly affect economic development on the level of EU member states in the upcoming fifteen and more years.

The Slovak Republic has recently adopted a number of measures and legislative amendments in the field of environment and the energy industry, which had several positive results. Between 1990 and 2006, the SR recorded a 32% drop of total anthropogenic emissions of greenhouse gas; this is 24 p.p. higher than the reduction goal adopted based on the Kyoto Protocol for the period 2008 – 2012. Slovakia is one of few countries in which the development of aggregated emissions of greenhouses gas does not mirror its GDP growth. Strict legislation in the field of air protection (introduced in the period of economic recession after 1990) and the application of sanctions in the event of a failure to comply with the concentration emission limits of basic pollutants has contributed to the positive trend since 1997.





Implemented measures have also significantly contributed to the distinctive change of the country's energy mix in favour of a higher use of low-carbon fuels and an intensive introduction of new, more energy efficient technologies, as a part of ongoing re-structuring of the industry.

Despite the positive changes, there are several problems in Slovakia which the Government must address. The unfavourable structure of industry with its high share of high energy intensity enterprises (aluminium production, iron and steel production, refineries) and low share of sectors with high added value and low energy intensity is also reflected in the high values of the specific emission of greenhouse gas per capita. This status is reflected in high values of emission intensity/GDP production (the share of the total aggregated emission of greenhouse gas per GDP) which is 2.6 times higher than the EU 27 average and three times higher than EU 15 average. However the high values of these parameters are steadily decreasing. Between 1990 and 2006, the greenhouse gas emission per capita dropped by almost 35% and the carbon intensity dropped by more than a half.

Till now, the positive effects of adopted legislative modifications in the field of climate change and the energy industry do not (similar to other EU member states) constitute the outcome of an integrated strategy which would cover particular aspects of policy in this field. The Government is aware of the urgent need to transform of Slovak economy to a low-carbon and more energy efficient economy. Consequently, a comprehensive national strategy within the framework of CEP is perceived as one of the main challenges within the framework of its medium-term goals and has been discussed since April of this year. Slovakia therefore stands before the task of ensuring that the preparation of our national strategic plan with the particular goals and principles established by the European Commission: transparency, economic effectiveness, and adequate flexibility of fulfilment of undertakings, solidarity and fair play.

With regards to the use of renewable energy resources (RER) Slovakia is expected to reach a 14% share of RER in final energy consumption by 2020. In comparison with the present status, this constitutes an increase of 7 p.p. In the case of sources of greenhouse gas emissions, which within the framework of the EU are outside of the scheme of trading emission quotas, the total volume of emissions allocated to Slovakia is 23.6 tonnes of CO<sub>2</sub> eq. until 2020; in comparison with 2005, this constitutes growth of these sources by 13%.

Within the framework of the relatively extensive circle of open questions connected to the CEP, Slovakia considers the request for an adequate consideration of the activities carried out in the reduction of greenhouse gas emissions in the period of 1990 to 2005 as fundamental. It bases this position on the arguments, such as extensive investments, structural and technological changes which the SR implemented in the field of air protection and the reduction of greenhouse gas emissions from 1990.

From the aspect of economic and social interests, Slovakia sensitively perceives the issues of the adequate resolution of potential risks consisting in the leakage of some segments of industry to markets outside the EU (carbon leakage) due to the strict environmental requirements of the CEP.

Slovakia does not support the strategies based on setting compulsory emission volume quotas nor the efforts to limit the areas in which the yield from auctions should be used. The proposed methods are not fully compatible with the strict budget rules and the purpose-oriented use of yields from auctions could decrease the manoeuvring space in the case of small volumes of Slovak emission quotas. Therefore, it is in the interest of Slovakia to continue enforcing its strategic interests in such a way that it creates suitable conditions for the real fulfilment of the goals that would constitute a starting point in the defining of concrete policies.

The climate-energy package constitutes a set of complex multifaceted issues with political, economic, energy, environmental and social dimensions. Due to its significance, the Government pays adequate attention to it. It will prepare an integrated strategy for achieving the goals in the field of energy industry and climate change which will consist of clearly defined measures as it submits it in other priority areas of the NRP SR. Particular instruments for implementation of these measures are under discussion including the funding aspects. These policies must respect the financial framework and comply with the financial consolidation effort of the Government.



In order to ensure effective and efficient instruments to achieve the set goals, it will be necessary to carry out several steps especially in the organization and capacity framework of the agenda. For this purpose, the Government has created the Commission for CEP on the level of the state secretaries which coordinates the processes related to negotiations on the level of the EU and the preparation of the SR for the implementing of the package goals. Further steps are the completion of the organizational infrastructure, including ensuring of an adequate capacity for implementing sector economic analyses, the qualified assessment of various strategy plan alternatives and the explicit defining of policies.

The measures within the framework of the climate-energy package will have a significant effect on public finance which directly implies the emphasis on the flexibility and effectiveness of the implementation of strategic goals. From the aspect of the present reforms in progress, especially in the fiscal and social areas, Slovakia will also have to pay sufficient attention to the coherence of particular measures. This is due to the fact that these reforms enable the direct incorporation of environmental and energy policy incentives in its objectives. For example, the establishment of a suitable combination of fiscal measures and grants for research and development could conceivably stimulate new investments in low-carbon technologies and thus indirectly affect the overall energy mix and increase energy efficiency.





## ANNEX No. 1 – Development of the Set of Indicators for the Lisbon Strategy of the SR Monitoring

Set of indicators for monitoring of fulfilment of the NRP SR tasks							
Macroeconomic framework		2003	2004	2005	2006	2007	
0.1	Real GDP growth rate	EU 27	1.3	2.5	1.9	3.1	2.9
	(% change for previous year, at 2000 constant prices)	SK	4.8	5.2	6.6	8.5	10.4
0.1.1	GDP per capita in PPS	EU 27	1.0	100	100	100	100
	(GDP per capita, PPS, EU 27=100)	SK	55.6	57.2	60.5	63.6	68.5
0.2	Growth rate of real labour productivity	SK	3.6	5.5	5.1	6.1	8.1
	(% change GDP per employee, ESA)						
0.2.1	Labour productivity per person employed	EU 27	100	100	100	100	100
	(in % GDP per employee, PPS, EU 27=100)	SK	63.4	65.6	68.8	71.7	76.8
0.2.2	Labour productivity per hour worked	EU 27	100	100	100	100	100
	(in % GDP per hour worked, PPS, EU 27=100)	SK	64.1	64.5	66.2	69.2	73.0
0.3	Inflation rate	EU 27	2.1	2.3	2.3	2.3	2.4
	(in %, HICP)	SK	8.4	7.5	2.8	4.3	1.9
0.4	Public balance	EU 27	-3.1	-2.8	-2.5	-1.4	-0.9
	(in % GDP)	SK	-2.7	-2.4	-2.8	-3.6	-2.2
0.5	General government debt	EU 27	61.8	62.1	62.6	61.3	58.7
	(in % GDP)	SK	42.4	41.4	34.2	30.4	29.4
0.6	Real wage growth rate	SK	-2.0	2.5	6.3	3.3	4.3
	(in %)						
0.7	Real household consumption growth rate	SK	1.6	4.2	6.5	5.9	7.1
	(in %, ESA)						

Source: Eurostat, SO SR

1 Education		2003	2004	2005	2006	2007	
1.1	Youth education attainment level	EU 27	76.9	77.2	77.5	77.9	78.1
	(in %, population ages 20 to 24 having completed at least upper secondary education)	SK	94.1	91.7	91.8	91.5	91.3
1.2	Early school-leavers	EU 27	16.6	15.9	15.5	15.2	14.8
	(in %, population ages 18 to 24 with at most lower secondary education and not in further education or training)	SK	4.9	7.1	5.8	6.4	7.2
1.3	Tertiary education graduates	EU 27	-	-	-	-	-
	(population ages 20 to 29, in % per 1,000 inhabitants of the population of the same age category)	SK	29	31.8	32.5	33.9	-
1.4	Lifelong learning	EU 27	8.5	9.3	9.7	9.6	9.7
	(in %, population aged 25 to 64)	SK	3.7	4.3	4.6	4.1	3.9
1.5	PISA Index	OECD	497	-	-	496	-
	(reading, knowledge of science and mathematics ages 14 and 15)	SK	487	-	-	482	-
1.6	Low reading literacy reading	OECD	19.1	-	-	20.1	-
	(in %, in age of 15)	SK	24.9	-	-	27.8	-
1.7	Spending on human resources	EU 27	5.14	5.07	5.03	-	-
	(total public expenditure on education, in % per GDP)	SK	4.30	4.19	3.85	-	-
1.8	Expenditure per tertiary student	EU 19	40	38	-	-	-
	(in % per GDP/capita)	SK	36	45	-	-	-

Source: Eurostat, EC, OECD



2	Employment and social inclusion		2003	2004	2005	2006	2007
2.1	Employment growth rate (in %, ESA95)	EU 27	0.4	0.6	0.9	1.6	1.6
		SK	1.1	-0.2	1.4	2.3	2.1
2.2	Employment rate (in %, ages 15 to 64)	EU 27	62.6	62.9	63.5	64.5	65.4
		SK	57.7	57	57.7	59.4	60.7
2.2.1	Employment rate - women (in %, ages 15 to 64)	EU 27	54.9	55.5	56.3	57.3	58.3
		SK	52.2	50.9	50.9	51.9	53.0
2.2.2	Employment rate - men (in %, ages 15 to 64)	EU 27	70.3	70.4	70.8	71.6	72.5
		SK	63.3	63.2	64.6	67	68.4
2.3	Employment rate of older workers (in %, ages 55 to 64)	EU 27	40.0	40.7	42.4	43.5	44.7
		SK	24.6	26.8	30.3	33.1	35.6
2.3.1	Employment rate of older workers - women (in %, ages 55 to 64)	EU 27	30.7	31.6	33.6	34.9	36.0
		SK	11.2	12.6	15.6	18.9	21.2
2.3.2	Employment rate of older workers - men (in %, ages 55 to 64)	EU 27	49.9	50.4	51.6	52.7	53.9
		SK	41.0	43.8	47.8	49.8	52.5
2.4	Unemployment rate (in %, LFS)	EU 27	9.0	9.0	8.9	8.2	7.1
		SK	17.6	18.2	16.3	13.4	11.1
2.4.1	Unemployment rate - women (in %, LFS)	EU 27	9.7	9.8	9.6	8.9	7.8
		SK	17.8	19.2	17.2	14.7	12.7
2.4.2	Unemployment rate - men (in %, LFS)	EU 27	8.4	8.4	8.3	7.6	6.6
		SK	17.4	17.4	15.5	12.3	9.9
2.5	Economic activity rate (economically active population in % per overall, LFS)	SK	60.3	60.2	59.5	59.1	58.8
2.5.1	Economic activity rate - women (economically active population in % per overall, LFS)	SK	52.9	52.5	51.3	50.7	50.5
2.5.2	Economic activity rate - men (economically active population in % per overall, LFS)	SK	68.4	68.5	68.4	68.2	67.7
2.6	Long-term unemployment rate (in %, longer than 12 months)	EU 25	4.1	4.2	4.1	3.7	3.0
		SK	11.4	11.8	11.7	10.2	8.3
2.7	Youth unemployment rate (in %, ages 15 to 24)	EU 27	18.0	18.4	18.3	17.1	15.4
		SK	33.4	33.1	30.1	26.6	20.3
2.8	Tax rate on low wage earners (in % per overall labour costs)	EU 27	40.3	39.8	39.7	40.1	-
		SK	40.9	39.6	35.2	35.6	-
2.9	Average exit age from the labour force (Balanced by probability of retiring from the labour market)	EU 27	61.0	60.5	61.0	61.2	-
		SK	57.8	58.5	59.2	-	-
2.9.1	Average exit age from the labour force - women (in years)	EU 27	60.6	60.1	60.4	60.7	-
		SK	55.9	57.0	57.6	-	-
2.9.2	Average exit age from the labour force - men (in years)	EU 27	61.5	60.9	61.6	61.7	-
		SK	60.0	60.3	61.1	-	-
2.10	Gender pay gap (in %, average income lower for women than for man)	EU 27	15	15	15	15	-
		SK	23	24	24	22	-
2.11	At-risk-of-poverty rate (in %, income lower than 60 % of median, after social transfers)	EU 27	15	16	16	16	-
		SK	-	-	13	12	-
2.12	Share of persons in material need (in %, persons in material need per overall population)	SK	9.89	6.91	6.74	7.55	6.45
2.13	Jobless households (in %, ages 0 to 17)	EU 27	9.9	10.0	9.7	9.6	9.4
		SK	11.8	12.8	13.8	11.8	10.5

Source: Eurostat, COOLSAF SR, SO SR



3 Business environment		2003	2004	2005	2006	2007
3.1.1 Starting a business (in days)	OECD	-	25	19	16.6	13.4
	SK	-	103	52	25	25
3.1.2 Rigidity of employment index (Labour market flexibility, hiring and dismissing of employees, working time flexibility)	OECD	-	34.4	35.7	33.3	31.4
	SK	-	36.0	36.0	36.0	36.0
3.1.3 Enforcing contracts (in days)	OECD	-	229	232	351	463
	SK	-	565	565	565	565
3.1.4 Closing a business (in years)	OECD	-	1.7	1.5	1.4	1.7
	SK	-	4.8	4.8	4.8	4.0
3.2 Business demography – survival rate (in %)	EU 27	-	-	-	-	-
	SK	82.79	66.49	72.76	-	-
3.3 Price of telecommunications – for entrepreneurs (prices for a basket of services in Euro without VAT per month, PPP)	EU 27	93.85	90.07	83.03	82.35	85.83
	SK	104.38	103.87	103.65	92.83	92.83
<i>Market share of the incumbent in fixed telecommunications</i>						
3.3.1 Market share of the incumbent in fixed telecommunications (in %, local calls)	EU 25	79	67	72	-	-
	SK	100	100	99	-	-
3.4 Total state aid (in % per GDP)	EU 25	0.64	0.62	0.6	0.58	-
	SK	0.54	0.66	0.67	0.51	-
3.5 Business investment (in % per GDP, gross formation of fixed capital in private sector)	EU 27	17.1	17.3	17.8	18.3	-
	SK	22.2	21.6	24.5	24.1	23.8
3.6 Legislative and regulative environment index (3.Q 2001=100, higher indicator value is better)	SK	98.6	100.6	104.0	103.8	95.1

Source: Eurostat, World Bank, Business Alliance of Slovakia, EC

4 Energy industry		2003	2004	2005	2006	2007
4.1 Energy intensity of the economy (energy consumption/GDP, kgoe - equivalent kg of oil per 1,000 Euro)	EU 27	215	212	209	202	-
	SK	960	907	848	772	-
(energy consumption/GDP, kgoe, EU 27 = 100)	SK	447	428	406	382	-
4.2 Renewable energy (in % per overall consumption of electric energy)	EU 27	12.9	13.9	14.0	14.5	-
	SK	12.4	14.4	16.7	16.6	-
4.3 Gas prices – industrial users (Euro/Gigajoule)	EU 27	-	-	6,01	8.11	8.87
	SK	-	5.33	5.08	7.66	8.00
4.4 Electricity prices – industrial users (Euro/kWh)	EU 27	-	-	0.067	0.075	0.082
	SK	-	0.068	0.070	0.077	0.093

Source: Eurostat

5 Science, research and innovations		2003	2004	2005	2006	2007
Gross domestic expenditure on R&D (GERD) by						
5.1 government (in % GDP)	EU 27	0,65	0,63	0,63	-	-
	SK	0,29	0,29	0,29	0,27	-
5.2 Gross domestic expenditure on R&D (GERD) by industry (in % GDP)	EU 27	1,01	1,00	1,00	-	-
	SK	0,26	0,20	0,19	0,17	-
5.2.1 Gross domestic expenditure on R&D (GERD) by abroad (in % GDP)	EU 27	0,16	0,15	0,16	-	-
	SK	0,02	0,02	0,03	0,04	-
<i>Share of expenditures on applied research and development</i>						
5.2.2 Share of expenditures on applied research and development (in % of total R&D expenditures)	EU 27	26,9	26,1	25,1	-	-
	SK	44.8	35.4	30.9	29.5	-
5.3 Science and technology graduates (in % per 1,000 inhabitants, ages 20 to 29)	EU 27	12.3	12.5	12.9	13.0	-
	SK	8.3	9.2	10.2	10.3	-



<b>5.4 Quotation index</b> (average number of quotations of publication from given country/average number of quotations of publication from world database)	EU 15	1.07	1.05	1.06	-	-
	SK	0.56	0.58	0.61	0.59	-
<b>5.4.1 Relative production of publications</b> (number per 1,000 inhabitants)	EU 15	0.74	0.77	0.81	-	-
	SK	0.34	0.34	0.35	0.36	-
<b>5.4.2 Relative production of quotations</b> (number per 1,000 inhabitants)	EU 15	3.6	3.57	3.85	-	-
	SK	0.87	0.87	0.96	0.97	-
<b>5.5 Patents applications to the European Patent Office (EPO)</b> (number per 1,000,000 inhabitants)	EU 27	104.85	108.4	101.3	-	-
	SK	5.67	3.64	5.76	-	-
<b>5.5.1 EPO high-tech patents</b> (number per 1,000,000 inhabitants)	EU 27	17.39	17.36	6.50	-	-
	SK	0.70	0.47	0.41	-	-
<b>5.6 Venture capital investments</b> (in % GDP)	EU 15	0.107	0.107	0.137	0.186	-
	SK	0.010	0.012	0.002	-	-
<b>5.6.1 Venture capital investments – early stage</b> (in % GDP)	EU 15	0.021	0.023	0.022	0.053	-
	SK	0.000	0.006	0.001	-	-
<b>5.6.2 Venture capital investments – expansion &amp; replacement</b> (in % GDP)	EU 15	0.086	0.084	0.115	0.133	-
	SK	0.01	0.006	0.0014	-	-
<b>5.7 Summary Innovation Index</b> (min.= 0 - max.= 1)	EU 27	0.45	0.45	0.45	0.45	0.45
	SK	0.24	0.22	0.23	0.24	0.25

Source: Eurostat, The European Trend Chart on Innovation, Research and Development Council of the CR

<b>6 Information society</b>		2003	2004	2005	2006	2007
<b>6.1 Broadband penetration rate</b> (number of broadband lines subscribed in % per overall population)	EU 25	-	6.5	10.6	14.8	19.0
	SK	-	0.4	1.5	4.0	6.9
<b>6.1.1 Broadband penetration rate of businesses</b> (in %)	EU 27	-	46	62	73	77
	SK	-	25	48	61	76
<b>6.1.2 Broadband penetration rate of households</b> (in %)	EU 27	-	14	23	30	42
	SK	-	4	7	11	27
<b>6.2 E-government on-line availability</b> (in %, on-line public services availability)	EU 27	-	-	-	-	59
	SK	-	15	-	20	35
<b>6.3 Digital literacy index</b> (min.= 0 - max.= 1)	SK	-	-	0.33	-	0.37

Source: Eurostat, Infovek, IVO

<b>7 Environment</b>		2003	2004	2005	2006	2007
<b>7.1 Total greenhouse gas emissions</b> (Index 1990 = 100)	EU 27	92.8	92.8	92.1	-	-
	SK	68.0	67.5	66.4	-	-
<b>7.2 Municipal waste generated</b> (kg/per capita./per year)	EU 27	519	516	512	517	-
	SK	297	274	289	301	-
<b>7.2.1 Municipal waste in landfills</b> (kg/per capita./per year)	EU 27	256	243	223	213	-
	SK	233	222	228	234	-
<b>7.2.2 Municipal waste incinerated</b> (kg/per capita./per year)	EU 27	85	89	94	98	-
	SK	30	34	34	36	-
<b>7.3 Protected areas for biodiversity - Habitat Directive</b> (in %, proposed from the total state area)	EU 15	83	86	91	93	96
	SK	-	-	-	72	72

Source: Eurostat

The above mentioned list of indicators constitutes part of the Draft of the set of indicators for monitoring the fulfilment of measures of the National Reform Programme in the SR, which was approved by the Government in May 2007. At the same time, the Government assigned the task of applying the approved set of indicators in a



quantitative assessment of the implementation of tasks and goals of the national Lisbon Strategy, defined in the National Reform Programme of the Slovak Republic. The above mentioned set of indicators enables the monitoring of progress in the implementation of priorities and goals of the national Lisbon Strategy. The set of indicators constitutes the intersection of the European Council recommendations and the consideration of national specifics in the fulfilment of the tasks of the Lisbon process.



## ANNEX No. 2 – Institutional Framework of the Lisbon Strategy in the SR

The precondition of the successful implementation of the Lisbon Strategy at the national level is an adequate **institutional framework** which lies in the adequate delegation of responsibilities and tasks to the competent authorities of particular policy areas and in incorporating all relevant institutions in the design and implementation of structural policies. According to the model of institutional management of the national Lisbon Strategy, the implementation and monitoring of the fulfilment of basic strategic goals is coordinated by the Office of the Government and the Ministry of Finance. The Deputy Prime Minister for the Knowledge-oriented Society, European Affairs, Human Rights and Minorities and the Minister of Finance fulfil the role of the national coordinators of the Lisbon Strategy in the SR.

The Office of the Government in its position as the central state administration authority, oversees the coordination and communication with the ministries which are competent in the agenda of the Lisbon strategies. The Ministry of Finance in cooperation with the relevant ministries coordinates the content-related issues of the Lisbon Strategy, is responsible for the strategic direction within conditions of the SR, ensures the compliance of the structural policies with the general government budget, and draws up the NRP SR. The coordinators communicate the agenda to the European Commission.

The coordination of the structural policies among all relevant ministries and other relevant partners, i.e., employers, trade union organizations, the academic community, non-governmental organizations and regional self-government, is primarily ensured by the working group for the Lisbon Strategy which operates as an executive tool for the acceleration, coordination and monitoring of applied policies, goals and initiatives of the Lisbon Strategy. The working group is an effective tool for the involvement of all relevant subjects in the process of the Lisbon Strategy on the expert level. It regularly informs the National Council of the SR of its activities.

The Coordination Committee for Fiscal Aspects of the NRP SR, which constitutes the profile working group on the level of state secretaries of the competent ministries, supervises the interconnection of subject matter measures with the general government budget. The committee outlines the recommendations for the adoption of essential measures within the framework of the coordination of macroeconomic and fiscal policy with the structural policies anchored in the NRP SR and submits initiatives and proposals to the Minister of Finance.

Political involvement in the Lisbon Strategy, also adopted by the Government, is a strengthened procedure within the framework of which all documents of strategic significance are discussed at the session of economic ministers and in the Council of the Government for European Affairs before their submission.

In the present model of the Lisbon agenda management, a comprehensive coverage of analytical work at the competent ministries is missing. This work is targeted on the subject matter and financial justification of proposed measures for the monitoring of their fulfilment and the ex ante and ex post assessment of the effects of the measures on the economy of the SR and on the fulfilment of the Lisbon Strategy goals. It is expected that these will be covered by the Lisbon agenda within the framework of individual ministries and that they will participate in the fulfilment of these tasks together with the coordinators of the Lisbon Strategy.