INTERVIEW

Slovakia through the European lenses

With the current EU budgeting period ending next year, the priorities of the upcoming budgeting period define EU's trajectory for the near future. In this context, the 2019 edition of European Commission's Country Report on Slovakia is of crucial importance as it points out areas where Slovakia lags behind as well as the potential overlaps with the budget's priorities. Lívia Vašáková, Head of Economic Analyses Section-representation of the European Commission, told us more about the report and its implications.

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What are the main findings of the report?
Slovakia´s economic performance has been impressive in recent years. Following the 2008-2009 crisis the economy has seen a solid recovery with growth rates above 3% thus above those of many of its EU counterparts. Moreover, it has been a job-rich recovery. The unemployment rate in Slovakia is now at a historical low; the labor market is as dynamic as ever and swift wage increases have supported household income and reduced poverty. The challenge is to ensure that growth remains strong in the medium and long term and that economic convergence picks up pace. The positive economic momentum offers the opportunity to make further progress in the structural reforms agenda. Slovakia is lagging behind in most EU comparisons in features that would be crucial for future growth such as quality of institutions; preparedness of an individual for changes (education, R&D, innovation); smoothening regional differences and quality of environment. At the same time, it also faces other challenges such as ageing, automation, robotization and digitalization.

Slovakia must do its homework on its own, but the EU funds offer opportunities to invest in challenging areas and thus improve the growth prospects for the future.

The report highlights the ongoing growth of the Slovak economy, as well as the all-time low unemployment figures. However, it also points out reasons for concern such as the continuously growing regional differences, low efficiency in utilizing the available EU cohesion funds, and a general slow-down of convergence to EU average. Can this be interpreted as a warning that Slovakia might be wasting an opportunity and the current unusually favorable economic situation with a short-sighted approach?
Slovakia is a successful example of convergence — since 1998 it increased its average gross national income per capita from 52 % of the EU28 average to over 76 % in 2016. The country has already made a lot of reforms during the accession process and the pace of catching-up was particularly high in the 2003-2008 period, when it quickly approached not only the EU's average, but also, for example, the living standard in the Czech Republic. Since 2009, this process has slowed down, and Slovakia is growing, but no longer significantly compared to the EU average. The current model, mainly based on low wages and attracting foreign direct investment, seems to be exhausted meaning that we might no longer want to work for lower wages than in Romania or in Serbia, and pay expensive incentives to foreign firms to build an assembly plant.

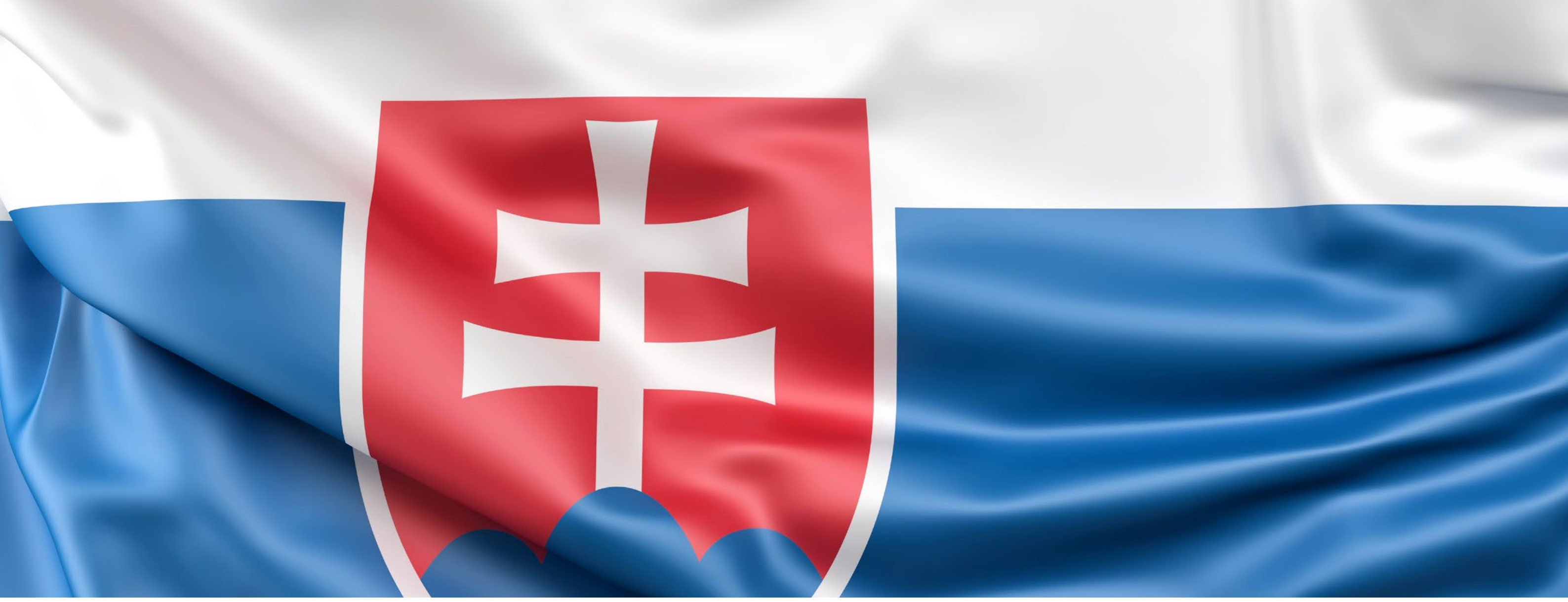
The transition to a qualitatively higher model will require reforms mainly in three areas:
1. to enhance the quality of public institutions;
2. to improve the preparedness of the individual and society for a changing environment (education, digitalization, research and innovation);
3. to improve social cohesion by better balancing regional or social disparities.

> **The lack of capacities and strategic planning along with administrative inefficiencies hamper the use of EU funds.**

What prevailing issues with the biggest potential impact on Slovakia's future development were identified by the report?
The quality of public institutions is crucial not only according to the analysis of the European Commission, but also according to other international or domestic actors such as the International Monetary Fund, the OECD, the National Bank of Slovakia or various business associations. Slovakia needs to attract more skilled people to the public sector, withstand political pressure and make administrative decisions and reforms in the public interest. However, working conditions in the Slovak public administration are far from ideal

BIOGRAPHY

Ing. Lívia Vašáková, PhD., works as the Head of Economic Analyses Section at the European Commission Representation in Slovakia where she represents the Commission regarding economic and social policies. She previously worked as a key energy modeler in the Directorate General for Energy at the European Commission in Brussels. In 2016, Euractiv.sk portal labeled her as the most influential woman in the Slovak energy sector. She graduated from the University of Economics in Bratislava and studied at the Johannes Kepler University in Linz, Austria; Ludwig-Maximilian University in Munich, Germany; University of Aix-en-Provence in France and the University of Ljubljana in Slovenia. She also holds a post-graduate degree from the Europa Kolleg Hamburg.



and Slovakia already suffers from a shortage of teachers, nurses or social workers in many sectors.

Slovakia would also certainly benefit from a better quality and more inclusive education, a more active approach to increasing the participation of children from excluded communities in pre-school education, more internationalization and enhanced cooperation among university, public and private sectors as well as targeted and efficient investments in lifelong learning, science, research and innovation. This will make it possible to improve the individual's future preparedness, to attract higher added value investments (i.e. fewer assembly plants and more R&D centers), as well as higher salaries and living standards.

A society is only as strong as its weakest part. Smoothening regional disparities and improving the social situation of vulnerable groups is also among Slovakia's key challenges. While Bratislava is well above the EU average in terms of GDP per capita, the east or south of the country hardly exceeds 50%; a similar situation persists in terms of employment and poor attractiveness of backward regions for investment. Better integration of Roma communities, long-term care and rental housing would also deserve greater attention.

The quality of environment has for long been neglected in Slovakia. Air quality, low recycling rates, weak forest management, declining share of renewable energy sources and still insufficient connection to drainage in some regions continue to pose critical challenges to the country.

The current EU budgeting period which ran from 2014 is coming to an end next year. What were its main characteristics?
Slovakia is one of the largest beneficiaries of EU solidarity. Only under the current Cohesion Policy envelope, Slovakia receives more than EUR 15 billion which is equivalent to around 2.5 % of GDP annually. This significant budget is being invested in various areas, from creating jobs and growth to supporting sustainable transport as well as protecting the environment and investing in education, research and innovation. By the end of February 2019, around 56 % of the total available funds equaling some EUR 8.6 billion had already been allocated to specific projects in various sectors. However, the level of spending was below 23% and Slovakia lost EUR 120 million of funding for R&D and regional development in 2018.

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What are the main reasons behind Slovakia's inability to use the full potential of the EU cohesion funds?
The overall performance of the public sector is weak which affects the EU funds management as well. In comparison to other EU Member States, Slovakia is particularly lagging behind in terms of government's strategic planning capacity, inter-ministerial coordination, rule of law, control of corruption, transparency of government and low impartiality and professionalism of the civil service. The lack of capacities and strategic planning along with administrative inefficiencies hamper the use of EU funds. After a slow start to the 2014-2020 funding period, implementation is now gradually picking up. Cohesion policy remains an important driver of productivity-enhancing reforms, but insufficient administrative capacity to manage funding limits its potential.

For instance, promoting research and innovation is a prime avenue for unlocking productivity gains but this is still hampered by a fragmented public research system. Boosting private and public R&D investment, consolidating the public research system to make it attractive for top researchers, and supporting smart specialization and digitalization are key policy priorities. The support from EU funds for research infrastructure resulted in the completion of physical infrastructure, but without sufficient accompanying funding for maintenance and staffing. The cancellation of various calls and administrative inefficiencies again resulted in the de-commitment of EUR 81 million funds from the Operational Programme Research and Innovation.

What are the priorities of the new EU budget which will enter into force in January 2021 for a period of seven years, until 2027?
Slovakia will get a smaller allocation for cohesion policy compared to the current period. That is why a more effective use would be essential to help Slovakia with challenges in priority areas. These are:

1. A Smarter Europe – Innovative and smart industrial transformation
2. A low carbon and greener Europe – Clean and fair energy transition, green and blue investment, circular economy, climate adaptation and risk prevention
3. A more connected Europe – Mobility and regional Information and Communications Technology connectivity
4. A more social Europe – Implementing the European Pillar of Social Rights
5. A Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives

The first two priorities will receive a very significant allocation.

You can find the full version of Country Report- Slovakia 2019 here: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-slovakia_en_0.pdf

How is Slovakia doing?

2.	GDP Growth
5.	Greenhouse gas emissions
10.	General government gross debt
11.	Early leavers from education
18.	Unemployment rate
18.	General government balance
20.	Renewable sources of energy
21.	GDP per capita (EU28 = 100)
22.	R&D expenditure as % of GDP
23.	Corruption perception
23.	Life expectancy
25.	VAT Gap
27.	Independence of justice
27.	PISA Assessment 2015
27.	Professionalism of civil service

SOURCE:

Representation of the European Commission in Slovakia on the basis of data from selected institutions - Eurostat, European Commission, Transparency International, World Economic Forum and OECD. It reflects the relative position of Slovakia in a given indicator compared to other EU countries. Statistical data are for the following years: 2016, 2017, 2018 and 2019 - depending on the availability of indicators.