

SLOVAKIA: CONFLICT WITH EU LAW (?), MULTIPLE CRISES AND A RECOVERY AND RESILIENCE PLAN



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Abstract

In this chapter, the state aid policy and rules in Slovakia are discussed, first, by defining the basic legal framework of state aid and the distinction it draws between direct and indirect aid. Second, case laws of the Court of Justice of the EU in this area that have had a significant impact on the policy, legal framework, and the case law of the Slovak courts are also examined (e.g. Frucona case and NCHZ case). A significant part of the chapter is devoted to state aid in times of crisis, such as in the context of the COVID-19 pandemic and the armed conflict in Ukraine. Further, the relationship between the Recovery and Resilience Facility and state aid rules are also discussed. Finally, the chapter concludes with an overview of fiscal measures as a form of indirect state aid. Regardless of the state of crisis, these are an immanent part of the measures that can be considered as state aid.

Keywords: *state aid, minimum aid, State aid in the times of crisis, Recovery and Resilience Plan, fiscal measures*

Miroslav Štrkolec – Anna Vartašová (2024) ‘Slovakia: Conflict With EU Law (?), Multiple Crises and a Recovery and Resilience Plan’. In: Zoltán Nagy (ed.) *Economic Governance. The Impact of the European Union on the Regulation of Fiscal and Monetary Policy in Central European Countries*, pp. 381–403. Miskolc–Budapest, Central European Academic Publishing.

https://doi.org/10.54237/profnet.2024.znecogov_17

1. State aid in Slovakia

The rules for granting state aid in Slovakia are set out in Act No. 358/2015 on the regulation of certain relations in the field of state aid and minimum aid, amending certain acts (the State Aid Act), which came into force in 2016. According to this Act, such aid can be granted only in accordance with the EU rules on state aid, under specific regulations¹ governing the relevant aid measures for defined purposes, particularly for regional development, support for small- and medium-sized enterprises (SMEs), research and innovation, support for education, employment, sport, culture, agriculture, transport, and compensation for damages caused by certain natural disasters, among other purposes defined by the EU Council.

State aid can be classified as direct aid and indirect aid. Direct aid is granted in the form of money and includes the provision of subsidies and grants, contributions, interest payments on loans or part of a loan, repayable financial assistance granted under conditions more favourable than market conditions, and capital increases in a manner not in line with market conditions. Indirect or non-monetary aid takes various forms, such as state or bank guarantees granted under conditions more favourable than market conditions, sale of real estate owned either by the state, a higher territorial unit or a municipality at below the market price, consultancy services provided free of charge or against partial payment, and fiscal measures (tax relief, relief of penalties, fines, penalty interest, or other sanctions, deferral of tax payments or permission to pay tax in instalments under conditions more favourable than market conditions).

State aid may be granted only after notification and subsequent approval by the European Commission, with the exception of minimum aid, state aid schemes in accordance with specific block exemption regulations, individual aid granted under state aid schemes, and *ad hoc* aid in accordance with specific block exemption regulations or specific regulations for the provision of services in the public interest. The basic framework of the nature of state aid, the rules on permissible and impermissible state aid and their context have been summarised in several works in the Slovak literature.² According to the case law, the obligation to comply with state aid rules applies to both national and local government authorities.³

Overall, Slovakia, as an EU Member State, does not have a strong state aid policy, and until the Covid-19 pandemic, when the amount of aid granted increased

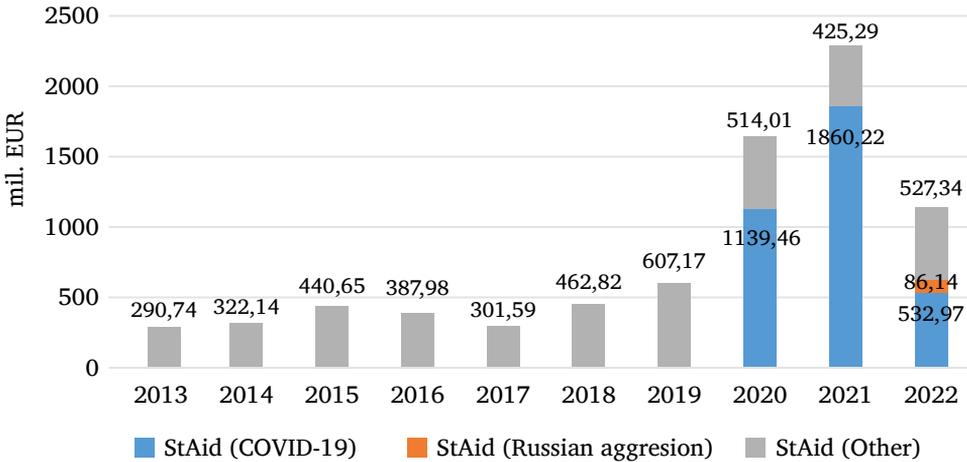
1 The following acts may be mentioned: Act No. 561/2007 on investment aid, amending certain acts, as amended, Act No. 57/2018 on regional investment aid, amending certain acts, Act No. 528/2008 on aid and support provided from European Community funds, as amended, Act No. 185/2009 on incentives for research and development, amending Act No. 595/2003 on income tax, as amended, and Act No. 292/2014 on the contribution provided from the European Structural and Investment Funds, amending certain acts.

2 Rusko and Ferencz, 2017; Úradník, 2019.

3 Blažo, 2020, p. 197.

significantly (see Figure 1), Slovakia ranked in the bottom quarter of Member States in terms of state aid spending as a percentage of GDP in a relevant year on an EU-wide basis.⁴

Figure 1: State aid paid in SR (2013-2022)



Data Source: Antimonopoly Office of Slovak Republic

The Slovak Audit Office (SAO) provides a comprehensive assessment of the policy applied in Slovakia in the field of investment aid as one of the forms of state aid for the period 2008–2017, including an assessment of the benefits of investment aid for individual regions. The SAO notes that of the 106 investment plans initially approved for EUR 658.4 million (later reduced to EUR 518.5 million), only 39.6% of the aid had actually been used at the time of the analysis. Most investment aid was directed to the Trnava and Košice regions, while investment aid to Western Slovakia and the Bratislava region accounted for up to 44.5% of total investment aid in Slovakia. The assessment of the regional effect of investment aid shows that the amount of investment aid per capita granted in Slovakia in 2008–2017 does not have a demonstrable effect in reducing regional disparities and supporting less developed regions. Paradoxically, the two relatively least developed regions (Banská Bystrica and Prešov regions) received the least investment aid per capita in relation to regional GDP per capita in purchasing power parity.⁵

4 For example: Slovakia was 17th in 2019, 16th in 2020, and reached 10th place in 2021. European Commission, 2024.

5 Fabuš and Csabay present similar conclusions about the disproportion in foreign direct investment inflows between East and West in Slovakia, stating that the Bratislava Region received up to 64.85% of total FDI over the period 2009–2015, which is comparable to the period 1993–2007, when it received 67.6%. Fabuš and Csabay, 2018, p. 483.

In terms of regional aid,⁶ the policy applied in Slovakia does not fully meet the objective of reducing regional disparities, as pointed out by a recent study⁷ on the monitoring of support to the local economy in districts with the highest long-term unemployment rates, which demonstrates that the level of support in less developed districts is below the level of aid directed into more developed regions not only in terms of the number of supported projects, but also in terms of the total amount of aid and the number of jobs created. It also shows that out of the 20 least developed districts monitored, only the results for Košice-okolie show a significant level of performance compared to the results of the other districts. This finding is alarming because it is an indication that the districts needing regional development support are left out.⁸

The SAO also notes that up to 94% of the approved investment aid went to the industrial production sector, dominated by the ‘manufacture of motor vehicles, trailers, and semi-trailers’ (24 approved investment projects). This sector received the largest amount of approved investment aid, EUR 182.7 million (27.8% of total approved investment aid), mainly in the form of tax relief (EUR 132.4 million). On the contrary, for ‘scientific research and development’, for example, EUR 1.5 million was approved (0.2% of the total approved investment aid). It is therefore recommended to reconsider the investment aid policy (strongly focused on the automotive industry) to focus more on the support of SMEs.

An aspect representing a relatively stable element of support for investment activity in Slovakia must also be mentioned: the construction of the so-called strategic parks⁹ (in the new terminology, a ‘strategic area’), which are large industrial parks (over 10 hectares) intended for large projects (typically car manufacturing plants) in accordance with Act No. 371/2021 Coll. on significant investments. Such support is not considered to be selective state aid, but rather public investment aimed at increasing the attractiveness of a particular area and enabling private investment; this was also confirmed by the conclusions of a formal investigation by the European Commission¹⁰ regarding possible additional non-notified state aid in relation to the Nitra Strategic Park (Industrial Park Project for Jaguar Land Rover), where the

6 Map of recent regional aid in Slovakia (under Art. 7 of the Communication from the Commission: Guidelines on regional State aid, 2021/C 153/01) for the years 2022–2027: Western Slovakia with a maximum aid intensity for large enterprises of 30%, Central Slovakia 40%, and Eastern Slovakia 50%; the maximum aid intensity may be increased by 10 percentage points for investments made by medium-sized enterprises and by 20 percentage points for investments made by small enterprises, for their initial investments with eligible costs up to EUR 50 million. For the years 2014–2020, this was: Western Slovakia maximum 25%, Central Slovakia and Eastern Slovakia 35% each. In both cases, the Bratislava Region is excluded from regional support.

7 Košdy, 2023.

8 Košdy, 2023, p. 57.

9 Terminology in accordance with the previous legislation – Act No. 175/1999 on certain measures concerning the preparation of major investments, amending certain acts.

10 Commission Decision (EU) 2019/1127 of 4 October 2018 on state aid SA.45359 – 2017/C (ex 2016/N) which Slovakia is planning to implement for Jaguar Land Rover Slovakia s.r.o.

Commission concluded that there was no state aid and that Slovakia did not grant any selective advantage to Jaguar Land Rover.¹¹

A relatively recent study provides an overview of state aid policy in the field of environmental protection¹² and shows that the number of recipients and the amount of aid approved are on the rise, and that the aid granted is producing results in terms of reducing nitrogen oxide (NO_x) emissions, PM10 concentrations, and emissions related to energy and heat production using solid fuels. However, the European Commission concludes that the achieved results are not at the requisite level in Slovakia (e.g. in terms of the recycling rate of municipal waste).

1.1. Frucona case

Two companies in Slovakia were deemed by the Commission to have been granted unlawful state aid. The first, in particular, had a major impact on the development of both national legislation and case law.

The first case was the Commission decision of 2006 concerning Frucona,¹³ wherein tax debt was written off by the Košice IV Tax Office under a procedure of arrangement with the creditors.¹⁴ The written-off part of the unpaid excise duty amounting to SKK 416,515,990 (today approximately EUR 14 million) was assessed by the Commission as state aid incompatible with the single market. Slovakia was ordered to take the necessary steps to recover the unlawful state aid without delay. In view of the unsuccessful recovery process, the Commission brought action before the Court of Justice of the EU on 17 June 2008 for failure to recover the unlawful and incompatible aid. The Court confirmed the infringement by the Slovak Republic.¹⁵ Meanwhile, in January 2007, Frucona appealed against the Commission decision to the General Court of the EU, which dismissed its action; however, on appeal to the Court of Justice of the EU, the latter set aside the judgement of the General Court on the grounds that the Commission committed a manifest error of assessment in having failed to consider the private creditor test of the duration of the bankruptcy procedure. Insofar as this factor was considered by the Commission, the latter did not set out sufficient reasons for its decision.

11 Košdy, 2023, p. 56.

12 Novacek and Li, 2021.

13 2007/254/EC: Commission Decision of 7 April 2006 on State aid C 25/2005 (ex NN 21/2005) implemented by the Slovak Republic for FRUCONA Košice, a.s. (notified under document number C(2006) 2082).

14 This procedure was governed by the then applicable Act No. 328/91 on Bankruptcy and Arrangement with Creditors (Bankruptcy Act) whereby the indebted company pays off part of its debt and the remainder is written off. This agreement has to be approved by the supervising court.

15 CJEU, 22 December 2010, Case C-507/08, *Commission v Slovakia (Frucona Košice)*, ECLI:EU:C:2010:802.

The Commission therefore annulled its original decision of 7 June 2006 and adopted a new decision¹⁶ in which it again considered the measure to be unlawful state aid incompatible with the single market. However, Frucona again appealed against the new decision, and the General Court ruled in favour of the applicant,¹⁷ considering the errors of fact and of the law that had been identified as affecting the finding, that the bankruptcy procedure or the tax execution procedure would be a more advantageous alternative compared to the proposed arrangement. This judgement was appealed by the Commission; however, the Court of Justice of the EU dismissed the appeal,¹⁸ stating *inter alia* that where it appears that the private creditor test might be applicable, it is for the Commission to ask the Member State concerned to provide it with all the relevant information enabling it to determine whether the conditions for applying that test are satisfied,¹⁹ which was not the case in the Frucona decision. Therefore, infringement of the state aid rules was not definitively confirmed.

1.2. NCHZ case

The second case was the Commission decision of 2014 concerning Novácke Chemické Závody (NCHZ),²⁰ where the Commission found unlawful state aid of approximately EUR 4.78 million and a breach of Art. 108 para. (3) of the Treaty on the Functioning of the European Union (TFEU), in relation to two periods: (i) between December 2009 and December 2010 – NCHZ continued operation by virtue of the application of a special law²¹ – Act No. 493/2009 on certain measures concerning

16 2014/342/EU: Commission Decision of 16 October 2013 on State aid No SA.18211 (C 25/2005) (ex NN 21/2005) granted by the Slovak Republic for Frucona Košice a.s. (notified under document C(2013) 6261).

17 CJEU, 16 March 2016, Case T-103/14, *Frucona Košice v. Commission*, ECLI:EU:T:2016:152.

18 CJEU, 20 September 2017, Case C-300/16 P, *Commission v. Frucona Košice*, ECLI:EU:C:2017:706.

19 As follows from the judgement of 21 March 2013, C-405/11 P, *Commission v Buczek Automotive*, ECLI:EU:C:2013:186.

20 Commission Decision (EU) 2015/1826 of 15 October 2014 on the State aid SA.33797 – (2013/C) (ex 2013/NN) (ex 2011/CP) implemented by Slovakia for NCHZ (notified under document C(2014) 7359).

21 NCHZ is a chemical company in Slovakia with around 2000 employees. In October 2009, the company filed for bankruptcy. In November 2009, Slovakia adopted a law requiring administrators to ensure the continued operation of strategic companies during bankruptcy proceedings. In December 2009, NCHZ was proclaimed by the Government to be a strategic company. The law expired in December 2010, and NCHZ is the only company to which it ever applied. In relation to the period December 2009 – December 2010, the Commission concluded that the special law deprived the administrator and the creditors of their discretion to decide whether the continued operation was economically beneficial. The administrator only ordered a comprehensive economic analysis and called a meeting of the company's creditors to decide whether to operate NCHZ further when the special law was about to expire. Under the special law, NCHZ was required to pay only social security and health insurance contributions in part and therefore received an undue advantage over competitors who had to meet their obligations in full (European Commission, 2014).

strategic companies²² and (ii) between January 2011 and July 2012 – NCHZ continued operation on the basis of a decision of the creditors.

However, the decision was annulled by the General Court in relation to the second period in respect of the unlawful state aid found²³ and then re-examined by the Commission, which concluded that no unlawful state aid had been granted;²⁴ however, in relation to the first period on appeal by Fortischem a.s. (as successor in title) both before the General Court and subsequently before the Court of Justice,²⁵ the decision regarding unlawful state aid was upheld and the sum evaluated as unlawful State aid had to be recovered.

1.3. Implications of case law in Slovakia

In the Frucona case, as mentioned above, Slovakia faced difficulties in effectively recovering this unlawful aid, which led to the above-mentioned infringement procedure against Slovakia for failure to fulfil its obligations under the EC Treaty and to the amendment of the State Aid Act in force at the time.²⁶ According to the original legislation, in case of unwillingness of the recipient to repay state aid, which the Commission had decided was unlawful, it was necessary to bring an action in civil proceedings, which gave the amendment²⁷ an apt name, *Lex Frucona*.²⁸

The Slovak authorities initiated legal proceedings, but without success. The problem lay in the conflict between the State's obligation to recover unlawful state aid (imposed by the Commission decision) and the principle of *res iudicata* in relation to the restructuring procedure under which the aid was granted to Frucona,²⁹ since, according to the then Bankruptcy and Arrangement Act, if the order confirming the arrangement has become final and the debtor has fulfilled its obligations in full and on time, the debtor's obligation to repay the part of the debt that the debtor was not obliged to repay to the creditors according to the arrangement³⁰ is extinguished. Although the Court of Justice did not call into question this principle in its Judgment

22 Because of its clear purpose, it was given the label 'lex NCHZ'. Pardubský, 2009.

23 CJEU, 13 December 2018, Case T-284/15, *AlzChem AG v Commission*, ECLI:EU:T:2018:950, according to which the Commission did not sufficiently substantiate its assessment of the existence of an economic advantage and whether the decision to authorise the continued operation of NCHZ after 31 December 2010 was attributable to the State (i.e. a measure that was assessed as unlawful state aid).

24 'The Commission found that none of the public creditors had a veto right in the creditors' committee. Therefore, they could not block the other creditors or take decisive influence in the decision whether to continue operations. This decision is therefore not imputable to the State'. Commission Decision (EU) 2021/1943 of 14 June 2021 on the State aid SA.33797 (2013/C) (ex 2013/NN, ex 2011/CP) implemented by Slovakia for NCHZ (notified under document C(2021) 4185).

25 CJEU, 29 April 2021, Case C-890/19 P, *Fortischem a.s. v. Commission*, ECLI:EU:C:2021:345.

26 Act No. 231/1999 on state aid, as amended.

27 Act No. 102/2011.

28 Gyárfáš, 2011.

29 Gyárfáš and Csach, 2019.

30 Judgement of the Supreme Court of the Slovak Republic 5MObd0/3/2009.

C-507/08, it did state that under national law, the Slovak authorities could avail resources which, if diligently used, could have ensured that the Slovak Republic was able to recover the aid at issue.³¹ The negative decision of the Supreme Court of the Slovak Republic (the court of last instance) was finally overturned by the Constitutional Court on the basis of a constitutional complaint lodged by the Košice IV Tax Office for violation of its right to judicial protection under Art. 46 para. (1) of the Constitution, as it was prevented from recovering the unlawful state aid. The Constitutional Court pointed out that the national courts have no jurisdiction either to review the validity of the Commission decision or to assess whether the advantageous measure constitutes state aid within the meaning of European law, should they depart from the Commission decision.³²

The next stage in this case was the amendment of the State Aid Act itself. According to the transitional provisions, it was supposed to also apply to claims that had not yet been recovered (in an attempt by the State to solve the problem of the courts refusing to recover aid), which was vetoed by the President of the Republic due to doubts about the constitutionality of the new provision on the grounds of retroactivity; however, the veto was eventually overridden by the parliament. This legislation was even subsequently challenged before the Constitutional Court, but its key provisions on the direct enforceability of Commission decisions obliging the State to recover state aid that it had declared unlawful were upheld by the Constitutional Court in its Ruling No. PL. ÚS 115/2011.

Under the current provisions of the State Aid Act, a recipient to whom, pursuant to a decision of the European Commission, unlawful state aid has been granted is obliged to repay it to the budget from which it was granted or to pay it to the budget to which it should have been paid, including interest, and this obligation extends to the successor in title. The European Commission's decision on unlawful state aid is directly enforceable against the recipient of the state aid from the day of its notification to the Slovak Republic; based on this, the grantor of the state aid is obliged to submit a proposal for its enforcement within 30 days from the receipt of the initiative of the state aid coordinator, and if it fails to do so, the central state administration authority is entitled to do so. According to the State Aid Act, the state aid coordinator is the Antimonopoly Office, which, however, does not have the power to impose fines for the failure to recover unlawful state aid, but it has the power to impose fines for the failure to notify the office prior to granting of state aid; thus, the Slovak legislation is more focused on the preventive protection of compliance with state aid rules.³³

³¹ For more details, see e.g. Csach, 2011.

³² The national court clearly exceeds the scope of the powers conferred on it by the operation of European law within the national constitutional order, particularly by appropriating powers conferred on other European Union bodies, for example, the power to assess the compatibility of state aid with European Union law. Macejková, 2016.

³³ Blažo, 2020, p. 199.

Regarding private recovery of state aid, that is, proceedings initiated by a private party before a national court to prevent state aid, seek its repayment or compensation for damage, the implementation of such a procedure is fraught with complex problems,³⁴ with the result that the number of such cases is minimal,³⁵ and the parties concerned rarely consider such a procedure realistically, preferring to submit their objections to the Commission.³⁶

2. State aid law in times of crisis

Individual countries in the last few years have been hugely impacted on the socio-economic front by the crises experienced, first in the form of a global pandemic and then a military conflict in Ukraine, a country in the eastern part of the EU. Subjectively assessed, these events had a serious impact on the business environment in Slovakia, especially the first one, which was transferred to the level of the State's intervention in the form of state aid, the amount of which increased enormously in 2020 (see Figure 1).³⁷

Despite this increase, some studies³⁸ report that the pandemic (i.e. in terms of the pandemic measures adopted) has had a negative impact on the quality of the business environment, despite the various types of state aid adopted for this purpose.

34 Gyárfáš, 2017a; Gyárfáš 2017b.

35 Gyárfáš and Csach mention two rulings: (i) Ruling of the District Court of Trnava in case 39C/30/2017: The City of Trnava (the plaintiff) filed an action for declaratory relief that the transfer of title to the land to a private investor (realised by the former mayor for 1 EUR) was null and void, or ineffective, because it constituted state aid granted without a notification pursuant to Art. 108 para. (3) of the TFEU. The court rejected the claim on a few grounds, but most importantly, the court held that the transfer of municipal land to a private investor was valid, even though the transfer may have constituted state aid. Even if it did constitute state aid, this would only give rise to the obligation to recover aid, but it would not render the transfer null and void or ineffective; (ii) Ruling of the Regional Court in Trnava in case 31CoKR/2/2015: The Social Insurance Agency (the plaintiff) sought to have the restructuring plan of an insolvent debtor set aside, because the write-off of public claims may have constituted state aid (the restructuring plan was approved despite the opposition of the Social Insurance Agency). The First Instance Court upheld the claim and set aside the restructuring plan and the appellate court confirmed the first-instance ruling. European Commission, 2019.

36 Gyárfáš and Csach, 2019.

37 *Správy o poskytnutej štátnej pomoci v Slovenskej republike za roky 2013 až 2022* [Online]. Available at: <https://shorturl.at/Cq2tR> (Accessed: 30 October 2023).

38 Svabova, Kramarova and Chabadova, 2022, p. 2.

2.1. *Pandemic aid*

During the COVID-19 pandemic, 16 state aid schemes were established under the Temporary Framework for State Aid measures to support the economy,³⁹ and 17 *de minimis* aid schemes were launched under Commission Regulation (EU) No. 1407/2013.

The Ministry of Transport and Construction notified the largest number of state aid schemes: (i) to support operators active in the tourism sector, (ii) to support the provision of essential air access to the region, (iii) temporary aid to support COVID-19 relevant research and development, (iv) to support international regular and occasional bus companies, and (v) to support the air carriers concerned.

Two schemes were implemented through the Sport Promotion Fund, launched to support sports in the context of the COVID-19 outbreak and to support professional sport clubs.

The other two schemes were provided by the Ministry of Economy (subsidy for fixed costs and subsidy for rent⁴⁰).

The EXIMBANKA bank implemented a scheme to support the increased liquidity needs of government funds in the context of COVID-19 for SMEs and large enterprises to tide over the adverse effects caused by the pandemic.

The Ministry of Labour, Social Affairs and Family launched a scheme for temporary assistance to preserve employment and support self-employed individuals, called First Aid,⁴¹ which subsidised the wages for employers who would otherwise have laid off their employees as a result of the coronavirus outbreak.

For the liquidity of travel agencies, whose activities were restricted or even suspended during the pandemic, in terms of organising tours owing to prohibition of travel for leisure purposes, as part of measures adopted by the Public Health Office, the Ministry of Finance provided a scheme amounting to aid of EUR 8.6 billion.⁴²

39 C(2020) 1863 of 19 March 2020, as amended.

40 The initial extension of the scheme until the end of 2021 was notified late to the Commission – it entered into force before the Commission’s approval, which resulted in it being assessed as unlawful state aid, but in view of the purpose of the aid, the Commission decided not to raise objections to the scheme. Commission Decision of 07.10.2021 C(2021) 7267 final: State Aid SA.64688 (2021/NN) – Slovakia.

41 Michulek and Križanová, 2022.

42 Slovakia – *Details of Slovakia’s support measures to help citizens and companies during the significant economic impact of the coronavirus pandemic* [Online]. Available at: https://commission.europa.eu/strategy-and-policy/coronavirus-response/supporting-jobs-and-economy-during-coronavirus-pandemic/state-aid-cases/slovakia_en (Accessed: 30 October 2023).

In the context of minimum aid, aid schemes were granted through the Ministry of Economy,⁴³ Ministry of Transport and Construction,⁴⁴ Sport Promotion Fund,⁴⁵ Ministry of Health,⁴⁶ Ministry of Culture,⁴⁷ and Ministry of Finance.⁴⁸

In general, the amount of State aid disbursed was significantly lower than the planned amount allocated to the above schemes, mainly due to the delays in the approval of disbursements caused by the slow preparation of the aid schemes⁴⁹ and the high bureaucratic complexity of the aid application required by the State from the applicant enterprises. However, in the end, state aid had meaning and, in addition to easing the pandemic measures, contributed to Slovakia's GDP returning to the pre-pandemic level in the second half of 2021, after the significant impact the pandemic had on (a steep decline) Slovakia's GDP in 2020. In fact, aid was mainly aimed at supporting employment in enterprises threatened by the crisis and lost revenues due to business cutbacks. Although the employment rate fell (by 1.9% in 2020 and 2.5% in 2021), the number of enterprise closures in 2020 decreased by 15.1% compared to the previous year, indicating the potential effectiveness of state aid for enterprises.

However, the effectiveness of the aid schemes adopted remained questionable in the tourism segment, as this type of enterprise represents a significant share (20%) among those that ceased their activity in 2020. A more detailed analysis of the rise of unemployment in this period in the context of State-supported jobs is presented in the study,⁵⁰ which shows that the average unemployment rate increased from 5.03% (March 2019) to 7.98% (March 2021), despite the State having subsidised over 465 thousand jobs under the scheme of the Ministry of Labour, Social Affairs and Family – the so-called First Aid – at the peak of the crisis situation and the most restrictive pandemic measures (April 2020). This exceeded the expected 'saving' of jobs (estimated at 400.000). Cumulatively, for the period from March 2020 to February 2022,

43 Rent subsidies to cover part of the fixed costs of eligible beneficiaries who were forced to close down or exclude the public from their premises as part of measures to prevent the spread of Covid-19; to support micro-, small-, and medium-sized enterprises by covering part of the fixed costs incurred as a result of the restriction of their activities during the pandemic or to compensate them for lost revenues as a result of the pandemic.

44 Guarantee instrument – provision of a guarantee and subsidisation of loans; support for operators active in the tourism sector – to cover part of the fixed costs incurred by the operators during their forced closure and to compensate them for damage suffered as a direct result of the measures adopted; support for certain operators active in road transport – to compensate them for lost revenues.

45 To support sports – to mitigate the negative effects of the pandemic on professional sport clubs whose economic activity was restricted and to compensate them for lost revenues; to support operators active in sport infrastructure – to cover part of the fixed costs during their forced closure and to compensate them for the damage suffered as a result of the measures adopted.

46 To strengthen the capacity of the health-care system.

47 To support cultural and creative industries whose activities were affected by COVID-19.

48 To support the preservation of SME operations and employment.

49 Svabova et al., 2022, p. 38.

50 Michulek and Križanová, 2022.

as of 15 June 2022, EUR 2.475 billion was paid to 55,000 employers and 131,000 self-employed individuals in support of job preservation.⁵¹

2.2. Armed conflict in Ukraine and state aid

In the context of Russia's aggression in Ukraine, state aid schemes were set up under the competence of several state or public authorities such as the Ministry of Economy,⁵² Ministry of Agriculture and Rural Development,⁵³ and the Social Insurance Agency.⁵⁴

2.3. The Recovery and Resilience Facility and legal framework between the EU and Slovakia

A fund to support the recovery and resilience of the EU was set up under the regulation (EU) 2021/241 of the European Parliament and of the Council on 12 February 2021, establishing the Recovery and Resilience Facility (hereinafter referred to as 'Regulation (EU) 2021/241'). This mechanism (Facility) should provide effective and significant financial support to increase the implementation of sustainable reforms and related public investment in the Member States.

The Facility aims to provide financial support to Member States to meet the milestones and reform and investment targets marked in their recovery and resilience plans.

It is also necessary to state that the Facility itself (and the use of resources) refers to these policy areas of European relevance: (i) green transition, (ii) digital transformation, (iii) smart, sustainable and inclusive growth, including economic cohesion, jobs, productivity, competitiveness, research, development, and innovation, and a well-functioning internal market with strong SMEs, (iv) social and territorial cohesion, (v) health, and economic, social, and institutional resilience, with the aim of, *inter alia*, increasing crisis preparedness and crisis response capacity, and (vi)

51 Baliak et al., 2022.

52 To mitigate the impact of high electricity and gas prices negatively affecting undertakings owing to the high energy prices on the basis of the Temporary Crisis Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia, 2022/C 131 I/01, OJ C 131I, 24.3.2022, 1–17.

53 To support the food sector, particularly to improve liquidity and maintain competitiveness, in accordance with section 2.1 of the Temporary Framework; to support storage of primary agricultural products – to improve liquidity, maintain competitiveness, and also to reduce energy consumption by setting a consumption ceiling for the granting of aid, in accordance with section 2.4 of the Temporary Framework; to support primary agricultural production, fisheries, and aquaculture to improve liquidity and maintain competitiveness in accordance with section 2.1 of the Temporary Framework; to support the food and compound feed sector to improve liquidity and maintain competitiveness in accordance with section 2.1 of the Temporary Crisis and Transition Framework for State Aid measures to support the economy following the aggression of Russia against Ukraine.

54 Aid to reduce social contributions granted to employers in the agriculture and food industry to reduce the final prices of basic food at retail level in Slovakia.

policies for the next generation, children and youth, in terms of education and skill development.

For an overview of the legislative framework for the implementation of the mechanism (or Facility) in Slovakia, following legal framework is as shown: (i) Regulation (EU) 2021/241, (ii) The Recovery and Resilience Plan for Slovakia, (iii) Commission staff working document – Analysis of the Recovery and Resilience Plan of Slovakia of 21 June 2021, COM(2021) 339 final, SWD(2021) 161 final, (iv) Council implementing decision on the approval of the assessment of the Recovery and Resilience Plan for Slovakia COM(2021) 339 final, 2021/0163 (NLE), SWD(2021) 161 final, of 13 July 2021, (v) Financing agreement between the Commission and the Slovak Republic under the Recovery and Resilience Facility of 1 October 2021 and (vi) Act No. 368/2021 on the mechanism to support recovery and resilience, amending certain acts (effective from 31 December 2021).

Slovakia was allocated approximately EUR 6.3 billion of the total amount of non-repayable financial support (in principle, the maximum financial contribution calculated in accordance with Art. 11 of Regulation (EU) 2021/241). Slovakia's Recovery and Resilience Plan envisages investments in accordance with Art. 3 of Regulation (EU) 2021/241 in the following areas: green economy; education; science, research, and innovation; health and effective public administration; and digitisation.

These areas will be financed in different proportions, and payments can be made by 31 December 2026 at the latest. When comparing the level of investments in individual areas where support should be focused, the highest share of non-repayable financial support is, according to the approved Recovery and Resilience Plan of Slovakia, intended for financing the so-called *green transition* (green economy), up to 43% – EUR 2.73 billion (with a broader assessment of the level of support and including all measures related to climate protection measures).

The financing of specific projects and investments from the Recovery and Resilience Plan from the total amount of allocated non-repayable financial support at the national level is implemented on the basis of Act No. 368/2021 for the mechanism to support recovery and resilience by amending certain acts that came into effect on 31 December 2021.

This Act regulates financial relations in the implementation of the mechanism to support recovery and resilience, including the provision and use of funds of the mechanism, rights and obligations of persons in connection with the implementation of the Recovery and Resilience Plan of the Slovak Republic and liability for breaches of conditions of recovery plan, the powers of public authorities in the implementation of the recovery plan, and some other relationships in the implementation of the recovery plan.

The basic definitions of concepts underlying financing implementation and their peculiarities are as mentioned below: (i) the executor as a central state administration body designated by the government (e.g. the Ministry of the Environment of the Slovak Republic) is responsible for the implementation of the investment or of

the reform in accordance with the recovery plan, including meeting and achieving milestones and objectives; (ii) recipient of funds (the recipient individually identified in the recovery plan, the recipient, whose competence to perform the tasks for which the resources of the mechanism are provided follows from a special regulation, the recipient designated on the basis of the call of the executor, or the recipient designated by a government decision); (iii) individual investments and reforms are in principle financed from the state budget; however, after the implementation of these investments and reforms, the achievement of individual milestones and goals is assessed according to the approved Recovery and Resilience Plan of Slovakia. If the assessment is positive, the funds will be disbursed under non-repayable financial support (exception to this principle – pre-financing under Art. 13 of Regulation (EU) 2021/241); (iv) the Act contains special budgetary rules at national level (Section 9 of the Act); (v) EU – Slovakia relationship (Member State) – there is no co-financing at the level of the Member State for the use of funds from non-repayable financial support to achieve the set milestones and objectives (all funds are allocated from the NextGenerationEU fund⁵⁵); (vi) it is also necessary to state that a successful achievement of the targets and milestones is also conditioned by the political situation in the Member States. If some reforms are not implemented and therefore some milestones or targets are not attained, the Recovery and Resilience Plan may not ultimately provide grants to repay the funds used from the state budget (e.g. in the Slovak Republic, this threat can be observed in connection with the reform of the judiciary).⁵⁶

Regarding the relationship between use of funds from the Recovery and Resilience Plan and the state aid rules, it should be noted that Act No. 368/2021 explicitly states that it is without prejudice to the provisions of the Act on state aid and minimum aid and the Act on public procurement. This implies that the funds are granted in accordance with the state aid and minimum aid rules.

It should be noted, however, that not all the funds provided under the Recovery and Resilience Plan are granted under state aid rules. The key lies in the definition of the recipient, who, as defined in the State Aid Act, is a person carrying out an economic activity, irrespective of its legal form and method of financing, and in who is entitled to receive aid as per the legal act. For the purposes of the Act, an economic activity is any activity consisting of offering goods or services in the market.

This is also typically reflected in individual state aid schemes or calls for applications for funding under the Recovery and Resilience Plan.

55 NextGenerationEU is a temporary instrument designed to help repair the immediate economic and social damage brought about by the coronavirus pandemic.

56 Štrkolec and Popovič, 2022.

As far as state aid schemes are concerned, they are coordinated by the Antimonopoly Office as the state aid coordinator in Slovakia.⁵⁷ When the eligible recipients are economic operators, these schemes are implemented in accordance with the state aid rules. An example is the state aid scheme for decarbonisation of industry under the Recovery and Resilience Plan (Component 4), which aims to support environmental investments in the form of greenhouse gas emission reductions in industrial production sectors.

Conversely, state aid rules do not apply to a number of calls for applications. One example is the call for applications for funding from the Recovery and Resilience Facility titled ‘Support for Internationalisation in the Academic Environment’. In this case, the conditions relating to state aid and arising from state aid/*de minimis* aid schemes do not apply. Under this call for applications, funding is provided for fulfilment of the mission of higher education institutions by developing international, particularly European, cooperation through promotion of joint projects with foreign higher education institutions and other foreign institutions, mobility of staff and students of higher education institutions, and mutual recognition of diplomas and qualifications used exclusively for education as a non-economic activity. Only public higher education institutions are eligible for this funding.

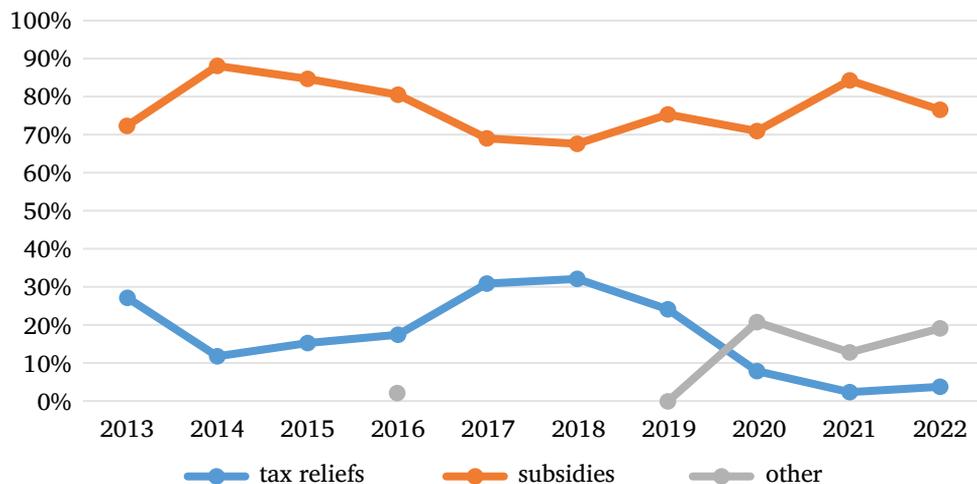
3. Fiscal state aid

The majority of state aid in Slovakia is granted in the form of direct cash payments (grants and non-repayable financial contributions), accounting on an average for more than 75% of the total aid over the past 10 years.

Among the indirect forms of state aid, fiscal measures also play an important role. A part of state aid is usually granted through the tax system or the social security system, and these two categories of aid were almost the exclusive means of aid until 2019. Other categories of aid (interest rate subsidies, loan guarantees, venture capital) have appeared only since the Covid-19 pandemic, and after that, the share of state aid through the tax system has been negligible, as can be seen in Figure 2.

⁵⁷ The list of valid and effective notified state aid schemes, including those in the Recovery and Resilience Plan, is published by the Antimonopoly Office. *Platné a účinné notifikované schémy štátnej pomoci* [Online]. Available at: <https://www.antimon.gov.sk/platne-a-ucinne-notifikovane-schemy-statnej-pomoci/?csrt=12574912037303696216> (Accessed: 30 October 2023).

Figure 2: Categories of state aid paid



Data Source: Antimonopoly Office of Slovak Republic

The tax regime in Slovakia contains a number of institutions that should also be considered in the context of (presumed or potential) state aid.⁵⁸

First, individual forms of aid exist as tax relief or remission of tax debt under Art. 70 of the Tax Procedure Code and relief or remission of sanctions under Art. 157 of the Tax Procedure Code. In both cases, relief or remission is possible only in accordance with the State Aid Act. In the first case, relief or remission may be granted to a natural person only if its recovery poses a serious threat to the livelihood of the taxpayer or persons dependent on the taxpayer; it cannot be applied to VAT or excise duties. It is decided by the tax administrator and may be subject to certain conditions, particularly the obligation to pay part of the tax debt within a certain period. The second case applies to both natural and legal persons and is based on three grounds: (i) the same as the above ground of a serious threat to the livelihood of the taxpayer or persons dependent on the taxpayer (the financial administration authority is obliged to approve the relief/remission); (ii) if its payment would lead

⁵⁸ Particularly problematic in the past were the so-called tax holidays, which were granted on the basis of a statutory mandate (to exempt from income tax newly established taxpayers that pay income tax to the state budget), in particular, the exemption under Government Regulation No. 192/1998 on the conditions for exempting newly established taxpayers from corporate income tax, which, based on the definition of the conditions, essentially applied to a single taxpayer – Volkswagen Slovakia (Kicová, 2011), and which, before Slovakia's accession to the EU, was assessed by the Commission as state aid, and to which the Government of the Slovak Republic had to respond. *Návrh postupu pri ďalšom uplatňovaní nariadenia vlády SR č. 192/1998 Z. [...] [Online]. Available at: <https://lrv.rokovania.sk/2091/13/> (Accessed: 30 October 2023).*

to the termination of the taxpayer's activities and, in the case of a legal person, the proceeds from its liquidation would probably be less than the sanction imposed; and (iii) if the sanction is imposed because the taxpayer has declared the tax liability incorrectly or has failed to pay the liability on time as a result of an incorrect application of the law.

In the latter two cases, the decision is left to the discretion of the financial administration authority. The difference also lies in the fact that not only the tax administrators, but also the Financial Directorate and the Ministry of Finance decide on the relief or remission of the sanction (the material competence is determined by the amount of the sanction to be remitted). This regime is subject to notification and subsequent approval by the European Commission. However, a tax advantage may also be granted by inaction, that is, by not collecting the tax debt,⁵⁹ which is an aspect to be seriously considered in view of the amount of tax debt registered for individual taxpayers.⁶⁰

In contrast to these general institutions of the Tax Procedure Code, the Income Tax Act also recognises more specific forms of individual state aid, namely tax relief for recipients of investment aid under Section 30a of the Income Tax Act and tax relief for recipients of incentives under Section 30b of the Income Tax Act.

Tax relief for recipients of investment aid is granted as a form of investment aid pursuant to Act No. 57/2018 on regional investment aid, amending certain acts. Under this scheme, investment aid is granted to support the implementation of an investment project in industrial production, in a technology centre, or in a business service centre. A taxpayer to whom a decision on granting investment aid with tax relief has been issued, may, after fulfilling the conditions (set out both in Act No. 57/2018 and in the Income Tax Act), claim tax relief up to the amount of tax attributable to a proportionate part of the tax base calculated according to a formula considering the eligible investment costs incurred by the taxpayer. The amount of tax relief may not exceed 20% of the value of the total approved investment aid in the form of tax relief, and the taxpayer may claim tax relief for a maximum of ten consecutive tax years. If the conditions are not met, the right to the tax relief lapses, and the taxpayer is obliged to submit a supplementary tax return for all tax periods in which the tax relief was claimed.

Tax relief for recipients of incentives is granted in the form of incentives in accordance with Act No. 185/2009 on incentives for research and development, amending Act No. 595/2003 on income tax, as amended, which constitutes a state aid scheme. A taxpayer to whom a decision on granting incentives has been issued may, for each tax period during the period for which the decision has been issued, claim tax relief up to the amount of the costs reported in the financial statements and paid from its own resources for the purpose of the project for which the incentives have been granted, which *de facto* limits the amount of the approved aid by the

59 Úradník, 2019, p. 350.

60 Their lists are published by the financial administration and by individual municipalities.

Income Tax Act.⁶¹ The main conditions are the establishment of a new R&D facility or the extension of an existing R&D facility. If these conditions are not met, this will result in a reduction or lapse of the tax relief (depending on the extent of the effect on the tax base) and the obligation to file a supplementary tax return. In both cases, the recipient of the investment aid/incentive may be an enterprise, regardless of its size (including a micro-taxpayer).

However, it is necessary to mention three other forms of tax relief or reduction of the tax base.

The first is deduction of R&D expenses (costs) under Section 30c of the Income Tax Act, that is, the so-called super-deduction, which allows enterprises to deduct 100% of the R&D expenses (costs) incurred in the relevant tax period when implementing a specific R&D project, under certain conditions, if they have already not claimed tax relief under Section 30b and the expenses are not expenses for which (even partial) aid has been granted from public sources.

The second is tax relief for registered social enterprises pursuant to Section 30d of the Income Tax Act, under which a taxpayer that is a registered social enterprise in the form of a public utility enterprise pursuant to Act No. 112/2018 may claim a tax relief on economic activity in the amount of the percentage of the obligation to use profits to achieve its main objective for the tax period in which it has been granted the status of a registered social enterprise as of the last day of the tax period, if it has already not claimed tax relief under Section 30a or Section 30b or a deduction of R&D expenses (costs) under Section 30c, and if it is not a recipient of an assignment tax.

The third is deduction of investment expenses (costs) under Section 30e of the Income Tax Act, where the taxpayer-enterprise, when implementing an investment project (investment in a production and logistics system), may deduct a certain percentage of the expenses (costs) from the depreciation of the investment, depending on the planned percentage of realisation of the average value of the investment (ranging from 15% to 55%); however, this scheme cannot be combined with the deduction of R&D expenses (costs) under Section 30c.

A more interesting aspect of fiscal state aid may be various sectoral taxes, where the introduction of a special tax on retail chains by Act No. 385/2018 on a special tax on trade chains, amending Act No. 595/2003 on income tax, as amended, resonated. The tax applied to retail chains as a group of retail establishments using the same or interchangeable trade name and operated by the same entrepreneur or by entrepreneurs related to each other in terms of ownership or personnel, if they are food traders, have establishments in at least 15% of all districts, generate at least 25% of their net turnover from the sale of food to the final consumer, and their establishments have a uniform design, common communication, and common marketing activities.

61 Úradník, 2019, p. 353

The basis for the tax was the net turnover, excluding the turnover of establishments in the least developed districts with a maximum of 10 employees and in municipalities with a maximum of three establishments selling food to consumers. The tax rate was 2.5%. However, the effect of the tax was short-lived, as it was to apply from 2019, but was immediately abolished in April 2019.⁶² This was a result of an in-depth investigation by the Commission into the compatibility of the tax with state aid rules. The Commission concluded that the tax constituted state aid and that the retail turnover tax was selective in that it favoured categories of enterprises that were not subject to the tax according to the established criteria, compared to enterprises that were obliged to pay it, and issued an injunction suspending the state aid.⁶³ Slovakia responded by repealing the relevant part of the Act, and the Commission closed the case.⁶⁴ Thus, in the case of tax advantages in the context of state aid, the main issue is to assess the selectivity of the advantage, since the other three conditions for state aid (aid attributable to the State and financing from the State funds, conferring of an advantage, distortion or threat of distortion of competition and effect on trade between Member States) are already *prima facie* met in many cases. As the Commission pointed out, with regard to this specific tax, according to the settled case law of the Court, the assessment of the condition relating to the selectivity of the advantage concerned requires a determination, in the first place, of whether, under a given legal regime, a national measure is such that it favours ‘certain undertakings or the production of certain types of goods’ over other undertakings, which, in the light of the objective pursued by that legal regime, is in a comparable factual and legal situation and which accordingly suffers differential treatment that can essentially be described as discriminatory;⁶⁵ therefore, it is necessary to identify the ordinary or ‘normal’ tax system applicable in the Member State concerned, that is, the so-called ‘reference system’, and thereafter demonstrate that the tax measure at issue is a derogation from that ordinary system, insofar as it differentiates between operators who, in the light of the objective pursued by that ordinary system, are in a comparable factual and legal situation. In another case, an aid scheme for the reduction of excise duty rates on biofuels was approved in 2017, where the Commission found the measure to be compatible with state aid rules.⁶⁶

As mentioned above in the Frucona case, the write-off of part of tax debt in the context of a restructuring (arrangement) is another case where the state aid rules conflict with the functioning of tax institutions. However, unlike Frucona, similar cases exist with a similar factual basis, such as Konas, where the Commission admittedly

62 For more details, see: Popovič, 2019.

63 State aid SA.52194 (2018/FC) – Slovak Retail Turnover Tax. Invitation to submit comments pursuant to Art. 108 para. (2) of the TFEU, 2019/C 194/03.

64 Commission Decision (EU) 2019/2140 of 21 October 2019 on State aid SA.52194 – 2019/C (ex 2018/FC) – Slovak Republic – Slovak Retail Turnover Tax (notified under document C(2019) 7474).

65 CJEU, 19 December 2018, Case C-374/17, *Finanzamt B v. A-Brauerei*, ECLI:EU:C:2018:1024, para. 35, and case law cited.

66 State Aid SA. 49509 – Slovakia – Preferential taxes for biofuels, C(2017) 9107 final.

considered the write-off of part of the unpaid tax in the context of an arrangement procedure as unlawful state aid in breach of Art. 88 para. (3) of the EC Treaty (as in the previous case, the market economy creditor test was not fulfilled), but at the same time compatible with the common market as restructuring aid (after assessing the comprehensiveness of the restructuring plan), provided that its granting was conditional on implementation of the restructuring plan.⁶⁷

However, other known cases where the Commission did not approve notified proposed investment aid also exist, such as the proposed regional investment aid in the form of tax relief under Section 35a of the former Income Tax Act⁶⁸ in favour of Alas Slovakia, s.r.o., amounting to approximately EUR 2.9 million in 2008, on the grounds that the regional contribution of the proposed aid was not sufficient to outweigh the distortion of competition that would result from granting a selective advantage to one large company.⁶⁹ For similar reasons, the Commission did not approve the same type of tax relief amounting to approximately EUR 1.16 million in 2007 for Glunz & Jensen.⁷⁰ In most cases, however, the Commission does not have any comments on the notified proposed state aid in Slovakia or concludes, after opening an investigation, that no state aid is involved.

4. Conclusion

State aid policy and rules have been gradually developed since 2004, when Slovakia accessed to the EU. The current national legislation therefore reflects not only the implementation of EU legal acts, but also the case law of the Court of Justice of the EU in the two most important cases concerning Slovakia (Frucona, NCHZ). The problems of insufficient reduction of regional disparities and excessive sectoral bias of aid were perceived as major shortcomings in the pre-crisis period, but are no longer perceived as a key problem in times of crisis.

Over the past three years, state aid law has adapted significantly to the demands of times of crisis. Legislators at both European and national level had to react quickly to the impact of the COVID-19 pandemic and the armed conflict in Ukraine. To this

67 2007/204/EC: Commission Decision of 26 September 2006 on State aid C 42/2005 (ex NN 66/2005; ex N 195/2005) implemented by the Slovak Republic for Konas, s.r.o. (notified under document number C(2006) 4205).

68 Act No. 366/1999 on income tax, effective until the end of 2003.

69 2008/734/EC: Commission Decision of 4 June 2008 on State aid C 57/07 (ex N 843/06) which the Slovak Republic is planning to implement for Alas Slovakia, s.r.o. (notified under document number C(2008) 2254).

70 2008/551/EC: Commission Decision of 11 December 2007 on State aid C 12/07 (ex N 799/06) planned by the Slovak Republic for Glunz & Jensen s.r.o. (notified under document number C(2007) 6045).

end, various aid schemes have been used effectively, of which the Recovery and Resilience Plan is prominent. However, it is premature to evaluate this mechanism at this stage, as its disbursement is possible only until 2026.

At this stage, only limited prediction can be made about the future development of state aid rules. However, the logical assumption is that the crisis period will be over and a return to the pre-crisis period and a reduction in the forms of state aid to direct and indirect aid can be expected, as in 2020.

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