



**EUROPEAN COMMISSION**  
REPRESENTATION OF THE EUROPEAN COMMISSION IN SLOVAKIA

Representation Bratislava

## **SUMMARY OF KEY IDEAS FROM THE CONFERENCE “HOW TO SUSTAINABLY INCREASE EMPLOYMENT IN SLOVAKIA”**

**September 22<sup>nd</sup> 2015 in Bratislava**

### **Political panel**

- In Europe there are over 12 million people who do not have work for one year or more. In Slovakia, according to the data from the first quarter of 2015, there were 61% of unemployed who did not work for at least one year and 43% who did not work for at least two years.
- The Head of Representation of the European Commission in Slovakia Dušan Chrenek considers the long-term unemployment to be a chronic problem of the Slovak labour market. He said that the long-term unemployment rate in Slovakia is despite recent decline almost double the EU average. The European Commission released in September 2015 specific proposals to help long-term unemployed in their registration, individual assessment, and offering the integration agreement before the end of 18<sup>th</sup> month of their registration at the Labour Office.
- The State Secretary of the Ministry of Labour, Branislav Ondruš, stated that the recent decline in the overall unemployment rate in Slovakia is accompanied by an increasing share of extremely long-term unemployed, i.e. people who do not work for at least two or three years. Among them there are mostly low qualified people who have only primary education or secondary vocational education. According to age structure, the highest share of long-term unemployed is in the age group 50+ but the share of people under 30 years is also growing.
- The Ministry of Labour plans launching pilot projects on (1) requalification and (2) activation of these people in 2016. The requalification programs should equip unemployed with new skills. The Ministry plans to involve employers in the evaluation of quality of these programs. The activation programs should be focused on building and/or regaining working habits. The main tools to be used are social enterprises established by the municipalities. The Ministry plans to support the creation of social enterprises with (1) advisory services to overcome the administrative barriers, (2) subsidies to cover part of personnel costs at least during first months, and (3) loans and guarantees. The pilot projects should be funded from the Slovak Investment Holding and from the EU structural funds.
- The Ministry of Labour also plans to further decrease labour costs for long-term unemployed. However, State Secretary mentioned that according to recent results high labour costs do not seem to be a crucial barrier for the integration of long-term unemployed. He based his assumption on the fact that the temporary payroll-tax allowance for long-term unemployed introduced in 2013 has been used by fewer people than originally expected.

- Member of Parliament from the liberal party Freedom and Solidarity (SaS) and former Minister of Labour, Jozef Mihal thinks that to tackle the problem of long-term unemployed more radical measures that go beyond providing massive employment subsidies are needed. He is of the opinion that a high minimum wage is the biggest barrier to the integration of long-term unemployed. Among solutions, he proposed to decrease labour costs and to introduce simpler employment arrangements for small firms and self-employed. As an example he referred to the recent amendment to the Act on Sport which introduces more liberal Labour Code arrangements for sportsmen.
- The Chairman of the Labour Union KOVO Emil Machyna did not agree that the minimum wage and the inflexible Labour Code are the real barriers to higher employment. In his opinion, the biggest barriers for businesses to employ more people are secondary insolvency and problems with liquidity. He argued for support of small and medium enterprises, more investment in science and research, as well as in dual education. He also insisted that Slovakia has the highest working time in the EU after the UK. In industry it should be 180 hours monthly per an employee including overtime hours. According to Mr. Machyna, there would be work for significantly more people (30-40k) if overtime hours were cut.
- On the other hand, the Vice-President of the Association of the Employers' Unions (AZZZ) Rastislav Machunka refused that cutting overtime hours would solve the problem. He explained that employers in Slovakia lack skilled labour force and cutting overtime would only decrease their productivity and, consequently, economic growth. Mr. Machunka also insisted that the minimum wage is not a problem for big firms; however, he admitted it might be a problem for small employers. Among the biggest barriers to higher employment in big firms he mentioned unqualified labour force and high prices of electricity and gas for businesses.

### Expert round-table

- In a survey among 18 economic analysts<sup>1</sup>, the most efficient measure to sustainably increase employment in Slovakia was to “measure and publish the efficiency of adopted measures, to phase-out inefficient measures and to support the most efficient measures”. In the round table discussion, the experts repeatedly complained about the lack of data and lack of analysis evaluating what is working and what is not. The evidence-based analysis is needed for a broad spectrum of measures including the active labour market policies, the evaluation of Labour Offices efficiency, developing transport infrastructure, or different kinds of subsidies to employers.
- Several experts highlighted the importance of the second most efficient measure from the survey which was a “reduction of administrative burden especially for small firms, e.g. cancelling the mandatory working health service, easing regulations, as well as the hygiene and security requirements and mandatory reporting to official authorities”.
- In the long-term, the ageing population will have crucial negative impact on employment, because of the lower flexibility of older people in the labour market. In around seven years we will discuss about what to do to keep the employment at least on the same levels instead of about how to increase it.
- Possible solutions:
  - More flexible immigration rules should be applied making it easier to come and work in Slovakia especially for better educated people. For a small country in the euro area it is particularly important to have a flexible labour market. The labour market flexibility can be

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<sup>1</sup> Check this file for complete survey results: [http://www.ineko.sk/file\\_download/885](http://www.ineko.sk/file_download/885)

- improved by reducing administrative barriers through (1) harmonizing regulations for paying the social and health care contributions and (2) recognizing qualifications in more than 150 regulated professions (e.g. university professor).
- Reducing tax burden on labour force should be considered. Due to higher flexibility of capital compared to labour there has been a strong pressure to increase labour taxation which has negative effect on employment.
  - In the long-term, the integration of marginalized Roma population in the labour market will have an important impact on employment. To face this challenge and improve the measures' targeting, some analysts emphasized the need for collecting ethnic data about unemployed and inactive people. The higher enrolment of Roma children in pre-school facilities would also help. In the discussion, some analysts proposed to condition the payment of part of social (poverty) benefits to the enrolment of children in pre-school facilities, or even to order mandatory enrolment in case of neglected children.
- To solve long-term unemployment, some experts recommended running the focus groups with long-term unemployed to better understand their motivations. The Institute for Finance Policy at the Ministry of Finance considers following solutions as the most important: (1) improving the transport infrastructure, (2) Roma integration in the labour market, and (3) integration of people with low education.
  - Regarding the transport infrastructure, some analysts pointed out that the investment in building new highways is crowding out the investment in maintenance of the existing infrastructure. In many cases, the bad shape of the existing infrastructure may be even a bigger barrier to higher employment. The decisions on building new or improving the existing infrastructure should be based on publicly available analysis of the investment's efficiency.
  - As for the low-educated people, some analysts proposed to order mandatory enrolment in secondary education facilities for at least one year. The data on unemployed show that the chance for finding a job increases substantially with secondary education. The solution might include prolonging the compulsory school attendance from 11 to 12 years.
  - To help low-qualified unemployed, more funding of training programs should be considered. Slovakia pays out little money (as a share of GDP) on active labour market policies. Limited budget is given on training which is considered to be the most efficient policy.
  - Several existing measures have not brought significant results:
    - The temporary payroll-tax allowance for long-term unemployed has lower than expected use. Some experts pointed out that it is leaving the workers without social coverage for a given period (e.g. the sickness, disability, and pension benefits), increasing the risk of poverty.
    - The health care tax allowance effective from 2015 has been used to a very limited extent. The problem seems to be in its design. For example, it is not given automatically; the employee has to request it in written. There have been proposed changes to ease the procedures.
    - The system of dual education launched in 2015 has been unsuccessful so far. The schools seem to have weak financial motivation. Moreover, the participating schools often belong among those with the best results in the labour market which means that the effect on reducing the unemployment rate will be minimal.
  - Labour market participation of women with children up to 6 years of age is very low in Slovakia. However, access to quality childcare services is even more limited for children up to 3 years of age

than for children 4-6 years of age which is already below the EU average. The EC and SK experts had slightly diverging views on the causes of this development. According to SK experts, a rather long parental leave is based on traditions and should not be changed. The EC argued that more facilities could boost female employment. Moreover, the statistics of children enrolment in pre-school facilities do not include most of private facilities, because they are not part of the official network. Thus, the real enrolment is somewhat higher. Private facilities face a rather complex administrative procedure to be registered as kindergarten; that is why many chose another title (e.g. care centre or kids club) to escape the excessive burden. Private smaller-scale and flexible facilities (rather than big scale state projects) could be an interesting solution to improve child care accessibility against volatile demographic developments.

- The share of minimum-to-median wage has increased from 44.1% in 2008 to 46.56% in 2014. It is even higher in poorer regions. For example it is 54.32% in the Prešov region in the eastern part of Slovakia. Too high minimum wage may be a barrier to higher employment especially for small firms in poorer regions. According to a survey by NGO INESS among 100 firms, around 20% have responded they would consider new job creation in case of reducing the minimum wage. For eastern Slovakia, the share of such firms was even around 40%. The minimum wage in Slovakia will be 400 EUR monthly in 2016 compared to 366 EUR in the Czech Republic and 358 EUR in Hungary.
- The Labour Offices have low capacities to work with the unemployed directly (approximately 6 minutes per 1 unemployed). The solution might be shifting the work from administrative duties to direct contact with the unemployed.
- Slovakia has low internal geographical labour mobility – around 89% of households live in their own (i.e. not rented) facilities. The trend is positive, but the figure is still well above the EU average.
- Slovakia has very low share of part-time workers on total employment (6.4% in Slovakia compared to 20.7% in the EU28 for the first quarter of 2015). The reasons may be the high tax wedge for people with low income as well as the inflexible regulations of scheduling the working time during a day.

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