

The Slovak labour market during the pandemic – who is at risk and how to protect all workers?

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The COVID-19 pandemic triggered the most severe economic recession since World War II, causing enormous damage to people's health, jobs and well-being. The Slovak economy is expected to decline by more than 11% in 2020 if a second wave of infections requiring renewed lockdowns hits before the end of this year (OECD, 2020a). The pandemic could lead to lasting demand changes and structural shifts in the economy. Real per capita income will fall to the level of 2015, implying a loss of five years of income growth. The unemployment rate will reach almost 10% this year. Around 100 thousand people could lose their jobs, with vulnerable workers at risk to bear the brunt of the crisis. In Slovakia, these high-risk groups include (i) the non-standard workers, particularly the self-employed and the temporary workers, (ii) the marginalised Roma community and (iii) young people. Well-targeted labour market activation policies should be coupled with a strong social safety net, to mitigate the inevitable adjustment costs of moving towards new jobs.

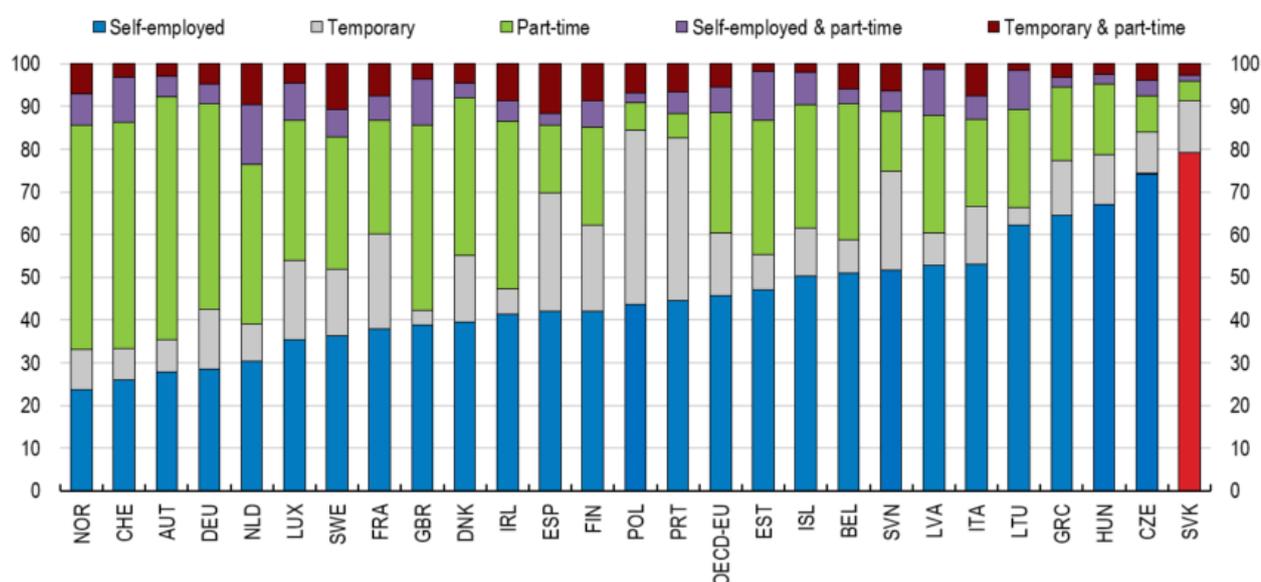
Who is at risk?

Non-standard workers are vulnerable to the loss of income as a result of the widespread shutdown. Since March, approximately 26% to 40% of Slovak workers have been directly affected by containment measures (NBS, 2020; OECD, 2020c). The most affected sectors were tourism and those services involving contact between consumers and service providers. In this

respect, non-standard workers are particularly vulnerable, as they have less protection, they are less likely to receive any form of income support during out-of-work periods than standard employees, and when they do receive benefits they are often significantly less generous than for standard employees (OECD, 2019a).

In Slovakia, non-standard workers accounted for one third of workers directly affected by containment measures, most of them self-employed (Figure 1). Over the last decade, the favourable tax treatment of self-employed workers led to an increase in the number of regular employment contracts disguised as self-employment contracts (Remeta et al, 2015). The share of own account self-employed workers who earn most of their income from just one client is the highest in the OECD (OECD, 2019a). The other group at high risk are temporary workers, particularly the workers with contracts of agreement for work performed outside an employment relationship, so-called 'work agreements'. They have been significantly affected by the initial impact of the crisis (IFP, 2020). These groups are particularly vulnerable as their dismissal is less costly for employers and leaves them with less protection compared to standard workers.

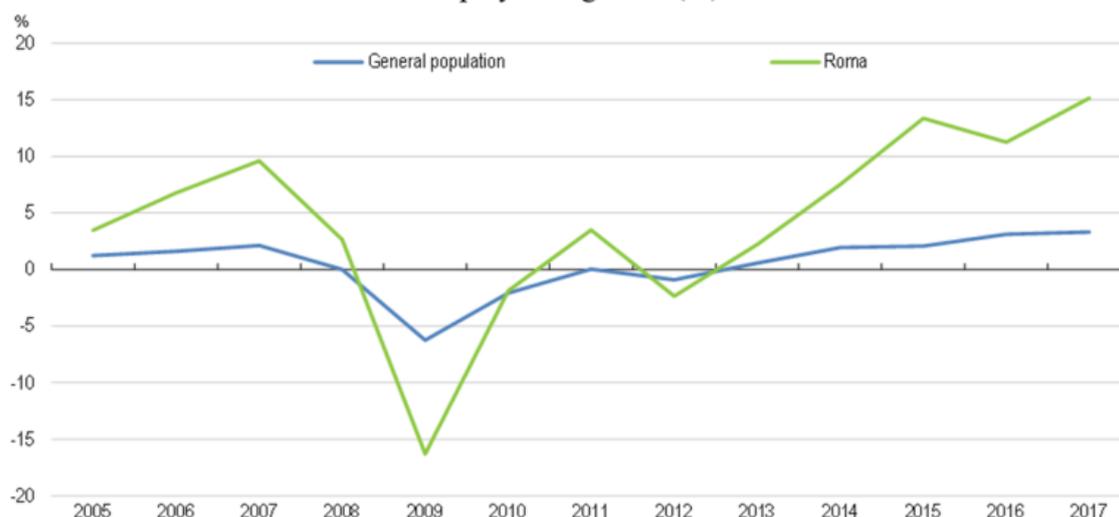
Figure 1. Composition of non-standard workers in activities most affected by containment measures across European OECD countries, percent of non-standard employment in affected sectors, 2018



Source: OECD (2020), "Issue Note 4: Distributional risks associated with non-standard work: Stylised facts and policy considerations", in *Issues notes on macroeconomic and structural policy issues related to the COVID-19 outbreak*, OECD Publishing, Paris, <https://doi.org/10.1787/7f54e942-en>.

The Roma community is highly vulnerable to economic shocks. Roma account for almost one-tenth of the population in the Slovak Republic. Their labour market outcomes are much weaker compared to the general population, but have been considerably improving in the last couple of years (Machlica et al. 2019). However, they remain at particular risk during a downturn as they are mostly low-skilled and work in seasonal, temporary jobs which are much more affected by the economic cycle. Indeed, their employment reacts much more strongly to the economic cycle (Figure 2). In addition, many Roma work in the informal economy, which increases their income insecurity, as they are not entitled to unemployment benefits when they are out of work (Gatti et. al, 2016). All these factors place Roma at a higher risk of falling into poverty when faced with a health or employment shock. This is a significant concern as the vast majority of Roma have been at risk of poverty even before the crisis and almost one-third was living in households where at least one person went to bed hungry in the past month (Machlica et al. 2019).

Figure 2. Employment of Roma is volatile
Employment growth (%)



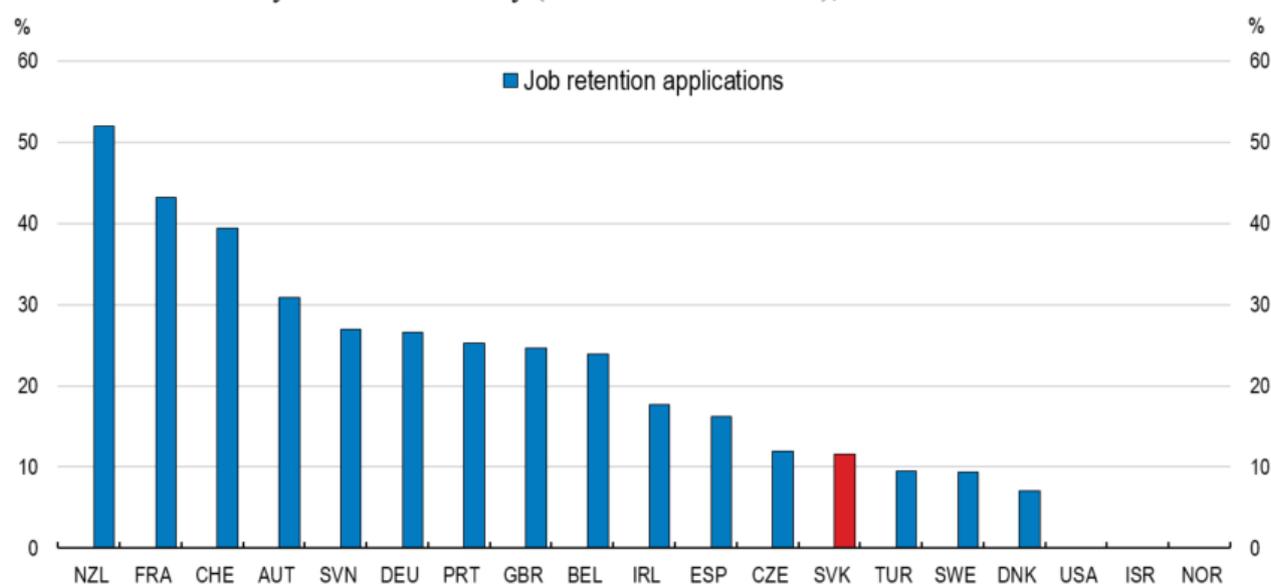
Source: Bednarik, M., S. Hidas and G. Machlica (2019), "Enhancing the social integration of Roma in Slovak Republic", OECD Economics Department Working Papers

The crisis can significantly worsen the labour market prospects of youth as the initial labour market experience can have a profound influence on later working life. This year's graduates will leave schools and universities with poorer chances of finding employment or work experience. This is a particular concern because of scarring effects that may lead to long-lasting negative labour market outcomes (Bell and Blanchflower, 2011; Helbling and Sacchi, 2014). Young people indeed appear most severely affected by the crisis as they generally work in less secure jobs, and are overrepresented among workers in hard-hit industries such as accommodation and food services (OECD, 2020b).

Protecting all workers

The Slovak government has rightly put in place a number of measures in response to the COVID-19 crisis, including incentives to preserve existing jobs, but the take up was much lower than in other OECD countries (Figure 3). These job retention schemes can help limit increases in unemployment and promote a quicker labour market recovery by reducing costs of matching employers to employees. However, this support should not be indefinite as it hampers the necessary reallocation of workers to new jobs (OECD, 2020a). Consumers may emerge from lockdown with new spending habits requiring new jobs, and the long-term preservation of existing jobs may not be efficient. The longer the recovery from the crisis takes, the more should the policy focus shift from “protecting jobs” towards “protecting workers”, providing them with expanded unemployment insurance and an effective activation framework to improve their employability. Strong activation policies can help mitigate some of the inevitable adjustment costs of moving towards new jobs.

Figure 3. Applications for participation in job retention schemes
Early March to end-May (or latest available date), % of labour force



Source: OECD (2020a), OECD Economic Outlook, Volume 2020 Issue 1, OECD Publishing, Paris

Vulnerable groups require special attention. First, the government should ensure adequate social safety nets to avoid the risk of some groups falling through the cracks of existing social protection system as outlined in a recent OECD report (OECD, 2020d) In the medium term, there is a need to enforce a clear distinction between self-employed and employee status. Many OECD countries are tackling false self-employment by reducing incentives for firms and workers to misclassify employment relationships, putting in place tests and criteria for assessing employment relationships and increasing the capacity of labour inspectorates to monitor and detect breaches (OECD, 2019a).

A strong social safety net should be coupled with an extensive activation framework, which in the case of the Roma community should reflect their specific constraints such as poor health, housing and transport issues, indebtedness or limited availability of childcare. Tailored measures should offer a mix of training, counselling and mentoring programmes. Collaborating and outsourcing some of these services to non-governmental providers with a good track record of high-quality support for the Roma can help ease capacity constraints of the Public Employment Services. The OECD report on the social integration of the Roma in Slovakia suggests

that more coordinated interventions in different policy areas are needed to avoid further exclusion of the Roma, as interventions in one area will not work without others (Machlica et al. 2019). For the young unemployed, training complemented by subsidies to private employers offering on-the-job training can improve skills and employability (OECD, 2019b). For example, Australia and Denmark as part of its economic response to COVID-19 have introduced wage subsidies to help companies maintain or expand their apprenticeship and in-firm training programmes (OECD, 2020b).

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