

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

by Gabriel Machlica, OECD Economics Department

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.

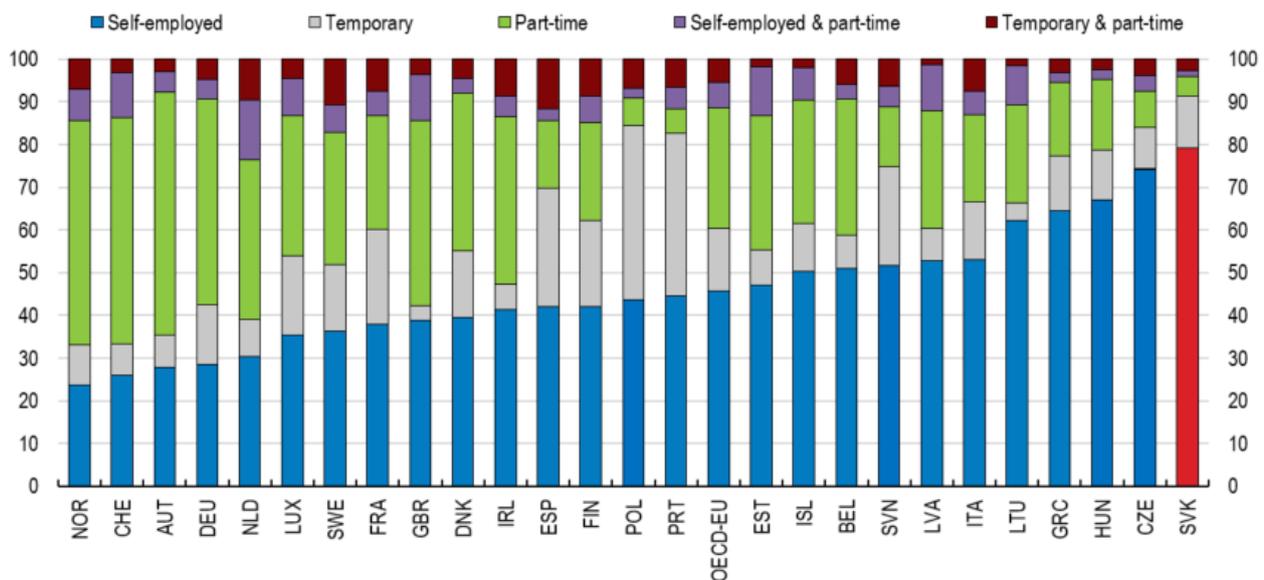
Who is at risk?

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

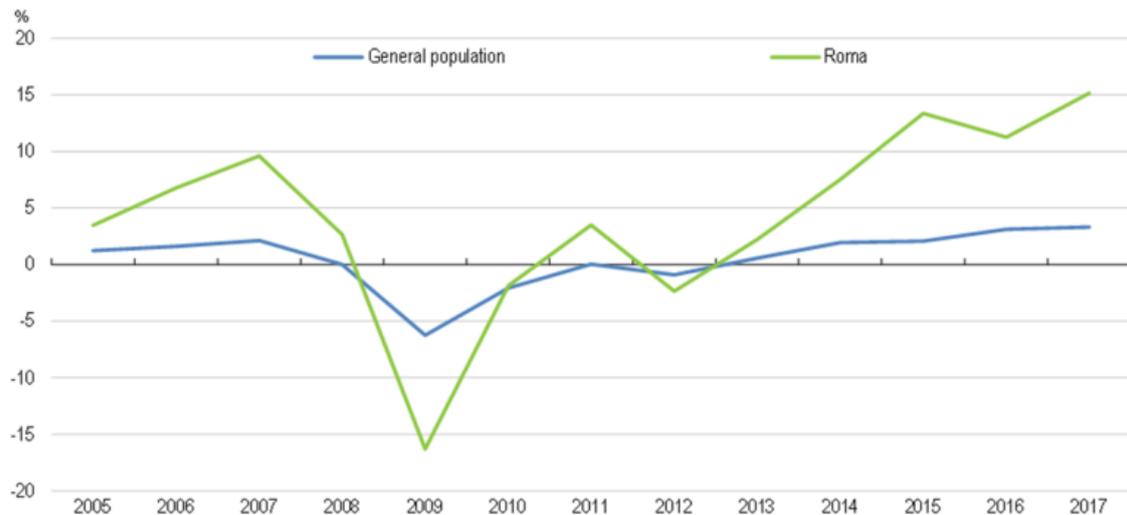


Source: OECD (2020), "Issue Note 4: Distributional risks associated with non-standard work: Stylised facts and policy considerations", in *Issues notes on macroeconomic and structural policy issues related to the COVID-19 outbreak*, OECD Publishing, Paris, <https://doi.org/10.1787/7f54e942-en>.

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

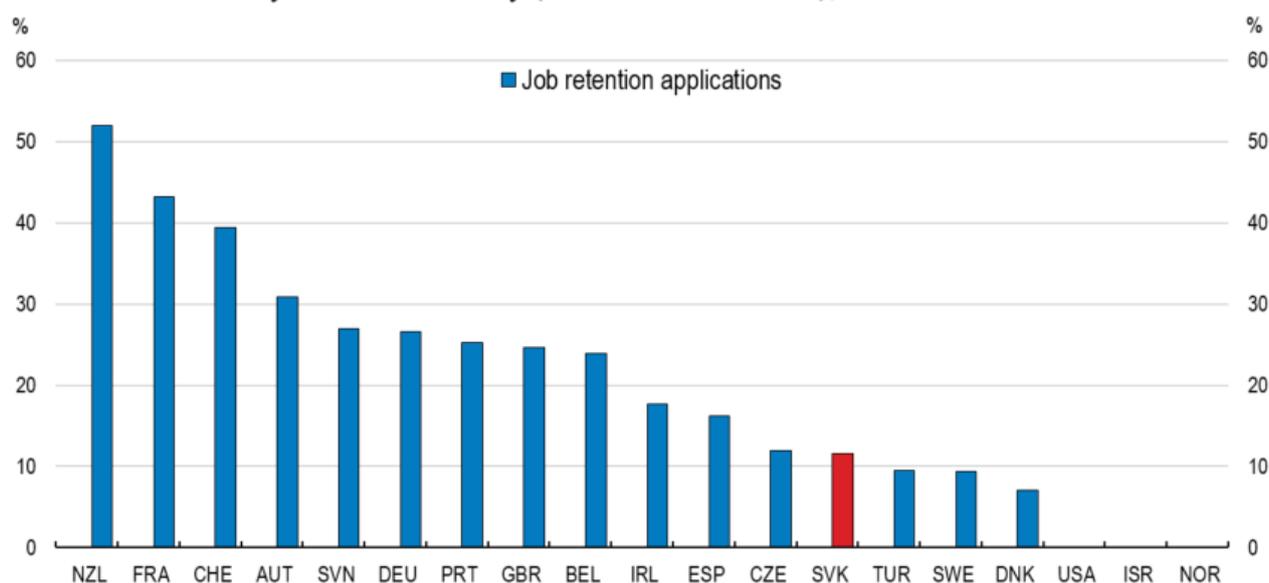
The crisis can significantly worsen the labour market prospects of youth as the initial labour market experience can have a profound influence on later working life. This year's graduates will leave schools and universities with poorer chances of finding employment or work experience. This is a particular 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).

References

Bednarik, M., S. Hidas and G. Machlica (2019), "Enhancing the

social integration of Roma in Slovak Republic”, OECD Economics Department Working Papers, No. 1551, OECD Publishing, Paris, <https://doi.org/10.1787/197eb309-en>.

Bell, D. and D. Blanchflower (2011), “Young people and the Great Recession.” Oxford Review of Economic Policy, Vol. 27/2, pp. 241-267

Gatti, R., S. Karacsony, I. Sandor, K. Anan, C. Ferré and C. de Paz Nieves (2016), Being Fair, Faring Better, Promoting Equality of Opportunity for Marginalized Roma, World Bank, Washington, DC

Helbling, L. and S. Sacchi (2014), “Scarring effects of early unemployment among young workers with vocational credentials in Switzerland”, Empirical Research in Vocational Education and Training, Vol.6/12, <http://link.springer.com/article/10.1186/s40461-014-0012-2>.

IFP (2020), “Trh práce v karanténe” Komentár 2020/10, Institute of Financial Policy, Ministry of Finance of the Slovak Republic, 2020

NBS (2020), “Ekonomické dôsledky uzavretia odvetví s intenzívnym osobným kontaktom”, Analytický komentár č. 81, 4. mája 2020, https://www.nbs.sk/_img/Documents/_komentare/AnalytickeKomentare/2020/AK81_Koronavirus_Obmedzenia_odvetvi_s_intenzivnym_kontaktom.pdf

OECD (2020a), OECD Economic Outlook, Volume 2020 Issue 1,

<https://doi.org/10.1787/0d1dle2e-en>.

OECD (2020b), OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis, OECD Publishing, Paris, <https://doi.org/10.1787/1686c758-en>.

OECD (2020c), “Distributional risks associated with non-standard work: Stylised facts and policy considerations” Chapter English 03 Jul 2020 OECD in OECD Economic Outlook, Volume 2020 Issue 1

OECD (2020d), “Supporting livelihoods during the COVID-19 crisis: Closing the gaps in safety nets” OECD Publishing, Paris, <http://www.oecd.org/coronavirus/policy-responses/supporting-livelihoods-during-the-covid-19-crisis-closing-the-gaps-in-safety-nets-17cbb92d/>

OECD (2019a), OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris, <https://doi.org/10.1787/9ee00155-en>.

OECD (2019b), OECD Economic Surveys: Slovak Republic 2019, OECD Publishing, Paris, https://doi.org/10.1787/eco_surveys-svk-2019-en.

Remeta, J., et al. (2015), “Moving Beyond the Flat Tax – Tax Policy Reform in the Slovak Republic”, OECD Taxation Working Papers, No. 22, OECD Publishing, Paris, <https://doi.org/10.1787/5js4rtzr3ws2-en>.

The social exclusion of Roma in the Slovak Republic calls for immediate policy action

by Gabriel Machlica, Slovak Republic Desk, OECD Economics Department



The Slovak Republic has one of the continent's largest Roma populations. Estimates differ, but it is assumed that they account for about 8% of the population. The Roma communities vary based upon geographic location and the level of integration. Nevertheless, the average level of ethnic segregation is exceptionally high and Roma face social exclusion in almost every aspect of everyday life (Table

1.1.).

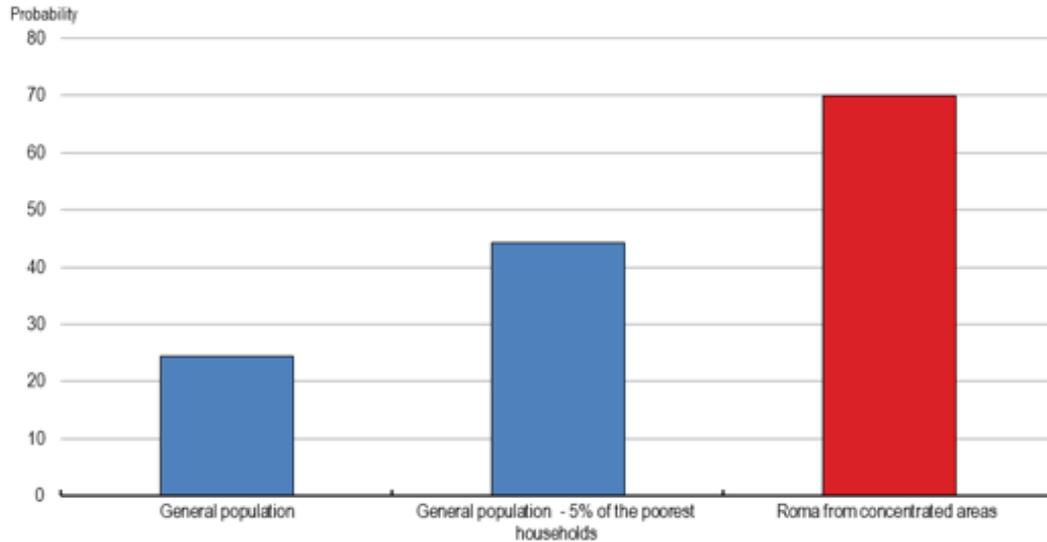
Table 1. Selected indicators of Roma exclusion in Slovakia

	General population	Roma
At-risk-of-poverty rate (%)	13	87
Employment rate, 20-64, (%)	68	25
NEET rate - neither in work nor in education, aged 16-24, (%)	14	65
Drop-out rate from education, (%)	7	58
Share of households living without a toilet, bathroom and shower inside the dwelling	0.6	43
Share of households living in areas affected by crime, violence and vandalism	8.7	30

Source: EU (2016), Second European Union Minorities and Discrimination Survey, Roma – Selected findings, European Union, Agency for Fundamental Rights.

The Roma can be trapped in a cycle of poverty for generations. If a child starts her or his life with limited access to education and lives in poor housing conditions, there is a high probability she will end up in poverty too. Indeed, results for Roma show exceptionally weak upward social mobility between generations. The probability that Roma born in concentrated residential area become unemployed or earn less than minimum wage in irregular work is almost 70%.

Figure 1. Intergenerational mobility of Roma living in concentrated residential areas is low
Probability of being unemployed or earning less than a minimum wage according to parents' economic and ethnic status



Source: OECD calculation based on J. Rizman (2018), "Jabĺko padá ďaleko od stromu", Institute for Financial Policy, Ministry of Finance of the Slovak Republic, Policy Brief, No. 09.

Investment in Roma integration cannot only help improve the well-being of disadvantaged groups, but also yield positive fiscal returns from improved employment prospects. The [Economic Survey of the Slovak Republic](#) shows that increasing the Roma employment rate and their productivity to the level of the general population by the end of 2060 would increase GDP by more than 12% with the economy growing faster on average by 0.3 p.p. per year.

References

OECD (2019), [OECD Economic Surveys: Slovak Republic 2019](#), OECD Publishing, Paris, https://doi.org/10.1787/eco_surveys-svk-2019-en

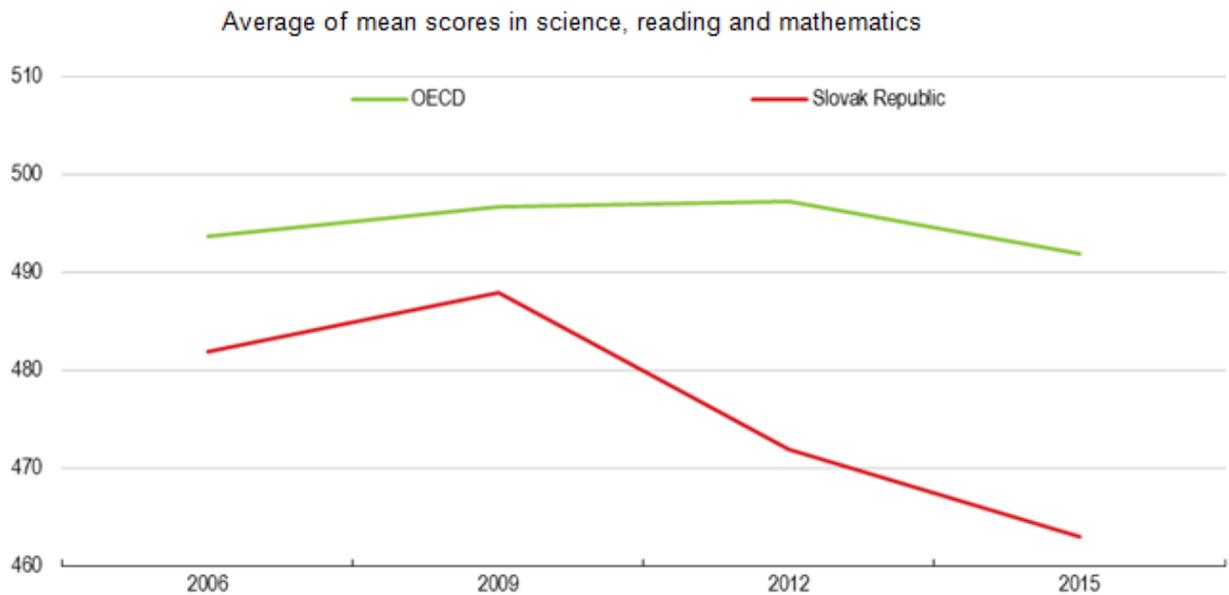
Slovakia...it's time to invest in the future

by Gabriel Machlica, Slovak Republic Desk, OECD Economics Department

The Slovak Republic continues to exhibit robust economic performance. International competitiveness is strong, fiscal and financial policies are prudent, poverty and income inequality are low, and the country's environmental footprint has improved markedly. Employment is rising, prices have been stable, and the external account is near balance. However, there are persistent, substantial public-sector deficiencies, which weigh on the wellbeing of the population and can undermine the sustainability of the economic expansion. These are mostly visible in terms of education and health-care outcomes.

The Slovak education system is not properly preparing students for the labour market. PISA outcomes for 15 year-old Slovaks are weak in international comparison and have deteriorated over time (Figure 1). At the same time, secondary schools fail to overcome the differences in learning outcomes stemming from students' socio-economic backgrounds. Almost one-third of 15 year-old Slovak students did not obtain even a basic level of proficiency in assessed subjects. This is worrying, as weaker students have limited access to employment and better paying jobs. Slovak tertiary education is among the weakest in the OECD. University research quality as measured by international rankings is low even in a regional comparison. As a result, an increasing number of students choose to study abroad to get a better education.

Figure 1. Students' education outcomes are weak and deteriorating

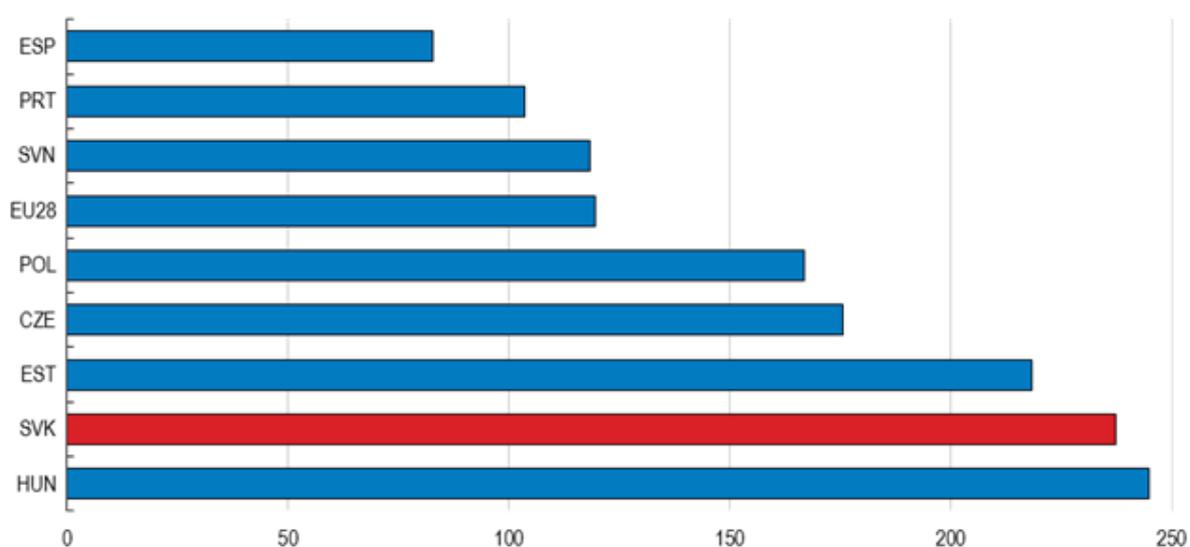


Source: OECD (2016), *PISA 2015 Results (Volume I): Excellence and Equity in Education*.

Regarding health-care outcomes, Slovakia ranks poorly in international comparisons. Life expectancy at birth is shorter than in countries with similar or lower living standards. Life expectancy at 65 and health-adjusted life expectancy are among the lowest in the OECD. Infant mortality is high and more people in Slovakia die of diseases that could have been prevented (Figure 2). Improving the health-care system could bring large gains in well-being. For example, improving it to the EU level could save about 5000 lives per year.

Figure 2. Preventable mortality¹

Deaths per 100 000 inhabitants, 2013



1. Defined as deaths from selected disease groups that could have been potentially avoided through good quality health care. Data based Eurostat's list.

Source: OECD (2016), *OECD Health Statistics (database)*; Eurostat (2016), *Health Statistics (database)*.

Over the last decade the Slovak economy has improved markedly in terms of macroeconomic fiscal and financial-stability outcomes. Nevertheless, it is important to undertake significant reform of the public services, especially education and health care, in order to spread the benefits of solid economic performance more equitably across Slovak society.

Further reading:

OECD (2017), [OECD Economic Surveys: Slovak Republic 2017](http://dx.doi.org/10.1787/eco_surveys-svk-2017-en), OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_surveys-svk-2017-en

Šiškovič, M. and M. Játi (2015), "Čo skutočne merajú medzinárodné rebríčky vysokých škôl", *Komentár* 01/2015, Inštitút vzdelávacej politiky, Ministerstvo školstva, vedy, výskumu a športu SR.

U21 (2016), *Ranking of National Higher Education Systems*, Melbourne Institute of Applied Economic and Social Research, University of Melbourne.

Where should Slovakia look for workers?

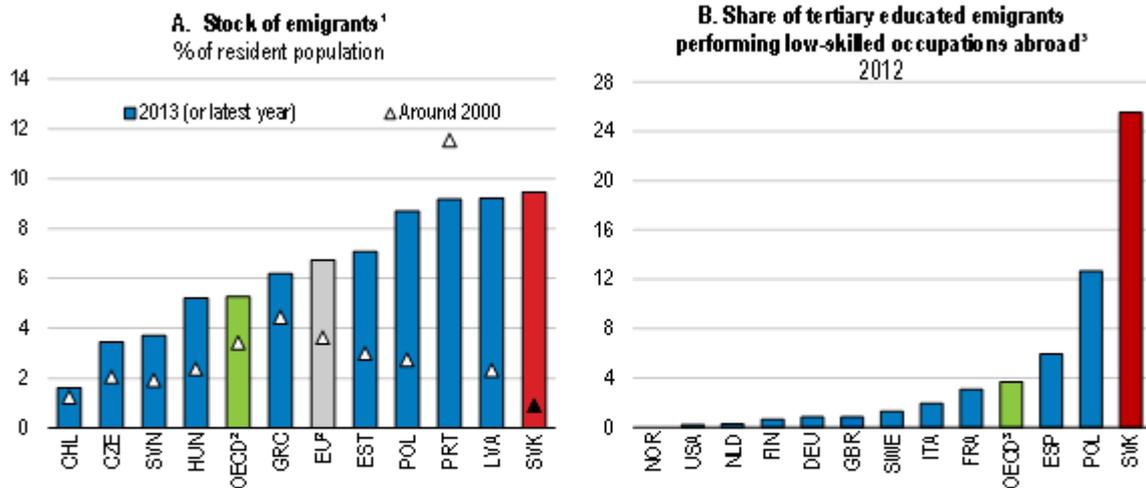
by Gabriel Machlica, Slovak Republic Desk, OECD Economics Department

Slovakia's economy continues to perform extremely well. More and more people are able to find jobs. Employment and hours worked are already at the highest since independence. The unemployment rate has fallen below historical norms. Nevertheless, more qualified people are needed. Difficulty in hiring qualified labour has become the main complaint of Slovak businesses. Shortages affect over half of all manufacturers and are particularly acute in the automotive sector. More than 80% of the sector's suppliers signalled that labour availability and quality are major problems. Moreover, the demand for qualified IT workers is estimated to be four times the supply.

In this regard, [the 2017 Slovak Economic Survey](#) argued that the authorities should step up efforts to improve education, ease barriers for foreign workers and enhance labour market access for disadvantaged groups. At the same time, more focus should be placed on the large Slovak diaspora and encourage them to return home.

Almost one-tenth of the population now lives abroad, which is well above the OECD average (Figure 1, Panel A). Most of them left the country in the last decade. Slovak emigrants are mostly young and educated. Unfortunately, many Slovak emigrants with tertiary education work in low skilled jobs abroad (Figure 1, Panel B), which represents sunk costs for the education system.

Figure 1. The stock of emigrants is internationally high



1. Emigration stocks are computed with reference to a sample of 34 OECD countries of destination for which immigrant data by country of birth (stocks) are available.
2. Unweighted average.
3. Skilled and elementary occupations are defined based on the ISCO classification.

Source: OECD (2016), *OECD International Migration Statistics (database)*; OECD (2016), *OECD Economic Outlook: Statistics and Projections (database)*; Eurostat (2016), *Population Statistics (database)*; OECD (2013), *OECD Skills Outlook 2013 Database*; and

The government should try harder to attract return migrants. Although there are already two schemes to do so, they both support only a limited number of individuals with marginal impact. The authorities should scale up these programmes and monitor their effectiveness to ensure continuing good value for money. More importantly, the government should also develop a comprehensive strategy to maintain ties with the large expatriate community. A new information system could connect with the diaspora and facilitate its engagement. It should be able to target and address emigrants soon after emigration, as the probability of return decreases after five years of living abroad. Many OECD countries are providing online portals with details on job, training and business opportunities. These portals also help young adults studying abroad find information about work and internship offers back home, and companies could use the contact network to find employees among those studying abroad.

Encouraging emigrants to return home can help to increase the supply of skilled labour. This will address labour shortages. At the same time return migrants can bring home new skills,

networks and financial capital, which can help spur innovation and growth.

Further reading:

OECD (2017), [OECD Economic Surveys: Slovak Republic 2017](http://dx.doi.org/10.1787/eco_surveys-svk-2017-en), OECD Publishing, Paris.
http://dx.doi.org/10.1787/eco_surveys-svk-2017-en

Pungas, E., O. Toomet, T. Tammaru and K. Anniste (2012), "Are Better Educated Migrants Returning? Evidence from Multi-Dimensional Education Data", *NORFACE Migration Discussion Paper*, No. 2012-18.
www.norface-migration.org/publ_uploads/NDP_18_12.pdf