



## **Joint Assessment of Employment Priorities in the Slovak Republic**

26 November 2001

In accordance with the provisions of the Accession Partnership, the Government of the Slovak Republic has prepared, with the European Commission, Directorate General for Employment and Social Affairs, a Joint Assessment of Slovakia's short-term employment and labour market policy priorities. This document presents an agreed set of employment and labour market objectives necessary to advance the country's labour market transformation, to make progress in adapting the employment system so as to be able to implement the Employment Strategy and to prepare it for accession to the European Union. Progress in the implementation of these policies will be assessed regularly.

*(signed)*

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**Minister of Labour, Social Affairs and**  
**Family,**  
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*(signed)*

**Mrs Anna Diamantopoulou**  
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## **Introduction**

In accordance with the provisions of the Accession Partnership the Commission is carrying out employment policy reviews in the candidate countries. The objective of these reviews is to examine, in collaboration with the appropriate authorities in each country, the extent to which candidate countries have made progress in adapting their employment systems so as to be able to implement the European Employment Strategy.

The reviews aim to provide information, for the use of the candidate country and the Commission, on the following questions:

- Are the labour market structures that are already in place appropriate to participation in the Single market?
- Are labour market and employment policy institutions sufficiently developed to allow an early implementation of the employment strategy in line with the Employment Title of the Treaty?
- Is the overall system in the respective candidate country moving towards a meaningful participation in the EU employment co-ordination process?
- What are the priorities for human resources development strategy as a background for preparatory work for ESF or ESF type action planning and programming?

The starting point in the Employment Policy Review is to agree on a Joint Assessment Paper, whose focus is on the fundamental challenges in the field of employment. These challenges consist, first, in recognising that labour markets should reflect the needs of a dynamic market economy as part of a single market, in particular whether labour is mobile, adaptable and skilled. The second challenge is to have policies and appropriate institutions that support the development of a flexible labour market. This includes the need to promote a forward-looking approach to industrial restructuring to adapt to knowledge-based economies and to face the impact of demographic change.

The principal tasks of the exercise are summarised under four sections. Section 1 provides a brief description of the economic performance. Section 2 examines the overall labour market situation and the progress made in labour market transformation. Section 3 identifies major challenges and Section 4 draws together the overall conclusions from the review

## **1. Economic Background**

After the social and political changes at the end of 1989, there was initial rapid progress with the reform of the Slovak economy, as a part of Czechoslovakia, into a functioning market economy capable of successfully competing with growing European and global competition. The substantial economic turmoil arising from the division of Czechoslovakia in 1993 temporarily halted the initial positive results of the transition process. Initially, thanks to a restrictive monetary policy and a devaluation of the currency, a relatively stable macroeconomic framework was preserved. However, structural reforms, including privatisation and restructuring of the banking and enterprise sectors, were gradually slowed down.

From 1994 onwards, the Slovak economy recorded high GDP growth, even compared with other transition economies. Initially, the growth was mainly due to an increase in the utilisation of industrial capacity, after its temporary decline during the transformation recession between 1990 and 1993. However, soon this growth started to encounter obstacles and maintaining its dynamics required substantial investment. As a result of rising government deficits and too expansive monetary policy, combined with a steep increase in investment, economic growth became more and more unbalanced. Starting in 1996, the current account deficit increased to more than 10% of GDP, leading to a rapid build-up of gross external debt. The growth of GDP slowed from over 6% in 1996 and 1997 to 4% in 1998 and less than 2% in 1999. GDP growth in 2000 was 2.2%.

Inflation was kept at a relatively low level compared to other transition economies in the 1994-1998 period. CPI inflation gradually fell from 11.7% in 1994 to 5.6% at the end of 1998. However, low inflation was only possible at the cost of a restrictive monetary policy in 1997-98 and postponing the increase of regulated prices, mainly in the energy sector. This delay distorted relative prices, resulting in the inefficient allocation of resources.

While the public finance deficit remained under control between 1994 and 1996 and did not exceed 2% of GDP, fiscal policy was substantially eased in 1997-98. The general government deficit reached more than 5% in 1998. Priorities were set incorrectly in fiscal planning, in particular the pace and extent of infrastructure construction projects exceeded the capacity to finance them from internal sources. In addition, the ineffective reform of the state administration was costly, and, despite its gradual transformation, the social security system continued to be easy to abuse and insufficiently targeted.

Despite an investment ratio of close to 40% of GDP, there was no real restructuring of Slovak industry because a large proportion of the investment was placed into infrastructure projects. The creation of the institutions of a functioning market economy and of an effective legal and judicial system that would ensure the enforcement of laws was neglected by the authorities. In addition, the chosen methods of privatisation did not generate strong and effective ownership of enterprises, leading to weak internal corporate governance. External governance mechanisms did not function either because pressure from creditors remained weak, due to the pervasive presence of politically influenced state-owned banks and the lack of a functioning bankruptcy framework. As a result, enterprise profitability deteriorated rapidly and rising bad debts threatened the survival of the banking sector.

By the end of 1998, the lack of structural reforms and the ensuing macroeconomic imbalances had become unsupportable in a deteriorating international environment after the Russian crisis. As a consequence, the fixed exchange rate regime had to be abandoned in October 1998, and the government that was formed at the end of 1998 launched a new economic programme. The two main lines of the programme were a reduction of excessive domestic demand, including the government deficit, in order to bring the balance of payments back under control, and an acceleration of structural reforms to make the economy more competitive.

The initial results in 1999 and in 2000 have been positive. The reduction of the budget deficit and the sharp adjustment of administered prices have halved the trade and current account deficits in 1999, compared to 1998. Based on strong export growth, the trade and current account balances have continued to improve in 2000. Given the lower current account deficit and increased net foreign direct investment, the financing of the balance of payments is now on a more sustainable footing again. While, as noted above, economic growth slowed down as a result of a sharp contraction in domestic demand, in particular investment, it remained relatively strong – at almost 2% in 1999 and 2.2% in 2000 – thanks to robust exports. In line with expectations, average inflation in 2000 was 12%, rather higher than in 1999. However, this figure was heavily influenced by higher year-on-year inflation rates in the early part of 2000, largely reflecting increases in administered prices. Inflation fell substantially during the year, to 8.4% in December 2000 (as compared with 14.2% in December 1999). From the second half of 1999 onwards, the exchange rate started to recover against the Euro again and stabilised in 2000, although occasional tensions linked to political uncertainty still occur.

The government has been steadily elaborating and implementing its structural reform programme. In particular, a new bankruptcy framework has been approved, state-owned banks have been recapitalised and are being privatised, and the restructuring of public utilities has started. This set of measures is creating an environment where enterprises are put under pressure to restructure, while the possibilities for attracting the financial means for restructuring are being improved by enhanced incentives for foreign direct investment and a better functioning banking sector.

Unemployment has been high from the start of transition and only declined marginally when economic growth accelerated from 1994 onwards. It started to increase again in 1997, even though at that time the economy still grew by 6.7%. When economic growth slowed down, unemployment increased rapidly and reached 18.6% in the first half of 2000. This was mainly the result of increased pressures on enterprises to cut costs by eliminating over-employment. Labour market trends are discussed in more detail in the next section.

A final notable feature of economic development has been the extent of regional imbalances, with the situation in the western part of the country, and in particular in Bratislava, being consistently more favourable than elsewhere. GDP per capita in Bratislava is over twice as high as in the country overall, whereas in Eastern Slovakia per capita GDP is only about three-quarters of the national average. While the Bratislava region has approximately 11% of the national population, it accounts for

27% of all incorporated businesses, for 19% of small enterprises, and for 51% of enterprises with foreign capital.

## **2. The situation on the labour market<sup>1</sup>**

### **Developments in employment**

As in other transition economies, employment fell sharply after 1989, with an estimated cumulative decline of some 20% by 1994. Thereafter, rapid economic growth was initially reflected in a recovery in employment, with the number of jobs increasing by over 5% between the second quarter of 1994 and the same period in 1996. However, despite continued high economic growth, employment fell by 1% between 1996 and 1998; this jobs decline accelerated with the economic slowdown, with average employment falling by 4.4% between 1998 and 2000. Average employment in 2000, at 2.08 million, was therefore marginally lower than in 1994.

These trends have differed somewhat by gender. The initial increase in employment in 1994-96 affected men and women equally. However, male employment fell faster than female in the subsequent years. As a result, male employment in 1999 was 1% lower than in 1994, whereas female employment had risen by more than 3% over the same period.

The employment *rate* in the working-age population<sup>2</sup> fell sharply from an estimated 70% in the late 1980s before stabilising at just under 60% in 1994. The rate rose marginally in the years after 1994, peaking at 62% in 1996 before falling back to just under 58% in 1999. At the peak, the male rate was 69% and the female rate was close to 55%. In 1999 these rates fell to 63% and 52%, respectively. The rates for both sexes in 1999 were therefore below the respective rates for the EU (males – 72%, females – 53%), and this gap is likely to have increased in 2000. In terms of age-groups, the largest difference between the situation in Slovakia and that in the EU relates to young persons aged 15-24, of whom only 31% are in employment as compared with 39% in the EU, and among older workers (with only 22% of those aged 55-64 in employment as compared with 37% in the EU). For older workers, this difference reflects the lower old-age retirement threshold in Slovakia. Overall employment rates for people aged 25-54 are close to the EU average, but this reflects different patterns for men and women, with male rates significantly below, and female rates significantly above EU levels.

### **Structural shifts in employment**

#### *Sectoral trends*

There has been substantial change in the sectoral pattern of employment since 1994. Between the years 1994 and 2000, with overall employment falling by approximately 9,000, agricultural employment fell by 69,000 industrial employment<sup>3</sup> fell by 55,000 and services employment grew by 116,000. Agricultural employment has been falling continuously over this period. In industry, by contrast, an initial expansion between 1994 and 1998 has been more than offset by a sharp decline in 1999 and 2000. Services employment, having grown rapidly between 1994 and 1998, has continued to rise, but more slowly, in the last two years. At a more detailed level, most of the increase in services employment since 1994 has been accounted for by the distribution sub-sector, financial services, and the public administration; employment in education services has fallen significantly.

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<sup>1</sup> All data in this section, unless otherwise stated, relate to employment, unemployment and the labour force on the ILO basis, drawn from the Labour Force Survey

<sup>2</sup> i.e. total employment of persons aged 15-64 as a proportion of the population aged 15-64.

<sup>3</sup> Including construction

As a result of these trends, agriculture's share<sup>4</sup> in total employment fell from 10% in 1994 to 6.7% in 2000; industry's share fell from 40% to 39%; and the services share rose from 50% to 54%. The broad sectoral structure of employment has therefore been on a gradual path of convergence with the pattern of the EU. Even by early 2000, however, the employment share in industry remained high by comparison with the EU industry-share (29%) standards, while the employment share in services is still relatively low (the EU services share is 66%). Within the services sector, the financial and business services – together with distribution, hotels and restaurants – remain particularly underdeveloped in employment terms relative to the EU.

#### *Public/private sector*

A combination of privatisation of smaller-scale state enterprises, together with the establishment of new small businesses, saw the beginnings of change in the ownership structure of the Slovak economy in the early 1990s. By 1992, 28% of employment was in the private sector (including co-operatives). The start of large-scale privatisation in 1992 accelerated the increase in the private-sector share, which reached 60% in 1995. Thereafter, the growth of the private sector share slowed somewhat (rising to 64% in 1997), with the cancellation of voucher privatisation and the identification of "strategic" enterprises to be excluded from the privatisation process. Further increases in the importance of private-sector employment are now expected following the approval of a new law on large-scale privatisation in late 1999.

#### *Self-employment/dependent employment*

The share of the self-employed in total employment remains relatively low in Slovakia. In 2000, this group represented less than 8% of all those in employment. Of the total of 171,000 self-employed identified in the LFS in QIV 2000, about 53,000 also employed other workers; the remaining 118,000 were small entrepreneurs without employees.

#### *Part-time employment*

The level of part-time employment is extremely low by international standards, and the share of part-time in total employment has fallen slightly in recent years. In early 2000, less than 2% of all those in employment were working part-time, as compared with almost 18% in the EU-15. The difference is particularly great in the case of women, with part-time jobs accounting for approximately 3% of female employment in Slovakia, and for over 33% in the EU.

#### *Regional trends*

The country was reorganised into 8 regions in 1996 – Bratislava, Trnava, Trencin, Nitra, Zilina, Banska Bystrica, Presov and Kosice. Because of the reorganisation, comparable regional data are available only for years 1997-2000. Even over this short period, there has been significant divergence in employment trends. Over these three years, overall employment in the country fell by just over 4%. However, employment rose by 2% in Bratislava, and remained broadly stable in Trnava and Presov. All other regions experienced falling employment, with the sharpest declines (more than 6%) in Kosice, Zilina and Banska Bystrica. These developments have reinforced the extent of

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<sup>4</sup> "agriculture" here includes hunting, forestry and fishing activities

regional employment imbalances, so that Bratislava, with only 11% of the national population, accounts for 15% of all employment in the country.

This different employment performance tends to reflect wide variations in the branch structure of employment – i.e. the extent to which regional employment is concentrated in growing or declining sectors of the economy. In 2000, for example, the services sector accounted for almost 75% of all jobs in the Bratislava region, but for only 44% in Trenčín. By contrast, only 15% of Bratislava employment was in manufacturing, as compared with 36% in Trenčín. In general, those regions most dependent on manufacturing have experienced the sharpest employment declines in recent years.

The proportion of the working-age population who have jobs varies widely across regions. Bratislava has a relatively high employment rate of over 70%, but Košice has a rate of just over 50%, and relatively low rates are also found in Prešov, Nitra and Banská Bystrica.

### **Labour force**

The overall population has been broadly static in recent years – growing by less than 0.1% annually. However, the population of working age (15-64) has been growing rather more rapidly – by 0.9% annually – and is estimated at approximately 3.7 million (LFS basis) in 2000. There has thus been some upward pressure on labour supply from purely demographic influences.

Although comparable LFS data are not available for the period 1989-94, it is clear that labour force participation initially fell less rapidly than employment. By 1994, the activity rate<sup>5</sup> had fallen to an estimated 69%. Participation has been broadly stable at about 69% in the years after 1994 – close to the current EU rate. Female participation is somewhat higher than in the EU (62% compared with 59%), while the male rate, at just over 75%, is below the EU level (78% in 1999).

Trends in participation by age tend to reflect the pattern of stability in aggregate Slovak participation since 1994. The only exception to this pattern relates to persons aged 55-64, where male participation has been on a slight downward trend but female participation has been rising gradually. The age-pattern of participation differs markedly from that in the EU overall, particularly for women. Slovak women have relatively high participation in the age-range 30-54, but participation falls sharply, to well below EU levels, in the age-range 55-64. Male participation is close to or above the EU level over the age-range 30-59, but falls sharply – again to well below EU levels – at age 60-64. These differences in the older groups reflect differences in the official retirement age – which is set at 60 for men and at 55 for women in the Slovak Republic.

While participation varies across regions, the differences are much smaller than in the case of the employment rate, discussed earlier. The highest participation rate is in Bratislava, where over 75% of the population aged 15-64 was in the labour force in 1999. The lowest rate was in Nitra, at 66%. Cross-regional variation is somewhat

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<sup>5</sup> For persons aged 15-64



greater for women (with a gap of 12 percentage points between the highest and lowest regions) than for men (where the gap is 7 percentage points).

Overall, the combination of stable participation and a growing working-age population has meant that the absolute size of the labour force rose from 2.44 million in early 1994 to 2.61 million in early 2000. Assuming continued stable participation, demographic projections suggest that the labour force will go on growing, but at a slower pace than in the recent past, up to 2005-2010 before declining moderately thereafter.

Education levels in the labour force are low but tending to rise gradually. Between 1994 and 2000, the share of the labour force with only primary education fell from 14% to 9%; the share with "lower" secondary qualifications was stable at 40%; the share with "complete" secondary education rose from 34% to 41%; and the share with tertiary qualifications fell from 12% to 10%.<sup>6</sup> Recent rises in the numbers going on to further education are likely to lead to further increases in the proportion of the workforce with higher qualifications in the coming years.

## **Unemployment**

### *Overall trends*

The unemployment rate had reached 14% by 1994 when the first official Labour Force Surveys were conducted. Thereafter, employment growth led to a decline in unemployment until 1996, when the average rate for the year was just over 11%.

However, unemployment began to rise again from mid 1996, to 12.5% on average in 1998, 16.2% in 1999, and 18.6% in 2000. This increase reflects the continuing increase in the size of the labour force and the decline in employment, which accelerated from 1998 onwards.

### *Structural features*

A significant proportion – just over half – of the unemployed are long-term (i.e. over one year). This proportion has shown relatively little variation in recent years – rising slightly as overall unemployment fell between 1994 and 1996, but falling in 1999 as rising overall unemployment was accompanied by increased inflows into short-term unemployment. The proportion of long-term unemployment rose again in the year 2000 (to 55.3% as compared with 48.7% in 1999).

Unemployment is the same among women and men (the average unemployment rate for both men and women was 18.6% in the year 2000). However, more women suffer from long-term unemployment.

The youth unemployment rate is also relatively high – at 35.2% for those aged 15-24 in 2000, as compared with 15.9% for the labour force aged 25-49 years. Youth unemployment fell more rapidly than adult unemployment in the 1994-96 period, but has risen more sharply than the total since then. The youth unemployment rate is now significantly above the EU average (18% in 1999).

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<sup>6</sup> Qualification levels in the workforce vary greatly by region. Over a quarter of the labour force in the Bratislava region have third-level education.

There is wide variation in unemployment by region, with the lowest unemployment rate (7.2% in 2000) being found in Bratislava region and the highest (over 21%) in Kosice, Banska Bystrica and Presov regions. While unemployment rose in all regions between 1997 and 2000, the sharpest increases were in Zilina, Banska Bystrica and Kosice.

Unemployment also varies, to a large extent, by level of educational qualification. In 2000, the unemployment rate for persons with third-level education was 5.6%, as compared with 39.3% for persons with only primary education, and between 14% and 19% for those with various forms of secondary education. Within the secondary group, unemployment varies both by type of studies (vocational/general) and by whether or not the secondary cycle was "completed"; the lowest unemployment is among those with vocational qualifications who have also completed general secondary education.

### **Ethnic minorities**

There are two large ethnic minorities in Slovakia. Hungarians account for approximately 10% of the population, while estimates of the size of the Roma minority vary between 5% and 10% of population.<sup>7</sup> Systematic data on relative labour-market outcomes for these groups are not available. However, it appears from the limited material in the background report that outcomes for Hungarians are broadly similar to those for the population overall. The situation of the Roma minority is very different. In 1997, for example, this group accounted for almost 20% of the registered unemployed. If this proportion can be assumed to apply equally in the case of survey-based unemployment (LFS), then a relatively conservative estimate would suggest that the unemployment rate among Roma in 1997 was at least twice the rate for the labour force overall.<sup>8</sup> In some Roma "settlements" in the east of the country, it is estimated that the rate of registered unemployment is as high as 90%. The difficult labour market situation of the Roma is related in part to their low level of education, as discussed in Section 3.3.7 below.

### **Wage developments**

At the overall level, average real wages (i.e. nominal wages deflated by the Consumer Price Index) fell sharply in the early 1990s, with a cumulative decline of 25% between 1989 and 1994. Thereafter, real wages rose by 22% between 1994 and 1998 before falling by 3% in 1999 and by 4.6% in 2000. However, much of this recent decline has been due to increasing consumer inflation as a result of increases in administered prices.<sup>9</sup> Real wages based on the overall GDP deflator went on rising in 2000, though at a slower rate than previously. Initially (in 1995-1997) the increase in real wages on

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<sup>7</sup> 1999 Regular Report from the Commission on Slovakia's Progress Towards Accession. It is anticipated that the results of the new census carried out in May/June 2001 will provide more accurate data on the size of the Roma population.

<sup>8</sup> This estimate is based on assuming that Roma accounted for 20% of the unemployed and for 10% of the labour force in 1997. This would imply a Roma unemployment rate of 24% in that year as compared with the national average of 12%. In fact the Roma share of the labour force is likely to be lower than 10%, as this is at the upper end of the range of estimates of their share in population. Any reduction in the assumed Roma share in the labour force would of course lead to an increase in the estimate for the Roma unemployment rate and in the gap between this rate and that for the population overall.

<sup>9</sup> Nominal wage growth fell from 13% on average in 1993-98 to 7.2% in 1999. The estimated increase in nominal wages for the year 2000 is 6.5%.

this latter basis exceeded the growth of productivity. In each of the years since 1998, however, average real wages have lagged behind productivity growth.

There has been some tendency for increased wage differentiation in recent years, although change has been slow. At the sectoral level, wages in agriculture have grown less rapidly than average, while service-sector wages have seen above-average growth. In 2000, the highest average wages by far were in financial services (at almost twice average earnings for the economy overall) followed by the energy sector, business services and public administration. Lowest average wages were found in education, agriculture and health care. There has also been some change in the relationship between education/training levels and wages. Relative earnings have been rising for workers with higher education and for those with "complete" secondary education; those with incomplete secondary education and those with only elementary education have seen relative decline in their wage levels.

The average earnings of women in 2000 reached 75.1% of the average earnings of men. In comparing wage levels of men and women for the performance of the same work, or work of equal value, women earned, on average, 12.8 % less than men. On the other hand, there were also cases where men earned, on average, less than women for the performance of the same work. The difference was 11.1%.

### **Labour market policy**

The main strategic policy document on employment is the National Employment Plan. A framework for the development of national employment planning was approved by the government in November 1999. An actual plan for the period to 2002 was discussed and agreed with the social partners in the Council of Economic and Social Agreement in September 2000, and the government approved this document by formal resolution in November 2000.

The National Employment Plan follows the four-pillar structure of the European Employment Strategy, while taking account of the specific conditions of the Slovak labour market. The *Employability Improvement* pillar contains 18 separate measures in relation to education and training, improvements in employment services in the context of an "activation" strategy for the unemployed, and measures in favour of the disabled and the long-term unemployed. The *Entrepreneurship Development* pillar sets out 8 measures designed to promote development of conditions and programmes in support of small and medium sized businesses, including provision of advisory services. These measures emphasise the responsibilities of regional and local authorities in the field of enterprise development. The *Support of Adaptability of Enterprises* pillar comprises measures implementing modern forms of labour organisation and flexible scheduling of working hours, including monitoring of the impact of technical and technological progress upon employment. It draws heavily on the separate National Programme of Increased Productivity and Competitiveness. The fourth pillar, *to Strengthen Equal Opportunities Policies* deals with measures to promote *equal opportunities* between men and women. (Other equal opportunities measures, particularly in relation to the Roma minority, are dealt with largely under the *Employability Improvement* pillar.)

A strong feature of the Plan is the government's commitment to a preventive strategies, enabling early identification of individual capabilities and needs of

unemployed persons. Preferential support will be given to the employment of registered unemployed persons in the open labour market. The activities of the public employment service will be systematically evaluated, as will programmes to integrate the registered unemployed into employment.

### **Labour market institutions**

While a range of ministries and agencies have responsibilities related to employment, the Ministry of Labour, Social Affairs and Family is responsible for producing drafts of legislation and policies in the field of employment policy and co-ordinates their implementation. Employment policy proposals formulated by the ministry (as with the National Employment Plan) are generally discussed and agreed with social partners in the Council of Economic and Social Agreement prior to submission to government for final approval.

The main executive body for the implementation of labour market policies and active programmes is the National Labour Office, established by legislation in 1997. It is a tripartite three-layer system, governed at national level by a 15-member governing board with a smaller, 9-member, supervisory board. There are 8 lower level boards at the regional labour office level and each of the 79 district labour offices also has a governing board. At each of these levels, the boards are made up of representatives of employees, employers and the government. The NLO is responsible for active labour market measures, including job brokerage, occupational guidance and information, occupational rehabilitation for disabled people, and the operation of employment support and re-training programmes. (Private job-brokerage agencies are also permitted since 1997. Such agencies carry out job broking activities related primarily to temporary forms of employment.) The NLO also has responsibility for passive labour market measures – unemployment benefit payments, collection of contributions under the unemployment insurance scheme, collection of contributions for the Guarantee Fund (since May 1, 2000), and payment of compensation for wages not paid by insolvent employers to employees (since July 1, 2000). In addition, the NLO has responsibilities in the field of labour market statistics. It carries out monthly and quarterly statistical surveys on unemployment and analyses on labour market trends. These activities are carried out within a framework set down the Ministry of Labour, Social Affairs and Family in a 1997 Document called “Minimal Contents, Scope and Periodicity of Statistical Surveys and Analyses of Labour Market”.

The NLO's activities are funded mainly through contributions within the unemployment insurance scheme. These funds are allocated through the annual NLO budget approved by the parliament. In 2000 the budgeted expenditures for labour market policy accounted for SK 7.7 billion. In addition, the NLO received SK 1.3 billion from the State budget for the public works programme for long-term registered unemployed, as well as a subsidy of SK 214.5 million for the Guarantee Fund.

In the year 2000, the NLO had a staffing level of just under 5,000, of whom 182 were in the national headquarters, 352 worked with the regional labour offices, and 4,448 were in district offices. Just over a quarter of the staff were front-line professionals in employment-service functions (1,220 job brokers and 201 consultants). Up to 1999, the allocation of staffing levels by district was determined by reference to the size of a district, its working-age population, and the number of unemployed. Since 1999 the

allocation system has been refined to include structural aspects of the district's client population.

### **3. Identification of main priorities for employment policy**

#### **3.1 Strategic issues**

Employment and labour market policies must operate in the context of the overall economic development challenges facing Slovakia. This overall context is set out in detail in the *Joint Assessment of Medium-term Economic Policy Priorities* developed by Slovakia and the European Commission and approved by the Slovak Government in February 2000.

That document set a medium-term goal to create systemic conditions for accelerating economic growth 3 to 4 percent in 2001 and 4 to 6 percent annually in the following period.<sup>10</sup> Achievement of this objective would make it possible to reach an economic standard of approx. 50-55 percent of the EU average (based on purchasing power parity) by the time of Slovakia's accession to the Union. Given current economic imbalances, and the slow pace of past reform in Slovakia, moving towards this more favourable medium-term trajectory would require a decisive programme of short term reforms, to which the government is committed. The main elements of this programme include: reform of the financial and business sectors of the economy; macro-economic stabilisation through appropriate and co-ordinated fiscal and monetary policies; and administrative, institutional and legal reforms (including the elimination of corruption) to improve the business environment both for domestic economic actors and foreign investors and to support more extensive inflow of direct foreign investment. Clearly, it is essential that employment policies should be supportive of these overall reform efforts.

Within this context, and drawing on the analysis in preceding sections, it is possible to identify the main current and prospective issues facing employment policy:

- a) Unemployment is high, at 18.6% in 2000 on an LFS basis. Although cyclical factors account for part of the recent rises in unemployment, there is also clearly a strong structural element – even at its lowest point, in 1996, the unemployment rate exceeded 11%. The main structural features of unemployment are: a high level of long-term unemployment; very high unemployment among those with lower levels of education; high youth unemployment; wide regional variation in unemployment, and extremely high unemployment among the Roma minority.
- b) The employment rate had already fallen below the EU level by 1999, and the gap is likely to have widened significantly in the year 2000. Employment rates are particularly low for people aged 55-64, reflecting the early age of normal old-age retirement. However, the age group 35-54 also has a low employment rate compared with international standards.
- c) Persistence of labour-market rigidities is evidenced by wide regional variations in employment rates, ranging from 70% in Bratislava region to as low as 50% in Kosice region; by the limited development of employment in the private sector and in services; and by low incidence of flexible forms of employment such as part-time work and self-employment.

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<sup>10</sup> Joint Assessment of Medium-term Economic Policy Priorities of the Slovak Republic, February 2000.

- d) Previous delays in reform mean that the re-structuring now underway in the financial and enterprise sectors will continue to have an employment impact for some time to come. As a result, even with accelerating GDP growth, the annual increase in employment is unlikely to exceed 0.6% in the period to 2003. At the same time, the labour force will be growing by 0.7% per annum, thus causing unemployment to remain high over this period.
- e) Education levels in the labour force are relatively low and have risen only gradually in recent years. Even among those who have completed education, many have narrowly specialised qualifications that limit their occupational mobility.

Addressing these issues, while at the same time supporting the overall programme of transformation in the economy, has implications for two main elements of labour market policies in Slovakia:

- Programmes and policies in the field of human resource development – initial and continuing education, training and retraining.
- Institutions and programmes that affect the smooth functioning of the labour market – primarily the wage formation process, the tax-benefit system, the public employment service and its active programmes to support employment, and the nature and role of the social dialogue in the employment system.

The approaches adopted in these policy fields also need to take account of regional disparities in employment and unemployment, of gender equality issues, and of the particular needs of disadvantaged groups.

The remainder of this section discusses some of the priority tasks in relation to these elements of employment policy.

### **3.2 Human resources development**

#### **Initial education and training**

##### *Current situation*

Since 1998 basic education in Slovakia lasts from age 6 to 16, and encompasses both primary education and the first year of secondary education. It is provided through a wide network of 2,482 basic schools attended by more than 670 thousand pupils. Less than 3% of pupils fail to complete basic school before the end of their compulsory schooling. According to the official statistics 2% of pupils after completing compulsory school attendance do not continue in their secondary education, thus leaving the educational system with only elementary education completed. Recent reforms in primary education have concentrated on rationalisation of the school network, and curriculum changes including the strengthening of foreign languages and a wider range of optional subjects. Despite these changes, concerns persist about the quantitative overload of teaching material, and an encyclopaedic orientation towards pupils' level of knowledge based on memorising without development of creative thinking

Secondary education is provided in three kinds of schools: grammar schools (general education), secondary specialised schools and secondary vocational (apprentice) schools. The grammar schools offer four- to five - year courses of general education,

concluded by taking the school leaving examination (GCSE), and preparing students predominantly for tertiary education.<sup>11</sup> Secondary specialised schools provide four-year courses of study (with GCSE) aimed at preparing future specialists. Secondary vocational schools (2–3 year study leading to a "certificate of qualification" or COQ, and four-year study with GCSE) are focused on practical job skill training mostly for manual occupations.<sup>12</sup> At present, the vast majority of secondary students attend specialised schools (37%) or vocational schools (44%), with only 17% attending grammar schools.

An indication of overall outcomes from basic and secondary education is available from information on the educational attainment of the young adult population, taken from the labour force survey. In 1999, some 66% of those aged 20-24 had completed at least upper secondary education, 29% had completed lower secondary education, and 5% had only primary education. The proportion of young adults with at least upper secondary education, although somewhat below the EU level of 73%, has risen significantly in recent years (having been 54% in 1995).

There are 22 university-type institutions offering higher education in a total of 95 faculties. Of the total number of faculties, 43% are orientated to social sciences and services, 20% have a technical focus, 8,5% focus on natural sciences, 8.5% on soil management, 8.5% on culture and arts, 6.3% have a military and security orientation, and 5.3% of faculties are medically and pharmaceutically focused.

Admissions to higher education have risen significantly in recent years (from 16% of all 18-year olds in 1990 to almost 26% in 2000) but remain far behind international standards. Non-university post-secondary education is relatively undeveloped in Slovakia, with enrolment equivalent to less than 2% of all 18-year olds in 1997.<sup>13</sup> Unemployment is high among those who leave school without transferring to third level, particularly leavers from secondary technical and vocational apprentice schools who have prepared for the performance of narrowly specialised occupations.

#### *Issues and policies*

The Government of the SR considers education and training among its major and continuing priorities, and has been developing a long-term "Concept for the Development of Education and Schooling for the Next 15-20 Years" on the basis of which a strategic document has been elaborated, "*The National Programme For Upbringing and Education in the Slovak Republic*". This document has been presented for public debate, and after comments emerging from the public debate have been incorporated, it will be submitted to the Government and the Parliament. Already a number of main issues have been identified as requiring action.

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<sup>11</sup> Since 1989, some ("eight-year") grammar school integrate primary and secondary education in a single unit. These are attended by almost 40 % all grammar schools students.

<sup>12</sup> In the school year 1999/2000, the state was the founder of 75 % of grammar schools, 91 % of secondary specialised schools, and 96 % of secondary vocational schools; 8 % of grammar schools, 8% of secondary technical schools and 2.6 % of secondary vocational schools were in private ownership; the church owned 17 % of grammar schools, 1 % of secondary technical schools and 1.4 % of secondary vocational (apprentice) schools.

<sup>13</sup> Background report, Table A6.1.



First, raising overall education levels will require an increase in the proportion of young people completing secondary education to GCSE level. In addition, within the secondary sector there is a need to increase the share of general education, with the objective *inter alia* of delaying the point at which young people must make decisions about future career and specialisation.

Second, the pace of the reform in secondary professional education and preparation is slow, lagging behind the process of structural changes in the economy. More than one-third of technical and vocational schools are of an industrial type, with courses taught being focused on skill training for declining branches of industry. Former links between secondary vocational apprentice schools and individual enterprises have been weakened by structural changes in the economy, with only 2.7% of students now in preparation for a job in a particular enterprise. Secondary professional and vocational curricula show a low level of flexibility, failing to respond to the changing qualification requirements of the labour market. The involvement of social partners in defining the content and the structure of courses is low. The absence of a modular system of education and training restricts the later mobility of students, both horizontal and vertical.

Finally, the proportion of young people continuing their studies at post-secondary level is low, and the demand for third-level education is far from being satisfied.

A number of measures have been taken to increase the efficiency of management of the schooling system and the quality of education. An independent school inspection has been set up, first stage of secondary school network rationalisation has taken place, the consolidation of the elementary school network has commenced, a draft law on financing schools and school facilities has been prepared and "The Concept for the Development of University Education for 21st Century" was approved by the Government. In addition, the *National Employment Plan*, which was approved by the Government in November 2000, includes measures focused on:

- Strengthening co-operation between the school system and employers sphere in preparing teaching syllabuses and plans of practical preparation in secondary schools,
- Collaboration of regional labour offices in rationalising the secondary schools network, and in deciding on the contents of curricula and number of school graduates, through advice on employers' requirements and on developments in the labour market,
- Guiding pupils in selecting their careers by including in the curriculum a subject of "career selection and development of entrepreneurship".

Looking forward, "*The National Programme for Upbringing and Education in the Slovak Republic*" presents a strategic vision of a more complex reform of the educational system. Among the main planned measures are:

- further restructuring and rationalisation of the secondary school network, (particularly secondary vocational apprentice schools); secondary technical and secondary vocational/apprentice schools will be combined, to create a new type of

secondary vocational school that will offer different levels of general and vocational training on a modular basis, and also provide post-secondary and associate degree awarding courses; social partners will participate in the curriculum design of secondary vocational training. A core curriculum for secondary technical education will be identified (around 60 % of lessons, which will be supplemented with curriculum elements tailored to local conditions)

- increasing the proportion of students of four-year gymnasiums to 40 % of the relevant population year; the content of education at gymnasiums will be restructured and will focus on broadly conceived general education, eliminating overloading of the teaching content and laying emphasis on the development of key competencies (problem solving, learning skills, communication skills, competence to use information and communication technologies),
- installing the GCSE as the dominant form of completing secondary education, with 2- and 3- year apprentice courses being offered only in response to demand from enterprises and trade licence holders,
- centres for practical training will be established to allow upgraded practical preparation of pupils,
- the system of study courses and branches of learning will be streamlined, broad profile branches will be created, offering broadly conceived qualification training,
- by the year 2010, all schools will be connected to the internet and provision will be made to equip both students and teachers with knowledge and skills in the field of information technology
- a new National Curriculum Board will be set up to assess and accredit education and training standards and programmes.

A number of specific outcome targets have been proposed for the reform steps outlined in the *National Programme for Upbringing and Education*:

- a) increasing the number of students admitted to third-level colleges from the current 25% of the population year to **30 %** in 2004, and **35 %** in 2015, respectively,
- b) by the year 2015, as many as **50%** of the population continuing in tertiary-level education beyond the secondary level (post-secondary education, upper technical schools, polytechnics, specialised colleges, universities),
- c) increasing the proportion of university graduates in the workforce to 2010 to **12%** by 2010, and to **16 %** by 2020
- d) increasing the proportion of secondary school graduates with GCSE to **80 %** of the relevant population year by the year 2010.

The reforms also aim to give equal access to education to children from socially less stimulating environments, and meet the educational needs of talented children and children with special needs (e.g. with health impairment).

## **Continuing education and re-training**

### *Current situation*

Legislation on continuing education and training provides that anybody showing interest in further education be allowed to supplement, extend, and deepen his or her knowledge, or to be re-skilled. Continuing education and re-training is offered by elementary schools, secondary schools, colleges, training facilities within enterprises, and by a number of non-governmental and private training facilities. According to the estimates by the Ministry of Education of the Slovak Republic, more than 50 % of all the training activities in 1999 were provided by secondary schools and the training facilities of physical persons or legal entities (corporations), the remainder was offered by colleges, facilities of state administration bodies, cities and communities and professional organisations.

Continuing education and training is entered by employees or the unemployed. Funding comes from fees paid by participants, employers' funds, designated subsidy from the state budget, the National Labour Office budget, where it relates to re-skilling of job seekers, municipal budgets, and funds from foundations and other organisations. Currently, statistical data are not available on the total number of persons participating in further training.

A number of measures have been undertaken to encourage participation in further training by those in employment. The Labour Code stipulates a general obligation for the employer to see to the deepening and upgrading of employees' qualifications, with particular reference to unqualified employees and those being assigned allocated to a new workplace or a new kind of work. In most circumstances, the employer may be eligible to receive a subsidy from the District Labour Office of up to 50% of the total training cost. An employee taking part in retraining is entitled to time off with pay if the training is at the employer's initiative.

The District Labour Office is responsible for securing retraining for the unemployed. The cost of retraining of job seekers is fully borne by the District Labour Office. Retraining of the unemployed (re-skilling) has shown a steadily declining trend. According to the data from the National Labour Office, there were 5.6 thousand unemployed persons placed in retraining courses, and 5.3 thousand completing courses in 2000. The majority of retraining courses focused on information technology, accounting, administrative skills, blue-collar jobs, and education in the fields of management and enterprise.

Quality in continuing education and retraining is ensured through accreditation of establishments and activities (including re-skilling courses). Responsibility for the accreditation lies with the Ministry of Education of the Slovak Republic.

### *Issues and policies*

It is recognised that the current state of further (continuing) education and retraining is unsatisfactory. Participation is relatively low, and there is no overall lifelong learning strategy in place. The government is conscious of the need for a better legal framework for adult participation in education at all levels (initial, secondary and tertiary) and to define the involvement of the social partners in financing further training.

Specific planned measures include:

- further training incentives for both employers and employees,
- introduction and dissemination of a modular system of further training, which can respond in a flexible way to changes occurring in the demand for labour
- increasing the proportion of the unemployed placed in programmes of active labour market policies (including re-skilling) to 20 % and more of the total number of unemployed,
- redesign of retraining (re-skilling) programmes for the unemployed to improve their relevance to the needs of the labour market and of specific target groups such as school leavers, other juveniles and the long-term unemployed,
- creating an information system which will give information on existing training options and also advice on selecting a training path
- a programme of a long-term (6 – 12 months) retraining for the registered unemployed is being prepared in which it is planned to place 50 thousand persons.

#### *Assessment*

*The planned reforms in initial education and training are appropriate to the existing circumstances of Slovakia and to the challenges posed by the development of a knowledge-based society. However, the pace of their implementation has been slow. Government action should therefore focus on speeding up the implementation of the already-agreed reforms.*

*Priority in the reform process should be given to:*

- *reducing drop-out levels in basic and secondary education, to move rapidly towards the target of 80% completion of secondary schooling*
- *curriculum reform and the development of a modular system of education to align it better with emerging labour-market needs.*

*There is significant overall under-provision in the system of further (continuing) education and retraining, and a strategy for lifelong learning needs to be developed.*

*Under-provision is most marked in the case of training and retraining for the unemployed. The share of active labour-market programme expenditure going to retraining and human resources should be increased substantially, if necessary at the expense of temporary employment ("public works") programmes.*

### **3.3 Institutions**

#### **3.3.1. The process of wage setting**

##### *Current situation*

Wages are determined by free collective bargaining between employers and trade unions, usually at the sectoral level and at national level, within the framework of a series of national-level agreements concluded in the Council for Economic and Social

Agreement over the period since 1992. The collective bargaining principle was reinforced by an amendment of the Wage Act of 1999, by which the Government's powers to guide the development of wages in the business sphere through legislation were removed. Government however retains some influence through the negotiation of the national-level agreements.

There is also a legally binding minimum wage, which, under the 1999 amendment to the Minimal Wage Act, is determined using an indexation mechanism with direct involvement of the social partners. The amount of the minimum wage is negotiated annually in the Council for Economic and Social Agreement of the SR, based on a proposal by the Ministry of Labour, Social Affairs and Family, taking account of the development in the average wage and changes in the official subsistence minimum for an individual. The proposal is then recommended by the Council of Economic and Social Agreement to the Government for approval. Through the application of this mechanism, adjustments to the minimum wage have become more frequent. The current minimum monthly wage amounts to SKK 4,400 – equivalent to 38.5% of average wages in the economy in the year 2000.

Legislation provides for the extension of the binding nature of higher-level collective agreements. The Ministry of Labour, Social Affairs and Family of the Slovak Republic may establish by regulation that such a collective agreement shall also be binding on employers who are not members of the employers' organisation having concluded the agreement. The extension applies to employers in the same sector, and with similar economic and social conditions, as those employers, who concluded the original higher-level agreement. The requirement of "similar economic and social conditions" is applied in practice to ensure that the extension does not economically jeopardise the enterprises affected. In 2000, the Ministry of Labour, Social Affairs and Family of the Slovak Republic issued 20 announcements of ordinances extending the mandatory nature of higher-level collective agreements, affecting 212 employers.

Remuneration in the budgetary sphere as well as a number of "contributory" organisations (i.e. organisations largely financed by State budget subsidies/contributions) is governed primarily by legislation adopted in 1992 and amended at subsequent intervals. Changes in pay are first negotiated in the Council for Economic and Social Agreement before submission of the proposals to the Government for approval. Final decisions on the scale of increase of wages and salaries are set in the State Budget Act for the corresponding calendar year. Since 1994, with the exception of the year 1997, pay increases in the budgetary and contributory spheres have lagged behind increases in the private business sector. A strengthened role for collective bargaining on wages and salaries in the budgetary and contributory sphere is envisaged from 2002, when new legislation on state and public services should come into effect. Salary increases will continue to be dependent upon the possibilities of the State budget.

### *Issues and policies*

As noted in Section 2, trends in real wages differ depending on whether the deflator used is that for consumption or for GDP overall. The latter is the more relevant in relation to the impact of wage trends on employment. On this basis, wages grew more rapidly than productivity in 1995-97; wages went on growing in 1998 and 1999,

although lagging somewhat behind productivity; and real wages were broadly unchanged in the year 2000, when GDP per worker rose by somewhat over 3%.

While wage trends over the last three years may thus be seen as "employment-friendly", this may not as yet have been sufficient to compensate for an over-shoot in real wages in the preceding years.<sup>14</sup> Despite some improvement as compared with 1999, over one-third of all businesses were still loss-making in the year 2000. Wage trends, and their impact on employment, must also be seen in the context of demographic pressures leading to increased labour supply – the labour force has been growing by over 1% annually on average since 1997.

Current projections for 2001 and 2002 are for average wages to increase by about 10.0% in nominal terms. Given such growth of nominal wages, real wages should rise by about 3% in each of these years, broadly in line with anticipated productivity increases in the Slovak economy overall.

The Government is conscious of the need, in co-operation with social partners, to ensure that wage developments are in line with the employment needs of Slovakia. With this in mind, a special advisory body on issues related to wages and salaries has been set up within the Council for Economic and Social Agreement of the SR; this will provide a forum for the government to promote wider discussion and understanding of the pay/productivity relationship.

#### *Assessment*

***Employment-friendly wage developments will be critical to Slovakia's ability to compete in international markets, and to maximise the employment effects of economic growth. Government should continue to promote social-partner consensus on appropriate wage developments through the Council for Economic and Social Agreement.***

### **3.3.2 Tax and benefit systems**

The wage formation process is affected by the functioning of tax and benefit systems and their mutual interaction.

#### **Taxation and Social Contributions<sup>15</sup>**

##### *Current situation*

Deductions from wages in Slovakia, as elsewhere, arise under two headings – personal income taxation paid by employees, and social contributions payable by both employees and employers to the insurance funds.

The personal income tax is progressive, with rates on successive tranches of income rising from 12% to 42%. The tax base for an employee is made up of gross income reduced by social contributions, contributions for supplementary pension insurance (not exceeding 10% of gross income, and with an upper limit of SK 24 thousand per

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<sup>14</sup> See *Slovak Republic: Selected Issues and Statistical Appendix*, International Monetary Fund, August 2000, page 22. The analysis there indicates that "as a result of previous wage increases, employment at the beginning of 1998 may have been above its equilibrium level, which increased the scope for dismissals in the following years."

<sup>15</sup> For this purpose the social contributions are: premium for health insurance, sickness insurance, pension security and contribution for unemployment insurance

year), by a personal allowance of SK 38,760 and by an allowance of SK 11,400 for each child.<sup>16</sup> The lowest 12% rate of taxation applies to the first SK 90,000 of taxable income, followed by a rate of 20% on the next SK 60,000. A number of changes were made to the tax code in the year 2000 aimed at reducing the tax burden at lower earnings levels – the personal allowance increased sharply from SK 20, 400 to SK 38,760, and the initial rate of tax was reduced from 15% to 12% while at the same time increasing the income band to which this rate applies from SK 60,000 to SK 90,000.

In 2001 social contributions are payable at a rate of 12.8% by employees and 38% by the employer. The ceiling on the assessment base for all types of social contribution is set at SKK 32,000 per month, equivalent to just under three times economy-wide average earnings in the year 2000.

### *Issues and policies*

The combined rates of income tax and social contribution are high, leading to a high effective "tax wedge".<sup>17</sup> Thus the "wedge" for a single worker on two-thirds average earnings is currently 40%, rising slightly, to 41%, where the worker is on average earnings. The burden of tax and social contributions at the lower of these two earnings levels is particularly high by international standards.<sup>18</sup>

Moreover, the *marginal* tax burden is high even at relatively low earnings levels, and rises further as earnings rise. The marginal tax wedge, including employer's social contributions, represents 44% of incremental labour costs for a single worker at two-thirds average earnings, and rise to 54% just above average earnings.

There are growing concerns that high tax rates and (particularly) social contributions are encouraging both employers and employees towards informal employment. At the same time, despite the level of the contribution burden, health insurance companies and the Social Insurance Agency suffer from shortages of resources, primarily due to failure to pay social contributions by the employers and other payers (including social contributions withheld from employees but not reported by employers).

In response to these problems, measures have been adopted to increase compliance with payment discipline and to improve the management of financial resources in these insurance companies. An agreement of co-operation and co-ordination on measures to control illegal labour was signed in April 2000 between the Ministry of Labour, Social Affairs and Family, the Ministry of Finance, the Ministry of Interior, the National Labour Office, the Social Insurance Agency, and the Occupational Safety Office (from 1 July 2001, the National Labour Inspectorate). Initial analytical work carried out so far under this agreement has led to draft proposals for legislative and organisational changes, approved by the Slovak Government in April 2001.

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<sup>16</sup> These are the standard deductions. Higher deductions are available, e.g. where a dependent child is disabled or where the tax-payer is a beneficiary of partial disability pension or full disability pension

<sup>17</sup> I.e. personal income tax plus employee's and employer's social contributions as a proportion of total labour cost including employer's contributions

<sup>18</sup> In 1998, the latest year for which comparable international data are available, the lowest wedge for a single worker on two-thirds average earnings in the EU was in Ireland, at 23.4%. The median value across the EU member states was just over 39%. At average earnings, the median EU wedge was 44% (*Taxing Wages 1998-99*, OECD 2000)

More generally, the Slovak Government is planning measures to reduce further the overall tax burden on employees, by varying both tax brackets and increasing the level of basic exemptions. With the effect from 2002, it is planned to increase the tax allowance in respect of each dependent child from SKK 11,400 to SKK 16,800. Preparations are also under way to simplify tax administration for small and medium-size businesses. The pace of tax reductions will depend upon the pace of implementation of the reform in major fields of public expenditure.

#### *Assessment*

***The high tax wedge represents a significant barrier to the creation of jobs at relatively low wages, and a disincentive to unemployed in taking up such jobs. Moreover, high marginal rates of tax and social contributions promote employment in the "grey economy", which continues as an important element of the Slovak labour market .***

***Reductions in the tax wedge, particularly at lower earnings levels, should thus be an urgent policy priority. Given the current financial state of the various insurance companies, the scope for such reductions must come through***

- a) improved social contribution collection systems,***
- b) better targeting and control of expenditures from the insurance companies.***

#### **Income maintenance for the unemployed**

##### *Current Situation*

Unemployment benefit is payable to people who have lost their job. To be eligible for such benefit, an individual must be insured in his/her employment for two of the last three years prior to claiming benefit. Benefit is granted for 9 months (if an unemployment insurance contribution was paid by the individual concerned for more than 15 years), otherwise for 6 months. If the unemployed individual left his/her last job without any serious reasons the duration of benefit is reduced by half. The rate of benefit is 50% of previous earnings for the first three months and 45% for the remaining months, subject to a maximum monthly benefit payment of SKK 5,235. Where unemployment insurance has not been continuous over the preceding six calendar months, the rates of 50% and 45% are applied to a notional earnings figure of SKK 3,000, yielding an initial monthly payment of SKK 1,500 for the first three months.

The average amount of unemployment benefit granted in 2000 was SK 3,296, equivalent to about 40% of average net earnings for the year 2000. The number of beneficiaries receiving the maximum unemployment benefit (SK 5,235) fell significantly between end-1999 and end-2000. The most common payment amount is now SKK 1,500, suggesting that significant numbers of the newly unemployed have been in only intermittent employment. The average duration of UB receipt was 5.7 months and the average number of beneficiaries was 111,567 persons (or 22% of the average number of registered unemployed).

Where entitlement to UB has been exhausted, or where the amount of benefit is lower than the subsistence minimum, an individual is entitled to seek a social assistance benefit under the Social Assistance Act. Social assistance benefit is granted to persons



in substantive need. The amount of the benefit is calculated on a household basis, and is equal to the difference between the net income of the household, from all other sources, and a "subsistence minimum level" that varies with the size and composition of the household. Since June 2000, the monthly subsistence minimum is set at SK 3,490 for a single person, SK 5,930 for a couple without children, and SK 9,090 for a couple with two children.<sup>19</sup> One of the conditions for eligibility for social assistance is that all adults in the household are either employed, retired, disabled or registered as unemployed. Up to the end of 2000, where at least one adult is in employment, the monthly subsistence minimum for the household was increased by 20%; however, this provision was removed with effect from January 1 2001.

In January 2001 social assistance benefit was being paid to 308,800 beneficiaries, of whom 283,000 (91.6%) were registered as unemployed. The average social assistance benefit was SK 2,674, equivalent to 32.4% of the average net wage in the Slovak economy in the year 2000. Out of the total number of social assistance beneficiaries, 48.6% fell under subjective reasons, i.e. the amount of their benefit is set at the difference between their net income and 50% of the subsistence minimum; and 45.8% were beneficiaries due to objective reasons for the substantial need, i.e. their benefit is made up the difference between income and 100% of the subsistence minimum. At present, 5.4% of beneficiaries are receiving benefit based on 120% of the subsistence minimum; however their claims are gradually reviewed within the meaning of the Act.

#### *Issues and policies*

There has been a prevailing awareness that the system of income maintenance is over-complex and has side effects on employment incentives through the creation of poverty- and unemployment-traps. To eliminate such effects, several reforms in the income maintenance system have been implemented during recent years.

In December 1999, the contribution condition for unemployment benefit was raised (from one to two years out of the last three prior to claiming), the duration of benefit was reduced from 12 to 9 months, and the rates of payment were reduced from their previous levels of 60% for the first three months to 50% and from 50% thereafter to 45%. Shortened eligibility duration (by half) was introduced for persons who had left their last job voluntarily, and stricter eligibility criteria were introduced for school-leavers seeking benefit.

Since December 1999 school leavers and graduates have automatically been assessed to be in substantive need due to "subjective reasons" for the purposes of becoming eligible for social assistance benefit.

Despite these changes, the system of maintaining income remains unnecessarily complex, particularly in terms of the interaction between the unemployment benefit regime and the one of social assistance. Most recipients of unemployment benefit also have a separate entitlement to top-up their income by social assistance payments, thus leading to administrative duplication. In addition, the social assistance system contains significant employment disincentives, at least for certain categories of

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<sup>19</sup> These amounts apply where the individual's requirement for social assistance is based on "objective reasons". Where the requirement is based on "subjective reasons" – e.g. has been caused by him or he has not applied for his other legal claims – these amounts are reduced by 50%.

citizens. Payments for a family with two children (SK 9,090 for "objective" and SK 6,125 for "subjective" reasons) are at the level of the average net wage in the Slovak economy overall of SK 8,260 (in 2000) and the average net wage in the social care sector accounting for SK 6,125 in 2000.

The Slovak Government is conscious, therefore, of the need for better co-ordination between the unemployment benefit and social assistance systems, primarily in terms of their impact on job-search among the unemployed. In reviewing the system, the government intends to pay particular to relative incomes when in and out of work, taking account of travel costs to/from place of work, and of expenses on accommodation when travelling further afield for jobs. The review will also assess the extent to which job-search and availability criteria are adequately enforced by the organisations responsible for paying the various benefits and allowances.

#### *Assessment*

***A number of problems have been identified in the system of income maintenance for the unemployed – replacement rates relative to earnings from employment are high for at least some categories of beneficiaries; the social assistance system is unnecessarily complex; the interaction between social assistance and unemployment benefit is also complex and weakens effects of recent reforms in unemployment benefit system; support for active job-search among recipients of unemployment benefit and social assistance benefit, and monitoring of the job-availability criteria for eligibility for the payments, appears relatively limited.***

***The review of unemployment benefit and social assistance benefit systems should be considered as a matter of urgency, and focus on the identified shortcomings in the systems. The objective should be to remove work-disincentives as far as possible. Better targeting and control should also help relieve financial pressures on both the insurance budgets and the State budget, thus increasing the scope for the necessary reductions in tax and contribution burdens. Consideration should also be given to the introduction of in-work benefits for some categories of worker.***

#### **Pensions**

##### *Current situation*

Pensions are currently financed on a pay-as-you-go basis. The retirement age is set at 53 to 55 years for women depending on number of children brought up and 60 years for men. Depending on the retiree's work history, the pension newly awarded in the year 2000 could range from a minimum of SKK 2,337 to a maximum of SKK 7,740 per month. The actual average pension payment as of 31 December 2000 was SKK 5,382 per month.

The current pension system contains some motivation to people to remain employed beyond the normal retirement age. In such cases, as long as the person concerned does not draw a pension, the pension entitlement is increased by 6% for each full year of employment after the right to old-age pension has been established. Part-years of employment beyond the retirement age are taken into account on a *pro-rata* basis.

##### ***Issues and policies***

As noted in Section 2, labour force participation is relatively low for women aged 55-64 and for men aged 60-64. In addition, the size of the population in these age groups

is projected to rise relative to the population of working age. As a result, on current policies, pension costs are likely to impose more and more a burden on the public finances.

According to the Concept of Social Insurance Reform of August 2000, the Government plans to reform the pension system by introducing an element of funding (“capitalisation”). Within this reform, becoming effective from January 1 2003, the pension age for women will be raised progressively to the current pension age for men, i.e. 60 years. The proposed system will not make provisions for the possibility of early retirement. These changes are expected to increase the size of the effective working-age population by approximately 60,000 by 2006 and increase labour-force participation in the older population. The Government also intends to review possible further measures to increase participation of older workers (e.g. support for flexible working time arrangements, facilitating access of older workers to different forms of further training).

#### *Assessment*

***The current direction of pension reform is appropriate given the low level of labour-force participation in the older population. Over the longer term, the expected retirement age of 60 years for both men and women may still be too low in the light of prospective demographic developments. It should therefore be kept under review.***

### **3.3.3 The Public Employment Service**

#### *Current Situation*

An effective public employment service is an important instrument of employment policy in a period of economic transition and re-structuring. The PES has a critical role in people's adjustment to changed circumstances – supporting and encouraging mobility and flexibility, by helping people identify and acquire the skills, attitudes and other attributes that are required in new and developing parts of the economy. Particularly in the context of the high levels of unemployment obtaining in Slovakia, there is a need for a more active and preventive approach to unemployment. The capacity of the PES to develop such an approach depends in part on the level of resources devoted to it and on how these resources are deployed.

As already noted, the NLO has an overall staffing level of almost 5,000, representing a ratio of one staff member for each 100 unemployed. However, a significant part of the staff are devoted to functions other than those of a typical PES (notably the collection of insurance contributions and the payment of unemployment benefits). For professional front-line PES staff (1,746 staff as of January 1, 2001), the ratio to the total unemployed is approximately 1-to-300. Even allowing for the fact that the ratio would be somewhat reduced if clerical and other back-up staff directly related to PES functions were included, this ratio is high by international standards. This relatively large workload is reflected in the extent of access for unemployed people to employment services. Although the network of regional and district PES offices is relatively dense (one district labour office for every 60,000 of population), the times at which the offices' facilities are available to the public are rather limited – on average they are opened for public for 4 hours per day, and on only one afternoon in each week.

PES quality is directly affected by PES staff education and skills. Currently, NLO staff can improve their skills through training at the NLO Training Institute or externally. Training is complemented by methodological guidelines and instructions issued on an ongoing basis for job brokers, consultants, inspectors and staff in other functions with the objective of providing a uniform level of PES service throughout the nation-wide network of NLO offices.

The effectiveness of the NLO staff is also enhanced through the application of information technology — widely used in the NLO internal administration for purposes such as e-mail and communication of management information. Application to job-broking and related PES functions is however more limited. Although there is a nation-wide vacancy database, in practice job-brokers and clients have access only to information from their own local area. District offices have limited access to the Internet, which restricts their ability to offer appropriate self-service facilities that might reduce the routine work-load of front-line staff and free them for more intensive work with priority groups among the unemployed.

#### *Issues and policies*

The priority for the future development of the PES will be to implement the government's objective of offering a "chance" to unemployed persons aged 29 and under before they reach six months of registered unemployment, and to persons aged 30 and over before they reach 12 months unemployment (Measure no. 8 of the National Employment Plan). To move towards this objective, the National Employment Plan envisages more widespread use of individual employment plans for the newly unemployed, as well as the introduction of new or expansion of existing programmes for activation (employment subsidies, retraining and work-experience schemes) that could form the basis of such a chance.

However, the core of such an active strategy must be the PES' establishing meaningful contact (including the drawing up of a re-employment plan) with all of the unemployed at an early stage in their unemployment spell, and maintaining such contact on a regular basis thereafter. This is necessary to allow systematic support and assistance for individual unemployed people, monitoring individuals' job-search strategies, and the identification of appropriate employment-subsidy or re-training interventions for those requiring such enhanced assistance. In-depth contact with the registered unemployed would also help in identifying, at the individual level, barriers to re-employment including objective barriers caused by the tax and benefit systems, thus contributing to the design of necessary reforms in these systems.

The National Employment Plan recognises the need to reinforce further the job-mediating and advisory services of the NLO relative to its other activities (Measure 18). A special fund of SKK 100 million has been set aside for 2001 from the State budget to support development of the NLO's work with individual unemployed people. In addition, measures to improve the management of the collection of insurance contributions are planned in order to release additional NLO staff from this type of administration for more direct work with the unemployed. However, at present the National Employment Plan is not specific on the procedures to be followed in relation to systematic contact with the unemployed, or on their resource implications for the NLO functions. (These matters lie within the competence of the NLO.)

The National Employment Plan envisages a significant development of the PES and sets a number of objectives for it to be achieved:

- specification of tasks for a range of NLO activities within an annual performance plan (Measure 7)
- evaluation of the effectiveness of the current system of governing boards in the NLO at three separate levels (national, regional, district) (Measure 11)
- continued development and improvement of the national information system on job opportunities as "a comprehensive universally available national communication instrument for job mediation" (Measure 15)
- increasing service quality in the NLO primarily for the registered unemployed, other citizens searching for a job, and employers (Measure 18).

Again, the Plan tends to identify only general objectives in these fields. The actions specified for the year 2001 involve, in many cases, a process of analysis and evaluations leading to the preparation of measures and targets for the future period. It is envisaged that more precise targets will be set in planning documents for subsequent years.

#### *Assessment*

***An active PES, capable of initiating regular and effective contact with the individual unemployed throughout their spell of unemployment, will be essential to achieving the government's objective of a "offering a chance" for young people and adult unemployed. The PES activation plan should be drafted to identify procedures, personnel and other resources for the implementation of such an approach, based on performance standards in the field of job intermediation and consulting.***

***PES activation will require additional resources to be devoted to the front-line PES activities of the NLO (job-broking, support for individual job-search, preparation of individual employment plans). It is important therefore, to move quickly to implement measures that will release NLO staff resources for application to front-line services, including:***

- ***streamlining the NLO's involvement in collection of contributions for unemployment insurance,***
- ***increasing the use of information technology, particularly through widespread use of the Internet to improve the flow of information on vacancies, on a self-service basis, to jobseekers.***

***Increased front-line staffing should also allow the PES to increase the quality and accessibility of its services to both employers and job seekers (e.g. through longer office opening hours).***

### **3.3.4 Active labour market programmes**

#### *Current situation*

Total expenditure on active labour market programmes was SKK 1.6 billion in 2000 – equivalent to 0.18% of GDP in current prices. Apart from the limited provision of re-training for the unemployed discussed in Section 3.2 above, the main active labour market policy measures take the form of employment subsidies for so-called "negotiated jobs" for two groups – young people and the long-term unemployed. Out of the total expenditure of SKK 1.6 billion, 4% was used for retraining programmes, 86.4% for "negotiated jobs", and 9.7% for promoting employment of disabled people.

#### **Support of employment of young people**

To tackle unemployment among young people, a pilot project titled "Short-term programme supporting the employment of young people" was commenced in May 2000 in six districts. The programme was operated by the NLO and 2,400 young people aged 18 to 26 years participated. This programme was targeted on a whole variety of consulting and mediating activities, such as job fairs, social and psychological training, and many active labour market policy tools were used such as re-training (re-skilling), support for creating job opportunities, etc. After its immediate completion 25% of young people participating in the programme remained registered with labour offices. SK 14.4 million from the NLO budget was used to carry out this pilot programme. In 2001 the programme is going to be extended to cover the whole country and 14,000 registered unemployed people will be involved. SK 50 mil has been allocated from the State budget and an additional SK 50 mil from the NLO budget for the programme's implementation.

A programme supporting one-year study visits by university graduates at central state authorities has been running for several years. Preparations are underway to extend this programme to secondary school leavers, and to employers in regional and district government as well as private enterprises.

#### **Employment support program for the long-term unemployed**

Long-term unemployment (defined as registered unemployment lasting in excess of one year) increased from 38.2% of all unemployment in December 1998 to 43.6% in December 2000. Responding to this development, in August 2000 the Government started to implement an "Employment Support Programme for the long-term unemployed". The programme allows district labour offices to conclude agreements with non-profit-sector employers to hire a long-term unemployed person for a specified duration into "public beneficial" jobs. The employer receives a monthly subsidy of up to SKK 4,537 per month (1.3 times the minimum wage for a single adult person) for each worker recruited under the programme. The district office also pays the employer a subsidy for social security contributions for such jobs. Funding from the national budget amounting to SKK 1.3 billion was set aside to finance these jobs in the year 2000.

Since the beginning of August until the end of the year 2000 67.3 thousand people (representing 13% of an average number of registered unemployed in 2000) were placed within this programme.

#### *Assessment*

*Active labour market programme expenditure and participation in these programmes remain low relative to the scale of unemployment in Slovakia. Moreover, the vast bulk of expenditure goes on creation of temporary jobs – opportunities for re-training for the unemployed are extremely limited.*

*There is therefore a need to expand active labour market programmes, with a particular stress on re-training and other measures targeted on enhancing the skills and employability of the unemployed. The PES should have a central role, based on its systematic contacts with the unemployed and on its knowledge of the needs of the labour market, in determining the content of expanded active programmes. The objective should be to ensure relevant training opportunities for as many as possible of the registered unemployed, particularly those in "at-risk" groups.*

### **3.3.5 Regional aspects of employment policy**

#### *Current Situation*

As noted in Section 2, Slovakia is marked by significant regional and local imbalances in the economy and the labour market. Almost 43% of the Slovak population live in "problematic" regions as defined in the National Development Plan. Outside Bratislava, the level of GDP per capita in the Slovak regions varies between 29% to 44% of the EU average figure.

The priority given by government to addressing regional problems has been reflected in a series of policy documents, notably the Integrated Regional Development Plan (October 1999) and the National Development Plan (March 2001). Principles for the allocation of responsibility for regional policy among the various tiers of the State administration are set out in the draft Act on Regional Development Support, which has been agreed by the government and submitted to parliament in July 2001.

Support for small and medium-sized enterprises (SMEs) as a tool for support of regional development is one of priorities for the economic policy of the Slovak government. The National Agency for Development of Small and Mid-Size Enterprises was set up by the Slovak Government in 1993, to co-ordinate all activities to support small and mid-size enterprises at local, national and international levels, and an advisory body to government, the Governmental Council for Small and Mid-size Entrepreneurship, was established in 1999. A state programme to support development of small and mid-size enterprises for the years 2000 to 2005 was approved by the government in September 2000 targeting on new technology transfer, consulting, support of international co-operation, loan and micro-loan systems, training support and educational activities. The development of SMEs is also supported through tax reliefs; since 2000 the income tax of legal entities has been reduced from 40% to 29%. In addition, a new option has been introduced for micro-enterprises to pay a flat tax based on revenue.<sup>20</sup> Book-keeping and reporting obligations have also been eliminated for such firms.

New legislation came into force in 2000 regulating, inter alia, the criteria for State support for SMEs. The support may be in the form of direct State aid (subsidies, grants) or of indirect aid (loan guarantees, sale of public assets at below-market

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<sup>20</sup> Total revenues up to SK 500,000 are taxed at 2 % rate, up to SK 1 mil are taxed by 2.25 % tax rate and up to SK 1.8 mil a flat tax of 2.5% applies

prices, advisory and consulting services). The legislation provides for relatively favourable state-aid terms to be granted in districts where the living standard is very poor or unemployment rate is very high.

Policy also supports direct foreign investment through tax credits as well as a range of measures to improve the legal and regulatory environment for foreign investors. The tax-credit measures, in particular, are targeted on supporting foreign investment inflows in districts where the unemployment rate exceeds 10%.

Encouraging regional mobility in the labour force is also important. Housing policy (support for housing development and for a properly functioning housing market) is seen as one way to achieve this. A range of measures has been taken: privatisation of publicly owned housing and housing owned by co-operatives, housing subsidy reductions and de-regulation of the housing market. New forms of financing have been introduced for housing purchases. There is support for housing construction for low-income families, a programme of infrastructure construction and a programme of reconstruction of houses and apartments and construction of technical infrastructure of apartments.

#### *Issues and policies*

The existing range of measures to support SMEs and inward investment has had only a limited effect in reducing regional disparities. The government is therefore conscious of the need both to improve the effectiveness of these measures and to increase their targeting to the most disadvantaged regions.

A number of measures to support development of businesses is set out in the National Employment Plan. These include steps to improve the business environment through further simplification of tax and financial legislation; improved consulting and advisory services for SMEs; and specific supports for co-operative enterprises. Enterprise incentive measures are being reviewed and up-dated to ensure their compliance with the EU *acquis*.

The objective of the process of public administration reform is to improve the functioning of regional and district administrations by decentralising and delegating powers to local level. This will create better conditions for supporting regional development and job-creation on a local level. In addition, some national measures (e.g. support for co-operatives, creation of "industrial parks and zones") are targeted in particular on high-unemployment areas.

Despite the government's efforts, housing construction has lagged behind the pace of demand, and regional mobility in the labour force continues to be constrained by the operation of the housing market. There are significant differences in costs for housing in prosperous and backward regions and travelling costs remain high compared to the average net wage. While the government is of the view that specific labour-market policy measures in support of regional mobility might help counteract these problems, no specific proposals in this area have been included in the National Employment Plan so far.



#### *Assessment*

***Addressing regional imbalances will be achieved principally through policies for development – enterprise and FDI supports, improving the climate for business, improving infrastructure, and increasing the capacity of regional and district public administrations to respond to local conditions. In each of these areas, central government support should be closely and consistently targeted on areas with high levels of unemployment.***

***The main barriers to regional mobility relate to housing. Therefore more intensive efforts should be made to make the housing market functional.***

***Barriers to regional mobility may also exist within the system of income maintenance for unemployed people; attention should be drawn to reviewing the overall income maintenance system for the purpose of identifying such barriers.***

***Expansion of the retraining and human resources element in active labour market programmes should also be targeted on high-unemployment regions, and the type of training provided should be linked to the priorities of the National Development Plan.***

### **3.3.6. Equal Opportunities for women and men**

#### *Current Situation*

Aggregate-level indicators are not suggestive of significant disadvantage for women in labour-market outcomes in Slovakia. Thus, the employment rate for women is close to the EU average, and the gender-gap in employment rates is low by EU standards. Nor has there been any significant gap between male and female unemployment in recent years. However, the equality of aggregate employment and unemployment must be seen in the context of the generally higher standard of education in the female than in the male workforce. Increasing female employment will have an important role to play in raising the overall employment rate from its currently low level.

Moreover, some inequalities in labour-market outcomes do persist. More of the female unemployed, for example, remain out of work for long periods. Women's earnings are also significantly below those of men – partly because of wage-differences within occupations, but largely because of the concentration of women in occupations offering relatively low pay rates.<sup>21</sup>

Equal opportunities legislation derives from Article 12 of the Slovak Constitution where fundamental rights and liberties are guaranteed within the Slovak territory regardless of sex, race, colour of skin, language, religion and faith, political or other thoughts, national or social origin, minority or ethnic group, family or other position. The revised Labour Code adopted in 1999 introduces the principle of equality in the field of employment. *Inter alia*, the Code provides for equal pay for equal work.<sup>22</sup> Equal treatment for part-time workers is also guaranteed. The new Labour Code, approved by parliament in July 2001 and due to come into effect on 1 April 2002, will prohibit indirect discrimination; place the burden of proof on the employer in equal

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<sup>21</sup> For example, women dominate occupations such as teachers at elementary schools, library employees, accounts clerks, health care jobs, social workers, cooks, etc. On the other hand, men dominate in occupations such as managers, IT staff, designers, manual jobs in manufacture and maintenance, assemblers, service of machinery in metallurgy, etc.

opportunities cases; and provide for equal treatment of men and women in relation to parental leave. The existing Labour Code bans discriminatory job-advertisements

A National Action Plan for Women in Slovakia was approved by the Slovak Government in 1997, with the objective of improving the position of women in Slovakia over a ten-year period. The Plan involves "mainstreaming" of gender equality into a wide range of government policies, and progress is evaluated annually at the end of April. This enables the identification of issues that have not been addressed sufficiently. The main issues identified in the most recent assessment report of implementation of the National Action Plan for Women include: continuing inequality in average pay between men and women, difficulties posed for women by the "double burden in employment and at home"; and particular difficulties in relation to access to credit finance for women starting up new businesses.

In March 2001 the Equal Opportunities Concept for Men and Women was approved by the Slovak Government. The Concept is a strategic document identifying the main areas of women's discrimination in society, with associated measures to eliminate it. The labour market is defined as one of the areas where inequality is most transparent. Other areas include public and political life and harmonisation of family and working life. The Concept assumes, in line with the mainstreaming principle, that all elements of society will participate in eliminating inequalities, including the area of employment and the labour market.

Starting in 2000, the Ministry of Labour, Social Affairs and Family launched an audit called "Family and Work". The objective is to value employers who create a favourable working environment for persons with family commitments and ensure equality of men and women at work.

#### *Issues and policies*

The concentration of women into certain occupations, particularly those with lower rates of pay, is the main continuing source of gender inequality in the labour market. This suggests that the main focus should be on ensuring the effective implementation of policies on equal opportunities in access to employment. A number of issues arise in this regard.

First, at present persons interested in vindicating their rights under equal opportunities legislation must use a range of different legal channels. A more effective way would involve the creation of a single public agency devoted to active enforcement of the anti-discrimination legislation, including systematic dissemination to women of information on their legal rights, and support to them in vindicating their rights. Recognising this fact, an Act on Equal Treatment and an Act establishing the Centre for Equal treatment are being drafted.

Second, women's access to employment would be enhanced by more general measures to promote family-friendly patterns of employment for both women and men who take care of children. Some public incentives for employers in this area already exists, and further possible measures are being discussed with the social

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<sup>22</sup> "Equal work" is defined as " work which is equally complicated, having equal responsibility and intensity carried out under the same working conditions and achieving the same performance and outputs of the work".

partners. Wider availability of part-time work opportunities would be one way of addressing this issue.

Third, although women (including those returning to the workforce after an absence while caring for children) are in the majority among participants in re-training programmes, the overall availability of retraining opportunities remains low.

Insofar as wage inequality within occupations remains a problem, it is necessary to review the relatively restrictive definition of "equal work" in the relevant legislation (see footnote 20).

#### *Assessment*

***Equal opportunities legislation will be strengthened by the recently-approved revisions to the Labour Code. The creation of the ombudsman position for equal treatment should lead to enhanced application of existing and new equal-opportunity legislation. Priority should also be given to positive communication of individuals' rights under the legislation.***

***Continued attention should be paid to developing measures to promote "family-friendly" employment patterns for women and men with child-care responsibilities – including increased opportunities for part-time employment.***

### **3.3.7 Minority Equality**

#### *Current Situation*

One of the crucial issues in Slovakia related to equal opportunities of minorities is the low social and economic status of the Roma population who make up the second biggest minority in Slovakia.

The disadvantaged situation of the Roma on the labour market is attributable to a range of factors:

- Education levels among the Roma continue to be relatively very low. Roma children are over-represented in so-called "specialised schools" for mentally retarded children. Failure to complete elementary education, and to progress to secondary level schooling is far more frequent among Roma children than among other groups of children. As a result, the proportion of Roma students in the secondary school system is low and most of them are trained to be manual workers. The proportion of Roma students in the university system is minimal.
- Roma's access to the labour market and to education is also hampered by their living conditions. According to official data a significant part of the Roma population (about 126 thousand) live in settlements with poor road access, that are also lacking in public utilities.
- In spite of the legislative ban on discrimination in access to employment, the signals do exist that there is a discriminatory approach adopted towards the Roma population in this area.

### *Issues and policies*

The complex nature of the problems facing the Roma national minority has led the government to apply a wide-ranging approach to the issue. The office of a Governmental Plenipotentiary was established in 1999 to address the issues of the Roma minority, and a "Strategy for Addressing the Roma Minority Problems and a Set of Implementation Measures" has been approved by the Government.<sup>23</sup> Effective implementation of anti-discrimination will also be enhanced by the creation of the position of Ombudsman referred to earlier, and by the introduction of monitoring of labour-participation of ethnic groups and their participation in active labour market programmes.

In 2000 the Government approved 56 projects costing over SK 10 million operating in education, culture, employment, the social field and the health condition of the Roma population. To fund other systematic actions addressing Roma problems the Government has developed a Phare-supported Minority Development Project for the years 2001 to 2002 costing 4 million EURO. To support an anti-discriminatory approach, PHARE has allocated between 1998 and 2000 around € 8 million for Roma projects to promote mutual tolerance, to improve the situation in schools and to enhance access to the labour market.

In terms of implementing the overall Strategy for Roma Minority Problems, the government has identified three basic priorities for action for the year 2001 – education, living conditions, and unemployment.<sup>24</sup>

Although precise data on the educational attainment of the Roma population are not available, **educational disadvantage for Roma** is seen as particularly important. The Slovak Ministry of Education is preparing a Concept of Upbringing and Education of Roma children., which will, *inter alia*, provide the basis for a PHARE "Roma Education" Project. Experiments have been made with preparatory classes for Roma children at elementary schools, and the number of such classes is increasing gradually. Specific measures aimed at improving the **living conditions** of Roma include a World Bank-supported project to construct more than a thousand apartments for Roma families.

In relation to **employment**, recruitment to active labour market programmes is, in general, concentrated on long-term unemployed people with low qualifications; given the prevalence of Roma within these groups this represents a significant degree of *de facto* targeting. In addition, a number of initiatives are being taken that focus specifically on enhancing Roma participation in programmes:

- A project is under way involving some 700 long-term unemployed Roma in collection of data to provide an "inventory" of human resources in the Roma population and of the problems they face in the labour market. Participants are being provided with training in advance and will be employed on the project for approximately three months. A smaller team of 30 Roma with relevant

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<sup>23</sup> The strategy is set out in two documents, the first of which received Government approval in November 1999 and the second in March 2000.

<sup>24</sup> These priorities are set out in "Report on the Slovak Republic's Progress in its Integration into European Union September 2000 - June 2001", approved by the Slovak government in June 2001.

qualifications will be employed to analyse and report on the findings, and this report will be used as the basis for developing additional measures and policies.

- An enhanced version of the public works programme is to be piloted in three districts. Under the pilot, Roma civic organisations are being involved in the identification of projects of specific relevance to the Roma population, and in the identification and selection of long-term unemployed Roma who would be interested in working on such projects. Those selected will be provided with relevant training in advance of being recruited to work on the projects. It is envisaged that approximately 200 Roma will be employed in each of the pilot areas.
- Special measures have been taken to promote the employment of qualified young Roma under the general national programme of support for youth employment. This involves advance identification of employers willing to recruit individual young Roma on the basis of aptitude-test results. The young people are then provided with specific training prior to recruitment to these “guaranteed” subsidised jobs. This approach is seen as having been particularly successful both in breaking down employer prejudices and in motivating the young people involved.

More generally, given the geographic concentration of the Roma population, regional programmes in selected Slovak regions can play a crucial role in supporting development in Roma communities. Finally, acknowledgement of the Roma language in line with the European Charter of Regional or Minority Languages, signed by Slovakia in February 2001, may contribute significantly to the development of educational levels while supporting the maintenance of Roma identity.

#### *Assessment*

***The main focus of efforts to improve the labour market situation of the Roma population should continue to be on measures to increase their participation levels in basic and secondary education, as well as in an expanding range of re-training programmes.***

***Given the evidence of continuing discrimination against Roma in their access to employment, greater efforts are required in the improvement, monitoring and enforcement of existing anti-discrimination legislation.***

### **3.3.8 Social Partnership**

#### *Current Situation*

Social dialogue on employment policy issues takes place at a number of levels:

- tripartite dialogue at national level in the Council of Economic and Social Agreement, and in governing bodies of the Social Insurance Agency, National Labour Office and health insurance companies
- bi-partite social dialogue (collective bargaining) at sectoral level
- micro-level – bipartite-based social dialogue among employers and trade unions at an establishment level.

The role of the Council of Economic and Social Agreement is regulated by legislation dating from 1999, which provides that social partners are involved in drafting legislation and any other principal documents in the economic and social field including employment policy. The Council of Economic and Social Agreement has played an important role in promoting understanding between the Government, trade unions and employers on issues in the fields of the economy, employment policy, and income and social policy. The Council has also been important in developing agreement on employees' and employers' rights resulting from valid legislation and ILO conventions and recommendations. Recent years have also seen increased tripartite involvement in advisory bodies in the field of education at national, regional and local level, particularly in relation to the alignment of vocational education with the needs of the labour market.

In June 2001, an official Joint Consultative Committee has been established as a forum for dialogue between the Slovak social partners and those in the EU (as represented by the Union's Economic and Social committee). This will allow the Slovak partners to familiarise themselves with the consultation processes of ECOSOC and with the social dialogue in the EU in general. At the same time, the EU partners will have the opportunity to familiarise themselves with the social dimension of the reforms of the economic and social structures taking place in Slovakia.

#### *Issues and policies*

Difficulties for bi-partite collective bargaining are caused by a decline in union membership to its current level of 35% of all employees. As a result, most SMEs do not have any trade union organisations or units, so a significant part of employees are not protected. To address this issue, the new Labour Code provides for the establishment of employees' councils representing all employees in firms where no trade union operates.

As a further measure to support bi-partite dialogue, training has been provided for already practising and newly appointed intermediaries and arbiters to improve their ability to provide impartial and objective assistance in different phases of collective bargaining. A PHARE Project "Social Dialogue Development on a bi-partite level" has been drafted, implementation of which is predicted to be launched in September 2001 with the assistance of Holland and United Kingdom.

#### *Assessment*

***Social partnership already plays a significant role in the formulation and implementation of employment policy at national and regional level. Continued involvement of the social partners will be important to success in a number of areas – particularly in implementing PES development, expanding training opportunities for the unemployed, and reforming vocational education.***

### **3.3.9 Preparation for Implementation of the European Social Fund**

This Joint Assessment of employment priorities constitutes an important preparatory document for developing a national and regional strategy for potential assistance by the European structural funds after accession of Slovakia to the European Union and, until then, through the PHARE programme.

The institutional framework for utilisation of structural funds – primarily the European Regional Development Fund (ERDF) and the European Social Fund – is being established, with the use of SPP (the special preparatory programme) of the European Union, in the SR Governmental Office, and with the SPP for utilisation of the European Social Fund through the European Training Foundation (ETF) in Turin. A National Development Plan has been prepared, co-ordinated by the Slovak Ministry of Construction and Regional Development and its temporary controlling structure, the Preparatory Council for structural funds. A proposal for the establishment of a more permanent national steering and monitoring committee is under consideration by the government.

The Slovak Ministry of Labour, Social Affairs and Family has drafted a Sector-based Operational Programme “Human Resources” and ensures its co-ordination with regional operational programmes. The Ministry also intends to establish a special structure as the managing authority of the European Social Fund, including a central payment agency. Initial responsibilities of this unit will be to co-ordinate and monitor ESF-type pre-accession activities in the field of labour market policy, as well as dissemination of information on the ESF and on the requirements of the labour market. The co-ordination work will be ensured by departmental PHARE structures at the Slovak Ministry of Labour, Social Affairs and Family, the National Labour Office and the Ministry of Education).

#### *Issues and policies*

A number of issues remain to be dealt with in the preparations for ESF utilisation, in particular:

- Establishment of a national monitoring committee for the sector-based “Human Resources” operational programme
- clarification of the relationship of the ministerial structure for the Sector-based “Human Resources” OP with regional controlling structures of the ESF and with ERDF control structures
- the role of implementation units within the NLO and the Slovak Education Ministry

The government's priorities for 2001 include resolution of these issues as well as enhancing of qualification and skills of employees working for both the management authority and the implementation units.

#### *Assessment*

***The Government should move urgently to finalise the arrangements necessary for effective utilisation of the ESF.***

#### 4. Conclusions

The Slovak Republic has made substantial progress in the restructuring of its economy and in its approximation towards a market-oriented and socially oriented economy.

The Commission's *Regular Report 2000* states that "Slovakia may be regarded as a functioning market economy", although it also points to risks in relation to fiscal policy, to the need for effective implementation of the legislative framework for business activity, and to the need for further progress in privatisation and banking supervision. Also, Slovakia "should be able to cope with competitive pressure and market forces within the Union in the medium term, provided that the structural reform agenda is fully implemented and broadened to include remaining reforms".

Clearly, sustainable macro-economic policies and the programme of broad economic reforms will be essential to ensure the competitiveness of Slovakia and thus underpin economic and social progress. But employment policy and labour market reforms will also have a crucial role to play, for several reasons. Extremely high unemployment is the greatest macro-economic imbalance, and the clearest evidence of the competitive pressures faced by Slovakia. Moreover, the labour market displays a number of clear structural features – most notably a high level of long-term unemployment; very high unemployment among those with lower levels of education; high youth unemployment; wide regional variation in unemployment, and extremely high unemployment among the Roma minority. Employment rates are also low, and continuing re-structuring will pose further employment challenges. It is essential therefore that employment and labour market policies should be supportive of the broader process of economic reform, and thus help maximise the employment impact of expected economic growth.

This Joint Assessment Paper has identified a number of priority policy areas where progress is still needed in the Slovak labour market and where ongoing monitoring should be carried out in the context of the Employment Policy Review:

- Committed implementation of education reform, with particular emphasis on reducing drop-out at secondary level and on aligning vocational education and preparation with the needs of the labour market
- Expansion of continuing education and re-training in the context of a clear strategy for lifelong learning
- Maintenance, through social-partner consensus, of "employment-friendly" wage developments in line with growing labour productivity
- Reducing the "tax wedge", particularly at lower earnings levels
- Co-ordination between the tax/social contribution system, the unemployment benefit system, and social assistance benefits in order to increase incentives for the unemployed and inactive to take up employment in the formal sector,
- Implementing an active strategy of supporting and encouraging job search and employability through systematic engagement of the PES with the unemployed throughout the unemployment spell; this will require a re-orientation of the priorities of the NLO and improvements to the services it can provide to both job-seekers and employers



- Expansion of active labour market programmes as part of this activation strategy; preference should be given to training and human resources measures over those providing only temporary public jobs,
- Increased focusing of development supports on those regions hardest hit by unemployment
- More active enforcement of equal opportunities legislation, together with support for the development of "family-friendly" employment patterns
- Committed implementation of measures to raise education participation among the Roma minority
- Continuation of a high level of social partner involvement in the formulation and implementation of employment policies
- Completion and reinforcement of the institutions required for implementing the European Social Fund.

The severity of the existing unemployment problem, and the fact that much restructuring remains to be completed as a result of past delays, suggest that great urgency attaches to measures to encourage and facilitate the movement of displaced workers to new and developing sectors of the economy. These include, in particular, the development of a modern, active and supportive PES, the expansion of those active programmes that contribute to training and human resources development, and the reform of the tax and benefit systems.

General strategic principles for action in a number of the areas identified above have already been set in the National Employment Plan, approved in 2000, and drawn up in consultation with relevant ministries and with the social partners. A progress report on implementation was prepared in mid-2001 for discussion by the Slovak Government. This assessment made by the Government should become an opportunity to set more concrete targets in planning documents for future years.

The Commission and the Government of the Slovak Republic intend that the preparation of this Joint Assessment will form the first stage in the process of employment policy review. Further co-operation will concentrate on joint monitoring of progress in implementing the measures proposed above, based on regular implementation reports.