



NÁRODNÁ BANKA SLOVENSKA
EUROSYSTEM



Promoting Growth: Structural Policies and Labor Market in Slovakia

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Growth: Objectives and Friendly Policies

- Where do we want to be in 10 (20) years?
 - target to be both challenging and realistic
 - flexible, rich country exporting technologically advanced goods and services
 - 85% (100%) of EU average income (PPS, per capita)
 - 75% (95%) of EU average wage (nominal, €)
- Support R&D (both investment in R&D, but also improve returns on R&D spending)
- Education reform (2-track system: wide undergraduate coverage + few elite schools)
- Market flexibility (Labor market, Administrative burden)
- Rule of law (both judicial system and public prosecution reform AND general respect for law and morality in the population)
- Long-term sustainability (public finance, pension system, environment, population ageing)



Labor Market in Slovakia - Overview

Slovakia has two labor markets

- flexible market with (relatively) well educated workforce
- abandoned section of the market (long-term unemployed, low education, no skills, segregated settlements)

Main labor market

- flexible wages (Gertler & Senaj, 2008 – only about 2% of jobs are affected by wage rigidity)
- trade union power low (especially within euro area)
- low labor mobility (scarce rental housing, slow property market)
- employee protection and rights effectively weaker than the legislation sets
- firms are able to adjust total compensations and labor use (Červená, 2010)



Labor Market Reform Proposal

1. Support job creation
 - reduce social security contributions (and widen the base to protect public finances)
 - reduce high marginal tax rates on new low-skill jobs (enhance tax bonus for low income workers, introduce inertia in some social benefits)
 - enhance and improve active labor market policies
2. Preserve (and improve) existing flexibility
 - reduce job destruction costs
 - abandon involuntary sectoral collective “agreements”
 - careful with minimum wage
3. Long-term perspective
 - education reform
 - pension system sustainability