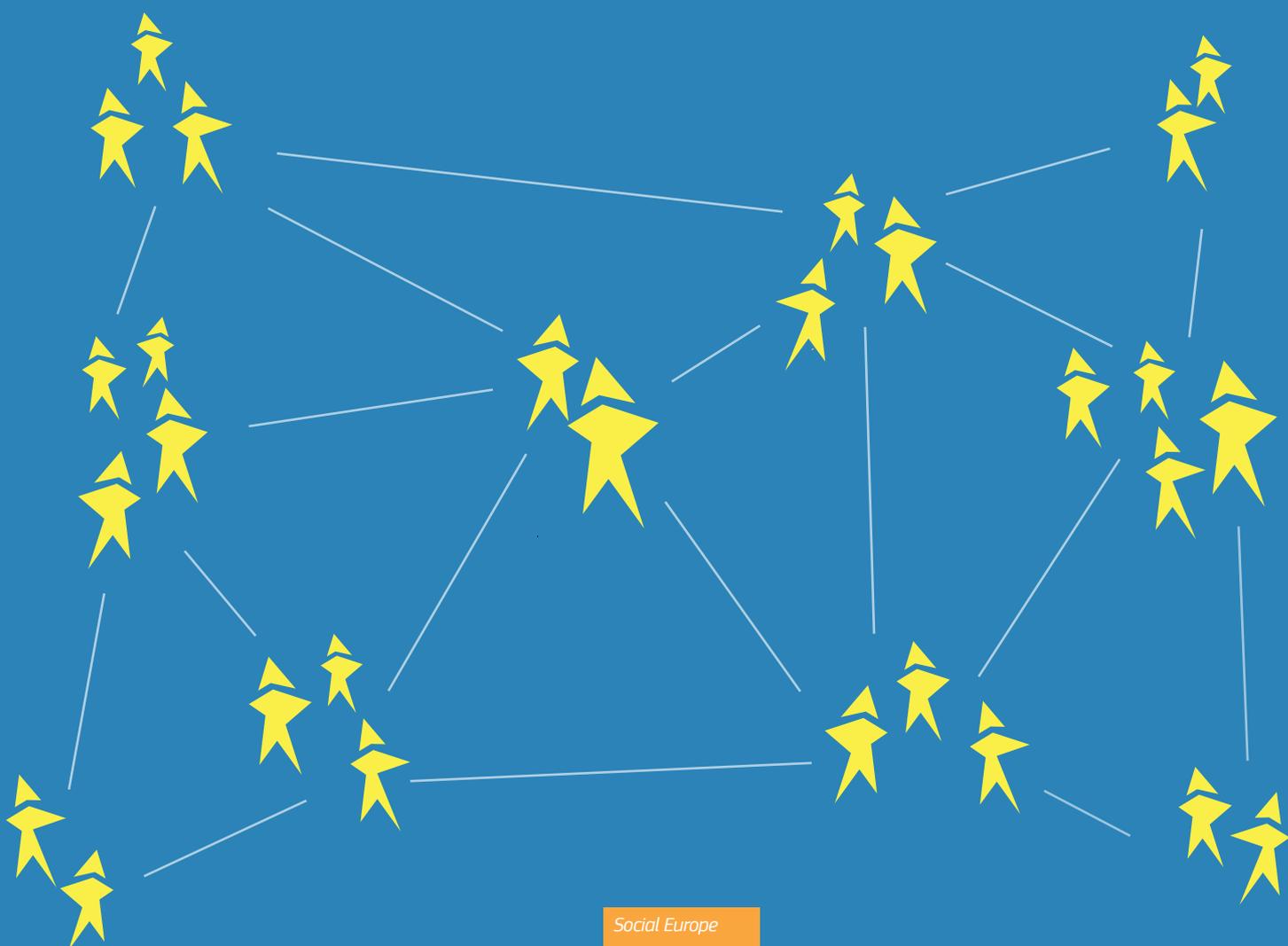




EUROPEAN SOCIAL POLICY NETWORK (ESPN)

In-work poverty in Slovakia

Daniel Gerbery



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European Social Policy Network (ESPN)

**ESPN Thematic Report on
In-work poverty**

Slovakia

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Summary

Some 6.3% of employed persons aged 18-64 in Slovakia were at risk of in-work poverty¹ (IWP) in 2017, which was below the EU average (9.6%). Between 2012 and 2017, IWP increased only slightly – by 0.1 percentage points. The risk of in-work poverty was greatly influenced by employment status, working type, type of contract, characteristics of the household and education level. Being self-employed, low-educated, working part time or on a temporary contract, living in a household with low work intensity and with children all increase the risk of in-work poverty.

One of the most important challenges regarding in-work poverty in Slovakia is the fact that households' characteristics have a strong effect, especially the impact of low work intensity. Thus, focusing solely on low wage earners may not help. Living and income conditions of the household as a whole should claim more of policy makers' attention.

In-work poverty is discussed mainly in terms of low wages in Slovakia. Discontent with low wages reflects the fact that the economic growth experienced by the country both prior to and after the crisis has not been translated into significantly better living conditions. In spite of being a prominent public policy issue, in-work poverty is not tackled by a comprehensive "active inclusion" approach that supports access to quality employment and enabling services, and that provides adequate income support.

The current government sees the growth of the minimum wage as one of the most important measures to combat in-work poverty, as well as to strengthen convergence with the living standards of the "old" EU Member States. In 2018, the minimum wage was set at EUR 480 a month (or EUR 2.759 per hour), an increase of 10.34% over the figure for 2017. This was the highest ever percentage growth in the minimum wage and followed a gradual acceleration in minimum wage growth: between 2016 and 2017 it rose by 7.4%; between 2015 and 2016 by 6.6%; while – for comparison – between 2010 and 2011 it increased by 2.9%. The ratio of the minimum wage to the average wage has improved significantly, too. Whereas during the financial crisis it represented approximately 40%, in recent years it has come close to 50%.

In relation to the growth in the minimum wage, the level of low wage earners' taxes and contributions has been questioned. It is argued that the increase in the minimum wage has had only limited effects on the net minimum wage due to the relatively high health insurance contributions and taxes.

Health insurance contribution allowance, introduced in 2015, is one measure that addresses low wages directly. It decreases the assessment base of employees (and employers) for health insurance. Its monthly amount represents EUR 380 and it decreases with increasing income, up to EUR 570 (when it is reduced to zero). The allowance is clearly targeted at low-paid employees, but only employees on a standard contract can apply.

The transition of long-term unemployed into the labour market and the level of their wages are supported through an in-work benefit called a special allowance. This is provided as a supplement to the wage of a person who was unemployed or inactive for at least 12 months prior to entering the labour market.

Among the policy measures with an indirect effect on in-work poverty, REPAS – a training programme for jobseekers financed from the European Social Fund (ESF) – works well. According to the Institute for Social Policy, participation in the programme increased employment probability by more than 4 percentage points, compared to the control group. Participation also has positive effects on the level of participants' earnings. On the other hand, there are gaps in other policy areas that can influence in-work policy, namely affordable and high-quality childcare and the public rental housing sector.

¹ For ease of reading, in the rest of this report we will refer to the notion 'at risk of in-work poverty', and to the indicator that measures it, using the generic term of 'in-work poverty' (IWP).

In-work poverty has not been explicitly addressed by the National Reform Programme. The main challenges for the labour market that are identified by the document include long-term unemployment and the employment of low-qualified jobseekers. The National Reform Programme also draws attention to other related issues: the employment of mothers with small children, labour mobility and the shortage of qualified workers.

1 Analysis of the country's population at risk of in-work poverty²

The rate of in-work poverty in Slovakia was 6.3% in 2017, which was below the EU average (9.6%). Between 2012 and 2017 it increased only slightly – by 0.1 percentage points. In Slovakia, as in many other EU countries, position in the labour market plays an important role. Being self-employed, working part time or on a temporary contract all increase the risk of in-work poverty. The rate of in-work poverty among the self-employed was more than three times that of employees in 2017 (16% vs. 4.6%). The situation of self-employed persons depends on whether they have employees or not. As a Eurofound report (2017: 22) showed, Slovakia is one of the few EU countries in which self-employed people without employees are less likely to be at risk than the self-employed with employees.³ Temporary contracts also lead to a higher risk of in-work poverty. In 2017, 9.7% of workers on a temporary contract faced in-work poverty, compared to 4% of workers on a permanent contract. Similarly, the in-work poverty rate of part-time workers was 16.4%, well above the poverty rate of full-time workers (6%).

As regards various positions in the labour market, different trends in in-work poverty can be observed between 2012 and 2017. While in-work poverty among employees increased by 0.4 percentage points in the given period, poverty among the self-employed decreased by 0.9 percentage points. But, as Table 1 shows, this development masks a more nuanced story. First, while the proportion of poor employees has been increasing since 2015, the proportion of poor self-employed has been declining. Secondly, the period from 2013 to 2015 seems to have been very turbulent. The rate of in-work poverty among the self-employed first decreased by approximately 4 percentage points and then jumped by almost 8 percentage points. The problem is that it is very difficult to find any convincing explanation for this trend. The period saw some legislative changes regarding the definition of the self-employed and their duties and responsibilities, but none of them could have caused such a sharp fall and subsequent growth of in-work poverty. Similar developments can be found among poor employees who work part time. Here again, no valid explanation is on the table. In terms of employment contracts, the proportion of poor workers on temporary contracts grew more rapidly than the proportion of poor workers on permanent contracts.

Table 1. Development of in-work poverty between 2012 and 2017, by labour market status (%)

	Employment status		Working time		Type of contract		Total working population
	Self-employed	Employees	Part-time	Full-time	Temporary contract	Permanent contract	
2012	16.9 (21.7)	4.2 (6.9)	16.4 (13.8)	5.8 (7.4)	7.6 (14.2)	3.8 (5.5)	6.2 (8.9)
2013	17.8 (22.1)	3.5 (6.9)	17.8 (14.7)	5.3 (7.2)	7.3 (14.9)	3.0 (5.5)	5.8 (9.0)
2014	13.6 (22.9)	4.3 (7.4)	11.4 (15.7)	5.2 (7.7)	8.8 (15.7)	3.7 (5.8)	5.7 (9.5)

² According to Eurostat, persons are at risk of in-work poverty if they are in employment and live in a household that is at risk of poverty. The population covered by this indicator is those people aged 18-64.

³ It is important to note that data in the Eurofound report refer to the situation in 2014 and more recent data are not yet available.

2015	21.7 (23.1)	3.2 (7.3)	19.0 (15.3)	5.4 (7.7)	7.6 (15.6)	2.6 (5.7)	6.1 (9.5)
2016	20.2 (23.4)	4.0 (7.4)	15.4 (15.8)	6.1 (7.8)	8.0 (16.2)	3.7 (5.6)	6.5 (9.6)
2017	16.0 (23.1)	4.6 (7.4)	16.4 (15.6)	6.0 (7.7)	9.7 (16.2)	4.0 (5.8)	6.3 (9.6)

Source: Eurostat ((ilc_iw01, ilc_iw07, ilc_iw05).

Note: EU average in parentheses.

Household characteristics represent another important group of in-work poverty determinants. The composition of the household (including the number of children) and the number of working adults are among the main drivers of in-work poverty. Persons living in households with children face a higher risk of in-work poverty (8.6% in 2017) than childless households (4%). Within these households, single parents are more than three times as likely to live in in-work poverty (26.7%) than are persons in households with two or more adults with children (8%). But living alone increases the risk of in-work poverty also among persons from childless households: whereas working persons in childless households with two or more adults faced almost no risk in 2017 (2.7%), the rate of in-work poverty among single adults was 15.9%.

To be a single adult or a single parent has further negative consequences. The income conditions of working single adults and single parents have deteriorated significantly since 2012 (in contrast to people who live with other adults). The proportion of working poor among single adults increased by approximately 7 percentage points (from 8.6% in 2012 to 15.9% in 2017), and the proportion of working poor among single parents by 13 percentage points (from 13.5% in 2012 to 26.7% in 2017).⁴

Table 2. Development of in-work poverty between 2012 and 2017, by type of household (%)

	Households with dependent children			Households without dependent children		
	All working persons	Single adults	Two or more adults	All working persons	Single adults	Two or more adults
2012	8.6 (10.7)	13.5 (19.8)	8.4 (10.1)	3.2 (7.4)	8.6 (12.6)	2.4 (5.7)
2013	7.9 (10.6)	16.9 (20.2)	7.6 (10.0)	2.8 (7.5)	9.5 (13.1)	1.8 (5.6)
2014	8.1 (11.1)	16.6 (20.0)	7.9 (10.5)	3.3 (8.0)	6.3 (13.5)	2.8 (6.1)
2015	8.1 (11.2)	16.2 (19.9)	7.9 (10.6)	3.7 (8.0)	8.2 (13.2)	3.0 (6.1)
2016	8.9 (11.2)	15.6 (21.6)	8.7 (10.4)	3.8 (8.2)	12.1 (13.9)	2.8 (6.2)
2017	8.6 (11.1)	26.7 (21.9)	8.0 (10.4)	4.0 (7.9)	15.9 (13.5)	2.7 (6.0)

Source: Eurostat ((ilc_iw02)

Note: EU average in parentheses

Findings on the relationship between in-work poverty and work intensity are hardly surprising: the lower the work intensity, the higher the risk of in-work poverty.⁵ And the differences are large. In 2017, 48.1% of poor workers from households with low-work intensity were at risk of in-work poverty, compared to 22% from households with medium work intensity and 6.3% from high work-intensity households. Furthermore, the vulnerability of workers living in low work-intensity households has grown fastest (by

⁴ The vulnerable position of single adults and parents is confirmed by the fact that they are the only two socio-demographic category with an in-work poverty rate above the EU average.

⁵ When using the indicator "work intensity", we focus on persons aged 18–59 years.

more than 14 percentage points between 2012 and 2017). What is striking is that although the in-work poverty rate for the total population of workers is lower than the EU average, the proportion of poor workers living in households with low work intensity is well above the EU average (37.3%). The effect of low work intensity increases with the presence of dependent children: 58.9% of working persons from low work-intensity households with children lived in poverty in 2017. The difference in the in-work poverty rates of persons from low work-intensity households with dependent children and without dependent children was approximately 20 percentage points.

Table 3. Development of in-work poverty between 2012 and 2017, by level of work intensity (%)

	Very high work intensity	High work intensity	Medium work intensity	Low work intensity
2012	3.2	6.0	19.4	33.8
2013	2.8	6.5	14.9	34.0
2014	3.0	5.6	18.5	37.0
2015	3.8	6.4	17.4	33.4
2016	3.9	7.3	23.6	42.4
2017	4.2	6.3	22.0	48.1

Note: EU average in parentheses. The category "very high work intensity" is omitted from the table.

Source: Eurostat ((ilc_iw03).

Individual characteristics that contribute to in-work poverty include education level, age and gender. Having primary or lower-secondary education increases the risk of in-work poverty: 13.3% of persons with such educational level experienced in-work poverty, compared to 6.7% of persons with upper-secondary and post-secondary education and 4.5% of persons with tertiary education. The differences on the basis of education have narrowed since 2012, as the proportion of poor workers with a low education level has decreased by more than 3 percentage points and the proportion of workers with higher educational attainment has remained stable. Age matters only to a limited extent. The differences between the age groups (18-24 years, 25-54 and 55-64) are small. Even smaller differences can be found between men (6.8% in 2017) and women (5.8%).

Although the impact of low wages on in-work poverty is mediated by contextual factors (composition of the household and work activities of other adult members in the household), low pay is still the most straightforward link to in-work poverty (Eurofound, 2017:7). According to data from the Structure of Earnings Survey (SES), published by Eurostat, in 2014 some 19.2% of workers were on low wages,⁶ which was above the EU average (17.2%). More detailed and more recent information can be obtained from the national statistics produced annually by the Statistical Office of the Slovak Republic. Table 4 shows the proportion of employees in the low-wage intervals. In 2017, 12% of employees had a gross monthly wage of EUR 500 or less and 3.5% earned a gross wage of EUR 400 or less. The at-risk-of-poverty threshold, calculated on the basis of the EU Statistics on Income and Living Conditions (EU-SILC), was EUR 359.20 in 2017. In 2016, the proportion of employees with a gross wage not exceeding EUR 500 was 15.8% (5.6% earned EUR 400 or less). The poverty threshold was EUR 347.60.

Using data from the SES, we can estimate the proportion of low wage earners, defining them as employees who earn two-thirds or less of the national median gross monthly wage (this definition differs from that of Eurostat, which refers to gross *hourly* earnings). In 2017, two-thirds of the median gross monthly wage (estimated by the SES) represented approximately EUR 583. And 21.9% of employees had gross monthly wages of EUR 600 or less. In 2016, low wage earners earned less than EUR 545 (two-thirds of

⁶ Low wage earners are employees who earn two-thirds or less of the national median gross hourly earnings.

the median gross monthly wage in the given year). According to the SES, 17.1% of employees earned EUR 545 or less.⁷

Table 4. Table 4: Proportion of employees by intervals of low gross monthly wage in Slovakia (%)

	2016	2017
300 EUR	2.0	2.0
300.01 – 400 EUR	3.6	1.5
400.01 – 500 EUR	10.2	8.5
500.01 – 600 EUR	10.6	9.9
600.01 – 700 EUR	11.0	10.2
700.01 – 800 EUR	10.7	10.6
Average gross wage (EUR)	1 044	1 101
Median gross wage (EUR)	818	874

Note: Information on average and median gross wages refer to data from the Structure of Earnings Survey, which is a sample survey conducted by the Statistical Office. In addition to that, the Statistical Office publishes yearly official information on average wages in the economy, which is based on statistical reporting. Official average wages were as follows: EUR 883 in 2015, EUR 912 in 2016 and EUR 954 in 2017.

Source: Statistical Office of the Slovak Republic: Structure of Earnings in the Slovak Republic in 2015, 2016, 2017.

There are several challenges regarding in-work poverty in Slovakia. The rate of in-work poverty has remained more or less stable during the reference period, despite the fact that several measures were implemented to tackle low wages in Slovakia. Long-term growth of the minimum wage is probably the most prominent policy tool, the impacts of which have been widely discussed in Slovakia. But focusing solely on low wage earners may not help, because household characteristics have a strong effect, especially the impact of low work intensity. Furthermore, the negative effects of low work intensity are increased by the presence of children. Thus, policy makers should pay more attention to the living and income conditions of the household as a whole. More concrete policy measures are discussed in the following paragraphs.

2 Analysis of the policies in place

2.1 Policies with direct effects

In Slovakia, in-work poverty is discussed mainly in terms of low wages. All relevant stakeholders (social partners, academic researchers, NGOs) see low wages as one of the main social and economic challenges. While strategies for how to address this issue differ markedly, the current government sees growth of the minimum wage as the most prominent measure for combating in-work poverty, as well as for strengthening convergence with the living standards of the “old” EU Member States.⁸ This conviction, is reflected in the fact that in recent years the pace of minimum wage growth has accelerated and the government has expressed a political commitment to continue this trend (Gerbery, 2018).

In 2018, the minimum wage was set at EUR 480 a month (EUR 2.759 per hour) – an increase over the figure for 2017 of 10.34%. This was the biggest ever percentage

⁷ This wage interval is not shown in Table 4.

⁸ Slovakia belongs among those EU countries with low rates of the minimum wage: in terms of purchasing power standards (PPS), it represented EUR 639.80 per month in 2017 (Eurofound, 2018: 5).

increase and followed a gradual acceleration in minimum wage growth: between 2016 and 2017 the minimum wage rose by 7.4%; between 2015 and 2016 by 6.6%; while – for comparison – between 2010 and 2011 the rise was 2.9%. The ratio of the minimum wage to the average wage has also improved significantly: whereas during the financial crisis it was approximately 40%, in recent years it has come close to 50%.

Table 5. Table 5: Monthly wage development in Slovakia between 2012 and 2018

	Monthly gross minimum wage	Monthly gross average wage	Share MW/AW (%)
2018	480	988*	48.58*
2017	435	954	46.03
2016	405	912	44.41
2015	380	883	43.04
2014	352	858	41.03
2013	338	824	40.98
2012	327	805	40.65

*Estimate for 2018.

Source: Ministry of Labour, Social Affairs and Family: Background documents to the Government Ordinance on Minimum Wage in 2018.

A decision on increasing the minimum wage is taken each year and consists of two steps. First, the social partners discuss new proposals in order to reach an agreement. If the social partners fail to agree by 15 July, the government tables a proposal for a new amount, which is then discussed by the social partners. If no consensus is reached, the government decides on its own proposal. The revised minimum wage comes into force on 1 January of the following year.

Since 2013, the minimum wage regulations, defined by the Act on Minimum Wage (No. 663/2007), cover both employees on a regular employment contract and persons working on the basis of special work contracts, such as a work performance agreement, an agreement on work activities or an agreement on temporary job for student.⁹ The minimum wage is defined in terms of a monthly and an hourly sum. The amount is set for working time of 40 hours per week. If someone works for less than the full amount of working time (per month or per week), the amount of the minimum wage is reduced proportionally. In addition to the monthly and hourly minimum wage, there are so-called “minimum wage claims” – defined by the Labour Code and applied to the private sector – which may differ, according to six degrees of work difficulty. For example, the first degree refers to assistive, preparatory or handling work carried out according to exact instructions. The sixth degree refers to the undertaking of creative tasks, the provision of specialised or certified activities, etc. For each degree of work difficulty, a coefficient is set. The level of the minimum wage claim is then obtained by multiplying the minimum wage by the coefficient. As result, the minimum wage for professionals with a university degree (the sixth degree) is double the minimum wage for persons who perform basic work according to the first degree of difficulty.

⁹ According to the Labour Code (§ 223), employers may conclude agreements with natural persons on work performed outside an employment relationship for work that is limited in its results (“work performance agreement”) or occasional activities limited by the type of work (“agreement on work activities” and “agreement on temporary job for student”).

Although the level of the minimum wage directly affects only a small section of employees in the Slovak economy,¹⁰ there are other indirect effects that elicit strong disagreement among relevant stakeholders. Disagreements have arisen especially in relation to the pace of minimum wage growth. The representatives of employers reject the pace of growth, arguing that increases proposed by the government go beyond the current (and future) capacities of the Slovak economy and will cause serious problems for employers in certain sectors (for example, hospitals, which face soaring labour costs). Employers' representatives have proposed other mechanisms for minimum wage growth – in particular collective bargaining, which in their view better reflects the objective conditions of economic sectors. On the other hand, the trade unions have welcomed the various proposals, their arguments centring on the low level of wages in Slovakia (and the low level of the minimum wage especially), the increasing labour productivity, and the need to address the issue of the working poor population. According to representatives of the Ministry of Labour, Social Affairs and Family, the significant increases in the minimum wage have reflected a positive economic development. According to them, there is a need to raise the low wage floor in Slovakia more rapidly, in order to converge with the EU average; at the same time, the rises are expected to serve as an incentive for the unemployed to enter the labour market (i.e. making work pay). Moreover, negative impacts on labour market development have proved negligible, as analysis by the Institute for Financial Policy has shown (Institute for Financial Policy, 2016).

Criticism of the latest minimum wage increase came also from the political opposition, which drew attention to the fact that there are a lot of people working in the public sector whose wages are below the minimum wage. This is a result of existing salary scales in the public sector that stipulate amounts below the minimum wage – for unskilled and low-skilled professions (for example cleaners, cooks). In these cases, employers have to make additional payments, in order to achieve the minimum wage (which is, however, not formally given). The opposition party *SPOLU – občianska demokracia* has pointed to the inconsistency between the efforts to oblige private-sector subjects to raise the wage floor and the position in the public sector, where the situation of low-paid employees is ignored. In response, the government has announced a plan to increase pay rates in the public sector, in order to ensure that no earnings are lower than the minimum wage. This step is part of a broader strategy to increase wages in the public sector that has been agreed with the trade unions.

In addition to the growth of the minimum wage, a category of policy measures that consist of contribution and tax allowances also affects in-work poverty. Some of these are universal; others are targeted at low wage earners. The basic personal tax allowance (the part of income that is left untaxed) represents 19.2 times the subsistence minimum for an adult (EUR 3,830 per year), provided taxable income does not exceed an amount corresponding to 100 times the subsistence minimum (EUR 19,948 per year). If taxable income exceeds that amount, the tax allowance is calculated as the difference between an amount equal to 44.2 times the subsistence minimum and an amount equal to 0.25 times the taxable income. In addition to the basic personal tax allowance, there is a tax allowance for a spouse who lives in the same household. Several levels of tax allowance are distinguished, depending on the spouse's income. But more fundamental (at least in terms of in-work poverty policies) conditions relate to the spouse's "economic activity" status. In order to be entitled to the tax allowance for a spouse, one of the following conditions should be met:

- the spouse takes care of a child aged less than three years (or six years if the child is disabled);

¹⁰ In 2016, 1.68% of employees working full time earned the minimum wage (Ministry of Labour, Social Affairs and Family, 2017). The proportion of employees with earnings close to the minimum wage was higher, representing approximately 7% of all employees in 2014 (Institute for Financial Policy, 2016).

- the spouse receives a nursing allowance;
- the spouse is registered as a jobseeker;
- the spouse is disabled.

The fact that tax allowances are defined in terms of the subsistence minimum can have negative effects. As the subsistence minimum has grown more slowly than nominal wages, the real value of the non-taxable parts of income has shrunk.

The tax bonus for a child is another important tax instrument for increasing the total income of the working population. More concretely, this applies to working parents. A monthly amount of EUR 21.56 for each dependent child is provided to a parent (or substitute family carer) with taxable annual income of at least six times the minimum wage (EUR 2,880 in 2018). The tax bonus is also applied in the form of negative tax: if tax liability is lower than the sum of the tax bonuses, the difference is paid to the parent. Recently, in addition to a small increase in the amount of the tax bonus for 2019 (from EUR 21.56 to EUR 22.17), a significant change has been approved by parliament. As of 1 April 2019, the tax bonus for a child up to the age of six will be doubled. For a family with two children aged six years or less, the total amount of the tax bonus will increase by EUR 523 per year. It is expected that more than 153,000 recipients (250,000 children) will be entitled to the newly designed tax bonus for children of pre-school age.¹¹

In 2015, a health insurance contribution allowance was introduced, which decreases the assessment base of employers and employees for health insurance. Its monthly amount is EUR 380 and it declines with increasing income, up to EUR 570 (when it is reduced to zero).¹² The allowance is clearly targeted at low-paid employees, but only employees on a standard contract can apply. As explained in section 3 below, the design of the allowance has come in for criticism because of its limited impact on the level of low wages.

The transition of long-term unemployed into the labour market and the level of their wages are supported through an in-work benefit called a special allowance. This is provided as a supplement to the wages of someone who was unemployed or inactive for at least 12 months prior to entering the labour market. To be entitled to a special allowance:

- an employment relationship must be established, amounting to at least half of the weekly working time;
- income must be no less than the minimum wage and must not exceed double the minimum wage;
- the person must be a member of a household which receives minimum income support (assistance in material need) or which has ceased to receive minimum income support due to the employment relationship.

The special allowance is provided for a period of 12 months at two levels: during the first six months, it amounts to EUR 126.14 per month; during the next six months it amounts to EUR 63.07 per month. From the in-work perspective, it is of great importance that the special allowance is also provided to persons who live in households that rely on minimum income. This means that the amount of the special allowance is not taken into account when the household's entitlement to minimum income is assessed. Previously, the entitlement to a special allowance was not compatible with minimum income support.

In 2017, the average monthly number of special allowance recipients was 8,401 persons (9,441 persons in 2016) (Ministry of Labour, Social Affairs and Family, 2018). The majority (82.4%) did not receive minimum income support (assistance in material need).

¹¹ <https://www.etrend.sk/ekonomika/parlament-odobril-dvojnaso-bny-danovy-bonus-na-dieta.html>

¹² The amount of EUR 380 was determined in relation to the level of the minimum wage in 2015, in order to ensure that employees earning the minimum wage did not pay any health insurance contributions.

In all, 34% of recipients received the allowance at the lower level (40% in 2016). Regarding the design of the special allowance, questions arise in relation to the maximum duration of the allowance (12 months). It is disputed whether 12 months represent an adequate period in which to gain work-related financial independence for members of the most vulnerable categories (Ministry of Finance, 2019: 59). The reason is that low wages (which are to be expected in the case of special allowance recipients) tend to grow only slowly, reducing the incentives to remain in a paid job after the entitlement expires. As data from the Ministry of Finance indicate (*ibid.*), of the 4,413 recipients of special allowance who finished the 12-month period in 2017, average wage growth was 8%.

2.2 Policies with indirect effects

Active labour market policies that focus on improving human capital and skills through education and training may indirectly contribute to a reduction of in-work poverty. However, expenditure on active labour market policies remains very low in Slovakia, far below the EU average. In 2016, spending reached 0.2% of GDP. Training was supported by the smallest amount from these resources (although financial allocation to training has increased in the long run).¹³ Despite the small weight of training activities in the total financial allocation, there are signs that this segment of active labour market policy works.

REPAS,¹⁴ financed by the ESF, represents a major training programme for jobseekers in Slovakia. It aims at increasing the employability of jobseekers through flexible and tailored education in accordance with labour market demands. It is based on the idea that jobseekers should have an opportunity to choose themselves (based on their own initiative) a specific requalification course, which is then assessed and financially supported by the local labour office. According to the Institute for Social Policy (Petráš, 2018), approximately 45,000 jobseekers participated in REPAS in the period from 2015 to 2017. The most popular courses included courses on caring (attended by 23.7% of all participants in that period), courses on accounting and taxes (11.8%) and driving licence courses (9.3%). In general, the majority of participants (87%) successfully finished the training. An assessment of the net impact (efficiency) of REPAS (Petráš, 2018), based on contrafactual analysis, shows that participation in the programme increased employment probability by more than 4 percentage points as compared to the control group. Participation also has positive effects on the level of participants' earnings. Furthermore, it was estimated that the public financial resources invested in the programme will be paid back to the state budget (through taxes and contributions) within three years (*ibid.*).

Affordable and high-quality childcare may also affect the level of in-work poverty by allowing the parents of small children to enter the labour market. In Slovakia, participation of children in pre-school childcare services is still below the EU average and the Barcelona targets. According to Eurostat, only 0.4% of children aged 0-2 and 73.7% of older children of pre-school age attended formal childcare in 2017 (0.5% and 77.3% in 2016). The low participation by children from marginalised Roma communities represents another failure of the public childcare system for pre-school-age children. According to the Second European Union Minorities and Discrimination Survey (FRA, 2016), only 34% of Roma children aged from four years to the starting year of compulsory education participated in early childhood education in Slovakia in 2016. That is significantly lower than the average for the total population based on the EU-SILC, as well as the benchmark set at the EU level.

¹³ In 2016, the financial allocation represented EUR 6,876 million, compared to EUR 99,366 million for employment incentives; EUR 32,190 million for supported employment and rehabilitation; EUR 19,307 million for direct job creation; and EUR 8,635 million for start-up incentives.

¹⁴ REPAS = Requalification as an opportunity for cooperation among jobseekers, labour offices and educational institutions.

All these negative aspects of the childcare system persist, despite the fact that several steps have been taken to strengthen the capacity and inclusive potential of childcare facilities in recent years. In 2016, new legislative conditions for childcare for the youngest children were introduced. The amendment Act on Social Services (No. 448/2008) introduced a new type of service – “service for reconciliation of work and private life in childcare facility for children under three years” – defining its conditions, including the maximum number of children per playroom, the required qualifications of staff, the material equipment of facilities, and the obligation to report administrative data. A significant extension of the existing network of kindergartens has been a priority of the current programming period 2014-2020. Participation in kindergartens (which are attended by children aged from two to six years) is supported through lower fees for low-income parents. But there is still room for improvement. A group of Slovak NGOs actively involved in research and advocacy of the marginalised Roma population formulated the following recommendations for pre-school childcare in its report for the European Commission (CVEK et al., 2018):

- to focus on support for high-quality early education and care for vulnerable children, including Roma children from their birth;
- to introduce compulsory pre-school attendance for children who are over four years;
- to introduce (gradually) legal eligibility to use public kindergartens for children between the age of three and the mandatory school age;
- to launch projects focusing on systematic activities with vulnerable children in kindergartens.

The level and structure of in-work poverty can also be influenced by housing characteristics, including the market prices of private dwellings, development and regulation of the rental sector and the social housing sector. Slovakia is characterised by one of the highest proportions of owner-occupied dwellings in the EU. According to Eurostat data, 89.3% of the population lived in owner-occupied dwellings in 2015, well above the EU average (70.7%). Consequently, the extent of the rental housing sector is limited: in 2015, 10.7% of inhabitants lived in rented dwellings (30% in the EU). The last census, conducted in 2011, showed that municipalities possessed only 0.7% of occupied houses and 1.8% of occupied flats. Since then the situation has improved only to a limited extent. Underdevelopment of the public housing rental sector leads to higher housing-related expenditure, as well as to restricted labour mobility. In 2017, the housing cost overburden rate represented 8.4%, with some groups at significantly higher risk: low-income individuals, single-parent families and single adults aged 65 or over. The fact that the public housing market is underdeveloped was addressed by the National Reform Programme 2018. The document pointed to the fact that the percentage of apartments that are subject to regulated rent (1.6% in 2016) is one of the lowest in the EU (average 10.8%).

Furthermore, social housing is also an underdeveloped area of public policy in Slovakia. This situation affects the capacities of relevant actors (municipalities, non-governmental organisations) to help vulnerable categories. It also limits the use of social housing for other purposes, such as to support young families or certain professions preferred by municipalities (teachers or physicians, for example).

3 Policy debates, proposals and reforms on in-work poverty and recommendations

In-work poverty has become a prominent issue in public debates over recent years. One of the reasons is the generally low level of wages in Slovakia, especially when compared to other countries. Discontent with low wages also reflects the fact that the economic growth experienced by the country both before and after the crisis has not been translated into significantly better living conditions. Furthermore, in-work poverty has

resonated due to political initiatives and related discussions. As we mentioned above, the growth of the minimum wage has accelerated over recent years, prompting strong disagreement between the social partners. Employer representatives disagree with the pace of growth, as well as with its mechanism. They would prefer collective bargaining, rather than the two-step process that has been in place. The trade unions have welcomed the government's proposals, agreeing that there is an urgent need for a rapid increase in the minimum wage floor. It can be expected that these discussions will intensify in coming years, as the government has declared its commitment to continue to increase the minimum wage.

In relation to the minimum wage growth, the level of low wage earners' taxes and contributions has been questioned. It has been argued that the increase in the minimum wage has had only limited effects on the net minimum wage, due to relatively high health insurance contributions (a result of the lower health insurance contribution allowance for wage levels close to the minimum wage – see section 2.1 for more details) and taxes (low personal tax allowance). It was pointed out that half of the increase in the minimum wage is taxed away by the state and Social Insurance Agency.¹⁵ This criticism opens an important question concerning reform of the taxation on low wages. In general, tax allowances (personal tax allowance, tax allowance for spouse, tax bonus) are defined in relation to the subsistence minimum, which has grown at a slower pace than nominal wages in recent years. As a result, the total taxation is increasing due to the lower real value of non-taxable parts of incomes (Valachyová et al., 2016). The same holds true for the health insurance contribution allowance.

In-work poverty has not been explicitly addressed by the National Reform Programme. The main challenges for the labour market identified by the document include long-term unemployment and the employment of low-qualified jobseekers. The National Reform Programme also draws attention to other related issues: maternal employment, labour mobility and the shortage of qualified workers.

The issue of the shortage of qualified workers has provoked discussions which have addressed, inter alia, the problem of in-work poverty. As the government has prepared the legislative changes which should facilitate the employment of foreigners from third countries (as a reaction to the shortage of workers), concerns have been raised about the influx of cheap labour. By reducing barriers to foreign non-EU workers, so the argument goes, future wage growth is undermined.

According to the Institute for Financial Policy (Výškrabka, 2018), the relatively low wages in Slovakia, by comparison with the other EU countries, are mainly a result of the economy's low average productivity. Labour productivity in Slovakia is far below the productivity of the "old" EU Member States, and stands at 55% of the EU average. Furthermore, the ratio of employee compensation to value added is the second lowest in the EU, indicating that employees receive a smaller part of generated output than elsewhere in the EU countries. The Institute for Financial Policy explains this fact by the structure of the economy and its institutional features (degree of openness, degree of employee protection, level of minimum wage, etc.).

In-work poverty attracts the attention of civil society as well. In 2016, the NGO "Working Poor" (*Pracujúca chudoba*) was established with the aim of raising public awareness of low wages in the Slovak economy. In 2018, based on the activity of the NGO and its cooperation with members of parliament, the legislative norm was approved that obliges companies to publish the wages offered for jobs in job advertisements. It is expected that making the published wages obligatory will increase employees' awareness of their value to employers and will lead to increasing pressure for wage growth.¹⁶

¹⁵ <https://dennikn.sk/1211326/z-hrubej-minimalnej-mzdy-sa-este-nikto-nenajedol/>

¹⁶ <http://www.azzz.sk/en/2017/11/job-ads-inform-basic-salary/>

In spite of being a prominent public policy issue, in-work poverty is not tackled by a comprehensive “active inclusion” approach that supports access to quality employment and enabling services, and that provides adequate income support. In public discourse on in-work poverty, the focus is rather on direct measures (growth of the minimum wage, reduction of taxes and contributions for low wage earners). But also in this area there is still room for improvement. The basic personal tax allowance (the portion of income that is left untaxed) is set at a low level, leaving a smaller part of income “in the hands” of workers. Taxation of the minimum wage reduces net gains and thus the incentive to take job. The role of the health insurance contribution allowance should be strengthened, in order to increase net earnings at the bottom of the earnings’ distribution. Thus, attention should be paid to the taxation of low wages. In addition, the role of indirect ways of tackling low wages should be reviewed.

4 Assessing data and indicators

Statistics on the structure of earnings, based on the Structure of Earnings Survey carried out by the Statistical Office of the Slovak Republic, is the main source of information regarding low wages.¹⁷ The data on the structure and differentiation of earnings are classified by occupation, profession, economic activity and personal characteristics. Information is provided on gross and net monthly earnings, as well as on taxes and insurance contributions.

EU indicators on in-work poverty and related EU indicators (work intensity, risk of poverty or social exclusion, social and material deprivation), based on the EU-SILC, are reported annually by the Ministry of Labour, Social Affairs and Family of the Slovak Republic in the Report on the Social Situation of the Population of the Slovak Republic.¹⁸ Trends in in-work poverty are, however, not analysed and explained. This is because the aim of the report is to offer a description of recent developments in the area of social protection, social policy and related areas, not to provide in-depth analyses of specific trends.

Methodological and theoretical aspects of in-work poverty indicators are not discussed in Slovakia. But these indicators do have some limitations that should be taken into account when interpreting developments in Slovakia and at the EU level. First, they combine information from individual and household levels, which makes it difficult to interpret long-term trends: the pace of change of individual characteristics (wage, hours worked) may differ from the dynamics of change in household characteristics (number of working adults, level of their income, or distribution of care responsibilities within the household). Secondly, linking in-work poverty to economic activity defined on a yearly basis may obfuscate the effects of short-term changes in economic status (mobility between employment and unemployment, employment and economic inactivity, etc.). This is important, especially for low-wage workers who face precarious forms of employment, accompanied by instability and fragmented employment history.

¹⁷ It is part of the European Union Structure of Earnings Survey.

¹⁸ <https://www.employment.gov.sk/isp/>

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