



**MINISTRY OF FINANCE
OF THE SLOVAK REPUBLIC**

institute for financial policy

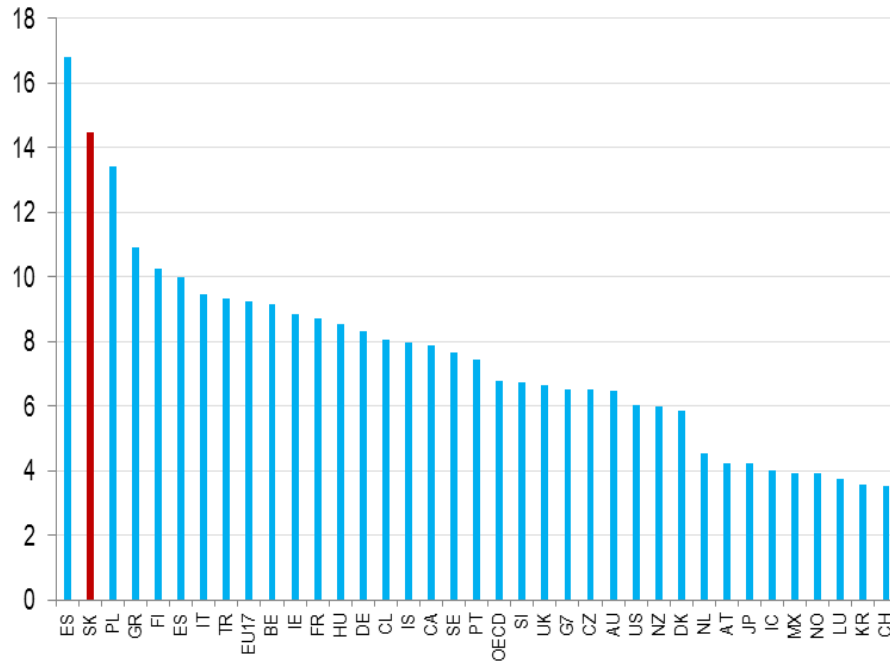
Persistent Unemployment in Slovakia

MINISTRY OF FINANCE
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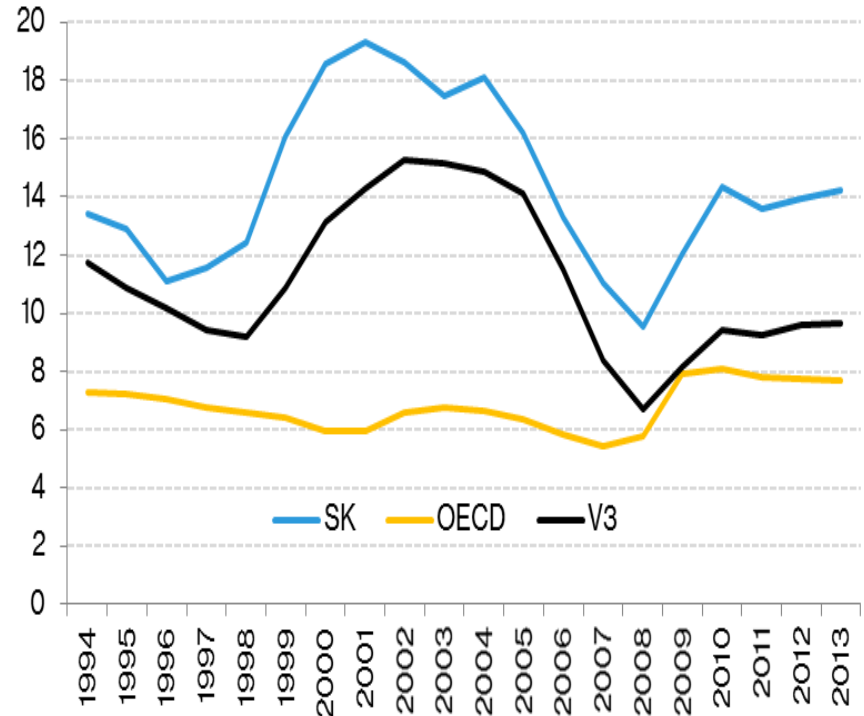


I Weak labour market in Slovakia

Average unemployment rate (1993-2013), %



Unemployment rate (%)



- Persistent long-term unemployment
- Shadow market not a big issue: unreported work is low, under-reported work high, but not affecting official numbers





I Main reasons for high unemployment

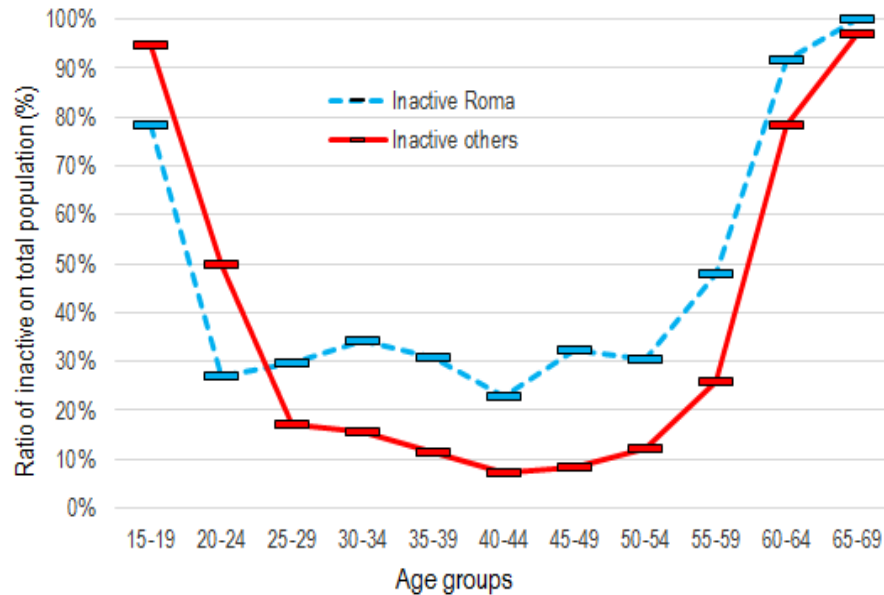
- Poor labour market outcomes of Roma population
- Inappropriate structure of the economy in 1989
- Substantial employment barriers for low-skilled





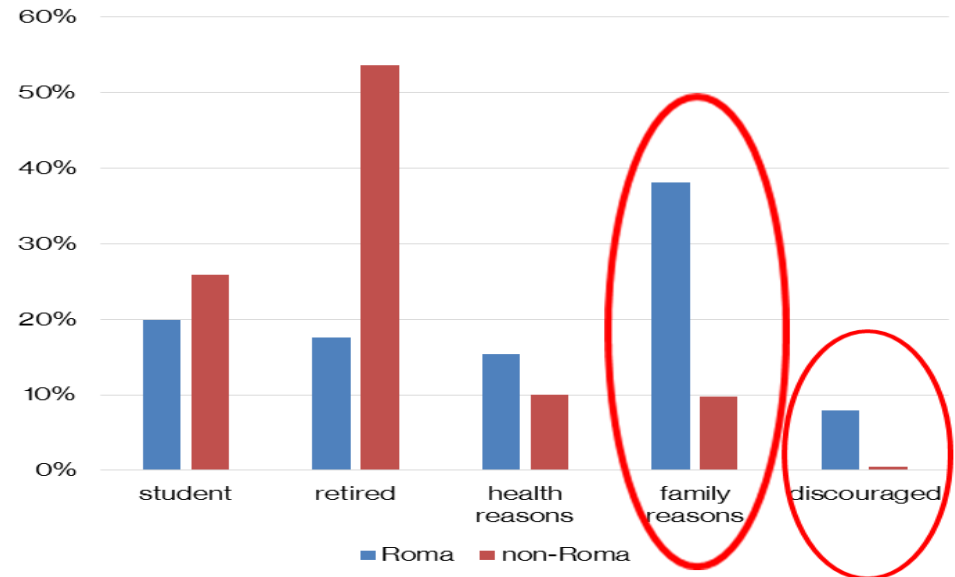
I Poor outcomes of Roma population

Share of inactive on population



Source: IFP, LFS data

Reasons for being inactive



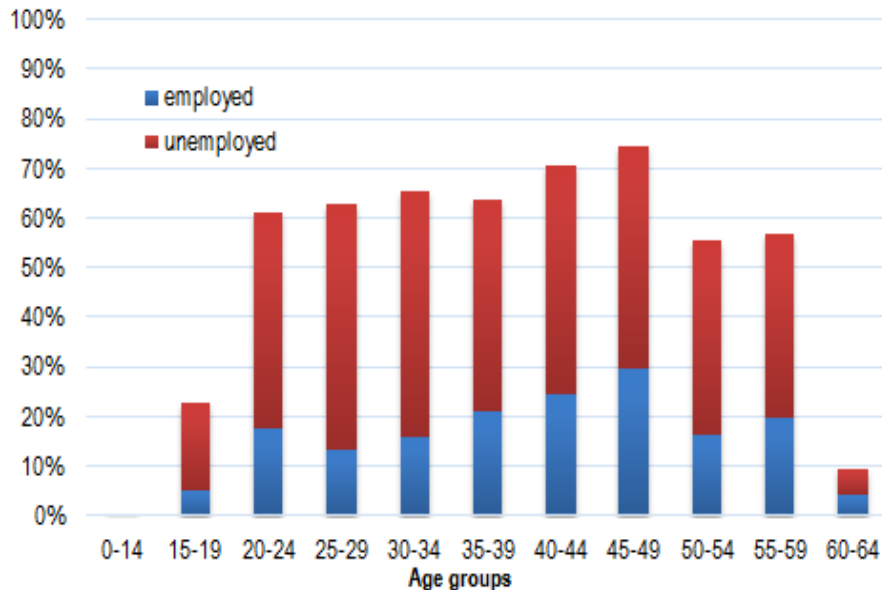
Source: IFP, LFS data

1. Many Roma are excluded from the labour market:
 - Family reasons among young Roma population;
 - Discouragement due to the scarcity of job opportunities.



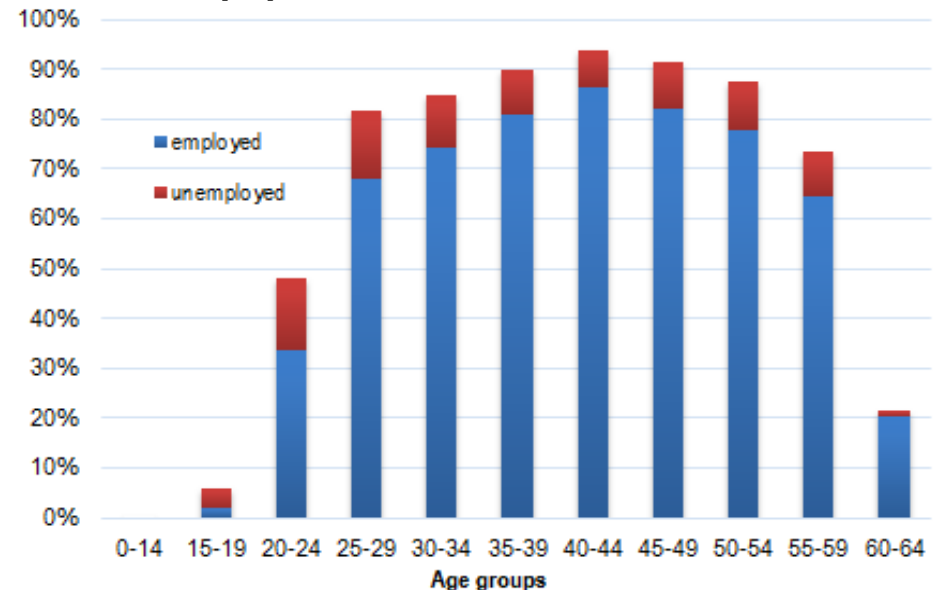
I Poor outcomes of Roma population (2)

Active population - Roma



Source: LFS, IFP

Active population – Non Roma



Source: LFS, IFP

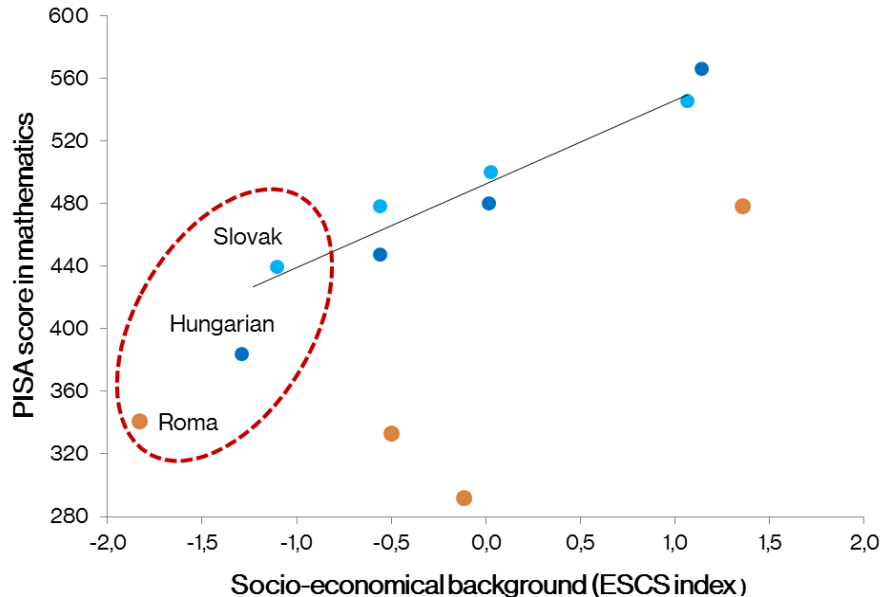
2. Most of the economic active Roma are unemployed
 - A. low education attainment and qualification
 - B. poor environment, different societal and time preferences
 - C. widespread discrimination.





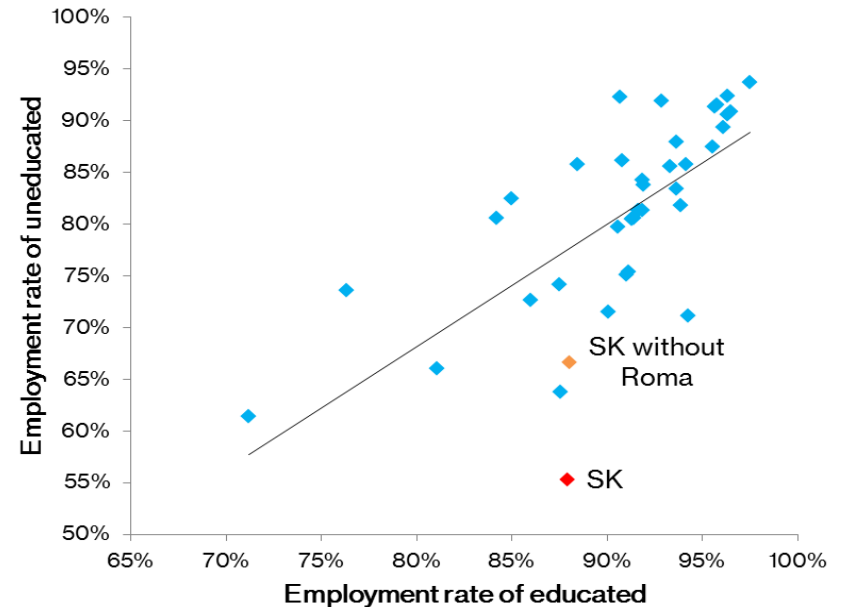
I Poor outcomes of Roma population (3)

Poor educational outcomes of Roma children



Source: PISA 2012

Even uneducated majority has low employment



Source: PISA 2012

A. Roma are often low qualified without skills

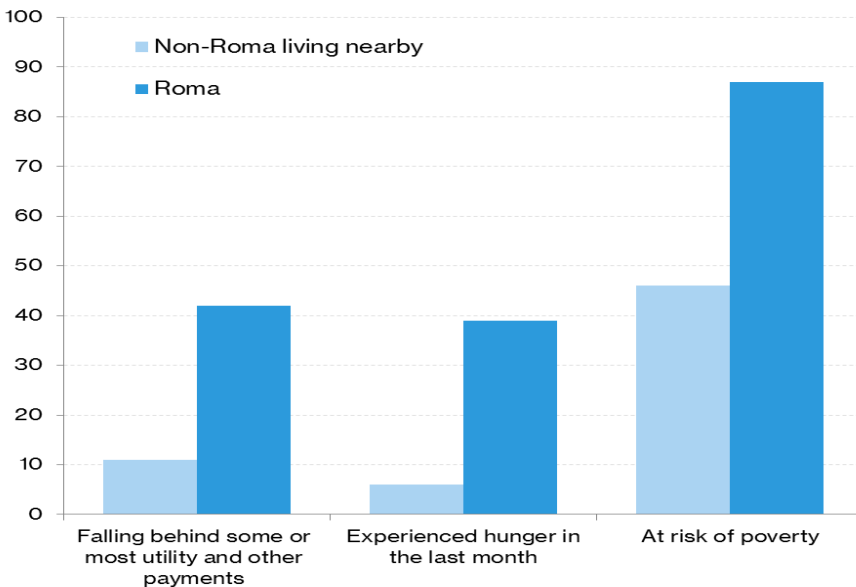
- The majority of Roma population has only basic education (often not even finished)
- Roma children are lagging behind their peers on the same socio-economic level





Poor outcomes of Roma population (4)

Share of people living in households by poverty attributes



Source: UNDP/World Bank/EC Regional Roma Survey 2011

Measuring discrimination of Roma in recruitment

	Callback rate	Discrimination ratio	Response rate	Discrimination ratio
High school education				
Roma (N=29)	13.79%	-	21.14%	-
Non-Roma (N=29)	41.38%	3.00**	68.97%	3.26***
University education				
Roma (N=33)	21.21%	-	48.48%	-
Non-Roma (N=33)	39.39%	1.86	69.70%	1.44
All				
Roma (N=62)	17.74%	-	37.10%	-
Non-Roma (N=62)	40.32%	2.27***	69.35%	1.87***

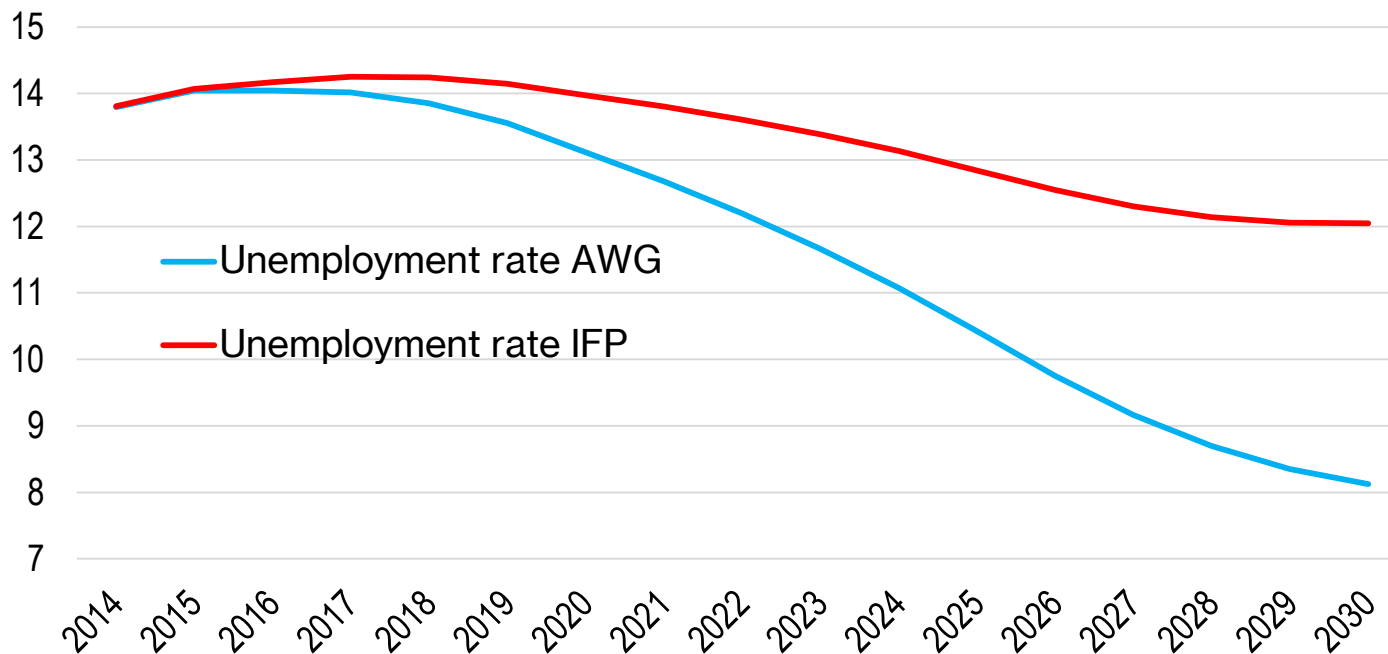
- B. Socially unfavourable environment deteriorates employment prospects
- C. Widespread discrimination acts as a barrier to employment



I Poor outcomes of Roma population (5)

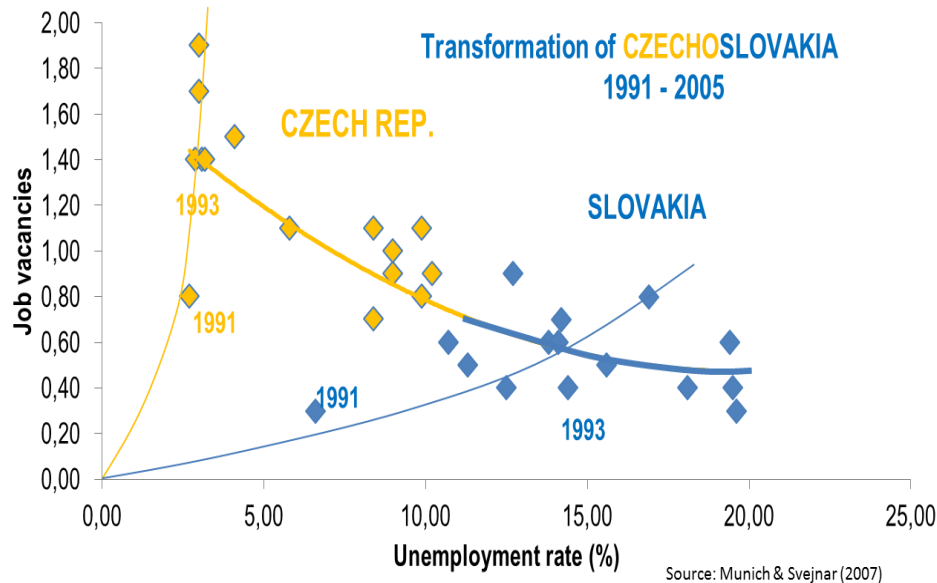
Ignoring the problem will become costly

If the employment of Roma does not improve, the unemployment rate will remain above 10 percent (in %)

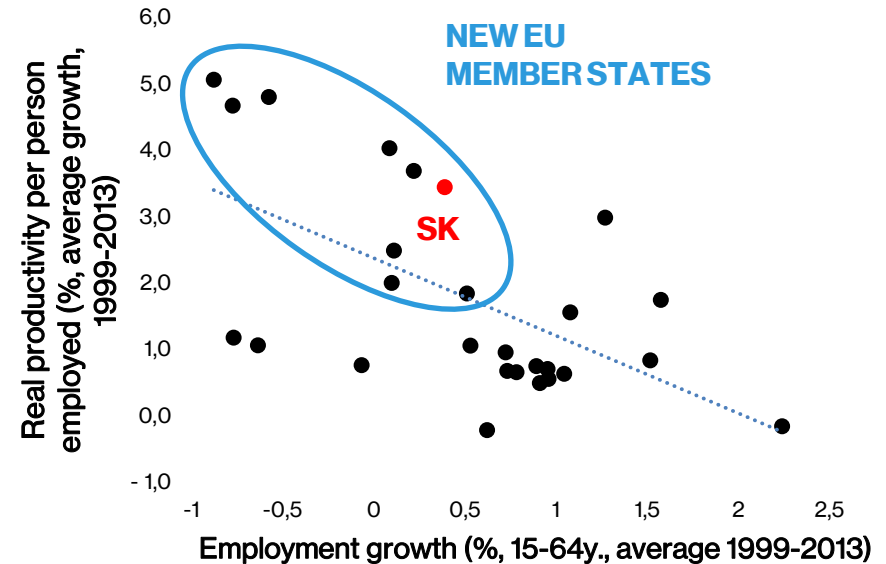


Inappropriate structure of the economy

Two responses of the transformation shock in Czechoslovakia



Jobless growth in CEE countries



Source: Eurostat

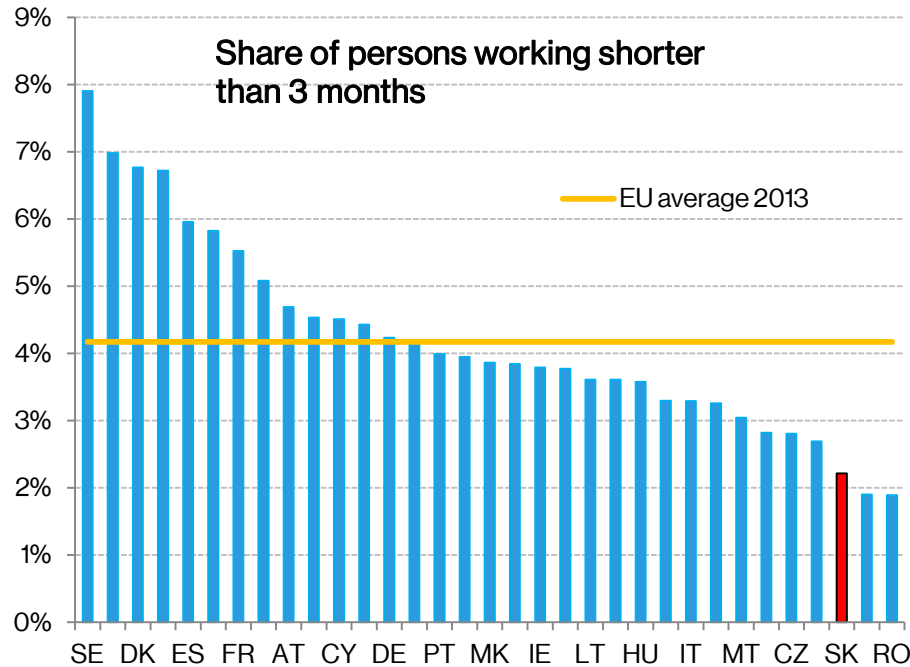
1. Initial structure of the economy matters
 - Labour market transformation in Slovakia was strikingly different compared to the Czech Republic
2. Global integration increased productivity, but created no jobs





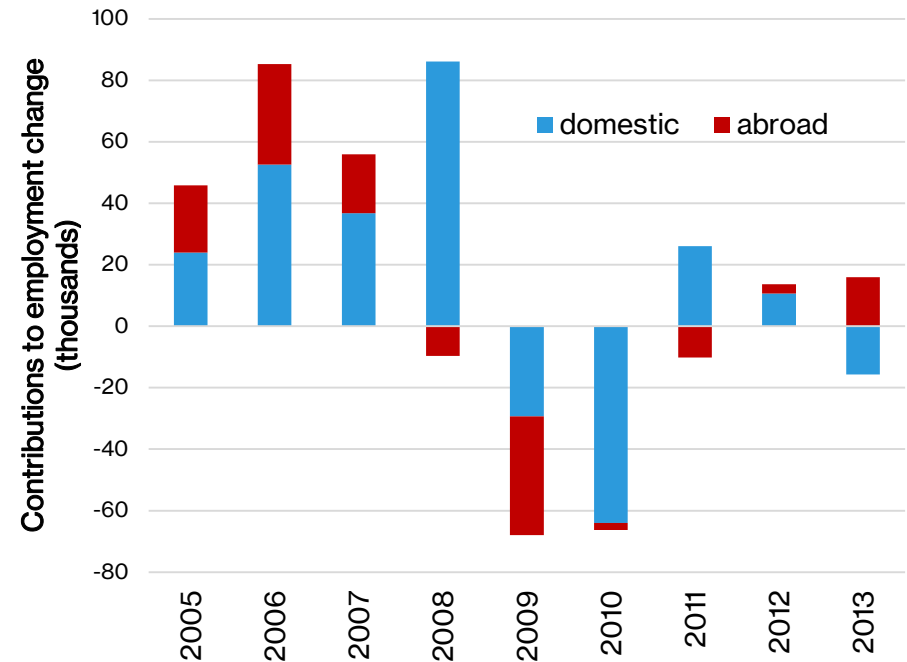
Inappropriate structure of the economy (2)

Very low outflow rate from unemployment



Source: OECD

40 percent of new employees found its job abroad between 2005-2007



Source: LFS

- Low domestic outflow rate
- Many people work abroad



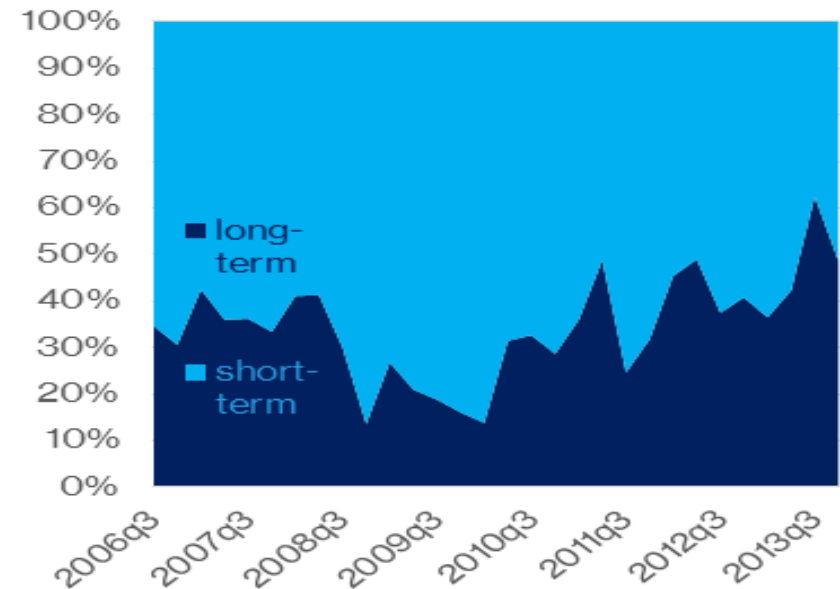
I Inappropriate structure of the economy (3)

Outflow rate correlate with long-term unemployment in EU



Source: Eurostat

Even the long-term unemployed are able to find a job



Source: Eurostat, IFP

- Low outflow rates contribute to the prolonged duration of unemployment = labour demand problem

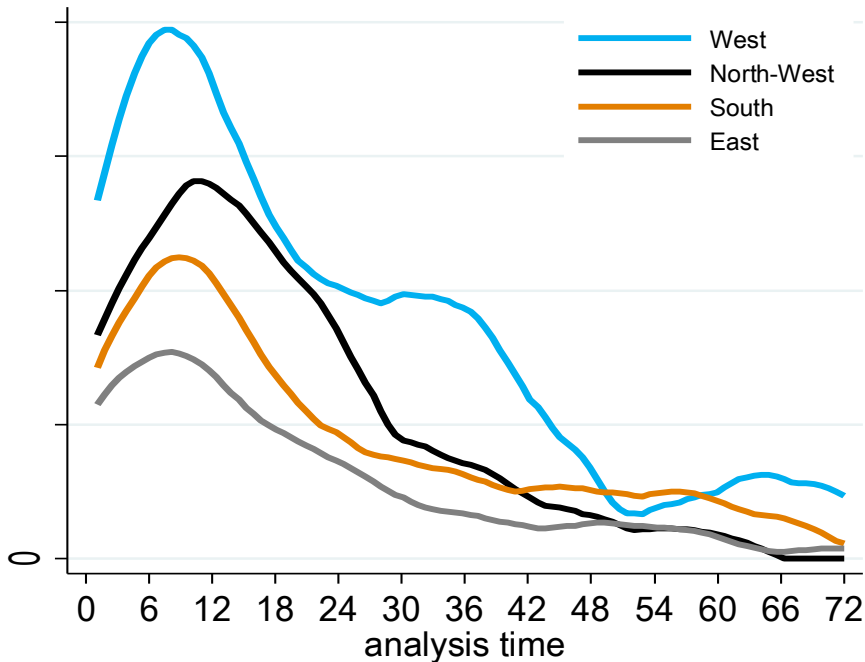




I Inappropriate structure of the economy (4)

Flat hazard in the East highlights the demand problem

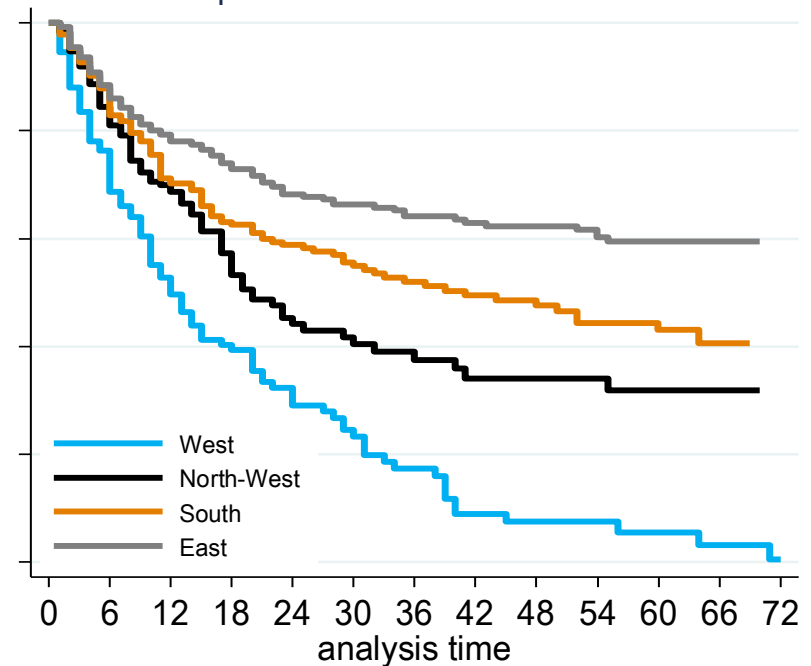
Smoothed hazard estimates



Source: LFS, IFP

There is substantial difference in survival rates across regions

Kaplan-Meier survival estimates



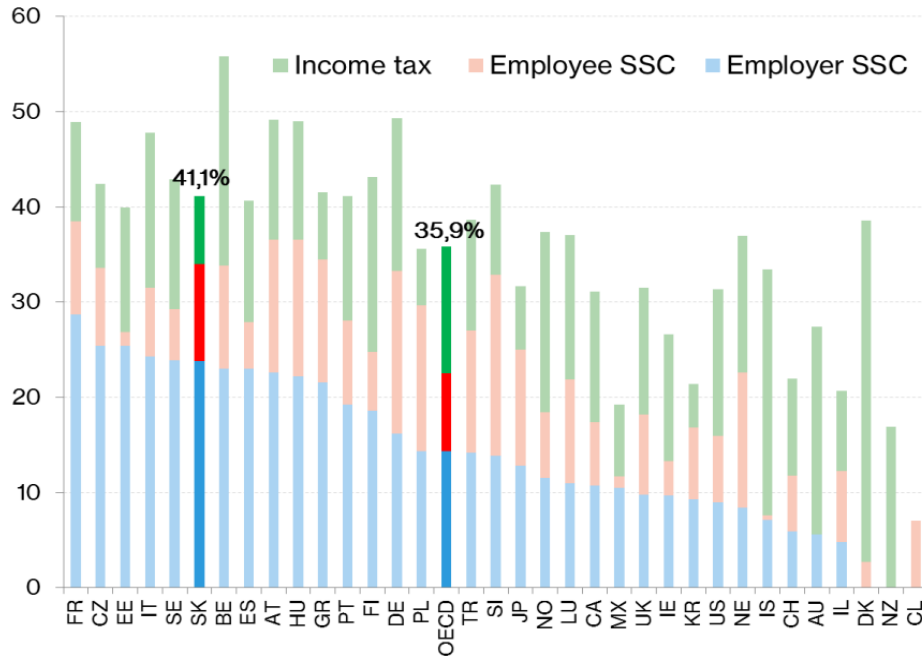
Source: LFS, IFP

- Labor demand problem pronounced in the East



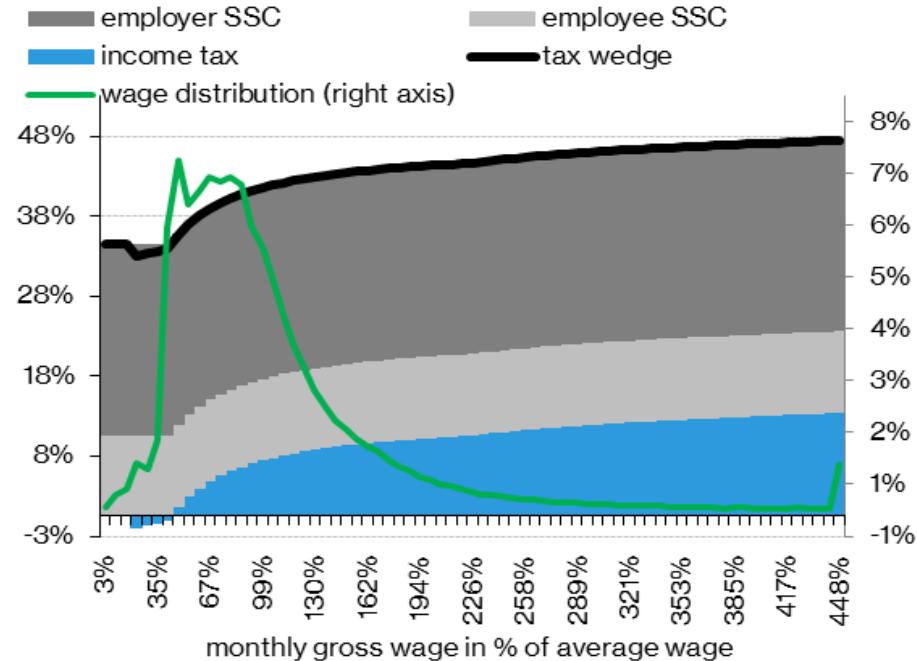
Employment barriers for low-skilled

Employer's social security contributions appears to be high (%)



Source: OECD Economic Outlook 2013

Tax wedge for low-skilled should be lower (%)



Source: IFP

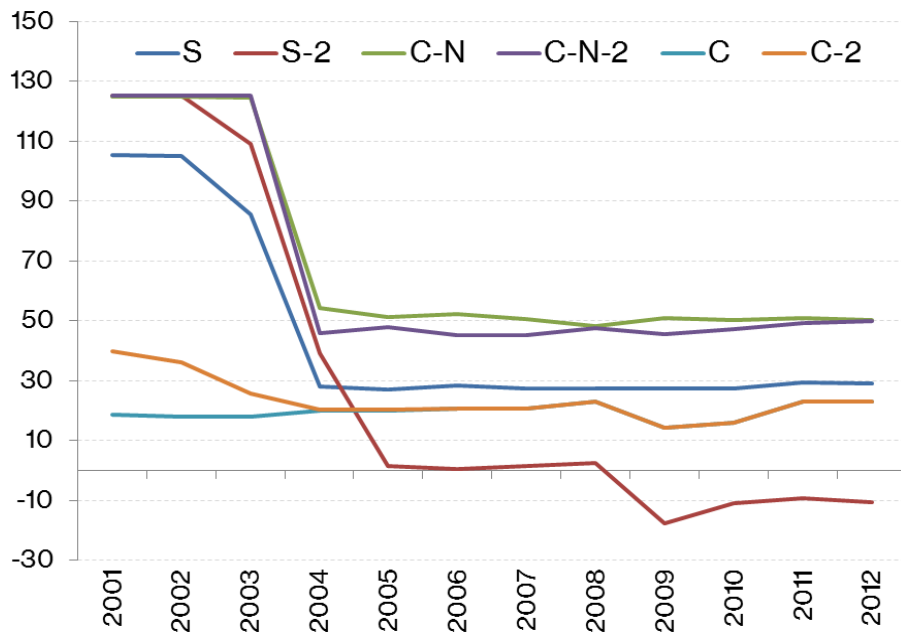
High tax wedge

- Hiring of low skilled is relative expensive, especially in low-productive sectors



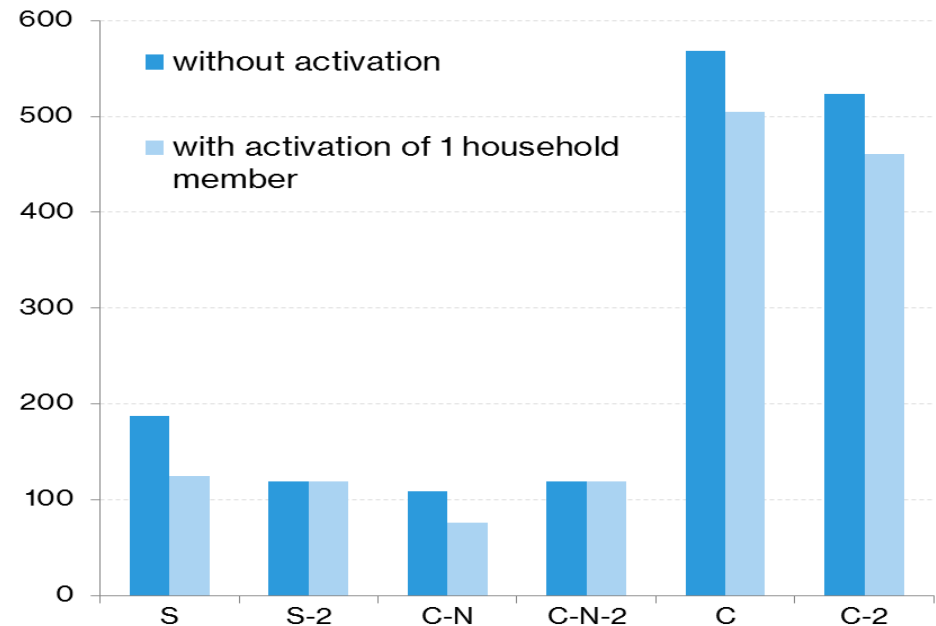
I Employment barriers for low-skilled

Assistance in material need in Slovakia
(measured as inactivity trap, %)



Source: EC/OECD

Net increase in household disposable
income in Slovakia (EUR, 2014)



Source: IFP

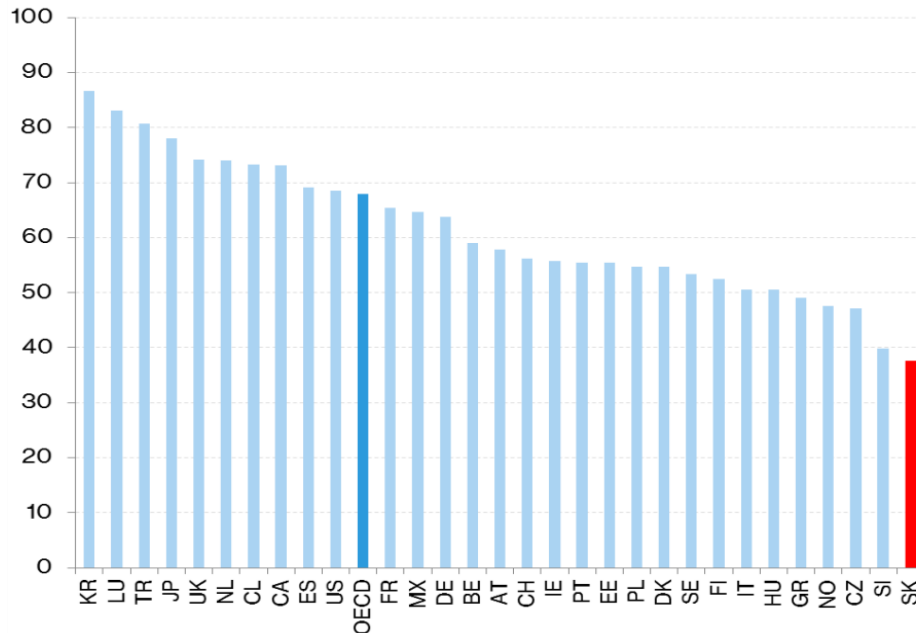
Tax-benefit system generates disincentives to work

- low-paid jobs are unattractive for certain types of household
- inactivity trap amplified by activation works



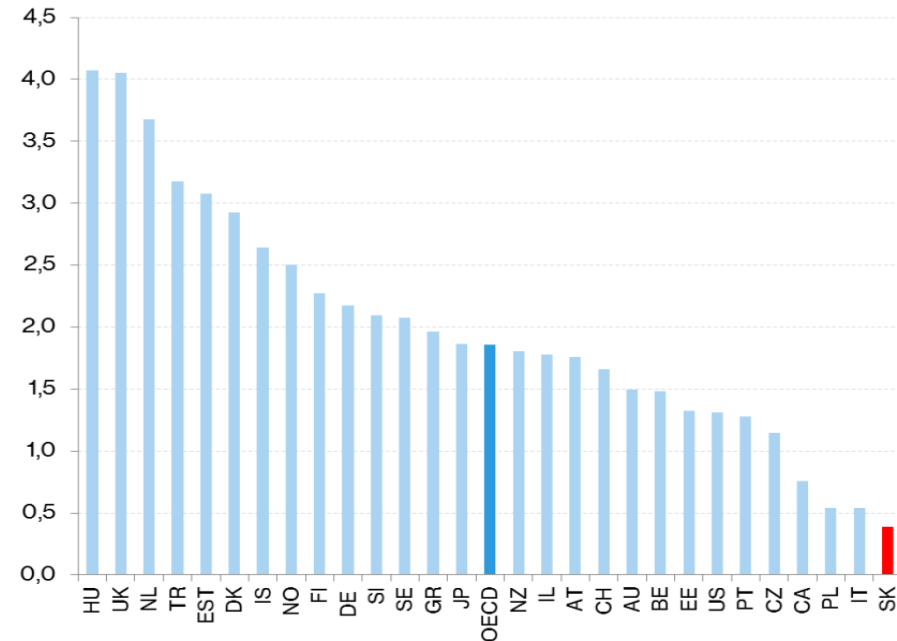
I Employment barriers for low-skilled

Share of population in urban areas (% , 2012)



Source: OECD – Regions at a Glance 2013

Annual regional mobility (% , average 2009-2011)



Source: OECD – Regions at a Glance 2013

3. Low regional mobility

- Housing situation and under-developed infrastructure may reduce labour mobility



I Policy response

- Improving access of Roma to employment should be a priority
- Accumulating and directing more capital to less-developed regions
- Increasing incentives for employers and employees





Improving access of Roma to employment should be a priority

- Better statistics are important:
 - for evaluation of Roma integration programs;
 - when fighting discrimination.
- Promoting access to education for Roma
 - pre-school education for Roma children
 - reducing high-school drop out rate
- Not segregation, but targeted approach should improve educational outcomes
 - abolish special classes
 - support teaching assistants, community centres

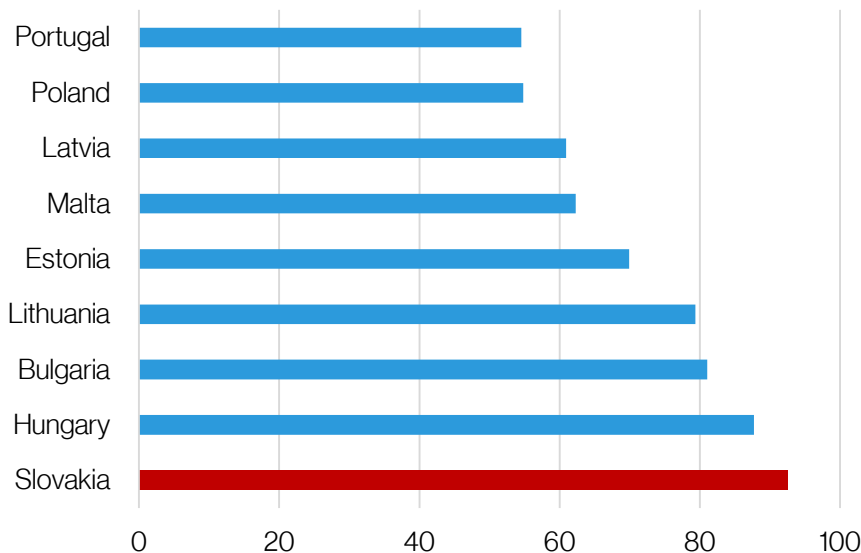




I Directing capital to less-developed regions

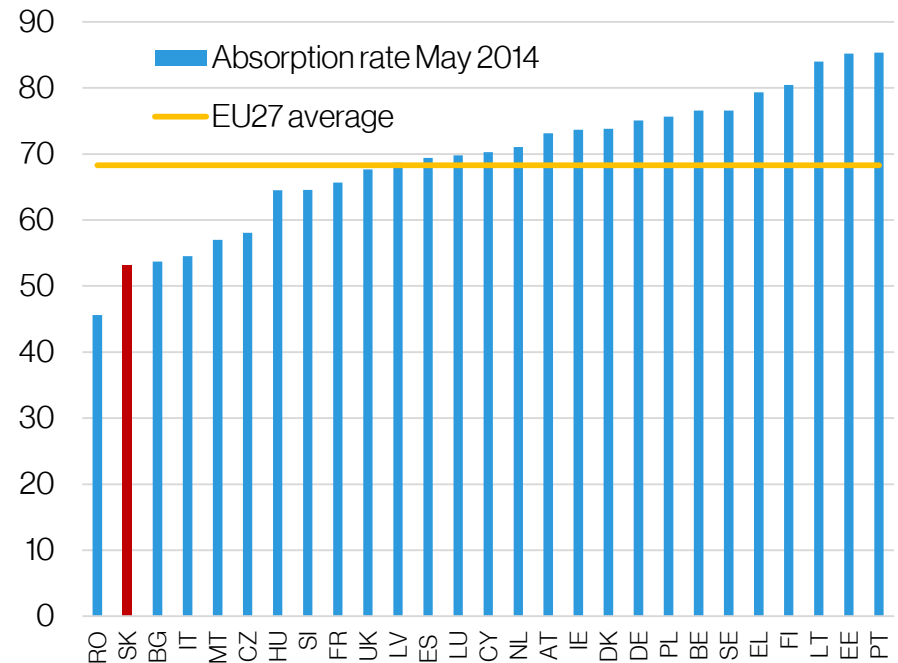
Most of the public investment in Slovakia is financed from EU funds

Cohesion Policy funding and national co-financing as % of total public investment (average 2010-2012)



Source: DG Regio

The absorption rate is low and it needs to be increased



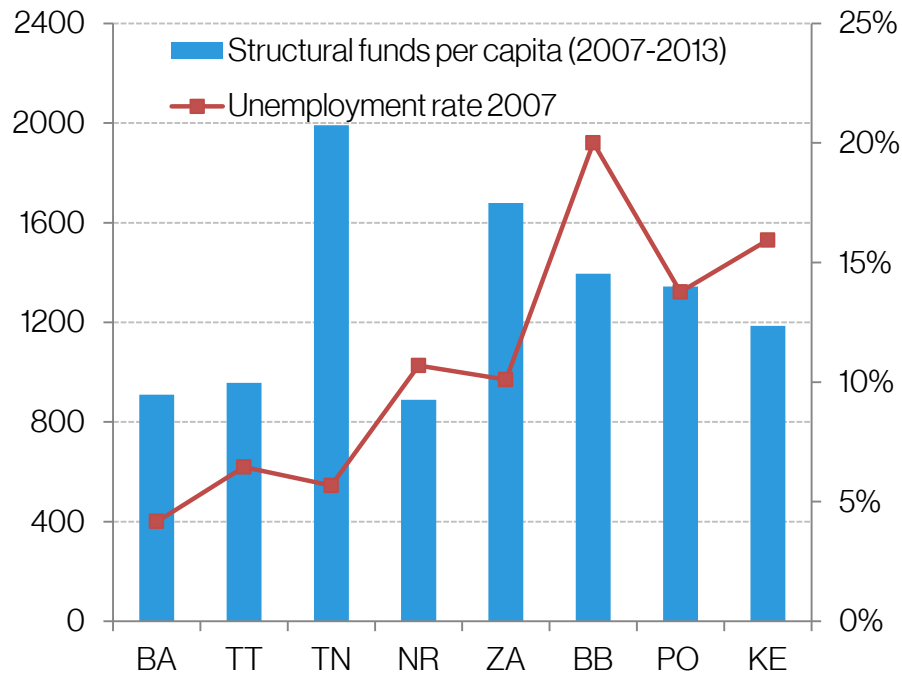
Source: DG Regio

1. Spurring the regional cohesion using EU funds
 - Improvement of effective absorption and allocation



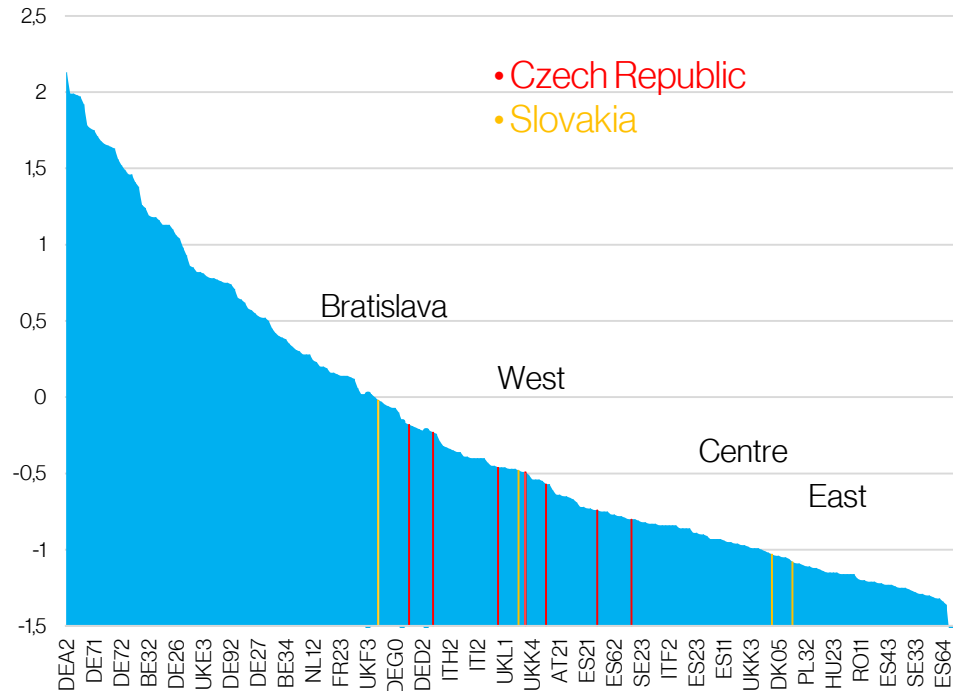
1 Directing capital to less-developed regions

EU funds are not tackling regional disparities



Source: DG Regio, LFS

The accessibility (index) in Centre and East Slovakia is very low



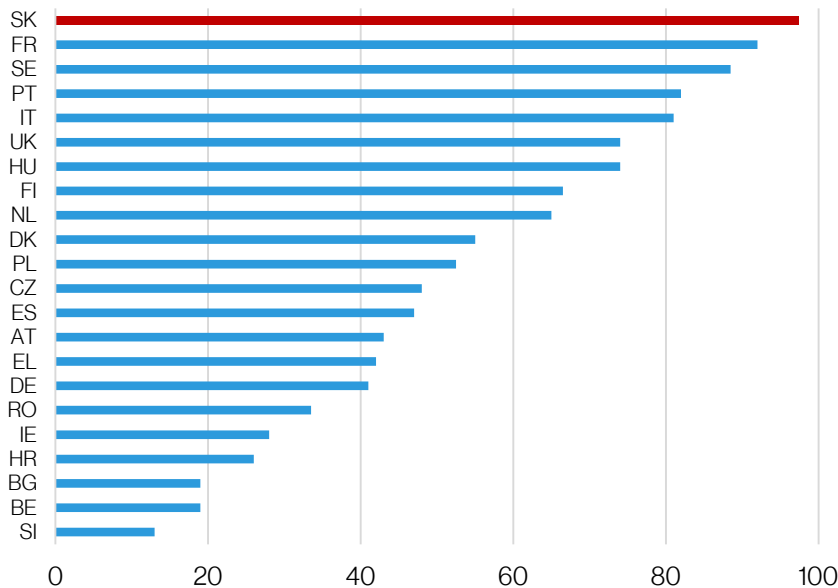
Source: Annoni and Dijkstra (2013)

2. The allocation of EU funds should prioritize less-developed regions



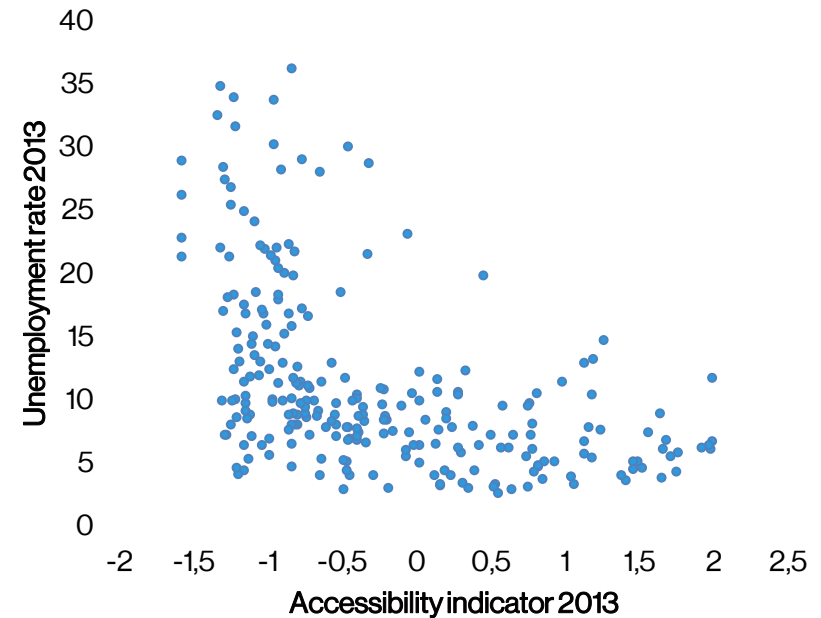
I Directing capital to less-developed regions

Regional disparities in Slovakia are highest in the EU (interquartile range of regions' rankings)



Source: Annoni and Dijkstra (2013)

Negative correlation (-0,5) between unemployment and accessibility across EU regions



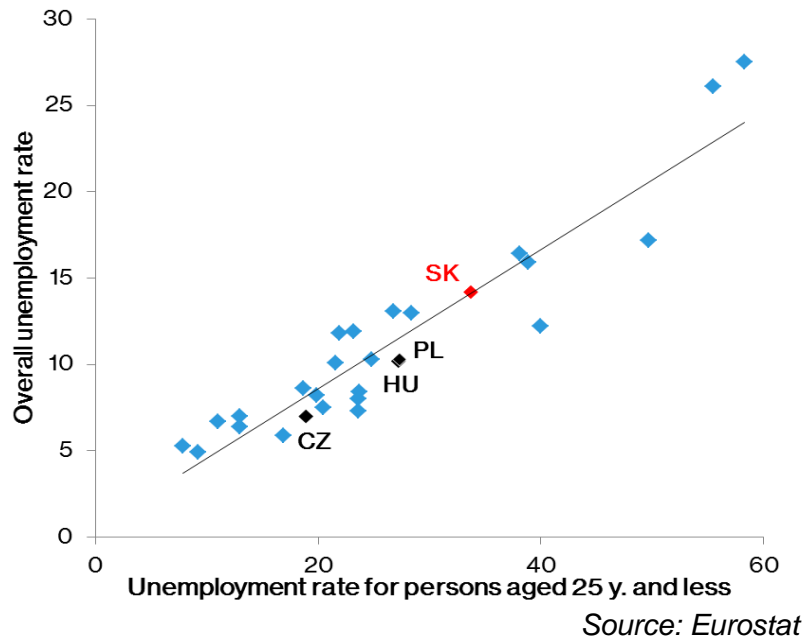
Source: Eurostat, Annoni and Dijkstra (2013)

3. Building of the transport infrastructure should seek to enhance the accessibility of the less-developed regions of Slovakia

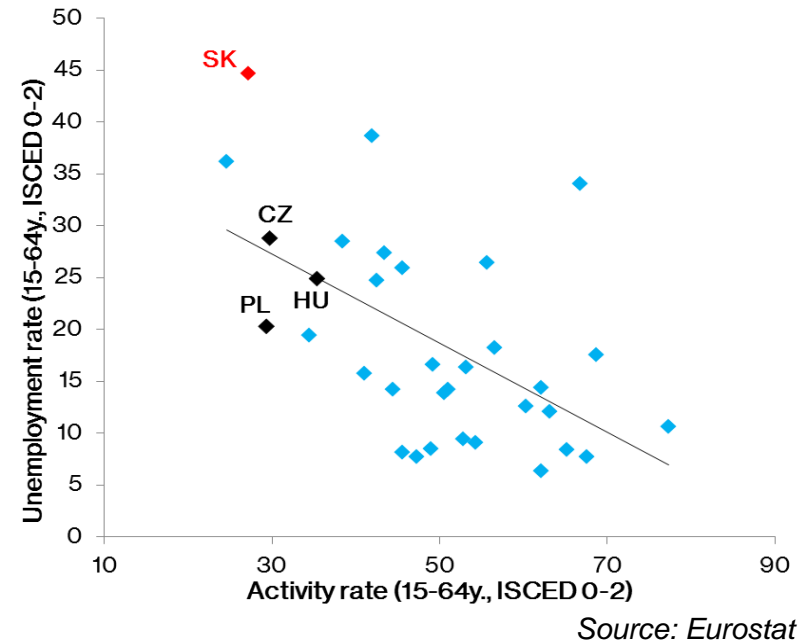


I Increasing incentives for employers

Youth unemployment is elevated due to high overall unemployment (% , 2012)



Low-skilled job seekers represent the most disadvantaged group (% , 2012)



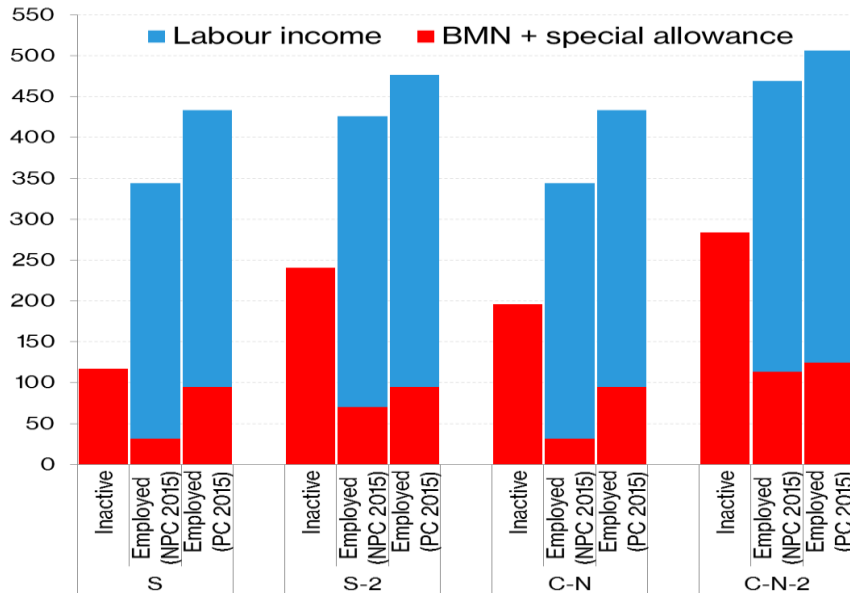
- Reduce the overall tax burden levied on the lower-skilled labour
 - Various labour costs reducing targeted programmes should be re-considered





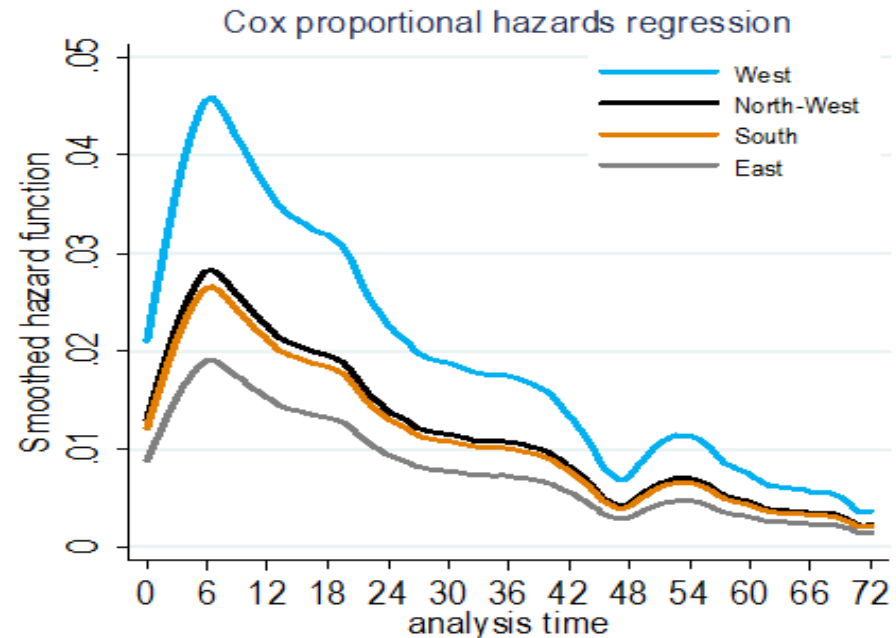
I Increasing incentives for employees

Increase in household disposable income when taking up a job (EUR, PC vs. NPC, 2015)



Source: IFP

Unemployment benefit appears to affect work incentives (initial 6 months) as well



- Improving motivations to work for low-skilled persons
- Increasing work incentives during the initial phase of unemployment
- Redesigning activation programmes
- Promoting education and training in active labour market policies
- Fostering labour mobility





Thank you for your attention

