



institute for financial policy

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No silver bullets for a better life in Slovakia

Peter Harvan

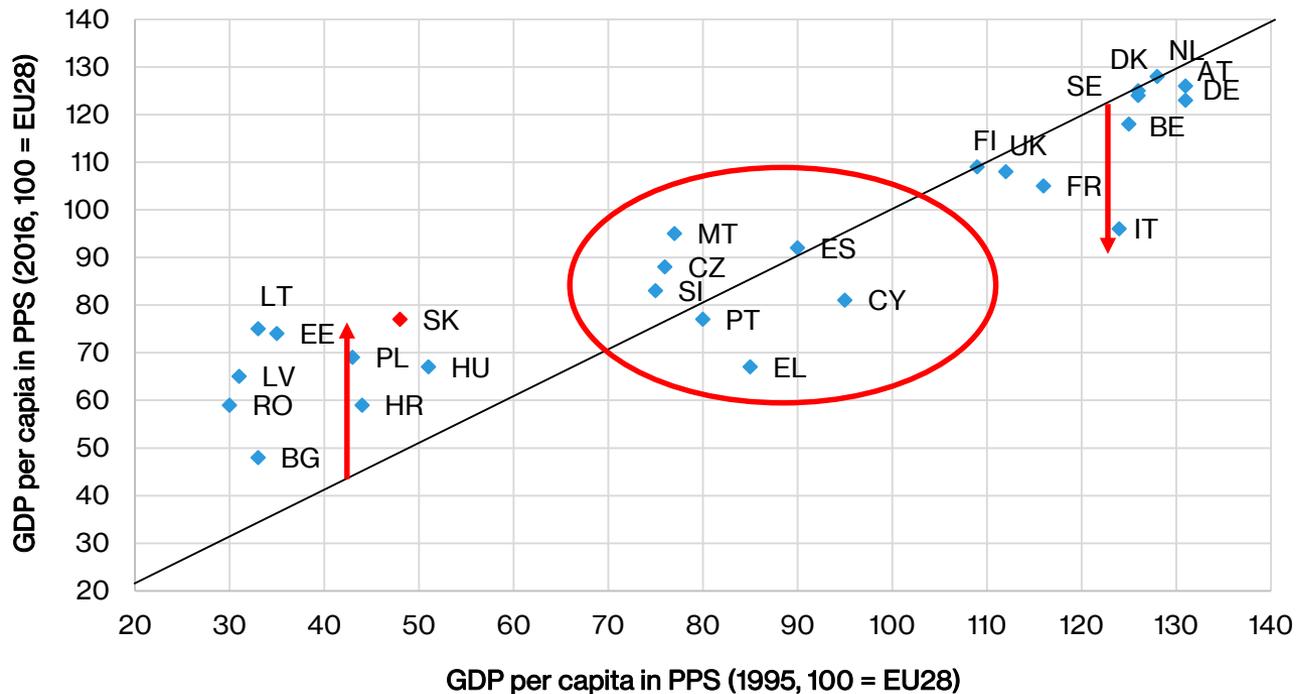
Head of Structural and Expenditure Policy Unit

Agenda

- How to feed people from graphs
- Education outcomes
- Fixing the labour market
- Hospital debt

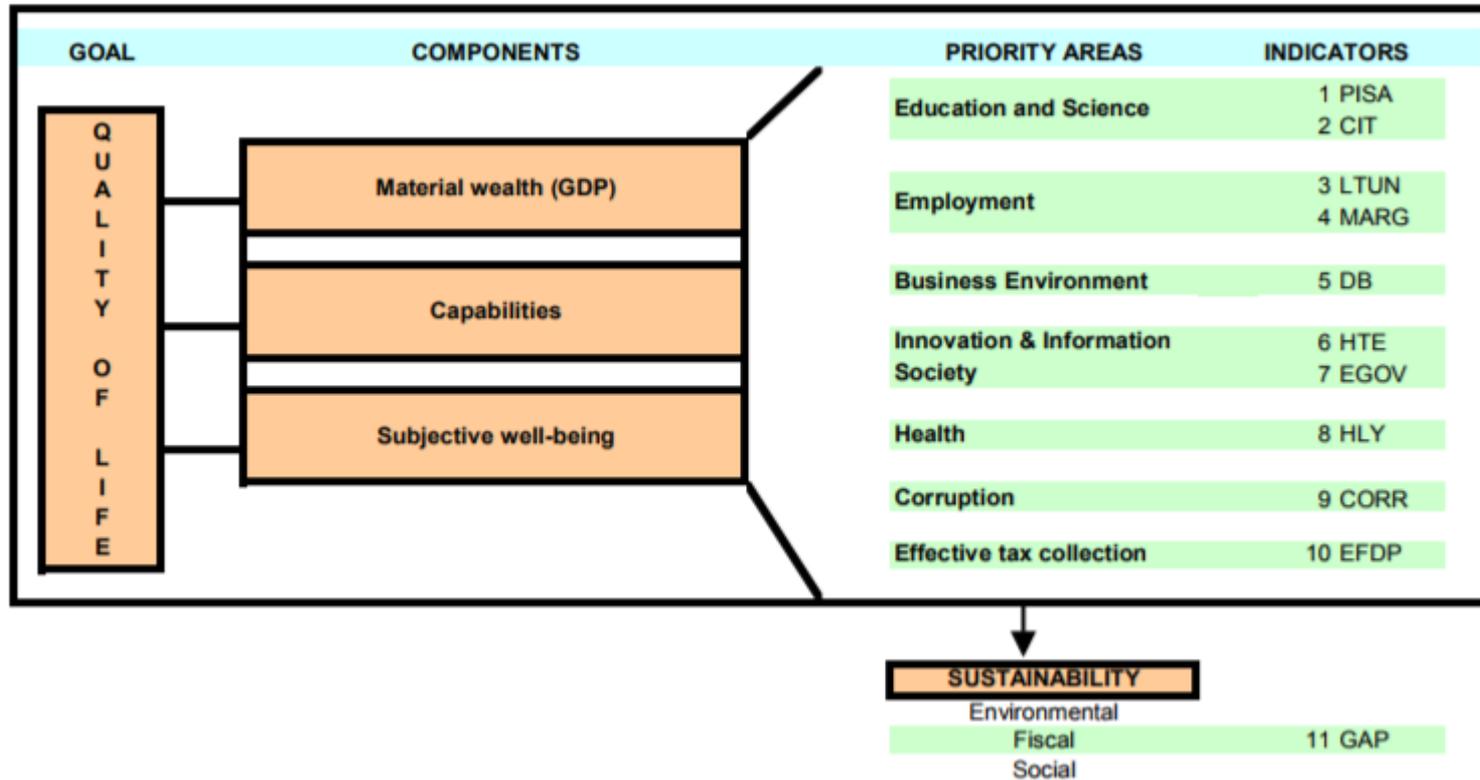
Convergence to the richest EU countries is stalling

EU convergence: state of play



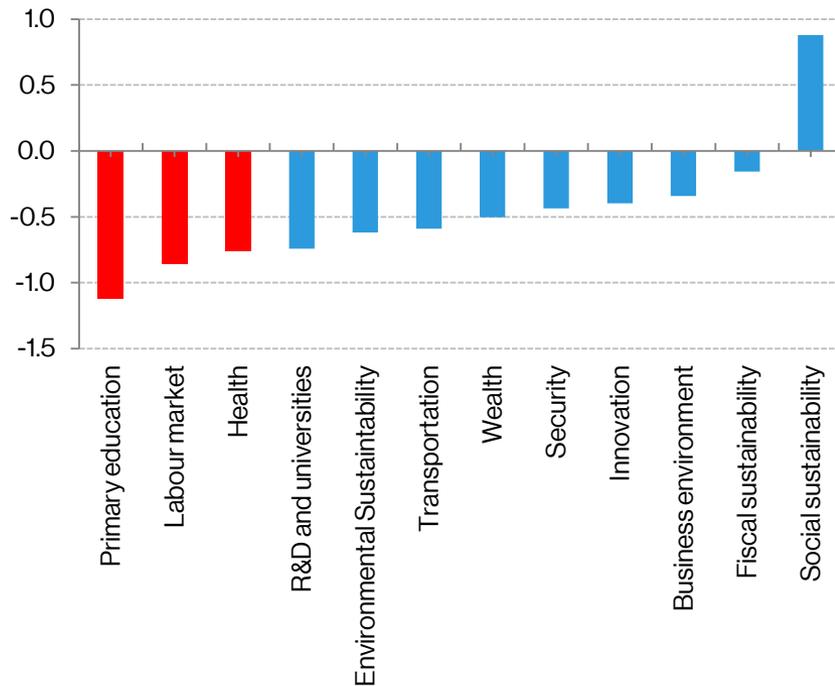
- Slovakia is converging to the richest countries, but the pace of convergence is slowing down

How to feed people from graphs?



Low hanging fruits in structural policies?

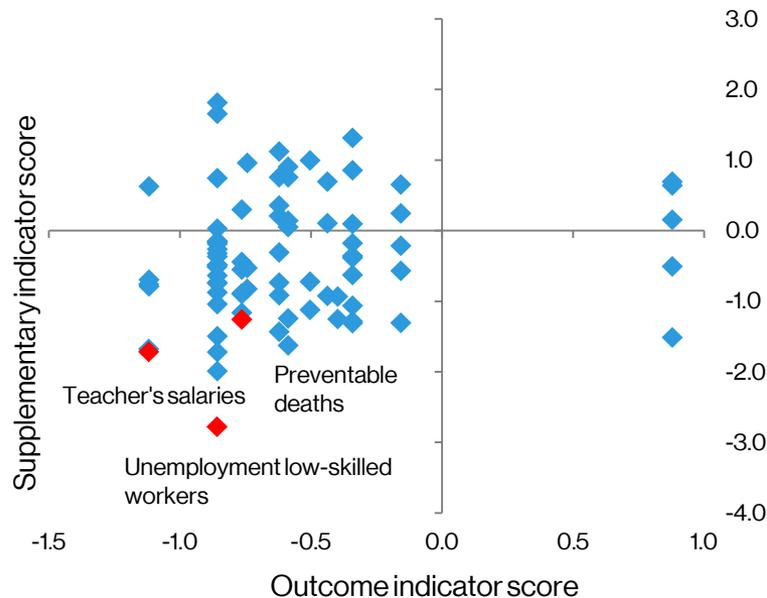
Performance indicators, standard deviation from the sample average (OECD/EU)



- Areas with impact on quality of life going beyond GDP decomposition
- Methodology: relative gap in outcomes
- (2015 and) 2017 results:
 - education,
 - labour market
 - and healthcare
- Not all areas of public policy are well measured (e.g. quality of institutions)

Differences in supplementary indicators

Disaggregation of performance indicators by means of supplementary indicators, std. deviation



Source: IFP (2017): Three Challenges of the Slovak Economy

- input and output indicators
- laggards:
 - Teacher salaries
 - Unemployment of low-skilled
 - Employment of women with children
 - Preventable deaths
 - ...

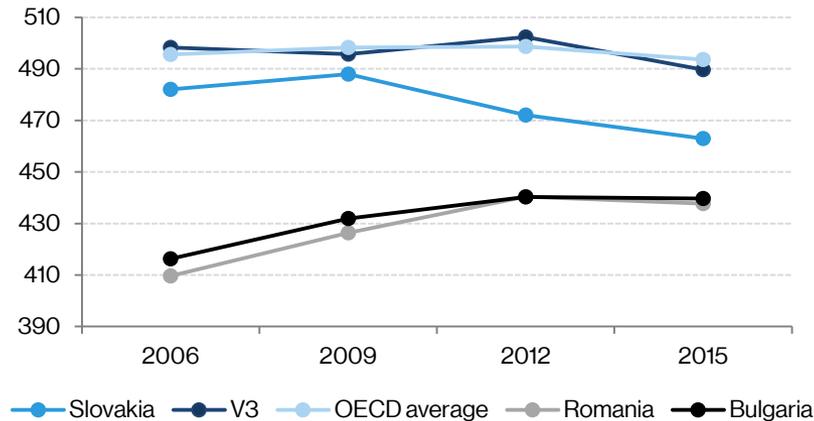
Education outcomes: Priceless Teachers



We have a person from a poor family in our class. But we do not make fun of her. Because she is a teacher.

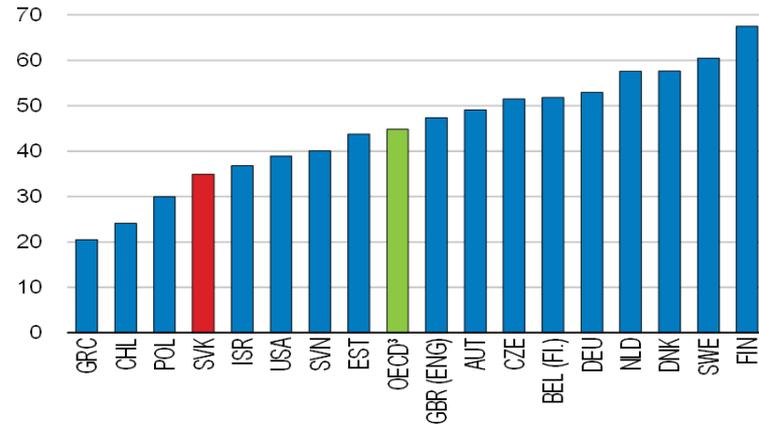
Quality of secondary education deteriorated

PISA testing results 2015 – average score



Source: OECD – PISA 2015

Problem solving in technology-rich environments
% of adults scoring at level 2 or 3, 25 - 34 year olds

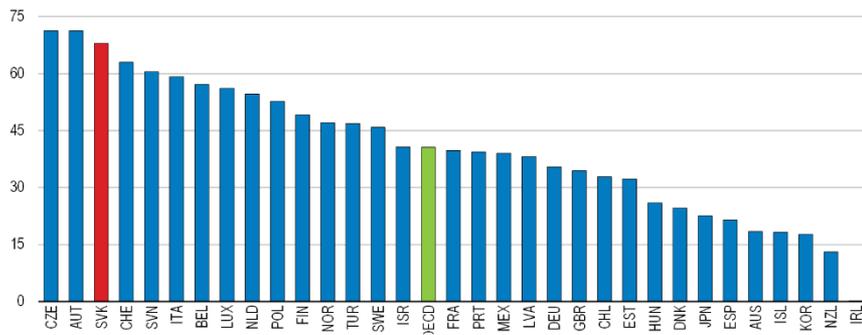


Source: OECD

- The PISA outcomes are deteriorating, both in terms of average performance and equity
- The gap in PISA scores between the upper and lower socio-economic quartiles is among the largest in the OECD
- Younger Slovak adults are insufficiently prepared to perform tasks such as solving non-routine problems or those requiring computer use

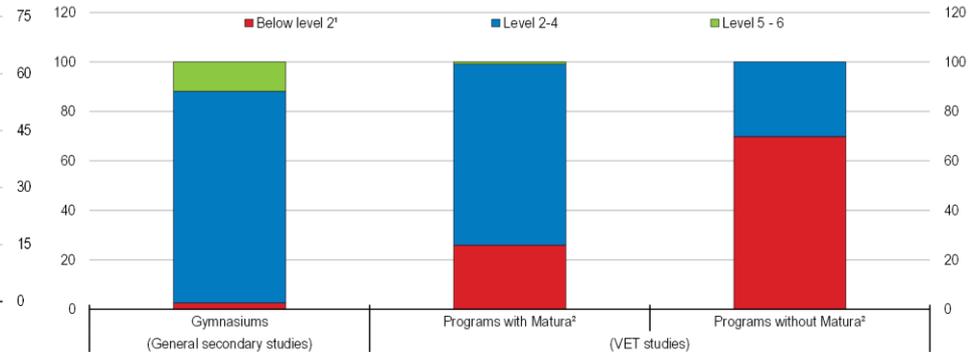
Do we need more students in vocational programmes in secondary education?

Share of vocational programme enrolment rates in upper secondary education (% , 15 – 19 year-olds, 2013)



Source: OECD

Share of 15 year-old students in individual levels of reading proficiency by school type (% , PISA 2015)



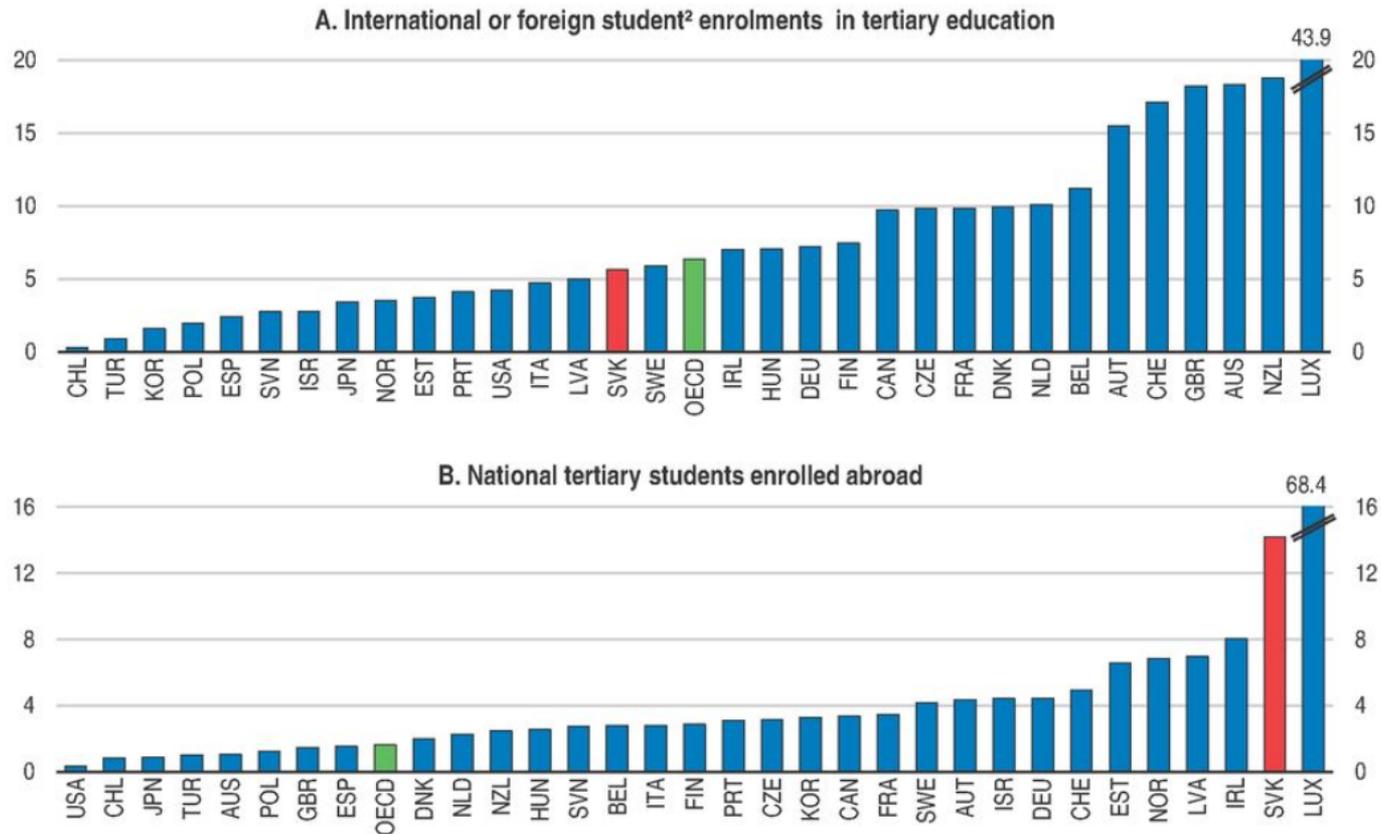
Source: OECD - PISA 2015

- Slovakia has one of the highest shares of vocational students in the OECD
- Vocational students have generally lower levels of literacy and numeracy proficiency than general education graduates
- Skills acquired through VET may become obsolete rapidly, as technology is evolving fast
- Vocational schools should provide a mix of general and practical skills with better alignment to labour market needs
- Dual education is not very successful yet (below 2 % of VET students attend)

Brain drain in higher education

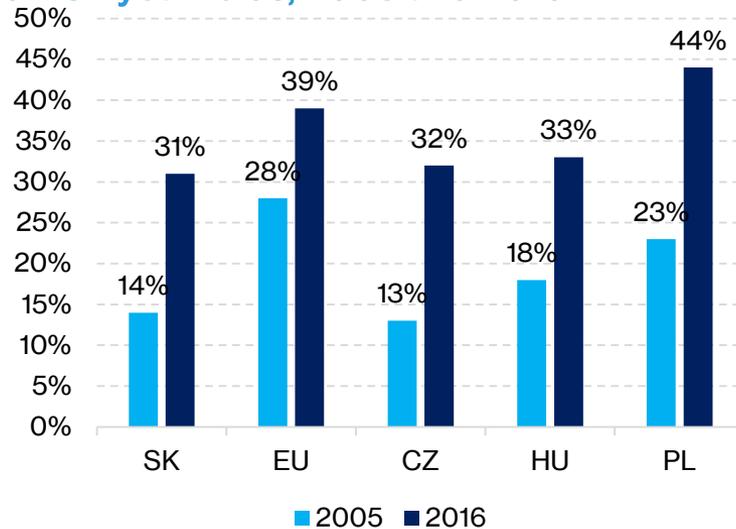
Figure 1.21. **Many Slovak students study abroad and only few foreigners study in the Slovak Republic**

Percentage of total tertiary students, 2014¹



Tertiary education: we are catching up

Tertiary educational attainment
30 – 34 year- olds, 2005 and 2016



Source: Eurostat

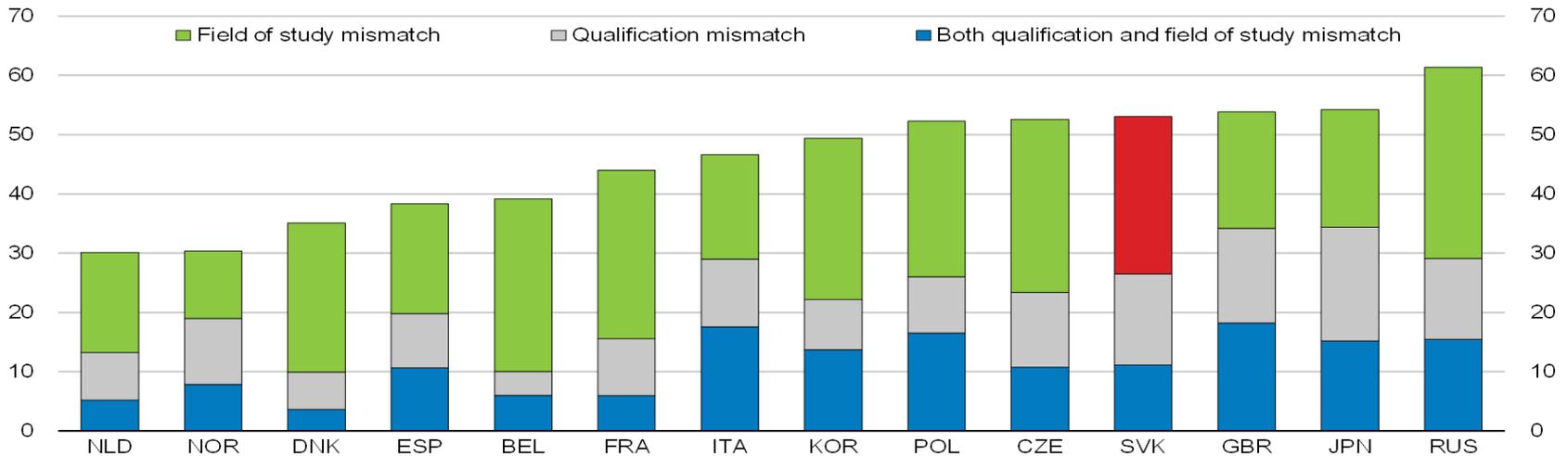
Forecast of tertiary educational attainment of
young people (2014)



Source: OECD

University graduates suffer from mismatches

Qualification and education mismatches among young tertiary educated graduates, 16 - 35 year-olds

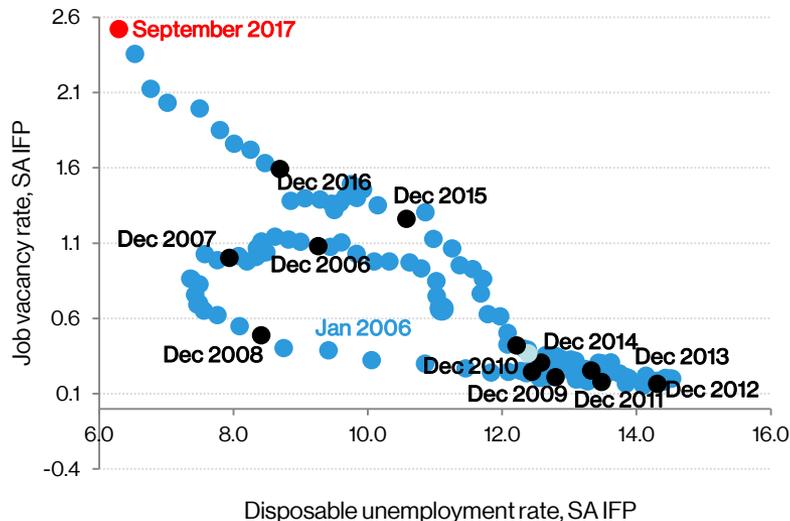


Source: OECD

- The structure of graduates in Slovakia differs significantly from the other OECD countries - twice as many students continue in graduate study (MA degree)
- Tertiary graduates are increasingly employed in jobs that do not necessarily require tertiary education – mostly social work, rehabilitation and nursing
- More than a quarter of young graduates currently work in low skilled occupations compared to almost none in 2000

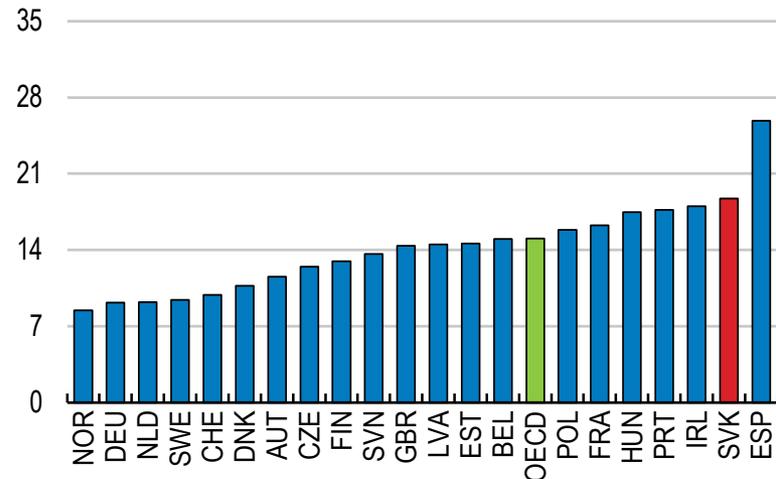
Education outcomes - labour shortages, but high structural unemployment

Relationship between unemployment and the job vacancy rate in time (Beveridge curve)



Source: IFP based on CoLSAF data

Youth not in education or employment aged 15 – 29 (% , 2014)

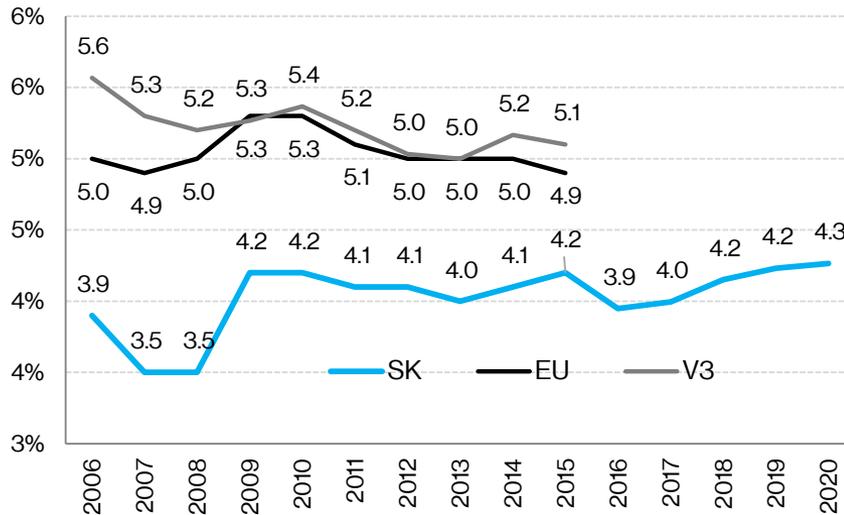


Source: OECD

- Weakness of education system results in severe skills mismatch problems
- Despite high unemployment, companies are experiencing shortages of skilled labour
- Increasing shortages are occurring in the manufacturing sector as well, affecting particularly the automotive sector. This year, more than 80% of suppliers signalled that the availability and quality of labour is a major problem for production.

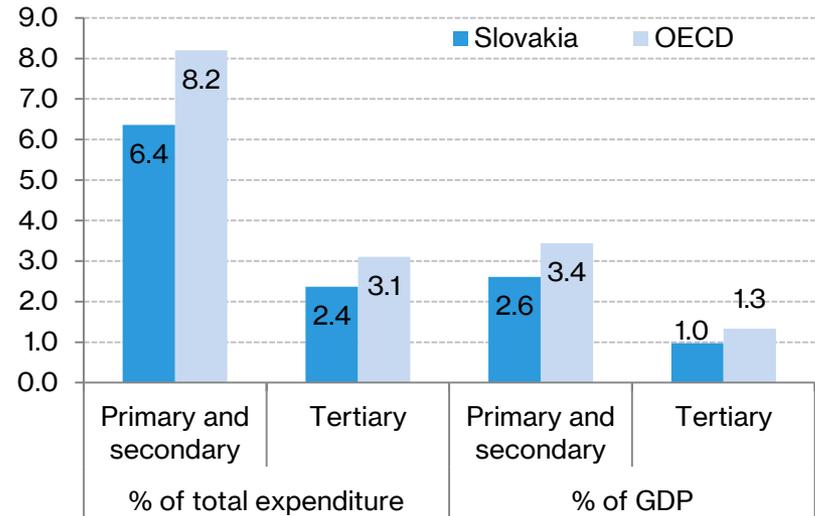
Education inputs

Public expenditure on education (2006 – 2016 and forecast up to 2020, in % GDP)



Source: Eurostat (COFOG), RIS

Public expenditure on education 2013

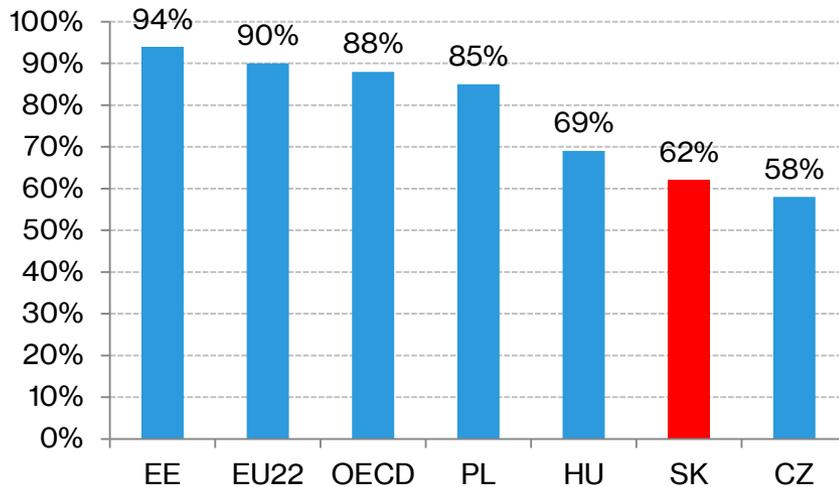


Source: OECD

- Expenditure on education is 1 % below EU average, with the largest gaps in primary and secondary education

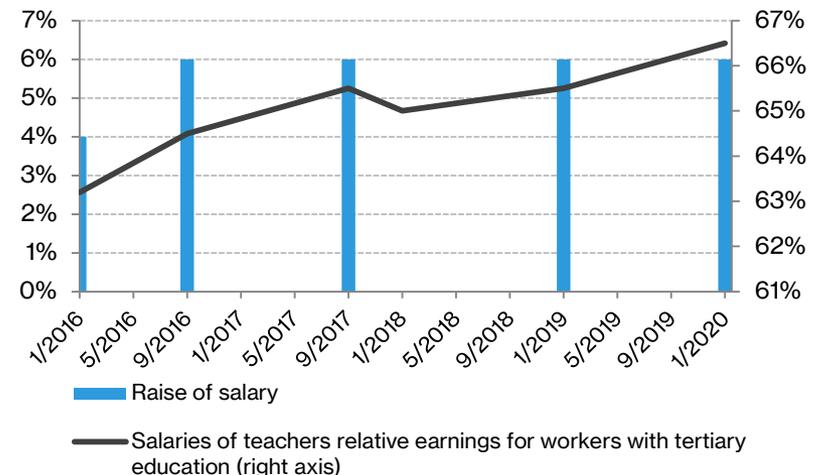
Education inputs: What money can't buy

Salaries of lower secondary teachers relative to average earnings for workers with tertiary education (2015)



Source: OECD

Planned raise of salaries of teachers, their raise relative to average earnings for workers with tertiary education (2016 - 2020)



Source: Slovak Government manifesto

- Slovak teaching profession is unattractive: salaries of teachers have long been among the lowest in the OECD, especially young teachers
- The salaries of teachers relative to average earnings for workers with tertiary education should raise from 62 % in 2015 to 67 % in 2020

I Experience of other countries with increasing teacher salaries

- Israel: steady improvements in PISA in all subjects
 - teachers' pay scales were increased and flattened (salaries for junior teachers were doubled, while those for veteran teachers increased by 25%)
 - promotion was made contingent on triennial evaluations and fulfilling the requirement of 60 hours of in-service training per year
- Colombia: large improvements in results between 1995 and 2010
 - Teacher salaries were raised to be aligned with those of other social science professionals
 - Salary increases were concentrated at the beginning of a teacher's career
 - Career advancement shifted from a tenure-based system to one based on competencies, identified through a new teacher-evaluation system
- Poland: steady improvements in PISA in all subjects
 - the structural reform of 1999 and the curricular and examination reform of 2009
 - offering new teacher incentives, such as alternative promotion paths and a revised remuneration system
 - more autonomy to schools and teachers, while maintaining a system of accountability via standardised assessments and examinations

I Improving primary and secondary education

- **Better teacher pay**
 - Increasing teacher salaries, faster growth of salaries for new teachers
 - Strengthened relationship between the remuneration system and provable quality
- **Better quality of teachers**
 - Significantly greater volume of on-spot training directly at schools for student teachers
 - Improving the quality of continuous professional development for teachers with upgraded professional development courses
- **Inclusive education and kindergartens**
 - Expanding the capacities of kindergartens (low pre-school participation especially of Roma children)
 - Creating positions of assistant teachers and specialised staff (school psychologist, special education teacher, social pedagogue) in kindergartens and primary schools focused on children from marginalised Roma communities

I Further measures

- Improving skills formation at vocational schools: dual education
- Reform of accreditation process and funding system of universities
- Increasing the proportion of undergraduate students who do not continue in postgraduate study

Labour market outcomes

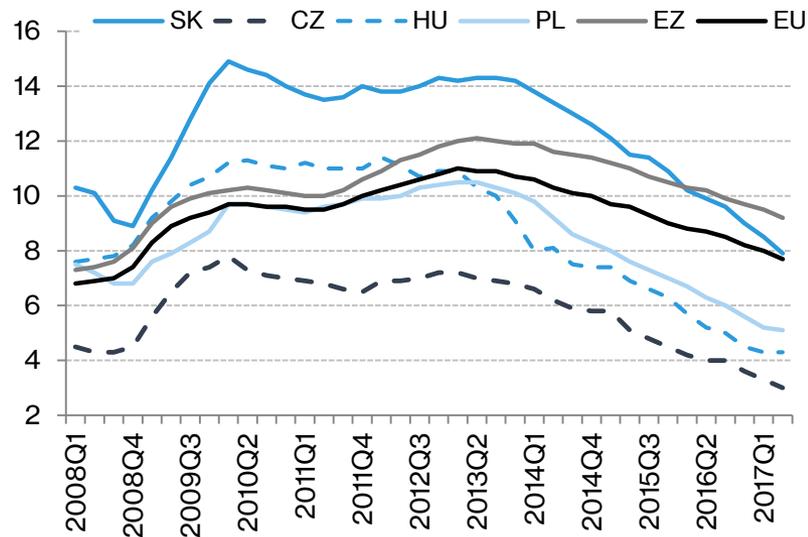
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**“Right now we have openings for a beach lifeguard,
greenhouse gardener, and sauna manager.”**

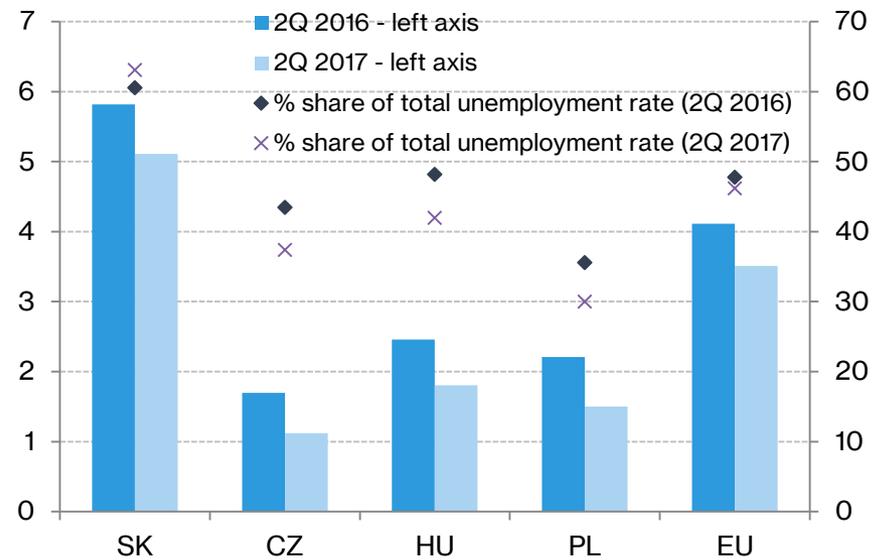
Long-term unemployment remains a challenge

Quarterly development of the unemployment rate according to the LFS



Source: Eurostat

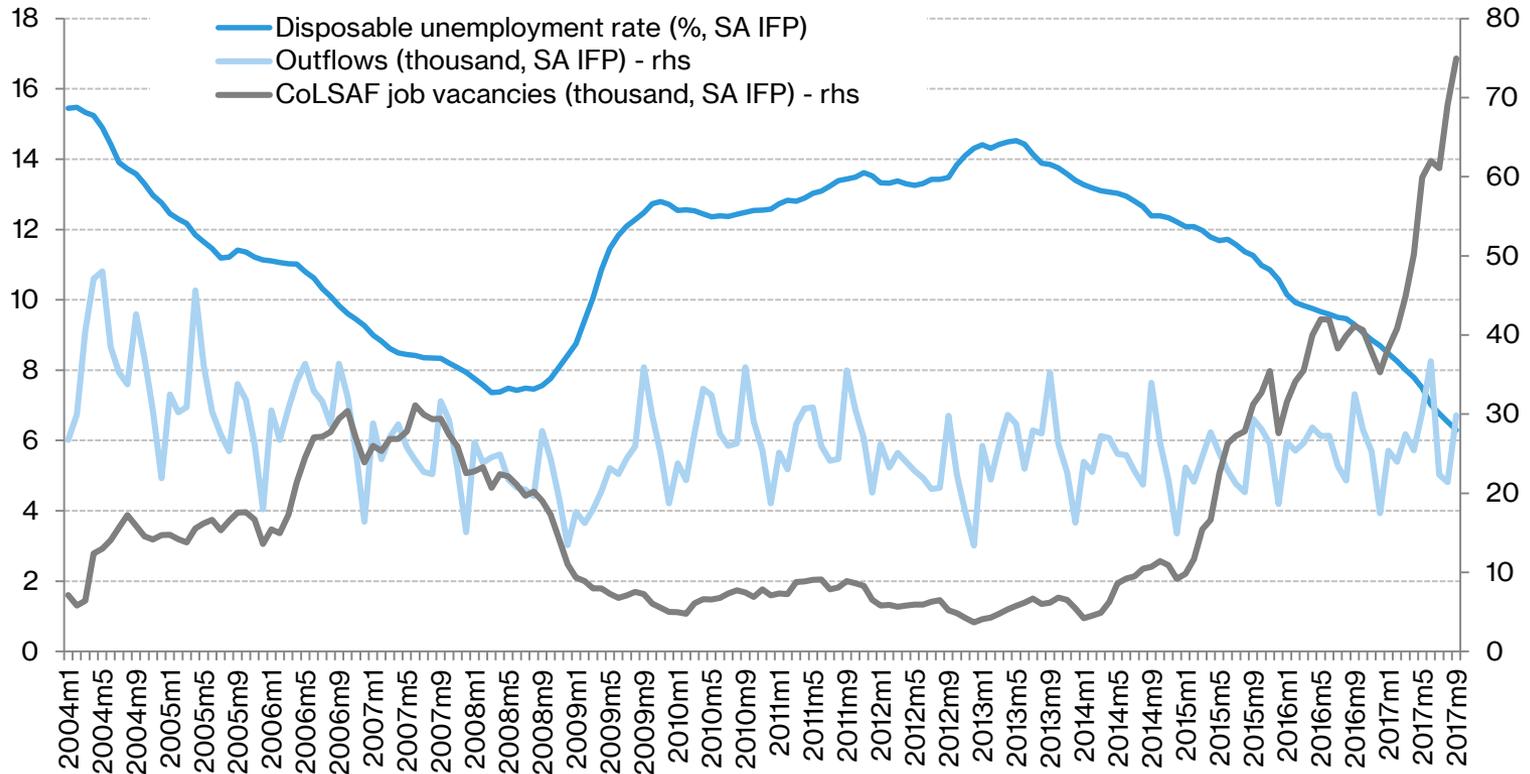
Long-term unemployment (% , 2Q 2016, 2Q 2017)



Source: Eurostat

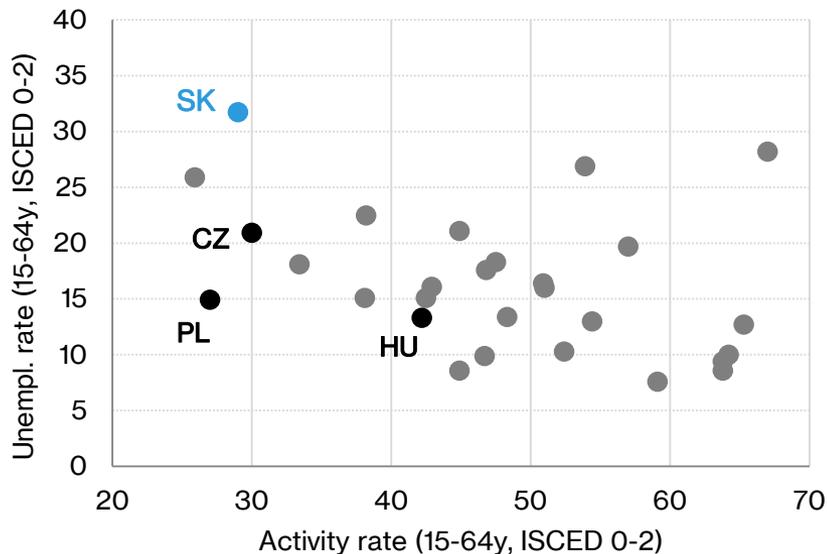
- Overall unemployment rate hits the record lows with significant decrease in long-term unemployment
- Despite positive development long-term unemployment still remains one of the highest in the EU (can be an issue for specific group of unemployed – low-skilled, Roma or older jobseekers)

Overheating labour market?



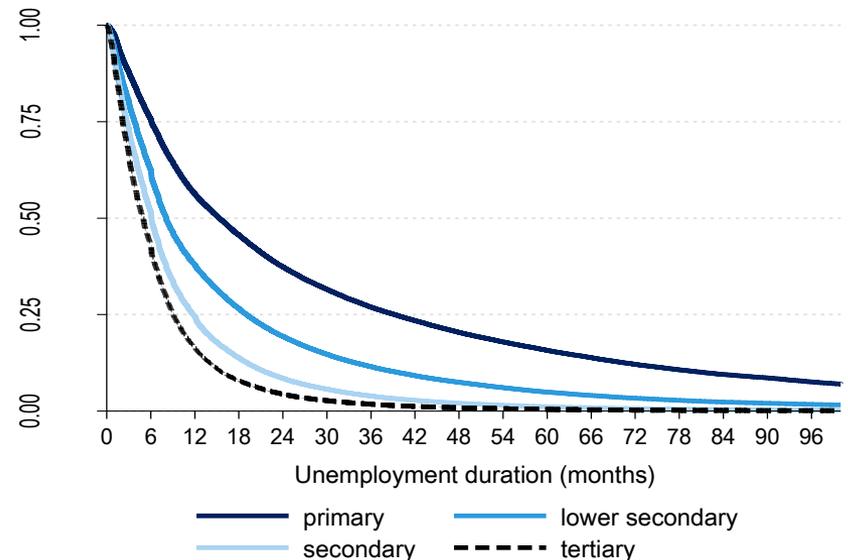
Low skills correlate with poor employment outcomes

Low-skilled workforce in the labour market (% , 2016)



Source: Eurostat

Probability of being unemployed by unemployment duration and education



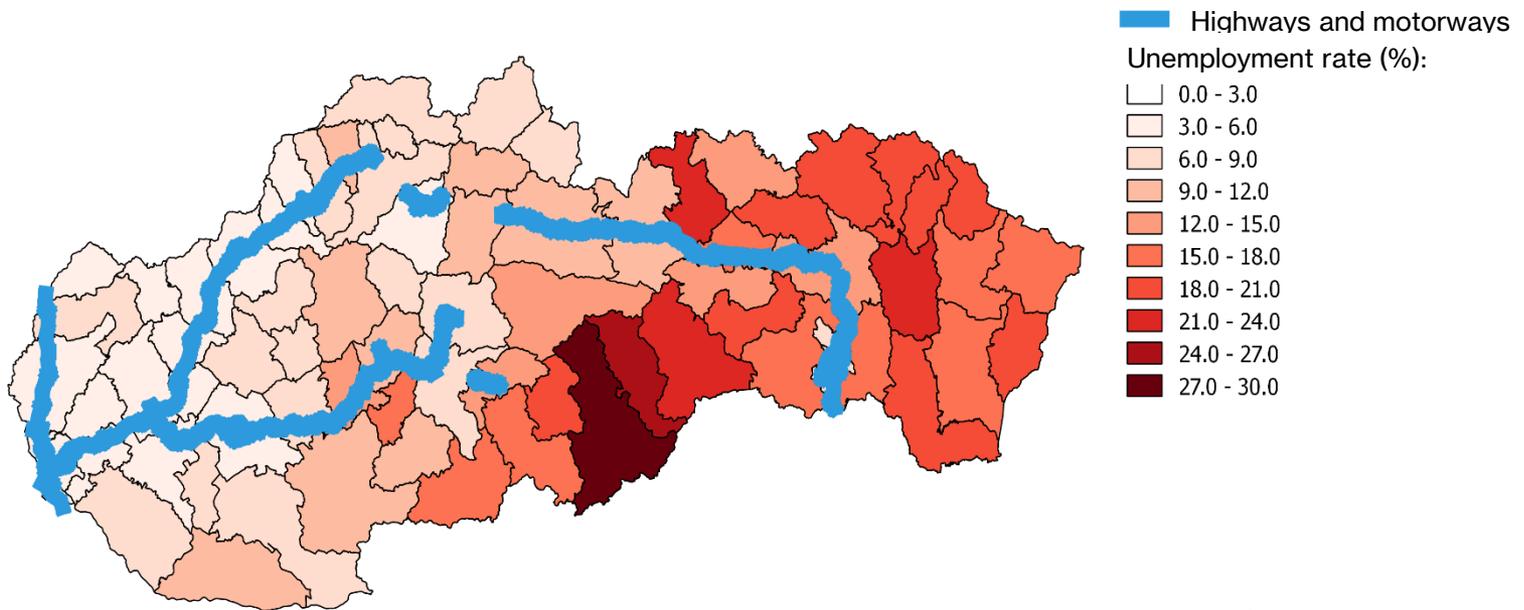
Source: IFP based on CoLSAF data

Note: registered jobseekers being unemployed at least one day in 2013

- Low-skilled in Slovakia: activity rate is one of the lowest, unemployment rate despite improvement remains the highest in the EU
- Probability of finding a job heavily aggravated by the low level of skills

Highways help but only marginally

Regional unemployment rate and highway network (December 2016)

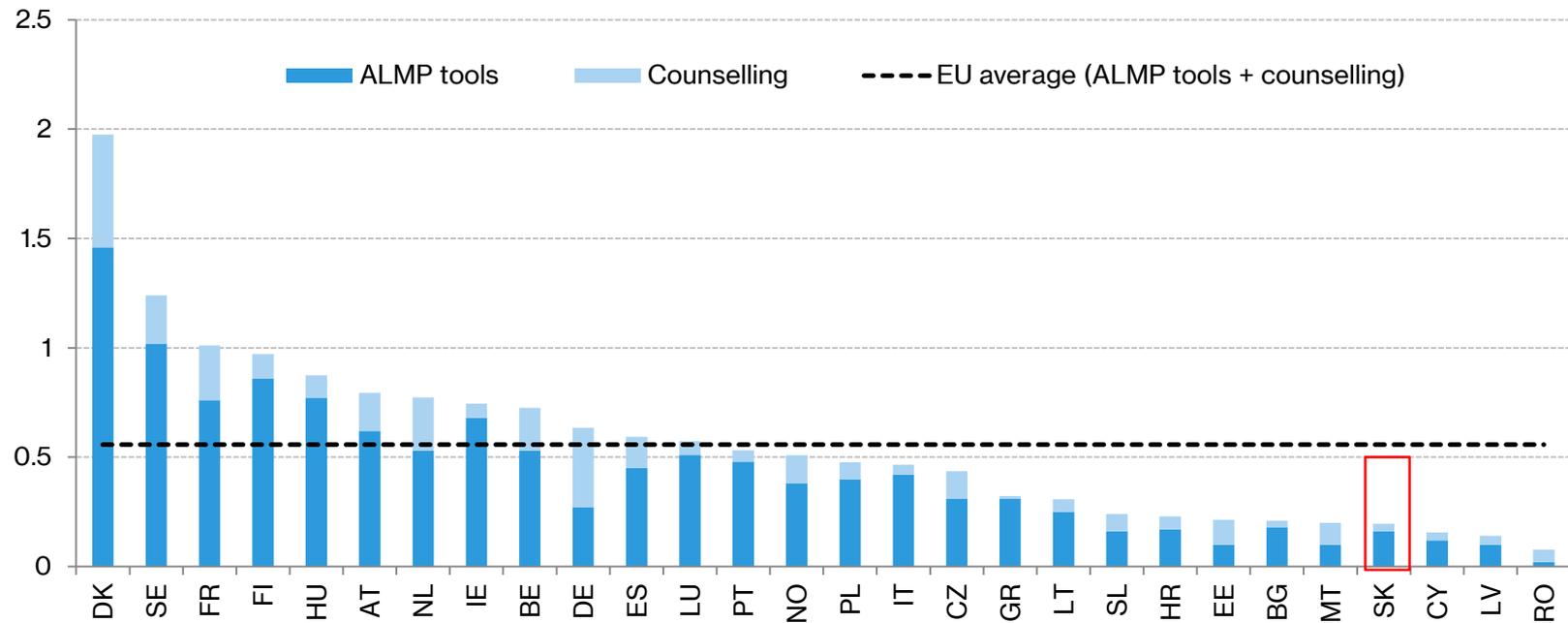


Source: IFP

- Highway construction is not sufficient without skills enhancement in lagging regions
- Highway availability is linked with a lower unemployment rate by only 0.9– 1.6 p.p.

Relatively low resources on public employment services...

Public employment expenditure (2015, % of GDP)

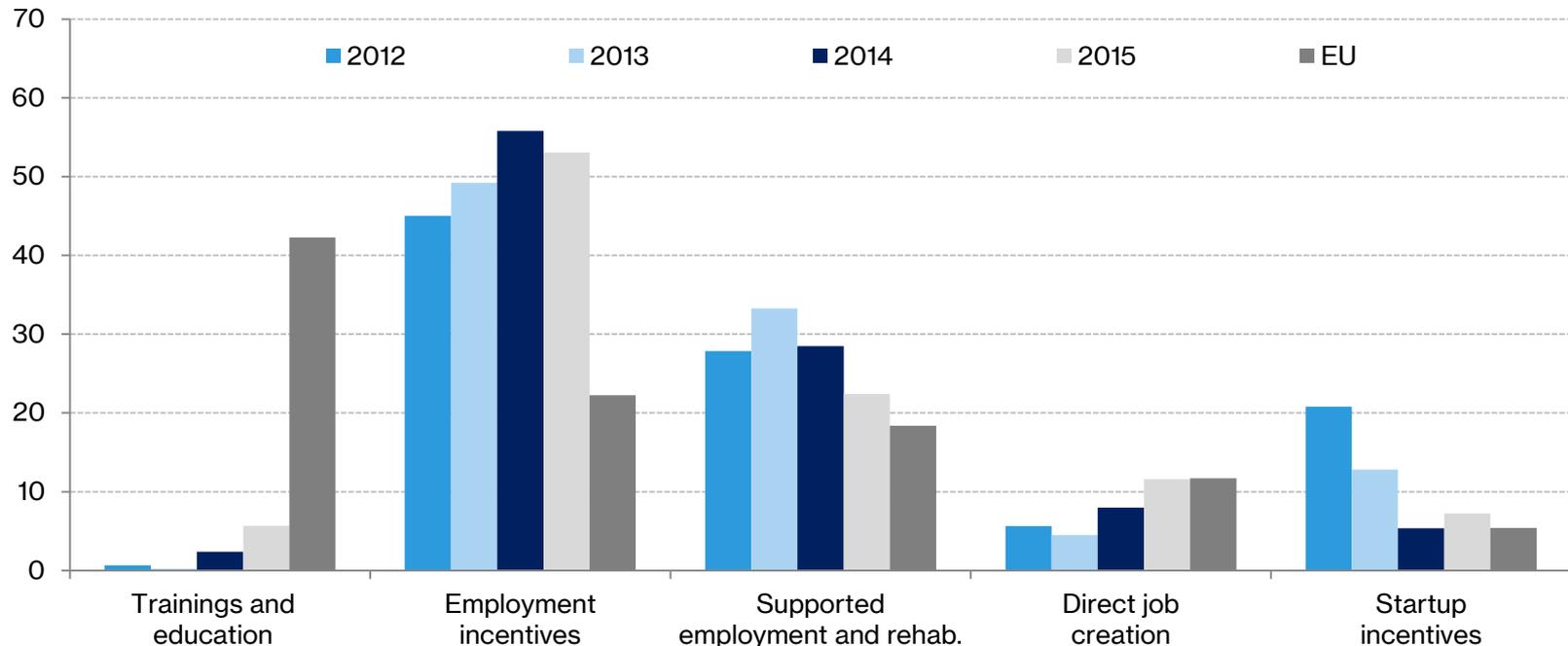


Source: Eurostat

- PES expenditure – counselling services and active labour market policies (ALMP) – only 0,2 % of GDP vs. EU average (0.56 % of GDP)
- Budget increase to the level of the EU = additional 230 mil. eur

...and resources are not used on the „best practice“ tools

ALMP expenditure structure (2015, % of GDP)



Source: Eurostat, CoLSAF

Note: 2013 or 2014, or latest available for the EU average

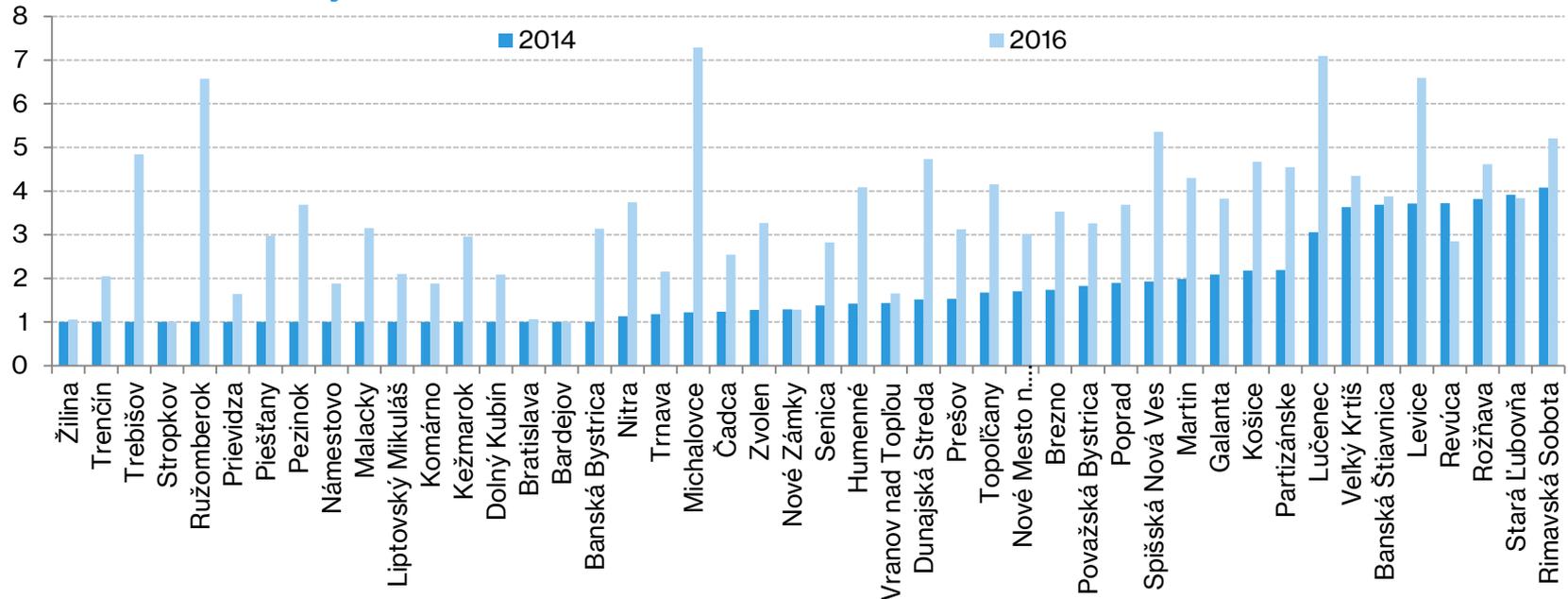
- Fewer resources allocated in cheaper and relatively more efficient training and educational programmes

Counselling is efficient and cost-effective tool in „best practice“ countries....



...but not working in Slovakia

Placement efficiency of labour offices



Source: VfM Unit, IFP based on CoLSAF data

- Number of jobseekers placed through PES could increase on average 3.5 times in case of fully efficient labour offices (only 1.8 times on average in 2014)
- It would represent an additional increase of 4 to 12 thousand employed persons/fewer jobseekers

How to set the right mix of ALMP tools



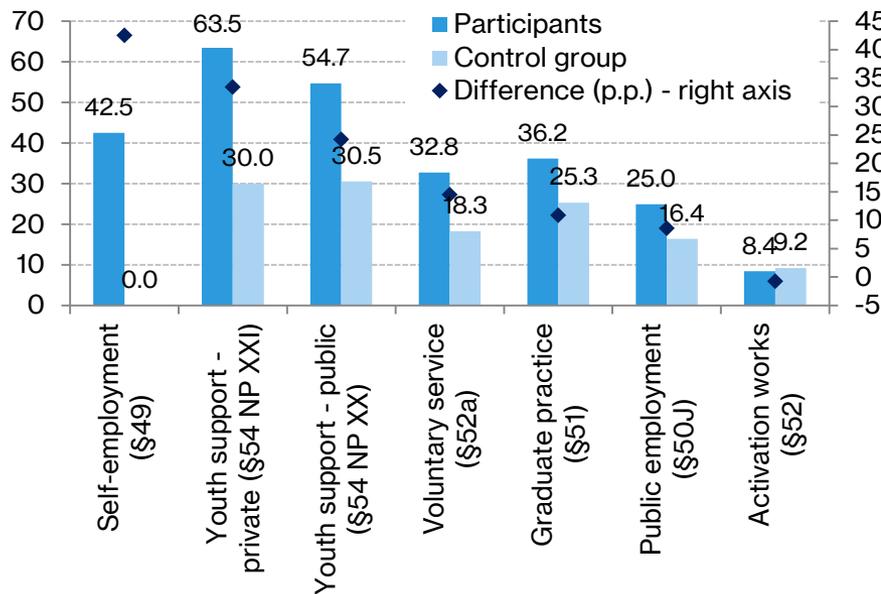
"I'm sorry, but we weren't able to find you a job that provides you with free golf clubs, and pays you to golf all day."

Measuring efficiency/effectiveness of ALMP

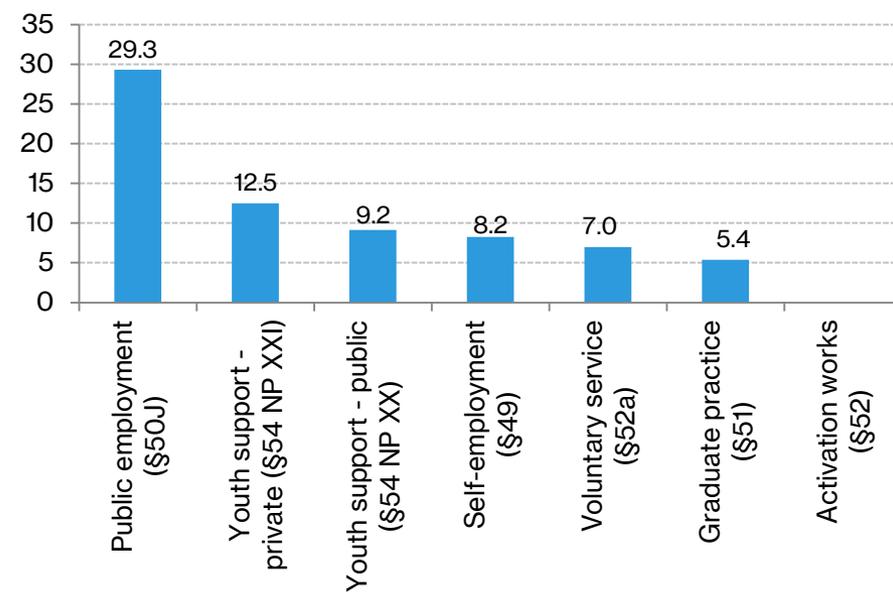
- Comparing employment outcomes of ALMP participants vs. unemployed non-participants
- Positive difference in employment probability of ALMP participants vs. non-participants – efficient ALMP tool (net efficiency)
- Calculating costs per successfully employed ALMP participants – net cost-effectiveness

Public employment unsuccessful in combatting long-term unemployment

Probability of employment (% difference in p.p.)



Net cost-effectiveness (thousands eur)



Source: IFP based on CoLSAF data

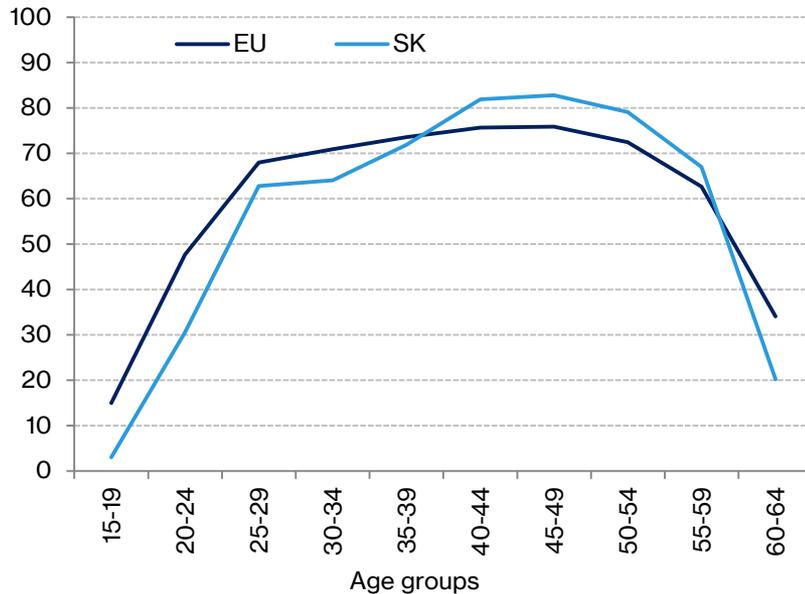
- Public employment of low skilled/long-term unemployed appears to be inefficient (activation works) or cost-ineffective (public employment of low-skilled)
- Efficient youth support, but short-term programmes appear to be more cost-effective (e.g. graduate practice)

Current measures to improve PES efficiency

- Spending reviews of public employment services (2016 and 2017) identified possibilities to reallocate resources to more efficient tools
- Organizational restructuring at the Central Labour Office and subordinated labour offices to improve individualized counselling and other services (ongoing from 2015)
- Changes in labour market policies targeting long-term unemployed – specific programmes (however support of employers prevails), non-state providers of PES, better profiling
- Enhanced measures to increase labour mobility (commuting and relocation allowance)

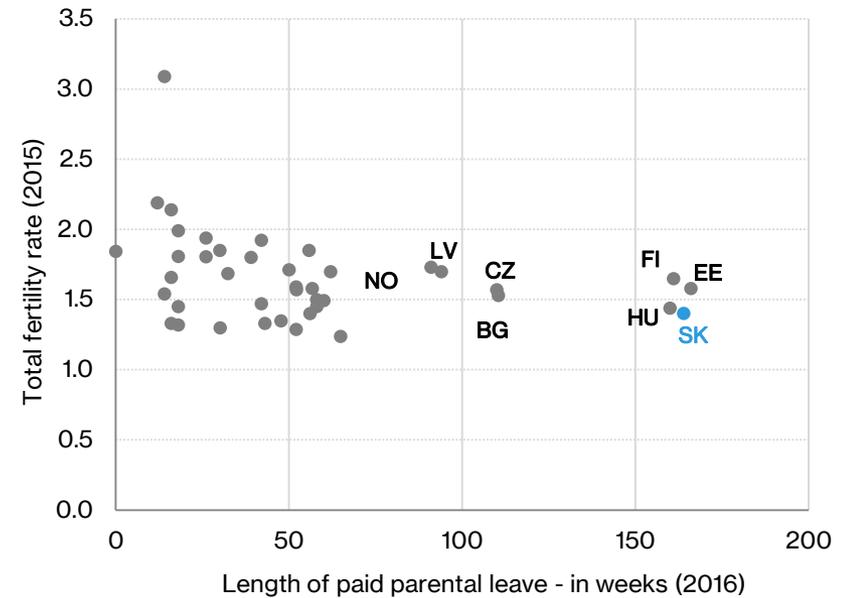
Cherchez la femme?

Employment rates of women (% of active pop, 2016)



Source: Eurostat

Fertility rates and the length of paid parental leave

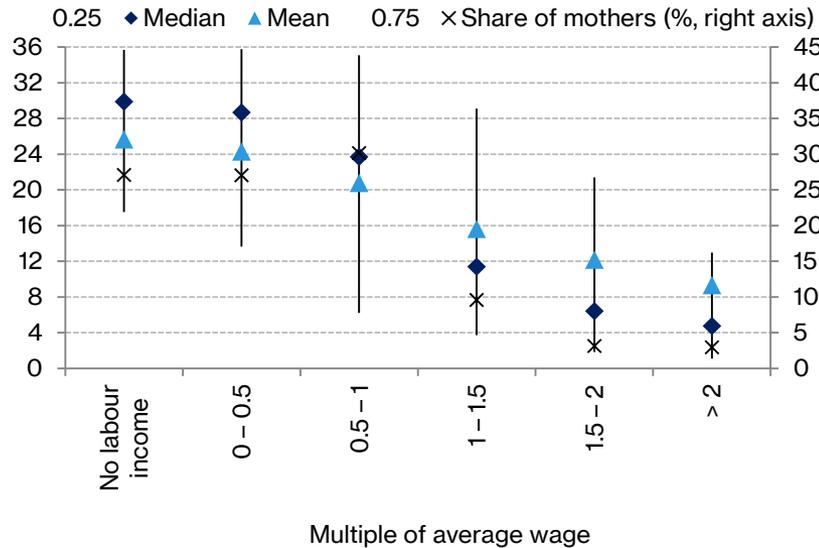


Source: OECD

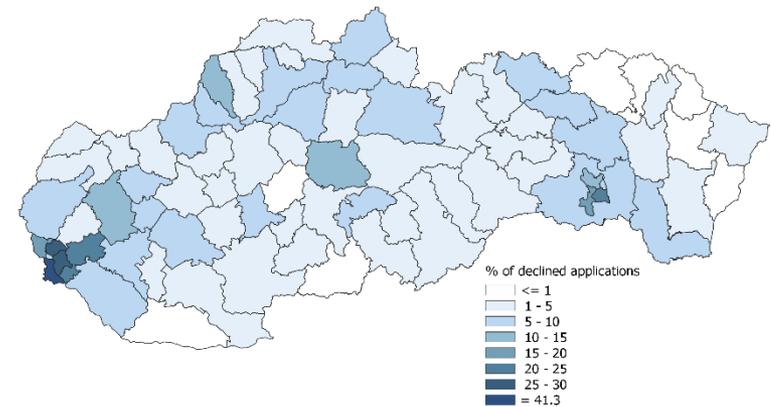
- Significant employment gap for women aged 25-34
- One of the longest parental support and one of the lowest fertility rates among OECD countries

Employment take-up depends on various determinants

Speed of entry into the labour market by previous labour income level (months)



Kindergarten capacities (declined applications as % of total enrolments)



Current measures to boost maternal employment

- Provision of child care for children up to three years of age – new or extended capacities
- New legislation implementing the regulation framework for childcare facilities
- The maximum childcare allowance was increased from EUR 230 to EUR 280 from January 2016 to cover the costs of childcare

Hospitals always pay their debts



2000-2002

1.	2000 – 2002	339 mil. €
2.	2002 – 2005	644 mil. €
3.	2009	130 mil. €
4.	2011	310 mil. €
5 - planned	2018 - 2019	Max 600 mil. €
TOTAL		1 423 mil. €



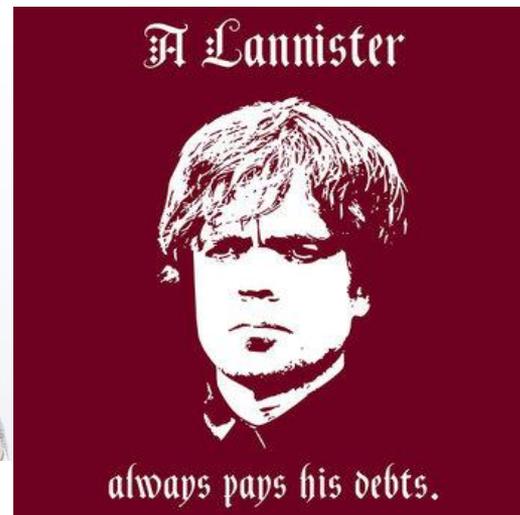
2008-2010



2002-2006



2016-

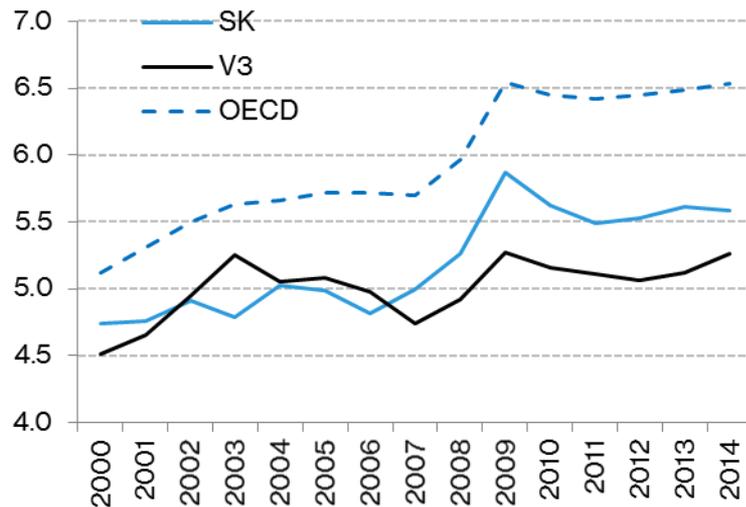


2010-2012



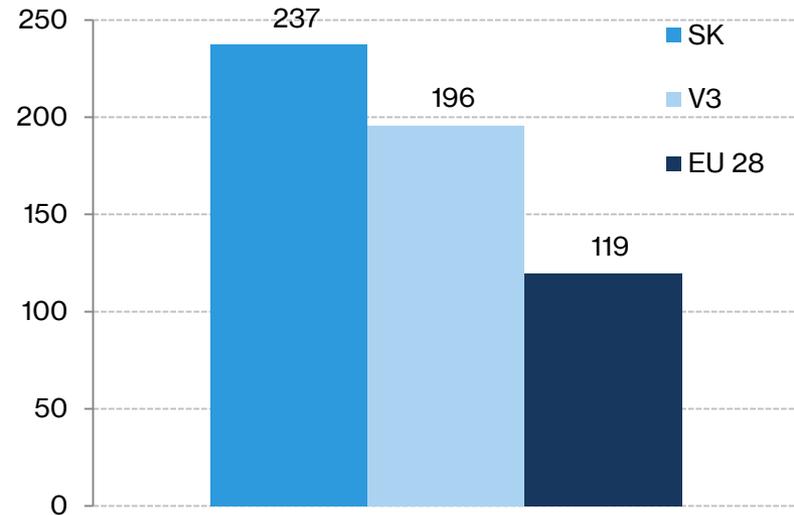
Slovak healthcare compared to peers

Total health expenditure (% of GDP)



Source: OECD

Amenable mortality in 2013

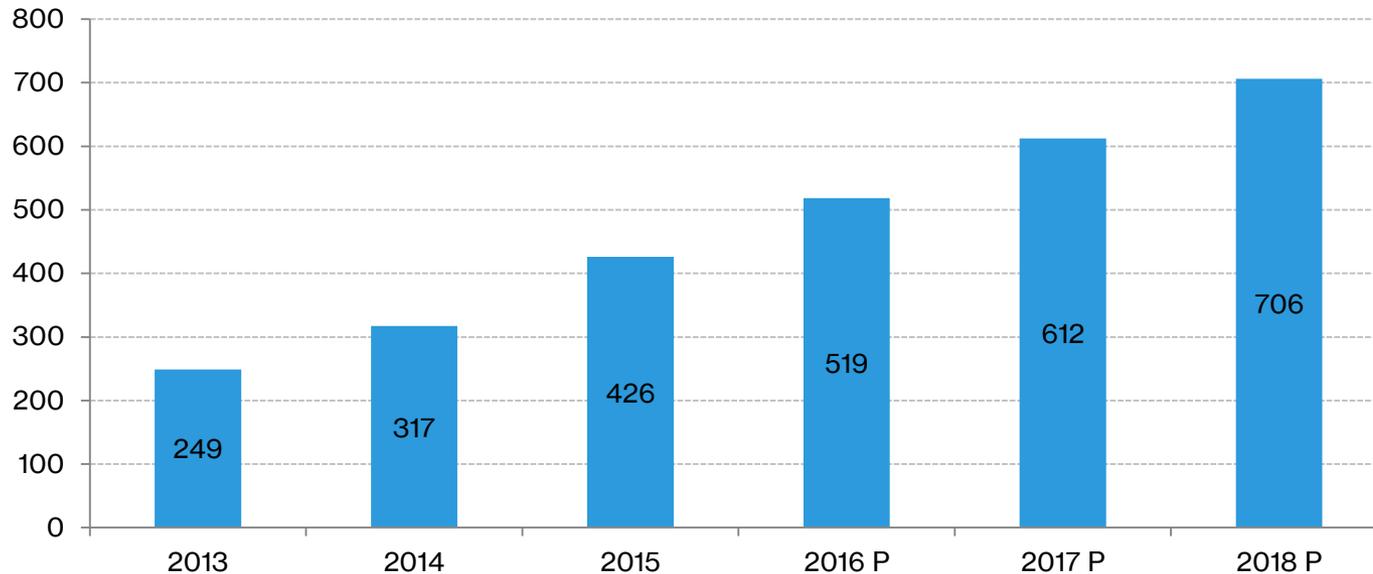


Source: Eurostat

- Slovak healthcare expenditures exceed average of others country of V4
- However Slovakia lags behind in the results
- Spending review identified resources that can be used more effectively in other areas (for example, in hospitals)

At the present time

Overdue liabilities of 13 large state hospitals

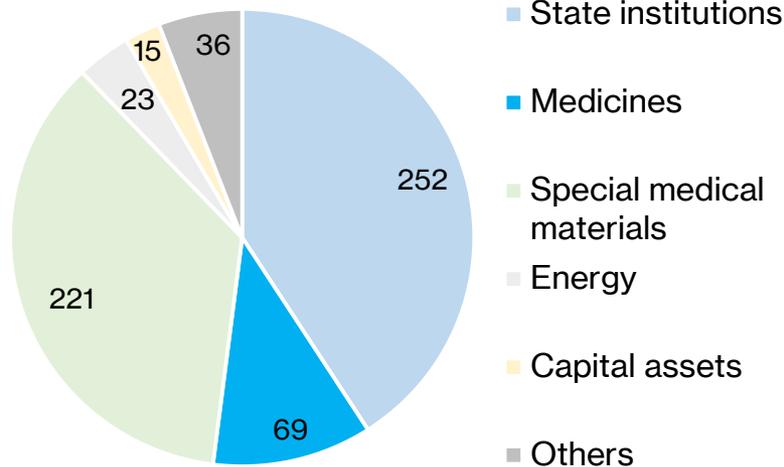


Source: Ministry of Health

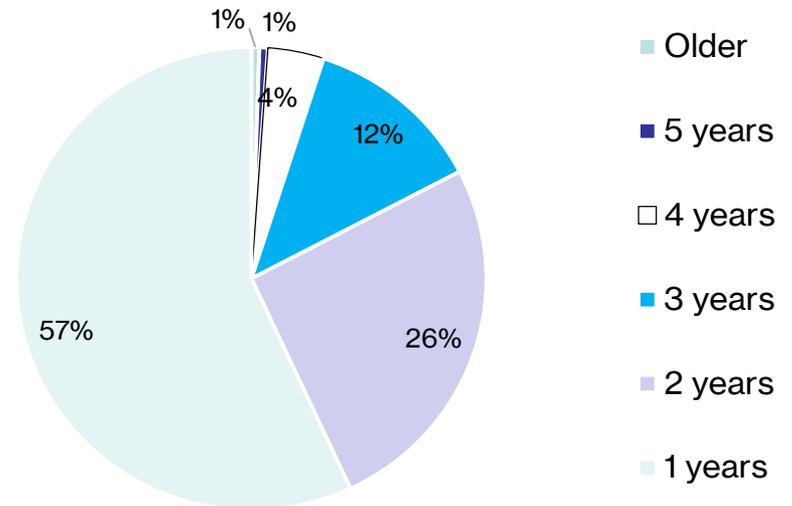
- The state hospitals are still indebted despite several rounds of debt reliefs
- Recorded overdue liabilities amounted to 647 mil. € at the end of 2016
- The most indebted are the 13 large state hospitals (80 % of recorded overdue liabilities)

Overview of liabilities

Liabilities by the creditor (mil. eur)



Liabilities by age (%)



Source: Ministry of Health

- The most important hospital creditors are suppliers of special medical materials and Social Insurance Agency

Conditions for debt relief of hospitals

1. Equal access and treatment for all
2. Voluntary (for hospitals and creditors)
3. Transparency
 - Fixed discount / electronic auction (creditors)
 - The debt relief will be divided into several rounds (by age)
 - Design and implementation of cost reduction plans (hospitals)
4. Conditional for hospitals
 - Establishment of supervisory bodies
 - Implementation of cost reduction plans
 - Sanctions in case of noncompliance
5. Limited financial resources (max 600 mil. eur)

Only debt relief is not sufficient...

In addition to debt relief, it is necessary to improve the economy of the hospitals:

- improve hospital management and control
- remuneration of management as a result of achieving economic results
- financing of hospitals according to the difficulty of provided services – DRG (the current financing system is based on terminated hospitalizations)
- optimization of hospital capacities (hospitals have too many acute beds, which are underused)

2016 spending review in hospitals

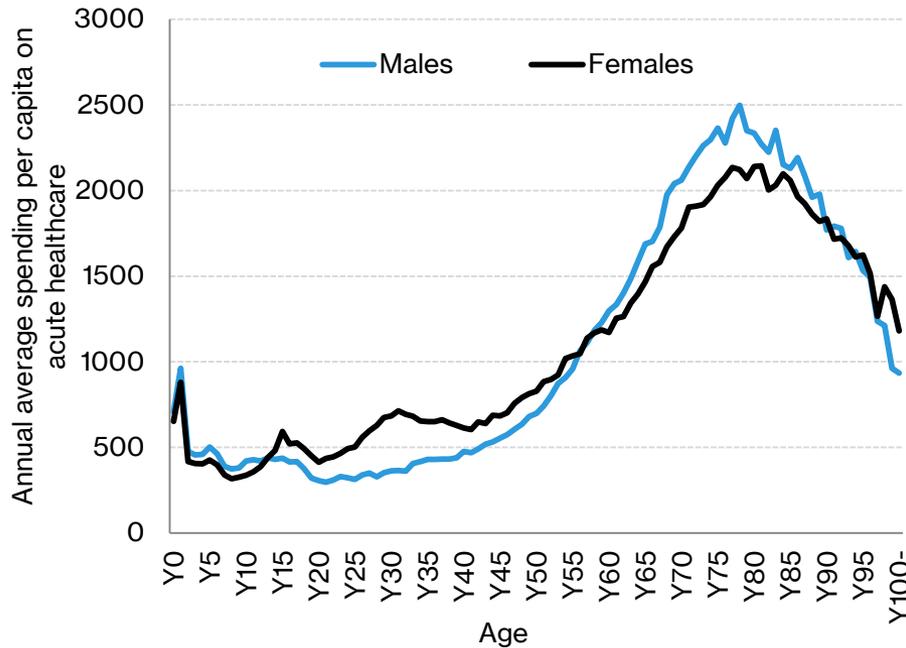
Savings measures

Million eur	2 017	2 018	2 019	<i>Potential saving</i>
Measures reducing costs of public health insurance	143	159	165	268
Overprescription of medications – introduction of prescription limits for outpatient service providers	20	20	20	59
Exceptions for medications – introduction of rules on refund of exceptions	10	10	10	10
Cost inefficient medications – central procurement of medications covered by health insurance	25	25	25	42
Special medical material – price reduction through reference pricing	35	45	45	55
Medical devices – reference pricing and inspection activities	15	15	15	15
Diagnostic exams – reduction of unit prices and limits to CT and MRI examinations	10	16	22	25
Diagnostic exams– introduction of limits for outpatient service providers	3	3	3	37
Improvement of inspection activities of VŠZP	25	25	25	25
Measures reducing hospital costs (subordinate organisations of the Ministry of Health)	31	31	31	95
Operational expenses optimisation	5	5	5	10
Medical processes optimisation	15	15	15	74
Medication and special medical material procurement optimisation	8	8	8	8
Medical equipment procurement	3	3	3	3

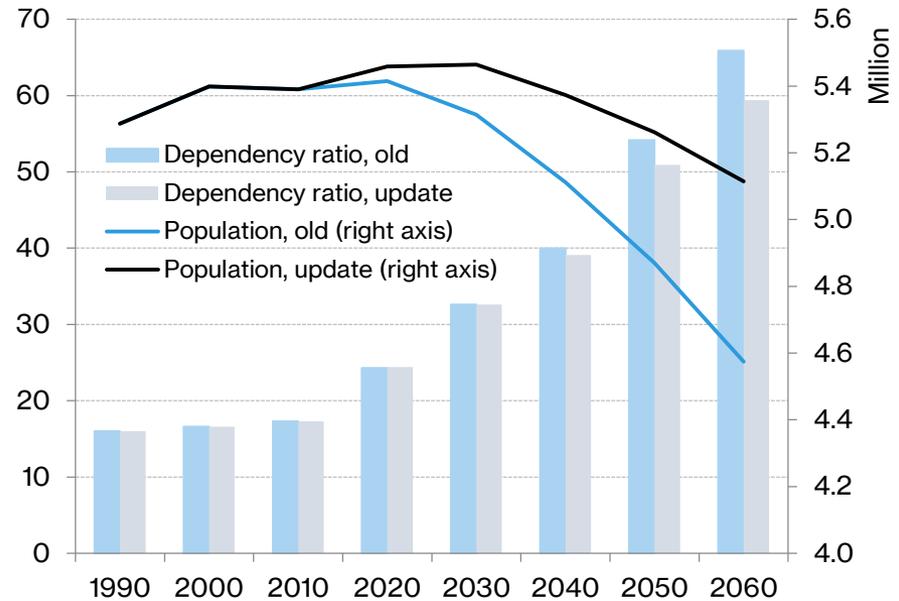
Source: MF SR

But Winter is coming

Average spending per capita on acute healthcare by age and gender (2015)



Dependency ratio (%) and total Slovak population



Thank you for your attention!
