

CURRENT ISSUES ON THE SLOVAK LABOUR MARKET AND REGIONAL ASPECTS

Eva Rievajová¹, Roman Klimko²

¹*University of Economics in Bratislava, Faculty of National Economy, Dolnozemska 1, 852 35 Bratislava
Email: eva.rievajova@euba.sk*

²*University of Economics in Bratislava, Faculty of National Economy, Dolnozemska 1, 852 35 Bratislava
Email: roman.klimko@euba.sk*

Abstract

The paper is focused on the analysis of developments in key areas of the Slovak labour market. It highlights the continuing problems in ensuring stronger growth in employment and regional differences in levels of unemployment and structural problems in selected regions. The labour market is sensitive and vulnerable place of the Slovak economy, the adverse impacts of the crisis in past years exhibited significantly compared to most EU economies, which resulted in deepening structural problems in the labour market and higher unemployment rate, which is moreover in the long term significantly spatially differentiated on axis east - west. Despite significant regional differences in unemployment levels is a regional mobility of labour in Slovakia relatively low. Nowadays, to reducing regional disparities can be used a support from the state for the least developed districts of Slovakia. The latest economic forecasts confirm that there is an ongoing recovery in Slovakia also because of low energy prices and very accommodating monetary policy. Nevertheless, the results of the labour market are still affected by the persistence of large regional disparities in economic growth and employment. The European Commission also notes that unemployment remains one of the biggest problems of economic policy, with regard to its structural nature.

Keywords

Labour market, unemployment, structural problems, regional aspects, Slovakia.

JEL classification

J01, J08

1 Introduction

The labour market is considered one of the most important markets, because it facilitates allocation of the national resource - work among regions, sectors and employment subjects. The labour market is a sensitive and vulnerable aspect of the Slovak economy; even recent years of the last crisis have manifested themselves more prominently in Slovakia since 2009 when compared with the majority of the EU economies, which transferred into deepening of structural issues of the labour market and increase of unemployment rate. Its ineffective working has many negative social and economic consequences. Negative effects of the crisis affected especially the category of disadvantaged persons, as well as some regions of Slovakia, with typical lower economic activity and lower pay rate. Unemployment of disadvantaged groups is a big problem in Slovakia also when compared to the rest of the Europe.

The latest economic forecasts confirm that there is a moderate recover in Slovakia in the context of low energy prices and a very accommodating monetary policy. The development of summary indicators of the Slovak labour market is positive, and this trend should continue in the next two years based on short-term forecasts. However the results of the labour market still reflect the persistence of big regional disparities in economic growth and employment. As stated by the European Commission, unemployment remains one of the biggest problems of economic policy, also due to its structural character.

The goal of this paper is to consider the development in the labour market sector in the conditions of the SR with focus on unemployment and identify continuing problems of employment growth from the macroeconomic and regional point of view. We examine the data on the level of Slovakia and on the regional level. The basic statistical information sources are the Selective labour force survey for households, implemented by the SO of the SR, information system of unemployment registration through the Central Office of labour, social affairs and family and Eurostat data.

2 Specific issues of the Slovak labour market

The high unemployment rate in majority of the EU countries is related especially to the decline, respectively low economic growth as one of the manifestations of the crisis after 2008. Labour market trends are partially the result of cyclic movements and especially major economic crisis, but they are also caused by structural and institutional issues of the labour market affecting the economic activity and labour markets performance. During the previous three years, after the aftermath of the most significant manifestations of the crisis, Slovakia made considerable effort to remove macroeconomic imbalance from previous years, however there are still many problematic areas and there are always new challenges.

After the crisis, the economic growth of Slovakia was one of the highest in the EU and the convergence continues, albeit at slower pace. The economic production quickly recovered and in 2011 achieved levels, which exceeded levels prior to crisis, however the growth rate after the crisis is still lower (Fig. 1). During 2012 – 2014 the annual growth of GDP slowed to an average of 1.8%, while during 2006 – 2008 the average level was 8.3%. During the last quarter of 2015 the economic growth was as much as 4.3%, which was the best result for the past 5 years. Despite continued economic recovery the production gap remained negative in 2015 and it is expected that it will be closed only in 2017. The real convergence towards more developed member states continues, albeit at slower pace than before the crisis. Actual GDP per capita in 2014 in Slovakia was approx. 75 % of the EU level. The growth of actual GDP in 2015 increased to 3.5 %. The driving factor was major increase of investment activity tied to the use of the EU funds and a major growth of consumption of households (Európska komisia, 2016).

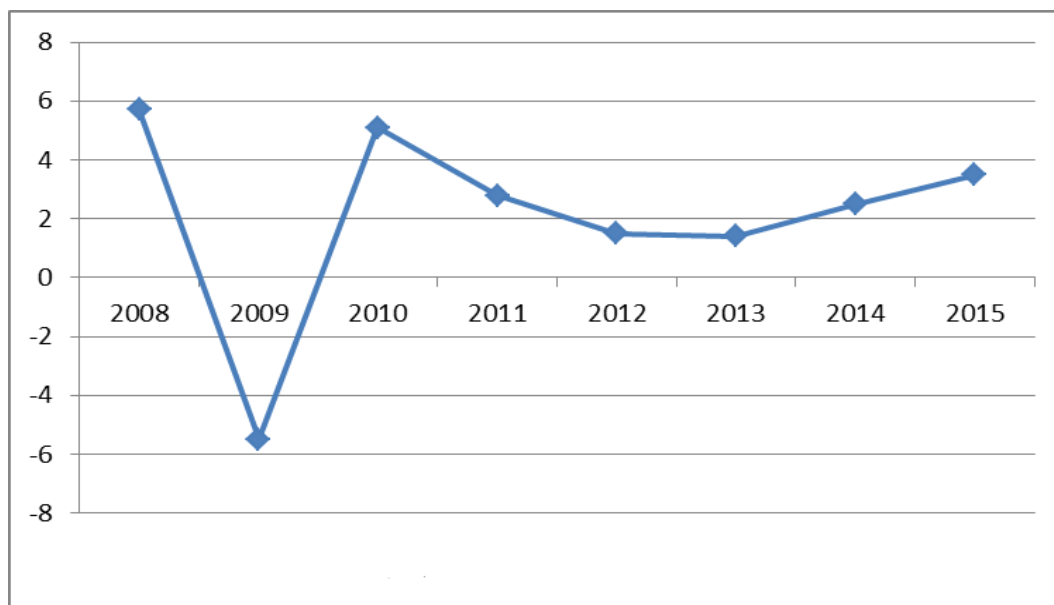


Fig. 1. Annual percentage growth rate of real GDP at market prices (Source: Eurostat)

Note: forecast for 2015

In the following years it is expected that the strongest impulse of growth will continue to be the growing private consumption with contribution of increasing employment, growth of actual salaries, low interest rates and continuing decline of energy costs. However decline of export, also in the automotive industry production, can represent a certain risk, which can be caused especially by external factors.

In its decade strategy Europe 2020, in 2010, the European Union determined that by 2020 on average there will be at least three of four active citizens of the EU employed, in the age from 20 to 64 years. The average employment rate should reach 75%. Slovak goal of employment rate was set slightly below the European average to 72 % also with respect to the long-term position of Slovakia among weaker countries in the field of labour market execution. The Slovak labour market traditionally remained in employment rate significantly behind the average, in the last third of countries with the lowest rate of employment, higher rate was achieved also by the V4 countries, of which the best results were achieved by the CR (Fig. 2). In Slovakia 2014 was the long awaited year of labour market recovery, after the economic growth of 2010 through 2012 did not introduce significant growth of employment. Crisis years 2009 – 2010 again confirmed the vulnerability of the Slovak labour market against cyclic economic slumps, due to which the employment rate fell more sharply than in the EU and in the Eurozone. 2013 and especially 2014 recorded in this context positive development. Employment of 20 through 64-year-old persons increased in Slovakia in 2014, when compared to the previous year, but it is still below the level of 2008. Employment growth continued also in 2015. Employment grew significantly in this year and the labour market should continue its positive growth, copying the stable economic growth.

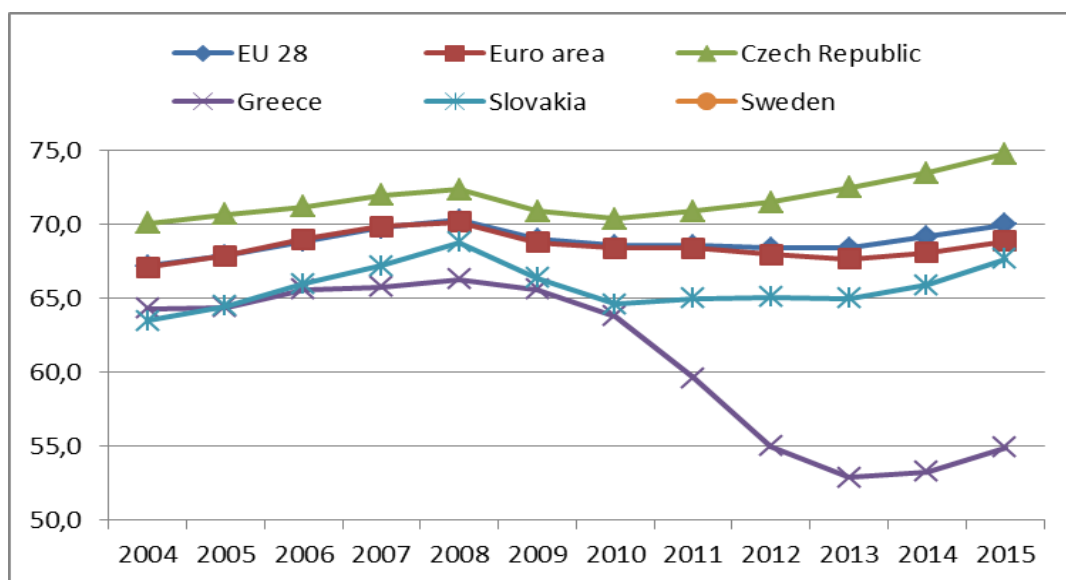


Fig. 2. Employment rates in EU and Euro area (%), age group 20-64 (Source: Eurostat)

Unemployment in Slovakia is one of the most serious economic and social issues, which long-term prohibits the full realization of the economic growth potential. The last biggest growth of unemployment rate related to the drop of employment manifested itself during the economic slump due to the global crisis in 2010, when almost every sixth individual in the active population was looking for a job and the average annual unemployment rate was 14%. During the following 4 years the share of economically active persons looking for a job was above 13 %. Neighbouring countries of the Visegrad Four were in significantly better shape; Hungary with the closest development of unemployment was 2 - 3 percentage points better, when compared to Slovakia; the Czech republic record post crisis unemployment 5 to 6 percentage points lower than Slovakia (Lubyová – Štefánik a kolektív, 2015).

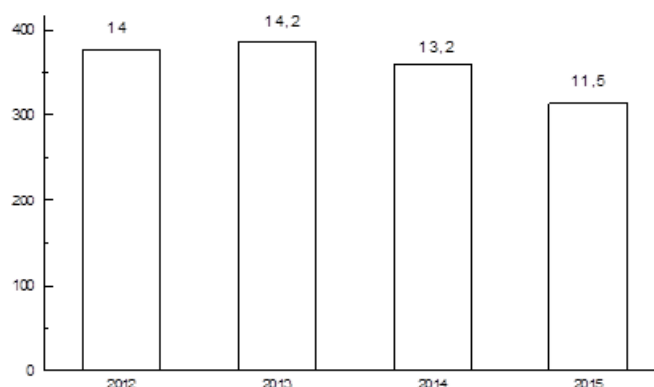


Fig. 3. Unemployment in the Slovak Republic, in thousands and % (Source: Eurostat)

As stated in the Country Report for 2016 (Európska komisia, 2016), structural unemployment, which is also the reflection of strong geographic differences, still represents a key political problem. Significant geographic differences in the labour market, which are enhanced by low mobility of the work force, contribute to the fact that the country has one of the highest levels of long-term unemployment rate in the EU. Unemployment is focused in the centre and in the East of the country. Low sensibility of unemployment to increase of actual salary only enhances the fears about the extent of the structural unemployment.

Slovakia is one of the countries, which fight especially high level of long-term unemployment. This fact significantly contributes to the negative development of public finances, but it also reflects possibly insufficient use of production resources in the economy. High unemployment rate is not related only to lack of demand for work force, but it is also the result of imbalance between them (Workie Tiruneh – Štefánik a kolektív, 2014). In 2014 the long-term unemployment rate (more than 12 months) was one of the highest in the EU (9.3 % when compared to 5.1 % in the EU-28). Two thirds of the unemployed are long-term unemployed and majority of the long-term unemployed don't have work for more than two years, while the rate of the very long-term unemployment rate is 6.6 % (more than double of the EU average).

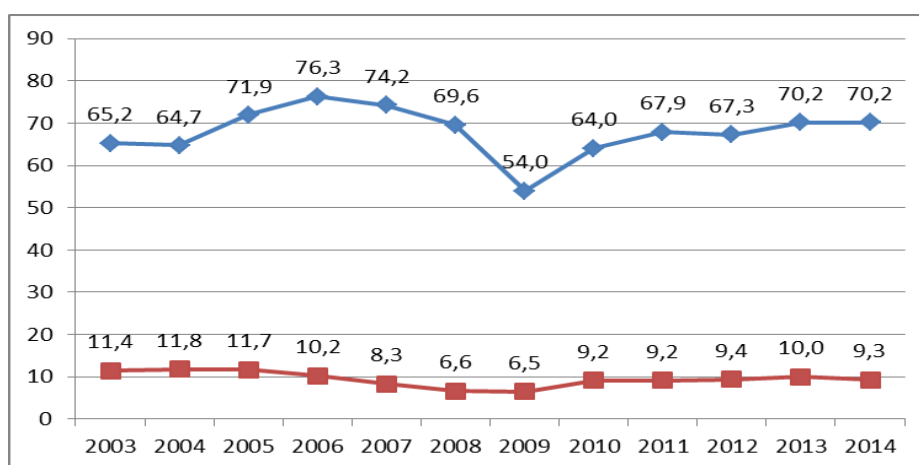


Fig. 4. Long-term unemployment (red line) and its share on total unemployment (blue line), in %

(Source: Eurostat)

Fig. 4 shows two basic facts. The first is the fact that there is no direct correlation between the share of long term unemployment on the total unemployment and the total unemployment. Examples are the years 2004 - 2006, when there was decrease of overall unemployment, but the share of long-term unemployment on the total unemployment continued to grow. This development shows that the Slovak labour market was not capable to absorb the long-term unemployed - employers are not interested in hiring long-term unemployed, since they assume they lost their qualification and their work ethics, and the long-term unemployed got used to life without work, social benefits and don't strive to find a new job. The second is the fact that long-term unemployed make on average more than two thirds of all unemployed. In an effort to reduce the overall unemployment, this fact represents a major problem, since it is a group of people, which has greater problems when re-entering the labour market. Slovakia is a Member State with the highest long-term unemployment persistence rate and that means the job finding chances are bleak (European Commission, 2015).

Long-term unemployment represents for the workers with low qualification and young people a significant risk. Slovakia has the highest rate of unemployment of workers (age 20 - 64) with a low qualification in the entire EU (36.9 % compared to 16.3 % in the EU-28 in the third quarter of 2015). Workers with low qualification represent a high percentage of the long-term unemployed. In 2014 workers with low qualification represented 24 % of the long-term unemployed compared to 4 % of workers with low qualification in the employed population. Unemployment of young people in the third quarter of 2015 dropped to 26.6 %, which is still significantly above the EU average of 20.1 %. The share of young people, who are not employed and they are not in the educational process or process of professional training also declined and in 2014 it was 12.8 % (12.5 % in the EU-28). Young workers (less than 25 years) represented 17 % of the long-term unemployed (compared to 6 % in the employed population) (Európska komisia, 2016). For young people in Slovakia the transition from school to work continues to be difficult, while the educational system doesn't react immediately to the needs of the labour market despite the reform measures of 2012 focused on improving the quality and relevancy of education for the needs of the labour market. In order to lower youth unemployment rate there are also the EU structural funds available. So far, Slovakia has implemented several national projects in private and self-governing sector for the thousands of young people under 29 (European Commission, 2014).

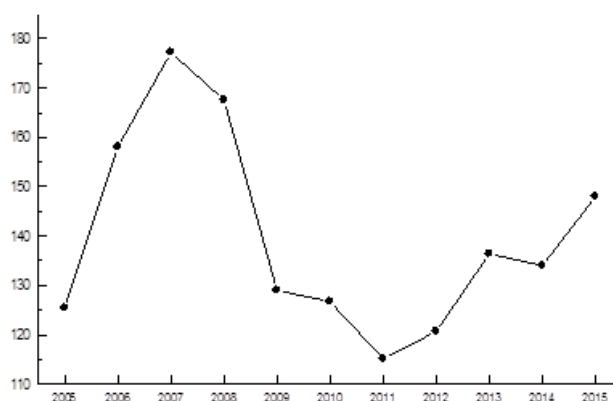


Fig. 5. Slovak citizens working abroad, in thousands (Source: Eurostat)

According to the OECD statistics Slovakia is gaining on the leaders of economic migration, we rank on the ninth place among OECD developed countries, from which people leave to most for work abroad. The number of Slovaks working abroad during the past three years is in the range 130 - 148 thousand (Fig. 5). The greatest number of Slovaks left for work abroad during the pre-crisis years 2006 - 2008, decrease occurred after the start of the global crisis, which affected the hosting countries.

During recent years when recovery of economies began this trend increased again. We consider especially this fact as one of the indicators of decrease of unemployment and increase of employment. The greatest amount of people leaves for work to the CR and Austria, especially due to higher salary. Regions, from which the greatest number of people leave is the Prešov region, which is caused by greater unemployment and poverty of this region.

Main findings related to the field of labour market and employment, resulting from the analysis of the EC for Slovakia, are as follows (Európska komisia, 2015):

- Improved situation at the labour market transformed into significantly lower level of long-term unemployment. Higher and persisting long-term unemployment represents a social-political challenge, which has an effect especially on workers with low qualification and young people, while great regional disparities persist;
- Participation of the Roma on the Slovak labour market continues to be very low and increase of their employment is progressing very slowly;
- Employment of women is also below its potential;
- Educational system is insufficiently focused on increasing the economic potential of Slovakia. Results in the area of education are not satisfying and in international comparison inequalities appear to be high;
- Administrative and regulatory barriers harm the business environment
- Attractiveness of the Central and Easter Slovakia regions for private investments suffer due to problematic physical infrastructure.

Several Slovak economists supplement these findings by other facts preventing higher rate of creation of new jobs: high contribution burden on labour, minimum wage, high rate of regulation burden on employment on part of the state, high level of bureaucracy and low interregional mobility of work force (Dinga – Ďurana, 2015).

3 Regional aspect of unemployment

Slovakia is composed of heterogeneous regions. Various areas have various economic infrastructures, various developmental conditions and differentiated access to resources, due to which spatial structures are defined, which have different unemployment rate. Regional unemployment represents in Slovakia a serious and long-term economic and social issue. Unevenness of unemployment development in individual regions is related not only to the historical development of the Slovak economy, but also to its modern, very differentiated development. After the 1990's the West of the SR developed even more intensively than the East. It is true that the regional disparities in the labour market remain in the direction from the Bratislava region, which has a dominant position (allocation of international investments, lowest unemployment rate, richest offer of jobs), towards the Eastern part of the Republic. Regional unemployment is affected by a whole set of factors, which are mutually interconnected and are found on various levels of the decision-making process. These factors can be split into two basic groups, namely into direct factors and indirect factors. Both groups of factors affect regional unemployment, specifically in terms of its rate and differentiability. Basic determinants affecting regional unemployment include indicators of the labour market, heterogeneous development of salaries and productivity, insufficient territorial mobility of the work force, economic development of the region and qualification of the work force. Differentials express especially the internal quality aspect of the regions, correlation of individual components within the regions, their overall status, which subsequently transforms into the character of differences of individual regions (Rievajová et al, 2015). In terms of geography unemployment in Slovakia is concentrated in the Southern and Eastern counties of the country with lower economic activity and lower salary rate - in these regions due to the current status of the market there aren't simply enough jobs created. Thus if the applicants aren't willing to commute or move because of work to larger

cities, their chances of finding a job are slim (Dinga – Ďurana, 2015). We can conclude that the combination of insufficient job creation in the Eastern and Central Slovakia and the lack of labour mobility to the west is the main reason for the significant regional disparity (OECD, 2014).

Despite economic recovery the regional differences of unemployment are still significant. Despite certain progress achieved under removing these differences, in 2015 the unemployment of the Bratislava region (5.34 %) was still less than a half of that of the Prešov region in the East of Slovakia (15.50 %). Main reasons for this fact is the combination of low growth and low creation of new jobs in the Central and Eastern part of the country, as well as insufficient regional mobility of the work force into areas with higher number of free job positions. Factors prohibiting higher mobility include insufficient transportation infrastructure, higher travel and accommodation costs when compared to the average salary, as well as insufficiently developed market with rented housing. The situation is complicated by the insufficient infrastructure and business environment, which prevents the inflow of investments into less developed regions and the creation of new jobs. When compared to the rest of the EU there are always shortcomings in the business environment of Slovakia. Reasons listed most often are frequent changes of legislation, complexity of administrative procedures, as well as burdening requirements based on government regulations. Administrative and regulatory burdens damage the business environment, lower external competitiveness and restrict domestic economy.

Table 1. Registered unemployment rate in the Slovak Republic: by region, in %

Region/Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Bratislava	2.6	2.29	1.98	2.27	4.36	4.63	5.4	5.7	6.17	6.13	5.34
Trnava	7.15	5.22	4.3	4.29	8.37	8.17	8.9	9.4	9.16	8.03	6.71
Trenčín	6.8	5.19	4.5	4.95	10.1	9.51	10.0	10.9	10.7	9.56	7.71
Nitra	11.4	9.09	7.1	7.41	11.7	11.8	13.3	14.1	12.5	11.21	9.71
Žilina	9.33	7.03	5.55	6.2	10.9	10.9	11.9	12.8	12.5	10.91	8.86
Banská Bystrica	18.3	16.1	14.1	14.3	19.2	18.9	19.8	20.8	18.2	17.22	14.94
Prešov	15.8	13.7	12.1	12.9	18.3	17.8	19.0	20.7	19.4	17.45	15.50
Košice	17.5	15.2	13.0	13.1	17.3	16.8	18.8	19.6	17.2	15.92	14.39
Slovak Republic	11.4	9.4	7.99	8.39	12.7	12.5	13.59	14.44	13.5	12.29	10.63

Source: Central Office of Labour, Social Affairs and Family.

Table 1 shows the development of the percentage of the unemployment rate since 2005, which is a year after the Slovak Republic joined the European Union, until 2015. Statistics show that while the regional differences in the unemployment rate grew after joining the EU, average unemployment from 2005 was decreasing in Slovakia until 2008. Permanently low unemployment rate was and is in the Bratislava region. Unemployment was high above the Slovak average until the end of 2013 in the Banská Bystrica, Prešov and Košice regions. In 2015 the number of unemployed declined annually with the exception of the Trnava region in all regions, in the range from 2.5 % in the Žilina region to 16.6 % in the Košice region. The greatest number of the unemployed was concentrated in the regions of Eastern Slovakia (Prešov and Košice regions) and in the South of the Central Slovakia (Banská Bystrica region), which also showed the highest unemployment rate. Despite positive results of the national economic growth, major regional differences in the unemployment rate still remain. Unemployment rate below the SR average is found in five regions (Bratislava, Trnava, Trenčín, Nitra and Žilina), unemployment rate above the average was showed in 2015 by the Košice, Prešov and Banská Bystrica regions.

Table 2. Unemployment in regions in 2015

Region	Job seekers	Less than 1 year	More than 1 year	More than 4 years
Slovak Republic	354.582	46.6%	53.4%	21.2%
Bratislava	20.853	63.3%	36.7%	6.2%
Trnava	24.130	60.9%	39.1%	9.6%
Trenčín	28.901	54.6%	45.4%	13.3%
Nitra	41.667	49.9%	50.1%	17.0%
Žilina	36.819	53.2%	46.8%	14.4%
Banská Bystrica	60.474	39.2%	60.8%	28.9%
Prešov	75.361	40.6%	59.4%	26.9%
Košice	66.378	40.3%	59.7%	26.7%

Source: Central Office of Labour, Social Affairs and Family.

A very serious problem is long-term unemployment, which is crucially concentrated in East of Slovakia and South of Central Slovakia. The fact that majority of the Roma population lives in the Southern and Eastern counties plays also its role.

Table 3. Average nominal monthly wage in the economy of the Slovak Republic (EUR)

Region/Year	2009	2010	2011	2012	2013	2014	2015
Bratislava	970	991	1 001	1 029	1 049	1 107	1 122
Trnava	689	705	735	736	745	772	799
Trenčín	635	657	687	724	750	779	812
Nitra	625	636	662	661	680	705	736
Žilina	657	686	707	726	732	750	786
Banská Bystrica	605	635	652	675	706	730	751
Prešov	573	594	608	613	636	657	683
Košice	684	716	726	735	758	775	803
Slovak Republic	745	769	786	805	824	858	883

Source: Statistical Office of the Slovak Republic.

Unemployment depends to a large extent to the salary level in individual regions - i.e. to a large extent it is true that the higher the unemployment, the lower the average salary. The Košice region is a certain exemption, where the amount of salary is affected by salary in the capital of the region, where there are international employers. Second exemption is the Nitra region, which shows low unemployment under low salaries, where the reason is self-employment in the agricultural sector. Minimum salary is a specific question, which is set across the board in Slovakia and thus paradoxically it mostly affect negatively the poorer regions, since it pushes job applicants out of the labour market, which are below the level of minimum wage (Dinga – Ďurana, 2015).

Table 4. Median wage growth in the years 2008-2014 (by region)

Region	Median wage (in EUR)		Increase 2008-2014	Registered unemployment rate (2014)	Minimum wage as a proportion of median wage (2008)	Minimum wage as a proportion of median wage (2014)
	2008	2014				
Slovak Republic	609	756	24.14%	12.29%	44.1%	46.56%
Bratislava	769	948	23.28%	6.13%	35.0%	37.13%
Trnava	606	743	22.61%	8.03%	44.4%	47.38%
Trenčín	573	723	26.18%	9.56%	46.9%	48.69%
Nitra	572	696	21.68%	11.21%	47.0%	50.57%
Žilina	592	728	22.97%	10.91%	45.4%	48.35%
Banská Bystrica	568	716	26.06%	17.22%	47.4%	49.16%
Prešov	533	648	21.58%	17.45%	50.5%	54.32%
Košice	610	755	23.77%	15.92%	44.1%	46.62%
Minimum wage	268.9	352	30.90%			

Source: (Dinga – Ďurana, 2015).

4 Conclusion

Development in the labour market of the Slovak Republic is the key question of the short-term and long-term aspect of the development of the economy of Slovakia. The labour market records cyclic improvement in the conditions of the SR. The unemployment rate decreases and it is expected that it will drop just below 10 % in the next two years, which will be caused by the economic growth, as well as increase of households' consumption. However structural unemployment continues to be the key problem, since it is the manifestation of extensive geographical differences in the conditions of the labour market, which are accompanied also by low mobility of the work force. The unemployment rate is not distributed equally in Slovakia, quite the contrary; it is spatially differentiated in relation to economic performance and demographic characteristics. Differences between the regions are determined by their different conditions, whether natural or social-economic, and they are reflected also in the extent of unemployment of the population of given regions. A typical characteristic of the Slovak labour market is growing unemployment in the West - East axis, which leads to the concentration of unemployment and poverty in some regions of the Central and Eastern Slovakia. It is the consequence of a different demographic, economic, technical and other potential in relation to geographic characteristics. These characteristics affected also the development of inflow of foreign investments, which were directed mostly towards the Western areas of Slovakia, which had an even greater effect on the differentiation of the regions of Slovakia. High unemployment rate is also related to insufficient infrastructure and with unsuitable structure of job applicants, which discourages

investors despite the low price of work. Some economists point also to the negative effect of minimum wage on employment in lagging regions, low level of education and low mobility of the unemployed into more developed regions.

5 Acknowledgement

The paper is the outcome of scientific project VEGA No. 1/0001/16 ‘Súčasnost’ a perspektívy zmien zamestnanosti a súvisiacich procesov v kontexte naplňania cieľov Európskej stratégie zamestnanosti‘.

References

- [1] Dinga, J. – Ďurana, R. 2015. *Nezamestnanosť. Systémový problém slovenského hospodárstva*. Bratislava: INESS.
- [2] European Commission. 2014. *Youth Employment Initiative and the European Social Fund*. Luxembourg: Publications Office of the European Union.
- [3] European Commission. 2015. *Employment and Social Developments in Europe 2015*. Luxembourg: Publications Office of the European Union.
- [4] Európska komisia. 2015. *Návrh spoločnej správy Komisie a Rady o zamestnanosti*. COM(2015) 700 final. [online]. [2016-05-24]. Available from: http://ec.europa.eu/europe2020/pdf/2016/ags2016_draft_joint_employment_report_sk.pdf.
- [5] Európska komisia. 2016. *Správa o krajine za rok 2016 – Slovensko*. SWD (2016) 93 final. [online]. [2016-05-04]. Available from: http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_slovakia_sk.pdf.
- [6] Lubyová, M. – Štefánik, M. a kolektív. 2015. *Trh práce na Slovensku 2016+*. Bratislava: Ekonomický ústav SAV.
- [7] OECD. 2014. *OECD Economic Surveys: Slovak Republic 2014*. Paris: OECD Publishing.
- [8] Rievajová, E. et al. 2015. *Trh práce - premeny a výzvy*. Bratislava: Vydavateľstvo EKONÓM.
- [9] Workie Tiruneh, M. – Štefánik, M. a kolektív. 2014. *Trh práce na Slovensku: Analýza a prognózy*. Bratislava: Ekonomický ústav SAV.