

## **EVA RIEVAJOVÁ**

**University of Economics in Bratislava, Faculty of National Economy, Department of Social Development and Labor, Slovakia**

# **UNEMPLOYMENT - UNDER CONDITIONS IN THE TERRITORY OF SLOVAK REPUBLIC AND THE MEASURES FOR ITS SOLUTION**

### **Abstract:**

Since the onset of the financial and economic crisis, the situation in the area of employment, in average, didn't improve within the whole EU. Between Member States and the positions of individual groups of the population, there are significant differences in the area of labour market. Therefore, the area of employment and social inclusion has become a key shared priority for the EU and also the base for meeting the objectives of the strategy Europe 2020, as well as related documents. There are many reforms of the labour market, but it is necessary to continue to make further effort to modernize labour markets and to invest in human capital in order to creating of the conditions for renewal and supporting job creation.

### **Keywords:**

labour market, unemployment, employment, global crisis, development of economy, active policy of labour market

### **JEL Classification:** J01, J08, J21

The paper is joined with the research project named Vega No. 1/0103/12 „Labour-Market in Connection with Economic Growth in the Context of Social and Economic Changes.“

## **Introduction**

Unemployment rate in the EU countries passed in average through two stages. Period time of the decline of the unemployment in 2005 – 2008 subsequently, as a result of the upcoming financial and economic crisis, a period of rising of the unemployment and unemployment in the EU can be described as more structural than cyclical. In the past decade, despite the years of successful macroeconomic development in Slovakia, labour market indicators did not follow this trend. There is no direct causal structure between economic growth and growth of the employment. The latest labour market trends are partly of the result of cyclical movements, and particularly deep economic crisis, but they are also caused a result of structural and institutional problems of the labour market affecting economic activity and labour market performance. Combating against unemployment, social consequences of the crisis and poverty present the greatest challenge and priority and it is a basis to meet the Europe 2020 objectives, which are aimed to the area of employment and social inclusion. Economic development of the country has a key impact to the development of the labour market.

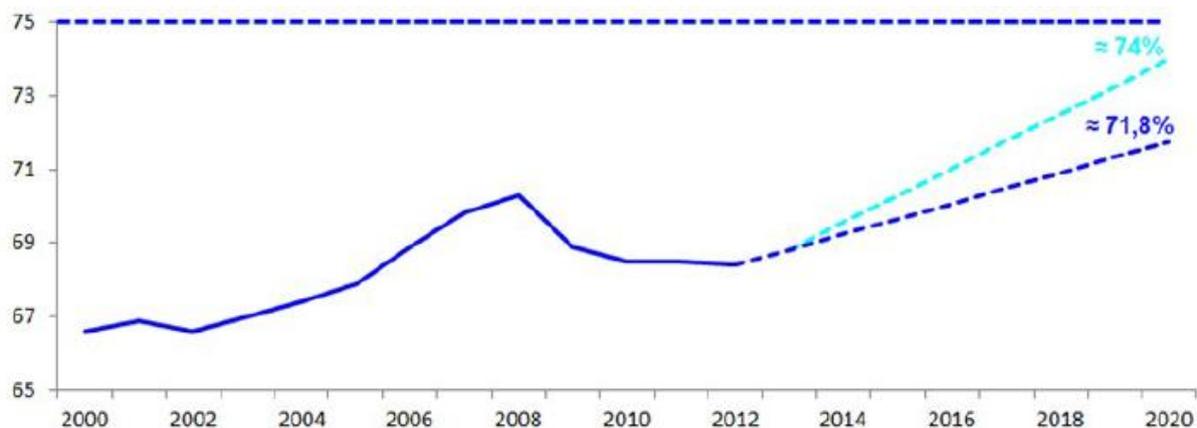
### **1. The situation within labour market and factors of the impact**

In the accordance with the information from the statistical office of the European Union - Eurostat, the unemployment rate in the EU at the beginning of 2014 was at the level 12%. The unemployment in Slovakia was the sixth highest among all EU countries (13.8%); however, currently it has a slight downward trend. In Austria (4.9 %), Germany (5.0 %) and Luxembourg (6.1 %) the unemployment rate was on the lowest level. In Greece (28.0 %, November 2013) and Spain (25.8 %) the unemployment rate was on the highest level. In reference to the unemployment rate of young people (under 25) in the EU it is holding at a level 24.0 % (January 2014). In early 2014, Germany (7.6 %), Austria (10.5 %) and the Netherlands (11.1 %) had the lowest rate of the unemployment of young people. Greece (59.0 % in November 2013), Spain (54.6 %) and Croatia (49.8 %, end 2013) had the highest level of the unemployment of young people.

The employment rate (EC, 2014) within EU in the last few years has stagnated and remains lower than the objective 75 % as had been set in the Europe 2020 strategy in relation to the employment of the population aged 20 – 64 years. After a fluent upward trend between 2000 and 2008, when the employment rate within EU increased from 66.6 % to 70.3 %, in 2009 it the employment rate decreased in the EU to 68.9 %. It is the result, of a deep downturn of the

economy. In 2010, the employment rate further declined to 68.5 % and essentially today it is stabilized at this level. In 2012, it reached 68.4 % and to achieve the objective 75 % it needs 6.6-percentage points. This situation is caused by a combination of adverse impact of the crisis and the necessary time to reflect labour market improvements, as well as the slow rate of labour market reforms in some Member States. (Ministry of Labour, Social Affairs and Family of the Slovak Republic, 2013).

**Fig. 1 The level of employment in years: 2000, 2012 and 2020**



Source: European Commission

**Legend:**

- The development under unchanged circumstances
- The development under fulfilled domestic objectives

On the basis of current commitments, the employment rate within EU could reach in 2020 the level of 71.8 %. 2000 a 2001: data of EU-27.

Estimated data on the basis of the Commission's autumn forecasts for the years 2014 - 2015 of 2013, the employment growth is estimated at years 2014-2015 of the 1%, taking into account the reduction of the working population in a decade.

UK has not set any objective: estimation for the EU counts for the UK in 2020 with the rate of 75 %.

Up to the middle of the year 2008, the development of the Slovak labour market was positive. This fact is related with record year-to-year growth of GDP, which demonstrated rapid production growth Slovak enterprises. In 2004 e.g. the unemployment rate was 13.1 % together with 5-% growth of the GDP. In 2005, the unemployment rate fell to 9.4 %, while GDP grew on 8.5 % and in 2007 the unemployment rate was 8 %, but growth of GDP has exceeded 10.5 %. In the same time, the share of export was continuously increased on the creation of GDP and currently it is oscillating around 90 %.

During this time the labour legislation was several times changed in different ways. Analysis of labour market development and the economic growth in comparison with legislative changes shows that the key factor affecting to the Slovak labour market is just economic development, and it is conditioned mainly through global impacts. However, positive economic development within the EU is affecting our labour market by another way. European legislation warrants people the free cross-border movement within labour markets. Up to the second half of 2008 economic growth in other EU Member States had an effort to generate pressure on the need for new employees. Downtrend of unemployment in our country at this time was positively affected by growing number of Slovak people who went abroad to work. But conversely since 2009 – since the economic crisis hit Europe – we have noted a significant increase in the unemployed and they, as a last place of employment for work, reported an abroad (Ministry of Labour, Social Affairs and Family of the Slovak Republic, 2013).

In 2012, in comparison with 2008, the registered unemployment rate rose by 5.94 percentage points. European and global economic development, during this period, had a negative impact to the development of unemployment. Anti-crisis measures of the Government of the Slovak Republic, adopted in 2009 and 2010, partially eliminated its impacts for the labour market. Mainly the economic development has the dominant influence on the development of the employment, as is demonstrated by the following comparison (**Table No. 1**):

**Table No. 1 The development of unemployment, GDP and wages**

Year	The average rate of the registered unemployment	Year-on-year development of	Year-on-year development of
2002	17.8	4.6	0.1
2003	15.2	4.8	1.1
2004	14.3	5.1	-0.2
2005	11.6	6.7	1.6
2006	10.4	8.3	2.1
2007	8.4	10.5	2.1
2008	7.7	5.8	3.2
2009	11.4	-4.9	-2.0
2010	12.5	4.4	-1.5
2011	13.2	3.2	1.8
2012	13.6	2.0	0.1
2013	14.2	0.9	-0.8

**Source: Statistical Office of the Slovak Republic, Central Office of Labour, Social Affairs and Family**

The above presented Table shows that the labour market manifests by growth or decline of the employment and the unemployment rate responds to GDP with a delay. Also even during a period of strong economic expansion in 2005 and 2006, the growth of employment was about 2%, but the average registered unemployment rate did not decrease significantly, and its level exceeded more than 10 %. The year 2007, i.e. year with exceptionally strong economic growth - more than 10%, it was reflected in the growth of the employment of more than 3 % with the delay a year. The favourable economic development is manifested in the development of registered unemployment almost immediately, when in 2007, in comparison with the previous year, decreased by two-percentage points and in 2008 further declined. In accordance with expectation of the relevant institutions, the growth of GDP in Slovakia after the low value in 2013 will significantly accelerate in the years 2014 and 2015, which should again be an incentive to renewed growth in employment, provided that the projected economic growth exceeds the value that is also associated with employment growth.

In the last quarter of 2012, the recession in the Eurozone and also in the territory of EU 27 deepened. While EU Member States are key export partners of the SR. Slowdown of the economic growth or even recession in these countries had a direct negative impact on the Slovak

economy and hence labour market. Above to the low impact of our domestic demand to the performance of the Slovak economy, this is the crucial reason that causes the negative development of the labour market in Slovakia.

The level of our exports depends on domestic consumption (especially) in Western Europe, as well as production of local industry – if both factors evolve negatively, Slovak production declines, and this essentially has a negative impact on the labour market.

According to Eurostat estimates, gross domestic product (GDP) in the Eurozone declined in the 4<sup>th</sup> quarter of 2012, year-on-year by 0.9% in the EU-27 by 0.6% (seasonally adjusted data). For the full year 2012 in the Eurozone GDP fell compared with the same period of the previous year, according to an estimate by 0.6% in the EU-27 by 0.3%.

Table No. 3: Development of basic macroeconomic indicators, the Slovak Republic [%]

Indicator	2010	2011	2012				average
	average	average					
<b>Gross Domestic Product</b>							
Real GDP	4.4	3.2	2.9	2.6	2.1	0.7	2.0
Domestic demand	3.6	1.2	-0.8	-5.4	-3.3	-1.9	-2.9
Final consumption of households	-0.8	-0.5	-0.1	-0.3	-0.6	-1.2	-0.6
Final consumption of non-profit institutions were serving households	1.1	0.2	-1.1	-0.9	-0.3	0.0	-0.6
General government final	1.0	-4.3	0.5	-2.1	-0.4	-0.3	-0.6
Gross fixed capital formation	6.5	14.2	-3.3	-2.5	-3.7	-5.0	-3.7
Exports of goods and services	16.0	12.7	5.0	10.8	11.6	7.1	8.6
Imports of goods and services	14.9	10.1	-0.2	1.6	5.7	4.2	2.8
<b>Labour-market</b>							
Real labour productivity	6.0	1.4	2.3	2.4	2.2	1.3	1.9
Employment (ESA 95)	-1.5	1.8	0.6	0.2	-0.1	-0.6	0.1
Nominal wages	3.2	2.2	3.2	1.5	2.0	3.2	2.4
Real wages	2.2	-1.6	-0.6	-1.9	-1.6	-0.3	-1.2

Source: Statistical Office of the Slovak Republic, quarterly national accounts statistics reporting

An increase of economic activities focused to satisfying of domestic demand seems to have a more expressive contribution to the employment growth than the same increase in export activities. It is one of the structural specificities of the Slovak economy. Export activities these pulled economic growth in the past, have relatively low labour intensity and poor linkage between growth of production and growth of employment. This is one of reasons why economic policy should act in the interest of reinforcement of the domestic demand (MLSA F SR, 2013).

## **2. Measures for solution of an unemployment**

Meritor part of large-scale intervention steps formed labour market measures, focusing mainly on three-priority areas – maintaining employment and creating jobs, raising of professional skills and their adaptation to the needs of the labour market and improvement of access to employment and promoting of mobility. These remedial impulses are reflected in an environment of the labour market, especially in 2010 when the Slovak economy started to show some signs of economic recovery and employment culminated.

The priority of the new government after the elections in March 2012 became the support of economic growth and employment. From the beginning, negative economic development in the countries which are key export partners of the Slovak Republic, especially in the countries of Eurozone, has a negative impact on these objectives. A negative impact also shows the need for fiscal consolidation of the state, which is a key requirement for sustainable economic growth and hence the positive evolution of the labour market.

OECD highlights the negative trend of reducing the share of labour costs expressed in salaries, wages and other benefits to national income. At the same time warns "the reduction of the share causes more inequality in income distribution, which can jeopardize social cohesion and slowdown the current economic recovery" (EC, 2014).

The National Reform Programme 2013 (NRP) emphasizes out that long-term and sustainable economic growth can be achieved by systematic and structural changes in the economy, which will manifested in the medium and long term horizon. In an effort to increase the level of GDP, the Government focuses mainly on the production aspect of the economy. An important question for solution is to find a way to support growth in the short term horizon through stimulation of domestic demand without jeopardy of consolidation objectives, to which Slovakia has committed. In the National Reform Programme is emphasized out that the limiting factor for the taken measures is the fact that Slovakia is a small open economy for which growth of the GDP in the short term is the most dependent on foreign demand.

Impacts of active labour market policies (ALMP) to employment are substantially reflected especially in the period of the global financial and economic crisis. With the intention to mitigate the negative impact of the crisis on the economy and social situation of the population of the Slovak Republic, was adopted by a set of anti-crisis measures in three consecutive "the packages of measures." Measures explicitly related to the labour market in terms of new active labour market measures (ALMM) were a part of the second anti-crisis "package of measures"

known as Measures to mitigate impacts of the global financial crisis and economic crisis on employment. These measures were in the character of short-term intervention measures against the crisis with a strict definition of the objectives. Therefore, they have been introduced as the temporary instruments with effectivity until 31<sup>st</sup> December, 2010. On the basis of the persisting effects of the impacts of the crisis on employment was up to 31<sup>st</sup> December, 2011 extended the effectiveness of one of them – a contribution to support the maintenance of employment. A contribution for the support of the regional and local employment was introduced for the period up to 31<sup>st</sup> December, 2011.

The most used tool was a contribution to support the maintenance of employment, which for a transitional period enabled employers to respond flexibly to fluctuations on the external markets by reducing the volume of work rather than its alternative reduction through laying-off employees. Often used was a contribution to support the creation of new jobs aimed at stimulating of the employers to create jobs for job seekers (JS) and mainly for graduates and workers whose were sacked, as a result, of the crisis. Measures aimed to stimulate an interregional labour mobility – an increasing of the contribution for commuting to work – they were also an important element. To the slowdown of the action of the negative effects of the crisis on employment in 2009 and in the 1<sup>st</sup> half-year 2010 it clearly contributed standard instruments ALMMs, in particular through education and training programs for the labour market for job seekers (JS), supporting of the maintenance group of low-skilled employees in employment and through the promotion of self-employment activity. Most of ALMP in 2012 was implemented through national projects funded by the European Social Fund and co-financed from the state budget.

Measures with the indirect effect on unemployment can be classified as (MLSA F SR, 2014):

- More effective fight against illegal work and illegal employment
- Optimizing of the activity of public employment services and increase economic efficiency and quality of provided services
- Support of the active labour market policies
- Increasing of the amount of funding and targeting of active labour market measures
- Improvement of the business environment
- Acceptance of the measures in the field of trade and consumer protection
- Advancement of the quality of vocational education and training so that its graduates will

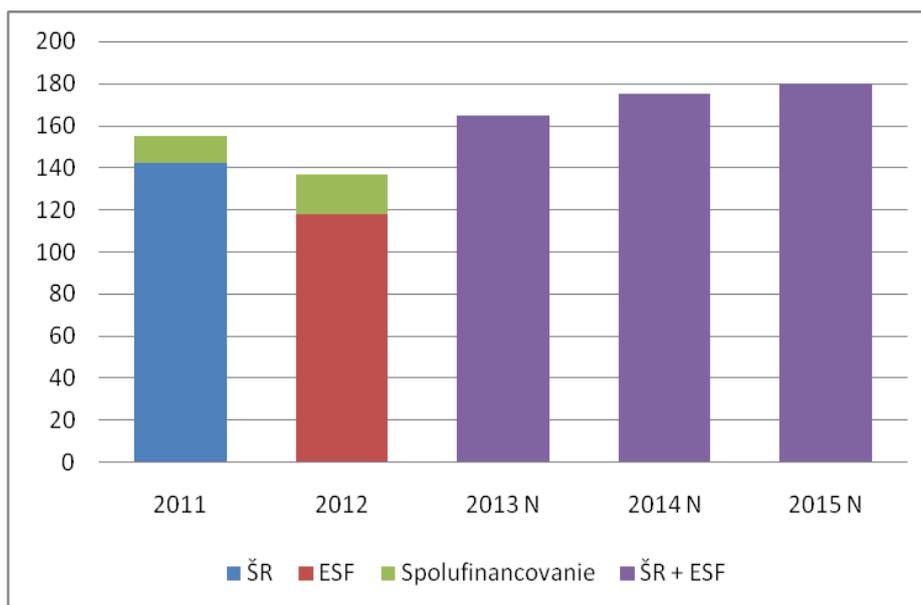
be able immediately after graduation directly enter into the work process

- Strengthen of the role of employers in vocational education and training
- Adoption of the measures to encourage pupils' interest in vocational education, in the accordance with labour market needs.

Changes in active labour market policies aimed at improving their efficiency and effectiveness ensure better integration of disadvantaged jobseekers into the labour market more efficient use of existing resources and create good terms and conditions for support employment of disadvantaged groups.

Slovakia spent on active labour market policies (ALMP) about 0.23 % of GDP, while the average of EU expenditures in this area has been in previous years about 0.7 % of GDP. The most funded ALMP instruments in the EU and the OECD (on average more than a third of expenditure in EU countries) belong to educational programmes and activities, and they also significantly contribute to the return of the unemployed people into working process. In Slovakia is spent on this circuit of instruments less than 10 % of total expenditure on ALMP tools. Therefore, the European Commission recommends in the medium term horizon to increase the proportion of educational programmes and to ensure their increased efficiency. For the achievement of a higher efficiency, it is also necessary to improve the integration of education with the needs of local employers to monitor and predict local demand for education.

**Fig. 2 Expenses on ALMP in the Slovak Republic during years 2011 – 2015 (in millions of EUR)**



**Source: CoLSAF, MoLSAF SR**

**Comment: years 2014 – 2015 present planned costs.**

## Conclusion

Persisting high unemployment mainly in the context of slow recovery from the crisis, it is for Slovak economy one of the main problems. During recent months, Slovakia has taken measures with the objective to reform the active labour market policy. However, the success of this reform will largely depend on the capability of public employment services and from effective way of the implementation of this reform. Also, next more aimed measures are needed for the most disadvantaged job seekers. It is also necessary to remove negative factors in the system of tax relieves for those who are beginning to work in low-paid jobs.

The development of the economy is a key determinant of labour market development. At any stage of the economic cycle: even in periods of economic expansion, the parameters of employment and unemployment didn't achieve an acceptable level. The legitimacy of slowdown of the economic growth in the Eurozone, as well as the pressure and burden of the consequences of the economic crisis have become a major impulse for implementing of the measures of the Government of the Slovak Republic, mainly in the second half of 2012. Subsequently, Measures are being adopted in economic policy to support economic growth (the so-called pro-growth measures).

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