

## Does the Slovak labour market need more immigrants?

Summary of key findings of the joint seminar<sup>1</sup> taking place on April 27, 2018 organized by the Representation of the European Commission in Slovakia and the institute INEKO

### Key messages:

The unemployment rate in Slovakia is falling rapidly. However, it is still the highest in the region and it exceeds 10 % in several districts in eastern and southern Slovakia. The businesses particularly in western districts lack free labour force and use more workers from abroad. The participants in the seminar discussed about ways how to meet the demand of the employers either by better use of domestic workers or by immigration. Most participants think that the domestic resources are not sufficient in required quantity and quality and Slovakia needs more workers from outside the EU. This need will deepen with further economic development and ageing society. Therefore it is necessary to change the immigration system so that it would flexibly react to the employers' needs with the lowest possible negative effects on the original population. At the same time, it is necessary to better use the potential of domestic labour force. The preconditions are increasing the quality of education system, more investment into day nurseries and kindergartens, better use of part-time jobs but also requalification of long-term unemployed people.

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<sup>1</sup> For more information about the seminar, please, check this webpage: <http://www.ineko.sk/clanky/seminar-potrebuje-slovensky-pracovny-trh-viac-imigrantov>

Highlights from the panels:

### PANEL I: Answers from the officials and analysts

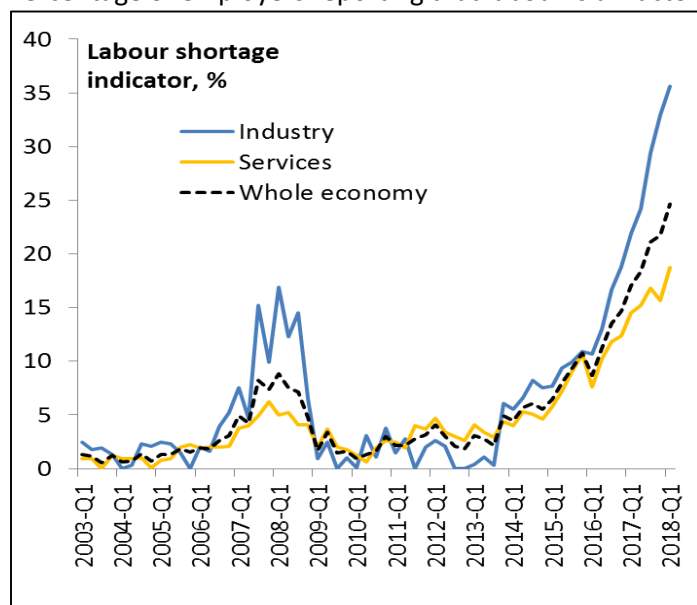
Opening remarks: Ladislav Miko, Head of Representation of the European Commission in Slovakia

- The insufficient supply of qualified workers is a serious problem for firms in Slovakia because it hampers further investment and economic growth. The investment in human capital is crucial for Slovakia.

Keynote speech: Barbara Kauffman, Director of the DG Employment, Social Affairs and Inclusion (EMPL), European Commission

- Labour market indicators are improving. However, regional disparities remain high. Employment rate of low-skilled is among the lowest in the EU and long-term unemployment remains high.
- She also pointed to the fast growing labour shortage indicator (see chart below), low rate of adults participating in learning, as well as low and deteriorating OECD PISA scores.
- Attracting foreign workers can be part of the response to the increasing labour shortages, in particular concerning skilled workers. Investing in domestic human capital is of paramount importance to achieve sustainable socio-economic development and should remain the priority.

Percentage of employers reporting that labour is a “factor limiting production”



Source: European Business Survey

Marián Valentovič, Director General, Central Office of Labour, Social Affairs and Family of the Slovak Republic

- The unemployment rate calculated from registered people ready to work immediately was 5.55% as of the end of March 2018 (153,854 people), down from 8.76% at the end of 2016. The rate calculated from the total number of registered unemployed was 6.77% as of the end of

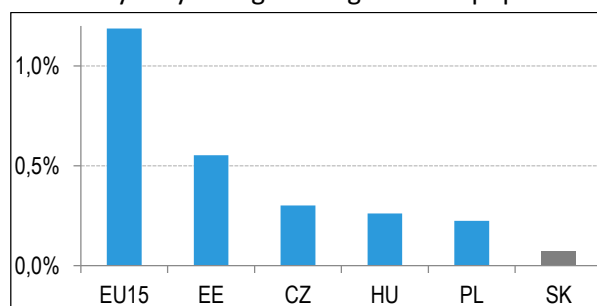
March 2018. From the unemployed, 85.1% are disadvantaged, i.e. mostly long-term unemployed, people over 50 or under 26 with low qualification, etc.

- The number of vacancies increased from 35,284 at the end of 2016 to 77,470 as of the end of March 2018.
- The Labour Offices are providing training and requalification courses (REPAS+, KOMPAS+) to the unemployed with assumed 60-thousand people taking part in 2018. They also reimburse the courses provided directly by firms.
- With effect from May 1, 2018, the new legislation improves the entry of immigrants to the labour market in districts with unemployment rate below 5% and in “shortage occupations”.

Lucia Šrámková, Director, Institute for Financial Policy, Ministry of Finance

- Growing labour shortages and number of vacancies indicate overheating in the labour market. At the same time, there is regional mismatch between labour supply (mostly eastern districts) and demand (mostly western districts). Slovakia lags behind EU and OECD in employment of disadvantaged groups: long-term and low-skilled unemployed, marginalized Roma communities and mothers with children under 3.
- The immigration is just one from several options how to eliminate risks of labour shortages. The main challenge is to increase employment of disadvantaged people, mostly long-term unemployed and low-skilled people (this includes integration of the Roma community). Other options include dismissing people who are inefficiently used in the public sector, increasing employment rate of mothers with children under 3, motivating Slovaks living abroad to return, promoting innovation and replacing human capital with robots.
- The net migration was positive in 2016-17 and mostly driven by foreigners even though the number of returning Slovaks was also increasing. Despite growing number of immigrants, the share of yearly foreign immigration to population is still 4 times smaller compared with V3 countries (see chart below). Based on available data from the Social Insurance Agency, wage dumping cannot be confirmed or disconfirmed.

Share of yearly foreign immigration to population (% , 2015)



Source: OECD

Peter Goliaš, INEKO Director

- Based on a survey among 115 firms conducted in April 2018 by INEKO and the Business Alliance of Slovakia, 85% firms declared labour shortage. These firms try to solve this problem by increasing efficiency (68%) and searching employees abroad (50%). However, part of them is

forced to refuse the orders (38%) or employ disadvantaged people (19%). High share of firms refusing orders indicates that the labour shortage starts to hamper economic growth.

- Most firms employ foreigners because of the labour shortage in domestic market (40%). Among other reasons they declared that free local workers demand wages inadequate to their skills and abilities (29%), they do not have sufficient working habits (21%) or qualification (11%). The firms complained about long and inflexible administrative process in acquiring work and residence permits from the police. On the other hand, they praised (45%) the new immigration legislation effective from May 2018.
- The labour shortage will deepen with ageing population. Therefore, Slovakia needs well-organized immigration system with flexible rules mainly for qualified foreigners. The applicants should be registered and evaluated centrally based on a point-system with criteria such as the age, education, cultural proximity, language knowledge, existing job offer, etc.
- At the same time, the Slovak labour potential should be better used. The government should not subsidize firms in districts with below-the-average employment rate and inefficient firms (such as brown-coal mines). It should invest more in day-nurseries and kindergartens and training of long-term unemployed. It should also change social subsidies and payroll-taxes to increase working incentives especially for people with low income. The quality and attractiveness of tertiary education should be higher to limit the brain drain of young people and attract more foreign students.

## **PANEL II: Answers from politicians and social partners**

Keynote speech: Branislav Ondruš, State Secretary, Ministry of Labour, Social Affairs and Family of the Slovak Republic

- The situation in labour market is highly tense and geographically uneven. This is proven by a rapid growth in vacancies over the past 3.5 years as well as by big differences in unemployment rates among districts. He said that in some districts, mainly in western Slovakia, we need foreigners, even from outside the EU. At the same time we have to invest in higher qualification but also basic social and working habits mostly of the long-term unemployed people.
- We were surprised by the speed of using up the potential of employable people. Two thirds of foreigners are taking jobs with low income and qualification. The biggest risk of taking more foreigners is in social dumping.

Eduard Heger, Member of the National Council of the Slovak Republic

- The key solution to labour shortage is more efficient public administration. Thus, we can supply labour market with qualified people who would immediately be able to fill-up vacancies. Other resources are long-term unemployed people, pensioners, foreign workers and particularly Slovaks who work on short-time abroad.

Mário Lelovský, Vice-president of the National Union of Employers

- The further growth of economy will be limited due to labour shortage. Slovakia does not have a plan how to solve the impact of demography. It will not be possible without organized immigration and without investment to education and modern technologies. Over following 10 years, we need a smart labour immigration of 100-200 thousand foreigners.
- *“Show me highly qualified Ukrainian, who would be willing to wait for 182 days to get a working permit. Why would he want to go to the country where they do not want him?”*

Zoroslav Smolinský, Head of the Modern Unions Volkswagen

- The trade unions are not opposed to employing foreigners from outside the EU. They should be employable by personal agencies under the same rules as Slovaks.

**The participants in seminar answered following questions through the sli.do application:**

Does Slovakia need more labour immigrants from outside the EU?

18 participants responded

|              |      |
|--------------|------|
| For sure yes | 50 % |
| Rather yes   | 33 % |
| Rather no    | 0 %  |
| For sure not | 17 % |

Where do you see the biggest reserves for better use of domestic labour force?

*(Choose maximum two options)*

20 participants responded

|   |      |
|---|------|
| In higher quality of the education system   | 60 % |
| In investment to day nurseries, kindergartens and more flexible part-time contracts | 40 % |
| In more efficient support of regions with high unemployment rate                    | 25 % |
| In changing the social subsidies and payroll taxes to increase working incentives   | 20 % |
| In requalification of unemployed people   | 10 % |
| In support of labour force mobility   | 10 % |
| In restricting stimulus in regions with below-the-average unemployment rate         | 5 %  |