How to decrease unemployment in Slovakia

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The analysis presents hypothesis about the causes of high unemployment in Slovakia as well as the overview of existing and alternative policies to decrease the unemployment. Among others we recommend to decrease social and health contributions for people with low income, to decrease the rate of social benefits reduction when raising the legal income, to improve flexibility on the labour market and to link public funding of secondary and tertiary schools to the unemployment rates and salaries of their graduates.

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Hypothesis about the causes of high unemployment in Slovakia – key findings

1. **High structural unemployment.** High proportion of long-term, young and low-skilled unemployed (Table 1) suggests that the high unemployment may be caused by wrong institutional settings rather than by short term fluctuations such as economic cycles. In other words it can be a result of wrong structural incentives set in the tax and social benefit systems, labour market rules, education system, etc. The proxy measures show that the structural unemployment in Slovakia, i.e. "the "natural" rate of unemployment that the economy would settle at in the long run in the absence of shocks"[2], belongs to the highest in the EU and is almost identical with the overall unemployment rate (Figure 1). These findings confirm that to substantially reduce the unemployment Slovakia cannot rely on economic growth and it has to adopt institutional changes.

   Most typical profile of unemployed: Long-term, young men, low-skilled.

   - The long-term unemployment is the highest in the EU when 70% of Slovak unemployed do not have a job for over 1 year, half for at least 2 years and 29% for at least 4 years (Eurostat). Over past 20 years the share of unemployed for longer than 2 years increased from 19% to 45% (Statistical Office of the SR).

[1] For seminar presentations, see http://www.ineko.sk/projekty/ako-znizit-nezamestnanost.
[2] Source: European Commission, Fabrice Orlandi, Structural unemployment and its determinants in the EU countries, 2012, http://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp_455_en.pdf

- One third of unemployed are aged 20 to 29 from which almost two in three are men (Statistical Office of the SR). International comparisons show that Slovakia has one of the highest youth unemployment rate in the EU (34% in 2012). However this number is biased because Slovakia has also high proportion of young people attending schools. According to Eurostat, Slovakia has 92.7% of young people (20-24 years old) having at least completed upper secondary education compared to the EU 28 average of 80.3%. Theoretically, if there was just one young man who would not study and he would be unemployed, there would be 100% unemployment rate in the country. However this would not signalize any problem. Therefore it is important to check indicators taking into account the whole population including students. In fact, the unemployment ratio and NEET rate show just slightly higher youth unemployment in Slovakia compared to the EU average (Table 2).
- The unemployment rate of low-skilled (ISCED 0-2, people with primary education) is the highest in the EU with 43% in 2012 compared to the EU 28 average of 18% (Eurostat). This number is partially biased because Slovakia has higher enrolment at secondary schools. Nevertheless, people with primary education account for 17% of unemployed, people with secondary education without final exam (former "apprentice" schools) for 37% and people with secondary vocational education for 29% of all unemployed (Statistical Office of the SR).

Table 1: Unemployment structure by duration, age and education

Duration (months)			Age (years)			Education		
	1994	2012		1994	2012		1994	2012
Up to 1	6%	7%	15 to 19	17%	4%	Primary	27%	19%
1 to 3	13%	7%	20 to 29	31%	33%	Secondary without final exam	43%	39%
3 to 6	16%	8%	30 to 39	27%	25%	Second. vocational	22%	27%
6 to 12	21%	15%	40 to 49	17%	18%	Second. general	4%	5%
12 to 24	23%	19%	50 to 59	7%	19%	Tertiary	4%	9%
24 and over	19%	45%	60 and over	1%	1%	-		-

Source: Statistical Office of the Slovak Republic

Table 2: Youth unemployment in Slovakia (15-24 years), 2012

	Unemployment rate	Unemployment ratio	NEET rate
Slovakia	34.0%	10.4%	13.8%
EU 28	22.9%	9.7%	13.1%

Source: Eurostat

Notes:

Youth unemployment rate is calculated as a number of unemployed (15-24 years) divided by labour force which represents the sum of employed and unemployed young people

Youth unemployment ratio is calculated as a number of unemployed (15-24 years) divided by total population (15-24 years old) which represents the sum of employed, unemployed and economically inactive (for example students) young people

NEET rate is calculated as a number of young people not in employment and not in any education and training divided by total population (15-24 years old) which represents the sum of employed, unemployed and economically inactive (for example students) young people

2. **Inactivity trap: Low-paid jobs are unattractive because of high taxes and rapid withdrawal of social benefits.** For people taking social assistance every legally earned euro means a loss of 75 cents on social assistance.[3] Moreover, they have to pay social and health insurance on their legal income[4]. The European Commission comments:[5]

   "(…) the tax and benefits system continues to provide insufficient incentives for the longer-term unemployed to take up low-paid jobs because social benefits are withdrawn rather quickly and not through a more gradual phasing out. For people moving from inactivity with an activation allowance to minimum wage work, the marginal effective tax rate, which measures the part of a person's income that goes on taxes, exceeds 60%. It reaches 80% for a single parent with 2 children."

   The World Bank[6] showed similar results especially for very low-paid jobs such as a part-time job at the minimum wage (Figures 2 and 3). It also documented high formalization tax rates for people with low income, i.e. the share of informal income that an informal worker has to give up to formalize. For example one earner without children with income at 25% of the average wage would lose around 50% of his/her net income if he/she changes from informal to formal job. For a comparison, he would lose around 30% in Australia and 20% in the US.

3. **Employers list "high payroll taxes" as the biggest barrier to create new jobs.** In October 2013, the Business Alliance of Slovakia ran a survey among Slovak employers asking them to choose 5 biggest barriers they face when creating new jobs. From among 170 participants 72% listed "high payroll taxes for employees" among the biggest barriers, 45% listed "high tax burden for businesses", 44% "weak law enforcement", and 38% "inflexible labour code".

[3] The act Nr. 417/2013 on social assistance states in §15 that the assistance is calculated as a difference between nominal assistance and income decreased by 25%. For illustration if nominal assistance is 61.60 EUR (which is current level of the basic assistance) and an individual has legal income of 50 EUR, he would receive assistance of 24.10 EUR (=61.60-0.75*50). Thus, for 50 EUR earned he would lose 37.50 EUR on social assistance.

[4] Current rates on health insurance are 4% of gross wage for an employee and 10% for an employer. Current rates on social insurance are 9.4% for an employee and 25.2% for an employer. Thus the employee pays together 13.4% on health and social contributions and an employer pays 35.2% of the gross wage. For an illustration, for the current level of minimum wage at 352 EUR monthly, the total labour costs for an employer are 475.89 EUR from which an employee receives net monthly wage of 304.84 EUR. Source: SME calculator of the net wage in 2013, http://ekonomika.sme.sk/kalkulacky/kalkulator-cistej-mzdy-2013.php?mzda=352&deti=0&nczd=1&polrok=2014-06

[5] European Commission, Commission Staff Working Document, 2013, http://ec.europa.eu/europe2020/pdf/nd/swd2013_slovakia_en.pdf

[6] Koettl, Johannes; Packard, Truman; Montenegro, Claudio E.. 2012. In From the Shadow: Integrating Europe's Informal Labor. Washington, DC: World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/9377 License: CC BY 3.0 IGO.

Table 3: Top barriers to creating new jobs – survey among 170 Slovak employers

Question: What are the biggest barriers to growth of your firm that would result also in hiring more employees? Please, mark up to 5 biggest barriers.

Ranking	Barrier	Number of votes	Percentage
1	High payroll taxes for employees	122	71,8%
2	High tax burden for businesses	76	44,7%
3	Weak law enforcement	75	44,1%
4	Inflexible labour code	65	38,2%
5	High tax burden for employees	57	33,5%
6	Corruption (for example in public procurement)	57	33,5%
7	Weak payment discipline of business partners	53	31,2%
8	High bureaucracy in contacts with public administration	52	30,6%
9	Insufficiently qualified labour force	38	22,4%
10	Too high wage requirements from potential employees	33	19,4%
11	Insufficient credit accessibility	25	14,7%
12	Distant markets able and willing to buy our products	17	10,0%
13	Weak regional infrastructure (roads, railways)	14	8,2%
14	High minimum wage	4	2,4%

Note: Number of votes is the number from among 170 employers who listed given barrier among top 5 barriers they face when creating new jobs. Ranked by revenues 22% of participants had yearly revenues below 0.5 million EUR, 29% from 0.5 million EUR to 1 million EUR, 32% from 1 million EUR to 10 million EUR, 14% from 10 million EUR to 100 million EUR and 2.4% of 100 million EUR and more.
Source: Business Alliance of Slovakia, October 2013

4. **Worsening business environment.** According to the World Bank Doing Business report Slovakia fell from its ever best 32nd position in 2008 to 49th position in 2014. The weakest areas include protecting investors, starting business, trading across borders, paying taxes, enforcing contracts and getting electricity. The worsening trend is reported also by other rankings such as the Global Competitiveness Report by the World Economic Forum or the IMD World Competitiveness Yearbook.

Table 4: World Bank Doing Business ranking of Slovakia

	2008	…	2013	2014
Overall ranking (out of 189 in 2014)	**32.**	…	**43.**	**49.**
Protecting investors	98.	…	113.	115.
Starting business	72.	…	80.	108.
Trading across borders	90.	…	111.	108.
Paying taxes	122.	…	100.	102.
Enforcing contracts	50.	…	65.	65.
Getting electricity	-	…	66.	65.
Dealing with construction permits	-	…	50.	53.
Getting credit	7.	…	40.	42.
Resolving insolvency	36.	…	38.	38.
Registering property	5.	…	9.	11.

Source: World Bank

5. **Decreased flexibility in labour market relations.** Slovakia has the lowest labour turnover[7] in the EU (Figure 4). ***"****Economic theory and empirical evidence demonstrate that strict EPL (Employment Protection Legislation) diminishes labour turnover and vice versa."*[8] Moreover, strict employment protection has negative effects mostly on low-skilled, young and long-term unemployed people. The flexibility was further decreased by the Labour Code amendment enforced from 1 January 2013 and automatic extension of higher collective agreements to all employers with 20 and more employees in a given sector enforced from 1 January 2014. The European Commission commented on a Labour Code amendment:

   "The new law reintroduced the possibility of benefiting of both a notice period of up to 3 months (depending on job tenure) and a severance payment of up to 4 months (depending on job tenure) in case of lay-off. The maximum duration of consecutive fixed-term contracts was also reduced to 2 years. (…) The trade unions regain more negotiation and decision-making powers and must no longer prove that they represent at least 30% of employees. (…) Although the labour market remains flexible, the recent reform might increase labour costs and discourage employers from hiring at a time when the economy is slowing down and the labour market remains sluggish."

   According to the OECD Employment Protection Legislation (EPL) index, Slovakia has comparatively higher protection of temporary contracts and stringent regulation of collective dismissals. It belongs to EU members with the lowest share of temporary workers on total employment (Figure 5). However, this statistics probably does not take into account "agreement working arrangements" which are many times used as a form of temporary employment in Slovakia.

Table 5: Strictness of employment protection (2013)

Scale from 0 (least restrictions) to 6 (most restrictions)	Protection of permanent workers against indiv. dismissal	Specific requirements for collective dismissal	Regulation on temporary forms of employment
Slovakia	1.81	3.38	2.42
Czech Republic	2.87	2.13	2.13
OECD	2.04	2.91	2.08

Source: OECD Employment Protection Database, http://www.oecd.org/employment/emp/oecdindicatorsofemploymentprotection.htm

6. **Weak motivation of schools to prepare students for successful entering the labour market.** There are huge differences in the unemployment rates of graduates from particular schools. For example ranked by the ratio of unemployment rate of graduates and regional unemployment rate the best secondary vocational school (Business academy in Trnava) had ratio of 0.1 for 2012 compared to 4.5 for the worst school (Wood processing school in Bratislava) or 4.1 for the second worst school

[7] Business Dictionary definition of labour turnover: "The ratio of the number of employees that leave a company through attrition, dismissal, or resignation during a period to the number of employees on payroll during the same period.", http://www.businessdictionary.com/definition/labor-turnover.html

[8] Source: European Commission, Employment Protection Legislation, http://ec.europa.eu/europe2020/pdf/themes/23_employment_protection_legislation.pdf

(Secondary vocational school in Banská Bystrica)[9]. All these schools had zero students from socially disadvantaged background. The unemployment rate does not influence the public funding of particular upper secondary schools. On contrary the funding is usually cost-based with more money flowing to schools with traditionally higher costs. This is also the case of schools mentioned above when the best school received 1654 EUR per student in 2012 compared to 4374 EUR per student for the worst school and 1813 EUR for the second worst school. There are also wide differences in the unemployment rates of tertiary schools. For example in 2009 the differences ranged from 0.3% to 26.0%.[10] If there are no serious financial consequences for weak results and if the public is not informed sufficiently about those results there is a high risk that the schools would have weak motivation to improve and thus to contribute to decreasing the overall unemployment rate. The growing share of unemployed with secondary vocational education and also with tertiary education (Table 1) suggests that this problem might be crucial. In case of tertiary education, however, we should notice that this problem may be partially explained by the growing proportion of people with tertiary education. For example for 30-34 year-old people this proportion grew from 10.6% in 2010 to 23.7% in 2012 (Eurostat).

Interestingly, the international comparisons do not prove that Slovakia belongs to countries with high educational or skills mismatch[11] as well as with low participation in work-based school programmes (Figure 6). Nevertheless with 41% of vocational students enrolled in work-based training programmes there is still much room for improvement left when compared to Germany with 88% or Denmark with 97%.

Table 6: Unemployment and public funding of secondary vocational schools, 2012

	Unemployment index	Public funding per student
Business academy in Trnava	0.1 (best)	1654 EUR
Secondary vocational school in Banská Bystrica	4.1 (second worst)	1813 EUR
Wood processing school in Bratislava	4.5 (worst)	4374 EUR
All second. vocat. schools in Slovakia (average)	1.3 (average)	2904 EUR

Source: INEKO, http://skoly.ineko.sk/

Note: Unemployment index is the ratio of the unemployment rate of graduates of particular school and the regional/district unemployment rate

7. **Insufficient and inefficient active labour market policies (ALMP).** In 2011, Slovakia spent 0.30% of GDP on ALMP compared to the EU average of 0.71% (Eurostat). It lagged behind mostly in supporting labour market services such as job-search assistance programmes (with 0.07% of GDP compared to EU average of 0.21%) which belong to more efficient policies. Nevertheless there are countries that spend even lower amounts on ALMP and have below average unemployment rate. For example, in

[9] Source: INEKO, http://skoly.ineko.sk/

[10] Source: SME 24.10.2011, Štát zverejnil poradie škôl podľa uplatnenia absolventov, http://ekonomika.sme.sk/c/6111018/stat-zverejnil-poradie-vysokych-skol-podla-uplatnenia-absolventov.html

[11] For details, check the European Commission document "Skills Gap and Labour Mobility" (figures on pages 9 and 16, http://ec.europa.eu/europe2020/pdf/themes/27_skills_gaps_and_labour_mobility.pdf).

2011 the UK spent just 0.25% of GDP on ALMP out of which 0.21% of GDP was spent on labour market services.

Table 7: Expenditure on active labour market policies (% of GDP) and unemployment rate (%), 2011

	Labour market services	Other policies (e.g. direct subsidies)	Total	Unemployment rate
Slovakia	0.07	0.22	0.30	13.7
Czech Republic	0.10	0.18	0.28	6.8
UK	0.21	0.03	0.25	8.2
EU 27	0.21	0.50	0.71	9.7

Source: Eurostat

The recent evaluation by the European Commission concludes: [12]

"To date, labour market services and active labour market policies (ALMP) have not proved sufficiently effective. (…) Many of the labour offices remain understaffed and there is no regular comprehensive analysis of ALMPs based on harmonized data collection. (…)The share of ALMP participants among job seekers is significantly lower in regions with higher unemployment rates. While 12% of unemployed people on average were participating in 2010, this figure reached 25% in Bratislava and 10% in eastern regions (OECD Economic Surveys, 2012). (…) Existing activation measures for long-term unemployed are not sufficiently effective. According to a recent evaluation of activation strategies in Slovakia, the probability that jobseekers participating in activation works will not find employment in labour market is 80%."[13]

8. **Slovakia underscores in women employment**[14]**.** Employing older women (55-64 years of age) has the biggest potential to boost the overall employment rate followed by employing prime age women (30-54) and young women (20-29).

Table 8: Potential of the various groups to increase total employment

	Men (years of age)			Women (years of age)			Low-skilled
	20 - 29	30 - 54	55 - 64	20 - 29	30 - 54	55 - 64	
Slovakia	1.8	2.6	2.3	3.2	3.5	3.9	2.7
Best country	Austria	Luxemb.	Sweden	Netherlands	Sweden	Sweden	Sweden

Source: European Commission, Europe 2020 Targets: Employment rate, http://ec.europa.eu/europe2020/pdf/themes/18_employment_target.pdf

[12] European Commission, Commission Staff Working Document, 2013, http://ec.europa.eu/europe2020/pdf/nd/swd2013_slovakia_en.pdf

[13] The insufficient and inefficient use of ALMP is documented also by the OECD Economic Survey, Slovak Republic, 2012, Chapter 2.

[14] For more detailed information, see also the comment by the Institute for Financial Policy at the Ministry of Finance of the SR: "Women could help to increase GDP by 1.6%", May 2011, http://www.finance.gov.sk/Default.aspx?CatID=7920

Note: For any of the groups above, a hypothetical increase of their employment rate to the highest rate currently observed amongst EU countries and all other things equal would theoretically increase a country's overall employment rate by the percentage points shown in the table above.

The employment rate of older women increased from 12.6% in 2004 to 33.6% in 2012 (Eurostat) along with the **gradual prolonging of women retirement age**. It will probably increase further as the prolonging of women retirement age continues. Relatively lower employment rates of prime age and young women may be caused by strong parenthood impact on employment. Slovakia belongs to EU countries with the biggest difference in employment of women with and without children; **women with children have by around one third lower employment rate** (Figure 7). One of the reasons may be that **Slovakia underscores in using formal care for children up to three years of age.** Only 3% of children under three years were enrolled in formal and pre-school care facilities compared to 29.2% in the EU in 2011 (Figure 8).

9. **Slovakia underscores in part-time employment.** Compared to the EU average Slovakia has lower employment rates for both men and women. Interestingly, this shortage disappears when we look at employment rates in full-time equivalent. This is because Slovakia lags behind in employing on part-time contracts (Figure 9). However, this statistics probably does not take into account "agreement working arrangements" which are many times used as a form of part-time employment in Slovakia. The number of agreements was around 600 thousands in 2012 falling to around 400 thousands in 2013 after the government imposed full social and health contributions on income based on agreement contracts[15].

Table 9: Employment rate in full-time equivalent

	Employment rate		Employment rate in full-time equivalent	
	Women	Men	Women	Men
Slovakia	57.3	72.8	56.0	71.9
EU 27	62.4	74.6	53.6	72.4

Source: European Commission, Female Labour Market Participation, http://ec.europa.eu/europe2020/pdf/themes/31_labour_market_participation_of_women.pdf

10. **Too high minimum wage for poor regions, young people and women.** The ratio of minimum to average wage varied in 2012 from 28% in Bratislava region to 46% in Prešov region. For women this difference varied from 32% in Bratislava region to 51% in Prešov region; for young people up to 19 years old it varied from 57% in Bratislava region to 70% in Banská Bystrica and Košice regions. The difference is even bigger for smaller regional units. For example in Snina district the ratio of minimum to average wage of total population was 60% in 2012, in Sobrance and Rimavská Sobota districts it was 58%. Too high minimum wage may be an important barrier to creating new jobs especially in poor regions. The negative impact on young people and women is bigger due to their relatively lower average wages.

[15] Source: INESS, Zmrzačení dohodári, 3. October 2013, http://blog.etrend.sk/iness/zmrzaceni-dohodari-2.html

Table 10: Minimum to average wages in "higher regional units" (EUR, 2012)

	Minimum/ Average wage	Minimum/ Average (women)	Minimum/ Average (up to 19 years old)	Minimum/ Average (20 to 24 years old)
Slovakia	37%	43%	63%	51%
Bratislava	28%	32%	57%	46%
Trnava	39%	45%	64%	50%
Trenčín	41%	49%	61%	53%
Nitra	42%	49%	66%	56%
Žilina	40%	48%	62%	51%
Banská Bystrica	42%	48%	70%	56%
Prešov	46%	51%	67%	61%
Košice	38%	45%	70%	54%

Note: Monthly minimum wage was at 327.20 EUR in 2012

Source: Author's calculations based on Statistical Office of the Slovak Republic

Overview of existing and planned policies to decrease the unemployment

Existing policies:

a. **Employment services[16]:** Register of vacancies, register of job seekers, consulting, training, financing part of training costs, and various financial contributions such as:
   - § 49 contribution to self-employment
   - § 50 contribution to support employment of a disadvantaged job seeker (above 50 years old, low-skilled, without regular job for at least 6 months, etc. the amount of contribution is up to 40% of average wage, during up to 12 months or 24 months in case of people unemployed longer than 24 months)
   - § 50b integration of disadvantaged job seekers in social enterprises
   - § 50j contribution in support of local and regional employment development (above 50 years old, low-skilled, long-term unemployed, etc., contribution amounts up to 50% of average wage, during up to 9 months)
   - § 50k contribution to the retention of jobs during serious operational problems (up to 50% of average wage, during up to 12 months)
   - § 51 contribution to the performance of a graduate practice (graduate practice, up to 65% of minimum wage, during 3 to 6 months)
   - § 52 contribution for activation activity in the form of small community services (the contribution is taken by a municipality or regional district to finance part of costs of activating long-term unemployed people eligible for social assistance benefits, the activation works can take up to 20 hours/week)

[16] Source: The Act Nr. 5/2004 on Employment Services, Ministry of Labour, Social Services and Family of the SR, http://www.employment.gov.sk/sk/praca-zamestnanost/podpora-zamestnanosti/

- § 52a contribution for activation activity in the form of a voluntary service (up to 4.5% of average wage plus contribution for commuting to work, up to 20 hours/week, during up to 6 months)
- § 53 contribution for commuting to work (up to 135 EUR monthly, during up to 6 months)
- § 53a contribution for moving to work (up to 1327.26 EUR)
- §53b contribution for transportation to work (up to 50% of real costs)
- § 53d contribution for the creation of a new job
- § 54 projects and programmes
- § 56 contribution to the creation of a sheltered workshop or workplace
- § 56a contribution for the retention in employment of a disabled citizen
- § 57 contribution to self-employment of a disabled citizen
- § 58 agency of supported employment
- § 59 contribution for the activity of a work assistant
- § 60 contribution to compensate operational costs of a sheltered workshop/workplace or transportation of employees

According to the OECD[17]: *"Among the 29 existing programmes in 2011, only 22 were used and only 12 have more than 1000 participants."*[18]

b. **Youth Action Plan:** Subsidizing youth employment (70 million EUR in 2013, almost 11 thousand new jobs). During one year state pays minimum wage and contributions for young people (who have been registered as unemployed for at least 1 month) up to 29 years of age employed by a firm. The employment has to last for other 6 months without subsidies.
c. **Employee Tax Credit:** The low-income employees are eligible for an annual tax credit (up to 42.98 EUR in 2014)
d. **Controls of illegal work** (e.g. programme Cobra launched in October 2013)
e. **Allowance on social contributions for long-term unemployed:** Since November 2013, the long-term unemployed (over 12 moths) are temporarily (during 1 year) exempted from paying social contributions in case they find low-paid employment (up to 67% of average wage).

Planned policies:

a. **Youth Guarantee** (200 million EUR for 2014 and 2015): The goal is to ensure that all young people under the age of 25 years receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education. Examples of planned policies[19]:

[17] OECD Economic Surveys, Slovak Republic, 2012. Quoting taken from the "Protecting the Poor and Promoting Employability, An assessment of the Social Assistance System in the Slovak Republic", World Bank, 2012.
[18] The statistics about the use of existing ALMP (number of participants and costs of the programmes) is available at http://www.upsvar.sk/statistiky/aktivne-opatrenia-tp-statistiky.html?page_id=1248.
[19] Source: Information for the Government about preparation and adoption of the Youth Guarantee in the SR, http://www.rokovania.sk/Rokovanie.aspx/BodRokovaniaDetail?idMaterial=23248

- Requalification programmes, training and job-search assistance offered by a third party, e.g. personal agencies, 15 million EUR
- Subsidizing full-time employment of young people during at least 12 months, 45 million EUR
- Subsidizing start-ups: Entrepreneurs under 25 years, 10 million EUR
- Coaching centres: Strengths and weaknesses of young unemployed, 72 million EUR
- Strengthening the dual system at vocational secondary schools (work-based education directly in firms): Using Austrian and German experience, 20 million EUR
- Second chance for young unemployed to complete basic or apprentice education, 21 million EUR
- Direct jobs creation for young unemployed, 20 million EUR
- Community centres for training and coaching of marginalized young people, 18 million EUR
- Supporting small projects proposed by 13-17 year-old marginalized people, 8 million EUR
- Supporting NGOs working with young people, 10.5 million EUR

Overview of alternative policies to decrease the unemployment – recommendations

1. **Regularly measure and publish the tax wedge, the marginal effective tax rate and the formalization tax rate for different types of households and beneficiaries of social assistance.**
2. **Decrease the rate of social benefits reduction when raising the legal income.** The decrease should be implemented in a several-year transition period to allow for evaluating the impact on employment and public finances. For example the rate of reduction could be decreased from the current level of 75 cents for every legally earned euro by 10 cents every year for a period of three years to the final rate of 45 cents. Based on results further decrease might follow.
3. **Decrease social and health contributions for people with low income.** One possibility is that the people with an income up to a certain level (lower threshold) would not pay any contributions at all and people with higher income would pay gradually higher rates up to a certain level (upper threshold) when they would pay the full rate. This model is similar to "minijobs" and "midijobs" that were applied under the Hartz II reform in Germany in 2003[20] and contributed to an impressive reduction of unemployment. In 2013 INEKO proposed three alternatives and the Institute for financial policy at the Ministry of Finance of the SR calculated their impact on public finances. All alternatives consider allowance on both the social and the health insurance contributions for both the employee and the employer.

Table 11: Three alternatives to decrease tax burden on low income proposed by INEKO

Alternatives	Impact on public finances in 2014	Impact on public finances in 2015
1. Lower threshold at 1/3 and upper	-76 million EUR	-79 million EUR

[20] In Germany an employee does not have to pay any taxes, health and social contributions up to a monthly income of 450 EUR (minijobs) and pays gradually increased rates up to a monthly income of 850 EUR (midijobs) when he/she pays the full rates. Under minijobs, an employer pays 30.99% (or 14.44% for household works) of gross wage on social and health insurance. Source: Wikipedia, http://de.wikipedia.org/wiki/Mini-Job

	threshold at 2/3 of minimum wage		
2.	Lower threshold at 2/3 and upper threshold at 4/3 of minimum wage	-208 million EUR	-216 million EUR
3.	Lower threshold at minimum wage and upper threshold at two minimum wages	-722 million EUR	-749 million EUR

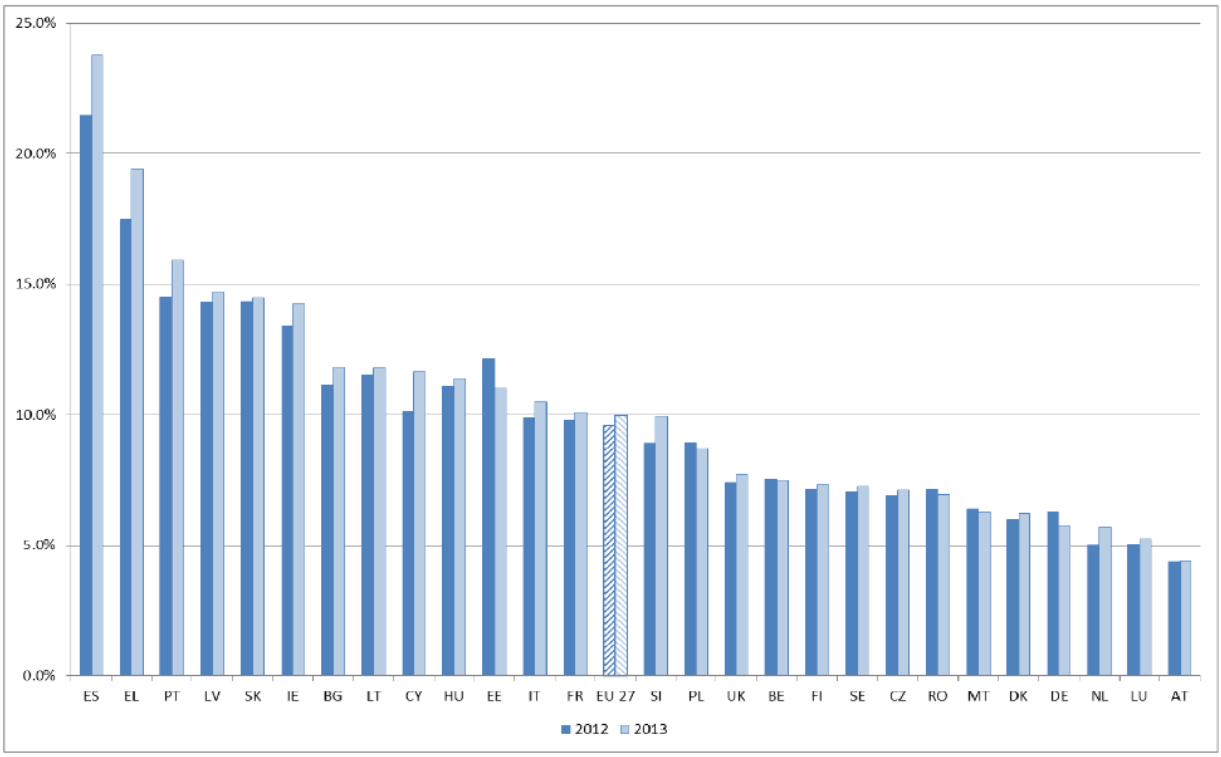
Note: The calculation of impact on public finances does not account for changes in employment and other dynamic effects.

Source: INEKO

4. **Systematically improve business environment.** Check how Slovakia meets criteria outlined in the World Bank Doing Business report and adopt measures to improve country's position in the ranking. Focus on areas with the worst results.
5. **Improve flexibility on the labour market:**
   - Decrease costs of firing by separating the concurrence of the notice period and the severance payment.
   - Remove the automatic extension of higher collective agreements on employers who did not accept it.
   - Remove barriers to dismissals for economic reasons. For example the Anglo-Saxon countries typically do not require justification of economic dismissals.
   - Focus on easing the regulation of collective dismissals and temporary employment.
6. **Regularly measure and publish the unemployment rates and salaries of graduates of particular secondary and tertiary schools.** Include both indicators into the formula for calculating the public subsidies of particular schools.
7. **Regularly measure and publish the efficiency of active labour market policies** (results per euro spent), close inefficient programmes and support those that prove to be more efficient. Focus on labour market services such as job-search assistance programmes and reduce measures aimed at direct job creation. Include private organizations in providing ALMP. Publish a list of all subjects (both individuals and organizations) receiving financial contributions including the amount of that contribution, time of its spending, number of subsidized jobs, and length of their duration as well as education and age characteristics of participants.
8. **Identify and reduce barriers to greater use of pre-school facilities especially for children up to 3 years.** Monitor demand and supply for such services in regions. Reduce administrative barriers to setting up pre-school facilities including individual care.
9. **Consider decreasing the minimum wage for poorer regions and/or for young workers and/or for women.** Consider shifting the competence for setting different than national minimum wage on mayors on condition that every employer publishes the number of employees who take the newly set minimum wage. Alternatively, apply lower minimum wages for poorer regions. At the same time, consider decreasing national minimum wage for young workers and/or for women.
10. **Collect ethnic characteristics of unemployed and inactive people.** This should help to design efficient policies targeted at marginalized especially Roma communities.

Figure 1: Non-accelerating wage rate of unemployment (NAWRU) as proxy for structural unemployment

Figure 6: Non-accelerating wage rate (%) of unemployment (NAWRU) per Member State, estimate for 2012 and 2013

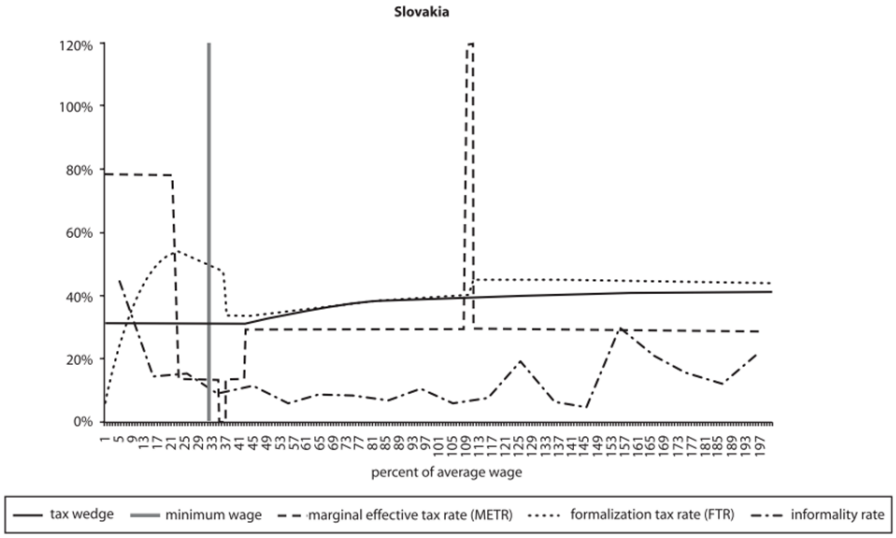


Source: AMECO

Source: European Commission, Skills Mismatches and Labour Mobility, http://ec.europa.eu/europe2020/pdf/themes/27_skills_gaps_and_labour_mobility.pdf

Note: For details about methodology of computing the NAWRU check this document: European Commission, Fabrice Orlandi, Structural unemployment and its determinants in the EU countries, 2012, http://ec.europa.eu/economy_finance/publications/economic_paper/2012/pdf/ecp_455_en.pdf

Figure 2: Work incentives structures for single earners with no dependent children



Definition of Formalization Tax Rate:

- The share of informal income that an informal worker has to give up to formalize
- Formula: [Informal income (informal wage + social benefits) - Formal net income (formal net wage + social benefits)] / Informal income

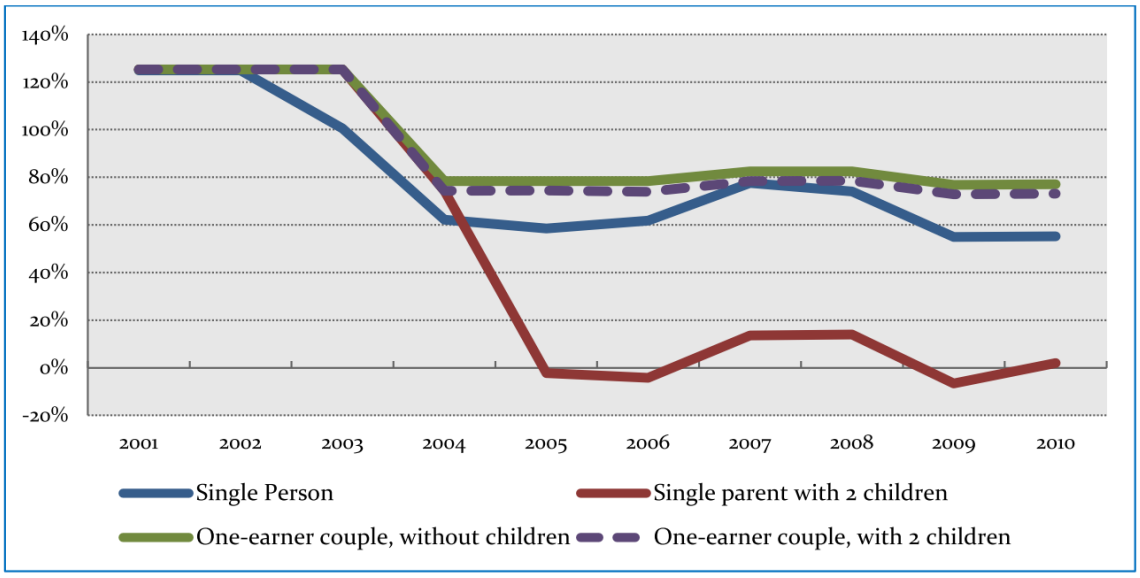
Definition of Marginal Effective Tax Rate:

- The METR measures, at a given wage level, how much of an additional euro earned in formal gross wages is taxed away, either as labour tax or in the form of withdrawn benefits.
- It is an indication of how much it pays for workers to earn more gross income, either by increasing work hours or receiving higher wages.

Source: Koettl, Johannes; Packard, Truman; Montenegro, Claudio E.. 2012. In From the Shadow : Integrating Europe's Informal Labor. Washington, DC: World Bank. © World Bank. https://openknowledge.worldbank.org/handle/10986/9377 License: CC BY 3.0 IGO.

Figure 3: Work incentives structures for various types of households

Figure 4: Inactivity trap for households taking up jobs with gross earnings of 33 percent of average wage in Slovakia, 2001-2010



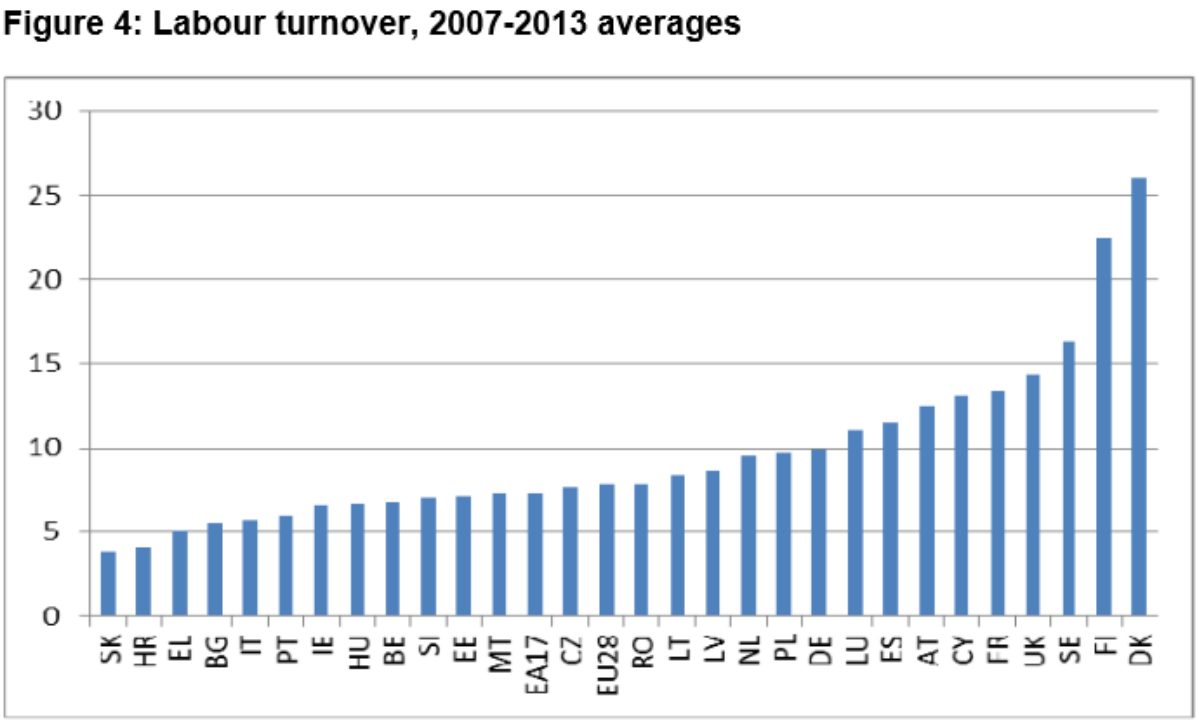
Source: OECD/EU Tax and benefits indicators database.

Source: The World Bank, Providing the right incentives: Analysis of the tax-benefit system in the Slovak Republic, 2011

Note 1: The inactivity trap measures the part of additional gross wage that is taxed away in the case where an inactive person (not entitled to receive unemployment benefits but eligible for income-tested social assistance) takes up a job. In other words, this indicator measures the financial incentives to move from inactivity and social assistance to employment.

Note 2: The calculations consider households taking housing allowance but not taking activation benefits.

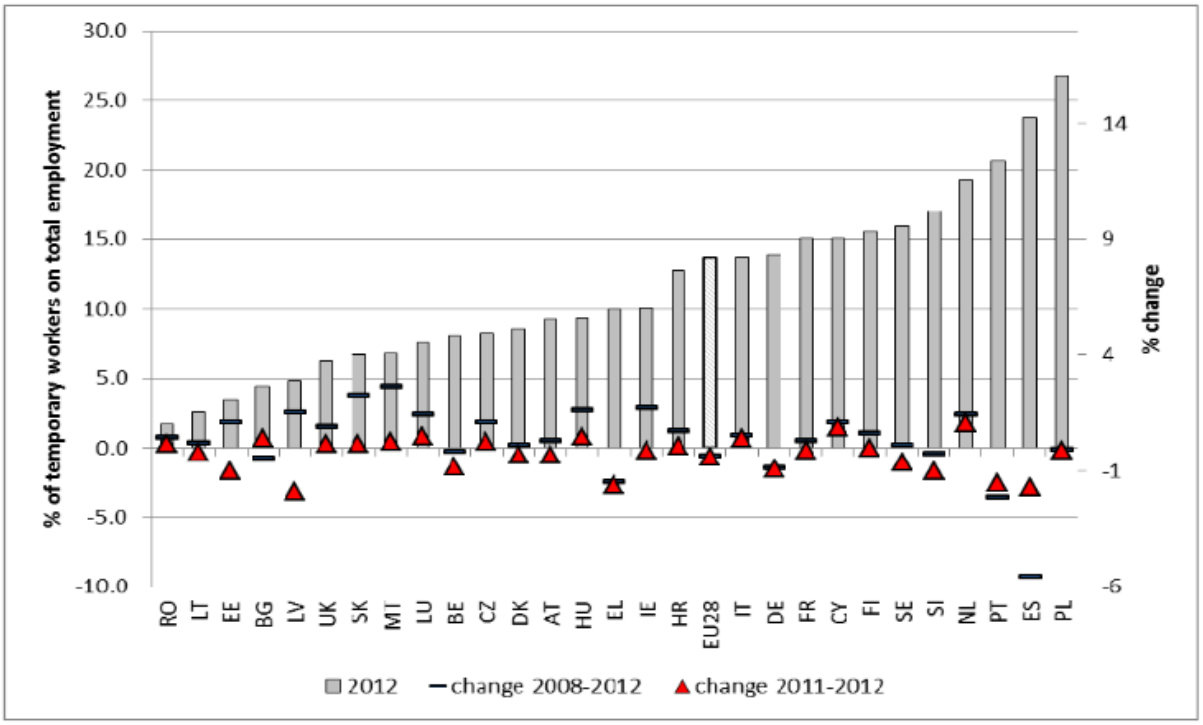
Figure 4: Labour turnover



Source: European Commission, Employment Protection Legislation, http://ec.europa.eu/europe2020/pdf/themes/23_employment_protection_legislation.pdf

Figure 5: Share of temporary contracts on total employment

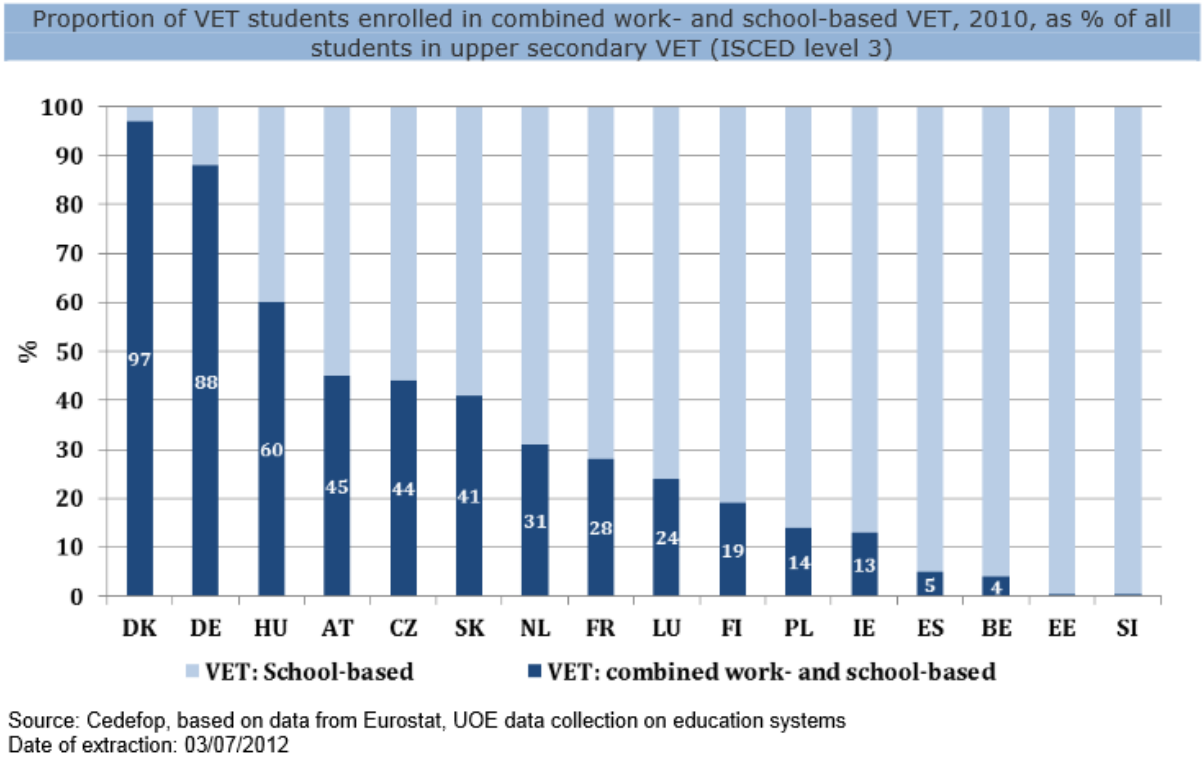
Figure 5: Share of temporary workers on total employment (2012), % changes between 2011 and 2012 and during the crisis (2008-2012)



Source: *Eurostat, LFS*

Source: European Commission, Employment Protection Legislation, http://ec.europa.eu/europe2020/pdf/themes/23_employment_protection_legislation.pdf

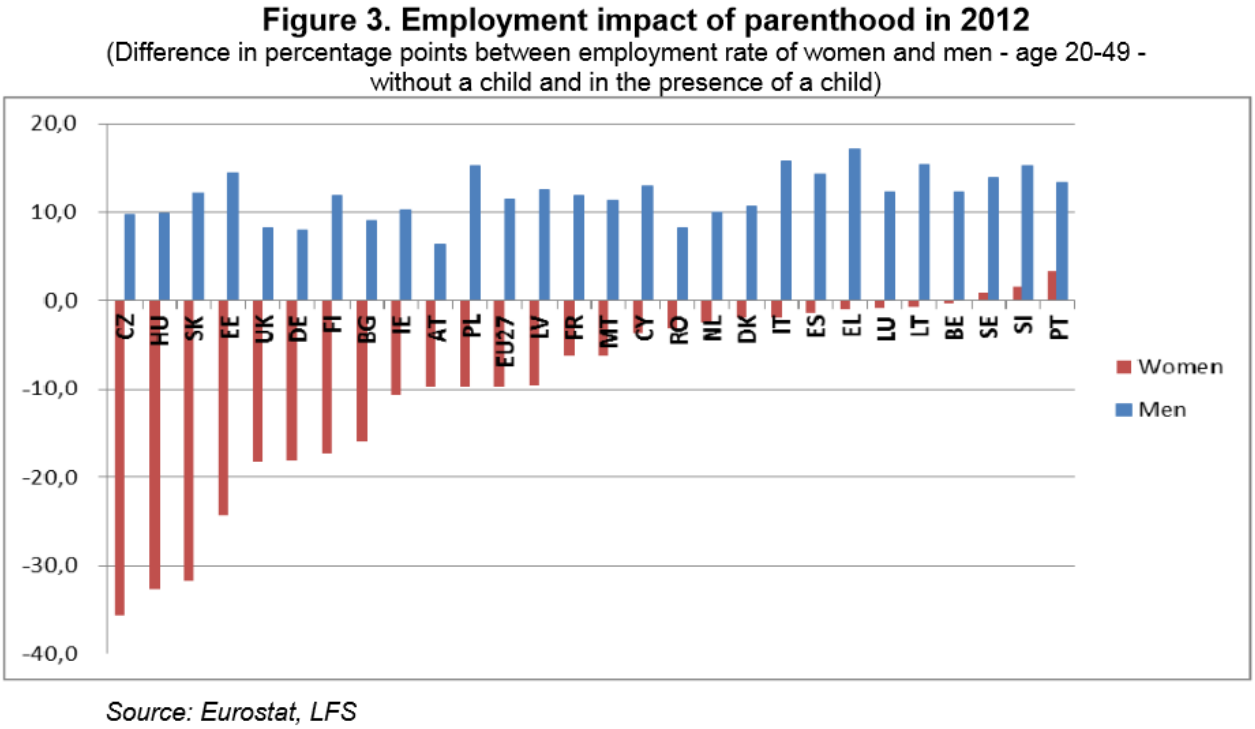
Figure 6: Proportion of vocational students enrolled in work-based training programmes



Source: Cedefop, based on data from Eurostat, UOE data collection on education systems
Date of extraction: 03/07/2012

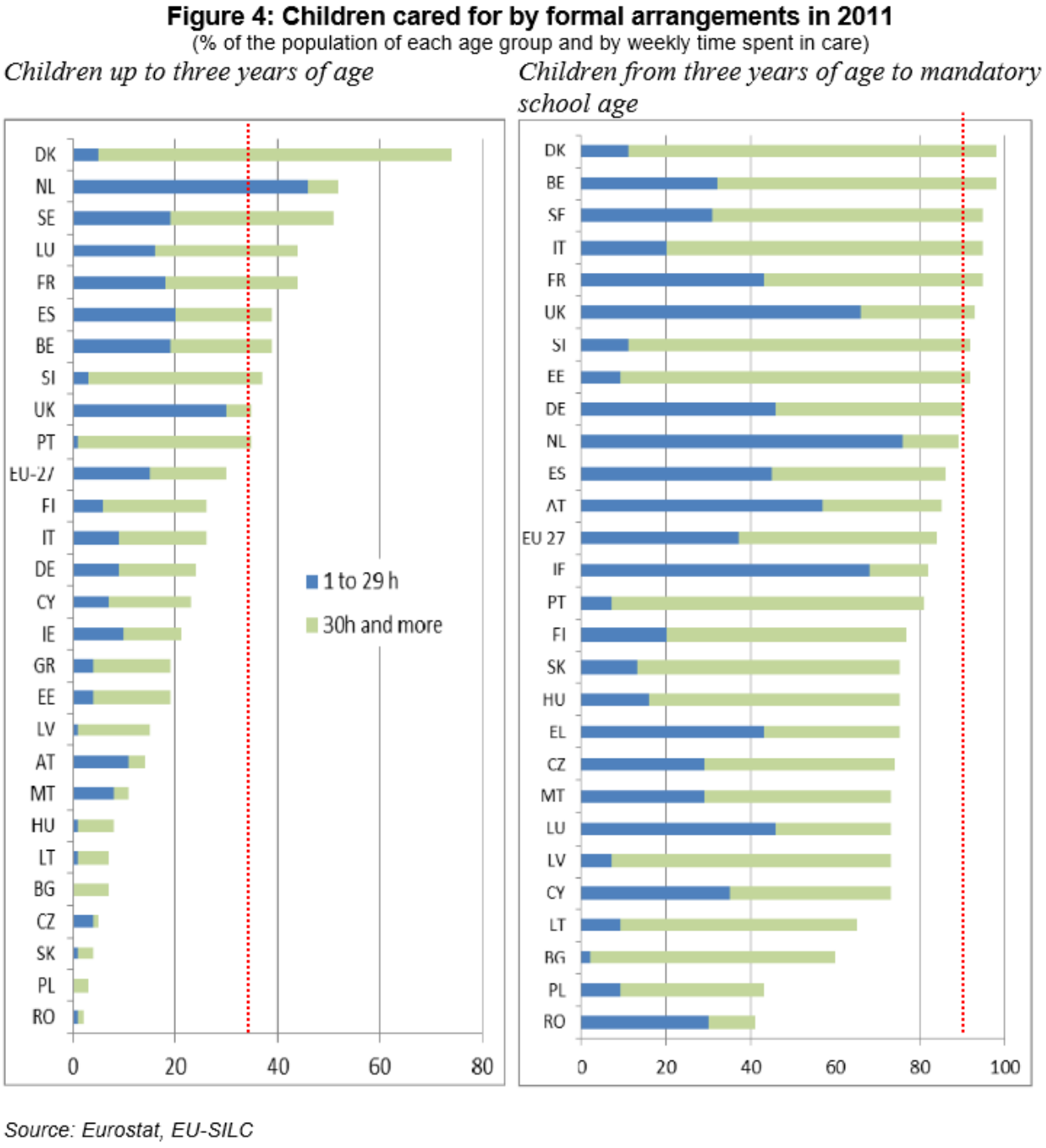
Source: European Commission, Quality of Education and Training, http://ec.europa.eu/europe2020/pdf/themes/30_quality_of_education_and_training_02.pdf

Figure 7: Employment rates of parents with and without children



Source: European Commission, Female Labour Market Participation, http://ec.europa.eu/europe2020/pdf/themes/31_labour_market_participation_of_women.pdf

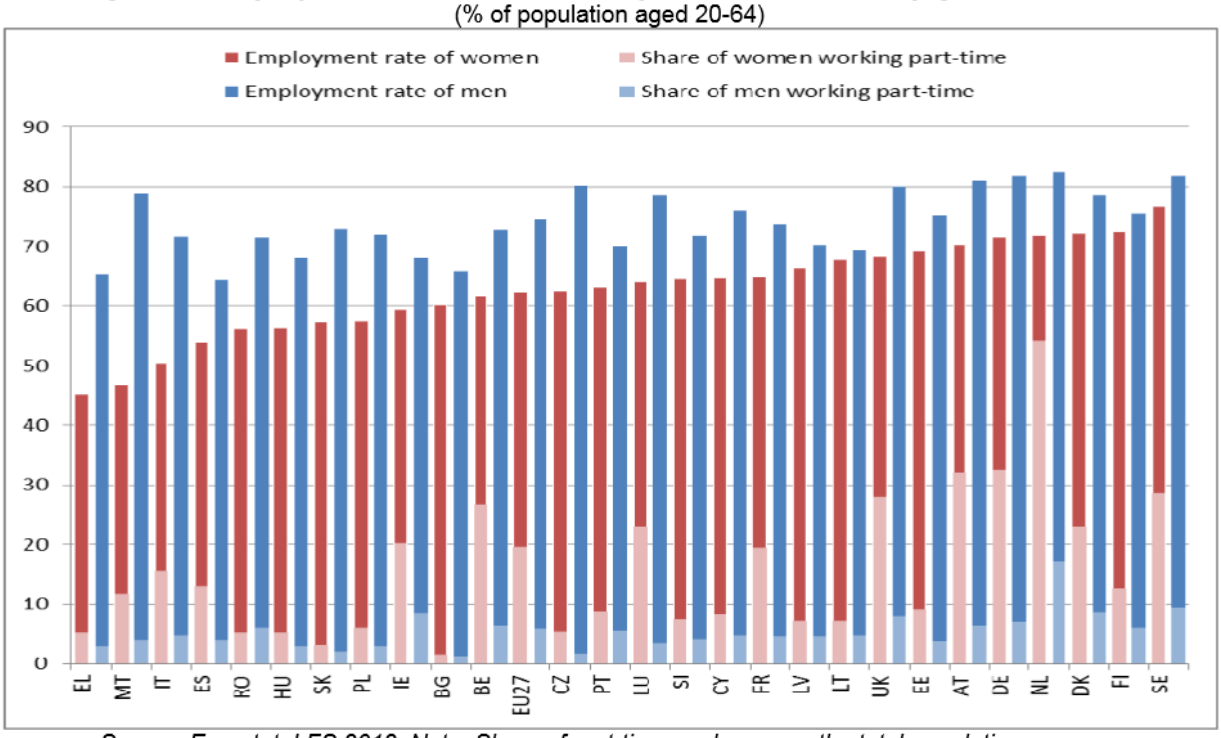
Figure 8: Formal care for preschool children



Source: European Commission, Female Labour Market Participation, http://ec.europa.eu/europe2020/pdf/themes/31_labour_market_participation_of_women.pdf

Figure 9: Employing on part-time contracts

Figure 9. Employment rate and share of part-time workers by gender in 2012
(% of population aged 20-64)



Source: Eurostat, LFS 2012. Note: Share of part-time workers over the total population.

Source: European Commission, Female Labour Market Participation, http://ec.europa.eu/europe2020/pdf/themes/31_labour_market_participation_of_women.pdf