

EU Enlargement and its Impact on the Social Policy and Labor Markets of Accession and Non-accession Countries

Slovak Republic Draft country study

Bratislava, May 2003

Study financed by Freedom House

Content

1. Background: macroeconomic picture and the stage of EU accession

2. Labor market

- 2.1 Current state: factors, problems and policies
- 2.2 The challenge of EU accession

3. Social policy

- 3.1 Current state: factors, problems and policies
- 3.2 The challenges of EU accession

4. Labor migration policy

- 4.1 Current state: push and pull factors, problems and policies
- 4.2 The challenge of EU accession

5. Final conclusions and recommendations

6. Statistical appendix

Authors¹: Martin Sirák, *Center for Economic Development, Slovak Governance
Institute*
 Luboš Vagač, *Center for Economic Development*

¹ Comments and suggestions to the draft are welcome at sirak@governance.sk and lubosv@cphr.sk.

1. Background: macroeconomic picture and the stage of EU accession

1.1 Macroeconomic overview

Since the political events of 1989-1990, Slovakia, similarly as other countries of Central and Eastern Europe, has been undergoing a unique change. The country and its economy is affected by at least three overlapping and, in many cases, intertwining developments: socio-economic transition, catching up and adjusting to the European Union, and the challenges of globalization. As a result, in most cases, it is rather difficult or impossible to separate the effects of EU integration from other components of the process. Most of the effects of preparing for EU membership can be attributed to those of transformation or globalization. They would have appeared, even if accession to the EU was not a priority task.

In the early 1990s, economic reform in Slovakia was launched rather aggressively, which enabled completion of its key components within several years. Macroeconomic results reached in the mid 1990s ranked Slovakia among the best performing transition economies. Unemployment oscillated around 11-13 percent. However, the impressive performance (GDP growth of 6.9% in 1995, inflation rate of 7.2%, and an active trade balance) could not be sustained over a longer period. Due to a variety of reasons, including political, the economic and social reforms were slowed down or even brought to a halt. Delays in the restructuring of the economy, postponement of bankruptcies, restrictions to competitiveness, increasing non-transparency and corruption in the privatization process, low inflow of foreign investment – all these aspects began to reflect in 1996 in the growing imbalance of the Slovak economy.

The end of the decade was therefore marked by attempts to stabilize the economy, to complete the principal reforms, and to start new, more demanding reforms (education, health care, pensions). In 1998, the exchange regime of the Slovak currency was changed from fixed to floating, which prevented further depletion of foreign exchange reserves. Price deregulation (mainly of energy, water, rent), tax increase, and the introduction of the import surcharge were the main components of the so-called “package of measures“ adopted in 1999. After several years of real wages growth, the “package“ caused a lowering of purchasing power in 1999. GDP growth remained moderate at around 2 percent and increased to 3.3% in 2001. The level of inflation measured by the consumer price index reflected the gradually adopted administrative and economic measures, mainly deregulation of prices and tax range changes (VAT and excise taxes) and increased to an average of 10.6% and 12% in 1999 and 2000, respectively. Inflation fell significantly to 7.3 percent in 2001 and 3.3% in 2002.

The aforementioned measures have helped to reduce the trade balance deficit. Increased inflow of FDI, particularly due to privatization of important utilities and banks to foreign partners, have reduced the balance of payments deficit to less than 4 percent of GDP in 2000. However, the year 2001 was marked by a repeated sharp increase in the trade balance deficit (10.7% of GDP). The dynamics of reforms were gradually slowed down by the growing political strains between the government coalition parties as well

as by the growing problems associated with the implementation of reforms. The launching of important reforms in the social sector was delayed and caused further growth of the internal debt of these sectors. Labor market distortions, above all high unemployment rates, became the most pressing socio-economics problem.

The Slovak economy grew at a promising rate of 3.1% and 4.4% during 2001 and 2002, respectively. Unemployment remained high at 18.5% in 2002 (19.2% in 2001). The current account deficit reached 8.2% of GDP in 2002. The high inflow of FDI (16.9% of GDP) had an important impact on the balance of payments. It was the privatization of a 49% stock of state owned Slovak Gas Company, which boosted the FDI statistics.

The State Budget closed the year 2002 with a deficit of 4.8% of GDP. Inflation was kept at a relatively low level of 3.3% mainly due to the postponed liberalization of energy prices; the postponement resulting from the upcoming September 2002 parliamentary elections. Inflation is hence expected to grow in 2003. Forecasts of key indicators for 2003 include: 3.5% GDP growth, inflation at 8.4%, unemployment rate 17.5% and current account deficit 7.4% as a share on GDP.²

1.2 Stage of the EU accession

The Slovak Republic started negotiations with the EU on February 15, 2000, i.e. two years later than its neighboring countries from the so-called Luxembourg group of 1st tier accession countries. In the course of the negotiation process, however, the Luxembourg and the Helsinki groups of accession countries tended to merge into the so-called Laeken group of accession countries. Along with other 10 candidate countries, the SR concluded accession negotiations at the European Council in Copenhagen (December 2002). Slovakia thereby made full use of the “catch-up“ principle, and confirmed the country’s readiness to join the EU in May 2004.

Accession negotiations were taking place in three phases – screening, negotiation process, and ratification process. Table 1 shows an overview of the negotiation process of the SR and the EU.

Table 1
The negotiation position of the Slovak Republic

Year	EU presidency	Opened chapters	Closed chapters
2000	Portugal	6. Competition policy 12. Statistics 16. Small and medium-sized entrepreneurship 17. Science and research 18. Education, vocational training and youth 20. Culture and audiovisual policy 26. External relations 27. Common foreign and security policy	12. Statistics 16. Small and medium-sized entrepreneurship 17. Science and research 18. Education, vocational training and youth 26. External relations 27. Common foreign and security policy

² Forecasts of the Ministry of Finance of the SR.

	France	3. Freedom to provide services 4. Free movement of capital 8. Fisheries 9. Transport policy 15. Industrial policy 19. Telecommunications and information technologies 23. Consumers and health protection 25. Customs union	8. Fisheries 15. Industrial policy 20. Culture and audiovisual policy 23. Consumers and health protection
2001	Sweden	1. Free movement of goods 2. Free movement of persons 5. Company law 7. Agriculture 10. Taxation 11. Economic and monetary union 13. Social policy and employment 14. Energy 21. Regional policy and coordination 22. Environment 24. Cooperation in the area of justice and home affairs 28. Financial control 29. Financial and budgetary provisions	1. Free movement of goods 2. Free movement of persons 3. Freedom to provide services 4. Free movement of capital 5. Company law 11. Economic and monetary union 13. Social policy and employment 19. Telecommunications and information technologies 25. Customs union
	Belgium		14. Energy 22. Environment 28. Financial
2002	Spain	30. Institutions	7. Agriculture/1st part 9. Transport policy 10. Taxation 24. Cooperation in the area of justice and home affairs 30. Institutions
	Denmark	31. Diverse	6. Competition policy 7. Agriculture/2nd part 21. Regional policy and coordination 29. Financial and budgetary provisions 31. Diverse
2003	Greece	<input type="checkbox"/> Accession Treaty (April 16, 2003) <input type="checkbox"/> Ratification process in EU Member States <input type="checkbox"/> Referendum on EU accession in the SR (May 16-17, 2003)	
	Italy	<input type="checkbox"/> Ratification process in EU Member States	
2004	Ireland	<input type="checkbox"/> Expected entry (May 1, 2004)	

Source: Ministry of Foreign Affairs of the SR.

The negotiated position of Slovakia in chapters 2 and 13 (Free Movement of Persons, Social Policy and Employment) and the implications for the social system, labor markets and mobility, will be discussed more detailed in the following sections of this study.

2. Labor market

2.1 Current state: factors, problems and policies

In recent years, the Slovak labor market has been dominated by relatively pronounced trends: growing numbers of economically active population, stagnating employment, and high and regionally differing unemployment rates. Table 2 illustrates the development of the main labor market parameters during the last five years.

Table 2

Development of labor market parameters, by regions (numbers in ,000 persons, rates in percent)

Region	Indicator	Year				
		1997	1998	1999	2000	2001
Bratislavský	Economically active population	325.1	331.1	335.8	337.2	337.4
	of which					
	Employed/self-employed	304.1	308.6	309.2	310.8	308.3
	Unemployed	18.5	20.0	24.6	24.4	28.2
	Economic activity rate	64.7	65.2	65.6	65.4	64.8
	Employment rate	60.5	60.8	60.4	60.3	59.2
	Unemployment rate	5.7	6.0	7.4	7.2	8.3
Trnavský	Economically active population	260.1	260.2	266.5	273.0	286.0
	of which					
	Employed/self-employed	230.0	226.3	229.8	225.0	232.4
	Unemployed	28.8	30.7	32.8	44.7	51.5
	Economic activity rate	59.7	59.1	59.9	60.9	63.2
	Employment rate	52.8	51.4	51.7	50.2	51.4
	Unemployment rate	11.1	11.8	12.3	16.4	18.0
Trenčiansky	Economically active population	285.9	297.9	288.4	294.1	296.7
	of which					
	Employed/self-employed	259.6	270.7	252.4	247.8	254.0
	Unemployed	25.4	23.0	32.9	44.2	39.8
	Economic activity rate	59.4	61.3	58.9	59.6	59.6
	Employment rate	53.9	55.7	51.5	50.2	51.0
	Unemployment rate	8.9	7.7	11.4	15.0	13.4
Nitriansky	Economically active population	332.7	329.3	328.2	335.3	343.1
	of which					
	Employed/self-employed	279.4	285.2	266.9	263.3	261.7
	Unemployed	50.6	39.9	58.3	69.8	79.4
	Economic activity rate	57.9	56.9	56.4	57.2	58.2
	Employment rate	48.6	49.3	45.8	44.9	44.4
	Unemployment rate	15.2	12.1	17.8	20.8	23.1
Žilinský	Economically active population	326.2	332.5	332.3	332.1	334.9
	of which					
	Employed/self-employed	294.7	292.9	275.1	266.7	267.6
	Unemployed	27.5	34.8	52.6	61.4	63.3
	Economic activity rate	61.6	62.1	61.5	60.9	60.8
	Employment rate	55.6	54.7	50.9	48.9	48.6
	Unemployment rate	8.4	10.5	15.9	18.5	18.9
Banskobystrický	Economically active population	307.7	308.3	313.8	317.4	327.6
	of which					
	Employed/self-employed	262.7	257.4	246.2	245.7	251.2
	Unemployed	42.8	48.2	66.3	69.6	73.4
	Economic activity rate	58.5	58.2	58.9	59.2	60.7
	Employment rate	49.9	48.6	46.2	45.8	46.5
	Unemployment rate	13.9	15.6	21.1	21.9	22.4
Prešovský	Economically active population	338.5	342.5	357.7	362.4	366.2
	of which					
	Employed/self-employed	284.6	282.4	285.9	278.4	279.7
	Unemployed	51.0	56.2	68.3	80.1	83.1
	Economic activity rate	58.7	58.6	60.5	60.5	60.4
	Employment rate	49.4	48.3	48.4	46.5	46.1

	Unemployment rate	15.1	16.4	19.1	22.1	22.7
Košický	Economically active population	346.0	343.1	350.5	356.7	360.6
	of which					
	Employed/self-employed	291.0	275.2	266.9	264.1	268.8
	Unemployed	53.0	64.3	81.0	91.2	89.3
	Economic activity rate	59.0	58.0	58.7	59.2	59.2
	Employment rate	49.7	46.5	44.6	43.8	44.1
	Unemployment rate	15.3	18.7	23.1	25.6	24.8

Source: Labor Force Survey. Statistical Office of the SR.

Unemployment emerged as a new phenomenon in the beginning of the 1990s. Within a one-year span (1991), unemployment grew from virtually 0 percent to roughly 12 percent due to massive layoffs in companies. Although there had been some signs of unemployment prior to 1990, the Slovak labor market was not prepared for the changes after 1990. New labor institutions had to be established and legislation had to be drafted. The growing fiscal burden associated with provision of unemployment benefits resulted in several restrictive amendments to eligibility criteria. However, the generosity of the unemployment benefit scheme and of the social welfare net remained among the main causes of the negative developments in the Slovak labor market.

Table 3

Most pressing problems to be solved from the viewpoint of citizens (% of positive answers)

Problem areas	1997	1998	2001
Unemployment	60	65	82
Health care	48	50	69
Standard of living	65	65	64
Crime and personal safety	62	66	46
Housing	29	29	26
Ethics, quality of interpersonal relations	43	36	24
EU and NATO integration	11	18	12
Environment	18	14	9
Ethnic and minority problems	6	7	5

Source: Public Opinion Research Institute of the Statistical Office of the Slovak Republic.

Policy responses to the unemployment issue did not show in any substantial changes that would bring the negative development to a halt or even reduce high unemployment rates. Unemployment became the most vulnerable point in the socio-economic development and the most pressing societal problem (as evidenced by numerous sociological surveys, see for instance Table 3). Unemployment rates surprisingly showed a long-term growth despite the slow, but still existing GDP growth. Unemployment grew steadily from 12.7 percent in 1996 to 18.8 percent in 2001. The number of registered unemployed – applicants for jobs registered with labor offices – reached an average of 520,642 individuals in 2001, as compared to 349,821 persons in 1995. The share of unemployed women varied slightly during the respective period, from 52.5% in 1996 to 45.3% in 2001. The comparison of male and female unemployment rates shows no significant gender-related deviations, however, the proportion of men among unemployed is moderately increasing. Women, on the other hand, prevail among the long-term unemployed.

Young people are among the most affected by unemployment. Youth unemployment rate for those aged 15-24 was almost double the average rate for all age groups at 37.3% in 2001. A growing concern is the increasing number of long-term unemployed: the

share of unemployed for more than 12 months reached 57.8 percent of all unemployed in December 2001, which is an increase by 5% as compared to 2000.³ A temporary decrease of the number of long-term unemployed was evidenced in the 2nd half of 2000 as a result of the introduction of 65,000 public works.

The Slovak labor market is marked by strong regional disparities which are most vivid in unemployment rates. The gaps between the levels of registered unemployment between individual districts grow steadily and ranged as much as 30 percent in throughout 2001, as compared to 25% in January 1997. Traditionally, unemployment rate is lowest in the districts of the capital city Bratislava (3.7%-6.2% as of December 2001), while it is the highest in the district of Rimavská Sobota (35.5%). Regions with higher proportion of educated labor force usually report lower unemployment rates.

Regional distribution of unemployment underlines the correlation between insufficient education and isolation from the labor market. Regions with higher proportions of labor force with completed elementary education only usually report higher numbers of unemployed registered with labor offices. Statistical figures suggest an ambivalent development in education: along with the growing tertiary enrolment ratio, also the number of primary schools leavers who do not continue in education is on the rise. Experts agree that there is a “hard core” of unemployed who are in fact unemployable with respect to their work-related skills and attitudes. Particularly in regions with low average wages, unemployment benefits and social assistance benefits tend to have disincentive effects on active job search of their recipients, particularly those with potentially low income. As a result, the benefit scheme is indirectly supporting the participation of the unemployed in the shadow economy. Disincentive effects in large families with low income are increased by child and parental allowances, since these cause the total income to climb up close to or even above the potential income from work.⁴

Due to the aforementioned handicaps, cumulated with other factors such as isolation and segregation, long-term and permanent unemployment is rather widespread among the Roma population. Although statistics do not record poverty indicators by ethnic division, it is assumed that particularly Roma in isolated colonies are among the groups with highest risk of poverty. Table 4 illustrates the high unemployment rates of the Roma compared to the other ethnic groups in Slovakia.

Table 4
Unemployment Rate by Ethnic Groups (age group 15-64 years, in percent)

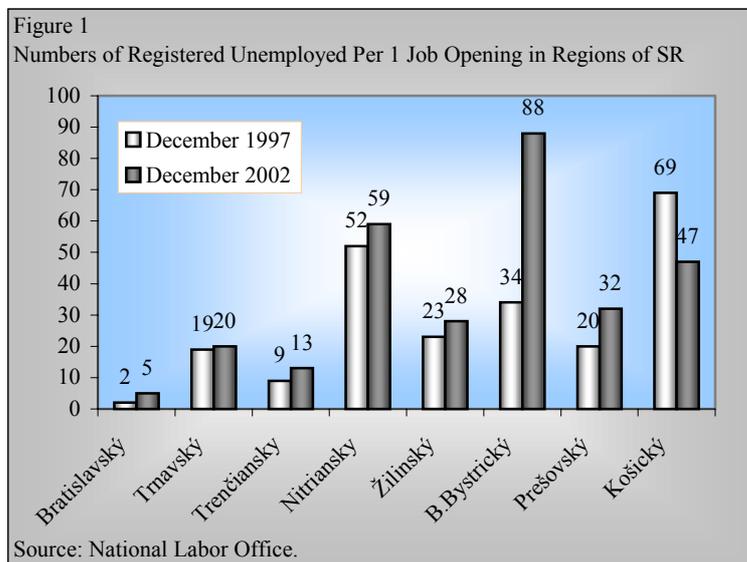
Indicators	1998	1999	2000	2001
<i>Total</i>	<i>12.5</i>	<i>16.2</i>	<i>18.6</i>	<i>19.2</i>
Slovak	10.9	14.9	17.5	17.9
Czech	7.6	11.5	13.3	23.9
Hungarian	18.1	22.4	25.5	27.1
German	11.4	-	-	-
Polish	2.0	5.5	23.9	19.9
Russian, Ukrainian, Ruthenian	15.1	21.6	22.0	17.6

³ Labor force surveys.

⁴ The new cabinet introduced a more stringent regulation of social benefits, including lowering the levels of social assistance benefits (effective since January 1, 2003).

Roma	83.2	77.5	73.5	72.6
Moravian	11.6	20.0	-	-
Other	8.1	17.5	2.4	16.5

Source: Labor Force Survey. Statistical Office of the SR.



Statistical figures suggest that there is a shortage of official jobs in Slovakia (see Figure 1). In an economy with low generation of job opportunities, the demographic growth of the productive population component will show as growth of unemployment. The demographic development itself, however, cannot be considered the reason for high unemployment. Similar demographic trends namely prevail in a majority of developed countries whose economies, however, are able to cope with this development in the labor market. Unemployment (and thus also shortage of jobs) is a consequence of a whole complex of problems. Most experts agree that the major reasons include:

- ❑ inefficient social protection system (relatively generous and not overly motivating, with significant redistribution of sources and solidarity, with prevailingly passive measures);
- ❑ insufficient education of a portion of the labor force and weak linkage between education and labor market;
- ❑ barriers on the part of the business environment (rigid labor law, instable legislation, low law enforcement, high tax and mainly payroll burden);
- ❑ low mobility of labor and inflexible housing market;
- ❑ other (e.g., passivity, tolerance of shadow activities)

As large portion of the labor force shifted towards unemployment, the number of employed decreased by 4.6% in the period 1996-2001. Women accounted for 44.5% on total employment in 1996, while their share increased by 1.5 points to 46.0% in 2001. Employment gradually decreased in the public sector (by 23.6%); the private sector recorded an increase by 12.6% during the surveyed period.

The sectoral structure of employment is undergoing changes, of which the reduction of employed in agriculture and manufacturing industry and the growth of employment in the service sector are among the most significant.

The numbers of economically active individuals kept growing in Slovakia due to the growing proportion of productive age population. Economic activity rates of the population have stabilized at 60 percent.⁵ For all Slovak citizens aged 15 and above, 6 in 10 are economically active. Male economic activity rate is approximately 16 percent higher than the rate of the female population.

Unemployment remains evidently the weakest point of the socio-economic development in Slovakia and the most sensitive social problem. Except for rather occasional cases connected with bankruptcies of enterprises and massive layoffs of employees, high unemployment rates are however no reason for serious social unrest to develop in the country. It may be assumed that high incidence of shadow labor is one of the reasons.⁶ Domestic estimates of the extent of shadow labor rather differ (ranging from one-tenth up to one-third of the registered unemployed); a foreign source may offer a detached view. Rather surprisingly, Table 5 suggests that the size of shadow (gray) labor and economy in Slovakia is among the lowest ones in Central and Eastern European countries.

Table 5
The Size of Shadow Economy in Transition Countries

Country	Size of shadow economy (% of GDP), DYMIMIC method		Shadow economy labor force (% of working age population, 1998/1999) ^a
	Average for 1990-1993	Average for 2000-2001	
Bulgaria	27.1	36.4	30.4
Czech Republic	13.1	18.4	12.6
Estonia	34.3	39.1	33.4
Hungary	22.3	24.4	20.9
Latvia	25.7	39.6	29.6
Lithuania	26.0	29.4	20.3
Poland	22.3	27.4	20.9
Romania	27.3	33.4	24.3
<i>Slovakia</i>	<i>15.1</i>	<i>18.3</i>	<i>16.3</i>
Slovenia	22.9	26.7	21.6

Note: a. Working age population means population between the age of 16 and 65.

Source: Schneider, F.: *The size and development of the shadow economies of the 22 Transition and 21 OECD countries.* Bonn: IZA, (2002) in: *Study on the Social Protection Systems in the 13 Applicant Countries. Synthesis report, Second draft.* GVG, Köln (2002).

⁵ Economic activity rate represents the share of economically active population (employed including women on maternity leave, and registered unemployed) on total population in productive and post-productive age.

⁶ Shadow labor also distorts data on the numbers of the population living in poverty or being at risk of poverty. It substitutes official earnings from employment, however to the detriment of all who work and pay taxes and social security contributions.

2.2 Policies in the field of labor market

The main strategic policy document on employment is the National Employment Plan (approved in November 1999, actualized regularly). It follows the four-pillar structure of the European Employment Strategy, while taking account of the specific conditions of the Slovak labor market⁷. The four pillars include concrete measures aimed at improvement of employability mainly through education and training, development of small and medium entrepreneurship in co-operation with local authorities, support of flexibility of enterprises and promotion of equal opportunities between men and women.

The government of the Slovak Republic has prepared in co-operation with the European Commission a Joint Assessment of Employment Priorities in the Slovak Republic. This document presents a set of employment and labor market measures necessary to advance the labor market transformation, to make progress in adapting the employment system so as to be able to implement the Employment Strategy and to prepare it for EU accession.

2.2.1 Active labor market policies

The labor market policies in Slovakia traditionally include the passive component (payments of unemployment benefits and social insurance contributions) and the programs of active labor market policy (ALMP). As the result of the increasing numbers of unemployed and a generous provision of unemployment benefits, ALMP programs were reduced dramatically towards the end of the 1990s. Table 6 shows that since 2000 a redirection of measures in favor of active programs (mainly public works and retraining) and a tightening of benefit schemes occurred.

Table 6

Proportion of GDP spending on labor market policies (in SKK billion at current prices)

Year	GDP	Labor market policies	% of GDP	PLMP	% of GDP	ALMP	% of GDP
1997	686.10	7.089	1.03	3.990	0.58	3.099	0.45
1998	750.80	7.774	1.04	5.485	0.73	2.289	0.31
1999	815.30	7.776	0.95	7.292	0.90	0.474	0.06
2000	887.20	7.753	0.88	6.182	0.70	1.571	0.18
2001	964.60	7.024	0.73	4.789	0.50	2.235	0.23

Note: PLMP – Passive labor market policy. ALMP – Active labor market policy. Source: National Labor Office, in: Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001, Ministry of Labor, Social Affairs and Family of the SR

Counseling services are the prevailing form of preventive approach of public employment services (PES) to the unemployed. Counseling services have been delivered mainly to individuals aged up to 29, though not limited to them, mainly through professional career advice, individual consultancy, and counseling programs. Although several steps have been implemented to increase the quality of services at labor offices (e.g., prolonged opening hours), the high ratio of unemployed per competent PES staff negatively affected the rate of availability of employment services for unemployed. There were 103 registered unemployed persons per 1 PES staff

⁷ Source: Joint Assessment of Employment Priorities in the Slovak Republic (2001).

member in 2001, and an average of 268 registered unemployed were assigned per 1 first-contact staff. (Report on the Implementation..., 2002)

The most accentuated ALMP program aimed at increasing opportunities for unemployed and socially excluded is the creation of public beneficial jobs, i.e. public works. Insufficient job creation, growing long-term unemployment, and existence of the core of unemployed, resistant to applied general ALMP tools and highly dependent social benefits, induced the setting up of a special program financed through the state budget in 2000 – the so-called "Negotiated public beneficial jobs for long-term unemployed". The main objective of the program was to decrease the extent of long-term unemployment, but also to prevent devaluation of working capital represented by unemployed, to test their interest and willingness to work, and to offer them a possibility of finding stable employment through continuity of the job after expiration of employment benefit.

In 2001, 38,446 public works were created for 40,509 registered unemployed (65% men and 35% women) and 9,854 public works were prolonged from the year 2000. More than three quarters of these jobs have been created in the four regions with highest unemployment rates (Kosice, Banska Bystrica, Presov, and Nitra). The rate of return of the program participants to unemployment/employment is not monitored at present. However, the empirical knowledge indicates that the return rate to unemployment in case of public works is very high, achieving 95% to 100% (Report on the Implementation..., 2002).

Young people, belonging to the groups most affected by unemployment, can use the "Short-term program supporting the employment of young people" to address their problems in the labor market. The program has focused on improving young people's chances for employment through counseling, reskilling and job brokering activities of public employment services. In 2001, 14,773 registered unemployed aged 15-29 (55% males and 45% females) have been involved in the program, which represented 6.7% of the average number of registered unemployed in the age bracket towards the end of 2001. More than one quarter (26.1%) of the total number of participants has found paid jobs after the program completion.

Among other traditional ALMP tools, re-training is the most important and perhaps also the most efficient. A total of 24,558 registered unemployed have entered retraining programs in the year 2001, which is a fivefold increase compared to 2000. 18,504 registered unemployed completed the training, of which 41.4% were men and 58.6% were women. The programs were aimed primarily at the disadvantaged segment, thus young people in the 15-29 age bracket (52.4%), persons with low education (39%) and the long-term unemployed (40.2%) were prevailing in the structure of re-training participants. The success rate of retraining programs in the year 2001, measured by placement of participants in the labor market within 6 months of participation, was 37.1 percent. (Report on the Implementation..., 2002)

The support for employment of persons with altered work capacity has been implemented primarily through creating and maintaining jobs in sheltered workshops and sheltered workplaces. A total of 1,359 jobs have been created in the year 2001 for persons with disabilities, which is by 569 jobs more than in the previous year.

Table 6
Overview of labor market policy expenditures

Labor market policy	1998		1999		2000		2001	
	SKK thous.	%	SKK thous.	%	SKK thous.	%	SKK thous.	%
Total expenditures	7,773,826	100.0	7,766,302	100.0	7,752,873	100.0	7,024,121	100.0
<i>Passive LMP</i>	<i>5,484,686</i>	<i>70.6</i>	<i>7 292 270</i>	<i>93.9</i>	<i>6 182 429</i>	<i>79.7</i>	<i>4 789 198</i>	<i>68.2</i>
- unempl. benefits	3,927,123	71.6	5,338,155	73.2	4,412,902	71.4	3,450,004	72.0
<i>Active LMP</i>	<i>2,289,140</i>	<i>29.5</i>	<i>474,032</i>	<i>6.1</i>	<i>1,570,444</i>	<i>20.3</i>	<i>2,234,923</i>	<i>31.8</i>
- retraining	166,955	7.3	73,658	15.5	62,059	4.0	196,840	8.8
- support for new jobs	1,996,583	87.2	296,580	62.6	1,356,458	86.4	1,737,386	77.7
- support for long-term unemployed	-	-	-	-	1,201,391	88.6	1,390,473	80.0
- disabled persons	125,602	5.5	103,794	21.9	151,927	9.7	229,913	10.3
Collected contributions	8,030,103	-	7,936,818	-	8,446,088	-	8,965,867	-

Source: National Labor Office, in: Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001, Ministry of Labor, Social Affairs and Family of the SR

The Ministry of Labor, Social Affairs and Family is in the process of drafting a new *Strategy of promoting employment through the reform of the social system and the labor market*. The main principles of the strategy will consist of:

- lowering of disincentive effects caused by the tax and payroll burden;
- strengthening the motivation of the individual to find and maintain a job;
- supporting economic and social activity of the individual;
- more flexibility of the labor market;
- more effective state administration and services in areas of labor market and social affairs;
- reducing the misuse of the social system.

2.2.2 Passive labor market policies

Passive labor market policies include payments of unemployment benefits and social insurance contributions on behalf of the registered unemployed. Data on the respective policies are listed in tables 6 and 7.

2.3 Challenges of EU accession regarding labor market flexibility

The effects of EU accession on the social system, similarly as on the country as a whole, are difficult to separate from the effects of transformation and from other components of development. This becomes obvious already in the preparatory stage for EU membership.

EU accession is expected to bring further opening of the Slovak economy towards the members, while it may raise protection against third countries. Domestic markets will become a part of the common market and will thus react to the new supply-demand conditions. Slovak enterprises will be facing tougher competition, including competition from other accession countries, which in turn will require further structural changes. The regional disparities in Slovakia will be addressed by structural support from EU.

Basically, the opportunities for acquiring education and jobs are expected to improve for Slovak citizens. Free movement of labor may cause a certain portion of the population to migrate to the more advanced economies, however, surveys suggest a relatively low number of those who would permanently settle abroad (see chapter 4).

The Slovak society will be facing another important event in its short history. Integration into the group of developed countries will further shape the stratification of the society. It may be expected that inequality in the population will grow. The social framework will become largely dependent on the common legislation, which will create pressure on further adjustment of institutions and policies. As a part of the global economy, however, the EU will not remain isolated and will have to implement reforms covering also the social sphere.

Employment and/or labor market policies in general, constituted an important part of the negotiation agenda. The *Chapter 13 on Social Policy and Employment* was provisionally closed during the first half of 2001. The EU points out that the employment situation and the employment policies of the Member States are an issue of common concern, as defined in Title VIII of the EC Treaty. The EU attaches great importance to the labor market situation in Slovakia, and public policy in this area, and will monitor further developments in Slovakia. Monitoring will focus, in particular, on progress in implementing the policy priorities identified in the Joint Assessment of Employment Policy Priorities (JAP).

The employment-related acquis, however, does not have a binding character. Among its key objectives, the Slovak Republic has assumed the responsibility for attaining and maintaining high and stable employment, aiming at full employment as its ultimate goal. Article 35 para. 3 of the Constitution of the Slovak Republic lays down the right to work. The State guarantees, within reasonable limits, the material welfare of those who cannot enjoy this right through no fault of their own. The terms thereof are specified under the Act on Employment No. 387/1996 Coll. as amended.

The 2002 EC Regular Report on Slovakia's Progress Towards Accession states "In the field of social policy and employment, Slovakia is advanced in terms of legislative alignment. Administrative structures are mostly in place, but require further strengthening. There is a particular need to co-ordinate the supervision and enforcement of the transposed health and safety acquis. Administrative preparations for the future management of the European Social Fund need to be reinforced."

The Progress Report further appreciates the progress achieved by adopting a new Labor Code in April 2002. However, the Labor Code was subject to criticism by a large part of the domestic expert community. Subject to negative assessment was mainly the rigidity of the law, negatively affecting the flexibility of employment relations, working time regulation, and collective relations. The new government has therefore prepared an amendment to the law, which shall address the shortcomings in line with ILO standards and EC directives.

A progress report on the implementation of the priorities identified in the JAP was submitted to the Commission by Slovakia in June 2002. This report represents an important step in assessing the extent to which Slovakia is progressing towards its

objectives of labor market reform and adaptation of its employment system in order to prepare for future participation in the European Employment Strategy after accession.

The main challenges for the Slovak labor market, which apply also to accession, include:

- addressing high unemployment;
- adjusting the overall social protection system to the economic, social and demographic developments;
- fighting shadow labor and illegal employment by addressing its causes rather than consequences;
- creating more effective linkages between labor markets and education system;
- carefully designed decentralization of employment policies;
- improvement of business environment (reduction of payroll burden, tax reform, etc.)
- refining of labor legislation
- others (addressing employment-related problems of marginalized groups, the "Roma" issue)

3. Social policy

3.1 Current state: factors, problems and policies

The Slovak social protection system⁸ is based on three pillars:

- Social insurance
- State social benefits
- Social assistance.

3.1.1 Social insurance

Social insurance consist of

- *Sickness insurance*, which consists of a system of benefits of short-term nature that are funded continuously from the insurance premium. Individual types of benefits compensate persons for lost income due to sickness, maternity, and partially for increased costs due to the care of dependent children.
- The fundamental condition enabling persons to claim and receive sickness benefits is the participation of the citizen in the sickness insurance system, or maintenance of claims for a specified period of time based on the duration of the protection period, or the receipt of financial benefits supplementing wages, salaries or compensation for work. A special group of recipients includes persons who, although not participating in the sickness insurance system, are qualified to claim sickness benefits directly by law; such qualification primarily applies to registered unemployed and persons on alternate (civil) military service duties.
- *Pension security* which is composed of a system of benefits of long-term nature funded in the same way as sickness insurance; qualification criteria for awarding any pension security benefits are similar to the sickness insurance criteria;

⁸ In this chapter, social protection is understood in the narrower sense. Not included is health care, labor market policy, education, and housing.

- Voluntary *Supplementary pension insurance* tied to pension insurance and regulated by the state; this is funded from contributions remitted to the individual accounts of insured persons by employers and employees;
- Indemnification for *work injuries and occupational diseases* is based on the employers' obligatory liability insurance. Since 1 April 2002, it has been transferred from the commercial Slovak Insurance Co. Inc., and currently is ensured by the Social Insurance Agency.

3.1.2 Social assistance and state social benefits (social support)

State Social Benefits are direct financial contributions by the state to aid in overcoming an undesirable fall in the population's standards of living due to the occurrence or lasting of certain events in the lives of families (dependent children) and citizens.

The term **Social assistance** (SA) expresses the approach of the state to the citizen in need, where the role of the state is only to assist the citizen in overcoming his/her crisis situation and it is expected that the citizen will actively seek out his/her own solutions. Hence, the granting of SA is conditioned by the state of material and social distress an individual is incapable of coping with by himself/herself or with the help of his/her family.

The Act on social assistance stipulates the types of benefits. The benefits include: social counseling, legal protection, social services, social assistance benefit, and monetary benefits to offset the social consequences of severe disabilities. These benefits are based on the minimum subsistence level. Eligibility determinations for SA are made at district state administration offices but financial support for associated cash benefits and services is provided through the state budget.

Slovak social protection provides a broad scope of cash benefits and support services to many individuals and families through its programs. The largest share of these payments is made by the Social Insurance Agency (SIA), which administers two payroll tax-supported trust funds: the pension fund and the sickness fund. Recently SIA has inherited also the administration of accident insurance. The pension fund makes payments to old age, survivor and invalidity (permanent disability) beneficiaries while the sickness fund provides payments for short-term illnesses and maternity leave. The SIA also administers the state social benefits, but for this purpose receives a special budget from the MOLSAF.

The National Labor Office (NLO), a second self-governing body within MOLSAF, administers labor market programs in Slovakia. Its responsibilities include job matching, payment of unemployment insurance benefits and the oversight of active labor market programs such as training and public works.

District state administration offices (established under the umbrella of Ministry of Interior) administer and decide on awarding of social assistance benefits. These offices also oversee services to the severely handicapped and long-term care for persons residing in institutions and at home. Financial support for associated cash benefits and services is provided through the state budget.

Ministry of Labor, Social Affairs and Family SR acts as an umbrella institution with competencies in the field of employment, labor market and all other social protection programs. The ministry is primarily responsible for policy making process, however it also carries out controlling, consultative and advisory activities. Ministry representatives are members of the administrative board both of SIA and NLO.

Social insurance programs are financed mainly through payroll taxes; and benefits are linked to the individual's wage history, hence to contributions. The combined payroll tax rate to finance these programs plus health insurance is 50.8 percent, one of the highest in OECD.⁹ High payroll tax rate poses a heavy tax on labor and is a serious barrier to growth, particularly employment growth. High contribution rates are a burden placed mainly on employers with direct impact on economic performance and financial solvency, job creation, and payment discipline.

Social welfare programs (state social benefits and social assistance) are financed by general tax revenue. Eligibility and level of benefits are linked to the subsistence minimum and fixed levels set forth by legislation.

The Slovak social protection system is considered as extensive. The scopes of social programs as well as their coverage are broad. Like other safety nets, the role of the Slovak system is twofold. It provides income for those who are not employed and whose income falls below the "poverty" level, and it aims to stimulate these individuals to find a job and obtain their own means of subsistence. The safety net has been effective in achieving the first goal. Poverty in Slovakia would be significantly higher if its social assistance/support and unemployment insurance programs were to disappear. However, such a generous social safety net can also have negative effects. It can reduce incentives of workers and individuals to actively look for a job and pull themselves out of poverty. (World Bank, 2001)

Table 7 shows the trends in spending on the main social protection programs.

Table 7
Public expenditure on social protection

SKK billion	1995	1996	1997	1998	1999	2000	2001
Pensions ^{a,b}	41.9	47.65	53.28	59.20	64.01	70.33	75.74
Sickness and Maternity ^c	5.7	7.4	8.1	9.0	9.5	9.1	8.9
Unemployment Insurance ^{a,d}	6.1	7.5	8.2	8.9	9.0	9.1	8.5
Social Welfare ^e	22.7	23.6	25.5	28.9	32.5	34.6	36.2
Total (SKK billion)	76.4	86.1	95.1	106.0	115.0	123.2	129.1
% of GDP							
Pensions ^{a,b}	7.36	7.58	7.52	7.64	7.66	7.74	7.66
Sickness and Maternity ^c	1.00	1.17	1.15	1.16	1.14	1.01	0.90
Unemployment Insurance ^{a,d}	1.07	1.19	1.15	1.15	1.07	1.00	0.86
Social Welfare ^e	3.99	3.75	3.60	3.73	3.89	3.81	3.66

⁹ The payroll tax rates for the various social insurance programs are: pensions (28 percent), sickness (4.8 percent), unemployment (4 percent), and health (14 percent). The average rate for EU countries is 37 percent of which 23 percent is for pensions. Source: World Bank (2002).

Total (percent of GDP)	13.44	13.69	13.42	13.67	13.76	13.55	13.07
-------------------------------	--------------	--------------	--------------	--------------	--------------	--------------	--------------

Note: a. Includes administrative expenses after 1995. b. Also includes administrative expenses of sickness benefits after 1995. c. Mainly covers sick leave and maternity leave. d. Includes benefits payable by NLO under Unemployment Insurance, including transfers to SIA and Health Insurance Companies. e. Includes Social Assistance, Social Care, and State Social Benefits

Source: SIA, NLO, MOLSAF and MoF. In: World Bank (2002)

The pension system in Slovakia is facing a gradually deepening financial imbalance. The level of collected insurance premium is perceived as high by the contributors, however, even the high payroll tax burden is not sufficient to fill the fund for old age pensions and related benefits. Moreover, pensions are relatively low and their real value compared to the average wage is decreasing.

The basic pension system is financed through the PAYG scheme and administered by the Social Insurance Agency (SIA) in the form of the Basic Pension Fund. Sources of financing are generated by collected insurance premium (payroll taxes) from employees, employers, self-employed and their co-workers. Employees and employers contribute jointly 28 percent of the gross nominal wage (6.4% and 21.6%, respectively). Self-employed persons pay the same percentage (28%) from the half of their tax base. Economically inactive persons are covered by contributions of the State (university students, soldiers in compulsory military service, women/men on maternity leave, persons taking care of handicapped, etc.) and the National Labor Office (unemployed); contributions on behalf of inactive and unemployed are set annually by the State Budget Act. The flat rate of contributions by the State remains at a significantly lower level than that of the economically active.

The growing deficit of the pension system is caused by several interrelating factors, including:

- ❑ insufficient collection of insurance premium;
- ❑ high tax and especially payroll burden for employees and employers;
- ❑ high unemployment rate;
- ❑ demographic trends, mainly aging of the population.

The system of social protection in the Slovak Republic faces several challenges. Collection of social insurance contributions is on the decrease, State fails to fulfil its legal obligations on behalf of a growing number of economically inactive, the number of beneficiaries and pensions grows beyond the economic potential of the economically active. The result is a growing burden on public finances and a collapsing social system.

The solution of the accumulated problems requires a conceptual change. This change lies in a consensus between and within generations. An optimal balance between social (and intergenerational) solidarity and individual participation is the key element of the reform. Such agreement should lead to more fairness and adequacy of the social system. Strengthening the link between contributions and benefits does not necessarily weaken solidarity. The redistributive element in the scheme shall guarantee assistance to those in real need.

A new approach to social protection is inevitable, especially for the reasons specified below:

- The current system does not respond to demographic, economic and social developments. It is costly, demotivating, and inequitable. Hence, there is a need for a diversified system of multi-source funding. The current system, and especially the pension system, will become insolvent in coming years and incapable of ensuring entitlements enshrined in law.
- The social system is dominated by passive measures. In general, policy responses are more focused on redistribution of sources rather than their generation.
- The current system is discriminatory, because for the same insurance premium different benefits and allowances are granted to different categories of citizens. There is no adequate relation between contributions and benefits, and taxation is mixed with obligatory insurance, which conceals the high tax burden in the Slovak Republic.

3.1.3 Social dialogue

Social dialogue in Slovakia is presented in various institutional forms and levels. The tripartite dialogue is represented by the Confederation of Trade Unions of the Slovak Republic (KOZ SR), Association of Employer Unions and Syndicates of the Slovak Republic (AZZZ SR), and the governmental Council of Economic and Social Agreement of the Slovak Republic (RHSD). Social dialogue deals mainly with pressing economic, social, labor and wage conditions. Labor legislation (particularly Labor Code), minimum wage adjustment and social situation were the main areas of social dialogue during 1997-2002.

The relationship between employers, employees and the State has undergone changes in the past decade, which were largely determined by the current political environment. Social dialogue was virtually inactive during the 1996-1998 due to general discrepancies between the trade unions and the government. The period 1999-2002 was characterized by attempts to restore and stabilize the dialogue. Tripartite members were ready to make concessions in light of the necessary reforms of the economy. The setup of the current government and its pro-reform oriented policy increases the activity of trade unions to act as a social counterweight in an environment of a missing constructive left-wing political representation. However, activities of social partners, particularly of trade unions, sometimes lack a rational and systemic approach (e.g., amendment of Labor Code).

It is to be expected that the role of the social dialogue will further developed to a fruitful exchange of views between and among social partners and contribute to the solution of pressing social and economic issues.

3.2 The challenges of EU accession regarding social policy

The Slovak social protection system faces challenges, which are of highest priority even if there was no EU accession agenda. However, integration into the structures of the European Union, impacts upon the reform scenario:

- by facilitating labor mobility and hence transferability of social systems;
- by defining the framework of open method of coordination;

- by granting participation in the shaping of common social policies;
- by offering access to structural funds.

Despite the considerable diversity within the European Union, Member States face common challenges with regard to pension systems. They also share common objectives and are committed to a number of principles, amongst which are equity and social cohesion which characterize the European social model.

The modernization of pension systems in the EU is made urgent mainly by demographic aging and its impact on the old age dependency ratio. Although the reform of pension systems remains the responsibility of the Member States, co-operation at EU level has intensified – in particular through the Social Protection Committee – and has benefited from the work undertaken by the Economic Policy Committee and its analysis of the projected budgetary impact of aging.¹⁰

The common objectives for sustainable pension systems stress the need to maintain adequate pension provision and solidarity in pension systems, to secure financial sustainability through a high level of employment, sound management of public finances and appropriate pension reforms, and to modernize pension systems to reflect changing needs of society and individuals.

The old age dependency ratio in most developed economies will be substantially higher in the future. In many Member States, funded pension provision will be expected to play a greater role.

The mobility of workers and citizens in general will strongly depend on the portability of the social security and pension schemes. This is an important incentive for the Slovak pension reform. One of the key features of the reforming pension system in Slovakia should be therefore its compatibility with Member States' schemes. Slovakia should further invest in forecasting of future trends, which should improve the predictability of developments in the pension system and assist pension scheme participants in decisions. Slovakia may also face competition from other pension systems: if there are strong financial incentives built into the various retirement income systems, these could induce people to move to other countries.

Development of the administrative structures for management of the European Social Fund (ESF) has been seriously delayed. The relationship between the ESF Management Department at the Ministry of Labor, Social Affairs and Family and the intermediary bodies within the National Labor Office and the Education Ministry and their regional units should be clarified as soon as possible. Further development of training systems in this area also remains of utmost importance. It is also important that the content of future ESF interventions is embedded in the European Employment Strategy and the fight against social exclusion.

A national integrated strategy on promoting social inclusion, taking into account the EU

¹⁰ The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions (2000)

objectives, needs to be developed. As poverty and social exclusion are multi-dimensional by nature, it is important to promote an integrated approach mobilizing various governmental bodies and all relevant stakeholders in the process. It is also crucial to improve and develop social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion.

4. Migration policy

4.1 Push and pull factors, migration processes and policies

Low wage levels in the post-socialist countries is one of the most important factors attracting investment from labor intensive industries thus threatening jobs and wage levels in the West. At a time of high and persistent unemployment in the EU, the economic integration with the CEECs adds to the frictions in the labor market and in the social welfare systems. These frictions are intensified by CEE workers searching for higher paid jobs in some of the EU countries. Labor market consequences (e.g. loss of employment in some sectors/regions) and the corresponding fears in the population have led to restrictive migration and labor market policies in some European countries.

However, as already stressed by an influential OECD report, such policies are short-sighted, because they do not take account of the complex interdependent relationships between employment, trade and foreign direct investment (FDI): 'International co-operation to control flows is only a partial response to the intensification of migration movements. It is for this reason that the idea of sustainable development as a means of eventually reducing the incentive to migrate in countries with high emigration potential is gaining ground among OECD countries.' (OECD, 1995: 52)

Based on available migration statistics, and backed by a synthesis of past empirical studies we aim to provide a background for a labor migration policy debate in Slovakia, following its accession to the European Union.

East-West migration and Slovakia

According to the widely cited report by the European Integration Consortium (Boeri and Bruecker, 2000), in the first years after complete freedom of movement was established, around 335,000 Central Europeans are estimated to move west-wards each year. Over the course of a decade some 2.9 million people would move - of whom roughly 65% would end up in Germany, 12% in Austria. Within 30 years around 2.5% of the population of Germany would be of Central European origin. However, according to the same study, after 30 years return migration will be higher than immigration, so that the net migration reaches negative values.

To compare the East-West migration potential in Slovakia, Bulgaria and Estonia, we rely on estimations by Boeri and Bruecker (2000),¹¹ which are tabulated below. For example, according to their baseline projection, the number of Slovak residents in

¹¹ see the study for the methodological assumptions for the projections

Germany is estimated to be around 41 thousand in 2005, and about 70 thousand in 2010, if free movement of labor is introduced for all ten candidate countries (CEEC10) in 2002. The comparison of the actual (not reported here) and projected figures for the Slovak labor migration to Germany at the end of 2002 - 11,832¹² compared to 16,532 - suggests, first, that there are still important barriers to a genuine freedom of movement at the dawn of the Eastern enlargement of the EU, and, second, the Slovak migration will hardly pose any major challenge to the enlarged EU labor market.

Table 8
Number of residents from Bulgaria, Estonia and Slovakia in Germany
(baseline projection)*

	Start Value	2002	2003	2005	2010	2015	2020	2030
Bulgaria	38,847	61,659	82,251	117,526	178,472	212,235	228,967	235,022
Estonia	2,509	6,500	10,114	16,339	27,269	33,562	36,933	38,915
Slovakia	6,707	16,532	25,464	40,950	68,672	85,365	95,080	103,050
CEEC10	535,899	754,329	952,131	1,292,799	1,890,933	2,235,498	2,420,513	2,531,556

Factors of international migration

According to one public opinion survey, the Slovak citizens perceive the benefits of the EU accession in terms of an overall improvement of economic development (44%), new job creation (24%), EU financial transfers (22%), and extended opportunities to work in EU countries (20%)¹³. On the other hand, among the disadvantages, rising price levels (25%), the selling-off of the domestic companies (25%), and increased budgetary costs (24 %) are expected by the population.¹⁴

Based on the migration trends since the 1990s, Slovakia does not need to worry about the massive influx of labor from abroad,¹⁵ with its labor market being attractive mostly to citizens of other CEE countries, the three most represented national groups of legal foreign workers being the Czechs, the Ukrainians and the Polish. Slovakia's cross-border migration flows are fairly limited both in size and frequency (short-term, seasonal workers dominate).

According to the quarterly statistics published by the National Labor Office (NUP), as of 31 December 2002 the number of working citizens of the EU candidate countries in the Slovak Republic was 2,386, of which from: Bulgaria 44, Cyprus 1, the Czech

¹² a total of short-term (seasonal) and contract (more than one year) workers together (based on statistics from the National Labour Office, NUP)

* adapted from Boeri and Bruecker (2001)

¹³ This can also be illustrated by the spectacular number of Slovak job applications (5,971 compared to only about 10,000 from Poland) received by the European Commission in Brussels January this year, within the job competition for a total of about 1,000 new posts offered to candidates from the accession countries.

¹⁴ Gyarfasova et al. (2001:211) reporting on the survey carried out in February 2000.

¹⁵ Recent public polls suggest that a massive emigration from Slovakia should not be feared, due to various psychological factors, geographical distance, low internal labour mobility, limited language skills, work qualifications, etc.

Republic 2,023, Estonia 0, Lithuania 0, Latvia 69, Hungary 87, Poland 119, Romania 32, and Slovenia 11. In the same period, there were 1082 EU citizens working in the Slovak Republic, of which: France 115, Germany 355, Austria 121, Italy 102, the United Kingdom 187, Belgium 26, Denmark 31, Finland 5, Netherlands 41, Portugal 5, Spain 54, Sweden 23, Ireland 14, and Greece 3.

Based on the OECD research cited in Marcincin and Lubyova (2002), in the Czech Republic the share of foreigners on the total population was 2 percent in 1998, followed by Hungary with 1.5 percent. These figures are fairly close to those of some of the EU member states. Slovakia, with 0.5 percentage share, lagged also behind Bulgaria (1 percentage share), but was ahead of Poland (0.1%). Similar picture emerged from a comparison of the shares of foreign workers in total national employment: the Czech Republic was taking the lead with 2.4 percent, well ahead of Hungary (0.6 percent) and Slovakia (0.3 percent). In absolute terms, the Czech Republic reported the highest number of foreign nationals (219 thousand, of which 110 thousand being workers). The lowest number of foreign workers was reported by Slovakia (27 thousand) and Bulgaria (several hundreds). The Czech labor market seems to be the most open to foreign labor migrants. The least open country from this comparative perspective is Bulgaria, with Poland, Hungary and Slovakia taking the intermediate position.¹⁶

Table 9
Immigrants to Slovakia (by country of origin)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
European Union	362	294	304	272	223	199	218	170	243
EFTA countries	61	57	67	48	54	51	30	41	38
EU candidates	7,406	3,371	1,692	1,320	1,075	965	1,048	1,408	1,116
Ukraine&Russia	411	503	499	357	455	359	266	217	156
<u>Continents:</u>									
Africa	30	48	28	31	29	25	37	33	21
Asia	193	149	82	112	133	133	163	70	118
America	227	192	203	173	141	137	127	192	202
Australia&Pacifics	49	63	35	45	36	46	18	16	22
Europe	8,453	4,467	2,707	2,115	1,964	1,709	1,716	1,963	1,659
Total	9,106	4,922	3,055	2,477	2,303	2,052	2,072	2,274	2,023

Note: Turkey and Cyprus are included into both Asia and EU candidates

Source: Slovak Statistical Office

¹⁶ In the Czech Republic, more than 60 per cent of the foreign population is active on the labour market. In the other four CEE countries, this value is lower than 20 per cent. There were 2 per cent of foreigners living among long-term or permanent population in the Czech Republic in the year 1998, but more than 2.4 per cent of foreigners within the labour force. In Poland, these two values were approximately equal (around 0.1 per cent). In other mentioned countries, shares of foreigners within individual labour forces were lower than their percentage shares in the respective populations. By far, the biggest inequality was reached by Bulgaria with a 1-per cent share of foreigners living in the population, but only a 0.01-per cent share of foreigners within the labour force.

Table 10
Emigrants from Slovakia (by country of origin)

	1993	1994	1995	1996	1997	1998	1999	2000	2001
European Union	31	25	47	70	226	245	247	348	397
EFTA countries	1	0	4	9	27	41	26	36	34
EU candidates	7,295	109	130	103	230	287	230	335	422
Ukraine and Russia	3	4	5	7	2	10	8	13	6
<u>Continents:</u>									
Africa	0	0	1	3	6	3	3	6	3
Asia	2	1	3	3	8	18	10	8	12
America	18	13	10	13	51	104	74	75	110
Australia&Pacifics	8	3	9	10	30	21	14	17	17
Europe	7,327	137	190	192	477	600	517	705	869
Total	7,355	154	213	222	572	746	618	811	1,011

Note: Turkey and Cyprus are included into both Asia and EU candidates

Source: Slovak Statistical Office

On the other side of the equation, the Slovaks migrate to jobs mostly to the neighboring Czech Republic, Austria and Germany. Legal migration of Slovak workers to the Czech Republic and Germany is regularly monitored by NUP¹⁷. In the case of *the Czech Republic* and Slovakia, there is a substantial migration imbalance between the two countries: while more than 2,000 Czech citizens work in Slovakia legally, the number of Slovak workers in the Czech Republic has traditionally counted in tens of thousands, despite the decreasing volumes in recent years.¹⁸

According to NUP data, a total of 9,065 Slovak citizens worked legally in *Germany* at the end of 2000, of which 8,151 on a short-term basis, and 914 had job contract lasting more than one year. The total number increased to 11,041 and 11,832 at the end of 2001 and 2002, respectively.

Both measuring and controlling migration flows between Slovakia and *Austria* is a much more difficult task, which deserves a special attention here. Since the Slovak capital of Bratislava and its surrounding region is within the commuting distance from the City of Vienna, labor mobility is not confined just to migration. Rather, a much larger amount of Slovak labor in Austria may be daily or weekly commuters who will not show up in the official migration statistics, and will not be deterred by the administrative constraints on labor mobility.

¹⁷ However, some of the Slovak labour migration flows (e.g. short-term and illegal) to other countries is difficult to monitor by the Slovak statistical authorities, and may thus not show up in the official migration statistics. Estimations of Slovak workers abroad by receiving countries are therefore much more realistic than any estimations based on data reported in Slovakia, which indicate only a minimal number of legal Slovak workers abroad.

¹⁸ The number increased from about 23,000 in 1993 to about 72,000 persons at the end of the year 1996. In the period 1997-2000 a declining trend was observed, with the figures falling to 61,000 persons (end of September 2000). This trend was matched by a parallel growth of the number of the Czech citizens working in the Slovak Republic from 1,200 to 2,200 persons during the period 1993 - 2000.

Using the survey method, Fassmann et al. (1993) analyzed the adds of foreigners looking for work in a local newspaper that is typically used for announcing short-term jobs. They found that the share of adds from former Czechoslovakia was high only 1990 and 1991, but declined considerably afterwards. This trend continued also in the following years. A follow-up analysis in 1994 showed that the share of Czechs and Slovaks among all foreigners offering work was just 18.5%. For comparison, the share of Poles was 48.3%. Maier (1994) reports the results of interviews conducted at the border stations between Vienna and Bratislava. They found that 39% of all trips they observed were interactions between the two cities. When one takes into account also the hinterland of the two cities, more than 62% of the interactions are captured. Of the 812 people interviewed that were going into Austria, only 1/3 reported that work was the purpose of their trip. Other purposes (business, shopping) were almost as important. Calculations based on these survey data show that the number of Slovaks who commute into Austria for work can hardly exceed 2,500. These mid-1990 predictions are well in line with the most recent experts' opinions saying that there are about 8,000 Slovaks (mainly from the region of Western Slovakia) commuting to Lower Austria, of which about 3,000 commute directly from the capital city of Bratislava.

Among the several recent Austrian studies, relying on econometric modeling, Walterskirchen and Dietz (1998) estimated that the total of 150,000 CEE workers would commute to Austria over the period until 2015, 50,000 of them coming from Slovakia. However, some serious questions have been raised about the relevance of assumptions underlying such commuter number estimates. For example, were the geographic distance that relevant, majority of commuters would come from Bratislava, which is only an hour's drive from Vienna. But according to the opinion surveys quoted above, only very few inhabitants of Bratislava actually contemplate such a move (see also discussion below).

In short, it is evident that the inflow of workers from Slovakia into Austria is fairly limited. Labor mobility is surprisingly low despite enormous income differentials. To some extent this can be attributed to Austria's restrictive immigration policy. Another factor is that Austrian industry seems to rely on established channels (through personnel agencies) and recruits new foreign labor from the traditional countries of Ex-Yugoslavia and Turkey.

Factors of intra-national migration

There are no sociological surveys available which would shed some light on the factors determining cross-border migration behavior of the Slovaks. However, the possible causes of the relatively low levels of international migration of the Slovaks (reported above) can be extrapolated from the lack of their labor mobility inside their home country, which is the lowest of all OECD countries.¹⁹ The lack of cross-border mobility can also be documented by the history of the former Czechoslovakia, when there were few, if any, cultural, religious, or linguistic barriers to labor mobility, as well as no legal restrictions on migration across the Czech-Slovak border. This has not changed after the

¹⁹ see also the recent OECD Economic Survey of the Slovak Republic (2002)

break-up of Czechoslovakia, as the two countries agreed to preserve the common labor market indefinitely. Nevertheless, migration fell both internally, and between the Czech lands and Slovakia, with only 0.01 and 0.06% of the Czechs and the Slovaks, respectively, crossing the new border in 1996.²⁰

Significant regional income and unemployment differences in Slovakia were identified as one of the main problems of labor market development, in the Joint Assessment of Employment Priorities in the Slovak Republic²¹, prepared by the EU and Slovak Republic. Despite pervasive regional labor market disparities, the mobility of the Slovak population²² has significantly decreased in the recent two decades: while almost 120,000 people moved inter-regionally in the year 1980, only about 77,000 people reported a migratory move in 2000 (i.e. 14 people per 1000 inhabitants). Short-distance moving dominates long-distance migration, which is a pattern observed in other candidate countries as well.²³

Table 11
Intra-national migration in Slovakia

	1993	1994	1995	1996	1997	1998	1999	2000	2001
Number of migrants ('000)	85.0	82.6	68.3	80.2	82.5	84.8	79.0	76.9	79.9
of which:									
within districts	59.6	58.7	55.8	50.0	43.5	37.6	35.7	35.2	36.8
within regions	22.2	21.9	23.5	50.0	33.4	27.5	25.1	24.3	25.0
across regions	18.2	19.4	20.7	na	23.1	19.7	18.2	17.3	18.1

Source: Statistical Yearbook 2002, Slovak Statistical Office

Several explanations were suggested to account for this fall in mobility during economic transition years. First, the removal of some restrictions on the housing market resulted in sharp increases in rents and real estate prices. Second, commuting to work has become more common. Third, the formal requirement of reporting one's change of residence address is now more often ignored (see e.g. Fidrmuc et al., 1999, Fidrmuc, 2000²⁴,

²⁰ On the other hand, as reported by Fidrmuc et al (1999), some 59 thousand Slovak citizens, including commuters, were employed in the Czech Republic in 1995 and about 72 thousand in 1996. This corresponded to 2.3 and 2.8% respectively, of the Slovak labour force, and certainly helped mitigate the Slovak unemployment problem, with the Slovak unemployment rate standing at 13.1 and 12.8% in the respective years.

²¹ Joint Assessment of Employment Priorities in the Slovak Republic (2001).

²² measured by moving (ie. formal change of permanent address)

²³ Analysing migration situation in the Czech Republic, Hungary, Slovenia and Slovakia for the period 1990-98, Huber (2001) finds that the migration rates in mid-1990s were not comparable to those of the EU, reporting even further decrease in the late 1990s. Also, Fidrmuc (2001) finds that there is a low effectiveness of migration on reduction of regional differences in transition economies. Differences in unemployment rates apparently do not affect migration flows among regions. However, an interpretation of the results must take account of the fact, that permanent address-based statistics are misrepresenting, because many people work on the long-term basis outside their home regions without changing their permanent address. This might be explained by a complicated housing situation in Slovakia.

²⁴ Fidrmuc (2000) provides an econometric analysis of the determinants of intra-national labour migration in Slovakia, based on data for the first half of the 1990s. He includes not only the traditional factors like differences in wages and unemployment, but also other economic (size of the private sector, shares of agricultural and industrial employment), social and demographic factors (educational, ethnic, religious

World Bank, 2001, OECD, 2002). Fourth, similar to countries like Italy and Spain, the existence of social networks and the importance of family and friends to finding jobs are thought to be responsible for the reluctance to move away from depressed regions in Slovakia. Fifth, an important barrier to commuting seems to be the relatively high transport costs in Slovakia (see World Bank, 2001:57-58)

This lack of labor mobility may have important policy implications for the timing of accession to the European Monetary Union (EMU), to be decided on in the coming months and years (see below). Fidrmuc et al. (1999) even argue that low labor mobility in the former Czechoslovakia contributed to economic tensions that eventually led to the break-up of Czechoslovakia at the beginning of the 1990s.

4.2 Challenges of EU accession regarding free movement

In the area of *mutual recognition of professional qualifications*, the Act on Mutual Recognition of Professional Qualifications, adopted by the Parliament in June 2002, aims to establish a general framework for the recognition of foreign professional qualifications in Slovakia and to align with the general systems directives. Under this Act, the Centre for Equivalence for Diplomas has been established as an organizational unit of the Ministry of Education. In February 2002, the Parliament adopted the Act on Higher Education, which makes a clear distinction between academic and professional recognition of qualifications. In April 2002, the Parliament adopted laws in the area of health care, accelerating legislative alignment with sectoral directives. Good progress can be reported on *citizens' rights*. With the new Act on Stay of Aliens, effective from April 2002, Slovakia has aligned its legislation with the *acquis* provisions on residence rights. There have also been developments in the area of voting rights. The Amendment to the Act on Elections to Municipal Self-Government Bodies, which came into force as of March 2002, authorizes foreigners with permanent residence in Slovakia to elect and to stand as a candidate for municipal self-government bodies.

Within the domain of *free movement of workers*, the safeguarding of the supplementary pension rights of employed and self-employed persons moving within the Community has been regulated by the latest amendment to the Act on Supplementary Pension Insurance, adopted by the Parliament in May 2002. Preparatory works has continued to facilitate Slovakia's participation in the European Employment Services network (EURES).

Slovakia has so far concluded 11 bilateral agreements on mutual employment of citizens with other countries.²⁵ Of these international agreements, only the Convention on good neighborhood and co-operation with the Czech Republic embodies certain above-standard arrangements (numerous exceptions from work permits, mutual recognition of

and urban/rural structure of the population), which significantly affected the migration process in the respective period.

²⁵ Belgium (October 16, 1937), the Czech Republic (October 29, 1992), France (May 22, 1930), Finland (February 21, 1998), Luxembourg (May 27, 1998), Germany (March 18, 1996), Poland (June 16, 1992), Russia (February 13, 1995), Switzerland (December 8, 1995), Ukraine (March 6, 1887), and Hungary (February 12, 1999).

claims for unemployment benefits, etc.) resembling free movement of workers within EU. Agreements with other countries mostly contain quantitative restrictions on the number of workers, which are very low (typically a few hundreds temporary workers, etc.), especially vis-à-vis current EU member countries.²⁶

Slovakia has continued to strengthen bilateral relations with a view to the future *coordination of social security* matters and development of institutional capacity has accelerated. The adoption by the Parliament of the Act on Social Insurance in May 2002 and the Act on Health Insurance in August 2002 have been the first steps in the social security reform in Slovakia. Bilateral agreements covering health insurance and pension benefits were signed in December 2001 with Austria and in May 2002 with Spain. A similar bilateral agreement with the Netherlands entered into force in May 2002.

Slovak Roma migration

The economic geography of the Eastern Slovak regions is very specific in two different respects. First, their unpleasant image of "backward peripheries of the New Europe"²⁷ have recently caught much of the migration policy attention in the EU, due to an exodus of Roma population, which is geographically concentrated exactly in these parts of Slovakia. The Slovak government has had to face and address the criticism from many European governments on the "Roma issue", which posed an unexpected short-run challenge to their asylum systems in 2000.

In 1998, based on data from International Migration Organization (IOM), 467 Roma applied for asylum in Germany and the Netherlands, while the figure for the UK was 1,256. In 1999, the number of applications increased up to 4,836, with the target countries including mainly Finland, Belgium and Denmark. Most recently, the main destination of the Roma asylum-seekers have been the countries of Denmark, Belgium and Norway; their national governments responded by introducing visa for all Slovak citizens, a defensive policy which was partially revised later on.

According to a mid-term evaluation of an EU-funded IOM program (IOM, 2000) for the return and counseling of Roma asylum-seekers from the Czech Republic, Slovakia and Romania who had sought asylum in Belgium, Finland and the Netherlands, as many as one third of those who returned to the Czech Republic left again shortly after the return. It appears that the sustainability of returns depends not only on the quality of the assistance provided upon return and the protection of human rights of the returnees, but also, and more importantly, on *the improvement in the socio-economic conditions of everyday life (i.e. sustainable development concept)*.

²⁶ A little bit more liberal are the limits imposed by Germany. These are, however, regularly reviewed by the German side with respect to situation on the German labour market.

²⁷ The CEE region has a very clearly marked *external periphery*, stretching out from the north-eastern corner of Poland through *eastern Slovakia* to the south-eastern part of Hungary, and then through eastern Romania to Montana and Lovech in northern Bulgaria. These peripheral areas are the least developed in the region. They are relatively sparsely populated, rural in character, and have poorly developed urban systems and infrastructure (although the Hungarian regions along the Romanian border are relatively well developed). Their backward position is historic, dating back to long before the transition period (Gorzalak, 1998).

Second, as the EU external border moves eastwards, the East-Slovak regions will find themselves in a strategic gateway position between the EU and the "Wild East" countries of the former Soviet Union. In the EU, the gateway regions and cities which have traditionally dealt with large numbers of immigrants benefit from being customs administration centers for the Community. However, given the recent developments in the EU's Justice and Home Affairs regime, these geographical areas have to carry the administrative burden of processing applications from asylum seekers, irrespective of their final destination (the Dublin Convention). They also have to absorb the policing costs of preventing illegal entry and of dealing with associated criminal activities such as drug and human trafficking, illegal exploitation of cheap foreign labor and the black market. In Eastern Slovakia, problems of peripherality and the fact that political boundaries are increasingly limiting its cross-border development potentials, mean that even the biggest East-Slovak city of Kosice currently lacks the adequate infrastructure to function as a major gateway city, should Slovakia become the EU/Schengen member state in the near future.

Lack of labor mobility

The pattern of labor mobility described above has at least two important medium-term policy implications. First, regional differentials in unemployment and wages will not be eliminated by the migration process²⁸, and an appropriate policy response may be needed to avert the creation of Mezzogiorno-type regions in Slovakia.

Second, labor mobility substitutes for the absence of autonomous monetary policy in a monetary union. Unemployed workers migrate from regions hit by an adverse shock to regions with more favorable conditions, thus equilibrating the effects of asymmetric shocks. In a hypothetical union with perfect mobility of production factors, regions would adjust immediately. However, when labor mobility is low and prices and wages are rigid, effects of such asymmetric shocks persist and currency unions have to rely on other mechanisms, such as fiscal transfers²⁹, to absorb them.

In this respect, given the low efficacy of migration process in smoothing away inter-regional unemployment and wage differentials, an early membership in the EMU is not necessarily an optimal policy choice for Slovakia and other accession countries. As the accession countries will likely continue to face different external shocks than the EMU core, at least in the medium term, they may indeed benefit from retaining the option to adjust their exchange rates (Fidrmuc, 2000, Fidrmuc, 2001).

There are three more general comments on the labor migration trends in Slovakia, that we want to add in the context of the present paper. First, migration involves taking risks as well as incurring sunk costs. A certain degree of risk aversion will lead to attitudes of "wait and see", as long as there is no dramatic deterioration that will force you ultimately to take a decision (Straubhaar, 1998). This *option value of migration*³⁰ leads to a paradox. It may well be that a complete elimination of legal barriers to the free

²⁸ see Fidrmuc and Huber (2001)

²⁹ Note also that such possibility of using public expenditures as an alternative adjustment mechanism is even further restricted by the tight fiscal convergence criteria a la Maastricht.

³⁰ for a comprehensive theoretical argument see Burda (1995).

circulation of workers will actually result in a decrease of cross-border labor movements and a strengthening of "wait and see" attitudes.³¹

The choice of such rational strategy may help explain the relatively low levels of migration to the EU of the better-off population mainly from the Bratislava capital region. Related to this is another positive economic value of immobility: staying at home allows people to use their specifically local know-how for earning an income and for spending that income. This know-how would be lost in the case of migration (thus reducing human capital formation the home region), and would have to be acquired once more at the new place of work/residence.

Second, an increasing geographical mobility of labor triggered by the integration of Slovakia into the EU should be viewed in the light of the fundamental interdependencies governing migration (of labor and capital) and trade (trans- and cross-boundary) in today's global economy. Such a perspective is strongly supported by theoretical arguments³², but nevertheless often neglected in favor of a more sectoral (usually defensive) policy approach. In the EU integration context, in as far as there is a complementary relationship between capital transfers and labor migration flows, FDI and labor mobility are simply necessary in order to exploit the efficiency advantages of an integrated internal market area (see also Akkoyunlu, 2001). In this case, however, it is primarily a question of the migration of highly qualified specialists³³ or much demanded seasonal labor, and not of the mass migration of unskilled workers. *What might then cause a real problem, is (too much) CEE emigration rather than (too much) CEE immigration to the EU*, as the former may undermine human capital formation in the respective home countries and regions (see Figure 1).

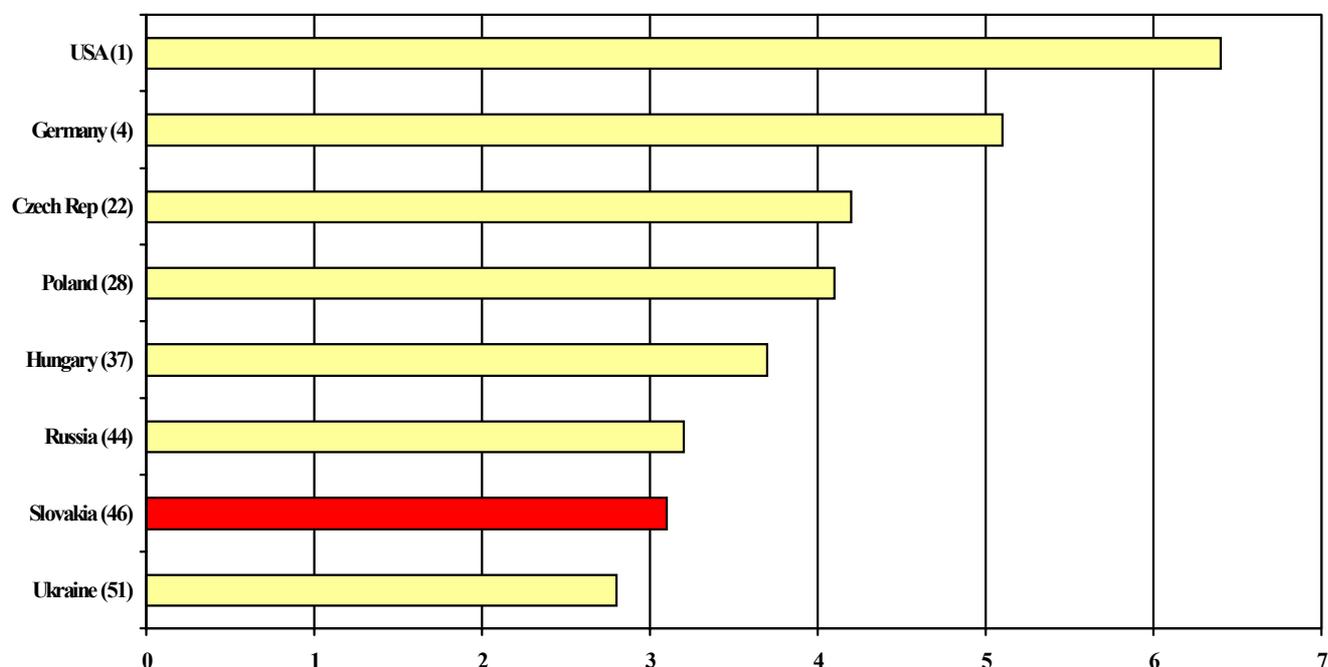
³¹ If you are sure you will be able to get in anytime you like, you need not go now.

³² Economic integration in a single market takes place above all via trade in goods and services and via capital transfers, and not so much via the migration of workers. Trade flows react much more elastically than people to the formation of a single market. To a large extent trade in goods and capital transfers make the migration of labour unnecessary. For economists this is no surprise. It is exactly the result that is predicted by the traditional Heckscher-Ohlin-Samuelson models of international economics: trade and migration are substitutes. The same is true of capital flows. Bringing machinery to labour renders unnecessary the movement of people to the machines (see Straubhaar, 2001, for a more extensive theoretical discussion on the East-West migration potential).

³³ e.g. IT specialists

Figure 1 Brain Drain in Slovakia

Brain Drain



Note: The most talented workers remain in the country (1 = strongly disagree, 7 = strongly agree)

Source: Harvard University (2002)

Third, beside the stressfulness and selectivity of the cross-border migration process, 'it is also *people's social and cultural ties* to their local environment which pose *an important obstacle to labor migration* in Europe and which has been commonly underestimated from the perspective of theoretical economics' (see Straubhaar, 2001). Empirical research and experience show that in the common labor market of the EU, labor has been extremely immobile: the large majority of people prefer to live, work and stay immobile where one has one's own roots. The above-mentioned evidence of the limited intra-national and international labor mobility in Slovakia seems only to correspond to this general EU-wide pattern.

5. Final conclusions and recommendations

Throughout the 1990s, the Slovak Republic has launched most reform steps, which economists perceive as crucial for a successful transition from planned to a functioning market economy. Principal reforms have been completed, however, several demanding components of the reform scenario are yet to be addressed. Among them, the reform of the social protection system – including public health, labor market policies, social insurance, social support and social assistance – which should remove the remaining

system deformations and adjust social policy to the changing economic, social and demographic environment.

The Slovak labor market is marked by several distinct features. Perhaps the most pronounced is the high rate of economically active persons without official jobs. Unemployment became the weakest point in the economy and is constantly viewed by the public as the most pressing societal problem. The 2001 unemployment rate of 19.2% was far more than double of the European Union average (7.4%). Young people belong to the most severely affected groups by unemployment. Another disturbing fact is the high share of long-term unemployed, who make up more than 50 percent of the unemployed. A “hard core” of unemployable persons with insufficient education and qualification has emerged, placing a growing pressure on public funds. Immense regional differences and low mobility between the regions complete the picture of a rigid labor market.

Experts agree that the setup of the social protection system contributes to the persisting problems in the labor market. The social system, as a whole, acts rather as a trap for unemployed, instead of motivating them to take an active approach. Centrally regulated pillars of social policy (such as the minimum wage and subsistence minimum) and the different social transfers (such as social assistance benefits and unemployment benefits) have disincentive effects on the behavior of their recipients mainly in regions with lower average wages.

A high degree of redistribution is typical for the Slovak social protection system. The tax and payroll burden placed on employees and employers is among the highest in OECD countries. Contributions to different social funds range as high as 50.8% of the gross wage and create a wedge between labor costs and wages. The situation is particularly burdensome for employers (contributing with 38 percent), who bear also the administrative costs. High social security burden indirectly supports activities in the informal economy and impacts on the level of tax and payroll collection. Eventually, extensive labor costs discourage employers from job creation and contribute to growing unemployment. The pension scheme with the dominant public unfunded pillar is based on principles of extensive solidarity and redistribution. The individual merit is subordinated to these principles; the connection between the contribution into the system (insurance premium) and the benefit (pension) is reduced to a minimum. The system is particularly demotivating for higher income groups, which are not adequately rewarded for the invested security payments. Contributions into the fund are deemed high to be a stimulus for employees and mainly employers to act actively in the formal labor market, at the same time, benefits are deemed low to provide for a moderate subsistence in old age.

The policy responses to the crucial labor market problems have, so far, not brought substantial positive change. Traditional tools of labor market policies were dominated by passive measures (unemployment benefits and contributions on behalf of registered unemployed). However, the effectiveness of active measures has neither been astonishing; the success rate of finding stable job opportunities after participating in active labor market programs has been relatively low. This is not merely the result of restricted budgets, but also of the lacking organizational and institutional capacity and not least the dissatisfactory educational attainment of unemployed.

Mobility of Slovak citizens, both in internal and international terms, is generally low. Internal mobility in 2001 accounted for less than 1.5% of the entire Slovak population. Migration due work is concentrated within districts and/or regions. Surveys suggest that it is unemployed who are most resistant to labor mobility. There is an obvious lack of understanding of the importance of mobility due work; mobility is by a large stock of the labor force not viewed as a means for job search and take up.

Based on official data, about 2.2% of the total number of employed were working abroad in 2000. The actual number of persons working abroad is estimated to be significantly higher. The most attractive destination for Slovak citizens is the neighboring countries (Czech Republic, Austria, Hungary) and Germany. To facilitate international migration of labor force, Slovakia has made efforts on the part of adjusting domestic legislation, as well as by concluding bilateral agreements and coordinating policies with both EU candidate and member countries in the field of employment policy, education policy, social protection, etc. Adoption of new pieces of legislation has not always led to higher flexibility of labor market and social system in Slovakia (e.g., the new Labor Code).

The reforms of labor market policies and of social protection in general are of highest priority. They would have been priority agenda even if Slovakia was not applying for EU membership. However, EU accession impacts significantly upon the reform process in candidate countries by opening new prospects and opportunities but also by posing new challenges.

There is no uniform model of social security in the EU. On the contrary, Member States apply different schemes and rules, while using open method of coordination to facilitate migration and transferability of the schemes between the countries. With the ten new members the EU social policy will become even more diversified.³⁴ Despite the considerable diversity within the EU, Member States face common challenges with regard to social systems, and social security in particular. They also share common objectives and are committed to a number of principles, amongst which are equity and social cohesion which characterize the European social model.

The modernization of social security systems in the EU is made urgent mainly by demographic aging and its impact on the old age dependency ratio. Although the reform of social security systems remains the responsibility of the Member States, co-operation at EU level has intensified – in particular through the Social Protection Committee.

The Slovak Republic is expected to enter the European Union along with nine other accession countries in May 2004. It becomes clear that Slovakia will enter the Union with some of the important sectors unreformed and/or in the ongoing process of reform. It is therefore desirable that the parameters of the reforms are adjusted to ease the entry and the membership in the Union. The setup of the reforms must take into account the principles of the common market, mainly the freedom of movement.

³⁴ See e.g. GVG (2002).

Reforms that would enhance mobility of Slovak citizens in an enlarged European Union, include the following areas:

- Social security (pension)
- Social support and assistance
- Labor market (employment) policies
- Health care
- Tax policy
- Educational system
- Housing policy
- Public administration (decentralization)

The following policy recommendations refer mainly to labor mobility.³⁵ Certainly, this is not an exhaustive list, however, it offers space for further discussions on labor mobility in an enlarged EU.

- *Social insurance.* The mobility of workers and citizens in general will strongly depend on the portability of their social security and pension schemes. This is an important incentive for the Slovak reform agenda. One of the key features of the reforming social system in Slovakia should be therefore its compatibility with Member States' schemes. Slovakia may also face competition from other social security systems: if there are strong financial incentives built into the various retirement income systems, these could induce people to move to other countries. The old age dependency ratio in most developed economies will be substantially higher in the future. In many Member States, funded pension provision will be expected to play a greater role.
- *Social support and social assistance.* Adjusting current social support and assistance schemes to regional differences in the costs of living would be beneficial in promoting geographical migration towards areas with relatively strong labor demand. Measures in the field of social assistance should be coordinated with passive and active labor market policies and poverty/social exclusion reduction strategies. An important aspect is the reduction of the misuse of the social system. Failing to remove the disincentives could lead to higher rigidity, lower mobility, and increasing shadow economy. Transferability of social benefits is also an issue to be addressed.
- *Labor market policies.* Measures to widen job opportunities and fight labor market distortions do not solely comprise traditional tools of labor market policies, although their importance is not questioned. Nevertheless, these labor market tools need a re-assessment of their contribution towards a proper labor market. Transparent and flexible labor legislation, improvement of the business environment, simplified conditions for establishing and operating of enterprises, consistent enforcement of law, careful reduction of tax and payroll obligations, decentralization of the social framework – these measures are among the necessary steps to reform the labor market. Continuous improvements in the flow of information on job vacancies and opportunities, aided by the creation of private job placement and temporary agencies, can enhance the job- and skill-matching processes in the economy. The

³⁵ This does not mean that the issues of labor mobility should be understood separately from other components and aspects. On the contrary, integrated approach rather than partial measures are a precondition for positive changes in the listed areas.

utilization of structural funds is expected to assist in addressing regional disparities; a precondition is improved management of the funds by responsible ministries, improved access to information, training courses, etc.

- *Health care.* Health systems in EU Member States differ considerably as regards the methods of provision of services, the means of financing the overall system, and reimbursement mechanisms for provided services. However, the European Commission emphasizes three objectives of modernization reforms: access to health care for all, a high level of quality in health care, and ensuring the financial viability of each health care system. With respect to current development of health-related policies within the EU³⁶, Slovakia might experience serious problems in assuring reimbursement of services and goods obtained abroad. Portability of health insurance seems to be a key issue when it comes to increased mobility.
- *Tax policy.* Carefully designed reduction of tax and mainly of social security contributions could help boost job creation and reduce shadow employment. Such reductions would diminish the wedge between gross and net salaries, increasing both labor demand and incentives to work.³⁷ Such measures can not remain isolated from other reform steps, mainly the reform of the pension system, business environment improvement, labor market reforms. Tax policy offers possibilities to stimulate mobility in many areas, including housing market and transport. The burden of the high transport costs discouraging commuting could partly be reduced by making it tax deductible. Similarly, tax incentives on housing construction could help to attract necessary private investment.
- *Educational policy.* One of the most emphasized functions of the school system is the preparation of students for a successful entry into the labor market. However, this role of the educational system is often neglected. Mechanisms enabling schools to respond more flexibly to the changing needs of the labor market must be initiated. This requirement becomes even more urgent with respect to the changing environment in the common market of the EU.
- *Housing policy.* Experience of countries with sound housing sectors shows that a proper link between housing, mobility and employment can only be provided for by a functioning market environment along with an appropriate involvement of the public sector. The list of measures to make the housing market in Slovakia more flexible and to boost new housing construction, is rich. It includes abolishing of administrative controls on prices and rents, simplifying procedures connected with construction pursuance, exemption of land for housing purposes, etc.
- *Public administration.* A properly designed decentralization of the provision of social transfers to the municipal level could help to efficiently target services and react to regional differences. It may eventually display in a reduction of the number of recipients and/or of the level of social transfers (particularly of social assistance benefits), but also in a better targeting of public support and assistance to those in real need. To provide for equality of chances, it will be necessary to secure awareness of local people concerning these processes and perspectives of regional development, to enable them to take and correct their work-related (and more generally, life-related) decisions.

³⁶ For instance the recent judgements of the Court of Justice on obligation of national health insurance system to cover services performed within other Member States.

³⁷ World Bank (2001).

- “*Brain drain*”: is very high in Slovakia, and can only be effectively addressed within comprehensive national and regional economic development strategies, which are currently lacking.
- “*Brain exchange*”: a better targeted immigration policy which stresses the labor market demands of the host country, i.e. it has an influence not only on the size but also on the composition of immigrants, may help improve both their labor market performance and public image, thus also catalyzing their social integration in the host economy.

References

Akkoyunlu, S., 'European Labor Markets: Can Migration Provide Efficiency? The German-Polish Case,' "One Europe or Several?" *Working Paper*, W31/01, 2001.

Bodnarova, B.: *Elderly people in the society*. In: Meseznikov, G. – Kollar, M. (eds): Slovakia 2001. A Global Report on the State of Society. Institute for Public Affairs, Bratislava (2001)

Boeri, T. and Bruecker, H. (2001), *The Impact of Eastern Enlargement on Employment and Labor Markets in the EU Member States*, European Integration Consortium: DIW, CEPR, FIEF, IAS, IGIER: Berlin and Milano.

Burda, M. (1995), ‘Migration and the Option Value of Waiting’, *Economic and Social Review* 27, 1-19.

Business Alliance of Slovakia: *Report on the State of the Business Environment*, Bratislava (2002)

COM (2000) 622 final of 11 October 2000: *The Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions*. Brussels (2000)

EU Commission, Government of the SR: *Joint Assessment of Employment Priorities in the Slovak Republic*. Bratislava (2001)

Fassmann, H., Kohlbacher, J., Reeger, U. (1993) "*Suche Arbeit*" – eine empirische Analyse über Stellensuchende aus dem Ausland, ISR-Forschungsberichte, Nr. 10, Institut für Stadt- und Regionalforschung, Österreichische Akademie der Wissenschaften.

Fidrmuc, J. (2001) Adjustment to Shocks via Inter-regional Labor Mobility: Evidence from the Czech and Slovak Republics, in: de Mooij, R.A. and Leefink, B. (eds.) *The Economic Impact of EU-enlargement, OCfEB Papers and Proceedings 0002*, Erasmus University Rotterdam.

Fidrmuc, J. (2001) Migration and Adjustment to Shocks in Transition Economies, *ZEI Working Paper 23*, Center for European Integration Studies, University of Bonn.

Fidrmuc, J. and Huber, P. (2001) The Puzzle for Rising Regional Disparities and Falling Migration Rates during Transition, Center for European Integration Studies (ZEI), University of Bonn, and the Austrian Institute for Economic Research (WIFO), Vienna, *mimeo*.

Fidrmuc, J., Horvath, J., and Fidrmuc, J. (1999) The Stability of Monetary Unions: Lessons from the Breakup of Czechoslovakia, *Journal of Comparative Economics*, 27, 753-781.

Gorzelač, G. (1998) Regional Development and Planning in East Central Europe, in: Keune, M. (Ed.) *Regional Development and Employment Policy: Lessons from Central and Eastern Europe*. International Labor Office: Geneva.

Gyarfaso, O., Krivy, V., and Velsic, M. (2001): *Krajina v pohybe. Sprava o politickych nazoroch a hodnotach ludi na Slovensku*. Bratislava, Institut pre verejne otazky.

GVG: *Study on the Social Protection Systems in the 13 Applicant Countries*. Synthesis report, Second draft. GVG, Köln (2002).

Huber, P. (2001) Intra-national Labor market Adjustment in the CEE: Some Stylized Facts, Austrian Institute for Economic Research (WIFO), Vienna, *mimeo*.

IMF: *Selected Issues and Statistical Appendix*, Slovak Republic, 2000

International Organization for Migration (2001) *Social and Economic Situation to Potential Asylum Seekers from the Slovak Republic*, a report produced by IOM Bratislava in the framework of the Return and Counseling Assistance program funded by the European Refugee Fund of the European Commission, the governments of Belgium, Finland and the Netherlands.

Jurcova, D.: *Schengen Agreement: Consequences for national migration policy in Slovakia*. INFOSTAT (ed.), OSI-LGI project, (2002)

Kostolna, Z.: *Analysis of the potential impact of community service work program*. Research Institute of Labor, Social Affairs and Family, DFID project Institutional Development to Address Poverty and Social Exclusion, Bratislava (2002)

Lubyova, M. et al. (1999): Background Report for the Joint Assessment of Employment Priorities in the Slovak Republic. European Commission, DG V, Brussels.

Maier, G., 'Economic Integration in Central Europe: Cross-Border Trips in the Vienna-Bratislava Region,' paper presented at the international seminar "Common Markets, Common Borders, Common Questions," Stadtschlaining, Austria, June 6-7, 1994.

Marcincin, A. and Lubyova, M. (2002) *Accession Process of Slovakia and the Unemployment Problem*, EU - Monitoring 2002, joint publication of Slovak Foreign Policy Association and Friedrich Ebert Stiftung, Bratislava, www.fes.sk [retrieved on February 24, 2003].

- MESA 10: *Analysis of the pension system in Slovakia*. Bratislava (2002)
- Ministry of Labor, Social Affairs and Family of the SR: *Report on the social situation of the population of the SR*. Editions 1997-2001
- Ministry of Labor, Social Affairs and Family of the SR (ed.): *Social policy*. Editions 1997-2000
- Ministry of Labor, Social Affairs and Family of the SR: *Report on the Implementation of conclusions and priorities of the document of the Joint Assessment of Employment Priorities in the SR for 2001*. Bratislava (2002)
- OECD (1995) *Regional Dimension of Unemployment in Transition Countries*; Paris.
- OECD (2002) *OECD Economic Surveys: the Slovak Republic*; Paris.
- Papps, I.; House, B.; Vagac L.: *Assessing the nature and extent of poverty in Slovakia.*, Birks Sinclair & Associates Ltd. (ed.), DFID project Institutional Development to Address Poverty and Social Exclusion, Bratislava (2001)
- Sirak, M.; Jurcova, D.: *Impact of EU enlargement and the implementation of Schengen in Slovakia.*, Center for Economic Development, INEKO, Bratislava (2002)
- Statistical Office of the Slovak Republic: *Social trends in the Slovak Republic*, (2001)
- Statistical Office of the Slovak Republic: *Statistical yearbook of the Slovak Republic*. Editions 1996-2001
- Steele, D.: *A Snapshot of Poverty and Living Conditions in the Slovak Republic*. Background paper for World Bank Report No. 22351-SK (2001)
- Straubhaar, T., Ostweiterung der Europäischen Union und Migration aus Ost- nach Westeuropa, in: Zohlnhöfer (Ed.) (1998) *Perspektiven der Ostweiterung und Reformbedarf der Europäischen Union*, Berlin (Schriften des Vereins für Socialpolitik, Neue Folge Band 255).
- Straubhaar, T. (2001), 'Migration and Labor Mobility in an Enlarged European Union,' In: Tijdschrift voor Economie en Management, Katholieke Universiteit Leuven, Vol. XLVI, Juli 2001, driemaandelijks, p. 239-271.
- UNDP, Center for Economic Development: *National Human Development Report Slovak Republic 2000*, Bratislava (2000)
- Walterskirchen, E. and Dietz, R. (1998) '*Auswirkungen der EU Osterweiterung auf den österreichischen Arbeitsmarkt*,' a study by the Austrian Institute of Economic Research commissioned by the Federal Chamber of Labor, Vienna.
- World Bank: *Slovak Republic. Development Policy Review*. Bratislava (2002)

6. Statistical appendix

Note: If not indicated other, data derived from national sources (Statistical Office of the SR, National Bank of Slovakia, National Labor Office, Social Insurance Agency)

table A1

Main macroeconomic indicators

Indicator	1997	1998	1999	2000	2001	2002	Explanatory note
GDP, current prices, million USD	21,080	21,991	20,178	20,134	20,462	23,681	
Real GDP per capita (PPP), EU-15=100, %	47.9	48.5	48.3	47.9			Source: Eurostat
Inflation (CPI-100), yearly, previous year=100, %	6.1	6.7	10.6	12.0	7.3	3.3	
Current account balance (as % of GDP)	-9.9	-10.1	-5.8	-3.7	-8.8	-8.2	
Foreign direct investment (as % of GDP)	0.5	2.1	3.7	10.7	5.8	16.9	
Exchange rate SKK/USD, average for the period, SKK	33.616	35.242	41.417	46.200	48.347	45.335	
Exchange rate SKK/USD, end of period, SKK	34.782	36.913	42.266	47.389	48.467	40.036	
Gross external debt, million USD, million USD	9,896	11,902	10,518	10,804	11,220	13,188	2002 estimate
Gross external debt, as % of GDP	47.8	55.9	53.4	56.7	53.9		
Domestic government and government guaranteed debt, million USD							
Domestic government and government guaranteed debt, as % of GDP	- 2.5	- 2.6	- 1.8	- 3.1	- 4.6		
International Currency Reserve at the national Bank, million USD	3,203.9	2,867.1	3,369.9	4,046.2	4,138.0	8,701.6	since 2002 new methodology of calculation
Base interest rate, nominal, December, %	8.8	8.8	8.8	8.8	8.8	6.5	
Base interest rate, effective annual, December, %	8.8	8.8	8.8	8.8	8.8	6.5	

table A2

Socio-economic indicators

Indicator	1997	1998	1999	2000	2001	2002	Explanatory note
Population, as of 31.12., number	5,387,650	5,393,382	5,398,657	5,402,547	5,378,951		2001 data includes results of population

							census
Population, annual average, number	5,383,233	5,390,866	5,395,115	5,400,679	5,379,780		2001 data includes results of population census
Working-age population (age 15-64), as of 31.12., %	67.7	68.3	68.8	69.3	68.9		2001 data includes results of population census
Life expectancy, total	72.81	72.66	72.99	73.18	73.40		
Life expectancy, male	68.9	68.6	69.0	69.1	69.5		
Life expectancy, female	76.7	76.7	77.0	77.1	77.6		
Annual total income of households							see table A7
Annual total expenditure of households							
Annual monetary income of households							
Annual monetary expenditure of households							
Structure of household expenditures							

table A3
Key labor market indicators

Indicator	1997	1998	1999	2000	2001	2002	Explanatory note
Economic activity rate (LFS), %	59.9	59.9	60.0	60.3	60.7		
Employment rate (LFS), %		51.7	49.7	48.6	48.6		
% of total employment (LFS) in							
agriculture	8.3	8.2	7.3	6.7	6.1		
industry	37.7	36.2	37.0	37.2	37.6		
services	49.7	51.5	52.5	55.9	56.2		
not specified	4.3	4.1	3.2	0.2	0.1		
% of total employment (LFS) in							
private sector		65.2	66.0	66.8	68.5		
public sector		34.8	34.0	33.2	31.5		
Self-employed (% of total employment (LFS))		6.8	7.7	8.0	8.4		
Unpaid family workers (as % of total employment (LFS))	NA						
Unemployment rate, %							
National Labor Office	12.94	13.67	17.31	18.24	18.25	17.90	
LFS	11.8	12.5	16.2	18.6	19.2	18.5	
Youth unemployment (age group 15-24)							
National Labor Office							
LFS	21.7	23.6	32.1	35.2	37.3		
Long-term unemployment (as % of unemployed for 12 months or more in total unemployment), LFS							
	50.2	50.7	46.9	53.9	55.7		

Informal employment (estimate)				16.3			see also table 5 in chapter 2.1
Educational level of employed, % of total employed, LFS							
Basic	29.0	26.7	21.1	19.6			
Trained	31.0	35.3	37.9	40.3			
Secondary	6.9	6.6	5.8	4.7			
Trained with SLE	3.7	4.1	4.1	4.8			
Full secondary compreh.	6.2	6.0	5.5	4.9			
Full secondary vocational	19.9	17.8	22.3	22.4			
University	2.8	2.9	3.0	3.2			
Without education	0.2	0.3	0.2	0.1			
Educational level of unemployed, % of total unemployed, LFS							
Basic	10.8	9.6	7.9	7.0			
Trained	31.3	33.2	35.3	35.1			
Secondary	7.8	7.0	4.9	4.1			
Trained with SLE	4.6	4.8	4.8	4.6			
Full secondary compreh.	4.9	5.8	5.6	5.4			
Full secondary vocational	28.7	27.8	29.5	31.5			
University	10.9	11.1	11.9	12.3			
Without education	0.0	0.0	0.0	0.0			
Labor productivity (GDP per employee, current prices, USD)	9,556.19	10,002.27	9,463.91	9,579.86	9,635.07		
Real total labor costs SKK/hour		99.68	101.19	107.08			
Average monthly gross wages of the employees under labor contract, total, USD by economic activity (NACE)	274.5	283.8	259.0	247.4	255.8	298.0	see also table A6
Average pay increase, %							
nominal	13.1	8.4	7.2	6.5	8.2	9.3	
real	6.6	1.7	-2.8	-3.1	0.8	5.8	
Expenditures on main labor market policies (active and passive measures as % of GDP)							
passive		70.6	93.9	79.7	68.2		
of which		71.6	73.2	71.4			
unemployment benefits		29.5	6.1	20.3	72.0		
active					31.8		
of which		7.3	15.5	4.0			
retraining		87.2	62.6	86.4	8.8		
support for new jobs					77.7		

table A4.1
Social insurance and social policy

Indicator	1997	1998	1999	2000	2001	2002	Explanatory note
Replacement rate of unemployment allowance/insurance							
Replacement rate of	44.7	44.9	45.5	47.1	46.8	46.5	

average old-age pension (as % to average gross wage)												
------------------------------------------------------	--	--	--	--	--	--	--	--	--	--	--	--

table A4.2

Social security burden on employers and employees (as % gross wage)	1998			1999			2000			2001		
	Employer	Employee	Total									
Pension fund	21.60	5.90	27.50	21.60	5.90	27.50	21.60	5.90	27.50	21.60	6.40	28.00
Employment fund	3.00	1.00	4.00	3.00	1.00	4.00	2.75*	1.00	3.75*	2.75	1.00	3.75
Guarantee fund	-	-	-	-	-	-	0.25*	-	0.25*	0.25	-	0.25
Health Insurance	10.00	3.70	13.70	10.00	3.70	13.70	10.00	3.70	13.70	10.00	4.0**	14.00
Sickness Insurance	3.40	1.40	4.80	3.40	1.40	4.80	3.40	1.40	4.80	3.40	1.40	4.80
Total	38.00	12.00	50.00	38.00	12.00	50.00	38.00	12.00	50.00	38.00	12.80	50.80

Note:

* Since 1 May 2000

** Since 1 January 2001

Source: Ministry of Labor, Social Affairs and Family of the SR

table A5

Migration	1993	1994	1995	1996	1997	1998	1999	2000	2001
international migration:									
<i>immigration (from):</i>									
EU members	362	294	304	272	223	199	218	170	243
EU candidates	7,406	3,371	1,692	1,320	1,075	965	1,048	1,408	1,116
the Czech Republic	7,232	3,144	1,497	993	867	777	856	1,268	990
EFTA	61	57	67	48	54	51	30	41	38
Ukraine&Russia	411	503	499	357	455	359	266	217	156
continents:									
Africa	30	48	28	31	29	25	37	33	21
Asia	193	149	82	112	133	133	163	70	118
America	227	192	203	173	141	137	127	192	202
Australia&Pacifics	49	63	35	45	36	46	18	16	22
Europe	8,453	4,467	2,707	2,115	1,964	1,709	1,716	1,963	1,659
total	9,106	4,922	3,055	2,477	2,303	2,052	2,072	2,274	2,023
<i>emigration (to):</i>									
EU members	31	25	47	70	226	245	247	348	397
EU candidates	7,295	109	130	103	230	287	230	335	422
the Czech Republic	7,276	95	108	89	212	251	208	310	398
EFTA	1	0	4	9	27	41	26	36	34
Ukraine&Russia	3	4	5	7	2	10	8	13	6
continents:									
Africa	0	0	1	3	6	3	3	6	3
Asia	2	1	3	3	8	18	10	8	12
America	18	13	10	13	51	104	74	75	110
Australia&Pacifics	8	3	9	10	30	21	14	17	17

Europe	7,327	137	190	192	477	600	517	705	869
total	7,355	154	213	222	572	746	618	811	1,011

table A6

Branch of economic activity (NACE)	1999	2000	2001
Economy of the SR	SKK 10,728	SKK 11,430	SKK 12,365
of which by branches (as % of average wage)			
Agriculture, hunting and forestry, fishing	78.1	78.9	78.9
Industry total	100.3	102.6	108.2
Construction	92.3	92.2	89.3
Wholesale and retail trade	107.5	110.8	108.3
Hotels and restaurants	75.7	77.0	76.4
Transport, storage and communication	107.8	109.0	110.2
Financial intermediation	186.0	193.8	197.4
Real estate, renting and business activities	122.2	123.3	125.7
Public administration and defense	121.7	120.6	118.6
Education	78.3	78.7	76.4
Health care and social work	84.8	81.5	83.9
Other community and social services	87.8	72.5	71.8

table A7

Indicator	1997	1998	1999	2000	2001	2002
Gross money income (USD)	1,954.1	1,988.5	1,786.9	1,717.5		
of which in %						
Gross income from employment	65.8	66.5	68.0	69.8		
Income from business	3.7	5.6	4.1	3.8		
Property income	1.2	1.0	0.8	1.3		
Social income	23.0	21.5	21.8	19.5		
of which: pensions	17.5	15.8	26.2	14.4		
Drawn savings (USD)	248.9	315.3	282.2	291.6		
Gross money expenditure (USD)	1,915.1	2,005.6	1,780.3	1,700.8		
of which in %						
Consumption expenditure	79.1	79.2	78.7	79.5		
of which:						
Food and non-alcoholic beverages	25.4	24.3	23.5	22.6		
Alcoholic beverages and tobacco	3.1	2.9	2.8	2.7		
Clothing and footwear	9.0	8.5	7.3	6.9		
Housing, water, energy and fuels	10.9	10.5	12.4	14.1		
Furnishing and household equipment	5.0	5.3	4.9	4.8		
Health	1.0	1.0	1.2	1.3		
Transport	6.9	7.5	6.8	6.8		
Communications	1.5	1.7	2.1	2.3		
Recreation and culture	6.4	6.9	6.5	6.5		
Education	0.4	0.4	0.4	0.5		
Hotels and restaurants	3.9	4.1	4.3	4.4		
Other expenditure	20.9	20.8	21.3	20.5		
of which: Income tax	6.5	6.9	7.2	5.6		
Compulsory personal insurance	7.7	7.6	7.8	8.0		
Deposits (USD)	271.6	285.8	279.7	298.2		