

IZA COVID-19 Crisis Response Monitoring:

Slovakia

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Central European University, CELSI, and IZA

June 2, 2020

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Preliminary Report

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- 1. The current overall impact of COVID-19 on the labor market in terms of employment, unemployment, sectors, firms:** According to early information, who is affected the most? What do you see in terms of sectoral employment reactions, and regarding permanent, fixed-term or agency workers? Are current figures/estimates more or less in line with earlier forecasts or are there some unexpected/surprising deviations?

Unemployment and vulnerable groups

- Slovakia, a country of 5.4 million inhabitants, recorded its first COVID-19 case on March 6, 2020, and its first death attributed to the pandemic on April 1, 2020. As of June 1, 2020, Slovakia had recorded 1522 cases, 28 deaths, and had 122 active cases. In terms of the number of COVID-19 deaths Slovakia occupies the last place among European states (<https://www.worldometers.info/coronavirus/>).
- This extraordinary performance in terms of containing the pandemic has been due to several key factors:
 - Quick response - within less than a week since the first case schools and universities in Bratislava had been closed, border controls and mandatory quarantine for people returning from abroad had been introduced and non-essential shops had been closed; within ten days schools had been closed in the whole country, mandatory face masks had been introduced, and international bus, train, and air passenger services had been banned.
 - The high level of compliance of the general public, supported by the example of politicians, news anchors, and media personalities, all wearing facemasks on the screen.
 - Even though several mistakes have been made, the overall effectiveness of the measures taken was good.
- The overall economic impact of the COVID-19 pandemic in Slovakia has been serious. Primarily due to meager foreign demand, in Q1 2020 Slovak GDP shrank by 3.9% y-o-y, which was one of the largest drops in Europe. Slovakia was able to borrow record-high 4 billion EUR for 5 and 12 years at very solid rates (reoffer yield 0.35% for 5-yr bonds, 1.056% for 12-yr bonds); Fitch downgraded Slovakia from A+ to A on May 8 nevertheless.
- Following a slight increase of the unemployment rate from 6.13% in February to 6.21% in March 2020, April 2020 marked a record-high monthly increase of the unemployment rate by 1.22 pp to 7.43% (up 1.38 pp from April 2019). The registered unemployment rate as reported by the Central Office of Labor, Social Affairs and Family (COLSAF) was 6.57% in April 2020, up by 1.38 percentage points compared to March 2020 and 1.52 p.p. compared to February 2020. The unemployment rate however remains relatively low, compared to Slovakia's historical data, when the unemployment rate reached about 15% just seven years ago.
- Remarkably and surprisingly, whereas employers announced 2242 mass layoffs in March 2020 and the number increased to 3142 in April, May witnessed just 1116 mass layoff announcements. It remains to be seen whether the May figure reflects the resilience of the labor market and the effectiveness of the short-time work measures, or there were some other factors behind it.

- While there were 180 756 unemployed in April 2020, COLSAF also registered 73 thousand vacancies, especially in the positions of machine operators and specialized crafts people, and unqualified workers.¹
- Temporary agency workers and workers on fixed term contracts belong to some of the most affected groups in the labor market.² Temporary agency workers are covered by the Labour Code provisions similar to regular employees and their employer (the agency) is obliged to offer minimum 60% wage compensation if user employer cannot provide work to the temporary agency worker.³ The reference wage is equal to the average wage registered at the agency for the last 12 months. Data about actual layoffs of temporary agency workers is not available, but it is expected that they are exposed to lay-offs more often than regular employees.
- Another vulnerable group, which is poorly protected against job loss are **workers working on temporary agreement**⁴ (two types: (1) equivalent of part-time, or (2) max 300 hours per year). Even if in majority of cases these employees are part of the social insurance system, employers are not obliged to compensate for their wages if they do not have the work for them. To compensate these workers, in mid-April the government announced that those who still have the valid contract are entitled to 210 EUR subvention provided by the state per month as a wage loss compensation.
- Survey among people working in culture revealed that individuals in the culture suffered losses between 1400 and 2400 Eur in the first month of the crisis and institutions lost from 3100 to 27000 EUR.⁵

2. The general orientation and targeting of the measures adopted to tackle the labor market impact of COVID-19 (as listed in the OECD inventory):

Is this summary appropriate? Have there been most recent changes or new initiatives? How do you assess the overall policy set adopted so far? Have certain aspects or target groups been neglected in the policy packages adopted?

- The OECD inventory provides a relevant summary. The only important update is introduction of Kurzarbeit for companies since April, 17th, which we assume will be updated in the database in due time.
- The overall policy set can be considered as adequate.
- The actual data about state compensation programs between mid-March and May 2020 published by the analytical unit of the Ministry of Labour show that as of May 28th, 423 thousand workers were supported by the government programs targeted on employers and self-employed. On the positive side, it seems that majority of support requests were approved

¹ https://www.upsvr.gov.sk/media/medialne-spravy/celkovy-pocet-uchadzacov-o-zamestnanie-v-aprili-medzimesacne-vzrastol-o-33-613.html?page_id=1003574

² KOZ statement before the tripartite meeting on May 18th, 2020: <https://hsr.rokovania.sk/2020-/>

³ <https://www.ip.gov.sk/koronavirus-praca-agenturnych-zamestnancov-pocas-mimoriadnej-situacie/>

⁴ Slovak Labour Code distinguish between fixed term contract which is regular employment contract but set on specific time period and work agreement contract, which is designated for smaller jobs (up to 20 hours per week, maximum 1 year, or for maximum 300 hours per year). While the first type establish similar employment protection as the regular open-ended employment contract (e.g. severance payment if work contract ends before the set date) in the case of work agreement, employment protection is lower, with no severance payment and only a 15-day dismissal period.

⁵ Survey <http://www.culture.gov.sk/ministerstvo/covid-19/analyza-zberu-dat-389.html>

(87% of the amount requested was approved and distributed). On the other hand, the amount per employee was rather low: it varied between 251 EUR per self-employed to 284 EUR per employee in the establishment closed or regulated because of the anti-pandemic governmental measures.⁶ The COVID-19 Economic Crisis Council at the Ministry of Finance (ECC) has proposed increasing the amounts for some measures.

- The biggest support went to the industry sector (39%) and to the wholesale and retail services (20%). The largest amount of the support per employee was in accommodation services (260 EUR per employee). Despite this early support in March, most of the HORECA sector services providers were complaining about insufficient and late support. For instance, with recent partial opening of the restaurants in May 2020, 14% were not expected to open at all because of bankruptcy.⁷
- Representatives of employers complain about late and inefficient help from the government to enterprises and are afraid of significant job losses if more robust help is not provided.⁸ They criticize mostly the complicated administration when demanding subventions and also insufficient support to big employers. The poor initial support of the government was also confirmed by the comparative study of the Centre for Public Policy, Bratislava, and Inline Policy, London. The most missing was the program of guaranteed loans for entrepreneurs, which was still not prepared in Slovakia at the end of April.⁹
- Some of the groups that may be less well covered include municipalities (who will lose on income taxes) and socially excluded and marginalized groups (who may be falling through the safety nets and the measures implemented).

3. Regarding policies providing immediate liquidity to small firms and freelancers: How do you see the actual take-up of support by small firms and self-employed? To what extent do the measures in practice help mitigate the economic impact of COVID-19? How do you see the delivery and implementation by public agencies and other entities, taking into account the trade-off between quick delivery and deadweight losses or misallocation?

- Although initially large employers complained about the ceiling that capped the maximum amount that an employer could receive through the anti-COVID-19 schemes, the ceiling was lifted relatively soon and there seem to be no major impediments in the schemes implemented.
- Although the problem of moral hazard and possible abuse of the schemes is relatively often discussed, the general approach is that help must come quickly. This may be justifiable also on the grounds that because the shock is exogenous and unexpected, the scope for moral hazard is somewhat limited. It is however too early to evaluate the deadweight losses relative to the respective counterfactuals.

⁶ https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_final5.pdf

⁷ <https://slovensko.hnonline.sk/2143320-stovky-restauracii-krizu-neprezili-namiesto-restartu-krach>

⁸ AZZZ statement before the tripartite meeting on May 18th, 2020: <https://hsr.rokovania.sk/2020/>

⁹ <https://www.cvp.sk/content/suhrnna-sprava-covid.pdf>

4. Regarding dependent workers: How do you assess the effectiveness of unemployment insurance and short-time work in stabilizing income and jobs at the moment? To what extent do short-time work measures help reduce or postpone inflows into unemployment (and for whom)? Is this being complemented by sectoral or firm-level agreements? What is known about the support delivered to job-seekers now? Has activation by ALMPs come to a halt?

Unemployment insurance

- Except allowing for post or email registration in the Labour Offices, the insurance scheme remained the same. As of April 21st the extension of unemployment benefit by one month for those whose entitlement were running out during the crisis. Trade unions demand that the general duration of the UB be extended beyond this one-off technical extension, however, as of May 30 they have not made a specific proposal.
- No specific support to unemployed nor new ALMPs have been announced as of May 30.

5. To what extent are **working conditions and work organization within firms** changing at the moment, in particular in sectors where there is an increased or normal workload? How do working time / mobile working rules or care arrangements respond to that in practice?

- The automotive sector, which is the backbone of Slovak manufacturing, stopped most of the production in March and April, but has been gradually restarting their production in late May and early June.
- The number of cross-border workers, many of whom in the care sector, constitute 5.2% of Slovakia's labor force. Although border controls made it difficult for them to commute or travel between their workplaces and homes, many of them adapted by staying in their host countries. In addition, special arrangement have been made for them, and those working within 30km, later 50km, from the border could travel back-and-forth without quarantine or tests. Slovakia is further liberalizing the border regime in June 2020.
- Four physical distancing measures studied by Kahanec et al (2020): events ban, school closure, non-essential shopping ban and prohibition of non-essential movement decreased the presence of workers at workplaces by circa 54%. While some of the workers could not continue performing their work, others continued working from home (home office).¹⁰

6. How do you assess the situation of **new labor market entrants** this year, in particular with school or university graduates? Are there policy innovations and initiatives to cope with this particular situation regarding hiring, provision of apprenticeships etc.?

- The number of vacancies declined sharply and the market will not offer many opportunities. The ECC is proposing internship schemes for graduates to support their school-to-job transition.

¹⁰ Kahanec, M., L. Lafférs and J.S. Marcus (2020) 'The impact of COVID-19 restrictions on individual mobility', *Bruegel Blog*, 5 May

7. Do you see **further remarkable developments** and issues, maybe unexpected policy innovations, changes in employment, new trends? Can you already identify (**changes in medium-term or long-term trends on the labor market**) that are due to the crisis (e.g. accelerated structural change)? How will the general functioning of the labor market in your country be affected in the long run?

- Seems to be too early to evaluate, but there are some discernible developments already.
- Whereas the policy innovation is rather incremental than revolutionary, Kurzarbeit has been introduced as a novel instrument. It is hard to say now whether and how it will survive beyond the crisis.
- One of the key question is how the automotive sector in Slovakia will adapt to the shock and also the overall push on further greening of its production. One scenario may be that Slovak factories will in fact increase their production of cheap combustion-engine cars, satiating the increased demand for such car by the crisis-stricken population, whereas the factories in the home countries of the mother companies (VW, KIA, PSA, Jaguar - Land Rover) will innovate and produce electric cars. This poses risks for the long run, especially if state-aid in home countries is conditional on the production of electric cars and related supplies staying in home countries for a long time.

8. Can the **current policy stance** (reduced economic activity, combined with public income support) be sustained, and for how long? What do you see as necessary and **useful next steps**, in particular to revive economic activity (soon)? How do you see the **current and future fiscal viability** of the crisis relief measures?

- Slovakia could sustain the current policy stance for several more months, although its fiscal space is rather limited. The current policies burden its fiscal position and future generations, which is particularly problematic given that Slovakia has one of the most rapidly changing populations in Europe.
- The overall situation is evolving rapidly, as Slovakia has been vigorously reopening its economy in May and June 2020.
- Although Slovakia is upgrading its anti-COVID-19 aid package, the hope is that with the reopening the economy will rebound and the policy measures will not be needed for too long. Very much depends on foreign demand, and hence on the speed of recovery in Slovakia's main trading partners in Europe and beyond. Coordination at the EU level is therefore essential.
- As the economy is nearly fully reopened as of June 2020, the key measures are: 1) preventing the number of cases from increasing, resulting in the need to step back with the reopening; 2) related, testing and tracing vigorously and smartly, isolating active cases, making the health sector more resilient; 3) providing for the adjustment of the economy to the changed economic conditions and opportunities (e.g. digitalization, greening), including technological advancement and upgrading its position in value chains; 4) fighting poverty, social exclusion and excessive inequality in the labor market and education, ensuring a decent living standard for all; 5) reforming and upgrading its governance and administration.

Intro: At the beginning of May, Slovakia started to release some of the measures:

1 fáza	2 fáza	3 fáza	4 fáza
od 22. apríla	od 6. mája		?
OBCHODY DO 300 m² SLUŽBY DO 300 m² VEREJNÉ STRAVOVANIE – cez predajné okienko VONKAJŠIE ŠPORTOVISKÁ – bezkontaktný šport – bez šatní – bez obecnstva – bez WC UBYTOVANIE – dlhodobé – bez stravy VONKAJŠIE TRHOVISKÁ – podľa podmienok PREDAJ AUTOMOBILOV, VOZIDIEL, VRÁTANE AUTOBAZÁROV	UBYTOVANIE – krátkodobé – jedlo na izbu – s WC a kúpeľňou – bez iných služieb – po odchode hosťa izba 24 hod voľná KADERNÍCTVA, HOLIČSTVÁ, PEDIKÚRY A MANIKÚRY, KOZMETIKA A SOLÁRIÁ – podľa podmienok VONKAJŠIE TURISTICKÉ ATRAKCIE TAXI SLUŽBA – podľa podmienok BOHOSLUŽBY – podľa podmienok SVADBY – podľa podmienok	OBCHODY A SLUŽBY – dezinfekcia rúk – 25 m ² na zákazníka – 2 metrové odstupy VEREJNÉ STRAVOVANIE – vonkajšie "terasy" – okraje stolov 2 m od seba, dezinfekcia dotykových plôch po každom zákazníkovi – max 2 ľudia pri stole, alebo rodičia s deťmi – WC - dezinfekcia dotykových plôch každú hodinu, na WC k dispozícii dezinfekcia na ruky a jednorazové utierky, zákaz sušičov rúk REHABILITAČNÉ SLUŽBY – len suché procedúry MÚZEÁ, GALÉRIE, KNIŽNICE A VÝSTAVNÉ SIENE – podľa podmienok	KINÁ, DIVADLÁ KÚPALISKÁ HROMADNÉ PODUJATIA OBCHODNÉ CENTRÁ ŠKOLY, ŠKÓLKY VNÚTORNÉ ŠPORTOVISKÁ ŠPORTOVÉ PODUJATIA UBYTOVANIE – so všetkými službami VEREJNÉ STRAVOVANIE – v interiéri