I Z A Institute of Labor Economics

Initiated by Deutsche Post Foundation

IZA COVID-19 Crisis Response Monitoring

Slovakia (November 2020)

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ABSTRACT

Although Slovakia´s quick response to COVID-19 pandemic led to very few cases and only 28 deaths, the overall economic impact has been much severe when Slovak GDP shrank by 3.9% y-o-y in 1Q2020, which was one of the largest drops in Europe. Unemployment has grown by now by 2 pp since the beginning of the year and is expected to grow. If the second wave hit the country, the existing strategies of containing the pandemic may not be sufficient to prevent future lockdowns.

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Labor market impact of COVID-19

- 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 25, 2020, Slovakia had recorded 1,630 cases, 28 deaths, and had 150 active cases. In terms of the number of COVID-19 deaths Slovakia occupied the last place among European states[1]
- This remarkable performance in terms of containing the first wave of 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 numbers of daily new cases started to pick up already in July 2020, and on August 21 (123 new cases) it surpassed the maximum from April 16 (114 new cases). The psychological threshold of 1,000 daily cases was surpassed on October 8, 2,000 on October 16, and 3,000 on October 25, 2020. As of November 1, the second wave of the COVID-19 pandemic is in full swing in Slovakia. In response, as the first country in the world, in late October and early November Slovakia is testing its entire population (excluding minors below 10 years of age) using antibody tests.
- The overall economic impact of the COVID-19 pandemic in Slovakia in Q1 and Q2 2020 has been severe. Primarily due to meager foreign demand, in Q1 and Q2 2020 Slovak GDP shrank by 3.9% and 12.1% y-o-y, respectively, which were slightly larger drops than the Euro Area averages. Slovakia was still 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, 2020, nevertheless.
- Given the strong growth in the Euro Area in Q3, 2020, a strong recovery can be expected in that quarter in Slovakia as well.
- Following a slight increase of the registered 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 6.57% followed by further increase by 0.63 pp to 7.2% in May as reported by the Central Office of Labor, Social Affairs and Family (COLSAF) The unemployment rate however remains relatively low, compared to Slovakia's historical data, when the unemployment rate reached about 15% just seven years ago.
- The unemployment rate peaked in July 2020, at 7.65%. Since then, it declined to 7.43% in September 2020.

1 https://www.worldometers.info/coronavirus/

Table 1: Unemployment rate in 2020

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Registered unemployment (in %)	4.98	5.05	5.19	6.57	7.20	7.40	7.65	7.60	7.43

Source: COLSAF

- Remarkably and surprisingly, whereas employers announced 2,242 mass layoffs in March 2020 and the number increased to 3,142 in April, May witnessed just 1116 mass layoff announcements. Another positive signal from the labor market was that in May 9,665 people registered as unemployed found jobs, which was by 3,744 (63%) people more than in April. The labor market strengthened by September 2020, when 21,988 registered unemployed found jobs.
- While there were 180,756 unemployed in April and 198,256 in May 2020, COLSAF also registered 67,950 thousand vacancies in May 2020 (92,106 in May 2019), circa 4 thousand less than in April. Workers were sought especially for the positions of machine operators and specialized crafts people, and unqualified workers.[2] The labor market improved by September 2020, when COLSAF reported 76,673 thousand vacancies (97,589 in September 2019).
- Temporary agency workers and workers on fixed term contracts belong to some of the most affected groups in the labor market.[3] Temporary agency workers are covered by the Labour Code provisions similar to regular employees and their employer (the agency) is obliged to offer at least 60% of the wage compensation if the employer cannot provide work to the temporary agency worker.[4] 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 we expect 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 work agreements** outside of the regular employment contract.[5] There are two types of agreements: (1) work agreements equivalent of part-time employment contracts and (2) work agreements for the maximum of 300 hours per year. Even if in the majority of cases employees with such work agreements 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 have a valid work agreement but cannot perform their work are entitled to a monthly subsidy of 210 EUR provided by the state as a compensation for the wage loss.

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

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

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

5 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.

Orientation and targeting of adopted measures

- 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 June 2020 published by the analytical unit of the Ministry of Labour show that as of June 10th, 496 thousand workers were supported by the government programs targeted on employers and self-employed. The majority of support requests were approved (87% of the amount as of May 2020 and 99% in June 2020 requested was approved and distributed). The average amount per employee has doubled between March and April. This increase was expected, as the compensations for April covered the whole month while March compensations reflected the period after the declaration of the emergency state in March 12th. In March the support varied between 251 EUR per self-employed to 284 EUR per employee in establishments closed or regulated because of the anti-pandemic governmental measures.[6] In April 2020 the amounts increased to 474 and 493 EUR, respectively.[7]
- As of October 30, 2020, the total amount of support targeted on employees, employers and self-employed increased to 636 million EUR and supported 1.825 million employees (135.4 thousand employers) and 274.9 thousand self-employed workers.[8]
- Of the total state compensation programs targeting the labor market, the largest support went to the manufacturing sector (39% in March and 46% in April, 2020) and to the wholesale and retail services (20% in April). The largest amount of the support per employee was in accommodation services (260 EUR in March and 546 EUR in April, per employee). As the support for March was paid only in May, the HORECA sector service providers were complaining that the support was late and insufficient. Indeed, in March 2020 42% of all newly registered unemployed were from this sector. Nevertheless, the share of the HORECA sector in unemployment decreased to 13% in May 2020.[9] We note, however, that in spite of the partial re-opening of restaurants in May 2020, 14% of them were not expecting to re-open at all because of bankruptcy.[10]
- As of October 1, 2020, the manufacturing sector received 48% of the financial support, whereas the wholesale and retail services sector received 11.9%. The largest average support per employee went to the public sector and defense (411 EUR), distribution of gas and electricity (392 EUR) and construction (383 EUR), whereas the corresponding amount in the manufacturing sector was 257.7 EUR.
- At the beginning of the pandemic, the representatives of employers complained about late and inefficient help from the government to enterprises and were afraid of significant job losses if more robust help was not provided.[11] They mostly criticized complicated administration of the measures adopted to alleviate the economic impact

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

7 https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_20200615.pdf

8 https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_update5_final.pdf

9 https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_20200615.pdf (Table 7)

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

11 AZZZ statement before the tripartite meeting on May 18th, 2020: https://hsr.rokovania.sk/2020-/

of the pandemic as well as insufficient support to big employers. A comparative study of the Centre for Public Policy, Bratislava, and Inline Policy, London, also concluded that the initial support of the Slovak government was not sufficient; a program of guaranteed loans for entrepreneurs was seen as the one missed the most.[12]

- The more recent figures on the demanded and actual take-up signal that situation has improved by May 2020, and employers could reach the support demanded.
- Although the May unemployment figures suggest some stabilization in the labour market, this might be temporary only, as the numbers of cases have started to increase in the second half of June in Slovakia and several other countries. The existing strategies of containing the pandemic may not be sufficient to prevent future lockdowns. Slovakia indeed implemented various measures to limit social contact in October 2020, and implemented, as the first country in the world, a mass testing of its entire population with COVID-19 antibody tests on October 31 and November 1, 2020. Pilot testing in four districts took place one week before the national testing.
- Some of the groups that may be less well covered by the first-aid measures 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), and employers and employees in the culture, sports and the HORECA sector. Some loan programs for municipalities have been announced in late June; however, it remains to be seen whether municipalities will be willing and able to use these programs in a larger scale.
- The support has been increased and broadened as of October 1, 2020. The main changes were that self-employed with contemporaneous employment contracts could receive first-aid financial support (helping especially the culture and sports sectors), the maximum support to employees increased from 880 EUR to 1,100 EUR, and the support to self-employed increased by 50%. A specific instrument was introduced for the HORECA sector (support 1.4% to 10% of revenues, depending on the decrease of revenues (compared to 2019), if the decrease is at least 40%)
- No impact studies about the effectiveness and efficiency of the adopted measures are available as of November 2, 2020.

Immediate liquidity support to businesses

- 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 of the argument 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.
- Self-employed are entitled to the support based on the decrease in their revenues (for the decrease from 20% to 39% the support is 180 EUR, for 40% to 59% decrease the support is 300 EUR, for 60% to 79% decrease the support is 420 EUR, and for a decrease of more than 80% the support is 540 EUR). As of June 2020, 40 thousand self-employed have been

12 https://www.cvp.sk/content/suhrnna-sprava-covid.pdf

compensated with the average amount of 250 EUR in March and 474 EUR in April, 2020 (the compensations were paid in April and May respectively). Remarkably, as of May 2020 the year-on-year rate of closed licenses for self-employment did not increase compared to 2019.[13] As of October 1, 2020, all the respective amounts were increased by 50%.[14]

Support of dependent workers

- Except allowing for post or email registration with the Labour Offices, the unemployment insurance scheme remained unchanged. As of April 24th the extension of unemployment benefit by one month was granted to those whose entitlement were running out during the crisis. Trade unions demanded the general duration of the UB be extended beyond this one-off technical extension. The measure was extended also in May. The last extension was adopted in July; however, this last extension also stipulated the end date of the extension, August 31, 2020.
- No new specific support to unemployed nor new ALMPs have been announced as of November 2, 2020.
- Kurzarbeit was introduced in Slovakia as a temporary measure, but there was discussion about the possibility to implement it as a systematic measure also for the future.[15] There also was a proposal to increase social insurance contributions by 1 percentage point (0.5 pp paid by employers and 0.5 pp paid by employees) to finance such permanent Kurzarbeit scheme.
- The Government approved a permanent Kurzarbeit scheme on October 21, 2020, which however still needs to be approved by the Parliament.
- The distribution of the support among firms of different size during the first wave (March-April, 2020) is reported in Table 2.

13 https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/isp_2020_prva_pomoc_slovensku_20200615.pdf (Graph 5)

14 https://www.employment.gov.sk/sk/informacie-media/aktuality/z-prvej-pomoci-rezort-vyplati-viac-penazi-vacsiemu-poctu-ziadatelov.html

15 https://www.employment.gov.sk/files/slovensky/ministerstvo/analyticke-centrum/analyticke-komentare/kurzarbeit-porovnanie.pdf

Table 2: The actual take-up of various instruments of Kurzarbeit based on the size of the workplace (as of June 10th, take up for March and April 2020)

	total	micro	small	medium	big	unspecified
Number of supported employers						
Support to closed workplaces	8 973	6 883	1 576	186	32	296
Compensation to employer in (partial) lockdown per employee	2 864	1 998	572	143	90	61
Compensation to employer based on revenues drop	11 597	8 010	2 541	583	188	275
Number of supported employees						
Support to closed workplaces	43 974	15 380	12 786	6 692	7 515	1 601
Compensation to employer in (partial) lockdown per employee	88 016	4 767	5 277	7 217	68 751	2 004
Compensation to employer based on revenues drop	229 822	70 823	32 814	39 728	80 537	5 920
Support per employee (in EUR)						
	341	248	386	365	394	399

Source: https://www.employment.gov.sk/sk/ministerstvo/vyskum-oblasti-prace-socialnych-veci-institut-socialnej-politiky/analyticke-komentare/prva-pomoc-slovensku.html (own calculations)

Working conditions and work organization

- The automotive sector, which is the backbone of Slovak manufacturing, stopped most of the production in March and April, but has been gradually restarted 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 was further liberalizing the border regime in June 2020 and effectively removed most restrictions during the Summer 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).[16]
- Telework and working from home is regulated in the Slovak Labour Code since 2007 (§ 52 of the Labour Code on working from home and telework). As of working from home and telework related to lock-down, most of the employees who worked on homeoffice

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

should fall under section 5 of this paragraph which explicitly says that homeoffice in exceptional situations is not considered as telework.

- If working from home or telework is considered as the main form of work, some working time regulation does not apply to the respective workers.[17] This may negatively affect the working conditions of such workers.

New labor market entrants

- The number of vacancies declined sharply and the labor market will offer only limited opportunities during the COVID-19 crisis. Even if the market improved mid-2020, the second wave that hit Slovakia and most of its key trade partners in the autumn will severely limit labor market opportunities for new entrants. The Economic Crisis Council proposed internship schemes for graduates to support their school-to-job transition; however, no progress has been done on this measure as of October 2020.
- Besides the proposed internship support Slovakia is running program to support young people in their first employment since 2015 through the program of youth guarantee and support the idea on the right on the first job. Nevertheless, some of the programs to support vulnerable groups on the labour market were stopped in May 2020 and are now reconsidered by the COLSAF.

Policy innovations and labor market trends

This seems to be too early to evaluate, but there are some discernible developments already:

- Whereas the policy innovation is rather incremental than revolutionary, temporary Kurzarbeit has been introduced as a novel instrument. The legislative process has been started to enact it as a permanent measure; on October 21, 2020, it was approved by the government and it is now going to be proposed to the Parliament.
- One of the key questions 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.
- The second wave hit Slovakia and it main trading partners in Autumn 2020. Slovakia gradually restricted social contact in September and October, and implemented, as the first country in the world, a mass testing of its entire population with antibody tests on October 31 and November 1, 2020.

17 - Arrangement of determined weekly working time, continuous daily rest, continuous weekly rest and on stoppage of work do not apply to such employee (§ 52a of Labour Code).
- In cases of substantive personal obstacles to work, the employee is not entitled to wage compensation from the employer (§ 52b of Labour Code).
- Employee is also not entitled to wage for overtime work, to wage surcharge for a period of work on a public holiday, to wage surcharge for the period of night work and to wage compensation for work in constrained working environments, unless the employee agrees otherwise with the employer (§ 52c of Labour Code).

Next steps and fiscal viability

- Slovakia could sustain the current policy stance for several more months, although its fiscal space is rather limited. As Slovakia has spent relatively limited amounts on COVID-19 financial aid during the first wave, this remains true as of November 2020. The second wave, which started in Autumn 2020, will however hit the economy hard, when it already has been weakened by the first wave. This will further affect the fiscal capacities of Slovakia.
- The current policies burden its fiscal position and future generations, which is particularly problematic given that Slovakia has one of the most rapidly aging populations in Europe.
- The overall situation is evolving rapidly, as Slovakia was vigorously reopening its economy in May and June 2020. After a strong third quarter of 2020, the Slovak economy will inevitably slow down in the fourth quarter, as the second wave has hit it and its main trading partners in Autumn, 2020.
- As Slovakia has been upgrading its anti-COVID-19 aid package, the hope was that with the reopening the economy it would rebound and the policy measures would not be needed for too long. Although the Summer indeed provided for a strong economic performance, with the second wave that hit Slovakia and its key trading partners in Autumn 2020 the situation has dramatically worsened.
- A large share of Slovakia's GDP 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 was nearly fully reopened as of June 2020, the key measures that were recommended: 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 under the new post-COVID-19 normal (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.
- Slovakia is discussing the use of EU Recovery and Resilience Fund, involving its governmental analytical units and about a 100 leading experts.
- However, as most of Europe, including Slovakia, could not prevent the second wave of COVID in Autumn 2020, the key challenge is the containment of the pandemic with medical and non-medical instruments. Slovakia implemented a mass testing with antibody tests in Autumn 2020, and is discussing strategies of targeted testing to prevent full lock-downs. The key challenge is developing a sustainable strategy of PCR testing, antibody testing, tracing, and social distancing to contain the pandemic until a vaccine or treatment becomes readily available.