



Weekly Briefing

**Slovakia Economy briefing:
Economy in 2018
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Recent Economic Development in Slovakia

While the main long-term problem of the Slovak economy was (and to an extent still is) a high rate of unemployment, it is now paradoxically coupled with a new phenomenon – a shortage of labor in select sectors and regions. According to Eurostat, the unemployment rate in Slovakia was at 7.4% – one percentage point higher than according to the methodology used by the Slovak government (which put the unemployment rate at 6.42% in September of last year), but it is still a historically good result for Slovakia nevertheless. The Slovak Ministry of Finances forecasts employment to fall by at least another half a percentage point to below 6%. Turning back to the number given by Eurostat, Slovakia's unemployment has almost reached the EU average of 7.3%, from being one of the EU members with the highest rate of unemployment (c. 14%) when it joined the EU in 2004. However, Slovakia's unemployment rate is still the highest of EU neighbors, by a relatively large margin – its EU neighbor with the next highest rate of unemployment is Austria (at 5.3%), and, of the Visegrád group of countries, Poland (at 4.4%). This shows that Slovakia is still not able to take advantage of the economic recovery and higher rate of economic growth of the EU to deal with its unemployment problem as effectively as the surrounding EU countries.

In light of this, it is interesting to note that it is the labor shortage which is becoming their main economic problem in the country. While Slovakia has long suffered from a brain drain of the most highly educated and qualified workers, e.g. in the IT sector or in science, the problem is becoming more widespread. Furthermore, several recently released reports claim that the lack of potential employees is not only a problem of these highly qualified and high earning positions, to which the banking sector can now also be added. The labor shortage is also increasingly affecting lower earning jobs in all three main sectors of the economy. In agriculture, there is an especial lack of seasonal

laborers during times of harvest, which leads to substantial losses when a lot of produce is not harvested in time. The entire agricultural sector is suffering from a labor shortage at all levels, as farming is perceived as unprofitable, low paying yet hard work, and complicated by administrative obstacles and red tape from the EU. A similar shortage, but for different reasons, is taking place in manufacturing, where the issue is more about the lack of suitably qualified prospective employees, even though one of the main selling points of Slovakia toward foreign investors was as a country with a relatively cheap yet still highly skilled industrial labor force. The most intensive shortage is in the car industry, but increasingly also among other experts in machinery and metallurgy, as well as in transportation or the textile industry. Of course, there are also shortages in unqualified jobs, such as warehousemen, due to the low wages in this area. The situation is the same in the service sector, with a lack of waiters, cooks or salespeople. But there is not much of a discussion on the necessity to accept foreign workers in this area, possibly because many positions require contact with customers, where Slovak workers (or at least fluent Slovak speakers) are preferred. It is also possible that the lack of workers is more easily filled in by, for example, students who work alongside their studies.

There are two main reasons for the shortage of skilled workers in industry. First, the job market in Slovakia has become saturated with foreign companies which bring investment in the manufacturing sector, mainly the carmakers and manufacturers of automobile components. In this, we can see that to a certain extent Slovakia has become a victim of its own success at attracting foreign investment in manufacturing. The other main reason for the industrial labor shortage is the fact that the Slovak education system does not adequately reflect the needs of the market and does not provide people with the necessary skills. The manufacturing positions require a different skill set than they used to in previous decades especially with regard to the advances in information technology. Once again, successive governments have tried to implement educational reforms to make the curricula more in line with the needs of

employers, but according to the declarations of the employers and their organizations, the problem does not seem to be getting any better. It would seem that in the current information revolution, the demands laid on suitable employees are increasing and changing faster than the education system can keep up with. Employers in both agriculture and industry are trying to mitigate this labor shortage by hiring workers from abroad. This is a rather unpopular strategy in Slovakia, because Slovaks still perceive a lack of job opportunities and claim that the government should work satisfy the needs of Slovak citizens first. There is still a hostile perception that immigrants steal jobs from the native citizens and drive down wages. The government is keenly aware of these sentiments, but it has to recognize the lack of the necessary workers and the need to solve the problem. Solutions that prioritize employing Slovak workers are of course preferred. For example, in the case of transportation, last year the minimum age for professional drivers will be lowered from 21 years to 18 years in the case of cargo truck transport, and from 24 years to 21 years in bus transport.

The most recent batch of government reforms to stimulate employment was announced in the first week of February this year, and it will become effective this May. The reforms contain a financial contribution of 4000 Euros (or 6000 in the case of married couples) to be paid to people who move over a distance of above 70 km to gain employment. It will also be easier for employers to hire foreigners, but only under special circumstances. The hiring process, especially the issuing of work permits to foreigners, will become faster and more streamlined, but only in the case of those possessing qualifications or skill which there is a lack of in the Slovak job market. Until this reform, employers had to wait thirty days to see if they could find a suitable Slovak candidate, while now they will automatically be allowed to hire a foreigner if the position requires a qualification or skill of which there is a shortage in Slovakia. The government and employers will cooperate each year in drawing up a list of jobs that fulfill these requirements. Moreover, this will only be allowed in districts where the

unemployment rate is under 5% (where there is a general shortage of labor, so most jobs will make it on the list). The government will also offer larger investment stimuli for companies that invest in the less developed regions of Slovakia. Other parts of the reform include higher bonuses and 13th and 14th salaries. The government argues that since the economy is doing well, the populations should have a share in the economic success of the country. The center-right opposition claims that the government is wasting money and that the employers will have to bear the brunt of these reforms. The opposition also says that Slovakia will face an “uncontrollable wave” of immigration workers.

The most substantial progress has been made in the case of automobile workers and IT specialists, where the lack of qualified professionals is the most acute. When it comes to autoworkers, most of them come from Serbia, with smaller numbers coming from Romania and Ukraine. This has been going on for the past few years, but these migrants are in Slovakia often illegally or semi-legally, without the necessary paperwork, and they are easy prey for unscrupulous job agencies which cheat them out of their earnings. In the past few months the Slovak government has implemented reforms to regulate the conditions of the acceptance of Serbian migrants. This is significant, because until recently the government response has either ignored the problem or tried to prevent companies from hiring workers from abroad.

In the case of IT specialists, Slovak entrepreneurs with government support have entered into an agreement with the Kharkiv National University in Ukraine, according to which Ukrainian university students of IT, mainly programmer, data analysts and systems engineers, will spend their last year in Slovakia, where they will intern with IT companies, with the perspective of being employed by these companies once they have completed their studies. The government and companies in Slovakia expect that this will help alleviate the IT specialist shortage. So far, twelve students have been selected, with the plan calling for at least fifty students from Ukraine for the first year of the project. This is not a significantly high number, considering that it is estimated that Slovakia needs

30000 IT specialists to make up the shortage. But the importance of the project lies more in the acceptance of idea that the organized invitation of foreign workers is the answer to Slovakia's workforce shortage problems.

The fact that the workers come from Ukraine and Serbia, European Slavic and Christian countries culturally close to Slovakia, makes it easier for the generally conservative Slovak society to accept them. This is an important feat in light of the controversy surrounding the acceptance of immigrants from the Middle East and Africa according to the migration quotas of the EU. Most of Slovak society is strongly opposed to these quotas, with the main argument being that Slovakia does not have a tradition of accepting and integrating migrant workers from geographically and culturally distant regions, like Western Europe does. Slovaks are afraid of a rise in crime and poverty brought by the immigrants, and the introduction of radical Islamism into Slovakia, as they see in media reports from Western Europe. Immigrants from Ukraine, Serbia and other geographically and culturally close countries do not face this stigma. This makes them a good intermediate stepping stone for the opening of the Slovak market, and possibly for the opening of Slovak hearts and minds towards accepting labor immigration from further abroad, should that course become economically necessary in the future.