

## UNEMPLOYMENT CONTINUES TO FALL

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*Unemployment in October fell to its lowest level for more than five years (13.75%). Its decline has lasted now continually for more than nine months. The problem of a high rate of unemployment is one of the main structural problems facing Slovakia's economy. The government over the past period has managed to make significant progress in this field, though despite this unemployment, in an international context, remains high. In the following article we will attempt to outline the possible causes of this situation and answer the question as to until when will the fall in unemployment continue.*

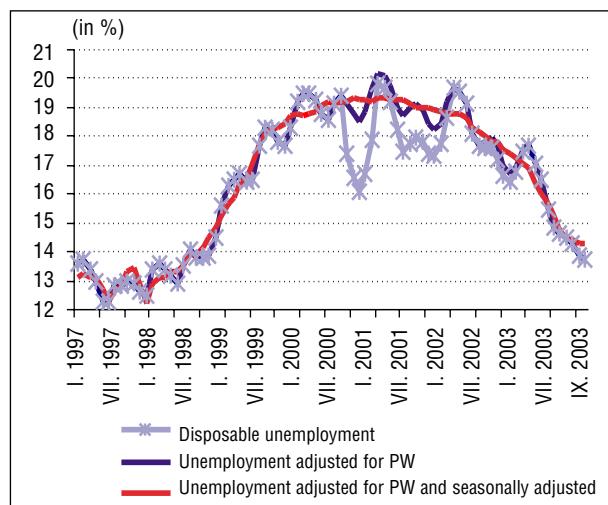
For a long time now Slovakia has faced high unemployment. It grew sharply at the end of 1998 and remained stuck at around 19% for a relatively long time. It had probably existed before in a hidden form of over-employment in former state enterprises. After cleaning up the labour market the number of jobless people jumped to more than half a million. The situation in the labour market began to change at the turn of the years 2000 and 2001. Unemployment stabilised and gradually began to decline. This may be considered a consequence of the restructuring steps in several branches of industry, as well as an economic upturn in the Slovak Republic. These trends broke down significantly in mid-2001, when the rate of unemployment in July for the first time in this summer month fell despite a seasonal inflow of graduates.

In the published figures a significant seasonal nature can be detected, which is perhaps typical for every country. In Slovakia spring and summer bring new jobs in agriculture and construction. These end with the coming of winter and the number of people registered at labour offices again increases. The rate of unemployment however significantly fell even following the smoothing out of seasonal influences and even after taking account of the effect of publicly beneficial works subsidised from public budgets.

### Causes of the fall in unemployment

Firstly, this has been a consequence of the completion of restructuring in several industrial sectors and the

**Graph 1: Unemployment rate**



Source: NLO, own calculations

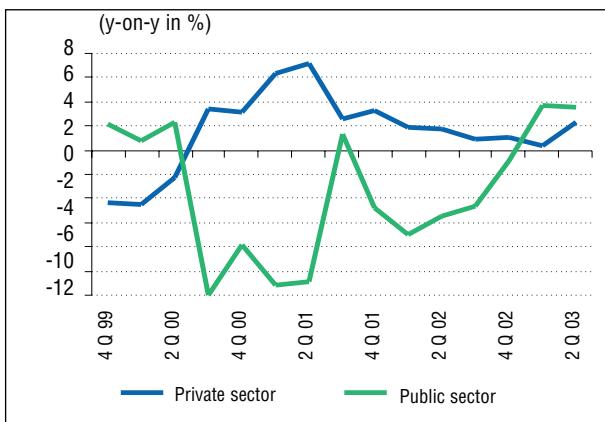
inflow of foreign investment. The original intention of some past governments to resolve the problem of unemployment by means of domestic resources and know-how (giving priority to domestic entities in the privatisation of state assets) had evidently failed. From 2000 a massive inflow of foreign investment was initiated, which helped create new jobs (mainly green field investments create new jobs).

Secondly, there has been higher economic growth, which generates new jobs. Despite a strong fall in the number of jobs in the public sector in recent years unemployment has not increased dramatically. This is thanks in particular to new job opportunities created in the private sector (graph 2).

A third factor has been administrative measures brought into life from the beginning of this year limiting abuse of the system. From January unemployed per-

\* The opinions expressed in this article are those of the authors and do not necessarily reflect those of the institutions for which they work.

### Graph 2: Jobs in the economy



Source: SO SR (LFS), own calculations

sons must register at labour offices twice a month. In this way those who receive benefits while working illegally either in Slovakia or abroad will be excluded from the register. We see this as a positive step, since the reported data on unemployment has begun to approximate to reality. International institutions (the World Bank, and the International Monetary Fund), as well as Slovak economists have for a long time been highlighting the problem of the "black labour".

Another reason for the reduction in the rate of unemployment has been public works (PW) and seasonality hidden in the figures. The former government ran from August 2000 a project subsidising jobs from public funds. The commencement of this practice contributed to an immediate fall in unemployment by 2 percentage points. However, from the long-term perspective this project resolves nothing and from the economic aspect is seen as ineffectively spent public funds, since after completing the project the unemployed persons again return to the register. This problem may however also be seen from the social aspect: long-term unemployment has serious social consequences on the unemployed and their families. Of course, seasonality may be removed from the figures by a simple econometric method. However, even after the seasonal cleaning the several-month long fall in unemployment is notable. In conclusion, it is necessary to add that the number of jobs subsidised from public funds at the start of 2003 is minimal. The reason is that the current government has to a large extent abandoned this project.

### Regional differences

Despite the successes recorded, the rate of unemployment remains highly differentiated between regions. The lowest rate of unemployment traditionally is in the capital (over the past year in the range of 4 to 6%). The highest rate is in the south and eastern parts of the

country (the unemployment rate in some districts reaching almost 30%). The reasons may be various. We consider one of them to be the low inflow of investment into certain regions. Naturally, investors choose a location autonomously, as a rule with a good infrastructure. And this is another problem. Investment flows into the country along motorways and railway corridors. These are so far built primarily in the western parts of the country. The government will therefore have to strive to build up a quality infrastructure also in other regions. However, doing so alongside an effort for fiscal restrictions will not be simple. A partial solution may be co-financing of these projects from EU funds.

### Workforce mobility

The high rate of unemployment is partially also connected with the low mobility of the workforce, for which Slovakia is often criticised. Mobility is naturally connected with the quality of infrastructure, which we have already mentioned. Commuting to work is better for example on quality roads or in fast and reliable trains. Solving the situation in the field of railways would therefore support greater mobility. A specific problem is the issue of housing, particularly in the capital. The shortage of apartments and euphoria from accession to the EU has pushed up their prices sky-high. Rents have moved in a similar direction. This situation for people commuting to work has certainly not been made any easier by the increase in excise duties on fuel. The government is therefore trying to resolve the situation through introducing special benefits for moving. In our opinion however this step will not manage to resolve the situation, since only an upturn in the construction of apartments and an improvement in the quality of infrastructure can help.

### Which data to take into consideration?

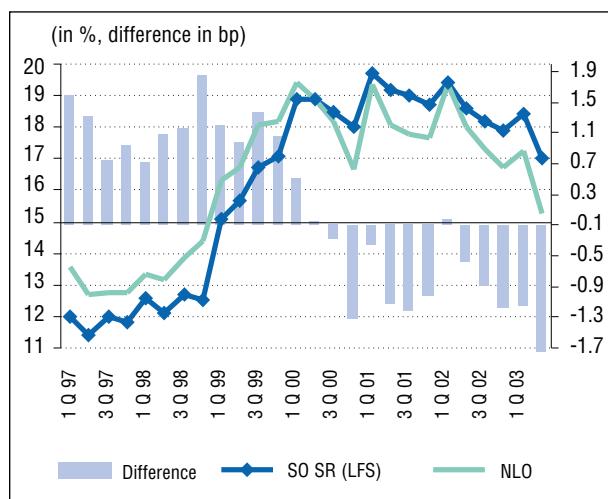
As we have already stated, the rate of unemployment this year has been falling sharply. In order that this claim is accurate it is necessary to state that various statements of the rates of unemployment have been used, which occasionally lead to differing conclusions. In Slovakia three rates of unemployment are regularly reported. Two of them are calculated by the National Labour Office, these being the rate of unemployed available for work (disposable unemployment) and the rate of total unemployment. The rate of unemployed available for work has been published by the National Labour Office since 1997 and is based on the "number of unemployed persons available for work". From the group of the total number of unemployed this excludes persons who are involved in requalification, work reha-



bilitation, temporarily unable to work and recipients of maternity leave benefits. Therefore this rate of unemployment is lower in comparison with total unemployment and provides a more optimistic picture of the actual situation. The difference between the disposable and registered rate of unemployment is roughly 1.5 percentage points. Another institution measuring unemployment is the Statistics Office of the SR (SO SR). In its calculation it relies on a labor force survey (LFS). This

Office may therefore be explained by the different method of gathering data and different methodology. The Statistics Office ascertains unemployment by means of questionnaires. A part of the people who are no longer in the National Labour Office register, may still be considered unemployed. Nevertheless, the difference has for a long-term period remained in the range of 2 percentage points (note: in the calculation we have used a "chronological average"). The question then arises as to which data are to be used. From the aspect of using the data it is clear that the information on the number of unemployed from the National Labour Office register is important due to the payment of financial benefits for the Ministry of Finance of the SR in compiling the state budget. From the aspect of macro-economic analyses it is probably better to use the data from the Statistics Office, this data being internationally comparable.

**Graph 3: Unemployment rate – comparison**



Source: SO SR, NLO, own calculations

data is published quarterly and represents the average rate of unemployment for the given period. In graph 3 it can be seen that the rate of unemployment according to the data from the statistics was for a period of approximately three years lower than the rate of unemployed available for work. The situation changed in 2000 in particular due to the mentioned publicly beneficial works. A further possible explanation is the abuse of unemployment support and social benefits. Unemployed persons receive support in unemployment and therefore also people working illegally either in Slovakia or abroad register themselves at labour offices. Therefore we can consider the rate of unemployment reported by the National Labour Office to be the maximum possible. For these reasons the figures published by the Statistics Office until the middle of the year 2000 were lower than data from the National Labour Office. Since this date unemployment has begun to be distorted by public works and the rate of unemployment according to labor force survey is now above the data reported by the National Labour Office. At present the number of jobs subsidised is minimal, despite this the difference between these two rates is as high as 1.7 percentage points. The higher rate of unemployment reported by the Statistics Office compared to the National Labour

### International comparison

The rate of unemployment in 2002 reached 18.5% (according to LFS). From the aspect of an international comparison this rate of unemployment is high. For example, in the eurozone as well as in the EU-15 the rate of unemployment moves only around 8%. From the aspect of the rate of unemployment, Slovakia (from among European countries) may be compared only with Poland and with the eastern part of Germany.

### Conclusion

From the data it results that since January 2003 unemployment began to fall significantly. In the coming years we expect that this trend will slow down and the decline will become only gradual. The economy, in our opinion, still requires significant structural reforms (reform of healthcare, education, completing the privatisation of large enterprises etc). These factors will later bring pressure for a decrease in the number of employees. One possible solution is a sufficient inflow of foreign capital into the Slovak economy, primarily in the form of green field site investments. These lead to the creation of new jobs and thus partially resolve the labour market situation. However, a relatively high economic growth, which in our opinion over the coming three years will move around 4%, may also contribute to the fall in unemployment.