

## *Jobs for Youth / Des emplois pour les jeunes*

### **Slovak Republic**

*Summary in English*

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#### **The challenges ahead**

1. Young people in the Slovak Republic are in a very difficult position with regard to the labour market. While the youth unemployment rate has decreased from the historical peak of 37% in 2001 to 27% in 2006, it remains the second highest among OECD member countries<sup>1</sup>. And almost 60% of unemployed persons aged 15-24 have been looking for jobs for more than a year, compared with an OECD average of 21%. A similar picture emerges with employment rates: only 26% of youth were in employment in 2006 against 42% on average in OECD countries. In 1995, 35% of Slovak youth were in employment.
2. Employment prospects for youth could well improve over the coming years. Economic growth in the Slovak Republic has exceeded 4% per annum since 2002 and is projected to reach 8% in 2007 – which should translate into higher labour demand in general, including for youth.
3. However, a number of barriers may prevent that demand from translating into higher employment for youth. In particular, vocational secondary schools are not well adapted to rapidly changing labour market requirements, although some steps have been taken to close the gap – an important fact, given that 75% of Slovak students attend this type of school. The links between tertiary education and the labour market are also weak, which may help explain why international firms newly established in the Slovak Republic face difficulties in finding qualified personnel.
4. In addition, there are demand-side obstacles to youth employment. Employers, for example, are faced with high social security contributions on low-paid work. There is insufficient support to help the young unemployed find work, and young parents to reconcile family and work responsibilities. Finally, job prospects for youth are hampered by limited regional mobility.

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<sup>1</sup> The OECD average in the Summary and Recommendations refers to 2005.

## Recent reforms in response to the challenges

5. In recent years, the Slovak Republic has taken a number of steps with the aims of facilitating the school-to-work transition, reducing youth unemployment, and improving the career prospects of young people. These steps include reforms in education, measures to strengthen work incentives and efforts to help young jobseekers in their search.

### *Basic education has been strengthened*

6. Between 1989 and 2003, new curricula and programmes have been introduced at all levels of education, and efforts have been made to design them to meet the needs of a market economy. Some decentralisation in school management has been achieved, while the over-specialisation of vocational schools has been reduced. These reforms have in fact maintained the share of school drop-outs at a low level.
7. However, serious challenges remain despite these reforms, especially concerning the quality and relevance of Slovak education. Drawing on 2003 data for the OECD's Programme for International Student Assessment (PISA), the mathematics performance of Slovak students aged 15 comes close to the OECD average, but their reading literacy performance is well below average.

### *Work incentives have been raised; youth participation in Graduate Practice has remained high due to the lack of targeting of this programme*

8. As from 1999, eligibility conditions for unemployment benefits were tightened significantly for youth, creating a strong incentive to search for jobs. The result is that only 2% of the young unemployed received unemployment benefits in 2005.
9. Likewise, the number of youth receiving social assistance (the so-called "benefits in material need") has been reduced by half. Social assistance is now provided on the basis of *household* income and not individual income, as was the case before 2003. Since most young people live with their parents, many of them are no longer entitled to social assistance.
10. A recent reform of the personal income tax laws has reduced the tax burden on low-paid employment, raising further the incentives to work. Fiscal incentives for students to engage in paid work have also been introduced.
11. Despite lower spending on active labour market programmes (ALMPs) since 2002, youth participation in these programmes has remained high. Participation in ALMPs is mandatory for registered jobseekers.
12. Graduate Practice, introduced in 2002, is one such ALMP. This programme is targeted toward *all* jobseekers under the age of 25, irrespective of their educational attainment and professional experience. It consists of a maximum six-month part-time internship in a firm or in the public sector, limited to twenty hours a week for which participants receive an allowance paid by the government (equivalent to 25% of the monthly minimum wage in 2006). There is no obligation for employers to provide training to the interns. In 2005, 8% of the youth labour force participated in the Graduate Practice programme.

13. The current wide targeting of the programme means that there is likely to be considerable deadweight: firms often recruit youth whom they would have hired even in the absence of the subsidy. Also, firms are reluctant to keep participants once the internship is completed, preferring to recruit a new intern. Less than 20% of the participants found employment after completing the programme in 2004/2005. This is likely to generate considerable turnover, loss of human capital, and repeated unemployment spells among youth.
14. Another ALMP, Activation Activities, was introduced in 2004 with the aim of boosting the job prospects of the long-term unemployed and those receiving social assistance. The programme involves participation in municipal and community work with simultaneous provision of income support. School-leavers account for 5% of the programme participants. The impact of Activation Activities on youth unemployment seems to be very modest at best: the youth long-term unemployment rate has remained fixed at around 15-17% since 2001.
15. Other programmes were introduced to support the employment of very low-skilled workers by helping them complete elementary and secondary education. These programmes mainly benefited jobseekers from the Roma community, a very disadvantaged group in the Slovak Republic, including its youth.
16. Finally, employment subsidies were introduced in 2004 for certain groups of disadvantaged jobseekers, including new school-leavers. In practice, however, the share of school-leavers who have benefited from the scheme was only 5% in 2005.

*Minimum wages are not a major barrier to hiring youth, and more flexible contracts have been introduced*

17. The level of the minimum wage, at around 36% of the average production wage in 2005 (compared to 47% in 2003), is low. Less than 2% of employees receive the minimum wage, which does not generally represent a barrier to employing youth, except possibly for unskilled youth in some regions. On the other hand, although social security contributions have been reduced somewhat, they remain high: almost 50% of gross wages. This may act as a barrier to hiring in the Eastern regions and for unskilled young people.
18. Flexible forms of employment to help recruit students and other workers for short-duration specific tasks were introduced in 2004 (the so-called “work performance agreements” and “temporary jobs for students”). Social contributions on these forms of employment are very low – a mere 1.05% of the agreed remuneration. While these contracts might help youth begin to acquire experience, they also tend to raise job turnover and may lead to greater labour market duality in the long run. Indeed, employers may be reluctant to provide a regular contract – which entails the payment of significant social security contributions – to young workers. However, the share of these contracts and standard temporary contracts in total youth employment was still low in 2005 (13%, compared to an OECD average of 32%).

### **Recommendations for further reforms**

19. While many of these reforms are in the right direction, they are also rather timid – available evidence suggests that they have not really improved youth job prospects. That in turn suggests that further reform effort is needed to tackle the multitude of remaining demand- and supply-side barriers, while maintaining a balance between

flexibility and security. The remainder of this Summary offers proposals to deal with these challenges.

20. Many of the recommendations that follow imply more public spending. While this may be warranted in a good number of cases, the government should make sure that it gets value for its money and has in place mechanisms to evaluate the new measures and verify that they are cost-effective.

### *Ensuring that youth leave education with adequate skills*

21. On the education side, the main challenge is to improve the links between the education system – notably vocational education — and the labour market. Collaboration between firms and vocational schools should be strengthened. In particular, there is a need to introduce apprenticeship within firms and to develop their participation in the funding of vocational education.

- *Involve firms not only in the definition of curricula but also in funding vocational education.* It is crucial that the skills developed in vocational schools match those in demand in the labour market. To achieve this, the education authorities should work closely with the social partners in defining the content of curricula. In addition, enterprises should co-finance vocational education. The recent interest of foreign car companies in financing workshops at vocational schools is due to the number of unfilled vacancies in this sector; the government should view this as an opportunity to involve more firms in co-financing vocational education on a permanent basis.
- *Put in place an efficient apprenticeship system.* It is crucial for vocational education to put greater emphasis on so-called “dual” apprenticeship systems, where teaching in school alternates with learning at the workplace. Experience with such dual systems suggests that this can be an effective way of enabling a much smoother transition of young people into jobs. The system should i) give youth the possibility of acquiring real work experience in firms; ii) include a formal learning component, provided in the classroom; iii) lead to the acquisition of a formal qualification; and iv) be co-financed by employers and the government. The level of apprenticeship pay should be such that it provides strong incentives to employers to offer a sufficient supply of apprenticeship places. At the same time, the programme should lead to recognised and valued qualifications in the labour market in order to encourage young people to take up apprenticeship.
- *Promote tertiary vocational education.* Certain fields of study, for example automation, could be organised around two- to three-year courses with a professional orientation, as is done in other countries. This should include long internships in firms as part of the normal syllabus. Developing higher vocational education is costly and should be co-financed by firms requesting specific skills.
- *Introduce early and sustained intervention programmes for school drop-outs and unskilled youth.* Eighteen per cent of youth aged 15-24 are

neither in education nor in employment. It is suggested to introduce as early as possible sustained intervention programmes at schools, such as after-class support targeting at-risk youth. Such interventions should begin prior to 6 years old with early childhood education and care targeting the most disadvantaged children and supporting their families. This support should persist through compulsory schooling.

- *Provide youth with quality career guidance and information on job prospects before they engage in a particular field of study.* A lack of information for parents and pupils on future labour market prospects persists, and should be addressed. It is important that freedom of choice in education goes hand-in-hand with objective information on what can be expected in terms of career after school. One possibility is to implement an occupational projection system to assess future needs and to disseminate that data to guidance institutions, schools, and students and their families to help them make more informed choices.

### *Strengthening welfare and activation policies*

22. Forty-five per cent of youth are still looking for a job one year after leaving school. There is a real risk that, unless a job becomes available or an opportunity to go back to school or participate in an ALMP is offered, many of these youth will get discouraged and withdraw from the labour force. It is therefore crucial to intervene early in the unemployment spell. The following steps are recommended.

- *Ensure that unemployed youth register with the public employment service (PES) and that a targeted approach is implemented at an early stage for them; further, oblige youth on social assistance to register with the PES.* The young unemployed should be a priority target group for the PES. Registration of unemployed youth with the PES is high (60% of those aged 20-24 register) but on a declining trend due to tightening obligations for jobseekers. It is crucial for the PES to devote enough time and resources to screen young jobseekers at an early stage and make proposals adapted to individual needs. Those with low or inadequate qualifications should, as soon as possible, be offered an opportunity to receive more education in second-chance schools, combined with the possibility to acquire work experience in a firm. The PES also needs to adopt a targeted approach with participants in the Graduate Practice programme (see the following recommendation). Finally, youth living in households receiving social assistance benefits who are deemed able to work should be obliged to register with the PES.
- *Transform Graduate Practice into a true activation programme.* It is important to offer unemployed youth an opportunity to acquire initial experience in firms that leads to formal qualifications. This would imply transforming Graduate Practice from an internship programme into a system combining work experience in firms *with* training. Training could be organised at the workplace or at schools and should be certified. The PES should offer the opportunity to participate in Graduate Practice early in the job search only to young jobseekers who are deemed

disadvantaged in terms of skills, professional experience, or other characteristics. Other young jobseekers could have access to the Graduate Practice programme only after a period of unsuccessful job-search has elapsed (perhaps six or nine months).

- *Strengthening activation policies for young Roma.* The employment situation of the Roma minority is extremely worrying, with unemployment rates ranging between 60% and 80%. As mentioned earlier, jobseekers who have not completed elementary or secondary education (which is the case for many Roma youth) can benefit from targeted training programmes, but young Roma should receive more support. Indeed, some of the above recommendations on youth long-term unemployment, early intervention at schools and apprenticeship places will benefit Roma youth disproportionately. For that reason, their implementation should go hand-in-hand with the enforcement of vigorous anti-discrimination measures, both at schools and in the labour market.
- *Modify the eligibility condition for receipt of unemployment benefits.* Access to unemployment benefits may have become too tight. This could be changed if, and only if, receipt of unemployment benefit is accompanied by strong activation and job-search support, along the above lines. It is recommended to reduce the contribution requirement towards levels commonly found in other OECD countries (one year of insured employment, sometimes less, very rarely two years – compared with the present three years in the Slovak Republic).

### *Removing barriers to youth employment*

23. It is also important to ensure that enterprises have an incentive to recruit young workers, and to strengthen the employment opportunities for young parents. To achieve this, the following suggestions are offered.

- *Lower social security contributions on low-paid work.* Labour costs are too high with respect to the expected productivity of youth with low qualifications. It is recommended to lower employers' social security contributions on low-paid work by 15-20%, as suggested in the 2005 *OECD Economic Survey* of the Slovak Republic. Lower contributions would not only improve the job prospects of unskilled youth, but also provide employers with further incentive to declare workers with the social security agency. Although the incidence of undeclared work is not known precisely, it is reportedly higher among young workers.
- *Introduce an employment subsidy for long-term unemployed youth.* There are also grounds for providing time-limited reductions in employers' social security contributions for the recruitment of long-term unemployed youth.
- *Reduce the duration of parental leave from three years to one year and develop child-care facilities.* Extended parental leave has been shown to act as a barrier to the return to employment of parents of young children.

To help young parents reconcile their work and family responsibilities, it is suggested to reduce the duration of parental leave to one year and simultaneously to develop good and affordable childcare facilities. Introducing a system of certification for at-home carers would be a cost-effective way of enabling young parents to engage in economic activity. Developing part-time work is another possibility for helping stop the worrying decline in employment rates of young women aged 20-29 from already low levels, especially for those with children below six years old.

- *Protect youth on flexible forms of contracts from abuse.* As mentioned earlier, flexible forms of contracts have been introduced recently that employ youth for specific tasks with almost no social security. The government should ensure that the use of such contracts is restricted to specific tasks as stipulated by law, and does not substitute for standard employment contracts. In order to avoid abuse, it is recommended that the Labour Inspectorate assess the quality of the labour relationship governing such contracts.

#### *Promoting the geographic mobility of youth*

24. Youth unemployment varies considerably across regions. To some extent this is due to insufficient geographic mobility within the Slovak Republic. The following steps are recommended.

- *Promote internal mobility of jobseekers.* Internal mobility could be facilitated to help jobseekers taking up new employment opportunities in other regions. A programme designed to facilitate the geographic mobility of the unemployed of all ages failed, because it required beneficiaries to change permanent residency. The programme was replaced in 2006 by a new programme financing part of the expenses linked with commuting from the place of permanent or temporary residency to the work place. This interesting policy innovation should be evaluated to see if it encourages commuting, especially among youth.
- *Develop the rental housing market.* Another factor that limits the movement of youth from depressed to low-unemployment regions is the lack of affordable accommodation in the latter. As a result, 85% of youth aged 20-24 and 60% of those aged 25-29 live with their parents, often in rural areas and small towns where jobs matching their qualifications are not available. Social housing provided at an affordable price, which at present represents less than 4% of all main residences, should be increased. In addition, private rental housing is almost nonexistent, one reason being the strong legal protection granted to sitting tenants. Such housing, and construction of new accommodation, should be encouraged through the setting of an appropriate legal framework; some of the higher investment in social housing could be targeted towards low-income young households.

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