

SLOVAK REPUBLIC

Strong growth in GDP per capita has contributed to a narrowing of the large income gap vis-à-vis OECD countries and has helped boosting employment. However, unemployment remains high.

Priorities supported by indicators

Reduce the tax wedge for low-income workers

A high tax wedge (due to high social insurance contributions) is reducing formal-sector employment and contributing to high rates of unemployment in regions with a high concentration of low-skilled workers.

Actions taken: Tax and social security reforms have significantly reduced marginal income tax rates faced by low-income earners, facilitating the transition from unemployment to work.

Recommendations: Social security contribution rates should be reduced, in particular for lower-wage earners so as to stimulate low-skill job creation in the formal sector.

Reform the education system to improve human capital

Secondary school enrolment rates are relatively high in Slovak Republic but test scores of 15-year old students are below the OECD average. In addition, the proportion of tertiary graduates in the population is low, and access to programmes is restricted.

Actions taken: Responsibility for primary and secondary schools has been devolved to the regional and municipal authorities to provide greater autonomy and responsiveness to community needs. The establishment of private universities has been authorised.

Recommendations: Increased autonomy in primary and secondary schools needs to be coupled with increased accountability. At the tertiary level, tuition fees combined with student loans and income-contingent re-payment should be introduced, and competition between universities encouraged.

Reduce state control of business operations in network industries

Even though progress has been made in the process of privatisation and encouraging competition in network industries, prices remain high, notably in energy and telecommunications, and the state holds a controlling interest via special voting rights (golden shares) in certain sectors, including railways.

Action taken: Sectoral regulators and competition authorities have begun implementing a pro-competition regulatory framework. The public service obligations of network enterprises are increasingly funded from the state budget.

Recommendation: Limit the use of special voting rights in general and, where national security concerns are involved, replace such voting rights with arm's length regulation. Monitor closely price development in network services and respond to anti-competitive behaviour with full enforcement of the new regulatory framework.

Other key priorities

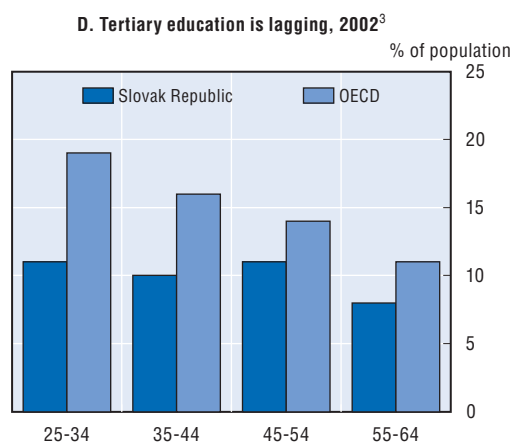
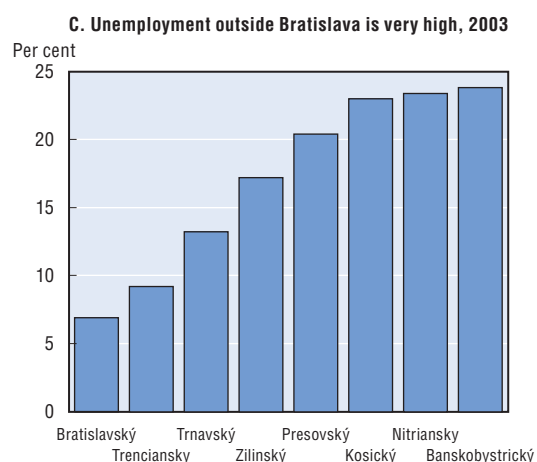
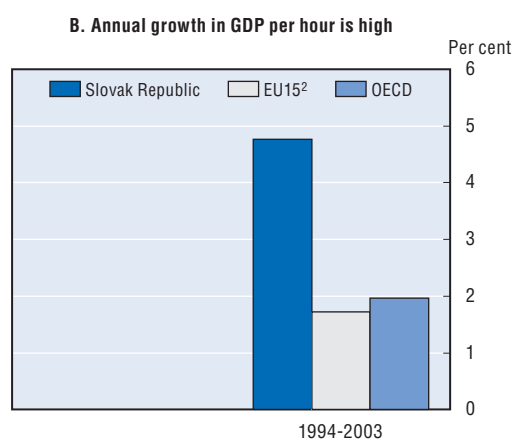
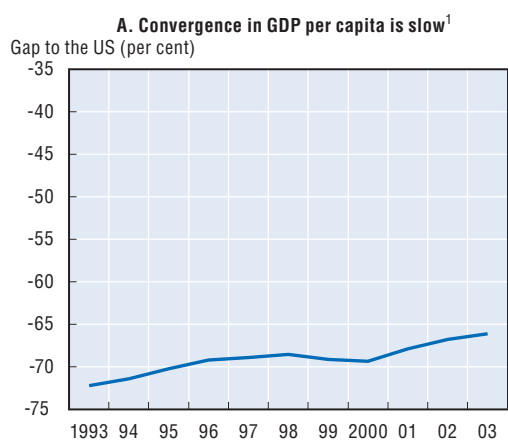
- Strengthen the governance of the judicial and law enforcement systems to ensure a more efficient, transparent, and rules-based business environment.
- Progressively increase the statutory retirement age for public pension eligibility towards 65 years for both men and women in order to make the pay-as-you-go pension system sustainable.

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Structural indicators

	1990	1995	2000	2003
Trend GDP per capita (% growth rate)	3.2	4.0
Trend employment rate	59.5	58.7
Trend participation rate	69.1	69.3
Structural unemployment rate (NAIRU)

Source: Estimates based on OECD Economic Outlook, No. 76.



1. Percentage gap with respect to US GDP per capita (in constant 2000 PPPs).
2. Excluding Austria and Luxembourg.
3. Tertiary type A programmes, providing qualifications for advanced research or higher skill professions.

Source: Charts A and B: National Accounts of OECD Countries, 2004; OECD Labour Force Statistics, 2004; OECD Economic Outlook, No. 76; Chart C: Statistical office of the Slovak Republic; Chart D: OECD Education at a Glance, 2004.