Joint Project of the European Social Partner Organisations

Study on restructuring in new Member States

SLOVAKIA—COUNTRY DOSSIER

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CONTENTS

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The present report represents an expert view and does not necessarily reflect the view of the European Social Partners

I. INTRODUCTION: THE DOSSIER – WHAT FOR?

The following dossier introduces the main challenges faced by the Slovak economy from the point of view of restructuring, both at the company and at macroeconomic levels.

It was discussed by the Slovak Social Partners in the presence of the European Social Partners at a common Seminar that took place on 2 February 2006 in Bratislava.

The dossier does not aspire to build innovative insight about Slovakia's economic or social situation, and this neither on political nor on academic ground. It seeks to present the existing facts and data from the point of view of restructuring treated as a phenomenon, a process and an object of the public debate.

It presents different points of view. It seeks to stimulate the debate about the future of the Slovak economy, raise issues which can be treated in a constructive way, contribute to build trust and confidence among the stakeholders in view of mobilizing them for the future of the Slovak Republic and the Slovak social dialogue within the European Union.

In the first part, the dossier highlights the main economic drivers and trends, and the main concerns expressed by the stakeholders in terms of growth, employment and competitiveness. Then it focuses on restructuring as a process and object of the public debate nourished by concrete cases of restructuring in Slovakia. It ends up presenting an overview of the social dialogue challenges and questions currently being discussed or that could possibly influence considerations on restructuring.

It is based upon interviews and the analysis of data and documentation. All the additional materials are presented in the Annexes.

II. ECONOMIC TRENDS AND CHALLENGES

This section:

- ☞ **presents drivers of growth which contribute to pushing forward the Slovak economy,**
- ☞ **enumerates economic challenges and macroeconomic issues which will have to be tackled with in order to preserve Slovakia's competitiveness, and**
- ☞ **identifies employment and labour market challenges.**

2.1. DRIVERS OF GROWTH

Slovakia has completed a big part of the transition from a centrally planned economy to a modern market economy. Major privatizations are nearly completed, the banking sector is almost completely in foreign hands, and the government helps to facilitate a foreign investment boom with business-friendly policies, such as labor market liberalization and a 19% flat tax rate[1]. The principal long-term objective of the economic policy is to ensure the highest possible growth in the competitiveness of the Slovak economy based on growth of employment rates and productivity and thereby also the growth of salaries and living standards.

a) GDP growth

During 2001-2004, Slovakia's economic growth was higher than expected, despite the general slowdown in the EU economies. This is largely due to steadily increasing exports and a robust private domestic market. Slovakia's GDP per capita for 2003 was 52% of the average for the EU-25[2]. The economy grew by 5.5% in 2004, the strongest growth in Central Europe for the fourth consecutive year, and is predicted to expand by more than 5% annually in 2005-2007. The biggest share of the GDP growth comes from the construction sector – the growth in this sector was 12,2% as of June 30, 2005.

GDP dynamics as well as GDP composition by sector are presented in Graphs 1, 2 and 3 at Annex 3.

Social partners' opinion

Trade unions' representatives describe Slovakia as "the Central European Tiger", but at the same time claim that the visible economic growth is of a conservative character due to a low

[1] http://www.cia.gov/cia/publications/factbook/geos/lo.html.
[2] http://www.itapa.sk/index.php?ID=369.

level of social development. The same organization highlights a differentiated level of economic policies prepared by the country. In their opinion economic policy is being developed quicker than social policies, and they call for more sustainable development. One of the employers' organizations agrees with the position of trade unions representatives adding that the biggest economic problem of Slovakia is lack of priorities for policies, especially lack of development priorities for Slovakia.

b) Inflation

Although nominal wages grew moderately by an average of 6.3% in 2003, in real terms they increased by just 2.0%, while inflationary pressures and external imbalances were kept in check and core inflation continued to decline. Consumer prices grow at a stable rate. The National Bank of Slovakia expects that inflation should remain stable at 3,5 % in 2005. In July 2005, the inflation rate dropped to 2% and is forecast to be less than 3% in 2005 and 2.5% in 2006. Relevant data is presented in Graphs 4 and 5 at Annex 3.

c) Foreign trade

Slovakia represents a young and open economy – this feature is seen in the share of exports and imports in relation to GDP. Positive foreign trade developments continued during the first two months of 2004.

- Export

The growth of the Slovak economy was mainly caused by external demand from outside the country[3]. Manufacturing of cars, airplanes, ships and transportation equipment has contributed to a significant portion of the exports – almost 29%. In 2003, exports of this group of products increased by 69% in relation to 2002. The largest share was generated by the automotive industry, especially by Volkswagen. Significant contribution to exports also came from the production of metals and metal products, machinery and electrical equipment. Data on export structure is presented in Graph 6 at Annex 3.

- Import

The largest share was created by imports of machinery and electrical equipment for industrial purposes (26%) and this trend is expected to continue. Import of transportation equipment is also an important component of the total import structure.

Looking at the territorial structure, foreign trade with the European Union (EU-15) is increasing: over 60% of Slovak exports go to the EU-15, and 52% of imports come from the EU-15. In the

[3] *Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004.

future the EU is expected to have a dominant position in Slovak foreign trade. Germany is the largest Slovak trade partner. Exports and imports from Germany significantly increased in 2003, probably as a result of increased production of Volkswagen in Slovakia. A considerable change was also recorded in trade with the USA. While exports to this country increased by 4.5 times in 2003, imports from the USA stagnated. Imports from the USA represent 5.3% of the total imports.

The share of the production of vehicles in the total export structure looks set to increase. Exports should increase also in electronics manufacturing. Imports are growing mainly due to the dynamically developing investment projects. In the long-term it should result in creating a wide manufacturing base for exports and foster conditions for productivity growth and further development[4].

In 2003 the foreign trade balance significantly improved and reached 23.5 billion SKK which was approximately 2% of GDP. The deficit of foreign trade dropped by more than three quarters – by 72.4 billion SKK – in comparison with 2002. These results are the best since the end of 1995. The deficit decreased mainly because of a significant growth of exports, approx. by 23.2% in SKK. Imports grew more slowly because of lower domestic demand and fiscal restrictions, and reached 10.5%. A positive development continued also in the first quarter of 2004, but at a slower pace. It is estimated that the pace of foreign trade growth remains at the same level.

d) Foreign Direct Investment

The penetration of foreign direct investment (FDI) has been high, spurred by business investment, particularly in the export-oriented manufacturing sector. Productivity gains have been the most visible in sectors with significant FDI inflows and where competition is the strongest[5]. In the run-up to EU accession, the Slovak economy continued to grow during the fourth quarter of 2003 due to rising FDI inflows. The total inflow of FDI in 2003 – encompassing capital assets and reinvested profit – was over 899.4 million EUR and was lower than in the previous four years. The total amount of FDI received by Slovakia up to 2004 is 9.1 billion EUR. Graph 8 at Annex 3 presents the volume of FDI.

The FDI inflow in 2004 and 2005 is principally thought to be related to the construction of two automobile manufacturing plants in Slovakia (PSA and KIA). The volume of FDI may also be influenced by the successful completion of investment projects in the manufacturing sector, especially machinery. As of 30 June 2004, 38% of the total amount of FDI was concentrated in the manufacturing sector and 23% was injected into financial services. Other sectors supported

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[4] *Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004.

[5] http://www.oecd.org/document/22/0,2340,en_2649_201185_35384278_1_1_1_1,00.html.

by an important amount of FDI were wholesale and retail with 11.8%, production and distribution of electricity, gas and water with 11%, and transportation, postal services and telecommunication with 9.9%. Of the total amount of investments, Germany has provided 24%, mainly into manufacturing, followed by Holland (16.6%), also in manufacturing; the figures of Austria (13.9%) and Italy (8%) were bank investments. The regional distribution of FDI revealed the dominant position of the Bratislava region which received 70% of the total amount. This region also attracts the majority of new investments.

e) Why to invest in Slovakia?

Some of the Slovakia's advantages for investors are worth mentioning:

- Favourable tax regulations:
    - 19% corporate income tax rate;
    - 0% tax on dividends, real estate transfers, gifts and inheritance;
    - up to 100 % repatriation of all post tax profits in foreign currency;
    - advantages resulting from agreements on prevention of double taxation and on investment protection;
    - an attractive tax credit system.
- Presence of big investors such as Volkswagen, U. S. Steel Kosice, s.r.o., Peugot, KIA, also foreign investors in the banking sector;
- Skilled and relatively young labor force with a high percentage of university graduates and relatively low labor costs: about 15% of the EU average;
- Up to 100% company ownership[6].

However, despite the above mentioned favourable conditions for investors, the Slovak economy faces typical problems of the transition economies such as high unemployment, lack of linkages between the education system and labour market needs resulting in skills mismatches, relatively lower productivity and bureaucracy that may sometimes hinder entrepreneurship.

f) Privatisation

In 1999, the privatisation of strategic enterprises and banks was launched. Following the privatization of the financial institution *Slovenská sporiteľňa, Všeobecná úverová banka* was also privatised in 2001 and the privatisation of the insurance company *Slovenská poisťovňa* is under preparation. Following the privatisation of *Slovak Telecom*, preparations for privatisation are underway at the gas enterprise *Slovenský plynárenský priemysel (SPS)*, the state joint-stock company *Transpetrol* and the electricity enterprise *Slovenské elektrárne.* The Government has decided to sell 49% of shares of the bus transport companies SAD, transformation of the

[6] *Slovakia - a Gateway to Enlarged Europe,* Embassy of the Slovak Republic, Washington, 2005; *Country Profile Fact Sheet: Slovakia*, Euro Info Centre Working Group Market Access, 2002.

Slovak Railways and the gradual liberalisation of the Slovak electricity and gas markets. The privatisation process in the Slovak Republic was divided into so-called small-scale and large-scale privatisation.

- Small-scale privatisation

The small-scale privatisation process started in 1991. It was primarily privatisation of small retail units in trade and service sectors, and to a small extent, small-sized industrial and construction units. The method applied was selling shares through an auction, especially the so-called the Dutch auction[7]. Small-scale privatization was nearly completed be the end of 1992. Approximately 10,000 small enterprises, including 6,500 retail shops, were privatized. Privatization of urban housing was to follow in late 1993[8]. While the subject of small-scale privatisation was only movable and immovable objects without the rights and liabilities being transferred, in large-scale privatisation the subject of privatisation included the assets of the enterprises as a whole or a part thereof, including the rights and obligations.

- Large-scale privatization

The first wave of large-scale privatization began in 1991 and by September 1993, 703 enterprises valued at $5.3 billion had been privatized. The first phase of large-scale privatization included 751 companies, and a second phase, which involved 650 medium-and large-scale enterprises, was implemented in late 1993[9].

From the beginning of the privatisation process 1 556 privatisation projects were submitted, containing 2 800 proposals for the creation of separate privatisation outputs. The total value of property transferred via the National Property Fund of Slovak Republic (NPF SR) from the beginning of the whole privatisation process reached SKK 365.96 billion[10].

In 2000 the largest privatisation acquisition in the history of the country was accomplished – the sale of 51 % of Slovak Telecom to Deutsche Telecom AG Bonn, Germany. Deutsche Telecom AG Germany became an owner of 51 % of the capital share worth EUR 1 bill. (of that EUR 600 mill. flowed to a state budget). The remaining 49 % of its assets was retained by the state (34 %) and the NPF SR (15 %)[11].

[7] The Dutch auction is an auction in which an item is initially offered at a high price that is progressively lowered until a bid is made and the item sold.(http://www.basiclaw.net/Principles/Central%20taxation.htm).

[8] http://dosfan.lib.uic.edu/ERC/economics/trade_reports/1993/SlovakRepublic.html.

[9] http://dosfan.lib.uic.edu/ERC/economics/trade_reports/1993/SlovakRepublic.html .

[10] There were 3 National Property Funds created: one federal, one for the Czech and one for the Slovak Republics. These funds were independent legal entities charged with the implementation of approved privatization projects, concluding buyer-seller contracts, organizing public tenders and public auctions, and temporarily administrating government holdings in transformed or partially privatized enterprises; (http://www.freedomhouse.org/nit98/slovakia.pdf).

[11] http:// www.slovakembassy-cd-london.co.uk/index/podstranka.php?id=39&idm=0.

Graph 9 at Annex 3 provides data on revenues.

g) Transport

There are 6 international airports in Slovakia that can be used for both passenger and cargo flights. Railroad connection and railway transport services in Slovakia are secured by 3 665 km of railways. Most of these tracks belong to networks of international corridors and their characteristics meet international standards. Slovakia has a network of good quality highways with a total length 297 km. This network is connected to main European corridors:

- Corridor No. IV: Berlin - Praha – Bratislava – Budapest – Istanbul
- Corridor No. Va: Bratislava– Žilina – Košice – Ukraine
- Corridor No. VI: Gdaňsk – Katovice – Žilina

Future extension of the highway network is planned, so that it will reach a final length of 658 km. For the passenger and cargo transport, a network of first class roads can be used. This network is also a part of international transport corridors.

Access to ship transport in Slovakia is possible through European corridors. Currently, there are 3 public ports for cargo ships in Slovakia: Bratislava, Komárno and Štúrovo. It is planned to use the big transport potential of the Slovak rivers in the near future. The ´Váh waterway‘ is based on the idea to connect Slovakia to international water corridor and building several ports on this river.

h) Industrial parks

The industrial park law helps municipalities to develop special industrial zones through funding assistance from the Slovak government. Priority is given to industrial parks in regions with high rates of unemployment. Currently, there are several well-developed industrial parks in Slovakia ready for investment.

i) Entrepreneurship

According to the trade union representatives there were approx. 2 200 enterprises created between 2002-2004. At the end of 2003 there were 64 400 enterprises in Slovakia. This is 4 900 more than one year earlier, representing an increase of 8.2%. In terms of the size of enterprise (measured by number of employees), enterprises with up to 9 employees predominate (76.4% as of 31.12.2003, and this is 4.1 percentage points higher than in 2002). As for the ownership structure, the majority of enterprises are privately owned (98.9%). In 2003, approx. 125 new enterprises were established every month, which constitutes an average increase of 31 enterprises monthly in comparison with the previous year[12].

[12] *National Action Plan for Employment 2004-2006*, Ministry Of Labour, Social Affairs And The Family Of The Slovak Republic, October 2004.

One of the Slovak social partners stresses that it is very important to remember that between 1945 and 1989 there was no private ownership in the former Czechoslovakia at all. Therefore developing and stimulating entrepreneurship is a bigger challenge than in the countries where certain forms of private enterprises functioned, for example as in the Polish arts and crafts sector.

2.2. MACROECONOMIC CHALLENGES

There are 3 main challenges Slovakia faces at the moment:

- Firstly, the aim of joining the Euro zone as soon as the *nominal convergence criteria* will have been met on a sustainable basis sets a demanding macroeconomic agenda. A significant reduction in fiscal deficits is required, not only to meet the fiscal rules, but also to pursue disinflation objectives without an excessive tightening of monetary conditions that would impact negatively on growth and employment creation.

- Secondly, the *employment rate needs to be raised* through radical changes in the incentives to both supply and demand of labour while maintaining households' confidence and political support for government policies. The recently introduced legislation to strengthen work incentives should be fully enforced.

- Thirdly, there is an obvious need to push for *smaller and more effective government*, against a strong constituency in favour of maintaining the status quo which entails one of the highest shares of general government jobs in total employment among OECD economies. Public sector reform is necessary not only to support fiscal consolidation, but also to promote a pro-growth environment[13].

a) Expanding sectors

According to the trade union representatives there is a "parallel trend" of developing enterprises in the same sectors. From 1991 to 2004, these changes occurred in the following sectors: wholesale, retail and enterprises providing service for the machinery equipment. In the same period in these sectors approx. 3 183 enterprises disappeared.

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[13] http://www.oecd.org/document/45/0,2340,en_33873108_33873781_26234605_1_1_1_1,00.html (28.11.2005); more on this subjesc can be found in *Competitiveness Strategy for the Slovak Republic until 2010*, National Lisbon Strategy, http://www.mfa.sk/zu/index/podstranka.php?id=2912 (15.11.2005).

Booming automotive industry

Slovakia has become one of Europe's most attractive locations for automotive industry investments in the past five years. It is very interesting to note that the automotive industry has been building on the remains of the armament industry. While using the same infrastructure (location), the automotive plants were equipped with new equipment and new staff was employed, with the exception of Volkswagen that has used some former Skoda capacities.

Slovakia manufactures over 225,000 cars a year with a potential annual production of 850,000 cars sometime in 2010[14]. In 2004 the automotive production accounted for about half of industrial production in Slovakia, employing about 100,000 people. In 2003 by contrast, car and component production accounted for 25% of Slovak industrial production employing approximately 54,000 people[15].

At the moment the flagship industry of the Slovak economy – automobile manufacturing – is helping its ancillary industries to flourish. Massive investment by the German giant Volkswagen has been the key to success: since 1991 the company has helped open the door to foreign trade. Almost 99% of all VW cars manufactured in Slovakia are exported, with 80% going to the EU and the remainder destined for the U.S. and Japanese markets. French PSA Peugeot-Citroën and Korean Hyundai-Kia are presently building plants, which they predict will produce 300,000 and 200,000 cars per year respectively. Auto parts suppliers Dura, Johnson Controls, Delphi and Molex already manufacture in Slovakia and other companies such as Gertrag Ford[16].

Despite the fact that Slovakia is sometimes described as the “Detroit of Europe”, it is very important to bear in mind the challenges that the automotive sector faces in Europe - that they may influence this sector’s development in Slovakia.

One of the employers’ organisations points out that the sub-suppliers are very important from the point of view of employment and economic development. The sub-suppliers from the first line are usually multinationals (MNCs), while the second line consists of smaller enterprises that are dependent on the MNCs (mainly electrotechnicals, production of rubber and plastic materials).

Very intensive growth is also observed in the construction sector. It is a consequence of the FDI inflow and construction of automotive plants such as KIA or Peugeot.

According to the interviewed social partners, declining sectors are the following: army, coal mining, machinery and textile sectors; also the arts and crafts sector as it does not get support from the state. Additionally, representatives of SZZ believe that Slovakia does not need a big industry and the fundaments of the development are arts and crafts, tourism and SMEs sector. Large chemical enterprises are also in decline.

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[14] http://irc-slovakia.sk/tt/tool/index-en.shtml

[15] http://www.slovakspectator.sk/clanok-18147.html.

[16] *Slovakia - a Gateway to Enlarged Europe,* Embassy of the Slovak Republic, Washington, 2005.

The Slovak social partners stress that one of the fundamental macroeconomic challenges is a need to change the role of the State and government. The State must change into a body setting a regulatory framework, taking into account social dialogue and negotiated solutions.

2.3. LABOUR MARKET & EMPLOYMENT CHALLENGES

The Slovak labour market has been dominated by a few trends in the recent years. The most distinct and most discussed trend concerns the high unemployment rate, which has grown gradually from 12% in 1998 to reach almost 20% at the beginning of 2001. Since then, a moderate decrease has occurred with a significant fall in unemployment to 17% in the first half of 2003. At present the official unemployment rate is 16,2%.

As with most of the EU countries, Slovakia faces the problem of ageing population, which caused the number of economically active people to grow by roughly 3% over the last five years despite the fact that the number of employed persons stagnated at the 1999 level. Labour force growth, together with insufficient job creation, results in growing unemployment. Among other significant labour market trends is growing long-term unemployment, high youth unemployment and persisting large regional disparities.

Tables 1 and 2 at Annex 3 present basic labour market indicators and basic market trends.

a) Labour force

The total Slovak population is 5 431 363 as estimated in July 2005 and the population growth rate was 0.15% as estimated in 2005. The labour force is estimated for 2,2 mln (3rd quarter of 2004) and the structure of working population in 2003 was the following: agriculture 5.8%, industry 29.3%, construction 9%, services 55.9%[17]. In 2004 the rate of employment increased rapidly in the sectors of real estate and leasing, construction, retail, other social services, industry, the public administration and defense, hotels and restaurants, and in financial sectors. Employment continued to fall in agriculture, education, transport and postal and telecommunications services. Employment in healthcare and social assistance fell in comparison with 2003[18]. At present the Slovak labour force productivity is estimated at 490 EUR/citizen and is one of the lowest in the EU (respectively 1000 EUR for the Czech Republic, 800 EUR for Poland and 6600 EUR for Denmark).

b) Employment

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[17] http://www.cia.gov/cia/publications/factbook/geos/lo.html.

[18] http://europa.eu.int/eures/main.jsp?catId=2806&acro=lmi&lang=en&countryId=SK&regionId=SK0&nuts2Code=null&nuts3Code=null).

Despite the prevailingly positive economic results, statistical data reveal a year-to-year increase of number of the unemployed from 1998 to 2001 followed by moderate decreases since then. In the second quarter of 2004 employment fell by 0.8%. This decrease is caused by growing labour productivity and ongoing restructuring in sectors such as education, health care and social services, that suffer from over-employment[19].

Trade union representatives believe that restructuring of the education sector has a very clear regional dimension. Some schools were closed down as a result of the reform and approx. 7 500 teachers were dismissed. Regional schools are at the moment managed by local government.

Another dimension of the education sector restructuring was an intensified transfer of financial means for the educational purposes - the GDP share of investment in education and research is still low – 4% (OECD countries 6%).

There has been a substantial change in the sectoral pattern of employment since 1994. From 1994 - 2000 agricultural employment fell by 69 000, industrial employment fell by 55 000 and services employment grew by 116 000. As a result of these trends, agriculture's share in total employment fell from 10% in 1994 to 6.7% in 2000; industry's share fell from 40% to 39% and the services share rose from 50% to 54%[20].

Self-employment/dependent employment

In Slovakia the proportion of self-employed to total employment remains relatively low. In 2000, this group represented less than 8% of all those in employment. Of the total of 171 000 self-employed identified in 2000, about 53 000 also employed other workers; the remaining 118 000 were micro-enterprises[21]. Maximum growth of the self-employment was observed in 2003-2004.

Trade unions representatives point out that it was a consequence of crossing out people from the unemployment registers. In this perspective, establishing enterprises was more of a method for people to look for the financial means to support themselves than establishing a sustainable business. Self-employment is the most frequent form of employment in the construction sector – it concerns approx. 53% of the total number of employed persons. Trade union representatives estimate that approx. 141 000 people established their own firms.

[19] http://www.cphr.sk/english/projects_sysdem_quarterly_october_04.pdf.
[20] *Joint Assessment of Employment Priorities in the Slovak Republic*, 2001.
[21] *Joint Assessment of Employment Priorities in the Slovak Republic*, 2001.

According to the trade union representatives, self-employment is sometimes not an independent decision of the employee, but is forced by the employer. Self-employment becomes a controversial issue when employees work for the same organisations, at the same location, are responsible for the same scope of activities and instead of being employed on a regular work contract, they are self-employed.
Another controversial issue is that today the future of "self-employed" persons can be seriously compromised as they pay very limited social insurance contributions.

Part-time employment
The level of part-time employment is extremely low if compared with the international standards, and the share of part-time in total employment has fallen slightly in recent years. In early 2000, less than 2% of all those in employment were working part-time, compared with almost 18% in the EU-15. The difference is especially significant in case of women: part-time jobs accounts for approx. 3% of female employment in Slovakia (in the EU it is over 33%)[22].

Job searching
There are approx. 2.65 million people active on the labour market. This number has grown by 2.2% a result of the investment in the automotive industry. While analyzing the structure of the people searching for jobs it can be noted that there is a significant decline in number of well-qualified persons among those looking for a job. It is because better qualified people having problems with finding a job in Slovakia tend to go abroad for work.

c) Unemployment

Unemployment has been the most sensitive point of socio-economic development in Slovakia in recent years. Although it has never led to major social disturbances, unemployment is perceived as one of the top poverty drivers in various opinion polls surveying urgent social problems in Slovakia. Slovakia's high unemployment rate has typical features of the unemployment in the CEE countries: significant share of long-term unemployed, regional differences, high youth unemployment, and extremely high unemployment of people with the Roma origins. Among the main causes of such a situation are:

- unbalanced social protection system, with a large extent of redistribution of resources and solidarity, with prevailing passive measures and ineffective active measures;
- unsuitable education structure of the workforce, poor links between the education system and the labour market;
- relatively high social insurance system contribution;
- low labour mobility and housing problems;

[22] *Ibidem.*

- other factors, e.g., tolerance of grey employment[23].

The level of registered unemployment has been continually decreasing and it will most likely continue to decrease in the future, although at a slower rate. Data from the labour office indicate that the unemployment rate fell to 15.2% in 2003 and then peaked in the first half of 2004, as a result of ongoing restructuring in industry and public services. According to the Statistical Office of the Slovak Republic the unemployment rate for the first quarter of 2004 rose to 19.3% compared with an average rate of 17.4% in 2003[24]. This increase is a result of massive job losses in manufacturing due to restructuring activities.

The OECD expects Slovakia's unemployment rate to fall to 16 % by the end of 2006[25]. Today, the rate of unemployment is the second highest among new EU member states. According to Eurostat data the unemployment rate in Slovakia was 16.2% in February 2005. The number of registered job seekers at the employment offices was more than 379 000[26] and 50% of all those looking for a job are women – mainly due to restructuring in the textile and food processing sectors. People with low qualifications account for 50% of the unemployed population.

Trade union representatives point out that the unemployment decrease could be explained by the effect of administrative measures whereby the unemployed were removed from the register of those looking for a job - approx. 50 000 people got crossed out. They are no longer paying the Social Insurance System contribution which will have a negative effect on their retirement benefits.

According to trade unions the maximum decrease in employment is seen in the following sectors: forestry, agriculture, construction (approx. 18 000), fisheries and in the transport, telecommunication and post office sector (6,5%, approx. 100 000). It is worth noting that the decrease in employment in the construction sector does not imply that this sector is declining. On the contrary, the construction sector is booming, but the workers are more and more often self-employed and not employed on the basis of the regular contracts.

d) Regional disparities

Slovak GDP makes for 51% of the average of the EU-25. However, there are significant regional differences ranging from 120% (Bratislava) to 39% (Eastern Slovakia) of this same EU-25 average. Unemployment rates follow the same pattern. While nationwide unemployment reached 18.2% in 2004, the regional rate ranged from 8% (Bratislava) to over 24% (Eastern

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23 *The current situation on the labour market and labour market policy in Slovakia, Thematic article,* Center for Economic Development, Bratislava 2004.

24 *Indicators on economic development,* Statistical Office of the Slovak Republic (SOSR), 10 June 2004

25 http://www.itapa.sk/index.php?ID=368.

26 http://www.eiro.eurofound.eu.int/2005/05/inbrief/sk0505101n.html.

Slovakia), which is among the highest regional unemployment rates across the EU-25 regions[27]. Relevant data is presented in Graph 10 at Annex 3.

According to the *ERM quarterly* report on Slovakia: "The eastern regions of Slovakia, in particular Banska Bystrica (Banskobystrický kraj), Kosice (Košický kraj) and Presov (Prešovský kraj), suffer from high unemployment, and have a very high rate of long-term unemployment. According to Dr. Stanislav Buchta of the National Labour Office, the economic and structural difficulties of these regions are primarily related to the following: fewer businesses, increased unemployment and the lack of favourable conditions for job creation, as well as a poor debt payment record. As a result, they are financially more dependant and have a greater need for additional funding. Looking at the sectoral structure of the Banska Bystrica and Kosice regions, both are dominated by the iron and steel, timber processing, mining and construction industries. In general, these are or have been state-owned industries which have undergone or are still in the process of restructuring in order to maintain a competitive market position. However, it is not clear in the light of such intense restructuring activity whether any kind of vocational training or retraining for workers who have lost their jobs is being offered by either the industry or government. All these factors are responsible for widening the gap between regions and creating unequal opportunities for people as well as companies in the affected areas. Since 2000 a trend has prevailed whereby economically strong areas are strengthening their market position, while smaller and economically weak areas (of which there are an increasing number) weaken further. For example, the western and northern regions of Bratislava (Bratislavský kraj and Trnavský kraj) and Zilina (Zilinský kraj) in particular continue to flourish and develop their competitiveness. Companies like Samsung, Sony and the Glacier Garlock Bearings Group have invested in these regions and recent announced job creations amount to around 1,500 jobs"[28].

Trade union representatives stress that it is very important to ensure a balanced social development of Slovakia in order to level out the regional differences as soon as possible.

e) Migration patterns

One of the employers' organizations draws attention to the inflow of Roma, Ukrainians and Vietnamese people and a parallel outflow of a significant number of young people. There is also intensive cross-border cooperation with the Czech Republic which is a positive economic trend, but this is a challenge from the social point of view as the social insurance contributions are lost. People prefer to work there as the Czech employers offer better working conditions, including better remuneration. Trade union representatives believe that it is important to somehow regulate migration and flows of labour in order to prevent social dumping. One of the employers'

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[27] http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/1293&format=HTML&aged=0&language=EN&guiLanguage=en.

[28] *ERM quarterly* – Issue 2, Summer 2004, European Center of Monitoring Change (EMCC), p. 6-7.

organizations agrees with the trade union statement and believes that if the present situation continues, there is a serious threat as the social insurance systems of different countries are not compatible. Trade unions also draw attention to a complex mix of economic and non-economic (private, emotional, traditional) factors influencing decisions about migration[29].

Slovakia also experiences the phenomenon of a short-term migration: approx. 70 000 people commute weekly to work in Austria. In some cases there is even transport organized by the employer.

f) Perspectives of the labour market development

According to the *ERM quarterly* report on Slovakia: "In an attempt to increase the incentive to work on the one hand and to activate the labour market on the other, the government has announced major reforms. An overhaul of the welfare system is planned in order to reach the first objective. This will involve cutting benefits for people who remain voluntarily unemployed, for example, people who refuse jobs at low-standard terms and conditions of employment. It is also planned to link benefits to pension contributions and to raise the retirement age to 62 years, to distribute child and family benefits partly as tax bonuses, and to make registration as unemployed a condition for obtaining welfare benefits. Clearly, the latter aims to take workers out of the informal economy"[30].

According to one of the employers' representatives the sectors which can potentially stimulate the most intensive job creation are construction, automotive industry, transport, steel and electrotechnic industry. At the same time employers' representatives believe that an effective labour code can be regarded as an even bigger advantage than the flat tax rate.

The Slovak social partners agree that if the Lisbon strategy is aimed at making Europe more competitive and more productive, it is valid for all the EU-25, that active labour market measures must be introduced. Otherwise, Slovakia will always be treated as an "assembling industry country". Moreover, all Slovak national partners also agree that Slovakia could not compete globally on a low wage basis in the long run.

[29] Material prepared by KOZ SR and sent in December, 2005, p.2.

[30] *ERM quarterly* – Issue 2, Summer 2004, p.7.

III. RESTRUCTURING CHALLENGES

This section:

- **presents a sector overview of the restructuring process,**
- **presents the Slovak social partners' understanding of the restructuring phenomenon.**

a) Restructuring process by sectors

The Slovak economy was in the past diversified and produced – and to a considerable extent it still does – a wide variety of products ("from locomotives to needles"). The challenge for the Slovak economy has been to shift the limited resources available to a reduced number of areas to guarantee sustainable development.

Coal mining industry restructuring

After its rapid decline, coal mining has been stable since 1995. The drop in exploitation has partly caused a drop in the number of employees. The coal mining output in 1989-2000 was reduced by 50%. Lower output has brought about the reduction of employment (62%) in coalmines and follow-up companies[31]. In 1999, restructuring and privatization of the coal mining industry in the Slovak Republic was completed. The three coal mining companies were joint stock companies. Two of them were 100% private, the third one was 34% state-owned. This last company did not yield profits and the government had adopted a programme to close it by 2004, funded by State subsides. While 1989 wages of coal miners were 154% of the average wage in industry, by 1999 they dropped to 110%.

Currently (2005), Slovakia has three coal mining enterprises with the following annual coal production: *Baňa Záhorie a.s.*, producing 350 000 tons, *Hornonitrianske Bane Prievidza a.s.* 254 400 tons, and *Baňa Dolina a.s.* 227 000 tons. All three mines are currently going through a process of restructuring and rationalisation. Slovakia does not export any coal, but is importing about 20% of its coal needs from Czech Republic[32].

Transport system restructuring

During the 1990s the Slovak transportation system had rapidly begun to disintegrate. A major reason for this decline included the government's transport policy which places emphasis on:

[31] http://www.network-sbc.cz/eng/moravskoslezko.htm.

[32] http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/316&format=HTML&aged=0&language=EN&guiLanguage=fr).

- individual transport as opposed to public transport;
- road transport as opposed to railway transport;
- construction of international corridors as opposed to developing local infrastructure.

The Slovak transport policy was constrained, more than any other sector, by the interests of international financial institutions. This is due to the fact that public transport systems are generally dependent on public subsidies. The international financial institutions, including the European Investment Bank (EIB), have generated strong pressure to eliminate subsidies from public transport systems while, at the same time, turn a blind eye to the incredible waste of public funds spent on highway construction. In early July 1999, the EIB approved a EUR 200 million loan for the modernization of the *Železnice Slovenskej republiky* (Slovak Railways national company). For many years, the government has not fulfilled its contractual obligations towards the state-owned Slovak Railways by failing to cover the company's loss for provision of passenger transport services as ordered by the government. This is one of the main reasons behind the company's catastrophic financial situation which forced it to go for new, still more expensive loans[33]. According to one of the Slovak social partners, issues currently being discussed include the privatization of Cargo Slovakia, the Slovak airlines, railways and the most effective organization of combined transport (truck & train).

Banking sector restructuring

In 2002 the restructuring and privatisation of the Slovak banking sector was basically completed. The government restructured its three largest state-owned banks (with a combined asset share of almost 50%) by injecting capital (around 2% of GDP) and carving out bad loans (around 12 % of GDP) in 1999-2000. In the course of 2001, it successfully privatized them to foreign direct investors. State-owned small and medium-sized banks were also almost completely privatized. The share of foreign-owned banks in total bank assets exceeded 90%[34]. Following restructuring, the banking sector recorded year-on-year growth rate fluctuating at a level of 110%. The cost of banking sector restructuring was in excess of SKK 120 billion[35].

In June 2004, Slovakia officially closed the World Bank's Enterprise and Financial Sector Adjustment Loan (EFSAL) aimed at supporting the process of restructuring and privatization of the banking sector as well as restructuring of the enterprise sector in Slovakia. Throughout the period 1999-2003, the World Bank has supported the process with a great amount of technical assistance and also provided a grant for the support of bankruptcy reform in Slovakia[36].

[33] http://www.bankwatch.org/issues/transport/slovakrailway/downloads/ipaper_slovakrailway_02.html.

[34] http://www.fifoost.org/slowakei/EU_SLovakia_2002/node30.php.

[35] http://www.nbs.sk/MEDIA/PRISP/KOH_02A.HTM.

[36]http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/SLOVAKIAEXTN/0,,contentMDK:20280277~menuPK:305137~pagePK:64027988~piPK:64027986~theSitePK:305117,00.html.

Restructuring of large companies in Slovakia[37]

The majority of large Slovak companies successfully restructured without the help of foreign investors or government restructuring programmes. Privatization to insiders, through management-employee buyouts, did not hamper restructuring because new owners, usually old managers, invested heavily in new technology, laid off a substantial part of the workforce, sought foreign partnerships, and were prepared to sell controlling stakes to outsiders to obtain fresh financial resources. The World Bank study also suggests that mass privatisation did not result in weak corporate governance and that the main objective of privatisation programs was quick transformation of ownership. The findings support the view that the main objective of privatization programs should be the speedy transformation of ownership, not the selection of perfect owners. Slovakia was an interesting choice for case-study analysis because much of the heavy industry and arms industry of former Czechoslovakia was located in Slovakia, so it inherited a relatively unattractive industrial structure. Slovakia also implemented two very different privatization programs, one of mass privatization and one of leveraged management buyouts or direct sales to (domestic) outside investors[38].

b) Restructuring process as perceived by the social partners

One of the employers' representatives believes that "*restructuring automatically reduces employment and introduces new ways of working. Sometimes reorganisation of companies is a necessary process".* Another adds that "*Some sectors were restructured without a strategy, there was just this attitude of let's do something and later we will see what happens. The most evident example is this type of action is the machinery industry*". And they go on to explain that monoculture was not a choice but a must as all armament producers have gone bankrupt and it was not feasible to change into anything else than machinery and automotive industries.

One of the employer's representatives believes that restructuring is the same as privatisation and when the restructuring process starts there is an urgent need to educate people in the field of entrepreneurship so they are provided with skills to cope with a new situation.

Trade union representatives underline that "real" restructuring started relatively recently, in 2002 - some people believe it was 2004 - after the Mecziar era was over. They believe that "*very often the employers think that restructuring has taken place while the productivity growth is a result of lowering employer's costs*" and note that most often the quick reduction of costs is generated by collective redundancies. The most often seen pattern of change is changing the company structure: from a big enterprise a few small ones appears.

Trade unions estimate that, since 2002, each month there are more than 1600 employees made redundant as a result of collective redundancies.

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[37] More can be found in S. Djakov, G. Pohl, *Restructuring of large firms in Slovakia*, a report prepared by the World Bank in 1997 which presents 21 cases of the Slovak companies (http://ideas.repec.org/p/wbk/wbrwps/1758.html.

[38] *Ibidem.*

Trade unions believe that collective agreements should include compensation agreements as well as assistance in the process of establishing start-ups. However, this activity remains somewhat controversial as it results in decreasing the number of trade union members.

IV. SOCIAL DIALOGUE

This section:

- ☞ **describes characteristics of the restructuring process in Slovakia,**
- ☞ **presents social partners' views on restructuring, and**
- ☞ **describes further developments and challenges of restructuring as perceived by the social partners.**

a) Tripartite relations in the social dialogue process

Since 1996 the characteristic feature of the Slovak social dialogue process at the national level is its tripartism. The main forum for tripartite negotiations is the National Council for Economic and Social Partnership (*Rada hospodarskeho a socialneho partnerstva, RHSP*) that works with a system of monthly meetings. Its main activity is soliciting opinions from social partners and issuing opinions on measures proposed by the government in the field of economic and social policy, and concluding general agreements on *discussed* issues. According to one of the social partners RHSP is working effectively as the list of discussion topics is known a year in advance and it allows to seek members' opinions beforehand and incorporate them into the position of the organisation. The RHSP handles the most important economic and social issues of the governmental policy. The main areas of activity of RHSP are consultations on:

- important issues of economic and social development;
- proposals for labour legislation;
- the state budget[39].

At the same time, RHSP aims at reaching consensus on the goals of economic and social development in order to avoid social tensions and to create the conditions for preserving "social peace' as far as possible"[40]. Outcomes of the tripartite concertation process do not have legal validity, contrary to collective agreements. Some conclusions of the tripartite concertations at the RHSP may, after approval by the parliament, serve as a starting point for sectoral/branch collective bargaining, e.g. setting the national minimum wage[41].

In general employers have not been completely satisfied with the functioning of tripartism in recent years, especially with what they regard as an inflated agenda and the sheer number of

[39] *New rules adopted for tripartite social dialogue*, http://www.eiro.eurofound.eu.int/2005/03/feature/sk0503101f.html.

[40] *Social dialogue and conflict resolution in Slovakia*, European Foundation for the Improvement of Living and Working Conditions, 2004.

[41] *Social Dialogue and EMU in Slovakia,* http://www.eurofound.eu.int/docs/areas/industrialrelations/EF0388ch9.pdf.

issues which have to be negotiated in the tripartite forum. One of the employers' representatives describes the present process of the social dialogue as: "Social dialogue in tension". Tripartism has also been developed at a regional level, but unfortunately activities of the regional bodies have been mostly formal and have not resulted in the real involvement of the regional social partners in solving the actual problems of the regions[42]. One of the social partners claims that Social Dialogue at the regional level does not exist at all.

It is important to note that there is also bipartite social dialogue (negotiations between employers and trade unions) as well as ad-hoc meetings. According to one of the interviewed Slovak social partners the only sector where social dialogue practically does not exist is the SMEs sector.

b) Collective bargaining

Collective bargaining is an important part of industrial relations in Slovakia – approx. half of the workforce is covered by sector/branch level collective agreements. The relations between trade unions and employers' representatives are perceived as fair, but negotiations are hard and it is often not easy to conclude mutually accepted collective agreements. Sometimes, there is a problem with long-lasting rounds of negotiation, which slow down the bargaining process. Such situations may be caused by lack of authority of the respective negotiators to take final decisions. Sometimes, this also can be a part of the negotiating strategy of the social partners.

In the past 10 years, the settlement of collective disputes has contributed to a great extent to the maintenance of social peace. In this respect, collective disputes have not led to major industrial action, such as strikes or lock-outs by employers because of lack of agreement with trade unions. The majority of collective disputes between the social partners have been successfully resolved[43].

Collective bargaining is usually conducted at two levels:

- sector or branch level, where so-called "higher-level collective agreements" are concluded between representatives of the appropriate employers' and trade union organizations;
- enterprise or organisation level, where collective agreements are concluded between local trade union organisations and the management of the enterprise or organisation[44].

Collective agreements may include more favourable rights/conditions than the ones stipulated by the Labour Code, other laws or government decrees. Their provisions cannot offer worse conditions than the ones guaranteed by the existing labour law. An important principle provides

[42] *Tripartism examined,* http://www.eiro.eurofound.eu.int/2003/07/feature/sk0307102f.html.
[43] *The regulation of collective disputes,* http://www.eiro.eurofound.eu.int/2002/11/feature/sk0211103f.html.
[44] *Collective bargaining procedures, structures and scope ,* http://www.eiro.eurofound.eu.int/2002/10/feature/sk0210102f.htm.

that the minimum or maximum standards stipulated by relevant sectoral or branch-level collective agreements as regards the agreed conditions of employment and wages, must be respected in collective agreements at enterprise or organisation level. An enterprise- or organisation-level collective agreement can neither reduce the employees' rights already agreed at sector or branch level, nor grant more rights than granted by the sector or branch collective agreement if the latter sets the maximum figures[45].

Sector or branch collective agreements (agreed by multiple employers) may be extended to non-signatories in the same sector or branch by a simple administrative procedure at the Ministry. Extension aims to prevent a disadvantageous situation for employees of those employers who are not in an employers' association, or to prevent an advantageous or disadvantageous position for employers to which the collective agreement does not apply. One of the employers' organizations notes that social dialogue is not financially supported, therefore there is a syndrome of "free riders".

The scope of sectoral or branch collective agreements scope is usually focused on the following main topics:

- "Cooperation and communication between the trade union organisation and the management. This covers matters such as: employers' duties to consult, inform and decide in cooperation with the union; confidentiality clauses; and employers' support for trade union activities by providing them with technical facilities etc.
- Employment and working conditions. This covers matters such as: employment contracts and termination of employment; principles of redundancy policy in collective redundancies; working time and working time schedules; and holiday and paid leave.
- Wages and remuneration. This covers matters such as: the wage system and minimum wage tariffs; payment for working overtime and for working on holidays; extra payments for difficult and risky working conditions and night work; and severance payments in the event of collective redundancies.
- Occupational safety and health. This covers matters such as: employers' duties and cooperation with trade unions in safety and health issues; preventive and corrective measures to improve working conditions and to reduce risk at work; and the establishment of trade union safety and health delegates in companies.
- Human resource development and other social issues. This covers matters such as: training and human resources development activities; and the creation and utilisation of the Social Fund in enterprises (the Social Fund is financed - under Act No. 152/1994 in the Collection of Laws, as amended - by a minimum levy of 0.6% of paybill, and is most commonly used to subsidise the cost of meals provided for employees).
- Resolution of conflicts between management and trade unions. This covers the procedures to be applied in the event of serious disagreements between the social partners"[46].

Diagram 1 at Annex 3 presents the road map for conflict resolution in the Slovak social dialogue.

An example of a collective agreement at sectoral level is the one concluded in the post office and telecommunications sector; but transport, for example, is covered by relevant labour regulations. Collective agreements are usually concluded for 3 years; at present the collective

[45] *Collective bargaining procedures, structures and scope ,* http://www.eiro.eurofound.eu.int/2002/10/feature/sk0210102f.html.

[46] *Ibidem.*

agreement for the period 2006-2008 is in negotiations. Sectoral agreements are usually concluded for 3 years.

Representatives of the social partners' organizations active in the transport sector point out, that despite the fact that there are 11 trade unions from the railway sector, a more effective method of negotiation is to hold separate talks with individual trade unions. The same organization also claims that a proactive approach is necessary to prevent strikes and to act as an anticipation system.

A representative of the trade unions from the chemical sector points out that collective negotiations are hard when the enterprise offers a higher salary than the average salary in the country.

Among the 10 new member states, rates of unionization vary from the 65-70% and over in Cyprus and Malta to 20% or below in Hungary, Estonia, Poland and Lithuania. However, the highest rates among EU-10 countries with a density of around 40% are observed in Slovakia and Slovenia[47].

The Slovak social partners' opinions on the social dialogue process

*One of the employers' representatives believes that in the course of social dialogue employers have a more practical approach, while the trade union approach is more conceptual – they have the advantage in a form of the trade unions university where "*they learn how to act in the process of the social dialogue to win the most for themselves*". The same organization goes on to say that employers are more concentrated on profit, economics, modernization, whereas trade unions on social issues, better Human Resource Development, etc.*

The employers' bodies belonging to AZZZ SR often argued that, in comparison with the trade unions, their organisational structures were rather less well-established, mainly in terms of potential and capacity-building. The most significant reason, they stated, was that employers focus on maintaining their competitiveness and thus show less willingness to invest more resources in the development of their representative organizational structures[48].

Trade union representatives are not happy with the social dialogue in Slovakia: "*Social dialogue has been facing a crisis ever since the year 2002, when its situation had worsened rapidly. The government of the Slovak Republic adopted a neo-liberal approach and refused any corporatism or participation of the trade unions together with the citizens thereby represented in the decision making processes*"[49]. Additionally, they negatively evaluate amendments to the Labour Code and social laws that, in their opinion, worsened the situation of the employees and improved the conditions of operation only for a small group of entrepreneurs and companies with foreign investments.

One of the employers' representatives believes that the tripartite social dialogue is working effectively, however the bipartite social dialogue is non-existent as well as the social dialogue in

[47] T. Kauppinen, *Industrial relations in the new European member states (EU10)*, European Foundation for the Improvement of Living and Working Conditions; www.ser.nl/downloadpdf. asp?filename=/_upload/b23574_5.pdf

[48] *The organisation of the social partners*, http://www.eiro.eurofound.eu.int/2002/08/feature/sk0208102f.html.

[49] From the materials sent by KOZ SR, December 2005, p.1.

the SMEs sector. This organisation perceives social dialogue in Slovakia as being a kind of ”façade” at the moment and believes that more effective social dialogue is based on dialogue between strong “sparring partners” and that at present a strong counterpart from the trade union side is missing. This is being complemented by the opinion of a trade union representative who believes that “*in the past trade union concentrated too much on criticizing the government and did not work hard enough towards establishing effective relations with employers*”.

The employers’ representative notes that the social dialogue in Slovakia is influenced by political discussions and offers some suggestions for improving the social partner dialogue:

- making it a practice;
- starting the negotiations when the problem arises and not when it is already serious;
- professionalisation: financial support enabling social partners employing experts who now work on the voluntary basis;
- setting up a system for better preparation of employers’ representations to participate in the social dialogue.

All Slovak social partners think that a very important question is the question of representativeness and in most cases they believe that multinationals operating in Slovakia should not be entitled to represent Slovak entrepreneurs.

Annex 1

Restructuring case: MATADOR a.s. – the MATADOR Puchov branch

Organization	MATADOR a.s.
Established	1905 – Bratislava, 1950 - the production plant in Puchov
Ownership	1905 - private ownership, 1948 – nationalisation, 1992 – privatisation + restructuring
Sector	Rubber & coutchouc products (tyres)
Structure	A joint-stock company, HQ + 18 branch offices (limited liability companies), also abroad – the biggest one in Omsk, Siberia
Turnover	450 mln EUR
Investment	6 mln krons per year (3% for R&D)
Employment	Total: 4 100 employees in MATADOR a.s. in 2005; Reductions in MATADOR Puchov: from approx. 4500 employees to approx. 2 000 in 2005
Unionisation	1 trade union

Reasons for restructuring

Company had to be restructured for several reasons:

- Technological change – introducing new technologies resulted in limiting the demand for labour force;
- Need for a smaller, more effective and flexible structure in order to gain competitiveness and market share;
- Low profitability and efficiency;
- Over-employment;
- Lack of innovative managerial competences;
- Some of the company activities were not its “core business” (warehouses, food services).

Restructuring process

The state enterprise MATADOR closed down without liquidation on May 1, 1993. The enterprise was divided into 4 state enterprises: MATADOR s.p. Bratislava, MATADORROLL s.p.; MATADORBELT s.p. and MATADORFIX s.p. The rationale behind the division was that the enterprise could not be privatised as a single entity. MATADOR s.p. Bratislava was closed down in 1998. Rubber production gradually moved to the limited liability and joint-stock companies such as MATADORES s.r.o. or VENTURIA s.r.o., not only in Slovakia, but also in Italy or in Russia.

The privatisation process started in 1992 and followed the procedure for restructuring process as stipulated by law. There was an initial capital of 5 mln krons. The company issued 10 000 shares. Each of the employees could buy 1-2 shares and the total number of the shares sold to employees was approximately 4 500. Only 2000 employees profited from their right to buy shares, as a consequence 20% of shares were in the employees hands, 80% were in the managers' hands. Most of the employees sold their shares immediately after buying them. Despite the fact that the feasibility study was positive – conducting the feasibility study was a requirement in order to obtain funds from the National Labour Fund - people thought it was a political risk to invest in MATADOR and preferred immediate financial returns to shares.

There were 2 types of privatisation in due course: internal privatisation and privatisation as stipulated in the legal regulation. Internal privatisation was a specific solution as MATADOR was the only joint venture in the former Czechoslovakia. This type of privatisation concerned 30% of shares (the total value of 100 000 krons). The remaining 70% of shares (total value of 1,3 mld krons) was acquired accordingly from external sources. There was also a loan of 62 mln krons taken from the Agro Banka in the years 1994-1996.

It is important to note that the privatisation process was made more complex by the separation of the Czech Republic and the Slovak Republic. The tariffs changed, the brand was weakened and along with the privatisation efforts, the negative effect of the partition had to levelled out.

Collective dismissals

In 1992 the MATADOR Puchov plant had approx. 4 500 employees. This was reduced to approx. 2 200 in 2005. Not all the employees were made redundant. Some got new job postings in the daughter companies (i.e approx. 1000 employees went to the MATADOR Continental plant established in 1989) or in the companies to which some non-core business activity was outsourced. However, in 1992-1993 10% of the employed people (450-500 employees) were made redundant as a result of introducing new technologies. These employees did not find employment in the daughter-companies or in firms from which the services were bought in the process of outsourcing. They were offered, a.o., early retirement scheme, compensation packages and psychological assistance.

According to the collective agreement the redundant employees were guaranteed a 6-month-compensation package. Its value depended on the length of employment, also the category of the post – a "dangerous job posting" was entitled to a higher compensation than the post without such a risk. The compensation package amounted to a 9-month salary equivalent (regular 6 months + additional 3 months). The leave entitlements were more generous than those stipulated by the Labour Code.

Collective dismissals are the subject of the Labour Code. Collective dismissals occur when there are more than 19 employees dismissed within the period of 90 days. In such a case the employer has to follow very clear-cut rules, which define what documents should be submitted to trade unions and the Labour Office.

In the case of the redundancies in MATADOR the information was passed to the employees, as stipulated in the labour code and collective agreement, 90 days before the process has started. The present conditions are different: the employees have to be notified about the planned changes 30 days in advance and the conditions written into collective agreement are more general.

Best practices

1. Internal privatisation
   a. Privatisation via employee and management involvement;
   b. Enhances employees' loyalty and motivation and their support for changes - "changes are implemented with their participation, not against them".
2. Internal broking services
   a. Trading shares for those willing to sell/buy them.
3. Regional responsibility
   a. Company representatives claim that the regional responsibility should be taken into account – in case of MATADOR the offers from the foreign investors were turned down as the management felt responsible for the region.
4. Reinvesting the profits
   a. All profit were re-invested in order to increase competitiveness and stabilise the position of the firm.
5. Internal labour market
   a. Internal outplacements were created: looking for job in the daughter-companies;
   b. Psychological assistance for those leaving the company.
6. Assistance in the early retirement scheme
   a. MATADOR was compensating lower retirement entitlement up to 12% for a maximum of 2 years.
7. Involving trade unions
   a. Information on the planned actions and the internal social policy/strategy was transmitted to trade unions.
8. Outsourcing
   a. "Non-core" services of the company outsourced;

b. Outsourcing of the food services seems to be especially innovative – in Slovakia the employer is responsible for assuring meals for its employees – the cost is shared between employer, employee, trade union and the National Social Fund.

Annex 2

Restructuring cases reported in ERM Quarterly – Issue 2, Summer 2004[50]

Textile and leather sector

The textiles and leather sector has been the sector most badly hit by bankruptcy, closure and internal restructuring. It alone accounts for 852 job losses. The Penta Group, an investment consultancy group, acquired Ozeta Neo, the main Slovakian producer of men's formal clothing wear, in November 2003. Penta is currently in the process of implementing an internal restructuring programme at Ozeta Neo, aimed at increasing the group's competitiveness in the global market. At the end of April 2004, its subsidiary in Hlohovec (Trnavský kraj) was closed, and all 570 employees were dismissed. On a more positive note, Ozeta Neo, which exports 95% of its output, has other subsidiaries in the nearby Skalica and in Topolčany (Nitriansky kraj) and Tornala (Zilinský kraj), where it intends to create about 150-200 new jobs this year. In March and April 2004, Maytex, one of the major textile fabric producers in Slovakia, dismissed 162 of its 679 employees in order to save the company; it has since filed for bankruptcy. At Slovenka, 120 employees have been dismissed at the Banska Bystrica production plant since 1 June 2004. There are now 700 employees left in a company that employed more than 1,400 in 2000. The main desire on the part of management is to save the production of knitted articles in Slovakia, a traditional activity in the country, through a major internal restructuring exercise.

Glass and cement sector

In April 2004, the Dutch Sanker company, an indirect subsidiary of the Sanitec Corporation, and active in the glass and cement sector, announced plans to close its only production unit in Slovakia in Lužianky. Since 1996, the unit had produced 300,000 ceramic sanitary products, mostly exported to Benelux and east European countries. Reasons for the plant closure were severe financial losses caused by an inflexible technology used for production. The closure generated a collective lay-off procedure for all 171 employees. At the same time, the Slovak traditional hollow glass producer, Slovglass, whose parent company is Sklárne Poltár Holding, dismissed 220 employees in Poltár. In June 2004, just 1,118 employees of the 1,750-strong workforce in 2002 remained. Rising energy prices in Slovakia – glass production needs a lot of heat energy – as well as a stronger Slovak crown against the US dollar and the pound sterling was responsible for the internal restructuring procedure.

Tobacco sector

[50] The whole report can be found at http://www.emcc.eurofound.eu.int/erm/templates/displaydoc.php?docID=9.

Finally, the British Imperial Tobacco Group decided to close the production unit of its subsidiary, Slovak International Tabak, in Spišská Belá. The remaining 300 employees left the plant on 27 April 2004. The closure, which is part of the Imperial Tobacco Group's European restructuring programme, will add to the current 27% unemployment rate in the eastern region of Kosice (Košický kraj). It follows British American Tobacco's decision to close its production site in Slovakia, due to changing conditions for imported goods following EU accession, and the presence of bigger, more effective production units elsewhere in the EU.

Light industry

Some German, Italian and South Korean companies have already shown an interest in buying the closed production plant, with a view to launching a business in the light industry field. While more than 1,500 people lost their jobs between April and June 2004, a large number of restructuring exercises resulted in the creation of some 3,000 jobs. In May, Sony announced an extension of its subsidiary (TV components production) in Trnava (Trnavský kraj) in western Slovakia where 221 new jobs will be created. The production has been relocated from the company's plant in Barcelona, which will still process some of the components now produced in Slovakia. By the end of 2004, the South Korean Koam Elektronic, one of the main component suppliers for Samsung Electronics Slovakia in Galanta (Trnavský kraj), will create approximately 230 new jobs. It has been operating in the same region near Sládkovičovo since April 2003 and plans to increase its production for the expanding Samsung company. Samsung, for its part, started production of laser printers, satellite receivers and other communication equipment at its unit in Galanta in June, where 1,100 workers will find employment. This new investment follows the relocation of Samsung manufacturing plants from Spain and the United Kingdom to Slovakia, motivated by the company's intention to develop its central European logistics centre in Galanta. Lastly, Divani, a Danish producer of luxury leather furniture, began construction of a new production unit in Poltár. The company aims to employ 120 people by the end of 2004 and has plans to increase the number of employees at a later stage to 240. It intends to export more than 90% of the new unit's production.

Machinery sector

Jobs will also be created in the metal and machinery sector as a consequence of relocations from western Europe to Slovakia before the end of 2004. Glacier Slovakia, part of the Glacier Garlock Bearings Group (GGB), which is a member of the US EnPro Industries corporation, made a €12 million greenfield investment in Sučany near the town of Martin in north-central Slovakia (Zilinský kraj). GGB is a global leader in the production of high-duty, polymer-based bearings serving original equipment manufacturers in the automotive, construction, and agricultural industries. The new plant will consolidate production from units in France, Scotland

and the company's production plant in the nearby Dolný Kubín, which will be closed upon completion of the new facility. GBB plans to start production in Sučany before the end of the year, and will employ approximately 200 people. The company chose Sučany because of its strategic location providing access to emerging markets in eastern Europe and the former Soviet Union. Management also emphasises the availability of a skilled labour pool as the region is well known for its metal and engineering industries. At the same time, employees of the Dolný Kubín plant will have the opportunity to relocate to the new plant. Furthermore, the Austrian producer of carpets for motor vehicles, Walser, announced its plans for greenfield investment in the Trnavský region at Horná Potôň in April. The new plant is expected to start production in autumn 2004, and to produce 100,000 carpets per month. Consequently, the company will hire 100 employees.

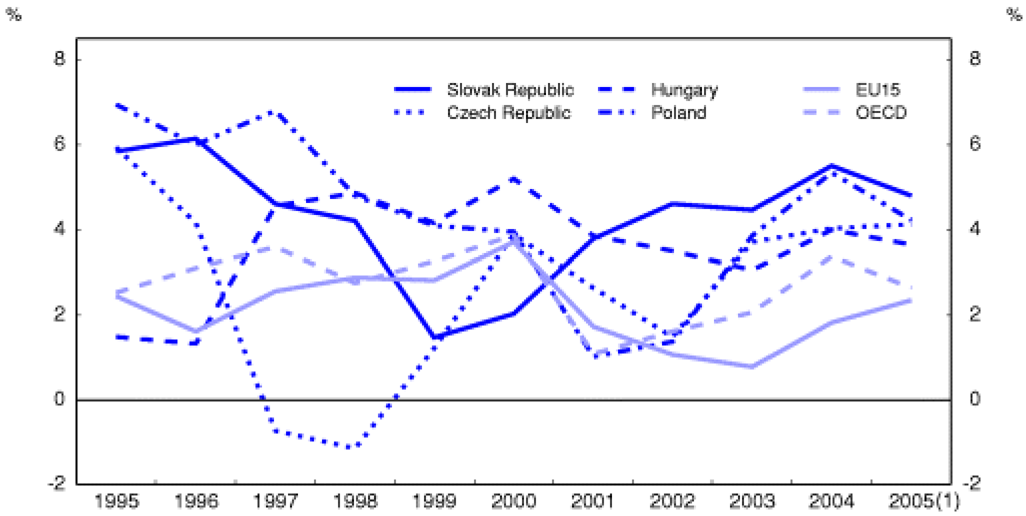
Electrical sector

In the electrical sector, Leoni Autokabel Slowakia, part of the German Leoni Group, opened a new production unit in northwest Slovakia, in Ilava (Trencianský kraj), in May 2004. It will produce 860 cable packages per day for car manufacturer BMW. The company has been operating in Slovakia since 1992 and employs about 3,500 people in three subsidiaries in Dobra, Trenčín and Stará Turá. The company announced the creation of 480 jobs at its new production unit. Yazaki Wiring Technologies Slovakia recently signed new contracts for the Ford Motor Company and DaimlerChrysler (relocating from its Yazaki subsidiary in Plzeň in the Czech Republic). About 460 new jobs in vehicle wiring harness production will be created in the plant in Michalovce (Košický kraj) in August-September 2004 in southeast Slovakia. After a slight downturn in production in 2003, the annual turnover for 2004 is expected to increase again.

Annex 3

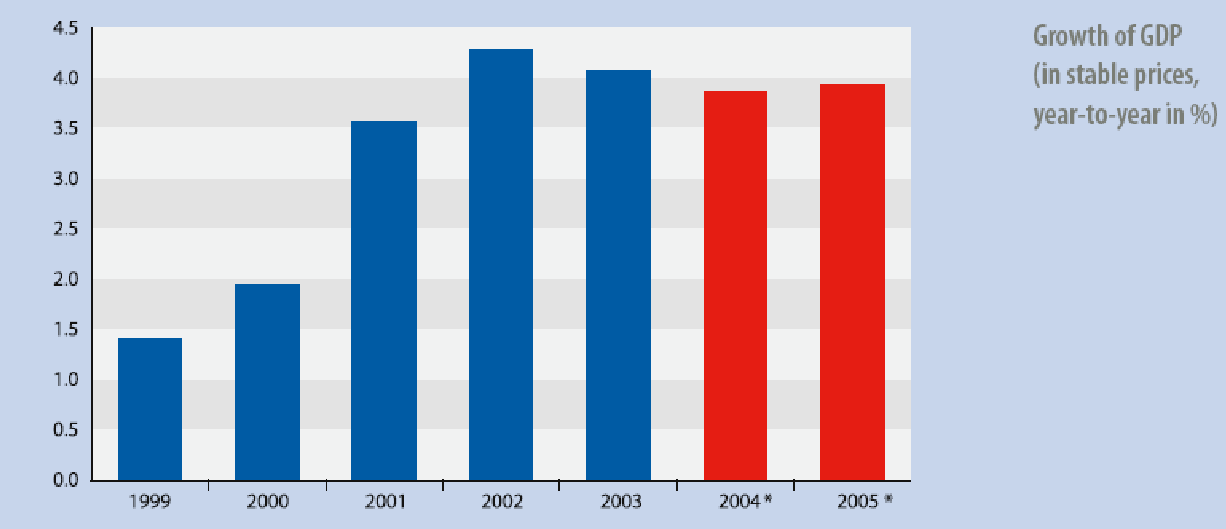
List of tables and graphs

Graph 1. Slovak GDP growth in the years 1995 – 2005 – comparative approach



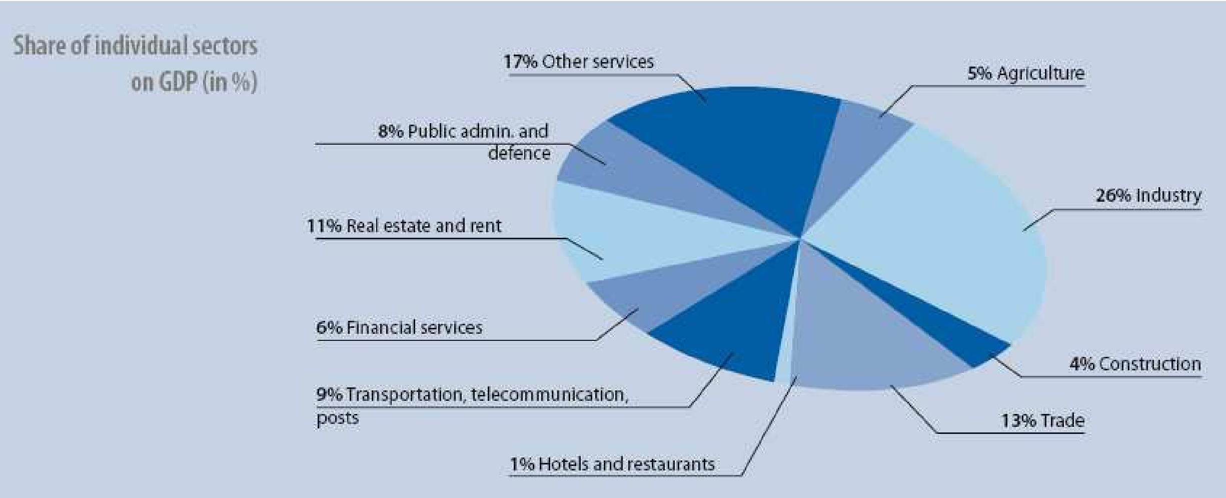
Source: OECD, Economic Outlook No77,
http://www.oecd.org/document/22/0,2340,en_2649_201185_35384278_1_1_1_1,00.html

Graph 2. GDP growth in stable prices in the years 1999 – 2005



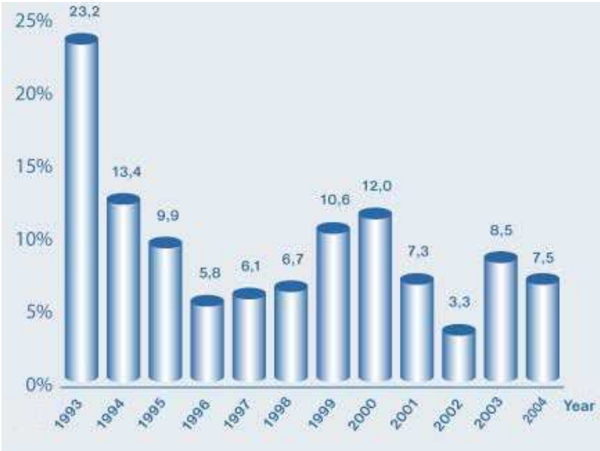
Source: *Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004

Graph 3. GDP composition by sector in 2003



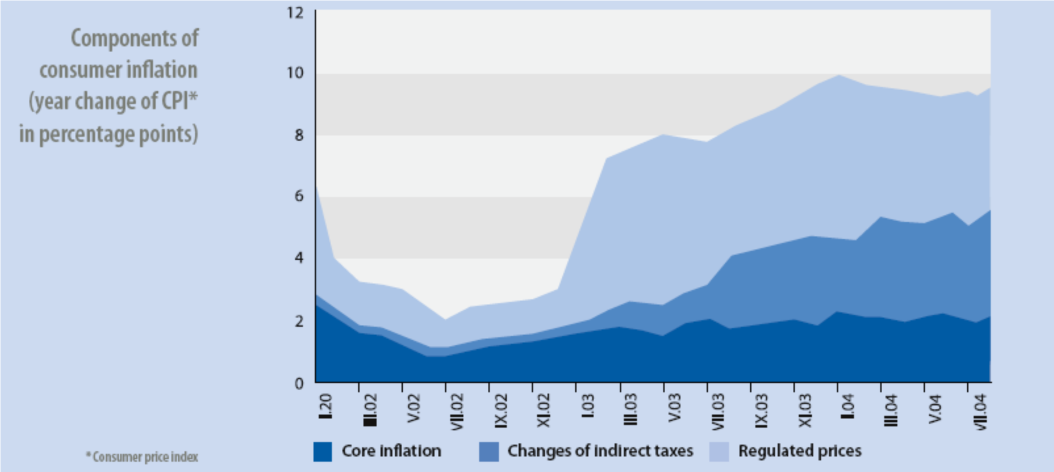
Source: *Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004

Graph 4. Inflation rates



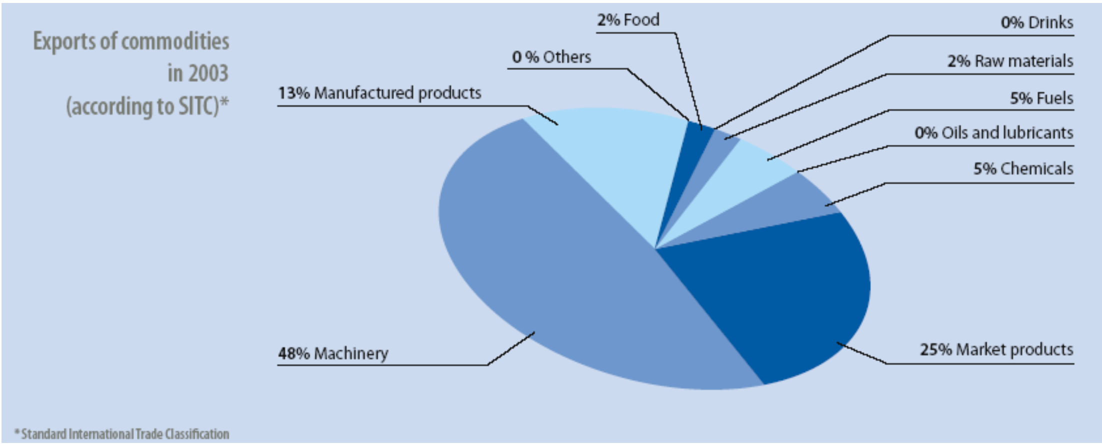
Source*:* http://www.economy.gov.sk/index/go.php?id=290&lang=en

Graph 5. Inflation structure



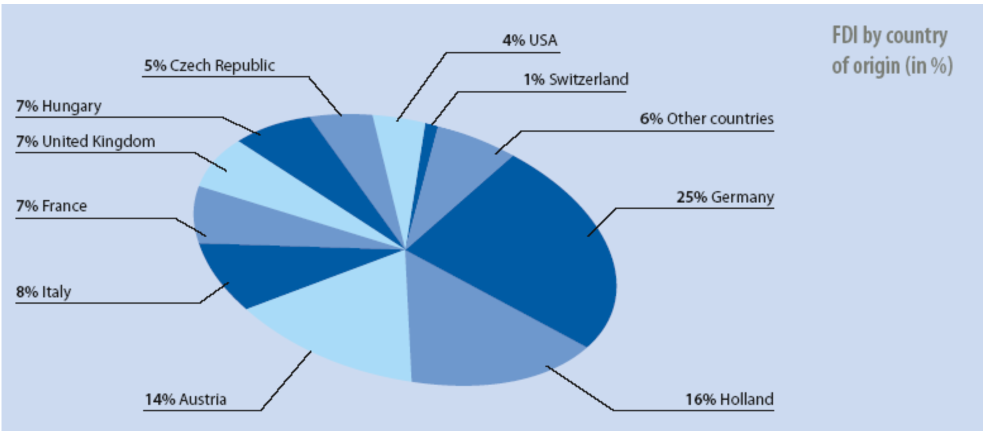
Source: *Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004

Graph 6. Export structure in 2003



Source*: Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004

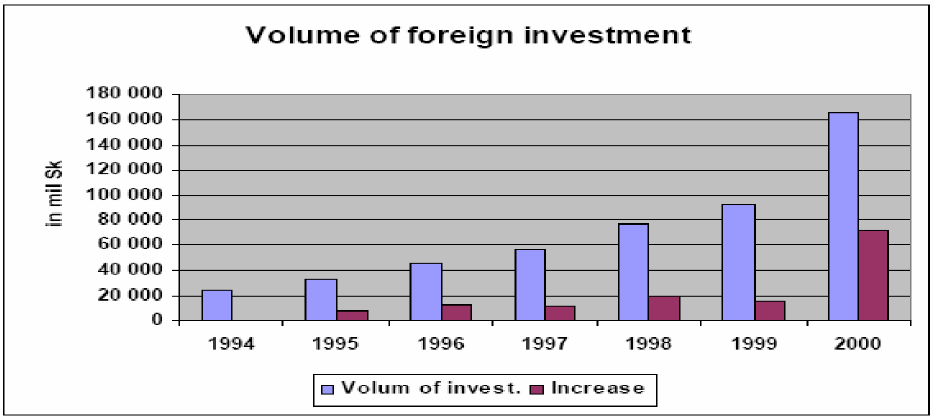
Graph 7. FDI by country in 2003



Source: *Why look any further,* Analysis of Economic Environment in the Slovak Republic, Slovak Investment and Trade Development Agency SARIO, 2004

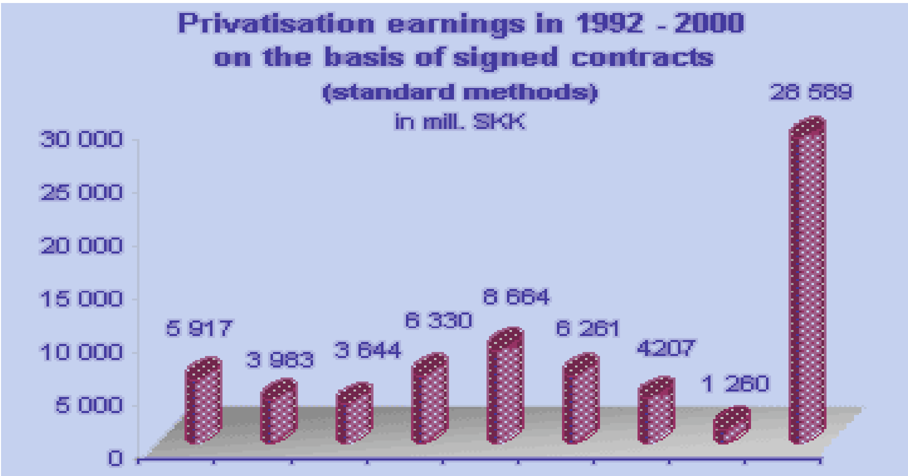
Graph 8. Foreign investment 1994-2000

Fig



Source: *Impact of foreign direct investment on the economy of Slovakia*, National Bank of Slovakia, Bratislava, 2001

Graph 9. Privatisation earnings 1992-2000



Source: NPF SR, http://www.slovakembassy-cd-london.co.uk/index/podstranka.php?id=39&idm=0

Table 1 Basic labour market indicators

Indicator	1999	2000	2001	2002	3Q/2003
Economically active population (thous.)	***2 573.0***	***2 608.2***	***2 652.5***	***2 628.2***	***2 646.3***
men	1 414.4	1 424.2	1 449.2	1 435.1	1 439.7
women	1 158.6	1 184.0	1 203.3	1 193.2	1 206.6
Employed (thous.)	***2132.1***	***2101.7***	***2123.7***	***2127.0***	***2 186.7***
men	1163.7	1137.3	1145.8	1156.8	1 195.2
women	968.4	964.4	977.9	970.2	991.5
Unemployed (thous.)	***416.8***	***485.2***	***508.0***	***486.9***	***449.0***
men	226.6	265.6	282.6	263.9	234.0
women	190.3	219.7	225.4	223.0	215.0
Economic activity rate (%)	***60.0***	***60.2***	***60.8***	***60.2***	***60.6***
men	68.7	68.6	69.2	68.5	68.7
women	52.0	52.6	53.0	52.6	53.1
Employment rate 15+ (%)	***49.7***	***48.5***	***48.6***	***48.7***	***50.1***
men	56.5	54.7	54.7	55.2	57.0
women	43.4	42.9	43.1	42.7	43.7
Employment rate 15-64 (%)	***57.8***	***56.5***	***56.5***	***56.7***	***58.2***
men	63.5	61.5	61.4	62.0	64.0
women	52.1	51.5	51.8	51.4	52.4
Unemployment rate (%)	***16.2***	***18.6***	***19.2***	***18.5***	***17.0***
men	16.0	18.6	19.5	18.4	16.3
women	16.4	18.6	18.8	18.7	17.8
Youth unemployment rate 15-24 (%)	***32.1***	***35.2***	***37.3***	***36.1***	***31.8***
men	32.1	36.3	38.4	36.5	32.7
women	32.1	33.8	35.7	35.5	30.5
Long-term unemployment rate (%) [1]	***7.6***	***10.0***	***10.6***	***11.6***	***11.0***
men	7.1	9.9	10.5	11.3	10.4
women	8.2	10.1	10.8	11.9	11.8
Long-term unemployment (% of total) [1]	***46.9***	***53.9***	***55.7***	***62.5***	***64.9***
men	44.4	53.3	54.1	61.5	64.1
women	49.8	54.7	57.8	63.7	66.0

Note: 1. Duration of unemployment as duration of job search. Since 2002, duration of unemployment is defined as the shorter of two categories: duration of job search and duration since last employment.
Source: Labour force survey, Statistical Office of the SR.

Source: *The current situation on the labour market and labour market policy in Slovakia, Thematic article,* Center for Economic Development, Bratislava 2004

Table 2. Labour market trends

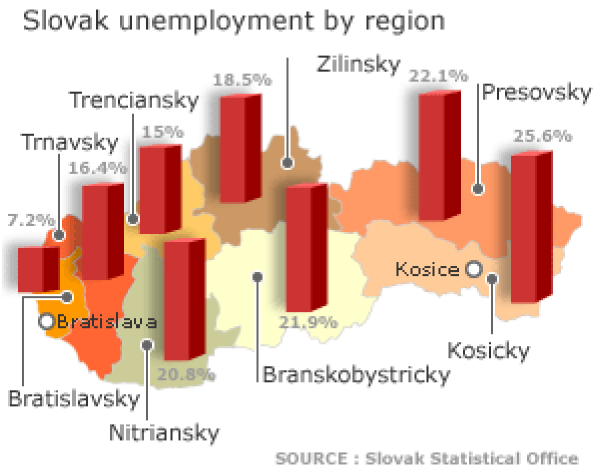
Table 1 Labour market trends

Indicator	Period					Change	
	2Q.03	3Q.03	4Q.03	1Q.04	2Q.04	2Q.04 -2Q.03	2Q.04 -1Q.04
Number of employed (thous)	2 170.1	2 186.7	2 170.6	2 128.8	2 151.9	*-18.2*	*23.1*
Number of unemployed (thous)	446.8	449.0	458.2	511.5	489.4	*42.6*	*-22.1*
Economic activity rate (%)	60.2	60.6	60.4	60.1	60.2	*0.0*	*0.1*
Unemployment rate (%)	17.0	17.0	17.4	19.3	18.5	*1.5*	*-0.8*
Employment rate 15-64 y. (%)	57.7	58.2	57.7	56.0	56.6	*-1.1*	*0.6*

Source: Labour force survey, Statistical Office of the SR.

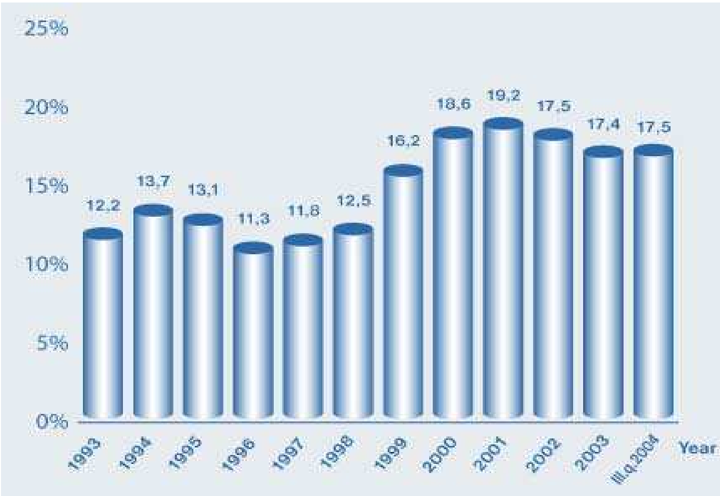
http://www.cphr.sk/english/projects_sysdem_quarterly_october_04.pdf

Graph 10. Slovak unemployment by region



Source: http://news.bbc.co.uk/1/hi/business/2516025.stm

Graph 11. Registered unemployment rate (in percentage)



Source: http://www.sario.sk/index.php?idd=164&typ=2&now=LABOUR_MARKET

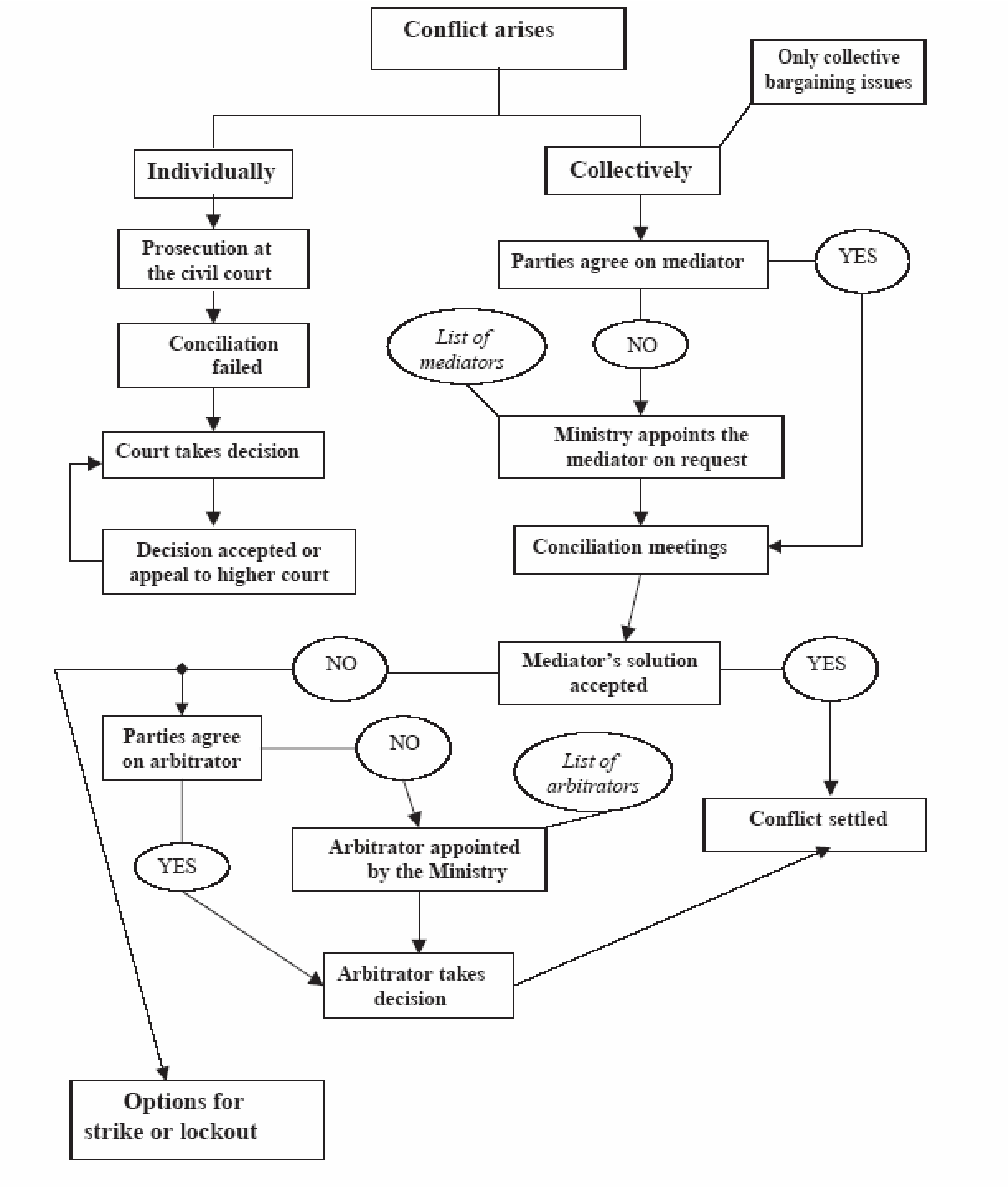
Table 3. Basic labour market indicators and prognosis

Indicator	m.j.		current year	Prognosis		
		2003	2004	2005	2006	2007
GDP – real growth	%	4,2	4,7	4,5	5,1	5,4
avg. monthly wage in the economy (nom. growth)	%	6,3	8,6	6,5	5,8	5,6
avg. growth in employment (acc. to SSLF)	%	1,8	0,2	0,6	0,6	0,9
avg. unemployment rate (acc. to SSLF)	%	17,4	17,2	16,6	16,2	15,8
average rate of registered unemployment	%	15,2	14,6	14,4	13,7	13,0

Source: SR Statistical Office

Source: *National Action Plan for Employment 2004-2006*, Ministry Of Labour, Social Affairs And The Family Of The Slovak Republic, October 2004

Diagram 1. Road map for conflict resolution



Source: *Social dialogue and conflict resolution in Slovakia*, European Foundation for the Improvement of Living and Working Conditions, 2004

Annex 4

Interviewed persons

Name	Organization and affiliation
Stanislav Haber, Daniel Hrdina	ZADOPOT (CEEP)
Viola Kromerova	SZZ (UEAMPE)
Peter Molnar, Juraj Borgula	RUZ (UNICE)
Vladimir Mojs, Milan Buso, Jan Gasperan, Dusan Barcik, Jozefa Svirecova, Vladimir Schneider	KOZ SR (ETUC)

Annex 5

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