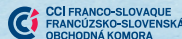




# NO COUNTRY FOR THE YOUNG



British Chamber of Commerce  
in the Slovak Republic



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SLOVENSKO - RAKÚSKA OBCHODNÁ KOMORA  
SLOWENISCH - ÖSTERREICHISCHE HANDELSKAMMER



ZPS  
ZDRUŽENIE PODNIKATEĽOV  
SLOVENSKA

From the societal and economic perspective, Slovakia has recorded a steady decline in all relevant global indicators and indexes over the past few years, including reports from the European Commission, OECD statistics, the Global Competitiveness Index by the World Economic Forum, and the Rule of Law Index. We are a country caught in the trap of middle income countries with an insufficient economic model and weak growth to continue in economic convergence towards at least the average of the European Union.

Dynamic technological and societal changes present our country with major challenges that demand responses from the private as well as the public sector. High levels of digitalization and automatization of processes, applied AI, or the impacts of climate change will exert great pressure on systems of education, healthcare, or transport, but also on doing business or on public services. The quality of human capital and stability and predictability of the business environment will be of key importance if Slovakia is to manage this transformation, and ideally use it to increase its competitiveness. Economies of the near future, thriving in the global competition for talent and investments, will be fueled by innovations that will reshape traditional economic models to become more intelligent, sustainable and greener. Slovakia is part of global changes propelled by technological developments erasing existing barriers, and changing environmental conditions defining the quality of life of future generations.

That is why, as representatives of a broad coalition of domestic and foreign employers in Slovakia - ranging from regional micro companies to the largest employers in the country - we call on representatives of political parties to put the essential needs of the Slovak Republic as a country with a high quality of life and a stable business environment above the particular interests of individuals or interest groups. We urge them to recognize that restoring Slovakia's position in global competition requires a dramatic change in economic policy and the overall management of the country - responsible governments invest in research and development, the skills of future generations, work positions of higher quality, thus defining an ambitious vision of the state supported by social consensus, and apply innovative regulations based on the principles of simplicity, comprehensibility, transparency and flexibility. As representatives of the business sphere, committed to the creation of fundamental economic values and resources for the state budget, we are ready to contribute to this process to the fullest extent possible and thus become partners of public institutions in transforming Slovakia into a modern, efficient and competitive country. This is why we present the following seven steps for a positive change in the areas of rule of law and human capital to the representatives of political parties, the media as well as the general public.

# 7 STEPS FOR A POSITIVE CHANGE

The transformational potential of Slovakia and its level of competitiveness in a state of ongoing crisis depend on the economic development, which reflects the economic dynamics, environmental sustainability and social cohesion that takes into account the indicators of economic disparities. We are convinced that the key factors of a new economic model for Slovakia are the quality of human capital - meaning the quality of education and the labor market - and the level of technological progress. In other words, the development of science and research, the rate of innovation, the level of digitalization and the quality of institutions. Slovakia lags behind its EU and OECD partners in all of these areas and that is why they represent the biggest potential for increasing the economic performance of the country.

As a broad business community of employer organizations, associations, business organizations and chambers of commerce, we are convinced that the field of human capital

needs urgent resuscitation and a direct connection to the needs of a modern society based on education, innovation and harnessing the potential of people and businesses. The biggest social transformation since the industrial revolution back in the 19th century has begun a long time ago: revised business models, new types of work positions, AI's impact on the labor market and educational models, a revolutionary change of employment relationships, and an urgent need for new skills significantly influence the way people, businesses and the state are able to function. The Covid-19 pandemic, the global security environment and the departure of an elite portion of society abroad together define Slovakia's urgent need to implement specific improvements in labor law legislation and the education system, based on an expert approach transcending the length of the electoral cycles. In this context, we consider it critically important that a responsible government adopts effective measures aiming to support a new economic model of the country in the following areas:



## DEMOGRAPHY

*According to Eurostat data, in 2020, there were only 44 economically active individuals per 100 inhabitants in Slovakia (for comparison, in Germany, it's 54), and the negative net migration balance of the workforce in Slovakia was the highest among the countries of the European Union. Despite the current demographic peak of the economically active population, only around 40 000 students completed their university studies in Slovakia in 2023. Even before that, every fifth successful high school graduate had already decided to go abroad, and according to the Institute of Education Policies, over half of the most successful Slovak high school graduates in mathematics continue their studies at foreign universities. Slovakia is quickly becoming the most aged economy in Europe. Eurostat forecasts predict the fastest pace of aging among all the EU countries. Unless we reverse the current trend, the Slovak workforce will be paid worse than their counterparts in neighboring countries because of the low competitiveness of the local businesses and economy. State budget revenues are expected to decline in the near future while the pressure on public finances will increase proportionally to population ageing. Unemployment can become an issue in Slovakia once again.*

### SOLUTION

To maintain and increase the competitiveness of the Slovak economy it is important to first slow down and eventually reverse the negative demographic development. Making Slovakia an attractive country to live in is an essential prerequisite. This requires reforms in all key areas, most notably reforms of the social and pension systems, education and the labor market, healthcare, as well as a significant simplification of migration policies, especially for work positions with high added value. We need to halt the brain drain and turn it into brain gain - making an effort to keep the most talented students in Slovakia while effectively attracting foreign experts must become a priority. Based on Eurostat data, Slovakia has the third lowest ratio of foreigners among all EU countries. In December of 2022, the Central Office of Labour, Social Affairs and Family registered one employed foreign citizen in Slovakia for every 28 employed Slovaks.

## 2

## BRAIN DRAIN AND EMIGRATION

The last national population census in Slovakia was held in 2021 and it reported more than 412 000 Slovaks with permanent residence in Slovakia currently working abroad. In addition, based on OECD data, for years every fifth Slovak high school graduate has been leaving the country (the average for 38 OECD member countries is 4%), while a survey by The Institute for Public Affairs from 2021 indicated that a half of Slovak university students and graduates see their future abroad. Based on data from the Czech Ministry of Education, almost 21 000 Slovak students attended Czech universities in 2022. Pursuing part of the studies abroad and gaining work experience are both desirable from the perspective of the business environment in Slovakia. However, this is only true if talented individuals are systematically motivated to return home. We also emphasize, that other conditions in the country play an important role in the decision making regarding a potential return - beside family ties, these most often include the trust (or lack of) in public institutions, high level of perceived corruption, or insufficient amount of attractive work opportunities.

### SOLUTION

In order to retain the best students, we support a dramatic improvement in the attractiveness of secondary and tertiary education in Slovakia, aligning the structure of tertiary education with the standards of OECD countries (strengthening professionally oriented bachelor's programs at the expense of academically oriented study programs). One of the possible solutions in the quest to retain talent in Slovakia is also the implementation of an effective system of career and educational counseling involving private, public, non-profit, and academic sectors. The platform of professional career and educational counselors aims to inform high school students about the career opportunities in their field of study and to enhance the appeal of university education and living conditions and opportunities of young people in Slovakia.

## 3

## MISMATCH BETWEEN CONTENT/Form OF EDUCATION AND THE LABOR MARKET

One of the greatest structural challenges of the Slovak economy is the long-term mismatch between the content/form of education and the actual needs of the labor market. A significant portion of high school and university graduates, within five years of completing their studies, still find employment outside of their field. According to the portal [trendyprace.sk](http://trendyprace.sk), in the first half of 2020, 48% of high school graduates and 58% of university graduates, within five years of completing their studies, were working in an optimal or alternative field, based on their field of study. Taking into consideration broader societal needs from the perspective of employers and the state, the employability of graduates in their respective fields serves as the most credible feedback on the quality of the educational process. At the university level, we find it meaningful to support 4-year "professional" forms of study.

### SOLUTION

We propose to introduce systematic and professional labor market needs forecasting to optimize the performance of high schools and universities. We also believe we need to ensure expert and continuous evaluation of the employability of graduates in practice, which should impact the schools' funding. In this context, we believe that collaboration with professional practice should be one of the evaluation criteria for the funding of universities in Slovakia. Similarly, we suggest that the mismatch between the content/form of education and the labor market be compensated by systematically supporting and significantly simplifying the entry process for qualified professionals from third countries, urgently needed in the Slovak labor market.



# 4

## LIFELONG LEARNING

*In comparison with other EU countries, Slovakia lags behind in people's participation in further education, with less than 4% of the population in the productive age engaging in further education according to European Commission data. We perceive lifelong learning as an essential component of solving the problem of ensuring decent jobs for a larger number of people in the future and better responding to the economy's needs related to the population's skills within the context of Industry 4.0. The emphasis of the new framework for lifelong learning should be on its flexibility and ability to respond to new labor market challenges. We view employers as a second potential source of funding for the system of lifelong learning. We find it natural that employers should be able to offset a portion of the costs associated with financing lifelong learning for their employees against their corporate income tax liability.*

### SOLUTION

We urge the Government of the Slovak Republic and the Ministry of Education of the Slovak Republic to perceive lifelong learning as a key element in the education reform in Slovakia and to effectively use available resources from the European Union to support it. We propose that as a part of the tax and levy reform unemployment insurance be transformed into the so-called 'Unemployment and Education Fund'. We support all efforts to establish a comprehensive and functional lifelong learning system, linking resources from businesses, employees, and the state with European resources, strengthening career counseling, and fully launching the activities of the Alliance of Sectoral Councils.

# 5

## THE ROLE OF THE TEACHER IN THE 21<sup>ST</sup> CENTURY AND THE OPTIMIZATION OF THE SCHOOL NETWORK

*According to the study OECD Education at a Glance 2022, public spending on education in Slovakia has remained insufficient over the past decade, which is directly connected to the reluctance of the country's political representation to set education as a TOP priority. A more substantial increase in tariff salaries for pedagogical and non-pedagogical staff in 2023 and a change in the remuneration system are the first (though not sufficient) steps towards giving back teachers the social status they are entitled to. Employers perceive the changed role of teachers in the 21st century as the key element in the resuscitation of the Slovak education system - from their pedagogical preparation, expertise, soft skills, to their willingness to engage in lifelong learning and introduce innovative elements in teaching. The teacher is the foundation of any education system and school network, and therefore, we urge that all steps within the ongoing education reform reflect the needs of modern educators who aspire to become 'teachers of the 21st century'.*

### SOLUTION

We propose a reduction in the number of pedagogical faculties (or significant limitation of funding for pedagogical faculties of low-quality) and redirecting the saved funds into 3-4 faculties of highest quality. For this selected number of faculties, we recommend implementing more rigorous admission interviews and, as a mandatory part of their preparation, utilizing online tools and innovative teaching methods. In this context, we consider it necessary to reform the structure and content of educational and study fields, adjust the level of financial funding per student, optimize the network of secondary schools in the context of current and future labor market needs with the goal of effectively utilizing public resources, and increasing the salaries of education employees, considering regional disparities and the quality of instruction. Similarly, we propose that the government supports the education sector by creating a 'guarantee mechanism' for education employees interested in mortgage loans to enhance the attractiveness of the teaching profession.



## LABOR LEGISLATION AND FLEXIBILIZATION OF THE LABOR CODE

*The current version of the Labor Code has been in effect since 2001, but its philosophical foundation is built on an unbalanced and inflexible relationship between the employer and employee, typical for a planned economy. The Labor Code and related labor legislation do not sufficiently reflect the dynamic changes in 21st-century society and provide weak support for the competitiveness and digital transformation of the Slovak economy. In combination with tax and levy legislation, they act as demotivating factors in the labor market for both employees and employers. A modern philosophy of the Labor Code should reflect the societal dynamics and Slovakia's shift from an 'assembly line' to knowledge economy based on digital and green transition. A new growth model of the economy requires a Labor Code that is less complex and more efficient, in accordance with the principle of a free and fair agreement between the employee and the employer (for example, the option to choose a fully electronic form for signing and delivering documents when establishing, modifying, or terminating an employment relationship), including a reduction in state intervention in employee compensation options.*

### SOLUTION

We call upon the Government of the Slovak Republic and the Ministry of Labor, Social Affairs and Family of the Slovak Republic to initiate a societal discussion about a fundamental reform of labor legislation in Slovakia in a participatory and transparent way. It should aim to align the Labor Code and related regulations with the needs of the digital economy and the diversity of labor relations in the 21st century. In the context of disproportionate growth in the overall labor costs, we propose a significant reduction in the employers' social security burden and a substantial simplification of the entire social security system.



## DIGITAL TRANSFORMATION OF THE ECONOMY

*According to Eurostat, industrial production in Slovakia employs 32% of the workforce, which is the second-highest share within the EU. However, labor productivity in Slovakia is among the lowest in the union, showing a clear declining trend. Only 23% of industrial companies and 59% of IT and business centers in Slovakia are preparing to or already implementing a digital transformation strategy. More than half of all companies in Slovakia lack teams capable of executing a digitalization strategy, this also applies to bigger companies. Currently, there are 143 robots per 10,000 employees in Slovakia. Industrial companies in Slovakia draw on significantly fewer grants for digitalization compared to neighboring countries. In the same period of 2022, only 2% of SMEs in Slovakia received grants, while the EU average was 11%. Still, Slovakia's Recovery and Resilience Plan does not envision a substantial digitalization of businesses.*

### SOLUTION

We urge the future government to set ambitious goals in the modernization of our manufacturing and industrial base, based on digital and green transformation. We propose that the state ensures a minimum share of public expenditures from the total GDP of the country to support applied science and research above all, at a level of 1.2% of GDP. A corresponding increase in the support for science, research, and innovation through a super deduction from the current 100% of expenses to 200% is also desired. Support for digital transformation should also involve strengthening applied research through administratively undemanding calls for projects within the 'Slovakia Program,' and in the adjusted Recovery and Resilience Plan, in order to simplify the administrative complexity of digitalization and innovation projects to a level comparable with other EU countries.



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