Changes in the Economic Performance and Labour Market Situation in Slovakia during the COVID-19 Pandemic

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Abstract: The main purpose of economic research is to monitor the performance of a particular national economy and analyse the factors that determine its growth and fluctuations. Gross domestic product is primarily used to assess the performance of the economy. It is, however, also necessary to look at the labour market situation. COVID-19 pandemic is one of the factors that have impacted the Slovak economy and the labour market situation. The purpose of the paper is to evaluate the changes in the labour market and the performance of the Slovak economy in connection with the COVID-19 pandemic. The pandemic has resulted in lower economic performance. Particularly affected were the accommodation and food service activities, wholesale and retail trade as well as the manufacturing industry. Consequently, the labour market situation reflected these phenomena in decreased employment and increased unemployment rates.

1 INTRODUCTION

The COVID-19 pandemic has fundamentally altered every aspect of the life of citizens around the world and had a negative impact on the health and lives of citizens. The economies around the world have been struggling with its economic and social ramifications. The impacts of the COVID-19 pandemic will be felt for many years to come in all areas of human activity. To mitigate the negative effects of the pandemic on the economy and health of the population, national governments introduced many measures to protect vulnerable groups and reduce the spread of disease. The measures taken have led to a decline in economic performance and disrupted national labour markets. Global economic effects of the COVID-19 pandemic include lower GDP growth rates, employment rates, and rising unemployment rates. The Slovak economy is an open economy which makes it more vulnerable. The high share of the automotive industry, which has been affected by supply disruptions of key components and deteriorating employee health necessitated limiting economic activity, which damped demand. In the paper, we focused on economic research and monitored the performance of the Slovak economy and analysed the factors that determine its growth and volatility.

2 LITERATURE REVIEW

COVID-19 began to spread across the world in early 2020. The pandemic has affected almost every aspect of daily life. Various support programmes, payments, subsidies and funds were introduced to maintain employment at the required level (Dvořák et al., 2020). The pandemic itself

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and the measures adopted to contain the spread of COVID-19 hit hard public and private lives of all people. The COVID-19 pandemic has brought about a decline in economic, business and other activities, social challenges, changed working practices, reduced consumption of transport services and energy, etc. The COVID-19 pandemic has affected economic and social relations as well as the labour market. Due to globalization, the virus spread across and hit the globe rapidly. Globalisation is advantageous in terms of progress, but it can also lead to job losses, deprivation and downturn as shown in many examples (Kalyugina et al., 2020). As a matter of fact, many scientists think that the COVID-19 pandemic – an unprecedented shock of the 21st century, could slow down or even halt the ongoing globalization (Dvořák et al., 2020). Restrictions on some activities and workforce have brought a widespread shock to the supply side of the economy. However, the unused labour force meant limited household income and the resulting negative shock for the demand side of the economy as well (Frank, Morvay et al. 2021). From the macro-economic point of view, the crisis was first a negative supply shock, which produced a demand shock (Šuster, 2020). On the one hand, there is the income shortfall effect, which spreads through the whole economy with a multiplier effect and reduces demand in all sectors. On the other hand, there is a loss of confidence. Uncertain future makes households with income and/or savings hold most of their accumulated excess money. To make the situation even worse, the second negative supply shock came through global value chains. Due to supply-chain disruptions, either for logistical reasons or quarantining measures, industrial companies had to halt their production.

According to Lemieux et al. (2020), the COVID-19 crisis has had a key impact on the labour market, household incomes and changes in gross domestic product. The labour market and human capital were the first to experience rising unemployment, job insecurity and shrinking career opportunities as a result of the spread of COVID-19 around the world (Costa Dias et al., 2020). The EU economy and labour markets have deteriorated dramatically under the containment measures against COVID-19. Because of the policy measures taken to contain the pandemic’s effects on employment, this decline translated mostly to a reduction in the number of hours worked, and less in the number of people employed or unemployed (Römisch, 2020). This is the first time that human society has faced such a large-scale virus attack (Sukharev, 2020). In the labour market, some groups of people became unemployed due to the pandemic. According to Pouliakas and Branko (2020), the most vulnerable segments of the working population were those who could not work from home. They were mostly women, foreign workers, workers with temporary contracts, and low-skilled workers. Many economists compare the COVID-19 crisis with the crisis of 2009 (Jeris and Nath, 2020, Sokol and Pataccini, 2020, Sukharev, 2020) and foresee even greater problems. Trends in the evolution of unemployment differ from those in prior recessions. Michálek (2021) maintains that, unlike prior recessions, the coronavirus recession exhibited a sharp increase in unemployment rates, but the situation rebounded quickly. The Labour market situation worsened again when the epidemiological situation deteriorated and containment measures were adopted. The facts show that unemployment went hand in hand with the severity of measures adopted. Frank, Morvay et al. (2021) note that a relatively modest increase in unemployment in 2020 is not attributable only to the governmental measures to maintain employment, but also the demographic change, i.e. the decline in the number of working-age population.

The coronavirus lockdown measures, implemented all over Europe, had massive effects on the economy, putting it in a state of ‘hibernation’. As factories were shut down, supply chains were cut or the services industries, especially restaurants, hotels and retail trade, were forced to close temporarily, economic activity dropped by an unprecedented amount (Römisch, 2020). The impact of restrictive measures was not uniform across the economy, with some sectors more
heavily affected than others. Following the restrictive measures, governments took measures to support the economy, aimed primarily at mitigating the negative effects of the pandemic.

While introducing emergency measures that restrict people’s labour and social mobility, the existing rate of development of the digital economy and society is proving to be a key factor in adapting to sudden changes in conditions. The forced or voluntary limitation of immediate social contacts, the transition of part of the service sector to the home office, the widespread shift of pupils and students to distance learning, the change in purchasing behaviour, business models and leisure time represent a positive external shock not only for the ICT sector but also for the public sector (education, health, public administration), households and the corporate sector (Frank, Morvay et al., 2021).

3. METHODOLOGY

In the paper, the impact of the COVID-19 pandemic on Slovakia is examined. The evolution of real GDP and its growth rate, the evolution of the employment rate and the unemployment rate in the quarters 2007-2021 (up to Q3 2021) are examined.

In the paper, a time series analysis for the given indicators is made and absolute changes are calculated. In addition, the methods of comparison and synthesis are used. The data were acquired from the Statistical Office of the Slovak Republic, DataCUBE database.

4. RESULTS

Slovakia’s economic performance prior to the COVID-19 pandemic was favourable: unemployment rates were low and job vacancy rates reached record highs. Already in 2019, the economic growth was slow, the employment rate was increasing slowly and the unemployment rate was also decreasing slowly. The key event of 2020 in the Slovak economy was the COVID-19 pandemic, which triggered the need to introduce highly restrictive measures that directly or indirectly affected all actors in the Slovak economy (Frank, Morvay et al., 2021).

4.1. Gross domestic product

The current epidemiological crisis and its impact are markedly different from previous types of crises and recessions. The effects of the repeated lockdowns imposed and measures taken to mitigate the pandemic far outweigh the impacts of the initial restrictions put in place shortly after the outbreak of the pandemic. Restrictions on the activities of business operations/shops had primarily sectoral impacts on non-essential services and production (Michálek, 2021). In Slovakia, the pandemic-related restriction resulted in the gross domestic product decline and increased unemployment. Figure 1 shows the evolution of GDP at constant prices and the GDP growth rate from 1Q 2008 to 3Q 2021.

The chart shows positive GDP evolution in the Slovak Republic since the recession in 2009, and its fluctuations in individual quarters. During the coronavirus pandemic, GDP declined in every quarter of 2020 (compared to the same period in 2019). At the beginning of the first quarter of 2020, the Slovak economy was still doing well, primarily because of the contribution of the automotive industry to GDP growth. A considerable decline occurred in Q2 2020, by as much as 10.5%, which was a much larger quarterly decline in GDP than that of the economic recession of 2009. In subsequent quarters, the decline in GDP was more moderate. In 2020, the total an-
Annual decline in real GDP was 4.6%, compared to 5.5% in 2009, when quarterly declines ranged from 4.1 to 6%. In 2021, however, real GDP growth was recorded in every quarter. Although the second wave of the pandemic lasted longer, the impact on the economy was milder. According to NBS data (2021), global trade was affected by almost no restrictions during the second wave of the pandemic. Thus, the industry was able to produce and satisfy the demand for goods. In fact, the pandemic lifted the demand for goods while the demand for services fell sharply. The improved epidemic situation during the summer months and spending of accumulated savings continued to increase household consumption. The industry’s component supply, however, deteriorated. Businesses were struggling with rapidly rising input prices. As a result, automotive production dropped by almost a third. As the automotive industry makes up a substantial portion of the Slovak economy, the drop in production made it impossible to achieve pre-pandemic growth levels. The economic growth in Slovakia was among the lowest in the Euro area in Q3 2021.

4.2. Labour market

The changes in economic performance, which were related to the containment measures, had also a negative impact on the labour market (Švábová et al., 2021). The evolution of the employment rate and its change compared to the previous quarter is shown in Figure 2.

After a decline in employment in 2009, the employment rate has fluctuated with an upward trend since 2010. More significant growth has been recorded since 2014. However, a slowdown in employment growth was recorded in 2019. In Q3 2019 the employment rate declined. The decline was attributable to the measures to stop the spread of the coronavirus in 2020, and the decline was the biggest in Q2. Since then, the employment rate has been on the rise, most significantly in Q3 2021.

Figure 2 shows that the largest quarter-on-quarter decline in the employment rate occurred in Q1 2009, namely by 2 percentage points. Comparing the decline in employment during the 2009-2010 recession and the coronavirus pandemic, we find that while employment declined in 6 consecutive quarters during the 2009-2010 recession, during the coronavirus pandemic the employment rate declined only in two quarters, and the decline was milder. The COVID-19 pandemic caused employment losses mainly in the following sectors: accommodation and food services, manufacturing, transport and storage, administrative and support services, and agriculture. In contrast, employment increased in the sectors of Information & Communication and Education.
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Figure 2. Evolution of employment in Slovakia
Source: Statistical Office of the Slovak Republic, own calculations, own elaboration

The COVID-19 crisis has dramatically increased unemployment in Slovakia. Pre-pandemic unemployment shows a favourable trend. The good labour market situation was the result of the previous periods of GDP growth and high global demand for Slovak products. In 2019, there was a shortage of skilled workers in the labour market. The number of persons employed even increased in the last quarter of 2019 (SBA, 2021). The containment measures led to a sharp rise in the unemployment rate in 2020. The COVID-19 pandemic affected certain groups in the economy: lower wages and less qualified workers who could not work from home. These groups were more at risk of job loss (Dujava, Peciar, 2020). Figure 3 shows the evolution of unemployment in Slovakia.

Figure 3. Evolution of unemployment in Slovakia
Source: Statistical Office of the Slovak Republic, own calculations, own elaboration

There was a downward trend in unemployment from 2014 to 2019, but the coronavirus pandemic reversed this trend. Already in the first quarter of 2020, there was a rise in unemployment as a result of the measures taken, but it was not that high. Many employers allowed their staff to work from home, so they were not forced to lay people off immediately, and the government also facilitated access to sickness and nursing benefits. Unemployment also rose in Q2 and Q3 2020, but the increase was moderate due to the easing of containment measures. Overall, the rise in unemployment was much milder than in the recession of 2009.
In the depression in 2020, on the other hand, the number of people in working-age fell sharply, which dampened the rise in unemployment. This demographic factor had the opposite effect on the actual economic depression as on earlier ones (Frank, Morvay et al., 2021). In Q4 2020, the unemployment rate declined, and despite a slight increase in the first quarter of 2021, unemployment declined in subsequent quarters. Economic policy should ensure income stability for vulnerable groups and encourage their return to work once the health situation in Slovakia stabilises. Measures that would help achieve these objectives include the short work short-time working support scheme, the extension of unemployment benefits, child care allowances or the extension of active labour market policies. There is a risk that the coronavirus crisis will lead to permanent structural changes and not all those who have lost their jobs can perform their previous jobs. Therefore, retraining programmes and adult education will play an important role (Dujava, Peciar, 2020).

5. CONCLUSION

The COVID-19 pandemic has severely affected the economic and social situation and lives of people around the world. Countries have taken various measures in an attempt to stop the spread of the disease, which has negatively impacted several sectors and resulted in massive job losses. Michálek (2021) claims that while previous recessions typically evolved with a gradual increase in economic distress, the current “pandemic recession” came suddenly, spread across countries even more rapidly, and delivered an exogenous shock to the global economy and national economies. Examining the evolution of the main macroeconomic indicator of GDP in the Slovak Republic, it can be concluded that there was a positive GDP evolution since the recession in 2009, but in 2020 it declined in each quarter. The biggest drop was in Q2 2020, by 10.5%, which was a much larger quarterly decline in GDP than that of the economic recession in 2009. In 2021, however, real GDP growth was recorded in every quarter and the economy began to recover. During the second wave of the pandemic, global trade functioned almost without restrictions. Thus, the domestic industry was able to produce and meet the demand for goods. Labour market changes were strongly linked to the containment measures adopted. In the employment indicator monitored, there was a decline in the first two quarters of 2020. Since then, however, the employment rate was increasing, most significantly in Q3 2021, reaching 70.3%. Rising employment was reflected in the evolution of the unemployment rate. Already in the first quarter of 2020, there was a rise in unemployment, which continued to rise in the second and third quarters of 2020. Overall, the rise in unemployment was much more moderate compared to that of the recession in 2009. Since 2020, the trend in unemployment was favourable, and in Q2 and Q3 2021 the unemployment rate declined to 6.8%. In conclusion, the current recession, which was not caused by economic factors, has dramatically changed the labour market in an extremely short time. The recession of today is evolving differently than that of 2009. After the containment measures were eased, employment increased. Unemployment rose in parallel with the level of severity of the pandemic measures adopted. Although the effects of the COVID-19 pandemic were negative on both economic performance and the labour market, Dvořák et al. (2020) argue that the world can learn a lesson, get ready for similar unexpected changes and respond with agility to prevent serious negative impacts on the economy and society to happen.

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