

Discussion Papers

Analysis of the tightness of the Slovenian labour market

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Abstract

This analysis provides a detailed examination of tightness and slack in the Slovenian labour market. Labour market tightness is defined as excess demand for labour over supply, which leads to difficulties for firms in recruiting, while slack consists of the unemployed, the underemployed, and a certain proportion of the inactive population. The analysis shows the Slovenian labour market to be very tight, and the slack to not be large enough to adequately alleviate the excess demand for labour. Together with analysis of the different forms of employment, with the exception of the hiring of foreign nationals, these conclusions point to an increase in worker bargaining power, and consequently to the generation of upward pressure on wages. This is also supported by survey data showing persistently large labour shortages and employment expectations remaining positive, despite the slowdown in economic activity. Furthermore, the tight labour market and the low level of slack mean that firms can be expected to make fewer redundancies in the short term in the event of a significant cooling of economic activity, or to make use of available job retention schemes. The conclusions of this analysis are also important in light of the medium-term labour market trends, as the active population in Slovenia is forecast to decline markedly over the coming decades, which will reinforce the need to promote labour force participation by the elderly, and lifelong learning.

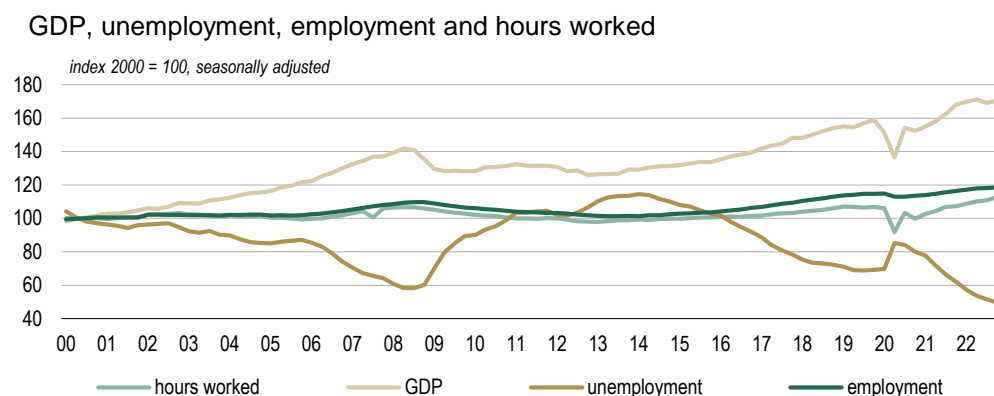
Povzetek

Analiza podrobneje proučuje tesnost in potencialno dodatno aktivno prebivalstvo na slovenskem trgu dela. Tesnost trga dela je definirana kot presežek povpraševanja po delavcih nad njihovo ponudbo, kar vodi v težave podjetij pri zaposlovanju, potencialno dodatno aktivno prebivalstvo na trgu dela pa sestavljajo brezposelnost, podzaposlenost in določen delež neaktivnih oseb. Rezultati analize kažejo, da je tesnost na slovenskem trgu dela velika, potencialno dodatno aktivno prebivalstvo pa ni dovolj veliko, da bi lahko ustrezno ublažilo presežno povpraševanje po delavcih. Skupaj z analizo različnih oblik zaposlitev, z izjemo zaposlovanja tujcev, ti zaključki nakazujejo na večanje pogajalske moči delavcev in posledično ustvarjanje pritiskov za rast plač. Temu v prid govorijo tudi anketni podatki, ki kažejo, da pomanjkanje delavcev ostaja veliko, pričakovano zaposlovanje pa pozitivno kljub umirjanju gospodarske dejavnosti. Ne nazadnje je mogoče pričakovati tudi, da bodo podjetja zaradi velike tesnosti trga dela in majhnega obsega potencialnega dodatnega aktivnega prebivalstva kratkoročno v primeru izrazitega ohlajanja gospodarske dejavnosti manj odpuščala oziroma bodo uporabila razpoložljive sheme za ohranjanje delovnih mest. Zaključki analize so pomembni tudi z vidika ocenjenih srednjeročnih gibanj na trgu dela, saj naj bi se aktivno prebivalstvo v Sloveniji v prihodnjih desetletjih opazneje zmanjšalo, kar bo še okrepilo potrebe po spodbujanju delovne aktivnosti starejših in vseživljenjskem učenju.

Job retention schemes meant that employment fell by less than it would otherwise have done during the pandemic.¹ Accordingly the rise in unemployment also remained smaller than that envisaged by the historical relationship between GDP and unemployment as described by Okun's law. Similar developments were also seen in other European countries (European Commission, 2022a). The fall in employment and rise in unemployment were also smaller than in previous economic crises, which meant that the impact of the pandemic was seen more in the number of hours worked (see Figure 1).

The job retention schemes also allowed firms to be faster and more effective in restoring production processes at the end of the pandemic, as they were saved the time that they would otherwise have taken to recruit and train new employees. The economic recovery also brought a recovery in demand for labour, which meant that by the third quarter of 2021 employment had exceeded its pre-pandemic level from the third quarter of 2019. Despite the current slowdown in the economy, employment expectations remain positive, and the share of firms facing a shortage of skilled labour remains high. The SORS and Employment Service survey data shows hiring continuing in the coming months, albeit at a slower pace than last year. In line with these developments, the coming months are expected to see a further fall in unemployment, which is already at a record low.²

Figure 1: **GDP, unemployment, employment and hours worked**



This publication provides detailed analysis of the Slovenian labour market, focusing on analysis of tightness, the presence of labour market slack, and the various population groups therein. Despite the tight labour market, the presence of slack could alleviate firms' difficulties in recruiting, which could in turn reduce worker bargaining power in wage negotiations and have an impact on labour market forecasts. Conversely, the combination of low labour market slack and a tight labour market could increase worker bargaining power and strengthen upward pressure on wages.

The next two sections present analysis of labour market tightness, and the presence of slack in the Slovenian labour market. The fourth section provides a detailed examination of various population groups in the labour market from the perspective of the firm

¹ Detailed analysis can be found in Box 6 of the [June 2020 issue of the Macroeconomic Projections for Slovenia](#).

² Detailed analysis is given in Box 4.1 of the [March 2023 issue of the Review of macroeconomic developments](#).

of employment, nationality and labour force participation rate, and touches on demographic projections. The final part of the analysis presents its conclusions, and the references.

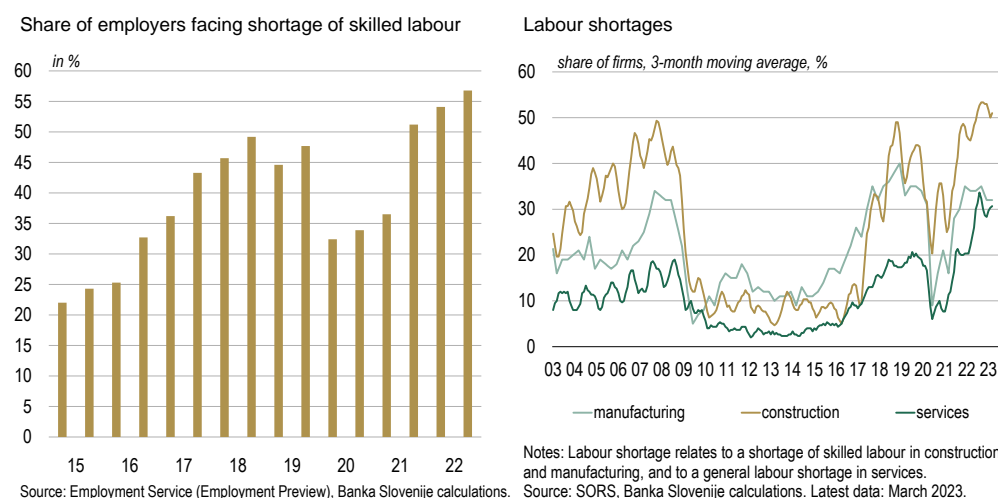
2 Tightness of the Slovenian labour market

2.1 Definition

A labour market is said to be tight when there is a relatively large number of vacancies compared with the number of jobseekers. This diminishes the efficiency of matching between supply of and demand for labour, and increases the share of firms who face difficulties in recruitment.

The tightness of the Slovenian labour market is evident in the results of the *Employment Preview* survey conducted last autumn by the Employment Service (2022). The results show that the share of employers facing a shortage of skilled labour increased further in the second half of the year to reach 56.8% (see Figure 2), while the difficulties were most pronounced at large enterprises, fully 81.4% of whom faced this issue. The labour shortages in different sectors have diminished in recent months, but remain at historically high levels (see Figure 2).

Figure 2: Tightness of the Slovenian labour market from the perspective of survey data

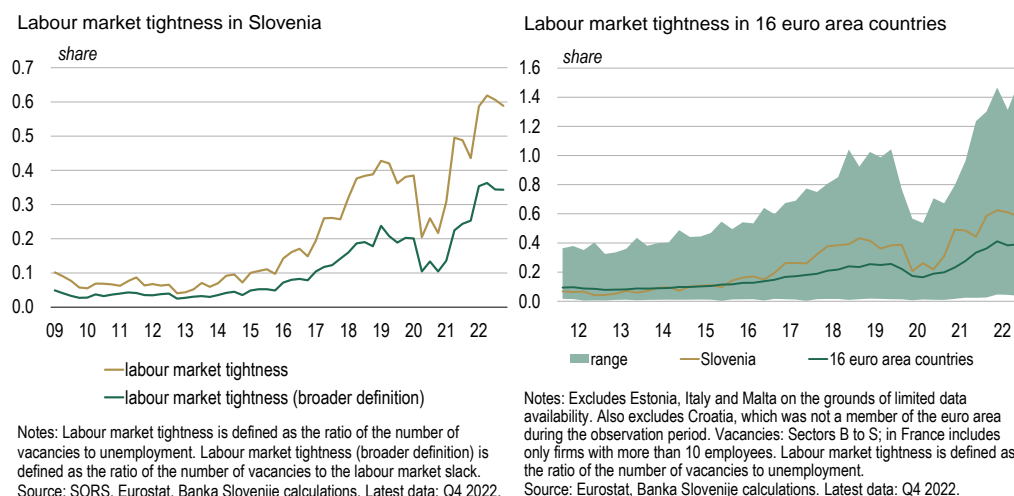


The tightness of the Slovenian labour market is also confirmed by the indicator of labour market tightness (see Figure 3), which is calculated as the ratio of vacancies to unemployment, and reflects the size of the demand for labour compared with the available supply on the labour market. The higher the indicator, the tighter the labour market is. The analysis also covers calculation of an additional indicator, where the denominator is the labour market slack,³ which is examined in detail below. The two indicators show that the tightness of the Slovenian labour market declined a fraction in the second half of last year, but remained at record high levels. Given that surveyed unemployment

³ The definitions follow those used by the SORS (2019).

and labour market slack declined over this period, the decline in the indicator of labour market tightness was attributable to a fall in the number of vacancies.

Figure 3: Indicator of labour market tightness



The euro area labour market is also tight.⁴ The indicator hit a record high in the second quarter of last year, with an overall value of 0.4 for the countries covered, although there was great variation between them (see Figure 3). The indicator exceeded 1 in three countries (Germany, the Netherlands and Austria), which means that employers there notified more vacancies than the pool of available unemployed labour. Tightness then declined in the second half of the year, as a result of a rise in unemployment and a fall in the number of vacancies. In the final quarter tightness remained highest in Germany and the Netherlands, where the indicators were still higher than 1.

2.2 Beveridge curve

The state of the labour market is also reflected in the Beveridge curve, which shows a negative relationship between unemployment rate and labour shortage (European Commission, 2022a), or alternatively between unemployment rate and vacancy rate (IMF, 2022 and ECB, 2019). The relationship between the aforementioned series is negative, as a decline in the number of notified vacancies reduces the likelihood of the unemployed finding employment, which leads to a higher unemployment rate (European Commission, 2022a).

Shifts in the Beveridge curve and movements along the curve are usually associated with the matching efficiency and tightness of the labour market (ECB, 2019). The latter is typified by movements along the Beveridge curve, as a result of fluctuations in the business cycle. During a recession for example, firms post fewer vacancies and disclose smaller difficulties in hiring, which is associated with a higher unemployment rate. Labour market tightness thus declines in the case of a recession, which is reflected in a downward movement along the curve (ECB, 2019). It is evident from past business cycles that the vacancies data is a leading indicator of the business cycle, while unem-

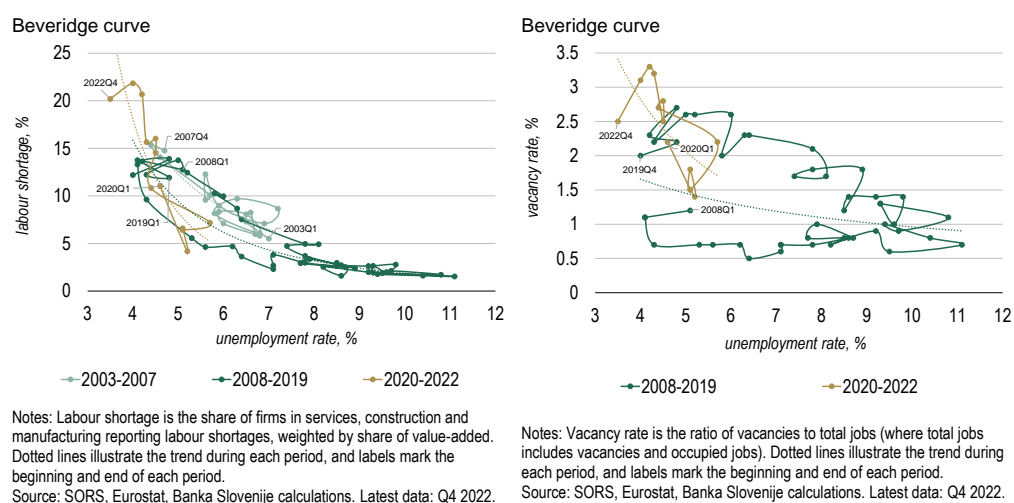
⁴ Limited availability of data on the number of vacancies means that Estonia, Italy and Malta were excluded from the comparison. Croatia was also not included in the analysis, as it had not joined the euro by that point.

ployment is a lagging indicator. Negative shocks to labour demand are therefore followed by typical anti-clockwise movements in the vacancy-unemployment space where Beveridge curves are defined (European Commission, 2022a).

By contrast, shifts in the Beveridge curve are associated with labour market matching efficiency, which reflects the efficiency of the process of matching unemployed workers to vacancies. Labour market matching efficiency declines when the Beveridge curve moves away from the origin. These shifts can depend on several factors. Examples include a high share of long-term unemployment, which can lead to a reduction in employers' efforts to seek new hires, and the geographical dispersion of unemployment and vacancies (ECB, 2019). A shift in the Beveridge curve away from the origin indicates that vacancies are increasingly hard to fill with the available pool of labour (OECD, 2022a).

Figure 4 illustrates the Beveridge curve from the perspective of the labour shortage and the vacancy rate. In both charts it is evident that demand for labour in Slovenia recovered relatively quickly after the end of the pandemic. Because the supply of workers was unable to keep up with rising demand, the pace of decline in the unemployment rate was slower than the pace of the increase in demand for labour. Consequently there was a pronounced upward movement along the curve, and its gradient became steeper. This led to an increase in labour market tightness, which is currently at record high levels. One of the reasons for these developments might be the fiscal incentives mentioned above, which during the pandemic helped to preserve firms, jobs and purchasing power, and after the end of the pandemic made it easier to reboot the economy (OECD, 2022a). Similar shifts in the Beveridge curve can also be seen in other countries (European Commission, 2022a; OECD, 2022a). In the final quarter of last year, as a result of the sharp fall in the unemployment rate and reduced demand for labour, there was a notable downward movement along the curve, which is further evidence of the decline in labour market tightness.

Figure 4: Beveridge curve



The evolution of the Beveridge curve (see Figure 4) also reveals the differing natures of the last two crises (the global financial crisis and the pandemic crisis). At the beginning of the financial crisis there is a notable decline in labour market tightness (a downward movement along the curve), followed by a decline in labour market matching efficiency (a shift in the curve away from the origin), and then a renewed increase in labour market tightness following the economic recovery (an upward movement along the

curve). Compared with the pandemic, demand for labour recovered much more slowly after the end of the financial crisis, and consequently the increase in labour shortage was also less pronounced. This might be attributable to the aforementioned job retention schemes, which helped to maintain links between employers and workers during the pandemic (OECD, 2022a).

The chart is also confirmed by an empirical estimate of the Beveridge curve, which given the availability of longer time series was made on the basis of data for labour shortage (see Table 1):

$$unemployment\ rate_t = \alpha + \beta\ labour\ shortage_t + u_t \quad (1)$$

The empirical estimate of the Beveridge curve in model (1) was made according to the European Commission (2022a and 2022b) model. The dependent variable (*unemployment rate_t*) is the surveyed unemployment rate (as a percentage), while the independent variable (*labour shortage_t*) is the labour shortage measured as the share of firms reporting a shortage of workers (as a percentage). The labour shortage covers firms in the sectors of services, construction and manufacturing, weighted by each sector's share of value-added. The observation period is January 2003 to December 2022. The results show a statistically significant negative correlation between the unemployment rate and the labour shortage. They additionally confirm the change in the gradient of the Beveridge curve over the three periods in question, where the curve is steepest in the most recent period, and confirms the increase in labour market tightness.

Table 1: **Empirical estimate of Beveridge curve**

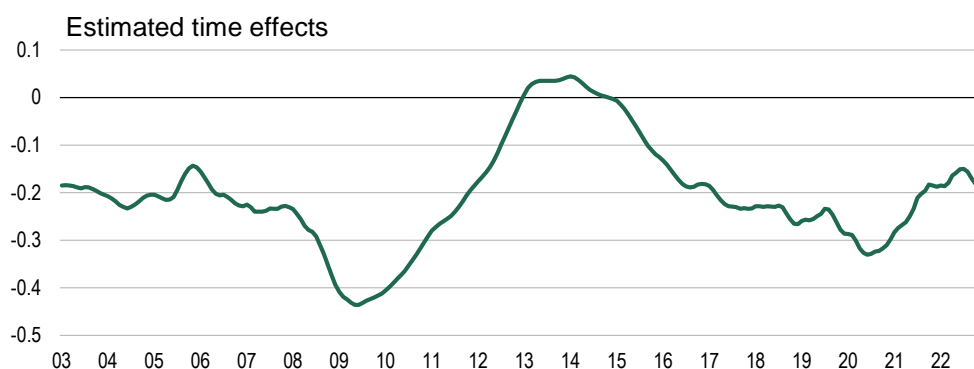
	(1) Period: 2003–2022	(2) Period: 2003–2007	(3) Period: 2008–2019	(4) Period: 2020–2022
Labour shortage	-0.314*** (0.015)	-0.241*** (0.011)	-0.402*** (0.016)	-0.081*** (0.011)
Constant	8.973*** (0.145)	8.266*** (0.122)	9.573*** (0.140)	5.640*** (0.146)
Number of observations	240	60	144	36
R ²	0.712	0.748	0.766	0.669

Notes: Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1. Dependent variable: surveyed unemployment rate (%); independent variable: labour shortage (%). Estimate made using the European Commission (2022a and 2022b) model. The estimation period is January 2003 to December 2022.

Source: SORS, Eurostat, Banka Slovenije calculations

Figure 5 illustrates the estimated time effects on the basis of model (1) in Table 1, obtained using a flexible least squares method and a Kalman filter (Ocakverdi, 2019). Overall the estimated time effects track the developments in unemployment rate, which rose during the financial crisis and at the outbreak of the pandemic, and fell when the economy was strengthening. The time effects after the outbreak of the pandemic show a relatively modest increase compared with the global financial crisis. The results are in line with the estimated time effects of euro area Beveridge curves (European Commission, 2022a).

Figure 5: **Estimated time effects of the empirical estimate of the Beveridge curve**



Note: Estimated time effects on the basis of model (1) in Table 1. Estimation period Jan 2003 to Dec 2022.
Source: SORS, Eurostat, Banka Slovenije calculations.

Current analysis shows that despite high labour market tightness, there can nevertheless be a high level of labour market slack (IMF, 2022; European Commission, 2022b). The simultaneous existence of labour market tightness and slack could be attributable to reduced labour market efficiency, changes in workers' occupational preferences, and increased obstacles in returning to jobs. During the post-pandemic economic recovery the latter were most evident among older workers, workers with health concerns, and employees in contact-intensive sectors (IMF, 2022). Detailed analysis of the presence of slack in the Slovenian labour market is therefore undertaken below, as this could alleviate the structural imbalance on the labour market and affect worker bargaining power.

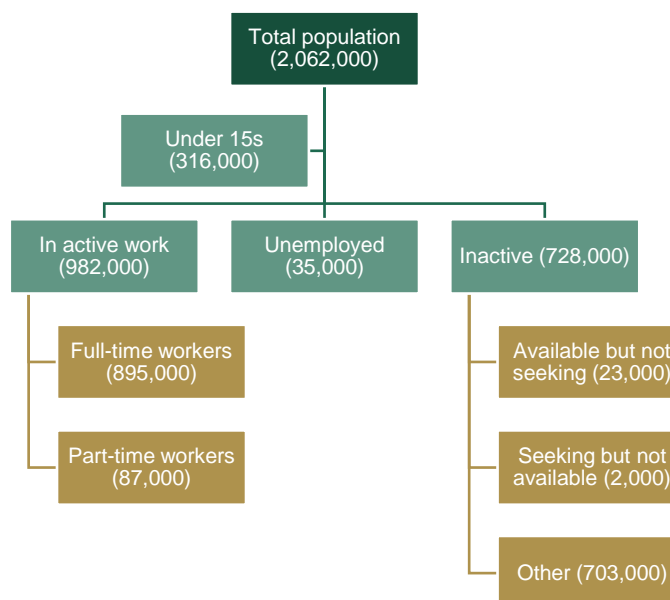
3 Labour market slack

Analysis of slack (potential additional labour force) allows for the simultaneous monitoring of labour market utilisation both in terms of the number of persons and in terms of the number of hours worked (European Commission, 2022a). In addition, the monitoring of the labour market slack is also important given that most people come into active work from inactivity, and not from unemployment (IMAD, 2023).

More than 90% of the persons in employment were in full-time employment in the final quarter of last year (see Figure 6).⁵ Among part-time workers, those who would like to work more hours and are willing to take on more work immediately are particularly important in terms of potential additional labour force. The latter are denoted in the theory as underemployed. The potential additional labour force includes two other groups of inactive persons: those who are not seeking work but who want to work, and those who are seeking work but are not immediately available. These two groups accounted for just over 3% of the total inactive population in the final quarter of last year (see Figure 6).

⁵ Comparison of data from the Labour Force Survey is more difficult over longer time horizons because of changes in methodology. More detailed information can be found in Box 3.1 of the [July 2021 issue of Economic and Financial Developments](#).

Figure 6: **Breakdown of Slovenian population (according to Labour Force Survey), Q4 2022**



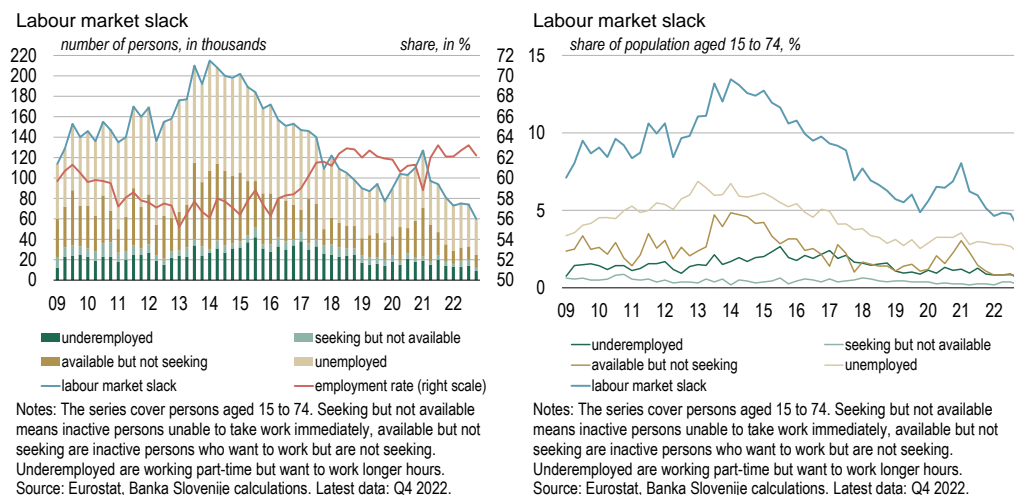
Source: SORS, Banka Slovenije calculations.

The labour market slack did increase after the outbreak of the pandemic, but to a lesser extent than during the global financial crisis (see Figure 7). During the pandemic the labour market slack peaked in the first quarter of 2021 at 127 thousand, or 8.1% of the population aged 15 to 74. The largest contribution to the increase came from those who want to work but were not actively seeking work. By contrast, the peak during the time of the global financial crisis came in the first quarter of 2014, at 215 thousand or 13.5% of the population.

By the final quarter of last year the labour market slack had declined to 60 thousand or 3.8% of the population, its lowest figure to date. The record low available capacity on the Slovenian labour market is also confirmed by analysis by the IMAD (2023). Over the same period there were just over 20,600 vacancies notified according to SORS survey data, and the vacancy rate of 2.5% was at its lowest point of the year, and the same as a year earlier. The number of notified vacancies was significantly less than the estimated labour market slack. However, as described above, the labour market slack accounted for just 3.8% of the population in the 15 to 74 age group, and over half of it consisted of the unemployed, among whom there were a diminishing number of employable persons on account of structural unemployment.

In light of the above, the labour market slack in Slovenia is not large enough to alleviate firms' surplus demand for labour, or to reduce worker bargaining power in wage negotiations. The latter also depends on the different forms of employment, which are examined below.

Figure 7: Slack on the Slovenian labour market



4 Analysis of various population groups on the labour market

From the perspective of labour market and inflation forecasts, analysis of the different forms of employment is also relevant, as these can have a significant impact on worker bargaining power. While the tight labour market and relatively small labour market slack in Slovenia examined above suggest an increase in worker bargaining power in wage negotiations in recent times, the latter is also dependent on the form of employment, the nationality of employees, and labour force participation.

4.1 Form of employment

According to data from the Labour Force Survey, 89.5% of employees were in permanent employment, while the remainder were in temporary employment, working via the student service, or in other forms of work (see Figure 8).

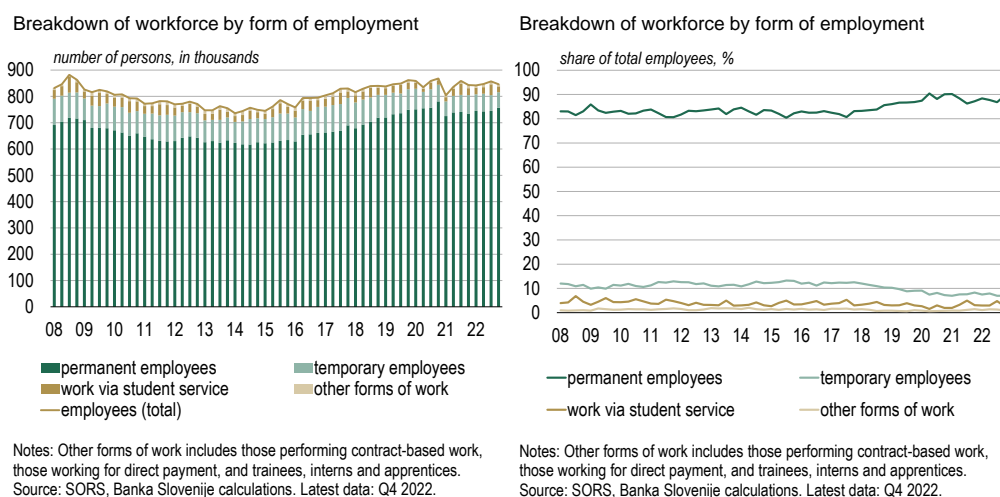
From the perspective of worker bargaining power, precarious forms of work are also significant, including agency work and student work. According to the Eurostat data, the scale of agency work has declined in Slovenia over the last decade, but it remains above the euro area average. Agency work accounted for 5.3% of employment in Slovenia in 2011 (compared with 2.1% in the euro area overall), but this had declined to 4.8% according to the latest data for 2021, compared with 3.1% in the euro area overall. The highest levels of agency work in Slovenia at that time were in the sectors of administrative and support service activities, which includes employment activities, wholesale and retail trade, transportation and storage, and accommodation and food service activities. The scale of agency work is also evident in the data on the persons in employment, which shows the pace of hiring in employment activities began to increase sharply in 2014, before slowing over the next two years.⁶ Agency work is expected to be further curtailed this year with the amendments to the Employment Act, with provisional reductions in the number of agency workers that can be employed by a single

⁶ Detailed analysis of the employment of agency workers is given in Box 3.1 of the [July 2016 issue of Economic and Financial Developments](#).

firm. The compensation that agency workers receive when not working is also set to be increased.

Work via the student service on average accounts for 4% of employment in Slovenia, or 2.6% in the final quarter of last year (see Figure 8). Two-thirds of all students on average participate in student work for a period of two to three months each year. Student work can have positive and negative aspects. The latter prevail when the work bears no relation to the student's own studies or professional aims, and student work can also lengthen the time needed to complete studies. On the other hand student work is a source of extra income, and can provide valuable work experience (OECD, 2022b).

Figure 8: Breakdown of workforce by form of employment



The relatively high share of permanent employment, and the decline and restriction of agency work might point to a rise in the permanence of employment in Slovenia, which could drive up worker bargaining power.

4.2 Nationality

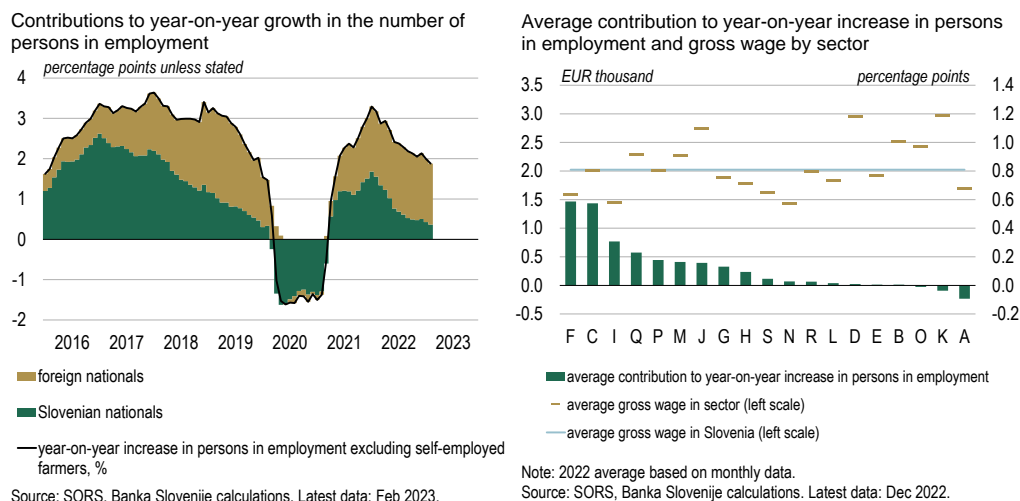
By contrast, certain indicators paint a different picture. Firms still have demand for relatively low-skilled occupations, where there are great shortages on the domestic labour market (Employment Service, 2022). According to Employment Service data, the highest demand for labour in the first quarter of this year was recorded for elementary occupations in construction and manufacturing, and for cleaners, servers and domestic helpers, drivers and sales staff. The Employment Service's Jobs Barometer survey shows labour shortages this year in more than half of the occupations covered by the survey, just over half of which were low-skilled.⁷

Amid the growing labour shortages on the domestic labour market, the hiring of foreign nationals increased again last year (see Figure 9). In February of this year they accounted for more than 80% of the year-on-year increase in the persons in employment excluding self-employed farmers, taking their share of the total persons in employment excluding self-employed farmers to 14.1%. The Employment Service data for work permits issued for the employment of foreign nationals shows the sectors of manufacturing, construction, and transportation and storage to be the leading recruiters. According to the nationality data, the majority hail from Bosnia and Herzegovina and from Serbia:

⁷ The skill levels were determined according to the SORS definition, which classifies occupations into four skill levels (SORS, 2011). Low-skilled occupations are those in the first and second levels, which require secondary-level qualifications or lower.

the former accounted for 82.2% in the first quarter of this year, and the latter for 17.6%. In terms of their qualifications, the general assessment is that they are mostly employed in relatively low-skilled occupations. In March 77.7% of these employees had secondary qualifications or lower. The average gross wage in Bosnia and Herzegovina, where the highest number of foreign nationals come from, was approximately half of that in Slovenia (BHAS, 2022), which could see the motivation to come to Slovenia be maintained in the future. Conversely, the latest data shows the surveyed unemployment rate in Bosnia and Herzegovina at a record low of 14.9% in 2021 (World Bank, 2022), which suggests that the pool of available labour is drying up there too.

Figure 9: Hiring of foreign nationals and impact of employment structure on wage levels



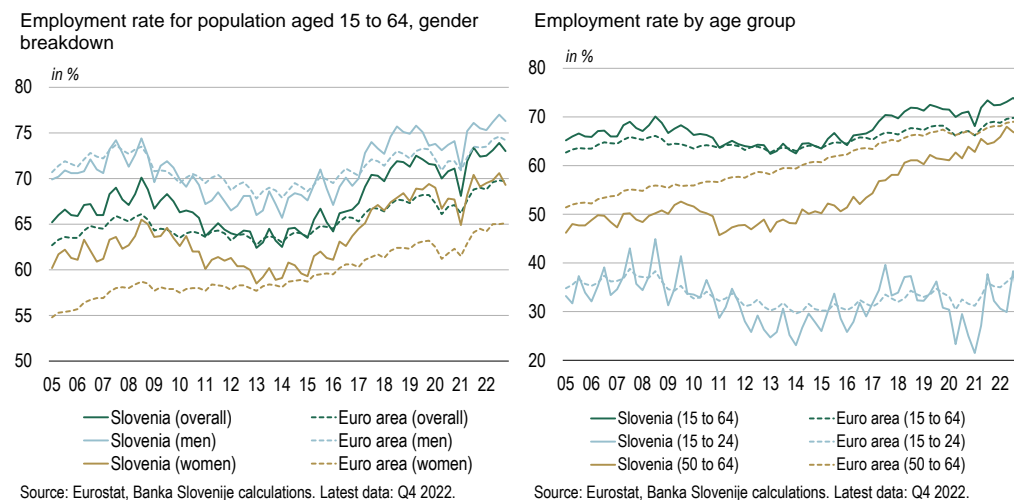
The relatively high demand from firms for low-skilled occupations and the large contribution to the year-on-year increase in the persons in employment made by employees with relatively low qualifications were reflected in a relatively high share of employees with below-average wages. According to the latest SORS data, the share in 2021 was down just under 7 percentage points on 2008, the first year for which the data is available, but was still high at 60.6%. Nominal year-on-year growth in the average gross wage increased last year, but remained below inflation. And not least, average wage levels are also affected by the aforementioned breakdown of hiring. Sectors with below-average wages accounted for more than 78% of the aggregate year-on-year rise in the persons in employment last year (see Figure 9).

4.3 Labour force participation

The employment rate in Slovenia, which is calculated as the share of the population aged 15 to 64 and capable of working who are in active work, stood at 73.0% in the final quarter of last year, 3.3 percentage points above the euro area average (see Figure 10). In the gender breakdown, the employment rate in Slovenia is above the euro area average for men and women alike. The gap with the euro area average was more pronounced in the latter: the employment rate for women stood at 69.3%, 4.2 percentage points above the euro area average, while the figure for men was 2.1 percentage points above the average at 76.3%. By contrast, the rate of 66.4% in the 50 to 64 age group was 2.6 percentage points below the euro area average, while the employment rate in the 15 to 24 age group in Slovenia is highly volatile, as many young people are

included in informal work, most notably the aforementioned student work. The employment rate in Slovenia in this age group stood at 30.3% in the final quarter of last year, 6.2 percentage points less than the euro area average.

Figure 10: Employment rate in Slovenia and the euro area

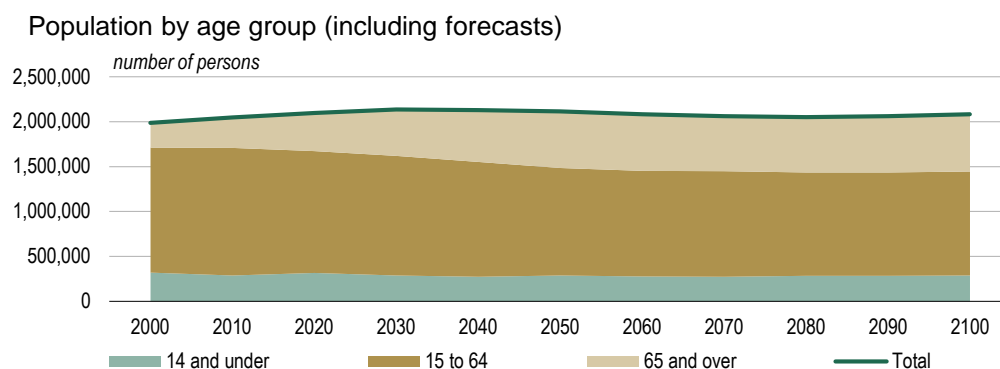


The employment rate in older age groups has increased recently, but remains below the euro area average (see Figure 10). In the 50 to 64 age group it has increased by 17.5 percentage points over the last decade, from 48.9% in the final quarter of 2012. It remains very low in the over 55 age group. In the final quarter of last year it stood at 55.2% in the 55 to 64 age group, and 32.8% in the 60 to 64 age group, down 7.8 percentage points and 17.1 percentage points respectively on the euro area averages. From the perspective of reducing labour market tightness, it is therefore important to encourage labour force participation among older age groups. In line with the relatively low employment rates among older age groups, Slovenia has one of the lowest averages among OECD countries for the age of labour market exit. It stood at 61.5 years for men and 60.5 years for women in 2020, approximately 2 years less than the OECD average. In addition, approximately a fifth of people enter retirement from unemployment (OECD, 2022c).

The importance of encouraging older age groups to work gains even more ground when the medium-term population projections are taken into account (see Figure 11). According to the latest population forecasts (EUROPOP2019),⁸ which envisage larger-scale migration, the number of people in the 15 to 64 age group in Slovenia is expected to decline by 1.6% by 2030, while the number aged 14 and under is expected to decline by 10.3%. Meanwhile the population aged 65 and over is forecast to rise by 13.0%. By 2100 the population aged 15 to 64 is forecast to be down 14.5% on this year, the population aged 14 and under down 9.9%, and the population aged 65 and over up 40.1%.

⁸ The analysis was completed before the release of EUROPOP2023.

Figure 11: Population by age group (including forecasts)



Note: Based on EUROPOP2019 population projections, which envisage increased migration.
Source: Eurostat, Banka Slovenije calculations.

The population forecasts for Slovenia envisage a significant decline in the population aged 15 to 64, which will have a major impact on the labour market: the available labour force will diminish in size, and will also be older. The OECD (2022c) and the European Commission (2021) both forecast that the ageing population will demand an above-average increase in pension expenditure in Slovenia compared with other countries. In addition to encouraging work among older age groups, there will therefore be a growing need to provide support for training them and making them familiar with new technologies (OECD, 2020). Given the unfavourable demographic trends, the IMAD (2022) is forecasting that productivity will be one of the main drivers of economic growth and rising wellbeing. However, the shortage of skilled workers is itself one of the key limiting factors in raising productivity and developing the economy (IMAD, 2022).

5

Conclusion

This publication provides detailed analysis of tightness and slack in the Slovenian labour market. The results show that despite the slowdown in the economy and a decline in employment expectations, which nevertheless remain above their long-term average, the Slovenian labour market remains tight. This is confirmed by the graph and the empirical estimate of the Beveridge curve.

The excess demand for labour on the Slovenian labour market might be alleviated by the presence of labour market slack, which includes the unemployed, the underemployed, inactive persons who are available to work but are currently not seeking it, and inactive persons who are seeking work but are not immediately available. Mainly as a result of the structure of unemployment, where there are fewer and fewer employable persons, there is not sufficient labour market slack in Slovenia to adequately alleviate the excess demand for labour.

This publication also analyses various forms of employment to provide a more detailed picture of the current state of the Slovenian labour market. Given the relatively high share of permanent employment, it can be concluded that employment permanence is favourable, which could have a positive impact on worker bargaining power in wage negotiations. The increased hiring of foreign nationals could however have a negative

impact on the latter. Namely, firms have higher demand for low-skilled occupations, which given the structural imbalances on the domestic labour market they are increasingly meeting by hiring foreign nationals with lower wage demands.

The analysis offers several conclusions. First, given that in the future firms will continue to have demand for occupations that they are already finding it hard to fill with the available pool of domestic labour, employment growth will be limited and largely dependent on filling jobs by hiring foreign nationals. The latter might alleviate the upward pressure on wages in low-skilled occupations, where foreign nationals are mostly employed. The impact of the tight labour market in increasing worker bargaining power and thus raising the upward pressure on wages will therefore be more pronounced in high-skilled occupations, should the same structure be maintained in the hiring of foreign nationals. Given the tightness of the domestic labour market, the expectation is that in the event of a pronounced economic cooldown firms will prioritise job retention schemes, and consequently will lay off fewer workers. The conclusions of the analysis are also significant with regard to the anticipated medium-term developments on the labour market. The structural imbalances on the labour market could deepen in the future amid increased demand for labour because of digitalisation and the green transition (European Commission, 2022c) and the projected demographic changes. The population projections for Slovenia are forecasting a significant decline in the labour force, which means that encouraging labour force participation among older age groups and lifelong learning will be even more important in the future.

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