

## SUMMARY

***The labour market in the EU is still marked by the economic crisis.*** In 2009, the decline in economic activity in the EU triggered the process of labour market adjustment to lower economic activity, which still continues. In 2008–2011, the average employment rate in the EU declined by 1.5 p.p. (to 64.3%), while the unemployment rate rose to 9.6%, which is 2.8 p.p. more than in 2008. In 2009, most countries reinforced the implementation of active labour market measures, but in 2010, some of them already reduced expenditure on these measures. The modest demand for labour force in 2010 and 2011 resulted in an increase in the long-term employment rate, which averaged 4.1% in the EU in 2011 (1.4 p.p. more than in 2008). As was the case in previous recessions, the employment rate of young and low-skilled people dropped the most. As a result of a substantial decline of activity in the construction sector, in 2008–2011, the employment rate of men dropped more than that of women. A special feature of the current recession is an increase in the employment rate of older people, which rose by 1.8 p.p., on average, in the EU in 2008–2011.

***The decline in activity also continues to affect the labour market conditions in Slovenia.*** In 2008–2011, the employment rate (15–64 years) dropped by 4.2 p.p. (to 64.4%), while the unemployment rate rose to 8.2%, which is a 3.8 p.p. increase over 2008. In the private sector the number of employed persons declined by 8.8%, as enterprises were adjusting to lower economic activity by cutting jobs. Employment dropped most notably in construction and manufacturing, which was reflected in an above-average decline in the employment rate of young and low-skilled people and men. In public service activities the number of employed persons grew despite the crisis, as a result of badly thought-out linear restrictions on hiring, which have not been realised due to the growing needs for certain public services (preschool services, old people's homes, health care services). The Public Finance Balance Act passed in the middle of 2012 otherwise includes restrictions on hiring, but the number of employees in public service activities increased significantly already in the first months of 2012.

***The persistently low employment rate of older people (55–64 years), which has been a problem in Slovenia for years, declined further in 2008–2011.*** In 2011, the employment rate of older people (55–64 years), which has been one of the lowest in the EU for a number of years, was lower than in 2008 (despite the increase in 2009). The considerable decline in 2011 could be linked to a large increase in the number of older unemployed people at the end of 2010 (which was likely attributable to changes in labour market regulation and the anticipated pension reform) and a decline of informal employment in this population group. To increase the employment rate of older people, Slovenia should adopt the pension reform as soon as possible, which would also improve the long-term sustainability of its public finances. The immediate formulation and adoption of the pension reform should be accompanied by a strategy for active ageing that should, besides the strategy for promoting healthy living and lifelong learning, also include measures for adapting work places to the needs of the older population.

***The structural imbalances in Slovenia increased despite the stronger implementation of the labour market policy in 2009 and 2010.*** In 2009, the government responded to deteriorating labour market conditions by two intervention laws intended to preserve jobs, and by stronger implementation of active employment policy schemes (AEP), which were strengthened further in 2010 and then reduced substantially already the following year. The increase in the structural imbalances on the labour market is evident from the long-term unemployment rate, which nearly doubled in 2008–2011, and the increase in the ratio of unemployed per job vacancy. Long-term unemployed and low-skilled persons were not sufficiently included in active employment policy schemes, according to our estimate. Furthermore, cutting expenditure for active labour market measures as early as in 2011 was also inappropriate from the aspect of reducing imbalances. In the future, AEP programmes should be more focused on reducing structural imbalances. Education and training programmes

should be adjusted to the needs of employers and it would be necessary to establish appropriate systems for monitoring and forecasting labour market, which could also be used in designing AEP programmes and education policies. The latter could also contribute to easier transition of young people from school to the labour market and improve their situation on the labour market, which deteriorated at an above-average rate during the crisis.

***The labour market situation of young people in Slovenia worsened considerably in 2008–2011. It is significantly affected by a high rate of participation of young people in education and a high number of persons who combine study and employment.*** The employment rate of young people aged 15–24 declined by 6.9 p.p. in 2008–2011; in the age group of 25–29 by 8.1 p.p., which is much more than in other age groups. Employment prospects of young people with a tertiary education declined in particular, which is shown by the largest increase (relatively) in the number of registered unemployed young people with a tertiary education and an increase in the share of those aged 25–29 who are neither in employment nor in education or training. The high participation of young people in education (much higher than the EU average) decreases the employment rate of this population group, but at the same time Slovenia belongs in the group of countries with a large share of young people who combine education and employment. A significant share of youth employment in Slovenia is attributable to student work, which is very attractive for employers because of simple recruitment procedures and cost effectiveness. For a number of years Slovenia has thus stood out in the proportion of temporary employment in total employment of young people, which is the largest in the EU. Strong labour market segmentation has remained the main problem of Slovenia's labour market during the crisis and results from systemic labour market regulation. Given the significant share of temporary jobs among the young, their employment rate dropped substantially. In Slovenia, youth employment faces similar obstacles as in other countries, which arise from both supply of and demand for work.

***In our view, the most important obstacles to youth employment in Slovenia are: disparity between the supply and demand, relatively strong protection of regular employment and relatively high labour costs.*** The troubles in youth employment in Slovenia are largely attributable to imbalances between supply and demand that are related to the structure of enrolment in education programmes and insufficient influence of employers on the content of these programmes. Imbalances, which are an issue both in young people with upper secondary education and in those with completed tertiary education, should be dealt with by adjusting education and training systems to the needs of the labour market. Given the high prevalence of student work, which is attractive for employers due to simpler procedures and lower costs, we can conclude that the employment prospects of young people are also diminished by strong protection of regular employment and relatively strong taxation of labour/high labour costs (including work-related reimbursements).

***Due to the limited flexibility of wages and higher minimum wage, there has been practically no labour market adjustment through labour costs, which is reflected in a loss of cost competitiveness.*** The flexibility of private sector wages is mainly limited to payments for overtime work, extraordinary payments that depend on company performance and wage indexation to the growth of prices and productivity. The growth of the average gross wage in 2008–2011 was strongly marked by the economic crisis, the increase in the minimum wage, the new system of public sector wages and austerity measures of the government. Owing to the latter, the rises in the average gross wage per employee in 2010 and 2011 resulted only from private sector activities. After the slowdown in response to the contraction of activity in 2009 (a decline in the number of overtime hours worked and a reduction of working time), in the last two years wage growth in the private sector was (under the conditions of low economic activity and changed employment structure) mainly due to the increase in the minimum wage. In public service activities, the introduction of the new wage system coincided with the beginning of the crisis and translated into a strong growth of the average gross wage in 2008 and 2009. Because of a number of austerity measures passed in the period since 2009 in response to the general economic and public finance situation, the growth of the average gross wage in public sector services nearly came to a halt in the last two years. In public service activities, particularly the freeze on all motivational

components of the wage system (regular performance bonuses, promotions) remains problematic, as it impacts work motivation of all employees, especially younger people. Finding proper solutions and drafting a more stable wage policy that will enhance the motivation of employees in public sector activities therefore remains a challenge. Wage growth deteriorated the competitiveness of the economy, as unit labour costs increased by 9.1% in 2008–2010. The deterioration of cost competitiveness was also due to the less favourable growth of unit labour costs than in the EU.

***The main challenges of economic policy on the labour market are to increase employment and design a comprehensive labour market reform aimed at reducing segmentation.*** The decline in the employment rate in 2008–2011 pushed Slovenia further away from the targeted 75% employment rate (in the age group 20–64) in 2020 (the EU 2020 target). In 2011 this rate was 68.4 %. To reach this target, Slovenia should form a set of measures aimed at increasing employment, and ensure greater compatibility of the labour market policy and other policies that could affect labour market conditions. To reduce segmentation by age, which arises from systemic labour market regulation, steps should be taken to (i) reduce asymmetries in rights guaranteed under permanent and temporary contracts and (ii) reform student work. The increase in concession fees introduced by the Public Finance Balance Act will otherwise increase the costs of student work, but will not have any effect on other reasons for its attractiveness for employers. However, young people will still not be included in social security systems, which would be advisable. While with student work students/pupils should gain valuable experience, which would have a positive effect on their career paths and the transition from education to employment, analysis of student work (which accounts for a large share of youth employment) shows that students mainly perform physical and other non-demanding types of work. This is another problem worth considering in designing labour market reform. As isolated and partial remedies will not resolve the difficulties on the labour market, a consensus should be reached on the continuation and content of further labour market reforms and measures needed to address the key issues on the labour market. The amendments to the Employment Act, which are underway, should focus on flexicurity and constitute an integral part of a comprehensive labour market reform.