

# **Impact of the Economic Crisis on the Labour Market in Slovenia**

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## Summary

***The international financial crisis, which deepened further in the second half of 2008, resulted in a decline in economic activity and has already affected last year's business results in Slovenia.*** Economic activity (measured by GDP) was slowing gradually last year and recorded a drop in the final quarter of 2008 and in the first quarter of 2009. Business results deteriorated in most sectors; lower demand and the deterioration of the situation on financial markets in the last months of the year, in particular, contributed to a decline in production and lower operating profit in manufacturing.

***The private sector responded to worse operating conditions and the decline in orders by adjusting wages and reducing labour demand, while in the public sector wages and employment continue to grow.*** The second half of 2008 saw a reduction in overtime work, which contributed to a decline in wage growth in the private sector; in the autumn months, some enterprises introduced shorter working hours due to a drop in orders, while the end of the year was already marked by increased layoffs and non-extension of fixed-term employment contracts. The largest decline in the number of people in employment and overtime work was recorded in manufacturing and construction. In the public sector, the process of eliminating wage disparities was launched after several years of negotiations between the trade unions and the Government, just in the period when wage growth in private sector started to slow, which resulted in a wide gap between wage rises in both sectors. Amid the decline in economic activity, the number of persons employed in public services also continues to increase.

***The adjustment of the private sector was reflected in the increase in the number of registered unemployed.*** Registered unemployment has been increasing since last September, when it reached its low (6.3%, or 59,300 persons) and rose to 86,500 unemployed persons by June of this year. Analysis of inflows into unemployment and employed people in terms of gender, age and education shows that the less educated, people aged 50 and over, and young people (age group 15–29) tend to be more exposed to unemployment. As exposure is higher for less educated and older people, they also face a great danger of long-term unemployment. Labour market policy should respond more strongly to this risk by creating appropriate programmes and activating the unemployed.

***As a result of the situation in the labour market, the number of recipients of unemployment benefits and financial social assistance started to increase as well.*** The number of unemployment benefit recipients almost doubled in the period from September 2008 to April this year and is expected to increase further as a result of the rising number of the unemployed. The economic crisis is thus increasing general government expenditure on social security and represents a challenge to social policy in terms of providing the income needed for a decent life for the unemployed and those who do not have sufficient means of subsistence.

***The Government reacted to labour market developments through labour market policy measures.*** It boosted the implementation of active employment policy measures, which comprise counselling and assistance with employment, training and education, encouraging employment and self-employment, and social inclusion programmes. Two interventive acts were adopted as well, mainly aimed at preserving existing jobs. The Partially Subsidising of Full-time Work Act regulates subsidies for shorter working hours, while the Partial Reimbursement of Payment Compensation Act regulates co-financing of reimbursement of wage compensation for workers on temporary layoff (»waiting« at home).

***Significantly more funds will be allocated to active labour market policy in 2009 than in previous years, but for effective implementation it would be essential to remove the problems hitherto seen in this area.*** Unlike certain more developed countries, Slovenia has not yet strengthened the staff in public institutions in this time of crisis, which can result in reduced possibilities of providing high-quality services for unemployed people and employers, and effective implementation of labour market policy. Labour market policy is still not activation-oriented enough; the programmes are insufficiently coordinated and the share of the unemployed participating in active labour market policy programmes is low, which holds particularly true for education and training programmes. The latter is especially problematic given the economic downturn, as the crisis could be used for building new skills of the unemployed and employed, which can increase their

employability and support restructuring of production in enterprises. The program of public works for 2009 and 2010 does not significantly increase the number of participants, even though it would be sensible to stimulate development of social services by means of public works projects.

***Analysis of full-time work subsidies shows that certain manufacturing sectors participate in the scheme the most. They were also recipients of various subsidies in previous years.*** The Act does not define eligibility criteria tying subsidies to the current crisis. Given the Government's proposal to extend the duration of the subsidy scheme and the term for submission of subsidy applications, this anti-crisis measure may end up remaining in effect when it is no longer necessary. The subsidy scheme is to the greatest extent used by enterprises in manufacturing; the majority of employees included in the subsidy scheme are working in the manufacture of clothing, electrical appliances, metals and furniture. All these industries were large recipients of various subsidies also in previous years, particularly the manufacture of clothing, which also received state aid for employment. However, clothing and furniture are industries where maintaining the present state may postpone urgently needed restructuring. Analysis shows that the volume of subsidies only accounts for a small portion of labour costs within industries. The scheme of partial reimbursement of payment compensation for workers on temporary layoff is a measure that is expected to help enterprises, which are facing greater difficulties. This scheme is also not intended only for enterprises with problems related to the crisis. In certain sectors, keeping existing jobs may have long-term negative implications for development and competitiveness, by our estimate.

***Shortening of working hours should to a greater extent be combined with education and training of employees.*** Enterprises receiving subsidies for shorter working time are generally not applying to public tenders for training their employees. The Partial Reimbursement of Payment Compensation Act adopted in May rectifies the deficiency regarding the obligation of education and training of workers on temporary layoff, but leaves the responsibility for education and training of employees entirely to the employer, which may pose a problem from the aspect of the adequacy of education and training. Even though the Government co-finances education and training of employees on temporary layoff, it does not set any criteria for assessing the adequacy of this education. To increase the effectiveness and adequacy of these programmes, labour funds or the counselling network of the Slovenian Institute for Adult Education should participate in the preparation of education and training programmes for workers on temporary layoff, in our view.

# Introduction

***The economic crisis has had a significant impact on the labour market, which is an important mechanism of economic adjustment to possible shocks.***

The labour market may react to a shock by (i) labour cost flexibility; (ii) labour mobility, including geographic mobility and intersectoral mobility; and by (iii) adjusting the quantity of work through changes in the number of employees or the number of hours worked. The economies are thus responding to the crisis by adjusting wages and employment. In the first quarter of 2009, growth in compensation per employee, which indicates the movement of wages, slowed throughout most of the EU. In most countries, the consequences of the economic crisis are reflected particularly in the rising unemployment rate. In the EU-27, the unemployment rate had already started to increase in the spring of 2008, totalling 6.7% on average in March 2008 and climbing to 8.9% by May 2009. In the USA, the unemployment rate rose from 5.1% to 9.4% in that period. Similar trends have also been seen in Slovenia, albeit with a delay: the internationally comparable unemployment rate in Slovenia increased from 4.4% in April 2008 to 5.9% this May, according to Eurostat data.<sup>1</sup>

***Last year's business results of Slovenian companies already reflect the impact of the international financial and economic crisis, which deepened notably at the global level in the second half of 2008.***

The positive difference between net profit and net loss in the accounting period dropped by half relative to a year earlier. This decline was to a great extent the result of a high negative difference between financial revenues and financial expenses, which was mainly due to the declining values of stocks, interests and other financial investments of companies as a consequence of the international crisis. In 2008, the deterioration of business results was also partly due to a somewhat lower positive difference between operating revenues and expenses, which otherwise represents the largest component of the total positive difference between net profit and net loss, which had been increasing rapidly in previous years. The positive difference between operating revenues and expenses declined in large part due to companies in manufacturing industries,<sup>2</sup> which – as the most export-oriented part of the Slovenian economy – faced a significant decline in foreign demand at the end of last year as a result of the global economic crisis. The

growth of their revenues on foreign markets thus almost came to a halt last year; with relatively strong growth in operating expenses, particularly labour costs and costs of other services (except transport services and rent), these companies thus saw a considerable deterioration in the operating revenues to operating expenses ratio. The business results for 2008 of companies in manufacturing thus partly reflect lower demand and deterioration in financial operations. On average, companies in the manufacturing sector had already posted a 37.9% lower positive difference between net profit and net loss in 2008 compared with 2007, when the business cycle had been exceptionally strong. The positive difference between operating revenues and expenses was 17% lower; the negative difference between financial revenues and financial expenses recorded a notable increase, also as a result of increasingly higher indebtedness of companies and tougher lending conditions, and a decline in the value of companies' investments. Most manufacturing industries nevertheless still posted profits last year and thus entered 2009 with some reserves.

***Companies also react to the crisis by adjusting wages and reducing labour demand.***

We estimate that the impact of the economic crisis on companies' performance intensified in the first quarter of 2009, which is evidenced by data on the decline in the gross operating surplus in the first quarter of 2009 (see Chapter I of *Economic Issues*). Companies are responding to tougher business conditions chiefly by wage and employment policies.

***The following sections present an analysis of trends in Slovenia in terms of the impact of the economic crisis on the labour market.***

The analysis is presented in five sections. The first shows the movements of the average gross wage per employee. The second presents the movements of the number of persons in employment, the third the movements of the number of the unemployed and the registered unemployment rate, while the fourth section analyses the impact of the labour market situation on the number of recipients of social transfers. The Government responded to labour market developments by changing labour market policy and implementing measures to keep jobs, as presented and analysed in Section 5. The concluding Section 6 aims at highlighting the key challenges for labour market policy in times of crisis by means of an overview of the abovementioned developments in the labour market.

<sup>1</sup> The SORS data from the Labour Force Survey show that the unemployment rate increased from 5.1% in the first quarter of 2008 to 5.4% in the first quarter of 2009, while it was lowest in the 3rd quarter of 2008, when it dropped to 4.1%.

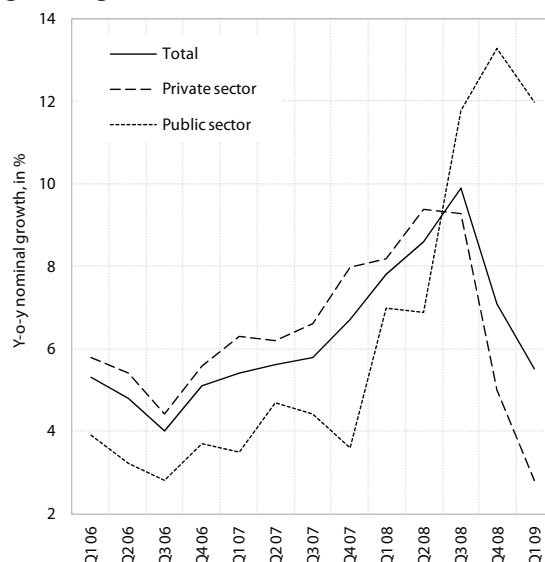
<sup>2</sup> Among major private sector activities, a lower positive difference between operating revenues and expenses was also posted last year in transportation and storage (SCA H), accommodation and food service activities (SCA I), information and communication (SCA J), and administrative and support service activities (SCA N).

# 1. Dynamics of the gross wage per employee

**Wage movements did not change significantly in the past year.** In 2007, wage movements were impacted by the favourable economic situation, the influence of which was also felt in the first half of 2008. In the second half of 2008, and even more this year, wage movements reversed due to the economic crisis. These changes were felt by employees in the private sector, where in the final quarter of 2008 wage growth was more than a third lower year-on-year, while in the first quarter of this year wage growth only accounted for a third of that in the first quarter of 2008 (as the volume of 13<sup>th</sup>-month payments was significantly reduced). After protracted negotiations, a new wage system was introduced in the public sector in 2008, which due to the elimination of wage disparities resulted in wage rises just when private sector wages started to slow due to shrinking economic activity.

**Responses of the private sector to the crisis vary by activities.** Due to a lower volume of 13<sup>th</sup>-month payments, almost all activities saw a general slowdown in wages year-on-year in the last quarter of 2008. Table 1 shows that, in the final quarter of 2008, the slowdown was most pronounced in financial and insurance activities and in manufacturing, while in the first quarter of this year, the largest decline in y-o-y wage growth was recorded in manufacturing and construction.

Figure 1: Nominal growth of public and private sector gross wages



Source: SORS; calculations by IMAD.

**The gross wage decline has hitherto been mainly linked to payments for overtime work.** Table 2 shows the shares of payments for overtime work in total wage payments.<sup>3</sup> The first response to the crisis by enterprises was reducing the volume of overtime work. The share of payments for overtime work in the private sector had started to diminish in the second half of the year and

Table 1: Dynamics of the gross wage per employee by private sector activity for 2007–2009, y-o-y growth in %

	2007				2008				2009
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
A Agriculture, forestry and fishing	6.8	7.4	7.0	11.4	10.3	9.3	10.8	6.7	1.2
B Mining	3.2	3.8	5.3	11.6	9.4	13.8	16.0	14.8	5.6
C Manufacturing	6.0	6.1	7.0	8.6	8.2	9.7	9.3	3.4	0.0
D Electricity, gas, steam and air conditioning supply	2.3	4.9	5.2	11.1	9.3	10.1	9.8	8.8	7.9
E Water supply, sewerage, waste management and remediation activities	5.5	5.6	6.8	10.0	8.3	9.1	9.0	5.2	4.2
F Construction	7.2	6.7	5.7	6.7	7.7	9.6	9.1	4.3	1.2
G Wholesale and retail trade, repair of motor vehicles and motorcycles	8.1	7.4	7.5	7.5	7.5	9.0	8.8	6.1	4.4
H Transportation and storage	5.9	4.6	5.7	7.7	8.7	8.5	10.4	6.6	2.3
I Accommodation and food service activities	3.7	5.1	4.6	7.8	9.3	9.6	10.0	4.9	3.4
J Information and communication	7.4	5.4	5.7	4.6	6.8	7.8	8.7	6.2	3.7
K Financial and insurance activities	8.1	7.8	6.2	7.6	8.6	8.8	8.2	0.0	2.0
L Real estate activities	7.6	7.8	7.4	5.6	6.8	8.6	5.3	3.6	1.6
M Professional, scientific and technical activities	5.0	6.8	7.1	8.9	9.7	8.6	9.1	6.4	4.0
N Administrative and support service activities	4.7	5.9	9.4	9.8	8.6	11.4	10.2	8.0	6.6
S Other service activities	2.2	2.9	3.0	5.1	6.6	8.6	8.5	8.8	4.1

Source: SORS; calculations by IMAD.

<sup>3</sup> In the structure of wages, the shares of payments for overtime work and overdue payments of wages and wage compensations are shown separately. The latter also take account of 13<sup>th</sup>-month payments at the end of the year. The data on wage structure according to the new standard classification of activities (SCA 2008) are processed by month only for 2008 and 2009.

accelerated in the first quarter of this year. Looking at private sector activities, the decline in the share of paid overtime work relative to wages was more pronounced in manufacturing industries and construction.

Table 2: Share of payments for overtime work in wages by private sector activity for 2008–2009, quarterly

	2008				2009
	Q1	Q2	Q3	Q4	Q1
Private sector	1.6	1.6	1.5	1.2	0.8
A Agriculture, forestry and fishing	0.5	0.5	0.5	0.5	0.4
B Mining	2.3	2.5	3.3	4.2	2.6
C Manufacturing	2.4	2.4	2.1	1.4	0.8
D Electricity, gas, steam and air conditioning supply	2.0	1.9	2.2	1.6	1.9
E Water supply, sewerage, waste management and remediation activities	1.9	1.9	1.9	1.7	1.7
F Construction	2.5	2.7	2.8	2.2	1.3
G Wholesale and retail trade, repair of motor vehicles and motorcycles	0.8	0.8	0.9	1.0	0.6
H Transportation and storage	1.1	1.3	1.2	1.1	0.9
I Accommodation and food service activities	0.7	0.8	0.8	0.6	0.5
J Information and communication	0.7	0.7	0.7	0.6	0.6
K Financial and insurance activities	0.4	0.4	0.3	0.3	0.3
L Real estate activities	0.6	0.5	0.4	0.5	0.6
M Professional, scientific and technical activities	0.8	0.8	0.7	0.6	0.7
N Administrative and support service activities	2.6	2.9	2.8	2.1	1.5
S Other service activities	1.0	1.1	0.7	0.7	0.7

Source: SORS; calculations by IMAD.

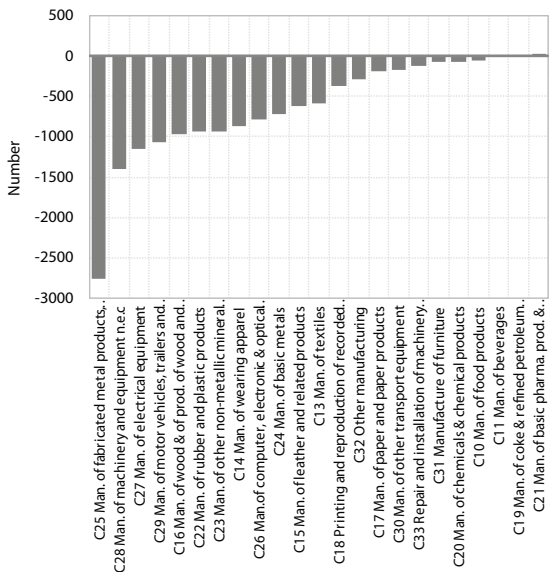
## 2.Movementofthenumber of people in employment

**Strong employment growth, which had started in 2007 and continued in the first three quarters of 2008, came to a halt in the last quarter of 2008.** The number of persons in formal employment (employed and self-employed) was increasing all the way through October, while in November it started to decline. Strong employment growth (over 3% y-o-y) was a result of strong economic growth and high growth in employment in the first half of 2008, which had already dropped somewhat in the third quarter of the year. Lower employment was due to a decline in economic growth in the last quarter of 2008 and continued in the first quarter of 2009.

**In most activities, the number of employed persons started to decline towards the end of 2008.** The number of employed persons started to drop in November 2008 in most activities, in manufacturing already in the second quarter. December saw a significant decline in all activities due to the termination of temporary employment contracts. The number of people in employment was 1.8% higher y-o-y last December, compared with about 3% in September.

**The number of employed persons continued to decline also this year.** The number of people in employment was declining in most private sector activities, with the exception of the supply of electricity, gas and steam and water supply, sewerage, waste management and remediation activities. In the first quarter of 2009, employment would have dropped even more significantly, particularly in manufacturing, had the

Figure 2: Changes in the number of persons in employment in manufacturing industry groups, October 2008 – March 2009



Source: SORS, Labour Market Statistics; calculations by IMAD.



Table 3: Changes in the number of persons in employment in 2008 and 2008 and in the first quarter of 2009, by activity

	Growth rates, in %					Difference in No. (1,000)	
	2007/2006	2008/2007	X08/X07	XII08/ XII07	III09/ III08	X08-XII 07	III 09-X 08
PERSONS IN FORMAL EMPLOYMENT, TOTAL	3.5	3.0	2.7	1.8	-0.9	20.8	-22.1
A. Agriculture, forestry and fishing	7.1	-1.8	-0.9	-1.0	-7.4	-1.8	-1.1
B. Mining	-5.0	-5.2	-7.0	-8.0	-8.1	-0.2	-0.1
C. Manufacturing	0.9	-0.5	-1.4	-3.2	-7.7	-2.4	-14.3
D. Electricity, gas, steam and air conditioning supply	0.7	-1.1	-0.8	0.0	2.6	0.1	0.1
E. Water supply, sewerage, waste management and remediation activities	4.7	4.7	4.4	4.5	2.7	0.4	0.0
F. Construction	12.9	12.2	11.7	9.5	3.9	10.0	-4.7
G. Wholesale and retail trade, repair of motor vehicles and motorcycles	3.4	3.5	2.8	2.0	0.5	2.5	-1.2
H. Transportation and storage	5.3	5.4	4.6	3.2	-0.7	1.7	-1.4
I. Transportation and storage	3.7	1.7	2.6	2.3	1.2	1.0	-0.4
J. Information and communication	6.3	4.8	4.7	4.9	4.1	1.0	0.2
K. Financial and insurance activities	3.4	4.2	4.7	4.0	2.9	0.8	0.1
L. Real estate activities	8.6	9.6	12.8	11.3	7.3	0.5	0.0
M. Professional, scientific and technical activities	6.4	7.1	7.1	7.7	5.7	2.6	0.2
N. Administrative and support service activities	8.7	5.2	6.6	5.0	-2.0	1.7	-1.4
O. Public administration	-0.3	1.3	1.1	0.3	1.1	0.2	0.2
P. Education	0.7	1.5	2.1	2.4	2.6	1.1	0.9
Q. Human health and social work activities	0.8	2.7	2.1	3.0	2.3	0.7	0.8
R. Arts, entertainment and recreation	4.1	6.5	5.5	5.1	1.9	0.3	0.1
S. Other service activities	1.8	1.3	2.2	2.3	4.9	0.6	0.1
T. Activities of households	0.8	6.4	9.2	10.4	10.3	0.1	0.0

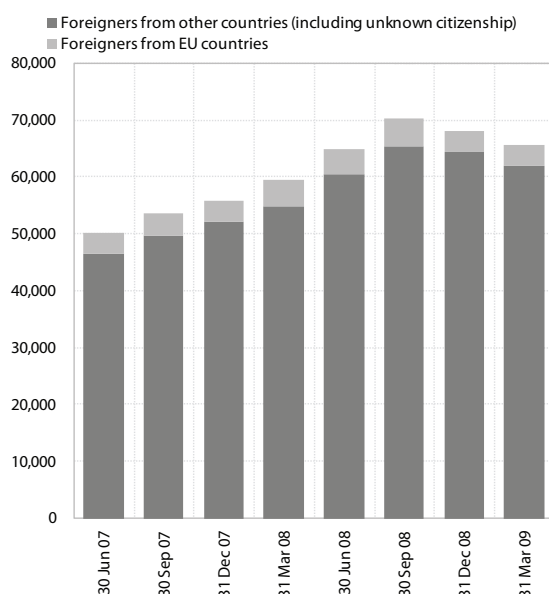
Source: SORS; calculations by IMAD.

government not adopted the interventive act on partial subsidising of full-time work in January, which is primarily intended to prevent layoffs of redundant workers by shortening working time. This measure is analysed in detail in Section 5.

**In the period from October 2008 to March 2009, the number of people in employment declined, the most in manufacturing and construction.** As evident from Table 3, amid shrinking economic activity the number of employees declined most notably in manufacturing and construction. In manufacturing, the decline was due to a drop in domestic and foreign orders, which increased in particular in the period since October 2008. The decline in the number of employed persons in manufacturing accounts for nearly two thirds of the total decline in employment from October 2008 to March 2009. Within manufacturing, individual industry groups responded differently to the crisis by reducing employment. Figure 2 shows that from October 2008 to March 2009 the number of people in employment declined most notably in the manufacture of metal products, except machinery and equipment (C25) (by 2,766 persons). In public services, employment growth continued also in the period from October to March.<sup>4</sup>

<sup>4</sup> The number of employees increased most notably in social work, primary and pre-primary education and in creative, arts and entertainment activities.

Figure 3: Changes in the numbers of persons in employment in 2007 and 2008 and in the first quarter of 2009 by activity



Source: SORS; calculations by IMAD.



**In the first three quarters of 2008, the number of persons in employment increased particularly through increased employment of foreigners, which started to decline in the last quarter of 2009.** The number of foreign workers in Slovenia increased to a high of 70,327<sup>5</sup> by September 2008, which was 14,297 more than at the end of 2007. In the final quarter of 2008, the number of foreign workers in Slovenia started to decline, dropping to 65,776 by the end of the first quarter of 2009.<sup>6</sup>

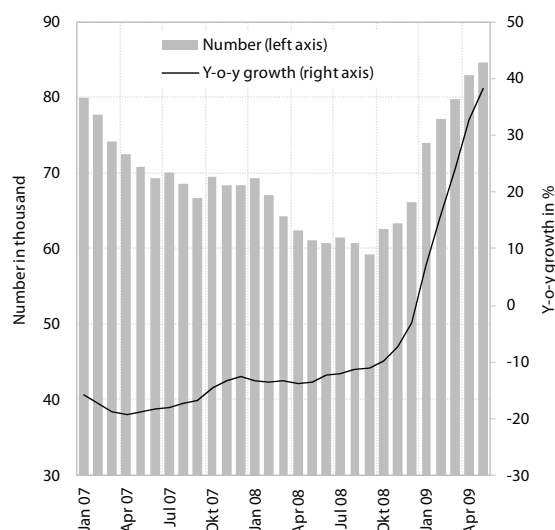
<sup>5</sup> According to the Slovenian Statistical Register of Employment. As evident from the available data based on the register of work permits for foreigners, most foreign workers work in construction. Other important sectors employing foreigners are manufacturing, transport, distributive trades, hotels and restaurants, employment agencies and professional and technical business services.

<sup>6</sup> The number of valid work permits for foreigners, in contrast, was increasing all the way through March 2009, reaching a high of 92,642. The difference between the statistics of employed foreigners and the statistics of work permits for foreigners is partly procedural in nature, but also one of substance. Specifically, a work permit issued by the Employment Service of Slovenia, is a condition for a foreigner to obtain a residence permit, which in turn is a condition for concluding an employment contract; based on the experience of the Employment Service of Slovenia, there may therefore be a lapse of two to three months between the issuance of the work permit and the actual hiring. Furthermore, for different reasons around 5% of work permits do not end up in actual employment. According to the Ministry of Foreign Affairs and police, there have also been instances of abuse of Slovenian work permits for foreigners, which are the basis for obtaining a permit to reside in Slovenia, which enables a foreigner to travel or stay up to three months in other countries (parties to the Schengen Agreement), where they then work, seek asylum or register with the competent authorities as job seekers. Work permits do not have to be returned and are not revoked after the worker has ceased to work.

### 3. Movement of registered unemployment

**The number of registered unemployed persons, which had dropped below 60,000 by September 2008, has been rising steadily since October 2008.** In the first three quarters of 2008, it moved at the usual seasonal pace, dropping by 10,000 from January to September, to 59,303, the lowest figure since December 1990. Since October 2008, the number of registered unemployed has been rising again. It increased to 86,418 by end-June, by a high of 27,178, or 45.8% more than in September 2008. The main reason for the rising number of the unemployed is a higher inflow of persons who lost work, amid a concurrent decline in the number of unemployed who found it (see Section 2).

Figure 4: Number of registered unemployed and y-o-y growth

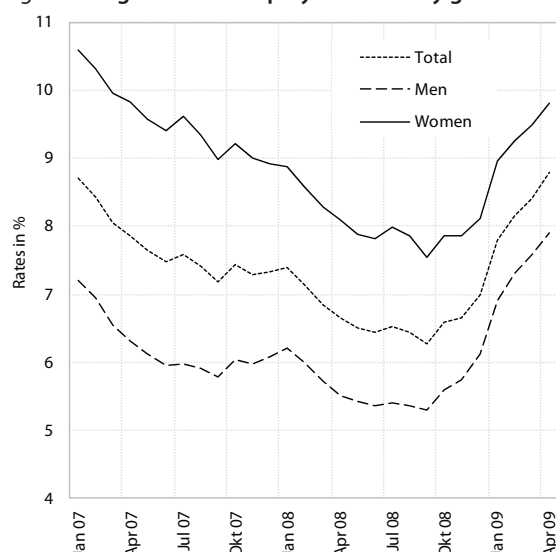


Source: Employment Service of Slovenia; calculations by IMAD.

**Given the rising number of the unemployed, the registered unemployment rate is on the increase again.** Owing to a rising number of people in employment and a decline in the number of unemployed, the registered unemployment rate dropped to a low of 6.3% by September 2008 (the lowest figure since December 1990, which is also true of the number of unemployed), when it started to rise, reaching 8.4% by March 2009.

**The gender gap in unemployment is declining, given that a higher inflow into unemployment has been recorded for men than for women since November 2008.** From September 2008 to May 2009, the number of unemployed men rose by 52.5% and the number of unemployed women by 33.5%. The share of women among the unemployed, which had climbed close to 55% on average in 2007, is therefore declining rapidly in the time of recession, already dropping below 50%

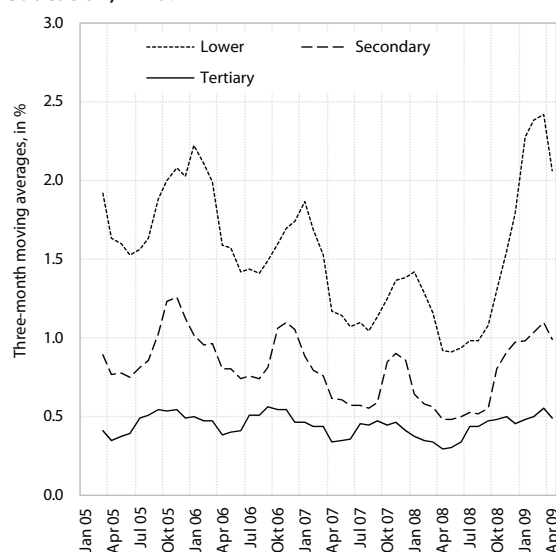
Figure 5: Registered unemployment rate by gender



Source: SORS.

in February 2009. The gender gap in unemployment rates, which was highest on average in 2006, is thus correspondingly narrower. In recent months, the inflow of men into unemployment was higher than the inflow of women, as employment is declining particularly in sectors which mainly employ men (construction, manufacture of metals ...). Even though the inflow of men into unemployment has been higher than the inflow of women in recent months, the share of newly registered unemployed women compared with the number of women in employment is higher than the corresponding share of men.

Figure 6: Unemployment in terms of attained education,\* in %



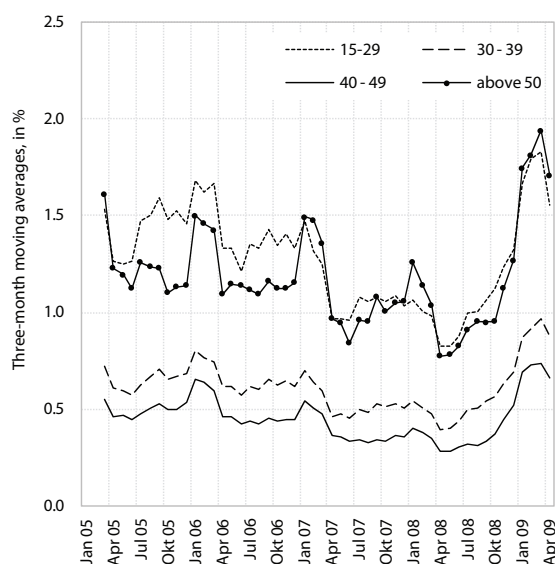
Source: ESS, SORS; calculations by IMAD.

Note: \*Unemployment is measured as the ratio of the number of the newly registered unemployed with a certain level of education to the number of employed persons with the same educational level in %.

**Less educated persons, the elderly and the youth were hit hardest by unemployment in the last year.**

Trying to answer the question of which population group has been hit hardest by the tightening conditions in the labour market (in terms of gender, age and education) and/or which population group is most exposed to unemployment, we analysed the ratio of the inflow into unemployment for a certain group to the number of employed persons in the same group, calling it "unemployment of a certain group". This analysis of inflows into unemployment with regard to education indicates that the less educated tend to be more exposed to unemployment than those with a higher level of education (see Figure 6). Moreover, in the time of crisis, the exposure of employed people with a low education increased more than the exposure of those with a higher education (for example, from 1.2% in the first quarter of 2008 to 2.4% in the first quarter of 2009). Analysis in terms of age indicates that people aged 50 and more and young people (age group 15–29) are most exposed to unemployment. Unemployment exposure of the elderly<sup>7</sup> rose from 1.0% in the first quarter of 2008 to 1.9% in the first quarter of 2009, while unemployment exposure of young people<sup>8</sup> increased from 1.0% to 1.7% in the same period (see Figure 7).

Figure 7: Unemployment in terms of age,\* in %



Source: ESS, SORS; calculations by IMAD.

Note: \*Unemployment exposure is measured as the ratio of the number of newly registered unemployed in a certain age group and the number of employed persons in the same age group.

<sup>7</sup> Measured as the share of newly registered unemployed aged 50 and over in the total number of employed persons in the same age group.

<sup>8</sup> Measured as the share of newly registered unemployed in the age group 15–29 (excluding first-time job seekers) in the total number of employed persons in the same age group.

## 4. Impact of labour market conditions on the number of social benefit recipients

**Following a relatively long period of decline, the number of recipients of unemployment benefits and financial social assistance started to rise gradually as a result of the situation in the labour market.** The movements in the numbers of employed and unemployed persons and the level of their income are closely linked to the volume of certain social benefits. This holds particularly true for receipts stemming from unemployment insurance and financial social assistance. Data show that the number of persons eligible for these two groups of receipts dropped significantly when the situation in the labour market was improving, whereas it has started to rise in the recent period and is expected to post a further increase.

### 4.1. Movements in the number of recipients of unemployment benefits and financial unemployment assistance

**Conditions for entitlement to the rights arising from unemployment insurance are relatively strict.** Eligibility for unemployment benefit is regulated by the Employment and Insurance Against Unemployment Act,<sup>9</sup> under which the right to unemployment benefit may be claimed by an insured person whose employment contract with one or more employers lasted at least 12 months during the last 18 months prior to termination. This condition makes access to unemployment benefits harder for unemployed persons who were previously on fixed-term contracts with several and/or longer interruptions and is particularly tough on young people, who often hold fixed-term jobs. The basis for the assessment of unemployment benefit is the average monthly wage earned by the insured person in the 12 months prior to unemployment. The unemployment benefit totals 70% of the assessment basis for the first three months and 60% for subsequent months. The duration of the right depends on how long the person was insured (on the length of time worked) and can range from 3 months (for insurance of 1 to 5 years) to 24 months (for insured persons older than 55 or with more than 25 years of insurance). In Slovenia, the duration of entitlement to unemployment benefit is shorter than in most other European countries, particularly for shorter periods of insurance.

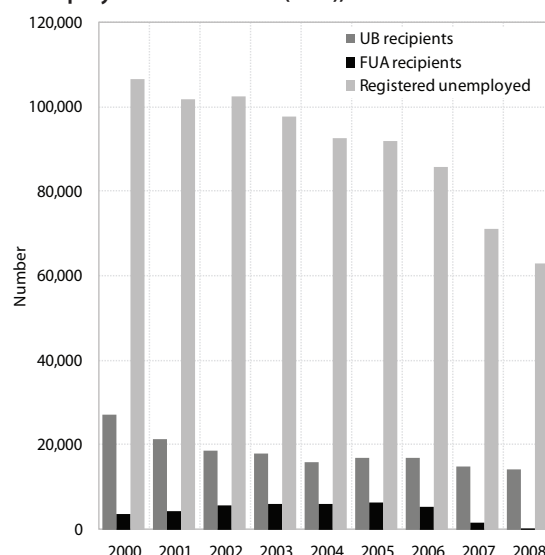
<sup>9</sup> In the period since Slovenia gained independence, eligibility criteria have been tightened twice: first in 1998, when the duration of eligibility was reduced, and again in 2006, which saw tightened conditions regarding the obligation to accept work.

**The right to financial unemployment assistance was abolished in 2006, and the number of recipients is therefore dropping at a rapid pace.** Until 2006, the aforementioned Act had also governed entitlement to financial unemployment assistance, which was abolished by an amendment adopted in 2006. The right to unemployment benefit was combined with the right to financial social assistance, which can be claimed at centres for social work. Persons who had already been entitled to financial unemployment assistance before the regulatory changes took effect keep this right until the expiry date of the term for which it had been granted. As seen from Figure 8, the number of recipients of financial unemployment assistance is therefore dropping at a rapid pace.

**In 2000–2008, the movements of recipients of unemployment benefits and financial unemployment assistance were directly linked to the movement of registered unemployment, but also to regulatory changes.** In the 2000–2008 period, when unemployment gradually declined, the number of unemployment benefit recipients was falling, dropping by around one half (from 27,264 to 14,166). The share of recipients of unemployment benefits in the total number of registered unemployed declined to 22.4% in 2008, down from 25.6% in 2000. In contrast, the number of recipients of financial unemployment assistance paid by the Employment Service of Slovenia was increasing throughout 2005, when it started to decline at a rapid pace due to the above-mentioned regulatory change (from 6,201 in 2005 to a mere 200 in 2008).

**The number of unemployment benefit recipients and their share in total unemployment started to increase towards the end of 2008 and is still growing**

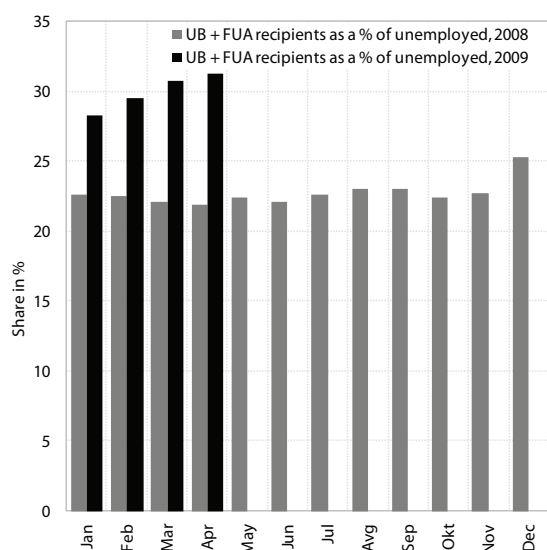
Figure 8: Number of registered unemployed, recipients of unemployment benefits (UB) and financial unemployment assistance (FUA), 2000–2008



Source: ESS.

**this year.** Even though in 2008 the average number of unemployment benefit recipients dropped further relative to the previous year, the monthly figures show a declining trend through September 2008 (13,604 recipients), while since October this number has been gradually rising, increasing more notably in December 2008, when it was at 16,666, climbing to 25,874 by April 2009. The share of unemployment benefit recipients among the unemployed is also growing, having already increased to as much as 31.15% by April 2009. The number of recipients of financial unemployment assistance, unsurprisingly, continues to decline (having dropped to a mere 46 by April 2009), given that this assistance is only received by those who had been entitled to it before the amendment was adopted in 2006 and will receive it until the end of the time period for which this right had been granted.

Figure 9: Number of recipients of unemployment benefits (UB) and financial unemployment assistance (FUA) in the total number of registered unemployed, in %, 2008–2009



Source: ESS.

## 4.2. Movements in the number of recipients of financial social assistance

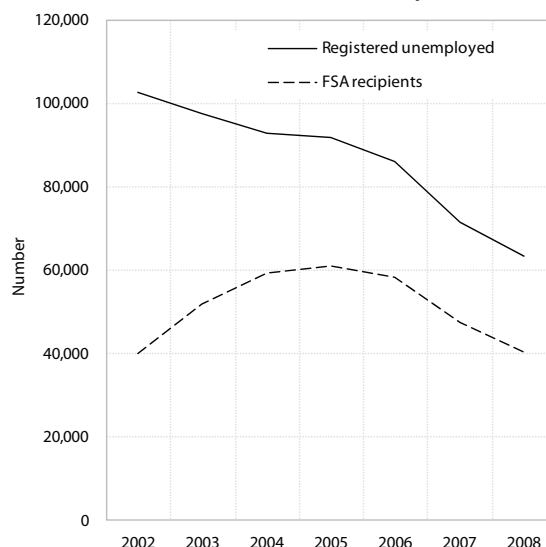
**Individuals are entitled to financial social assistance if they do not have sufficient resources to support themselves; this right is therefore closely linked to the situation in the labour market.** Financial social assistance is intended to provide the basic means of subsistence in a period when beneficiaries cannot earn their own living in any other way.<sup>10</sup> Subsistence is considered to be provided if

<sup>10</sup> By working, with rights from work or insurance, with income from property and other sources, or with benefits or receipts according to other regulations, or with the help of those who are obliged to support them or in some other way.

the entitled person receives income equal to the minimum income. As at 1 July 2008, the basic minimum income was EUR 221.70.<sup>11</sup> Persons who have no income or receive income below the minimum are entitled to financial social assistance in the amount of the difference between their own income and the minimum income.<sup>12</sup> According to the Social Security Act, financial social assistance is granted to citizens of the Republic of Slovenia with permanent residence in Slovenia and foreigners having a permit for permanent residence in Slovenia, but only if they cannot ensure means in the amount of the minimum income for themselves and their family members for reasons which were or are beyond their control.<sup>13</sup>

**In the period of unfavourable movements in the labour market, the number of recipients of financial social assistance was dropping. It was also influenced by the implementation of the new system.** The number of financial social assistance recipients started to increase

Figure 10: Average number of registered unemployed and financial social assistance (FSA) recipients



Source: MLFSA, ESS.

<sup>11</sup> The level of the basic amount of minimum income is the subject of a special study ordered by the Ministry of Labour, Family and Social Affairs.

<sup>12</sup> For a single person and the first adult in the family, the basic amount of minimum income is taken into account, while for a family and family members the amount is determined using the weights of 0.7 for adults and 0.3 for each child.

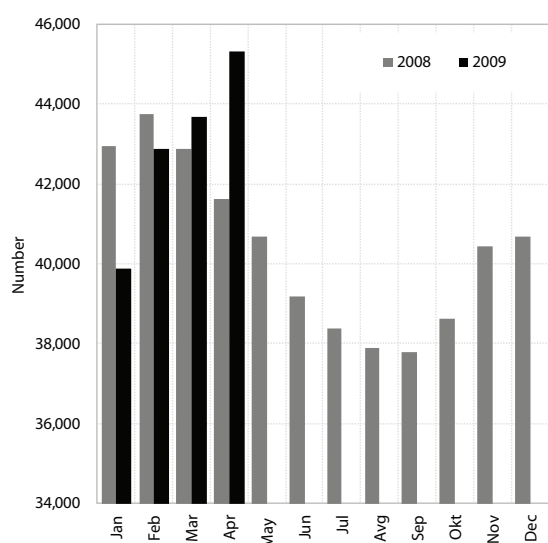
<sup>13</sup> Financial social assistance is not granted to persons who, for example, terminated a labour relation, persons who could be regarded as unemployed but failed to register with the Employment Service, persons who unjustifiably rejected employment or participation in active employment policy programmes and were therefore deleted from the register of the unemployed, persons who unjustifiably rejected an appropriate job under a contract for work or a copyright contract or appropriate temporary or casual humanitarian or other similar work, etc. Furthermore, financial social assistance is not granted to persons who have savings or property which enables subsistence and is specified in detail in the Act.



after 2002 due to a gradual implementation of the new system. It was highest in 2004 and 2005, after which time it started to decline gradually, falling to the lowest level in 2008. Seasonal fluctuations show that this number tends to decline in the summer months, starts rising again in the autumn, reaches the highest figures in the winter months and then drops again. Since 2004, when the new system was implemented in full and new eligibility criteria came into effect, the movement in the number of financial social assistance recipients directly followed unemployment trends, largely owing to the fact that around two thirds of recipients are unemployed.

**In view of deteriorated conditions in the labour market, it can be realistically expected that the upward trend will continue in 2009.** The number of recipients will increase mainly due to the greater number of unemployed persons, but in part also as a result of lower earnings of the employed. Given the low share of the employed in the structure of financial social assistance recipients (only about 3%), the first reason will prevail, meaning that the number of recipients will increase with a certain lag behind the increase in unemployment (the unemployed are obliged to exercise the right to unemployment benefit first if they are eligible for it). After September 2008, which saw the lowest number of recipients (37,799) since the system became effective in full, this number started to rise, which in the autumn and winter months can be attributed to seasonal impacts. However, in 2009 it also continued to rise in the spring, when it had usually already started to fall as a result of seasonal factors. In January and February 2009, it was even lower than in the same months last year, while in March 2009 it had already slightly increased relative to March 2008 (by 1.9%). According to the latest figure for April 2009, as many as 45,287 persons received financial social assistance, 8.8% more than in April 2008.

Figure 11: Number of recipients of financial social assistance, 2008–2009



Source: MLFSA, ESS.

## 5. Labour policy measures in times of crisis

**Labour market policy (LMP) is a vital part of measures in response to the crisis in most EU countries trying to ease the impact of the crisis on the labour market.**

According to the OECD Jobs Strategy,<sup>14</sup> which gives a comprehensive definition of the role of labour market policy, labour market policy should remove the obstacles to labour demand, facilitate the development of labour force skills and competences, design an effective unemployment benefit system and effective active labour market policy programmes. In times of crisis it is especially important that labour market policies provide adequate income support for the unemployed, at the same time enabling them to retain and improve their skills and competences, while helping to tide employers over during the temporary business downturn. With labour market measures, governments attempt to achieve the following three goals: minimise mass dismissals, enable restructuring and provide for adequate income support.

**Labour market policy constitutes an important component of anti-crisis measures in Slovenia.** In this time of crisis, Slovenia is also using active employment policy measures comprising counselling and assistance in employment, training and education, encouraging employment and self-employment and programmes to promote social inclusion. Two interventive acts have been adopted as well, mainly aimed at keeping jobs (Partially Subsidising of Full-time Work Act and Partial Reimbursement of Payment Compensation Act).

### Okvir 1: Labour market policy measures in the EU

**The economic crisis impacted labour market dynamics with a lag both in Slovenia and in the EU.** The situation in the labour market started to deteriorate more notably towards the end of 2008. The European Commission predicts that the number of employed persons may drop by 2.6% in the EU this year and by a further 1.5% in 2010. According to these forecasts, the average unemployment rate in the EU will rise to 10.9% (against 7% in 2008). The number of unemployed persons in the EU is thus predicted to total 26.3 million in 2010, or 9.5 million more than in 2008. In response to the crisis, the EU Member States adopted numerous measures to support the labour market and prevent further job losses, particularly in sectors and enterprises that had posted good business results in the period before the crisis. Both the European Commission and the OECD point out that these measures should be timely, targeted and temporary.

<sup>14</sup> Boosting Jobs and Incomes: Policy Lessons from Reassessing the OECD Jobs Strategy. Paris: OECD, 2006.

***In times of crisis, countries are mainly strengthening the implementation of active employment policy programmes and creating incentives for flexible working-time arrangements and shorter working time, while some of them have also increased access to unemployment benefits.*** In response to the crisis, countries are reinforcing their active labour market policies, which include education and training programmes for the unemployed and employed, programmes for boosting employment and creating new jobs and programmes offering job-search assistance. Countries are also stimulating employment and activation through lowering labour costs by changes in taxation and in the system of social transfers. Some countries are trying to increase incentives to work via tax reforms. To enhance the income security of the unemployed, some countries have also enforced changes in unemployment insurance (unemployment benefits), extending entitlement to benefits or mitigating eligibility criteria (Sweden, France).

***To improve public employment services, numerous countries are strengthening their public services and trying to modernise their operation.*** Against the background of the crisis, numerous countries have decided to modernise the organisation of employment services (Denmark, Greece, Finland and the United Kingdom). The Netherlands increased the number of employment counsellors through public-private partnership by creating mobility centres to assist workers under threat of losing their jobs. In response to the crisis, Germany has increased the number of counsellors in public employment services by 5,000. More developed EU countries are obviously more aware of the important role that the scope and quality of human resources in public institutions play in effective labour force policy services and programmes.

***Most countries have also expanded education and training programmes.*** Education and training programmes are an important factor in a recession, as choosing the right programme may improve a person's position in the labour market. Financial support and possibilities of access to education and training were increased in Austria, Sweden and Portugal. In addition to expanding special programmes for education and training of the elderly and less educated, Germany also launched a new programme of training allowances for workers holding temporary jobs.

***Countries are also considering incentives for shorter working time.*** Altogether 12 Member States have introduced subsidies for companies reducing working time to avoid redundancies. Along with implementing this measure, some countries are also stimulating further training of employees on shorter hours. The European Commission emphasises that subsidising shorter working time can only be a temporary measure, a tool to overcome the crisis, as it may have significant long-term implications for the economy.

## 5.1. Measures to preserve existing job in Slovenia

***Slovenia decided to stimulate shortening of working hours, which is one form of adjusting to the changed situation in markets and to the crisis.*** The purpose of promoting short-time work is to keep jobs despite a temporary decline in demand. In January 2009, Slovenia adopted the Partially Subsidising of Full-time Work Act, under which enterprises are eligible to a subsidy of EUR 60–120 per month per employee included in the short-time working scheme. By 22 April 2009, subsidies were granted to 507 enterprises for 47,783 employees working shorter hours.<sup>15</sup> As there is a time lag between filing and approval of applications and we only have data on the distribution of submitted applications by sector, this section deals with and analyses subsidy applications submitted to the Employment Service of Slovenia.

***Subsidies for full working time are mainly sought by enterprises in manufacturing.*** The Partially Subsidising of Full-time Work Act took effect approximately three months after production activity in manufacturing had started to decline at a rapid pace and after the number of

employees had already dropped by as much as 4.3% (9,481 persons).<sup>16</sup> For this reason, a large number of enterprises in manufacturing applied for assistance offered by the state: by the end of April, 291 enterprises in the manufacturing sector submitted applications to the ESS for shortening working hours for 44,241 employees, which constitutes the majority of applications filed in the economy as a whole. By that time, subsidies had already been granted to 264 enterprises for 43,510 employees. Approximately 25% of wage recipients in manufacturing were included in the subsidy scheme in April; there are, however, great differences within industries (see Figure 12).

***In the manufacturing sector, the largest share of employees included in the subsidy scheme comes from the manufacture of clothing, electrical appliances, metals and furniture.*** According to an analysis of subsidies,<sup>17</sup> all these industries were large recipients of different kinds of subsidies in previous years, particularly the manufacture of clothing, which also received state aid for employment.<sup>18</sup> In the manufacturing sector, the

<sup>15</sup> By this date, 577 entities had applied for subsidies, requesting that 50,635 persons be included in the scheme, while by 8 June 2009, 706 entities applied for subsidies for 67,373 persons.

<sup>16</sup> The difference between January 2009 and October 2008, just before the beginning of the accelerated shrinkage of production.

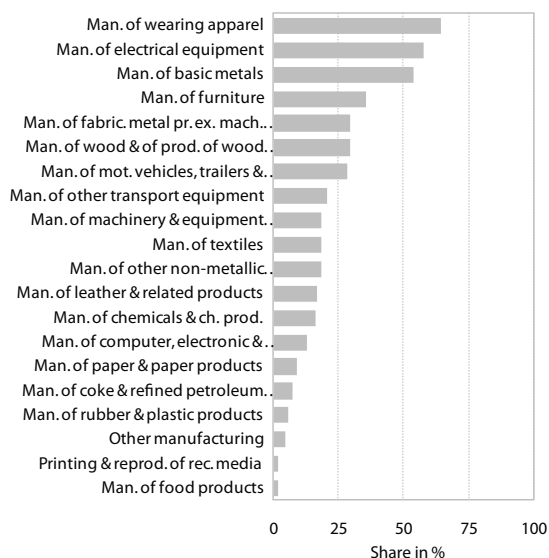
<sup>17</sup> Murn, A. (2007). Obseg in učinkovitost slovenske politike subvencioniranja. Working Paper No. 9, Vol. XVI. Ljubljana: Institute of Macroeconomic Analysis and Development.

**Table 4: Number of persons for whom applications for short-time work subsidy have been filed (as at 22 April 2009) and their share in the number of wage recipients in the sector**

		No. of persons	Share in %
A	Agriculture, forestry and fishing	238	5.6
B	Mining	139	4.3
C	Manufacturing	44,241	24.8
D	Electricity, gas, steam and air conditioning supply	6	0.1
E	Water supply, sewerage, waste management and remediation activities	40	0.5
F	Construction	3,005	5.6
G	TWholesale and retail trade, repair of motor vehicles and motorcycles	879	0.9
H	Transportation and storage	285	0.8
I	Accommodation and food service activities	211	1.1
J	Information and communication	62	0.3
K	Financial and insurance activities	86	0.4
L	Real estate activities	17	0.5
M	Professional, scientific and technical activities	586	1.8
N	Administrative and support service activities	513	2.3
P	Education	47	0.1
Q	Human health and social work activities	71	0.2
R	Arts, entertainment and recreation	95	1.0
S	Other service activities	114	2.1
	Total	50,635	7.4

Source SORS, ESS, calculations by IMAD.

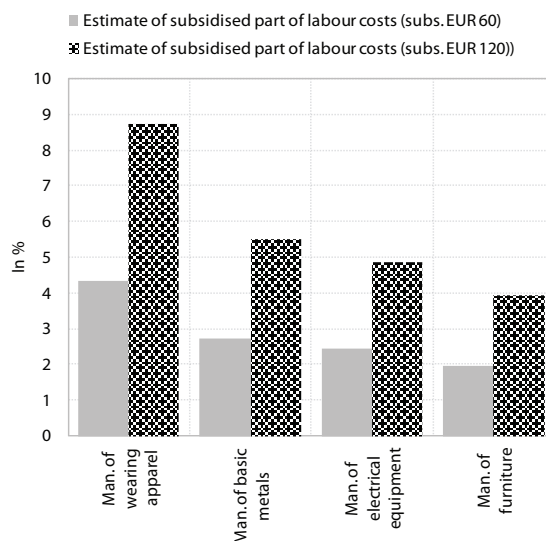
**Figure 12: Share of wage recipients for whom enterprises filed applications with the ESS for inclusion in the full-time work subsidy scheme (by 22 April 2009)**



Source: SORS and ESS; calculations by IMAD.

largest share of employees included in the subsidy scheme is in the manufacture of clothing, electrical appliances, metals and furniture. Analysis of the four most subsidised industries shows that in individual industries subsidies only account for a small portion of labour costs (see Figure 13). The Act does not define eligibility criteria tying subsidies to the crisis. Given the Government's proposal on amendments to this Act allowing for the possibility that the subsidy be extended for another six months and the term of filing for subsidy from 30 September 2009 to 31 March 2010, this anti-crisis measure may still be in effect when it is no longer necessary.

**Figure 13: Estimate of the subsidised portion of labour costs\* in sectors with the largest shares of employees included in the scheme in April 2009, in %**



Source: SORS, ESS; calculations by IMAD.

Note: \*estimate of the subsidised part of labour costs (level of subsidy multiplied by the number of recipients in the sector) compared with the gross wage bill, increased by employers' contributions.

**In order to avoid redundancy, the Government also adopted the Partial Reimbursement of Payment Compensation Act in May.** The dynamics of production activity in manufacturing in recent months show that the deterioration has slowed, but the volume of production nevertheless remains very low. Judging from current indicators, in the months to come production cannot be expected to pick up to the level posted by manufacturing industries before the onset of the crisis. Reduction in labour demand is not likely to only be short-term and the crisis will probably be deeper than expected at the beginning of the year. At the end of May, the Government therefore adopted the Partial Reimbursement of Payment Compensation Act, regulating partial reimbursement of wage compensations for employees on temporary layoff («on waiting» at home). The employer may put a maximum of 50% of its workers on temporary layoff and should pay wage compensation to the worker in

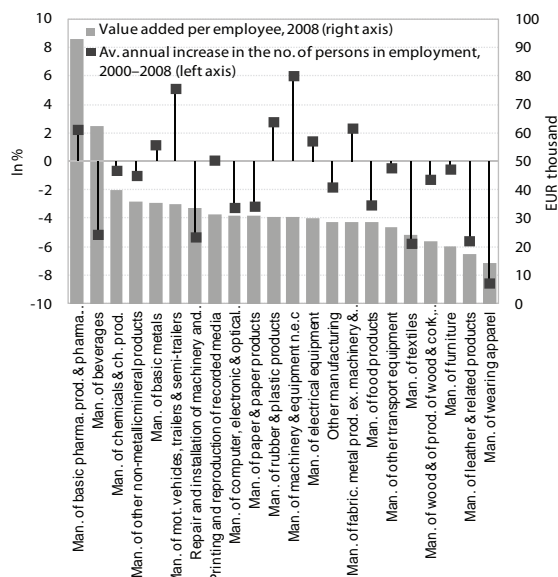
<sup>18</sup> Murn, A., Burger, A., Rojec, M. (2008). Obseg in učinkovitost državnih pomoči za zaposlovanje v Slovenii. IB (XLII)3–4. Ljubljana: Institute of Macroeconomic Analysis and Development.



the amount of 85% of his/her average wage in the last three months. 50% of the compensation is refunded to the employer by the state. Workers on temporary layoff have the right and obligation to spend 20% of their time on training. Training programmes have to be provided by the employer, but are co-financed by the state in the amount of EUR 500 per employee.

**Both measures for maintaining existing jobs will to a large extent only postpone adjustment of the labour market.** Even though both are primarily focussed on preserving existing jobs, they should be somewhat more long-term oriented as well, encouraging structural shifts towards more technology-intensive industries with high productivity and returns, which in previous years created jobs and did not reduce the number of employees. In certain sectors, keeping existing jobs may have long-term negative implications for development and competitiveness, by our estimate. As seen in Figure 14, the manufacture of clothing and the manufacture of furniture are among less productive industries in manufacturing; moreover, the number of employed persons in these industries was declining in 2000–2008, by 8.6% annually on average in the manufacture of clothing, and by 0.5% in the manufacture of furniture.

Figure 14: Productivity level (value added per employee) in 2008 and the average annual increase in the number of persons in employment (left axis) in 2000–2008, by manufacturing industry group



Source: SORS, AJPE; calculations by IMAD.

**Shortening of working hours should be complemented by education and training of employees.** Subsidising full working time should not only be aimed at keeping existing jobs, but should also give enterprises and individuals possibilities of restructuring. The »non-working« time of employees should therefore be used for training and education to increase their possibilities

of finding employment in case of a dismissal as a result of restructuring or closing down the enterprise. Enterprises participating in the scheme can also acquire funds for training employees through ESS public tenders, but are mostly not availing themselves of this option. The Partial Reimbursement of Payment Compensation Act anticipates and also co-finances training of workers on temporary layoff, but does not stipulate any assessment criteria for the adequacy of education provided for them by the employer. Given the lack of criteria, the adequacy of possible internal training may be questionable and may not contribute to the worker's employability; it would therefore be sensible to include the counselling network of the Slovenian Institute for Adult Education or labour funds in the preparation of these programmes. The European Commission also highlights the need for retraining and upgrading skills, particularly for workers on temporary dismissal and those working shorter hours, especially in sectors where value added is low. Active policy programmes should also play their role, and should also include the above-mentioned employees.

## 5.2. Active labour market policy in Slovenia

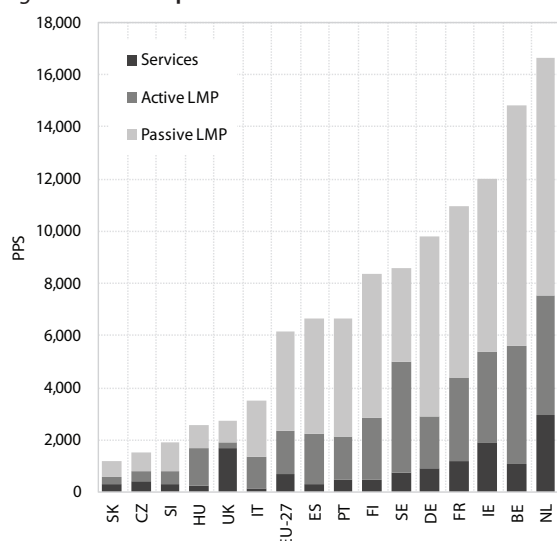
**Active labour market policy, which plays a significant role in times of crisis, should become even more responsive and effective.** In times of crisis, active labour market policy plays an important role in counselling and guiding the unemployed, keeping and creating jobs and upgrading skills and competences. The main message of the European Employment Summit in May 2009<sup>19</sup> was that in a time of economic downturn, which affects the labour market, it is important to: (i) maintain employment and create jobs; (ii) increase access to employment, particularly for the young; (iii) upgrade skills and competences, match labour market needs and promote mobility. In times of crisis, active labour market policies must respond to employers' needs even faster and further increase the participation of the unemployed and employed in employment policy programmes to improve their employability.

**Slovenia's expenditure on active labour market policy programmes has been relatively low in recent years.** According to Eurostat data and methodology, Slovenia's expenditure on the main labour market policy programmes<sup>20</sup> totalled 0.18% of GDP in 2006, while in the EU average this expenditure amounted to 0.51% of GDP. Expenditure on labour market policy (LMP) per person wanting to work was also low; according to Eurostat, it totalled PPS 504.4 in Slovenia and PPS 1,628.9 in the EU average.

<sup>19</sup> Employment summit, May 2009, Main messages.

<sup>20</sup> This is expenditure on labour market policies (categories 2–7), including programmes for training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives.

Figure 15: LMP expenditure in PPS in 2006



Source: Eurostat.

**Active labour market policy in Slovenia is not sufficiently aimed at activation, neither is it effective enough in supporting participation of the unemployed in programmes.** The obligation of the unemployed to accept suitable work tightened markedly in 2006. Labour market policy is nevertheless not activation-oriented enough yet, as appropriate activation programmes still have to be implemented. According to Eurostat data, the share of participants in employment policy programmes in the total unemployed (around one quarter of the unemployed) is significantly lower than in Spain (89%), Austria (62%), the Netherlands (61%) and France (53%).

**Since 2007, active labour market policy (ALMP) programmes in Slovenia have consisted of four programme groups.** The adopted programme of active labour market policy for 2007–2013 set up new directions for ALMP and consists of four main programme groups: (i) counselling and assistance in job searching, (ii) training and education, (iii) promotion of employment and self-employment, and (iv) programmes to boost social inclusion.

**The effectiveness of implementation of active labour market policy depends on recognising and successful matching of employers' needs and the potential of the unemployed.** Successful and effective counselling and assistance to the unemployed (swift provision of relevant information and preparation of employment plans for the unemployed) is conditional, among other things, on having a sufficient number of properly qualified counsellors. Advanced countries are obviously more aware of this fact, as according to a comparison of staff in public employment services in the EU, more developed EU countries have stronger employment services than Slovenia and have improved their efficiency and increase number of staff during the

recession.<sup>21</sup> In Slovenia, the ratio of unemployed persons to the number of counsellors has been too high for a number of years and is, amid increasing unemployment, turning even less favourable in the context of providing high-quality and timely counselling services for the unemployed. The significance of sufficient staff and resources of employment services was also highlighted in the concluding remarks of the conference on labour market institutions in times of crisis.<sup>22</sup>

**Expenditure on labour market policy is increasing notably in 2009.** With the adoption of the supplementary budget, expenditure on active labour market policy has nearly tripled and is projected to total around 0.8% of GDP. Expenditure to promote employment, which is increasing the most, accounts for the greatest share in the structure of this expenditure, while the share of expenditure on education and training remains low, posting a modest increase relative to 2008.

**Participation of the unemployed in education and training programmes is still insufficient, even though the share of unemployed people participating in these programmes increased in the first quarter of this year.** Education and training programmes (ET) are an important factor in flexicurity policy formulation, but in Slovenia participation of the unemployed in these programmes is too low (for more see *Economic Issues 2008*). Since inclusion in ET programmes generally enhances the employability of the unemployed, education and training are the right response to recession. In 2008, the share of the unemployed included in these programmes declined relative to 2007, which is inappropriate from the aspect of flexicurity and increasing the employability of the unemployed as an especially important factor in overcoming the economic crisis. The available data on participation in ALMP programmes show that active labour market policy responded to the crisis, as the number of participants in programmes increased more than the number of the unemployed this year, though their share is still low.

**In 2009 and 2010, it would be necessary to increase the number of participants in public works schemes and thus stimulate development of social services.** According to the adopted Programme of Public Works for the period 2009–2010, the number of participants is not set to increase significantly, even though such an increase would be sensible. Even though public works schemes tend to be aimed at specific limited groups of the unemployed, it is sensible to transform and extend them in times of economic recession. Certain changes in the area of public services easing the pressures on unemployment growth could be carried out in a relatively short time by organising public works within the scope

<sup>21</sup> Verša, D (2009). Comparison of activities of public employment services. The EU in the period of economic crisis. Working material of the ESS.

<sup>22</sup> European Commission: Conference on labour market institutions in times of crisis, May 2009, Final report.

of active employment policy measures; however, these programmes should be large enough to absorb a significant number of the newly unemployed. In this context, public works should be used as an instrument for stimulating the development of certain public services, where Slovenia is significantly less developed than the EU average. These are mainly services in education, social work (introduction of public works schemes to reduce understaffing of social institutions) and environmental protection, and activities enhancing development of the social economy. This measure would also be worth considering in combination with the voucher system of paying for certain labour-intensive social services, such as care for the elderly, household help,<sup>23</sup> child care and environmental protection projects. In Slovenia, which posts one of the lowest employment rates for women in the age group of 55–64 in Europe, this measure would be particularly sensible; at the same time Slovenia also lags significantly behind the developed countries and the EU average in terms of the number of employed persons per 1000 population in social work, where needs are growing significantly due to population ageing.

## 6. Conclusions and labour market challenges

***The international financial crisis deepened further in the second half of 2008 and has already affected economic activity and in part also last year's business results of Slovenian companies.*** Economic activity (measured by GDP) declined in the last quarter of 2008 and in the first quarter of 2009. Business results deteriorated in most sectors, particularly due to lower demand. The deterioration of the situation on financial markets in the last months of 2008 contributed to a decline in production and lower operating profit in manufacturing.

***The private sector has responded to tougher operating conditions and the decline in orders by adjusting wages and reducing labour demand, while wages and employment in the public sector still continue to grow.*** The second half of 2008 saw a decline in overtime work, which contributed to a decline in wage growth in the private sector; in the autumn months, some enterprises introduced shorter working hours due to a drop in orders, while the end of the year was already marked by increased layoffs and non-extension of fixed-term employment contracts. The largest decline in the number of people in employment and overtime work was recorded in manufacturing and construction. In the public sector, the process of eliminating wage disparities was launched after several years of negotiations between the trade unions and the Government, just in the period when private sector wages started to slow, which resulted in a wide gap between wage rises in both sectors.

***Private sector adaptation to the crisis was also reflected in the increase in the number of registered unemployed.*** Registered unemployment has been increasing since last September, when it reached its low (6.3%, or 59,300 persons), and rose to 86,500 unemployed persons by June of this year. Analysis of inflows into unemployment and employed people in terms of gender, age and education shows that less educated people, people aged 50 and over, and the young (age group 15–29) tend to be more exposed to unemployment. As exposure is higher for less educated and older people, these population groups also face a great danger of long-term unemployment. The transition of these unemployed into long-term unemployment should be prevented through labour market policy by creating appropriate programmes and activating the unemployed.

***As a result of the situation in the labour market, the number of recipients of unemployment benefits and financial social assistance started to increase as well.*** The number of recipients of unemployment benefits almost doubled in the period from September 2008 to April this year. This increase in the number of recipients is expected to continue due to the rising number of the unemployed. The economic crisis is thus increasing general government expenditure on social security and

<sup>23</sup> The Belgian example of buying service vouchers to pay for domestic help at a lower-than-market price proved successful from the aspect of reducing undeclared work and increasing employment of women.

represents a challenge to the social policy in terms of how to provide the income needed for a decent life for the unemployed and for those who have insufficient resources to support themselves in any other way.

***The Government reacted to labour market developments through labour market policy measures.*** It boosted the implementation of active employment policy programmes, which comprise counselling and assistance with employment, training and education, encouraging employment and self-employment, and social inclusion programmes. The Government adopted two interventive acts, mainly aimed at keeping jobs. The Partially Subsidising of Full-time Work Act regulates subsidies for shorter working hours, while the Partial Reimbursement of Payment Compensation Act regulates co-financing of reimbursement of wage compensation for workers on temporary layoff («waiting» at home).

***Significantly more funds will be allocated to active labour market policy in 2009 than in previous years, but for effective implementation it would be necessary to remove the problems hitherto seen in this area.*** Labour market policy is still not activation-oriented enough; the programmes are insufficiently coordinated and the share of the unemployed participating in active labour market policy programmes is low. Unlike certain more developed countries, Slovenia has not yet strengthened the staff in public employment services in this time of crisis, which can result in reduced possibilities of providing high-quality services for the unemployed and employers, and effective implementation of labour market policy. Even though the number of unemployed persons participating in ALMP programmes is increasing relatively faster than the number of total unemployed, the share of unemployed people included in these programmes remains relatively low. This low share is especially problematic, given the economic downturn, as the crisis should be used for building new skills of the unemployed and employed to increase their employability and support restructuring of production in enterprises. The programme of public works for 2009 and 2010 is not significantly increasing the number of participants in public works, even though it would be sensible to stimulate development of social services by means of public works projects. Expenditure to promote employment, which is increasing the most, accounts for the greatest share in the structure of ALMP expenditure in this year's budget, while the share of expenditure on education and training remains low, posting a modest increase relative to 2008. In the present crisis, active labour market policy is faced with the important challenge of creating education and training programmes to provide unemployed and employed people with the skills and competences necessary to exit the crisis, as well as for the post-crisis period. However, successful implementation is conditional on elimination of the above-mentioned old problems.

***Analysis of full-time work subsidies shows that enterprises in the certain manufacturing sectors***

***account for the largest share of those included in the scheme. Those sectors were also recipients of various subsidies in previous years.*** The Act does not define eligibility criteria tying subsidies to the crisis. Given the adopted change of the Act in July which extended the duration of the subsidy scheme and the term for submission of subsidy applications, this anti-crisis measure may end up remaining in effect also after the end of the crisis. The subsidy scheme is to the greatest extent used by enterprises in manufacturing; the largest share of participants is posted in the manufacture of clothing, electrical appliances, metals and furniture. All these industries were large recipients of various subsidies also in previous years, particularly the manufacture of clothing, which also received state aid for employment. However, clothing and furniture are industries where maintaining the present state may postpone urgently needed restructuring. Moreover, analysis shows that the volume of subsidies only accounts for a small portion of labour costs in individual industries. The scheme of partial reimbursement of payment compensation for workers on temporary layoff is a measure that is expected to help those enterprises which are facing greater difficulties. This scheme is also not intended only for enterprises with problems related to the crisis. It should therefore be noted that the schemes may not work as an instrument to help tide over sound businesses during the crisis, but are also likely to be used by industries which have been in urgent need of rehabilitation and restructuring for quite some time.

***Shortened working hours should to a greater extent be accompanied by education and training of employees.*** Even though it is sensible to combine the shortening of working time with education and training, enterprises which receive subsidies for shorter working hours do not do so, despite public tenders for training employees. Enterprises should take advantage of shorter working hours to improve the skills and competences of their employees, which might also support restructuring of the economy. The Partial Reimbursement of Payment Compensation Act adopted in May rectifies the deficiency regarding the obligation of education and training of workers on temporary layoff, but leaves the responsibility for education and training of employees entirely to the employer. Even though the Government co-finances education and training of employees on temporary layoff, it does not set any criteria for assessing the adequacy of this education. Therefore, a question arises regarding the (in)adequacy of these programmes in terms of increasing the employability of individuals. To increase the effectiveness and adequacy of these programmes, labour funds or the counselling network of the Slovenian Institute for Adult Education should participate in the preparation of education and training programmes for workers on temporary layoff, in our view.

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