Summary

In the 2000–2007 period, the unemployment rate decreased, standing at 4.9% in 2007. The unemployment rate in Slovenia decreased faster than the EU average and the averages of the old EU Member States. In this period, the long-term unemployment rate also decreased (in 2000: 4.1%, in 2007: 2.2%). However, the following problems in the area of unemployment remain: a high share of long-term unemployment, unemployment among young (15–24 years of age) and older people (over 50 years of age), and an increasing number of registered unemployed persons with a tertiary education.

In the 2000–2007 period, the number of persons in employment in Slovenia increased at an average annual rate of 1.4%, which was above the EU average. The employment rate (15–64 years) in Slovenia increased to 67.8%, which was above the EU average; the employment rate for women was above the EU average and below the EU average for men. The employment rates of younger (15–24 years) and older workers (55–64 years) remain relatively low. They represent an important share of "reserves", which is not high in the group aged between 25 and 54, to increase the employment rate in Slovenia. The share of temporary employment is growing rapidly and such employment among young people (15–24 years) is very widespread, which causes segmentation of the labour market and certain problems for the youth.

As a response to the challenges of globalisation, the concept of flexicurity was created in the EU, which also became Slovenia's objective with the revised Lisbon Strategy. The integrated concept of flexicurity consists of four components, which are combined to create a dynamic labour market and provide security to individuals: 1) flexible employment and contractual relationships (from the perspective of the employer and employee) through modern labour laws, collective agreements and work organisation; 2) active labour market policy, which effectively assists people in the case of unemployment and enables them to transition to new employment; 3) the system of lifelong learning, which provides employees with adaptability and employability; and 4) modern social security systems, which adequately combine the system of income support and incentives for work and labour market mobility.

Measurement of flexicurity is still developing, as this is a relatively new concept. The first analyses of flexicurity models (Phillips and Eamets, 2007) placed Slovenia among the group of countries with great challenges in the field of flexicurity. Slovenia ranked together with Poland, Hungary, the Czech Republic and Slovakia in a group characterised by modest mobility, high long-term unemployment, a low employment rate for older people (indicating modest labour market flexibility), high security of income and low social confidence. Challenges facing these countries are creating flexibility and ensuring income security. This chapter attempts to show and evaluate policies and measures in the field of creating flexicurity carried out in Slovenia over the past two years.

Also in respect of flexicurity, the main problems in the labour market are long-term unemployment and a low employment rate for older people, along with a modest rate of part-time employment. Since long-term unemployment decreases human capital, active labour market policy (ALMP) programmes which prevent

transitioning to long-term unemployment should be developed and strengthened from the aspect of flexicurity. Slovenia has one of the lowest employment rates for older persons in the EU. A low employment rate for older people, which is especially low for women, is a major challenge for economic and labour market policies. Within ALMP, it would be reasonable to strengthen programmes which stimulate employment of older persons, while changes in the pension system to encourage longer work activity are also necessary. The necessity of additional adaptation of the pension system to demographic changes is also indicated by the fact that the increase in the average retirement age after 2005 decelerated considerably and that the average retirement age in Slovenia is 1.4 years below the EU average. The share of part-time employment, which usually represents a "friendly" form of flexible labour, is still relatively low despite having increased recently. Part-time employment represents an opportunity for increasing flexibility and the employment rate.

A review of measures taken in the four key areas of flexicurity shows that the changes in the last two years were primarily directed toward better flexibility of contractual relationships. Amendments to the Employment Relationship Act (ERA) in 2007 were aimed at better internal flexibility (employment by type of work), possibilities for employment for a fixed period of time were expanded, and certain obstacles to employers' interest in part-time employment were also reduced. Amendments to the ERA aimed at providing better flexibility did not result in a substantial reduction of dismissal costs, which are in economic theory an important reason for employers' caution in the hiring process (the amount of severance pay is unchanged, with notice periods reduced only for certain groups of employees). We assessed that greater changes in this area were not possible because they were not supported with measures providing higher income security and measures for higher adaptability of employees (lifelong learning).

Active labour market policy, lifelong learning and social security systems in Slovenia still do not play an appropriate role in the creation of flexicurity. Active labour market policy must provide a quick and easy transition between jobs. Therefore, education and training programmes for the employed and unemployed should be strengthened in Slovenia. Participation of less skilled and older persons should be increased. In the area of education and training of employees, it would be reasonable, in addition to tenders for co-funding education and training of employees in companies undergoing restructuring and in promising activities carried out in the last two years, to create tenders for co-funding education and training in small companies. Despite the relatively high participation of adults (25–64 years) in lifelong learning in comparison with other countries, the inclusion of older persons and less educated persons is too low to contribute to the establishment of flexicurity. Previous amendments to the Social Assistance Act and Employment and Insurance Against Unemployment Act primarily increased commitments of unemployed persons in terms of acceptance of employment, while sufficient in-work benefits and means of keeping older people in employment were not created.

Creation of a flexicurity model remains a great challenge for Slovenia. Creation of flexicurity requires a more integrated approach to ensure mutual support and coordinated implementation of all four policies. Higher flexibility will not be possible without the support of other flexicurity policies, primarily: 1) provision

of greater participation of older and less trained people in lifelong learning; 2) effective active labour market policies, which would prevent transitioning to long-term unemployment and largely focus on the transition between jobs through adequate educational and training programmes for the employed; and 3) provision of income security, also in the case of unemployment.

Introduction

Discussion on the labour market is topical from the point of view of providing competitiveness and flexicurity and creation of flexicurity policies. On the one hand, the labour market plays an important role in the competitiveness of the economy, where emphasis is placed primarily on the need to create a more flexible labour market. Flexibility of the labour market and primarily flexibility of wages in the EMU represent one of the important mechanisms to adjust the economy to external shocks.[1] Movement of labour costs is an important criterion to determine and stimulate competitiveness. On the other hand, an important goal of EU policies is also provision of social cohesion and social inclusion. Faced with these challenges, the EU has put long-term growth, which will ensure the growth of quality jobs, among the goals of the renewed Lisbon Strategy. For this purpose, the integrated guidelines for implementation of the Lisbon Strategy, among other things, envisage: measures to engage more people in employment and modernise social security systems, measures to improve the flexibility of employees and companies, and measures to increase investment in human capital and promote lifelong learning. At the EU level, the concept of flexicurity was created, arising from the complementary dimensions of flexibility and security.

The topic (labour market) is presented in two sections. The first section presents trends in the unemployment rate, employment rate, sectoral changes in employment, movement of wages and labour costs per production unit in the 2000–2007 period, and the prevalence of temporary and part-time employment. Although unemployment decreased and employment increased in this period, we emphasise certain problems in the labour market which have remained a challenge. In the second section, we present the concept of flexicurity and methods of measuring it, and attempt to give an overview of policy and measures taken in Slovenia over the last two years in the four basic areas of policies for providing flexicurity. In the final part, we endeavour to define the most important challenges of the labour market from the aspect of flexicurity.

[1] At the macroeconomic level, different forms of flexibility of wages are important to adapt the economy to shocks. The following three forms of wage flexibility are emphasised most: 1) response to changes at the level of prices or inflation, which represents so-called nominal flexibility; 2) response to the unemployment rate, which measures how quickly the imbalance in the labour market is "resolved" and is labelled as real wage flexibility; 3) response to changes in the structure of supply and demand, which is labelled as relative wage flexibility and related to geographical and sectoral mobility and imbalances in labour markets.

1. Trends in the labour market in Slovenia in the 2000–2007 period

1.1. Unemployment rate

The 2000–2007 period saw a reduction of the unemployment rate, which accelerated considerably in 2006 and 2007. Acceleration of the reduction of the unemployment rate over the last two years could be linked to the considerable acceleration of economic growth recorded in 2006 (5.7%) and 2007 (6.1%).

Table 1: **Unemployment rates in Slovenia by gender in the 2000–2007 period**

	Overall	Men	Women	Gender gap (women-men)
2000	7.0	6.8	7.3	0.5
2001	6.4	5.9	7.0	1.1
2002	6.4	5.9	6.8	1.1
2003	6.7	6.4	7.1	0.7
2004	6.3	5.5	6.4	0.9
2005	6.5	6.1	7.1	1.0
2006	6.0	4.9	7.2	2.3
2007	4.9	4.0	5.9	1.9

Source: Statistical Office of the Republic of Slovenia (SORS), Statistical information, Labour Force Survey

The unemployment rate for men decreased faster than that for women. The unemployment gender gap had been increasing until 2006, indicating a deterioration of the relative position of women in the labour market. In 2007, this difference slightly decreased and the relative position of women somewhat improved (see Table 1). The gender unemployment gap decreased in the EU average in the 2000–2007 period. The increase in the unemployment gap in Slovenia points to the need for better inclusion of women in active employment policy programmes, which would improve their employability.

Table 2: **Unemployment rates by age group**

	15–24 years	25–49 years	50–64 years	Overall
2000	16.8	5.7	6.2	7.0
2001	18.1	5.1	4.8	6.4
2002	16.7	5.4	4.3	6.4
2003	17.4	5.9	4.3	6.7
2004	16.3	6.8	4.3	6.3
2005	16.0	5.9	4.4	6.5
2006	13.9	5.6	3.8	6.0
2007	10.3	4.4	4.1	4.9

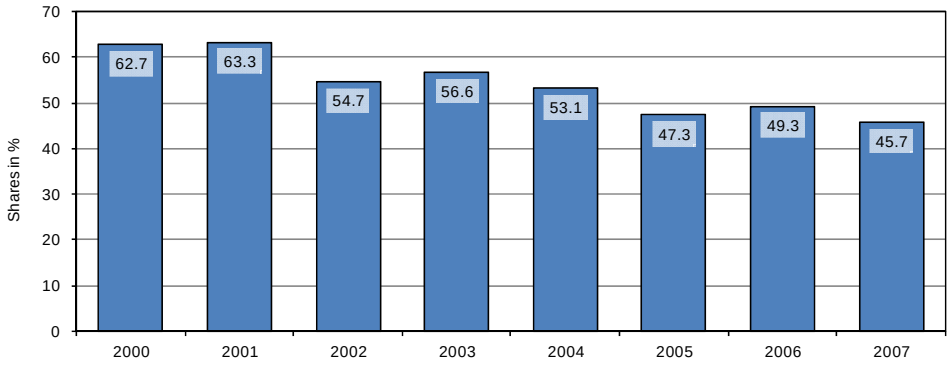
Source: SORS, Statistical information, Labour Force Survey

In the 2000–2007 period, the unemployment rate for the age group between 15 and 24 years decreased the most *(see Table 2).* The decrease was somewhat higher for women than for men. The fact that smaller generations of young people are entering the labour market also contributes to a decrease in the unemployment rate for young people. The youth unemployment rate is twice the unemployment rate for the entire population. The deviation of the youth unemployment rate from the average is also influenced by the low employment

rate of young people and high participation of young people in education. This is why the ratio between the number of unemployed young people and the total number of young people is a better indicator of the issue of unemployment among the youth. In 2006, this ratio stood at 5.6% and has been decreasing gradually since 2000 (6.4%). If this ratio is compared to that in the Netherlands, which records the lowest youth unemployment rate in the EU (5.9% in 2007), it can be seen that in 2006 in Slovenia it stood at 5.6%, while it was 4.6% in the Netherlands. Despite the decrease in the unemployment rate for young people, they still face difficulties when entering the labour market and are more exposed to flexible forms of employment than other age groups (see Section 1.3). Data on registered unemployment indicate that the average number of unemployed persons with a tertiary education in 2007 was 50% higher than in 2000, and their share in overall unemployment increased from 4.4% in 2000 to 10% in 2007.

Long-term unemployment remains relatively high, even though it is decreasing. In the 2000–2007 period, the share of long-term unemployed persons[2] decreased, but in 2007 it was still relatively high (45.7%) and above the EU average (42.8%). From the aspect of flexicurity, this as a rule indicates modest mobility in the labour market and is also discussed in Section 2.1.2. Long-term unemployment decreases human capital and, consequently, the potential for new employment. Older and less educated people are more frequently exposed to long-term unemployment. The share of unemployed persons over 50 years of age in overall unemployment increased in the 2000–2007 period.

Figure 1: **Share of long-term unemployed persons in overall unemployment in Slovenia, 2000–2007**



Source: Eurostat

1.2. Employment rate

The employment rate increased in the 2000–2007 period. The employment rate[3] for the population aged between 15 and 64 in 2007 was 5 p.p. higher than in 2000, whereas the employment rate for women increased by 4.2 p.p. and for men

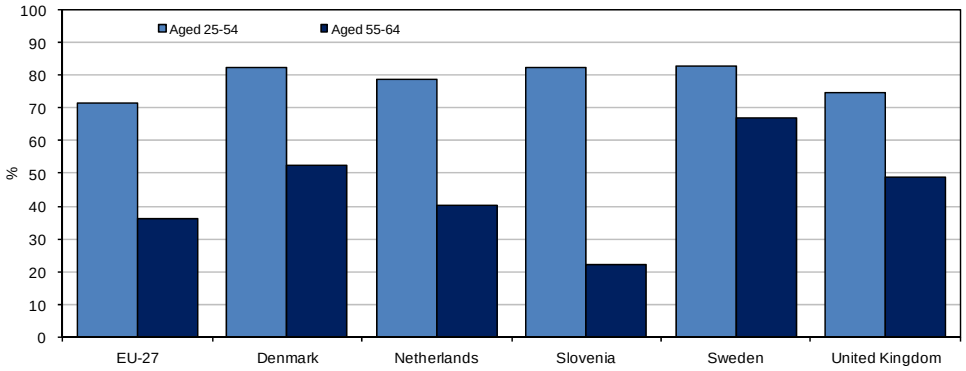
[2] A long-term unemployed person is a person who has been unemployed for more than a year.
[3] Employment rate is calculated based on data from the Labour Force Survey.

by 5.5 p.p.[4] As shown in Table 3, the employment rate increased for all age groups. A faster increase in the employment rate came in 2004, when economic growth was also enhanced. In the 2000–2007 period, according to the labour force survey, the employment rate increased annually by 1.4% on average, which was faster than in the EU (1.1%). In 2007, Slovenia recorded a significant increase in employment,[5] which accompanied strong economic growth (6.1%). The employment rate for the population aged between 15 and 64 increased in 2007 to 67.8% and came close to the Lisbon objective (70%).[6]

The employment rate in Slovenia has been exceeding the EU-27 average since 2004. As early as in 2003, it was at the level of the EU-27 average (62.6%), and it considerably increased in 2004 and exceeded the EU average. In the 2004–2007 period, it increased in Slovenia and the EU by 2.5 percentage points and still exceeds the average of the EU-15 (66.9%) and EU-27 (65.4%).

Regarding the employment rate for women, Slovenia has been exceeding the Lisbon Strategy objective (60%) since 2004. The employment rate for women (aged 15–64) in 2007 stood at 62.6%. The employment rate for women in the group aged between 15 and 64 has been above the EU average for more than 10 years, but despite the increase the employment rate for older women remains exceptionally low. The employment rate for women in the group aged between 25 and 54 in Slovenia is comparable to that in Denmark, which records the highest employment rate for women in the group aged between 15 and 64 in the EU. However, in Slovenia the rate in the next age group (55–64 years) decreases the most among all EU Member States (see Figure 2). More details on the reasons for the low employment rate for older persons are available in Section 2.1.2.

Figure 2: **Employment rate for women in groups aged between 25 and 54 and between 55 and 64**



Source: Eurostat

[4] This is reflected in an increase in the difference between unemployment rates for men and women.
[5] The number of persons in employment according to the Labour Force Survey increased by 2.5%, the number of persons in formal employment increased by 3.5%, while employment according to national accounts statistics was higher in 2007 by 2.7%.
[6] In 2000 in Lisbon the employment objectives by 2010 were set to: 70% for the employment rate of the population aged 15–64 years, 60% for the employment rate of women and 50% for the employment rate of older workers 55–64 years old.

The employment rate for men in Slovenia is behind the EU average. The employment rate for men (aged between 15 and 64) increased in the 2000–2007 period by 5.5 percentage points and stood at 72.2% in 2007, which was below the EU average (72.5%). In this period, the employment rate for men increased more than the employment rate for women, but this sufficed only to reduce the margin between Slovenia and the EU average.

Table 3: Employment rates by age group (in %)

	15–24 years	25–49 years	50–64 years	55–64 years	15–64 years
2000	33.6	85.6	37.3	22.5	62.9
2001	31.4	86.6	41.1	25.0	63.9
2002	30.6	86.3	41.3	24.4	63.4
2003	29.3	85.5	41.1	23.5	62.6
2004	34.0	86.3	45.8	29.0	65.3
2005	34.1	86.3	47.3	30.5	65.9
2006	35.0	86.3	49.1	32.6	66.6
2007	37.6	87.6	49.5	33.4	67.8

Source: Eurostat

The employment rate for young people in Slovenia increased in the 2000–2007 period, but it still represents reserves for an increase in the employment rate. The employment rate of young people (aged between 15 and 24) increased in the observed period and in 2007 slightly exceeded the EU-27 average (37.2%). "Reserves" for an increase in employment of young people are indicated by the fact that the employment rate for young people in Slovenia in 2007 was still 30.8 percentage points behind the employment rate for young people in the Netherlands, which has the highest employment rate and lowest unemployment rate. The employment rate for young people in Slovenia lags behind the average of the old 15 EU Member States (40.8%). The issue of reserves for an increase in the employment rate for youth in Slovenia has not been researched sufficiently. One of the reasons for the low rate in Slovenia in comparison to the EU-15 average is the high inclusion of youth in education, which generally improves possibilities for employment.[7]

The employment rate for older workers is increasing, but is still very low. As shown in Table 3, the employment rate for older persons has been growing rather rapidly since 2000. This is due to the effects of the 2000 pension reform,[8] as well as to demographic and statistical effects.[9] The employment rate for older persons (aged between 55 and 64), for which the Lisbon Strategy objective to attain 50% by 2010 was set in 2000, was still among the lowest in the EU in Slovenia, despite an increase of 11.2 percentage points in the 2000–2007 period.

Slovenia has one of the lowest employment rates for older persons in the EU. In 2007, only six countries in the EU had lower employment rates for older men and only two countries had lower employment rates for older women.[10] A low

[7] According to Eurostat, the inclusion of young people (15–24 years of age) in education in Slovenia in 2005 stood at 68.8%.

[8] The average age of new recipients of old-age pensions increased in the 2000–2007 period by 1 year and 6 months for men and by 2 years for women.

[9] A part of the early-retirement generation from the early 1990s falls within the group aged over 64, and their work activity is no longer measured in the Lisbon objectives.

[10] In 2007, Sweden had a three-times-higher employment rate for older women than Slovenia (22.2%).

employment rate for older persons, together with the population ageing process, increases pressure on the growth of public expenditure for pensions (see the chapter "Fiscal Development and Policy"). The employment rate for older persons is used in certain studies as an indicator of flexicurity and is therefore discussed in comparison with other countries in more detail in Section 2.1.2.

1.3. Prevalence of part-time and temporary employment

The prevalence of part-time and temporary employment is frequently pointed to as a simple indicator of flexicurity. Employment with shorter working hours (part-time employment) usually increases the flexibility of the labour market in terms of supply and demand. Part-time employment increases possibilities to adjust the scope of employment and reduce the costs of such adjustments. A proportionately high share of temporary employment in total employment is usually also the result of high dismissal costs or difficulties related to dismissals. Malenfant, LaRue and Vezina (2007) claim that the effects of intermittent work on well-being are as damaging as those of unemployment. Since flexibility is an important component of flexicurity, which is discussed in Section 2, we present here primarily the movement of shares of part-time and temporary employment in Slovenia in the 2000–2007 period. The share of part-time employment in total employment as an indicator of flexicurity in comparison to other EU Member States is discussed in Section 2.1.2.

The share of part-time employment in total employment in Slovenia is increasing. This could be interpreted as a trend directed to an increase in labour market flexibility. The increase in the share of part-time employment in Slovenia is largely the result of an increase in the number of such jobs among young people (aged between 15 and 24) and older persons (aged between 50 and 64). As far as young people are concerned, this is probably due to an increase in the scope of student work, which puts Slovenia above the EU average in terms of the share of part-time employment among young people (29.8%). When it comes to older persons, an important reason for the increase is an increase in the number of unpaid family workers. A higher increase in the use of part-time employment was recorded after 2003, which may be linked to accelerated economic growth and, in particular with women, also to the possibility to use the right to work with less working hours introduced by the Parental Protection and Social Benefit Act.

Slovenia's share of part-time employment is well behind the EU average for women and almost level with the EU average for men. In 2007, 8.1% of persons in employment aged between 15 and 64 in Slovenia were in part-time employment (EU average: 17.6%). The share of women in a part-time employment relationship in Slovenia (10%) was well behind the EU average (30.7%), while the share of men in a part-time employment relationship (6.5%) has almost caught up with the EU average (6.9%). In the Netherlands, where part-time employment is the most widespread, as many as 74.7% of women and 22.7% of men are in part-time employment. However, the share of part-time employment in Slovenia is higher than the EU average among young women (aged between 15 and 24) and stands at 40.8%, while the EU average is 34.5%. This may be attributed to work through student employment services in Slovenia. Since the rate of part-time employment is also an indicator of flexicurity, it is also discussed in Section 2.1.2.

Table 4: **Share of part-time employment by age group in Slovenia, in %**

	15–24 years	25–49 years	50–64 years	15–64 years
2000	13.4	3.3	10.0	5.3
2001	15.8	3.3	8.2	5.3
2002	17.6	3.5	8.9	5.8
2003	21.8	3.3	7.9	5.8
2004	29.1	4.4	12.0	8.3
2005	30.1	4.3	9.5	7.8
2006	29.8	4.3	10.4	8.0
2007	29.8	3.9	11.6	8.1

Source: Eurostat

The share of temporary employment in Slovenia has been increasing rapidly, especially after 2003. Because of the rapid growth in the share of temporary employment, Slovenia is improving its ranking among the EU Member States.[11] In 2007, the share of temporary employment stood at 18.4% (EU average: 14.5%). It more than doubled in the last ten years and grew particularly fast after 2003, when it increased by 4.9 percentage points. Since employment protection in permanent contracts was reduced in Slovenia in 2003 with the Labour Relationship Act, the increase in temporary employment could be linked primarily to the accelerated economic growth recorded after 2003.

Table 5: **Share of temporary employment in total employment by age group, in %**

	15–24 years	25–49 years	50-–64 years	15–64 years
2000	43.2	9.5	6.6u	12.8
2001	51.0	9.3	5.4u	13.0
2002	52.9	10.8	6.0u	14.6
2003	53.0	10.2	4.4u	13.5
2004	63.1	13.6	7.7u	17.8
2005	62.5	13.5	6.3u	16.8
2006	64.8	13.1	6.5u	17.1
2007	68.3	14.0	6.7u	18.4

Source: Eurostat
Note: u - statistically unreliable data

The share of temporary employment is especially high among the youth (aged between 15 and 24). In the majority of countries, the share of temporary employment among young people is higher than among other employed persons. In terms of the temporary employment share among the youth, Slovenia ranked first among the EU Member States in the second quarter of 2007, with 66.5% of young persons in employment being in temporary employment (women: 76.1%, men: 60%). The high rate of temporary employment among the youth in Slovenia is, to a certain extent, due to the occasional work of young people through student employment services, which are in the current arrangement attractive for employers from the aspect of quick adjustment of the number of working hours and persons and from the aspect of lower taxation of work through student employment services in comparison with regular employment. A high rate of temporary employment among youth represents age segregation of the labour market. This means that young people are facing more uncertainty in terms of stability of employment, which can have an influence on important decisions in

[11] In terms of the share of part-time employment in total employment in the group aged between 15 and 64, Slovenia ranked 4th in the second quarter of 2007 (behind Spain, Poland and Portugal) and overtook Finland, which was ahead of Slovenia in 2006.

their lives, among other things on the decision to start a family. From the aspect of flexicurity, the problem lies in the strict conditions (eligibility criteria) for acquiring unemployment benefits. This makes it difficult for young people with frequent temporary employment to acquire unemployment allowances that would provide them with income security.

1.4. Sectoral structure of employment

Changes in the sectoral structure of employment in Slovenia follow the changes in developed European countries, but with a considerable margin. Due to growing productivity in agriculture and manufacturing and the process of replacing internal services in production activities with the purchase of these services on the market (outsourcing), the shares of persons employed in agriculture and industry have been decreasing in the sectoral structure of employment in developed countries for quite a while, and the share of people employed in services has been increasing. This process is slower in Slovenia. Slovenia still has relatively high shares of the active population employed in agriculture and manufacturing, while the share of persons employed in service activities is relatively low in comparison to developed countries. Because of international comparability, we shall analyse primarily the Labour Force Survey data.[12]

The share of persons in employment in the agricultural sector (agriculture, forestry, fisheries) continues to decrease in the majority of the EU Member States, and is maintained in Slovenia at a level of about 10%. Agriculture is still an area of reserve work activity, primarily for older and less educated persons who would otherwise be unemployed. This is why Slovenia has also a high share of unpaid family workers among persons in employment, because of which the number of persons in employment fluctuates considerably from year to year, while on the other hand this provides for relatively low effective unemployment in Slovenia. The share of persons in employment in the agriculture sector in Slovenia remains relatively high in comparison to other EU Member States and the EU average, and stays almost unchanged (see Table 6), while it is decreasing more or less rapidly in other Member States. Among the 27 EU Member States, five had higher shares of persons in employment in the agriculture sector in 2007 than Slovenia: Lithuania, Portugal, Greece, Poland and Romania.

[12] The labour market in Slovenia is monitored by three statistics, which differ in the scope of work activity categories. The internationally coordinated Labour Force Survey defines as persons in employment, in addition to persons in an employment relationship and self-employed persons, other persons who performed any type of work for payment, profit or family well-being in the reference week. The Statistical Office of the Republic of Slovenia (SORS) also publishes monthly data on the statistics of persons in formal employment (employees and self-employed persons). Sources for the data are the Statistical Register of Employment (SRDAP) and the estimate of the number of farmers, which is based on quarterly data from the Labour Force Survey. These statistics, unlike the Labour Force Survey, do not cover different informal forms of work, such as unpaid family members, working by job contract or working in the grey economy. Employment statistics according to the national accounts methodology are supposed to estimate the number of persons in employment in the full-time equivalent. This is based on the Statistical Register of Employment, dynamics of the number of farmers who pay social contributions, and statistically determined ratios between these categories and the number of other persons in employment by area of activity.

Table 6: **Sectoral structure and dynamics of persons in employment, Slovenia and the EU, 2000–2007**

	Structure of persons in employment, in %				Difference in structure, in percentage points		Average annual growth 2000–2007, in %	
	Slovenia		EU27		Slovenia-EU27			
	2000	2007	2000	2007	2000	2007	Slovenia	EU 27
A Agriculture, hunting, forestry	9.6	9.9	7.9	5.5	1.7	4.3	1.7	-3.8
B Fisheries	…	…	0.1	0.1	-	-	-	-3.0
C Mining	0.8	0.5	0.6	0.4	0.3	0.0	-6.7	-3.1
D Manufacturing	30.3	27.6	20.3	18.1	10.0	9.5	0.0	-0.4
E Electricity, gas and water supply	1.1	1.1	1.0	0.9	0.1	0.2	0.4	-0.2
F Construction	5.4	6.0	7.6	8.2	-2.2	-2.1	3.0	2.3
G Trade, vehicle maintenance	13.4	12.1	14.3	14.4	-0.9	-2.3	-0.1	1.2
H Catering	3.8	4.0	3.7	4.2	0.1	-0.2	2.0	3.0
I Transport, warehousing, communications	6.7	6.2	6.2	6.1	0.5	0.1	0.2	1.0
J Financial intermediation	2.4	2.5	3.1	3.0	-0.6	-0.5	1.5	0.8
K Real estate, rental, business services*	4.8	6.9	7.6	9.6	-2.7	-2.7	6.7	4.7
L Public administration and defence	6.0	5.6	7.2	7.1	-1.2	-1.5	0.4	1.1
M Education	6.4	7.7	6.6	6.9	-0.2	0.8	4.0	1.7
N Health and social security	5.2	5.7	8.7	9.5	-3.4	-3.8	2.7	2.6
O Other public, common and personal services.	3.9	4.1	4.4	4.6	-0.5	-0.6	2.0	1.9
P Private households	…	0.1	0.9	1.1	-	-1.0	-	5.1
Q Extra-territorial organisations	-	-	0.1	0.1	-	-	-	-0.2
Persons in employment by survey (overall)	100.0	100.0	100.0	100.0			1.4	1.1
Industry (C through E)	32.3	29.2	21.8	19.5	10.4	9.7	-0.1	-0.5
Overall services (G through Q)	52.7	54.9	62.6	66.7	-9.9	-11.8	2.5	2.1
- mainly market (G through K)	31.2	31.7	34.8	37.3	-3.6	-5.6	2.7	2.2
- mainly public (L through O)	21.5	23.1	26.8	28.2	-5.3	-5.1	2.4	1.9

Source: Eurostat, calculations by IMAD

The share of persons in employment in industry (areas of activity C through E) is still decreasing slowly, and in construction it fluctuates around 6%. According to the Labour Force Survey, the share of persons in employment in industry decreased in the 2000–2007 period from 32.3% to 29.2%, with the share in manufacturing dropping from 30.7% to 27.6%. It also continues to decrease in mining, where the number of persons in employment drops every year due to closure of mines, while the share in electricity, gas and water supply remains more or less unchanged.[13] The number of employees in construction has been increasing in recent years because of increased investment in construction, but this is not covered by the Labour Force Survey because of the increased seasonal employment of foreigners.[14] The share of employees in construction remains more or less unchanged after its increase in 2001 to around 6%.

[13] Similar movements are also indicated by the data from the national accounts statistics and from the Statistical Register of Employment.

[14] The Labour Force Survey does not cover foreigners with temporary residence in Slovenia, and thus this survey underestimates the number and share of persons employed in construction.

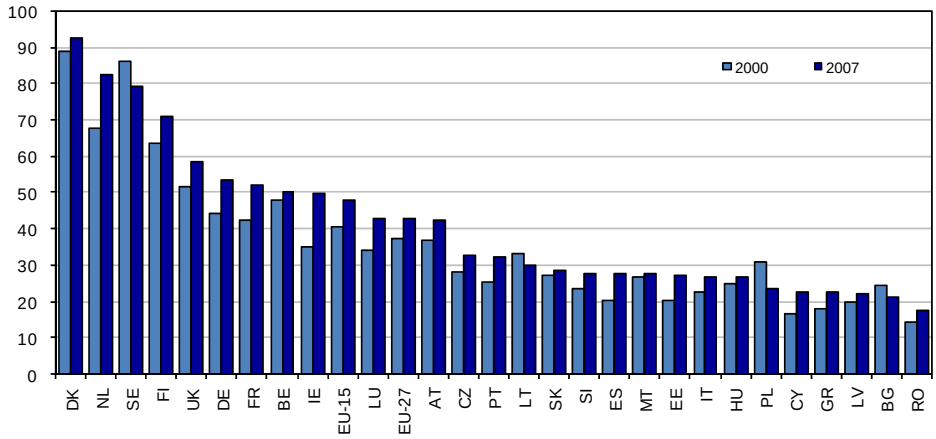
Until 2005, Slovenia recorded the highest share of persons in employment in manufacturing in the EU, while the share of persons in employment in construction is below the EU average. Until 2005, the share of persons in employment in manufacturing exceeded the EU-27 average by more than 10 percentage points. In 2006 and 2007, this difference decreased, and the Czech Republic now exceeds Slovenia in relation to the share of all persons employed in manufacturing. The share of persons employed in construction is, according to the Labour Force Survey, among the lowest in the EU and about 2 percentage points below the EU-27 average.

The share of persons in employment in service activities in Slovenia is still considerably lower than in the majority of European countries and is slowly increasing. According to the Labour Force Survey from 2000, the share stood at 51.9% and increased to 54.9% by 2007. Persons in employment in mainly public services[15] represent 23.1%, while persons in employment in mainly market services[16] represent 31.7%. Among the EU-27 Member States, only Romania and Poland[17] have lower shares of persons in employment in services than Slovenia. The EU-27 average is 66.7% (4.1 percentage points more than in 2000), while the EU-15 average is 70.2% (3.5 percentage points more than in 2000). Countries with the highest shares of employment in services (more than 75% in 2007) are Luxembourg,[18] the Netherlands, the United Kingdom and Sweden.

Among service activities, trade has the highest share of employees in Slovenia, while the highest growth of employment is observed in business services, education, and healthcare and social work. In the 2000–2007 period, the share of persons employed in business services increased the most, both in Slovenia and in the EU. This represents the second largest area of employment (after trade) in the EU-27 average, while in Slovenia, according to the Labour Force Survey, there are still a larger number of persons employed in the area of education.[19] In terms of the shares of persons in employment in individual areas of service activities, Slovenia has a higher share than the EU-27 average only in the area of education and records the widest gap with the EU-27 average in the areas of health and social work,[20] business services and trade.

[15] In areas of activity L through O according to NACE-Rev 01.
[16] In areas of activity G through K according to NACE-Rev 01.
[17] In Poland, this share is somewhat lower than in Slovenia. In Romania it was 39.1% in 2007, while in 2000 it stood at 29.0%.
[18] 81.4% in 2007 and 76.6% in 2000.
[19] In the area of education, the Labour Force Survey in Slovenia, which also covers persons working outside of an employment relationship, systematically indicates a higher number of persons in employment than the Statistical Register of Employment, which covers only persons in an employment relationship. This difference, which stood at about 7,000 in 2000, increased by 2007 to about 15,000. These are primarily students or retired persons who work in the area of education outside of an employment relationship, and the increase is primarily due to a greater number of students, which increased in the observed period by 24,000 (from 91,494 in 2000 to 115,445 in 2007).
[20] In terms of the number of persons in employment in health and social work per 1,000 citizens, in 2007 Slovenia was in 15th place (see figure 3) among the 27 EU Member States.

Figure 3: **Number of persons in employment in health and social work according to labour force surveys per 1,000 citizens, in the EU-27 in 2000 and 2007**



Source: Eurostat, Population and social conditions, labour market, acquired at: http://epp.eurostat.ec.europa.eu/portal/

1.5. Wages, productivity and labour costs

1.5.1. Wage and productivity developments

The relationship between wages and labour productivity is important for wage policy making. In the implementation of economic policy goals, wage policy has become even more important with Slovenia's entry into the EMU and loss of independent monetary policy. In the area of wage policy, a guideline on the growth of real gross wage lagging behind the growth of real productivity by at least one percentage point was implemented in the previous period. The Social Agreement for 2007–2009 envisages that the growth of wages with regard to inflation and productivity in the private sector can be agreed in collective agreements for activities in the Collective Agreement on the Wage Adjustment Method, Reimbursement of Work-related Expenses and Holiday Bonus, and collective agreements of companies. The public finance framework should also be taken into account when determining wages in the public sector. A growth of wages that ensures price stability and is consistent with the trend in productivity growth is also recommended by one of the integrated guidelines for implementation of the Lisbon Strategy.

Table 7: **Nominal growth of labour productivity and gross wage per employee in the private and public sectors in the 2000–2007 period**

Year	Labour productivity	Gross wage per employee		
		Overall	Private sector	Public sector
2000	9.3	10.6	10.3	11.2
2001	11.5	11.9	10.9	13.9
2002	11.7	9.7	10.0	8.7
2003	9.0	7.5	7.8	6.7
2004	7.6	5.7	6.8	2.8
2005	5.7	4.8	5.4	3.4
2006	6.5	4.8	5.4	3.5
2007	7.3	5.9	6.9	4.1
2000–2007	8.6	7.6	7.9	6.8

Source: SORS, calculations for labour productivity by IMAD (Spring Forecast 2008)
Note: The gross wage per employee is calculated for the private sector (A to K) and public sector (L to O) according to the Standard Classification of Activities (SKD) by IMAD.

Average annual growth in wages in the 2000–2007 period lagged behind the growth in labour productivity, except in 2000 and 2001. As shown in Table 7, the average annual growth of wages in the 2000–2007 period amounted to 7.6%, while the growth of productivity was 8.6%. In 2000 and 2001, the nominal average gross wage per employee exceeded the growth of labour productivity. This was also the case for wage trends in the public sector in both years, while in the private sector the gross wage exceeded labour productivity only in 2000. The 2002–2007 period was characterised by a wider gap between the growth of wages in the public sector and labour productivity (3.1 percentage points) than in the private sector (0.9 percentage points). There are two reasons for decelerated growth of wages in the public sector: 1) implementation of the Salary System in the Public Sector Act, which prevented wage rises by introducing allowances from collective agreements; and 2) an adjustment mechanism which allocated part of the adjustment percentage to the elimination of wage disparities.

The growth of wages lagging behind the growth of labour productivity by activity and by group of activity is not as clear as at the global level. The relationship between the growth of wages and productivity by activity is only shown for the private sector. Productivity for the public sector is calculated statistically, but its measurability is difficult to assess. In 2000 and 2001, wages in the majority of activities of the private sector did not lag behind labour productivity; in the following period, this was only the case in one or two activities. In the 2000–2006 period on average, the growth of wages exceeded the growth of productivity in construction and the business services group of activities (J, K). In the 2002–2006 period, the growth of wages exceeded productivity only in the activities of real estate, renting and business services.

Table 8: **Nominal growth of labour productivity and gross wages per employee by activity and group of activities in the private sector**

	2000–2006		2002–2006	
	Productivity	**Wages**	**Productivity**	**Wages**
Overall	8.7	7.8	8.1	6.5
Private sector (A through K)	9.3	8.1	8.7	7.1
A Agriculture, hunting, forestry	7.2	6.0	6.2	5.6
B Fisheries	8.7	6.5	10.3	6.8
Industry (C, D, E)	9.7	8.5	8.6	7.4
C Mining	12.4	9.4	14.1	7.9
D Manufacturing	9.3	8.4	8.3	7.3
E Electricity, gas and water supply	12.3	9.5	9.3	8.6
F Construction	7.0	7.4	9.3	7.1
Production services (G, H, I)	9.4	7.2	8.8	6.5
G Trade, vehicle maintenance	9.3	7.1	8.8	6.7
H Catering	7.5	6.5	7.8	5.5
I Transport, warehousing, communications	9.7	7.8	9.3	6.4
Business services (J, K)	6.3	7.7	6.1	6.3
J Financial intermediation	8.0	8.4	8.5	7.5
K Real estate, renting, business services	3.4	7.8	1.9	6.2

Source: SORS, calculations by IMAD

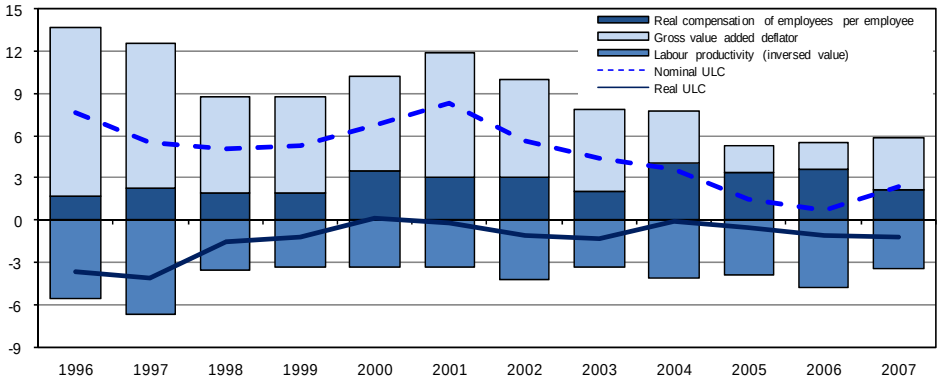
1.5.2. Unit labour costs

In the 2001–2007 period, real unit labour costs in the Slovenian economy decreased more or less continuously together with considerable and gradual slowing of their nominal growth.[21] After a rapid decline in the second half of the 1990s (annually on average by -2.6%), their real decrease also slowed in the 2001–2007 period (to -0.8%). Real growth of compensation per employee[22] somewhat recovered (from 2% in the second half of 1990s to 3.1%), while labour productivity settled at a still high level (3.8% vs. 4.7%; see Figure 4). With accelerated growth of gross value added, the recent years also recorded a notable growth of employment, which was still decreasing considerably in the mid-1990s.

[21] **Nominal unit labour costs** are defined as the ratio between nominal compensation of employees per employee and real gross value added per employee. **Real unit labour costs** are equal to nominal costs deflated by the implicit gross value added deflator. As the implicit gross value added deflators from the numerator and denominator cancel each other out, they are also defined as the ratio between the nominal compensation of employees per employee and nominal gross value added per employee.

[22] Deflated by the deflator of gross value added.

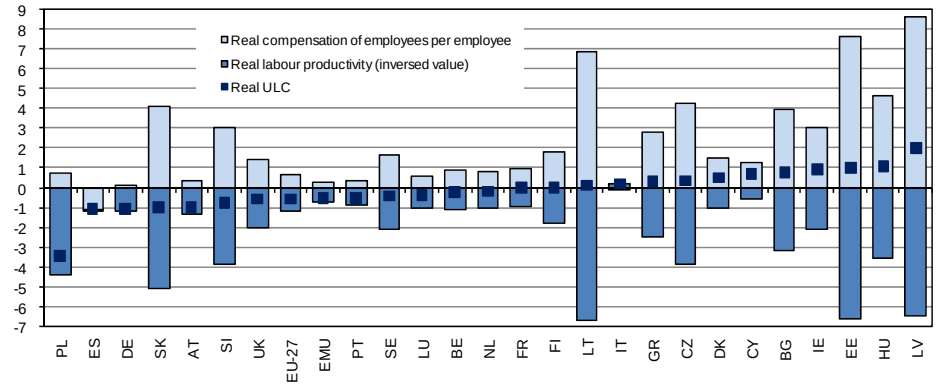
Figure 4: **Nominal and real unit labour costs in the Slovenian economy, annual growth rates in %**



Source: SORS, calculations by IMAD

In comparison with the EU-27 (-0.6%) and the Eurozone (-0.5%), the drop of real unit labour costs in the Slovenian economy was slightly higher. With relatively small differences in trends,[23] Slovenia was among the countries with a higher drop in the 2001–2007 period. Due to the catching-up process, Slovenia, Slovakia and Poland realised their relatively favourable positions in the conditions of exceptionally high labour productivity growth, while the relatively more favourable position of Germany, Austria and Spain is primarily the result of average growth or even drops in the compensation of employees per employee (see Figure 5).

Figure 5: **Real unit labour costs in the EU Member States in the 2001–2007 period, average annual growth rates in %**



Source: SORS, calculations by IMAD
Note: Compensation of employees per employee in real terms is deflated by the deflator of gross value added.

[23] The countries that stand out are Poland with the most distinctive drop and Latvia with the most distinctive growth.

The sectors of the Slovenian economy which contributed the most to the relatively favourable trends in the 2001–2006 period were trade, catering, transport and industry (see Table 9). The first three areas stood out because of the relatively modest real growth of the compensation of employees per employee, and the last area because of notable labour productivity growth. In business services and construction, where real growth of the compensation of employees per employee overtook relatively modest labour productivity growth, real unit labour costs increased. Conversely, modest real growth of the compensation of employees per employee in public services followed modest growth in labour productivity.

Table 9: **Unit labour costs and components by sector of the Slovenian economy in the 2001-2006 period, average annual growth rates in %**

Sector	Unit labour costs		Compensation of employees per employee		Labour productivity*
	Nominal	Real	Nominal	Real*	
Economy	3.9	-0.7	8.0	3.2	3.9
Economy without agriculture (without A, B)	4.0	-0.5	8.0	3.4	3.8
Agriculture and fisheries (A, B)	3.7	0.3	6.9	3.4	3.0
Industry (C, D, E)	1.8	-0.9	8.3	5.5	6.4
Construction (F)	6.1	0.6	9.2	3.6	2.9
Trade, catering and transport (G, H, I)	4.2	-1.2	8.3	2.7	4.0
Business services (J, K)	5.9	1.1	7.6	2.8	1.6
Public services (L through P)	5.4	-0.4	6.6	0.8	1.2

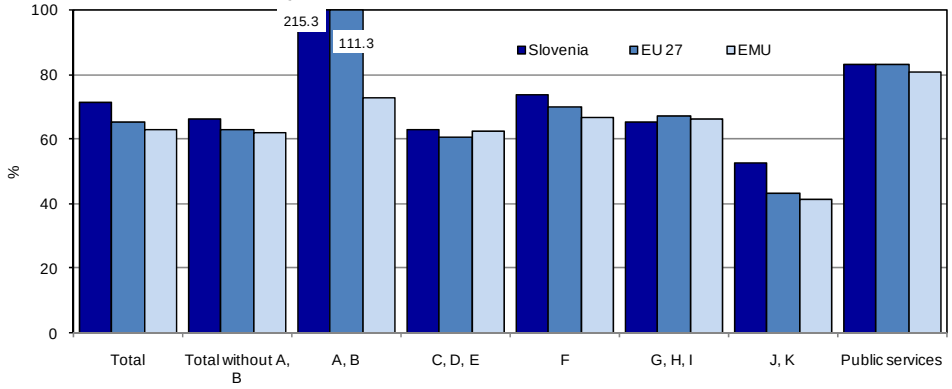
Source: SORS, calculations by IMAD
Note:*Deflated by deflator of gross added value.

With a constant gradual reduction of differences, Slovenia still ranks considerably above the Eurozone average (62.5%) and also above the EU-27 average (64.7%) with its ratio between labour costs and gross value added in 2007 (70.3%).[24] Among the EU Member States, Slovenia was closely followed by Romania (69.9%) and Portugal (69.5%), and to a lesser extent by Denmark (68.1%), while the differences in comparison to other countries were more noticeable. There are more reasons for the deviations, including the specificity of the Slovenian agriculture sector (with a large number of small farms and a large share of self-employed persons), differences in the structure of the Slovenian economy (primarily a smaller share of gross value added of financial intermediation, real estate and business sector, and a greater share in the industry sector), and higher taxation of work in Slovenia, which increases the ratio between labour costs and gross value added in the Slovenian economy. With a reduction in taxation of work, shown in the estimates for 2006 and 2007 because of the first effects of changes to income tax and gradual phasing out of payroll tax, measures to increase added value[25] will also have to be taken, in addition to the sustainable growth of labour costs per employee, in order to ensure the competitiveness of the Slovenian economy.

[24] Belgium (67.1%), United Kingdom (67.1%), Sweden 65.3%), Netherlands (65%), Hungary (64.5%), France (63.8%), Cyprus and Greece (63.1%), Latvia (62.4%), Austria (62.1%), and at the end Lithuania (55.9%), Poland (55.4%), Luxembourg (54.5%) and Slovakia (46.6%).
[25] For more details, see Economic Issues (2007): Wages, productivity and competitiveness.

In 2006, the ratio between labour costs and gross value added in comparison to the EU and Eurozone average was the least favourable in business services and construction. The differences further increased in recent years, especially in business services. Industry and public services came close to the EU and Eurozone average in terms of the ratio between labour costs and gross value added, while in trade, catering and transport this ratio was somewhat lower (see Figure 6).

Figure 6: **Ratios between labour costs and gross value added (wage share) in Slovenia, EU 27 and the Eurozone in 2006, by sector**



Source: SORS, calculations by IMAD

2. Flexicurity – concept, measurement, challenges

The concept of flexicurity arises from the idea that security and flexibility do not exclude but rather complement each other. Wilthagen and Tros (2004) define flexicurity as a policy and strategy that attempts to enhance the flexibility of labour markets, work organisation and employment relations, while improving employment security and social security. They provide the following definitions of flexicurity: 1) a degree of job, employment, income and combination security that facilitates the labour market careers of workers with a relatively weak position and allows for enduring and high-quality labour market participation and social inclusion, while at the same time providing 2) a degree of numerical,[26] functional and wage flexibility that allows for labour markets' and individual companies' timely and adequate adaptation to changing conditions in order to maintain competitiveness and productivity.

A frequently used synonym for flexicurity is the Danish model. The Danish labour market developments in the 1990s are frequently considered as a model of a dynamic labour market which considerably decreased the unemployment rate. Denmark implements a successful combination of a dynamic labour market and a relatively high level of social security. Its welfare model is characterised by a successful combination of labour market flexibility (great employment mobility as a result of relatively low employment protection), social security (generous system of insurance against unemployment) and active labour market policy. Active involvement of social partners is also important for the success of the Danish model.

The concept of flexicurity is also included in the renewed Lisbon Strategy. In 2007, the European Commission defined the concept of flexicurity from the aspect of creating adequate policies. The concept of flexicurity integrated in this definition consists of four components which are combined to create a dynamic labour market and provide security to individuals: 1) flexible employment and contractual relationships (from employer and employee perspectives) based on modern labour legislation; 2) active labour market policy, which effectively assists people in the case of unemployment and facilitates transitioning to new employment; 3) the system of lifelong learning, which provides continual adaptability and employability of workers; and 4) modern social security systems, which adequately combine the system of income support and incentives for employment and mobility in the labour market. The active participation of all social partners is a condition to create flexicurity which would be beneficial to all.[27]

2.1. Measurement of flexicurity

There is still no consensus on indicators for measuring flexicurity, since the concept of flexicurity is relatively new and comprehensive. Several attempts at

[26] Numerical flexibility denotes adjusting of the number of employees or working hours. For more detailed definitions of the term "market flexibility" see Kajzer (2005).
[27] EC (2007): Towards Common Principles of Flexicurity: more and better jobs through flexibility and security, Towards Common Principles of Flexicurity – Council Conclusions, 6 December 2007.

measurement and comparative analysis on the basis of different indicators have been made. Tangian (2004) derived the flexicurity index from the following criteria: criteria of employment protection and social security by legal basis, and data on trends of certain forms of employment (permanent, temporary and part-time employment, self-employment). His analysis includes 16 countries, without Slovenia.[28] A more recent analysis of flexicurity models (Phillips and Eamets 2007),[29] which is presented below, does include Slovenia.

A more recent analysis of the flexicurity models that we present was made by Phillips and Eamets (2007). This is a factor analysis and cluster analysis of flexicurity indicators for 25 EU countries.[30] The analysis implemented 16 variables classified into the following groups: 1) *labour market flexibility criteria* – Eurobarometer indicators concerning the ease of finding a new job, e-workers and worker mobility, which are related to other indicators used: participation in training programmes, part-time employment, unemployment rate, youth unemployment, long-term unemployment and the employment rate of older people; 2) *social security* – two indicators of social protection expenditure (in % of GDP and per employee and purchasing power standards) and insurance against unemployment and duration of employment were included; 3) *social inclusion criteria* – the at-risk-of-poverty rate and Gini coefficient as a measure for distribution of income and the share of early school leavers (18–24 years) were included.

The analysis identified 6 groups. The first group includes Austria, Belgium, France and Luxembourg, and represents a continental model of social and economic activity. In these countries, social protection is relatively high and the duration of employment at one employer is relatively long, which indicates low mobility and rigidity of the labour market. The second group consists of the Netherlands and United Kingdom, which are characterised by fairly liberal and flexible labour markets, a low unemployment rate, a high share of part-time employment and high labour mobility. The third group is represented by the Nordic countries – Denmark, Finland and Sweden, which are often used as benchmarking models in flexicurity debates and which record the highest values for the included variables. The fourth group features the Baltic countries (Latvia, Lithuania and Estonia), Ireland and Cyprus, where indicators of labour market flexibility are relatively high, while social and income security are relatively modest. The fifth group consists of Greece, Italy, Malta and Spain. They are labelled as the South European or Mediterranean group, which is characterised by modest labour market flexibility, low income security, a high unemployment rate and low inclusion of adults in lifelong learning. The sixth group consists of the Czech Republic, Hungary, Poland, Slovakia and Slovenia with the following common characteristics: modest mobility, high long-term unemployment and a low rate of work activity among older people. These results indicate low labour market adaptability.

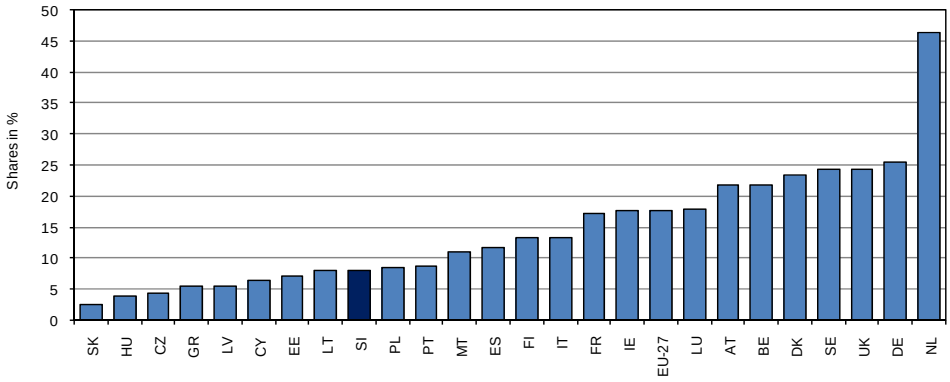
[28] The highest indices of flexicurity, according to this method, were recorded in Sweden, while Denmark ranks 6th.
[29] The study was carried out for the European Foundation for Improvement of Living and Working Conditions.
[30] The analysis includes data up to 2005.

2.1.2. Position of Slovenia according to certain flexicurity indicators

Out of 16 variables included in the above analysis, we present the position of Slovenia in the EU for indicators for which data from Eurostat is available. Among flexibility indicators, we present the share of part-time employment, long-term unemployment, lifelong learning participation and employment rate of older workers. Among social protection indicators, we present expenditure on social protection in PPS per capita, and among social inclusion indicators we present the at-risk-of-poverty rate and the share of adolescents who dropped out of school. In continuation, we will try to show Slovenia's position within the EU and (non)homogeneity of the sixth group, into which Slovenia was classified according to the study by Phillips and Eamets (2007).

Slovenia ranks among those countries with a low share of part-time employment. As shown in Section 1.3, the prevalence of part-time employment in Slovenia increased in the last few years, but was still relatively modest (8.1%) and below the EU-27 average (17.6%) in 2007. In terms of the share of part-time employment, Slovenia is very far behind the Nordic countries, which usually represent the benchmark model of flexicurity. The sixth group, in terms of the part-time employment rate indicator, is relatively homogenous, since the Czech Republic, Hungary, Slovakia, Poland and Slovenia rank among the countries with a modest rate of part-time employment. The share of part-time employment in the EU average is more than double that in Slovenia. The highest prevalence of part-time employment is observed in the Netherlands, which has been encouraging part-time employment since 1982, after an agreement among social partners on the promotion of part-time employment as a form of labour that enables flexibility of supply and demand. In 2007, 46.3% of all employed persons aged between 15 and 64 in the Netherlands were employed in this manner (see Figure 7). The share of part-time employment, which usually represents a "friendly" form of flexible labour, is increasing in Slovenia but still remains relatively low (see Section 1.3). Part-time employment represents opportunities to increase flexibility and the employment rate in Slovenia. We estimate that the main reasons for its low prevalence in Slovenia are primarily: 1) modest interest from employers, for whom employing more persons part-time, despite last year's amendments to the Employment Relationship Act, is still more expensive than employing one person full-time, and 2) modest interest from employees because of the low income level provided by such employment.

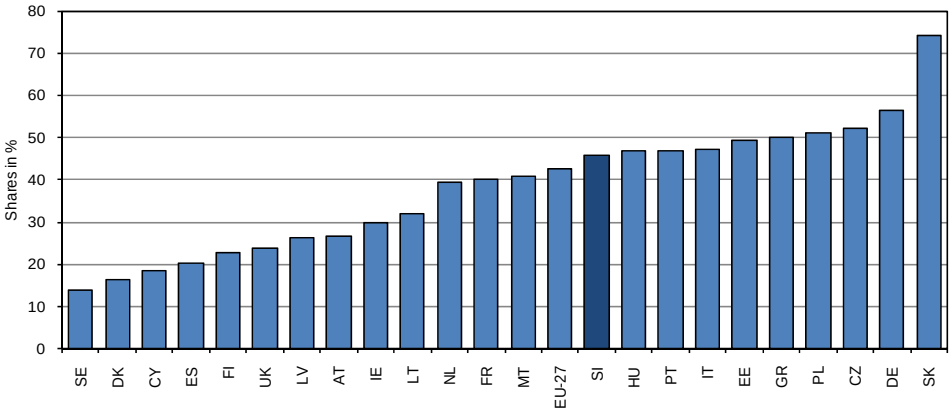
Figure 7: **Share of part-time employment in total employment in the EU, in %, 2007**



Source: Eurostat

The share of long-term unemployed persons in Slovenia is relatively high. The share of long-term unemployed persons could be an indicator of mobility in the labour market and flexicurity. Higher shares of long-term unemployed in total unemployment mean that the unemployed remain unemployed for a long time and that in countries with lower shares of long-term unemployed persons mobility in the labour market is higher than in countries with higher shares. As shown in Section 1.1, the share of long-term unemployed persons in Slovenia in the 2000–2007 period decreased but remains above the EU-27 average and is still relatively high. From the aspect of flexicurity, it would be reasonable within active employment policy, as shown in Section 2.2.2, to strengthen education and training programmes, which could reduce long-term unemployment and prevent transitioning into long-term unemployment. The sixth group, in terms of the long-term unemployment indicator, is relatively homogenous. Slovenia has almost a three times higher share of long-term unemployment than the Nordic countries group, which are usually the benchmarking model of flexicurity. A high share of long-term unemployed persons in Slovenia indicates the existence of imbalances in the labour market, the elimination of which requires active labour market and education policy.

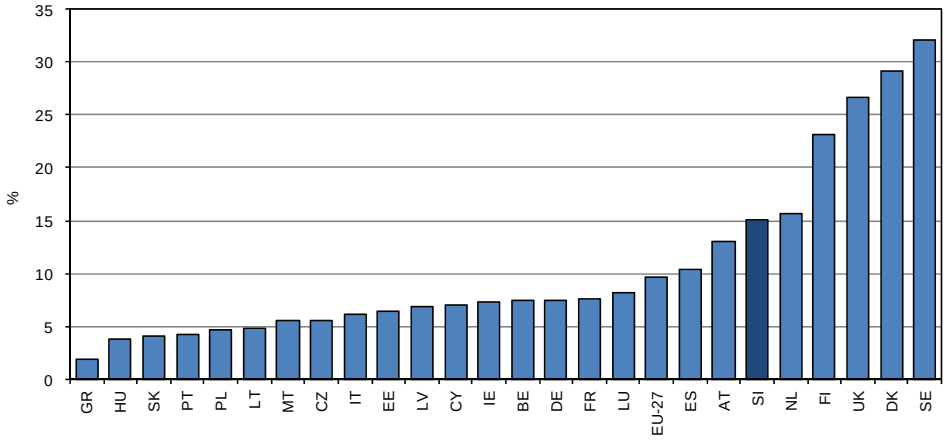
Figure 8: **Shares of long-term unemployed in total unemployment in the EU, in %, 2007**



Source: Eurostat

Participation in lifelong learning in Slovenia is high. Inclusion in lifelong learning improves possibilities for staying in employment. In terms of participation of adults in lifelong learning, Slovenia places high above the other countries in the sixth group and ranks immediately after the Nordic countries, the United Kingdom and the Netherlands (see Figure 9). But this favourable result for the average conceals the large difference between the inclusion of the middle and older generations and the inclusion of more and less educated persons, which is discussed in Section 2.2.3. Lower inclusion of older persons in lifelong learning also contributes to an early exit from the labour market, which is reflected in a low rate of employment of older people (55–64 years), where Slovenia is again ranked among the countries with the lowest rates and the countries of the aforementioned sixth group.

Figure 9: **Participation of the population (aged 25–64) in lifelong learning in 2006, in %**

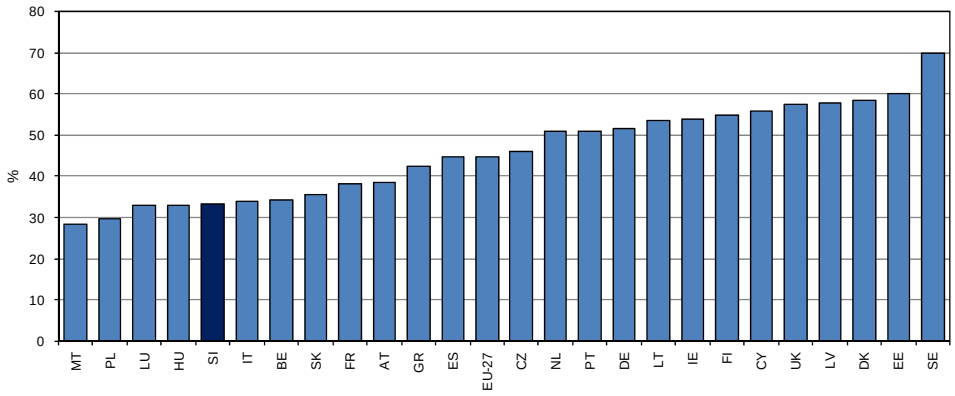


Source: Eurostat

Slovenia ranks among the countries with the lowest employment rates of older workers. Lifelong learning has an important influence on an individual's ability to remain employed, but for older people to stay employed longer it is also necessary to adjust working conditions, while incentives for a longer period of employment must also stem from the pension system (more in Section 2.2.4.). As shown in Table 3 in Section 1.2., the employment rate in this age group did increase the most but still remains exceptionally low. In 2007 and also in the years covered by the analysis, Slovenia ranked among the countries with the lowest employment rates for older people and did not stand out from the other countries in the sixth group. The employment rate of older workers in Sweden, which has the highest employment rate of older workers, is two times higher than in Slovenia (see Figure 10). As shown in Section 1.2, Slovenia has a particularly low employment rate of older women. The main causes for the low employment rate for older women in Slovenia are: 1) massive early retirement at the beginning of the 1990s; 2) current lower average retirement age in comparison to other countries, and 3) structural unemployment, which largely affects older people, who are also less included in lifelong learning. A relatively early exit from the labour market in Slovenia, which is also reflected in the low employment rate for older persons, indicates the need for pension system reform. The necessity to additionally adjust the pension system to demographic changes is also shown by

the fact that the increase in the average retirement age decelerated considerably after 2005 and that the average retirement age in Slovenia is 1.4 years below the EU average.

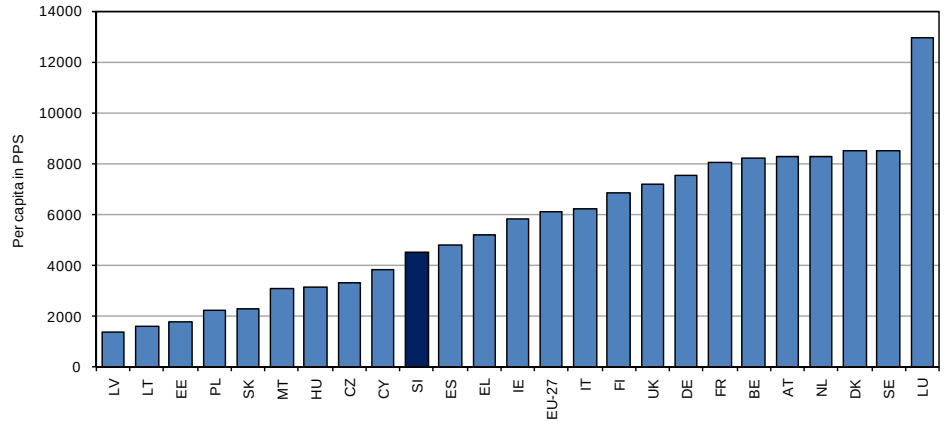
Figure 10: **Employment rate of older workers (aged 55–64) in 2007, in %.**



Source: Eurostat

The amount of funds the state earmarks for social protection is also an indicator of flexicurity. Slovenia earmarked 23.4% of GDP for social protection in 2005 and stood out from the group in which it was classified in the above analysis of flexicurity models, but at the same time it lags far behind the Nordic countries. As is evident from Figure 11, a similar picture is also shown by the indicator of the amount of expenditure for social protection per capita in purchasing power standards.

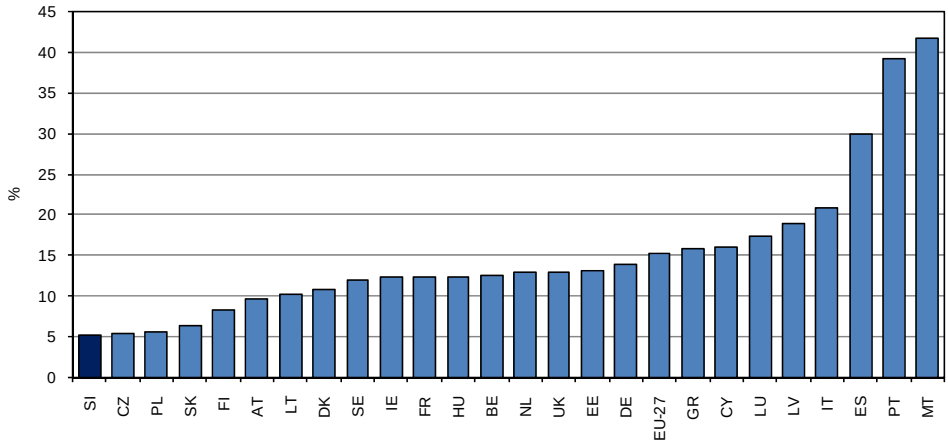
Figure 11: **Expenditure for social protection per employee in purchasing power standards, 2005**



Source: Eurostat

Criteria for social inclusion indicate a relatively favourable position of Slovenia. Together with the Czech Republic and Slovakia, classified in the sixth group of countries, Slovenia ranks among the countries with the lowest at-the-risk-of-poverty rates in the EU, while in Hungary and Poland poverty presents a bigger problem. In 2006, the at-the-risk-of-poverty rate in Slovenia (12%) was similar to that in the Nordic countries. A similarly favourable picture for Slovenia and other countries in the sixth group is also shown by the indicator of early school leavers, where the share of young people aged between 18 and 24 who are not included in education is the lowest among the EU Member States (see Figure 12). According to the income inequality indicator (measured with the Gini coefficient), Slovenia stands out from the other countries in the sixth group, as it ranks among the countries with the smallest differences in income.[31]

Figure 12: **Early school leavers, in 2006**



Source: Eurostat

2.2. Components of flexicurity – situation and changes in the system in Slovenia

As Slovenia has opted to introduce flexicurity, we present the measures adopted in the last two years. In accordance with the definition of the flexicurity concept at the EU level, we present the changes in the following areas: 1) flexible employment contract relationships; 2) effective active labour market policy; 3) lifelong learning system, which provides employees with adaptability and employability; and 4) social security and tax systems which encourage employment and postponement of exiting from the labour market.

[31] Only Sweden and Denmark had a lower discrepancy in 2004.

2.2.1. Flexible employment contract relationships

Amendments to the Employment Relationship Act, aimed at providing more flexibility, were adopted in 2007. These amendments provide for an increase in internal flexibility by introducing employment by type of work[32] and possibilities for longer overtime work (more flexible regulation of working time). To a certain extent, the amendments provide for an increase in external flexibility by expanding the possibility of using flexible forms of employment (fixed-term employment) and changes regarding easier termination of employment contracts (severance payments – an offer of employment at another employer, shortening of notice periods). Overtime work can also exceed the annual time limit for overtime work (which is being decreased from 180 hours to 170 hours), namely 230 hours a year at most on the basis of the written consent of the worker.

Possibilities for fixed-term employment were increased in order to achieve better flexibility. The amendments expanded the possibilities for fixed-term employment to include cases when none of the applicants fulfils the required conditions for the job, in cases of employment of managers and employment on a project. The exception from the universal two-year time limit for conclusion of fixed-term employment contracts in the case of preparation and implementation of work organised as a project[33] is also important.

Dismissal costs decreased somewhat with the reduction of notice periods. The amount of severance payments was not changed. However, the changes introduced an option under which an employer is not obliged to pay out severance pay when the Employment Office or the employer offers the employee, upon the termination of the employment contract and during the time of the notice period, an employment contract with another employer and the employee concludes this contract. Certain notice periods in case of termination due to business reasons were reduced, as follows: 1) from 75 days to 60 days – if the worker has at least 15 years of service with the employer, and 2) from 150 days to 120 days – if the worker has at least 25 years of service with the employer. The amendments, therefore, did not result in a substantial reduction of dismissal costs, which are in economic theory an important reason for employers' caution in the employment process (the amount of severance payments remain unchanged, while notice periods are reduced only for certain groups of workers). We estimate that major changes in this area were not possible because they were not supported with measures providing higher income security and measures for greater adaptability of employees (lifelong learning).

Certain obstacles to employers' interest in part-time employment were reduced. The amendments to the Act clearly defined the principle of proportionality of rights of part-time employees with respect to the length of working time.

The amended Prevention of Illegal Work and Employment Act opens employment possibilities for short-term work and small work. Under the amendments, short-term work (unpaid work in a micro company or private

[32] The introduction of the possibility of employment by type of work increased the possibility for transfer of workers within a company and better adjustment of work to the needs of the working process.
[33] A fixed-term contract may be concluded for the duration of the project.

institution, or for an entrepreneur with 10 employees at the most, when performed by a spouse of the entrepreneur, owner or co-owner of the company or private institution, or a person to whom he or she is related to the first degree, and which lasts 40 hours a month at the most) is not considered as undeclared employment. Under the amended legislation, small work[34] is not considered as undeclared work.

The possibility to establish specialised temporary work agencies was introduced in 2006. The amendments to the Employment and Insurance Against Unemployment Act made the establishment of such agencies easier. Under the new legislation, such an agency can acquire the right to provide temporary work only with its entry in the registry of agencies providing temporary work and does not have to conclude a concession contract as other employment agencies do.

2.2.2. Active employment policy

Legal and conceptual bases for improving the effectiveness of active labour market policy were adopted in the last two years, but implementation problems exist. At the end of 2006, the Government of the RS adopted new guidelines for active labour market policy: the Active Labour Market Policy Programme for the period 2007–2013 (ALMP) and the Implementation Plan of the Active Labour Market Policy Programme for the years 2007 and 2008. New rules on the implementation of the active employment policy, which enables a more rational labour market policy, were also adopted. The Active Labour Market Policy Programme for the 2007–2013 period was designed to eliminate problems related to the adoption of programmes for individual calendar years, which prevented the implementation of long-term programmes and caused difficulties in their funding. The Active Labour Market Policy Programme for the period 2007–2013 set up strategic objectives and envisaged four sets of programmes: 1) counselling and assistance for employment; 2) training and education; 3) promotion of employment and self-employment; and 4) programmes for increasing social inclusion. The planned changes to the ALMP which would lead to better effectiveness have still not been implemented. The Implementation Plan of the Active Employment Policy Programme for the years 2007 and 2008 was adopted only in mid-May 2008, which causes difficulties in the implementation of activities in this area. The annual action plan for the implementation of active labour market policy programmes in 2008 and 2009 does not follow the increase in the share of funds for education and training planned in the mid-term ALMP programme for the period 2007–2013. Bi-annual action plans for ALMP programmes differ from mid-term plans considerably, notably in the area of funds intended for counselling and assistance for employment. From the aspect of the creation of flexicurity, it would be more appropriate to implement the guidelines. We assess that it would be useful for employment policy management if the bi-annual plans adopted by the Government of the RS also envisaged inclusion of the number of unemployed persons in ALMP programmes.

[34] Small work is defined as work lasting 20 hours a week at the most and not more than 40 hours a month, while payment for this work does not exceed 50% of the minimum wage determined by the law if such work is carried out by a person who is not in a full-time employment relationship, who does not pursue an independent activity and does not receive a pension.

From the aspect of flexicurity, we will emphasise primarily education and training programmes for the employed and unemployed. The ALMP contains programmes for institutional training, on-the-job training and integrated programmes for training, formal education and national professional qualification (NPQ).[35] Although education and training programmes are successful from the aspect of increasing employability, the share of the unemployed included in these programmes decreased in 2007 (see Table 10)[36] and is too small from the aspect of the provision of flexicurity in the labour market. Co-funding of education and training of employees increased in the last two years by means of tenders of the European Social Fund, which is also important from the aspect of preserving employment.[37] Great employer response and interest in co-funding confirm the need to strengthen such programmes and create similar tenders for co-funding of education and training in small and medium-sized companies.

Table 10: **Number of unemployed persons included in education and training programmes**

	2005	2006	2007
Institutional training programmes	1,903	3,290	3,860
National professional qualification	419	3,041	205
Practical training programmes	-	-	2,905
Work test	1,897	1,783	2,210
On-the-job training	2,064	3,778	695
Educational programmes	-	-	5,912
Formal education	-	1,347	2,898
Project Learning for young adults	222	82	215
Improvement of computer literacy of unemployed persons	-	15,686	-
TOTAL NUMBER OF UNEMPLOYED PERSONS INCLUDED IN EDUCATION AND TRAINING PROGRAMMES	12,173	29,007	19,626
Share of unemployed persons included in these programmes out of the average number (in %)	13.2	33.8	27.5

Source: Reports on the implementation of the ALMP by the Employment Service of Slovenia, calculations by IMAD

From the flexicurity aspect, programmes aimed at increasing social inclusion are also important. In this area, unemployed persons were newly included only in public works programmes and employment programmes for non-profit employers in 2007. These programmes are important primarily from the aspect of activation of unemployed persons, prevention of poverty and promotion of work activity, and thus it is worrisome that the number of new inclusions in such programmes decreased considerably in the last two years.[38] The Active Labour Market Policy Programme for the period 2007–2013 envisages the creation of a system of in-work benefits.

[35] National professional qualification is the professional or vocational competence necessary to perform a profession or individual sets of responsibilities within a profession at a specified level of difficulty. Individuals use the acquired NPQ when searching for employment and in formal education.

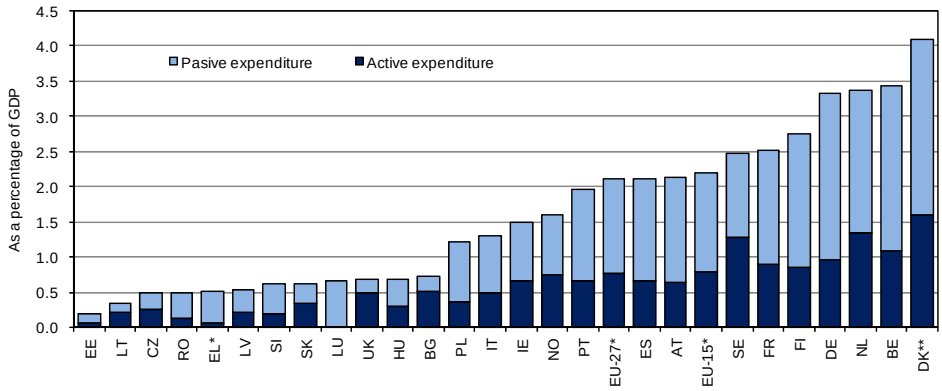
[36] The year 2007 saw a great delay in the publication of the tender for the on-the-job training programme and difficulties in its implementation. Since the preparations for the confirmation of national professional qualification (NPQ) were not carried out in the form of a special programme, a considerably smaller number of unemployed were included in the confirmation of NPQ than in previous years.

[37] About 33,000 employees in 2007 were included in education and training programmes in sectors being reformed and in promising sectors.

[38] Reports on the implementation of ALMP measures indicate that the number decreased from 10,602 in 2005 to 3,579 in 2007.

Slovenia earmarks a relatively small amount of funds for employment policy. According to Eurostat, Slovenia spent only 0.6% of GDP for labour market policy in 2005, of which only 0.2% of GDP was spent on active labour market policy measures. This ranks Slovenia among the EU Member States that spend the least money for labour market policy (see Figure 13).

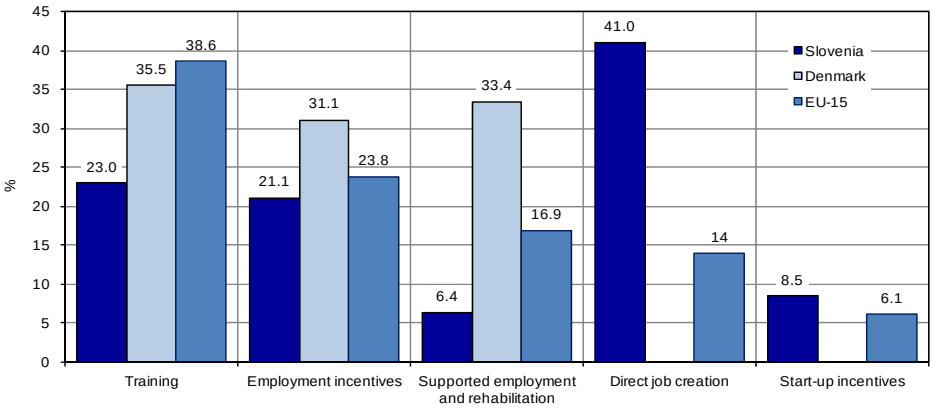
Figure 13: **Public expenditure on the labour market in 2005, in % of GDP**



Source: Eurostat, Statistics in Focus 45/2008
Notes: *Estimate by Eurostat for EU-27 and EU-15, **Data for Denmark is for 2004

Expenditure for direct job creation stands out in the structure of expenditure for active labour market policy in Slovenia, while the share for training programmes is too small. Because training programmes are more important from the aspect of flexicurity, their share in the structure should be increased. Expenditure for education and training stands out in the expenditure structure of Denmark, which is synonymous with flexicurity, and the EU average (see Figure 14).

Figure 14: **Structure of expenditure on labour market programmes by category in 2005, Slovenia, EU-15 and Denmark**



Source: Eurostat, Statistics in Focus 45/2008

The lack of assessment of the effectiveness of programmes and difficulties with data occurred in the field of labour market policy analysis in Slovenia. Conducting effective active labour market policy requires better availability of data on participation in programmes and external evaluations of programmes by research methods.

2.2.3. Lifelong learning

In 2006, a new National Professional Qualifications Act, which introduces a system of recognition of non-formal and informal learning, was adopted. In 2006, a new National Professional Qualifications Act, which introduces the system of national professional qualifications (NPQ),[39] was adopted. In the 2007/2008 school year, recognition of informal knowledge also started to be implemented in secondary vocational and professional education. The NPQ system in Slovenia represents the main system for recognition of non-formal and informal learning (for the needs of work and for continuation of formal education), although the implementation of the system is accompanied by certain problems (poor connection between NPQ certificates and the wage system, insufficient inclusion of social partners, non-recognition of NPQ certificates, etc.).

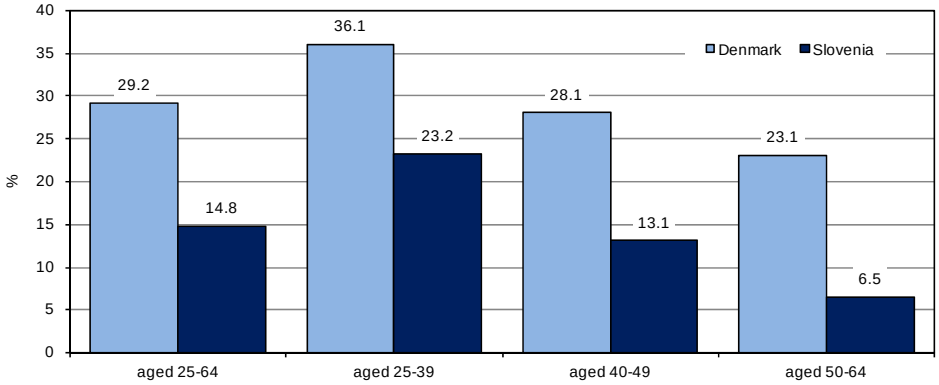
Certain new measures should be developed to stimulate lifelong learning. The Lifelong Learning Strategy was adopted in 2007, but the expansion of lifelong learning is hindered by the fact that Slovenia has still not adopted the operational programme for the implementation of the Lifelong Learning Strategy and failed to implement various measures and activities for increasing participation of the population in lifelong learning. The Resolution on the national programme of higher education of the Republic of Slovenia 2007–2010, adopted last year, envisages an increase in the share of the population participating in all forms of lifelong learning and, within this framework, the development of programmes for returning to tertiary education programmes for employees, the unemployed and inactive persons. Certain measures should be developed for reaching this objective. Implementation of certain measures in the area of lifelong learning is also imposed by the Social Agreement for the Period 2007–2009, which among other things envisages promotion of education and training of employees whose jobs will probably be endangered, introduction of incentives for companies which invest in education of employees, and setting up funds for education. The Guidelines for the development strategy for fundamental skills and literacy of employees were drafted as well.

The participation of the population in lifelong learning is relatively high, but decreases rapidly with age. In Slovenia in 2007, the participation rate of the population aged 25–64 in various forms of lifelong learning (formal and non-formal education) reached 14.8% (in 2006: 15.0%), which puts Slovenia above the EU-27 average (9.7%) but is still considerably below certain North European countries (see Figure 9 in Section 2.1.2.). Moreover, in Slovenia the participation

[39] National professional qualification is the professional or vocational competence necessary to exercise a profession or individual sets of tasks within a profession at a specified level of difficulty. Individuals use the acquired NPQ in searching for employment and in formal education.

rate of the population in lifelong learning rapidly decreases with age (see Figure 15),[40] although participation in lifelong learning is an important factor for preserving competitiveness in the labour market and for maintaining employment in both younger and older life periods. In terms of the participation of adults in lifelong learning, Slovenia lags far behind Denmark. Denmark reaches the highest rates of participation in lifelong learning in the EU in all age groups and is frequently mentioned as a benchmark model of flexicurity. As shown in Figure 15, participation in lifelong learning in Slovenia declines with age considerably faster than in Denmark, and a similar trend is also indicated by the data for the EU average.

Figure 15: **Participation of the population in lifelong learning, by age, Slovenia and Denmark, %, 2007**



Source: Population and Social Conditions Eurostat – Education (Eurostat), 2008

Low participation of adults, especially among the unemployed, in secondary education is also a problem in Slovenia. The number of adults in secondary schools has been declining; in the 2006/2007 school year, a total of 14,956 adults were enrolled in secondary schools, which was 13.3% less than in 2005/2006 and 28.4% less than in 2000/2001. In 2006, 0.8% of the population aged between 25 and 64 were attending secondary school (in 2000: 0.5%), which is less than in 2005. The participation rate of adults in tertiary education is higher; in the 2006/2007 academic year it totalled 3.4% and increased by 1 percentage point in the 2000/2001–2006/2007 period. Although the unemployment rate is the highest for people with primary education or incomplete primary school, the number of unemployed enrolled in secondary schools has been decreasing.[41]

[40] Source: Eurostat, calculations by IMAD

[41] There were 1,892 students enrolled in high schools in the 2006/2007 academic year (in 2005/2006: 3,044), which is also the lowest figure in the 2000/2001–2006/2007 period.

2.2.4. Social security systems

The concept of flexicurity requires the creation of modern social security systems which combine income support and incentives for employment. In the last two years, there have been no major systemic changes in the area of income security provision in Slovenia, whereas there were changes in the tax system (see the chapter "Fiscal Development and Policy" for more details), for which we can conclude that they led to changes in incentives to work, which are presented in this section. As the creation of incentives to keep older workers in employment longer is also regarded as a part of flexicurity, we also analyse these incentives and possibilities for part-time retirement, which in certain countries enable a gradual exit from the labour market. Despite the fact that the topic of social protection systems and provision of income security is very comprehensive, we have only analysed the aforementioned issues at this time.

Changes in the system in the area of social protection were implemented in the last two years primarily oriented towards increasing the obligations of the unemployed, while there were no major changes in the area of income security provision. The Employment and Insurance Against Unemployment Act (EIA) increased the obligations of unemployed persons in terms of acceptance of employment, requiring that unemployed persons accept work after a specified period which requires up to two levels lower education than theirs. Amendments to the EIA eliminated the right to unemployment assistance in the system of insurance against unemployment by merging it with the right to social assistance given by social work centres. Such a change rationalises the system of granting but is not a step towards providing flexicurity. Commitments of the recipients also increased with the amendments to the Social Security Act and the introduction of a new reason for the expiration of entitlement to social assistance (unfounded rejection of adequate employment under a subcontract, authorship contract, or adequate humanitarian or other similar work). Amendments to the above acts did not bring major changes in the area of income security provision.

There are special indicators to determine conditions for making work pay. Making-work-pay indicators, which were calculated this year by the Statistical Office according to the slightly adjusted methodology of the OECD, show effects on net income in the case of transitioning from unemployment to employment and from less-paid jobs to better-paid jobs. This is shown primarily by two indicators: the unemployment trap[42] and low-wage trap.[43] As unemployment has the biggest influence on people's slipping below the poverty threshold, incentives for employment are also a means for preventing poverty.[44]

[42] The unemployment trap indicator shows the difference in net incomes in transitioning from unemployment to employment because of higher taxes and social contributions and lower associated social transfers in employment in comparison to incomes in higher associated social transfers during unemployment. The calculation is made under the assumption that an employed person receives 67% of the average gross wage of employed persons.

[43] The low-wage trap indicator shows the ratio in net incomes of employed persons in transitioning to a better-paid job (from 33% to 67% of the gross average wage for employed persons), with the ratio changing because of higher taxes and social contributions and lower associated social transfers in comparison to previous lower incomes, consequently lower taxes and social contributions and higher associated social transfers.

[44] A situation can occur in which poor unemployed persons do not opt to be employed, as they would lose certain social transfers and their net income after taxation and social security contributions would be lower than before employment. Meanwhile, persons with low incomes do not decide to take better-paid jobs for the same reasons.

Incentives to work improved slightly in the 2001–2007 period. In the 2001–2007 period, the unemployment trap decreased by 1.9 percentage points. The low-wage trap for a single person without children in the same period increased and decreased for couples with two children (see Table 11).

Incentives to work improved in 2007 in comparison to 2006. The unemployment trap decreased by 1.5 percentage points, but still remains high. The low-wage trap is somewhat lower, and it also decreased in comparison to the year before. In 2007, single persons increased their net income by EUR 0.49 upon the transition to a better-paid job for each additional euro of the gross wage (in 2006: EUR 0.484), while couples with two children increased their net income by EUR 0.326 for each additional euro of their gross wages (in 2006: 0.274 EUR). Transitioning to a better-paid job is still more favourable for a single person than that for a couple with two children.

Table 11: **Certain indicators of incentives to work, Slovenia, 2001–2007**

	Unemployment trap in %	Low-wage trap, in %	
	Single person without children	Single person without children	Couple, one employed person, two children
2001	82.6	39.1	99.4
2002	84.4	42.7	95.5
2003	86.1	46.1	94.8
2004	87.7	49.1	91.9
2005	82.6	50.8	76.4
2006	82.2	51.6	72.6
2007	80.7	51.0	67.4

Source: SORS Work incentives indicators, Slovenia, 2007 – PRELIMINARY DATA, 14 May 2008, First publication

Slovenia ranks among countries with relatively modest incentives to work. The unemployment trap in Slovenia in 2007 was above the EU average, and the low-wage trap was also higher, both for single persons and couples with two children (see the chapter "Fiscal Development and Policy").

The pension system is also important for the creation of a flexicurity model. Flexicurity is also partly created by incentives aimed at keeping older workers in employment longer and more flexibility in forms of employment of older workers. Better flexibility for older (secured) employees and those who already meet the conditions for retirement, or are already retired, is enabled with regular employment for a shorter working time (by agreement between the employer and the employee) or with partial retirement or part-time employment (by agreement between the employer and the employee). Partial retirement enables a gradual exit from the labour market. Incentives to keep employees employed which arise from the pension system also influence keeping older persons in employment.

Incentives for staying employed longer were introduced with pension reform in 2000. Incentives incorporated in the pension system primarily include increasing the overall accrual rate for each year of activity after the fulfilment of retirement conditions and increasing pensions for those who retire after they reach full retirement age. Table 12 shows calculations of increases in pensions related to the pensions upon full retirement age, which indicate that postponing retirement after reaching the retirement age by four years increases the accrued pension upon the

full retirement age by 15.4%. Despite the incentives for longer activity, relatively few insured persons opt for prolonging their working age.

Table 12: **Increase of pensions due to postponing retirement**

Period of postponed retirement after reaching full retirement age, in years	Index of the pension increase level[1] compared to the pension at full retirement age
0	100.00
1	105.54
2	110.06
3	113.40
4	115.41
5	117.42
6	119.44
7	121.45

Source: Calculations by IMAD
Note: [1]The increase in the pension level is a result of the increase in the accrual rate and allowance for activity after reaching full retirement age (63 years for men, 61 years for women).

The possibility of partial retirement is rarely exercised in Slovenia. At the end of 2007, 184 persons retired in such a way. The reasons for this are the following: 1) partial retirement requires fulfilment of conditions for full age retirement; 2) partially remaining in employment requires the consent of the employer; 3) for the majority of those reaching full retirement age, the decrease of income upon partial retirement is too great in comparison with the wage. The reason for such a decrease in income is a low accrued pension and taxation of pension income.[45]

[45] A pension represents net income already taxed through the translation of the gross pension basis to the net pension basis, while the tax arrangement taxes it once again as if it were employee income.

3. Conclusion and labour market challenges from the aspect of flexicurity

Unemployment decreased in the 2000–2007 period, with the unemployment rate dropping to 4.9% in 2007. The unemployment rate in Slovenia in this period decreased faster than the EU-27 average and the average of the old EU Member States (EU-15). The long-term unemployment rate also decreased (from: 4.1% in 2000 to 2.2%, in 2007). However, the following problems in the area of unemployment remain: a high share of long-term unemployment, unemployment of youth (15–24 years) and older people (over 50 years), and an increasing number of registered unemployed persons with a tertiary education.[46]

Employment increased along with the rate of employment. In the 2000–2007 period the number of persons in employment in Slovenia increased at an average annual rate of 1.4%, which was above the EU average. The employment rate of the population (aged between 15 and 64) in Slovenia in 2007 increased to 67.8%, which was above the EU average; the employment rate for women was above the EU average and for men below the EU average. The employment rates of younger (15–24 years) and older workers (55–64 years) remained relatively low. They represent an important share of "reserves", which is not high in the group aged between 25 and 54, for increasing the employment rate in Slovenia, From the aspect of increasing the employment rate for younger and older workers, another challenge is the organisation of working environment and conditions which will enable longer work activity of older people and smooth the entry of young people into employment (development of so-called age management of human resources, which will combine the experience and knowledge of older people with the knowledge and enthusiasm of young people).

As a response to the challenges of globalisation, the concept of flexicurity was created in the EU and also became Slovenia's objective with the revised Lisbon Strategy. The integrated concept of flexicurity is made up of four components which are combined to create a dynamic labour market and provide security to individuals: 1) flexible employment and contractual relationships, based on modern labour legislation, are flexible both for employers and employees, and reduce segmentation of the labour market and undeclared work; 2) active labour market policy, which effectively assists people in unemployment and enables them to transition to new employment; 3) the system of lifelong learning, which is reliable and provides employees with adaptability and employability; and 4) modern social security systems, which adequately combine the system of income support and incentives for employment and mobility in the labour market.[47] Slovenia also opted for the formulation of the flexicurity concept.

The first analysis of flexicurity models by Phillips and Eamets (2007) placed Slovenia in the group of countries with great challenges in the field of flexicurity. Along with Poland, Hungary, the Czech Republic and Slovakia, Slovenia ranked in a group characterised by: modest labour market mobility, high long-term

[46] Data on registered unemployed indicate that the average number of unemployed persons with tertiary education in 2007 was 50% higher than in 2000, and their share in overall unemployment increased from 4.4% in 2000 to 10% in 2007.
[47] Common Principles of Flexicurity – Council Conclusions, 6 December 2007.

unemployment and a low employment rate for older people, which indicates modest labour market flexibility, which is combined with high income protection and low social trust. Challenges facing these countries are improving labour market flexibility and ensuring income security. This paper attempts to show and evaluate policies and measures in the field of creating flexicurity carried out in Slovenia over the last two years.

From the point of view of flexicurity, the following problems occur in the labour market: long-term unemployment, a low employment rate for older persons and a modest prevalence of part-time employment. Since long-term unemployment decreases human capital, programmes within active labour market policy which prevent transitioning to long-term unemployment should be developed and strengthened from the aspect of flexicurity. Slovenia has one of the lowest employment rates for older persons in the EU. A low employment rate for older people, which is especially low for women, is a major challenge for economic and labour market policies. Within ALMP, it would be reasonable to strengthen programmes which stimulate employment of older persons, while changes in the pension system aimed at encouraging a postponed exit from the labour market are necessary as well. The necessity of additional adaptation of the pension system to demographic changes is also indicated by the fact that the increase in the average retirement age decelerated considerably after 2005 and that the average retirement age in Slovenia is 1.4 years below the EU average. The share of part-time employment, which usually represents a "friendly" form of flexible labour, is still relatively low despite having increased recently. Part-time employment represents an opportunity to increase flexibility and the employment rate. We estimate that the main reasons for its modest prevalence in Slovenia are primarily: 1) modest interest from employers, as employing several persons part-time is still more expensive than employing one person full-time, despite last year's amendments to the Employment Relationship Act; and 2) modest interest on the part of employees because of the low income level provided by such employment.

Among flexible forms of employment, temporary employment, which usually does not provide flexicurity, is increasingly used in Slovenia. The share of temporary employment in total employment more than doubled over the last ten years and has been increasing considerably since 2003 with the acceleration of economic growth. The share of temporary employment in total employment in Slovenia exceeds the EU average. A high share of temporary employment is often the result of high dismissal costs and difficulties related to dismissals. Flexibility of the labour market in Slovenia has increased primarily through temporary employment, the frequent use of which, similar to unemployment, decreases the wellbeing of individuals according to a study by Malenfant, LaRue and Vezina (2007). Young people are increasingly exposed to temporary employment, which causes age segmentation of the labour market. From the aspect of flexicurity, the problem consists in the relatively "strict" conditions (eligibility criteria) for acquiring unemployment benefits, and thus it is difficult for young people with frequent temporary jobs to acquire such benefits. Because of the large share of temporary employment, adequate income support for the unemployed, who are often employed for a fixed period of time, should be considered from the aspect of the creation of flexicurity.

A review of measures taken in the four key areas of flexicurity shows that changes in the last two years were primarily focused on achieving flexibility of contractual relationships. Amendments to the Employment Relationship Act in 2007 were aimed at better internal flexibility (employment by type of work), possibilities of employment for a fixed period of time were expanded, and certain obstacles to employers' interest in part-time employment were also reduced. The amendments to the Employment Relationship Act aimed at providing greater flexibility were not radical and did not result in a substantial reduction of dismissal costs, which are in economic theory an important reason for employers' caution in the process of hiring (the amount of severance pay remains unchanged, with notice periods reduced only for certain groups of employees). We assessed that greater changes in this area were not possible because they were not supported with measures providing higher income security and measures for greater adaptability of employees (lifelong learning).

Active labour market policy, lifelong learning and social security systems in Slovenia still do not play an appropriate role in the creation of flexicurity. Active labour market policy must provide a quick and easy transition between jobs. Training programmes for the employed and unemployed should therefore be strengthened in Slovenia. Participation of less skilled and older persons should be increased. In the area of education and training of employees, it would be reasonable, in addition to tenders for co-funding the education and training of employees in companies undergoing restructuring and in promising activities carried out in the last two years, to create tenders for co-funding education and training in small companies as well. Despite the high rate of participation of adults in lifelong learning, participation of older persons and less skilled persons is too low to contribute to creating conditions for flexicurity. In the area of social security, the amendments to the Social Security Act and the Employment and Insurance Against Unemployment Act primarily increased the obligations of the unemployed in terms of accepting employment, which was not followed by the creation of in-work benefits.

Creation of a flexicurity model remains a great challenge for Slovenia. Creation of flexicurity requires a more integrated approach to ensure mutual support and coordinated implementation of all four policies. More flexibility will not be possible without support from other flexicurity policies, primarily 1) provision of greater participation of older and less trained people in lifelong learning; 2) effective active labour market policies which would prevent transitioning into long-term unemployment and focus largely on the transition between jobs through adequate educational and training programmes for the employed, and 3) provision of income security, also in the case of unemployment.

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