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The Crisis and Policy Responses in the Labour Market in Central and Eastern Europe Country Report: Slovenia

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1. The Context before the Crisis

Economic Context

Slovenia's economic transition in the 1990s was commenced by the depression that gripped the economy in the first few years following its break-up from the former Yugoslavia in June 1991. Upon independence, the loss of internal markets in the former Yugoslav republics led to a sharp decline in Slovenia's exports. Prevailing political turmoil in the region also significantly reduced Slovenia's income, particularly from tourism and transportation industries. As a result, real growth rate of gross domestic product (GDP) fell to 8.9 percent in 1991 (see Figure 1). Additionally, as in most cases of other transitional countries in the Eastern and Central Europe, Slovenia inherited substantial economic imbalances from the former Yugoslavia, namely an excessive public debt and hyperinflation (see Figure 5).

Nevertheless, Slovenia's first decade of independence is marked by macroeconomic recovery and growth. The depression that engulfed a new independent nation came to a halt after mid-1993. Slovenia restored a quick recovery in the following year reaching 5.3 percent of growth rate in 1994 while successfully brining inflation down from hyperinflationary levels in the subsequent years (see Figure 1 and Figure 5).

The key factors for this economic turnaround are attributable to the successful implementation of macroeconomic policies aimed at stabilization and liberalization (Mrak et al., 2004). During the early transition period, Slovenia was confronted with a wide array of macroeconomic difficulties: to name a few, two-digit inflation rate, absence of foreign exchange reserves, low confidence in the new Slovenian currency, the Tolar, as well as the lack of credibility of the newly established central bank. Against this backdrop, the most pressing task was disinflation. In fact, the process of macroeconomic stabilization was an area of heated debates between the two opposite sides, namely the radical and the gradualist. The former advocated "shock therapy" stabilization with a fixed exchange rate as an anchor, while the latter opted for a floating exchange rate and strong restrictions on government spending. With Slovenia's deep-rooted tradition of consensus building, together with precarious political situation in the post-independence era, the cautious, gradualist approach prevailed in economic discourses. As a result, the Bank of Slovenia carried out a monetary policy under a floating exchange rate regime instead of an orthodox fixed exchange rate system that prevailed during the pre-independence era. Soon after, Slovenia witnessed a gradual decline in the level of inflation in the subsequent years (see Figure 5 and Figure 6).

Other essential tasks were carried out by various structural reforms – to name a few, banking restructuring, public expenditure management reform, introduction of a personal income tax as well as the abolition of fiscal "self-management" approach and the centralization of government functions – all of which helped the country maintain stable fiscal balance during the initial stages of the transition (Ibid). Consequently, the general government budget remained virtually balanced during the first five years (1991-1996) of independence.

Furthermore, with a revival in exports of goods and services, the current account surpluses were recorded until 1994. The improvement in the current account balance in return helped building up the country's foreign exchange reserves, which grew from virtually zero at independence to a significant accumulation of USD4.2 billion by 1996, entailing greater security to the new currency.

Foreign direct investment (FDI), however, did not play a significant role during Slovenia's transition period as it mostly remained below 1 percent throughout the 1990s (see Figure 4). This is mainly due to the government's capital controls and the privatization policy that gave preference to insiders rather than potential foreign investors. With growing prospects for EU membership, Slovenia had become a more attractive destination for foreign investors since 2001. Although the sudden increase of FDI (7.2 %) was recorded in 2002, the pace of FDI inflows returned to 1 percent in 2003 due to foreign acquisitions of private enterprises, and it continued to grow steadily thereafter until the global crisis hit the country in 2009 (see Figure 4).

All in all, it is somewhat true that Slovenia itself had favorable initial conditions to begin with (Ibid): Unlike other transitional economies in the region, Slovenia was the richest part of Eastern Europe and was characterized with a diversified manufacturing sector, an ethnically homogenous population, skilled human capital, well-established trade links with Western markets, as well as a good geographic location. Furthermore, the country had already developed a certain degree of autonomy from Yugoslavia, especially in the areas of infrastructure including pipelines, railway and telecommunication.

Nonetheless, the record of conservative fiscal stance, together with macroeconomic stabilization policies, are considered the biggest contributors that enabled the Slovenian economy to make a smooth transition from a socialist self-management system to a market economy during the first decade of the country's independence.

Slovenia's shift from a socialist self-managed system signaled the structural change of the economy. In contrast to a socialist system, which heavily concentrates on industry and productions of goods, Slovenia saw an increase in the service-producing sectors as the market economy emerged (Ferfila and Phillips, 2010). The service sector today accounts for the largest part of the economy as a percentage of GDP (see Figure 2). Although industry and construction sectors altogether comprise the lesser proportion of GDP, it should be also noted that they account for most employment in the country (Mrak et al., 2004).

Most notably, Slovenia's economic recovery continued in parallel with its efforts to re-establish its international status. The first attempt was, as already mentioned, the introduction of the Slovene currency, the Tolar, in 1991. The second effort was seen through the gaining membership in the major international financial institutions such as the IMF and the World Bank. Undoubtedly, the milestone of Slovenia's international recognition is the 2004 accession to the European Union (EU), which later followed by gaining a membership in the euro area in January 2007.

The low public indebtedness is another key feature of the Slovenian economy. Prior to the EU accession, Slovenia's debt stood far below the threshold of the Maastrict Criteria (60 percent of GDP) and was ranked the second lowest public debtor, only next to Luxembourg, among all other EU member states. From mid-1990s, the level of public debt began to reach above 20 percent of GDP and rose thereafter, though at a slower pace, until early-2000. Debt decreased gradually after 2002, reaching a low of 22 percent in 2008 (see Figure 12).

Political Context

Slovenia's economic transition in post-independence era was accompanied by a comparable transformation in the ideology and institutions of the political system. The initial, yet the most important, development took place shortly before the country's independence: the adoption of a new constitution in 1990 created a multi-party electoral system, which became a basis for elections to the national assemblies and the presidency. In the following year, Slovenia established a parliamentary political system (Ferfila and Phillips, 2010).

Generally, Slovenia's political system is characterized by political pluralism and corporatism. Upon independence, a number of political parties emerged and varied from center-left (socialist) to center-right (conservative). Despite prevailing pluralism, the Slovenian party system, with a couple of exceptions, has achieved a high level of consolidation and stability (Ibid). The main reasons for stability in the early years of independence fell largely on the consistent growth of center-left Liberal Democrats (LDS) and the country's corporative tradition. In particular, political corporatism was widely observed in the formation of grand coalition, which involved parties both from the left and right, as well as the liberal and centrist.

Slovenia's political transition can be divided into two major periods. The first is the post-independence era by building the new independent state; the second is the period driven by the accession process to the EU. In fact, even before the independence, Slovenia was often regarded as more "European" than other parts of the Republics (Ibid: 150). By the 1980s, Slovenia had already developed political and economic ties with Western markets and experienced the growth of a pluralistic civil society. Such developments further led Slovenia to identify culturally and politically more towards the Western European countries. In this sense, it is therefore argued that this "European ideology" was a key factor that harmonized the political approach by different political parties, entailing political stability. Indeed, the EU accession preparation was met with a political consensus by virtually all major political parties (Lavrac and Majcen, 2006).

2. The Crisis

Despite the strong economic growth achieved in the last decade, the Slovenian economy contracted sharply after the outset of the global financial crisis of 2009-2010. In contrast to the highest growth rate of 7 percent recorded in 2007, GDP fell to 3.4 percent in 2008. The country then witnessed one of the deepest declines of growth rate in the euro areas, with its GDP falling by 7.8 percent in 2009 (see Figure 1).

In Slovenia, as a small open economy, the impacts of the global crisis are considered an exogenous negative shock. In contrast to some old EU member states that entered into recession at the onset of the crisis, the economic downturn of Slovenia in 2009 is largely attributed by the effects of international developments.

Hence, the main channel through which the crisis has affected Slovenia was most notably seen in trade and investment after the collapse of world trade. Given the small size of the domestic market, export is considered the most critical element in economic growth in Slovenia. By 2005, the dependence of the Slovenian economy on exports well exceeded more than 60 percent (see Figure 15). However, a sharp decline in foreign demand deteriorated Slovenia's export performance as its volumes of exported goods and services dramatically fell by 16.7 percent in 2009 (see Figure 16). The manufacturing and construction sectors, both of which take up more than 30 percent of GDP (see Figure 2), soon experienced a drop in their outputs and activities. The growth of manufacturing industry fell by 15.5 percent in 2009 while a sharp decline by 14.7 percent was also observed in construction in the same year. The growth in construction continued to contract to 17.9 percent in the following year (see Figure 3). Similarly, Foreign Direct Investment (FDI) experienced a sharp decrease. FDI, previously marked with a steady increase with 4.0 percent in 2007, fell to 3.3 percent in 2008, followed by further contraction to 0.7 percent in 2009 (see Figure 4).

Despite the marked decline in exports, Slovenia's current account deficit in 2009 was recorded positive (2.0%) as imports fell even more largely (-19.5%) than imports, offsetting expanding trade deficit (see Figure 15 and Figure 16). Nevertheless, the lower exports and investment activity are seen to be the greatest contributions to the deepening decline of the Slovenian economy at the inception of the crisis.

The economic crisis has also led to a rise in the consumption aggregates. The government expenditure was recorded with an increase starting from 2009 and onwards (see Figure 8) while gross capital formation saw a dramatic drop from 31.8 percent in 2008 to 22.1 percent in 2009 and remained lower than any other times in the past (see Figure 9). In addition, the post-crisis years saw a weakened consumer confidence (see Figure 14).

Most significantly, Slovenia's public debt surged up to 35 percent of GDP in 2009, in stark contrast to the pre-crisis years when the country experienced a gradual decline of debt throughout the early 2000s, reaching a historic low of 22 percent in 2008 (see Figure 12). Public debt continued to surge as the crisis took place further, amounting to 54.1 percent at the end of 2012. At the same time, the government deficit reached 6.0 percent in 2009, rising from 1.9 percent in the previous year (see Figure 13).

Like in most countries, the immediate consequence of the economic crisis is evidently reflected in rising unemployment rate. Following strong economic growth, the period of 2007-2008 saw a consecutive decline in unemployment rate until the end of 2008 (4.4%) as well as a growing labor participation rate (see Figure 17 and Figure 18). With the onset of the economic crisis, the trend came to a halt as labor demand began to decrease. In 2009, the unemployment rate rose to 5.9 percent. The rising trend continued onwards up to 8.9 percent in 2012, marking the highest unemployment rate of the country's history in the decade (see Figure 17).

In the private sector, the greatest increase in unemployment was recorded in manufacturing and construction (IMAD, 2011). It should be noted that these sectors that were hit hardest by the crisis were mainly male-employing sectors; on the other hand, the service sectors, which mostly hire women, were affected by the crisis to a lesser extent. As a result, the male unemployment rate was recorded higher than the female unemployment rate in 2009 (see Figure 21). Most notably, the significant increase in unemployment was recorded for the young (15-25 age groups). At the outset of the crisis, youth unemployment rate marked 13.6 percent in 2009 and continued to surge to 20.6 percent in 2012 (see Figure 20). Other vulnerable groups such as the low-skilled population and those with secondary education were also strongly affected by the crisis.

Subsequently, the crisis in 2009 resulted in a large inflow of registered unemployed persons, which led to an increase in the share of people who had been unemployed for less than a year. This, in turn, reduced the long-term unemployment rate to 30.1 percent in 2009 (see Figure 19). Yet, the large inflow of newly unemployed people surged in late 2009, which eventually increased the share of long-term unemployment. As a result, the rate of long-term unemployment resumed its growth in late 2009 onwards (see Figure 19).

Together with the economic crisis, Slovenia's recent political years have been marked by problems dealing with unpopular austerity measures, social protests, and even more frequently occurring corruption scandals: In 2012, Slovenia adopted a package of austerity measures to balance the public finances, which fuelled protests and demonstrations. Furthermore, 2013 saw a fall-out of the right-wing government led by Janez Jansa, who was forced to step down in February. In the following month, the new government was formed by Alenka Bratusek, leader of the Positive Slovenia party (PS).

Needless to say, the global economic crisis of 2008-2009 played a crucial role in a small open economy of Slovenia. The economy began to experience a sharp decline in growth in 2009, only to be further propelled by deteriorating export performance and falling employment. Given the low demand, the Slovenian labor market initially responded to the crisis by reducing the number of the workers, which led to a continuation of rising unemployment. In response to deteriorating labor market conditions as such, the government adopted anti-crisis measures. The next section discusses the government's policy responses in details.

3. Policy Responses

In efforts to mitigate the effects of the economic crisis, the Slovenian government established a ministerial crisis team in November 2008, comprising representatives from major government organs, including: The Government Office for Development and European Affairs. Ministry of Finance, Ministry of the Economy, Ministry of Higher Education, Science and Technology, and

Ministry of Labor, Family and Social Affairs (Eurofound, 2010). Since then, the government has undertaken measures in the context of the four major policy aims: 1) diminishing the consequences of the global economic crisis; 2) continuing to maintain jobs; 3) encouraging workers to improve their qualifications levels; and 4) improving companies' competitiveness (Ibid).

In the subsequent section, the paper discusses three major labor market policies adopted during the crisis and afterwards, namely, 1) Active employment policy (AEP) measures, 2) Two intervention acts aimed at preserving jobs, and 3) Labour Market Regulation Act.

Active Employment Policy (AEP)

The main purpose of active employment policy (AEP) measures is to assist those unemployed persons in job-seeking by providing the necessary additional knowledge and enhancing their skills and competences. In a broader sense, AEP measures aim towards achieving the objectives of the EU's Lisbon Strategy and the European Employment Strategy, which sets out three goals: full employment, greater quality and productivity of labor, and social cohesion and inclusion (Government of the Republic of Slovenia, 2009). To this end, the Employment Service of Slovenia (ESS), one of the key Slovenian labor market institutions, carried out AEP programs in four thematic measures (these measures contain more than 30 sub activities):

i. Measure 1. Advice and assistance in job-seeking
ii. Measure 2. Training and education
iii. Measure 3. Promoting employment and self-employment
iv. Measure 4. Implementing programs to boost social inclusion

The Ministry of Labour, Family and Social Affairs is one of the main actors responsible for drafting and implementation of laws and other legislations in the area of employment relations on labor market as well as health and pension system. In 2009, Ivan Svetlik, Minister of Labour, Family and Social Affairs, announced the government's commitment to undertake AEP measures with increased expenditure to combat rising unemployment. By doing so, the government envisaged a substantial reduction in the number of people unemployed who will find either temporary or permanent jobs through the program. The government also envisaged the enhancement in measure 2 (training and education) given the large number of older and unqualified unemployed workers. The expenditure on AEP was increased year-by-year until 2011 (EUR 109.7 million and EUR 115.3 million were earmarked in 2009 and 2010 respectively). In the following year, however, AEP measures saw a reduction in the expenditure (EUR 102.2 million in 2012).

Intervention Acts

In efforts to mitigate rising unemployment, the government passed two emergency intervention acts, namely the *Partial Subsidising of Full-Time Work Act* and the *Partial Reimbursement of Payment Compensation Act*. The former, adopted in January 2009, aimed at alleviating the immediate effects of the crisis by providing assistance to employers undertaking the shortening of working hours. This act stipulates that the government will subsidize (EUR 60 per employee per month) wages of full-time workers if firms decide to reduce working time by four hours per week. The underlying policy objective was to provide incentives to shorten working time while preventing further job losses in firms where demand for products and services had declined (Government of the Republic of Slovenia, 2009). To this end, the Act defined the conditions under which an employer can apply for a subsidy, at the same time, it required an employer's commitment not to lay off their employees. What is significant to note is, the passage of Partial Subsidising of Full-Time Work Act was somewhat perceived to be novel in a sense that there had been no support measures for short-time working before the crisis (Eurofound, 2010).

The Partial Reimbursement of Payment Compensation (PRPC) Act entered into force in May 2009, the purpose of which is to regulate partial reimbursement of wage compensation for temporarily laid-off workers, those "waiting" at home (IMAD, 2011: 79). Under PRPC, employers may place a maximum of half of their workforce on a Temporary Waiting for Work (TWW) scheme and would instead pay wage compensation amounting 85 percent of their average wage; at the same time, this Act imposes on employers an obligation to provide education and internal trainings. The main policy goal is therefore increasing employability of workers during the time they are out of workforce (Skledar, 2009).

It should be noted that both of these schemes encompass training element that aimed to improve their qualification levels. The first scheme has allowed the government to encourage workers with reduced working hours to obtain new skills and qualifications during their spare time; under the second scheme, compensation recipients are in turn required to devote 20 percent of their time to take part in education and training provided by their employers (Eurofound, 2010).

Labour Market Regulation Act (Unemployment benefits)

Unsurprisingly, the number of unemployment benefit-recipients began to increase soon after 2009. In order to ensure income security of job-seekers, the government adopted a new Labour Market Regulation Act (ZUTD), which among other tasks regulates the requirements for eligibility for unemployment benefits. The new act was implemented, though relatively late, at the end of October 2010 and became effective in January 2011, replacing the existing Employment and Insurance Against Unemployment Act (EIAUA). The main objectives of the new act are:

- To establish a system of lifelong career orientation by providing labor market information, career guidance and consultancy;
- To develop employment brokerage to be carried out to balance the demand against supply of workers on the labor market;
- To achieve the highest unemployment rate;
- To introduce the concept of *flexicurity* in the Slovenian labor market through active employment policy measures including education and training, among others.

The introduction of the new act was perceived as a rare yet positive example where social partners were actively involved during the policy development phase. Together with the government, ZUTD proposal was prepared by the working group consisting of representatives of employers and trade unions. This working group was created and legitimatized via the Economic and Social Council (ESC), a tripartite body which brings representatives of the governments and of social partners together, based on Slovenia's strong corporatist tradition (Ferfila and Phillips, 2010). What is important to note is that this successful cooperation with social partners during ZUTD policy-making stands very much in contrast with a new Pension and Disability Insurance Act, which was proposed in the same year. In efforts to increase economic activity among the older population and to ensure the sustainability of the pension system, the Ministry of Labour, Family and Social Affairs proposed the new pension reform in 2010. The proposal, which encompasses the objective of increasing the retirement age, was met with strong oppositions from trade unions and was ultimately rejected by an overall majority during the 2011 referendum (Ignjatovic, 2012). Although the pension reform was re-introduced and adopted in December 2012, this contrasting example signifies the role of social partners in Slovenia's policy-making in the midst of the economic crisis.

4. The Consequences of the Policies

Active Employment Policy (AEP): Assessments and outcomes

The immediate impact of this policy is most visible in the participation rate. According to the Institute of Macroeconomic of Analysis and Development report, in 2009 the rate of participation (measured as a ratio of the number of participants in AEP to the number of registered unemployed people) increased to 59.7 percent, a much higher record than that of the previous years (34% in 2007; 46% in 2008). Indeed, the number of persons participating in the AEP measures increased markedly in 2009 (from 29,085 in 2008 to 52,975 in 2009). In the following year, the number yet again surged, reaching more than 77,000 participants. As the government envisaged earlier, most participants took part in measure 2 (training and education), shortly followed by measure 3 (promoting employment and self-employment) and measure 1 (advice and assistance in job-seeking).

What is more significant is the rate of inclusion[1] of sub-groups in AEP programs. Notably, the rise in the number of participants in 2009 was recorded by those vulnerable groups such as young people, women, first-time job seekers as well as unemployment-benefit recipients. Nevertheless, the rate of inclusion for certain vulnerable groups of the unemployed was found to remain relatively low: Especially, 2011 experienced a reduction in the share of long-term, less educated and less skilled, disabled unemployed persons as well as those above in the programs. In short, the low level of participation by certain sub-groups seems to suggest that AEP measures are falling short in ensuring better employability and social inclusion of the most vulnerable groups. This also further signifies unsolved structural problems, as the IMAD report

[1] According to the IMAR analysis, the rate of inclusion refers to the proportion of the number of persons from a selected group of the unemployed included in AEP by the total number of unemployed of this group. In the IMAR analysis, the rate of inclusion was used as an approximate indicator of inclusion of a selected group. Institute of Macreconomic Analysis and Development of the Republic of Slovenia (2012), *Economic Issues 2012*, Ljubljana: IMAD, p. 86.

concludes: "*Based on these indicators (the low rate of inclusion), it could be concluded that the participation of unemployed persons was not sufficiently oriented to solving structural imbalances*" (IMAD, 2012: 86).

According to the IMAD analysis, about 13,000 unemployed persons have found work under AEP programs in 2009 (IMAD, 2010). However, it is not yet clear as to how many AEP participants have moved into a job after 2009 and onwards; hence, further assessments and evaluation of the effects of AEP would be necessary in the future.

Intervention Acts: Assessments and outcomes

The initial assessment can be drawn by looking at the share of enterprises and persons taking part in the schemes. According to the estimates of the Employment Service of Slovenia, it is found that both of the acts were met with high demand since its introduction, attracting more than 80,000 individuals: total 904 enterprises including 66,468 employed persons were approved for subsidies; and total 946 enterprises with 19,210 employed persons were benefited from partial reimbursement (Employment Service of Slovenia, 2011). Amongst, manufacturing enterprises, affected severely by the crisis, were recorded to be the most frequent recipient for both subsidies, followed by trade enterprises, real estate and business services, and construction enterprises (IMAD, 2011).

In this context, the subsidies and reimbursements are considered as a "*flexicurity*" tool, combining market flexibility and employment security (Eurofound, 2010; Skledar, 2009). To put it differently, workers can maintain their job and ensure, though reduced, income security; on the employer side, they can retain workers as well as their skills and qualifications, thus avoiding layoff costs in difficult economic times.

Although both of the measures are generally thought to have been successful, a mix of criticisms and supports were met by social partners, namely, trade unions. While trade unions supported the enhanced workers' security, they also argued that the subsidies will merely postpone layoffs and that are not effective in preventing future dismissals (Eurofound, 2010). The combination of training and income support for non-worked hours was positively met with all stakeholders; however, many have raised the criticisms over inadequate and insufficient training programs. In this regards, IMAD reports as following: "*It is questionable whether the substance of education really contributed to increase the employability of these employees, as most enterprises organized internal and relatively short trainings*" (IMAD, 2011: 81).

Both of these schemes have been expired, in September in 2010 and in March 2011, respectively. Although it is not easy to make precise estimations on the actual number of jobs preserved by the adopted schemes, it is worthwhile to note evaluations made by Eurofound (2010) and IMAD (2011): Both reports recognized that the two intervention acts helped ease the immediate consequences of the crisis by providing subsidies to the affected enterprises and individuals. Also, the measures have prevented faster growth in unemployment after the crisis, while effectively encouraging internal labor market flexibility (Eurofound, 2010; IMAD, 2011).

Labour Market Regulation Act: Assessments and outcomes

First and foremost, the Labour Market Regulation Act (ZUTD) was considered a significant step in a sense that it replaced and removed major deficiencies of the existing Employment and Insurance Against Unemployment Act (EIAUA). Under the existing unemployment insurance system, the strict eligibility criteria, short duration of allowance, and inconsistent conditions were among the contributing factors for low coverage rate. As OCED Reviews of Labour Market and Social Policies (2009) highlights, around 23 percent of the registered unemployed received unemployment insurance benefits while 39 percent received no benefit at all in 2007 (OECD, 2009: 21). This continued to remain particularly challenging for young job-seekers with relatively short or irregular work histories, making harder for them to be eligible for 12 months of unemployment criteria. Against this backdrop, the newly adopted act sought to ease the access to the unemployment benefit and to improve the position and social security of the unemployed persons, in accordance with the concept of flexicurity. To this end, ZUTD brought some noteworthy changes, to name a few:

- The expansion of eligibility criteria (condition for receiving unemployment benefit became 9 months in the last 24 months; previously 12 months in 18 months);
- the increased coverage of the compulsory unemployment insurance;
- the expansion of the minimum and maximum level of unemployment benefit;
- the increased amount of benefit for the first three months of receipt, among others.

In addition, some provisions related to social security are also improved by granting a right to cash benefit for those insured persons who are unemployed due to their employer failing to pay their social security contributions. Under ZUTD, the insured persons who requires no more than one year (in the previous legislation, the minimum was no more than three years) to fulfill the minimum conditions for retirement upon the expiration of the cash benefit is entitled to payments of contributions for pension and disability insurance.

5. Conclusion

Slovenia, as a small open economy, has emerged from the former Yugoslavia to one of the growth-leading economies in the Eastern and Central Europe over the last decades. Although the country suffered from the severe depression that gripped its economy in the first few years after independence, Slovenia's path in the subsequent years was steadily marked with macroeconomic recovery and growth. Indeed, the country embarked with some favorable conditions than any other its counterparts – culturally and ethnically homogenous population, strong trade links with Western economies, suitable geographic location as well as "more European ideologies" – all of which attributed towards the growth and development of the country during the transitional era. Yet, the key factors for economic turnaround largely fell on Slovenia's macroeconomic policies aimed at stabilization. Taken together with a gradualist approach as well as political reforms, Slovenia succeeded in moving away from a socialist self-management system to a capitalist market economy in the 1990s. The country's status was further reinforced through gaining membership of major international financial institutions, and further later on, by joining the European Union in 2004.

Since the outset of the global economic crisis, Slovenia was severely affected, soon experiencing deteriorating export performance due to the collapse of the world trade. Real GDP growth fell dramatically to historical lows, foreign direct investment declined, while the government debt and deficit continued to surge. Initially, the Slovenian labor market responded to the crisis by mainly reducing the number of workers, which further led to a fall in employment. The most severe impact of the crisis is thus increasing unemployment in the labor market – and furthermore, a rise in long-term unemployment rate as well as the exposure of the most vulnerable groups including the youth, women, low skilled and less educated labor force.

Against this backdrop, the government pursued anti-crisis measures with four main policy goals: 1) diminishing the consequences of the global economic crisis; 2) continuing to maintain jobs; 3) encouraging workers to improve their qualifications levels; and 4) improving companies' competitiveness. To this end, the government adopted three major labor market policies: firstly, active employment policy (AEP) measures; secondly, two emergency intervention acts – namely Partial Subsidising for Full-Time Work Act and Partial Reimbursement for Wage Compensation Act, both of which aimed at preserving jobs; lastly, the Labour Market Regulation Act to regulate unemployment benefits.

Overall, adopted labor market policies to some extent have been regarded as successful in easing the immediate effects of the crisis and preventing a rapid rise on unemployment. Despite the implementation of the said labor market policies, Slovenia's unemployment and long-term unemployment rates to date continued to increase, while the participation rate of the old population, youth and women continued to decline significantly. As a result, the structural imbalances of the Slovenian labor market remain still high in post crisis years.

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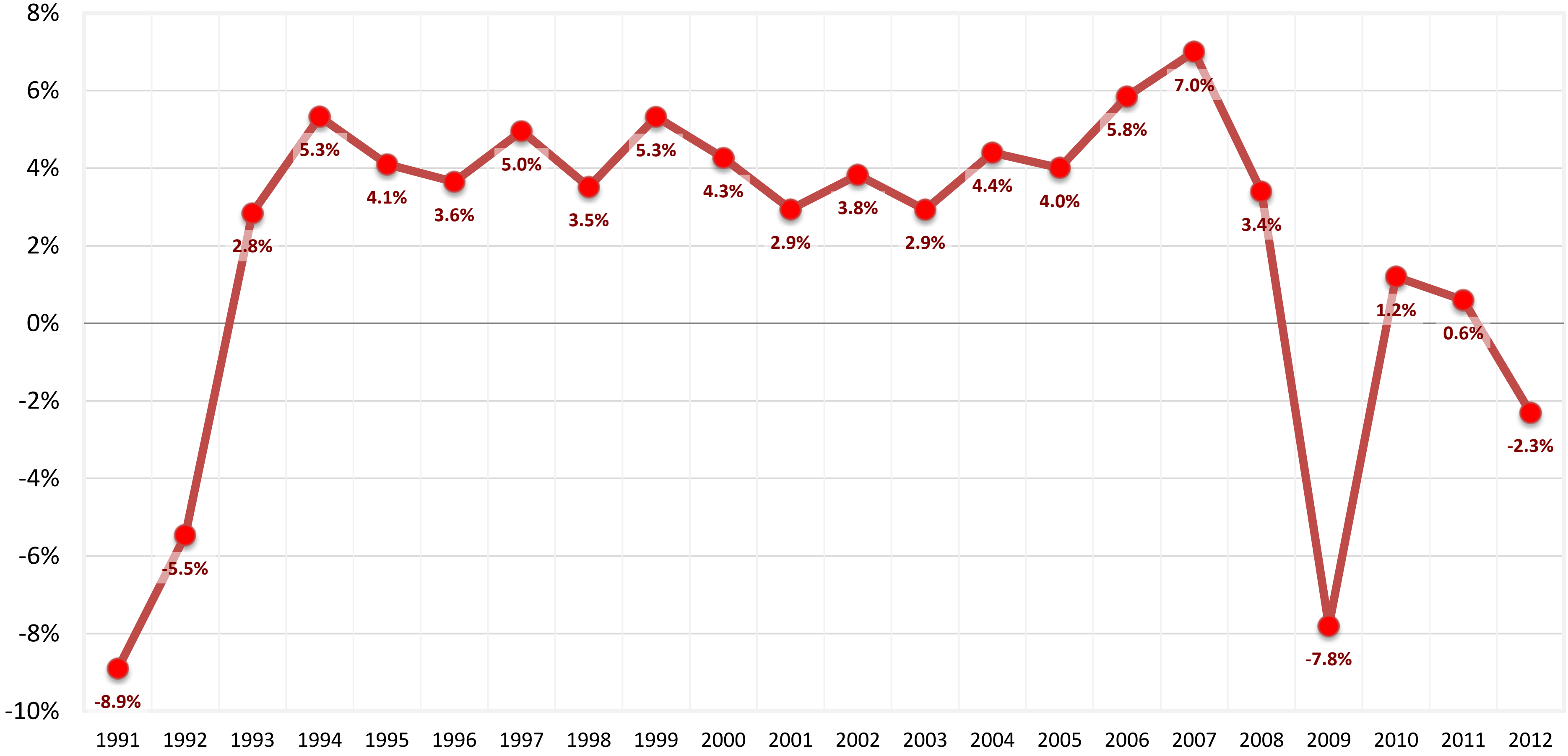
World Bank, http://data.worldbank.org/

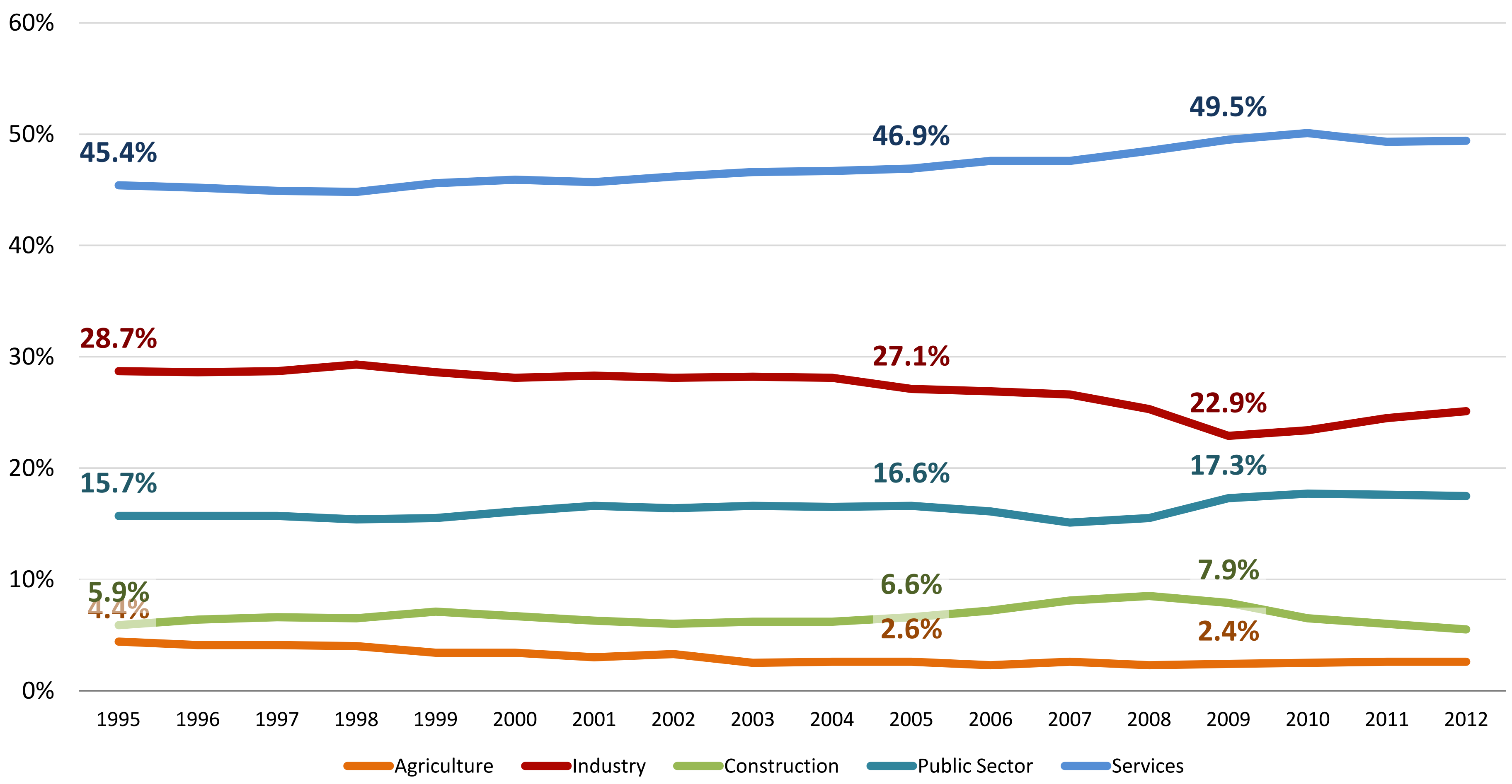
DATA APPENDIX

Figure 1: GDP Growth



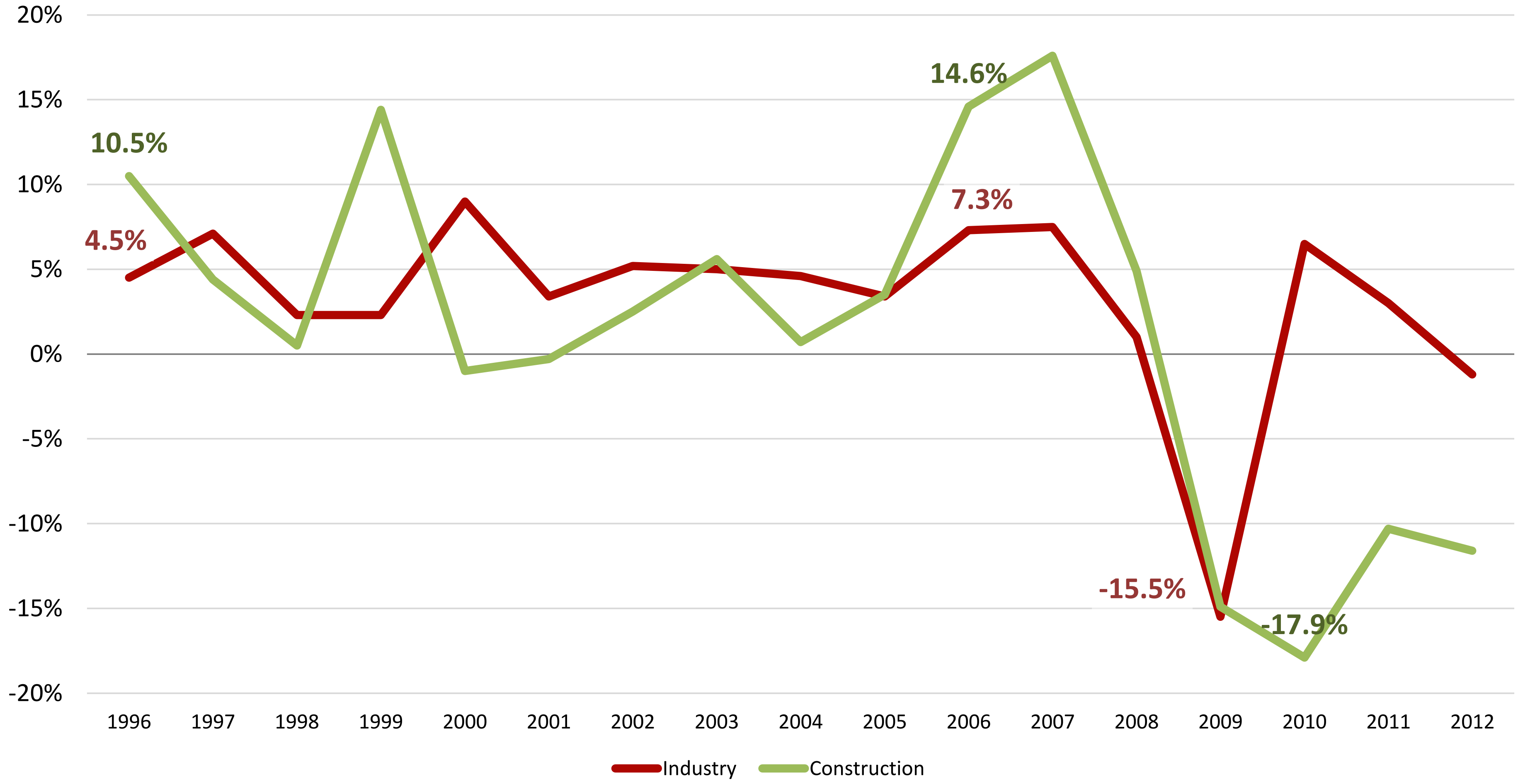
Source: Statistical Office of the Republic of Slovenia

Figure 2: Evolution of the GDP Distributions by Sector



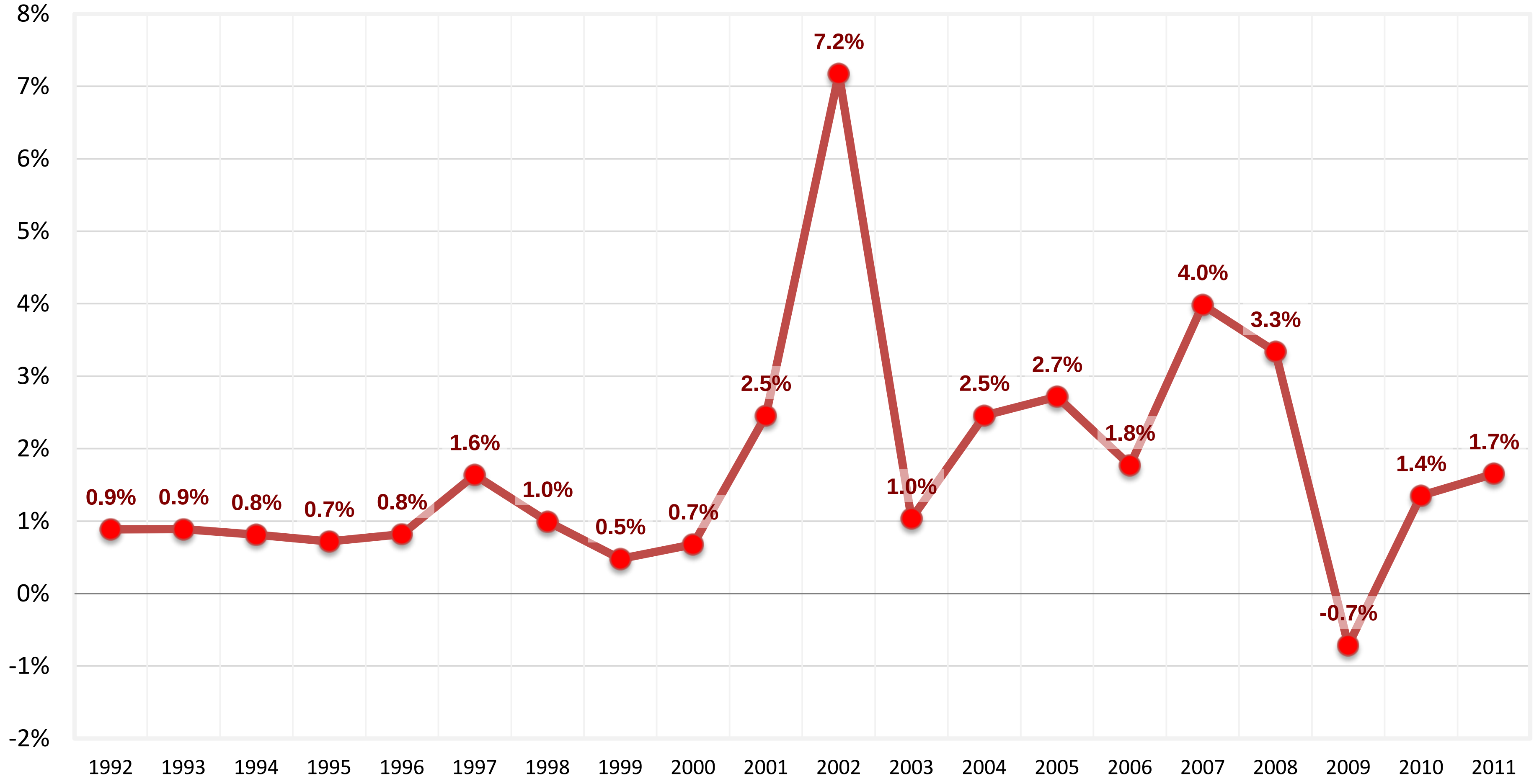
Source: Eurostat

Figure 3: Growth by Sector (Industry & Construction)



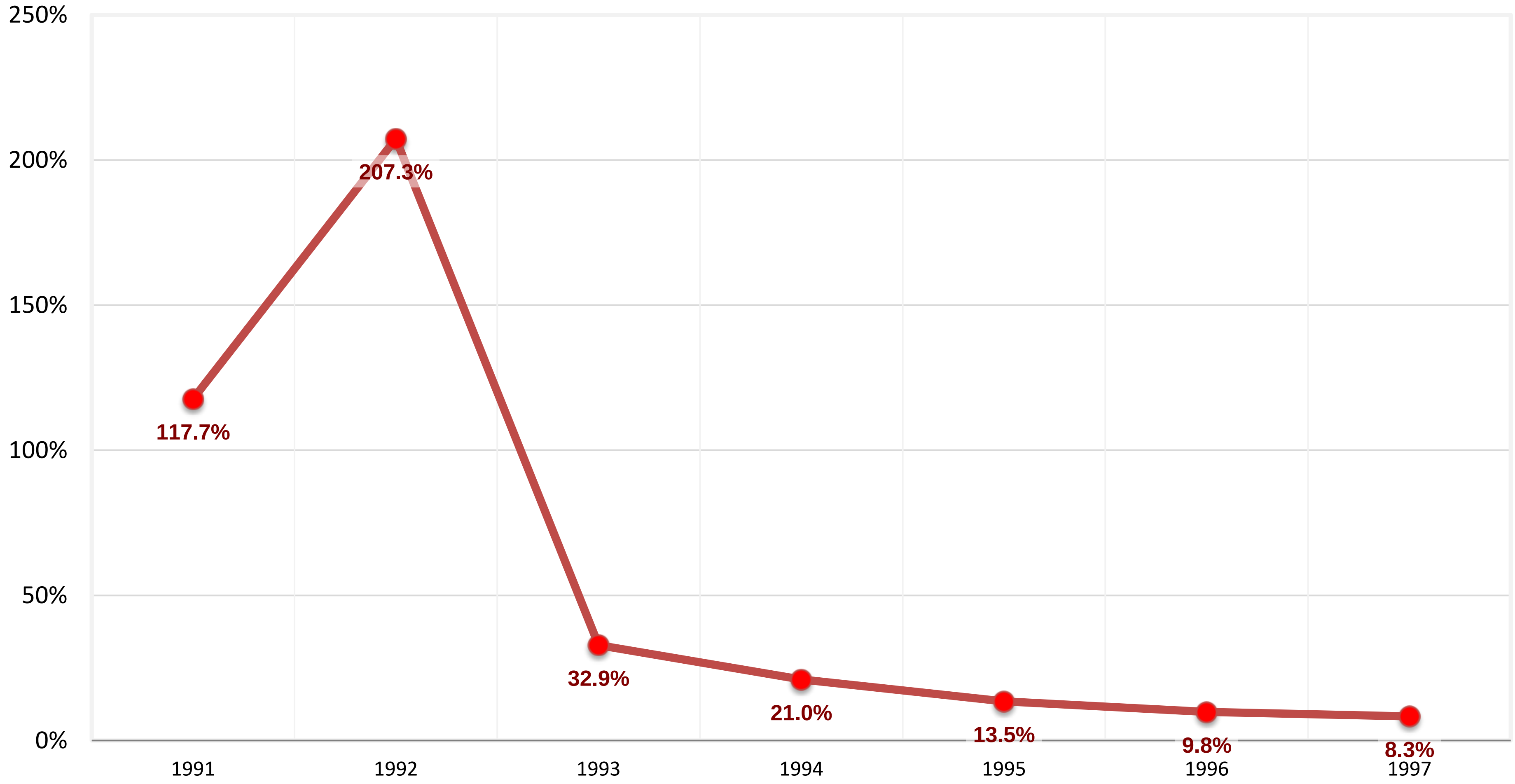
Source: Eurostat

Figure 4: Foreign Direct Investment as a Percentage of GDP



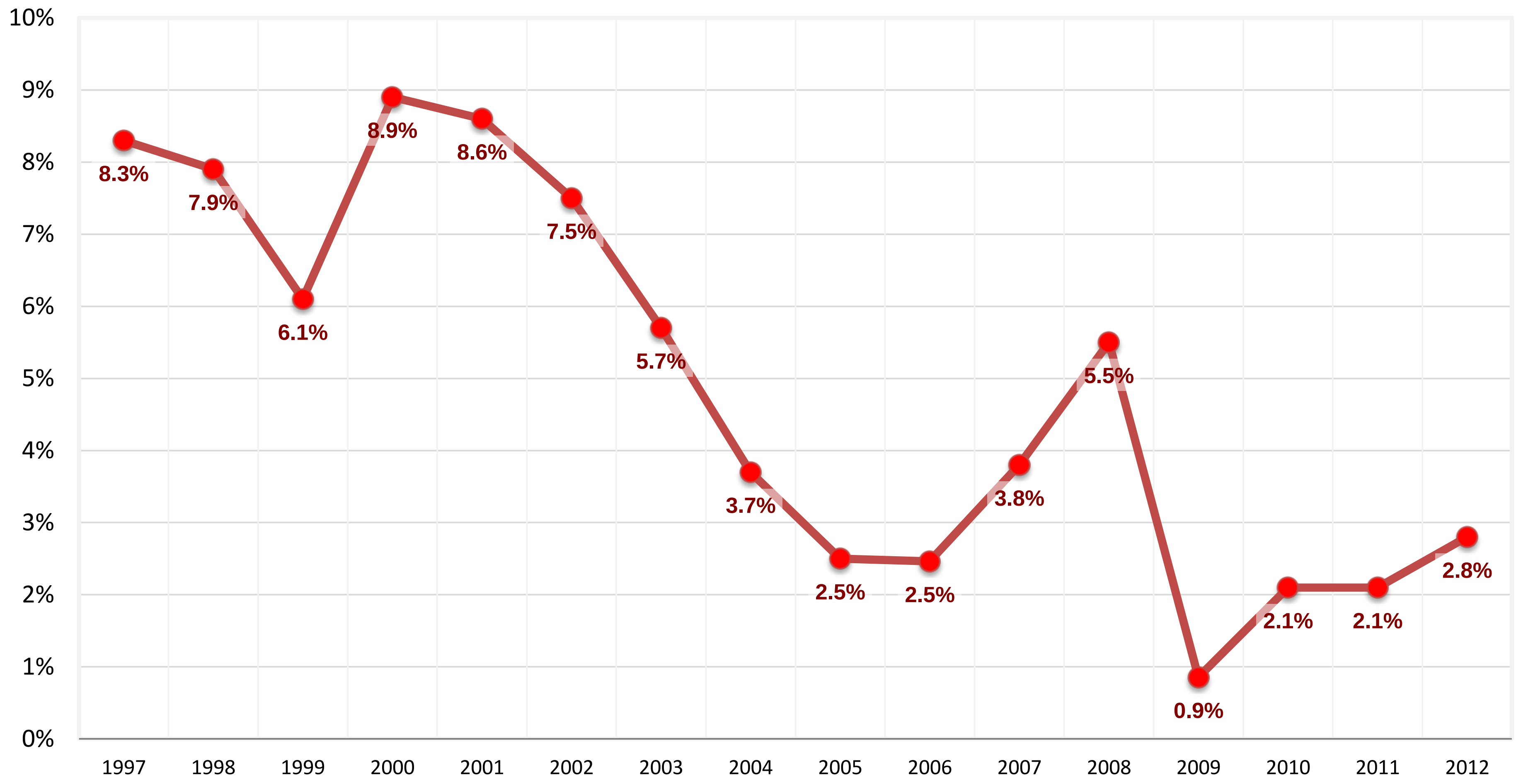
Source: World Bank

Figure 5: Hyperinflation (1991-1997)



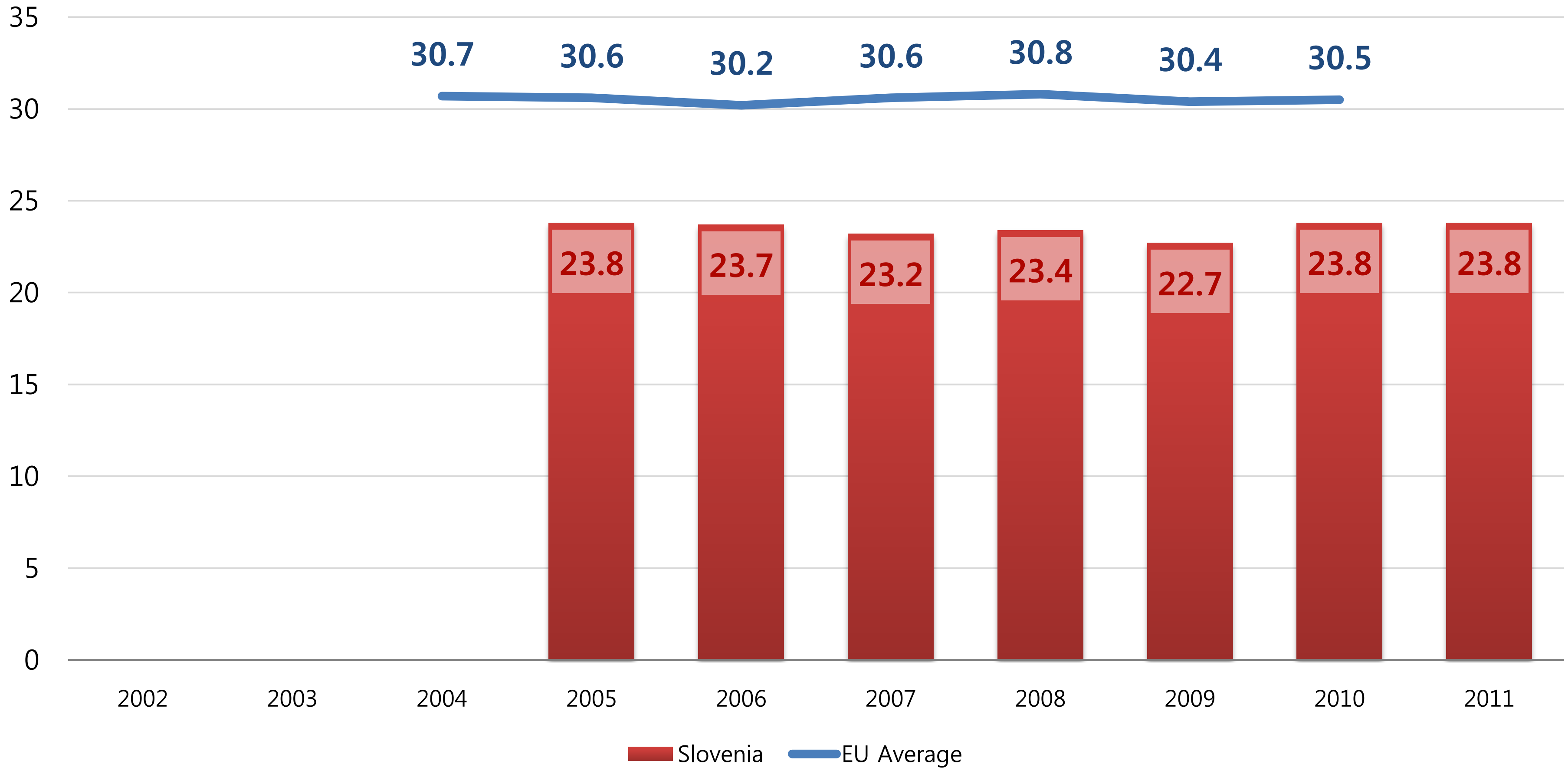
Source: World Bank for 1993-1997; Ferfila, B., and Phillips, P., (2010) for 1991-1992.

Figure 6: Inflation (1997-2012)



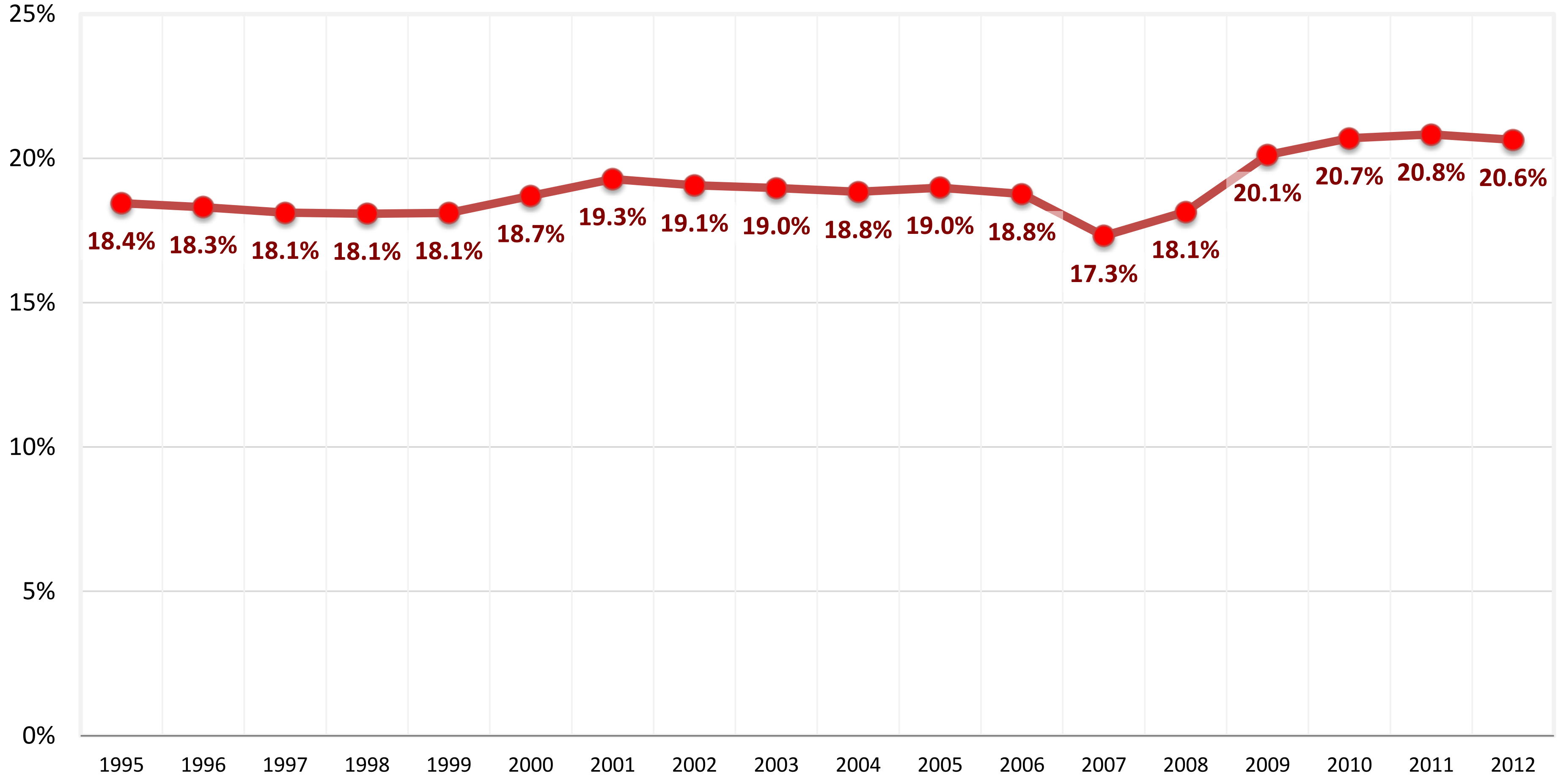
Source: Eurostat

Figure 7: Gini Coefficient



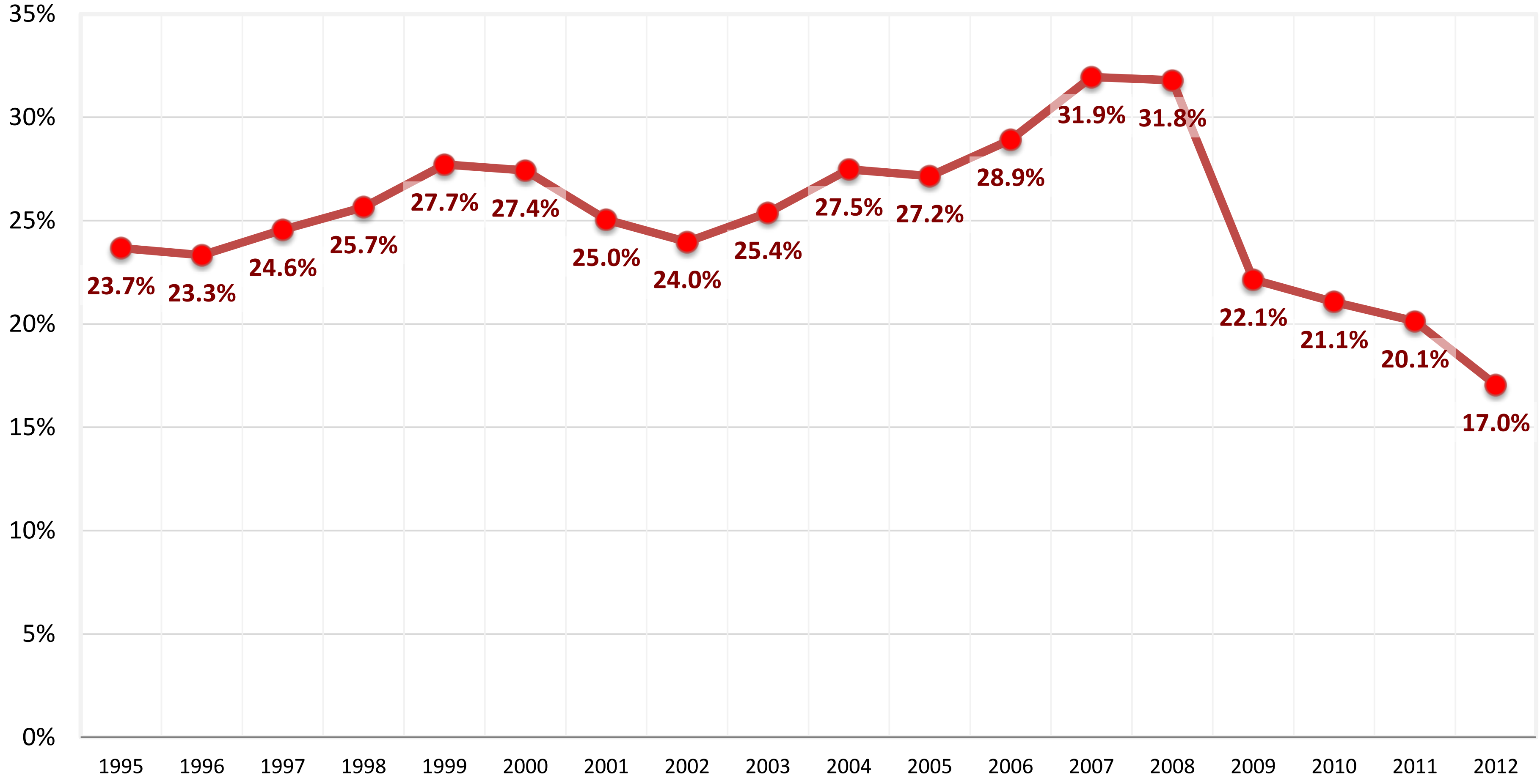
Source: Statistical Office of the Republic of Slovenia & Eurostat

Figure 8: Government Expenditure as a Percentage of GDP



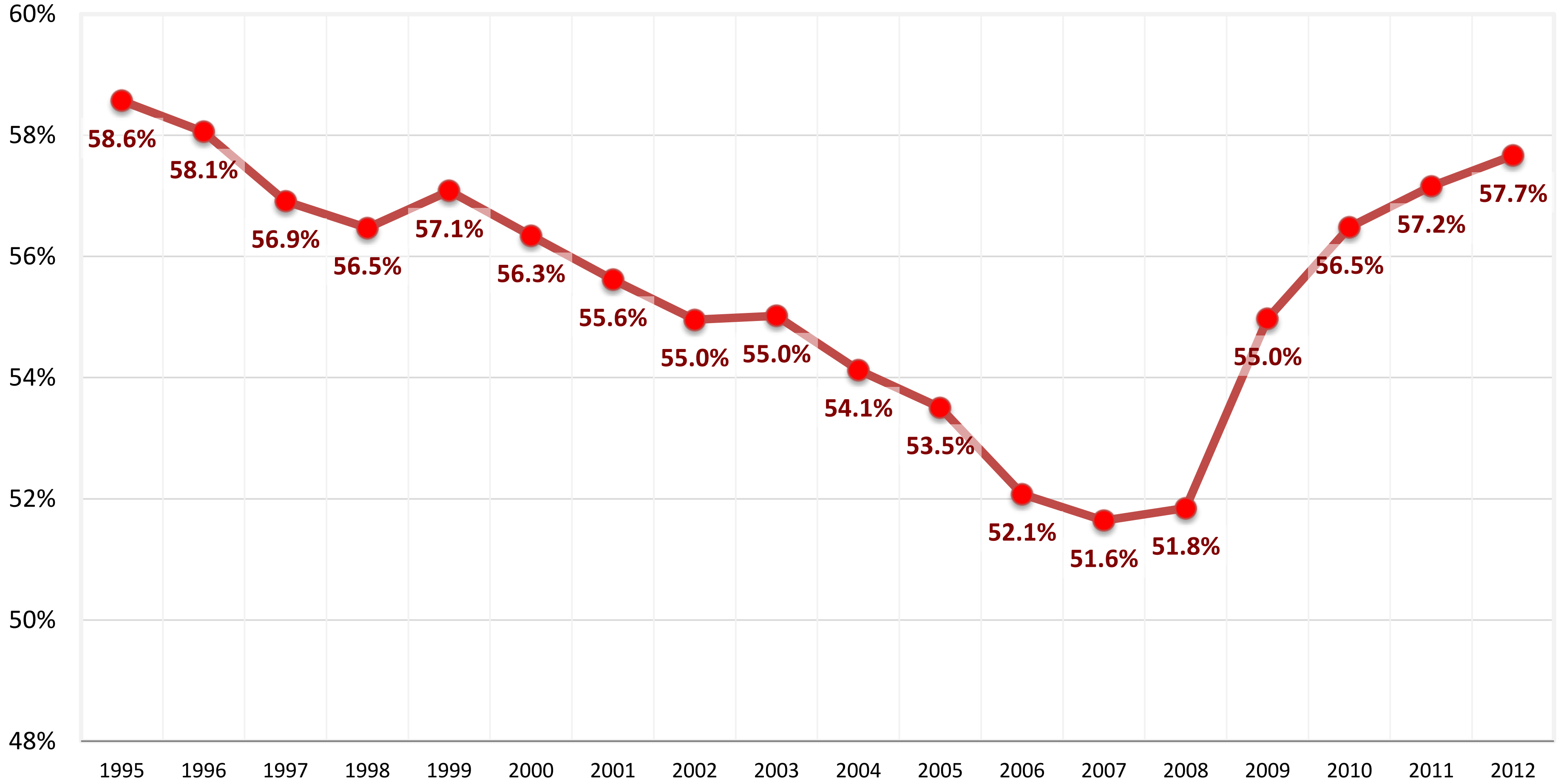
Source: Statistical Office of the Republic of Slovenia

Figure 9: Gross Capital Formation as a Percentage of GDP



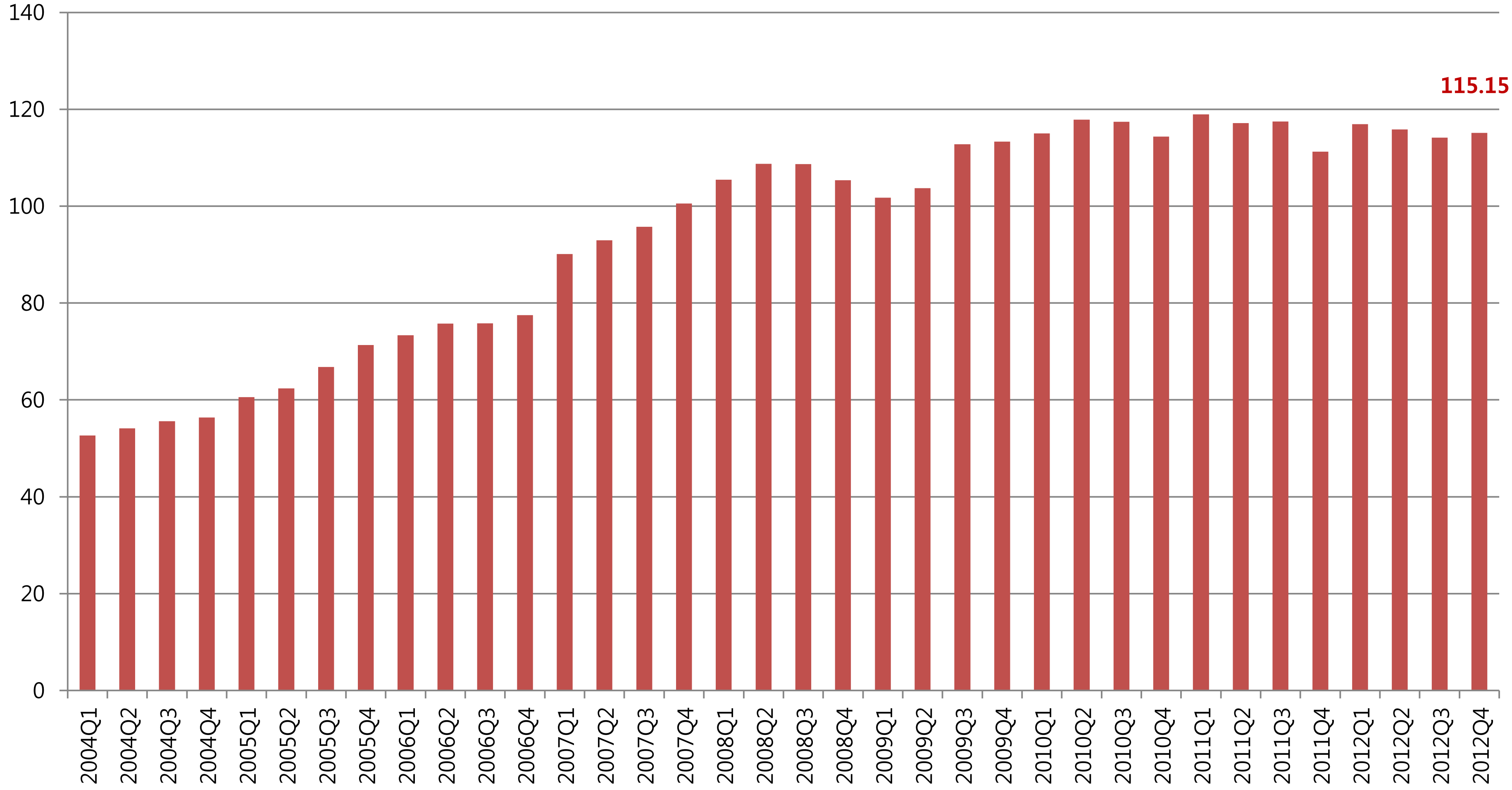
Source: Statistical Office of the Republic of Slovenia

Figure 10: Household Expenditure as a Percentage of GDP



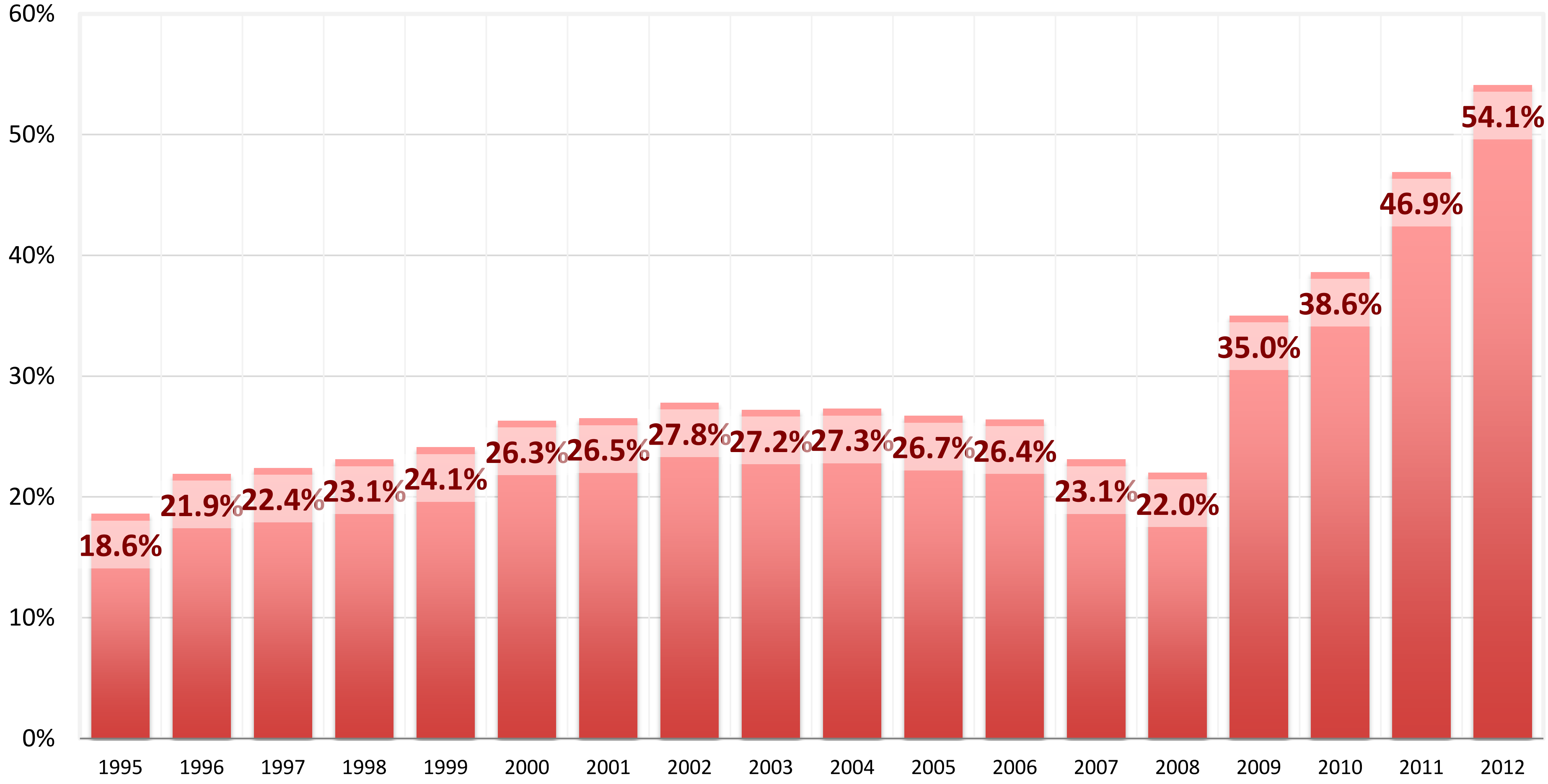
Source: Statistical Office of the Republic of Slovenia

Figure 11: External Debt as a Percentage of GDP



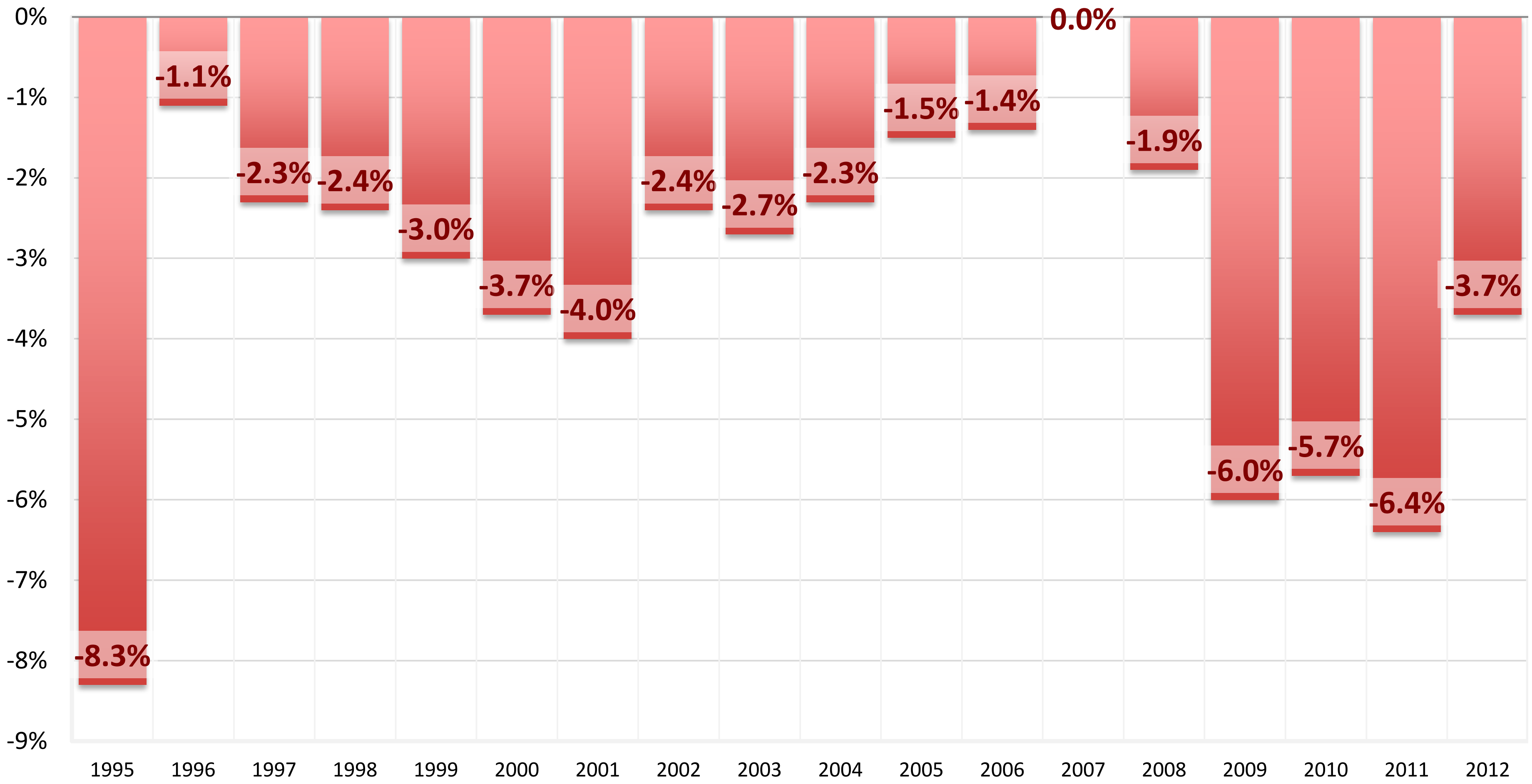
Source: European Central Bank

Figure 12: Public Debt as a Percentage of GDP



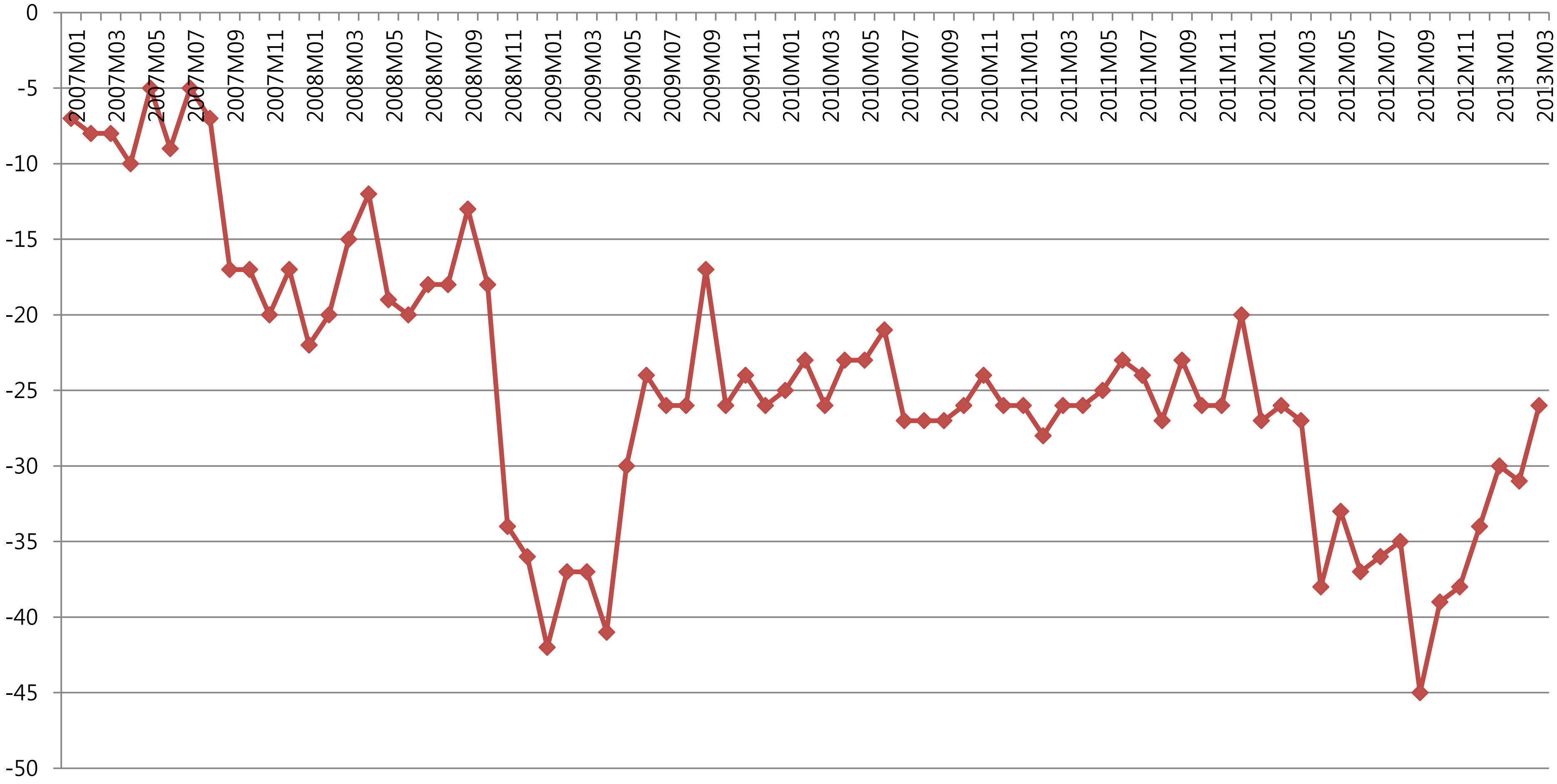
Source: Statistical Office of the Republic of Slovenia

Figure 13: Budget Deficit as a Percentage of GDP



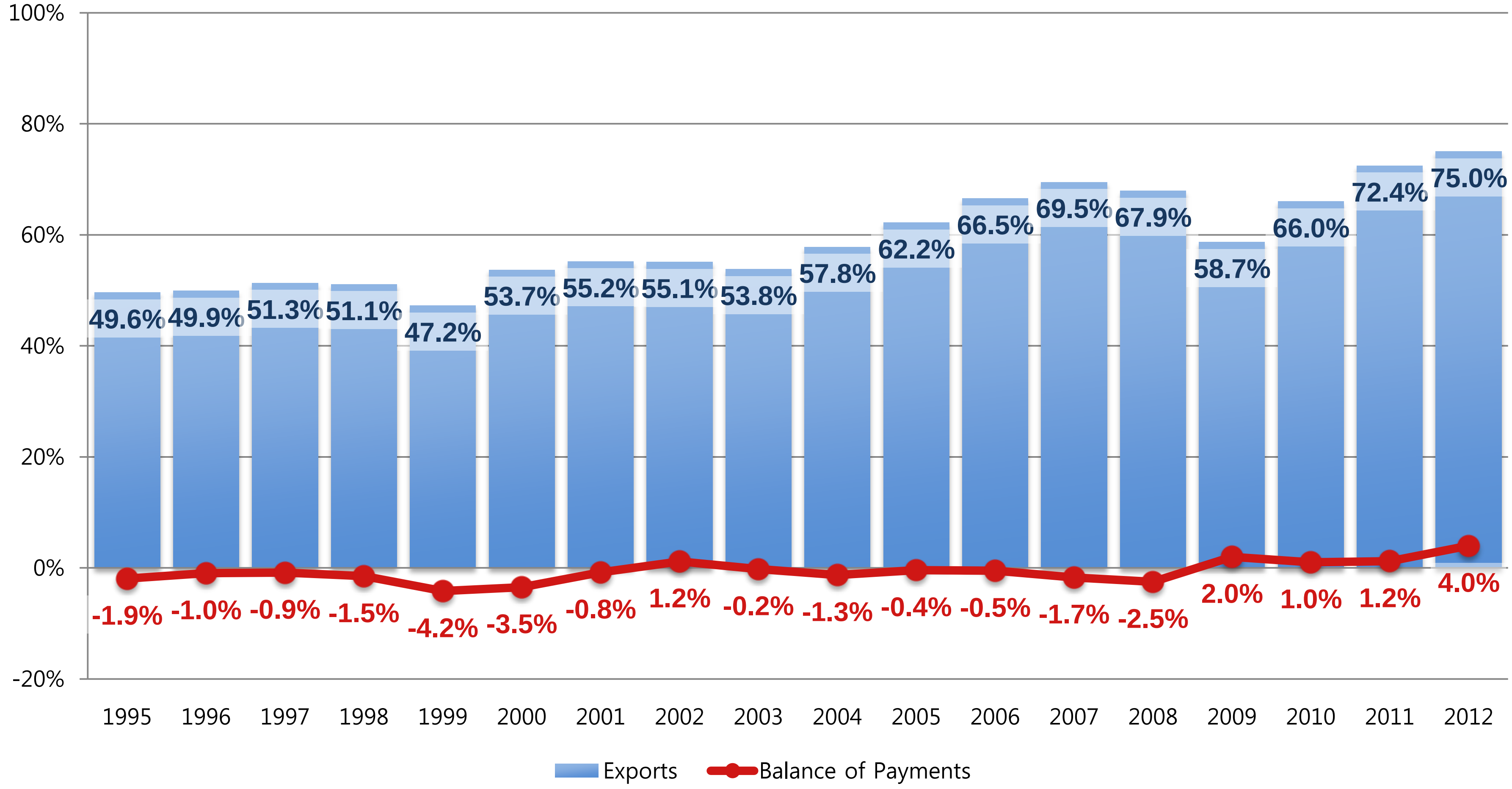
Source: Statistical Office of the Republic of Slovenia

Figure 14: Consumer Confidence



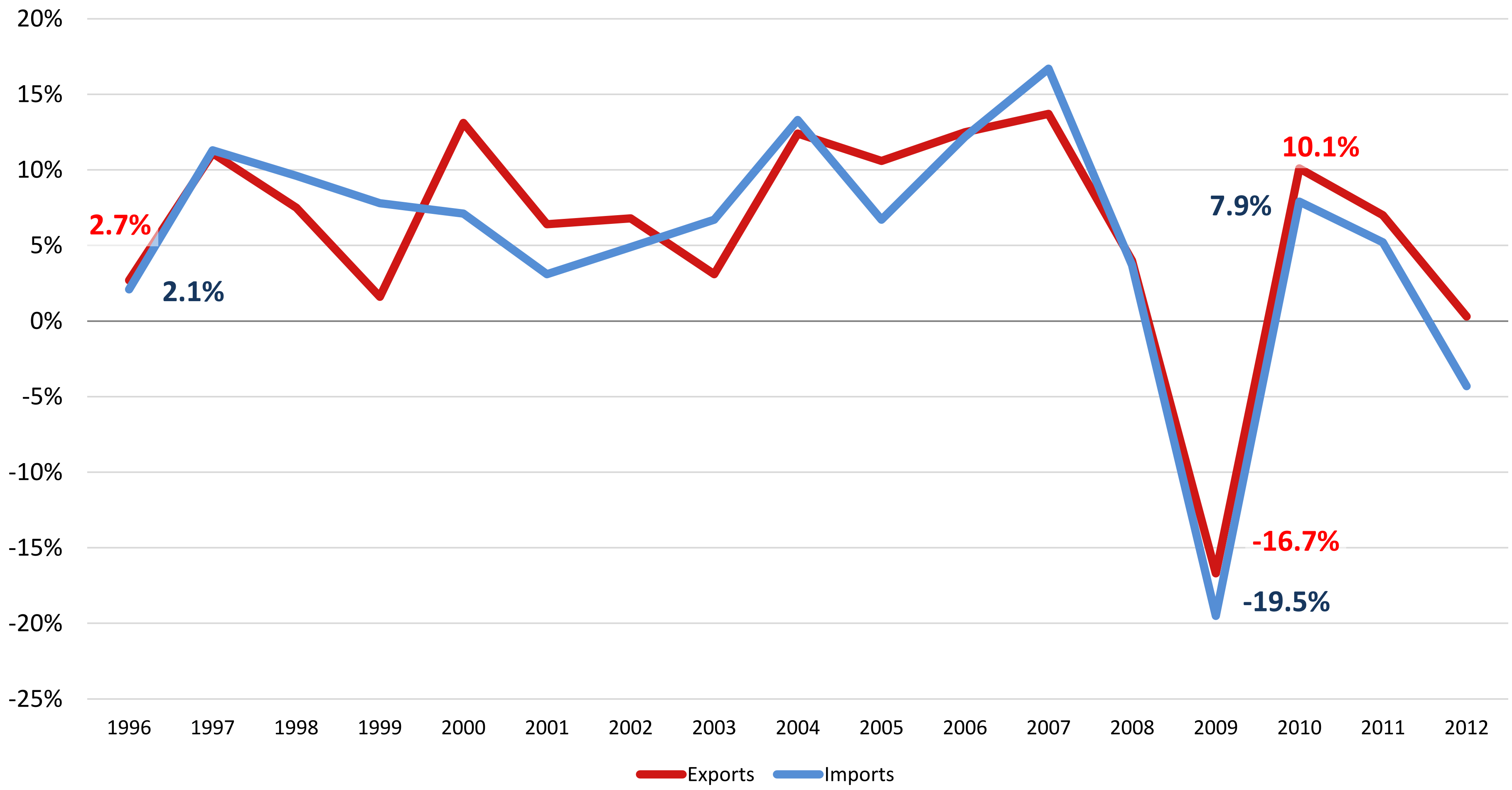
Source: Statistical Office of the Republic of Slovenia

Figure 15: Exports and Current Account Balance (as a percentage of GDP)



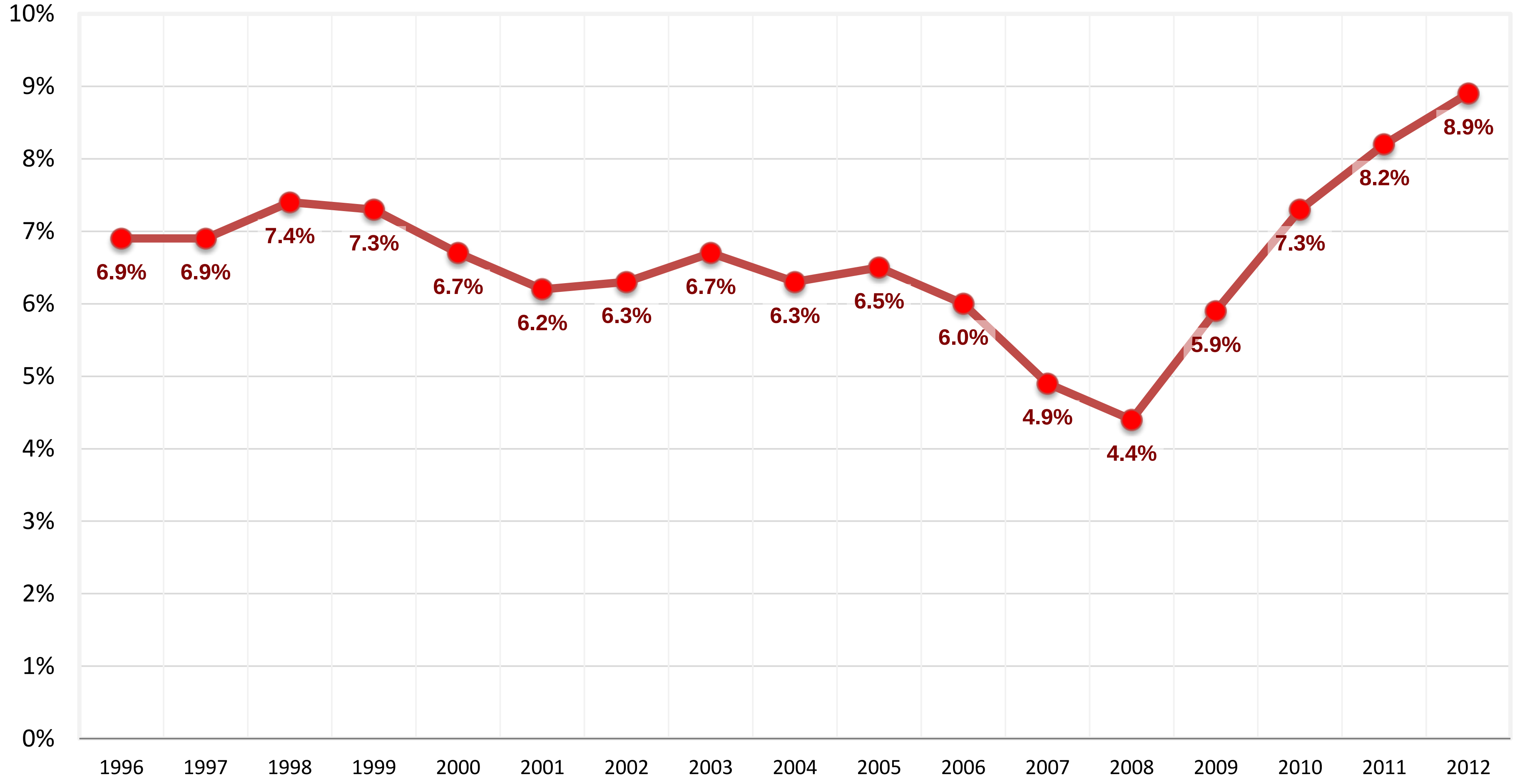
Source: Statistical Office of the Republic of Slovenia

Figure 16: Exports and Imports of Goods and Services (Annual Growth)



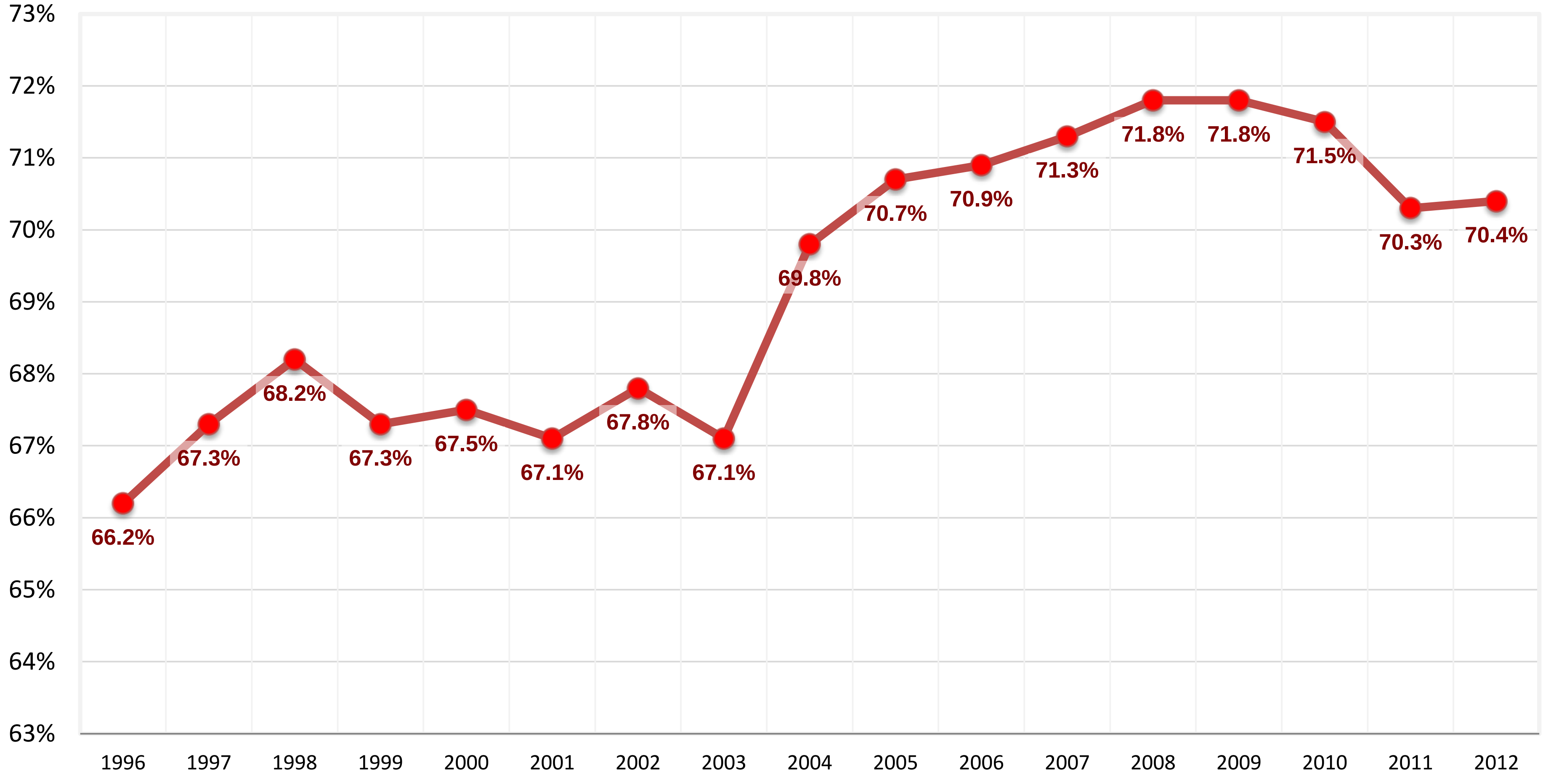
Source: Statistical Office of the Republic of Slovenia

Figure 17: Unemployment Rate



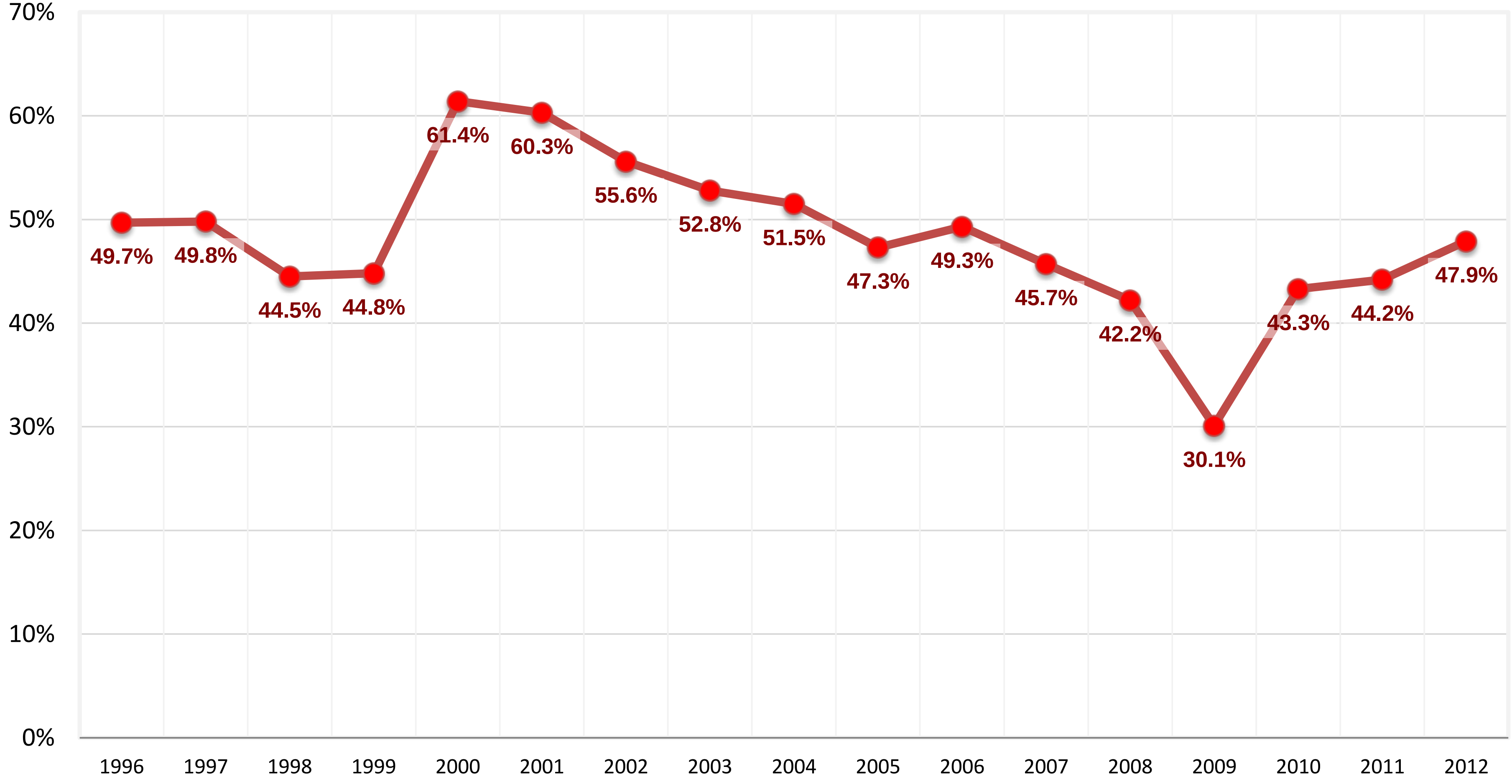
Source: Eurostat

Figure 18: Labour Participation Rate



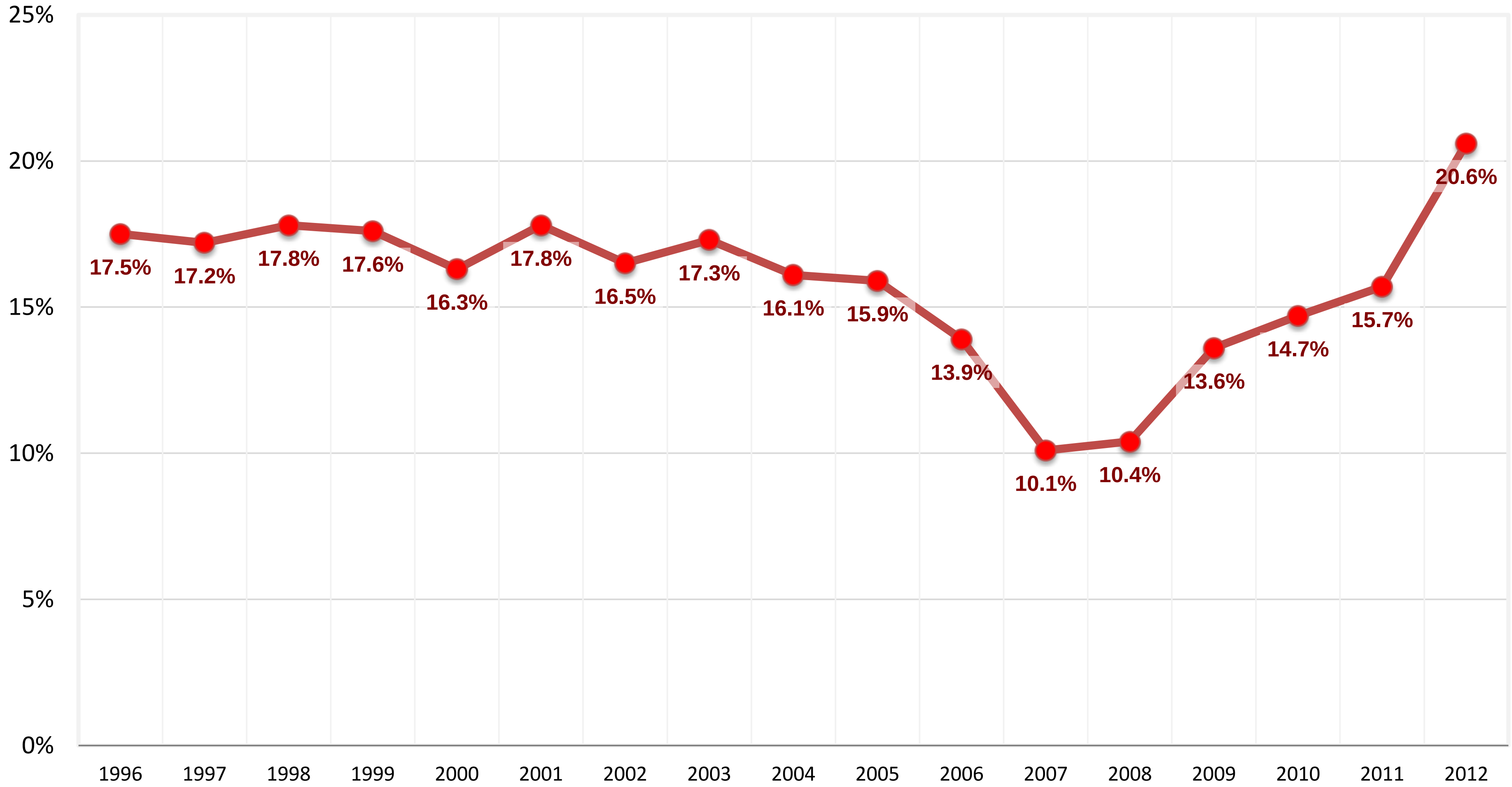
Source: Eurostat

Figure 19: Long-Term Unemployment as a Percentage of Total Unemployment



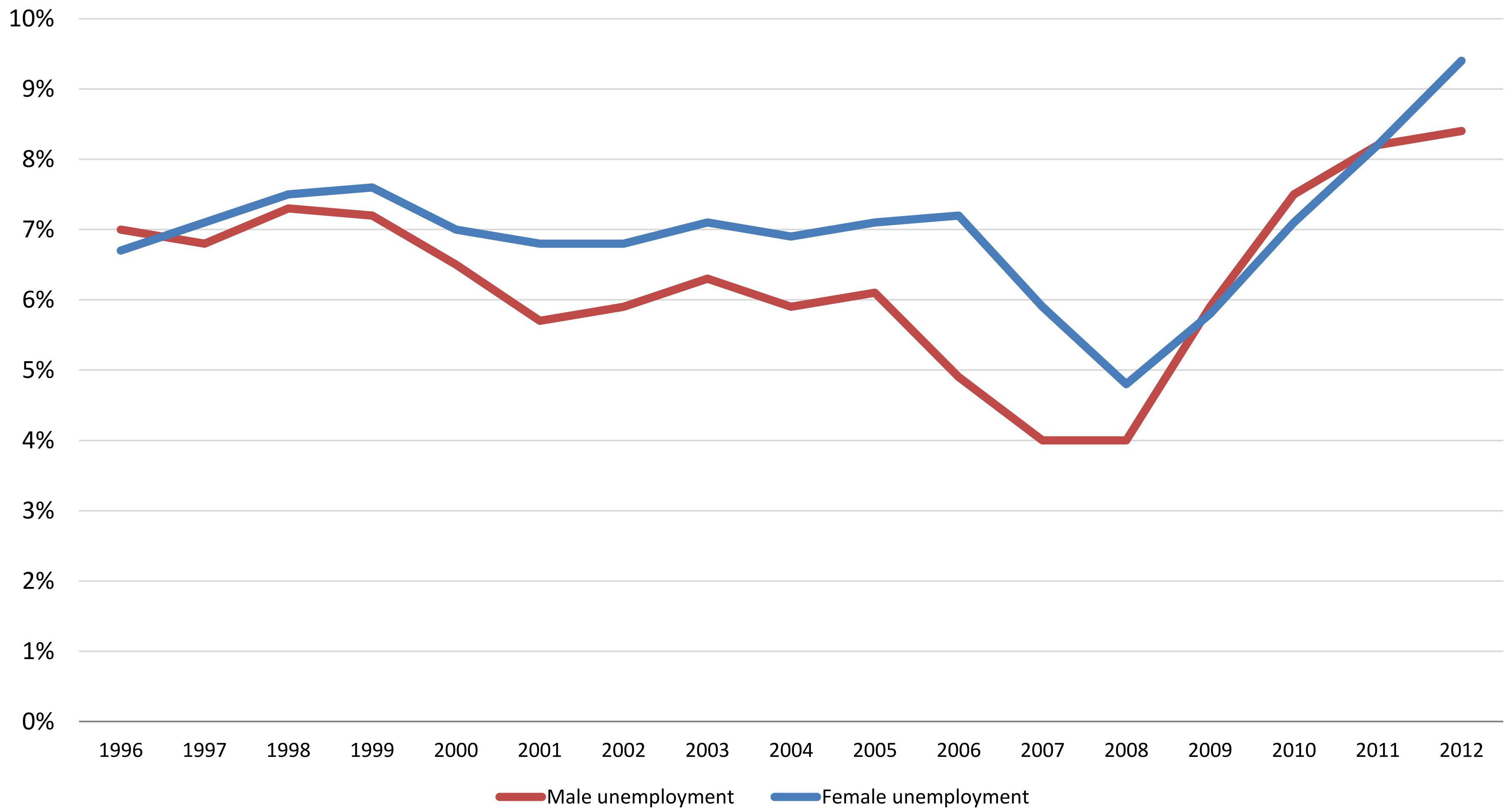
Source: Eurostat

Figure 20: Youth (15-25) Unemployment Rate



Source: Eurostat

Figure 21: Unemployment Rate by Gender



Source: Eurostat