

THE FUTURE OF LABOR MARKET REFORMS IN THE WESTERN BALKANS AND TÜRKIYE

1. GLOBAL LABOR MARKET TRENDS

Labor markets (LM) worldwide are undergoing a dynamic transformation, forecasted to accelerate further in the upcoming decades. On the demand side, the changes are driven by economic growth, technological advancements, the green transition, and geopolitical and socio-economic outbreaks. On the supply side, demographic patterns, labor force skills, migration flows, and the restructuring of value chains via remote work predominantly shape the LMs. The complexity of these factors pose a challenging task for governments to set LM frameworks and policies aimed at boosting countries' growth and development.

According to the World Economic Forum, LMs globally are currently on divergent paths: low- and middle-income countries are facing a growing working-age population amidst high unemployment, while advanced economies are confronting an ageing population, decreased labor force participation, and tight LMs.¹ The divergence between these two groups causes intense liberalization of LMs in high-income level countries, leading to demographic disruptions also in the developing countries and countries in transition.

¹ The World Economic Forum's Jobs Consortium ([weforum.org](https://www.weforum.org))

The International Labour Organisation (ILO) reported that the current major global structural issues are labor shortages, demographic trends, informal work, declining labor productivity, and the social perception of work.² The degree and nature of labor shortages differ across sectors and occupations, with leading sectors being manufacturing, information and communications, construction, healthcare, and contact-intensive sectors, such as accommodation and food services. Skills and labor shortages occur in most of the countries, regardless of their level of development.

Demographic trends vary among countries, with high-income nations facing intense population aging, while low- and middle-income countries struggle with low activity rates, gender imbalances and particularly, youth unemployment. Globally, the youth unemployment rates are nearly 3.5 times higher than those of adults. Furthermore, in 2020, young people that were not in employment, education or training (NEET) accounted for 285 million worldwide. Informal employment was over 2 billion in 2023, standing at its highest level in two decades. At the same time, nearly 241 million workers were living in extreme poverty.

² ILO, World Employment and Social Outlook: Trends 2024

Labor productivity has been on a declining trend for quite some time, while wage pressures have been rising. Consequently, employers are increasingly focusing on digitalization and the expanded use of technology, including artificial intelligence (AI). This shift causes many skills to cease and new ones to develop. Systemic and analytical thinking are considered to remain the most important working skills. In addition, the social perception of work has changed with remote work being more in demand. Working hours have evolved differently across sectors and occupations, and the share of part-time workers has increased in many high-income economies, affecting also the availability of the labor force. Despite the difficulties in the LMs, there is a lack of mechanisms for the appropriate engagement of political migrants' labor force on the global level.

The above-mentioned issues are also evident in the Western Balkans (WB) and Türkiye, with labor shortages, low productivity, and wage pressures being the top concerns for businesses. The governments in these regions face the challenge of retaining their work force by implementing tailored policy-mixes cross-cutting labor with education, social and other relevant policies, as needed.

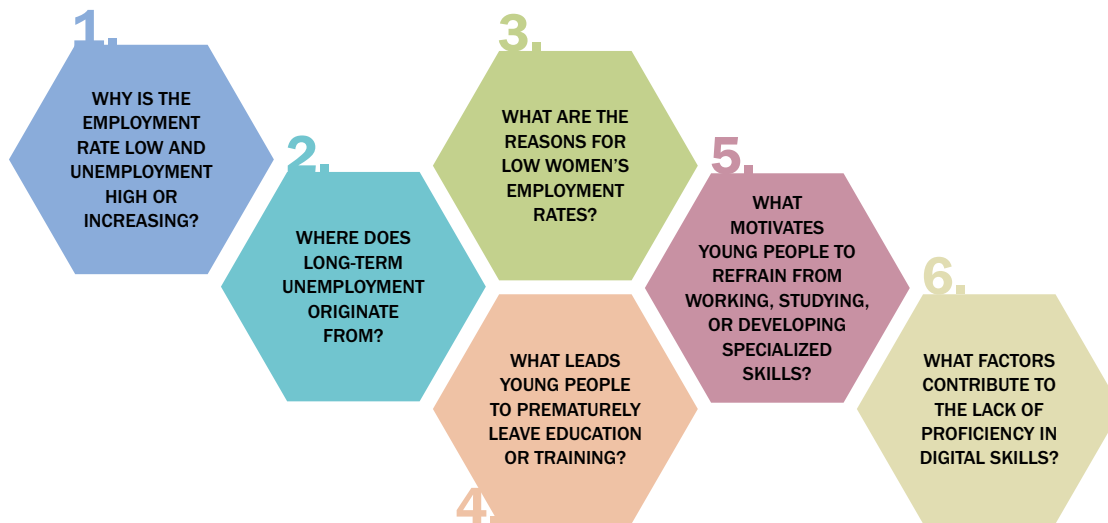
2. LABOR MARKET TRENDS IN THE WESTERN BALKANS AND TÜRKIYE



2.1 IDENTIFIED OBSTACLES TO EMPLOYMENT AND INCLUSION IN THE ECONOMIC REFORM PROGRAMMES (ERPs) 2024–2026

To formulate appropriate structural reforms for the LMs, the WB and Türkiye conduct analyses to identify obstacles. These analyses combine self-assessment with only a third of the obstacles identified on average by the European Commission (EC) in the Assessment of ERP 2023–2025.

Throughout this process, they delve into the underlying causes of barriers to a competitive LM, employability, and the inclusion of vulnerable social groups such as women, youth, disabled individuals, and minorities. Their aim is to address the fundamental questions that underlie the indicators used by the EC to evaluate the progress of LM and education reforms.



The WB are facing similar barriers to competitive and inclusive LMs, while Türkiye, besides some similarities with the WB, is struggling with a high number of immigrants seeking employment and education.

The **first set of obstacles** pertains to weak active LM policies, disparities in regional employment opportunities, and insufficient investment in infrastructure, equipment, and the quality of education across all levels.

The **second** set addresses the lack of effective collaboration between educational institutions and the impact of non-compliant education and vocational training systems on current and future LM demands.

The **third** set of obstacles examines demographic trends such as brain drain and low birth rates, which are major contributors to the current and future shortage of skilled workers.

The **fourth** set is associated with the informal economy, where LM participants reap benefits while evading sanctions.

The **fifth** set of obstacles focuses on the health of the working population, including factors such as lower life expectancy compared to the EU average and a high number of sick leaves, which contribute to reduced productivity.

The **sixth** set of obstacles concerns non-harmonized work schedules with school timetables and social norms, contributing to gender gaps in employment.

The **insufficient development of digital skills** among the working population is primarily attributed to education systems that do not prioritize the acquisition of digital skills among both teachers and students.

2.2 PRIORITIZED LABOR MARKET REFORMS IN ERPS 2024–2026



For years, the WBs and Türkiye have placed a strong emphasis on LM reforms, recognizing their pivotal role in achieving successful accession to the EU.

These reforms prioritize skill development and vocational training, tailored to emerging sectors and digital skills, with the goal of bridging the gap between education and employment. By enhancing workforce readiness and competitiveness, these measures aim to embrace innovative approaches and flexible policies to navigate the challenges posed by technological advancements and global economic shifts. This approach ensures the socio-economic convergence of the WB and Türkiye with the EU. Moreover, these reforms not only enhance competitiveness and productivity but also promote social inclusion and cohesion, laying the foundation for sustainable economic growth in the region.

The WB and Türkiye have prioritized LM reforms based on Joint Conclusions,³ focusing on areas such as the youth guarantee fund, female LM participation, the transition from school to work, cooperation between businesses and academia, the capacities of employment offices and LM policies, monitoring of LM needs and reforms' implementation, and lifelong learning and digital skills development. A significant 70% of the total prioritized LM and education reforms align with EU recommendations.

³ Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye

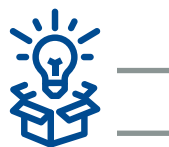
What are the main challenges to LM reforms in the ERPs for 2024–2026?

- Aligning the education system with LM needs
- Developing market-oriented curricula that integrate green and digital transformation
- Improving the quality and inclusivity of education at all levels, including vocational education and training
- Developing and strengthening teachers' digital skills
- Facilitating the transition from school to work
- Adjusting and harmonizing the qualification system
- Increasing the employability of vulnerable job seekers
- Enhancing flexibility and security in the LM
- Providing decent employment, quality jobs, and lifelong learning opportunities
- Reducing the inactivity of the labor force
- Conducting regular assessments of LM needs and monitoring the implementation of reforms, including analyses of active LM policies

Labor market reforms extend beyond systemic changes in regulations, institutions, or financing; they require a shift in mindset, a change in perspective, and at times, adjustments in customs and traditional values.

“The quality of human capital as a principal component in every growth model has a vital role in providing sustainable and inclusive development.”
North Macedonian
ERP 2024–2026

2.3 PROACTIVE THINKING IN DESIGNING LABOR MARKET REFORMS



LABOR MARKET POLICIES IN SLOVENIA

The Slovenian LM operates within a comprehensive framework that emphasizes collaboration among stakeholders and compliance with EU directives. While recent initiatives reflect efforts to address emerging challenges and priorities, ongoing vigilance and proactive measures are essential to ensure the effectiveness and fairness of LM policies in Slovenia. The state directs its policies towards increasing the employment rate among the active population. The ageing population poses a burden to the state pension system, requiring the subsequent need to extend the working ages of older people and facilitate early access from school to work for young people. What novelties has Slovenia incorporated in its new LM legal framework?

Registered unemployment has been steadily decreasing in Slovenia, driven by both cyclical and structural factors. The country has undertaken LM reforms to generate extra labor power, both domestically by boosting activity rates and internationally by removing obstacles to foreign employees and providing decent jobs. Despite having activity rates for the young population above the EU average, the activity of older workers lags behind. Some innovations, such as facilitation for parents and caregivers, have been introduced in the new legal LM framework. However, initiatives like mandatory 48-hour continuous rest once per month, optional 30-hour work week as full-time employment, or work-from-home arrangements have faced challenges in implementation.

LABOUR MARKET REFORM IN CROATIA: CHALLENGES AND PROGRESS

Croatia's LM reform has been tailored to address the main challenges identified in the LM, including the green and digital transition, institutional capacity building for further and sustainable inclusion of vulnerable groups, designing and implementing a voucher system for education of both the employed and the unemployed, and improving labor legislation in the areas of work mobility, undeclared work, and minimum wage. The reform started in 2016, and was later included in the National Recovery and Resilience Plan 2021–2026, aligning with the goals of the National Development Strategy 2030 goals.

Over the period from October 2016 to December 2023, around EUR 1.1 billion were allocated to active LM policies. In total, around 252,000 individuals were included in the reform, with 52% securing employment as a result. Progress has been noted in all areas, with a significant decrease of the unemployment rate to 5.2% (from 10% in 2016) and the NEET rate of 13.3% (from 19.5% in 2016). The reform continues with the goal to further encourage employment, self-employment, training, and education to increase employability in Croatia.

TOWARDS A HOLISTIC APPROACH TO DESIGNING LM REFORMS IN THE WBS AND TÜRKIYE

The workshop on “Managing Labor Market Structural Reforms” (reference below) aimed to enhance the capacity of participants to discuss global challenges in LMs, as well as specific issues faced by the beneficiaries. The goal was to form mixed teams consisting of members from different parties to jointly elaborate LM reforms by incorporating the identified problems and obstacles, utilizing the expertise of the team, and ensuring a realistic approach to implementation.

The workshop assignments ranged from very specific, narrow, and concise measures addressing specific issues (e.g., long-term employability of women) to broader reforms incorporating several components and target groups (e.g., functional LM). The diversity of approaches facilitated peer-to-peer learning and highlighted the relevance of proper team composition and the optimal use of available knowledge within each team. The assignments demonstrated how well participants understood the discussed issues and adopted new knowledge and ideas, and resulted in the creation of new value through systemic thinking, encouraging also further collaboration.



3. LESSONS LEARNED AND RECOMMENDATIONS

LM reform **encompasses all sectors of the economy** and constitutes a horizontal reform that requires carefully development to yield positive effects across the system.

It is imperative that LM and education reforms **stem from well-respected strategies**, ensuring consistency and a long-term perspective on LM progress.

Joint Conclusions serve as a crucial foundation for conceptualizing LM reforms, reflecting on LM challenges based on the EC's assessment of obstacles and reforms.

Effective LM reform is facilitated through **interministerial teamwork**, fostering synergy when ministries responsible for LM policies, education, and finance collaborate.

Stakeholder engagement is paramount in the creation and ownership of LM reforms, necessitating involvement from businesses, labor unions, relevant state agencies and institutions, parliaments, NGOs, and other key actors.

Incorporating high-level officials in the prioritization of LM reforms requires a holistic policy approach when faced with decisions between equally important reforms.

Establishing and maintaining **up-to-date data on LM trends** is crucial for making well-informed decisions regarding reform implementation.

Achieving **full implementation of policy guidance** aligns LM initiatives with EU expectations and guidelines, while also accommodating national priorities.

Implementing education system reforms early in a government's mandate is essential, despite their long-term impact on the LM, as visible results may take time to materialize, making them less appealing to politicians.

Successful implementation of LM reforms hinges on **effective coordination and division of responsibilities**, with clear tasks, timelines, and monitoring mechanisms enhancing the likelihood of adequate implementation.

Well-written LM reforms, encompassing clear and concise activities, achievable and measurable goals, effective strategies, accurate cost estimates and funding sources, and meaningful performance indicators, contribute to their successful presentation and implementation.

REFERENCE

The above discussion derives on the workshop "Managing Labor Market Structural Reforms", delivered on February 20–22, 2024 in Ljubljana, Slovenia. This workshop brought together participants from the WB and Türkiye, including representatives from ministries and other state institutions responsible for labor market, social policy, education and strategic planning. The variety of expertise enabled fruitful debates and peer-to-peer learning, based on participants' presentations on the main challenges in their parties. The workshop was part of the multi-beneficiary capacity development project "Structural Reforms Better Integrated Within Fiscal Frameworks" (FISR2), funded by the EU.

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