This Overview is extracted from the 2017 Economic Survey of Slovenia. The Survey is published on the responsibility of the Economic and Development Review Committee (EDRC) of the OECD, which is charged with the examination of the economic situation of member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area
Executive summary

- Slovenia’s recovery is strengthening
- Investing in skills would raise incomes and make growth more inclusive
- Attracting investment and fostering competitive firms
Slovenia’s recovery is strengthening

Income convergence has restarted
Income gap to the upper half of OECD countries

Income gap to the upper half of OECD countries has restarted since the early 2010s, indicating that Slovenia’s per capita income has caught up with the advanced countries. Slovenia’s economic performance continues to be strong, with growth exceeding the EU15 average, thanks to recent structural reforms, business restructuring, supportive monetary conditions and improved export markets. Lower unemployment and higher real incomes are underpinning consumption. Business investment is rising, although it remains low relative to GDP. Public debt and non-performing loans are being reduced from high levels. However, Slovenia faces several socioeconomic challenges, particularly rapid population ageing. The government’s National Development Strategy 2030 aims to improve the well-being of its people through strong, inclusive and sustainable growth in the context of the United Nations’ Sustainable Development Goals.

Investing in skills would raise incomes and make growth more inclusive

Investment in human capital is important to raise productivity and to ensure that the benefits of the recovery reach everyone in society. Persistent long-term unemployment and low employment of older workers, combined with an ageing population, magnify the importance of achieving a more inclusive labour market. Workers need to maintain their skills to find and retain well paid jobs, and many of the unemployed have to be reskilled to gain a foothold on the labour market. A number of policies are required to meet the challenge of preparing people for successful careers in competitive and innovative firms that are globally integrated, including training of the jobless and strengthening vocational and university education.

Attracting investment and fostering competitive firms

More capital would raise productivity and living standards. Reducing high regulatory barriers would make Slovenia more attractive to domestic and foreign investors. This could be achieved by strengthening inter-agency co-ordination, regulatory impact assessments and the competition authority. Reducing the wide scope of the numerous state-owned enterprises would foster competition, particularly in network sectors. More competitive markets would lower prices, expand consumer choice and stimulate innovation with benefits for well-being and economic growth.
## MAIN FINDINGS

### Securing long-term fiscal sustainability

The fiscal deficit has fallen sharply to near balance. Public debt is declining but is still high, which, combined with large contingent liabilities such as state guarantees, make public finances vulnerable.

The government should pursue its 2020 fiscal balance objective with consolidation totalling ¾ per cent of GDP in 2018-20; frontloading of planned consolidation efforts could help to avoid overheating.

Maintain spending ceilings, pursue efficiency improvements, and adjust the structure of public spending to avoid a renewed increase in public debt.

Pursue faster, well thought-out privatisation so as to further reduce public debt and the high level of contingent liabilities.

Ageing will put upward pressure on spending in the years ahead.

Raise the statutory retirement age to 67, and ensure a continuing increase in the effective retirement age. Cover eventual pension shortfalls by a combination of additional contributions, lower pension indexation and increased incentives to work longer.

Allow hospitals to adjust their health services to changing demand, including by closing under-performing departments.

Give hospitals greater scope to engage in multi-year investments and to keep their realised cost savings.

### Raising wages and living standards by investing in skills

Vocational education graduates have poor literacy skills. Technical programme graduates often do not pursue the occupation for which they have trained.

Improve general skills of vocational students through use of problem-based learning, combined with retraining of teachers.

Raise the work-experience content of technical programmes.

Time spent in training by adults is low.

Distribute adult training vouchers, or provide tax credits to increase workers’ training opportunities.

Long-term unemployment is high.

Increase training to help long-term unemployed to re-enter the labour market, including through a change in career.

The low employment rate for older workers undermines inclusiveness. Age-related unemployment and disability benefits encourage premature retirement.

Eliminate the legal requirement that wages increase automatically with age.

Harmonise the maximum duration of unemployment benefit across age groups.

Full-time tertiary enrolment is high, while the high tuition fees for part-time students keep enrolment among older cohorts low. In addition, outcomes are mediocre and completion rates low. Career guidance is limited.

Equalise tuition fees for full- and part-time students on a per course basis, coupled with grants and loans for those from poor families.

Link university funding to students’ labour market outcomes.

### Fostering productivity by improving regulation and enhancing competition

Poor co-ordination between regulatory bodies creates cumbersome procedures, uncertainty and higher costs.

Ensure that the regulatory impact authority’s common RIA framework is applied consistently with effective quality control including through methodology guidance and training.

Simplify judicial proceedings.

The competition authority has had few successful cases, and court procedures are long.

Increase resources and staff expertise at the authority.

The large number of regulated professions has curbed productivity.

Shrink the list of regulated professions, and, where regulation is retained, move to less restrictive forms.

Infrastructural development has focused on large projects.

Develop a common approach to cost-benefit analysis for project selection.

There are over 650 public enterprises (SOEs – owned by various levels of government), many with subsidiaries in unrelated sectors.

Strengthen SOE governance by directing them to focus on core activities, allowing more management pay flexibility and strengthening supervisory boards.

Follow through with privatisation, and narrow the group of SOEs that are considered strategic.

Vertically and horizontally integrated state-owned enterprises in network sectors hamper market entry.

Implement effective separation of activities and non-discriminatory third-party access to networks. Privatise competitive activities, except in sensitive sectors.

Policies to reach the renewable-energy target are costly.

Avoid technology biases in renewable-energy subsidies.
Assessment and recommendations

- The Slovenian National Development Strategy 2030
- The recovery is maturing
- Dealing with aging-related spending
- Raising living standards by investing in capital and skills
- Easing regulation and boosting competition
Economic outcomes have improved considerably since Slovenia’s serious economic crisis ended in 2013. Looking ahead, the government is designing a National Development Strategy to create a faster growing and more inclusive economy with competitive globally integrated firms. An important feature of this Strategy is the integration of the UN Sustainable Development Goals. This should be combined with policies to ensure sustainable public finances that are inter-generationally equitable, leading to long and healthy lives for all Slovenians.

Slovenia has experienced robust economic growth in recent years (Table 1). Exporters have regained market shares, macroeconomic imbalances have been reduced and the

<table>
<thead>
<tr>
<th>Table 1. Macroeconomic indicators and projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>-----------------------------</td>
</tr>
<tr>
<td><strong>Gross domestic product (GDP)</strong></td>
</tr>
<tr>
<td>Private consumption</td>
</tr>
<tr>
<td>Government consumption</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
</tr>
<tr>
<td>Housing</td>
</tr>
<tr>
<td>Final domestic demand</td>
</tr>
<tr>
<td>Stockbuilding</td>
</tr>
<tr>
<td>Total domestic demand</td>
</tr>
<tr>
<td>Exports of goods and services</td>
</tr>
<tr>
<td>Imports of goods and services</td>
</tr>
<tr>
<td>Net exports</td>
</tr>
</tbody>
</table>

**Other indicators (growth rates, unless specified)**

- Potential GDP
- Output gap
- Employment
- Unemployment rate
- GDP deflator
- Consumer price index
- Core consumer prices
- Household saving ratio, net
- Trade balance
- Current account balance
- General government fiscal balance
- Underlying government primary fiscal balance
- Gross government debt (Maastricht)
- General government net debt
- Three-month money market rate, average
- Ten-year government bond yield, average

1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of the labour force.
4. As a percentage of household disposable income.
5. Goods and services, as a percentage of GDP.

financial sector stabilised. However, GDP is just reaching its pre-crisis level. Private-sector job creation is picking up, and the unemployment rate has returned to the level sustained during the first half of the 2000s. After a bout of deflation, prices have started to increase. In 2016 the government’s deficit fell to 1.8% of GDP, and its debt started to come down. In addition, the current account remains in substantial surplus. Looking ahead, the elimination of economic slack means that growth will increasingly be aligned with its potential rate, which is already being weighed down by population ageing and the supply ramifications of insufficient business investment to boost productivity growth.

Slovenians have higher living standards in many respects than the OECD average, particularly in terms of personal safety, clean environment, educational outcomes and work-life balance (Figure 1). In addition, the gender wage gap is relatively small and income distribution fairly equal, partly thanks to the redistributive impact of taxes and transfers, which also ensures low levels of poverty (Figures 2 and 3). However, incomes remain well below the OECD average and have not gained vis-à-vis leading OECD economies over the past decade. Though average hours worked are slightly low, the key challenge is to overcome poor labour productivity (Figure 4).

**Figure 1.** *Slovenians’ wellbeing is good across a range of measures*

> Better life index†


1. Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set. Normalised indicators are averaged with equal weights. Indicators are normalised to range between 10 (best) and 0 (worst) computed over OECD countries, Brazil, Russia, and South Africa according to the following formula: (indicator value – minimum value)/(maximum value – minimum value) x 10.

Source: OECD (2016), Better Life Index Database.

Total hours worked are low because older people are induced to retire early and the share of long-term unemployment is high. Both phenomena amount to excluding a significant part of the population from gainful employment and higher incomes. Inclusiveness would be increased by developing skills more fully through education and lifelong learning, especially as labour markets and the nature of work will change over time with the adoption of new digital technologies. The level of labour productivity is lower than in more advanced economies, as a relatively high share of workers are employed in small firms with low productivity (Figure 5) (Banerjee and Cirjakovic, 2017; Banerjee and
Figure 2. **The gender wage gap is low**

The difference between male and female median wages divided by the male median wages

Source: OECD Employment Database.

Figure 3. **Poverty and inequality are low**

A. Relative poverty rates, 50% threshold

Source: Calculations based on the OECD Income Distribution Database.

1. 2014 for Australia, Hungary and Mexico. 2012 for Japan and New Zealand. The relative poverty rate is defined as the share of people living with less than 50% of the median disposable income (adjusted for family size) of the entire population.

Source: Calculations based on the OECD Income Distribution Database.
Indeed, productivity growth has been lower since the international financial crisis and has lagged most other countries (Figure 6). This reflects, among others, depressed capital investment, including from abroad, and resource misallocation. Business investors have to overcome significant regulatory and competition barriers, including market structures dominated by incumbents that hinder new entry. Publicly owned companies are found in almost all sectors. This can undermine the position of private-sector competitors and poses governance challenges, as the government simultaneously plays the roles of owner, manager and regulator.

Against this background, the main messages of this Survey are that:

- In line with the economic pillar of the evolving Development Strategy, reforms are needed to bolster economic growth and expand job opportunities for all. Together with measures to secure fiscal sustainability, this would contribute to better lives for present and future generations of Slovenians.
- To foster innovative firms that thrive in the global economy, education and labour-market policies must equip workers with the skills required to find good jobs and embark on successful careers and which adapt to the changing needs of the labour market.

---

1. The OECD GDP per capita is a population-weighted average of nominal GDP converted using 2015 purchasing power parities (PPPs). Note that the population of Luxembourg is augmented by cross-border workers, and Norway’s GDP refers to the mainland only.
2. Labour utilisation is measured as total number of hours worked per capita.
3. Labour productivity is measured as GDP per hour worked.


http://dx.doi.org/10.1787/88893355551

Figure 4. The income gap is driven by relatively low labour productivity
Sources of real income differences, 2015
To promote competitive firms that invest in productivity-enhancing technologies, regulatory and competition policies should aim at facilitating market entry and exit, which would encourage business investment in innovative technologies and new market models and
reallocate resources away from non-viable firms, lifting the economy onto a higher growth path.

The Slovenian National Development Strategy 2030

Slovenia is among the first OECD countries to use the United Nations’ 17 Sustainable Development Goals (SDGs; United Nations, 2017) in designing a national strategy (Government, 2015 and 2016a). Many of these goals overlap with the OECD objective of promoting policies to further well-being and achieve sustainable and inclusive growth. This is particularly the case for policies to stimulate high-quality education, gender equality, climate action and decent working conditions, and to reduce inequality. In many areas Slovenia’s SDG performance is strong, notably in most aspects of the environment. Moreover, income inequality is low. However, less progress has been made in terms of increasing labour market participation of younger and older workers. Likewise, performance has been unsatisfactory in some health areas, such as tobacco use and obesity (recently triggering new health measures – see below), education participation and outcomes of adults, and some institutional measures such as regulatory assessments and corruption perceptions (with a cost in terms of confidence in national institutions).
This Survey focuses on aspects of “stable sustainable economic growth”, labour markets, education, and regulation and competition policy. Good policy in all these areas will have significant benefits in many dimensions. An important one highlighted in the Survey is investment, which is key to raising productivity and, thereby, incomes and well-being. The Survey provides analysis and recommendations across a number of Slovenia’s policy objectives and SDGs, particularly in terms of securing inclusive and sustainable growth.

The recovery is maturing

Economic growth has gathered pace since 2013, after a double-dip recession over the previous six years, and could reach nearly 4% in 2017, in part owing to the stronger international environment and the series of structural reforms implemented in recent years. Initially, the recovery was led by exports, but it is increasingly being supported by stronger private domestic demand (Figure 7). GDP growth is much faster than the OECD’s estimated 1¾ per cent potential rate, and the OECD’s estimate of the output gap will close during 2017. Despite the recovery, GDP has barely reached its 2008 pre-crisis peak. Moreover, the income gap between Slovenia and leading OECD economies has widened, unlike the experience of most of its regional peers, reflecting in particular a domestic banking crisis and a sharp contraction in infrastructure investment following the completion of the highway investment programme (Figure 8 and 9).

The pick-up in private consumption has been underpinned by real income growth, reflecting higher real wages, stronger employment and rising consumer confidence, while household savings have remained strong (Figure 10). On the other hand, despite a recent upturn in business investment, deleveraging by domestic firms and the caution of foreign firms have left the non-residential investment-to-GDP ratio below what the long-term relationship would suggest (Figure 11). In addition, housing investment has started to recover in line with property prices, which have increased 6.4% in real terms since the trough in early 2014, as transactions have returned to their pre-crisis level. Nonetheless, the housing investment-to-GDP ratio remains near historic lows. Exports have maintained their brisk...
expansion and have gained market share owing to higher manufacturing productivity, reflecting a relatively diverse composition of exports and destinations despite lower integration in global value chains than regional peers (Figure 12). Rising import penetration has reduced the domestic value added from robust aggregate spending, which, despite an offsetting effect from better terms of trade, tempered the increase in the surplus on goods and services balance. A rising deficit on the income account means that the improvement in the trade balance is not fully reflected in the large current account surplus.

Economic growth is projected to remain strong, supported by very accommodative euro-area monetary conditions and improving export market growth (Table 1 above). In addition, domestic forces include the restructuring of the business sector and revived and more diversified credit channels (Banerjee and Cirjakovic, 2017; Banerjee and Damjanovic, 2017).
Figure 10. **Macroeconomic indicators have improved**

### A. Inflation
Year-on-year percentage change

### B. Wage inflation
Year-on-year percentage change

### C. Unemployment rate
\% of labour force aged 15-64

### D. Employment in thousands

### E. Confidence has recovered
Net balance, percentage

### F. Current balance and trade balance
\% of GDP

1. Calculated as the year-on-year change in wages per employee.
2. Net balance of answers to surveys taking the value between -100\% (unfavourable) and +100\% (favourable). Business confidence is calculated as an unweighted average of the confidence indicators for manufacturing, construction, retail trade and other services.


StatLink: [http://dx.doi.org/10.1787/888933555646](http://dx.doi.org/10.1787/888933555646)
Public investment is expected to recover with faster EU structural funds disbursement. Business investment should also pick up further on the back of external and domestic demand, favourable financing conditions and emerging capacity constraints, although remaining low as a share of GDP. Housing construction should benefit from rising incomes and low interest rates, partly explained by easier household mortgage conditions, resulting from banks’ strategic reorientation towards this market, though issued housing permits continue to fluctuate. Private consumption will remain an important growth driver due to continued real income expansion. Export growth is projected to continue as export market growth offsets competitiveness losses due to faster wage gains arising from a tightening labour market. The unemployment rate should continue to decline, as both the private and public sectors expand employment.
The recovery has led to tighter labour market conditions, as employment has risen, while fewer people are in the labour market. Unemployment has fallen below OECD’s estimate for structural unemployment, which has increased since the late 2010s as the shares of low-skilled and older workers in unemployment has increased. Accordingly, wage growth has picked up and was around 2% year-on-year in early 2017, as private-sector wages (particularly in market services) started again growing faster than in the public sector, where wages in 2016 were boosted by the lifting of the crisis-related wage freeze. Shortages are emerging, particularly in the manufacturing sector, across a range of vocational occupations and for ICT specialists (Figure 13). A third of all private-sector employers, and half of larger firms, report difficulties in finding enough staff (ESS, 2017; ReferNet Slovenia, 2016; IMAD, 2016). Skills shortages are exacerbated by net emigration, as emigrants are three times more likely to have a tertiary education than immigrants (Statistical Office, 2016).

Figure 13. **Labour shortages limit manufacturing production**
Percentage of manufacturing firms pointing to labour shortages as a factor limiting production

Upside risks to these projections include a faster-than-projected recovery in export markets, which would strengthen growth and boost the current account surplus. Likewise, if easy monetary conditions have a more positive effect on business investment, growth would be faster than foreseen. In contrast, renewed international financial turbulence, for example related to Brexit, could hurt lending conditions, with a negative impact on investment. The largest downside risk is probably that the emerging labour market bottlenecks result in wage inflation that in real terms outstrips productivity growth, eroding recent external competitiveness gains. The economy may also be confronted with shocks whose effects are difficult to factor into the projections (Table 2).

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Possible outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>An increase in geopolitical tensions.</td>
<td>This could trigger an international financial crisis with difficult-to-project consequences for confidence and activity in Slovenia.</td>
</tr>
<tr>
<td>A sudden severe economic slowdown in emerging economies, particularly in China.</td>
<td>Such a major shock could disrupt established global value chains with potentially large negative effects for Slovenia.</td>
</tr>
</tbody>
</table>
Since the onset of the international financial crisis macroeconomic vulnerabilities have shrunk in many respects, including the current account turnaround, the reduction in the public deficit and an increase in the average duration of government debt (Figure 14). Moreover, both corporate and household net savings have increased. The vulnerabilities associated with the financial sector have eased (see below) with, for example, a halving of the share of non-performing loans (NPLs). However, NPLs remain a weakness, as their share is still relatively high (Figure 19 below). Otherwise, the main concern is the near quadrupling of public debt to a peak of 83% of GDP in 2015, although it has since fallen to below 80% of GDP.

The fiscal position has been improving

The authorities’ crisis-related consolidation efforts have largely ended, with the government adopting several recommendations made in past Surveys (Table 3). In 2017 faster growth will reduce the deficit by nearly 1% of GDP. However, the impact on the underlying balance will be small. Looking ahead, primary expenditure is planned to increase slowly in nominal terms, which, together with cyclical effects and lower interest payments, should allow total expenditures to fall as a share of GDP until 2018, although less than in 2016 when public investment contracted (Table 4). Only revenue-neutral tax adjustments are planned.
though simplified collection should boost realised revenue (Government, 2016b). The government’s medium-term fiscal objective is to achieve an underlying balance in 2020, which, according to OECD estimates implies additional fiscal consolidation of ¾ per cent of GDP between 2018 and 2020 (Table 4). Achieving the balance objective would also allow the debt-to-GDP ratio to fall below 70% in 2020.

Fiscal space was restricted during the period with rising public debt, although more recently it has improved as net interest payments have fallen with lower interest rates. Net debt is low, reflecting large cash holdings and the assets of numerous SOEs. However, associated with the latter are substantial contingent liabilities, such as the debt of government-controlled entities outside general government (which includes the deposits of government-controlled banks). Liabilities of government-controlled entities and debt guarantees are amongst the highest in the European Union (at 67.7% and 10.7% of GDP, respectively, in 2015) (Eurostat, 2017a). Indeed, the fiscal cost of saving state-owned banks and other SOEs in the aftermath of the 2013 domestic financial crisis amounted to 20% of GDP.

The signs of labour market tightening mean that a mildly restrictive fiscal stance is needed as early as in 2018. This would also steepen the decline in the debt-to-GDP path,
which is important to free up fiscal space over time to address the large ageing-related spending pressures (see below) and the fiscal consequences of future macroeconomic shocks. Thus, it would be safer for the government to frontload its planned consolidation efforts to avoid overheating, while allowing automatic stabilisers to work in the event of unforeseen economic developments. In any case the government should specify the detailed measures needed to ensure that the underlying balance goal is reached in good time. Moreover, spending ceilings should be maintained and efficiency improvements pursued, while the structure of public spending should begin to adjust to contain overall spending as ageing-related expenditures increase to avoid a renewed increase in public debt (Figure 15). Additional privatisation efforts would further reduce public debt and the high level of contingent liabilities.

Figure 15. Durably reducing public debt will require further reforms
General government gross debt, Maastricht definition, per cent of GDP\(^1\)

Labour market inclusiveness could be further improved
Slovenia has successfully maintained an inclusive society despite the disappointing growth outcomes of the past decade. Income distribution is amongst the most equal in the OECD, female employment is high and the gender wage gap low (Figure 16). The share of young people not in employment, education or training (NEETs) almost doubled between 2010 and 2016, but it remained lower than in many other EU countries, reflecting rising participation in education. There are pockets of poor performance, notably high long-term unemployment (half of all jobless workers have been unemployed for more than a year), and low employment rates for older and low skilled workers.

---

\(^1\) The balanced-budget scenario shows projections based on the OECD Economic Outlook: Statistics and Projections database until 2018, a budget surplus of 0.2% in 2019, 0.4% in 2020 (as outlined in the 2017 Stability Programme), followed by balanced budgets and subsequent real GDP growth of 2% during 2019-30 slowing to 1.6% during 2031-2060 (in line with OECD estimates for long-term potential growth) and inflation of 2%. The ‘lower fiscal consolidation’ scenario assumes a deficit of 1% of GDP from 2019, in line with the lower limit for structural deficits set by the EU budgetary rules. The “without offsetting ageing-related costs” scenario adds changes relative to 2018 levels of net public pension costs, health costs and long-term care costs to the balanced-budget scenario.

Source: OECD calculations based on OECD (2016), OECD Economic Outlook: Statistics and Projections (database), December; OECD (2016), Main Economic Indicators.

StatLink \[\text{http://dx.doi.org/10.1787/88893555722}\]
Figure 16. The labour market’s inclusiveness could be broadened
2016 or latest year available

1. The gender wage gap is the difference between male and female median wages divided by the male median wage.
2. Persons aged 25 years and over who are employed. Low skilled are defined as those with less than upper secondary education (ISCED 0-2).
3. Older workers are defined as persons 55-64 years old.
Source: OECD, Social and Welfare Statistics (database); OECD, Labour Force Survey – Sex and Age composition database; World Indicators of Skills for Employment (WISE).

StatLink  http://dx.doi.org/10.1787/888933555741
Recent increases in older workers’ participation reflect pension reforms to increase the retirement age for both men and women to 65 (from 63 and 61, respectively) by 2020. However, the unemployment and disability insurance systems encourage early retirement (see below). In 2018 firms’ incentives for employing older workers will be increased with the introduction of a standard 30% reduction in employers’ social security contributions for employing such workers, replacing the current reduction for hiring older long-term unemployed.

The employment prospects of low-skilled workers are hampered by one of the highest minimum wages (relative to the median) in the OECD (Figure 17). In 2010 the minimum wage was hiked by 22.9%, and as a result the share of all employees paid the minimum wage rose from 8% to 11% (Jemec and Vodopivec, 2016). Moreover minimum wages are higher absolutely than in Portugal and almost on a par with Spain (Eurostat, 2017b). In addition, employers have to pay mandatory non-pecuniary compensation, such as meal and travel allowances. However, in recent years the pace of minimum wage growth has been less than for median wages. This has also been recommended in previous Surveys (Table 5).

Figure 17. Minimum wages are high relative to median wages
Gross minimum wage as a per cent of the median wage of full-time workers, 2015

Source: OECD, Labour-earnings database.

Table 5. Past OECD recommendations on labour markets

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Actions taken since the 2015 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase resources for active labour market policies, and better target assistance to the long-term unemployed and the low-skilled.</td>
<td>Resources were increased by 35% in 2016. In 2016 60% of all participants in active labour market measures were long-term unemployed (up from 46% in 2015).</td>
</tr>
<tr>
<td>Increase the gap between the minimum and median wage by moderating growth in the minimum wage to restore the link to productivity.</td>
<td>Minimum wage growth has moderated, and the gap with the median wage has increased slightly.</td>
</tr>
<tr>
<td>Lower effective personal tax rates to increase work incentives.</td>
<td>In 2017 a higher threshold for general tax relief was introduced.</td>
</tr>
<tr>
<td>Reduce top tax rates on labour income. Better target family benefits and strengthen means testing of education-related benefits.</td>
<td>In 2017 a new tax bracket was introduced for incomes between 20 400 and 48 000 euros with a tax rate that was reduced from 41% to 34%. For incomes between 48 000 and 70 907, the rate was lowered from 41% to 39%.</td>
</tr>
</tbody>
</table>
Banks’ health has improved, but financing remains constrained

The health of the banking system has greatly improved in recent years. Liquidity risk has fallen, as the share of total assets held in liquid form has risen to 10%. Required capital reserves have decreased, as the quality of credit portfolios is improving and operational risks declining, boosting capital adequacy. Banks’ capital buffers have expanded, as the total regulatory capital (according to Basel rules) ratio to risk-weighted assets rose further to 19.1% by end-2016, although the ratio for small domestic banks is much lower (Bank of Slovenia, 2017). Risks related to mortgage loans are being reduced in line with rising house prices due to improved collateral (Figure 18). The credit-to-GDP ratio remains below long-term trends, indicating no current need for counter-cyclical capital buffers. The share of non-performing loans (NPLs) has fallen, largely due to their sale to the state-owned Bank Asset Management Company (BAMC), but also due to restructuring, greater write-offs, realisation of collateral and sales to investors (BAMC, 2016). Nonetheless, their level remains high compared with other countries, though less than in other euro area countries that suffered a banking crisis (Bank of Slovenia, 2016a; Figure 19, Panels B and C).

The low interest-rate environment poses risks to banks’ future stability because of the resulting low interest income and reduced scope to boost interest margins (Figure 20). Although banks have become less dependent on international financing, the benefits of reduced reliance on a less stable funding source have been partially offset by a shortening of the term structure of deposits, with a larger share of sight deposits, including volatile corporate deposits. The recent improvement in banks’ profitability (their return on equity has returned to a level last seen in 2008) may also be temporary, reflecting low impairments and provisions for bad debts, and as higher future policy rates shrink spreads. Therefore, the need for further consolidation remains (Table 6), particularly as banks are losing profitable
Figure 19. **Financial conditions have improved**

**A. Interest rates on new business loans**¹

- Slovenia
- France
- Germany
- Austria
- Slovakia
- Italy

**B. Loans and share of non-performing loans**

- Share of non-performing loans, 90+ days (left-axis)
- Loans to households (right-axis)
- Loans to non financial corporations (right-axis)

**C. Share of non-performing loans (90+ days) to total gross loans, latest available data**

1. Data refer to loans other than revolving loans and overdrafts, convenience and extended credit card debt.


StatLink: [http://dx.doi.org/10.1787/888933555779](http://dx.doi.org/10.1787/888933555779)
business with high-growth export-orientated and foreign owned firms increasingly seeking financing abroad, or relying more on retained earnings (Bank of Slovenia, 2016a).

Financial conditions have eased, as interest rates on business loans and spreads over German 10-year government bonds have fallen (Figure 19, Panel A), and the contraction of credit to the private sector seems to be slowly ending. Nevertheless, interest rates on loans remain above those in the euro area, and banks have kept credit standards tight, limiting firms’ access to credit, despite offloading their non-performing loans to the BAMC. Even though the government is supporting loans, microcredits, loan guarantees, seed capital and venture capital, they are insufficient to offset this credit rationing. Central bank surveys show a persistent excess demand for loans, although the applied methodology could imply some overestimation. This is important because Slovenia’s firms, and especially SMEs, remain largely reliant on bank credit.

Start-ups’ access to alternative sources of finance, such as venture capital or crowdfunding, remains limited, despite recent public initiatives. Also, the stock exchange is still tiny: the number of listings has fallen from 47 to 41, and almost all listings are either state owned or controlled (Figure 21). However, in March 2017 a new alternative market for smaller
firms not listed on the stock exchange was launched. Also, the shadow banking sector (comprising mainly money-market and bond-investment funds and leasing firms) has gradually grown, reaching an estimated 8% of the financial system’s total assets, adding to the complexity of financial supervision (Bank of Slovenia, 2016a). Moreover, other non-bank credit channels have become more important, such as business-to-business loans, as have internal funds.

Ongoing bank restructuring could boost access to finance. But state-owned banks are still large, representing approximately half of total bank equity. Such banks are widely seen as less effective in allocating capital: they may extend credit to under-performing SOEs and other public bodies, or provide preferential financing to favoured regions or sectors as well as crowding out credit to the private sector (Andrews, 2005; Gonzalez-Garcia and Grigoli, 2013). According to EU rules, the financial support from the state to its banks during the financial crisis will be considered as illegal state-aid, unless they are privatised. As recommended in past Surveys, the second largest bank (Nova KBM) was privatised in 2016 (Table 6). To avoid having its public financial support classified as unauthorised state aid, at least half of the largest bank (NLB) must be sold by end-2017 and a further 25% by end-2018. In June 2017, the initial public offering was cancelled, and the government is in discussion with the EU Commission on ways forward. Previous privatisation attempts have foundered on the requirements that the government maintains a 25% controlling stake and no individual investor can acquire more than 25% of the bank’s shares. Withdrawing the requirements on ownership would allow a well-capitalised investor full control to restructure the bank to make it viable in the medium term.

Dealing with aging-related spending

Slovenia is faced with high spending pressures from population ageing, reflecting a large increase in the old-age dependency ratio (Figure 22). Such spending is projected to increase by almost 7 percentage points of GDP by 2060 (European Commission, 2015a; Table 7). Most is related to rising pension spending, which is already higher than the EU average, and a new minimum pension (equal to 81% of the minimum wage on a net basis)
was introduced in 2017, benefitting around 10% of all old-age pensioners. Health-care spending accounts for less in this projection but is subject to considerable uncertainty and could, according to OECD scenarios, be as much as 5 percentage points of GDP higher than currently projected (Figure 23).

In 2016 the government published pension scenarios with different combinations of retirement age, contribution periods and indexation rules to secure long-term sustainability and adequacy of the state pension system – measures that are in line with the recommendations in past Surveys (Table 8; Box 1; see also MDDSZ, 2016a). Reducing pension indexation can generate considerable savings, although current rules will already lead to low pensions (Figure 24). Pension contributions (either to the first or second pillar – in both cases the equivalent of a tax on labour) would have to increase by nearly 15 percentage points to cover the foreseen 3.5 percentage point rise in pension costs relative to GDP, placing a large burden on shrinking younger generations. Discussions with the social partners about pension reforms are ongoing. By mid-2017 these discussions defined the main objectives to include raising the replacement rate to 70% (including all pension pillars) and securing fiscal sustainability, among others by increasing the effective retirement age and adjusting the indexation of pensions. In addition, second-pillar pension plans should become more important.

Note: The old-dependency ratio is the ratio of the population above 65 years to the population over 20 years but below 65 years. Source: Eurostat population projections.

Table 7. Long-term projection for age-related spending, % of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Total age-related spending</th>
<th>Gross public pension spending</th>
<th>Health care spending</th>
<th>Long-term care spending</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2013</td>
<td>2030</td>
<td>2060</td>
<td>2013</td>
</tr>
<tr>
<td>Czech R.</td>
<td>19.1</td>
<td>20.4</td>
<td>22.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>20.8</td>
<td>18.2</td>
<td>21.9</td>
<td>11.5</td>
</tr>
<tr>
<td>Poland</td>
<td>20.9</td>
<td>20.5</td>
<td>22.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Slovenia</td>
<td>24.7</td>
<td>26.7</td>
<td>31.6</td>
<td>11.8</td>
</tr>
<tr>
<td>Slovakia</td>
<td>17.7</td>
<td>17.9</td>
<td>21.8</td>
<td>8.1</td>
</tr>
<tr>
<td>EU28</td>
<td>25.6</td>
<td>26.4</td>
<td>27.3</td>
<td>11.3</td>
</tr>
<tr>
<td>EA</td>
<td>26.8</td>
<td>27.7</td>
<td>28.5</td>
<td>12.3</td>
</tr>
</tbody>
</table>

1. Total age-related spending includes gross public pensions, health care, long-term care, education and unemployment benefits.

A higher replacement rate will further increase future pension spending. Several changes in pension entitlements should be envisaged to lower that burden. The main focus of reform should be to extend working lives and raise the effective retirement age. Increasing the retirement age to 67 would be an important step in this respect. Some other countries...
Box 1. **White Book scenarios**

The White Book scenarios explore the necessary parametric reforms of the pension system to secure adequate pensions and fiscal sustainability. The three main elements simulated are higher pension age and longer contribution periods, pension indexation and the introduction of a mandatory second-pillar contribution. The main elements of the calculations are:

- Gradually increasing the pension age to 67 years (with minimum 15 years of contributions) and prolonging the age and contribution period by 5 years to 65 years and 45 years, respectively, would lower pension spending by 0.8% of GDP by 2060.
- Changing the indexation of pensions from 60% wages and 40% prices to a 30:70 split would yield savings of 1% of GDP. Only indexing to prices would reduce pension spending by 2% of GDP.
- Introducing a mandatory contribution rate of 4% of salaries to private pension funds would generate additional revenues in the order of 1% of GDP.

**Figure 24. Replacement and benefit ratios will be relatively low**

**A. Gross average replacement rates, 2013**

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVA</td>
<td>70</td>
</tr>
<tr>
<td>EST</td>
<td>70</td>
</tr>
<tr>
<td>SVN</td>
<td>70</td>
</tr>
<tr>
<td>HUN</td>
<td>70</td>
</tr>
<tr>
<td>HRV</td>
<td>70</td>
</tr>
<tr>
<td>CZE</td>
<td>70</td>
</tr>
<tr>
<td>AUT</td>
<td>70</td>
</tr>
<tr>
<td>SWE</td>
<td>70</td>
</tr>
<tr>
<td>SWE</td>
<td>70</td>
</tr>
<tr>
<td>NLD</td>
<td>70</td>
</tr>
<tr>
<td>DNK</td>
<td>70</td>
</tr>
<tr>
<td>AUT</td>
<td>70</td>
</tr>
<tr>
<td>DEU</td>
<td>70</td>
</tr>
<tr>
<td>POL</td>
<td>70</td>
</tr>
<tr>
<td>PRT</td>
<td>70</td>
</tr>
<tr>
<td>GRC</td>
<td>70</td>
</tr>
</tbody>
</table>

**B. Gross average replacement rates, 2060**

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVA</td>
<td>80</td>
</tr>
<tr>
<td>EST</td>
<td>80</td>
</tr>
<tr>
<td>SVN</td>
<td>80</td>
</tr>
<tr>
<td>HUN</td>
<td>80</td>
</tr>
<tr>
<td>HRV</td>
<td>80</td>
</tr>
<tr>
<td>CZE</td>
<td>80</td>
</tr>
<tr>
<td>AUT</td>
<td>80</td>
</tr>
<tr>
<td>SWE</td>
<td>80</td>
</tr>
<tr>
<td>NLD</td>
<td>80</td>
</tr>
<tr>
<td>DNK</td>
<td>80</td>
</tr>
<tr>
<td>AUT</td>
<td>80</td>
</tr>
<tr>
<td>DEU</td>
<td>80</td>
</tr>
<tr>
<td>POL</td>
<td>80</td>
</tr>
<tr>
<td>PRT</td>
<td>80</td>
</tr>
<tr>
<td>GRC</td>
<td>80</td>
</tr>
</tbody>
</table>

**C. Benefit ratios, 2013**

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVA</td>
<td>50</td>
</tr>
<tr>
<td>EST</td>
<td>50</td>
</tr>
<tr>
<td>SVN</td>
<td>50</td>
</tr>
<tr>
<td>HUN</td>
<td>50</td>
</tr>
<tr>
<td>HRV</td>
<td>50</td>
</tr>
<tr>
<td>CZE</td>
<td>50</td>
</tr>
<tr>
<td>AUT</td>
<td>50</td>
</tr>
<tr>
<td>SWE</td>
<td>50</td>
</tr>
<tr>
<td>SWE</td>
<td>50</td>
</tr>
<tr>
<td>NLD</td>
<td>50</td>
</tr>
<tr>
<td>DNK</td>
<td>50</td>
</tr>
<tr>
<td>AUT</td>
<td>50</td>
</tr>
<tr>
<td>DEU</td>
<td>50</td>
</tr>
<tr>
<td>POL</td>
<td>50</td>
</tr>
<tr>
<td>PRT</td>
<td>50</td>
</tr>
<tr>
<td>GRC</td>
<td>50</td>
</tr>
</tbody>
</table>

**D. Benefit ratios, 2060**

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>LVA</td>
<td>60</td>
</tr>
<tr>
<td>EST</td>
<td>60</td>
</tr>
<tr>
<td>SVN</td>
<td>60</td>
</tr>
<tr>
<td>HUN</td>
<td>60</td>
</tr>
<tr>
<td>HRV</td>
<td>60</td>
</tr>
<tr>
<td>CZE</td>
<td>60</td>
</tr>
<tr>
<td>AUT</td>
<td>60</td>
</tr>
<tr>
<td>SWE</td>
<td>60</td>
</tr>
<tr>
<td>NLD</td>
<td>60</td>
</tr>
<tr>
<td>DNK</td>
<td>60</td>
</tr>
<tr>
<td>AUT</td>
<td>60</td>
</tr>
<tr>
<td>DEU</td>
<td>60</td>
</tr>
<tr>
<td>POL</td>
<td>60</td>
</tr>
<tr>
<td>PRT</td>
<td>60</td>
</tr>
<tr>
<td>GRC</td>
<td>60</td>
</tr>
</tbody>
</table>

1. Average first pension as a share of the average wage at retirement. Level of pension income in the first year after retirement as a percentage of individual earnings at the moment of retirement. Data refer to men who contributed for 40 years up to the standard pensionable age.

2. Average pension benefit as a percentage of economy-wide average wage. The average pension is calculated as the ratio of public pension spending relative to the number of pensioners, whereas the average wage is projected to follow that in labour productivity (GDP per hour worked). The ratio of these two indicators is intended to provide an estimate of the overall generosity of pension systems.


http://dx.doi.org/10.1787/888933555855

have gone further by linking the statutory retirement age to gains in life expectancy, including Denmark, the Netherlands, Finland and Italy (European Commission, 2017). Even
such a measure will not suffice to fully address the increase in pension spending and additional measures are needed to cover eventual pension shortfalls.

Additional measures are needed - including life-long learning and closing pathways into early retirement – to raise the effective retirement age (MDDSZ, 2016b). Moreover, the pension system provides few incentives for working past the statutory pension age. Pensioners can work part-time and also claim part of their pension. This option is becoming more popular, and by early 2017 half a per cent of all old-age pensioners continued to work. The low take-up can be explained by the meagre compensation for delaying retirement: every additional year worked leads to a 4% cut in net pension wealth (OECD, 2016b). A fairer system would be to allow those who decide to work past retirement age to receive larger future pensions, or to claim a full pension when they have reached pension age, regardless of work status. Remaining pension shortfalls should be covered through a combination of higher contributions, longer contribution periods and lower indexation of pensions.

The Resolution on the National Health Care Plan 2016-2025 is the basis for health-care reform to meet the challenges associated with population ageing, financial pressures and constraints as well as new technologies. The amended Health Services Act is being discussed in Parliament and includes new criteria for granting concessions for public healthcare services to improve transparency and accessibility. The 2017 Health Care and Health Insurance Act focuses health-sector reforms on improving financing of hospitals, cost containment and revenue stabilisation (also by broadening the contribution base) (Government, 2016c; Ministry of Health, 2016; Ministristvo za zdravje, 2017). Cost containment will be achieved by further strengthening the role of general practitioners as gatekeepers and extending mandatory joint public procurement to medical devices. Moreover, the out-of-date parameters in the diagnosis related groups (DRGs) used for output budgeting will be updated to reflect present cost structures. The DRGs and new quality indicators will be used in new two-year activity plans that will be negotiated between providers and the Health Insurance Institute (HII), particularly by allowing HII some room to select providers based on cost and quality. Revenue will be increased by expanding the health contribution base to include non-labour income and introducing a unified contribution rate. A draft of a new Long-Term Care Act was submitted to public consultation in mid-2017.

Cost containment should be accompanied by reforms to improve efficiency, as otherwise there is a risk that services will fall short of providing affordable, high-quality care. The hospital sector is characterised a large number of general hospitals without much specialisation. Efficiency could be improved if hospitals had greater leeway to specialise by adjusting their health services to changing demands, including the possibility of closing down underperforming departments, and to engage in multi-annual investment plans. In this respect, allowing hospitals to keep some of their cost savings could be helpful for the specialisation process. Such measures could, among other things, provide a pathway to greater specialisation, which both reduces costs and improves outcomes. Plans to replace the old governing boards with more professional bodies are welcome (European Commission, 2015b).

**Raising living standards by investing in capital and skills**

Investment in physical, intellectual and human capital will be needed to bolster productivity growth to pursue the Development Strategy’s priority of an economy that creates added value for everyone with an inclusive labour market and globally integrated, innovative
and competitive firms. However, the large decline in investment in general, and especially in business capital formation, has led to one of the lowest investment shares in GDP in the region (Figure 25). A particular concern is a lack of spending on knowledge-based capital. Moreover, despite a 7.4 percentage point increase in the stock of inward FDI to 28.9% of GDP since 2008, Slovenia still has one of the OECD’s lowest inward FDI positions and thus slower adoption of advanced technology and management practices. However, foreign owned firms generated almost 40% of total exports in 2015, and their value added per employee is almost a quarter higher than their domestic counterparts’ (Bank of Slovenia, 2016b).

Moreover, meeting the Development Strategy’s objectives of greater life-long learning and creating educational institutions that can adjust to changing needs, will allow workers’ skills to be continuously improved so they complement skills-intensive future investments, reflecting rapid technological changes associated with automation and digitalisation.

**Developing vocational skills to bolster inclusiveness**

Upon completing compulsory education (typically at age 15) students in upper secondary education can pursue academically orientated general education (with the aim of progressing to university) or vocational education. Slovenia’s vocational training system is broader in scope than in most other countries, with students having the flexibility to continue to tertiary education. Programmes involve either three years of traditional vocational training (for instance in plumbing), or four years of “technical” training (such as for technicians). In 2016 an apprenticeship pilot scheme was introduced. The three-year programmes have well-established links with local employers, as students spend 25% of course time in work-based practical training in addition to 15% of programmes’ content being determined by schools in co-operation with local companies (Ministry of Education, 2015). In contrast, workplace experience is a minor part of the four-year ‘technical’ programmes. Moreover, 90% of those in four-year programmes advance straight to tertiary education, despite the vocational aspect of the programmes. However, their access is typically restricted to courses in the same field as their secondary studies. In contrast, the general academic programmes give access to a much wider field-of-study choice (Lovšin, 2014).

The three-year programmes prepare students for the current needs of the labour market, as is shown by their good employment rates. However, vocational graduates lack advanced literacy and problem-solving skills, and are average in terms of numeracy, making it difficult for them to succeed in a changing and increasingly high-tech environment (Figure 26; OECD, 2016c). Acquiring such skills is important for life-long learning, which in turn increases occupational mobility (OECD, 2017). This could be achieved by enhancing teachers’ professional development to include greater use of problem solving and experimental learning (Ermenc and Mažgon, 2015). Several programmes for professional development were instigated in 2016, funded by EU social funds, although it is too early to assess their effectiveness.

Though the flexibility to progress from four-year programmes to tertiary education is welcome, such high progression rates may come at the cost of their losing their focus on training students for direct access to the labour market. The use of such a path may be an inefficient use of resources, particularly in view of the four-year programmes’ restricted access. Indeed, if students wish to pursue studies outside their field, they have to pass additional exams, thus requiring extra study time. The authorities should conduct an audit to investigate the advantages of students pursuing four-year technical programmes, rather than general education programmes. The four-year technical programme could lead to
better employment outcomes upon graduation by including more workplace training. This could be achieved, for example, through the existing Practical Training with Work programme (“Praktično usposabljanje z delom”), which links four-year students with local firms for temporary work experience during term time, by extending it to promote work experience during school holidays. In addition, firms’ take-up of this measure could be used as an indication of the relevance of particular vocational training courses.

Figure 25. Investment has fallen
As a percentage of GDP

A. Total investment in CEEC countries

B. Business investment, 2015¹

C. Share of intangibles in investment, 2015
As a percentage of nominal non-residential investment, latest available data

1. Non-financial corporations. 2013 for Mexico; 2014 for Belgium, Chile, Greece, Iceland, Ireland, Israel, Japan, New Zealand.
Adult education and life-long learning promote inclusiveness by allowing older workers to remain employable and are needed as older Slovenians (aged 55-64) perform poorly in literacy, numeracy and problem solving (as measured by the OECD’s PIAAC).
exercise; Figure 27). This is also reflected in the unsatisfactory SDG performance with respect to adult participation in education. However, workers with vocational skills lack opportunities for retraining, as existing programmes focus on completion of primary and secondary education. Recent government initiatives to expand life-long learning include introducing government co-financing (alongside employers’ and participants’ contributions) of part-time post-secondary vocational education and new special programmes to improve basic and vocational skills of older low-skilled workers (Čelebič, 2014). Participation in formal or informal training for adults (aged 25-64) is on a par with other countries’. However, the average number of hours of training for participants is the second lowest in the OECD. Moreover, as elsewhere, it is mostly the better educated who participate in life-long learning: those with high literacy scores are more than twice as likely to participate in training as the low skilled (OECD, 2016c).

Figure 27. **Mean literacy and numeracy proficiency scores for 55-64 year-olds**

![Figure 27](https://example.com/figure27)

1. For regions: Flanders for Belgium, Northern Ireland (UK2) and England (UK1) for the United Kingdom.
Source: Survey of Adult Skills (PIAAC), Table A3.5 (L) and (N).

To improve participation in adult education, providers should offer a more user-friendly approach, such as allowing greater on-line and distance learning, and part-time and modular courses (OECD, 2017). Training should also target mid-career workers to prevent skills obsolescence, by making workers more responsible for their participation, by, for example, giving them training vouchers or tax credits. Both the provision of training enabling the long-term unemployed to change occupation and the referral of workers to such training should be increased.

**Some labour market features are not conducive to inclusiveness**

Slovenia’s wage-determination system is characterised by sectoral bargaining within a highly co-ordinated setting with the (tripartite) Economic and Social Council issuing wage guidelines. In addition, the government has the possibility of administratively extending wage agreements. This system has succeeded in keeping overall wage developments in line with productivity increases, thereby maintaining external competitiveness, but it has also resulted in a relatively compressed wage structure (Figure 28). In particular, workers with vocational skills have maintained compressed wages despite major changes in
employment shares (Figure 29). As a result, changes in labour market demand are signalled more through unemployment rates than relative wages. Thus, workers are poorly informed about which skills they should develop further. In addition, business investment may be hampered if investors are unable to find sufficient amount of workers with relevant skills. Evidence also shows that the Italian bargaining regime (which is similar to Slovenia’s) reduces the ability of firms to adjust salaries and conditions to attract suitable workers (Monti and Pellizzarini, 2016).

A greater element of firm-level wage determination could enhance such incentives. This could be achieved, for example, through greater possibilities for local social partners to opt out of sectoral agreements, by extending opt-out duration and broadening the set of valid reasons for using them. Similar measures have recently been taken in Italy, Portugal and Spain, with tax incentives being offered by the Italian government to promote productivity-enhancing firm-level bargaining, though this comes at a fiscal cost.
A peculiarity of Slovenian wage setting is that firms are legally obliged to pay wage premiums based on a workers’ entire work history, rather than by agreement between the worker (or worker representatives) and the firm. Although the precise amount is subject to collective agreement, this premium averages 0.5% per year and results in older workers costing on average 15% more to hire than their younger counterparts (OECD, 2016b). Though such a premium is modest, its rigidity particularly discourages hiring of those who change career and do not have job-specific work experience to justify the premium, or older long-term unemployed. This explains why Slovenia has amongst the OECD’s lowest levels of job churn, with particularly low jobless-to-employment transitions (Garda, 2016).

The determination of the seniority element has been transferred to the social partners in their collective agreements. Labour market inclusiveness could be further enhanced by removing that legal requirement, which would be of particular benefit in sectors not covered by collective agreements.
As outlined in a previous Survey, the high minimum wage (relative to the median) can potentially reduce employment prospects for the low skilled (OECD, 2015a). This may be a particular problem for older long-term unemployed, as long spells of unemployment are likely to have eroded their productivity and human capital. Thus, Slovenia should continue to moderate minimum wage growth to gradually increase the gap between the minimum and median wage. Moreover, sub-minimum re-entry wages for the long-term unemployed that increase over time could help long-term unemployed to develop on-the-job skills. This could be combined with a refundable earned income tax credit to address poverty issues. In addition, labour costs are further increased by the generous system of mandatory tax-free meal and travel allowances. As these are calculated per shift, rather than per hour worked, they discourage firms from hiring part-time workers and distort commuting incentives and could be replaced by a fixed employment tax credit (of the same value as the average tax saving from meal and travel allowances), benefitting those living near their workplace.

Slovenia spends less on active labour market policies (ALMPs) than most other OECD countries (Figure 30). The prospects of the unemployed are damaged by poor communication between the Employment Service (ES) (which acts as a job broker and offers career counselling) and the Centres for Social Work (CSW) (which pay benefits to those not covered by unemployment insurance). For example, social assistance recipients may agree different action plans with the ES and the CSW. Moreover, if recipients do not comply with ES training requirements, their welfare support from CSW may not be affected. Such co-ordination problems could be overcome by merging some of the activities of the ES and CSW, as is being considered. Also, sanctions for failure to meet obligations are amongst the OECD’s strictest (with such failures treated as equivalent to fraud), but they are inconsistently enforced. In part, this reflects a high administrative burden for ES staff to impose sanctions and their reluctance to impose sanctions for initial breaches. Instead, more graduated albeit consistently enforced sanctions should be introduced (OECD, 2016b).

Figure 30. Relatively little is spent on active labour market programmes per unemployed person
As a percentage of GDP per capita, 2015

1. The OECD aggregate is calculated as an unweighted average of the data shown.

StatLink: [http://dx.doi.org/10.1787/888933555931](http://dx.doi.org/10.1787/888933555931)
The unemployment and disability insurance regimes can be used as routes to early retirement. The maximum duration of unemployment benefits increases with age, and those aged over 56 (and who have less than two years to be eligible for their old-age pension) earn pension contributions while unemployed. Also, the requirement for the disabled to undergo vocational rehabilitation and medical checks becomes less stringent with age. As a result a third of people retiring do so via unemployment (OECD, 2016b). Ending the link between age and social insurance rules would remove a work disincentive, enhancing labour market inclusiveness. This could be achieved by shortening the benefit period for older workers. Another disincentive is that the definition of disability is related to the person’s work capacity in their current occupation. It would be more inclusive to change the definition to include the possibility of switching occupations.

**The tertiary system has expanded, but quality remains an issue**

Slovenia has experienced a large expansion in the proportion of tertiary graduates, though this partly reflects a declining youth population (while the number of university places has been more stable), and the move to three-year from five-year degree programmes, as part of the EU harmonisation of tertiary education (the so-called Bologna process) (Figure 31; European Commission, 2010). However, quality is a concern, as Slovenian graduates are among the OECD’s bottom performers in terms of literacy and merely average for numeracy (Figure 26, above). The government has begun a process of reform, as recommended in previous Surveys (OECD, 2016c; Table 9).

Paying universities a lump sum per full-time undergraduate student enrolled creates incentives for them to enrol as many students as possible and to ensure they continue studying. At end-2016 the funding formula was changed so 75% of funding comes in the form of a fixed amount per institution and the rest is related to student enrolment and output indicators, such as scientific output, employment prospects of graduates and industry collaboration. Increasing the share of funding dependent on graduates’ labour-market performance would help to better align the supply and quality of education with the needs of society. Publishing such labour-market scores would help students identify the best institutions in this respect.

Universities’ ability to respond to changing technologies and new discoveries is limited by the prohibition of teaching in foreign languages unless the course is also offered in Slovenian (Flander and Klemenčič, 2014). This effectively limits the hiring of academics to Slovenian speakers. Broadening the scope for teaching in foreign languages would expand the pool of academics that Slovenia could tap, raising the quality of faculties, fostering new research and academic development, and equipping students with knowledge that can help move production closer to the global frontier.

The incentives for pursuing tertiary education include free tuition for full-time students and scholarships for about a quarter of students. However, those aged over 26 and part-time students are generally ineligible for financial support, reducing life-long-learning incentives (European Commission/EACEA/Eurydice, 2016). Generous support and high youth unemployment has led to 57% of 20 year-olds enrolling in tertiary education, the third highest in the OECD. On the other hand, Slovenia also has one of the OECD’s lowest university completion rates. Moreover, fewer children with lower-skilled parents move to tertiary education than the OECD average (OECD, 2016c).
Accessibility of tertiary education can be improved by rebalancing the support system. Increasing tuition fees for full-time courses would allow a reduction in the hefty fees for part-time students. Tuition fees should be complemented with increased provision of needs-based scholarships and grants to keep education affordable for students from poor families. Tuition fees would also incentivise students to complete their studies on time and to give greater consideration to future career prospects. A student loan scheme (with income-contingent repayment) would help students cover the new tuition fees and the costs of living away from home. Finally, raising the age at which support is withdrawn would allow students to delay study choice until they are more certain of the course to follow and facilitate upgrading of their occupational qualifications later in life.
Easing regulation and boosting competition

Fostering internationally competitive firms is key for reaching the Development Strategy’s priority of an inclusive and globally integrated economy that creates opportunities for all. Regulatory and competition policies that are stable and even handed, and remove barriers to new firms create competitive markets. New firms introduce innovative technologies and business models. The result is higher consumer welfare, either through lower prices or greater choice, and higher productivity.

Regulation of businesses is substantial

Red tape is a major challenge. Slovenian firms are faced with relatively heavy administrative burdens (Figure 32), discouraging them from growing and investing to become more productive. The main obstacles are complex regulatory procedures. Start-ups and individual entrepreneurs encounter especially onerous administrative burdens and protection of incumbents (Koske et al., 2014). Changing regulation and a lack of co-ordination between large numbers of government agencies create regulatory uncertainty and increase compliance costs (European Commission, 2015d). Specific problems include cumbersome procedures for obtaining construction and environmental permits (a priority area for the government) as well as for more mundane matters, such as registering and transferring property, paying taxes and enforcing contracts (European Commission, 2015c). In the 2017 version of the World Bank’s Doing Business indicators, Slovenia ranked 30th out of 189 countries (World Bank, 2017).

The government is addressing these concerns through regulation-easing initiatives, including the so-called Single Document and the launch of an SME test to lower burdens on small firms; however, progress has been uneven (European Commission, 2016b). The individual ministries have to implement the SME test, while the Ministry of Economic Development and Technology is responsible for its oversight and the Ministry of Public
Administration offers technical support, while both ministries offer training. In addition, the Ministry of Public Administration is implementing a national one-stop business portal (eVEM). The Ministry of Economic Development and Technology has implemented a network of local “one-stop” shops, all to reduce time and administrative costs.

The National Reform Programme for 2017-18 lists upcoming initiatives to reduce administrative burdens and the costs of doing business, such as requiring regulatory impact assessments (RIAs) and ex post evaluation of new measures (Government, 2017). However, much of this work will be carried out by individual ministries with different standards and also does not address the concern that stakeholders have insufficient time to comment on new proposals. In fact, less than half of current stakeholder engagements meet the standards set out in the administrative Rules of Procedure. Additionally, less than 10% of RIAs include any quantified economic impacts, although a descriptive analysis is included more often. A more coherent application of a common RIA framework could be achieved by creating a single authority that is responsible for RIA quality control and ex post evaluation of new measures. This should be complemented by early stakeholder involvement in drafting proposals and enforced minimum time limits for commenting. Such an approach would help to achieve the SDG of improving ex post regulatory evaluation.

New market entry has a positive impact on competitive firms’ investment incentives. However, in Slovenia it is restricted in a number of ways. For example, foreign firms that are victimised by restrictive business practices have to press charges through the courts, rather than through the competition authority or trade policy bodies (Koske et al., 2014). Moreover, foreign investors see a lack of a consistent and well targeted inward FDI strategy (European Commission, 2016b). In general, a good business environment will boost FDI. Moreover, attracting FDI could also be facilitated by relatively simple measures, such as the publication of investment opportunities (including long-term privatisation plans) to allow foreign investors to develop multi-year strategies. Indeed, stronger privatisation efforts would augment investment opportunities. In addition, new entrants are faced with time-consuming spatial and environmental regulation. In mid-2017 the government proposed to accelerate these processes by introducing fast-track procedures and simultaneous permit issuance as well as creating a conflict-resolution body.

**Competition law enforcement could be stronger**

Slovenia’s competition law is modelled on EU regulation. The independence of the Competition Protection Agency (CPA) has been strengthened over time, although the Ministry of Economy remains responsible for supervision and its budget. Its independence and operational freedom could be further enhanced by financing it through a stand-alone budget. This could, for example, involve its own budget line and reporting to parliament, as is done in several other OECD countries. Greater financial independence could allow the CPA sufficient resources and the freedom to allocate them to priority areas to bolster relatively weak enforcement and advocacy efforts. Staff levels are comparatively low, and few have relevant expertise, as many are seconded from line ministries (Table 10). A sufficiently large, well-trained and specialised staff is essential for effective competition enforcement, pointing to the need for expanded resources and independent career paths for staff at the CPA.

The CPA has had limited enforcement success, with few of its cases fully upheld by the courts and nearly half of all its fines imposed since 2009 overturned. This poor enforcement record partly reflects significant procedural weaknesses arising from a two-step procedure
that is not found elsewhere in the OECD. First, administrative proceedings need to establish whether a violation has occurred, which allows the CPA to issue an order to cease the unlawful conduct. In a second step the CPA may decide to issue a fine in so-called minor offence proceedings. Appeals in each of the two steps are made to different courts. The two-step procedure creates a duplicative administrative burden for CPA staff and may impose unnecessary costs on parties under investigation. The involvement of two different courts increases barriers to effective enforcement, imposes significant burdens on judges and lengthens proceedings. Consolidating the two-step procedure into a single process would improve the certainty, efficiency and timeliness of enforcement procedures.

There are many regulated professions

Slovenia has 220 regulated professions (albeit down from 324 in 2010) more than in most other EU countries and four times more than in the countries with the fewest: Sweden and the Baltics (Koumenta et al., 2014). Regulation typically involves high educational requirements, long compulsory practical training, obligations to register in chambers and restrictive systems of concessions (European Commission, 2015b; OECD, 2015a). Moreover, real value added per employed person tends to be relatively low, which is likely to reflect, among other factors, relatively low labour productivity in these areas (Figure 33). This leads to higher prices for downstream production and thus weaker investment incentives. Despite an ongoing reform effort, the number of regulated profession will remain high. The government should formulate a comprehensive plan to reduce the number of regulated occupations to approach best practices. Quality and safety concerns can often be addressed by using lighter regulation, such as replacing mandatory with voluntary registration in professional bodies and focusing on protection and certification of professional titles, rather than on restricting numbers.

Well-developed infrastructure will support investment and productivity

Developing modern infrastructure to support economic growth is essential for encouraging business investment and for reaching the National Development Strategy’s objective of inclusive growth across the country. Slovenia’s high spending on transport infrastructure is largely financed by EU structural funds. However, the heavy reliance on external funds means that most infrastructure investment decisions are not separate from the financing of the project, removing the focus on social returns (OECD, 2016e). This is reflected in the development of road infrastructure, where the upgrade of the highway system has not been matched with more spending on the secondary and tertiary road networks. Indeed, only a third of the nation’s secondary and tertiary roads are in good or very good condition, and its logistics infrastructure quality is perceived to be poor (Figure 34) (Ministrstvo za infrastrukturo, 2015; European Commission, 2015e). The government

<table>
<thead>
<tr>
<th>Country</th>
<th>Non-administrative staff focused on competition in 2015</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>51</td>
<td>5 465 000</td>
</tr>
<tr>
<td>Latvia</td>
<td>38</td>
<td>2 041 111</td>
</tr>
<tr>
<td>Lithuania</td>
<td>42</td>
<td>3 162 609</td>
</tr>
<tr>
<td>New Zealand</td>
<td>83</td>
<td>4 509 760</td>
</tr>
<tr>
<td>Slovenia</td>
<td>17 (current)</td>
<td>2 061 923</td>
</tr>
</tbody>
</table>

Source: Global Competition Review Ratings Enforcement for 2015; OECD Stat.
presented a national transport strategy in 2015. Nonetheless, existing plans are sector-based with relatively short time horizons, but a more cost-efficient selection of investment projects is difficult to achieve in the absence of a unified selection framework (OECD, 2016e).

The lack of a unified framework has also affected plans to develop the only harbour (an SOE) into a regional transport hub by connecting it to the hinterland through expanded rail capacity. The profitability of such a project is highly influenced by the relatively large number of competing ports in neighbouring countries. The (mandatory) Slovenian evaluation did not take into account the alternative use of funding or other transport models, reducing the value of the exercise as a decision-making input. In contrast, an OECD analysis shows that alternative models are economically viable and less costly (OECD/ITF, 2015). This limitation is mitigated to some extent by the fact that this project benefited from feasibility studies by the EU Commission and the European Investment Bank.

Figure 33. Real value added in professional services is low
Gross value added in thousand euros per person employed, PPPs, 2014

1. 2012 for Ireland.
2. Accounting, bookkeeping and auditing; tax consultancy.
3. Including related technical consultancy.
Looking ahead, EU structural funds are eventually going to be reduced, implying that future infrastructure projects will increasingly be government financed and benefit less from external checks and balances. Thus, developing a common cost-benefit methodology for infrastructure and other large public capital spending projects is imperative to secure the best project selection and use of available funds, as well as to promote other objectives, such as environmentally friendliness. This would also help to abate perceptions of undue political influence in the decision-making process. A single approach requires common models and parameters and mandatory presentation of alternative investments (OECD/ITF, 2017). A single authority, as is the case with the Dutch CPB, could be responsible for developing such a unified system and for evaluating third-party analysis as well as for ex post budget and performance analysis to achieve a consistent approach over time (OECD, 2016e).

**Public ownership is pervasive**

Slovenia’s nearly 650 SOEs (including those owned by municipalities and subsidiaries) account for 20% of non-financial employment and make the state Slovenia’s largest asset manager and corporate debtor (European Commission, 2015b). Many SOEs are conglomerates, often with dominant or significant positions in their main markets and subsidiaries in other, often unrelated, sectors (Figure 35). SOEs are active in competitive sectors, such as tourism and textiles, which other countries’ SOEs have either never entered or withdrawn from. Widespread public ownership, together with strong government involvement in business operations, reduces the scope for business investments and hinders FDI in domestic markets (OECD, 2016d). SOEs also reduce product market competition through their dominant market positions, cross-subsidisation of activities in competitive markets and influence on new regulation. Moreover, they have significantly underperformed private firms across Europe in terms of productivity and profitability (European Commission, 2014 and 2015e).

Slovenia’s SOE ownership and corporate governance responsibilities have been consolidated in the Slovenian Sovereign Holding (SSH), as recommended in past Surveys (OECD, 2015b; Table 11). The SSH’s portfolio amounts to a third of GDP and is divided into “strategic” investments with a required state majority (two-thirds of the portfolio), important
investments with a required state holding of more than 25% (nearly a fifth of the portfolio), and portfolio investment that can be fully privatised (15% of the portfolio). This excludes the many indirectly held SOEs (European Commission, 2016b). This classification is not explicitly linked to any economic, security or financial framework.

The SSH’s corporate governance of SOEs relies on improving their financial performance through (negotiated) higher required rates of return. However, this is not combined with performance-related pay for managers (European Commission, 2014 and 2015e). Increasing the performance element in management remuneration and hardening their budget constraints could improve their financial performance. Moreover, many SOEs have a high share of politically affiliated supervisory board members, leading them to be less productive than their private-sector counterparts (Domadenik et al., 2016). Thus, the SSH should strengthen SOEs’ corporate governance and bolster their performance by installing more professional supervisory boards.

The SSH’s mandate is to sell at the highest price and to pursue non-financial objectives, such as company development, job preservation, maintaining Slovenian head offices and language use, and including employees’ representatives in the privatisation process. Together with state ownership requirements, these non-financial objectives may discourage...
strategic partners. So far, less than 5% of the value of the shares held by SSH has been sold, implying a lack of equity market deepening to encourage private firms and new FDI opportunities. The government should accelerate the current privatisation plan. In addition, it should develop a strategy based on addressing market failures, such as natural monopolies, and focus SOEs on their main activities by divesting most subsidiaries to remove cross-subsidy concerns and make them more efficient and more attractive to strategic partners. If the government wants to preserve public ownership in other cases, a strategic document should be published to clarify the need for it.

Public ownership is widespread in network sectors. The highly concentrated telecommunications market has become even more concentrated, as the three main mobile network operators have entered the market for fixed-line products. In addition, the third-largest broadband provider has gone bankrupt and is being offered for sale by the BAMC, although the constitutional court invalidated the bankruptcy decision in early 2017, and the provider continues to operate. A third attempt to privatise the largest mobile telephone network operator failed on concerns over the regulatory environment, new roaming regulation, the complex political context and public resistance to privatisation (SSH, 2015). Nonetheless, more intense competition in the mobile segment following the failed privatisation has led to very low prices. This development has not affected the relatively high prices for fixed broadband connections (Figure 36). New wholesale regulation that reduces allowed margins is expected to impose further downward pressure on prices.

The increased market concentration and horizontal integration may complicate the task of preserving the gains from price competition, particularly as the SSH and BAMC are not required to seek the opinions of the CPA or the telecommunications regulator (AKOS) about how privatisation might affect competition. Scale effects are less important in telecommunication as some of the more competitive markets are found in smaller OECD countries, such as the Nordics. Thus, the government should continue to strive to sell its stakes in the sector and formulate a strategic view on the desired future competitive market structure in consultation with the regulator and the CPA. Competition should be further supported by easing entry conditions for MVNOs (mobile virtual network operators), either through regulation (as in France) or by using the legal provisions against abuse of dominant position (as in Denmark).

Electricity has been liberalised in line with EU regulation, and pre-tax prices are on a par with those in neighbouring countries, although above those in the Nordics. The sector is dominated by vertically integrated SOEs. International competitive pressures are increasing with the ongoing expansion of interconnection capacity with neighbouring countries. Combined with a relatively fast expansion of generation capacity, this bodes well for competition, pointing to the benefits of privatisation in this segment. However, much of the new capacity comes from a new state-owned lignite-fired power plant, which was never subject to a full cost-benefit analysis, whose construction costs were double planned levels (Court of Audit, 2015), and whose generation costs are relatively high because the lignite comes from a high-cost, state-owned mine.

More generally, the integrated SOEs in the sector are also active in unrelated activities, such as district heating, broadband and wireless telecommunications and charging stations for electric cars. This leads to problems in non-competitive segments, such as distribution, which is subject to accounting separation – a relatively weak form – to determine cost-based distribution charges (Agencija za energijo, 2016), which are
nonetheless 14% higher than the EU average (ACER, 2016). A competition-enhancing restructuring would first require effective structural separation of activities into separate companies, and then privatisation of activities in competitive markets. This should be supplemented by a strong regulatory framework to secure non-discriminatory third-party access to the transmission and distribution networks.

**Greener growth**

Slovenia's environmental indicators are generally good. The economy's energy intensity is above the OECD average and has to fall considerably to reach the SDG energy efficiency target. On the other hand, its CO₂ intensity is lower, because two-thirds of electricity comes from nuclear and hydropower plants (figure 37, Panels A and B; Agencija za energijo, 2015). In addition, other renewable energy sources, such as combined heat and power, are well developed (Chapter 2). In all, renewables account for 21% of energy consumption, and reaching the 2020 target of 25% will be facilitated by new hydropower projects coming on line (European Commission, 2016c; European Environment Agency, 2016).

The support scheme for renewables has changed with the introduction of a two-stage tendering process for deliveries of fixed volumes, strengthening price competition. Small operators continue to benefit from feed-in tariffs. The support scheme is financed through a
Figure 37. Environmental outcomes are good

A. CO₂ intensity

- CO₂ per GDP - production based (kg/USD, 2010 PPP prices)
  - Slovenia
  - OECD

B. Energy intensity

- CO₂ tonnes per capita, demand and production based
  - Slovenia
  - OECD

C. Population exposure to air pollution

- Mean annual concentration of PM₁₀ (μg/m³)
  - Slovenia
  - OECD

D. Municipal waste generation and recycling

- % of population exposed to PM₁₀, 2013
  - Slovenia
  - OECD

E. Environment-related taxes

- Environment-related tax revenue, 2014 (% of GDP)
  - Energy
  - Motor vehicles
  - Other
  - Total, 2000

F. Environment-related technologies

- Tax rate of unleaded petrol and diesel, 2015 (USD/litre)
  - Slovenia
  - OECD

- Inventions per capita 2011-13 (patents/million persons)
  - Slovenia
  - OECD

- % of all technologies
  - SVN OECD
  - SVN OECD


StatLink: http://dx.doi.org/10.1787/888933556007
surcharge levied on customers with a partial exemption for energy-intensive users (Agencija za energijo, 2016). However, CO₂ abatement costs vary considerably across technologies, implying important cost inefficiencies with respect to reaching the renewable energy target (Figure 38). Lower costs of reaching the Development Strategy’s objective of sustainable growth could be achieved by implementing a feed-in tariff system that is unbiased with respect to technology (i.e. having the same abatement cost across technologies). In addition, the associated abatement costs should also be used in selecting projects from the competitive tendering process to identify those that are most cost efficient.

![Figure 38. Abatement costs vary across technologies](http://dx.doi.org/10.1787/888933556862)

**EUR/tonne of CO₂, 2014**

A relatively large share of the population is exposed to fine particulate pollution, which is linked to the heavy reliance on road transport (reflecting a dispersed population, generous commuting allowances and poorly developed public transport), international transit traffic and the lignite-fired power plant (OECD, 2012). Locally, particle emissions from wood stoves are also problematic. The tax revenues associated with road transport help to achieve an above-average share of GDP from environmental taxes, in line with recommendations from past Surveys and the 2012 OECD Environmental Performance Review (Table 12; OECD, 2015a and 2012). Reducing particle emissions could be achieved by adjusting transport fuel taxes to reflect their emissions of particles and CO₂, resulting in relatively higher diesel taxes, and replacing commuting allowances with general tax credits (Chapter 1).

**Table 12. Past OECD recommendations for achieving green growth**

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Actions taken since the 2015 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further align effective tax rates on different forms of energy to reflect environmental damage.</td>
<td>In 2015 the CO₂ tax was increased (from 0.0144 to 0.0173 EUR per kg of CO₂).</td>
</tr>
</tbody>
</table>

**Bibliography**


Bank of Slovenia (2016b), Direct Investment 2015, Ljubljana.


Court of Audit (2015), Povzetek revizijskega poročila Obvladovanje denarnih tokov skupine HSE zaradi investicije v blok 6, Ljubljana.


Government (2016a), Slovenia’s development strategy – outline of Strategic Priorities and Draft Goals, working material (22/12), Ljubljana.


Ministrstvo za infrastrukturo (2015), Strategija razvoja prometa v Republiki Sloveniji, July, Ljubljana.


Ministrstvo za delo, družino, socialne zadeve in enake moznosti – MDDSZ (2016b), Starejsi in trg dela v Sloveniji, December, Ljubljana.


ANNEX

Progress in main structural reforms

This annex reviews action taken on recommendations since the May 2015 Survey.
## Cleaning-up banks’ balance sheets

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ring-fenced assets should be fully disposed of at the end of the mandate of the BAMC and not transferred as currently envisaged to the sovereign holding company to avoid a permanent postponement of the resolution of impaired assets.</td>
<td>With a prolonged mandate until 2022 the BAMC is enabled to sell all its assets. The Termination strategy and action plan is expected to be completed in 2020.</td>
</tr>
</tbody>
</table>

## Enhancing banking supervision

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the context of the single supervisory mechanism framework, the bank supervisor should more closely monitor banks’ adherence to regulations and guidance, and encourage banks to improve their risk management.</td>
<td>In the context of managing non-profitable loans, the banks are establishing a system of early detection of increased credit risk. The Bank of Slovenia has created guidelines for gradual elimination of impairments for investment and better reporting systems. The Bank has also prepared guidelines for establishing Early Warning Systems. The law on a central credit register (a database of credits and credit resists and other exposures) was adopted in November 2016.</td>
</tr>
</tbody>
</table>

## Simplifying insolvency procedures

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the context of the single supervisory mechanism framework, the bank supervisor should more closely monitor banks’ adherence to regulations and guidance, and encourage banks to improve their risk management.</td>
<td>In the context of managing non-profitable loans, the banks are establishing a system of early detection of increased credit risk. The Bank of Slovenia has created guidelines for gradual elimination of impairments for investment and better reporting systems. The Bank has also prepared guidelines for establishing Early Warning Systems. The law on a central credit register (a database of credits and credit resists and other exposures) was adopted in November 2016.</td>
</tr>
</tbody>
</table>

## Increasing efficiency of public expenditure

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to gradually cut the combined generosity of unemployment benefits, social assistance and other transfers for the unemployed and inactive persons to increase work incentives and strengthen fiscal sustainability. Raise pupil-teacher ratios in pre-primary and lower secondary education and class sizes in primary and lower secondary education to reduce costs. Introduce universal tuition fees along with means-tested grants and loans with income-contingent repayments to ensure to boost spending efficiency.</td>
<td>No action taken.</td>
</tr>
</tbody>
</table>

## Reforming the pensions system

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider further cutting replacement rates by lowering effective accrual rates and calculating pension rights over lifetime contributions.</td>
<td>No action taken.</td>
</tr>
</tbody>
</table>
### Product markets and business environment

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop equity markets by eliminating political interference into management of listed companies, improved rights of minority shareholders and enhancing operational and financial independence of the Slovenian Securities Market Authorities.</td>
<td>In 2015, the legislative protection of minority shareholders was improved with the introduction of a minimum successful bid threshold of 50% + 1 share.</td>
</tr>
<tr>
<td>Streamline processes for accessing business premises, land and building permits.</td>
<td>In mid-2017, measures to accelerate the process of issuing building permits and spatial planning were presented in Parliament.</td>
</tr>
</tbody>
</table>

### Labour markets

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broaden access of the unemployed to active labour market policies by merging the Employment Service of Slovenia and the Centres for Social Work.</td>
<td>No action taken.</td>
</tr>
</tbody>
</table>

### Innovation and R&D

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement the government’s unified innovation policy and monitor its progress. Improve collaborative links between major stakeholders of innovation policy.</td>
<td>In 2015, the Smart Specialisation Strategy was adopted, which defines priority areas for R&amp;D investments and innovations. In 2016 innovation partnerships to improve collaboration between stakeholders were created. In addition, the framework for co-ordination and monitoring was strengthened.</td>
</tr>
<tr>
<td>Use more extensively research vouchers, funded with EU funds, to promote green innovation.</td>
<td>No action taken.</td>
</tr>
</tbody>
</table>

### Environment

<table>
<thead>
<tr>
<th>Recommendations from the previous Survey</th>
<th>Actions taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upgrade the railway system and improve efficiency of railways, especially in the freight sector.</td>
<td>Since 2015, several investment projects to upgrade the railway infrastructure were implemented.</td>
</tr>
</tbody>
</table>