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- After having narrowed steadily prior to the crisis, the gap in GDP per capita *vis-à-vis* the upper half of OECD countries has widened since 2008, reflecting a decline in labour utilisation and slowdown in labour productivity growth.
- Reform momentum has picked-up in the past two years, notably with the employment protection reform, which has been contributing to reduce labour market duality. The Parliament approved a list of 15 state-owned enterprises to be privatised and a new Slovenia Sovereign Holding to manage state assets has been established, but progress in reducing state involvement in the economy has been slow. A pension reform increased the statutory age for retirement, but further reform is needed.
- Reducing state involvement in the economy, improving tertiary education outcomes and boosting innovation would help raise labour productivity and long-term growth. Reform of unemployment benefits, social assistance and other transfers for the unemployed and inactive persons can increase work incentives; progress in this area would also strengthen fiscal sustainability.
- Future rises in the already high minimum wage should be moderated to improve the labour market inclusion of younger and low-skilled workers.

Growth performance indicators

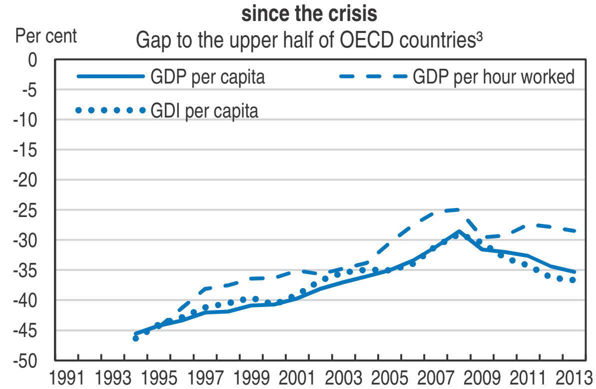
A. Average annual trend growth rates

Per cent

		2003-08	2008-13
Potential GDP per capita		2.4	0.1
Potential labour utilisation		0.2	-0.9
of which:	Labour force participation rate	0.1	-0.6
	Employment rate[1]	0.2	-0.5
	Trend employment coefficient[2]	-0.1	0.2
Potential labour productivity		2.2	1.0
of which:	Capital deepening	1.0	0.9
	Labour efficiency	0.8	-0.3
	Human capital	0.4	0.4

B. The gap in GDP per capita has widened since the crisis

Gap to the upper half of OECD countries[3]



1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. Percentage gap with respect to the simple average of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2005 PPPs).

Source: Panel A: OECD, *Economic Outlook 96 Database*. Panel B: OECD, *National Accounts and Productivity Databases*.

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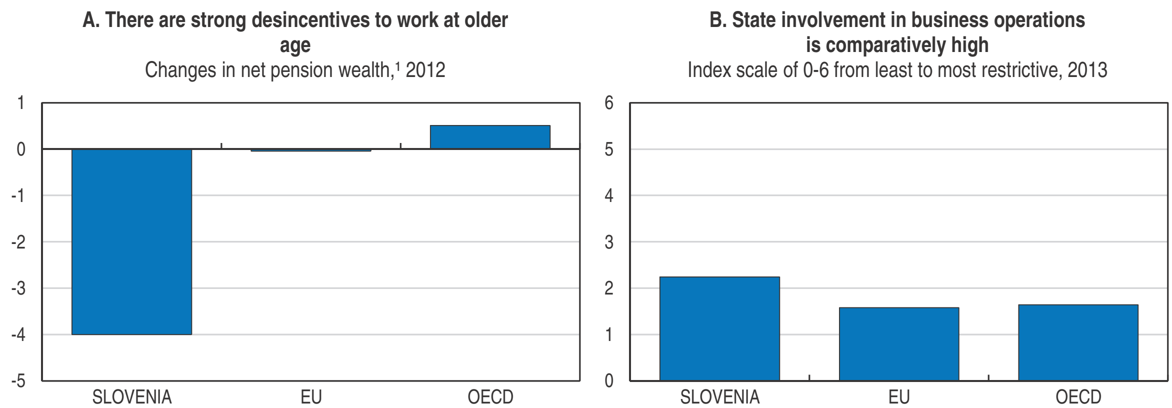
Policy indicators



1. The change in pension wealth is a measure of the incentive to remain in the workforce for an additional period. It measures the increase in the level of pension entitlement one gains by remaining in employment for an additional year. The calculation is the annual average increase in males' pension wealth when working from age 60 to 64. Net pension wealth is the present value of the flow of pension benefits, taking account of the taxes and social security contributions that retirees have to pay on their pensions. It is measured and expressed as a multiple of gross annual individual earnings in the respective country. See OECD (2013), *Pensions at a Glance 2013: OECD and G20 Indicators* for additional details, OECD Publishing, Paris, *http://dx.doi.org/10.1787/pension_glance-2013-en*.

Source: Panel A: *OECD Pension Models*. Panel B: OECD, *Product Market Regulation Database*, *www.oecd.org/economy/pmr*.

StatLink http://dx.doi.org/10.1787/888933178388

Going for Growth 2015 priorities

Priorities supported by indicators

Raise the statutory retirement age and reduce disincentives to work at older ages. The old-age pension system does not sufficiently incentivise older workers to remain active.

Actions taken: Effective retirement ages are expected to increase by around two and a half years to 62 for women and by nearly a year to 63 for men by 2020, following the 2013 pension reform. With the same reform, pensions' indexation has been cut from 100% of gross wage growth to 60% of gross wage growth and 40% of inflation.

Recommendations: Adopt a more ambitious pension reform with a view to ensuring both sustainability and adequacy of the system, for instance by linking the statutory retirement age to gains in life expectancy and encouraging private contributions to the second pillar of the pension system. Give more weight to inflation in the pension benefit indexation formula. Limit access to early retirement.

Limit wage growth for minimum wage workers. The statutory minimum wage relative to the median wage is high by OECD standards, and can be a barrier to employment of youth and low-skilled workers.

Actions taken: No action taken.

Recommendations: Limit the growth in the minimum wage with a view to reducing progressively its level relative to the median wage.

Reduce state involvement in the economy. Public ownership and control of enterprises is widespread and corporate governance weak, reducing technological progress and foreign direct investment inflows.

Actions taken: A Slovenia Sovereign Holding (SSH) became operational in 2014 to centralise the management of state-owned assets and facilitate privatisation, but the government and the Parliament have yet to agree on an asset management strategy. The Parliament approved a list of 15 state-owned enterprises to be privatised, including one state-owned bank and a major telecom provider. Four companies have been sold already while seven are in the privatisation process.

Recommendations: Reduce the scope of public ownership in the economy including in network industries. Devise a rigorous and transparent regime for determining which state assets should remain in public hands and ensure autonomy of the board and management of the SSH. Privatise state-owned banks to bolster the efficiency and stability of the banking sector. Allow competition authorities to be completely independent and provide them with adequate resources.

Other key priorities

Reform the unemployment benefit system.[1] Despite a recent cut in unemployment benefits, high average effective tax rates, partly driven by generous social transfers, hamper the transition of inactive and unemployed persons to the labour market.

Recommendations: 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.

Improve tertiary education outcomes and boost innovation. Tertiary completion rates are low, weighing on human capital formation and productivity. The R&D framework provides weak incentives to business innovation.

Actions taken: Student work, which benefits from a preferential tax and regulatory treatment, has been made somewhat less attractive to employers and students with the 2013 labour market reform. This can indirectly incentivise students toward earlier completion of studies.

Recommendations: Introduce tuition fees in public higher education institutions, along with student loans with income-contingent repayment. Tie access to student benefits to adequate progress in studies. Enhance autonomy in universities and public research organisations. Strengthen their links with the private sector.

Reform areas no longer considered a priority in *Going for Growth*

Ease employment protection legislation. In order to reduce labour market duality, it was recommended to narrow the gap in job protection between regular and temporary contracts.

Actions taken: A new Employment Relations Act that entered into force in April 2013 was a bold step in fostering convergence of termination costs across contracts, thereby gradually reducing duality. As a result, Slovenian legislation on this dimension is now just slightly more rigid than the average OECD country.

1. New policy priorities identified in *Going for Growth 2015* (with respect to *Going for Growth 2013*) are preceded and followed by an "*".

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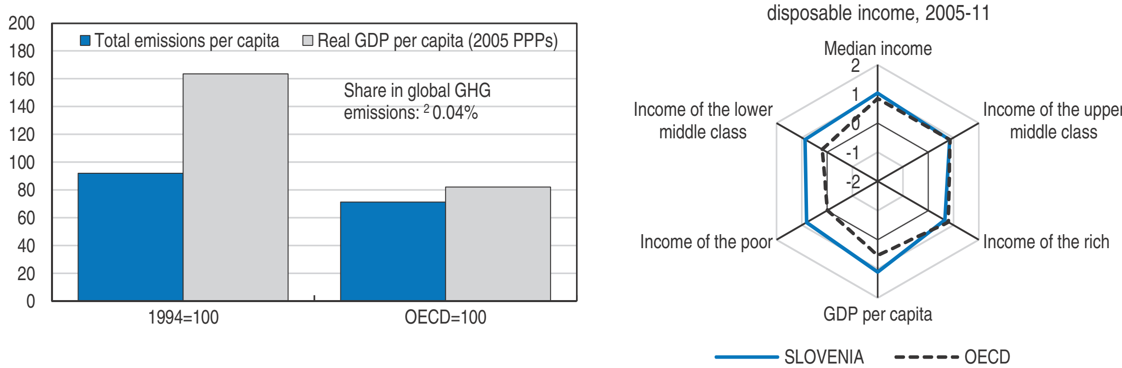
Beyond GDP per capita: Other policy objectives

A. Emissions per capita are below the OECD average
Average 2008-12[1]

B. Households from different income groups have benefited equally from growth in GDP per capita[3]
Average annual growth rate in real household disposable income, 2005-11



1. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Chile, Israel, Korea and Mexico) is calculated according to the same definition.
2. Share in world GHG emissions is calculated using International Energy Agency (IEA) data.
3. Household income across the distribution is measured by income standards with varying emphasis on different points of the distribution – from the low to the top-end of the distribution. See methodological notes at the end of the chapter for the computation of household income across the distribution.

Source: Panel A: OECD, *National Accounts and Energy (IEA) Databases*; and *United Nations Framework Convention on Climate Change (UNFCCC) Database*. Panel B: OECD, *National Accounts and Income Distribution Databases*.

StatLink http://dx.doi.org/10.1787/888933178819