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- The GDP per capita gap relative to most advanced OECD countries started closing for the first time in 2014, after 5 years of widening. The gap is still significant and GDP per capita is 6% below the 2008 peak. This drop largely reflects reduced labour utilisation.
- Due to the prolonged crisis, income inequality and poverty have increased. Slovenia nevertheless remains one of the OECD countries with the lowest level of disposable income inequality, in part reflecting sizeable redistribution through taxes and transfers.
- Reform momentum has picked-up in the past three years, notably with the reform of employment protection legislation, which reduced market duality. Furthermore, in 2015 healthcare and pension contributions were introduced for student work that had previously benefited from a preferential tax and regulatory treatment, reducing further labour market duality. In 2015 the parliament passed the Asset Management Strategy for state owned enterprises, and there has been progress in privatisation, including of the second largest bank. But overall progress with privatisation remains slow.
- Reducing state involvement in the economy will improve corporate governance and attract foreign investment. Reducing barriers to firm entry, while improving tertiary education outcomes and innovation would help raise labour productivity and long-term growth. Further pension reform is also needed to make people retire at an older age. Restructuring unemployment benefits, social assistance and taxes could increase work incentives for the unemployed and inactive persons. Progress in these areas would strengthen fiscal sustainability, while resulting higher participation and employment rates are the best guarantee against rises in inequality. Better targetting active labour market policies to the long-term unemployed and the low-skilled would help tackle the problem where it is most pressing.

Going for Growth 2017 priorities

Raise the statutory retirement age and reduce disincentives to work at older ages. Slovenian population is ageing rapidly, while the old-age pension system does not sufficiently incentivise older workers to remain active.

Actions taken: No action taken.

Recommendations: Adopt a new and 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.

Reduce state involvement in the economy and enhance competition in product markets. Public ownership is widespread, corporate governance weak and there are barriers to entry, reducing competition, technological progress and foreign direct investment inflows.

Actions taken: In 2015, the Parliament passed the Asset Management Strategy for state owned enterprises, classifying stakes in 100-plus companies into three groups: strategic, important, and portfolio investments. There has been further progress on privatisation as the 2nd largest state-owned bank – NKBM – was privatised. However, the Slovenia Sovereign Holding failed to privatise the national telecommunications company amid strong political pressure. The parliament also passed a law deregulating retail professions.

Recommendations: Further reduce state involvement in the economy to improve corporate governance, attract foreign investment and raise efficiency. The state should not

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Growth performance and inequality indicators

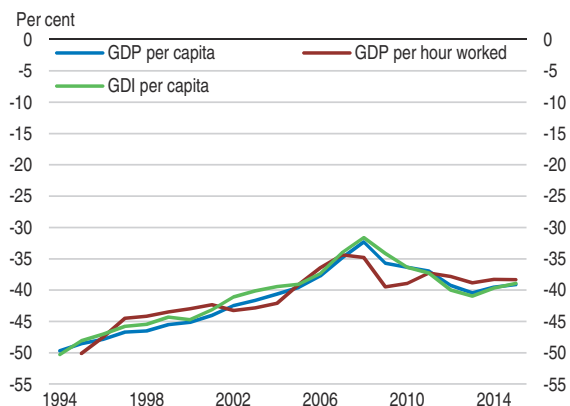
A. Growth

Average annual growth rates (%)	2003-09	2009-15
GDP per capita	2.2	0.4
Labour utilisation	0.7	-0.6
of which: Labour force participation rate	1.1	-0.4
Employment rate ¹	0.1	-0.6
Employment coefficient ²	-0.6	0.4
Labour productivity	1.7	1.3
of which: Capital deepening	0.6	0.0
Total factor productivity	1.1	1.3
Dependency ratio	-0.2	-0.3

B. Inequality

	Annual variation (percentage points)	
	Level	2008-13
	2013	2008-13
Gini coefficient ³	25.5 (31.7)*	0.4 (0)*
Share of national disposable income held by the poorest 20%	9.1 (7.7)*	-0.1 (0)*

* OECD average

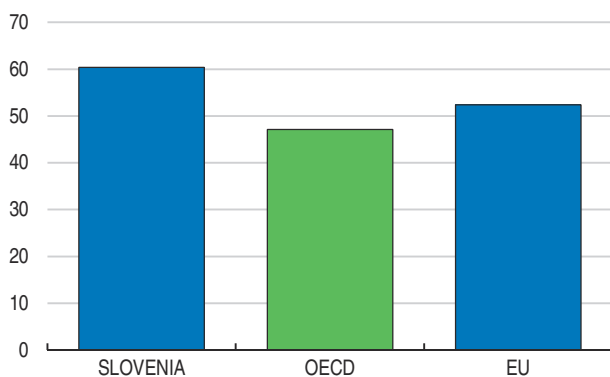
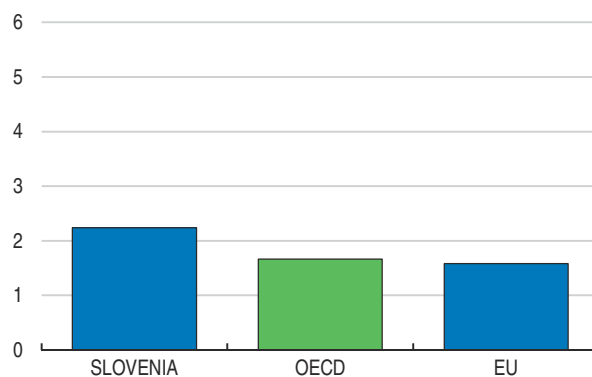
C. The gap in GDP per capita has stopped widening
Gap to the upper half of OECD countries⁴

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. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, Economic Outlook No. 100 Database; Panel B: OECD, Income Distribution Database; Panel C: OECD, National Accounts and Productivity Databases.

StatLink <http://dx.doi.org/10.1787/888933455281>

Policy indicators

A. The marginal labour tax wedge is high
Percentage of total labour compensation,¹ 2015B. State involvement in business operations is comparatively high
Index scale of 0-6 from least to most restrictive, 2013

1. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers. Marginal labour tax wedge for a single person at 167% of average earnings without child.

Source: Panel A: OECD, Taxing wages Database; Panel B: OECD, Product Market Regulation Database.

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hold controlling interests in firms operating in competitive markets. Introduce the “silence is consent” rule for issuing licences required to open up a business and make obtaining construction permits and registering property faster. Reduce entry barriers in professional services (accounting, legal, engineering and architecture).

Reduce disincentives in the tax and transfer system. Inactivity and unemployment traps are high. High marginal tax rates for high-earners have large costs in terms of work incentives and can deter investment in skills or hiring of highly skilled workers.

Actions taken: Measures to reduce the tax burden of mid-income wage earners have been adopted in 2016 for application in 2017. Changes in income tax brackets aim to reduce the tax wedge on earners above 1.6 of the average wage.

Recommendations: Restructuring unemployment benefits, social assistance and taxes could increase work incentives for the unemployed and inactive persons. Make the tax mix more conducive to growth by reducing top tax rates on labour income and increasing recurrent taxes on real estate. Better target family benefits and strengthen means testing of education-related benefits.

Improve tertiary education outcomes and boost innovation. Slovenia spends a lot on R&D, but there is a low number of innovative firms, patents and trademarks. Efficiency should be raised in tertiary education and overall students’ performance could be improved.

Actions taken: There has been in 2015 some phasing-in of entrepreneurship studies into the school system through pilot projects. Measures have been introduced to help start-up entrepreneurs, such as the reduction of administrative burdens, subsidies for the start-up of innovative companies, vouchers for training, business incubators, technology parks and business accelerators. There have also been steps to make Slovenia’s universities more attractive internationally.

Recommendations: Implement the government’s unified innovation policy and monitor its progress. Improve collaborative links between major stakeholders of innovation policy (research, technology development, and innovation, higher education, and policy makers). Strengthen entrepreneurship education in schools and encourage creativity and entrepreneurship drive. Facilitate reform in universities and public research organisations, enhancing their autonomy, leadership and accountability. Further promote international co-operation in universities and strengthen their links with the private sector.

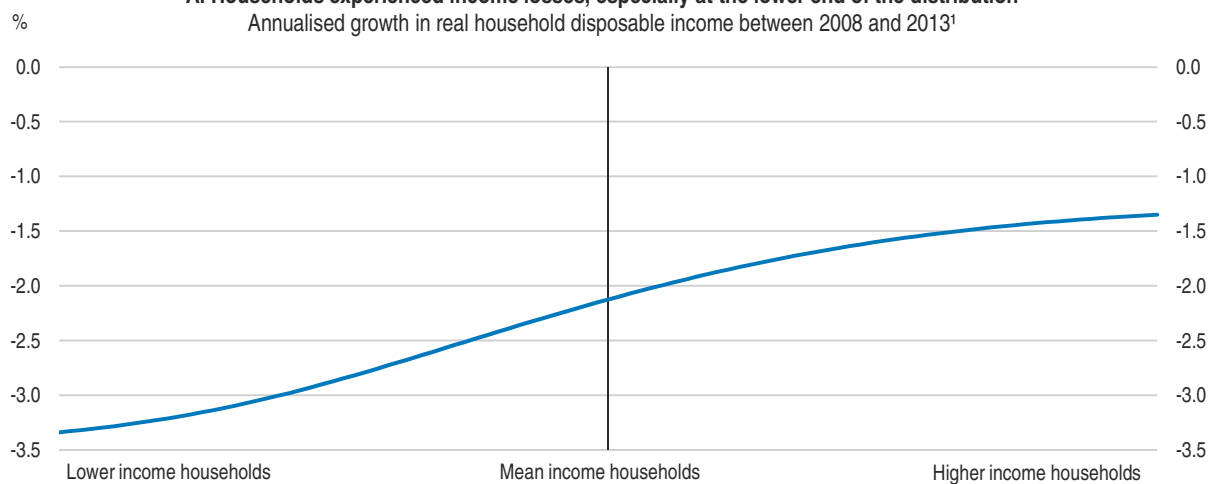
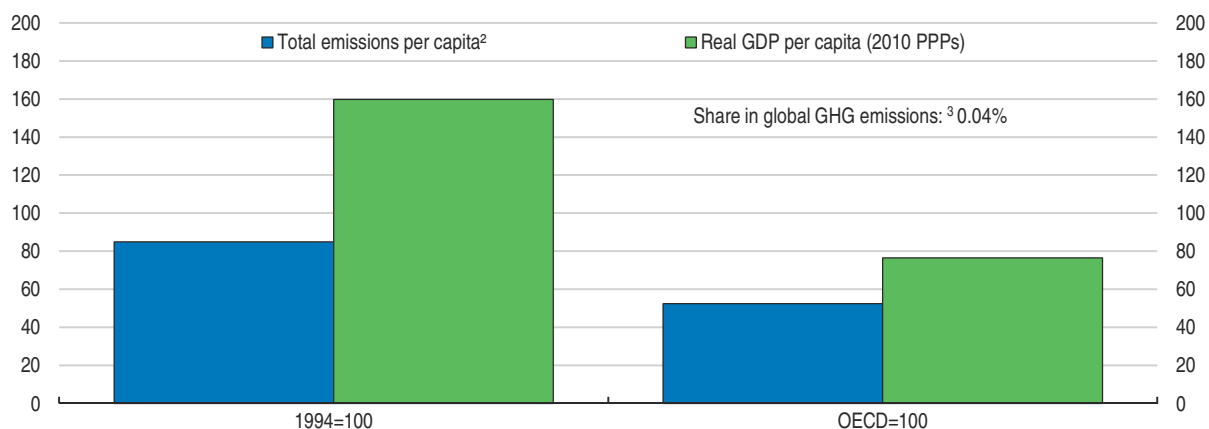
***Strengthen active labour market policies.*¹** Slovenia spends relatively little on active labour market policies (ALMPs), and existing programmes are not sufficiently well-targeted to the long-term unemployed and the low-skilled. Less than half of the unemployed participate in ALMPs.

Recommendations: Increase resources for active labour market policies and better target assistance to the long-term unemployed and the low-skilled, based on evaluation of individual programmes. All workers unemployed for more than one to three consecutive months should be encouraged to participate in job counselling and activation programmes, by increasing awareness and specifically targeting those groups that do not participate.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an “*”.


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Beyond GDP per capita: Other policy objectives

A. Households experienced income losses, especially at the lower end of the distribution
Annualised growth in real household disposable income between 2008 and 2013¹B. Emissions per capita are below the OECD average
Average 2010-14

1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO₂ equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

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

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