Slovenia

Several long-standing vulnerabilities risk slowing down the recovery. Lowering labour taxes should be a priority. Currently, low-skilled workers have few incentives to enter employment or increase work efforts as high-income taxes erode their income gains. Another concern is the relatively high share of state-owned enterprises, present across all sectors, which hinder competition and reallocation of resources to most productive firms during the recovery.

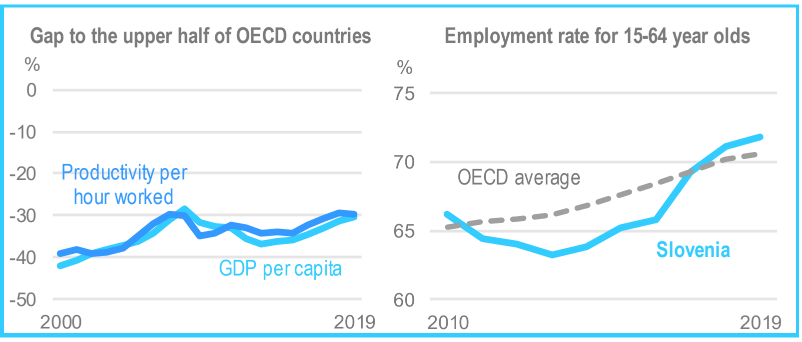
Performance prior to the COVID-19 crisis

Economy

GDP per capita is 31% lower than OECD best performers.

Productivity is 30% lower than OECD best performers.

Employment rate is average and was increasing before the 2020 crisis.



Inequality

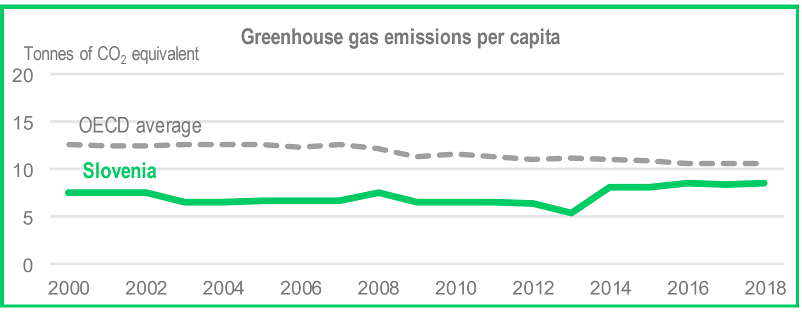
Inequality is lower than in most advanced economies.

The poorest 20% of households earn 9.6% of total income.

Environment

More than 3/4 of the population is exposed to harmful levels of air pollution.

GHG emissions have not decreased in recent years.



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).
Inequality: The Gini coefficient for disposable income 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.
Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m3 of PM2.5.
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

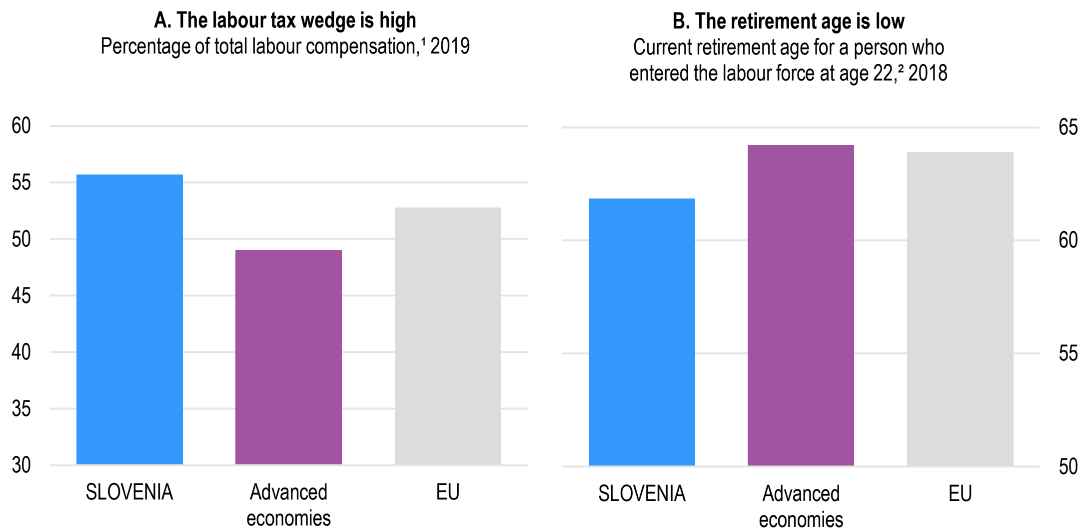
StatLink https://stat.link/lcsrhq

Lower labour taxes and increase competition to speed up the recovery

Reforms should aim to make the tax system more conducive to growth by reducing tax rates on labour income and bolstering property taxation. This should be combined with in-work benefits or transfers to low-income workers to improve their incentives to work. High marginal tax rates for high earners are likely to have large costs in terms of work incentives and may deter investment in skills (Panel A). **Reforms of the wage setting process** are also needed to enhance reallocation of labour towards growing sectors, raise labour market participation and labour mobility. Wage setting should be more decentralised at the firm level, where social partners would have greater responsibilities in the process. At the same time, framework conditions such as seniority bonuses and minimum wage levels could be set at the sectoral level. Targeting of employment and training subsidies to jobseekers with high assistance needs would make the labour market more inclusive.

Widespread public ownership combined with weaknesses in corporate governance and significant entry barriers reduce competition. This can impede effective reallocation of resources to the most productive firms during the recovery. Conditional on the market situation, continued **privatisation efforts could increase competition and improve resource allocation**. In any case, reforms should strengthen the governance of state-owned enterprises, resources as well as expertise of the competition authority. Moreover, reducing the tax bias against R&D and intangibles can encourage productivity-enhancing investment and help enterprises move up the value-added chain.

Vulnerabilities and areas for reform



1. Marginal tax wedge for a single person without children, at 167% of average earnings. Labour taxes include personal income tax and employee plus employer social security contributions and any payroll tax less cash transfers.
2. The normal retirement age is defined as the age of eligibility to all components of the pension system in 2018, assuming labour market entry at age 22.
Source: Panel A: OECD, Taxing Wages Database; Panel B: OECD, Pensions at a Glance Database.

StatLink https://stat.link/mhc3a4

Educational outcomes of the adult population are below OECD average, including adults with tertiary education. High tuition fees for part-time students keep enrolment among older cohorts low. There is scope to **improve efficiency and equity in tertiary education**. Policy should raise the work-experience content of technical programmes, equalise tuition fees for full- and part-time students on a per course basis, and offer grants and loans to students from vulnerable backgrounds. A more efficient tertiary education system that equips students with skills demanded in the labour market will also improve labour productivity.

Unless addressed, ageing will significantly raise pension costs and erode long-term fiscal sustainability. The effective retirement age remains among the lowest in the OECD (Panel B) and pension spending is rising due to population ageing. By 2055, pension spending is projected to increase more than in almost any other European country. **Pension reform should lower pressures on public finances** while ensuring income adequacy during retirement. Ensuring a higher effective retirement age will bolster fiscal sustainability. To this end, the statutory retirement age should be increased to 67 for both women and men. In the second pension pillar, a higher ceiling for tax exempt and matching contributions for low-wage workers can provide additional pension income avoiding poverty risks.

Slovenia: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Tax system: Adjust the tax-benefit system to strengthen work incentives for low and high income earners	
☑ In 2020, additional general (linear) tax relief for incomes up to EUR 13 316.83 was implemented along with a 6% increase of the general tax allowance. ☑ A lowering of tax rates in the second bracket (from 27% to 26%) and third tax bracket (from 34% to 33%) came into force in 2020. The top bracket tax rate remains unchanged.	☐ Continue to reduce labour tax rates while increasing property taxation. ☐ Introduce in-work benefits.
Labour market: Reform the wage setting process and improve targeting of employment and training assistance	
No actions taken.	☐ Redirect employment and training subsidies to jobseekers with high assistance needs. ☐ Determine more of the framework conditions at the sectoral level, such as seniority bonuses and minimum wage levels; give social partners greater responsibility in the wage bargaining process at the firm level.
Competition and regulation: Eliminate barriers to entry and competition	
☑ Equity stakes in nine out of 15 state-owned companies designated for sale have been sold. ☑ Share sale of the largest state-owned bank (Nova Ljubljanska Banka) has left the government a stake of 25% + 1 share. Full privatisation of the second largest bank (ABANKA) has been completed. ☑ The new insolvency regulation system has been implemented.	☐ Step up privatisation and narrow the group of strategic SOEs. ☐ Strengthen governance of SOEs by directing them to focus on core activities, allowing more management pay flexibility and strengthening supervisory boards. ☐ Simplify judicial proceedings and increase the competition authority's resources and staff expertise.
Education and skills: Improve students' performance and employment prospects	
No actions taken.	☐ Equalise tuition fees for full-time and part-time students on a per course basis, coupled with grants and loans for those from poor families. ☐ Link part of the university funding to students' labour market outcome. ☐ Improve collaborative links between innovation stakeholders. Strengthen entrepreneurship education in schools.

2019-2020 Reforms	Recommendations
Labour market and fiscal sustainability: Reform pension regime in light of rapid ageing	
☑ The 2020 Pension Reform makes workers who reached their retirement age but continue to work eligible to draw on part of their pension. They can draw up to 40% of their pension while they continue working in the initial three years, and thereafter 20%.	☐ Increase the official retirement age to 67 for both men and women; link further increases, if needed, to gains in life expectancy; index pension benefits to price developments. ☐ To increase incentives for later retirement, make bonuses and maluses symmetric and applicable at a fixed point, such as the statutory retirement age. ☐ Reduce favourable treatment of older workers in unemployment benefits, disability and social assistance systems by curtailing age-dependent rules. ☐ Introduce work assessments for early retirement in all remaining special retirement regimes. ☐ Make enrolment in the second pillar an opt-out choice; increase the ceiling for tax exempt contributions and reduce the associated tax advantages; introduce matching contributions for low-wage workers.

Recent progress on structural reforms

The pace of structural reforms has slowed down in 2020 as the COVID-19 crisis has demanded the government's attention, making reforms all the more urgent. Limited progress has been achieved in pension reforms, despite the projected significant increase in spending related to ageing. Some progress has been achieved with labour market reforms. This includes stronger work incentives for people who are eligible for full pensions, but who continue to work. Moreover, recent tax reforms reduced labour tax rates for lower income earners.