

development report 2015

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Introductory remarks

The Development Report is a document that monitors the fulfilment of strategic guidelines for Slovenia's development in economic, social and environmental areas. The strategic development framework for Slovenia was set out in Slovenia's Development Strategy (SDS) adopted by the Slovenian government for the period from 2005 to 2013, while the key development guidelines and objectives at the EU level – which are also binding for Slovenia – are defined in the Europe 2020 Strategy. Countries must also fulfil the commitments within the Stability and Growth Pact and the Macroeconomic Imbalance Procedure. Slovenia (as well as the entire EU) has moved away from a number of strategic objectives due to the crisis, and since 2008, it has mainly been following policy orientations for exiting the crisis. At the time when a new Development Strategy is being drafted, the Development Report 2015 shows the initial situation and future development challenges for Slovenia in light of ensuring macroeconomic stability, long-term sustainability of economic, social and environmental development and meeting the country's international commitments.

The analysis in the Development Report is based on selected indicators of development, dealing more closely with areas that represent a development challenge for Slovenia. The findings rely on official statistical data of domestic and foreign institutions released by the beginning of April 2015. This year's report thus presents a review of trends up to 2014 or the last year for which data have been available. In areas where no relevant indicators are available due to data shortage, we have also consulted other sources, particularly analyses by national and international institutions and reports on the implementation of sectoral strategies and programmes. In the analyses, Slovenia is compared mainly with EU Member States. Where we did not have data for the entire EU, the average of those EU Member States for which data were available was used. Sometimes Slovenia is also compared with OECD countries, most often with the average of the 21 EU Member States that are also members of the OECD. The terms 'European average' or 'EU average' refer to the EU-28 group, while the term new Member States means the EU-13 countries that joined the EU in enlargements after 2004 (or the EU-12 without Croatia).

The Development Report is divided into two parts. The findings of the analysis are summed up in the main body of the Report, followed by a detailed report on progress by individual indicators of Slovenia's development. The subject matter is divided into four sections: macroeconomic framework; factors of competitiveness; demographic changes and social state; and environmental, regional and spatial development.

Main findings

The year 2014 was marked by positive shifts in terms of economic development, the deterioration in the material position of households was halted, while pressures on the environment eased during the crisis, mainly under the influence of weak economic activity. The Report monitors progress and structural changes in the economic, social and environmental areas. At the onset of the crisis, Slovenia was faced with a strong contraction in economic activity and a significant deterioration in the material welfare of the population, which was more pronounced than in the EU due to accumulated structural weaknesses. The progress in reforms in recent years and the beginning of the processes of banking system stabilisation, restructuring and privatisation of enterprises, combined with a general improvement of the situation in the euro area, contributed to a significant easing of borrowing conditions for the government on international financial markets. All of this, coupled with a rebound in international economic activity, higher government investment and improved competitiveness, contributed to the recovery of the economy in 2014. The labour market situation has also improved, which stemmed the further deterioration of the material position of households. The quality-of-life and inequality indicators have remained relatively favourable, and the adopted pension reform is a step towards improving the sustainability of the system. Pressures on the environment have also eased since the beginning of the crisis, but this was largely attributable to a decline in economic activity, rather than more permanent changes towards more efficient use of energy and raw materials.

To ensure more permanent economic growth and sustainable convergence to more developed countries, and to maintain the quality of life and the environment, more radical structural changes will be necessary.

Being one of the EU countries that suffered the greatest deterioration in relative economic development during the crisis, Slovenia will be able to catch up with the EU average only by a more lasting improvement in the competitiveness of the economy. The crisis also disrupted macroeconomic balances, which are improving only gradually. The general government deficit is narrowing slowly, while the quality and sustainability of consolidation are weakened by the temporary nature of measures. Public debt has already exceeded the ceiling set within the broad Stability and Growth Pact framework in the EU. The banking system, where an intensive restructuring process is underway, has yet to provide the sources of funding necessary for faster growth. Creating a stable macroeconomic framework and ensuring funding, together with the completion of corporate restructuring and privatisation, will be the basis for a further strengthening of the competitiveness of the economy. This has improved significantly in recent years, but the positive movements were insufficiently based on an increase in value added. Improving competitiveness by greater use of knowledge to raise value added of the economy is also vital for the creation of high-quality jobs and improvement in labour market conditions. The decline in employment and increase in unemployment during the crisis have contributed to a significant deterioration in the material living conditions and social inclusion of households. Welfare is also increasingly jeopardised by social protection systems not being adjusted to the ageing of the population. Environmental development is marked by the relatively high energy and emission intensity of the economy, which could jeopardise the attainment of long-term objectives in this area when economic growth recovers.

Priority measures should be focused on:

- Establishing a medium-term development framework and improving the performance of the government and its institutions in making and executing development decisions;
- Increasing the value added of the economy and creating high-quality jobs by boosting the innovative capacity of businesses, matching human capital with the needs of a more competitive economy and providing a business environment that fosters entrepreneurship;
- Establishing an effective state asset management system, including further privatisation of state-owned enterprises;
- Sustainable fiscal consolidation, with emphasis on more permanent measures for reducing expenditure;
- Adjusting social protection systems to the needs of a long-living society and the relationship between public and private sources of funding to ensure the quality of public services and fiscal stability in the long term;
- Completing banking system stabilisation, carrying out comprehensive corporate restructuring and increasing equity capital, and development of non-bank financial sectors;
- Increasing labour market efficiency, particularly in the areas of labour reallocation and wage flexibility, improving the transition of young people to the labour market and increasing the employment rate of older people;
- Reducing environmental pressures by more efficient use of energy and raw materials, focusing on measures promoting sustainable mobility.

Summary

The year 2014 was marked by positive shifts in the area of economic development, the deterioration in the material position of households was halted, while pressures on the environment decreased during the crisis, mainly under the influence of weak economic activity. The substantial contraction in GDP during the crisis has deepened Slovenia's development gap with the EU average and moved the country away from its social development goals of achieving a high employment rate and reducing social exclusion. Amid a general improvement in the international environment and higher export competitiveness, the reforms and measures for stabilising the macroeconomic situation adopted in the past few years have contributed to a gradual improvement in the economic situation, which has also stemmed the further deterioration in the material position of households. Regardless of the progress in the recent period, more far-reaching structural changes will be necessary for more permanent economic growth and sustainable maintenance of household welfare. This also holds true for the environmental area. Pressures on the environment have otherwise eased substantially during the crisis, but not so much as a result of sustainable shifts towards more efficient use of energy and commodities, as due to lower economic activity.

After a substantial decline in GDP and a widening of the development gap with the EU average, Slovenia has been gradually correcting the accumulated macroeconomic imbalances in the recent period. As a result of accumulated structural weaknesses, the decline in economic activity in Slovenia was more pronounced than on average in the EU. Since the beginning of the crisis, GDP per capita in purchasing power standards has declined from 89% to 82% of the EU average, which corresponds to the relative development of Slovenia in 2002. Owing to a larger decline in economic activity in economically stronger regions, interregional disparities have declined. The progress in reforms made in recent years (the pension system and the labour market) and the beginning of the processes of banking system stabilisation, restructuring and privatisation of companies, combined with a general improvement of the situation in the euro area, led to a significant easing of borrowing conditions for the government on international financial markets. All of this, coupled with a rebound in international economic activity, significantly higher government investment and increased competitiveness, contributed to the recovery of the economy in 2014. Economic growth was thus higher than in the EU for the first time since the beginning of the crisis.

Fiscal consolidation remains the economic policy priority for the establishment of a stable macroeconomic framework. The general government deficit is narrowing at a slow pace, and public debt has increased sharply since the beginning of the crisis. The state of public finances is largely the result of the accumulated structural weaknesses from before the crisis, such as insufficient adjustment of social protection systems (in particular the pension system) to demographic changes, low efficiency in managing state assets, as well as unexploited opportunities for broadening the tax base and more efficient tax collection, where some positive changes have been seen in the recent period. Against the backdrop of these structural weaknesses, the implementation of consolidation during the crisis mainly relied on temporary and intervention measures. This is becoming more and more of a problem: if temporary measures were repealed without being replaced by other, systemic, measures, the country's fiscal position could deteriorate significantly. The negative effects of intervention and linear measures are also increasingly felt in the provision of public services in a number of areas. Owing to the rapidly rising public debt, interest payments have increased markedly since the onset of the crisis. All these developments emphasise the need for structural measures that would have a more lasting effect, especially on the expenditure side of public finances. They should be aimed particularly at reforming social protection systems, further streamlining in the public sector and increasing its efficiency, improving state asset management and supplementing the sources for funding public services.

With the beginning of bank stabilisation and privatisation, Slovenia made the first moves towards the necessary restructuring of the banking and corporate sectors; sources of funding for enterprises remain fairly limited, owing in part to their indebtedness. Given the high degree of dependency on foreign funding and inefficient allocation of credit, the deterioration of the economic situation led to a disruption in the stability of the banking system. At the end of 2013, the government therefore embarked on a process of banking system stabilisation, which involves recapitalisation of state-owned banks and transfer of non-performing claims to the Bank Assets Management Company. Since the beginning of stabilisation, the situation in the banking sector has been gradually improving and confidence in the banking system is on the rise. In 2014, there was also a decline in the share of non-performing loans. After more than a year since the beginning of banking system stabilisation, lending to enterprises is still low. In addition to banks being less willing to take risks than before the crisis, this is also explained by corporate sector indebtedness, which has otherwise been declining, particularly since 2012.

Effective restructuring and privatisation of the corporate and banking sectors are thus vital to ensure financial stability. With a view to accelerating these processes, the government upgraded the legal framework in 2014 (amendments to insolvency laws; agreements regarding corporate restructuring and establishment of a working group coordinating the restructuring process; amendments to the legislation on state asset management). The first privatisations have also been carried out, but the anticipated sale of state-owned enterprises is behind schedule. With the restart of privatisation, the inflow of foreign direct investment also increased in 2014. A further increase in foreign investment is welcome, as it would enable the corporate sector to gain access not only to the most needed funding for development investment, but also to new know-how, technologies and new markets. Despite the contraction in the banking sector, other parts of the Slovenian financial system, which could contribute to the financing of the economy, remain fairly underdeveloped.

After a substantial decline at the beginning of the crisis, the competitiveness of the economy is approaching the pre-crisis levels, but for progress to be sustainable over the long term, it will be necessary to increase value added. The deterioration in the cost competitiveness of the Slovenian economy in the first years of the crisis was due to growth in labour costs amid a strong contraction in economic activity and higher other input costs. Together with the unfavourable composition of Slovenian exports, this led to a significant deterioration in Slovenia's position on foreign markets. In the recent period, competitiveness has been improving. In 2014, Slovenia's market shares in the most important trading partners and the cost competitiveness of the tradable sector converged to the pre-crisis level; the composition of exports has also improved since the beginning of the crisis. However, the problem remains that value added (per employee), which is essential for higher exports and integration into global value-added chains with higher-end goods and services, remains low by international comparison. In addition to ensuring access to funding, which would allow for an increase in development investment, the priority measures for increasing value added include improvement in the innovation capacity of the economy and human capital. Competitiveness should also be strengthened by creating an environment conducive to the establishment and growth of businesses. In recent years, Slovenia has made headway particularly in the ease of starting a business; the regulatory environment for establishing start-up enterprises is also improving, while the excessive red tape, especially the lengthy procedures to obtain permits, remains a significant burden on businesses.

Investment in intangible capital is relatively high, but its effective use for increasing value added in the economy remains a challenge. Slovenia's R&D investment is relatively high by international comparison, as is public expenditure on education. The number of researchers in business sectors has increased notably in recent years. The educational structure of the population is also improving, the share of adults with tertiary education having exceeded the EU average in 2014. Innovation activity in enterprises, small ones in particular, nevertheless remains low, having declined further during the crisis. Slovenia has also slipped in patent protection during the crisis, but is making fast progress in trademarks, where it has exceeded the EU average. The use of staff with tertiary education in the private sector is modest, which is limiting their contribution to value added growth. These developments reveal the need for greater effectiveness of R&D investment and an education system, which would be more supportive to the needs of a competitive economy. The support instruments should be focused to a greater extent on co-creation of knowledge by interaction between research organisations, higher education institutions and businesses, and on its commercial exploitation. Maintaining an appropriate level of investment in intangible capital represents another challenge, as in recent years R&D investment has been largely supported by EU funds. In tertiary education, it is also necessary to consider an appropriate combination of public and private expenditure to enhance the quality and efficiency of study.

The material position of households stopped deteriorating in 2014; indicators of inequality and the quality of life remained relatively favourable. The fall in household disposable income during the crisis, and hence in the material living conditions, was impacted by a strong decrease in employment, and in 2012 and 2013 also by a decline in wages and social benefits. With the improvement on the labour market and resumed wage growth, the situation stopped deteriorating in 2014. The risk of social exclusion also rose with the worsening of the material situation of households during the crisis. The at-risk-of-poverty rate, the severe material deprivation rate and the proportion of persons living in households with very low work intensity increased. The social exclusion rate nevertheless remains below the EU average. Income inequality also remains relatively low. It otherwise rose slightly during the crisis, while wage inequality declined further. For the most part, quality-of-life indicators do not indicate any major deterioration in the period of the crisis, but in the last few years their movements were less favourable than at the beginning of the crisis. The composite indicators of health (life expectancy and healthy life years) have improved since the start of the crisis, but life-style related health status is relatively less favourable

(tobacco, alcohol). Access to health care and education has not deteriorated much, but problems are starting to be seen particularly in health care; development of long-term care services is also lagging behind. Life satisfaction has decreased during the crisis, but remains above the EU average.

The ageing of the population and a decline in employment, amid delays in systemic adjustments, has compounded the difficulties in financing social protection systems. The social protection systems in Slovenia are mainly based on public social insurance schemes whose main source is income from work. Given the decline in employment and wages, coupled with the rising needs of the ageing population, the crisis has revealed the increasing unsustainability of the pension and health systems and inadequacy of long-term care financing. The budget transfer to the pension fund is expanding and represents an increasing challenge to the sustainability of public finances, while the pension reform from 2013 no longer ensures long-term sustainability of the system. In health care, savings measures in particular were being adopted during the crisis, but they do not address the issue of sustainability over a longer period. The development of long-term care has come to a halt in the past few years. In the area of social transfers, a reform was initiated in 2012, but being meant to increase the targeting of transfers, it did not change the level of expenditure significantly. International comparisons show that in Slovenia, an above-average share of services in these areas is financed from public sources. In order to increase their quality and ensure the sustainability of funding, a systemic framework should be established to facilitate faster development of the private provision of public services.

With a decline in economic activity, the pressures on the environment have eased, but further action is needed to ensure a more permanent reduction of the environmental burden, including when economic growth rebounds. The decline in greenhouse gas emissions in 2013 (the latest available data) was again mainly due to the contraction in economic activity. Amid weaker demand for energy, the share of the use of renewable sources rose. When economic activity recovers, the continuation of these trends and the lowering of costs for new capacities will greatly depend on more efficient energy use. Energy savings during the crisis were, in fact, largely due to a decline in economic activity, which is indicated by unfavourable trends in the energy intensity of the economy, i.e. energy consumption per unit of GDP. This is high in international terms, primarily as a result of extensive energy consumption in transport, and also because of a high level of transit traffic through Slovenia and the favourable competitive conditions established through excise duty policy. More favourable developments were recorded in manufacturing, where energy intensity has decreased even more than in the EU overall over a longer period, but in the last two years these trends came to a halt. At the same time, export competitiveness in manufacturing is negatively impacted by the relatively inefficient use of raw materials. The impact of environmental taxes on the competitiveness of the economy remains relatively small, as they mainly burden households. The quantity of generated waste increased slightly again in 2013 after several years of decline, their reuse remaining a challenge. On the other hand, in municipal waste management, significant progress towards reducing the amount of deposited waste has been made in the past few years.

Improvement in the efficiency of the government and its institutions would make a significant contribution to the implementation of development-oriented changes towards more stable and welfare-oriented economic growth. Slovenia has slipped significantly on the international scales of institutional competitiveness since the beginning of the crisis, and the trust of people and companies in the government and its institutions is among the lowest in the EU. In recent years, Slovenia has made significant progress towards improving the efficiency of the government, for example, by reducing the administrative burden and the gray economy and improving insolvency legislation; it has also adopted constitutional amendments in the area of fiscal policy and referendum rules. However, for a number of years a faster adjustment of the economy and society to changes in the economic environment has been hindered by the low efficiency of the government and its institutions in charge of making and executing key development decisions. A comprehensive and consistent planning of structural reforms has thus been increasingly impeded by the absence of a medium-term development framework, which would define development priorities and their implementation. Strategic decisions on development orientations are essential not only for an appropriate formulation of domestic development policies, but also for effective drawing from EU funds, which can significantly contribute to Slovenia's development.

1 Macroeconomic framework

Since the onset of the economic crisis, the decline in gross domestic product has been accompanied by a deterioration in macroeconomic balances in many areas that have been maintained or only gradually improved. The public deficit has remained relatively high. On the other hand, the excess of savings over investment has been on the rise due to the deleveraging of the private sector. The banking sector, which has been subject to an intensive recovery process, does not yet provide businesses with the financial resources needed for faster growth. The situation started to improve gradually in 2014, but many challenges concerning the achievement of sustainable economic growth, fiscal consolidation and the formation of a stable financial sector still remain.

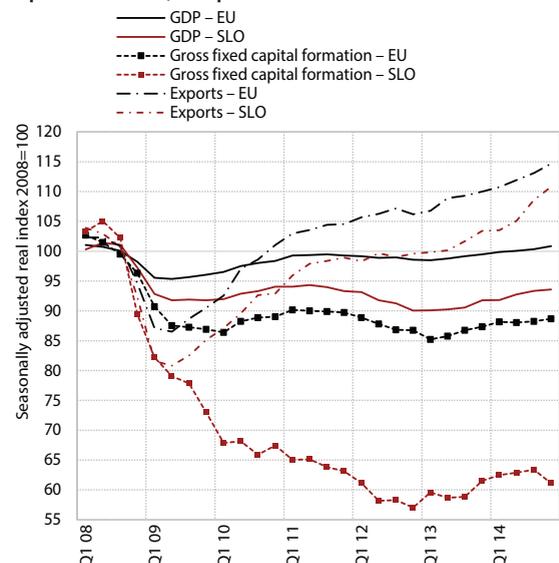
1.1 Macroeconomic stability and economic growth

The deep recession in 2009 and the repeated decline in economic activity in 2012 and 2013 after a short-term weak recovery have, together with limited financial resources, upset some key macroeconomic relationships and resulted in considerable job losses. In light of the substantial decline in domestic consumption and corporate deleveraging, the current account deficit has turned to a surplus that has been growing in recent years. The weak economic activity and the fall in raw material prices on international markets have considerably brought down inflation and caused deflation in some segments. In 2014 economic activity recovered, driven by exports and government investment. However, the maintenance of or merely gradual improvement in some key imbalances simultaneously come with the warning that this is only the first step towards macroeconomic stability, which is a key condition for continued sustainable economic growth.

After two years of decline, the highest growth in the gross domestic product (GDP) since the onset of the crisis was recorded in 2014 (2.6%), which was largely due to stronger exports; domestic consumption also increased for the first time since 2008. The economic recovery in 2014 is the result of improved conditions in the international environment and in financial markets, improved competitiveness of exports and domestic economic policy measures, particularly the recovery of the banking sector, and the enhanced investment activity of the government. Exports, particularly of high-tech products, recovered soon after they sharply declined at the onset of the crisis and then slowed down. Exports started to rise again in 2013, driven also by the improved competitiveness of the tradable sector. Export growth increased further in 2014, partly due to some one-off export transactions. Exports as a main factor of economic growth since 2010 were also the only aggregate of consumption to exceed the 2008

level. Domestic consumption did not start to increase until last year, particularly as a result of the decline in investment throughout the period. The impact of the sharp decline in private consumption was recorded in 2012 and 2013. Investment, particularly in public infrastructure, rose sharply in 2014 and was due to the accelerated drawing down of EU funds before the end of the previous Financial Perspective. Private investment in machinery and equipment showed some positive trends associated with high capacity utilisation and less restricted access to sources of financing. Trends in investments in housing have remained negative, which is the main reason total investments lag the most of all aggregates behind the pre-crisis level. In 2014, there was modest recovery in private consumption, which was largely due to favourable labour market trends. Consumer sentiment also improved. The continued fiscal consolidation led to reduced government spending for the fourth consecutive year. Despite its relatively high growth in GDP in 2014, Slovenia remained among the countries with the sharpest decline in economic activity during the crisis. Last year the average GDP in the EU was already at the 2008 level, while Slovenia's GDP was 7.1% below the pre-crisis level (the gap was wider only in Greece, Croatia, Cyprus and Italy).

Figure 1: Gross domestic product, exports and gross fixed capital formation, comparison between Slovenia and EU



Source: SI-STAT Data Portal – National accounts, 2015; Eurostat Portal Page – Economy and Finance, 2015.

The capacity for higher economic growth in the medium term is very modest without substantial structural changes. Before the crisis, the estimated potential GDP growth stood at between 3% and 4%. With the onset of the crisis, however, the potential for growth declined significantly, largely due to the structure of economic growth in the past and insufficient changes aimed at increasing the resilience of the Slovenian economy to shocks in the years before the crisis and due to inappropriate action during the

crisis.¹ The latest estimates indicate a growth of around 1% and then a gradual increase in growth by up to 2% towards the end of the decade.² The key condition for restoring potential growth to a level similar to that before the crisis is a higher contribution of capital and of total factor productivity. Due to the relatively high level of corporate indebtedness and the need for further deleveraging, higher investment (and consequently a higher contribution of capital to potential growth) will require more equity capital in particular, including in the form of foreign direct investments, for which changes in the broader economic environment will be needed in order to promote the greater involvement of equity capital in investments in Slovenia.

The improvement in economic trends in 2014 also led to a positive turn in the labour market.³ Economic recovery has also facilitated greater job creation. As a result, employment increased in 2014 for the first time since 2008 (by 0.7%). The number of persons in active employment started to increase modestly in the second half of 2013⁴ and more intensely at the beginning of 2014. That year, an increase in employment was recorded in most private sector activities, the highest in some marketing services activities, particularly in employment services leasing labour (by 60.3%), which points to persisting cautiousness of companies in hiring. After a slowdown during the crisis and two years of nominal stagnation, the average gross wage per employee increased by 1.1% in 2014. In the private sector, the modest growth from the previous two years slightly accelerated (from approx. 0.5% to 1.4%) alongside the increased volume of extraordinary and overtime payments, but did not exceed the growth of productivity. An increase in average wages was recorded particularly in industry, which pointed to the existence of a stronger base and the capacity of businesses for further growth. After the decline in the previous two years, average wages in the public sector also increased slightly (0.9%), which was largely due to the beginning of the payment of withheld promotion raises and the termination of the effect of the

¹ This is the potential GDP (and its growth) from the macroeconomic point of view. Thus the potential GDP does not mean maximum possible production in an economy, but the production volume that can be generated by such economy without inflationary pressures. This also means that GDP is often higher than its potential value in macroeconomic terms.

² The calculations of potential growth for the period from 2014 onwards are based on the production function method and take into account the Spring Forecast of Economic Trends 2015 (March 2015). The cyclical component of total factor productivity has been estimated on the basis of a series of capacity utilisation in a bivariate unobserved components model. NAWRU has been estimated by using the New Keynesian Phillips Curve method which assumes a negative link between cyclical unemployment and the expected growth of real labour costs per unit of output.

³ For more details on labour market trends see Chapter 3.1.

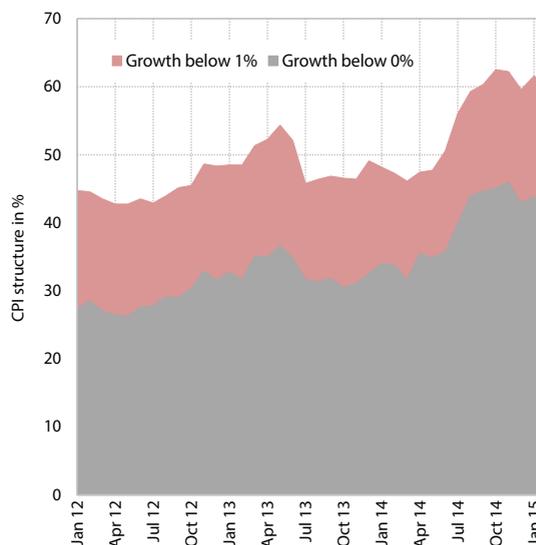
⁴ Despite modest growth in 2013, employment growth was negative for an average for the year, particularly due to a low wage base at the end of 2012.

austerity measures adopted in the general government sector mid-2013⁵. Wages also continued to rise in public corporations. The measures affecting wages of public employees were linear or progressive approach-based intervention measures, which contributed to creating rather demotivating wages in the general government sector (see Chapter 3.1).

Inflation in 2014 declined further (0.2%) due to a sharp downturn in raw material prices and despite the recovery of the still-weak domestic demand.

Disinflationary or deflationary trends in the past two years have been significantly influenced by external factors (oil and raw material prices), and, in our estimate, in part also by the process of the internal adjustment of relative prices, which is reflected in the reduction of unit labour costs, as well as by the weak domestic demand. A further reduction in inflation in 2014 was mainly the result of lower prices for energy products due to a sharp drop in raw material prices in international markets in the second half of the year.⁶ Food prices also decreased slightly. The contribution of the two groups to lower inflation was thus -0.8 percentage points in 2014 compared to 1.4 percentage points on average in the previous five years. Lower inflation in the past two years was also due to the price trends of most other (particularly durable and semi-durable) goods. The impact of the prices of services intensified towards the end of 2014

Figure 2: The share of products and services in the consumer price index with price growth of less than 1% and less than 0%



Source: SURS; calculations by IMAD.

⁵ Measures included the reduction of the basic wage (partly in a linear and partly in a progressive manner, by around 1.3%, on average), the termination of the increased seniority bonus paid to women for years of service over 25 years, and the reduction of the allowance for specialised and master's and doctoral studies (by half).

⁶ The price of Brent crude fell by more than 50% in the second half of the year.

due to some one-off factors; otherwise, the increase in prices of services remained at the 2013 level. Such price movements had an effect on the increase in the share of products and services with very low price increases, and even price decreases. Core inflation remained stable and was above the actual inflation level due to the decrease in prices of food and energy products. The prevailing influence of external factors and modest final domestic consumption are characteristic of the entire euro area, where price trends are similar to those in Slovenia. Last year, some Member States recorded deflation, while inflation in other Member States decreased considerably below the ECB medium-term target of 2% in comparison with the previous year.

The current account of Slovenia's balance of payments in 2014 recorded a surplus (5.8%) for the fourth consecutive year. After two years of vigorous growth, the increase was considerably lower, particularly due to the rising interest payments in the general government sector. The current account of the country's balance of payment, which was roughly balanced during the first three years of the economic crisis, has been in surplus since 2012. It increased significantly in 2012 and 2013 (by around EUR 2 bn, in total). In 2014, it recorded a modest increase of EUR 124 m and totalled EUR 2,150 m (5.8% of GDP). The current account surplus from international transactions was largely due to the surplus in trade in services, which declined last year mainly due to a higher deficit in trade in other business services. The contribution of the goods balance surplus is rising. Last year, it still recorded a considerable increase as a result of higher growth in exports than imports and price factors, i.e. improved terms of trade due to relatively lower prices of imported energy products, raw materials and manufacturing products. Net inflows of labour income, particularly from the work of daily migrant workers abroad, is also on the increase. The surplus in recent years has also been due to the accelerated drawing down of EU funds. On the other side, there was an increase in the cost of financing the rising debt of the general government sector, which has risen by EUR 2,783 m since the onset of the crisis and by EUR 831 m in 2014 alone. Nonetheless, the total net interest payments on foreign loans for private-sector deleveraging were below the 2008 level.

In addition to relatively strong cyclical influences, the reasons for the increase in surplus were also structural, mainly associated with the improving competitiveness of the tradable sector in recent years. A major part of the surplus is due to quantitative factors that are in turn influenced by cyclical and structural factors.^{7, 8} A

⁷ Cyclical factors which point to short-term fluctuations in the external position include cyclical GDP fluctuations, changes in the terms of trade and the rate of exchange. The cyclical component means that imports rise during the period of growth and shrink during the recession, while the deficit in the current account of the balance of payment increases (declines).

⁸ The structural component points to the persistence of

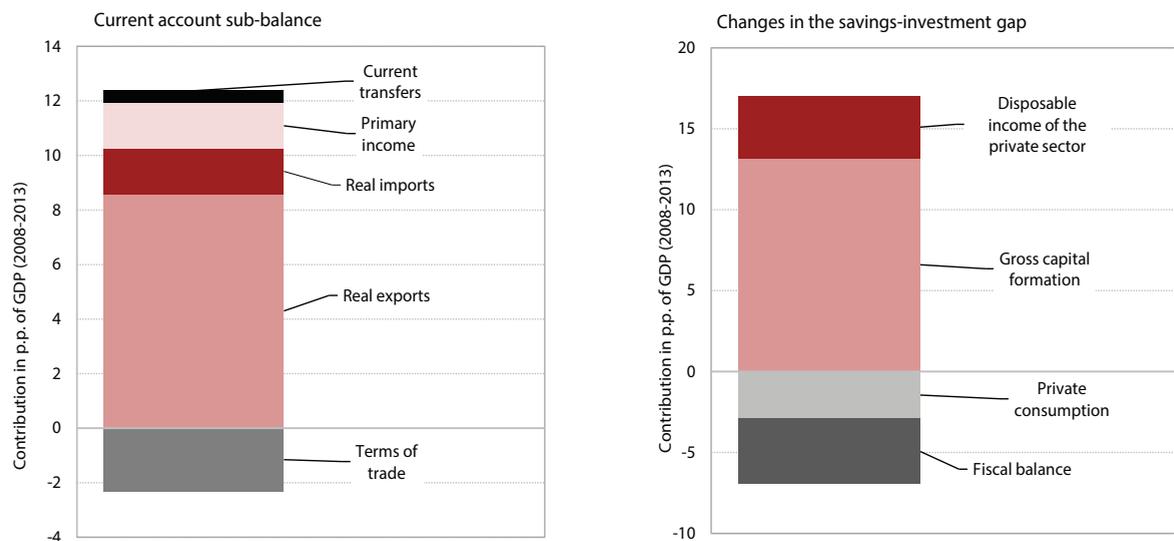
considerable decline in exports since the onset of the crisis can mainly be associated with cyclical factors, which influenced the decline in domestic consumption. In addition to the cyclical influence of the dynamics of foreign demand, the growth of exports was also the result of structural factors associated with the improved competitiveness of the tradable sector in recent years (see Chapter 2.1). Similar conclusions are also found in the studies of international institutions⁹ that assess the impact of structural and cyclical factors on the current account balance using different approaches. They are mostly based on the assessment of the cyclical component of current account balances on the basis of the assessment of the output gap and additional adjustment for the real effective exchange rate, while the structural change in the current account balance is often associated with unit labour cost trends. Although the former are more of an indicative nature due to the high volatility of output gaps and should be interpreted with care, calculations by the European Commission for Slovenia show that the structural component of the surplus strengthened significantly in the past three years.

Adjustment of current accounts of the balance of payment in the euro area has been asymmetrical since the onset of the crisis and continues to increase the macroeconomic imbalance of the entire area. A similar change, i.e. a turn in the current account balance resulting in a surplus, has been recorded in a number of euro area countries since the beginning of the financial crisis. In 2009 and 2010, the current account deficit also started to decline in countries facing large fiscal imbalances and an increasing number of austerity measures. According to the European Commission, this was largely due to the shrinking domestic spending, particularly private sector investments and private consumption, as the limited increase in disposable income resulted in higher savings on average. At the same time, the countries that had a surplus before the crisis mainly maintained or further increased it. Current account adjustments in the euro area were asymmetric, which increased the macroeconomic imbalance, i.e. the average surplus of savings over investment for the entire area. In this regard, Slovenia particularly has a surplus of savings over investment in the private sector, which has been net deleveraging abroad for the past six years amid the limited access to sources of finance.

external imbalances and includes demographic factors, the fiscal position, the dependence on raw materials and energy products, the development of financial markets, the net international financial position and the level of economic development of the country.

⁹ Monthly Bulletin ECB, November 2013; Quarterly Selection of articles, No. 27, Autumn 2012, Banque de France, 2012, EC Quarterly report on the euro area. December 2014, Philip R. Lane and Gian Maria Milesi – Ferretti: External Adjustment and the Global Crisis. IMF Working Paper (WP/11/197).

Figure 3: Changes in the current account of the balance of payments



Source: SURS, BS, Eurostat; calculations by IMAD.

Gross external debt, having maintained a similar level since the onset of the crisis, rose in 2014 as a result of faster growth in general government debt. 2014 saw the first noticeable increase in total gross external debt after 2008. It stood at EUR 46.2 bn at the end of the year (124% of GDP), which is EUR 6.9 bn more than in 2008. The debt structure changed significantly in terms of increase in the share of public debt, which rose by 18.4 bn in comparison with the pre-crisis period and accounted for approximately one half of the gross external debt (38.4 percentage points more than in 2008). Growth in external government debt accelerated further in 2014, mainly as a result of borrowing to offset the public deficit and pre-finance the debt repayment in 2015 totalling EUR 5.5 bn. Despite a significant decline in 2013, the publicly guaranteed debt remained above the 2008 level in 2014. The private sector non-guaranteed debt declined sharply (by EUR 13 bn) after 2008, mainly on account of commercial banks' deleveraging abroad. This trend, along with non-residents withdrawing deposits from Slovenian banks, continued at a slightly slower

pace in 2014. Other sectors also saw a decline in their external debt mainly due to debt repayment in 2014. Despite a continued decline in private sector debt, the increase in the general government debt, inter-company loans and central government debt has resulted in the highest gross external debt increase since the beginning of the crisis.

After the improvement in 2013, the negative net financial position deteriorated considerably again in 2014, mainly as a result of the increased external debt of the general government. The net financial position deteriorated in the first years of the crisis (until 2012) mainly due to the accelerated government borrowing. It improved in 2013 as a result of private sector deleveraging, which had been in progress since 2009, and increasing external claims in debt instruments. However, the situation deteriorated considerably in 2014. Financial liabilities increased more than assets held abroad, resulting in a net debt position deficit of EUR 16.7 bn, or EUR 2.9 bn more than the year before. The increase

Table 1: Slovenia's international investment position as a % of GDP

	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014
1. Debt claims	39.4	67.3	79.1	73.3	75.7	73.6	73.3	74.0	76.4	85.4
2. Equity claims	2.4	12.5	22.1	17.3	20.2	20.6	19.1	20.1	19.8	19.9
3. Total claims (1+2)	41.8	79.8	101.2	90.6	96.0	94.3	92.4	94.1	96.1	105.3
4. Gross external debt	43.1	70.4	99.1	103.6	111.8	112.8	109.3	115.3	111.2	124.1
5. Equity liabilities	10.4	20.2	23.4	22.1	23.2	23.9	23.3	24.0	23.1	26.0
6. Total liabilities (4+5)	53.5	90.6	122.5	125.7	134.9	136.6	132.6	139.3	134.3	150.0
7. Net external debt/claims (1-4)	-3.7	-3.1	-20.0	-30.3	-36.0	-39.1	-36.0	-41.3	-34.9	-38.7
8. Net equity debt/claims (2-5)	-8.0	-7.7	-1.3	-4.8	-2.9	-3.3	-4.2	-3.9	-3.3	-6.1
9. Net investment position (7+8)*	-11.7	-10.8	-21.3	-35.1	-38.9	-42.4	-40.2	-45.2	-38.2	-44.7

Source: BoS; calculations by IMAD.

Note: * A negative (positive) sign in the balance concerned indicates a net debt (credit) external financial position.

Box 1: Assessment of Slovenia in the European Commission's excessive imbalances procedure

The European Commission has given special emphasis to early identification and correction of excessive macroeconomic imbalances in the EU Member States since 2012. The assessment procedure is based on eleven internal and external imbalance indicators (see table) and an in-depth review to establish the impact of imbalances identified by indicators on macroeconomic stability. If the European Commission considers that macroeconomic imbalances exist, it will issue policy recommendations for the Member State(s) concerned. In severe cases of excessive macroeconomic imbalances that could also endanger the operation of the Economic and Monetary Union, the EU Council shall initiate a procedure which will, in addition to recommendations to a particular Member State, enhanced surveillance and monitoring, require that State to submit a plan of corrective actions. If an euro area Member State fails several times in a row to take appropriate corrective action, a fine of up to 0.1% of GDP can be imposed on it.

Slovenia was classified among the countries with excessive macroeconomic imbalances in 2013 and 2014. Slovenia was classified as such on the basis of a system of indicators and an in-depth review for the first time in 2013 and remained in this category in 2014. In addition to the indicators which pointed to a substantial deterioration of competitiveness and the net international financial position, excessive imbalances were particularly highlighted by an in-depth analysis performed by the European Commission. The analysis pointed to the problem areas not directly associated with excessive indicator values: particularly the high debt level of the corporate sector and its negative correlation to the unstable banking sector in the light of the weak economic activity in that period. In this connection, the analysis also noted the high state-ownership of companies and the weaknesses in their governance. The 2014 the Commission's recommendations to Slovenia for the implementation of measures aimed at eliminating excessive imbalances included stabilising the banking sector, corporate deleveraging and restructuring, privatisation and better management of state-owned assets, fiscal consolidation including the improvement of long-term sustainability of the pensions system, labour market reform to increase competitiveness and employment, and improving the business environment.

The in-depth analysis performed by the European Commission in 2015 has shown that imbalances are no longer excessive but still require decisive action and close monitoring. In the opinion of the European Commission, Slovenia has made progress particularly in the area of bank stabilisation, restructuring and privatisation of the financial and corporate sectors, which is essential for eliminating the country's macroeconomic imbalances. Economic trends, including export competitiveness ((Country report for Slovenia 2015, 2015) also improved significantly in 2014. The European Commission nevertheless points out that the high debt level of the corporate sector, the growing public debt which exceeded the ceiling set by the early detection of imbalances mechanism in 2013, the weak corporate governance and large state ownership of companies represent a risk to the country's financial stability and economic growth (European Semester 2015: College decisions, 2015). Moreover, the data for 2014 show that the country's net international investment position deteriorated again due to the increase in external debt after a year of improvement. In the opinion of the European Commission, one of the remaining challenges is fiscal consolidation, which is subject to supervision within the Macroeconomic Imbalances Procedure, and ensuring fiscal stability also beyond 2020. The latter particularly refers to social protection reforms (pension reform, health care system reform and long-term care system reform).

Table: Results of macroeconomic imbalance indicators for Slovenia

Indicator/Limit value		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	
External imbalances	Current account, % of GDP (three-year average)	+6/-4 %	0.1	-0.8	-1.7	-2.0	-2.6	-3.8	-3.4	-2.0	-0.1	1.1	3.1
	Net international investment position, % of GDP	-35 %	-6	-8	-11	-17	-22	-36	-40	-43	-41	-46	-39
	Real effective exchange rate (HICP deflator), three-year increase	+/-11 %	4.7	4.8	1.0	-2.8	-1.2	2.2	5.2	1.2	-1.1	-4.5	-0.7
	Share of the world market (goods and services), five-year increase	-6 %	3.4	16.4	27.0	19.0	19.8	12.1	6.8	-3.7	-7.0	-20.4	-16.6
	Nominal unit labour cost index, three-year increase	+9 %	20.6	14.6	9.7	6.2	5.2	10.3	18.5	16.0	8.3	0.4	-0.8
Internal imbalances	Real estate prices, annual increase	+6 %		6.5	11.9	14.1	18.8	1.5	-10.0	-1.4	1.0	-8.4	-6.1
	Private credit flow in % of GDP	15 %	8.5	8.6	12.6	13.8	21.8	15.8	2.9	1.9	0.4	-3.0	-3.9
	Private debt, % of GDP	160 %	64	68	78	84	98	108	116	118	116	114	104
	General government gross debt, % of GDP	60 %	27	27	27	26	23	22	35	39	47	54	72
	Unemployment rate, three-year average	10 %	6.4	6.5	6.5	6.3	5.8	5.1	5.0	5.9	7.1	8.1	9.1
	Total financial sector liabilities, unconsolidated, year-on-year % change	16,5 %	12.6	11.5	17.7	13.8	28.5	6.6	7.4	-3.4	-1.3	-0.7	-10.4

Source: Eurostat Portal Page – Macroeconomic imbalance procedure statistics, 2015.

Note: Indicators found to exceed the threshold value in the EU excessive imbalance procedure are marked in grey.

in total financial assets held abroad in 2014, which at the year-end stood at EUR 39.2 bn, was mainly the result of currency and deposits of the government and the central bank (change in the Target position).¹⁰ Higher yields entailed an increase in portfolio investments abroad. Foreign direct investments abroad stagnated, as loans given increased and the value of equity declined. Gross external debt resulting from increased government borrowing and, to some extent, greater equity liabilities of resident companies (foreign direct investments in Slovenia) were crucial for the increase in total financial liabilities, which totalled EUR 55.9 bn at the end of the year.¹¹ The increase in financial liabilities over claims abroad moved the net debt position considerably away from the indicative limit of the EU indicator of external imbalances (-35% of GDP).

1.2 The stability and quality of public finances

The stability of public finances is one of the key elements of macroeconomic stability which considerably deteriorated during the first years of the crisis. Consolidation did not begin until 2012. The deficit without one-off expenditure, which started to decline in 2012, reached the lowest level since 2008 in 2014, while the primary balance was balanced for the first time since the onset of the crisis. Structural deficit has remained at the same level during the past three years, which points to the need to adopt further structural measures and thereby more permanent fiscal balance measures, which would substitute the current, mostly interventive or temporary measures. The latter would, to a greater extent than before, enable the achievement of specific objectives in areas which are essential to long-term sustainability of public finances and which pose major challenges to Slovenia (social protection expenditure and management of state-owned assets). The conditions for government borrowing have improved significantly in the past year; however, a sharp increase in the debt level since the onset of the crisis and higher interest expenses point to the urgent need to stabilise the debt in order to prevent a further crowding out of other expenditure of the general government sector.

The general government deficit declined in 2014, mainly due to significantly lower one-off bank recapitalisation expenditure. The general government deficit dropped from 14.9% in 2013 to 4.9% of GDP in

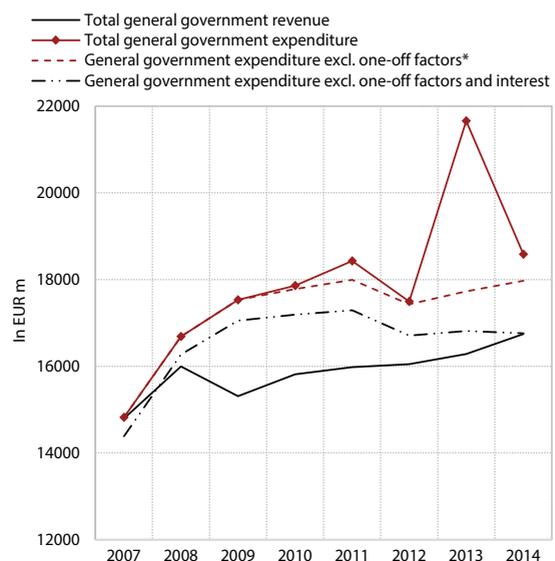
¹⁰ The period between the issue of government securities in October 2012 and February 2014 saw an increase in government liabilities for securities and a decline in liabilities to the Eurosystem (TARGET). The TARGET account has been positive since February last year. The Bank of Slovenia's assets and government deposits abroad increased as a result of sales of securities in April and November of the same year.

¹¹ Most of the increase in equity was accounted for by sales of companies to foreign investors from Austria, Croatia, Germany and the USA.

2014 as a result of considerably lower expenditure on bank recapitalisation, which declined from 10.1% in 2013 to 0.9% of GDP in 2014. The other one-off factors, including payments to the depositors of LB in Croatia and Bosnia and Herzegovina, totalled 0.7% of GDP.

The general government deficit, excluding one-off factors, accounted for -3.3% of GDP in 2014, reaching its lowest level since 2008. The general government deficit, excluding expenditure on bank recapitalisation and other one-off expenditures, was considerably lower in 2014 than in 2013 (-4.2% of GDP) and in 2012 (-3.8% of GDP), when the first and substantial progress towards improvement of the country's fiscal situation had been made since the beginning of the crisis.¹² In 2014, the primary balance was balanced (0% of GDP) as a result of growing revenues and declining expenditures excluding one-offs, which was a significant improvement on 2013 (-1.7% of GDP).

Figure 4: General government revenue and expenditure in Slovenia



Source: SI-STAT Data Portal – National Accounts – General government accounts – Main aggregates of the general government, March 2015.

Note: * One-off expenditure according to the Ministry of Finance. **This includes general government expenditure for the recapitalisation of banks and non-financial corporations, takeovers of debt from some companies, the net effect of the payment related to the elimination of the third quarter of wage disparities in the public sector, the payment of compensation to persons erased from the permanent residence register of the RS and the payments to depositors of LB in Croatia and Bosnia and Herzegovina

The narrowing of the deficit, excluding one-off factors, was attributable to the rebound in economic growth and government measures to increase revenue and

¹² The one-off factors in 2012-2014 included general government expenditures on the recapitalisation of banks and non-financial corporations; additionally, in 2013 the one-off factors also included the net effect of the payment related to the elimination of the third quarter of wage disparities in the public sector and the payment of compensation to persons erased from the permanent residence register, and in 2014 the payments (excluding interest) to depositors of LB in Croatia and Bosnia and Herzegovina.

Table 2: Absorption of EU funding by fund in the period 2007-2014* in Slovenia

Funds/policies	2007	2008	2009	2010	2011	2012	2013	2014	Annual growth 2014/2013 in %
European Regional Development Fund	0.0	0.0	78.8	308.2	382.3	326.0	277.5	276.7	-0.3
European Social Fund	0.0	0.0	6.4	104.7	134.3	107.4	155.5	127.0	-18.3
Cohesion Fund	0.0	0.0	104.9	99.4	60.2	107.0	193.3	348.5	80.3
Agriculture and Fisheries Policy	0.1	208.3	220.3	217.9	220.2	267.5	271.7	263.5	-3.0
Other	0.0	15.8	35.9	20.3	15.1	33.7	35.7	20.5	-42.6
Total	0.0	224.1	446.3	750.5	812.1	841.6	933.7	1.036.2	11.0

Source: Ministry of Finance.

Note: *Funds through which the cohesion policy is implemented in Slovenia. The financial resources represent Slovenia's budget revenues and are not entirely allocated to the general government sector.

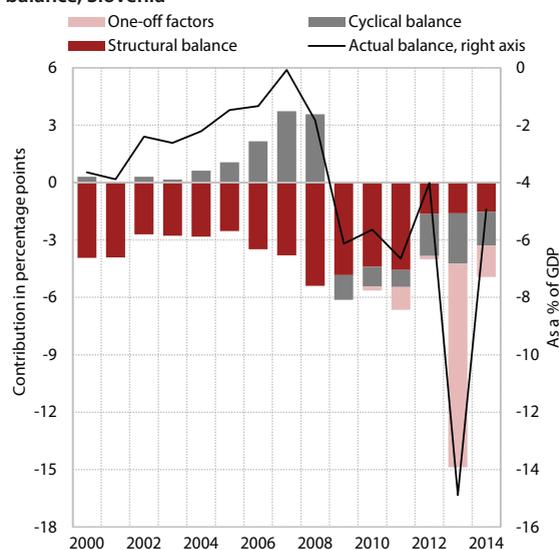
reduce certain categories of expenditure. After two years of decline, there was an increase in revenues from taxes and social contributions (2.5%) and an even higher increase in other general government revenues (7.8%), resulting from a sharp increase in revenue from EU funds.¹³ The highest increase was recorded in the drawing down of cohesion funds for the co-financing of environmental protection infrastructure and rail and transport infrastructure modernisation projects. The increase in revenue (3.4%) thus exceeded the increase in expenditure excluding one-off factors (1.4%). After the largest increase since the beginning of the financial crisis, interest expenses were again the major concern. Moreover, investment expenditure increased sharply in 2014, which was largely due to accelerated absorption of EU funds at the end of financing under the 2007-2013 Financial Perspective. In the period of continued decline in private investment in circumstances of bank deleveraging and high corporate debt, such increase in public expenditure on investment considerably contributed to the strengthening of economic activity and the improvement in macroeconomic conditions (see Chapters 1.1. and 1.3.). In 2014, similar to 2012 and 2013, fiscal consolidation on the expenditure side relied on measures that reduced subsidies, compensation of employees and expenditure on social benefits in cash and kind (with the exception of pensions); the decline in the latter in 2014 was also related to the improvement on the labour market.

The structural deficit, which is based on the assessment of the output gap, has remained unchanged during the past three years; however, the estimated impact of discretionary measures for 2014 that complement the estimated fiscal effort reveals that a certain fiscal effort was made in that year. The assessment of the structural deficit¹⁴ for Slovenia shows that after a sharp decline in 2012 (from -4.6% to -1.6% of GDP), it remained

¹³ The increase in revenue in 2014, excluding one-off factors in 2013, i.e. revenue accrued from personal income taxes and social contributions related to the elimination of the third quarter of wage disparities in the public sector.

¹⁴ A calculation made by IMAD on the basis of the published data on the Main Aggregates of the General Government, SURS (March 2015) and the output gap calculation published in IMAD's Spring Forecast (March 2015).

Figure 5: The actual and structural general government balance, Slovenia



Source: SI-STAT Data Portal – National Accounts – General government accounts – Main aggregates of the general government, March 2015. The Ministry of Finance, one-off factors. IMAD, calculation of the structural balance.

Note: One-off factors include general government expenditures for the recapitalisation of banks and non-financial corporations, takeovers of debt from some companies, the net effect of the payment related to the elimination of the third quarter of wage disparities in the public sector, the payment of compensation to persons erased from the permanent residence register of the RS and the payments to depositors of LB in Croatia and Bosnia and Herzegovina

on a similar level (-1.5% of GDP) in the following two years. In accordance with the recommendation made by the EU Council in June 2013 in the excessive deficit procedure, the structural deficit should have declined by 0.5% of GDP in 2014. The estimates of the structural balance and its changes point to the stance and the appropriateness of the fiscal policy and are highly important in connection with the fiscal pact's balanced budget provisions which have been transposed into the Slovenia's Constitution. Since the use of these provisions in assessing the appropriateness of the fiscal effort in a particular year is problematic due to considerable changes in calculations,¹⁵ the European Commission has

¹⁵ The assessment of the structural fiscal balance is highly dependent on the assessment of the potential GDP growth and output gap which are characterised by high volatility (see also Ekonomski izzivi 2014, Box 1: Vloga strukturnega salda v EU mehanizmu nadzora fiskalnih politik (The role of the structural

complemented them with a bottom-up fiscal measure assessment.¹⁶ The Draft Budgetary Plan (the Government of the Republic of Slovenia, October 2014) shows that measures totalling 1.8% of GDP were adopted on the revenue and expenditure side in 2014, which points to a fiscal effort in contrast to the output gap-based assessment.¹⁷

Slovenia did not introduce any significant systemic changes on the expenditure side since the onset of the economic crisis to permanently improve the country's fiscal situation. In recent years, fiscal consolidation measures have been permanent only to a limited extent, as they have mainly preserved their intervention and temporary character. In 2012, measures were adopted to permanently restrict,¹⁸ to some extent, expenditure on social transfers and family benefits, but most measures in this area are still temporary, with effect mostly until the end of 2015, or when economic growth exceeds 2% or 2.5%.¹⁹ Regarding compensation of employees in the public sector, there are only a few permanent measures²⁰ with a relatively minor financial effect compared to temporary measures in force until the end of 2015. However, the aforementioned and mostly temporary measures were not enough to offset the increase in other expenditures that rose sharply during the crisis, in particular interest and pension expenditures, and constitute a permanent structural change in government

budget balance in the EU Single Supervisory Mechanism).

¹⁶ It was taken into account for the first time in 2013.

¹⁷ The latest fiscal effort assessment for Slovenia was published by the European Commission in November 2014 (Commission staff working document, SWD(2014) 8813 final) so that it did not yet take into account the actual data on economic growth and general government deficit for 2014. Estimates by the European Commission made on the basis of the available data and forecasts up to November 2014 pointed to a structural deficit increase in 2014 and simultaneously to discretionary measures of 1.0% of GDP (measures adopted since the last recommendation issued in the excessive deficit procedure), which is still below the recommended 1.5% of GDP. As a result, in the European Commission's estimate of November 2014, Slovenia made limited progress in 2014 in terms of the structural part of the fiscal recommendations made by the EU Council.

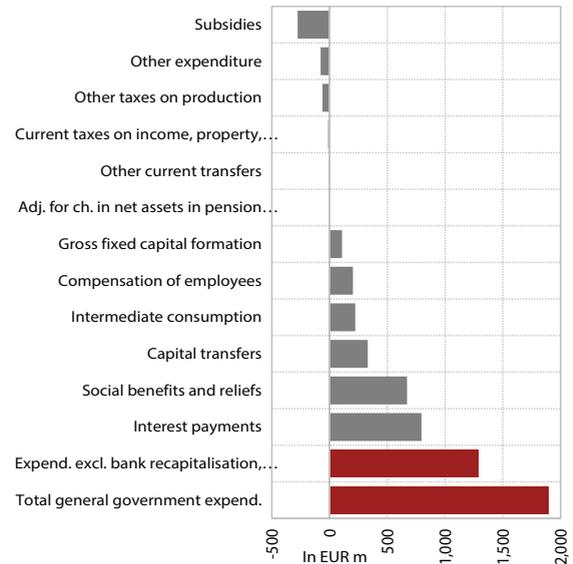
¹⁸ For example, changes in eligibility criteria in the area of social benefits, reduction of social benefits, unemployment benefits, reduction of the percentage of health care services covered by compulsory health insurance.

¹⁹ The Implementation of the Republic of Slovenia Budget for 2014 and 2015 Act provides for a freeze on the indexation of social transfers and pensions until the end of 2015 and the Fiscal Balance Act of 2012, as amended in the following years, terminated or slashed a number of family benefits or froze their indexation to inflation: a number of measures provided for by this Act will come into effect when economic growth exceeds 2.5%. Child benefit restrictions regulated by the Exercise of Rights to Public Funds Act (ZUPJS-C) remain in effect until economic growth exceeds 2%.

²⁰ The termination of the increased seniority bonus paid to women for years of service over 25 years, the reduction of the allowance for specialised and master's and doctoral studies (by half), the reduction of compensation for absence due to illness or injury outside work (from 90% to 80%).

expenditure. In the absence of the restructuring of other expenditures in 2010-2012, spending was also restricted by reducing the volume of government investment. However, there was a turnaround in this area in 2013 and 2014, which marked a positive change in fiscal policy.

Figure 6: General government expenditure in 2008–2014, Slovenia



Source: SI-STAT Data Portal – National Accounts – General government accounts – Main aggregates of the general government, March 2015.

The negative effects of temporary and linear measures have increasingly been affecting the provision of public services in many areas, which points to the urgent need to formulate measures aimed at permanent restructuring of expenditure in circumstances of severely limited possibilities for further increase in revenues. The temporary measures whose validity has been extended from year to year due to the prolonged crisis and the absence of other systemic changes have significantly contributed to a reduction in the general government deficit, but are not sustainable in the medium term and have already produced some negative effects. These measures include measures for reducing labour costs in the public sector that terminated the majority of wage incentives and reduced the number of employees in a linear way. The same applies to the measures for reducing the financing of the operation of general and local government structures. These structures that must provide high-quality public services in various areas need to be reformed in such a manner that they would be permanently adjusted to reduced sources of public financing.

The social protection systems will have to be adjusted and asset management will have to be improved in the future in order to ensure the sustainability of public finances. Since the onset of the economic crisis, pension and health care expenditures are among those with the highest recorded increase (see Indicator 1.10). This increase was not directly caused by the crisis, but is

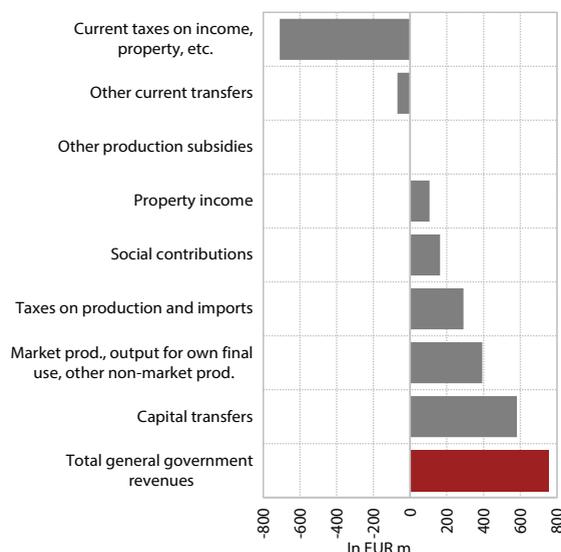
mainly due to the trends to which domestic and foreign institutions have been pointing for a number of years. These expenditures had not been adequately addressed by previous deficit reduction measures. In the long term, fiscal risks and challenges in this area are principally the result of the anticipated aging of the population and the related adjustment of the pension, health insurance and long-term care schemes. As the revenue of the Pension and Disability Insurance Institute of Slovenia (PDII) declined, the transfer from the national budget increased in the past few years and totalled EUR 1.6 bn or 33.1% of the total pension insurance revenue in 2014, which is the most ever. The budget transfer to the PDII thus accounted for 59% of the increase in pension expenditure in 2007-2014. These trends result in increasingly unsustainable pressure on other government expenditure. In the medium term, the increase in pension expenditure will need to be curbed to a greater extent by adopting systemic changes that would limit the inflows into retirement, such as tying the retirement age to the change in life expectancy, and increase labour participation of older people. In recent years, the growth of expenditure on health care has mainly been restricted by measures that have proven to be unsustainable even in the short term (investment reduction in addition to the linear labour cost reduction measures; see Chapter 3.2). In order to provide for the sustainability of public finances, the management of state assets also must be improved so as to reduce the risks that caused a huge increase in public debt during the last crisis.

There has been a substantial change in the revenue structure in favour of non-tax revenue since the onset of the crisis. Since the beginning of the crisis, most changes on the revenue side have been aimed at increasing tax revenues. An exception is the corporate income tax

where the tax rate was gradually reduced and investment allowances increased with a view to encouraging economic activity; however, despite many other tax rate increases and new taxes, the general government tax revenue was still EUR 420 m lower in 2014 than in 2008 as a result of such changes and a sharp decline in economic activity. The loss of tax revenue in this period has been substantially substituted by the increase in other revenue (extraordinary non-tax revenue, property income) and transfers (EU funds). However, this entailed a change in the structure of revenue which is, to a lesser extent than before the crisis, derived from more reliable systemic sources. For this reason, sources of revenue should be provided in the future which would be based to a greater extent on better capture and extension of tax bases. In terms of international comparisons, the possibilities of revenue increase also include changes in taxation of wealth (real estate).

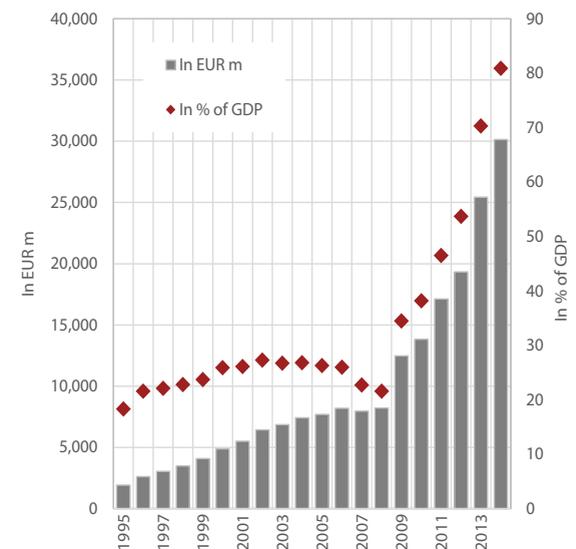
After a high increase in 2013 due to bank recapitalisation, general government debt again increased significantly in 2014, also as a result of government borrowing to meet liabilities which will become due after 2014. The general government debt rose by EUR 4.7 bn and reached 80.9% of GDP in 2014, after increasing by EUR 6.1 bn in 2013, the most thus far. One part of the increased debt was earmarked for covering the deficit (EUR 1.8 bn) and the other part (EUR 2.9 bn) mainly for pre-financing liabilities in the following years, given the improved situation on international financial markets. The borrowing was predominantly based on issuing long-term securities and loans (EUR 4.3 bn) and less on short-term domestic borrowing.²¹

Figure 7: Changes in general government revenues in 2008–2014, Slovenia



Source: SI-STAT Data Portal – National Accounts – General government accounts – Main aggregates of the general government, March 2015.

Figure 8: General government debt, Slovenia



Source: SI-Stat Data Portal – National Accounts – General government accounts – General government debt, March 2015.

²¹The issuance of 10-year and 5-year dollar bonds, two 7-year euro bonds, a 3-year euro bond and an 18-month treasury bill, which are long-term instruments. In the short term, the government was borrowing by issuing 12-, 6- and 3-month treasury bills.

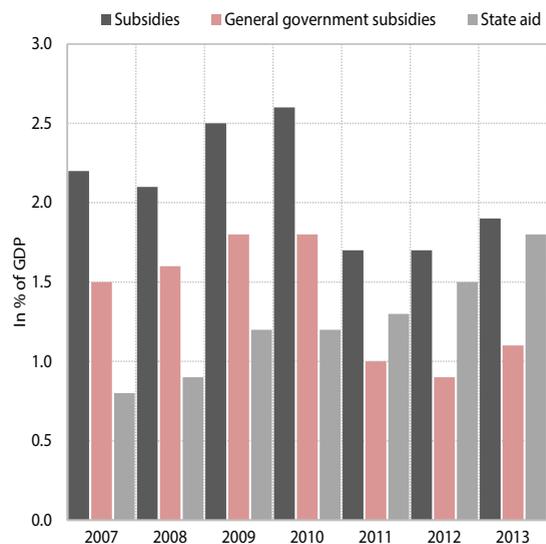
Conditions for government borrowing in 2014 were much better than in 2013. The yield on 10-year government bonds dropped below 5% after bank recapitalisation towards the end of 2013 and to 2% by the end of 2014. This was mainly due to the decisions of the Government and of the Bank of Slovenia concerning the stabilisation of the banking system and fiscal consolidation, and to the general improvement in economic conditions in the euro area and Slovenia. After the ECB's decision to purchase euro area government bonds (quantitative easing scheme), the yield on Slovenian government bonds reached its all-time low of about 1% in the first quarter of 2015. The three major rating agencies did not change the credit rating of Slovenia until the end of 2014 and Moody's restored the country's credit rating to investment grade at the beginning of 2015.

The role of the government in providing financial aid to the private sector strengthened in 2013; the means of such support have changed in recent years. Before the onset of the crisis, the government intervened strongly in the economy with selective measures similar in nature to subsidies and/or state aid. In accordance with the rules of the European Commission, the role of the government gradually declined, but was still high above the EU average in Slovenia in 2008. The extent of subsidies relative to GDP has declined somewhat in recent years, but since 2010 measures in support of the economy have been increasingly financed by other (state aid), particularly through lower tax liabilities (reduced social security contributions, higher tax remissions, exemptions and allowances) and guarantees. Such trends are problematic in terms of the allocation of limited public funds, as the results of the analyses²² conducted so far have pointed to highly inefficient allocation of state aid. A clearer industrial policy, more strongly supported by objectives and concrete measures, the adoption and the beginning of implementation of the Smart Specialisation Strategy,²³ the reform of aid programmes and a more conservative selection of aid recipients by taking into account the criteria of "additionality" and "cumulativeness" of the volume of aid and the development prospects of each recipient, implementation of monitoring the effectiveness and the assessment of state administration expenditure on aid allocation could contribute to reducing the volume of state aid and to increasing their effectiveness.

²² Analyses conducted within the framework of target research programmes: CRP nos. V5-0201, 2008; CRP V5-0408, 2010; CRP V5-1005, 2012; see also IMAD's Development Reports and Economic Challenges.

²³ The area of industrial policy was not regulated by a single strategic document in Slovenia until 2013 when Industrial Policy Strategy was adopted, constituting a document at a very general level, insufficiently supported by objectives and concrete measures. The key component of successful implementation of the Smart Specialisation Strategy, which is still in the process of being adopted and which constitutes an upgrade in industrial policy, will be the definition of measures and their consistent implementation.

Figure 9: Subsidies and state aid, Slovenia



Source: Subsidies: the cost structure of gross domestic product, General government subsidies: general government expenditure by function, SURS; State aid (excluding aid to mitigate the impact of the financial crisis): 2007-2012 Reports on the State Aid, Ministry of Finance, 2013 IMAD estimate based on the data taken from the Evidence of State Aid, the Ministry of Finance.

Slovenia was not successful in strengthening the fiscal policy institutional framework in 2014. In May 2013, the National Assembly approved a constitutional amendment to include the balanced public finance rule, which should have been followed by an implementing act within six months. This act will stipulate the timeframe and other elements for implementing the principle of the medium-term balance between the revenues and expenditures of the general government budget without borrowing, the criteria for determining exceptional circumstances in which a deviation from the aforementioned principle is possible, and the manner of acting upon the occurrence and cessation of such circumstances. The act will also regulate the operation of the Fiscal Council, an independent institution assessing the implementation of fiscal policy objectives. The adoption of the implementing fiscal rule act should be accompanied by an amendment to the Public Finance Act relating to the procedure of adopting or amending the national budget. No such amendment had been adopted by April 2015.²⁴ The soonest possible regulation of these areas is crucial to more efficient medium-term budget planning and to compliance with fiscal commitments in the framework of fiscal policy coordination in the euro area.

1.3 Financial system and corporate sector indebtedness

The situation in the credit markets seriously deteriorated at the outbreak of the crisis. Given the high degree of dependence of companies on bank financing due to the

²⁴ The Government adopted the proposed Fiscal Rule Act in December 2014.

poor development of other areas of the financial sector, this renders access to sources of corporate financing extremely difficult. At the same time, the high corporate debt level, which is on the decline, still impacts banks' willingness to assume risk. The level of non-performing claims, which decreased after the bank stabilisation programme had been launched at the end of 2013, rose again in the first half of 2014 as a result of the restructuring of the existing loans. The deterioration of the situation in the financial sector and corporate over-indebtedness have also revealed the inadequacies of the institutional framework, in which a system upgrade was therefore started two years ago.

1.3.1 The situation of the financial sector and deleveraging of the corporate sector

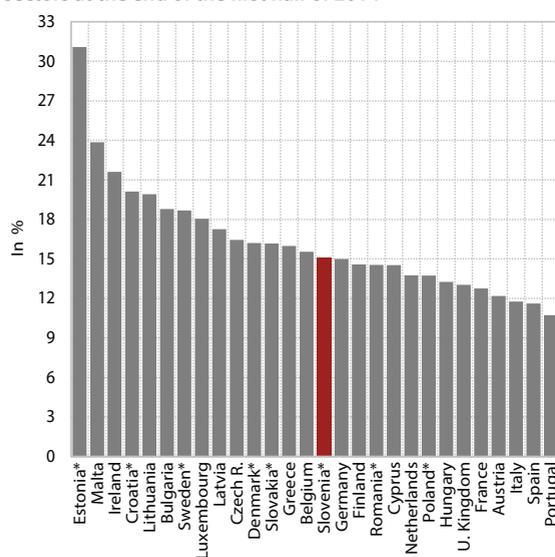
The bank stabilisation programme launched towards the end of 2013 has put an end to the deterioration of the situation in the banking sector and produced some visible effects; nonetheless, the risks to its stability still remain high. Under this programme, the government has allocated EUR 3.6 bn for the rehabilitation of the banking sector since December 2013. Before that date, Slovenia's banking system ranked among the most poorly capitalised in the EU. The capital adequacy of banks was raised to 15.1%, which is 5.6 percentage points more than before recapitalisation, and the Slovenian banking sector ranked among the medium capitalised banking systems in the EU. The losses incurred by the banking sector declined significantly in 2014. There was a strong response from the financial markets to the beginning of the bank stabilisation process, which coincided with the overall decline in investor distrust in association with the measures implemented or announced by the ECB. The yield to maturity of ten-year Slovenian government

bonds, which was higher than 5.5% at the beginning of the banking sector stabilisation, was approx. 1.2% at the end of March 2015.²⁵ The high vulnerability of the Slovenian banking sector to a potential new crisis has also been demonstrated by the results of the stress tests performed within the comprehensive assessment of bank operations in the entire euro area (October 2014). Despite substantial recapitalisation, two out of three Slovenian banks had a deficit in an adverse scenario at the end of 2013, but this deficit was small and required no additional recapitalisation.

Confidence in the banking sector is growing, which is reflected primarily in the relatively strong increase in non-banking sector deposits. Following a decline in 2013, which was due to the uncertainty regarding the beginning of the bank stabilisation programme and the escalation of the financial crisis in Cyprus, household and corporate deposits recorded an increase of EUR 2.3 bn in 2014 (11.1% on a year-on-year basis). The increase in deposits and the continued decline in the lending activity of domestic banks has had an effect on a rapid decrease in the loan-to-deposit ratio, which dropped below the EU average in 2014. However, the maturity structure of new non-banking sector deposits is relatively unfavourable, as the highest increase has been recorded in overnight deposits (EUR 1.6 bn) while short-term deposits have shown a decline, which is, in our opinion, the result of extremely low interest rates in Slovenia, which are below the EU average. Long-term deposits increased by approximately EUR 1.4 bn, as the corresponding interest rates decreased relatively more slowly than the rates for short-term deposits and are still above the EU average. Since the onset of the financial crisis, the government has significantly increased its deposits held in domestic banks and in this way at least partly mitigated the loss of sources of finance in international financial markets. In our estimate, the increase in government deposits in 2014 was no longer the result of the mitigation of liquidity pressures on the banking sector, but primarily of the management of the liquidity of the state budget.

The confidence of international financial markets in Slovenian banks has slightly increased, the banks are still deleveraging abroad, even though at a slower pace than in the previous years. Bonds issued without government guarantee by a bank which is in the process of stabilisation are an important indicator of increased confidence in the banking sector. Nevertheless, the banks are still deleveraging abroad. In 2014, net deleveraging totalled approximately EUR 950 m or 50% down on the previous year. At the end of 2014, liabilities to foreign banks totalled EUR 4.9 bn and accounted for 11.2% of the total assets of the Slovenian banking sector.

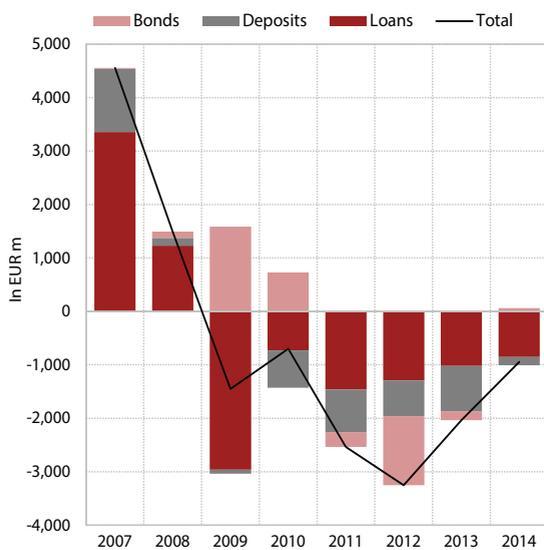
Figure 10: Capital adequacy (Tier 1) ratio of the banking sectors at the end of the first half of 2014



Source: IMF, ECB (data on Bulgaria, Finland, France, Greece, Ireland, Malta and Spain).
Note: * Data refer to the third quarter of 2014.

²⁵ The yield to maturity decreased by more than 100 bp in two months after the start of the bank stabilisation programme. The declining yield to maturity in the past few months has been assumed to be the result of the ECB's monetary policy.

Figure 11: Deleveraging by Slovenian banks abroad



Source: The Bank of Slovenia.

Since the escalation of the financial crisis in September 2008, net deleveraging by banks totalled EUR 12.1 bn.

After a considerable increase in the past few years, the volume of ECB funding declined significantly in 2014 in spite of the new targeted longer-term refinancing operations. The Slovenian banking sector is among those whose dependence on ECB funding has increased considerably since the end of 2011, when the ECB held the first auction of longer-term refinancing operations with three-year maturity. The share of its liabilities to the ECB peaked in December 2012, when they totalled EUR 4 bn and accounted for nearly 8% of total assets. As of the beginning of the bank stabilisation process, the banks, having received sufficient fresh sources of financing, have intensively started reducing their liabilities to the ECB. In 2014, they reduced these liabilities by EUR 2.5 bn despite the fact that Slovenian banks had additionally borrowed slightly more than EUR 700 m of ECB funds in two auctions. According to the Bank of Slovenia, the banks participated in these auctions primarily because of an extremely low (0.15%) interest rate, for precautionary motives and the possible substitution for other sources of financing, and partly maybe also with a view to increasing their lending activities as a result of these non-standard measures (Stability of the Slovenian Banking System, 2014, p. 14).

After more than one year from the beginning of the stabilisation of the banking sector, there has still not been any improvement in corporate lending despite some positive trends in obtaining sources of finance. According to our estimate, on the one hand, this is due to the extreme cautiousness of banks, which are still not willing to assume additional risks. This is also a limiting factor for those companies that are creditworthy and do have business opportunities,

but cannot fully exploit them because of the limited availability of financial resources. On the other hand, banks' lending activity has also been limited due to the still-high corporate debt level, which is reflected in lower quality of demand. The volume of new lending to non-financial corporations and households declined in 2014, which, including the change in the total volume of lending, points to the fact that deleveraging by companies and NFIs slightly increased in the past year, while household deleveraging slowed down. The poor lending market conditions are also reflected in interest rates on loans, which decreased slightly at the end of the year, but still remained among the highest in the euro area. Adverse borrowing conditions are also the cause of a considerable loss of customers with a good credit rating, as total receivables from A- and B-rated customers decreased by EUR 1.8 bn in the first nine months of 2014²⁶ and there was no increase in total receivables from C-, D- and E-rated customers, which, on the contrary, even showed a slight decline. Even data provided by the Bank of Slovenia (Stability of the Slovenian Banking System, 2014, p. 25) show that, in the period December 2013–September 2014, the share of A- and B-rated customers that passed into the lower-rated categories (C, D and E) decreased compared to the previous period. Accordingly, the estimate that the greater part of the decrease in the highest-quality claims is the result of deleveraging and the loss of prime customers, which, in terms of the decline in new lending, points to the fact that the share of lower-rated customers is on the increase.

The increase in non-performing claims continued at first after the start of the bank stabilisation programme but declined in the second half of 2014 due to additional transfers of assets to the BAMC. In our opinion, the increase in non-performing claims after the start of the bank stabilisation programme was the result of the restructuring of claims against some domestic companies alongside the further deterioration in the quality of claims against foreign entities. At the end of 2014, the volume of non-performing claims, including the transfers to the BAMC totalling EUR 1.6 bn, was lower than in 2013. Their share declined by 1.5 percentage points to 11.9%, which is 9.3 percentage points more than in 2007.

Despite the shrinking of the banking sector, the importance of other segments of Slovenia's financial system in the financing of economic activity has remained modest. The financial assets of the banking sector still accounted for approximately three quarters of the financial assets in Slovenia's entire financial system and approximately one half of the euro area average. The dominant share of banks in the entire financial system has had a significant impact on the structure of financing the Slovenian economy, which is greatly reliant on bank finance. The level of financing through the capital markets, which was mainly intended for ownership

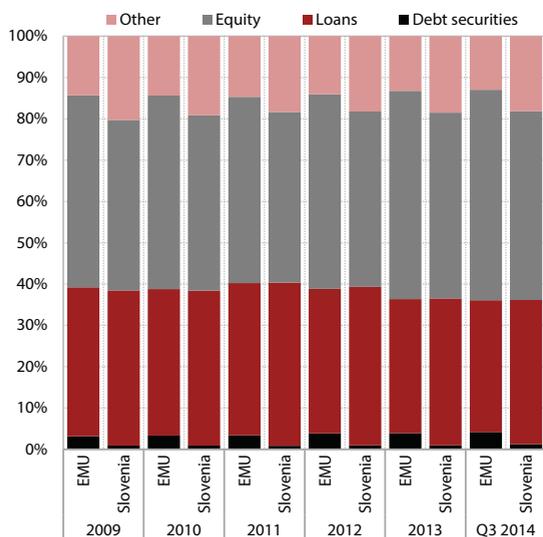
²⁶ Data is available only until September 2014.

consolidation in the past, has remained modest. In our opinion, this is due to the lack of transparency and poor investor protection,²⁷ and an insufficiently developed pension and life insurance market, which are instrumental in providing funds necessary for investments in the capital market.

The financial structure of non-financial corporations is unfavourable also due to the insufficiently developed other segments of the financial market.

The volume of debt security issues has recently slightly increased. Short-term debt sources of financing (loans and other liabilities) represent an above-average share in the structure of financing of non-financial corporations, while the share of long-term sources of financing is below average. There is a lack of equity and long-term debt securities, although the situation has improved slightly as of late. Companies with good results partly offset the loss of sources of financing on credit markets and also take advantage of favourable borrowing conditions in capital markets. In the first nine months of the year, the volume of debt security issues of non-financial corporations increased by a good 25%, exceeding EUR 1 bn. The share of financial liabilities of non-financial corporations for equity and debt securities is nearly 10 percentage points below the euro area average.

Figure 12: Comparison between the structures of financing of non-financial corporations in Slovenia and the EMU

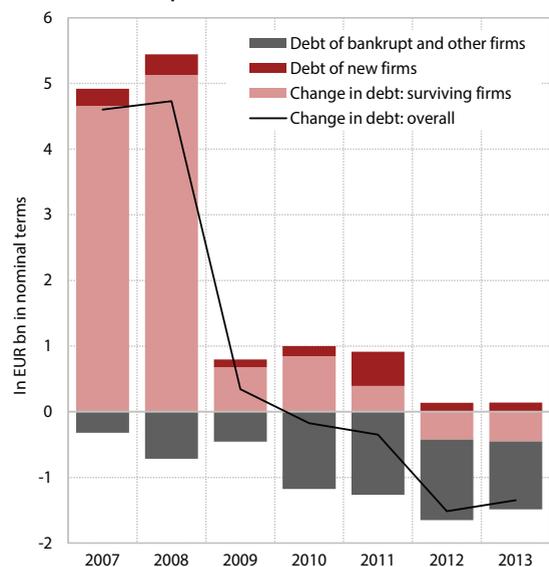


Source: Bank of Slovenia, ECB; calculations by IMAD.

²⁷ Slovenia is ranked 58th among 60 economies worldwide in terms of the rights of shareholders (IMD World Competitiveness Yearbook, 2014) and 124th among 144 countries in terms of minority shareholder protection (The Global Competitiveness Report 2014–2015).

Slovenian companies are highly indebted, which is largely due to the inappropriate development policies in the past and the financing predominantly through domestic bank loans that were not always properly allocated. Corporate indebtedness increased significantly in the period before the crisis.²⁸ The corporate sector favoured debt (bank) over equity financing and raised loans abroad, as they became widely available in favourable general economic conditions after Slovenia’s accession to the EU. In that period, domestic banks financed management buyouts particularly through holding companies and additionally contributed to their indebtedness. As a result, bank financing was not always allocated in an appropriate manner, since it was not sufficiently directed at increasing productive investments. The reliance of the Slovenian economy on debt financing caused a sudden increase in indebtedness in circumstances of declining economic activity at the outbreak of the economic crisis and limited access to bank financing.²⁹ This has considerably contributed to the continuation of adverse economic conditions as companies have mainly dealt with financial problems, putting their core activities on the side track.

Figure 13: The structure of financial deleveraging by conventional companies, Slovenia



Source: AJPES; calculations by IMAD.

Corporate over-indebtedness peaked in 2009, when it equalled almost twice the 2006 level. Since then, it has been decreasing, at first as a result of the winding-down of companies, while in 2012 and 2013 also due to actual deleveraging. The total financial debt³⁰ “common”

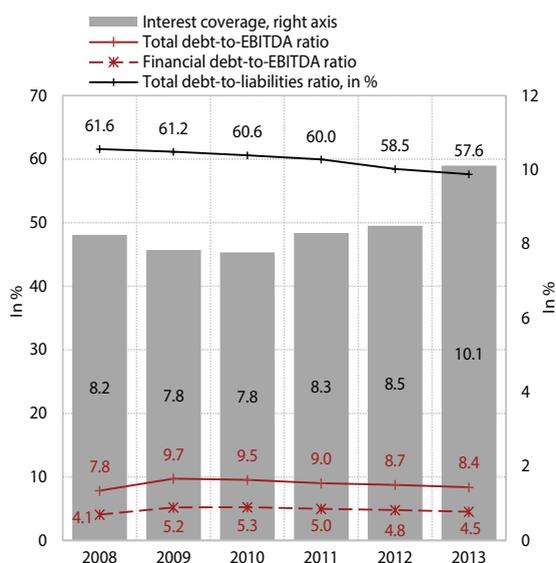
²⁸ Source: AJPES (for more details see Indicator 1.16).

²⁹ Over-indebtedness is measured as the amount of total liabilities multiple of five times EBITDA.

³⁰ Financial debt means all financial liabilities of the company.

companies³¹ already started to decrease in 2010, but mainly as a result of winding-downs. The financial debt of existing companies declined for the first time in 2012 by EUR 0.4 bn and by a further EUR 0.5 bn in 2013. A similar dynamic has been observed in financial liabilities to banks as companies have been deleveraging for the past three years. Corporate financial debt to banks decreased cumulatively by EUR 3.7 bn in 2010–2013, of which a reduction by EUR 2.6 bn was due to winding-downs, while EUR 1.4 bn was due to the deleveraging of existing companies. Over-indebted common companies accounted for about three quarters of bank and financial debt and slightly more than one half of the total debt of common companies. They accounted for one third of the total number of companies and work force, generated one-fourth of value added and accounted for slightly less than one-tenth of the total EBITDA.

Figure 14: The share of debt in the sources of financing (in %), financial leverage and interest coverage in conventional private sector companies, Slovenia



Source: AJPES; calculations by IMAD.

The ability of Slovenian companies to repay debt has improved in the past three years, and there has been deleveraging particularly in more indebted companies that have been wound up or have actually repaid their debts. The ratio between total debt and EBITDA³² has improved since 2011 and reached 8.4 in 2013. Interest coverage as an indicator³³ of the ability to repay debts

³¹ A distinction has been made between “common” companies, i.e. all types of companies, excluding holding and leasing companies, zero-employee companies and DARS, as these could distort the picture of the current situation in the area of corporate financing in Slovenia. The sample for 2013 included 38,209 common and a total of 61,312 companies.

³² EBITDA is defined as earning before interest, taxes, depreciation and amortisation.

³³ Interest coverage is calculated as the share of EBITDA in interest expenses.

has also improved and was 10.1 in 2013. Deleveraging since 2010 has also been indicated by the ratio between financial debt and EBITDA (financial leverage - FL³⁴), which decreased to 4.5 by 2013. This trend has also been influenced by changes in EBITDA, particularly in less indebted companies that otherwise generate most of the total EBITDA. The deterioration in corporate results during the first years of the crisis had a significant impact on the increase in total FL, while a gradual improvement of business results (increase in EBITDA) since 2011 has influenced a decrease in total FL. On the other side, EBITDA of over-indebted companies (FV>5) has been declining, which has additionally adversely affected their indebtedness. There is, therefore, a clear negative link between financial debt and EBITDA in less indebted companies. On the other hand, there is no clear link between the two variables in over-indebted companies (FV>5); moreover, there are a number of indebted companies with negative EBITDA, which points to the fact that they are possibly receiving state aid or are subject to debt rescheduling. The largest share of the total negative EBITDA³⁵ is accounted for by companies with the lowest debt level, which means that their main difficulty is not over-indebtedness but rather problems related to their operations.

Companies also adapt to changes in their operating results through labour market adjustments; the decline in the total wage bill is greater in over-indebted companies. After a decline in 2009 and a temporary increase in 2010 as a result of statutory minimum wage increase, the total annual wage bill of common companies has been slowly declining over the past three years. This is more the result of the decline in employment than wages. Labour market adjustments in companies with different debt levels are similar and indicate the same trend in wage bill expenses and employment. Over-indebted companies (FV>5) have been faced with increased dismissals and a decline in the wage bill over the past three years. In less indebted companies (FV<5), wages and the employment level are on the increase, which points to the existence of a healthy core of companies, capable of a further recovery.

Export-oriented companies are the fastest growing segment of low-debt companies. The number of common export-oriented companies increased throughout the 2008-2013 period. It is encouraging that the increase in moderately and predominantly export-oriented companies³⁶ was the highest in the least

³⁴ Financial leverage has two thresholds: companies are categorised into three groups: companies with negative EBITDA and consequently $FV < 0$, companies with $5 > FV \geq 0$, and over-indebted companies with $FV > 5$.

³⁵ In 2011 and 2012, the number of over-indebted companies with negative EBITDA stabilised.

³⁶ Moderate exporter: 30%–50% of total revenue is generated through sales on the domestic market; predominant exporter: 0%–30% of total revenue is generated through sales on the

indebted companies (FV<1): in 2013 their number rose by 88% as compared with 2008. The number of domestic market-oriented companies declined in the period 2010–2013, particularly in 2012.

The solvency of the Slovenian economy has gradually been improving, with long-term outstanding liabilities remaining a problem. The solvency of legal entities and sole traders³⁷ is estimated to have improved in 2014, as the number of non-payers decreased in most industries, mainly in construction, trade and manufacturing. The sharpest decline in average daily outstanding amounts³⁸ was recorded in finance and insurance activities, manufacturing, trade and construction, which still accounts for one-fourth of all daily outstanding liabilities. Long-term outstanding liabilities continue to pose a problem, but their level has been decreasing in the past few quarters.

1.3.2 Strengthening of the institutional framework for the operation of the financial system and corporate restructuring

A significant step towards the creation of the banking union has been taken at the euro area level with the establishment of the Single Control Mechanism (SCM). Its main objective is to contribute to the health and safety of credit institutions, enhance the stability of the EU financial system and provide for uniform implementation of control procedures. In the framework of the preparations for the establishment of the Single Control Mechanism and for the enhancement of confidence in the euro area banking system, the ECB performed a comprehensive analysis of banking operations. The analysis was divided into two parts: asset quality control and stress tests, which were carried out for the period 2014–2016 starting on 31 December 2013. The tests covered 130 systemic euro area banks, including three Slovenian banks (NLB, NKBM and SID). The stress test results pointed to a potential loss in 25 banks, of which two were from Slovenia (NLB and NKBM).³⁹ Under the unfavourable scenario, the total capital shortfall identified by the ECB stress test was EUR 24.6 bn. NLB and NKBM had a capital shortfall of EUR 65 m, which was offset by retained earnings to avoid additional pressure on general government expenditure.

domestic market. Exporters include both moderate and predominant exporters.

³⁷ Sole traders entered in the Business Register of Slovenia.

³⁸ Liabilities due and outstanding for more than five consecutive days in a month. AJPES keeps records of outstanding matured liabilities from court enforcement orders and tax debt. These records do not include other outstanding liabilities from unpaid bills between creditors and debtors. In the third quarter of 2014, average daily outstanding amounts were EUR 130 m lower year-on-year.

³⁹ Under the adverse stress test scenario, SID will have a capital adequacy of 14.4%.

In 2014, Slovenia adopted a new macro-prudential oversight⁴⁰ measure (GLTDF⁴¹) to influence the structure of the changing relationship between loans and deposits, contribute to the stability of the structure of bank financing and reduce systemic liquidity risk.

Further closing of the gap between loans and deposits should be based primarily on the increase in non-banking deposits, not on the shrinking of lending. In the first stage of the implementation of this measure,⁴² the banks with an annual increment in non-banking sector deposits should not reduce their lending activities while, in the second stage, they should increase their gross lending by at least 40% of the annual increment. If they fail to comply, they will first have to increase the ratio of the increase in deposits to gross lending. Failure to comply with this requirement would then result in a tightening of liquidity ratio requirements. According to data from the Bank of Slovenia, five banks failed to comply with GLTDF requirements at the end of September 2014, but all of them complied with the more rigorous requirements in terms of liquidity ratios.

The past two years have seen an upgrade of the institutional framework in support of continued corporate deleveraging and restructuring as well as the first results of the implementation of the amended legislation. Amendments to insolvency legislation⁴³ were adopted in 2013 with a view to ensuring conditions for more efficient restructuring of companies and their healthy cores and legislation⁴⁴ to increase the efficiency of enforcement procedures. The amended insolvency legislation has restricted the protraction of bankruptcy proceedings and the depletion of insolvent debtors' assets and facilitated entry into business ownership by creditors as economic owners. The conversion of claims⁴⁵ into equity has made it possible for creditors to gain control of businesses and has consequently improved, but not necessarily ensured, their capacity to preserve

⁴⁰ On the recommendation of the European Systemic Risk Board on the macro-prudential mandate of national authorities ESRB/2011/3 regarding the establishment of an effective system of macro-prudential supervision of the financial system, the Macro-prudential Supervision of the Financial System Act was adopted at the end of 2013, establishing the Financial Stability Board and defining the method of implementation and operation of supervisory bodies in the field of macro-prudential supervision. The main objective of macro-prudential supervision is to prevent and reduce systemic risks within the financial system.

⁴¹ Gross Loans to Deposits Flows.

⁴² From 30 June 2014 to 31 March 2015.

⁴³ Act Amending the Financial Operations, Insolvency Proceedings and Compulsory Dissolution Act (*Uradni list RS* [Official Gazette of the Republic of Slovenia], nos. 47/13 and 100/13).

⁴⁴ Act Amending the Claim Enforcement and Security Act (*Uradni list RS*, no. 53/14).

⁴⁵ This enables creditors to convert their claims into equity stakes in a number of permanently insolvent companies in compulsory settlement proceedings without the consent of the owners.

and carry on the operations of over-indebted companies. All these changes accelerated the financial restructuring of companies in the previous year. The number of bankruptcy proceedings brought against legal entities increased. A further step in corporate restructuring was taken by drafting a Master Restructuring Agreement (MRA) in accordance with the Slovenian Principles of Financial Debt Restructuring in the Corporate Sector, prepared by the Bank Association of Slovenia in mid-2014.⁴⁶ Corporate restructuring and deleveraging procedures involve the participation of several stakeholders and are carried out by various institutions. For this purpose, the Government of the Republic of Slovenia appointed an interministerial working group, whose responsibilities include centralised coordination and also monitoring procedures, coordinating the work of various state-owned institutions, promoting the procedure-based use of the available legal mechanisms and best international practices, drafting the master plan for corporate restructuring and deleveraging, and formulating the proposals for a systemic measure aimed at increasing the efficiency of corporate restructuring and deleveraging processes.

1.4 Challenges

A stable macroeconomic environment is of crucial importance for the rapid improvement of competitiveness factors, sustained economic growth and the creation of new jobs. Besides strengthening of the capital contribution that will lower the current surplus of savings for investment, the introduction of structural reforms is also important for boosting the economic growth, since it will improve the conditions of conducting business and enable the creation of products and services with high value added (see Chapter 2). Further improvement of private consumption that will follow the improvement of the labour market conditions due to faster economic growth will also reduce deflation risks that derive from the domestic environment.

Fiscal consolidation remains at the forefront of economic policies for the establishment of a stable macroeconomic framework. The public deficit has been gradually decreasing, while the public debt has surged in the past years. Its stabilisation and decrease in the medium term will be possible by gradually eliminating the deficit, which can also be achieved by improving state asset management. The measures taken so far have been mostly interventionist and temporary in nature and are not sustainable in the medium term. The main challenge of the coming years thus remains their replacement with permanent measures, which should include measures for adapting the systems that represent the biggest risk to the long-term sustainability of public finances (pension

and health care expenditures). In order to increase our revenues, we should make use of the possibility of extending the tax bases, implementing changes in real property taxation and improving the efficiency of asset management. From the point of view of optimal allocation of these public funds, savings potential can be found in revising measures for boosting the economy that have the nature of state aid and are not sufficiently effective. Adopting the implementing Fiscal Rule Act and the amended Public Finance Act as soon as possible is crucial for a more efficient medium-term budget planning, as well as for facilitating the meeting of fiscal consolidation commitments in the euro area.

Successful completion of the banking sector stabilisation, rapid restructuring of businesses, increased volume of equity capital and development of non-bank segments of the financial system are vital for securing financial resources for the corporate sector and faster revival of economic activity. Besides other structural reforms, effective bank stabilisation to encourage lending to promising businesses is an important factor for improving economic growth. Greater access to bank financing will improve the operating conditions of companies with a healthy financial structure and good business opportunities. A stable banking sector would also reduce Slovenia's vulnerability to the potential repeated deterioration of conditions in international financial markets. This would also greatly reduce the risk of renewed pressure of international financial markets on Slovenia and access to sources of funding. Given the continued deleveraging and the financial restructuring of companies, it will be crucial to ensure additional equity capital, which means a greater use of debt to equity swaps and a partial debt write-off followed by privatisation. Easier access to fresh capital on the market and the deepening of financial markets provided by additional incentives to investors, such as tax relief for pension funds and promotion of savings for old age. To ensure a better financial structure of companies, it will be crucial to strengthen the role of other segments of financial services that are based on long-term sources of financing, particularly deepening the capital market and increasing the FDI. This would improve companies' access to sources of financing.

⁴⁶ The Slovenian Principles of Financial Debt Restructuring in the Corporate Sector (BAS), 2014.

2 Factors of competitiveness

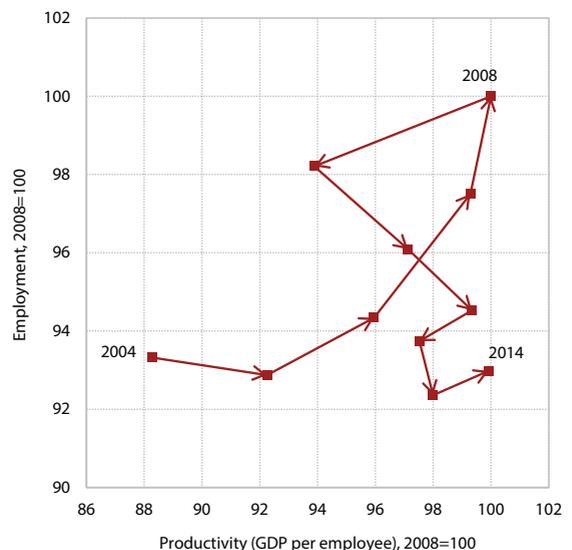
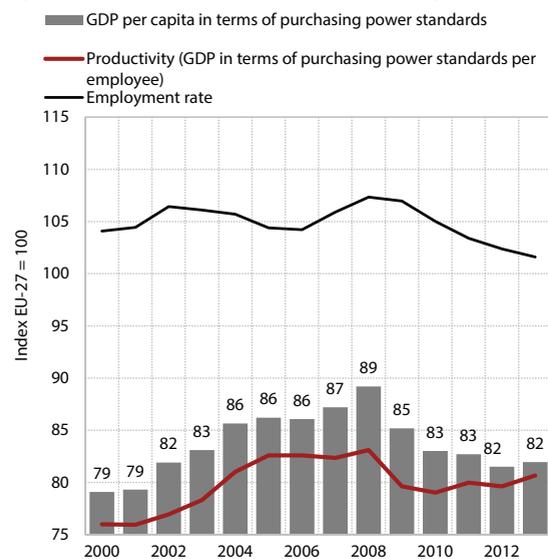
One of the priorities is to strengthen the competitiveness of the economy in order to catch up with advanced economies. In addition to a stable macroeconomic environment and access to sources of financing, the improvement of factors allowing for an increase in value added and consequently the competitiveness of the economy in the long term is vital for increasing the per capita GDP. This provides a basis for increased exports and integration into global value chains with products and services in the higher price bracket. With regard to the identified weaknesses of the previous development, the priorities for improving value added include increasing the economy's innovation capacity and its human capital. Competitiveness should also be strengthened by increasing the efficiency of the general government and its institutions, including ensuring a stimulating environment for business formation and growth.

Since the onset of the crisis, Slovenia has moved away from other developed countries in terms of GDP per capita, while economic trends more favourable than those in the EU were first recorded in 2014. Slovenia is ranked among the EU Member States with the largest drop in relative economic development (measured by GDP per capita) since the onset of the crisis. Some new Member States, which lagged considerably behind Slovenia's development a few years ago, have now almost closed this gap. Besides the Czech Republic, which reached the level of economic development of Slovenia in 2013, these countries are Slovakia, Estonia and Lithuania (see Indicator 2.1). In 2013, GDP per capita in purchasing power standards remained at lowest since the onset of the crisis: it stood at 82% of the

EU average, equalling the relative level of development of Slovenia in 2002. The upturn in the negative trends in economic development is indicated by data for 2014, when the economic growth was slightly above the EU level for the first time since the onset of the crisis (see Chapter 1.1).

The lag behind in GDP per capita is the result of low productivity. A decomposition of GDP per capita to the employment rate and productivity (GDP per employee) shows that the already low productivity level from the period before the crisis (compared to more developed countries) has declined further during the crisis. The employment rate, which was significantly higher than on average in the EU before 2008, has since declined to the EU average. Productivity has otherwise been recovering from the decline at the onset of the crisis, but slowly, since the bulk of growth was due to a decline in employment, while the increase in value added remained modest. Alongside a high level of debt, banking sector problems and deterioration of cost competitiveness, companies faced restricted access to external (mainly banking) and own (profit) sources of financing, including modest FDI inflows. All this has led to a sharp decline in fixed capital formation, which is a crucial short-term factor of value added and productivity growth. Besides a weak intra-sectoral growth in productivity in the majority of industries, a modest recovery in productivity was also due to contraction in some of the parts of the economy most affected by the crisis (mainly labour-intensive and less technology-intensive manufacturing and construction), which was largely due to insufficient restructuring of the economy towards creating higher value added and increasing competitiveness in the years before the crisis.

Figure 15: GDP per capita in terms of purchasing power parity, productivity and employment, Slovenia



Source: Eurostat Portal Page – Economy and Finance, 2015; SI-STAT data portal – National accounts, 2015; calculations by IMAD.

2.1 Competitiveness of the corporate sector

In the first years of the crisis, the indicators of corporate sector competitiveness showed a significant deterioration, but have been recently returning to the pre-crisis level. This applies to both export and cost competitiveness; the structure of exports has also improved since the onset of the crisis. However, the positive trends are not sufficiently based on productivity growth that would result from higher value added. Although some positive developments have been seen, the potential of the increase in FDI on valued added growth is still underutilized, as well as the role of knowledge-intensive services in the economy. This chapter presents the trends and competitiveness indicators in these areas, while the following sections present the challenges of value added growth associated with investments in knowledge and innovation capacity and state efficiency.

Slovenia's export competitiveness has improved since 2013.

The drop in Slovenia's market share in the global merchandise market by approximately one fifth in 2008–2012 was among the highest in the EU. The increase in 2013 (3.5%) and 2014 (5.6% in the first nine months of the year) accounted for approximately one third of its loss in the global market. Slovenia's market share in its fourteen main trading partners, which fell less than in the world market before 2012, has almost reached the pre-crisis level, while it exceeded the pre-crisis level in the EU market⁴⁷. Slovenia ranked in the first third of the EU Member States in terms of the market share increase in 2013 and was fifth⁴⁸ in terms of growth increase in 2014.

Figure 16: Slovenia's merchandise (export) market shares



Source: UN, SURS, Eurostat, WIIW, US Census Bureau; calculations by IMAD.

⁴⁷ The relative importance of the EU market has further increased with the accession of Croatia, as Slovenia exports three quarters of its goods to the EU market.

⁴⁸ According to data for the first three quarters of 2014.

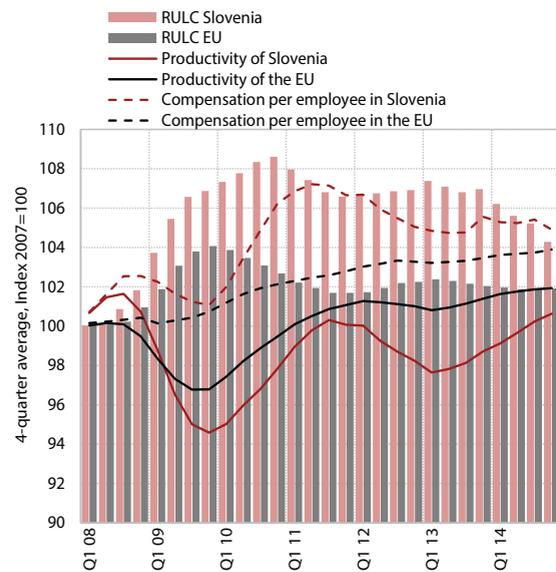
It is encouraging that Slovenia's market share increased in the majority of its main trading partners, as well as in the majority of its main export product markets. In 2013 (the latest available data), the market share (on the global market) increased in all product groups in terms of their factor intensity, with the exception of labour-intensive products that lagged behind the pre-crisis level the most (approximately four tenths). Market shares of resource-intensive products and low- and medium-tech products in 2013 lagged behind the 2007 level by about a quarter, while the market share of high-technology products that showed an increase in almost all years after the onset of the crisis exceeded the 2007 level by 8%.

An increase in market share is a result of improved competitiveness of merchandise exporters, as well as structural effects and growing trade in primary products.

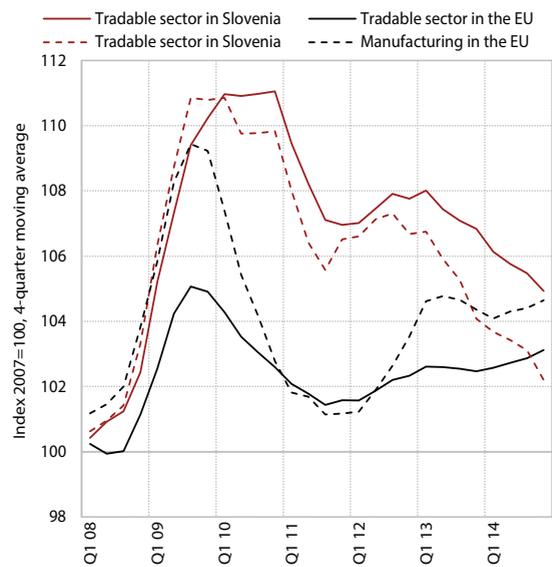
A high drop in the market share on the global merchandise market in the period 2008–2012 was connected with the sharp decline in cost competitiveness that was due to an increase in real unit labour costs in the first years of the crisis (2010–2012),⁴⁹ while the profitability of the corporate sector was also reduced by the negative terms of trade (2010–2012). In addition to this, the loss in market shares can be explained by the structure of Slovenia's exports that deviated considerably from the regional and product composition of global demand in this period (for more information, see Development Report 2014, 2014). An increase in the market share in the last two years was preceded by a period of considerable adjustment of unit labour costs in the tradable sector, especially in manufacturing. Besides this, in 2013 and 2014, import prices declined considerably and the terms of trade improved. It is estimated that both factors have had a positive effect on the situation of exporters, partly due to the reduction in the export prices, and partly to the improved profitability. In the period of intensive shrinking of the market share, the export structure significantly improved in terms of technological intensity of products (indicator 2.5), which also contributed positively to export competitiveness. After a considerable increase in unit labour costs at the onset of the crisis and as global demand was relatively low, many low-technology and labour-intensive businesses that in the early years of the crisis contributed to the reduction of the market share ceased their operations. It is also estimated that the impact of regional and product structure of exports on the growth of the market share has become positive due to the recovery of the EU economy that is Slovenia's largest export market. Finally, the growth of the market share was also positively affected by the growing exports of primary products (oil, gas, electricity), which is the result of further increases in Slovenia's trade in these products (re-exports).

⁴⁹ Their growth was due to the increase in salaries in the public sector (2008), the result of commencement of implementation of the wage-system reform in the public sector, a sharp drop of GDP (2009) and an increase in the minimum wage (2010).

Figure 17: Real unit labour costs in the economy, the tradable sector and manufacturing, Slovenia and the EU



Source: Eurostat Portal Page – National Accounts, 2015; calculations by IMAD.
Note: Real productivity and compensation of employees growth, GDP deflator.

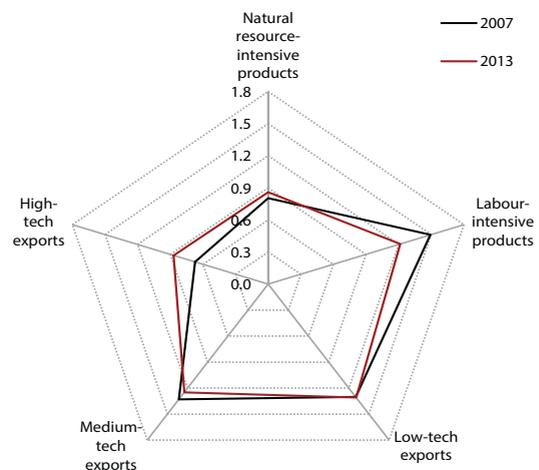


Slovenia's cost competitiveness has improved in recent years, especially in the tradable sector. Due to the growth in labour cost and a strong decline in economic activity, unit labour costs growth in the period 2008–2010 outpaced that of the EU. This gap has gradually decreased since then, particularly in 2014. It was widest in 2010 when it amounted to 6 percentage points; in the first three quarters of 2014, the cumulative increase in real unit labour costs since the onset of the crisis was 3 percentage points larger than in the EU. The real effective exchange rate deflated by unit labour costs in 2014 was approximately the same as in 2007. The majority of improvements in cost competitiveness in the last few years derived from the tradable sector⁵⁰. Until 2014 it was based primarily on the labour market's adjustment to reduced economic activity (decrease in employment and slowdown in wages); in 2014 the key factor became the growth of value added. With this adjustment the tradable sector has already mainly compensated for cost competitiveness losses relative to the EU from the first years of the crisis. Compared to 2007, the relative position (vis-à-vis the EU) of manufacturing activities that comprise a key part of the tradable sector has already slightly improved. For the first time since the onset of the crisis a visible improvement in cost competitiveness was also evident in the non-tradable sector, but its relative position (vis-à-vis the EU) is still considerably worse compared to the period before the crisis. Besides the construction industry and public services, where the unit labour costs have already decreased intermittently in previous years, in 2014 positive developments gradually

occurred in the majority of other non-tradable services, including financial ones.

The structure of goods exports has improved since the onset of the crisis, while the value added of exports of individual industries has remained low. Slovenia is characterised by a relatively high share of labour intensive and low and medium-technology products in the total exports of goods, but this share has decreased significantly since 2008. Due to the contraction of activity in these industries, the export growth after 2009 was mainly based on high-technology products.

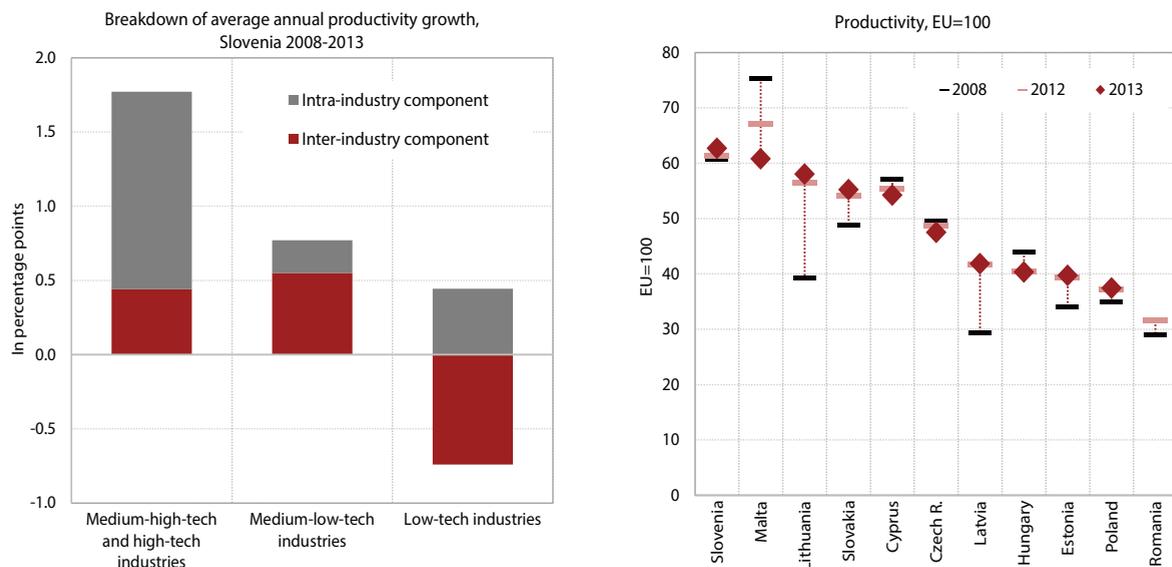
Figure 18: Revealed comparative advantage index of Slovenia's exports by factor intensity



Source: United Nations Statistic Division. Comtrade, 2015; Handbook of Statistics 2007-08 (UN); calculations by IMAD.
Note: ¹ The classification of products into individual groups is based on the UN methodology (Trade and Development Report, 2002), which does not include all products. Consequently, the sum of the five product groups does not necessarily equal 100.

⁵⁰ The tradable sector consists of industry (B-E), wholesale and retail trade, transportation, accommodation and food service activities (G-I), information and communication activities (J), and agriculture (A).

Figure 19: Productivity (value added per employee) in manufacturing industries



Source: Eurostat Portal Page – National Accounts; SI-STAT Data Portal – National Accounts; calculations by IMAD.

Their share that lagged behind the EU average in 2007 by 8.4 percentage points has increased and has narrowed the gap with the EU average to the lowest level so far (3.5 percentage points in 2013). Changes in the structure of exports also had an impact on the increase in the value added of exports, since the share of industries with a relatively high import content of exports has also declined significantly (the manufacture of motor vehicles in particular). But no major changes occurred in the value added of exports of individual industries. The value added remains low particularly in some medium-high technology industries, e. g. in the automotive, electrical and machinery industries. The gap with the developed countries derives mainly from the lower share of the value added of services in the export of the products of these industries. This indicates that compared to other developed countries, Slovenia exploits to a significantly lesser extent the potential for adding value and strengthening product competitiveness through various service activities (e.g. development, marketing, servicing and design). This is partly due to the fact that the output of these industries mostly includes intermediate products, where there are fewer possibilities for involving other service activities than in the manufacture of final products. The value added of high-tech industries in particular has also been unfavourably impacted by their relatively low resource productivity (see Chapter 4.1).

Manufacturing production remains lower than before the crisis, while productivity has improved slightly.

In 2014, production volume in manufacturing lagged behind the pre-crisis level more than on average in the EU. This was due to a relatively sharp reduction in the volume of low-technology, mainly labour-intensive industries in Slovenia. After the decrease in 2009, the recovery in production has been mainly based on growth

in medium-high- and high-technology industries, which in 2014 exceeded the pre-crisis level (2008), while in some industries (the manufacture of ICT and electrical equipment, the chemical and pharmaceutical industries) growth has outpaced that in the EU. More technology-intensive industries have contributed the most to the improved productivity in the manufacturing industry since the start of the crisis.⁵¹ In 2013 (the most recent international data available), productivity reached its highest level so far (approximately 63% of the EU average) and was the highest among the new EU Member States. Compared to this group of countries, Slovenia stands out particularly in terms of the high level of productivity in the high-technology pharmaceutical industry. The differences are smaller in other high-technology industries⁵², where Slovenia lags behind some countries, particularly in terms of the production of ICT equipment and the manufacture of other machinery and equipment.

The competitiveness of knowledge-intensive services is poor, although their exports have increased recently.

In modern economies, services – knowledge-intensive services in particular – significantly contribute to the strengthening of the entire economy and the increase in competitiveness in manufacturing companies, as they

⁵¹ This has been mainly due to within-sector productivity growth and to a lesser extent also to an increase in their share in employment (inter-sectoral component of productivity growth). In the period 2008–2013, the contribution of low-technology industries was negative due to the negative inter-sectoral component (the reduction in their share in total employment of manufacturing industries).

⁵² The differences between Slovenia and other new Member States (with the exception of Romania and Bulgaria) in terms of productivity in medium-low- and low-technology industries are also small.

Table 3: The market share of Slovenian exports of services in EU-27 service imports

In %	Share in service exports, 2013	Market share			Change 2013/2008 or 2012/2008
		2008	2012	2013	
Services	100.0	0.31	0.30	0.30	-0.4
Transportation	25.5	0.42	0.40	0.41	-1.3
Travel	38.8	0.53	0.61	0.60	13.6
Other services*, of which	35.7	0.17	0.15	0.17	1.8
Knowledge-intensive services**	19.8	0.19	0.15		-21.9

Source: Eurostat Portal Page – Economy and Finance – Balance of payments, 2015; calculations by IMAD.

Note: *The 'Other services' group comprises communication, construction, financial, insurance, computer, IT, personal, cultural, recreation, state and other business services and licences, patents and copyrights. **Knowledge-intensive non-financial services are calculated as the sum of the following items of extended balance of payments classification: 247, 263, 274, 278, 279, 280 and 284

enable a greater differentiation of products in the market, the provision of comprehensive solutions for customers or the introduction of new business models (European Service Innovation Centre, 2014). Since the start of the crisis, the growth of the value added of knowledge-intensive market services in Slovenia has been lagging behind the EU average, which is mainly attributed to the sluggish recovery of the domestic market, the main outlet of these services. This led to a gradual shift towards foreign markets, a process that was accelerated in 2013, but the share of knowledge-intensive services in total service exports is still considerably lower than in the EU (see Indicator 2.6). This can partly be explained by the relatively large share of exports of travel and transportation services in connection with Slovenia's natural environment and strategic position, yet data also show that the export competitiveness of knowledge-intensive services is poor. Their market share in the EU has decreased considerably since the start of the crisis, with positive trends recorded only as late as in the last year (2013⁵³). Poor export competitiveness is especially typical of computer, legal, accounting and tax services and research and development services. With regard to these services, which are mostly services that are highly regulated on an international scale, Slovenia also lags behind the developed countries in terms of the level of innovation activity (see Chapter 2.3).

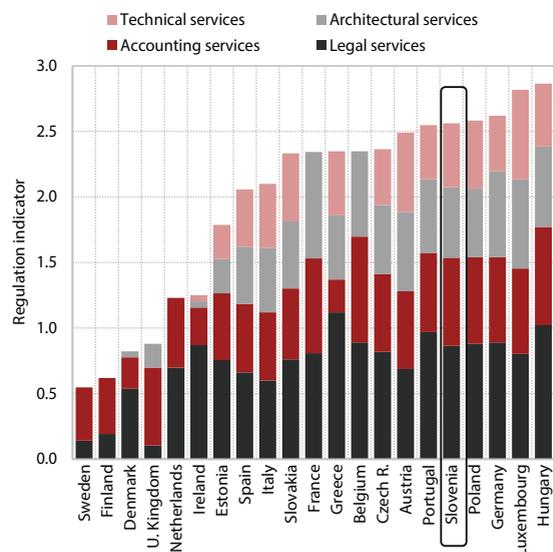
Competition in services is rising, but little progress has been made in the deregulation of professional services.

The possibilities of raising productivity by increasing competition are usually highest in services such as retail trade, network industries and professional services (the 2013 Update of the OECD Product Market Regulation Indicators, 2013). In network industries and retail trade, Slovenia does not have in place any particular legislative barriers to entry. In *retail trade*, the concentration level in the highly concentrated sector of non-specialised stores, predominantly those selling food products, has declined considerably since 2006⁵⁴. The level of competition is

⁵³ This is reflected in the trends of the 'Other business services' group, which is part of the 'Other services' group.

⁵⁴ Concentration measured in terms of the Hirschman-Herfindahl Index dropped from the maximum value of 3,387 in 2006 to 2,160 in 2013 (the high concentration limit being the value of 1,800), while the share of the main provider dropped

Figure 20: Regulation of professional services, 2013



Source: OECD.

Note: 0 = the least regulated service; 6 = the most regulated service.

also increasing in *electronic communications*; the share of the dominant provider of broadband internet is below the EU average, while it is higher in fixed and mobile telephony markets. As regards the *electricity and gas supply*, the market was formally liberalised in 2007, which has been reflected in increasing supplier switching in the past few years. The prices of these energy products for households are lower (electricity) than or at least comparable (gas) to the EU average. Despite the decline in the last two years, gas prices for industrial customers are still above the EU average. A further drop in gas prices is expected as a result of the elimination of long-term contracts, required by the Competition Protection Agency in order to completely liberalise this market (see Indicator 2.7). The OECD estimates that the level of regulation in the field of *professional services* (such as accounting, legal, technical and architectural services) is still rather high⁵⁵. Market entry barriers are high, in

from 53% to 38.5%.

⁵⁵ As regards the OECD European countries, the level of professional services regulation is higher only in Poland, Germany, Luxembourg and Hungary (The 2013 update of the

particular, although some progress has been made on this front with the abolishment of quotas for services provided by foreigners⁵⁶. Regulation regarding the required education has decreased a little, but Slovenia is still ranked among the countries with the highest level of regulation in this field, particularly when it comes to accounting, technical and architectural services. Slovenia also stands out in terms of the large number of regulated professions, which has, however, slightly declined in the past years⁵⁷.

Slovenia's integration in international trade flows is increasing, although at a slower pace than in many other new EU Member States. Since the decline in 2009, the rate of international trade integration, measured in terms of the average share of foreign trade in GDP⁵⁸, has been on the increase, and has, since 2011, been higher than before the start of the crisis. The increase in recent years was largely the result of the increase in exports integration. Until 2012, in view of the decrease in domestic consumption, exports were the only factor of economic growth, while the increase in the share of exports in GDP in 2013 and 2014 was also accompanied by improved export competitiveness. After a considerable decrease at the beginning of the crisis, since 2009, integration into international trade flows has been faster than on average

OECD product market regulation indicators, 2013).

⁵⁶ In 2011, the Employment and Work of Aliens Act abolished the quotas for individual services provided by aliens.

⁵⁷ Their number is larger only in Poland and Slovakia. Since 2010, the number of regulated professions has dropped by 81 to 242 (the EU average is 176). The analysis that will finally evaluate the number of regulated professions and activities in Slovenia is expected to be completed in 2015 (the Report on the progress on the PSC project in 2013 and 2014, 2014).

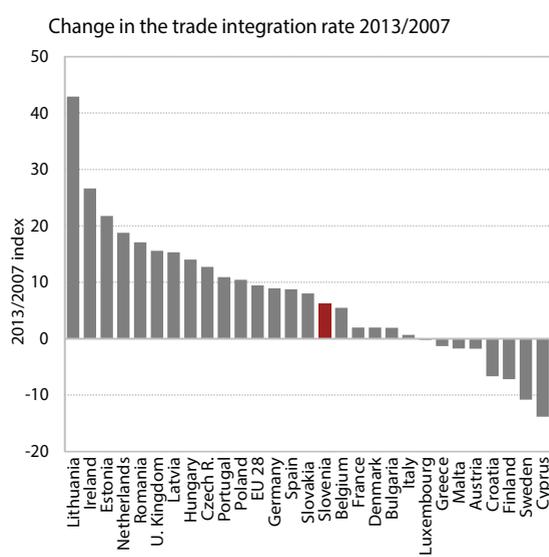
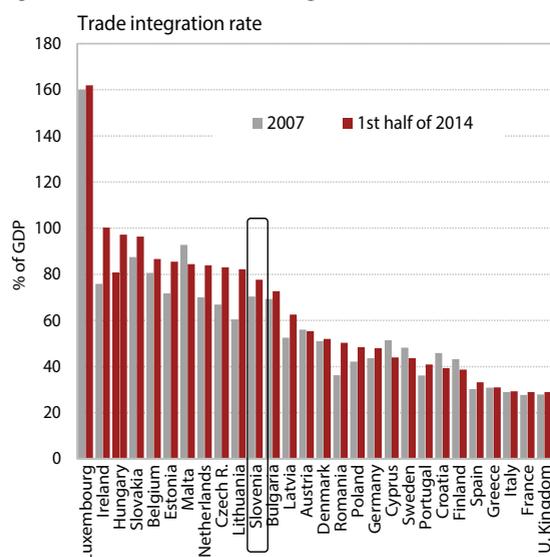
⁵⁸ $((\text{Exports of goods and services} + \text{imports of goods and services})/2)/\text{GDP} \times 100$.

in the EU, yet slower than in some new EU Member States⁵⁹, many of which are already more integrated into international trade flows than Slovenia. This shows that Slovenia is lagging behind in terms of integration in global value chains, which today constitute an important element of economic integration and competitiveness of countries. In this regard, Slovenia does not make sufficient use of the possibility of integration through foreign direct investments (see also Development report 2014, p. 34–35).

Planned privatisation and the corporate deleveraging process provide an opportunity for increasing the extremely low level of foreign direct investments (FDI) in the Slovenian economy. According to the latest data for 2013, Slovenia was among the EU countries with the lowest level of and the smallest increase in inward FDI stock in relation to GDP. The already low equity capital inflows further decreased at the start of the crisis. A visible improvement has been evident recently as a result of the acceleration of privatisation processes and an increased sale of ownership stakes in Slovenian companies. In 2014, equity capital inflows were more than three times higher than in 2013, when they were already on the increase, reaching one of the highest values of the last ten years. Data from a survey conducted in foreign subsidiaries in Slovenia are also encouraging, as they show that the share of subsidiaries planning expansion of their activities in Slovenia has increased considerably after 2010 (Rojec, Jaklič, 2014). If foreign investments increased, the corporate sector would obtain not only the necessary financial means for development investments but also new knowledge and technologies, while state-owned companies, in particular, would benefit from the

⁵⁹ After a decrease in 2009, it has been increasing more quickly in Slovakia and Baltic countries.

Figure 21: International trade integration*



Source: SI-STAT Data Portal – National Accounts, 2014; Eurostat Portal Page – Economy and Finance, 2014; calculations by IMAD.

Note: *The rate of international trade integration is calculated as: $((\text{Exports of goods and services} + \text{imports of goods and services})/2)/\text{BDP} \times 100$.

opportunity to improve their governance. In this regard, an improved environment for doing business may also have a significant impact on the increase in the inflow of FDI (see Chapter 2.4). Unlike in inward FDI, trends in outward FDI remain unfavourable, as in 2013, after four years of decline, outward FDI stock in relation to GDP reached its lowest point since the beginning of the crisis.

Early-stage entrepreneurial activity has increased considerably since the start of the crisis, while the number of high-growth enterprises remains relatively low. The survey data from the GEM project (see Indicator 2.9) show that, after reaching its lowest point in 2011, early-stage entrepreneurial activity in Slovenia (the share of the population entering entrepreneurial activity) increased considerably by 2014, although it was below the EU average throughout most of that period. The proportion of the population engaged in entrepreneurial activity was greater in the period of increased subsidies to support the self-employment of unemployed persons, which could lead to a conclusion that the decision of individuals to pursue an entrepreneurial activity was often based on the need to secure employment rather than on innovative solutions, which could potentially lead to business expansion and new job creation. The increase in self-employment in uncertain economic conditions can also be attributed to companies' search for more flexible forms of employment. The results of the GEM project show that, since the beginning of the crisis, the share of necessity-driven entrepreneurs has increased considerably, while the share of early-stage entrepreneurs driven by identified business opportunities is lower than before the crisis (in the EU, it is higher). The increase in early-stage entrepreneurial activity has not yet resulted in a considerable improvement in the number of high-growth enterprises, which has halved since the beginning of the crisis, although since 2012 it has no longer decreased. Data showing a considerable increase in the number of start-up enterprises in 2014 and an improvement in the supportive environment for entrepreneurship (see Chapter 2.3) are also encouraging; in the future, this could lead to an increase in the share of high-growth enterprises, which usually attract new investments and create new jobs.

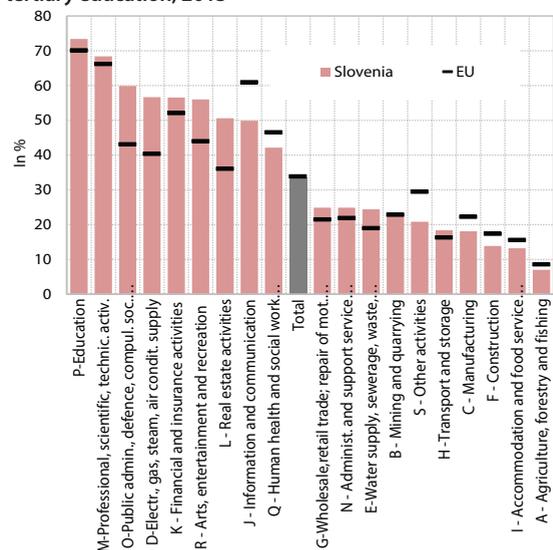
2.2 Human Capital

In Slovenia, human capital, one of the key factors of competitiveness and long-term growth, is too low and insufficiently used. An increased and more efficient investment in knowledge is one of the main levers for strengthening the potential of economic growth. While the level of public investment in education is relatively high, the key shortcomings are the slow adaptation of the education system to the needs of a more competitive economy, the low level of private investment, the insufficiently effective use of public funds and the insufficient quality of education. Lifelong learning, which has been an under-utilised method

of strengthening human capital, particularly during the crisis, has been gaining importance in view of the rapid economic and social changes and longer working lives.

The share of employed persons with tertiary education is increasing, while the level of employment of tertiary-educated people in the private sector is still low. In 2014, the share of the adult population (aged 25–64) with tertiary education increased further and for the first time exceeded the EU average (see Indicator 2.10). The share of employed persons with tertiary education in this age group is also increasing, having closely approached the EU average in 2013. However, the problem is that the employment in the private sector of tertiary-educated people, who could contribute to increasing the value added of the Slovenian economy, is still low. In the private sector, the share of tertiary-educated people in the number of employed persons is considerably lower than in public service activities and slightly below the EU average.⁶⁰ The low level of employment of highly educated workforce in the private sector is attributed to the mismatch between the supply of these workers and the needs of companies, high taxes on above-average earnings that are usually received by tertiary-educated people,⁶¹ and the financial problems faced by the Slovenian economy during the crisis. The IMD World Talent Report 2014 (2014) also draws attention to the fact

Figure 22: The share of employed persons (aged 25-64) with tertiary education, 2013



Source: Eurostat; calculations by IMAD.

Note: Public service activities are O, P and Q activities, while private sector activities are A–N and R–S activities.

⁶⁰ In 2013, the share of employed persons (aged 25-64) with tertiary education was 60.4% (EU: 52.6%) and 25.8% (EU: 27.1%) in public service activities and the private sector, respectively.

⁶¹ In Slovenia, the level of taxation on tertiary-educated people's earnings exceeds the average in the 21 EU Member States that are also OECD members (Education at a Glance 2014, 2014). When it comes to taxation on those earning 167% of the average wage, 17 EU Member States have more favourable taxes than Slovenia (Kosi Antolič, 2015).

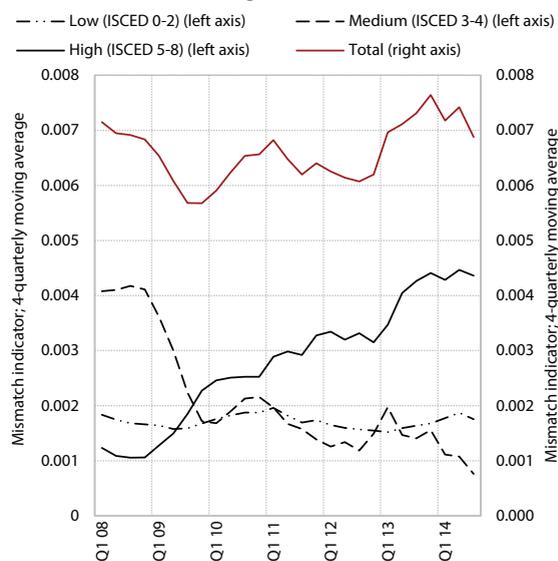
that Slovenia's education system does not contribute enough to the competitiveness of the economy.⁶²

Enrolment in tertiary education does not correspond sufficiently to the needs of companies. In the period 2008/2009–2013/2014, the number of students enrolled declined considerably due to demographic trends in all areas of education, with the exception of science, mathematics and computing, where it increased considerably. Despite the increase, their share in total enrolment was below the EU average according to the latest data for 2012, while the share of enrolment in social sciences and business and law increased. Due to the mismatch between enrolment and the needs of the environment (Quality in the Slovenian Higher Education and Higher Vocational Education Area in the Period from 2010 to 2013, 2013) and the reduced demand for labour, the number of unemployed persons with tertiary education increased above average in the period 2008–2014, most significantly in business and administrative sciences. In 2014, a measure⁶³ to increase cooperation between the higher education sphere and the corporate sector was adopted with the aim of facilitating the transfer of knowledge to companies and reducing the mismatch between skills and the needs of the sector. The establishment of a system to forecast the medium-term needs of the labour market and monitor the situation of graduates in the labour market could significantly contribute to a greater match between the demand for and the supply of tertiary-educated workers.

The unfavourable situation regarding the employment of tertiary-educated people forces them to look for work abroad. In the period 2008–2014, the tertiary-educated faced a number of problems. The unemployment rate for this group increased more than on average in the EU, and the number of registered unemployed persons with tertiary education increased more than in all other levels of education⁶⁴, while the indicator of mismatch between supply and demand⁶⁵ increased only in the case of tertiary-educated people. In addition, in 2013, almost a fifth of employed persons with tertiary education aged

20–34 were employed in professions in which this level of education was not needed (Education and Training Monitor 2014, 2014). The number of tertiary-educated Slovenian citizens who moved abroad further increased in 2013 due to the deterioration of the labour market situation. The tertiary-educated aged 30–39 account for the largest share of the tertiary-educated who moved abroad (45.5%), which shows that they have poor prospects for employment. The brain drain reduces the possibility of using this knowledge, acquired through tertiary education with the support of a considerable amount of public funds, in Slovenia.

Figure 23: Indicator of mismatch between the supply and demand for labour with regard to education level, Slovenia



Source: Eurostat; calculations by IMAD.

Progress made with respect to the quality of tertiary education is too slow to enhance the competitiveness of the economy. In the academic year 2013/2014, the ratio of the number of students to the number of teaching staff, which is one of the quality indicators, decreased to 17.1, due to both a decrease in the number of students enrolled and an increase in the number of teaching staff. Progress on this front is evident throughout the entire crisis period, although Slovenia lags behind the average in the 21 EU Member States that are also OECD members (15.8 in 2012). The high student-to-staff ratio is due to both low expenditure per student and a high level of fictitious enrolment. Various studies also point to the issue of the quality of tertiary education. The analysis Quality in the Slovenian Higher Education and Higher Vocational Education Area (2013) established that higher education institutions do not pay enough attention to quality (the culture of quality, human resource planning and internal evaluation). The analysis of the European Commission has shown that, in Slovenia, only a small share of respondents assess the quality of the higher education received as very good or fairly good (European area of skills and qualifications, 2014).

⁶² As regards university education, Slovenia is ranked 54th on the list of 60 countries in terms of meeting the needs of a more competitive economy.

⁶³ The purpose of the measure 'A creative path to practical knowledge' was to support the development of skills, the acquisition of practical knowledge and experience through projects implemented in partnership between higher education institutions and to support the corporate sector itself. A total of 211 projects have been selected by public tender, totalling EUR 2.816 m.

⁶⁴ In 2014, the number of registered unemployed persons with tertiary education was 19,229, which is three times more than in 2008.

⁶⁵ The indicator of mismatch between supply and demand ("skill-mismatch indicator") at a certain level of education is calculated as $Q_i \times |Q_i - N_i|$, where Q_i represents the share of the labour force with i level of education in the total labour force, and N_i the share of employed persons with i level of education in the total number of employed persons.

Measures to reduce the number of fictitious enrolments may improve the quality and efficiency of education.

The poor efficiency of tertiary education in Slovenia is also due to the high share of potentially fictitious enrolments⁶⁶ in post-secondary vocational education and higher education study programmes, which in 2012 further increased and was higher than in 2008. This resulted in a low transition rate from the first to the second year of study, which further decreased in the academic year 2013/2014 (to 52.4%). The transition rate is even lower in post-secondary vocational education, where fictitious enrolments have, since the academic year 2014/2015, been limited by the Post-Secondary Vocational Education Act.⁶⁷ In higher education study programmes, fictitious enrolments have, since the academic year 2014/2015, been limited by means of online application, which makes it possible to control data from the records of students and graduates. Unlike some other EU countries, Slovenia does not make tuition-free study conditional on the regular advancement of students (National Student Fee and Student Support Systems in European Higher Education 2014/2015, 2014; Euryedia, 2014). The issue of fictitious enrolments in upper secondary education has still not been addressed. Fictitious enrolments have a negative impact on educational institutions (as they prevent them from planning the educational process in real terms), labour market policies and public finance⁶⁸ (the audit report Fictitious enrolments in tertiary education programmes, 2014).

Expenditure on tertiary education is too modest to enable greater quality, with low private expenditure standing out the most.

Despite the increase in the period 2008–2011, when the number of students seeking enrolment decreased, expenditure per student lagged behind the EU average considerably (see Indicator 2.11), which reduces the possibility for increasing quality. The low share of private expenditure further decreased during the crisis due to a decline in the share of part-time students and the introduction of

second-cycle Bologna programmes⁶⁹ and in 2011 lagged behind the EU considerably (Slovenia: 15.0%; EU: 21.7%). Low private expenditure is favourable from the point of view of the availability of studies, and unfavourable from the point of view of their effectiveness. With the entry into force of the Fiscal Balance Act in 2012, public expenditure on tertiary education, which is high (as a % of GDP) by international comparison due to high enrolment in tertiary education, decreased in real terms. In view of high public expenditure and fiscal limitations, changes must be introduced to the rules that would shorten the duration of studies, thereby increasing the effectiveness of tertiary education. The possible increase in private expenditure, which may increase the effectiveness and quality of tertiary education, should be accompanied by a system of study assistance (e.g. long-term student loans), such as is already in place in many other countries.⁷⁰

Vocational and technical upper-secondary education also responds insufficiently and too slowly to the needs of the corporate sector.

This is reflected in insufficient enrolment in some vocational and technical programmes (e.g. science and technology), the insufficient adaptation of vocational and technical upper-secondary education to the needs of employers, and the fact that programmes do not focus enough on practical skills and preparation for a profession. After several years of decline, the share of students enrolled in short-term vocational and vocational upper-secondary programmes has increased in the last few years, which, in addition to an increased interest in these programmes, could be attributed to fictitious enrolments with a view to preserving the rights related to the status of upper-secondary student. Enrolment in technical upper-secondary programmes also increased. However, in these programmes, the objective of continuing education prevails over the objective of training for a profession, which results in the insufficient acquisition of skills for the exercise of a profession (Beltram et al., 2014). In addition to insufficient enrolment, the professional standards on which the preparation of educational programmes is based are also a problem, as they respond too slowly to the needs of employers (Professional standards and national vocational qualifications, 2000–2012, 2013). The apprenticeship system, which Slovenia abandoned in 2006, could also contribute to a greater match between enrolment in vocational education and the needs of companies. Scholarships for shortage occupations, introduced by way of the Scholarship Act in 2013, should increase enrolment in educational programmes for which there is a lack of interest despite the needs of employers.

⁶⁶ A potentially fictitious enrolment is the enrolment of a person who does not enrol in the second year of the study programme for the upcoming academic year, nor do they repeat the first year of study, while it is not known whether there are justifiable reasons for this or not. The number of enrolments also includes persons who enrolled with the desire to study, but failed to fulfil study obligations that are a precondition for repeating the first year or advancing into the second year of study (the audit report Fictitious enrolments in tertiary education programmes, 2014).

⁶⁷ A student who has been enrolled for three years in a higher education study programme, but cannot enrol in full-time post-secondary vocational education studies. Candidates who have not yet been enrolled in full-time post-secondary vocational education or higher education studies in the Republic of Slovenia are given priority in the selection procedure.

⁶⁸ In the period 2010/2011–2012/2013, the assessed amount of income tax relief, subsidised student meals and compulsory health insurance for potentially fictitious persons totalled approximately EUR 50 m (the audit report Fictitious enrolments in tertiary education programmes, 2014).

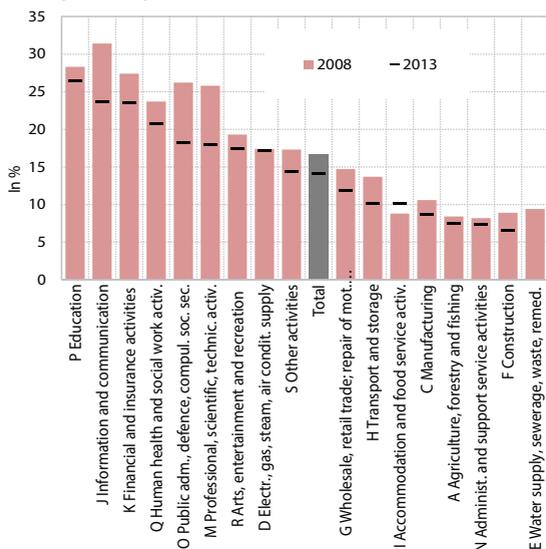
⁶⁹ They are free of charge for full-time students, whereas master's and specialist studies under the previous system were not.

⁷⁰ In the academic year 2014/2015, Denmark, Germany, Estonia, Greece, Luxembourg, Hungary, Netherlands, Poland, Slovakia, Finland, Sweden and the United Kingdom offered students loans to cover the cost of study and living costs (National Student Fee and Support Systems 2014/2015, 2014).

The participation of employed persons in lifelong learning, which is one of the important factors of the competitiveness of an economy, is declining.

Participation is high in public service activities and in some of the private sector activities, which have the highest share of tertiary-educated people among employees. In recent years, the participation of employed persons⁷¹ in lifelong learning, in particular persons aged over 50 years, was contributed to by the state's co-funding of training and education for employees. The competence centres for human resource development also contributed to staff development. Despite this, the participation of employed persons in lifelong learning declined in the period 2008–2013. We assess that, in public service activities, this was due to austerity measures, and in the private sector, to smaller possibilities of companies to finance education for their employees during the crisis; in addition, in Slovenian companies, the education of employees is not an important priority (IMD World Talent Report 2014, 2014).

Figure 24: Participation of employed persons aged 25–64 in lifelong learning, Slovenia



Source: Eurostat, ADS.

Note: Public service activities are O, P and Q activities, while private sector activities are A–N and R–S activities.

2.3 Innovation capacity

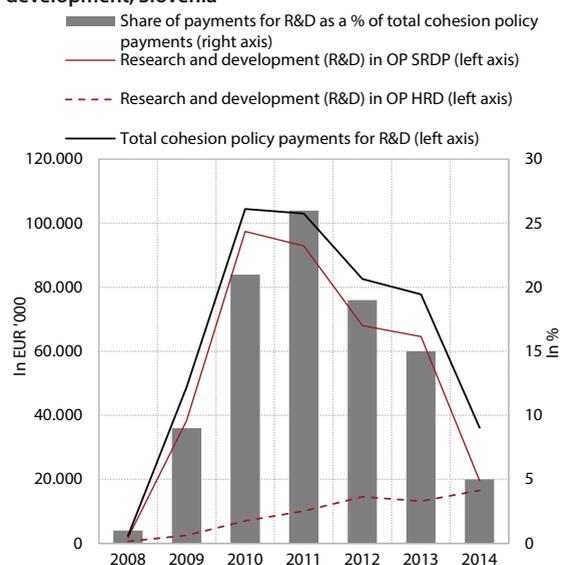
Economies with greater innovation capacity create products and services with high value added, are the most successful in international markets and ensure a high level of well-being for their population. The strengthening of innovation capacity is reliant on long-term investment in research and development, fostering innovation activity in companies, providing adequately qualified staff, the development and use of modern technologies and the strengthening of various forms of intellectual property. Close cooperation,

the transfer of knowledge and the greater mobility of staff between the research and development sector and companies, networking among companies of different sizes and the integration and coordination of measures of different policies are crucial for increasing the effectiveness of investment in innovation capacity factors. Because of the development of new technologies, it is essential to provide staff with appropriate skills more quickly.

In 2013, expenditure on research and development (R&D) remained high as a share of GDP (2.6%), although it decreased in real terms for the first time during the crisis.

Since 2010, Slovenia has exceeded the EU average in terms of R&D investment as a percentage of GDP, which totalled 2% in 2013. The large share of the business sector, which provides almost 64% of all funding for R&D, stands out in particular. As in previous years, in 2013, the business sector was the main driving force behind positive trends in expenditure on R&D in Slovenia (with almost EUR 600 m). This was also due to an increase in tax relief for R&D investment from 20% in 2006 when it was adopted, 40% in 2010, to 100% in 2012. Compared to the year before, in 2013, the amount of the tax relief claimed increased considerably less than the number of companies that receive the relief, which means that the number of companies that claim R&D tax relief is rising. In recent years, growth in business expenditure on R&D has also been positively impacted by the sources of the European Commission, which required that companies co-fund research and development. The share of foreign funding in total investments in R&D expanded during the entire crisis period and was the largest to date in 2013 (8.9%, see Indicator 2.13). The foreign sources of the corporate sector rose at a pace similar to that of the

Figure 25: European Cohesion Policy funding for research and development, Slovenia



Source: The Government Office for Development and European Cohesion Policy.

Note: Absolute amounts include only EU funds, which account for 85% of co-funding and are reimbursed from the EU budget; the data cover projects that were co-funded within the Operational Programmes for the Strengthening of Regional Development Potentials (OP SRDP) and the Human Resources Development (OP HRD).

⁷¹ The 'Training and education of employees 2011' programme.

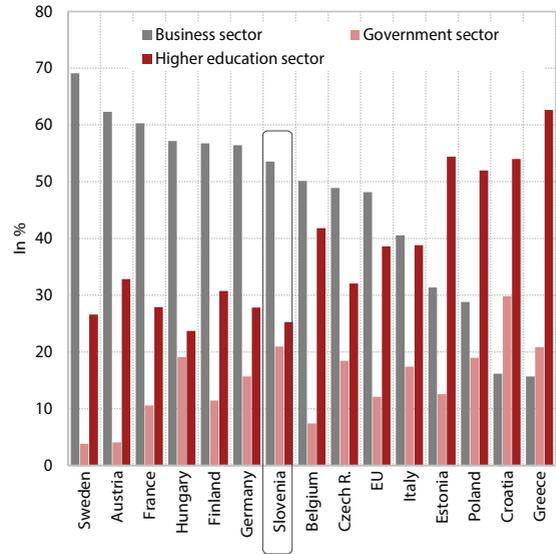
sources of the European Commission. Nevertheless, in the period 2008–2012, the increase in foreign funding for R&D in Slovenia was considerably slower than in most other Central and Eastern European EU Member States. Payments from cohesion funds for R&D focused on the period 2010–2013, when the financing of centres of excellence, competence centres and development centres took place. At that time, the share of payments for R&D in total cohesion policy payments ranged between 15% and 26% (EUR 60–100 m). In 2012 and 2013 (the latest data), the government sector reduced funding for R&D (by EUR 30 m) that was focused on R&D expenditure in public research organisations and the higher education sector. Further reduction in government sector investment in R&D may in the future undermine the capabilities of the scientific and research sector in basic and applied research and may encourage the brain drain of highly educated staff.

After rising for a long period, the number of researchers declined in 2013. The higher education sector recorded the largest decrease in the number of researchers, with a reduction of 8.2% (almost 200 researchers⁷²) in 2013 compared to the previous year, to be followed by the government sector. The aforementioned trends are worrying, although the decrease was partly due to the Fiscal Balance Act's entry into force, the retirement of older researchers and the transition of researchers to the business sector. The situation of younger researchers is the most unfavourable, as after obtaining their doctoral degree, they cannot find employment in the public sector due to restrictive policies. Consequently, newly acquired knowledge is not utilised and the risk that they will move abroad increases.⁷³ In the business sector, the number of researchers has been rising since 2006 and their number was once again higher in 2013. These trends are mostly due to the business sector's increased investment in R&D, with the aim of raising competitiveness. Slovenia is one of the twelve EU Member States in which the share of researchers in the business sector exceeds one half of the total number of researchers. In the period 2005–2013, two considerable changes occurred in the structure of researchers in Slovenia – an increase in the share of science and technology (by 9.4 percentage points) and a decline in the share of medical sciences (by 4.2 percentage points). While the former is favourable from the point of view of strengthening the innovation capacity of the economy, the latter is worrying, considering the aging of the population and an increased need for health care services.

⁷² Expressed as a full time equivalent (FTE).

⁷³ In 2013, the Ministry of Education, Science and Sport endorsed the employment of 77 young researchers at the start of their career for the period of 18 months (The results of the public call for applications to support researchers at the start of their career; the Ministry of Education, Science and Sport). Most of them were employed by public research institutes, and the others in the higher education sector. Without this measure, the number of researchers would have further decreased in 2013.

Figure 26: The share of researchers by sectors of performance of R&D, as % of all researchers, 2013*



Source: Eurostat.
Note: *The sum of sectors does not equal 100 because the private non-profit sector is not included.

Human capital in science and technology, which plays an important role in innovation activity, increased in the period 2008–2013. The number of doctors of science also continued to rise in 2013, but there were fewer opportunities for their employment due to the crisis. Doctors of science in the field of science and technology account for more than half of all doctors of science, which is a good basis for strengthening innovation capacity in companies. The number of graduates in science and technology is decreasing due to demographic trends, while their share among the total number of graduates is increasing (see Indicator 2.15). These trends are due to the popularisation of studies, a greater availability of scholarships for students of these sciences and the fact that these graduates can find employment more easily during the crisis. The decline in the number of students enrolled in science and technology, which has been evident since 2010/2011, will result in a decline in the number of graduates. Considering the brain drain of young people from Slovenia, this will, in turn, limit the availability of this kind of staff to companies in the medium term. A lack of graduates in computer science may become particularly problematic, in view of the increasing demand. It is assessed that, in 2020, the deficit in the EU will amount to over 900,000 ICT experts with higher and vocational education (E-skills for jobs in Europe, 2014). The promotion of entrepreneurship may also contribute to a better utilisation of the knowledge of graduates in science and technology in the innovation process. In general, in tertiary education, the development of entrepreneurial skills has been neglected and insufficient,⁷⁴ which may represent a

⁷⁴ According to the Eurobarometer data for 2012, the share of respondents in Slovenia who believe that they have obtained entrepreneurial skills in school is below the EU average

barrier to graduates wishing to take the entrepreneurial path. Some of the activities have been implemented,⁷⁵ while some of them are planned in the Implementation plan for the 2014–2015 Youth Guarantee.⁷⁶

In the period 2010–2012, the level of Slovenian companies' innovation activity lagged behind the pre-crisis level; the gap with the EU average widened.

Although companies have increased R&D investment since 2009, its effects on innovation will be seen only in the long-term. In the period 2010–2012, 46.5% of companies were innovation-active, which is 3.5 percentage points less than in the previous period (see Indicator 2.14). Most of the innovation-active companies combine technological with non-technological innovations, as they are mutually supportive. Although the share of innovation-active companies is traditionally higher in the manufacturing sector than in the service sector, the differences between the two sectors are decreasing due to several factors. After 2010, Slovenia considerably increased the share of its expenditure on R&D in the service sector, which reached 36.6% in 2012 and exceeded the EU average.⁷⁷ An increased use of modern technologies in service companies requires appropriate organisational innovations and the introduction of new business models. State incentives to establish new development units or diversify the existing units by employing and training development staff are also expected to have a long-term positive effect on innovation in service companies, considering that service companies accounted for the majority of companies that received these incentives in 2012 and 2014.⁷⁸ Such programmes may also contribute to an increase in the share of knowledge-intensive services in value added, which is one of the important gaps in the innovation system. Some analyses show that innovation is important not only for high-tech sectors, but also for low-tech industries, in which return on innovation is highest considering the funds invested (EBRD Transition Report 2014, 2014). More than 85% of large companies in Slovenia are innovation-active (this percentage is higher only in Germany and Portugal). The persisting problem is the small share of small innovation-active companies; in this regard, Slovenia lags behind the EU average more

(Entrepreneurship in the EU and beyond, 2012).

⁷⁵ The Public procurement for the provision of training programmes to promote creativity, entrepreneurship and innovation among students was published in 2013.

⁷⁶ The promotion of creativity and innovation among students (start-up weekends for students), the project to support entrepreneurship (encouraging entrepreneurial skills, connecting young people with the economy through diploma theses, etc.).

⁷⁷ These trends are partly due to the increase in tax relief for investment in R&D to 100% in 2012. Companies providing professional and scientific services and ICT services account for the largest share of companies that claim this tax relief (The 2014 Development Report, 2014).

⁷⁸ The Outcome of the public calls for capacity building of development units in companies, 2012 and 2013, Ministry of Economic Development and Technology.

significantly when it comes to small service companies that prevail among knowledge-intensive service providers. In Slovenia, the gap between small and large companies in terms of innovation activity is increasing, thus reflecting insufficient cooperation between companies of different sizes, insufficient adaptation of innovation policy instruments to the needs of small companies, and limited human resources for innovation in these companies.

The supportive environment for young innovative companies in Slovenia is strengthening, particularly within the Start:up Slovenia initiative.

In 2014, the Slovene Enterprise Fund introduced a new incentive measure to acquire seed capital, which makes it possible for the selected innovative start-up companies to receive and benefit from mentored entrepreneurship education related to the marketing of the new idea, thereby increasing their innovation capacity. The new feature in 2015 is the instrument of equity financing aimed at promoting the growth of innovative companies that have demonstrated the value of their innovation on the market. This helps build a comprehensive ecosystem to support young innovative companies in all stages of their development. Systematic support to young companies in recent years has resulted in the establishment of 120 to 150 high- and medium-tech start-up companies annually that market innovative products and services (Cvjetović, Nared, 2014). More developed OECD member countries also enhance the innovation capacity of small companies by means of instruments such as targeted consultancy services to modernise the operation of small companies, innovation consortia which promote the transfer of knowledge from research organisations to small enterprises, seed capital for start-ups, and innovation vouchers (OECD, 2011).

New instruments to support research and innovation activity strengthen the innovation capacity of public research organisations and the business sector.

In the period 2009–2014, these instruments (centres of excellence, a research voucher, the establishment of new creative cores, researchers at the beginning of their career, etc.) were significantly supported by cohesion policy funds, and some of them (competence centres) also by private sector funds. The evaluation of the direct and farther-reaching results of the operation of centres of excellence and competence centres shows that the two instruments constitute an important step towards improving the efficiency of Slovenia's innovation system (Bučar, Stare, Udovič, 2014). In addition to achieving quantitative objectives in terms of patent applications, innovations, new products and services applied, they have contributed, in a relatively short period of time, to laying the foundations for strengthening the cooperation between the scientific and research sphere and the corporate sector in the long term and to co-creating knowledge in key scientific and technological fields. They have also contributed to the development of staff that combine the research and development approaches

of public research organisations with that of companies, thereby strengthening the interdisciplinary approach to problem solving. Limiting the financing of centres of excellence and competence centres to four or three years reduces the possibilities for fully exploiting both instruments, as it fails to take into account the integrity of development phases in generating new fundamental knowledge, to developing new technological and non-technological solutions and to successful marketing, which requires a longer period of time (e.g. 10–15 years), as demonstrated by the countries that have similar instruments in place (Sweden, Austria). A short-term approach also shows that the two instruments deviate from the Research and Innovation Strategy of Slovenia, which was adopted in 2011, but lags in the implementation.

Since the beginning of the crisis, Slovenia has fallen behind the EU average considerably in terms of patent applications filed with the European Patent Office (EPO); on the other hand, it has been catching up with the EU average in terms of designs and in 2014 exceeded the EU average in terms of trademarks.

In 2014, Slovenian applicants filed around 60 patent applications per million population with the EPO, which was considerably less than in 2008 (69 patent applications). Patent applications filed with the Slovenian Intellectual Property Office also increased very modestly in 2014. These trends confirm the low level of and a decline in the innovation activity of Slovenian companies after 2008. Despite the fact that Slovenia is way ahead of other Central and Eastern European EU Member States in terms of patent applications and that procedures for filing patent applications with the EPO are expensive and time-consuming, one should not overlook the deficiencies of the innovation policy in the protection of intellectual property. This also applies to the delay in the implementation of guidelines proposed in the Research and Innovation Strategy of Slovenia on promoting patent culture and providing patent support in public research organisations and companies, the implementation of which should have begun in 2012. There are also untapped opportunities in the field of green patents and eco-innovations (see Chapter 4.1). Better results have been recorded with regard to other aspects of intellectual property protection (trademarks and designs). In 2014, with almost 171 Community trademarks per million population, Slovenia for the first time exceeded the EU average, while narrowing the gap with the EU average by a third in Community designs compared to 2008 (see Indicator 2.16). By registering a Community trademark or design with the Office for Harmonization in the Internal Market (OHIM), Slovenian applicants obtain legal protection throughout the entire territory of the EU, which is why their interest in registration only in Slovenia is decreasing.

Slovenia increasingly lags behind the EU in terms of internet accessibility and use, which are not increasing.
In 2014, the share of Internet users was lower (72%) than

the year before, and since 2010 the increase in Internet use has been considerably slower than on average in the EU (see Indicator 2.17). These trends are due to an increase in the number of unemployed persons and the deterioration of the financial position of the population, which hit hardest the people with the low level of education. Slovenia lags behind the EU most significantly in terms of internet use among older people, the negative trends being a result of a lack of appropriate skills and e-competences among older people. The examples of Scandinavian countries show that appropriate state incentives and practices in administrative procedures can lead to a high share of older and less educated Internet users (above 80%); in Slovenia, this share is 40%. The voluntary implementation of the Simbioza project could have a significant effect on the older population's use of the internet with the systemic support of the state (the Development Report 2014, 2014). The gap with the EU is the largest in the use of advanced e-services, which may be a result of low levels of trust in security on the part of Slovenian users on the one hand, and the established methods of operation of small companies on the other. Some progress on this front may be made with the use of e-invoices introduced by the state. Slovenia introduced this option as late as on 1 January 2015, when e-invoices became mandatory for all budget users. The greater use of e-services is also hampered by the lack of appropriate e-skills, which are a precondition for the use of advanced e-services. Addressing this issue requires the integration of information and communication content in all levels of education, including lifelong education. It is also very important that teachers and professors acquire e-skills and use them in teaching. Due to an increasing reliance on information and communication technologies in business processes, also in connection with new services (the Internet of Things, cloud computing, the use of Big Data), there is an expected increase in the need for staff with appropriate skills (not only staff with tertiary education but also staff with vocational education) to provide support services.⁷⁹ According to the Global Information Technology Report 2014, Slovenia ranks 36th out of 148 countries in terms of readiness to use information and communication technologies to boost economic growth and prosperity. Slovenia's performance measured by a number of indicators is ranked lowest in terms of government procurement of advanced technology products (the 121st place) and in terms of importance of ICTs to government development vision (the 106th place).

2.4 The role of the state and its institutions

The effective functioning of the state and its institutions is of paramount importance for ensuring a stimulating business

⁷⁹ Expert positions for preparing scholarship policy, 2014, Ljubljana, the Slovenian Human Resources Development and Scholarship Fund.

environment and the competitiveness of the economy. International comparisons show that the institutional competitiveness of Slovenia has deteriorated significantly in recent years due to a slow response to the changed circumstances during the crisis and the accumulated deficiencies in the operation of the legislative, executive, and judicial branches of power. The priority areas therefore include the further implementation of measures to improve the management of state-owned assets, encourage the state's withdrawal from the economy, improve the legislative and business environment, increase efficiency and ensure the transparent functioning of the public administration and the judiciary, which, in turn, will increase the trust of companies and citizens in the state and its institutions.

The institutional competitiveness of Slovenia has declined considerably since the beginning of the crisis.

The efficiency of the state, which should ensure proper conditions for the functioning of the economy, declined in comparison to other EU countries. Since the onset of the crisis, a sharp decline in rankings has been noticed in public finance (due to the high public deficit and rising general government debt) and in the institutional framework. International competitiveness surveys (IMD 2014; WEF 2014/15) point to the business sector's dissatisfaction with the functioning of public institutions, particularly the government, the national assembly and the central bank, the slow adjustment of government policies to changes in the economy, the perception of corruption, and inefficient state bureaucracy. Despite the fact that the value of particular indicators remains low, surveys conducted in the past year show that business confidence in a number of areas stopped falling, which is partly linked to the increased economic activity in 2014. The improved business confidence is also reflected in a slight improvement in Slovenia's ranking in business

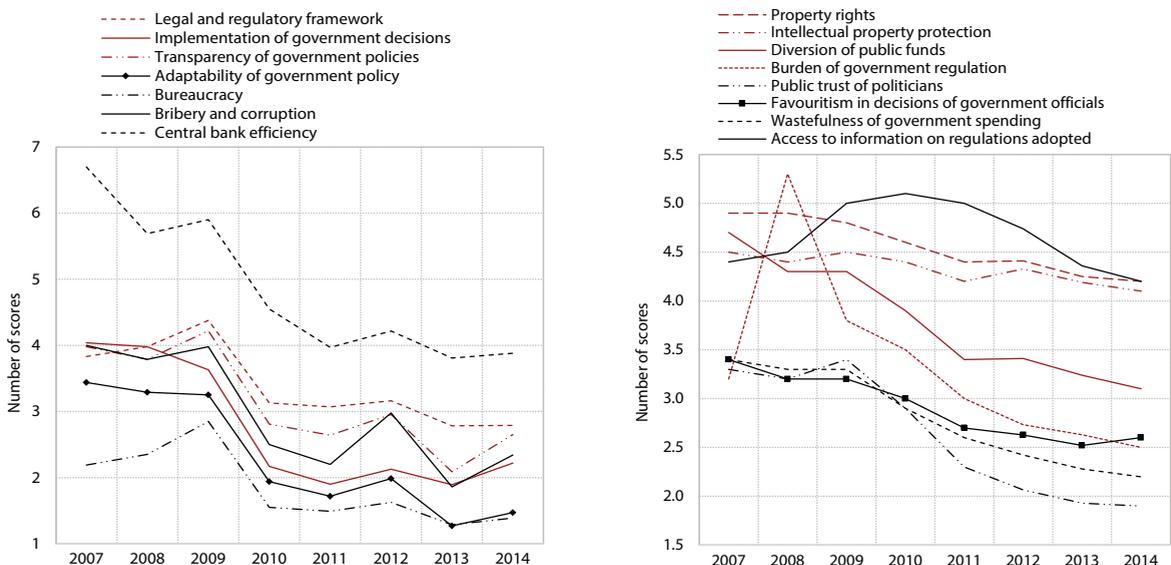
legislation. In this regard, the business sector highlights the need for greater political stability in Slovenia, which would increase predictability in terms of government action and further measures to improve the business environment. The dissatisfaction of companies and citizens is also reflected in the low level of trust in politics, the state and its institutions, which is lower than in other EU countries.

In addition to access to financing, the main obstacles to doing business in Slovenia are excessive bureaucracy and inefficient legislation.

In recent years, significant progress has been made in simpler and faster establishment of companies and insolvency legislation, while too little has been done to support the operation of companies. International competitiveness surveys (IMD, WEF, Doing Business) show that the main obstacles to doing business in Slovenia are similar to those of the past years (limited access to financing, inefficient state administration and tax policy). Despite measures taken in the past year, the business sector highlights undeclared work and labour market legislation as the factors that significantly limit business operations. Lengthy procedures pose a significant obstacle for possible investors in Slovenia. Procedures relating to public services (e.g. obtaining permits at administrative units, the registration of construction projects in official documentation⁸⁰, lengthy dispute settlement proceedings at courts) are particularly time-consuming, while procedures relating to private/commercial providers are considerably shorter. On the other hand,

⁸⁰ Lengthy procedures can also result from difficulties in ensuring compliance with spatial planning documents, the drafting of which is the responsibility of local communities, and obtaining consent, which is a prerequisite for the issue of building permits.

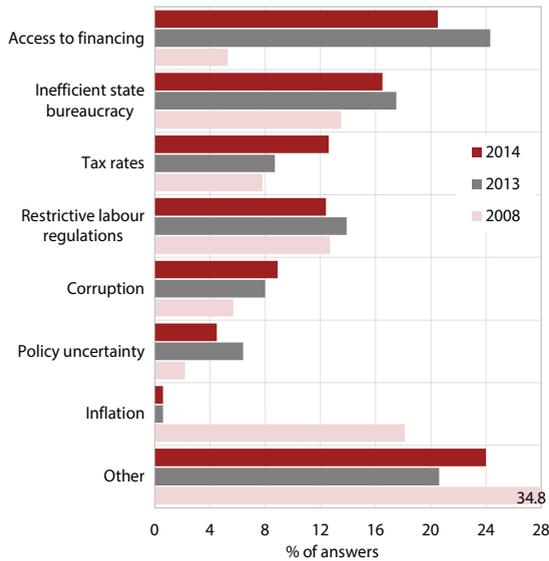
Figure 27: State efficiency according to IMD (left) and WEF (right)



Source: IMD, WEF.
Note: Higher scores are better; maximum score in IMD (left) is 10, and in WEF (right) 7.

Slovenia is more successful in terms of the ease of starting a business, highly skilled and educated workforce and a relatively reliable infrastructure.

Figure 28: The major obstacles to doing business in Slovenia (WEF survey)



Source: WEF.

One factor that significantly affects the efficiency of the state and business operations is corruption; in the past year, conditions have been established to ensure the more effective and faster operation of investigation authorities. The corruption level assessment in individual countries reflects, in particular, the functioning (or non-functioning) of institutions of the rule of law, the integrity of the public sector, quality management and the quality and competitiveness of the business environment (Evaluation of the Corruption Situation 2013, the Commission for the Prevention of Corruption). The problem of corruption perception in Slovenia is also confirmed by the Corruption Perception Index (Transparency International, 2014), which has deteriorated considerably since the onset of the crisis, and World Bank Governance Indicators, which measure corruption (World Bank Governance Indicators, 2014). For several years, the Commission for the Prevention of Corruption has been calling attention to the system-wide problem of corruption in Slovenia, which has a negative impact on the functioning of the rule of law and the welfare state. The number of reported instances of corruption and other irregularities has dramatically increased since the beginning of the crisis; however it has declined in the past two years, while the number of cases solved has increased.⁸¹ This may be due to the adoption of relevant legislation (The Integrity and Prevention of Corruption Act, 2010) and the more effective and faster functioning of investigation authorities.

⁸¹ There were 661 reported cases in 2008, 1,237 in 2010, 1,031 in 2013 and 686 in 2014.

2.4.1 The withdrawal of the state from the economy

In 2014, important legislative and institutional changes were adopted with regard to the withdrawal of the state from company ownership. The new Slovenian Sovereign Holding Act (ZSDH-1, *Uradni list RS* 25/14), introduced the legislative basis for holding and managing state ownership in businesses and financial institutions. The main novelty introduced by the Act is that the management of all indirect and direct equity stakes of the state has been brought under the control of the Slovenian Sovereign Holding (SSH). This should reduce management costs and increase the yield and value of holdings. An important objective of the SSH is to reduce the influence of various interest and political groups, the risks of corruption, and conflicts of interest and to manage assets in compliance with international guidelines of good practice and corporate governance in general. Despite the adopted legislative basis, the independent and professional supervisory board of the SSH has not yet been appointed; considering the adopted time frame, there has also been a delay in the sale of equity stakes⁸².

The state's direct and indirect ownership share in businesses⁸³ and financial institutions has increased since the beginning of the crisis, and the state has not significantly reduced it in the past year. The increase in the period of unfavourable economic conditions was largely due to the rescue of companies and bank recapitalisation, as in 2013 the state recapitalised the three largest domestic banks. According to the latest available data⁸⁴, in 2013 state holdings in the form of direct equity holdings in companies increased by EUR 1.4 bn to EUR 10.5 bn (measured at book value).⁸⁵ The gradual privatisation and sale of companies from the

⁸² In 2014, the sale process was briefly suspended as a result of the decision of the Government of the Republic of Slovenia of 3 July 2014 on "freezing" the privatisation process. The decision was subsequently annulled (on 28 July 2014), but it still affected the sale of some of the major holdings of the Republic of Slovenia and the SSH, which was not carried out according to the envisaged time frame; accordingly, there will be a delay in the completion of the sales processes.

⁸³ The share of the equity capital of companies in which the state holds a majority stake in the total capital of Slovenia's corporate sector increased further during the crisis: from 16.4% in 2008 to 23.2% in 2012, and to 30% in companies in which the state has more than a 25% ownership stake (Rojec, 2013). This ranked Slovenia among the EU countries with the highest share of state-owned companies (OECD, 2013). Among the countries included in the OECD research (Product market regulation), the indicator of the role of the state in the economy is higher only in Poland, Croatia, Italy, France and Sweden.

⁸⁴ The management report of the Slovenian Sovereign Holding for 2013 to the National Assembly, October 2014.

⁸⁵ In 2013, the operations of the three recapitalised banks significantly contributed to the total net profit/loss of state-owned companies (EUR -2.1 bn), which would have been positive if these banks had not been taken into account (EUR 333 m).

list of fifteen state-owned companies continued in accordance with the decision adopted in the National Assembly in 2013 (*Uradni list RS*, 36/13 and 52/13).⁸⁶ By the end of 2014, the SSH sold ownership stakes in only four companies⁸⁷; processes relating to the sale and preparation for the sale are also underway in further seven companies from the list.⁸⁸ In the process of the state banks' balance sheet repair, the Bank Asset Management Company (the BAMC) acquired equity stakes in eighteen companies⁸⁹ (as at 30 November 2014), which are to be gradually restructured and sold. State-owned banks, which, during companies' compulsory settlement and bankruptcy proceedings, converted their claims into ownership stakes in companies that failed to pay off their loans, will also sell equity holdings in companies. We note that the SSH, the BAMC and state banks have stakes in the same companies; the cooperation of these institutions will be of crucial importance for effective governance, restructuring and sale of these companies (see Chapter 1.3). In this regard, it should be mentioned that research shows that the productivity of state-owned manufacturing companies is lower than that of privately owned (domestic and foreign owned) companies.⁹⁰

The future withdrawal of the state from company ownership will depend on the consensus of politics with regard to the divestment of state ownership in companies, the strategy for the management of state-owned assets, the effectiveness of the BAMC, and the willingness of foreign investors to invest in the Slovenian economy. We expect the privatisation process to continue in the future to support fiscal consolidation, corporate deleveraging and address the need for better corporate governance. The lack of political consensus on the withdrawal of the state from company ownership may threaten or at least hinder the further sale of companies from the list. In March, the Government adopted a draft strategy for the management of state-owned assets, which sets out the criteria for classifying assets into strategic, important and portfolio holdings and the objectives of state ownership with regard to individual types of holdings. The ultimate adoption of the strategy⁹¹ is crucial to

the further privatisation and successful management of state-owned assets. An important role in further privatisation will be played by the BAMC, which should sell all its ownership shares in companies by the end of 2017 in accordance with the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability (*Uradni list RS*, 105/12). There are no similar provisions for state-owned banks, although company ownership is not a role of banks. In addition to the actual political will to continue the withdrawal of the state from company ownership, further privatisation depends on the interest of foreign investors, which has been relatively low in the past. This was also due to their previous negative experience with the management of procedures for the sale of state-owned holdings.

2.4.2 The functioning of the public administration and the judiciary

The implementation of programmes featuring measures aimed at eliminating administrative barriers and drafting better regulations continued in 2014. Since 2009, when the initial programme for reducing administrative burdens by 25%⁹² was adopted, a total of 290 measures aimed at improving the legislative and business environment have been implemented, mainly in the areas of finance, judiciary and statistics. To increase synergies between measures, in 2013 Slovenia adopted a single document to ensure better regulatory and business environment and increase competitiveness, combining several programmes in one document.⁹³ According to the latest changes and reporting (July 2014), the single document includes 256 measures in sixteen areas, focused, in particular, on the process of reducing the burden in the area of the environment and spatial planning, broader labour law legislation, cohesion

important and portfolio assets. The minimum share in strategic assets will be at least 50% plus one vote, in important assets 25% plus one vote (with certain exceptions perhaps even less, provided there are guarantees for the long-term existence and development of the company), while the share in portfolio assets will be smaller; with regard to these assets, the state will pursue exclusively economic objectives.

⁹² The Action Programme for Reducing Administrative Burdens by 25% by 2012; in 2012, it was amended to include additional measures, and, in 2013, the remaining non-implemented measures were included in the single document.

⁹³ The single document includes the following: Agenda 46+ (Chamber of Commerce and Industry of Slovenia), Small Business Agenda (Chamber of Commerce and Industry of Slovenia), the Requirements of Slovenian Crafts and Trades (Chamber of Craft and Small Business of Slovenia), the Action Plan for the Implementation of the Small Business Act (Ministry of Economic Development and Technology), Barriers to Foreign Direct Investments (Ministry of Economic Development and Technology), the Action Programme to Eliminate Administrative Barriers and Reduce Legislative Burdens by 25% (Ministry of Public Administration), Initiatives of the Slovenian Chamber of Commerce, the Programme of Measures to Boost the Economy - 2012 (Ministry of Economic Development and Technology), Managing the Shadow Economy in the Republic of Slovenia.

⁸⁶ The list includes the following companies scheduled for sale: Adria Airways Tehnika, Adria Airways, Aero, Aerodrom Ljubljana, Cinkarna Celje, Elan, Fotona, Gospodarsko Razstavišče, Helios, Nova KBM, Paloma, Telekom Slovenije, Terme Olimia Bazeni, Unior and Žito.

⁸⁷ Aerodrom Ljubljana, Fotonia, Helios and Letrika.

⁸⁸ The sale process is underway in Adria Airways, Aero, Elan, Cinkarna Celje, Nova KBM, Telekom Slovenije and Žito (<http://www.sdh.si>).

⁸⁹ LIV Kolesa, Argolina, MLM, ŠC Pohorje, Aero, Nigrad, Pivovarna Laško, Thermana, Adria Airways, NFD Holding, Certa, Merkur, Gorenjska Banka, Elektro Gorenjska, Elektro Primorska, Elektro Ljubljana, Elektro Celje, Perutnina Ptuj (<http://www.dutb.eu/si>).

⁹⁰ According to the data for 2012, in Slovenia these companies lagged behind both in terms of value added per employee and return on equity (Rojec, 2013).

⁹¹ It is necessary, in particular, to classify assets into strategic,

policy (drawing on EU funds), finance (taxes, excise duties and other charges) and the economy (matters concerning legal status and financial reports). We note that the implementation of measures is relatively slow⁹⁴, considering that only one-fourth of all measures contained in the document were implemented by the end of January 2015, while 40% of measures are still in the phase of implementation. The same is true for removing administrative barriers, in which 60% of measures have been implemented or partly implemented. We therefore assess that the authorities will need to identify priority measures and focus on their implementation in the upcoming short-term period.

In the past two years, several measures have been adopted to curb the shadow economy, which is still an issue.⁹⁵

The extent of the shadow economy is dependent on a number of factors, such as the level of tax burden, administrative barriers, the quality and price of public services, the level of trust of taxable persons in the state, and the effectiveness of the identification and punishment of offenders. The estimate provided by SURS according to the methodology of exhaustiveness adjustments, about 80% of which are from the shadow economy, shows that, in 2011, the shadow economy in Slovenia accounted for 8.3% of GDP⁹⁶, which is more than in most other EU and OECD countries examined.⁹⁷ Since there are few new and internationally comparable estimates of the shadow economy, the estimate of the tax gap, which shows the difference between the amount of VAT that should, in theory, be collected, against what is actually collected, may also provide an important indicator of this problem, though it does not fully cover the shadow economy.⁹⁸ According to the data provided by SURS⁹⁹, the estimated tax gap in Slovenia was 7.1% in 2011, which means that about 93%

⁹⁴ In around 70% of all measures (over 180 measures), the deadline for adoption was by the end of 2013. Source: <http://www.ukrepi.stopbirokraciji.si/>

⁹⁵ According to different estimates and methods, the shadow economy in Slovenia in 2011 amounted to from 8.3% of GDP (SURS) to 24.1% of GDP (AT Kearney and Johannes Kepler Institute Linz). According to direct calculations (Nastav, 2009), the shadow economy in Slovenia in 2007 amounted to 15.6% of GDP.

⁹⁶ GDP exhaustiveness adjustments and shadow economy, Slovenia 2010 (SURS), 2013.

⁹⁷ The share of adjustments is greater in Italy, Mexico, Slovakia, Czech Republic, Poland and Hungary (The non-observed economy in the system of national accounts (OECD), 2014).

⁹⁸ The VAT theoretical liability represents the tax that would be collected in the tax period if all economic entities calculated and paid VAT in compliance with the applicable legislation. The amount of VAT actually received or paid differs from the theoretical VAT liability because of deliberate or non-deliberate errors in payments, which taken together constitute tax evasion. The difference between the amount of VAT that should, in theory, be collected and the amount of VAT that actually is collected is the indicator of the efficiency of VAT collection and may be a partial indicator of the shadow economy in the part revealed through VAT.

⁹⁹ Theoretical value added tax and data on the tax gap for 2009–2011 (SURS), 2014.

of VAT due was collected. Compared to other countries, Slovenia is relatively more efficient in this area than the EU average.¹⁰⁰ The programme for combating the shadow economy in Slovenia has been implemented over the past two years, and the amendment to the Prevention of Undeclared Work and Employment Act (*Uradni list RS*, 32/14) was adopted, introducing the voucher system under the principle of “every work counts” and broadening the range of types of work to be carried out as personal supplementary work. The merger of the Customs and Tax Administrations into a single Financial Administration and measures relating to amendments to the Tax Procedure Act should also contribute to increasing the efficiency of supervisory institutions.

Measures to simplify procedures in the area of public procurement and make them more transparent have begun to be implemented in the past two years.

Public procurement is one of the areas with great potential for increasing the efficient use of public funds. Transparent and simplified rules reduce the risk of corrupt practices. The project of joint public procurement in health care (to purchase medicines for certain hospitals) began to be tested in 2011 as a pilot project and was implemented as late as in 2014, due to bureaucratic obstacles and complaints from bidders. In 2014, the project of joint public procurement in health care continued and was extended to include all hospitals in Slovenia, while the range of products ordered increased. The amended Public Procurement Act (*Uradni list RS*, 19/14), which partially simplified procedures and reduced bureaucracy as part of the reform of the public procurement system, also introduced a simplified and transparent procedure for procurements below the EU thresholds¹⁰¹. In addition, the mandatory use of e-Auction application by state authorities is to be introduced this year. The centralisation of public procurement and the introduction of e-procurement are the key measures in this area, which should save EUR 80.5 m of public funds in 2015 (Measures on the expenditure side of the state budget, 2015, the Ministry of Finance).

The efficiency of courts is increasing, despite the fact that certain proceedings are still excessively long.

Judicial statistics¹⁰² show that the number of unresolved cases dropped in almost all courts in 2014 and that it has dropped by more than 30% in the last three years. The efficiency of courts increased, as the number of resolved cases was greater than the number of incoming

¹⁰⁰ The estimate provided by TAXUD slightly differs from that provided by SURS due to the methodology used (SURS calculates the difference based on more detailed data) and partly due to revisions (SURS data are based on ESA2010).

¹⁰¹ New thresholds for public procurement were introduced at the beginning of 2014 in accordance with the European directive.

¹⁰² Opening of the judicial year 2015, the Supreme Court of the Republic of Slovenia, 2015.

cases.¹⁰³ Despite the smaller number of judges¹⁰⁴ and court staff, the number of all unresolved cases declined by 11.3% in 2014, while the number of unresolved cases of major importance¹⁰⁵ declined by 8.3%. The number of older unresolved cases of major importance has been declining for several years, and the number of backlogs as defined by Article 50 of the Court Rules has also declined considerably.¹⁰⁶ Although the average time for the adjudication of cases slightly decreased¹⁰⁷, some of the court proceedings are still excessively long. Bankruptcy proceedings against a legal person last 25.6 months on average and personal bankruptcy proceedings last 55.2 months on average, while compulsory liquidation proceedings and simplified compulsory liquidation proceedings are considerably shorter. It should be noted that the excessive length of bankruptcy proceedings is due, in particular, to matters on which courts have no direct influence and that the actual proceedings before courts are considerably shorter.¹⁰⁸ Individual and collective labour disputes at first-instance labour courts are also very long; they last 11.9 months on average.¹⁰⁹ The length of proceedings for settling civil and economic litigations is similar to that in other EU member states (EU Justice Scoreboard, 2015). Despite the increased efficiency of courts, some

¹⁰³ Considering the smaller number of incoming cases, the extent of cases solved was slightly smaller than in the same period last year. In 2014, the same as the year before, the clearance rate indicator exceeded 100%, which means that courts resolved more cases than they received.

¹⁰⁴ In 2014, the number of judges declined by 3.1% (30 judges), while the number of court staff increased by 0.3% (12 persons).

¹⁰⁵ Cases that are of major importance are determined by the Ministry of Justice for the purposes of judicial statistics. The classification may change and is updated and published in Judicial Statistics (e.g. Judicial Statistics I-X 2014, p. 19–21). Cases of major importance are cases in which courts decide on the merits of the case. At the Supreme Court of the Republic of Slovenia, higher courts and the Higher Labour and Social Court, all cases are deemed to be cases of major importance.

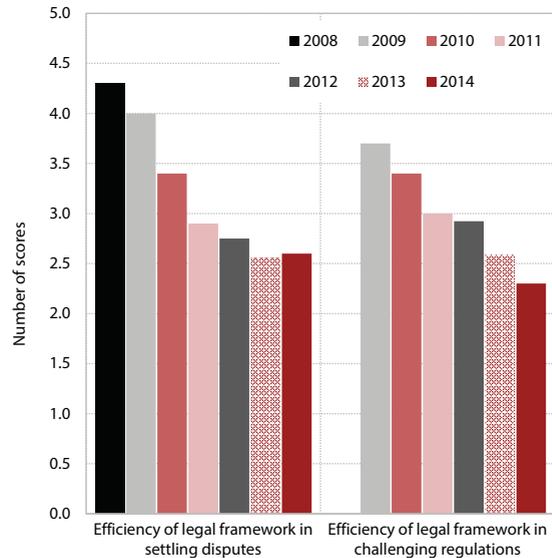
¹⁰⁶ All unresolved cases, despite being backlogs in statistical terms, cannot be deemed to be true court backlogs. The Court Rules lay down in detail which data are kept as court backlogs (Court backlogs in the Republic of Slovenia, <http://www.mp.gov.si>).

¹⁰⁷ According to the court statistics, the average time in 2014 of cases the courts disposed of was 3.3 months, and 7.1 months for cases of major importance.

¹⁰⁸ Bankruptcy-related cases are pending before the court as unresolved until the completion of the bankruptcy proceedings; the court has no direct influence on the course of the proceedings after the decision on initiating bankruptcy proceedings is issued. In 2014, the procedure for issuing a decision on initiating bankruptcy proceedings (introduction of bankruptcy) lasted 43 days on average for bankruptcy proceedings against a legal person and 18 days for personal bankruptcy proceedings.

¹⁰⁹ Labour (and social) courts are characterised by greater fluctuation in the number of received, resolved or unresolved cases, as cases often involve multi-party litigation or a test case. In 2014, the operation of courts in the field of labour disputes improved, and the incoming caseload decreased considerably (by 44.8%).

Figure 29: WEF indicators of efficiency of the judiciary in Slovenia



Source: WEF. Note: Higher score is better; the maximum score is 7.

international comparisons, made on the basis of surveys (Doing Business, WEF), show that, in comparison with other countries, the inefficiency of the legal framework in settling disputes and challenging regulations remains a problem in Slovenia. We assess that this is mainly due to the low level of public trust in judiciary and entrepreneurs' negative experience in doing business in Slovenia.

2.5 Challenges

After considerable deterioration at the beginning of the crisis, the competitiveness of the Slovenian economy has improved in recent years, but still with an insufficient increase in productivity. Since the beginning of the crisis, productivity has improved mainly as a result of a decrease in employment, while an increase in value added remains a challenge. In the short-term, it will depend mainly on the availability of sources of financing to increase investment (see Chapter 1), including foreign direct investment, which, in addition to providing financial resources, would enable the corporate sector to acquire new knowledge, technologies and access to new markets, thereby increasing the value added. State-owned companies, in particular, would benefit from the opportunity to improve their governance. In addition to limited sources of financing, Slovenia is facing a number of medium-term challenges in increasing value added. They are related to investment in long-term factors that affect productivity growth (including resource productivity), such as innovation capacity and human capital. The effective use of these investments to increase value added is of crucial importance in this regard. It is also necessary to improve the efficiency of

the state and its institutions, considering that Slovenia's competitiveness is often hindered by an unstimulating environment for business operations and the state's high involvement in the economy.

Slovenia needs to make use of investments in intangible assets made to date and transform them into high value-added products and services that will be successful on the market. Since the innovation activity of Slovenian companies decreased during the crisis, Slovenia has to meet the challenge of improving the efficiency of investment in R&D activity, maintaining high investment from the business sector, and increasing state support for research and innovation. European funds have the potential for providing additional sources of financing. It is necessary to focus on instruments that strengthen the co-creation of knowledge among public research institutions and companies in the long term. It is also necessary to encourage links between large and small companies to increase innovation activity in both segments and enter international markets. The challenge facing the innovation policy is to develop instruments for increasing the range of new solutions, along with measures to promote demand for innovative solutions (e.g. with public and pre-commercial procurement of innovative solutions). Another challenge is the additional inclusion of e-services and advanced technological solutions in the operation of the public sector, which could improve its efficiency and at the same time increase the use of e-services by citizens. The development of human resources in support of innovation capacity should also include strengthening knowledge and skills for entrepreneurship and use of modern technologies. The lack of staff in shortage areas (e.g. ICT professions) should be addressed by means of adaptation in the formal education system, as well as by means of non-formal and more flexible forms of education.¹¹⁰

Human capital that is more adapted to companies' needs should be further strengthened to enhance the competitiveness of the economy. The educational structure of the population is improving along with the relatively high public expenditure on tertiary education and the insufficient use of human capital to increase the value added of the economy. It is accordingly necessary to reduce the mismatch between the supply of and demand for staff and improve the quality and efficiency of study. The establishment of a system for the medium-term forecasting of labour market needs, assessing employers' satisfaction with the skills of young people who have entered the labour market and strengthening cooperation between educational institutions and companies could contribute to a greater match between the enrolment structure, study programmes and the

needs of companies. From the point of view of efficiency and quality of tertiary education, it is crucial to remove the anomalies in the education process (fictitious enrolment, the excessive duration of study). In addition to measures taken to reduce fictitious enrolment, the introduction of tuition fees, which would increase financial resources per student and thereby increase the quality of education, could contribute to the education system's greater efficiency. The eventual introduction of tuition fees should be accompanied by a system of study assistance (long-term student loans) to maintain the high access to tertiary education. Taking into account a longer working life, it is necessary to increase the participation of adults in lifelong learning.

The efficiency of the state and its institutions should be further improved to ensure the good performance of the economy and create the stimulating environment for companies. In recent years, significant progress has been made in terms of eliminating administrative barriers, curbing the shadow economy and improving insolvency legislation; moreover, amendments to the Constitution have been adopted in the area of fiscal policy and referendum legislation. However, international comparisons show that institutional competitiveness in Slovenia is low, reflecting the business sector's dissatisfaction with the political situation, the availability of financial resources, labour legislation and bureaucracy. One of the challenges is the establishment of a system of effective management of state-owned assets, including the further privatisation of state-owned companies. In several areas, it is important to identify key measures and ensure that their implementation is given priority. This also applies to measures for simplifying and increasing the transparency of procedures in public procurement, as this would reduce the possibility of corruption. Progress with regard to the deregulation of professional services, which seeks to reduce the number of regulated professions and remove barriers for service providers, in particular as regards education requirements, is too slow.

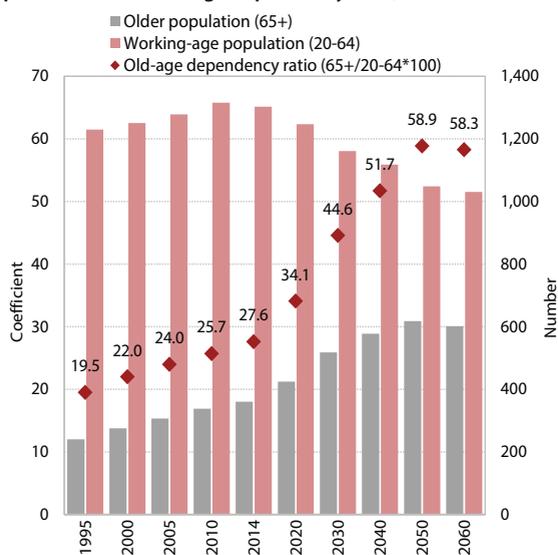
¹¹⁰ For example, the spin-off SmartNinja, which provides training in 21st-century skills for unemployed people who have completed formal education in areas for which there is no demand on the labour market.

3 The population and the welfare state

The deterioration of the labour market situation and material living conditions during the crisis, along with social protection systems that are not adjusted to the ageing of the population, threaten the achievement of the social development objective of improving the quality of living and providing prosperity for all people. Changes in the age structure of the population affect labour market trends and long-term fiscal sustainability. The main problems concerning the labour market are age segmentation, which has significantly worsened the labour market situation of young people, and the low employment rate of older people, which, under the current arrangements for financing social protection systems, reduces their long-term sustainability. Social protection systems have not yet adapted to the ageing of the population, despite the increasing need for pension and health care reform and the establishment of the long-term care system. In the absence of appropriate measures, this could lead to a deterioration in quality of life indicators.

The number of people of working age (aged 20–64) is declining, while the proportion of older people is increasing (aged 65 and more). This is the result of a large number of births in the post-war period,¹¹¹ the low birth rate since the beginning of the 1990s and a longer life expectancy. At the beginning of 2014, there were 27.6 persons over 65 years of age per 100 people of working age (aged 20–64) in Slovenia, which is 4.1 percentage points more than ten years ago (see Indicator 3.4) The proportion of people over 65 years was 17.5%, which is 2.5 percentage points more than in 2004. According to

Figure 30: The proportion of working-age persons and older persons and the old-age dependency ratio, Slovenia



Source: SURS, EUROPOP2013; calculations by IMAD, 2014.

¹¹¹ The period from 1947 to 1957.

EUROPOP2013, this proportion, which is currently below the EU average, will exceed the EU average in less than ten years. The number of people of working age (aged 20–64) has decreased in the past three years. At the beginning of 2014, their number was down by 1% or 12,500 compared to 2010.¹¹² Demographic projections show that their number will decrease by around 10,000 people on average every year for the next ten years.

Slovenia has one of the lowest employment rates among older people (aged 55–64) in the EU, as well as a below-average activity rate of young people (aged 15–24), which significantly decreased during the crisis.

During the crisis, the employment rate of older people in Slovenia increased considerably less than in the EU on average, also due to the protracted process of adoption of the pension reform in Slovenia, which in recent years has twice led to accelerated retirements prior to the reform's entry into force. Despite the increase during the crisis, Slovenia still has one of the lowest employment rates of older people, which affects the long-term sustainability of public funds, in particular the pension fund. To increase the employment rate of this population group, it will be necessary, in addition to the adoption of the pension reform, to change the working environment and the organisation of work in companies. On the other hand, Slovenia is one of the countries with the largest decrease in the employment rate of young people (aged 15–24), which is also due to high rates of temporary employment among the youth population, resulting from the fact that employers favoured temporary employment as the most simple way of adapting to reduced demand. Slovenia has the largest share of temporary employment among the young people in the EU. Both problems have an unfavourable impact on the long-term sustainability of social protection systems and the quality of life.

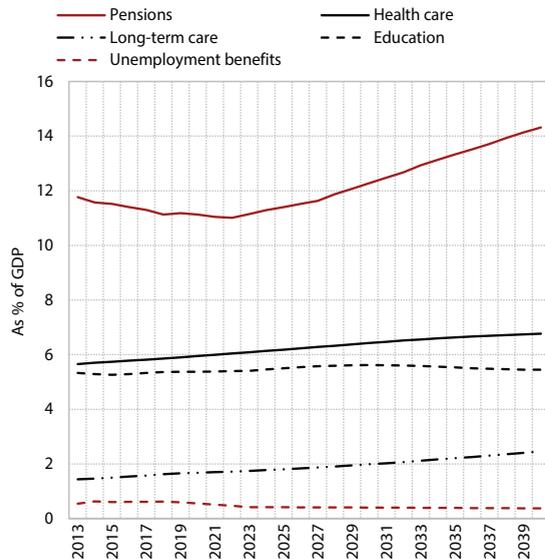
In recent years, social protection systems and society have not yet sufficiently adapted to the ageing of the population.

A decrease in the number of working-age persons and the ageing of the population result in an increasing number of older persons per one working-age person, thereby placing an additional burden on public funds (pensions, health care, long-term care). The number of the oldest citizens will significantly increase in the coming years. Accordingly, appropriate conditions will need to be provided that would enable them to live independently as long as possible with the highest quality of life possible.¹¹³ In recent years, no changes have been introduced in social protection

¹¹² The decrease is due to the fact that the number of people leaving this group (65-year-olds) is greater than the number of people entering it (20-year-olds) and to very low net migration (migrants are mostly working-age people).

¹¹³ A study on the elderly in Slovenia has showed that those over 80 years of age need help to carry out daily tasks, while when it comes to instrumental daily tasks (cooking, cleaning, shopping, etc.) they need help as early as after the age of 75 (see J. Ramovš (editor), (2013)).

Figure 31: The projection of age-related public expenditure, Slovenia



Source: Draft 2015 Ageing Report: Economic and budgetary projections for the EU Member States (2013–2060) (European Commission and Economic Policy Committee), 2015.

systems, particularly health care and long-term care, as a response to the ageing of the population.

3.1 Labour market

The situation on the labour market worsened significantly during the crisis. The employment rate decreased in all age groups, hitting young people the hardest, mainly as a result of the strong age segmentation of the labour market in Slovenia. The latter remains a problem despite changes relating to labour market regulation. The employment rate of older people (aged 55–64) is also low. In addition to pension reform, addressing this issue requires a comprehensive approach to developing incentives for their employment and extension of working life. Wages adjusted less than employment during the crisis, which requires consideration about a wage-setting system that would make adjustments during crises and performance-related incentives possible.

In 2014, the number of employed persons increased for the first time since the beginning of the crisis in line with economic recovery, although it is still considerably lower than in 2008. Their numbers started declining at the end of 2008. In the second quarter of 2013, the trend reversed and, at the beginning of 2014, their number began to increase more intensely as a result of enhanced economic activity. In the period 2008–2013, the manufacturing and construction industries saw the largest drop in the number of employed persons. Last year the drop was even more pronounced in construction industries,¹¹⁴ while in

¹¹⁴ Last year, the number of employed persons declined by a

manufacturing industries, the number of employed persons slightly increased as a result of growth in high-technology industries. In 2014, most of the private sector saw growth in the number of employed persons. The growth was most pronounced in employment activities, which, according to our estimate, provided workers mainly to the manufacturing and construction sectors. This indicates that companies still have some uncertainty about the strength and duration of economic recovery and display a certain level of caution in recruiting new employees. The recovery and restructuring of the banking sector has led to a further reduction in the number of employees in the financial and insurance sectors. The number of persons employed in public services was again higher last year, after having dropped slightly in 2013 as a result of measures adopted in 2012.¹¹⁵

Table 4: Changes in the number of employed persons (in %), Slovenia

	2008	2009	2010	2011	2012	2013	2014
Total	3.0	-2.4	-2.7	-1.3	-1.7	-2.0	0.5
Public services (O-Q)	1.8	2.0	2.1	0.8	0.8	-0.9	0.5
Private sector (A-N, R-T)	3.2	-3.4	-3.8	-1.9	-2.4	-2.3	0.5

Source: SURS, Statistical Register of Employment.

The employment rate of people with low education, which dropped the most in the period 2008–2013, increased in 2014. The employment rate of the working-age population (aged 15–64), which had been steadily rising and exceeded the EU average before the crisis, dropped with the decline in economic activity in 2009 and fell below the EU average in the following years. A modest increase was recorded as late as last year, which saw substantial economic recovery, although the employment rate remained considerably lower than it was in 2008. During this time, the employment rate for men decreased slightly more intensely than for women, mainly due to the fact that manufacturing and construction industries, which employ mostly men,¹¹⁶ were hardest hit. Despite this, the employment rate was still higher for men than for women in 2014. As regards the employment rate by education level in the period 2008–2013, it dropped most significantly for persons with low education, due to a decline in activity in the aforementioned industries, which employ mostly low-skilled labour force, and to the increase in minimum

quarter in the manufacturing sector and by more than a third in the construction sector compared to 2008. This was mainly due to a large drop in activity in these sectors and a high minimum wage increase in 2010, which placed an additional burden on companies in these sectors, where the majority of minimum wage earners are employed.

¹¹⁵ Compared to 2008, in 2014 the number of employees was higher in education and health care, and lower in public administration, defence and compulsory social security.

¹¹⁶ According to the Statistical Register of Employment, the proportion of men employed in construction and manufacturing industries in 2008 was 91.9% and 64.4%, respectively. The proportions had not changed significantly by 2014.

wage. The employment rate of low-skilled workers increased significantly last year as a result of increased employment through employment agencies. On the other hand, the employment rate for people with higher education decreased the least during the crisis, also due to the fact that the above-average proportion of these people are employed in public services, where employment did not fall, and to the concentration of labour force in certain industries, resulting from the fact that, with a decline in activity, companies usually retained highly skilled labour force with specific knowledge and skills.

Table 5: Employment rates by age group* (in %), Slovenia

Age group	2008	2009	2010	2011	2012	2013	2014
15–24 years	37.3	34.7	32.9	30.9	25.8	25.8	26.7
25–54 years	86.6	85.0	84.2	83.4	83.1	81.6	82.4
55–64 years	33.6	36.4	35.5	30.6	32.8	34.2	36.7
15–64 years	68.3	67.6	66.5	64.4	63.8	63.0	64.5

Source: SURS.

Note: *Data refer, for each year, to the second quarter.

Young people were the most severely affected during the crisis on the labour market. The employment rate of young persons (aged 15–24) fell most significantly in the 2008–2014 period, while the unemployment rate increased the most in the same period; in comparison to the EU average their situation has deteriorated much more severely. This is mostly the result of a strongly segmented labour market as regards the type of employment and the high prevalence of temporary forms of employment in this group¹¹⁷ (such as fixed-term work and student work¹¹⁸), as enterprises were not renewing their employment contracts due to the unfavourable economic situation (see Indicator 3.8). The issue of young people's transition from education to the labour market has become exacerbated during the crisis. In the 2008–2013 period, the employment rates of young people aged 20–34 since completion of tertiary education within a period from one to three years decreased more significantly than the EU average.¹¹⁹ The deterioration of young people's situation in the labour market was affected by a generally low demand for labour, the insufficient adjustment of the existing education system to the needs of the labour market and consequently also by an inappropriate structure of graduates from tertiary education (see Chapter 2.2). The deterioration of young people's situation is also indicated by the share of young people who are not employed and who are not in any

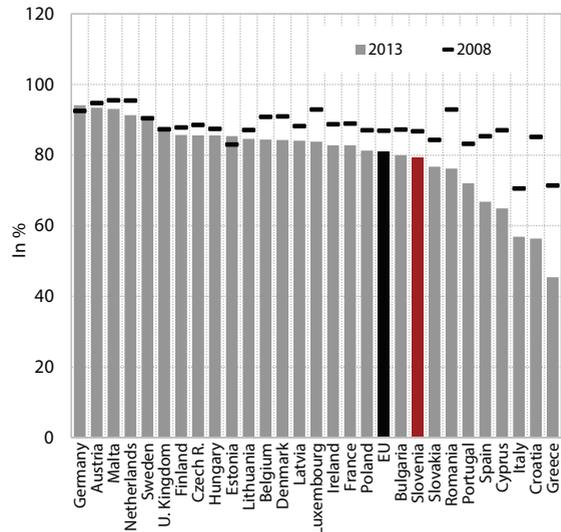
¹¹⁷ In 2013, the share of young people in temporary forms of employment amounted to 73.6% and was the highest in the EU.

¹¹⁸ In 2013, the scope of student work dropped by 36.4% in comparison to 2008. According to our estimates, the decrease in the scope of student work was not only affected by reduced demand but also by the increase in concession fees in mid-2012 and the restriction of student work in public service activities.

¹¹⁹ In 2013, it amounted to 79.3% (EU: 80.9%); in comparison to 2008 it decreased by 7.4 percentage points. (EU: by 6.0 percentage points).

education or training (NEET rates), which has increased and is approaching the EU average (see Indicator 3.10).

Figure 32: Employment rates of young people aged 20–34 since completion of tertiary education within a period from one to three years



Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2015

In 2013, legislative changes were made in order to improve the operation of the labour market by reducing the rigid labour legislation and increasing the flexibility of the labour market. In April 2013, the new Employment Relationship Act (ZDR-1) and amendments to the Labour Market Regulation Act (ZUTD-A) entered into force. The Acts constitute a package of legislative changes that restrict employment protection in Slovenia. The main objectives of the changes were: (i) to reduce labour market segmentation; (ii) to establish the concept of flexicurity; and (iii) to increase the efficiency of labour protection laws and prevent abuses. ZDR-1 simplifies the procedure for dismissal in the event of a specific dismissal of a permanently employed person, reduces expenses for dismissals of regular workers (notice periods and severance pay) and introduces some new limitations in concluding fixed-term contracts). The OECD estimates that through legislative changes Slovenia has reduced rigidity in legislation in the field of employment protection for regular workers against individual dismissal, where the employment protection index (EPR) was brought below the OECD average,¹²⁰ and in the field of temporary forms of work, where the index of regulation for temporary contracts (EPT) was brought closer to the OECD average.¹²¹ The main amendments

¹²⁰ On the basis of the changes made in 2013, the regular employment protection index in Slovenia was reduced from 2.39 to 1.99, which is below the unweighted OECD average (2.04).

¹²¹ On the basis of the change made in 2013, the index of regulation for temporary contracts in Slovenia was reduced from 2.50 to 2.13, which indicates major flexibility with regard to

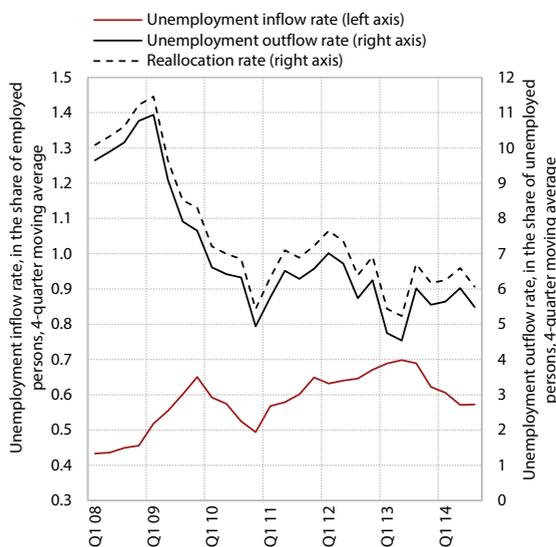
to ZUTD include the introduction of the possibility of temporary or occasional work for pensioners and better access to unemployment benefits by people under 30 years of age. Besides the reduction in severance pays, a shortening of the notice period and simplification of the procedures for termination of permanent employment contracts, the following changes – which can also function in the direction of lesser segmentation – have been implemented to increase flexibility: (i) the possibility of carrying out other work, which means that the employer may also assign performance of other work to employees during the time of their employment relationship, if this possibility is not otherwise regulated with a special act or collective agreement; (ii) the practice of “temporary lay-off”, when an employee is entitled to wage compensation in the amount of up to 80 percent of the basic wage.

After the entry into force of the legislative changes the reallocation rate of the unemployed and the number of newly concluded employment contracts have increased. The increase in the reallocation of unemployed workers which is an indirect indicator of labour market flexibility has not only resulted from the legislative changes but also from increased economic activity, whereby the two impacts are difficult to distinguish. The rate of reallocation of the unemployed which is defined as a sum of the rate of inflow to and the rate of outflow from unemployment ¹²² may indicate an increase in the

flows into and out of unemployment and more dynamic flexibility of the labour market. Reallocation, which at the beginning of 2013 reached the lowest level since the onset of the crisis, increased significantly in the next quarter of the year, due to the higher rate of outflow from unemployment, and remained at a higher level again in 2014, which indicates the improvement of job prospects for unemployed persons. Higher labour market flexibility is also reflected in increased employment measured by the number of new employment contracts. In the period from April to December 2013, the number of new employment contracts increased by 4.3% in comparison to the same period in 2012, in particular the number of permanent employment contracts (by 28.5%), while in the same period of 2014, 10.2% more contracts were signed year-on-year, of which 5.4% more for permanent employment.

The adopted amendments to the labour market regulation caused employers to be slightly less hesitant to hire permanent employees, but the share of new permanent jobs remains low. A number of legislative amendments were adopted to reduce segmentation, which has been a burning issue in the labour market in Slovenia for many years.¹²³ In order to reduce the differences between employees with fixed-term contracts and those with permanent contracts, the new ZDR-1 (i) introduced severance pay in the event of the termination of a fixed-term employment contract concluded for a period of one year or less; it amounts to one-fifth of the average monthly wage; (ii) introduced additional restrictions in the event of the serial chaining of employment contracts for the same job by legally determining what qualifies as the same job, (iii) introduced restrictions with regard to fixed-term employment contracts in the event of workers hired through employment agencies; (iv) reduced the maximum notice period in the event of regular employment; and (v) reduced severance pay for workers with 5–10 and 15–20 years of service. The consequent reduction of segmentation with regard to the type of employment in 2013 and 2014 is indicated by an increase in the number and share of new permanent employment contracts among all new employment contracts. The share of new contracts concluded for a permanent period significantly increased in particular in the month following the reform’s entry into force and then remained at the same level until the end of 2014. However, for all new employments in 2014, employers still opted for fixed-term contracts in as many as 72.7% of cases.¹²⁴ This indicates a certain level of caution in

Figure 33: Rate of inflow into unemployment and outflow from unemployment and reallocation of the unemployed, Slovenia



Source: Eurostat; calculations by IMAD.

temporary employment, and is slightly above the unweighted OECD average (2.08).

¹²² The rate of outflow from unemployment is calculated on the basis of the monthly probability that an unemployed person might exit unemployment and is expressed by the share of all unemployed persons. The calculation is made by way of aggregate data calculated from the number of unemployed persons with respect to the duration of unemployment; these data are obtained from the labour force survey.

¹²³ Lower labour market segmentation with regard to the type of employment may have an important impact on the adjustment capacity of the labour market along with the reduction of economic activity. An EC study (2015) namely shows that reduced economic activity had a lower impact on the employment in countries with more open and less segmented labour markets.

¹²⁴ In 2013, the share of new fixed-term employments amounted to 73.2%.

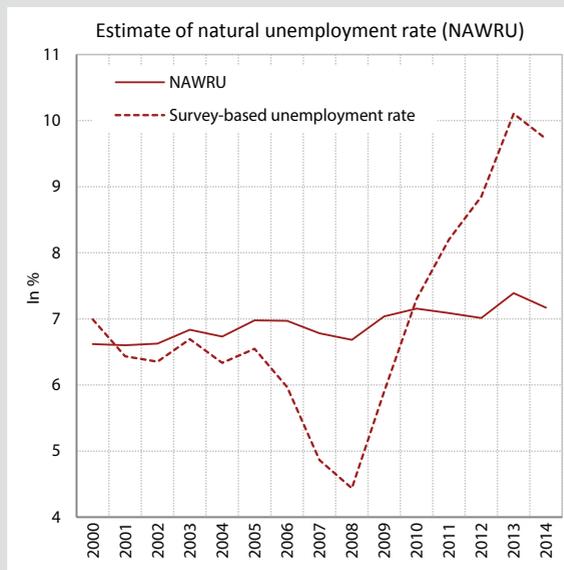
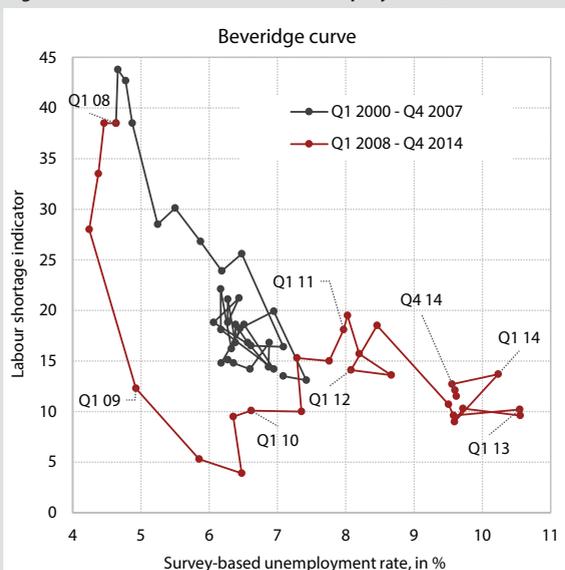
Box 2: Estimate of the cyclical and structural components of unemployment in Slovenia

The scope of structural unemployment significantly determines the speed of labour market recovery. Despite a modest increase in 2014, employment remains at a significantly lower level in comparison to the period before the crisis; the rate of employment growth with regard to enhanced economic activity, however, depends on the extent to which the increase in unemployment is structural or cyclical in nature. While cyclical unemployment increases with the decline in economic activity and drops with its recovery, the increase or decrease in structural unemployment is a long-term process, even when the economy has already recovered. Structural unemployment represents an unemployment level which would occur within an economy in the long run when disturbances were not present. The level of structural unemployment depends on institutional and structural elements of the economy and the labour market (Orlandi, 2012) while economic activity has no significant impact on this level. The level of structural unemployment is extremely difficult to evaluate and the obtained estimates are subject to a certain level of uncertainty irrespective of the evaluation methodology (OECD, Ihrig and Marquez, 2003). For the evaluation of the structural part of unemployment the indicator of the natural rate of unemployment (the so-called NAWRU – the non-accelerating wage rate of unemployment) and the Beveridge curve are used.

The estimate of the natural unemployment rate does not show a significant increase in times of crisis. NAWRU is an unemployment rate which coincides with a stable inflation rate (stimulated by the growth in labour costs). It is estimated by using the New Keynesian Philips Curve method which presumes a negative relationship between cyclical unemployment and the expected growth of real labour costs per unit of output. During the crisis, NAWRU slightly increased (by approximately 0.5 percentage points), however, significantly less than the actual unemployment rate. According to our estimate, this growth could be the result of a significant increase in the minimum wage and the slow response of wages to the decline in economic activity as a result of the validity of multiannual sectoral collective agreements which cover a high share of employed persons (Eurofond, 2015). The increase in NAWRU during the crisis, although moderate, could also be partly cyclical. The pro-cyclicality of NAWRU may be the result of nominal or real rigidity and consequently a more difficult adjustment of labour costs to the negative shocks to labour demand, in which case the unemployment level must be adjusted. In this case, NAWRU derogates and overestimates the unemployment level which is explained by structural and institutional factors; this should apply to most EU Member States in times of crisis (Havik et al., 2014).

The mismatch between labour supply and demand measured by the Beveridge curve did not increase during the crisis. The Beveridge curve shows a connection between the surveyed unemployment rate and the labour shortage indicator and represents labour demand and supply in consideration of the frictions in their matching. When economic activity declines, unemployment grows and reduces the number of job vacancies (and thereby the labour shortage indicator), while the opposite happens in the event of recovery of economic activity. Such pro-cyclical movement is typical for the movement along the Beveridge curve, which has a negative slope due to an inverse relationship between the unemployment and job vacancy rate. An increase in the structural imbalance occurs when unemployment and the number of job vacancies increase at the same time, which would be characteristic for the movement of the Beveridge

Figure 34: Estimate of structural unemployment, Slovenia

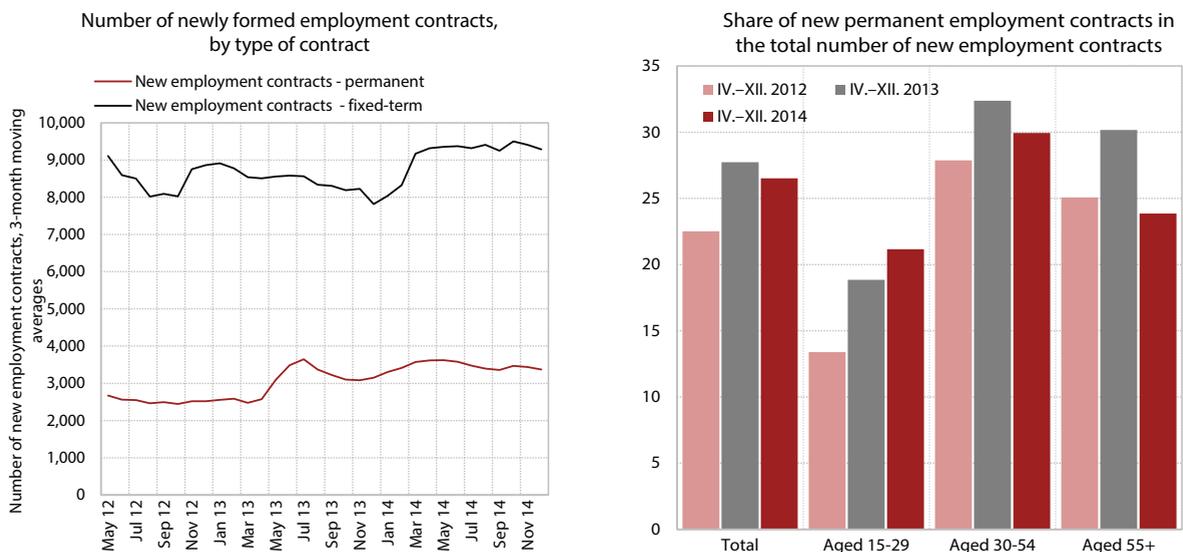


Source: SURS, Eurostat; calculation of the NAWRU, IMAD.

curve up to the right, indicating reduced efficiency of the matching between labour demand and supply. In Slovenia, no significant movement in the Beveridge curve is evident in the long run, which was also confirmed by an econometric analysis carried out according to EU (2011) and ECB (2012) models.

The strong cyclical component of unemployment growth in Slovenia during the crisis is not only indicated by the natural unemployment rate and the Beveridge curve but also by some other labour market indicators. Structural inconsistencies have not significantly increased as shown by the indicator of mismatch between supply and demand with regard to the level of education (see Chapter 2.2); during the crisis, this indicator only increased for highly educated people. The decline in job prospects with regard to the duration of unemployment for all groups of unemployed persons, not only for long-term unemployed persons, indicates that poorer employment opportunities are mainly the result of a generally low labour demand. According to our estimates, further strengthening of economic activity and labour demand would, therefore, have an important impact on the improvement of the situation in the labour market in the coming years.

Figure 35: Changes to new employments with regard to the type of employment contract, Slovenia



Source: SURS; calculations by IMAD.

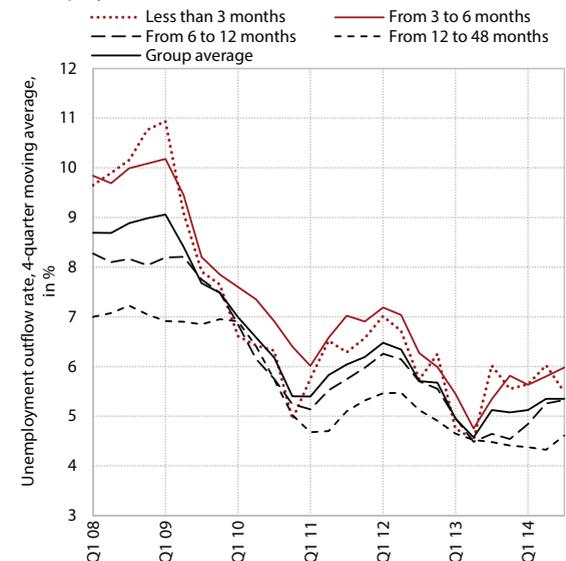
Note: Due to the entry into force of changes in the regulation of the labour market in April 2013 the figure on the right side shows a comparison of shares for different years (for the period from April to December).

their decisions to conclude permanent employment contracts and these decisions are additionally affected by other elements, such as employment protection and uncertainty regarding economic recovery.

In 2014, unemployment dropped due to the economic recovery and, hence, increased hiring, but remains significantly higher than in 2008. In the 2008–2013 period the unemployment rate doubled as a result of the drop in economic activity, major redundancies and limited employment, and came close to the EU average, from which it was significantly lower before the crisis. In 2014, it slightly dropped, which was the result of economic recovery along with the improvement of job prospects; it is, however, still significantly higher in comparison to the level before the crisis.

In the 2008–2014 period, long-term unemployment increased significantly. The long period of high unemployment and low demand for labour caused the long-term unemployment rate to increase by three times in the 2009–2014 period, while among

Slika 36: Unemployment outflow rate with regard to unemployment duration, Slovenia



Source: Eurostat; calculations by IMAD.

Table 6: Gross wage growth, private and public sector, Slovenia

Year	Nominal growth in gross wage per employee (in %)				Real growth in gross wage per employee (in %)			
	Total	Private sector	Public sector	Of which government sector	Total	Private sector	Public sector	- Government sector only
2008	8.3	7.8	9.7	10.2	2.5	2.0	3.8	4.3
2009	3.4	1.6	5.3	7.0	2.5	0.7	4.4	6.0
2010	3.9	5.6	0.8	0.0	2.1	3.7	-1.0	-1.8
2011	2.0	2.6	1.0	0.0	0.2	0.8	-0.8	-1.8
2012	0.1	0.5	-0.9	-2.2	-2.4	-2.0	-3.4	-4.7
2013	-0.2	0.6	-1.3	-2.5	-2.0	-1.2	-3.0	-4.2
2014	1.1	1.4	0.9	0.6	0.9	1.2	0.7	0.4

Source: SURS.

the young population, which was most affected, the unemployment rate increased by more than four times during the same period. In 2014, slightly more than 50% of unemployed persons had been unemployed for more than one year and the job prospects of long-term unemployed persons remain poor despite a slight improvement in the situation in the labour market. The strong increase in long-term unemployment resulted not only from the drop in employment but also from the relatively high unemployment trap at the beginning of unemployment, which can reduce motivation for job searching, and the relatively low amount of funds earmarked for the active employment policy¹²⁵, which helps long-term unemployed persons stay in contact with the labour market.

In the 2008–2014 period, the growth in wages was strongly affected by the economic crisis, the minimum wage increase, the salary system review in the government sector and the measures to consolidate public finances. The growth of the average gross wage gradually slowed during this period, but in 2010 and 2011 this process was temporarily interrupted by a minimum wage increase. After nominal stagnation in 2012 and the cut in wages in 2013, the average wage slightly increased again in 2014. Growth recovery in the private sector, where growth was mainly recorded in industry, is according to our estimates connected with further recovery of economic activity and the improvement of productivity; for the first time after the onset of the crisis also extraordinary and overtime pays increased. During the crisis, salary trends in the public sector were strongly affected by the salary system review and the austerity measures in the government sector, which constitutes the majority of the public sector. Austerity measures of the wage policy in the government sector abolished most of the stimulating elements of the wage system, which has an extremely strong demotivating effect and has turned into an obstacle to the provision of high-quality public services.

¹²⁵ In 2012, the share of funds earmarked for active employment policy amounted to 0.27% of GDP, which is below the OECD average.

Wage growth in the private sector gradually slowed during the crisis with the exception of 2010, but to date, it adjusted less to the crisis than employment did.

At first, the sector responded to the crisis by reducing overtime work and shortening working time, which was followed in particular by a significant reduction in employment and in 2009 also by a slowdown in wage growth. Extraordinary payments which indicate business performance were also substantially reduced. However, the significant strengthening of wage growth in 2010 and 2011 along with poor economic activity, increased unemployment and a relatively low inflation rate was mainly affected by the increase in the minimum wage and the changed structure of employees which was the result of redundancies of employees with mostly low wages (which in statistical terms increased the average wage level). The exclusion of these two factors indicates that the responsiveness of wage policy in the private sector to the crisis would be significantly stronger, because without these two factors the wage growth in the private sector in the 2009–2012 period would have been more than halved or on average lower by approximately 1.5 percentage points at the annual level.¹²⁶ Moreover, the share of enterprises that had cut wages increased from 4% in 2010 to slightly less than 8% in 2013 (BoS, 2014). Wage responsiveness could have been even further greater if the system of wage formation had been regulated mainly at the level of business agreements instead of sectoral collective agreements.

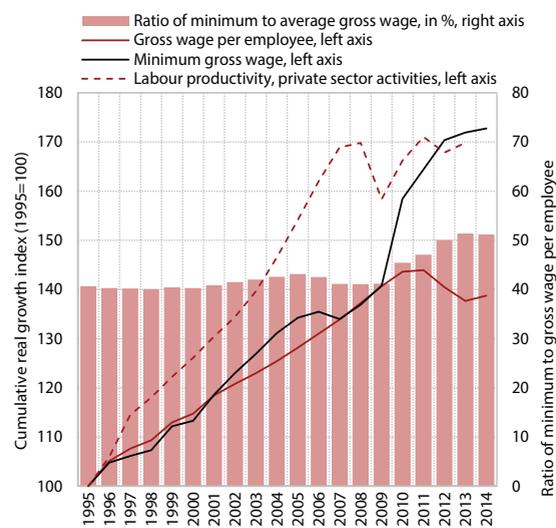
At the onset of the crisis the growth of the average gross wage significantly outpaced productivity growth.

In the 2008–2010 period this was mainly the result of the salary system review in the public sector, the high adjustment of wages to past productivity and inflation in the private sector in 2008 and the statutory increase in the minimum wage. After slowing down in 2011, the wage growth again lagged behind productivity growth. The outpacing of productivity growth at the beginning

¹²⁶ The assessment is based on the decomposition of growth of the average gross wage in private sector activities (activities A–N; R–S according to the SCA activities of 2008), which slightly differs from wage growth in the private sector.

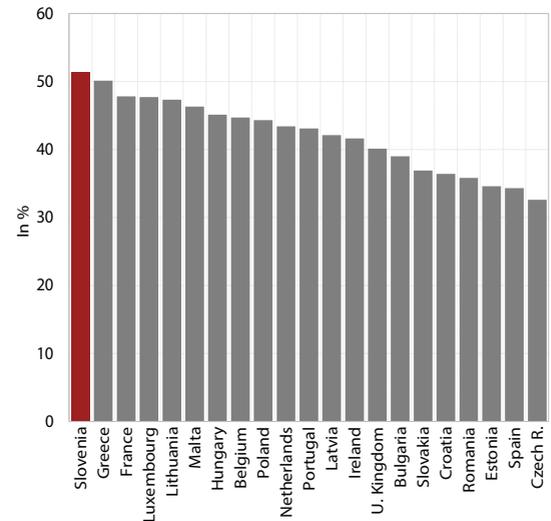
Figure 37: Wage trends and minimum wage/average wage ratio

Growth in the average minimum wage and productivity, Slovenia



Source: SURS, Ministry of Labour, Family, Social Affairs and Equal Opportunities, Eurostat; calculations by IMAD.

Ratio of minimum to average wage in EU Member States



of the crisis indicates the inadequate flexibility of wages, which is also the result of the wage setting and adjustment method, including the minimum wage. The challenge is therefore to create a wage system in the public sector and a method of setting wages in the private sector (more emphasis should be given to negotiations on wages at the enterprise level) which will provide for performance and productivity-related incentives and sufficient adjustment of wages to the changed economic situation.

Minimum wage growth in 2010 was a factor which severely hindered swifter adjustment of wages to the crisis and worsened the economy's cost competitiveness, while the generally low wage inequality declined even further. Due to the simultaneity of the crisis and the introduction of changes to the statutory regulation of minimum wages, the nominal growth of minimum wages in the 2008–2014 period exceeded the growth of average gross wages by 3.6 times, and therefore the ratio between them increased significantly (from 41.1% to 51.2%). During the entire crisis period the minimum wage growth outpaced productivity growth in private sector activities, which created pressures on the cost competitiveness of the economy, in particular in enterprises with a high share of employees with low levels of education who in particular create products with low value added. In comparison to other countries, the minimum wage in Slovenia is high with regard to the average wage, which is also due to the relatively low average wage, which reflects the value added generated by the economy.

3.2 Social protection systems and their long-term sustainability

The ageing of the population and the decrease in employment, along with the slow adjustments of the systems, have increased problems related to financing social protection systems. In Slovenia, social protection systems are mainly based on public social insurances; the main source of revenues for these insurances comes from the contributions from work. Due to the drop in employment and wages and the increased needs of the ageing population, the years of crisis revealed an increasing unsustainability of the pension and health system and inappropriate financing of long-term care. The budgetary transfer to the pension fund is increasing and this presents an increasingly serious problem for the sustainability of public finances, while the pension reform introduced in 2013 does not provide long-term sustainability of the system. Within the health-care system, mainly austerity measures were adopted during the crisis, but they do not resolve the problem of system sustainability in the long term. The development of long-term care has stagnated in recent years. In 2012, a reform in the field of social transfers entered into force, which was focused on improved targeting of these transfers, while the level of expenditure remained almost unchanged.

Further problems in ensuring stable funding of social protection expenditure are also indicated by long-term expenditure projections related to ageing population. Due to the deteriorating position of public finances and the increase in public debt providing long-term sustainability of public finances has become one of the main objectives of economic policy in recent years. The European Commission, in cooperation with EU Member States, updates the relevant projections every three

Table 7: Long-term projections of age-related public expenditure, Slovenia

	as % OF GDP						Change in percentage points 2013–2060	
	2013	2020	2030	2040	2050	2060	Slovenia	EU
AWG* base scenario								
TOTAL	24.7	24.7	26.7	29.4	31.5	31.7	6.8	1.4
Pensions	12.8	11.1	12.3	14.3	15.6	15.3	3.5	-0.2
Health care**	5.7	5.9	6.4	6.8	6.9	6.8	1.2	0.9
Long-term care***	1.4	1.7	2.0	2.5	2.8	3.0	1.5	1.1
Education	5.3	5.4	5.6	5.5	5.8	6.1	0.8	0.0
Unemployment benefits	0.6	0.6	0.4	0.4	0.4	0.4	-0.2	-0.4
AWG risk scenario								
Health care	5.7	6.1	6.8	7.3	7.5	7.5	1.9	1.6
Long-term care	1.4	1.7	2.2	2.8	3.6	4.1	2.7	2.4

Source: Draft 2015 Ageing Report: Economic and budgetary projections for the EU Member States (2013–2060) (European Commission and Economic Policy Committee) 2015; Country Fiche on Pension Projections for Slovenia (Ministry of Finance), 2015.

Note: * AWG – Working Group on Ageing Populations and Sustainability at the Economic Policy Committee (Ageing Working Group). The baseline scenario related to health care and long-term care expenditure only takes into account the effects of ageing and the assumption that one half of the remaining years of life we live without disability. **Public expenditure for health care according to the SHA methodology, however, without expenditure for long-term care. *** In addition to public expenditure on long-term care according to the SHA methodology (0.98% of GDP in 2012), AWG projections also include certain cash benefits according to the ESSPROS methodology (disability allowances) which amount to 0.5% of GDP.

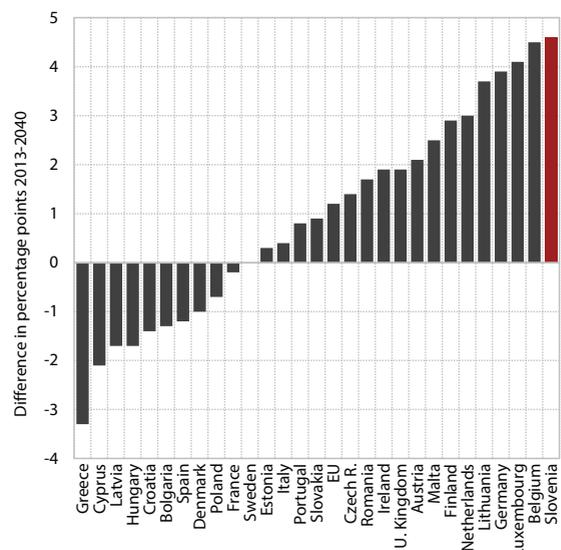
years.¹²⁷ The most recent projections of May 2015 indicate a slightly lower increase in age-related expenditure in most EU Member States in comparison to the 2012 projections, which is mainly the result of slightly more favourable demographic projections. These projections are also more favourable for Slovenia, but they still show that without changes to the relevant policies and without the consideration of other factors the impact of ageing on public expenditure would be particularly strong, because, according to the basic scenario¹²⁸, the share of age-related expenditure would increase most with regard to the GDP among all EU Member States in the 2013–2060 period. Even greater pressure on long-term fiscal sustainability would be caused by a potentially higher growth of public expenditure in health care and long-term care, which largely takes into account also other, non-demographic factors (risk scenario). According to the risk scenario, only in Slovakia and Malta would the expenditure growth exceed that of Slovenia.

Compared to other EU Member States, the increase in expenditure on pensions in Slovenia is significantly

¹²⁷ The drafting of these projections is coordinated at the EC level within the Working Group on Ageing Populations and Sustainability (Ageing Working Group – AWG) at the Economic Policy Committee.

¹²⁸ The basic scenario of the AWG considers mainly expenditure growth due to the ageing of the population, while the risk scenario of the AWG for health-care and long-term care also considers the effects of other non-demographic factors (technological progress, health-care cost inflation, a relatively higher growth of wages and employment than in other sectors). The basic scenario is used to a wider extent in fiscal policy, also for the definition of medium-term budgetary objectives (MTO). The purpose of the risk scenario is to draw attention to urgent structural reforms in public financing of health care and long-term care.

Figure 38: Increase in age-related public expenditure, in percentage points of GDP according to the basic scenario for EU-27 countries in the 2013–2040 period



Source: Draft 2015 Ageing Report: Economic and budgetary projections for the EU Member States (2013–2060) (European Commission and Economic Policy Committee) 2015; Country Fiche on Pension Projections for Slovenia (Ministry of Finance), 2015.

higher, but Slovenia also exceeds the EU average in the growth of expenditure on health care, long-term care and education. The largest proportion of age-related expenditure constitutes pensions, which are expected to reach 15.3% of GDP in 2060; according to the projections, this is the highest proportion among EU Member States and also the highest proportional increase in the 2013–2060 period. This is the result of Slovenia's demographic situation, as approximately by 2050, more numerous generations will be retiring, and they will be living longer in retirement due to higher life

expectancy; at the same time the labour market will be entered by less numerous generations which will worsen the ratio between the number of pensioners and the number of ensured persons. Moreover, the new pension legislation taken into account in the projection has not yet tied the retirement age to rising life expectancy and has not yet introduced other major expenditure limits as is the case in some other EU Member States. The relatively high increase in expenditure on health care and long-term care has not only been affected by the ageing population but also by other non-demographic factors.¹²⁹ The growth in expenditure on education is the result of the assumption that the total number of enrolled students will increase if high participation in education is maintained.¹³⁰

In 2012, expenditure on social protection increased by 5% in comparison to 2008; its even higher increase was prevented by intervention measures. In 2012, overall expenditure on social protection¹³¹ stood at 24.9% of GDP (EU: 29.5%), which is 4 percentage points higher than in 2008. The increase was influenced by: (i) GDP decline; (ii) expenditure on measures to prevent the consequences of the crisis; and (iii) demographic reasons. Following higher growths in previous years, expenditure on social protection dropped in 2012, in real terms by 3.5%, which was the result of austerity measures that entered into force with the Fiscal Balance Act (ZUJF) and of systemic changes in social transfers, as the Exercise of Rights to Public Funds Act began to be implemented in 2012. We estimate that the modest growth in age-related expenditure in 2012, which comprises the highest proportion of expenditure on social protection (approximately 40%), was the result of limitations in the payment of the annual pension supplement to pensioners.¹³² Expenditure on health care (approximately 32% of the total expenditure) also further increased by 1.1%. However, expenditure on disability declined the most in 2012 (by 8.1%), in addition to a lower number of beneficiaries of disability pensions and disability benefits, mainly as a consequence of changes

in eligibility criteria for care allowance.¹³³ The decline in expenditure on unemployment and family/children was impacted by the intervention law (ZUJF), which limited, or even reduced, the scope of certain rights (unemployment benefit, parental allowance).

In 2013 and 2014, public expenditure on pensions¹³⁴ slightly increased again; the problem still remains insufficient short-term and long-term sustainability of the pension system. Due to austerity measures, expenditure on pensions dropped in real terms in 2012, while in the last two years it slightly increased again. In 2014, this expenditure amounted to EUR 4.288 bn, which is EUR 34 m or 0.6% more in real terms than in 2013. Ever since 2010, among the three main types of pensions, only expenditure on old-age pensions has increased.¹³⁵

As intervention measures still applied in 2014, no pension indexation took place, while the payment of the annual bonus was limited to pensioners whose pensions were below EUR 662, which contributed to a reduction in expenditure growth. However, the budgetary transfer to the PDII budget increased further, which is becoming an increasingly serious issue also from the aspect of reaching the targeted budget deficit. In the following years, the expenditure might also increase due to the termination of intervention measures. With regard to the fact that the pension reform introduced in 2013 has not resolved the sustainability of the system in the long term, a new reform should be prepared immediately and should enter into force as soon as possible. The ageing problem in Slovenia is extremely serious, because the share of people aged 65 and more will exceed the average share of the elderly in the EU already after 2020, and at the same time, along with the decrease in the working age population the old-age dependency ratio will significantly increase (see Indicator 3.4). Projections of expenditure on pensions thus show that the recent reform has only postponed the increase of expenditure, because the expenditure as a share in GDP will start to increase after 2023 and will reach the highest value in 2053 – 15.7%. Saving for old age should also be encouraged, because less than 60% of compulsory insurance holders are included in supplementary insurance and the insurance premiums they pay are very low. From this aspect and in the light of providing decent pensions the challenge that remains is the development of measures for the promotion of people's greater personal responsibility for their own social status.

¹²⁹ Apart from the increase in GDP per capita and the increase in relative prices, which is higher in health care due to the specific nature of this activity (the introduction of technological solutions does not reduce the need for work, it sometimes even increases it), non-demographic factors in health care include in particular technological progress, institutional characteristics of health care systems, unemployment growth, the educational structure, the social environment and values.

¹³⁰ Demographic projections namely show that the number of children aged 6–19, where the participation in education is the highest, will increase by around 30 thousand in the 2013–2060 period.

¹³¹ According to the ESSPROS (European system of integrated social protection statistics) methodology which covers public expenditure on old age, sickness and health care, family (children), survivors, disability, unemployment, social exclusion not elsewhere classified and housing.

¹³² The ZUJF reduced the payment of the annual pension supplement to pensioners with higher pensions and selectively reduced the pensions paid from the state budget.

¹³³ With the social legislation reform (The Financial Social Assistance Act), care allowance became a social protection right as of 1 January 2012.

¹³⁴ According to the balance data of the Pension and Disability Insurance Institute at the Ministry of Finance, covering the following types of pensions: old-age, disability, survivor's, farmer's and military pensions, pensions received from former states of Yugoslavia, pensions remitted to former states of Yugoslavia, pensions remitted abroad, recreation grants to pensioners, other pensions.

¹³⁵ In 2014, expenditure on old-age grew by 1.5% in real terms, which is considerably less than in previous years.

In 2014, the average pension dropped with a further increase in the number of pensioners, which might indicate a problem in the provision of decent pensions.

In 2014, the growth of the number of pensioners slowed, which is attributable to the increased retirement during the long-lasting process of the Act's adoption. However, in the following years, this effect will disappear because those people will start to retire who had to postpone their retirement due to stricter retirement conditions after the adoption of the new Act. On average, 612.2 thousand pensioners received pensions in 2014.¹³⁶ In the same year, average pensions further dropped in real terms and on average they were almost 9% lower in real terms compared to 2009 (see Chapter 3.3.1.).

After four years of decline, public expenditure on health care increased in 2014 in real terms and amounted to 6.4% of the GDP.

The increase in revenues for compulsory health insurance (in real terms by 3.2% or EUR 78.7 m) mostly resulted from the changes in the contribution rates and the bases for calculating contributions, the payment of wage disparities in the public sector and a higher employment and wage growth in the private sector. All measures for balancing HIIS's operation adopted in previous years also remained in force; the available HIIS funds were also positively impacted by the transfer of the rights to funeral allowance and death grants to social assistance benefits¹³⁷, as well as savings in medicines. In 2014 HIIS therefore started to settle the current obligations toward health care service providers and, after four years of saving, additional funds could also be earmarked for the expansion of certain priority programmes (preventive, screening programmes, payment of certain programmes according to their implementation) and to the shortening of waiting times. Expenditures growth was also caused by the transfer of liabilities in the amount of EUR 49.2 m from 2013, so that expenditure increased by 2.7% in nominal terms or 2.5% in real terms; at the end of the year HIIS produced a surplus in the amount of EUR 15.7 m. According to the first estimate, the share of public expenditure in GDP amounted to 6.4% in 2013, and remained unchanged in 2014;¹³⁸ the share of public expenditure in total expenditure increased to 71.6% after several years of decline, whereas the share of private expenditure dropped to 28.4% (see Indicator 3.12).

In 2012, expenditure on long-term care continued to grow,¹³⁹ while the number of recipients dropped. Total expenditure on long-term care slightly increased in

2012 and reached 1.33% of GDP, which, according to the latest comparable international data, is lower than the average among 24 OECD countries (1.54% of GDP). In international comparison, in Slovenia public expenditure for long-term care is also lower (SI: 0.96% BDP; OECD: 1.39% BDP). In recent years, private expenditure has significantly increased, in particular for long-term social care services, while the growth in public expenditure stabilised considerably during the crisis (see Indicator 1.13). In 2012, the smaller growth in public expenditure was also the consequence of a reduced number of long-term care beneficiaries, in particular recipients of attendance allowances (see Chapter 3.3.2). In the future, pressure on the growth of expenditure is expected to be even higher, since many needs still remain to be covered. The provision of stable sources of financing long-term care therefore requires systemic changes. In the revision of financing it must be taken into consideration that in Slovenia as much as 48% of the total public expenditure on long-term care is being financed from compulsory health insurance, therefore, changes in the financing cannot be enforced without the simultaneous implementation of the health care reform.

Due to the increasing problems and the rapid growth in the needs, the Government's priorities in 2015 are the health care and long-term care reforms.

In order to maintain the level of quality and accessibility, a more effective and adjustable system of financing health care and long-term care in the long run will need to be established through systemic changes. Long-term projections show that at unchanged policy, Slovenia's public health expenditure is expected to increase by 0.2 percentage points of GDP (AWG base scenario) already by 2020 if only population ageing is taken into account, or by 0.4 percentage points of GDP when non-demographic factors are also considered (AWG risk scenario). According to various scenarios public expenditure for health care should increase by 2060 from 0.6 to 2.8 percentage points of GDP. Public expenditure on long-term care should increase even more, i.e. 0.3 percentage points of GDP by 2020 and 1.4 to 2.9 percentage points of GDP by 2060. The new health care legislation should therefore consider further broadening the bases for contributions and the equalisation of the burdens of individual categories of persons liable to compulsory health insurance payment, amending the rights arising from compulsory health insurance, upgrading the payment models with respect to health care providers and optimising the processes of health service provision. At the same time, the reform of financing should consider that the active population covering almost all social security contributions in the regulation currently in force, will not be able to cope with the financial burden in the long term. This means that in the event of the possible termination of complementary health insurance, also the economically inactive retired population would remain burdened with payments in the health-care and long-term care system. The reform of long-term care will have to bring together

¹³⁶ The number of pensioners refers to the total number of recipients of old-age (426.8 thousand), disability, family, widow's/widower's and military pensions, recipients of pension advance payments and farmer's pensions under the Farmers' Old Age Insurance Act (SZK) (Date obtained from PDII).

¹³⁷ According to the Social Assistance Benefits Act (ZSVarPre-C).

¹³⁸ HIIS business report for 2014. Data according to the SHA methodology estimated in conjunction with the SURS.

¹³⁹ Measured by the international SHA methodology (System of Health Accounts).

different sources of public financing in a uniform system to provide for better coordination in providing services, a more equal access to them and via an altered system of financing to also promote the development and performance of services at home. By also systemically improving the cheaper social services included in long-term care the pressure on the growth of public expenditure for long-term care could be significantly reduced and along with it also the growth of public health expenditure.

In 2011, Slovenia belonged to countries with medium-high unemployment benefit coverage; in recent years, however, this coverage has begun to decrease.

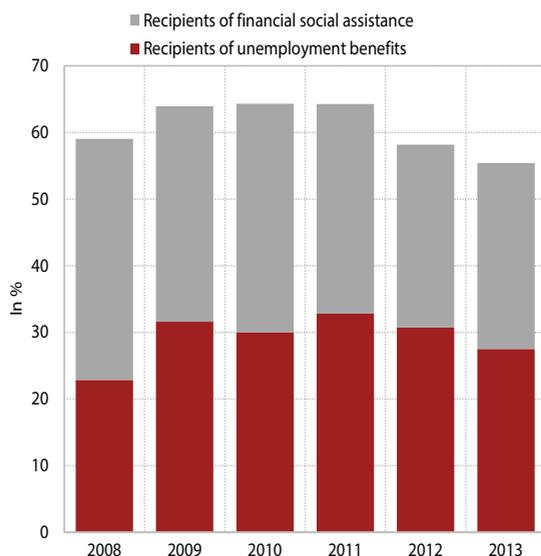
In 2012, Slovenia earmarked 0.7% of its GDP for unemployment, while the average in the EU amounts to 1.5% of GDP.¹⁴⁰ The share of unemployment benefit recipients in the total number of registered unemployed persons in Slovenia increased during the first two years of the crisis, but since 2011 it has been in decline (see Indicator 3.15). The low share and further decline are the result of an increase in long-term unemployment, the recurrence of unemployment for certain persons during the crisis and relatively strict eligibility criteria (rules governing the rights to unemployment benefits). The reduction in the share of unemployment benefit recipients reveals the problem of accessibility to benefits, in particular among the young. At the same time, the system of unemployment benefits for people with lower education in Slovenia is designed to provide relatively modest work incentives in the initial phase of

receiving unemployment benefits (high unemployment trap). The development of an unemployment insurance scheme which would provide income security to unemployed persons and maintain appropriate work incentives presents a challenge to the labour market policy. Insufficient income security to the unemployed is also reflected in the fact that in the first eight months of 2014 approximately 45% of all unemployed persons in Slovenia received neither unemployment benefits nor financial social assistance. This applied in particular to the long-term unemployed and young unemployed persons (Social Protection Institute of the Republic of Slovenia (IRSSV) (2014), page 92). This might indicate an insufficient provision of income security in the event of unemployment in Slovenia and it resulted in a substantial increase in the at-risk-of poverty rate among unemployed persons.

3.3 Quality of life and social inclusion

Quality of life is affected by several factors, among them mainly the following should be highlighted: material conditions for life, health, access to public services, quality of the environment, social capital and social inclusion. The decline in earnings and unemployment growth during the crisis caused an increase in the number of people exposed to the risk of social exclusion; however, the share of socially excluded people in Slovenia has still remained below the EU average. Access to health care and education has not worsened significantly, despite the problems in the health sector; in long-term care services the development gap has widened in recent years.

Figure 39: Share of the unemployed receiving unemployment benefits and/or financial social assistance



Source: ZRSZ, IRSSV; calculations by IMAD.

3.3.1 Material living conditions

The significant decrease in employment was the main reason for the decline in disposable income and the deterioration of material conditions for life during the crisis. Income inequality also slightly increased, however, Slovenia has remained among the EU Member States with the lowest inequality.

According to our estimates, the reduction in household disposable income came to a stop in 2014.

Data on non-financial sector accounts indicate that household disposable income in 2014 dropped in real terms by 0.6%, but we estimate that the drop was to a great extent the consequence of the fact that in the last quarter of 2013 accounting transactions were¹⁴¹ posted to household incomes, which did not represent an actual increase in income in 2013. According to our estimate, which considers the aforementioned, disposable income slightly increased in 2014. This was mainly the result of an

¹⁴⁰ Data are according to the ESSPROS methodology, while according to the labour market policy methodology, it earmarked 1.23% of its GDP for passive interventions in the labour market (unemployment benefits) in 2011, which is below the EU average (1.89% of GDP).

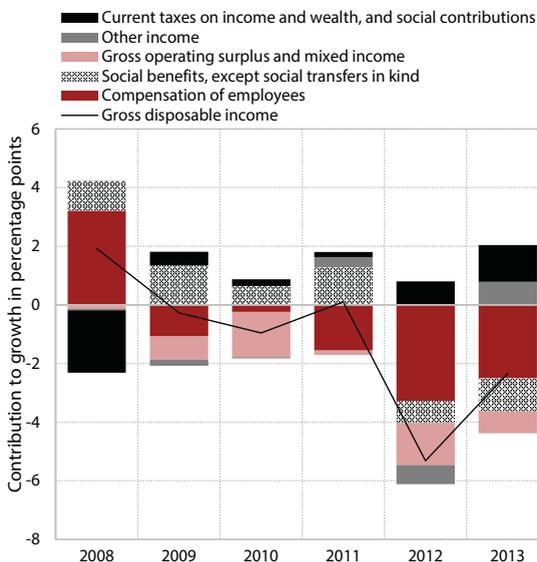
¹⁴¹ This refers to the third quarter of funds to eliminate wage disparities in the public sector and compensation to the persons erased from the Permanent Population Register, which were due to the onset of the obligation posted in that year but not paid out in that year.

Table 8: Wage inequality indicators, Slovenia

	2000	2005	2007	2008	2009	2010	2011	2012	2013
9th decile/1st decile ratio ¹	3.46	3.47	3.61	3.62	3.67	3.49	3.41	3.31	3.25
Median/1 st decile ratio ¹	1.70	1.67	1.73	1.74	1.74	1.69	1.67	1.65	1.63
9th decile/median ratio ¹	2.04	2.08	2.08	2.08	2.11	2.06	2.05	2.01	1.99
Gini coefficient (in %) ^{1,2}	29.4	29.0	29.2	27.9	28.3	27.3	26.8	26.2	25.9
Share of low-wage earners ¹ , in %	17.4	17.0	18.5	19.0	19.3	18.3	17.9	17.2	16.9
Highest/lowest gross wage ratio by activity	1.85	2.32	2.46	2.38	2.32	2.25	2.19	2.23	2.30
Lag in the average gross wage of women behind men, ³ in %	12.2	6.9	7.8	7.2	2.9	3.7	4.6	5.1	5.4

Source: SURS; calculations by IMAD.

Notes: ¹ Calculations for the 2008–2013 period are based on data from administrative sources and refer to the entire year, whereas for the preceding period, they are based on the statistical survey for the month of September of the current year. ² The Gini coefficient is a criterion of (in)equality of income or wage distribution. Its value in % ranges from 0, for "perfect equality", to 100, for "perfect inequality". ³ By structural statistics of wages

Figure 40: Contribution of components of the disposable income to year-on-year real growth in disposable income, Slovenia


Source: SI-STAT Data Portal – Economic area – National Accounts – Non-financial accounts.

increase in employment, the average wage and the gross operating surplus. However, the disposable income in 2014 was 9% lower than in 2008 in real terms, which was influenced by the decline in economic activity, austerity measures for the consolidation of public finances and the reform of the system of social benefits.¹⁴² The major component of the disposable income is still compensation of employees, although its share dropped to 81.6% in the 2008–2013 period (4.4 percentage points less than in 2008). On the other hand, the share of social transfers increased to 29.3% (4 percentage points more than in 2008), which is to a great extent the result of the operation of automatic stabilisers. The decline in gross adjusted disposable income per capita (see Indicator 3.16), which occurred for the first time during the crisis in 2012, also continued in 2014.

¹⁴² In 2012, also the Exercise of Rights to Public Funds Act entered into force.

After five years of decline, the net wage bill increased in real terms in 2014 along with an increase in employment and renewed growth in average wages, while wage inequality further declined in 2013 (latest data).

The net wage bill has been decreasing in real terms since 2008, with the highest drop in 2012 and 2013. Along with economic recovery, the release of the suspended promotion of public employees and the growth of employment, it increased by 1.3% in 2014. During the crisis, wage inequality narrowed, which is indicated by the reduced ratio between the gross wage of the ninth and the first deciles, which in 2013 reached the lowest value since 1994,¹⁴³ in the decreased Gini coefficient and in the share of employees with low wages.¹⁴⁴ Narrowed wage inequality in recent years has been attributed to the coincidence of several factors; the minimum wage rise caused an increase in the lowest wages, while with the onset of the crisis wage growth in certain activities with the highest wages slowed considerably. The period following the onset of the crisis was also characterised by a "statistical or structural effect" on the increase in the level of the average gross wage due to the loss of low-wage jobs. The wage gaps were additionally narrowed by austerity measures in the government sector. In that period, the highest rise in wages in relative terms was recorded for low-skilled employees (in nominal terms by 16.4%), while wages for highly educated employees slightly dropped (-1.3%). After 2009, the gender pay gaps have slightly widened, however, they still remain far below the 2000–2008 average (8.4%) and far below the EU average, where women's wages are 16.2% lower than men's wages (2010¹⁴⁵).

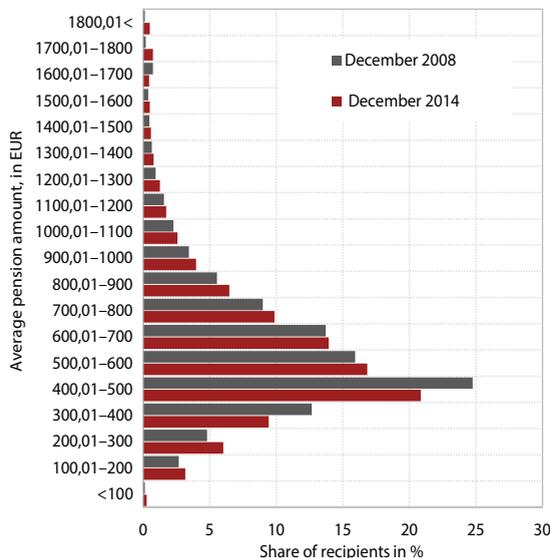
¹⁴³ Slovenia was ranked roughly in the middle of the scale of EU Member States with a decile coefficient value of 3.2 (data for 2013). According to the last All-European Structure of Earnings Survey (conversion for activities B–S; without O), in 2010 the decile coefficient was the lowest in the Scandinavian countries (between 2.1 and 2.4), and the highest in Romania (4.7).

¹⁴⁴ According to OECD methodology, these are employees earning an amount equal to or less than two-thirds of the median income (for legal entities EUR 897 in 2013). According to the latest comparable data of Eurostat, the share of low-wage earners employed with legal entities (16.9%) ranks Slovenia near the EU average (17%; 2010).

¹⁴⁵ EU-27 conversion for activities B–S (without O).

In 2014, average pensions were lower in real terms for the fifth year in a row, while inequality in pension distribution remained approximately the same. In 2014, the average net pension amounted to EUR 563.85 (old-age pension EUR 616.70) and one half of pensioners received pensions ranging from EUR 400 to EUR 700. In comparison to 2013, the average pension was lower by 0.2% (in nominal terms it remained the same), in comparison to 2009 it was lower by almost 9%. The decrease in average pensions was mainly influenced by a restrictive pension indexation policy in the 2012–2014 period,¹⁴⁶ partly probably also by early retirements (and therewith lower pensions) prior to the entry into force of the new Pension Act in 2013. The pension-to-wage ratio significantly changed in the 2008–2013 period.¹⁴⁷ According to our estimates, pension distribution by deciles did not significantly change in the crisis period.

Figure 41: Pension distribution, Slovenia



Source: Pension and Disability Insurance Institute of the Republic of Slovenia (PDI). Note: Pensions, without recipients of proportional pensions, December in an individual year.

Note: In December 2008, the number of pension recipients without proportional pension recipients amounted to: 481.046, while in December 2014 it amounted to 527.733.

Slovenia remains among the countries with the lowest income inequality,¹⁴⁸ although this slightly increased in the 2008–2013 period. In 2013, the Gini coefficient

¹⁴⁶ Indexation of pensions ceased to be carried out in its entire, statutorily determined extent with respect to the average wage, and was not be carried out at all, with the exception of 2013, when pensions were fully adjusted for wage growth, but it only amounted to 0.1%.

¹⁴⁷ In 2008, the average old-age pension accounted for 67.1% of the average wage (in 2013: 61.7%), while the ratio between the average pension and the average wage fell from 61.6% in 2008 to 56.6% in 2013.

¹⁴⁸ In calculating income inequality indicators, the income for 2012 is taken into account, as income is measured on the basis of data from the Survey of Income and Living Conditions (SILC) and administrative and registration data for the year before the survey (reference year for the income).

amounted to 24.4% (EU: 30.5%) and was the highest in the past nine years, while income inequality by the ratio of quintile brackets (80/20) amounted to 3.6 (EU: 5.0), whereby the two indicators show that despite the increase income inequality in Slovenia is below the EU average (see Indicator 3.18). One fifth of persons living in households with the highest equivalised income own 34.1% of the national equivalent wealth, while one fifth of those with the lowest equivalised income own only 9.5%. The share of income for this population group started to decrease after 2009. The re-distribution of income became more significant in 2010, when the percentage of the national equivalised income dropped for 60% of the persons classified in the lower income brackets. In the 2011–2013 period, this percentage dropped for 30% of people with the lowest income, while it increased for 20% of the richest population.¹⁴⁹

In 2013, household indebtedness¹⁵⁰ was higher in comparison to 2007, but Slovenia's households are among the least indebted in the EU. Indebtedness increased until 2012 and this trend resulted from the growth of financial assets lagging behind the growth of household financial liabilities, which was largely due to the decrease in disposable income during the crisis. In 2013, indebtedness declined owing to an increased volume of financial assets and a reduced volume of loans, which mainly reflected increased uncertainty regarding the savings (crisis in Cyprus) and reduced consumption as a result of the worse labour market situation due to the long-lasting economic crisis. Household indebtedness in Slovenia is below the EU average and Slovenia's households are among the five least indebted households in the EU (see Indicator 3.18).

In 2013, household financial assets per capita and household non-financial assets per capita (real estate) increased and were higher than at the beginning of the crisis. In 2008, financial assets per capita declined, as in the other EU Member States, owing to a large drop in the amount and hence the proportion of shares and securities in the total financial assets of households, but in the following years, they gradually recovered. In 2013, the financial assets per capita amounted to EUR 19,204 on average, which is more than in 2007. As households were no longer in favour of major risks due to the unstable situation on financial markets at home and abroad, the volume of cash and financial assets in life and pension insurances gradually increased.¹⁵¹ Throughout the years, the amount of financial assets per capita was significantly

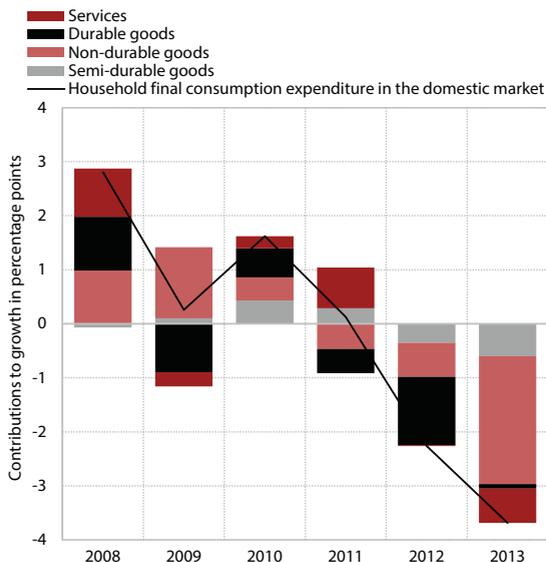
¹⁴⁹ In the 2008–2013 period, the percentage of the national equivalised income decreased from 17.1% to 16.4% for persons in the lowest three deciles and increased from 33.5% to 34.1% for persons in the upper two deciles.

¹⁵⁰ Household indebtedness is measured by two indicators: as a ratio of household financial liabilities to household financial assets and by household liabilities compared to the GDP.

¹⁵¹ In 2013, households had more than 50% of their financial assets invested in the form of cash and deposits (53%), in securities (24%) and reserves from life and pension insurances (15%).

lower than on average in other EU Member States (over EU 50,000), which is to a great extent the result of the differences in the level of development of the respective economies. In EU Member States, the ratio between financial and non-financial assets is equally distributed among the two forms of property, while in Slovenia the property of the population is concentrated in housing. In the 2008–2012 period, the value of the housing fund owned by households¹⁵² increased (by 7.5%).

Figure 42: Contribution of individual groups of products to the final consumption of households in the domestic market, Slovenia



Source: SI-STAT Data Portal – Economy – Household final consumption expenditure by type of product and purpose.

When household consumption decreased in 2012 and 2013, its structure also changed. In 2013, the share of expenditure on durable goods fell significantly in comparison to 2008, while the share of expenditure on non-durable goods increased in the same period. The highest share of household expenditures is accounted for by housing, water, and electricity costs (19.4% in 2013). Their share increased the most during the crisis. The share of expenditure on transport and food also increased in this period.¹⁵³ Expenditure on recreation and culture decreased the most and accounted for 8.6% in 2013 (1.6 percentage points less than in 2008).

¹⁵² In 2011, Slovenia had 670,127 occupied dwellings, with 97% of people living in these dwellings. More than one fourth (552,672 dwellings) were privately owned and most of them were occupied (80.8%); 12.7% of them were user dwellings (9% of the population). The lowest number was recorded for rented dwellings, i.e. only 62,152 or 9.3% of the total number of occupied dwellings.

¹⁵³ In 2013, the share of expenditure on transport amounted to 16%, which is 0.4 percentage points more than in 2008. The share of expenditure on food was 15.3%, which is 0.6 percentage points less than in 2008.

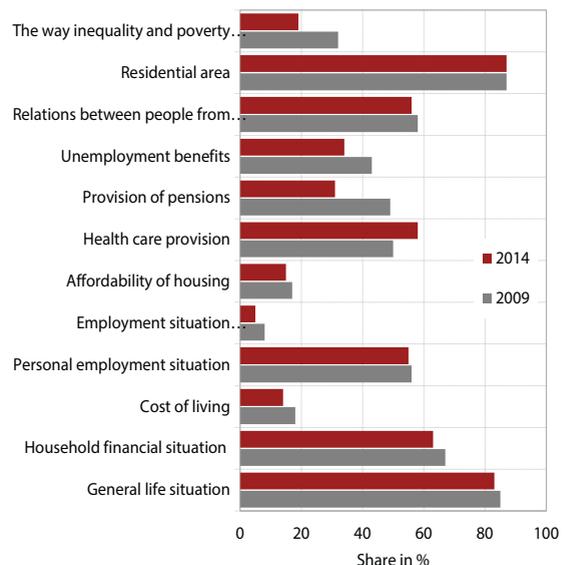
3.3.2 Quality of life

Most quality-of-life indicators have not shown a significant deterioration during the crisis. Quality of life is evaluated on the basis of life satisfaction, which decreased during the crisis, but still remains above the EU average. Aggregate health indicators (life expectancy and healthy life years) have improved since the beginning of the crisis, but the trends regarding lifestyle indicators raise concern. The financial accessibility of health care has remained relatively good, but waiting times have lengthened. The development of long-term care is still lagging behind. The population's participation in cultural and sports activities has increased, although these activities are limited by the amount of leisure time available, as this has shortened due to an increase in the number of hours worked. In the 2008–2014 period social capital, measured by the amount of trust in other people, also dropped, while no significant changes occurred in the field of personal security.

In Slovenia, life satisfaction decreased during the crisis; it is, however, still above the EU average.

According to the Eurobarometer survey, life satisfaction already began declining in 2009 (in 2014, life satisfaction decreased further by 2 percentage points, see Indicator 3.19). Compared to 2009, in 2014, people were less satisfied in most of the selected areas that have an impact on our lives, with the exception of the health system, where satisfaction increased, and in the area of housing, where the percentage of satisfied people remained unchanged. Satisfaction decreased the most in the areas of employment in the country, living costs and housing accessibility. Satisfaction with life decreases with age; the life satisfaction of young people aged 16–25 is highly above the average, while the life satisfaction of people aged 46 years is below the

Figure 43: Life satisfaction*, Slovenia



Source: Special Eurobarometer.

Note: * The answer categories regarding life satisfaction are "satisfied" and "fairly satisfied".

average.¹⁵⁴ Women are slightly more satisfied than men, however this structure changes after the age of 66, which is probably the result of a higher at-risk-of poverty rate for older women. People with higher education are also more satisfied with their lives. The population with lower or secondary vocational education or an even lower level of education is less satisfied, which shows how important education is for quality of life and is also connected to a greater exposure of these population groups to the risk of unemployment.

Life expectancy and healthy life year indicators have improved despite the crisis, however, some lifestyle indicators have deteriorated. In the 2008–2012 period, life expectancy increased and reached the EU average level (80.3 years). Slovenia's gap with the EU also narrowed with respect to healthy life years, however, we still lag behind the EU average by six years on average.¹⁵⁵ In the future, the increase in the number of healthy life years should significantly contribute to the long-term sustainability of financing health care and long-term care. In this regard, progress in medicine, accessibility of health care services and stronger emphasis on preventive health care are of key importance. Slovenia lags behind as regards certain lifestyle indicators, which increases the risk of cancer, mental and chronic diseases. The percentage of childhood obesity is increasing rapidly and has almost reached the highest level among EU Member States. Obesity in childhood is an important risk factor for obesity in the period of adulthood and for obesity-related diseases – diabetes, cardiovascular diseases and mental health (Heath at a Glance, 2013). The share of regular smokers has decreased in the past ten years, however, in most European countries it has been decreasing even more rapidly. Slovenia also strongly deviates from the EU average in terms of high alcohol consumption per capita. As regards cancer mortality, which also results from unhealthy lifestyle,¹⁵⁶ Slovenia, despite indicating a slight fall, strongly lags behind the EU average, as cancer mortality in Slovenia exceeds the EU average by 18%. Mortality due to suicide has slightly dropped in recent years but is still very high.

From the aggregate point of view and in terms of international comparisons, the financial accessibility of health care remains relatively good, but the waiting times are getting longer. During the crisis, household out-of-pocket expenditure on health care has dropped, because most health services and medicines are still covered by compulsory and complementary health insurance schemes (see Indicator 3.12). The number of physicians has been growing more strongly in recent years, in particular at the primary level, where Slovenia's gap with other countries is most significant. For the last two years, waiting times have shown a lengthening

trend, in particular above the maximum waiting time permitted. In 2014, according to NIPH data, the number of patients waiting for health care services increased from 155,862 to 182,498, whereby the number of patients waiting longer than the maximum waiting time rose by almost one third (from 14,770 to 24,815 patients waiting), which is mostly due to a decrease in the prices of health services and in the funds made available by the Health Insurance Institute of Slovenia in recent years, which in the preceding years had been systematically channelled towards reducing the waiting times for certain ambulatory care services and surgeries. The lengthening of waiting times has more severely affected poorer households that cannot afford to pay for private health care services. This widens health inequalities with regard to the socio-economic situation, whereby these inequalities are already high in Slovenia (Health Inequality in Slovenia, 2011).¹⁵⁷ The share of unsatisfied needs for medical treatment is very low in all income groups, which is to a great extent connected with a large bundle of rights covered by compulsory and complementary health insurance. The gap with the EU average has also narrowed with respect to self-reported health.¹⁵⁸

Slovenia lags behind the OECD average in terms of the population's integration in long-term care, but less than indicated by previous estimates.¹⁵⁹ In 2012, the overall number of long-term care recipients fell by 2.7%, due to the drop in the number of recipients of cash benefits.¹⁶⁰ More than one third of all persons are recipients of long-term care services in institutions, while the rest are recipients of long-term care services at home.¹⁶¹ However, the quality of treatment in an institutional environment is at a much higher level and much more expensive due to integrated and overall health care and social services. In Slovenia, the share of the population exceeding 65 years which is involved in

¹⁵⁴ At the age of 30, the gap between the life expectancy of men with low and those with high education even amounts to 10.4 years (this gap is wider in only five OECD countries); this gap is slightly smaller for women (4.4 years).

¹⁵⁵ The share of the population assessing its health as good or very good increased to 65.0% in 2013 (2012: 63%; 2009: 60%); the EU average was 67.1% (2012: 68.2%).

¹⁵⁶ At the end of 2014, SURS published, for the first time, data on long-term care recipients in Slovenia according to the international OECD definition. For the first time, the estimate of community-nursing recipients was also taken into account, in addition to the recipients of long-term care; the share of those involved in long-term care is therefore higher than stated in previous analyses, in particular the share of those involved in long-term care at home.

¹⁵⁷ The first estimates for 2013 show that the number of both long-term care recipients in institutions and at home has further increased.

¹⁵⁸ For Slovenia, in addition to the recipients of long-term care, the estimate of community-nursing recipients was taken into account for the first time; the share of those involved in long-term care is therefore higher than stated in previous analyses, in particular the share of those involved in long-term care at home (for more see Nagode et al., 2014).

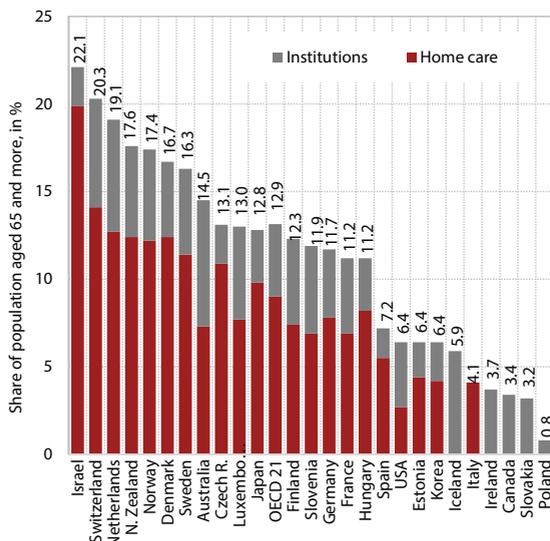
¹⁵⁴ SILC data evaluating life satisfaction in 2012 and 2013.

¹⁵⁵ In Slovenia, women can expect 55.6 healthy life years at birth (the EU average is 62.3 years), while men can expect 56.6 healthy life years (the EU average is 61.3 years).

¹⁵⁶ OECD Health at a Glance 2014.

long-term care amounts to 11.9%, while the average of 21 OECD countries is 12.9%, whereby the share of people involved in institutional care in Slovenia is higher in comparison to the OECD.¹⁶² In the past years, Slovenia's gap in the development of long-term care at home has widened, which is the result of a lack of possibilities for the satisfaction of needs. Due to increased needs related to demographic changes, conditions for the development of long-term care services must be established in a profitable or non-profitable manner in private or public status forms. Based on the data obtained by the EU-SILC survey, in 2012, 26% of older people aged 65 or more believed that their disabilities with regard to performing everyday activities were of a serious nature (EU: 20.5%), whereas this share in the age group of 75 years or more amounted to 34% (EU: 28%), and in the age group of 85 years or more, it was already 44% (EU: 40%).

Figure 44: Share of people aged 65 and more receiving long-term care, 31 December 2011



Source: Health at a Glance 2013.

Note: Data adjusted to Slovenia and OECD-21 average.

The share of the population with at least upper secondary education is relatively high in Slovenia; access to education remained at a high level during the crisis. In 2014, the share of population with at least upper secondary education, which should enable all individuals successful functioning in society, amounted to 85.7% and increased during the crisis (see Indicator 3.21). In the 2012/2013 school year, the enrolment of young people aged 15–19 in upper secondary education in Slovenia was higher than in the 2008/2009 school year and well above the EU average. The same applies to the enrolment of young people (aged 20–24) in tertiary education,¹⁶³ which did not change significantly during the crisis. The high enrolment is connected with tuition-

¹⁶² Long-term care in institutions: Slovenia: 5.0%; OECD-21: 4.0%; long-term care at home: Slovenia: 6.9%; OECD-21: 8.9%;

¹⁶³ In 2012, participation of the young (aged 20–24) in tertiary education amounted to 48.3% (EU: 31.5%).

free study, a favourable ratio between the number of enrolment places and the number of applications for these enrolment places and national scholarships.¹⁶⁴ Participation of the adult population (aged 25–64) in all levels of formal education has declined since the onset of the crisis¹⁶⁵ and in 2012, it fell below the EU average. The participation of adults in tertiary education – the only level of education that exceeded the EU average – has also decreased.

Access to pre-school education has also remained at a high level. Despite a decline during the crisis the participation of children in kindergartens is relatively high in Slovenia.¹⁶⁶ After the entry into force of the Exercise of Rights to Public Funds Act in 2012 the financial accessibility of kindergartens to families with the lowest incomes deteriorated because according to the findings of an IRSSV study (2014) the share of children attending kindergartens free of charge decreased. Staff capacities (number of children per class and number of children per teacher and teacher assistant) are favourable.¹⁶⁷ In the future, the needs for kindergarten capacities (kindergartens, kindergarten classes, staff) should depend on the anticipated decreasing number of births due to demographic changes.

In the 2008–2013 period, attendance at cultural events increased. Along with the number of exhibitions in museums, galleries and exhibition grounds, the number of visitors also rose in 2013. The drop in the number of visitors attending theatre performances was the result of fewer theatre performances. The number of cinema visitors fell too, while the number of visits to Slovenian films significantly increased. Due to the close of the events as part of Maribor – European Capital of Culture, the number visits to performances given by cultural institutions strongly decreased. Although the trends were unfavourable, the attendance at cultural events in 2013 amounted¹⁶⁸ to 9.5 million visitors and was higher than in 2008. In the 2008–2013 period, the number of units of library material borrowed per person also increased, although the public-library membership declined.

¹⁶⁴ The number of upper secondary and tertiary students entitled to state scholarships dropped when the new social legislation entered into force in 2012 and 2013 and increased again in 2014, because minor students were again entitled to national scholarships (Social Position of Young People in Slovenia in the 2013–2014 period, 2014).

¹⁶⁵ In the 2012/2013 school year, the participation of adults in formal education was 3.1% (2008/2009 school year: 4.0%).

¹⁶⁶ In the 2013/2014 school year it amounted to 54.1% for children aged 1–2 years, 87.2% for children aged 3–5 years and in 2012 it was higher than the EU average (Slovenia: 88.8%; EU: 83.2%).

¹⁶⁷ The Rules on standards to conduct pre-school education activities adopted in 2014, have not brought significant changes.

¹⁶⁸ These include museums, galleries and exhibition grounds, theatrical performances, films in cinemas, orchestral/choral concerts and performances given by cultural centres.

Attendance at sports events and recreational activities is relatively high. In 2013, approximately 50% of the population aged 15 or more exercised or played a sport at least once a week, which exceeded the EU average and was at the level similar to that in 2009 (Eurobarometer).¹⁶⁹ In Slovenia, the share of the population doing recreational activities is higher than in the EU despite a significant drop in 2009. The biggest share of the population is – similar to the EU – engaged in outdoor sports or recreation. Those who do not play or exercise sports more often state the lack of time as the most important reason and the fact that it is too expensive as a less important reason.

During the crisis certain social climate indicators deteriorated.¹⁷⁰ In 2014, trust in other people and the share of those convinced that people are fair decreased in comparison with 2008. The share of those convinced that people try to be helpful increased. In 2014, 53.4% of the respondents said they have frequent contacts with relatives, friends and colleagues for social reasons, which is more than in 2008 but less than in 2012. In comparison with 2008, people's dissatisfaction with the way democracy works in Slovenia increased. According to the Eurobarometer data, the share of people satisfied with the way democracy works slightly increased in the past year, but Slovenia still remains below the EU average. In 2014, people's trust in institutions also slightly increased, but it is still at a low level (see Indicator 2.18). In 2014, the share of women in Parliament in Slovenia increased to 38% and is above the EU average.

During the crisis, personal security has not deteriorated further. In 2013¹⁷¹, the standardised death rate due to assault slightly increased in Slovenia in comparison to 2008 and amounted to 1.0 per 100,000 inhabitants. However, Slovenia continues to demonstrate very low rates in terms of feeling threatened in one's neighbourhood. Compared to 2008, in 2014 even more people felt safe when walking alone in a local area after dark. Burglary or physical assault was experienced by slightly fewer people. Compared to the past years, in 2013, fatality due to transport accidents dropped further. The death rate was 7.3 persons per 100,000 people which is the lowest number since 1996.

During the crisis leisure time became increasingly important for individuals. In Slovenia, the satisfaction of the population aged 18 and over with social life is approximately at the same level as in the EU.¹⁷² More than half of the population would like to spend more time on their hobbies or interests, which is above the EU average. This is probably related to the increase in the average number employed persons spend in working

hours per week (data from the Labour Force Survey) and the change in the evaluation of the importance of leisure time in the crisis period (based on the data from a Slovenian public opinion survey). In the 2009–2013 period the share of the population aged 18 and over who consider leisure time to be very important strongly increased (Slovenian Public Opinion 2013, 2014). At the same time, the population aged 16 and over ranked their satisfaction with the ways of spending their leisure time (on a scale from 1 to 10, EU–SILC) with an average score of 6.8 in 2013; most satisfied were individuals with higher incomes, pensioners, upper secondary school students and students.

Voluntary work¹⁷³ in Slovenia shows an increasing trend; its contribution to the welfare of the society is also increasing, but the level of participation in voluntary work is still relatively low.¹⁷⁴ In 2013, the number of volunteers decreased by 13.3%, but at the same time the number of hours of volunteering performed increased by 11.2% in comparison to 2012.¹⁷⁵ Slovenian volunteers carry out voluntary work in a wide range of areas and are involved in administrative and highly professional and organisational tasks. In 2013, two thirds of voluntary hours were contributed in social activities and in education and schooling. Voluntary work is mainly conducted by women (63.5%) and the population aged 60 and over (68.7%). The value of voluntary work performed in 2013 exceeded EUR 64.5 m¹⁷⁶ (Joint Report on Volunteering in the Republic of Slovenia for 2013, 2014). An important part of voluntary work is also contributed by members of protection, rescue and relief forces. In 2013, these forces intervened in 13,429 different¹⁷⁷ events, in which 117,096 members of different units participated; of these as many as 82,854 were volunteer fire-fighters (Annual report of the Ministry of Defence for 2013, 2014).

Although the satisfaction of the population with living conditions is at a high level, problems of air pollution and the quality of drinking water still occur in individual areas. In 2012, the number of times the daily threshold concentration of (PM₁₀) was exceeded decreased compared to 2011, and the exceedances only

¹⁷³ The used data only refer to voluntary organisations registered in the electronic register of voluntary organisations.

¹⁷⁴ According to the latest data available, in Slovenia voluntary activities only involve 10-19% of adults, while the engagement of adults in countries with the highest level of volunteering (Austria, The Netherlands, Sweden and Great Britain) exceeds 40% (Study on Volunteering in the European Union, Final Report, 2010).

¹⁷⁵ In 2013, there were 46,903 volunteers who contributed 6,161,795 hours of volunteering.

¹⁷⁶ The estimated values of hours of voluntary work according to the Rules on Voluntary Work Areas and Register.

¹⁷⁷ These are: natural and other disasters, traffic accidents, fires and explosions, pollution, accidents involving hazardous substances, nuclear and other incidents, discoveries of unexploded ordnances, disruptions of supply, damages to buildings and technical and other assistance.

¹⁶⁹ Sport and physical activity, 2014; Sport and Physical Activity, 2010.

¹⁷⁰ The source for the comparison with 2008 is the European Social Survey 2014 (SJM 2014) – preliminary data.

¹⁷¹ The latest data of SURS refer to 2013.

¹⁷² European quality of life survey 2012, 2012.

occurred during the winter months. Primarily people living in towns are exposed to air pollution (most of all in Ljubljana), because they are most affected by emissions caused by transport. In 2012, air pollution by ozone increased; exceedances of limit values occur most often in the Primorska region and at higher altitudes. The quality of drinking water is suitable and in 2012 the water quality even improved. Water is of poorer quality in the Northeast and Southeast of Slovenia because of faecal pollution in small water distribution systems and exceeded concentrations of pesticides in water (5% or 100,000 inhabitants) and in the Northeast of Slovenia due to exceeded nitrate concentrations in water, where, however, the percentage of the population exposed already significantly decreased in the 2004–2012 period¹⁷⁸ (for more see ARSO, 2014).

3.3.3 Social inclusion of the population

Social inclusion of all population groups is an important factor for the quality of life. Social inclusion indicators show an increase in the risk of social exclusion during the crisis, although this has remained at a relatively low level by international comparison. Despite an increase in social protection expenditure and a well-developed social security system, the risk of social exclusion for certain population groups has significantly increased during the crisis. In order to attain the objectives of the Europe 2020 Strategy regarding reduction in the number of people exposed to the risk of social exclusion, measures must be adopted that would provide conditions for the social inclusion of all population groups, but special attention should be given to the reduction of the risk of poverty among children and the elderly.

The risk of social exclusion increased during the crisis, however, the risk rate is still below the EU average.

The aggregate measure of the risk of social exclusion¹⁷⁹ indicates an increase in all the components of social exclusion: at-risk-of-poverty rate, severe material deprivation rate and the share of persons with very low labour intensity.¹⁸⁰ In 2013, 410,000 people were exposed to a high risk of social exclusion, which was 49 thousand more than in 2008. These trends frustrate

¹⁷⁸ It decreased from 0.6 to 0.2% of the population.

¹⁷⁹ The risk of social exclusion consists of three components: the at-risk-of-poverty rate, the material deprivation rate (defined as deprivation in at least four out of a total of nine items of deprivation); and the share of persons living in households with very low labour intensity (less than 20% of the total household labour potential). Persons falling within more components are taken account of in the total number only once (see the Slovenian Economic Mirror, October 2014).

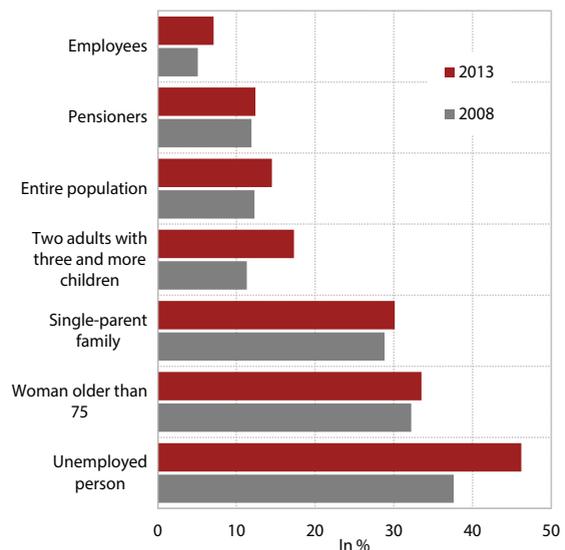
¹⁸⁰ In 2013, 20 thousand people more than in 2012 and 50 thousand more than in 2008 were exposed to the risk of poverty; severe material deprivation increased by 1,000 during the past year and by 4 thousand in comparison to 2008, while the number of persons living in households with very low labour intensity increased by 7 thousand or 20 thousand respectively in the same period.

Slovenia's objectives within the EU 2020 Strategy,¹⁸¹ which anticipates a drop in the number of individuals exposed to the risk of social exclusion. In the context of providing quality of life to all citizens, the reduction of the risk of social exclusion presents a significant challenge.

The at-risk-of-poverty rate in Slovenia has been increasing since 2009, but is still among the lowest in the EU.

In 2013, it increased to 14.5% (EU 16.7%) and was 2.2 percentage points higher than in 2008, but in the past year, it increased the most. In 2013, 290 thousand people in Slovenia lived below the at-risk-of-poverty threshold (see Indicator 3.22). The reasons for the at-risk-of-poverty rate during the crisis were: increased unemployment, changes in the distribution of income and changes in the system of social transfers. The at-risk-of-poverty rate has increased the most in jobless households with dependent children, in single households and in households with two adults and several children. It has also increased for men aged 18–24, who are otherwise among those who are less threatened by poverty, but their position has worsened due to problems related to the employment of young people. In 2013, Slovenia adopted amendments to social legislation to eliminate the current situation, while in 2014, it adopted measures within the Youth Guarantee to resolve the problems of young persons' employment. Women aged 75¹⁸² who live in one-person households are also exposed to a high risk of poverty.

Figure 45: The at-risk-of-poverty rate for selected groups of the population, Slovenia



Source: SURS

¹⁸¹ In Slovenia, this target was adopted under the National Reform Programme (in 2010). For Slovenia, it means a reduction in the number of people exposed to the risk of poverty and social exclusion from 361,000 in 2008 to 320,000 in 2020.

¹⁸² At-risk-of-poverty rate 33.5%.

The share of materially deprived persons¹⁸³ rose in 2008; over the following years it was maintained at a level which was higher than prior to the crisis, but still below the EU average. In 2008, the share of materially deprived persons rose by 2.6 percentage points to 16.9% compared to the year before and remained at a similar level until 2013 (17%, EU: 19.5%). The increase during the crisis resulted in 341 thousand materially deprived persons in 2013. The share of materially deprived persons is the highest among people older than 65. The share of materially deprived persons is higher among the active working life population (aged 18–64) than among those under 18 years of age, which shows trends contrary to the average EU trends. Material deprivation of people in the active working age mainly results from their inability to cover unexpected expenses; these people cannot afford a one-week annual holiday from home and are in arrears on housing-related bills. Since 2008, these problems have worsened the most (by 5.1 percentage points to 21.2%).

In 2013, the share of households receiving aid from charitable organisations remained unchanged, while the shares of unemployed benefit recipients and children increased. According to SURS data, in 2013, the share of households that received material support and/or cash assistance from charitable organisations¹⁸⁴ remained at the level of 5%. Support and assistance are becoming increasingly important for those households (2013: 14%) which are by income classified in the bottom fifth. Among individual assistance recipients the share of recipients from among unemployed persons increased from 17 to 19% and the share of children under the age of 16 increased from 6 to 7% in 2013. In 2013, charitable organisations helped one fifth of the population who lived below the at-risk-of poverty threshold survive, which is by 2 percentage points more than in 2012.

3.4 Challenges

Challenges in social development are mainly related to population ageing and to combating the social exclusion of individual population groups. In the coming decades, the number of the oldest people will increase, therefore appropriate conditions must also be provided for their longest possible independence and better quality of life in old age, whereby the environment will need to be adjusted and population ageing will need to be considered in the planning of the society's development. The increase in the low employment rate of older persons (aged 55–74) is an important

element for long-term public finance sustainability and the provision of sufficient labour supply in a situation where the number of people of working age (aged 20–64) rapidly decreases. The ageing population is exerting pressure on the public finances, which could be mitigated by a comprehensive reform of social protection systems, which should be adopted as soon as possible. The development of conditions and measures for the creation of high-quality jobs is a challenge which can improve material conditions for life and establish conditions for reducing the number of people exposed to a high risk of social exclusion.

Population ageing is exerting pressure on public finances. This should be mitigated by a comprehensive reform of social protection systems, which should be adopted as soon as possible. The number of older people per one working-age person will be doubled by 2060. Long-term projections indicate that age-related expenditures will increase in Slovenia the most of all other EU Member States by 2060. Therefore a comprehensive reform of social insurance systems is needed. Short-term and long-term sustainability of the pension system requires a new pension reform to be adopted as soon as possible, which would also reduce the budgetary transfer to the pension fund. In the context of sustainable financing of the health-care system and the system of long-term care and the preservation of accessibility, it is of key importance that the reform should consider the fact that the share of the active working population, which in the present regulation covers almost all social security contributions, will not be able to bear this financial burden in the long term. In addition to the expansion of the bases for social contributions and the equalisation of contribution rates for all groups of insured persons, the measures aimed at increasing the sustainability of social insurance systems also include increased burdening of the inactive population and the use of alternative tax sources. A reform of health-care financing will also be necessary on the expenditure side, both by increasing the efficiency of the system and by adjusting the benefits basket.

The challenges in the labour market are reducing age segmentation, increasing the employment rate of older persons and improving the effectiveness of the labour market. The rise in the employment rate of older persons (55–64), which in Slovenia is among the lowest in the EU, can contribute not only to higher employment but also to the improvement of the long-term sustainability of social protection systems. Apart from the pension reform, which should reward the extension of working life, comprehensive approaches must also be developed that would raise employers' awareness of the possibilities and forms of transferring experience of the elderly to the young and promote positive practices of employers in employing older people. The employment of older people could also be encouraged by the elimination of systemic obstacles for their employment (for example, employment protection of older workers

¹⁸³ Deprivation in at least three from a total of nine elements (1. the ability to face unexpected expenses, 2. a one-week holiday away from home per year, 3. a meal with adequate food, 4. to pay for arrears (mortgage or rent, utility bills or hire purchase instalments), 5. to keep their home adequately warm, 6. to have a washing machine, 7. to have a colour TV, 8. to have a telephone/mobile, 9. to have a personal car.

¹⁸⁴ SILC data only apply to 2012 and 2013.

and higher wages due the seniority bonus). To improve the situation of young people in the labour market, it is necessary to strengthen and accelerate their transition from education to employment, in particular by matching the enrolment of young people in education with labour market demand. By decreasing employment protection with the amendments to the labour market regulation in 2013, conditions were established for increased labour market flexibility in Slovenia. However, according to the estimates of the European Commission, Slovenia still ranks among the countries with low labour market efficiency, which covers flexibility, labour force reallocation costs and wage flexibility. A challenge still remains in particular in the increase in labour market efficiency with regard to the reallocation of employees and the responsiveness of wages to the changes in the business situation of companies and a system of incentives for rewarding employees. The increase in the minimum wage changed the ratio of wages with regard to the level of education in the private and the public sector, where austerity measures regarding the wage policy in the government sector terminated most of the stimulating wage system elements, which has a strong demotivating effect. In order to create incentives as a way to reward work and productivity, the wage-setting system in the private sector must be changed, while the wage system in the public sector requires amendments.

The establishment of conditions for reducing the risk of social exclusion requires measures to encourage the development of quality jobs and to provide income security to the unemployed. To assure a level of income that would provide appropriate material conditions for life, measures must be introduced which would encourage the creation of quality jobs. In its income, pension and social policy, the state should also pursue the goal of ensuring an appropriate income level that would secure decent living of the population; for young people this is a fundamental condition which would help them start their own families and fulfil their personal goals. In order to fulfil the goal of reducing the number of persons exposed to the risk of social exclusion, measures must be developed to reduce the risk of poverty and social exclusion among older people, where the situation is the worst, and also among younger people during their active working life. Among the latter the risk of social exclusion is to a great extent connected with the problem of long-term unemployment. A strong increase in the at-risk-of-poverty rate highlights the problem of providing income security to the unemployed. The development of an unemployment insurance scheme which would provide income security to the unemployed and maintain appropriate work incentives is a challenge for labour market policy. A further challenge is also the development of activation programmes for long-term unemployed persons and beneficiaries of financial social assistance. Within all policy frameworks more attention should be given to rectifying the problem of poverty and social exclusion among children.

4 Environmental, regional and spatial development

A concern for the preservation of a healthy and natural environment, balanced regional development and optimal use of space are an increasingly important dimension in planning for economic and social development. Slovenia's development in these three areas, which are closely associated with the previously discussed aspects, and which are also both interconnected and interdependent, was relatively favourable during the economic crisis. This was mainly due to changed economic conditions and less to structural changes which would contribute to a more sustainable improvement. With the revival of economic activity, the goals will be more difficult to achieve and will require additional and systematic action.

4.1 The quality of the environment and sustainable development

A high level of economic activity always includes risks of over-exploitation of natural resources and environmental pollution. There are many challenges ahead as regards the reduction of harmful effects on the environment and also some international commitments that have been undertaken by Slovenia within the Climate and Energy Package of the EU Member States. In this context, development is monitored through some basic environmental indicators such as greenhouse gas (GHG) emissions, energy consumption, volume of freight transport, financial income and incentives, quantity of waste generated, resource productivity of the economy, and farming and forestry in terms of their impact on the environment.

In 2013, the decrease in GHG emissions was to a large extent a result of the drop in economic activity, whereas progress towards improving the emission intensity of the economy has been modest since the onset of the crisis. In 2013, the 4-percent decrease in GHG emissions was largely due to a reduction of emissions from the energy and transport sectors, which are the main sources of GHG emissions (see Indicator 4.1). In Slovenia, emissions from transport account for about half of all emissions that are not included in the EU Emission Trading System (EU ETS) and are crucial for the fulfilment of international obligations.¹⁸⁵ With the reduction of GHG emissions after 2008 and taking into account carbon sinks, which are the direct result of human forest activity and handling the land, Slovenia will even surpass the compulsory decrease stated in the Kyoto protocol. By ratifying the Kyoto Protocol, Slovenia committed itself to reducing GHG emissions by an average of 8% in the 2008–2012 period compared with baseline emissions in 1986. In this period, total GHG emissions declined by 3.2%, whereas the included sinks contribute to the

¹⁸⁵ See Development Report 2014, Indicator 5.1, pp. 190–191.

additional reduction of 6.5% (Green Growth Indicators, 2014). In order to achieve the long-term targets by 2020 alongside economic recovery, it is essential to improve the emission intensity of the economy, i.e. to reduce GHG emissions in relation to the unit of GDP. In 2013, the emission intensity of the economy slightly fell, however, similar modest progress has been present since 2008. In international comparison, Slovenia is ranked among the countries where a unit of GDP is generated with relatively high emissions whereas the lag behind the others has on average even increased in the past few years. In 2000, Slovenia generated a seventh more emissions per unit of GDP than the EU as a whole; in 2012 (the most recent international data), over a quarter more. With a view to facilitating a shift to a competitive low-carbon economy, an operational programme has been adopted containing measures which are envisaged to lower GHG emissions and improve the use of renewable sources and, consequently, increase competitiveness, economic growth and the employment rate.¹⁸⁶

Given the modest demand for energy products in 2013, the share of renewable energy sources (RES) substantially increased for the second year in a row, but in the long term it is increasing at a much slower pace than in the EU. While reducing the total final energy consumption, the use of RES increased (by 4.6%) in 2013 and thus also their share in gross final energy consumption (SI: 21.5%, EU average: 15.0%, see Indicator 4.4). Given favourable hydrological conditions and the increase in new capacities in the production of solar energy as well as a reduced demand for energy products, a further increase in the share of RES is estimated at approximately 23% in 2014. Compared to the EU, Slovenia with the use of RES satisfies a larger share of demand for energy. The use of RES depends, to a large extent, on natural conditions, which are rather favourable in Slovenia, particularly in terms of the use of wood for heating and hydroelectric generation of power.¹⁸⁷ Although the incentives for the production of energy from RES have increased since 2005 as a result of the change in the structure of supports in favour of expensive solar energy, Slovenia lags behind the EU average in terms of the share in RES from less traditional sources (solar, wind, geothermal and biogas energy). Compared to the EU average, the use of all RES in Slovenia increased less, namely by 32.2% (by 60.6% in the EU) in the period 2005–2013. At the same time, in the mentioned period a move towards a more efficient consumption of energy, which is an important factor in the reduction of the costs of building additional capacities of renewable and non-renewable energy sources, was noticed in the EU. Under the objectives set out until 2020,¹⁸⁸ Slovenia

has committed itself to attaining a 25% share of RES in terms of gross final energy consumption (EU: 20%) and a 10% share of RES in transport. Higher demand for energy products, especially in transport, where RES have a small share could threaten the achievement of this objective in the event of enhanced economic activity and in the absence of measures for more efficient energy consumption.

The low level of economic activity has significantly contributed to savings on energy. In addition to the decline in GHG emissions and the increase in the share of RES, the aim of the climate and energy package of EU Member States is to achieve 20% energy savings compared with the envisaged consumption until 2020. In two thirds of EU countries this means a reduction in primary energy consumption compared to the base year of 2005, while in Slovenia and some other new Member States, where in the developmental catch-up process a higher demand for energy was expected, this entails a restriction on growth. Slovenia is permitted to increase its primary energy consumption by 4.2% compared to 2005 (in 2013, it was 3.8% lower compared to 2005), while on average in the EU this entails a reduction in primary energy consumption of 13.2% (in 2013, 8.3%). In most countries, higher savings also resulted from a worse economic situation than expected. This also applies to Slovenia, where economic activity again decreased (by 1.0%) in 2013, which had an impact on a further decrease in primary energy consumption (by 2.0%, see Indicator 4.3). The objective of 20% savings was also set for *final energy consumption* in the EU Member States, where Slovenia's position in attaining this goal is slightly worse¹⁸⁹ compared to other Member States, resulting from higher consumption of fuels in transport.¹⁹⁰ Given the changed economic conditions and, consequently, the reduced energy consumption and, thus, easier attainability of the 2020 goals, the EU has already set the climate and energy policy framework for a longer period, namely until 2030 (see Box 3).

The key factor of high energy intensity¹⁹¹ of the Slovenian economy in 2013 remains the consumption of energy in transport. In the 2005–2013 period, final energy consumption, on average, decreased by 6.9% in the EU, while Slovenia saw a decline of only 2.0%. The breakdown by sectors shows that a decrease in industrial

¹⁸⁶ Operational Programme for Reducing GHG emissions by 2020 with a View to 2030.

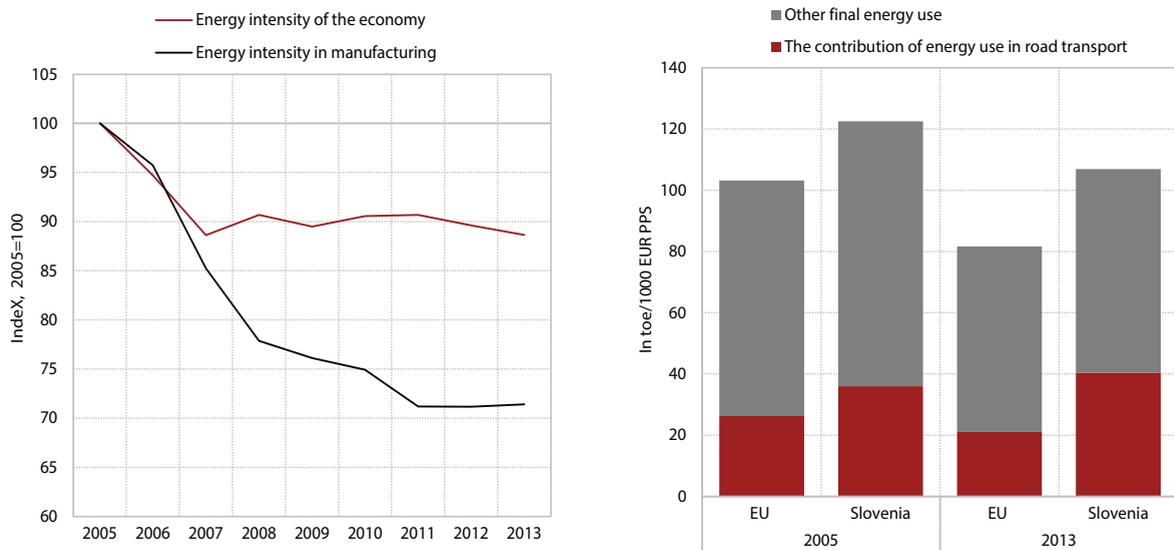
¹⁸⁷ Attention should be drawn to the fact that climate change may have, in the long term, adverse effects on the water level of rivers and, as a result, on lower production of hydropower.

¹⁸⁸ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012.

¹⁸⁹ Final energy consumption is the consumption of primary energy reduced by energy consumption in transformations, own consumption of energy, and loss. Transport has a higher share in the final level of energy consumption than in the primary energy consumption; therefore, in increasing energy consumption in the transport sector, its impact is greater in the final energy consumption.

¹⁹⁰ Slovenia is allowed to increase this figure by 3.9% compared to 2005 (in 2013, it was 2.0% lower compared to 2005) while on average in the EU-28, this entails a reduction in primary energy consumption by 8.5% (in 2013, -6.9%).

¹⁹¹ Energy intensity is a primary energy consumption per unit of GDP.

Figure 46: Energy intensity, Slovenia (left) and comparison between Slovenia and the EU (right)


Source: Eurostat Portal Page – Environment and Energy – Energy, Eurostat Portal Page – Economy and Finance – National Accounts, 2014; calculations by IMAD.

energy consumption was much higher than in the EU; the consumption of energy products in households also decreased but the improvements made in energy-efficiency in these sectors in Slovenia were cancelled out by the increased consumption of fuels in transport. The increased fuel consumption put major pressure on energy consumption during the crisis; as a result, the energy intensity of the economy even slightly increased in Slovenia after 2008 and, in 2013, was already one quarter higher than the EU average¹⁹² (in 2005, it exceeded the EU level by 16%). With the continuation of the high energy intensity of the economy and the recovery of economic activity, the targeted energy savings will be harder to achieve and additional measures to increase energy efficiency will be required.

In 2013, the intensity of energy consumption in manufacturing remained unchanged for the second year in a row, whereas the share of emission-intensive industries remains well above the EU average. The consumption of energy in manufacturing per unit of generated value added almost equalled the energy consumption in the year before. The reduction in energy intensity in manufacturing, which was particularly pronounced in the 2006–2008 period, remained at a standstill for the second year in a row. The decomposition analysis of energy consumption shows that this is due to the stagnation of energy intensity within individual industries. This effect is particularly important in terms of export competitiveness, particularly in industries where energy consumption represents a significant

part of costs. Similarly, in 2013 there were no changes in the structure of manufacturing that would be in favour of less energy-intensive industries. In spite of less favourable trends in recent years, the decrease in energy intensity in manufacturing has also been more pronounced since 2005 than in the entire economy. Furthermore, a move towards average energy intensity in the EU manufacturing industries has been noticed; however energy intensity in Slovenia is still above the EU average. This can be partly attributed to the industry structure, which is, more than in other countries, based on industries where energy consumption in production processes is higher. To some extent, this is also confirmed by an above-average proportion of emission-intensive industries in Slovenia,¹⁹³ which has been at a similar level (at one fourth) since 2010; however, it is higher than before the crisis. With the exception of the paper industry, the share of all emission-intensive industries in the total value added of manufacturing industries is higher in Slovenia than in the EU average.

The volume of all types of freight transport has considerably increased with the expansion of the EU, due to Slovenia's location as a crossroads of transit routes; however, for progress towards sustainable and more acceptable forms of freight transport the investments in railway infrastructure should be increased. The share of road freight transport reached its peak in 2009, since then and given the annual fluctuations, a slight downward trend can be recorded (see Indicator 4.5). However, the share of road freight transport is considerably above the average of the EU Member States (75.5%). In the 2005–2013 period, the road freight transport of Slovenian road transport operators increased significantly (44%). This was due to the increase in transport operations abroad (cross-

¹⁹² In the inter-temporal comparison, the indicator of the comparison of primary energy per unit of GDP in fixed prices is used; however, for the comparison between the countries in individual years, GDP in purchasing power standards (PPS) is used in the calculation of energy intensity for higher methodological relevance.

¹⁹³ Defined according to the World Bank methodology.

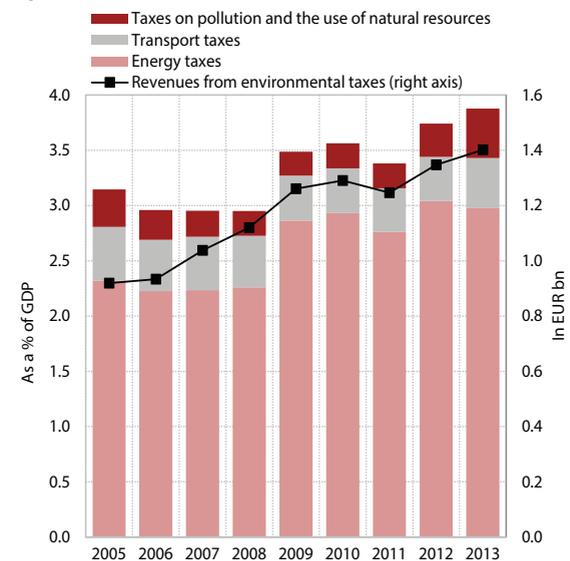
trade), while in the territory of Slovenia, transport operations by foreign road transport operators are on the increase. The volume of railway transport increased much less (by 17%). Contrary to the trend in Slovenia, the EU average of the volume of transported freight by road (by 5%) and by railway (by 3%) decreased between 2005 and 2013. In terms of both types of transport of goods per capita, Slovenia has already significantly exceeded the EU average; in 2013, it was more than twice the EU average. This is also due to Slovenia's transit location at the crossing of the European V and X corridors and to the increase in foreign trade flows through Slovenia with the expansions of the EU. The recently constructed road infrastructure is modern and also the density of the motorway network per capita ranks Slovenia at the very top of the EU Member States. However, the railway infrastructure, which is also extensive, at some parts does not allow a faster increase in rail freight transport.

In 2013, the revenues from environmental taxes again increased; however, they have remained well above the EU average owing to the extensive consumption of motor fuels in road transport. Its share in 2013 was 3.9% of GDP, 0.1 percentage points more than in the previous year and 1.0 percentage points more than in 2000 (see Indicator 4.6). The advantage over the EU average slightly increased to 1.4 percentage points.¹⁹⁴ A high share of environmental taxes in GDP mainly results from the relatively high revenues from energy taxes (Slovenia: 3.0% of GDP, EU average: 1.9% of GDP). Higher revenues are related to the extensive consumption of motor fuels in road transport as a result of a dispersed settlement pattern, poorly developed public passenger transport infrastructure and a large volume of transit traffic (Environmental Performance Review of Slovenia, 2012), whereas the level of taxation of motor fuels (and their price) in 2013 was slightly below the EU average.¹⁹⁵ The impact of fuel taxation on the international cost competitiveness of the most exposed transport activities has remained small also because of the scheme for commercial diesel fuel, which was introduced in 2009. The scheme provides transport operators who buy fuel in Slovenia with the possibility of excise duty refunds against a minimum amount determined at the EU level.

The growth of revenues from environmental taxes was, contrary to the trends in previous years, conditional upon the growth of revenues from taxes on transport, pollution and the use of natural resources. The revenues from energy taxes, which in previous years saw a rapid increase, decreased in 2013 as a consequence of a fall in revenues from excise duties on mineral oils and gas,¹⁹⁶ which was higher than the revenues from

the sale of the remainder of emission allowances, which has been possible since that year.¹⁹⁷ Year-on-year growth in *revenues from transport taxes* (from 0.4% to 0.5% of GDP), which are associated with the ownership and use of motor vehicles, arises from an increase in annual road user charges¹⁹⁸ and an additional tax on vehicles with more powerful engines introduced in the middle of 2012. Given a relatively large share of ownership and use of motor vehicles, transport taxes as a share of GDP drew close to the EU average (0.5%). Growth of revenues from taxes on pollution and the use of natural resources (from 0.3% to 0.4% of GDP) was underpinned by the CO₂ tax on motor fuels, which was also introduced in the middle of 2012. Revenues from these taxes in Slovenia after 2012 gained in importance and in 2013 reached 0.4% of GDP, which is relatively high (EU average: 0.1% of GDP).

Figure 47: Revenues from environmental taxes, Slovenia



Source: Eurostat Portal Page – Environment and Energy, 2014.

Note: In 2013, the classification of environmental taxes was amended; the series for the relevant period was revised accordingly (e.g. the CO₂ tax on motor fuels is no longer considered as the energy tax but is included among the taxes on pollution and use of natural resources).

Government budget appropriations for environment- and energy-related R&D further decreased in 2013; however, green patents still lag considerably behind the EU average. Government budget appropriations for environmental and energy research dropped by 6% each in real terms at the annual level, in total to EUR 10.5 m. These trends reflect a further decrease in the government

on a year-on-year basis (by 3.8% for petrol and 7.2% for diesel fuel).

¹⁹⁷ Until 2013, the legislation, in accordance with the environmental protection goal, did not provide for the sale of emission allowances from the planned reserves – these were not permitted to be allocated or sold until the end of the period. The emission allowances had to be annulled.

¹⁹⁸ The increase in November 2012 was followed by an additional increase in the middle of July 2013; for the vehicles with less powerful engines, on average, by 13%.

¹⁹⁴ The weighted EU-28 average has been taken into consideration.

¹⁹⁵ Own calculations for the weighted EU-28 average on the basis of data from the Oil Bulletin (2014).

¹⁹⁶ A decline was noticed in the quantities of fuels released for consumption, whereas the average excise duty rates increased

Table 9: Government budget appropriations for environment- and energy-related R&D, as a percentage of total government R&D budget*

	Slovenia							EU						
	2007	2008	2009	2010	2011	2012	2013	2007	2008	2009	2010	2011	2012	2013
Environment	1.36	3.51	2.27	3.27	3.36	2.98	3.10	2.63	2.86	2.79	2.69	2.61	2.61	2.58
Energy	1.07	1.11	1.58	1.99	3.59	2.79	2.90	3.12	3.73	3.61	3.85	3.84	3.84	4.06

Source: Eurostat Portal Page – Science and Technology – Research and Development, 2015; SURS, 2014.

Note: * In accordance with the Frascati international methodology, this involves all appropriations earmarked by the state for the implementation of R&D within the state and abroad, regardless of the implementing sector (OECD, 2000).

budget appropriations for R&D in 2013.¹⁹⁹ Since 2010, government budget appropriations for environmental research (in percentage of total government budget appropriations allocated for R&D) have exceeded the EU average, while as regards funding for energy research, Slovenia still lags behind the EU average. In 2011 (the latest available data), no significant progress was made with regard to²⁰⁰ green patents, i.e. patents related to environmental technologies. After a significant progress in the previous two years, Slovenian applicants filed only four first patent applications with the EPO, while in the 2005–2011 period, they filed 27 in total. The majority of applications were still related to obtaining energy from renewable and non-fossil sources, more precisely from solar thermal and solar photovoltaic energy. In Slovenia, a small volume of green patents also reflects weak innovation activities in general and weak intellectual property management (see Indicator 2.16). In the 2005–2011 period, Slovenian applicants filed 13.3 first green patent applications with the EPO per million population, while the European average was much higher (66.6). The low volume of green patents and in general²⁰¹ modest exploitation of the potential of the dynamic global market of environmental technologies entails that there are still unexploited opportunities for Slovenian R&D activity²⁰² and sustainable economic growth.

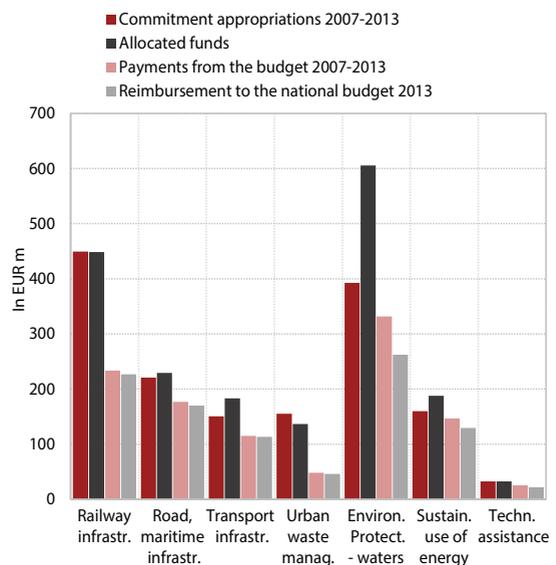
¹⁹⁹ Investments by the business sector, i.e. the private sector, increased in real terms by 1.5%.

²⁰⁰ The following environment-related technologies are included among the green patents: general environmental governance (reducing air pollution, water pollution, waste management, land restoration, environmental control), obtaining energy from renewable and non-fossil energy sources (wind energy, solar thermal energy, solar photovoltaic energy, geothermal energy, etc.), combustion technologies with the potential to restrict the harmful impacts of fossil fuels, technologies contributing indirectly to the restriction of emissions (storage of energy, fuel-cells), reducing emissions in transport and fuel efficiency in transport (electric and hybrid cars), energy efficiency in buildings and lightning (OECD Towards Green Growth, 2011).

²⁰¹ A key role will be played by eco-innovations, as these are not only the changes in production processes but also in marketing, consumption and organisational methods, etc. (adapted from the EIO-Annual Report 2012, 2013).

²⁰² According to the Global Cleantech Innovation Index (Parad, M. et al. 2014), Slovenia ranked 28th among 40 observed countries, which is worse than the neighbouring countries (Austria ranked 16th, Hungary 23rd, Italy 27th). Attention was drawn to the lack of dynamic entrepreneurial culture, investments in green industries at the local level, activities involving venture capital in the area of green technologies, a low number of green patents and enterprises engaged in

The absorption of EU funds within the cohesion policy for transport and environmental infrastructure (OP ETID) increased also in 2014. In 2014, EUR 401 m was earmarked for projects under the Operational Programme of Environmental and Transport Infrastructure Development (OP ETID) and EUR 349 m was reimbursed to the budget of the Republic of Slovenia by the end of the year, which is considerable more than in previous years. For the entire period of the second financial perspective (2007–2013), EUR 1,562 m of EU cohesion funds from the EU budget is earmarked for the programmes under OP ETID; however, despite the accelerated drawing down of such funds in recent years, only EUR 971 m (62% of commitment appropriations) was reimbursed to the budget of the Republic of Slovenia in 2014.²⁰³ Among the development priorities, there are two areas that stand out in terms of poor absorption of funds, namely municipal waste

Figure 48: EU funds within the framework of the OP ETID according to development priorities, 2014 year-end stock, Slovenia


Source: Ministry of Economic Development and Technology, 2015.

the field of green technologies. Positive feedback was given concerning the contribution of generated revenues from green industries in the manufacturing sector and the consumption of energy from renewable sources.

²⁰³ In accordance with the n+2/n+3 rule, the funds available in year n can be used in the following two or three years, i.e. by 2015 at the latest.

Box 3: EU climate and energy targets for 2030***At the end of 2014, the European Council laid down the EU framework on climate and energy policy up to 2030.***

Given that we are approaching the year 2020, for which the targets within the climate and energy package have been set, and amid the efforts of the EU to become a competitive low-carbon economy by 2050, new intermediate goals had to be set. The EU's 2030 targets are to cut its greenhouse gas emissions by at least 40% below the 1990 level, increase the share of renewable energy to at least 27% of the final energy consumption and increase energy efficiency by at least 27% (A policy framework for climate and energy in the period from 2020 to 2030, 2014).

In 2012, **GHG emissions** were reduced by 18% compared to the 1990 levels. According to the estimates by the European Commission, the decrease in GHG emissions is to continue so as to exceed a 20% reduction target for 2020 by around 4 percentage points (targets of the EU climate and energy package for 2020). By 2030, the existing EU policies would reduce emissions by 32%. A more ambitious target was therefore set, i.e. to reduce GHG emissions by 40%. This means a 43% reduction in emissions by 2030 relative to 2005 for the ETS (Emissions Trading Scheme) sectors and a 30% reduction for the non-ETS sectors. To this end, some changes to the Emissions Trading Scheme will be required, as it does not sufficiently encourage investment in low-carbon technologies (the price of emission allowances is too low). Furthermore, the overall emission reduction target in non-ETS sectors will have to be distributed between EU Member States, most likely, as so far, based on the adjusted relative development index (GDP per capita).

The share of RES in final energy consumption at the EU level increased to 14% by 2012. The 20% reduction target for 2020 is to be exceeded by 1 percentage point and, without applying additional measures, this share should increase to 24% by 2030. Consequently, the EU has set a more ambitious target of a 27% increase for 2030, which will require further efforts. A more rapid transition to the use of RES is in many aspects essential for the EU. The increased use of RES would simultaneously reduce the EU trade deficit in energy products, the risk of energy supply disruption and fluctuations in fossil fuel prices. However, the rapid deployment of RES poses a significant challenge for the electricity system, which must adapt to increasingly decentralised and variable production (solar and wind). While the target of increasing the share of RES is binding on the EU, the Member States will commit to reaching their own national renewable energy targets, within their capacities and in light of implementation of the common goal. Their progress towards meeting the targets will be assessed and, if necessary, complemented by further EU action and instruments.

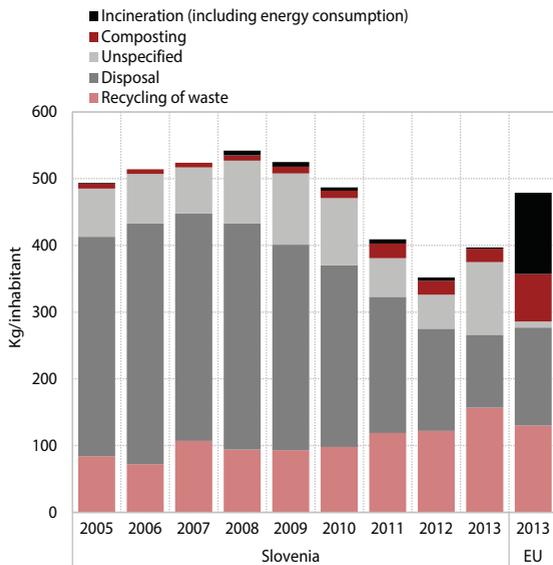
The EU target for **energy efficiency** is not binding at the EU level or at the national level. The European Commission notes that, according to the no-policy-change scenario, the EU's 20% energy reduction target for 2020 should almost be achieved, which means that the energy savings will be somewhat lower. It also draws the attention to the fact that these savings will be easier to achieve due to the reduction in economic activity in previous years and that the 2030 target of increasing energy efficiency by at least 27% is an extremely difficult task. The energy efficiency targets should be achieved through specific policy measures taken at the EU and national levels, among other for household and industrial appliances, vehicles and for building stock.

management and the railway infrastructure (30% or 50% of commitment appropriations, respectively), whose greatest project, the construction of the second track of the Divača–Koper railway, was transferred to the next financial period. The greatest absorption of funds in this financial perspective was in the area of sustainable energy use, road and maritime infrastructure and transport infrastructure (81%, 77% or 75% of commitment appropriations, respectively). In order to reduce the loss of EU funds, measures allocating the so-called "additional commitment appropriations" for projects where no problems with their implementation area are envisaged also continued in 2014 (the total value of the signed contracts amount to EUR 1,684 m).

The quantity of generated waste decreased during the times of lower economic activity and slightly increased in 2013; however, in pursuing the objective of waste reduction, their re-use will be quite a challenge. In

2013, approximately 4.6 million tonnes of waste were generated, which is 3.7% more than in the previous year, or one third less than in 2008.²⁰⁴ The majority of the waste, about four fifths, was generated from production and service activities. Compared to the year before, their quantity increased by around 2%. The lion's share was generated in four sectors, namely the manufacturing sector, electricity and water supply activities, and the construction sector. For further reducing the waste, closed-loop production should be introduced, a sustainable system in which waste is used as raw material. The remaining one fifth of the waste was the municipal waste, i.e. waste generated by households and other similar waste. After a period of significant decline, the quantities of municipal waste increased by about 15% in 2013, amounting to 414 kg per capita (EU

²⁰⁴ The decrease in generated waste is also the result of the reclassification of some waste as by-products (in accordance with the new Decree on waste).

Figure 49: Municipal waste management, Slovenia and the EU


Source: Eurostat Portal Page – Environment and Energy, 2015.

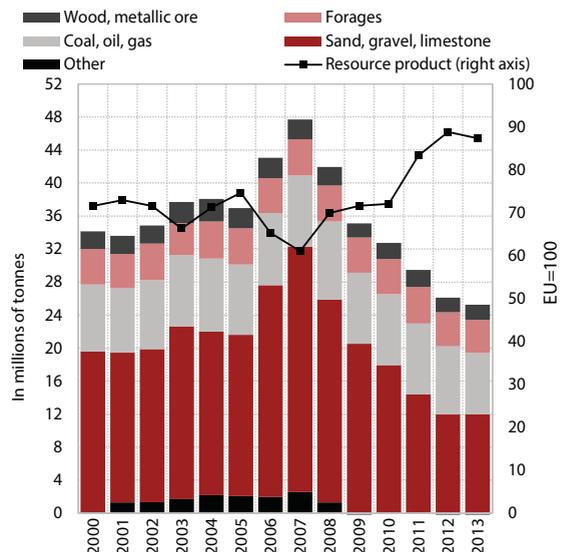
average: 481 kg/inhabitant). With the introduction of the separate collection of municipal waste and mandatory processing of mixed residual waste, the amount of deposited municipal waste has been reduced to less than a half. In efforts towards more sustainable waste management, the share must be reduced further, while it is necessary to increase the share of composting and incineration, which in Slovenia is below the EU average.

Despite economic restructuring, Slovenia's efficiency, as regards the use of raw materials, is still quite low. Resource productivity, which is an indicator of sustainable production and consumption and represents the relationship between GDP and raw material and material consumption, strongly fluctuated after 2005. This was in strong correlation with the consumption of non-metallic materials²⁰⁵ which strongly influence resource productivity mainly due to the weight of such products. Therefore, during the period observed, resource productivity was lowest in 2006 and 2007, which was also a result of high construction sector activity, and was additionally stimulated by the completion of the motorway cross.²⁰⁶ With a decrease in construction activities, the consumption of raw materials and materials significantly decreased, which consequently led to an increase in resource productivity, namely by more than a half in the 2005–2013 period (by only one fourth in the EU). In 2013, resource productivity stood at 88% of the EU average, which makes a gap slightly larger compared to the previous year, but it still is a substantial improvement compared to the 2000–2010 period, when it stood at 70% of the

²⁰⁵ This mainly applies to the use of sand and gravel.

²⁰⁶ According to the tables of consumption, the use of non-metallic materials in the construction of civil engineering structures (e.g. the construction of roads) is above average in comparison with other construction activities.

EU average.²⁰⁷ Slovenia's lower resource productivity, compared to the EU average, was also confirmed by an analysis based on supply and use tables, which indicates that Slovenia has an above-average share of raw material costs.²⁰⁸ This is partly a consequence of the structure of its economy, which relies more than on average in the EU on activities that involve extensive material consumption; moreover, the share of costs at the level of the majority of comparable industries is also above average, which also indicates less efficient raw material consumption. This lowers the competitiveness, particularly of export-oriented manufacturing, while it is also unfavourable in terms of the use of limited natural resources. The greatest gap with the EU average was in some more technology intensive industries.²⁰⁹ Extensive raw material consumption was also recorded in those sectors that are mainly oriented towards the domestic market, for example, the construction sector.

Figure 50: Domestic material consumption and resource productivity*, Slovenia


Source: SI-STAT data portal – The Environment, 2015; Eurostat Portal Page – Environment, 2015; calculations by IMAD.

Note: * Resource productivity is the relationship between GDP and the domestic material consumption (in EUR/PPS/kg), shown in the chart relative to the EU. Domestic consumption of materials is defined as the domestic extraction plus net imports of materials.

²⁰⁷ In the internationally comparison, the GDP is expressed in purchasing power standards.

²⁰⁸ According to Eurostat's latest internationally comparable data, in 2010 the share of raw materials in relation to the value of production was estimated at 8.4% in Slovenia and at 5.3% on average in the EU. The share of use of more broadly defined materials, which also takes into account intermediate products and final products for the purposes of intermediate consumption, was also above average (Slovenia: 29.5%; EU average: 20.4%).

²⁰⁹ Particularly in the manufacture of electrical equipment, the production of machinery and equipment, and the production of motor vehicles; compared to the EU, in all these industries, there are high costs of use of metals and non-metallic mineral products.

According to the majority of indicators, pollution from farming continued to decrease again in 2013.

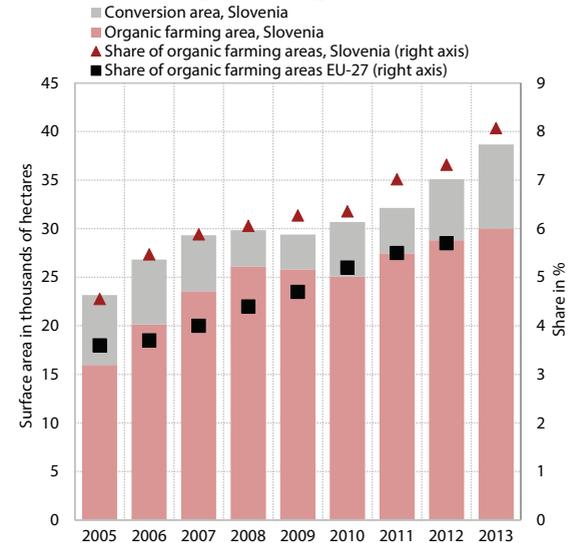
Slovenian agriculture is not ranked among the more intensive according to international comparisons.²¹⁰ In 2013, the consumption of plant nutrients in mineral fertilisers slightly increased but the total consumption of pesticides again decreased. Their consumption per unit of agricultural land area is decreasing in the long run and, compared to 2000 with regard to both indicators, it decreased by one third, with possibilities of a further decrease. Some studies show that the consumption of pesticides in technologically more appropriate food production could decrease in the next ten years by a further 10–15%. (Urek, G., et al., 2012) Special attention is paid to farming in water protection areas, as pesticide and fertiliser residues are the most important source of agricultural pollution of groundwater and, consequently, drinking water. The monitoring of drinking water quality in Slovenia shows that, in general, the situation is good and is further improving. However, some areas near the most intensive agriculture are still problematic. With regard to the consumption of drinking water in 2012, 5% of the Slovenian population were exposed to excessive pesticide concentrations and 0.2% of the population to excessive nitrate concentrations (Environmental Indicators in Slovenia, 2014). In 2013, the intensity of farming, measured by the average yield of the two most important crops and increasing in the long-run, decreased under the influence of severe summer drought (see Indicator 4.7). The impact of livestock production on the environment continued to decrease. The reformed agricultural policy pays a great deal of attention to the impact of farming on the environment, making financial aid conditional on the fulfilment of stringent commitments; consequently, further improvement of the situation in this field may be expected.

The area of organically cultivated land has again increased considerably, but it is still lagging behind the objectives.

In 2013, it increased by about one tenth in total; however, in converting from conventional to organic farming, the area increased for the second year in a row, by more than one third (also with the help of new supports for the conversion). Despite this growth, the long-term quantitative objectives for the development of organic farming, which were set high with regard to the initial favourable situation, will not be achieved. In 2013, the area of organically cultivated land stood at 8%; the objective set for 2015 is to reach 20%.²¹¹ In terms of environmental protection, it would be desirable to increase the area of organic farming, in particular in protected areas and river plains where groundwater resources and the impacts of intensive farming are most problematic; yet organic farming is least present there (Podmernik, Kerma, 2013). At the same time, the growth in the supply of domestic organic products on the

market is too slow with regard to the demand, so that the share of Slovenian organic food in total sales is only about 20%.²¹² Additionally, organic production is present mainly in animal husbandry, while there is a growing demand for organic fruit and vegetables. It is desirable that the growth is faster and in line with demand.

Figure 51: Share of organic farming areas, Slovenia and the EU



Source: Eurostat Portal Page – Statistics – Agriculture and Fisheries, 2015; SURS, 2015.

With the ongoing concern for both the ecological and social functions of forests, the economic utilisation of forests could be improved, in particularly as regards private forests.

Slovenia is one of the EU countries with the highest share of forests, also as a result of sustainable forest management. Extensive forest areas have a positive impact on the environment, as forests prevent soil erosion, provide protection against bad weather influences, improve the water supply, preserve biodiversity, and are large sinks for carbon dioxide, which is the main cause of the greenhouse effect. At the same time, forests are also a source of ecologically acceptable raw materials which have been relatively little exploited in Slovenia. Although the felling of trees is increasing in the long term, it was much lower than the permitted felling volume throughout the entire observation period. In 2013, 65% of the permitted felling was realised (in the previous year 68%), meaning 46% of the annual volume of wood increment (see Indicator 4.8)²¹³. A large part of the felling volumes is intended for export. The extensive and rapidly increasing export of unprocessed timber of higher quality represents unexploited potential to achieve higher employment and higher added value in further stages of the forest-wood chain. The exports of timber – the sawmill and veneer logs of the highest

²¹⁰ According to selected indicators of the Agriculture, Fishery and Forestry Statistics, Eurostat, 2013.

²¹¹ Objectives are set in the Action Plan for the Development of Organic Farming by 2015.

²¹² Final report of the working group on the monitoring of implementation of the Action Plan for the Development of Organic Agriculture by 2015, 2012.

²¹³ In state-owned forests trees are felled approximately in the volumes of the planned or permitted felling, whereas tree felling in privately-owned forests is considerably lagging behind.

quality accounting for the largest share – increased further in 2013, by 17%; imports grew slightly more, however, the lower quality timber accounting for their largest share. Domestic consumption of timber has decreased in the last few years, mainly as a result of a reduced volume of work in the construction industry, the bankruptcies of forest and timber companies, and an unfavourable size structure of sawmill plants, which have difficulty competing with modern large-scale plants in neighbouring countries. At the beginning of 2014, glaze ice caused considerable damage, but this is also an opportunity for higher employment in felling trees and wood harvesting as the rehabilitation of forests will take several years.

4.2 Balanced Regional Development

The regional development policy aims to ensure more balanced development among regions. Since 2008, the development gap among Slovenian regions has been steadily narrowing, which is largely due to the financial and economic crisis – a faster decreasing gap in the advantages of more developed regions – and, to a lesser extent, to the measures of the balanced regional development policy. Interregional disparities have been analysed on the basis of some key development indicators, such as GDP, disposable income, unemployment, gross wages and poverty. Policy measures for temporary developmental support have been envisaged for areas where the economic situation has deteriorated significantly. In Slovenia, there are already four such regions. European cohesion funds are of paramount importance for regional development, and a drawdown of these funds has recently been significantly accelerated.

Regional disparities in GDP per capita, which in Slovenia are relatively low, decreased slightly again in 2013 along with a reduction of economic activity. The relative dispersion of GDP per capita²¹⁴ has declined by 1.7 percentage points to 21.9% since its peak in 2009 (see Indicator 4.9). The ratio between the two regions with extreme values of per capita GDP is also relatively low²¹⁵ compared with other countries in the EU. The decline in interregional disparities in the observed period was not so much a result of the balanced regional development policy as of a larger contraction in activity in economically more developed regions that contributed the largest share of total GDP. With this, the regions diverged from the EU average and²¹⁶ returned back to the levels they reached in 2002 or earlier.

²¹⁴ The dispersion of regional GDP per capita is measured by the sum of absolute differences between regional and national GDP per capita, weighted by the share of population.

²¹⁵ Over the past three years, this applies to the Osrednjeslovenska and Zasavska regions.

²¹⁶ The Osrednjeslovenska region reduced its advantage over the EU average.

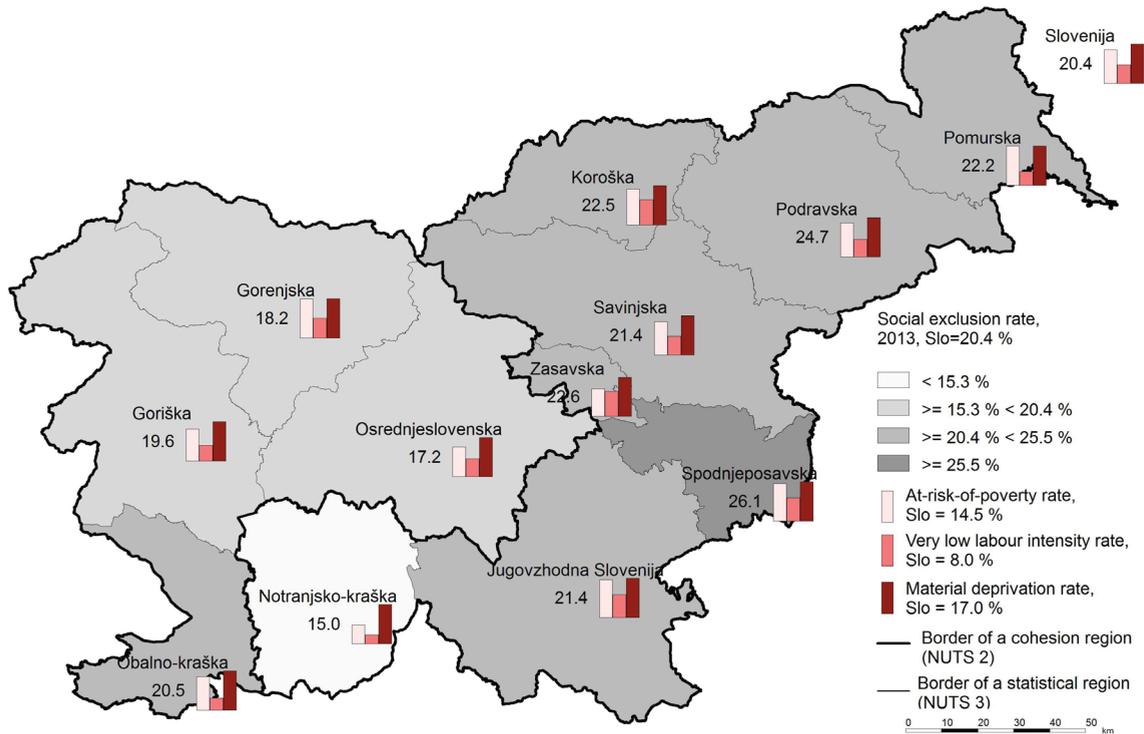
Regional differences in net disposable income per capita also decreased, which was attributable not only to the reduction of differences in wages but also to the increased reduction in social transfers in the most developed regions. In 2012 (the latest available data), the relative dispersion of the disposable income per capita²¹⁷ decreased by 0.8 percentage points relative to the previous year, and by 2.2 percentage points (to 4.5%) relative to 2008. The dynamics of growth in compensation to employees have a major impact on regional disparities in net disposable income, whereas the redistribution of income (e.g. through social transfers) has a favourable impact on the economic situation of households, thus alleviating the reduction of their disposable income. In 2012, the reduction of primary income after 2008 in most statistical regions was also accompanied with a decrease in social transfers. As a result, the disposable income per capita decreased in all regions that year, except in the Pomurska region. Over the prolonged period of the crisis, the Pomurska region recorded the highest increase in disposable income, whereas the Osrednjeslovenska region saw the largest decrease.

In 2014, the increase in registered unemployment slowed in most regions, while regional disparities declined; however, in all regions the greatest burden of unemployment is borne by the young. Since the onset of the crisis, a higher increase in total unemployment has been recorded in the regions of Vzhodna Slovenija (by 1.1 percentage points to 11.3%), where it was previously considerably lower (4.8% in 2008), which, consequently, decreased the differences between regions (see Indicator 4.10). In 2014, the registered unemployment rate was lowest in the Gorenjska region (9.5%) and highest in the Pomurska region (18.4%). A slowdown in the increase of the registered unemployment in most regions in 2014 does not apply to the unemployment rate of young people. At least one fifth of all unemployed are younger than 30, in the Zasavska and Koroška regions as much as 30%. The share of young people among the unemployed and the registered unemployment rate within this age group have been increasing in all regions, in particular in the Zasavska, Osrednjeslovenska, Obalno-kraška and Goriška regions. The share of first-time job seekers totals at least 15% in the majority of regions. The unemployed persons with a tertiary education level who are, often, also first job seekers account for at least the same share.

During the crisis, regional differences in gross wages decreased owing to the rise in the minimum wage and wage reductions in some activities with the highest wages. Gross wage inequalities have been decreasing in all regions since 2009; on average, more in the regions of Zahodna Slovenija. This is mainly attributable to a considerable minimum wage rise in 2010, which decreased the inequality of economically

²¹⁷ This means a total income received that is available for the consumption or savings.

Map 1: Social exclusion, 2013



Source: SURS; cartography by IMAD.

weaker regions where there are more employees with lower wages. In addition, wage growth came to halt in this period or even decreased in some sectors with the highest wages (financial and insurance activities, public service activities). Wage inequality varies among the regions. It was still the lowest in the Koroška region and the highest in the Osrednjeslovenska region, but it also declined in this region. The Osrednjeslovenska region also recorded the largest differences between wages, as the gross wages of the 9th decile were 3.8 times higher than the gross wages of the 1st decile; the differences between wages remained the smallest in the Koroška region (by a factor of 2.8).

The persistent economic crisis, unemployment growth and reduction in income have increased levels of social exclusion in most regions. In 2013, the at-risk-of-poverty and material deprivation rates were the highest in the Spodnjeposavska region, which also recorded a highly above-average degree of very low labour intensity. In this region, more than a quarter of the population was exposed to the risk of poverty, about 3 percentage points more than in the previous year, or 5 percentage points more than in 2008. The Pomurska region, which is at the bottom of the list of statistical regions according to a number of indicators, is not the last on this indicator. It is followed by four regions, the Spodnjeposavska, Podravska, Zasavska and Koroška. In the Pomurska region, only the at-risk-of-poverty rate is high, while the degree of very low labour intensity and the material deprivation rate are not, which is largely

attributable to the increased presence of farming and increased hiring in the neighbouring countries. Among the four regions with below-average social exclusion, three were in the cohesion region of Zahodna Slovenija (the Osrednjeslovenska, Gorenjska and Goriška regions). The lowest social exclusion rate was recorded by the Notranjsko-kraška region, 15%, which is around 4 percentage points more than in 2008.

Also in more developed countries, a growing percentage of the population is exposed to social exclusion, which narrows regional disparities. In 2013, the measure of absolute dispersion for the risk of social exclusion amounted to 2.5%. Social exclusion declined by a good 2 percentage points relative to 2008, which is similar to other indicators for measuring social exclusion, with the exception of the degree of very low labour intensity. The ratio between the two regions with extreme values has also been falling. In 2008, Pomurska was 2-5 times more exposed to the social-exclusion risk than the Notranjsko-kraška region, whereas in 2013, the Spodnjeposavska region was only 1.7 times more exposed than the Notranjsko-kraška region.

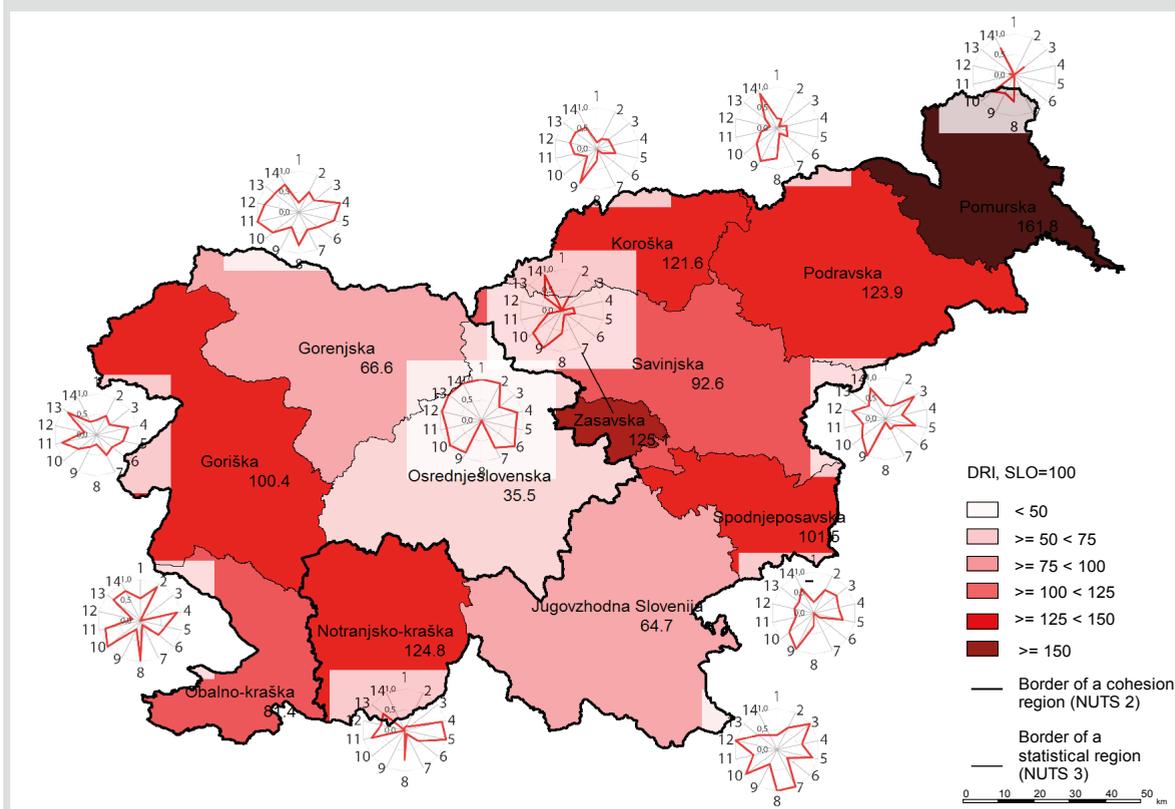
Temporary measures of developmental support, which are included in the endogenous regional policy measures²¹⁸, were in 2014 carried out already

²¹⁸ Regional development policy is implemented through endogenous regional policy measures and by coordinating development policies which have an important impact on

Box 4: Development risk index, 2014–2020

The development risk index (DRI) is an aggregate indicator to classify regions according to the level of development and includes the indicators of development, risks and development opportunities. It has been introduced in the regional policy as a tool for monitoring the regional development in Slovenia in the new 2014–2020 programming period. In 2014, rules were adopted that specify indicators and the calculation method, and classify the regions according to the development levels. The DRI consists of a set of 14 indicators to ensure a balanced coverage of the aspects of development defined in the applicable Slovenia's Development Strategy and the Europe 2020 strategy. The selection of indicators is based on their availability at the annual and regional levels, relevance in terms of content, and their quality. These criteria are the most limiting factor in the selection of indicators, since data at the regional level are not available for each indicator that would be useful to include. The calculation method takes into account a three-year average of the latest available data or, sometimes, the most recent available data.

According to the DRI, the Pomurska region has the highest development risk, whereas the Osrednjeslovenska has the lowest development risk. The highest value of the aggregate index in the Pomurska region is mainly the result of unfavourable indicators of development and some indicators of risks or development potentials (i.e. the ageing risk and records above-average values in all indicators but one). The Osrednjeslovenska Region has the lowest value of the DRI and, thus, the lowest development risk, and records above-average values in all indicators but one. The DRI value of the Goriška Region comes closest to the Slovenian average. This region has somewhat less favourable indicators of risks related to the environment, and somewhat more favourable indicators of development.

Map 2: Development risk index (DRI), 2014–2020


1 Gross domestic product per capita	6 % of population with tertiary education (age 25-64)	11 Registered unemployment rate
2 Gross value added per employee	7 % of gross domestic expenditure on R&D in GDP	12 Ageing Index
3 % of gross fixed capital formation in GDP	8 % of at least secondary wastewater treatment	13 Disposable income per capita
4 Registered unemployment rate (aged 15-29)	9 % of surface of protected areas	14 Population density - km ² /inhabitant
5 Employment rate (age 20-64)	10 % of estimated damage caused by natural disasters in GDP	

Source: SMARS, SURS, ARSO, URSZR, MGRT, DRI Upravljanje investicij d.o.o.; calculations and cartography IMAD.

Note: Diamond charts show standardised values of individual indicators that make up the DRI and range from 0 (worst value) to 1 (best value). According to the DRI, the Pomurska region is the worst with a number of indicators taking value 0, whereas in the Osrednjeslovenska region, which is the best, the indicators with value 1 prevail.

in one third of the regions. These measures, aimed to contribute to a narrowing of the development gap, were implemented in the Pomurje, Pokolpje and Zasavje regions, and in Maribor and its broader surroundings. The interim evaluations made for the Pomurje and Pokolpje regions²¹⁹ showed that both programmes lack synergies between goals, measures and issues, whereas in terms of efficiency, there is a risk that the programmes will not be delivered according to the expected schedule mainly because of the uncertainty of budgetary funds and deadlines which are too tight for the implementation of the activities. The system of monitoring and supervision also lacks efficiency and represents an administrative burden. The activities under the *Pomurje Programme* helped to consolidate and amend other established policies and programmes. In the past three years, as many as 777 new jobs were created and, despite the fact that business operations of smaller enterprises improved in particular, it was not possible to establish the connection between the approved funds and improved business operations of the enterprises. The *Pokolpje Programme* is being implemented, but improvement has only been recorded with regard to some economic indicators in the region and not with regard to demographic and social indicators. The measures insufficiently take into account the development potentials of the Pokolpje region and other issues relevant for the region.²²⁰ Infrastructure measures are being slightly better implemented, but at the present stage, they do not yet have any direct impact on employment, valued added and economic restructuring of the region, since local providers do participate in the implementation.

In the severe conditions of the economic crisis, European cohesion policy funds were very important

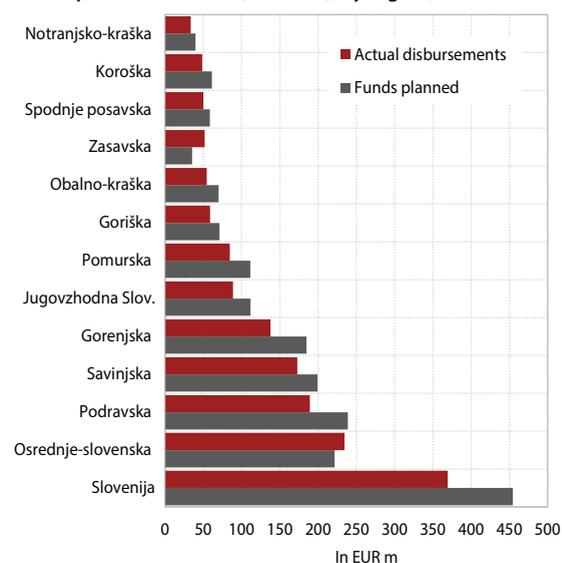
regional development on the basis of territorial development dialogue. In accordance with the Promotion of Balanced Regional Development Act (Uradni list RS, no. 20/11) and the Decree on the Implementation of Endogenous Regional Policy Measures (Uradni list RS, nos. 24/11 and 16/13), the Government may adopt such measures for areas in which, owing to the internal structural problems or external impacts, the economic conditions may deteriorate to such an extent that the level of registered unemployment rate reaches the critical limit of 17%, with such level being established for three consecutive months at the level of administrative units.

²¹⁹ Vmesno vrednotenje Programa spodbujanje konkurenčnosti in ukrepi razvojne podpore Pokolpju v obdobju 2011–2016 (2014) (Interim evaluation of the programme to foster the competitiveness and measures of developmental assistance to Pokolpje region for the period 2011–2016)(2014); Vmesno vrednotenje Programa spodbujanja konkurenčnosti Pomurske regije v obdobju 2010–2015 (2014) (Interim evaluation of the programme to foster the competitiveness in the Pomurska region for the period 2010–2015 (2014).

²²⁰ The evaluation only applies to measures under the Pokolpje Programme which does not include other government development policies that are being implemented in the Pokolpje Region (e.g. active employment policy measures, European project "Za Pokolpje – aktivno in dejavno!" ("For Pokolpje - active and active!"), partly financed from the European Social Fund).

for balanced development. In the programming period 2007–2014, EUR 1,840 m (confirmed operations and signed contracts) was available for the Operational Programme for Strengthening Regional Development Potentials (OP SRDP). The beneficiaries were paid EUR 1,645 m from the state budget, while EUR 1,510 m was reimbursed to the budget by the EU. One quarter of the actually paid funds was intended for projects implemented at the national level, one third for the projects from the Podravska and Osrednjeslovenska regions, while the projects from other regions received a relatively low amount – the least went to the Zasavska region. The absorption of EU funds for the OP SRDP is in line with expectations. In the new programming period 2014–2020, no separate operational programmes have been planned for absorption in the area of regional development, since regional development is a horizontal objective included in the Operational Programme for the Implementation of the EU Cohesion Policy. More balanced regional development should be encouraged by each sectoral or regional/local activity.

Figure 52: Planned and actually disbursed EU funds for the Operational Programme for Strengthening Regional Development Potentials (OP SRDP), by region, 2007–2013



Source: Ministry of Economic Development and Technology, 2015.

4.3 Sustainable spatial development

Awareness of the significance of the spatial aspect of development has been increasing, but an efficient system for its planning and monitoring has yet to be put in place. Slovenia's spatial planning system is complicated and inefficient, which shows in the difficulty of coordinating inter-sectoral spatial planning and in lengthy procedures. Spatial trends show a deviation from the established guidelines in the Spatial Development Strategy of Slovenia, because certain challenges that are relevant today (such as climate and demographic changes, energy supply and

globalisation) were not yet taken into account when this strategic document was drawn up more than a decade ago.

Spatial development policy lacks efficiency, but the process of a comprehensive systemic reform continues.

After 2004, the existing system of spatial planning was marked by numerous changes primarily, which were aimed at procedural aspects, but also had a negative impact on the environment and broader development. The main reason for the inefficient system, which is reflected in lengthy procedures, is the so-called sectorisation of space. Sector policies are equivalent in exercising their visions in space and, in the implementation phases, they also compete with each other for the same space; therefore, mutual coordination is difficult or even impossible. This inefficiency is also due to the insufficient implementation of spatial planning regulations. The process of comprehensive reform of umbrella and sector legislation began in 2013.²²¹ Its aim is to put into place mechanisms (content-related, procedural and organisational) that will facilitate the actual coordination of the developmental needs and interests in the area. The change in the system will be carried out in two phases: the adoption of amendments to the existing legislation in 2015, followed by its overall reform by 2018. An important segment of the reform is also the improvement and integration of the information system of spatial planning and building (e-Space, e-Construction, e-Plan).

A lack of coordination of the planned spatial activities often reflects the absence of prior strategic planning activities in the municipalities and a disregard of natural factors

The national spatial plans and municipal spatial plans are being drafted at a slow pace. Since 2007, when the Spatial Planning Act entered into force, 113 national spatial plans have been adopted (5 in 2014). Despite the adoption of the Act Regulating the Siting of Spatial Arrangements of National Significance (2010), which streamlined and accelerated the procedures, more than half of national spatial plans have still not been implemented.²²² The most burning issue is associated with the non-implementation and operation of spatial arrangements under national spatial plans in the field of transport infrastructure, which could substantially contribute to boosting some economic activities. By 2014, new municipal spatial plans were adopted by 106 municipalities, whereas around 80% of the them are envisaged to be adopted by the end of 2015. About one third of the municipalities that have already adopted municipal spatial plans are carrying out procedures for amending their spatial planning documents. Spatial planning in municipalities often takes place in the

²²¹ Izhodišča normativnih sprememb na področju urejanja prostora in graditve objektov – predlog za obravnavo – novo gradivo št. 2 (Bases for regulatory changes in the area of spatial planning and construction of buildings – Proposal for discussion – New material, no. 2). Ministry of Infrastructure and Spatial Planning. Government materials of 13 November 2013.

²²² More about reasons in the Development Report 2014, Note no. 227, p. 83.

absence of prior strategic planning, which leads to a lack of coordination of the planned spatial activities and, consequently to changes in already adopted spatial planning documents.²²³ The importance of strategic and operational planning while taking into account natural factors is often only acknowledged in the event of natural disasters (floods, landslides, droughts).²²⁴

Lengthy procedures for the registration of real estate and for obtaining building permits and documentation required for the commencement of construction activities remain an important obstacle to the ease of doing business in Slovenia.

As regards the registration of real estate, the major contribution was the setting up the real estate register and the digitalisation of the land register, which, in addition to the simplification of registration, also increased the safety of individuals and businesses in real estate. As regards obtaining building permits, the amendments to the Construction Act have reduced time limits for issuing project conditions and adopted simplified procedures related to required approvals. In 2013, project conditions were no longer required from water and sewage service providers. New spatial and construction legislation,²²⁵ which is being drawn up, should introduce a number of new solutions (e.g. it should shorten the procedures for the spatial document drafting and obtaining building permits and improve their transparency, introduce single entry points, and upgrade spatial information system). A spatial information system (e-Construction) is also being set up. Despite the envisaged measures, 2014 saw no major changes which would have a significant impact on improving competitiveness; and the measures were only partly implemented. The World Bank has established that in Slovenia lengthy procedures are still an issue, in particular with regard to public services (e.g. obtaining

²²³ More about the problems encountered in the preparation of municipal spatial plans in the Development Report 2014, Note no. 228, p. 84.

²²⁴ The analysis of building land by detailed land use in municipalities in 2014 (includes 19 municipalities with valid municipal spatial plans or municipal spatial order) revealed that approximately 1800 ha of building land are situated within the flood prone areas in spite of the prohibition of settlement development in flood-prone areas. Taking into account its detailed land uses, almost half of the building land is located in residential areas, a little less than one-fifth in the area of central activities and around one-tenth in the transport surface areas. The reasons lie in the present situation (works constructed in the past), illegally constructed buildings, buildings constructed without prior implementation of the envisaged flood-protection measures, a lack of expert groundwork (maps of flood-prone zones), and changed hydrological conditions. About one-tenth of the land is defined as green areas, which in terms of the protection against floods is more acceptable, in particular, if green areas are areas of anticipated flooding.

²²⁵ Enotni dokument za zagotovitev boljšega zakonodajnega in poslovnega okolja ter dvig konkurenčnosti (Single Document for Ensuring Better Regulatory and Business Environment and Increasing Competitiveness.), October 2013, and *Drugo poročilo o realizaciji ukrepov iz Enotnega dokumenta* (Second report on the realisation of measures in the Single document), July 2014.

permits at administrative units and registration of construction projects in official documentation).²²⁶ In this area, several measures have been adopted in recent years and, as a result, Slovenia's ranking in the World Bank's "Doing Business" research study improved.²²⁷ According to this study, a company in Slovenia needs 110 days to register real estate (EU: 26 days), while the procedure for obtaining building permits and documents required for construction lasts 213 days²²⁸ (EU: 175 days). According to the data from administrative statistics, the average time in 2013 for obtaining building permits was 21 days, whereas the law provides for a statutory time limit of up to 60 days for issuing the said permit (the Construction Act, 2014). The number of procedures and related costs are below the EU average.

Spatial development is substantially influenced by a mismatch between the locations of jobs and housing.

Spatial development trends in Slovenia are characterised by the diversity of settlement structures, the quality of the environment and good transport connections between rural areas and regional centres. These trends are also reflected through the dispersed construction of buildings, sub-urbanisation, increasing labour migration and personal transport, the neglected public passenger road and rail transport, the overgrowing of agricultural land and the reduction of agricultural areas. The mismatch between the location of jobs and housing has a significant impact on spatial development. In 2014, the number of jobs increased, on average, which applies to the regions of Zahodna Slovenija, the Savinjska region, and the Podravska region. Job concentration in the Osrednjeslovenska region increased again: more than one quarter of the population lives in the Osrednjeslovenska region, which is also where more than one third of all jobs are located. The population concentration index²²⁹ is 20.9%. It has been increasing since 2008, but is still among the lowest in the EU. Slightly higher (25.9%) is the job concentration

index, which is also on the rise.²³⁰ Job opportunities also influence migration movements.²³¹ Jobs and services of public interest are mainly concentrated in urban areas, but demographically, urban settlements are stagnating.²³² A wide motorway network, on the one hand, and poorly developed and under-used public transport, on the other, have a major impact on the utilisation of space. Suburbanisation has been increasing, being especially pronounced along the motorway cross and in the vicinity of major urban centres, which are well connected with road infrastructure. A shortage of available rental housing results in a low housing mobility with the housing issue being solved through self-managed construction.

In 2014, residential property prices again decreased and the sale of residential real estate property increased after three years of decline.

The prices²³³ of residential real estate property were one quarter lower since the peak in 2008. Given the relatively low effective interest rates for housing loans, a reduced degree of uncertainty after the stabilisation of the banking system, the recovery of labour market conditions and, as a result, improved consumer confidence, and more items on offer at lower prices increased the sales of residential real estate property by around one quarter. The sales of existing residential real estate properties increased by around one third and the sales of new dwellings increased by around one tenth. There is also an increasing share of the sales of the new real estate properties from bankruptcy proceedings. Since the construction of new residential properties is still at low levels,²³⁴ their scarcity may be noticed at in some places. The situation may be partly solved through the sales or rentals of empty residential units. The increase in the number of rental flats – their share in Slovenia is relatively low – will also be one of the orientations of the National Housing Programme 2015–2020, which is currently being drafted.

²²⁶ It also applies to other EU Member States that lengthy procedures are particularly in relation to official records. In Slovenia, lengthy procedures also result from difficulties in ensuring compliance with spatial planning documents, the drafting of which is the responsibility of local communities, and in obtaining consent, which is a prerequisite for the issue of building permits.

²²⁷ In both areas, Slovenia's ranking in Doing Business 2015 is 90th among 189 countries, whereas among the EU Member States (28) Slovenia ranks 22nd with regard to registering property and 15th with regard to obtaining building permits.

²²⁸ The World Bank's Doing Business research takes into account the obtaining of construction documentation and official permits, which are required to start the construction of a typical warehouse (For more on the methodology see Doing Business, 2015) The procedure includes the steps which are essential for the issuing of building permit by administrative unit and for which the law does not provide.

²²⁹ The population and job concentration indices are calculated by the following equation: $\left[\frac{\sum_{i=1}^N y_i}{\sum_{i=1}^N y_i - a_i/2} \right] \cdot 100$, where y_i represents the share of jobs in region i in the country, a_i represents the share of the surface area of region i in the country, and N represents the number of regions.

²³⁰ Jobs in three regions account for a little less than a half of all jobs in Slovenia (the Osrednjeslovenska region: 34%, the Podravska region: 14%, the Savinjska region: 12%). The highest index of the labour migration has been recorded in the Osrednjeslovenska region, which is why this region is considered a labour force region (see Note no. 221 in the Development Report 2014, p. 81). Jobs in the region have increased the number of employed persons by one-quarter, whereas all other regions are falling behind. Consequently, daily migrations to the Osrednjeslovenska region have been recorded.

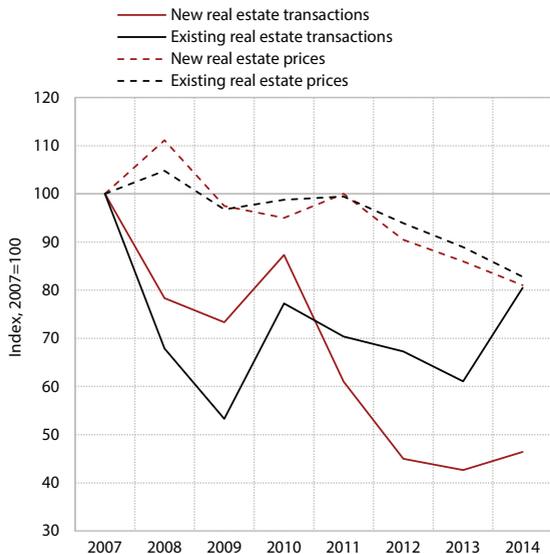
²³¹ In 2013, the Osrednjeslovenska region had the second highest inter-regional net migration rate – a higher rate is only recorded in the Obalno-kraška region, whereas in other regions the net migration rate was negative, with the lowest one in the Zasavska region where the unemployment rate is also high.

²³² The number of inhabitants in urban settlements fell by 5.1% in the 2003–2013 period along with a slight decrease in the level of urbanisation.

²³³ Calculated on the basis of residential real estate property indices, SURS, 2015.

²³⁴ The number of dwelling constructions begun in 2013 was somewhat higher than that in 2012 but only with regard to building permits issued to natural persons for mostly single-dwelling houses. Building permits issued in 2014 show a further decrease in construction.

Figure 53: Transactions and prices of new and existing residential real estate properties, Slovenia



Source: SURS, 2014; calculations by IMAD.

4.4 Challenges

Despite a slowdown in environmental pollution, mainly as a result of lower economic activity, and a decline in regional disparities, the challenge of ensuring sustained improvement while reviving economic growth remains.

Under the impact of the economic crisis, environmental development trends were quite favourable and, due to a faster deterioration of the situation in more developed regions, regional development was more balanced. Despite the improvement, the absence of appropriate structural measures and their effective implementation will make it more difficult to achieve the set targets while reviving economic activity. Spatial development trends are less favourable since the spatial potentials and issues, given the absence of a broader strategic planning, are not adequately exploited or addressed in the development documents.

The objectives in the key areas of environmental development are well framed; the challenge, however, is their implementation.

The economic crisis eased the burden on the environment but, as regards the intensity of pollution, i.e. emissions per unit of GDP, the results are less encouraging. In the past few years, the amount of GHG emissions has decreased, while the share of RES has increased. Progress in terms of emission and energy intensity has nevertheless been quite modest. In Slovenia, the consumption of fossil fuels in the energy sector, households, industry and transport contributes more than three thirds of all GHG emissions. For climate change mitigation, it is therefore essential to reduce the consumption of fossil fuels, increase the share of RES and improve energy efficiency. All economic sectors will require further improvements, especially with regard to energy saving, electricity production and sustainable

mobility. Final energy consumption is significantly impacted by measures of general development policy, especially tax policy, sustainable production and consumption policy and sustainable transport policy; consequently, these measures must be given special attention. A special challenge and priority is to improve the competitiveness of railway transport and, from the environmental aspect, decrease the volume of road freight transport. The development in the area of passenger transport is also not favourable, which is reflected in the development of motorisation, changes in settlement patterns, and a decreasing competitiveness of the public passenger transport.

Among the challenges in achieving more balanced regional development, attention should be paid to the need for a greater compatibility between the regional planning and earmarked budgetary funds, as well as to improving the synergy of all sectoral measures in the regions.

The promotion of regional development through a special act and programmes for temporary development support measures should be in line with the budgetary planning. Its short-term view does not allow for a systematic implementation of long-term programmes and projects that are long-term oriented, but it only enables the implementation of temporary measures adopted in the programmes. Furthermore, the cohesion policy funds, which in the new programming period will be dedicated to regional development and drawn down on the basis of a horizontal objective within only one operational programme, should be used in such a manner that the activities of sectoral policies support regional development. In this way, their synergistic effect will be greater and the utilisation of cohesion funds more efficient.

To address the spatial development issues, an appropriate strategic framework for spatial and broader development will be required, whereas the decisions made must be in line with the interests of all individual bodies responsible for spatial planning.

Spatial trends show a deviation from the development outlined in the Spatial Planning Strategy of Slovenia, which has been in force for more than a decade. This strategy did not yet address certain contemporary challenges, such as climate and demographic changes, energy supply and globalisation; hence, it will be necessary to consider its upgrading and the inclusion of these challenges in the document. A modern long-term strategic framework for spatial development must be drawn up, which should be appropriately action oriented. The efficiency of the spatial planning system must be increased by clearly defining the objectives and priorities of development. In this way, the coordination, which must be carried out on time, will rule out partial interests of individual but equally important bodies responsible for spatial planning. This will contribute to the better welfare of inhabitants and improve their quality of life.

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Appendix: Indicators of Slovenia's development

1 Macroeconomic framework

Macroeconomic stability and economic growth

- 1.1 Real GDP growth
- 1.2 Inflation
- 1.3 Balance of payments
- 1.4 Gross external debt

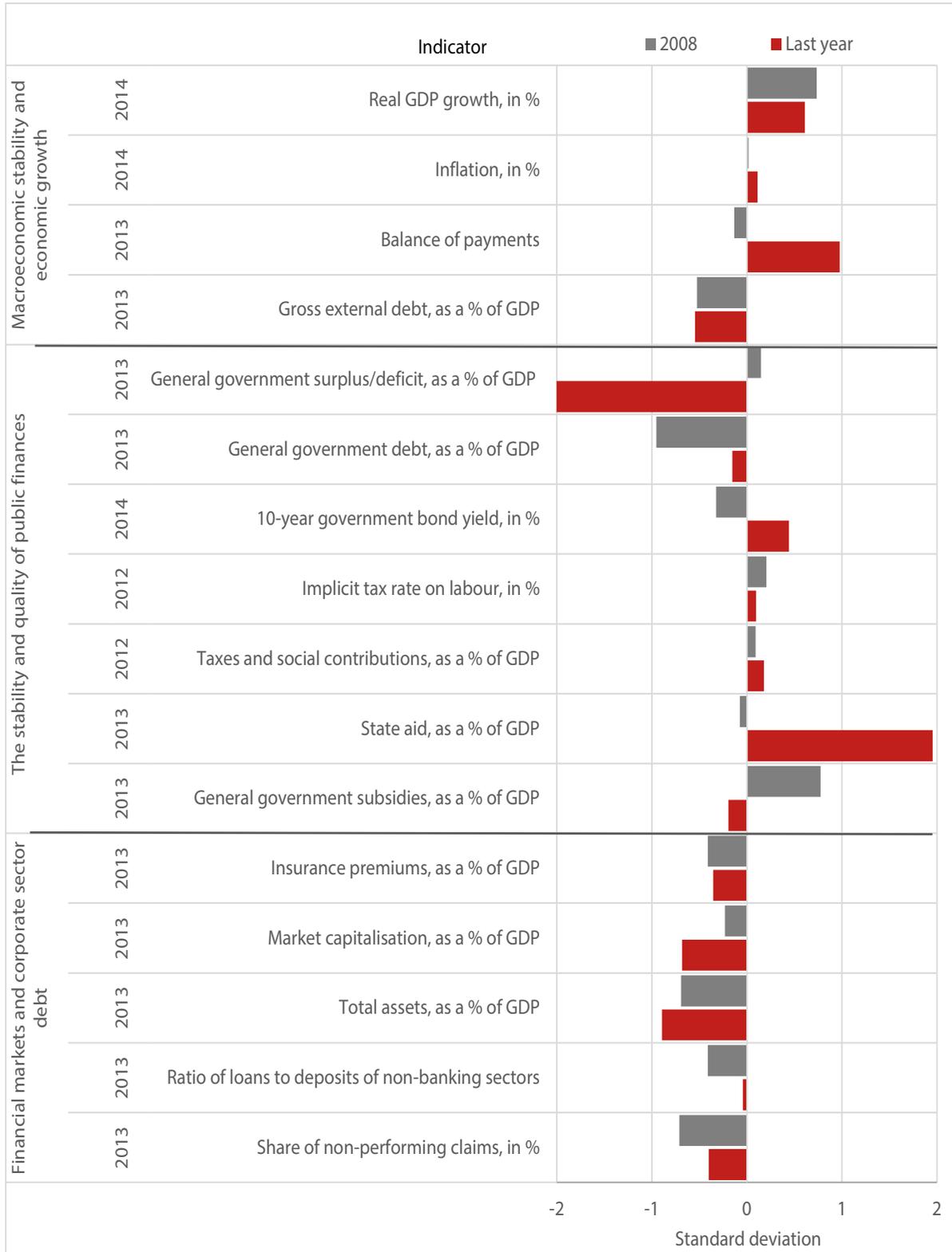
The stability and quality of public finances

- 1.5 General government balance
- 1.6 General government debt
- 1.7 Yield on 10-year government bonds
- 1.8 The economic structure of taxes and contributions
- 1.9 Taxes and social security contributions
- 1.10 General government expenditure by function
- 1.11 State aid
- 1.12 General government subsidies

Financial markets and corporate sector debt

- 1.13 Development of the financial sector
- 1.14 Loan-to-deposit ratio
- 1.15 Non-performing claims
- 1.16 Corporate indebtedness

Review of indicators – Macroeconomic framework



Source: Calculations by IMAD.

Note: The table shows Slovenia's position relative to the unweighted arithmetic average of EU Member States. It is calculated with regard to the set of countries for which data for individual indicators were available; Cyprus, Malta, Luxembourg and Croatia were excluded from the analysis for lack of data. The data in the table are for 2008 and the last year for which data for EU Member States were available (the last year is indicated in the table). A positive indicator value means above-average development relative to the EU, while a negative value indicates that Slovenia is lagging behind the EU average regarding that indicator.

1.1 Real GDP growth

After two years of decline, in 2014 GDP recorded the largest increase since the beginning of the crisis (2.6%). Export growth strengthened significantly last year, reflecting growing foreign demand, improved cost competitiveness in the tradable sector and certain one-off factors. Exports thus remained the main driver of economic recovery, their growth since the beginning of 2013 being one of the strongest in the EU. Another significant factor in last year's GDP growth was investment, particularly investment in public infrastructure related to the accelerated drawing of EU funds before the expiry of the previous financial perspective. Private investment in machinery and equipment declined on average in 2014, but positive trends started to be seen during the year. With increased employment and average gross earnings, household disposable income rose last year after two years of substantial decline, which was reflected in a modest rise in private consumption; consumer confidence also improved. Government consumption fell again as a result of the ongoing fiscal consolidation. In 2014, economic growth also strengthened at the

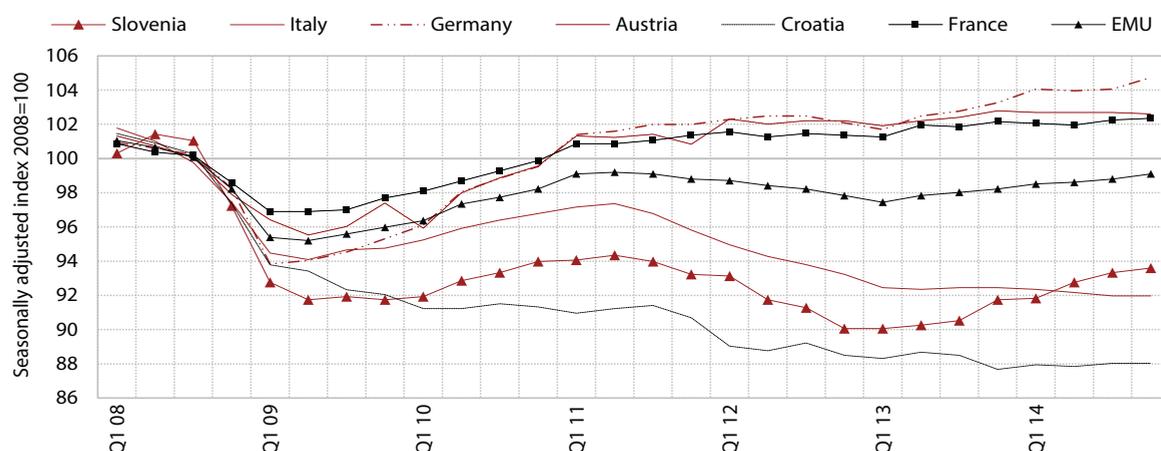
EU level (1.4%), with domestic consumption making a greater contribution than in previous years. Despite the favourable developments in 2014, Slovenia remains in the group of countries where economic activity declined the most during the crisis. In 2014, the average GDP in the EU was similar to that in 2008. Slovenia's gap with the pre-crisis level was 7.1%, wider gaps being recorded only by Greece, Croatia, Cyprus and Italy.

Table: Contribution of individual expenditure components to GDP growth, Slovenia

	2005	2007	2008	2009	2010	2011	2012	2013	2014
Real GDP growth, in %	4.0	6.9	3.3	-7.8	1.2	0.6	-2.6	-1.0	2.6
Contribution to GDP growth, in percentage points									
External trade balance (export–import of goods and services)	2.1	-2.0	0.2	1.9	2.1	1.4	2.9	1.0	1.9
- Exports of goods and services	6.2	8.8	2.8	-11.0	5.8	4.5	0.2	1.9	4.7
- Imports of goods and services	4.1	10.9	2.7	-12.8	3.7	3.2	-2.7	1.0	2.8
Total domestic consumption	1.9	9.0	3.1	-9.7	-0.9	-0.7	-5.5	-2.0	0.8
- Private consumption	1.2	3.3	1.2	0.5	0.5	-0.1	-1.6	-2.2	0.2
- Government consumption	0.5	0.4	0.9	0.4	0.0	-0.3	-0.3	-0.2	-0.1
- Gross fixed capital formation	0.9	3.3	2.0	-6.5	-3.3	-1.0	-1.8	0.4	0.9
- Changes in inventories	-0.7	2.0	-0.9	-4.0	1.9	0.6	-1.8	0.1	-0.3

Source: SURS.

Figure: GDP in Slovenia and its main trading partners



Source: Eurostat Portal Page – National Accounts; calculations by IMAD.

1.2 Inflation

Amid a decline in commodity prices on global markets, inflation in 2014 was the lowest since independence (0.2%) in spite of the weak recovery in domestic demand.

Last year's price movements were significantly impacted by a decline in global commodity prices (oil prices¹ in particular). This was reflected particularly in the year-on-year fall in energy prices. Food prices were also slightly lower (unprocessed food in particular). In contrast to the previous five years, when food and energy prices contributed 1.4 percentage points to annual inflation, on average, their total contribution in 2014 was negative (-0.8 percentage points). Another factor in the low inflation was a further decline in prices of durables, whose contribution (-0.2 percentage points) remained at the 3-year average amid the still weak domestic

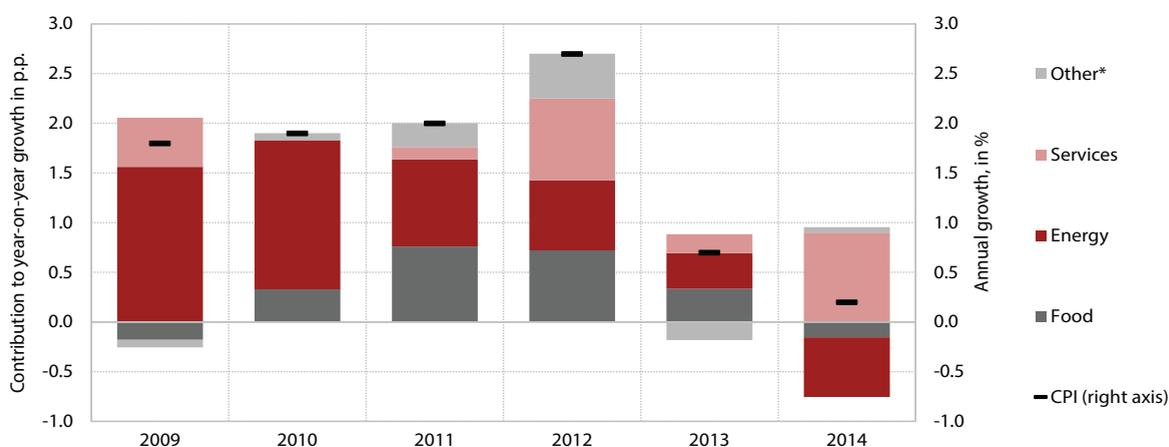
demand. Among the groups of prices that rose in 2014, service prices stood out. Their contribution increased significantly relative to 2013 (by 0.7 percentage points) on account of a one-off factor at the end of the year.² Price growth was also influenced by tax policy measures, which contributed around 0.4 percentage points to inflation in 2014 (0.8 percentage points in 2013). Similar price dynamics – which also triggered further action from the ECB – also marked the euro area, which recorded -0.2% deflation in December 2014.

Table: Annual price growth in Slovenia

	Contribution to year-on-year inflation, in percentage points										
	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014	
Food	1.2	0.1	2.1	0.6	-0.2	0.3	0.8	0.7	0.3	-0.2	
Processed food	0.9	-0.1	1.3	0.6	0.0	0.0	0.7	0.1	0.2	-0.1	
Unprocessed food	0.3	0.3	0.8	0.0	-0.2	0.3	0.1	0.6	0.2	-0.1	
Energy	2.9	1.3	1.2	-0.9	1.6	1.5	0.9	0.7	0.4	-0.6	
Services	2.4	0.9	1.5	1.2	0.5	0.0	0.1	0.8	0.2	0.9	
Other*	2.4	0.0	0.7	1.2	-0.1	0.1	0.2	0.5	-0.2	0.1	
Tax impact	0.6	-0.3	-0.2	0.2	1.0	0.3	0.2	0.9	0.8	0.4	
Growth, in %											
Administered prices, in %	16.0	7.7	7.2	-7.8	12.6	11.5	7.1	4.6	-0.1	-2.6	
CPI excluding energy and unprocessed food, in %	7.2	1.0	4.5	3.7	0.5	0.1	1.3	1.7	0.2	1.0	
CPI, in %	8.9	2.3	5.6	2.1	1.8	1.9	2.0	2.7	0.7	0.2	
EU – HICP, in %	2.2	2.1	3.2	2.2	1.5	2.7	3.0	2.3	1.0	-0.1	

Source: SURS, Ministry of Economic Development and Technology; calculations by IMAD. Note: * Clothing, footwear, furniture, passenger cars, alcoholic beverages, tobacco, etc.

Figure: Contributions to year-on-year growth in consumer prices in Slovenia



Source: SURS; calculations by IMAD.

Note: * Clothing, footwear, furniture, passenger cars, alcoholic beverages, tobacco, etc.

¹ In 2014, oil prices in euros were 37% lower than in 2013.

² A rise in supplementary health insurance premiums, which contributed 0.4 percentage points to inflation in 2014.

1.3 Balance of payments

The current account of the balance of payments of Slovenia, which recorded a significant deficit at the beginning of the crisis, moved into a large surplus, which rose for the fourth year in a row particularly due to changes in the balance of trade in goods. The current account, which remained close to balanced in the first three years of the economic crisis, has been in surplus since 2011. In 2012 and 2013 as a whole, the surplus widened by almost EUR 2 bn, while last year its growth eased and it reached EUR 2,150 m (5.8% of GDP). Amid significantly stronger growth in exports than imports, the wide surplus in current transactions mainly reflects net savings by the private sector. On the other hand, the deficit in current transactions of the government sector was up again last year owing to a significant increase in expenditure on interest payments. The surplus in the balance of trade in goods, which has contributed the most to changes in the total balance since the beginning of the crisis, rose further in 2014, by EUR 544 m to EUR

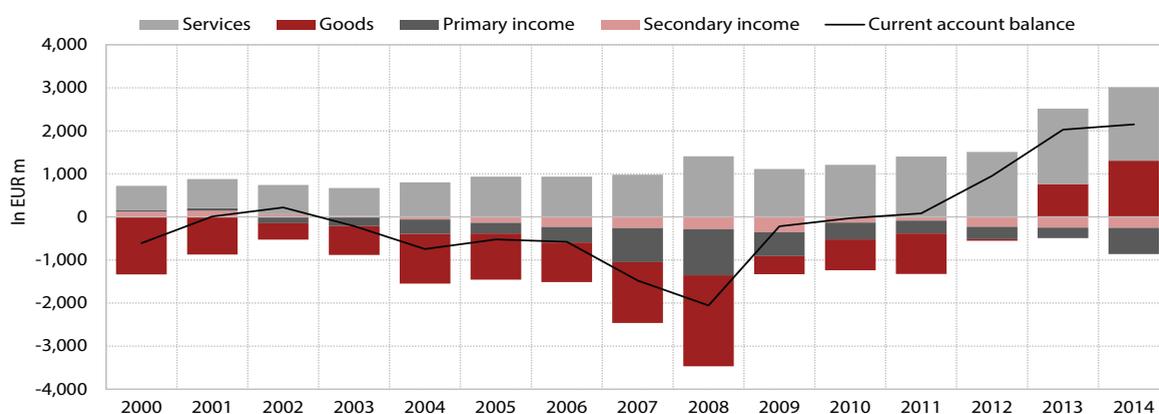
1,307 m. Aside from quantity factors as export growth outpaced imports in real terms, the increase was once again due to the terms of trade, which was mainly attributable to a decline in import prices of manufactured goods, energy and raw materials. The surplus in *trade in services* narrowed by EUR 48 m to EUR 1,707 m last year, but nevertheless still made the greatest contribution to the current account surplus. The narrowing in 2014 was largely attributable to a higher deficit of trade in other business services.¹ The surplus in trade in travel services also declined, as revenue from non-residents' travel remained at the previous year's level, while domestic household spending abroad increased after three years of decline. The deficit in *primary income* widened in 2014 for the first time since the onset of the crisis and totalled EUR 612 m, EUR 369 m more than in 2013. Within that, the net inflow of labour income was up owing to higher income of daily migrants. Net interest payments rose even more due to increased borrowing of the government by issuing securities abroad. The deficit in *secondary income* remained similar to last year for the second consecutive year.

Table: Current account and terms of trade, Slovenia

	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014
Current account, as % of GDP	-2.8	-1.8	-4.2	-5.4	-0.6	-0.1	0.2	2.7	5.6	5.8
Goods	-6.0	-3.7	-4.0	-5.6	-1.2	-2.0	-2.5	-0.1	2.1	3.5
Services	2.6	3.2	2.8	3.7	3.1	3.3	3.8	4.2	4.9	4.6
Primary income	0.1	-0.9	-2.3	-2.8	-1.5	-1.1	-0.8	-0.8	-0.7	-1.6
Secondary income	0.6	-0.5	-0.7	-0.8	-1.0	-0.4	-0.2	-0.6	-0.7	-0.7
Terms of trade, chain index										
Total	96.9	97.9	100.9	98.7	103.5	96.0	98.6	99.0	101.0	100.8
Goods	96.2	97.5	100.6	98.2	104.1	95.2	98.4	98.8	101.0	100.8
Services	101.9	99.7	102.6	100.5	99.1	100.3	100.4	99.8	100.3	99.7

Source: SI-STAT Data Portal – National Accounts, 2015; Bulletin of the Bank of Slovenia, 2015; IMAD calculations.

Figure: Components of the current account of the balance of payments



Source: SI-STAT Data Portal – National Accounts, 2015; BoS; calculations by IMAD.

¹ The balance of trade in technical services, in services related to trade, and in administrative and support service activities turned from surplus into deficit; the deficit of trade in professional and management consultancy services widened.

1.4 Gross external debt

Having maintained a similar level since the onset of the crisis, gross external debt rose in 2014 as a result of faster growth in general government debt, while the deleveraging of commercial banks slowed significantly. At the end of 2014, total gross external debt stood at EUR 46.2 bn, up EUR 6.0 bn over December 2013. It increased as a result of higher long-term debt, which accounted for four fifths of total debt in 2014.¹ The external debt of the *government sector* recorded a significant increase again, the largest since the beginning of the crisis (by EUR 6.7 bn to EUR 22.1 bn). The deleveraging of *commercial banks*² abroad is gradually slowing, partly as a result of considerably lower debt, which amounted to EUR 6.6 bn in 2014, EUR 11.3 bn less than in 2008. In 2014, commercial banks

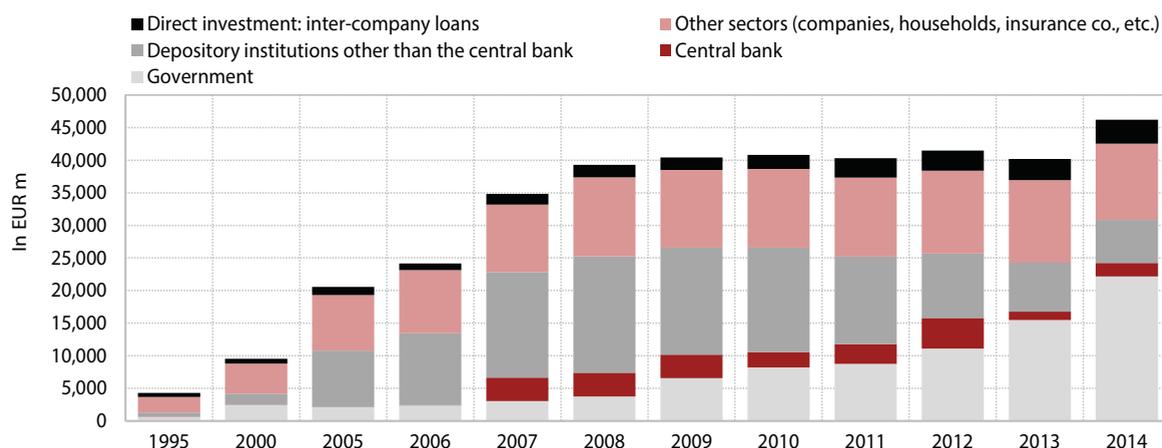
continued to repay foreign loans, while non-residents were withdrawing their deposits from Slovenian banks. The external debt of *other sectors* (mostly non-financial corporations–enterprises) also declined last year, by EUR 1.0 bn, largely due to loan repayments and partly owing to short-term trade credits and advances. The growth of gross external debt was attributable to inter-company loans within direct investment,⁴ which increased by EUR 0.4 bn to EUR 3.7 bn. The central bank's debt also expanded last year, chiefly owing to higher short-term liabilities (currency and deposits). At the end of 2014, public debt⁴ accounted for approximately half of gross external debt, an increase of 38.4 percentage points over 2008; publicly guaranteed debt,⁵ which rose by EUR 1.5 bn to EUR 6.9 bn, represented 14.5%, 1.2 percentage points more than in 2008. Non-guaranteed *private sector debt* declined by EUR 13 bn relative to 2008 and stood at EUR 17.2 bn at the end of 2014.

Table: Slovenia's gross external debt position, end of the year, in EUR m

	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014
Total gross external debt	9,526	20,579	34,841	39,306	40,416	40,838	40,292	41,503	40,205	46,218
Short-term debt	1,882	3,625	9,136	9,818	9,432	8,307	8,213	10,382	6,039	6,760
Public and publicly guaranteed debt	0	194	3,560	3,603	3,374	2,169	2,808	4,641	1,111	2,012
Non-guaranteed private debt	1,882	3,431	5,576	6,215	6,058	6,138	5,405	5,741	4,928	4,748
Long-term debt	6,893	15,692	24,052	27,559	29,083	30,379	29,124	28,000	30,926	35,791
Public and publicly guaranteed debt	2,919	12,970	4,536	5,533	10,672	14,464	14,353	15,881	20,486	27,051
Non-guaranteed private debt	3,974	2,722	19,516	22,026	18,411	15,915	14,771	12,119	10,440	8,740
Inter-company loans	752	1,261	1,652	1,929	1,901	2,152	2,955	3,120	3,240	3,666
Public and publicly guaranteed debt	0	0	0	0	0	0	0	0	0	0
Non-guaranteed private debt	752	1,261	1,652	1,929	1,901	2,152	2,955	3,120	3,240	3,666

Source: Bulletin of the Bank of Slovenia, 2015.

Figure: Structure of Slovenia's gross external debt by sector



Source: Bulletin of the Bank of Slovenia, 2015; calculations by IMAD.

¹ The share of total debt excluding the liabilities of affiliates for which maturity has not been published.

² Institutions that accept deposits (other than the central bank).

³ According to the new methodology (BPM6), debt instruments are classified according to the type of capital affiliation: i) liabilities of a Slovenian enterprise to a foreign direct investor; ii) liabilities of a Slovenian investor to foreign direct investment enterprises; and iii) liabilities of resident fellow enterprises to fellow enterprises abroad.

⁴ Publicly guaranteed debt is a liability of a private legal entity, the repayment of which is guaranteed by the state. Publicly guaranteed debt also includes Bank of Slovenia liabilities to the Eurosystem incurred by the transfer of monetary policy from the Bank of Slovenia to the ECB.

⁵ External public debt is generated by the borrowing of the institutional sector general government on foreign financial markets. The government may borrow from international financial institutions, foreign governments or government agencies, foreign commercial banks and, in the event of an issuance of transferable securities on a foreign financial market, also from private lenders.

1.5 General government balance

Amid significantly lower one-off expenditure on bank recapitalisations, the general government deficit declined substantially in 2014 (to 4.9% of GDP); the deficit excluding one-off factors also narrowed (to 3.3% of GDP). Expenditure on bank recapitalisations, which accounted for 10.1% of GDP in 2013, totalled 0.9% of GDP in 2014, while the other one-off factors, including the payments to depositors of LB in Croatia and Bosnia and Herzegovina, totalled 0.7% of GDP. The deficit without one-off expenditure, which declined for the first time in 2012, reached the lowest level since 2008 in 2014 and the primary balance was balanced for the first time since the onset of the crisis. The narrowing of the deficit excluding one-off factors was attributable to the rebound in economic growth and government measures to increase revenues and reduce some expenditures. Among tax revenues, revenue from taxes on production and imports increased the most, particularly under the impact of higher VAT revenue after the increase in tax rates in the middle of 2013. Taxes on income and property also recorded modest growth after five years of decline.

The improvement on the labour market, together with the broadening of contribution bases, restored growth in revenue from social contributions, which had previously been falling for two years. Among revenues not arising from taxes and contributions, receipts of EU Cohesion Policy funds rose most notably in 2014. In 2014, similar to 2012 and 2013, fiscal consolidation on the expenditure side relied on measures that reduced subsidies, compensation of employees and expenditure on social benefits in cash and kind (with the exception of pensions); in 2014, the latter declined also due to the improvement on the labour market. General government expenditure on goods and services, which had also declined in the previous two years, rose slightly in 2014. Among expenditure categories that rose in 2014, interest payments stand out again, recording an even larger increase than in 2013; pension expenditure was also up, but less than in 2013. A significant turnaround, which already had a positive impact on economic activity in 2013, is the increase in government investment, which accelerated notably in 2014 amid faster absorption of EU funds.

Table: General government revenue, expenditure and balance* (ESA 2010), Slovenia, as a % of GDP

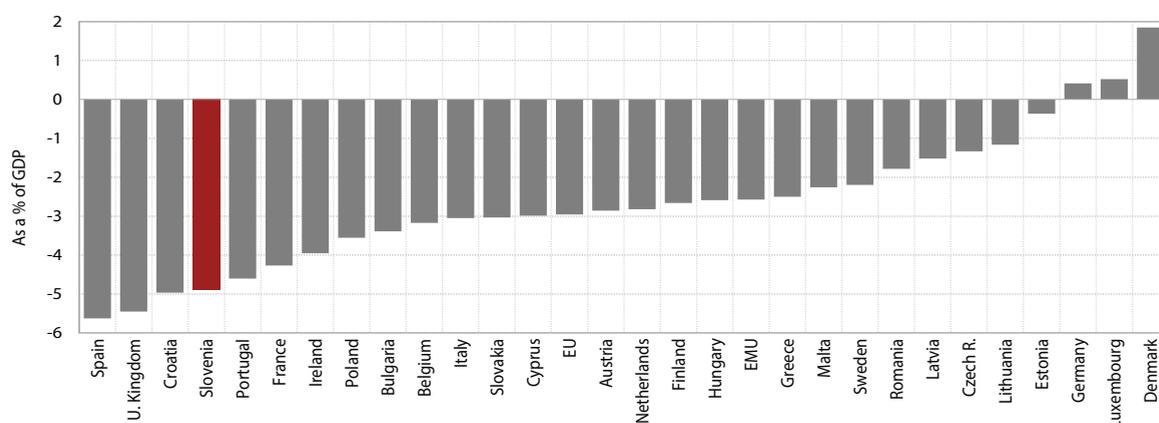
	2008	2009	2010	2011	2012	2013	2014
Revenue	42.1	42.3	43.7	43.3	44.6	45.0	45.0
Expenditure	44.0	48.5	49.3	50.0	48.6	59.9	49.9
General government deficit	-1.8	-6.1	-5.6	-6.6	-4.0	-14.9	-4.9
General government deficit excluding one-off factors**	-1.8	-6.1	-5.4	-5.5	-3.8	-4.2	-3.3
Primary balance, excluding one-off factors	-0.7	-4.8	-3.8	-3.6	-1.8	-1.7	0.0

Source: SI-STAT Data Portal – National Accounts – General government accounts – Main aggregates of the general government, March 2015.

Note: * Data for the 2010–2013 period are the revised data published in the first release of data for 2014, which were influenced particularly by the revision of EU flows or by the impact of their neutralisation on the general government deficit. For 2008 and 2009, the table shows the most recent, unrevised, data, as the revision for the period prior to 2010 will be published in August 2015.

** The one-off factors include general government expenditure for the stabilisation of banks and non-financial corporations, takeovers of debt from some companies, the net effect of the payment related to the elimination of the third quarter of wage disparities in the public sector, the payment of compensation to persons erased from the permanent residence register and the payments to depositors of LB in Croatia and Bosnia and Herzegovina.

Figure: General government deficit/surplus in EU Member States, 2014



Source: SI-STAT Data Portal – National Accounts – General government accounts – Main aggregates of the general government, March 2015; for other EU Member States, the European Commission, European Economic Forecast, Winter 2015, February 2015.

1.6 General government debt

After the strong growth in 2013 owing to bank recapitalisations, public debt increased significantly again in 2014, which was also due to government borrowing for pre-financing borrowing needs after 2014. In 2014, the general government debt expanded by EUR 4.7 bn, reaching 80.9% of GDP, after it had already risen by EUR 6.1 bn in 2013, the most so far. A portion of the increase was used to cover the deficit (EUR 1.8 bn), while the rest (EUR 2.9 bn) was, in improved conditions on international financial markets (see Indicator 1.7), mainly intended for pre-financing borrowing requirements in the following years. Borrowing largely involved the issuance of long-term securities and loans (EUR 4.3 bn)

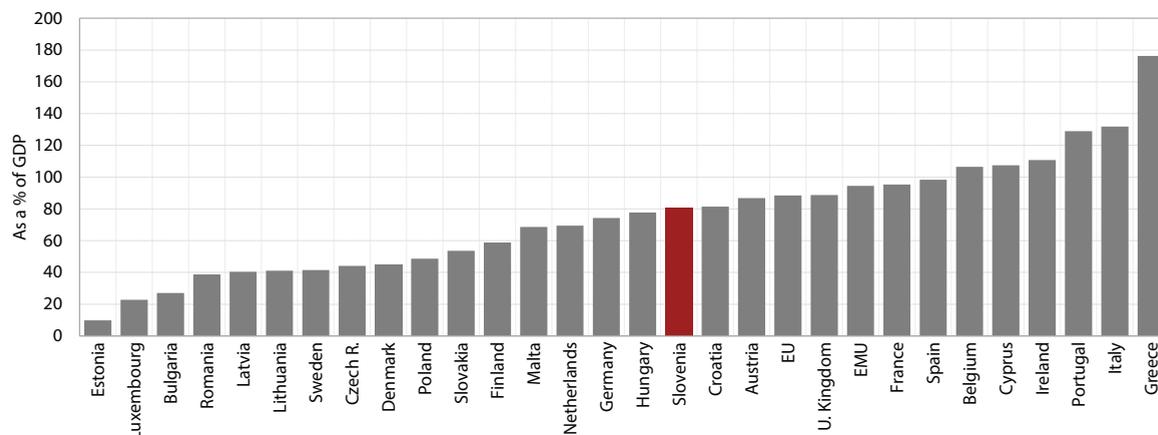
and, partly, short-term domestic borrowing.¹ The bulk of debt is from the central government (98%); the local government debt has doubled since the beginning of the crisis but remains low (2.1% of GDP). The increase in public debt in the last six years – by 59 percentage points as a share of GDP – was one of the largest in the EU (public debt rose more than in Slovenia only in Ireland, Cyprus and Greece). In a relatively short period it has taken Slovenia from the group of EU countries with low debt to the middle of EU countries in terms of the public debt to GDP ratio.

Table: Consolidated general government debt by sub-sector, Slovenia

	2008	2009	2010	2011	2012	2013	2014
In EUR bn							
General government, total	8.2	12.5	13.8	17.1	19.3	25.4	30.1
Central government	8.1	13.1	13.3	16.5	18.7	24.9	29.5
Local government	0.4	0.5	0.6	0.7	0.7	0.7	0.8
Social security funds	0.0	0.0	0.1	0.1	0.1	0.0	0.0
Consolidated debt between sub-sectors	-0.3	-0.2	-0.1	-0.1	-0.2	-0.2	-0.2
As % of GDP							
General government, total	21.6	34.5	38.2	46.5	53.7	70.3	80.9
Central government	21.4	36.2	36.7	44.8	52.1	68.8	79.3
Local government	0.9	1.4	1.7	1.9	2.0	2.0	2.1
Social security funds	0.0	0.0	0.1	0.1	0.1	0.0	0.0
Consolidated debt between sub-sectors	-0.7	-0.5	-0.4	-0.4	-0.5	-0.5	-0.5

Source: SI-STAT Data Portal – National Accounts – General government accounts – General government debt, March 2015.

Figure: Consolidated general government debt in EU Member States, 2014



Source: for Slovenia, SI-STAT Data Portal – National Accounts – General government accounts – General government debt, March 2015; for other EU Member States, the European Commission, European Economic Forecast, Winter 2015, February 2015.

¹ The issuance of 10-year and 5-year dollar bonds, two 7-year euro bonds, a 3-year euro bond and an 18-month treasury bill, which are long-term instruments, while the government's short-term borrowing requirements were financed by the issuance of 12-, 6- and 3-month treasury bills.

1.7 Yield on 10-year government bonds

In 2014, the yields on Slovenian government bonds continued to decline under the impact of the government measures to stabilise the Slovenian financial sector, the ECB's measures and a general improvement in the euro area and the Slovenian economy. After being relatively high in the first half of 2013, the yields on Slovenian government bonds declined notably at the end of 2013, after the announcement of the ECB's measures,¹ the release of the results of the banking system review and the stress tests, and the recapitalisation of the largest banks. They continued to fall in 2014 as the economic situation in Slovenia and in the euro area improved. By the end of June 2014, the yield on the 10-year government bond thus declined to around 3%. In the second half of the year, it fell further, to around 2%, the main reason being the new measures taken by the ECB to stabilise the situation, achieve price stability in the euro area and enhance the functioning of the transmission mechanism.² Under the impact of these measures, government bond yields in the euro area declined not only in the countries with the highest ratings, but also in those most exposed, of which Ireland and Spain exited the financial aid mechanisms in December 2013, followed by Portugal in May 2014. At

the beginning of 2015, government bond yields in the euro area declined further due to the announcement of the ECB's additional non-standard measures (i.e. the quantitative easing). In some countries the yields on bonds with a shorter maturity (5 years) even fell into negative territory, while the yields on Slovenian 10-year euro bonds were the lowest since the adoption of the euro (below 1%).

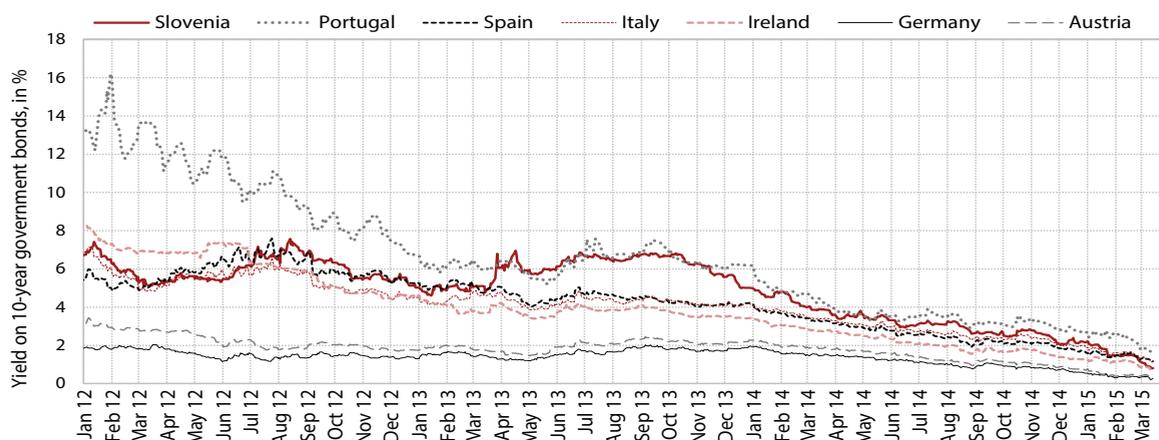
Credit rating agencies upgraded the outlook for Slovenia in 2014; at the beginning of 2015, Moody's restored the country's credit rating to investment grade again. After the three major credit rating agencies lowered Slovenia's credit rating in 2013, they left it unchanged in 2014 but raised the country's outlook for the future. At the beginning of 2014, Moody's thus improved the outlook for Slovenia to stable, followed by Fitch at the beginning of May; S&P also raised the outlook for Slovenia at the end of 2014, after changing it from stable to negative in the middle of the year due to heightened political risks regarding the implementation of economic and fiscal policy measures after the resignation of the government. At the beginning of 2015, Moody's raised Slovenia's credit rating by one notch, to investment grade.

Table: Credit ratings

Country	Agency	As of March 2015	Change 2015/2008
Slovenia	Fitch	BBB+	↓5
	Moody's	Baa3	↓6
	S&P	A-	↓4

Source: Standard & Poor's, Moody's, Fitch, 2015.

Figure: Yield on 10-year government bonds denominated in euros



Source: Bloomberg.

¹ In 2013, the ECB announced purchases of euro area government bonds, long-term refinancing operations to provide additional liquidity and the cessation of the sterilisation of liquidity obtained from government and private bond purchases under the Securities Markets Programme.

² Besides the lowering of key interest rates and the introduction of the asset-backed securities purchase programme (ABSPP) and the covered bond purchase programme (CBPP), two auctions of targeted longer-term refinancing operations (TLTROs) were carried out in 2014.

1.8 The economic structure of taxes and contributions

Since the onset of the economic crisis, taxes on consumption and labour as a share of total taxes and contributions have increased in Slovenia and are higher than on average in the EU, while the share of taxes on capital has decreased.¹ The share of taxes on consumption in total taxes and contributions stood at 37.9% in Slovenia in 2012; this is 0.6 percentage points more than in 2011 and 3.3 percentage points above the EU average. The fall in the share of taxes on consumption seen in Slovenia since 2003 came to a halt in 2007, when the share started to rise gradually under the impact of growing private consumption (until 2011), an increase in excise duties and deterioration of companies' business performance during the crisis. Its growth was more pronounced than on average in the EU, which is also expected for 2013 due to the effect of the VAT rate increase in Slovenia. The share of taxes on labour totalled 52.5% in Slovenia in 2012, which is 0.3 percentage points more than in 2011 and 5.3 percentage points more than the EU average. After declining in 2001–2007, the share of taxes on labour rose slightly during the crisis. The larger

share than on average in the EU is explained by the larger share of social security contributions. After several years of decline, the share of taxes on capital totalled 9.8% in 2012, 0.8 percentage points less than in 2011. It slipped even further away (by 8.5 percentage points) from the EU average, which had declined significantly less during the crisis. The fall in the share since 2007 is explained by companies' deteriorating business results during the crisis, the lowering of the tax rate on corporate income and the increase in tax relief for investments in 2012.

Since 2008, the implicit tax rate on capital has thus declined substantially; the rate on labour has also decreased slightly, while the rate on consumption is higher than at the onset of the crisis. According to SURS data,² the implicit tax rate on capital in 2013 was lower than in 2012 and considerably lower than in 2007, when it was the highest. After increasing in 2011 and 2012, the tax burden on labour fell again in 2013, to the lowest level since it started to be calculated in 2000. After the increase in VAT rates in 2013 and a decline in household consumption, the implicit tax rate on consumption rose noticeably and exceeded that of 2008. The latest internationally comparable data show that in 2012, consumption and labour were more heavily taxed in Slovenia than on average in the EU,³ while the tax burden on capital was lower.

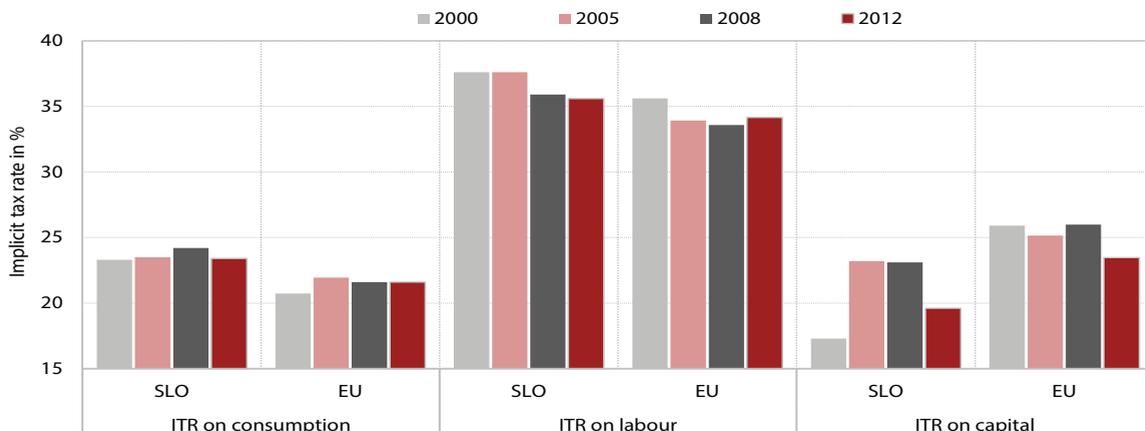
Table: The structure of taxes and contributions by economic function (shares in %)

		2000	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on consumption	Slovenia	37.0	34.7	34.4	35.0	35.9	36.6	37.0	37.3	37.9
	EU	33.1	35.0	34.7	33.9	33.7	33.8	34.8	34.8	34.6
Taxes on labour	Slovenia	54.2	52.9	52.3	50.2	51.2	52.3	52.0	52.2	52.5
	EU	47.1	45.7	45.2	44.9	46.2	47.8	47.2	47.0	47.2
Taxes on capital	Slovenia	8.9	12.7	13.6	15.1	13.1	11.2	11.1	10.6	9.8
	EU	19.9	19.4	20.2	21.3	20.2	18.6	18.2	18.4	18.3

Source: Eurostat Portal Page - Government finance statistics, Structure of taxes by economic function.

Note: For the EU, the ordinary (unweighted) arithmetic mean is used, which is closer to the median than the weighted mean. Data for 2000 are for the EU-27.

Figure: Implicit tax rates on consumption, labour and capital (as a % of the base)



Source: Eurostat Portal Page - Government finance statistics, Structure of taxes by economic function.

Note: For the EU (or the EU-27 for 2000), the unweighted arithmetic mean is used. The EU average in taxes on capital is calculated as the unweighted arithmetic mean of the 22 Member States (or 21 Member States for 2000 and 2012) for which data are available.

¹ Taking into account the unweighted average of the EU-28. The categories of taxes are based on the ESA-95 classification by the economic function of their tax bases. For more information, see Development Report 2014 (p. 148). Data for the EU according to the new ESA-2010 methodology are not yet available.

² According to the ESA-2010 methodology.

³ The comparison is based on data for the unweighted average of the EU; according to data for the weighted average, the implicit tax rate on labour in the EU was higher than in Slovenia in the period 2008–2013.

1.9 Taxes and social security contributions

Taxes and social contributions rose in 2013 but have yet to achieve the nominal level of 2008. After a longer period of increase, taxes and social contributions declined significantly (-5.2%) in 2009 amid a 4.7% decline in nominal GDP. Their growth in 2010 and 2011, which accompanied the otherwise modest recovery of economic activity, was cancelled out after the renewed drop in GDP in 2012. The level of taxes and social contributions remained lower than in 2008 until and including 2013 (-3.8%). Their year-on-year increase in 2013 (by 0.8%) stemmed from higher taxes, while *social security contributions* declined for the second consecutive year. Taxes on products¹ rose the most, as a result of the increase in VAT rates (in the middle of 2013) and the introduction of the tax on financial services (as of March 2013), while growth in other taxes on production was mainly due to an increase in concession fees.² Taxes on capital were also higher than a year earlier, due to the new tax on the total assets of banks, while current

taxes on income continued to decline (particularly the personal income tax and, to a lesser extent, the corporate income tax). According to preliminary data for 2014, growth in revenues from taxes (particularly taxes on production and, to some extent, current taxes on income and wealth, which had been declining in 2009–2013) strengthened under the impact of public finance measures and economic recovery; revenue from social security contributions was also up after two years of decline.

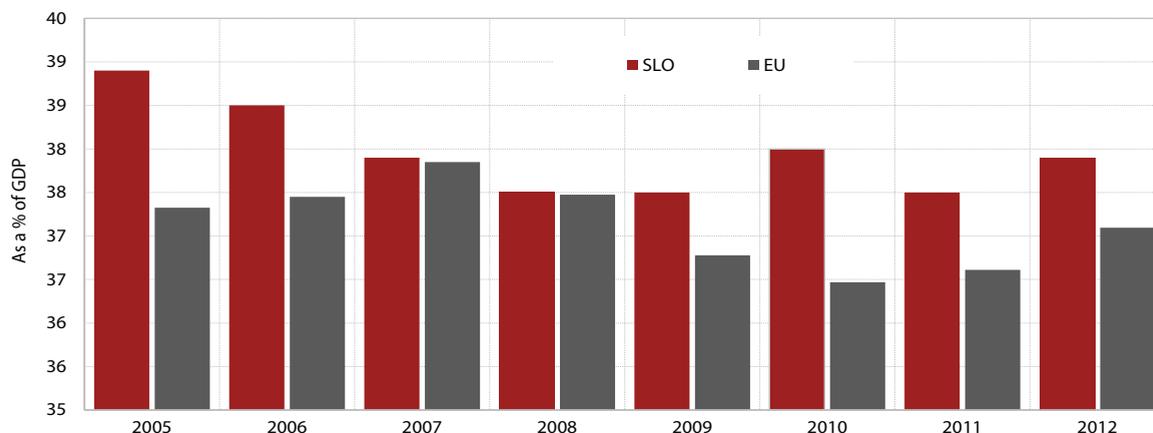
The share of taxes and social contributions in GDP rose slightly during the economic crisis and was just above the EU average in 2012.³ In the period of economic expansion (2005–2008), the share of taxes and social contributions relative to GDP had been decreasing, but started to rise again with the onset of the economic crisis. In 2013, it was 37.3%, which is 0.1 percentage points more than in 2012 and 0.4 percentage points more than in 2008. In the last year for which internationally comparable data are available (2012), the share of taxes and social contributions in Slovenia was just above the unweighted average of the EU, largely due to the relatively high social contributions of employees.

Table: Taxes and social security contributions, 2012 (ESA 2010)

	As a % of GDP											Structure, %		
	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2005	2008	2013	
TAXES AND SOCIAL CONTRIBUTIONS	36.9	38.3	38.0	37.4	36.9	36.8	37.3	36.8	37.2	37.3	100.0	100.0	100.0	
TOTAL TAXES, of which	22.7	24.1	24.0	23.7	22.9	21.9	22.1	21.8	22.0	22.3	62.8	62.0	59.7	
Taxes on production and imports	15.5	15.5	15.0	14.7	14.1	13.7	14.1	14.0	14.4	15.0	40.4	38.3	40.2	
Current taxes on income, wealth	7.2	8.5	9.0	9.0	8.7	8.1	8.0	7.8	7.5	7.2	22.3	23.7	19.4	
Taxes on capital	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	
SOCIAL CONTRIBUTIONS	14.2	14.2	14.0	13.7	14.0	14.9	15.2	15.0	15.2	15.0	37.2	38.0	40.3	

Source: SI-STAT Data Portal – National Accounts – General government accounts – Fiscal burden of taxable persons by taxes and social contributions, September 2014.

Figure: Taxes and social security contributions, Slovenia (ESA 1995)



Source: Eurostat Portal Page – Economy and Finance – Government statistics – Main national accounts tax aggregates.
 Note: For the EU, the unweighted average is shown, which is closer to the median than the weighted average.

¹ The tax on lottery tickets was introduced in this tax category in September, but because of the time of its enforcement the yield was relatively modest (EUR 3 m).

² In 2013, concession fees for water rights were up year-on-year and a new concession fee for the scholarship fund was introduced.

³ This holds true for the unweighted EU average; taking into account the weighted average, Slovenia had a smaller share of taxes and contributions relative to GDP.

1.10 General government expenditure by function

In 2013, general government expenditure by function increased across several categories, because of bank recapitalisations particularly for economic affairs, after only expenditure on housing and community amenities was up in 2012.¹ In 2013, the largest share of general government expenditure went for economic affairs, the bulk being allocated for bank recapitalisations (10.1% of GDP). Expenditure on this function also rose if expenditure on recapitalisations is not taken into account, which is mainly related to increased investment after three years of decline. The increase in interest payments in 2013 (by EUR 224 m) was reflected in higher expenditure on general public services, while expenditure on public order and safety rose due to the payment of compensation to persons erased from the

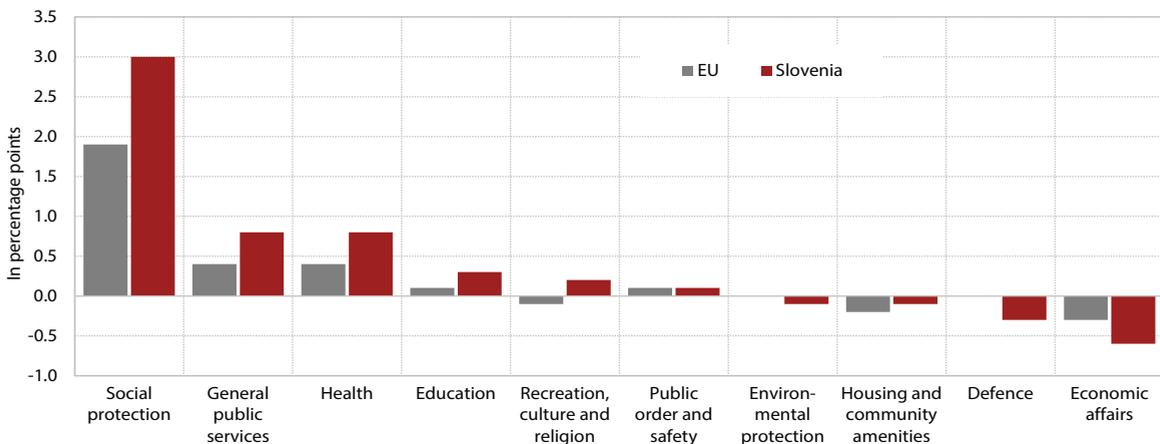
permanent residence register of the Republic of Slovenia, which is included in expenditure on this function. These three expenditure categories increased the most in 2013, partly under the impact of one-off factors. After a temporary decline in 2012 due to legislative changes in the area of social rights, expenditure on social protection also rose again in 2013. Excluding expenditure on bank recapitalisations, this expenditure category increased the most since the beginning of the economic crisis (3.1 percentage points of GDP in the period 2008–2013), followed by expenditure on general public services (which rose due to higher interest payments) and expenditure on health (where the increase was mainly due to higher compensation of employees). In 2008–2012, expenditures on these three functions (social protection, general public services and health) also rose the most in the EU as a whole, but in Slovenia they increased more, which is partly related to a relatively larger fall in GDP.

Table: General government expenditure by function in Slovenia, as a % of GDP

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
General public services	6.0	5.9	5.7	5.5	5.4	6.0	6.1	6.3	6.2	6.7
Defence	1.1	1.3	1.4	1.4	1.4	1.5	1.4	1.2	1.1	1.0
Public order and safety	1.8	1.7	1.8	1.7	1.7	1.8	1.9	1.8	1.8	2.2
Economic affairs	5.3	3.8	3.9	4.0	4.5	4.7	4.6	5.1	4.0	14.5
Environmental protection	0.6	0.8	0.8	0.7	0.8	0.9	0.7	0.8	0.7	0.7
Housing and community amenities	0.6	0.5	0.6	0.6	0.8	0.8	0.7	0.6	0.8	0.7
Health	6.3	6.2	6.2	5.8	6.1	6.8	6.8	6.9	6.9	6.9
Recreation, culture and religion	1.3	1.3	1.3	1.2	1.6	1.8	2.2	1.8	1.8	1.8
Education	6.1	6.6	6.3	5.9	6.1	6.6	6.6	6.6	6.4	6.5
Social protection	16.9	16.6	16.1	15.3	15.6	17.5	18.1	18.6	18.5	18.7
TOTAL EXPENDITURE	46.1	44.9	44.2	42.2	44.0	48.5	49.2	49.8	48.1	59.7

Source: General government expenditure by function, Slovenia, December 2014 (SURS); calculations by IMAD.

Figure: Change in the share of general government expenditure by function relative to GDP, 2008–2012



Source: Eurostat Portal Page – Government statistics – General government statistics by function, January 2015.

Note: Data for EU countries are available only until 2012 and according to the ESA-1995 methodology. For the sake of comparability, the data for Slovenia are also based on data according to ESA 1995.

¹ Data on general government expenditure by function for Slovenia are prepared in line with the ESA-2010 methodology, while for the EU Member States only data according to ESA 1995 are available. With the changeover to ESA 2010, gross capital formation in the areas of general public services and economic affairs rose the most in the 1999–2013 period as a whole, because R&D expenditure is now recorded as investment. The structure of expenditure on defence also changed with the new methodology, as expenditure on weapons is no longer treated as intermediate consumption but as gross fixed capital formation.

1.11 State aid

Since 2010, the volume of state aid¹ (excluding aid to farmers) has again been growing rapidly, not only due to the banks' balance sheets repair but also owing to the extremely high growth rates of state aid for employment and environmental protection. In 2013, state aid (excluding aid to farmers) totalled EUR 3,948 m (2012: EUR 986.2 m), of which EUR 3,317 m (in 2012: EUR 483 m) was allocated for the stabilisation of the banking sector (under a special scheme termed aid to remedy a serious disturbance in the economy or crisis aid). State aid excluding that for the banking sector also recorded rapid growth, reaching EUR 632 m in 2013 (2011: EUR 439 m; 2012: EUR 503 m), which is already much more than in 2009, when Slovenia adopted special anti-crisis measures focused on the business sector (Evidence on State Aid, Ministry of Finance, 2014). In 2010, these measures were removed, but as new measures were put in place instead, the level of state aid remained almost unchanged. In the following years, state aid started to rise sharply again owing to measures in the area of environmental safety and employment. Aid for employment started to rise in 2012, mainly owing to aid to promote the recruitment of disabled workers (in the form of grants, EUR 11 m, and reduced social security contributions, EUR 50 m). In environmental protection, aid for the promotion of

energy from renewable energy sources (photovoltaic, hydroelectric and biogas power plants) rose by EUR 26 m in 2013, and a new measure – emissions trading – was introduced, one that is problematic from the environmental aspect, as it reduced the tax burden on the largest CO² emitters. In terms of enhancing the competitiveness of the economy, the structure of state aid remained unfavourable in 2013, given that the aid categories meant to improve competitiveness (such as aid for R&D and training, aid for small and medium-sized enterprises, and, partly, regional aid), were as much as 40% lower than in 2011. State aid in Slovenia is very high in comparison to the EU.² Increasing state aid is not in line with the Commission's orientations as regards competitiveness.

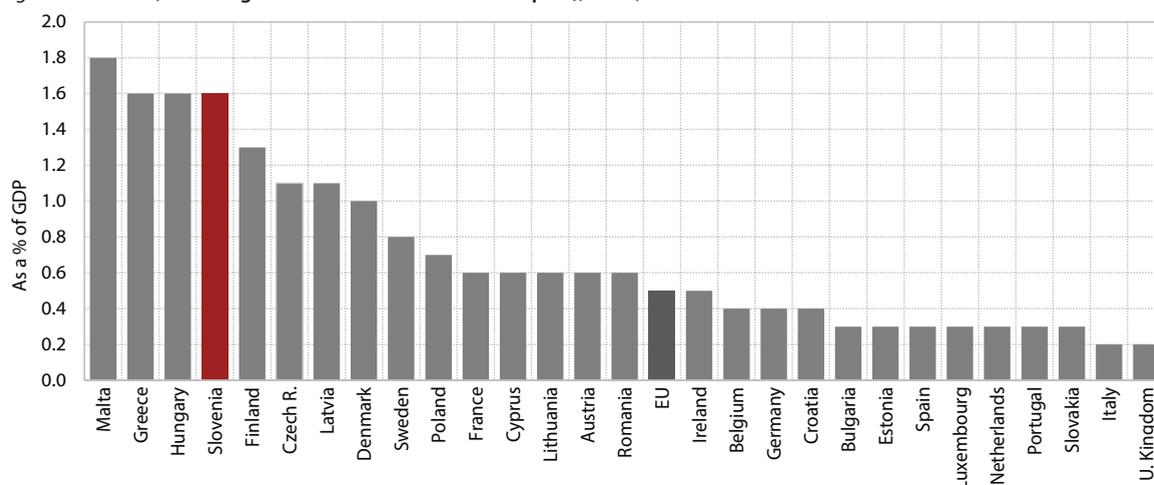
As a result of bank recapitalisations in 2013, Slovenia joined the group of countries with above-average levels of state aid related to the financial crisis. Prior to 2013, financial crisis state aid was lower in Slovenia than on average in the EU, but with the banks' balance sheet repair in 2013 Slovenia moved to fifth place in terms of the level of such aid in 2008–2013. The European Commission estimates that Slovenia allocated 8.9% of GDP for state aid in this period, with only Ireland, Greece, Cyprus and Belgium having spent more on the recovery of banks (State Aid Scoreboard, 2014).

Table: State aid (excluding crisis aid and aid for rail transport), 2000–2013, as a % of GDP

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	1.0	0.7	0.6	0.7	1.0	1.0	1.1	1.3	1.6
EU	0.7	0.6	0.5	0.6	0.6	0.6	0.5	0.5	0.5

Source: State Aid Scoreboard 2014, European Commission.

Figure: State aid (excluding crisis aid and aid for rail transport), 2013, as a % of GDP



Source: State Aid Scoreboard 2014, European Commission.

¹ State aid is based on EU regulation and represents all measures of a country that concern its current and investment expenditures (subsidies, capital transfers), revenues (tax exemption including tax deferrals), financing (favourable loans) and debt (guarantees) and have an impact on the single market of the EU. The impact on the single market is defined arbitrarily, by rules adopted by the European Commission, the European Council and the European Court of Justice. Due to this provision, a significant part of state aid to agriculture, i.e. measures under the Common Agricultural Policy (CAP), is no longer considered state aid.

² In its regular annual surveys, the European Commission publishes only data on state aid excluding crisis aid and aid for rail transport.

1.12 General government subsidies

In 2014, general government subsidies¹ reached the lowest level since the beginning of the economic crisis, but other forms of government aid have increased in this period. With the adoption of special anti-crisis measures in 2009 (which were similar in nature to subsidies) and amid a steep fall in GDP, the share of general government subsidies in GDP rose to 1.8% of GDP, recording the largest level since 2000. In 2010–2014, subsidies were for the most part declining (except in 2013), which was attributable to the expiry of anti-crisis measures, institutional changes in transport² and austerity measures. In 2014, they were the lowest since 2008;³ while other forms of government aid picked up (state aid; see Indicator 1.11). In recent years, the share of general government subsidies in GDP has thus been comparable to the EU average, or even slightly lower.

The bulk of subsidies were allocated for economic affairs, of which in 2013 the functions of transport, agriculture, general economic and labour affairs were subsidised the most. In 2013, Slovenia earmarked 60% of general government subsidies for economic affairs (EUR 230.1 m); relative to 2012, they increased

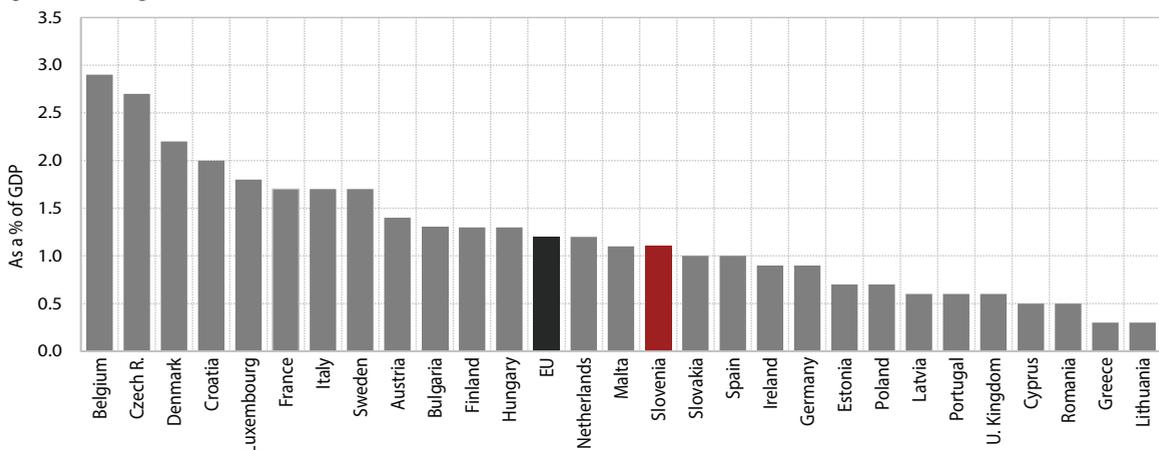
by EUR 37 m. Despite the strong fall in 2011 due to the institutional change in the railway system, and a further decline in 2013, subsidies for transport were still the highest among all functions. The second most important function is general economic, commercial and labour affairs. Aimed at alleviating the impact of the economic crisis, the relatively low subsidies for this purpose increased strongly and more than tripled in 2009 and 2010 as a result of measures to preserve jobs. Although the number of unemployed continued to increase, subsidies for this function shrank to the pre-crisis level in 2011 and 2012, before returning to the 2008 level in 2013. Subsidies for agriculture, having accounted for around 30% of all subsidies for economic affairs in 2005–2008, had been rapidly falling since 2008; in 2013, they surged (by EUR 47.4 m) and represented a large share of all general government subsidies again. Subsidies for other, non-economic, affairs, which fluctuate appreciably from year to year, rose by almost EUR 15 m in 2013 (to EUR 150.4 m). They were mainly allocated for lowering unemployment, waste and wastewater management, the protection of biodiversity and recreation, culture and religion.

Table: General government subsidies, 2000–2013, as a % of GDP (ESA 1995)

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	1.9	1.5	1.5	1.6	1.8	1.8	1.0	0.9	1.1
EU	N/A	N/A	N/A	N/A	N/A	1.3	1.3	1.2	1.2

Source: Eurostat Portal Page – Government finance statistics, the most recent release on 19 December 2014.
Note: N/A – not available.

Figure: General government subsidies, 2013, as a % of GDP



Source: Eurostat Portal Page – Government finance statistics, the most recent release on 19 December 2014.

¹ The total amount of subsidies is in fact much higher; in 2013, subsidies totalled EUR 679.6 m. They were paid partly from national sources and mainly from EU Structural Funds. General government subsidies (2013: EUR 380.5 m) include only subsidies funded from national sources.

² Slovenian Railways was reorganised into four units, two of which (SŽ Passenger Transport and SŽ Infrastructure) were included in the general government sector.

³ According to preliminary data, general government subsidies (according to ESA 2010) reached EUR 317 m in 2014, which is 0.9% of GDP (SURS, Main general government aggregates, 31 March 2015).

1.13 Development of the financial system

The gap in the level of development of the financial system relative to the EU average has been widening further since the onset of the financial crisis. The contraction of the banking system's balance sheet continues even after the beginning of its stabilisation. On the assets side, this is partly explained by the lower lending activity due to the deleveraging of the economy and the transfer of a portion of claims to the BAMC, while on the liabilities side, banks are increasingly reducing their liabilities to the ECB and, albeit to a lesser extent than in previous years, foreign banks. The total assets of the Slovenian banking system declined by an additional 6.5% in 2014, to EUR 37.8 bn at the end of the year (101.5% of GDP, which is the least since 2005 and around 30% of the EU average in 2013). The smallest development gap is recorded in the area of insurance, where the indicator value had even been slightly rising during the crisis and reached around 65% of the EU average. The increase in the indicator value at the beginning of the crisis

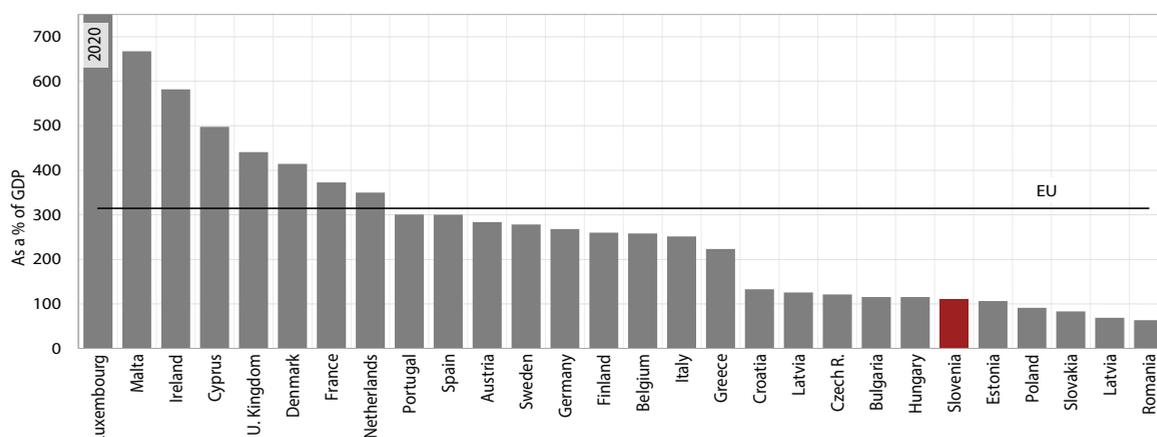
was mainly attributable to the lower GDP, as growth in insurance premiums first slowed significantly, while in the last few years insurance premiums have been falling gradually. Slovenia still lags significantly behind the EU in the share of life-insurance premiums, which, at 1.5% of GDP, reaches less than 30% of the EU average. Market capitalisation of shares as a % of GDP rose in 2014 (to 16.7%, which is approximately 40 percentage points lower than the 2007 high), but the gap with the EU average remained significant (the indicator value totalled 25% of that in the EU). The increase is mainly explained by the restart of privatisation, but it was also due to better business results of companies owing to more favourable economic trends. In 2014, market capitalisation of shares thus rose by 20.1% and the LJSE main index SBITOP by 19.6%.

Table: Indicators of financial system development in Slovenia and the EU

	2000	2005	2010	2011	2012	2013	2014
Banks' total assets, as a % of GDP							
Slovenia	79.9	100.2	138.9	132.2	128.1	111.9	101.5
EU	236.5	296.3	347.5	352.1	339.1	314.5	
Market capitalisation, as a % of GDP							
Slovenia	17.6	22.9	19.4	13.2	13.6	14.3	16.9
EU	96.8	90.9	65.0	57.0	61.0	68.7	69.5
Insurance premiums, as a % of GDP							
Slovenia	5.0	5.3	5.8	5.6	5.6	5.5	
EU-25*		8.7	8.9	9.4	8.3	8.7	

Source: Financial Stability Report (various volumes), Annual Statistical Report (Ljubljana Stock Exchange – various volumes), Statistical Insurance Bulletin (Slovenian Insurance Association – various volumes), European Insurance in Figures, Sigma: World Insurance in 2013 – Steering towards recovery (Swiss Re), European Banking Sector Facts and Figures 2014 (EBF), Company files (London Stock Exchange – various volumes), European Securities Exchange Statistics (Federation of European Securities Exchanges), National Accounts (Eurostat), National Accounts (SURS), 2015. Note: * The indicator of insurance premiums as a % of GDP does not include data for the Baltic states.

Figure: Total assets as a % of GDP in EU Member States, in 2013



Source: BoS, European Banking Federation, SURS, Eurostat.

1.14 Loan-to-deposit ratio

The loan-to-deposit ratio in the Slovenian banking system continued to decline rapidly in 2014. Last year's decline of 24 basis points to 0.98 was the largest since the start of the international financial crisis; in 2008, the indicator value totalled 1.6. Deposits by the non-banking sector exceeded loans to this sector for the first time in ten years. This is largely due to a further decline in loans to the non-banking sector (by EUR 3.5 bn) as a result of debt repayments by the corporate sector and the repair of banks' balance sheets, and, consequently, the transfers of their non-performing claims to the BAMC (in 2014, in the amount of EUR 1.6 bn). The lending activity of banks remains modest and, in our estimation, largely based on refinancing liabilities of over-indebted enterprises, thereby slightly alleviating the liquidity pressure related to maturing financial liabilities. The unfavourable conditions on the credit market are also reflected in interest rates on loans; they fell slightly at the end of the year but are still among the highest in the euro area. A significant factor in the decline in the loan-to-deposit ratio was growth in non-banking sector deposits, which were up EUR 2.1 bn. The beginning of banking system stabilisation has also increased confidence in the Slovenian banking system, which was reflected in higher deposits by the corporate sector (up EUR 1.5 bn) and households (up EUR 800 m in 2014). On the other hand, government deposits declined owing to the contraction of deposits from abroad.

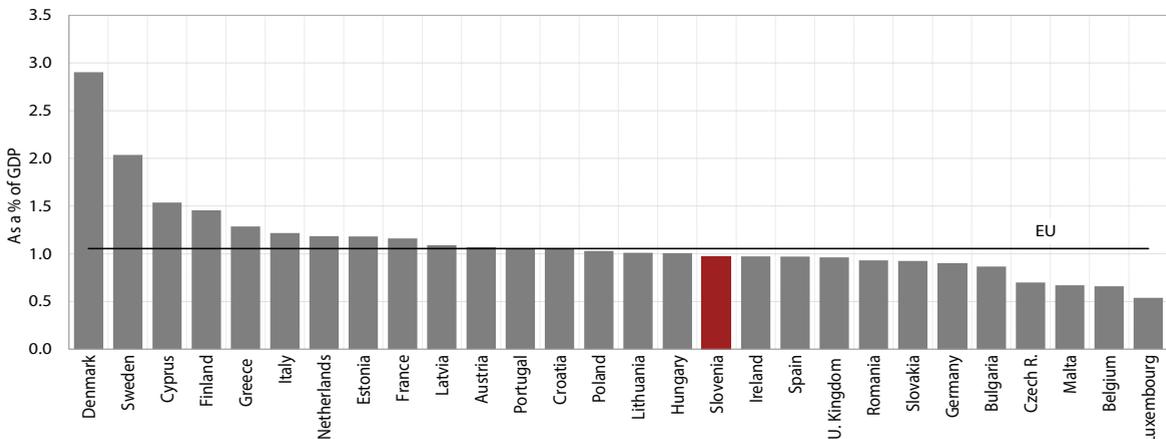
After being significantly higher than in the EU before the crisis, the indicator value in Slovenia has declined considerably more than in the EU as a whole in recent years; last year, it was even below the EU average, for the first time on record. In the EU, the indicator has also been dropping in the past few years, but from a significantly lower pre-crisis level and very gradually, primarily owing to growth in deposits. At the end of 2014, the loan-to-deposit ratio in the EU was thus already higher than in Slovenia, at 1.06. During the crisis, the loan-to-deposit ratio declined more than in Slovenia only in Ireland and the Baltic states. In contrast, it rose more notably in Greece and Cyprus, reflecting the low confidence of savers in their banking systems, as between the end of 2008 and the end of 2014 the volume of deposits in these two countries contracted by 26.6% and 15.4%, respectively, while the volume of loans to non-banking sectors rose.

Table: Ratio of loans to the non-banking sectors to deposits by the non-banking sectors, Slovenia and the EU

	2005	2010	2011	2012	2013	2014
Slovenia	1.03	1.48	1.40	1.38	1.22	0.98
EU	1.26	1.16	1.15	1.13	1.08	1.06

Source: EBF, ECB, BoS; calculations by IMAD.

Figure: Loan-to-deposit ratio in EU Member States, in 2014



Source: BoS, ECB; calculations by IMAD.

1.15 Non-performing claims¹

In 2014, the share of non-performing claims in the Slovenian banking system decreased. It amounted to EUR 4.4 bn, which is EUR 1.1 bn less than in 2013. It reached 11.9% of the banking system's total exposure and was 5 percentage points higher than the EU average.² This year's movement of non-performing claims has been strongly impacted by the transfer of the claims of two banks to the BAMC (in the total amount of EUR 1.6 bn),³ but we estimate that it has also started to decline as a result of better economic conditions. In 2014, only the volume of non-performing claims against foreigners was up (by around EUR 120 m),⁴ but these claims also started to drop in the final quarter. We estimate that the decline in the share of non-performing claims was also slowed by a further decline in the comparable base because of a significant contraction in bank lending activity (excluding the transfers to the BAMC, 6.7%, which is similar to 2013). The inflow of new, higher-quality claims is thus decreasing, but it is precisely these claims that also record relatively high outflows, which are a consequence of both regular repayments and the transfer of claims among lower-quality claims due

to lower credit ratings of customers. Data thus show a further reduction particularly in the highest-quality claims (rated A and B), which dropped by 5.5% in 2014 alone (until September) and account for only 79.2% of the banking system's total exposure.⁵

Among EU countries, in 2013 unfavourable developments continued particularly in those that were most affected by the financial crisis; in others the share of non-performing claims has already started to increase more slowly or is even declining. Outstanding increases (between 9 and 15 percentage points) were recorded particularly by Greece and Cyprus, which had started to stabilise their banking systems earlier than Slovenia. After Ireland entered into the financial assistance programme at the end of 2010 and started to repair its bank balance sheets, the share of non-performing claims in its banking system also more than doubled by the end of 2013, exceeding 25%. The slow decline in the share of non-performing claims in these countries shows that repairing bank balance sheets is a lengthy process, one that does not necessarily lead to an immediate decline in non-performing claims. The share of non-performing claims continues to decline in the Baltic states. In 2013, it also started to shrink in Germany, Poland, the Czech Republic, Slovakia, Denmark and Sweden.

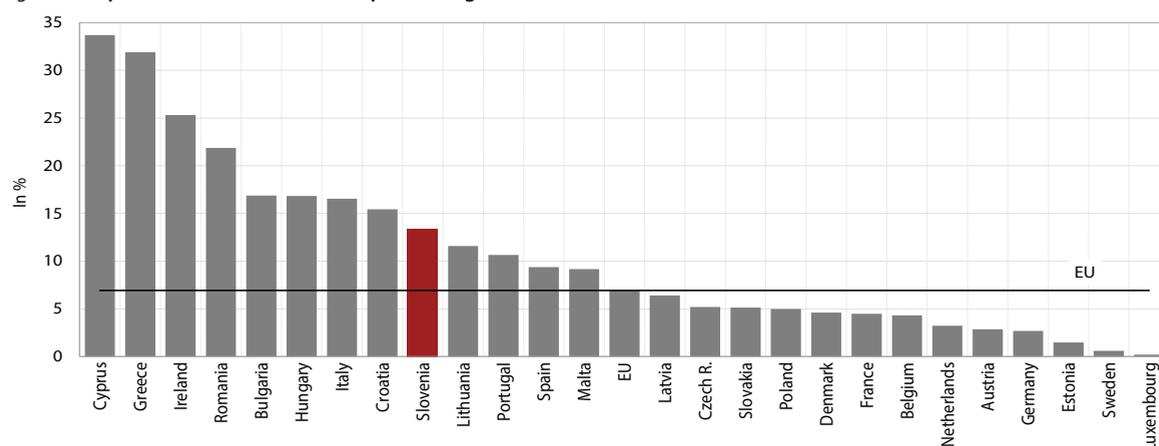
Table: Share of non-performing claims in Slovenia and the EU (in %)

	2008	2009	2010	2011	2012	2013	2014
Slovenia	3.8	5.4	7.4	11.2	14.4	13.4	11.9
EU*	2.6	4.3	4.5	5.0	5.7	6.9	

Source: IMF, World Bank, BoS; calculations by IMAD.

Note: *Data for the EU are the averages of EU Member States weighted by the total assets of their banking systems. For 2013, data for Finland and the UK are not available.

Figure: Comparison of the shares of non-performing claims in EU Member States in 2013



Source: IMF, World Bank, BoS; calculations by IMAD.

Note: *Data for the EU are the averages of EU Member States weighted by the total assets of their banking systems. For 2013, data for Finland and the UK are not available.

¹ Non-performing claims are defined as claims over 90 days in default.

² The most recent data available for the EU are for 2013.

³ Based on the movements seen at the previous transfer, we estimate that not only non-performing claims were transferred to the BAMC, meaning that the decline in non-performing claims is smaller than the actual transfer of assets to the BAMC.

⁴ These were not transferred to the BAMC.

⁵ Compared with more than 95% before the crisis.

1.16 Indebtedness of the corporate sector

In the pre-crisis period, the overall¹ and financial debt of companies were rapidly rising, but since 2009 companies have been gradually deleveraging; in 2013, they reached the indebtedness level of 2007. In 2008, overall and financial debt of the corporate sector grew by 42% and 62%, respectively, compared with 2006. With gradual deleveraging as a result of several factors, they dropped to approximately the level of 2007 over the next few years. Deleveraging in the first years of the crisis was at first largely the result of the winding-down of companies, while since 2012 it was also due to actual debt repayments. The over-indebtedness² of Slovenian companies peaked in 2009, when it was nearly twice as much as in 2006, before it started to fall gradually and totalled EUR 20 bn in 2013. In the entire period, the over-indebtedness of common companies³ was approximately half lower than the over-indebtedness of all companies together (EUR 10.2 bn in 2013). Debt with interest coverage (EBITDA/interest) less than 1 (indicating

that a company is unable to finance debt with its current operations) accounted for approximately a third of the debt of over-indebted common companies, but since 2009 it has decreased by EUR 0.9 bn to EUR 3.3 bn. In 2013, as much as 70% (EUR 2.3 bn) of this debt related to debt where the companies also had a negative EBITDA. The concentration of the financial debt of over-indebted common companies is relatively high, as in 2013 ten of the most indebted companies accounted for almost a quarter (EUR 3.7 bn) of the financial debt and a fifth (EUR 5 bn) of the total debt of over-indebted companies. Thirty of the most indebted companies, which employ 7% of all employed persons and generate 4% of value added, accounted for as much as a quarter (EUR 5.3 bn) of the financial and a third (EUR 7.1 bn) of the total debt. Seventeen out of the thirty most indebted companies had been over-indebted even before the crisis, while 13% of them also have low interest coverage (IC < 1). Ten companies were among the thirty most indebted companies in the entire period under consideration.

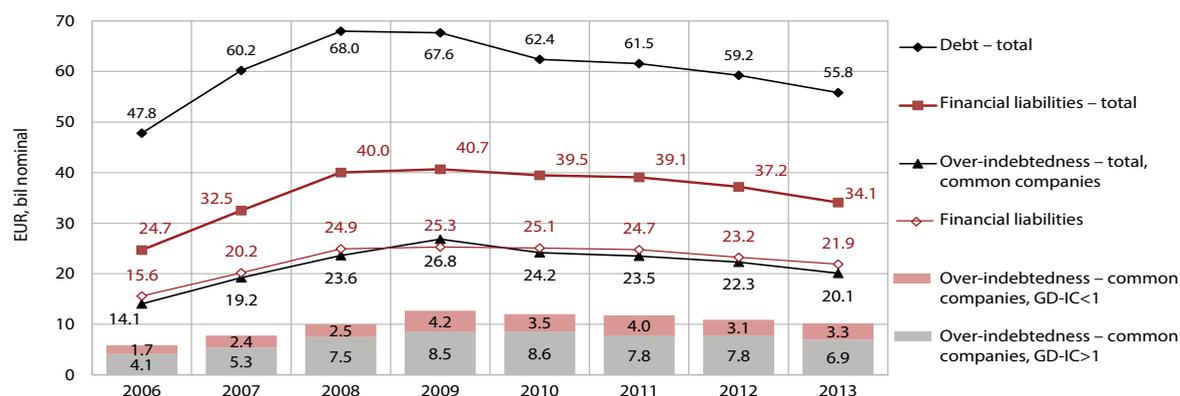
Table: Concentration of the financial debt of over-indebted common companies,¹ 2013

	First 10	First 30	First 50	First 100	First 500	All common companies
Share in the financial liabilities of over-indebted common companies	25 %	39 %	45 %	55 %	78 %	100 %
Share in the financial liabilities of common companies	17 %	24 %	29 %	36 %	54 %	72 %
Financial liabilities, in EUR bn	3.7	5.3	6.4	7.9	11.8	15.8

Source: AJPES; calculations by IMAD.

Note: ¹ "Common" companies are all companies excluding holding, leasing, zero-employee companies and DARS (Motorway Company of the Republic of Slovenia).

Figure: Indebtedness and over-indebtedness of the corporate sector



Source: AJPES; calculations by IMAD.

Note: Over-indebted companies are all companies whose financial debts exceed EBITDA by a factor of five or have negative EBITDA; over-indebtedness - common companies GD-IC > 1: financial debts of all over-indebted companies other than holding, leasing, zero-employee companies and DARS; over-indebtedness - common companies GD-IC < 1: financial debts of companies that are over-indebted and have an interest coverage ratio (EBITDA/interest) lower than 1.

¹ Overall debt comprises financial, operational and other liabilities of companies.

² Over-indebtedness is measured as a sum of financial liabilities exceeding five times EBITDA or total financial liabilities of companies with negative EBITDA.

³ Indebtedness has been examined based on individual data from the balance sheets and profit and loss accounts of all Slovenian companies, collected by the Agency for Public Legal Records and Legal Services (hereinafter: AJPES) for the 2006–2013 period. The term common companies in this context refers to all companies excluding holding, leasing, zero-employee companies and DARS.

2 Factors of competitiveness

- 2.1 GDP per capita
- 2.2 Labour productivity

Competitiveness of the corporate sector

- 2.3 Market share
- 2.4 Unit labour costs
- 2.5 Structure of merchandise exports by factor intensity
- 2.6 Knowledge-intensive market services
- 2.7 Network industries
- 2.8 Foreign direct investment
- 2.9 Entrepreneurial activity

Human capital

- 2.10 Population with tertiary education
- 2.11 Education expenditure
- 2.12 Participation of adults in lifelong learning

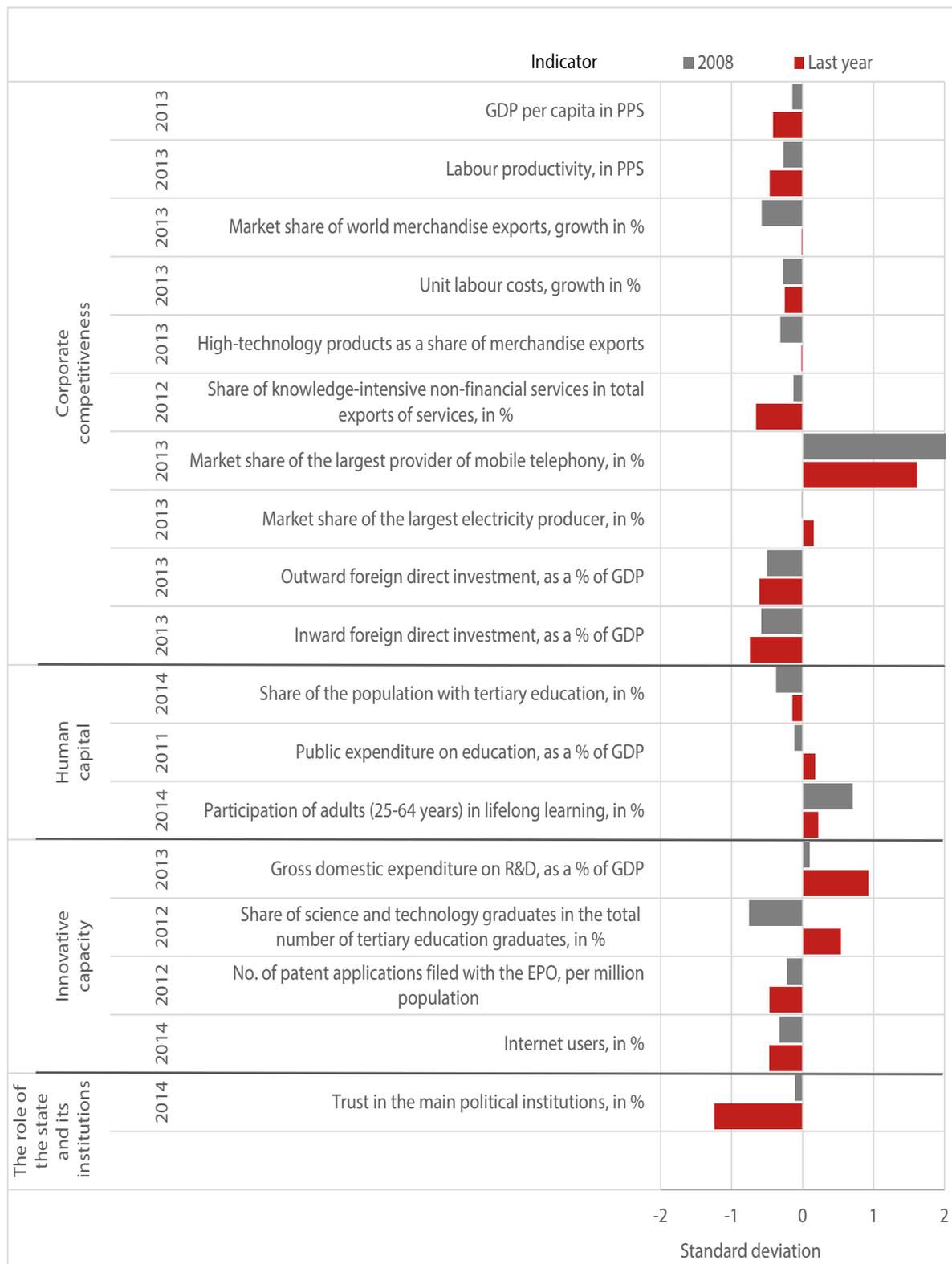
Innovative capacity

- 2.13 Gross domestic expenditure on R&D
- 2.14 Innovation active enterprises
- 2.15 Science and technology graduates
- 2.16 Intellectual property
- 2.17 Use of the Internet and e-services

The role of the state and its institutions

- 2.18 Trust in institutions

Review of indicators – Factors of competitiveness



Source: Calculations by IMAD.

Note: The table shows Slovenia's position relative to the unweighted arithmetic average of EU Member States. It is calculated with regard to the set of countries for which data for individual indicators were available; Cyprus, Malta, Luxembourg and Croatia were excluded from the analysis for lack of data. The data in the table are for 2008 and the last year for which data for EU Member States were available (the last year is indicated in the table). A positive indicator value means above-average development relative to the EU, while a negative value indicates that Slovenia is lagging behind the EU average regarding that indicator.

2.1 Gross domestic product per capita

In 2013, GDP per capita in purchasing power standards remained at the lowest level since the beginning of the crisis, but the first data for 2014 suggest a departure from the negative trends. According to the most recent Eurostat¹ figures, GDP per capita in purchasing power standards totalled 21,800 in 2013.² Before the crisis, Slovenia had been converging to the EU on this indicator, reaching 89% of the EU average in 2008. However, owing to a steeper decline in economic activity,³ it lost 7 percentage points in comparison with the EU over the next four years, and stayed at that level in 2013. An interruption of the negative trends is indicated by data for 2014, when economic growth was slightly higher than in the EU for the first time since the beginning of the crisis.

Slovenia is in the group of EU countries whose relative positions in economic development have deteriorated the most since the beginning of the crisis. The countries that have diverged more from the EU average since 2008 than Slovenia (7 percentage points) are Greece

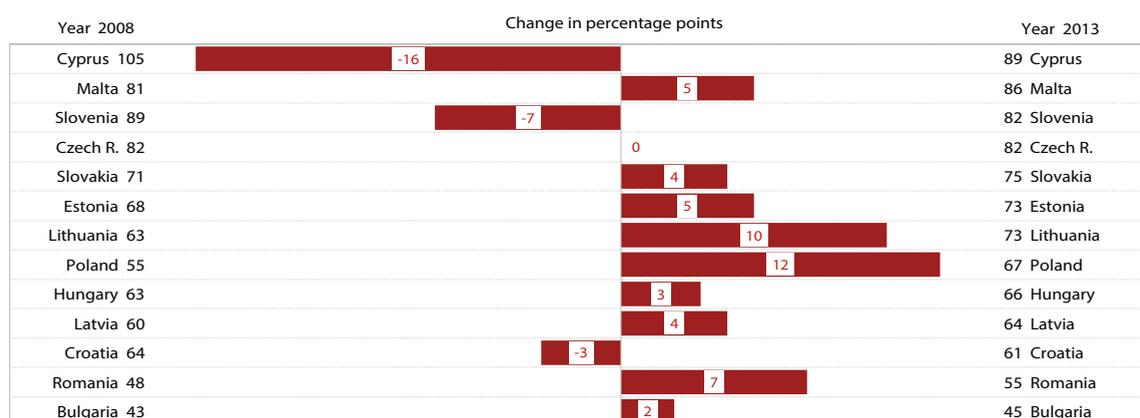
(20 percentage points), Cyprus (16 percentage points), Spain and the Netherlands (8 percentage points each). In 2008, the countries closest to Slovenia in terms of GDP per capita in PPS were Greece and the Czech Republic, and in 2013, the Czech Republic, Portugal and Malta. At the same time, some new Member States substantially narrowed their gaps in comparison with Slovenia. Lithuania and Estonia, which had recorded half lower economic growth than Slovenia in 1999, were only 9 percentage points behind Slovenia in 2013. Among the new Member States, apart from the Czech Republic, which in 2013 reached the same development level relative to the EU as Slovenia, Slovakia approached Slovenia the most (lagging 7 percentage points more behind the EU average than Slovenia). In 2013, 11 countries narrowed their development gaps with the EU in comparison with the preceding year, most notably Latvia and Lithuania (4 percentage points each), seven countries maintained their positions, like Slovenia, while for 10 it deteriorated, most notably Luxemburg (7 percentage points), which nevertheless still exceeds the EU average by 157%, and Cyprus (4 percentage points). The gap in GDP per capita in PPS between EU Member States – which was widest at the beginning of the previous decade at 1:9.8 (Romania/Luxembourg) – has been narrowing over the years and stood at 1:5.8 in 2013 (Bulgaria/Luxembourg).

Table: GDP per capita in purchasing power standards, EU-28=100

	2000	2005	2007	2008	2009	2010	2011	2012	2013
EU-15	79	86	87	89	85	83	83	82	82
Scandinavian EU countries	116	113	112	111	111	110	110	109	109
Vulnerable EU Member States ¹	130	124	126	127	125	126	126	125	124
Slovenia	102	105	105	102	102	100	97	95	95
New EU Member States excluding Slovenia	52	60	65	67	66	66	68	69	70

Source: Eurostat Portal Page – Purchasing Power Standards, 2014; calculations by IMAD.
 Note: ¹ Vulnerable EU Member States: Greece, Ireland, Italy, Portugal, Slovenia, Spain.

Figure: Change in GDP per capita in PPS relative to the EU average in 2008–2013, new EU Member States



Source: Eurostat Portal Page – Purchasing Power Standards, 2014.

¹ In December 2014, Eurostat released data on GDP per capita in PPS based on revised purchasing power parities and the latest revised data on GDP in national currencies for individual countries, and the latest data on population size. The data are compiled in accordance with the revised European methodology – the European System of Accounts 2010 (ESA 2010). The revision changed GDP levels for individual years in all Member States and, in turn, the countries' positions relative to the EU average. For Slovenia, the level of GDP at current prices in the 1997–2013 period rose by an average of 1.9%, which is less than in the EU as a whole (3.5%).

² GDP per capita in purchasing power standards enables a comparison between countries by eliminating the effect of price level differences across countries. The purchasing power standard (PPS) – the selection of a currency in which the results are expressed – is a convention. In Eurostat's comparison, the results are shown in a "currency" called PPS. PPS is an artificial, fictitious currency that, at the EU level, equals one euro. The PPS or "EU-28 euro" is a "currency" that reflects the average price level across the EU-28.

³ See also Indicator 1.1.

2.2 Labour productivity

Amid a significant decline in employment since the onset of the crisis, labour productivity¹ reached its 2008 level in 2014. As a result of a sharp fall in economic activity, it declined by as much as 6.1% at the beginning of the crisis in 2009. Labour productivity growth in subsequent years (except in 2012) mainly stemmed from the adjustment of employment to lower economic activity. In the absence of economic recovery, it was thus much more modest than before the crisis and insufficient for a faster convergence to the pre-crisis level. It was only in 2014, when employment also rose for the first time since the beginning of the crisis, that the main factor of productivity growth became the increase in GDP. Productivity growth also picked up slightly last year, but remained significantly below the long-term average prior to the crisis (the ten-year average before the crisis is 3.8%). Modest productivity growth since the beginning of the crisis, amid weak intra-industry productivity in most industries, was also due to the contraction in some parts of the economy that were most affected by the crisis, particularly construction and manufacturing (since 2009, these industries have been marked by significant negative contributions of the inter-industry component to productivity growth). Owing to stronger intra-industry growth, manufacturing activities have nevertheless been a major factor in the recovery of productivity since 2009 (see Figure). Alongside manufacturing, market services

also made a substantial contribution to productivity growth in this period, particularly knowledge-intensive services² and transportation. In 2014, the improvement was also notably impacted by the construction sector, which up to 2013 had been dragging down productivity growth in the entire economy.

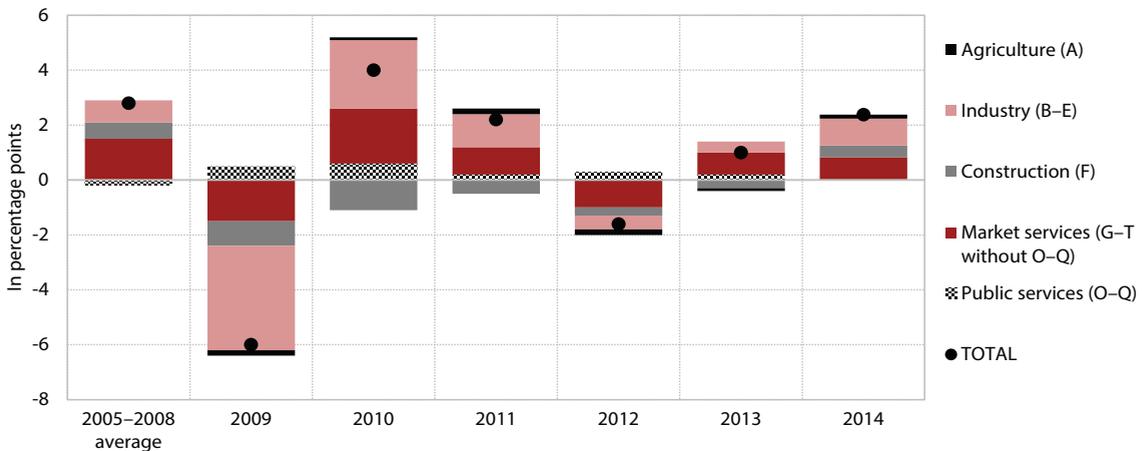
The productivity gap between Slovenia and the EU average is narrowing slowly. Before the crisis, the level of productivity (expressed in purchasing power standards) in Slovenia had been approaching the EU average and was at 83% of the EU average in 2008. With less favourable GDP movements than in the EU, Slovenia's productivity gap widened by 4 percentage points in 2009 and 2010 combined. In the next three years, it narrowed somewhat again (to 19% in 2013), the renewed convergence to the EU average being mainly due to a larger decline in employment, as GDP growth was lower than in the EU. Amid higher GDP growth, Slovenia's productivity gap narrowed further in 2014, according to our estimates, but remained slightly wider than at the onset of the crisis.

Table: Labour productivity, Slovenia

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Real productivity growth, in %	4.5	4.1	3.4	0.7	-6.1	3.4	2.3	-1.8	0.5	2.0
Labour productivity in PPS, EU=100	82	82	82	83	80	79	80	80	81	N/A

Source: SI-STAT – National Accounts, 2015; Eurostat Portal Page – Economy and Finance, 2015; calculations by IMAD.
Note: N/A – not available.

Figure: Sectoral contributions to labour productivity growth in Slovenia's economy



Source: calculations by IMAD based on data from SURS (National Accounts, 2014).

¹ Measured as the ratio between GDP at constant prices and the number of employed persons based on the national accounts methodology.

² Information-communication activities (J), professional, scientific and technical activities (M).

2.3 Market share

In 2014, Slovenia's export competitiveness continued to improve. In 2008–2012, Slovenia was in the group of EU countries with the most pronounced erosion of world merchandise market share (-22.2%, seventh place), which was partly a consequence of the regional and product structure of the country's exports (see Development Report 2014). The decline on the markets of key trading partners was approximately half smaller, and on the EU market around two thirds smaller in this period. A positive turnaround occurred in 2013, and the available data for 2014 indicate a continuation of positive trends. In both years Slovenia was among the EU countries with above-average world market share growth.¹ The cumulative fall in the world market share has thus declined by approximately a third since the beginning of the crisis; on the markets of its main trading partners, Slovenia has already reached the pre-crisis level, while it has exceeded it in the EU.

After 2012, Slovenia's world market share has risen as a consequence of a general increase in market shares on the main regional and product markets. Market share growth was recorded in Germany, Italy, Austria, Croatia, France, Hungary, Poland, the United Kingdom, Russia, the US and Macedonia.² In 2012, the market share outpaced the pre-crisis level only in Germany and Croatia. In 2013, it was also higher than before the crisis in Austria and Italy, and in 2014, also in the US. At the same time, growth was also recorded on most relatively less important EU markets.³ In terms of factor intensity, the market shares of all product groups except labour-intensive products expanded in 2013: resource-intensive products, low-, medium- and high-technology products. Among key SITC sections, market share growth was recorded by medical and pharmaceutical products, non-ferrous metals and manufactures of metals, power-generating machinery and machinery specialised for particular industries and oil, oil derivatives and electricity.⁴

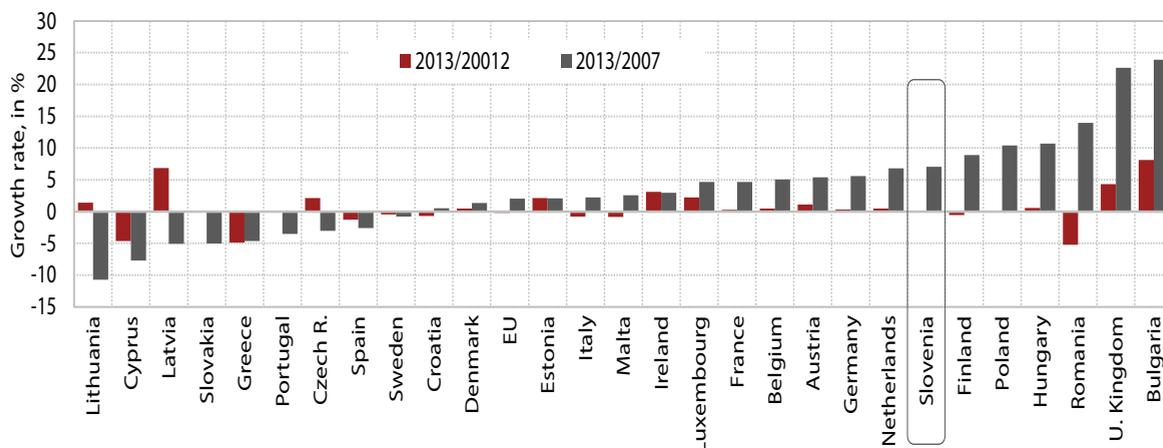
Table: Slovenia's market shares on the world market and in main trading partners, in %

	2000	2005	2008	2009	2010	2011	2012	2013
World market shares¹								
Slovenia	0.141	0.176	0.186	0.184	0.165	0.164	0.152	0.158
EU-27	38.658	39.224	37.102	36.998	34.253	33.470	32.009	33.042
Slovenia's market shares in main trading partners²								
Germany	0.474	0.457	0.459	0.470	0.450	0.485	0.488	0.488
Italy	0.498	0.589	0.630	0.626	0.608	0.617	0.626	0.690
Austria	0.959	1.203	1.311	1.280	1.311	1.231	1.312	1.431
Croatia	8.724	8.729	8.155	8.154	8.176	8.613	8.368	8.994
France	0.204	0.311	0.275	0.351	0.328	0.279	0.225	0.226
Poland	0.470	0.446	0.487	0.437	0.480	0.432	0.421	0.416
Russian Federation	0.564	0.587	0.445	0.429	0.342	0.339	0.383	0.430
Serbia	N/A	N/A	5.109	5.587	5.381	4.932	5.047	4.820

Source: United Nations Commodity Trade Statistics Database, 2015; calculations by IMAD.

Notes: ¹The world export market share is calculated as a share of merchandise exports of Slovenia or the EU (intra and extra) in world merchandise exports. ²Slovenia's market shares in its main trading partners are calculated as a share of Slovenia's merchandise exports in the merchandise imports of its trading partner.

Figure: World market shares of EU Member States, growth rates in %



Source: United Nations Commodity Trade Statistics Database, 2015; calculations by IMAD.

¹ 1th place in 2013 (3.5% growth, EU 3.2%), 5th place in q1–q3 2014 (5.6% relative to 1.1%).

² Looking at the 14 key trading partners, after 2012, Slovenia's market share has declined only in the Czech Republic, Bosnia and Herzegovina and Serbia.

³ In Belgium, Spain, Denmark, Greece, Ireland, Portugal, Luxembourg, Sweden, Latvia, Lithuania, Slovakia and Romania.

⁴ By factor intensity, in 2013 (as in 2012), high-technology products were the only group where the market share increased relative to the pre-crisis year 2007; similarly, among SITC sections, these were medical and pharmaceutical products, power-generating machinery and equipment, oil and oil derivatives and electricity.

2.4 Unit labour costs

In 2014, unit labour costs declined again. After increasing for three consecutive years owing to rapid growth in wages (2008 and 2010¹) and a decline in labour productivity (2009), real unit labour costs dropped in 2011 for the first time since the beginning of the crisis as a result of the moderation of wage growth. When labour productivity declined again in 2012 due to lower economic activity, real unit labour costs increased again despite a concomitant decline in wages. With renewed labour productivity growth (as a result of a decline in employment), their growth came to a halt in 2013. In 2014, they decreased again according to preliminary data,² mainly under the impact of more pronounced labour productivity growth boosted by growth in economic activity.

In manufacturing, unit labour costs came closer to the pre-crisis level than in the economy overall. In 2008–2009, strong contraction of foreign demand led to an above-average decline in value added and, consequently, labour productivity in manufacturing.

Real growth in unit labour costs was therefore also higher, despite the more modest growth of wages. Real unit labour costs in manufacturing had already started to decline in 2010 and fell much more by 2014 than in the economy as a whole. *Specifically, with a rebound in foreign demand, labour productivity in manufacturing was higher than in the economy as a whole due to a larger increase in value added and a steeper decline in employment.* Compensation per employee was otherwise also up, particularly in 2010 (also under the impact of the increase in the minimum wage), but not by as much as labour productivity.

In 2014, Slovenia was in the group of EU countries with smaller cumulative losses in cost competitiveness in manufacturing since the beginning of the crisis, but the relative position of its economy was still much worse than before the crisis. Up to 2010, Slovenia was among EU Member States with above-average growth in real unit labour costs in manufacturing; since 2010 it has been in the group of those with above-average declines. In 2014, real unit labour costs were still 2% higher than in 2007 (in the EU 4.7% higher). In the economy as a whole, they were 4.3% higher in the same period (1.9%).

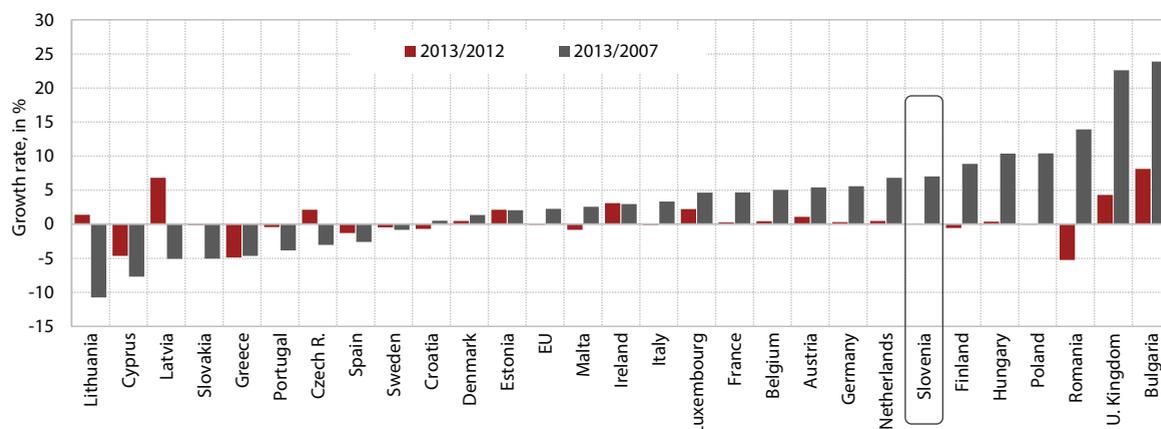
Table: Unit labour costs in Slovenia and the EU

Real annual growth rates, in %	2001–2007	2008	2009	2010	2011	2012	2013	2014 ³
Unit labour costs¹								
Slovenia	-0.7	1.8	5.0	1.6	-1.8	0.3	0.0	-2.5
EU-28	-0.7	1.0	3.2	-1.4	-1.0	0.6	-0.2	-0.1
EMU-18	-0.6	1.7	3.3	-1.3	-0.5	0.5	0.1	0.1
Unit labour costs² – Slovenia								
Total	-0.7	1.9	5.0	2.0	-1.8	0.6	0.5	-2.5
Manufacturing	-0.9	2.9	7.6	-1.0	-3.2	0.3	-2.5	-1.8

Source: SI-STAT Data Portal – Economy, 2015; Eurostat Portal Page – Economy and Finance, 2015.

Notes: ¹ Compensation of employees per employee in current prices divided by gross domestic product per employee in current prices; ² compensation of employees per employee in current prices divided by value added per employee in current prices; ³ SURS, EUROSTAT estimates based on quarterly data for 2014.

Figure: Real unit labour costs in Slovenia and EU Member States



Source: Eurostat Portal Page – Economy and Finance, 2015.

¹ In 2008, it was a consequence of the adjustment of wages to high past inflation and productivity, and the elimination of wage disparities in the public sector; in 2010, it was underpinned by the increase in the minimum wage.

² According to SURS estimates on the basis of quarterly figures for 2014.

2.5 Structure of merchandise exports by factor intensity

In 2013, the share of high-technology products in merchandise exports rose to the highest level thus far; the gap with the EU average narrowed. Having expanded at a subdued pace for several years, the share of high-technology products increased more notably only in the first years of the crisis (2008 and 2009), when other, less competitive, industries started to contract with the onset of the economic crisis. In the entire period since 2009, exports of high-technology products have been rising in absolute terms, more notably again in 2012 and 2013, and reached their largest share in the structure of merchandise exports so far. The gap with the EU average narrowed, but was still at 3.4 percentage points in 2013.¹ Among high-technology products, exports of pharmaceutical products in particular have expanded in the entire period since 2008, their share in total exports being up 2.8 percentage points.² The share of medium-technology products, which is significantly affected by declining exports of passenger cars, shrank in 2013 for the fourth year in a row (by 0.4 percentage points).

The significance of products with low value added³ in merchandise exports has been declining for several years primarily due to a decline in the share of labour-intensive products; furthermore, since the start of the crisis, the share of low-technology products has also fallen noticeably. The declining trend for labour-intensive products continued in 2013. Exports of these products have proved to be very sensitive to competition from countries with lower labour costs, and have been falling at an accelerated pace since Slovenia's accession to the EU, owing chiefly to declining exports of textile products, furniture, paper and paperboard. From 2010 onwards, the decline in these sectors has also been impacted by a deterioration in cost competitiveness due to a substantial statutory increase in the minimum wage. The relative share of labour-intensive products has thus been approaching the EU average in recent years; in 2013, it was still 1.7 percentage points larger than in the EU, but – for the first time – slightly smaller than, on average, in new Member States.

The share of resource-intensive products⁴ continued to rise in 2013 mainly due to higher volumes of trade in primary products. The marked increase in the share of resource-intensive products after 2009 was a consequence of significantly higher shares of exports of electricity and oil derivatives, and mainly arose from increased volumes of trade in these product groups (re-exports). In 2013, the share of resource-intensive products climbed to the highest level on record, largely owing to higher volumes of trade in oil derivatives.

Table: Structure of merchandise exports by factor intensity¹

		2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Resource-intensive	Slovenia	15.3	15.4	16.1	15.5	15.8	15.9	17.5	19.0	19.4	19.8
	EU-28	18.2	18.0	19.4	19.2	20.4	19.6	20.7	22.4	23.2	23.1
	EU-15	18.0	17.8	19.4	19.3	20.5	19.6	20.7	22.4	23.2	23.1
	EU-13	21.1	19.6	19.5	18.9	19.8	19.8	21.0	22.3	23.3	22.9
Labour-intensive	Slovenia	21.6	17.0	14.2	12.6	11.7	11.6	11.0	10.8	10.1	9.6
	EU-28	10.6	9.1	8.6	8.5	8.2	8.7	8.2	8.1	7.1	7.9
	EU-15	10.1	8.6	8.2	8.1	7.9	8.4	7.9	7.8	6.6	7.6
	EU-13	18.6	14.0	12.3	11.4	10.3	10.9	10.2	10.0	9.8	10.1
Low-technology	Slovenia	9.9	8.8	10.2	10.4	11.1	9.8	8.6	9.0	8.7	8.7
	EU-28	6.9	7.0	7.5	8.0	8.2	7.0	7.0	7.2	6.5	6.6
	EU-15	6.7	6.6	7.1	7.6	7.8	6.7	6.7	6.9	6.1	6.3
	EU-13	10.7	10.7	10.9	11.2	11.2	9.2	9.1	9.6	9.2	9.1
Medium-technology	Slovenia	36.2	40.2	39.1	40.9	39.3	39.9	39.6	37.9	36.9	36.5
	EU-28	29.8	30.1	29.9	30.7	29.9	28.4	28.6	29.8	28.9	29.2
	EU-15	29.8	29.8	29.5	30.2	29.5	27.8	28.0	29.2	28.1	28.4
	EU-13	29.6	32.9	33.9	35.1	33.8	33.4	33.0	33.7	33.9	34.9
High-technology	Slovenia	15.5	16.0	17.1	17.4	18.8	21.1	20.3	20.1	21.5	22.3
	EU-28	28.7	27.6	27.7	25.8	25.2	27.6	27.2	26.1	26.6	25.7
	EU-15	29.4	28.6	28.6	26.5	25.8	28.3	27.7	26.7	27.6	26.5
	EU-13	18.0	18.1	19.1	19.5	20.5	22.7	23.0	21.5	20.6	20.1

Source: Handbook of Statistics 2007–2008 (United Nations), 2007; United Nations Commodity Trade Statistics Database, 2014; calculations by IMAD.

Note: ¹ The classification of products into individual groups is based on the UN methodology (Trade and Development Report, 2002), which does not include all products. Consequently, the sum of the five product groups does not necessarily equal 100.

¹ In the EU, the share of exports of this product group fell in 2013 (by 0.9 percentage points).

² Among high-technology products, there was also a slight increase in the share of organo-inorganic compounds, perfumery and cosmetics, telecommunications equipment and measuring and controlling instruments.

³ The groups of low-tech and labour-intensive products include products with the lowest value added per employee such as: clothing, textile products, footwear, furniture, glass and glass products, iron steel sheet and shapes, and base-metal manufactures.

⁴ The main groups of exported resource-intensive products in Slovenia's merchandise exports are: aluminium, mineral manufactures, electric current, rough and worked wood, veneer and other wood manufactures, and non-alcoholic and alcoholic beverages.

2.6 Knowledge-intensive market services

In 2013, knowledge-intensive market services continued to recover more slowly than in the EU, but as a result of greater reorientation to foreign markets, significant improvement started to be seen in some areas. The real value added of knowledge-intensive non-financial market services in the EU,¹ which already surpassed the 2008 level in 2011, has continued to rise in subsequent years. In Slovenia, it has been hovering just below the pre-crisis level since 2009. The gap between Slovenia and the EU is largely attributable to architectural, technical, advertising, programming and broadcasting activities and telecommunications,² which in the first years of the crisis were more focused on the domestic market and have only made forays into foreign markets in the recent period. The value added of these services was about 15% below the pre-crisis level in 2013, while in the EU it already exceeded the 2008 level in 2011. On the other hand, in 2013 the value added of computer programming and legal and accounting services,³ which since 2009 have been increasing sales revenues primarily on foreign markets,⁴ was 18.5% above the 2008 level in Slovenia, compared with just about 5% in the EU (data for 2012). In Slovenia, the 2008 level was

also significantly exceeded in scientific research and development activities.

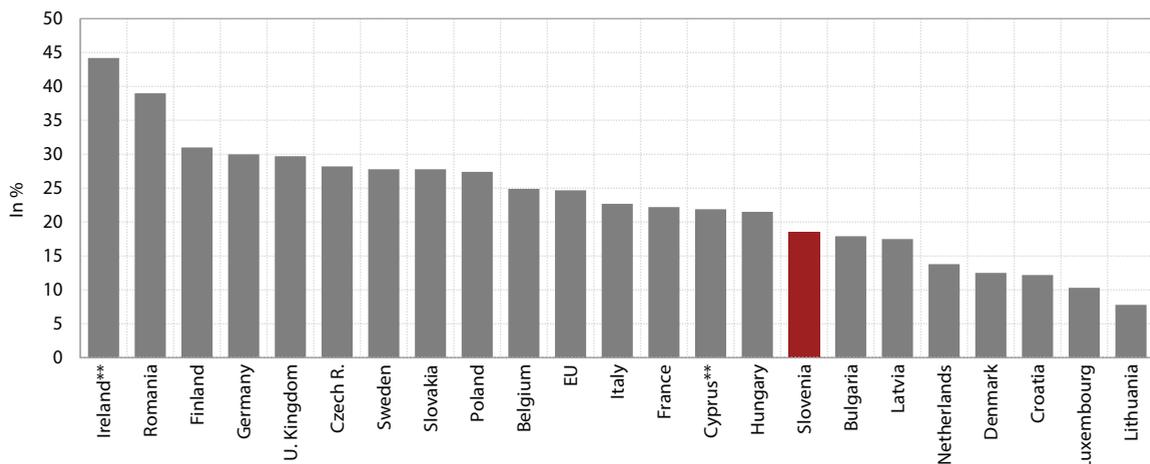
Despite the increase in sales revenues on foreign markets, the share of knowledge-intensive market services⁵ in total exports of services in Slovenia was much smaller than in the EU. In the EU-27 it averaged 21.9% in 2008 and increased further to 24.8% by 2012, while in Slovenia the corresponding share in 2012 (18.5%) was even smaller than before the crisis. Data for 2013 (which are fully available only for Slovenia) indicate slightly more favourable trends (increase in the share of knowledge-intensive services to 19.8% of total exports of services) and thus a narrowing of the gap with the EU.⁶ The smaller share of knowledge-intensive services in the structure of exports can otherwise be partly explained by a relatively large share of exports of travel and transport services related to Slovenia's natural conditions and strategic position, but the declining share of knowledge-intensive services on foreign markets is also a sign of their low export competitiveness (see Section 2.1). A smaller share in services exports compared with the EU is recorded particularly by computer services (4.8 percentage points), as well as legal, accounting, tax consultancy services (3.3 percentage points) and research and development activities (2.2 percentage points). A growing and larger share in services exports than in the EU is recorded by telecommunications (3.1 percentage points).⁷

Table: Value added in knowledge-intensive non-financial market services, Slovenia, index 2008=100

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Knowledge-intensive non-financial market services	62.2	77.9	91.0	100.0	95.1	99.0	99.6	98.4	99.5
Information and communication activities (J)	53.2	75.1	90.0	100.0	95.6	98.8	98.9	98.5	99.5
Professional, scientific and technical activities (M)	67.7	79.6	91.7	100.0	94.8	99.2	100.1	98.4	99.4

Source: SI-STAT Data Portal – Economy - National Accounts, 2015; calculations by IMAD.

Figure: Share of knowledge-intensive non-financial market services in total exports of services, 2012



Source: Eurostat Portal Page – Economy and Finance – Balance of payments – International transactions, 2015; calculations by IMAD. Note: * Data for 2011, ** data for 2010. Exports of knowledge-intensive non-financial market services are calculated as the sum of exports of the following items in the extended balance of payments services classification: 247, 263, 274, 278, 279, 280 and 284.

¹ Knowledge-intensive non-financial market services include information and communication (J) and professional, scientific and technical activities (M).

² Architectural and engineering activities, technical testing and analysis; advertising and market research; publishing activities; motion picture, video and television programme production, sound recording and music publishing activities; programming and broadcasting activities; telecommunications; and other professional, scientific and technical activities.

³ Computer programming, consultancy and related activities; legal and accounting activities; and business and other management consultancy activities.

⁴ Net sales revenues on foreign markets in 2013 (AJPEs data) were more than twice as high as in 2008.

⁵ Exports of knowledge-intensive non-financial market services are calculated as the sum of exports of the following items in the balance of payments: 247, 263, 274, 278, 279, 280 and 284.

⁶ Data on exports of other business services in the EU indicate more modest growth than in Slovenia.

⁷ This is estimated to be partly due to different price movements, as these services' prices declined more in the EU than in Slovenia in previous years.

2.7 Network industries

In electronic communications, competition in broadband internet is similar to that in the EU, but competition in fixed and mobile telephony remains lower than in the EU. The market share of the largest provider on the *fixed telephony* market has contracted significantly in recent years but still accounts for almost two thirds (in the EU, 50%). Stronger competition is attributable to the growing share of internet telephony (the entry of new providers). In recent years, fixed telephony has also been increasingly supplanted by *mobile telephony*. In this segment too, market concentration is still relatively high (the dominant operator still accounting for half of the market; a third in the EU). *Broadband internet access* is the most competitive market, with the market share of the leading provider already below the EU average. According to the most recent price data, which are available for 2010,¹ service prices in fixed and mobile telephony were mostly lower than in the EU, but they dropped a few percentage points less than in the EU over the whole period of 2010-2014.² The ownership structure in electronic communications remains roughly unchanged, characterised by a high share of state ownership in the biggest provider.

The electricity and gas market has been formally liberalised since 2007, and in the past few years, this has shown in increasing rates of provider switching. In

electricity supply, the number of switches reached around 50,000 per year in the last three years (approximately 5% of all customers). On the electricity generation market, the competition rate was low in 2013 (HHI market concentration index of 4,721) but comparable with the EU.³ Competition on the retail market has been stronger. In the period from the liberalisation of the electricity market (2007) up to 2013, the HHI index dropped from 2,032 to 1,479. The structure of providers changed even more, the share of the three principal providers having fallen from 70% in 2007 to just above 40% in 2013. In the first half of 2014, the retail price of electricity for households and industry excluding tax was around 17% below the EU average, similar to the general price level in Slovenia. On the *natural gas* market, the arrival of a new provider led to sharp price falls in 2012, also relative to the EU. The gas price for households has thus already dropped below the EU average, while the price for industry has come fairly close to the average price in the EU. In early 2015, the Slovenian Competition Protection Agency required the main provider to abolish the remaining long-term contracts with its customers, which will lead to full liberalisation of the market and increase competition. While provider switching had been practically non-existent until 2011, the switching rate exceeded 5% of customers in subsequent years. Like electronic communications, electricity and gas supply is also characterised by a very high share of state ownership in the respective dominant providers.

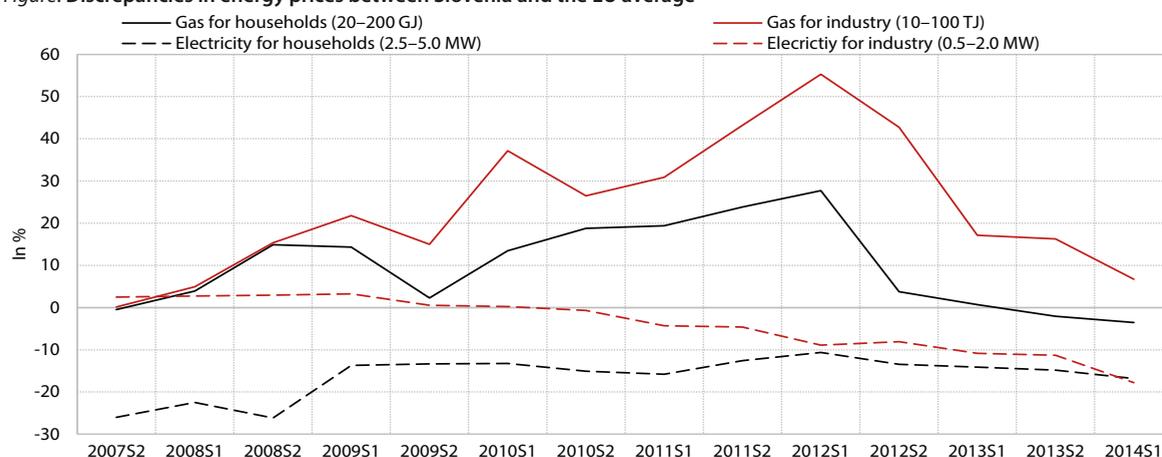
Table: Market shares¹ of the largest electronic communications providers, in %

	Slovenia					EU-28					EU-3 ²
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013	
Fixed telephony	78	73	67	65	/ ³	59	56	54	52	/ ³	44
Mobile telephony	56	55	53	50	49	38	38	37	36	35	31
Broadband internet	46	43	42	39	37	45	44	43	42	42	26

Source: Digital Agenda Scoreboard Key Indicators (European Commission), 2014; Information Society Statistics (Eurostat), 2014.

Notes: ¹Traffic in minutes (in December) for fixed telephony, number of active SIM cards (in October) in mobile telephony, number of connections in broadband internet (end of year). ² Average of three Member States with the lowest shares. ³ Data not available yet.

Figure: Discrepancies in energy prices between Slovenia and the EU average



Source: Eurostat; calculations by IMAD.

¹ Report on Telecoms Price Developments 1998-2010 (EC), 2010. Primerjane so košarice fiksnih in mobilnih telefonskih storitev.

² The dynamics of price growth is evident from the HICP annual indices regarding telephony services.

³ According to Eurostat, it was 55.2% in Slovenia in 2012, while the arithmetical mean of the shares of EU countries (excluding Bulgaria and the Netherlands, but including Germany in 2010) was 56.8%.

2.8 Foreign direct investment

After relatively low inward FDI in the last few years, inflows indicate an improvement in 2014, while outward FDI trends remain unfavourable.

After the increase in 2010–2012, the stock of inward FDI¹ fell slightly again in Slovenia in 2013 (by 3.5%). Outward FDI stock, meanwhile, dropped even more (by 9.4%), for the fourth year in a row, and was 15.8% below its 2009 peak. Despite the decline in inward FDI stock in 2013, the inflows of equity capital were positive in 2013 and – with the exception of those in 2010 – the highest since the onset of the crisis. The decline in inward FDI stock in 2013 can thus be attributed to the negative flow of intra-company crediting of Slovenian subsidiaries by their foreign parent companies. Much more favourable trends were recorded in 2014, with equity capital inflows totalling EUR 1,373.6 m, almost 3.3 times the figure

in 2013, which is primarily due to the renewal of the privatisation process and increased sales of equity stakes in Slovenian companies. Outward FDI recorded equity capital outflows from Slovenia in 2014, but they were much lower than in the preceding year. The decline in outward FDI stock can thus also be explained by a strong net outflow of intra-company crediting.

Slovenia remains among EU countries with the lowest inward FDI stock as a share of GDP. Since 2005 when it was 20.5%, the share of inward FDI in GDP did not increase much, standing at 24.7% at the end of 2013, compared with 22.7% in the pre-crisis year 2008. Slovenia otherwise remains among those EU countries with the lowest stock of inward FDI and the smallest increase in inward FDI stock as a share of GDP. A smaller share than Slovenia is recorded only by Greece, Italy and Germany. In terms of outward FDI stock relative to GDP, among the new Member States, Slovenia lags behind Cyprus, Hungary and Estonia.

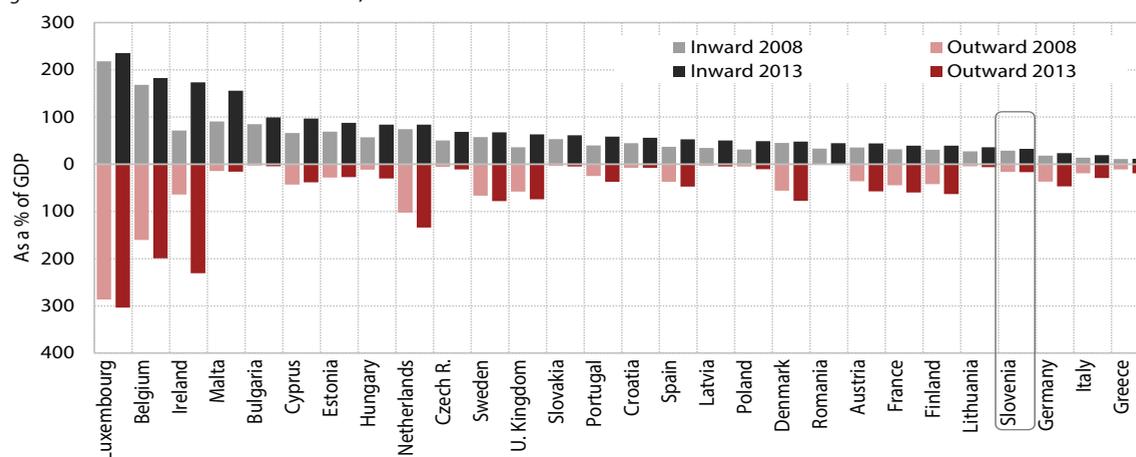
Table: Flows and stock of inward and outward FDI¹ in Slovenia, 2000–2014

In EUR m	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014
INWARD FDI										
Year-end stock ²	2,567.4	5,981.0	7,430.7	8,598.0	7,827.8	7,982.9	8,880.1	9,248.6	8,926.0	N/A
Inflow of equity capital	96.3	270.7	424.9	380.3	127.1	449.9	63.2	334.1	421.3	1,373.6
Stock as a % of GDP	11.9	20.5	21.1	22.7	21.6	22.0	24.1	25.7	24.7	N/A
OUTWARD FDI										
Year-end stock ²	829.3	2,777.0	5,089.5	6,085.1	6,143.3	6,097.4	6,048.8	5,709.9	5,171.6	N/A
Outflow of equity capital	54.7	456.0	692.8	720.8	491.4	181.0	240.7	383.9	423.1	129.7
Stock as a % of GDP	3.8	9.5	14.5	16.0	17.0	16.8	16.4	15.9	14.3	N/A

Source: BoS.

Notes: ¹ Companies in which a foreign investor has a 10% or higher share. ² According to the direction of investment and BPM6 methodology.

Figure: Stock of inward and outward FDI, as a % of GDP



Source: BoS.

Notes: ¹ Companies in which a foreign investor has a 10% or higher share. ² According to the direction of investment and BPM6 methodology.

¹ In calculating the stock of FDI according to the directional principle, the Bank of Slovenia changed over from the old BPM5 methodology to a new BPM6 methodology in 2014. The stocks calculated according to the BPM6 changed significantly due to differences in the categories taken into account in the calculation. In the case of Slovenia, this holds true particularly for inward FDI: the stock of inward FDI at the end of 2013 amounted to EUR 10,728.6 m according to the previous BPM5 methodology, compared with only EUR 8,926.0 m according to the new BPM6 methodology; the stock of outward FDI totalled EUR 5,121.3 m and EUR 5,171.6 m, respectively (for more see Bank of Slovenia. 2014. Direct Investment 2013, pp 13–17).

2.9 Entrepreneurial activity

Early-stage entrepreneurial activity rebounded to the pre-crisis level but lags behind that in the EU. The rate of total early-stage entrepreneurial activity (TEA-index)¹ according to the Global Entrepreneurship Monitor (GEM) data swung down only slightly in 2014,² after increasing significantly for two years in a row. The share of nascent entrepreneurs (running businesses for less than three months) increased slightly again, while the share of new entrepreneurs (those who have been in business for less than three and a half years) declined. Necessity-driven entrepreneurial activity remained unchanged at a relatively high level from 2013, while opportunity-driven entrepreneurial activity decreased slightly and remained lower than before the crisis. Total entrepreneurial activity swung downwards as a result of a noticeable decline in established businesses, but remained similar to that in 2008. Early-stage entrepreneurial activity in the EU overall³ rose substantially owing to growth in both nascent and new entrepreneurs (to 7.1%) and

was significantly higher than in 2008 when it stood at 5.3%. Consequently, Slovenia's gap with the EU average widened. Business demography in Slovenia shows positive entrepreneurial dynamics, the share of newly established enterprises without a predecessor exceeding the share of enterprises that went out of business and had no successor. In 2012, the last year for which data are available, 10.1% of all new enterprises were established in the total business economy,⁴ but their share had been gradually falling from 2009 to 2012. In contrast, the enterprise death rate was rising in the same period, enterprise deaths as a share of active enterprises reaching 8.3% in 2011. The share of enterprise births was slightly larger and the share of enterprise deaths slightly smaller than on average in the EU. Entrepreneurial dynamics were most favourable in knowledge-intensive services (births 2012: 11.2%; deaths 2012: 7.4%), which also recorded significant growth in the number of employees in high-growth⁵ enterprises in the last two years (in 2012: by 7.6%, in 2013 by 5.0%).

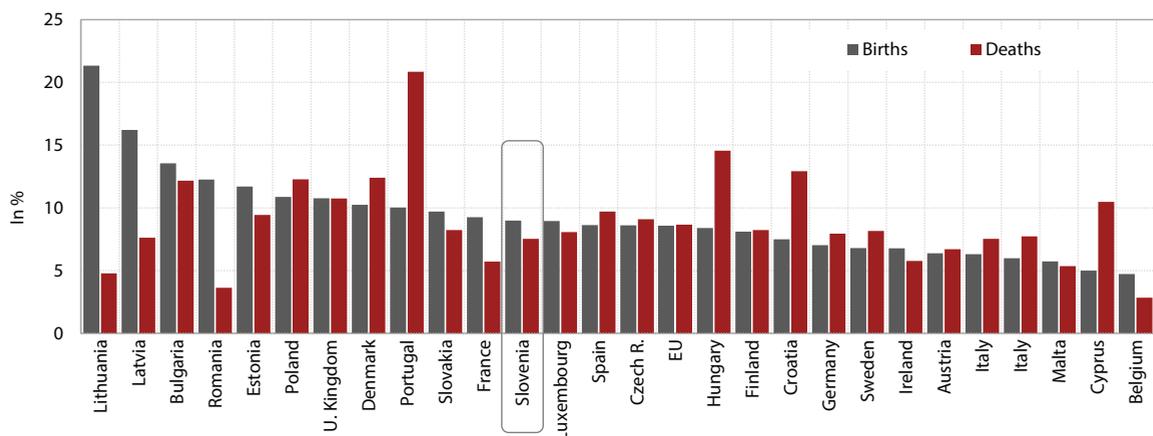
Table: Selected indicators of entrepreneurial activity, Slovenia, as a % of the population (aged 18-64)

	2002	2005	2007	2008	2009	2010	2011	2012	2013	2014	EU 2014
TEA-index ¹	4.6	4.4	4.8	6.4	5.4	4.7	3.7	5.4	6.5	6.3	7.1
Established businesses ²	-	6.3	4.6	5.6	5.7	4.9	4.8	5.8	5.7	4.8	6.0
Overall entrepreneurial activity ³	-	10.1	9.3	11.8	10.8	9.5	8.4	11.2	11.9	11.0	12.8

Sources: Rebernik et al., 2004; Rebernik et al., 2006; Rebernik et al., 2008; Rebernik et al., 2009; Rebernik et al., 2010; Rebernik et al., 2011; Rebernik et al., 2012; Rebernik et al., 2013; Rebernik et al., 2014; Singer et al., 2015.

Notes: ¹ The TEA-index is the rate of total early-stage entrepreneurial activity measuring the share of the population engaging in entrepreneurship. It includes individuals who have started setting up new businesses or are engaging in new business activities, including self-employment. ² Established businesses represent the share of people who own a firm that has been operating for more than 42 months. ³ The overall entrepreneurial activity rate includes the TEA index and the share of established businesses.

Figure: Business demography in the tradable sector*, 2012, as a % of all active enterprises



Source: Eurostat Portal Page – Industry, Trade and Services – Structural business statistics, 2015.

Notes: Data for Greece not available; data for enterprises that went out of business are not final; Poland: deaths (2011); Finland: births (2011), deaths (2010). * The tradable sectors includes NACE activities C, G-I and J.

¹ For the methodological explanation of indicators that measure the entrepreneurial activity see the notes below the table.

² Data are from the survey that is carried out in the first half of the year.

³ Twenty-three Member States participated in the survey (twenty-one of which were the same as in 2013).

⁴ NACE activities B-N and S 95: the total business economy and repair of computers, personal and household goods.

⁵ Enterprises with average annualised growth in employees at least 10% per year over a three-year period, which had 10 or more employees in the first year of the three-year period.

2.10 Population with tertiary education

The share of adults with tertiary education reached the EU average for the first time in 2014. In the 2008–2014 period, the share of adults (aged 25–64 years) with tertiary education rose more than on average in the EU, which is related to the much higher participation of young people (20–24 years) in tertiary education than in the EU and a rapid increase in the number of graduates in this period. In 2013, the number of graduates otherwise fell for the first time, owing to declining enrolments as a consequence of demographic trends, which are also going to affect the number of graduates in the future.

In an international comparison, Slovenia stands out particularly by its large share of tertiary educated youth, which has been rapidly rising in the past few years. With a relatively high participation of young people in education,¹ Slovenia has a large share of tertiary educated youth. However, this holds true only for the 30–34 age group where the share of the population with tertiary education is rising faster than in the EU. In 2014, it stood at 43.7%. It has been higher than the EU average (37.8) since 2010 and has also already surpassed the Europe 2020 Strategy target of 40.0%. As a result of the much higher participation of women in tertiary education, the share of tertiary educated women (56.3%) is much larger than the corresponding share of men (38.4%). Given the low efficiency of study in

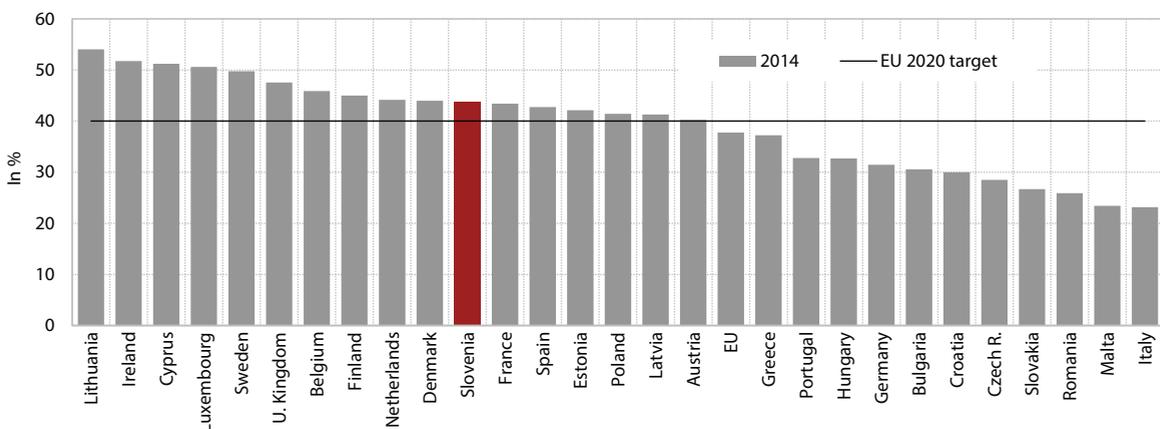
Slovenia, the share of the tertiary educated population in the 25–29 age group is smaller than in the EU (SLO: 32.4%; EU: 35.9%), and the gap widened further in 2014. The increase in the share of young people with tertiary education is favourable, as it strengthens the country's human capital, but for enhancing competitiveness, the structure of tertiary educated people is insufficiently adjusted to labour market needs. Job prospects for young people with tertiary education deteriorated significantly during the crisis, which spurred their migration abroad, a trend that intensified in 2013.

Table: Share of the population aged 25–64 with tertiary education, 2nd quarter, in %

	2002	2005	2008	2009	2010	2011	2012	2013	2014
Slovenia	14.8	20.0	21.9	22.5	23.7	25.5	26.1	27.8	29.2
EU	19.9	22.3	24.1	25.0	25.7	26.6	27.5	28.4	29.1

Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2015.

Figure: Share of the population aged 30–34 with tertiary education, 2nd quarter, in %



Source: Eurostat Portal Page - Population and Social Conditions, SI-STAT Data Portal – Demography and social statistics – Education (SURS), 2015.

¹ In the academic year 2013/2014, the participation rate of young people (20–24 years) in tertiary education totalled 47.3%.

2.11 Education expenditure

Public expenditure on education as a share of GDP remains high by international comparison, while the share of private expenditure is still low. Public spending on education¹ accounted for 5.34% of GDP in 2012.² Relative to the preceding year, it declined owing to a sharp decline in transfers to students at the levels of upper-secondary and tertiary education (as a consequence of changes in social legislation and austerity measures), the largest decline being in expenditure on tertiary education (as a % of GDP). The share of public funding for education in GDP in 2011 (the latest international data available) was otherwise higher than the EU average, but it had also increased more than in the EU in the 2008–2011 period. Public spending on education (as a % of GDP) exceeds the EU average at all levels except for the third triad of elementary education and for upper secondary education (Isced 2–4). Private expenditure as a % of GDP has been practically

unchanged³ since 2009, and lower than in the EU overall. In 2012, it declined only at the tertiary level, where it is lower than on average in the EU.

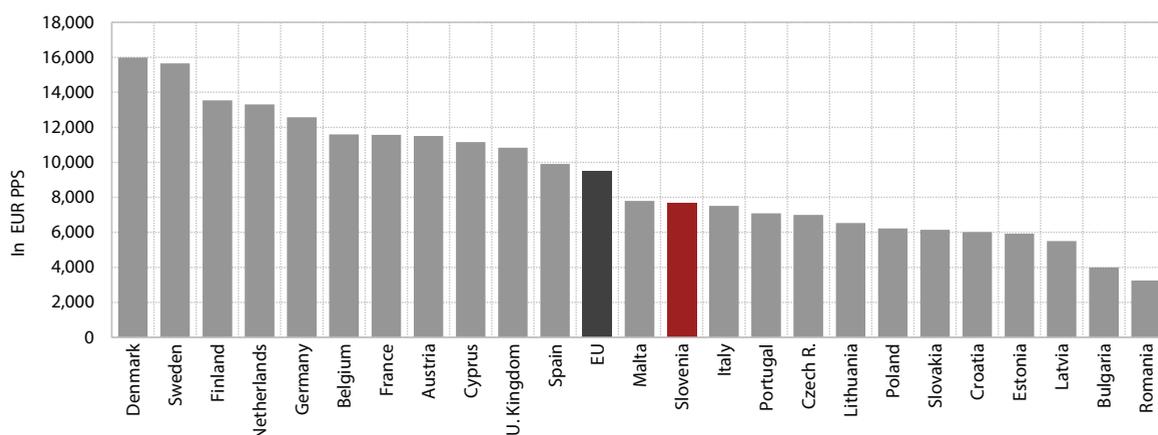
Expenditure (both public⁴ and private) per participant in education is low due to the large number of people enrolled, but it is rising. In 2011, expenditure on educational institutions per participant increased at all levels but remained lower than on average in the EU.⁵ It was higher only at the primary level, which includes the first two triads of elementary school (grades 1–6). Expenditure at the tertiary level was much lower despite high public funding, which is attributable to the high participation of young people in tertiary education. However, given the decline in the generations of young people for enrolment, expenditure per participant in tertiary education otherwise increased the most in the 2008–2011 period.

Table: Total public expenditure on education as a share of GDP, in %

	2005	2008	2009	2010	2011	2012
All levels of education						
Slovenia	5.73	5.20	5.69	5.68	5.68	5.34
EU	4.92	5.04	5.38	5.41	5.25	.
Tertiary education						
Slovenia	1.25	1.21	1.38	1.37	1.37	1.20
EU	1.12	1.14	1.21	1.25	1.27	.

Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2015. SI-Stat Data Portal – Demography and social statistics – Education (2015).

Figure: Expenditure on educational institutions per participant at the tertiary level of education, in EUR PPS, 2011



Source: Eurostat Portal page — Population and Social Conditions – Education and training, 2015.

¹ The share of public expenditure on education relative to GDP is calculated according to the European System of Accounts 2010/ESA 2010, in respect of GDP data released in August 2014.

² According to the revised international classification of education ISCED 2011, which also includes the first age group of the pre-primary level of education, public spending on education totalled 5.66% of GDP in 2012.

³ In 2012, it was 0.67% of GDP (according to the revised classification, 0.77% of GDP).

⁴ Public expenditure does not include transfers for students/households.

⁵ In 2011, total expenditure for formal education per participant amounted to PPS EUR 6,781.7 (EU: PPS EUR 6,846.4).

2.12 Participation of adults in lifelong learning

The participation of adults in lifelong learning exceeds the EU average, but is declining. In 2014, the participation of adults aged 25–64 in lifelong learning (formal and non-formal education) declined for the fourth consecutive year but was still higher than the EU average. Slovenia is thus moving away from the objective of the strategic framework for European cooperation in education and training (Education and Training 2020/ET 2020), which is 15%, and the objective of the Resolution on the Slovenian Master Plan for Adult Education 2013–2020, which is 19%. Compared with the EU, the lower participation rates for older people (55–64 years) and less educated people stand out in particular. We estimate that the lower participation of adults in lifelong learning during the crisis is related to a decline in the financial means for education of both adults and employers, and cuts in public funds for adult education in recent years.

The participation of employed people in lifelong learning is also diminishing. The participation of employed persons aged 25–64 in lifelong learning is above the EU average,¹ but it fell in 2008–2013 in Slovenia, while it increased in the EU. In 2013, it was higher than in the EU overall in all sectors but administrative and

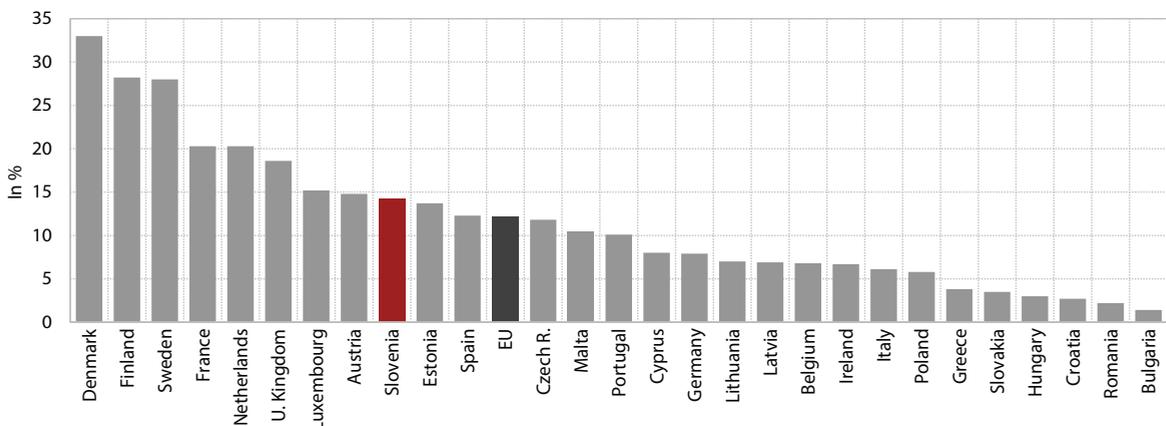
support service activities and construction. The lowest participation was recorded in construction and the highest in education, with considerable differences existing between sectors (see Chapter 2.2). Broken down by occupation, participation in lifelong learning is highest in the ISCO 1–3 group,² which has the largest share of employed persons with tertiary education. In other occupational groups, where income tends to be lower and people are less able to afford education, participation is much lower owing to declining employer investment, despite government incentives. The difference in participation in lifelong learning between ISCO 1–3 and other occupational groups is higher than on average in the EU, although it declined in 2008–2013.

Table: Participation of adults aged 25–64 in lifelong learning, 2nd quarter, in %

	2005	2008	2009	2010	2011	2012	2013	2014
Slovenia	17.8	15.9	17.0	18.2	17.2	14.7	13.7	13.4
EU	9.6	9.9	9.9	9.6	9.3	9.7	11.2	11.4

Source: Eurostat Portal page — Population and Social Conditions – Education and training, 2015.

Figure: Participation of employed persons aged 25–64 in lifelong learning, 2013, in %



Source: Eurostat Portal page — Population and Social Conditions – Education and training, 2015.

¹ The participation of employed persons in lifelong learning in 2013 totalled 14.2% in Slovenia and 12.0% in the EU.

² Legislators, senior officials, managers; professionals; technicians and associate professionals.

2.13 Gross domestic expenditure on research and development

In 2013, the share of gross domestic expenditure on R&D (GERD) remained at the previous year's level (2.59% of GDP) and was higher than the EU average for the fourth consecutive year. In 2013, the real growth rate of GERD was negative for the first time in the 2009–2013 period (-1.1%), but owing to a similar real fall in GDP, the share of GERD in GDP did not decline. During the crisis, investment in R&D rose considerably in real terms, by 31.5%, which is significantly more than in the EU overall (5.1%). The increase was mainly attributable to the business sector, which has increased investment in R&D by 44.8% in real terms since the beginning of the crisis, in part due to higher tax reliefs.¹ In the five-year period (2009–2013) the business sector claimed EUR 627.0 m in tax reliefs for R&D, of which almost a third in 2013 alone. Since 2009, the business sector has been increasing its share in total funding for GERD. In 2013, this share was 63.8%, which was more than in all EU Member States except Germany. The share of researchers in the business sector² in the total number of researchers is also rising along with its investments in R&D. In 2013, it reached

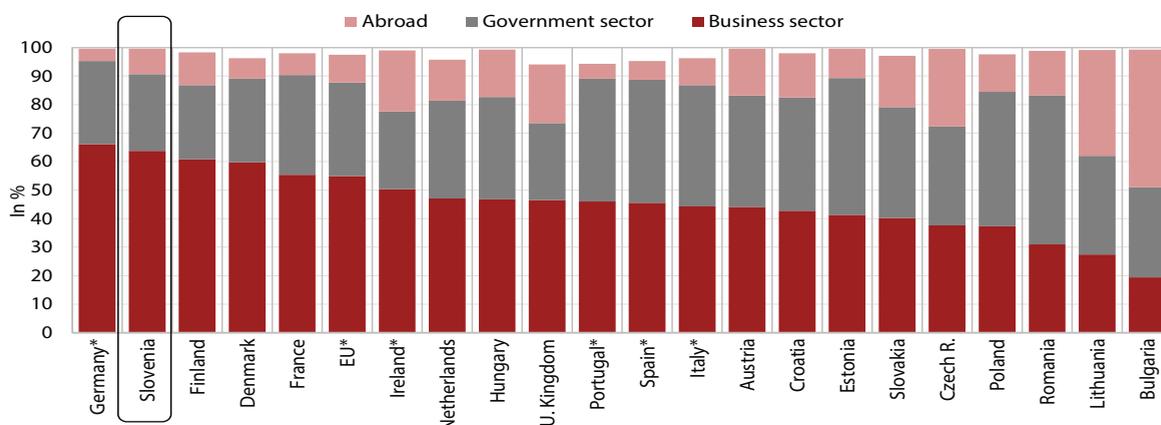
the highest level thus far (53.6%) and was higher than the EU average for the third year in a row (2013: 48.2%). The government sector's expenditure on GERD, which has been falling in real terms since 2012, declined by a further 7.3% in 2013, so that its share in total funding for GERD fell considerably, to 26.9% (2009: 35.7%). Funding from abroad for the implementation of R&D projects in Slovenia accounted for a significant portion of GERD, as it has risen in real terms during the crisis (in total, by as much as 94.1%). In 2013, funding from abroad increased only by 3.0% in real terms and represented 8.9% of total expenditure (2006: 6.0%). The majority of foreign funding for Slovenian R&D came from investment by the European Commission and the business sector abroad. All other Central and Eastern European countries have much larger shares of foreign funds in gross domestic expenditure on R&D, between 10% and 50%, the majority being European Commission funds.

Table: Gross domestic expenditure on R&D, % of GDP

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	1.36	1.41	1.42	1.63	1.82	2.06	2.43	2.58	2.59
EU	1.79	1.76	1.78	1.85	1.94	1.93	1.97	2.01	2.02

Source: Eurostat Portal Page – Science and Technology – Research and Development, 2014; SURS, 2015.
 Note: Data for EU-28 are Eurostat estimates.

Figure: Gross domestic expenditure on R&D by source of funding, in %, 2013*



Source: Eurostat Portal Page - Science and Technology – Research and Development, 2014; SURS, 2015.

Note: * Data for 2012; the difference to 100% (between 0.4% and 5.9%) is contributed by the higher education and private non-profit sectors.

¹ The tax relief on investment in R&D of 20% was introduced in 2006. In 2010 it was raised to 40% and then to 100% in 2012.

² Expressed on a full-time equivalent basis.

2.14 Innovation-active enterprises

In 2010–2012, 46.5% of enterprises were innovation-active in Slovenia, which is slightly less than in the EU as a whole (48.9%). In manufacturing, this share is traditionally higher (49.9%), while in the service sectors it is usually lower (43.8%). As a result of a larger number of activities that are now included in the statistical survey on innovation activity,¹ data are methodologically incomparable with those for the previous period of 2008 to 2010. Changes in innovation intensity can otherwise be inferred from data based on the previous methodology (SURs, 2014), which indicate that the share of innovation-active enterprises (IAE) declined in 2010–2012 by 3.5 percentage points relative to the 2008–2010 period. Eurostat figures for EU Member States for which comparable data are available also show a decline in the share of IAE in the majority of EU countries. Slovenia has a wider gap with the EU in innovation activity in service activities than in manufacturing, while the share of only non-technologically innovation-active enterprises remains higher than in the EU overall. Innovation

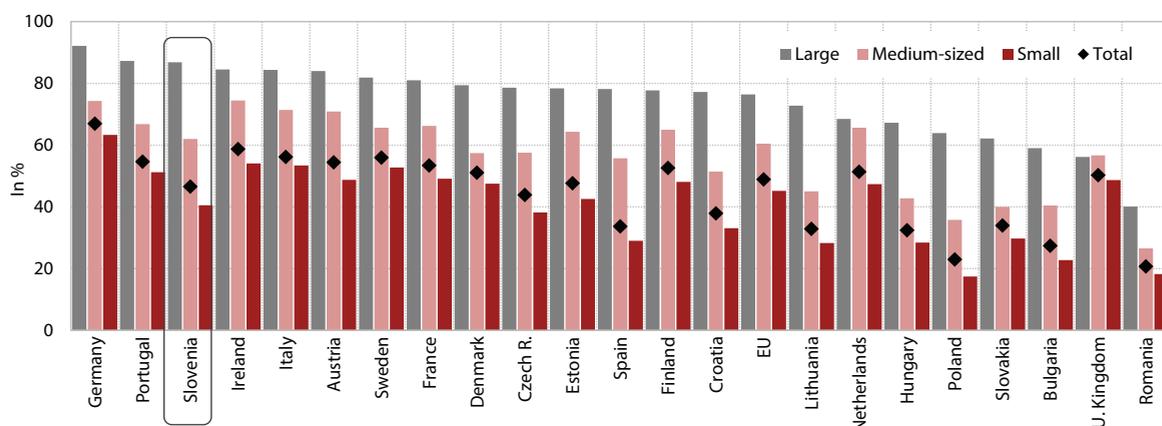
intensity is highest in information and communication activities (Slovenia: 67.1%; Finland, Ireland, Austria, Portugal and Germany: over 70%). It is also conditional on the size of enterprises, being lowest in small enterprises in all countries. Slovenia has a 40.5% share of innovation-active small enterprises, compared with the EU average of 45.2%. In terms of innovation activity in medium-sized and large enterprises, Slovenia exceeds the EU by 1.5 or 10.5 percentage points, respectively. From the perspective of the effective functioning of the business ecosystem, there is still significant room for incentives to enhance innovation intensity particularly in small enterprises, most of which are engaged in service activities.

Table: Innovation-active enterprises by type of innovation activity in 2010–2012, in % of the total number of enterprises

	TOTAL	Technological innovations	Non-technological innovations	Tech. and non-tech. innovations simult.	MANUFACTURING ACTIVITIES	Technological innovations	Non-technological innovations	Tech. and non-tech. innovations simult.	SERVICES	Technological innovations	Non-technological innovations	Tech. and non-tech. innovations simult.
Slovenia ¹	46.5	9.0	13.8	23.8	49.9	10.3	11.9	27.8	43.8	8.0	15.7	20.1
EU	48.9	11.8	12.9	24.2	51.8	14.0	10.9	26.9	46.8	9.8	14.8	22.3

Source: Eurostat Portal Page – Science and Technology – Community innovation survey, 2014; First Release, SURs (2014); calculation by IMAD.
Note: ¹ Data for manufacturing for Slovenia are, because of availability, taken from the First Release, April 17, 2014 (SURs).

Figure: Share of innovation-active enterprises by size, 2010–2012, in % of the total number of enterprises



Source: Eurostat Portal Page – Science and Technology – Community innovation survey, 2014; calculations by IMAD.

¹ The survey captures 131 more enterprises and also comprises the following activities: J 59–60: motion picture, video and television programme production, sound recording and music publishing activities and programming and broadcasting activities; M 72–73: scientific research and development and advertising and market research, where small service enterprises prevail, which are least innovation-active. For more on this issue see Innovation activity in manufacturing and selected activities, SURs, 2014.

2.15 Science and technology graduates

The share of science and technology graduates rose further in Slovenia in 2013 and exceeds the EU average, but their number is decreasing because of smaller generations of young people. The favourable trends in the share of science and technology graduates are related to the popularisation of this field, more scholarships and better employment prospects than for social science graduates. However, as in most other fields, the number of graduates in science and technology is declining because of demographic trends, i.e. the shrinking population of young people for enrolment in tertiary education.

The number of these graduates per 1,000 population aged 20–29¹ also fell, although it was still above the EU average. With a decline in enrolment in the past few years, we expect the number of science and technology graduates to continue to fall in the coming years, which could increase the mismatch between the supply of and demand for these graduates on the labour market. Sponsorship scholarships are also failing to reduce the mismatch, given that the share of science and technology graduates with this type of scholarship is declining and many such scholarships go unawarded because students do not want to be tied to one employer.²

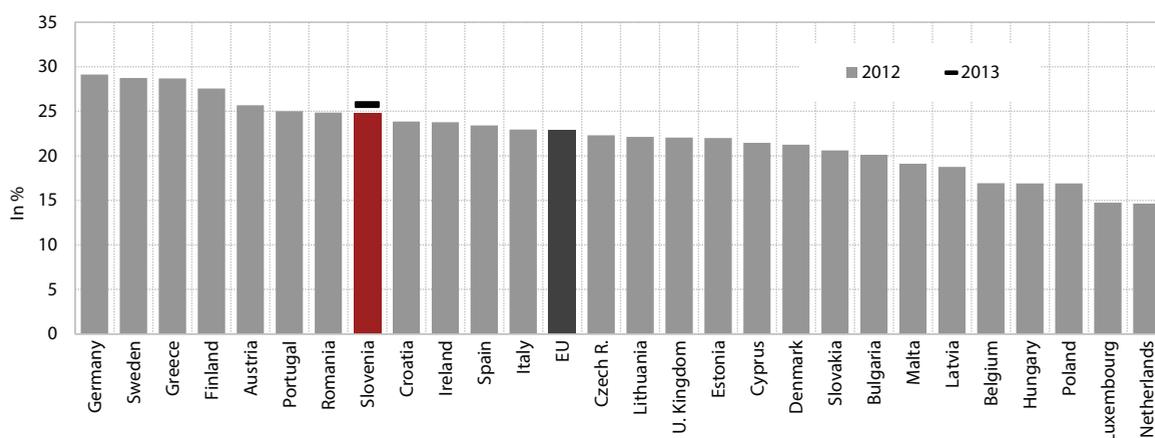
The number of doctors of science and technology increased further in 2013. In 2008–2012 (the most recent international data), it was rising more slowly than on average in the EU. The increase in the number of doctors of science and technology is attributable to government incentives (Young Researchers, Young Researchers in the Economy), the favourable trends being also impacted by a concurrent completion of studies under the new Bologna and previous (pre-Bologna) programmes. The share of new doctorate holders in the field of science and technology in the total number of doctors of science otherwise varies across the years, also depending on incentives. While it was close to the EU average in 2012, it rose to 50.3% in 2013. However, with enrolment in doctoral studies falling since the academic year 2012/2013 owing to cuts in public funds for young researchers, these favourable movements are not expected to continue in the years to come.

Table: Share of new doctors of science and technology in the total number of doctors of science, in %

	2005	2006	2007	2008	2009	2010	2011	2012
Slovenia	48.5	43.5	46.0	49.1	48.7	53.3	40.9	44.5
EU	40.5	42.4	40.9	41.8	42.0	43.4	43.5	44.4

Source: Eurostat Portal page — Population and Social Conditions – Education and training, 2015.

Figure: Share of science and technology graduates in the total number of tertiary education graduates, 2012



Source: Eurostat Portal Page - Population and Social Conditions, SI-STAT Data Portal – Demography and social statistics – Education (SURS), 2015.

¹ In 2013, it totalled 18.8.

² Strokovna izhodišča za pripravo politike štipendiranja, 2014 (Expert basis for drawing up scholarship policy, 2014).

2.16 Intellectual property

Slovenia's gap with the EU average in terms of patent applications with the European Patent Office (EPO) remains wide; the gap in Community designs is narrowing, while the number of Community trademark applications exceeded the EU average in 2014.

According to provisional data, Slovenian applicants filed 59.7 patent applications per million population with the EPO in 2014,¹ which is an almost 10% decline over 2013, when the number of patent applications per million population recorded growth for the first time since the decline in 2009–2014. In 2014, Slovenia widened its gap with the EU average in the number of patent applications per million population again, but remained much more successful in the number of patent applications with the EPO than other Central and Eastern European countries.² In 2009–2014, the number of patent applications per million population fell at a 0.3%

average annual rate, while in most EU Member States the value of this indicator was rising. The number of Community trademark³ applications filed by Slovenian applicants with the OHIM⁴ increased to 170.8 per million population in 2014, which indicates a continuation of growth from the previous two years. In 2014, the number of Community trademark applications for the first time exceeded the EU average, which totalled 163.7 per million population. In 2014, Slovenian applicants registered 84.9 Community designs⁵ per million population with the OHIM, which also means a continuation of growth (2014; 14.3%; 2013: 18.4%). The value of this indicator was up 59.5% over 2008 in 2014, but still much lower than the EU average (126.0).

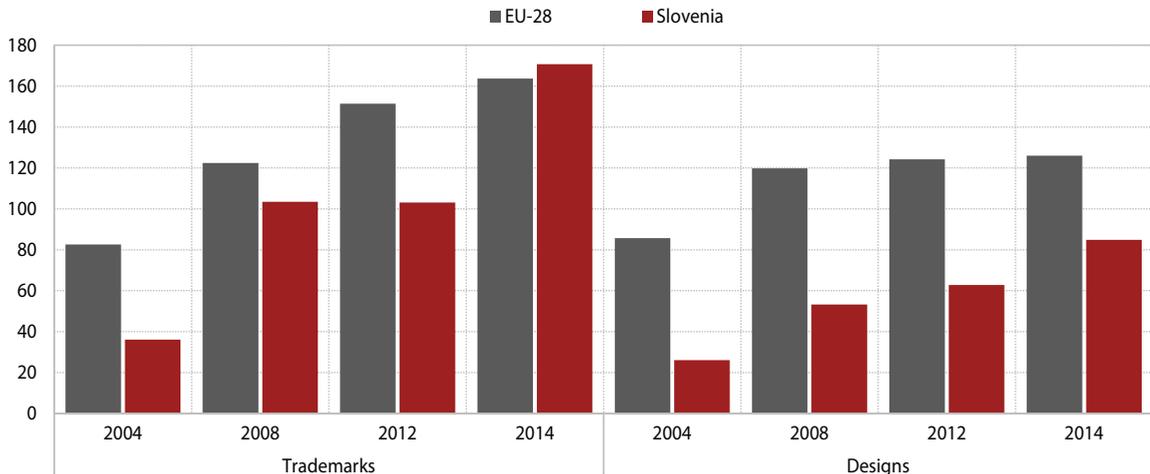
Table: Patent applications filed with the EPO by year of first filing, per million population

	2000	2005	2007	2008	2009	2010	2011 ²	2012 ³	2013 ⁴	2014 ⁴
Slovenia	24.7	54.3	59.3	69.1	60.6	50.8	48.2	41.6	65.6	59.7
EU	106.2	115.3	116.9	113.2	112.1	111.4	109.6	108.6	129.4 ⁵	132.3 ⁵

Source: Eurostat Portal Page – Science and Technology – Patent statistics, 2015; EPO Annual Report – statistics 2014, 2015.

Notes: ¹Data for 2013 and 2014 relate to patent applications that are not necessarily the first on a global scale but were filed with the EPO in the current year (EPO Annual Report – statistics 2014, 2015). ^{2,3} Eurostat estimate. ⁴ Provisional data. ⁵ IMAD estimate based on the calculation of data for EU Member States.

Figure: Number of Community trademarks applications and registered Community designs per million population



Source: OHIM Web Page, 2015; calculations by IMAD.
Note: In 2004 EU-25.

¹ The data on patent applications for 2013 and 2014 are taken from the EPO Annual Report, meaning that they refer to the current year. These are not necessarily the first patent applications on a global scale, as released by Eurostat (for more information, see the Slovenian Economic Mirror 2/2009).

² Estonia and the Czech Republic, which rank 2nd and 3rd among these countries, in 2014 filed 27.4 and 15.9 patent applications per million population with the EPO, respectively.

³ A trademark or service mark is any sign (or any combination of signs) protected by the law, capable of distinguishing identical or similar goods or services, and of being graphically represented. A trademark is valid for ten years from the filing date and may be renewed (SIPO Annual Report 2011, 2013).

⁴ Office for Harmonization in the Internal Market (Urad za harmonizacijo na notranjem trgu EU).

⁵ A design entails the appearance of a product protected by law provided that it is new and has an individual character. Design protection lasts for five years and can be renewed (2011 SIPO Annual Report, 2013).

2.17 Use of internet and e-services

The prevalence of Internet usage has been lagging slightly behind the EU average in recent years.

Since 2010, when the prevalence of Internet access and use was comparable with the EU average, Slovenia's gap with more advanced countries has been gradually increasing. In the first quarter of 2014, the share of Internet users (72%) was even somewhat smaller than a year earlier (in contrast to the EU where it rose further), while the share of households with Internet access (77%) was again increasing more slowly than in the EU. The underlying cause of these developments is, in part, the crisis, which made the Internet less accessible particularly to households in lower income brackets. The impact of the crisis is also reflected in a smaller share of Internet users among less educated people, which were more likely to lose jobs during the crisis. Both groups recorded a decline in the share of Internet users in 2014 and the widest gap with the EU since the onset of the crisis. Furthermore, Internet usage among older people (particularly in the age group of 55–64) is also much lower in Slovenia than in the EU. Last year's gap in this area was also the widest thus far, the main reason being that older people lack appropriate skills. Although Slovenia does not diverge from the EU average in e-skills (basic skills for computer

use, use of internet), it lags significantly behind in terms of e-competences of older people and those with a lower education.

Slovenia continues to lag behind the EU average in the use of some advanced e-services. Internet users in Slovenia use the Internet to nearly the same extent or more than in the EU not only for simple services such as seeking information, reading on-line news from various media or downloading official forms, but also for selling goods and services, making phone calls and publishing their own web content. However, Slovenia has a wide gap – which is not narrowing – in the use of some more sophisticated services, in particular e-banking, online shopping, online travel booking and downloading software. In the last two years, greater progress was made only as regards submitting completed forms to government institutions. Lower use of more sophisticated services (relative to the EU), which is typical of all age groups, may also be a sign of lower trust of Slovenian users in the security of such internet services, but it definitely reveals the significance of appropriate e-skills, which can be notably improved by effective integration of ICT in all levels of educational processes, including life-long learning. Research shows that schools are relatively well equipped with computers compared with the EU, but the quality of equipment is lower and pupils less frequently use ICT during lessons (Survey of schools, 2013; TIMMS 2011, 2012).

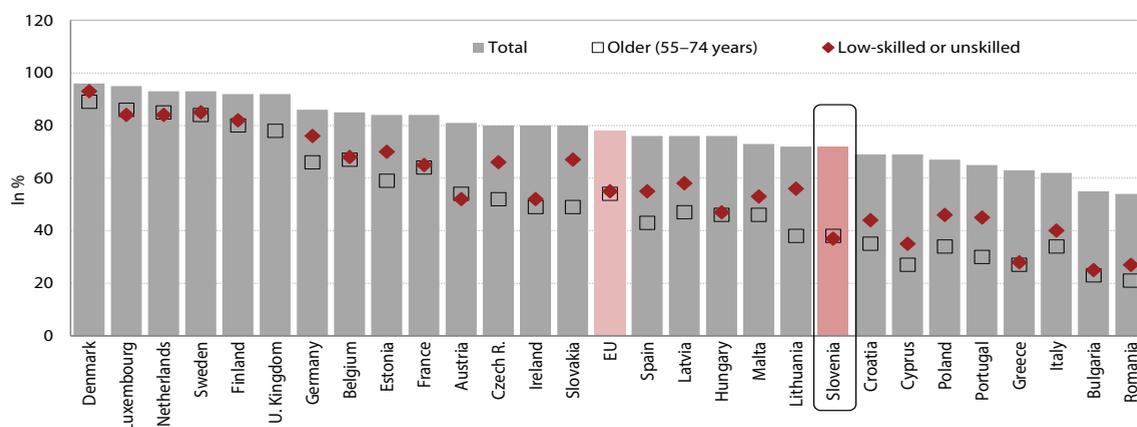
Table: Internet usage and access by households and individuals, Slovenia (16–74 years)

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Internet users in the last three months	Slovenia	47	51	53	56	62	68	67	68	73	72
	EU	N/A	N/A	57	61	65	69	71	73	75	78
Households with Internet access	Slovenia	48	54	58	59	64	68	73	74	76	77
	EU	N/A	N/A	55	60	66	70	73	76	79	81
Households with broadband Internet access	Slovenia	19	34	44	50	56	62	67	73	74	75
	EU	N/A	N/A	42	48	57	61	67	72	76	78

Source: Eurostat Portal Page – Information Society, 2014.

Note: Data for individual years refer to the first quarter, N/A – data not available.

Figure: Internet users in the last three months, as a % of selected population, 2014¹



Source: Eurostat Portal Page – Information Society, 2014.

Note: ¹ Data refer to the first quarter of the year.

2.18 Trust in institutions

In 2014, people's trust in institutions¹ in Slovenia increased slightly, but remained low. Trust in key institutions in Slovenia and the EU has declined significantly since the beginning of the crisis. Over the whole period, people have put the lowest trust in political parties and the highest trust in the EU. At the latest measurement, trust in institutions increased relative to 2013, when it was at its lowest for the last ten years. The share of respondents who trust the parliament, the government and the EU was 3 percentage points higher year-on-year in November 2014; the share of those who trust the local authorities also rose slightly. The increased trust in institutions may be attributable to political changes, given that 2014 was a year of European, government and local elections. The level of trust in political parties, in contrast, remained low at the latest measurement.

Trust in national institutions is among the lowest in the EU. Trust in the government, political parties and local

authorities remains below the EU average according to the latest survey, while trust in the parliament is the lowest in the entire EU. The low trust in institutions is to a great extent related to dissatisfaction with the current economic and political situation in Slovenia. According to the most recent Eurobarometer data, 57% of respondents in Slovenia are worried about unemployment, 47% about the economic situation and one quarter about the rising general government debt. At the same time, the majority of respondents think that the employment situation, the economic situation and their life in general will remain the same in the next twelve months.

Trust in EU institutions is higher. Respondents in Slovenia expressed the highest levels of trust in the EU parliament (41%) and the European Commission (40%), and a slightly lower level of trust in the central bank (36%), all these figures being similar to the EU average. Relative to the year before, in the latest measurement, the level of trust in all main institutions of the EU increased, but trust in EU institutions nevertheless remains much lower than before 2012.

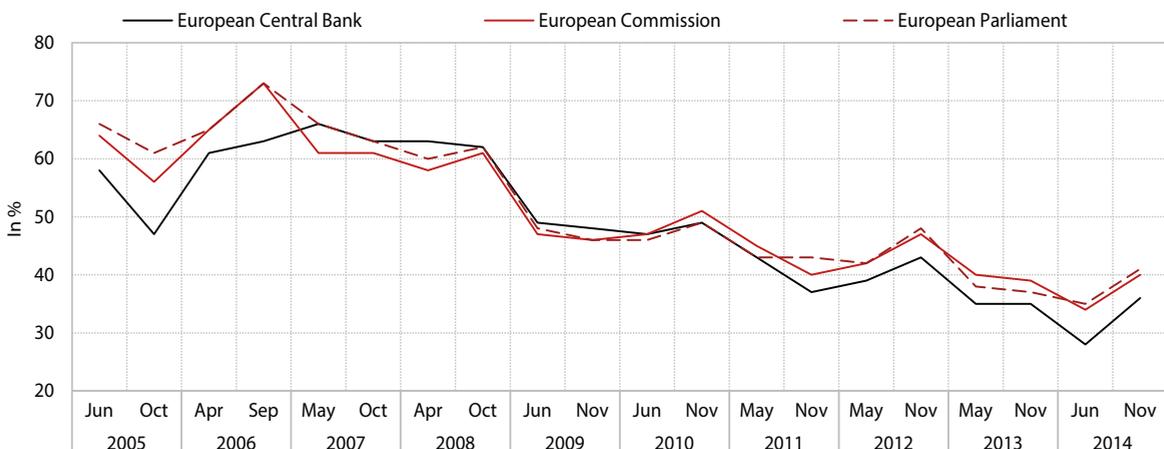
Table: Trust in institutions, in %

		2005	2007	2008	2009	2010	2011	2012	2013	2014
Parliament	Slovenia	33	31	34	19	23	10	12	6	9
	EU	35	35	34	30	31	27	28	25	30
Government	Slovenia	39	32	36	29	27	12	15	10	13
	EU	31	34	34	29	29	24	27	23	29
Political parties	Slovenia	14	13	17	9	11	7	9	6	6
	EU	17	18	20	16	18	14	15	14	14
Local authorities	Slovenia	N/A	N/A	39	40	39	36	34	29	31
	EU	N/A	N/A	50	50	47	45	43	44	43
EU	Slovenia	55	65	60	50	47	38	39	37	40
	EU	45	48	47	48	42	34	33	31	37

Source: Eurobarometer.

Note: Except for 2010, data for individual years are the latest available data in the given year (autumn measurement). Data for the EU for 2005 are for the EU-25, between 2007 and 2012 for the EU-27, for 2013 and 2014 for the EU-28; N/A – data not available.

Figure: Trust in EU institutions, Slovenia, in %



Source: Eurobarometer.

¹ The source of data is Eurobarometer, which is based on the public opinion poll on the level of trust in selected institutions. The possible answers were: tend to trust, tend not to trust and don't know.

3 Demographic changes and the welfare state

Demographic changes

- 3.1 Fertility rate
- 3.2 Net migration
- 3.3 Life expectancy
- 3.4 Age-dependency ratio or changes in the population age structure

Labour market

- 3.5 Employment rate
- 3.6 Unemployment rate
- 3.7 Long-term unemployment rate
- 3.8 Temporary and part-time employment
- 3.9 Minimum wage
- 3.10 Young people not in employment, education or training

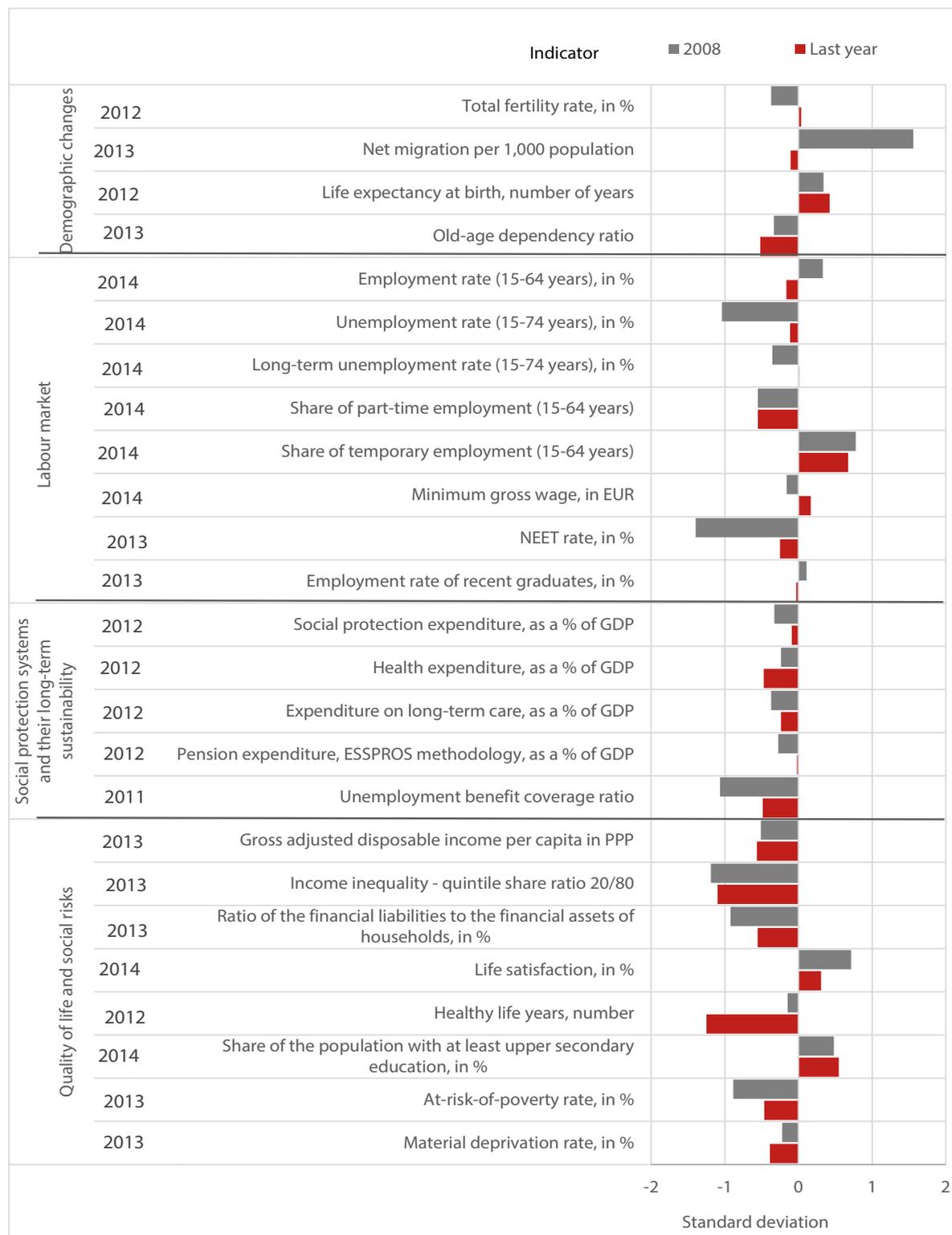
Social protection systems and their long-term sustainability

- 3.11 Social protection expenditure
- 3.12 Health expenditure
- 3.13 Expenditure on long-term care
- 3.14 Pension expenditure
- 3.15 Unemployment benefit coverage

Quality of life and social risks

- 3.16 Gross adjusted disposable income per capita
- 3.17 Income inequality
- 3.18 Household indebtedness
- 3.19 Life satisfaction
- 3.20 Healthy life years
- 3.21 Share of the population with at least upper secondary education
- 3.22 At-risk-of-poverty rate
- 3.23 Material deprivation rate

Review of indicators – Demographic changes and the welfare state



Source: Calculations by IMAD.

Note: The table shows Slovenia's position relative to the unweighted arithmetic average of EU Member States. It is calculated with regard to the set of countries for which data for individual indicators were available; Cyprus, Malta, Luxembourg and Croatia were excluded from the analysis for lack of data. The data in the table are for 2008 and the last year for which data for EU Member States were available (the last year is indicated in the table). A positive indicator value means above-average development relative to the EU, while a negative value indicates that Slovenia is lagging behind the EU average regarding that indicator.

3.1 Fertility rate

The fertility rate in Slovenia has been hovering just above 1.5 children per woman of childbearing age since 2008. A total of 21,111 children were born in 2013, 3.8% fewer than in 2012. The total fertility rate¹ thus decreased to 1.55 children per woman of childbearing age (from 1.58 in 2012), despite a smaller number of women of childbearing age. Looking at a longer period, the fertility rate is below the EU average in Slovenia. None of the EU countries has a fertility rate that would ensure even a simple replacement of the population (2.1). Infant mortality (children younger than one year) in Slovenia (2013: 2.9 per 1,000 live-born) is one of the lowest in the EU, which is attributable to the quality of health care services for pregnant women and children.

The mean age of mothers at the birth of their last child remained at the EU average in 2012. In 2013, the mean age of mothers at the birth of their last child in Slovenia remained the same as in 2012 (30.5 years), while the mean age of mothers giving birth for the first time rose further by more than one month (to 29.0 years). In the period between 2001 and 2012 (for which data for the EU are available), the mean age of mothers in Slovenia increased more (by 1.6 years) than in the EU (by 1.1 years) and then persisted at the EU average in the last two years. Data for countries such as Spain, Ireland and Italy, which have significantly different fertility rates, indicate a

possible increase of age beyond 31; the mean age at first childbirth in the UK has also already come close to 31. In Slovenia, the number of women of childbearing age started to decline faster in the last two years (in 2013 it was 6,000 lower), and judging by the size of generations, this trend will continue in the next few years. At current fertility rates, this would lead to fewer and fewer births.

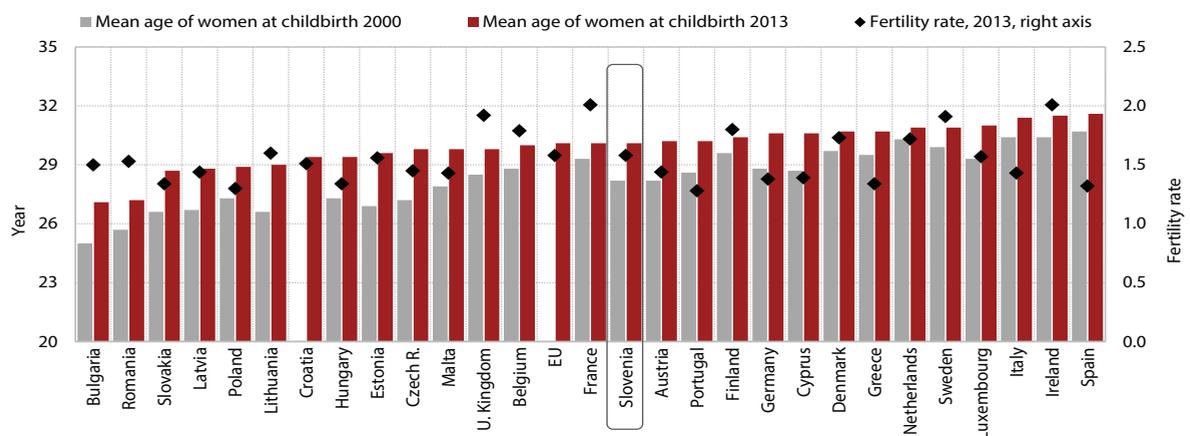
The government support measures to help young people start a family are favourable by international standards, but with the continuation of the unfavourable economic situation, the material conditions for starting a family have deteriorated slightly in the past few years. The measures intended to raise the quality of family life and help young people start a family involve the system of parental compensations and family benefits, and the provision of pre-school child care. Slovenia still has one of the most parent- and child-friendly systems of parental protection in the EU; the share of children aged 3-5 attending kindergarten has otherwise declined in the past few years, but is still higher than the EU average. Austerity measures also made inroads into the area of family policy, as certain rights were abolished or reduced² as a result of the ZUJF. Given the deterioration on the labour market, we can therefore conclude that the material conditions for starting a family have worsened in the past few years.

Table: Fertility rate, Slovenia and the EU

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	1.26	1.26	1.38	1.53	1.53	1.57	1.56	1.58	1.55
EU	N/A	1.51	1.56	1.61	1.60	1.61	1.58	1.58	N/A

Source: Eurostat Portal Page – Population and Social Conditions – Population – Demography – Fertility, 2015.
Note: N/A – not available.

Figure: Mean age of women at childbirth (2000 and 2012) and fertility rate in EU countries (2012)



Source: Eurostat Portal Page – Population and Social conditions – Population – Demography – Fertility, 2014.

¹ The total fertility rate is the sum of age-specific general birth rates in a calendar year. It indicates the number of live births per woman if during her entire childbearing age the age-specific fertility rates were to remain unchanged from the given calendar year.

² See Development Report 2014, p. 84.

3.2 Net migration

Since 2010, net migration has been low in Slovenia primarily owing to lower immigration. This was also the case in 2013, when 487 more people immigrated to than emigrated from Slovenia, while the numbers of immigrants (13,871) and emigrants (13,384) were smaller than in the preceding year (by 7.7% and 6.9%, respectively). Among foreign nationals who moved to Slovenia, the majority (albeit fewer than in the past) still came from former Yugoslav republics (2013: 72.3%). Among immigrants from other countries, the most, although much fewer, came from Bulgaria, Italy, Russia, Romania, Ukraine and Germany (together 16.8%). In 2013, 47.2% of foreign nationals moved to Slovenia to find work; since 2011, an almost equally important reason has been to reunite with families (2013: 42.8%), given that there is practically no demand for foreign labour because of the economic crisis. Foreigners who have jobs and intend to stay in Slovenia for a longer period are, after some time, joined by their families. A total of 4.4% of all immigrated foreign nationals older than 15 come to Slovenia to study. More than 60% of those older than 15 are in the age group of 20–39, and only a tenth of them have at least higher education. In the first nine months of 2014, net migration was slightly negative.

Since 2000, the number of Slovenian citizens moving abroad has been higher than the number of those returning, but in the last two years, the negative net migration of citizens increased significantly. In the

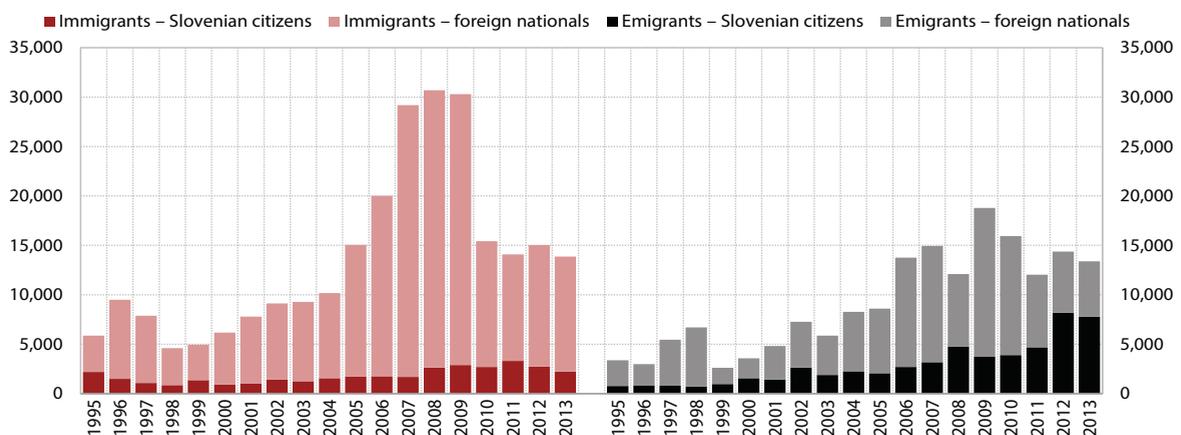
last two years, Slovenian citizens already accounted for the majority (57.6%, on average) of all emigrants, i.e. citizens and foreign nationals together, compared with only 27.6% per year on average in previous years (the average of 1995–2011). Negative net migration of Slovenian citizens (i.e. more emigrants than immigrants) recorded since 2000 thus increased to almost 5,500 per year (compared with fewer than 1,000 in 2000–2011). In 2013, two thirds of emigrated Slovenians moved to EU countries, particularly Austria and Germany (2013: 3,191, or 41% of all), while a solid 10% went outside the EU. In 2013, more than half of emigrated citizens over 15 years old were under 40 years (among immigrated foreigners, 60%), and 24% of emigrated citizens older than 15 had at least higher education, which is the highest share in the last three years since comparable data have been available. The majority of them moved to Germany. In the first nine months of 2014, immigration of Slovenian citizens rose significantly (by 16.6%), but once again more Slovenians moved abroad (7%).

Table: Net migration (with statistical corrections), per 1,000 population, Slovenia and selected EU Member States, 2000–2013

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	1.4	3.2	7.1	9.2	5.6	-0.3	1.0	0.3	0.2
EU	2.1	3.1	3.1	2.4	1.4	1.5	1.5	1.7	3.3

Source: Eurostat Portal Page - Population and Social Conditions – Demography, 2014.

Figure: Emigration from and immigration to Slovenia, 1995–2013



Source: SURS.

3.3 Life expectancy

Life expectancy for women increased slightly in Slovenia in 2013, while life expectancy for men remained unchanged. Assuming the current mortality pattern, a girl born in 2013 could expect to live 83.1 years (almost 2.5 months longer than a girl born a year earlier) and a boy 76.9 years. In the last ten years, life expectancy rose by 3.89 years for boys and 2.4 years for girls. The gender gap, which was widest at the end of the 1980s (8 years), narrowed to 6.2 by 2013. In Slovenia, 34.1% of men and 64.0% of women reached 80 years in 2013.

Life expectancy in 2012 (the latest international data) in Slovenia was similar to the EU average (80.3 years¹). It remained lower than in the old Member States (with the exception of Denmark) and higher than in the new ones (except for Cyprus and Malta), which is related to the living standard and way of life. Life expectancy is highly impacted by lifestyle and nutrition,² which is also evident from the set of countries with the highest life expectancies – Spain, Italy, and France.

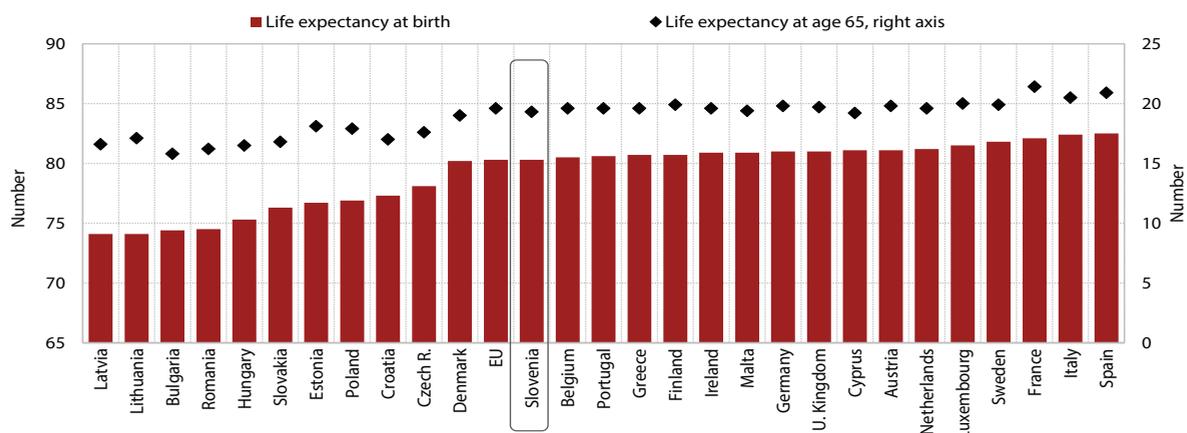
Life expectancy at age 65 in Slovenia is somewhat lower than the EU average due to the lower life expectancy for men. In twenty years, it rose by slightly less than four years for both genders and was 17.1 years for men and 21.1 years for women in 2012. The increase is attributable to advances in medicine, greater accesses to health services, healthier lifestyle and better living conditions.³

Table: Life expectancy at birth

	2000	2005	2007	2008	2009	2010	2011	2012
Slovenia, by gender, together	76.2	77.5	78.4	79.1	79.4	79.8	80.1	80.3
Men	72.2	73.9	74.6	75.5	75.9	76.4	76.8	77.1
Women	79.9	80.9	82.0	82.6	82.7	83.1	83.3	83.3
EU, by gender, together	N/A	78.5	79.1	79.4	79.6	79.9	80.3	80.3
Men	N/A	75.4	76.0	76.3	76.6	76.9	77.4	77.5
Women	N/A	81.5	82.2	82.3	82.6	82.8	83.1	83.1

Source: Eurostat Portal Page – Population and Social Conditions – Population – Demography – Mortality, 2014.
Note: N/A – not available.

Figure: Life expectancy at birth and age 65, EU, 2012



Source: Eurostat Portal Page – Population and Social Conditions – Population – Demography – Mortality, 2014.

¹ SURS does not publish data on total life expectancy, while its data on life expectancy by gender differ slightly from those published by Eurostat due to methodological differences.

² OECD (2014), Health at a Glance: Europe 2014.

³ OECD (2014), Health at a Glance: Europe 2014.

3.4 Age-dependency ratio or changes in population age structure

Slovenia had 23.1 young people and 27.6 older people (together 50.7) per 100 working-age population¹ at the beginning of 2014.² Having been falling since 2012, the number of working-age people (20–64 years) was almost 15,000 lower (-1.1%) in 2014 than in 2011. This is mainly the result of larger and larger cohorts of people joining the older population (65+), and smaller and smaller cohorts of young people entering the active labour force. Specifically, large post-war generations started to join the ranks of the older population, i.e. people born after World War II (up to the beginning of the 1980s) when the number of births was still at around 30,000 per year. At the same time, smaller generations, those born in the 1990s when the number of births per year was below 20,000, are entering the group of 20-year-olds. The old-age dependency ratio in Slovenia is still below the EU average, but the gap is closing.

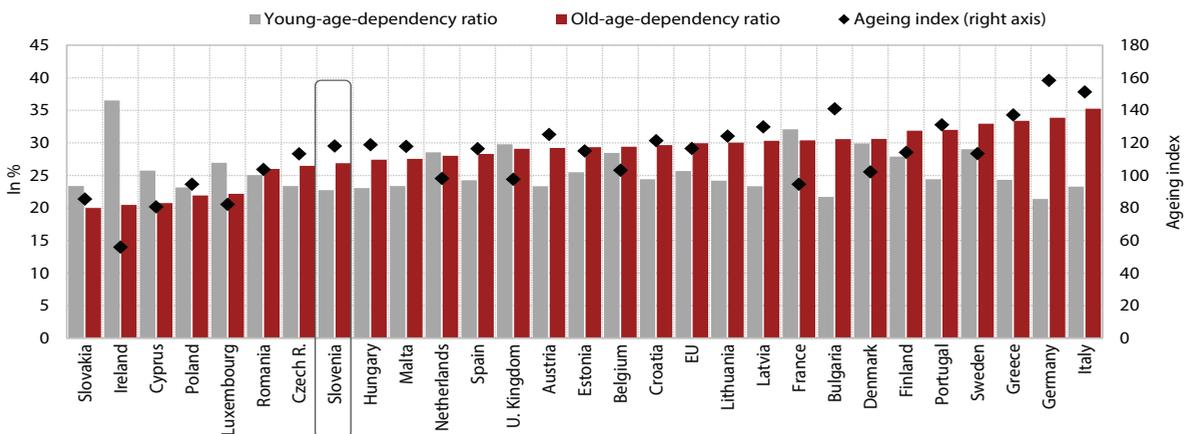
The ageing index³ for Slovenia shows that the number of older people has exceeded the number of children since 2004. In 2014, there were 19.6% more older people than children in Slovenia (1.5 percentage points more than in 2013). The share of children in the total population rose by 1%, while the share of older people increased by 2.3%, the most in the last ten years. Among older people, the share of those over 80 continues to increase rapidly and they already account for 4.7% of the total population (in 2000: 2.3%). The parent support ratio, which shows the number of persons aged 85 years and over in relation to those between 50 and 64, is therefore also rising rapidly. In 1990, there were 4.5 people over 85 years old per 100 people aged 50–64 years, compared with 9.3 in 2014; by 2030, the ratio is projected to rise to 15.8 and by 2060 to as much as 43. This indicates the urgency for adjusting society, the environment and social systems to a larger number of older people.

Table: The age-dependency ratio, EU and Slovenia

	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014
Slovenia	47.6	46.4	46.6	47.1	47.4	47.5	47.8	48.6	49.6	50.7
EU	N/A	53.7	53.7	53.7	53.9	54.2	54.3	54.9	55.6	N/A

Source: Eurostat Portal Page – Population and Social Conditions – Population, 2015.
Note: N/A – not available.

Figure: The young-age-dependency ratio, the old-age-dependency ratio and the ageing index, 2014



Source: Eurostat Portal Page – Population and Social Conditions – Population 2015; calculations by IMAD.
Note: Ranked by old-age-dependency ratio. * Data for 2013.

¹ The young-age-dependency ratio: $(0-14 \text{ years}) / (20-64 \text{ years})$. The old-age-dependency ratio: $(65+ / 20-64 \text{ years})$. The total age-dependency ratio: $((0-14 \text{ years}) + (65+)) / (20-64 \text{ years})$.

² As at 1 January 2014 (in the entire text).

³ The ageing index is a ratio of the number of older people to the number of children – $(65+ \text{ years}) / (0-14 \text{ years}) * 100$.

3.5 Employment rate

In 2014, the employment rate rose for the first time since 2008. After it had been steadily rising and exceeded the EU average before the crisis, it dropped with the decline in economic activity in 2009 and fell below the EU average in subsequent years. With the recovery of economic activity and improvement on the labour market, it rose slightly last year but remained much lower than in 2008. During the crisis, the employment rate declined slightly more for men, mainly owing to an above-average fall in activity in the construction sector and low-technology manufacturing industries that principally employ men. The employment rate for men is nevertheless still higher than for women. One of the groups that were most severely affected by the crisis is young people (15–20 years), and their employment rate fell the most in the period from 2008 to 2013. Although the employment rate of older people (55–64) rose during the crisis for demographic reasons and as a result of the pension reform, it remains one of the lowest in the EU.

declined the least in the analysed period, which is mainly explained by a smaller fall in activity in sectors that employ a more educated workforce and by hiring in public service activities. The employment rate of this group also rose slightly in 2014 (to 83.6%).

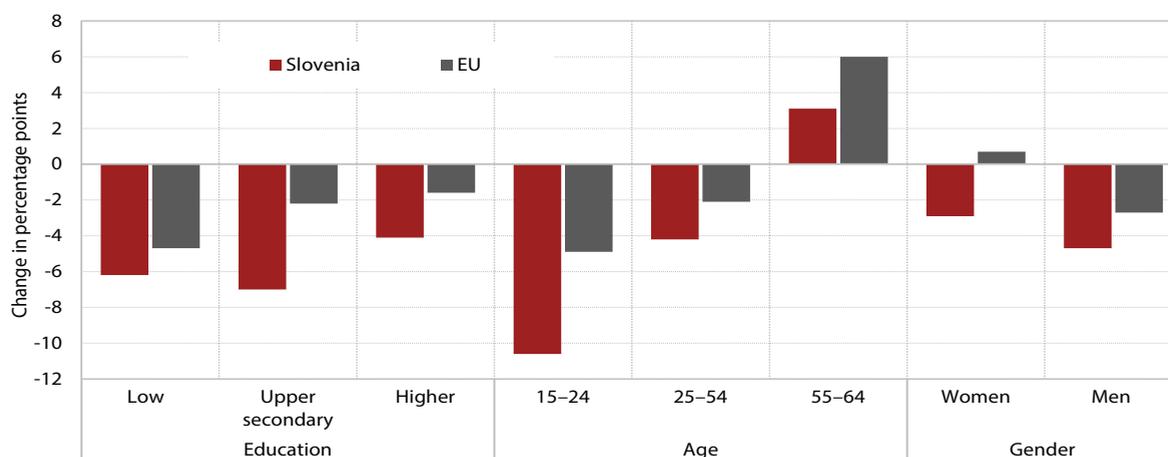
The employment rate of low-skilled workers increased the most last year, after it had also dropped the most during the crisis. The employment rate of low-skilled workers fell sharply in 2008–2013 owing to a significant decline of activity in construction and manufacturing, which mainly employ a low-skilled labour force. In 2014, it rose notably (by 3.8 percentage points), reaching 35.9% in the second quarter, which is related to increased hiring via agencies that provide labour, most frequently for the manufacturing sector. As in other countries in the EU, the employment rate of those with higher education

Table: Employment rate (15–64 age group) according to the Labour Force Survey, in %

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Slovenia	62.7	66.0	67.1	68.3	68.3	67.6	66.5	64.4	63.8	63.0	64.5
EU	N/A	63.4	64.3	65.3	65.8	64.6	64.1	64.3	64.2	64.1	64.8

Source: Eurostat Portal Page – Population and Social Conditions – Labour market, 2014.
Note: N/A – data not available; data for individual years refer to the second quarter.

Figure: Change in the employment rate by population group, between 2008 Q2 and 2014 Q2



Source: Eurostat Portal Page – Population and Social Conditions – Labour market, 2014.

3.6 Unemployment rate

With the recovery of economic activity and increased hiring, the unemployment rate fell slightly last year but remained twice as high as in 2008. After hitting its low in the third quarter of 2008 (4.1%), it had risen strongly by 2013 due to a decline in economic activity, before falling slightly in 2014 (to 9.7%)¹ owing to increased hiring. With unemployment in the EU as a whole rising at a slower pace, the Slovenian unemployment rate almost reached the EU average by the second quarter of 2014, despite the lower level in 2008. At the onset of the crisis, the unemployment rate for men rose more than for women, mainly due to the significant impact of the crisis on the manufacturing and construction sectors. In 2012, the unemployment rate of women nevertheless exceeded the rate for men again, and by the second quarter of 2014, the gap between the two widened further.²

In 2014, the unemployment rate declined the most among low-skilled people and youth. The strong increase in the unemployment rate of low-skilled workers in 2008–2013 mainly reflected the decline in activity in manufacturing and construction, i.e. the sectors that largely employ low-skilled workers. Last year, the rate dropped particularly owing to increased hiring through agencies leasing labour. The decline in economic

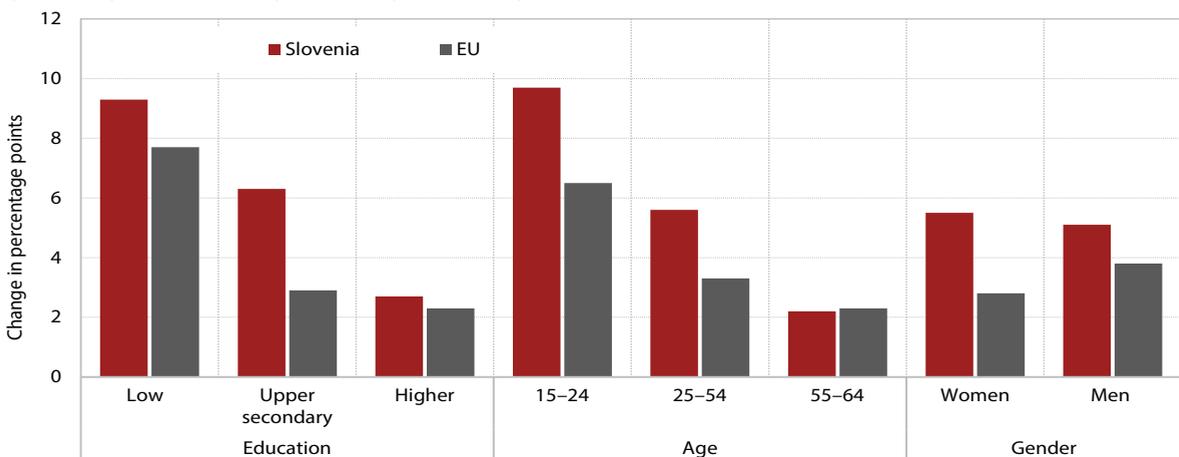
activity lowered employment prospects particularly for young people, given the high prevalence of temporary forms of employment in this group, as during the crisis, enterprises were not renewing fixed-term employment contracts and also reduced the extent of student work. In 2008–2013, the youth unemployment rate doubled, reaching 21.6% in 2013, but in 2014 it fell notably to 19.0%.³

Table: Employment rates (15-74 age group) according to the Labour Force Survey, in %

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Slovenia	6.9	5.8	5.9	4.6	4.1	5.6	7.1	7.7	8.2	10.4	9.3
EU	N/A	8.9	8.1	7.1	6.8	8.8	9.5	9.3	10.3	10.8	10.1

Source: Eurostat Portal Page – Population and Social Conditions – Labour market, 2014
Note: N/A – data not available; data for individual years refer to the second quarter.

Figure: Change in the unemployment rate by population group, between Q2 2008 and Q2 2014



Source: Eurostat Portal Page – Population and Social Conditions – Labour market, 2014.

¹ The annual estimate is calculated from quarterly data by SURS.

² In the second quarter of 2014, the unemployment rates for men and women totalled 8.6% and 10.5%, respectively. The widening of the gap may be due to a larger outflow of men into inactivity during the crisis (their activity rate decreased more than the corresponding rate of women) and restrictions on hiring in public service activities, where female labour prevails.

³ We estimate that the year-on-year decline in the unemployment rate of young people in Q2 2014 (by 5.1 percentage points to 19.0%) is mainly the result of demographic factors, as the number of both active and inactive young people decreased in this period.

3.7 Long-term unemployment rate

In 2014, the long-term unemployment rate was rising at a slower pace but was still three times higher than in 2009. As a result of a prolonged period of low economic activity, the long-term¹ unemployment rate in Slovenia increased strongly from its 2009 low during the crisis. After reaching the lowest level in 2009, it rose significantly in 2010 particularly owing to a strong inflow into unemployment and poor job prospects. After growing rapidly in 2009–2013, it was up only slightly in 2014 and totalled 5.3% in the second quarter of the year.

The long-term unemployment rates of men and young people rose the most during the crisis. Before the crisis, the long-term unemployment rate for men had been lower than for women, but with the onset of the crisis it rose more than the corresponding rate for women due to a significant decline in activity in manufacturing and construction. The long-term unemployment rate of young people increased most notably during the crisis, having quadrupled to 8.3% in the second quarter of 2014.

The share of long-term unemployed in total employment also increased strongly during the crisis. While it had still been lower than the EU average in 2009, it surpassed it in 2010 and almost doubled by the second quarter of 2014, with every second unemployed person being unemployed for at least one year. The reasons for the strong increase in long-term unemployment in Slovenia (to above the EU average) could lie in the above-average decline in employment (relative to the EU), strong growth in unemployment, a relatively high unemployment trap and relatively low funding for the active employment policy (0.27% of GDP in 2012, which is below the OECD average). The share of long-term unemployed is smallest among young people, which indicates that the high long-term unemployment rate of young persons is primarily due to their high unemployment in general. On the other hand, the largest share of long-term unemployed is among older people, even though their unemployment rate is relatively low, which indicates that they remain unemployed longer.

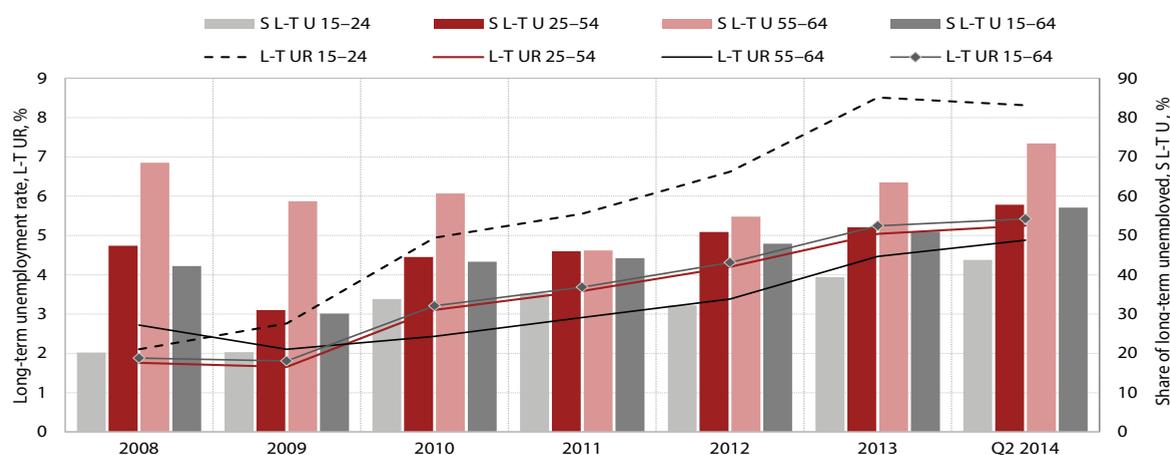
Table: Long-term unemployment rate and the share of long-term unemployment (in the 15–74 age group), in the EU-28 and Slovenia

	2000	2005	2008	2009	2010	2011	2012	2013	2014
Long-term unemployment rate									
Slovenia	4.3	3.0	1.9	1.7	3.2	3.5	3.9	5.1	5.3
EU	N/A	4.2	2.6	2.9	3.8	4.0	4.6	5.1	5.1
Share of long-term unemployment									
Slovenia	62.7	51.0	45.7	30.4	44.6	45.0	48.0	49.5	57.1
EU	N/A	47.2	38.7	32.5	39.9	43.2	44.6	47.1	50.1

Source: Eurostat.

Note: N/A – data not available; data for individual years refer to the second quarter.

Figure: Long-term unemployment rate and the share of long-term unemployment (in total unemployment) by age group in Slovenia



Source: Eurostat; calculations by IMAD.

¹ Unemployment extending for a year or longer.

3.8 Temporary and part-time employment

The share of temporary employment¹ in total employment rose last year. In the second quarter of 2014, it stood at 16.5% (which is 0.9 percentage points more than in the second quarter of 2013) and was still higher than on average in the EU. In our assessment, the increase was mainly related to higher uncertainty of enterprises about future demand and about the recovery in the main trading partners. The share of temporary employment in total employment thus rose despite the labour market reforms in 2013, which were focused on reducing segmentation on the labour market and temporary employment. The share of temporarily employed young people (15–25 years) remains the largest in the EU, the main reason being the prevalence of student work. Temporary employment is more prevalent among women than among men.

The share of part-time employment² in total employment has risen further in the past year but is still significantly below the EU average. The share of part-time employment is the largest among young people (15–24), but the prevalence of this type of work among young people did not increase in 2014. Employment for shorter working hours has risen particularly in agriculture and trade, where it has become common practice in the past year.³

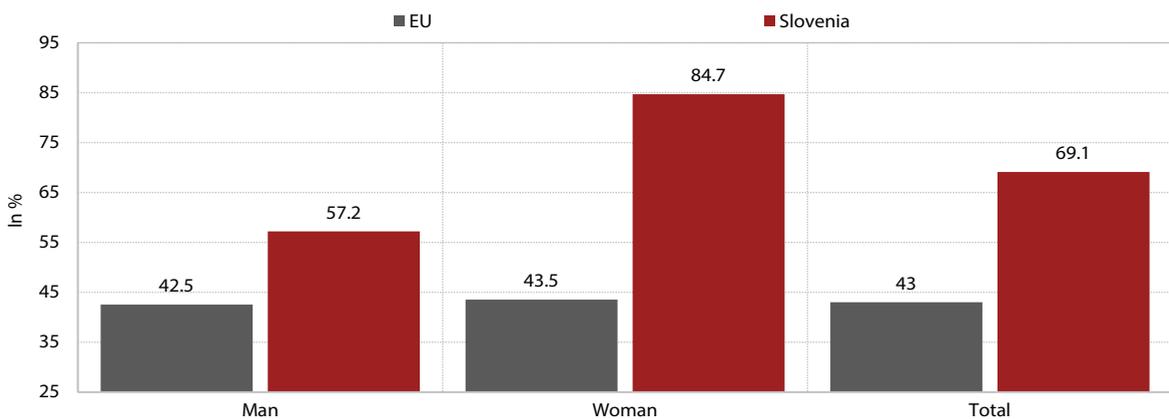
Table: Shares of temporary and part-time employment in total employment in Slovenia and the EU*

	2000	2005	2008	2009	2010	2011	2012	2013	2014
Temporary employment									
Slovenia	13.0	16.8	16.9	16.4	17.7	17.5	16.7	15.4	16.5
EU	N/A	13.9	14.2	13.5	13.9	14.1	13.8	13.7	14.0
Part-time employment									
Slovenia	5.3	7.8	8.1	9.7	10.5	9.1	8.5	9.3	10.9
EU	N/A	17.3	17.6	18.1	18.6	18.8	19.2	19.6	19.7

Source: Eurostat Portal Page – Population and Social Conditions – Labour market – Employment, temporary employment 2014.

Note: * Data refer to the second quarter of the year.

Figure: Shares of temporary employment among young people in Slovenia and the EU, by gender, second quarter of 2014



Source: Eurostat Portal Page – Population and Social Conditions – Labour market – Employment, temporary employment 2014.

¹ Temporary employment includes fixed-term employment and other forms of employment that are considered to be temporary work in Slovenia.

² Part-time employment is defined as work for fewer hours than the standard full-time schedule. According to the Labour Force Survey, part-time employment means that workers work less than 36 hours per week.

³ According to the Labour Force Survey, the share of part-time workers in the group of trade, repair, transportation and storage and accommodation and food service activities rose from 9.6% to 13.3% in 2014 (from 19,900 part-time workers in the second quarter of 2013 to 25,600 in the second quarter of 2014).

3.9 Minimum wage

In 2014, the minimum wage grew more slowly (0.7%) than the average gross wage for the first time after five years; the ratio between the two rose strongly in 2008–2014. Because the crisis coincided with changes in legislation,¹ the minimum wage increased 3.6 times faster than the average wage. The ratio between the two therefore rose to 51.2%, which ranks Slovenia at the top of the EU.² In the whole period of the crisis, minimum wage growth also exceeded labour productivity growth in private sector activities. During the crisis, Slovenia recorded one of the largest real declines in economic activity in the EU. It was also one of the countries with the largest real increases in the minimum wage (by almost 30%), while in some countries the minimum wage remained almost unchanged for several years and in seven others even declined in individual years. The increase in the minimum wage significantly impeded the adjustment of wages to the crisis in 2010–2012 and was the main factor in the narrowing of wage inequality (where Slovenia did not diverge from the EU average³ even before the crisis) and the loss of cost competitiveness and employment.

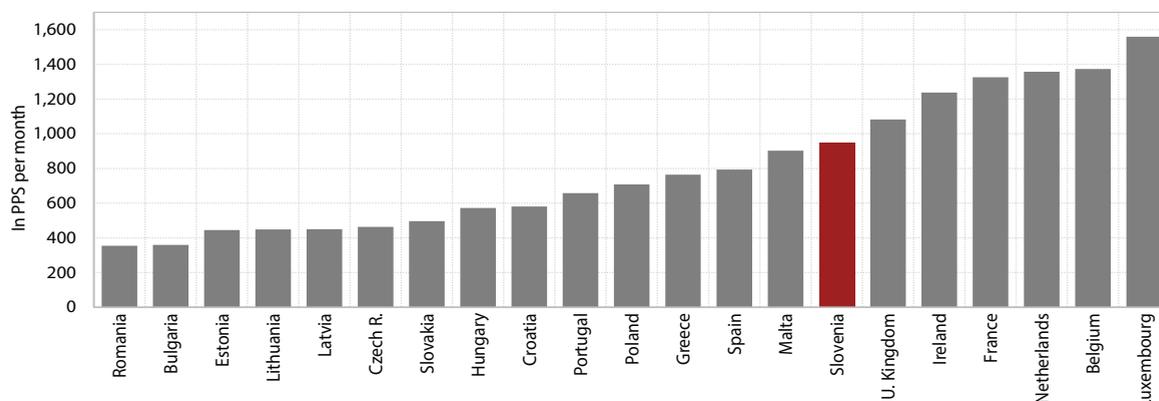
In 2014, the number of minimum-wage earners declined for the first time since the new Minimum Wage Act was adopted (-5.8%), but was 2.5 times higher (47,616) than in the year before adoption (2009). The share of minimum-wage earners in total employment also fell slightly, but was much larger than in 2009 (8.0%; 2009: 3.0%). The majority of workers receiving the minimum wage were again recorded in private sector activities. In 2014, their number declined (by 3,520 to 39,069; 2009: 18,596), but their share nevertheless rose from 3.8% to 8.9% in 2009–2014. The increase in the otherwise small share in public service activities was much larger (from 0.3% to 5.5%). The doubling of the number in the last three years (to 8,547) was mainly due to cuts in public servants' wages. Relative to 2009, the number of minimum-wage earners therefore rose relatively the most in education and health and social work, where it was 43- and 15-fold, respectively. In absolute terms, it was up the most in distributive trades, education and manufacturing. Together with administrative and support service activities, construction and health and social work, these sectors employ around 80% of all minimum wage recipients.

Table: Average gross minimum wage, average gross wage and the ratio between the two, Slovenia

	Minimum gross wage	Nominal growth in minimum wage	Real growth in minimum wage	Average gross wage	Nominal growth in gross wage	Real growth in gross wage	Ratio of minimum wage to average wage
2000	322	10.3	1.3	800	10.6	1.6	40.3
2005	499	4.9	2.4	1.157	4.8	2.2	43.1
2007	529	2.5	-1.1	1.285	5.9	2.2	41.2
2008	571	8.0	2.2	1.391	8.3	2.5	41.1
2009	593	3.7	2.8	1.439	3.4	2.5	41.2
2010	679	14.6	12.6	1.495	3.9	2.1	45.4
2011	718	5.7	3.8	1.525	2.0	0.2	47.1
2012	763	6.3	3.5	1.525	0.1	-2.4	50.0
2013	784	2.7	0.9	1.523	-0.2	-2.0	51.4
2014	789	0.7	0.5	1.540	1.1	0.9	51.2

Source: SURS, NACE 2002–2008, NACE 2008 from 2009 onwards, Ministry of Labour, Family and Social Affairs, AJPES.

Figure: Minimum gross wage, July 2014, in PPS



Source: Eurostat Portal Page, 2015.

¹ In 2010, a new Minimum Wage Act was passed, which determined a new, significantly higher, minimum wage, the method of transition to the higher minimum wage level and the adjustment mechanism for the minimum wage.

² Closest to Slovenia is Luxembourg, with a ratio of 47.7%, while in the Czech Republic and Spain the ratios are lower than 32% and 35%, respectively.

³ In both the interdecile ratio (2013: 3.2; in the EU in 2010 between 2.1 and 4.7) and the share of low-wage earners (16.6%; EU 2010: 17.0%).

3.10 Young people not in employment, education or training

In 2008–2013, the share of young people who are neither in employment nor in education or training (the NEET rate) increased more than in the EU as a whole but is still below average.¹ In 2013, the NEET rate of young people (20–34 years) was below the EU average, which is explained by the above-average participation of young people in tertiary education. The NEET rate of youth aged 20–24 was much higher, which is due to the modest demand for young people (without experience) with completed upper secondary and tertiary education (first cycle of Bologna study programmes). In the age groups of 25–29 (2013: 18.7%) and 30–34, the NEET rates are high, which reveals problems in the transition from tertiary education into employment during the crisis. In both age groups the NEET rates increased much more in Slovenia than in the EU as a whole. Amid the still high participation of young people in tertiary education, the significant increase in these rates during the crisis is attributable to lower employment prospects for youth, which is also reflected in a stronger decline in the employment rate than on average in the EU. In both age groups, the NEET rates are higher for women than for men. This is a consequence of a higher number of female tertiary education graduates, a large share of women

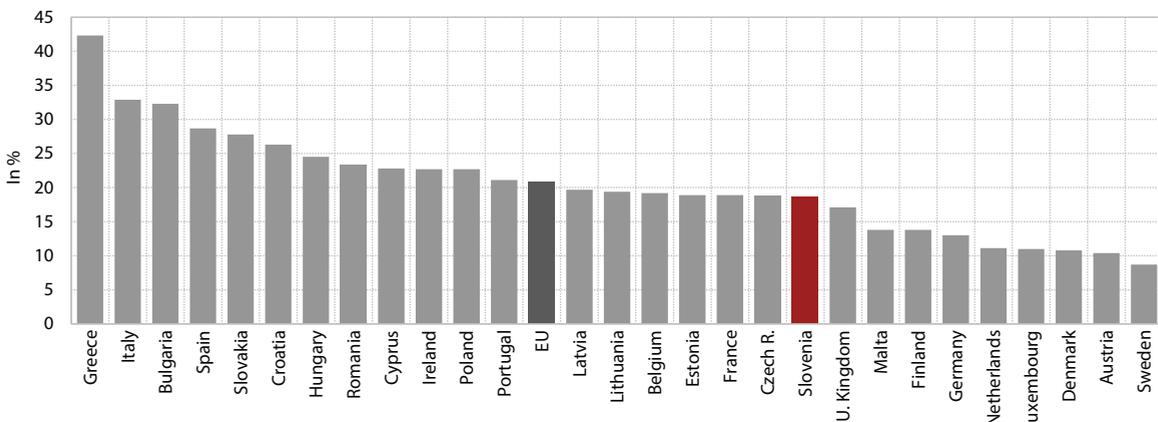
graduating from social sciences – where job prospects declined significantly during the crisis – and restrictions on employment in the public sector,² where women make up a larger share of workforce than men. In the 15–19 age group, this share did not change much in 2008–2013 and remained low due to the high participation in upper secondary education.

Table: Share of young people (20–34) neither in employment nor in education or training, in %

	2002	2005	2008	2009	2010	2011	2012	2013
Slovenia	10.9	10.4	8.4	10.5	11.1	11.1	13.5	15.4
EU	19.5	18.7	16.4	18.5	19.1	19.3	19.9	20.0

Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2015.

Figure: Share of young people (25–29) neither in employment nor in education or training, 2013, in %



Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2015.

¹ The NEET rate in the 20–34 age group rose by 7 percentage points in 2008–2013.

² The Fiscal Balance Act adopted in 2012 significantly reduced employment in the public sector.

3.11 Social protection expenditure

In 2012, social protection expenditure declined in nominal terms for the first time after a period of growth.

Despite the nominal fall, expenditure as a share of GDP rose to 25.4% in 2012, 0.4 percentage points more than in 2011, but less than on average in the EU. The 2012 decline (by 3.5% in real terms) was mainly the result of systemic and intervention measures,¹ which took effect in 2012. Expenditure on disability² fell the most in 2012 (8.1%), followed by expenditures on unemployment and family/children.³ We estimate that the modest growth of expenditure on old age (0.1%), which accounts for the bulk of total social protection expenditure, was due to the restriction on the disbursement of the annual pension supplement⁴ and the abolition of the state pension.⁵ Alongside expenditure on old age, expenditures on housing, sickness/health care and social exclusion not elsewhere classified also expanded in 2012, mainly as a consequence of changes in legislation.

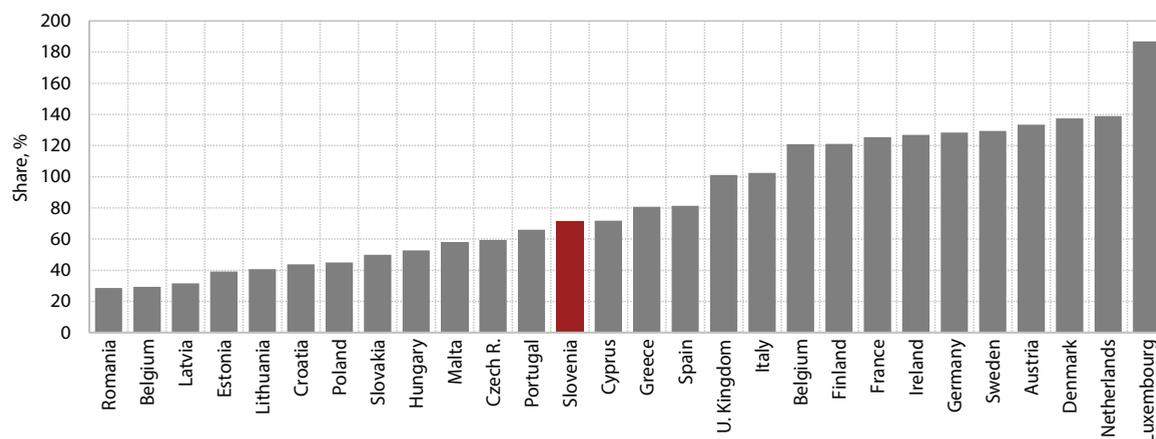
The breakdown of social protection expenditure in 2012 was similar to previous years; social protection expenditure in purchasing power standards per capita remains at 71.5% of the EU average. Expenditure on old age accounted for the largest share of total social protection expenditure again, 40.5%, which is similar to the EU average. As in the EU, it was followed by expenditure on sickness and health care, which rose to 32.2% (by 0.6 percentage points), and on social exclusion not elsewhere classified, while expenditure on other functions decreased slightly or remained unchanged. A comparison by purchasing power (in PPS per capita) shows that Slovenia has reached just below three quarters of the EU average since the beginning of the crisis (71.5%), but in 2012 the share dropped again slightly relative to the preceding year. Slovenia thus exceeds the EU average only in expenditure on social exclusion not elsewhere classified (124.8%).

Table: Social protection expenditure in Slovenia and in the EU, as a % of GDP

	2000	2005	2007	2008	2009	2010	2011	2012
Slovenia	24.1	23.0	21.3	21.4	24.2	25.0	25.0	25.4
EU	N/A	N/A	N/A	26.7	29.5	29.4	29.0	29.5

Source: Eurostat Portal Page – Social Protection, 2014.
 Note: N/A – data not available.

Figure: Social protection expenditure in PPS per capita relative to the EU-28 average, in 2012



Source: Eurostat Portal Page – Social Protection, 2014.

¹ The new social legislation took effect and the Fiscal Balance Act (ZUJF) was adopted.

² In addition to a lower number of beneficiaries of disability pensions and disability benefits, mainly as a consequence of changes in eligibility criteria for care allowance. With the social legislation reform (the Financial Social Assistance Act), the care allowance became a social protection right as of 1 January 2012.

³ Expenditure on family/children declined mainly as a result of the intervention law (ZUJF), which limited, or even reduced, some rights (unemployment benefits, parental compensation).

⁴ The ZUJF limited the disbursement of the annual pension supplement to pensioners with higher pensions, and selectively reduced the pensions paid from the state budget.

⁵ In 2012, the state pension and the care allowance were transferred from the pension and disability insurance to social protection rights.

3.12 Health expenditure

Total health expenditure rose in real terms in 2014, while it fell slightly again as a share of GDP. In 2013, it totalled 9.1% of GDP, according to the first estimate, and in 2014, 9.0% of GDP.¹ Revenue growth in 2014 was mainly due to changes in contribution rates and bases and stronger growth in employment and earnings. The measures for balancing HIIS operation adopted in previous years also remained in force. The available HIIS funds were also positively impacted by the transfer of the rights to funeral allowance and death grants to social protection benefits, and savings in medicines. After four years of austerity, the HIIS could allocate the additional funds for the expansion of some priority programmes and the shortening of waiting times. Public expenditure as a share of GDP amounted to 6.4% in 2013 and 2014, according to the first estimate, while public expenditure as a share of total expenditure rose from 71.1% in 2013 to 71.6% in 2014.

As a share of GDP, health expenditure surpassed the EU average in 2012, while per capita expenditure was lower. According to the most recent internationally comparable data, total health expenditure in Slovenia shrank by as much as in the EU as a whole in the 2009–2012 period (by 0.5% per year in real terms). With GDP falling more than on average in the EU, the indicator

of total and public spending on health relative to GDP rose at an above-average rate during the crisis, and was higher than in the EU overall. In Slovenia, total expenditure accounted for 9.2% of GDP in 2012 (EU: 8.7% of GDP), while public expenditure totalled 6.7% of GDP (EU: 6.3% of GDP).² Total health expenditure per capita in 2012 stood at EUR 2003 in PPS terms, which was 91% of the EU average.

During the crisis, out-of-pocket health expenditure in Slovenia first declined, then rose again in 2013, according to estimates. Direct out-of-pocket expenses are unpredictable and potentially unlimited, their burden being heaviest for the chronically ill and the elderly. In the EU as a whole, the share of out-of-pocket expenses rose slightly during the crisis, but the gaps between countries are significant. In the Member States that were more severely hit by the public finance crisis, out-of-pocket expenses rose markedly. In the period of the crisis and declining consumption, the share of out-of-pocket expenditure in Slovenia fell from 13.0% in 2007 to 11.9% in 2012 (see Figure), while the share of expenditure covered from voluntary health insurance, which compensated for part of the shortfall in public funding during the crisis, rose (from 13.2% to 13.9%). According to the first estimate, out-of-pocket expenditure increased to 12.9% in 2013, before dropping marginally to 12.7% in 2014. The share of expenditure from voluntary health insurance also rose, to 14.2% in 2014.

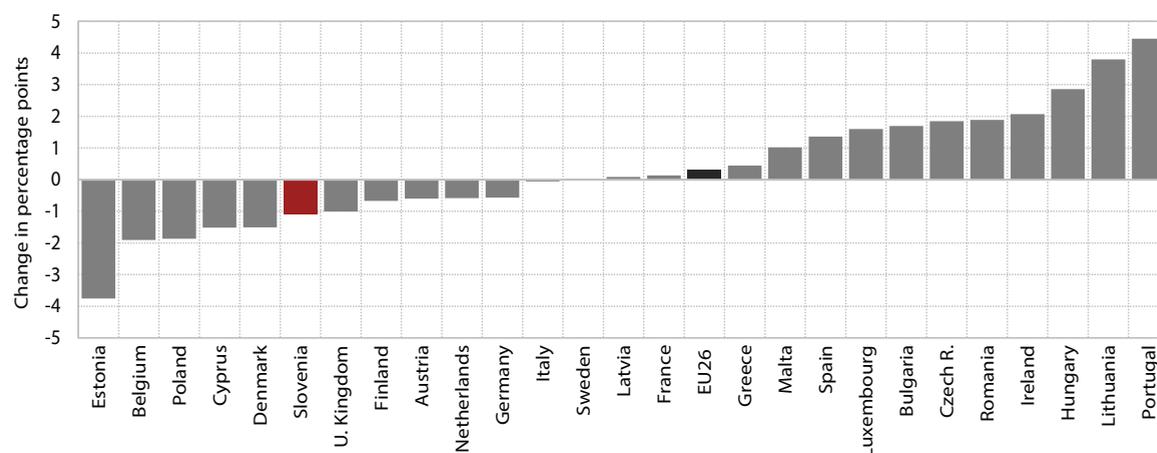
Table: Health expenditure

	Total health expenditure, as a % of GDP				Public health expenditure, as a % of GDP				Private health expenditure, share in total health expenditure, in %			Out-of-pocket expenditure, share in total expenditure, in %		
	2005	2012	2013	2014	2005	2012	2013	2014	2005	2012	2014	2005	2012	2014
Slovenia ²	8.3	9.2	9.1	9.0	6.1	6.7	6.4	6.4	26.9	27.4	28.4	12.4	11.9	12.7
EU ¹	8.2	8.7	N/A	N/A	6.2	6.4	N/A	N/A	24.6	26.5	N/A	21.4	21.5	N/A

Source: OECD Health at a Glance: Europe 2014; Health expenditure and sources of funding (SURs), July 2014.

Notes: ¹ For the EU-28, non-weighted arithmetic average – calculation by the OECD. ² For Slovenia, the calculation of the share of GDP is based on the revision of GDP in September 2014 (SURs, National Accounts), for 2014, the first release by SURs in February 2015, and for 2013 and 2014, the first estimate (see Note 1). N/A – data not available.

Figure: Change in the share of household out-of-pocket expenditure in total health expenditure in 2007–2012



Source: OECD Health at a Glance: Europe 2014.

¹ HIIS Business Report 2014 (draft, March 2015). Data according to the SHA methodology are estimated in cooperation with SURs. Expenditure as a share of GDP for 2014 is calculated based on SURs's First Release in February 2015.

² The higher expenditure was also partly due to the latest revision of health accounts, which raised the level of expenditure provided by local budgets; health expenditure also included all attendance allowances for people dependent on assistance with basic activities of daily living (ADL) (in addition to those covered by PDII funds, allowances paid from the budget according to other laws).

3.13 Expenditure on long-term care

Total expenditure on long-term care (LTC)¹ in Slovenia increased further in 2012, but remained lower than the OECD average relative to GDP. Expressed as a share of GDP,² it totalled 1.33% of GDP (2011: 1.27%), of which public expenditure was 0.96% and private expenditure 0.36% of GDP. Due to austerity measures in the public sector, public expenditure on LTC declined in real terms in 2012 (-0.4%), while private expenditure, especially private spending on long-term social care services, continued to grow rapidly (by 6.6% in real terms). Broken down by source of funding, the share of private expenditure thus increased again, to 27.4%, while by function of care, the share of expenditure for long-term social care rose, to 32.1%. Private expenditure has been increasing much faster than public expenditure for a number of years. In terms of total LTC expenditure as a

share of GDP, Slovenia thus already exceeded slightly the EU-24 average in 2012 (which was 1.27% of GDP in 2011), while it was still lagging behind the OECD average (2011: 1.65% of GDP) in public expenditure on LTC.

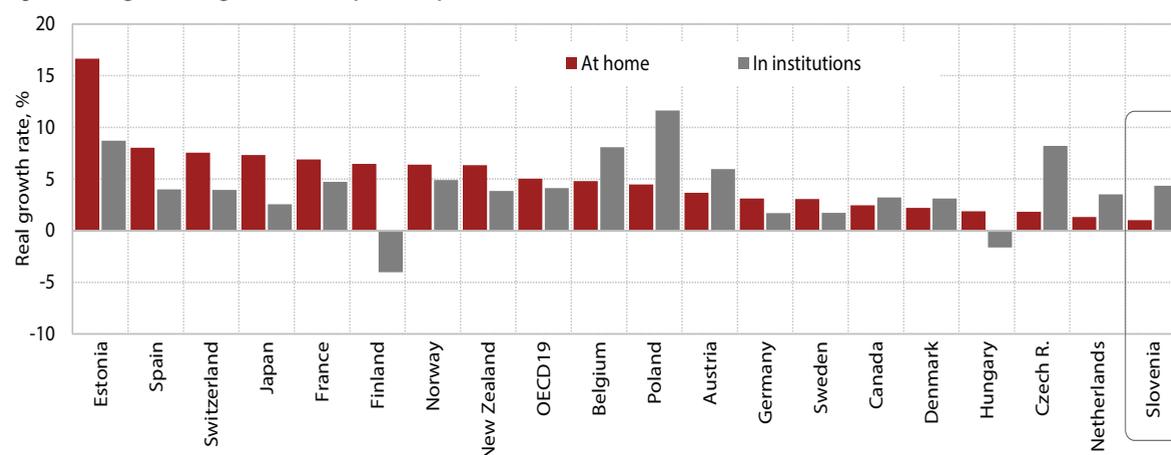
Slovenia's development gap in long-term care services at home is widening. More than three quarters of expenditure is still allocated for long-term care in institutions (homes for the elderly, social welfare institutions, hospitals) and only a third is intended for long-term care at home.³ In Scandinavian countries, the ratio is the opposite, while it is hovering around 50:50 in the EU as a whole. In the last decade, the ratio deteriorated further, growth in public expenditure on LTC at home in Slovenia being the lowest among the 19 countries of the OECD. While the majority of the OECD countries intensified public funding of long-term care at home in 2000–2011 (community nursing, social care at home, cash benefits), Slovenia still recorded much higher public funding in institutional care.

Table: Expenditure on LTC by source of funding and by function, 2005–2012

	In EUR m			As % of GDP			Breakdown, in %			Real growth, in %	Average annual real growth, in %
	2005	2011	2012	2005	2011	2012	2005	2011	2012	2012/2011	2005–2012
Long-term care	314	469	477	1.08	1.27	1.33	100.0	100.0	100.0	1.4	4.0
By source of funding:											
Public expenditure	245	347	347	0.84	0.94	0.96	77.8	74.0	72.6	-0.4	3.0
Private expenditure	70	122	131	0.24	0.33	0.36	22.2	26.0	27.4	6.6	7.2
By function:											
Health care	230	321	324	0.79	0.87	0.90	73.3	68.5	67.9	0.5	2.9
Social care	84	148	153	0.29	0.40	0.43	26.7	31.5	32.1	3.4	6.8

Source: SURS – Health expenditure and sources of funding (Release: July 2014). Note: In line with international recommendations, instead of the consumer price index, the GDP implicit price deflator was used to calculate constant prices (AHRQ, 2011 and OECD Health at a Glance 2013).

Figure: Average annual growth rate in public expenditure on LTC care at home and in institutions, in real terms, 2000–2011



Source: OECD Health at a Glance 2013. Slovenia: SURS – Health expenditure and sources of funding (Release: July 2014).

¹ As defined by the OECD, Eurostat and WHO (A System of Health Accounts 2011, pp. 88–95 and p. 114). The report of the inter-institutional working group on the use of the international methodology to monitor LTC spending and beneficiaries of LTC in Slovenia and data analysis was published by IMAD in the Working Paper, 2/2014 http://www.umar.gov.si/fileadmin/user_upload/publikacije/dz/2014/DZ02_14_summary.pdf

² Taking into account the revision of GDP according to ESA 2010, SURS release in August 2014.

³ Institutional care is more expensive in Slovenia than care at home, as it includes integrated health and social services. The quality of services in institutions is also much higher than at home. The ratio is therefore highly in favour of institutional care. However, data on the number of recipients of LTC in institutions relative to the number of those receiving LTC at home show a reversed ratio – approximately a third are recipients of various forms of institutional care, while close to two thirds receive LTC at home or only receive cash benefits (see Chapter 3.3).

3.14 Pension expenditure

In 2014, the growth of pension expenditure remained moderate, given the recent pension reform, but the budget transfer to the pension fund rose significantly.¹

PDII expenditure² amounted to EUR 4.288 bn, which is 0.8% more than in 2013 in nominal terms. As a result of intervention measures,³ expenditure was, for the most part, due only to the higher number of pensioners.⁴ This was up 1.0% from 2013, which is the least in eight years and a consequence of slightly stricter retirement conditions and accelerated retirement before the adoption of the ZPIZ-2.⁵ Budget transfer to PDII revenue stood at EUR 1.606 bn last year, which is EUR 21 m (1.4%) more than in 2013. Its share in total PDII revenue thus reached a new high, 33.1%. According to the amended financial plan for 2014, the PDII was to receive EUR 190 m from Kapitalska družba, but as this was not the case, the budget transfer had to be higher than planned.

Pension expenditure as a share of GDP in Slovenia is still below the EU average, but it is rising faster than in the EU due to the rapid ageing of the population.

According to the most recent data available, the share of pension expenditure⁶ in GDP remained below the EU average in 2012. Relative to 2008, the share of pensions in GDP was up 1.2 percentage points in the EU, compared with as much as 2.0 percentage points in Slovenia. Pension expenditure is expected to stabilise in the medium term due to the ZPIZ-2, before it will start to rise again in 2023 and reach the 2013 level by 2028, meaning that the new pension system does not ensure long-term fiscal sustainability. The share of older people is rapidly rising in Slovenia, but the employment rate of older workers is one of the lowest in the EU. For this reason, more radical changes to the pension system need to be drawn up as soon as possible to ensure its sustainability after 2020.

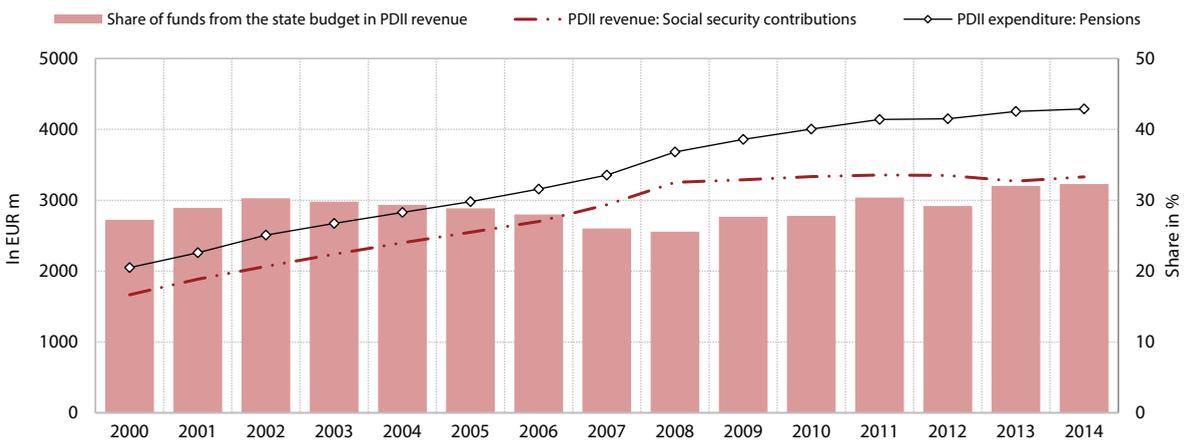
Table: Share of the population aged 65 or more, employment rate of older workers, duration of working life and share of pension expenditure in GDP

	Share of the population aged 65 or more, in %			Employment rate of older workers (55–64 years)			Duration of working life ¹			Pension expenditure, share of GDP, in % ²		
	2000	2008	2013	2000	2008	2013	2000	2008	2013	2000	2008	2012
Slovenia	13.9	16.3	17.1	22.7	32.8	33.5	31.8	34.0	33.7	11.0	9.6	11.6
EU	N/A	17.1	18.2	N/A	45.5	50.2	32.9	34.3	35.1	N/A	12.0	13.2

Source: Eurostat, 2015.

Notes: N/A – data not available; ¹ The number of years a person aged 15 or more is expected to be active on the labour market; ² According to ESSPROS methodology.

Figure: Selected PDII revenues and expenditures, Slovenia



Source: Bulletin of Government Finance, Pension and Disability Insurance Institute of the Republic of Slovenia 1992–2014, 2015.

¹ The Republic of Slovenia covers the difference between PDII revenues from contributions and other sources and PDII expenditures by funds from the state budget and other sources. These include all funds under the item of »Transfers from the state budget« to the PDII position (MF).

² According to the PDII balance sheets, which comprise the following pension categories: old-age, disability, survivors' pensions, farmer's pensions, military pensions, pensions claimed by Slovenian citizens in other republics of the former Yugoslavia, pensions remitted to other republics of the former Yugoslavia, pensions remitted abroad, annual bonus for pensioners, other pensions.

³ No indexation of pensions, the payment of the annual bonus was limited to pensioners with pensions lower than EUR 622 (which will apply up to and including the year after the first year that GDP growth exceeds 2.5% – ZUJF, Uradni list RS, 40/12, Article 143 (6)).

⁴ Recipients of old-age, disability, survivors' military, widow/er's pensions, advance pension payments, farmer's pensions under Farmers' Old-Age Insurance Act (Pension and Disability Insurance Institute data).

⁵ The Pension and Disability Insurance Act (ZPIZ-2), Uradni list RS, 96/12.

⁶ According to ESSPROS methodology (the European System of Integrated Social Protection Statistics).

3.15 Unemployment benefit coverage

Unemployment benefits provide partial compensation for income in the event of job loss.

Slovenia falls within approximately a third of the countries in the world where mandatory unemployment insurance is part of social security insurance. The unemployment benefit coverage ratio, which measures the actual proportion of benefit recipients among the unemployed, is to a great extent dependent on the eligibility criteria, which usually comprise the following components: (i) the existence of involuntary unemployment; (ii) non-fulfilment of conditions for retirement; and (iii) the insurance period, which impacts the duration of benefit payment (World Social Security Report 2010/2011, pp. 57–58).

The ratio of the number of unemployment benefit recipients to the total number of registered unemployed in Slovenia, which rose in the first years of the crisis, has been declining since 2011.

In 2011 (the most recent internationally comparable data), Slovenia ranked among the countries with medium ratios. According to international comparisons, the ratio in Slovenia is lower than on average in Western European countries, and higher than in the countries of Central and Eastern Europe. ESS data show that

the ratio of unemployment benefit recipients to the registered unemployed had been rising up until the beginning of 2011 and reached 34.9% in March, while in 2012–2014, it had been declining and totalled 22.1% in 2014. The decline was a consequence of relatively strict eligibility criteria for the young unemployed, and increasing long-term unemployment after the expiry of the benefit entitlement period. Although an unemployed person can also be eligible for financial social assistance, around 45% of the unemployed in Slovenia receive neither cash benefits nor financial social assistance (Social Protection Institute of the Republic of Slovenia/IRSSV, 2014, p. 92). Most of these are long-term unemployed and young unemployed (IRSSV, 2014). This may imply that the provision of income security in the event of unemployment is insufficient in Slovenia and has increased the at-risk-of-poverty rate among the unemployed.

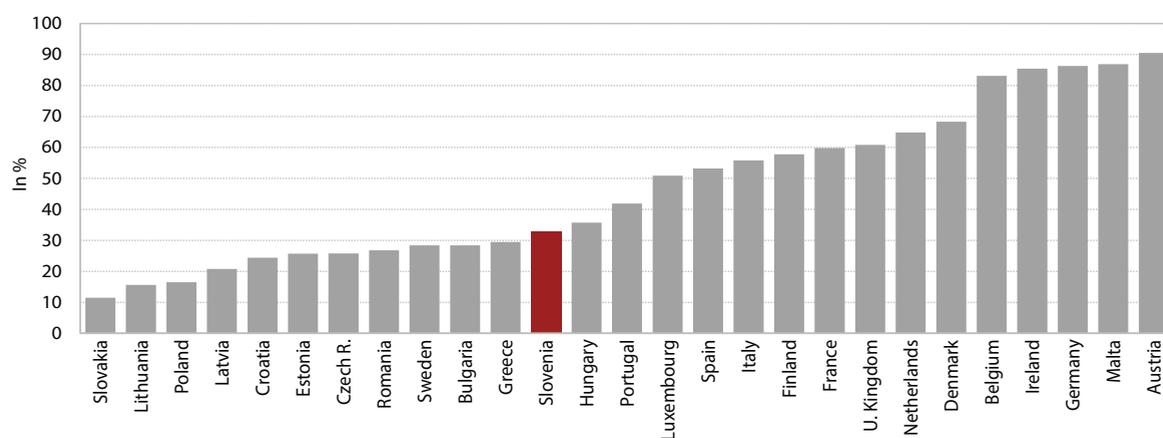
Table: Ratio of the number of unemployment benefit recipients to the total number of unemployed, in %

	2000	2005	2007	2008	2009	2010	2011
Slovenia	19.2	19.2	20.0	26.4	36.1	34.4	32.8
Western Europe	61.3	68.9	66.0	64.5	69.3	67.4	64.2
Central and Eastern Europe	19.1	29.1	27.7	27.0	30.0	25.1	21.1

Source: World Social Security Report 2014/2015

Note: * For the calculation of the countries' averages the number of active persons was used.

Figure: Ratio of the number of unemployment benefit recipients to the total number of unemployed in the EU, in 2011



Source: World Social Security Report 2014/2015.

3.16 Gross adjusted disposable income per capita

In 2012, gross adjusted disposable income of households and NPISHs¹ per capita in euros started to decline after the easing of growth in the first years of the economic crisis. Before the beginning of the crisis, gross adjusted disposable income per capita recorded very strong growth in Slovenia (around 7% per year) as a consequence of the favourable labour market situation and rapid wage growth. In the first years of the economic crisis, the growth of disposable income slowed significantly in response to the deterioration on the labour market. In 2012, disposable income fell for the first time, which was due to austerity measures, in particular the reduction of wages and changes in the area of social transfers. In 2013 and 2014, the decline in household gross adjusted disposable income slowed notably. The nominal growth of disposable income in euros in Slovenia has mostly been lower than the EU average since 2010, which may be attributable to the earlier recovery in economic activity in the EU than in

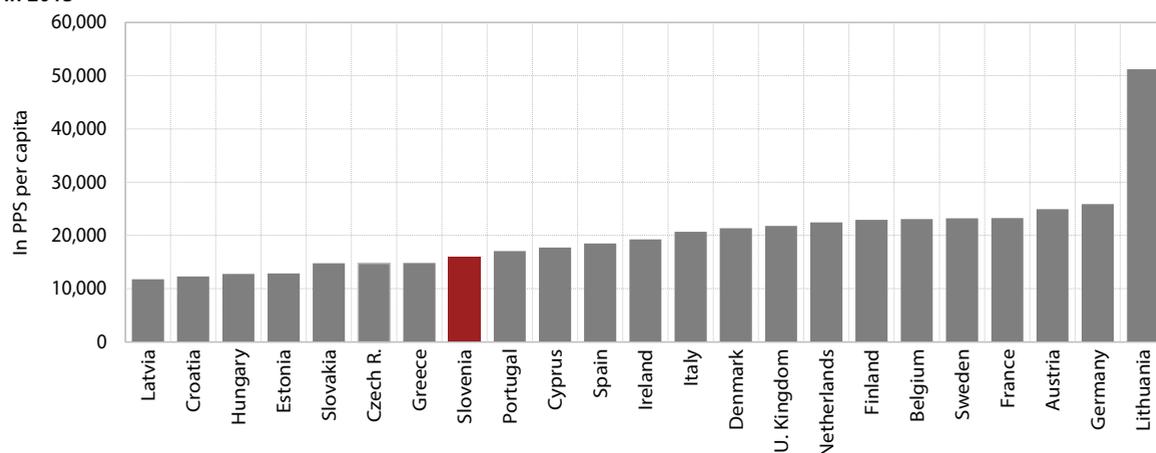
Slovenia. We estimate that Slovenia's gap with the EU average widened during the crisis owing to a stronger decline in economic activity and a larger deterioration on the labour market than in the EU overall.

Table: Gross adjusted disposable income of households and NPISHs per capita, Slovenia and the EU average, year-on-year growth rates, in %

	2000	2005	2007	2008	2009	2010	2011	2012	2013	2014
Slovenia	5.5	6.3	8	8.3	0.4	0.3	1.7	-3.1	-0.7	-0.6
EU	6.5	3.8	4.6	1	-1.6	2.7	1.6	1.7	0.3	N/A

Source: SURS and Eurostat Portal Page – Annual Sector Accounts.
Note: N/A – not available.

Figure: Gross adjusted disposable income of households and NPISHs in PPS per capita in Slovenia and selected EU countries, in 2013



Source: Eurostat Portal Page – Annual Sector Accounts.

¹ Non-Profit Institutions Serving Households. The adjusted disposable income is household income corrected for the value of social transfers in kind received and given. These include individual goods and services that government units and NPISHs provide as transfers in kind to households, irrespective of whether they were acquired on the market or whether the government units or NPISHs produce them as non-market output. They may be financed from taxes, other countries' revenues or social security contributions, and, in the case of NPISHs, from support and property-based income (The European System of National and Regional Accounts 1995, 2005, par. 4.104). In 2013, the majority was earmarked for health care and education, while the rest was allocated for recreation, culture, religion and social security.

3.17 Income inequality

Slovenia still belongs among the countries with the lowest income inequality ratios, but both income inequality indicators show a slight increase in income inequality in the 2008–2013 period. The distribution of income in 2012 reflects several years of the economic crisis, fiscal consolidation measures and legislative changes in the area of the social protection system. The increase in income inequality was spurred by labour market trends (a decline in employment, reduction of public sector wages and increase in unemployment, increase in the number of minimum wage earners), measures in the Fiscal Balance Act and changes brought about by the Exercise of Rights to Public Funds Act, which represents the reform of the system of social transfers. The number of benefits paid from public funds declined by 14.6%. A larger number of pensioners received 1% lower pensions, on average, while a smaller number of recipients of social transfers received higher amounts of social transfers. The Gini coefficient rose by 0.7 percentage points to 24.4% last year. Income inequality as measured by the income quintile share ratio (80/20) increased by 0.2 percentage points to 3.6 last year. In 2008–2013, the share of total income held by the bottom three deciles of the population decreased,

while the share owned by the upper three deciles rose. In Slovenia, the top 1% owned 3.4% and the bottom 1% held 0.2% of all income in 2013.

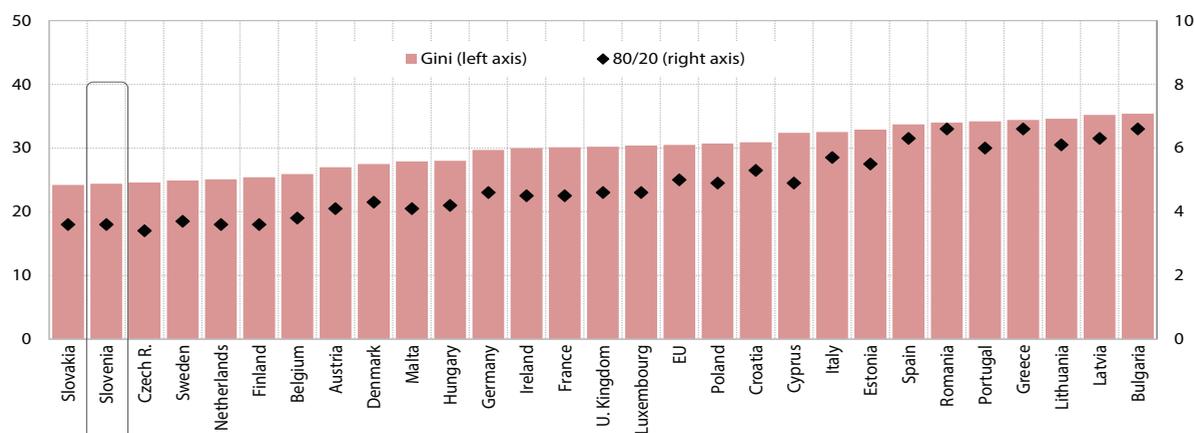
Table: Income inequality indicators, 80/20 and Gini, EU average* and Slovenia, 2005–2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
S80/S20 quintile share ratio									
Slovenia	3.4	3.4	3.3	3.4	3.2	3.4	3.5	3.4	3.6
EU*	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.0	5.0
Gini coefficient (in %)									
Slovenia	23.8	23.7	23.2	23.4	22.7	23.8	23.8	23.7	24.4
EU*	30.6	30.3	30.6	30.9	30.5	30.5	30.8	30.4	30.5

Source: Eurostat.

Note: * EU-27 until 2009, since 2010 EU-28. Data for Ireland are not available yet.

Figure: Income inequality indicators, Gini and 80/20, EU countries, 2014



Source: Eurostat.

Note: Data for Ireland are not available.

3.18 Household indebtedness

In 2013, Slovenian households were more indebted than in 2007. Household indebtedness can be measured by several indicators, for example by a ratio of household financial liabilities to household financial assets, or by household financial liabilities in relation to GDP. Both indicators show that household indebtedness increased in 2007–2013, but is still among the lowest in the EU.

In 2013, the indebtedness of households measured as a ratio of household financial liabilities to household financial assets was higher than in 2007, despite the decline. In 2008–2012, household financial liabilities rose faster than household financial assets, the main reason being the declining disposable income. In 2013, the level of household indebtedness declined owing to an increase in financial assets and a decline in financial liabilities. The decline in the latter was chiefly due to increased deleveraging of Slovenian households in 2013. In 2013, households significantly increased debt repayments relative to 2012, which was due to lower spending as a consequence of a larger contraction in disposable income and general uncertainty, coupled with tighter borrowing conditions at banks. At the same time, they reduced borrowing: they took out much fewer consumer and other loans, and also reduced the volume of housing loans, which make up the largest share in the

loan structure. In terms of this indicator of indebtedness, Slovenian households otherwise rank slightly below the average level in the EU.

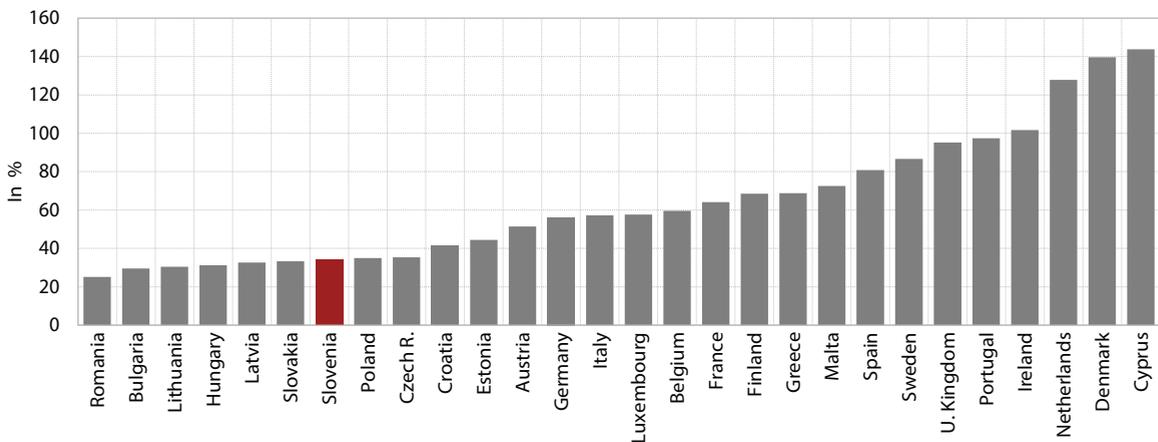
Household indebtedness measured as a debt-to-GDP ratio was also higher in 2013 than in 2007. In 2013, household financial liabilities relative to GDP were almost 5 percentage points higher (34%) than in 2007 in Slovenia, despite the decline in comparison with the previous year. Household indebtedness as measured by this indicator thus rose in the majority of countries in 2007–2013, most notably in Cyprus (by 24.9 percentage points), the largest decline being recorded in Latvia (by 13.6 percentage points).

Table: Household indebtedness measured as a ratio of financial liabilities to financial assets in Slovenia and the EU, in %

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	N/A	24.3	27.2	31.8	31.5	32.3	33.2	33.2	31.1
EU	N/A	N/A	N/A	N/A	36.7	35.9	35.7	33.9	32.7

Source: BoS, Financial Accounts and Eurostat Portal Page – Annual Sector Accounts.
Note: N/A – Data not available.

Figure: Household indebtedness measured as the stock of household liabilities in relation to GDP, in EU countries, 2013



Source: BoS, Financial Accounts and Eurostat Portal Page – Annual Sector Accounts.

3.19 Life satisfaction

According to the Eurobarometer survey, people in Slovenia are fairly satisfied with their lives in general,¹ which is probably due to satisfaction in areas they value more. With 83% of people satisfied (the 2014 average), Slovenia was thus ranked above the EU average again in 2014. In 2008–2014, life satisfaction in Slovenia decreased, while it rose on average in the EU. Life satisfaction tends to be higher if people are able to meet their needs in areas they value more. The areas that Slovenians consider most important are health, work ('employment situation') and family ('personal employment situation/household financial situation'). They are still fairly satisfied with these areas, in relative terms, especially with regard to the employment situation or the economic situation in the country.²

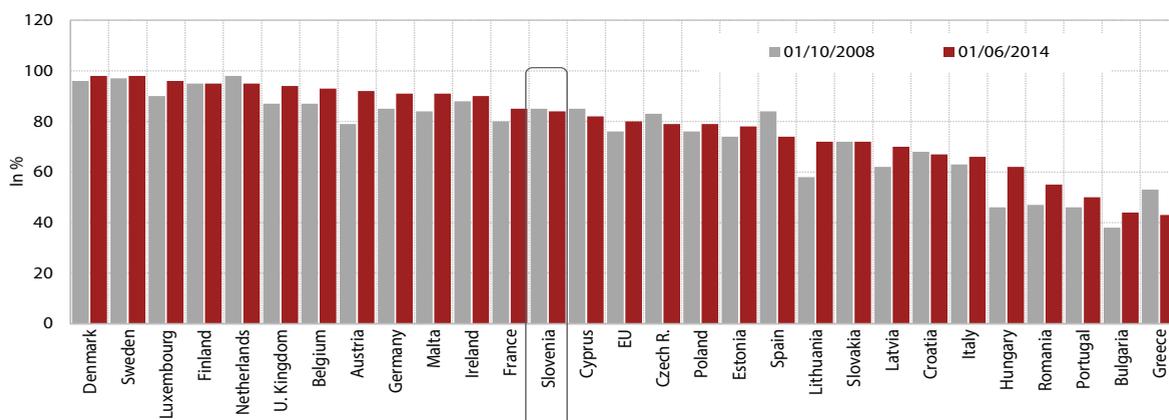
The evaluation of the present situation is also impacted by expectations about the future. Slovenians do not expect any improvement in the evaluated areas next year – the proportion of people satisfied with their personal employment situation (otherwise the lowest) remained the same (13%). The proportions of those expecting an improvement next year are lower than in the EU in all areas.

Table: Life satisfaction, Slovenia and the EU average, 2004–2014

	Oct 08	Jun 09	Nov 09	Jun 10	Nov 10	May 11	Nov 11	May 12	Nov 12	May 13	Nov 13	Jun 14	Nov 14
Slovenia	85	86	86	85	85	83	83	85	85	85	79	84	81
EU	76	77	78	78	78	79	75	77	76	75	75	80	79

Source: Eurobarometer.

Figure: Life satisfaction, EU countries, 2008, 2014



Source: Eurobarometer.

¹ Life satisfaction is the most important synthetic and multi-dimensional indicator of quality of life and personal well-being. It is monitored on the basis of data from the Eurobarometer survey, which measures life satisfaction twice a year with the following question: "All things considered, how satisfied would you say you are with your life these days?" The possible answers are: very satisfied, satisfied, dissatisfied and very dissatisfied. When we talk about satisfaction, we measure the shares of those 'Very satisfied' and 'Fairly satisfied' combined.

² See Slovenian Economic Mirror, January 2015.

3.20 Healthy life years

The population in Slovenia can expect only slightly more than 56 healthy life years,¹ which is significantly below the EU average, but the gap is closing. A girl born in 2013 can expect 55.6 years of healthy life, while a boy can expect 56.5 years. This is as many as 6.7 years fewer for women and 4.8 years fewer for men than on average in the EU. This places Slovenia almost at the bottom of the EU on this indicator, with only Slovakia trailing behind. During the crisis, this indicator otherwise improved slightly in Slovenia, while it deteriorated in the EU. However, this is a subjective indicator that measures self-perceived limitations in daily activities, and the results can also indicate greater criticism and higher sensitivity in evaluating one's own position. According to this indicator, the difference between women and men is smaller than in life expectancy, which indicates that difficulties that limit everyday activities appear sooner in women than in men (OECD Health at a Glance 2013). The number of expected healthy life years for men is thus higher than for women in as many as eleven EU countries, including Slovenia. Considering that women live longer than men, the relative indicator, which shows

the proportion of years lived in good health, is even worse: in Slovenia, a girl can expect to live only 66.7% of her life without limitations in everyday activities (the EU average being much higher, 76.4%) and a boy 75.8% (EU: 80.6%).

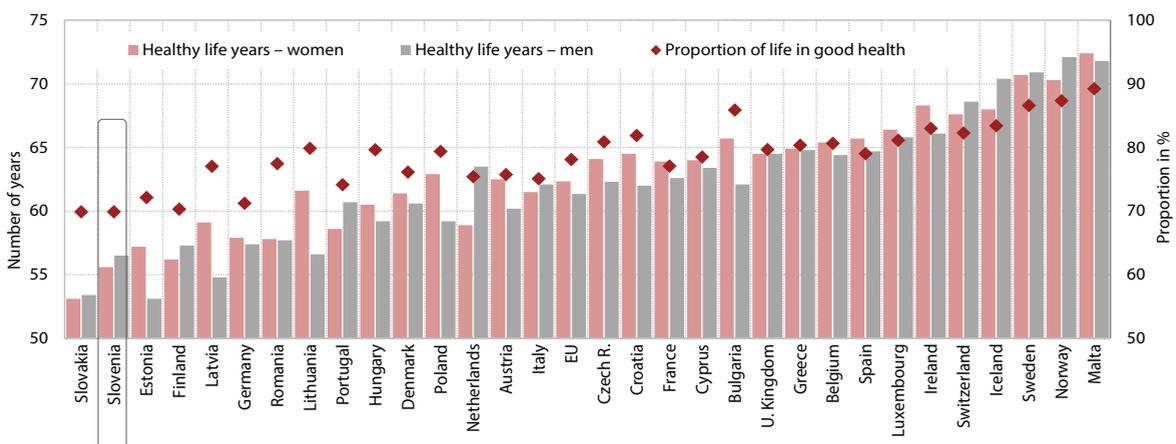
Slovenia also lags significantly behind the EU average as regards expected healthy life years at the age of 65. This indicator measures the number of years expected to be lived without activity limitations after 65, which is important particularly from the aspect of planning for long-term care needs. In the EU, a woman at the age of 65 is expected to live a further 8.7 years in a healthy condition and a man 8.5 years. In Slovenia, this indicator is only 6.9 years for women and 7.3 for men.

Table: Healthy life years at birth and at age 65, 2012

	Healthy life years at birth						Healthy life years at age 65			
	Women			Men			Women		Men	
	2010	2011	2011	2010	2011	2012	2010	2012	2010	2012
Slovenia	54.6	53.8	55.6	53.4	54.0	56.5	7.2	6.9	6.6	7.3
EU	62.7	62.2	62.3	61.9	61.7	61.3	8.9	8.5	8.7	8.5

Source: Eurostat Data Portal, OECD Health at a Glance 2014.

Figure: Healthy life years at birth and the proportion of life in good health



Source: Eurostat Portal Page – Population and Social Conditions – Health – Public health, 2015; Eurostat Portal Page – Population and Social Conditions – Population – Demography – Mortality, 2015.

¹ The indicator of healthy life years measures the number of remaining years that a person of a specific age is expected to live without disability or activity limitations. This is a composite indicator, which combines mortality and health status data. The estimate of disability/activity limitations is based on the Global Activity Limitation Indicator (GALI), which, within the EU-SILC survey, measures self-perceived disability people have had in carrying out usual activities for at least six months because of health problems. In March 2012, Eurostat revised the data, so that the series from 2004 to 2010 was calculated anew. Because the translation of the EU-SILC survey question on limitations was corrected in 2010, for Slovenia, only the time series from 2010 onwards is in fact comparable.

3.21 Share of population with at least upper secondary education

Slovenia has a relatively high share of adults aged 25–64 years with at least upper secondary education.¹

According to data from the Labour Force Survey for the second quarter, it stood at 85.7% in 2014 and remained approximately at the same level as in 2013. The share of adults with at least upper secondary education attainment is much higher than on average in the EU, which reflects the long-term high participation of young people and adults in upper secondary education. Relative to the EU average, Slovenia has a higher share in all age groups (25–34 years, 35–44 years, 45–54 years and 55–64 years), the gap being widest in the youngest age group. Because of the transition of younger, more educated people, into higher age groups, the share of adults with at least upper secondary education increased in all age groups in 2008–2014 (demographic effect).

The share of young people (20–24 years) with at least upper secondary education did not change much

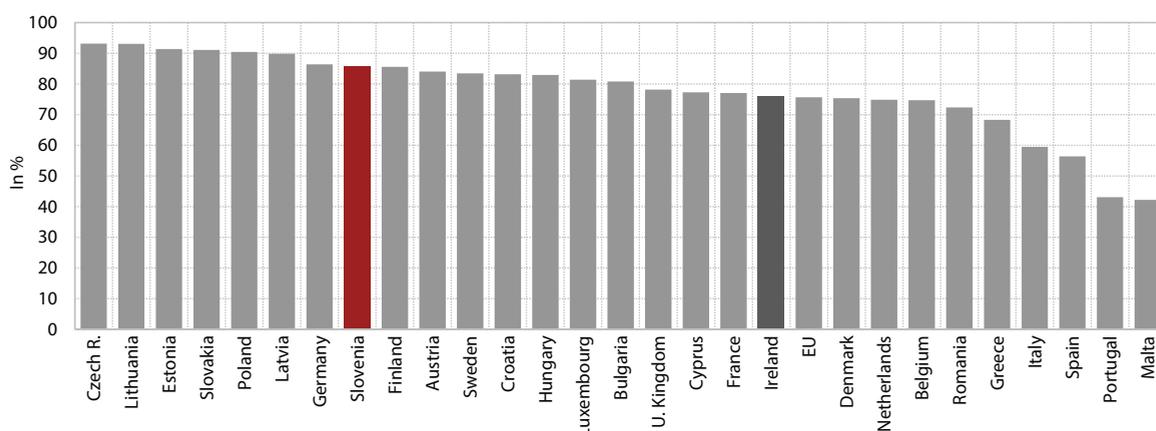
during the crisis. In 2014, it fell to 89.2%, but was higher than in the EU as a whole.² This was due to above-average participation of young people (15–19 years) in upper secondary education;³ a high completion rate in upper secondary education; and a low share of early school-leavers,⁴ which decreased further in 2013 and in 2008–2013 as a whole. In 2013, the share of early school-leavers was significantly lower than the EU average,⁵ the Europe 2020 target (10%) and the national target (5.0%). With favourable movements in the participation of young people in upper secondary education, the share of young people (20–24 years) with at least upper secondary education did not change significantly during the crisis.

Table: Share of adult population aged 25–64 with at least upper secondary education, 2nd quarter, in %

	2000	2005	2008	2009	2010	2011	2012	2013	2014
Slovenia	74.8	80.5	81.6	83.1	83.5	84.8	85.1	85.6	85.7
EU	N/A	68.9	71.1	71.6	72.4	73.1	74.0	74.9	75.7

Vir: Eurostat Portal Page – Population and social conditions – Education and training, 2015.

Figure: Share of adults with at least upper secondary education, 2nd quarter, 2014, in %



Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2015.

¹ At least upper secondary education means upper secondary and tertiary education.

² The share of young people (20–24 years) with at least upper secondary education totalled 89.2% in 2014; in the EU: 81.6%.

³ In Slovenia, the participation of young people (15–19 years) in upper secondary education totalled 78.6% in 2012 (EU: 60.1%).

⁴ Percentage of the population aged 18–24 with at most lower secondary education and not in further education or training.

⁵ The share of early school-leavers totalled 3.9% in 2013 (EU: 12.0%).

3.22 At-risk-of-poverty rate

The at-risk-of-poverty rate in Slovenia measured after social transfers and pensions rose to 14.5% in 2013¹ (by 1 percentage point) and remains below the EU average, but the gap is closing. Among the EU countries, Slovenia slipped by three places to ninth in 2013. The at-risk-of-poverty threshold declined by 3% relative to 2012 (to EUR 593), but the number of people below the poverty threshold nevertheless rose by 20,000 (to 291,000). The median income of people living below the poverty threshold declined by EUR 18 relative to the preceding year. In 2013, 50,000 more people lived below the poverty threshold than in 2008. The relatively small increase in the at-risk-of-poverty rate before pensions and social transfers in 2013 (by 0.4 percentage points) could – we estimate – also be a consequence of the end of the gradual transition to the statutory minimum wage, which was only EUR 8.7 below the poverty line. Pensions had a greater effect on the reduction of poverty, despite the legislative changes in the area of pensions. Not including pensions, the at-risk-of-poverty rate would be 17 percentage points higher. Social transfers contributed less to poverty reduction than in 2012 (by 0.9 percentage points); without social transfers, the at-risk-of-poverty rate would be 10.8 percentage points higher.

Certain legislative changes and changes in income in 2012 reduced the impact of social transfers on poverty reduction in 2013 and even led to an increase in the at-risk-of-poverty rates of the most vulnerable groups. In 2013, the at-risk-of-poverty rate increased significantly in the following groups: jobless households with dependent children (by 5.2 percentage points to 75.2%), single households (by 4.3 percentage points to 30.1%); it also rose in households of two adults with several children (by 1.4 percentage points). One-person households are particularly vulnerable, especially women over 75 years old, their at-risk-of-poverty rate having risen by 2 percentage points to 33.5%. Amendments to the social legislation were therefore adopted in 2013 to address these deficiencies, introducing more realistic and favourable eligibility criteria regarding incomes and the material situation of applicants.

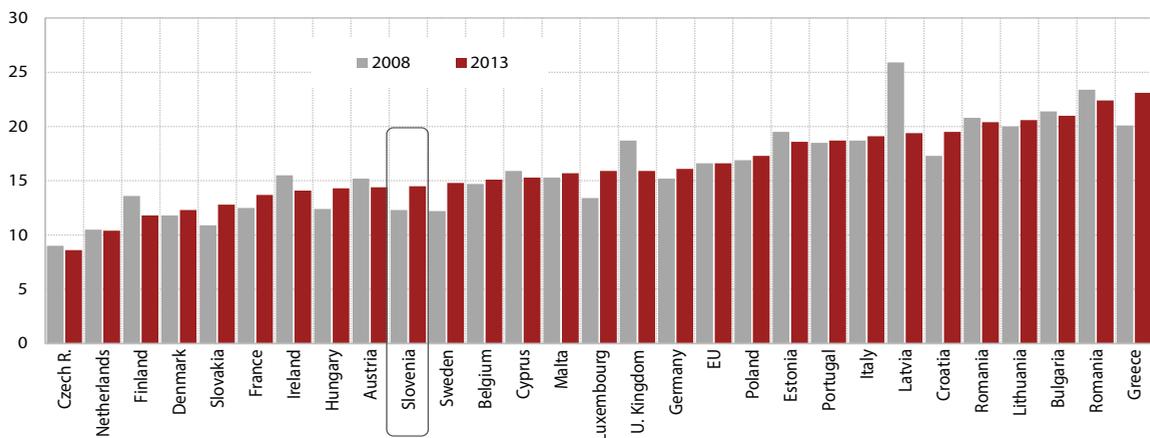
Table: The at-risk-of-poverty rate, EU-28 average and Slovenia, 2005–2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Slovenia	12.2	11.6	11.5	12.3	11.3	12.7	13.6	13.5	14.5
EU*	16.4	16.5	16.5	16.6	16.4	16.5	17	16.9	16.7

Source: Eurostat.

Note: *EU-27 until 2009, since 2010 EU-28. Data for Ireland not available.

Figure: The at-risk-of-poverty rate in EU countries, 2008, 2013



Source: Eurostat.

Note: Data for Ireland not available.

¹ The calculation of the at-risk-of-poverty rate for 2013 is based on income from 2012. For more see Indicator 3.17 and Slovenian Economic Mirror 9/2014, IMAD, Ljubljana.

3.23 Material deprivation

The share of materially deprived people¹ rose in Slovenia during the crisis, but remained below the EU average. It was 17% in 2013, which is 2.7 percentage points more than in 2007. In 2008–2013, the share of materially deprived persons did not change significantly in Slovenia and remained lower than in the EU as a whole. In Slovenia, the share of materially deprived is highest among people over 65 (18.2%). The largest share of materially deprived people in Slovenia is accounted for by those who are unable to cover unexpected expenses, afford a one-week annual holiday away from home, or are in arrears on housing-related bills.

There was a similar trend in the severe material deprivation rate.² The severe material deprivation rate in 2008–2013 was 1.6 percentage points higher than in the pre-crisis period (2005–2007). The increase during the crisis was mainly due to the deterioration on the labour market. The severe material deprivation rate among the unemployed increased from 12.0% in 2007 to 21.5% in

2013. The severe material deprivation rate in Slovenia is also still below the EU average, despite the increase during the crisis.

The share of those who have difficulty paying housing-related bills increased the most during the crisis. It reached 21.2% in 2013, which is 5.1 percentage points more than in 2008. Single-parent households find it hardest to meet their housing costs (38.4%). The situation of one-person households aged 65 years and over also deteriorated significantly (by 2.6 percentage points to 6.9%), but these have the least problems paying housing costs. Furthermore, more and more households are only managing to live on their income with difficulty.³ Material deprivation is significantly higher among people living below the at-risk-of-poverty threshold.

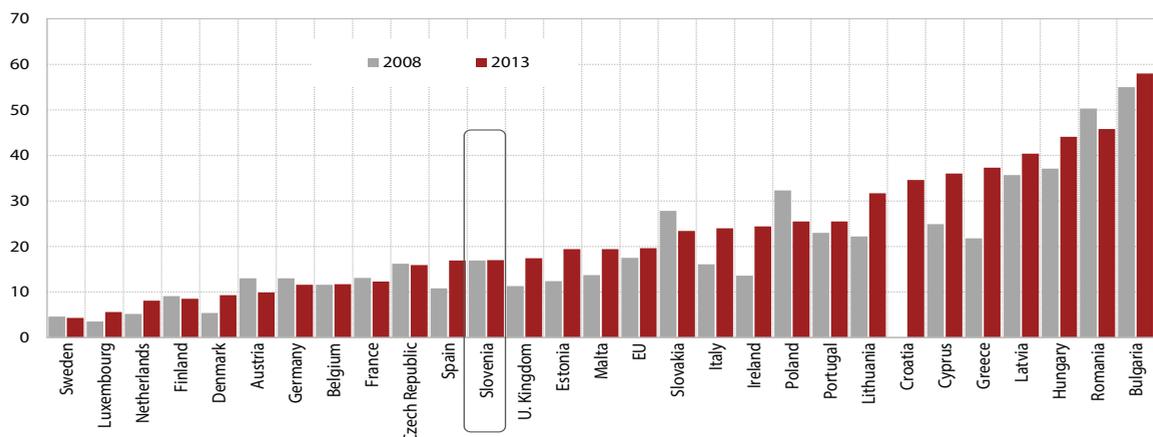
Table: (Severe) material deprivation, 2005–2013

		2005	2006	2007	2008	2009	2010	2011	2012	2013
Material deprivation (in at least 3 items out of 9)	Slovenia	14.7	14.4	14.3	16.9	16.2	15.8	17.2	16.9	17.0
	EU*	20.0	19.2	18.0	17.5	17.3	17.8	18.5	19.8	19.6
Severe material deprivation (in at least 4 items out of 9)	Slovenia	5.1	5.1	5.1	6.7	6.1	5.9	6.1	6.6	6.7
	EU*	10.8	9.9	9.1	8.5	8.2	8.4	8.9	9.9	9.6

Source: Eurostat.

Note: *EU-27 until 2009, since 2010 EU-28.

Figure: Material deprivation in the EU-28*, 2008, 2013



Source: Eurostat.

Note: *EU-27 until 2009, since 2010 EU-28.

¹ Deprivation in at least three of the nine material deprivation items: 1. inability to deal with unexpected expenses; 2. inability to afford a one-week annual holiday away from home; 3. inability to afford adequate meals; 4. inability to pay for arrears (mortgage or rent, utility bills or hire purchase instalments); 5. inability to keep one's home adequately warm, 6. inability to afford a washing machine, 7. inability to afford a colour TV; 8. inability to afford a telephone/mobile; 9. inability to afford a personal car. Severe material deprivation in at least four out of the nine material deprivation items.

² Deprivation in at least four of nine items.

³ This includes the shares of those managing with great difficulty, with difficulty and with some difficulty combined.

4 Environmental, regional and spatial development

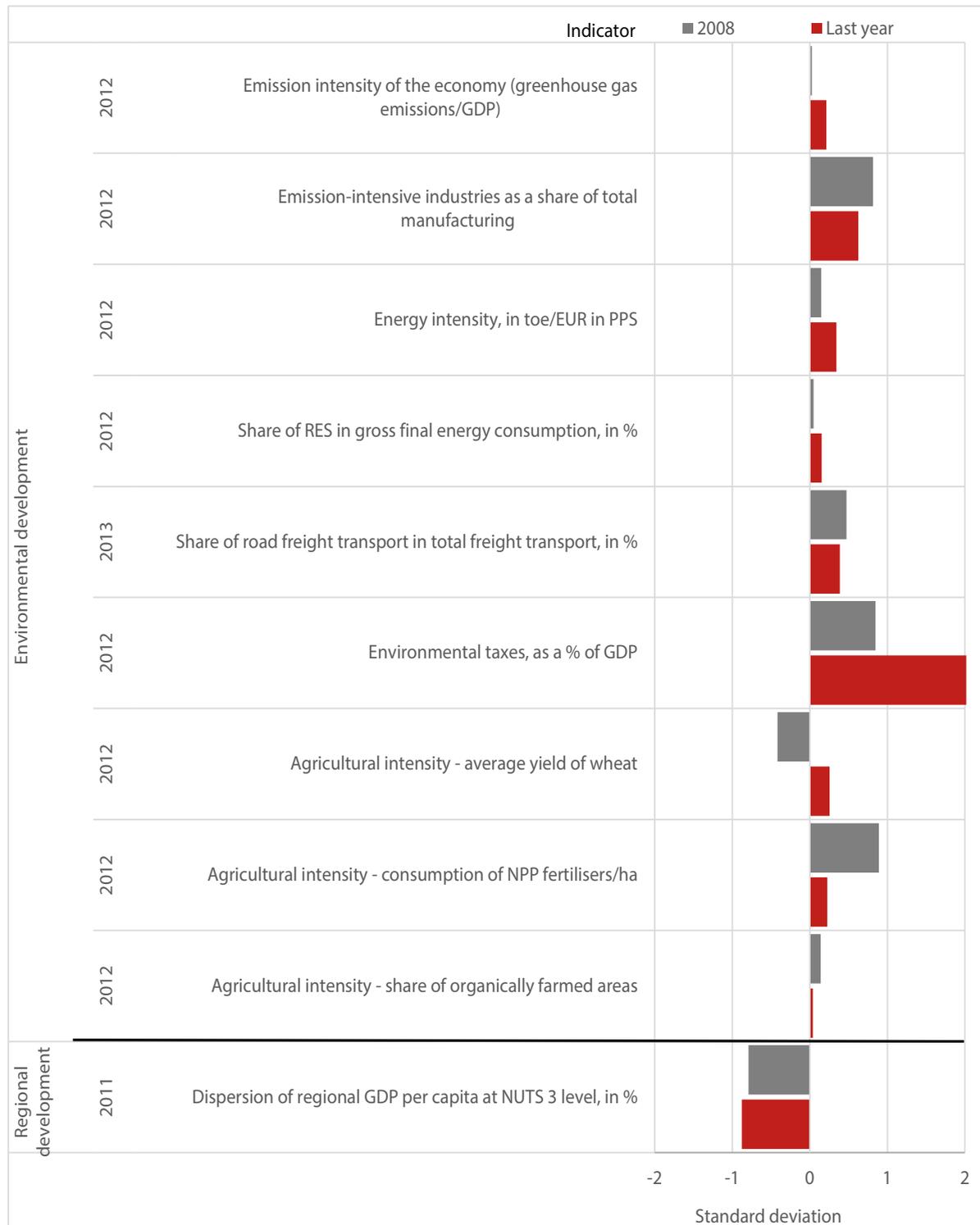
Environmental development

- 4.1 Greenhouse gas emissions
- 4.2 Emission-intensive industries
- 4.3 Energy efficiency
- 4.4 Renewable energy sources
- 4.5 Share of road transport in total freight transport
- 4.6 Environmental taxes
- 4.7 Agricultural intensity
- 4.8 Intensity of tree fellings

Balanced regional development

- 4.9 Regional variation in GDP per capita
- 4.10 Regional variation in the registered unemployment rate

Overview of indicators – Environmental, regional and spatial development



Source: Calculations by IMAD.

Note: The table shows Slovenia's position relative to the unweighted arithmetic average of EU Member States. It is calculated with regard to the set of countries for which data for individual indicators were available; Cyprus, Malta, Luxembourg and Croatia were excluded from the analysis for lack of data. The data in the table are for 2008 and the last year for which data for EU Member States were available (the last year is indicated in the table). A positive indicator value means above-average development relative to the EU, while a negative value indicates that Slovenia is lagging behind the EU average regarding that indicator.

4.1 Greenhouse gas emissions

After declining in 2008 and remaining roughly unchanged for three years, total greenhouse gas (GHG)¹ emissions fell again in 2013 for the second consecutive year. Total GHG emissions amounted to 18,112 kt of CO₂ equivalent in 2013, which was again approximately 4% less than in the preceding year.² Emissions declined across almost all emission source categories observed. Emissions from energy and transport, which account for almost two thirds of GHG emissions, dropped around 1 percentage point more than average emissions. Emissions from the energy sector were almost entirely due to generation in thermal power plants. When the largest power plant is shut down, they will drop even more. Transport emissions remain fairly high by international comparison, owing in part to the relatively favourable competitive conditions established through tax policies and strong transit flows through Slovenia. Emissions from other sources also declined in 2013, except emissions from industrial processes. These had also been slowly rising in previous years but had a relatively small impact on the movement of total emissions as their share was modest.³

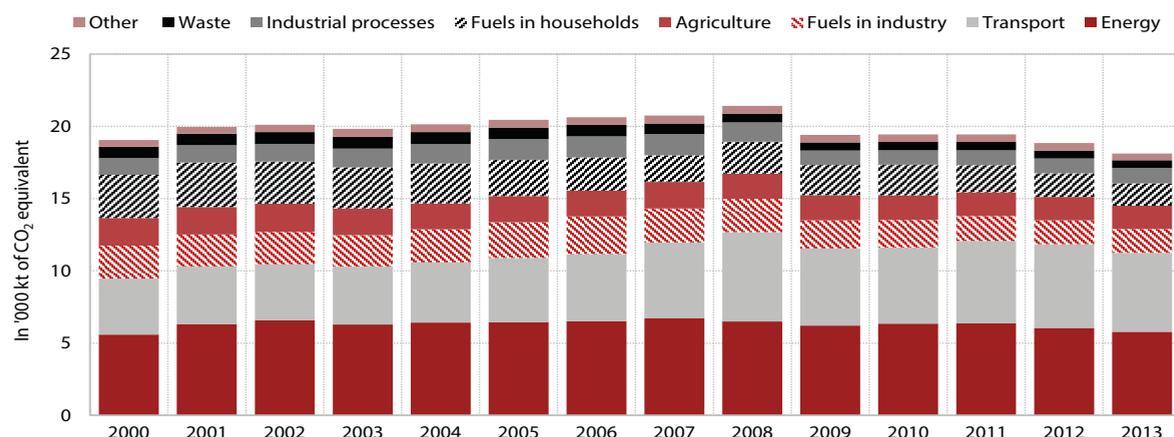
Emission intensity – which is relatively high in Slovenia – has been declining in the observed period since 2008, but the gap with the EU average increased.⁴ In 2013, the emission intensity of the Slovenian economy actually improved slightly again owing to somewhat lower emissions and almost unchanged GDP at constant prices, but Slovenia did not make significant progress in this area. Improvement is more visible over a longer period: amid a deep decline in GDP during the economic crisis, GHG emissions fell considerably, which moved Slovenia much closer to meeting its international commitments. With the emission intensity in the EU overall rising faster than in Slovenia, Slovenia's gap has nevertheless been widening. In 2000, Slovenia generated 14% more emissions per unit of GDP than the EU as a whole; in 2012, over a quarter more.

Table: Emission intensity of the economy (emissions/GDP)

	2000	2005	2006	2007	2008	2009	2010	2011	2012
Slovenia	0.61	0.51	0.49	0.46	0.46	0.46	0.45	0.44	0.43
EU	0.54	0.45	0.43	0.40	0.39	0.38	0.37	0.35	0.34

Source: Eurostat Portal Page – Environment and Energy, 2015; Eurostat Portal Page – Economy and Finance, 2015; calculations by IMAD.

Figure: GHG emissions by emission source category, Slovenia



Source: ARSO, 2015.

¹ Greenhouse gases include carbon dioxide, methane, di-nitrous oxide, hydrofluorocarbons and sulphur hexafluoride.

² The calculations for this year and previous years have been made using a new methodology and new values of greenhouse gas potentials; the calculations for previous years have therefore been slightly changed (ARSO, 2015).

³ Polluters would be more motivated to reduce emissions, had it not been for tax exemptions that lowered the burden of tax on emissions for the largest pollutants.

⁴ Emission intensity is the ratio of a country's GHG emissions to its GDP. For methodological purposes, we used the movement of GDP at constant prices in the time comparison, and GDP in purchasing power standards (PPS) for a given year in the international comparison.

4.2 Emission-intensive industries

In the last few years, the total output of emission-intensive industries¹ in Slovenia mostly grew faster than the average output of other manufacturing industries. The only exceptions were 2008 and 2009, primarily as a result of lower output in the manufacture of basic metals. In 2013, emission-intensive output increased further due to relatively strong growth in the chemical industry and in the manufacture of basic metals, while the average output in other manufacturing sectors production activity declined. The share of value added

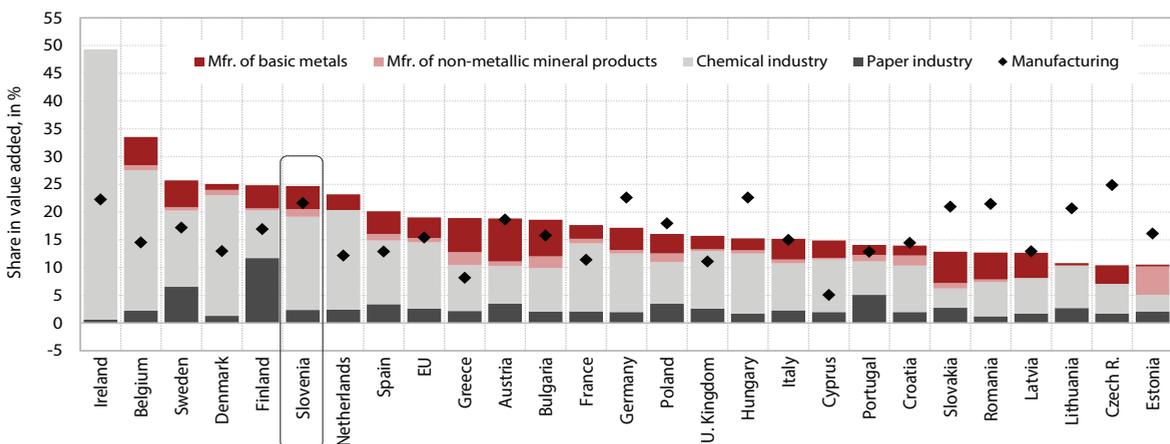
in emission-intensive industries in total value added in manufacturing amounted to almost a quarter (24.2%) and was one of the largest in the EU.³ Given the greater significance of emission-intensive industries and greater energy intensity of manufacturing in Slovenia than in the EU as a whole, emissions trading could have a greater effect on production costs³ and, consequently, business results and competitiveness than on average in the EU. To reduce exposure to higher costs, it is therefore crucial for Slovenia to continue to further reduce its energy intensity⁴ and proceed with technological restructuring in emission- and energy-intensive industries.

Table: Selected indices of emission-intensive industries and energy intensity in manufacturing, Slovenia

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Energy intensity in manufacturing (index 2005=100)	100.0	95.8	86.6	78.9	77.2	75.2	71.1	71.1	71.0
Output in emission-intensive industries (index of real growth)	104.2	112.1	114.3	93.7	81.2	108.9	102.3	102.0	102.7
Manufacture of pulp, paper and paper products	102.5	99.0	98.5	89.8	89.8	101.3	100.7	97.0	100.3
Manufacture of chemicals, chemical products and man-made fibres	107.6	113.0	121.7	101.0	85.8	114.7	102.4	104.6	103.9
Manufacture of other non-metallic mineral products	93.1	106.2	105.8	102.5	72.4	98.7	90.7	95.9	98.3
Manufacture of metals	103.2	119.6	106.7	68.6	70.3	109.5	111.0	101.1	103.4
Production volume in manufacturing excluding emission-intensive industries	103.9	104.8	107.1	104.7	81.3	106.1	102.0	98.3	98.0

Source: SI-STAT Data Portal – National Accounts and Mining and manufacturing (SURS), 2014; calculations by IMAD.

Figure: The share of emission-intensive industries in manufacturing and the share of manufacturing in the value added of the economy, 2012.



Source: Eurostat, National Accounts, 2014.

¹ According to the World Bank methodology, these include the following NACE subcategories: the manufacture of chemicals and chemical products; the manufacture of paper and paper products; the manufacture of basic metals; the manufacture of cement, lime and plaster; and the manufacture of other non-metallic mineral products.

² In 2012, these industries generated 24.7% of the total gross value added of manufacturing in Slovenia (compared with 19.1% in the EU). Furthermore, in Slovenia, manufacturing also accounts for a larger share in the total value added of the economy (21.6%; 15.4% in the EU). The share of the chemical industry is particularly high compared with the EU average, as is the share of basic metals.

³ The adopted climate and energy package and the emissions trading system are likely to have a double effect on the costs for businesses: direct costs of the purchase of emission allowances and indirect costs paid through higher electricity prices.

⁴ Energy intensity is the ratio of energy consumption (fuels, electricity and heat) to value added, expressed at constant prices. For more on the movement of energy intensity in manufacturing see Section 4.1.

4.3 Energy efficiency

Reflecting weak economic activity, primary energy consumption decreased again in 2013, but energy intensity¹ remained relatively high. Economic activity declined again in 2013 (by 1.0%), which was also indicated by lower primary energy consumption (by 2.0%). In 2014, the consumption of some energy products declined further despite economic growth (the consumption of coal and fuel oil by around a fifth, petrol and natural gas by around 5% and diesel fuel by around 1%). One of the targets of the EU climate and energy package for 2020 is a 20% reduction in energy consumption with regard to anticipated consumption according to the baseline scenario with no additional measures. This means that by 2020 two thirds of EU countries will have to reduce energy consumption relative to the base year of 2005, while those countries where a strong increase in energy consumption was anticipated according to the baseline scenario will have to limit growth. This also applies to Slovenia. Slovenia is allowed to increase primary energy consumption by 4.5% relative to 2005, while in the EU overall primary energy consumption should be reduced by 13.2%. The majority of EU countries are on track to meet the 20% target, partly as a result of the deteriorated economic

conditions. To reach the targeted savings, Slovenia should not increase primary energy consumption by more than 9.1% in 2014–2020, while the EU as a whole should reduce it by 5.3%. In the last few years, energy intensity in Slovenia deteriorated significantly compared with the EU average, as it was falling more slowly than in the EU. Approximately until the middle of the previous decade, energy intensity in Slovenia had converged towards the EU average, exceeding it only by 15%, while in the few years that followed it was moving away from the EU average and was a quarter higher in 2013.

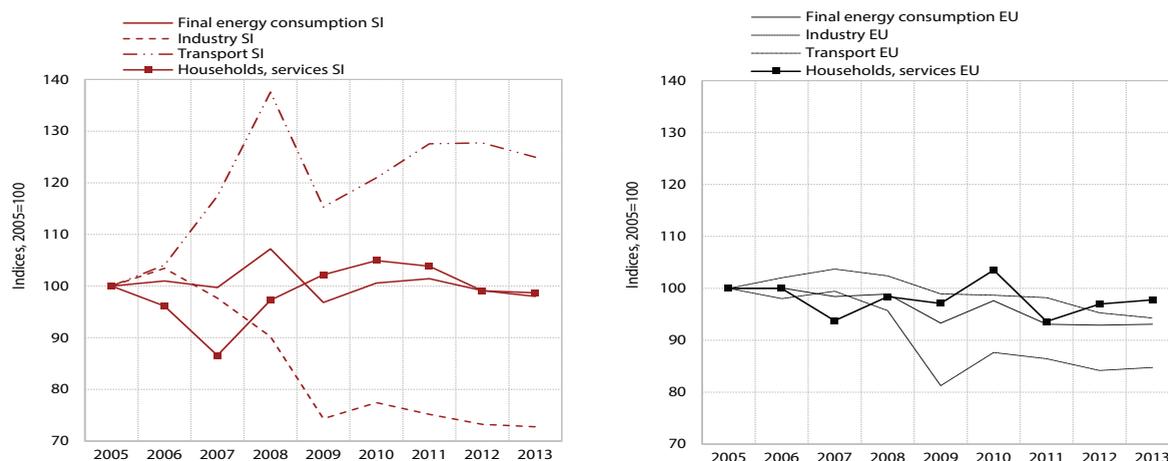
Regarding final energy consumption,² Slovenia stands out particularly in the large share of energy consumption in transport. In 2005–2013, final energy consumption was falling by 0.3% per year in Slovenia; the decline in the EU overall was much larger (0.9% per year). Energy consumed by industry was otherwise falling faster (by 1.7 percentage points),³ but this improvement was cancelled out by a concurrent increase in energy used for transport (by 2.8% per year; in the EU: by 0.7%),⁴ which is mainly attributable to increasing freight transit through Slovenia.⁵ The targeted savings for EU countries set for final energy consumption show a similar picture to that in primary energy consumption.

Table: Primary energy consumption, fixed-base index 2005=100

	2005	2007	2008	2009	2010	2011	2012	2013	2020 target*
Slovenia	100.0	100.1	106.5	97.3	100.0	102.0	98.1	95.7	104.2
EU	100.0	98.7	98.7	93.2	96.6	93.3	92.5	91.7	86.6

Source: Eurostat Portal Page – Europe 2020 indicators, 2014; EC Energy Efficiency, Reporting targets; calculations by IMAD.
Note: * One of the three 20-20-20 environmental targets of the EU.

Figure: Final energy consumption by consumer sector in Slovenia and the EU



Source: Eurostat Portal Page – Environment and Energy, 2014; calculations by IMAD.

¹ Energy intensity is the ratio of energy consumption to GDP in purchasing power standards (PPS).

² Final energy consumption includes the consumption of primary energy reduced by energy for transformations, own use and losses.

³ The reduction in Slovenia was mainly due to a significant decline in energy consumption owing to the restructuring of aluminium production.

⁴ Liquid fuels sold in Slovenia are included in the Slovenian energy balance regardless of where the buyer is from or in which country the fuel is used.

⁵ See also the Share of Road Transport in Total Freight Transport indicator.

4.4 Renewable energy sources

The share of renewable energy sources (RES) in final energy consumption continued to increase in 2013.

It has been rising ever since 2009 for various reasons. Final energy consumption declined sharply because of the crisis, and the increase in the consumption of RES is mainly attributable to a broader capture of statistical data and, to some extent, to higher water levels. Amid a 1.7% decline in final energy consumption, the consumption of RES increased by 4.6% in 2013. The share of RES in gross final energy consumption thus rose to 21.5%. In 2014, hydroelectric power production was significantly above the average again (41% higher than foreseen and 29% higher than in 2013); there was also a notable increase in solar energy consumption.¹ Partial data on energy supply indicate that energy consumption declined despite economic growth. The share of RES in gross final energy consumption is therefore estimated to have risen again (to around 23%). To comply with EU targets, Slovenia should reach a 25% share of RES in gross final energy consumption by 2020, while EU Member States should increase their average share from 15.0% in 2013 to 20% by 2020.

Slovenia has a two times higher share of RES in heating than the EU, an almost 50% higher share of RES in electricity consumption, while the share in transport is somewhat lower than in the EU; all three shares rose in

2013. The share of RES use in heating reached 31.7% in 2013. Slovenia is in the upper third of EU countries on this indicator, mainly thanks to the availability of wood for heating because of its large forest area. The largest part of RES used for heating is thus accounted for by solid biomass (92%); around 6% is contributed by geothermal energy and the rest by biogas and solar energy (collectors of solar heat). The share of RES in transport (3.4%) was slightly below the EU average (5.4%), but Slovenia was among the first ten EU countries in terms of RES use in electricity production (32.8%), owing mainly to the use of hydro-energy. Hydro-energy accounted for as much as nine tenths of total consumption of RES in electricity; 4.5% was contributed by solar energy and the rest by solid biofuels and other sources. Overall in the EU, hydro-energy contributed much less to electricity production from RES than in Slovenia, around 42%, a significant contribution (over 27%) being made by wind energy.²

Grants paid per unit of energy produced in subsidised RES power plants have increased significantly in the past few years because of a change in structure in favour of solar energy. In 2005, grants for promoting electricity generation from RES stood at EUR 16.8 m, the bulk being intended for hydroelectric power plants. Since 2010, the amount of RES grants has increased substantially, reaching as much as EUR 103.2 m in 2014, when grants for solar power plants predominated. With a shift towards more expensive energy sources, the amount of grants per unit of power generated from RES increased several-fold, to EUR 0.162/kWh in 2014.³

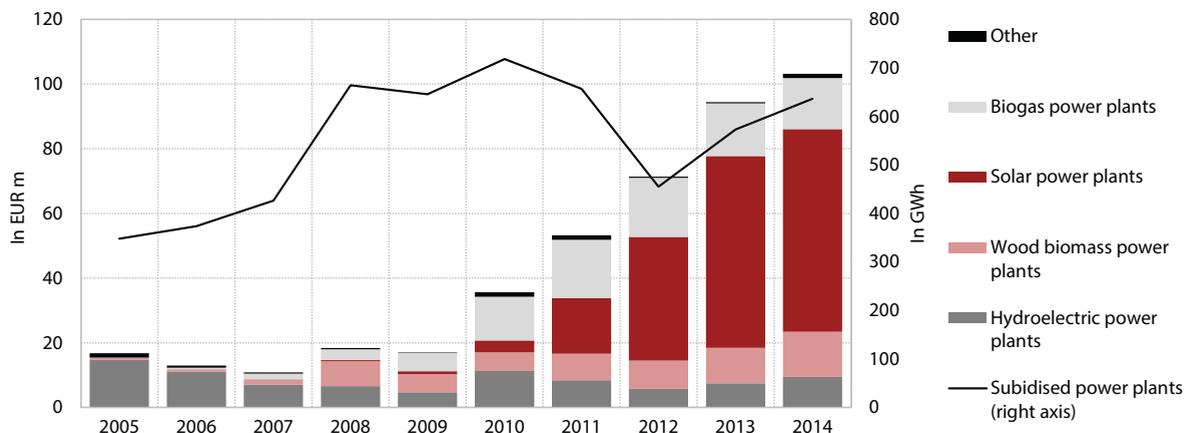
Table: Share of RES in gross final energy consumption, in %

	2005	2007	2008	2009	2010	2011	2012	2013	2020 target*
Slovenia	16.0	15.6	15.0	19.1	19.3	19.4	20.2	21.5	25.0
EU	8.7	10.0	10.5	11.9	12.5	12.9	14.3	15.0	20.0

Source: Eurostat Portal Page – Europe 2020 indicators, 2020.

Note: * One of the three 20-20-20 environmental targets of the EU.

Figure: Funds disbursed to support electricity production from RES, Slovenia



Source: 2004–2012 Ministry of Infrastructure and Spatial Planning, 2014 Borzen.

¹ According to ELES data and the Borzen report.

² The share of wind energy in electricity production in Slovenia was negligible in 2013, at 0.1%.

³ For comparison: the market price of electricity (base-load power) on the European Energy Exchange (EEX) in Leipzig totalled around EUR 0.037/kWh in January 2015.

4.5 Share of road transport in total freight transport

Although since 2009 the share of road freight transport has been slowly declining in Slovenia and across the EU, it has remained much larger in Slovenia than in the EU. While the share of road freight transport stagnated in the EU in the middle of the previous decade, it was rapidly rising in Slovenia, so that Slovenia exceeded the EU average in 2005 and maintained the gap of around 6 percentage points since 2009. In the first half of 2014, the number of tonne-kilometres performed by domestic carriers declined year-on-year (by 3.7%), while rail freight transport increased (by 14.4 %). The share of road freight transport thus fell to a still high 80% (in the EU as a whole, by around 5 percentage points less). We estimate that the annual volume of road freight transport remained below the pre-crisis peak, while the volume of rail freight transport – which is otherwise relatively low – was much larger. From the perspective of sustainable development, such restructuring in favour of rail transport is more favourable, but the continuation of this trend remains a challenge.

The volume of road freight transport per capita in Slovenia is among the largest in the EU, primarily owing to Slovenia's transit location and the density of its transport infrastructure. Freight transport by domestic carriers increased significantly, particularly in 2003–2008. In 2013, domestic carriers performed more than double the number of tonne-kilometres per inhabitant than, on

average, carriers in the EU. The increase is attributable to Slovenia's location at the crossing of the V and X trans-European corridors, where transport has also expanded significantly with the recent enlargements of the EU, and to a highly developed motorway network (the most extensive in the EU in per capita terms). The volume of railway freight transport per capita is also relatively large in Slovenia, where, alongside the railway network, the connection with the port of Koper also plays a significant role, as around 60% of the transit of goods through this port is transported by rail.

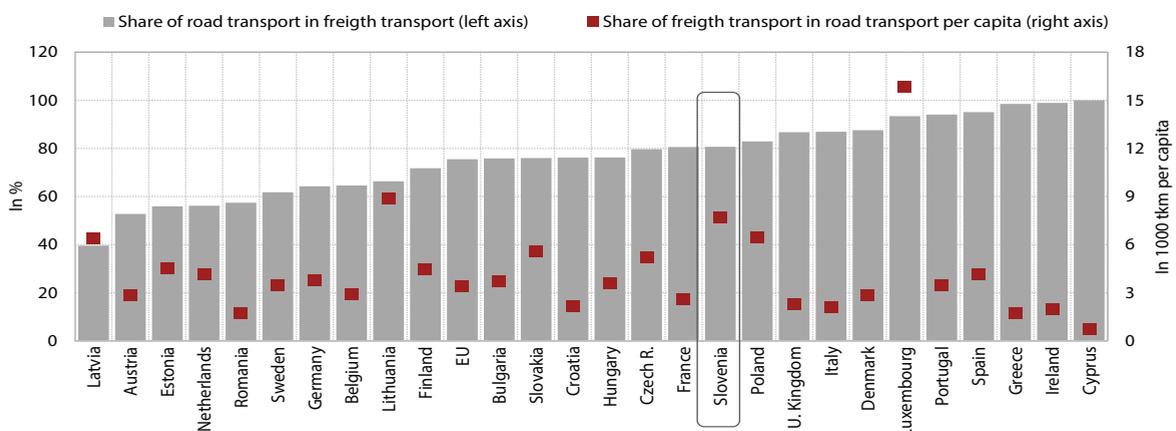
Slovenian road carriers perform more and more of their services abroad, while the share of freight transport carried out by foreign carriers on Slovenian roads is rising. This can be concluded based on a comparison of vehicle-kilometres travelled by domestic goods vehicles and vehicle-kilometres travelled on Slovenian roads by all goods vehicles.¹ This trend continued after 2008. In 2008–2013, the total range of journeys (measured in kilometres) made by Slovenian carriers (in Slovenia and abroad) declined by almost 9%; the range of journeys performed in the territory of Slovenia by all carriers (including foreign carriers) declined to the same extent. Within that, the range of journeys performed by Slovenian carriers (solely) abroad increased by 22%, while the journeys made in the national territory and those that are at least partly connected to the territory of Slovenia (i.e. when goods are loaded or unloaded in Slovenia) declined by 19%. At the same time, transport by foreign carriers on Slovenian roads expanded, which is confirmed by data on the number of passages through toll stations,² according to which the share of foreign freight vehicles on Slovenian motorways rose by 15 percentage points to 68% in 2008–2012.

Table: Share of road transport in total freight transport in tkm, in %

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	71.9	77.3	79.2	82.2	84.0	82.3	81.4	82.1	80.7
EU*	73.7	76.4	76.3	76.3	77.5	76.4	75.5	75.1	75.5

Source: Eurostat Portal Page – Transport, 2015; calculations by IMAD for 2007–2013.
Note: * For some countries, data from previous years are taken into account in the calculations.

Figure: Road freight transport in Slovenia and the EU¹



Source: Eurostat Portal Page – Population and Social Conditions and Transport, 2015; calculations by IMAD. Note: ¹Data for Malta not available; data for some countries are from previous years.

¹ The former are data from SURS, the latter are data from the Slovenian Infrastructure Agency. As there are no statistical data on the tonne-kilometres performed in individual countries, we use vehicle-kilometres instead.

² Freight vehicles registered at toll stations in the entire territory of Slovenia between 19 April 2008 and 26 April 2008, and between 4 May 2008 and 11 May 2008, DARS 2009, Proposals for the new toll price list, DARS 2013.

4.6 Environmental taxes

In 2013, revenue from environmental taxes rose for the second consecutive year and was more than a third higher as a share of GDP than in 2000. In 2013, revenue from these taxes was 4% higher than in 2012 and a quarter higher than in 2008. As a share of GDP, it was up more than a third relative to 2000, which is mainly related to increased revenue from energy taxes. In contrast to previous years, the increase in 2013 was due to higher revenues from *transport taxes* (by 13.8%) and *taxes on pollution and the use of natural resources* (by 45.2%).¹ Revenue from *energy taxes*, the largest category of environmental taxes, declined by 1.6%. This was attributable to a fall in revenue from excise duties on energy products, which followed the decline in the quantity of fuels released for consumption after excise duty rates were raised. The negative impact of this fall was mitigated by revenue from the sale of the remainder of emission allowances, which has been possible since that year.

The share of environmental taxes in GDP in Slovenia is above the EU average, which is attributable to higher energy consumption. In the past few years, the gap in environmental taxes as a share of GDP between Slovenia (3.9%) and the EU average (2.4%) has been widening. It is mainly explained by the high revenues from energy taxes in Slovenia related to the extensive consumption of energy products in road transport due to a large

volume of transit traffic, the dispersed settlement pattern and poorly developed railway infrastructure. The implicit tax rate on energy – which measures the value of environmental taxes per unit of final energy consumption and thus excludes the volume of energy consumed as a tax burden factor – indicates that in 2012, the tax burden on energy products in Slovenia (EUR 172.2/tonne) was comparable with the weighted EU average (EUR 172.8/tonne).

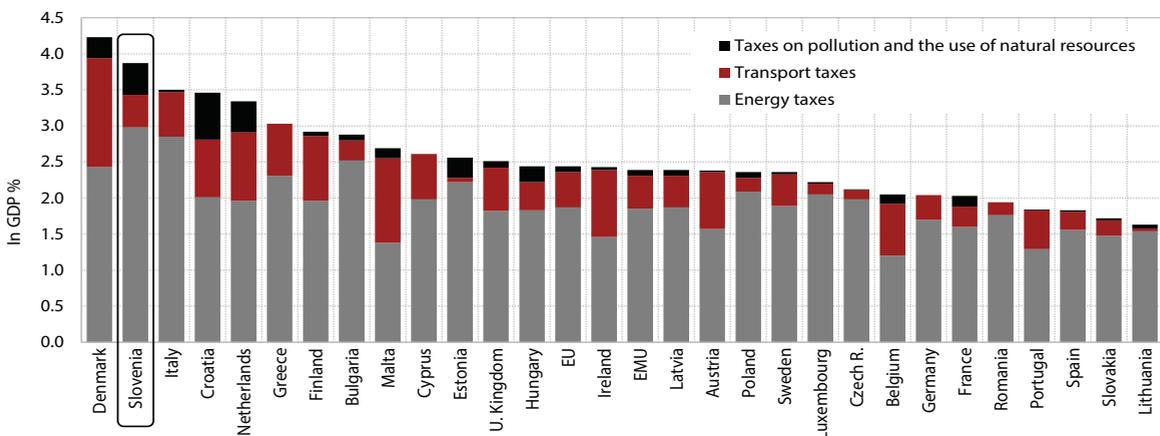
Most of the environmental tax burden is borne by households, as the majority of energy and transport taxes fall on households. As in previous years, in 2012, 70% of the total environmental tax burden fell on households, according to SURS data. This can be attributed in part to methodological simplification, which ascribes most of motor fuel consumption and hence energy taxes to households. Among environmental taxes that burden the economy, the most important ones are taxes on energy, which are to the greatest extent paid by the manufacturing sector. They are followed by taxes on transport and taxes on pollution, which, within the economy, mostly burden the sale, maintenance and repair of motor vehicles. Most of the burden of taxes on the use of natural resources is borne by companies in the electricity, gas and steam supply sector.

Table: Share of revenue from environmental taxes in GDP, Slovenia, in %

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Slovenia	2.9	3.2	3.0	3.0	3.0	3.5	3.6	3.4	3.7	3.9
EU	N/A	2.5	2.4	2.4	2.3	2.4	2.4	2.4	2.4	2.4

Source: Eurostat Portal Page – Environment and Energy.

Figure: Revenue from environmental taxes, Slovenia and the EU, 2013



Source: Eurostat Portal Page – Environment and Energy.

¹ Growth in *transport taxes* reflected an increase in annual road user charges and an additional tax on vehicles with more powerful engines introduced in the middle of 2012. Growth in *taxes on pollution and the use of natural resources* was underpinned by the CO₂ tax on motor fuels, which was also introduced in the middle of 2012.

4.7 Agricultural intensity

The consumption of mineral fertilisers, which is declining in the long term, rose slightly in 2013.

Agricultural producers used around 130,000 tonnes of mineral fertilisers in 2013, 1.5% more than in 2012. The consumption of main macronutrients (NPK fertilisers, i.e. nitrogen, phosphorus and potassium), which accounted for around one third, rose even slightly more, by approximately 2.5% per unit of utilised agricultural area (UAA). In the long term, both the total consumption and the consumption per unit of UAA are falling relatively rapidly. In 2013, the latter was more than a tenth lower than in the last ten years as a whole.

Pesticide consumption, which is falling even faster in the long term, decreased further in 2013.

The total quantity of active ingredients in pesticides sold was around 918 tonnes, but it was not used solely in agriculture.¹ Pesticide sales were thus approximately a tenth lower than in 2012. The majority were fungicides for plant disease control, followed by herbicides for weed control. The quantity of pesticides sold has been falling relatively rapidly in the long term. In 2013, it was a quarter below its ten-year average.

Agricultural efficiency, as measured by average yields of the most important crops, the number of animals per unit of utilised agricultural area and milk yield per animal, deteriorated on most indicators.

The average yield of crops per hectare declined due to bad weather conditions, by a fifth in wheat and around a quarter in maize. In both it was also down compared with the ten-year average, which indicates a lower level of exploitation of natural resources than in previous years. In contrast, the environmental burden per output measured by the number of animals per unit of area is relatively high, although it declined a little in 2013. Intensity in milk production also decreased, by around 6%. As it is relatively low, this is not favourable from the perspective of the environmental burden per output.

While integrated farming declined slightly, organic farming rose significantly again.

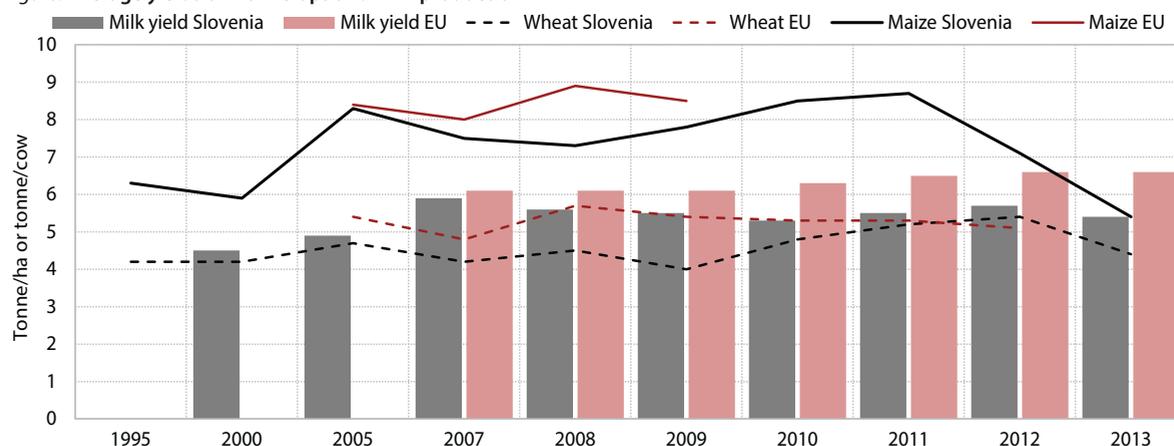
The total area of agricultural holdings involved in controlled sustainable (integrated and organic) farming grew by around 3% in 2013. The area cultivated using integrated methods was down again somewhat, while the area cultivated organically, which is one of the most effective methods of sustainable use of natural resources, was up by a tenth. A large majority of this area is permanent grassland intended for animal production, while the fastest growth is recorded for other types of land where production is driven by high demand. The total organic crop production rose by 15% in 2013. The organic production of animals and aquatic organisms also increased.

Table: Consumption of NPK fertilisers and pesticides and the share of organic production area

		1995	2000	2005	2007	2008	2009	2010	2011	2012	2013
NPK fertiliser use, in kg/ha of UAA	Slovenia	134.6	146.8	115.3	115.6	104.9	94.8	103.0	104.1	95.9	98.2
	EU	N/A	N/A	92.8	99.1	75.4	86.9	105.4	86.7	86.9	90.5
Pesticide sales,* in active substance, in thousand tonnes	Slovenia	N/A	1.5	1.4	1.2	1.2	1.2	1.1	1.1	1.0	0.9
	EU	N/A	N/A	3.6	4.0	4.4	61	5.2	5.5	5.7	N/A
Organic production area as a share of UAA, n %	Slovenia	-	1.1	4.6	5.9	6.1	4.7	6.4	7.0	7.3	8.1
	EU	N/A	N/A	3.6	4.0	4.4	61	5.2	5.5	5.7	N/A

Source: SI-STAT Data Portal – Environment and Natural Resources – Agriculture and Fishing, 2015; Eurostat Portal Page – Agriculture, Forestry and Fisheries, 2015; calculations by IMAD.
 Notes: * The figure on the quantity is the sum of active ingredients with very different toxicity levels, which makes international comparisons very difficult; N/A – data not available.

Figure: Average yields of main crops and milk production



Source: SI-STAT Data Portal – Environment and Natural Resources – Agriculture and Fishing, 2015; Eurostat Portal Page – Agriculture, Forestry and Fisheries, 2015; calculations by IMAD.

¹ SURS has data on the wholesale of pesticides rather than actual consumption.

4.8 Intensity of tree fellings

Tree felling, which is rising in the long term, remained almost unchanged in 2013 and relatively low in terms of potential felling; the intensity of tree felling¹ also remained almost the same. Slightly more than 3.9 m³ of wood was removed, which is, for the second consecutive year, approximately the same as in the preceding year but approximately half more than in 2000. As potential felling² according to the forestry management plans also rose in this period, the gap between actual felling and potential felling did not narrow. In 2013, 65% of potential felling was carried out (a year earlier, 68%), the shortfall being mainly due to insufficient tree felling in private forests. Most of the removal was for tree-tending and sanitation purposes, while felling for forest clearance, regeneration and infrastructure was relatively insignificant. With around 1% larger annual wood increment, the intensity of tree felling – which had previously been rising – also remained roughly the same at 46%. This is much lower than envisaged in the Action Plan to Increase the Competitiveness of the Forest-Wood Chain in Slovenia by 2020, according to which tree-felling intensity could be increased to 75%. Without jeopardising the stability of forests and their habitats, 6.5 million m³ of wood could be cut per year.³ As much as

40% of the total wood area was affected by the ice storm at the beginning of 2014, which will be reflected in both environmental and economic indicators for forestry in 2015 and in the years to come.

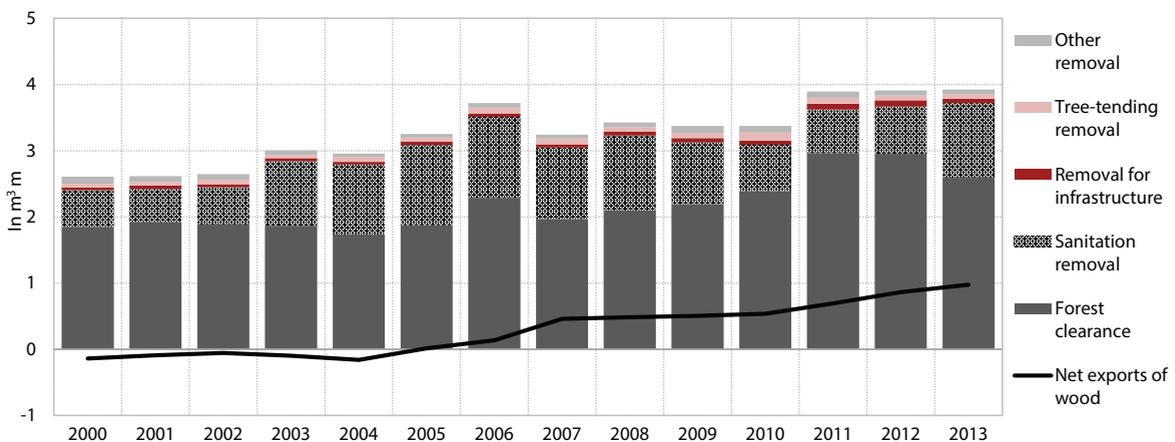
Although tree felling remained unchanged, the production of raw wood categories increased, but owing to higher exports, the untapped potential in the forest-wood chain did not decline. Around 3.5 million m³ of roundwood was obtained, approximately 5% more than a year earlier.⁴ The production of wood used for industrial processing, which is of higher quality, increased; the volume of wood used for heating rose even more. More wood was exported than in previous years, so that exports accounted for as much as 44% of production in 2013 (in the previous year, 4 percentage points less). Net exports of wood, having been rapidly rising since 2006, were up 13% in 2013. Their structure has deteriorated significantly in this period. The share of wood for heating fell from one third to one tenth of total net exports, the share of saw logs and veneers, i.e. the highest-quality wood, which can reach the highest value added, increased from less than half to more than two thirds. While this wood represented as much as 46% of exports, it accounted for only 9% of imports. At the same time, more than four tenths of imports were the lowest-quality wood for heating. Such movements are however highly unfavourable from the aspect of achieving higher value added in other sectors up the forest-wood chain.

Table: Intensity of tree felling, ratio

	2000	2005	2007	2008	2009	2010	2011	2012	2013
Slovenia	38.0	43.0	41.4	43.6	42.3	41.6	47.1	46.4	46.2
EU	61.0	65.0	N/A	N/A	N/A	62.7	N/A	N/A	N/A

Source: Eurostat Portal Page – Agriculture, Forestry and Fisheries, 2015; SI-STAT Data Portal – Environment and Natural resources – Forestry and Hunting, 2015; calculations by IMAD.
Note: N/A – Data not available.

Figure: Tree felling, its structure and net exports of wood, Slovenia



Source: SI-STAT Data Portal – Environment and Natural Resources – Forestry and Hunting, 2015; Slovenia Forest Service, 2013; calculations by IMAD.

¹ The intensity of tree fellings is calculated as the ratio of annual felling to annual wood increment.

² Potential felling is determined in the forestry management plans of the Slovenia Forest Service with a view to ensuring sustainable development (long-term stability) of all forests and their habitats, irrespective of ownership.

³ The Action Plan was adopted by the Government of Slovenia on 27 June 2012.

⁴ The utilisation rate of felled wood for the production of raw wood categories depends on the type of felled trees and the structure of wood categories.

4.9 Regional variation in GDP per capita

Economic activity as measured by the real GDP growth rate was still negative in 2013 in most regions. The lowest economic activity was again recorded by the Zasavska region, which also had the lowest GDP per capita of all regions. It was more than a third lower than the national average. For the third year in a row, the Zasavska region was surpassed by the Pomurska region, which is traditionally the lowest-ranking region on this indicator but had positive economic growth in 2013. In all other regions activity declined again but – with the exception of Koroška – not so much as a year earlier.

Progress in converging to the EU average in terms of per capita GDP, which had been achieved by Slovenian regions by 2008, was cancelled out during the crisis. Both cohesion regions retained their gaps with the EU-28 average in 2013, Zahodna Slovenija at 97% and Vzhodna Slovenija at 68% (compared with 107% and 73%, respectively, in 2008).¹ Since 2008, the gap with the EU average has been widening across all regions,² notably those of Zahodna Slovenija, particularly the Obalno-kraška region. The latter increased its gap relative to 2008 by 18 index points in 2013 and thus returned to

the comparable level in 1995. These movements eased slightly in 2013, when the gap was widened only by a few regions.³ The only region to still exceed the EU-28 average was the Osrednjeslovenska region, but its advantage over 2008 (when it still exceeded the EU-28 average by 28%) also declined, by as many as 12 index points.

Interregional disparities continued to decline during the crisis. The relative dispersion of GDP per capita⁴ has been declining since 2008 according to our calculations, but not so much as a result of more even development across regions as because economic activity fell most in those regions that generate the largest share of Slovenia's GDP and also have the highest per capita GDP. The relative dispersion in Slovenia is among the lowest in the EU. The ratio between the two regions with extreme values of per capita GDP is also relatively low compared with other countries in the EU, where the differences may also be 10-fold (e.g. the United Kingdom). In 2013, it rose from 1:2.2 to 1:2.3, after being practically unchanged in previous years. Taking into account the differences in purchasing power across regions, the actual ratio is even lower.

Table: Regional GDP per capita, Slovenia

Cohesion/statistical region	Slovenia = 100							EU = 100 2013	Real GDP growth, in % 2013/2012	GDP structure, in % 2013
	2000	2008	2009	2010	2011	2012	2013			
Slovenia	100.0	100.0	100.0	100.0	100.0	100.0	100.0	82	-1.0	100.0
Zahodna Slovenija	118.6	120.2	120.5	120.0	119.0	118.8	118.6	97	N/A	56.3
Obalno-kraška	106.6	107.0	108.0	108.6	106.1	101.3	98.2	80	-3.3	5.4
Goriška	96.8	95.4	94.1	93.5	92.1	91.2	90.4	74	-2.4	5.2
Gorenjska	88.8	85.3	81.9	82.7	82.8	83.2	85.2	70	0.8	8.4
Osrednjeslovenska	138.5	142.2	144.0	142.5	141.4	142.1	141.6	116	-0.2	37.3
Vzhodna Slovenija	84.3	82.4	81.9	82.2	83.0	83.1	83.2	68	N/A	43.7
Notranjsko-kraška	79.9	71.1	71.4	70.5	69.8	68.7	69.7	57	0.2	1.8
Jugovzhodna Slovenija	94.5	95.9	93.9	95.0	94.7	94.0	95.0	78	-1.1	6.6
Spodnjeoposavska	86.9	83.2	84.1	83.8	85.5	86.5	86.3	71	-1.8	2.9
Zasavska	77.8	66.4	66.2	67.3	66.5	63.9	62.5	51	-4.5	1.3
Savinjska	89.1	88.8	88.2	89.8	91.0	90.9	90.2	74	-2.2	11.4
Koroška	83.4	76.7	74.2	74.2	76.6	78.8	79.1	65	-1.8	2.8
Podravska	82.1	83.5	82.9	82.5	82.9	82.8	82.4	67	-1.7	12.9
Pomurska	72.3	63.4	64.5	64.4	66.6	68.0	69.5	57	0.2	4.0
Dispersivity of GDP per capita (NUTS 3)	19.6	22.3	23.6	23.0	22.3	22.1	21.9			

Source: SI-STAT Data Portal – Economy – National Accounts – Regional gross domestic product, 2014, Eurostat – General and Regional Statistics, 2015; calculations by IMAD.

¹ Under the EU cohesion policy, the regions at the NUTS2 level whose GDP per capita is less than 75% of the EU average are considered less developed.

² With the exception of the Osrednjeslovenska region, which exceeds the EU-28 average but its advantage has also declined.

³ These are the Obalno-kraška, Zasavska, Savinjska and Podravska regions.

⁴ The dispersion of regional GDP per capita is measured by the sum of absolute differences between regional and national GDP per capita, weighted by the share of population and expressed in percent of national GDP per capita.

4.10 Regional variation in the registered unemployment rate

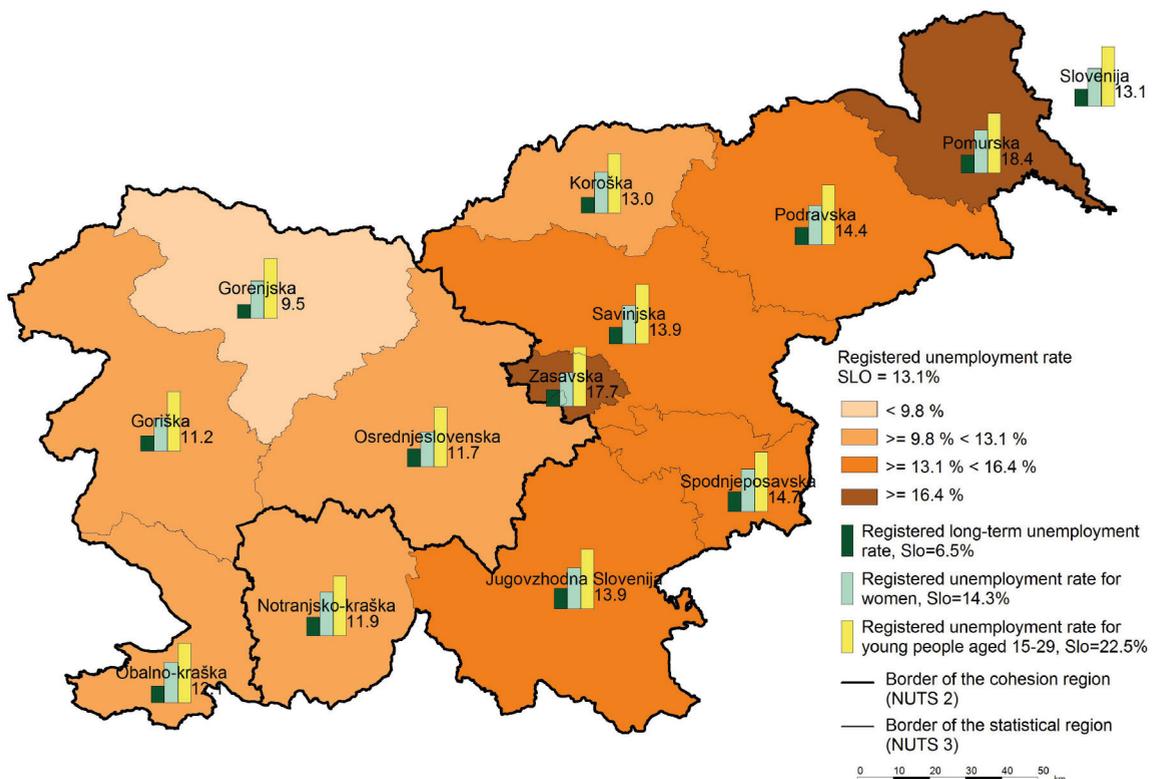
In 2014, the increase in the registered unemployment rate in regions slowed slightly or even stopped. It declined across the majority of regions, the most in the Koroška region (by 0.9 percentage points). The largest increase was in the Zasavska region (by 1.1 percentage points), where the rate also rose the most relative to 2008 (by 9.5 percentage points), as economic activity in this region has been rapidly falling ever since the beginning of the crisis and was among the lowest among all regions. The smallest increase in unemployment in this period was in the Gorenjska region (by 5.2 percentage points). All regions with above-average registered unemployment rates are in the cohesion region of Vzhodna Slovenija, except Notranjsko-kraška region, but there too the rate has been markedly rising since 2008. The Pomurska region has recorded the highest unemployment rate for years, while the Gorenjska region had the lowest rate in the last four years.

Regional disparities in registered unemployment rates declined further in 2014, which is attributable to a faster increase in unemployment in regions with below-

average rates. The measure of absolute dispersion, by which regional disparities in the unemployment rate are measured, was 1.7 in 2014 (0.1 lower than in the previous year). Regional disparities have been gradually declining since 2008 (except in 2009 and 2010), which was largely the result of a faster increase in registered unemployment in the regions of Zahodna Slovenija with below-average rates. The ratio between the two regions with extreme values has also been falling. Pomurska recorded a 1.9 times higher registered unemployment rate than Gorenjska in 2014 (in 2013, 1.8 times higher and in 2008, 2.9 times higher). The regional variations in other rates of registered unemployment (for women, young people, long-term unemployment) are also marginal.

In all regions, the greatest burden of unemployment is borne by young people. The shares of young people under 29 years of age and unemployed persons with at least a higher education rose the most relative to 2013 in 2014. These are also often young and first-time jobseekers. The largest shares of unemployed under 29 were in the Zasavska (30%) and Koroška regions (29.3%). The Osrednjeslovenska region recorded the largest share of unemployed persons with a tertiary education (almost a fifth), while the largest increase in both the number and share of young unemployed was in the Spodnjeposavska region.

Map: Registered unemployment rates by region, 2014



Source: SMARS, SURS, mapping by IMAD.

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