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EXECUTIVE SUMMARY

Slovenia's economy, currently experiencing a robust growth, can be made more resilient to future shocks by increasing investment and addressing the challenges related to its ageing population ([1]). The economy is growing strongly and remains competitive internationally. Investment is growing, but it is still below the EU average as a share of GDP, which slows down Slovenia's convergence in terms of productivity. Social indicators generally signal progress, while inequality (between both citizens and regions) is below the EU and OECD average. The banking sector has improved further, also thanks to the favourable economic climate. Structural reforms of the pension, healthcare and long-term care systems are becoming increasingly urgent if Slovenia is to ensure that it remains on a sustainable growth path.

In 2018, Slovenia's economy continued to grow strongly. After achieving a growth rate of 4.9 % in 2017, GDP is expected to have expanded robustly in 2018 with growth of 4.4 %. Economic growth is expected to slow to 3.1 % in 2019 and 2.8 % in 2020, closer to Slovenia**'**s potential growth. Although the expected slowdown is not dramatic, it is nevertheless an indication that the favourable economic climate of recent years is unlikely to continue.

Economic growth is mostly driven by investments. The main drivers of private investment are expected to be: fully or almost fully employed production facilities, increasing labour costs and better availability of funding.

The unemployment rate continues to decline towards its pre-crisis level. Helped by economic growth, the unemployment rate fell to 5.6 % in 2018, and is expected to fall further in 2019 and 2020. The rate of long-term unemployment was less than 3 % at the end of 2018, which is still above the pre-crisis level but below the average rates in the EU (3.4 % in 2017) and the euro area (4.4 %).

The inflation rate stabilised at 1.9 % in 2018. Energy and fuel prices were the main drivers of the increase in inflation. As nominal compensation (i.e. without controlling for inflation) per employee is projected to have increased by 3.9 %, real wages will have increased by about 2 % in 2018.

Fiscal policy is becoming pro-cyclical. In 2017, the general government balance turned positive, (i.e. government revenues exceeded government spending), rising from a negative balance of 1.9 % of GDP in 2016 to a positive balance of 0.1 % of GDP in 2017. The government balance is expected to have increased to 0.8 % of GDP in 2018. Public debt is forecast to decrease further to 62.5 % of GDP in 2020, from a peak of 82.6 % in 2015, thanks primarily to the economic recovery and active debt management to reduce interest payments. However, the structural deficit, that is if taking Slovenia's position in the business cycle into account, deteriorated from 0.4 % in 2017 to 0.5 % in 2018, and is expected to deteriorate further in 2019. Temporary consolidation measures are now expiring and a substantial pay rise in the public sector was agreed. The Fiscal Council repeatedly stated that the intended fiscal policy would be pro-cyclical.

Focusing investment ([2]) **on skills, environmental, transport and energy infrastructure, as well as on research and development would strengthen competitiveness and productivity.** Investment as a share of GDP in Slovenia remains below the EU average. Skills constraints and a slow digital transformation limit productivity growth, while insufficient environmental infrastructure, lacking sustainable transport connections and a low share of green energy hinder economic development in less developed regions. The underused labour potential of older workers is a challenge to inclusive growth. Population ageing calls for significant investments in measures to ease pressure on the healthcare and long-term care systems. The research, development and innovation ecosystem remains inefficient. There are only weak links between businesses and research institutions. Annex D identifies key priorities for support by the

([1]) This report assesses Slovenia's economy in light of the European Commission's Annual Growth Survey published on 21 November 2018. In the survey, the Commission calls on EU Member States to implement reforms to make the European economy more productive, resilient and inclusive. In so doing, Member States should focus their efforts on the three elements of the virtuous triangle of economic policy — delivering high-quality investment, focusing reform efforts on productivity growth, inclusiveness and institutional quality, and ensuring macroeconomic stability and sound public finance.

([2]) Both private and public investment.

European Regional Development Fund, the European Social Fund Plus and the Cohesion Fund over 2021-2027 in Slovenia, building on the analysis of investment needs and challenges outlined in this report.

Overall, Slovenia has made limited progress in addressing the 2018 country-specific recommendations ([3]).

There has been some progress in the following areas.

- Alternative sources of financing for fast-growing companies - Slovenia is preparing further EU-funded instruments to improve equity funding.

- Barriers for market entry and administrative burden - The Investment Promotion Act brings improvements but administrative burden and regulatory restrictiveness remain problems.

- Privatisation - Slovenia made an important step in carrying out privatisations by privatising 65 % of the shares of its largest bank, Nova Ljubljanska Banka (NLB), which was until then fully owned by the state, and launching the sales process for Abanka, the third largest Slovenian bank.

There has been limited progress in the following areas.

- Older and low skilled workers - The Slovenian government continued its efforts to increase the employability of low-skilled and older workers through lifelong learning and activation measures. However, participation in adult learning is still low, especially for this target group.

- Public procurement - Slovenia has adopted an action plan to professionalise procurement further, but the situation remains unchanged as regards competition and independent oversight.

There has been no progress in the following areas.

- Healthcare - Slovenia has not proposed any clearly specified measure to address the Country-Specific Recommendations. However, as announced by the authorities, the adoption of the draft healthcare act will follow by the end of 2019.

- Long-term care - No concrete measures have been taken, and there is no agreed timetable for a concrete legislative proposal. A two-year pilot project has been initiated in 2018.

- Pensions - No concrete measures have been taken to ensure the long-term sustainability and adequacy of the pension system, whether by increasing the statutory retirement age or by restricting early retirement.

Regarding progress towards its national targets under the Europe 2020 strategy, Slovenia has already achieved – or is well on track to achieving – national targets for the early school leaving rate, tertiary educational attainment, energy efficiency and greenhouse gas emissions. However, Slovenia is moving away from the 2020 renewable energy target and the R&D spending target (in 2017, Slovenia's overall R&D intensity was 1.86 % of GDP, a significant decline from its 2013 value of 2.58 % of GDP). The employment rate is now moving closer to the target.

Key structural issues analysed in this report, which point to particular challenges for Slovenia's economy, are the following.

- **Slovenia is performing well on most indicators of the Social Scoreboard supporting the European Pillar of Social Rights.** Income inequality is low. The education and training system is generally performing well, but fairness in the system could be improved. The risk of poverty and social exclusion has decreased in recent years. However, the labour market participation of older workers and low-skilled is low and the old-age poverty still remains a challenge.

- **The ageing of the population is putting a strain on the pension, healthcare and long-term care systems.** Age-related expenditure is expected to increase by six percentage points of GDP between 2016 and 2070, one of

([3]) Information on the level of progress and actions taken to address the policy advice in each respective subpart of a country-specific recommendation is presented in the overview table in the Annex.

the highest increases in the EU. The main driver of this is pension expenditure, with the total amount spent on public pensions expected to increase from 11 % of GDP in 2020 to 15.6 % in 2050. This increase can partially be explained by the early exit from the labour force. However, ensuring adequate pensions remains a challenge, as some pension recipients are still at or below the poverty line. Financing for the healthcare system is currently highly cyclical and inadequate to face the expected cost increases from the ageing of population and technological change. Waiting times and public procurement in healthcare are still inefficient despite recent efforts to improve it. The authorities have announced that the adoption of the draft Healthcare Act will follow by the end of 2019. Slovenia does not have an overarching law that covers long-term care.

- **Inactivity rates of older and less skilled workers are high while labour shortages are emerging.** The inactivity rate of 55-64 year-olds is significantly higher than the EU average as is their unemployment rate. Long-term unemployed people over 50 represent a substantial share of the total number. This means that a significant part of the workforce is losing contact with the work environment. A mismatch between the skills young people acquire at school or in tertiary education and the skills sought after by employers may be contributing to the emerging labour shortages.

- **The situation of the Slovenian banking sector has improved significantly, but challenges remain and new risks emerge.** Thanks to the steady decline in non-performing loans, banks' profitability, solvency and asset quality have improved. Still, banks need to find new sources of income and control costs to remain profitable. House prices are growing fast but household debt and stock of loans to the construction sector remain low. Strong growth in consumer lending raises credit risk and led Bank of Slovenia to issue specific recommendations. With the partial privatisation of NLB in November 2018 and the initiation of the privatisation of the third largest bank, Abanka, by mid-2019 Slovenia is making good progress with privatisation in the banking sector. However, the state still plays a dominant role in many sectors. This carries a risk of distortion in competition and resource allocation.

- **Slovenia's small and medium-sized enterprises (SMEs) rely extensively on bank credit for their external financing.** Slovenia's venture capital market is still less developed than those of other Central and Eastern European countries. The market capitalisation of the national stock exchange is low and shrinking. Public financial instruments heavily depend on EU funding. The lack of alternative sources of finance, combined with limited financial and investment literacy among many SMEs, makes Slovenia's SMEs less resilient if bank credit becomes more expensive or less available in the future.

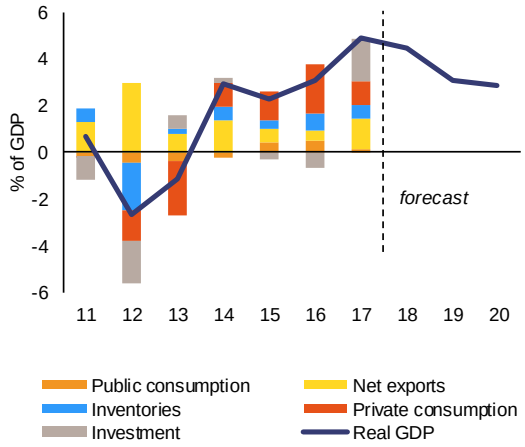
- **Although the business environment is improving, restrictive regulations and administrative burden remain, as well as certain weaknesses in public procurement remain.** Regulatory restrictions, including for key professions, and administrative burdens are still perceived as obstacles to investment, and are considered to be one of the most problematic factors when doing business in Slovenia. Often lengthy commercial court proceedings could influence the readiness of companies to enter the market or invest. There is further scope to improve competition, transparency and independent oversight in public procurement. The share of procurement procedures for which only one bid was received remains high as does the share of procurement done without a call for tenders. Strengthening safeguards against bid rigging and corruption would also reduce the risk of unnecessarily high procurement costs.

1. ECONOMIC SITUATION AND OUTLOOK

GDP growth

In 2018, Slovenia's GDP is assumed to have grown by 4.4 %, following the 4.9 % annual growth recorded in 2017. Over the first three quarters of 2018, investments grew by 11.0 % compared to the same period in 2017. Investment growth was particularly strong in non-residential construction (19.5 %) and in machinery and equipment (8.6 %). Investment in residential construction grew by 5.0 %. During the same period, private consumption increased by 1.8 %, despite relatively strong growth in households' disposable income. Exports increased by 8.3 %, slightly less than imports which grew by 8.5 %.

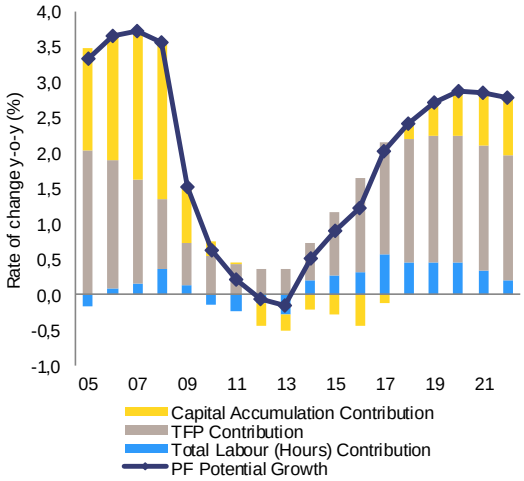
Graph 1.1: **Composition of GDP growth**



Source: European Commission Winter 2019 forecast

Economic growth is forecast to slow down to 3.1 % in 2019 and 2.8 % in 2020. The growth composition is expected to shift more towards domestic demand, with net exports making a negative contribution by 2020 (Graph 1.1). In the medium term, growing employment and rising wages are expected to continue to support private consumption. Investment is expected to be driven by high capacity utilisation rates and a tightening labour market. Amid high-income growth, high household savings and rapidly rising residential real estate prices, residential investment growth is forecast to remain strong over the forecast horizon. Risks are mainly related to the external environment.

Graph 1.2: **Composition of potential growth**



Source: European Commission Autumn 2018 forecast

Slovenia's potential growth is rapidly recovering. After the crisis, the country's growth potential was held back by low investments and low total factor productivity growth. In 2018, investment had a positive impact on potential growth for the first time in several years, and total factor productivity also contributed positively (Graph 1.2). In the coming years, labour's contribution to growth will diminish as the population ages and therefore the availability of labour diminishes. Overall, potential growth is currently expected to stabilise at 3 %.

Inflation

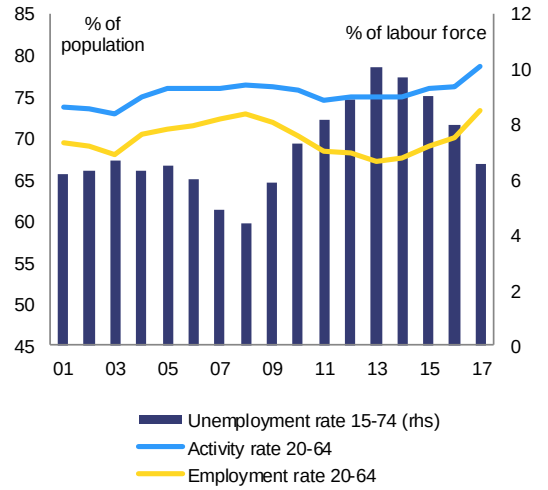
Inflation remains moderate. In 2018, it reached 1.9 %. Over the coming years, inflation is expected to moderately increase, driven by energy prices and expected wage growth. As the labour market becomes tighter and wage growth continues, it is expected that core inflation will reach 1.8 % by 2020 — driven mainly by the price increase in services.

Labour market

The robust economic growth of recent years has also boosted the labour market. Employment growth was sustained (2.9 % in 2017), with job creation across most sectors. The unemployment rate continued to decline, falling from 8.0 % in 2016 to 6.6 % in 2017. In the same period, the

activity rate increased from 76.2 % to 78.6 % (See Graph 1.3).

Graph 1.3: **Labour market developments in Slovenia**



(1) Activity and employment rates (% of population), total, ages 20-64, non-seasonally adjusted.
(2) Unemployment rate (% of labour force), total, ages 15-74, seasonally adjusted.
Source: Eurostat

Despite these positive developments, structural challenges remain. The working-age population is shrinking as a result of demographic change. This could hamper economic growth in the future. It also poses challenges to the sustainability and adequacy of the pension, health care and long-term care systems. In addition, labour-market participation remains low for older workers, in particular those with lower levels of education.

The tightening labour market is putting some upward pressure on wages, although wage growth remains somewhat lower than expected. Nominal compensation per employee increased by 3.2 % and by 1.5 % in real (GDP deflated) terms (remaining somewhat below productivity growth) in 2017. This growth rate is projected to reach 3.3 % in 2018 and 2019. Nominal compensation per employee increased in 2017 the most in the finance and business services sector (4.6 %) and in the building and construction sector (4.3 %). Despite increasing shortages being reported, the industry sector exhibited the lowest increase in nominal compensation per employee (2.9 %).

Social developments

Inequality in Slovenia is low and the share of people at risk of poverty and social exclusion has decreased, but remains high for the elderly. The at-risk-of-poverty or social exclusion rate for people over 65 was 18.3 % in 2017, above the all-age-groups rate of 17.1 %. Inequality, as measured by the ratio of incomes of the richest 20 % of households compared to the incomes of the poorest 20 % of households, continued to decrease and remains among the lowest in the EU.

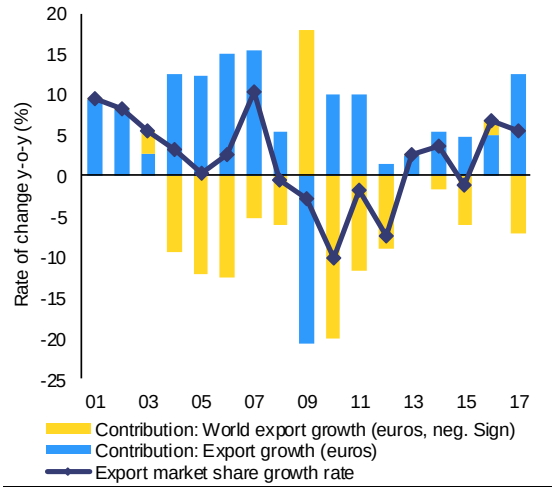
Competitiveness

Slovenia's competitiveness continued to improve in 2017. After a small loss of export market share in 2015, Slovenia's export market share increased by 6.8 pps in 2016 and 5.6 pps in 2017. (Graph 1.4). This increase was driven by increases in both the export of goods and services. Combined with modest productivity growth, the nominal wage growth led to an increase in nominal unit labour costs of 1.3 % in 2017. The effect on cost competitiveness appears to be limited, as nominal wage growth in 2017 remains only slightly above the benchmark indicator for cost competitiveness in both 2017 and 2018 ([4]).

Unit labour costs are expected to grow faster between 2019 and 2020. Higher unit labour costs and less demand for exports are expected to contribute to somewhat slower export growth. However, Slovenia's export market shares should continue improving in 2019 and remain stable in 2020. Imports are forecast to grow faster than exports due to the stronger domestic demand.

([4]) This hypothetical benchmark developed by the European Commission compares actual wage developments with the wage growth that would be consistent with a constant real effective exchange rate based on unit labour costs.

Graph 1.4: **Export market shares**

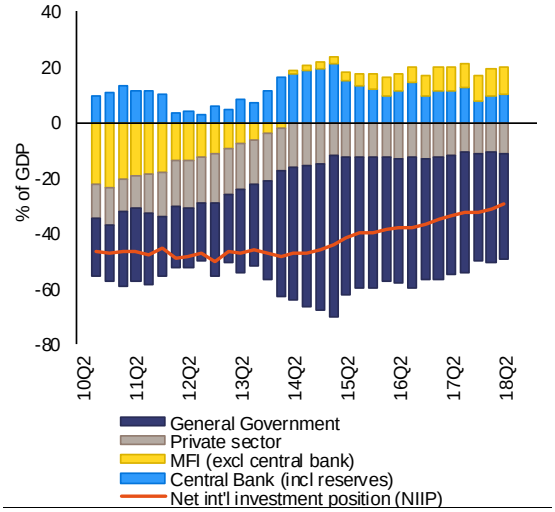


Source: Eurostat

External position

Slovenia's current account has been in surplus since 2011, reaching 7.2 % in 2017. While both goods and services balances are in surplus, the surplus in services is especially strong. The current account surplus is higher than might be expected based on the economic fundamentals and also considering the cyclical position of the economy. The surplus is expected to gradually decline over the medium term, as investment and consumption increase.

Graph 1.5: **Net International Investment Position (NIIP) by sector**



Source: Eurostat

The high current account surplus has contributed to the improvement of the net international investment position. The banking sector, which previously had a large negative position, has now built up net foreign assets. Non-financial corporations and the government have also lowered their liabilities (Graph 1.5). Liabilities associated with foreign direct investments are comparatively small. The net international investment position is expected to further improve thanks to the current account surplus and fall in government debt.

Financial sector

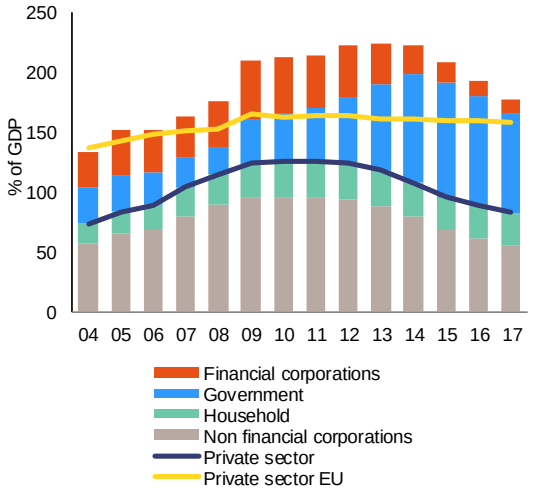
Slovenia's financial sector has a relatively stable funding basis and abundant liquidity. However, this liquidity exerts considerable pressure on profitability. The growing maturity mismatch between long-term loans and sight deposits exposes banks to a sudden rise in interest rates. The Slovenian state still plays a substantial role in the financial sector despite some significant divestments in the last quarter of 2018 and the future privatisations planned for 2019.

Private debt

The deleveraging process appears to have come to an end as credit flow from banks to the domestic economy has become positive again. Since the indebtedness ratio peaked in 2010 (at 125.4 % of GDP), private sector debt decreased to 82.5 % of GDP in 2017 (Graph 1.6) and is now below both prudential and fundamental benchmarks ([5]). Both profits and wages are increasing, while domestic and export demand are forecast to grow and credit remains relatively inexpensive.

([5]) Fundamental-based benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt. Prudential thresholds represent the debt threshold beyond which the probability of a banking crisis is high, minimising the probability of missed crisis and that of false alerts (European Commission, 2017b).

Graph 1.6: **Debt decomposition**



Source: Eurostat

Housing market

Increases in the prices of real estate reflect the recovery of the Slovenian economy. The robust GDP growth is being supported by employment, private consumption, consumer confidence, and bank loans to households, which are all co-dependent factors. The favourable economic situation led to increasing demand for real estate but supply has not responded. House prices have therefore been increasing strongly since summer 2016, reaching 13.4 % growth in the first half of 2018. While the prices of existing dwellings grew at 11.7 %, those of new dwellings rocketed in price by 26.8 %. Slovenia has now the highest growth in house prices of all EU Member States.

Despite the strong increase in house prices, there is no indication of a new real estate bubble. House price growth seems mainly linked to the current limited supply of new residential real estate that is pushing up prices up. It is expected that with an increase in construction activity residential real estate price dynamics could moderate substantially in the near future. Low household debt, moderate growth of housing loans and a low stock of loans to the construction sector indicate that there is no sign of increased risk to the banking system.

Although the aggregate valuation gap indicates that prices were undervalued in 2017, the recovery pace should be carefully monitored. Risks could increase in the event of excessive optimism about further growth in real estate prices. The Bank of Slovenia already issued two macro-prudential recommendations for the housing loans sector at the end of 2016 and has extended them in late 2018. Up to now, both of these recommendations seem to be effective. However, it is important that banks continue to maintain high credit standards in their housing loans.

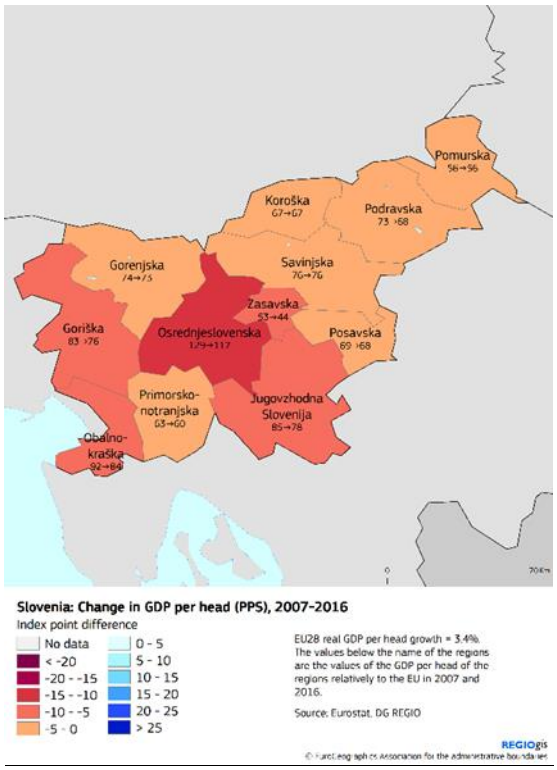
Regional disparities

While not as pronounced as in other EU Member States, disparities exist between Slovene regions. Slovenia has two cohesion regions, less developed East Slovenia and more developed West Slovenia with GDP per head of EUR 16 000 and EUR 23 400 respectively, the latter just below the EU average (Statistical Office of the Republic of Slovenia). Slovenia's economic structure differs between its regions with high employment shares in agriculture and manufacturing in the East and a comparatively stronger service sector in its capital and the West (European Commission, 2017a) (see sections 3.1 and 3.3). At the level of statistical regions, a downward convergence trend can be observed since 2007, with more developed regions experiencing a sizeable reduction in GDP per capita, while less developed ones managed to stay at approximately the same levels. The latter can also be attributed to targeted investments in less developed regions, including through EU funds, which remain key for ensuring convergence.

Labour market and socio-economic conditions vary between regions. Unemployment rates are below the EU average with low differences between East and West Slovenia. West Slovenia, however, shows significantly higher employment rates in high-technology and knowledge-intensive services sectors as compared to East. The share of the population with tertiary education is quite high (46.4 %) and well above the EU average (39.9 %). Nevertheless, there are significant disparities between cities/urban centres on one hand and smaller towns/rural areas on the other. Socio-economic indicators show a major divide between the growing capital that alone attracts skilled people in higher value-added sectors and the rest of the country where gains in employment are concentrated in lower-value-added sectors amid outward migration. Yet even the attractive capital

region is facing the challenges of declining labour productivity and capacity constraints linked to a shortage of skills. Such inequalities can be tackled through bottom-up initiatives, utilising the community led local development approach, targeting socio-economically deprived persons/areas.

Graph 1.7: **Change in pro capita GDP from 2007 to 2016**



Source: Eurostat

Public finances indicators

The general government overall balance is expected to stay in surplus for the third year in a row. In 2017, the general government balance turned positive, moving from -1.9 % of GDP in 2016 to 0.1 % of GDP. The ad-hoc forecast ([6]) predicts a surplus of 0.8 % of GDP for 2018, mainly due to strong revenue growth, reduced interest expenditure and low absorption of EU funds. Social transfers and compensation of public employees are expected to grow firmly in 2019, driven by a continuing relaxation in temporary restrictive measures and negotiations with trade unions. At the same time, public investment is projected to increase, supported by the improved take-up of EU funds. Taking all this into account, the government surplus is forecast to slightly decline to 0.7 % of GDP in 2019. In structural terms, Slovenia's fiscal position is expected to worsen to -0.6 % of GDP in 2019 and stay unchanged in 2020, indicating that the country is engaged in a pro-cyclical fiscal policy.

The debt-to-GDP ratio continues to decline. Supported by the economic recovery and active debt management, public debt is forecast to come down steadily to 62.5 % of GDP in 2020. Nevertheless, the long-term perspective is more challenging, as government expenditure is forecast to increase over the longer term, given that expenditure on pensions, health care and long-term care will increase due to the ageing of the population.

[6] The Commission Winter 2019 forecast, which was published on 7 February 2019, only includes projections for GDP growth and inflation. In order to assess the updated draft budgetary plan, the Commission Winter 2019 forecast was complemented by a fully-fledged "ad-hoc" forecast, including in particular projections for the general government balance and the structural balance.

Table 1.1: **Key economic and financial indicators**

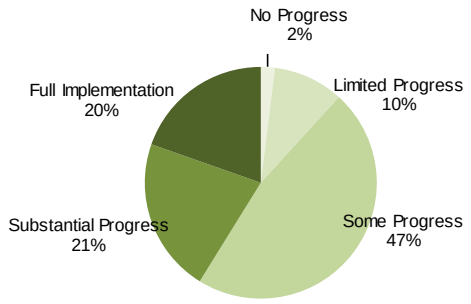
	2004-07	2008-12	2013-15	2016	2017	forecast 2018	forecast 2019	forecast 2020
Real GDP (y-o-y)	5,2	-1,1	1,4	3,1	4,9	4,4	3,1	2,8
Potential growth (y-o-y)	3,6	1,3	0,6	1,4	2,1	2,7	3,1	3,4
Private consumption (y-o-y)	3,2	0,4	0,0	3,9	1,9	.	.	.
Public consumption (y-o-y)	2,6	0,7	-0,3	2,7	0,5	.	.	.
Gross fixed capital formation (y-o-y)	7,7	-8,9	0,8	-3,7	10,7	.	.	.
Exports of goods and services (y-o-y)	13,0	0,6	4,6	6,4	10,7	.	.	.
Imports of goods and services (y-o-y)	12,6	-1,9	3,6	6,6	10,3	.	.	.
Contribution to GDP growth:								
Domestic demand (y-o-y)	4,2	-1,9	0,1	1,9	3,0	.	.	.
Inventories (y-o-y)	0,9	-0,9	0,4	0,7	0,6	.	.	.
Net exports (y-o-y)	0,1	1,7	0,9	0,5	1,3	.	.	.
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0,1	0,1	0,1	0,3	0,6	0,8	0,9	0,9
Capital accumulation (y-o-y)	1,7	0,6	-0,2	-0,4	-0,2	0,1	0,4	0,6
Total factor productivity (y-o-y)	1,8	0,7	0,8	1,5	1,8	1,8	1,8	1,9
Output gap	3,4	-1,5	-4,7	-1,6	1,1	2,7	3,0	2,5
Unemployment rate	5,9	6,9	9,6	8,0	6,6	5,6	5,3	5,1
GDP deflator (y-o-y)	2,8	1,7	1,1	0,8	1,6	2,2	2,6	2,5
Harmonised index of consumer prices (HICP, y-o-y)	3,1	2,7	0,5	-0,2	1,6	1,9	1,9	2,1
Nominal compensation per employee (y-o-y)	6,3	2,7	1,0	3,0	3,2	3,3	3,3	3,4
Labour productivity (real, person employed, y-o-y)	4,0	-0,3	1,2	1,2	1,9	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	2,2	3,0	-0,1	1,8	1,3	2,0	2,5	2,2
Real unit labour costs (y-o-y)	-0,6	1,3	-1,3	1,0	-0,3	-0,2	-0,1	-0,3
Real effective exchange rate (ULC, y-o-y)	0,3	0,7	-0,8	0,9	0,7	0,8	0,3	0,1
Real effective exchange rate (HICP, y-o-y)	-0,4	-0,2	0,1	0,5	-0,4	1,9	-0,2	-0,1
Savings rate of households (net saving as percentage of net disposable income)	9,0	6,0	4,5	5,1	6,2	.	.	.
Private credit flow, consolidated (% of GDP)	14,0	3,6	-4,6	-0,8	0,8	.	.	.
Private sector debt, consolidated (% of GDP)	80,6	111,9	97,1	80,6	75,6	.	.	.
of which household debt, consolidated (% of GDP)	20,2	29,1	28,6	27,4	27,1	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	60,3	82,9	68,6	53,2	48,4	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	.	.	15,7	9,6	7,0	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	-6,1	-0,1	7,9	2,3	1,5	2,1	2,5	2,8
Corporations, gross operating surplus (% of GDP)	19,2	18,8	19,3	19,5	20,4	20,9	21,6	22,4
Households, net lending (+) or net borrowing (-) (% of GDP)	4,2	4,2	4,8	4,3	4,8	4,4	4,4	3,9
Deflated house price index (y-o-y)	12,7	-3,7	-4,2	3,8	6,2	.	.	.
Residential investment (% of GDP)	3,7	3,4	2,2	2,1	2,1	.	.	.
Current account balance (% of GDP), balance of payments	-2,6	-0,7	4,9	5,5	7,2	7,5	7,1	6,7
Trade balance (% of GDP), balance of payments	-0,7	1,3	7,7	9,4	10,0	.	.	.
Terms of trade of goods and services (y-o-y)	-0,7	-0,9	1,1	0,9	-0,5	-0,5	-0,1	0,2
Capital account balance (% of GDP)	-0,3	0,0	0,6	-0,8	-0,8	.	.	.
Net international investment position (% of GDP)	-15,2	-45,1	-44,2	-36,8	-32,3	.	.	.
NIIP excluding non-defaultable instruments (% of GDP) (1)	-8,0	-40,8	-33,7	-22,1	-17,7	.	.	.
IIP liabilities excluding non-defaultable instruments (% of GDP) (1)	72,3	108,2	112,1	103,1	93,6	.	.	.
Export performance vs. advanced countries (% change over 5 years)	35,2	9,2	-7,6	1,1	13,3	.	.	.
Export market share, goods and services (y-o-y)	.	.	1,7	6,8	5,6	.	.	.
Net FDI flows (% of GDP)	0,5	-0,3	-1,6	-2,1	-1,0	.	.	.
General government balance (% of GDP)	-1,1	-4,7	-7,7	-1,9	0,1	0,8	0,7	0,5
Structural budget balance (% of GDP)	.	.	-1,5	-1,1	-0,4	-0,5	-0,6	-0,6
General government gross debt (% of GDP)	25,5	39,0	77,8	78,7	74,1	69,9	66,2	62,5
Tax-to-GDP ratio (%) (3)	37,8	37,1	36,9	37,0	36,8	.	.	.
Tax rate for a single person earning the average wage (%)	34,5	33,1	33,2	33,4	.	.	.	.
Tax rate for a single person earning 50% of the average wage (%)	29,3	23,5	22,9	23,2	.	.	.	.

(1) NIIP excluding direct investment and portfolio equity shares.
(2) Domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.
(3) The tax-to-GDP indicator includes imputed social contributions and hence differs from the tax-to-GDP indicator used in the section on taxation.
Source: Eurostat and European Central Bank as of 31/01/2019, where available; European Commission for forecast figures (Winter forecast 2019 for real GDP and HIPC, Autumn forecast otherwise)

2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

Since the start of the European Semester in 2011, 88 % of all country-specific recommendations addressed to Slovenia have recorded at least 'some progress' (see Graph 2.1). However, one out of nine CSRs have recorded no or only limited progress in the implementation.

Graph 2.1: **Level of implementation of 2011-2018 CSRs**



(1) The overall assessment of the country-specific recommendations related to fiscal policy excludes compliance with the Stability and Growth Pact.
(2) 2011-2012 annual assessment: Different CSR assessment categories.
(3) The multiannual CSR assessment looks at the implementation until 2019 Country Report since the CSRs were first adopted.
(4) The multiannual CSR assessment looks at the implementation until 2019 Country Report since the CSRs were first adopted.
Source: European Commission

In 2018, the political process in Slovenia was stalled by the snap elections held on 3 June 2018 and the difficult process of forming a new government. The new coalition government was endorsed by the parliament only on 13 September 2018. Since the resignation of the previous prime minister on 14 March 2018, neither the caretaker government nor the new government has tabled any major policy reforms relevant to the implementation of the 2018 CSRs ([7]). The coalition agreement addresses a number of the issues discussed in the CSRs but is not sufficiently precise in terms of substance and timing to conclude on progress in the implementation of the CSRs and is neither politically nor legally binding.

([7]) For the assessment of other reforms implemented in the past, see in particular Section 3.

The public debt to GDP ratio was reduced but pressure on public finance in the long term remains. After the almost fourfold increase up to 82.6 % in 2015, public debt has decreased significantly since then and is expected to have been at 69.9 % of GDP in 2018. In parallel, the fiscal framework has been strengthened. Some measures have been taken to address the increase in age-related expenditure, but the pressure on the long-term sustainability of public finance remains significant. At the same time, temporary measures to contain public expenditure are expiring, leading to a pro-cyclical fiscal policy.

The situation of the Slovenian banking sector improved significantly. Thanks to the improved macro-economic environment and robust policy measures, the banking sector has improved dramatically since 2014. The non-performing loans ratio declined sharply to 7.4 % in June 2018, down from 11.4 % one year earlier. At the same time, profitability increased and the average capital adequacy ratio is solid (18.8 % in June 2018) despite renewed credit growth. The partial privatisation of NLB carried out in 2018 and the plan to privatise Abanka in the first half of 2019 represent important steps to ensure the long-term viability of the sector.

Measures have been adopted to improve the employability of low-skilled and older workers. Since 2011 the Council has recommended that Slovenia should take measures to increase the employability of low-skilled and older workers. The 2013 labour market reform and targeted active labour market policies somewhat increased employment opportunities for older and low-skilled workers, but their participation rate remains low.

The Slovenian authorities have taken action to improve the business environment. They reduced administrative burden, removed some restrictions in regulated professions, and ensured better governance of state-owned enterprises. A comprehensive corporate governance system for state-owned enterprises has been put in place in recent years. Between 2010 and 2018, Slovenia reduced the number of regulated professions from 323 to 215; however, the initially fast progress in this area slowed down in recent years. In 2017, the planning and construction legislation was

Table 2.1: **Assessment of 2018 Country-Specific Recommendations (CSRs)**

Slovenia	Overall assessment of progress with 2018 CSRs: limited progress
CSR 1: *Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Adopt and implement the Healthcare and Health Insurance Act and the planned reform of long-term care. Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement. Increase the employability of low-skilled and older workers through lifelong learning and activation measures.*	Slovenia has made **limited progress** in addressing CSR1 (*): • No Progress in the reform of healthcare. • No Progress in the reform of long-term care. • No Progress in reforming the pension system. • Limited progress in increasing the employability of low-skilled and older workers.
CSR 2: *Develop alternative sources of financing for fast-growing companies. Lower the barriers for market entry through the revision of Product Market Regulation and limiting administrative burden. Enhance competition, professionalisation and independent oversight in public procurement. Carry out the privatisations in line with to the existing plans.*	Slovenia has made **some progress** in addressing CSR2: • Some progress in promoting alternative sources of finance. • Some progress in limiting administrative burden. • Limited progress in enhancing competition, professionalisation and independent oversight in public procurement. • Some progress in the privatisation of state-owned enterprises.
(*) This does not include an assessment of compliance with the Stability and Growth Pact.	

Source: European Union

overhauled to reduce the previously high burden resulting from spatial and urban planning. Slovenia also uses national and EU funding to provide alternative funding for SMEs and fast growing companies.

Slovenia has made limited progress in addressing the first of the 2018 CSRs. The government continued its efforts to increase the employability of low-skilled and older workers through lifelong learning and activation measures. It announced that a new draft Healthcare Act should be adopted by the government by the end of 2019, but it is still open how it should be financed. While a two-year pilot project has been initiated in 2018, there are no plans to table a legislative proposal on long-term care in 2019. No concrete measures have been taken to ensure the long-term sustainability and adequacy of the pension system.

Slovenia has made some progress in addressing the second of the 2018 CSRs. Some progress has been made in implementing key equity funding support schemes. The so-called "Single Document" and the Investment Promotion Act has brought some progress in reducing barriers and administrative burdens and to stimulate domestic and international investments. The 2018 Action Plan on Professionalisation is a good basis for further professionalising public procurement in Slovenia, while overall progress is only limited due to a lack of action as regards competition, independent oversight and health sector tender aggregation. With the sale of 65 % in Nova Ljubljanska Banka (NLB) and the launch of the selling process for Abanka, Slovenia has made some progress in the execution of its privatisation plans.

Slovenia's draft budgetary plan for 2019 would not ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019. This draft budgetary plan was transmitted to the European Commission on

15 October and is based on a 'no-policy-change' assumption. The government plans to prepare updated budget in the first quarter of 2019.

Box 2.1: EU funds and programmes contribute to addressing structural challenges and to fostering growth and competitiveness in Slovenia

Slovenia is a relatively large beneficiary of EU solidarity with EU investments representing almost 40 % of all national public investment. The financial allocation from European Structural and Investment Funds (ESI Funds) aimed to support Slovenia in facing development challenges, amounts to EUR 3.9 billion in the current Multiannual Financial Framework, equivalent to around 1.4 % of the GDP annually. The additional national co-financing of around EUR 1 billion brings the budget to EUR 5 billion. By the end of 2018, around EUR 2.8 billion were already allocated to specific projects. In addition, EUR 332 million were allocated to specific projects on strategic transport networks through a dedicated EU funding instrument, the Connecting Europe Facility. Furthermore, numerous Slovenian research institutions, innovative firms and individual researchers benefited from other EU funding instruments, notably Horizon 2020 which provided around EUR 210 million.

EU funding has helped to address policy challenges identified in the 2018 CSRs. ESI Funds support competence centres for skills development in niche areas with the biggest potential for raising the international competitiveness of the economy. ESI funds also play a key role in enhancing the implementation of the European Pillar of Social Rights, with targeted investments in services and infrastructure designed to enhance the access to affordable, sustainable and high quality healthcare, long-term care and social care. In addition, European Social Fund supports tailor-made social inclusion and activation programmes for the most vulnerable groups, in particular older, low-skilled or long-term unemployed workers. ESI Funds supported closer collaboration between business and research institutions, and R&D investments in the private sector with direct support for nearly 6000 enterprises. Infrastructure in Slovenia was also improved, namely, 13 km of new motorways were constructed, the projects for more than 51 000 tonnes of CO2 equivalent reduction have been decided, additional capacity of 26 megawatt of renewable energy capacity has already been contracted, and more than 300 000 persons will be served by improved wastewater treatment.

In addition, the Commission can provide tailor-made technical support upon a Member State's request via the Structural Reform Support Programme to help Member States implement growth-sustaining reforms to address challenges identified in the European Semester process or other national reforms. Slovenia, for example, received support from the Commission to assess and improve the performance of its health system, to prepare work for the pending long-term care reform, and to provide better protection for children in need with the development of a feasibility study for setting up a House of Children. Support is also being provided to Slovenia to attract foreign direct investment, as well as to enhance the performance of state owned enterprises. In addition, the Commission is assisting the authorities in their efforts to increase the awareness of capital market financing possibilities, in particular on initial public offerings and to develop the national capital markets. In 2018, preparatory work started to enhance the efficiency of the bank supervision system with a view to improving financial stability and macro-prudential policy design.

EU funding contributes to mobilisation of public and private investment through grants and financial instruments. Around EUR 306 million (7.8 % of the total) is earmarked to be delivered in the form of loans, microloans, portfolio guarantees and equity. The investments carried out via Financial instruments will be focused on R&D, SMEs, energy efficiency, urban development, processing of agricultural products and development of non-agricultural and forestry activities in rural areas. In Slovenia, the overall volume of operations backed by the European Investment Plan's European Fund for Strategic Investments (EFSI) by December 2018 amounts to EUR 161 million, which is set to trigger a total of EUR 941 million in additional private and public investments.

EU actions strengthen national, regional and local authorities and the civil society. EUR 209 million (from ESIF) have been allocated for strengthening the capacity of public administrations at different levels by prompting close cooperation with stakeholders. The Regions in industrial transition action helps to address specific challenges, such as low skills-base, high unit labour costs and deindustrialisation. https://cohesiondata.ec.europa.eu/countries/SI

3. REFORM PRIORITIES

3.1. PUBLIC FINANCES AND TAXATION

3.1.1. FISCAL POLICY

The general government headline balance turned positive in 2017 but the structural deficit has been declining since then. In 2017, the budget reached a surplus of 0.1 % of GDP, up from a deficit of -1.9 % of GDP in 2016. According to the ad-hoc forecast, the surplus accelerated further to 0.8 % of GDP in 2018 and is expected to decline slightly to 0.7 % of GDP in 2019. In structural terms, the government balance is forecast to have reached a structural deficit of 0.5 % of GDP in 2018. The structural deficit is expected to worsen further to 0.6 % of GDP in 2019 ([8]). Taking Slovenia's position in the economic cycle into account, this indicates a pro-cyclical fiscal policy and a missed opportunity to strengthen fiscal sustainability.

Expenditure pressures continue to build up. Over the course of 2018 and 2019, previously introduced temporary consolidation measures in the field of public-sector pay and social allowances have been gradually relaxed. In addition, Slovenian authorities and trade unions reached agreement on a substantial pay rise amounting to EUR 308m in 2019-2020 in November 2018. Therefore, after recording high growth in 2018, social transfers and compensation of employees are projected to further increase in 2019.

Recurrent taxation of immovable property and capital is below the EU average while the tax burden on labour is relatively high. Recurrent taxation of immovable property is considered to be less distortive to economic growth than labour taxes. However, the share of recurrent tax revenues from immovable property to GDP is around three times lower in Slovenia compared to the EU average (0.5 % of GDP compared to an EU average of 1.6 % in 2017). A larger fraction (around 70 % according to OECD data) of property tax burden is borne by businesses. In terms of revenues from capital taxes relative to GDP, Slovenia ranks among the lowest in the EU (4.3 % of GDP compared to an EU average of 8.6 % in 2017). At the same time, secondary earners with low wages face high labour tax rates, decreasing their work incentives ([9]). A new reform on real estate tax is planned for 2020 with the aim to relieve businesses and to link the tax base to the properties' market value in a budget neutral way, using a mass valuation system. The Mass Valuation Act was adopted and is expected to be applied to all properties in mid-2019. Box 3.1.1 discusses the simulation results of an increase in real estate tax for households, compensated by a revenue-neutral reduction in tax burden on labour and a strengthening of the social safety net.

3.1.2. FISCAL FRAMEWORK

The Fiscal Council warns of non-compliance with fiscal rules in the years 2018 to 2021. The Fiscal Council assessed that most fiscal rules were respected in 2017 and that the fiscal policy was appropriate (Fiscal Council, 2018a). However, after examining the 2018 stability programme drafted based on unchanged policies, it called on the government to take additional measures to avoid non-compliance with the fiscal rules in the years 2018 to 2021. According to the Fiscal Council, the coalition agreement fails to address adequately long-term risks to fiscal sustainability. The Fiscal Council warned in autumn 2018, and again in January 2019, that, if implemented as agreed, the fiscal policy of the new government would be pro-cyclical (Fiscal Council, 2018b; Fiscal Council, 2019).

3.1.3. DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

Government debt has been gradually decreasing from its peak of 82.6 % of GDP in 2015. Since 2016, Slovenia has been extending the maturity of its debt portfolio and executing cross-currency liability management transactions, thus, benefiting from the low interest rate environment. Due to this, Slovenia could reduce its implicit

([8]) For Slovenia, the output gap (and therefore the structural balance) estimate is subject to uncertainty. The Commission considers this in its assessment of Slovenia's updated draft budgetary plan.

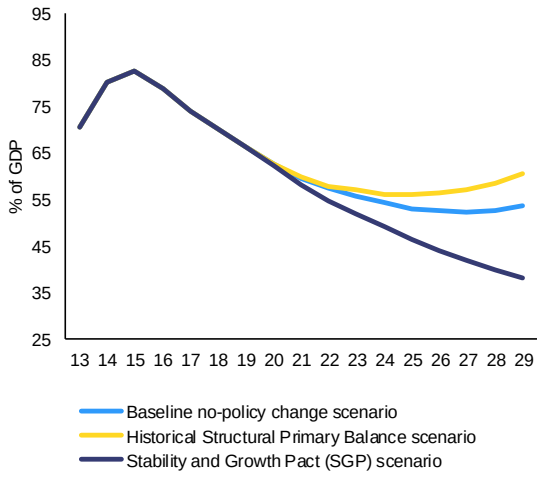
([9]) The average labour tax rate for secondary earners at 67 % of average wage is at 35.6 % and significantly above the EU average of 31.3 %.

interest rate to below 3 % of GDP by the end of 2018 from 4.1 % of GDP in 2015. Because of strong economic growth, reduced interest expenditure, and the 2017 primary surplus, the debt-to-GDP ratio declined from 74.1 % of GDP in 2017 to 69.9 % of GDP in 2018. Based on the ad-hoc forecast, the debt ratio will stand at 66.2 % of GDP in 2019.

The outlook for fiscal sustainability appears sound in the short term. The short-term risks of fiscal stress in the short term, as indicated by the sustainability gap indicator S0, are low, with both fiscal and financial competitiveness sub-indices far below the critical thresholds.

Overall, Slovenia is deemed to face medium fiscal sustainability risks in the medium term. The sustainability gap indicator S1 points to medium risks, mainly due to the projected increase in age-related public spending ([10]). According to this indicator, a cumulative gradual improvement in the structural primary balance of 0.2 percentage points of GDP, relative to the baseline scenario, would be required over 5 years to reach the debt ratio of 60 % of GDP by 2033 ([11]). At the same time, the debt sustainability analysis points to low risks over the medium term. Under the baseline scenario of no-policy-change ([12]), the government debt level is expected to decline until 2027, thanks to the projected fiscal effort and a favourable differential between the implicit interest rate on government debt and the growth rate of the economy (snowball effect). As ageing costs start outpacing these two positive effects, debt is projected to increase again in 2028 and 2029, but stay well below the 60 % government debt-to-GDP ratio reference value. If Slovenia was to adhere to the fiscal rules under the Stability and Growth Pact ([13]), the debt-to-GDP ratio would lie 15 percentage points below the baseline projection in 2029. By contrast, government debt in 2029 would exceed the 60 % of GDP threshold if the structural primary balance converges to its historical average (Graph 3.1.1) ([14]).

Graph 3.1.1: **Gross debt as % of GDP - Debt Sustainability Analysis**



Source: European Commission

The projected increase in age-related expenditure poses a challenge to the sustainability of Slovenia's public finances in the long term. Age-related public spending is expected to rise from 21.9 % of GDP in 2016 to 28.2 % of GDP in 2070, strongly affecting the sustainability gap indicator S2. The S2 indicator shows that a fiscal adjustment of 5.5 percentage points of GDP is required to ensure the debt-to-GDP ratio stabilises in the long term ([15]). This result is primarily due to the projected increase in spending on pensions (contributing 3.3 pps of GDP to the increase), health care (0.8 pps of GDP) and long-term care (0.7 pps of GDP). Slovenia is considered at medium risk in the baseline long-term projections. However, the more adverse

([10]) For an overview of the Commission's assessment of fiscal sustainability, see European Commission (2019c).

([11]) The following thresholds apply: (i) for values lower than 0 the country is assigned low risk; (ii) for values lower than 2.5 it is assigned medium risk; (iii) for values greater than 2.5 the country is assigned high risk.

([12]) This scenario is based on the 2018 Autumn Forecast (European Commission, 2018a) and on long-run convergence assumptions of underlying macroeconomic variables (real interest rate, real GDP growth, inflation) agreed by the Economic Policy Committee. Under the baseline scenario, it is assumed that fiscal policy stays constant beyond the forecast horizon.

([13]) European Commission forecasts for the first projection year; thereafter assumption of full compliance with excessive deficit procedure recommendations and convergence to the medium-term objective, according to the matrix of required fiscal adjustment from the Commission Communication on flexibility in fiscal rules.

([14]) The historical structural primary balance scenario assumes gradual convergence to the historical average for the structural primary balance over the four years following the forecast. All other macroeconomic assumptions are the same as in the baseline.

([15]) The following thresholds apply: (i) if the value is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and (iii) if it is greater than 6, the country is assigned high risk.

scenarios (including greater spending on health care and long-term care, historical patterns for structural primary balance or higher life expectancy) indicate high long-term fiscal sustainability risks to be borne by future generations.

3.1.4. PENSION SYSTEM

The 2012 pension reform brought tangible benefits, but population ageing puts considerable pressure on the sustainability and adequacy of the pension system. The pension reform (ZPIZ-2) ([16]) has temporarily slowed down the increase ([17]) in the number of old-age pensioners. It also decreased the number of other types of pensioners ([18]). The current rules are expected to keep the pension system relatively stable over the next 10years but the long-term sustainability of the pension system is not ensured. In 2017, the previous government reached a consensus with the social partners on key starting-points for the modernisation of the pension and disability insurance system. They agreed upon the broad outline of a pension reform to be adopted by 2020. The outline includes measures to achieve a sustainable and transparent pension system, which will also provide adequate pensions in the long run. The work priorities for the government published in January 2019 refer only to an update of the White Paper and the "drafting of core points of departure" for a reform but do not provide a time line.

Long-term projections indicate that pension spending will soon start increasing again and that the ratio of the active working population to pensioners will deteriorate faster. Gross public pension expenditure, as a share of GDP, will rise from 11 % in 2020 to 15.6 % in 2050. This shows that expenditure on pensions will increase at one of the fastest rate among all EU countries (European Commission, 2018b). This can mostly be explained by (i) early exit from the labour force, itself largely a result of previous pension legislation, and (ii) the retirement of the most sizeable generations, which will also enjoy longer retirement due to increased longevity (IMAD and MoLFSAEO, 2018).

Previous financial consolidation measures heavily affected the level of current and future pensions and the minimum income provision for older people. The challenge to ensure adequate pensions is especially significant for people with incomplete or short working careers, those working in intermittent jobs, and the self-employed. As the number of people working part-time or on fixed-term labour contracts increased during the economic crisis, pension adequacy might become even more critical in the future (European Commission and Social Protection Committee, 2018).

The at-risk-of-poverty rate (AROPE) ([19]) **among those over 65 remains above the EU average, mostly due to relatively low pensions (see Section 3.3.3).** At present, the replacement ratio of pension income to income before retirement is below the EU average. The Slovenian pension system produces a lower aggregate replacement ratio (0.47 compared with the EU average of 0.58). And even though total household savings are high compared to other EU countries, Slovenes save relatively little for old age (IMAD and MoLFSAEO, 2018). The act Amending the Pension and Disability Insurance Act in 2017 (ZPIZ-2C) increased the minimum old-age and disability pension to EUR 500 per month for pensioners who had fulfilled the full retirement conditions. This amount slightly exceeds the income threshold for entitlement to income supplement, thus ensuring basic social security for this group of pensioners. (European Commission, 2018b) The number of pensioners affected by this reform was estimated at 45 291 (46 % of all pensioners with a pension between EUR 400 and EUR 500) (European Commission and Social Protection Committee, 2018).

Data on the working years of younger generations reveal substantially lower values of

([16]) Pension and Disability Insurance act (2012)

([17]) According to the Institute of Macroeconomic Analysis and Development (IMAD) the slow-down in the increase of number of pensioners might be a one-off effect reflecting a surge in their number in the years before and after the adoption of the act.

([18]) Beneficiaries of disability, survivor's, widower's and partial old-age pension insurance benefits

([19]) AROPE: At-risk-of-poverty or social exclusion rate (% of total population). People who are at-risk-of poverty and/or suffering from severe material deprivation and/or living in household with zero or very low work intensity.

pension base. Younger generations will have accrued a lower number of working years at retirement age and consequently receive lower pensions. (European Commission and Social Protection Committee, 2018). The low number of accrued working years is even more of a concern for non-standard workers, whose lower density of work (compared to standard employment) is an additional problem. Relatively short insurance periods have negative consequences for the long-term social security of workers on fixed-term contracts (including casual and seasonal workers, temporary agency workers, workers on civil contracts, etc.). Student work now qualifies as a pension insurance period, but the insurance base is low.

Self-employed workers face challenges for the adequacy of their pensions if they only pay minimum contributions. Self-employed people ([20]) in Slovenia are insured against all risks and at the same rates as employees on permanent full-time employment contracts and their employers. However, almost 70 % of the self-employed pay social security contributions at the minimum base and will be entitled to the minimum old-age pension only (European Commission and Social Protection Committee, 2018).

3.1.5. HEALTH CARE AND LONG-TERM CARE

The projected increase in healthcare spending threatens the long-term fiscal sustainability of the system. In 2017, Slovenia spent 8.0 % of GDP on healthcare, which is below the EU average of 9.6 %. However, driven by changes in demographic structure, public spending on health care is projected to increase by 18% or 1.0 pp. of GDP, more than the 13% average increase in the EU (0.9 pps) according to the 'AWG reference scenario' (European Commission, 2017a). When taking into account the impact of non-demographic drivers on future spending growth ('AWG risk scenario'), healthcare expenditure is expected to increase by 2 pps of GDP from now until 2070 (EU: 1.6 pps).

([20]) A 'self-employed person' is defined by the Labour Market Regulation Act (2010, Article 5), but also by the acts regulating social security insurance; primarily the Pension and Disability Insurance Act (2012)

The share of government budget funding for healthcare is one of the lowest in the EU but healthcare financing is still highly pro-cyclical. General national and municipal-level taxation represents only 6 % of current health expenditure. Transitioning towards a system that is less reliant on contributions could improve the future stability of healthcare financing. The Slovenian authorities are currently preparing a policy reform to avoid further strain in the financing of the system, but no act has been adopted yet. The services intend to update a new draft Health Care and Health Insurance Act and the draft Long Term Care Act and to consult on them publicly before submitting them to the parliament in 2019.

The authorities plan to focus on efficiency and effectiveness of healthcare. They aim to reduce waiting times and to improve the efficiency and effectiveness of the public health network (the management of healthcare institutions, quality and safety in healthcare and in long-term care for the elderly and decent ageing). The financing of the reform remains the main unresolved issue.

Amenable mortality levels are in general low, but challenges remain. Life expectancy at birth remain one of the best in the EU. On the other hand, preventable mortality and obesity rates are above the EU average with evident differences between NUTS 3 regions. Mortality from liver cirrhosis in men is among the highest in Europe. In the elderly population, healthy life years at the age of 65 are below EU average. In 2016, healthy life years were 8 pps below the EU average for women and 6 pps below the EU average for men (IMAD, 2018). Investments in modernising health infrastructure, such as addressing disparities between regions in terms of hospital beds per population ratio, services for prevention, screening and early diagnosis at the primary care level, specialised diagnostic and treatment programmes at outpatient and palliative care can improve efficiency in healthcare. EU funds are supporting health promotion activities to reduce health inequalities at community level and promote healthy lifestyles.

An ageing population and a growing burden of chronic diseases is expected to boost demand for a more efficient mix of care models. Provision of acute care hospitals beds is above the EU average (422 beds per 100 000 inhabitants in

2015 versus 402 in the EU) However, the occupancy rate of acute care hospital beds is below average (68.8 % in Slovenia compared to 76.8 % in the EU). This points to excess capacity, suggesting there is room to improve efficiency with the existing infrastructure ([21]). The proportion of surgical procedures conducted as day cases is extremely low compared to the EU average (9.7 % versus 32.3 % in 2015). Moreover, there may be scope to increase medical equipment if the lack of such equipment contributes to excessive waiting times for diagnostics ([22]).

Attracting physicians to primary care remains difficult. Although there has been a steady increase in recent years, the number of physicians and the share of general practitioners are still below the EU average (19 % versus 23 % in the EU). The uneven geographic distribution of doctors and difficulties in recruiting and retaining doctors in all areas are significant policy issues. Slovenia does not have enough healthcare personnel, which makes it a priority for the country to use its available resources as effectively as possible, for example through training, research opportunities and e-health solutions.

Public procurement aggregation in Slovenia's health sector remains underdeveloped ([23]). In 2018, not much progress was made to improve procurement aggregation, besides the extension of a database on prices. The reason for this was a lack of staff. Slovenia has not yet set up a dedicated central purchasing body for health sector procurement, which would bring about a higher level of professionalisation. This would make it possible to organise centralised procurement procedures and to advise individual hospitals on procurement procedures for very technical supplies. The lack of a proper procurement strategy for the health sector limits Slovenia's ability to harmonise tenders, share expertise for tenders and effectively mitigate the risk of bid-rigging.

The services envisage the creation of a health technology assessment agency. Health technology assessment would be an asset in the efficient allocation of resources and could help to determine which benefits should be covered by the Health Insurance Institute of Slovenia. Only certain mechanisms of it are used during regular assessments within the Agency for Medicinal Products and Medical Devices of the Republic of Slovenia, the Health Insurance Institute of Slovenia and the Health Council.

Waiting times for medical treatment depend on efficient healthcare services. The share of unmet need due to waiting times is broadly in line with the EU average. However, waiting times have increased markedly in Slovenia (see also box 3.3.1). The share of people reporting waiting times for some specialist services increased from 6 % in 2007 to 13 % in 2015 (OECD/European Observatory on Health systems and Policies, 2017). Moreover, only about 67 % of patients aged 65 and over were operated on within 2 days of their admission for a hip fracture, below the EU average of 77 %. Information and communications technology could improve nationwide access to information, including the monitoring of waiting times for a broad set of services.

In 2014, the share of Slovenes reporting depression was above the EU average. National reports suggest an increasing trend of mental health incidents in children and young people in recent years ([24]). Reports also suggest overcrowding in social-welfare institutions. In March 2018, national authorities started to follow up on these issues with the adoption of a Resolution on a National Mental Health Programme 2018-2028.

Due to population ageing, the number of elderly needing long-term care (LTC) has been increasing, and will continue to increase. In 2015, there were more than 61 000 recipients of long-term care ([25]). The provision of services is quite fragmented, as only recipients in institutional setting receive integrated long-term care. The rest are in home care (OECD/European Commission 2018). It has been estimated (Majcen et al., 2016)

([21]) In 2016, there were 533 hospital beds per 100 000 inhabitants in Western but only 373 in Eastern Slovenia.

([22]) For example, the number of computed tomography scanners and magnetic resonance imaging units per 100 000 inhabitants is below the EU average (1.3 compared to 2.2 EU average and 0.8 compared to the 1.7 EU average, respectively).

([23]) For a discussion on public procurement more generally see section 3.4.4 below.

([24]) Resolution on a National Mental Health Programme 2018–2028.

([25]) Statistical office of the Republic of Slovenia, www.stat.si

that, in addition to home and institutional care, there were 104 000 people receiving informal care in Slovenia, and that the care needs of 35 500 were unmet. There is also a discrepancy between urban and rural areas. Rural areas frequently do not provide sufficient institutional care or home care, while urban areas tend to offer a wide range of services.

The coalition agreement mentions the establishment of an autonomous, integrated and sustainable LTC system one of the main goals of the new government. To date, there is still no single, overarching legislative act in Slovenia that covers LTC. The current fragmented system in Slovenia results in financing challenges, risks of inefficiencies and may cause difficulties for users (European Commission, 2018b). In 2020, the government intends to put forward a unified legislative act on LTC with a comprehensive description of the services to be provided. However, at present, the financing of the services still needs to be agreed at inter-ministerial level. There will also be accompanying measures such as training of staff, use of information and communication technologies, promotion of social inclusion and elderly employability programmes to achieve a higher quality of life for the elderly and help them stay at home as long as possible. There is also a plan to set up a real estate strategy to take care of the specific needs of an ageing population.

A two-year pilot project was launched in 2018 to help prepare concrete measures to reform LTC. Its main objective is to assess solutions proposed in a draft legislative act on LTC in three environments (urban, semi-rural and rural) and to show their advantages and shortcomings in practice. The project therefore aims to establish a single entry point for the LTC system in Slovenia that will provide an affordable, accessible and fair service to the population. It will also offer training and support coordination between service providers, non-governmental organisations, volunteers and local communities.

3.1.6. STATE OWNED ENTREPRISES

The performance of state-owned enterprises further improved in 2017. In 2017, the performance of state-owned enterprises, that are fully managed by the Slovenian Sovereign Holding (SSH), exceeded the targets set in the management acts, with a 6.5 % net return on equity on an aggregated basis (SSH, 2018). While the return on equity increased by 0.6 pps to 6.3 % for the 'strategic companies' ([26]), it decreased by 1 pp. to 8.9 % for the rest of the portfolio.

The sale of 65 % of the shares in NLB on the stock market in autumn 2018 is a significant step in the reduction of state ownership in the banking sector. Until that sale, NLB was fully state-owned and the state still remains the largest individual shareholder. With the sale, which had been long delayed, Slovenia has fulfilled the first set of commitments (as amended in 2018) given to the European Commission in reaction to the state aid provided to NLB in 2013. SSH intends to proceed with the privatisation according to the strategy and in line with the commitments given by Slovenia to the European Commission. This means that the remaining proportion of shares (of up to 75 % minus one share) will be sold before the end of 2019.

As a next step, Abanka, the third largest bank in Slovenia, will be privatised in 2019. The sales process was already launched in October 2018. The privatisation of this fully state-owned bank should be completed in 2019.

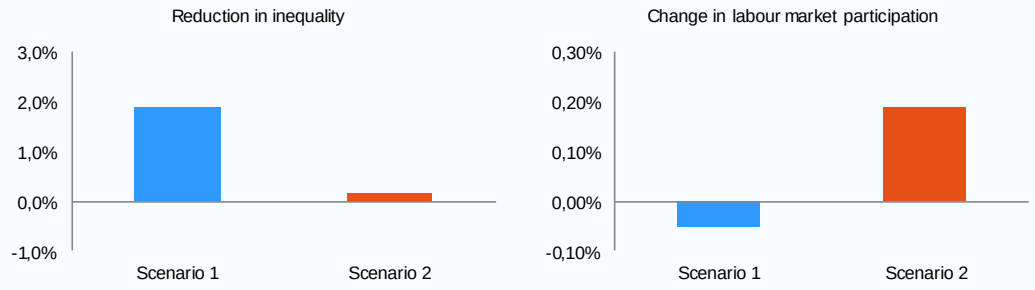
([26]) Strategic companies have, in addition to economic goals, to attain strategic and development goals; in particular the realisation of important social interest and maintaining key development factors in Slovenia.

Box 3.1.1: **Shifting taxation from labour to immovable property**

The European Commission Joint Research Centre conducted simulations of the effects of a tax shift from labour to immovable property in Slovenia. The simulations are based on the EUROMOD model using 2016 EU-SILC data ([1]). The key assumption is an increase in the revenues from recurrent taxation of immovable property from currently 0.5 % of GDP to the EU average of 1.6 % of GDP (European Commission, 2018c). In addition, the households' share in the revenues from recurrent property taxation is set to rise from around 30 % to 50 %, in line with the government's intention to reduce the burden on businesses (as indicated in the released blueprint for the new recurrent property tax). The simulation estimates the distributional and labour supply ([2]) effects of two hypothetical scenarios to use the extra revenues for: (i) a refundable means-tested benefit for residents with low incomes ('Scenario 1') ([3]); (ii) a refundable lump-sum reduction in employees' social insurance contributions (SIC) for active employees older than 55 or with low incomes ('Scenario 2') ([4]). Both scenarios would result in a revenue-neutral reform.

Scenario 1 reduces the tax burden on labour for employees and strengthens the social support for vulnerable groups, i.e. pensioners (see section 3.1.4.). The results reveal a strong positive distributional effect as the increase in disposable income caused by the means-tested benefit more than offsets the reduction caused by the higher tax rate on immovable property for lower-income households. Inequality as measured by the S80/S20 quintile ratio decreases by 1.9 % (Graph 1). In terms of labour supply, Scenario 1 shows a shift to part-time work (increase by 0.6 %) while the labour market participation remains broadly unchanged (decrease by 0.05 %). This result could be explained by employees' decision to substitute work time for leisure (income effect) combined with the choice of inactive people not eligible for the benefit to take-up work (substitution effect). In Scenario 2, the impact on labour supply is positive, especially for singles, with their labour market participation and total hours worked rising by 0.4 % (see section 3.3.3.). At the same time, the inequality decreases, although only slightly compared to Scenario 1. Overall, both scenarios show a positive impact of a revenue-neutral tax shift from labour to immovable property, with a positive distributional effect in Scenario 1 and a favourable labour supply outcome in Scenario 2.

Graph 1: **Distributional (on the left) and labour supply (on the right) effects for both scenarios**



Source: European Commission Joint Research Centre, calculations based on the EUROMOD model / EU-SILC

([1]) EUROMOD is the tax-benefit microsimulation model for the EU. It simulates individuals' and households' benefit entitlements and tax liabilities (including social security contributions) according to the rules in place in each Member State. Incomes reported in the EU-SILC (EU Statistics on Income and Living Conditions) of 2016 refer to 2015.
([2]) The labour supply model does not capture any shifts in or out of retirement and self-employment.
([3]) The following annual income thresholds and amounts of refundable means-tested benefit apply: (i) for incomes lower than EUR 11 166.37, the benefit equals EUR 307.41; (ii) for incomes above EUR 11 166.36, it decreases proportionally to the tax base until it reaches zero at EUR 18 903.76 (i.e. average wage based on 2017 OECD data).
([4]) Active employees receive an annual refundable lump-sum SIC reduction of (i) EUR 1 500 if they are older than 55; (ii) EUR 633.97 if their income is below EUR 12 602.51 (i.e. 67 % of average wage based on 2017 OECD data).

3.2. FINANCIAL SECTOR

3.2.1. BANKING SECTOR

The situation of the Slovenian banking sector has improved significantly, due to improved profitability, solvency and asset quality. The return on equity reached 9.1 % in 2017, up from 7.8 % in 2016, mainly because of lower impairments, downward revaluations of fixed assets held by the banks. However, profitability might come under pressure when the current release of provisions ends. The average capital adequacy ratio remains stable (18.8 % in June 2018) despite renewed credit growth. Credit to households continued to grow at a sustained year-on-year rate of 6.8 % in September 2018, while lending to non-financial corporations has slowed down to a rate of around 2.0 %. With a loan-to-deposit ratio of 75.5 % in June 2018, banks benefit from a substantial excess of deposits over loans. This ensures a relatively stable funding basis and abundant liquidity. However, the growing maturity mismatch between long-term loans and sight deposits makes banks vulnerable to a sudden rise in interest rates.

To maintain profitability, banks must control costs and find new sources of income. Current profitability is mainly driven by lower impairments and by releasing previous impairments. This is bound to change as new lending progressively generates new impairments. Bank profitability is also likely to come under pressure from persistently low interest rates and increases in compliance, prudential, supervisory, and investment costs. One possible strategy to offset these negative factors is to focus on fee income and to develop new lending products and services, while enforcing strict and prudent risk management practices. Banks could also opt for partnerships or acquisitions to reduce their costs and achieve economies of scale.

Strong consumer lending growth raises credit risk, and has led the Bank of Slovenia to issue specific recommendations. Consumer lending grew by 11.6 % year-on-year in September 2018, partly driven by the pushy behaviour of some medium-sized banks underwriting non-purpose-specific consumer loans of longer maturities. To prevent the relaxation of credit standards and to improve banks' resilience, the Bank of Slovenia decided on 22 October 2018 to expand the existing macroprudential recommendation for housing loans to all consumer loans. Concretely, banks are invited to cap the loan-to-value ratio at 80 %, the debt service-to-income ratio at between 50 % and 67 % and the loan maturity at 120 months. In the event of increased risks to financial stability, the Bank of Slovenia stands ready to introduce binding macroprudential instruments if necessary.

The non-performing loans (NPLs) ratio has improved further and reached 7.4 % in June 2018, down from 11.4 % one year earlier. The segment of the credit portfolio most heavily burdened with NPLs is non-financial corporations, despite improving credit quality (according to the European Central Bank respectively for 33 %, 30 %, 10 % and 10 % of the reduction in non-performing exposures in 2017). Banks were also more active in reducing non-performing exposures to non-residents in 2017 than in previous years.

After several years of moderate losses, the state-owned Bank Asset Management Company (BAMC) made a profit of EUR 67 million in 2017 and EUR 20 million in the first half of 2018. This translates into an average annual ROE of 27 %. Between its inception in 2013 and October 2018, the BAMC, which bought up bad

Table 3.2.1: **Financial soundness indicators - all banks in Slovenia**

	2014q4	2015q4	2016q2	2016q3	2016q4	2017q1	2017q2	2017q3	2017q4	2018q1	2018q2
Non-performing loans	22,8	17,9	16,3	14,4	12,3	11,5	11,4	10,8	9,2	8,2	7,4
o/w foreign entities	13,9	-	15,8	14,2	11,4	11,0	11,0	10,3	9,0	8,6	7,6
o/w NFC & HH sectors	28,5	-	21,2	18,8	16,4	15,4	14,7	13,9	12,2	10,9	9,9
o/w NFC sector	43,5	36,8	33,6	30,4	26,8	25,4	24,1	23,2	20,2	18,2	16,3
o/w HH sector	7,8	7,2	6,3	5,5	4,8	4,6	4,4	4,1	3,9	3,7	3,5
Coverage ratio	53,3	59,3	62,0	61,9	60,3	60,3	60,5	60,5	59,6	56,5	57,8
Return on equity(1)	-2,5	3,5	10,1	9,0	7,8	11,7	10,3	10,3	9,1	12,0	11,5
Return on assets(1)	-0,3	0,4	1,2	1,1	1,0	1,4	1,2	1,3	1,1	1,5	1,4
Total capital ratio	17,9	18,6	18,9	19,1	19,1	18,8	18,7	18,4	18,1	18,4	18,8
CET 1 ratio	17,1	18,0	18,4	18,6	18,5	18,3	18,3	18,0	17,7	18,0	18,5
Tier 1 ratio	17,1	18,0	18,4	18,6	18,5	18,3	18,3	18,0	17,7	18,0	18,5
Loan to deposit ratio	79,4	74,1	74,4	72,5	74,0	73,7	74,2	73,6	74,7	75,9	75,5

(1) Annualized data.
Source: European Central Bank - Consolidated Banking Data (CBD2); own calculations

loans from the country's banks in 2013 and 2014, generated cumulative cash flows of EUR 1.5 billion, representing nearly 72 % of the transfer value of its assets. The last bonds issued to finance asset transfers were repaid in December 2017 and refinanced by bank loans. In June 2018, the BAMC managed to sell 56 % of the initial EUR 2 billion of assets transferred to it. Its objective is to reduce its assets to EUR 100 million by the end of its mandate in December 2022. Still, the BAMC is confronted with a number of challenges. For example, achieving the cost efficiency ratio set by the government will become more and more difficult as residual assets are more costly to manage. In addition, keeping skilled staff with knowledge of the files in a company with a short life expectancy is challenging as their competences can sometimes be better remunerated elsewhere.

The stake of the Slovenian state in the financial sector has recently decreased; however it remains substantial, in particular in insurance. The Slovenian state controls a significant share of the financial sector through its stakes in NLB, Abanka-Celje and Sava Re. It has recently made steps in the right direction such as the sale of NLB shares in 2018, the commitment to reduce state ownership to 25 % plus one share by the end of 2019 and the privatisation of Abanka-Celje in 2019 (see Section 3.1.6.). In the insurance sector, the stake of the state is 60 %, an unusually high share in such a non-strategic sector, making Slovenia an outlier in the EU. Two attempts by a foreign insurance group to increase its stake in Sava Re were rejected. As demonstrated by the crisis that hit Slovenia in 2013, maintaining a high level of state involvement may entail risks in the long run for financial stability, economic efficiency and public finances.

3.2.2. ACCESS TO FINANCE FOR SMALL AND MEDIUM-SIZED COMPANIES

Internal finance and bank credit conditions are satisfactory for Slovenian businesses. Slovenian businesses, notably SMEs, heavily rely on bank credit ([27]) and internal finance to cover their funding needs (EIB, 2018; SAFE, 2018). While larger Slovenian businesses do not perceive funding as a major constraint, the situation for SMEs is more nuanced ([28]). Banks in Slovenia remain cautious when lending to SMEs. High guarantee requirements by banks remain an issue (Bank of Slovenia, Survey 01/2018).

A lack of equity funding options in Slovenia is a risk for the prospective financing of debt-leveraged firms and might constrain the growth of innovative businesses. Access to alternative finance is slowly improving in Slovenia, though from a very low level. Equity funding represents only a minor share of financial resources available to SMEs. Private equity in Slovenia amounts to only 0.05 % of GDP compared to 0.2 % in Central and Eastern Europe and 0.44 % on average across the EU (Invest Europe CEE, 2018). The country ranked among the lowest of EU Member States in terms of venture capital share of GDP (Invest Europe, 2017). While many SMEs consider equity capital as relevant, few really use it (SAFE, 2018) ([29]). The limited and underdeveloped capital market, combined with the unfavourable framework conditions, hampers inflows of equity and venture capital into the country. This type of funding is particularly important for innovative start-ups in high tech and high growth sectors (see Section 3.4.2).

The role of capital markets in financing the Slovenian economy is limited and falling. Despite the favourable economic conditions, the market capitalisation of the Ljubljana Stock Exchange is low and the number of stocks listed there has actually fallen (IMAD, 2018). To address this, the Ljubljana Stock Exchange, following the initiative of the Securities Market Regulator (ATVP), has provided tailored technical assistance and advisory support on listings and the issuance of bonds to SMEs (Ljubljana Stock Exchange, 2018). Development of the local capital market

([27]) According to the 2018 Survey on Access to Finance of Enterprises (SAFE), for Slovenian SMEs the three most important sources of finance are credit lines (62 %), bank loans (61 %) and grants (51 %). In the period April-September 2018, Slovenian SMEs most often used credit lines (38%).

([28]) In the 2018 EIB survey, 6 % of SMEs, but not a single large firm, considered their access to external finance as constrained (EIB 2018). According to the 2018 SAFE results, access to finance is the most important concern for 6% of Slovenian SMEs (compared to 7% at EU level). This is a decline from 17% in 2009, and 23% in 2013.

([29]) According to the 2018 SAFE results, equity financing is relevant for 24% of Slovenian SMEs but only 1% of them used it recently.

could be stimulated by growth funds, further listings (including of state-owned enterprises), and a pension reform (including long-term supplementary savings), resulting in more equity investments by pension funds.

The lack of financial and investment literacy in SMEs remains an issue. Despite advice and training offered by public institutions, SMEs' access to finance is still hindered by a lack of financial and investment literacy and of support in the process of applying for bank loans, public financial incentives and alternative financial sources (European Commission, 2018i).

Slovenia offers various finance schemes for businesses, notably SMEs. These schemes provide, for example, microloans or guarantees ([30]) and also create or participate in new instruments to support business funding. They are backed, directly or indirectly, by EU funds, including the cross-border Central Europe Fund of Funds. Implementation of most of them is ongoing so that it is too early to assess their impact.

Slovenia is strong in blockchain-based financial technology solutions and has started to work on a corresponding regulatory framework. Slovenian companies have had a high success rate on several international crowdfunding platforms, notably Kickstarter. Over 300 SMEs have raised around EUR 8.8 million in recent years (European Commission, 2018i). Slovenian companies also raised significant funding through initial coin offerings in the last 2 years. In 2017, around 5 % of funds raised in global initial coin offerings went to Slovenian projects. The government is actively promoting block-chain technologies ([31]) and has adopted an action plan in May 2018. It is now preparing a regulatory framework for investor protection in this area.

Broader use of financial instruments for EU funds presents untapped potential to improve Slovenia's funding system. With a wide portfolio of different products, EU funds are helping to diversify financial markets and improve the capacities of commercial banks, through which the instruments are delivered. Broader use of financial instruments for revenue generating or cost-saving activities in the future could result in better access to financial markets. It could also make it easier to find the optimal financing mix to address regional disparities.

([30]) However, according to the European Investment Fund (European Investment Fund, 2018), Slovenia is among the three EU countries where new guarantee activity decreased the most in the first semester of 2018.

([31]) Initial coin offerings are only one type of application for block-chain technology.

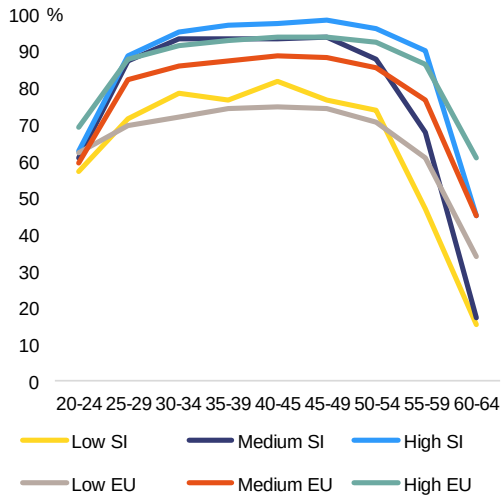
3.3. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

3.3.1. EMPLOYMENT

Labour market performance continues to improve, although certain challenges remain. Activity and employment rates continued to increase in 2018 and are currently at 79.7 % and 75.5 % respectively (Q3 2018). The unemployment rate is at 5.2 % (Q3 2018), close to the pre-crisis level. However, the activity and employment rates of older workers (aged 55-64) remain well below the EU average, despite increases in recent years. This is particularly the case for low-skilled older workers, who had an activity rate of 29.4 % (EU: 47.4 %) and an employment rate of 26.6 % (EU: 42.3 %) in 2017.

Long-term unemployment is still above pre-crisis levels and almost half of the unemployed aged over 50 have been out of the labour market for 2 years or more. Although it had been decreasing in previous years, long-term unemployment remained at 3.1 % ([32]) in 2017, still accounting for almost half of total unemployment. More than 40 % of the long-term unemployed are older than 50 years of age. Further targeted investments in training could help to improve the weak employment situation of low-skilled and older workers.

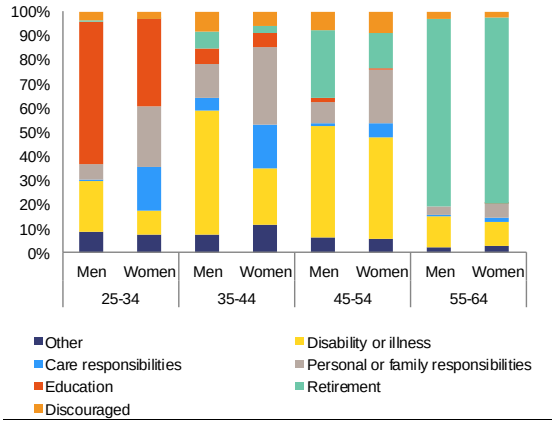
Graph 3.3.1: **Activity rate by age and educational attainment in 2017**



Source: Eurostat

The main reason for the inactivity of older people appears to be early retirement. According to self-declared reasons for not seeking work based on the Labour Force Survey (Graph 3.3.2), the main reason for the inactivity of older people (aged 55-64) in 2016 was early retirement. The inactivity in this age category therefore has a direct negative impact on the sustainability of the pension system (European Commission (2018a). In the age category 45-54, disability or illness were also mentioned as reasons by a large share of the inactive. For younger people (25-34), education was the main reason for inactivity of men, whereas for women personal, family, or care responsibilities were also mentioned. The latter also remain important reasons for inactivity of women in the older age categories (35-54).

Graph 3.3.2: **Reasons for inactivity by age and sex, 2016**



Source: European Commission

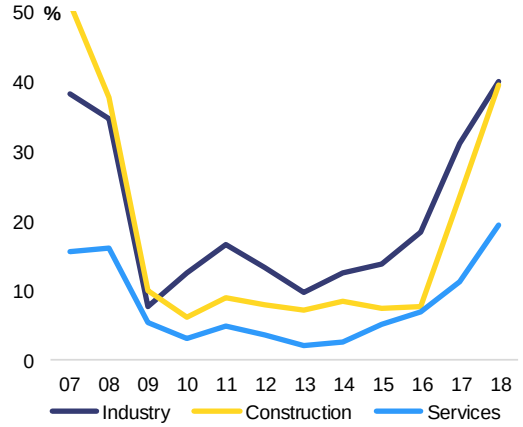
The government intends to focus its efforts on reducing the low employment rate of workers in the age categories 45-54 and 55-64. Inactivity of people in these age categories has a direct negative impact on the sustainability of the pension system. Government efforts intend to increase the employment rate through additional activation measures to incentivise older workers to work longer. The government also seeks to identify and discontinue any remaining bridges, which induce people to go from long-term sick leave or long-term unemployment directly into retirement (see European Commission, 2017b).

Different structures and funding needs in Public Employment Service offices are one of the challenges in Slovenia. Good coordination between local offices and a less central approach in setting measures could improve effectiveness. Project-based financing remains a challenge, as it

([32]) Percentage of active population aged 15-75.

leaves many offices with budgetary constraints and a fluctuating number of counsellors. The changing labour market situation requires a rich and stable pool of counsellors in local offices to guarantee services to the unemployed. An integrated approach that also involves the support of social services, developed with the help of the European Social Fund, should have a positive impact when it is launched.

Graph 3.3.3: **Labour shortages, Slovenia 2008-2018**



(1) Labour shortages in Slovenia as reported in the industry, construction and services sectors, ESB indicator (2008, 2018).
Source: Eurostat

In order to reduce long-term unemployment, the focus group of Employ.me 2017/2019 ([33]), the active labour market policy programme, was expanded last year. Persons older than 50 and persons aged over 30 ([34]) may now be included in subsidised employment immediately after having registered as unemployed, rather than after having been registered for at least 6 months as was previously the case (MOLFSAEO, 2018).

In December 2018, the Slovenian parliament adopted an act to increase the minimum wage gradually to EUR 700 net in 2020. The minimum wage will increase from EUR 638 at present to EUR 667 in 2019 and to EUR 700 in 2020. In addition, bonuses, which are currently included in the minimum wage, would be excluded as of 1 January 2020. The provisions will ensure that the minimum wage will be at least 20 % above minimum living expenses and will not exceed them by more than 40 %. While this measure would help those in low-paid jobs and increase their purchasing power, there is a risk that it may create inflexibility in the labour market and reduce the number of (new) job creations, in particular when the business climate is less favourable.

Participation in adult learning by low-skilled people, older workers and the inactive is below the EU average. In 2017, 12 % of adults participated in learning, which is 1.1 pps above the EU average. However, the share of low-qualified adults participating in learning (as percentage of all low-qualified adults) was 2.9 % in 2017 below the EU average of 4.3 %. The 2016 Adult Education Survey shows that 97.5 % of older workers and 95.9 % of low-skilled workers were not willing to participate in adult learning and training activities.

To address falling participation in adult learning, the government adopted a new Adult Education Act in 2018. The Act establishes educational guidance in adult learning as a public service in support of lifelong learning participation, self-directed learning as well as the validation and recognition of prior learning. Professional counsellors can help adults identify learning needs, develop a career plan, find relevant programmes and financial support, and achieve completion (OECD, 2018). Encouraging participation in adult education – in particular of low-skilled, older and inactive workers – is also a promising way to fill shortages in some occupations, presenting opportunities for the long-term unemployed to return to the labour market.

The share of employees in temporary and precarious jobs remains above the EU average. The share of temporary contracts was at 14.6 % in 2017, while the EU average was at 11.3 %. At the same time, the transition rate from temporary to permanent contracts has increased by 2.5 pps since 2007 and was relatively high at 38.4 % in 2017. Nevertheless, the share of involuntary temporary employees was 9.4 %, above the EU average of 7.8 % (2017). Moreover, the share of employees

([33]) "Employ.me" ("Zaposli.me), is a subsidy programme (EUR 5 000 - 7 000), subsidising the employment of disadvantaged groups for a minimum period of one year. According to a study of University of Primorska "Employ.me" 2009-2012 was the active labour market policy with the biggest labour market impact, although it was also the most expensive one. Co-financing from the European Social Fund amounts to 80 %.

([34]) Without an elementary education or with no more than an elementary education.

with a precarious job ([35]) was 5.1 % in 2017, more than double the EU average of 2.3 %.

3.3.2. EDUCATION AND SKILLS

Slovenia has a generally well performing education system, but it could be improved in certain areas and sustained for the future. Slovenian students in general education perform well in international comparisons. Socio-economic status is comparatively less important for education outcomes (European Commission 2018b). Its importance, however, grows with the level of education (Cankar et al., 2017) and there are visible disparities when looking at pupil underachievement rates, especially when comparing the top and bottom socioeconomic quartiles (European Commission 2018d). Literacy among young people has improved significantly and is high by international standards, though performance of boys in reading literacy is still a concern. At 4.3 %, the proportion of early school leavers is the second lowest in the EU. The rate of over 4-year-olds participating in early childhood education and care is increasing slowly but continuously (European Commission, 2018e). It stood at 90.9 % in 2017, still 4.4 pps below the EU average. There is also a need to review general school curricula and improve the situation of teachers to attract a sufficient number of qualified students to choose pedagogical studies (OECD 2018). Slovenia's teachers are relatively old with 38 % of teachers aged over 50.

Education spending as a share of GDP decreased during the crisis, but it remains above the EU average. Between 2010 and 2015, expenditure per student in primary and secondary education fell by 13 %, one of the highest decreases among OECD countries. Expenditure per student in tertiary education only increased by 1 %, compared to an average increase of 11 % across OECD countries (OECD, 2018). The government aims to keep the share of education financing at a stable 6 % of GDP in the future, 0.5 pps below the share of 2013. Reforms on higher education financing continue, but a more substantial legislative overhaul has been postponed.

Although participation in tertiary education is widespread, inequalities in access persist. In 2017, 46.4 % of 30-34-year-olds had obtained tertiary education, above the 40 % national target and the EU average (39.9 %). However, the gender gap in Slovenia in 2017 was 24.1 pps, the biggest in the EU. Access to higher education is particularly difficult for those with a weak socioeconomic background: only 2.9 % of new tertiary entrants are from parents of low attainment. The European Centre for the Development of Vocational Training (Cedefop) has forecast a significant further shift to high qualifications by 2025.

The Apprenticeship Act, in force since December 2017, is trying to link education and practical experience. By October 2018, only 186 out of approximately 12 000 students in vocational education and training are enrolled in one of the eight different programmes that link work experience with classroom education. 20 % of the curriculum is flexible, making the apprenticeship adjustable to labour market demands. According to the Ministry of Education, the main disincentive for higher participation in vocational education and training or apprenticeship is low wages.

Young people lack digital skills. The International Computer and Information Literacy results from 2013 show that only 16 % of pupils in primary school acquire the necessary digital skills to use information and communications technology for collecting and processing data and solving problems independently (Ministry of Education, 2018). In addition, only around 5.5 % of high school students met all the digital skills targets (National Examination Centre RIC, 2016; Ministry of Education, 2018).

Knowledge and skills are insufficiently adjusted to the current and future needs of the economy. The structure of students enrolled in educational programmes and the skills of workers are adjusting only slowly to labour market changes. Reading, mathematical and digital skills of older generations as well as of people with a low level of education are relatively poor (Government of Republic of Slovenia, 2017). According to a 2017 business survey, 64 % of companies in Slovenia encounter difficulties when searching for adequately skilled personnel (SPIRIT, 2017). Differences in unemployment rates between sectors are relatively

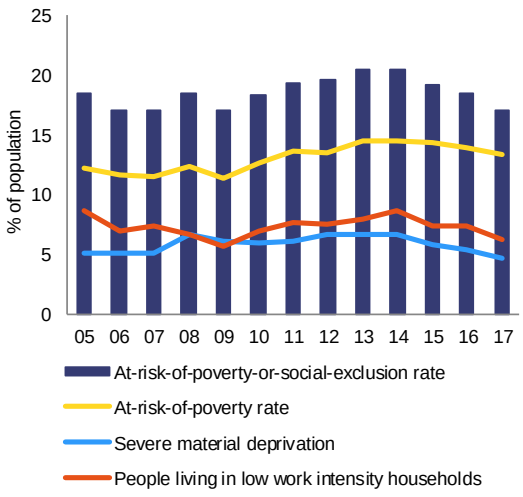
([35]) The work contract did not exceed 3 months' duration.

large compared to other EU countries, which could point at sectoral mismatches in supply of and demand for labour. Stronger links between employers and the education sector and investments in a better alignment of education curricula with labour market needs could contribute to reinforce the labour market relevance of skills in the working-age population and a better match in labour demand and supply.

3.3.3. SOCIAL POLICY

The share of people at risk of poverty or social exclusion has decreased. The at-risk-of-poverty or social exclusion rate (AROPE) decreased by 1.3 pps to 17.1 % in 2017 (Graph 3.3.4). For people aged over 65, the AROPE was 18.3 % and approaching the EU average (18.1 %). However, this rate was higher for elderly women (22.9 %; EU average 20.5 %). After 2 years of increases, monetary poverty for the elderly fell by 1.2 pps to 16.4 % but remains above the EU average (14.6 %) as does the poverty gap for this age group (17.9 %; EU average: 16.7 %). Inequality as measured by the ratio of incomes of the richest 20 % of households compared to the poorest 20 % of households, continued to decrease and remains among the lowest in the EU. In spite of this, the in-work at-risk-of-poverty rate was 6.6 % for people aged 18-64 in 2017 which was relatively low.

Graph 3.3.4: **At risk of poverty or social exclusion rate and its components**



Source: European Commission

3.3.4. INVESTMENT

Increased investment in skills, education and training and social inclusion policies is important to improve Slovenia's productivity and long-term inclusive growth. The employment situation of low-skilled and older workers remains weak, and there are shortages in more and more segments of the labour market. To address these challenges, a better alignment of education curricula with labour market needs is needed as well as investments in training and social activation measures for the currently not or not fully used labour potential and in a better training and education infrastructure. Matching investments in social inclusion, in the capacity of public services and the availability of child, health and long-term care services ([36]) are necessary to ensure long-term inclusive growth.

The decrease of social benefits when taking up employment could reduce work incentives. According to a benchmarking exercise in the area of minimum income schemes conducted within the Social Protection Committee, Slovenia performs around the EU average for the indicators related to adequacy of the minimum income benefits (see draft Joint Employment Report 2018), which was increased by EUR 95,22 in the last year. However, inactivity traps in Slovenia are relatively large, especially for single parents and one-earner married couples with children. The major part of the inactivity trap is attributable to the withdrawal or reduction of social assistance, family and housing benefits when taking up employment, and only a minor share results from increased income tax and social security contributions. Reducing the inactivity trap is particularly important given the ageing of the population in Slovenia (OECD, 2018).

([36]) Section 3.1.5 provides an overview of the challenges Slovenia is facing in the areas of healthcare and long-term care.

Box 3.3.1: **Monitoring performance in light of the European Pillar of Social Rights**

The European Pillar of Social Rights is designed as a compass for a renewed process of upward convergence towards better working and living conditions in the European Union ([1]). It sets out twenty essential principles and rights in the areas of equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion.

SOCIAL SCOREBOARD FOR SLOVENIA		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	Best performer
	Gender employment gap	Better than average
	Income quintile ratio (S80/S20)	Best performer
	Risk of poverty or social exclusion (%)	Better than average
	Youth NEET (% of population aged 15-24)	Best performer
Dynamic labour markets and fair working conditions	Employment rate (% of population aged 20-64)	Better than average
	Unemployment rate (% of population aged 15-74)	On average
	Long-term unemployment rate (% of population aged 15-74)	On average
	GDHI per capita growth	On average
	Net earnings of a full-time single worker earning AW	To watch
Public support / Social protection and inclusion	Impact of social transfers on poverty reduction	Better than average
	Children aged less than 3 years in formal childcare	Better than average
	Self-reported unmet need for medical care	To watch
	Individuals' level of digital skills	On average
Member States are classified according to a statistical methodology agreed with the EMCO and SPC Committees. The methodology looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories (from "best performers" to "critical situations") For instance, a country can be flagged as "better than average" if the level of indicator is close to the EU average, but it is improving fast. For methodological details please consult the draft Joint Employment Report 2019, COM (2018) 761 final. Data update of 29 January 2019.		
NEET: neither in employment nor in education or training		
GDHI: gross disposable household income		

Slovenia is performing well on most indicators of the Social Scoreboard supporting the European Pillar of Social Rights. The labour market continues to improve, as illustrated by a rising employment and falling unemployment rate. However, labour market participation of older workers remains low, reflecting possibilities for early retirement. The education system is generally performing well. Although the at-risk-of-poverty or social exclusion rate has decreased over the last years, old-age poverty remains frequent particularly for elderly women, reflecting challenges regarding the adequacy of the pension system. As illustrated by the Social Scoreboard, the level of net earnings of workers and the self reported unmet needs for medical care are further points of attention.

Increasing the low employment and activity rates of older workers and in particular those with lower skills levels remains challenging. After 8 years of falling participation in adult learning, the situation stabilised but remains especially critical among older workers and the low-skilled. Active labour market policies under evaluation performed rather well, if judged by labour market impact and cost-effectiveness. However, participation of unemployed in active labour market policies remains very low.

Slovenia is making progress in improving childcare and support to children. Both the at-risk-of-poverty or social exclusion rate as well as monetary poverty for children younger than 18 years are well below the EU average. Participation of children younger than three in formal childcare is also above average compared to other Member States and has increased further in the last year. New positive steps to promote child well-being were taken also with the adoption of new Family Code and a new Resolution on Family Policy. However, Slovenia has yet to adopt a new National Programme for Children as the old one expired in 2016.

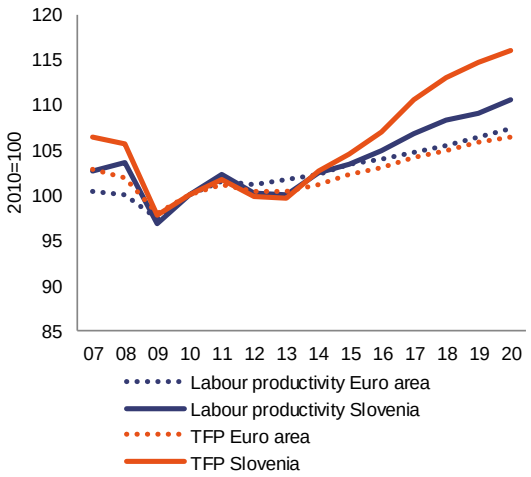
([1]) The European Pillar of Social Rights was proclaimed on 17 November 2017 by the European Parliament, the Council and the European Commission. https://ec.europa.eu/commission/priorities/deeper-and-fairer-economic-and-monetary-union/european-pillar-social-rights/european-pillar-social-rights-20-principles_en

3.4. COMPETITIVENESS REFORMS AND INVESTMENT

3.4.1. PRODUCTIVITY GROWTH

Investments in R&D, digitalisation and infrastructure, in particular related to transport and rail, would help the convergence process. Slovenia's growth potential would benefit if the trend of declining investment into research, development and innovation could be reversed. Investments in the digitalisation of Slovenia's firms, which are active in more traditional sectors, as well as in the uptake of e-government solutions are also important to ensure that Slovenia remains competitive. Bottlenecks in infrastructure, in particular rail transport, continue to adversely impact on the economy and the society as a whole.

Graph 3.4.1: **Labour productivity and total factor productivity (TFP), Slovenia and Euro area**

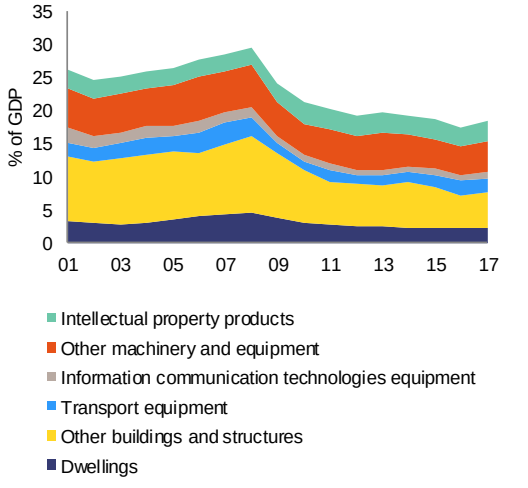


Source: Eurostat

Labour productivity is slowly converging to the euro area driven by total factor productivity (TFP), as recent reforms are starting to pay off. Slovenia's labour productivity in purchasing power standard relative to the EU went from 76.1 % to 80.5 % of the EU average between 2000 and 2017. After falling by more than in the euro area during the crisis, Slovenia's labour productivity has been growing faster than the euro area since 2015, but the pace of convergence with the euro area remains slow. Labour productivity is driven primarily by fast growth in TFP, a sign that the economy is gaining efficiency, although the low TFP growth of medium and large-sized state-owned- enterprises still weighs on aggregate productivity (European Commission 2018b).

Investment fell rapidly during the crisis and remains below the euro area average as a share of GDP, although it is now recovering slightly. Investment averaged over 26 % of GDP in 2000-2005, well above the euro area average of 22 %. After increasing rapidly in the run-up to the crisis, it fell rapidly thereafter. In 2017, although continuing to grow, the level of investment was still well below the euro area average (18.5 % vs 20.5 % of GDP). In particular, private investment was below the euro area average while public investment was slightly above. Construction investment suffered the most during the crisis, both for dwellings and, even more so for other buildings and structures. Investment in machinery and equipment also fell. Investment in information and communication technology fell from 2 % of GDP on average in 2000-2005 (0.9 % of GDP in the euro area) to 0.8 % of GDP in 2017 (0.7 % of GDP in the euro area). Investment in intellectual property products had been rather stable but is now substantially lower than in the euro area (3.0 % vs 3.9 % of GDP). The 2018 Investment Promotion Act harmonizes support for domestic and foreign investments and facilitates investments that are deemed strategic.

Graph 3.4.2: **Investment by type**



Source: Eurostat

Inward foreign direct investment (IFDI) remains comparatively low. For a small open economy like Slovenia, IFDI is a key driver of productivity growth. Slovenia's stock of IFDI as a share of GDP was 31.8 % at the end of 2016. In most similar EU Member States this rate is much

higher, up to 80 % of GDP and more. Furthermore, the distribution of IFDI (in value terms) within Slovenia contributes to regional disparities as nearly 61 % of all IFDI is concentrated in the *Osrednjeslovenska* region while at least 8 of the regions are under 5 % (Bank of Slovenia, 2016). Most of Slovenia's regions thus benefit only very marginally from the productivity spillover effects of IFDI.

Research and development

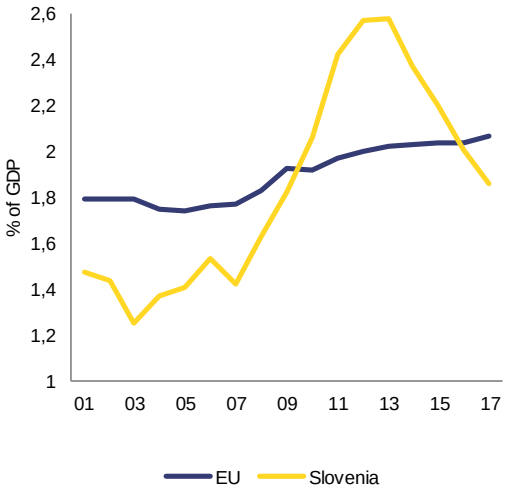
Slovenia is a strong innovator but recent progress was limited and weaknesses persist. According to the 2017 summary innovation performance index Slovenia falls in the category of strong innovators with a score just below the EU average. More importantly, its performance change from 2010 to 2017 was rather moderate, with an increase of only about 1.4 % (European Commission, 2018f). One of the main weaknesses is the reduced and inefficient R&D expenditure in the public sector. Slovenia is also relatively weak in terms of the effects of innovation activity on competitiveness. This weakness is reflected particularly in the low shares of exports of knowledge-intensive services and of persons employed in high-growth enterprises.

Innovation performance across Slovenia's regions is uneven. East Slovenia is a moderate innovator, though it has improved its innovation performance over time. In contrast, West Slovenia is a strong innovator albeit with a decreasing innovation performance.

Slovenia has not yet reached the R&D-intensity target of 3.0 % of GDP. Slovenia's investment in R&D is slightly below the EU average and remains dependent on EU funds, with the European Regional and Development Funds (ERDF) providing 33.9 % of public R&D expenditure. In 2017, Slovenia's overall R&D intensity was 1.86 % of GDP, a significant decline from its 2013 value of 2.58 %. This decline was mainly caused by a decrease in business enterprise expenditure on R&D from a peak of 1.98 % of GDP in 2013 to 1.39 % of GDP in 2017. In addition to grants, the Slovenian government strongly relies on tax incentives to promote R&D in firms. R&D tax incentives accounted for 63 % of total government support for business expenditure for R&D in 2015 (OECD, 2017a). Public R&D expenditure fell to its lowest level ever at 0.47 % of GDP in 2017, down from a peak of 0.66 % of GDP in 2010. This decline is mostly due to fiscal consolidation and the cyclical nature of EU funds.

The efficiency of Slovenia's public R&D spending and the quality of its research system remain relatively low. The Slovenian Research Agency is responsible for the allocation of funding based on research excellence criteria. Looking at scientific excellence (as measured by the share of publications among the top 10 % most cited worldwide), Slovenia lags behind the EU average, and ranks only 17th among EU Member States. However, the share of international co-publications in the total number of publications was 58.8 % in 2017 and exceeded the EU average (49.4 %). Slovenia achieved compound growth in international co-publications of 4.5 % between 2010 and 2016.

Graph 3.4.3: **R&D funding**



Source: Eurostat

Support for young researchers has declined and Slovenia has problems attracting foreign research talent. Slovenia's education system performs well in producing science and engineering graduates and doctoral graduates. Yet, the decline in public investment in R&D has also been felt in a reduction of funding for young researchers. In 2017, the Slovenian Research Agency provided funds for 840 young people involved in doctoral studies (European Commission, 2017b). The number of researchers (full-time equivalents) employed by the public

sector (whether in government or higher educations) per thousand active population has declined from 4.3 in 2011 to 3.7 in 2016. There is little influx of foreign researchers and academics. This is partially due to the public sector employer system and the old-fashioned habilitation system in universities. Slovenia attracts a lower share of international students at all levels of tertiary education, especially at the doctoral level: less than 9 % of Slovene doctoral students are international compared to an OECD average of 25.7 % (OECD, 2017b). International mobility or mobility between academia and industry are not incentivised. These are key obstacles to the attraction and re-integration of talent and to the much-needed openness of Slovenia's research and innovation system (European Commission, 2018b).

The share of innovative enterprises in Slovenia is decreasing and lags behind the EU average. In the period 2014-2016, 40 % of all enterprises in Slovenia carried out innovation activities, and this share was 6 pps higher in the period 2012-2014. Looking at the shares per enterprise segment, only about 34 % of small companies carried out innovation activities, while the share rises to 80 % in large ones (Statistical Office of the Republic of Slovenia). The employment share in fast-growing firms within innovative sectors is well below the EU average. In Slovenia, only 3.2 % of the workforce was employed in fast-growing firms in innovative sectors, whereas the EU average was 4.8 %. This indicates at a lack of dynamism, which is especially pronounced in innovative parts of the economy (European Commission, 2018i).

Most SMEs in Slovenia have a low innovation capacity. They tend to be poorly integrated in domestic, regional or international clusters, with a low potential to attract critical mass investment and to develop large-scale innovations. A lack of sufficiently equipped R&D units in SMEs (low absorption capacity) seriously limits the opportunities for science-industry cooperation. Only 19.9 % of Slovenian enterprises are engaged in co-operations with government, public or private research institutions. 14.4 % of Slovenian enterprises co-operate with higher education institutions (European Commission, 2014). The research interests in most of Slovenia's (small) firms lie in cost reduction and relatively routine improvements in their processes. Their "R&D" or development departments mostly perform routine procedures, such as quality control and testing. Investing in knowledge is not seen as part of their competitive strategy. In contrast, firms from the highly impactful medium-and high-tech segments (e.g. the automotive sector, machinery) are more intensively involved in science-industry links.

Finding business and research partners can be a challenge due to small market size. Slovenia recognizes this shortcoming by taking part in several interregional innovation actions. These include the Interregional innovation pilot project (Sustainable buildings - Smart campus pilot project), the Industrial transition project focusing on addressing challenges of skills mismatches, modernisation and adaptation to new technologies, and the Smart Specialization Cooperation in Central Europe project. At the same time, Slovenia performs well in delivering projects within the cross-border programmes and macro-regional strategies. Slovenia could benefit from further possibilities, such as further enhancing transnational partnerships for SMEs by participating in business networks.

The Slovenian smart specialisation strategy aims at tackling many of these challenges inter alia by establishing Strategic research and innovation partnerships (SRIPs). It was adopted in 2015 and governs the delivery of almost EUR 1 billion of EU funds. It aims to develop top-level conditions for creativity and innovation in several niche areas. SRIPs have been established around nine focus areas of the strategy. Through SRIPs, the governance of smart specialisation is entrusted to around 700 non-governmental stakeholders (including knowledge, institutions, businesses, NGOs etc.) which paves the path for a structural transformation empowering and strengthening the innovation ecosystem of Slovenia. SRIPs have already helped to improve the internationalisation and networking of Slovene research and innovation stakeholders through their participation in thematic smart specialisation platforms. For example, Slovenia is co-leading the thematic area 'SME integration to Industry 4.0' through the 'Factories of the Future' SRIP, and the thematic area 'Digitalisation and Safety for Tourism', through the 'Sustainable Tourism' SRIP, and is a partner in other areas. This enables Slovene stakeholders to learn from more experienced peers from well-advanced regions and Member States,

thus improving the skills, knowledge and expertise available in the R&D sector in Slovenia.

Slovenia lacks a well-coordinated system to govern its R&D efforts and is not implementing strategic R&D policy reforms. Frequent changes in public governance of the national research and innovation system combined with fragmentation of policies and instruments remain challenges. One of the key problems identified by public research organisations and business entities is the irregularity of the government's announcements and the funding of support measures such as the co-financing of joint R&D projects. In 2018, further calls for co-financing of R&D projects were issued, and a new instrument related to the smart specialisation strategy was introduced in August 2018. The so-called DEMO projects under the call should fit within the focus areas of the SRIP action plans. The Slovenian authorities have requested support from the Horizon 2020 Policy Support Facility with a special focus on the internationalisation of the Slovenian science base, and its cooperation with businesses (European Commission, 2018g). Additionally, Slovenian business could benefit from investment in high performance computing and artificial intelligence.

Digitalisation

The adoption of digital technologies and business models is generally well advanced, but some sectors lag behind. There is a growing awareness of the need to integrate digital technologies into business processes. However, the degree of the actual integration of these technologies varies considerably across different sectors of the economy, with a higher degree of digitalisation in services than in manufacturing (Statistical Office of the Republic of Slovenia Index 6373). Overall, digitalisation of Slovenian businesses is better than the EU average, especially in e-commerce, the tourism sector, and companies integrated into foreign value chains (e.g. the automotive sector). Slovenian businesses lag behind their EU peers in specific technologies, such as electronic information sharing and cloud services. Slovenia has no specific tax breaks for investments in digital technologies or business models. The Ministry for Economy and Technological Development has launched a call for interest for funding (EUR 8 million) to promote the digitalisation of business processes.

Slovenia ranks low in terms of mobile broadband take up, fast broadband take up and the broadband price index. In 2016, Slovenia set itself the objective of ensuring that 96 % of its population had internet speeds of at least 100 Mbps and the remaining 4 % at least 30 Mbps by 2020. In Slovenia, the ultra-fast broadband coverage rate for households is 75 %. The take-up of ultra-fast broadband remains close to the EU average of 13 % (European Commission 2018h). Relatively high prices for broadband connectivity might be the reason for low take-up of fast broadband with speeds of 30 Mbps and above. In the period 2014-2020, approximately EUR 56 million from the ERDF and EUR 7.5 million from the European Agricultural Fund for Rural Development were earmarked to ensure better network coverage. The ERDF allocation was subsequently reduced by half due to an expected increase in market interest. The latest calls for expression of market interest still triggered limited interest.

Box 3.4.1: **Barriers to investment in Slovenia**

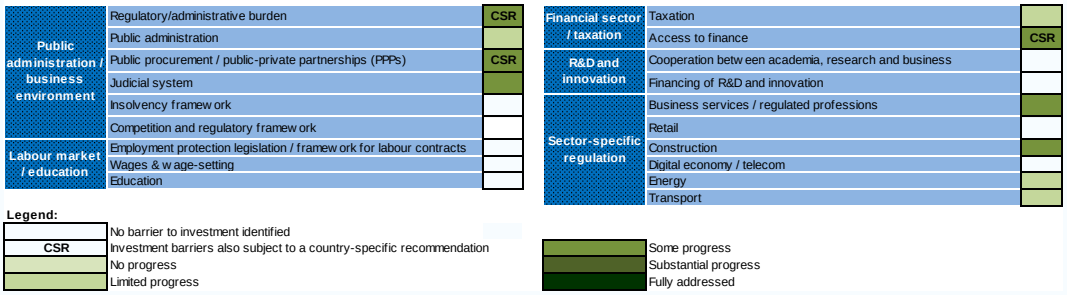
Section 1. Macroeconomic perspective

Investments were the main driver of Slovenia's growth in 2017 and the first half of 2018. Private sector investment stands out with a growth rate of 16 %. Public investment is much weaker and heavily relying on EU Funds. Despite the encouraging growth in private sector investment total investment as share of GDP in Slovenia is still relatively low compared to other EU Member States. This is also reflected in the below-average investment in R&D, which is also largely determined by EU Structural and Investment Funds.

Section 2. Assessment of barriers to investment and ongoing reforms

Slovenia faces a number of challenges with regard to investments. Many of them have already been discussed in previous country reports and have been addressed in country specific recommendations. Most of them are sector-specific regulations (e.g. in construction or business services/regulated professions) or inefficient procedures/institutions (e.g. public procurement or the judicial system). There are, however, also barriers resulting from insufficient infrastructure.

Box: Investment challenges and reforms in Slovenia



Selected barriers to investment and priority actions underway

1. Lengthy court proceedings and a high number of unresolved cases create an atmosphere of uncertainty, which can have detrimental impacts on the readiness of companies to invest or might even keep potential entrepreneurs from setting up business. Slovenia succeeded in reducing the total backlog of pending cases at court by 10 % in 2018. The average length of proceedings stagnated at around 11 months in litigious civil and commercial cases, and it still takes around 12 months until the first hearing in a commercial case trial.

2. Suboptimal infrastructure within and between regions hinders the economic development of the country. Lacking water and waste water systems in secondary cities and rural areas, lacking (sustainable) transport connections to major economic hubs and the TEN-T network, and (renewable) energy production and storage systems limit people's mobility and quality of life and adversely affect the attractiveness of Slovenia as an investment target.

The up-take of e-government services has improved but remains lower than the EU average, particularly among businesses ([37]). Slovenia has made more e-government services available and increased take-up of these services. All basic public services for citizens and about 80 % of basic public services for legal entities are available online (European Commission, 2018h). The 'Digital Slovenia 2020' strategy provides for the rollout of digital public services by 2020 at all

([37]) The SPOT business portal is part of Slovenia's burden reduction efforts (see section 3.4.2).

levels of government. The strategy introduces the 'digital by default' and 'once only' principle and includes the development of various key enablers for access to and interoperability of e-government services. Interoperability across governmental departments remains a challenge. The lack of a widely spread and easy to use national electronic identification means for using e-government services is a significant barrier to uptake. Slovenia puts great efforts to make the process of electronic identification and electronic signature in e-government services simpler and user-friendlier.

3.4.2. MARKET FUNCTIONING AND BUSINESS ENVIRONMENT

Entrepreneurship and scale-up

Entrepreneurship has been growing slowly and steadily. Slovenia's business dynamic has been positive, with a constant net gain in the number of active businesses in recent years. The number of nascent and new companies has been increasing since 2012 (IMAD, 2018). This positive trend is linked to the economic upswing. However, the early-stage entrepreneurial activity by women and the choice of entrepreneurship as a desirable career remain somewhat below the EU average (European Commission, 2018i). The 'Start:up Slovenia' initiative and the annual Podim conference (which attracts more than 700 participants from Slovenia and neighbouring countries) are helping Slovenia's start-up community.

Scaling-up, competitiveness and internationalisation of SMEs remain key challenges. Slovenia's share of high growth enterprises remains below the EU average (8.74 % in Slovenia compared to an EU average of 9.9 %; European Commission, 2018i). Company growth in a small economy, such as Slovenia, is linked to the companies' ability to compete in international markets. And while the Slovenian economy as a whole is well integrated in global value chains (IMAD, 2018), its smaller firms and firms in more traditional sectors lag behind in internationalisation. Policy measures to address this weakness, such as export loans granted by the Slovenian Export and Development Bank or the more recent Investment Promotion Act, have so far yielded only limited effect. Employing foreign experts is one of the key challenges for enterprises, in particular start-ups and scale-ups (high-growth companies). Under the new Investment Promotion Act, a register of innovative start-ups and a register of high-value added firms were established. However, these registers were not widely known about among the target groups in the months following their establishment. Slovenia plans to address some of the specific needs of these businesses in 2019.

Developing the support environment for businesses further could help to improve the current poor performance on business education and technology transfers in Slovenia. According to the Global Entrepreneurship Monitor (GEM) Slovenia performs poorly in business education and technology transfer, scoring only 3.37 and 4.20 out of 9 points, respectively. Both are below the EU average (GEM, 2018). At the same time, the support for businesses seems not to function optimally in all areas. Satisfaction with the local support environment differs widely across companies of different sizes. While over 70 % of large companies expressed their satisfaction, only about 10 % of micro companies did so. According to businesses, the main downside of the existing entrepreneurial-support environment is that public officials work in this field often lack knowledge and experience in business subjects (SPIRIT Slovenia, 2017).

Regulatory and administrative burden

Administrative burden continues to subdue growth and investment in Slovenia. As in previous years, red tape is one of the more problematic factors in doing business in Slovenia. Specific problems exist in the area of tax procedures, which are considerably longer and more uncertain than in other Member States. According to GEM 2018, two thirds of EU countries rank above Slovenia in terms of government policies that address taxes and bureaucracy. This is the area where Slovenia is farthest behind the EU average. The World Bank's Doing Business 2019 report, which indicates the ease of doing business in individual countries, ranked Slovenia slightly lower than the year before but still in the top quarter among the 190 surveyed countries. In the protection of minority investors, Slovenia dropped also a few ranks but stays among the top fifth. Enforcement of contracts remains the

country's weak area. Even though it improved its respective score by some ranks, it is still in the lower half. On other business environment indicators, Slovenia improved its position.

Regulatory restrictions are still in place for key professions. Slovenia regulates lawyers, architects, civil engineers, real estate agents and tourist guides more strictly than the weighted EU average (European Commission, 2017c). Among these key professions, restrictiveness is the highest for lawyers. There is a restriction that only attorneys may be shareholders or owners of an attorney's office established in Slovenia. Slovene citizenship is required to qualify as a lawyer in Slovenia. In its national action plan submitted to the Commission in January 2018, Slovenia reported on reforms already undertaken, including professions in the crafts, education, trade, architecture, engineering and tourist sectors. Slovenia also announced its intention to ease restrictions for real estate agents and abolish the nationality requirement for lawyers. However, these reforms have not been finalised yet.

Slovenia is making progress with its efforts to reduce administrative burden, such as the SME test and the 'Single Document'. The implementation of the Single Document is progressing, but a number of old as well as more recently added measures still await implementation. Business stakeholders ask for more detailed and transparent information on the measures formally reported as implemented. One of the key measures on which progress has been made is regulatory impact assessments. Slovenia is using regulatory impact assessments, including an SME test, to determine how draft laws would affect SMEs. Such impact assessments have been made compulsory for draft laws under regular parliamentary procedure. However, they are not yet done for the numerous laws adopted in urgent procedure.

The SPOT business portal is being expanded but its scope is still limited. The SPOT portal encompasses the previous system called 'e-VEM'. This portal should become a digital one-stop shop for key administrative procedures in the lifecycle of Slovenian businesses. It currently covers around 40 of the most important administrative procedures and is being expanded constantly. The portal is a one-stop interface connecting to existing databases. It is complemented by 150 local SPOT points, including one special SPOT centre in each statistical region where consultants provide free-of-charge assistance and services to businesses and to regional entities. SPOT has found wide acceptance in the business community, with roughly 2 million procedures being performed every year. Tax procedures, other than value added tax registration, will remain in the separate e-tax portal.

The insolvency and restructuring framework showed improved recovery rates while caseload mostly decreased. In 2018, the number of new personal insolvency cases and all types of restructuring cases continued to decrease by 10 % and 15 %, respectively. However, corporate bankruptcy cases further increased by 6 %. Creditors are increasingly initiating personal insolvency cases against debtors The duration of corporate bankruptcy proceedings (from the start until a court decision on the merits) decreased. Elapsed period to distribution to creditors is 1 052 days. Recovery rates increased to about 14 % in corporate bankruptcy and personal insolvency cases, and above 30 % in court-led restructuring (both types of compulsory settlement procedures).

3.4.3. ENERGY, ENVIROMENT AND INFRASTRUCTURE

Climate, energy, environment and resources efficiency

Slovenia is well on the way to reaching its Europe 2020 sustainability targets. It has already achieved its energy efficiency and greenhouse gas emission targets and is above the indicative trajectory for the renewable energy target (for details see below and Annex C). However, energy consumption in Slovenia is above the EU average and increasing. This puts the achievement of the EU 2020 target under pressure (European Commission, 2018b). Primary and secondary energy consumption increased in 2016. The transport sector saw the biggest increase (5.9 % from 2015 to 2016 and 27 % from 2005 to 2016). This is mainly due to road transport, which includes transit transport (Energy Union factsheet Slovenia, 2017). Energy consumption of Slovenia's industry, services and residential sector are all above the EU average. The residential

sector in particular presents a problem, as energy poverty is quite widespread. Approximately 40 % of the population spends more than 10 % of their income on energy ([38]). This limits their scope to switch to equipment that is more energy efficient.

For the period until 2030, Slovenia has identified investment priorities in energy infrastructure, energy efficiency in buildings and renewable energy sources. This promotes long-term certainty and predictability for investors. Slovenia's national energy and climate plan will be adopted by 31 December 2019 in line with the Regulation on the Governance of the Energy Union and Climate Action ([39]). It will provide an overview of investment needs until 2030 for the different dimensions of the Energy Union, including renewable energy, energy efficiency, security of supply, and climate mitigation and adaptation. The draft plan submitted on 31 December 2018 will further contribute to the identification and assessment of energy and climate-related investment needs for Slovenia.

Slovenia's economy is more carbon intensive than the EU average, and the share of renewables is stagnating or declining. Slovenia's carbon intensity remains above the EU average and its rate of reduction since 1990 is below the EU average (European Commission, 2018). The share of renewable energy sources declined from 22.4 % in 2013 to around 20.1 % (Eurostat, 2018). Traditional renewable energy sources such as wood and hydropower account for the bulk of renewable energy sources in Slovenia (Government of the Republic of Slovenia, 2017). In the use of other renewable energy sources, Slovenia ranks towards the bottom of the EU with the gap in wind energy being particularly wide. This is in large part due to the opposition of the local population.

Slovenia's greenhouse gas emissions in relation to GDP are declining but they are above the EU average; air quality remains a concern. (IMAD, 2018). Despite emission reductions for several air pollutants, air quality in Slovenia continues to raise concerns. There are still breaches of air quality requirements and fluctuating emission trends for air pollutants ([40]). Transport has become the biggest source of CO2 emissions accounting for 31.8 % of Slovenia's total CO2 emissions, which is above the average share of this sector in the EU (European Commission, 2019a; IMAD, 2018). The number of years of life lost per 1 000 inhabitants was higher in Slovenia than in the EU for fine particulate matter concentrations, ozone and nitrogen dioxide in 2015. (EEA, 2017).

Slovenia is progressing towards a resource-efficient circular economy, but waste management remains challenging. On average 71 % of raw materials consumed domestically are imported. Waste collection, prevention, reuse and high-quality recycling to close the materials loop are thus important to reduce Slovenia's dependency on imported materials and to retain value within the Slovenian economy (Ministry of the Environment, 2018). The municipal waste recycling rate in Slovenia was well above the EU average in 2016 (European Commission, 2017b), but Slovenia still has difficulties in this sector. For example, there was recently backlog in the treatment of municipal packaging waste.

Slovenia's economy depends on its natural environment, which is deteriorating. Natural assets are used for a variety of purposes, such as developing niche green businesses that drive local economies. However, the status of habitats and species is deteriorating, particularly because of inappropriate urbanisation, farming and water management practices (Slovenian Development Strategy 2030).

Infrastructure

Slovenia's transport infrastructure suffers from declining quality and insufficient connectivity. Slovenia has made significant investments in the transport sector in recent years, helped by EU funds (see box 2.1.). The initial focus of these investments was on the motorway network, while investments in rail infrastructure have only been increasing more recently. However, the declining quality of the rail infrastructure, rated 2.9 out of 7 by the World Economic Forum (WEF, 2018) indicates that there is a clear investment backlog.

([38]) Statistical office of the Republic of Slovenia, www.stat.si
([39]) Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.
([40]) EU Environmental Implementation Review Country Report – Slovenia, 2017, http://ec.europa.eu/environment/eir/pdf/report_si_en.pdf.

Furthermore, the inter-modality of rail and other modes of transport is insufficient.

Slovenia's heavy reliance on road transport creates problems of high energy and carbon intensity, as well as road fatalities. Road transport also accounts for the largest share of freight with 66.7 %, with railways covering 33.3 %, which is significantly above the EU average of 17.4 % (European Commission, 2018k). Car trips accounted for 86.3 % of all passenger-kilometres travelled, which is 3.4 percentage points above the EU average, with buses and coaches accounting for around 11.8 % and trains for only 2 %. The state road infrastructure has been deteriorating in quality and there are issues with connectivity in certain areas (European Commission, 2018j). The share of renewable energy used in transport fell below 2 % in 2016, in contrast with the EU average, which rose to 7 % (European Commission, 2019a). The recharging infrastructure is relatively well developed, but the share of new cars using alternative fuels is low (European Commission, 2016). In terms of sustainable urban mobility, 62 sustainable urban mobility plans have been prepared. In 2017, 50 road deaths per million inhabitants were reported, which was slightly higher than the EU average (European Commission, 2019a).

Although Slovenia's gas and electricity infrastructure is well developed, solutions for better usage of smart metering and storage need to be found. There is a need for improvement in the completion or commissioning of reverse flow projects at Slovenia's borders. As regards its electricity grid, Slovenia has already vastly exceeded its interconnection target, with 84 % of its installed electricity production capacity currently interconnected (compared to the targets of 10 % for 2020, and 15 % for 2030). It is also solving remaining operational issues ([41]). The share of smart meters for electricity has increased by 10 percentage points from 2013 to 2015 to a share of around 50 % in 2016 (European Commission, 2017d) and by 2023, the coverage is expected to be around 85 %. However, available smart meters do not offer advanced solutions for clients, so there is scope for an upgrade of information and communications technology solutions that take full advantage of the functionality and information that the measuring devices allow and offer. Moreover, the existing energy storage is underdeveloped and thus fails to address the needs linked to the non-integrated network of local production of renewable energy sources. The draft energy concept of Slovenia (Ministry of Infrastructure, 2018) has identified energy storage as one of the priorities for the country.

While Slovenia's drinking water supply system has improved, the urban wastewater sector experiences difficulties. Slovenia has made considerable improvements to its drinking water infrastructure in recent years. This is in contrast to urban wastewater collection and treatment infrastructure, where Slovenia's performance is unsatisfactory and does not comply with EU standards ([42]).

Slovenia is vulnerable to natural disasters, which cause damage to the economy. The frequency and severity of floods, droughts and forest fires are expected to increase due to climate change. Slovenia's risk assessment has identified floods as its most common and expensive natural disaster (around EUR 1 billion in damages due to flood events in recent years) (Ministry of Environment, 2018). Slovenia is using EU funds to invest EUR 90 million in flood protection and EUR 15 million in forest restoration measures (see box 2.1).

3.4.4. INSTITUTIONAL QUALITY AND GOVERNANCE

Public procurement

Slovenia's performance as regards public procurement remains mixed ([43]). The main problems remain competition and transparency as well as independent oversight and legal uncertainty

([41]) Although the system is well developed Slovenia is encountering some operational issues (e.g. solved issue of voltage profiles) which should be solved by implementing a smart grid project of common interest (i.e. Sincrogrid) in cooperation with the Croatian transmission system operator.

([42]) Slovenia is 3 years late in transposing the Urban Waste Water Directive.

([43]) For a discussion on public procurement in the healthcare sector, see section 3.1.4 above.

in the area of concessions ([44]). On professionalism and in the area of e-government, Slovenia is advancing. Furthermore, Slovenia ensures a high participation of SMEs in public procurement. In 2018, 78 % of contractors were SMEs, and 44 % of tenders were divided in lots, making bidding easier for SME (compared to 58 % and 30 % EU averages). There are thus comparatively low barriers for smaller firms to participate in public procurement procedures.

Slovenia is advancing in the roll-out of e-procurement. An e-submission functionality has been in place since April 2018, and is widely used today. The e-procurement system relies on structured data that is shared between different databases. The 'eDosje' module, which gathers evidence for exclusion criteria, is also linked with national databases and the e-submission module. Further actions are planned: rolling out electronic catalogues, electronic auctions and electronic appeals. Slovenia is actively involved in a number of EU-funded calls aimed to further digitalise public procurement.

Competition and transparency remain issues in public procurement. Slovenia has a comparatively high number of single bids in tenders and a low average number of bids received [45]. This hints at a lack of competition in markets for public procurement, not least due to small size of the market. As regards transparency, 24 % of the public contracts in Slovenia were concluded through negotiated procedures without publication in 2018, the same share as in 2017. This is one of the worst scores in the EU and can only partly be explained by a particular use of this type of procedure.

Slovenia's safeguards against collusion and corruption in public procurement have had an impact at national level, but they have not yet had an impact on procurement by local administrations and by state-owned enterprises. Cartel agreements, bid-rigging and misuse of public procurement procedures have been identified by the Corruption Prevention Commission (CPC) and the Court of Audit as issues in local administrations and state owned enterprises. In its annual reports the Corruption Prevention Commission has also highlighted conflicts of interest in the evaluation of bids, collusive bidding, non-open tenders and single-bids as concerns. Although there was a 22 pp. decrease in the proportion of companies feeling that corruption exists in public procurement managed by national authorities ([46]), 79 % of Slovenian businesses still feel that collusive bidding practices are widespread in public procurement procedures overall ([47]). Slovenia is one of the 11 Member States participating in the Integrity Pact pilot projects ([48]).

Slovenia has started to improve the professionalism of those involved in public procurement. Slovenia has set up an action plan to professionalise local contracting authorities. It has also issued guidance to public authorities on specific topics, such as IT procurement, public works and cleaning services. It is currently working on further guidance notes. Contracting authorities in Slovenia are increasingly resorting to preliminary market consultations with industry prior to publication of calls for tender. This means that Slovenia is on the right track when it comes to professionalising the public-procurement process.

There remains legal uncertainty in the area of concessions. Public procurement practices for concessions in Slovenia are still marked by legal uncertainty. There is a discrepancy between the understanding of a concession contract under national law and the European law. In addition, the Concessions Directive still has not been transposed into national law. The absence of legal certainty may discourage foreign businesses from investing in Slovenia, since they risk early termination of contracts or unsuccessful remedy procedures.

Slovenia has not yet addressed the issue of independent oversight of public procurement. Slovenia has chosen a remedy system with only one instance, the National Review

([44]) Public procurement aggregation in healthcare also remains an issue (see 3.1.5).
([45]) Last available figures for single bids are 37 % in 2016 and 39 % in 2015.
([46]) Eurobarometer question 5.1.
([47]) Eurobarometer question 4.7.
([48]) Such participation can contribute to increasing transparency, accountability and efficiency in the public-procurement procedures for these projects.

Commission ([49]). There is no possibility for an appeal against the Commission's decisions, but dissatisfied stakeholders can start proceedings before civil courts ([50]). The members of the Commission do not benefit from the same guarantees of independence as Slovenian judges. Unlike Slovenian judges, these members are not proposed for appointment to the parliament by a body independent from the legislative and executive branches, nor is such a body charged with conducting disciplinary proceedings against them.

Justice system and fight against corruption

The justice system has further reduced backlogs and measures to improve its quality are being implemented. The 2019 EU Justice Scoreboard (European Commission, 2019b) shows improvements in the perception of judicial independence and in reducing pending cases in all courts, except for the administrative court, which was impacted by an extraordinary influx of cases. In 2018, the total backlog decreased by more than 10 %, compared to 2017. The courts continued to resolve more cases than they received (total clearance rate of 102 %), despite resolving fewer cases than in the past (about 71 000 per month compared to nearly 100 000 per month in 2012). The average length of proceedings stagnated at around 11 months in litigious civil and commercial cases, and it still takes around 12 months until the first hearing in a commercial case trial. The share of litigious civil and commercial cases, which are resolved through a court settlement, further increased to above 20 %. Criminal courts resolved more cases than they received (clearance rate of 103 %). The length of criminal cases increased in local courts to about 10 months, and decreased in district courts (to less than 14 months). While the Council for the Judiciary increased its administrative capacity, there is room for improvement in providing better reasoning of its opinions and decisions on the career of (candidate national/international) judges, based on existing criteria and procedures.

The prosecution service appears to be experiencing certain challenges in efficiency and quality, despite generally resolving more criminal notifications than it receives. Some proceedings take several years from the arrival of the criminal notification from the police, until the decision to prosecute. Efficiency and quality challenges are being addressed through promoting best practices among prosecutors, by improving cooperation with courts (e.g. ensuring that the prosecutor attending a court hearing does not change until the trial ends), and through enhanced monitoring of prosecutors' work in the ICT system. Quality issues in the area of economic and financial crime, including anti-money laundering, are being tackled through an action plan, which envisages additional training, improving the analytical capacity and upgrading the ICT system. The State Prosecutorial Council lacks human resources, which also contributes to delays in the appointment of prosecutors and does not allow the Council to work on analysing and improving the general quality of the Prosecution Service.

A comprehensive survey of court users has been launched, aiming to further improve the quality of justice, but the judicial map reform remains pending. The Supreme Court's detailed examination of court users' view of the justice system will feed into the reform agenda on quality of justice. Several projects, including on publishing all first instance judgments and on informing parties about the progress of their case, are also being implemented. However, the judicial map reform remains pending. While consumers' trust in courts for resolving their disputes has increased, their confidence in alternative dispute resolution mechanisms has decreased to the lowest level ever. Consumers' trust in public authorities to safeguard their rights also remains among the lowest in the EU (European Commission, 2019d).

Perceptions of corruption are improving, but challenges remain. The 2017 General Eurobarometer on corruption shows that Slovenia has the highest proportion of citizens in the EU (71 %) who feel that there are not enough successful prosecutions of corruption to deter people from corrupt practices. However, Slovenia registered the largest rise in disagreement with this statement, a 12 pp. increase compared to previous figures. Although Slovenia's score has remained stable in the Transparency International corruption

([49]) Recognised by the Court of Justice in Case C 296/15 - Medisanus as a 'national court or tribunal' for the purposes of Article 267 TFEU

[50] Claim for damages or contesting the concluded contract.

perceptions index ([51]) its score in the World Bank's control of corruption index has gradually improved (76.5 in 2015 to 79.33 in 2017).

Concerns remain regarding the independence and effectiveness of regulatory agencies and the Corruption Prevention Commission. Regulatory agency independence remains an issue, even if the 2017 Draft Law on Public Agencies has been withdrawn (European Commission, 2018b). Such concerns as regards the Corruption Prevention Commission were e.g. expressed by the second compliance report of the Group of States against Corruption second compliance report (GRECO 2018) and by the OECD Working Group on Bribery (OECD WGB, 2016). There has been a significant decrease (-18pps) in the proportion of Slovenes who mention the national anti-corruption agency as an institution they would trust to deal with corruption ([52]). This decrease has coincided with a significant decrease (-11pps) in the proportion of respondents who feel that people do not report incidents of corruption because doing so would be pointless ([53]).

Most of the goals in the 2017-2019 programme of government measures for integrity and transparency were met, or partly met. Almost all documents for meetings of the government and parliament are available online. Several applications make it possible to monitor public procurement expenses and the use of public funds (including pensions, salaries of public employees, health expenditure and public utility services). Slovenia does not make the rules on contacts with lobbyists by members of the National Assembly subject to any assessment. While the National Council has adopted a code of conduct, it has been considered insufficient in respect of conflicts of interest, supervision and sanctions. The amended Integrity and Prevention of Corruption Act (IPCA) is still on hold, despite initially being scheduled for adoption in 2015, due to concerns over stakeholder consultation and non-transparent drafting procedures. Post-employment issues ('revolving doors' between government and the private sector) and the transparency of lobbying records remain unaddressed. Trading in influence, conflicts of interest, favouritism and nepotism also remain obstacles to the impartiality of the decision-making process. Shadow lobbying, where third parties can influence government decision making outside reported contacts, is not covered in the IPCA.

([51]) In the Transparency International 2017 corruption perception index, Slovenia ranks 14 in the EU with a score slightly below the EU average.

([52]) 2017 Special Eurobarometer on corruption (EB 470 European Commission, 2017), question 11.

([53]) 2017 Special Eurobarometer on corruption (EB 470 European Commission, 2017), question 14.

ANNEX A: OVERVIEW TABLE

Commitments	Summary assessment ([54])
2018 country-specific recommendations (CSRs)	
CSR 1: Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP. Adopt and implement the Healthcare and Health Insurance Act and the planned reform of long-term care. Ensure the long-term sustainability and adequacy of the pension system, including by increasing the statutory retirement age and by restricting early retirement. Increase the employability of low-skilled and older workers through lifelong learning and activation measures.	Slovenia has made **Limited Progress** in addressing CSR 1.
Ensure that the nominal growth rate of net primary government expenditure does not exceed 3.1 % in 2019, corresponding to an annual structural adjustment of 0.65 % of GDP.	**The compliance assessment with the Stability and Growth Pact will be included in Spring when final data for 2018 will be available.**
Adopt and implement the Healthcare and Health Insurance Act	**No Progress** Slovenia has not proposed any specific measure(s) to address the CSR. However, the authorities announced that a new draft Healthcare Act would be adopted by the end of 2019.
and the planned reform of long-term care.	**No Progress** The government intends to address LTC legislation only after adoption of healthcare act.
Ensure the long-term sustainability and adequacy of the pension system, including by increasing the	**No Progress** No concrete measures have been taken to ensure the long-term sustainability and adequacy

([54]) The following categories are used to assess progress in implementing the country-specific recommendations (CSRs):
No progress: The Member State has not credibly announced nor adopted any measures to address the CSR. This category covers a number of typical situations to be interpreted on a case by case basis taking into account country-specific conditions. They include the following:
-no legal, administrative, or budgetary measures have been announced
-in the national reform programme,
-in any other official communication to the national Parliament/relevant parliamentary committees or the European Commission,
-publicly (e.g. in a press statement or on the government's website);
-no non-legislative acts have been presented by the governing or legislative body;
-the Member State has taken initial steps in addressing the CSR, such as commissioning a study or setting up a study group to analyse possible measures to be taken (unless the CSR explicitly asks for orientations or exploratory actions). However, it has not proposed any clearly-specified measure(s) to address the CSR.
Limited progress: The Member State has:
-announced certain measures but these address the CSR only to a limited extent; and/or
-presented legislative acts in the governing or legislative body but these have not been adopted yet and substantial further, non-legislative work is needed before the CSR is implemented;
-presented non-legislative acts, but has not followed these up with the implementation needed to address the CSR.
Some progress: The Member State has adopted measures
-that partly address the CSR; and/or
-that address the CSR, but a fair amount of work is still needed to fully address the CSR fully as only a few of the measures have been implemented. For instance, a measure or measures have been adopted by the national Parliament or by ministerial decision but no implementing decisions are in place.
Substantial progress: The Member State has adopted measures that go a long way towards addressing the CSR and most of them have been implemented.
Full implementation: The Member State has implemented all measures needed to address the CSR appropriately.

statutory retirement age and by restricting early retirement.	of the pension system, whether by increasing the statutory retirement age or by restricting early retirement.
Increase the employability of low-skilled and older workers through lifelong learning and activation measures.	**Limited Progress** The Slovenian government continued its efforts to increase the employability of low-skilled and older workers through lifelong learning and schemes to help the inactive find work. However, participation in adult learning is still low, especially among the group of older workers and the low-skilled.
CSR 2: Develop alternative sources of financing for fast-growing companies. Lower the barriers for market entry through the revision of Product Market Regulation and limiting administrative burden. Enhance competition, professionalisation and independent oversight in public procurement. Carry out the privatisations in line with to the existing plans.	Slovenia has made **Some Progress** in addressing CSR 2.
Develop alternative sources of financing for fast-growing companies.	**Some Progress** In 2018 Slovenia took important steps in the implementation of, notably, the Slovene Equity Growth Investment Programme and the Central European Fund-of-Funds. These steps related to support amounts, intermediaries and beneficiaries. The Ljubljana Stock Exchange has improved its support for SME listings. Slovenia also adopted an action plan on block chain technology, which is also used for crypto-currencies and initial coin offerings.
Lower the barriers for market entry through the revision of Product Market Regulation and limiting administrative burden.	**Some Progress** Slovenia adopted the Investment Promotion Act in early 2018. This act facilitates investment inter alia by harmonising support conditions for domestic and foreign investors and by reducing barriers for strategic investments. Impact assessments are performed for draft laws under regular parliamentary procedure but not for the many laws in urgent procedure. Stakeholders benefit since 2018 from a new online tool for their input to this SME test. Slovenia's justice system also continued reducing the backlog of pending cases. Slovenia also progressed with one-stop online portals for key administrative procedures and with the so-called "Single Document". A good part of the suggested administrative burden reduction measures, as well as planned measures to reduce regulatory restrictions on professions is still pending.
Enhance competition, professionalisation and independent oversight in public procurement.	**Limited progress:** In May 2018, Slovenia presented an action plan detailing planned improvements, notably on further professionalisation of public

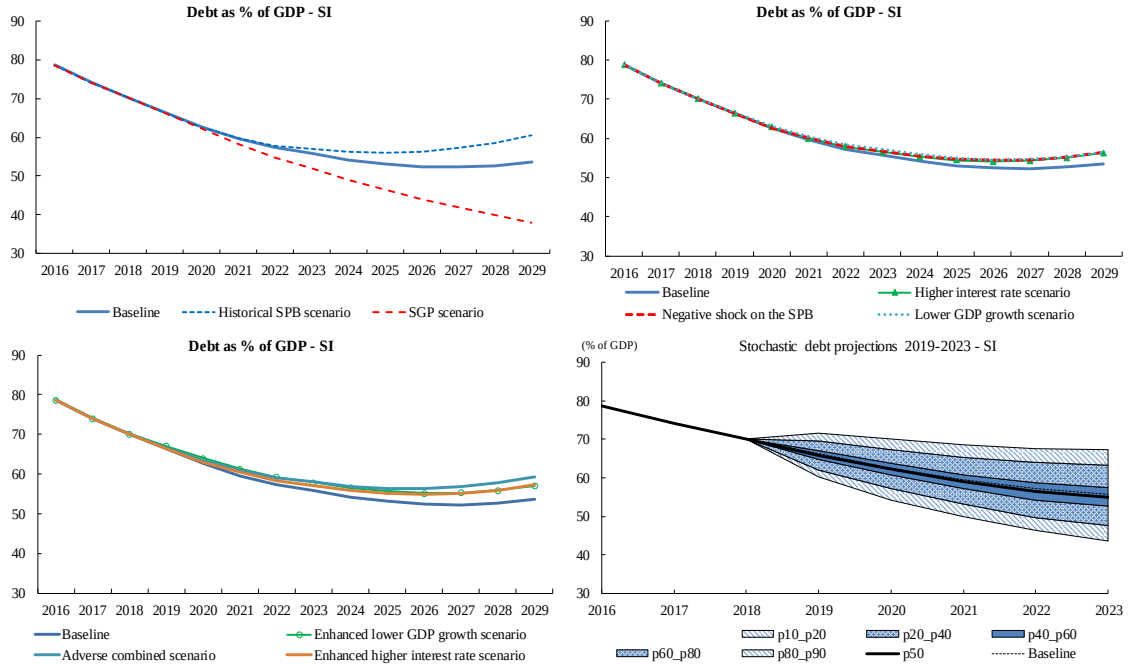
	procurement, for 2018-2020. Slovenia also made progress in rolling out e-procurement, which is widely used since April 2018. Rather little progress was made to increase competition in procurement, which remains a key problem. Slovenia also did not strengthen the independence of the National Review Commission. Slovenia did not achieve a higher degree of tender aggregation for health sector procurement.
Carry out the privatisations in line with to the existing plans.	**Some Progress:** Slovenia made some progress in the privatisation of SOEs as only one privatisation took place in 2018. With the partial privatisation of Slovenia's biggest bank in 2018 and the launch of the sale of its third biggest bank, Slovenia took important steps in implementing its privatisation list.
Europe 2020 (national targets and progress)	
Employment rate target set in the NRP: 75 %.	The employment rate for 20-64 years old workers increased by 3.3 pp. to 73.4 % in 2017, and, for the first time since 2009, is now again above the EU average (72.2 %).
R&D target set in the NRP: 3 % of GDP	R&D intensity has been declining since 2013, driven by declines in both the public and private sectors, but reached its lowest level at 1.86 % in 2017. In 2017, R&D intensity in Slovenia was composed of 75% (1.39% of GDP) private investment and 25% public investment (0.47% of GDP). The declining R&D intensity shows a clear risk of Slovenia not meeting its national R&D target of 3 % of GDP in 2020.
National greenhouse gas (GHG) emissions target: + 4 % in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme).	Slovenia is also well on track to reach its greenhouse gas emissions target in the non-ETS sector of +4 % in 2020 compared to 2005 since most recent Slovene projections expect a reduction by -9 % for this period.
2020 renewable energy target: 25 %	The share of renewable energy sources (RES) is above the EU average but has stagnated or even deteriorated in recent years. The renewable energy share in Slovenia was around 21 % in 2016. While being above the 2015/2016 indicative trajectory (20.1 %), increased efforts are necessary to reach the 2020-target (25 %). Regarding

	the use of other RES (wind, solar, biogas, geothermal, biofuels, heat pumps), Slovenia ranks at the tail end of the EU, with the gap in wind energy being particularly wide. In particular, in the electricity and transportation sectors Slovenia is lagging behind its sectoral renewable energy targets. Nevertheless, Slovenia has a high potential to develop renewable energy sources further in a cost-effective way, in all sectors.
Energy efficiency, 2020 energy consumption targets: Slovenia's 2020 energy efficiency target is 7.3 million tonnes of oil equivalent (Mtoe) expressed in primary energy consumption (5.1 Mtoe expressed in final energy consumption.)	In terms of energy efficiency, primary as well as final energy consumption are already below the indicative national 2020 targets. In 2017, the Government adopted a new National Energy Efficiency Action Plan (NEEAP) for the period 2017-2020, which confirms that Slovenia is on track to meet its 2020 target in energy efficiency. Nonetheless, additional efforts are needed as both primary and final energy consumption has been increasing in 2016 and this puts at risk the achievement of the EU 2020 energy efficiency target. The rise in energy use was most prominent in the transport sector, which accounts for 38% of the total energy use. The latest data show that energy use in transport increased by 5.9% in 2016 compared to 2015.
Early school/training leaving target: 5 %.	In 2017, Slovenia retained the early school-leaving rate under the national target by 0.7 pps. With early school leaving well below the Europe 2020 target of 10 %, Slovenia is placed among the leading EU Member States.
Tertiary education target: 40 % of population aged 30-34.	The tertiary education attainment continuously improved. After exceeding the 2020 target in 2013, in 2017 there were 46.4 % Slovenian young adults (30-34 year-olds) with a tertiary degree.
Target for reducing the number of people at risk of poverty or social exclusion, expressed as an absolute number of people: 40 000 (base year 2010: 360 000).	In 2017, the number of people at risk of poverty and social exclusion fell for the third consecutive year. However, 345 000 people were still at risk of poverty or social exclusion.

ANNEX B: COMMISSION DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

General Government debt projections under baseline, alternative scenarios and sensitivity tests

SI - Debt projections baseline scenario	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gross debt ratio	**74.1**	**70.2**	**66.3**	**62.6**	**59.6**	**57.3**	**55.8**	**54.2**	**53.1**	**52.4**	**52.3**	**52.6**	**53.5**
Changes in the ratio (-1+2+3)	*-4.6*	*-3.9*	*-3.8*	*-3.7*	*-3.0*	*-2.3*	*-1.5*	*-1.6*	*-1.1*	*-0.7*	*-0.1*	*0.3*	*0.9*
of which													
(1) Primary balance (1.1+1.2+1.3)	**2.6**	**2.4**	**2.1**	**1.8**	**1.3**	**0.9**	**0.3**	**0.2**	**0.0**	**-0.2**	**-0.4**	**-0.8**	**-1.1**
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	***2.1***	***1.2***	***0.7***	***0.6***	***0.5***	***0.5***	***0.3***	***0.2***	***0.0***	***-0.2***	***-0.4***	***-0.8***	***-1.1***
(1.1.1) Structural primary balance (bef. CoA)	*2.1*	*1.2*	*0.7*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*
(1.1.2) Cost of ageing					*0.0*	*0.0*	*0.2*	*0.4*	*0.5*	*0.7*	*1.0*	*1.3*	*1.6*
(1.1.3) Others (taxes and property incomes)					*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
(1.2) Cyclical component	***0.5***	***1.3***	***1.4***	***1.2***	***0.8***	***0.4***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(1.3) One-off and other temporary measures	***-0.1***	***-0.1***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
(2) Snowball effect (2.1+2.2+2.3)	**-2.3**	**-2.6**	**-2.3**	**-1.9**	**-1.7**	**-1.4**	**-1.2**	**-1.4**	**-1.1**	**-0.9**	**-0.6**	**-0.4**	**-0.2**
(2.1) Interest expenditure	*2.5*	*2.0*	*1.7*	*1.6*	*1.5*	*1.4*	*1.4*	*1.4*	*1.5*	*1.6*	*1.7*	*1.8*	*1.9*
(2.2) Growth effect	*-3.6*	*-3.0*	*-2.2*	*-1.9*	*-1.7*	*-1.6*	*-1.5*	*-1.8*	*-1.5*	*-1.4*	*-1.2*	*-1.2*	*-1.1*
(2.3) Inflation effect	*-1.2*	*-1.6*	*-1.7*	*-1.6*	*-1.4*	*-1.3*	*-1.1*	*-1.1*	*-1.1*	*-1.0*	*-1.0*	*-1.0*	*-1.0*
(3) Stock-flow adjustments	**0.3**	**1.2**	**0.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**



Short term	Medium term	S1	Debt sustainability analysis (detail)							DSA	S2	Long term
				Baseline	Historical SPB	Lower GDP growth	Higher interest rate	Negative shock on SPB	Stochastic projections			
			Risk category	LOW	MEDIUM	LOW	LOW	LOW	LOW			
			Debt level (2029)	53.5	60.4	56.4	56.3	56.4				
			Debt peak year	2018	2018	2018	2018	2018				
			Percentile rank	48.0%	62.0%							
			Probability debt higher						6.0%			
			Dif. between percentiles						23.5			
LOW (S0 = 0.1)	MEDIUM	MEDIUM (S1 = 0.2)								LOW	MEDIUM (S2 = 5.5)	MEDIUM

Note: For further information, see the European Commission Fiscal Sustainability Report (FSR) 2018.

[1] The first table presents the baseline no-fiscal policy change scenario projections. It shows the projected government debt dynamics and its decomposition between the primary balance, snowball effects and stock-flow adjustments. Snowball effects measure the net impact of the counteracting effects of interest rates, inflation, real GDP growth (and exchange rates in some countries). Stock-flow adjustments include differences in cash and accrual accounting, net accumulation of assets, as well as valuation and other residual effects.

[2] The charts present a series of sensitivity tests around the baseline scenario, as well as alternative policy scenarios, in particular: the historical structural primary balance (SPB) scenario (where the SPB is set at its historical average), the Stability and Growth Pact (SGP) scenario (where fiscal policy is assumed to evolve in line with the main provisions of the SGP), a higher interest rate scenario (+1 pp. compared to the baseline), a lower GDP growth scenario (-0.5 pp. compared to the baseline) and a negative shock on the SPB (calibrated on the basis of the forecasted change). An adverse combined scenario and enhanced sensitivity tests (on the interest rate and growth) are also included, as well as stochastic projections. Detailed information on the design of these projections can be found in the FSR 2018.

[3] The second table presents the overall fiscal risk classification over the short, medium and long-term.

a. For the short-term, the risk category (low/high) is based on the S0 indicator. S0 is an early-detection indicator of fiscal stress in the upcoming year, based on 25 fiscal and financial-competitiveness variables that have proven in the past to be leading indicators of fiscal stress. The critical threshold beyond which fiscal distress is signalled is 0.46.

b. For the medium-term, the risk category (low/medium/high) is based on the joint use of the S1 indicator and of the DSA results. The S1 indicator measures the fiscal adjustment required (cumulated over the 5 years following the forecast horizon and sustained thereafter) to bring the debt-to-GDP ratio to 60 % by 2033. The critical values used are 0 and 2.5 pps. of GDP. The DSA classification is based on the results of 5 deterministic scenarios (baseline, historical SPB, higher interest rate, lower GDP growth and negative shock on the SPB scenarios) and the stochastic projections. Different criteria are used such as the projected debt level, the debt path, the realism of fiscal assumptions, the probability of debt stabilisation, and the size of uncertainties.

c. For the long-term, the risk category (low/medium/high) is based on the joint use of the S2 indicator and the DSA results. The S2 indicator measures the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical values used are 2 and 6 pps. of GDP. The DSA results are used to further qualify the long-term risk classification, in particular in cases when debt vulnerabilities are identified (a medium / high DSA risk category).

ANNEX C: STANDARD TABLES

Table C.1: **Financial market indicators**

	2013	2014	2015	2016	2017	2018
Total assets of the banking sector (% of GDP)[1)]	127,8	115,9	107,1	99,6	94,1	88,3
Share of assets of the five largest banks (% of total assets)	57,1	55,6	59,2	61,0	61,5	-
Foreign ownership of banking system (% of total assets)[2)]	31,3	33,6	34,0	46,1	45,8	45,6
Financial soundness indicators:[2)]						
- non-performing loans (% of total loans)	-	22,8	17,9	12,3	9,2	7,4
- capital adequacy ratio (%)	13,7	17,9	18,6	19,1	18,1	18,8
- return on equity (%)[3)]	-90,2	-2,5	3,5	7,8	9,1	11,5
Bank loans to the private sector (year-on-year % change)[1)]	-9,5	-9,1	-4,2	2,8	5,9	3,9
Lending for house purchase (year-on-year % change)[1)]	1,3	0,5	1,8	4,2	5,5	4,4
Loan to deposit ratio[2)]	-	79,4	74,1	74,0	74,7	75,5
Central Bank liquidity as % of liabilities[1)]	-	3,3	2,8	2,3	3,5	3,3
Private debt (% of GDP)	107,2	97,4	86,7	80,6	75,6	-
Gross external debt (% of GDP)[2)] - public	42,7	62,4	64,0	56,8	50,6	47,2
- private	44,0	40,6	37,1	35,4	33,5	33,2
Long-term interest rate spread versus Bund (basis points)*	424,2	210,7	120,9	105,9	64,3	51,3
Credit default swap spreads for sovereign securities (5-year)*	273,2	138,5	107,8	95,0	72,5	59,9

(1) Latest data Q3 2018. Includes not only banks but all monetary financial institutions excluding central banks.
(2) Latest data Q2 2018.
(3) As per ECB definition of gross non-performing debt instruments.
(4) Quarterly values are not annualised.
* Measured in basis points.
Source: European Commission (long-term interest rates); World Bank (gross external debt); Eurostat (private debt); ECB (all other indicators)

Table C.2: **Headline Social Scoreboard indicators**

	2013	2014	2015	2016	2017	2018 [6]
Equal opportunities and access to the labour market						
Early leavers from education and training (% of population aged 18-24)	3,9	4,4	5,0	4,9	4,3	:
Gender employment gap (pps)	8,2	8,0	8,6	6,6	7,2	7,4
Income inequality, measured as quintile share ratio (S80/S20)	3,6	3,7	3,6	3,6	3,4	:
At-risk-of-poverty or social exclusion rate[1] (AROPE)	20,4	20,4	19,2	18,4	17,1	:
Young people neither in employment nor in education and training (% of population aged 15-24)	9,2	9,4	9,5	8,0	6,5	:
Dynamic labour markets and fair working conditions[†]						
Employment rate (20-64 years)	67,2	67,7	69,1	70,1	73,4	75,1
Unemployment rate[2] (15-74 years)	10,1	9,7	9,0	8,0	6,6	5,4
Long-term unemployment rate[3] (as % of active population)	5,2	5,3	4,7	4,3	3,1	2,3
Gross disposable income of households in real terms per capita[4] (Index 2008=100)	91,6	92,8	94,6	99,1	101,9	:
Annual net earnings of a full-time single worker without children earning an average wage (levels in PPS, three-year average)	14424	14741	14958	15049	:	:
Annual net earnings of a full-time single worker without children earning an average wage (percentage change, real terms, three-year average)	-0,7	-0,5	0,5	1,2	:	:
Public support / Social protection and inclusion						
Impact of social transfers (excluding pensions) on poverty reduction[5]	42,7	42,2	42,3	42,8	44,6	:
Children aged less than 3 years in formal childcare	39,0	37,4	37,4	39,6	44,8	:
Self-reported unmet need for medical care	0,0	0,2	0,2	0,4	3,5	:
Individuals who have basic or above basic overall digital skills (% of population aged 16-74)	:	:	51,0	53,0	54,0	:

(1) People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).
(2) Unemployed persons are all those who were not employed but had actively sought work and were ready to begin working immediately or within two weeks.
(3) Long-term unemployed are people who have been unemployed for at least 12 months.
(4) Gross disposable household income is defined in unadjusted terms, according to the draft Joint Employment Report 2019.
(5) Reduction in percentage of the risk of poverty rate, due to social transfers (calculated comparing at-risk-of poverty rates before social transfers with those after transfers; pensions are not considered as social transfers in the calculation).
(6) Average of first three quarters of 2018 for the employment rate, long-term unemployment rate and gender employment gap. Data for unemployment rate is seasonally adjusted (annual series, for EE, EL, HU, IT and UK data based on first three quarters of 2018).
Source: Eurostat

Table C.3: **Labour market and education indicators**

Labour market indicators	**2013**	**2014**	**2015**	**2016**	**2017**	**2018** [4]
Activity rate (15-64)	70,5	70,9	71,8	71,6	74,2	:
Employment in current job by duration						
From 0 to 11 months	10,7	8,8	12,4	10,9	13,4	:
From 12 to 23 months	7,0	7,1	7,8	8,3	8,0	:
From 24 to 59 months	13,1	14,2	13,7	14,2	13,8	:
60 months or over	69,2	68,3	66,2	66,5	64,8	:
Employment growth* (% change from previous year)	-1,1	0,4	1,3	1,8	2,9	3,0
Employment rate of women (% of female population aged 20-64)	63,0	63,6	64,7	66,7	69,7	71,3
Employment rate of men (% of male population aged 20-64)	71,2	71,6	73,3	73,3	76,9	78,7
Employment rate of older workers* (% of population aged 55-64)	33,5	35,4	36,6	38,5	42,7	46,4
Part-time employment* (% of total employment, aged 15-64)	9,3	10,0	10,1	9,3	10,3	9,9
Fixed-term employment* (% of employees with a fixed term contract, aged 15-64)	16,3	16,5	17,8	16,9	17,6	16,2
Participation in activation labour market policies (per 100 persons wanting to work)	10,5	10,6	7,8	6,1	:	:
Transition rate from temporary to permanent employment (3-year average)	37,1	41,0	41,2	42,4	38,4	:
Youth unemployment rate (% active population aged 15-24)	21,6	20,2	16,3	15,2	11,2	9,7
Gender gap in part-time employment	6,1	6,9	6,7	7,1	7,8	8,7
Gender pay gap[1] (in undadjusted form)	6,3	7,0	8,1	7,8	:	:
Education and training indicators	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Adult participation in learning (% of people aged 25-64 participating in education and training)	12,5	12,1	11,9	11,6	12,0	:
Underachievement in education[2]	:	:	16,1	:	:	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	40,1	41,0	43,4	44,2	46,4	:
Variation in performance explained by students' socio-economic status[3]	:	:	13,5	:	:	:

* Non-scoreboard indicator.
(1) Difference between the average gross hourly earnings of male paid employees and of female paid employees as a percentage of average gross hourly earnings of male paid employees. It is defined as "unadjusted", as it does not correct for the distribution of individual characteristics (and thus gives an overall picture of gender inequalities in terms of pay). All employees working in firms with ten or more employees, without restrictions for age and hours worked, are included.
(2) PISA (OECD) results for low achievement in mathematics for 15 year-olds.
(3) Impact of socio-economic and cultural status on PISA (OECD) scores. Values for 2012 and 2015 refer respectively to mathematics and science.
(4) Average of first three quarters of 2018. Data for youth unemployment rate is seasonally adjusted (annual series, for EE, EL, HU, IT and UK data based on first three quarters of 2018).
Source: Eurostat, OECD

Table C.4: **Social inclusion and health indicators**

	2012	2013	2014	2015	2016	2017
Expenditure on social protection benefits* (% of GDP)						
Sickness/healthcare	7,9	7,5	7,2	7,5	7,6	:
Disability	1,6	1,5	1,4	1,3	1,2	:
Old age and survivors	11,5	11,9	11,5	11,3	11,0	:
Family/children	2,1	1,9	1,8	1,8	1,7	:
Unemployment	0,7	0,8	0,7	0,6	0,6	:
Housing	0,0	0,0	0,0	0,0	0,0	:
Social exclusion n.e.c.	0,6	0,6	0,7	0,7	0,7	:
Total	24,4	24,3	23,5	23,3	22,9	:
of which: means-tested benefits	1,9	1,8	1,8	1,8	1,8	:
General government expenditure by function (% of GDP, COFOG)						
Social protection	18,5	18,6	17,8	17,3	16,7	:
Health	7,1	6,8	6,5	6,7	6,7	:
Education	6,4	6,5	6,0	5,5	5,6	:
Out-of-pocket expenditure on healthcare (% of total health expenditure)	:	:	13,0	12,5	12,0	:
Children at risk of poverty or social exclusion (% of people aged 0-17)*	16,4	17,5	17,7	16,6	14,9	15,1
At-risk-of-poverty rate[1] (% of total population)	13,5	14,5	14,5	14,3	13,9	13,3
In-work at-risk-of-poverty rate (% of persons employed)	6,5	7,1	6,4	6,7	6,1	6,6
Severe material deprivation rate[2] (% of total population)	6,6	6,7	6,6	5,8	5,4	4,6
Severe housing deprivation rate[3], by tenure status						
Owner, with mortgage or loan	5,6	4,5	4,7	3,5	3,3	3,0
Tenant, rent at market price	30,5	18,9	18,8	18,9	12,2	15,0
Proportion of people living in low work intensity households[4] (% of people aged 0-59)	7,5	8,0	8,7	7,4	7,4	6,2
Poverty thresholds, expressed in national currency at constant prices*	6320	6010	5925	6113	6157	6360
Healthy life years (at the age of 65)						
Females	6,9	7,6	8,6	7,6	8,2	:
Males	7,3	7,2	7,8	8,2	8,4	:
Aggregate replacement ratio for pensions[5] (at the age of 65)	0,5	0,5	0,5	0,5	0,5	0,5
Connectivity dimension of the Digital Economy and Society Inedex (DESI)[6]	:	:	47,1	51,8	55,0	57,6
GINI coefficient before taxes and transfers*	46,1	47,2	47,0	46,7	46,1	45,7
GINI coefficient after taxes and transfers*	23,8	24,4	24,9	24,5	24,3	23,7

* Non-scoreboard indicator.
(1) At-risk-of-poverty rate (AROP): proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.
(2) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.
(3) Percentage of total population living in overcrowded dwellings and exhibiting housing deprivation.
(4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.
(5) Ratio of the median individual gross pensions of people aged 65-74 relative to the median individual gross earnings of people aged 50-59.
(6) Fixed broadband take up (33%), mobile broadband take up (22%), speed (33%) and affordability (11%), from the Digital Scoreboard.
Source: Eurostat, OECD

Table C.5: **Product market performance and policy indicators**

Performance indicators	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Labour productivity per person[1] growth (t/t-1) in %						
Labour productivity growth in industry	-1,39	1,75	4,52	-0,17	2,21	4,27
Labour productivity growth in construction	-0,12	-1,91	11,60	-1,89	-2,72	5,70
Labour productivity growth in market services	-2,10	0,61	2,46	1,31	0,93	1,55
Unit Labour Cost (ULC) index[2] growth (t/t-1) in %						
ULC growth in industry	3,41	0,24	-1,29	2,00	0,70	-1,13
ULC growth in construction	-1,83	2,77	-6,18	5,03	4,89	-0,81
ULC growth in market services	-0,44	-1,72	-0,56	-0,20	1,51	1,78
Business environment	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Time needed to enforce contracts[3] (days)	1290	1270	1270	1160	1160	1160
Time needed to start a business[3] (days)	6,0	6,0	6,0	6,0	6,0	6,0
Outcome of applications by SMEs for bank loans[4]	:	0,38	1,08	0,41	0,67	0,61
Research and innovation	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
R&D intensity	2,57	2,58	2,37	2,20	2,01	1,86
General government expenditure on education as % of GDP	6,40	6,50	6,00	5,50	5,60	:
Employed people with tertiary education and/or people employed in science and technology as % of total employment	42	43	43	44	44	45
Population having completed tertiary education[5]	23	24	25	27	27	29
Young people with upper secondary education[6]	90	92	90	91	91	91
Trade balance of high technology products as % of GDP	-0,83	-0,60	-0,83	-0,62	-0,65	-0,72
Product and service markets and competition				**2003**	**2008**	**2013**
OECD product market regulation (PMR)[7], overall				:	1,89	1,70
OECD PMR[7], retail				:	0,90	0,63
OECD PMR[7], professional services				:	:	2,56
OECD PMR[7], network industries[8]				4,84	3,41	2,90

(1) Value added in constant prices divided by the number of persons employed.
(2) Compensation of employees in current prices divided by value added in constant prices.
(3) The methodologies, including the assumptions, for this indicator are shown in detail here: http://www.doingbusiness.org/methodology.
(4) Average of the answer to question Q7B_a. "[Bank loan]: If you applied and tried to negotiate for this type of financing over the past six months, what was the outcome?". Answers were codified as follows: zero if received everything, one if received 75% and above, two if received below 75%, three if refused or rejected and treated as missing values if the application is still pending or don't know.
(5) Percentage population aged 15-64 having completed tertiary education.
(6) Percentage population aged 20-24 having attained at least upper secondary education.
(7) Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are shown in detail here: http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm.
(8) Aggregate OECD indicators of regulation in energy, transport and communications (ETCR).
Source: European Commission; World Bank - Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators); SAFE (for outcome of SMEs' applications for bank loans).

Table C.6: **Green growth**

Green growth performance		2012	2013	2014	2015	2016	2017
Macroeconomic							
Energy intensity	kgoe / €	0,20	0,19	0,18	0,17	0,18	0,17
Carbon intensity	kg / €	0,54	0,52	0,46	0,46	0,46	-
Resource intensity (reciprocal of resource productivity)	kg / €	0,72	0,72	0,75	0,74	0,69	0,70
Waste intensity	kg / €	0,13	-	0,13	-	0,14	-
Energy balance of trade	% GDP	-6,7	-5,5	-4,1	-3,1	-2,1	-2,6
Weighting of energy in HICP	%	14,5	14,4	14,7	14,2	13,0	11,9
Difference between energy price change and inflation	%	2,9	0,6	-0,9	-2,9	-2,6	0,2
Real unit of energy cost	% of value added	10,1	10,1	9,5	9,7	9,9	-
Ratio of environmental taxes to labour taxes	ratio	0,20	0,21	0,21	0,21	0,21	-
Environmental taxes	% GDP	3,9	3,9	3,9	3,9	3,9	3,7
Sectoral							
Industry energy intensity	kgoe / €	0,13	0,13	0,13	0,13	0,12	0,12
Real unit energy cost for manufacturing industry excl. refining	% of value added	14,0	13,2	12,1	12,2	12,3	-
Share of energy-intensive industries in the economy	% GDP	11,2	11,3	11,5	11,0	11,3	11,5
Electricity prices for medium-sized industrial users	€ / kWh	0,09	0,10	0,09	0,08	0,08	0,08
Gas prices for medium-sized industrial users	€ / kWh	0,06	0,05	0,04	0,04	0,03	0,03
Public R&D for energy	% GDP	0,01	0,01	0,01	0,01	0,01	0,02
Public R&D for environmental protection	% GDP	0,02	0,01	0,01	0,03	0,02	0,03
Municipal waste recycling rate	%	41,9	34,8	36,0	54,1	55,6	57,8
Share of GHG emissions covered by ETS*	%	39,7	40,4	36,9	36,4	36,6	-
Transport energy intensity	kgoe / €	1,12	1,08	1,04	0,98	0,96	0,89
Transport carbon intensity	kg / €	3,36	3,20	3,08	2,91	2,90	-
Security of energy supply							
Energy import dependency	%	52,1	47,8	45,5	49,7	49,3	50,4
Aggregated supplier concentration index	HHI	33,3	26,8	26,6	24,2	25,7	-
Diversification of energy mix	HHI	0,24	0,24	0,25	0,23	0,24	0,23

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2010 prices)
(i) Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
(ii) Carbon intensity: greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
(iii) Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)
(iv) Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP.
Weighting of energy in HICP: the proportion of 'energy' items in the consumption basket used for the construction of the HICP.
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change).
Real unit energy cost: real energy costs as % of total value added for the economy.
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2010 EUR).
Real unit energy costs for manufacturing industry excluding refining : real costs as % of value added for manufacturing sectors.
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP.
Electricity and gas prices for medium-sized industrial users: consumption band 500–20 00MWh and 10 000–100 000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of recycled and composted municipal waste to total municipal waste.
Public R&D for energy or for the environment: government spending on R&D for these categories as % of GDP.
Proportion of GHG emissions covered by EU emissions trading system (ETS) (excluding aviation): based on GHG emissions (excl land use, land use change and forestry) as reported by Member States to the European Environment Agency.
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transport industry gross value added (in 2010 EUR).
Transport carbon intensity: GHG emissions in transport activity divided by gross value added of the transport industry.
Energy import dependency: net energy imports divided by gross inland energy consumption plus consumption of international maritime bunkers.
Aggregated supplier concentration index: Herfindahl-Hirschman index for net imports of crude oil and NGL, natural gas and hard coal. Smaller values indicate larger diversification and hence lower risk.
Diversification of the energy mix: Herfindahl-Hirschman index of the main energy products in the gross inland consumption of energy.
* European Commission and European Environment Agency.
Source: European Commission and European Environment Agency (Share of GHG emissions covered by ETS); European Commission (Environmental taxes over labour taxes and GDP); Eurostat (all other indicators)

ANNEX D: INVESTMENT GUIDANCE ON COHESION POLICY FUNDING 2021-2027 FOR SLOVENIA

Building on the Commission proposal for the next Multi-Annual Financial Framework for the period 2021-2027 of 2 May 2018 (COM (2018) 321), this Annex presents the preliminary Commission services views on priority investment areas and framework conditions for effective delivery for the 2021-2027 Cohesion Policy ([55]). These priority investment areas are derived from the broader context of investment bottlenecks, investment needs and regional disparities assessed in the report. This Annex provides the basis for a dialogue between Slovenia and the Commission services in view of the programming of the cohesion policy funds (European Regional Development Fund, Cohesion Fund and European Social Fund Plus).

Policy Objective 1: A Smarter Europe – Innovative and smart industrial transformation

The national targets for spending on research and development remain far from achieved and the proportion of innovative enterprises lags behind the EU average. High priority investment needs ([56]) have therefore been identified to **enhance research and innovation capacities and uptake of advanced technologies**, and in particular to:

- strengthen research and innovation performance and foster productivity growth by identifying smart specialisation areas on the basis of national and regional needs and potential;
- increase the value added of the economy and strengthen the strong innovator position by increasing the number of innovative firms in the smart specialisation areas;
- foster cooperation between research and business including across the EU Strategy for the Adriatic-Ionian Region, EU Strategy for the Alpine Region and EU strategy for the Danube Region via strategic research and innovation partnerships, centres of competence, interregional projects and use of Cloud services.

The uptake of Information and Communications Technology services in small and medium-sized enterprises and further development of digital public services remain a challenge. Priority investment needs have therefore been identified to **reap the benefits of digitisation for citizens, companies and governments**, and in particular to:

- increase uptake of Information and Communication Technology in small and medium-sized enterprises , including supporting infrastructures and services; all with a view to improving the number of enterprises reaching a high digital intensity;
- increase the uptake of e-Government services (e-inclusion, e-health, e-learning, e-skilling) and general use of internet services by citizens.

Scale-up and growth rates of enterprises remain low which, combined with a challenging business environment and low capacities for technology transfer, hinders the growth of the economy. High priority investment needs have therefore been identified to **enhance growth and competitiveness in small and medium-sized enterprises**, and in particular to:

- promote entrepreneurship and increase survival rates of firms in particular by facilitating the economic exploitation of new ideas and integration of business education in the business ecosystem;

([55]) This Annex is to be considered in conjunction with the EC Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund and on the Cohesion Fund COM(2018) 372 and the EC Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund Plus COM(2018) 382, in particular as regards the requirements for thematic concentration and urban earmarking outlined in these proposals.

([56]) The intensity of needs is classified in three categories in a descending order – high priority needs, priority needs, needs.

- raise competitiveness and internationalisation of small and medium-sized enterprises, through stronger participation in industry led and research driven international and macro-regional clusters; This can be the basis for further innovations and co-operation, in line with the EU Strategy for the Adriatic-Ionian Region, EU Strategy for the Alpine Region and EU strategy for the Danube Region;

- reduce barriers for doing business, especially in less developed regions at level 3 of the Nomenclature of Territorial Units for Statistics, through upgrading the entrepreneurial support ecosystem;

- address increasing demographic challenges by supporting silver economy small and medium-sized enterprises.

Skills shortages and mismatches are among the main barriers for the further economic development of Slovenia. Priority investment needs have therefore been identified to **develop skills for smart specialisation, industrial transition and entrepreneurship**, and in particular to:

- reduce the capacity constraints in the economy, address technological change and industrial transition challenges by providing training and skilling in smart specialisation areas;

- support small and medium-sized enterprises growth and open up internationalisation opportunities by providing skills trainings on (innovation) management, stock market participation, business development, internationalisation.

Policy Objective 2: A low carbon and greener Europe – Clean and fair energy transition, Green and blue investment, circular economy, climate adaptation and risk prevention

Energy intensity performance is below the EU average in industry, services and the residential sector with energy consumption increasing, which exacerbates the high rate of energy poverty. Priority investment needs have therefore been identified to **promote energy efficiency measures**, and in particular to:

- reduce energy consumption in residential buildings with focus on energy-poor households (Integrated territorial investments);

- reduce energy consumption by improving energy efficiency in services sector and industry.

The share of renewable energy sources has stagnated or even deteriorated in recent years, with a lot of potential, such as wind, solar and geothermal sources remaining largely untapped. High priority investment needs have therefore been identified to **promote renewable energy**, and in particular to:

- support the transition to renewables in heating and cooling, especially enabling the deployment of renewable energy technologies, which are not yet widely developed (wind, solar, geothermal).

Intelligent energy distribution systems have been developing, however, there remains a need to ensure optimal utilisation of the energy distribution and storage network. Investment needs have therefore been identified to **develop smart energy systems, grids and storage at local level**, and in particular to:

- upgrade the smart energy systems, including smart electricity distribution grids by development and deployment of new technologies for optimal energy utilisation, along with investing in energy storage (Integrated territorial investments).

With a large share of the population living in flood risk areas and increasing flood risks, a timely implementation of flood prevention measures is vital. High priority investment needs have therefore been identified to **promote climate change adaptation, risk prevention and disaster resilience**, and in particular to:

- support flood prevention and protection measures through ecosystem-based approaches, including the implementation of disaster risk management strategies, including on the level of the EU Strategy for the Adriatic-Ionian Region, EU Strategy for the Alpine Region and EU strategy for the Danube Region.

Slovenia lags behind in achieving waste water collection and treatment targets. Priority investment needs have therefore been identified to **promote sustainable water management**, and in particular to:

- invest in the collection and treatment of wastewater in agglomerations where it is needed to reach the targets, ensuring that bigger and more critical agglomerations are covered first, including in the frame of the EU Strategy for the Danube Region.

Slovenia faces difficulties in the waste sector and is highly dependent on imported materials. Priority investment needs have therefore been identified to **promote the transition to a circular economy**, and in particular to:

- develop alternatives to raw materials and promote recycled materials as secondary raw materials;
- increase resource efficiency and further promote the circular economy in small and medium-sized enterprises in synergy with policy objective 1 also through shared experience and best practices with other member states;
- support actions/campaigns to raise awareness, sustainable consumption practices and behaviour.

Slovenia's biodiversity is declining, while air quality continues to raise concern despite improvements in recent years. Investment needs have therefore been identified to **enhance biodiversity, green infrastructure in the urban environment, and reduce pollution**, and in particular to:

- support biodiversity in protected areas, as well as green infrastructure in the urban environment (preparation of management plans, ecosystem restoration projects, improve the knowledge base), including in the frame of the EU Strategy for the Danube Region (Integrated territorial investments);
- support measures to improve air quality (environmentally friendly production, green infrastructure).

Policy Objective 3: A more connected Europe – Mobility and regional Information and Communications Technology connectivity

The railway network is lagging behind the motorways in terms of quality and connectivity. High priority investment needs have therefore been identified to **develop a sustainable, climate resilient, intelligent, secure and intermodal Trans-European Transport Network**, and in particular to:

- complete and upgrade the railway Trans-European Transport Network, including cross-border sections, taking also into account the EU Strategy for the Adriatic-Ionian Region, EU Strategy for the Alpine Region and EU strategy for the Danube Region;
- invest in multi-modal transport with priority to improve the connectivity of different sustainable

transport modes in conjunction with neighbouring networks, where relevant.

Transport is the biggest source of CO2 emissions, with an increasing energy consumption, decreasing share of renewable energy sources and a fluctuating road fatalities rate. Priority investment needs have therefore been identified to **develop sustainable, climate resilient, intelligent and intermodal national, regional and local mobility, including improved access to the Trans-European Transport Network and cross-border mobility**, and in particular to:

- address negative externalities (safety, greenhouse gas, air pollution) by investing in sustainable and accessible modes of transport;
- invest in a smarter, more connected and cleaner transport system and deploy infrastructure which decarbonises road transport (alternative fuels infrastructure facilitating integration of renewables);
- improve connection of national networks to the Trans-European Transport Network, with positive economic impact, including in the frame of the EU Strategy for the Danube Region.

Slovenia is highly dependent on cars, with a low use of other modes of passenger transport and challenges in implementing sustainable urban mobility plans. Investment needs have therefore been identified to **promote sustainable multimodal urban mobility**, and in particular to:

- improve urban transport systems (in line with sustainable urban mobility plans) to reduce dependency on cars and enable a shift towards sustainable and accessible modes of transport (Integrated territorial investments);
- invest into reducing the negative externalities of transport and developing Intelligent Transport System solutions.

Policy Objective 4: A more social Europe – Implementing the European Pillar of Social Rights

Slovenia faces some structural labour market weaknesses, notably a weak employment situation of low-skilled and older workers, as well as a mismatch of labour market needs and skills. Priority investment needs have therefore been identified to **modernise labour market institutions and services to assess and anticipate skills needs** in particular to:

- improve targeting of active labour market policy measures for long term unemployed and inactive;
- anticipate long-term employment challenges and provide lifelong guidance and learning opportunities;
- promote prolonging working activity and elderly-friendly forms of work organisation and conditions;
- support integration between various service providers and implement national skills strategies;
- ensure the tools to analyse current labour market needs and anticipate future labour demand.

Slovenia has a relatively well performing education system, but there are still discrepancies between supply and demand for skills and at present, the adaptation to labour market changes is generally slow. Priority investment needs have therefore been identified to **improve the quality, effectiveness and labour market relevance of education and training and support the acquisition of key competences;** to **promote lifelong learning and new skills requirements based on labour market**

needs, and in particular to:

- promote vocational education and training as a quality and highly skilled career pathway;
- modernise education/training sectors, pedagogical staff policies, including digital learning, transversal skills and other skills/knowledge for the future;
- support access to inclusive and quality education, also focusing on enhancing digital skills (Integrated territorial investments);
- support infrastructure and equipment aimed at up-re/skilling people;
- upgrade skills of the adult population and increase overall participation in lifelong learning.

The share of people at risk of poverty and social exclusion has decreased, but remains high for the elderly and there are notable regional differences. Priority investment needs have therefore been identified to **promote the social integration of people at risk of poverty or social exclusion**, and in particular to:

- foster active social inclusion and alleviate poverty, including by supporting transfer to community based care and home-care, with a focus on elderly, people with disabilities and mental conditions.

Population ageing calls for improvements in the effectiveness and resilience of healthcare and long-term care systems. High priority investment needs have therefore been identified to **enhance the equal and timely access to quality, sustainable and affordable services**, and in particular to:

- support integration of healthcare (primary and hospital), long-term care and social care services including through investing in preventive and outpatient healthcare infrastructure, and equipment and digital tools;
- tackle geographical disparities in access to healthcare, with a focus on the socioeconomically deprived;
- invest in healthcare equipment in order to optimize the waiting times and improve transparency;
- prolong healthier lives by promoting healthy lifestyles and tackling health-damaging behaviour and health risks arising from pollution.

Policy Objective 5 – A Europe closer to citizens by fostering the sustainable and integrated development of urban, rural and coastal areas and local initiatives

Cities, their surrounding functional areas and rural areas face different challenges, such as high pupil underachievement rates in socioeconomically deprived areas, to be addressed through a bottom-up approach. Other regional disparities are to be addressed through sectorial policies in policy objectives 1 through 4, while an optimal implementation is to be ensured by limiting investments to areas with enough administrative capacity to prepare, select and implement projects. Investment needs have therefore been identified to **foster the integrated socio-economic development in urban and rural areas**, and in particular to:

- support services in order to build an inclusive society, especially focusing on socio-economically deprived persons/areas (Community Led Local Development).

Factors for effective delivery of Cohesion policy
Additional efforts are needed to increase the administrative capacity necessary for the effective administration and implementation of the Funds. • strong support and involvement of social partners, local authorities and other public bodies and stakeholders, which are essential for effective implementation; • enhanced dialogue and strengthened capacities of intermediate bodies and final beneficiaries to prepare and implement projects; focusing on continuing to build up the administrative capacity of the intermediate body in charge of integrated territorial investments; • reduced administrative burden, improved and simplified procedures, eliminating excessive documentation and over bureaucratic requirements to project proposals; • functioning of IT systems to enable proper monitoring and implementation of EU funds; • Improved public procurement performance by ensuring sufficient administrative capacity and its support, as well as by reducing single bidder, one bidder or no bids rates; • development and implementation of a roadmap on administrative capacity building – to effectively manage and use EU funds; • improved and more efficient measures to prevent and address conflict of interest, fraud and corruption; • broader use of financial instruments and/or contributions to the Slovene compartment under InvestEU for revenue-generating and cost-saving activities, also ensuring synergies with other EU funds; • taking account of experience available under different initiatives, such as the Coal Regions in Transition initiative or the Regions in Industrial Transition, in particular about the impact of new technologies, decarbonisation and the promotion of inclusive growth.

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