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COMMISSION STAFF WORKING DOCUMENT

Country Report Slovenia 2020

Accompanying the document

COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK AND THE EUROGROUP

2020 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011

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EXECUTIVE SUMMARY

Slovenia's solid growth offers the opportunity to improve its long-term sustainability ([1]). The economy is growing strongly, although more slowly than in recent years. The efficiency of the economy is improving, helped by previous structural reforms. The labour market has improved to record levels, with a continued increase in the employment rate accompanied by a decrease in both the overall unemployment rate and the long-term unemployment rate. However, investment remains below both historical and EU averages, dragging down productivity growth. Income inequality is low and other social indicators are good and improving further. The pace of reform has stalled recently despite the urgent need for comprehensive reforms to the pensions, healthcare and long-term care systems. These reforms are necessary to tackle the challenge of an ageing population and ensure long-term fiscal sustainability.

In 2019, Slovenia's economic growth decelerated considerably, but remains robust. After growing by more than 4% in 2017 and 2018, the economy is expected to grow at the slower rate of 2.5% in 2019, and 2.7% in 2020 and 2021. This is somewhat below Slovenia's potential growth rate. There are also risks on the horizon. As a small, open economy, Slovenia remains vulnerable to the continued uncertainty at global level and a further decline in international trade dynamics. However, the economy's diversification should make it relatively resilient to sector-specific shocks.

Growth is driven by domestic demand. Consumption is expected to continue to grow at a robust pace, supported by rising employment and disposable income. Although growth of investment in dwellings and other construction remains quite strong, investment growth in machinery and equipment has weakened substantially in 2019, primarily due to global trade uncertainty. With exports growing more slowly than imports, the external sector has a negative impact on growth. The inflation rate was 1.7% in 2019, and is expected to increase only slightly in 2020 and 2021**.**

The unemployment rate is below its pre-crisis level. Helped by economic growth, the unemployment rate fell to 4.6%in 2019, and is expected to stabilise at 4.2% in 2020 and 2021. The long-term unemployment rate continued to decline in 2019, falling 2.2%, well below the euro-area average. However, the long-term unemployment rate of older workers remains a concern, and at the same time certain sectors face labour market shortages.

Fiscal policy was pro-cyclical in 2019. The general government budget was in balance in 2017, and reached a surplus of 0.8% of GDP in 2018. The surplus fell to 0.5% of GDP in 2019, and is expected to remain broadly stable over the medium term. Although revenues continue to increase due to economic growth, this effect is more than offset by expenditure increases and tax reductions. Public debt is forecast to fall from 70.4% of GDP in 2018 to below the 60% of GDP threshold in 2021, after having peaked at 82.6% of GDP in 2015.

Further investment in innovation and infrastructure (environmental, transport and energy) remains necessary to keep Slovenia on a sustainable growth path. The innovation potential of the economy is hampered by: rather low public investment in research and innovation, limited science-industry cooperation and uneven innovation and digital capacities among firms. Waste is well managed overall, but urban wastewater and water losses are still causes for concern. Sustainable transport connections, in particular rail, are not sufficiently developed to fully support a carbon-friendly modal shift or the economic development of less-developed regions. However, investment in sustainable transport is increasing. The share of renewable energy remains low. The ageing of Slovenia's population means that significant investments are necessary to ease pressure on the healthcare and long-term care systems. The transition away from coalmines and coal-powered electricity production is at an early stage.

Overall, Slovenia has made limited progress in addressing the 2019 country-specific

([1]) This report assesses Slovenia's economy in light of the European Commission's Annual Sustainable Growth Strategy, published on 17 December 2019. In this document, the Commission sets out a new strategy on how to address not only the short-term economic challenges but also the economy's longer-term challenges. This new economic agenda of competitive sustainability rests on four dimensions: environmental sustainability, productivity gains, fairness and macroeconomic stability.

recommendations ([2]). This assessment does not take into account the contribution of the EU 2021-2027 cohesion policy funds.

There has been **some progress** in the following areas:

- Older and low-skilled workers - Slovenia implemented a number of measures to increase the employability of low-skilled and older workers. Others measures are being discussed, awaiting adoption, and awaiting implementation.

- Business environment - Slovenia has taken measures to reduce the costs of compliance with regulations, in particular by promoting e-procedures and e-services.

- Public procurement - Slovenia adopted reforms to strengthen the independent oversight of public procurement, and also continued to train procurement officers.

- Focus investment-related economic policy on research and innovation – Slovenia has not fully implemented its research and innovation strategy, and there is little harmonisation among different policies and strategies.

- Focus investment-related economic policy on sustainable transport, in particular rail – Slovenia published an investment plan for transport to increase the funding of railways and sustainable mobility in the period 2020-2025. It also adopted an action plan for alternative fuels in transport that set specific objectives and outlined specific measures.

- Privatisations – Another 10% of the shares of the largest bank, Nova Ljubljanska Banka, have been sold. The sale of Abanka, the third largest Slovenian bank, was also finalised in 2019. Both these measures were expected under State aid rules. However, other privatisations have come to a halt.

([2]) 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 Annex A.

There has been limited progress in the following areas:

- Pensions - Although some measures have been adopted to improve the adequacy of pensions, no measures have been taken to ensure the long-term sustainability of the pension system.

- Equity markets - Slovenia tries to support equity markets financially, mainly by using EU funds. However, other factors hampering the development of equity markets have not been addressed.

- Healthcare - Slovenia has not yet presented a legislative proposal, but some other measures on improving the performance of the system are ongoing.

- Focus investment-related economic policy on the low-carbon and energy transition - Slovenia received about €90 million for climate change adaptation from the cohesion policy for 2014-2020. The selection and implementation of projects has improved. However, a comprehensive climate change strategy covering all sectors has not yet been drawn up. A more specific regulatory framework for adaptation to climate change is planned to be included in the Environmental Protection Law, which is currently being adopted. The use of low-carbon energy is limited. The implementation of low-carbon projects in the fields of transport and power generation is lagging behind. Slovenia took the necessary steps to upgrade its draft National energy and climate plan, but failed to submit it by the deadline.

- Focus investment-related economic policy on investment in environmental infrastructure – Slovenia accelerated the implementation of the EU co-financed wastewater projects but investment gap still prevail in this sector. In addition, the integration of environmental aspects, particularly, nature considerations, into planning and implementing infrastructure projects, is challenging. To tackle the challenges in the water sector, the Government proposed an amendment of the national water legislation in December 2019.

There has been no progress in the following areas:

- Long-term care – A proposal was not publicly available by the end of 2019. However, the Ministry of Health announced that one would be ready for early 2020.

On the indicators of the Social Scoreboard supporting the European Pillar of Social Rights, Slovenia is performing well. Income inequality is low and the risk of poverty and social exclusion has decreased in recent years. The early leaving rate from education and training is very low but significant gender gaps exist, with males achieving worse educational outcomes at the age of 15 and lower tertiary attainment rates. The labour market participation of older workers and low-skilled workers is low, and old-age poverty remains a challenge.

Slovenia is making good progress towards its national targets under the Europe 2020 strategy. It has already achieved – or is well on track to achieving – national targets for employment the early school leaving rate, tertiary educational attainment, energy efficiency and greenhouse gas emissions. However, the 2020 target for R&D and renewable energy are not likely to be reached.

Slovenia is performing well on the SDGs ([3]). On most sub-indicators, in particular the social ones, Slovenia is performing better than the EU average. Slovenia performs particularly well in sub-theme *inequality within countries* of SDG10 (see Section 3.3.3). However, there are a few indicators where Slovenia is below the EU average and on a deteriorating path. From a macroeconomic perspective, investment as a share of GDP (SDG 9) is also worth mentioning. It stood at 19.2% in 2018, below the EU average of 20.9%, and has been falling in recent years.

([3]) Within the scope of its legal basis, the European Semester can help drive national economic and employment policies towards the achievement of the United Nations Sustainable Development Goals (SDGs) by monitoring progress and ensuring closer coordination of national efforts. The present report contains reinforced analysis and monitoring on the SDGs. A new annex (Annex E) presents a statistical assessment of trends in relation to SDGs in Slovenia during the past five years, based on Eurostat's EU SDG indicator set.

The key structural issues analysed in this report that point to particular challenges for Slovenia's economy are set out in the paragraphs below.

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 about 6% of GDP between 2016 and 2070, one of the largest increases in the EU. Notably, pension expenditure is expected to increase from 10.9% of GDP in 2016 to 14.9% of GDP in 2070. A reform aiming at improving pension adequacy and encouraging workers to work longer was adopted in November 2019. The Fiscal Council estimates that this reform will increase pension expenditure by 1pp. of GDP by 2040. At the same time, no concrete action has been decided for the second pillar of the reform, intended to improve the sustainability of the system. Furthermore, the use of long-term unemployment and long-term-sick-leave schemes as "bridges" to retirement put a further strain on the sustainability of the pension system. Overall, healthcare outcomes are good, but expenditure is rising, and public healthcare financing is strongly cyclical. There is therefore a risk that revenues might not cover increased expenditure in an economic downturn. The government is currently re-initiating the process for a comprehensive reform of the healthcare system ([4]). Slovenia does not have an overarching law that covers long-term care. Slovenia's ageing population means that chronic conditions will be more prevalent in the future. This will make it necessary to: (i) devise new care models; (ii) place greater emphasis on sickness prevention; and (iii) ensure the integration of the healthcare system with the long-term care system. The government intends to present a legislative proposal covering long-term care in the first half of 2020.

Boosting investment could further improve potential growth and productivity. Labour productivity is now growing again, after a period in which it failed to close the gap with the EU average. This improvement has been driven primarily by efficiency gains, as past structural reforms are now paying off. However, investment remains below historical and EU averages,

([4]) The delivery of this and other government plans mentioned in this report might be delayed or not delivered, as since 29 January 2020 the government is acting as care-taker only.

choking off a more rapid catch-up towards average EU productivity levels. Potential growth is nevertheless expected to stabilise at a robust [3.5%] per year.

The inactivity rates of older and less skilled workers are high while labour shortages are increasing. The inactivity rate of 55-64 year olds is significantly higher than the EU average. The unemployment rate, and the long-term unemployment rate in particular, are also above the EU average for this cohort. This early exit from the labour market is underpinned by several factors, including low participation in life-long learning and certain features of the unemployment and health systems. As the labour market tightens, labour shortages are becoming more acute, partly due to skills mismatches and insufficient digital literacy.

The banking sector has improved steadily, but alternative sources of finance are not sufficiently developed to support innovation and growth. Banks' profitability, solvency and asset quality have improved significantly, although the low-interest-rate environment puts banks under pressure to reduce costs and increase revenues. Strong growth in consumer lending led the Bank of Slovenia to issue binding measures to mitigate risks. Slovenia's equity and venture capital markets are still not sufficiently developed and the market capitalisation of the national stock exchange is low. The underdeveloped equity markets, which partly reflect the small size of the economy, may stifle market entry and the growth of innovative and high-potential firms.

Despite significant privatisation measures taken in 2018 and 2019, the State still plays a significant role in the economy. In 2018-2019, Slovenia further reduced its stake in Nova Ljubljanska Banka and fully privatised Abanka. However, the State still plays a dominant role in some crucial sectors, such as insurance and telecommunications, and there are plans to increase its role in the tourism sector. This could hamper competition and efficient resource allocation.

Although the business environment has improved, problems remain regards public procurement and administrative/regulatory burden. Slovenia has taken measures to gradually reduce administrative burden and regulatory restrictions, but both remain obstacles for businesses. The justice system continues to reduce its backlog but commercial court proceedings often remain lengthy and the prosecution of economic and financial crime faces difficulties affecting business decisions. Slovenia is implementing measures to improve professionalisation and strengthen remedy procedures in public procurement. However, competition in public procurement and tender aggregation in the health sector remain problematic, potentially leading to higher costs for the Slovenian taxpayer and lost opportunities for its businesses.

Balancing trade-offs to achieve clean energy transition. The carbon intensity of the economy is rather high, primarily due to transport, electricity production, and heating. In order to reduce carbon intensity, the infrastructure for cleaner and renewable energy sources will need to be built, which could have an impact on the natural heritage, if not appropriately managed.

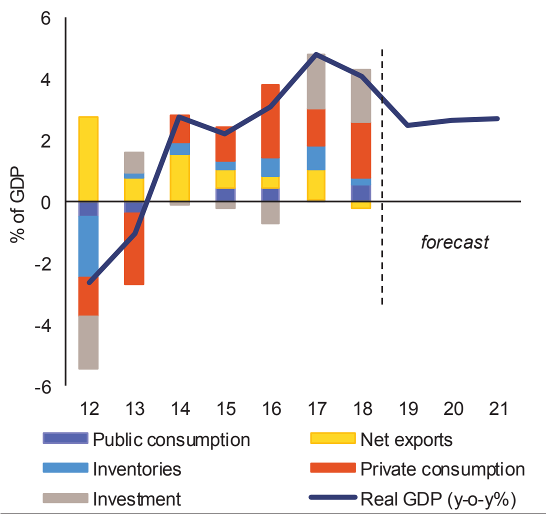
A comprehensive strategy for climate change adaptation has not yet been drawn up. Severe socioeconomic impacts and environmental degradation can be observed in Slovenia's coal-mining regions. The Commission's proposal for a Just Transition Mechanism under the next multi-annual financial framework for the period 2021-2027 includes a Just Transition Fund, a dedicated just transition scheme under InvestEU, and a new public sector loan facility with the EIB. It is designed to ensure that the transition towards EU climate neutrality is fair by helping the most affected regions in Slovenia to address the social and economic consequences. Key priorities for support by the Just Transition Fund, set up as part of the Just Transition Mechanism, are identified in Annex D, building on the analysis of the transition challenges outlined in this report.

1. ECONOMIC SITUATION AND OUTLOOK

GDP growth

In 2019, Slovenia's economy grew at a solid rate, but the current economic cycle appears to have already peaked. Slovenia's GDP is expected to have grown by 2.5%in 2019, after growth of 4.1% in 2018. The slowdown was primarily due to the declining contribution of the external sector, related to a global slowdown in trade. Over the first three quarters, exports grew by 4.6% (compared to the same period in 2018), slightly less than imports, which rose by 5.0%. Domestic demand remained the main driver of growth. Private consumption continued to rise, supported by the relatively strong increase in household disposable income. Investment growth was particularly strong in residential construction (12.2%), while investment in machinery and equipment increased by 3.1%.

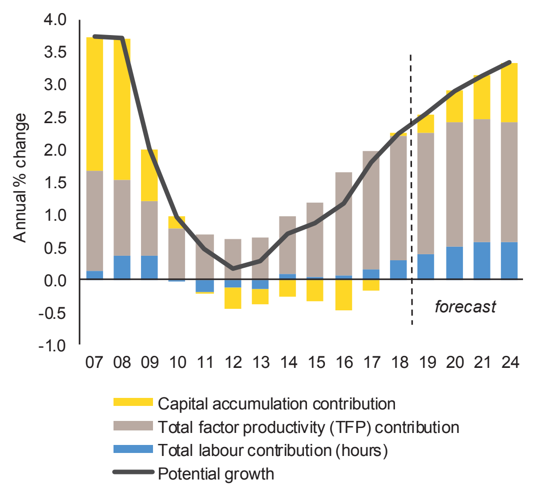
Graph 1.1: **Composition of GDP growth**



Source: European Commission Winter forecast 2020

In the coming years, annual GDP growth is expected to remain at 2.7%. As in 2019, domestic demand is expected to drive economic development, with net exports making a negative contribution (Graph 1.1). Growing disposable income and employment will continue to support private consumption, which is expected to continue to increase at a relatively strong pace. Investment is expected to be driven by demand for new housing, which had been sluggish in previous years. At the same time, the uncertainty prevailing in global markets limits firms' willingness to invest, despite the tight labour market and high rate of capacity utilisation. In particular, investment in machinery and equipment is expected to continue growing at the relatively muted rate it recorded in 2019. In 2020 and 2021, the risks the country faces are mainly related to the external environment. However, the Slovenian economy may be relatively resilient as its export structure is diversified and not particularly strongly affected by sector-specific shocks.

Graph 1.2: **Composition of potential growth**



Source: European Commission Autumn forecast 2019

Slovenia's growth potential is increasing. Overall, potential growth is currently expected to stabilise at 3.5%. Although total factor productivity recovered quickly after the crisis, the contribution of capital accumulation remains low. Looking ahead, the contribution to potential growth from investment is expected to increase, while the contribution from labour is expected to decline after 2021 due to the ageing population. (Graph 1.2).

Investment remains below the EU's and Slovenia's long-term average levels. Investment in R&D ('other investment') is growing at rather low rate. This is detrimental to the achievement of SDG 8 and 9. In absolute terms, investment in the manufacturing sector has increased compared to the pre-crisis period (driven by metal products, electrical equipment and motor vehicles) but it has decreased in sectors such as wholesale and retail trade, transportation and storage and even information and communication.

Inflation

Inflation remains moderate. After a deflationary period 2015-2016, prices in Slovenia developed closely in line with those in the euro area in 2017 and 2018. Yet, in 2019, inflation reached 1.7% markedly higher than the inflation rate of 1.2% in the euro area. Main driver of this growth, were the prices of services. Price increases, particularly in services, reflect also recent wage increases. For the coming years, it is expected that inflation will remain close to 2.0%, somewhat above the euro area inflation rate. Core inflation (net of energy and food prices) is expected to reach above 1.6% over the forecast horizon.

Labour market

The labour market continues to improve with rising employment and falling unemployment. The employment rate was 75.4% in 2018 and improved to 76.5% by the third quarter of 2019. It is forecast to further improve over the coming years. This, combined with an inflow of foreign workers, is expected to help alleviate labour supply constraints to some extent. The unemployment rate further declined from the 2018 average of 5.1% in 2018 to 4.6% in 2019. Over the coming years, it is expected to decline further.

The tightening of the labour market has been accompanied by growing wage pressures. Nominal compensation per employee ([5]) increased by 3.9% in 2018 and is projected to continue growing by 3.6% in both 2019 and 2020 respectively. This is mainly due to the rise in public sector pay (agreed in negotiations with trade unions at the end of 2018), and the additional increase in the net minimum wage by 3.4% to €700, in line with the act adopted in December 2018 (European Commission, 2019 a). Real compensation per employee, which grew by 1.7% in 2018, is projected to grow 2% in 2019. In 2020 and 2021, the growth of real compensation would be slightly lower as inflation is projected to accelerate.

Despite improved labour market conditions, structural challenges are still a concern. The working age population is decreasing, due to the rapidly ageing population. Challenges persist in the labour market participation of older workers (aged 55-64). Despite recent increases, their employment rate remained well below the EU average in 2018 (47.0% compared to 58.7% in the EU). The contrast is even starker for low-skilled older workers, who had an employment rate of 30.5% (compared to 44.0% in the EU) in 2018.

Social developments

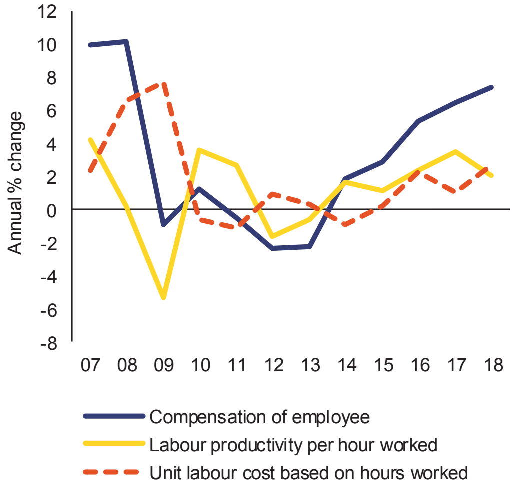
Inequality is low and the share of people at risk of poverty or social exclusion has on average decreased, but remains high for the elderly. Slovenia is performing well on most indicators related to poverty and inequality. Income inequality is the lowest in the EU and the share of income of the poorest 40% of the population is one of the highest. In 2018, the at-risk-of-poverty-or-social exclusion rate (AROPE) decreased by 0.9pps to 16.2%. The decrease is due to a decrease in the severe material deprivation rate (-0.9pps) and a very low work intensity rate (-0.8pps). The at-risk-of-poverty rate (AROP) was the same in 2018 as in the previous year (13.3%) and below the EU average for 2018 (17.1%). Yet, the rate of old-age poverty (24.4% compared to an EU average of 20.9% in 2018), which mainly affects women over the age of 65, remains a challenge.

Competitiveness

Slovenia's export market share was increasing, supported by moderate unit labour cost developments and a favourable destination mix. Slovenia's export market share increased by 4.7 pps back in 2018. This increase is expected to continue, for both goods and services, also supported by the relatively stable growth in Slovenia's destination markets. The nominal wage growth has led to an increase in nominal unit labour costs. Unit labour costs grew by 3% in 2018 and are expected to peak at 3.3% in 2019, still below that of other Member States in the region. Growth in unit labour costs is then expected to moderate gradually.

([5]) Total compensation of employees divided by the total number of employees.

Graph 1.3: **Compensation per employee and labour productivity, annual % change**



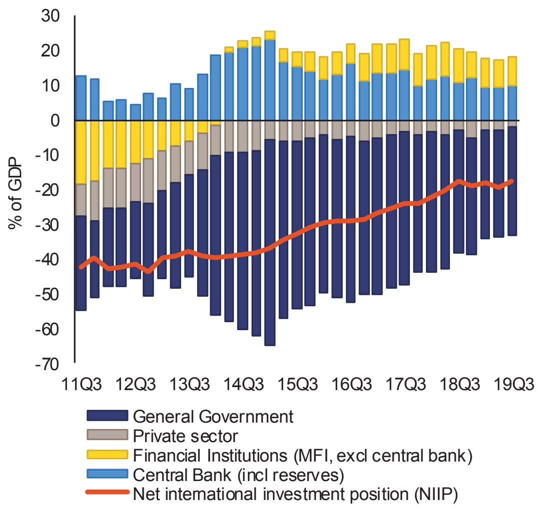
Source: Eurostat

External position

Slovenia's current account has been in surplus since 2012. Slovenia's current account balance turned positive in 2012 and peaked at 6.1% of GDP in 2017. After posting a surplus of 5.7% of GDP in 2018, it is expected to have declined further in 2019, as imports are expected to have grown faster than exports due to stronger domestic demand. Although both goods and services balances are in surplus, the surplus in services is especially strong. The current account surplus is higher than might have been expected based on economic fundamentals ([6]). The same holds for the cyclically adjusted current account surplus, which exceeded 8% of GDP in 2018, and is projected to remain at comparable levels in 2019-2021. In addition to trade balance, the surplus is driven by public and private deleveraging, as well as low investment.

The high current account surplus supported a rapid improvement of the net international investment position. Slovenia's passive net international investment position has broadly halved from 2012 to 2019 (Graph 1.4). In particular, the banking sector has built up net foreign assets since 2014 and has been able to maintain this position afterwards. Government liabilities have declined sharply since 2015. Non-financial corporations have maintained small liabilities since 2015. The net international investment position is expected to improve further thanks to the current account surplus and the fall in government debt.

Graph 1.4: **Net international investment position (NIIP) by sector**



Source: Eurostat

Financial sector

Slovenia's banking sector has improved significantly, showing better profitability, better asset quality and strong liquidity. The return on equity has increased and the ratio of non-performing loans has declined, reaching 4.5% in June 2019 (from 22.8% in 2014). Banks also enjoy a relatively stable funding basis and abundant liquidity. Despite the privatisation of a number of its bank holdings, the Slovenian state still plays a substantial role in the financial sector (see Section 3.2.1).

Private debt

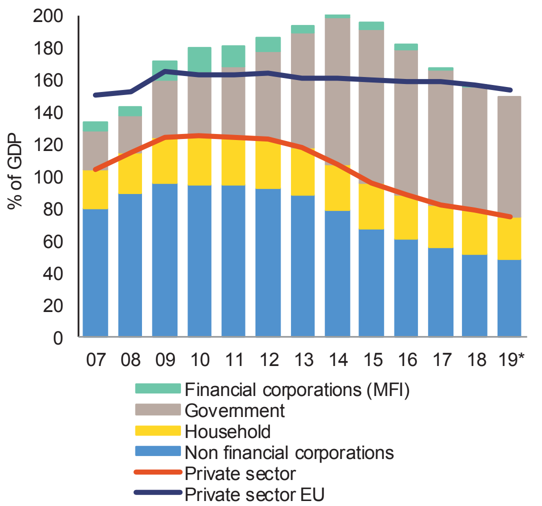
The private indebtedness ratio continues to decline. Since the indebtedness ratio peaked in 2010 (at 115.2% of GDP), private sector debt fell to 72.8% of GDP in 2018, and was below both prudential and fundamental benchmarks ([7]) in

([6]) The benchmark is derived from reduced-form regressions capturing the main determinants of the saving-investment balance, including fundamental determinants (e.g. demography, resources), policy factors and global financial conditions. See also Coutinho, Turrini and Zeugner (2018).

([7]) Fundamental-based benchmarks are derived from regressions capturing the main determinants of credit growth and taking into account a given initial stock of debt.

2019. Credit flow has turned positive and is supporting economic growth, but rapid nominal GDP growth until end 2018 still caused the private debt-to-GDP ratio to decline. In November 2019, the Bank of Slovenia in line with slowing economic fundamentals, adopted macroprudential measures to limit the growth of credit, especially consumer loans. These measures include the capping of consumer loan durations and limiting the ratio of annual debt servicing costs to a borrower's net income.

Graph 1.5: **Debt decomposition**



(1) * estimated figures using quarterly data
Source: Eurostat

Housing market

The strong increase in house prices since 2016 has been mainly driven by the lack of supply of residential buildings. Since the summer of 2016, prices for residential buildings in Slovenia have been increasing strongly. In 2018, house prices recorded the highest pace of real growth since the financial crisis (7.4%, which is faster than wage growth), making Slovenia one of the euro-area Member States that registered the highest annual growth in house prices. The favourable economic situation and buoyant labour market have played a role, but the low level of investment in residential buildings was the major factor in pushing up house prices. Despite the favourable interest rates, credit growth has been less buoyant than in the run-up to the crisis. The banking system is less exposed and more resilient to potential shocks in the real estate market than during the last financial crisis. Banks' exposure is further limited by the recent macro-prudential measures taken by the Bank of Slovenia.

House prices are still growing, but first signs of a slowdown were observed in 2019. A gradual slowdown in the demand for residential buildings (due to diminishing affordability) and an increase in construction have started to mitigate house price growth in 2019. It is expected that, with a further recovery in construction activity, house prices will continue to moderate in the near future.

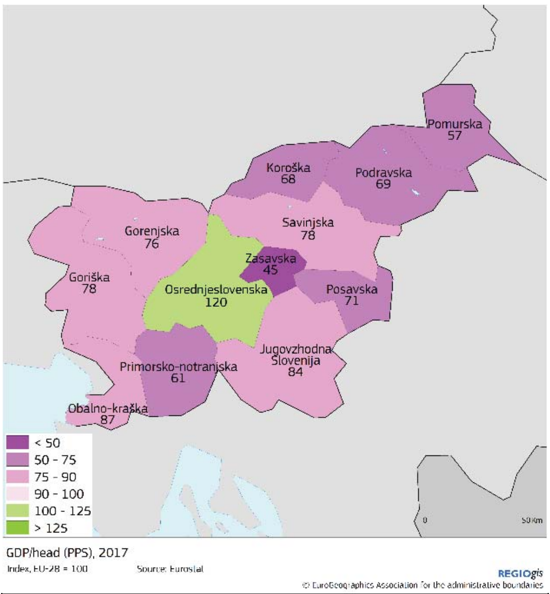
Regional disparities

Regional and sub-regional disparities in Slovenia persist. Eastern Slovenia lags behind Western Slovenia (which includes the capital) in GDP per capita (71% and 103% of the EU average in 2017 respectively). However, the cross-regional coefficient of variation of GDP per head weighted by population is one of the lowest in the euro area. The disparities are pronounced at sub-regional (local) level. In particular, the role of the capital sub-region around Ljubljana in the economy is predominant: it produced 37% of national GDP in 2017, with 26% of country's population. Its GDP per capita in 2017 (120% of the EU average) was almost three times higher than in Slovenia's poorest region (Zasavska, 45% of the EU average).

The population is growing in Western Slovenia but shrinking in the Eastern. Between 2000 and 2017, the population of Eastern Slovenia shrunk by 0.4%, while it grew by 7.7% in Western Slovenia. The sub-regional picture is more complex. Two of the least developed sub-regions (Pomurska and Zasavska) lost more than 7% and 5% respectively of their population due to both, natural population decrease (more deaths than births) and emigration. The population of the capital sub-region and the coastal Obalno-Kraska sub-region grew significantly (12% and 8% respectively). Although the capital sub-region experienced natural population increase and net immigration, population growth in other sub-regions was only due to net immigration.

Prudential thresholds represent the debt threshold beyond which the probability of a banking crisis is high, minimising the probability of missing the potential crisis and that of false alerts.

Graph 1.6: **GDP per capita in Slovenian regions, 2017**



Source: Eurostat

Divergent population trends underpinned convergence in GDP per capita, despite the slow economic growth in the less developed region. Between 2010 and 2017, GDP grew faster in Western Slovenia than in the less developed eastern part of the country (1.7% annually against 1.4%). However, the fast growing population of the western regions (in particular the capital sub-region) resulted in convergence in GDP per capita (see Section 3.4).

Public finances

The general government overall balance is expected to remain in surplus. The general government surplus is forecast to have decreased from 0.8% of GDP in 2018 to 0.5% of GDP in 2019. This reduction was driven by the economic slowdown, a strong increase in government expenditure and the revenue-decreasing measures adopted by the Parliament. The surplus is expected to stay at 0.5% of GDP in 2020, due to further tax reduction measures, and to increase slightly to 0.6% of GDP in 2021. Slovenia's structural fiscal position is expected to improve gradually in the coming years.

The debt-to-GDP ratio continues to decline but this trend could change again in the longer term. Thanks to the low interest rate environment, active public debt management, general government surplus and privatisation proceeds, public debt is forecast to decline below the reference value of 60% of GDP in 2021. This would help Slovenia achieve SDG 17. However, because expenditure on pensions, healthcare and long-term care is projected to increase significantly (due to both the ageing of the population and the pension measures adopted in 2019), the debt-to-GDP ratio could start increasing again in the longer term.

Sustainable development goals

Overall, Slovenia is performing well with regard to the SDGs. On most sub-indicators, in particular the social ones, it is performing better than the EU average. Slovenia performs particularly well with regard to SDG 10, sub-theme inequality within countries (see Section 3.3.3). There are, however, a few indicators, where Slovenia is below the EU average and showing a negative trend. From a macro-economic perspective, the share of investment in GDP (SDG 9) is worth mentioning. It stood at 19.2% in 2018, below the EU average of 20.9%. This challenge is discussed in Chapter 1. The Slovenian development strategy 2030 aims to reach the average EU emission productivity and achieve a 27% share of renewable energy sources in final energy consumption.

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

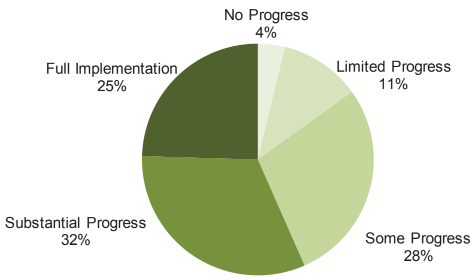
	2004-07	2008-12	2013-16	2017	2018	2019 (forecast)	2020 (forecast)	2021 (forecast)
Real GDP (y-o-y)	5.2	-1.0	1.8	4.8	4.1	2.5	2.7	2.7
Potential growth (y-o-y)	3.5	1.5	0.8	1.8	2.3	2.5	2.9	3.1
Private consumption (y-o-y)	3.1	0.9	1.0	2.3	3.4	.	.	.
Public consumption (y-o-y)	2.9	0.9	0.6	0.3	3.2	.	.	.
Gross fixed capital formation (y-o-y)	7.8	-8.9	-0.4	10.4	9.4	.	.	.
Exports of goods and services (y-o-y)	13.1	0.6	5.1	10.8	6.6	.	.	.
Imports of goods and services (y-o-y)	12.6	-1.6	4.3	10.7	7.7	.	.	.
Contribution to GDP growth:								
Domestic demand (y-o-y)	4.2	-1.5	0.6	3.1	4.1	.	.	.
Inventories (y-o-y)	0.8	-0.9	0.4	0.7	0.2	.	.	.
Net exports (y-o-y)	0.1	1.5	0.8	1.0	-0.2	.	.	.
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0.1	0.1	0.0	0.2	0.3	0.4	0.5	0.6
Capital accumulation (y-o-y)	1.6	0.6	-0.3	-0.2	0.1	0.3	0.5	0.7
Total factor productivity (y-o-y)	1.8	0.8	1.1	1.8	1.9	1.9	1.9	1.9
Output gap	3.2	-1.5	-4.0	1.4	3.2	3.3	3.1	2.7
Unemployment rate	5.9	6.9	9.2	6.6	5.1	4.4	4.2	4.2
GDP deflator (y-o-y)	2.8	1.7	1.0	1.6	2.2	2.7	2.4	2.3
Harmonised index of consumer prices (HICP, y-o-y)	3.1	2.7	0.3	1.6	1.9	1.7	1.9	2.0
Nominal compensation per employee (y-o-y)	6.3	2.7	1.6	3.0	3.9	3.6	3.6	3.6
Labour productivity (real, person employed, y-o-y)	4.0	-0.2	1.1	1.8	0.9	.	.	.
Unit labour costs (ULC, whole economy, y-o-y)	2.2	2.9	0.4	1.2	3.0	3.3	2.4	2.2
Real unit labour costs (y-o-y)	-0.6	1.2	-0.5	-0.4	0.7	0.7	0.0	-0.2
Real effective exchange rate (ULC, y-o-y)	0.3	0.6	-0.4	0.6	1.6	0.3	0.2	0.3
Real effective exchange rate (HICP, y-o-y)	-0.4	-0.2	0.2	-0.2	1.8	-0.4	-0.2	0.1
Net savings rate of households (net saving as percentage of net disposable income)	8.9	4.4	2.7	4.6	5.0	.	.	.
Private credit flow, consolidated (% of GDP)	14.0	3.6	-3.5	0.9	1.3	.	.	.
Private sector debt, consolidated (% of GDP)	80.8	111.9	93.4	76.3	72.8	.	.	.
of which household debt, consolidated (% of GDP)	20.3	29.0	28.2	27.2	27.0	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	60.5	83.0	65.2	49.1	45.7	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	.	.	14.1	7.0	4.7	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	-6.2	0.4	6.9	1.5	0.5	0.4	0.0	-0.3
Corporations, gross operating surplus (% of GDP)	18.8	18.9	19.4	20.2	20.0	19.9	20.0	20.2
Households, net lending (+) or net borrowing (-) (% of GDP)	4.3	3.2	3.6	4.0	4.1	4.4	4.6	4.4
Deflated house price index (y-o-y)	12.8	-3.7	-1.8	6.2	7.4	.	.	.
Residential investment (% of GDP)	3.7	3.4	2.2	2.1	2.1	.	.	.
Current account balance (% of GDP), balance of payments	-2.6	-1.3	4.3	6.1	5.7	5.7	5.4	5.0
Trade balance (% of GDP), balance of payments	-0.7	0.8	7.4	8.9	8.3	.	.	.
Terms of trade of goods and services (y-o-y)	-0.7	-0.9	1.0	-0.5	-0.1	0.4	0.0	0.0
Capital account balance (% of GDP)	-0.3	0.0	0.2	-0.8	-0.5	.	.	.
Net international investment position (% of GDP)	-15.2	-41.4	-34.4	-24.2	-18.9	.	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (1)	-8.0	-37.8	-24.3	-10.6	-1.9	.	.	.
IIP liabilities excluding non-defaultable instruments (% of GDP) (1)	72.5	107.6	108.3	92.2	83.8	.	.	.
Export performance vs. advanced countries (% change over 5 years)	35.2	8.8	-5.3	14.8	18.0	.	.	.
Export market share, goods and services (y-o-y)	4.0	-4.6	2.9	5.3	4.7	6.6	1.7	1.0
Net FDI flows (% of GDP)	0.5	-0.3	-1.8	-1.2	-2.0	.	.	.
General government balance (% of GDP)	-1.1	-4.7	-6.2	0.0	0.8	0.5	0.5	0.6
Structural budget balance (% of GDP)	.	.	-1.3	-0.6	-0.7	-1.0	-0.9	-0.7
General government gross debt (% of GDP)	25.6	38.9	77.9	74.1	70.4	66.7	63.1	59.5
Tax-to-GDP ratio (%) (3)	38.8	37.9	37.8	37.6	37.9	37.8	37.6	37.5
Tax rate for a single person earning the average wage (%) (4)	34.5	33.2	33.3	33.7	34.1	.	.	.
Tax rate for a single person earning 50% of the average wage (%) (4)	29.3	23.6	23.0	23.5	23.9	.	.	.

(1) Net international investment position (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 ECB as of 4-2-2020, where available; European Commission for forecast figures (Winter forecast 2020 for real GDP and HICP, Autumn forecast 2019 otherwise)

2. PROGRESS WITH COUNTRY-SPECIFIC RECOMMENDATIONS

Slovenia has a good track record in implementing country-specific recommendations (CSRs). Since the start of the European Semester in 2011, there has been substantial progress or full implementation of almost 60% of all CSRs addressed to Slovenia (Graph 2.1). However, more than 10% of the CSRs addressed to Slovenia have recorded no or only limited progress in the implementation.

Graph 2.1: **Level of implementation of 2011-2019 Country-Specific Recommendations (CSRs)**



(1) The overall assessment of the country-specific recommendations related to fiscal policy excludes compliance with the Stability Growth Pact.
(2) 2011-2012 annual assessment: Different country-specific recommendations assessment categories.
(3) The multiannual country-specific recommendations' assessment looks at the implementation until 2020 Country Report since the country-specific recommendations were first adopted.
Source: European Commission

The public debt ratio is decreasing rapidly but pressure on the long-term sustainability of public finances remains. The public debt ratio increased four-fold with the crisis, peaking at 82.6% of GDP in 2015. Also due to policy action, the ratio has rapidly decreased to 70.4% in 2018 and is expected to fall below 60% in 2021. In parallel, the fiscal framework has been strengthened. At the same time, fiscal policy has become pro-cyclical due to: (i) the expiration of temporary measures taken during the crisis; and (ii) further expansionary measures introduced recently. Due to ageing-related costs, particularly on pensions, the pressure on the long-term sustainability of public finances remains significant.

The Slovenian banking sector has improved remarkably since 2014. Decisive policy action and the improving macroeconomic situation have helped the banking sector to recover rapidly since 2014. The non-performing loans ratio continues to decline. It reached 4.5% in June 2019, down from 7.4% a year earlier. At the same time, profitability increased and the average capital adequacy ratio is solid (18.1% in June 2019). The sale of shares of Nova Ljubljanska Banka (NLB) and Abanka in 2018 and 2019, stemming from the 2013 State aid commitments, will further help ensure the viability of the sector in the long term.

Measures have been adopted to increase the employability of low-skilled and older workers. Since 2011, Slovenia has been recommended to 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. However, their participation rate remains low.

The business environment has improved, although progress has slowed down recently. Slovenia has reduced the number of regulated professions significantly, but progress has slowed down in recent years. Measures have been taken to reduce administrative burden and efforts are continuing. A comprehensive framework for the governance of state-owned enterprises was put in place after the crisis. However, there is a risk that the capacity of the Slovenian Sovereign Holding is weakened after 2020 when its assets will be gradually transferred back to the state (see Section 3.1.5). With the use of national and EU funding, Slovenia tries to improve alternative funding for SMEs and fast-growing companies.

In 2019, Slovenia made limited progress in addressing the first of the 2019 CSRs. Despite intensive discussions there is still no proposal for a comprehensive healthcare reform. The reform is expected to be discussed by the government only in mid-2020. Other measures were announced but these address the CSR only to a limited extent. A reform proposal for long-term care was announced for release in early 2020 but no details have been revealed or discussed with stakeholders. The pension reform adopted in November 2019 improves the adequacy of pensions but puts a strain on the sustainability of the pension system in the long term. At the same time, measures taken in 2012 to limit early retirement seem to be having some effect, but the early exit from the labour market remains a challenge. Slovenia also implemented a number of measures to increase the employability of low-skilled and older workers. Other initiatives (such as on digital literacy) are still at the proposal stage.

Slovenia made some progress in addressing the second of the 2019 CSRs. Slovenia tries to support equity markets, mainly using EU funds but the still significant state ownership in some sectors and the regulatory framework continue to reduce the potential of Slovenia's capital markets to further develop (see Section 3.2.2). Slovenia continued improving the business environment. However, instruments like the Single Document, the regulatory impact assessments and the SMEs test are not fully effective yet (see Section 3.4.2). Slovenia also adopted an important reform of the National Review Commission, thereby strengthening independent oversight of public procurement. Slovenia is also training procurement officers and providing guidance to improve professionalisation of tendering authorities. There has been progress with e-procurement and the SME participation in tenders has increased. While the privatisation of state-owned or state-controlled banks, in line with obligations under state aid rules, was finalised in 2019 (see Section 3.1.5), other planned privatisations have come to a halt.

Slovenia made limited progress in addressing the third of the 2019 CSRs. The country is adopting and implementing relevant strategies and developing investment plans. This assessment does not take into account the contribution of the EU 2021-2027 cohesion policy funds ([8]). To tackle the challenges in the water sector, the Government proposed an amendment of the national water legislation in December 2019.

Upon request from a Member State, the European Commission can provide tailor-made expertise via the Structural Reform Support Programme to help design and implement growth-enhancing reforms. Since 2016, such support has been provided to Slovenia for about 40 projects. In 2019, several projects were delivered on the ground. The Commission, for example, facilitated the exchange of good practices on promoting supplementary pension savings. Support for improving the healthcare system also continued. Tools were developed to: (i) assess the performance of the health system; (ii) plan the healthcare workforce; (iii) assess patient safety; and (iv) measure the quality of care. In addition, Slovenia received assistance from the Commission for deploying integrated long-term care services and for updating the system for reimbursing hospital services. In 2019, work also started on promoting the labour-market integration of the long-term unemployed and those not in employment, education, or training. The Commission is also assisting the authorities in the preparation of the Strategic Environmental Assessment of the Slovenia's draft integrated national energy and climate plan.

([8]) The assessment of this CSR does not take into account the contribution of the EU 2021-2027 cohesion policy funds. The regulatory framework underpinning the programming of the 2021-2027 EU cohesion policy funds has not yet been adopted by the co-legislator, pending inter alia an agreement on the multiannual financial framework.

Table 2.1: **Assessment of the implementation of the 2019 Country-Specific Recommendations (CSRs)**

2019 Country-Specific Recommendations (CSRs)	Overall assessment of progress with 2019 CSRs:
CSR 1: *Achieve the medium-term budgetary objective in 2020. Adopt and implement reforms in healthcare and long-term care that ensure quality, accessibility and long-term fiscal sustainability. Ensure the long-term sustainability and adequacy of the pension system, including by adjusting the statutory retirement age restricting early retirement and other forms of early exit from the labour market. Increase the employability of low-skilled and older workers by improving labour market relevance of education and training, lifelong learning and activation measures, including through better digital literacy.*	Slovenia has made **limited progress** in addressing CSR 1 (*): • Limited progress in the reform of health care. • No progress in the reform of long-term care. • Limited progress in reforming the pension system. • Some progress in increasing the employability of low-skilled and older workers.
CSR 2: *Support the development of equity markets. Improve the business environment by reducing regulatory restrictions and administrative burden. Improve competition, professionalization and independent oversight in public procurement. Some progress in carrying out privatisations in line with the existing plans.*	Slovenia has made **some progress** in addressing CSR 2: • Limited progress in developing equity markets. • Some progress in improving the business environment. • Some progress in improving competition, professionalization and independent oversight in public procurement. • Some progress in carrying out privatisations in line with the existing plans.
CSR 3: *Focus investment-related economic policy on research and innovation, low carbon and energy transition, sustainable transport, in particular rail, and environmental infrastructure, taking into account regional disparities.*	Slovenia has made **limited progress** in addressing CSR 3: • Some progress in focussing investment-related economic policy on research and innovation. • Limited progress in focussing investment-related economic policy on low-carbon and energy transition. • Some progress in focussing investment-related economic policy on sustainable transport, in particular rail. • Limited progress in focussing investment-related economic policy on environmental infrastructure.

(*) This does not include an assessment of compliance with the Stability Growth Pact.
Source: European Commission
For CSR 3: The regulatory framework underpinning the programming of the 2021-2027 EU cohesion policy funds has not yet been adopted by the co-legislators, pending inter alia an agreement on the multiannual financial framework (MFF).

Box 2.1: **EU funds and programmes to address structural challenges and to foster growth and competitiveness in Slovenia**

Slovenia is an important beneficiary of the EU funds. The financial allocation from the EU Cohesion policy funds ([1]) for Slovenia amounts to €3.8 billion in the current Multiannual Financial Framework, equivalent to around 1.2% of the GDP annually. By the end of 2019, some €3.5 billion (around 93% of the total) was allocated to specific projects, while €1.6 billion was reported as spent by the selected projects ([2]), showing a level of implementation above the EU average.

While bringing about a more harmonious development through reducing economic, social and territorial disparities, EU Cohesion policy funding also contributes to addressing structural challenges in Slovenia. The Cohesion policy programme for Slovenia has allocated EU funding of almost €1 billion to smart growth, almost €1.2 billion to sustainable growth and sustainable transport and more than €800 million to inclusive growth.

EU Cohesion policy funding is contributing to major transformations of the Slovenian economy. It is doing so by promoting growth and employment through investments in areas such as research, technological development and innovation, competitiveness of enterprises, in low-carbon economy, sustainable transport, employment, social inclusion and education. By 2019, investments driven by European Regional Development Fund and Cohesion Fund have already supported cooperation of 180 enterprises with research institutions, over 15,000 people are already benefitting from improved water supply and almost 320,000 square metres of public buildings were renovated to be more energy efficient. The funds have also supported flood protection measures, which will benefit almost 18,000 people. More than 950 educational institutions will be connected to wireless networks and more than 310 new export companies will be supported. The European Social Fund focuses on helping people to find a job, in particular for young people (23,460 young people) and low-skilled and older workers (25,000 people). It also contributes to the promotion of social inclusion and the fight against poverty (19,000 people). 42,900 participants will be involved in programmes to acquire new skills and to raise their level of education ([3]).

Agricultural and fisheries funds and other EU programmes also support the investment needs. The European Agricultural Fund for Rural Development makes available in total €1.1 billion and the European Maritime and Fisheries Fund in total €30.2 million (including the national co-financing for both). Slovenia benefits also from other EU programmes, such as the Connecting Europe Facility, which allocated EU funding of €331 million to specific projects on strategic transport networks, and Horizon 2020 allocated EU funding of €257 million (including 153 SMEs with about €68 million).

EU funding helps to mobilise important private investment. By the end of 2018, European Structural and Investment Funds ([4]) supported programmes mobilised additional capital by committing about €333 million in the form of loans, guarantees and equity ([5]). This amount accounted for 8.8% of all decided allocations of the European Structural and Investment Funds.

EU funds already invest substantial amounts on actions in line with the Sustainable Development Goals (SDGs). In Slovenia, European Structural and Investment Funds support 12 of the 17 SDGs and up to 95% of the expenditure is contributing to those.

([1]) European Regional Development Fund, Cohesion Fund, European Social Fund, Youth Employment Initiative including national co-financing.
([2]) https://cohesiondata.ec.europa.eu/countries/SI
([3]) The source for indicators and data is the Annual Implementation Report 2018.
([4]) European Regional Development Fund, Cohesion Fund, European Social Fund, European Agricultural Fund for Rural Development Fund and European Maritime and Fisheries Fund
([5]) Member States' reporting on financial instruments based on Article 46 Regulation 1303/2013, cut-off date 31/12/2018.

3. REFORM PRIORITIES

3.1. PUBLIC FINANCES AND TAXATION

3.1.1. FISCAL POLICY

The general government headline balance remains in surplus, and the public debt ratio continues to fall. According to the Autumn 2019 Economic Forecast, the budget surplus is expected to have decreased from 0.8% of GDP in 2018 to 0.5% of GDP in 2019, due to the economic slowdown and tax relief on the annual holiday allowance (European Commission, 2019 b). The surplus is forecast to remain broadly stable in 2020 and 2021. In structural terms, the government deficit is expected to have deteriorated from 0.7% of GDP in 2018 to 1.0% in 2019 but is expected to improve slightly in the coming years. Supported by the headline surplus, active public debt management, the low interest rate environment and privatisation proceeds, public debt is projected to fall from 66.7% of GDP in 2019 to below 60% in 2021.

New tax measures adopted in October 2019 lower the tax burden on labour, while revenues from the recurrent taxation of immovable property and capital remain below the EU average. In addition to exempting the annual holiday allowance from income tax and social security contributions, the Parliament has adopted changes to the tax code to reduce labour taxes by lowering tax rates, increasing tax brackets and increasing the general allowance. The tax changes, which became effective at the beginning of 2020, mostly benefit middle-income and high-income earners, while low-income and secondary earners (spouses with lower labour income) keep facing a high labour tax wedge (European Commission, forthcoming). To compensate partially for the revenue loss, taxes on capital gains, rental income and corporate income have been slightly increased, and there are plans to improve tax collection. The government has withdrawn the new reform proposal on real estate taxation planned for 2020, although recurrent taxes on immovable property are considered to be less detrimental to growth than corporate taxes, and its revenues are currently low (0.5% of GDP compared to an EU average of 1.5% in 2018). Slovenia is also significantly below the EU average in its tax revenues from both capital stock and the various types of capital income (these tax revenues amount to 4.9% of GDP in Slovenia, ranking 21st among Member States, compared to an EU average of 8.5% in 2018), which should be part of a balanced and inclusive tax system.

Public expenditure has been increasing strongly. In 2019, expenditure is forecast to have grown faster than revenues, due to: (i) a substantial public sector pay rise negotiated with trade unions in late 2018; (ii) a further relaxation of temporary consolidation measures in the area of social transfers; (iii) an additional increase of social transfers; (iv) indexation of pensions; and (v) an increase in public investment. For 2020, the restricted payment of the performance bonus, stricter conditions for receiving unemployment benefits and lower public investment are expected to attenuate expenditure growth. However, expenditure growth will still remain high.

Ageing-related expenditure, particularly on pensions, puts pressure on the sustainability of Slovenia's public finances in the long term ([9]). The sustainability gap indicator S2 shows that a fiscal adjustment of 5.4% of GDP is required to stabilise the debt-to-GDP ratio in the long term, pointing to medium risks to long-term sustainability ([10]). This result is primarily driven by the projected increase in spending on pensions (contributing 3.6% of GDP to the increase). It does not yet take into account the pension measures adopted in November 2019, which are expected to increase the gap further (see Section 3.1.3). Health care and long-term care expenditure also contributed to the sustainability gap.

3.1.2. FISCAL FRAMEWORK

Slovenia's independent fiscal institutions fulfilled their obligations mandated by law. The scope of the mandate of both the Fiscal Council and the macroeconomic forecaster IMAD is one of

([9]) For an overview of fiscal sustainability assessment in the short, medium and long term, see Annex B and European Commission, 2020.

([10]) 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.

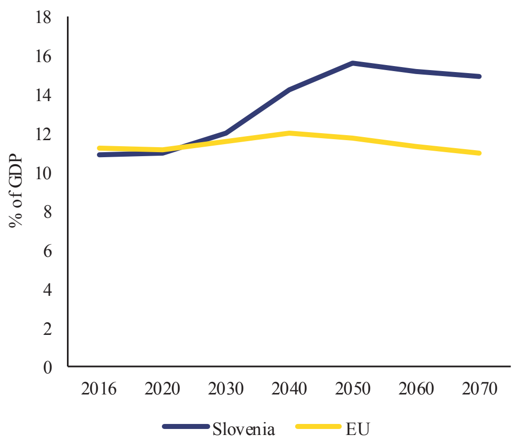
the broadest among the new Member States and close to the EU average ([11]). While the deviations of the annual budget from the medium-term budgetary framework are overall limited, the revised budgetary documents for 2019 are currently being reviewed by the Constitutional Court for not fully respecting the ceilings set in the adopted framework ([12]). The Fiscal Council assessed that fiscal rules will be complied with in 2020 and 2021. However, it also highlighted significant risks to compliance stemming from: (i) inconsistencies between the projections and the adopted or proposed measures; (ii) the possibility of adopting some pending measures with a negative budgetary impact; and (iii) risks related to the macroeconomic environment ([13]). In addition, the Fiscal Council has repeatedly pointed to the absence of comprehensive policies to ensure the long-term sustainability of Slovenia's public finances (see Section 3.1.1) ([14]). In response, the government confirmed its assessment that the draft budget for 2020 and 2021 is appropriate ([15]).

3.1.3. PENSION SYSTEM

The pension reform ([16]) in 2012 had positive short-term and medium-term effects on the adequacy and sustainability of pensions. The 2012 reform gradually increased the statutory retirement age to 65 for men (in 2016) and women (in 2020) and introduced higher penalties for early retirement. The 2012 reform also introduced bonuses for prolonging working lives (European Commission, 2017 a). The number of new old-age and other types of pensioners has been slowly decreasing since 2012, while the number of those contributing to the pension system has been increasing. The ratio between those contributing and those receiving pensions is thus improving. In 2018, it rose to 1.51, up from 1.38 in 2013. Another positive factor affecting this ratio is the inclusion of younger contributors in the pension and disability insurance system on the basis of student work (Government of Slovenia, 2019). The measures to limit early retirement appear to be successful. In 2018, 318 people retired early (less than 2% of new retirees) compared to 475 in 2017.

Recent projections indicate a considerable increase in pension expenditure in the long term. The 2012 pension reform is expected to provide a stable pension environment for a ten-year period only. As a percentage of GDP, pension expenditure in Slovenia is projected to increase from 10.9% in 2016 to 14.9% in 2070, which is one of the largest increases in the EU (European Commission, 2018 a). This can mostly be explained by: (i) the early exit of workers from the labour force, itself largely a result of previous pension legislation; and (ii) the retirement of the largest age cohorts, which will also enjoy longer retirement due to increased longevity (Government of Slovenia, 2019; IMAD, 2018; MoLFSAEO, 2018). Further delaying a pension reform aimed at improving the fiscal sustainability of the system increases pressure on government expenditure. Even though the transfer from the state budget to pensions has declined in recent years as employment has improved, it still exceeded €1 billion (2% of GDP) in 2018 (IMAD, 2019 a).

Graph 3.1.1: **Pension expenditure as % of GDP**



Source: The 2018 Ageing Report: Economic and Budgetary Projections for the EU Member States (2016-2070), European Commission

Long-term unemployment and long-term sick leave are often used as an early exit from the labour market and as a 'bridge' to retirement.

([11]) https://ec.europa.eu/info/publications/fiscal-institutions-database_en.
([12]) The framework for the preparation of budgets over 2018-2020 adopted in December 2018.
([13]) http://www.fs-rs.si/assessment-by-the-fiscal-council-compliance-of-the-proposal-of-budgets-of-the-republic-of-slovenia-for-2020-and-2021-with-the-fiscal-rules/.
([14]) http://www.fs-rs.si/wp-content/uploads/2019/08/Position-of-the-Fiscal-Council-July-2019.pdf.
([15]) http://www.fs-rs.si/wp-content/uploads/2019/10/mnenje7a.pdf.
([16]) Pension and Disability Insurance Act (2012).

Nearly 1 in 4 new retirees in 2018 previously had the status of an unemployed person in the year before their retirement. However, recent legislative changes imposed stricter eligibility conditions on unemployment benefits for older workers. Data indicate that long-term sick leave might also be used to exit the labour market early. The share of employees on long-term sick leave is increasing, and this is especially notable among women aged over 60. This development is not necessarily the result of severe illness. Instead, it may partly reflect the increase in the statutory retirement age introduced by the 2012 pension reform, which led to an increase in the number of older workers. Other features of the labour market, such as the absence of appropriate structural measures to adapt jobs to an ageing population and the lack of effective vocational rehabilitation of workers, may have contributed to this increase as well. These shortcomings potentially have a negative effect on the sustainability of public finances, through the pension and health funds (HIIS, 2018).

Poverty among elderly people, especially among women, is still a concern. In 2018, the at-risk-of-poverty or social exclusion (AROPE) rates for the age groups 65+ and 75+ were higher than the EU average (20.1% and 23.7%, respectively, compared to EU averages of 18.6% and 20.1%). These rates are especially high for women. Compared with the EU average, the Slovenian pension system produced, in 2018, relatively low aggregate replacement ratios (0.58 and 0.45, respectively) ([17]) and low median relative incomes of people aged 65+ (European Commission and Social Protection Committee, 2018). The fiscal consolidation measures adopted after 2012 considerably reduced current pensions as well as the minimum income provision for old people. In September 2019, around 8% of the old-age pensioners in Slovenia received net monthly pensions lower than €300 ([18]). The average gross old-age pension is substantially higher (about €640 in 2018) (PDIIS, 2018), but it still does not cover the full costs of care in a public nursing home, only basic care in public nursing homes (Republic of Slovenia, Court of Audit, 2019).

([17]) The replacement ratio is the median individual gross pension benefits of 65-74 age category expressed as a percentage of the median individual gross salary of 50-59 age category. Source Eurostat [TESPN070].

([18]) Internal data provided by the Pension and Disability Insurance Institute of Slovenia (PDIIS).

The amendment to the Pension and Disability Insurance Act (ZPIZ-2G) adopted in November 2019 will improve the adequacy of pensions. The amendment has two main objectives, namely to support longer work activity without increasing the statutory retirement age, and ensure a decent income in retirement. Provided that the pension-qualifying period of 40 years of work has been attained, the pension rate for men will be raised to the level applicable to women (from 57.3% to 63.5% of the long-term average pay) by 2025, which should improve the pension adequacy of future pensioners. Furthermore, the pension rate for both men and women who have worked for a minimum period of 15 years is also being raised from 26% to 29.5% of the long-term average pay. Higher pension rates will improve the income adequacy of the most vulnerable groups within the pension system, in particular the recipients of the lowest old-age, invalidity and survivors’ pensions. Higher pension rates will also increase disability insurance benefits. The new law also introduces an additional bonus (an accrual rate of 1.36% per child for up to three children), which would mainly improve pension adequacy for women. To encourage workers to work longer, major changes are envisaged in the so-called ‘dual status’. Pensioners, who qualify for the old age pension and continue to work, would for 3 years receive 40% of the pension they are entitled to, in addition to their salary. After that, their pension will drop to only 20%, as is the case now. However, the new law does not improve the social situation of current pensioners. Nor does it address the longstanding issue that social security contributions of active self-employed persons may be calculated on the basis of the minimum income amount. Currently 80% of self-employed persons make use of this possibility ([19]). Unless they have saved for retirement purposes through other channels, they would have to depend on the minimum old-age pension after retirement. (European Commission, 2019 a).

The amendment puts a strain on the sustainability of the pension system. The Fiscal Council has estimated that the new legislation will see pension expenditure increase by 1 pp. of GDP by 2040 and even more in the following years,

([19]) Internal data provided by the PDIIS.

further adding to long-term sustainability risks ([20]). Discussions have already started at the technical level between the government and social partners about a possible second reform step to improve the sustainability of the pension system. This second step may include updating the current indexation mechanism and/or increasing the statutory retirement age. However, no concrete measures have been agreed yet.

3.1.4. HEALTHCARE AND LONG-TERM CARE

The projected increase in healthcare spending due to ageing is weighing on the long-term fiscal sustainability of the system. In 2016, Slovenia's public spending on healthcare accounted for 5.6% of GDP, which was below the EU average of 6.8%. However, driven by changes in demographic structure, public spending on healthcare is projected to increase by 1.0% of GDP between now and 2070 (EU: 0.9%) according to the 'AWG reference scenario' ([21]) of the Council's Ageing Working Group (European Commission, 2017 a). When taking into account the impact of non-demographic drivers on future spending growth ('AWG risk scenario' ([22])), healthcare expenditure is expected to increase by 2% of GDP between now and 2070 (EU: 1.6 pps).

The share of health spending financed by the general government has been increasing, but remains below the EU average. The public share of total health spending has gradually grown since 2014 and reached 72.2% in 2017. This was still below the EU average of 79.4%. However, about half of private spending in Slovenia comes from voluntary healthcare insurance, which is almost a synonym for obligatory health insurance as the vast majority of citizens has taken out such insurance. Accordingly, voluntary healthcare insurance accounts for 14.3% of current health expenditure, the highest share in the EU. Other private spending comes almost entirely from out-of-pocket expenditure (12.3% of total health spending), which is one of the lowest shares in the EU (OECD/EOHSP, 2019).

Previous attempts to reform and broaden the funding sources for the health system have failed. The government relaunched the preparation of a new draft healthcare and health insurance act in autumn 2019. Given the current sensitivity of health sector revenues to labour market fluctuations, the draft act is expected to propose measures to diversify funding streams, such as replacing the current voluntary-health-insurance with a compulsory lump-sum contribution. The government intends to transform the health insurer into an active buyer of health services, promoting efficiency in contracting and quality. It plans to launch a consultation in mid-2020 and submit the proposal to the Parliament by autumn 2020.

Slovenia has experienced an increase in life expectancy at birth in recent years and has achieved most of the targets of the United Nations' SDGs for health. Life expectancy at birth was 81.2 years in 2017, up from 76.2 years in 2000. Preventive measures and concerted efforts across policy areas have contributed to declines in preventable mortality, although preventable mortality rates are still above the EU average. Suicide rates in Slovenia have considerably decreased since 2000. The growing number of cases of lung cancer in women is still of concern, but Slovenia is progressing with the implementation of a smoking reduction programme and achieving SDG 3. However, in 2017, more than 12 of the almost 20 years of life expectancy gained for Slovenians aged 65 were on average years in which they would have disabilities (Graph 3.1.2).

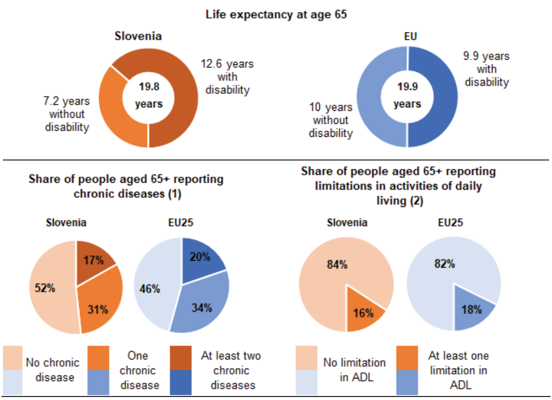
Primary care helps to limit hospital admissions but the number of physicians remains low. The primary care system contributes to low rates of avoidable hospital admissions compared to the EU average. However, the number of doctors in Slovenia (3.1 per 1,000 population) is well below the EU average and patients report difficulties registering with a general practitioner, even in densely populated urban areas. The authorities are trying to increase the attractiveness of working in the system, and more general practitioners are currently being trained.

([20]) http://www.fs-rs.si/wp-content/uploads/2019/09/Position-of-the-Fiscal-Council-September-2019.pdf.

([21]) In this scenario, healthcare expenditures are driven by the assumption that: (i) half of the future gains in life expectancy are spent in good health; and (ii) an income elasticity of healthcare spending is converging linearly from 1.1 in 2016 to unity in 2070.

([22]) The AWG risk scenario attempts to take into account technological changes and institutional mechanisms which have stimulated expenditure growth in recent decades.

Graph 3.1.2: **Dashboard on healthy ageing, 2017**



(1) Chronic diseases include heart attack, stroke, diabetes, Parkinson's disease, Alzheimer's disease and rheumatoid arthritis or osteoarthritis.
(2) Basic activities of daily living include dressing, walking across a room, bathing or showering, eating, getting in or out of bed or using the toilet.
Source: Eurostat database for life expectancy and healthy life years (data refer to 2017); SHARE survey for other indicators (data refer to 2017)

Action is being taken to reduce waiting times. Some 3.3% of the population reported unmet needs for medical care in 2018, mainly due to long waiting times for medical treatment. Waiting times affect all income groups equally. Several measures are being introduced or planned to improve management and reduce waiting lists. These include a mapping of healthcare and long-term care resources (infrastructure, equipment and healthcare workforce), an e-referral scheme and restricting unnecessary referrals to specialists. This will contribute to the achievement of SDG 3.

Inefficiencies in pharmaceutical spending exist despite recent efforts by the government. Spending on pharmaceuticals and medical devices is the third largest category of health expenditure in Slovenia and a major component of private spending on health (OECD/EOHSP, 2019). The authorities consider pharmaceutical policies to improve the situation in some hospitals or the competition in off-patent medicines, including regular updates on pricing and reimbursement and alternative procurement methods (see Section 3.4.4).

Slovenia has started a process to improve the governance of both the health system and the hospital financing system. New governance tools on health-workforce planning at national and regional level have been available since the third quarter of 2019. A system to assess the performance of the health system has been designed and is being implemented. Slovenia has also taken a first step to update the hospital financing system. This step aims to better match the costs of hospital care with insurance reimbursement levels, setting incentives for providing appropriate levels of care. The European Commission is helping Slovenia to implement key health-sector reforms in these areas, including health system governance, hospital financing, quality of care, and long-term care. In addition, the European Structural and Investment Funds are supporting the shift from inpatient to outpatient treatment of mental health conditions.

Regional disparities in the health of the population have somewhat decreased, but differences remain. From 2011 to 2017, regional disparities in life expectancy declined, which was mostly due to socio-economic factors. The Obalno-kraška region in Western Slovenia had the highest life expectancy at birth for women. In contrast, the life expectancy at birth for women in the Podravska region in Eastern Slovenia was more than two years lower. For men, the difference between the best and worst performing region was even more than three years (IMAD, 2019 a).

Needs for long-term care are growing even faster than for regular healthcare, but under the current system, the integrated provision of long-term care community services are underdeveloped. In 2017, spending on the health component of long-term care was 9.8% of total health expenditure, significantly less than the EU average of 17% (OECD/EOHSP, 2019). Furthermore, the share of out-of-pocket financing of long-term care costs has been steadily growing over the last decade and has reached almost 27% of these costs in 2017. In September 2019, the Slovenian Court of Auditors found that the state had failed to provide a viable, financially sustainable solution for long-term care during the last 10 years and to guarantee equal treatment for all. There is a risk that these costs will soon increase as the Slovenian population is ageing rapidly.

Efforts to regulate long-term care as part of a unified system in Slovenia have been underway for over 15 years. This is due in particular to the complexity of the system, requiring the interconnection of activities under the purview of several ministries, and the unresolved issue of financing. In 2019, Slovenia, with assistance under the structural reform support programme, progressed for the design of core parameters of the future long-term care system. Pilot schemes testing the future roll-out of the system at national level are ongoing. The government also announced that it would present a draft of a comprehensive law in April 2020 and that it expects the law to pass the parliamentary procedure by the end of 2020.

3.1.5. STATE-OWNED ENTERPRISES

Since the financial crisis, the presence of the state in the economy has been reduced and the management of state shareholdings improved. The interlinkages between state-owned banks and state-owned enterprises and political interference in corporate governance were one of the main causes of the deep crisis that hit Slovenia in 2012-2013. Bold policy actions had to be taken in response. In the aftermath of the crisis, a list of state-owned entities for privatisation was set up and the management of state shareholdings was centralised. In 2015, a state-asset-management strategy classified state shareholdings into three categories: portfolio, important and strategic. The strategy considered that only the latter category should obtain or maintain a majority government stake. For 'important' entities, the state shareholding could be reduced to 25% plus one share, while 'portfolio' entities could be sold off entirely. Important results were achieved subsequently. The state reduced its shareholdings in several sectors of the economy, albeit with some delays. The average net return on equity in these state-owned bodies almost doubled compared to 2013. The governance framework for state-owned enterprises was also brought in line with the relevant international guidelines (OECD, 2015; Vitale, forthcoming).

After two major divestments in 2019, the privatisation process is stalling and might even be partially reversed. In June 2019, the Slovenian Sovereign Holding (SSH) sold Abanka, the third largest bank in Slovenia, to a private investor and reduced the state's ownership in NLB, the largest bank, to 25% plus one share. The state remains by far the largest individual shareholder in NLB and can effectively control the bank. With these two sales, Slovenia has fulfilled commitments given to the European Commission in response to the State aid provided to banks in 2013 (as amended in 2018). No further relevant privatisations were conducted in 2019 or are planned for 2020 and beyond, despite the SSH's 2019 annual asset management plan (SSH, 2018), which still lists 25 'portfolio' and 19 'important' assets (including Abanka and NLB). Instead, the authorities ha implementing the government's tourism strategy, which envisages the consolidation and development of state-owned tourism companies. This would increase state ownership in the tourism sector, at least temporarily, although most of the relevant assets are classified as 'portfolio' or 'important'.

At the end of 2020, the operational capacity of the SSH may be weakened. In 2017, a law was passed mandating that the ownership of strategic and important assets should be transferred from the SSH back to the state by the end of 2020. For SSH, this would imply the loss of dividends from its holdings, which have been hovering around €40 million a year in recent years. If sufficient funding for SSH is not ensured, this could impinge on its capacity to perform its duties effectively. It could also weaken the separation between the state's exercise of its ownership function and other - potentially conflicting - state activities, such as market regulation or industrial policy (OECD, 2015).

The performance of state-owned enterprises was relatively good in 2018. With a 6.2% net return on equity on an aggregated basis, the performance of state-owned enterprises, that are fully managed by the SSH was slightly lower than in 2017 (6.5%) but above the target value of 6.1% set in the management plan (SSH, 2019).

3.2. FINANCIAL SECTOR

3.2.1. BANKING AND INSURANCE

The profitability, solvency and asset quality of the banking sector continue to improve. Return on equity reached 10.7% in 2018, up from 9.1% in 2017, mainly thanks to the net release of impairments. However, profitability might come under pressure when the current release of provisions comes to an end. The average capital adequacy ratio has slightly deteriorated (18.1% in June 2019) due to strong credit growth, but banks remain well capitalised. The non-performing loans ratio has improved further and reached 4.5% in June 2019, down from 7.4% one year earlier. Credit to households continues to grow at a dynamic year-on-year rate of 6.4% in July 2019, while lending to non-financial corporations is more moderate with a year-on-year rate of around 3.0%. With a loan-to-deposit ratio of 74.4% in June 2019, 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.

Banks need to find new sources of income and control costs to maintain profitability. Current profitability is mainly driven by decreasing impairments and by the release of 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 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.

Residential real estate prices grew strongly in 2018. As highlighted by the Bank of Slovenia, growth in residential real estate prices picked up in 2018, particularly in Ljubljana and Koper, and was among the highest in the euro area (Bank of Slovenia, 2019). There are first signs of a slowdown in 2019 (see Chapter 1).

Consumer lending is a source of concern, due to its high growth and long maturities. Consumer lending grew by 11.8% year-on-year in July 2019, partly driven by the aggressive behaviour of some medium-sized banks underwriting non-purpose-specific consumer loans of longer maturities. Consumer lending represents 27% of the total stock of household loans, the highest percentage in the EU. The average maturity of consumer loans at approval has lengthened markedly over the last 3 years. The original maturity of new consumer loans averaged 7 years in the first quarter of 2019, and exceeded 9 years at certain banks.

On 1 November 2019, the Bank of Slovenia activated binding borrower based measures to mitigate risks related to household lending. To prevent the relaxation of credit standards and to improve banks' resilience, the Bank of Slovenia

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

	2014q4	2015q4	2016q4	2017q4	2018q4	2019q2
Non-performing loans	22.8	17.9	12.3	9.2	6.0	4.5
o/w foreign entities	13.9	-	11.4	9.0	5.7	3.8
o/w NFC & HH sectors	28.5	-	16.4	12.2	8.0	5.9
o/w NFC sector	43.5	36.8	26.8	20.2	13.3	9.3
o/w HH sector	7.8	7.2	4.8	3.9	3.0	2.7
Coverage ratio	53.3	59.3	60.3	59.6	57.7	57.1
Return on equity(1)	-2.5	3.5	7.8	9.1	10.7	12.3
Return on assets(1)	-0.3	0.4	1.0	1.1	1.3	1.5
Total capital ratio	17.9	18.6	19.1	18.1	17.9	18.1
CET 1 ratio	17.1	18.0	18.5	17.7	17.6	17.6
Tier 1 ratio	17.1	18.0	18.5	17.7	17.6	17.6
Loan to deposit ratio	79.4	74.1	74.0	74.7	73.1	74.4

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

had already decided on 22 October 2018 to expand the existing macroprudential recommendation for housing loans to all consumer loans (European Commission, 2019 a). Despite these measures, the risks associated with consumer lending remained elevated and banks continued to deviate significantly from the recommendations. Therefore, as of November 2019, the Bank of Slovenia changed the recommendation into a binding instrument, placing caps on the maturity of consumer loans (7 years) and on the debt service-to-income ratio for all household loans.

The Bank of Slovenia has faced considerable public and political pressure to withdraw its macroprudential measures. The Banking Association, and some important members of the government have strongly criticised the macroprudential initiative of the Bank of Slovenia, some of them even asking the Bank of Slovenia to reverse it. Such pressures should not hamper the independency of the Bank of Slovenia.

Non-performing loans (NPLs) have continued their downward trend. Declining NPLs are reported by both the Bank of Slovenia and the European Central Bank. The segment of the credit portfolio most heavily burdened with NPLs is non-financial corporations, despite the improving credit quality of this segment. According to the European Central Bank, NPLs to non-financial corporations fell from 16.3% in June 2018 to 9.3% in June 2019, thanks to a favourable economic environment, solid credit growth and resolute actions by the banks and regulators. Repayments, sales of claims, write-offs and collateral liquidation accounted respectively for 33%, 25%, 25% and 10 % of the reduction in non-performing exposures in 2018. Collateral liquidation is projected to grow in 2019 and 2020, while sales are likely to decrease significantly.

The Bank Asset Management Company (BAMC) is progressing towards fulfilling most of its mandate, especially in terms of profitability and assets reduction. The state-owned BAMC, which bought up bad loans from the country's banks in 2013 and 2014, made a profit of €57.7 million in 2018 (compared with €67 million in 2017), after two years of moderate losses. This translates into an average annual return on equity of 28.9% in 2018. Between its inception in 2013 and December 2018, the BAMC generated cumulative cash flows of over €1.5 billion, representing about 74.1% 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. Its objective is to reduce its assets to €126.7 million by the end of its mandate in December 2022. The BAMC is confronted with a number of challenges. Firstly, achieving the cost efficiency ratio set by the government will become more and more difficult as residual assets are more costly to manage. Secondly, keeping skilled staff with knowledge of the files in a company with such a short life expectancy is challenging as their skills can sometimes be better remunerated elsewhere.

Although it has significantly decreased, the stake of the Slovenian state in the financial sector remains substantial. The sale of 75% of the shares of Nova Ljubljanska Banka (NLB) and the privatisation of Abanka are steps in the right direction. However, the Slovenian state still controls a significant share of the financial sector through its stakes in NLB and Sava Re. The state directly or indirectly controls 60% of the insurance sector in terms of gross written premiums, an unusually high share in such a non-strategic sector and an outlier in the EU. Several attempts by a foreign insurance group to increase its stake in Sava Re were rejected. Maintaining a high level of state involvement may entail in the longer run risks for financial stability, economic efficiency and public finances (see Section 3.1.5).

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

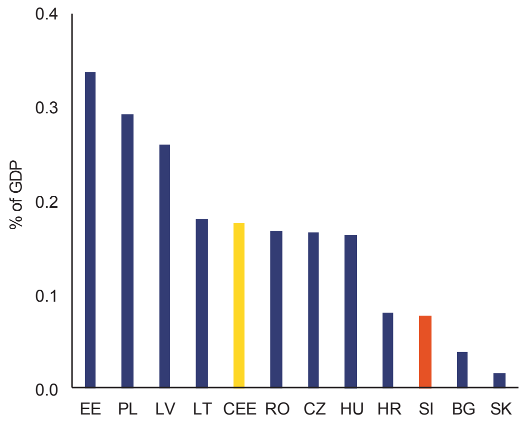
In a context of very low interest rates, banks financing constitute the bulk of the external funding of SMEs. Credit lines, leasing and bank loans were more relevant and more used for Slovenian SMEs than on average in the EU. In Slovenia, bank loans were relevant for 52% of SMEs (and used by 23% of them), while credit lines were relevant for 60% (used by 40%). Leasing was relevant for 53% and equity for 17% (European Commission, 2019 c).

Equity funding remains underdeveloped in light of the ambitions of the Capital Market Union. The limited availability of equity funding in Slovenia adversely affects its innovative start-up and scale-up environment. Slovenia lags behind other EU and central and eastern European countries (e.g. Czechia, Slovakia, Croatia) in the share of private equity funding for businesses (Invest Europe, 2019). Private equity is important for scale-ups, notably those that are looking for more than €500 000 of external funding. Venture capital remains scarce, partly due to an unfavourable regulatory environment and low inflows of venture capital from abroad. According to the European Investment Fund (EIF, 2019), venture capital investment in Slovenia as a share of GDP is one of the lowest in the EU. Slovenia also ranks low in terms of SMEs' confidence in talking about financing with equity investors and venture capital firms and in obtaining the desired equity, with only 9% of the respondents reporting that they felt confident doing this, which is significantly below the EU average of 22% (European Commission, 2019 c). Lack of financial and investment literacy among some types of SMEs and lack of trust in alternative financial sources and the continuity of public financial incentives are contributing to the challenge.

The Slovenian capital market has limited effectiveness and attractiveness in bringing investors and companies together. The liquidity of the Slovenian stock exchange is limited ([23]). Low trading volumes lead to high per-trade costs. This may be one explanation for why Slovenia lags behind the EU average in its stock market capitalisation. The development of the local capital market could be stimulated by growth funds, further listings (including of currently state-owned enterprises), and allowing private and public pension funds to invest more in equity.

([23]) About 40 companies are listed on the Ljubljana Stock Exchange.

Graph 3.2.1: **Private equity investments as a % of GDP, average 2016-2018**



(1) CEE: Central and Eastern Europe.
Source: Invest Europe

After a period of rapid growth, Slovenia's FinTech markets have entered a calmer period. Slovenian companies have had a high success rate on several international crowdfunding platforms. Slovenian companies also raised significant funding through initial coin offerings. In 2017, around 5% of funds raised in global initial coin offerings went to Slovenian projects. More recently, the FinTech scene has seen a period of calm, with less projects initiated. Slovenia is preparing a new regulatory framework for block-chain technology. This could include the creation of a regulatory sandbox to facilitate further FinTech innovation.

Slovenia is actively beefing up its equity markets with the help of EU funds. According to the 2018/19 Global Entrepreneurship Monitor survey, Slovenia ranks above the average of high-income countries in the support it gives to SMEs to access finance. The government supports the development of the capital market in particular through studies and pilot projects aimed at improving capital market conditions for SMEs. In August 2019, the Slovene Enterprise Fund (SEF) launched a public call "Seed Capital – Co-investment with private investors", aimed at supporting innovative start-ups with high growth potential for equity capital, and at encouraging private investors to invest into the seed stage of company development. After favourable first experiences, the government plans to increase the scope of this investment fund in the coming years, mainly by using the EU cohesion policy funds.

Furthermore, in 2018, the SEF invested €8 million in the Central European Fund of Funds with the aim of raising equity investment in SMEs. Slovenia's development bank (SID Bank) and the European Investment Fund (EIF) with EU guarantee (EFSI) back the Slovene Equity Growth Investment Programme, each providing €50 million. The programme supports Slovenian SMEs and midcaps (i.e. companies employing up to 3,000 employees), with equity investments aiming to support business growth and expansion, including internationalisation.

3.3. LABOUR MARKET, EDUCATION AND SOCIAL POLICIES

3.3.1. LABOUR MARKET

The labour market continues to record improvements, in line with economic growth. The employment rate continued to increase accompanied by a decline in the unemployment rate (see Chapter 1). The activity rate increased to 80.2% in Q3 2019, above the EU average of 78.8%. The long-term unemployment rate decreased to 2.2% in 2018, compared with the EU average of 2.9%. Labour market improvements are also evident for young people, as the youth unemployment rate decreased sharply (8.8% in 2018 from 11.2% in 2017). Slovenia is performing well on the gender employment gap, which in 2018 was 7.3 pps (against the EU average of 11.5 pps). However, the country is moving away from the SDG target to close 'the gender gap in the inactivity rate due to caring responsibilities'. Furthermore, as a result of the ageing population, challenges, in terms of labour market participation, still persist for older workers (employment rate of 48.9% in Q3 2019 compared to 60.2% in the EU), and, particularly, the low-skilled older workers (employment rate of 27.5% in Q3 2019 compared to 45.3% in the EU).

The long-term unemployment of older workers remains a major challenge. In 2018, the long-term unemployment as a percentage of total unemployment of the 55-64 age group was 63.7% (versus an EU average of 58.9%). This is also because unemployment benefits and long-term sick leave are used as a 'bridge' to (early) retirement (see Section 3.2). The wage-setting mechanisms, where wages increase rapidly with seniority, may also contribute to reducing the employability of older workers (European Commission, 2017 a). The government focused its efforts on reducing the low employment rate of workers in the 45-54 and 55-64 age categories, by imposing stricter eligibility conditions for receiving unemployment benefits. The inactivity of people in these age categories has a direct negative impact on the sustainability of the pension and health systems (see Section 3.1.3). One of the remedial measures taken by Slovenia to tackle this issue was the introduction of a subsidy for employers that hire people older than 58 on a permanent basis, with priority given to the employment of recipients of unemployment benefits and cash social assistance. The measure is co-financed by the European Social Fund (European Commission, 2019 a).

In 2019, the authorities continued their efforts to reform the unemployment benefit schemes. Following the amendments to the Labour Market Regulation Act passed by the Slovenian Parliament in November 2019, the minimum monthly unemployment benefit will significantly increase from €350 to €530 gross. This will bring it up to the same level as the net basic minimum income for single-person households, which is €402 net. At the same time, the eligibility conditions to access unemployment benefits have been tightened across the board.

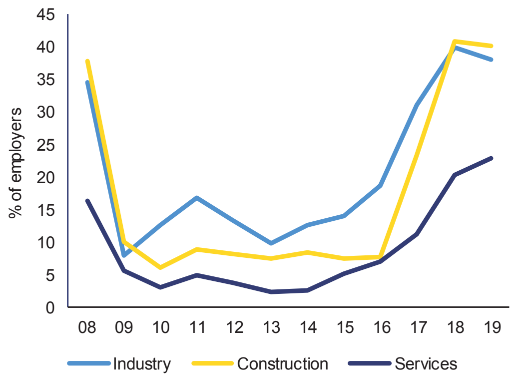
Consultation of social partners in the Economic and Social Council on legislative proposals has been standard for a long time, but some challenges remain concerning the practical effectiveness of social dialogue. In autumn 2019, the government and the Economic and Social Council agreed to widen the consultation of the social partners from legislative proposals of the government to all legislative proposals tabled in the Parliament. However, late involvement of social partners in the consultations and lack of resources rather often limit the social partners' ability to participate effectively in the social dialogue (European Commission, 2018 b).

Active labour market policies are still not sufficiently effective in addressing long-term unemployment. In Q2-2019, the long-term unemployed accounted for 53.3% of all unemployed persons (ESS, 2019), but only for 30% of those included in active labour market policies, although they would have priority. Active labour market policies lack sufficient funding, and funding is not efficiently allocated across different measures and regions. The lack of flexibility in their design and delivery reduces the efficiency of these measures. As a result, current active labour market policies are not suited to address regional differences and specific needs, which limits their effective targeting. Furthermore, there are challenges in creating incentives for the unemployed to search for work. These challenges are partly due to a lack of consistency and policy coordination between the design of active labour-market policies and other related social-policy areas (notably the social protection system). Evaluations of active labour-market policies to date are not sufficiently formalised nor focused on long-term effects.

Despite recent positive developments, the persistently high segmentation in the labour market for young people remains a challenge. The share of employees in precarious contracts ([24]) is at 3.7% (2018) significantly above the EU average of 2.1%. The employment recovery led to the creation of many permanent jobs, but young people are still more likely than other age groups to be employed in non-standard types of work. These non-standard types of work include self-employment; temporary or part-time jobs; involuntary part-time work; and low-paid jobs. While the share of temporarily employed young people has declined in recent years, it remains very high: 67% in 2018, significantly above the EU average of 43.5%.

Labour shortages occur in all sectors. The share of employers reporting labour shortages in 2019 has been high across all sectors (Graph 3.3.1), particularly in construction and industry (40.1% and 38.0%, respectively). However, in both these sectors, it has declined compared to 2018. In the services sector, 22.8% of employers reported labour shortages in 2019 (an increase of 2.6pps compared to 2018).

Graph 3.3.1: **Labour shortages as reported by employers in the industry, construction and services sector, 2008-2019**



Source: Eurostat

([24]) Precarious work, which is characterised by low job and income security, does not have a universally accepted definition. According to Eurostat, the term precarious work covers all forms of employment with a contract duration of less than three months.

As Slovenia's population ages, adult up-skilling and re-skilling assume considerable importance. Only 70,000 jobs are categorised as belonging to elementary occupations while the total number of adults with lower secondary qualification or less is around 210,000 and only around 1,000 adults acquire an upper-secondary qualification each year (European Commission, 2019 d). This highlights the need for a more substantial upskilling and reskilling effort. The participation of older employees in lifelong learning is also too low to facilitate adaptation to job digitalisation and automation or for bridging the knowledge and skills mismatch (IMAD, 2019 a). As a share of GDP, Slovenia spends less than a half as the OECD countries on average, on active labour market policies, including re- and up-skilling measures (0.24% compared to 0.52%, respectively, in 2016).

3.3.2. EDUCATION AND SKILLS

Participation in early childhood education and care is growing, but there are gaps for certain groups. Participation for children over 4 years was 92.1% in 2017, close to, but still below, both the EU benchmark of 95% for 2020 and the EU average of 95.4%. Participation is low among children from migrant and low socioeconomic backgrounds. These are precisely the children who could benefit substantially from the proven social, intercultural and educational impact of early childhood education and care. Since autumn 2018, kindergartens can apply for funds to offer short free programmes of 240 hours to children in their last year before primary education who have not previously participated in early childhood education (European Commission, 2019 d).

The early-school-leaving rate is low, and the achievement of basic skills is good, but there is a large gender gap in reading skills. Slovenia's early-school-leaving rate of 4.2% (2018) is significantly below both the EU average of 10.6%, and Slovenia's own Europe 2020 national target of 5% (European Commission, 2019 d). It also ranks among "best performers" on the Social Scoreboard. The OECD's Programme for International Skills Assessment (PISA) shows that the share of underperformers in Slovenia is below the EU average in all three skills ([25]). However, the share of underperformers increased by 2.7 pps for reading while remaining largely stable for the other two skills. In December 2019 the Government adopted national strategy for the development of reading literacy 2019-2030. The share of top performers is above the EU average for mathematics and science, but below for reading (OECD, 2019 a). The gender gap in the share of low achievers in all three skills is above the EU average and growing, with boys performing worse, especially in reading (13.9 pps gap, 1.8 pps higher than in 2015, EU average: 9.4 pps).

Migrant background and school characteristics significantly affect educational outcomes. The difference between the average performance of learners with a migrant background and that of native students is one of the largest in the EU and has grown since 2015. The gap between schools with many pupils with the migrant background – often vocational schools- and other schools is one of the largest in the EU (OECD, 2019 b). The number of hours of Slovenian language lessons available to migrants significantly increased in 2019 from 35 hours to a minimum of 120 hours per pupil in the first year of education.

Despite a post-crisis decline, education spending remains significantly higher than the EU average and is set to increase further in 2020. In 2017, general government expenditure on education was higher than the EU average, both as a proportion of GDP (5.4% compared to an EU average of 4.6%) and as a proportion of total general government expenditure (12.6% compared to an EU average of 10.2%) (European Commission, 2019 d). However, the GDP share is significantly lower than the 6.6% of GDP in 2009. The government has, in the coalition agreement, agreed to increase it to 6% of GDP. The government agreed a three-step increase in salaries in the public sector (including teachers) in 2019 and 2020, with a 4% increase for each step. The first two steps were implemented in January and in November 2019.

A growing number of teachers are approaching retirement age and shortages are already appearing in certain fields. More than 50% of tertiary education teachers are over 50 years old. The proportion of teachers over 50 is somewhat lower at lower education levels. There is a shortage of special education experts, and in some rural areas also for teachers of subjects such as science, technology, engineering, and mathematics (European Commission, 2019 d). The proportion of teachers who feel well or very well prepared in using information and communications technology for teaching (67%) is much higher than the EU average (39.4%). The percentage of teachers who believe that teaching is a valued profession in society (5.6%) is one of the lowest in the EU (OECD, 2019 c).

Tertiary attainment is high, but significant differences between men and women and between native-born and foreign-born raise concerns. The percentage of people aged 30-34 with tertiary qualifications in 2018 was 42.7%, above the EU average of 40.7%, but declined significantly from 46.4% in 2017, which might be partially due to the deadline for completion of pre-Bologna studies by 2016. This percentage is much higher for women (56.3%) than for men (31.6%), with the gap being the largest in the EU ([26]). This is detrimental to meeting SDG 5. There is also a very large difference between the tertiary attainment of native-born (45.3%) and that of foreign-born (22.1%) (European Commission, 2019 d).

Slovenia has developed a graduate tracking mechanism that could help improve the labour market relevance of tertiary education. It should make it possible to monitor the careers of graduates (MIZS, 2019) and provide information on labour market needs for different disciplines to policy makers, universities and students.

The discrepancy between the qualifications of the Slovenian labour force and the labour market needs has significantly increased in the last decade. In 2018, almost one in six (15.6%) highly qualified people in Slovenia were employed in occupations that do not require tertiary education (Graph 3.3.2). This share is lower than in the EU. It has, however, more than doubled since 2008 (7.1%), although this may be due to

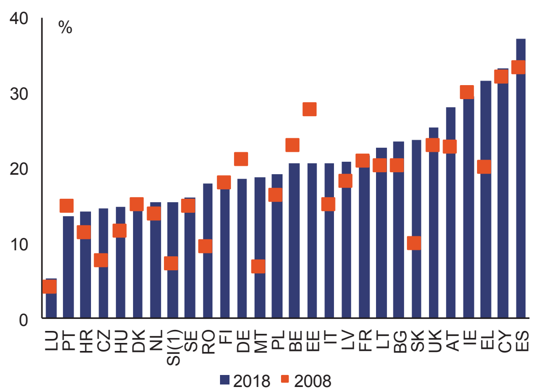
([25]) The 2018 results were as follows: mathematics: 16.4%, EU average: 22.4%; science 14.6%, EU average: 21.6%; reading: 17.9%, EU average: 21.7%.

([26]) This gender difference seems set to continue. Almost two thirds of students in Slovenia in 2017 were female.

methodological changes in 2011 and 2014. Some skills anticipation activities take place in Slovenia, although there is no comprehensive and coordinated system in place.

Although Slovenia ranks close to the EU average regarding digital skills, a major source of concern is the low level of inclusion of digital skills in the curricula of primary and secondary schools (European Commission, 2019 e). Slovenia did not advance in integrating digital skills into the educational curricula, but changes in this area have been announced and progress will be monitored. Development and assessment of digital competences is not yet comprehensively integrated into the curricula. The specific standards of knowledge for these competences, their assessments and the use of information and communication technologies for this purpose are still in the pipeline. Digital skills improve at tertiary level, with a share of graduates in science, technology, engineering, and mathematics close to the EU average. The percentage of female graduates in these subjects is the highest in the EU at 20.5% (European Commission, 2019 e). According to a 2017 business survey of foreign investors in Slovenia, 64% of them encountered difficulties when searching for adequately skilled personnel (SPIRIT, 2017). However, this difficulty may partly be caused by brain drain.

Graph 3.3.2: **Share of graduate employed in occupations that do not require tertiary education**



(1) Breaks in the time series in 2011 and 2014
Source: Eurostat

Regional differences in education and learning are not very pronounced. Indicators of regional disparities in education are less pronounced than for other indicators, such as GDP per capita or R&D intensity (OECD, 2019 d). However, Western Slovenia fares better than Eastern Slovenia, in particular concerning the share of adults with tertiary education and the participation rate in life-long learning. Disparities of the above-mentioned areas are higher at a more granular geographical level. The participation rate in life-long learning in Osrednjeslovenska is more than 15%, whereas it was less than 5% in Prekmurje (IMAD, 2019 a).

Slovenia's 2030 strategy for development sets 2030 targets for sustainable development goals in education. Slovenia wants to significantly improve the participation rate in lifelong learning. From 12% in 2017 it should rise to at least 19%. The share of adults with tertiary education should rise from 32.5% in 2017 to 35% in 2030. This would contribute to SDG 4.

3.3.3. SOCIAL POLICY

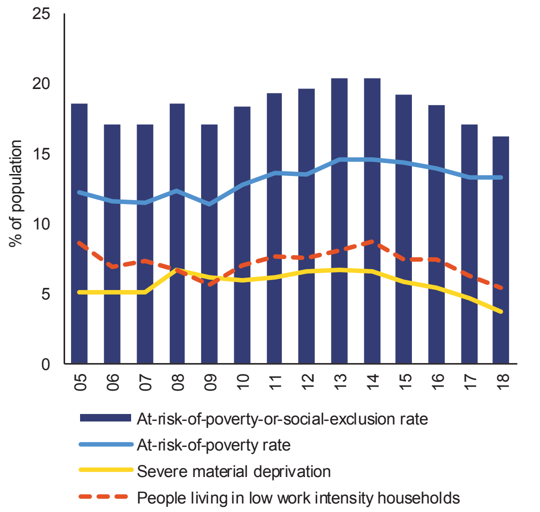
Since the economic recovery, the risk of poverty or social exclusion has been falling, but remains higher in the eastern than in the western region. Two of the areas with the highest share of materially deprived people are in the eastern region. For both areas, the share of materially deprived people was above 19%. In 2017, almost 10% of households in Zasavska were receiving some form of assistance, which is five times more than the share in the regions with the lowest unemployment rates.

There is a downward trend in the share of people at risk of poverty or social exclusion, except for the elderly. Compared to the previous year, the at-risk-of-poverty or social exclusion rate (AROPE) ([27]) decreased by 0.9 pps to 16.2% in 2018, below the EU average of 21.9% (Graph 3.3.4). Slovenia has the lowest child (0-17 years) poverty rate (13.1%) in the EU. However, for people aged over 65, the AROPE rate increased from 18.3% in 2017 to 20.1% in 2018, well above the EU average (18.6%). This rate deteriorated even more evidently for elderly women, increasing to 24.4% in 2018, against an EU average of 20.9%.

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

The drop in the at-risk-of-poverty or social exclusion rate is due to the decrease in the severe material deprivation rate (by 0.9pps) and the very low work intensity rate (by 0.8pps). The at-risk-of-poverty rate (AROP) remained the same as in 2018 (13.3%), which is below the EU average (17.1%). Out of about 268,000 people in Slovenia, living below the at-risk-of-poverty threshold in 2018, 89,000 were retired (18.1% of all retired persons), of which 60,000 were women. (SURS, 2019).

Graph 3.3.3: **At-risk-of-poverty-or-social exclusion rate in its components**



Source: Eurostat, European Commission

Overall, social benefits in Slovenia reduce both the incidence of poverty and its depth. In 2018, social benefits played a significant role in alleviating poverty by reducing the poverty rate by 43.16% and the depth of poverty rate by 67%. Sickness and disability benefits had the largest effect on both the poverty rate (reducing it by 28%) and its depth (reducing it by 45%).

Box 3.3.1: Monitoring performance under the European Pillar of Social Rights

The European Pillar of Social Rights is a compass for a renewed process of upward convergence towards better working and living conditions in the European Union. It sets out 20 essential principles and rights in the areas of equal opportunities and access to the labour market; fair working conditions; and social protection and inclusion.

Slovenia performs relatively well on most indicators of the Social Scoreboard supporting the European Pillar of Social Rights. Strong economic growth contributed to the continued increase in employment and the further decrease in unemployment. The share of people at risk of poverty or social exclusion has further declined, although it remains well above the EU average for elderly people, and especially for elderly women. The income quintile ratio (S80/S20) is well below the EU average, making Slovenia one of the most equal countries in the EU. The net earnings of a full-time single worker earning the average wage are slowly increasing but should be monitored. Self-reported unmet needs for medical care reached the EU average.

SOCIAL SCOREBOARD FOR SLOVENIA		SDGs
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	4 QUALITY EDUCATION
	Youth NEET (% of total population aged 15-24)	
	Gender employment gap	5 GENDER EQUALITY
	Income quintile ratio (S80/S20)	10 REDUCED INEQUALITIES
	At risk of poverty or social exclusion (%)	
Dynamic labour markets and fair working conditions	Employment rate (% of populationaged 20-64)	8 DECENT WORK AND ECONOMIC GROWTH
	Unemployment rate (% of population aged 15-74)	
	Long-term unemployment rate (% of population aged 15-74)	
	GDHI per capita growth	
	Net earnings of a full-time single worker earning AW	
Social protection and inclusion	Impact of social transfers (other than pensions) on poverty reduction	1 NO POVERTY
	Children aged less than 3 years in formal childcare	
	Self-reported unmet need for medical care	3 GOOD HEALTH AND WELL-BEING
	Individuals' level of digital skills	

Critical situation	To watch	Weak but improving	Good but to monitor	On average	Better than average	Best performers

Members States are classified on the Social Scoreboard according to a statistical methodology agreed with the EMCO and SPC Committees. It looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories. For methodological details, please consult the proposal for a Joint Employment Report 2020, COM(2019) 653 final. Update of January 2020.

NEET: Neither in employment nor in education or training

GDHI: Gross disposable household income

The participation of older and low-skilled workers in the labour market remains a challenge. Despite positive trends in recent years, the activity and employment rates of these workers remain well below the EU average. Their participation rate in lifelong learning is also below the EU average. Slovenia developed a number of 'activation' measures to address this issue (see Section 3.3.1.).

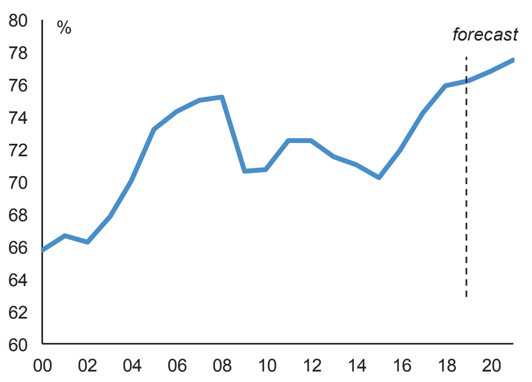
Slovenia is one of the countries leading the EU in the prevention of early leaving from education and training. With a rate of only 4.2% of early leaving from education and training in 2018, Slovenia continues to be well below the EU average (10.6%) and its Europe 2020 national target of 5%. The country has put in place preventive measures to identify students who are at risk of leaving school early; and to offer professional/educational assistance and inclusion in the school counselling process. In addition, the ESF-financed programme Project Learning for Young Adults targets the vulnerable group of young adults who leave school early and are not in employment, education, or training. Project Learning for Young Adults helps them to develop their potentials for successful participation in education; and to build professional identity to facilitate their integration into employment and the wider society. Slovenia also adopted many measures to create a supportive school environment for pupils with migrant backgrounds, a group with a higher rate of early school leaving than their non-migrant peers both in Slovenia and in other EU Member States.

3.4. COMPETITIVENESS REFORMS AND INVESTMENT

3.4.1. PRODUCTIVITY ENHANCING INVESTMENT

Labour productivity growth is resuming after a period of rather limited convergence with euro area levels. Labour productivity grew by 2.3% in 2018, substantially more than the average of the EU and the euro area. This helped Slovenia's ongoing process of convergence towards the average level of productivity in the euro area (see Chart 3.4.1). Labour productivity growth in 2018 was especially concentrated in services, but was weak in manufacturing.

Graph 3.4.1: **Labour productivity in Slovenia as a ratio of labour productivity in the euro area**

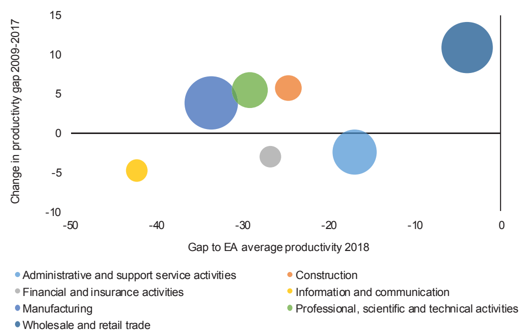


(1) GDP per hour worked in purchasing power standard.
Source: European Commission

The recovery of productivity has been driven by efficiency gains, while investment remains low. Since 2012, total factor productivity has grown strongly, indicating that the economy is becoming more efficient. However, investment remains relatively low. In 2018, private investment accounted for only 15.7% of GDP, 2% of GDP pps above the trough of 2015, but still 2.4% of GDP below the euro area average. Investment has been particularly low in areas such as transport infrastructure and housing construction.

Certain service sectors are rapidly catching up to the euro area average. Supported by relatively fast growth in foreign demand since the financial crisis, the strongest productivity growth has been recorded in transport and in technologically intensive and export-oriented manufacturing activities. However, productivity growth in manufacturing as a whole has remained broadly in line with the euro area average, leaving the gap almost unchanged. Certain service sectors (e.g. wholesale and retail trade; professional, technical and scientific activities) have seen rapid catching up with the euro area average. This is possibly due to the market-opening measures taken after the crisis (Graph 3.4.2). Significant productivity gains have also been recorded in administrative and support services. This is largely due to the rapid productivity growth in private employment agencies (IMAD, 2019 b). Two sectors have seen their productivity diverging further from the euro area average in recent years. The first of these is information and communication technology services, especially telecommunications. The second is the construction sector, which since 2009 has been faced with lower demand and structural changes.

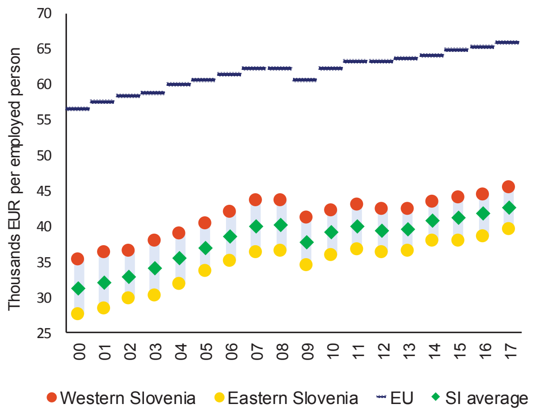
Graph 3.4.2: **Productivity gap by sectors, 2009-2018**



Source: Eurostat, European Commission

The productivity gap between Western and Eastern Slovenia is closing, accompanied by declining employment in the east. Labour productivity in Eastern Slovenia grew by 1.4% annually between 2010 and 2017, considerably more than in the western part (1.0%) and the EU average (0.8%) (Graph 3.4.3). Productivity growth in the eastern region went with employment losses (-0.4% annually in the same period), which points to the restructuring process in the regional economy. On the other hand, the western region experienced growth in both productivity and employment. Eastern Slovenia still shows considerably higher employment concentration in industry (28% of total employment) and agriculture (11% of total employment), both with a lower productivity than the EU average. Productivity in Eastern Slovenia is lower than in Western Slovenia in all sectors except 'financial and other services'.

Graph 3.4.3: **Productivity growth**



(1) Unit: Real gross value added (GVA) in thousands EUR (2015 prices) per employed person.
Source: Eurostat, European Commission

Western Slovenia scores better than the eastern region across a number of economic and social indicators. Western Slovenia scores significantly better than the eastern region in the 2019 regional competitiveness index. The gap is considerable in all the areas that are important for the development of a modern economy. Eastern Slovenia has a lower share of people with tertiary education; a higher share of people with low educational attainment; lower public and private R&D investment; lower employment in high-technology sectors and knowledge-intensive services; and less internet use by individuals.

Research and development

Slovenian firms actively innovate, although certain indicators of innovation performance showed some decline in 2018. Slovenia has lost some ground on innovation performance: while Slovenia has ranked very high on the European Innovation Scoreboard since 2011, its performance fell in 2018 (European Commission, 2019 f). This fall can be attributed to decreases in specific indicators in areas like investment, human resources, linkages or sales of product innovations. As a result, Slovenia is no longer a 'strong innovator' but only a 'moderate innovator', a one-scale drop in the ranking. There is still a significant difference in innovation performance between the stronger western region and the weaker eastern region. However, there are innovation hubs not only in Ljubljana but also in the eastern cities of Celje and Maribor. Both employment in high-tech ([28]) and knowledge-intensive services ([29]) sectors are concentrated in the western region (European Commission, 2019 d).

Domestic firms, notably SMEs, are on average less innovative than in the past. Half of Slovenian firms developed or introduced new products, processes or services in 2019. This is above the EU average and twice the share recorded in previous years. Furthermore, almost four in ten firms in Slovenia portray themselves as either active innovators or developers, more than the current EU average (28%). However, innovation activity of enterprises has declined across all size classes of company since 2010. In the past 3 years, small enterprises and the manufacturing sector recorded the largest decline (EIB, 2019; IMAD, 2019 a). Foreign-owned firms account for 39% of the country's total business enterprise expenditure on R&D. They perform innovation activities in the medium- and high-tech manufacturing sectors. More than half of the patent applications filed by Slovenian businesses with the European Patent Office in 2010-2018 were filed by large enterprises from these technological fields.

Business R&D intensity is relatively high but public R&D expenditure is modest and the 3% R&D intensity target seems out of reach. R&D intensity was 1.95% of GDP in 2018 (EU average: 2.11%), returning to its 2010 level, after peaking at 2.56% in 2013. This has been driven by business R&D expenditure which stood at 1.45% of GDP in 2018 (above the EU average of 1.41%), also returning to its 2010 level, after peaking at 1.96% of GDP in 2013. The peak in 2013 followed the introduction of substantial R&D tax reliefs in 2010 ([30]). The subsequent decline can be explained by stricter controls on business R&D reporting and the termination of the financing of R&D in centres for excellence, competence and development, which were co-financed by the EU (IMAD,

([28]) 7.3% of total workforce in Western Slovenia against 4.3% in Eastern Slovenia.
([29]) 40.4% of total workforce in Western Slovenia against 31.2% in Eastern Slovenia.
([30]) The level of tax subsidy was increased in 2010 from 20% to 40% of allowed deduction of R&D expenses from corporate income tax with additional deduction in lower income regions. Since 2012, the research tax subsidy is 100%. In the case of insufficient tax liability, unused credits can be carried forward for 5 years. No ceiling applies to the amount of qualifying R&D expenditure or value of R&D tax relief.

2019 a). Business investment in R&D still represents about 75% of total R&D expenditure in the country, around 10 pps more than the average in the EU. Business expenditure on R&D is mainly concentrated in pharmaceuticals, machinery, computer technology and technologies related to electrical energy. Public expenditure on R&D is modest (0.5% of GDP), but in 2018 the government increased it, partly boosted by EU structural funds. In addition, the Slovenian government planned a gradual increase in public R&D investment for the period 2019-2021. However, the 3% of GDP R&D intensity target seems out of reach by 2020. Slovenia ranked average among EU countries in international co-publications in 2018. Investment continues to be unevenly spread between the two regions with the R&D intensity at 2.27% in the western region and 1.4% in the eastern one, resulting also in an unequal share of human resources in science and technology in the active population (51% in Western Slovenia against 40% in Eastern Slovenia in 2018). There is also regional discrepancy in co-publication activity, which is greater in the western region, both at public-private and at international level.

There has been an increase in the number of researchers and the share of PhD graduates is very high. Since 2008, the number of researchers employed by businesses ([31]) rose considerably. Slovenia still leads the OECD countries in the share of PhD graduates in the population ([32]) (OECD, 2019 d). In 2018, there was a net inflow of PhD students into the country. While 104 left Slovenia, 163 moved in.

([31]) Expressed as the number of full-time employees employed in R&D by businesses per thousand active population. The business sector employs nearly 2/3 of all researchers.

([32]) Percentage of 25-64 year olds with a PhD degree (3.8% in Slovenia, OECD average 1.1%).

More and better cooperation between science and industry could improve Slovenia's research and innovation capacity. Science-industry cooperation is limited mainly to the medium- and high-tech sectors (e.g. pharmaceuticals, machinery). The effectiveness of knowledge-transfer offices set up by research organisations and higher education institutions varies considerably.

Several structural reforms to improve the governance and effectiveness of public R&D investment are still pending. Approximately 87% of the structural funds' support measures are aimed at scientific and technological excellence; research infrastructures; and science-business cooperation. However, an effective governance structure still needs to be fostered for cooperation in research and innovation among different ministries and agencies as well as for closer collaboration between players in research and innovation. The draft R&D law, which lays the foundation for the implementation of the research and innovation strategy 2011-2020, is yet to be adopted by the Parliament. The introduction of institutional-performance-based funding could facilitate their development and growth. Although the government is committed to structural reforms in this area, it has yet to address the recommendations of the European Commission's policy support facility for Slovenia (European Commission, 2018 b) on the internationalisation of the science base and academia-business cooperation. The government also plans for the smart specialisation strategy to become an integral part of the research and innovation strategy and the R&D law.

Box 3.4.1: **Drivers of Slovenia's research and innovation performance**

The fourth industrial revolution, i.e. the convergence of digital, biological, and physical technologies, poses a challenge for the Slovenian research community and economic performance in general. The technological disruption brought about by big data, the internet of things, artificial intelligence and robotics will have a significant impact on the Slovenian economy, its productivity and competitiveness as well as on the workforce. According to some estimates, up to 40-70% of jobs could be affected by automation (OECD, 2018). Some jobs might be replaced, the nature of many others might change significantly and new ones might be created. The net effect will also depend on how well Slovenia prepares itself for the industrial transition, including with changes in the science, technology and innovation policy mix (see Section 3.3). The development and implementation of digital technologies and new business models calls for increased research activities, improved engineering, mathematics and digital skills (see Section 3.4.1), for efficient changes in public and private R&D as well as its integration into the economy (see Section 3.4.1).

While Slovenia's research and innovation performance remains below the EU average (ranked 'moderate innovator' in the 2019 European Innovation Scoreboard), the country has a competitive advantage in areas such as artificial intelligence and robotics (see Section 3.4.1). Slovenia has also an excellent track record in scientific and technological fields such as physics, materials, biochemistry and more recently in areas tackling climate-related challenges (e.g. development of new generation of batteries and cooling systems). The country has successfully conducted scientific research in artificial intelligence since the early 1970's. The first UNESCO-sponsored international centre for artificial intelligence will open in early 2020. The country is also aiming to develop a national artificial intelligence strategy, covering the entire innovative lifecycle and cross-sectoral up-take. While block-chain technologies are already used in the Slovenian FinTech sector (see Section 3.2), these technologies potentially have a much wider reach for the economy.

Slovenia's dynamic start-up ecosystem in information and communication technologies, backed by solid business support services, is an important driver for the country's industrial transition. Academia-business linkages are particularly important for the successful translation of knowledge into innovation in the first place, and in the second place into industry and higher productivity and improved competitiveness performance of Slovenian economy. Several examples of fruitful public-private cooperation can be found within the framework of the Strategic Research and Innovation Partnerships (SRIP). The academia-business partnership led by the public Jozef Stefan R&D Institute brings together key stakeholders involved in developing breakthrough innovations for the factories of the future. A project in the field of control technologies, tooling, robotics, and photonics constitutes another example of successful public-private cooperation, where innovative solutions for production facilities were jointly developed by 13 companies and 6 research organisations (GOSTOP). By building on previous projects, the faculty of mechanical engineering in Ljubljana successfully launched the first "smart factory demonstrator" in 2019 supporting the inclusion of innovative 'Industry 4.0' solutions in production processes. Building on the lessons learnt in successful projects as well as ensuring stability and continuation of R&I support will be key for improving the country's research and innovation performance and a key driver of economic growth.

To increase economic productivity and improve competitiveness of Slovene economy, the country should aim to approach the EU top performers in research and development. This would require an increase in public and private investments and a build-up of an adequate research infrastructure and research capacity, as well as to ensure that the potential is used to full capacity. In some sectors, this could be achieved relatively quickly as the infrastructure already exists and only needs to be upgraded and its usage optimised.

The funding of research and innovation should reward performance, while gaps in the innovation system will have to be addressed. Policy design might give attention to: (i) the strengthening of the capacities of responsible decision-making and executive bodies, (ii) the (re)introduction of schemes for public-private agenda-setting, (iii) the support of clusters, of collaborations between universities, public research institutes and the private sector (for example through doctoral candidates in companies) as well as of start-ups and scale-ups of SMEs.

Digitalisation

The adoption of digital technologies and business models is generally well advanced, but some sectors are lagging behind. Slovenia ranks 16th among EU Member States in the European Commission digital economy and society index (European Commission, 2019 e). There is a growing awareness of the need to integrate digital technologies into business processes. 75% of Slovenian firms have implemented - either fully or partially - at least one digital technology ([33]). This is more than the EU average of 58% (EIB, 2019). However, the degree of integration varies considerably across different sectors of the economy. The digital transformation is strong in the automotive sector, e-commerce, tourism, innovation of composite materials and companies integrated into foreign value chains. Furthermore, Slovenia is strong in some niche areas such as robotics, fin-tech, cyber security and artificial intelligence (see Box 3.4.1). Slovenia is now implementing its national digital strategy ([34]) and currently drafting a comprehensive artificial intelligence strategy.

Slovenia performs well in the data economy. Slovenian companies rank among the best in the EU in the re-use of public sector data, profiting from the wide scope of large databases that are open to the public. Slovenia is drafting a data strategy and plans an integrated data warehouse to make access to public sector data more user-friendly.

Slovenia ranks in the middle of EU countries for digital public services. A wide range of basic online services for businesses is available in Slovenia (80% of such services are online). Citizens and companies have unique identification numbers (personal registration number, company's registration number, tax number, etc.), that are used for identification. However, these are not electronic identification means. At present, most of the e-services rely on qualified digital certificates issued by public or private sector used for authentication and e-signature. A significant reform was implemented in 2019 of sickness certificates, which can now be submitted fully electronically. The reform is expected to reduce administrative burden for businesses by €16 million per year. Fully electronic reporting of work-related accidents and injuries will follow in April 2020.

(Ultra) fast and mobile broadband coverage is very high but other areas are lagging behind. Slovenia has improved its broadband connectivity, but it still ranks below the EU average for this measure. Although fixed broadband coverage remained stable with 98% of homes covered (EU average 77%), Slovenia increased its fast broadband (new generation networks that are capable of providing speeds from 30 to 100 Mbps) coverage to 86%, exceeding the EU average. About 80% of households in Slovenia are covered by ultrafast broadband (100 Mbps and above), outperforming the EU average by 20 pps. Slovenia increased its mobile broadband take-up to 74% of people, but remains well below the EU average of 96% (European Commission, 2019 e). Fast networks are comparatively new and take-up of fast internet is still below the EU average.

([33]) Firms implemented at least one of the following technologies: 3-D printing, automation via advanced robotics, internet of things, cognitive technologies, augmented or virtual reality, drones, platform technologies.
([34]) https://www.gov.si/assets/ministrstva/MJU/DID/Strategija-razvoja-informacijske-druzbe-2020.pdf.

Box 3.4.2: Investment challenges and reforms in Slovenia

Section 1. Macroeconomic perspective

Following rapid growth in 2017 and 2018, investment slowed down considerably in 2019, particularly for machinery and equipment. Investment in construction remains strong. At 15.7% of GDP in 2018, private investment was still 2.4 pps below the euro area average. Public investment relies significantly on EU funds. Private R&D investment is slightly above the EU average but insufficiently supported by the low levels of public R&D spending. Both private and public investment are influenced by EU funds.

Section 2. Assessment of barriers to investment and ongoing reforms

Despite some progress in recent years, barriers to investment still exist in many areas. The reduction of red tape remains one of the key challenges to boost investment. Other challenges to overcome include the high perceived level of corruption, in particular in energy, construction and urban planning; and the (perceived) legal uncertainty in public procurement. The significant role of state-owned or state-controlled companies risks distorting competition and resource allocation. Furthermore, poor transport connections between regions reduce productivity, as time is lost in traffic jams and delays in transport are expensive.

Box: Investment challenges and reforms in Slovenia

Public administration / business environment	Regulatory/administrative burden	CSR
	Public administration	
	Public procurement / public-private partnerships (PPPs)	CSR
	Judicial system	
	Insolvency framework	
	Competition and regulatory framework	
Labour market / education	Employment protection legislation / framework for labour contracts	
	Wages & wage-setting	
	Education	

Financial sector / taxation	Taxation	
	Access to finance	
R&D and innovation	Cooperation between academia, research and business	
	Financing of R&D and innovation	
Sector-specific regulation	Business services / regulated professions	
	Retail	
	Construction	
	Digital economy / telecom	
	Energy	
	Transport	CSR

Legend:

	No barrier to investment identified
CSR	Investment barriers also subject to a country-specific recommendation
	No progress
	Limited progress
	Some progress
	Substantial progress
	Fully addressed

Selected barriers to investment and priority actions underway

1. The government of Slovenia makes considerable efforts to improve public procurement (see Section 3.4.3) including through the promotion of e-procurement and SME participation in public procurement. Some measures, like the professionalisation of public buyers, are only gradually being implemented and little progress has been made in public procurement in the healthcare sector (see Section 3.4.3). Overall, competition in public procurement remains very low.

2. Improvements in the transport networks, particularly in remote areas, would help to better integrate these areas into the economy. Economic activity would then be less concentrated in the capital (and a few other economic centres) with all the congestion costs for employees, companies, residents, and the environment/climate, that come with it. A more effective transport network could therefore help to increase economic growth and reduce discrepancies across regions.

Work on the next generation broadband network faces delays. All major operators are investing in very-high-capacity networks and the penetration of fibre-to-the-home technology is rising. The co-financing of investment in broadband infrastructure from EU funds amounts to approximately €35 million, which covers almost the entire costs of the project. Slovenia still lacks a dedicated comprehensive strategy for the management of the radiofrequency spectrum necessary for the timely assignment of the 5G pioneer spectrum bands and 5G deployment.

3.4.2. MARKET FUNCTIONING AND BUSINESS ENVIRONMENT

Entrepreneurship and scale-up

Slovenia's business demography remains dynamic, masking some structural weaknesses. The number of nascent and new companies has increased over recent years. This positive development largely reflects the continued robustness of Slovenia's economic growth. However, the still relatively high regulatory density and administrative burden continue to hamper business entry and scale-up (IMAD, 2019 a; see below). Small- and medium-sized enterprises constitute a share of the economy in Slovenia that is higher than the EU average in terms of employment (72.0% compared to 66.6%) and valued added (64.5% compared to 56.4%) (European Commission, 2019 g). Smaller firms find it typically more difficult to cope with complex regulation.

The proportion of female entrepreneurs remains among the lowest in the EU. Slovenia advanced in the field of women's entrepreneurship with the introduction of training programmes for unemployed women and subsidies for self-employed women. Between 2016 and 2018, the vast majority of participants in the training programmes started their own business. Despite this progress, the proportion of women entrepreneurs still remains among the lowest in the EU (European Commission, 2019 g; GEM, 2019).

Regulatory and administrative burden

Regulatory burden in Slovenia has been gradually decreasing but remains relatively high in some areas. Between 2010 and 2019, Slovenia's position in the World Bank's ease-of-doing-business index ranking (World Bank, 2019) improved from 53rd to 40th place. In the world competitiveness index of the International Institute for Management Development, Slovenia improved its ranking from the 49th in 2015 to the 37th place in 2019 among the 63 countries covered (IMD, 2019). The time it takes to pay taxes in Slovenia has decreased slightly (from 245 hours in 2018 to 233 hours in 2019), but this remains high in comparison with the EU average (172 hours) (European Commission, 2019 g). Companies still consider frequent unpredictable changes of legislation in Slovenia to be disruptive for the business environment. Moreover, SMEs still perceive administrative burden as significant and say it is being reduced too slowly (European Commission, 2019 g).

Slovenia continues its efforts to reduce regulatory restrictiveness and administrative burden. The Single Document, the regulatory impact assessment and the SME test (mandatory since January 2017) are tools to reduce administrative burden and improve regulation. Business portals for domestic and foreign entrepreneurs (e-VEM and EUGO) have also been set up. In 2017, this system was integrated into the newly established national business point (*Slovenska poslovna tocka,* SPOT) portal. It is now easier to set up a business, and tax regulation for micro companies has been simplified. E-invoicing and a simpler system to pay compulsory duties have also been introduced (see Section 3.4.1).

The overall effectiveness of Slovenia's burden reduction efforts suffers from implementation deficits. Most of the measures in the 'Single Document' are deemed to have been fully or at least partially implemented. However, SME representatives continue to complain that many measures are still pending and that the impacts of these measures do not always meet their expectations, even though the measures are reported as implemented. Public participation in devising burden-reduction measures under the Single Document is still rather low. The SME test is being used more frequently. Nevertheless, the SME test and assessments of impacts on business competitiveness are not yet applied to implementing regulations and rules. This may result in unnecessary burdens for SMEs (European Commission, 2019 g). Finally, there is still room for improvement in: (i) the often outdated or incomplete content on official websites; and (ii) the non-availability of fully electronic procedures for many services such as the recognition of professional qualifications.

Challenges remain concerning the practical involvement of social partners and other business stakeholders in the drafting of legislative proposals and other reform measures. Slovenia has been consulting social partners (see Section 3.3.1) and outside stakeholders on legislative proposals for some time. These consultations, however, often take place late in the process, when there might be limited flexibility on the side of the administration to substantively change a draft. This contributes to the insufficient impact of their participation noted by businesses (IMAD, 2019 a).

In spite of some improvements, key professions remain highly regulated. Slovenia has followed some of the Commission's recommendations from January 2017 (European Commission, 2017 b) and removed certain restrictions on the access to the professions of lawyers and real estate agents. Nevertheless, legal professions (lawyers and notaries) remain highly regulated in Slovenia, which is confirmed by the OECD's Product Market Regulation Indicator for 2018 ([35]).

Slovenia notified comparatively few technical regulations between 2016 and 2018. Only 32 out of an EU-wide total of 2,196 draft technical regulations notified in the area of the Single Market Transparency Directive (Directive 2015/1535) came from Slovenia (Technical Regulation Information System database). This low level of notifications may be related to the lack of awareness of the Single Market Transparency Directive and a limited administrative capacity. Barriers to trade affect economic growth and the functioning of the single market as a tool for competitiveness. Slovenia is thus missing an opportunity to further improve its integration in the single market and obtain the related economic benefits.

3.4.3. INSTITUTIONAL QUALITY AND GOVERNANCE

Public procurement

Competition in public procurement remains an issue. Slovenia has a comparatively high number of single bids in tenders and a low average number of bids received per tender. Furthermore, the share of negotiated procedures without prior publication recorded in the TED database was high in EU comparison over recent years ([36]).Less competition, notably in a small country like Slovenia, typically leads to higher prices, less choice and may also facilitate collusion among bidders. Slovenian authorities are aware of these risks and are working with the European Commission and the OECD on a systematic review of the country's procurement approach. The proportion of procedures awarded only on the basis of the lowest price, although decreasing, remains higher than the EU average. Giving environmental criteria a higher importance in award decisions would help Slovenia in the transition towards a more sustainable economy (see Section 3.5).

Slovenia has adopted reforms to improve the effectiveness of the remedy system. Slovenia introduced the possibility of challenging decisions of the National Review Commission before the Administrative Court. The National Review Commission's independence will be strengthened by the introduction of a consultative panel, with members of the Judicial Council. However, as part of the reforms, the non-appointment of a candidate member will in the future not be subject to judicial review, and the Parliament itself will have the power to appoint the consultative panel and decide on the dismissal of National Review Commission's members.

Slovenia promotes SME participation in tenders, which also helps to increase competition. SMEs are awarded a significant share of public contracts: in 2018, 78% of contractors were SMEs. This can be taken as an indication that barriers preventing SMEs from participating in public tenders are comparatively low. Slovenia frequently divides contracts into lots, which makes bidding easier for SMEs. Many global firms have little or no presence in Slovenia, leaving more room for Slovenian firms.

E-procurement software tools have increased transparency. An e-submission functionality for tenders has been widely used. The e-procurement system relies on structured data that is shared between different databases. Slovenia is currently preparing a data-warehouse of procurement data feeding into a new business analytics tool. This will make it possible for tendering authorities to get better information on price levels and bidders.

([35]) http://www.oecd.org/economy/reform/indicators-of-product-market-regulation/.
([36]) EU-harmonised TED data for 2015-2018; 2019 data is not yet available. National data can be found in Slovenia's annual statistical reports.

Slovenia is professionalising its public buyers. In May 2018, Slovenia adopted an action plan on the professionalisation of its public buyers with 27 different measures that are now being implemented. Slovenia also plans to implement the European competency framework for contracting authorities. The framework identifies a set of skills required of contracting authority employees.

Public procurement aggregation in Slovenia's health sector remains below its potential. Apart from the extension of a database on prices, not much headway was made in 2019 to improve procurement aggregation. An earlier plan to set up a specific central purchase body for the health sector has been abandoned. Slovenia instead opted for a looser structure of joint public procurement between different public hospitals with the support of the Ministry of Health. This set-up suffers from a lack of coordination between the different public hospitals over what supplies and services to procure jointly. So far, only the two largest hospitals, covering 60% of the market, agreed to publish joint tenders. Slovenia also lacks any strategy for procurement in the healthcare system. This limits its ability to harmonise tenders, share expertise and effectively mitigate the risk of bid-rigging (see Section 3.1.4).

Corruption in public procurement remains a concern for Slovenia's businesses. In Slovenia, 78% of businesses consider corruption in public procurement managed by national authorities to be widespread, the highest increase amongst EU Member States since 2017 (+29 pps). Similarly, 72% of businesses consider it widespread in public procurement managed by local and regional authorities, a 12-point increase on 2017. Although the share of businesses reporting they had experienced corruption in practice is quite low, 50% think that corruption has prevented their company from winning a public tender or a public procurement contract in the last 3 years (European Commission, 2019 h).

Regulatory oversight

The national competition agency still shows some operational weaknesses. The independence of the competition protection agency requires continued safeguarding when Slovenia transposes the European Competition Network+ Directive ([37]) into national law. While not underfunded as such, the agency lacks the means to procure the services of experts that can temporarily assist staff in complex investigations. This situation could severely limit the agency's capacity to investigate and prosecute competition cases efficiently.

The Commission for the Prevention of Corruption (CPC) operates within a good legal framework but with limited resources. Although the legal framework safeguarding the independence of the CPC and the material conditions for its work are generally satisfactory, the CPC remains understaffed relative to its mandate. For asset verification, the CPC currently has two full time staff. This and other insufficiencies have been pointed out in evaluations by the Council of Europe. These resource limitations affect activity and output, with the number of CPC reports at its lowest since 2007. The CPC also suffers from a low level of trust, with 76% of Slovenian businesses of the view that measures against corruption are not applied impartially and without ulterior motives.

Justice system and fight against corruption

The justice system has continued to reduce backlogs, and new measures increasing its quality have been introduced, which contributes to the overall improved business environment. The 2020 EU Justice Scoreboard (European Commission, forthcoming a) shows continued efficiency improvements in nearly all categories of cases. In 2019, the total backlog of cases decreased by more than 7%, compared to 2018 (Supreme Court data). The courts again resolved more cases than they received (total clearance rate of 101%), despite resolving fewer cases than in the past. The average length of proceedings rose to around 13 months in litigious civil cases and stagnated at 11 months in litigious commercial cases, as older cases were prioritised. It still takes more than 12 months until the first hearing in a commercial case trial. On appeal, these cases are resolved quickly, usually in around 3 months. Nearly one quarter of litigious civil and

([37]) Directive (EU) 2019/1 to empower competition authorities of Member States in the European Competition Network to be more effective enforcers and to ensure the proper functioning of the internal market.

commercial cases are resolved through a court settlement. However, it still takes between 14 and 17 months until a written judgment is delivered in those types of cases. The Judicial Council is also becoming more active in its efforts to improve the quality of justice (e.g. through evaluations, disciplinary proceedings, and improving remuneration and careers of judges). However, this work requires additional resources to increase the Judicial Council's administrative capacity, including resources to improve the reasoning in its decisions and opinions, and particularly in selecting national and international judges. Results of the internationally awarded Supreme Court's survey of court users are being used to further improve the quality of justice. The Supreme Court published brochures on proceedings before courts and manuals for new judges, and it offered focused training for court staff. The judicial map reform remains pending.

Despite increased efficiency in resolving criminal notifications, challenges remain in prosecuting economic and financial crime, and court proceedings are lengthy. Despite some improvements, investigations by the police and the prosecution service into financial and economic crime can sometimes take several years, partly due to a lack of resources. These efficiency and quality challenges are being addressed through focused training (including on anti-money laundering); exchange of good practices; and analyses of prosecutors' efficiency. The State Prosecutorial Council still lacks staff, which means that it is unable to work on improving the general quality of the Prosecution Service. Criminal courts continued to resolve more cases than they received (clearance rate of 102%). However, the length of criminal cases decreased in local courts to about 9.5 months and increased in district courts (to more than 14 months).

Although Slovenia's index scores have improved, corruption perception trends indicate diminished trust. The 2017-2019 government anticorruption plan focused on raising awareness amongst public officials, strengthening efficiency in the use of public funds and increasing transparency in regulations and procedures. Although Slovenia's score in the World Bank's control of corruption indicator has continued to improve since 2015, its corruption perception index score and rank fell in 2018. One issue of concern is that 90% of businesses consider that corruption is widespread, a 16-point increase on 2017. Moreover, only 10% of businesses feel that people and businesses caught for bribing a senior official are appropriately punished, the lowest percentage among EU Member States.

Some anti-corruption reforms are still pending. No major developments have occurred in the legislation on conflicts of interest; whistleblowing; revolving doors between government and business; or a code of ethics for members of Parliament. The National Assembly has delayed the adoption of the amended Integrity and Prevention of Corruption Act. Although the expected amendments will broaden the regulation of lobbying, shadow lobbying is still perceived as a major issue, because it does not cover third parties seeking to influence government decision making. Slovenia has also not implemented rules on contacts with lobbyists by members of the National Assembly and the National Council. This is all the more striking given that 76% of businesses in Slovenia consider that the only way to succeed in business is to have political connections.

3.4.4. ENERGY AND INFRASTRUCTURE

The lack of a clear and predictable framework for investment in the decarbonisation of the energy sector increases the risk of stranded assets. Significant investments have been made in a new power unit using coal for electricity and heat production over the past years. The rapidly falling costs of generating electricity from renewable resources and the need for an ambitious decarbonisation of the energy sector are bound to affect the viability of such recent investments. About 30% of Slovenia's electricity is produced by coal plants, and 25% of the total electricity generation capacity of these coal plants is less than 5 years old (electricity production in Šoštanj Unit 6 started in 2016).

The gas and electricity infrastructure is well developed, but problems remain with storage and operational issues on the interconnections. Electricity interconnection in Slovenia is already above the minimum of 10% expected for 2020 as well as above the minimum target of 15% for 2030. Strengthening power interconnections with Croatia and Hungary could make it possible to solve existing operational issues. Moreover, Slovenia's existing energy storage is underdeveloped and thus fails to address the needs of the non-integrated local production of renewable energy sources. The draft energy concept of Slovenia has identified energy storage as one of the priorities for the country.

Slovenia is increasing its efforts for a transition towards a circular economy. The government has drawn up a circular-economy policy framework. Slovenia also has a sound waste management system overall, with advanced rates of separate collection and a high recycling rate of 58.9% (EU average of 47 %) in 2018. In addition, Slovenia's overall eco-innovation index was 107 in 2018, placing it 10th in the EU (an improvement since 2015) and above the EU average of 100 (European Commission, 2018 c). At the same time, Slovenia's low material productivity and high-energy intensity are cause for concern. Some recycled materials cannot compete against cheaper primary resources. This is reflected in the circular (secondary) use of materials in Slovenia, which was only 8.5% in 2016, below the EU average of 11.7% (European Commission, 2019 i).

Although the quality of water has improved, Slovenia faces difficulties with urban wastewater and water loss. Supported by EU funds, Slovenia has invested significantly in wastewater treatment. Water losses remain high: in 2018, 29% of water resources were lost in the distribution network (SURS, 2019), which is above the EU average of 23% and considerably higher than the best performers, which have leakage rates below 10%. Such leakages are a waste of surface and ground water, and they result in higher energy use for water treatment and distribution purposes. They also bring increased risks of water contamination. To tackle the challenges in the water sector, in particular the challenge of financing the municipal water infrastructure, the government proposed an amendment of the national water legislation in December 2019.

Similar to other EU countries, the total external costs of road transport in Slovenia significantly exceed those of rail transport. A recent study published by the European Commission (CE Delft, 2019) estimates the total external costs of road and rail transport in Slovenia at €2.7 billion annually. This corresponds to 5.5% of Slovenia's GDP and is slightly below the EU average of 5.7% of GDP. In addition, the total infrastructure costs for land modes amounted to around €1.4 billion for 2016, of which around €1 billion for road and €400 million for rail. Road users pay a considerably higher share of their external and infrastructure costs in the form of taxes and charges than rail users (88% for passenger transport and 72% for freight, compared to 20% and 16%, respectively) (CE Delft, 2019).

Slovenia is faced with challenges to promote sustainable mobility. Slovenia still has a high use of passenger cars. In 2017, car trips represented 86.5% of all passenger-kilometres travelled (5 pps above the EU average), with buses and coaches accounting for around 11.7% and trains for only 1.8% (European Commission, 2019 j). Use of public transport is very low by international standards, and is partially due to a lower rate of urbanisation; higher dispersion of settlements; and the outdated/limited public transport options (IMAD, 2019 a).

The modernisation and upgrading of the Slovenian rail network is progressing very slowly. Even though investment in rail infrastructure has been increasing in recent years, there is still an investment backlog, which contributes to the slow modal shift. Perceptions of the railway infrastructure are better than for roads. However, according to the 2019 World Economic Forum ranking, the efficiency of train services has further declined and is below the EU average. This is reflected in the low use of rail passenger transport services in Slovenia, which remains well below the EU average. The share of rail freight transport, however, is still significantly above the EU average (European Commission, 2019 k). At the same time, the perception of the quality of roads, which is below the EU average, improved between 2017 and 2018 (WEF, 2019).

3.5. ENVIRONMENTAL SUSTAINABILITY

Main sustainability challenges

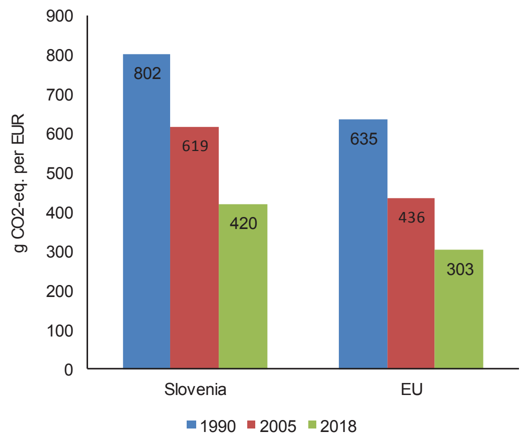
Production and consumption patterns are putting pressure on the environment. The ecological footprint ([38]) of Slovenia has been increasing since the financial crisis and has reached 5.13 global hectare/person in 2016, which is close to the EU average. Slovenia's target is to reduce it to 3.8 global hectare/person by 2030 (IMAD, 2019 a). The conservation status of national habitats has deteriorated in recent years (EEA, 2019 a). However, the ecological deficit is above the EU average and amounts to twice the bio-capacity of Slovenian nature (Global Footprint Network, 2017; IMAD, 2019 a).

Air pollution continues to raise concerns. The main contributing factors to air pollution are: (i) increasing road transport; and (ii) energy production as well as heat generation from solid fuels (European Commission, 2019 l). The exposure of the urban population to air pollution by particulate matter is above the EU average (Eurostat, 2017 a). The total (health and non-health related) costs of air pollution by road traffic in Slovenia in 2016, were estimated at €354 million (CE Delft, 2018). In addition, it is estimated that around 916 years of life lost per 100,000 inhabitants in 2016 were due to exposure to fine particulate matter (PM2.5), which is above the EU average of 800 years lost (EEA, 2019 b).

Slovenia's economy is more carbon intensive than the EU average. Carbon intensity remains above the EU average and the rate of reduction in carbon intensity since 1990 is below the EU average (EEA (2019 c) (Graph 3.5.1). Regarding emission productivity ([39]), Slovenia belongs to the bottom quarter of EU countries. This raises climate concerns and means that the country might fall behind both the EU's decarbonisation targets beyond 2020 and its own 2030 development strategy goals.

Public awareness of the climate challenges is high but policy plans to ensure a just transition are still to be developed. A broad societal consensus on climate change exists. According to a 2019 Eurobarometer, 76% of the respondents consider climate change a very serious problem (European Commission, 2019 m). Although the government is committed to a just transition to a low-carbon economy, the existing policy documents fail to explain how to achieve a high quality of life for all, including good employment and educational opportunities. While the overall level of environmental taxation is above the EU average, there may also be scope to improve its use to better support the policy objectives and to ensure a just transition.

Graph 3.5.1: **Greenhouse gas intensity of the economy, Slovenia and the EU**



Source: Eurostat

Targets for 2020 and 2030

Slovenia will reach the 2020 greenhouse gas emission target but the achievement of the energy-efficiency target is still uncertain. Slovenia has already achieved its Europe 2020 targets for energy efficiency and greenhouse gas emission. However, energy consumption is above the EU average and increasing, putting the achievement of the EU 2020 energy efficiency target at the deadline under pressure. According to 2017 data, Slovenia's final energy consumption has been almost unchanged since 2011. This is mainly due to road transport (which includes transit transport), followed by industry, services and the residential sector all with energy consumption above the EU average. Further energy savings in the residential sector will be difficult, as energy poverty is quite widespread.

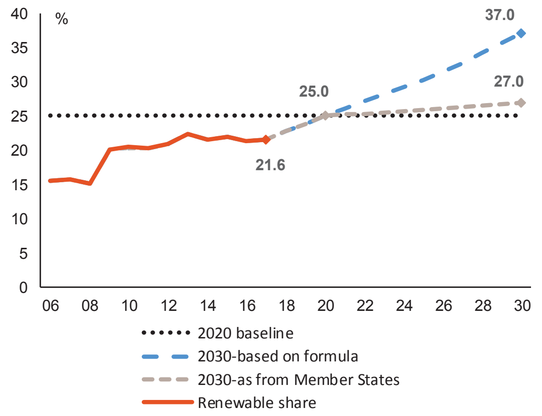
([38]) This is an indicator of environmental development, which compares the resource demand of individuals, governments, and businesses against what Earth can renew. It is measured in units of biologically productive area, which is the fertile area required to satisfy the needs of the population and to absorb and dispose waste generated.
([39]) The ratio between GDP and greenhouse gas emissions i.e. inverse of emission intensity.

Approximately 40% of the population spends more than 10% of their income on energy. This limits their scope to switch to equipment that is more energy efficient. This also impedes the achievement of SDG 7.

Reaching the Europe 2020 target for renewable energy presents a significant challenge. The share of renewable energy sources in gross final energy consumption declined from 22.4% in 2013 to around 21.1% in 2018, against the target of 25%. The latest assessment of progress towards the 2020 renewable targets showed that Slovenia is falling behind the planned progress for 2017-2018 (40). The interruption of support to the use of renewables between 2014 and 2016 has slowed down their deployment. Traditional renewable energy sources such as wood and hydropower account for most of the renewable energy supply. Slovenia ranks towards the bottom of the EU for the use of sources like wind, solar and geothermal energy (IMAD, 2019 a). The renewable energy policies currently being implemented, and new initiatives appear insufficient to trigger the required volumes by 2020 from purely domestic sources.

Slovenia's planned effort to increase the share of renewables energy by 2030 is limited. Both the Slovenian development strategy for 2030 and the draft national energy and climate plan[41] target an increase in the share of renewable energy by 2030 that is only by 2 pps above the 2020 target. This is 10 pps lower than the share of 37% resulting from the application of the formula presented in the Governance Regulation (Graph 3.5.2) (42). In 2020, the Commission will assess, the final national energy and climate plans submitted by the Member States. The European Commission assessment of the draft national energy and climate plan urges Slovenia to introduce specific measures to achieve the mandated share of renewables across all the different sectors indicated in the recast of the Renewable Energy Directive (43), especially transport, and heating and cooling. Almost €300 million of EU funds have been allocated to specific projects to ensure affordable and clean energy for all.

Graph 3.5.2: **Renewable energy: share in gross final energy consumption**



Source: European Commission

Transport

The transport sector is a large contributor of carbon emissions and air pollutants. In 2017, transport emissions were responsible for 38% of Slovenia's total CO2 emissions. This is well above the EU average of 26.5% and these emissions continue to rise. The share of road transport CO2 emissions in total transport emissions also remains high (98% in 2017) compared to the EU average (81% in 2017) (EEA, 2019 d). Road transport is also a large emitter of particulate matter (PM10), contributing to exceedances of EU limit values. Slovenia has made a commitment to solve this issue. There is also a high dependency on cars in Slovenia (see Section 3.4.4).

Slovenia is gradually developing measures to reduce the energy and carbon intensity of transport. With 2.74% in 2017, the share of renewables in transport was lagging behind the 2020 target of 10% and was falling behind the EU average of 7.39% (Eurostat, 2017 b). The situation is expected to improve considerably due to the measures adopted in June 2019 (amendment to the Energy Law). Slovenia largely depends on imports of biofuels. Public fuelling points for the supply of biofuels are lacking, and there are no measures in place to address the issue. The share of cars using alternative fuels is still very low. However, several measures (including tax exemptions/benefits,

(40) Eurostat, SHARES database.
(41) The Commission will assess, in the course of 2020, the final National Energy and Climate Plan once submitted.
(42) Regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action.
(43) Directive (EU) 2018/2001 on the promotion of the use of energy from renewable sources.

incentives and loans for alternative fuels vehicles) are in place or planned to help the country reach its targets for 2030 (Government of Slovenia, 2018 a). Furthermore, there are plans to set up hydrogen-charging points and publicly accessible compressed natural gas refuelling points (Government of Slovenia, 2018 a).

Different measures for air quality improvement are being introduced. Public transport will be improved and outdated, small combustion plants that use wood for heating will be replaced. The government also adopted seven regulations to implement measures from the air quality plan and detailed programmes to reduce the emission of substances into the atmosphere from small and medium-sized combustion plants.

Slovenia is nevertheless lagging behind in the transition to a zero-emission transport sector by 2050. The share of transport emissions in overall emissions from energy consumption continues to rise, and the share of road transport emissions remains high. For these reasons, the internalisation of external costs (see Section 3.4.4) will be important for the decarbonisation of transport. To ensure a comprehensive approach on sustainable mobility, including the improvement of energy efficiency and the reduction of emissions, Slovenia has started to implement a broad range of support measures. These measures, proposed in the draft national energy and climate plan for Slovenia (Government of Slovenia, 2018 a), include (i) a more efficient organisation of the mobility system; (ii) the promotion of public passenger transport and sustainable freight transport, and (iii) grants for sustainable mobility and rail transport infrastructure. Further efforts are needed to promote the coordination of measures targeted at inter-city and urban public transport.

Energy

Slovenia's current energy mix represents a challenge in the process towards decarbonisation. Out of gross inland energy consumption, 34% was accounted for by oil and petroleum products, 22% by nuclear energy, followed by solid fuels and renewables (14%) and natural gas (10%). Domestic sources covered half of Slovene energy needs in 2017. For the other half, Slovenia depended on imports of petroleum products, natural gas and coal of high calorific values. In 2017, nuclear energy was the primary source of electricity generation (accounting for 39%), followed by coal and renewable sources, mainly hydropower (29%). (European Commission, 2019 n).

To achieve the EU's decarbonisation goals, increasing the use of national renewable energy sources, especially wind is key. Research shows that there is enough wind in the country to capitalise on wind energy investments and effectively implement wind power technology (GIZ Vetrne Energije, 2019). Currently, eight national spatial plans are under preparation. Renewable energy resource projects are also supported by the Slovenian Energy Agency's existing feed-in tariff scheme. Backing such initiatives in the national energy and climate plan could improve the feasibility of the projects and could incentivise further investments.

Transition in the coal industry

Coal plays a decisive role in the economy of one region of Slovenia. The Šoštanj coal power plant produces 35% of national electricity production. The Savinjska NUTS3 region, more specifically its sub-region of Savinjsko-šaleška, where the plant is located, heavily relies on coal as the main driver of its economy (see Annex D). Current plans by the Slovenian authorities assume a continuation of the coal-related activities until the late 2030s. The plant and coalmine employ directly around 1,600 workers. The closure of plant and mine could cause up to 29,000 job losses in Slovenia. The region's unemployment rate is already one of the highest in Slovenia.

The unfinished transition of a coalmine in Zasavje has severe socioeconomic and environmental impacts on the region. After the shutdown of the coalmine in the Zasavje region, a coal power plant and a machine factory in the region were also closed. In 2000, when the act on the gradual closure was adopted, the GDP per capita of the region was 73.6% of the Slovenian average. Now, it amounts only to 53% of the average, making it one of the poorest regions of Slovenia (see Annex D). It is estimated that almost a third of the urban area in Zasavje is degraded and, thus, in need of environmental rehabilitation.

The coal regions are characterised by several factors unfavourable for economic transition. High unemployment in coal regions is often accompanied by little economic diversification, lower productivity, and ageing populations. Educational attainment levels and adult participation in training in the affected regions is far below the EU average. Partially because of the coal industry, the regions are not attractive locations for direct investments and new companies. Therefore, the coal workers are less likely to find another job in their home regions than most other European workers in their home regions (Institute Jacques Delors, 2019).

The economic transition of these regions requires a comprehensive set of measures. An assessment of future needs on the ground can be helped by a rethinking of social assistance, training, labour market policies and social policies (see Section 3.3), involving social partners and other relevant stakeholders. Applying the relevant smart specialisation strategy could also help. The re-skilling of coal workers can take place in re-education activities of differing intensity. The wind and solar photovoltaic industries have been identified as particularly suitable for reemploying coal workers that have retrained but they require on average higher qualified employees than the coal industry (European Commission, 2018 d).

The transition requires significant financial efforts in the area, which could be supported by EU funds. The European Commission has proposed a Just Transition Fund to support the people and the regions most affected by the transition away from the coal economy. Dedicated investment guidance for the Fund is provided in Annex D. The Slovenian authorities intend to have a national transition strategy adopted by the end of 2020. The strategy is intended to include anticipatory and mitigating measures for the regions where coal-powered energy production is to be phased out as well as mitigating measures for the regions where the transition is ongoing. The strategy will also lay out measures for the decarbonisation and diversification of the economy.

Trade-offs

Balancing trade-offs between the clean energy transition and nature conservation in Slovenia is demanding. Slovenia has a lot of potential to make a success of the clean energy transition. However, it is also faced with environmental constraints. Slovenia has an extraordinarily rich natural heritage, with more than 38% of its territory protected (e.g. by Natura 2000), an important element of SDG 15. Particular efforts will be needed to safeguard the rare and endangered species and habitat types in these areas as part of the transition to clean energy. Projects and plans must be assessed on a case-by-case basis to ensure that they do not adversely affect the integrity of the site concerned. Sound planning and environmental assessments are particularly important given that the share of habitats and species with unfavourable conservation status has been increasing at the expense of habitats and species in a favourable conservation status (EEA, 2019 a).

A comprehensive and consistent multi-sector strategic framework for sustainable development is lacking. While some relevant strategies already exist, like the Slovenian development strategy 2030 or the sustainable urban strategy, there is currently no medium- or long-term strategy for climate adaptation, the green energy transition or the coal phase-out. Early work is under way to begin drafting such strategies. These strategies would also be relevant to achieve SDG 13 and for the inhabitants, as significant share of the population lives in areas exposed to climate-change-induced floods ([44]), which have affected and caused economic damage in all regions since 2007 (Government of Slovenia, 2018 b).

([44]) The population affected by flooding every year is about 70,000 and the yearly average affected GDP about €1 billion (World Bank, 2017).

ANNEX A: OVERVIEW TABLE

Commitments	Summary assessment ([45])
2019 country-specific recommendations (CSRs)	
CSR 1: Achieve the medium-term budgetary objective in 2020. Adopt and implement reforms in healthcare and long-term care that ensure quality, accessibility and long-term fiscal sustainability. Ensure the long-term sustainability and adequacy of the pension system, including by adjusting the statutory retirement age restricting early retirement and other forms of early exit from the labour market. Increase the employability of low-skilled and older workers by improving labour market relevance of education and training, lifelong learning and activation measures, including through better digital literacy.	Slovenia has made **limited progress** in addressing CSR 1
Achieve the medium-term budgetary objective in 2020.	**The compliance assessment with the Stability and Growth Pact will be included in Spring when final data for 2019 will be available.**
Adopt and implement reforms in healthcare	**Limited Progress** The Member State has not yet presented the legislative act (Health Care and Health Insurance Act) in the governing or legislator body. The proposal is not been included in the 2019-2020 National Reform Programme. A new Health Care and Health Insurance Act is in the Work Programme of the Ministry of Health and is currently being worked on by the services. It is expected to be discussed by the Government of the Republic of

([45]) 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.

	Slovenia in mid-2020 (its adoption by the National Assembly is expected in the autumn of 2020). Other measures have been announced but these only address the CSR to a limited extent. The European Commission under the Structural Reform Support Programme helps Slovenia to implement key health sector reforms in the areas of health system governance, hospital financing, quality of care, and long-term care.
and long-term care that ensure quality, accessibility and long-term fiscal sustainability.	**No Progress** The reform is not included in the 2019-2020 National Reform Programme. The work programme of the Ministry of Health envisages the proposal of the act of long-term care to be submitted for public discussion in January 2020 and adoption potentially still in 2020.
Ensure the long-term sustainability and adequacy of the pension system, including by adjusting the statutory retirement age restricting early retirement and other forms of early exit from the labour market.	**Limited Progress** The pension reform adopted in November 2019 improves the adequacy of pensions but puts a strain on the sustainability of the pension system in the long term. At the same time, measures taken in 2012 to limit early retirement seem to be having some effect, but the early exit from the labour market remains a challenge.
Increase the employability of low-skilled and older workers by improving labour market relevance of education and training, lifelong learning and activation measures, including through better digital literacy.	**Some Progress** In 2019, Slovenia adopted amendments to labour market regulation act aimed at faster activation and higher social security of unemployed people. Changes in unemployment benefits will also likely influence unemployment levels of older people (prior to retirement). The authorities also implemented additional labour market measures that provide life-long learning and training measures relevant for labour market needs. There are also soft measures (through competence centres for human resources development; Support to Enterprises for active ageing of Labour Force) to improve employment of older people and long-term unemployed. Finally, ALMPs also appear to better target older people (31% until August 2019) and long-term unemployed (28%), though this still leaves room for improvement. Concerning the aspect of "better digital literacy", Slovenia has made only limited progress: Some projects for digital transformation of economy have been put in place and are at cruising speed through the Strategic Research and Innovation Partnerships. Further, there are several pilot actions in schools for improving digital literacy. However, no changes have been made into school curricula to enhance the teaching of digital skills in schools. Finally, no review or up-date of digital programme in existing curricula has taken

	place.
CSR 2: Support the development of equity markets. Improve the business environment by reducing regulatory restrictions and administrative burden. Improve competition, professionalisation and independent oversight in public procurement. Carry out privatisations in line with the existing plans. Support the development of equity markets. Improve the business environment by reducing regulatory restrictions and administrative burden. Improve competition, professionalisation and independent oversight in public procurement. Carry out privatisations in line with the existing plans.	Slovenia has made **some progress** in addressing CSR 2. **Limited Progress** Slovenia continued implementing support measures launched earlier on in order to strengthen its equity markets. Major new initiatives were not launched in 2019. **Some Progress** Slovenia continued to implement its burden reduction efforts, such as under the Single Document, the SME test and e-government. Slovenia has removed certain restrictions in the access to the professions of lawyer and real estate agent. Nevertheless, the legal professions (lawyers and notaries) remain highly regulated. **Some Progress** Slovenia adopted an important reform of the National Reform Commission, thereby strengthening independent oversight in public procurement. Setting up the newly foreseen structures is still to be done. Slovenia also continued implementing its Action Plan to increase professionalisation. Competition benefits from e-procurement as well as from good efforts to facilitate SME participation in tenders, but remains a problem. **Some Progress** Another 10% of the shares of NLB, have been sold, and the sale of Abanka has been finalised in 2019, in line with obligations under State aid rules; however, other privatisations have come to a halt.
CSR 3: Focus investment-related economic policy on research and innovation, low carbon and energy transition, sustainable transport, in particular rail, and environmental infrastructure, taking into account regional disparities. Focus investment-related economic policy on research and innovation, low carbon and energy transition,	Slovenia has made **limited progress** in addressing CSR 3. **Some Progress** Slovenia has not fully implemented its research and innovation strategy, and there is little harmonisation among different policies and strategies. **Limited Progress** Climate change adaptation received about €90 million for climate change adaptation from the cohesion policy for 2014-2020.

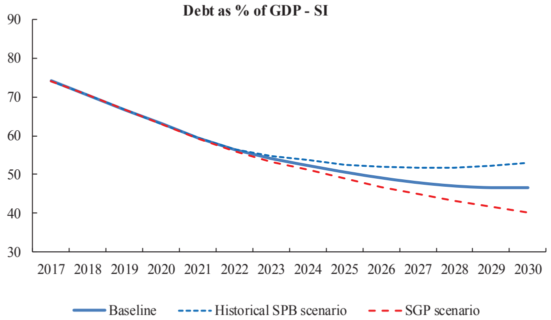
	The selection and implementation of projects has improved. However, a comprehensive climate change strategy covering all sectors has not been prepared yet. A more specific regulatory framework for the adaptation to climate change is planned to be provided in the Environmental Protection Law, which is currently being adopted. The use of low carbon energy remains limited and there are lags in the implementation of the programme the fields of transport and power generation.
sustainable transport, in particular rail, and	**Some Progress** Slovenia published an investment plan for transport to increase the funding of railways and sustainable mobility in the period 2020-2025. It also adopted an 'Action plan for alternative fuels in transport' setting specific objectives and measures for uptake of alternative fuels in transport.
environmental infrastructure, taking into account regional disparities.	**Limited Progress** Slovenia accelerated the implementation of the EU co-financed wastewater projects but investment gap still prevail in this sector. In addition, the integration of environmental aspects, particularly, nature considerations, into planning and implementing infrastructure projects, is challenging. To tackle the challenges in the water sector, the Government proposed an amendment of the national water legislation in December 2019.
Europe 2020 (national targets and progress)	
Employment rate target: 75 %.	Target achieved. Employment rate stood in 2018 at 75.4%, above the Europe 2020 target and the EU average (73.2%).
R&D target set in the NRP: 3% of GDP	In 2018, R&D spending was 1.95% of GDP, slightly below the EU average of 2.11%. Business R&D spending was 1.45% of GDP (EU average 1.41%) and public R&D spending was 0.5% of GDP.
National greenhouse gas (GHG) emissions target: max. 4% in 2020 compared with 2005 (in sectors not included in the EU emissions trading scheme)	GHG emissions in 2016 were lower than the annual target by 9%. Projections indicate that the Republic of Slovenia will achieve its 2020 targets of a maximum 4% increase in GHG emissions compared to 2005.
2020 renewable energy target: 25%	The target to achieve a 25% share of renewable energy resources (RES) in the final total energy consumption by 2020 is slowly drifting away In

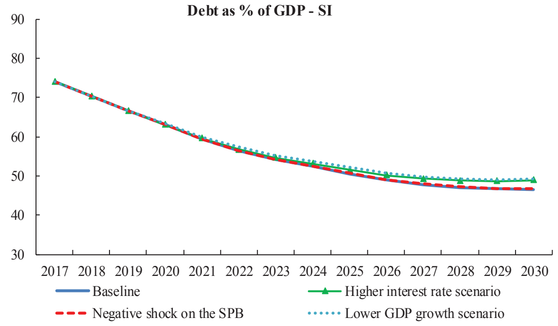
	2018, the share of renewable energy in final total energy consumption was 21.1%, significantly below the 22.4% of 2013.
Energy efficiency, 2020 energy consumption targets: Slovenia's 2020 energy efficiency target is 7.1 Mtoe expressed in primary energy consumption (5.1 Mtoe expressed in final energy consumption)	For 2018, Slovenia remains within the indicative target for 2020 for primary energy consumption. In 2018, primary energy consumption amounted to 6.7 Mtoe and decreased by 0.8% compared to the previous year. However, compared to the previous year the final energy consumption rose by 0.6% to 5 Mtoe, getting close to the level of 5.1 Mtoe corresponding to the 2020 energy efficiency target.
Early school/training leaving target: 5%.	Target achieved. In 2018, the early-school-leaving rate in Slovenia was 4.2%, 0.8 pps under the national target and 0.1 pps better than in 2017. Early-school-leaving in Slovenia is among the lowest in the EU.
Tertiary education target: 40% of population aged 30-34.	Target achieved. Tertiary attainment was 42.7% in 2018, above the Europe 2020 target and the EU average, though it has decreased by 3.7 pps in relation to 2017.
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 2018, the number of people at risk of poverty and social exclusion fell for the fourth consecutive year. However, 326,000 people were still at risk of poverty or social exclusion (minus 34,000 compared to base year).

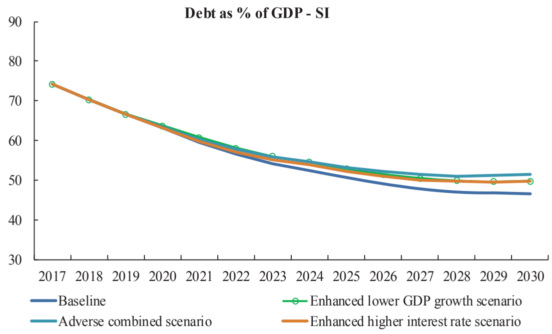
ANNEX B: COMMISSION DEBT SUSTAINABILITY ANALYSIS AND FISCAL RISKS

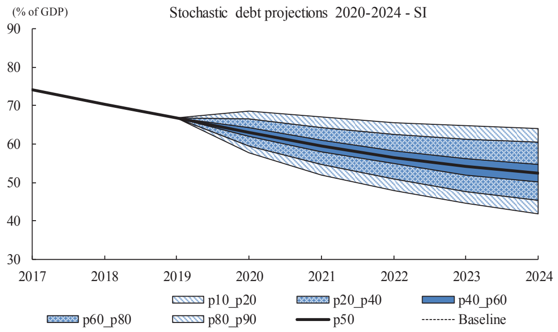
General government debt projections under baseline, alternative scenarios and sensitivity tests

SI - Debt projections baseline scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross debt ratio	70.4	66.7	63.1	59.5	56.5	54.2	52.5	50.6	49.1	47.9	47.1	46.7	46.7
Changes in the ratio (-1+2+3)	-3.7	-3.8	-3.6	-3.6	-3.0	-2.3	-1.7	-1.9	-1.6	-1.2	-0.7	-0.4	0.0
of which													
(1) Primary balance (1.1+1.2+1.3)	2.8	2.1	2.0	2.0	1.5	0.9	0.4	0.2	0.0	-0.2	-0.6	-0.9	-1.2
(1.1) Structural primary balance *(1.1.1-1.1.2+1.1.3)*	1.3	0.7	0.6	0.7	0.7	0.5	0.4	0.2	0.0	-0.2	-0.6	-0.9	-1.2
(1.1.1) Structural primary balance (bef. CoA)	1.3	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
(1.1.2) Cost of ageing					0.0	0.2	0.3	0.5	0.7	0.9	1.3	1.6	1.9
(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	1.5	1.5	1.5	1.3	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	-0.1	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)	-2.5	-1.9	-1.8	-1.7	-1.4	-1.4	-1.3	-1.7	-1.6	-1.4	-1.3	-1.3	-1.2
(2.1) Interest expenditure	2.0	1.6	1.5	1.4	1.2	1.1	1.0	0.9	0.8	0.7	0.7	0.7	0.6
(2.2) Growth effect	-2.9	-1.7	-1.7	-1.6	-1.4	-1.3	-1.3	-1.5	-1.4	-1.2	-1.1	-1.1	-0.9
(2.3) Inflation effect	-1.6	-1.8	-1.6	-1.4	-1.3	-1.2	-1.1	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9
(3) Stock-flow adjustments	1.6	0.3	0.2	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)	Baseline	Historical SPB	Lower GDP growth	Higher interest rate	Negative shock on SPB	Stochastic projections	DSA	S2	Long term
LOW (S0 = 0)	LOW	LOW (S1 = -1)	Risk category	LOW	LOW	LOW	LOW	LOW	LOW	LOW	MEDIUM (S2 = 5.4)	MEDIUM
			Debt level (2030)	46.7	53.0	49.2	48.9	46.8				
			Debt peak year	2019	2019	2019	2019	2019				
			Percentile rank	45.0%	59.0%							
			Probability debt higher						6.3%			
			Dif. between percentiles						22.2			

Note: For further information, see the European Commission Debt Sustainability Monitor (DSM) 2019.

[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 and the DSM 2019.

[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 after that) to bring the debt-to-GDP ratio to 60 % by 2034. The critical values used are 0 and 2.5 pps of GDP. The DSA classification is based on the results of five 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**

	2014	2015	2016	2017	2018	2019
Total assets of the banking sector (% of GDP)(1)	115.8	107.1	99.6	94.1	88.8	87.3
Share of assets of the five largest banks (% of total assets)	55.6	59.2	61.0	61.5	60.8	-
Foreign ownership of banking system (% of total assets)(2)	33.6	34.0	46.1	45.8	46.0	50.1
Financial soundness indicators:(2)						
- non-performing loans (% of total loans)	22.8	17.9	12.3	9.2	6.0	4.5
- capital adequacy ratio (%)	17.9	18.6	19.1	18.1	17.9	18.1
- return on equity (%)(3)	-2.5	3.5	7.8	9.1	10.7	12.3
Bank loans to the private sector (year-on-year % change)(1)	-9.1	-4.2	2.8	5.9	3.7	5.4
Lending for house purchase (year-on-year % change)(1)	0.5	1.8	4.2	5.5	4.4	4.9
Loan-to-deposit ratio(2)	79.4	74.1	74.0	74.7	73.1	74.4
Central bank liquidity as % of liabilities(1)	3.3	2.8	2.3	3.5	3.3	2.8
Private debt (% of GDP)	97.9	87.4	81.1	76.3	72.8	-
Gross external debt (% of GDP)(2) - public	62.4	64.6	57.4	51.0	46.1	45.4
- private	40.6	37.1	35.4	33.6	32.9	31.2
Long-term interest rate spread versus Bund (basis points) (*)	210.7	120.9	105.9	64.3	53.4	54.6
Credit default swap spreads for sovereign securities (5-year) (*)	138.5	107.8	95.0	72.5	59.9	70.8

(1) Latest data Q3 2019. Includes not only banks but all monetary financial institutions excluding central banks.
(2) Latest data Q2 2019.
(3) Quarterly values are 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**

	2014	2015	2016	2017	2018	2019 [5]
Equal opportunities and access to the labour market						
Early leavers from education and training (% of population aged 18-24)	4.4	5.0	4.9	4.3	4.2	:
Gender employment gap (pps)	8.0	8.6	6.6	7.2	7.3	7.4
Income inequality, measured as quintile share ratio (S80/S20)	3.7	3.6	3.6	3.4	3.4	:
At-risk-of-poverty or social exclusion rate(1) (AROPE)	20.4	19.2	18.4	17.1	16.2	:
Young people neither in employment nor in education and training (% of population aged 15-24)	9.4	9.5	8.0	6.5	6.6	:
Dynamic labour markets and fair working conditions						
Employment rate (20-64 years)	67.7	69.1	70.1	73.4	75.4	76.5
Unemployment rate(2) (15-74 years)	9.7	9.0	8.0	6.6	5.1	4.3
Long-term unemployment rate (as % of active population)	5.3	4.7	4.3	3.1	2.2	2.0
Gross disposable income of households in real terms per capita(3) (Index 2008=100)	92.9	95.0	99.7	102.7	106.1	:
Annual net earnings of a full-time single worker without children earning an average wage (levels in PPS, three-year average)	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)	-0.51	0.50	1.17	:	:	:
Public support / Social protection and inclusion						
Impact of social transfers (excluding pensions) on poverty reduction(4)	42.2	42.3	42.8	44.6	43.2	:
Children aged less than 3 years in formal childcare	37.4	37.4	39.6	44.8	46.3	:
Self-reported unmet need for medical care	0.2	0.2	0.4	3.5	3.3	:
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) Gross disposable household income is defined in unadjusted terms, according to the draft Joint Employment Report 2019.
(4) 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).
(5) Average of first three quarters of 2019 for the employment rate, unemployment rate and gender employment gap.
Source: Eurostat

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

Labour market indicators	2014	2015	2016	2017	2018	2019(5)
Activity rate (15-64)	70.9	71.8	71.6	74.2	75.0	75.5
Employment in current job by duration						
From 0 to 11 months	8.8	12.4	10.9	13.4	11.3	:
From 12 to 23 months	7.1	7.8	8.3	8.0	9.1	:
From 24 to 59 months	14.2	13.7	14.2	13.8	14.3	:
60 months or over	68.3	66.2	66.5	64.8	65.3	:
Employment growth(*) (% change from previous year)	0.4	1.3	1.8	3.0	3.2	2.6
Employment rate of women (% of female population aged 20-64)	63.6	64.7	66.7	69.7	71.7	72.7
Employment rate of men (% of male population aged 20-64)	71.6	73.3	73.3	76.9	79.0	80.1
Employment rate of older workers(*) (% of population aged 55-64)	35.4	36.6	38.5	42.7	47.0	48.8
Part-time employment(*) (% of total employment, aged 15-64)	10.0	10.1	9.3	10.3	9.7	8.5
Fixed-term employment(*) (% of employees with a fixed term contract, aged 15-64)	16.5	17.8	16.9	17.6	15.7	13.3
Transition rate from temporary to permanent employment (3-year average)	41.0	41.2	42.4	38.4	40.7	:
Youth unemployment rate (% active population aged 15-24)	20.2	16.3	15.2	11.2	8.8	8.0
Gender gap in part-time employment	6.9	6.6	7.2	7.7	8.3	7.7
Gender pay gap(2) (in undadjusted form)	7.0	8.1	7.8	8.0	:	:
Education and training indicators	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Adult participation in learning (% of people aged 25-64 participating in education and training)	12.1	11.9	11.6	12.0	11.4	:
Underachievement in education(3)	:	16.1	:	:	16.4	:
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	41.0	43.4	44.2	46.4	42.7	:
Variation in performance explained by students' socio-economic status(4)	:	13.5	:	:	:	:

(*) Non-scoreboard indicator.
(1) Long-term unemployed are people who have been unemployed for at least 12 months.
(2) 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.
(3) PISA (OECD) results for low achievement in mathematics for 15 year-olds.
(4) Impact of socio-economic and cultural status on PISA (OECD) scores. Values for 2015 refer to mathematics and those for 2018 refer to reading.
(5) Average of first three quarters of 2019. Data for youth unemployment rate is seasonally adjusted.
Source: Eurostat, OECD

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

	2013	2014	2015	2016	2017	2018
Expenditure on social protection benefits(*) (% of GDP)						
Sickness/healthcare	7.4	7.2	7.6	7.6	7.6	:
Disability	1.5	1.4	1.3	1.2	1.1	:
Old age and survivors	11.8	11.5	11.3	11.0	10.5	:
Family/children	1.9	1.8	1.8	1.7	1.8	:
Unemployment	0.8	0.7	0.6	0.6	0.5	:
Housing	0.0	0.0	0.0	0.0	0.0	:
Social exclusion n.e.c.	0.6	0.7	0.7	0.7	0.7	:
Total	24.2	23.5	23.4	22.9	22.3	:
of which: means-tested benefits	1.8	1.8	1.8	1.8	1.9	:
General government expenditure by function (% of GDP)						
Social protection	18.6	17.8	17.3	16.8	16.2	:
Health	6.8	6.5	6.7	6.7	6.6	:
Education	6.5	6.0	5.5	5.5	5.4	:
Out-of-pocket expenditure on healthcare	:	13.0	12.5	12.0	12.3	:
Children at risk of poverty or social exclusion (% of people aged 0-17)*	17.5	17.7	16.6	14.9	15.1	13.1
At-risk-of-poverty rate(1) (% of total population)	14.5	14.5	14.3	13.9	13.3	13.3
In-work at-risk-of-poverty rate (% of persons employed)	7.1	6.4	6.7	6.1	6.6	6.0
Severe material deprivation rate(2) (% of total population)	6.7	6.6	5.8	5.4	4.6	3.7
Severe housing deprivation rate(3), by tenure status						
Owner, with mortgage or loan	4.5	4.7	3.5	3.3	3.0	3.1
Tenant, rent at market price	18.9	18.8	18.9	12.2	15.0	16.2
Proportion of people living in low work intensity households(4) (% of people aged 0-59)	8.0	8.7	7.4	7.4	6.2	5.4
Poverty thresholds, expressed in national currency at constant prices*	6010	5925	6113	6157	6360	6524
Healthy life years at age 65						
Females	7.6	8.6	7.6	8.2	7.2	:
Males	7.2	7.8	8.2	8.4	7.2	:
Aggregate replacement ratio for pensions(5)	0.5	0.5	0.5	0.5	0.5	0.5
Connectivity dimension of the Digital Economy and Society Index (DESI)(6)	:	47.1	51.8	55.0	57.6	:
GINI coefficient before taxes and transfers(*)	47.2	47.0	46.7	46.1	45.7	:
GINI coefficient after taxes and transfers(*)	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	2013	2014	2015	2016	2017	2018
Labour productivity per person(1) growth (t/t-1) in %						
Labour productivity growth in industry	1.55	3.67	0.09	2.11	4.48	-0.63
Labour productivity growth in construction	-2.38	11.02	-3.77	-2.58	5.91	1.43
Labour productivity growth in market services	0.85	2.85	1.43	1.14	0.96	1.24
Unit Labour Cost (ULC) index(2) growth (t/t-1) in %						
ULC growth in industry	0.44	-0.49	2.02	0.86	-1.09	4.35
ULC growth in construction	3.24	-5.68	6.33	4.96	-1.14	4.70
ULC growth in market services	-1.95	-0.98	0.11	1.49	1.95	2.81
Business environment	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Time needed to enforce contracts(3) (days)	1270	1270	1160	1160	1160	1160
Time needed to start a business(3) (days)	6.0	6.0	6.0	6.0	6.0	8.0
Outcome of applications by SMEs for bank loans(4)	0.38	1.08	0.41	0.67	0.61	0.56
Research and innovation	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
R&D intensity	2.56	2.37	2.20	2.01	1.87	1.95
General government expenditure on education as % of GDP	6.50	6.00	5.50	5.50	5.40	:
Employed people with tertiary education and/or people employed in S&T as % of total employment	43	43	44	44	45	44
Population having completed tertiary education(5)	24	25	27	27	29	29
Young people with upper secondary education(6)	92	90	91	91	91	92
Trade balance of high technology products as % of GDP	-0.60	-0.83	-0.62	-0.65	-0.68	-0.89
Product and service markets and competition	**2003**	**2008**	**2013**			**2018***
OECD product market regulation (PMR)(7), overall	:	1.89	1.70			1.29
OECD PMR(7), retail	:	0.90	0.63			1.15
OECD PMR(7), professional services(8)	:	:	2.56			1.88
OECD PMR(7), network industries(9)	4.84	3.41	2.90			1.74

(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) Simple average of the indicators of regulation for lawyers, accountants, architects and engineers.
(9) Aggregate OECD indicators of regulation in energy, transport and communications (ETCR).
(*) Please be aware that the indicator values from 2003 to 2013 are comparable, however the methodology has considerably changed in 2018 and therefore past vintages cannot be compared with the 2018 PMR indicators.
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		2013	2014	2015	2016	2017	2018
Macroeconomic							
Energy intensity	kgoe / €	0.19	0.18	0.17	0.17	0.17	0.16
Carbon intensity	kg / €	0.52	0.46	0.45	0.46	0.43	-
Resource intensity (reciprocal of resource productivity)	kg / €	0.71	0.75	0.74	0.69	0.67	0.70
Waste intensity	kg / €	-	0.13	-	0.14	-	-
Energy balance of trade	% GDP	-5.5	-4.1	-3.1	-2.1	-2.6	-2.9
Weighting of energy in HICP	%	14.38	14.72	14.23	12.99	11.88	11.76
Difference between energy price change and inflation	p.p.	0.6	-0.9	-2.9	-2.6	0.2	4.2
Real unit of energy cost	% of value added	10.1	9.5	9.7	9.9	-	-
Ratio of environmental taxes to labour taxes	ratio	0.13	0.12	0.12	0.12	0.12	-
Environmental taxes	% GDP	3.9	3.9	3.9	3.9	3.7	3.5
Sectoral							
Industry energy intensity	kgoe / €	0.13	0.13	0.13	0.12	0.12	0.12
Real unit energy cost for manufacturing industry excl. refining	% of value added	13.2	12.1	12.2	12.3	-	-
Share of energy-intensive industries in the economy	% GDP	11.19	11.34	10.92	11.16	11.40	11.14
Electricity prices for medium-sized industrial users	€ / kWh	0.10	0.09	0.08	0.08	0.08	0.09
Gas prices for medium-sized industrial users	€ / kWh	0.05	0.04	0.04	0.03	0.03	0.03
Public R&D for energy	% GDP	0.01	0.01	0.01	0.01	0.02	0.02
Public R&D for environmental protection	% GDP	0.01	0.01	0.03	0.02	0.02	0.03
Municipal waste recycling rate	%	34.8	36.0	54.1	55.6	57.8	58.9
Share of GHG emissions covered by ETS*	%	40.3	36.9	36.3	36.6	37.6	37.2
Transport energy intensity	kgoe / €	1.10	1.04	0.96	0.95	0.92	0.88
Transport carbon intensity	kg / €	0.46	0.42	0.39	0.37	0.37	0.36
Security of energy supply							
Energy import dependency	%	47.8	45.5	49.7	49.3	50.4	-
Aggregated supplier concentration index	HHI	35.9	28.3	6.1	1.9	0.9	-
Diversification of energy mix	HHI	23.7	25.0	23.4	24.0	23.6	23.6

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2010 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: domestic material consumption (in kg) divided by GDP (in EUR)
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 including international aviation (kgoe) divided by gross value added in transportation and storage sector (in 2010 EUR).
Transport carbon intensity: GHG emissions in transportation and storage sector divided by gross value added in transportation and storage sector (in 2010 EUR).
Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels.
Aggregated supplier concentration index: Herfindahl index covering oil, gas and coal. Smaller values indicate larger diversification and hence lower risk.
Diversification of the energy mix: Herfindahl index covering natural gas, total petrol products, nuclear heat, renewable energies and solid fuels. Smaller values indicate larger diversification.
* European Commission and European Environment Agency - 2018 provisional data.
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 JUST TRANSITION FUND 2021-2027 FOR SLOVENIA

Building on the Commission proposal, this Annex ([46]) presents the preliminary Commission services' views on priority investment areas and framework conditions for effective delivery for the 2021-2027 Just Transition Fund investments in Slovenia. These priority investment areas are derived from the broader analysis of territories facing serious socio-economic challenges deriving from the transition process towards a climate-neutral economy of the Union by 2050 in Slovenia, assessed in the report. This Annex provides the basis for a dialogue between Slovenia and the Commission services as well as the relevant guidance for the Member States in preparing their territorial just transition plans, which will form the basis for programming the Just Transition Fund. The Just Transition Fund investments complement those under Cohesion Policy funding for which guidance in the form of Annex D was given in the 2019 Country Report for Slovenia ([47]).

In Slovenia, the Zasavska region is enduring a transition away from coal-related activities while the Savinjska region, in particular Savinjsko-Šaleška, continues to suffer from significant challenges linked to the on-going extraction and processing of fossil fuels, mostly coal.

Zasavska faces a significant challenge of unfinished transition. As a consequence of the almost finalised closure of the Zasavje coal mine and the closure of the region's coal-fuelled power plant, Zasavska has been facing social hardship (8.3% unemployment vs 7.4% nationally). Since 2013 approximately 5,000 jobs have been lost and GDP has been falling (53% of the Slovene average). Based on this preliminary assessment, it appears warranted that the Just Transition Fund concentrates its intervention on that region.

The smart specialisation strategy ([48]) provides an important framework to set priorities for innovation in support of economic transformation. In order to tackle these transition challenges, priority investment needs have been identified for diversifying and making the regional economy more modern and competitive, as well as alleviating the socio-economic costs of transition. Key actions of the Just Transition Fund could target in particular:

- productive investments in SMEs, including start-ups, leading to economic diversification and reconversion;
- investments in research and innovation activities and fostering the transfer of advanced technologies in line with the Slovenian smart specialisation strategy;
- investments in the deployment of technology and infrastructures for affordable clean energy;
- investments in digitalisation;
- upskilling and reskilling of workers.

Environmental pollution and degradation as a direct result of mining activities are visible in the area. Almost a third of the urban area of Zasavje is degraded and thus in need of environmental rehabilitation. In order to tackle these transition challenges, investment needs have been identified for achieving environmental sustainability and resource efficiency. Key actions of the Just Transition Fund could target in particular:

([46]) 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 Just Transition Fund 2021-2027 (COM(2020) 22) and the EC proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, and the European Maritime and Fisheries Fund and financial rules for those and for the Asylum and Migration Fund, the Internal Security Fund and the Border Management and Visa Instrument (COM(2020) 23.

([47]) SWD(2019) 1023 final

([48]) As defined in Article 2(3) of Regulation EU 1303/2013 (CPR)

- investments in regeneration and decontamination of sites, land restoration and repurposing projects;
- investments in enhancing the circular economy.

The Savinjska region has an operational coal mine and a coal power plant (Šoštanj) generating 35% of national electricity production. Environmental pollution and degradation as a direct result of mining activities are visible in the area. Due to the caving-in of the ground in Savinjsko-Šaleška, three lakes already formed on the territory of a few former settlements. The ground is still sinking, which puts additional settlements at risk. Based on this preliminary assessment, it appears warranted that the Just Transition Fund also intervenes in this region.

In order to tackle these transition challenges, priority investment needs have been identified for achieving a low carbon transition, environmental sustainability and resource efficiency. Key actions of the Just Transition Fund could target in particular:

- investments in the deployment of technology and infrastructures for affordable clean energy;
- investments in regeneration and decontamination of sites, land restoration and repurposing projects;
- investments in enhancing the circular economy;
- upskilling and reskilling of workers.

Coal-related activities in the Savinjska region (the mine, the plant and the related companies, subsidiaries and services) provide direct employment for around 2,200 people. Learning from the experience of the Zasavje region, such closures could have significant negative effects on the entire economy of the region. In order to tackle these transition challenges, investment needs have been identified for diversifying and making the regional economy more modern and competitive, as well as alleviating the socio-economic costs of transition. Key actions of the Just Transition Fund could target in particular:

- productive investments in SMEs, including start-ups, leading to economic diversification and reconversion;
- investments in research and innovation activities and fostering the transfer of advanced technologies, in line with the Slovenian smart specialisation strategy;
- investments in digitalisation;
- upskilling and reskilling of workers;
- active inclusion of jobseekers.

ANNEX E: PROGRESS TOWARDS THE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

Assessment of Slovenia's short-term progress towards the SDGs (49)

Table E.1 shows the data for Slovenia and the EU-28 for the indicators included in the EU SDG indicator set used by Eurostat for monitoring progress towards the SDGs in an EU context (50). As the short-term trend at EU-level is assessed over a 5-year period, both the value at the beginning of the period and the latest available value is presented. The indicators are regularly updated on the SDI dedicated section of the Eurostat website.

Table E.1: **Indicators measuring Slovenia's progress towards the SDGs**

SDG / Sub-theme	Indicator	Unit	Slovenia Starting year	Slovenia Starting value	Slovenia Latest year	Slovenia Latest value	EU-28 Starting year	EU-28 Starting value	EU-28 Latest year	EU-28 Latest value
SDG 1 – No poverty										
Multidimensional poverty	People at risk of poverty or social exclusion	% of population	2013	20.4	2018	16.2	2013	24.6	2018	21.9
	People at risk of income poverty after social transfers	% of population	2013	14.5	2018	13.3	2013	16.7	2018	17.1
	Severely materially deprived people	% of population	2013	6.7	2018	3.7	2013	9.6	2018	5.8
	People living in households with very low work intensity	% of population aged 0 to 59	2013	8.0	2018	5.4	2013	11.0	2018	8.8
	In-work at-risk-of-poverty rate	% of population aged 18 or over	2013	7.1	2018	6.0	2013	9.0	2018	9.5
Basic needs	Population living in a dwelling with a leaking roof, damp walls, floors or foundation or rot in window frames or floor	% of population	2013	27.0	2018	22.7	2013	15.6	2018	13.9
	Self-reported unmet need for medical care	% of population aged 16 or over	2014	0.2	2018	3.3	2013	3.7	2018	2.0
	Population having neither a bath, nor a shower, nor indoor flushing toilet in their household	% of population	2013	0.4	2018	0.1	2013	2.2	2018	1.7
	Population unable to keep home adequately warm	% of population	2013	4.9	2018	3.3	2013	10.7	2018	7.3
	Overcrowding rate	% of population	2013	15.6	2018	12.5	2013	17.0	2018	15.5
SDG 2 – Zero hunger										
Malnutrition	Obesity rate	% of population aged 18 or over	2014	19.2	2017	16.2	2014	15.9	2017	15.2
Sustainable agricultural production	Agricultural factor income per annual work unit (AWU)	EUR, chain linked volumes (2010)	2012	4 735	2017	5 072	2012	14 865	2017	17 304
	Government support to agricultural research and development	million EUR	2013	7.0	2018	22.3	2013	3 048.6	2018	3 242.5
	Area under organic farming	% of utilised agricultural area	2013	8.1	2018	10.0	2013	5.7	2018	7.5
Environmental impacts of agricultural production	Gross nitrogen balance on agricultural land	kg per hectare	2012	57	2017	65	2010	49	2015	51
	Ammonia emissions from agriculture	kg per ha of utilised agricultural area	2012	34.8	2017	35.1	2011	19.7	2016	20.3
	Nitrate in groundwater	mg NO_3 per litre	N/A	:	N/A	:	2012	19.2	2017	19.1
	Estimated soil erosion by water	km^2	2010	3 684.3	2016	3 686.6	2010	207 232.2	2016	205 294.5
	Common farmland bird index	index 2000 = 100	N/A	:	N/A	:	2013	83.9	2018	80.7
SDG 3 – Good health and well-being										
Healthy lives	Life expectancy at birth	years	2012	80.3	2017	81.2	2012	80.3	2017	80.9
	Share of people with good or very good perceived health	% of population aged 16 or over	2013	64.8	2018	65.4	2013	67.3	2018	69.2
Health determinants	Smoking prevalence	% of population aged 15 or over	2012	27	2017	28	2014	26	2017	26
	Obesity rate	% of population aged 18 or over	2014	19.2	2017	16.2	2014	15.9	2017	15.2
	Population living in households considering that they suffer from noise	% of population	2013	12.3	2018	14.3	2013	18.8	2018	18.3
	Exposure to air pollution by particulate matter ($PM_{2.5}$)	µg/m^3	2012	20.4	2017	19.7	2012	16.8	2017	14.1
Causes of death	Death rate due to chronic diseases	number per 100 000 persons aged less than 65	2011	141.5	2016	114.7	2011	132.5	2016	119.0
	Death rate due to tuberculosis, HIV and hepatitis	number per 100 000 persons	2011	1.0	2015	0.8	2011	3.4	2016	2.6
	People killed in accidents at work	number per 100 000 employed persons	2012	2.61	2017	1.85	2012	1.91	2017	1.65
	People killed in road accidents	number of killed people	2012	130	2017	104	2012	28 231	2017	25 257
Access to health care	Self-reported unmet need for medical care	% of population aged 16 or over	2014	0.2	2018	3.3	2013	3.7	2018	2.0

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(49) Data extracted on 9 February 2020 from the Eurostat database (official EU SDG indicator set; see https://ec.europa.eu/eurostat/web/sdi/main-tables).
(50) The EU SDG indicator set is aligned as far as appropriate with the UN list of global indicators, noting that the UN indicators are selected for global level reporting and are therefore not always relevant in an EU context. The EU SDG indicators have strong links with EU policy initiatives.

Table (continued)

SDG / Sub-theme	Indicator	Unit	Slovenia				EU-28			
			Starting		Latest		Starting		Latest	
			year	value	year	value	year	value	year	value
SDG 4 – Quality education										
Basic education	Early leavers from education and training	% of the population aged 18 to 24	2013	3.9	2018	4.2	2013	11.9	2018	10.6
	Participation in early childhood education	% of the age group between 4-years-old and the starting age of compulsory education	2012	90.9	2017	92.1	2012	94.0	2017	95.4
	Underachievement in reading	% of 15-year-old students	2015	15.1	2018	17.9	2015	19.7	2018	21.7
	Young people neither in employment nor in education and training	% of population aged 15 to 29	2013	12.9	2018	8.8	2013	15.9	2018	12.9
Tertiary education	Tertiary educational attainment	% of the population aged 30 to 34	2013	40.1	2018	42.7	2013	37.1	2018	40.7
	Employment rate of recent graduates	% of population aged 20 to 34	2013	73.8	2018	84.2	2013	75.4	2018	81.7
Adult education	Adult participation in learning	% of population aged 25 to 64	2013	12.5	2018	11.4	2013	10.7	2018	11.1
SDG 5 – Gender equality										
Gender-based violence	Physical and sexual violence to women experienced within 12 months prior to the interview	% of women	N/A	:	2012	3	N/A	:	2012	8
Education	Gender gap for early leavers from education and training	percentage points, persons aged 18–24	2013	2.4	2018	2.3	2013	3.4	2018	3.3
	Gender gap for tertiary educational attainment	percentage points, persons aged 30–34	2013	18.5	2018	24.7	2013	8.5	2018	10.1
	Gender gap for employment rate of recent graduates	percentage points, persons aged 20–34	2013	11.2	2018	9.3	2013	4.4	2018	3.4
Employment	Gender pay gap in unadjusted form	% of average gross hourly earnings of men	2012	4.5	2017	8.0	2012	17.4	2017	16.0
	Gender employment gap	percentage points, persons aged 20–64	2013	8.2	2018	7.3	2013	11.7	2018	11.6
	Gender gap in inactive population due to caring responsibilities	percentage points, persons aged 20–64	2013	10.9	2018	12.4	2013	25.5	2018	27.1
Leadership positions	Seats held by women in national parliaments and governments	% of seats	2014	28.7	2019	22.1	2014	27.2	2019	31.5
	Positions held by women in senior management	% of board members	2014	19.9	2019	27.7	2014	20.2	2019	27.8
SDG 6 – Clean water and sanitation										
Sanitation	Population having neither a bath, nor a shower, nor indoor flushing toilet in their household	% of population	2013	0.4	2018	0.1	2013	2.2	2018	1.7
	Population connected to at least secondary wastewater treatment	% of population	2012	53.7	2017	67.4	N/A	:	N/A	:
Water quality	Biochemical oxygen demand in rivers	mg O_2 per litre	2012	0.93	2017	0.81	2012	2.06	2017	2.00
	Nitrate in groundwater	mg NO_3 per litre	N/A	:	N/A	:	2012	19.2	2017	19.1
	Phosphate in rivers	mg PO_4 per litre	N/A	:	N/A	:	2012	0.096	2017	0.093
	Inland water bathing sites with excellent water quality	% of bathing sites with excellent water quality	2013	53.9	2018	76.9	2013	76.5	2018	80.8
Water use efficiency	Water exploitation index	% of long term average available water (LTAA)	2012	2.4	2017	2.9	N/A	:	N/A	:
SDG 7 – Affordable and clean energy										
Energy consumption	Primary energy consumption	million tonnes of oil equivalent (Mtoe)	2013	6.6	2018	6.7	2013	1 577.4	2018	1 551.9
	Final energy consumption	million tonnes of oil equivalent (Mtoe)	2013	4.8	2018	5.0	2013	1 115.5	2018	1 124.1
	Final energy consumption in households per capita	kgoe	2013	584	2018	514	2013	605	2018	552
	Energy productivity	EUR per kgoe	2013	5.2	2018	5.9	2013	7.6	2018	8.5
	Greenhouse gas emissions intensity of energy consumption	index 2000 = 100	2012	96.2	2017	86.2	2012	91.5	2017	86.5
Energy supply	Share of renewable energy in gross final energy consumption	%	2013	22.4	2018	21.1	2013	15.4	2018	18.0
	Energy import dependency	% of imports in gross available energy	2013	47.8	2018	51.3	2013	53.2	2018	55.7
Access to affordable energy	Population unable to keep home adequately warm	% of population	2013	4.9	2018	3.3	2013	10.7	2018	7.3

(Continued on the next page)

Table (continued)

SDG / Sub-theme	Indicator	Unit	Slovenia Starting year	Slovenia Starting value	Slovenia Latest year	Slovenia Latest value	EU-28 Starting year	EU-28 Starting value	EU-28 Latest year	EU-28 Latest value
SDG 8 – Decent work and economic growth										
Sustainable economic growth	Real GDP per capita	EUR per capita, chain-linked volumes (2010)	2013	17 160	2018	20 170	2013	25 750	2018	28 280
	Investment share of GDP	% of GDP	2013	19.6	2018	19.2	2013	19.5	2018	20.9
	Resource productivity	EUR per kg, chain-linked volumes (2010)	2013	1.40	2018	1.43	2013	1.98	2018	2.04
Employment	Young people neither in employment nor in education and training	% of population aged 15 to 29	2013	12.9	2018	8.8	2013	15.9	2018	12.9
	Employment rate	% of population aged 20 to 64	2013	67.2	2018	75.4	2013	68.4	2018	73.2
	Long-term unemployment rate	% of active population	2013	5.2	2018	2.2	2013	5.1	2018	2.9
	Gender gap in inactive population due to caring responsibilities	percentage points, persons aged 20–64	2013	10.9	2018	12.4	2013	25.5	2018	27.1
Decent work	People killed in accidents at work	number per 100 000 employed persons	2012	2.61	2017	1.85	2012	1.91	2017	1.65
	In-work at-risk-of-poverty rate	% of population	2013	7.1	2018	6	2013	9	2018	9.5
SDG 9 – Industry, innovation and infrastructure										
R&D and innovation	Gross domestic expenditure on R&D	% of GDP	2013	2.56	2018	1.95	2013	2.01	2018	2.12
	Employment in high- and medium-high technology manufacturing and knowledge-intensive services	% of total employment	2013	42.7	2018	45.4	2013	45.0	2018	46.1
	R&D personnel	% of active population	2013	1.54	2018	1.55	2013	1.15	2018	1.36
	Patent applications to the European Patent Office (EPO)	number	2012	127	2017	114	2012	56 772	2017	54 649
Sustainable transport	Share of buses and trains in total passenger transport	% of total inland passenger-km	2012	13.3	2017	13.5	2012	17.2	2017	16.7
	Share of rail and inland waterways in total freight transport	% of total inland freight tonne-km	2012	32.8	2017	35.5	2012	25.4	2017	23.3
	Average CO2 emissions per km from new passenger cars	g CO_2 per km	2013	125.6	2018	121.0	2014	123.4	2018	120.4
SDG 10 – Reduced inequalities										
Inequalities within countries	Relative median at-risk-of-poverty gap	% distance to poverty threshold	2013	20.4	2018	17.5	2013	23.8	2018	24.6
	Income distribution	income quintile share ratio	2013	3.6	2018	3.4	2013	5.0	2018	5.2
	Income share of the bottom 40 % of the population	% of income	2013	24.4	2018	25.0	2013	21.1	2018	21.0
	People at risk of income poverty after social transfers	% of population	2013	14.5	2018	13.3	2013	16.7	2018	17.1
Inequalities between countries	Purchasing power adjusted GDP per capita	Real expenditure per capita (in PPS)	2013	22 000	2018	26 900	2013	26 800	2018	31 000
	Adjusted gross disposable income of households per capita	Purchasing power standard (PPS) per inhabitant	2013	16 057	2018	18 583	2013	20 392	2018	22 824
	Financing to developing countries	million EUR, current prices	2012	46	2017	20	2012	147 962	2017	155 224
	Imports from developing countries	million EUR, current prices	2013	4 413	2018	7 823	2013	817 475	2018	1 013 981
Migration and social inclusion	Asylum applications	Positive first instance decisions, per million inhabitants	2013	17	2018	48	2013	213	2018	424
SDG 11 – Sustainable cities and communities										
Quality of life in cities and communities	Overcrowding rate	% of population	2013	15.6	2018	12.5	2013	17.0	2018	15.5
	Population living in households considering that they suffer from noise	% of population	2013	12.3	2018	14.3	2013	18.8	2018	18.3
	Exposure to air pollution by particulate matter ($PM_{2.5}$)	µg/m³	2012	20.4	2017	19.7	2012	16.8	2017	14.1
	Population living in a dwelling with a leaking roof, damp walls, floors or foundation or rot in window frames or floor	% of population	2013	27.0	2018	22.7	2013	15.6	2018	13.9
	Population reporting occurrence of crime, violence or vandalism in their area	% of population	2013	9.1	2018	7.9	2013	14.5	2018	12.7
Sustainable mobility	People killed in road accidents	number of killed people	2012	130	2017	104	2012	28 231	2017	25 257
	Share of buses and trains in total passenger transport	% of total inland passenger-km	2012	13.3	2017	13.5	2012	17.2	2017	16.7
Adverse environmental impacts	Settlement area per capita	m²	2009	579.4	2015	609.2	2012	625.0	2015	653.7
	Recycling rate of municipal waste	% of total waste generated	2013	34.8	2018	58.9	2013	41.7	2018	47.0
	Population connected to at least secondary wastewater treatment	% of population	2012	53.7	2017	67.4	N/A	:	N/A	:

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Table (continued)

SDG / Sub-theme	Indicator	Unit	Slovenia				EU-28			
			Starting		Latest		Starting		Latest	
			year	value	year	value	year	value	year	value
SDG 12 – Responsible consumption and production										
Decoupling environmental impacts from economic growth	Consumption of toxic chemicals	million tonnes	N/A	:	N/A	:	2013	300.3	2018	313.9
	Resource productivity	EUR per kg, chain-linked volumes (2010)	2013	1.40	2018	1.43	2013	1.98	2018	2.04
	Average CO2 emissions per km from new passenger cars	g CO_2 per km	2013	125.6	2018	121.0	2014	123.4	2018	120.4
	Energy productivity	EUR per kgoe	2013	5.2	2018	5.9	2013	7.6	2018	8.5
Energy consumption	Primary energy consumption	million tonnes of oil equivalent (Mtoe)	2013	6.6	2018	6.7	2013	1 577.4	2018	1 551.9
	Final energy consumption	million tonnes of oil equivalent (Mtoe)	2013	4.8	2018	5.0	2013	1 115.5	2018	1 124.1
	Share of renewable energy in gross final energy consumption	%	2013	22.4	2018	21.1	2013	15.4	2018	18.0
Waste generation and management	Circular material use rate	% of material input for domestic use	2012	9.3	2017	8.5	2012	11.5	2017	11.7
	Generation of waste excluding major mineral wastes	kg per capita	2012	1 701	2016	1 457	2012	1 716	2016	1 772
	Recycling rate of waste excluding major mineral wastes	% of total waste treated	2012	74	2016	80	2012	55	2016	57
SDG 13 – Climate action										
Climate mitigation	Greenhouse gas emissions	index 1990 = 100	2012	102.4	2017	93.8	2012	82.1	2017	78.3
	Greenhouse gas emissions intensity of energy consumption	index 2000 = 100	2012	96.2	2017	86.2	2012	91.5	2017	86.5
	Primary energy consumption	million tonnes of oil equivalent (Mtoe)	2013	6.6	2018	6.7	2013	1 577.4	2018	1 551.9
	Final energy consumption	million tonnes of oil equivalent (Mtoe)	2013	4.8	2018	5.0	2013	1 115.5	2018	1 124.1
	Share of renewable energy in gross final energy consumption	%	2013	22.4	2018	21.1	2013	15.4	2018	18.0
	Average CO2 emissions per km from new passenger cars	g CO_2 per km	2013	125.6	2018	121.0	2014	123.4	2018	120.4
Climate impacts	European mean near surface temperature deviation	temperature deviation in °C, compared with the 1850–1899 average	N/A	:	N/A	:	2013	1.4	2018	2.1
	Climate-related economic losses	EUR billion, in 2017 values	N/A	:	N/A	:	2012	2 719	2017	2 649
	Mean ocean acidity	pH value	N/A	:	N/A	:	2013	8.06	2018	8.06
Support to climate action	Contribution to the international 100bn USD commitment on climate related expending	EUR million, current prices	N/A	:	2017	3.8	N/A	:	2017	20 388.7
SDG 14 – Life below water										
Ocean health	Coastal water bathing sites with excellent water quality	% of bathing sites with excellent water quality	2013	100.0	2018	100.0	2013	85.5	2018	87.1
	Mean ocean acidity	pH value	N/A	:	N/A	:	2013	8.06	2018	8.06
Marine conservation	Surface of marine sites designated under NATURA 2000	km^2	2013	11	2018	10	2013	251 566	2018	551 899
Sustainable fisheries	Estimated trends in fish stock biomass	index 2003 = 100	N/A	:	N/A	:	2012	110.0	2017	136.0
	Assessed fish stocks exceeding fishing mortality at maximum sustainable yield (Fmsy)	% of stocks exceeding fishing mortality at maximum sustainable yield ($F>F_{MSY}$)	N/A	:	N/A	:	2012	52.9	2017	42.7
SDG 15 – Life on land										
Ecosystems status	Share of forest area	% of total land area	2009	62.1	2015	63.4	2012	40.3	2015	41.6
	Biochemical oxygen demand in rivers	mg O_2 per litre	2012	0.93	2017	0.81	2012	2.06	2017	2.00
	Nitrate in groundwater	mg NO_3 per litre	N/A	:	N/A	:	2012	19.2	2017	19.1
	Phosphate in rivers	mg PO_4 per litre	N/A	:	N/A	:	2012	0.096	2017	0.093
Land degradation	Soil sealing index	index 2006 = 100	2009	102.2	2015	103.8	2009	101.7	2015	104.2
	Estimated soil erosion by water	km^2	2010	3 684.3	2016	3 686.6	2010	207 232.2	2016	205 294.5
	Settlement area per capita	m^2	2009	579.4	2015	609.2	2012	625.0	2015	653.7
Biodiversity	Surface of terrestrial sites designated under NATURA 2000	km^2	2013	7 673	2018	7 672	2013	787 766	2018	784 252
	Common bird index	index 2000 = 100	N/A	:	N/A	:	2013	94.7	2018	93.5
	Grassland butterfly index	index 2000 = 100	N/A	:	N/A	:	2012	72.2	2017	74.1

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Table (continued)

SDG / Sub-theme	Indicator	Unit	Slovenia				EU-28			
			Starting		Latest		Starting		Latest	
			year	value	year	value	year	value	year	value
SDG 16 – Peace, justice and strong institutions										
Peace and personal security	Death rate due to homicide	number per 100 000 persons	2011	0.9	2016	0.7	2011	0.9	2016	0.6
	Population reporting occurrence of crime, violence or vandalism in their area	% of population	2013	9.1	2018	7.9	2013	14.5	2018	12.7
	Physical and sexual violence to women experienced within 12 months prior to the interview	% of women	N/A	:	2012	3	N/A	:	2012	8
Access to justice	General government total expenditure on law courts	million EUR	2012	199	2017	199	2012	48 381	2017	51 027
	Perceived independence of the justice system	% of population	2016	30	2019	39	2016	52	2019	56
Trust in institutions	Corruption Perceptions Index	score scale of 0 (highly corrupt) to 100 (very clean)	2013	57	2018	60	N/A	:	N/A	:
	Population with confidence in the EU Parliament	% of population	2013	37	2018	38	2013	39	2018	48
SDG 17 – Partnerships for the goals										
Global partnership	Official development assistance as share of gross national income	% of GNI	2013	0.13	2018	0.16	2013	0.43	2018	0.48
	EU financing to developing countries	million EUR, current prices	2012	46	2017	20	2012	147 962	2017	155 224
	EU imports from developing countries	million EUR, current prices	2013	4 413	2018	7 823	2013	817 475	2018	1 013 981
Financial governance within the EU	General government gross debt	% of GDP	2013	70.0	2018	70.4	2013	86.3	2018	80.4
	Shares of environmental and labour taxes in total tax revenues	% of total tax revenues	2013	10.5	2018	9.4	2013	6.4	2018	6.1

Source: Eurostat

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