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BETTER POLICIES FOR BETTER LIVES

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This *Survey* is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Slovenia were reviewed by the Committee on 6 February 2020. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 13 July 2020.

The Secretariat's draft report was prepared for the Committee by Jens Høj, Priscilla Fialho and Eva Zver, seconded from the Slovenian Institute of Macroeconomic Analysis and Development, under the supervision of Mame Fatou Diagne and Nicola Brandt. Statistical research assistance was provided by Federico Giovannelli and Klaus Pedersen. Publication coordination was provided by Poeli Bojorquez. The Survey also benefitted from contributions from Tim Salecl Zizek.

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Information about the latest as well as previous Surveys and more information about how *Surveys* are prepared is available at http://www.oecd.org/eco/surveys.

BASIC STATISTICS OF SLOVENIA, 2019*

(Numbers in parentheses refer to the OECD average)**

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2018)	2.1		Population density per km² (2018)	103.0	(37.8)
Under 15 (%, 2018)	15.0	(17.8)	Life expectancy at birth (years, 2018)	81.0	(80.2)
Over 65 (%, 2018)	19.6	(17.1)	Men (2018)	78.2	(77.6)
Foreign-born (%, 2018)	17.7		Women (2018)	84.0	(82.8)
Latest 5-year average growth (%)	0.1	(0.6)	Latest general election		June-2018
ECONOMY					
Gross domestic product (GDP)			Value added shares (%, 2018)		
In current prices (billion USD)	53.7		Agriculture, forestry and fishing	2.4	(2.5)
In current prices (billion EUR)	48.0		Industry including construction	32.7	(27.3)
Latest 5-year average real growth (%)	3.3	(2.2)	Services	64.9	(70.2)
Per capita (000 USD PPP, 2018)	38.7	(46.4)			
GENERAL GOVERNMENT					
Expenditure (% of GDP, 2018)	43.7	(40.3)	Gross financial debt (% of GDP, OECD: 2017)	86.6	(109.0)
Revenue (% of GDP, 2018)	44.2	(37.3)	Net financial debt (% of GDP, OECD: 2017)	26.4	(69.0)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.9		Main exports (% of total merchandise exports, 2018)		
PPP exchange rate (USA = 1)	0.6		Machinery and transport equipment	38.0	
In per cent of GDP			Manufactured goods	20.0	
Exports of goods and services	84.4	(54.2)	Chemicals and related products, n.e.s.	16.9	
Imports of goods and services	75.3	(50.4)	Main imports (% of total merchandise imports, 2018)		
Current account balance	6.6	(0.3)	Machinery and transport equipment	32.8	
Net international investment position	-19.4		Manufactured goods	19.3	
			Chemicals and related products, n.e.s.	16.1	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	55.5	(57.5)	Unemployment rate, Labour Force Survey (aged 15 and over, %, 2018)	4.4	(5.4)
Men	60.5	(65.6)	Youth (aged 15-24, %)	8.28	(11.7)
Women	50.6	(49.9)	Long-term unemployed (1 year and over, %)	1.9	(1.4)
Participation rate (aged 15 and over, %, 2018)	58.1	(61.1)	Tertiary educational attainment (aged 25-64, %, 2017, OECD: 2018)	32.5	(36.9)
Average hours worked per year, 2018)	1602.8	(1734)	Gross domestic expenditure on R&D (% of GDP, 2017)	1.9	(2.6)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2018)	3.3	(4.1)	CO_2 emissions from fuel combustion per capita (tonnes, 2018)	6.5	(8.9)
Renewables (%, 2018)	16.8	(10.5)	Water abstractions per capita (1 000 m³, 2017)	0.5	
Exposure to air pollution (more than 10 g/m³ of PM 2.5, % of population, 2017)	99.9	(58.7)	Municipal waste per capita (tonnes, 2017)	0.5	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2017, OECD: 2016)	0.24	(0.31)	Education outcomes (PISA score, 2018)		
Relative poverty rate (%, 2017, OECD: 2016)	8.5	(11.6)	Reading	495.3	(487.1)
Median disposable household income (000 USD PPP, 2017, OECD: 2016)	23.3	(23.9)	Mathematics	508.9	(489.3)
Public and private spending (% of GDP)			Science	507.0	(488.7)
Health care (2018)	7.9	(8.8)	Share of women in parliament (%)	27.8	(30.7)
Pensions (2015)	11.3	(8.5)	Net official development assistance (% of GNI, 2017)	0.2	(0.4)
Education (public, 2018)	4.3	(4.5)			

* The year is indicated in parenthesis if it deviates from the year in the main title of this table. ** Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

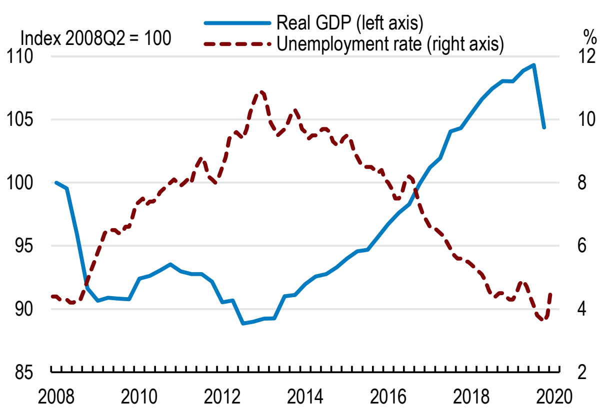
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, World Bank.

Executive summary

The economy has been hit hard

The coronavirus pandemic hit the economy hard. Containment measures cut many service activities, while manufacturing was hit by failing foreign demand (Figure 1). The moderate rise in unemployment reflects measures to support jobs and incomes. The downturn comes after a long period of high growth that had supported higher living standards, improved labour market inclusiveness, and fostered faster income convergence.

Figure 1. Output is set to drop sharply



Source: OECD Economic Outlook 107 database; and OECD Main Economic Indicators database.

StatLink https://doi.org/10.1787/888934150177

A fragile pick-up in activity is underway. Output plunged in the first half of 2020, which could happen again if new outbreaks occur (Table 1, Figure 3). Many services are slowly recovering, while sectors sensitive to foreign demand and international supply chains will continue to operate at low capacities. **The economy is projected to gradually recover** with the lifting of restrictions, releasing pent-up demand of, notably, durable goods and business investments. Following this initial boost to growth, the economy is projected to enter a more stable growth path with unemployment gradually receding towards pre-crisis levels. If an outbreak occurs at end-2020, a second contraction will follow, leading to higher long-term unemployment and more bankruptcies, and resulting in larger shares of underutilised resources. In both cases, the main risks are large increases in the number of bankruptcies and higher-than-expected unemployment, reducing the economy's ability to bounce back. On the upside, growth would be faster if foreign demand rebounds faster than projected, especially if international supply chains are restored rapidly.

Table 1. The recovery will be slow

Single-hit scenario	2019	2020	2021
Gross domestic product	2.4	-7.8	4.5
Unemployment rate	4.4	6.4	5.4
Fiscal balance (% of GDP)	0.5	-8.0	-5.7
Public debt (gross, % of GDP)	66.1	78.4	82.9
Double-hit scenario	**2019**	**2020**	**2021**
Gross domestic product	2.4	-9.1	1.5
Unemployment rate	4.4	6.9	8.1
Fiscal balance (% of GDP)	0.5	-8.8	-8.1
Public debt (gross, % of GDP)	66.1	79.7	87.5

Source: OECD Economic Outlook 107 database.

Crisis-related fiscal measures amount to nearly 4½ per cent of GDP, focussing on providing income support for workers, while buttressing businesses. Moreover, banks have to defer liabilities by 12 months for crisis-affected solvent businesses, while the government has issued guarantees of up 4½ per cent of GDP. In addition, the government is implementing stimulus, amounting to one per cent of GDP.

The economy may need continued support. With the fading of the health crisis, containment measures are being phased out and associated fiscal measures set to be terminated. The transition to a strong recovery remains fragile and may necessitate support to avoid scarring of long-term economic growth.

Long-term fiscal sustainability is at risk from ageing-related spending. The old-age dependency ratio nearly doubles to 60% in the coming decades with a smaller and older workforce. If the pandemic comes back in the autumn, the public debt-to-GDP ratio could reach 87½ percent in 2021. At the same time, pension and other ageing-related spending are rising, adding to the challenges of securing fiscal sustainability. By 2055, such spending is projected to increase more than in almost any other European country. If not countered, the public debt-to-GDP ratio will continue to rise.

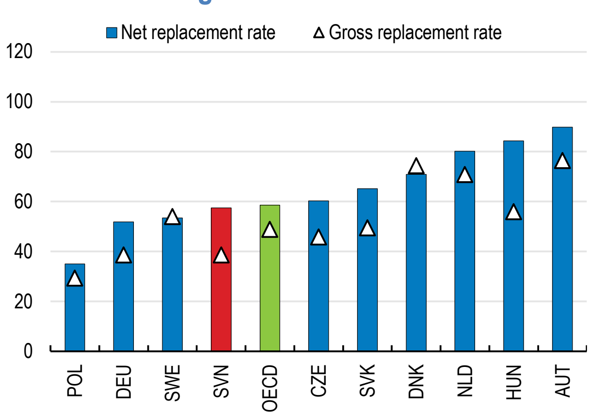
The pension system needs to prepare for population ageing

The deficit in the public pension system is projected to triple. With current rules, future pensioners will spend more time in retirement than almost anywhere else. At the same time, the shrinking working age population impacts negatively on revenues. As a consequence, the current large intergenerational transfers would need to increase further to cover the system's financing gap.

Pension reform has aimed at addressing rising life expectancy. In 2013, a pension reform to prolong working lives introduced a minimum pension age of 60 for workers with a full contribution period of 40 years and a statutory age of 65 for all. Nonetheless, the effective retirement age remains among the lowest in the OECD.

The state pension system is redistributive, reflecting policy measures, such as a minimum pension and an effective limit on pension benefits, and population characteristics, such as differences in life expectancy. This leads to large transfers between contributors within the system, eroding work and savings incentives, and from younger to older generations. Moreover, pension contribution rates are relatively high, while net replacement rates are at par with the OECD average (Figure 2). Recent reform is increasing replacement rates. Many pensioners have short contribution periods and low-income bases, leading to low pension benefit for most and old-age poverty for many.

Figure 2. The net replacement rate is close to the OECD average



Source: OECD, Pension at a Glance 2019.

StatLink https://doi.org/10.1787/888934150196

Later retirement would bolster sustainability. There is low, although increasing, take-up of the bonus/malus system, which has higher rewards for retiring up to three years later than penalties for retiring up to five years earlier. The system is applicable anytime between the minimum and statutory retirement age, reducing actuarial fairness. Special retirement regimes allow early retirement for workers with full work capacity.

The second pillar is underdeveloped. The voluntary second pillar system has many, mostly higher income, contributors. However, contributions are low as generous tax advantages are applied to low levels of contributions. Thus, accumulated funds are very low, rendering the pillar ineffective in providing additional pension income.

Health services will be subject to ageing-induced changes in demand

The health care system responded fast and effectively to the health crisis. Moreover, its efficiency compares favourably with peers. Nonetheless, structural problems in the sector raise cost, quality and safety concerns. This is a particular concern as ageing leads to different and higher demand for health and long-term care services.

Existing price instruments in the health sector are ineffective in allocating scarce resources. Co-payments play a limited role in directing demand for health services. The effective use of general practitioners is hampered by payment systems that are not cost-reflective, leading to a high number of referrals to specialists and emergency units. In the hospital sector, allocation of resources is hampered by out-of-date reimbursement rates, soft budget constraints, non-transparent remuneration of doctors and a prevalence of small general hospitals. The guidance of patients through the health system is hindered by a lack of information exchange between providers and uniform care pathways.

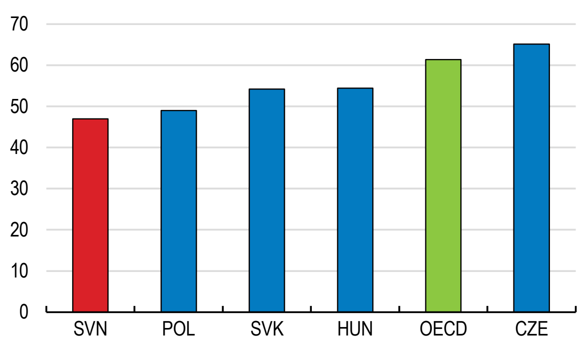
The underdeveloped long-term care system is poorly prepared for ageing. Low long-term care spending covers 11½ per cent of the older population, well below perceived needs. The supply of long-term care is fragmented, with different legislation and eligibility criteria. Moreover, most is provided by public institutions, reducing supply flexibility.

Labour market institutions must prepare for a smaller and older work force

To avoid a rise in long-term unemployment as a result of the current crisis, it is important that active labour market policies focus on the hard-to-employ job-seekers by providing adequate job search support and skills upgrading. Such job-seekers are mostly older, low-skilled and long-term unemployed (Figure 3). Moreover, ageing is making labour shortages more permanent, requiring better labour utilisation and allocation to sustain growth. In particular, digital transformation and other new technologies bring new opportunities for individuals and the economy, which can only be realised through continued skills upgrading.

Figure 3. The employment rate of older workers is low

Employment rate for 55-64 year olds, 2018



Source: OECD Labour Force Survey and Education database.

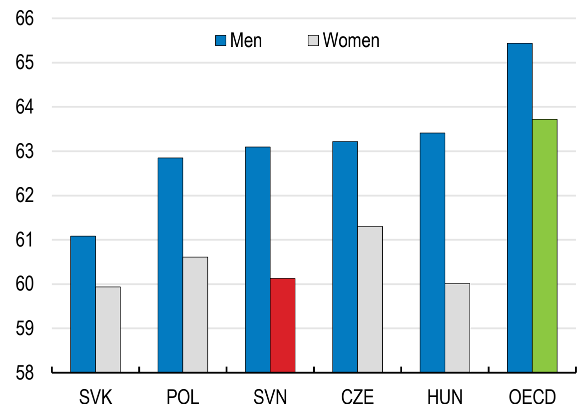
StatLink https://doi.org/10.1787/888934150215

Older workers are often leaving the labour market early. The effective retirement age is among the lowest in the OECD. In addition, many older workers use the unemployment, disability and social assistance systems as pathways into early retirement (Figure 4). Another concern is that many older workers lack life-long learning incentives, hampering their ability to adjust to changing work places and new technologies.

Many unemployed workers lack search and work incentives. Many low-skilled workers have few incentives to enter employment or increase work efforts as their associated income gains are eroded by high taxes and benefit withdrawal.

Figure 4. Older workers retire early

Average effective age of retirement, 2013-2018



Source: OECD, Pensions at a Glance 2019.

StatLink https://doi.org/10.1787/888934150234

Re-skilling and upgrading skills are essential for improving employment prospects. Many of the hard-to-employ job-seekers are not receiving sufficient training to enable them to gain a foothold in the labour market. In addition, there is limited participation in adult education among the low-skilled and low-paid workers, hindering job and occupational mobility.

The wage determination process has led to a compressed wage structure. Future growth will increasingly rely on improving labour allocation to bolster productivity. This requires better incentives for individual workers to improve their productivity or move to higher productivity jobs.

Workers' geographical mobility is low, hampering labour reallocation. The small private rental segment is based on short-term contracts, rendering it unattractive as a longer-term solution. The rigid housing market has contributed to widespread commuting by car. This, together with widespread use of old heating boilers, contributes to emissions of CO_2 and small particles.

MAIN FINDINGS	KEY RECOMMENDATIONS
Macroeconomic policies to support the recovery	
Public debt is rising but remains moderate by international standards. In the long-term, ageing will significantly raise health and pension costs.	Provide additional fiscal support as needed to support the recovery. Focus on efficient spending and growth-enhancing investment projects.
Competition in product markets is low.	Continue privatisation efforts and further strengthen corporate governance of State-Owned Enterprises.
Preparing for rising number of pensioners	
Recent reform of the public pension system has eroded its fiscal sustainability increasing further the need for intergenerational transfers.	Increase the statutory retirement age to 67 for both men and women. Link further increases, if needed, to gains in life expectancy. Index pension benefits to price developments.
Old-age pension benefits and the effective retirement age are low while work and saving incentives are eroded by a lack of actuarial fairness.	Adjust the parameters of the public pension system to better align contributions and benefits for all contributors. Make bonuses and maluses symmetric and applicable at a fixed point, such as the statutory retirement age.
Savings in the second pillar is low, particularly for low-income workers.	Make enrolment in the second pillar an opt-out choice. Increase the ceiling for tax exempt contributions and reduce the associated tax advantages; introduce matching contributions for low-wage workers.
Coping with rising demand for health and long-term care	
The gatekeeper role of primary care is hampered by weak information exchange and low GP density.	Make the per-patient payment (capitation) and the fees-for-services cost-reflective. Use the per-patient payment to attract GPs to underserved areas.
The many small general hospitals lead to inefficiencies in cost, quality and safety.	Establish required minimum interventions for maintaining services, while giving management greater responsibility in service supply decisions. Create a nation-wide monitoring system of quality, safety and efficiency.
Planning and budgeting are not performance-oriented.	Introduce selective public tenders for health services Use updated reimbursements for all acute services.
Hospital doctors' remuneration contains few performance incentives.	Ensure competitive salaries and performance incentives for doctors.
The low LTC spending is focussed on institutional care with many providers and uneven access.	Introduce integrated LTC with common financing mechanisms and eligibility criteria. Integrate regulation and provision of community nursing and home help Facilitate entry of private home care providers through quality and output-focussed tenders.
Adjust labour market institutions to an older and smaller workforce	
Social benefits are used as pathways to early-retirement.	Reduce favourable treatment of older workers in unemployment benefit, disability and social assistance systems by curtailing age-dependent rules.
Harder-to-place workers receive insufficient support.	Redirect employment and training subsidies to job-seekers with high assistance needs.
Unemployment, inactivity and low-wage traps are high.	Introduce in-work benefits. Continue to reduce labour tax rates by broadening their bases and bolstering property taxation.
Co-ordinated wage bargaining hampers labour allocation.	Determine more of the framework conditions at the sectoral level, such as seniority bonuses and minimum wage levels. Give social partners greater responsibilities in the wage bargaining process at the firm level.
Labour mobility is low.	Tax owner-occupied housing as other assets to remove investment bias. Promote the private rental market by introducing regulation that better balance the interest of landlords and tenants. Tax commuting allowances along with other wage income
Promote green growth	
The population is exposed to high particles emissions from road traffic and woodstoves.	Supplement the replacement bonus for old wood and oil boilers with regulatory requirements and financial sanctions. Align effective tax rates on different forms of energy to reflect their environmental damage.

1 Key policy insights

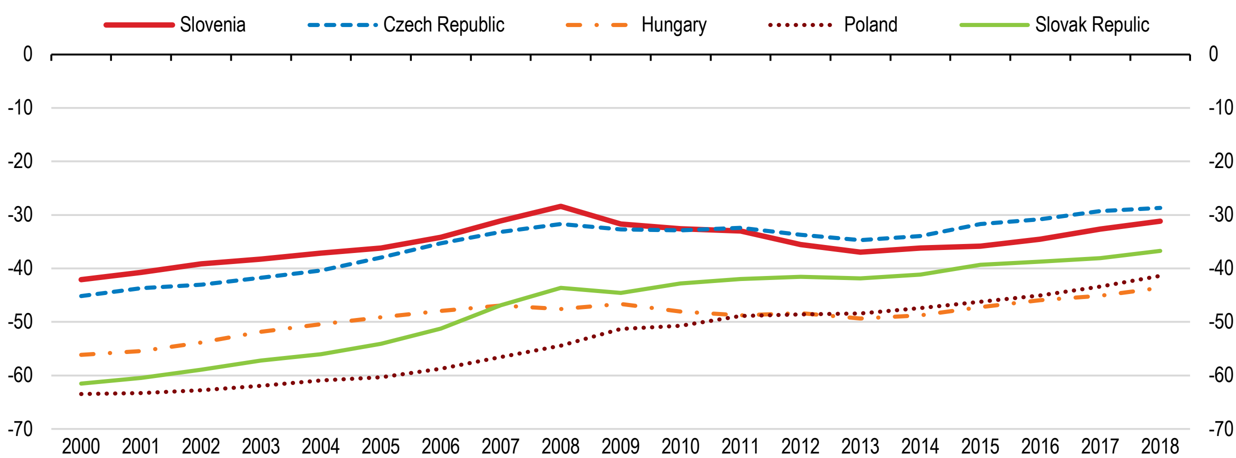
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

The COVID-19 pandemic threatens gains in well-being made over the past half-decade. The outbreak interrupted a five-year long expansion, which had yielded higher employment rates and real wage increases and underpinned income convergence vis-à-vis richer OECD countries. The small open economy increased its integration into international supply chains, reflecting an ability to adapt to changes in external demand and move up the value-added chain in production. A key challenge ahead is to return to a strong growth path that can sustain and accelerate these achievements.

Prior to the pandemic, signs of capacity constraints were emerging (Table 1.1). Combined with a workforce that is becoming older and smaller, this indicated that maintaining sustained progress in real income gains and the income convergence process vis-à-vis richer OECD countries would require higher productivity growth (Figure 1.1). Looking ahead, this points to a need for better training and reallocation of workers to get the best out of digitalisation and other new technologies in a globalised world. An additional challenge is to enhance the inclusiveness of the labour market to integrate long-term, low-skilled and older job-seekers.

Figure 1.1. Income convergence is picking up

GDP per capita gaps to the upper half of OECD countries. Upper half is weighted by the population.



Source: OECD Going for Growth.

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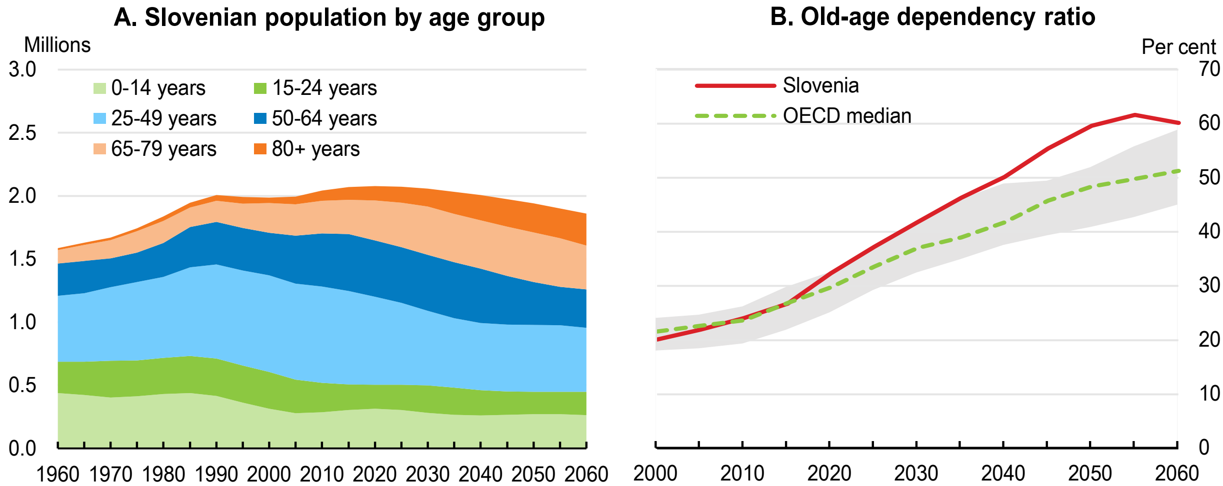
The coronavirus led to a health crisis as well as an unprecedented economic crisis. The health crisis is waning and containment measures are being withdrawn, while the immediate economic impact was softened by measures to support jobs and incomes. With the planned phase-out of these measures, a short-term challenge is how to best support a fragile recovery to avoid unnecessary scaring of future growth. Once the recovery has become self-sustained, attention should be turned to the challenges associated with population ageing, which by 2055 will have doubled the old-age dependency ratio to 60% (Figure 1.2). Also, the share of the population above 80 is projected to rise sharply. Consequently, ageing-related spending pressures are increasing in areas such as pensions, health and long-term care. If these pressures are not contained or offset, fiscal sustainability is at risk.

Figure 1.2. The population is ageing



Note: In Panel B, the old-age dependency ratio is share of the population older than 65 over the working age population (20-64 years) and the shaded area denotes the 25th to 75th percentile range of available data for OECD countries.
Source: United Nations (2019), World Population Prospects: The 2019 Revision, Online Edition.

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Looking ahead, the main fiscal sustainability challenges are to ensure appropriate incomes and healthy lives for the growing number of retirees. Short contributions periods, often combined with low incomes, lead to relatively low pension benefits. Moreover, the health and long-term care sectors are poorly prepared for the changes an older population will demand. Thus, behavioural and policy adjustments are needed to face these challenges. Furthermore, the ageing and declining labour force means that growth will be increasingly dependent on bolstering the productivity of available labour resources. Another important facet of more healthy lives for all is to reduce the environmental impact of economic activity and the population's exposure to pollution.

Against this background, the key messages of this *Survey* are:

- Support the economy until the recovery has become self-sustained. Thereafter, maintaining and strengthening economic growth will require that fiscal sustainability be secured and productivity growth be faster.
- Spending on pension and health will soon start to accelerate. Policies should be formulated and implemented early to deflect pressures on public finances and secure good outcomes in terms of healthy retirements with sufficient incomes.
- Labour market institutions need to adapt to an older and smaller workforce with reforms of lifelong learning, health care and mobility.

Box 1.1. Slovenia's key policies to prepare for the future

The two **long-term development strategies are**:

- The Slovenian Development Strategy 2030 to pursue the UN's sustainable development goals.
- The *Active Ageing Strategy* to address ageing related challenges.

There are several **medium-term strategies** in place**,** including:

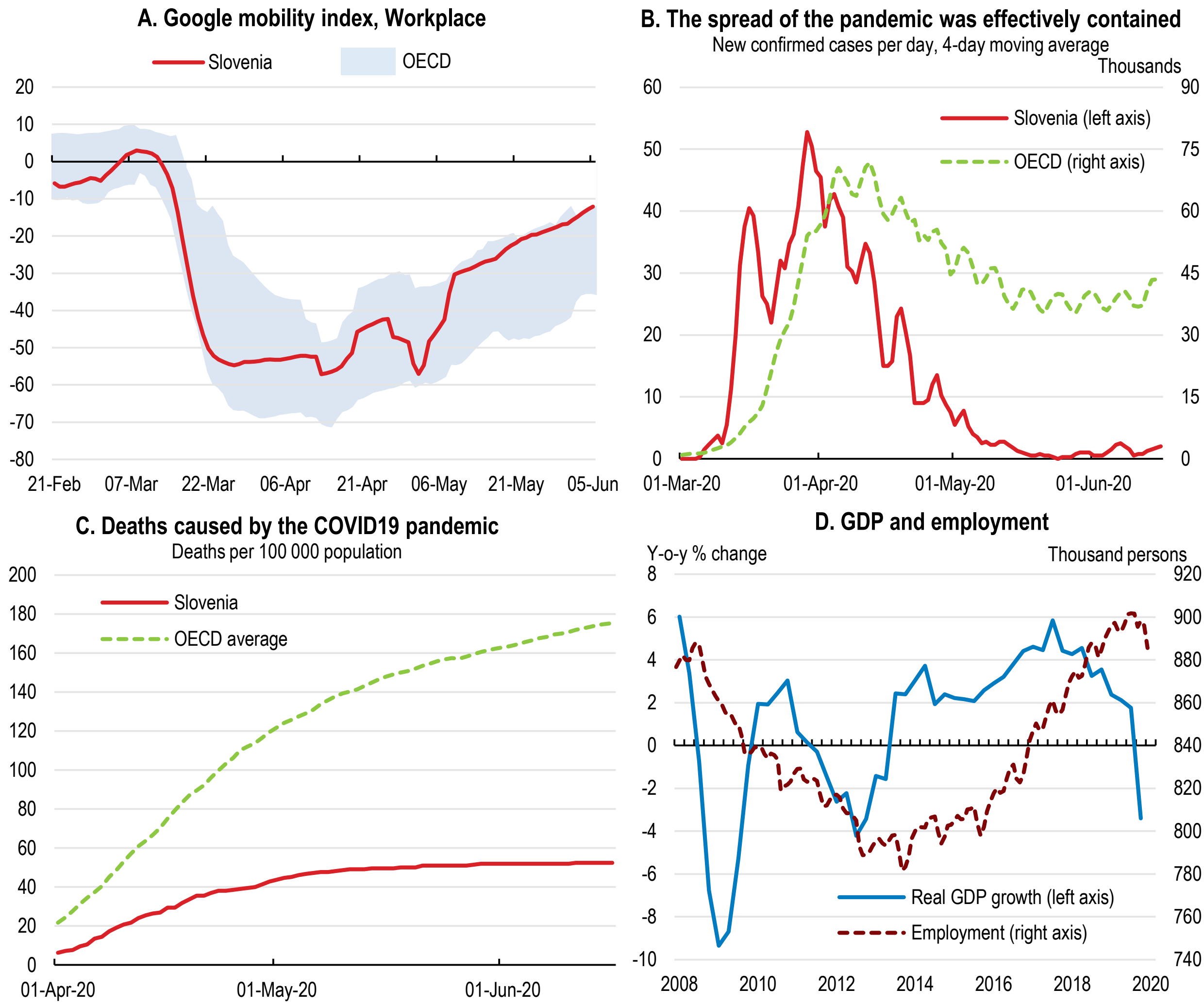
- *National Health Care Plan 2016-2025*
- The *National Health and Safety at Work Programme 2018-2027* and the *Economic Migration Strategy 2020-2030* to extend working lives and address labour shortages.
- The *Skills Strategy Implementation Guidance for Slovenia* to improve life-long learning.
- The *Strategy for the Development of Infrastructure for Alternative Sources of Energy* for electric vehicles and their charging infrastructure and the *Transport Development Strategy to 2030* to develop all parts of the transport system.
- The *Strategic Framework for Climate Change Adaptation*

A new coalition government took over in February 2020 and had to immediately formulate emergency policy measures to contain the coronavirus crisis and support the economy (box 1.2). Once this crisis management is completed, the new government is expected to present its key priority areas and policies. The new government's key priorities include securing a swift economic recovery and stable growth over the longer term.

The economy still needs policy support

The first COVID-19 case was confirmed in early March and a lockdown was imposed in mid-March. Containment measures contributed to limiting the spread of the coronavirus epidemic, with relatively few cases and fatalities compared with other countries (Figure 1.3). Containment measures were gradually eased between the last week of April and the beginning of June. The epidemic has been mostly concentrated in the capital and the eastern part of the country. The health care system dealt effectively with the pandemic. Looking ahead, however, a low and uneven density of general practitioners contributes to a high number of referrals to specialists and emergency units. Moreover, the ratio of intensive care beds to population is relatively low. This may raise capacity concerns, constraining the ability to manage new outbreaks or to maintain the continuity of care for other conditions.

Figure 1.3. The outbreak was quickly contained but led to a sharp contraction



Notes: Panel A depicts the ratio between mobility to workplace at all points in time and the level during the baseline period (7-day moving average). The shaded area represent the range between the OECD's 90th and 10th percentile. The level during the baseline period was established based on the median value of the volume of visits for each day of the week during the period January 3–February 6, 2020.
Source: OECD calculations based on Google Community Mobility Report and on Ourworldindata; OECD Economic Outlook 107 database; and Statistical Office of Slovenia.

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The economic impact of the coronavirus outbreak and associated containment measures has been a historical decline in activity (Figure 1.3; (Table 1.1; Figure 1.4, Panel A). The abrupt slowing of economic activity in March-April 2020 led to a large drop in consumer confidence and business sentiment, which only recently have begun to recover (Figure 1.5, Panel B). The initial collapse reflected the effects of the containment measures on domestic activity and the sudden drop in international demand. In the first month of containment, the volume of retail trade contracted by 15% (y-o-y). Worst affected was the tourism sector. Road transport was also hit hard, with a 20% decline (y-o-y) in domestic freight transport on motorways and twice as much for international freight. Manufacturing has been strongly affected, notably with production ceasing in the automotive sector.

Table 1.1. Macroeconomic indicators and projections

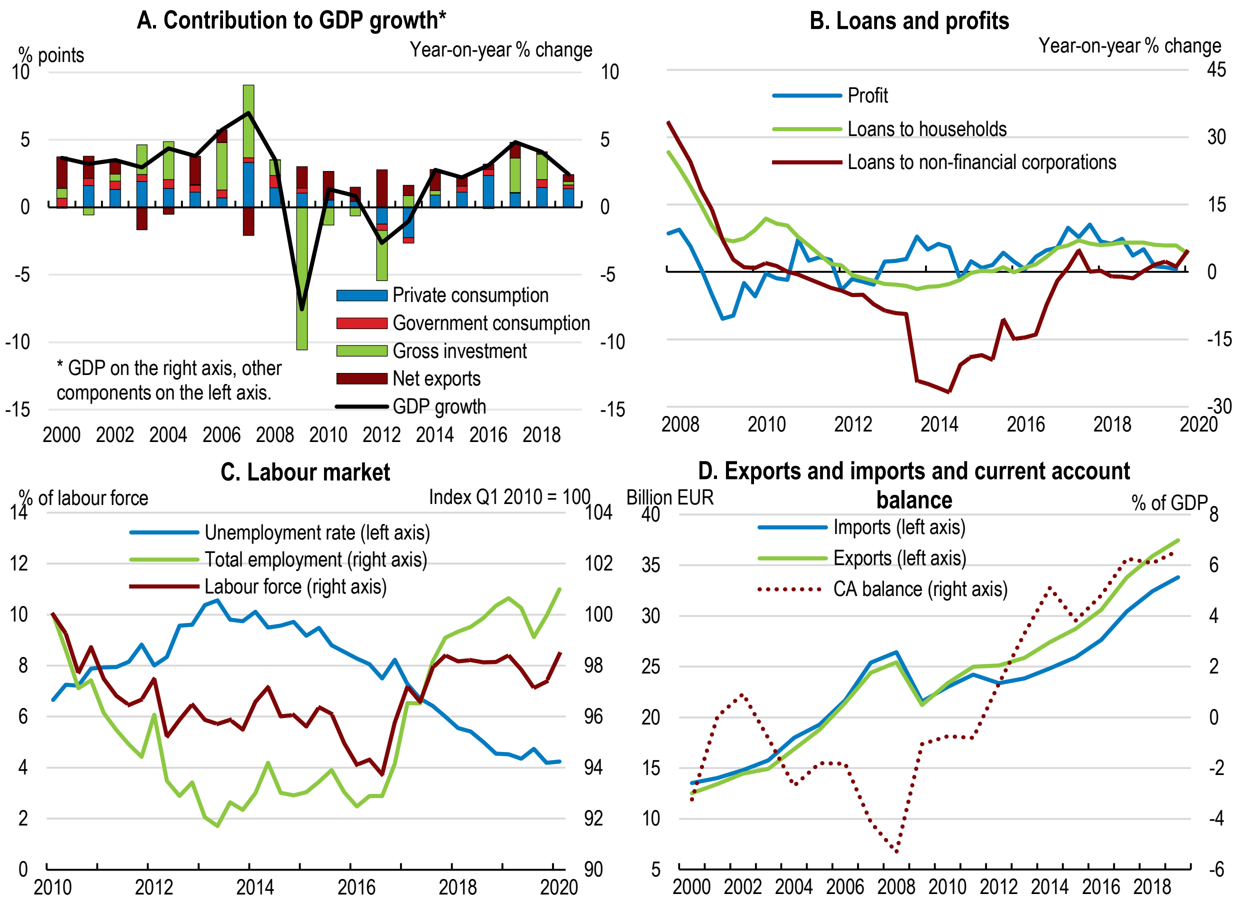
		Single-hit scenario		Double-hit scenario	
	2019	2020	2021	2020	2021
	Annual percentage change, volume (2010 prices)				
Gross domestic product (GDP)	2.4	-7.8	4.5	-9.1	1.5
Private consumption	2.7	-11.3	4.1	-12.4	1.8
Government consumption	1.6	7.8	0.4	7.8	0.4
Gross fixed capital formation	3.2	-12.2	7.6	-14.5	1.5
Final domestic demand	2.6	-7.5	3.9	-8.7	1.4
Stockbuilding[1]	-0.4	-0.1	0.0	-0.1	0.0
Total domestic demand	2.2	-6.7	3.9	-7.9	1.4
Exports of goods and services	4.4	-14.4	0.7	-16.0	-2.3
Imports of goods and services	4.2	-14.9	-0.6	-16.4	-3.0
Net exports[1]	0.5	-1.0	0.9	-1.2	0.3
Other indicators (growth rates, unless specified)					
Unemployment rate	4.4	6.4	5.4	6.9	8.1
GDP deflator	2.4	0.7	1.9	0.7	1.8
Consumer price index (harmonised)	1.7	1.0	2.0	1.0	1.7
Core consumer prices (harmonised)	1.9	1.4	2.0	1.4	1.7
Current account balance[2]	6.6	6.3	6.7	6.1	6.1
General government fiscal balance[2]	0.5	-8.0	-5.7	-8.8	-8.1
General government gross debt (Maastricht)[2]	66.1	78.4	82.9	79.7	87.5
General government net debt[2]	26.4	36.4	39.9	37.6	44.5

1. Contribution to changes in real GDP.
2. As a percentage of GDP.
Source: OECD Economic Outlook 107 database.

Private consumption contracted severely in the first quarter of 2020, while investment continued to expand, reflecting favourable financing conditions and high capacity utilisation. Construction also expanded, benefitting from public investment and EU funds as well as stronger private investment in new commercial real estate (Figure 1.5 and Figure 1.4, Panel A). Investment in residential housing bounced back after being held back by a lack of issued building permits, contributing to the fastest house price increases in the euro area (Bank of Slovenia, 2019a).

The shock to international demand translated into a contraction in both exports and imports, as all main trading partners were hit by the pandemic (Figure 1.6). Nonetheless, export market gains continued. In recent years, these have mostly reflected deeper penetration in existing markets rather than the development of new markets, as global demand shifted away from Slovenian products (IMAD, 2019b). Both services and the service content of manufactured goods have continued to increase (OECD, 2017a). For example, export of tourism services has expanded faster than elsewhere (European Travel Commission, 2018). More generally, there has been no recent increase in the participation in global value chains, reflecting a low stock of foreign direct investment. The smaller contraction of imports ensured a lower current account surplus (Figure 1.4, Panel D).

Figure 1.4. The economic recovery was slowing before the pandemic



Source: OECD Economic Outlook 107 database; and Thomson Reuters.

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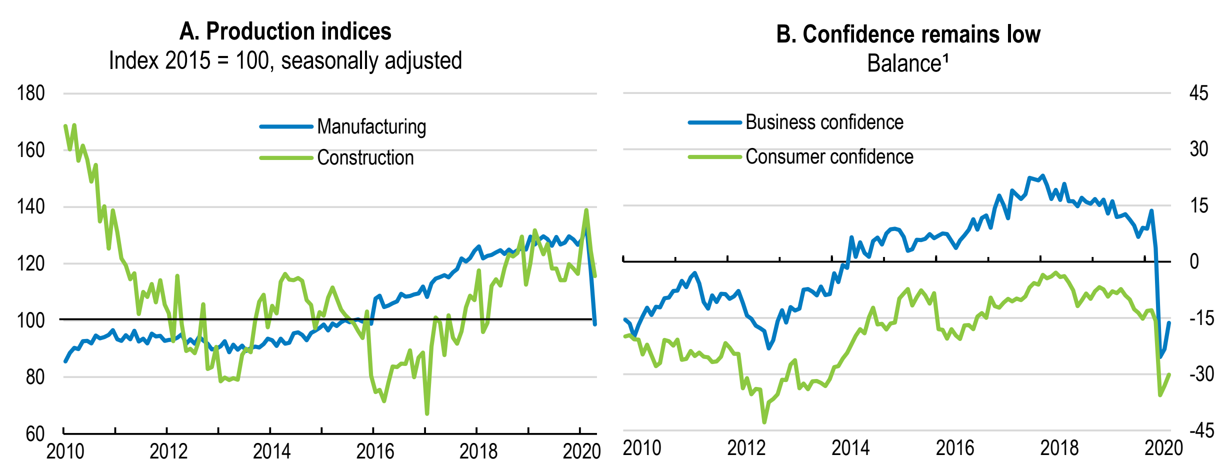
Figure 1.5. Consumer confidence and business sentiment collapsed



1. Business confidence is calculated as an unweighted average confidence indicators for manufacturing, construction, retail trade and services excluding retail trade.
Source: OECD Main Economic Indicators database; and Eurostat.

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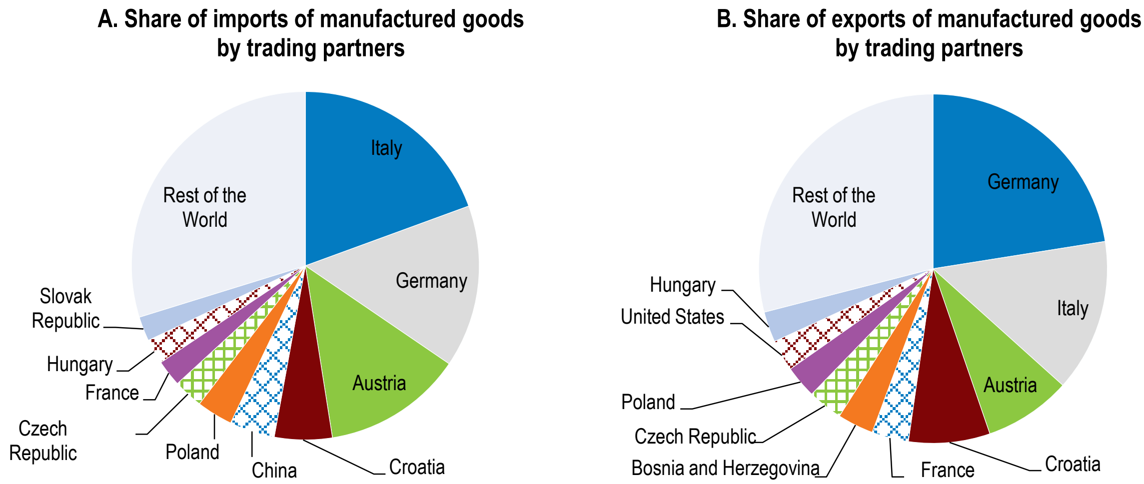
Figure 1.6. Slovenia mainly trades with European countries

In per cent, 2018



Source: OECD International Trade by Commodity Statistics database.

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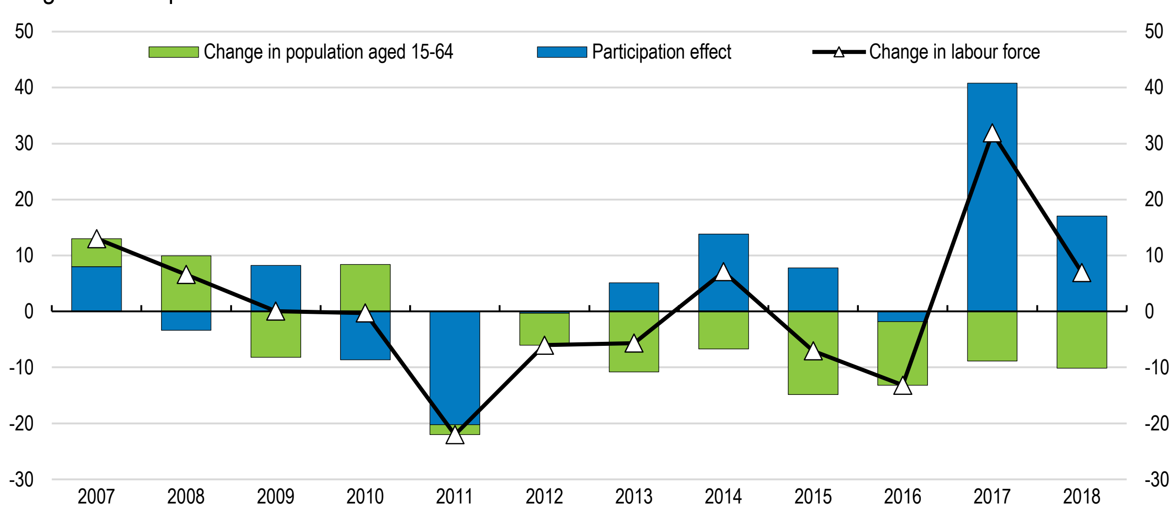
The increase in registered unemployment in the first months of the crisis was relatively modest, reflecting broad government measures to support jobs, which included wage compensation for affected workers and tax deferrals for companies (Box 1.2). Prior to the crisis, strong job creation in the public and private sectors had reduced the unemployment rate to nearly 4% - the lowest since the onset of the international financial crisis in 2008 (Figure 1.7) (IMAD, 2019a). Further increases in unemployment are expected as the full economic impact of the coronavirus pandemic hits the labour market.

Figure 1.7. Higher participation has so far offset the effect of ageing on the labour force

Change in 1 000 persons



Source: OECD Employment and Labour Market Statistics database.

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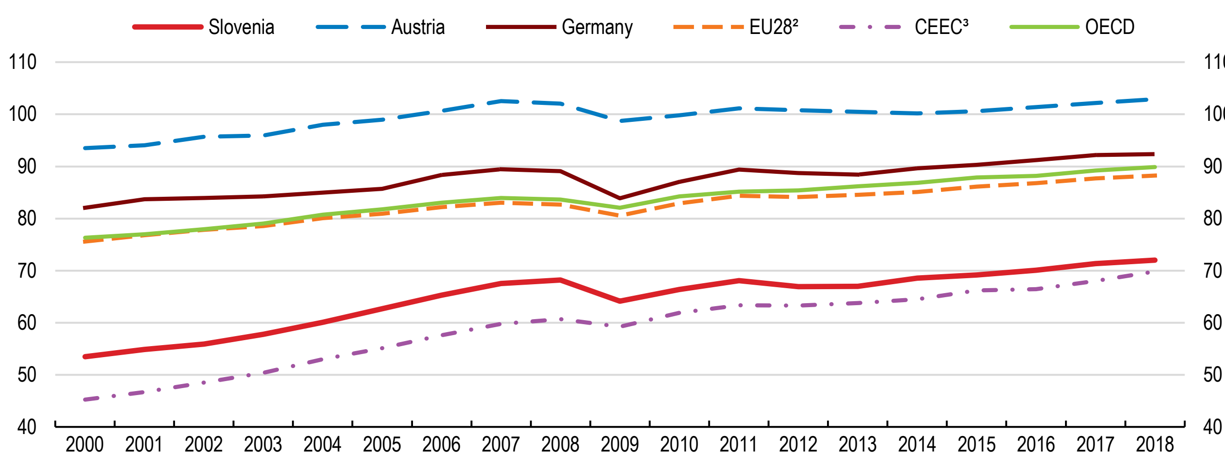
If the economy recovers quickly, newly unemployed workers are expected to be rapidly reintegrated into the labour market while, as in the past, bringing to work those with weak attachment to the labour market, including older, low-skilled and long-term unemployed persons will remain a challenge. Until now, the labour force has expanded slowly, as negative ageing effects were offset by higher participation. This was insufficient to avoid a tightening of the labour market, which manifested itself in labour shortages, particularly of qualified and experienced workers. Faced with these constraints and with few easy-to-employ job seekers left, firms increasingly hired immigrants and cross-border commuters, especially from former Yugoslav countries – which by end-2019 accounted for nearly three-quarters of new hires (Bank of Slovenia, 2019d). Looking ahead, this labour resource is likely to dry up as ageing-related labour shortages (particularly of skilled workers) continue to materialise in richer European OECD countries.

Wage growth was pushed up to 4.3% in 2019 by the tighter labour market, but is expected to recede as labour market slack builds up. Also during 2019, public wages began to increase faster than private wages. Another wage driver is the increase in the minimum wage by a combined 10% in 2019 and 2020. Real wages have been increasing faster than labour productivity, pushing up unit labour costs and eroding external competitiveness, although wages in other central and eastern European countries (CEEC) increased faster (Figure 1.8 and Figure 1.9). Consumer price inflation doubled during 2019 to above 2%, driven by higher service prices (Figure 1.10). In spring 2020, falling energy prices drove headline inflation temporarily into negative territory, while core inflation experienced a more moderate decline. Looking ahead, headline inflation will slow due to the weaker labour market.

Figure 1.8. Productivity has failed to catch up

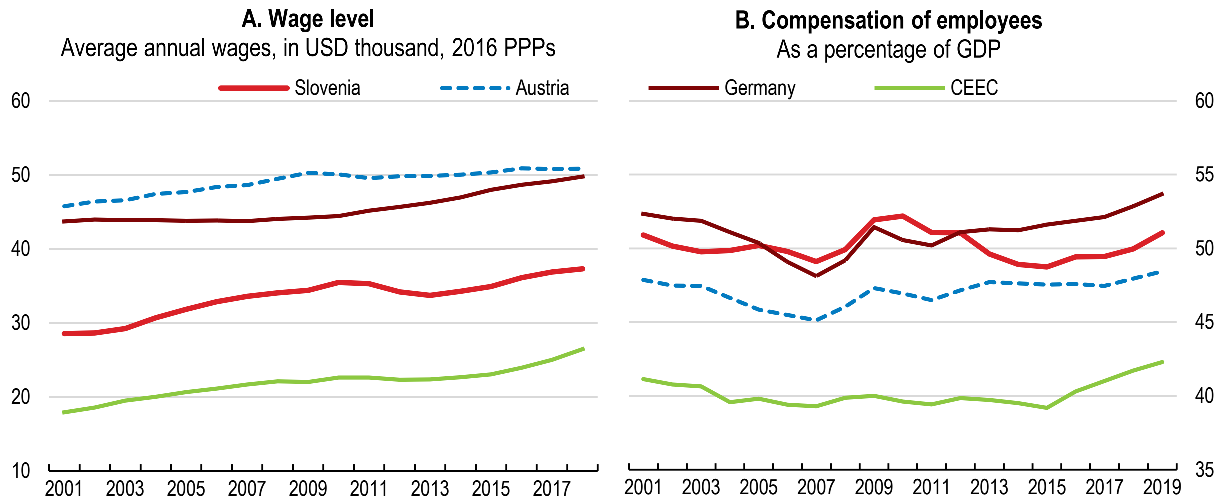
Real GDP per person employed, in USD thousand, constant prices, 2015 PPPs[1]



1. PPPs: purchasing power parities.
2. The EU28 aggregate includes all 28 member countries of the EU in all figures.
3. CEEC is the unweighted average of Czech Republic, Hungary, Poland and Slovak Republic in all figures.
Source: OECD Productivity database.

StatLink https://doi.org/10.1787/888934150386

Figure 1.9. Wage levels in Slovenia are well above other CEEC countries



Source: OECD Employment and Labour Market Statistics database; OECD Economic Outlook 107 database; and OECD National Accounts Statistics database.

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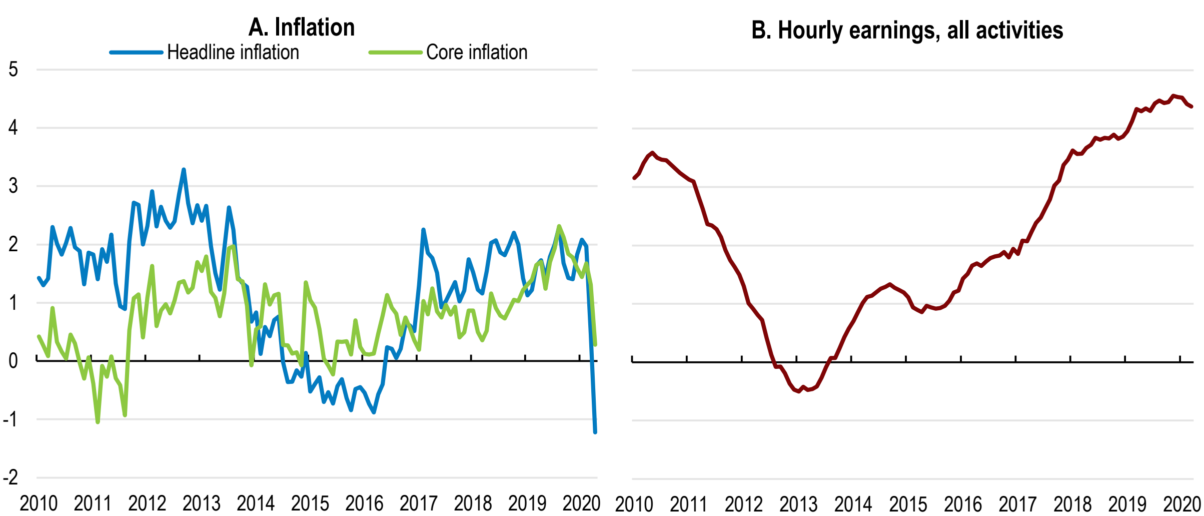
Figure 1.10. Inflationary pressures are easing

Year-on-year percentage change[1]



1. Core inflation excludes energy and food. Three-month moving average for hourly earnings.
Source: OECD Main Economic Indicators database.

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With the onset of the coronavirus, the government implemented a series of fiscal measures to support jobs, income and businesses (Box 1.2).The measures added to an already expansionary fiscal policy stance, arising mainly from higher spending on public employment and wages, social transfers and pensions. As growth recovers, the temporary measures should be withdrawn as planned. At the same time, the economy may need a fiscal kick-start to avoid scarring the economy's growth potential, calling for a rapid and easy-to-implement temporary fiscal stimulus, such as time-limited tax reductions or one-off income transfers. Once growth has become self-sustained, the supportive fiscal policy stance should be moderated to prepare for upcoming challenges associated with population ageing (Chapter 2). Monetary conditions are expected to remain supportive.

Box 1.2. Main fiscal measures to mitigate the coronavirus pandemic

The new government quickly adopted crisis-related fiscal measures amounting to nearly 4½ per cent of GDP.

A key objective of the fiscal measures was to preserve jobs and the economy's production potential. Measures were implemented to provide income support for employees working in companies that have partially or fully suspended their operations, by, for example, paying wages (up to 80%) and social security contribution compensations for temporary lay-offs and workers with pandemic related inability to come to work, and the pension insurance contribution for employees remaining in their workplaces (except in the financial sector). Furthermore, those continuing working became entitle to an allowance of EUR 200 paid by the employer.

Additional income support was extended for workers who lost their jobs during the epidemic and were not entitled to unemployment insurance by making them entitled to compensation from the first day of unemployment. Moreover, self-employed, farmers and religious workers have been guaranteed a monthly basic income equivalent to half net minimum wage in March and the full amount the following two months. In addition, their social security contributions were paid by the state. In addition, one-off income bonuses (ranging from EUR 130 to EUR 300) for low-income pensioners and EUR 150 for students, foster parents, recipients of parental allowances and other vulnerable groups were introduced. There was also a EUR 100 increase in the allowance for families with three children and a EUR 200 increase for families with more children. The allowance for lower income families with one or two children was increased by EUR 30 each child.

Firms and self-employed are supported by a 24-month deferral of tax liabilities and accelerated payments for public procurements. Additional tax measures include a lowering of companies' administrative burden in the area of taxation and the possibility of deferring advance tax payments. In addition, banks have to defer liabilities by 12 months for crisis-affected solvent businesses if requested, while the government has adopted a quota for guarantees of up to EUR 2.2 billion (4½ per cent of GDP) to banks. Also, state guarantees and credit lines have been expanded by 1¾ percent of GDP. Moreover, the public health insurance covers the first 30 days of sick absence rather than employers. In addition, issuance of construction and environmental permits was simplified and accelerated to support investments.

Effective from 1 June, the government is implementing measures to stimulate the economy, amounting to one per cent of GDP, which includes the issuance of tourist vouchers to all Slovenians, the extension of wage subsidies for temporary lay-offs and subsidies for short-time work. At the end of June, another package of measures was adopted by the government with the main measures included prolonging wage subsidies, providing financial support to nursing homes and rerouting wage compensation payments for the quarantine period from employers to the government.

Prospects and risks

If no new COVID-19 outbreak materialises, the economy will start to recover along with the lifting of containment measures (the single-hit scenario in Table 1.1). This will release pent-up demand, particularly of durable consumption goods and business investments, leading to a sharp rise of economic growth in the remainder of 2020. Nonetheless, economic activity is projected to contract by 7.8% for the year. After the initial boost to demand, the economy is projected to enter a more stable growth path, reflecting that in some sectors, such as in tourism and automotive industry, demand will remain subdued for longer. Following the initial labour market shock, unemployment is expected to gradually recede towards pre-crisis levels. If an outbreak returns at end-2020, assuming half the size of the initial shock, then the initial economic rebound will be followed by a second contraction, leading to a decline in economic activity of 9.1% in 2020. This implies higher long-term unemployment and more bankruptcies, holding back the economy's growth potential. As a result, there will be large shares of underutilised resources 2021.

The main upside risks to both scenarios are a faster-than-projected rebound in foreign demand, for example arising from rapid restoring of international supply chains. Similarly, a faster-than-expected recovery of business sentiment could lead to stronger business investment growth. On the downside, larger-than-expected numbers of bankruptcies and job losses would reduce the economy's ability to bounce back. Likewise, prolonged trade tensions or a slowdown in European economies could both further reduce export market growth. The automobile sector, although smaller than in other Central and Eastern European countries in terms of contribution to manufacturing value added, could be negatively impacted by a slower-than-expected restoration of international supply chains. Besides these risks, the economy is exposed to some potential vulnerabilities, which have low probabilities, but potential large impacts on the economy (Table 1.2).

Table 1.2. Potential vulnerabilities to the Slovenian economy

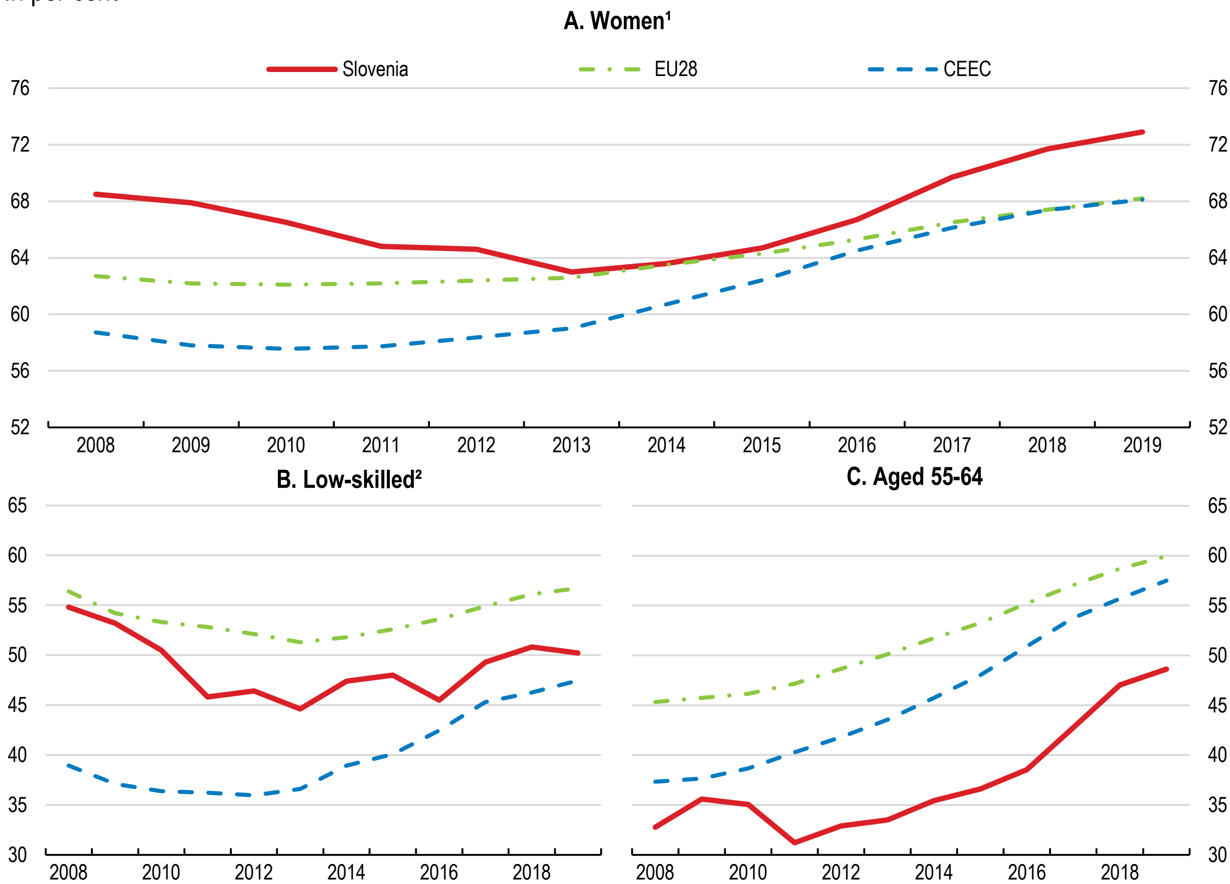
Shock	Possible impact
Escalation of trade tensions	The small open Slovenian economy would be severely affected by a major increase in barriers to trade and capital flows.
Abrupt correction in international capital market	A major price correction in international capital markets could lead to debt-servicing problems for highly leveraged and indebted banks and companies.
New refugee crisis	A new refugee crisis could lead to renewed tensions among South-Eastern European countries and the unilateral reintroduction of border controls, disrupting trade, regional GVCs, cross-border commuting and hiring of foreigners.

Achievements in inclusiveness should be preserved

Slovenia has defied the rise in income inequalities that was observed in many countries over the past couple of decades. In particular, the wage share of GDP has remained constant in contrast with a declining OECD average. This reflects that the female employment rate has risen to be well above peers and the EU average. Also, the employment rate of low-skilled workers has increased but less than in peer countries and remains below the EU average. Despite increases, the employment rate of older workers remains relatively low (Figure 1.11). Combined with a compressed wage distribution and redistributive tax and benefit systems, the higher employment rates have secured a more equal income distribution than elsewhere (Figure 1.12). However, the current labour market weakening may reverse these gains, particularly if long-term unemployment among low-skilled and older workers increases, potentially leading to higher inequalities.

Figure 1.11. Employment rates of women, low-skilled and older workers have risen

In per cent



1. Data refer to the population aged 20-64.
2. Low skilled refer to those with less than primary, primary and lower secondary education (ISCED levels 0-2).
Source: Eurostat database; and OECD Labour Statistics database.

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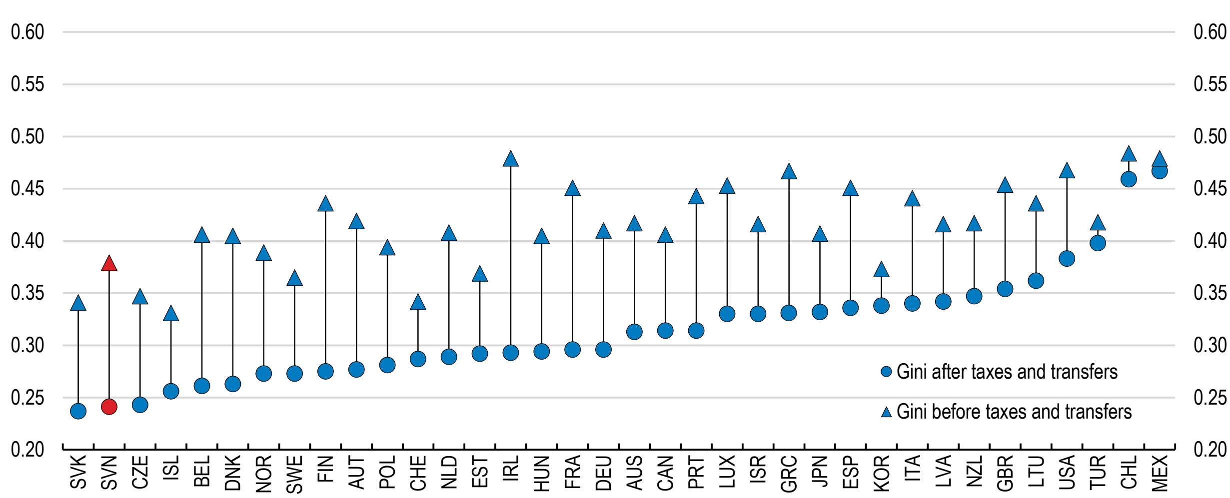
Figure 1.12. Inequalities are low

Changes in the Gini coefficient due to taxation and transfers, working age population, 2017 or latest year[1]



1. The Gini coefficient has a range from zero (when everybody has identical incomes) to one (when all income goes to only one person). An increasing Gini coefficient indicates higher inequality in the income distribution. 2018 data for Australia and Israel. 2017 data for Slovenia.
Source: OECD Income Distribution database.

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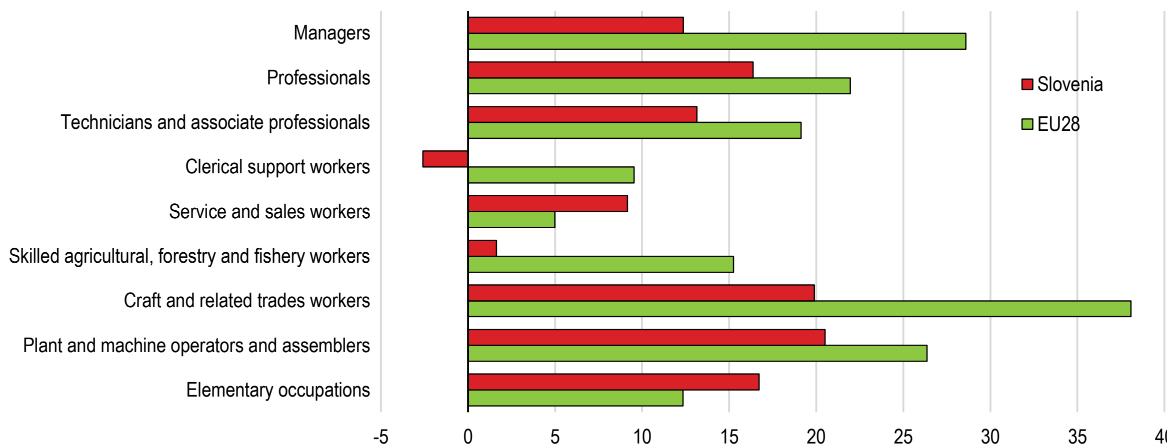
Another positive inclusiveness development is a low gender income gap, which arises from a combination of small gender wage gaps, high female employment rates, limited use of part-time employment, and only small income losses during maternity (Figure 1.13) (OECD, 2019b) (OECD, 2018a). On the other hand, a significant gender employment gap between the public and private sectors reflects that women are often educated in fields (such as health and education) relevant for public employment (Figure 1.14) (Moorhouse, 2017). Women are also attracted by the public sector's higher degree of job security, longer vacations and higher number of days with paid absence due to personal circumstances, which facilitate raising children and improve work-life balance (OECD, 2018c). The downside is that public sector jobs generally pay less than similar private sector jobs, while offering lower earnings gains and career progression opportunities (Roter, Lindic and Vodopivec, 2017). The rigid education and seniority-based public pay system should be reformed to better reward efforts and attract high-skilled workers. Such a reform could also counter gender employment sorting. This could be combined with measures in schools to address gender stereotypes and norms, including career guidance and mentoring programmes.

Figure 1.13. Gender pay gaps are increasing with education and skills requirements

As a percentage of mean hourly earnings of men, 2014



Note: Gender pay gap is the mean gender difference of hourly earnings relative to mean hourly male earnings.
Source: Eurostat Gender Equality database.

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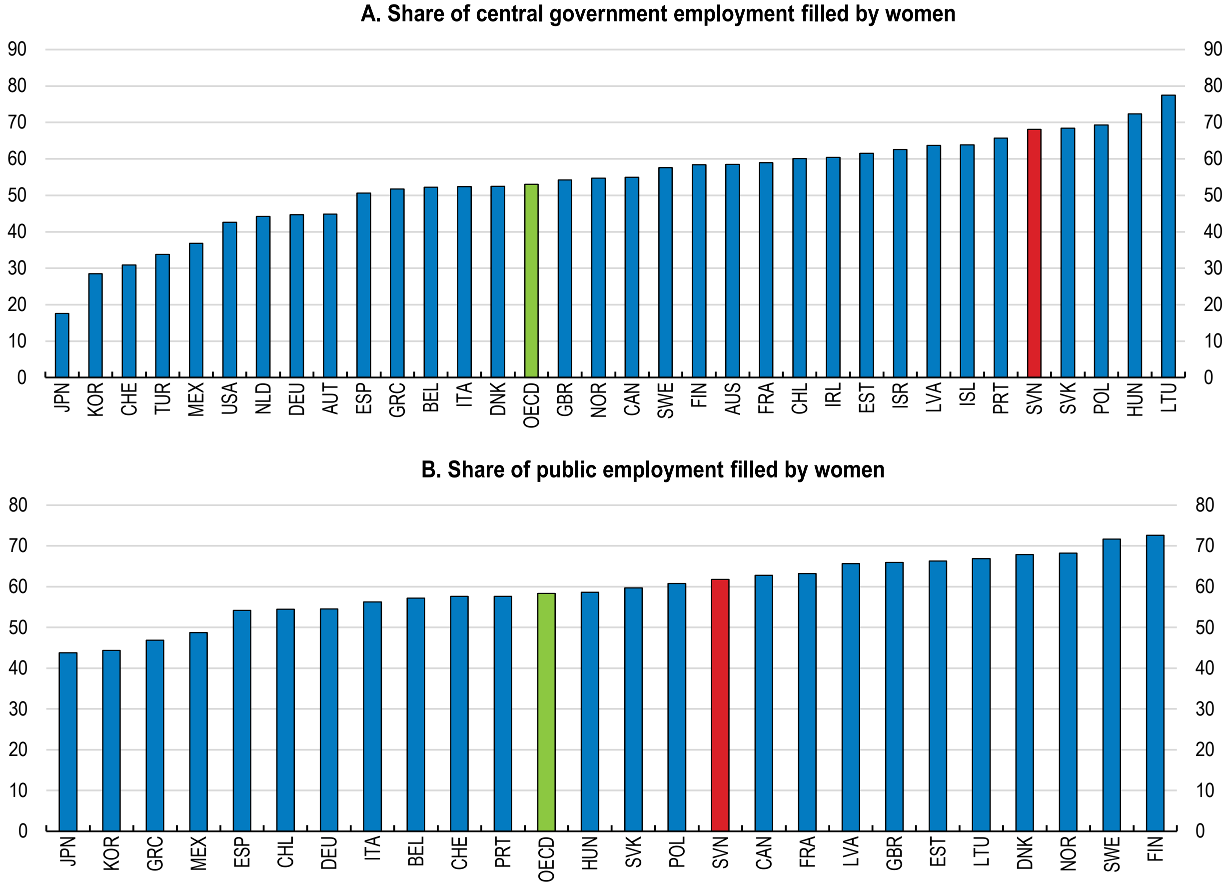
A concern, though, is low income mobility, with most high- and low-income earners staying in their income categories over time, implying that income mobility plays a relatively small role in reducing inequality (OECD, 2018a). The low mobility is a reflection of long job tenures and job-to-job changes with little impact on incomes (Chapter 3). The persistence of low-income is related to long-term unemployment. Indeed, the transition into employment is associated with relatively low-income gains. Other concerns are generally low pension benefits and a relatively high old-age poverty rate of 12½ per cent. This reflects a combination of low income bases, career interruptions and redistribution in the public pension system.

Figure 1.14. The majority of civil servants are women

Share of employment filled by women, 2015, %



Source: OECD Government at a Glance, (OECD, 2017g).

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The environmental performance is mixed

Slovenia has recorded improvements in many environmental areas in recent years. Importantly, notwithstanding the temporary crisis-related reduction in road transport, Slovenia has been expected to meet its 2020 greenhouse gas (GHG) emission reduction target (+4% relative to 2005). An important factor behind this development is the growing share of renewable energy, reflecting the continued expansion of hydro-power plants, although other sources of renewable energy remain underdeveloped (Figure 1.15, Panel B) (European Commission, 2017). Looking ahead, however, the low oil prices are likely to persist with the weak international outlook, which will hamper the move towards alternative energy resources. This reinforces the need for a comprehensive strategy to complement EU initiatives, such as the emissions trading system, to reach the 2030 EU target (-15% relative to 2005). Such a strategy would, among others, focus on reducing the fragmentation of the responsibilities regarding environmental objectives across ministries and the adoption of a national environmental strategy (Figure 1.15, Panel A) (European Commission, 2018a) (CAN Europe, 2018). A particular concern is rising emissions from the transport sector, up by nearly 50% (European Commission, 2017; Chapter 3). This reflects increasing road transport, including the extensive use of cars for commuting purposes and rising transit traffic (European Commission, 2018a) (Odyssee-Mure, 2018).

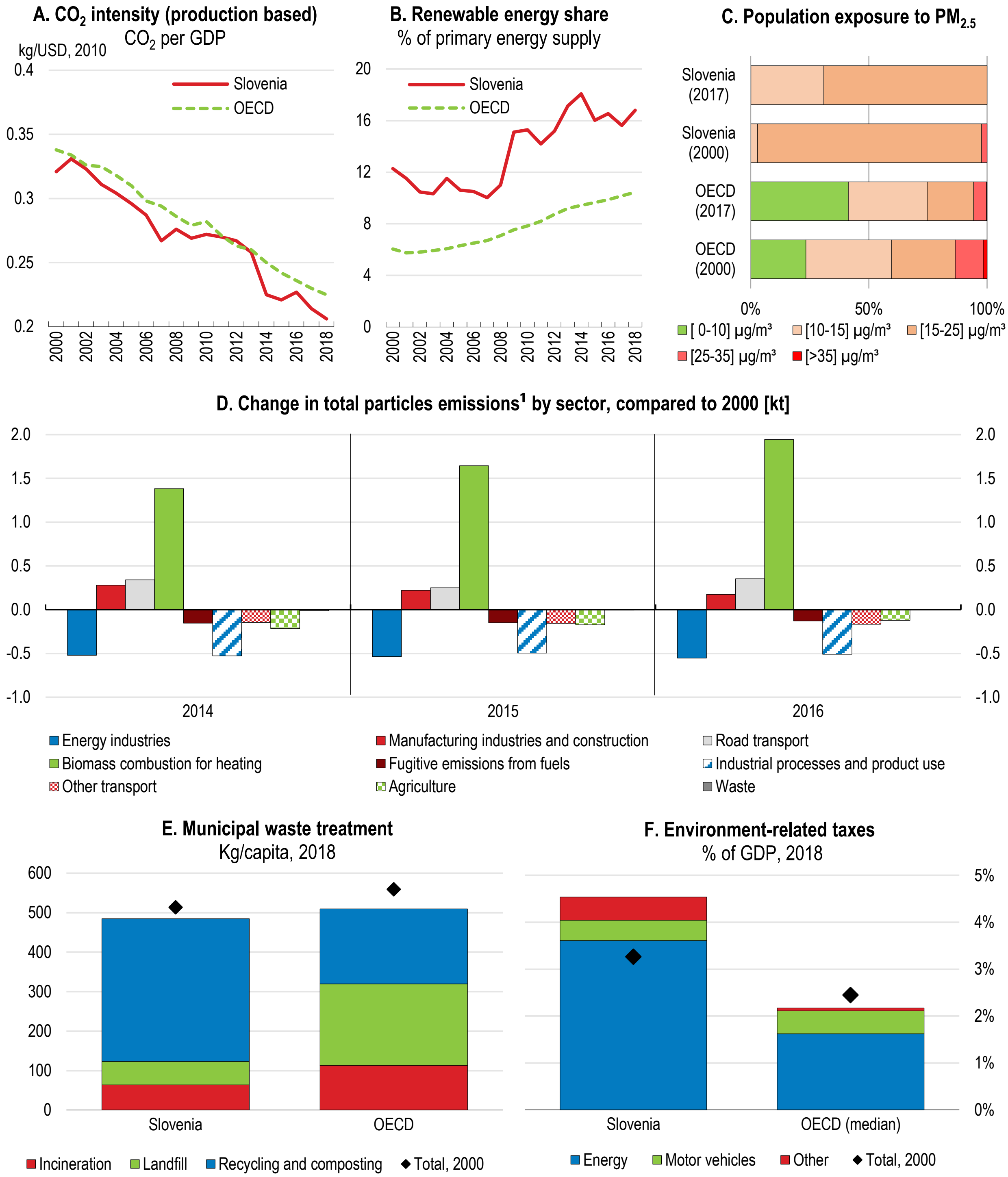
The reliance on environmental taxes is relatively high, reflecting higher fuel taxes than in neighbouring countries, except Italy (Figure 1.15, Panel F) (OECD/ITF, 2019). In transport, environmental CO_2 objectives could be better pursued by replacing the annual flat-rate motorway tax with comprehensive distance-based road charges. However, such technology remains to be developed and until then Slovenia could consider implementing congestion charges. Likewise, fuel taxation should be aligned with fuels' carbon content, requiring higher diesel taxes, which would reduce emissions from road transport. The use of biofuels could be promoted by raising the exemption from excise duties for distributors supplying fuels containing biofuel (Eurostat, 2016). In addition, car taxation could promote cleaner cars by focussing more on environmental factors. Other measures to promote alternative fuels should align abatement costs across renewable technologies and ensure that effective tax rates on energy sources reflect their environmental damages, as recommended in earlier surveys.

Increasing road transport has also contributed to higher increasing emissions of small particles, although the main driver is heating with old wood and oil boilers (Figure 1.15, Panel D) (Slovenian Environmental Agency, 2018). As a result, a large share of the population is exposed to high concentration of particles, particularly during winter peaks (Figure 1.15, Panel C) (IMAD, 2019b). The cost in terms of premature deaths is estimated to be nearly 4% of GDP in 2017 (OECD, 2016a) (OECD, 2017b). The government is offering replacement subsidies for old woodstoves of 50-60% (and 100% for low-income households) (IMAD, 2019b). The low take-up could be bolstered by regulatory requirements and financial sanctions

Table 1.3. Past recommendations for achieving green growth

Recommendations in previous *Surveys*	Action taken since the 2017 *Survey*
Align effective tax rates on different forms of energy to reflect environmental damage.	No action taken.
Introduce congestion charges.	No action taken.
Avoid technology biases in renewable-energy subsidies	No action taken.
Upgrade the railway system, and improve efficiency of railways, especially in the freight sector.	New investments from the EU cohesion fund announced in 2019 to upgrade the rail section near the border with Austria and increase freight-carrying capacity on the line.

Figure 1.15. Green growth indicators are mostly improving



1. Total Suspended Particles (TPS). Biomass combustion for heating corresponds to emission of TSP from the combustion of biomass in small installations for production of heat and energy.

Source: *OECD Green Growth Indicators and Environment Statistics database; OECD National Accounts database; IEA World Energy Statistics and Balances database; OECD Exposure to air pollution database; OECD Municipal waste database; OECD (2019), Environmental policy*: Environmental policy instruments dataset; and Ministry of the Environment and Spatial Planning, Slovenian Environment Agency.

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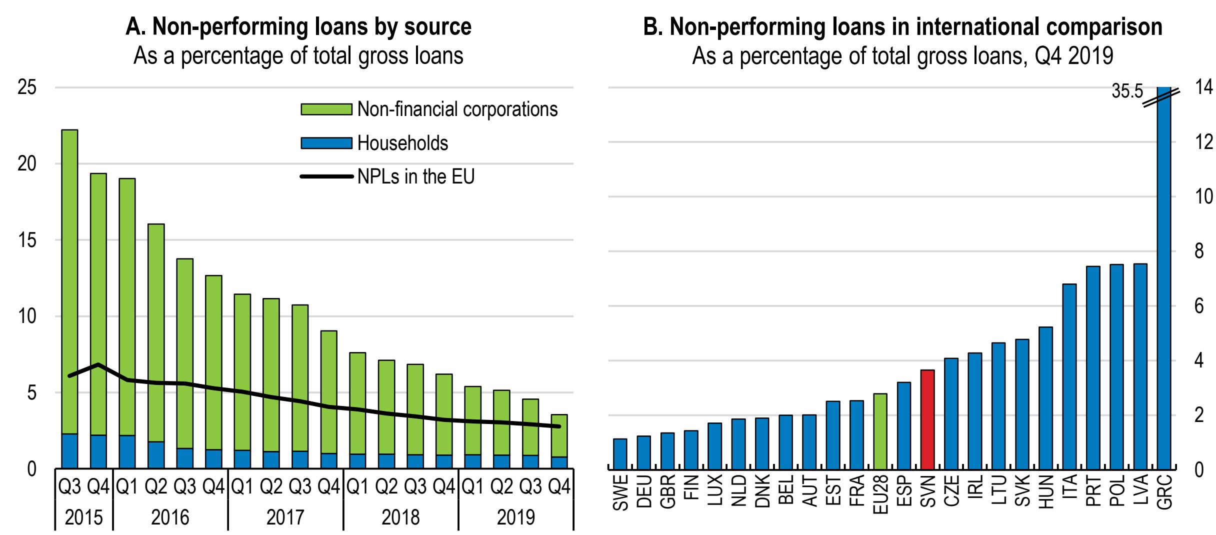
Risks to financial stability are low, but capital markets remain underdeveloped

The financial sector has increased its reserves, which should help to withstand negative financial spillovers from the crisis Banks have increased their liquid assets to a third of total assets, securing a liquidity coverage ratio well above Basel III requirements and contributing to banks passing national and international stress tests (European Central Bank, 2019b; Bank of Slovenia, 2019c). Also lower leverage and a relatively high average capital adequacy ratio have strengthened the capacity to withstand adverse shocks. However, the central bank considers that fast house price increases (an accumulated 25% since 2016) and a possible reversal constitute a medium-risk to financial stability. In 2018, bank profitability in the Return-On-Equity ratio (ROE) increased to 11.1%, mainly driven by one-off effects of releasing impairments and provisions for loans repayments, higher interest and non-interest income and falling funding costs. Further efforts to improve profitability are needed, as operating costs remain higher than elsewhere (OECD, 2019c; Bank of Slovenia, 2019b).

In the five years before the crisis, banks' portfolio credit quality had improved markedly. This together with the government guarantees to banks should help cushion the sector against negative credit effects from the crisis. The improved credit quality reflects a continued decline in the share of non-performing loans (NPLs), achieved through a combination of repayments, write-offs and the sale of claims to the Bank Asset Management Company (BAMC) – a government entity similar to a bad bank. Nonetheless, the share of NPLs remains relatively high in the corporate sector and particularly for SMEs. An increase in household consumer loans has led banks to create associated credit risk allowances and the Bank of Slovenia to extend macro prudential measures for such loans to a maximum maturity of 7 years and a debt service-to-income ratio of maximum 50% for lower incomes and 67% for others (applicable for consumer and housing loans) (Bank of Slovenia, 2019a).

Banks' lending activity is shifting away from the non-financial corporate sector as the overall loan-to-GDP ratio has declined by 2 percentage points to 20.5% between 2016 and 2018 (Bank of Slovenia, 2019a; European Central Bank, 2019a; IMAD, 2019b). Instead, firms are relying more on internal resources, short-term operating liabilities to suppliers and financing from the rest of the world via trade credits or borrowing from affiliated foreign firms, often benefiting SMEs (Figure 1.17) (Bank of Slovenia, 2019a; European Investment Fund, 2019).

Figure 1.16. Banks' credit portfolio quality has improved



Note: Data refer to domestic banking groups and stand-alone banks.
Source: ECB Consolidated Banking database.

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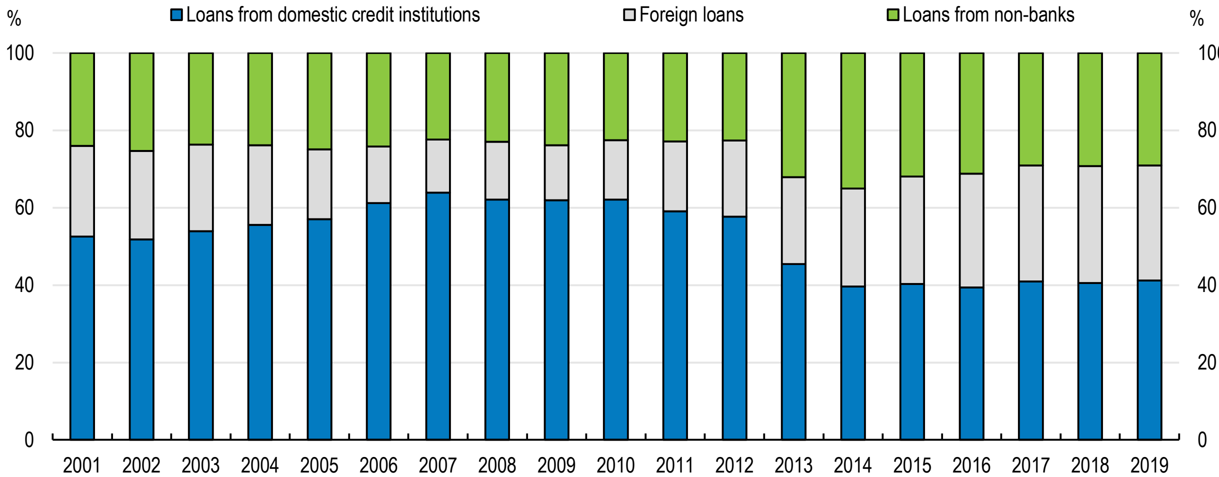
Figure 1.17. Businesses are increasingly using foreign-finance sources

Non-financial corporations' loan structure, in per cent



Source: Bank of Slovenia.

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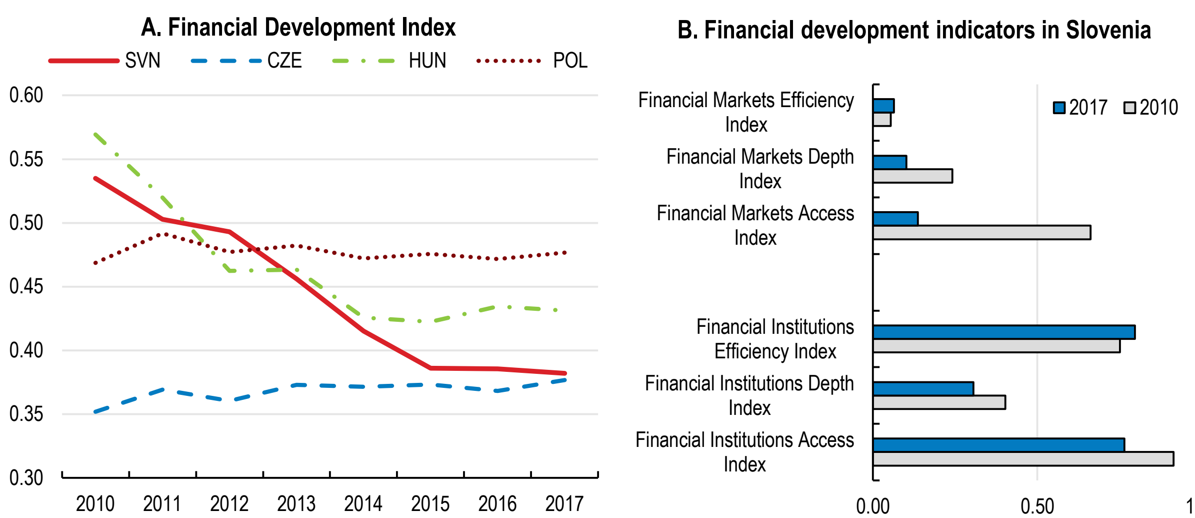
The increased use of foreign capital has reduced corporate financing through the issuance of equity (stocks, bonds or debt securities), hampering the development of capital markets. If anything, financial market developments in terms of debt, access and efficiency have deteriorated in recent years (Figure 1.18). Indeed, credit to the private sector has not recovered since the 2013 crisis, while stock market capitalisation remains around 12%-14% as compared with an (increasing) EU average of 70% in 2017 (IMF, 2019). Moreover, trade in the Ljubljana Stock Exchange is highly concentrated in a few shares (Bank of Slovenia, 2019a).

Figure 1.18. Financial development is lagging behind

IMF Financial Development Index



Note: The Financial Development Index summarises how developed financial institutions and financial markets are in terms of their depth (size and liquidity) and efficiency (ability of institutions to provide financial services at low cost and with sustainable revenues and level of activity of capital markets).
Source: IMF Financial Development Index database.

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Coming out of the crisis, the stock market could be promoted through financial education and encouraging a shareholder culture by accelerating privatisation and reserving parts of government share sales for households, as for example done in France (World Economic Forum 2016). Also employee share purchase plans could stimulate a shareholder culture (Aubert, 2008). Pension funds would be encouraged to invest in equity if the minimum rate of return requirement was abolished (Chapter 2). In 2016, the Ljubljana stock market was acquired by the Zagreb Stock Exchange. A merger with other stock markets, such as the Central and Eastern Europe Stock Exchange Group, could increase liquidity of traded shares, volumes and investor base, while reducing transaction costs (Charles et al., 2014).

Households could also be encouraged to diversify their savings with the introduction of new financial instruments. For example, issuance of covered bonds (by banks, real estate investment trusts etc.) and the development of associated secondary markets could provide safe, liquid and higher yield savings instruments. Banks have strong incentives to issue covered bonds as this can reduce their reliance on short-maturity deposits and their associated maturity mismatches (Staric-Strainer, 2005).

The development of alternative financing instruments, such as Fintechs, crowdfunding or green bonds, is lagging other countries. In 2019, only three organisations were active in the field of Fintech, while crowdfunding has begun to develop with 300 SMEs obtaining funds from a single platform in recent years (Bank of Slovenia, 2019a) (European Commission, 2018b). Similarly, only two firms have issued green bonds (Climate Bonds Initiatives, 2019). Developing these alternatives is hindered by a lack of appropriate regulation as well as practical issues, such as sufficient defences against cyberattacks and fraud (Bank of Slovenia, 2019a).

Privatisation in the banking sector has continued with the sale of shares in the largest bank (NLB). This was a requirement from the European Commission to avoid having previous financial support classified as state aid. After the sale, the government remains the largest shareholder with 25% and 1 share, limiting private investors' ability to restructure. The shares were sold to institutional investors at a below-market price. So far, the privatisation of state-owned banks and received profits have recovered about 70% of the financial support provided during the 2013 banking crisis, although the sale of assets transferred to the BAMC could increase the recovery rate further.

Table 1.4. Past recommendations on financial stability

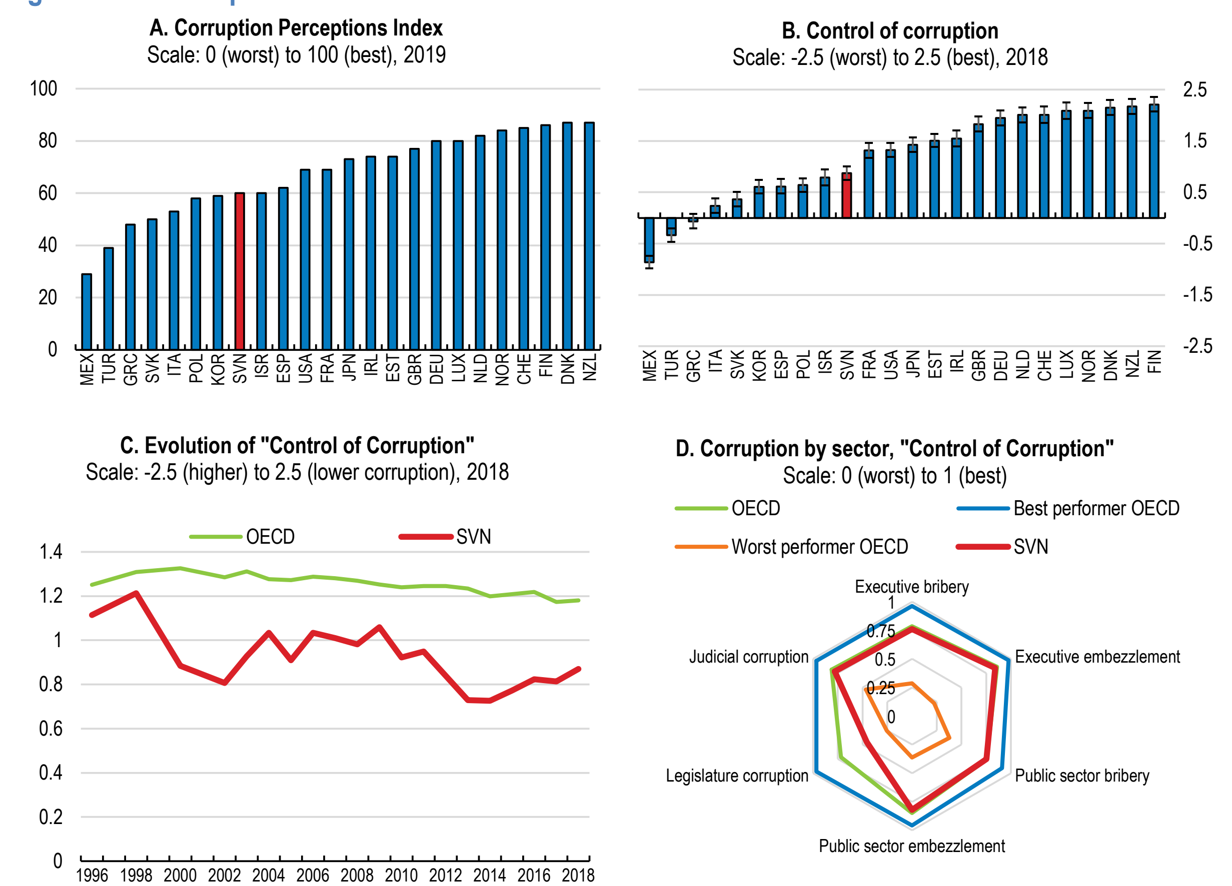
Recommendations in previous *Surveys*	Action taken since November 2017
Privatise state-owned banks without retaining blocking minority shareholdings	Share sale of the largest state-own bank (Nova Ljubljanska Banka) has left the government a stake of 25% + 1 share. Full privatisation of the second-largest (ABANKA) has been completed.
Pursue faster privatisation and narrow the group of SOEs that are considered strategic.	Equity stakes in nine out of 15 state-owned companies designated for sale have been sold. The list of SOEs considered strategic remained unchanged. The state still plays a dominant role in many sectors.
Narrow the group of SOEs that are considered strategic	No action taken
Use the Bank Asset Management Company (BAMC) to ensure swift restructuring of companies and effective liquidation of assets	At the end of 2018, BAMC had repaid EUR 1.3 million in liabilities and still had about EUR 700 million to repay until the end of 2022.
Implement the new insolvency regulation system	Implemented
The bank supervisor should more closely monitor banks' adherence to regulations and guidance, and encourage banks to improve their risk management.	The Bank of Slovenia issued binding macro prudential measures to limit the increase of credit risk in consumer loans.

Fighting money laundering and corruption

The financial sector has seen few money laundering cases, with a single large case in 2017, and Slovenia is considered a low-risk country (Basel Institute of Governance, 2019). In 2017, the legal framework for combatting money laundering was found to be in line with the international Financial Action Task Force standards, although only scoring well in international cooperation (Figure 1.20; MONEYVAL, 2017). The government should ensure faster progress in areas like sanctions and countering terrorist financing (MONEYVAL, 2018).

Money laundering is closely associated with corruption, where the perceived level is relatively high. This mostly refers to the perception that public power is exercised for private gains (Figure 1.19, Panel A; Figure 1.20, Panel B). Most Slovenians believe corruption to be common, although few report having had actual experience with corruption (Eurobarometer, 2017) (IMAD, 2018b). The public anti-corruption authority considers that the main problems are related to system-wide corruption in areas such as public procurement, corporate governance of state-owned companies and banks, and administrative procedures (Commission for the Prevention of Corruption, 2019). Similarly, perceived legislative corruption is high (Figure 1.19, Panel D). The anti-corruption authority points to problems of inadequate resources, insufficient responses by decision-makers and an absence of a systemic approach to prevent and prosecute corruption (Commission for the Prevention of Corruption, 2018; Stefanec, 2019). Also, the OECD recognises an urgent need for enhancing independence, resources, powers and procedures of the anti-corruption authority (OECD, 2016c).

Figure 1.19. Corruption indicators



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the “Control of Corruption” indicator by the Varieties of Democracy Project.
Source: World Bank; Transparency International; Varieties of Democracy Institute; Universities of Gothenburg, and Notre Dame.

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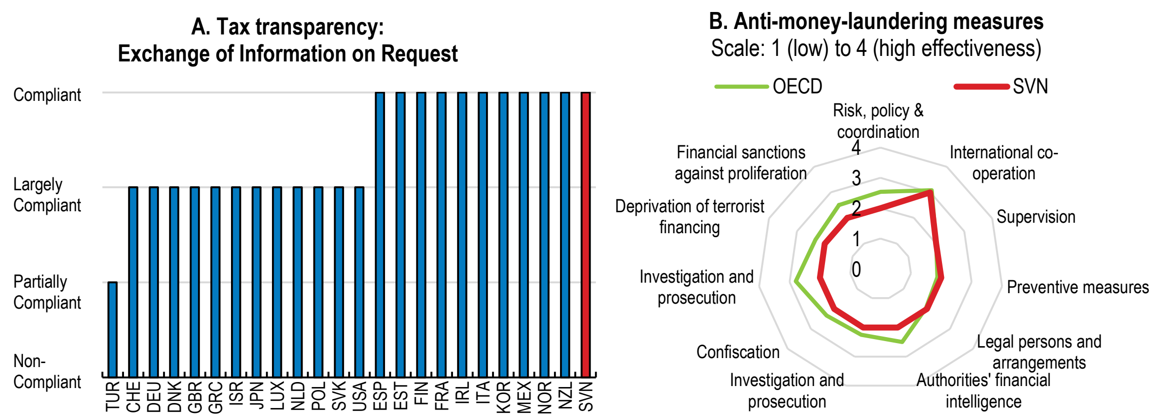
The origins of the high perceived corruption in public procurement, despite the extensive online availability of procurement process information since 2018, is that a high ratio of such contracts are negotiated without calls for tender and many are awarded with negotiated procedures (European Commission, 2019a OECD, 2019d). This reflects a lack of independent oversight with insufficient legal safeguards against external pressure or interference. Recent measures to reduce corruption risks include centralised contracting in health care and training of public procurement officials. Additional measures should include strengthening ex-ante and ex-post oversight, introducing more dissuasive sanctions and enabling larger procurement contracts through international cooperation (Ecorys, 2017). In addition, prosecution procedures and powers need strengthening (OECD, 2019d).

Figure 1.20. Policy frameworks



Note: Panel A summarises the overall assessment on the exchange of information by the Global Forum on Transparency and Exchange of Information for Tax Purposes, assessing member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes, OECD, and Financial Action Task Force (FATF).

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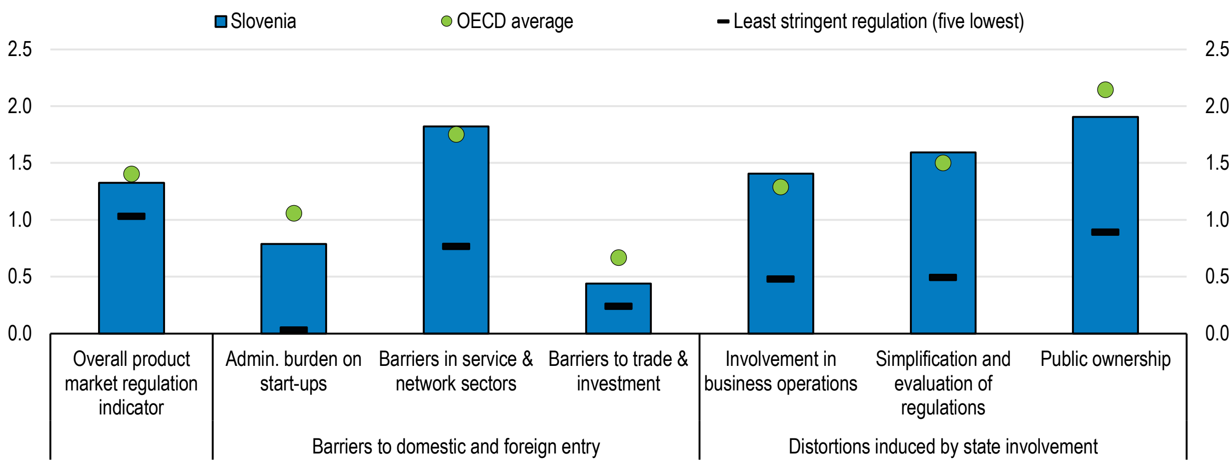
A more competitive environment would help to accelerate the recovery

As emphasised in the previous *Survey*, a competitive environment drives income convergence vis-à-vis richer OECD countries by fostering competitive and innovative firms that are globally integrated. Such firms would also be the backbone of a faster recovery. However, little regulatory progress has been made in stimulating competition. At the overall level, regulatory barriers are at par with the OECD average (Figure 1.21). However, in no area is Slovenia close to best OECD practise (OECD, 2020). There are few direct barriers to trade and investment. But the combination of high barriers in service and network sectors and widespread public ownership has contributed to one of the lowest stock of foreign direct investment in the OECD area (Figure 1.22). This lack of foreign investment hampers the international transfers of new production and management technologies to Slovenia. Such a development would make markets more competitive, benefiting productivity growth and thus economic expansion as well as consumers through lower prices and greater choice. As recommended in the last *Survey*, reducing regulatory barriers could be achieved by continuing to strengthen inter-agency co-ordination and regulatory impact assessments (OECD, 2017f).

A particular concern is the wide scope of the numerous - often vertically and horizontally integrated - state-owned enterprises (SOEs). The creation of a holding company for most SOEs strengthened the corporate governance of SOEs. Nonetheless, there is a need to further strengthen SOE governance by directing them to focus on core activities, often requiring vertical and horizontal separation, and measures to secure non-discriminatory third-party access to networks, as recommended in the last *Survey*. Additional measures include greater management pay flexibility and stronger supervisory boards. Over the past couple of years, privatisation has progressed slowly and the holding company maintains controlling shares in most SOEs. State–ownership is particularly high in network sectors, but also in inherently competitive sectors (EBRD, 2019). For example, the state owns about 40% of hotels. The government should widen the scope for privatisation by narrowing the group of SOEs that are considered important or strategic (thus require controlling or majority government share holdings) and follow through with privatisation.

Figure 1.21. There is scope to ease entry and strengthen competition

Product market regulation indicators, from 0 (best practice) to 6 (most stringent), 2018



Note: The Product Market Regulation (PMR) indicator is a composite index that encompasses a set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. Scores range from 0 to 6 and increase with restrictiveness.
Source: OECD Product Market Regulation database.

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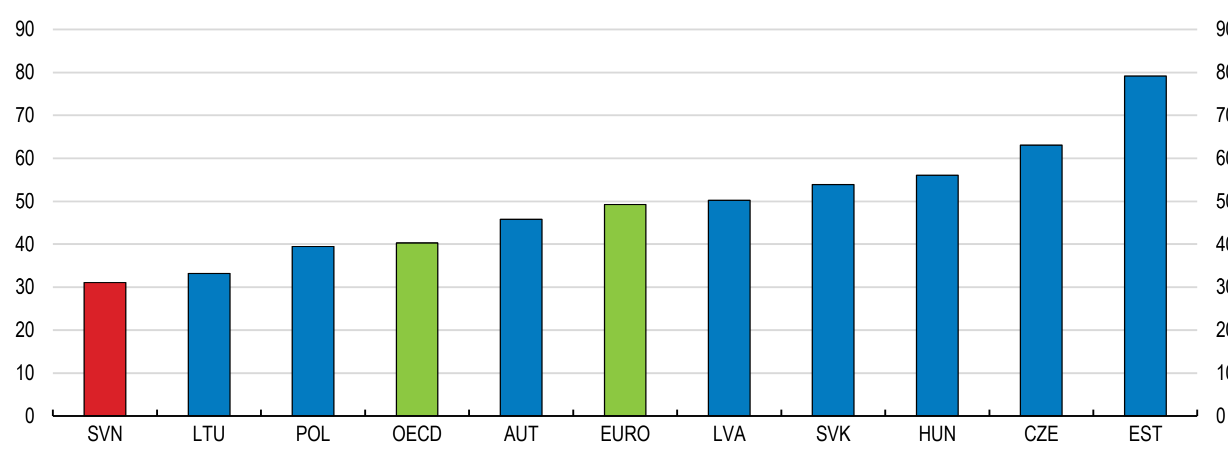
Figure 1.22. Slovenia has a low stock of inward FDI

Per cent of GDP, 2018



Source: UNCTAD; and OECD Economic Outlook 107 database.

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In terms of enforcement of competition rules, the competition authority has received additional financial resources in recent years with some additional staff, although the level remains lower than in similar-sized countries, such as Estonia and Latvia (OECD, 2019n; OECD, 2018g). Corporate governance of the competition authority has been weakened, as the director will now report to the Ministry of Economic Development and Technology instead of the parliament. Furthermore, the agriculture act was amended with a turnover limit for presumed significant market power. Unfortunately, the amendment is not applied to cooperatives and their members. Moreover, fines are limited to 0.25% of annual domestic turnover in contrast with 10% of worldwide turnover in other sectors. The authority is issuing higher fines, but continues to struggle with getting its decisions confirmed in court, leading to lengthy cases and the involvement of several court levels. As recommended in the last *Survey*, the independence of the competition authority should be assured, for example through financing via a standalone line in the state budget, and it should have adequate resources and staff expertise. In addition, there is a need to simplify judicial proceedings. A step in this direction would be to introduce a single-step procedure that allows the authority to impose a fine in the administrative procedure, dispersing with the current need to initiate a separate minor offence procedure.

Fiscal policy faces long-term challenges

The crisis-related fiscal measures, increasing spending by 4½% of GDP, further loosened the fiscal stance. In 2020, this will turn the public budget balance from surplus to a deficit 8% of GDP in the single hit scenario and close to 9% of GDP in the double hit scenario, before coming down in both scenarios. In 2021, the public debt-to-GDP ratio will increase to nearly 80% in the single hit scenario and 87.5% in the double hit scenario (despite 2019 privatisation proceeds of 1.3% of GDP) (Table 1.5; Figure 1.23; Box 1.3). The pre-crisis supportive fiscal stance reflected increases in social transfers and the public wage bill, a process that will continue in 2020 and 2021. In addition, the 10% increase over 2019-20 in the minimum wage also impacts the public sector wage bill (as well as increase the revenue contribution base). Moreover, the recently-decided increase of pension replacement rates was not accompanied by financing measures (see below). Additional loosening on the revenue side comes from an increase in tax allowances on annual leave payments (IMAD, 2019c). Revenue growth could slow further, as the negative revenue effect from lower personal income taxation (mostly for low-to-middle incomes) will not be offset by a planned increase in property taxation, partly due to the lack of a housing valuation system (Chapter 3). However, other measures, such as the introduction of a minimum corporate tax rate of 7%, could suffice to maintain revenue growth.

Table 1.5. Fiscal Indicators

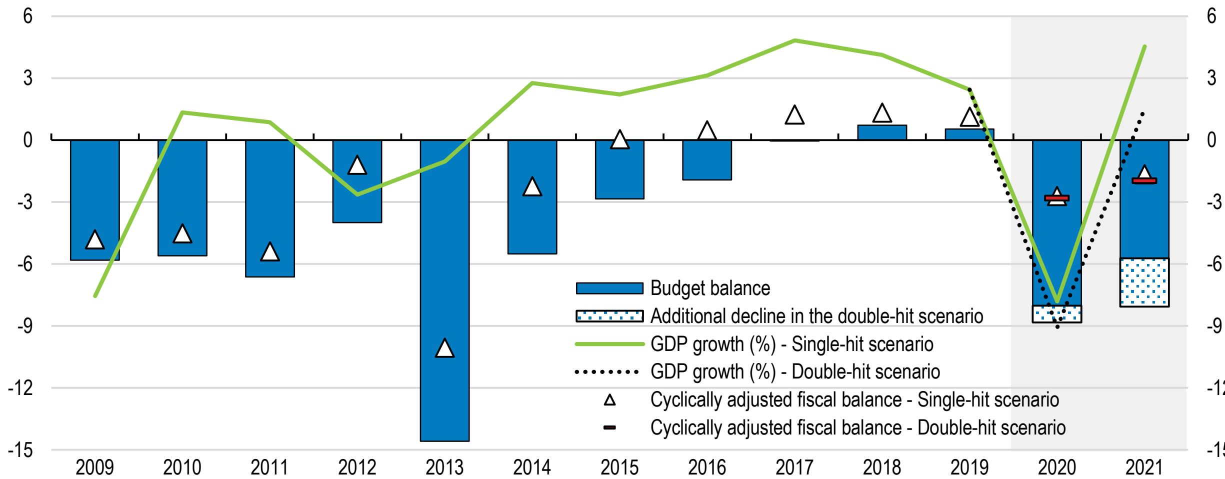
Per cent of GDP

		Single-hit scenario		Double-hit scenario	
	2019	2020[1]	2021[1]	2020[1]	2021[1]
Spending and revenue					
Total revenue	44.2	42.7	43.1	42.9	43.2
Total expenditure	43.7	50.7	48.9	51.7	51.2
Net interest payments	1.5	1.5	1.3	1.5	1.4
Budget balance					
Fiscal balance	0.5	-8.0	-5.7	-8.8	-8.1
Cyclically adjusted fiscal balance[1]	1.1	-2.7	-1.7	-2.8	-2.0
Underlying primary fiscal balance[1]	2.6	-1.4	-0.4	-1.5	-0.7
Public debt					
Gross debt (Maastricht definition)	66.1	78.4	82.9	79.7	87.5
Gross debt (national accounts definition)[2]	86.6	99.0	103.5	100.2	108.0
Net debt	26.4	36.4	39.9	37.6	44.5

1. OECD estimates unless otherwise stated.
2. National Accounts definition includes state guarantees, among other items.
Source: OECD Economic Outlook 107 database.

Figure 1.23 Despite faster economic growth the public deficit will remain large in 2021

As a percentage of GDP



Note: The shaded area indicates that data are projections.
Source: OECD Economic Outlook 107 database.

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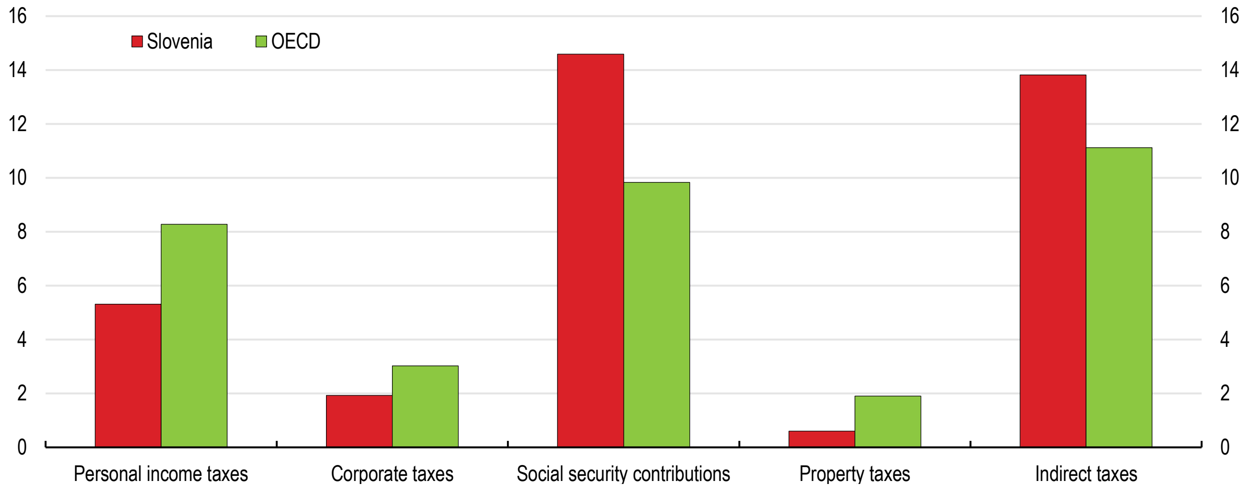
The public debt-to-GDP ratio is projected to remain relatively low by international standards (Figure 1.25). This means that there is fiscal space to kick-start the economy if needed to avoid scarring of long-term growth prospects. Indeed, such scarring would reduce fiscal space over the medium- to long term. A parsimonious approach should be used as additional fiscal measures may be needed if the pandemic returns. Such an approach implies that the current temporary fiscal measures should be withdrawn as planned, while a fiscal kick-start should focus on rapid and easy-to-implement fiscal stimulus, such as reduced taxes or fiscal transfers to households. The stimulus should stop when growth becomes self-sustaining. Over the medium term, the fiscal stance will need to be moderated and more focussed on growth enhancing investments to prepare public finances for ageing-related spending pressures.

The government could also support the recovery by making the tax-mix more growth friendly, shifting the burden from labour to property and indirect taxes. Additional measures in this direction should focus on lowering the high labour taxation, which leads to large tax wedges that reduce work incentives (Figure 1.24). Social security contribution rates are high, particularly for employees, and personal income tax rates increase steeply, but generous allowances lead to low revenues. OECD research shows that personal income tax rates could be lowered by 5 percentage points without loss of revenues just by reducing tax allowances by 5% (OECD, 2018b). The same research shows that, within a revenue neutral framework, aligning the low property taxes with best OECD practise could finance a more than 5 percentage points reduction in social security contribution rates. Further reductions in labour taxation could be financed by bolstering indirect taxes. The standard VAT rate is 22%, but a reduced rate of 9.5% is applied to a wide range of goods and services, leading to foregone VAT revenues in the order of 13% of total indirect taxes without clear distributional effects (OECD, 2018b). The corporate tax rate remains at a still relatively low 19% compared with the OECD average. However, other countries in the region are lowering their rates, which can put Slovenia at a disadvantage in terms of attracting foreign direct investment.

Figure 1.24. The tax system is reliant on labour taxes

Tax revenue as % of GDP, 2018



Source: OECD Tax Revenue Statistics database.

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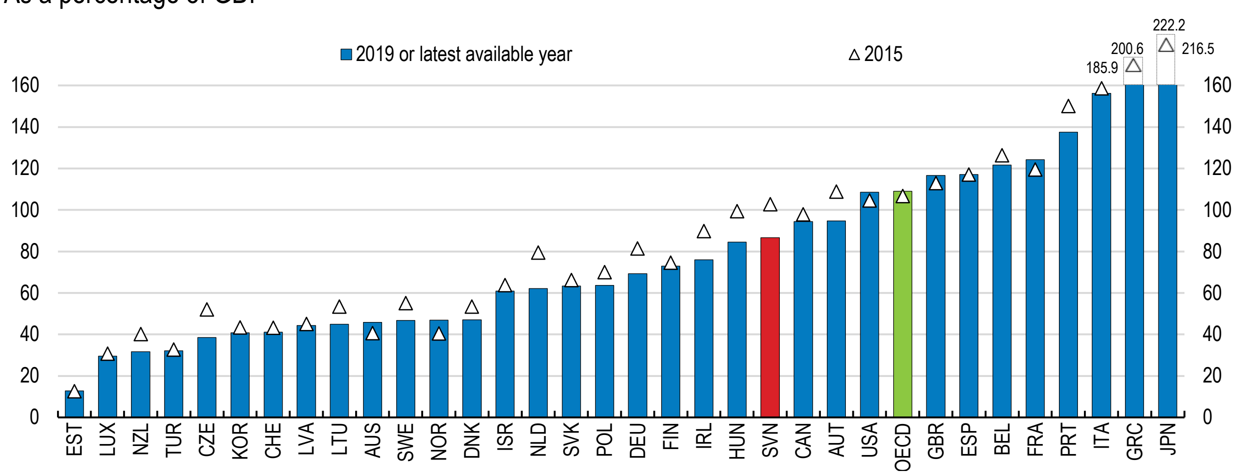
Figure 1.25. The government debt-to-GDP ratio is relatively low

As a percentage of GDP



Note: 2018 instead of 2019 for Estonia, Ireland, Latvia, Switzerland and the United Kingdom; 2017 instead of 2019 for Japan, Korea, and the OECD aggregate; and 2016 instead of 2019 for Turkey.
Source: OECD Economic Outlook 107 database.

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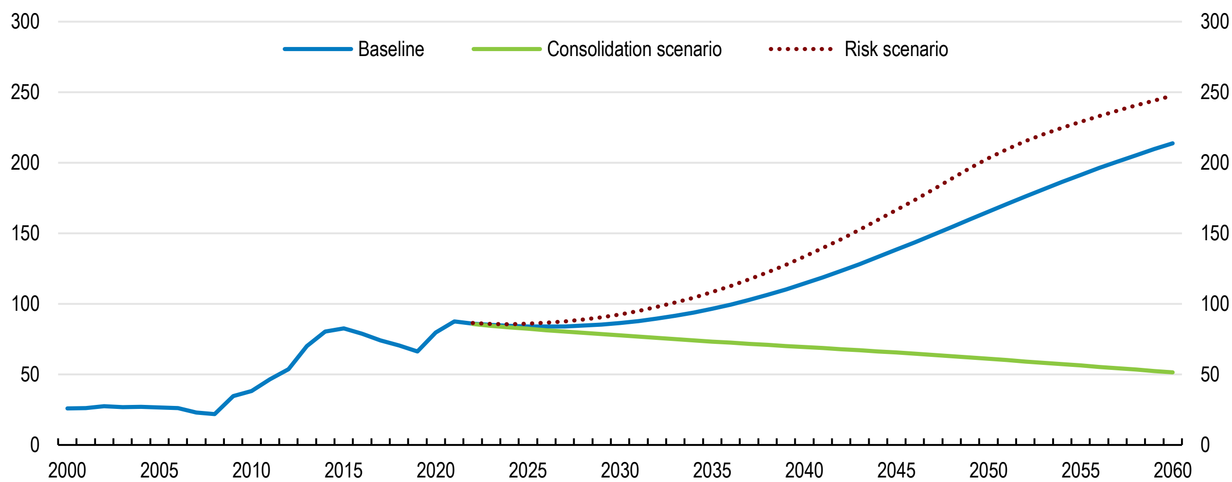
A structural concern, though, is the renewed increase in the debt-to-GDP ratio, which is high enough to make it a vulnerability for the small open economy in case of another severe economic downswing and well above the 60% upper limit in the Stability and Growth Pact. Over the longer term, the current underlying fiscal position will lead to rapid increases in public debt if some of the largest ageing-related spending pressures (6% of GDP by 2060) in the OECD are not contained (Figure 1.26, Baseline scenario). Moreover, ageing-related spending pressures could easily be higher, leading to even faster debt increases (Figure 1.26, Risk scenario). On the other hand, observing the medium-term budget objective suffices to keep the debt-to-GDP on a downwards path, but implies a sustained substantial fiscal consolidation effort (Figure 1.26. Consolidation scenario).

Reaching the medium-term budget objective requires measures to contain ageing-related spending. The least costly approach would be to focus on double-dividend measures that reduce spending and expand revenues simultaneously. For example, OECD calculations show that increasing the statutory retirement age by 2 years could secure a total fiscal effect of 2.3% of GDP (Box 1.3). Tighter eligibility criteria in the disability pension and unemployment benefit systems that increases the employment rate of older workers (+50) to the EU average would yield an effect of 1% of GDP. The remaining financing gap of 3% of GDP could be eliminated by a 10% cut across the board in all non-ageing related spending. Closing the gap through higher taxes in the least distortive manner could be achieved by aligning property taxation with best OECD practise and broadening the personal income tax base by reducing tax allowances by 25%, which would boost revenues by 2% of GDP and nearly 1% of GDP, respectively.

Figure 1.26. More fiscal consolidation effort is needed to reduce public debt

General government debt, Maastricht definition, as a percentage of GDP[1]



1. The baseline scenario assumes that increased spending on health and pensions will add an additional 6.6 percentage point of GDP to annual government spending by 2070, in line with European Commission (2018). The consolidation scenario assumes a primary deficit of 0.25% of GDP by 2050, complying with the MTO from the Stability Programme, which is subject to change. The risk scenario assumes that higher-than-projected increases in life-expectancy (+2years) will bolster spending on health and pensions by an additional 2.6 percentage point of GDP by 2050.

Source*: Adapted from OECD (2018), OECD Economic Outlook: Statistics and Projections (database), June; Guillemette, Y. and D. Turner (2018), "The Long View*: Scenarios for the World Economy to 2060", OECD Economic Policy Paper No. 22., OECD Publishing, Paris; and European Commission (2018c), "The 2018 Ageing Report - Economic and budgetary projections for the 28 EU Member States (2016-2070)" Directorate-General for Economic and Financial Affairs.

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The fiscal impacts of ageing are projected to be larger than elsewhere

Population ageing will increase the old-age dependency ratio until the mid-2050s, as the number of older people (+65) increases by a third and the working age population contracts by one-fifth. This creates the double challenge of addressing ageing-related spending pressures as the funding base contracts (European Commission, 2018c).

The window of opportunity for implementing reform is closing. The pension system is already running a deficit of 2½ per cent of GDP and ageing-related spending is projected to increase by 1½ per cent of GDP over the next decade. Thirty years later, the increase amounts to 6 per cent of GDP (Table 1.7).

This increase is more than in almost all other European countries (Figure 1.27). Moreover, OECD work suggests that ageing-related spending increases could be twice as high if additional cost pressures materialise, such as the tendency for service sector wages to increase faster than productivity and the implementation of more costly technologies in the health sector (Guillemette and Turner, 2018).

Table 1.6. Past recommendations on fiscal policy

Recommendations in previous *Surveys*	Action taken since the 2017 *Survey*
Pursue 2020 fiscal balance objective with consolidation totalling ¾ per cent of GDP in 2018-20.	The government is engaged in pro-cyclical fiscal policy and the debt-to-GDP ratio is falling at a slower pace than in previous years.
Maintain spending ceilings, pursue efficiency improvements, and adjust the structure of public spending	No action taken
Focus fiscal consolidation on structural measures to increase cost efficiency.	Consolidation was mostly based on temporary measures that are now expiring and a substantial pay rise in the public sector was agreed.
Increase recurrent taxes on real estate.	No action taken.

Table 1.7. Ageing-related expenditure projections

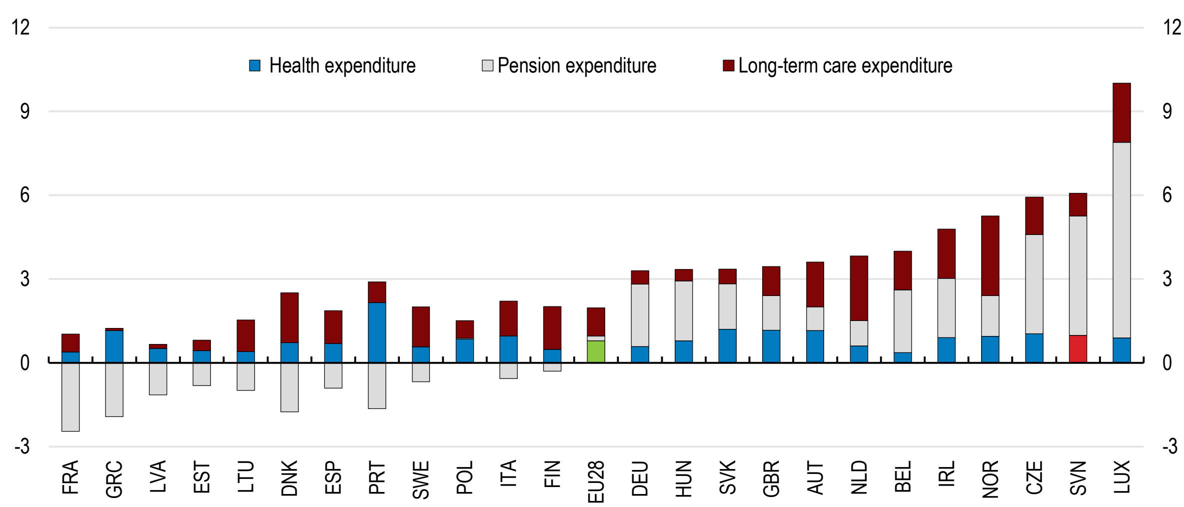
As a percentage of GDP

	2020	2030	2040	2050	2060	2070
Total public pensions	11.0	12.0	14.2	15.6	15.2	14.9
of which :						
Old-age and early pensions	8.5	9.4	11.1	12.3	12.0	11.9
Disability pensions	1.2	1.3	1.5	1.7	1.6	1.5
Survivors pensions	1.2	1.3	1.5	1.6	1.6	1.5
Other	0.0	0.0	0.0	0.0	0.0	0.0
Projected spending on health care[1]	5.8	6.3	6.7	6.8	6.8	6.7
Long-term care spending	1.0	1.1	1.4	1.7	1.8	1.8
Total ageing related spending	17.8	19.5	22.3	24.1	23.8	23.4
Old-age dependency ratio (15-64)	32.3	41.3	48.6	55.9	55.0	50.2

Source: European Commission (2018c), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

Figure 1.27. Old-age spending increases in European countries

Change in ageing cost between 2020 and 2060 in percentage points of GDP



Note: Ageing Working Group (AWG) reference scenario.
Source: European Commission (2018c), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, May, Luxembourg.

StatLink https://doi.org/10.1787/888934150747

The pension system has a widening deficit and provides low benefits

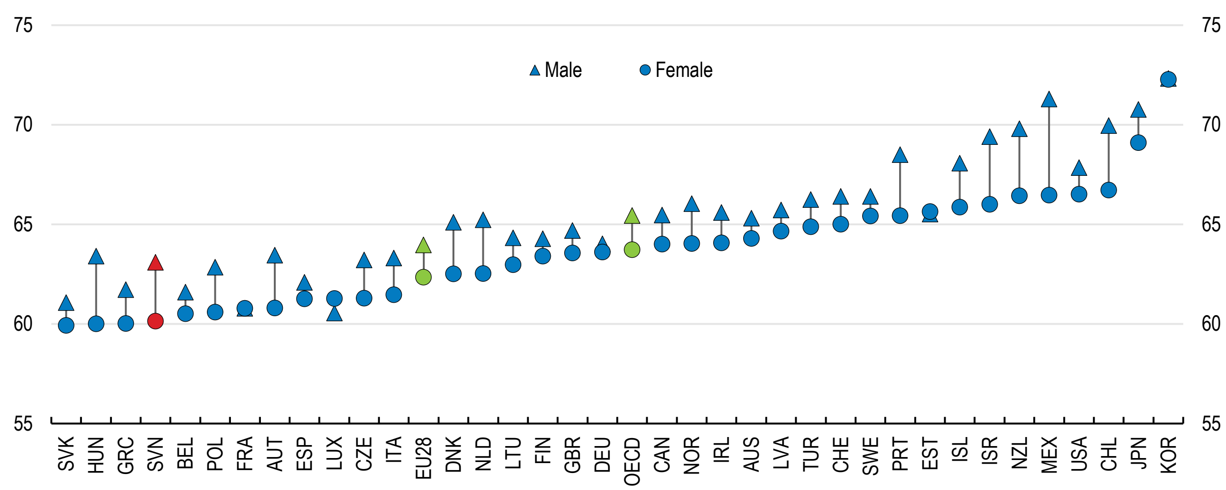
The main pay-as-you-go public pension system was reformed in 2013 with the aim of increasing working lives by raising and aligning the statutory pension age to 65 for men and women, and increasing the minimum retirement age to 60 for workers with a full 40 years contribution period. This was combined with a bonus/malus system and increased possibilities for combining pension and work. Despite increases in the effective retirement age, it remains among the lowest in the OECD, leaving Slovenians with longer retirements than elsewhere (Figure 1.28) (Pension and Disability Insurance Institute of Slovenia, 2019).

The deficit in the pension system is projected to reach 6% of GDP by 2050, requiring larger inter-generational transfers from younger to older generations to sustain the pension system (European Commission, 2018c). OECD micro simulations show that this reflects that the majority of workers contribute less over their work life than they will receive in pension benefits during their retirement. This reflects a general lack of actuarial fairness in the pension system, which combined with the higher old-age dependency ratio leads to large intergenerational transfers.

In late 2019, parliament adopted an increase in replacement rates for men and women to a unified 63.5% and stronger incentives for continued work for workers who are eligible for full pensions. No financing mechanisms were adopted. OECD microsimulations show that the higher replacement rates lead to a 20% increase in intergenerational transfers. Appropriate financing mechanisms are urgently required to close the current financing gap as well as address the fiscal consequences of the higher replacement rates, this requires lengthening working lives by 5 years and moving to price indexation of pension benefits.

Figure 1.28. The effective retirement ages are among the lowest in the OECD

2018



Source: OECD (2019l), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

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Part of the transfer in the pension system from men to women arise from the longer female life expectancy. The other part will be reduced with the alignment of female and male accrual rates. Nevertheless, there is also a need to phase-out special early retirement rules for child caring, currently allowing up to four years of earlier retirement and additional accruals. The unemployed, like in many other countries, receive a transfer through the public employment service's payment of their pension contributions. Unlike in other countries, the older unemployed are treated favourably as benefit duration increases with age and they have their contributions paid longer. Such age specific rules should be evaluated and curtailed to secure equal and fair treatment and stronger work incentives.

Nearly two-thirds of all employees are enrolled in second pillar pension plans. However, accumulated savings are among the lowest in the OECD. This reflects that contributions are low as contributors benefit from relatively generous tax advantages up to a relatively low contribution ceiling. Enrolment and savings could be encouraged by introducing automatic features, such as automatic membership, and increasing contributions over time while preserving choice by allowing opt-outs (OECD, 2018d). In addition, higher contributions could be encouraged by reducing the tax advantages while applying them to higher contributions. Higher participation of low-income workers could be encouraged through matching contributions from the state contributions within a neutral tax expenditure framework.

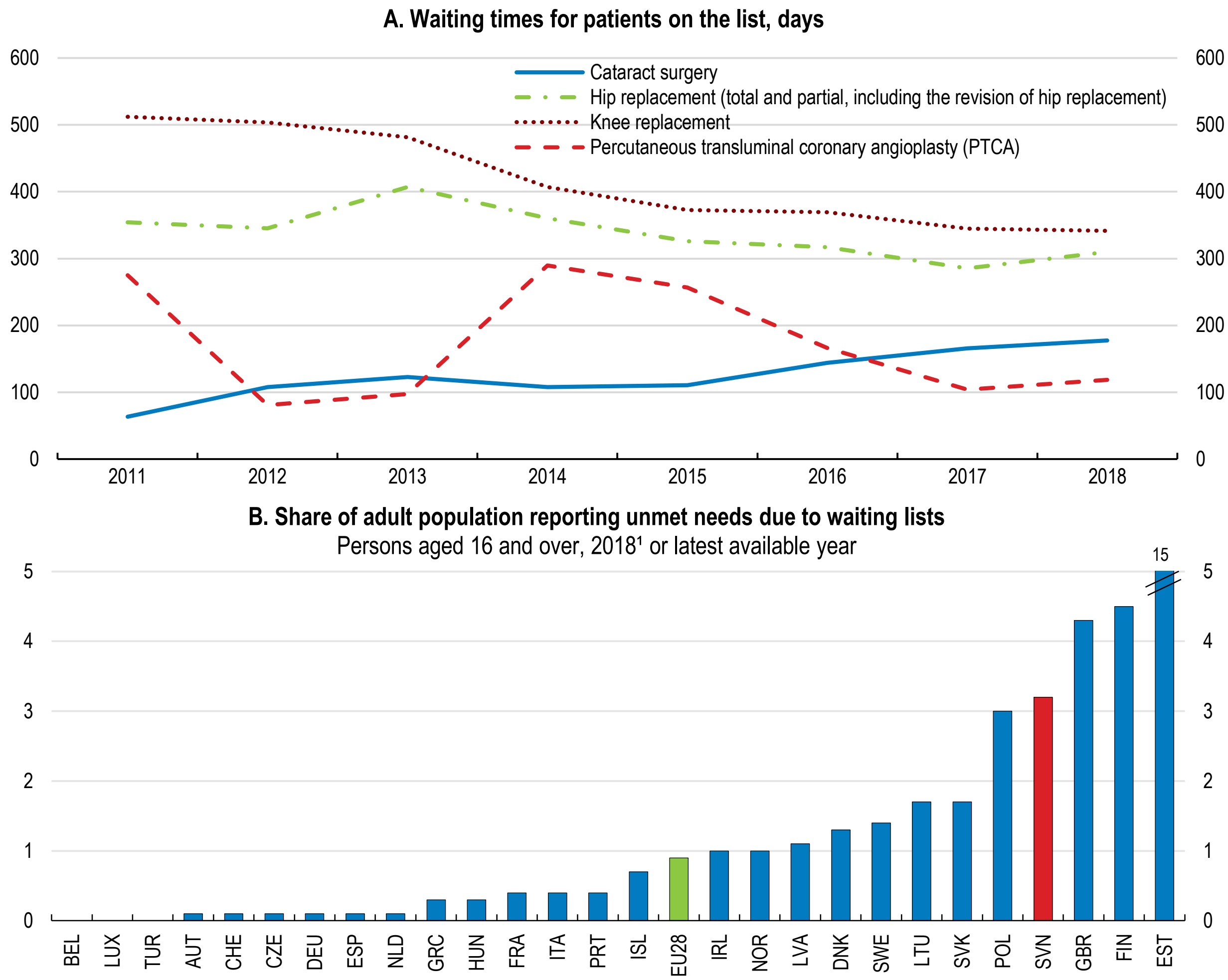
The health and long-term care systems are poorly prepared for ageing

The health care system addressed the health crisis rapidly and effectively. Moreover, its efficiency compares favourably with peers, for example with lower spending compared with countries with similar outcome. Nonetheless, structural problems in the sector raise cost, quality and safety concerns. For example, there are long waiting times and other signs of insufficient capacity (Figure 1.29). Moreover, health care spending as a share of GDP is relatively high compared with peers in the region and with similar income levels, financing a health care system that provides broad coverage in terms of services and insurance of the population. Population ageing will increase and change the demand for health services. Consequently, health care spending is set to increase faster than GDP (Table 1.7). Containing these cost pressures will rely on reforms that promote efficiency, effectiveness and satisfy changing health demands. In many cases, such reforms can rely on making existing economic instruments effective.

The public health insurance system covers a very broad range of services with demand contained through relatively high co-payments. However, the widespread use of complementary health insurance means that the price signal in co-payments is not effective in regulating demand. Cost-efficiency should be pursued by establishing an explicit positive list for services covered by the national health insurance fund that exclude non-core and out-of-date procedures while allowing for lower co-payments. Moreover, the fund should be allowed to enter selective contracting, using performance-oriented contracts based on evidence-based clinical pathways and treatments (Panteli et al., 2015). Complementary health insurance could play a greater role in cost containment by allowing insurance companies to compete and offer insurance packages that correspond to individual needs, providing incentives to reduce health spending. This should be complemented with an improved risk equalisation mechanism.

In primary care, the general practitioners-to-population ratio is relatively low, leading to high number of visits to emergency units (40% of the total) and an over-referral to specialists (National Institute for Public Health, 2019). GPs are remunerated through non-cost-reflective capitation (payment for each patient registered with the GP) and fees-for-services. Making remuneration cost-reflective would enhance GPs' incentives for accepting more care-intensive patients, expand their service provision and make it more attractive to become a GP or for them to move to under-served areas (OECD/European Observatory on Health Systems and Policies, 2017).

Figure 1.29. Waiting lists lead to unmet needs



1. 2019 for Austria, Denmark, Finland, Hungary, Latvia and Poland.
Source: OECD Health Statistics database; and Eurostat EU SILC database.

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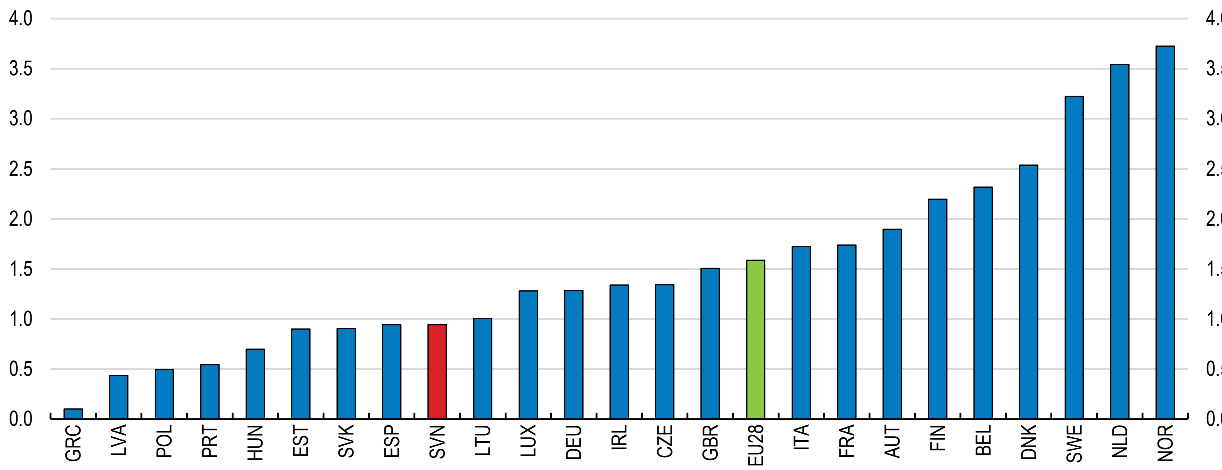
The many (government-owned) smaller general hospitals offer a wide range of services, creating a risk of too infrequent interventions to secure efficiency, care quality and patient safety (Panteli et al., 2015) (OECD, 2017e). Signs of inefficiency include low bed occupancy rates, long stays for some common interventions, low levels of day case surgeries and few MRI and CT scans per capita (OECD/EU, 2018) (European Commission, 2019b). Moreover, hospitals have little autonomy to adjust their supply of services, contributing to waiting lists. Overcapacity should be addressed by establishing national guidelines for the required minimum number of interventions to maintain a service and give management greater responsibilities for service supply decisions. Cost-reflective payments for hospitals' in-patient treatments would help supply decision-making. This requires regular updating of the diagnosis related groups (DRGs) (OECD/European Observatory on Health Systems and Policies, 2017). Budget targets for individual hospitals would enable them to respond to the output and efficiency incentives in the DRGs (OECD/EU, 2018). In addition, doctors should have a salary system with competitive wages and transparent performance incentives.

The under-developed long-term care sector (LTC) has many different providers, each with their own (and often overlapping) legislation, eligibility criteria and financing, leading to uneven access (Figure 1.30) (European Commission, 2019b) (IMAD, 2018a) (Nolte et al., 2016) (European Commission, 2019b) (Normand, 2016). Particularly, home care is underdeveloped compared with other countries, and there is little rehabilitation to enable older people to stay in or return to their home (OECD, 2019e). A unified framework for long-term care based on common legislation and eligibility criteria is needed (European Commission, 2019b). Financing should be centred on health insurance for medical long-term care, while home care elements could be financed through means-tested user fees and vouchers for low-income recipients. Moreover, there is a need to integrate regulation and provision of community nursing and home help. The supply of LTC could be expanded by encouraging entry of new and innovative providers by making public tenders for institutional and home care outcome-focussed.

Figure 1.30. Public long-term care spending is relatively low

Public long-term care spending as % of GDP, 2016



Source: European Commission (2018c), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

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Table 1.8. Past recommendations on pension, health and long term care systems

Recommendations in previous *Surveys*	Actions taken since November 2017
Raise the statutory retirement age to 67, and ensure a continuing increase in the effective retirement age	Part of early retirement period for child-caring was substituted with higher annual accruals.
Cover eventual pension shortfalls by a combination of additional contributions, lower pension indexation and increased incentives to work longer.	The 2020 Pension Reform makes people who continued to work eligible for 40% of pension benefits the first two years and 20% thereafter.
Increase the statutory and minimum pension (for workers with qualifying contribution periods) ages, and link them to life expectancy.	No action taken
Calculate pension rights based on lifetime contributions.	No action taken
Increase the weight of inflation, as opposed to wages, in the pension indexation rule.	No action taken.
Reform the health-care sector to improve efficiency.	Public procurement has been centralised.
Equalise the contribution rates to the health fund.	No action taken.
Allow hospitals to adjust their health services to changing demand, including by closing under-performing departments.	No action taken
Give hospitals greater scope to engage in multi-year investments and to keep their realised cost savings.	No action taken.
Ensure sufficient long-term care funding. Develop home care by creating a level playing field and allowing patients to organise their own care.	No action taken to increase LTC funding.

If the main reforms presented above are adopted, the fiscal impact would be large and positive, creating fiscal space over the medium-term that could be used to support growth (Box 1.3). The space could, for example, be used for growth-enhancing infrastructure investments, such as public transport. Another approach could be to lower taxes to stimulate labour supply and provide stronger business investment incentives. Alternatively, the savings could be used to reduce public debt, which would create fiscal space in the future to finance increasing ageing-related spending.

Box 1.3. Quantifying the impact of selected policy recommendations

Table 1.9 presents estimates of the fiscal effects of some of the recommended reforms. The quantification is merely indicative and does not allow for behavioural responses. Table 1.10 quantifies the impact on growth of the main reforms recommended in this Survey.

Table 1.9. Illustrative fiscal impact of recommended reforms

Fiscal savings (+) and costs (-) after 10 years

	% of annual GDP
Expenditures	
Increase active labour market programmes to OECD average	-0.7
Tighten eligibility criteria in disability and unemployment benefit systems so as to align the employment rate of older workers with the EU average	1.0
Health care reform to achieve best performance efficiency	2.2
Increase the statutory and minimum retirement ages by 2 years	2.3
Align property taxation with the OECD average	0.6
Total - expenditures	**5.4**

Note: Pension reform calculations are based on OECD's micro-model of the Slovenian public pension system.
Source: Balázs and Gal (2016), "The quantification of structural reforms in OECD countries: A new framework", OECD Journal: Economic Studies, Vol. 2016/1, Balázs (2017), "The quantification of structural reforms: taking stock of the results for OECD and non-OECD countries", OECD Economics Department Working Papers, and OECD's microsimulation model of the Slovenian pension system.

Table 1.10. Illustrative impact on GDP per capita from structural reforms

Difference in GDP per capita level from the baseline 10 years after the reforms, %

Reform	%
Reforms to contain the cost of ageing	
Increase the statutory and minimum retirement ages by 2 years	2.0
Health care reform that reduces sickness leave to the EU average	0.9
Increase ALMPs spending to OECD average	0.5
Tighten eligibility criteria in disability and unemployment benefit systems so as to align the employment rate of older workers with the EU average	3.7

Pension reform calculations OECD calculations based on Balázs and Gal (2016), "The quantification of structural reforms in OECD countries: A new framework", OECD Journal: Economic Studies, Vol. 2016/1, Balázs (2017), "The quantification of structural reforms: taking stock of the results for OECD and non-OECD countries", OECD Economics Department Working Papers, and OECD's microsimulation model of the Slovenian pension system.

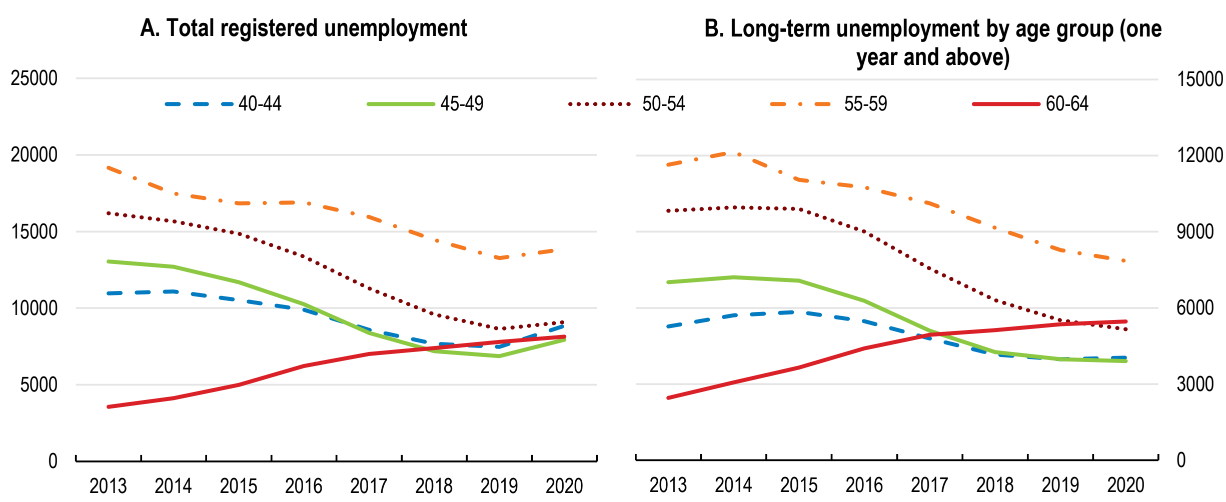
The dynamics of the labour market are changing

The current crisis is temporarily increasing the number of job seekers, which is likely to increase the risk of long-term unemployment. However, over the longer term, population ageing is leading to a smaller and older labour force and, hence, more permanent labour shortages. Consequently, growth will increasingly have to rely on improving labour utilisation and on workers having the necessary education and training to benefit from new technologies, especially digital technologies, in a globalised world. The short-term challenge is to avert protracted scarring effects in the workforce, including by bringing low-skilled and hard-to-employ job seekers into employment, while the longer-term challenge is to secure labour market institutions that promote labour mobility (across firms, occupations and regions) and improve human capital formation.

Prior to the crisis, older workers were increasingly using social security systems, such as unemployment benefits, disability and social assistance, as pathways to early retirement (Figure 1.31). This trend could be accelerated in the currently weaker labour market. It reflects the social security systems' favourable rules for older workers (+55), such as twice as long benefit duration as younger recipients. Likewise, older workers can qualify for permanent full disability pensions even if they retain some work capacity. Access is relatively lenient as eligibility assessments only focus on current employment and there is no mandatory occupational rehabilitation. Reforms should focus on removing age-based regulation, extending disability eligibility assessments to other occupations and increasing the very low enrolment in occupational rehabilitation. In addition, unemployment benefit (UB) duration for workers above 60 could be reduced (severance pay is a legal requirement), complementing the recent lengthening of the qualifying period to gain UB eligibility for older workers.

Figure 1.31. The number of older unemployed persons (+60) is increasing

Breakdown of registered unemployment by age group, annual average



Note: The annual average for 2020 refers to the months from January to May.
Source: Employment Service of Slovenia (ESS).

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The relatively low spending on labour market programmes has a focus on short-term measures, such as employment subsidies and direct job creation, which still benefit easy-to-integrate unemployed persons. Redirecting the bulk of employment and training subsidies to job-seekers with high assistance needs would better exploit the job opportunities presented by the strong labour market. The planned statistical profiling of job seekers will improve identification of difficult cases and direct resources to their best use. This could be combined with stronger work incentives in the tax-benefit system by reducing tax and social security contribution rates through base broadening and tapering off benefit withdrawal (Vodopivec et al., 2015). This should be complemented with in-work benefits linked to hours worked (Hoynes and Blundell, 2013).

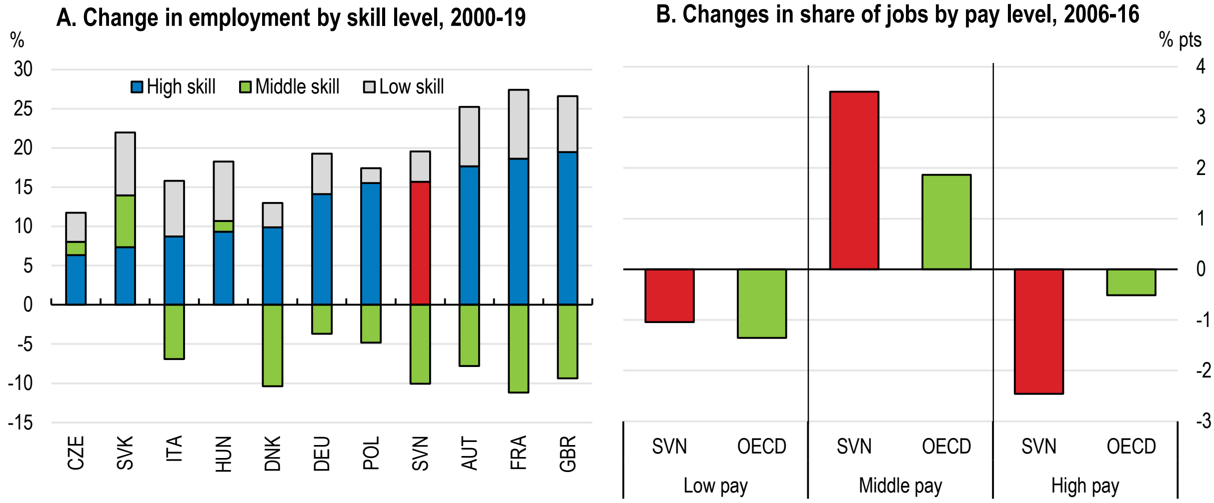
Improving labour reallocation to support the recovery and long-term growth

The scope for differential wage developments is reduced by administrative extensions (which ensure agreements cover the whole sector), and the limited use of derogations and opt-out clauses (OECD, 2017f). Consequently, workers tend to receive similar wage increases within a very compressed wage structure, disconnecting individual productivity and wage developments. The disconnect between wages and productivity limits incentives for job-change, increased efforts and training. Indeed, participation in lifelong training is lower than elsewhere (Chapter 3; Figure 1.34). More decentralised wage determination where wages are negotiated at the firm level and framework conditions (such as vacation and pension issues) are negotiated centrally could better support growth and incomes, as in Denmark for example. This could be combined with measures (as in France and Spain) to further restrict the use of administrative extensions.

Other legal requirements in the wage formation process hinder a more efficient labour utilisation and allocation. These include seniority bonuses, which hamper the alignment of wages with experience-based productivity increases. Likewise, one of the highest minimum wage relative to the median wage increases unemployment risks for low-skilled workers, reduces wage flexibility at the lower end of the wage scale, and risks reducing training incentives, leading to low skilled workers being locked in low-paying jobs (OECD, 2017f). Reform options include keeping minimum wage increases lower than median wages over time or let social partners determine the appropriate level of minimum wage and experience-based bonuses. Introducing a reduced minimum wage for new labour market entrants could be a possibility, for example, through step-wise increases with age as done in Australia, the Netherlands and the United Kingdom. Another reduced minimum wage could be introduced for long-term unemployed persons as done in Germany (Kalenkoski, 2016; OECD, 2015a).

A more flexible wage setting would provide better information about changing skills needs. Failure for workers to realise their training needs lowers productivity, occupational mobility and increases unemployment risk (Adalet McGowan and Andrews, 2015) (OECD, 2016d). This particularly affects older workers, who often lack basic skills (Chapter 3). The trend over the past two decades has been that the skills demanded in the labour market are moving from middle-skill to high-skill and, to a lesser extent, low-skill jobs, while the share of middle-pay jobs is increasing more than elsewhere (Figure 1.32). This process is likely to continue as OECD research suggests that large shares of advanced economies' workforces will see significant change in their jobs due to automation, mostly due to major changes in tasks for existing occupations rather than the disappearance of professions (Nedelkoska and Quintini, 2018).

Figure 1.32. Job polarisation is increasing



Note: In Panel A: High-skill occupations are: managers, professionals and technicians and associate professionals; medium-skilled occupations are clerical support workers, skilled agricultural, forestry and fishery workers, craft and related trades workers and plant and machine operators and assemblers; low-skilled occupations are service and sales workers, and elementary occupations. The armed forces and non-responses are not shown. In Panel B low-paid jobs are those paying less than two thirds of the median wage, while high-paid jobs are those paying more than 1.5 times the median wage. The OECD average is the unweighted average generally for 2006-16.
Source: Eurostat; and OECD (2019h), OECD Employment Outlook 2019.

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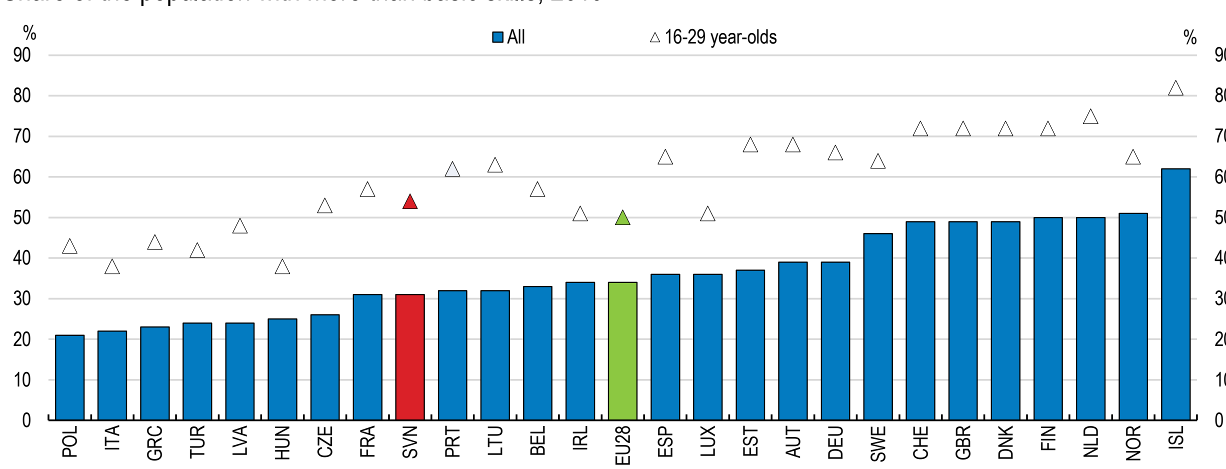
Adequate skills are important for the ability to adopt digital technologies – a key to improve firm performance and reduce unemployment risks (Sorbe et al., 2019). However, harnessing the possibilities of new information technology requires workers with better digital skills that are upgraded throughout working lives (Figure 1.33; Andrews, et al, 2018; OECD, 2019f). In Slovenia, investment in adult training and the share of firms receiving subsidies or tax incentives for training purposes are low. When provided, training is rarely considered useful (OECD,2019i). Furthermore, mostly better-educated and younger workers participate in life-long learning, while few low-skilled workers enrol (Figure 1.34). More flexible wage setting would provide better signals about training and education needs and bolster lifelong learning incentives. In addition, other OECD countries have introduced training funds (Italy), income-contingent loans (Finland) or individual learning accounts (France) (Chapter 3; OECD, 2019i).

Figure 1.33. Adults' digital skills are low

Share of the population with more than basic skills, 2019



Source: Eurostat Digital Skills database.

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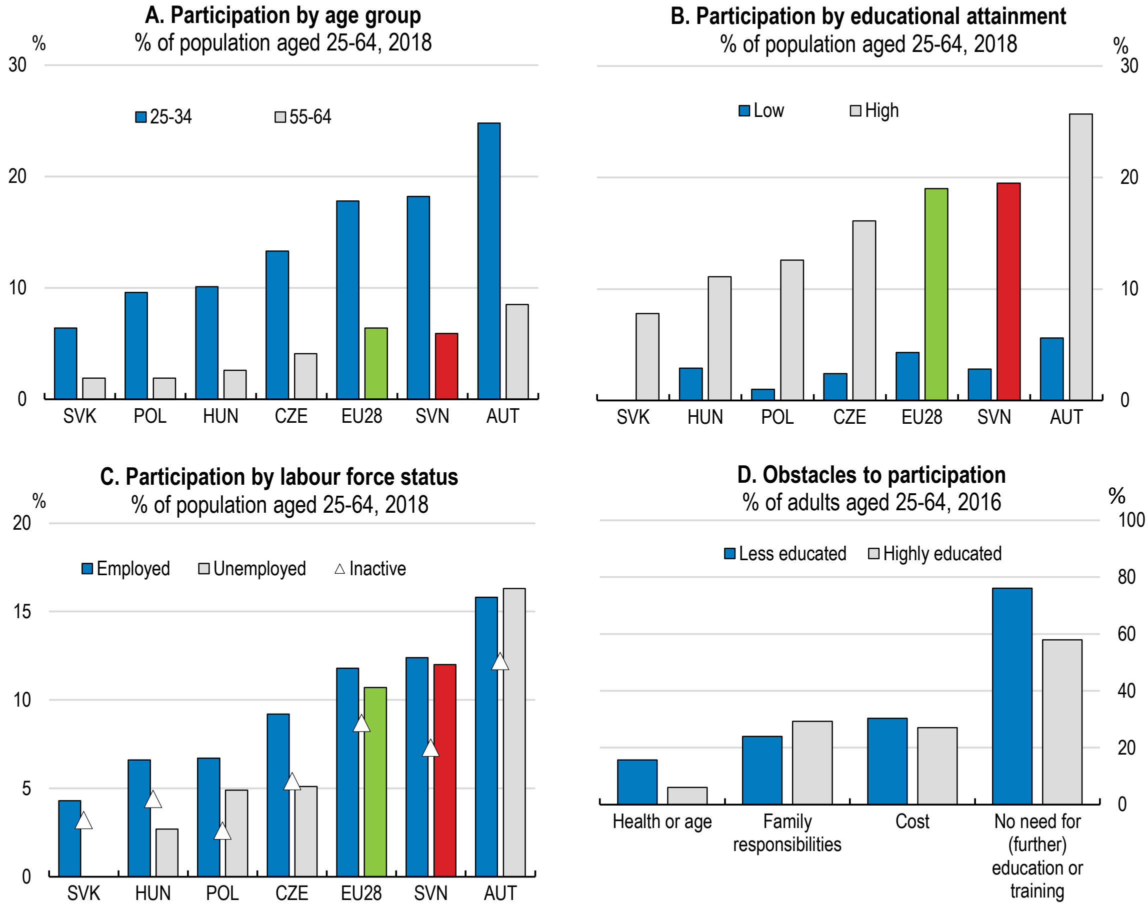
Figure 1.34. Participation in life-long learning can be raised further



Note: Includes formal as well as non-formal education and training. The reference period for the participation is the four weeks prior to the interview. Low educational attainment refers to below upper secondary education (ISCED 0-2) and high refers to tertiary education (ISCED 5-8). In Panel D, multiple responses are allowed.
Source: Eurostat, Education and Training database.

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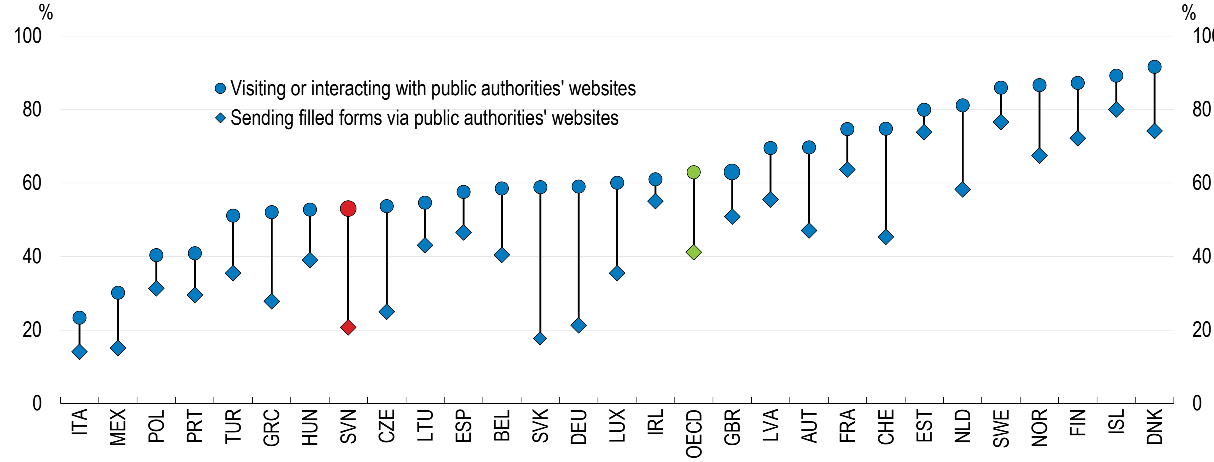
The government could raise the awareness of the need for digital skills by increasing its own use of digital technologies. For example, government websites are used relatively little and only rarely for direct interaction (Figure 1.35). The government could also support the digital transformation by expanding electronic interaction with the private sector (OECD, 2019g). The effect of such measures are likely to raise public sector productivity, the quality of services and promote private sector adoption of digital technologies (Andrews et al., 2018).

The supply of the education system is slow in adjusting to new labour market demand. Over the past couple of decades, employment growth for high-skilled workers has been relatively high and the supply of university graduates has increased. Today, nearly 60% of the population aged 20 is enrolled in tertiary education as compared with the OECD average of 40%. Moreover, tertiary output is focussed mostly on social sciences and humanities rather than technical skills (OECD, 2015b). In 2019, tertiary graduates' employment growth slowed. This reflects that in the current economic recovery, occupations most in demand have been those that require low- to medium skills level (Bank of Slovenia, 2019d). As recommended in the last Survey, employer surveys should be used to identify skills needs and be combined with better information about private rates of return on education investment. Such information should be used for improved career guidance before and during educational enrolment (OECD, 2017f). Moreover, all vocational training programmes should have a higher work content with strong links to firms (OECD, 2017f). An additional measure would be to reduce the number of regulated professions, especially for occupations in shortage, to encourage students entering such fields.

Figure 1.35. Digital government is less advanced in some respects

Use of digital government services by individuals, 2019



Source: OECD ICT Access and Usage by Households database.

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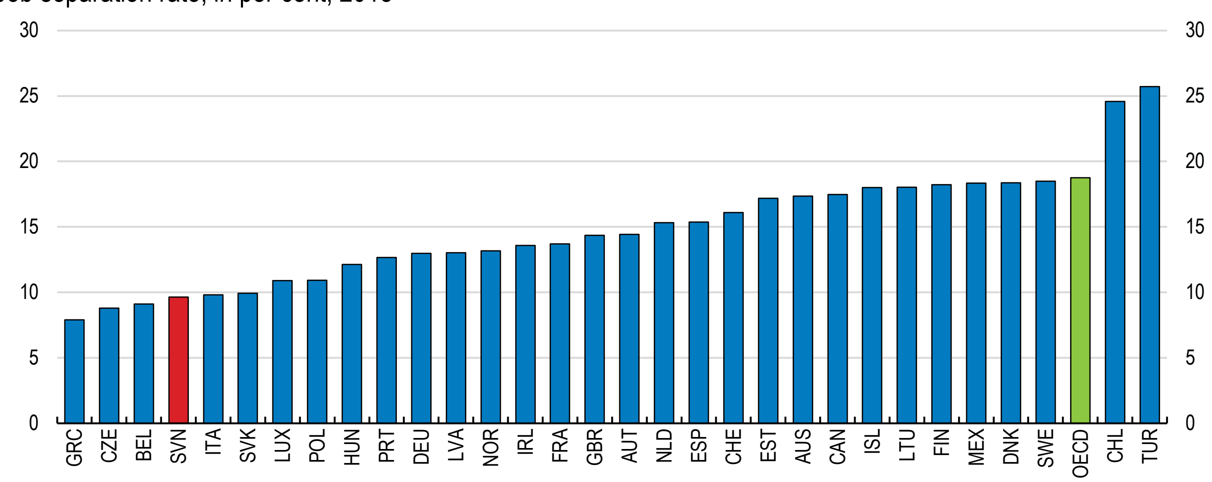
Geographical mobility is low, hindering workers' adjustment to changing circumstances such as the introduction of new technologies and contributing to low labour market turnover (Figure 1.36; OECD, 2019h). The main factor behind low geographical mobility is the dominance of a rigid owner-occupied housing market with large regional price difference, which creates affordability issues and credit hurdles. (Caldera Sánchez and Andrews, 2011; Causa and Woloszko, 2019). Also, low property taxes, arising from low rates and the use of non-market based valuation, reduces the costs of holding vacant land and property (Petrović and Mežnar, 2015). Tax favouring of owning houses relative to other assets is another contributing factor for the high ownership rate (OECD, 2018e). Real estate should be taxed in line with other assets to remove investment bias. The small private rental market is dominated by short fixed-term contracts. Regulation that better balances the interest of tenants and landlords is needed, and should include better possibilities for terminating long-term contracts, clear rules for deposits, maintenance responsibilities and transparent and predictable rent adjustments (Petrović and Mežnar, 2015).

Figure 1.36. Labour market turnover is relatively low

Job separation rate, in per cent, 2018



Note: 2017 for Australia and Iceland. Data refer to the difference between the hiring rate and the net employment change.
Source: OECD Employment and Labour Market Statistics database.

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Table 1.11. Past recommendations on labour market institutions

Recommendations in previous *Surveys*	Action taken since the 2017 *Survey*
Increase resources for active labour market policies	Funds for ALMPs decreased over the period 2017-19.
Better target assistance to the long-term unemployed and the low-skilled.	No action taken.
Increase the gap between the minimum and median wage.	The minimum wage was increased more than the median wage in the period 2017-2019.
Lower effective personal tax rates to increase work incentives.	In 2018, an additional general (linear) tax relief for incomes between EUR 11 166.67 and EUR 13 316.83 was introduced. In 2020, additional general (linear) tax relief for incomes up to EUR 13 316.83 was implemented along with a 6% increase of the general tax allowance.
Reduce top tax rates on labour income to promote mobility.	A lowering of tax rates in the second bracket (from 27% to 26%) and third tax bracket (from 34% to 33%) came into force in 2020. The top bracket tax rate remains unchanged.
Improve general skills of vocational students through use of problem-based learning, combined with retraining of teachers.	No action taken.
Raise the work-experience content of technical programmes.	Apprenticeships were re-introduced but only 8 programmes have been developed so far and enrolment remains low.
Distribute adult training vouchers, or provide tax credits to increase workers' training opportunities.	No action taken.
Increase training to help long-term unemployed to re-enter the labour market, including through a change in career.	No action taken.
Eliminate the legal requirement that wages increase automatically with age.	No action taken.
Harmonise the maximum duration of unemployment benefit across age groups.	The age limits for being eligible for 19 and 25 months of unemployment benefit were increased by 3 years to 53 and 58 years, respectively. In addition, older unemployed workers need to have accumulated 25 and 28 years – 3 years more - to qualify for the 19 and 25 months of benefits, respectively.

Table 1.12. KPI recommendations

MAIN FINDINGS	RECOMMENDATIONS (key recommendations in bold)
Macroeconomic and financial policies to support growth and maintain low inflation	
Public debt is rising, but remains moderate by international standards. In the long-term ageing will significantly raise health and pension costs	**Provide additional fiscal support as needed to support the recovery.** If needed, kick-start the economy with temporary and easy-to-implement fiscal stimulus measures that can be withdrawn when growth becomes self-sustaining. **Focus on efficient spending and growth-enhancing investment projects**
Ageing poses risks to fiscal sustainability.	Focus on double-dividend measures that reduce age-related spending and expand tax revenues simultaneously.
Large labour tax wedges reduce work incentives.	Continue to lower labour taxation and bolster property taxation.
Capital markets remain underdeveloped.	Public-owned companies could be a leading example in issuing equity to increase the attractiveness and diversity of investment opportunities. Promote financial education.
Promote well-being, inclusiveness and development	
There is a significant gender employment gap between the public and private sectors.	Reform the public pay system to better reward efforts. Develop career guidance and mentoring programmes at schools that address gender stereotypes and norms.
The perceived level of corruption is relatively high, mostly referring to public power being exercised for private gains.	Enhance independence, resources, powers and procedures of the anti-corruption authority.
A high number of public procurement contracts are negotiated without a call for tender.	Strengthen ex-ante and ex-post oversight and dissuasive sanctions. Enable larger procurement contracts through international cooperation.
Promote green growth	
The population is exposed to high particles emissions from road traffic and woodstoves.	**Supplement the replacement bonus for old wood and oil boilers with regulatory requirements and financial sanctions.** **Align effective tax rates on different forms of energy to reflect their environmental damage.** Align taxation of transport fuels with their carbon content, implying higher diesel taxes
Some sources of renewable energy remain underdeveloped, such as biomass.	Raise the exemption from excise duties for distributors supplying fuels containing biofuel. Support the substitution of fossil fuels with alternative fuels within a technology neutral framework

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2 Public policy challenges of ageing

Population ageing leads to a sharp increase in the old-age dependency ratio, inducing some of the highest ageing-related spending pressures in the OECD. Higher pension spending reflects that low retirement ages allow Slovenian pensioners to spend more time in retirement than almost everywhere else. New spending pressures arise from the recent increase in accruals. Measures are needed to prolong working lives and encourage people to remain active beyond the statutory retirement age. The health and long-care systems will be faced with ageing induced increases and changes in demand. Containing spending pressures in this area require a more efficient and effective delivery of health services, pointing to the need for strengthening the use of price signals and allow greater supply autonomy.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

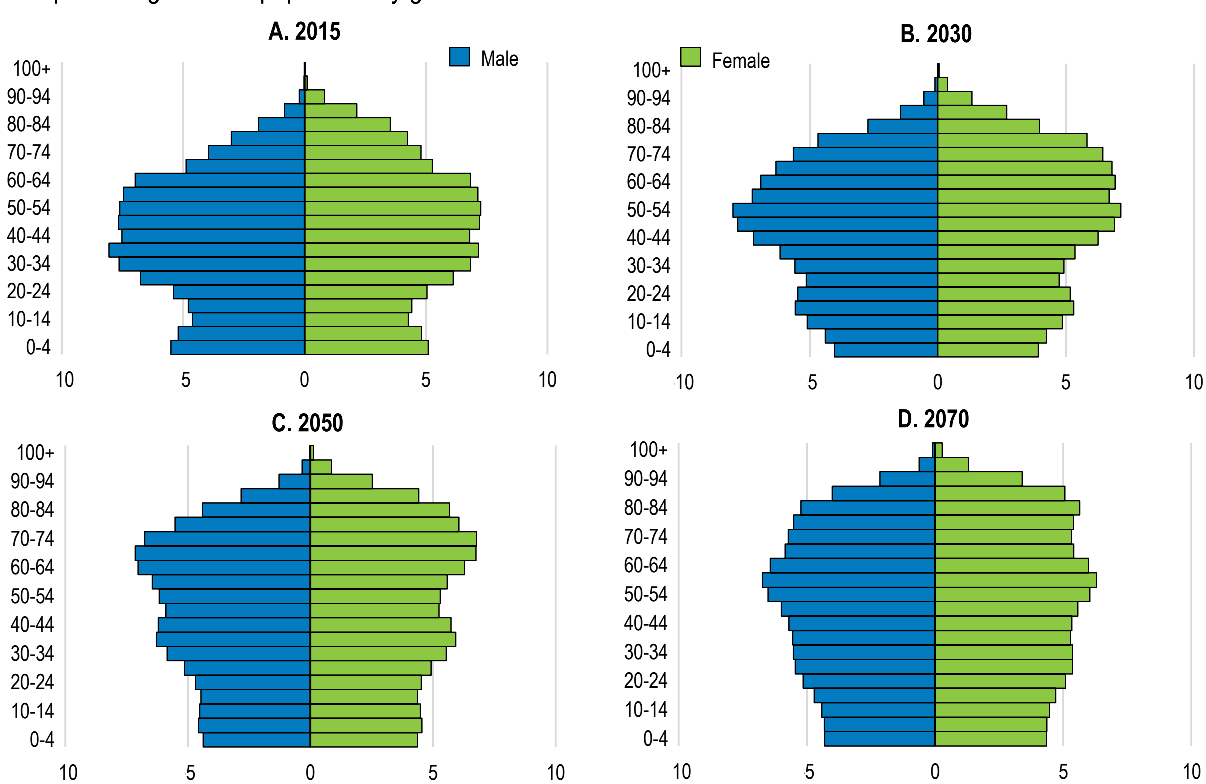
Ageing entails larger spending pressures than elsewhere

Population ageing is rapidly changing the age composition of the population, mostly reflecting very low fertility rates in the 1990s and 2000s. This creates profound challenges to public service provision in terms of financing, quality and coverage (Figure 2.1) (OECD, 2017a). By 2070, the population is projected to decline by 5½ per cent compared with today and the old-age dependency ratio to increase by two-thirds (peaking in the mid-2050s) as the older population (+65) expands by a third and the working age population contracts by a fifth (Figure 2.2) (European Commission, 2017). This development creates multiple challenges for public policies, ranging from promoting longer working lives to adjusting housing and transport policies for an older population. The government's Active Ageing Strategy aims to address many of these challenges through a broad-based strategy to promote longer and healthier working lives, among others (IMAD, 2018). This chapter focusses on the public policy challenges of ageing, including their fiscal effects.

The fiscal effects of ageing are materialising. Already by 2030, the deficit in the public pension system is projected to have increased by 1 percentage point to 2.5% of GDP and by another percentage point five years later before reaching 5.3% by 2060 (European Commission, 2017a). Thus, the window of opportunity for implementing smooth and forward-looking reform is closing fast. Addressing these problems today would allow better distribution of costs between generations as well as enhance the possibility of benefitting from new opportunities through consensus-based reform.

Figure 2.1. A smaller active population will have to support larger numbers of pensioners

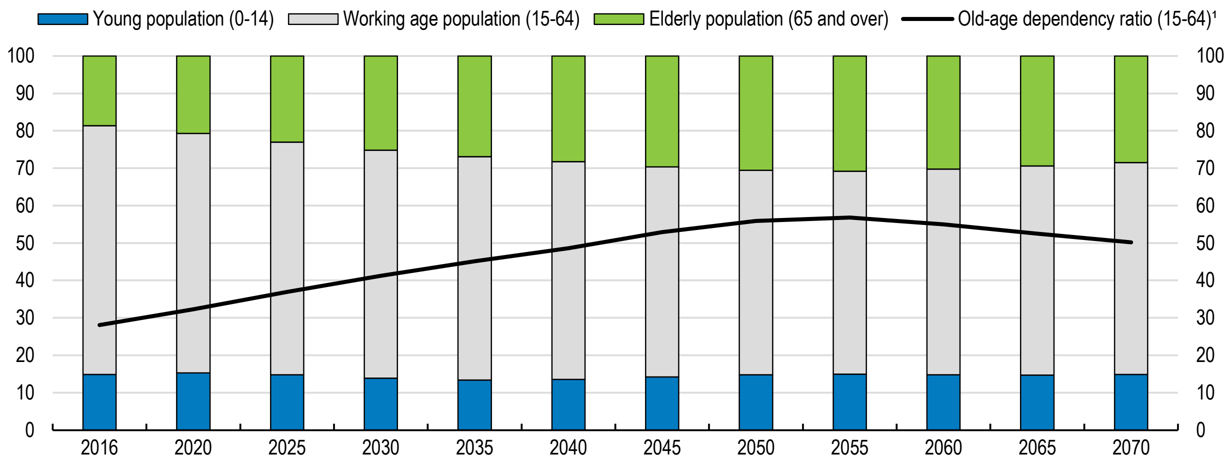
As a percentage of total population by gender[1]



1. Data refer to baseline projections.
Source: Eurostat (2017), "Population on 1st January by age, sex and type of projection", Eurostat database.

StatLink https://doi.org/10.1787/888934150937

Figure 2.2. The old-age dependency ratio will increase until 2055



1. Old-age dependency ratio=Population aged+65 as % of the population aged 15-64.
Source: European Union, Ageing Report 2018, cross-country tables, AWG database.

StatLink https://doi.org/10.1787/888934150956

Total spending on pension, health and long-term care is projected to increase by 6.4 % of GDP by 2060 – more than in most other EU countries – before falling gradually (Table 2.1) (European Commission, 2018a). In addition, ongoing urbanisation may lead to faster ageing in rural areas, further complicating the delivery of public services (Daniele, Honiden and Lembcke, 2019).

The sustainability of the pension system is challenged by ageing

Most pension benefits come from the public pay-as-you-go (PAYG) pension system, amounting to 11% of GDP (close to the EU 28 average) and a quarter of total public spending (Figure 2.3) (OECD, 2018a). From 2050 onwards, the projected 4½ percentage points increase in the share of GDP spent on pensions will leave it among the highest in the OECD (OECD, 2017; European Commission, 2018a).

Public pensions are financed through social security contributions (totalling nearly 25%). Looking ahead, this means that social security revenues will remain constant as a share of GDP (Table 2.1). The resulting financing gap is expected to increase from 1.6% of GDP in 2020 (covered by the state budget) to 6% of GDP in 2050 before declining (OECD, 2017b) (Table 2.1). This large increase in intergenerational transfers will raise the financing burden of (smaller) future generations. Moreover, the gap could be larger. For example, a positive demographic shock (longer life expectancy) and a negative one (lower fertility rates) would both lead to larger gaps (Figure 2.4).

Table 2.1. Main policy scenarios and projections

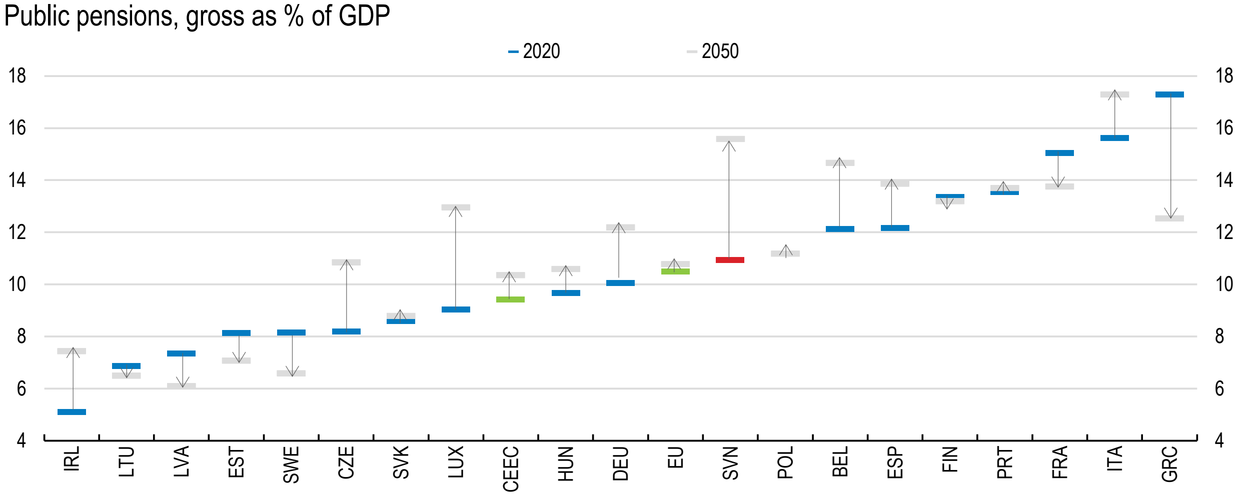
% of GDP unless otherwise indicated.

	Average change 2016-70	2016	2020	2025	2030	2035	2040	2045	2050	2055	2060	2065	2070
Potential Real GDP (growth rate)	1.5	1.0	2.1	1.9	1.6	1.5	1.3	1.2	1.2	1.4	1.6	1.6	1.4
Average effective exit age	2.1	60.5	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6	62.6
Public pensions, gross as % of GDP	3.9	10.9	11.0	11.1	12.0	13.1	14.2	15.1	15.6	15.6	15.2	14.9	14.9
Public pensions, contributions as % of GDP	0.1	9.5	9.4	9.4	9.5	9.5	9.6	9.6	9.6	9.6	9.6	9.6	9.6
Gross replacement rate at retirement %	1.0	34.7	36.3	36.5	36.4	36.3	36.2	36.1	36.0	35.9	35.9	35.8	35.7
Benefit ratio	-0.8	31.8	30.1	29.5	29.3	29.6	29.9	30.0	30.0	30.0	30.0	30.4	31.0
Health care spending [1]	1.0	5.6	5.8	6.1	6.3	6.5	6.7	6.8	6.8	6.8	6.8	6.8	6.7
Long-term care spending [2]	0.9	0.9	1.0	1.0	1.1	1.3	1.4	1.6	1.7	1.8	1.8	1.8	1.8
Scenarios that differ from the baseline (evolution of public pensions, gross as % of GDP)													
High life expectancy (+2 years) unchanged retirement age	4.9	10.9	11.0	11.2	12.1	13.2	14.3	15.3	15.9	16.0	15.8	15.6	15.8
Lower fertility (-20%)	6.5	10.9	11.0	11.1	12.0	13.1	14.4	15.6	16.5	16.8	16.8	16.9	17.4
Policy scenario linking retirement age to increases in life expectancy	2.6	10.9	11.0	11.1	12.0	13.1	14.0	14.8	15.1	15.0	14.5	13.9	13.6

1. Exclude health part of long-term care.
2. Include health and social part of long-term care.
Source: European Union, Ageing Report 2018, cross-country tables, AWG database.

Figure 2.3. Public spending on pensions is projected to increase sharply

Public pensions, gross as % of GDP

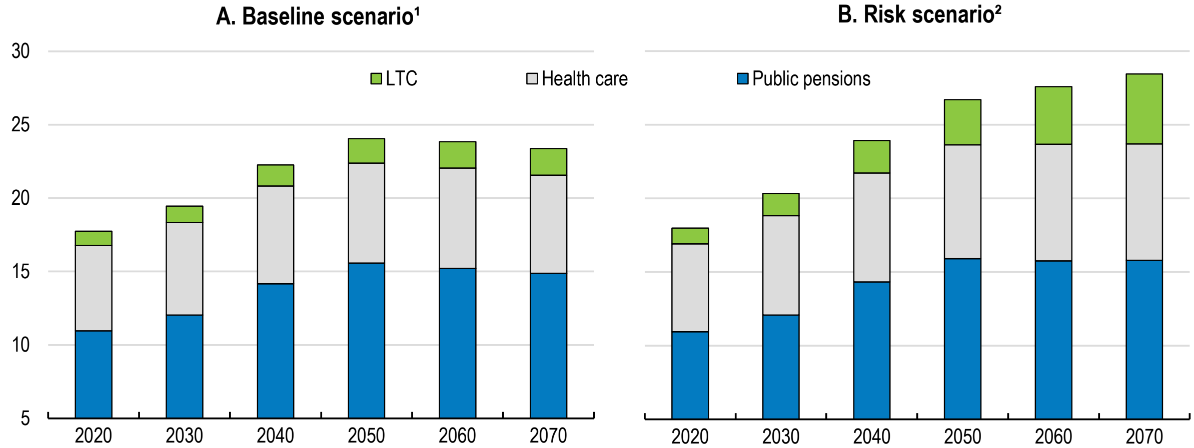


Note: CEEC is the unweighted average of Czech Republic, Hungary, Poland and Slovak Republic and EU is the unweighted average of all EU-countries that are members of the OECD in all figures.
Source: European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

StatLink https://doi.org/10.1787/888934150975

Figure 2.4. Ageing costs could easily increase more than projected

As a percentage of GDP



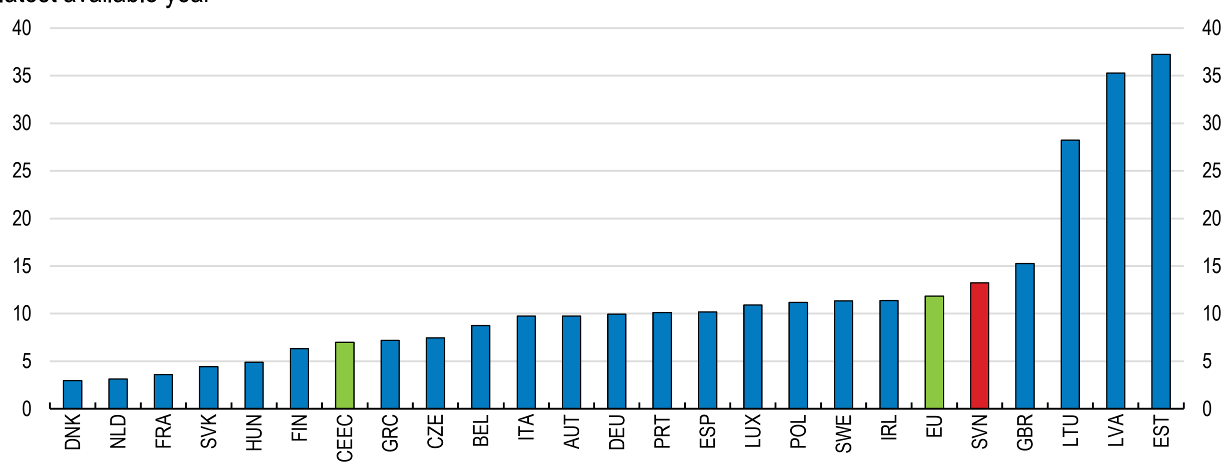
1. In the "Baseline scenario", it is assumed that half of the future gains in life expectancy are spent in good health and trends in health spending slightly exceeds the growth rate of national income.
2. In the "Risks scenario" half of the future gains in life expectancy are spent in good health and the cost of better health care is captured by using an elasticity of health care spending of 1.4.
Source: European Commission (2018), "The 2018 Ageing Report - Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

StatLink https://doi.org/10.1787/888934150994

Old-age poverty is relatively high (OECD, 2017a) (Figure 2.5). Women's more frequent career interruptions have led to a relatively gap of 11 ½ per cent between the poverty rates of retired women and men (European Commission, 2018b; Majcen, 2018a). The impact of poverty on material deprivation is somewhat offset by the generally high share of home-ownership with no mortgages (although housing quality may be an issue) (Chapter 3).

Figure 2.5. Poverty among pensioners is high in Slovenia

Percentage of persons aged over 65 living with less than 50% of median equalised disposable income, in 2017 or latest available year



Note: 2018 data for Australia and Israel. 2017 data for Slovenia.
Source: OECD Income Distribution database (http://oe.cd/idd).

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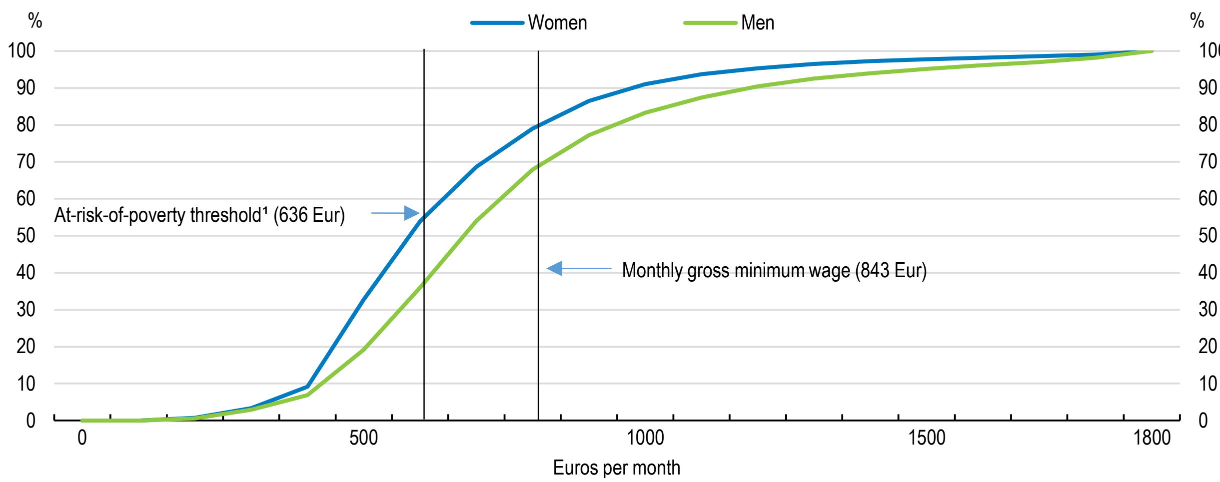
Nearly one third of male retirees and more than half of female retirees receive public pension benefits that are below the national at-risk-of-poverty threshold (Figure 2.6). This reflects that nearly two-thirds of all old-age state pensions are in the bracket of EUR 400-EUR 800, lower than the monthly minimum wage (Pension and Disability Insurance Institute of Slovenia, 2019).The low pensions arise mainly from incomplete contribution periods, although low income bases also play a factor.

Figure 2.6. Most pensioners receive low public pensions

Public pension income distribution across income intervals



1. The monthly at-risk-of-poverty threshold for a one-member household (at 60% of median equalised net disposable income).
How to read: the lines represent the cumulative distribution of state pension benefits across income intervals for women and men. For example, the blue line shows that about 50% of all women receives a state pension that is below the poverty threshold and about 80% of them a state pension that is lower than the minimum wage.
Source: Pension and Disability Insurance Institute of Slovenia (2018): Statistics Overview Year 2017 and Statistical Office of the Republic of Slovenia.

StatLink https://doi.org/10.1787/888934151032

The public pension system is complicated

The low pension income reflects relatively short contribution periods as many people retire early, and often also low income bases. In 2013, a pension reform focussed on prolonging working lives has contributed some increase in the retirement age, although it remains among the lowest in the OECD (Box 2.1; Figure 2.7; OECD, 2018a). The limited progress partly reflects a minimum age of 60 for workers with a full 40 years contribution period (OECD, 2017a and 2019a). In addition, many older workers are using unemployment, disability and long-term sickness as pathways to early retirement (Chapter 3; OECD, 2016; OECD, 2017b).

Shorter working lives and longer life expectancy means that by 2070 the already relatively long time spent in retirement will increase by 3 years and 3 months for women and 1 year and 5 months for men – leading to some of the longest retirements in the OECD (Figure 2.8) (Pension and Disability Insurance Institute of Slovenia, 2019).

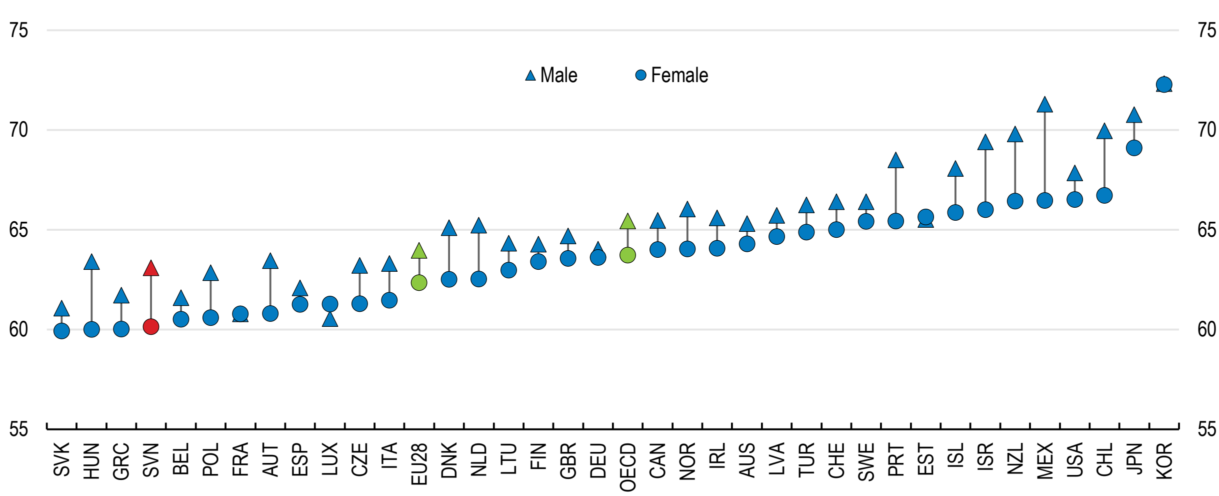
Box 2.1.The main elements of the 2013 pension reform

The main measures in the reform include:

1. Increasing the statutory pension age to 65 for men and for women by 2020
2. Tightening early retirement conditions by increasing the minimum age to 60 and the contribution period to 40 years.
3. Reducing the gender difference in accrual rates by keeping the 15 years minimum contribution period during which men will accrue 1.73% annually and women 1.93% annually. Thereafter, the 1.38% rate for women will gradually be reduced and aligned with the male rate of 1.25% by 2023.
4. Introducing a bonus/malus system for workers eligible for full pension with a 4% bonus for each year they defer retirement (max 3 years) and a 3.6% malus for each year of retiring earlier (max 5 years).
5. Increasing the calculation base for determining pension benefits from the best 19 to the best 24 years of earnings.
6. Replacing wage indexation of pensions with a composite index of 60% wages and 40% prices.
7. Creating more opportunities for combining pensions and work for workers eligible to full pension by allowing:
    - Combining part-time work with a proportional pension (with a 5% bonus for workers less than 65 years);
    - Working full-time and receiving 20% of pension benefits;
    - Supplementing full pensions with temporary and occasional work contracts.

Figure 2.7. The effective retirement ages are among the lowest in the OECD

2018



Note: The EU28 aggregate includes all 28 member countries of the EU in all figures.
Source: OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

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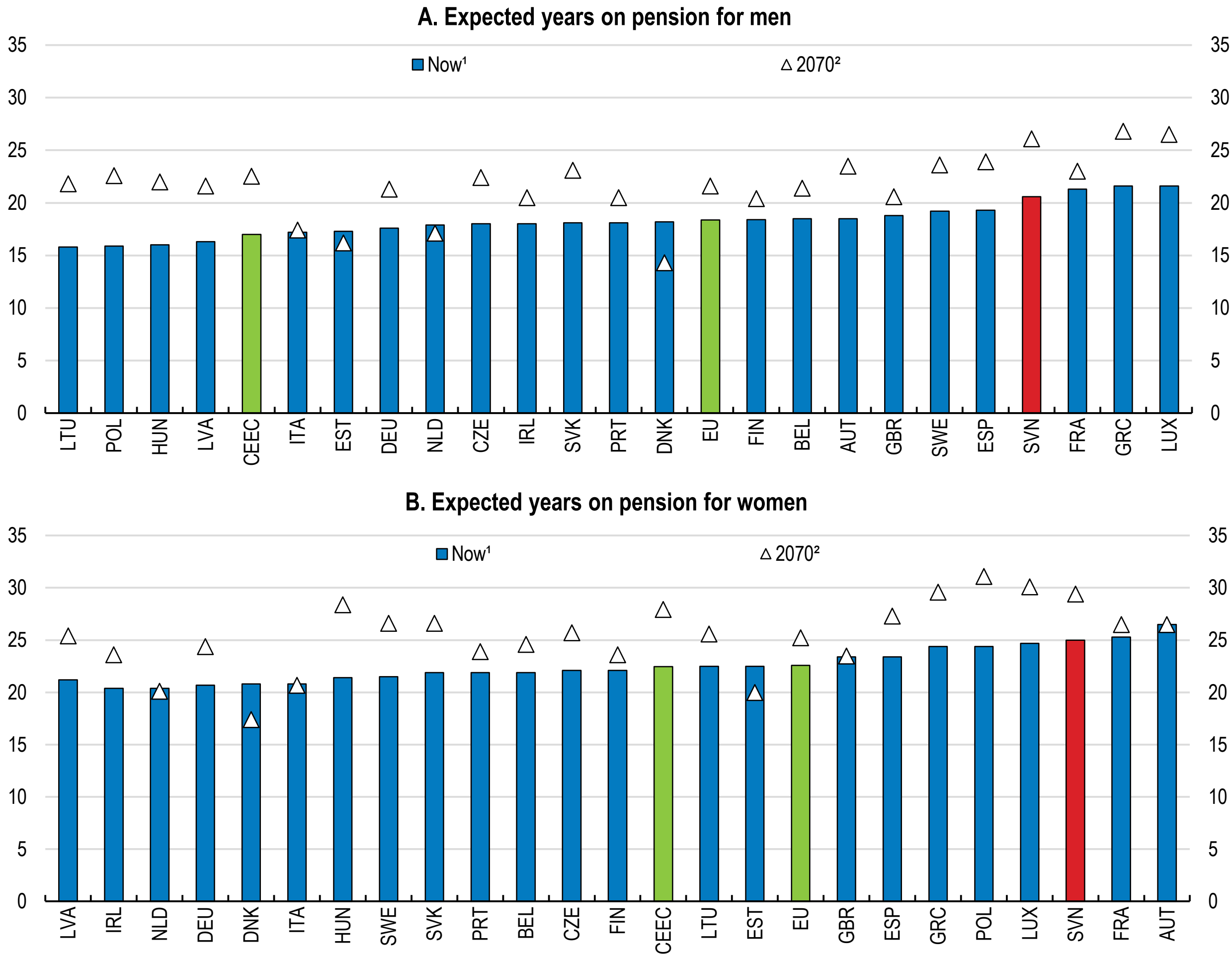
Figure 2.8. Time spend in retirement is longer than elsewhere



1. Expected years on pension for a person retiring now and who entered the labour market at the age of 22.
2. Expected years on pension for a person entering the labour market at the age of 22 with currently known changes in pension age and projected life expectancy at 65 in 2070.
Source: EU Ageing Report; OECD Pension at a Glance 2019; and OECD Health Statistics database.

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The pension system is highly redistributive

OECD micro simulations of the 2013 pension system show a systematic lack of actuarial fairness, meaning that most workers contribute much less to the pension system than they receive as pensioners. This reduces work and saving incentives for nearly all enrolees (Table 2.2). Moreover, the resulting large and increasing deficits must be financed by future generations of contributors, implying very large intergenerational transfers. Most income groups (and particularly women due to their longer life expectancy at age 65) contribute much less than they are receiving in benefits (OECD, 2019b). Only high-income men contribute as much as they receive. An illustration of the implication of the required intergenerational transfers is that to remove it, all benefits would have to be lowered to the guaranteed (minimum) pension, increasing risks of old-age poverty, or the total contribution rate would have to be increased by 10 percentage points with large negative effects on growth.

To reduce old-age poverty or gender gaps, other countries have targeted elements of redistribution in their public pension system to secure minimum retirement incomes or to compensate for parental leave. However, work and savings incentives are preserved in countries, like Denmark, that rely on tax financing as opposed to cross-subsidies within the system.

Table 2.2. The public pension system redistributes across generations, incomes and gender

Ratio of total contributions over total benefits for various types of workers with 40 years of contributions periods.

	Current rules		Four and a half years longer work lives		Index pension benefits to prices		Increase the pension contribution rate by 6.25 percentage points	
	Male	Female	Male	Female	Male	Female	Male	Female
Minimum wage	55%	47%	76%	64%	60%	52%	69%	59%
2/3x Average wage	72%	62%	100%	84%	79%	68%	91%	78%
Average wage	85%	72%	103%	86%	93%	80%	107%	91%
5/3x Average wage	88%	75%	108%	89%	96%	82%	111%	94%
2x Average wage	92%	78%	113%	93%	100%	85%	116%	97%
3x Average wage	96%	81%	135%	111%	104%	88%	121%	101%
4x Average wage	131%	110%	190%	155%	141%	119%	165%	138%
Total balance in the system	-26%		0%		-15%		0%	

Note: Microsimulations of the Slovenian Public pension system for different types of workers with 40 years of contributions. The balance in the system refers to the balance relative to contributions for all workers in a cohort, including factors such variations in mortality. The calculations are based on a similar set of conservative assumptions for wages and price inflation as in the EU ageing report. A 2.5 per cent discount rate is assumed.
Source: OECD calculations.

Alternatively, the intergenerational transfer could be removed by increasing working lives by four and a half years, according to OECD microsimulations, as this would bolster contributions and reduce pension outlays. This can be achieved by increasing the statutory retirement age to 67, and thereafter, if needed, link it to gains in life expectancy, like in Denmark, the Netherlands, Portugal, Finland and Italy (European Commission, 2017; OECD, 2018b) (OECD, 2019a). This would have to be accompanied by similar increases in the contribution period and the minimum age of 60 for workers with 40 years of contributions. Longer work lives is also the best guarantee against old age poverty. Alternatively, the intergenerational transfer could be removed by increasing the total pension contribution by six and a quarter percentage points, although such an increase would have a large negative impact on growth. However, these measures would not improve actuarial fairness. This could be achieved by removing the effective limit on pension benefits, arising from the method of indexing past incomes (see below). This would lead to a small increase in the system's deficit, reflecting the low number of high-income men, and thus in intergenerational transfers.

Recent reform has increased pension generosity

A 2016 White Book explored various reform options, including: a) increasing the statutory pension age by 2 years and contribution periods by 5 years; b) indexing pensions to 30% wage growth and 70% price increases instead of the current 60%-40% split; c) introducing a mandatory second-pillar with contribution rates of 4%. Each of these measures would reduce pension spending or raise revenues by about 1% of GDP, and together cover nearly three-quarter of the projected long-term increase in pension spending. The book formed the basis for a 2017 agreement among social partners that had a somewhat different emphasis. The partners agreed that pension reform should focus on gradually increasing pensions to reach a minimum replacement rate of 70% and secure fiscal sustainability (Majcen, 2018a and 2018b; Majcen, Stropnik and Rupel, 2018). To achieve these objectives simultaneously, OECD calculations suggest that contribution rates would have to be 10 percentage points higher.

In October 2019, the government adopted changes to the pension law that will gradually increase the replacement rates for men and women with 40 years contributions to 63.5%, removing previous gender differences. Additional measures include that recipients of parental benefits will receive an additional 1.36% for each child (up to three children) and workers who are eligible for full pensions, but who continue to work will be entitled to 40% of their pension in the initial three years and thereafter 20%. OECD microsimulations show that the higher replacement rates will increase intergenerational transfers by about 20% and reduce actuarial fairness by some 8% for men and 3% for women. Financing the increase in pension spending requires expanding work lives by one year or raising the average contribution rate by two percentage points. Alternatively, as the increase in replacement rates would counter old-age poverty problems, financing could be achieved by indexing pension benefits only to price inflation. Either way, securing the system's financial sustainability requires financing mechanisms for the proposed changes as well as for the current financing gap.

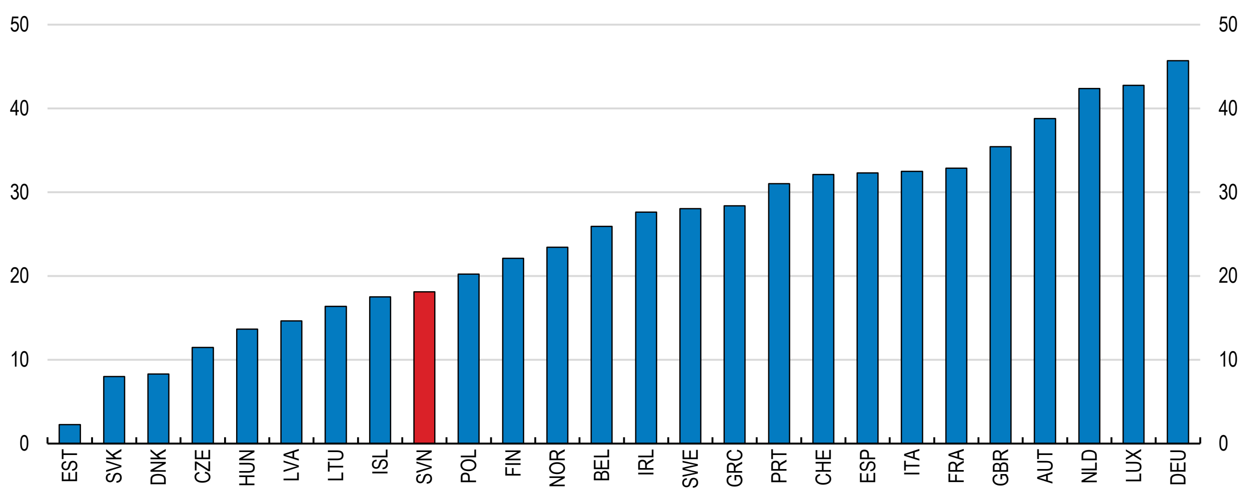
The link between earnings and pension entitlements is relatively weak

The design of public pensions is based on a strong link between earnings and pension entitlements in the PAYG public pension system, which is supplemented with a minimum pension and targeted schemes (OECD, 2017b and 2019a). However, a number of design features are weakening the link, creating disincentives to prolong work lives.

The previous accrual rules gave retiring men with 40 years of contributions a replacement rate of 57.25% and women of 60.25%. The gender difference in benefits in terms of total pay-outs is boosted by the higher female life expectancy. Until now, the higher female accrual rate has helped to offset the effects of shorter female contribution periods to keep pension gaps low, but higher female labour participation is expected to reduce or even reverse this effect (Figure 2.9) (Bratuz Ferk, B., Celebic, T., Mervic, H., Pecar, J., Perko, M., Selan, A., Sodja, 2017). The different accrual rates between men and women and over the contribution periods reduced transparency, making it more difficult for workers to predict their future pension benefits, and actuarial fairness of the system (Box 2.1). The new accrual rate that is equal for men and women lead to a more predictable and fairer system.

Figure 2.9. The pension gender gap is relatively low

In per cent, 65+ year-olds, 2015 or latest available[1]



1. 2014 for Iceland. The gender gap in pensions is defined as: (1 - (women's average pension / men's average pension)) * 100. 'Pensions' include all pension income for people aged 65 and older.
Source: OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

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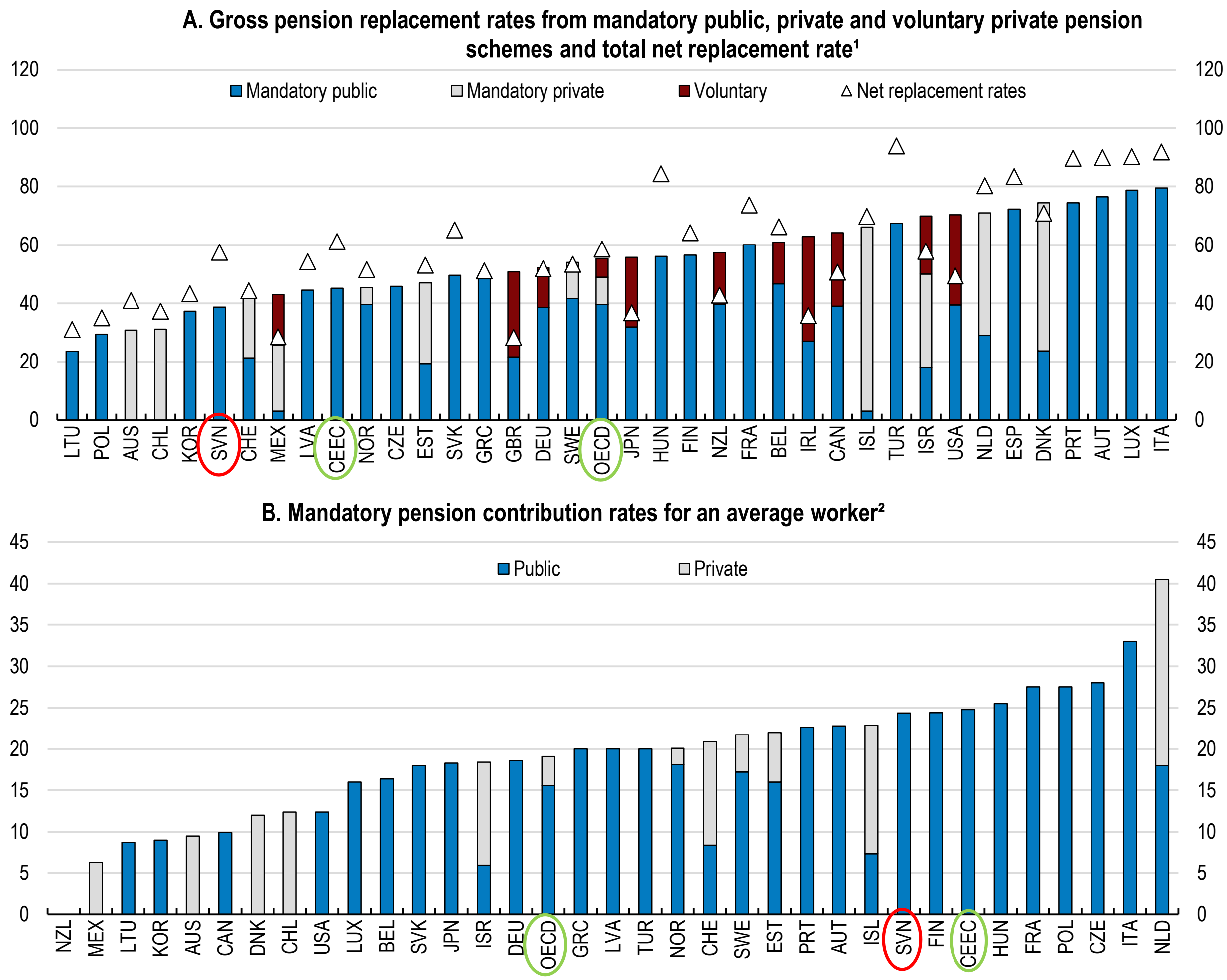
The new accrual rules bolster accumulated accruals, increasing the relatively low gross replacement rate, but a favourable tax regime for pensioners (see below) leads to a higher net replacement rate that is close to the OECD (OECD, 201b and 2018b) (Figure 2.10, Panel A).

Transfers in the system are further increased by the redistributive method for indexing past incomes. For incomes below four times the minimum pension rate base, past earnings are indexed with the growth of nominal net wages. The minimum pension rate base is set at 76.5% of the average monthly salary (slightly below the minimum wage) implying that low-income workers have their previous income uprated by more than they earn (Majcen, 2018; OECD, 2017c and 2019a). On the other hand, incomes above this index are not uprated, constituting an upper limit on pension benefits. This translates into a cap on pension benefits at around EUR 2 000/month for men and EUR 2 200/month for women after 40 years of contributions.

Figure 2.10. Replacement rates are close to the OECD average



1. Theoretical replacement rates, full career worker, 2018 legislation.
2. Mandatory contribution rates refer to 2018.
Source: OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

StatLink https://doi.org/10.1787/888934151108

An additional element of redistribution is the use of the best 24 years of net wages for determining pension benefits. This means that for those qualifying for a full pension, less than 60 per cent of the contribution period is used for calculating their benefits. The 24 year period is among the shortest in the OECD. A more actuarially fair system should be achieved by using lifetime income, as is done in most OECD countries with similar pension systems (OECD, 2017a).

Redistribution in the system was increased by the 2017 introduction of a guaranteed (minimum) old-age pension of around EUR 500 per month (four-fifth of the net minimum wage) for pensioners eligible for full pensions. This is higher than what a worker receiving the minimum wage is entitled to after 40 years of contributions. The measure enhanced basic social security and benefited around 10% of all old-age pensioners (European Commission, 2018).

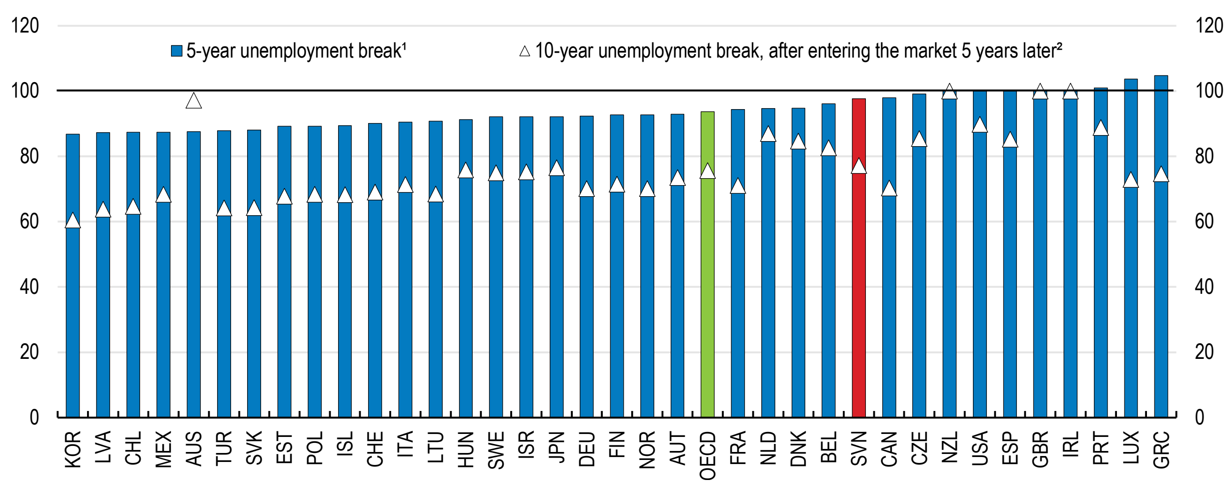
Two additional elements of redistribution are incorporated in the coverage of career interruptions for childcare and unemployment (OECD, 2017b and 2019a). For maternity, paternity and parental leave, the pension contribution is paid by the state and based on income 12 months prior to the leave, ensuring no loss of accruals (Majcen, 2018a). Similar systems are in place in other OECD countries, but more unusual is that parents to toddlers (less than 3 years) switching to part-time work are treated as if they worked full-time and that parental leave entitles to early retirement (up to 48 months earlier) (European Commission, 2018b). Similar rules are in place for military personnel.

In most OECD countries, earlier retirement is allowed for workers with physically difficult or hazardous employment, although this is increasingly being subjected to remaining work capacity assessments. Such arguments are absent in the case of parental leave and the associated special early retirement rights should be reconsidered.

In addition, the unemployed have their contributions paid from the general budget. Moreover, benefit duration increases with age, reinforcing intergenerational transfer issues (Chapter 3). The unemployed who have exhausted their benefit entitlements have their contribution paid by the state for up to a year (and two years for unemployed persons older than 56).The redistributive features create safety nets to ensure that workers with interrupted careers maintain pension levels (Figure 2.11). To strengthen work incentives, the age specific rules should be removed.

Figure 2.11. Unemployment leads to limited reductions in pension benefits

Gross pension entitlements as a percentage of full-career entitlements, mandatory pensions only



1. The values of all pension system parameters reflect the situation in 2018 and onwards. Pension entitlements are calculated for a worker (with average earnings) who enters the system that year at age 22 – that worker is thus born in 1996 - and retires after a full career. The 5-year unemployment break starts in 2031 (at age 35). In Luxembourg and Slovenia labour-market comers with career gaps of 5 years (due to unemployment) must work 3 years more than workers with unbroken careers to qualify for a full pension. The same figure is 5 years for Greece and 1 year for France and Portugal.

2. The values of all pension system parameters reflect the situation in 2018 and onwards. Pension entitlements are calculated for a worker (with average earnings) who enters the system at age 27 in 2023 – that worker is born in 1996 - and retires after a full career. The 10-year unemployment break starts in 2031 (at age 35). In Luxembourg and Slovenia labour-market late comers (entering the system 5 years later) with career gaps of 10 years (due to unemployment) must work 3 years more than workers with unbroken careers to qualify for a full pension. This is 5 years for Greece, 2 years for Portugal and Spain, and 1 year for France.

Source: OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

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Workers with short or incomplete working careers, with non-standard work (seasonal work, temporary agency works, etc.) or with a low contribution density have low pension benefits as their low-income base steer them towards the guaranteed old-age pension. (European Commission, 2018b). The same is the case for self-employed, with nearly 70% of them paying social security contributions on the minimum base (Majcen, 2018a). Recently contributions have been increased for contract workers and students. This should be generalised to ensure that contributions are paid on all work income. In addition, the ceiling on social security contributions for self-employed should be abolished, as recommended in the OECD's tax review of Slovenia (OECD, 2018a).

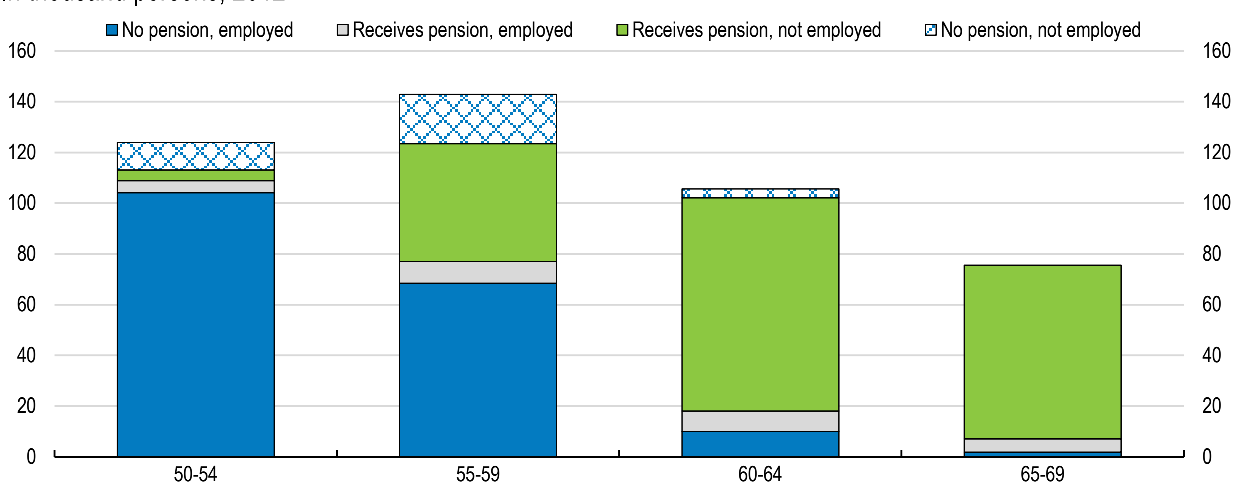
Spending on survivor pensions constitutes 1 ½ per cent of GDP – almost 50% more than the OECD average. Survivor pensions are at least 70% of the deceased's pension (lower if the survivor is entitled to a pension), helping to smooth living standards after a partner's death. However, there is no obvious justification why survivors in their working-age should be granted higher safety-net benefits than others in similar low-income situations (OECD, 2018). Instead, a temporary survivor pension should be available to help adapt to the new situation.

The take-up of the bonus/malus system and the new measures to combine retirement and work from the 2013 reform has been increasing, but remains low. In early 2017 only half a per cent of all old-age pensioners continued to work (Figure 2.12 and Figure 2.13) (Majcen, 2018b; European Commission, 2018b). The possibility for combining work and pension is probably restricted by the very low availability of part-time work in Slovenia (Chapter 3).

The bonus/malus system is not actuarially neutral as the same parameters are applied for the years between the minimum age of 60 and the statutory retirement age of 65 (OECD, 2017c). To achieve actuarial neutrality, the system should be applied at a fixed point, such as the statutory retirement age. This would also allow for higher bonuses. Symmetric parameters, i.e. same values for bonuses and maluses, and same lengths for possible deferment and earlier retirement would make it easier to evaluate the consequences of such decisions.

Figure 2.12. Pensioners seldom work after 65

In thousand persons, 2012[1]



1. Data refer to those persons who live in private households and who are either a) working at the time of the survey or b) not working at time of the survey but who did work after the age of 50.
Source: Eurostat (2018), "Transition from work to retirement", Eurostat database.

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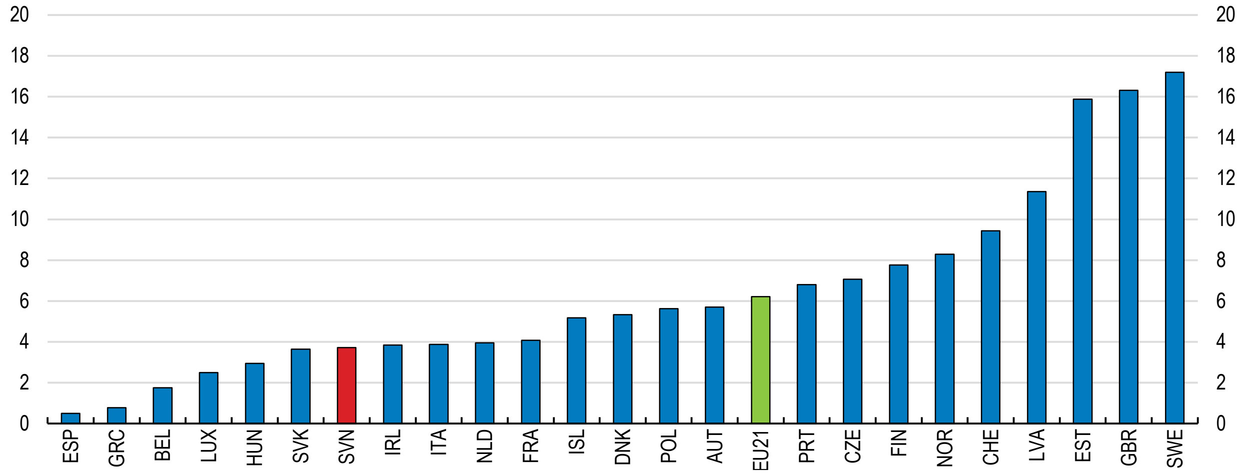
Figure 2.13. Few older workers combine work and pension

Percentage of population aged 55-69 retired and employed, 2012



Source: EU-LFS, ad hoc module 2012.

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Pension indexation is supplemented with occasional discretionary adjustments (OECD, 2017c). This counters the decline in benefit ratios (benefits relative to wages) and thus relative poverty among pensioners, but at a high budgetary cost. Linking pension indexation to price developments (as in a number OECD countries, including France and Hungary) preserves pensioners' purchasing power, with savings of ½ percent of GDP in the short-term and 2 per cent of GDP in the long-term, and reduce intergenerational transfers by a quarter (Table 2.2) (IMF, 2015).

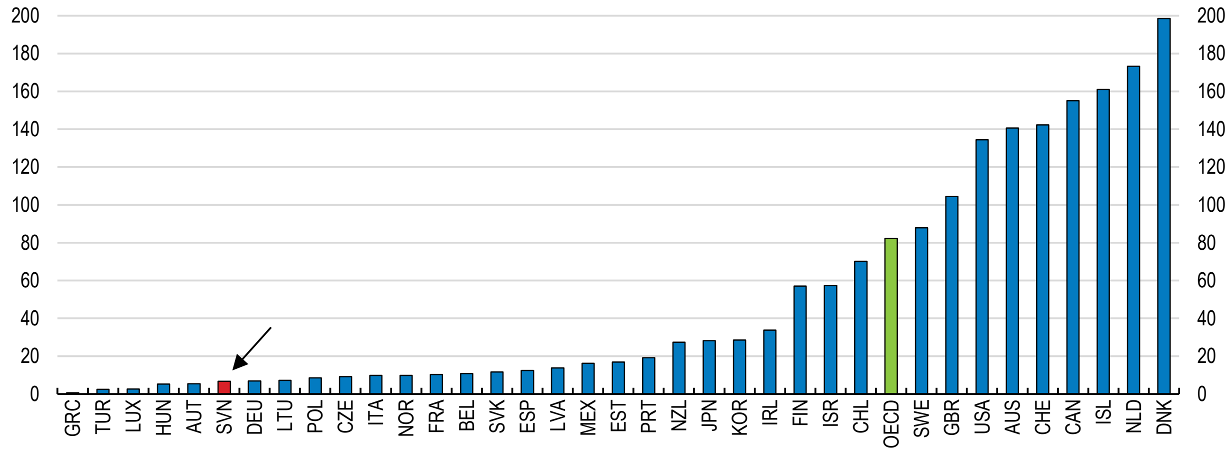
Pension benefits are taxable in line with other income sources (OECD, 2017c). However, the tax system grants a high general basic tax allowance and pensioners are entitled to a tax credit equal to 13.5% of benefits received (OECD, 2018). Consequently, the average effective tax rate for old-age pensioners is less than 1% (OECD, 2018c). The special tax credit for pensioners implies a lack of horizontal equity as other low income tax payers do not have the same entitlement and should be abolished. The associated savings could be as high as 1% of GDP (IMF, 2015). Pensioners pay no health contributions (which are paid by the public pension fund) while being covered by the compulsory health insurance. As argued earlier by the OECD, health contributions entitles contributors to health coverage the same year and therefore pensioners should be liable for such contributions (OECD, 2018a). A more targeted approach would be to only keep the pensions tax credit and health contribution exemption for low income pensioners.

Savings in the second pillar are low

Occupational pension plans have been in place for 30 years. They are mandatory in the public and banking sectors as well as for hazardous occupations (European Commission, 2018b). Elsewhere, employers can set up occupational schemes if two-thirds of employees agree to join. Nearly two-third of all employees are members of a second pillar scheme, which is relatively high in the EU (OECD, 2017a and 2019a; Majcen, Stropnik and Rupel, 2018; European Commission, 2018). However, accumulated funds are very low, reflecting low premiums with an average contribution rate of 4% for younger enrolees (less than 35 years) and lower for older workers with higher incomes (Figure 2.14) (OECD, 2018b; Majcen, Stropnik and Rupel, 2018). As a result, benefits are only about 10% of average benefits in the first pillar (Figure 2.15). If all workers were members of occupational plans with a contribution rate of 4% for all, benefits could eventually reach 17% of average benefits.

Figure 2.14. Private pension savings are very low

Total assets in funded and private pension arrangements, % of GDP, 2018 or latest available year



Source: OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

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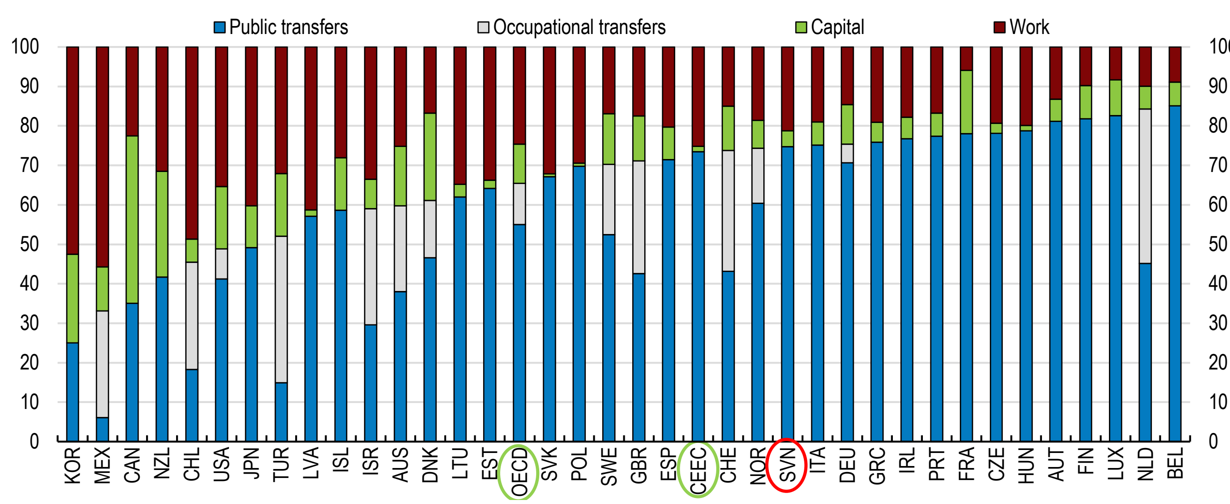
Figure 2.15. Public pension benefits are the main income source for retirees

2016 or latest available year



Source: OECD (2019), Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris.

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Automatic features, such as automatic enrolment and increasing contributions over time, can be used to bolster participation and accumulated savings. Automatic enrolment could preserve individual choice by allowing people to opt-out (OECD, 2018b). Likewise, default options or simplified decision-making processes, for elements like contribution rates, pension provider, investment strategy etc. would help people with such – often difficult – choices. Currently, pension plan information is difficult to compare as providers are allowed to use a mix of asset-based and contribution-based fees. Providers should be required to furnish standardised information.

Increasing transparency through improved information about future pension benefits could help contributors to make more informed pension decisions. In the public pension system, only information about the contribution period is easily available. An individual pension monitor is being developed to allow contributors to see their pension benefits upon retirement and another monitor to simulate the pension consequences of working longer. The two monitors should be combined and include information from the first and second pillar systems to enable a single entry point for all relevant information, as in other countries (Box 2.2).

Box 2.2. Pension information for future retirees

A number of OECD countries have dedicated pension monitors, including Australia, Denmark, Estonia, France, Latvia, Netherlands and Sweden, as part of the financial education for retirees. Almost all OECD countries provide on-line information about public pensions, and many also for private pensions (OECD, 2016b). In general, such websites include some sort of calculation and simulation tools, although they vary in scope in terms of user-specific parameters, with for example the Danish site covers public and private benefits sources, whereas in Sweden the focus is on public pensions. In both places, workers can access personal information, such as contribution period and accumulated savings/accruals. Calculations and simulators are also used to provide personalised information about expected retirement age and benefits, and can include both public and private schemes, as in the Netherlands.

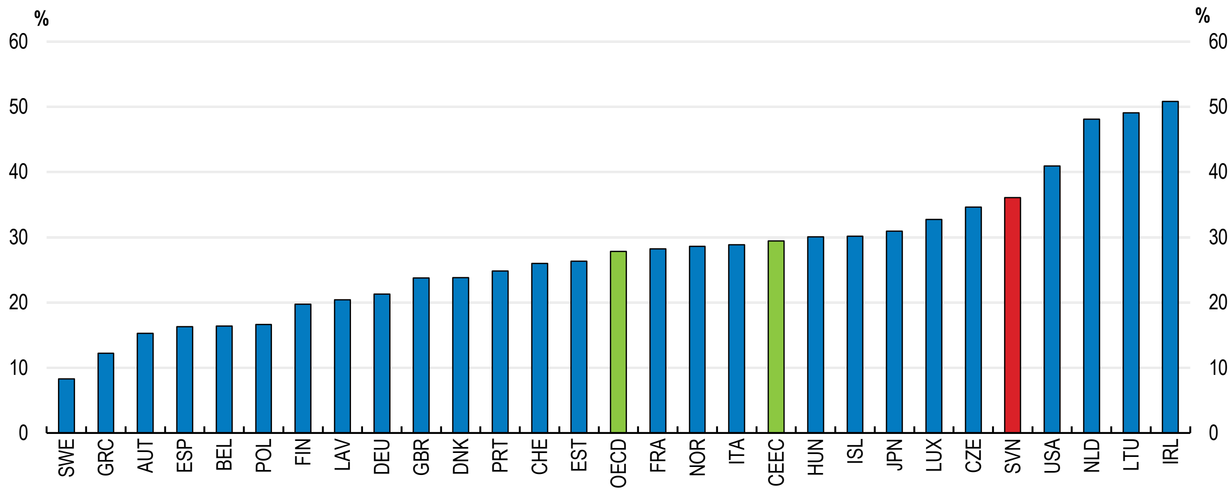
Surveys in Italy, Sweden and the UK indicate that most users find calculators and monitors useful for improving their understanding of their pension systems, although relatively few actually act on the provided information. This suggests that identifying what is the relevant information for users is complicated land that the value of such information depends on the user-friendliness of the systems. This suggests that the success of such systems require constantly updating their information content and their user-friendliness (Holzmann et al, 2020).

Second pillar pension plans are subject to relatively generous taxation rules (Figure 2.16) (OECD, 2018b). In 2017, employers and employees had joint tax relief of 5.844% of the employee’s gross wage, up to a ceiling of EUR 2 820 per year (a bit more than 10% of average annual wage income) (OECD, 2018c) Up to this ceiling, contributions are tax-exempt, as are investment earnings, while benefits are subject to the generous tax treatment discussed above. Enrolment could be incentivised in a fiscally neutral manner by increasing the ceiling for tax exempt contributions and reducing the associated tax advantages. Participation incentives for lower income earners could be enhanced with government-provided and targeted matching contributions or, alternatively, non-tax incentives, such as fixed nominal subsidies for contributions (OECD, 2018b).

Employees in hazardous occupations often use their plans as bridging pensions before entering the public old-age pensions system (Majcen, Stropnik and Rupel, 2018). The list of hazardous occupations has hardly been revised in half a century, pointing to poor targeting that allows able-bodied workers a pathway to early retirement. Furthermore, no measures are in place for employees in hazardous occupation to prolong working lives and widen end-of-career options to other occupations (Majcen, 2016). Regularly updating the list of hazardous occupations improves targeting and workers requesting their plans before 65 should be subject to the same labour market assessment as applicants for disability pensions, but extended to include jobs in other sectors.

Figure 2.16. Tax advantages to occupational schemes are generous

Present value of taxes saved over a lifetime, as a percentage of the present value of contributions, individuals with average earnings



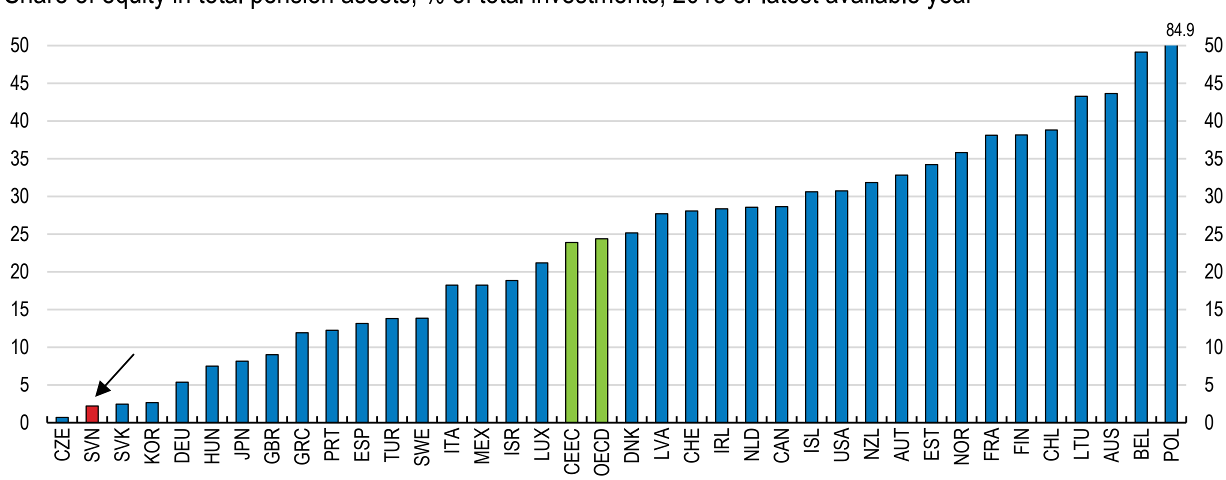
Note: Based on the 2018 tax treatment of the main pension plan in each country.
Source: OECD (2018), Financial Incentives and Retirement Savings, OECD Publishing, Paris.

StatLink https://doi.org/10.1787/888934151222

Prudent investment rules impose maximum limits for the portfolio's asset allocation in terms of equity, bank deposits, real estate, unregistered securities, and cash. The effectiveness of this regulation is undermined by a minimum rate of return requirement that penalise under-performance. This has induced pension funds to follow low equity investment strategies with low rates of returns (Figure 2.17). Making savings in second-pillar plans more attractive requires the removal of the minimum rate of return requirement.

Figure 2.17. Pension funds have very cautious investment strategies

Share of equity in total pension assets, % of total investments, 2018 or latest available year



Source: OECD Global Pension Statistics database.

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Benefits are as a rule paid out as life annuities. However, popular options are accelerated pay-out schemes and lump-sum payments. These options limit the income-supplementary aspect of the second-pillar system and erode the ability of the small pension funds to engage in long-term investment strategies, as portfolios have to be continuously adjusted to members' choices (Majcen, Stropnik and Rupel, 2018). Thus, the options of accelerated and lump sum payments should be reduced. This could be achieved, for example, by introducing a minimum time period for accelerated payments and a cap on lump sum payments. Moreover, long-term investment strategies are easier to pursue if such options are decided when signing up.

The health and long-term care sectors are challenged by population ageing

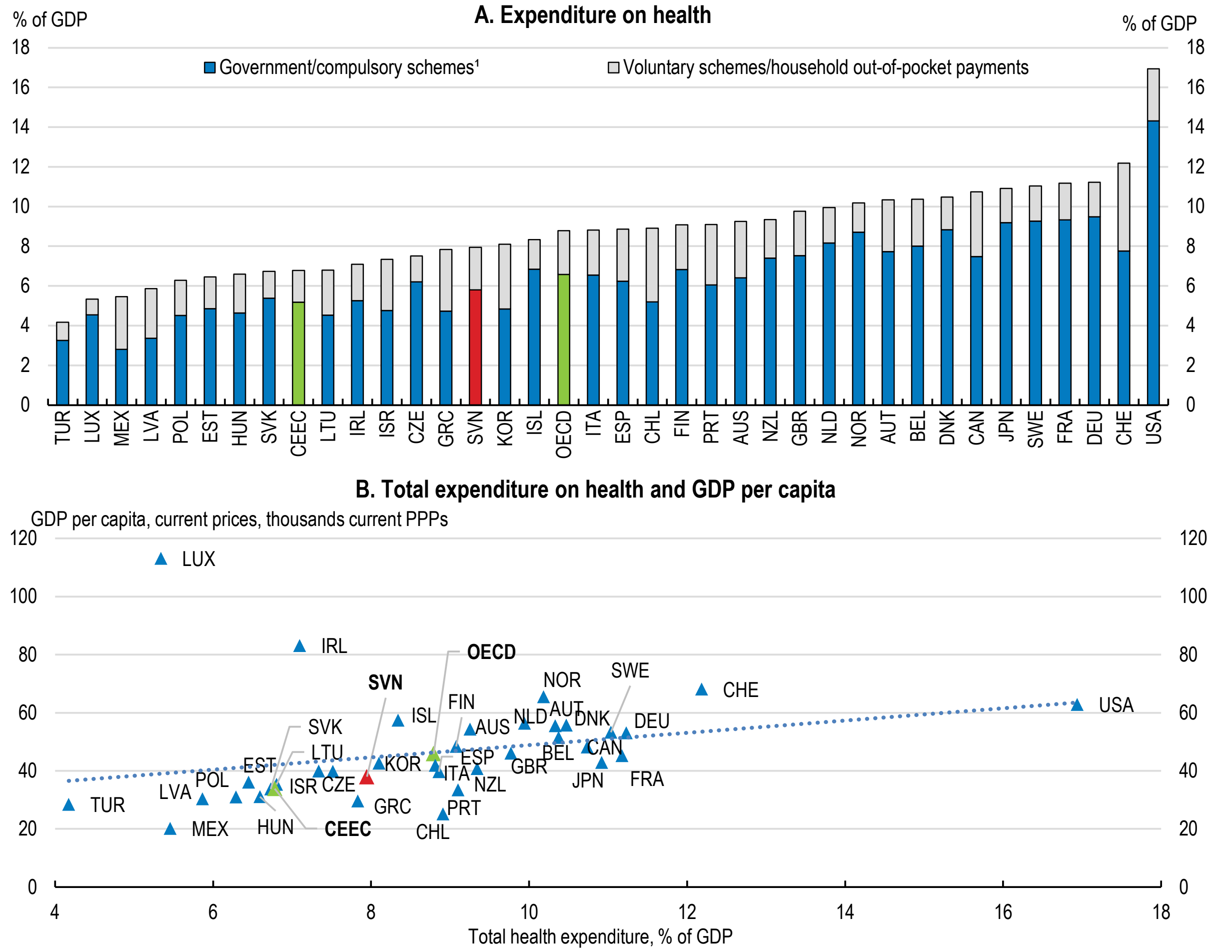
Population ageing will boost and change the demand for health and long-term care services. In addition, treatment progress translates into higher demand for new (and often more expensive) health services. In long-term care, an additional demand factor is that ongoing urbanisation makes it increasingly difficult for family members to engage in regular care activities.

Health care spending is high compared with peers

The health care system addressed the coronavirus health crisis rapidly and effectively. As discussed below, the system compares favourably in terms of efficiency when compared with peers. Nonetheless, structural problems in the sector raise cost, quality and safety concerns. Moreover, health care spending as a share of GDP is relatively high compared with countries in the region and with similar income levels (Figure 2.18). This has helped to improve life expectancy at birth and at 65 over the past 30 years to just above the OECD average (Figure 2.19). However, at age 65 the number of years spent in good health is relatively low, implying that older people can expect to spend more than half of their remaining years in need of medical care and assistance. Thus, the main challenge for the health and long-term care systems is to provide high quality services while keeping spending under control. Hence, cost-efficiency measures are needed. Existing instruments can be better used to improve allocation of scarce resources.

Figure 2.18. Health care spending is high compared with peers

2018



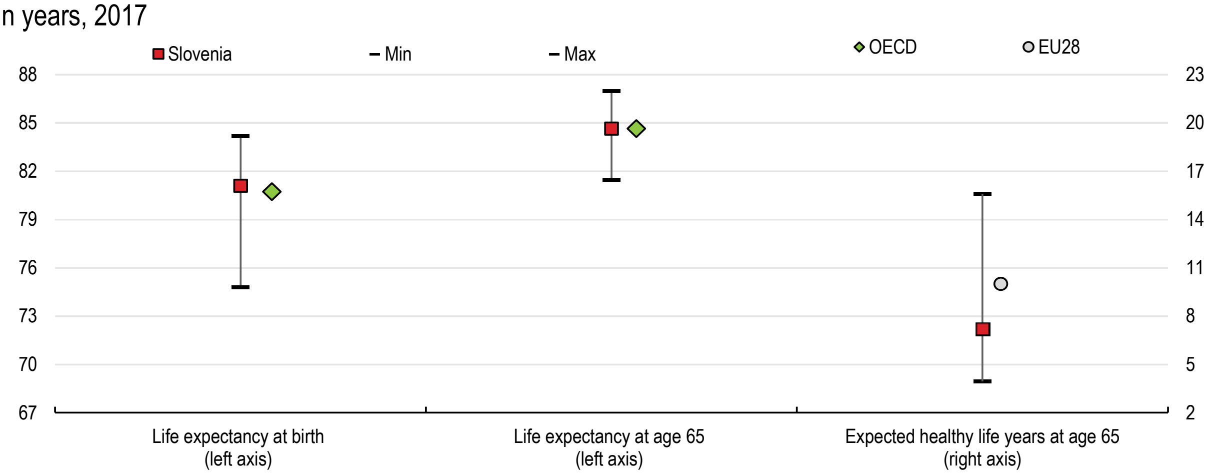
1. Public health spending refers to government schemes and compulsory health insurance. For Germany, the Netherlands and Switzerland, spending by private health insurers for compulsory insurance is also included in public health spending.

Source: OECD (2019), Health at a Glance 2019: OECD Indicators, OECD Publishing, Paris; and OECD National Accounts.

StatLink https://doi.org/10.1787/888934151260

Figure 2.19. Life expectancy is relatively high, but health is poor for the older population

In years, 2017



Note: Life expectancy at age 65 and expected healthy life years at age 65 are unweighted averages of women and men.

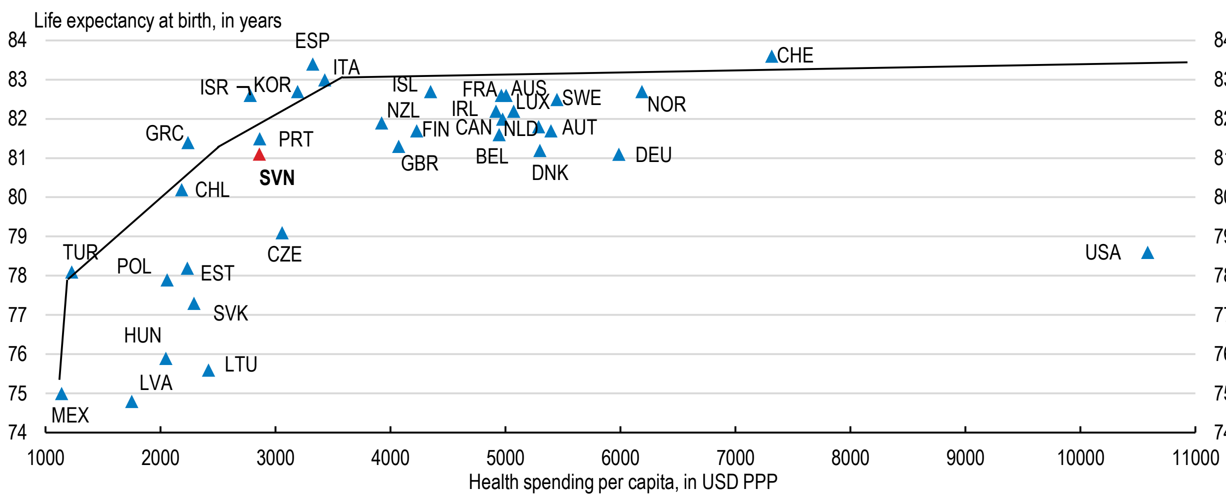
Source: OECD Health Statistics database; and Eurostat Health Statistics database.

StatLink https://doi.org/10.1787/888934151279

Health care spending is relatively efficient as spending is lower than in countries with similar outcomes and when measured in terms of the distance to best performers (Figure 2.20). This picture is confirmed by various macro-level efficiency analyses that point to a moderately to highly efficient health system. Nonetheless, better resource utilisation could improve outcomes. For example, public spending efficiency analysis shows that more efficient use of current resources could secure similar outcomes with savings of up to two percentage points of GDP (Dutu and Sicari, 2016). This would suffice to finance half of the projected cost increase associated with the higher life expectancy in the EU's ageing report (European Commission, 2018a). Moreover, more detailed performance indicators show a health care system with strengths and weaknesses and relatively large regional disparities (National Institute for Public Health, 2019).

Figure 2.20. Better resource utilisation could boost life expectancy significantly

2018[1]



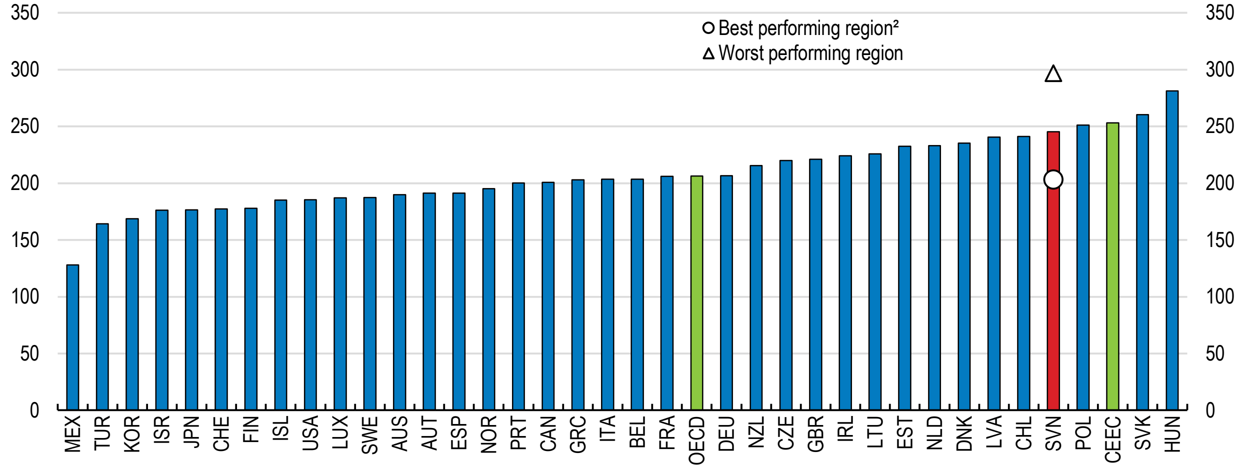
1. 2018 for life expectancy at birth for Mexico, 2016 for Chile, 2017 for other countries. PPP: purchasing power parity.
Source: OECD Health Statistics database.

StatLink https://doi.org/10.1787/888934151298

The higher life expectancy partly reflects progress in lowering amenable mortality (an indicator for the effectiveness of public health and health care systems in reducing premature deaths) to just above the EU average (OECD/European Observatory on Health Systems and Policies, 2017). This reflects, among other things, steady increases in some cancer survival rates reflecting in some areas the implementation of targeted screening and treatment programmes particularly for colon-rectal cancer and continuous declines in 30-days mortality rates after hospital admissions (National Institute for Public Health, 2019. Both developments are signs of improved quality of health service provisions. Nonetheless, overall cancer mortality remains among the highest in the OECD (Figure 2.21) (OECD, 2019c). OECD calculations indicate that an overall mortality rate in line with the best Western European levels would lead up to 2000 fewer deaths per year.

Figure 2.21. Cancer is a leading cause of death

Deaths caused by neoplasms per 100 000 population (standardised rates[1]), 2017 or latest available year



1. The standardised rate takes differences in age structures into account.

2. The regional data for Slovenia are standardised according to Slovenian age structures whereas the national data are standardised according to OECD age structures.

Source: OECD Health Statistics database.

StatLink https://doi.org/10.1787/888934151317

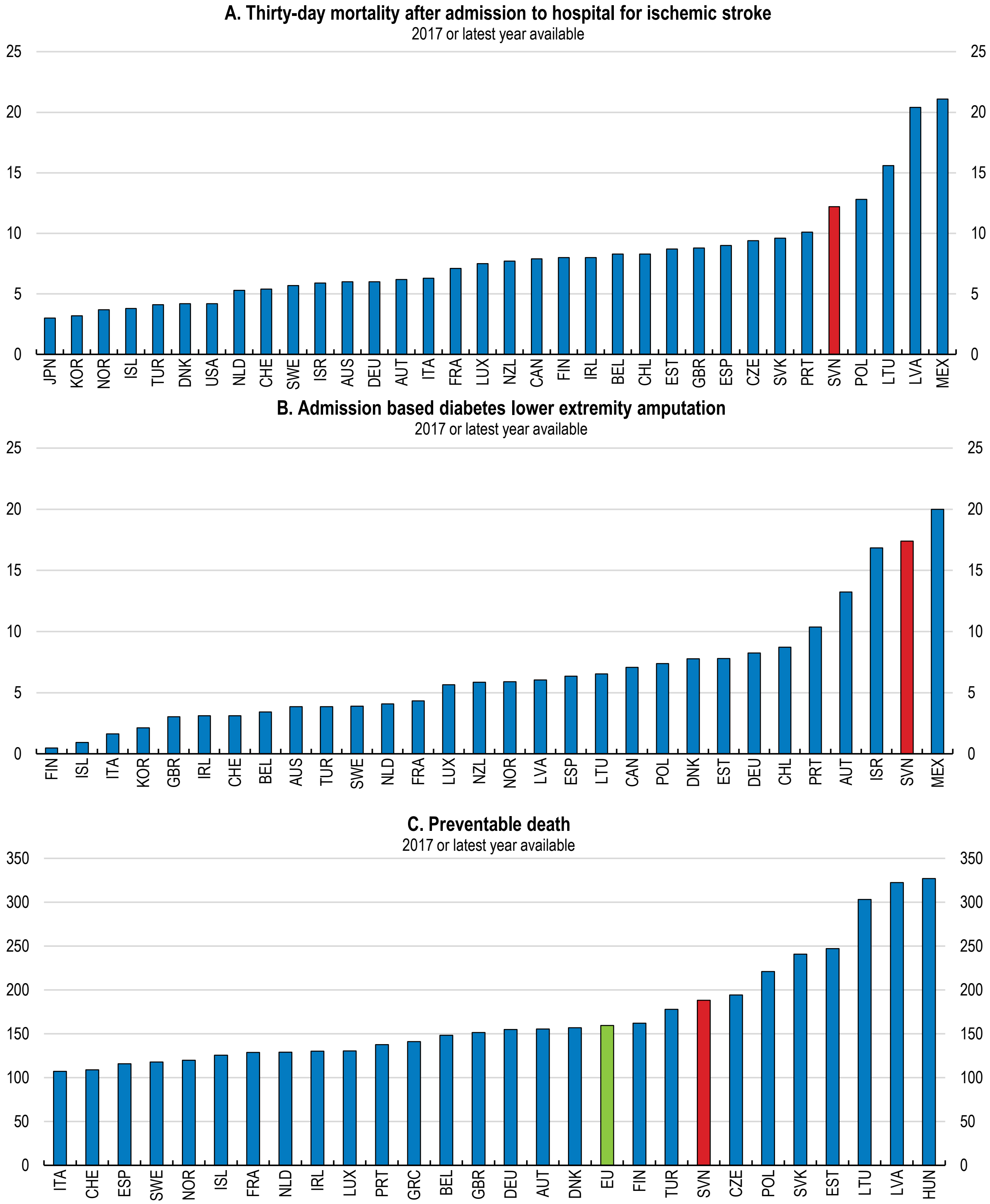
Other performance indicators for healthcare systems show a similar picture of progress and room for improvement. The 30-days mortality rate after hospital admissions for heart attacks has come down while for strokes it remains relatively high. (Figure 2.22). Likewise, diabetes-related lower extremity amputations have declined, but remain relatively high. Death due to pollution is relatively high. The same applies for preventable deaths from alcohol abuse, such as from chronic liver diseases. In most cases, these performance indicators exhibit substantial regional differences (OECD, 2019b).

The health care sector has a highly centralised and complex organisation. Governance and regulation is the responsibility of the Ministry of Health, which is also engaged in providing health services by owning all public hospitals (occasionally covering accumulated debt) and national institutes. Municipalities are in charge of primary care, including investments in primary health centres and pharmacies (OECD/European Observatory on Health Systems and Policies, 2017). Health coverage is universal with compulsory membership of the health insurance system's single fund (the Health Insurance Institute of Slovenia – HIIS). The institute shares the responsibility for budgeting and securing the efficient provision of health services with the ministry. The institute balances its budget every year, leading to adjustments of spending plans during the year and pro-cyclical spending as revenues come from social security contributions (with pensioners and socially vulnerable groups covered by public funds). Ex-poste, surpluses are added to a reserve fund with a maximum size of 2% of average annual revenues. A larger reserve fund could be used to stabilise spending over the cycle to better link the supply and demand for health services.

Almost all who are liable for co-payments purchase complementary health insurance with community rated premiums, and thus similar premiums across the three (one public and two private) insurers. The economically disadvantaged have their co-payment covered by the government, ensuring access for all. Thus, complementary health insurance covers a relatively large share of spending, while out-of-pocket payments are relatively low. This secures an internationally low share of households with financial difficulties in meeting their health spending (Thomson, Cylus and Evetovits, 2019) (Figure 2.23). Unmet needs, however, is twice the EU average, reflecting long waiting times (see below) (OECD, 2019b).

Figure 2.22. In some areas, health care performance is poor

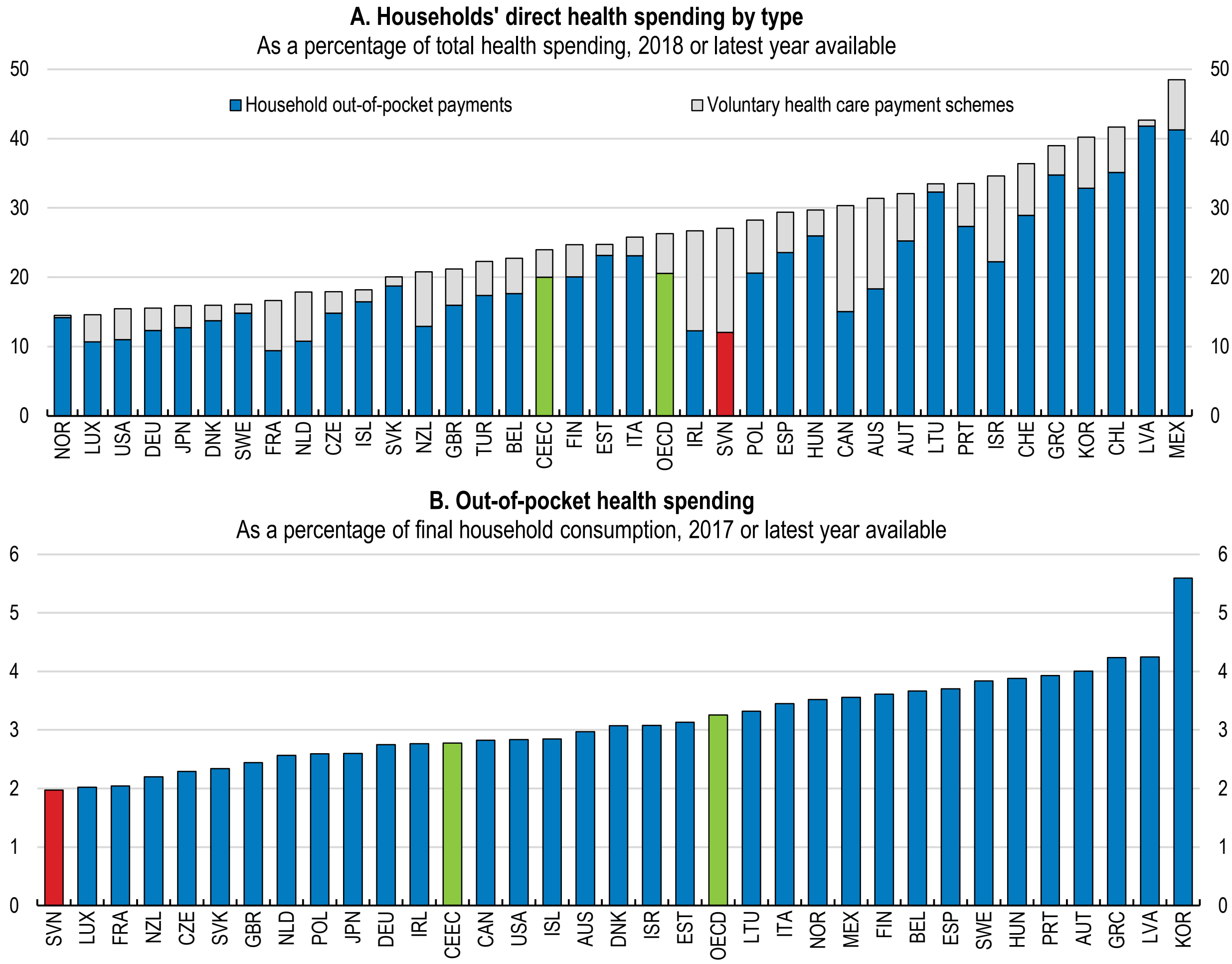
Age-sex standardised rate per 100 000 population



Source: OECD Health database and Eurostat.

StatLink https://doi.org/10.1787/888934151336

Figure 2.23. Out-of-pocket spending is low as most have complementary health insurance



Source: OECD Health Statistics database; and OECD (2019), Health at a Glance 2019: OECD Indicators, OECD Publishing, Paris.

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Co-payments are seldom used to pursue health efficiency objectives. Each medical service has a coverage rate that determines the co-payment, but a lack of clear criteria for changing co-payment levels leads to ad-hoc changes that are driven by budgetary constraints (Panteli et al., 2015). The extensive use of complementary insurance, which cover all co-payments, means that all price signals embodied in co-payments are removed and thus play no role in restraining demand for health services. An additional driver of public spending is that the mandatory and complementary health insurance funds cover a very wide range of services.

Cost containment could be pursued by establishing explicit positive lists (as for pharmaceuticals) for covered services that exclude non-core health services (such as spa treatments) and out-of-date procedures. This could also allow smaller co-payments for services on the positive lists. Such positive lists are used elsewhere, including Australia, New Zealand, the Netherlands and Germany. Other countries with less explicit benefit packages (like the United Kingdom, Norway and Sweden) have a strong reliance on central guidance to effective and cost-efficient services.

The previous government’s coalition agreement includes the abolishment of the complementary health insurance. This would remove a potentially powerful cost-containment instrument to secure fiscal sustainability, particularly as this also implies abolishing all co-payments. Moreover, relying only on public health insurance would require substantially higher social security contributions with large negative growth impacts. This can only be avoided by substantially narrowing the public benefit basket, with negative consequences for health outcomes. Rather, the complementary health insurance funds could contribute to cost containment by allowing them to compete and offer insurance packages that correspond to individual needs. This should be complemented with an improved risk equalisation mechanism (Thomas, Thomson and Evetovits, 2015).

The primary care system could have a strong gatekeeper function

The primary care system includes 57 public health centres and nearly 1000 private providers, mostly general practitioners (GP) (Panteli et al., 2015). Primary care providers act as gatekeepers to steer and guide patients. The effectiveness of the gatekeeper function is hampered by insufficient communication between providers of primary and inpatient care (GPs and hospitals) with providers of outpatient/ambulatory care (public hospitals, private clinics and independent specialists). This has led to weak continuity and comprehensiveness of care, reducing its quality (Kringos et al., 2013).

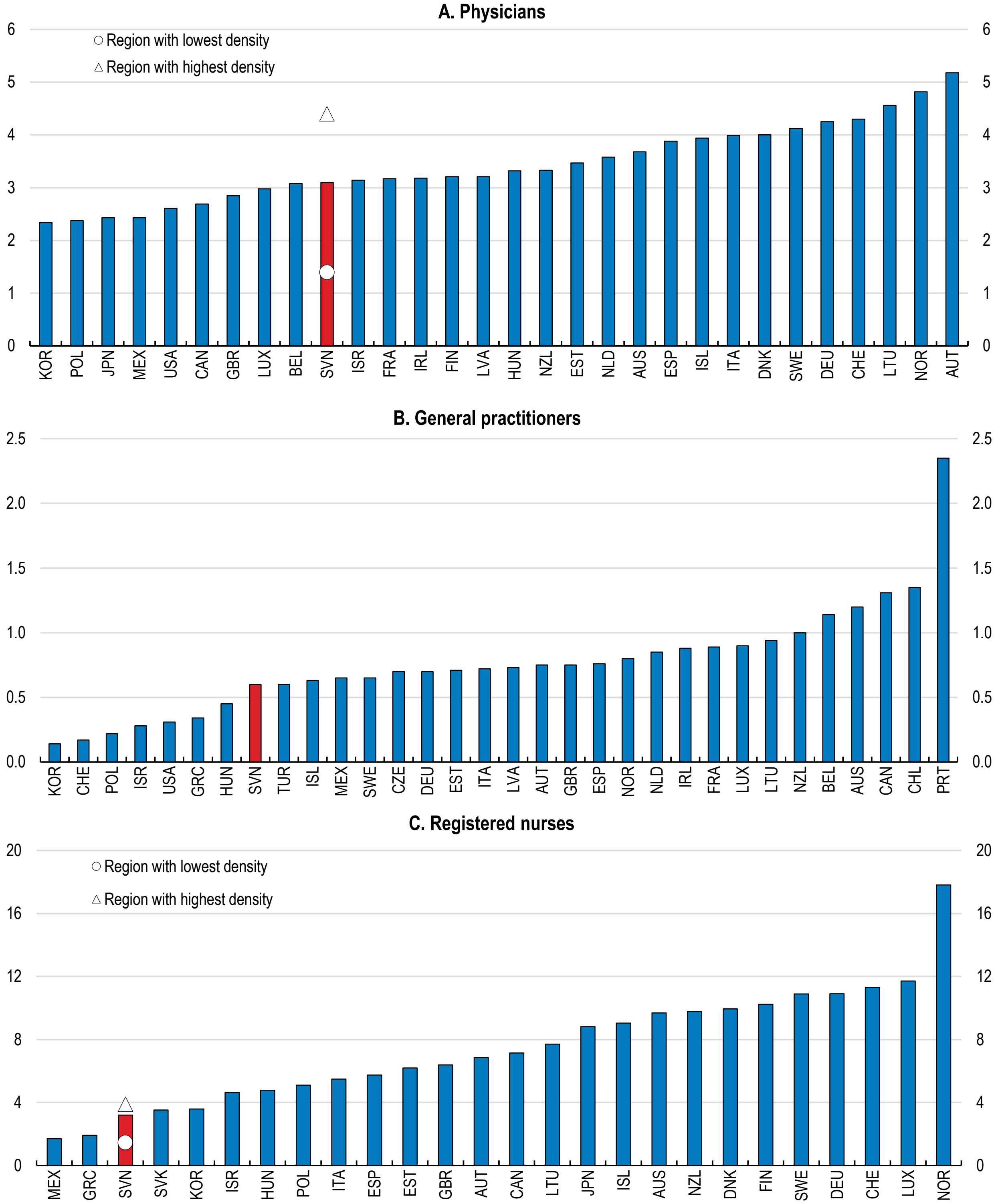
The GP density is relatively low and unevenly distributed across the country, raising concerns of uneven access. Registration with a GP is becoming more difficult (Figure 2.24) (Buzeti et al., 2011; OECD, 2019b). The physician density is also relatively low, but the ratio of specialists to GPs is high. Combined with GPs' high work-burden, this leads to an over-referral to specialist care, weakening the gatekeeper and patient guidance functions and increasing waiting times. Notably, more than 40% of visits to hospital emergency departments reflects a lack of available GPs – a much higher share than the EU average (National Institute for Public Health, 2019). The same pattern can be observed for registered nurses.

The government is developing a network of model practices, which employ graduate (registered) nurses to carry out some treatment and management of chronic patients (OECD, 2019b). This has improved care coordination and management of chronic diseases, reduced fragmentation of service organisation and enhanced coordination between providers across different care levels (Nolte et al., 2016; OECD/European Observatory on Health Systems and Policies, 2017). The model practices are also better at meeting increasingly complex health care needs of patients, particularly in terms of improved care integration and patient pathways that better respond to the expectations of better-informed patients (Kringos and Martins, 2016). Nonetheless, GPs still carry out tasks that are performed by nurses in other European countries, pointing to additional scope for transferring tasks (European Commission, 2019). Moreover, the role of nurses could be broadened in preventive care by expanding reimbursement rules from acute problems and interventions to include advising and counselling patients (Nolte et al., 2016)

Tackling the overreliance on specialists and hospital care requires financial incentives to expand the number of GPs (see below) and focus their activities on gatekeeping and patient guidance. This requires better information about quality of processes and procedures along the patients' care pathways, requiring better quality indicators (OECD/EU, 2018). Moreover, patient pathways are not always well established. However, care pathways are used for less than half of all admitted patients and only few pathways are agreed at the national level (Albreht et al., 2016). Common pathways established centrally would further the efficient provision of services.

Figure 2.24. The few health practitioners are unequally distributed

Density per 1000 inhabitants, 2018 or latest year available



Source: OECD Health Statistics database.

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Preventive care could be strengthened

GPs could play a bigger role in preventive care. This is in many ways well developed, such as high participation in cancer screening programme (National Institute for Public Health, 2019). Good prevention and treatment management has led to relatively low rates of hospital admission for a number of chronic diseases. Compulsory vaccination programmes have been successful in securing high immunisation levels for most diseases with the exception of measles and hepatitis B. (OECD/EU, 2018). Also, influenza vaccination coverage for older people has fallen to just 12% in 2017 – among the lowest in the OECD and well below WHO's recommended target of 75% (OECD/European Observatory on Health Systems and Policies, 2017; OECD, 2019b). Higher GP fees for such vaccine would give GPs' stronger incentives to expand coverage.

Preventive care could further reduce the influence of lifestyle factors. Indeed, more than one-third of all deaths is related to behavioural risk factors (OECD, 2019b). Alcohol consumption and obesity rates are relatively high, particularly among younger people and those from weak socio-economic backgrounds (Figure 2.25) (IMAD, 2018). A positive development is a declining obesity rate among children (IMAD, 2019). Taxes could play a bigger role in this area. For example, there are high excise duties on beer and pure alcohol, but none on the more popular wine. As a result, average alcohol prices are a quarter lower than in neighbouring Austria (EuroStat, 2018). Extending excise duty to wine could counter the relatively high prevalence and death rate of alcoholic liver cirrhosis (National Institute for Public Health, 2019).

Stricter sanctions combined with counselling and rehabilitation measures have significantly reduced traffic accidents involving alcohol. Likewise, regulatory restrictions on smoking in public space, packaging and promotion combined with smoking cessation programmes have contributed to a decline in smoking, despite relatively low tobacco prices. Again, increasing tobacco taxes to those prevailing in other OECD European countries could further reduce smoking (www.statista.com, 2018).

The hospital sector has scope to become more efficient

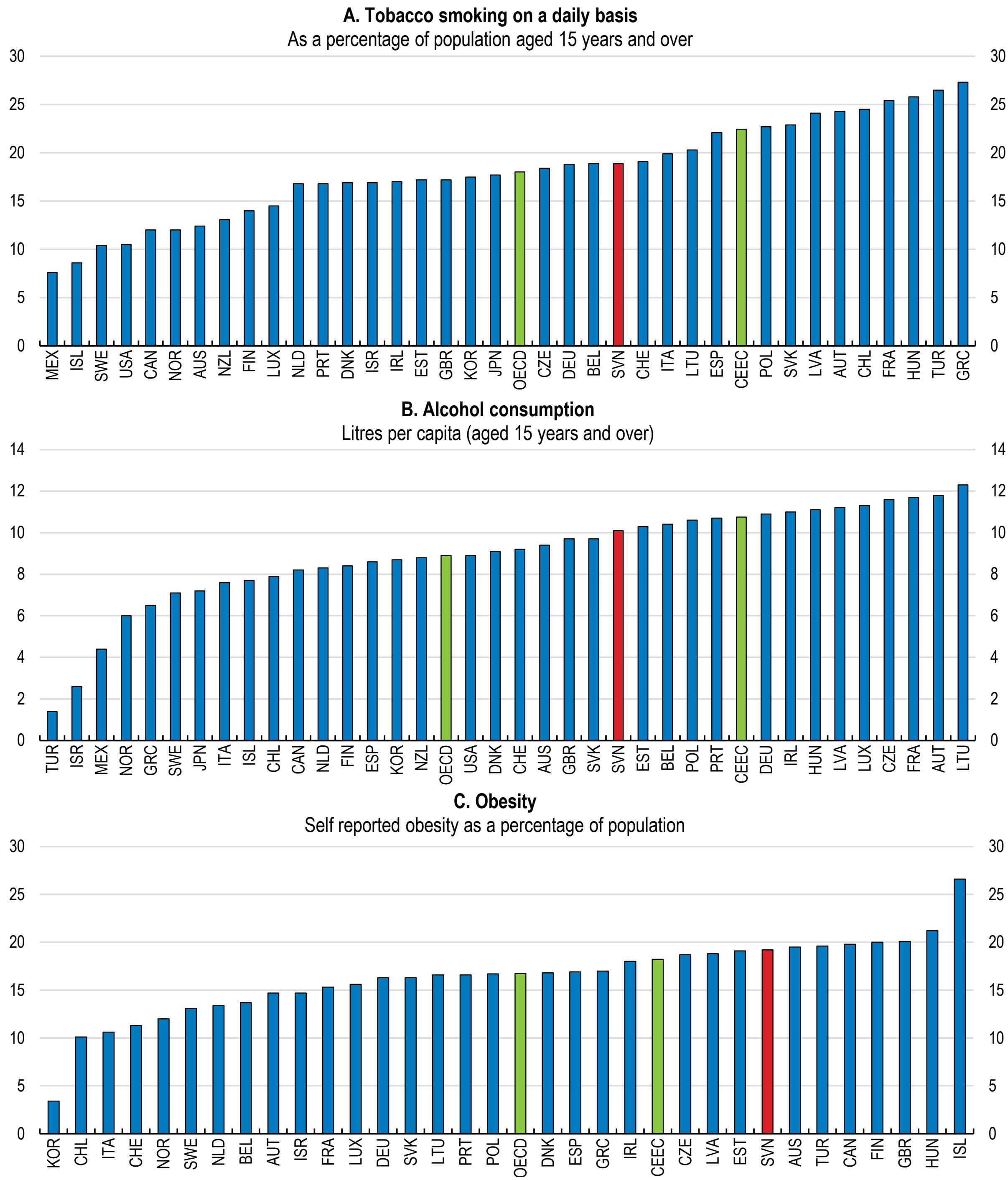
The hospital sector has hardly changed over the past three decades, reflecting strong local resistance to close under-preforming services in smaller regional hospitals, implying limited adjustment to changes in health demand and population. The small general hospitals are offering a wide range of services, creating a risk of too infrequent interventions to secure efficiency, care quality and patient safety, contributing to regional disparities in outcomes (Panteli et al., 2015). For example, the hospital with the highest thirty-day mortality rate for heart attacks has the fewest admissions, and the rate is five times higher than the best performer (OECD, 2017). Such problems are compounded by a lack of uniform and structured information and quality assessment systems.

Hospital overcapacity is reflected in a high number of beds per capita, leading to low occupancy rates (Figure 2.26) (OECD/European Observatory on Health Systems and Policies, 2017). Hospital stays have declined to around the European average, while remaining relatively long for some common interventions, such as deliveries and heart attacks (OECD/EU, 2018). Also, a relatively high number of hospital discharges (number of patients leaving hospitals after more than one night's stay) indicate an overuse of hospital-based inpatient care. Overcapacity can be addressed by establishing national guidelines for the required minimum number of interventions to maintain a service. Local access concerns should be addressed by allowing local authorities to finance continued service provision. Increasing the reliance on diagnosis related groups (DRGs – an output measure used for reimbursement purposes) could also be used to address overcapacity (see below). More generally, there is a need for creating a nation-wide monitoring system of quality, safety and efficiency.

Efficiency improvements are stalling. The share of day case surgeries increased until the early 2010s, before plateauing at a level that is less than a third of the EU average and with large differences in use for various interventions (European Commission, 2019 ;National Institute for Public Health, 2019; (OECD, 2019b). Further progress in developing ambulatory care could be achieved through better monitoring of hospital activities and adjusting payment models to make ambulatory care economically more favourable for hospitals (see below).

Figure 2.25. Lifestyle-related health risks are high

2018 or nearest year available[1]



1. Slovenian data for tobacco smoking and obesity refer to 2014 and data for alcohol consumption to 2017.
Source: OECD (2018), "Non-Medical Determinants of Health"; and OECD Health Statistics database.

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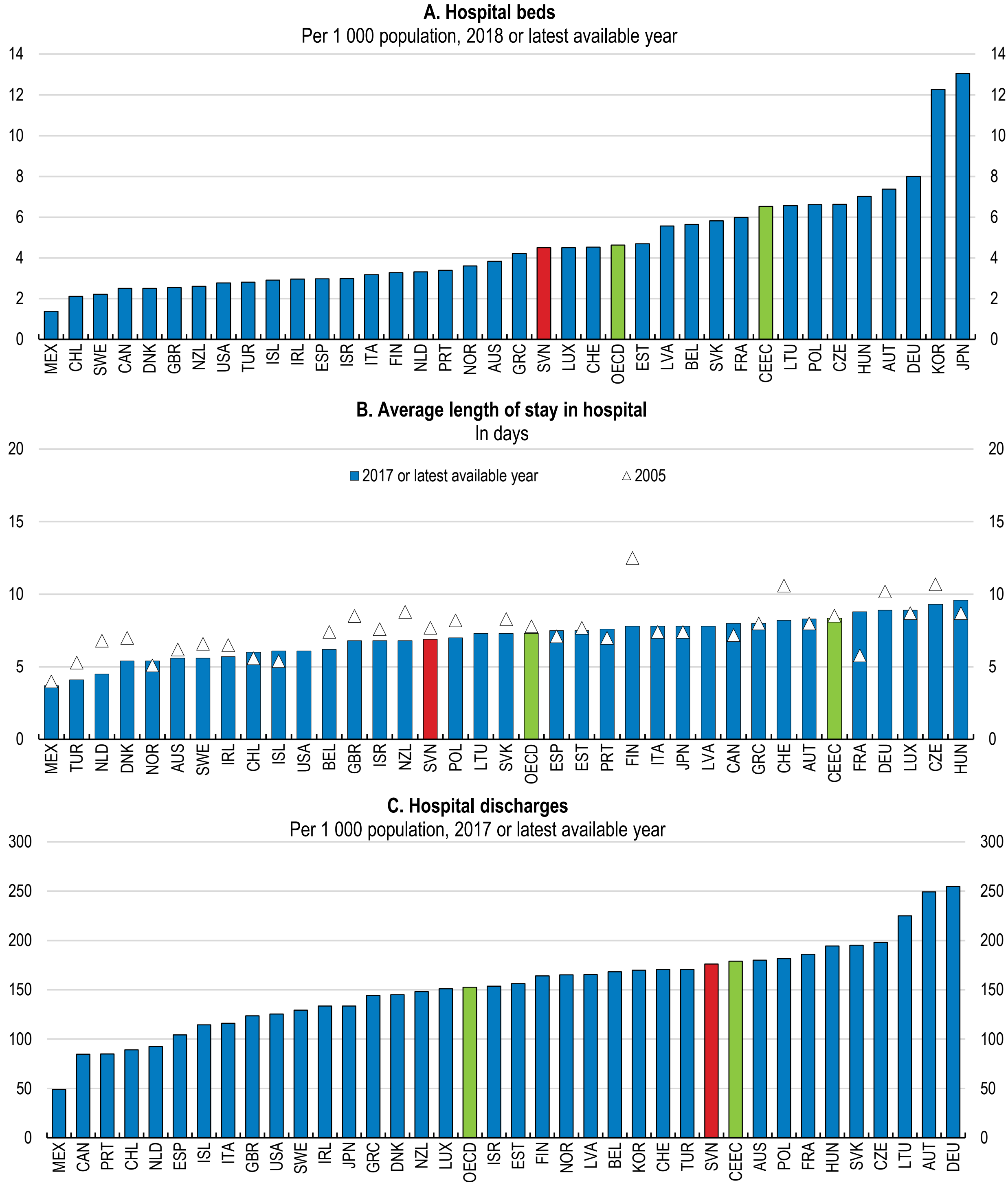
Figure 2.26. Health care provision is hospital-centred



Source: OECD Health Statistics database.

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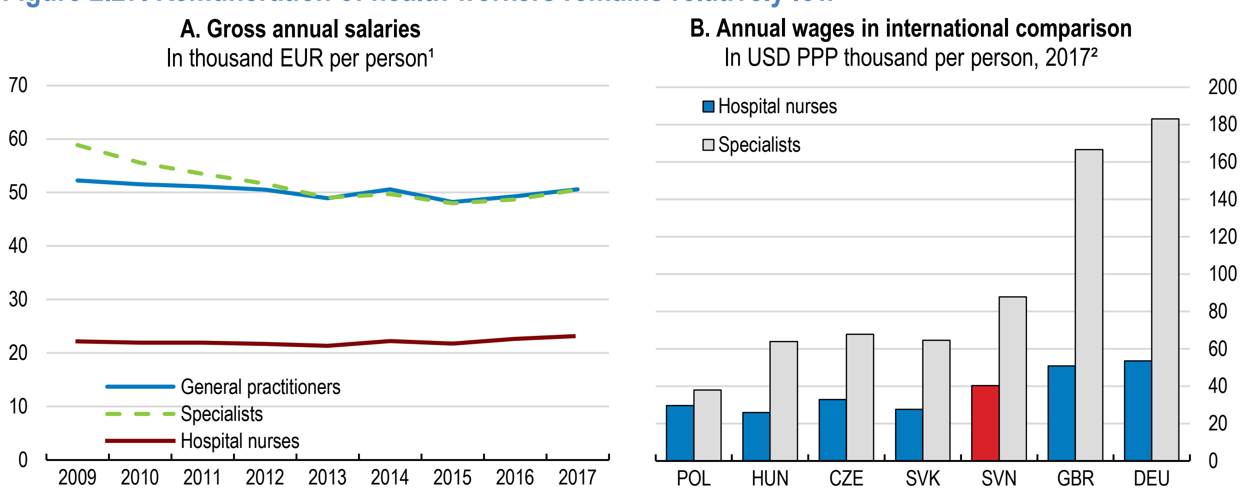
The take-up of new technologies varies. Usage of MRI (magnetic resonance imaging) and CT (computed tomography) scans remain relatively low when compared with Europe. This reflects relatively few MRI and CT scanners. Moreover, the use of other imaging equipment, such as lithotiptors (machines for shattering kidney- and gall-stones) and PET scans (that use radioactive tracers) is among the lowest in Europe (EUROSTAT, 2018). In contrast, radiation therapy equipment is at comparable levels as elsewhere in Europe. This points to an uneven strategy for investing in and using hospital equipment. Modern hospital care improves cost-efficiency and quality of health service provision. It also attracts doctors. Larger investment autonomy (including multi-year budgets) would allow hospitals to better align investment needs with health demands.

The remuneration of doctors is not competitive

The supply of doctors has increased, reflecting the 2003 opening of a second medical faculty (contributing to a relatively high number of medical graduates) and immigration from neighbouring countries that has been attracted by higher wages (with foreign doctors accounting for nearly a fifth of all doctors) (Figure 2.27) (OECD, 2019c). However, wages are half those prevailing in Western Europe, leading to emigration of around 10% of all doctors and nurses (OECD, 2017d)

Figure 2.27. Remuneration of health workers remains relatively low



1. In nominal terms.
2. Data for doctors refer to remuneration of specialists. Data for hospital nurses for Germany refer to 2014, while for Poland refer to 2016. Data for specialists for Poland refer to 2016. PPP: purchasing power parity.
Source: OECD Health Statistics database.

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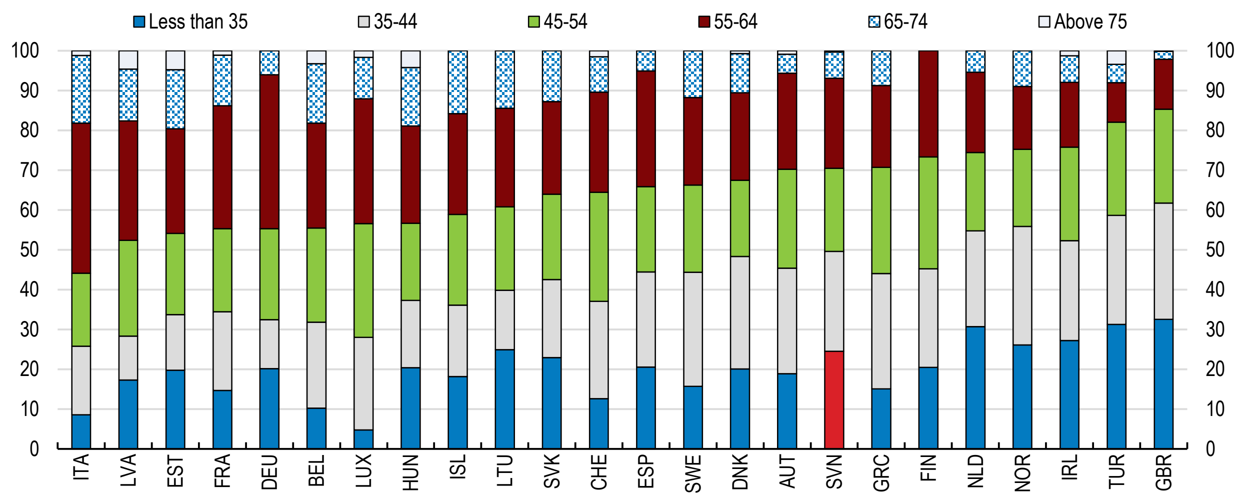
Hospital doctors are public employees, and paid accordingly to the civil servant pay scale. Agreements with hospitals allow doctors to complement their salaries with performance-related pay, including for extra hours, supplements for an intensive work schedule, stand-by duty and shift work. In addition, there are allowances for seniority, outdoor work, scientific titles, and bilingualism (Panteli et al., 2015). The most important source of additional income is extra hours, which often are “equivalent hours”, where specialists complete their weekly work norm in fewer hours.

These agreements reflect that the civil servant pay scale is considered inadequate for physicians in terms of pay and performance incentives (Panteli et al., 2015). However, the agreements lack transparency and lead to different pay for similar performance. Rather, it should be ensured that doctors have competitive salaries to retain and attract personnel and which incorporate performance incentives. The option of individual negotiations, like in Sweden, Switzerland, and the United States, could be included to secure management flexibility to use remuneration to address local problems.

The number of doctors could be expanded by extending their work lives as relatively few doctors work after 65 (Figure 2.28). Inducing older doctors to continue to work could boost the doctor density by, for example, offering stay-on bonuses.

Figure 2.28. Doctors retire early

Percentage of doctors by age group, 2018 or latest available year



Source: Eurostat Health Care database.

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Better planning, budgeting and payment systems could improve resource use

Health planning should be complemented with effective economic instruments. Health planning is centred on the National Health Plans. The previous version mostly presented a financial planning strategy rather than focusing on actionable areas, such as population needs, roles and responsibilities and quality targets. In 2016, the current version for 2016-2025 was adopted.

A more strategic planning approach would improve quality and cost-efficiency of health service provision by ensuring that health plans stipulate clear governance arrangements and include needs assessments with descriptions of roles and responsibilities for meeting concrete priorities and targets. This would make the HIIS a more effective purchaser, particularly if allowed to use selective contracting based on performance-oriented contracts with clear efficiency and quality objectives.

The annual health budget is defined by the HIIS in cooperation with the ministries of Health and Finance, determining a national budget cap and expected revenues (European Commission, 2019). Thereafter, annual General Agreements are negotiated among stakeholders to reach agreements on volumes of services to be provided, prices, etc. (Panteli et al., 2015).

The HIIS uses the General Agreements for issuing public tenders. The HIIS cannot selectively contract individual providers and all public providers and all private practices with public concessions receive a contract, removing competition incentives to secure lower prices and better quality. The public tender contracts contain mostly financial details, such as contract value, input elements, the volume and prices of services, and monitoring rules. However, these stipulations are not linked to evidence-based clinical pathways and treatment and are thus not promoting quality (Panteli et al., 2015). The budgets cap reimbursements, which removes incentives for altering the composition of service provision to demand changes. Agreements are normally finalised relatively late in the budget year, further reducing their effectiveness as steering instruments.

In the primary care system, half of providers' remuneration comes from capitation (payment for patients registered with the provider) and the other half from fee-for-service payments (European Commission, 2019). Capitation is based on the population characteristics of the registered patients. Compared with other countries, the weights for the most work-intensive groups (older people, infants and young children) are relatively low. Better alignment of capitation with utilisation or cost data would improve incentives for GPs to settle in underserved areas (Panteli et al., 2015)

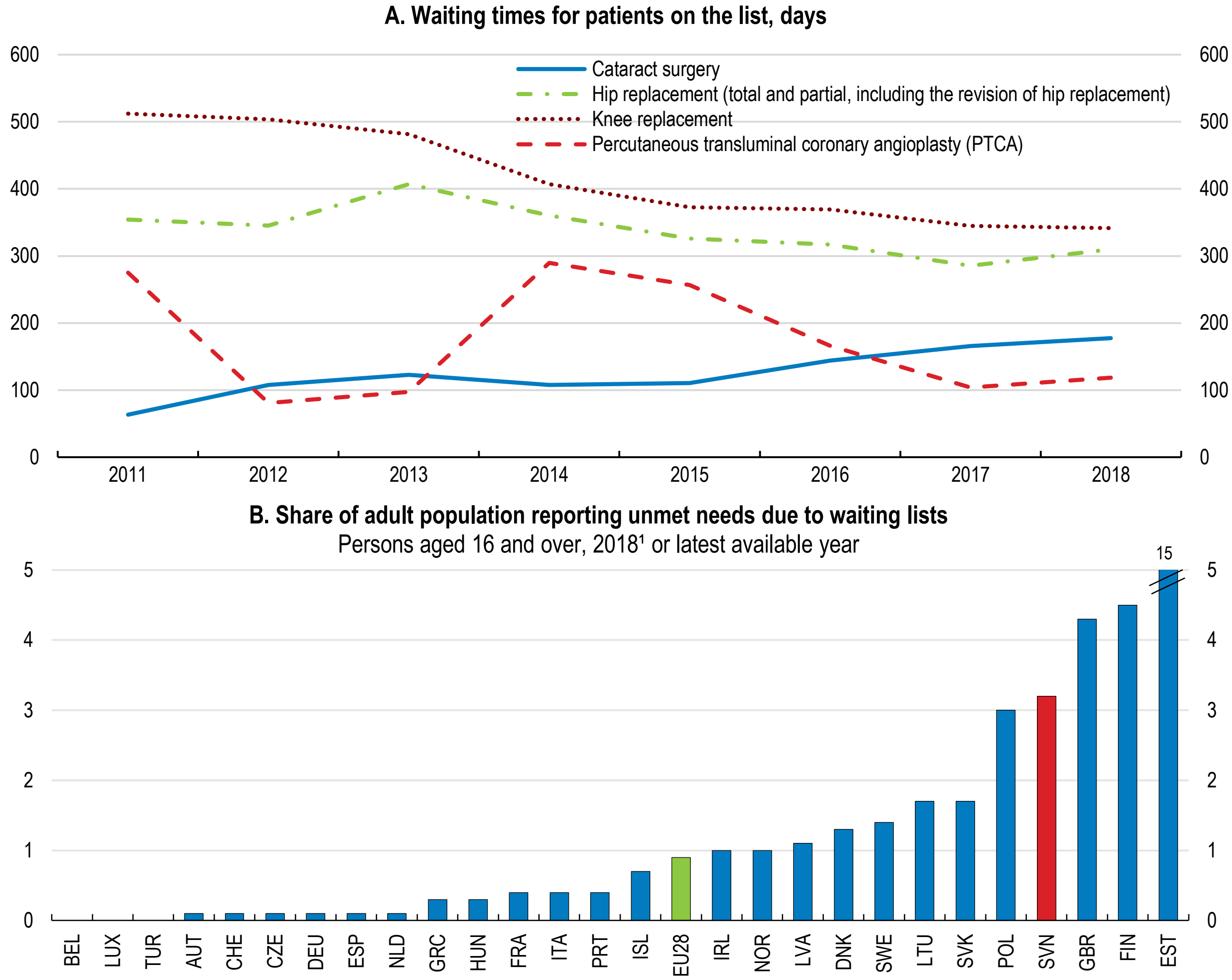
Most GPs reach their budget cap easily, limiting incentives for expanding service provision (Panteli et al., 2015). Increasing the share of fee income would make the payment system more output focussed. Basing some fees on public objectives could promote public screening and preventive programmes, such as flu vaccination of older people and keeping practices open outside normal working hours, like in the United Kingdom. Payments could also be used to reduce referral incentives by offering higher fees for minor interventions.

Linking payment to performance (as in France and the United Kingdom) requires better measurement of outcomes, requiring better reporting and information systems as well as a national programme for common clinical pathways and external inspection (Panteli et al., 2015; Ministry of Health, 2015). Alternatively, the introduction of integrated care payments (as in Belgium, Denmark, Germany and the Netherlands) could align the payment system with the objectives of moving to the family-based integrated primary care system, while strengthening the relatively weak continuity and comprehensiveness of primary care (Kringos and Martins, 2016; Kringos et al., 2013).

Payment for hospitals' in-patient treatment is based on diagnostic-related-groups (DRGs – where payments cover average treatment costs) and fixed allocations. Budgets are planned according to available resources and past volumes. Hospitals receive 1/12 of the annual budget per month and they normally continue treating patients after the DRG-based budget cap has been reached (Panteli et al., 2015). Budget constraints are softened by revenues from complementary insurance and periodical coverage of accumulated debt by the government, leading to weak incentives for hospital management to adjust supply to changes in demand, pursue cost-efficiency and their budget ceilings.

The budget-centred financing of hospitals contributes to rationing in the form of persistent waiting lists and queues (Figure 2.29) (OECD, 2019). In 2016 and 2017, more than 100 000 people were on waiting lists for 48 selected services and a quarter of those had been waiting longer than allowed. The waiting problem is typically addressed through the ad-hoc allocation of additional funds, contributing to uneven health outcomes and development of supply (Majcen, Stropnik and Rupel, 2018). The 2003 DRGs were based on Australian data and have not been systematically updated. The resulting lack of cost reflectiveness in the DRGs, together with weak control of reported cases and medical documentation, removes their effectiveness as steering instruments (OECD/European Observatory on Health Systems and Policies, 2017; Panteli et al., 2015). DRGs are being updated by the National Health Institute as a one-off exercise. Regular updates of DRGs and documentation systems should be combined with budget targets to allow hospitals to respond to the output and efficiency incentives in the DRGs (OECD/EU, 2018). However, hospitals also need greater autonomy in their supply and investment decisions to enable them to adjust their health service supply and allow for more specialisation. Budget concerns could be addressed by introducing a national budget cap with a retrospective adjustment of each hospital's budget target and reimbursements.

Figure 2.29. Waiting times for treatment are long



1. 2019 for Austria, Denmark, Finland, Hungary, Latvia and Poland.
Source: OECD Health Statistics database; and Eurostat EU SILC database.

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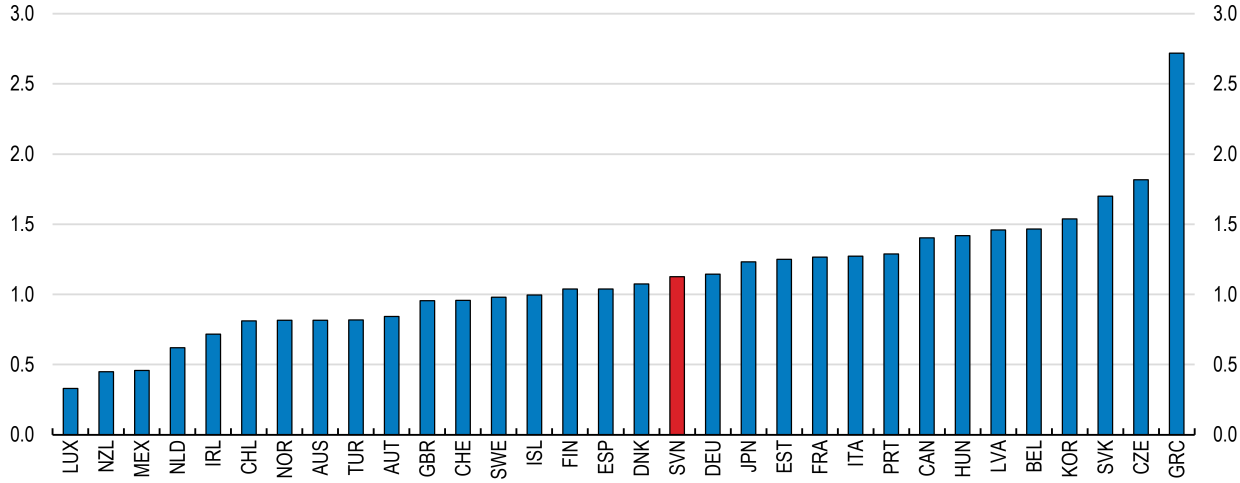
Payments for hospitals and health centres' outpatient (specialised ambulatory) services are based on fee-for-services and negotiated budgets, which are the same for all specialist teams within a given speciality. The supply incentives in the fee-for-service payments are rendered ineffective by budget caps (Panteli et al., 2015). Moreover, the billing catalogue is rarely updated; leading to fees that are based on outdated cost estimates and which for similar services in different specialties can vary by a factor 10. Thus, the billing catalogue for the fees-for-services should be updated and fees should become cost reflective. Tendering and selection of providers would be additional steps forward. As in-patient budgets, budget caps should be replaced by budget targets.

Better public procurement and information systems can lower costs

Pharmaceutical spending as a share of GDP is around the EU average (Figure 2.30) (European Commission, 2019). Prices are regulated with an external price referencing mechanism that sets maximum prices at 92% of the lowest prices in Austria, Germany and France (OECD/EU, 2018). There is also an internal price referencing system, which identifies the lowest prices among mutually interchangeable pharmaceuticals, providing incentives for switching to generics.

Figure 2.30. Spending on pharmaceuticals is about average

Total pharmaceutical, % of GDP, 2018 or latest year available



Source: OECD Health database.

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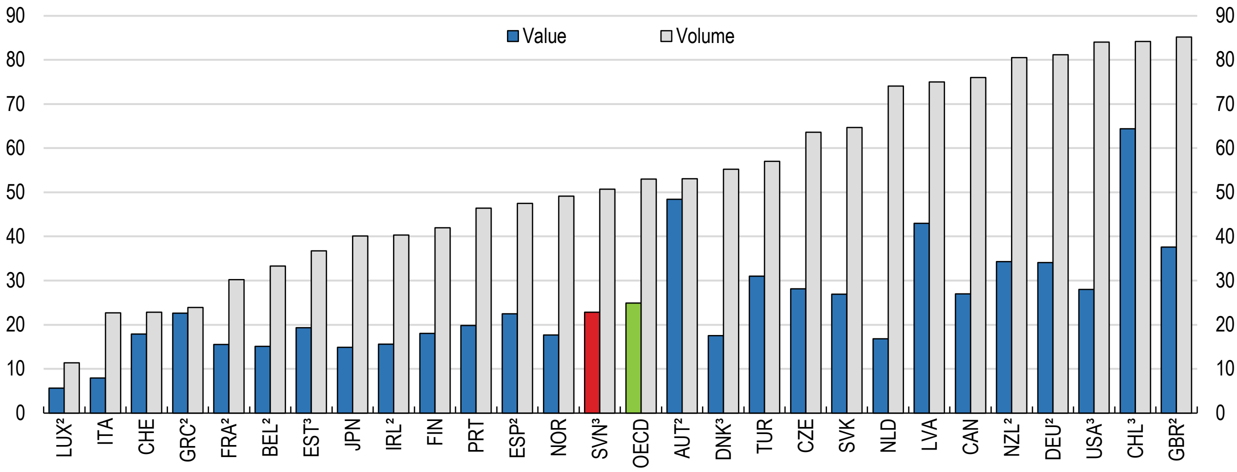
The use of generics remains below the OECD average, held back by pharmaceuticals being fully covered by the complementary insurances (Figure 2.31). (OECD/EU, 2018). Additional factors holding back greater use of generics include the effects of Slovenia being a small market. Nonetheless, incentives to use generics could be enhanced further by making guidelines for generic substitution more binding, and imposing quotas on GPs, as in Belgium and France. Other cost containment measures would include accelerating approval procedures for generics that are authorised at the European level, implementing centralised public procurement and focus the external price mechanism on countries with high shares and low prices of generics (Majcen, Stropnik and Rupel, 2018). Centralised public procurement could counter cartel activities among pharmaceutical wholesalers rather than rely on the competition authority (OECD, 2018d). In Italy, such centralisation has led to savings in the order of nearly 15% (Gutgeld, 2018). The successful implementation of these measures may require changes in other parts of the health system, such as the complementary health insurance.

A related issue is how to enhance the use of biosimilars. Compared with generics, these have more complex molecules and are not exact copies of more expensive existing drugs while having similar therapeutic and clinical results. Their use can be promoted by making guidelines for substitution more binding and allowing pharmacies to at least propose substitution, while focusing reference pricing and reimbursement rates on the cheapest alternative. Financial rewards to doctors for prescribing the cheapest alternative could also be considered (Brill, 2016).

An additional obstacle to lower medicine prices is weak competition (Figure 2.32). Compared with other OECD countries, there is scope to reduce pharmacy location regulation that leads to local monopolies, which would allow for more price competition. Such a measure may entail using public service obligation regulation to secure continued service provision in less densely populated areas (Vogler, 2014). The removal of location restrictions should be complemented by limiting ownership restrictions to expand investment possibilities for non-pharmacists and by liberalising advertising rules.

Figure 2.31. The use of generics remains below average

Per cent of the total pharmaceutical market, 2017

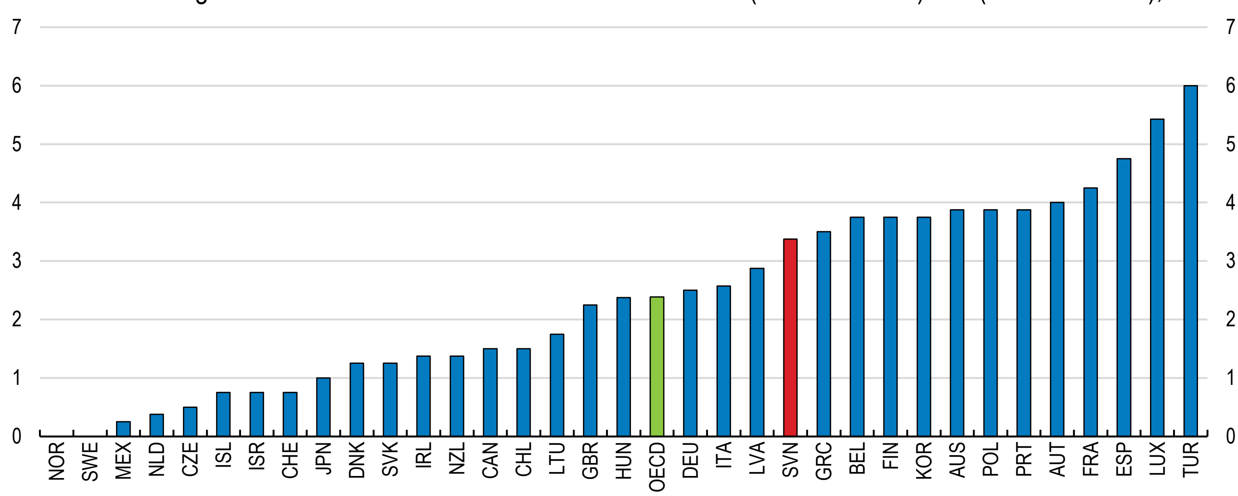


1. Including medical non-durables.
2. Reimbursed pharmaceutical market.
3. Community pharmacy market.
Source: OECD, Health Statistics database.

StatLink https://doi.org/10.1787/888934151507

Figure 2.32. Regulation is holding back competition in medicine sales

Product market regulation of retail sales of medicines indicator from 1 (least restrictive) to 6 (most restrictive), 2018



Source: OECD Product Market Regulation Indicators.

StatLink https://doi.org/10.1787/888934151526

The 2008 National eHealth project aimed at creating a common electronic health information system to overcome fragmentation, poor connections and information flows (Stanimirović, 2015; Nolte et al., 2016). In 2015, the management responsibility was moved to the National Institute of Public Health (Kokol, 2018). Since then, considerable progress has been made in terms of the interface between providers and patients with more than 90% coverage of ePresciptions and eReferrals (Rant, 2018). In addition, the Health Insurance Card has been rolled out by the Health Insurance Institute across the country. Progress has also been made in terms of electronic gathering and exchange of administrative, cost and medical data between providers and national institutes.

Better data gathering and exchange is needed to improve planning and management, to enable IT-supported treatment decisions and develop a nation-wide monitoring system of quality, safety and efficiency. The data is needed to develop Health Technology Assessments (HTAs) for evaluating clinical effectiveness, safety, and cost-effectiveness of existing and new procedures and technologies as well as for cost-benefit analysis to support the envisaged HTA agency (Ministry of Health, 2010) (Offerman, 2016; Iljaž, Meglič and Švab, 2011; European Commission, 2019). In addition, HTAs could be used to adjust co-payments to promote cost efficiency. By 2018, there was still no common eHealth platform for providers, and many private health care providers remain poorly integrated (Kokol, 2018; Rant, 2018). Another issue is the lack eHealth competencies and skills among health care workers, requiring a substantial expansion of the few programmes in place.

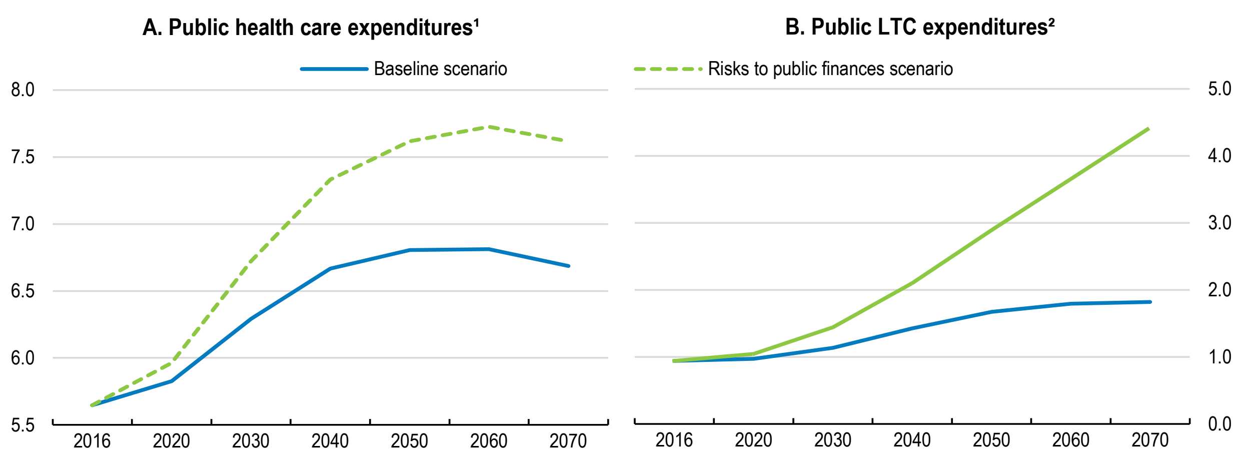
Long-term care is facing a demand surge

Demand for long-term care (LTC) will increase with population ageing, a doubling of the share of very old people (+80) in the population by 2050, and higher numbers of patients with chronic conditions and of single households among the elderly (Nolte et al., 2016; OECD, 2019). LTC spending is projected to increase faster than health care spending (

Figure 2.33). The uncertainties surrounding this estimate are large. For example, a positive demographic shock in the form of longer-then-expected life expectancy could lead to four times higher increases in public spending The authorities recognised the need for long-term care reform more than 15 years ago and more recently in the Active Ageing Strategy (IMAD, 2018). However, the proposed Act on Long-Term Care to integrate different resources and providers in long-term care and secure sustainable financing remains under preparation (Majcen, Stropnik and Rupel, 2018).

Figure 2.33. Long-term projections of public health and long-term care expenditures

As a percentage of GDP



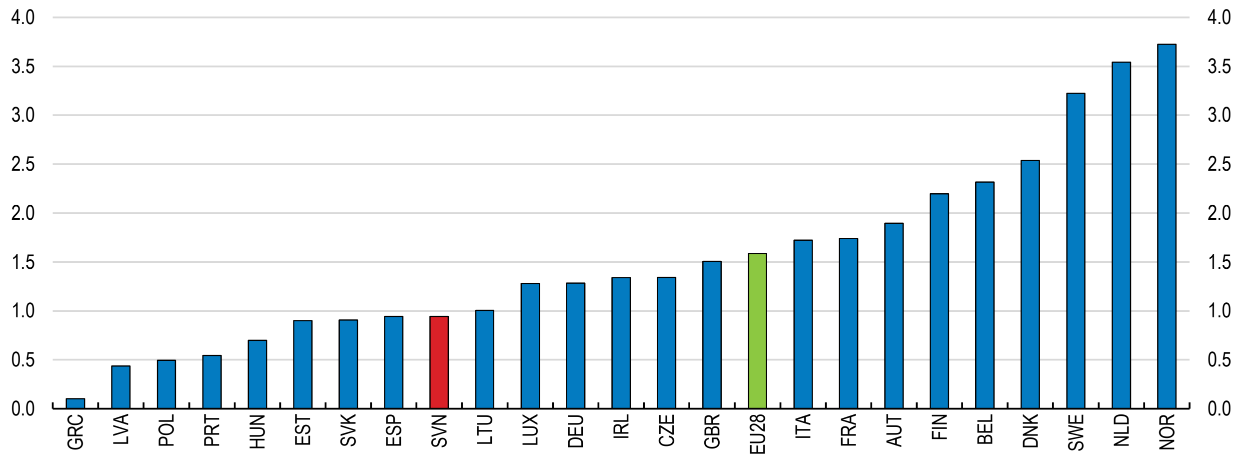
1. In the "Baseline scenario", it is assumed that half of the future gains in life expectancy are spent in good health and trends in health spending slightly exceeds the growth rate of national income.
2. In the "Risks to public finances scenario" half of the future gains in life expectancy are spent with no care-demanding disability and upwards convergence to the EU average of the relative cost profiles and coverage of publicly financed formal long-term care provision.
Source: European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

StatLink https://doi.org/10.1787/888934151545

LTC spending is relatively low and mostly on institutional care. About 11½% of the older population, lower than elsewhere, receives one or another form of LTC. Institutional care accounts for about three quarters of all LTC spending (Figure 2.34 and Figure 2.35) (Normand, 2016). Relatively few older long-term care recipients receive care at home (OECD, 2019c). The available LTC supply covers only a small share of perceived needs, as retirees spend a relatively large part of their retirement in poor health and have relatively large perceived health related limitation in their daily activities (Figure 2.36) (OECD, 2019c; European Commission, 2019).

Figure 2.34. Public long-term care spending is relatively low

Public long-term care spending as % of GDP, 2016



Source: European Commission (2018), "The 2018 Ageing Report - Economic & Budgetary Projections for the 28 EU Member States (2016-2070)", Directorate-General for Economic and Financial Affairs, Institutional Paper 079, Luxembourg.

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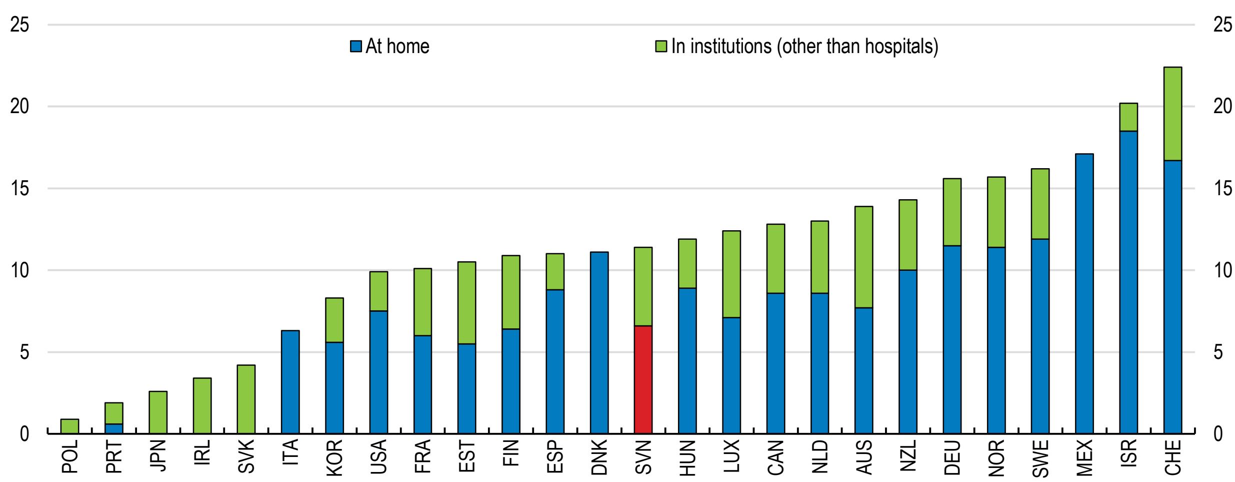
Figure 2.35. The share of institutional long-term care is relatively high

Recipients as a percentage of the population aged +65, 2018 or latest available year



Note: Data on institutional long-term care are not available for Denmark, Italy and Mexico; while data on domestic recipients ("At home") are not available for Ireland, Japan, Poland and Slovak Republic.
Source: OECD, Health Statistics database.

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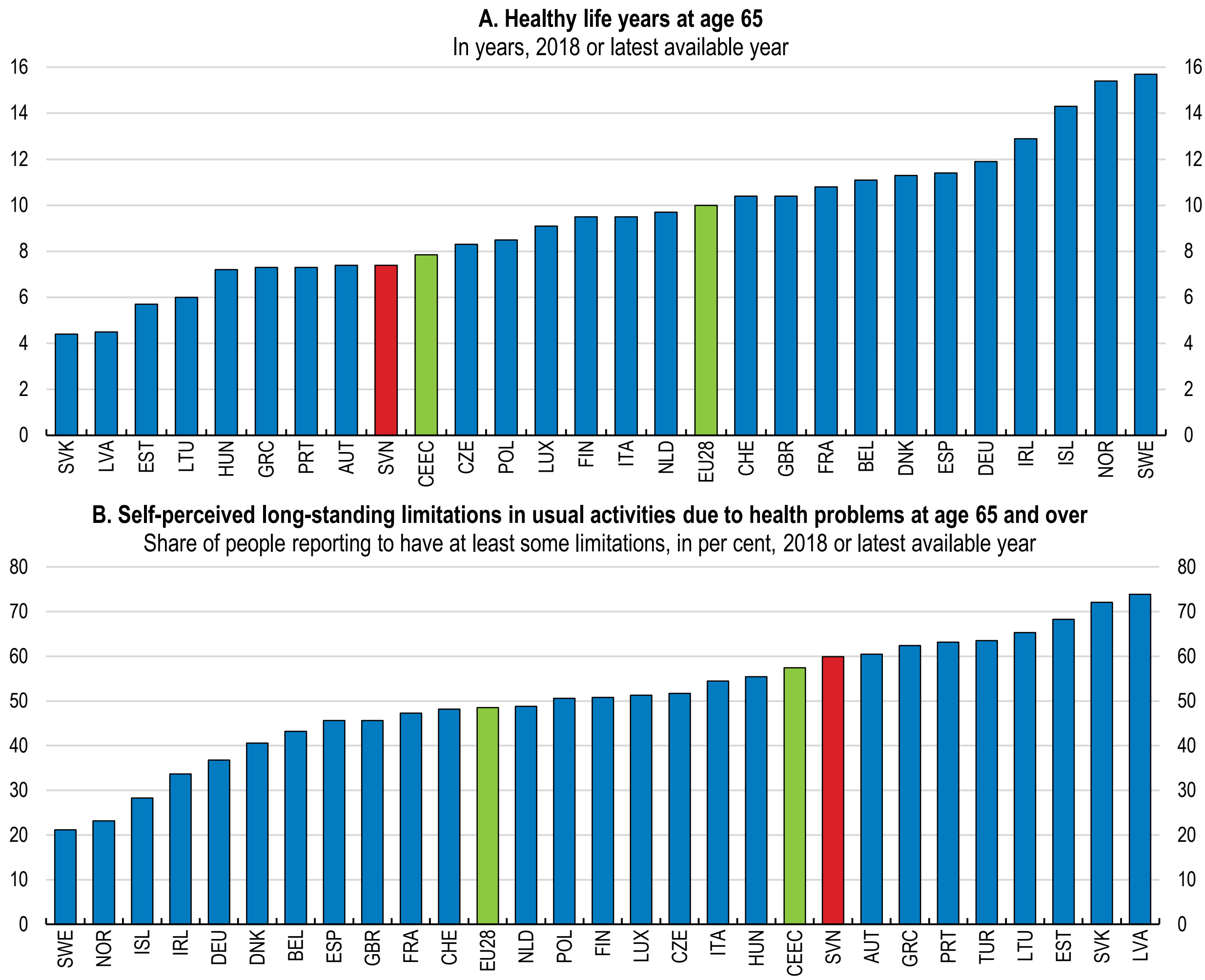
Long-term care is provided in the form of in-kind services by the health and social care sectors and by cash allowances for care and assistance. In addition, family assistants that provide home care for the disabled are compensated for lost income at the level of the minimum wage. In contrast with most other countries, the costs for recipients, even for moderate needs, are much higher for home-based care compared with institutional care to an extent where affordability becomes an issue and people are moved to institutional care (OECD, 2018c). Even family members would favour such a move as they are legally required to support recipients and means testing is based on the income of the family members (Muir, 2017). The affordability issue induces longer hospital stays and led during the economic crisis to people being left at home without proper care. The unusual legal requirement should be removed and means testing should be on the recipient's income.

Figure 2.36. A relatively high share of old-age people need assistance due to health problems



Source: Eurostat Healthy life years database; and Eurostat Functional and activity limitations database.

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Service provision, governance and financing are fragmented and overlapping (IMAD, 2018). Different legal acts are in place for each of the before mentioned benefits (European Commission, 2019). Moreover, the numerous financing sources include the HIIS, other health insurers, the Pension Fund, the Ministry of Labour, Family, Social Affairs and Equal opportunities, local governments and private providers (Normand, 2016). This has led to fragmented and overlapping service provision, governance and financing Common financing mechanisms would help coordination and improve efficiency. More generally, providing home-care is often cheaper (particularly for low needs) and often a preferred solution. In addition, a greater reliance on home-care would reduce the need for institutional care, which together with increasing efficiency, would partly finance the projected increase in LTC. Remaining financing needs should be addressed through the state budget to avoid higher social security contributions.

The lack of coordination and clarity about roles, responsibilities and communication between actors complicates planning and quality standard setting (Majcen, Stropnik and Rupel, 2018). There is no unified entry point or standard model for assessing care needs leading to different eligibility criteria between LTC services and with assessments by different expert teams, leading to a lack of transparency and uneven access (Nolte et al., 2016; European Commission, 2019). Eligibility and assessments should be aligned for similar care services. The focus on institutional service provision removes attention from prevention, regaining skills and other measures that allow people to remain in their homes (Normand, 2016).

Currently, means-testing criteria in home-based care excludes the value of owner-occupied housing. Including it and deferring payments by making a similar sized stake in the heritance, as in Denmark, would better align means testing with ability to pay. Greater emphasis on means-tested user-fees would increase self-assessment incentives and reduce the need for bureaucratic assessments. At the same time, user-fees give recipients incentives ensure that they get value for money, improving quality monitoring. In addition, the level of user-fees should make home care financially more attractive as compared with institutional care.

The supply of institutional LTC can be expanded by converting vacant wards or smaller inefficient general hospitals to long-term care purposes. Residential institutional care could be reduced through more home-based care, often a more cost-efficient alternative (particularly for moderate care needs) that better responds to people’s preferences (Muir, 2017)(CURAVIVA, 2016). This requires a more integrated approach of community nursing and home help (European Commission, 2019). Public tendering with time-limited contracts and strong emphasis on input requirements (such as staff, procedures, etc.) mimicking conditions for public providers has limited market entry. Focussing long-term care tenders on output and quality would facilitate entry of new innovate private providers would secure a more flexible expansion of supply.

Table 2.3. Main findings and recommendations for the pension and health systems

FINDINGS (main findings in bold)	RECOMMENDATIONS (key recommendations in bold)
Preparing the pension system for population ageing	
Recent reform of the public pension system has eroded its fiscal sustainability increasing further the need for intergenerational transfers	**Increase the statutory retirement age to 67 for both men and women. Link further increases, if needed, to gains in life expectancy.** **Index pension benefits to price developments**
Old-age pension benefits and the effective retirement age are low while work and saving incentives are eroded by a lack of actuarial fairness	**Adjust the parameters of the public pension system to better align contributions and benefits for all contributors.** **Make bonuses and maluses symmetric and applicable at a fixed point, such as the statutory retirement age.** Increase the number of years used in the income base for calculating pension benefits to include all years worked.
Lack of actuarial fairness leads to redistribution and erosion of work and saving incentives, contributing to an internationally low effective retirement age	Ensure that contributions are paid on all labour income
Special retirement systems provide exit routes	Update the list of hazardous occupations. Introduce work assessments for early retirement in all remaining special retirement systems.
Savings in the second pillar is low, particularly for low-income workers	**Make enrolment in the second pillar an opt-out choice.** **Reduce tax advantages while applying them to higher contributions; introduce matching contributions for low-wage workers.** Reduce the possibilities for accelerated pay-out and lump-sum payments
Coping with rising demand for health care	
Co-payments are ineffective	Establish positive lists for covered services and improve guidance
The gatekeeper role of primary care is hampered by weak information exchange and low GP density	**Make per-patient payment (capitation) and fees-for-services cost-reflective.** **Use the per-patient payment to attract GPs to underserved areas.** Improve national patient pathways Increase the share of fee income while making the billing catalogue cost-reflective. Replace budget caps with targets.
Preventive care is weak in some areas	Increase GP fees for preventive measures and minor interventions Raise tobacco and alcohol taxes to counter lifestyle factors.
Planning and budgeting are not performance oriented	Introduce selective public tenders for health services. The tenders should be linked to evidence based clinical pathways and treatments Use updated reimbursements for all acute services. Plans should include governance arrangements and needs assessments with clear descriptions of roles and responsibilities.
The many small general hospitals lead to inefficiencies in cost, quality and safety	**Establish required minimum interventions for maintaining services, while giving management greater responsibility in service supply decisions.** **Create a nation-wide monitoring system of quality, safety and efficiency.**
Hospital doctors' remuneration contains few performance incentives	**Ensuring competitive salaries and performance incentives for doctors.**
Waiting lists remain a concern	Regularly update DRGs. Replace hospitals' budget caps with budget targets under an umbrella of a national budget cap with retrospective adjustment of individual budgets.
The use of generics is low	Focus reimbursement rates on generics and biosimilars and make guidelines more binding. In medicine sales, remove location regulation and liberalise advertising rules and investment regulation.
Information exchange between providers is low	Improve the electronic gathering and exchange of administrative and medical data.
Developing long-term care	
The low LTC spending is focussed on institutional care with many providers and uneven access	Integrate LTC with common financing mechanisms and eligibility criteria.
Home-care is underdeveloped	Integrate regulation and provision of community nursing and home help. Facilitate entry of private home care providers through quality and output-focussed tenders.

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3 Labour market institutions for an ageing labour force

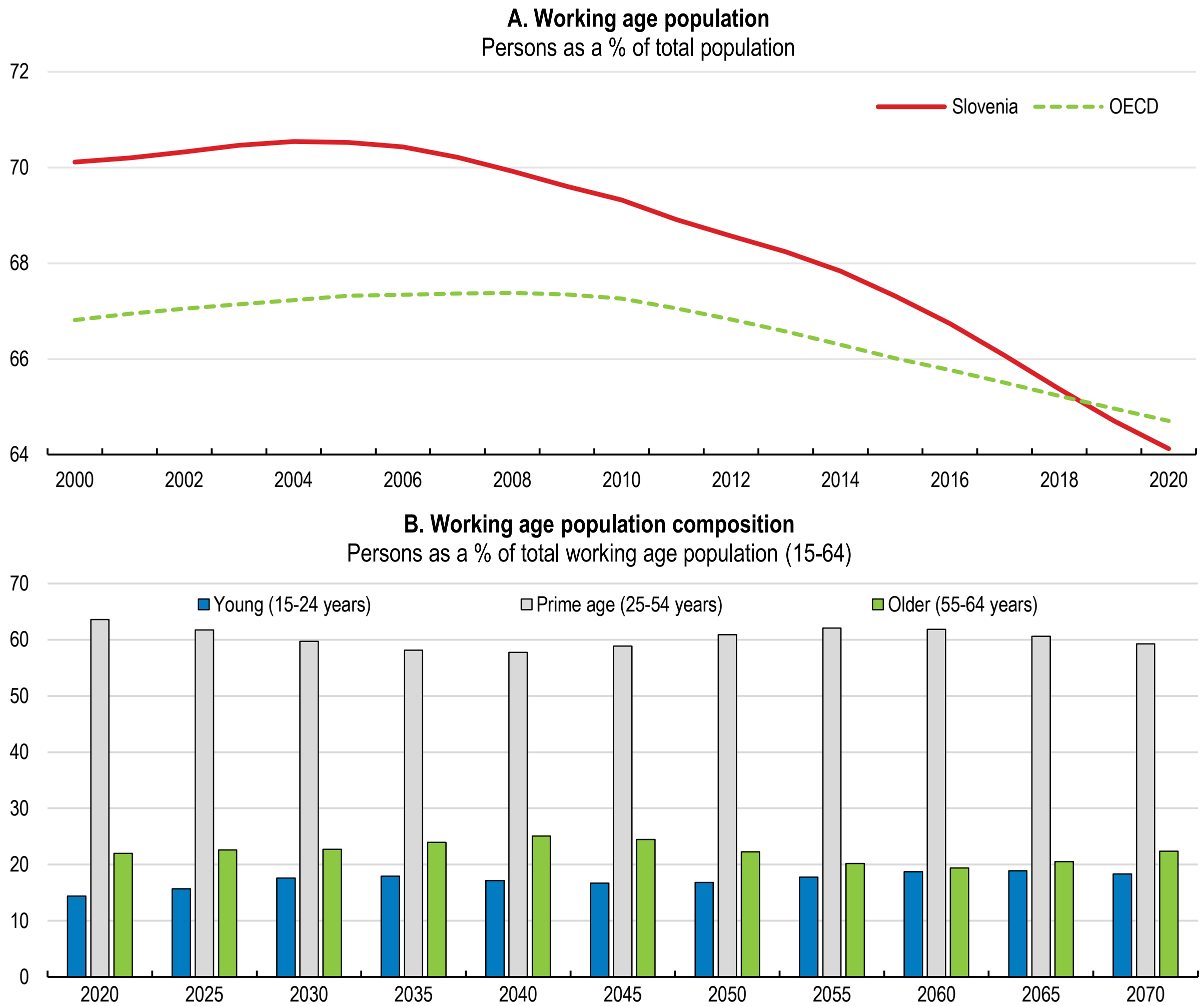
Population ageing will lead to a smaller and older workforce. Looking forward, this means that growth will increasingly depend on ensuring the best use of Slovenian workers. This implies keeping older and experience workers longer in employment and better support difficult-to-employ low-skilled job-seekers. In addition, better labour allocation will enable workers to realise their productivity and wage potential. This requires a greater role for social partners in securing individual wages that better reflect efforts.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Population ageing poses key challenges to potential growth

The current crisis is increasing unemployment temporarily, but over the longer term population ageing will exacerbate labour market pressures as the working age population becomes smaller and older, reducing the long-term potential for economic growth (Figure 3.1). Before the crisis, unemployment had fallen to a historical low level of 4% in 2019, and the employment and the labour force participation rates had reached their highest level in a decade, above 70% and 75%, respectively (IMAD, 2018b). Similarly, an increasing number of firms were reporting labour shortages. Looking ahead, it is therefore pertinent to address the ageing challenge to avoid labour and skills becoming a growth bottleneck.

Figure 3.1. The working age population is declining and ageing



Source: United Nations (2019), World Population Prospects: The 2019 Revision, Online Edition; and Eurostat Population on 1st January by age, sex and type of projection database.

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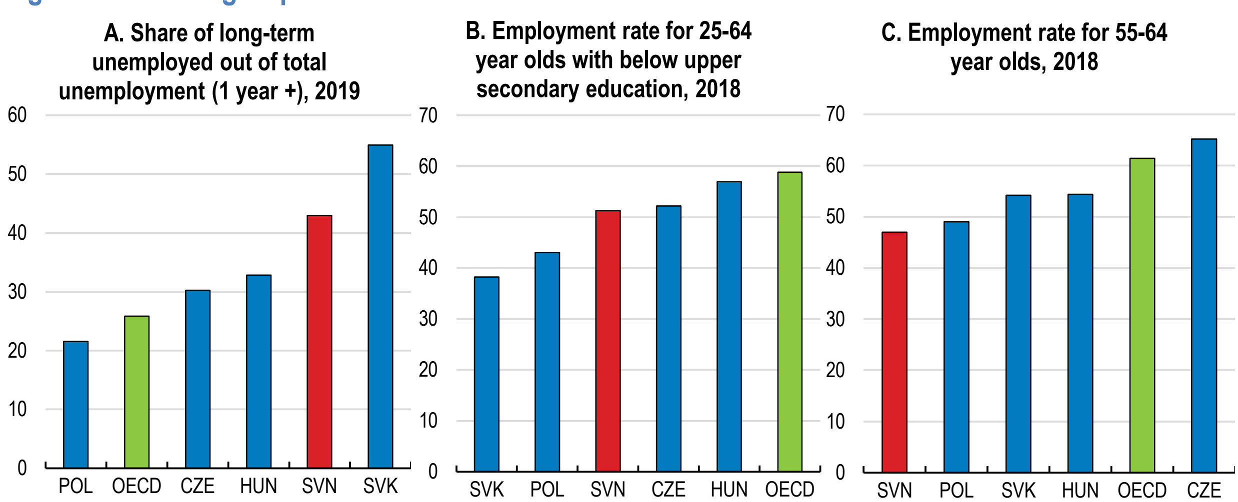
During the upswing, employers were particularly constrained by the shortage of mid-level qualified workers with occupation-specific knowledge rather than generic skills (Bank of Slovenia, 2019). Vacancies were increasingly been filled by hiring foreigners: they accounted for more than half of employment growth in late 2018 (IMAD, 2019). To address remaining gaps, employers were increasing the workload of their employees, expanding foreign outsourcing, but also refusing orders. Capacity constraints were therefore starting to reflect on the moderation of economic activity (Employment Preview Survey, Employment Service of Slovenia, 2018).

Avoiding such labour market imbalances will be essential to sustain inclusive growth in an ageing society. In the medium-term, most of the increase in unemployment will disappear again as the economic recovery comes under way, leaving behind the problem of fully mobilising labour resources. In the long-term, maximising growth potential will have to rely increasingly on improving the allocation of workers across firms, occupations and regions, as well as on equipping the workforce with adequate skills to make the most of new technologies.

Underutilised labour resources need to be mobilised to sustain economic growth

Economic growth over the past years has not benefitted all workers equally. While Slovenia has comparatively high female and youth employment rates, the employment rates of older and low-skilled workers remain below the OECD average, while long-term unemployment remains relatively high (Figure 3.2). These groups represent an under-utilised pool of potential job candidates that employers remain reluctant to hire. Moreover, the current weak labour market is likely to reduce further these groups' labour market prospects, raising the numbers of difficult-to-employ job seekers. Thus, the current crisis is adding to the challenges of integrating these workers into the labour market.

Figure 3.2. Some groups are under-utilised in the labour market



Source: OECD Labour Force Survey database; and OECD Education database.

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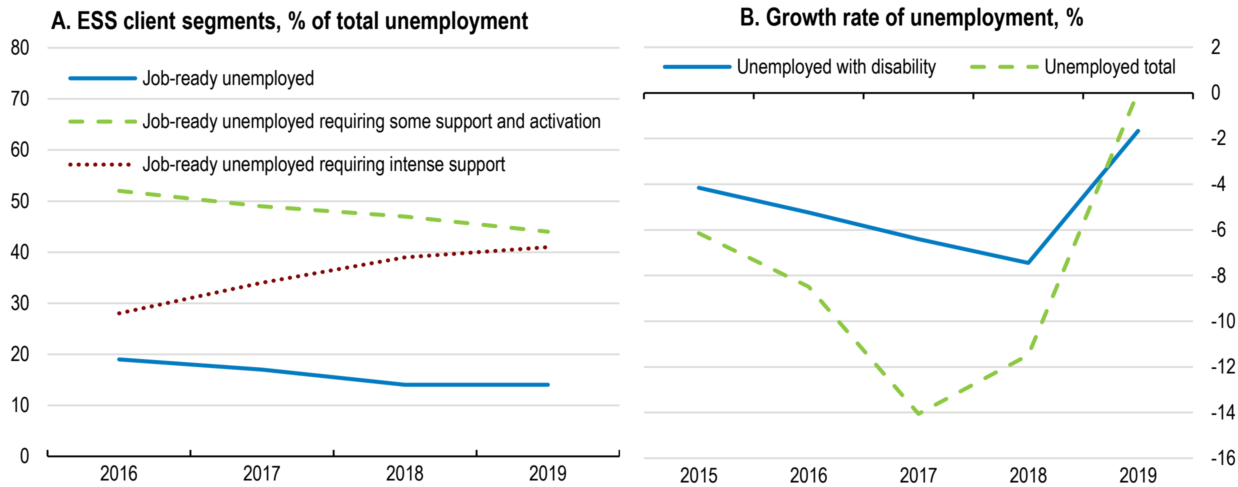
Already prior to the crisis, unemployment fell at a slower pace for older, low-skilled and long-term unemployed, who require intense support and activation, and workers with some disability, compared to the overall population (Figure 3.3). The long-term unemployment rate also fell at a slower pace for older workers compared to other age categories (Figure 3.4). These workers may lack sufficient and relevant skills to be attractive for employers. Training is costly, particularly for workers with low education levels who lack basic skills, or workers with some disability who have special learning needs. The expected benefits of training are also lower for older workers.

Figure 3.3. Bringing back to work some workers is challenging



Source: Employment Services of Slovenia (ESS).

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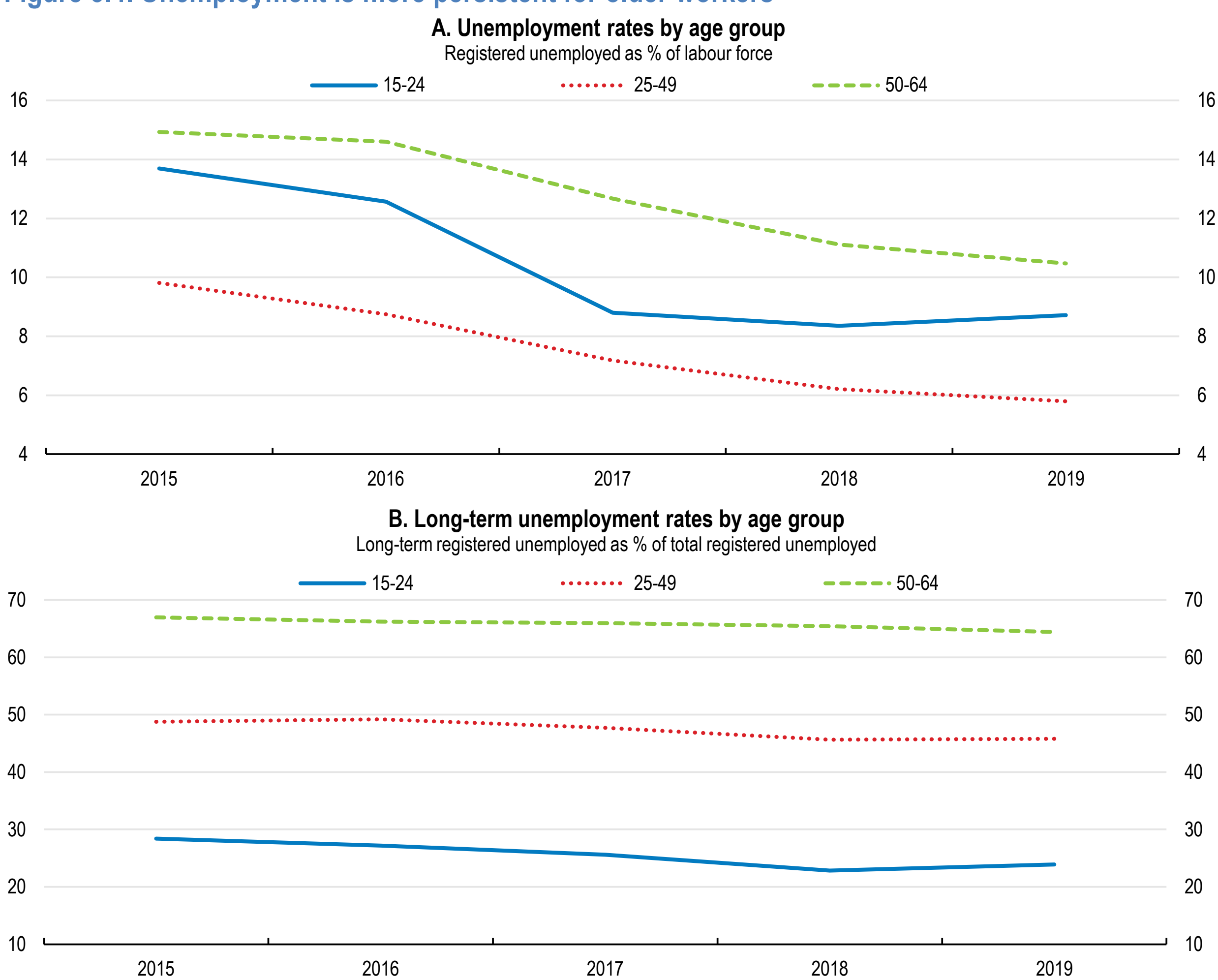
Figure 3.4. Unemployment is more persistent for older workers



Source: Employment Service of Slovenia (ESS) for registered unemployment by age group and OECD Labour Force Statistics database for labour force by age group.

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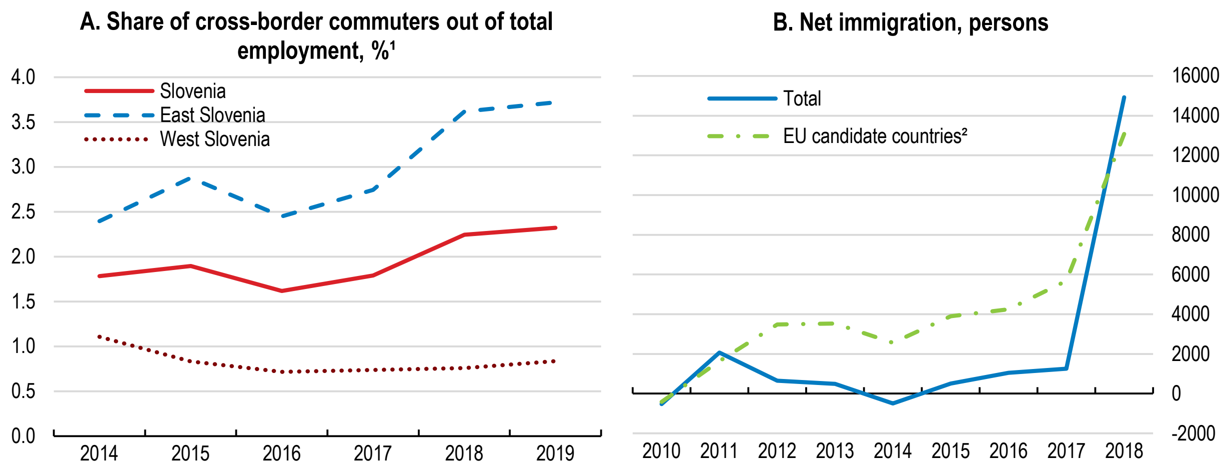
High reservation wages and strong incentives to remain unemployed also hamper employment for some workers. Despite a high unemployment rate in Eastern Slovenia (see below), employers hired workers from abroad, boosting cross-border commuting and net immigration, particularly from former Yugoslavia countries (Figure 3.5). Such flows are typically reversed during downswings. Obviously, recourse to immigrant workers eased labour shortages during the previous expansion period. However, looking ahead this labour resource is likely to dry up as ageing-related labour shortages continue to materialise in richer European countries. Mobilising harder-to-place workers within Slovenia is essential to sustaining inclusive growth.

Figure 3.5. During the upswing, job creation benefitted foreigners



1. Cross-border commuter are workers who have their place of residence outside Slovenia.
2. Bosnia and Herzegovina, the Republic of North Macedonia and Serbia. The Republic of North Macedonia and Serbia are candidate countries, while Bosnia and Herzegovina is a potential candidate.
Source: Republic of Slovenia Statistical Office; and Eurostat.

StatLink https://doi.org/10.1787/888934151697

Social benefits encourage early exit from work before the retirement age

Many older workers are using social benefits as pathways to early retirement – a trend that could be accelerated by the current labour market weakness. In 2016, one in three pensioners entered retirement through unemployment (OECD, 2016a). More recent data shows a decline to one in five pensioners (Pension and Disability Insurance Institute, 2019). Similarly, since the 2013 increase in the retirement age, an increasing share of older workers (+55) receives disability insurance (Figure 3.6).

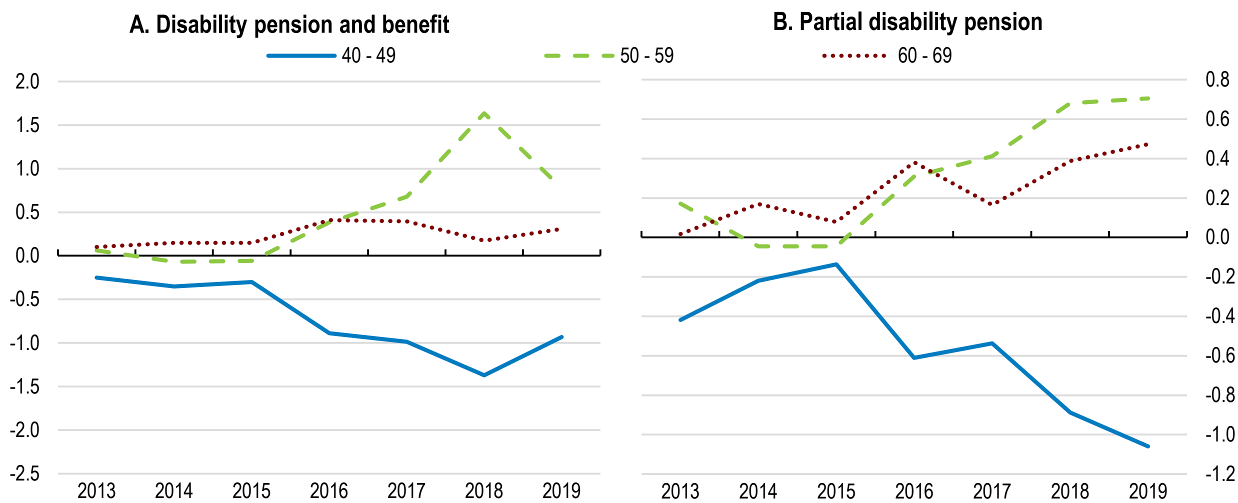
Preferential treatment of older workers in the unemployment and disability insurance systems can partly explain early exits from employment. Up until 2020, older unemployed workers (+55 years) who had accumulated 25 years of contributions could receive unemployment benefits for up to 25 months compared with 12 months for other workers with equal contributions. In addition, the Employment Service of Slovenia (ESS) pays old-age pension contributions during up to one year for older unemployed persons with at least 35 years of contributions, implying that these workers are not penalised in terms of their pensions (OECD, 2016a).

Recent steps were taken to tighten specific unemployment benefit eligibility criteria for older workers. Since the 1st of January 2020, older unemployed workers need to have accumulated 28 years (or 25 years) and to be 58 years old (or 53 years old) to receive unemployment benefits for 25 months (or 19 months, respectively). This is a step in the right direction. However, more could be done. Reducing unemployment benefit duration for workers above 50 and aligning it with benefit duration for other workers with equal contributions would also help raise incentives to return to work. Empirical evidence from Germany and

Austria shows that lower unemployment benefits duration for older unemployed persons led to higher transition rates to employment (Hunt, 1995; Lalive and Zweimüller, 2004).

Figure 3.6. Older workers are increasingly seeking disability benefits

Percentage point change in the share of each age group out of all disability insurance beneficiaries



Source: Pension and Disability Insurance Institute of Slovenia.

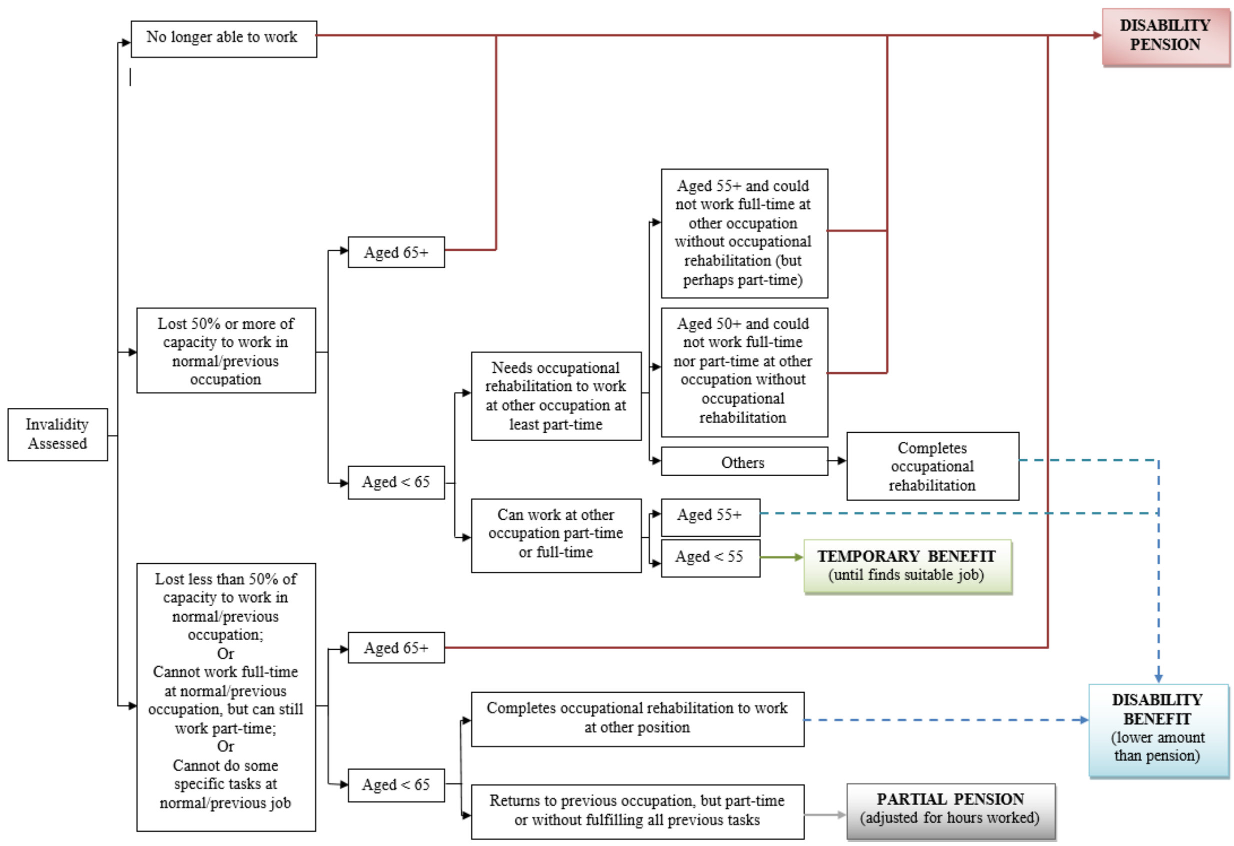
StatLink https://doi.org/10.1787/888934151716

The disability benefit system is complex and generous towards older workers (Figure 3.7). Workers above 50 years old, who could regain some work capacity if rehabilitated, can qualify for a disability pension for life. Similarly, those above 55 years old who can return to work without rehabilitation are eligible for a permanent disability benefit (which provides a lower amount than the disability pension). In contrast, younger individuals in a similar situation can only receive a temporary disability benefit.

Disability insurance eligibility could be stricter, especially for older workers. Medical assessments only assess work ability for the most recent type of employment, without considering work capacity in alternative occupations. Re-assessments only occur every five years. Occupational rehabilitation is not mandatory and the number of disability beneficiaries referred to such programmes is strikingly low (Figure 3.8).

The disability benefits system should be designed to encourage return to employment when there is still some work capacity. Older workers retaining some work capacity should be referred to occupational rehabilitation. This could be a requirement to receive disability insurance for all individuals with a residual work capacity. Work rehabilitation treatments are quite effective in developing lost skills while accommodating for specific impairments, regaining independence and employment (Joss, 2002; Legg, Drummond and Langhorne, 2006; Govender and Kalra, 2007). The assessment procedure to determine eligibility for disability insurance should be broadened to include other occupations. Re-assessments should be more frequent, for example annually. In fact, the risk of labour market detachment increases with time spent out-of-work and on disability benefits, as shown for Sweden and the United Kingdom (Melkersson, 1999; Jenkins and Rigg, 2004). Re-assessments of older workers could also take place while individual are still employed, as in Austria. Some of these workers could be redirected to less physically demanding occupations before reaching partial disability, prolonging their health status, well-being and working lives.

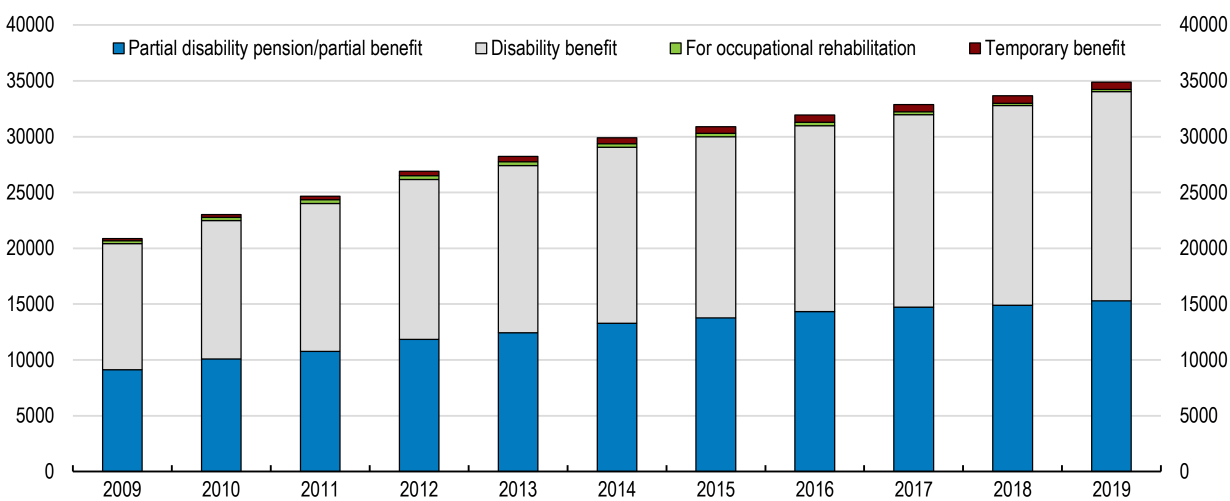
Figure 3.7. The disability insurance system is complex and admits preferential treatment for workers above 50



Source: Pension and Disability Insurance Act (ZPIZ-2)

Figure 3.8. Few disability insurance beneficiaries enrol in occupational rehabilitation

Beneficiaries of disability insurance benefits



Note: The figure only accounts for beneficiaries in the reformed system (ZPIZ-2). Beneficiaries from the previous system (ZPIZ-1) are not included. The number of beneficiaries from ZPIZ-1 is progressively falling as all disability claims are now covered by ZPIZ-2. This explains the increasing number of beneficiaries from ZPIZ-2 over time. The total number of beneficiaries from both systems (ZPIZ-1 and ZPIZ-2) is actually decreasing.
Source: Pension and Disability Insurance Institute of Slovenia.

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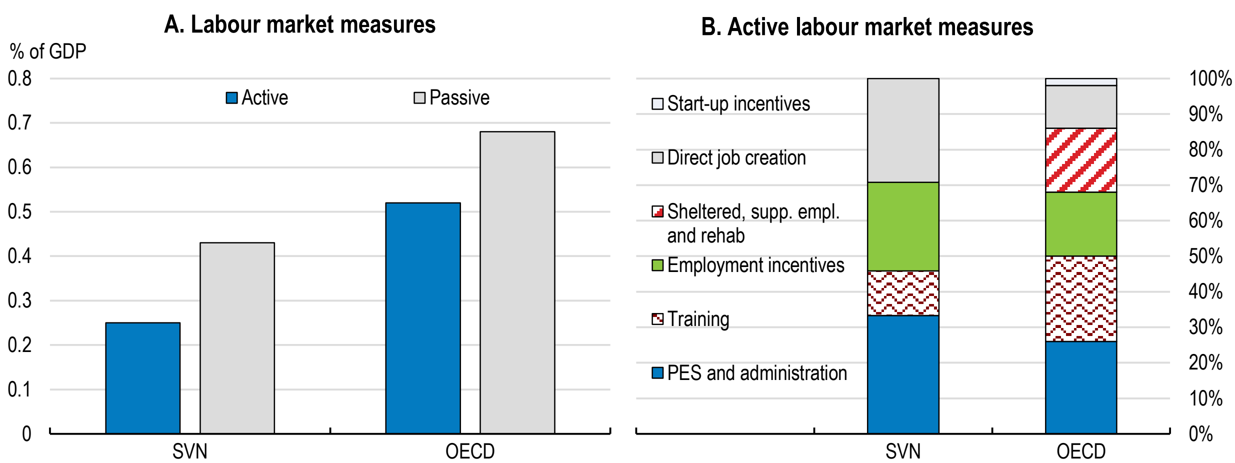
Harder-to-place unemployed workers are not receiving enough support

Public spending on labour market policies is lower than the OECD average (Figure 3.9, Panel A). There is a relatively higher reliance on passive labour market policies, such as unemployment benefits. International evidence suggests that passive policies tend to reduce incentives to return to work. By contrast, Active Labour Market Policies (ALMPs) tend to increase job-search efforts (Pignatti and van Belle, 2018).

Spending on active measures is not allocated in the most effective way. Most funds are allocated to subsidies for firms employing specific types of workers (such as young unemployed, long-term unemployed or older unemployed) or direct job creation in the public sector (Figure 3.9, Panel B). Employment subsidies seem to improve hiring rates. However, there is little international evidence on long-term positive effects, except if the subsidised period provides enough opportunity for skill accumulation (Crépon and van den Berg, 2016; Martin, 2015). Spending on training programmes is low, while such programmes can have strong positive long-term effects as evidenced in other OECD countries (Bassanini and Duval, 2006).

Figure 3.9. Spending on labour market programmes could be more effective

Public spending on labour market policies as a percentage of GDP and breakdown by activity, 2017



Note: Category 3 consists of “Sheltered, supported employment and rehabilitation”. These are programmes for workers with disabilities to develop work-related skills and behaviours. Category 6 consists of “Public Employment Services and administration”.
Source: OECD, Labour Market Database.

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The effectiveness of ALMPs is not adequately assessed. Most subsidies require that beneficiaries remain employed at least one year (Table 3.1). Therefore, taking stock of the employment rate of programme participants one year after the start of the programme is not an appropriate measure of success. Programmes can only be considered successful if the beneficiaries remain employed beyond the subsidised period. Some ad-hoc impact evaluations have been conducted (Ministry of Labour, Family, Social Affairs and Equal Opportunities, 2017b). However, the outcomes from all interventions should be regularly assessed, well after programme termination. Such assessments, which could be integrated into the policy making processes, would help to redirect public spending towards the most effective labour programmes.

The weakening labour market is increasing the risk of long-term unemployment among difficult-to-employ individuals. To prevent such scarring effects, labour market policies need to be focussed more on such individuals. The current mix of ALMPs does not sufficiently target harder-to-place unemployed persons (Table 3.1). Young unemployed workers are still eligible for several programmes although their unemployment rate reached a historical low of 8.8% in 2018 (OECD, 2019b). Resources should be redirected towards unemployed workers requiring intense support to become employable. As recommended in the new OECD Jobs Strategy, it is important to quickly scale down fiscal resources assigned to work programmes, that seek to preserve vulnerable jobs that are viable in the long-term, as conditions return to normal (OECD, 2018i).

Harder-to-place, i.e. low-skilled, long-term and older unemployed persons are not receiving enough counselling. The ESS offers several services, including services to employers. The extensive variety of activities results in a high average workload per counsellor (OECD, 2016a). To free-up resources for harder-to-place job seekers, the ESS plans to introduce statistical profiling tools. Statistical profiling is less costly than caseworker-based profiling. It can be used to identify unemployed workers requiring intense support to become employable, target resources to these jobseekers and refer individuals to the most adequate programme (Desiere, Langenbucher and Struyven, 2019). Such statistical profiling tools have long been implemented in Australia and the U.S., and more recently in Austria, Belgium and the Netherlands. Experience in these countries shows that continuous assessments and refinements of the statistical system based on feedback from caseworkers and frontline staff is crucial for successful implementation (OECD, 2018a).

Table 3.1. Main Active Labour Market Programmes

Name	No. Beneficiaries in 2018	Retention rate*	Target	Content
Training programmes				
Work Trial	2086	82%	Unemployed for at least three months, aged 30+	One month trial period with employer
On-the-job training	1846	74%	Low-skilled long-term unemployed with 50+; Young people	One to three months training programme at a firm
Preparation and verification of National Vocational Qualifications (NVQ)	881	71%	Unemployed; Workers dismissed during notice period	Three to six month preparation for a one day exam
Development and training programmes	4187	62%	Unemployed and workers dismissed during notice period with at least a high school degree	Three days to six months courses with theory and practice
Employment incentives				
Employ.me	3267	60%	Unemployed 50+; low-educated unemployed; long-term unemployed	Subsidy between 5000€ and 7000€ for a job lasting at least 1 year
The first challenge	2896**	74%	Jobseekers <30	Subsidy of 7250€ for a job lasting at least 15 months
Program for sustainable youth employment	2385	N.A.	Unemployed workers between 15 and 30 years old	Subsidy of 5000€ for a job lasting at least 2 years
Active until retirement	274	N.A.	Unemployed aged 58+	Subsidy of 11000€ for a job lasting at least 18 months
Learning workshops	201	N.A.	Disabled unemployed; long-term unemployed; older unemployed; low-skilled unemployed; first-time jobseekers; migrants	6 months training in a social enterprise or employment centre + subsidy of up to 8000€ if employed after training for at least 1 year
Start-up/Entrepreneurship incentives				
Promoting women entrepreneurship	393	N.A.	Unemployed women with tertiary education who already completed the Entrepreneurial training programme at the Public Agency SPIRIT	Subsidy of 5000€
Incentives for young entrepreneurs	330	N.A.	Young unemployed	Entrepreneurship training + subsidy of 5000€ for remaining registered as self-employed for at least 1 year
Direct job creation				
Public works	5202	N.A.	Long-term unemployed	One to two years employment in non-for-profit organisation with obligation to continue seeking employment

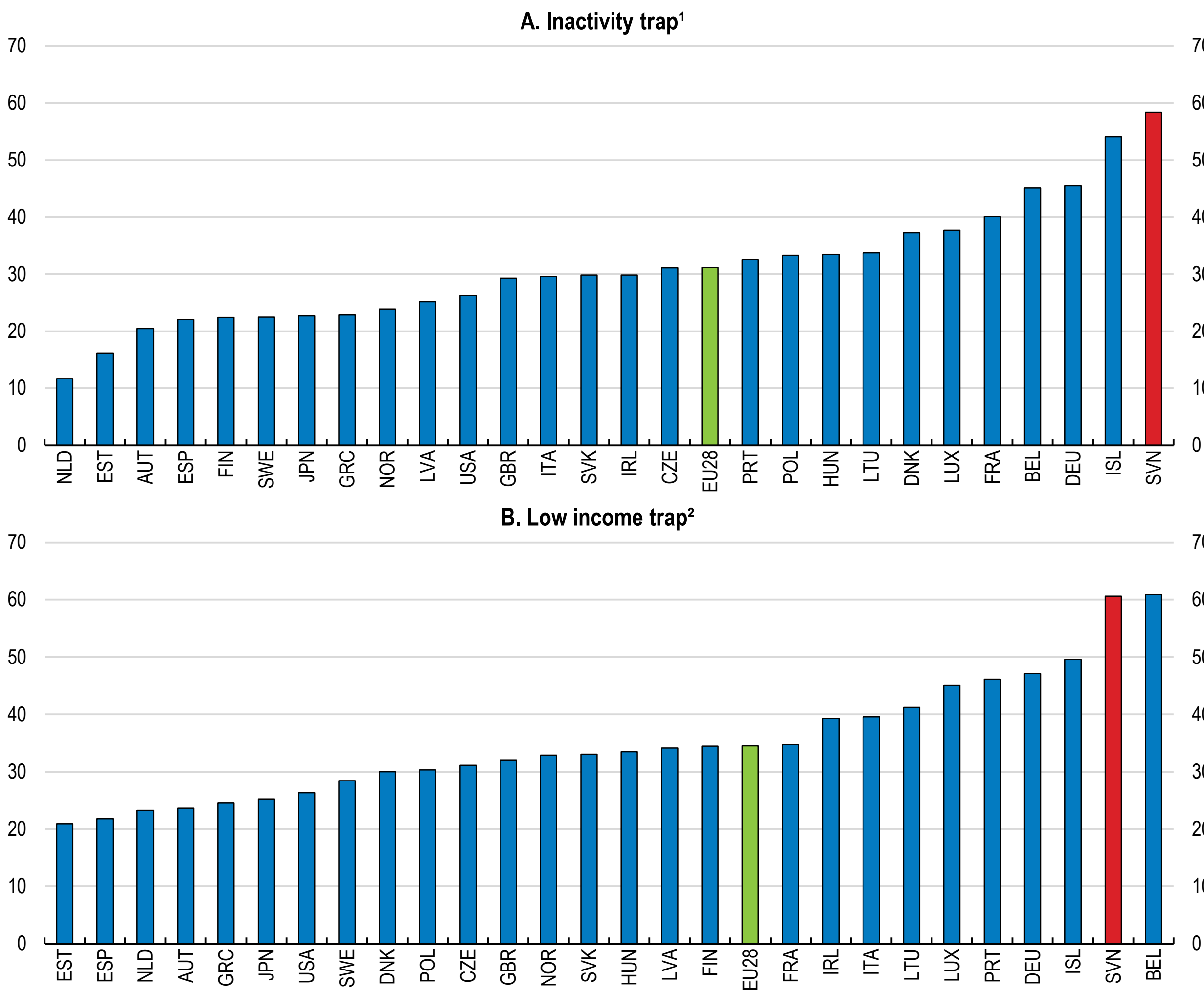
Note: * Retention rates after 1 year, data from 2016. ** Number of beneficiaries in 2016, programme discontinued. N.A.: Not Available.
Source: Employment Service of Slovenia (ESS)

Unemployment, inactivity and low-wage traps are high

Low-skilled workers are faced with a high unemployment benefit trap. Single low-income workers with two children lose 88% of the additional earnings when moving from unemployment to full-time work (OECD, 2016a). Consequently, some unemployed persons wait for the exhaustion of benefits before intensifying job search efforts, raising the risk of falling into long-term unemployment (Vodopivec et al., 2015).

Figure 3.10. Inactivity and low-income traps are high for second earners in Slovenia

Inactivity trap and low wage trap for second earners, %, 2019



1. The trap data is for a second earner at 67 % of the average wage in a two-earner family with two children; the principal earner earns the average wage (AW).
2. The trap data is for a second earner with a wage increase from 33 % to 66 % of the average wage, in a two-earner family with two children; the principal earner earns the average wage (AW).
Source: European Commission tax and benefits indicator database based on OECD Tax-benefit Model.

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Other social benefits also contribute for the unemployment trap. Until recently, financial social assistance (FSA), a means-tested benefit based on household income, could be more financially advantageous than unemployment insurance, reducing job-search incentives even after the exhaustion of unemployment benefits and further increasing the risk of long-term unemployment. Unemployment benefits and FSA were financially aligned on the 1st of January 2020, which is a step in the right direction.

Inactivity and low-wage traps are also high for second earners who are faced with large disincentives to work and increase their earnings (Figure 3.10). While there is no joint taxation in Slovenia, the inactivity and low-wage traps for second earners are mostly driven by the withdrawal of FSA. Indeed, FSA depends on the number of family members and total household income. The inactivity and low-wage traps increase risks of poverty and unemployment.

Recent measures to make work pay more have not raised work incentives for those who are out of work and harder to place. Since 2019, unemployed workers with no qualifications can benefit from a wage subsidy equal to 20% of their unemployment benefit after regaining employment. This measure applies only to those who are still eligible and leaves out the long-term unemployed, the inactive, individuals on disability benefits or those who are socially assisted.

Implementing a scheme of “in-work” benefits could be effective in reducing work disincentives (Hoynes and Blundell, 2013). In such schemes, transfers to low-income workers are tied to working a minimum number of hours, and gradually withdrawn as earnings rise. Inactive workers, long-term unemployed, and individuals solely dependent on social assistance or disability benefits, would also be eligible for “in-work” benefits upon regaining low-paid employment, increasing their job-search incentives. “In-work” benefits also extend the benefit coverage to workers in all forms of emerging flexible work, as argued in the new OECD Jobs Strategy (OECD, 2018i). More than half of OECD countries operate “in-work” benefits, which are particularly effective in buoyant labour markets (Immervoll and Pearson, 2009).

Other elements of the social benefits and employment protection systems also lead to disincentives to work. Unemployed workers can refuse job offers that are located more than one and a half hours away from their residency by public transportation, without losing benefits. Given the poorly developed public transportation network, this limit leads to uneven effects across regions. In areas where public transportation is well developed, it opens up the possibility of accepting many more jobs than in remote areas where the public network is lagging behind. Therefore, the location criterion should be adapted to local conditions. Under all circumstances, this limit should gradually be expanded with length of unemployment spells.

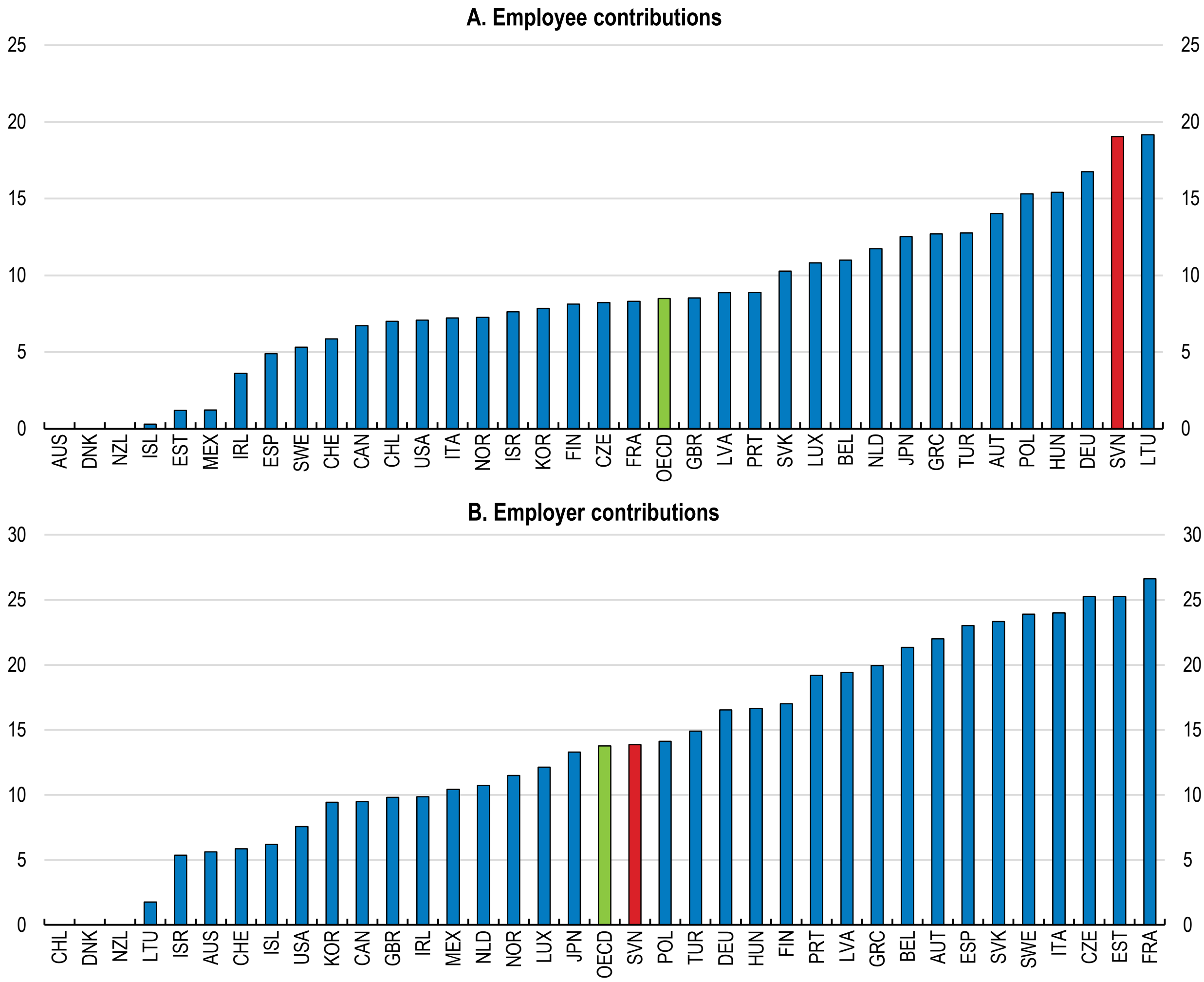
High levels of employment protection contribute to firms’ reluctance to offer stable employment contracts and thus to the low share of job-seekers who relocate for work. In 2017, more than 70% of new hires were on temporary contracts (Eurostat). At the same time, the housing market in Slovenia is rigid and the private rental market is underdeveloped (as discussed below). Consequently, unemployed workers may not accept temporary and low-paid offers requiring reallocation. Further reducing strictness of employment protection could increase the share of stable job offers, as well as unemployed workers’ incentives to accept relocation. As argued in the new OECD Jobs Strategy, flexible labour markets are essential to create high-quality jobs and a more dynamic environment. In addition, partial labour market reforms that liberalise the use of temporary contracts, but maintain high levels of employment protection for workers on open-ended contracts can be counter-productive. It can result in an excessive use of temporary contracts, leading to overall low job quality and high levels of inequality across generations (OECD, 2018i).

High labour taxes also contribute to disincentives to work. Social security contributions (SSCs) constitute 40% of total tax revenues in Slovenia, 14 percentage points above the OECD average. Together with high personal income tax (PIT) rates, this points to a high reliance on labour taxes, which is associated with lower growth (OECD, 2018d).

The contribution bases for SSCs and PITs are narrowed by generous tax credits and tax exemptions. These include holiday allowances (a mandatory lump-sum payment every July) and commuting allowances (a mandatory monthly compensation for commuting expenses), for example. Therefore, high contribution rates, paid mostly by employees, must compensate to obtain high tax revenues (Figure 3.11). This creates a large gap between net and gross wages and reduces labour market participation incentives (OECD, 2018f).

Figure 3.11. Social security rates for employees are high in Slovenia

Social security contributions as % of labour costs, 2019



Source: OECD Taxing Wages database.

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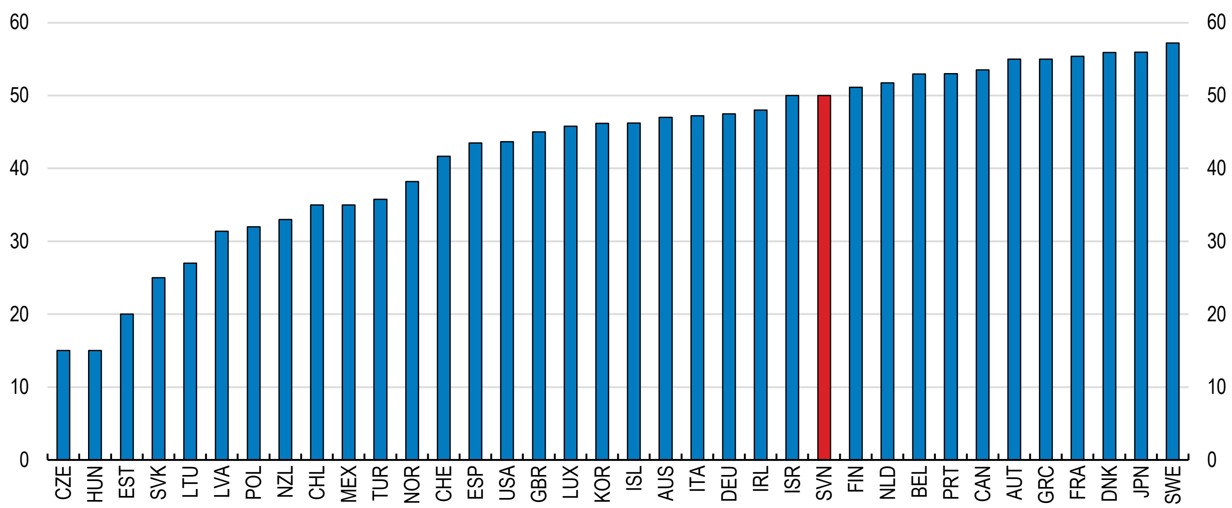
A relatively high top bracket PIT rate and a steep PIT rate structure reduce incentives to up-skill, increase work efforts and move to more productive jobs. (Figure 3.12; IMF, 2019). In particular, strong personal income tax progressivity negatively affects labour supply for the highest skilled workers and investments in individual skills (Badel and Huggett, 2014).

Broadening the SSC and PIT tax bases could allow for lower rates and improved labour supply incentives, within a revenue neutral framework. Previous OECD research, using Slovenian tax records, shows that lowering the top PIT rate by 5 percentage points while broadening the PIT tax base through reducing tax allowances by 5% would even have slightly positive revenue effects (OECD, 2018d).

Rates could also be lowered by relying more on less growth distortive taxes, such as recurrent taxes on immovable property (Blöchliger, 2015). Revenues from property taxes are well below the OECD average (Figure 3.13). Shifting the tax burden away from labour to less growth distortive taxes (such as consumption or property taxes) would increase aggregate labour and Slovenia's output by 0.5 percent in the medium to long term, within a revenue neutral framework (IMF, 2019). Increasing the use of recurrent taxes on immovable property from the current 0.6% of GDP to the levels collected among the best OECD performers of 2% of GDP would raise revenues by EUR 670 million, more than offsetting the impact of a 5¼-percentage points reduction in the SSC rates (OECD, 2018d).

Figure 3.12. Slovenia is one of the countries with the highest top personal income tax rate

Top personal income tax rates, 2019



Note: Includes central government and local taxes
Source: OECD Taxing Wages database.

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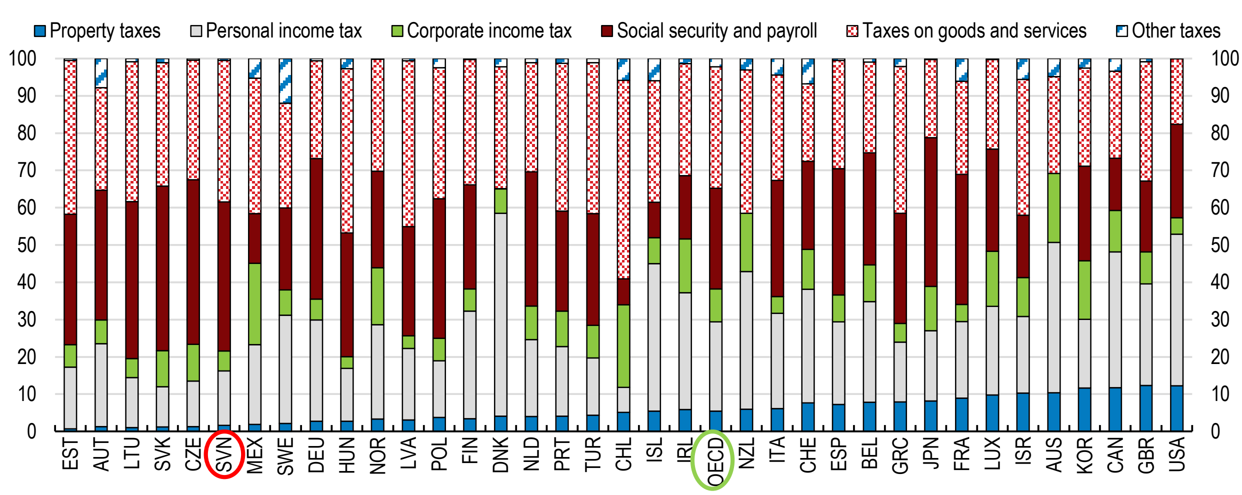
Figure 3.13. Revenue from property tax is low

Tax revenue by type, % of total tax revenues, 2018 or latest available year[1]



1. 2017 for Australia and Greece.
Source: OECD Global Revenue Statistics database.

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Another problem is the lack of a market-based valuation system for property taxes. Currently, property taxation is based on a system of points reflecting the characteristics of the properties, with municipalities setting the value of a point for their area each year. In the absence of adjustments that take market values into account, highly desirable properties can end up paying the same taxes as undesirable properties (Almy, 2014).

Linking the assessment of property value for tax purposes to the market value will also increase incentives to develop vacant land and rent out empty dwellings, as market prices reflect the land development and housing potential (Andrews, Caldera Sánchez and Johansson, 2011). This would increase housing supply responsiveness and contribute for the development of the private rental market, with positive spill over effects on labour market dynamics, as discussed below (Box 3.3 and Box 3.4).

Maximising long-term potential growth requires a more efficient allocation of labour

In addition to labour supply constraints, ageing poses other significant challenges that need to be addressed to sustain growth in the medium- to long-run. Existing labour market institutions need to be adapted to handle persistent labour shortages, make the most of the existing workforce, and to continue to provide decent living standards to a longer living population. During the recovery and in the long run sustaining growth will increasingly hinge on optimising the allocation of labour across firms, occupations and regions. Ensuring that resources can be reallocated to more productive uses while fostering continuous learning and innovation at the workplace is one of the main challenges in preparing to rapidly changing labour markets, as acknowledged in the new OECD Jobs Strategy (OECD, 2018i).

The rigid wage-setting system contributes to lower labour market mobility

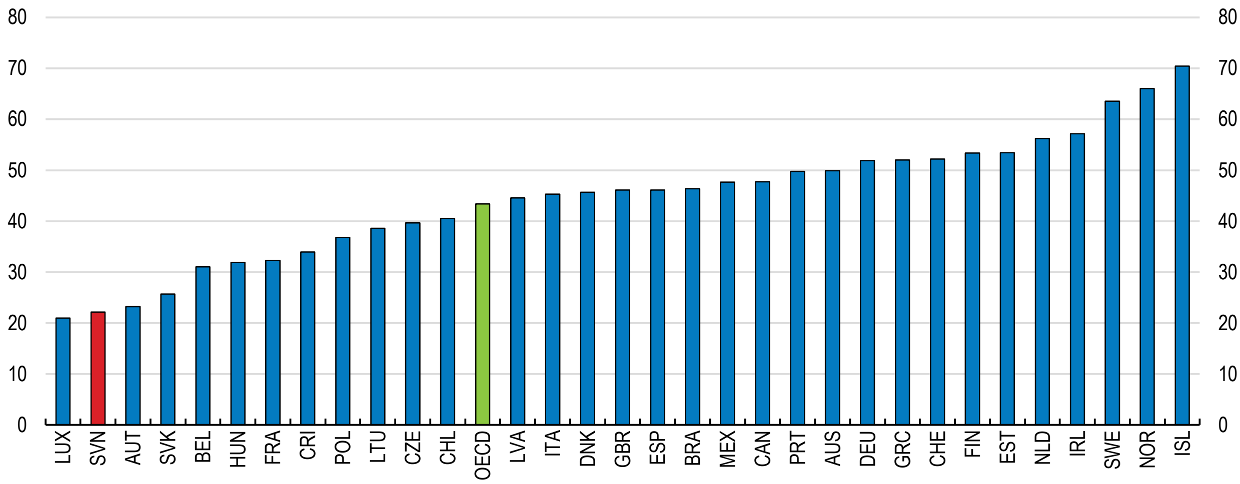
Legal requirements are reducing wage flexibility. For example, paying automatic seniority bonuses lower older workers' incentives to increase productivity. These bonuses are usually 0.5% of the baseline wage for each year of experience. In some sectors, stakeholders have agreed that mandated seniority bonuses are to be based on tenure rather than working experience. Tenure-based automatic bonuses also lock older workers into their current job, limiting job-to-job mobility and thus inhibiting the allocation of workers to jobs and higher productivity (Gautier, Teulings and van Vuuren, 2010; Adalet McGowan and Andrews, 2015).

This may lead firms having to pay wages to older workers above their productivity, harming their employment prospects. This is reflected in the low retention rate of older workers (Figure 3.14). Mandatory seniority bonuses also contribute to the low re-employment rates of older unemployed workers, increasing their risk of long-term unemployment (OECD, 2006a; Vodopivec and Dolenc, 2007).

Seniority bonuses determined centrally (by law) should be replaced by experience-based premiums determined individually or as part of the wage bargaining process with social partners. Firm-level agreements would help ensure that wage improvements remain aligned with firm productivity growth. This would benefit older workers' employment prospect, give employers the tools for attracting and retaining talent, and employees the incentives to increase work and training efforts, boosting the economy's growth potential.

Figure 3.14. The retention rate of older workers is low in Slovenia

2015



Note: Total number of 60-64 year olds with a job tenure longer than 5 years divided by all the employed 55-59 year old 5 years earlier.
Source: OECD Labour Force Survey database.

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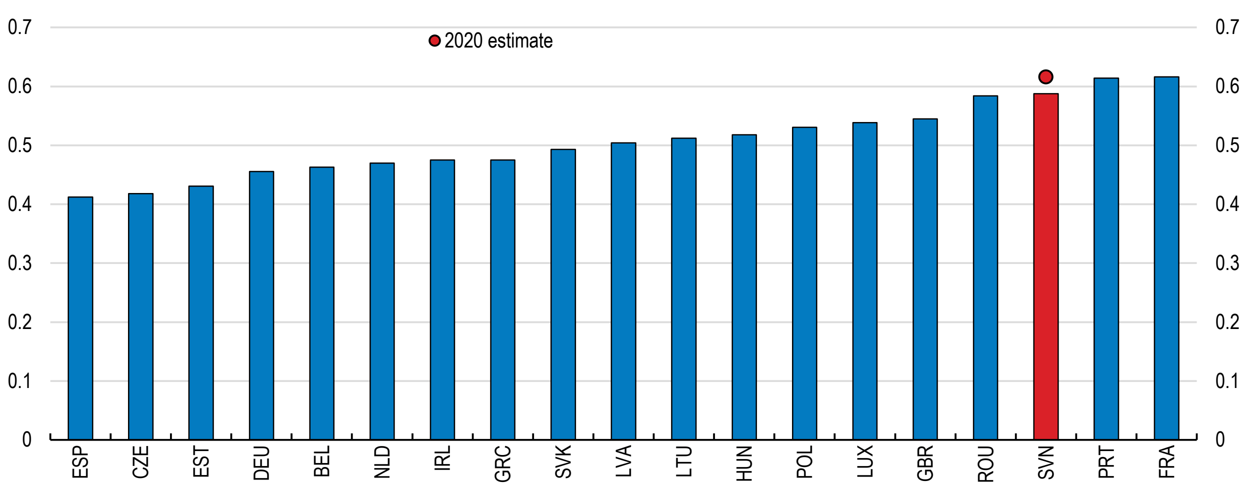
The wage formation process is also constrained by the relatively high legal minimum wage (Figure 3.15). After a five-year period with modest growth in the minimum wage, it was raised by 5.2% in 2019 and 6.1% in 2020, faster than overall wage growth in the same period. The high minimum wage is intended to benefit poor and low-income families. However, earlier increases induced firms to hire fewer workers than otherwise, increasing the unemployment of low-skilled workers and the risk of long-term unemployment (Todorovič Jemec and Vodopivec, 2016; Ministry of Labour, Family, Social Affairs and Equal Opportunities, 2017a).

Figure 3.15. The minimum wage is high relative to the median wage

Gross minimum wage as a percentage of the median wage of full-time workers, 2018



Source: OECD Labour Earnings database.

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High minimum wages can also lock low-skilled workers in low-paying jobs as they reduce flexibility at the lower end of the wage scale. This reduces the incentives for employers to provide on-the-job training to low-paid workers. In fact, employers tend to pay lower wages while providing training to their employees, who are later compensated with steeper wage growth as their productivity increases. Evidence from other OECD countries shows that by increasing the minimum wage floor, the cost of training can no longer be passed on to low-paid workers, which may deter firms from up-skilling them (Neumark and Wascher, 2001).

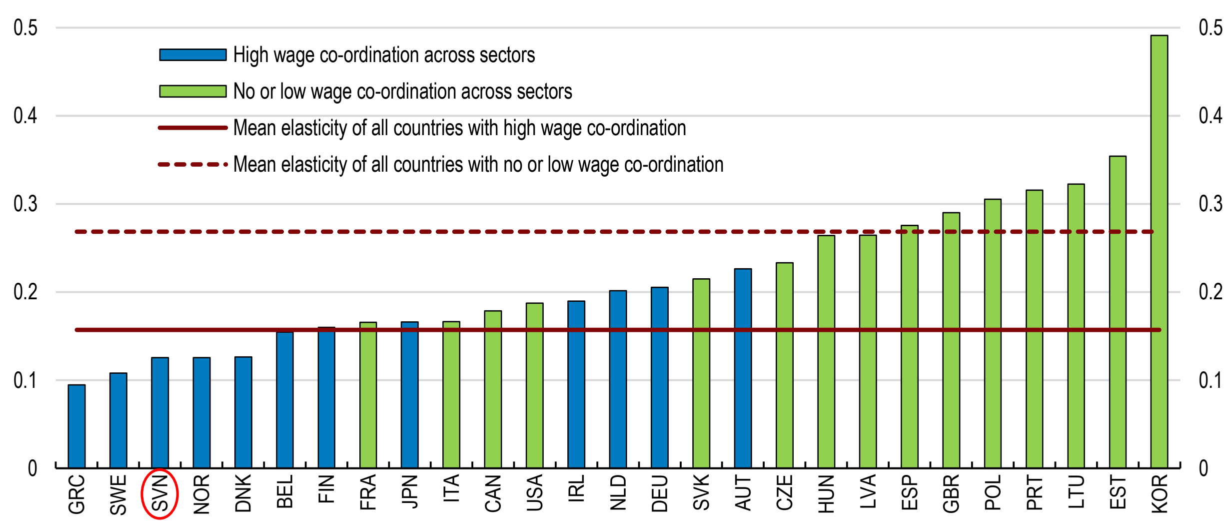
Slower increases in the minimum wage relative to the median wage would help improve employment opportunities for low-skilled workers and the long-term unemployed. It could also improve on-the-job training opportunities for the lowest paid. Alternative reform options include introducing a reduced minimum wages for new labour market entrants and long-term unemployed, following the example in some OECD countries, such as Germany and Japan, or let social partners determine the appropriate level of minimum wage (Neumark and Wascher, 2004).

Collective bargaining takes place predominantly at the sectoral level. This results in a high level of wage coordination, even in the private sector. Firm level agreements can only offer more favourable terms than sectoral agreements. Administrative extensions, to ensure that an agreement covers all of the industry, are common, reducing the scope for differentiated wage developments across firms (OECD, 2017a). Despite the law permitting temporary deviations from sector agreements in cases of economic difficulties, in practice, few employers deviate (OECD, 2017a).

The highly co-ordinated wage determination system has led to a compressed wage structure and a disconnect between individual productivity and wage developments (Figure 3.16). OECD research shows that countries with a high level of wage coordination across sectors have a lower elasticity of wages with respect to productivity (OECD, 2018h). Consequently, workers have little incentives to increase effort and training or to change jobs. This can lead to a sub-optimal allocation of workers that reduces the economy's growth potential.

Figure 3.16. There is a disconnect between wages and productivity

Elasticity of wages with respect to productivity across sectors: country estimates



Note: A country has high wage coordination across sectors if in the majority of the years considered between 1980 and 2014, cross-sectoral agreements predominated.
Source: OECD Employment Outlook 2018; and ICTWSS database.

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The compressed wage structure has contributed to low overall levels of inequality. However, at the same time it has contributed to a geographical misallocation of labour (Boeri et al., 2019). Wage rates do not reflect large differences in productivity across regions. This can partly explain the higher unemployment rates in low-productivity areas in Eastern Slovenia, as discussed below.

Moving to a system where firms have more flexibility to set wages in line with their productivity, would dismantle these obstacles to mobility and improve incentives to effort and training. The government should continue to reduce its involvement in wage determination, limiting the possibility for automatic extensions, as well as increasing the possibility for derogations and opt-out clauses. Social partners could be given more responsibilities in the wage bargaining process by negotiating at the sectoral level framework conditions, such as vacation and pensions, as well as seniority bonuses and minimum wage levels.

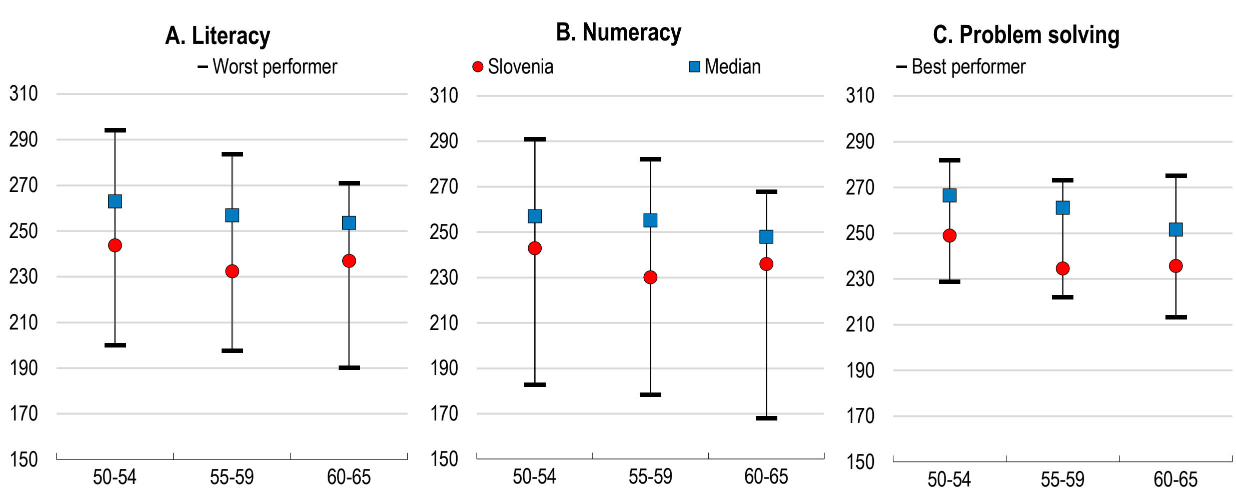
A highly coordinated wage bargaining system, in fact, reduces the need for using the legal statutory minimum wage as an instrument to prevent undesirably low pay. For example, Germany recently introduced a statutory minimum wage to increase the protection of workers because collective bargaining coverage and union membership declined. Austria, Denmark, Italy and Norway, on the other hand, do not have, nor plan to implement, a national minimum wage, since their collective bargaining systems are still strong and cover a large share of workers formally and informally (European Commission, 2015). At the same time, the prospects of persistent labour shortages in Slovenia means upwards pressure on wages, limiting the risk of undesirably low pay. Recent increases in public sector pay also influences the minimum wage floor that can be set in the private sector, especially at a time where public and private sector compete for similar types of workers.

Skills demanded and skills supplied are often misaligned

Participation in adult education becomes increasingly important to maintain the employability of older workers as they are required to remain active for longer. Given the relatively high share of older adults with low literacy, numeracy and problem solving skills, upskilling senior workers is already a matter of urgency (Figure 3.17). Lack of basic literacy, numeracy and problem-solving skills represent an obstacle to continuing learning. Younger cohorts have relatively better general basic skills than older workers, which should help to improve participation in lifelong learning in the future (Figure 3.18).

Figure 3.17. Older workers lack important skills

Trend scores by age, 2015



Note: Average score per country computed using PIAAC final sample weights.
Source: OECD Survey of Adult Skills (PIAAC).

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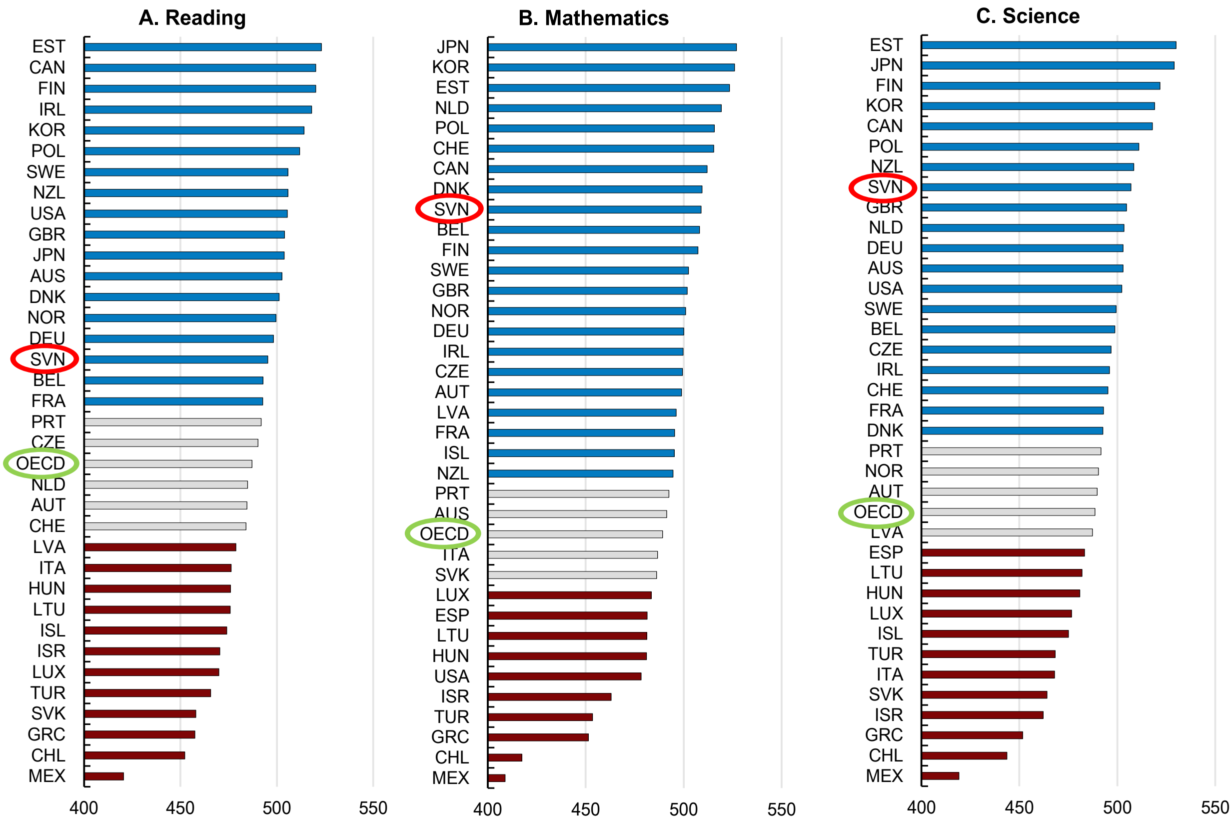
Figure 3.18. Younger cohorts are doing better with basic skills

Mean score in PISA 2018



Note: Blue bars denote countries with a mean performance above the OECD average; grey bars denote countries with a mean performance not significantly different from the OECD average; brown bars denote countries with a mean performance below the OECD average.
Source: OECD (2019), PISA 2018 Results (Volume I): What Students Know and Can Do, PISA, OECD Publishing, Paris.

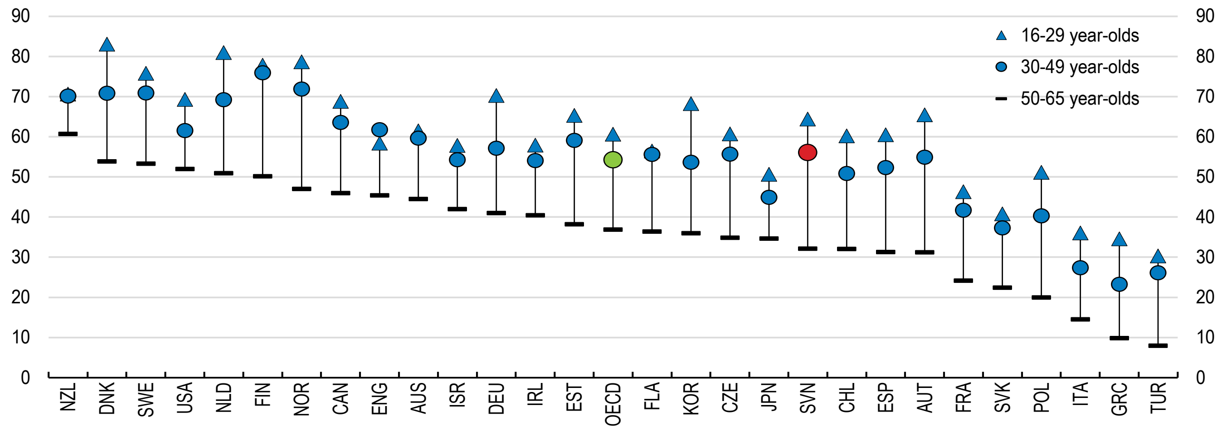
StatLink https://doi.org/10.1787/888934151925

Financial constraints are a key barrier to lifelong learning participation among the low skilled and older workers, who are less likely to enrol in adult education programmes (Figure 3.19; OECD, 2019a). Slovenia has the second highest share of workers who claim they wanted to participate in training, but did not because of lack of financial resources (PIAAC, 2012, 2015). Slovenia is also the European country with the third lowest investment in adult education and the share of firms receiving some sort of training subsidy or support is also among the lowest. There are no tax incentives to provide on-the-job training (OECD, 2019a).

Other OECD countries, such as Italy, have introduced training funds, associations run by social partners that finance workers' training through a levy imposed on employers (OECD, 2019d). Financial incentives for individuals are also increasingly used, such as income-contingent loans (Finland, Sweden and the UK, for example) and individual learning accounts (Austria and France, for example) (OECD, 2017b; OECD, 2019e).

Figure 3.19. Older workers are less likely to participate in adult education

Percentage of adults who participated in adult education and training during year prior to the survey, by level of proficiency in literacy, 2012 and 2015[1]



1. Year 2015 for Chile, Greece, Israel, New Zealand, Slovenia and Turkey; for all other countries, 2012. ENG refers to England (UK) and FLA to Flanders (Belgium).
Source: OECD Survey of Adult Skills (PIAAC).

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Another obstacle for the development of lifelong learning is that there is no reliable data on skills needs. The compressed wage structure means that skill imbalances are not reflected in wages. Employment variation across sectors and occupations will become a weaker market signal as labour shortages persist. Even the existing vacancy data per occupation, which is collected by the ESS, has limited information content in terms of skills needed, as employers also advertise jobs elsewhere (OECD, 2016b; OECD, 2017b). Moreover, the task content of occupations is changing continuously, implying that vacancy data do not convey information about which skills are in growing demand.

Box 3.1. Policies to improve working conditions for older workers

Longer working lives require adapted working conditions for older workers. According to the new OECD Jobs Strategy, Slovenia performs worse than other OECD countries concerning job quality, in particular, regarding job strain, which can be a major obstacle for older workers to prolong their work activity (OECD, 2018g; OECD, 2018i).

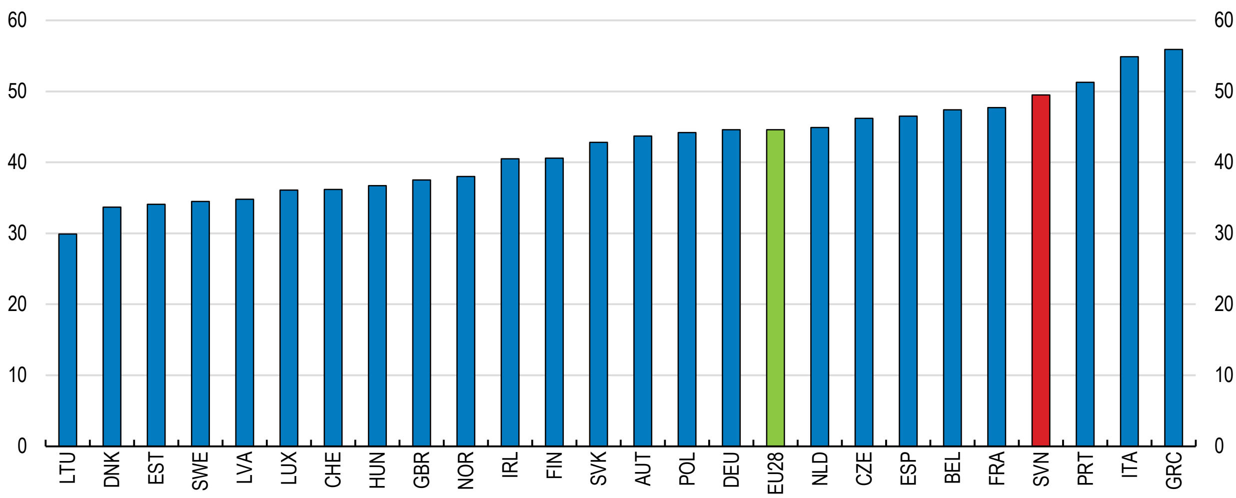
The Slovenian programme "*Comprehensive Support for Companies for Active Ageing of Employees*" has developed a guide for employers with strategies for better managing older workers. Capacity building workshops have been developed for managers to increase their competencies in dealing with an ageing workforce (OECD, 2017c).

Age management policies at the company level have also been implemented in other countries. Finland, for example, has implemented flexible working hour schemes for older workers. In Sweden, job rotation schemes were developed, to tailor tasks to the personal circumstances of senior workers, avoid repetitive work, static and awkward postures, and reduce prolonged exposure to hazards (European Foundation for the Improvement of Living and Working Conditions, 2012).

Lifelong learning will be increasingly important to facilitate occupational mobility. Currently, Slovenia is one of the European countries with the lowest job mobility rate (Figure 3.20). However, with new technologies permeating the workplace, there will be further churning of jobs, with new different jobs replacing those that are being destroyed (OECD, 2019b). Lack of reliable data on skills needs also means that workers with obsolete skills may not realise that their job is at risk and fail to seek lifelong training. Developing robust systems and tools for assessing and anticipating skills needs is one of the main recommendations from the new OECD Jobs Strategy (OECD, 2018i).

Figure 3.20. Workers stay in the same job for long

Share of over 25 year olds staying 10 years or over in the same company, 2019



Source: Eurostat.

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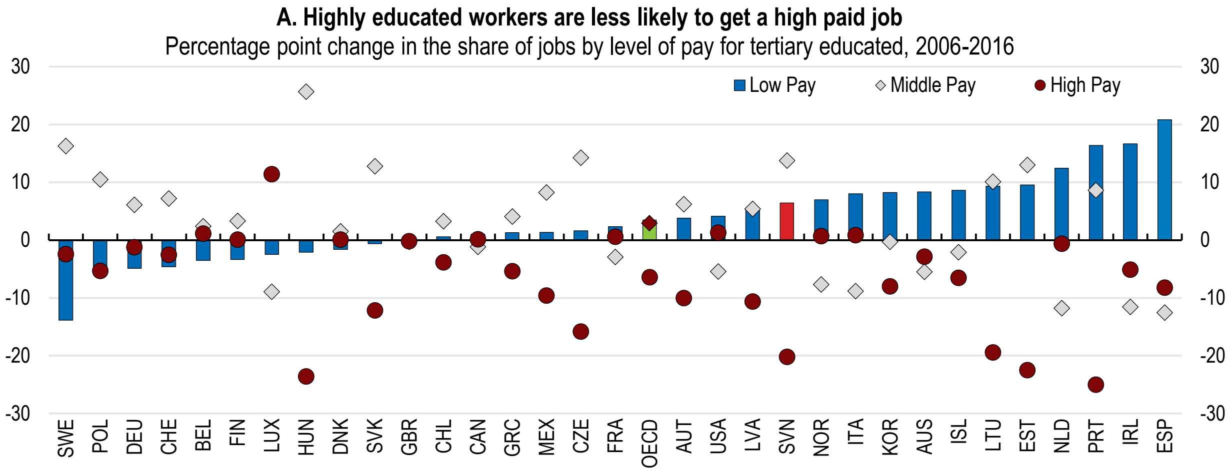
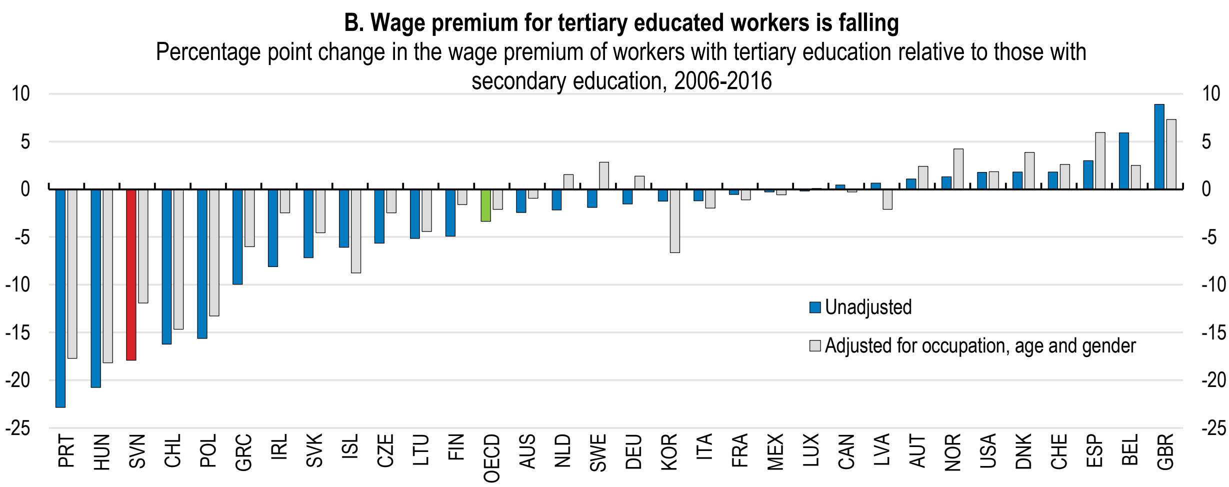
The increasing mismatch between educational attainment levels and labour demand has contributed to the migration of tertiary graduates (Bank of Slovenia, 2019). Tertiary enrolment has substantially increased to 57% of the population at the age of 20, well above the OECD average of 39%. However, the economy remains largely based on activities with low value-added per employee. Indeed, the occupations most in demand are those requiring medium or low skill levels, such as drivers of heavy goods vehicles and tractor units, labourers in manufacturing and sales staff. Consequently, young highly educated people are now more likely to be in low-paid jobs. Between 2006 and 2016, the wage premium for workers with tertiary education, relative to those with secondary education, fell by more than 15 percentage points (Figure 3.21) (OECD, 2019b). The compressed wage distribution (see above) also contributes to reduce the tertiary education premium, creating incentives for tertiary graduates to migrate.

Employer surveys should be used to collect information on skills needs and should be combined with graduate surveys to shed light on the employment opportunities for different educational programmes. These are extensively used in other OECD countries, such as Australia, Canada or the UK (OECD, 2016b; OECD, 2017b; Box 3.2). The collected information should be shared across ministries, employment services, schools, parents and the wider public to enable adjustment of both supply of and demand for education (OECD, 2017b). This information could also be used by career counselling services for students and to guide the development of lifelong learning programmes that respond to labour market needs. Better alignment between wage increases and individual productivity would also enhance lifelong learning incentives and increase labour market mobility, leading to a better use and allocation of labour resources.

Figure 3.21. The returns to tertiary education are falling





Note: The OECD average is the unweighted average of all countries shown. Low-paid jobs are those paying less than two thirds of the median wage, while high-paid jobs are those paying more than 1.5 times the median wage. The time period covered is 2006-16, except for Korea (2006-14), Australia (2006-15). Greece, Portugal and Latvia (2007-16), Italy (2007-15), Switzerland (2008-15). Chile, Canada, Ireland and Luxembourg (2006-15), and Iceland (2006-13).

In panel B, the reported values are approximate changes in percentage points obtained from country-specific regressions of log of wages on the relevant covariates.

Source*: OECD, "The Future of Work: Employment Outlook 2019".*

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Box 3.2. The UK Employer Skills Survey (ESS)

The Employer Skills Survey (ESS) has been conducted biennially since 2011 under the responsibility of the Department for Education. More than 87 000 establishments are surveyed across the UK, covering all sectors of the economy, and with the condition that they have at least two employees. The information is collected through telephone interviews with the most senior person at the site with human resources management responsibilities.

The questionnaire covers information on the demographics of the firms, recruitment activity and difficulties filling vacancies. Employers are specifically asked about the extent and nature of skills gaps with their current workforce and in the available pool of candidates in the labour market. The questionnaires also covers employers' strategies to overcome these skills gaps.

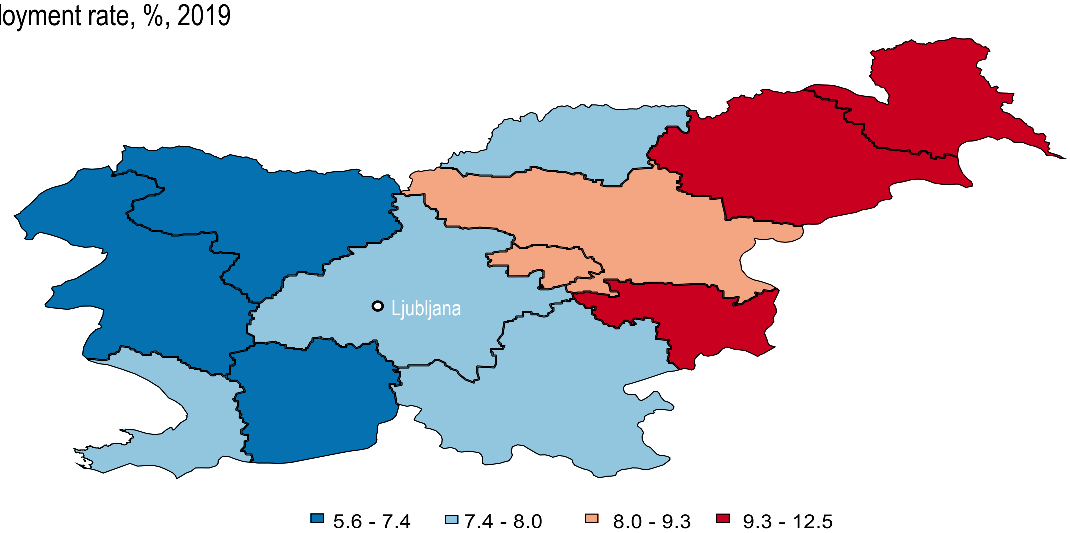
The survey also collects information about specific occupations by grouping them into "high-skill occupations", "middle-skill occupations", "service-intensive occupations" and "labour-intensive occupations". The full questionnaire, as well as further information on the questionnaire design, can be found at: https://www.gov.uk/government/publications/employer-skills-survey-2017-uk-report.

Lack of spatial mobility hampers the optimal allocation of workers to jobs

Unemployed workers in Eastern Slovenia are not seeking opportunities in the Western regions (Figure 3.22). This cannot be explained by educational mismatch. Notably, although educational attainment is lower in the Eastern regions of the country, there is a shortage of low-skilled workers in the services industries in the Western parts of the country (Statistical Office, 2018). Geographical mobility is low, both in terms of regional migration and in terms of inter-regional commuting (Statistical Office, 2018).

Figure 3.22. Unemployment is higher in Eastern Slovenia than Western Slovenia

Unemployment rate, %, 2019



Source: Statistical Office of Slovenia.

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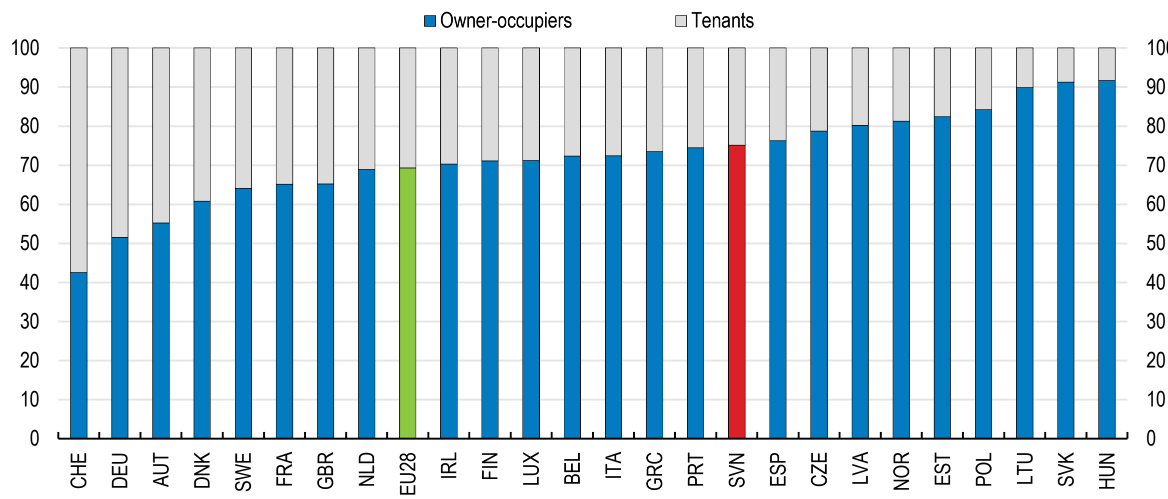
Residential mobility is much lower than in other OECD countries (Caldera Sánchez and Andrews, 2011). In 2019, less than 4% of households changed residence within the last 2 years as compared with more than 20% in countries like Australia, Sweden or the United States (Causa and Woloszko, 2019). This low residential mobility is linked to relatively high and widespread home ownership (Figure 3.23). This is partly the result of the privatisation process of public housing in 1991, where average selling prices were approximately 10 per cent of market values (Sendi, 2018; Stanovnik, 1994). Tax favouring of owner-occupied housing is another contributing factor (OECD, 2018e). Owner-occupied housing should be taxed as other assets to remove investment bias.

Figure 3.23. Slovenia has a high home-ownership rate

Percentage out of all occupied dwellings, 2019 or latest year available



Source: Eurostat, European Union Statistics on Income and Living Conditions (EU-SILC) database.

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Large geographical differences in house prices make it difficult for residents in low house price areas (for example, in the East) to afford properties in high price areas (such as in the capital Ljubljana and its surroundings). Geographical house price differences are being widened by a slow housing supply responsiveness to demand increases (Bank of Slovenia, 2018). To improve geographical mobility and the spatial allocation of workers to jobs, several measures should be taken to increase housing supply responsiveness, such as lowering the regulatory burden on construction permits and the number of regulated professions in the construction industry (Box 3.3).

Younger workers are often locked in where their parents live, which prevents them from moving to areas with better employment opportunities. The high share of temporary employment among the youth complicates their access to housing loans, often forcing them to rely on intergenerational transfers (Cirman, 2008). Those who cannot rely on family loans often continue to live with parents or relatives. In fact, the share of young couples sharing household with parents has increased over time to become one of the highest in the EU (Cirman, 2006; Iacovou and Skew, 2011). Continued efforts to lower strictness of Employment Protection Legislation, as discussed, would also help in this area.

Labour market mobility is also hindered by a largely unregulated and underdeveloped private rental market (Sendi, 2016; Box 3.4). Housing policy should promote the private rental market as an alternative to home-ownership. Housing rental provides greater career flexibility, with lower reallocation costs when accepting an employment opportunity elsewhere. This can lead to more dynamic labour markets, lower mismatches and higher productivity (Oswald, 2019). Renting also provides higher financial flexibility (Banks, Blundell, Oldfield and Smith, 2012). Collecting systematic information about rental activity would reduce information asymmetries, while adequate regulation on rent termination of contracts, sharing of maintenance responsibilities and limiting potential rent increases, would reduce uncertainty, ease negotiations and make renting a more attractive option.

Box 3.3. Policies to encourage housing supply responsiveness

Housing construction activity remains below its 2008 levels despite rapid house price increases, particularly in the capital. Construction of residential dwellings fell by more than 40% between 2010 and 2016 (European Commission, 2019).

To improve housing affordability and labour mobility, Slovenia could consider tackling several factors that restrict housing supply responsiveness.

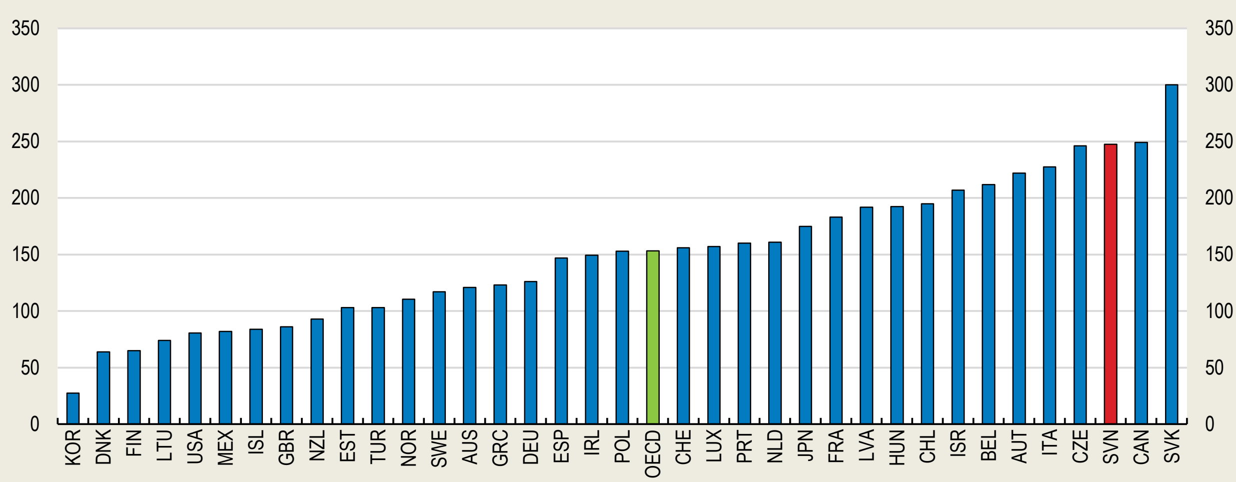
Construction permits. The activity of foreign companies in the construction sector is considerably lower in Slovenia than peer countries (OECD Globalisation Database, 2014). The high regulatory burden could explain the lack of entry by foreign firms. Obtaining a building permission takes on average 247.5 days which is among the highest in the OECD (Figure 3.24). Some changes have been recently implemented, such as issuing environmental and construction permits together to accelerate the procedure (European Commission, 2018).

Regulated professions. Overall, Slovenia still has 262 regulated professions. In the best performing OECD countries, for example, there are as little as 40 regulated occupations (EU Database on regulated professions). As recommended in previous *surveys*, the government should consider significantly lowering the number of regulated professions (OECD, 2017a). In particular, there is still a high number of regulated professions in the construction industry. Access to the profession of civil engineer, for example, which is currently in shortage, is still highly regulated (OECD, 2017a).

Public procurement. The public procurement system is not promoting competition in the construction sector. A high proportion of contracts is awarded with only one bidder (European Commission, 2019). Procurement related complaints are common, mostly driven by the perception of tailor-made tenders (European Commission, 2016). Other irregularities have been identified, such as access to technical specification before publication of the tender, provision of false statements in the bid or excessive additional expenses for “unforeseen works” (European Commission, 2016). Recent improvements in e-procurement will help strengthening oversight of public procurement procedures and controls over above-normal expenses (OECD, 2019c).

Figure 3.24. It takes long time to get a construction permit

Days to obtain a construction permit, 2018



Source: World Bank Doing Business.

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Box 3.4. Policies to promote the development of a private rental market

The private rental sector is largely unregulated and there is no official data collection of market rental prices (Sendi, 2016). Inadequate inspection and non-existing registers mean that most of the rental activity is unofficial (Petroviç and Meznar, 2015). Poor information makes it difficult for the renter and the landlord to determine a market based rent, deterring the development of a private rental market.

There are no rules on rent increases, removing rent predictability and reducing incentives for renting. Property owners also face disincentives to let properties in the absence of adequate legislation on deposits to cover potential claims after the contract termination, and responsibilities of parties regarding maintenance works.

Property owners are also deterred by lengthy court procedures for tenancy disputes. The average length of proceedings is 13.2 months with another average of 4.6 months for appeals (Petroviç and Meznar, 2015).

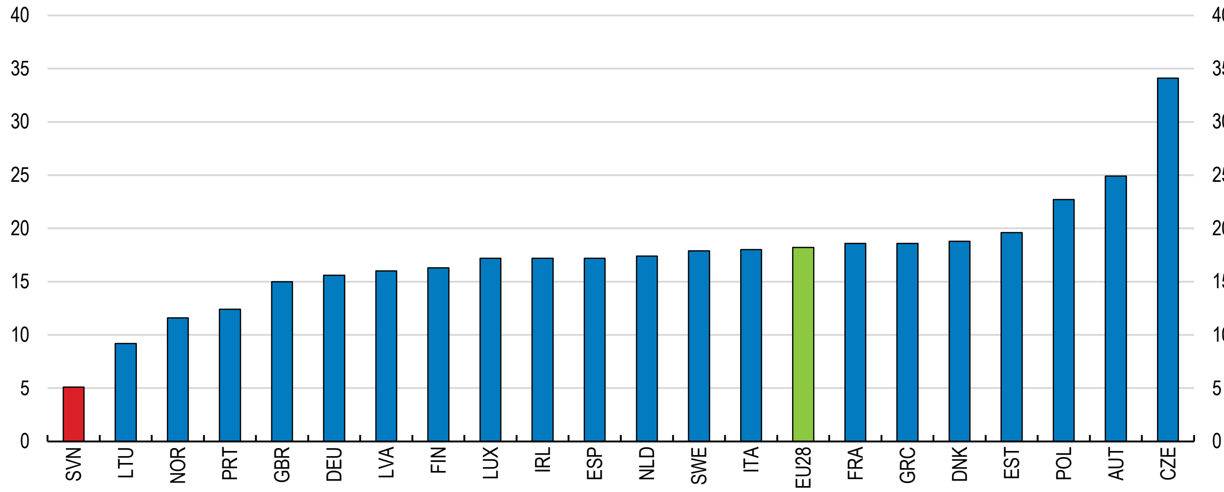
Tenants face high uncertainty with respect to lease renewal. Almost all rental contracts are fixed-term with no tacit renewal. Tenants must explicitly demand the contract prolongation and new terms can be agreed every time. This creates additional incentives for short-term rental contracts, adding to uncertainty. The law also specifies that energy performance certificates are only needed for owners who rent their dwelling for more than one year.

Adequate regulation could boost the development of the private rental market. Collecting information and keeping records of rental activity would reduce asymmetric information problems. The regulation should allow landlords to terminate indefinite contracts should any justifiable need arise, such as for own occupation, for example. Rules limiting rent increases during tenancy, assigning maintenance responsibilities and clarifying deposit requirements should also be considered to reduce uncertainty, ease negotiations and make renting a more attractive option. Energy performance certificates should be required regardless of the rental contract duration.

Labour force participation and mobility would also benefit from further development of public transportation. The share of public transport in the total land passenger transport is the lowest in Europe (Figure 3.25). Among the reasons why public transportation is so unpopular in Slovenia, 26.7% of inhabitants blame the sub-optimal design of itineraries and an additional 16.6% point out to the lack of accessibility of the public network, i.e. distance from residence to stations or connectivity between different modes of transportation (Eurostat, 2019). There is international evidence that better public transportation accessibility increases labour force participation and lowers labour mismatches, by widening the range of opportunities for employment (Atiullah Saif, Maghrour Zefreh and Torok, 2018).

Figure 3.25. Public transport is little used in Slovenia

Share of public transport in total land passenger transport, %, 2017



Source: Odyssee database.

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A factor behind the poorly developed public transportation is lack of competition in the road and railway sectors. Regulation is extensive compared to other OECD countries, discouraging the entry of new operators and reducing the supply of public road and rail transportation services (Figure 3.26). In the road sector, despite the high number of private bus operators, mostly within cities and between municipalities, the development is hindered by high licensing requirements to create new fast-lane and long-distance routes.

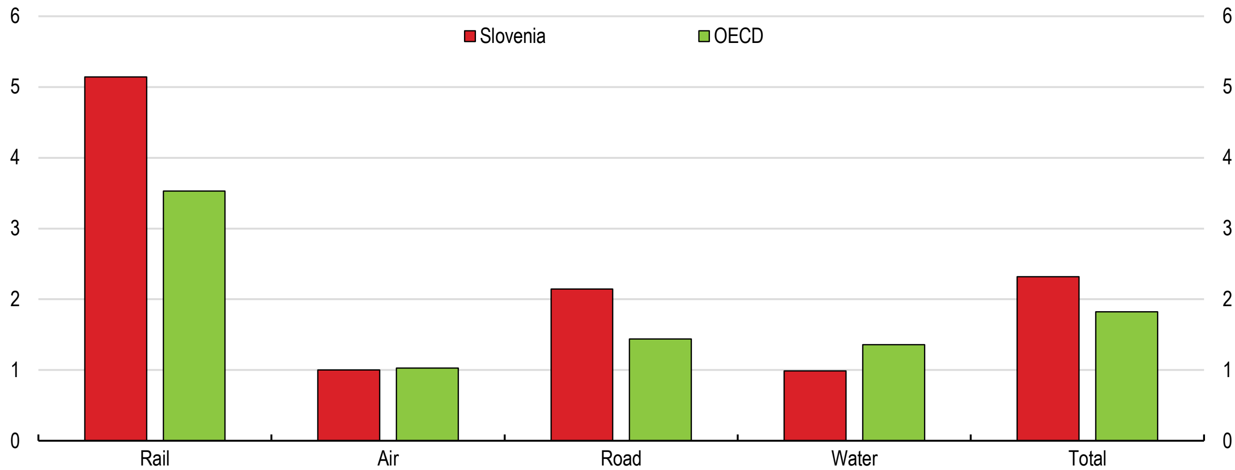
The heavy state involvement limits the entry of other operators in the railway sector. There are only two rail operators in Slovenia: one large publicly owned company that enjoys a quasi-monopoly and a small private firm. The state-owned company that develops the rail infrastructure is also the main rail operator. Adding to the issue, there is no independent system operator to guarantee non-discriminated access to the infrastructure for other potential operators.

Increasing competition in the rail and road sectors could help improve the quality and the accessibility of the public transportation network, with positive effects on cross-regional commuting. This can be achieved through privatisations, attributing public service contracts through tenders that abide to international standards, and streamlining entry procedures.

The tax-free commuting allowance creates a disincentive for residential mobility, while also failing to promote commuting using public transports. This allowance is calculated as the equivalent to the price of public transportation from the place of living to the place of work. The further away individuals live from their place of work, the higher the amount received in commuting allowance. In total, commuting allowances amount to an average of 4.3% of gross earnings (Statistical Office of the Republic of Slovenia, 2019). As it comes with no requirement to use the public transportation network, it promotes the use of private cars instead.

Figure 3.26. Regulation for rail and road transport is high in Slovenia

Product market regulation indicator from 1 (least restrictive) to 6 (most restrictive)



Source: OECD Product Market Regulation (PMR) Indicators.

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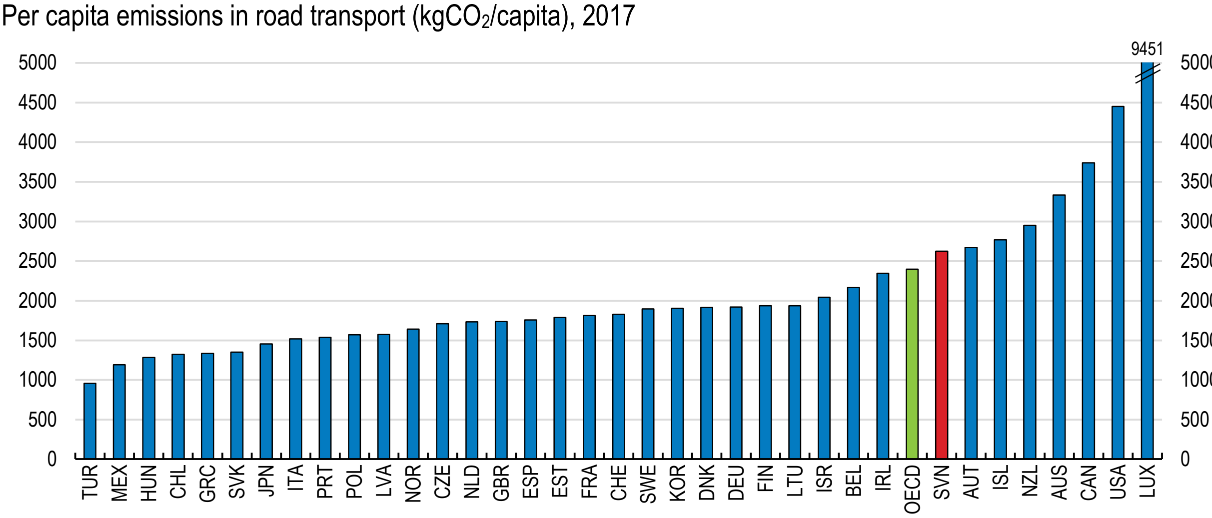
The rigid housing market and the lack of a well-developed public transportation system have contributed to widespread commuting by car. High reliance on private cars for commuting has negative environmental consequences. More than 80% of individuals use private cars for their work commute (Ministry of Infrastructure, 2016). Together with the high volume of transit traffic, this means that Slovenia has the second highest CO_2 emissions per capita in road transport among the European OECD countries (Figure 3.27).

The flat-rate vignette for motorway use also contributes to high CO_2 emissions from road transport, as it creates no incentives to limit car use. Distance-based road charges could be considered again. Preferably, this should include the use of the secondary and tertiary road networks to avoid substitution effects away from motorways. However, such technology remains to be developed and until then, Slovenia could consider implementing congestion charges.

Figure 3.27. Slovenia's road traffic is a high CO_2 emitter

Per capita emissions in road transport (kgCO_2/capita), 2017



Source: OECD Energy database.

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Taxing the commuting allowance together with other personal income would increase the basis for personal income taxation, as discussed earlier. It would also reduce disincentives for residential mobility, as a lower fraction of net income would come from the commuting allowance. Eligibility could be limited to unemployed workers who accept a position in another region and its duration could be limited in time (for example, to one year after starting the new position). This should provide sufficient incentives for geographical reallocation, without hindering residential mobility or promoting car use.

There is scope to raise fuel taxation to moderate road traffic emissions, in particular, the carbon tax on diesel. Transport fuels are subject to a fuel specific excise duty and a carbon tax. Adding excise duty and carbon tax together, less tax is paid per litre of diesel than gasoline. Although fuel taxes are relatively high compared with neighbouring countries, except Italy, aligning effective tax rates on different forms of energy to reflect their environmental damage could reduce emissions from road transport (OECD/ITF, 2019).

SOEs retain workers that could be redirected to more productive activities

SOEs account for a large share of employees in the non-financial sector. The national accounts statistics show that 7% of all employees in the non-financial sector work in SOEs, while other studies have provided estimates of 23%, when considering SOEs where the government has at least a 25% stake (OECD, 2017a; Ivanc, 2015; Domadenik et al, 2018). In recent years, the share is likely to have fallen due to fast private sector employment growth and privatisation. Nonetheless, compared to other emerging Eastern European countries, Slovenia has the second highest share of employment in SOEs, only after Bulgaria (Böwer and Baqir, 2017). Accelerating the privatisation process could liberate labour resources for the benefits of firms experiencing severe labour shortages. Indeed, previous privatisation experiences in OECD countries were associated with restructuring procedures leading to substantial declines in SOEs' employment (OECD, 2003).

State-Owned Enterprises (SOEs) are largely overstaffed. In fact, SOEs have a higher average cost of labour per unit of output produced than private firms in the same sector of activity (Böwer and Baqir, 2017). In the transportation sector, for example, the average cost of labour per unit of output produced in SOEs was more than twice that of private firms. Overstaffing of SOEs represents an inefficient allocation of labour. Liberating labour resources from low-productivity SOEs to more productive firms would contribute to raising the efficiency of labour market allocation and long-term potential economic growth.

Table 3.2. Main findings and recommendations on the labour market

MAIN FINDINGS	MAIN RECOMMENDATIONS
Underutilised labour resources need to be mobilised to sustain economic growth	
Harder-to-place workers receive insufficient support.	**Redirect employment and training subsidies to job-seekers with high assistance needs.** Implement statistical profiling to identify unemployed persons requiring intense support. Regularly assess the impact of all ALMPs to redirect spending towards the most effective programmes and improve evidence-based policy-making.
Unemployment, inactivity and low-wage traps are high.	**Introduce "in-work" benefits.** **Continue to reduce labour tax rates by broadening their bases and bolstering property taxation.** Tighten the "reasonable job offer" definition in the unemployment benefit eligibility criteria regarding the distance between job offer and residency.
	Tax owner-occupied housing as other assets to remove investment bias. Rely more on less growth-distortive taxes, such as recurrent taxes on immovable property that use the market value as basis for taxation.
Social benefits are used as pathways to early-retirement.	**Reduce favourable treatment of older workers in unemployment benefit, disability and social assistance systems by curtailing age-dependent rules.** Ensure that all individuals with partial disability who retain some work capacity are referred to occupational rehabilitation. Tighten disability insurance eligibility and consider work capacity for a broader set of occupations
Maximising long-term potential growth entails an efficient allocation of labour	
Co-ordinated wage bargaining hampers labour re-allocation.	**Determine more of the framework conditions at the sectoral level, such as seniority bonuses and minimum wage levels.** **Give social partners greater responsibility in the wage bargaining process at the firm level.** Limit the use of automatic extensions to all firms and increase the possibility for derogations and opt-out clauses.
Participation in lifelong learning is low	Increase financial incentives to individuals and employers for lifelong learning by introducing tax incentives, training levy funds, income-contingent loans or individual learning accounts.
Students lack information about returns to education	Develop a system to collect and spread reliable data on skills needs, and use it to develop lifelong education programmes that respond to labour market needs.
Labour mobility is low.	**Tax owner-occupied housing as other assets to remove investment bias.** Promote spatial mobility by taxing property based on market value**.** Increase housing supply responsiveness by streamlining procedures to obtain a construction permit and reduce the number of regulated professions in the construction industry. **Promote the private rental market by introducing regulation that better balance the interest of landlords and tenants.** Promote cross-regional commuting through public transportation by reducing state involvement in the road and railway sectors, streamlining regulation and licensing procedures**.**
SOEs are overstaffed and could liberate labour resources to higher-productivity activities	Accelerate the process of privatisations, for example, in the public transportation sector.

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SLOVENIA

Slovenia acted swiftly to contain the COVID-19 outbreak. Despite extensive fiscal measures, the economic impact is severe with a recession in 2020. The economic recovery should pick up, but a new outbreak could lead to higher long-term unemployment and lower growth. Looking further out, population ageing is leading to a higher number of pensioners as the labour force becomes smaller and older. These developments are creating two main long-term challenges. The first is to contain ageing-related spending increases in pensions and health and long-term care. Longer working lives is key to secure the pension system's fiscal sustainability, while better use of economic signals is needed to improve the efficiency and effectiveness of the health and long-term care systems. The second challenge is to sustain growth with a changing workforce.
In the near-term, underutilised labour resources, such as older and low-skilled workers, need to be mobilised. Thereafter, maintaining growth and income convergence requires faster productivity growth, pointing to a need for continuously improving labour allocation.

SPECIAL FEATURES: PUBLIC POLICY CHALLENGES OF AGEING; LABOUR MARKET INSTITUTIONS FOR AN AGEING LABOUR FORCE

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