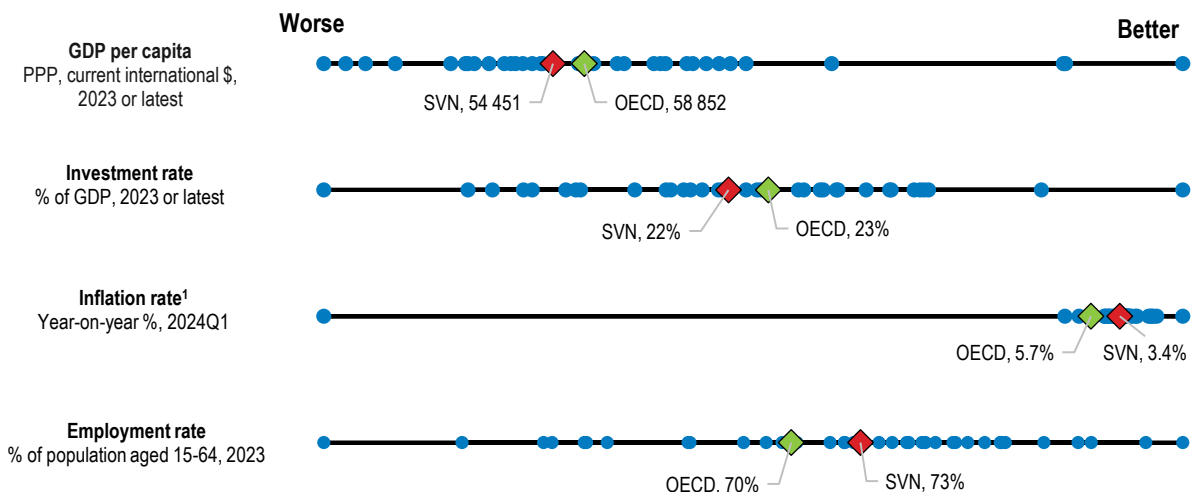


1 Amid macroeconomic challenges, policy reforms need to accelerate

Slovenia has been hit by multiple external shocks, which has put an end to a strong rebound of economic growth and improving public finances following the Covid-19 pandemic. Inflation rose to unprecedented levels, initially triggered by rising commodity prices and supply-chain bottlenecks, accompanied by a strong domestic policy stimulus that likely overheated the economy and later exacerbated by the fallout from Russia's war of aggression against Ukraine (Figure 1.1). As the interest rates in the euro area increased sharply to curb accelerating inflation, real incomes of households stagnated, borrowing costs spiked and business confidence weakened. Domestic demand softened while foreign demand for Slovenian exports abated on the back of the general slowdown in the euro area. At the same time, the labour market has remained resilient and firms in many sectors report persistent labour shortages. The supply-side constraints will also complicate reconstruction efforts after the devastating floods that hit last summer.

Figure 1.1. Economic indicators



Note: ¹ Indicator reversed so that the right side of the scale corresponds to a better outcome.

Weighted average for the OECD.

Source: OECD National Accounts database; OECD consumer price indices complete database; OECD labour market statistics database; and OECD calculations.

StatLink  <https://stat.link/rj368h>

Despite these shocks, fiscal policy has been mildly contractionary in 2023. As growth gradually recovers and inflation continues to diminish, the need to meet post-flood reconstruction needs while swiftly unwinding the remaining emergency measures adds to the existing medium-term challenges. Fiscal buffers need to be rebuilt, and, assuming no policy change, fiscal sustainability in the medium term remains under pressure from high ageing-related costs. Further reforms are imperative in the pension and health-care system as well as the public wage system.

Stronger productivity growth will be needed to sustain living standards amid a sharply declining share of the working-age population. Productivity growth has been held back by lacklustre investment in tangible and non-tangible capital and barriers in the service sectors. Reforms to further develop capital markets and strengthen competition would help boost business dynamism.

Progress on key reforms discussed in the last *Survey* has been limited. The tax and benefit system has been adjusted following devastating floods in August 2023, but the main reforms planned by the government – such as the pension reform, the public wage system reform, and the property tax reform – have stalled. Simulations from the long-term model show that increasing competition in services and network sectors to the average of the five best-performing OECD countries has the potential to raise GDP per capita by 0.9 percentage points over 10 years. Furthermore, reducing the high labour tax wedges and replacing these revenues of the tax system with less distortive sources, such as property taxation, could

raise GDP per capita by an additional 2.5 percentage points. Most importantly, tighter eligibility for unemployment benefits and a higher effective retirement age, even if introduced gradually over 10 years, would add another 2.6 percentage points to GDP per capita (Table 1.1).

Table 1.1. Illustrative impact on GDP per capita of structural reforms

Difference in GDP per capita 10 years after reform

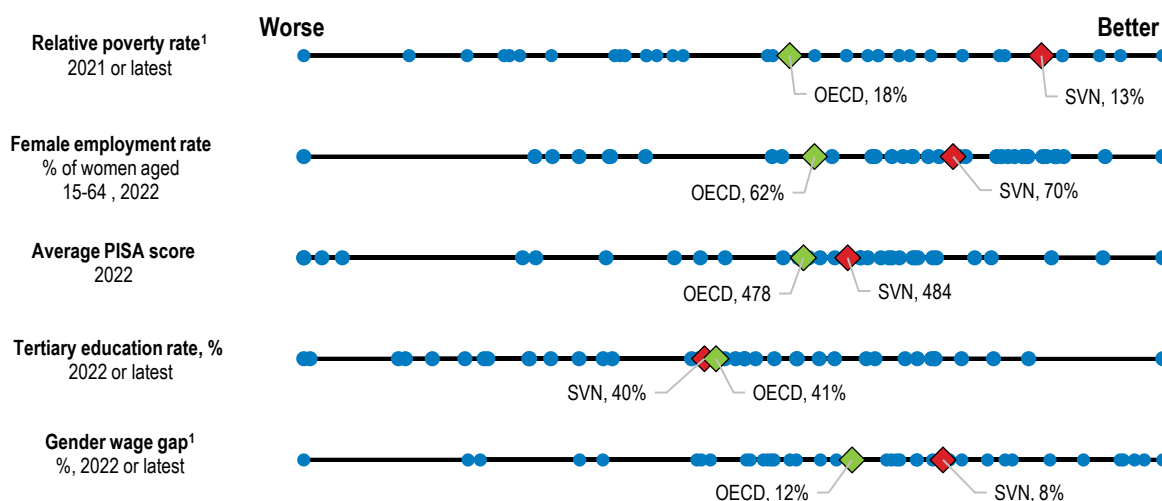
	% of GDP
Competition reform	
Increase competition in service and network industries to the average of 5 best performing OECD countries.	+0.9
Tax reform	
Reduce labour tax wedges to the OECD average while increasing recurrent taxes on immovable property.	+2.5
Pension reform	
Increase the minimum retirement age and the contribution period required for a full pension to increase the effective retirement age by 2 years.	+2.6
Total impact on GDP per capita	+6.0

Note: For the competition and tax reforms the time span is 5 years. The pension reforms are introduced over 10 years.

Source: Simulations based on the OECD Economics Department Long-term Model.

While female employment is relatively high (Figure 1.2), improvements in gender equality can further boost labour supply and enable optimal use of human capital. The tax and benefit system should be adjusted to increase labour market earnings of second earners and single parents, who are often women. Policies ensuring better sharing of household and caring responsibilities would help to further reduce the gender wage gap, together with swift transposition of EU legislation on pay transparency into domestic law.


Figure 1.2. Inclusiveness indicators



Note: ¹ Indicator reversed so that the right side of the scale corresponds to a better outcome.

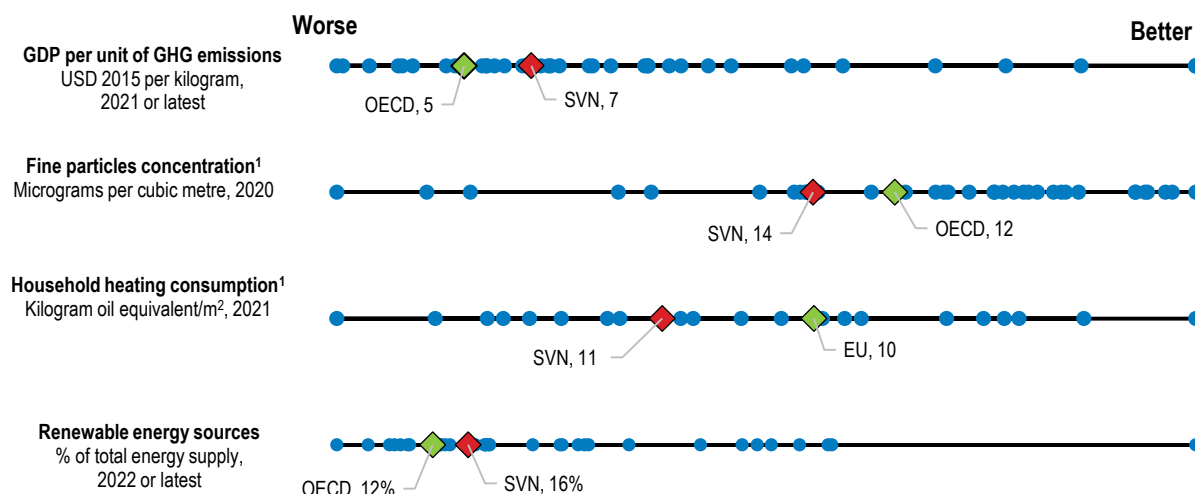
Weighted average for the OECD, except for the relative poverty rate (unweighted average). Relative poverty rate is the rate after taxes and transfers with poverty line at 60% median household income. Average PISA score is the average scores of math, science and reading.

Source: OECD income distribution database; OECD PISA database; OECD Education At a Glance database; OECD Employment Statistics; and OECD calculations.

StatLink  <https://stat.link/z278i9>

Another key challenge is to make growth more sustainable by accelerating the decarbonisation of the economy (Figure 1.3). This requires that all sectors contribute to emission reductions and calls for phasing out environmentally harmful fossil fuel subsidies in agriculture, energy and transportation. Such efforts should be complemented by additional measures to shift to clean energy and strengthen adaptation to climate risks.

Figure 1.3. Sustainability indicators



Note: ¹ Indicator reversed so that the right side of the scale corresponds to a better outcome.

Weighted average for the OECD. GDP per unit of GHG emissions is the production-based CO₂ productivity. Fine particles concentration is mean population exposure to PM_{2.5}. Household heating consumption is energy consumption per m² of households for space heating scaled to EU average climate.

Source: OECD Green growth indicators database; AIE database; Odyssee-mure; and OECD calculations.

StatLink  <https://stat.link/zolwaj>

Slovenia's housing market faces challenges that are, to a great extent, rooted in the privatisation era of the 1990s, resulting in high homeownership, low residential mobility and insufficient housing supply. This situation is particularly challenging for young families and first-time buyers, who are constrained in a market where strong demand meets inadequate supply. Inefficiencies in spatial planning and prolonged permitting processes weigh on residential construction activity. Insufficient social housing, as well as narrow private rental and mortgage markets restrict housing options, while the prevalence of secondary homes and short-term rentals, encouraged by the existing regulatory and tax frameworks, undermine housing affordability.

Against this background, the main messages of this Survey are:

Fiscal policy needs to tighten to help fight inflationary pressures, restore fiscal buffers and address long-term spending pressures. Further macroprudential measures should be introduced, if needed, to ensure financial stability.

Tax and benefit system reforms are needed to lift labour market participation and further narrow the gender gap in wages and retirement savings. Policies encouraging equal sharing of childcare responsibilities and increased pay transparency could also help rekindle progress on gender equality.

The green transition requires further efforts to reduce emissions by using mitigation policies more effectively, including higher carbon pricing and regulatory measures. This entails greater harmonisation of carbon prices, before raising them gradually. In addition, a faster deployment of renewables will be key for the energy transition and achieving energy security.

The housing sector, strained by high demand and insufficient supply, requires swift and comprehensive reform. Streamlining spatial planning, overhauling property taxation and boosting the provision of social housing would expand tenure choices, enhance mobility and provide young families and non-owners with diverse, sustainable living options.



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