Executive Summary

The economy has been resilient

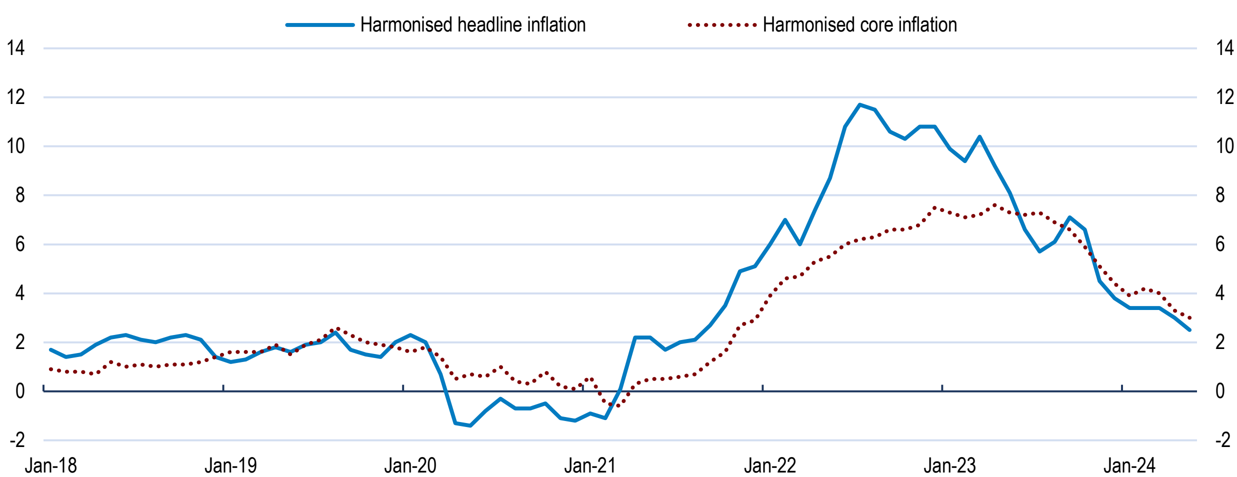
The economy proved resilient to external shocks following Russia's war of aggression against Ukraine, but the post-pandemic recovery has slowed. Inflation has fallen but remains elevated. Improving fiscal sustainability, amid ongoing reconstruction after the devastating floods of 2023, is a key challenge.

Following a robust recovery from the pandemic, economic growth has slowed amid weaker private consumption and foreign demand. The labour market remains tight, although employment growth is weakening, notably in manufacturing. A high number of job vacancies points to widespread labour shortages, leading to strong nominal wage growth. At the same time, real wage growth outpaced labour productivity and is eroding external competitiveness, adding to the headwinds facing the export sector.

Inflation has peaked but remains higher than in the euro area (Figure 1). While energy prices have fallen, services inflation remains elevated, mainly driven by strong wage growth. Policy-makers must find a balance between protecting real incomes, limiting second-round effects on inflation and avoiding sustained losses of competitiveness. Supportive fiscal measures add to inflationary pressures and need to be phased out swiftly.

Figure 1. Inflation remains high

Y-o-y % changes



Note: Core inflation refers to the index of consumer prices excluding food, energy, alcohol and tobacco.
Source: Eurostat Harmonised index of consumer prices (HICP) database.

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Growth is projected to pick up gradually (Table 1). The labour market is projected to stay strong and private consumption will rebound as disinflation continues. Risks are dominated by the fallout from the ongoing war in Ukraine and further geopolitical disruptions.

Financial conditions have tightened considerably. Borrowing costs for households and firms have increased and the real estate market is cooling. Recent macroprudential measures, including higher counter-cyclical capital buffers, are effective in limiting financial stability risks and should be stepped up, as needed.

Table 1. Growth has slowed

	2022	2023	2024[1]	2025[1]
Real GDP (% change)	2.5	1.6	2.3	2.7
Private consumption (% change)	3.6	1.3	1.6	2.3
Gross fixed capital formation (% change)	3.5	9.5	4.0	3.9
Harmonised index of consumer prices (% change)	9.3	7.2	3.3	3.5
Unemployment rate (%)	4.0	3.7	3.7	3.5
General government fiscal balance (% of GDP)	-3.0	-2.5	-3.1	-2.6
Public debt (Maastricht, % of GDP)	72.5	69.2	69.7	69.2

1. OECD estimates.
Source: OECD Economic Outlook 115 database.

Fiscal consolidation is needed to support disinflation and rebuild fiscal space to address emerging pressures. Ageing-related costs, notably on pensions, will increase sharply and need to be countered. High labour tax wedges for low-wage workers could be reduced by broadening the base for consumption taxes and increasing recurrent taxes on immovable property. The minimum retirement age and the minimum contribution period required for a full pension need to be increased, with the former linked to life expectancy.

Improving gender equality further

Female labour force participation is high but some gender wage gaps persist. Adjustments in the tax and benefit system are needed to further increase labour market participation of second earners and single parents.

Progress on gender equality has slowed. Despite above-average labour market participation of women, a gender wage gap persists. Adjustments are needed to the tax and benefit system to remove disincentives for second earners and single parents, often women, from entering the labour market or moving from part-time to full-time employment.

Complementary measures are needed in other areas. This includes better sharing of household and caring responsibilities to reduce gender differences in sectoral activity. The recent increase in parental leave entitlements reserved for fathers is welcome, but it could be followed by other measures, for example expanding flexible working arrangements. Gender stereotypes could be reduced through positive role models, better career guidance and reforms to the education system. Policies to reduce the gender pension gap are needed to adjust for past gender differences in wages and should be complemented by pay transparency rules aligned with EU legislation.

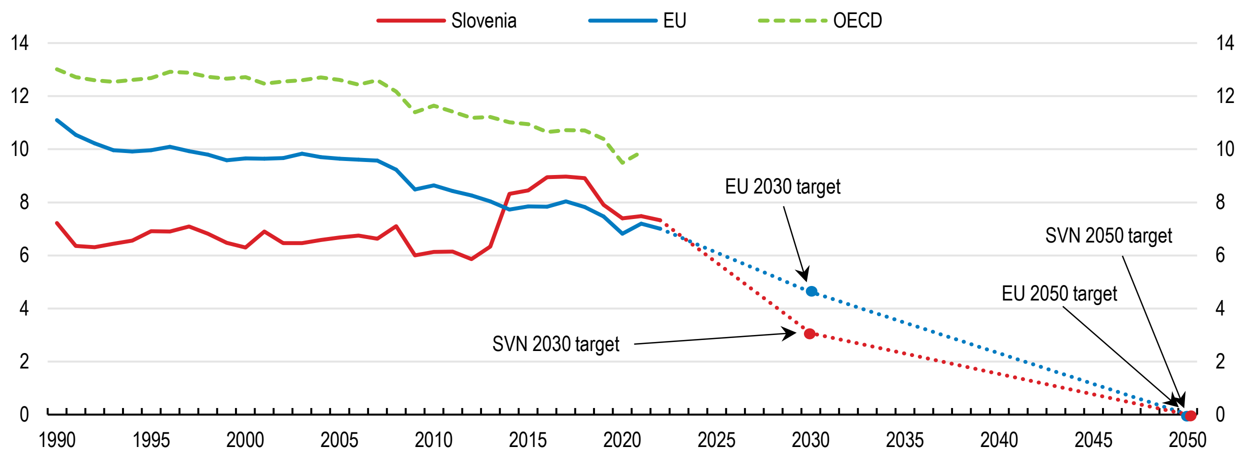
Accelerating the green transition

An acceleration of emission reductions is needed to achieve net zero emissions by 2050 (Figure 2). This entails reducing agricultural and transport emissions as well as additional measures to shift to clean energy, notably a faster deployment of renewables. Also, stronger adaptation to climate risks is needed.

Greenhouse gas emissions are in general low but have not been reduced over the past decade. Emissions in the transport sector have increased, while agricultural emissions have remained unchanged. In addition, power generation accounts for a relatively large share of emissions due to the expansion of coal power since 2015. More action is needed across all sectors, but particularly in agriculture, energy and transport, to achieve the net-zero target by 2050.

Figure 2. Emission reductions must accelerate

Greenhouse gas emissions, tonnes of CO_2 equivalent per capita



Note: Greenhouse gas emissions include those from the land use/land use change and forestry sector.
Source: Eurostat; European Environment Agency; OECD Environment database; OECD Population database; and OECD calculations.
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There is a need for greater harmonisation of carbon rates, while raising them gradually. Reduced tax rates on fossil fuels, including diesel and heating gas, impose heterogeneous abatement incentives across sectors, leading to higher costs of achieving climate targets. The additional revenues from higher carbon pricing could be used to provide targeted support to households most vulnerable to higher carbon pricing.

Emissions in the transport sector are on the rise. The relatively low taxation of transport fuels and the generous commuting allowance encourage passenger road transport. Insufficient charging stations slow the rollout of electric cars. Moreover, public transport needs to be developed further.

Agricultural emission reductions have stalled over the past decade. This reflects agricultural diesel subsidies and direct payments to farmers that keep livestock numbers high. Below-market rental prices for state-owned agricultural land keep more agricultural land in use than would otherwise be the case. In addition, the polluter-pays principle does not apply to emissions from agriculture.

The deployment of renewables is behind schedule. Barriers to the deployment of renewables include lengthy planning procedures and land use restrictions.

Government subsidies for renewables mostly benefit cost-competitive technologies such as biomass, solar and wind. The recent relaxation of EU state-aid rules has reduced the use of competitive auctions, increasing the fiscal costs of the energy transition.

Many households are exposed to climate risks. The devastating floods in 2023 have exposed shortcomings in flood preparedness, including underinvestment in the maintenance of water infrastructure, and highlighted the need to reduce incentives to settle in flood areas.

Housing supply is insufficient

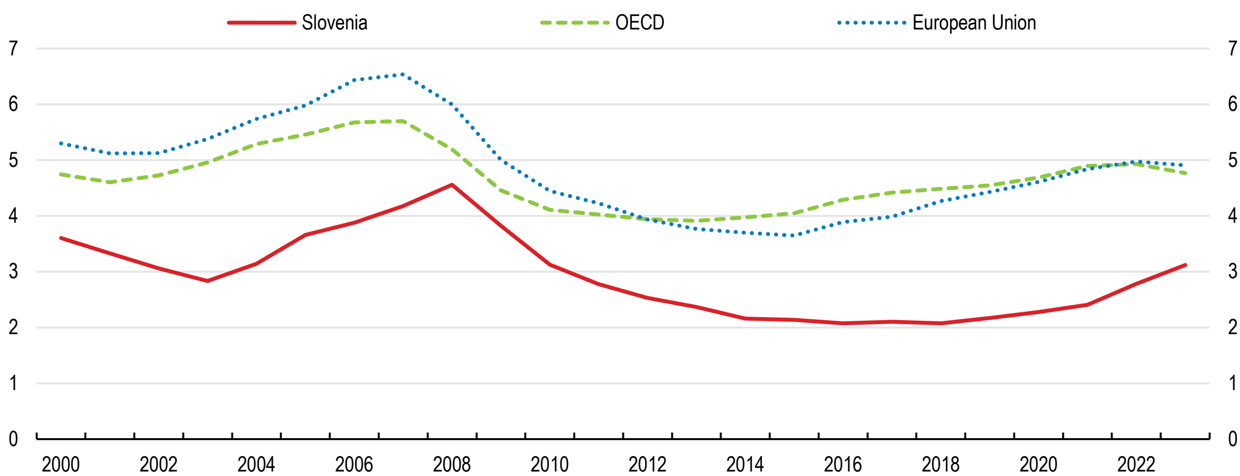
Slovenia's housing market is strained by high demand and insufficient supply, leading to low mobility and growing concerns over housing affordability. Comprehensive reforms are needed to address these issues, including improving the efficiency of the land use and permit system, developing the social and private rental sectors, making mortgage markets more competitive, and transitioning towards energy-efficient housing to meet decarbonisation challenges.

Slovenia's housing market faces growing tensions amid robust demand while supply has been slow to respond. Structural challenges are primarily inherited from the privatisation of housing in the 1990s, which has led to high homeownership, low mobility and increasingly restricted supply, constraining housing options for young families and first-time buyers. Comprehensive reforms are needed to make the housing sector more efficient, inclusive and sustainable.

Inefficient spatial planning and protracted permitting processes constrain residential construction (Figure 3). While recent improvements in permit issuance show promise, the pace remains insufficient to meet strong demand. Streamlining the system, notably through better coordination across municipalities, increasing involvement of the regions, and establishing one-stop shops for building permits could enhance land use efficiency and respond to housing demand more effectively. Metropolitan regions exhibit a low urban footprint, indicating a significant potential for densification, which would simultaneously address housing affordability and environmental concerns.

Figure 3. Residential investment is subdued

Investment in homebuilding, as % of GDP



Note: Data refers to the European Union including 27 countries. Unweighted averages for OECD and European Union aggregates.
Source: OECD Economic Outlook: Statistics and Projections database; Eurostat National Accounts database; OECD calculations.

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The high prevalence of secondary homes and short-term rentals, facilitated by regulatory and tax frameworks, exacerbates the housing affordability challenge. Implementing broad-based recurrent taxes on immovable property can reduce high vacancy rates, mitigate inequality, stabilise the housing market, and support local governance.

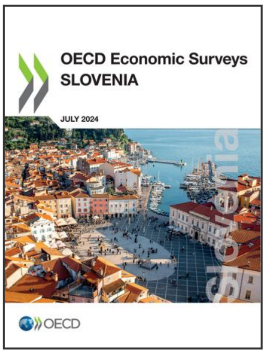
Slovenia's social housing sector is underdeveloped compared to other European counterparts. Comprehensive reforms, including through the forthcoming new Housing Act, should include a thorough revision of the existing social rent formula to establish a more sustainable and economically viable model for social housing investment. Potential providers should also be allowed to lease or acquire land below market rates to facilitate more investment in the sector, including from limited or not-for-profit associations.

Slovenia's private rental market grapples with an inadequate regulatory framework and informality. The sector remains in its infancy, mainly due to high homeownership. Introducing standard rental contracts, eliminating tax biases, and better balancing tenant and landlord rights would enhance rent predictability and revitalise long-term renting, making it a more viable housing option.

Mortgage markets have yet to be developed. Raising awareness of the benefits of well-functioning mortgage markets, including by fostering financial literacy, can contribute to more efficient housing markets. Bank lending is expensive and needs to become more competitive. Additionally, the current foreclosure system may protect borrowers excessively, which could explain high lending margins and tight lending standards.

A large portion of Slovenian residential buildings, predominantly pre-1980 constructions, are misaligned with modern decarbonisation challenges. The recent cost-of-living crisis has highlighted the necessity and urgency of transitioning towards energy-efficient housing. The required investments are significant and beyond the capacity of many homeowners, emphasising the need to combine regulation with effective supportive measures to facilitate the shift towards a greener housing sector.

Main findings	Key recommendations
Strengthen the recovery and ensure fiscal sustainability	
Expansionary fiscal policy adds to continuing inflationary pressures.	Tighten the fiscal policy stance and start restoring fiscal buffers.
Minimum wage increases in a tight labour market have sustained real wage growth, especially at the lower end of the wage distribution, well above labour productivity growth, contributing to inflation and eroding external competitiveness.	Link real minimum wage increases to productivity developments.
High labour tax wedges deter labour market participation and transition to full-time work.	Implement growth-friendly fiscal consolidation by further reducing labour taxes, and increasing consumption and recurrent immovable property taxes.
Ageing-related costs, notably on pensions, will increase sharply, with most of the increase between 2030 and 2050.	Increase the minimum retirement age and the contribution period required for a full pension. Link the minimum retirement age to life expectancy.
Productivity growth is hampered by low levels of investment, limited access to equity financing, particularly for SMEs, and remaining barriers in professional services.	Lift barriers in retail trade and restrictions on professional services.
The anti-corruption framework needs further strengthening. High risk of corruption exists in public procurement.	Continue efforts to fight corruption by accelerating the adoption of the new anti-corruption strategy and defining measures for its application, such as post-employment restrictions for former public officials.
Rekindling progress on gender equality	
High social security contributions and loss of unemployment benefits reduce incentives to take up work for single parents.	Reduce marginal effective tax rates for low-income earners and second earners through slower and more coordinated withdrawal of benefits and social assistance.
Accelerate the decarbonisation of the economy	
The tax system imposes heterogeneous abatement incentives across sectors and activities. Regulated prices and reduced tax rates for environmentally harmful fossil fuels, including diesel and heating gas, continue to undermine decarbonisation efforts.	Remove reduced tax rates for diesel and heating gas. Swiftly implement the phase out of regulated gas prices. Gradually increase carbon taxes in the non-ETS sectors to the ETS price level and compensate social costs.
The market share of public transportation remains low, as the commuting allowance encourages private car use.	Enhance incentives for the use of public transportation, including by reducing the commuting allowance, introducing congestion-based road pricing and ensuring public transport fares are competitive.
Agricultural subsidies for diesel continue to promote emissions.	Remove agricultural diesel subsidies and redirect funding to support those most affected by higher mitigation costs.
Lengthy permitting times increase the deployment costs of renewables.	Streamline permitting procedures and lower land use restrictions for renewable energy projects.
Addressing housing challenges	
Spatial planning suffers from fragmentation and inefficient governance across layers of government.	Accelerate the implementation of regional spatial plans and incentivise inter-municipal cooperation in the design of local plans.
Processes for obtaining building permits are lengthy and costly.	Establish a centralised one-stop shop for submitting and tracking building permit applications.
Rental regulation is overly restrictive and often bypassed.	Introduce standardised rental contracts. Specify mandatory clauses to ensure the contracts comply with national law and protect both landlords and tenants.
Revenues from recurrent property taxes are low.	Reform recurrent property taxes based on regularly updated market values. Consider tax deferrals or compensatory measures to protect the most vulnerable.
The social housing stock falls short compared to many other European countries.	Support the establishment of revolving funding schemes by reviewing the social rent formula to cover construction and maintenance costs.



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