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The Secretariat's draft report was prepared for the Committee by Jens Høj and Rory O'Farrell from the OECD secretariat, and Franci Kluzer seconded from the Slovenian Ministry of Finance, under the supervision of Peter Jarrett. Research assistance was provided by Anne Legendre and Klaus Pedersen and editorial assistance was provided by Sylvie Ricordeau.

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BASIC STATISTICS OF SLOVENIA, 2016

(Numbers in parentheses refer to the OECD average)*

LAND, PEOPLE AND ELECTORAL CYCLE

Population (million)	2.1		Population density per km^2	102.5	(37.2)
Under 15 (%)	14.9	(17.9)	Life expectancy (years, 2014)	81.2	(80.6)
Over 65 (%)	18.4	(16.6)	Men	78.2	(77.9)
Foreign-born (%, 2013)	16.6		Women	84.1	(83.3)
Latest 5-year average growth (%)	0.2	(0.6)	Latest general election	July 2014	

ECONOMY

Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	44.0		Primary sector	2.3	(2.5)
In current prices (billion EUR)	39.8		Industry including construction	32.4	(26.7)
Latest 5-year average real growth (%)	0.8	(1.8)	Services	65.4	(70.8)
Per capita (000 USD PPP)	33.1	(42.1)			

GENERAL GOVERNMENT[a]

Per cent of GDP

Expenditure	45.5	(40.9)	Gross financial debt	97.8	(109.0)
Revenue	43.6	(38.0)	Net financial debt	29.3	(70.0)

EXTERNAL ACCOUNTS

Exchange rate (EUR per USD)	0.904		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.582		Machinery and transport equipment	37.4	
In per cent of GDP			Manufactured goods	21.0	
Exports of goods and services	79.1	(53.9)	Chemicals and related products, n.e.s.	17.3	
Imports of goods and services	69.4	(49.3)	Main imports (% of total merchandise imports)		
Current account balance	6.8	(0.3)	Machinery and transport equipment	31.3	
Net international investment position (2015)	-37.8		Manufactured goods	18.9	
			Chemicals and related products, n.e.s.	15.0	

LABOUR MARKET, SKILLS AND INNOVATION

Employment rate for 15-64 year-olds (%)	65.9	(67.0)	Unemployment rate, Labour Force Survey (age 15 and over) (%)	8.0	(6.3)
Men	68.9	(74.7)	Youth (age 15-24, %)	15.3	(13.0)
Women	62.6	(59.3)	Long-term unemployed (1 year and over, %, 2015)	4.7	(2.2)
Participation rate for 15-64 year-olds (%)	71.8	(71.3)	Tertiary educational attainment 25-64 year-olds (%, 2015)	30.2	(34.3)
Average hours worked per year	1 676	(1 766)	Gross domestic expenditure on R&D (% of GDP, 2015)	2.2	(2.4)

ENVIRONMENT

Total primary energy supply per capita (toe, 2015)	3.2	(4.1)	CO_2 emissions from fuel combustion per capita (tonnes, 2014)	6.2	(9.4)
Renewables (%)	16.1	(9.6)	Water abstractions per capita (1 000 m^3, 2014)	0.6	
Exposure to air pollution (more than 10 µg/m^3 of $PM_{2.5}$, % of population, 2015)	100.0	(75.2)	Municipal waste per capita (tonnes, 2015)	0.4	(0.5)

SOCIETY

Income inequality (Gini coefficient, 2013)	0.255	(0.311)	Education outcomes (PISA score, 2015)		
Relative poverty rate (%, 2013)	9.5	(11.1)	Reading	505	(493)
Median disposable household income (000 USD PPP, 2013)	19.7	(22.0)	Mathematics	510	(490)
Public and private spending (% of GDP)			Science	513	(493)
Health care (2015)	8.4	(9.0)	Share of women in parliament (%)	36.7	(28.3)
Pensions (2013)	12.0	(9.1)	Net official development assistance (% of GNI)	0.18	(0.39)
Education (primary, secondary, post sec. non tertiary, 2013)	3.7	(3.7)			

Better life index: *www.oecdbetterlifeindex.org*

a) 2015 for the OECD average.

* 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 29 member countries.

Source: Calculations based on data extracted from the databases of the following organisations: OECD, International Energy Agency, World Bank, International Monetary Fund and Inter-Parliamentary Union.

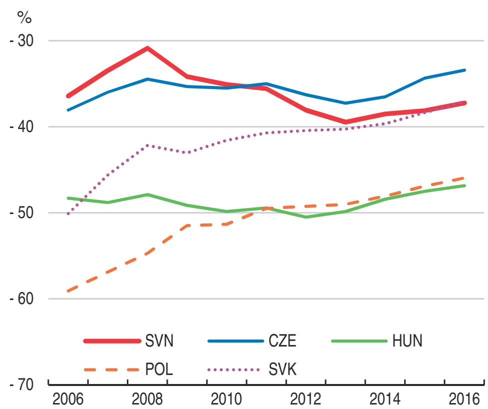
Executive summary

- *Slovenia's recovery is strengthening*
- *Investing in skills would raise incomes and make growth more inclusive*
- *Attracting investment and fostering competitive firms*

Slovenia's recovery is strengthening

Income convergence has restarted

Income gap to the upper half of OECD countries[1]



1. See footnote 1 in Figure 9.

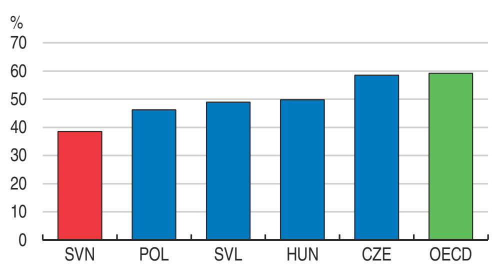
Source: OECD Analytical Database.

StatLink http://dx.doi.org/10.1787/888933555437

Growth has picked up to a pace exceeding the EU15 average, thanks to recent structural reforms, business restructuring, supportive monetary conditions and improved export markets. Lower unemployment and higher real incomes are underpinning consumption. Business investment is rising, although it remains low relative to GDP. Public debt and non-performing loans are being reduced from high levels. However, Slovenia faces several socioeconomic challenges, particularly rapid population ageing. The government's National Development Strategy 2030 aims to improve the well-being of its people through strong, inclusive and sustainable growth in the context of the United Nations' Sustainable Development Goals.

Investing in skills would raise incomes and make growth more inclusive

Employment rate for older workers (55-64 year-olds), 2016



Source: OECD, *Labour Force Survey – Sex and Age composition database.*

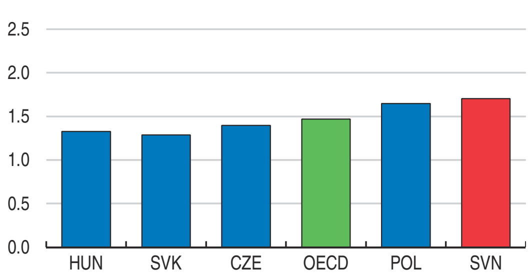
StatLink http://dx.doi.org/10.1787/888933555456

Investment in human capital is important to raise productivity and to ensure that the benefits of the recovery reach everyone in society. Persistent long-term unemployment and low employment of older workers, combined with an ageing population, magnify the importance of achieving a more inclusive labour market. Workers need to maintain their skills to find and retain well paid jobs, and many of the unemployed have to be reskilled to gain a foothold on the labour market. A number of policies are required to meet the challenge of preparing people for successful careers in competitive and innovative firms that are globally integrated, including training of the jobless and strengthening vocational and university education.

Attracting investment and fostering competitive firms

Businesses face a relatively heavy regulatory burden

Overall PMR indicator, 2013



Source: OECD PMR indicators database.

StatLink http://dx.doi.org/10.1787/888933555475

More capital would raise productivity and living standards. Reducing high regulatory barriers would make Slovenia more attractive to domestic and foreign investors. This could be achieved by strengthening inter-agency co-ordination, regulatory impact assessments and the competition authority. Reducing the wide scope of the numerous state-owned enterprises would foster competition, particularly in network sectors. More competitive markets would lower prices, expand consumer choice and stimulate innovation with benefits for well-being and economic growth.

MAIN FINDINGS	KEY RECOMMENDATIONS
Securing long-term fiscal sustainability	
The fiscal deficit has fallen sharply to near balance. Public debt is declining but is still high, which, combined with large contingent liabilities such as state guarantees, make public finances vulnerable.	The government should pursue its 2020 fiscal balance objective with consolidation totalling ¾ per cent of GDP in 2018-20; frontloading of planned consolidation efforts could help to avoid overheating. Maintain spending ceilings, pursue efficiency improvements, and adjust the structure of public spending to avoid a renewed increase in public debt. Pursue faster, well thought-out privatisation so as to further reduce public debt and the high level of contingent liabilities.
Ageing will put upward pressure on spending in the years ahead.	Raise the statutory retirement age to 67, and ensure a continuing increase in the effective retirement age. Cover eventual pension shortfalls by a combination of additional contributions, lower pension indexation and increased incentives to work longer. Allow hospitals to adjust their health services to changing demand, including by closing under-performing departments. Give hospitals greater scope to engage in multi-year investments and to keep their realised cost savings.
Raising wages and living standards by investing in skills	
Vocational education graduates have poor literacy skills. Technical programme graduates often do not pursue the occupation for which they have trained.	Improve general skills of vocational students through use of problem-based learning, combined with retraining of teachers. Raise the work-experience content of technical programmes.
Time spent in training by adults is low.	Distribute adult training vouchers, or provide tax credits to increase workers' training opportunities.
Long-term unemployment is high.	Increase training to help long-term unemployed to re-enter the labour market, including through a change in career.
The low employment rate for older workers undermines inclusiveness. Age-related unemployment and disability benefits encourage premature retirement.	Eliminate the legal requirement that wages increase automatically with age. Harmonise the maximum duration of unemployment benefit across age groups.
Full-time tertiary enrolment is high, while the high tuition fees for part-time students keep enrolment among older cohorts low. In addition, outcomes are mediocre and completion rates low. Career guidance is limited.	Equalise tuition fees for full- and part-time students on a per course basis, coupled with grants and loans for those from poor families. Link university funding to students' labour market outcomes.
Fostering productivity by improving regulation and enhancing competition	
Poor co-ordination between regulatory bodies creates cumbersome procedures, uncertainty and higher costs.	Ensure that the regulatory impact authority's common RIA framework is applied consistently with effective quality control including through methodology guidance and training.
The competition authority has had few successful cases, and court procedures are long.	Simplify judicial proceedings. Increase resources and staff expertise at the authority.
The large number of regulated professions has curbed productivity.	Shrink the list of regulated professions, and, where regulation is retained, move to less restrictive forms.
Infrastructure development has focused on large projects.	Develop a common approach to cost-benefit analysis for project selection.
There are over 650 public enterprises (SOEs – owned by various levels of government), many with subsidiaries in unrelated sectors.	Strengthen SOE governance by directing them to focus on core activities, allowing more management pay flexibility and strengthening supervisory boards. Follow through with privatisation, and narrow the group of SOEs that are considered strategic.
Vertically and horizontally integrated state-owned enterprises in network sectors hamper market entry.	Implement effective separation of activities and non-discriminatory third-party access to networks. Privatise competitive activities, except in sensitive sectors.
Policies to reach the renewable-energy target are costly.	Avoid technology biases in renewable-energy subsidies.

Assessment and recommendations

- *The Slovenian National Development Strategy 2030*
- *The recovery is maturing*
- *Dealing with aging-related spending*
- *Raising living standards by investing in capital and skills*
- *Easing regulation and boosting competition*

Economic outcomes have improved considerably since Slovenia's serious economic crisis ended in 2013. Looking ahead, the government is designing a National Development Strategy to create a faster growing and more inclusive economy with competitive globally integrated firms. An important feature of this Strategy is the integration of the UN Sustainable Development Goals. This should be combined with policies to ensure sustainable public finances that are inter-generationally equitable, leading to long and healthy lives for all Slovenians.

Slovenia has experienced robust economic growth in recent years (Table 1). Exporters have regained market shares, macroeconomic imbalances have been reduced and the

Table 1. **Macroeconomic indicators and projections**

	2012 Current prices (EUR billion)	2013	2014	2015	2016	2017	2018
Gross domestic product (GDP)	**36.0**	**-1.1**	**3.1**	**2.3**	**2.5**	**3.8**	**3.1**
Private consumption	20.4	-4.0	2.0	0.5	2.8	3.7	3.7
Government consumption	7.3	-2.1	-1.2	2.5	2.6	1.9	1.4
Gross fixed capital formation	6.9	3.2	1.4	1.0	-3.1	6.8	5.1
Housing	0.9	-7.9	-5.8	6.1	-1.0	11.1	11.0
Final domestic demand	34.7	-2.2	1.2	1.0	1.5	4.0	3.5
Stockbuilding[1]		0.2	0.6	0.4	0.8	0.0	0.0
Total domestic demand	34.5	-2.0	1.8	1.4	2.4	4.0	3.5
Exports of goods and services	26.4	3.1	5.7	5.6	5.9	5.5	5.7
Imports of goods and services	24.9	2.1	4.2	4.6	6.2	6.0	6.4
Net exports[1]	1.5	0.8	1.4	1.1	0.3	0.2	0.0
Other indicators (growth rates, unless specified)							
Potential GDP	. .	0.6	1.3	1.4	1.4	1.6	1.7
Output gap[2]	. .	-5.8	-4.1	-3.3	-2.2	-0.1	1.3
Employment	. .	-1.9	1.2	0.1	-0.3	2.1	1.6
Unemployment rate[3]	. .	10.1	9.7	9.0	8.0	7.3	6.3
GDP deflator	. .	0.9	0.8	1.0	0.6	2.6	2.6
Consumer price index	. .	1.9	0.4	-0.8	-0.2	2.6	3.1
Core consumer prices	. .	0.9	0.7	0.3	0.7	1.3	2.9
Household saving ratio, net[4]	. .	5.4	5.4	6.9	7.2	6.1	5.3
Trade balance[5]	. .	5.6	7.5	9.1	9.6	9.9	9.5
Current account balance[5]	. .	4.8	6.2	5.2	6.8	7.4	7.2
General government fiscal balance[5]	. .	-15.1	-5.4	-2.9	-1.8	-1.0	-0.2
Underlying government primary fiscal balance[2]	. .	-0.7	-1.0	1.3	1.7	1.4	1.4
Gross government debt (Maastricht)[5]	. .	71.0	80.9	83.1	79.7	76.3	73.3
General government net debt[5]	. .	14.8	22.5	25.9	29.3	28.5	27.1
Three-month money market rate, average	. .	0.2	0.2	0.0	-0.3	-0.3	-0.3
Ten-year government bond yield, average	. .	5.8	3.3	1.7	1.1	1.1	1.5

1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of the labour force.
4. As a percentage of household disposable income.
5. Goods and services, as a percentage of GDP.

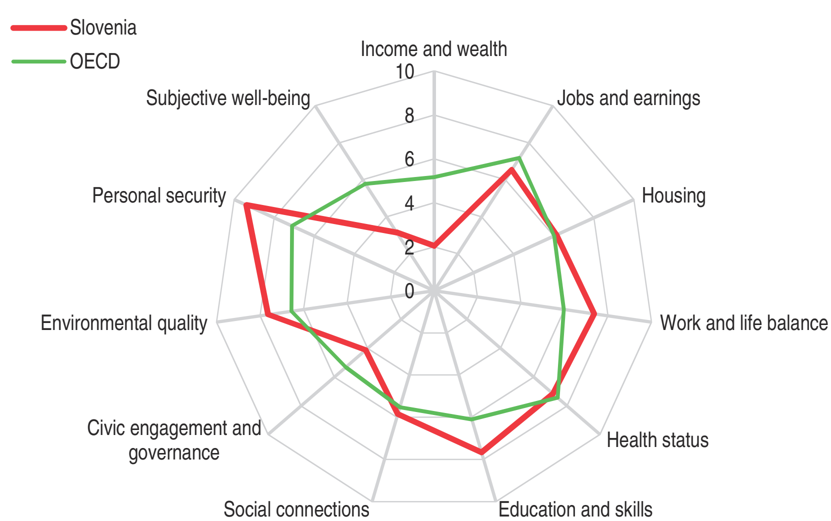
Source: OECD (2017), *OECD Economic Outlook 101 database*.

financial sector stabilised. However, GDP is just reaching its pre-crisis level. Private-sector job creation is picking up, and the unemployment rate has returned to the level sustained during the first half of the 2000s. After a bout of deflation, prices have started to increase. In 2016 the government's deficit fell to 1.8% of GDP, and its debt started to come down. In addition, the current account remains in substantial surplus. Looking ahead, the elimination of economic slack means that growth will increasingly be aligned with its potential rate, which is already being weighed down by population ageing and the supply ramifications of insufficient business investment to boost productivity growth.

Slovenians have higher living standards in many respects than the OECD average, particularly in terms of personal safety, clean environment, educational outcomes and work-life balance (Figure 1). In addition, the gender wage gap is relatively small and income distribution fairly equal, partly thanks to the redistributive impact of taxes and transfers, which also ensures low levels of poverty (Figures 2 and 3). However, incomes remain well below the OECD average and have not gained vis-à-vis leading OECD economies over the past decade. Though average hours worked are slightly low, the key challenge is to overcome poor labour productivity (Figure 4).

Figure 1. **Slovenians' wellbeing is good across a range of measures**

Better life index[1]



1. Each well-being dimension is measured by one to four indicators from the OECD Better Life Index set. Normalised indicators are averaged with equal weights. Indicators are normalised to range between 10 (best) and 0 (worst) computed over OECD countries, Brazil, Russia, and South Africa according to the following formula: (indicator value – minimum value)/(maximum value – minimum value) x 10.

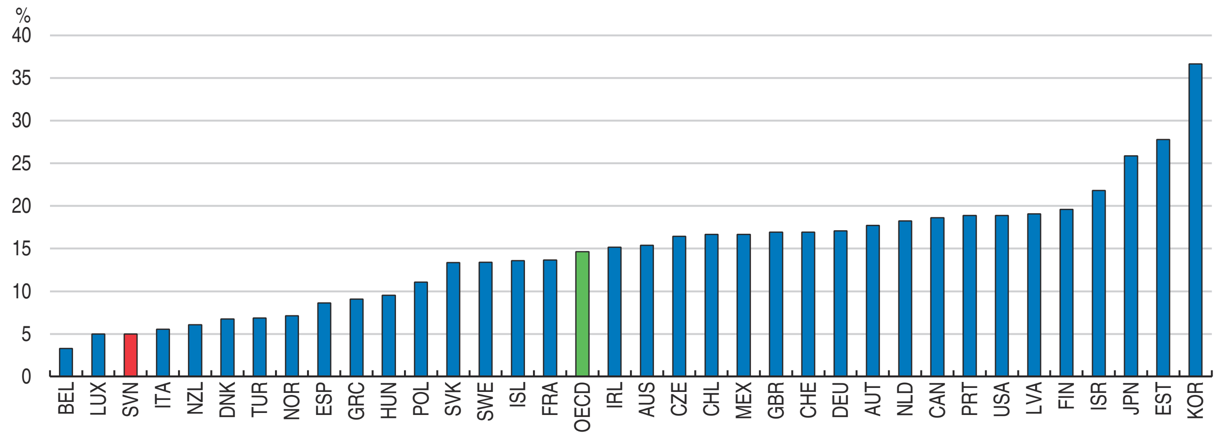
Source: OECD (2016), *Better Life Index Database*.

StatLink http://dx.doi.org/10.1787/888933555494

Total hours worked are low because older people are induced to retire early and the share of long-term unemployment is high. Both phenomena amount to excluding a significant part of the population from gainful employment and higher incomes. Inclusiveness would be increased by developing skills more fully through education and lifelong learning, especially as labour markets and the nature of work will change over time with the adoption of new digital technologies. The level of labour productivity is lower than in more advanced economies, as a relatively high share of workers are employed in small firms with low productivity (Figure 5) (Banerjee and Cirjakovic, 2017; Banerjee and

Figure 2. **The gender wage gap is low**

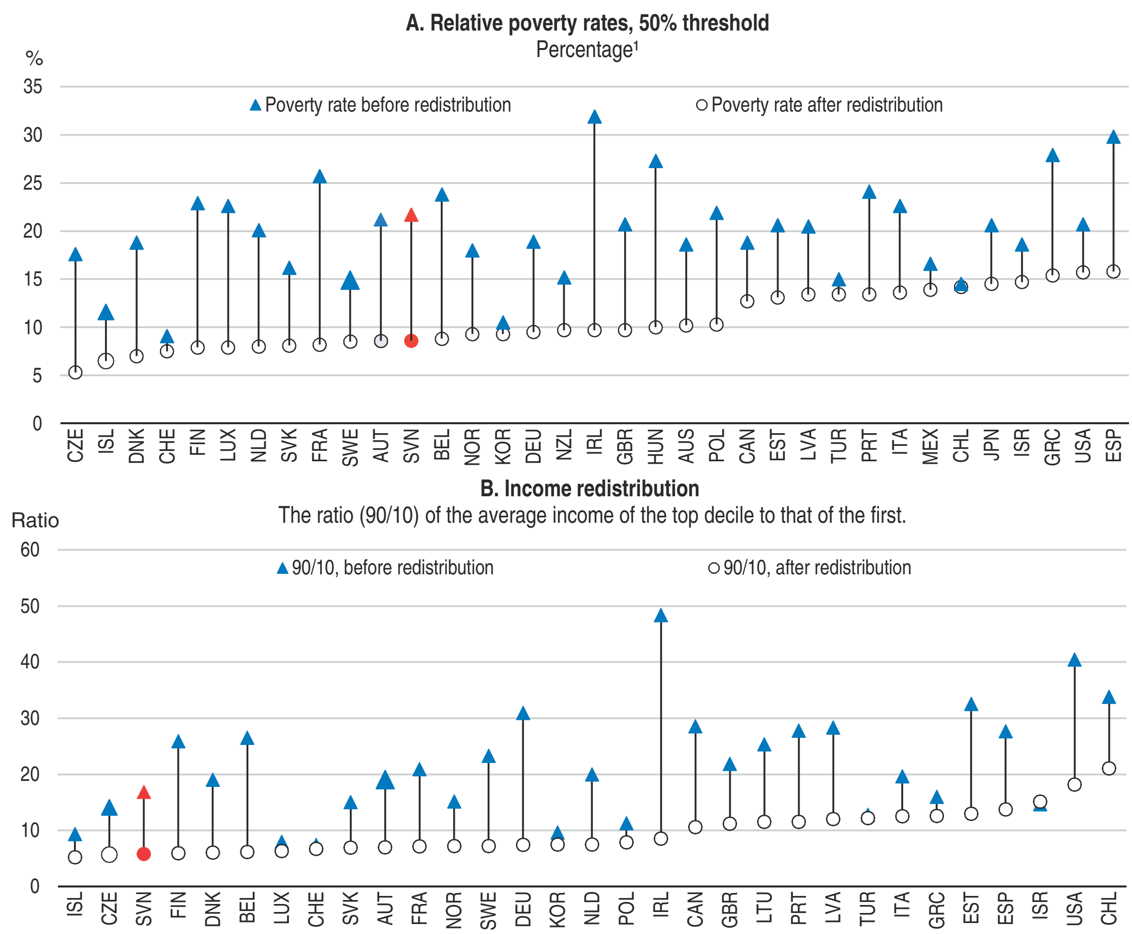
The difference between male and female median wages divided by the male median wages



Source: *OECD Employment Database.*

StatLink http://dx.doi.org/10.1787/888933555513

Figure 3. **Poverty and inequality are low**



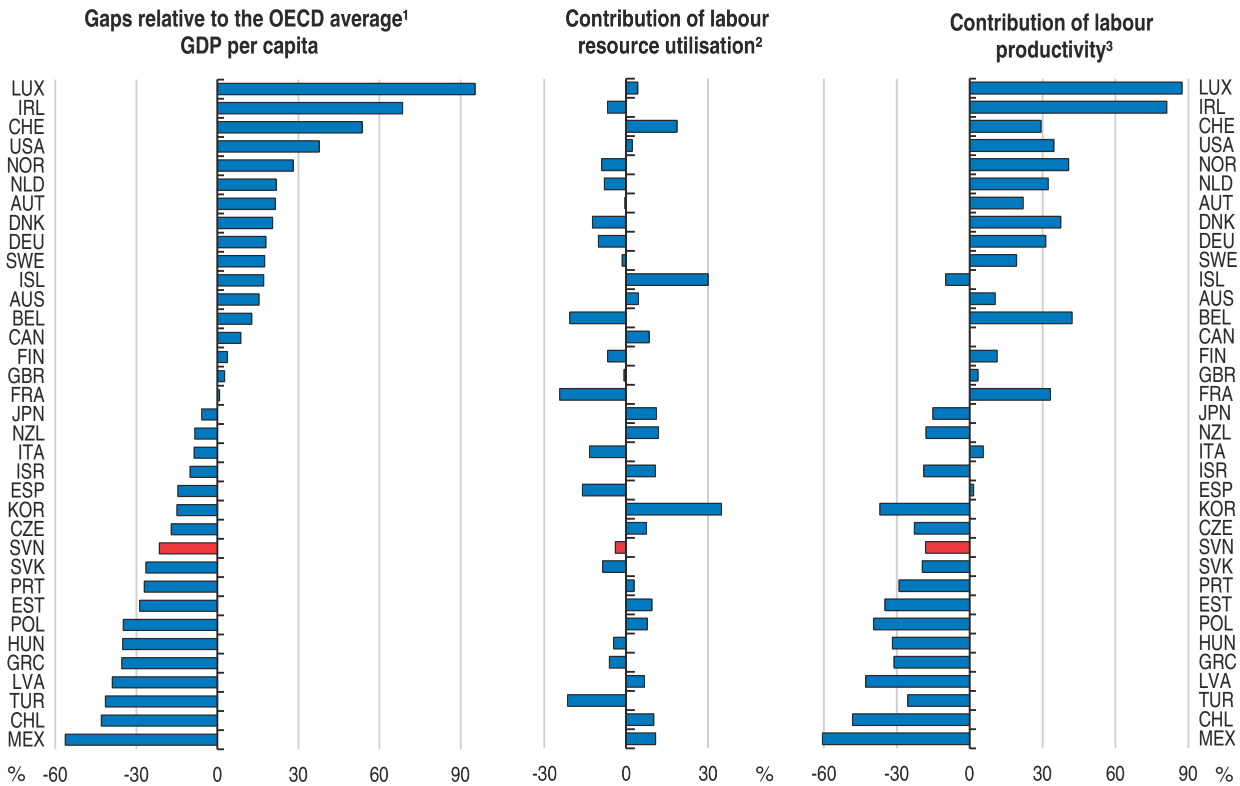
1. 2014 for Australia, Hungary and Mexico. 2012 for Japan and New Zealand. The relative poverty rate is defined as the share of people living with less than 50% of the median disposable income (adjusted for family size) of the entire population.

Source: Calculations based on the *OECD Income Distribution Database*.

StatLink http://dx.doi.org/10.1787/888933555532

Figure 4. **The income gap is driven by relatively low labour productivity**

Sources of real income differences, 2015



1. The OECD GDP per capita is a population-weighted average of nominal GDP converted using 2015 purchasing power parities (PPPs). Note that the population of Luxembourg is augmented by cross-border workers, and Norway's GDP refers to the mainland only.
2. Labour utilisation is measured as total number of hours worked per capita.
3. Labour productivity is measured as GDP per hour worked.

Source: OECD (2017), *Economic Policy Reforms: Going for Growth 2017*, OECD Publishing, Paris.

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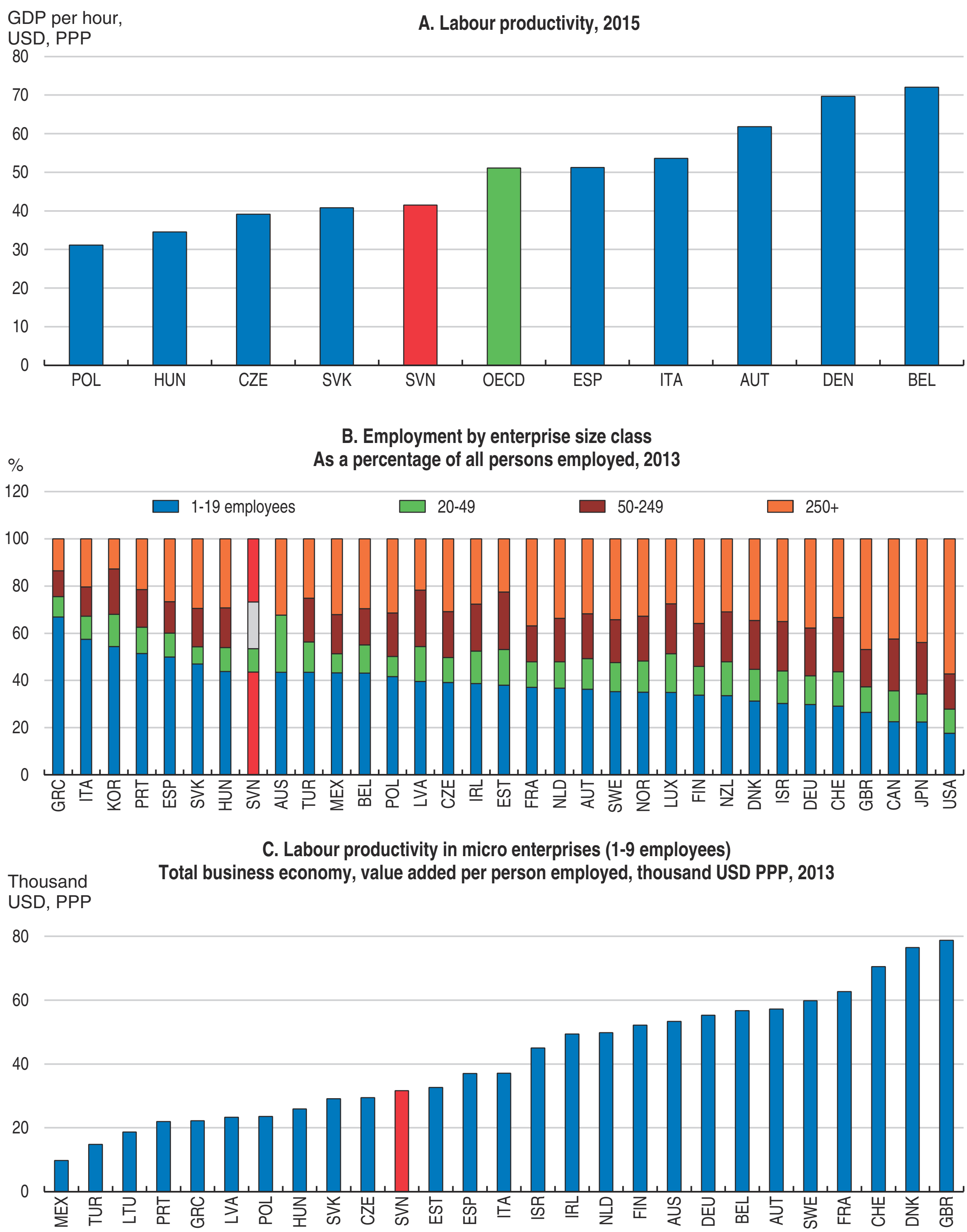
Damjanovic, 2017). Indeed, productivity growth has been lower since the international financial crisis and has lagged most other countries (Figure 6). This reflects, among others, depressed capital investment, including from abroad, and resource misallocation. Business investors have to overcome significant regulatory and competition barriers, including market structures dominated by incumbents that hinder new entry. Publicly owned companies are found in almost all sectors. This can undermine the position of private-sector competitors and poses governance challenges, as the government simultaneously plays the roles of owner, manager and regulator.

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

- In line with the economic pillar of the evolving Development Strategy, reforms are needed to bolster economic growth and expand job opportunities for all. Together with measures to secure fiscal sustainability, this would contribute to better lives for present and future generations of Slovenians.
- To foster innovative firms that thrive in the global economy, education and labour-market policies must equip workers with the skills required to find good jobs and embark on successful careers and which adapt to the changing needs of the labour market.

Figure 5. **Productivity is well below that in more advance economies**



Source: OECD.Stat Level of GDP per capita and productivity; OECD (2016), *Entrepreneurship at a Glance 2016*.

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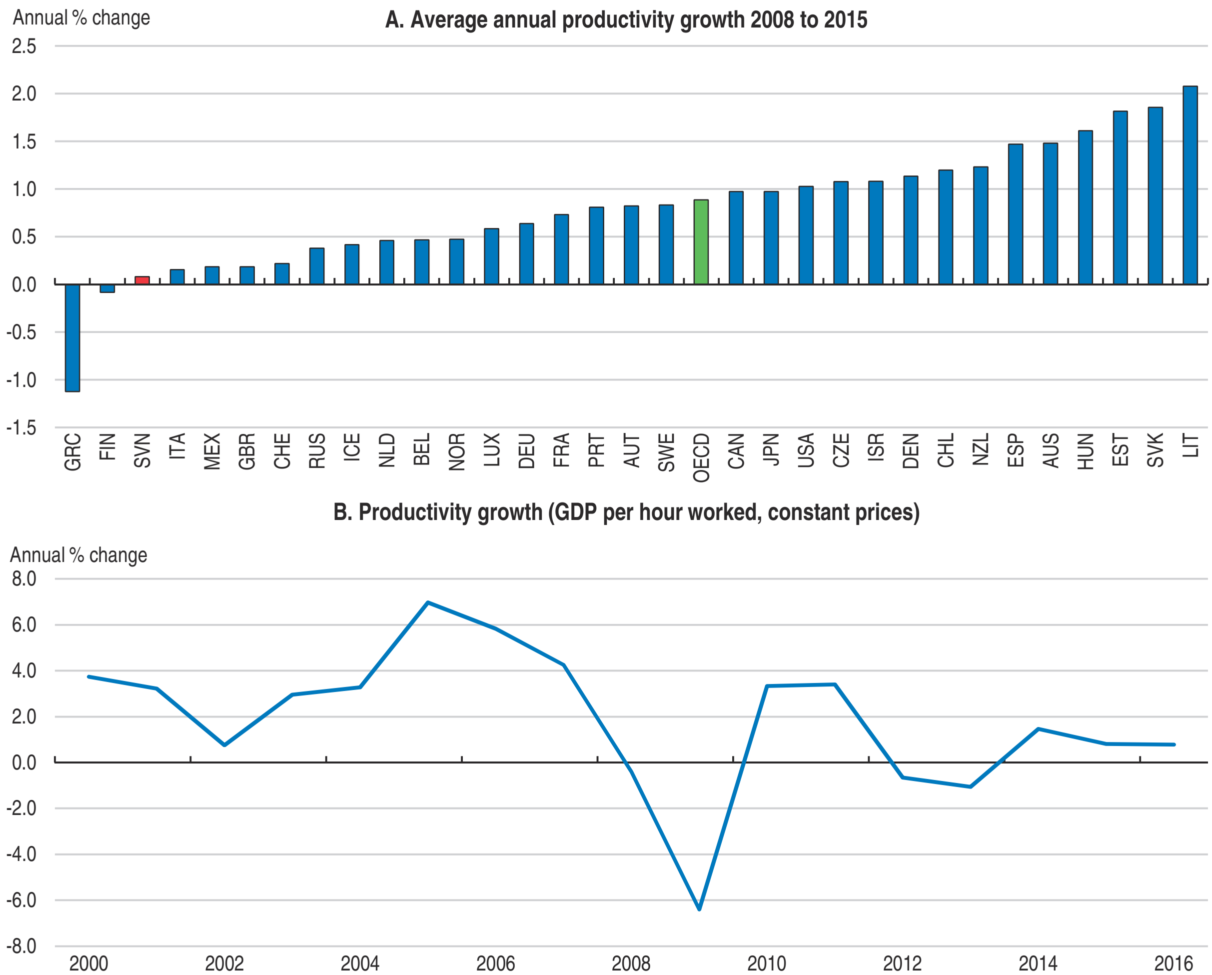
- To promote competitive firms that invest in productivity-enhancing technologies, regulatory and competition policies should aim at facilitating market entry and exit, which would encourage business investment in innovative technologies and new market models and

Figure 6. **Productivity growth has slowed since the international financial crisis**



Source: OECD.Stat, Level of GDP per capita and productivity and *OECD Economic Outlook Database*.

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reallocate resources away from non-viable firms, lifting the economy onto a higher growth path.

The Slovenian National Development Strategy 2030

Slovenia is among the first OECD countries to use the United Nations' 17 Sustainable Development Goals (SDGs; United Nations, 2017) in designing a national strategy (Government, 2015 and 2016a). Many of these goals overlap with the OECD objective of promoting policies to further well-being and achieve sustainable and inclusive growth. This is particularly the case for policies to stimulate high-quality education, gender equality, climate action and decent working conditions, and to reduce inequality. In many areas Slovenia's SDG performance is strong, notably in most aspects of the environment. Moreover, income inequality is low. However, less progress has been made in terms of increasing labour market participation of younger and older workers. Likewise, performance has been unsatisfactory in some health areas, such as tobacco use and obesity (recently triggering new health measures – see below), education participation and outcomes of adults, and some institutional measures such as regulatory assessments and corruption perceptions (with a cost in terms of confidence in national institutions).

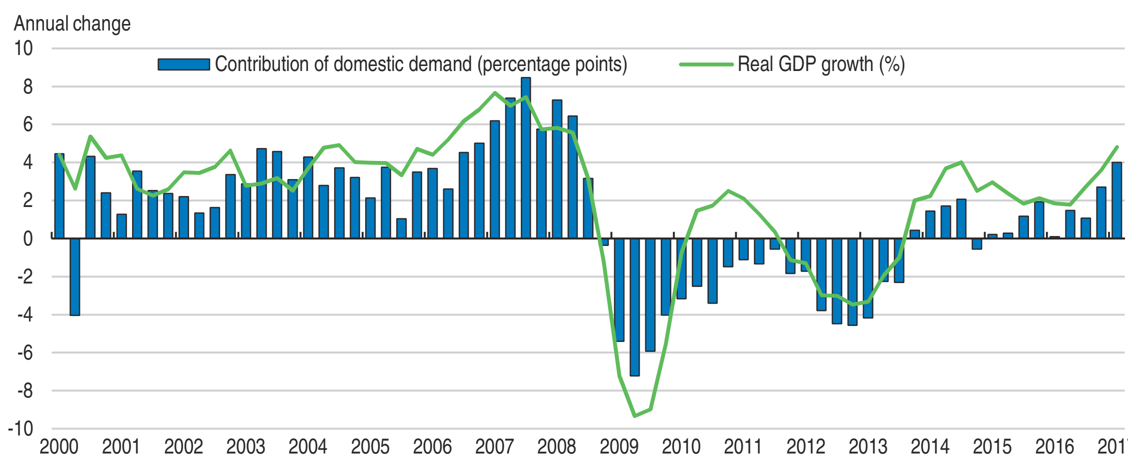
This Survey focuses on aspects of "stable sustainable economic growth", labour markets, education, and regulation and competition policy. Good policy in all these areas will have significant benefits in many dimensions. An important one highlighted in the Survey is investment, which is key to raising productivity and, thereby, incomes and well-being. The Survey provides analysis and recommendations across a number of Slovenia's policy objectives and SDGs, particularly in terms of securing inclusive and sustainable growth.

The recovery is maturing

Economic growth has gathered pace since 2013, after a double-dip recession over the previous six years, and could reach nearly 4% in 2017, in part owing to the stronger international environment and the series of structural reforms implemented in recent years. Initially, the recovery was led by exports, but it is increasingly being supported by stronger private domestic demand (Figure 7). GDP growth is much faster than the OECD's estimated 1¾ per cent potential rate, and the OECD's estimate of the output gap will close during 2017. Despite the recovery, GDP has barely reached its 2008 pre-crisis peak. Moreover, the income gap between Slovenia and leading OECD economies has widened, unlike the experience of most of its regional peers, reflecting in particular a domestic banking crisis and a sharp contraction in infrastructure investment following the completion of the highway investment programme (Figure 8 and 9).

Figure 7. **Domestic demand is making a greater contribution to growth**

GDP growth and domestic demand



Source: *OECD Analytical Database.*

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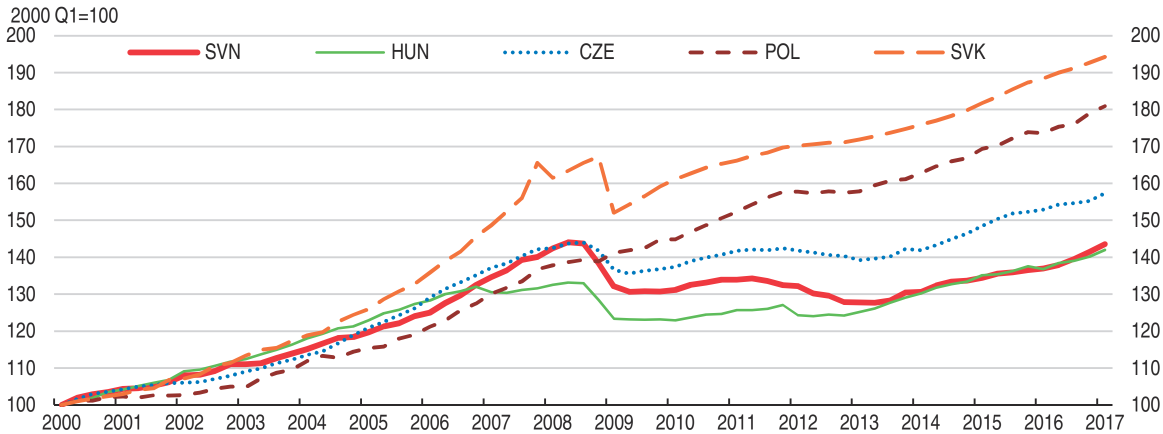
The pick-up in private consumption has been underpinned by real income growth, reflecting higher real wages, stronger employment and rising consumer confidence, while household savings have remained strong (Figure 10). On the other hand, despite a recent upturn in business investment, deleveraging by domestic firms and the caution of foreign firms have left the non-residential investment-to-GDP ratio below what the long-term relationship would suggest (Figure 11). In addition, housing investment has started to recover in line with property prices, which have increased 6.4% in real terms since the trough in early 2014, as transactions have returned to their pre-crisis level. Nonetheless, the housing investment–to-GDP ratio remains near historic lows. Exports have maintained their brisk

Figure 8. **Slovenia's growth performance has been below that of regional peers**



Source: OECD *Analytical Database.*

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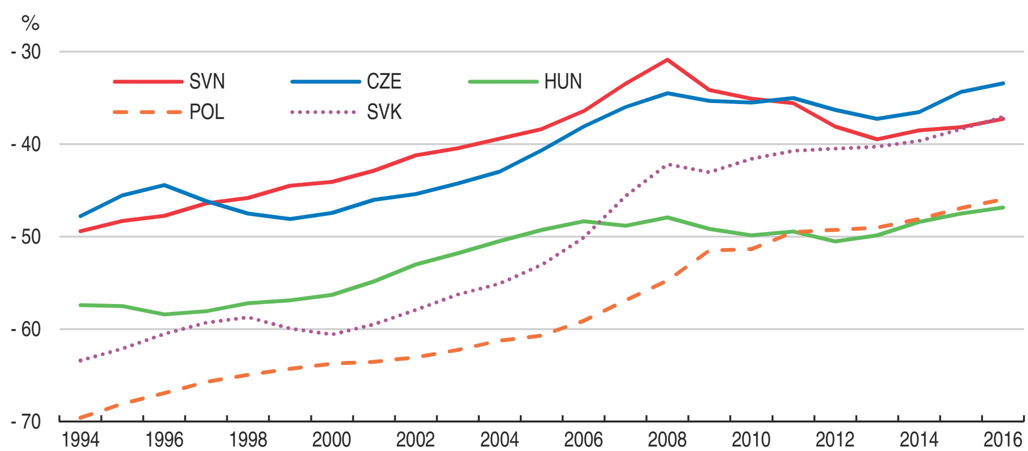
Figure 9. **Convergence in GDP per capita has faltered, unlike other countries in the region**

Gap to the upper half of OECD countries[1]



1. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: OECD, *National Accounts and Productivity Databases.*

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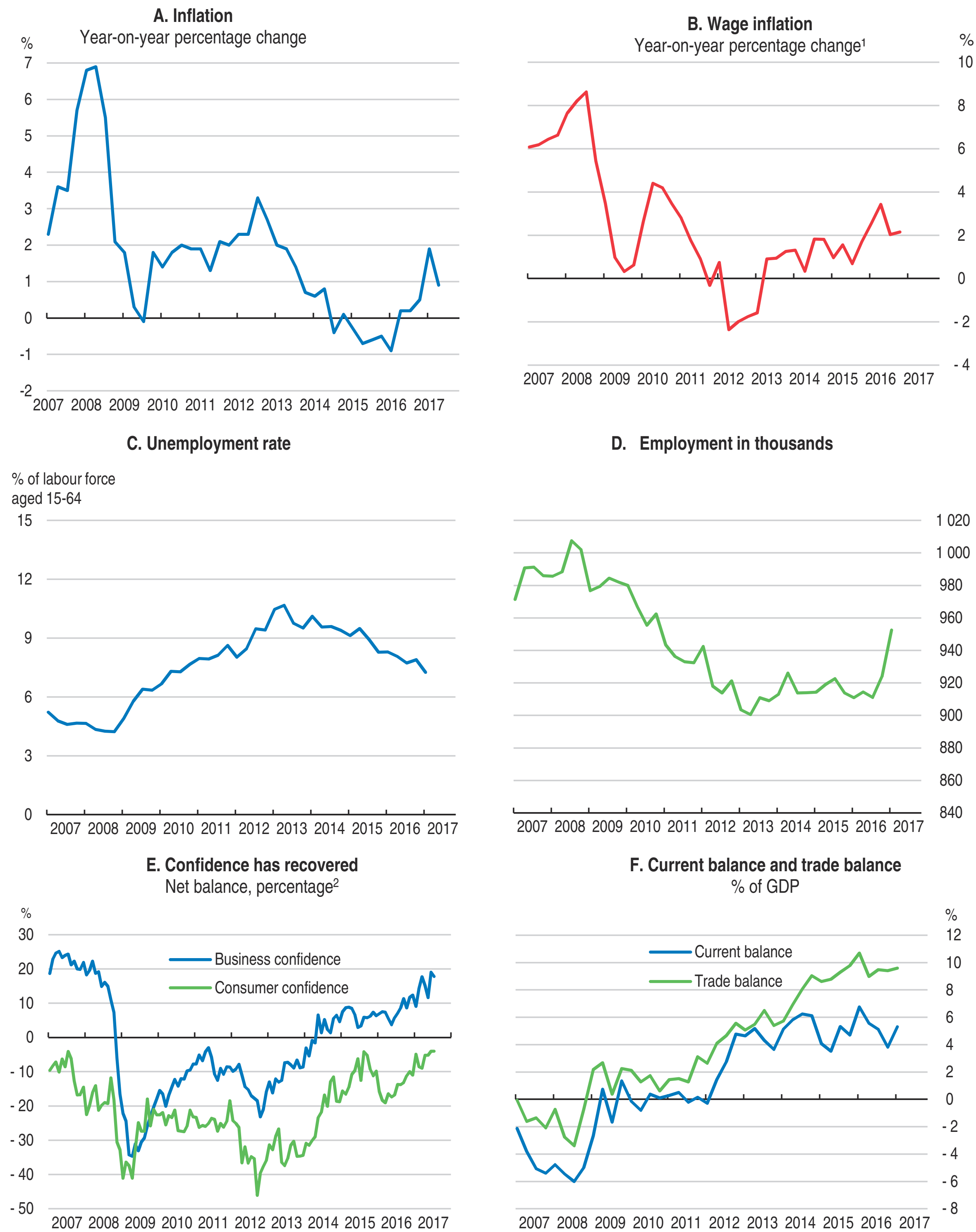
expansion and have gained market share owing to higher manufacturing productivity, reflecting a relatively diverse composition of exports and destinations despite lower integration in global value chains than regional peers (Figure 12). Rising import penetration has reduced the domestic value added from robust aggregate spending, which, despite an offsetting effect from better terms of trade, tempered the increase in the surplus on goods and services balance. A rising deficit on the income account means that the improvement in the trade balance is not fully reflected in the large current account surplus.

Economic growth is projected to remain strong, supported by very accommodative euro-area monetary conditions and improving export market growth (Table 1 above). In addition, domestic forces include the restructuring of the business sector and revived and more diversified credit channels (Banerjee and Cirjakovic, 2017; Banerjee and Damjanovic, 2017).

Figure 10. **Macroeconomic indicators have improved**



1. Calculated as the year-on-year change in wages per employee.
2. Net balance of answers to surveys taking the value between -100% (unfavourable) and + 100% (favourable). Business confidence is calculated as an unweighted average of the confidence indicators for manufacturing, construction, retail trade and other services.

Source: Eurostat, Labour cost index database; OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database); OECD (2016), OECD Employment and Labour Market Statistics (database); and OECD (2016) *Main Economic Indicators* (database).

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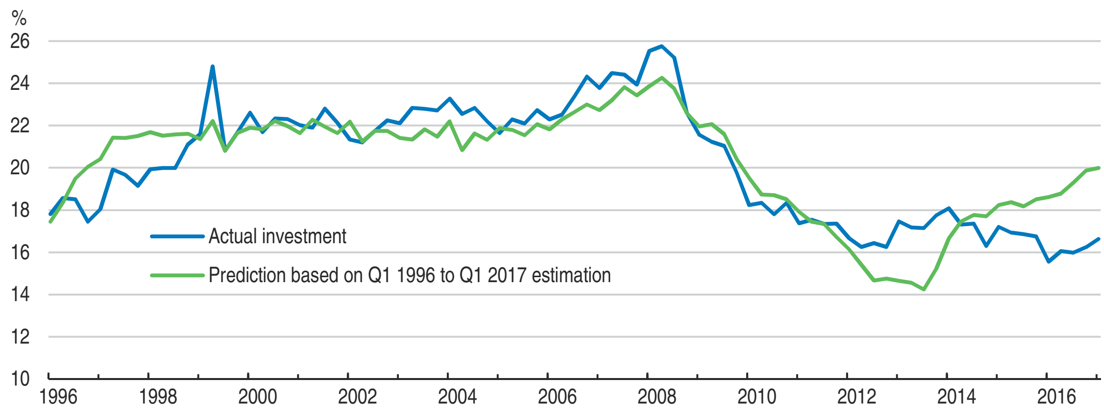
Figure 11. **Since the beginning of the recovery, investment has been weaker than expected**

Simple accelerator model of non-residential investment, in % of GDP



Note: In real terms. Four-quarter moving average applied. Actual GDP and capital stock series used to calculate the forecast based on 1996 Q1-2016 Q3 estimation. In the estimations, the level of investment is explained by current and lagged changes in real GDP and replacement investment. For more information on the methodology see OECD (2015), *OECD Economic Outlook*, Vol. 2015, No. 1, June, Annex 3.1.

Source: OECD (2015), OECD calculations based on *OECD Economic Outlook: Statistics and Projections Database*.

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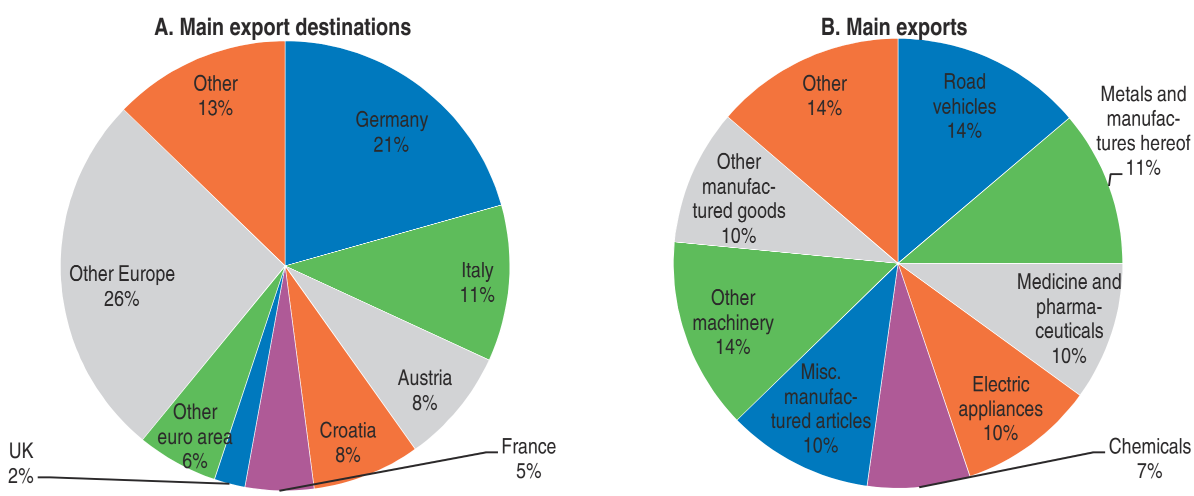
Figure 12. **Export destination and composition are relatively diverse, 2016**



Source: OECD, *International Trade Commodity Statistics database*.

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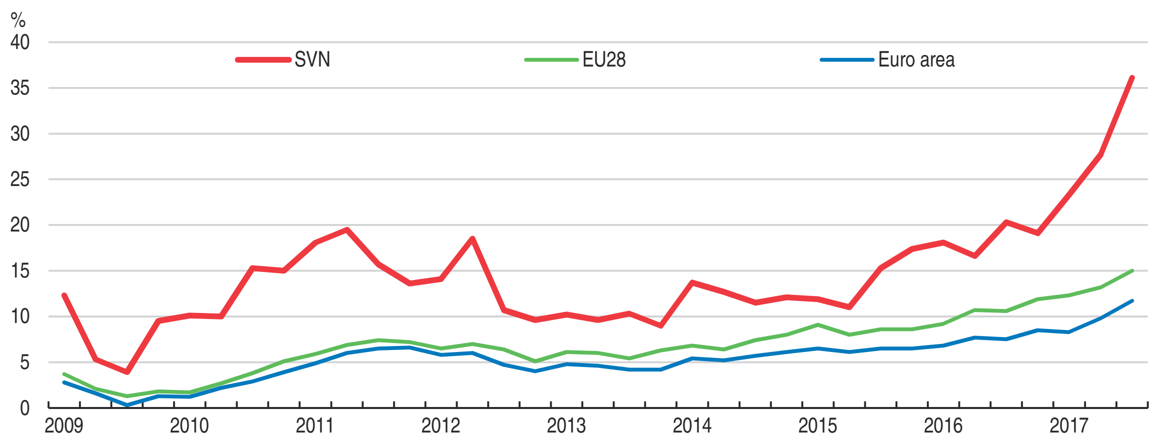
Public investment is expected to recover with faster EU structural funds disbursement. Business investment should also pick up further on the back of external and domestic demand, favourable financing conditions and emerging capacity constraints, although remaining low as a share of GDP. Housing construction should benefit from rising incomes and low interest rates, partly explained by easier household mortgage conditions, resulting from banks' strategic reorientation towards this market, though issued housing permits continue to fluctuate. Private consumption will remain an important growth driver due to continued real income expansion. Export growth is projected to continue as export market growth offsets competitiveness losses due to faster wage gains arising from a tightening labour market. The unemployment rate should continue to decline, as both the private and public sectors expand employment.

The recovery has led to tighter labour market conditions, as employment has risen, while fewer people are in the labour market. Unemployment has fallen below OECD's estimate for structural unemployment, which has increased since the late 2010s as the shares of low-skilled and older workers in unemployment has increased. Accordingly, wage growth has picked up and was around 2% year-on-year in early 2017, as private-sector wages (particularly in market services) started again growing faster than in the public sector, where wages in 2016 were boosted by the lifting of the crisis-related wage freeze. Shortages are emerging, particularly in the manufacturing sector, across a range of vocational occupations and for ICT specialists (Figure 13). A third of all private-sector employers, and half of larger firms, report difficulties in finding enough staff (ESS, 2017; ReferNet Slovenia, 2016; IMAD, 2016). Skills shortages are exacerbated by net emigration, as emigrants are three times more likely to have a tertiary education than immigrants (Statistical Office, 2016).

Figure 13. **Labour shortages limit manufacturing production**

Percentage of manufacturing firms pointing to labour shortages as a factor limiting production



1. Percentage of manufacturing firms pointing to labour shortage as a factor limiting production.

Source: Eurostat, Industry database.

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Upside risks to these projections include a faster-than-projected recovery in export markets, which would strengthen growth and boost the current account surplus. Likewise, if easy monetary conditions have a more positive effect on business investment, growth would be faster than foreseen. In contrast, renewed international financial turbulence, for example related to Brexit, could hurt lending conditions, with a negative impact on investment. The largest downside risk is probably that the emerging labour market bottlenecks result in wage inflation that in real terms outstrips productivity growth, eroding recent external competitiveness gains. The economy may also be confronted with shocks whose effects are difficult to factor into the projections (Table 2).

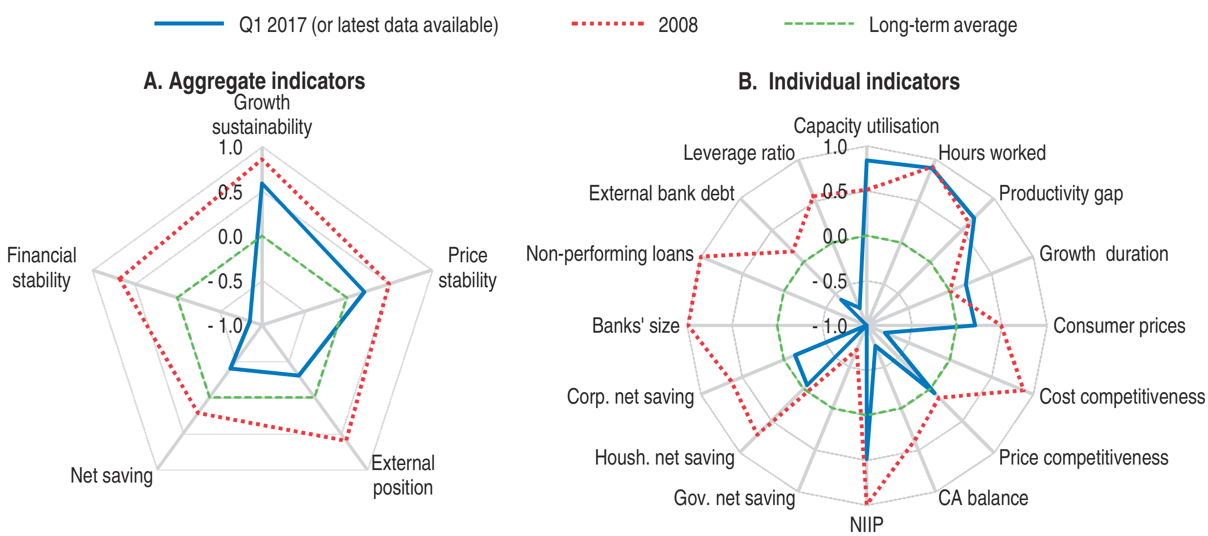
Table 2. **Possible shocks to the Slovenian economy's prospects**

Vulnerability	Possible outcome
An increase in geopolitical tensions.	This could trigger an international financial crisis with difficult-to-project consequences for confidence and activity in Slovenia.
A sudden severe economic slowdown in emerging economies, particularly in China.	Such a major shock could disrupt established global value chains with potentially large negative effects for Slovenia.

Since the onset of the international financial crisis macroeconomic vulnerabilities have shrunk in many respects, including the current account turnaround, the reduction in the public deficit and an increase in the average duration of government debt (Figure 14). Moreover, both corporate and household net savings have increased. The vulnerabilities associated with the financial sector have eased (see below) with, for example, a halving of the share of non-performing loans (NPLs). However, NPLs remain a weakness, as their share is still relatively high (Figure 19 below). Otherwise, the main concern is the near quadrupling of public debt to a peak of 83% of GDP in 2015, although it has since fallen to below 80% of GDP.

Figure 14. **Many aspects of macroeconomic imbalances have improved**

Deviations of indicators from their real time long-term averages (0), with the highest deviations representing the greatest potential vulnerability (+1), and the lowest deviations the smallest potential vulnerability (-1)[1]



1. Each aggregate macro-financial vulnerability indicator is calculated by aggregating (simple average) normalised individual indicators. Growth sustainability includes: capacity utilisation of the manufacturing sector, total hours worked as a proportion of the working-age population (hours worked), difference between GDP growth and productivity growth (productivity gap), and an indicator combining the length and strength of expansion from the previous trough (growth duration). Price stability includes headline and core inflation (consumer prices), and it is calculated by the following formula: absolute value of (core inflation minus inflation target) + (headline inflation minus core inflation). External position includes: the average of unit labour cost based real effective exchange rate (REER), and consumer price based REER (cost competitiveness), relative prices of exported goods and services (price competitiveness), current account (CA) balance as a percentage of GDP and net international investment position (NIIP) as a percentage of GDP. Net saving includes: government, household and corporate net saving, all expressed as a percentage of GDP. Financial stability includes: banks' size as a percentage of GDP, the share of non-performing loans in total loans, external bank debt as percentage of total banks' liabilities, and total liabilities as a proportion of capital and reserves (leverage ratio).

Source: OECD calculations based on OECD (2017), *OECD Economic Outlook: Statistics and Projections* (database), June; OECD (2017), *Main Economic Indicators*, Thomson Reuters Datastream.

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The fiscal position has been improving

The authorities' crisis-related consolidation efforts have largely ended, with the government adopting several recommendations made in past *Surveys* (Table 3). In 2017 faster growth will reduce the deficit by nearly 1% of GDP. However, the impact on the underlying balance will be small. Looking ahead, primary expenditure is planned to increase slowly in nominal terms, which, together with cyclical effects and lower interest payments, should allow total expenditures to fall as a share of GDP until 2018, although less than in 2016 when public investment contracted (Table 4). Only revenue-neutral tax adjustments are planned,

Table 3. **Past OECD recommendations on maintaining fiscal stability**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Adopt a credible and transparent expenditure rule, and appoint an independent and effective fiscal council to assess adherence.	The Fiscal Rule Act was adopted in 2015, including a four-year set of expenditure ceilings. The fiscal council was appointed in March 2017.
Focus fiscal consolidation on structural measures to increase cost efficiency in education, public administration and local government.	Some social spending measures have been made contingent on GDP and employment growth. Public procurement was centralised.
Avoid across-the-board cuts in the public-sector wage bill. Reinstate performance-related pay provisions, and use non-monetary incentives for public-sector workers. When cutting employment, reductions should avoid aggravating shortages of skills and competences.	The freeze in promotions and annual conditional pay increments of public servants has been lifted.
Increase recurrent taxes on real estate.	No action taken

Table 4. **Fiscal indicators**

Per cent of GDP

	2015	2016	2017	2018
Spending and revenue				
Total revenue	45.2	43.6	43.5	43.8
Total expenditure	48.1	45.5	44.4	44.1
Net interest payments	2.9	2.7	2.3	2.1
Budget balance[1]				
Fiscal balance	-2.9	-1.8	-1.0	-0.2
Cyclically adjusted fiscal balance	-1.5	-0.9	-0.9	-0.8
Underlying fiscal balance	-1.5	-0.9	-0.9	-0.8
Underlying primary fiscal balance	1.3	1.7	1.4	1.4
Cyclically adjusted fiscal balance (Government of Slovenia estimate)		-1.3	-1.0	-0.7
Public debt				
Gross debt (Maastricht definition)	83.1	79.7	76.3	73.3
Gross debt (national accounts definition)[2]	102.5	97.8	97.0	95.7
Net debt	25.9	29.3	28.5	27.1

1. OECD estimates unless otherwise stated.
2. National Accounts definition includes state guarantees, among other items.

Source: OECD Economic Outlook 101 database.

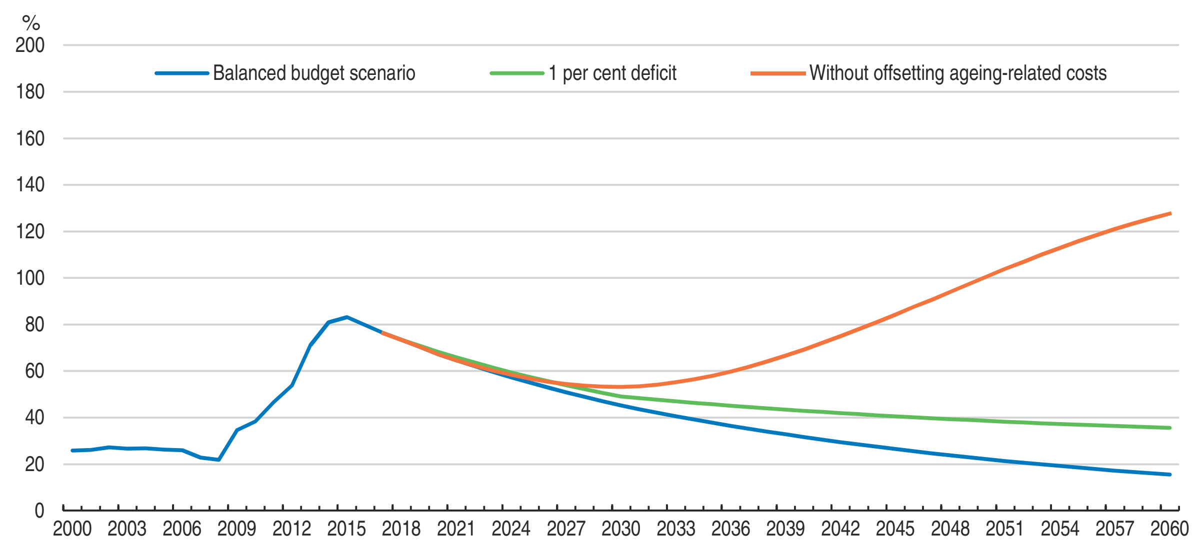
though simplified collection should boost realised revenue (Government, 2016b). The government's medium-term fiscal objective is to achieve an underlying balance in 2020, which, according to OECD estimates implies additional fiscal consolidation of ¾per cent of GDP between 2018 and 2020 (Table 4). Achieving the balance objective would also allow the debt-to-GDP ratio to fall below 70% in 2020.

Fiscal space was restricted during the period with rising public debt, although more recently it has improved as net interest payments have fallen with lower interest rates. Net debt is low, reflecting large cash holdings and the assets of numerous SOEs. However, associated with the latter are substantial contingent liabilities, such as the debt of government-controlled entities outside general government (which includes the deposits of government-controlled banks). Liabilities of government-controlled entities and debt guarantees are amongst the highest in the European Union (at 67.7% and 10.7% of GDP, respectively, in 2015) (Eurostat, 2017a). Indeed, the fiscal cost of saving state-owned banks and other SOEs in the aftermath of the 2013 domestic financial crisis amounted to 20% of GDP.

The signs of labour market tightening mean that a mildly restrictive fiscal stance is needed as early as in 2018. This would also steepen the decline in the debt-to-GDP path, which is important to free up fiscal space over time to address the large ageing-related spending pressures (see below) and the fiscal consequences of future macroeconomic shocks. Thus, it would be safer for the government to frontload its planned consolidation efforts to avoid overheating, while allowing automatic stabilisers to work in the event of unforeseen economic developments. In any case the government should specify the detailed measures needed to ensure that the underlying balance goal is reached in good time. Moreover, spending ceilings should be maintained and efficiency improvements pursued, while the structure of public spending should begin to adjust to contain overall spending as ageing-related expenditures increase to avoid a renewed increase in public debt (Figure 15). Additional privatisation efforts would further reduce public debt and the high level of contingent liabilities.

Figure 15. **Durably reducing public debt will require further reforms**

General government gross debt, Maastricht definition, per cent of GDP[1]



1. The balanced-budget scenario shows projections based on the OECD Economic Outlook: Statistics and Projections database until 2018, a budget surplus of 0.2% in 2019, 0.4% in 2020 (as outlined in the 2017 Stability Programme), followed by balanced budgets and subsequent real GDP growth of 2% during 2019-30 slowing to 1.6% during 2031-2060 (in line with OECD estimates for long-term potential growth) and inflation of 2%. The 'lower fiscal consolidation' scenario assumes a deficit of 1% of GDP from 2019, in line with the lower limit for structural deficits set by the EU budgetary rules. The "without offsetting ageing-related costs" scenario adds changes relative to 2018 levels of net public pension costs, health costs and long-term care costs to the balanced-budget scenario.

Source: OECD calculations based on OECD (2016), *OECD Economic Outlook: Statistics and Projections* (database), December; OECD (2016), *Main Economic Indicators*.

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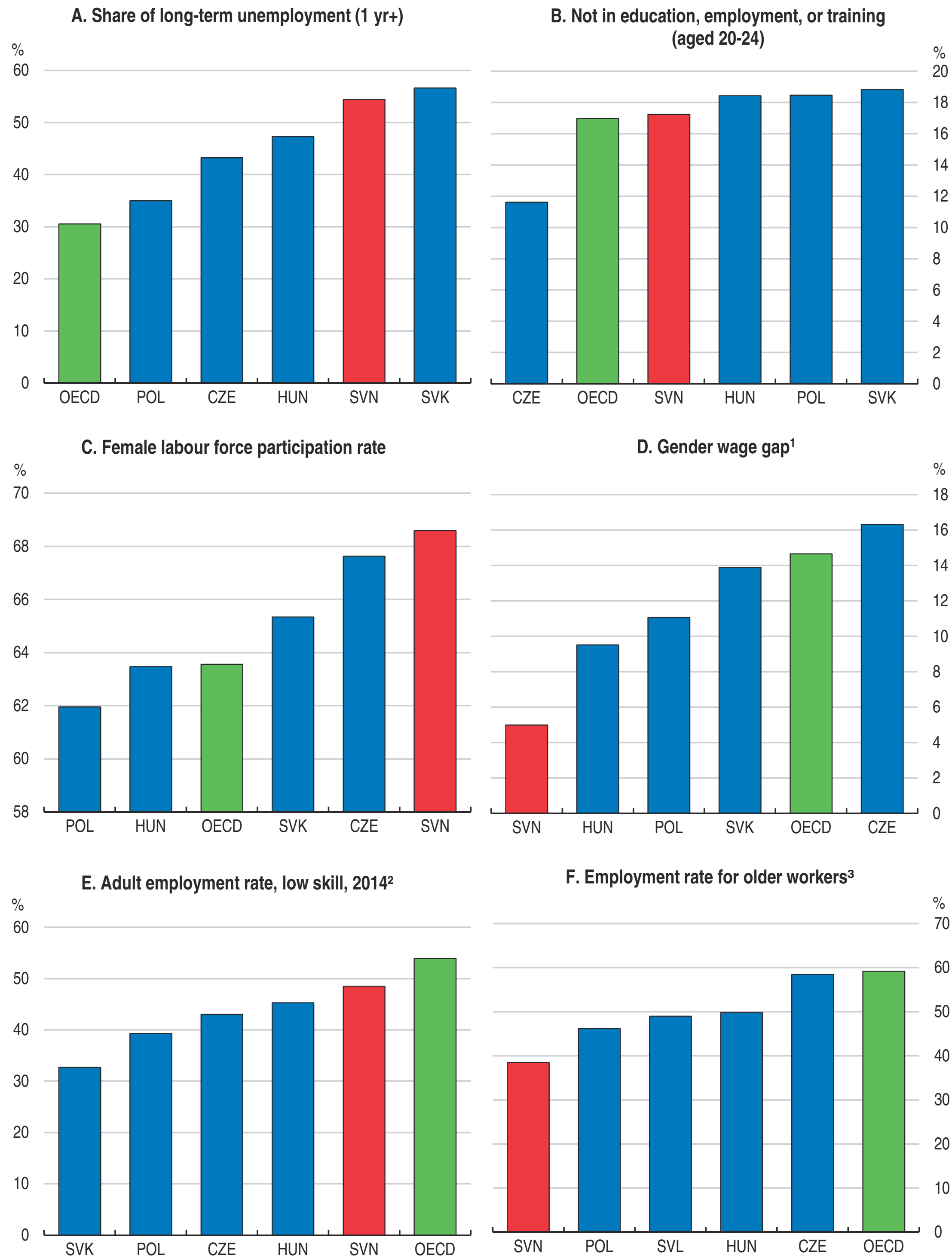
Labour market inclusiveness could be further improved

Slovenia has successfully maintained an inclusive society despite the disappointing growth outcomes of the past decade. Income distribution is amongst the most equal in the OECD, female employment is high and the gender wage gap low (Figure 16). The share of young people not in employment, education or training (NEETs) almost doubled between 2010 and 2016, but it remained lower than in many other EU countries, reflecting rising participation in education. There are pockets of poor performance, notably high long-term unemployment (half of all jobless workers have been unemployed for more than a year), and low employment rates for older and low skilled workers.

Figure 16. **The labour market's inclusiveness could be broadened**

2016 or latest year available



1. The gender wage gap is the difference between male and female median wages divided by the male median wage.
2. Persons aged 25 years and over who are employed. Low skilled are defined as those with less than upper secondary education (ISCED 0-2.).
3. Older workers are defined as persons 55-64 years old.

Source: OECD, Social and Welfare Statistics (database); OECD, *Labour Force Survey – Sex and Age composition database*; World Indicators of Skills for Employment (WISE).

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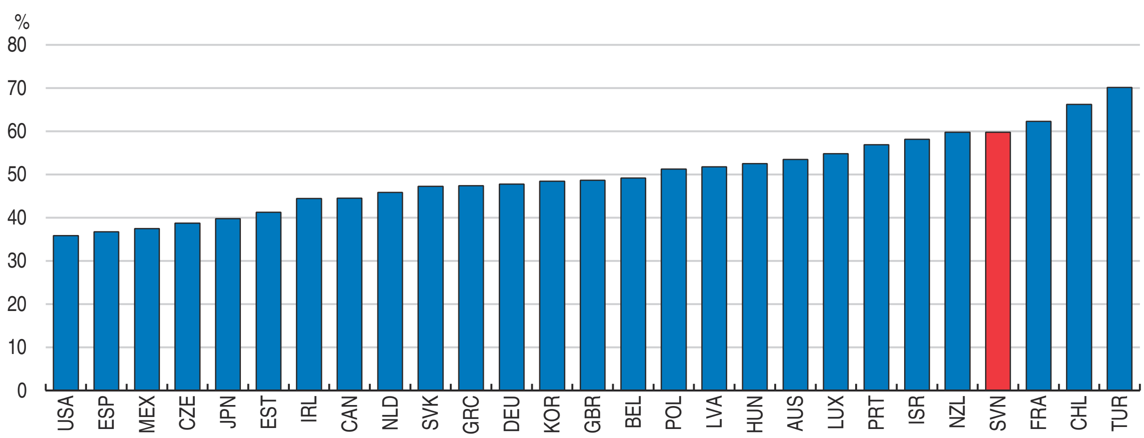
Recent increases in older workers' participation reflect pension reforms to increase the retirement age for both men and women to 65 (from 63 and 61, respectively) by 2020. However, the unemployment and disability insurance systems encourage early retirement (see below). In 2018 firms' incentives for employing older workers will be increased with the introduction of a standard 30% reduction in employers' social security contributions for employing such workers, replacing the current reduction for hiring older long-term unemployed.

The employment prospects of low-skilled workers are hampered by one of the highest minimum wages (relative to the median) in the OECD (Figure 17). In 2010 the minimum wage was hiked by 22.9%, and as a result the share of all employees paid the minimum wage rose from 8% to 11% (Jemec and Vodopivec, 2016). Moreover minimum wages are higher absolutely than in Portugal and almost on a par with Spain (Eurostat, 2017b). In addition, employers have to pay mandatory non-pecuniary compensation, such as meal and travel allowances. However, in recent years the pace of minimum wage growth has been less than for median wages. This has also been recommended in previous *Surveys* (Table 5).

Figure 17. **Minimum wages are high relative to median wages**

Gross minimum wage as a per cent of the median wage of full-time workers, 2015



Source: OECD, *Labour-earnings database.*

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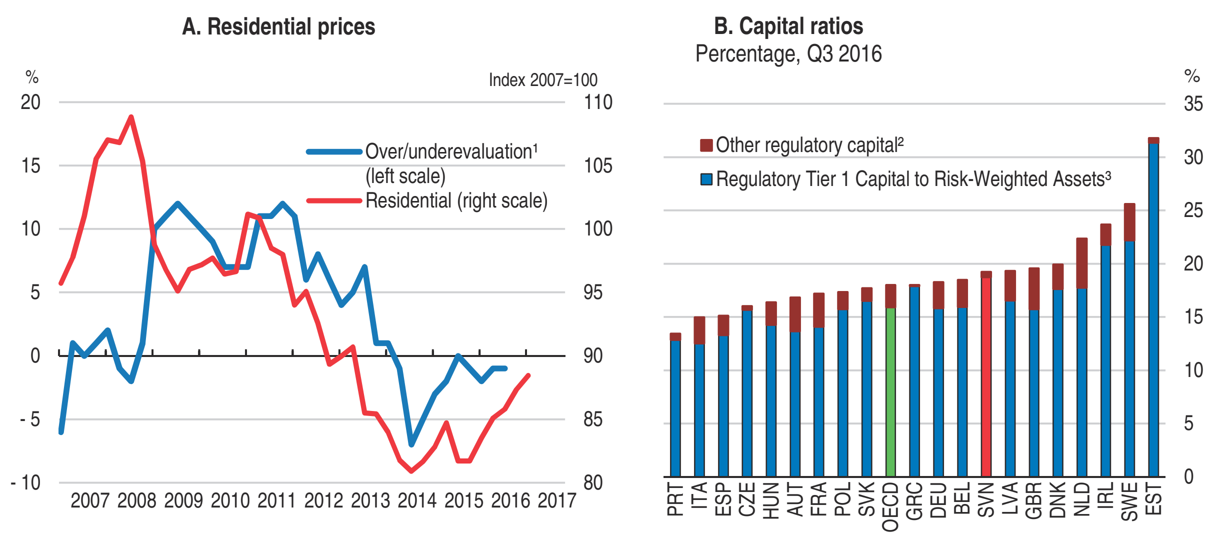
Table 5. **Past OECD recommendations on labour markets**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Increase resources for active labour market policies, and better target assistance to the long-term unemployed and the low-skilled.	Resources were increased by 35% in 2016. In 2016 60% of all participants in active labour market measures were long-term unemployed (up from 46% in 2015).
Increase the gap between the minimum and median wage by moderating growth in the minimum wage to restore the link to productivity.	Minimum wage growth has moderated, and the gap with the median wage has increased slightly.
Lower effective personal tax rates to increase work incentives.	In 2017 a higher threshold for general tax relief was introduced.
Reduce top tax rates on labour income. Better target family benefits and strengthen means testing of education-related benefits.	In 2017 a new tax bracket was introduced for incomes between 20 400 and 48 000 euros with a tax rate that was reduced from 41% to 34%.For incomes between 48 000 and 70 907, the rate was lowered from 41% to 39%.

Banks' health has improved, but financing remains constrained

The health of the banking system has greatly improved in recent years. Liquidity risk has fallen, as the share of total assets held in liquid form has risen to 10%. Required capital reserves have decreased, as the quality of credit portfolios is improving and operational risks declining, boosting capital adequacy. Banks' capital buffers have expanded, as the total regulatory capital (according to Basel rules) ratio to risk-weighted assets rose further to 19.1% by end-2016, although the ratio for small domestic banks is much lower (Bank of Slovenia, 2017). Risks related to mortgage loans are being reduced in line with rising house prices due to improved collateral (Figure 18). The credit-to-GDP ratio remains below long-term trends, indicating no current need for counter-cyclical capital buffers. The share of non-performing loans (NPLs) has fallen, largely due to their sale to the state-owned Bank Asset Management Company (BAMC), but also due to restructuring, greater write-offs, realisation of collateral and sales to investors (BAMC, 2016). Nonetheless, their level remains high compared with other countries, though less than in other euro area countries that suffered a banking crisis (Bank of Slovenia, 2016a; Figure 19, Panels B and C).

Figure 18. **Banks are in a better position to resist external shocks**



1. Estimates based on a Bayesian estimated inverted demand model. For further details see Box 3 in ECB (2015), *Financial Stability Review*, November.
2. Other regulatory capital includes undisclosed, asset-revaluation and general loan loss reserves, amongst others.
3. Tier 1 capital consists of shareholders' equity and retained earnings.

Source: IMF, Financial Soundness Indicators (database), International Monetary Fund; ECB Statistical Data Warehouse.

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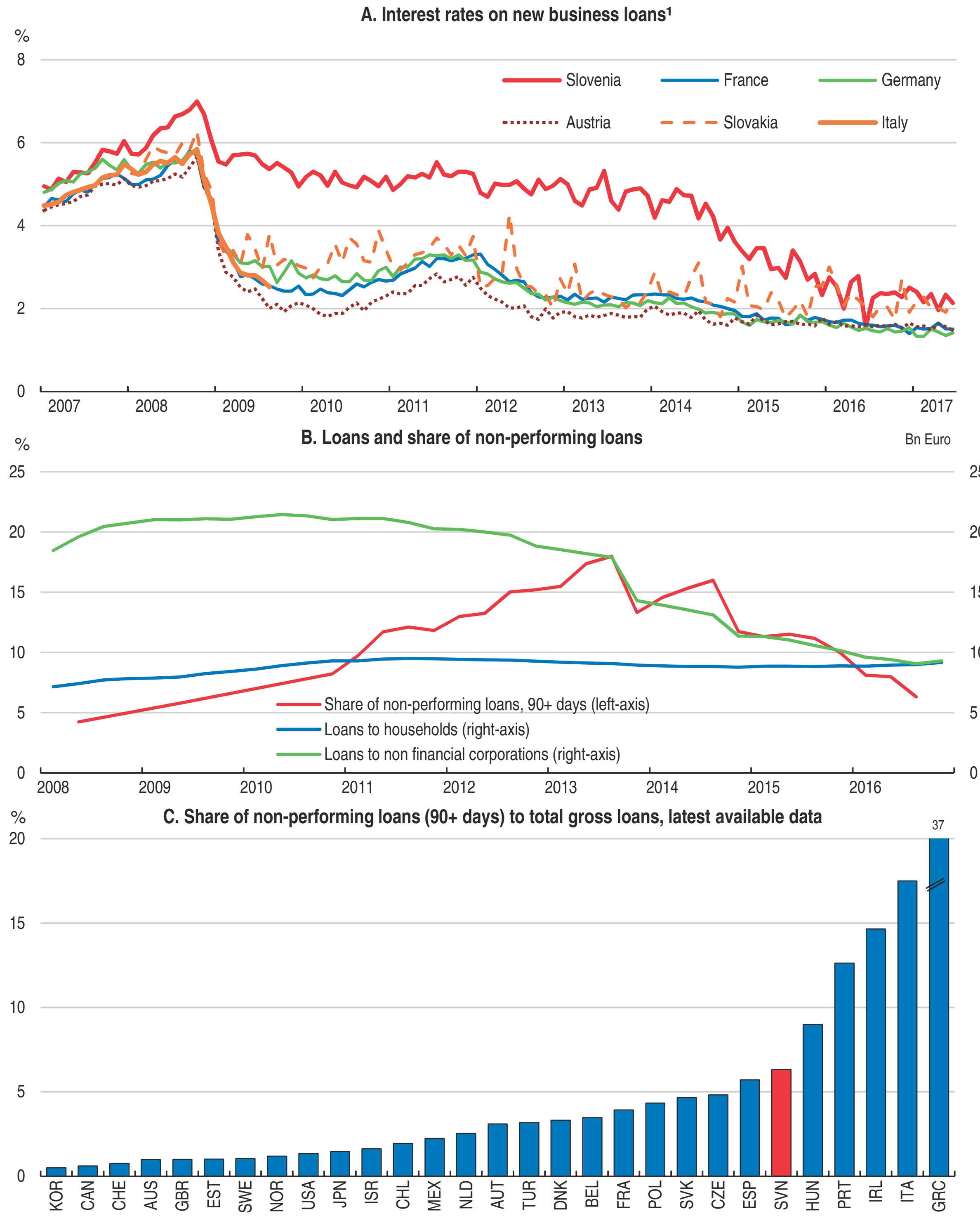
The low interest-rate environment poses risks to banks' future stability because of the resulting low interest income and reduced scope to boost interest margins (Figure 20). Although banks have become less dependent on international financing, the benefits of reduced reliance on a less stable funding source have been partially offset by a shortening of the term structure of deposits, with a larger share of sight deposits, including volatile corporate deposits. The recent improvement in banks' profitability (their return on equity has returned to a level last seen in 2008) may also be temporary, reflecting low impairments and provisions for bad debts, and as higher future policy rates shrink spreads. Therefore, the need for further consolidation remains (Table 6), particularly as banks are losing profitable

Figure 19. **Financial conditions have improved**



1. Data refer to loans other than revolving loans and overdrafts, convenience and extended credit card debt.

Source: ECB (2016), "Financial markets and interest rates: Bank interest rates", Statistical Data Warehouse, European Central Bank; IMF, Financial Soundness Indicators (database).

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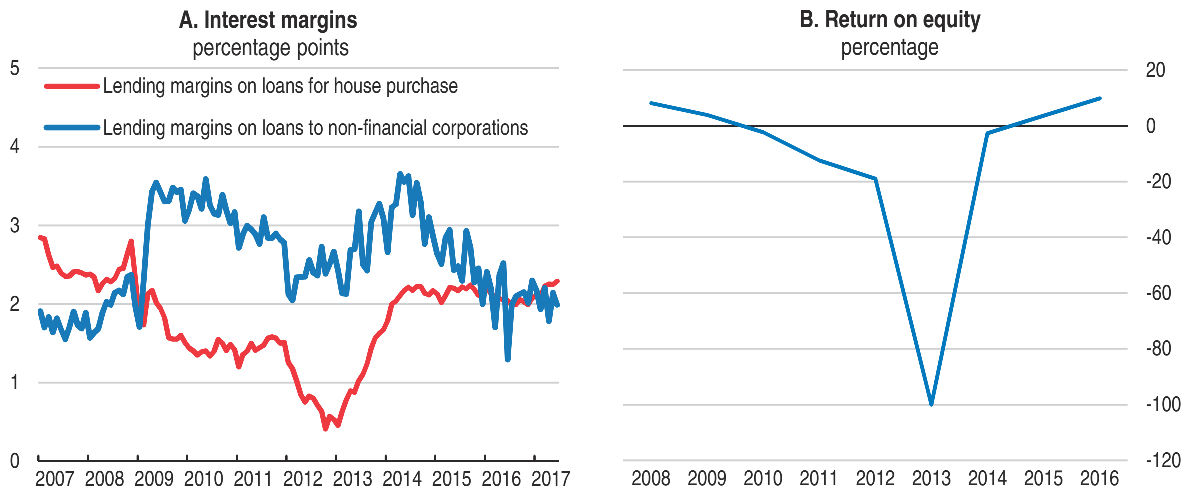
Figure 20. **Future bank profitability may be affected by the low-interest-rate environment**



Source: European Central Bank, Statistical Data Warehouse; Bank of Slovenia.

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Table 6. **Past OECD recommendations on restructuring the banking sector**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Use the Bank Asset Management Company (BAMC) to ensure swift restructuring of companies and effective liquidation of assets.	BAMC's mandate has been extended until 2022 and its role in restructuring strengthened. BAMC absorbed two bankrupt banks.
Transfer all assets in a company group to the Bank Asset Management Company.	The transferral of non-performing assets to BAMC has been completed.
The Bank Asset Management Company should remain independent, with the highest standards of corporate governance and transparency.	The BAMC has been strengthened by prohibiting its non-executive directors from having any managerial role in the BAMC.
Privatise state-owned banks without retaining blocking minority shareholdings.	The second largest bank was privatised.
Implement the new insolvency regulation system, and improve institutional capacity by training judges and insolvency administrators. Make out-of-court restructuring faster and more attractive.	The court's analytical system for monitoring has been upgraded.

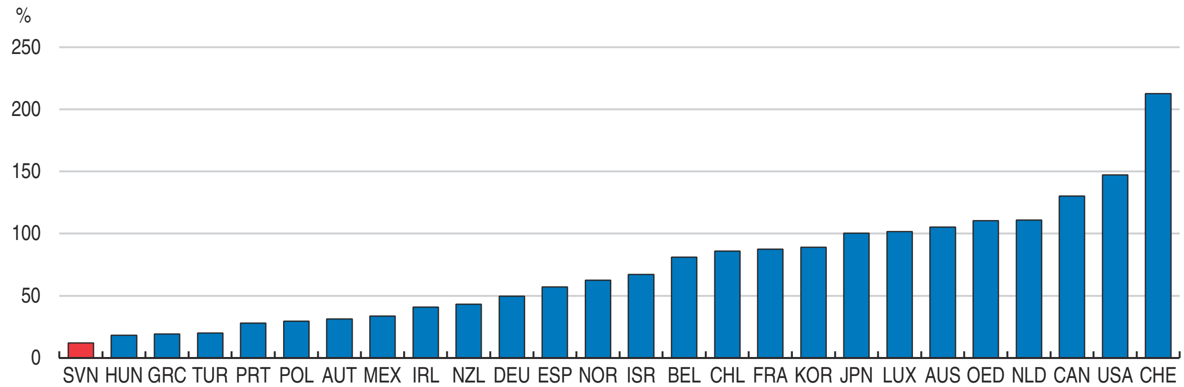
business with high-growth export-orientated and foreign owned firms increasingly seeking financing abroad, or relying more on retained earnings (Bank of Slovenia, 2016a).

Financial conditions have eased, as interest rates on business loans and spreads over German 10-year government bonds have fallen (Figure 19, Panel A), and the contraction of credit to the private sector seems to be slowly ending. Nevertheless, interest rates on loans remain above those in the euro area, and banks have kept credit standards tight, limiting firms' access to credit, despite offloading their non-performing loans to the BAMC. Even though the government is supporting loans, microcredits, loan guarantees, seed capital and venture capital, they are insufficient to offset this credit rationing. Central bank surveys show a persistent excess demand for loans, although the applied methodology could imply some overestimation. This is important because Slovenia's firms, and especially SMEs, remain largely reliant on bank credit.

Start-ups' access to alternative sources of finance, such as venture capital or crowd-funding, remains limited, despite recent public initiatives. Also, the stock exchange is still tiny: the number of listings has fallen from 47 to 41, and almost all listings are either state owned or controlled (Figure 21). However, in March 2017 a new alternative market for smaller

Figure 21. **Stock market capitalisation is low**

As a percentage of GDP, 2016



Note: Market capitalisation (also known as market value) is the share price times the number of shares outstanding (including their several classes) for listed domestic companies. Investment funds, unit trusts and companies whose only business goal is to hold shares of other listed companies are excluded. Data are end-year values.

Source: World Bank, World Development Indicators database.

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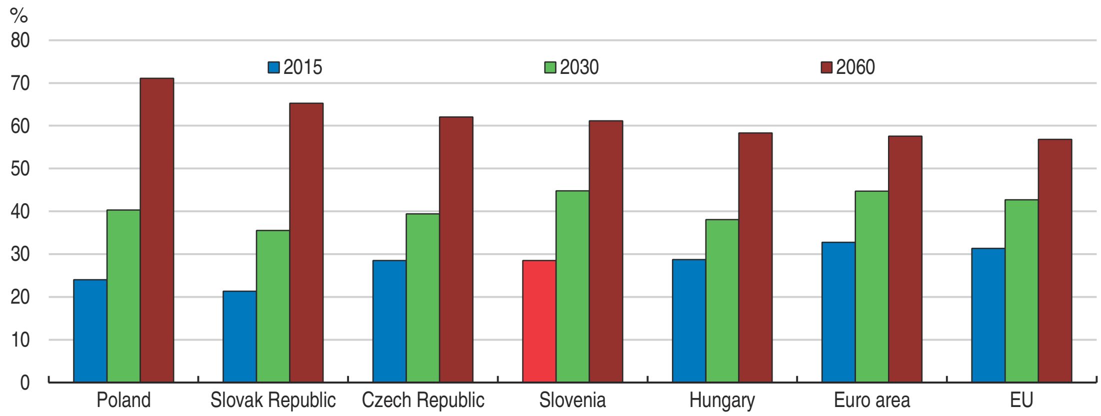
firms not listed on the stock exchange was launched. Also, the shadow banking sector (comprising mainly money-market and bond-investment funds and leasing firms) has gradually grown, reaching an estimated 8% of the financial system's total assets, adding to the complexity of financial supervision (Bank of Slovenia, 2016a). Moreover, other non-bank credit channels have become more important, such as business-to-business loans, as have internal funds.

Ongoing bank restructuring could boost access to finance. But state-owned banks are still large, representing approximately half of total bank equity. Such banks are widely seen as less effective in allocating capital: they may extend credit to under-performing SOEs and other public bodies, or provide preferential financing to favoured regions or sectors as well as crowding out credit to the private sector (Andrews, 2005; Gonzalez-Garcia and Grigoli, 2013). According to EU rules, the financial support from the state to its banks during the financial crisis will be considered as illegal state-aid, unless they are privatised. As recommended in past *Surveys*, the second largest bank (Nova KBM) was privatised in 2016 (Table 6). To avoid having its public financial support classified as unauthorised state aid, at least half of the largest bank (NLB) must be sold by end-2017 and a further 25% by end-2018. In June 2017, the initial public offering was cancelled, and the government is in discussion with the EU Commission on ways forward. Previous privatisation attempts have foundered on the requirements that the government maintains a 25% controlling stake and no individual investor can acquire more than 25% of the bank's shares. Withdrawing the requirements on ownership would allow a well-capitalised investor full control to restructure the bank to make it viable in the medium term.

Dealing with aging-related spending

Slovenia is faced with high spending pressures from population ageing, reflecting a large increase in the old-age dependency ratio (Figure 22). Such spending is projected to increase by almost 7 percentage points of GDP by 2060 (European Commission, 2015a; Table 7). Most is related to rising pension spending, which is already higher than the EU average, and a new minimum pension (equal to 81% of the minimum wage on a net basis)

Figure 22. **The old age dependency ratio will more than double by 2060**



Note: The old-dependency ratio is the ratio of the population above 65 years to the population over 20 years but below 65 years.
Source: Eurostat population projections.

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Table 7. **Long-term projection for age-related spending, % of GDP**

	Total age-related spending[1]			Gross public pension spending			Health care spending			Long-term care spending		
	2013	2030	2060	2013	2030	2060	2013	2030	2060	2013	2030	2060
Czech R.	19.1	20.4	22.5	9.0	9.0	9.7	5.7	6.3	7.0	0.7	1.0	1.5
Hungary	20.8	18.2	21.9	11.5	8.9	11.4	4.7	5.2	5.7	0.8	0.9	1.2
Poland	20.9	20.5	22.3	11.3	10.4	10.7	4.2	4.8	5.6	0.8	1.1	1.7
Slovenia	24.7	26.7	31.6	11.8	12.3	15.3	5.7	6.5	7.1	1.4	1.9	2.8
Slovakia	17.7	17.9	21.8	8.1	7.6	10.2	5.7	6.6	7.9	0.2	0.4	0.6
EU28	25.6	26.4	27.3	11.3	11.6	11.2	6.9	7.5	8.0	1.6	2.0	2.8
EA	26.8	27.7	28.5	12.3	12.9	12.3	7.0	7.5	7.9	1.7	2.1	3.0

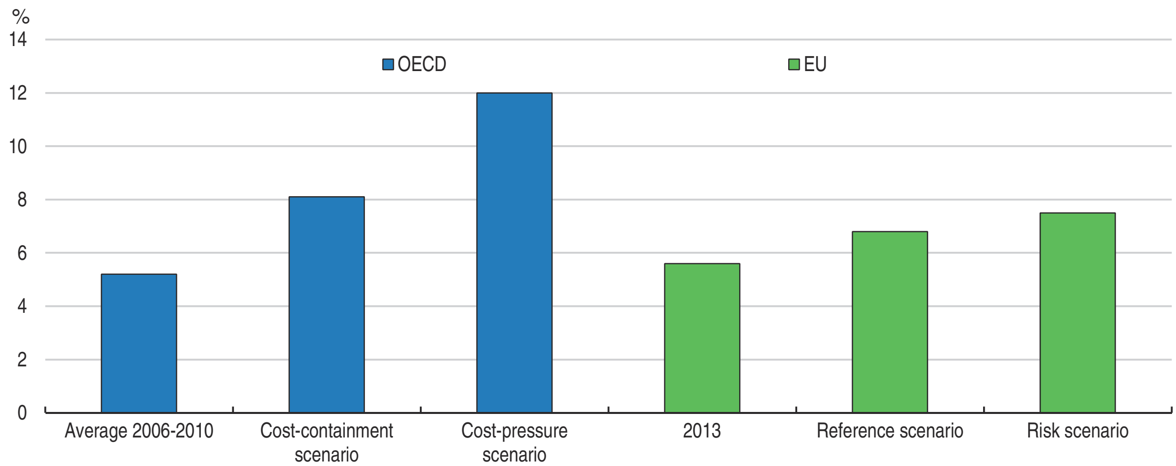
1. Total age-related spending includes gross public pensions, health care, long-term care, education and unemployment benefits.

Source: European Commission (2015), *The Ageing Report 2015, Economic and Budgetary Projections for the 28 EU Member States (2013-2060)*, 3/2015, Brussels.

was introduced in 2017, benefitting around 10% of all old-age pensioners. Health-care spending accounts for less in this projection but is subject to considerable uncertainty and could, according to OECD scenarios, be as much as 5 percentage points of GDP higher than currently projected (Figure 23).

In 2016 the government published pension scenarios with different combinations of retirement age, contribution periods and indexation rules to secure long-term sustainability and adequacy of the state pension system – measures that are in line with the recommendations in past *Surveys* (Table 8; Box 1; see also MDDSZ, 2016a). Reducing pension indexation can generate considerable savings, although current rules will already lead to low pensions (Figure 24). Pension contributions (either to the first or second pillar – in both cases the equivalent of a tax on labour) would have to increase by nearly 15 percentage points to cover the foreseen 3.5 percentage point rise in pension costs relative to GDP, placing a large burden on shrinking younger generations. Discussions with the social partners about pension reforms are ongoing. By mid-2017 these discussions defined the main objectives to include raising the replacement rate to 70% (including all pension pillars) and securing fiscal sustainability, among others by increasing the effective retirement age and adjusting the indexation of pensions. In addition, second-pillar pension plans should become more important.

Figure 23. **Long-term health-care expenditure projections for Slovenia**



Note: In both OECD scenarios are healthy ageing longevity gains translated into equivalent additional years in good health and with income elasticity 0.8. On top of this is the residual growth (that include also technology) estimated in the cost contained scenario with policy actions (1.7% growth in the stating period and then converges to 0 in 2060) and the cost pressure scenario with no policy change (1.7% growth over the projected period). The EU Reference scenarios assumed that the ageing longevity gains are translated into half additional years in good health and income elasticity from 1.1 in 2013 to unity in 2060. The risk scenarios assumed the same demographic affects as reference scenario and income elasticity from 1.4 in 2013 to unity in 2060 (the growth of the residual, also technological changes are incorporated in the elasticity).

Source: De La Maisonneuve, C. and J. Oliveira Martins (2013), "A Projection Method for Public Health and Long-Term Care Expenditures, *OECD Economic Department Working Papers,* No. 1048, OECD Publishing, Paris; European Commission (2015), *The Ageing Report 2015, Economic and budgetary projections for the 28 EU Member States (2013-2060),* 3/2015, Brussels.

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Table 8. **Past OECD recommendations on containing the costs of ageing**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Increase the statutory and minimum pension (for workers with qualifying contribution periods) ages, and link them to life expectancy. Calculate pension rights based on lifetime contributions.	A White Book with reform proposals has been published (see Box 1 below).
Increase the weight of inflation, as opposed to wages, in the pension indexation rule.	Indexation has been temporarily limited, although two one-off increases have been implemented.
Reform the health-care sector to improve efficiency.	In 2015, the Resolution on the National Health care plan 2016-25 was adopted as a basis for health care reform. Mandatory centralised public procurement in all public hospitals and eHealth solutions have been implemented. The 2016 Pharmacies Act forbids vertical integration and advertising. In 2017 a central register of medical products, their characteristics and their prices was created to improve resource allocation. In 2017, the Restriction of the Use of Tobacco and Related Products Act and the National Cancer Control Programme were adopted.
Equalise the contribution rates to the health fund, and abolish voluntary complementary insurance.	The Ministry of Health has proposed to widen the contribution base and equalise rates.
Ensure sufficient long-term care funding. Develop home care by creating a level playing field and allowing patients to organise their own care.	The Long-Term Care Act was submitted to public consultation by July 2017.
Enhance life-long learning for older workers with targeted training programmes, and facilitate moves to less physically demanding work.	A number of new training programmes have been introduced. New employer subsidies to create jobs for seniors are being rolled out.

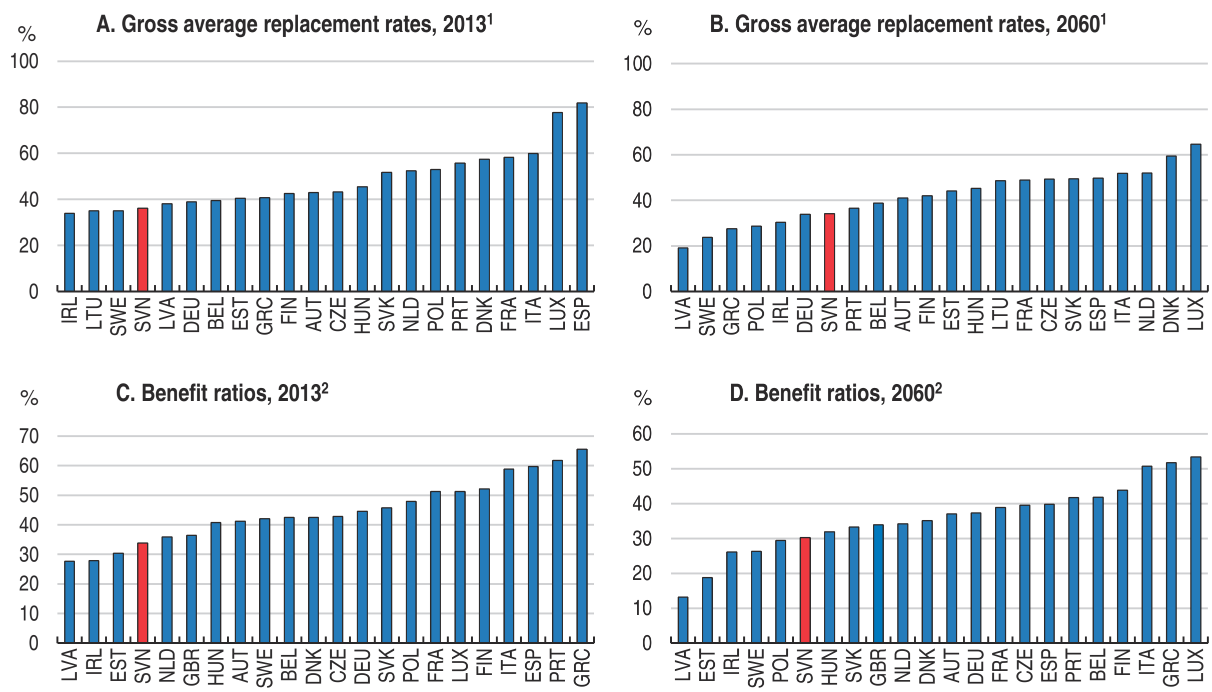
A higher replacement rate will further increase future pension spending. Several changes in pension entitlements should be envisaged to lower that burden. The main focus of reform should be to extend working lives and raise the effective retirement age. Increasing the retirement age to 67 would be an important step in this respect. Some other countries

Box 1. **White Book scenarios**

The White Book scenarios explore the necessary parametric reforms of the pension system to secure adequate pensions and fiscal sustainability. The three main elements simulated are higher pension age and longer contribution periods, pension indexation and the introduction of a mandatory second-pillar contribution. The main elements of the calculations are:

- Gradually increasing the pension age to 67 years (with minimum 15 years of contributions) and prolonging the age and contribution period by 5 years to 65 years and 45 years, respectively, would lower pension spending by 0.8% of GDP by 2060.
- Changing the indexation of pensions from 60 % wages and 40 % prices to a 30:70 split would yield savings of 1% of GDP. Only indexing to prices would reduce pension spending by 2% of GDP.
- Introducing a mandatory contribution rate of 4% of salaries to private pension funds would generate additional revenues in the order of 1 % of GDP.

Figure 24. **Replacement and benefit ratios will be relatively low**



1. Average first pension as a share of the average wage at retirement. Level of pension income in the first year after retirement as a percentage of individual earnings at the moment of retirement. Data refer to men who contributed for 40 years up to the standard pensionable age.
2. Average pension benefit as a percentage of economy-wide average wage. The average pension is calculated as the ratio of public pension spending relative to the number of pensioners, whereas the average wage is projected to follow that in labour productivity (GDP per hour worked). The ratio of these two indicators is intended to provide an estimate of the overall generosity of pension systems.

Source: *The Ageing Report 2015, Economic and budgetary projections for the 28 EU Member States (2013-2060)*, 3/2015, Brussels; and European Commission (2015), "The 2015 Pension Adequacy Report", Brussels.

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have gone further by linking the statutory retirement age to gains in life expectancy, including Denmark, the Netherlands, Finland and Italy (European Commission, 2017). Even such a measure will not suffice to fully address the increase in pension spending and additional measures are needed to cover eventual pension shortfalls.

Additional measures are needed - including life-long learning and closing pathways into early retirement – to raise the effective retirement age (MDDSZ, 2016b). Moreover, the pension system provides few incentives for working past the statutory pension age. Pensioners can work part-time and also claim part of their pension. This option is becoming more popular, and by early 2017 half a per cent of all old-age pensioners continued to work. The low take-up can be explained by the meagre compensation for delaying retirement: every additional year worked leads to a 4% cut in net pension wealth (OECD, 2016b). A fairer system would be to allow those who decide to work past retirement age to receive larger future pensions, or to claim a full pension when they have reached pension age, regardless of work status. Remaining pension shortfalls should be covered through a combination of higher contributions, longer contribution periods and lower indexation of pensions.

The Resolution on the National Health Care Plan 2016-2025 is the basis for health-care reform to meet the challenges associated with population ageing, financial pressures and constraints as well as new technologies. The amended Health Services Act is being discussed in Parliament and includes new criteria for granting concessions for public healthcare services to improve transparency and accessibility. The 2017 Health Care and Health Insurance Act focuses health-sector reforms on improving financing of hospitals, cost containment and revenue stabilisation (also by broadening the contribution base) (Government, 2016c; Ministry of Health, 2016; Ministrstvo za zdravje, 2017). Cost containment will be achieved by further strengthening the role of general practitioners as gatekeepers and extending mandatory joint public procurement to medical devices. Moreover, the out-of-date parameters in the diagnosis related groups (DRGs) used for output budgeting will be updated to reflect present cost structures. The DRGs and new quality indicators will be used in new two-year activity plans that will be negotiated between providers and the Health Insurance Institute (HII), particularly by allowing HII some room to select providers based on cost and quality. Revenue will be increased by expanding the health contribution base to include non-labour income and introducing a unified contribution rate. A draft of a new Long-Term Care Act was submitted to public consultation in mid-2017.

Cost containment should be accompanied by reforms to improve efficiency, as otherwise there is a risk that services will fall short of providing affordable, high-quality care. The hospital sector is characterised a large number of general hospitals without much specialisation. Efficiency could be improved if hospitals had greater leeway to specialise by adjusting their health services to changing demands, including the possibility of closing down underperforming departments, and to engage in multi-annual investment plans. In this respect, allowing hospitals to keep some of their cost savings could be helpful for the specialisation process. Such measures could, among other things, provide a pathway to greater specialisation, which both reduces costs and improves outcomes. Plans to replace the old governing boards with more professional bodies are welcome (European Commission, 2015b).

Raising living standards by investing in capital and skills

Investment in physical, intellectual and human capital will be needed to bolster productivity growth to pursue the Development Strategy's priority of an economy that creates added value for everyone with an inclusive labour market and globally integrated, innovative and competitive firms. However, the large decline in investment in general, and especially in business capital formation, has led to one of the lowest investment shares in GDP in the region (Figure 25). A particular concern is a lack of spending on knowledge-based capital. Moreover, despite a 7.4 percentage point increase in the stock of inward FDI to 28.9% of GDP since 2008, Slovenia still has one of the OECD's lowest inward FDI positions and thus slower adoption of advanced technology and management practices. However, foreign owned firms generated almost 40% of total exports in 2015, and their value added per employee is almost a quarter higher than their domestic counterparts' (Bank of Slovenia, 2016b).

Moreover, meeting the Development Strategy's objectives of greater life-long learning and creating educational institutions that can adjust to changing needs, will allow workers' skills to be continuously improved so they complement skills-intensive future investments, reflecting rapid technological changes associated with automation and digitalisation.

Developing vocational skills to bolster inclusiveness

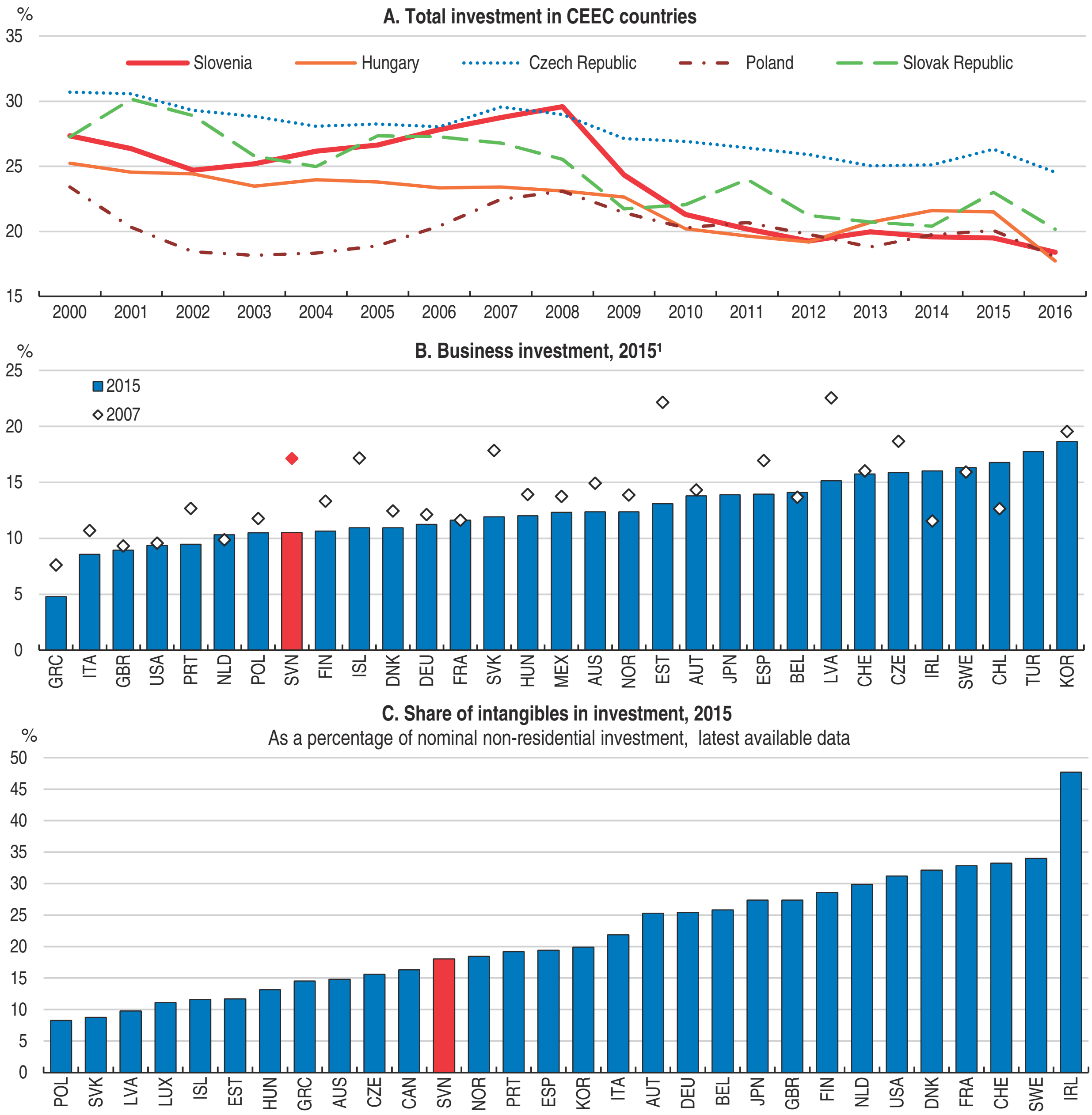
Upon completing compulsory education (typically at age 15) students in upper secondary education can pursue academically orientated general education (with the aim of progressing to university) or vocational education. Slovenia's vocational training system is broader in scope than in most other countries, with students having the flexibility to continue to tertiary education. Programmes involve either three years of traditional vocational training (for instance in plumbing), or four years of "technical" training (such as for technicians). In 2016 an apprenticeship pilot scheme was introduced. The three-year programmes have well-established links with local employers, as students spend 25% of course time in work-based practical training in addition to 15% of programmes' content being determined by schools in co-operation with local companies (Ministry of Education, 2015). In contrast, workplace experience is a minor part of the four-year 'technical' programmes. Moreover, 90% of those in four-year programmes advance straight to tertiary education, despite the vocational aspect of the programmes. However, their access is typically restricted to courses in the same field as their secondary studies. In contrast, the general academic programmes give access to a much wider field-of-study choice (Lovšin, 2014).

The three-year programmes prepare students for the current needs of the labour market, as is shown by their good employment rates. However, vocational graduates lack advanced literacy and problem-solving skills, and are average in terms of numeracy, making it difficult for them to succeed in a changing and increasingly high-tech environment (Figure 26; OECD, 2016c). Acquiring such skills is important for life-long learning, which in turn increases occupational mobility (OECD, 2017). This could be achieved by enhancing teachers' professional development to include greater use of problem solving and experimental learning (Ermenc and Mažgon, 2015). Several programmes for professional development were instigated in 2016, funded by EU social funds, although it is too early to assess their effectiveness.

Though the flexibility to progress from four-year programmes to tertiary education is welcome, such high progression rates may come at the cost of their losing their focus on training students for direct access to the labour market. The use of such a path may be an inefficient use of resources, particularly in view of the four-year programmes' restricted access. Indeed, if students wish to pursue studies outside their field, they have to pass additional exams, thus requiring extra study time. The authorities should conduct an audit to investigate the advantages of students pursuing four-year technical programmes, rather than general education programmes. The four-year technical programme could lead to

Figure 25. **Investment has fallen**

As a percentage of GDP



1. Non-financial corporations. 2013 for Mexico; 2014 for Belgium, Chile, Greece, Iceland, Ireland, Israel, Japan, New Zealand.
Source: OECD (2017), *Analytical Database*; OECD (2017), OECD National Accounts Statistics (database); OECD, *Economic Outlook database*; OECD (2015), *OECD Statistics on Measuring Globalisation* (database).

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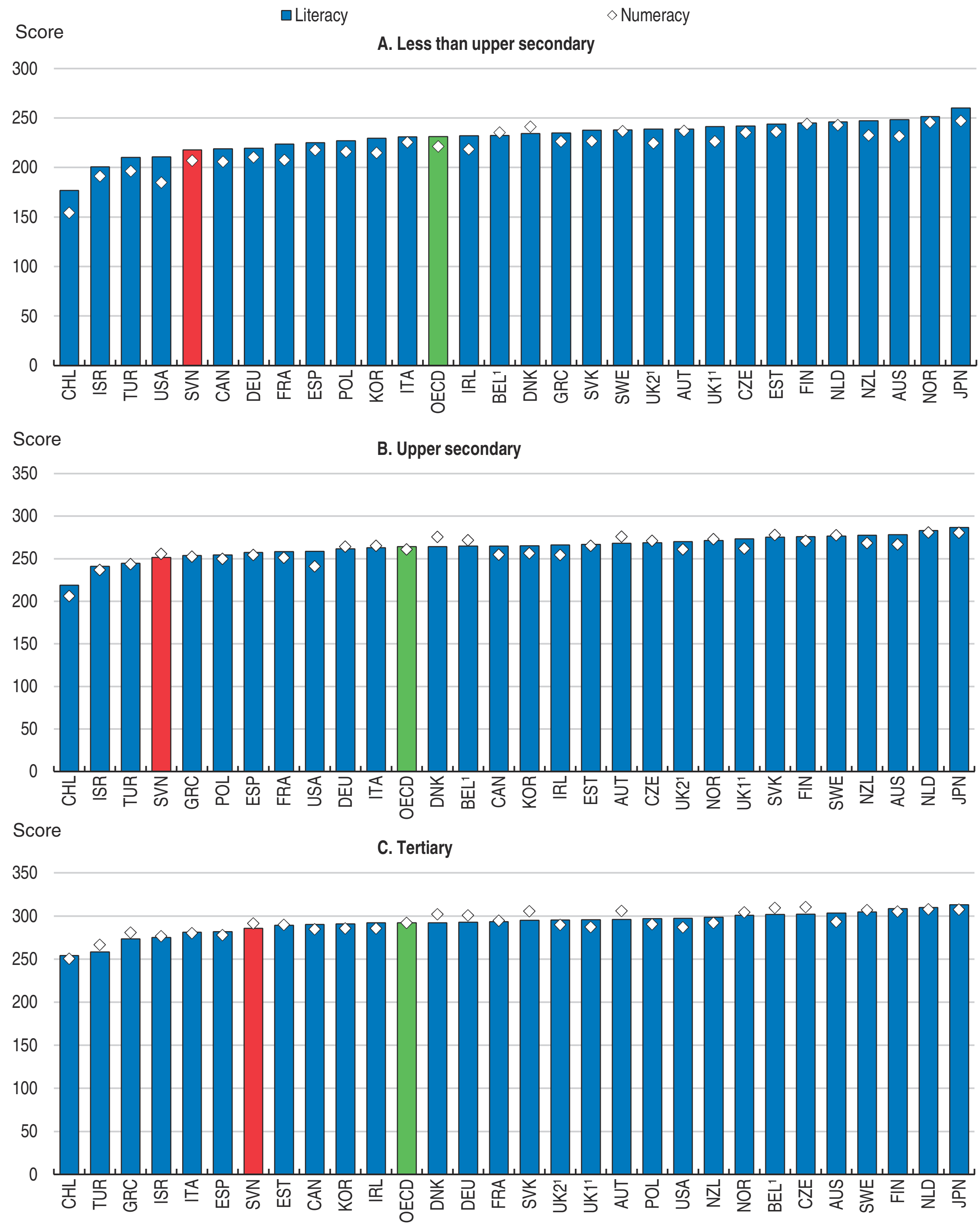
better employment outcomes upon graduation by including more workplace training. This could be achieved, for example, through the existing Practical Training with Work programme ("Praktično usposabljanje z delom"), which links four-year students with local firms for temporary work experience during term time, by extending it to promote work experience during school holidays. In addition, firms' take-up of this measure could be used as an indication of the relevance of particular vocational training courses.

Figure 26. **Literacy skills are comparatively poor for adults from all education attainment groups**

Mean literacy and numeracy proficiency scores by educational attainment



1. For regions: Flanders for Belgium, Northern Ireland (UK2) and England (UK1) for United Kingdom.

Source: Survey of Adult Skills (PIAAC), Table A3.2 (L) and (N).

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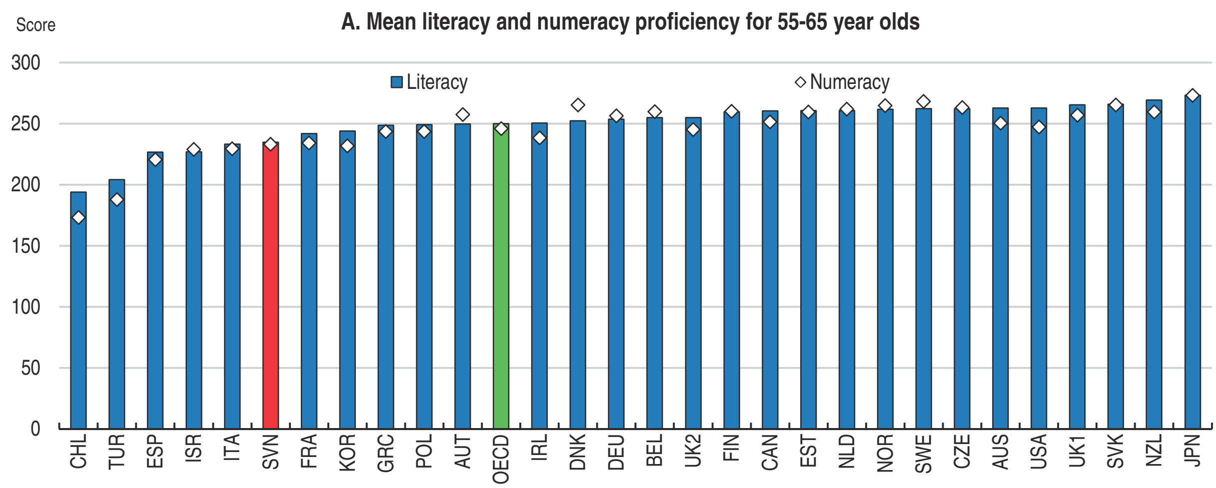
Adult education and life-long learning promote inclusiveness by allowing older workers to remain employable and are needed as older Slovenians (aged 55-64) perform poorly in literacy, numeracy and problem solving (as measured by the OECD's PIAAC exercise; Figure 27). This is also reflected in the unsatisfactory SDG performance with respect to adult participation in education. However, workers with vocational skills lack opportunities for retraining, as existing programmes focus on completion of primary and secondary education. Recent government initiatives to expand life-long learning include introducing government co-financing (alongside employers' and participants' contributions) of part-time post-secondary vocational education and new special programmes to improve basic and vocational skills of older low-skilled workers (Čelebič, 2014). Participation in formal or informal training for adults (aged 25-64) is on a par with other countries'. However, the average number of hours of training for participants is the second lowest in the OECD. Moreover, as elsewhere, it is mostly the better educated who participate in life-long learning: those with high literacy scores are more than twice as likely to participate in training as the low skilled (OECD, 2016c).

Figure 27. **Mean literacy and numeracy proficiency scores for 55-64 year-olds**



1. For regions: Flanders for Belgium, Northern Ireland (UK2) and England (UK1) for the United Kingdom.
Source: Survey of Adult Skills (PIAAC), Table A3.5 (L) and (N).

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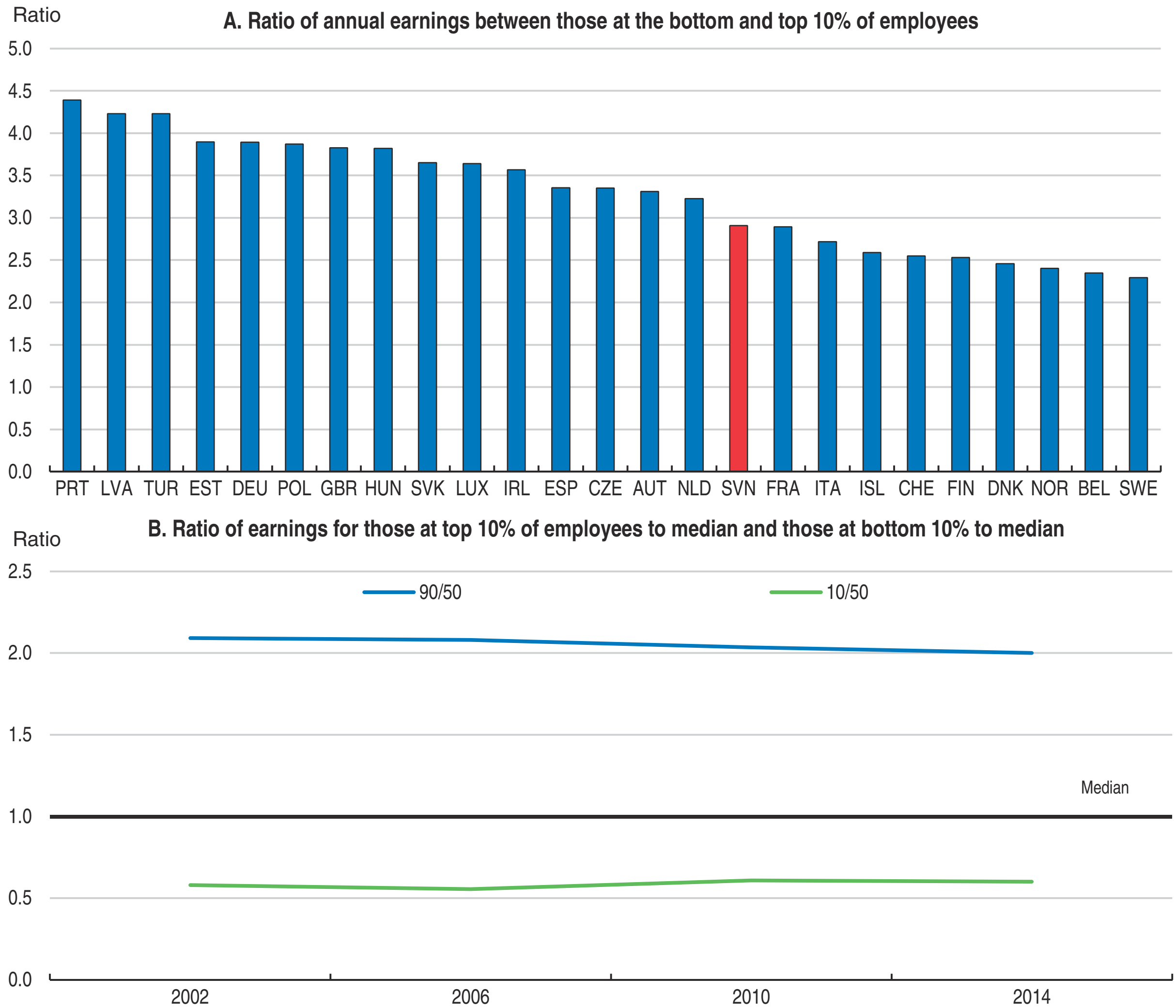
To improve participation in adult education, providers should offer a more user-friendly approach, such as allowing greater on-line and distance learning, and part-time and modular courses (OECD, 2017). Training should also target mid-career workers to prevent skills obsolescence, by making workers more responsible for their participation, by, for example, giving them training vouchers or tax credits. Both the provision of training enabling the long-term unemployed to change occupation and the referral of workers to such training should be increased.

Some labour market features are not conducive to inclusiveness

Slovenia's wage-determination system is characterised by sectoral bargaining within a highly co-ordinated setting with the (tripartite) Economic and Social Council issuing wage guidelines. In addition, the government has the possibility of administratively extending wage agreements. This system has succeeded in keeping overall wage developments in line with productivity increases, thereby maintaining external competitiveness, but it has also resulted in a relatively compressed wage structure (Figure 28). In particular, workers with vocational skills have maintained compressed wages despite major changes in

Figure 28. **The relatively compressed wages have been stable, 2015**



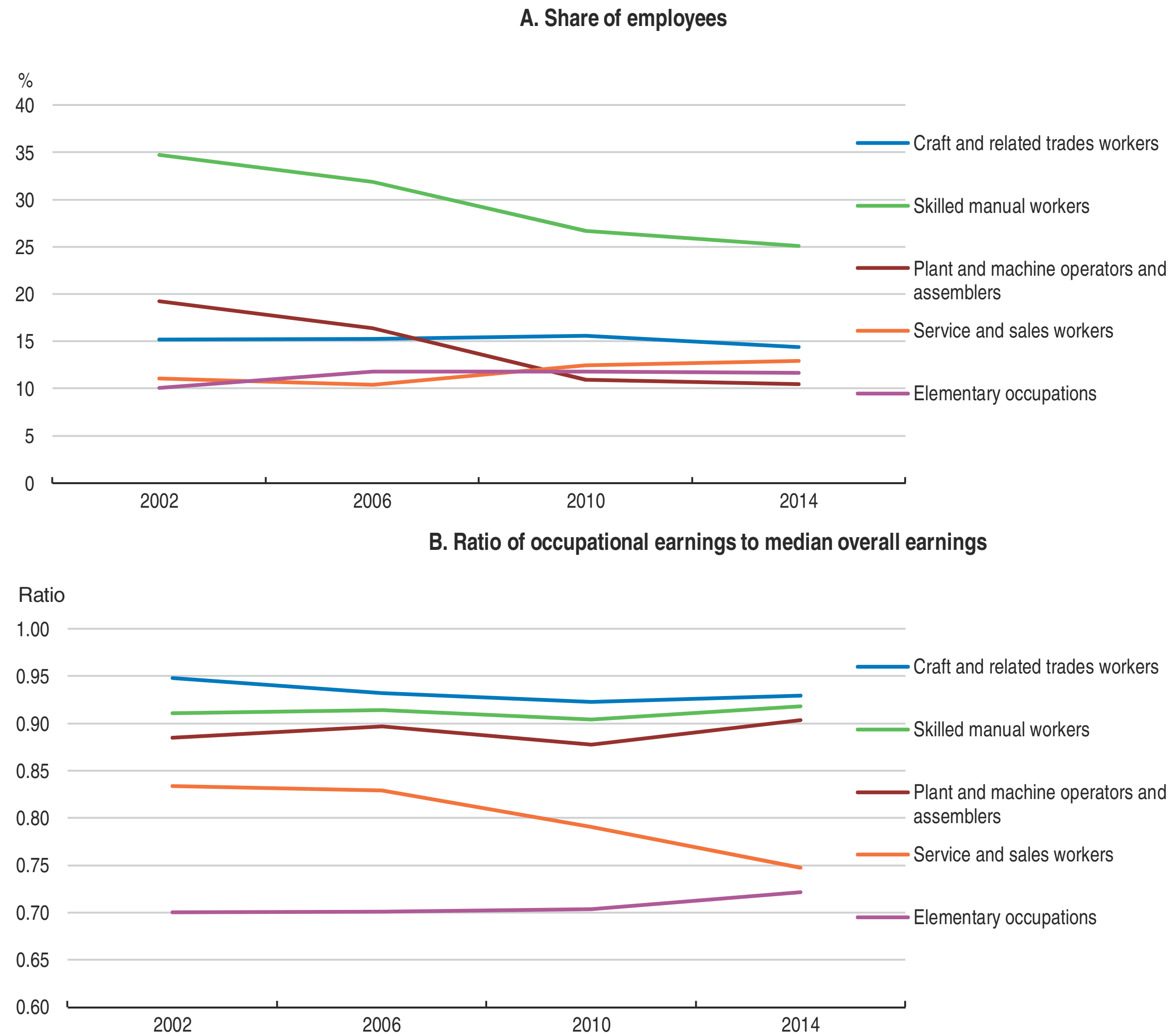
Note: The 90/50 ratio compares the annual earnings of employees at the 90th percentile with the median. The 10/50 ratio compares annual earnings with employees at the 10th percentile with the median.
Source: Eurostat Structure of Earnings Survey.

StatLink http://dx.doi.org/10.1787/888933556444

employment shares (Figure 29). As a result, changes in labour market demand are signalled more through unemployment rates than relative wages. Thus, workers are poorly informed about which skills they should develop further. In addition, business investment may be hampered if investors are unable to find sufficient amount of workers with relevant skills. Evidence also shows that the Italian bargaining regime (which is similar to Slovenia's) reduces the ability of firms to adjust salaries and conditions to attract suitable workers (Monti and Pellizzarini, 2016).

A greater element of firm-level wage determination could enhance such incentives. This could be achieved, for example, through greater possibilities for local social partners to opt out of sectoral agreements, by extending opt-out duration and broadening the set of valid reasons for using them. Similar measures have recently been taken in Italy, Portugal and Spain, with tax incentives being offered by the Italian government to promote productivity-enhancing firm-level bargaining, though this comes at a fiscal cost.

Figure 29. **Relative wages for the low paid have generally been fairly stable, despite changes in job shares**



Source: Eurostat database, Structure of earnings survey: hourly earnings.

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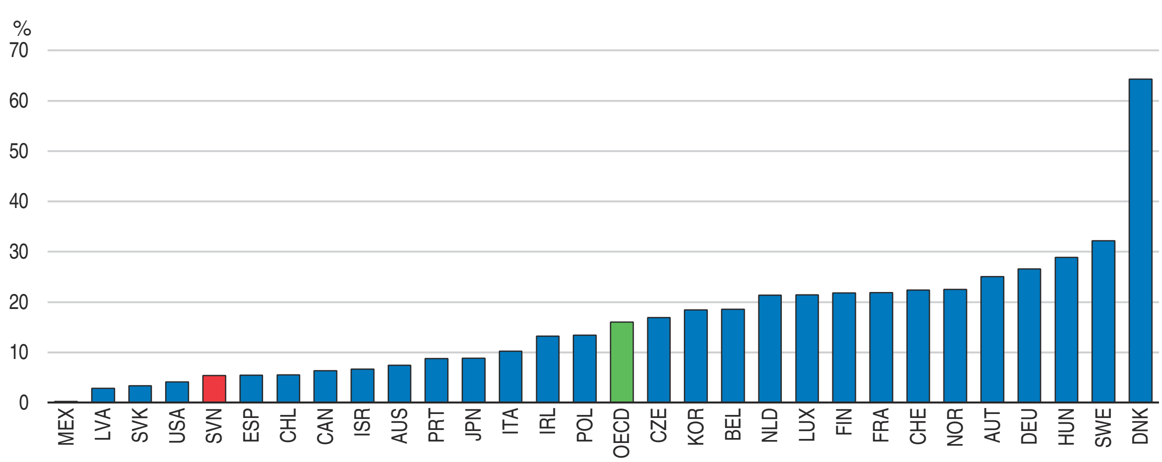
A peculiarity of Slovenian wage setting is that firms are legally obliged to pay wage premiums based on a workers' entire work history, rather than by agreement between the worker (or worker representatives) and the firm. Although the precise amount is subject to collective agreement, this premium averages 0.5% per year and results in older workers costing on average 15% more to hire than their younger counterparts (OECD, 2016b). Though such a premium is modest, its rigidity particularly discourages hiring of those who change career and do not have job-specific work experience to justify the premium, or older long-term unemployed. This explains why Slovenia has amongst the OECD's lowest levels of job churn, with particularly low jobless-to-employment transitions (Garda, 2016). The determination of the seniority element has been transferred to the social partners in their collective agreements. Labour market inclusiveness could be further enhanced by removing that legal requirement, which would be of particular benefit in sectors not covered by collective agreements.

As outlined in a previous *Survey*, the high minimum wage (relative to the median) can potentially reduce employment prospects for the low skilled (OECD, 2015a). This may be a particular problem for older long-term unemployed, as long spells of unemployment are likely to have eroded their productivity and human capital. Thus, Slovenia should continue to moderate minimum wage growth to gradually increase the gap between the minimum and median wage. Moreover, sub-minimum re-entry wages for the long-term unemployed that increase over time could help long-term unemployed to develop on-the-job skills. This could be combined with a refundable earned income tax credit to address poverty issues. In addition, labour costs are further increased by the generous system of mandatory tax-free meal and travel allowances. As these are calculated per shift, rather than per hour worked, they discourage firms from hiring part-time workers and distort commuting incentives and could be replaced by a fixed employment tax credit (of the same value as the average tax saving from meal and travel allowances), benefitting those living near their workplace.

Slovenia spends less on active labour market policies (ALMPs) than most other OECD countries (Figure 30). The prospects of the unemployed are damaged by poor communication between the Employment Service (ES) (which acts a job broker and offers career counselling) and the Centres for Social Work (CSW) (which pay benefits to those not covered by unemployment insurance). For example, social assistance recipients may agree different action plans with the ES and the CSW. Moreover, if recipients do not comply with ES training requirements, their welfare support from CSW may not be affected. Such co-ordination problems could be overcome by merging some of the activities of the ES and CSW, as is being considered. Also, sanctions for failure to meet obligations are amongst the OECD's strictest (with such failures treated as equivalent to fraud), but they are inconsistently enforced. In part, this reflects a high administrative burden for ES staff to impose sanctions and their reluctance to impose sanctions for initial breaches. Instead, more graduated albeit consistently enforced sanctions should be introduced (OECD, 2016b).

Figure 30. **Relatively little is spent on active labour market programmes per unemployed person**

As a percentage of GDP per capita, 2015[1]



1. The OECD aggregate is calculated as an unweighted average of the data shown.

Source: OECD Employment and Labour Market Statistics (database).

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The unemployment and disability insurance regimes can be used as routes to early retirement. The maximum duration of unemployment benefits increases with age, and those aged over 56 (and who have less than two years to be eligible for their old-age pension) earn pension contributions while unemployed. Also, the requirement for the disabled to undergo vocational rehabilitation and medical checks becomes less stringent with age. As a result a third of people retiring do so via unemployment (OECD, 2016b). Ending the link between age and social insurance rules would remove a work disincentive, enhancing labour market inclusiveness. This could be achieved by shortening the benefit period for older workers. Another disincentive is that the definition of disability is related to the person's work capacity in their current occupation. It would be more inclusive to change the definition to include the possibility of switching occupations.

The tertiary system has expanded, but quality remains an issue

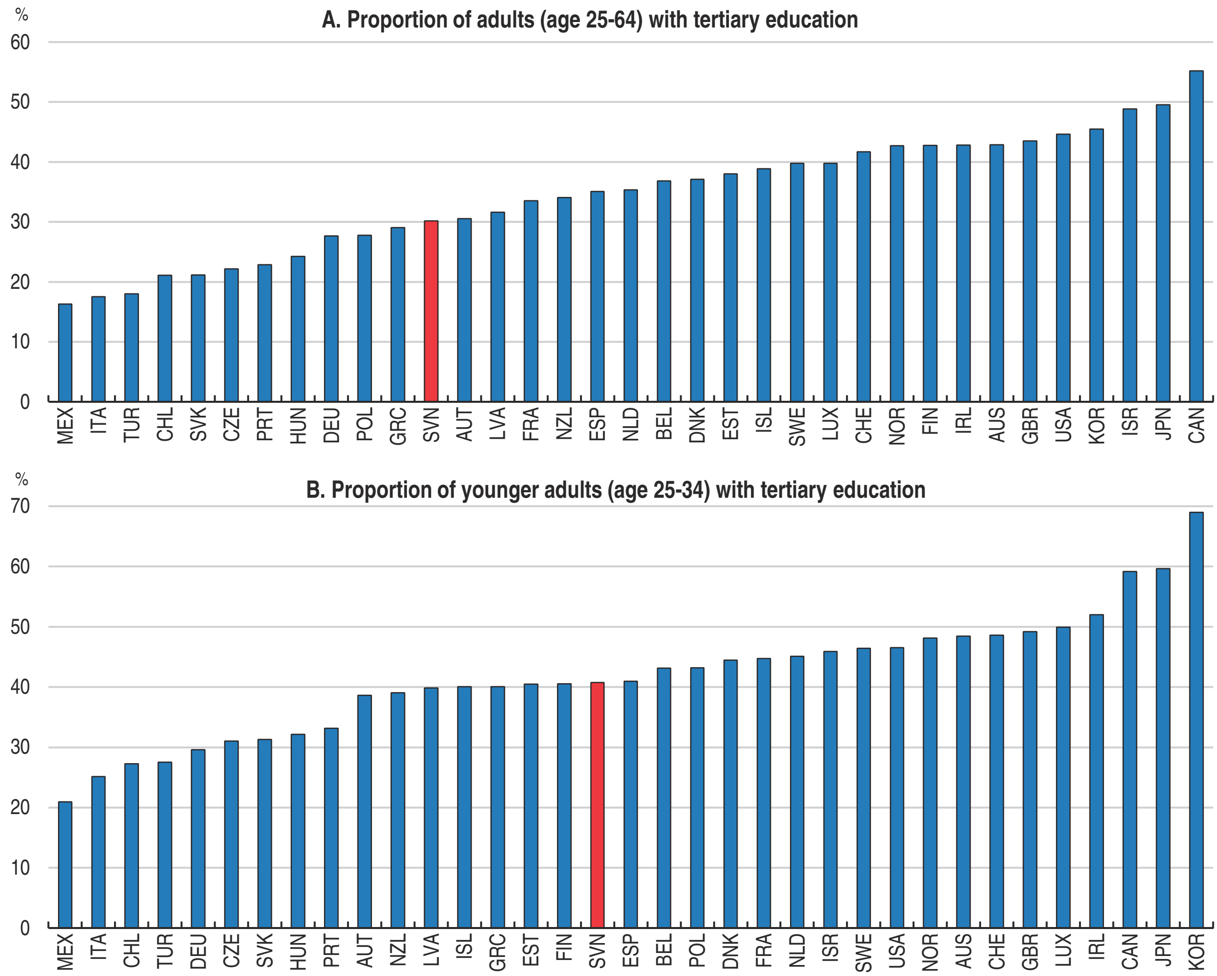
Slovenia has experienced a large expansion in the proportion of tertiary graduates, though this partly reflects a declining youth population (while the number of university places has been more stable), and the move to three-year from five-year degree programmes, as part of the EU harmonisation of tertiary education (the so-called Bologna process) (Figure 31; European Commission, 2010). However, quality is a concern, as Slovenian graduates are among the OECD's bottom performers in terms of literacy and merely average for numeracy (Figure 26, above). The government has begun a process of reform, as recommended in previous *Surveys* (OECD, 2016c; Table 9).

Paying universities a lump sum per full-time undergraduate student enrolled creates incentives for them to enrol as many students as possible and to ensure they continue studying. At end-2016 the funding formula was changed so 75% of funding comes in the form of a fixed amount per institution and the rest is related to student enrolment and output indicators, such as scientific output, employment prospects of graduates and industry collaboration. Increasing the share of funding dependent on graduates' labour-market performance would help to better align the supply and quality of education with the needs of society. Publishing such labour-market scores would help students identify the best institutions in this respect.

Universities' ability to respond to changing technologies and new discoveries is limited by the prohibition of teaching in foreign languages unless the course is also offered in Slovenian (Flander and Klemenčič, 2014). This effectively limits the hiring of academics to Slovenian speakers. Broadening the scope for teaching in foreign languages would expand the pool of academics that Slovenia could tap, raising the quality of faculties, fostering new research and academic development, and equipping students with knowledge that can help move production closer to the global frontier.

The incentives for pursuing tertiary education include free tuition for full-time students and scholarships for about a quarter of students. However, those aged over 26 and part-time students are generally ineligible for financial support, reducing life-long-learning incentives (European Commission/EACEA/Eurydice, 2016). Generous support and high youth unemployment has led to 57% of 20 year-olds enrolling in tertiary education, the third highest in the OECD. On the other hand, Slovenia also has one of the OECD's lowest university completion rates. Moreover, fewer children with lower-skilled parents move to tertiary education than the OECD average (OECD, 2016c).

Figure 31. **Slovenia outperforms CEECs for the share of tertiary graduates**



Source: OECD (2016), *Education at a Glance 2016*, Table A1.3.

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Table 9. **Past OECD recommendations on reforming education**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Reform universities by enhancing their autonomy, leadership and accountability. Promote international co-operation.	Additional earmarked resources for higher education have been made permanent and partially linked to output indicators. More resources are available for international co-operation. More monitoring of students' labour market outcomes is taking place.

Accessibility of tertiary education can be improved by rebalancing the support system. Increasing tuition fees for full-time courses would allow a reduction in the hefty fees for part-time students. Tuition fees should be complemented with increased provision of needs-based scholarships and grants to keep education affordable for students from poor families. Tuition fees would also incentivise students to complete their studies on time and to give greater consideration to future career prospects. A student loan scheme (with income-contingent repayment) would help students cover the new tuition fees and the costs of living away from home. Finally, raising the age at which support is withdrawn would allow students to delay study choice until they are more certain of the course to follow and facilitate upgrading of their occupational qualifications later in life.

Easing regulation and boosting competition

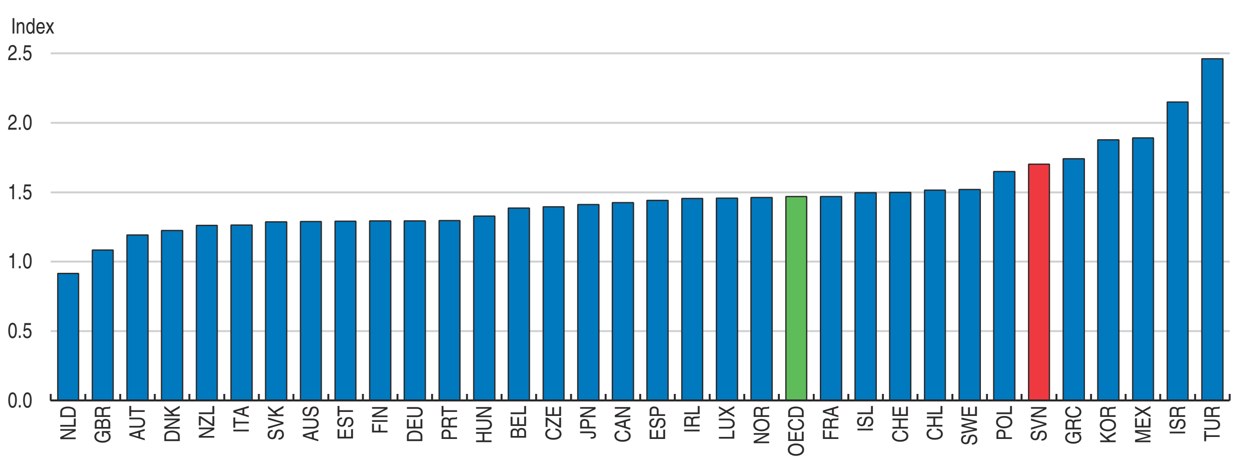
Fostering internationally competitive firms is key for reaching the Development Strategy's priority of an inclusive and globally integrated economy that creates opportunities for all. Regulatory and competition policies that are stable and even handed, and remove barriers to new firms create competitive markets. New firms introduce innovative technologies and business models. The result is higher consumer welfare, either through lower prices or greater choice, and higher productivity.

Regulation of businesses is substantial

Red tape is a major challenge. Slovenian firms are faced with relatively heavy administrative burdens (Figure 32), discouraging them from growing and investing to become more productive. The main obstacles are complex regulatory procedures. Start-ups and individual entrepreneurs encounter especially onerous administrative burdens and protection of incumbents (Koske et al., 2014). Changing regulation and a lack of co-ordination between large numbers of government agencies create regulatory uncertainty and increase compliance costs (European Commission, 2015d). Specific problems include cumbersome procedures for obtaining construction and environmental permits (a priority area for the government) as well as for more mundane matters, such as registering and transferring property, paying taxes and enforcing contracts (European Commission, 2015c). In the 2017 version of the World Bank's Doing Business indicators, Slovenia ranked 30th out of 189 countries (World Bank, 2017).

Figure 32. **Businesses are faced with a relatively heavy regulatory burden**

Overall product market regulation indicator, Index scale of 0-6 from least to most restrictive, 2013



Note: the numerical PMR indicators represent the stringency of regulatory policy in specific areas on a scale of 0 to 6 with a higher number indicating a policy stance that is deemed less conducive to competition. In each case, it characterises the stance of regulation as it stood in early 2013 and does not reflect the reforms implemented since then.
Source: OECD PMR indicators database.

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The government is addressing these concerns through regulation-easing initiatives, including the so-called Single Document and the launch of an SME test to lower burdens on small firms; however, progress has been uneven (European Commission, 2016b). The individual ministries have to implement the SME test, while the Ministry of Economic Development and Technology is responsible for its oversight and the Ministry of Public

Administration offers technical support, while both ministries offer training. In addition, the Ministry of Public Administration is implementing a national one-stop business portal (eVEM). The Ministry of Economic Development and Technology has implemented a network of local "one-stop" shops, all to reduce time and administrative costs.

The National Reform Programme for 2017-18 lists upcoming initiatives to reduce administrative burdens and the costs of doing business, such as requiring regulatory impact assessments (RIAs) and *ex post* evaluation of new measures (Government, 2017). However, much of this work will be carried out by individual ministries with different standards and also does not address the concern that stakeholders have insufficient time to comment on new proposals. In fact, less than half of current stakeholder engagements meet the standards set out in the administrative Rules of Procedure. Additionally, less than 10% of RIAs include any quantified economic impacts, although a descriptive analysis is included more often. A more coherent application of a common RIA framework could be achieved by creating a single authority that is responsible for RIA quality control and *ex post* evaluation of new measures. This should be complemented by early stakeholder involvement in drafting proposals and enforced minimum time limits for commenting. Such an approach would help to achieve the SDG of improving *ex post* regulatory evaluation.

New market entry has a positive impact on competitive firms' investment incentives. However, in Slovenia it is restricted in a number of ways. For example, foreign firms that are victimised by restrictive business practices have to press charges through the courts, rather than through the competition authority or trade policy bodies (Koske et al., 2014). Moreover, foreign investors see a lack of a consistent and well targeted inward FDI strategy (European Commission, 2016b). In general, a good business environment will boost FDI. Moreover, attracting FDI could also be facilitated by relatively simple measures, such as the publication of investment opportunities (including long-term privatisation plans) to allow foreign investors to develop multi-year strategies. Indeed, stronger privatisation efforts would augment investment opportunities. In addition, new entrants are faced with time-consuming spatial and environmental regulation. In mid-2017 the government proposed to accelerate these processes by introducing fast-track procedures and simultaneous permit issuance as well as creating a conflict-resolution body.

Competition law enforcement could be stronger

Slovenia's competition law is modelled on EU regulation. The independence of the Competition Protection Agency (CPA) has been strengthened over time, although the Ministry of Economy remains responsible for supervision and its budget. Its independence and operational freedom could be further enhanced by financing it through a stand-alone budget. This could, for example, involve its own budget line and reporting to parliament, as is done in several other OECD countries. Greater financial independence could allow the CPA sufficient resources and the freedom to allocate them to priority areas to bolster relatively weak enforcement and advocacy efforts. Staff levels are comparatively low, and few have relevant expertise, as many are seconded from line ministries (Table 10). A sufficiently large, well-trained and specialised staff is essential for effective competition enforcement, pointing to the need for expanded resources and independent career paths for staff at the CPA.

The CPA has had limited enforcement success, with few of its cases fully upheld by the courts and nearly half of all its fines imposed since 2009 overturned. This poor enforcement record partly reflects significant procedural weaknesses arising from a two-step procedure

Table 10. **Competition resources are relatively low, 2015**

Country	Non-administrative staff focused on competition in 2015	Population
Finland	51	5 465 000
Latvia	38	2 041 111
Lithuania	42	3 162 609
New Zealand	83	4 509 760
Slovenia	17 (current)	2 061 623

Source: Global Competition Review Ratings Enforcement for 2015; OECD Stat.

that is not found elsewhere in the OECD. First, administrative proceedings need to establish whether a violation has occurred, which allows the CPA to issue an order to cease the unlawful conduct. In a second step the CPA may decide to issue a fine in so-called minor offence proceedings. Appeals in each of the two steps are made to different courts. The two-step procedure creates a duplicative administrative burden for CPA staff and may impose unnecessary costs on parties under investigation. The involvement of two different courts increases barriers to effective enforcement, imposes significant burdens on judges and lengthens proceedings. Consolidating the two-step procedure into a single process would improve the certainty, efficiency and timeliness of enforcement procedures.

There are many regulated professions

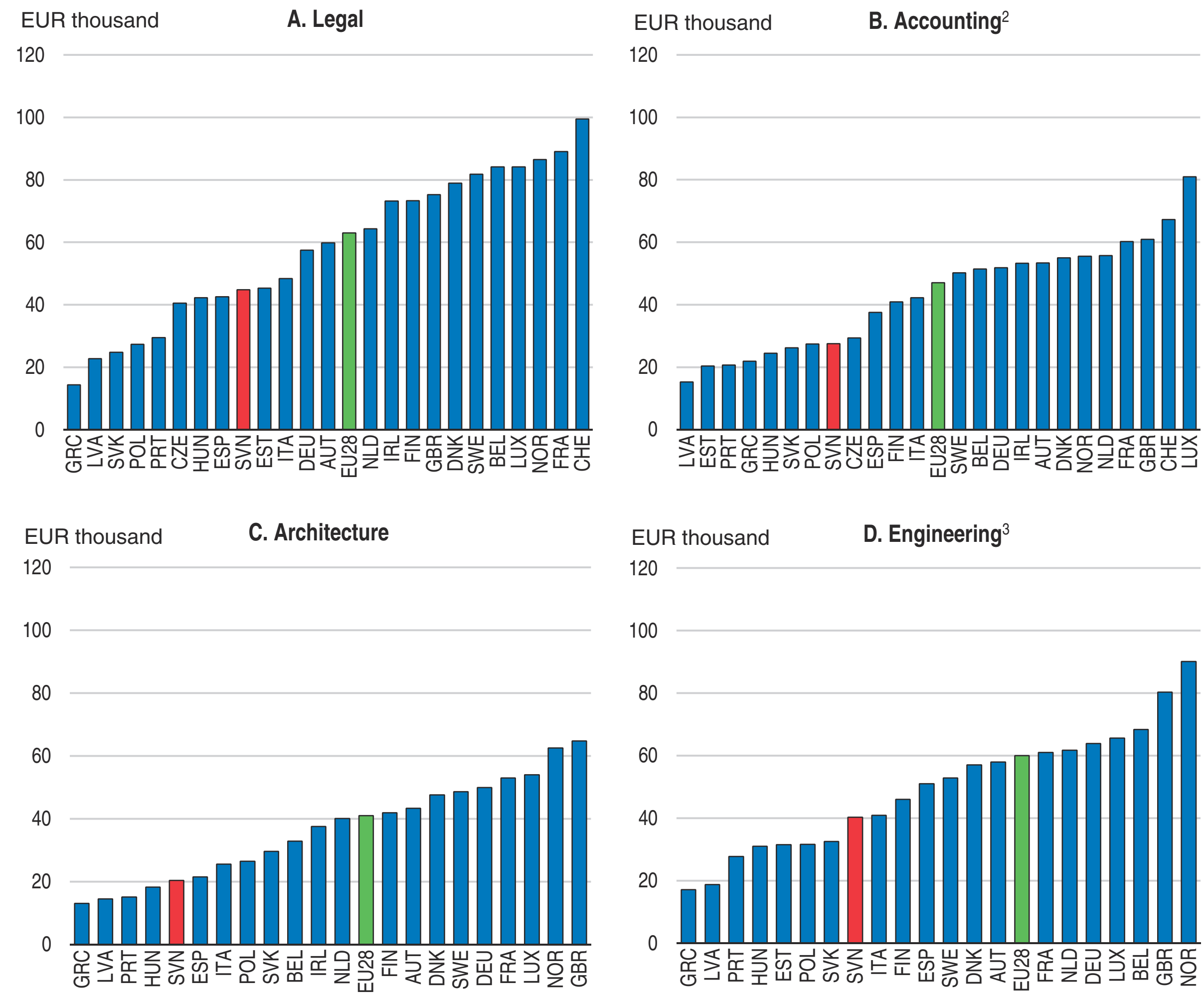
Slovenia has 220 regulated professions (albeit down from 324 in 2010) more than in most other EU countries and four times more than in the countries with the fewest: Sweden and the Baltics (Koumenta et al., 2014). Regulation typically involves high educational requirements, long compulsory practical training, obligations to register in chambers and restrictive systems of concessions (European Commission, 2015b; OECD, 2015a). Moreover, real value added per employed person tends to be relatively low, which is likely to reflect, among other factors, relatively low labour productivity in these areas (Figure 33). This leads to higher prices for downstream production and thus weaker investment incentives. Despite an ongoing reform effort, the number of regulated profession will remain high. The government should formulate a comprehensive plan to reduce the number of regulated occupations to approach best practices. Quality and safety concerns can often be addressed by using lighter regulation, such as replacing mandatory with voluntary registration in professional bodies and focusing on protection and certification of professional titles, rather than on restricting numbers.

Well-developed infrastructure will support investment and productivity

Developing modern infrastructure to support economic growth is essential for encouraging business investment and for reaching the National Development Strategy's objective of inclusive growth across the country. Slovenia's high spending on transport infrastructure is largely financed by EU structural funds. However, the heavy reliance on external funds means that most infrastructure investment decisions are not separate from the financing of the project, removing the focus on social returns (OECD, 2016e). This is reflected in the development of road infrastructure, where the upgrade of the highway system has not been matched with more spending on the secondary and tertiary road networks. Indeed, only a third of the nation's secondary and tertiary roads are in good or very good condition, and its logistics infrastructure quality is perceived to be poor (Figure 34) (Ministrstvo za infrastrukturo, 2015; European Commission, 2015e). The government

Figure 33. **Real value added in professional services is low**

Gross value added in thousand euros per person employed, PPPs, 2014[1]



1. 2012 for Ireland.
2. Accounting, bookkeeping and auditing; tax consultancy.
3. Including related technical consultancy.

Source: OECD calculations based on Eurostat, "Structural business Statistics – Services", *Eurostat Database.*

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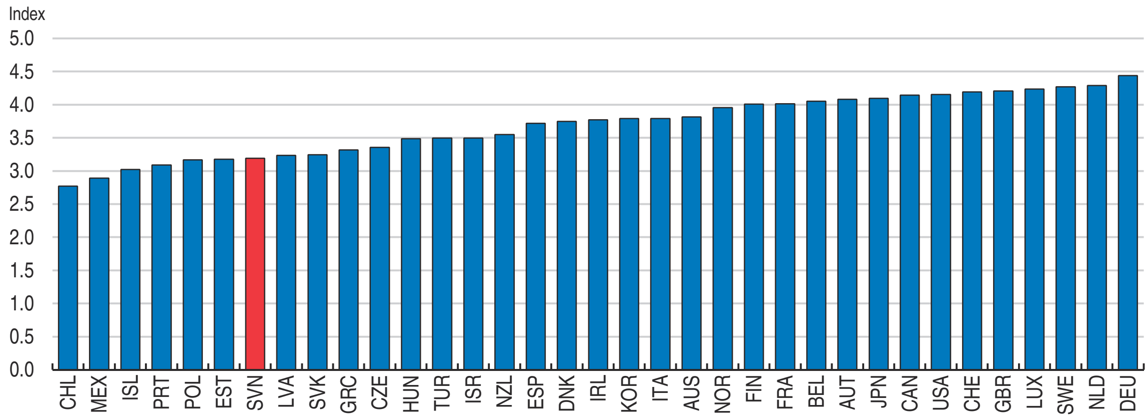
presented a national transport strategy in 2015. Nonetheless, existing plans are sector-based with relatively short time horizons, but a more cost-efficient selection of investment projects is difficult to achieve in the absence of a unified selection framework (OECD, 2016e).

The lack of a unified framework has also affected plans to develop the only harbour (an SOE) into a regional transport hub by connecting it to the hinterland through expanded rail capacity. The profitability of such a project is highly influenced by the relatively large number of competing ports in neighbouring countries. The (mandatory) Slovenian evaluation did not take into account the alternative use of funding or other transport models, reducing the value of the exercise as a decision-making input. In contrast, an OECD analysis shows that alternative models are economically viable and less costly (OECD/ITF, 2015). This limitation is mitigated to some extent by the fact that this project benefited from feasibility studies by the EU Commission and the European Investment Bank.

Figure 34. **Logistics Performance Index**

Quality of trade- and transport-related infrastructure (e.g. ports, railroads, roads, information technology), Index scale 0 to 5 from worst to best performance, 2016



Source: World Bank, Logistics performance database 2016 (LPI).

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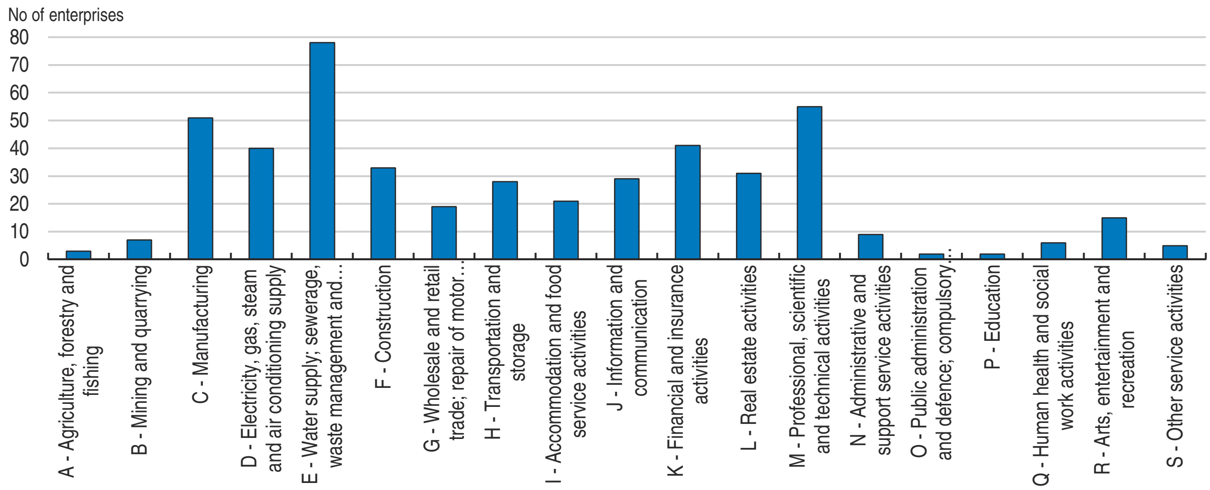
Looking ahead, EU structural funds are eventually going to be reduced, implying that future infrastructure projects will increasingly be government financed and benefit less from external checks and balances. Thus, developing a common cost-benefit methodology for infrastructure and other large public capital spending projects is imperative to secure the best project selection and use of available funds, as well as to promote other objectives, such as environmentally friendliness. This would also help to abate perceptions of undue political influence in the decision-making process. A single approach requires common models and parameters and mandatory presentation of alternative investments (OECD/ITF, 2017). A single authority, as is the case with the Dutch CPB, could be responsible for developing such a unified system and for evaluating third-party analysis as well as for *ex post* budget and performance analysis to achieve a consistent approach over time (OECD, 2016e).

Public ownership is pervasive

Slovenia's nearly 650 SOEs (including those owned by municipalities and subsidiaries) account for 20% of non-financial employment and make the state Slovenia's largest asset manager and corporate debtor (European Commission, 2015b). Many SOEs are conglomerates, often with dominant or significant positions in their main markets and subsidiaries in other, often unrelated, sectors (Figure 35). SOEs are active in competitive sectors, such as tourism and textiles, which other countries' SOEs have either never entered or withdrawn from. Widespread public ownership, together with strong government involvement in business operations, reduces the scope for business investments and hinders FDI in domestic markets (OECD, 2016d). SOEs also reduce product market competition through their dominant market positions, cross-subsidisation of activities in competitive markets and influence on new regulation. Moreover, they have significantly underperformed private firms across Europe in terms of productivity and profitability (European Commission, 2014 and 2015e).

Slovenia's SOE ownership and corporate governance responsibilities have been consolidated in the Slovenian Sovereign Holding (SSH), as recommended in past *Surveys* (OECD, 2015b; Table 11). The SSH's portfolio amounts to a third of GDP and is divided into "strategic" investments with a required state majority (two-thirds of the portfolio), important

Figure 35. **There are publicly owned enterprises in all sectors**



1. Not all SOEs are included. The reported figures are companies with direct equity shares held by SSH (Slovenian Sovereign Holding) or the Republic of Slovenia, and their subsidiaries as well as a number of companies owned by municipalities.

Source: Slovenian Sovereign Holding (*www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb#* – February 2017); ORBIS data base.

StatLink http://dx.doi.org/10.1787/888933555969

Table 11. **Past OECD recommendations on improving regulation and competition**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Continue privatising state-owned enterprises, and sell controlling interests in firms operating in competitive markets.	Since 2015 the SSH has privatised 15 companies, leaving it with less than 100 holdings by May 2017.
Reduce entry barriers in professional services.	Six professions have been deregulated.
Prepare an asset management strategy, and strengthen the corporate governance of SOEs by appointing professional board members.	The State Assets Management Strategy was adopted in 2015. The names and selection criteria for members of supervisory boards and management boards are published by SSH.
Introduce the "silence is consent" rule for issuing business licenses, and accelerate construction permit and property registration processes.	No action taken.

investments with a required state holding of more than 25% (nearly a fifth of the portfolio), and portfolio investment that can be fully privatised (15 % of the portfolio). This excludes the many indirectly held SOEs (European Commission, 2016b). This classification is not explicitly linked to any economic, security or financial framework.

The SSH's corporate governance of SOEs relies on improving their financial performance through (negotiated) higher required rates of return. However, this is not combined with performance-related pay for managers (European Commission, 2014 and 2015e). Increasing the performance element in management remuneration and hardening their budget constraints could improve their financial performance. Moreover, many SOEs have a high share of politically affiliated supervisory board members, leading them to be less productive than their private-sector counterparts (Domadenik et al., 2016). Thus, the SSH should strengthen SOEs' corporate governance and bolster their performance by installing more professional supervisory boards.

The SSH's mandate is to sell at the highest price and to pursue non-financial objectives, such as company development, job preservation, maintaining Slovenian head offices and language use, and including employees' representatives in the privatisation process. Together with state ownership requirements, these non-financial objectives may discourage strategic partners. So far, less than 5% of the value of the shares held by SSH has been sold, implying a lack of equity market deepening to encourage private firms and new FDI opportunities. The government should accelerate the current privatisation plan. In addition, it should develop a strategy based on addressing market failures, such as natural monopolies, and focus SOEs on their main activities by divesting most subsidiaries to remove cross-subsidy concerns and make them more efficient and more attractive to strategic partners. If the government wants to preserve public ownership in other cases, a strategic document should be published to clarify the need for it.

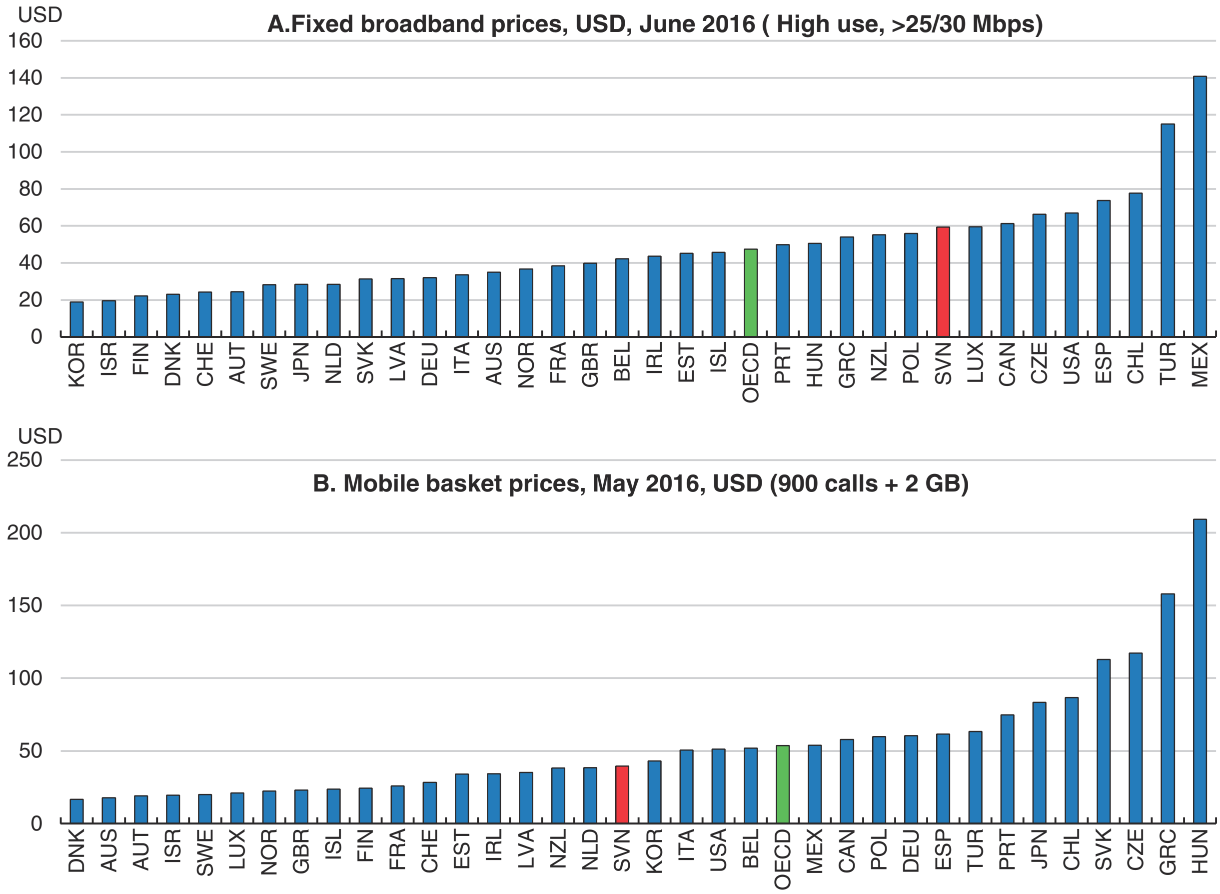
Public ownership is widespread in network sectors. The highly concentrated telecommunications market has become even more concentrated, as the three main mobile network operators have entered the market for fixed-line products. In addition, the third-largest broadband provider has gone bankrupt and is being offered for sale by the BAMC, although the constitutional court invalidated the bankruptcy decision in early 2017, and the provider continues to operate. A third attempt to privatise the largest mobile telephone network operator failed on concerns over the regulatory environment, new roaming regulation, the complex political context and public resistance to privatisation (SSH, 2015). Nonetheless, more intense competition in the mobile segment following the failed privatisation has led to very low prices. This development has not affected the relatively high prices for fixed broadband connections (Figure 36). New wholesale regulation that reduces allowed margins is expected to impose further downward pressure on prices.

The increased market concentration and horizontal integration may complicate the task of preserving the gains from price competition, particularly as the SSH and BAMC are not required to seek the opinions of the CPA or the telecommunications regulator (AKOS) about how privatisation might affect competition. Scale effects are less important in telecommunication as some of the more competitive markets are found in smaller OECD countries, such as the Nordics. Thus, the government should continue to strive to sell its stakes in the sector and formulate a strategic view on the desired future competitive market structure in consultation with the regulator and the CPA. Competition should be further supported by easing entry conditions for MVNOs (mobile virtual network operators), either through regulation (as in France) or by using the legal provisions against abuse of dominant position (as in Denmark).

Electricity has been liberalised in line with EU regulation, and pre-tax prices are on a par with those in neighbouring countries, although above those in the Nordics. The sector is dominated by vertically integrated SOEs. International competitive pressures are increasing with the ongoing expansion of interconnection capacity with neighbouring countries. Combined with a relatively fast expansion of generation capacity, this bodes well for competition, pointing to the benefits of privatisation in this segment. However, much of the new capacity comes from a new state-owned lignite-fired power plant, which was never subject to a full cost-benefit analysis, whose construction costs were double planned levels (Court of Audit, 2015), and whose generation costs are relatively high because the lignite comes from a high-cost, state-owned mine.

More generally, the integrated SOEs in the sector are also active in unrelated activities, such as district heating, broadband and wireless telecommunications and charging stations for electric cars. This leads to problems in non-competitive segments, such as distribution, which is subject to accounting separation – a relatively weak form – to determine cost-based distribution charges (Agencija za energijo, 2016), which are

Figure 36. **Competitive mobile prices are not matched in broadband prices**



Source: OECD Broadband statistics.

StatLink http://dx.doi.org/10.1787/888933555988

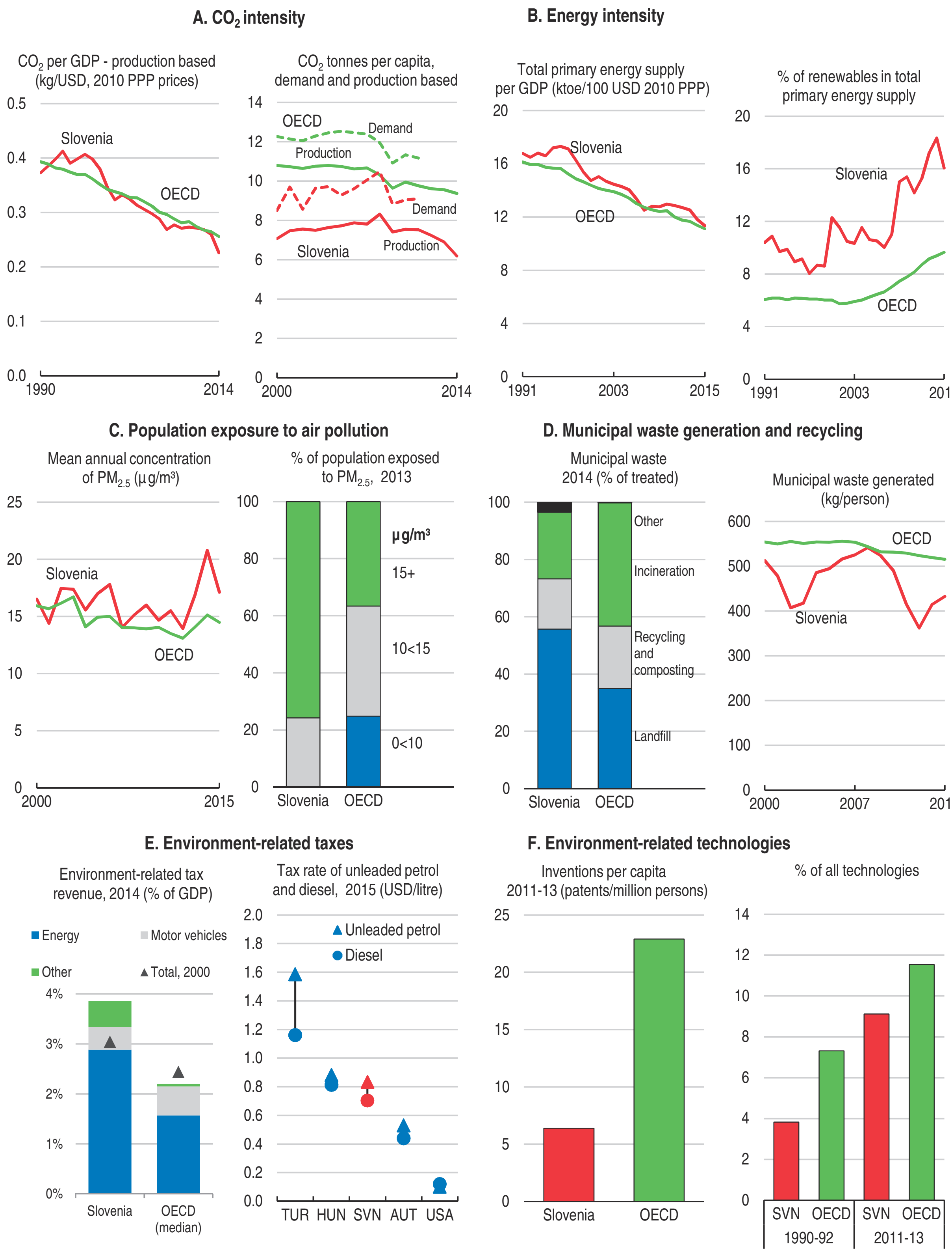
nonetheless 14% higher than the EU average (ACER, 2016). A competition-enhancing restructuring would first require effective structural separation of activities into separate companies, and then privatisation of activities in competitive markets. This should be supplemented by a strong regulatory framework to secure non-discriminatory third-party access to the transmission and distribution networks.

Greener growth

Slovenia's environmental indicators are generally good. The economy's energy intensity is above the OECD average and has to fall considerably to reach the SDG energy efficiency target. On the other hand, its CO_2 intensity is lower, because two-thirds of electricity comes from nuclear and hydropower plants (Figure 37, Panels A and B; Agencija za energijo, 2015). In addition, other renewable energy sources, such as combined heat and power, are well developed (Chapter 2). In all, renewables account for 21% of energy consumption, and reaching the 2020 target of 25% will be facilitated by new hydropower projects coming on line (European Commission, 2016c; European Environment Agency, 2016).

The support scheme for renewables has changed with the introduction of a two-stage tendering process for deliveries of fixed volumes, strengthening price competition. Small operators continue to benefit from feed-in tariffs. The support scheme is financed through a

Figure 37. **Environmental outcomes are good**



Source: OECD (2017), *Green Growth Indicators* (database).

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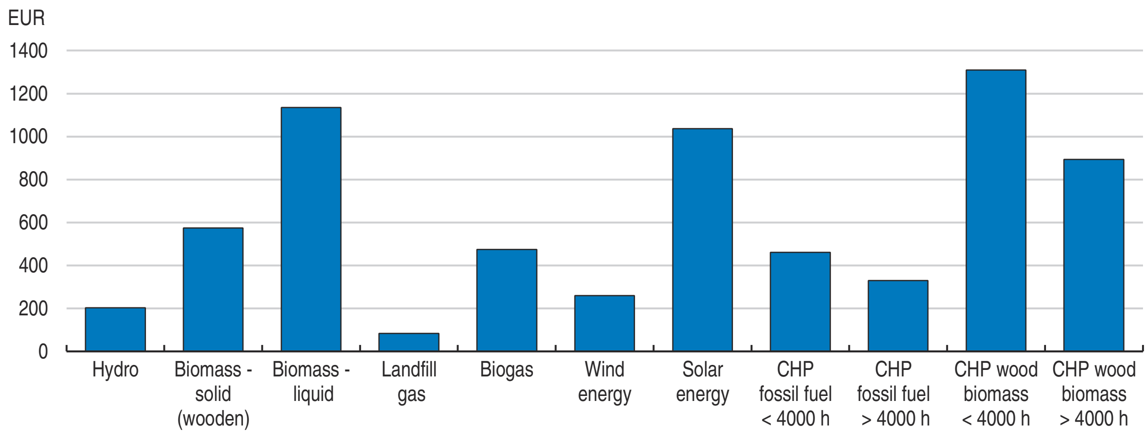
surcharge levied on customers with a partial exemption for energy-intensive users (Agencija za energijo, 2016). However, CO_2 abatement costs vary considerably across technologies, implying important cost inefficiencies with respect to reaching the renewable energy target (Figure 38). Lower costs of reaching the Development Strategy's objective of sustainable growth could be achieved by implementing a feed-in tariff system that is unbiased with respect to technology (i.e. having the same abatement cost across technologies). In addition, the associated abatement costs should also be used in selecting projects from the competitive tendering process to identify those that are most cost efficient.

Figure 38. **Abatement costs vary across technologies**

EUR/tonne of CO_2, 2014



Source: OECD calculations using data provided by the Energy Agency of Slovenia.

StatLink http://dx.doi.org/10.1787/888933556862

A relatively large share of the population is exposed to fine particulate pollution, which is linked to the heavy reliance on road transport (reflecting a dispersed population, generous commuting allowances and poorly developed public transport), international transit traffic and the lignite-fired power plant (OECD, 2012). Locally, particle emissions from wood stoves are also problematic. The tax revenues associated with road transport help to achieve an above-average share of GDP from environmental taxes, in line with recommendations from past *Surveys* and the 2012 OECD Environmental Performance Review (Table 12; OECD, 2015a and 2012). Reducing particle emissions could be achieved by adjusting transport fuel taxes to reflect their emissions of particles and CO_2, resulting in relatively higher diesel taxes, and replacing commuting allowances with general tax credits (Chapter 1).

Table 12. **Past OECD recommendations for achieving green growth**

Main recent OECD recommendations	Actions taken since the 2015 *Survey*
Further align effective tax rates on different forms of energy to reflect environmental damage.	In 2015 the CO_2 tax was increased (from 0.0144 to 0.0173 EUR per kg of CO_2).

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ANNEX

Progress in main structural reforms

This annex reviews action taken on recommendations since the May 2015 Survey.

Cleaning-up banks' balance sheets

Recommendations from the previous *Survey*	Actions taken
Ring-fenced assets should be fully disposed of the end of the mandate of the BAMC and not transferred as currently envisaged to the sovereign holding company to avoid a permanent postponement of the resolution of impaired assets.	With a prolonged mandate until 2022 the BAMC is enabled to sell all its assets. The Termination strategy and action plan is expected to be completed in 2020.

Enhancing banking supervision

Recommendations from the previous *Survey*	Actions taken
In the context of the single supervisory mechanism framework, the bank supervisor should more closely monitor banks' adherence to regulations and guidance, and encourage banks to improve their risk management.	In the context of managing non-profitable loans, the banks are establishing a system of early detection of increased credit risk. The Bank of Slovenia has created guidelines for gradual elimination of impairments for investment and better reporting systems. The Bank has also prepared guidelines for establishing Early Warning Systems. The law on a central credit register (a database of credits and credit resists and other exposures) was adopted in November 2016.

Simplifying insolvency procedures

Recommendations from the previous *Survey*	Actions taken
Encourage distressed firms to apply early for insolvency procedures by better law enforcement concerning the liability of debtors that fail to apply for insolvency procedures in a timely manner, encouraging balance-sheet insolvent borrowers to apply, and distinguishing between honest and fraudulent bankruptcy.	Amendments to the Criminal Code in July 2017 enhanced the scope for criminal sanctions for infraction of the "Abuse of Position or Trust in Business Activity" and "Defrauding Creditors" laws.
Ease restructuring of distressed businesses via simplified fast track in-court reorganisation of small and medium-sized enterprises and establishment of a legal framework for out-of-court restructuring.	In 2016 additional insolvency legislation was adopted, including a shortening of the judicial part of personal bankruptcy proceedings. In addition, previously adopted preventive restructuring proceedings for large and medium companies were extended to small companies. The simplified compulsory (restructuring) proceeding remains applicable to micro companies. At end-2015, the Bank Association of Slovenia adopted Restructuring Guidelines for micro, small and medium-sized companies (SME), which were prepared in association with Bank of Slovenia.
Enforce the existing legislation that limits the duration of certain insolvency procedures. Ultimately, the objective is to end all insolvency procedures within one year.	The 2017 Doing Business Index shows that the duration of insolvency restructuring procedures have dropped below one year.

Increasing efficiency of public expenditure

Recommendations from the previous *Survey*	Actions taken
Continue to gradually cut the combined generosity of unemployment benefits, social assistance and other transfers for the unemployed and inactive persons to increase work incentives and strengthen fiscal sustainability.	No action taken.
Raise pupil-teacher ratios in pre-primary and lower secondary education and class sizes in primary and lower secondary education to reduce costs. Introduce universal tuition fees along with means-tested grants and loans with income-contingent repayments to ensure to boost spending efficiency.	No action taken.

Reforming the pensions system

Recommendations from the previous *Survey*	Actions taken
Consider further cutting replacement rates by lowering effective accrual rates and calculating pension rights over lifetime contributions.	No action taken.

Product markets and business environment

Recommendations from the previous *Survey*	Actions taken
Develop equity markets by eliminating political interference into management of listed companies, improved rights of minority shareholders and enhancing operational and financial independence of the Slovenian Securities Market Authorities.	In 2015, the legislative protection of minority shareholders was improved with the introduction of a minimum successful bid threshold of 50% + 1 share.
Streamline processes for accessing business premises, land and building permits.	In mid-2017, measures to accelerate the process of issuing building permits and spatial planning were presented in Parliament.

Labour markets

Recommendations from the previous *Survey*	Actions taken
Broaden access of the unemployed to active labour market policies by merging the Employment Service of Slovenia and the Centres for Social Work.	No action taken.

Innovation and R&D

Recommendations from the previous *Survey*	Actions taken
Implement the government's unified innovation policy and monitor its progress. Improve collaborative links between major stakeholders of innovation policy.	In 2015, the Smart Specialisation Strategy was adopted, which defines priority areas for R&D investments and innovations. In 2016 innovation partherships to improve collaboration between stakeholders were created. In addition, the framework for co-ordination and monitoring was strengthened.
Use more extensively research vouchers, funded with EU funds, to promote green innovation.	No action taken.

Environment

Recommendations from the previous *Survey*	Actions taken
Upgrade the railway system and improve efficiency of railways, especially in the freight sector.	Since 2015, several investment projects to upgrade the railway infrastructure were implemented.

Thematic chapters

Chapter 1

Raising living standards and supporting investment by boosting skills

Higher living standards and well-being, as well as convergence with more advanced economies, will depend on achieving higher productivity, which in turn would be boosted by more investment in capital. In particular, investment in knowledge-based capital and greater inward FDI can help Slovenia develop its economy and improve global integration. Complementing such investments requires a workforce, which is given the opportunities and incentives to continuously engage in upskilling and seek employment where they are most productive, in the process raising their incomes. Reskilling can be improved by boosting the links between educational institutions and local and foreign firms, helping Slovenia to overcome its problems of long-term unemployment and low employment rates of older workers. Improving life-long learning will allow workers to adapt to a changing economic environment and thereby contribute to their own well-being. Adjusting wage determination and broadening labour market activation measures can smooth these adjustments.

Following the international financial crisis Slovenian living standards began to fall relative to Western European economies, and Slovenia lost its lead over other Central and Eastern European members of the OECD (CEECs). This was exacerbated by a domestic banking crisis in 2013. In order to ensure that future growth will be sustainable, the government is developing a National Development Strategy, whose main goal is to ensure a better quality of life in an inclusive society. However, greater investment in capital, and knowledge-based capital in particular, is necessary to achieve this goal. Furthermore, it is necessary to invest in people to ensure they have the complementary skills to facilitate such investment and to ensure they are included in the changes brought about by economic development and digitalisation.

This chapter starts by showing how an increase in investment in both capital and people is necessary for Slovenia to achieve its goals. This is followed by an analysis of the vocational training system and how training and life-long learning can be used to increase the supply of skills and ensure older workers contribute to attracting investment. How labour market institutions affect the reallocation of workers is then discussed, including an assessment of how to increase the participation of older workers in the labour market. The chapter ends with an assessment of how the skills of the tertiary educated can be improved in addition to how policies can be changed to ensure such workers are retained in Slovenia.

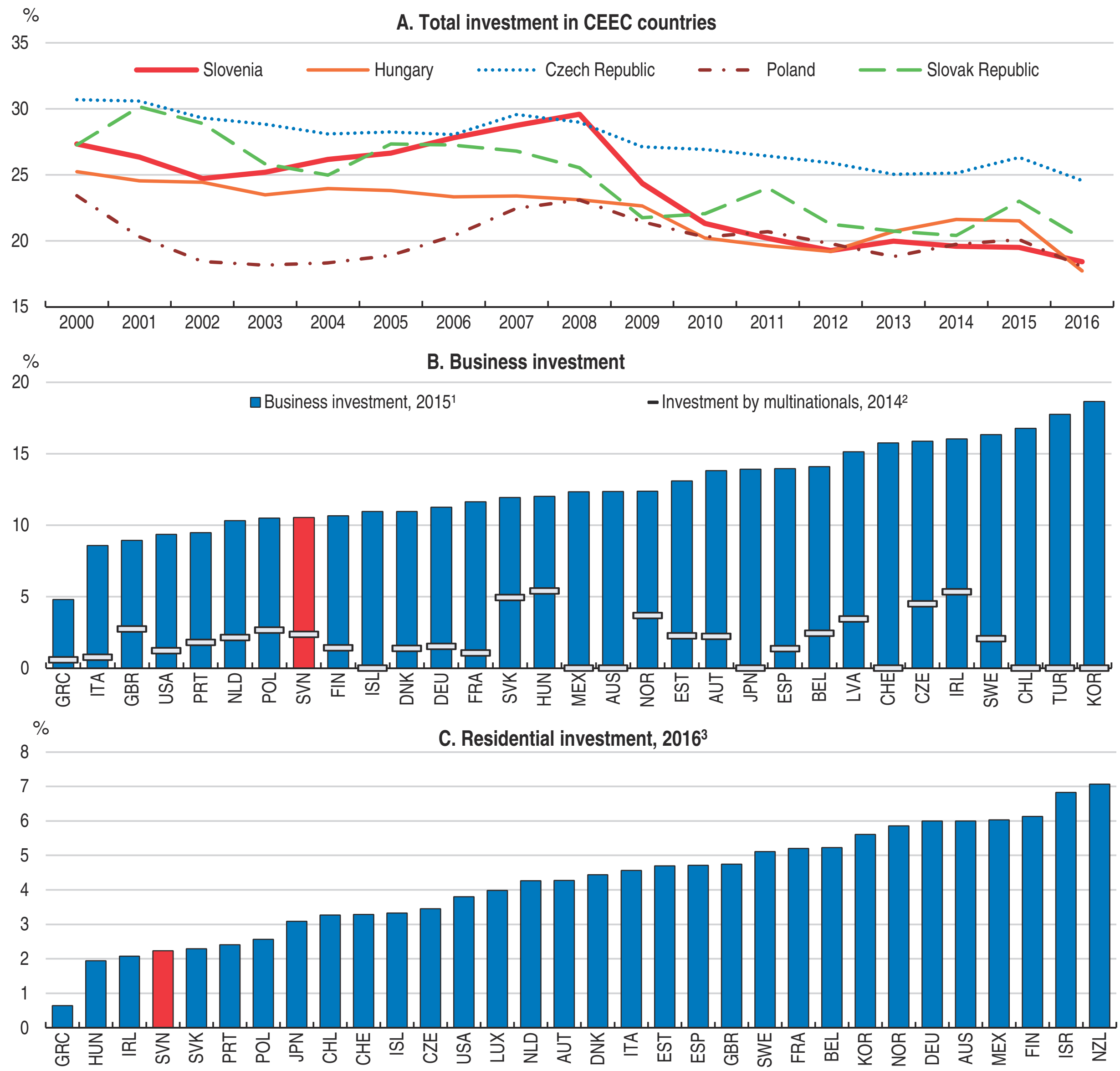
Investment in capital and people can help Slovenia achieve its goals

Following the onset of the international financial crisis in 2008, the investment share of GDP fell sharply to a low level among CEECs (Figure 1.1). This was driven by a near halving in business-sector investment, which experienced a stronger boom-bust cycle than in most countries, and accentuated by a 55% decline in housing investment to a comparatively low share of GDP (Figure 1.2). Despite public investment being largely sustained, non-residential investment is far below what could be expected given long-term relationships between GDP, the capital stock, and investment; and the share of business investment in GDP lags both other CEECs and many advanced euro area economies (Figures 1.1 and 1.3). This share of non-residential investment is below the rate (20% of GDP) that allows more rapid economic convergence with advanced euro area economies (Lewis et al., 2014).

The contraction in business investment was concentrated in sectors oriented towards the domestic economy, with investment in the hotel accommodation and the food sector plunging almost 70%, reflecting the fall in domestic demand following an unsustainable boom. Firms became reluctant to invest due to high debt (Figure 1.4). Though financially constrained firms reduced investment the most, unconstrained firms also reduced their investments during the financial crisis (Črnigoj and Verbič, 2014). Firms that remained profitable were most likely to have deleveraged, while other highly indebted firms went bankrupt in a process of creative destruction (Bank of Slovenia, 2016a). Despite a recovery in firm profitability, such profits have been mainly directed towards debt reduction or invested

Figure 1.1. **Investment has shifted down**

As a percentage of GDP



1. Non-financial corporations. 2014 for Chile, Iceland, Italy, and Korea.
2. Gross investment in tangible goods by multinationals in % of GDP in 2013, except for Ireland 2012.
3. 2014 data for Chile.

Source: OECD (2016), *Analytical Database*; OECD (2016), OECD National Accounts Statistics (database); OECD (2015), *OECD Statistics on Measuring Globalisation* (database).

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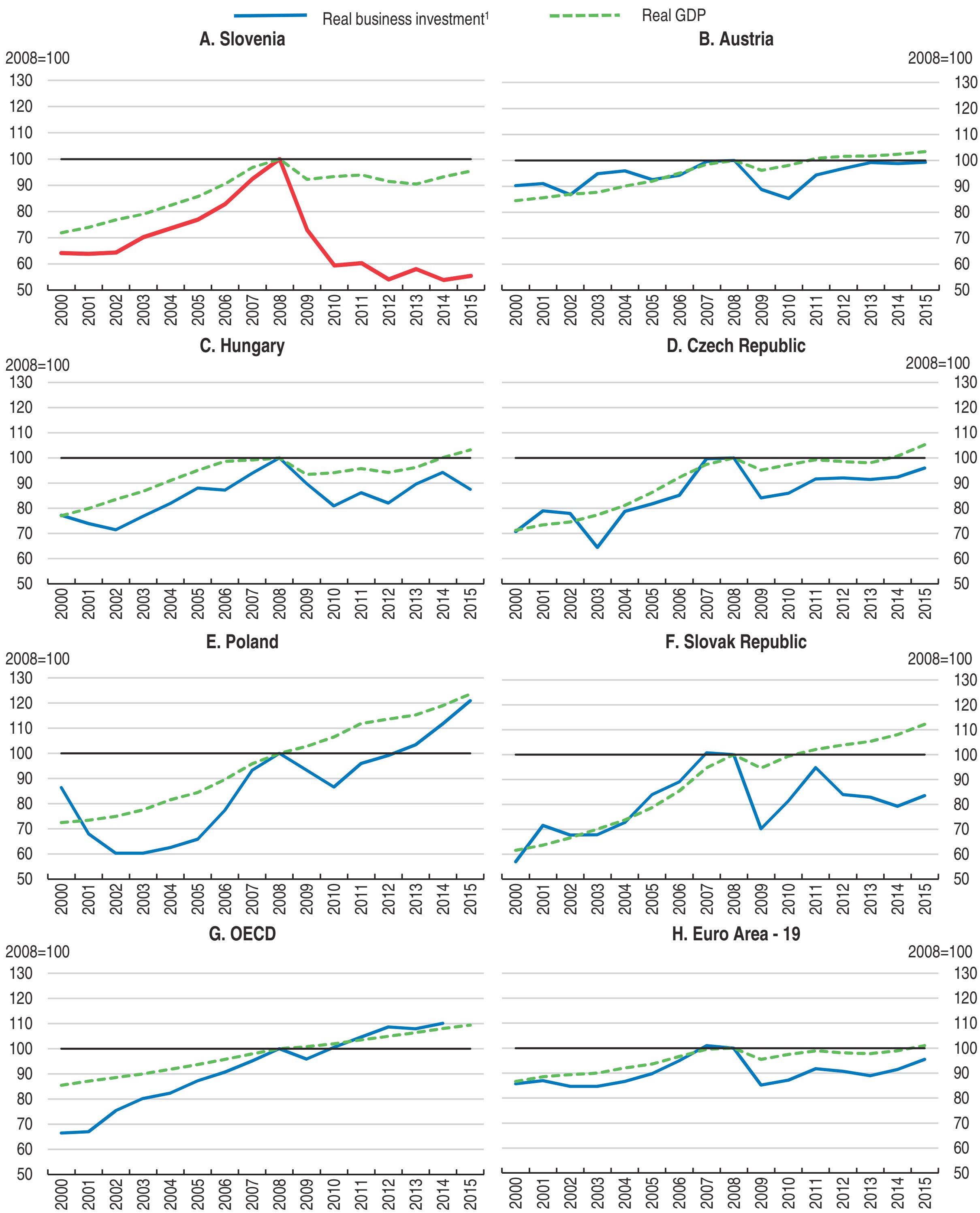
in sight deposits (Figure 1.5) (Bank of Slovenia, 2016a and 2016b). In contrast, investment in the export-orientated manufacturing sector (which is less dependent on domestic financing due to a high level of foreign ownership) has fared better. Although such investment fell by almost one quarter in 2009, it soon stabilised and in the wake of stronger exports a recovery in investment for that sector began in 2011 (IMAD, 2012).

In addition to a lack of willingness to invest, business investment by SMEs was also held back by the lack of private funding following the international financial crisis. Domestic

Figure 1.2. **Slovenia's business cycle has been particularly pronounced**



1. Non-financial corporations.

Source: OECD calculations based on OECD, National Accounts Statistics (database).

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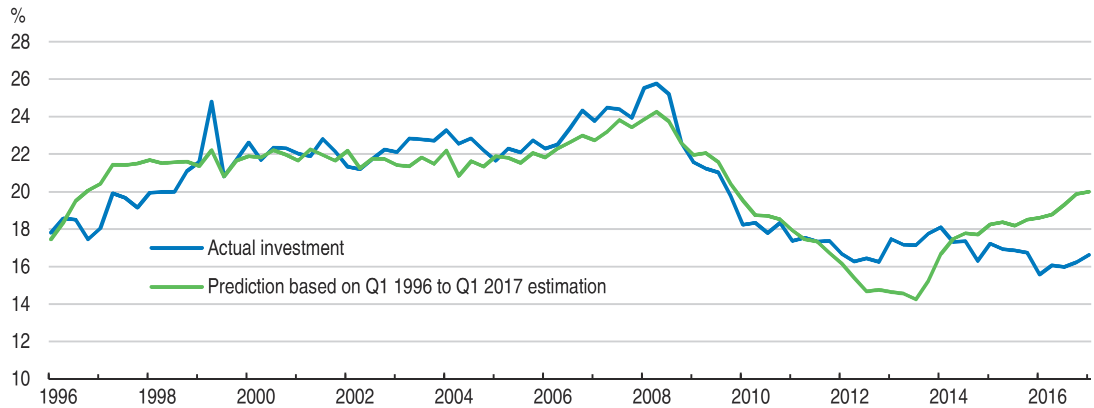
Figure 1.3. **Since the beginning of the recovery, investment has been weaker than expected**

Simple accelerator model of non-residential investment, in % of GDP



Note: In real terms. Four-quarter moving average applied. Actual GDP and capital stock series used to calculate the forecast based on estimating over the period 1996 Q1-2016 Q3. In the estimations, the level of investment is explained by current and lagged changes in real GDP and replacement investment. For more information on the methodology see OECD (2015), *OECD Economic Outlook*, Vol. 2015, No. 1, June, Annex 3.1.
Source: OECD (2015), OECD calculations based on *OECD Economic Outlook: Statistics and Projections Database*.

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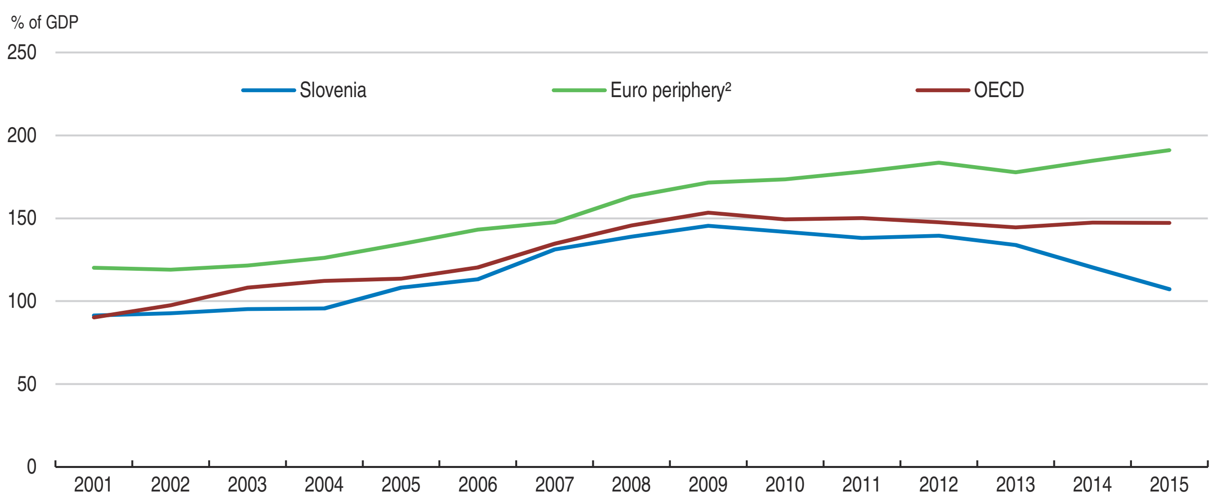
Figure 1.4. **Corporate leverage has declined**



1. Debt is defined as all liabilities that require payment or payments of interest or principal by the debt to the creditor at a date or dates in the future. It comprises all debt instruments except share, equity and financial derivatives.
2. Euro periphery is composed of Greece, Portugal, Spain and Ireland.

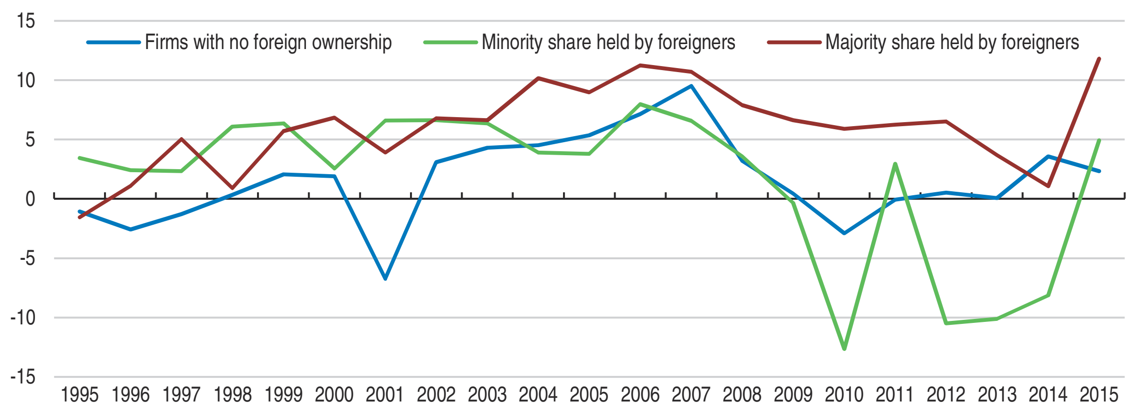
Source: OECD Financial Dashboard.

StatLink http://dx.doi.org/10.1787/888933556083

investors, and especially SMEs, are highly reliant on debt finance (Figure 1.6). Other sources of finance, such as corporate bonds and equity funding play only a very minor role (Figure 1.7) (Bank of Slovenia, 2017). Access to alternative sources of finance for start-ups, such as venture capital or crowd-funding, is also very limited (Figure 1.8). Due to the small size of the capital market, financing that is not subject to banking regulation (referred to as "shadow banking") comprising mainly money-market funds, bond investment funds and leasing firms has been slow to develop but is now estimated at 8% of the financial system's total assets (Bank of Slovenia, 2016c). In addition, other non-bank credit channels, such as business-to-business loans, have become more important.

Figure 1.5. **Profitability has recovered**

Return on equity (%)



Source: Bank of Slovenia.

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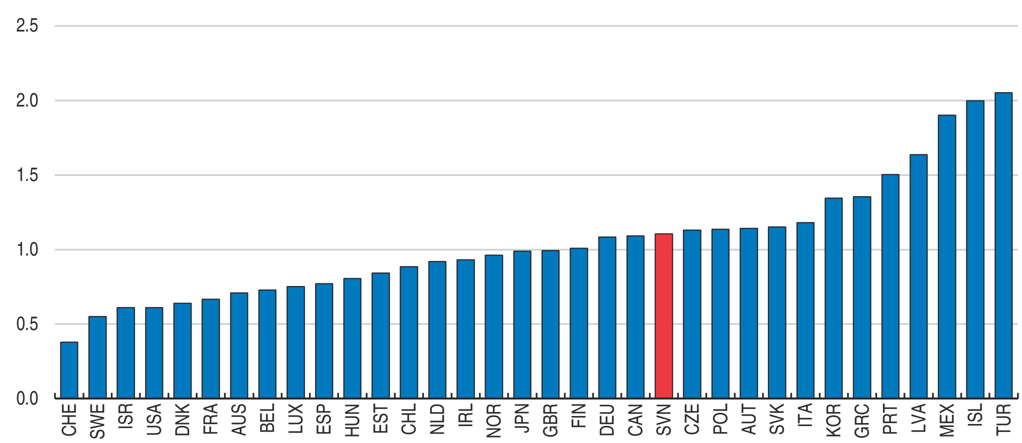
Figure 1.6. **Firms rely heavily on debt finance**

Debt-to-equity ratio of non-financial corporations, 2015



Source: OECD Financial dashboard.

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There are also a number of governmental supports to firms, which increased in value in the early stages of the crisis (Lautar, 2016). These include the SPIRIT Agency (which aims to boost exports and attract FDI), the Slovene Enterprise Fund, and the Slovene Regional Development Fund. Some of these funding sources also include other supports, such as mentoring. However, such sources are too small in scale to replace private funding.

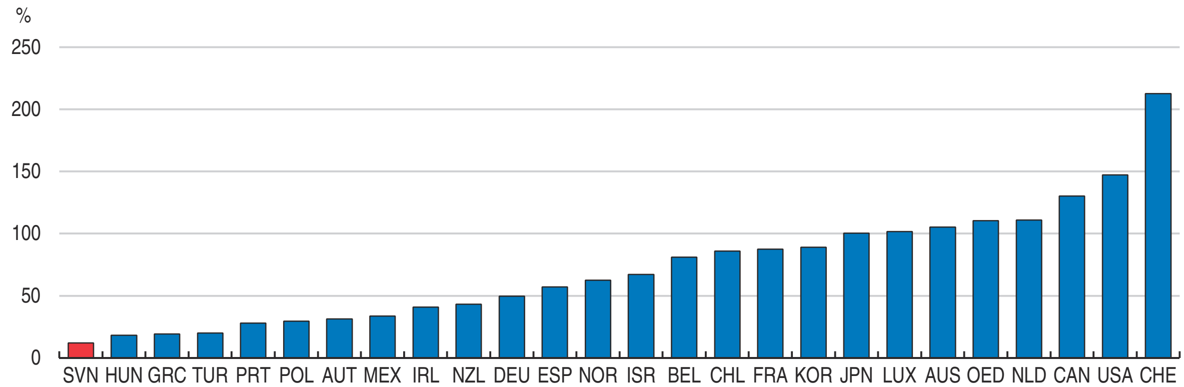
The impact of such low investment has been to slow productivity growth to amongst the lowest rates in the OECD since the international financial crisis (Figure 1.9). As a result, Slovenia has been losing pace with the rest of the OECD, hampering its ability to increase living standards and achieve its goals under the National Development Strategy.

Greater FDI can help create quality jobs

In addition to increasing investment to boost productivity, changing the investment mix can facilitate achieving the goal of an inclusive labour market with high-quality jobs. There is scope to boost FDI that brings with it modern technology and work practices.

Figure 1.7. **Stock market capitalisation is low**

As a percentage of GDP, 2016



Note: Market capitalisation (also known as market value) is the share price times the number of shares outstanding (including their several classes) for listed domestic companies. Investment funds, unit trusts, and companies whose only business goal is to hold shares of other listed companies are excluded. Data are end-year values.
Source: World Bank, World Development Indicators Database.

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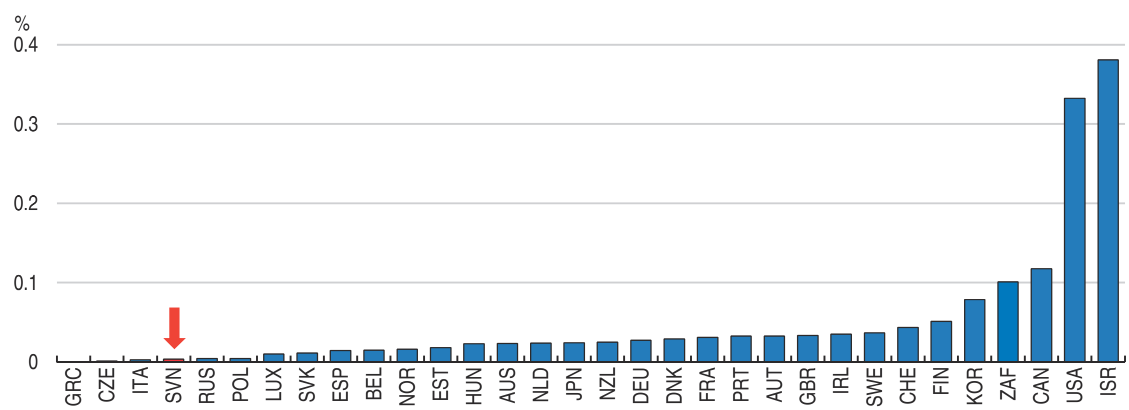
Figure 1.8. **Venture capital investments as a percentage of GDP**

Percentage, 2015 or latest available year



Source: OECD (2016), *Entrepreneurship at a Glance 2016*.

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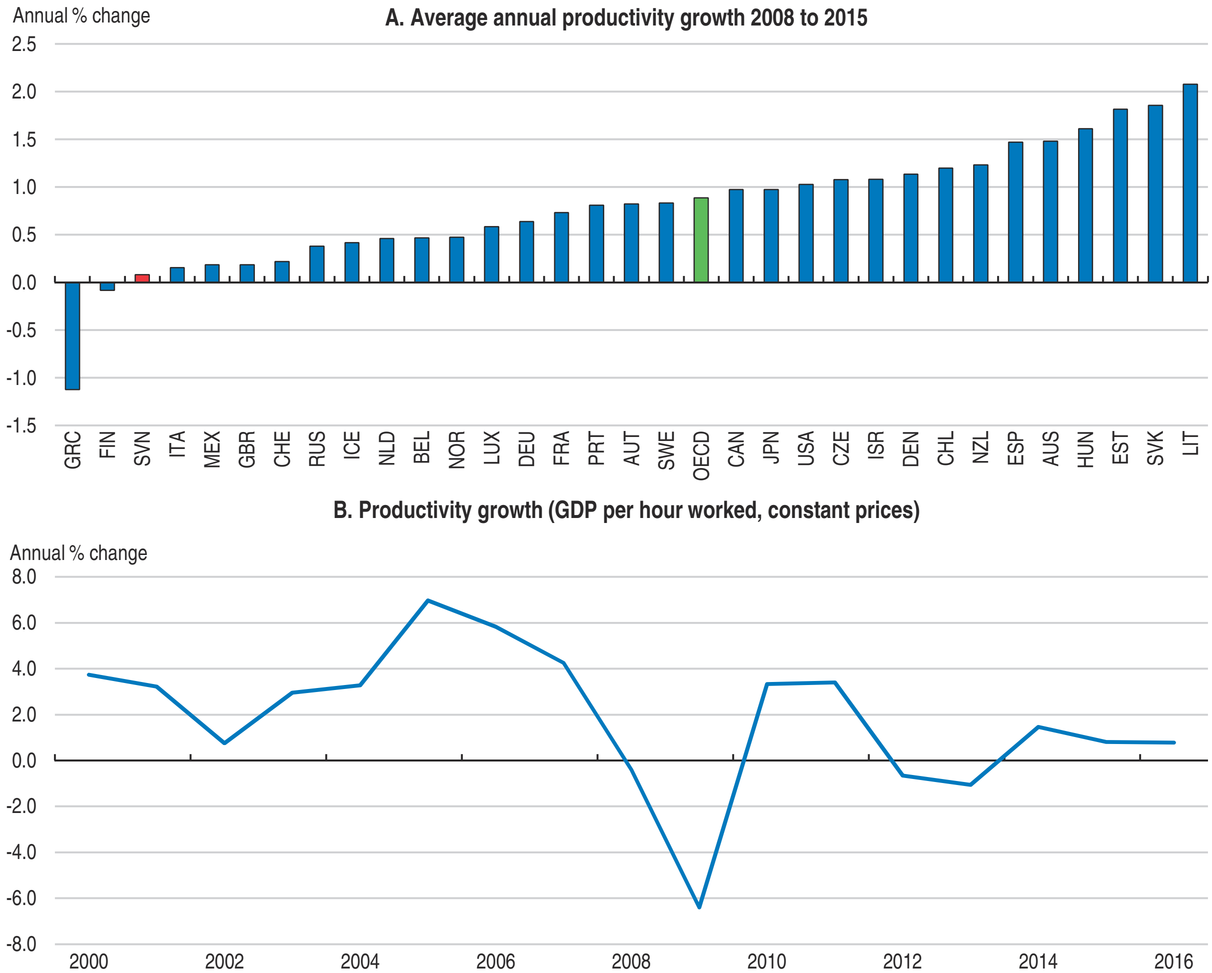
Foreign-owned firms tend to require higher skilled staff and pay higher wages (OECD, 2009). The available evidence suggests that this is true for Slovenia as well, as those employed in foreign-owned firms are paid 12.1% above the average, and value added per employee for firms with FDI is almost a quarter higher than for domestic firms (Bank of Slovenia, 2016d).

The ample profitability of foreign-owned firms should indicate a high attractiveness for inward FDI. However, compared with other OECD countries, the stock of inward FDI is low (Figure 1.10). As the majority of inward FDI takes the form of mergers and acquisitions (Canton and Solera, 2016), low levels of FDI can in part be explained by the absence of a major privatisation programme, in contrast to other CEECs where state assets were acquired by foreign-owned firms and production was modernised to become internationally competitive. Even today, the scope of the current privatisation programme remains limited (Chapter 2). In addition, there is also a particularly low level of greenfield FDI (Figure 1.11),

Figure 1.9. **Productivity growth has been slow since the international financial crisis**



Source: OECD.Stat, Level of GDP per capita and productivity and *OECD Economic Outlook Database*.

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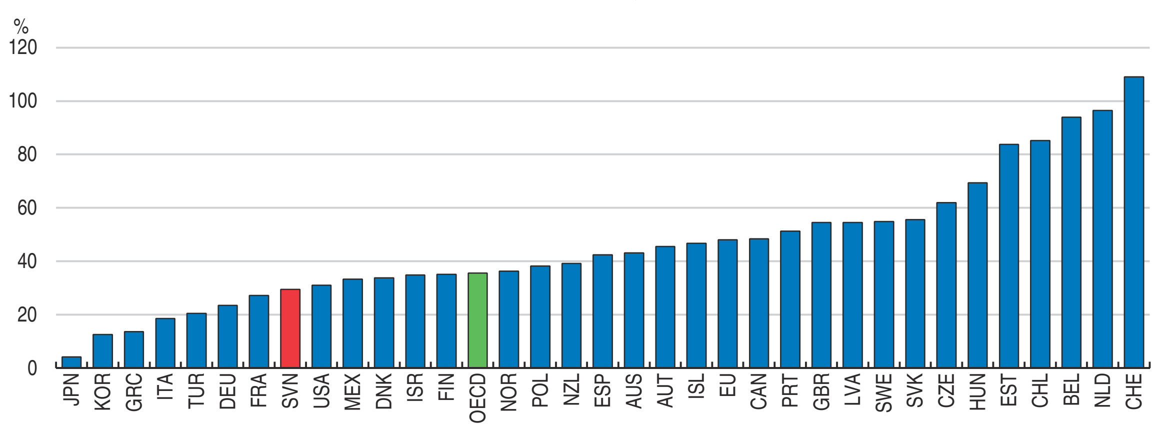
Figure 1.10. **The stock of inward FDI is very low**

As a share of GDP, 2016



Source: OECD, *Globalisation FDI statistics database*.

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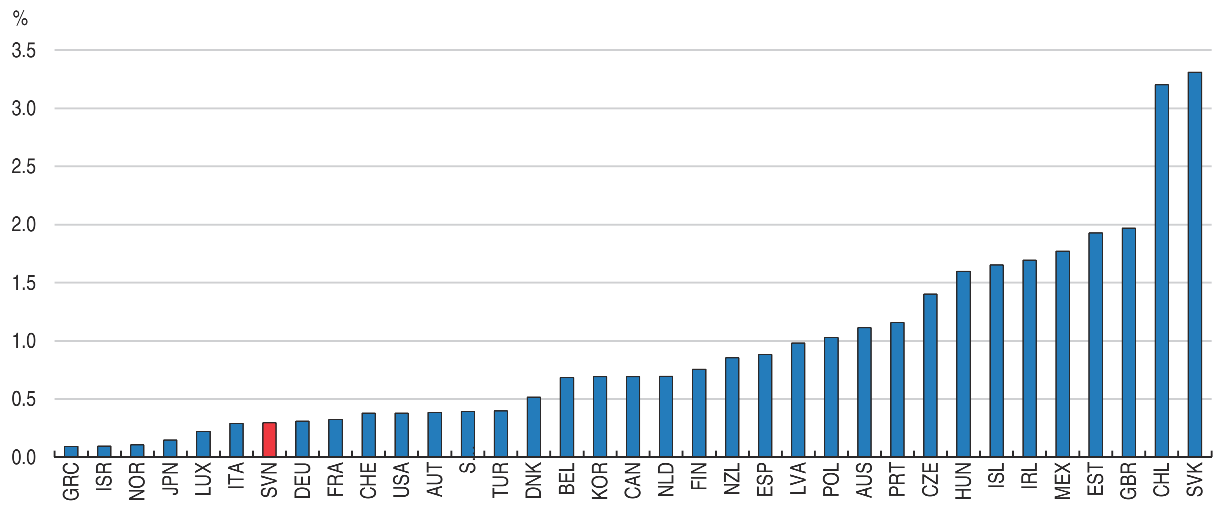
Figure 1.11. **Slovenia receives a particularly small amount of greenfield FDI**

Greenfield FDI projects in 2015, % of GDP



Note: Data refer to estimated amounts of capital investment. Totals exclude the financial centres in the Caribbean.
Source: ©UNCTAD, based on information from the Financial Times Ltd, fDi Markets (*www.fDimarkets.com*).

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suggesting other impediments, such as uncompetitive markets with restricted access and an inability for firms to find sufficient numbers of workers with relevant skills.

Despite the lack of success in attracting FDI, the foreign-owned firms that are present play an important role in the economy, with almost a quarter (23.4%) of employees in the corporate sector and 30% of net sales. Inward FDI also plays a crucial role in terms of achieving the goal of a globally integrated Slovenia: foreign-owned firms generated almost 40% of total exports in 2015 (Bank of Slovenia, 2016d).

Greater investment in KBC would raise productivity

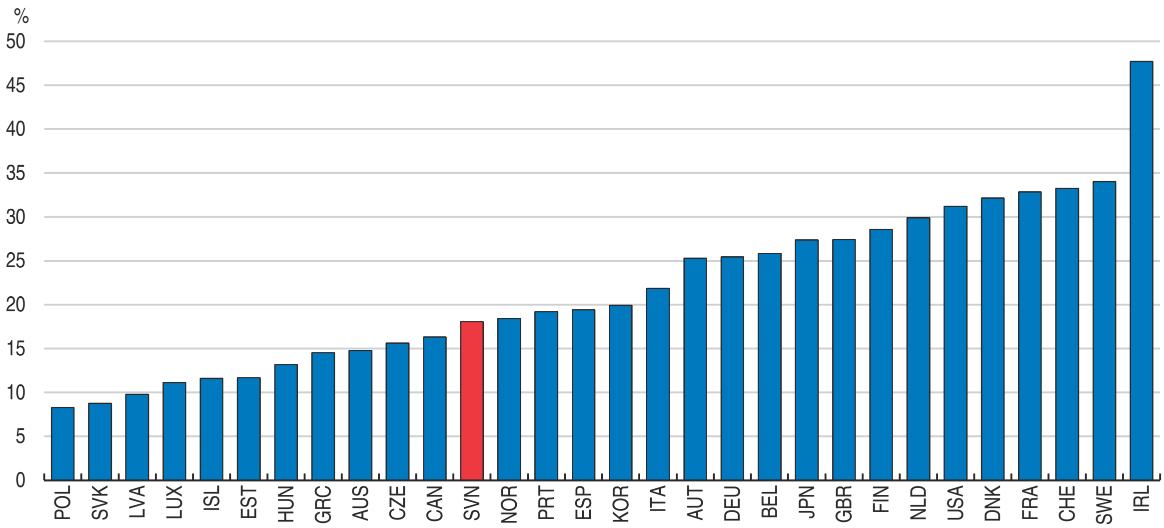
Further increasing investment in knowledge-based capital (KBC) would also help raise productivity and create high-quality jobs. Slovenia is a middle-ranked country, outperforming other CEECs, for the share of intangible capital in investment, such as R&D, software, and design (Figure 1.12). Greater investment in KBC allows faster adaptation of new technology and innovation, such as digitalisation and automation, and an expansion of knowledge-intensive service-sector activities. The need for such investments is seen by the fact that Slovenia lags behind more advanced OECD economies in terms of the high-technology intensity of merchandise exports, although the share of high and medium-high tech manufacturing in total manufacturing is relatively high (Sila et al., 2016). Slovenia also trails in the share of knowledge-intensive exports in service exports (IMAD, 2016) (Figure 1.13).

Slovenia has invested heavily in upskilling its workforce, though many workers were left behind

To successfully attract such investment and to ensure workers benefit, it is important for workers to have complementary skills. Other policies, including in the area of regulation and competition, are also important for bolstering investment incentives and are considered in Chapter 2. The skill needs of firms that invest in modern production methods, are integrated into global value chains and use high performance work practices are different to those

Figure 1.12. **Slovenia outperforms CEECs for investment in intangible capital**

As a percentage of nominal non-residential investment, latest available data



Source: OECD (2015), *OECD Economic Outlook: Statistics and Projections* (database); national statistical offices; OECD calculations.

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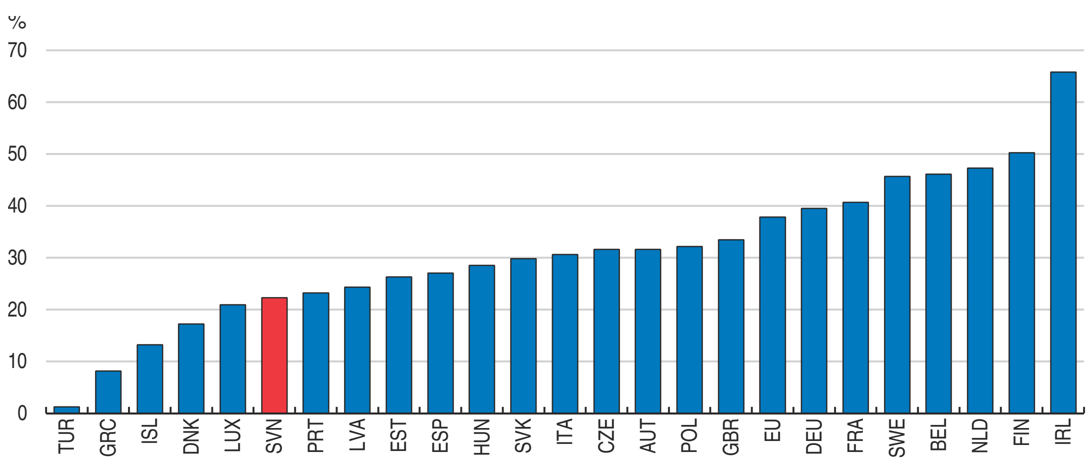
Figure 1.13. **The share of knowledge-intensive services exports is low**

Share of knowledge-intensive non-financial services in total exports of services (2015)



Note: Exports of knowledge-intensive non-financial market services are calculated as the sum of the exports of telecommunications, computer and information services (SI) and other business services (SJ)

Source: Eurostat Database, International trade in services.

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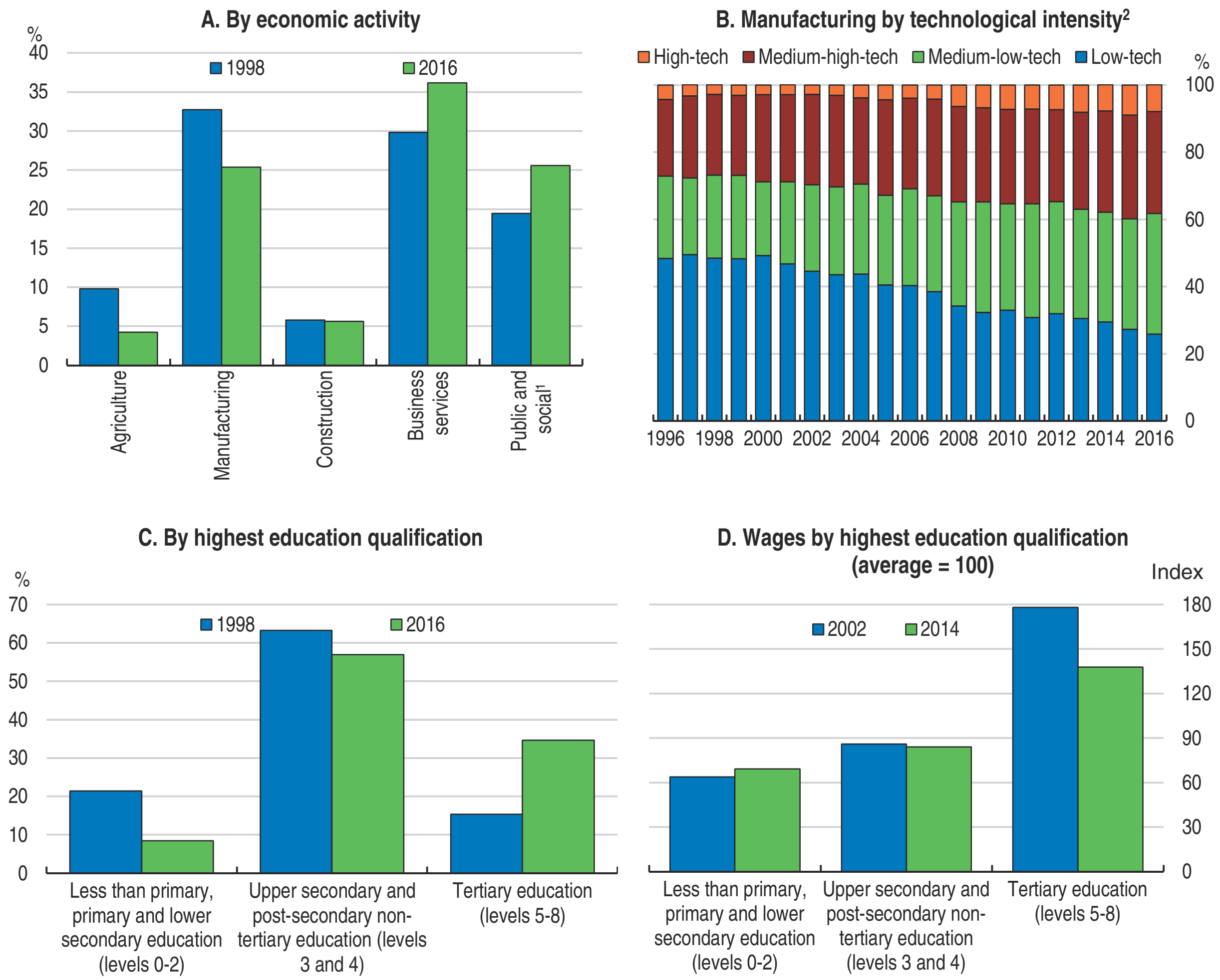
present in Slovenia today, with higher skills in greater demand (OECD, 2016a; OECD, 2017a). Therefore retraining and reallocating workers is necessary for them to take advantage of new opportunities. Looking ahead, increasing productivity will require production workers with high-quality vocational training that can flexibly adjust to rapidly changing technologies and graduates with strong problem-solving skills and the capacity to work independently.

Slovenia has already made much progress in upskilling its workforce as the structure of the economy has changed dramatically since independence in 1991, though some workers were left behind. Rapid change in the type of workers demanded by firms helped drive convergence with advanced economies and favoured those with higher education, referred to as skill-biased technical change (Eurofound, 2016a). The structural change included a broad expansion across the service sector. In particular, new jobs have appeared in business services, including accounting and the legal profession (Figure 1.14, Panel A). Furthermore, employment has shifted towards technology-intensive industries and has led to changes in Slovenia's occupational structure and skill requirements (Panel B) (Nenadič, 2012). The share of workers with tertiary education has increased, converging with the euro area average at a time when employment requiring tertiary attainment was also expanding there (Panel C). The nature of work has also changed, including a general increase in "job discretion" (the extent to which a worker has control over how to work and the pace of their work), which indicates the need for higher skilled workers who can work independently (Eurofound, 2015a).

Figure 1.14. **There have been large structural changes in employment shares**



1. Public administration and defence; compulsory social security; education; human health and social work activities; other service activities.
2. Manufacturing technology intensity is an aggregation of manufacturing industries according to technological intensity (R&D expenditure/value added) and is based on the Statistical classification NACE at 2-digit level according to Eurostat High-tech classification of manufacturing industries.

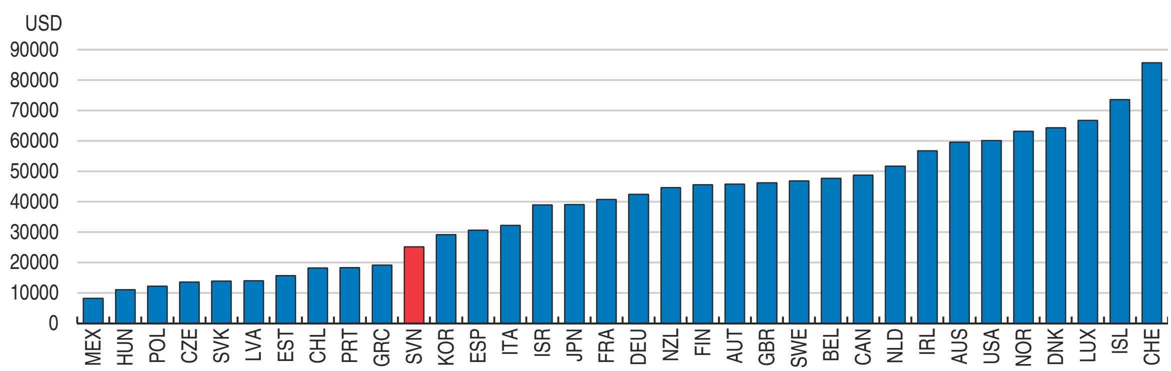
Source: Eurostat, Employment-LFS series database and earnings.

StatLink http://dx.doi.org/10.1787/888933556273

As a result of the associated productivity increases, Slovenia has succeeded in becoming a relatively high-wage economy, achieving the highest wages amongst CEECs (Figure 1.15). The minimum wage is also highest amongst CEECs and is one of the highest in the OECD in relation to median earnings (Figure 1.16). Adjusting for price differences, it is higher even than in western European economies such as Portugal and Spain. The high minimum wage allows even low paid workers in employment to enjoy relatively high living standards. However, such high wages also mean that workers need sufficiently high productivity to keep them attractive, or they risk becoming unemployed.

Figure 1.15. **Wages are higher than in other CEECs**

Average annual wage, USD (market exchange rates) 2016



Source: OECD, *Labour-earnings database*.

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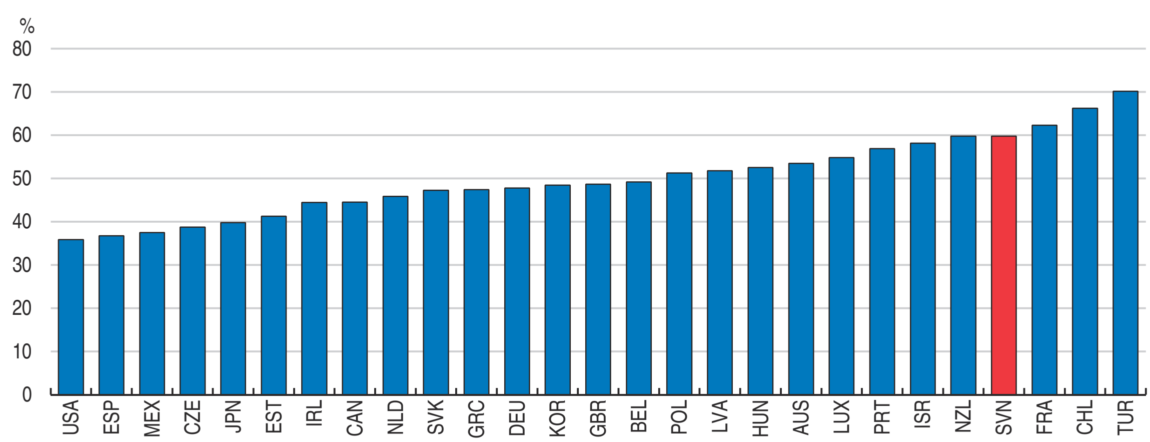
Figure 1.16. **Minimum wages are high relative to median wages**

Gross minimum wage relative to median wages of full-time workers, 2015



Source: OECD, *Labour-earnings database*.

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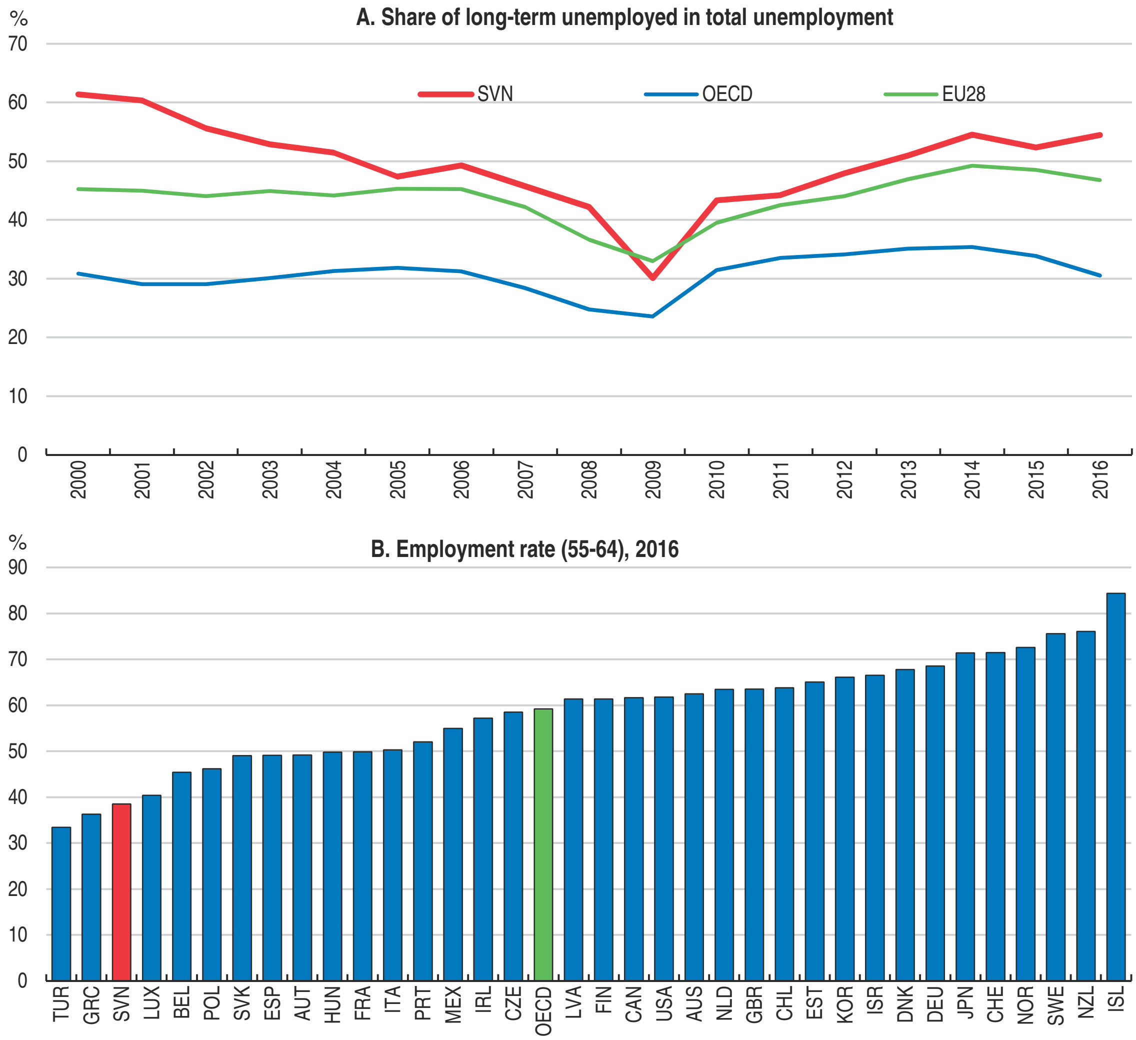
Indeed, workers with obsolete skills have tended to retire or become unemployed, leading to high long-term unemployment and particularly low employment rates for older people (Figure 1.17). Long-term unemployment has been a problem for over 20 years (OECD, 2016b), and a generous social security system allowed those with inadequate skills to retire rather than retrain (discussed below). Population ageing means this is no longer feasible. By

Figure 1.17. **Slovenia has persistent problems in reallocating workers**



Source: OECD, *Labour Force Survey – Sex and Age composition database.*

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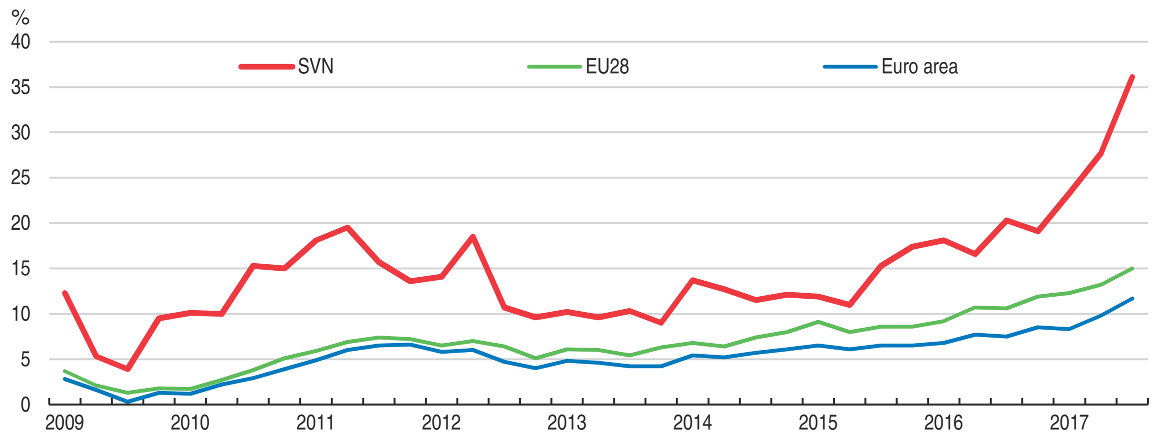
2016 the number of people under 20 years of age was 30% lower than 30 years before, reducing the flow of younger people who can be trained to fill skills shortages. Also, a growing share of the elderly makes it too expensive to allow early retirement.

At the current conjuncture, there are already signs of more substantial labour shortages than elsewhere despite the still high unemployment rate (Figure 1.18). Noticeably, there has been an increase in the shortage of skill workers (Statistical Office of the Republic of Slovenia, 2017a). A third of employers across a range of industries are experiencing difficulties in finding adequate staff (rising to half for larger firms), and there are shortages in a wide range of occupations such as handicrafts, computer science, mechanical engineering, electrical engineering, food processing, construction, forestry, wood processing, chemical technologies and services such as hotel management and catering (ESS, 2017; ReferNet Slovenia, 2016). There has also been a doubling to almost half of firms that cannot recruit information and communications technology specialists (IMAD, 2016). Those shortages have contributed to a quarter of new jobs being filled by foreign workers in 2016.

Figure 1.18. **Labour shortages limit manufacturing production**

Percentage of manufacturing firms pointing to labour shortages as a factor limiting production



Source: Eurostat, Industry database.

StatLink http://dx.doi.org/10.1787/888933556349

Developing vocational skills to bolster inclusiveness

A vocational training system that responds quickly to changing needs in the labour market provides students with the skills for the occupations required today and allows them to take advantage of continuing training opportunities and necessary retraining. This can be achieved by maintaining strong links with firms and ensuring students' literacy, numeracy and problem-solving skills. The education and training system has been largely focused toward giving young Slovenians the skills necessary to find employment. However, life-long learning for those in employment has been neglected. By building on the good track record of increasing the employability of young workers, Slovenia can further develop its training system to promote life-long learning for older Slovenians.

There is an extensive system of vocational education for the young

The vocational training system is broader in scope than in most countries, and students have numerous options as to the type of programme they can follow. Programmes are provided through the upper secondary school system, typically beginning at age 15. Most last two to four years and cover traditional vocational occupations, such as plumbing, and "technical" occupations, such as laboratory technicians (Box 1.1). There is much flexibility in the system, with a substantial proportion of course time (30% to 40%) in all programmes devoted to general subjects, and students have the option to switch to academically orientated general streams.

The vocational training system for those pursuing three-year programmes has well-established links with local employers and can flexibly adapt to their current needs. Such students spend 25% of course time in work-based practical training. In addition, 15% of programmes are determined by schools in co-operation with local companies to meet their needs (giving a total of 40% of content set in co-operation with employers) (Ministry of Education, Science and Sport, 2015). For those in two-year programmes there is considerably less employer-based training, though 20% of the programme can be determined with local employers (and taught within the school). In contrast, the four-year 'technical' programmes are only nominally focused on preparing students for the workplace and are less responsive

Box 1.1. **Slovenia's education system**

Attendance at pre-school is not compulsory, but nonetheless three-quarters of those aged one to six attend. In addition to fostering social and emotional development, pre-school introduces children to skills such as reading and writing. Pre-school receives 20% of total expenditure for educational institutions (almost equal to that of tertiary education). Compulsory education typically begins at age six and lasts nine years.

Upon completion of compulsory education, the first sorting of students into different education pathways begins (usually at age 15, in line with the OECD average). Such sorting is flexible, with general and vocational-technical education being frequently offered by the same school. Students sometimes leave the family home to attend such schools, making use of boarding facilities. Upper-secondary education is run by the Ministry of Education.

One pathway followed by roughly 40% of students is to pursue four more years of general secondary education leading to a general "Matura" (baccalaureate). This allows direct access to university or, with an extra year of study, it is possible to graduate with a vocational Matura – an occupational qualification. A second option (pursued by almost 45% of students) is to complete four years of "technical" upper secondary education (which provides training for occupations such as nursing, laboratory technicians and pre-school teaching). Students graduate with a vocational Matura, which allows direct access to professional higher education (similar to a polytechnic), and if the student passes extra exams (s)he can pursue academic higher education. The third option (pursued by almost 15% of students) is to pursue a "vocational" course of three years (giving qualifications for electricians, butchers, chefs and bakers), and three-quarters of such students engage in two years of extra study to gain the vocational Matura (and they also have the option of studying for an additional year to gain a general Matura) (Lovšin, 2014). A final option pursued by under 1% of students is a short vocational programme, which does not lead to progression within the education system.

Tertiary education takes the form of a five-to-six-year integrated Master's programme or a three-to-four-year bachelor's degree that can be followed with a one-to-two-year Master's degree. Bachelor's degrees can have an academic or professional orientation. Following a Master's degree, students can pursue a PhD. Outside of the universities and higher education institutions, higher vocational colleges offer two-year diploma courses. These aim to give those with vocational skills the skills to manage and control work so they can hold jobs such as that of a foreman.

to the needs of the labour market. Though students gain some workplace experience, it forms only a minor part of the programme, contributing to negative perceptions of the work experience gained by Slovenian students (Eurobarometer, 2014). Also, only 10% of (school-based) programme content is determined by the school in co-operation with local firms. Graduates leave with an occupational qualification, but in practice 90% of those in four-year programmes progress directly to tertiary education (Lovšin, 2014).

In addition, there is a system of tertiary-level vocational training. These two-year "higher vocational" programmes aim to equip students with more advanced, vocational competencies in managing, planning and controlling work processes, to meet the needs of the economy. They result in Diplomas, and cover all fields of education. Students in these courses usually already have work experience. Workers with higher vocational qualifications enjoy wage premiums of 40% over upper-secondary vocational and technical graduates (OECD, 2017b).

Although three-year programmes prepare students for the current needs of the labour market (with quite similar employment rates for those with vocational and tertiary qualifications), the programmes do not develop the problem-solving skills necessary for their employers to move up the value chain. Adults with upper-secondary education (who are predominantly those with vocational qualifications) perform poorly in terms of literacy and problem solving in a high-tech environment (which includes basic computer skills), though near average for numeracy (Figure 1.19 and Figure 1.20). Such skills are important to facilitate life-long learning and occupational mobility (OECD, 2017b). The skills gap contributes to the particularly wide earnings gap between those with upper-secondary qualifications and tertiary graduates (although wage differentials among tertiary graduates are narrow) (Figure 1.21).

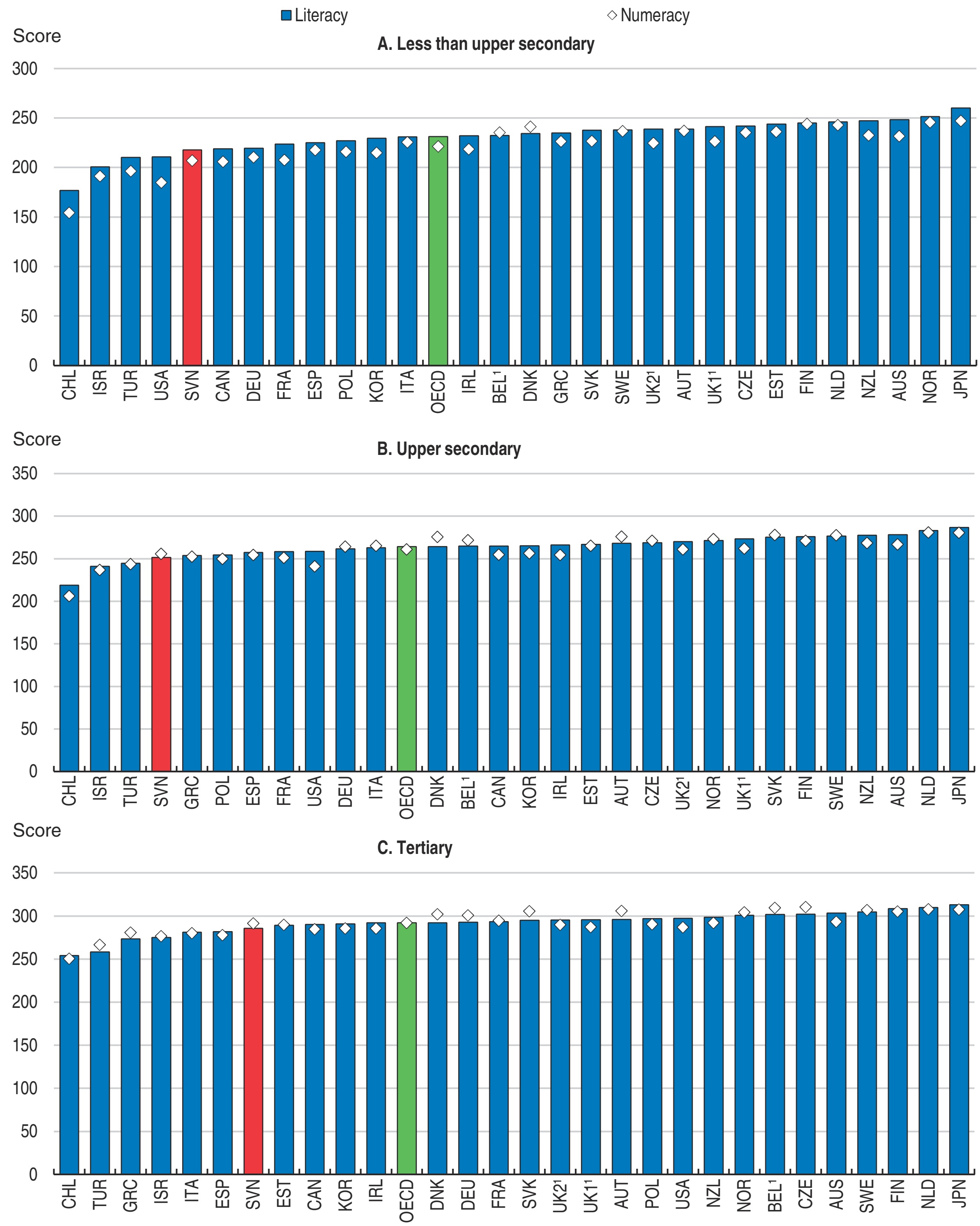
To address the lack of problem-solving skills the government introduced reforms to vocational education in 2011 to increase the use of problem-solving and experimental-learning teaching methods. However, adopting problem-solving-based learning requires that teachers be given the necessary pedagogical training, and so far this has been lacking (Ermenc and Mažgon, 2015). Such a lack of further training is characteristic of life-long learning in Slovenia as a whole (discussed below). Teachers have identified a need for further training in new developments in their subject area, dealing with disciplinary and behavioural difficulties and skills for ICT-assisted teaching (Vršnik Perše et al., 2012). Although teachers have the right to five days of training per year, including pedagogical and ICT-assisted training, this appears to be of poor quality. Only 13% of teachers consider such training to have contributed most to the development of their ability to teach (on a par with self-education via literature and the Internet), compared to 45% considering their own professional experience being most important (Vršnik Perše et al., 2012). In 2016 a series of EU-funded programmes were introduced to improve the teachers' competencies. Although it is too early to evaluate their effectiveness, introducing a continuous teacher training system to adopt the pedagogical practices used in countries that have successfully implemented problem-solving-based learning would probably be beneficial.

Due to poor market signals (discussed below) the Slovenian government encourages students to pick VET courses where there are labour market shortages. A 'Scholarship for Shortage Occupations' scheme was launched in 2015, with a monthly stipend of EUR 100 (equivalent to 12% of the minimum wage). The occupations covered are decided by the Ministry of Labour, Family, Social Affairs and Equal Opportunities using data provided by the Employment Service and in consultation with social partners and youth representatives. The system can be combined with other scholarships, and demand easily outstripped the number of available scholarships in 2015 (CEDEFOP, 2016). However, not all scholarships were awarded in 2016 due to the introduction of selection criteria (such as academic success) and a reduction in the number of eligible study programmes. Although it is too soon for a full evaluation, a concern is that the scheme can conflict with the advice pupils receive from counsellors who tend to advise them based on their academic results and aptitude tests, rather than training students to plan their careers (Lovšin, 2014).

The use of apprenticeships is another option to help students learn workforce skills and make useful contacts with potential employers. The Slovenian government has proposed a pilot programme (to be co-financed by the Ministry of Education and the European Social Fund) for a dual apprenticeship-training system starting with the school year 2017-18. The new system will increase time spent in practical training to at least 50% of the total educational programme. An apprenticeship plan will be set by the school, the employer and the chamber of commerce. The employer will provide appropriate apprenticeship positions

Figure 1.19. **Literacy skills are comparatively poor for adults from all education attainment groups**

Mean literacy and numeracy proficiency scores by educational attainment



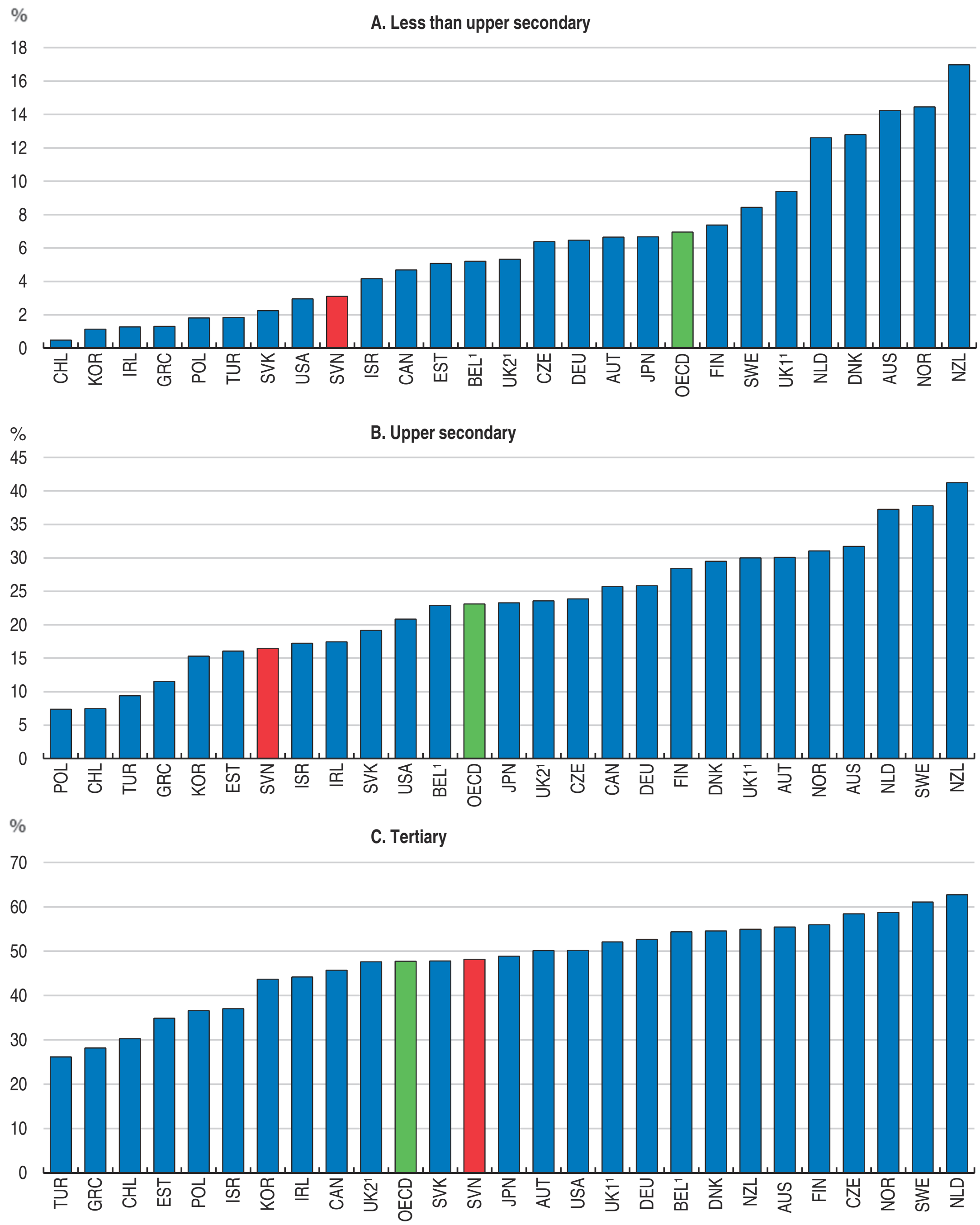
1. For regions: Flanders for Belgium, Northern Ireland (UK2) and England (UK1) for the United Kingdom.
Source: Survey of Adult Skills (PIAAC), Table A3.2 (L) and (N).

StatLink http://dx.doi.org/10.1787/888933556368

and mentors, and pay social contributions, compensation for meals and travel expenses. Chambers of Commerce will verify the apprenticeship posts, prepare and publish tenders for them, participate in setting the final exams and report results. In addition to the typical

Figure 1.20. **Slovenians with less than tertiary education lack digital skills**

Percentage of adults scoring high in problem solving in technology-rich environments, by educational attainment



1. For regions: Flanders for Belgium, Northern Ireland (UK2) and England (UK1) for the United Kingdom.
Source: Survey of Adult Skills (PIAAC), Table A3.2 (L) and (N).

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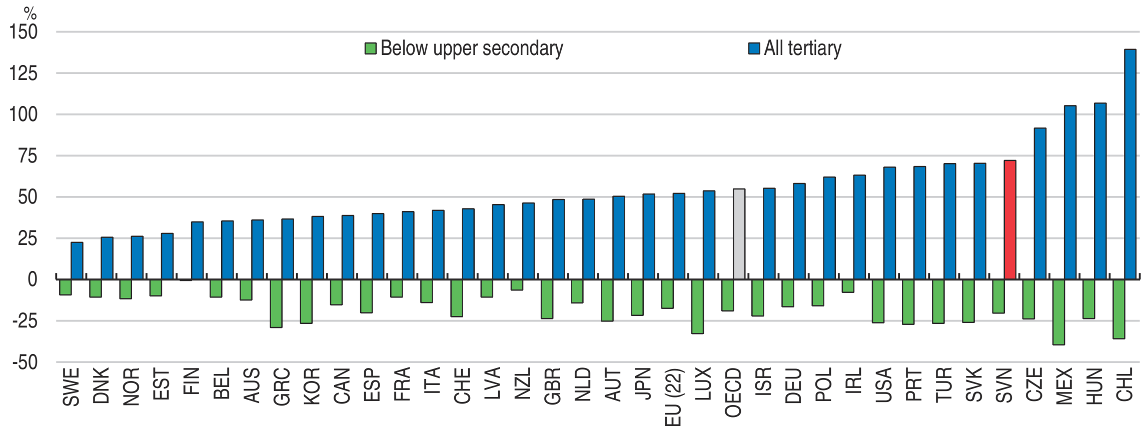
cohort of students, it will also be possible for the employed and unemployed to participate in the system.

Using the four-year programmes as an entry path into tertiary education may be an inefficient use of resources, particularly as the programmes typically give only restricted

Figure 1.21. **The difference between tertiary and upper-secondary wages is particularly wide**

Annual gross earnings of 25-64 year-olds working full-time relative to those with upper secondary education (2014)



Note: Tertiary education includes short-cycle tertiary, bachelor's, master's and doctoral or equivalent degrees.
Source: OECD (2016), *Education at a Glance 2016*, Table A6.1. See Annex 3 for notes (*www.oecd.org/education/education-at-a-glance-19991487.htm*).

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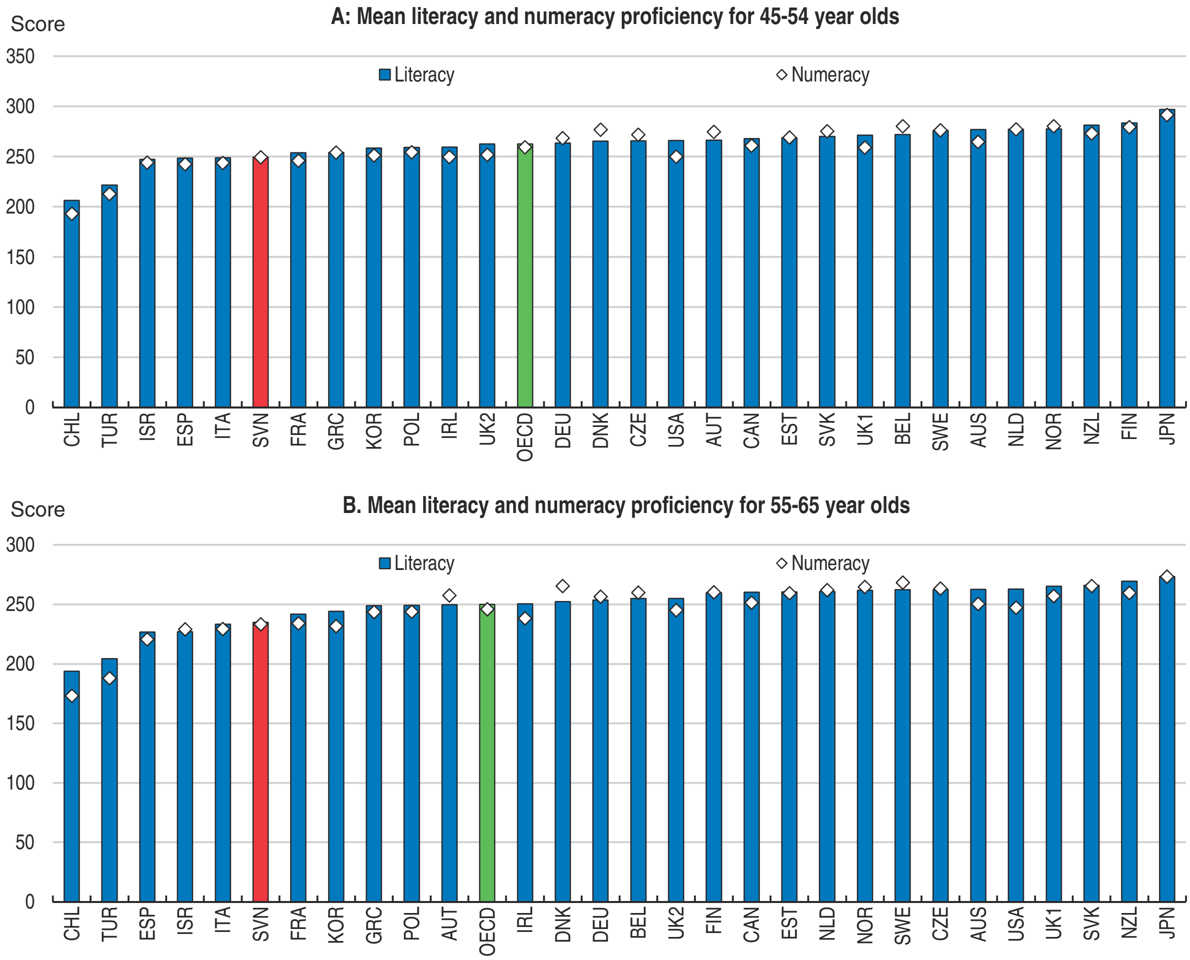
access to related studies and more flexible study choice requires passing additional exams. The authorities should conduct an audit to investigate the advantages of students pursuing four-year programmes rather than general education programmes. At the same time, the four-year technical programme could lead to better employment outcomes upon graduation by including more workplace training. This could be achieved, for example, through the existing Practical Training with Work (PUD) programme, which helps link four-year students with local firms for temporary work experience during term time, by extending it to promote work experience during school holidays. In addition, firms' take-up of this measure could be used as an indication of the relevance of individual vocational training courses.

To ensure students are trained in the most modern techniques VET schools could develop greater links with firms based abroad. Though links with local firms are effective, such links limit training to work practices and technology within Slovenia. International mobility for VET graduates is low compared to general upper-secondary school or tertiary graduates, with only 2.1% of 18-34 year-olds having spent at least two weeks learning abroad – about half the Dutch rate (EP-Nuffic, 2016). Students and staff can participate in the European Union's Leonardo da Vinci programme, which facilitates cross-border studies for VET students (CEDEFOP, 2015). The most common destination country for Slovenian students in this programme is Germany (which also accounts for almost 10% of FDI), followed by Finland and Spain, neither of which are important source countries for FDI in Slovenia. While welcome, VET schools should aim to boost links with countries that are important sources of its inward FDI to gain a competitive advantage in attracting FDI.

Life-long learning could boost labour market inclusion of older workers

The education system plays an important role in initial skills formation. However, for workers to have the best employment prospects in the face of changing labour market requirements, they must be able to renew and upgrade their skills. Life-long learning is particularly important as population ageing and changes to the pension system will result in longer working lives. Also, due to a declining youth population it will no longer be possible to meet labour requirements caused by investment in new technologies by only training younger Slovenians. In the future older workers will have to adjust their labour market situation more frequently. Such training is needed all the more given that older Slovenians rank amongst the bottom in the OECD for literacy, numeracy and problem solving in a high-tech environment (Figure 1.22).

Figure 1.22. **Mean literacy and numeracy proficiency for older Slovenians**



Note: for region, Flanders for Belgium, Northern Ireland (UK2) and England (UK1) for the United Kingdom.
Source: *Survey of Adult Skills* (PIAAC), Table A3.5 (L) and (N).

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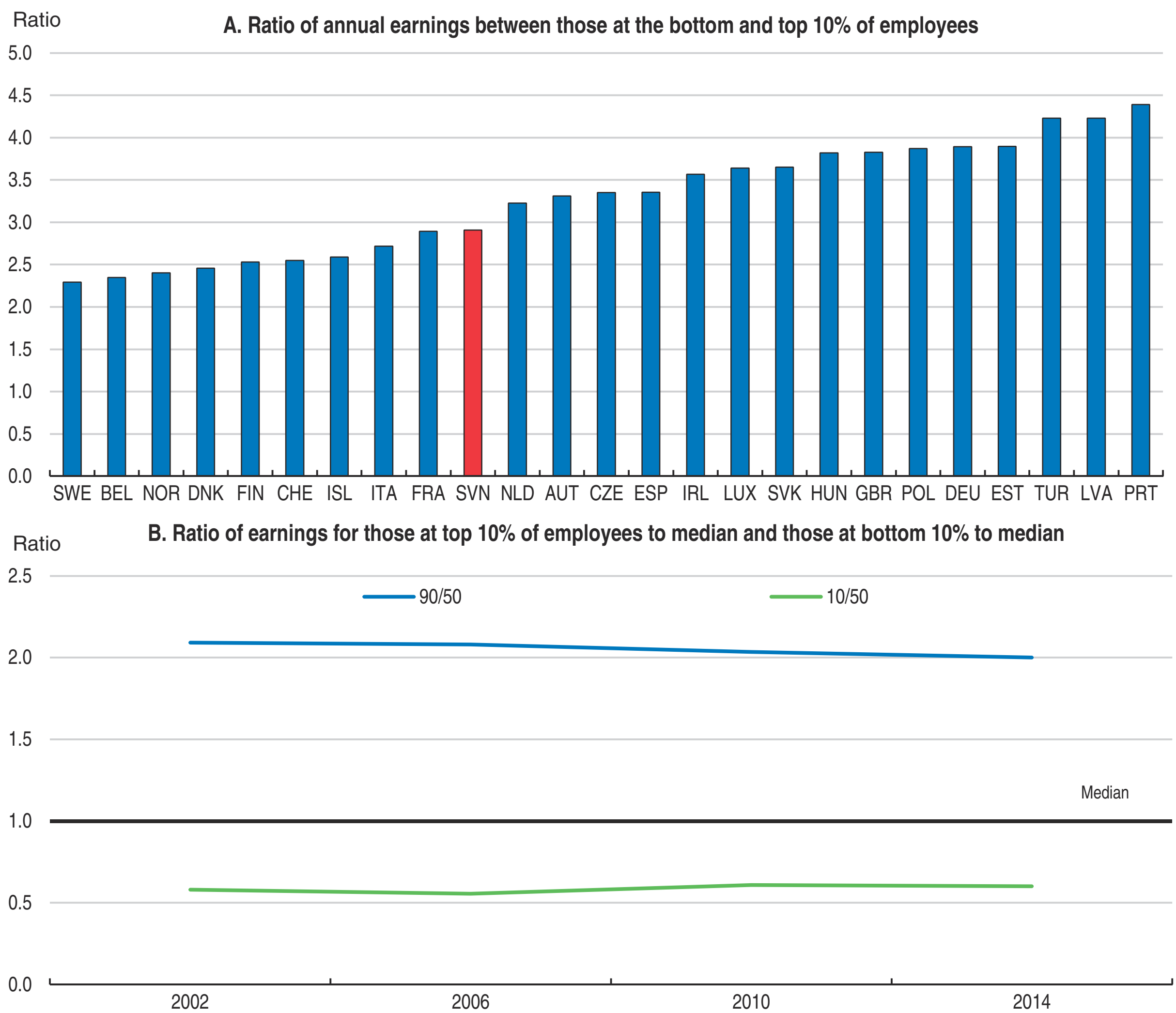
There is a lack of opportunities for adults to retrain. Existing programmes aim to help adults complete secondary education (with almost 15 000 adults engaged in upper-secondary education compared to 61 000 youths), rather than help them retrain for new occupations (Ministry of Education, Science and Sport, 2015). The government has taken some initiatives to change this. In 2013 it introduced co-financing (alongside employers and participants) of part-time post-secondary vocational education (Čelebič, 2014). Also, a programme entitled 'Comprehensive Support to Companies for Active Aging of Employees' has been recently introduced with the aim of improving the competencies of older employees to help them have longer working lives. The goal is to have 12 500 older employees in training programmes by 2022 (Slovene Human Resources Development and Scholarship Fund, n.d.), though it is too early to assess the impact of these initiatives. Such training should also be targeted not just at those nearing the end of their careers but also at those who are mid-career to prevent problems of skills obsolescence.

Participation in formal or informal training for adults (aged 25-64) is on a par with other countries. However, the average hours of training for participants are the second lowest in the OECD. As elsewhere those that are already highly skilled are more likely to participate in training, with 78% of the high skilled (judged by PIAAC literacy proficiency scores) participating in either formal or informal education and training, compared to only 30% for the low skilled. Although the participation rates for the low skilled is at the OECD average, the skills gap is particularly wide, reflecting a bias towards helping the higher skilled. Low participation rates can in part be explained by generous unemployment benefits for low paid workers, a compressed wage structure and the possibility to retire early, reducing the incentives for training for the low skilled (discussed below) (Figure 1.23).

Figure 1.23. **The relatively compressed wages have been stable**



Note: The 90/50 ratio compares the annual earnings of employees at the 90th percentile with the median. The 10/50 ratio compares annual earnings with employees at the 10th percentile with the median.
Source: Eurostat 2014 Structure of Earnings Survey.

StatLink http://dx.doi.org/10.1787/888933556444

There are also restrictions on who can participate in many training programmes, such as the On The Job programme, which is restricted to those under 30 or over 55 and unemployed for at least three months (ESS, n.d.). Such training is largely done in educational institutions, whereas in other countries it is more evenly split between the school and at the workplace (OECD, 2016c). Although basic (primary and lower secondary) education is free, participants in other forms of adult education typically have to pay one-third of the cost. Of adults with low literacy or numeracy skills, 28% do not pursue education or training because it is too expensive (though the vast majority that participate get some support from their employer), and 12% to 14% cite a lack of time (OECD, 2017b).

The low level of participation in training contributes to only a third of older workers (aged 55-64) with upper secondary education being employed, compared to 56% for the tertiary educated (and an OECD average of 71%). In contrast, the gap for younger workers (4%) is smaller than the OECD average (OECD, 2016c). In addition, the positive return to education suggests that increasing training opportunities is likely to boost employment prospects of older workers (Figure 1.21).

The participation of adults could be improved if education providers offer a more user-friendly approach, such as more on-line and distance learning, part-time and modular courses. The government could also adjust incentives so that the low-skilled more actively seek such training as part of unemployment activation measures, but also for the employed to prevent future spells of joblessness. Incentives could be altered by giving workers training vouchers or tax credits. Introducing a comprehensive system of training and retraining could help workers maintain the relevance of acquired skills. Also, the provision of training that enables the long-term unemployed to change occupation should be increased when a person cannot find work with their current skills. Existing adult education programmes should also facilitate changing occupation mid-career.

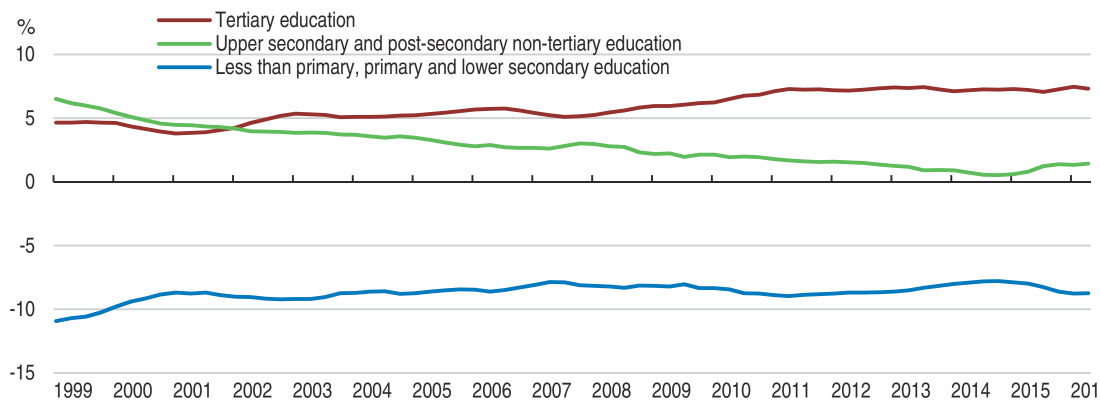
Informal learning also plays an important role in maintaining a worker's skills. Recognition for informal learning is now available, but it is questionable as to whether this is responding to labour market needs. Since 2000 workers have been able to have their informally learned skills accredited as a National Vocational Qualification (NVQ), with occupations chosen in co-operation with the social partners. However, a survey of managers in the tourism and hospitality industry shows only limited knowledge of the system of NVQs, although 19% of respondents participated in the system, with a similar number rejecting it and only recruiting based on formal education or work experience (even though NVQs formalise work experience) (Rok, 2012). A weak link between the qualifications available (such as Cheese Sommelier) and employer needs was also reported. The government is introducing 'Competence Centres for Human Resource Development', in part to improve the identification of occupations where informally attained skills are valued. The government should also survey a wider range of firms when deciding which occupations to include amongst NVQs.

Reforming labour market institutions to increase inclusiveness

A key aspect of well-functioning labour market institutions is that they enable workers to find new jobs if their current job disappears and to upskill to raise their productivity and wages. This also has the advantage of making the country an attractive place for business investments, increasing productivity. However, despite the progress made, many low-skilled workers have been left behind despite economic growth. There are sustained differences between the education of workers with jobs compared to the population as a whole, with the low-skilled left behind, and with years of education playing a particularly large role in determining wages and employment (Figure 1.24; OECD, 2016d). A combination of weak wage signals, poor worker activation and pathways to early retirement has led to those who cannot find a job with their current skills leaving employment rather than changing occupation or upskilling.

Figure 1.24. **There is a persistent mismatch between the education of those in employment and the population**

Share in employment (15-64) less share in population by education, four-quarter moving average



Source: Eurostat, EU labour force survey and OECD calculations.

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The wage-setting system leads to compressed wages

Wage-setting systems play an important role in creating incentives for workers to be employed where they are most productive. Slovenia's wage-setting system has much in common with those in western Europe. The social partners have institutionalised access to policymaking through the tripartite Economic and Social Council, including minimum-wage setting and non-pay topics such as employment and social policies, pension and labour market reforms (Eurofound, 2015b; Stanojevic et al., 2016). The current government abstains from influencing private-sector bargaining, except through tax measures and minimum wages. Although only larger firms tend to be unionised, roughly 65% of workers are covered by collective agreements, in line with Western European economies. The high coverage rate is due to the high level of firm membership in chambers of commerce, rather than union density, which stands at 21.3% (Jemec and Vodopivec, 2016; Visser, 2016). Collective bargaining coverage is high in the manufacturing, electricity, real estate, hotels and restaurants sectors (Jemec and Vodopivec, 2016).

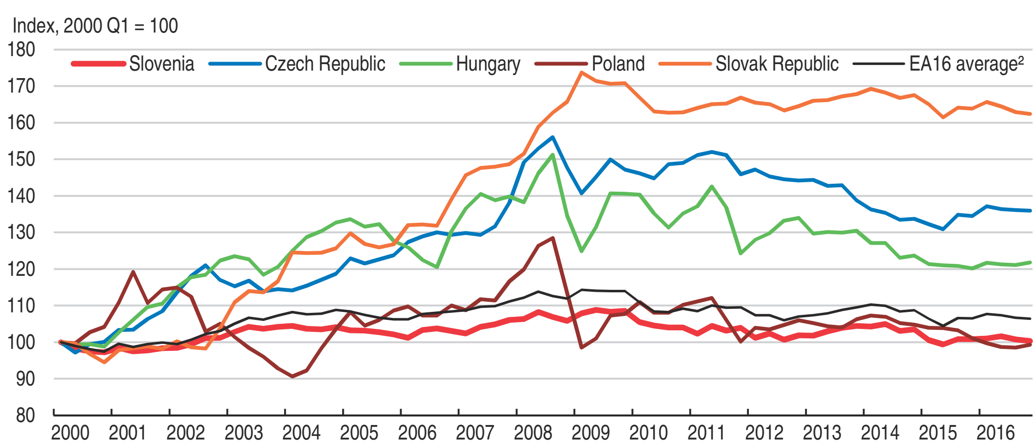
Sectoral bargaining is the norm. By 2010 the role of national employer and union confederations had been reduced to issuing centrally negotiated bargaining guidelines. Collective agreements can be extended by the Ministry of Labour, depending on the representativeness of the signatory parties (Jemec and Vodopivec, 2016). Until 2008 extension of collective agreements was widespread but since then has been less frequent, though agreements have been extended in parts of the tourism, trade, road transport, electric utilities and manufacturing sectors (Eurofound, 2015b; Jemec and Vodopivec, 2016). However, sectoral agreements can be amended at the firm level with the consent of the union, for example to avoid redundancies (Stanojević et al., 2016). The share of firms that cut base wages rose following the domestic banking crisis from 3.3% in 2011 to 6.5% in 2013 (Jemec and Vodopivec, 2016). Though the informal practice by which certain leading firms have acted as "rule makers" in co-ordinated bargaining has been reduced since the 2008-09 crisis, overall co-ordination of agreements remains strong (Stanojević et al., 2016; Eurofound, 2015b).

Firms have the ability to set incentive pay within collective bargaining structures, offering flexibility. Slovenia is the top ranked EU country for offering variable pay linked to individual performance and profit-sharing schemes (Eurofound, 2016b). Pay linked to group performance is also popular (offered by almost half of Slovenian private-sector firms). A relatively high 15% of wages takes the form of variable pay, with 5% linked to individual performance. Following an increase in the minimum wage by almost a quarter in February 2010, 30% of firms increased variable rather than basic pay for workers who had previously been paid above the minimum wage to try to maintain wage relativities (Jemec and Vodopivec, 2016). Though there is some variability regarding which occupations receive larger bonuses, this is largely in proportion to annual earnings, limiting their role as a wage signal as to which occupations are in demand. In total, 82% of private-sector establishments offer some form of variable pay (compared to an EU average of 62%), with larger firms more likely to pay bonuses (Eurofound, 2016b).

The wage setting system has succeeded in keeping overall wage developments in line with productivity increases, safeguarding external competitiveness (Figure 1.25). The influence of bargaining on wages has decreased since the financial crisis, and there has been evidence of negative wage drift, with actual compensation growing more slowly than collectively agreed wages (Eurofound, 2014). This can be explained in part by collective agreements referring to basic wages, while premium payments such as overtime and bonuses are more likely to be cut in and after a recession. Combined with relatively fast productivity growth this has preserved external cost competitiveness despite depreciations in other CEECs.

Figure 1.25. **Slovenia has maintained cost competitiveness**

Cost competitiveness,[1] rise = deterioration



1. Real effective exchange rates based on unit labour costs for the total economy.
2. Simple average.

Source: OECD Economic Outlook 101 database.

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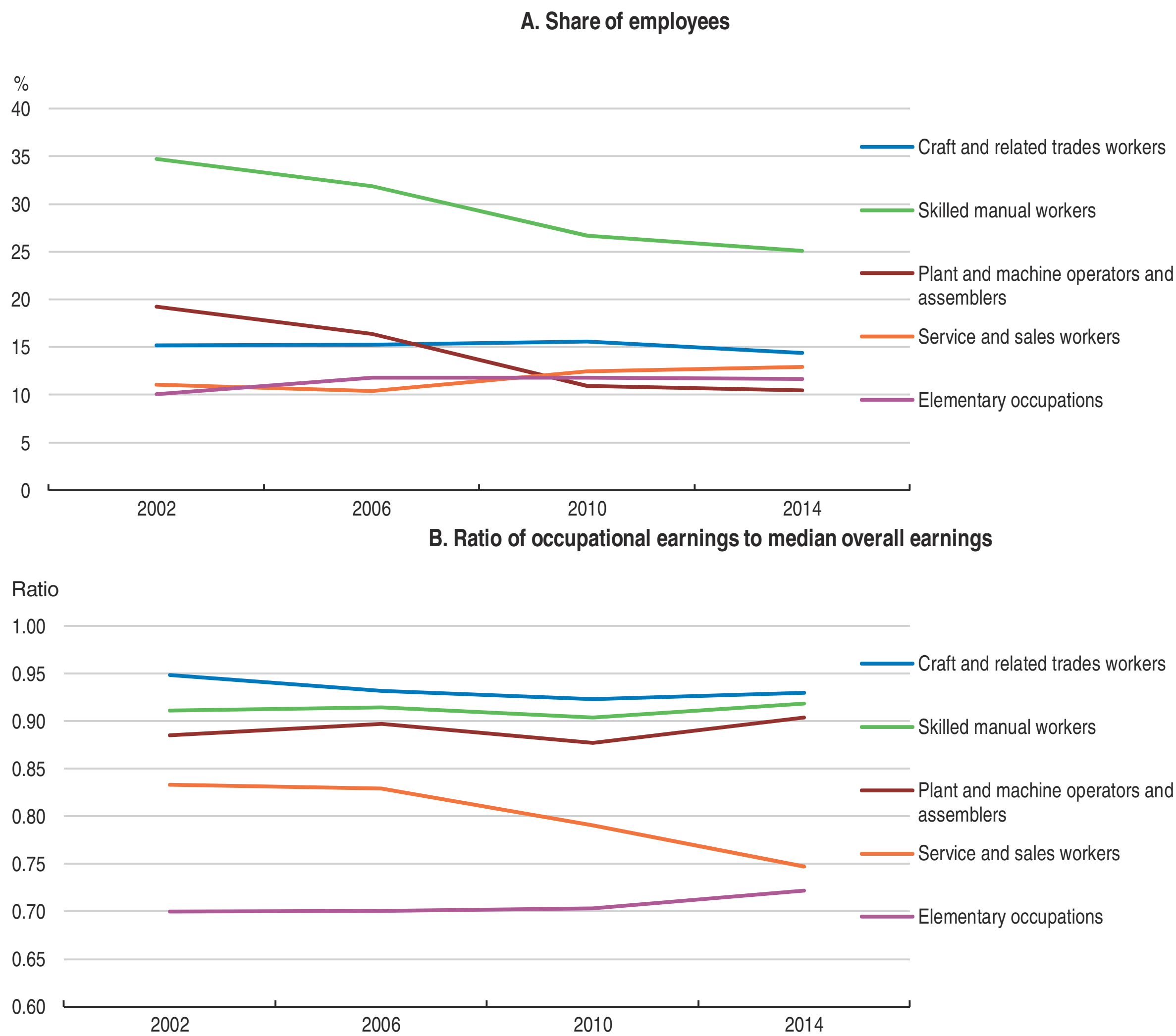
The wage-setting regime has led to a compressed wage structure (Figure 1.23). It became even more compressed following the 2010 minimum wage increase, weakening wage signals and boosting the share of minimum wage recipients from 8 to 11% (Laporsek et al., 2015; Jemec and Vodopivec, 2016). There have been major changes in employment shares of lower paid jobs (with large falls in the share of plant and machine operators and skilled manual workers in employment), and associated divergent patterns of unemployment for those trained in these occupations. Despite this, relative wages have been stable except for higher paid occupations (Figure 1.26). Unemployment can signal which occupations are experiencing a surplus of workers, but it is a sub-optimal signal, as it is hard to distinguish longer-term trends from cyclical variations.

Figure 1.26. **Relative wages for the low paid have generally been fairly stable, despite changes in job shares**



Source: Eurostat database, Structure of earnings survey: hourly earnings.

StatLink http://dx.doi.org/10.1787/888933556501

The bargaining regime therefore does not facilitate directing workers to where they are needed most. Compressed wages can reduce training incentives by decreasing the reward for training. Although there is a considerable wage premium for tertiary graduates over other workers, there is little variance in wages by field of study, so there is little wage incentive for students to select subjects in high demand. This wage compression amongst tertiary graduates contributes to an overall compressed wage structure. In addition, evidence from Italy shows that bargaining regimes similar to Slovenia's reduce the ability of firms to adjust salaries and conditions to attract suitable workers (Monti and Pellizzarini, 2016). A greater element of firm-level wage determination could enhance such wage signals. This could be achieved, for example, through greater possibilities for local social partners to opt out of sectoral agreements, by extending opt-out duration and broadening the set of valid reasons for using them. Similar measures have recently been taken in Italy, Portugal, and Spain. In Italy tax incentives are being offered by the Italian government to promote productivity-enhancing firm-level bargaining, though this comes at a fiscal cost.

As outlined in the previous *Survey*, the high minimum wage can potentially reduce employment prospects for the low skilled (OECD, 2015a). Slovenia should therefore continue to moderate minimum wage growth to gradually increase the gap between the minimum and median wage. Furthermore, older long-term unemployed may be particularly affected, as long spells of unemployment erode their productivity and human capital. This could be addressed by introducing entry wages that are below the minimum wage for the long-term unemployed, but which increase over time to capture on-the-job skills development, combined with a refundable earned income tax credit to prevent poverty and discouragement.

Decisions regarding working part-time are distorted by the generous system of mandatory tax-free meal and travel allowances, which are calculated per shift rather than per hour worked. This contributes to Slovenia having amongst the lowest rates of part-time employment (at 9.2% compared to the OECD average of 16.8%) (OECD, 2017c). Firms are legally obliged to pay for workers' (mostly tax-free) commuting costs. The amount paid is subject to collective agreement and accounts on average for approximately 10% of net wages and 15% for lower paid workers (OECD, 2016b). The amount is irrespective of the travel mode (though public-sector workers are allowed only the costs of public transport). Not surprisingly Slovenians spend the highest amount on personal transport in the European Union (with 16% of household expenditure going to personal transport compared to an EU28 average of 13%) and mostly on cars as the spending on public transporation is less than half the EU28 average. (Statistical Office of the Republic of Slovenia, 2017b). Indeed, providing incentives for longer commuting is harmful to the environment and congestion. In addition, they also further increase labour costs and narrow wage differentials. Replacing the tax incentive for meal and travel allowances with a fixed employment tax credit (of the same value as the average tax saving from meal and travel allowances resulting in a cost neutral change) could remove this distortion and benefit those living near their workplace.

A peculiarity of Slovenian wage setting is that firms are legally obliged to pay a premium based on a workers' entire work history, rather than agreeing tenure premiums through negotiations between workers (or their representatives) and firms. Although the precise amount of the premium is subject to collective agreement, it averages 0.5% per year, and results in older workers costing on average 15% more to hire than their younger counterparts (OECD, 2016c). This discourages hiring of those who change careers, who do not have job-specific work experience to justify the premium, and who are older but trying to get back into the labour force after, say, a period of unemployment. It can also reduce the incentives for workers to retrain to maintain and increase their income as pay increases are not dependent on increasing one's skills. The premium may lead to unrealistic reservation wages in the event of unemployment. Labour market inclusiveness could be enhanced by removing the legal requirement.

The government offers firms that hire older workers (+55 years) that have been unemployed for six months an exemption from paying social insurance contributions for up to 24 months. The government plans to replace this incentive with a 30% reduction in employers' social insurance contributions for all workers aged 60 years or over (and 50% for those with 40 years of social security contributions who are eligible for retirement) by the end of 2017. Such incentives place a fiscal burden on taxpayers, as reducing labour costs of older workers could instead be achieved by reducing mandatory seniority pay and related holiday entitlements.

Directing workers with obsolete skills to high-demand occupations

The Employment Service of Slovenia (ESS) collects data on occupations with shortages, which it relays to the education system to decide on numbers of occupational scholarships for vocational school students. However, it is questionable to what extent such data can predict future skills needs, and the data no longer covers all vacancies, limiting its usefulness (OECD, 2016b). The ESS offers a comprehensive set of services to employers compared to similar agencies in other OECD countries: for example, it helps in organising job fairs, assisting firms in drafting vacancy notices and pre-selecting suitable applicants.

The ESS's match-making role is inhibited by the relatively high benefit replacement rate for the low skilled, reducing their search and training incentives, which is capped at 60% of the average wage but can be as high as 80% for the lower paid. A relatively long required contribution period means that many younger and prime-age workers are not entitled to unemployment benefits, and instead receive other social benefits, though in 2014 as many as half of unemployed did not receive any income support. Both the ESS and Centres for Social Work (CSW) pay benefits to the unemployed, with the ESS responsible for paying Unemployment Insurance benefits (a third of newly registered and a fifth of all unemployed receive such benefits), and the CSW paying social assistance (which is means tested). Those in receipt of unemployment benefit need to interact only with the ESS, while those receiving social assistance must register with both the CSW and ESS (OECD, 2016b).

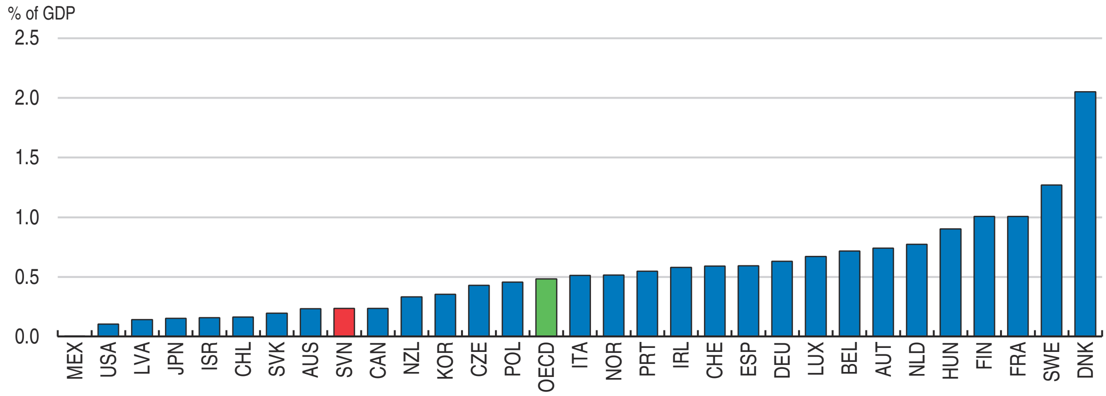
Generous unemployment benefits need not inhibit the reallocation of workers if strong active labour market policies (ALMPs) are in place. However, Slovenia spends less on ALMPs than most other OECD countries, and only about a third of ALMP spending was directed towards training in 2015 (Figure 1.27; OECD, 2016b). The ESS performs poorly in assisting those who require more help, such as the long-term unemployed, as it lacks the resources to perform in-depth counselling. Moreover, the numbers considered employable only with intensive support have continued to increase, while falling or stabilising for the directly employable and those with more minor barriers to employment (OECD, 2016b).

The formal rules for ensuring effective job search require that jobseekers accept jobs within three hours commuting time, or two hours for those with children under 15. In addition, after four months of unemployment they must accept jobs one level below their level of education. In reality, however, the ESS only infrequently assesses the job-search intensity of the unemployed (OECD, 2016b). The efficiency of the system is weakened by poor links between the ESS and the CSW. For example, those who receive social assistance may agree an action plan with the ESS, and a different action plan with the CSW, with no co-ordination between the two. Co-ordination could be improved by merging the activities of the ESS and CSW at the local level, as is currently being considered (OECD, 2016b).

Over 1.6% of the labour force people took part in some form of active labour market training in 2015, though some of the programmes are quite short in duration. On-the-job

Figure 1.27. **Relatively little is spent on active labour market programmes**

Public expenditure on active labour market programmes, 2013 or latest data available



Source: The *OECD Social Expenditure Database.*

StatLink http://dx.doi.org/10.1787/888933556520

training (with a quarter of training participants) has been most successful in leading to employment, with 60% of participants in 2012 having a job within a year (OECD, 2016b). However, participation in some programmes (such as the Development and Training Programme, which lasts anywhere from three days to six months) declined sharply in 2015 due to the withdrawal of financing from the European Social Fund. Only 350 people in activation programmes participated in formal education (which lasts one to three years). The retraining conducted by local CSWs is focused on improving clients' social integration, rather than the needs of the labour market. The CSW deals with less immediately employable people and those in crisis situations, including those with difficult personal or social problems (including mental illness and drug addiction).

Though finding work for the easy to employ may have been efficient during a period of high unemployment by placing a maximum number of people in jobs with minimum resources and avoiding spells of long-term unemployment, tackling unemployment of more difficult to place workers now demands greater effort (OECD, 2016b). A "work-first" approach is taken for more employable jobseekers, but other strategies, such as retraining, could be used for the less employable. However, a lack of resources limits the use of other strategies with client-to-staff caseloads too high for individualised counselling. It may also be necessary to alter the skill mix of front-line counsellors to include softer skills such as psychology (OECD, forthcoming). The Labour Market Regulations Act states that benefit recipients from vulnerable groups who have not yet participated in ALMPs should be prioritised, but this may result in employers losing confidence in the ESS's ability to refer high-quality candidates. Nonetheless, older workers and those with low educational attainment continue to have far below-average rates of referral to ALMPs (OECD, 2016b).

There is no incentive for workers to register when they have received notice of termination of employment (workers can even claim payments retroactively), and job-search assistance during the notice period is unpopular with ESS staff due to excessive administration (OECD, 2016b). Those who have lost their jobs have 30 days to register with the ESS and claim unemployment benefit. Re-employment could be accelerated to the benefit of both the highly employable and those that are less immediately employable by the introduction of early activation.

Reducing disincentives for older workers to remain in work

Despite reforms, the social insurance system still offers pathways into early retirement, which also leads to a lack of incentives for workers to pursue life-long learning. The pension system has net replacement rates in the middle range for OECD countries (at 57% for men and 60% for women). However, the average effective retirement age is the OECD's third lowest for women and in the bottom third of OECD countries for men (OECD, 2015b). Recent pension reforms will increase the retirement age for both men and women to 65 (from ages 63 and 61, respectively) by 2020. Moreover, early retirement will still be possible for those with more than 40 years of pension contributions, as in France.

Unemployment and disability insurance offer paths to early retirement. Those aged 50 and over can receive unemployment benefits for 19 months, rising to 25 months for those aged 55 and over (compared to 12 months for the under-50s). In addition, those over 57 do not have to requalify for unemployment benefit after a spell of unemployment and can also gain two additional years of pension contributions while unemployed (if they have under two years left to retirement) (OECD, 2016b). The requirement for those with a disability to undergo vocational rehabilitation also becomes less stringent with age. Those who have lost half their ability to work in their current occupation can receive a disability pension from the age of 55 (without any requirement for rehabilitation) and from the age of 50 for those who cannot work even part-time in their current occupation without rehabilitation. Also, those aged over 45 with the right to a benefit are not subject to mandatory medical checks. In 2015 the number of people receiving a disability pension was equivalent to 8.4% of the labour force (gradually declining from 9.4% in 2006), and the total number of unemployed partial disability recipients has been increasing for those aged 55-59. Ending the link between age and social insurance would remove a work disincentive, enhancing labour market inclusiveness.

As the pension age and length of working lives increases, manual workers may be unable to work efficiently past a certain age. Therefore, the definition of disability should be changed to acknowledge the possibility of changing occupation, and a programme of retraining should be provided before the worker becomes unproductive. Also, there has been an increase in the number of long-term unemployed receiving disability benefit in recent years (OECD, 2016b). The 2016 White Paper on pension reform recommends mandatory rehabilitation should be introduced for those receiving partial disability benefits. The costs of such retraining can be partly offset by the reduced need to pay disability pensions (OECD, 2016b).

Even well-educated older workers retire relatively early, removing both their tertiary skills and work experience from the market. In part, this is because, prior to the 2013 pension reform, those who attended tertiary education needed fewer years of contributions to be eligible for retirement (OECD, 2016b). The result is that Slovenia is an outlier in terms of its retention rate of older workers. Only 18% of those aged 55-59 who were employed in 2009 continued to be employed five years later (the lowest level in the OECD, which averages 44%), and fully a third of people retiring do so via unemployment.

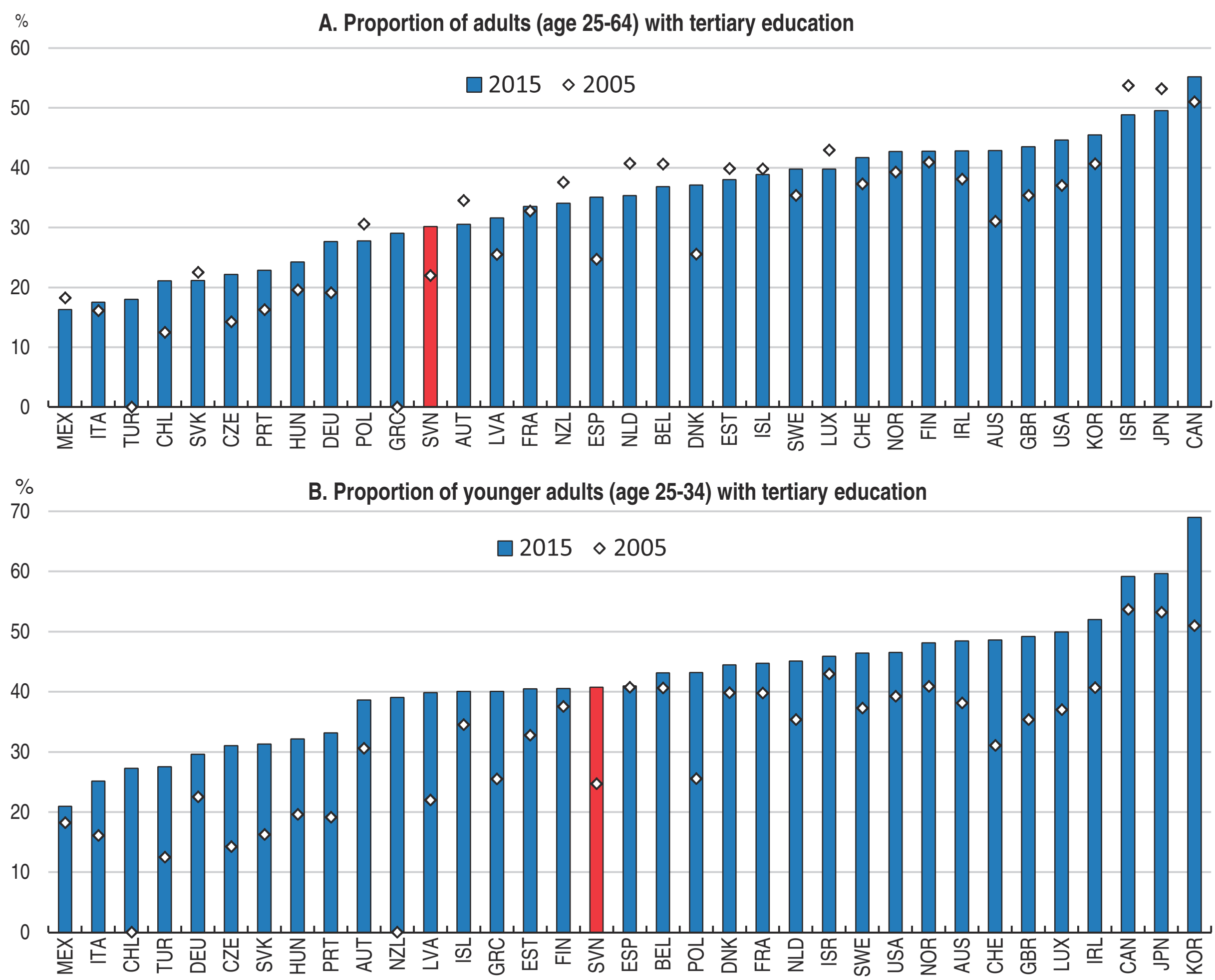
For workers there is little to be gained by working past the age of 60. Although there is a partial retirement scheme, whereby those who have reached retirement age can work part-time and also claim part of their pension, in 2015 this was taken up by only 800 people (or 0.1% of all pensioners). The actuarial compensation for delaying retirement is far from fair: every year worked beyond 60 leads to a 4% cut in net pension wealth (OECD, 2016b).

One possibility for a simpler and fairer system would be to allow those who decide to work past their retirement age to claim a full pension while working. This would have minimal deadweight losses due to the low numbers who work past retirement. The government would also continue to gain tax revenue from their time working past retirement.

Developing and attracting high skilled workers

Slovenia's tertiary education has expanded considerably, and its graduation rates now exceed the OECD average (OECD, 2016c). Tertiary attainment for those aged 25-34 has reached 41%, almost at the OECD average, up from 25% in 2005 (Figure 1.28). Such increases are impressive, but it partly reflects a shrinking youth population (while the number of university places has declined more gradually) and a move to three-year from five-year degree programmes (as part of reforms aimed at EU harmonisation of tertiary education under the so-called Bologna process) (European Commission, 2010).

Figure 1.28. **Slovenia outperforms other CEECs for the share of tertiary graduates**



Source: OECD (2016), *Education at a Glance 2016*, Table A1.3.

StatLink http://dx.doi.org/10.1787/888933556539

Despite a high level of educational attainment, tertiary graduates lack important skills. Slovenian employers are amongst the least likely in the European Union to consider that tertiary graduates have the skills required to work in their company (Eurobarometer, 2010). Moreover, the OECD's PIAAC study of adult literacy shows that Slovenian adults, including graduates, are among the OECD's bottom performers in terms of literacy and are merely average for numeracy (see Figure 1.19). Also of concern, given technological trends, is that although graduates are the most likely in the OECD to use the Internet, email and word processors daily (reflecting the skills needed by employers), they are merely average in their ability to solve problems in a technology-rich environment (see Figure 1.20). As skills gaps relative to other OECD countries tend to be smaller for younger Slovenians, there is also an apparent problem in terms of maintenance and upgrading of existing skills.

Linking courses with employment prospects

A reason for Slovenia's underperformance may be that less is spent on tertiary education than the OECD average, but also that up to 2016 university funding was not linked to employment prospects (OECD, 2016c). Institutions were paid a lump sum per full-time undergraduate student enrolled, ensuring institutions' responsiveness to students' demands, although those demands do not always correspond to labour-market opportunities. Input-based funding also creates incentives for universities to enrol as many students as possible and to ensure they continue in tertiary education, potentially eroding quality. The introduction of the 2016 Higher Education Act has led to a significant fall in the proportion of funding based on the number of students. At end-2016, the funding formula was changed so 75% comes in the form of a fixed amount per institution, and the rest is related to student enrolment and output indicators, such as scientific output, graduates' employment prospects and collaboration with industry. Increasing the share of funding dependent on graduates' labour market performance would help to better align the supply and quality of education with the needs of society. Publishing such labour market scores would help students identify the best institutions in this respect.

Universities' responsiveness to the future job opportunities of their students is also influenced by links with industry. There are good relations between innovative Slovenian firms and tertiary and public research institutions (OECD, 2015a). Some firms also provide scholarships to tertiary students, which can facilitate links and communication between tertiary institutions and firms (Box 1.2). However, these relationships do not translate into firms having an institutional role in influencing skill formation in the tertiary sector. In contrast to upper-secondary level, such ties exist only on an *ad hoc* basis, and, in contrast to higher vocational colleges, there is no requirement to have employers represented on universities' management boards (Eurydice, 2016). Action has been taken to improve links with the labour market as a number of new programmes have been launched, such as the "Creative Path to Practical Knowledge" (*Pokreativni poti do praktičnega znanja*), whereby students take part in small research projects in the corporate sector to gain workplace competencies (Slovenian Human Resources Development Fund, 2015). Over EUR 7.9 million was invested, with 3 400 students participating from 2013 to 2015, though it is too early to evaluate its effectiveness. A next step would be to combine such programmes with student work incentives such as by promoting weekend and summer work with such companies.

Despite the adoption of the "Strategy for the Internationalisation of Slovenian Higher Education 2016-2020", universities' ability to respond to changing technologies and new discoveries is limited by their lack of internationalisation. This has been hindered by resistance from Slovenian academics, particularly with regard to teaching in foreign languages. While the vast majority of academics are in favour of publishing in international journals and using foreign literature, only roughly half are in favour of joint-degree

Box 1.2. **Support for tertiary students**

The Slovenian government offers a range of supports that make it attractive to pursue tertiary education. Tuition is free for full-time students, though annual fees can be thousands of euros for employed part-time students. Acceptance as a full-time student depends on one's Matura results, though as the number of full-time places has been stable while the youth population has fallen, this has become less competitive, allowing a decline in the number of part-time students.

Although there is no system of student loans, various scholarships are offered. Students from low-income families can receive a grant ranging from 840 to 4 320 euros a year (received by 20% of students), with the maximum roughly equal to half the minimum wage, and smaller scholarships are also awarded based on merit (received by 4% of students) (European Commission/EACEA/Eurydice, 2016). Full-time and unemployed part-time students are offered subsidised food and accommodation (in student dormitories), health insurance and travel allowances (European Commission, 2010). Scholarship income up to the level of the national minimum wage is tax exempt (OECD 2017d).

Corporate scholarships also exist whereby firms sponsor a student's education, and in return the student commits to working at the firm (usually for the same duration as they receive support). The student may work at the firm during the summer months and prepare coursework on a topic of relevance to the firm (Slovenian Human Resources Development and Scholarship Fund, 2015). An average of almost 1 000 such scholarships are offered each year (compared to a total student population of almost 80 000). However, not all scholarships are taken up, suggesting stronger wage signals are also needed to attract students into such occupations.

Related to corporate scholarships are "Regional Scholarship Schemes" (which are also available at upper secondary level) which aim to retain young people in regions affected by outward migration. Students typically receive a scholarship of several hundred euros (which is funded 50% by employers and the remainder by the European Social Fund and the Ministry of Labour) and students are required to work for the employed during the summer holidays.

programmes to attract foreign students (Flander and Klemenčič, 2014). The lack of internationalisation has led to Slovenia lagging behind other OECD countries in attracting foreign students (OECD, 2016c). Also, although almost 70% of academics are in favour of attracting foreign scholars to visit their home institution, only half are in favour of offering courses in foreign languages (teaching in foreign languages is not permitted unless the course is also offered in Slovenian) (Flander and Klemenčič, 2014). This restriction effectively limits the hiring of academics to Slovenian speakers. To ensure that students are educated with the latest from the global knowledge frontier and that investors with the latest technology have access to a sufficiently skilled labour force, tertiary institutions should allow foreign academics to teach in foreign languages. An effort should also be made to make it easier for Slovenian academics working abroad to return, as they may lack the network of contacts in Slovenia needed to find a job.

Work experience can develop students' skills

Slovenia has a system of student work that has the potential to help students develop both generic and job-specific skills. Student work is popular with employers, as there is greater flexibility in terms of dismissal (Clauwaert et al., 2016; European Commission, 2016a).

Also, as students do not receive (shift-based) meal or travel allowances, student work addresses the demand for flexible part-time workers. In the past strong incentives for student work have included exemptions from employee and employer social security contributions, regulation and taxation. As a result, 87% of tertiary graduates gained some work experience during their studies (Statistical Office of the Republic of Slovenia, 2017c). However, these advantages have been pared back in recent years: the fee employers pay to student work agencies increased from 14% to 25% in June 2012, and employers have been liable for full social insurance contributions since February 2015 (OECD, 2016b; Clauwaert et al., 2016). There is mixed evidence as to how effective this has been in mitigating this labour market duality, as declines in the temporary employment share of total labour may be because such flexible workers were laid off during and following the recession or reflect labour market reforms (IMAD, 2016; Vodopivec et al., 2016; European Commission, 2016a).

Of the roughly half of students that work while studying (European Commission, 2015), only a third of these report working in a job closely related to their field of study (European Commission, 2015; Hauschildt et al., 2016). Though part-time employment in areas unrelated to a student's course of study is likely to be beneficial for developing inter-personal and general work skills, this can be pursued outside of a student work scheme. Indeed, student work can crowd out low-skilled workers from low-skill jobs and lead to labour market duality, and there is little to be gained in giving students a hiring advantage over non-student lower skilled workers. As Slovenia is currently phasing out the special student work regime, this should be combined with measures to remove obstacles to flexible part-time employment (such as meal and travel allowances, discussed above).

Aligning students' incentives with employment prospects

There are strong incentives to pursue tertiary education, including free tuition and scholarships (Box 1.2). However, part-time students and those older than 26 are generally excluded from financial support (though full-time students receive free tuition regardless of age), reducing life-long-learning incentives for employees who wish to upgrade their skills (European Commission/EACEA/Eurydice, 2016). In large part due to such low private costs, the pre-tax pay premium required for an individual to recoup the costs of their tertiary education over their remaining years in the workforce is the second lowest in the OECD (at 9% compared to an unweighted OECD average of 15%). The social rate of return on education is high as, due to the high tertiary wage premium the discounted future taxes collected by the government are on average roughly 60% greater than the costs of providing education, the sixth largest gain in the OECD (Figure 1.21 above; OECD, 2017d).

The generosity of education supports, which are not linked to a student's progress, means that there are strong incentives to pursue tertiary education for its own sake, not only for future expected returns. In contrast, in other countries the incentives to pursue tertiary education are more closely aligned with market signals such as wage premia (OECD, 2017d). Generous support combined with high youth unemployment due to the weak economy has led to 57% of Slovenian 20 year-olds being enrolled in tertiary education, the third highest in the OECD, and to one of the lowest completion rates, with an estimated 47% of students completing their course (OECD, 2016c). Despite the available support, it is questionable whether the poorest get the support they need: only 16% of those with native born parents without upper secondary education complete tertiary education, compared to an OECD average of 23% (OECD, 2016c).

Restricting education support to those aged under 26 means that only 6% of new entrants to tertiary education are over 24, compared to the OECD average of 18%. From 2005 to 2014 enrolment rates for 30-64s actually halved, at a time when they were increasing on average in the OECD. While full-time undergraduate education is over-subscribed (and rationed according to a student's Matura results; see Box 1.2 above), part-time courses – attractive for employees – are undersubscribed. This can be explained by the fees (in the range of thousands of euros) that part-time students must pay. Instead, raising the age-limit at which support is withdrawn would allow young Slovenians to delay pursuing tertiary education until they are more certain of which course they wish to pursue and facilitate upgrading of occupational qualifications later in life.

Access to tertiary education would be improved by rebalancing the system of support. The equalisation of tuition fees for full-time and part-time courses would allow the reduction of fees for those who are in employment and wish to pursue part-time tertiary studies. Increased provision of needs-based scholarships could be used to help maintain equitable access to education. Tuition fees would also incentivise students to complete their studies on time and to give greater consideration to future career prospects. A student loan scheme (with income-contingent repayment) should also be introduced to help students cover the new tuition fees and the costs of living away from home.

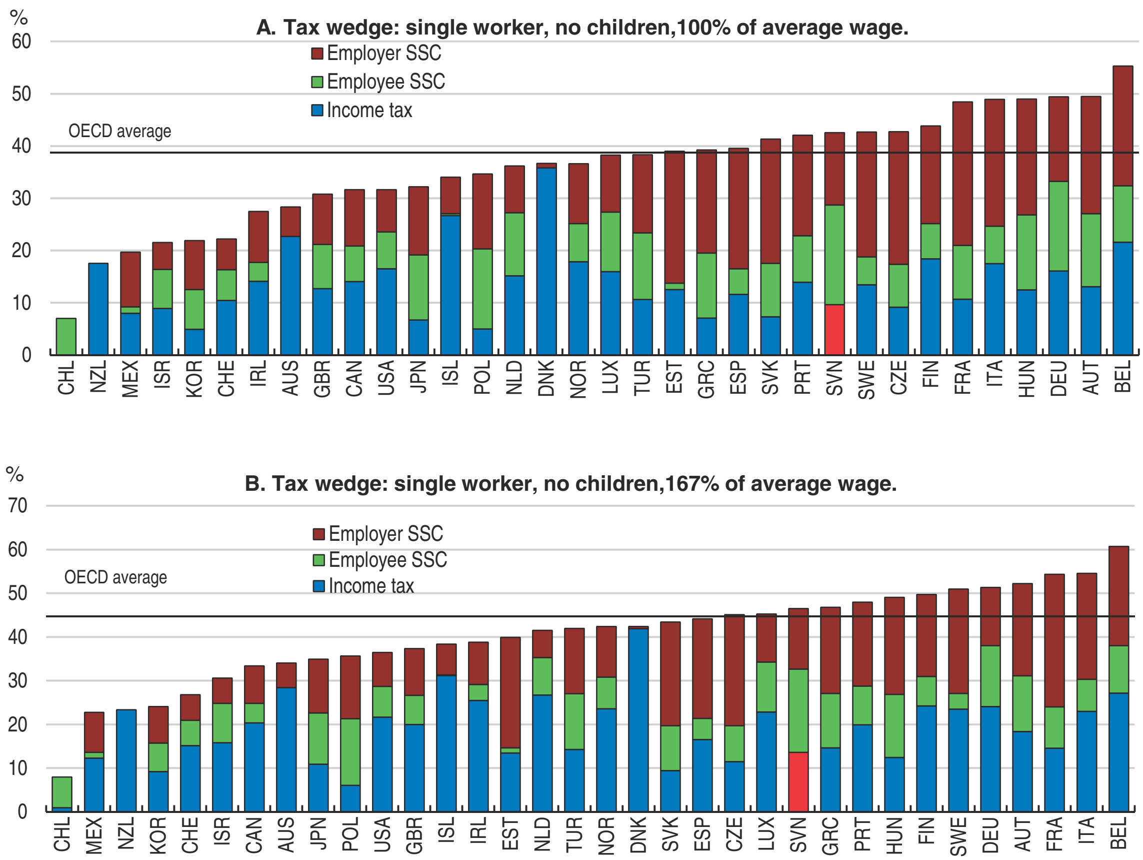
Retaining high-skilled workers

Proximity to Italy and Austria makes international commuting an option for Slovenian workers, while Slovenia receives 3000 daily international commuters (0.4% of total employment), half of whom come from Croatia (Statistical Office of the Republic of Slovenia, 2017d). Slovenia has a relatively large share of foreign born residents (16.5% of the population compared with an OECD average of 12.6%) in part due to previous migration waves resulting from the breakup of the Yugoslavia (OECD, 2017e). However, such migration waves were not linked to the skill needs of Slovenia. In 2015 more tertiary educated people left Slovenia than arrived, with emigrants (mainly Slovenian citizens) more likely to have a tertiary education than immigrants (who are mainly foreign citizens) (Statistical Office of the Republic of Slovenia, 2016). In some important occupations, such as doctors, the emigration is to a large extent offset by immigration as Slovenia hosts a greater share of foreign-trained doctors (14% of all doctors) than France or Germany. However, almost 80% of these doctors come from the former Yugoslavia, suggesting that Slovenian's attractiveness to high skilled workers is due to linguistic similarities, cultural familiarity, and difficulties such migrants have in accessing the EU labour market (OECD, 2017f).

To the extent that migration is circular (whereby Slovenians migrate and gain new skills, before returning) it can be beneficial. However, despite migration being largely balanced in 2015 (with net inward migration of only 500 people), approximately 8,700 Slovenian citizens emigrated with only 2,800 returning (OECD, 2017e). Return may be deterred by the inflexibility of hiring practices in Slovenia, which favour those who remain in the internal labour market, rather than gain experience abroad.

Slovenia has high personal tax rates which may hamper the possibility to attract and retain high skilled workers. The employee social security rate (22.1%) is second highest in the OECD (after the Netherlands) and the top marginal tax rate (61.1%) is also the second highest (after Portugal), with employers' social insurance lying in the middle range of OECD countries (OECD, 2016e). Although the size of the tax wedge depends on family type and income level, compared to other countries it is burdensome for mobile childless single workers. The wedge is higher in western neighbours (Austria and Italy) and Germany (a major destination for Slovenian migrants) although the negative effect is offset by higher wages (Figure 1.29).

Figure 1.29. **The tax wedge for single workers is large (2016)**



Source: OECD, *Taxing wages database.*

StatLink http://dx.doi.org/10.1787/888933556558

A progressive tax system can reduce the ability of investors to attract and retain highly skilled internationally mobile workers. However, how the government distributes the burden of taxation between average workers and the high-skilled influences their relative willingness to remain in Slovenia. In 2016 it introduced a tax-neutral policy package that cut personal tax rates (from 41 to 39% on income between 48 400 and 70 907 euros, while a new 34% tax bracket for incomes between 20 400 and 48 000 was introduced, though the top marginal rate remained unchanged at 50%) and increased the relatively low corporation tax rate (from 17to 19%). Although the reduction in personal tax is welcome, further measures should be taken to reduce the top marginal tax rate (funded by increases in property, green and consumption taxes, which are less inimical to growth; Johansson et al., 2008).

Main recommendations for upskilling to encourage investment

Helping workers avail themselves of employment opportunities

Key recommendations

- Improve general skills of vocational students through use of problem-based learning, combined with retraining of teachers.
- Raise the work-experience content of technical programmes.
- Increase training to help long-term unemployed to re-enter the labour market, including through a change in career.

Other recommendations

- Conduct an audit to investigate the advantages of four-year technical programmes rather than general education programmes.
- Ensure VET schools intensify links with foreign firms, particularly those located in FDI source countries.
- Extend the permitted duration of opt-outs from sectoral agreements for local social partners, and broaden the set of valid reasons for using them.
- Replace tax benefit for travel and meal allowances with a universal tax credit.

Promote longer working lives and life-long learning

Key recommendations

- Distribute adult training vouchers or provide tax credits to increase workers' training opportunities.
- Eliminate the legal requirement that wages increase automatically with age.
- Harmonise the maximum duration of unemployment benefit across age groups.

Other recommendations

- Introduce rehabilitation requirements for the disabled that are independent of age.

Develop and retain highly educated workers

Key recommendations

- Link university funding to students' labour market outcomes.
- Equalise tuition fees for full and part-time students on a per course basis, coupled with grants and loans for those from poor families.

Other recommendations

- Remove the restriction that tertiary-level courses taught in a foreign language must also be taught in Slovenian.
- Reduce the top marginal personal income tax rate.
- Raise the age at which financial support for tertiary education is withdrawn.

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Chapter 2

Product market reforms to boost growth

Using regulation and competition to foster competitive firms to bolster productivity growth is crucial for achieving the Development Strategy's objective of creating added value with competitive and globally integrated firms. Policy settings that promote a strong regulatory and competitive environment will reward innovation and foster the introduction of new technologies to meet the needs of Slovenians. As a result, firms would have strong incentives to invest, which is key for raising productivity – the essential long-term determinant of higher living standards. Slovenian firms suffer from a high regulatory burden and the competition authority has been under-used for both policy formulation and enforcement. The still sizeable role of state-owned enterprises limits the development of competitive markets.

The aim of the Slovenian Development Strategy is to create a faster growing and more inclusive economy with competitive globally integrated firms to secure continued improvements in the income and well-being of Slovenians. Achieving this would accelerate income convergence *vis-à-vis* richer OECD countries and broaden tax bases, thus making good on social promises, in particular to future retirees and contributing to the financing of age-related spending pressures. An increase in long-term inclusive growth hinges on faster productivity gains through investment in physical and human capital, which would in turn move the economy towards international best practise, strengthening connections to global trade, improving the use of workers' skills and bolstering the application of knowledge-based capital (Saia et al., 2015).

To this end, the government is working on enhancing the business environment by improving the simplicity, predictability and transparency of regulation, and promoting investment opportunities, including privatisations and inward FDI (Government, 2016). The creation of a more competitive environment will reward investment in innovation and new technologies. In addition, new firms introduce innovative technologies and business models, a process often referred to as disruption. As a result, resources are shifted to faster growing sectors. This boosts productivity and creates new jobs, raising real incomes and consumer welfare through lower prices and wider choice. Both effects will help to achieve the Development Strategy's goals. This chapter starts with an assessment of the current setting of policies affecting business, including direct regulation of activities and tax policies. Then it considers the role of competition policies, before discussing the role of state-owned companies. The chapter ends by considering the role of network sectors in terms of their support of downstream markets.

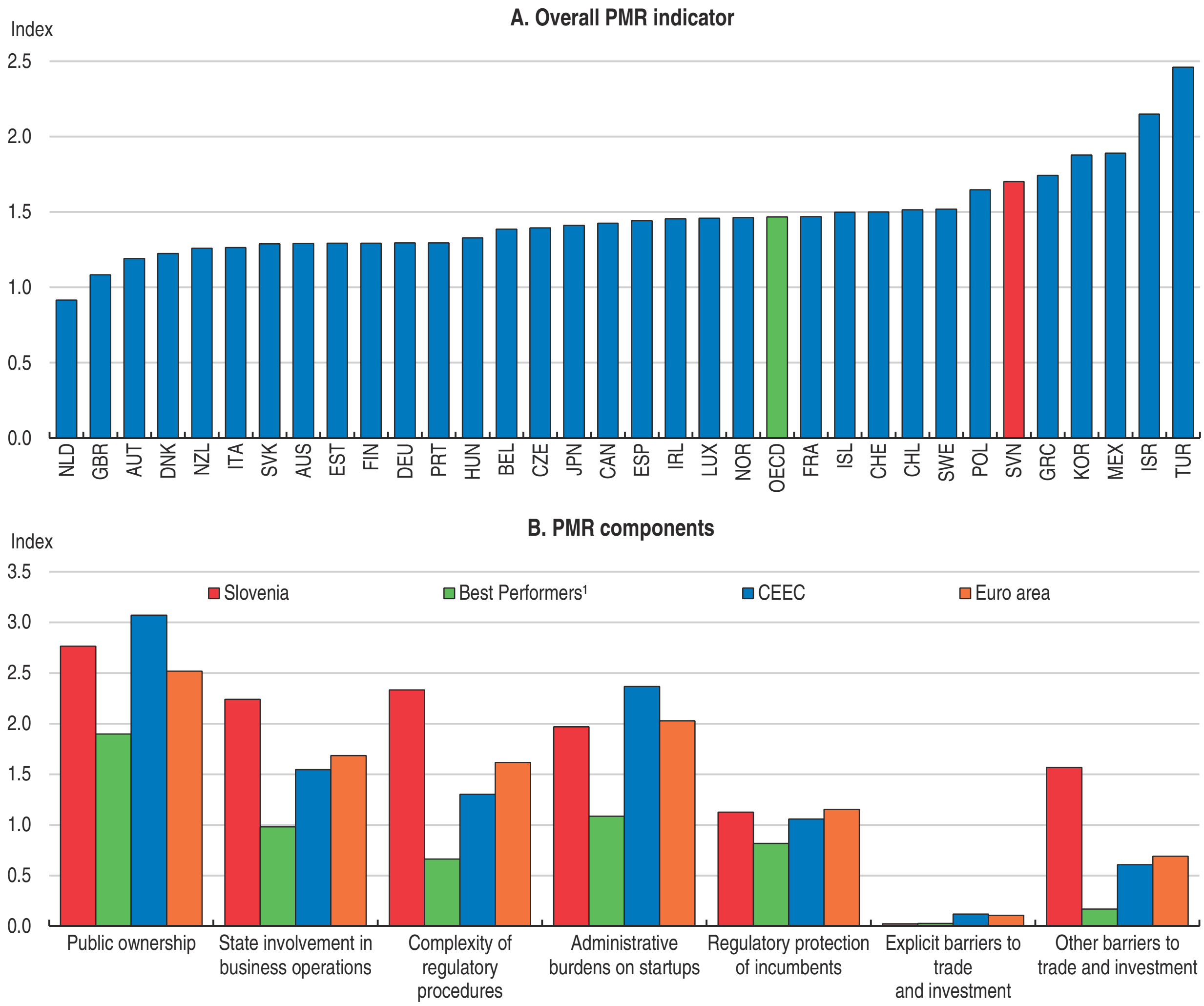
Strengthening the regulatory environment

The regulatory environment has a number of strengths. It is cost-free to start a new business; it takes a few working days and involves only two procedures, while winding up insolvent firms is less costly than many other European countries (World Bank, 2017). Border compliance procedures are also very short. Another positive feature is relatively good protection of minority shareholders, reflecting an improvement in overall legal shareholder protection from among the weakest in the OECD in 1990 to a position among the best – a development that has partly been driven by harmonisation with European law (Katelouzou and Siems, 2015).

Nonetheless, the World Bank's *Doing Business* report ranks Slovenia 30th out of 189 countries, behind many other European countries (World Bank, 2017). Moreover, the OECD's product market regulation indicator shows that Slovenian firms are faced with a relatively large administrative burden (Figure 2.1). In particular firms have to deal with relatively complex regulatory procedures, such as licenses and permit systems as well as onerous administrative burdens and protection of incumbents (Koske et al., 2014). An additional concern is changing regulation and a lack of co-ordination across policies, especially in terms of the impact of new measures on competition, which creates regulatory uncertainty and

Figure 2.1. **Businesses face a relatively high regulatory burden**

Product market regulation indicator, Index scale of 0-6 from least to most restrictive, 2013



1. The simple average of the five countries with the best scores on each indicator is shown.

Source: OECD PMR indicators database.

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increases compliance costs that weigh on business investment. Since the publication of the OECD PMR indicator in 2014, privatisation has reduced government involvement, though additional regulation has been introduced in retailing.

Dealing with construction permits is cumbersome and time consuming – problems that reappear for obtaining electricity, registering property, getting credit, paying taxes and enforcing contracts. Other concerns involve long delays in transferring property, high capital requirements and complex systems of licenses and permits (European Commission, 2015a). A sign of the increasing legal complexity of the regulatory framework is that over the past quarter century there has been more than a doubling of relevant laws and an eighteen-fold increase in other regulation, including bylaws (Tax-fin-lex.si, 2016).

Additional concerns highlighted in the World Competitiveness Scoreboard are corporate governance (particularly of state-owned companies) and a lack of openness to foreign ideas and of flexibility for dealing with new challenges (IMD, 2016). Moreover, the BEEPS V survey identifies additional obstacles to conducting business as frequent political changes, cumbersome tax administration and a lack of access to finance, although the latter issue has eased with the unwinding of the domestic banking sector crisis (EBRD, 2016a).

Reducing regulatory burdens could yield considerable economic benefits. OECD calculations show that the actual progress achieved in structural reform between 2008 and 2013 can be expected to increase the level of GDP by 1.3% over a 10-year period (OECD, 2015a). If the regulatory stance could be aligned to that of the top five OECD performers, the future gain could be up to three times greater, while reducing public ownership and state involvement in business operations to the best performers' level could yield a further long-term GDP payoff of more than 2% (Koske et al., 2014).

Strengthening the framework for formulating regulatory policy

The government has instigated a flurry of regulation-reducing initiatives across a wide set of policy areas. In 2013 it adopted the so-called Single Document comprising 250 measures to reduce administrative burdens of which two years later more than half had been implemented, although with substantial variation across ministries (European Commission, 2016). Measures to make building permits and spatial planning more business friendly, particularly by accelerating the process, were presented in Parliament in mid-2017.

In mid-2016, in the context of the Single Document, the government launched the "SME test" which requires that new laws be assessed for their impact on businesses, especially SMEs, a measure that could address the issues of poor co-ordination arising from new measures often involving a large number of agencies (European Commission, 2015d). The test is being implemented and will require the regulation-issuing institution to provide information via the Internet. The underlying programme will subsequently calculate qualitative and quantitative impacts on SMEs' cost of doing business proxied by legal certainty, unfair competition, black economy activities, productivity and competitiveness, employment creation, working conditions and investments in R&D.

The Ministry of Economic Development and Technology is responsible for oversight of the SME test implementation and the Ministry of Public Administration offers technical support and training, while both ministries offer training. In addition, the Ministry of Economic Development and Technology has implemented a network of local "one-stop" shops. Moreover, In addition, the Ministry of Public Administration is implementing a national one-stop business portal (eVEM) for enterprise registrations and online portals for information and e-services. All these measure aim to reduce time and administrative costs.

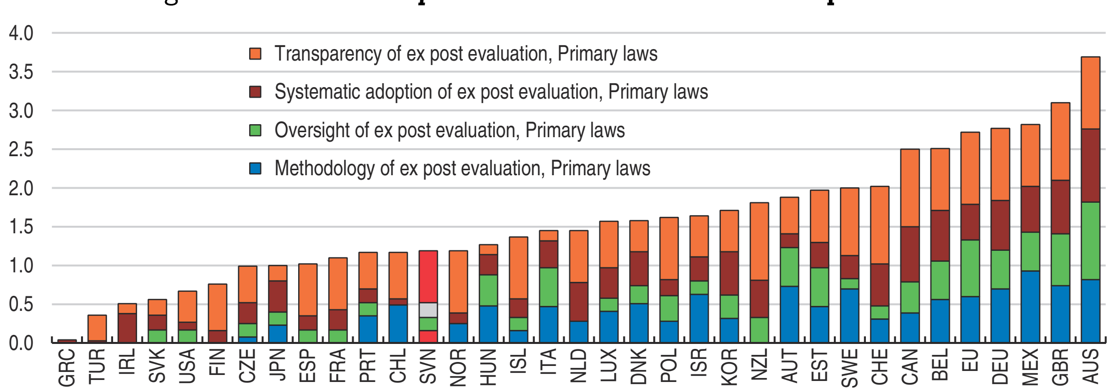
The National Reform programmes for 2016-17 and 2017-18, which were presented to the European Commission alongside the Stability Programmes, list a number of upcoming initiatives to reduce administrative burdens and the costs of doing business (Government, 2016 and 2017). Better regulation will be pursued by making regulatory impact assessment (RIA) obligatory for new regulation through the implementation of a system for the preparation of electronic documents (MOPED) (Government, 2016). Faster resolution of administrative matters and a reduction in delays are expected to result from an information platform and a Content Management System, including an expected reduction in the number of public websites, combined with a single point of contact for firms. The cost of tax compliance is to be reduced with simplified tax procedures via a review of the Tax Procedure Act and the introduction of new legislation for excise duties and customs regulation (Government, 2016).

Slovenia has a formal framework for setting regulations that follows best practise, including obligatory RIA for all primary legislation. The impact assessment requirement has been in place since the mid-2000s, but a broad methodology for doing this is still being developed, and full RIAs have rarely been done in practice. Additionally, less than 10% of RIAs include any quantified economic impacts, although regulators have started including a descriptive analysis more often. Moreover, *ex post* evaluation is not widely used. The drafting ministry is responsible for the assessments, leading to a significant variability in quality, and assessments often include only qualitative or incomplete assessments (OECD, 2015b). This is because there is no single body to control the quality of ministerial drafts. Indeed, oversight is mostly with respect to formal aspects, such as in terms of legal quality and of whether a RIA has been conducted rather than in terms of quality control of the conducted analysis.

Furthermore, less than half of current stakeholder engagements meet the standards set out in the administrative Rules of Procedure. Stakeholders are consulted on new legislative proposals, but they often lack sufficient time to respond, particularly when new measures are implemented under urgent proceedings. This problem concerns both public-sector stakeholders, such as the competition authority (see below), and others, such as SMEs (European Commission, 2015d).

Currently, regulations promulgated under an "urgent" procedure must be reviewed after two years, but in practise few are. *Ex post* evaluation of policies and regulations is vital in ensuring that they have their intended effects and are cost-efficient. Moreover, such evaluations can form the basis for refining policies and regulations. Again there is no agreed methodology for carrying them out (Figure 2.2). Conferring *ex post* evaluation responsibilities on a single authority to co-ordinate and monitor ex-post evaluation as well as provide methodological support and training would promote policy coherence and cost-efficient regulation. Indeed, a more comprehensive system of ex post evaluation is planned.

Figure 2.2. **Formal *ex post* evaluation could be developed further**



Note: The composite indicator covers four main areas of formal evaluation rules: i) transparency in terms of open evaluation processes and the ability of stake holders to engage in the process; ii) systematic adoption in terms of formal requirements to include proportionality, institutional arrangements and different types of ex post evaluations; iii) oversight in terms of the functions in place to monitor ex post evaluation and whether they are made public; and iv) methodology shows what assessments are used in ex post evaluations, such as cost benefit analysis, achievement of goals, legal consistency and if guidance is in place for implementing the methodology. Each component can take a value from zero (worst) to one (best), and the maximum aggregate score for the composite indicator is therefore four.
Source: 2014 Regulatory Indicators Survey results, *www.oecd.org/gov/regulatory-policy/measuring-regulatory-performance.htm*.
StatLink *http://dx.doi.org/10.1787/888933556596*

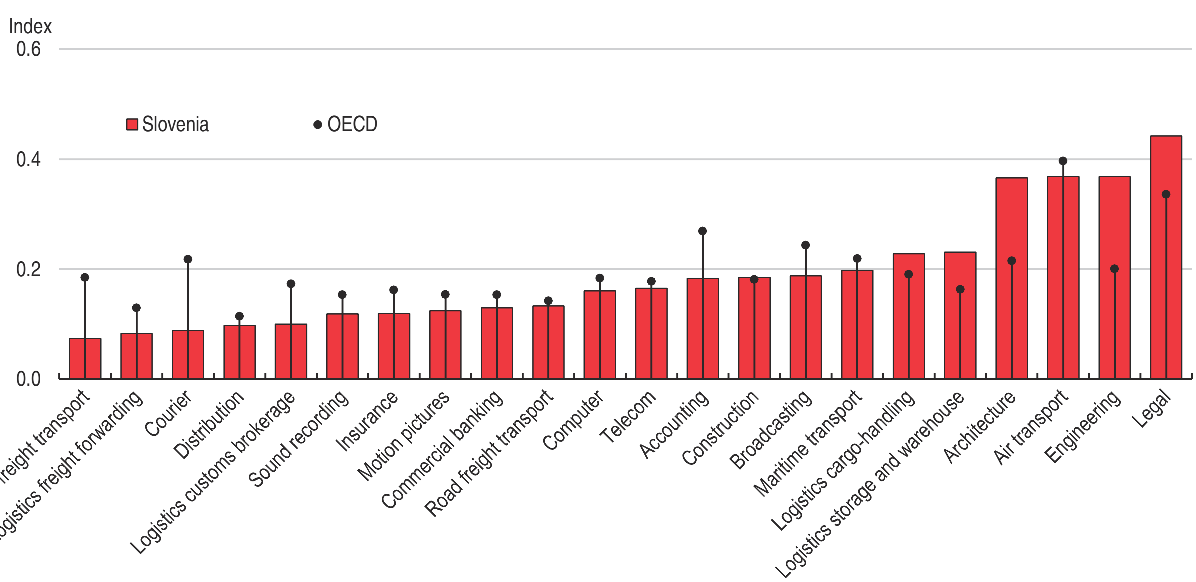
A single authority to develop a common RIA framework and undertake quality control of ministerial drafts (include *ex post* evaluation) would enhance the value of RIAs. A further improvement would be to have mandatory time limits for commenting by stakeholders and their early involvement in drafting of proposals. These measures could address the issue that the existing framework is often not used in policy design, leading to regulatory uncertainty in the form of unclear decision making and frequent regulatory changes. Such uncertainty has a negative effect on business investment incentives in general, but particularly for inward FDI.

Attracting inward FDI

Entry of foreign firms can promote competition and therefore productivity-enhancing investments. However, in Slovenia this effect is somewhat restricted by regulation and heavy government involvement in the economy (see below). In some sectors foreign firms are prevented from participating in public tenders, such as in transport services. Also, foreign firms that find themselves subject to restrictive business practices can press charges only through the courts, rather than through the competition authority or trade policy bodies (Koske et al., 2014).

Slovenia's restrictions on services imports are generally at or better than the OECD average (Figure 2.3). However, restrictions are particularly high in in professional services (legal, architectural and engineering services), and somewhat higher than average in in some aspects of logistics. As argued elsewhere in the chapter, opening up professional services would increase productivity, and reducing restrictions on trade in such services should be a key part of such a strategy. The restrictions in logistics may erode Slovenia's position as a major transit country as such a position is best maintained through the competitive provision of transit-related services.

Figure 2.3. **Services trade restrictiveness is high in some areas, 2015**[1]



1. The Services Trade Restrictiveness Index (STRI) components take values between zero and one, one being the most restrictive.
Source: OECD Services Trade Restrictiveness Index database.

StatLink http://dx.doi.org/10.1787/888933556615

Foreign investors have perceived an absence of a consistent and well targeted FDI strategy as a key barrier to investing in Slovenia (European Commission, 2016a). Looking forward, the government's 2015-20 FDI strategy aims at attracting investment in areas where Slovenia is perceived to have a comparative advantage. In general, a good business environment will boost FDI. Moreover, attracting FDI could also be facilitated by relatively simple-to-implement measures. The publication of investment opportunities (including long-term privatisation plans) would allow foreign investors to develop multi-year strategies (European Commission, 2016a). Privatisation that untangled the web of state ownership and company cross-shareholdings could help to avoid perceptions of cross-subsidisation and help create a level playing field, thereby stimulating FDI and new market entry.

Better spatial and environmental regulation to support investment

A major obstacle for business investment, and particularly for new entrants that would like to establish new production sites, is the time-consuming process for obtaining building permits. Investors have to complete a number of steps to obtain a building permit and lengthy procedures for environmental permits. The difficulties are amplified by the limited administrative capacity of government agencies dealing with permit issuance and a cumbersome spatial planning process, reflecting the lack of simplifying procedures, such as a "silence is consent" rule (European Commission, 2016a). Indeed, not all municipalities have yet developed local spatial plans, despite the obligation to do so in 2007 legislation. In addition, the process of obtaining building permits is prolonged by inconsistencies between local spatial planning and unclear national rules on permitted land use (European Commission, 2015b).

In mid-2017, the government proposed to accelerate the planning process by introducing fast-track procedures for small-scale business and for enlargement of existing production sites as well as a simultaneous issuance of construction and environmental permits (Government, 2016 and 2017). In addition, investors will be granted temporary rights for land use and construction without the need to purchase the land, reducing legal and investment risks. Moreover, the issuance of standard environmental permits will be centralised. A governmental spatial council is envisaged for conflict resolution in case of inconsistencies and disputes. To further the processes, municipalities could be allowed a larger part of the economic gains associated with greater business investment through a higher land-use tax on commercial property or by having a stake in the associated increase in income tax revenues. An additional constraint on economic development is the fact that more than a third of the country is designated as Natura 2000 protected areas – a larger share than in any other EU country.

Streamlining the process of rehabilitating failing firms

The orderly exit or restructuring of failing firms is important to stimulate investment and promote allocative efficiency by shifting resources to more valuable activities. Since the onset of the international financial crisis, few firms have exited and the share of "zombie" firms – older companies that have persistent problems in meeting their interest payments – has increased (Adalet McGowan and Andrews, 2016; OECD, 2016b). Most of this increase is among private enterprises, with zombies reaching a share of 2½ per cent of all such firms. However, almost 10% of SOEs can be characterised as zombies. Zombie firms hold back business investment because they do not have the resources to invest themselves and their presence makes it more difficult for other, more efficient, firms to enter with negative effects for capital allocation and multi-factor productivity (Andrews et al., 2016; OECD, 2017c). Policies should be directed at securing competitive markets to wind up non-viable firms and facilitate the restructuring of troubled but viable firms. An efficient bankruptcy regime is key in this regard.

Slovenia's insolvency framework was considered to be among the least efficient in the European Union, reflecting the favouring of some types of creditors as well as long and complex restructuring proceedings (Carcea et al., 2015; European Commission, 2014a). A particular concern was that creditors lack incentives to rehabilitate viable firms, as they may file only for liquidation and not restructuring; many other jurisdictions, such as France, Germany, Italy, the United Kingdom and the United States, offer both options (World Bank, 2016). In addition, preferred debt holders (tax authorities, employees, secured and commercial creditors) are not participants in possible restructuring plans. Managers, on the other hand, have incentives for seeking restructuring as the incumbents are retained during the proceedings (Carcea et al., 2015). Moreover, insolvency proceedings take about two years to conclude, which was identified as a factor behind the rise in non-performing loans (European Commission, 2015a; OECD, 2015a and 2015c).

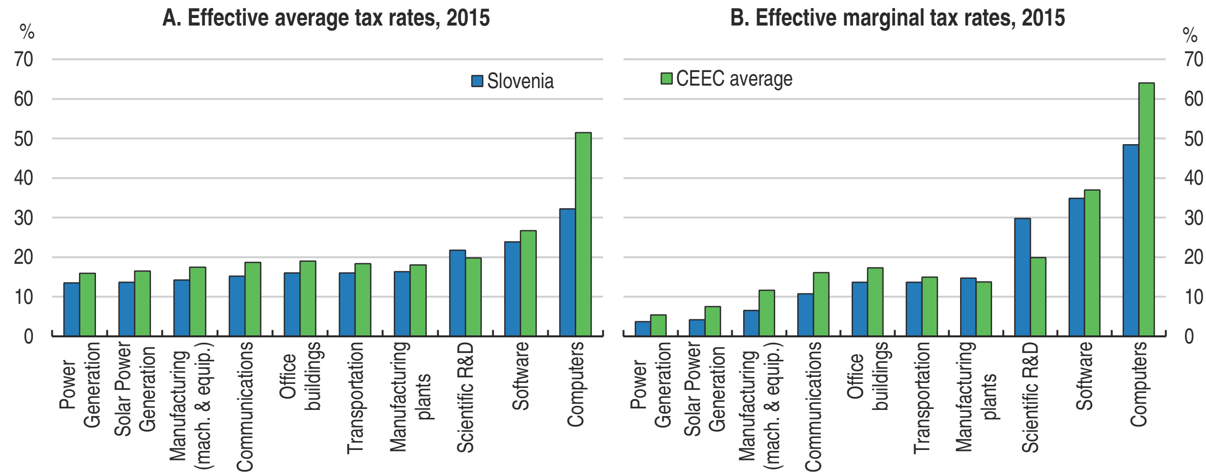
In 2013 the insolvency law was amended to in key ways (European Commission, 2014b). It now includes preventive restructuring proceedings for larger firms that are likely to become insolvent, giving debtors three to five months to reach an agreement with three-quarters of the creditors that can be sanctioned by the courts. The amendment broadened the simplified compulsory settlement proceeding to include micro and small companies. The prerequisites for the simplified proceedings were streamlined. And the role of the courts was rationalised. Measures have also been taken to improve the effectiveness of commercial and civil justice to reduce the large backlog of pending cases. In 2016 additional legislation to further improve insolvency proceedings was passed by parliament (the seventh amendment within a decade), including by shortening the judicial part although it is too early to assess the impact of the latest change (Government, 2016). Nonetheless, progress includes a sharp reduction in the length of insolvency proceedings to less than one year and a significant increase in the recovery rate to nearly 90% (World Bank, 2017).

Best practice for corporate insolvency regimes includes a number of elements, including having a clear triggering mechanism for: a) starting proceedings sufficiently early; b) supporting rehabilitation of viable firms (such as measures to prevent hold-outs by minority shareholders) and speedy liquidation of non-viable-firms; c) discouraging strategic behaviour by creditors and debtors (including well-designed voting rights and regulation to prevent strategic defaults and asset transfers prior to insolvency); and d) encouraging out-of-court settlements (OECD, 2016b). For Slovenia, the main measures should focus on: reducing the involvement of the courts; enabling firm restructuring by easing restrictions on dismissals; and introducing early warning mechanisms to favour early action.

Making corporate taxation less distortive

The statutory tax rate on corporate income of 17% was increased to 19% in late 2016, still among the lowest in the OECD. This low rate is an incentive for FDI. However, taking into account typical tax features such as depreciation and investment tax credits to promote investments, the average effective rates (which are what affects the decision whether to locate in Slovenia) are a bit lower than the statutory rate for most types of investment, but considerably higher for investments in knowledge-based capital, such as computers, R&D and software (Figure 2.4; OECD, 2016c). Marginal effective tax rates (affecting the decision whether to expand activity in Slovenia) are also high on knowledge-based investments. This tax bias against knowledge-based investment may hamper activities that are high-productivity and that could help Slovenia integrate further into global value chains.

Figure 2.4. **Effective tax rates on different types of investment**



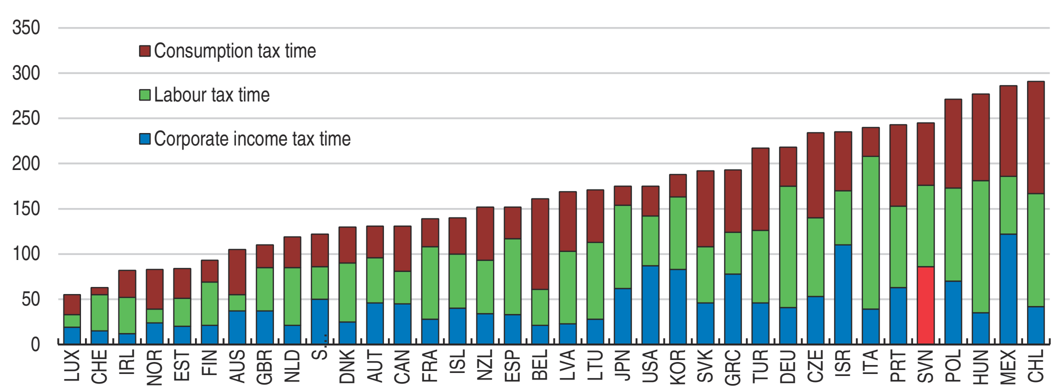
Source: OECD (2016), "Effective Tax Rates: Model Application and Policy Analysis", CTPA/CFA/WP2/NOE2(2016)24.

StatLink http://dx.doi.org/10.1787/888933556634

The frequent changes in business taxation combined with a lengthy administrative tax compliance process, which, together with an overly burdensome tax system and the biases in effective tax rates, reduce investment incentives (European Commission, 2015b) (Figure 2.5). Foreign investors are in a more difficult position to deal with these complications, which is likely to hamper the transfer of new technologies and products. The government should mitigate these biases in the tax system by reducing the gaps in effective tax rates across types of investment by removing biases in rules governing depreciation rates and investment tax credits.

Figure 2.5. **Compliance time for paying taxes is relatively long**

Compliance time for paying taxes in hours



Source: World Bank, *Doing Business 2017*.

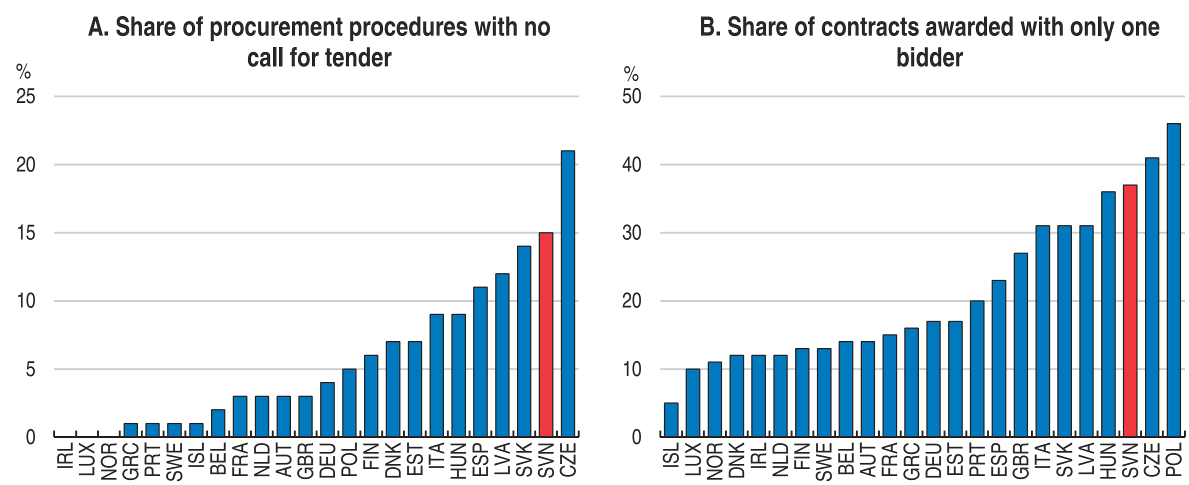
StatLink http://dx.doi.org/10.1787/888933556653

Promoting competitive outcomes in public procurement

The importance of an efficient public procurement process is underscored by the fact that Slovenia is eligible for EU structural funds of nearly 1½ per cent of GDP each year over the 2014-20 funding period. These funds finance about a quarter of public investment in the supported areas (European Commission, 2016a). Structural funds are facilitators of economic growth and business investment. They are dedicated to the development of key infrastructure and the promotion of less developed regions. A key for enhancing their use is that government-financed public infrastructure investment complement EU structural funds, particularly by promoting agglomeration effects in high-growth areas, including upgrading secondary and tertiary road networks (see below).

Better public procurement procedures would increase the efficiency with which EU structural funds are used. A prime issue is that a relatively high share of procurements either has no calls for tender or has only a single bidder, implying relatively little competition (Figure 2.6). Other problems in this area have included frequent revisions of the public procurement law, leading to an increase in legal uncertainty (European Commission, 2016a). There are also many legal appeals, contributing to delays in project implementation, relatively long court proceedings and a large number of unresolved cases (European Commission, 2015b).

Figure 2.6. **A large share of public procurement is not subject to competitive tendering, 2016**



Source: European Commission, Single Market Scoreboard, *http://ec.europa.eu/internal_market/scoreboard/performance_per_policy_area/public_procurement/index_en.htm.*

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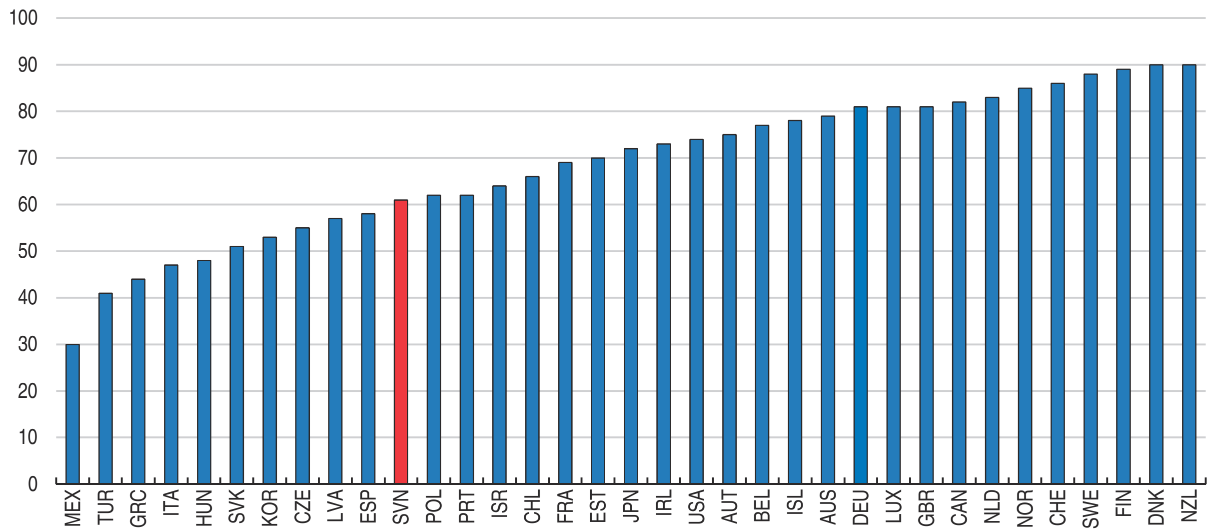
The quality of investment can be undermined by corruption, and although corruption is hard to measure directly, it is perceived to be high in Slovenia (Figure 2.7). Surveys suggest that bribing public servants is less frequent than in other countries in the region but still costs about 1% of business sales (EBRD, 2016b). At the same time, other indicators suggest a higher general level of corruption than in other EU countries (World Bank, 2016). In any case the economic cost of corruption is sizeable. The bribing of officials increases capital misallocation, which is estimated to reduce annual growth of capital by 0.6 percentage point and of labour by 0.2 percentage point. Under simplifying assumptions eliminating all such bribery would could increase annual (total factor) productivity growth by 0.2 percentage point (Gamberoni et al., 2016; Melitz and Polanec, 2015). Recent OECD work shows more directly a positive growth effect from reducing corruption (OECD, 2017d).

The European Union has taken measures to improve the use of its structural funds, including imposing *ex ante* conditionality on projects and thresholds for when projects have to be subject to competitive tendering. However, these measures have not been complemented with a Slovenian national strategy to secure a competitive tendering process

Figure 2.7. **Perceptions of corruption**

Scores from 100 – least corrupt – to 0 – most corrupt, 2016



Source: Transparency International – *www.transparency.org*.

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(OECD, 2016g). At the national level individual measures have been taken. In 2014 public procurement was centralised in the Public Procurement Directorate (PPD) (now under the Ministry of Public Affairs) in response to concerns about the management of European Structural and Investment Funds (European Commission, 2015c). The PPD is responsible for procurement policy development and harmonisation, training procurement officers, conducting government-wide purchases and implementing an e-procurement system to supplement an already extensive use of the Internet by businesses to interact with public authorities (OECD, 2015f). In addition, the European Commission is providing technical assistance to ensure implementation of best practice.

Vulnerabilities to bid rigging and corruption in public procurement processes remain, however. Contracting authorities in line departments outside the PPD do not receive specialised training in designing bids or detecting potential bid rigging – training that is in place in some other OECD jurisdictions and is part of the OECD's recommendations on fighting bid rigging in public procurement (Box 2.1). The PPD, in co-operation with the competition authorities, should provide procurement officer training for detecting bid rigging and designing tenders to minimise these risks, based on OECD Guidelines.

Clear lines of oversight are also necessary to ensure effective monitoring of public procurement for potential bid rigging. The PPD has limited visibility over all public procurement activities in Slovenia, although the e-procurement system may address this by enhancing procurement data accessibility. A comprehensive internal database covering all procurement contracts is essential to create an internal tracking system that can strengthen the PPD's oversight function. In addition, such a database should be available to the competition authority to enhance its capacity and efforts to fight bid rigging. For example, the competition authority could adopt a screening system to improve monitoring, such as that implemented by the Korea Fair Trade Commission's Bid Rigging Indicator Analysis System (OECD, 2016d).

Box 2.1. Examples of guidelines and training on preventing and detecting public procurement bid rigging

Chile's Competition Authority has issued guidelines and checklists for preventing and detecting bid rigging in public procurement, including a detailed, step-by-step recommendation chart on what should be done by public procurement officials when they encounter suspicious patterns in tendering.

The Greek Competition Commission has guidelines for detection and prevention of collusive practices in procurement tenders for procurement officers, written in non-technical language with examples and references to case law.

The Italian Competition Authority (ICA) has developed a handbook with tips and advice to public procurement officials to help them identify bid rigging.

The Latvian Competition Council's webpage includes a section on bid rigging with both national and the OECD Recommendation's Guidelines. The Council also provides information on how to act when there is suspicious behaviour, which may indicate collusion, as well as regular training on detection of bid rigging at regional level and for large public entities.

The Swedish Competition Authority has issued a brochure and a checklist on fighting bid rigging as well as web-based interactive guidance for companies wishing to collaborate in procurement.

Source: OECD (2016), *Report on implementing the OECD recommendation on fighting bid rigging in public procurement.*

The PPD prioritises transparency as a tool for preventing bid rigging in public procurement. While clear goods and services definitions are required for tender design, the OECD's Public Procurement Toolbox checklist emphasises the importance of avoiding predictability in public procurement. In particular, price data should be made publicly available for winning bids in line with European Commission procurement directives, but information on the prices of losing bids should not be released, as that could reduce the intensity of competition among bidders and facilitate collusion.

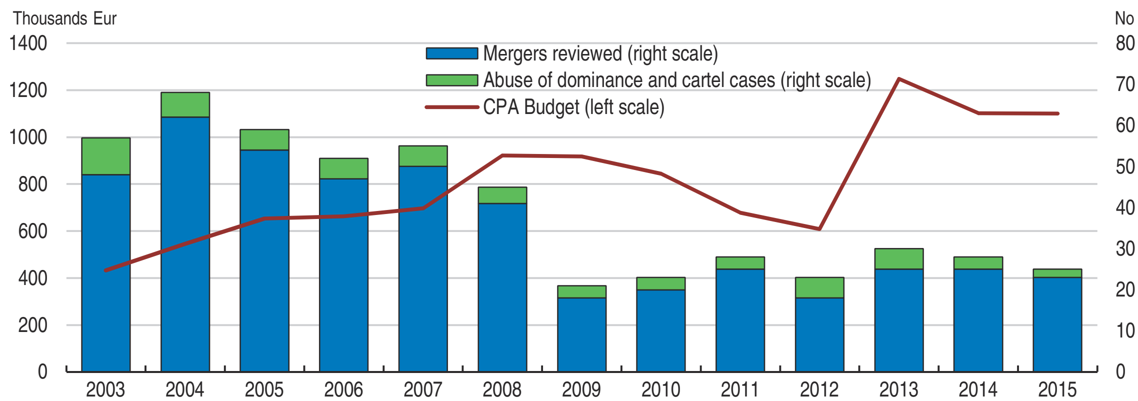
Spurious review claims from unsuccessful bidders have imposed a significant burden on Slovenian procurement officials. To minimise these claims Slovenia could place certain limitations on the right to remedies, consistent with EU procurement directives (Directives 2014/23/EU, 2014/24/EU and 2014/25/EU) (OECD/SIGMA, 2015). For example, suppliers that have been excluded from the procurement process at the earlier stages of an award procedure (initial selection stages) could be denied the right to challenge decisions taken at the later stages of a procedure (award decisions).

Strengthening competition enforcement to boost productivity

A well-functioning competition law and policy framework is important to secure a level playing field and lower barriers for firms wishing to enter markets. Competitive markets stimulate firms to become more efficient by continuously investing in new products and technologies to keep ahead of competitors at the same time as new entrants introduce new technologies. This market dynamic raises productivity and, by increasing choice and reducing prices, consumer welfare (OECD, 2014).

Slovenian competition law is modelled on EU regulation with some additions. Most of the CPA's caseload involves merger reviews. Competition enforcement cases (against abuse of dominance and cartelisation) are quite scarce (Figure 2.8). Limitations on CPA independence were addressed in 2014 when it was moved out of the Ministry of the Economy and a provision was added to the competition law to prevent undue political influence. An additional independence measure was the creation of a five-person competition council appointed to fixed five-year renewable terms by the National Assembly. However, the CPA's budget is still set by the Ministry, which is also responsible for supervising its work and operation, although it is not permitted to access individual case files or influence the CPA's decisions. To further secure the CPA's independence and operational freedom, it should be financed through a stand-alone budget and follow the example in most other OECD countries (such as Hungary, France, Germany and Mexico) by reporting directly to parliament through their annual reports.

Figure 2.8. **The competition authority has had relatively few competition enforcement cases, 2003-15**



Source: The Slovenian Competition Protection Agency.

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The lack of financial independence makes it difficult for the CPA to secure sufficient resources and allocate them to priority areas. Currently it has 24 full-time-equivalent employees, including seven lawyers and ten economists. While the CPA's budget increased significantly in 2013, staff levels are low when compared with other small OECD countries (Table 2.1). The shortage of expertise is reflected by the fact that less than half of the economists have sufficient training and experience to undertake independent case work. Indeed, staff are often seconded from other line ministries, implying a lack of specialised competition knowledge or of a long-term career orientation toward competition enforcement. Resources are further stretched by the CPA's new task of monitoring compliance with new rules on supplier and purchaser conduct in the food industry. Indeed, such tasks, as with other industrial regulation, are more appropriately attributed to a regulatory body with sector-specific expertise.

A sufficiently large, well-trained and specialised staff is essential for the effective enforcement of competition laws and competition advocacy, pointing to the need for expanding resources and creating independent career paths for staff at the CPA. Resource challenges are compounded by the CPA having been headed by an acting Director since January 2016. A credible, outspoken and independent Director with a fixed-term contract is necessary for securing a well-functioning competition authority that can intensify enforcement, promote competition advocacy, and, if needed, guide legislative reforms to the Competition Act.

Table 2.1. **Competition resources are relatively low, 2015**

Country	Non-administrative staff focused on competition in 2015	Population
Finland	51	5 465 000
Latvia	38	2 041 111
Lithuania	42	3 162 609
New Zealand	83	4 509 760
Slovenia	17 (current)	2 061 623

Source: Global Competition Review Ratings Enforcement for 2015; OECD Stat.

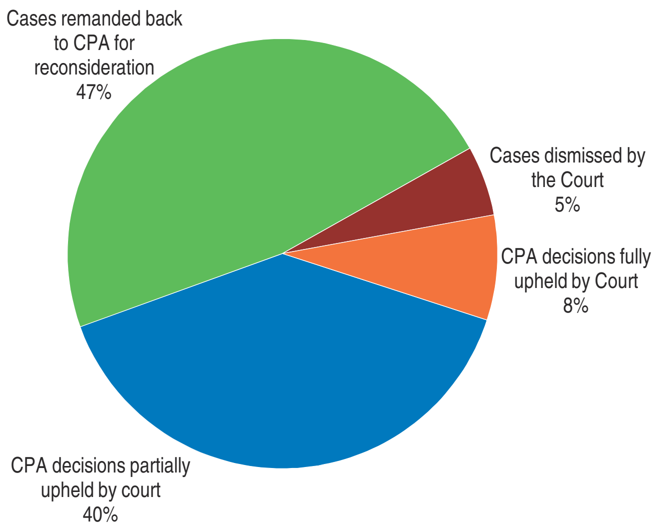
A stronger profile and advocacy role for the CPA could also play a role in focusing Slovenia's disparate consumer protection policies. In addition to the Chief Market Inspectorate, 25 market inspectorates are tasked with monitoring compliance with a range of regulatory policies (such as labour, health and environmental regulations). Some of the inspectorates are also responsible for protecting consumers. However, there is no consistent approach to such protection. Despite the CPA's role in safeguarding consumer welfare and the inspectorates' gathering of valuable market intelligence, there is limited co-ordination and information-sharing between them. Consolidating the market inspectorates, and particularly their consumer protection functions, could improve consistency and exploit economies of scale and scope in monitoring. More important for increasing consumer welfare would be to secure systematic co-operation and exchange of market information between the CPA and the inspectorates to identify and exploit synergies.

The CPA has had limited enforcement success: in 2014 only three of the CPA's 38 decisions (a single case may count for several decisions) on mergers and anti-competitive conduct that were reviewed by the courts were fully upheld (Figure 2.9). Of the nine fines it imposed for anti-competitive conduct since 2009, four have been overturned by the courts, generally on procedural grounds. This weak enforcement record also means that there is a lack of deterrence, consistent with the fact that no applications for leniency have ever been made.

This weak enforcement record is partly due to the resource shortages, but also to significant procedural challenges arising from the CPA's two-step procedure for enforcement cases involving anti-competitive conduct, a process that is not found elsewhere in the OECD. First, a case has to be taken through administrative proceedings to establish whether a violation has taken place. If so, the CPA can issue an order to the involved parties to cease the conduct in question, and the parties may offer commitments to address the violation. Decisions can be appealed to the administrative court, whose decisions may then be appealed to the Supreme Court. Upon successful conclusion of the first step, the CPA may, as a second step, decide to issue a fine for anti-competitive conduct in so-called minor offence proceedings. The company can be fined up to 10% of global turnover and individuals between EUR 5 000 and 30 000. Fines can be appealed to the district court, rather than the administrative court, whose decisions may then be appealed to the Supreme Court. Court appeals during both steps of the CPA's enforcement actions often turn on procedural issues, rather than factual or analytical issues regarding the infraction. In addition, criminal cases can also be filed against violators in certain circumstances, but no such cases have been accepted by prosecutors to date.

The two-step procedure separates the penalty-setting process from the assessment of a potential violation, which creates a duplicative administrative burden for CPA staff and

Figure 2.9. **Court review of CPA merger and anti-competitive conduct decisions in 2014**



Source: The Slovenian Competition Protection Agency.

StatLink http://dx.doi.org/10.1787/888933556729

may impose unnecessary costs on parties under investigation while prolonging proceedings. Further, the fact that administrative and minor offence proceedings are reviewed by two different courts increases administrative legal barriers to effective enforcement, while imposing significant burdens on judges and extending the length of proceedings. The procedural challenges should be addressed by consolidating the two-step procedure into a single process to improve certainty, efficiency and timeliness of enforcement procedures. A single court of review (including the granting of permission for dawn raids – see below) would permit more effective capacity building by concentrating competition cases on fewer judges who could expand their competition expertise. These efforts could benefit from assistance from institutional partners such as the European Commission and the OECD.

Additional procedural hurdles are adding to the CPA's enforcement challenges, including a relatively short statute of limitations period (five or ten years) for minor offence proceedings that starts with the beginning of the offence – e.g. the cartel's establishment – which could exempt older cartels from enforcement efforts and/or shorten the time available to the CPA to investigate them. In addition, a third set of courts are involved in obtaining dawn-raid orders (i.e. separate from those reviewing administrative and minor offence decisions), increasing procedural delays and reducing their effectiveness. Relatively low limits for fines on individuals further dull the effectiveness and deterrence value of the CPA's actions. A comprehensive assessment of procedural barriers to effective competition law enforcement should be conducted, potentially with the assistance of an OECD peer-review process.

The CPA is in the process of implementing the European Commission's Private Damages Directive, which will permit parties harmed by anti-competitive conduct to seek compensation from the responsible entities. While private damages laws can be an effective deterrent to competition law violations, the Directive contemplates private damages proceedings as a complement to follow competition authority enforcement actions, rather than a substitute. As a result, the benefit for damaged parties, and to competition in Slovenia more generally, from the implementation of the Directive will be minimal until stronger enforcement efforts are in place.

Merger review is, as in other OECD countries, based on the assessment of whether a transaction significantly impedes competition, including via the creation or maintenance of a dominant position. The notification requirements include a revenue threshold, as is common practice in OECD countries, but also a market share threshold. Its specific wording creates legal uncertainty, as it is unclear whether the burden is on undertakings to notify the CPA of all concentrations that may result in a greater than 60% market share or whether a pre-notification is required. As a result, the CPA reviewed an additional 26 mergers from 2011 to 2015 that it eventually determined were not subject to the Competition Act's merger provisions, underlining the degree of uncertainty that exists among market participants and the resulting burden it places on the CPA (OECD, 2015e). This provision could be clarified, for example by adding a revenue threshold below which no transaction would need to be notified, and pre-notification contact between the CPA and merging parties could be enhanced to prevent unnecessary filings.

More focus on competition advocacy to improve regulation

The CPA is mandated to identify regulatory restrictions on competition and to send an opinion, which is published, to the responsible authority on measures to eliminate them. The CPA is also permitted to provide comments on proposed laws or regulations, either on its own initiative or at the request of a public body. However, in cases where the CPA has provided feedback, it has had a limited impact on current and proposed legislation. This may be due to the fact that the CPA is often given a very short deadline for providing comments (as little as 72 hours). Moreover, it is not actively involved in the formulation of new regulations and policies. For example, it has not been involved in the government's assessment of regulated professions, nor has it been consulted in connection with the design of the privatisation programme. In both cases a competition perspective should be a guiding principle, which could benefit from the application of an established competition assessment methodology. In addition, the CPA has issued only a small number of market studies, including of the food industry and the fuel market, that touch on regulatory restrictions to competition, reflecting a lack of adequate resources. Such market studies are important to identify competition concerns and to enhance the CPA's capacities and profile.

Enhancing the framework for regulatory advocacy is important to ensure that competition concerns are more widely identified and addressed. This could be achieved by requiring the introduction of mandatory (and sufficiently long) notification by public entities of proposed legislative changes to the CPA. In addition, the public entities should be required to publicly respond to CPA concerns. Moreover, there should be a systematic use of competition assessment methodologies, such as the approach set out in the OECD's Competition Assessment Toolkit (OECD, 2017a). The CPA should also actively publish its opinions on current or proposed regulations through public means, including regular market studies, and its competition assessments should be part of all public actions that may affect competition, such as privatisations.

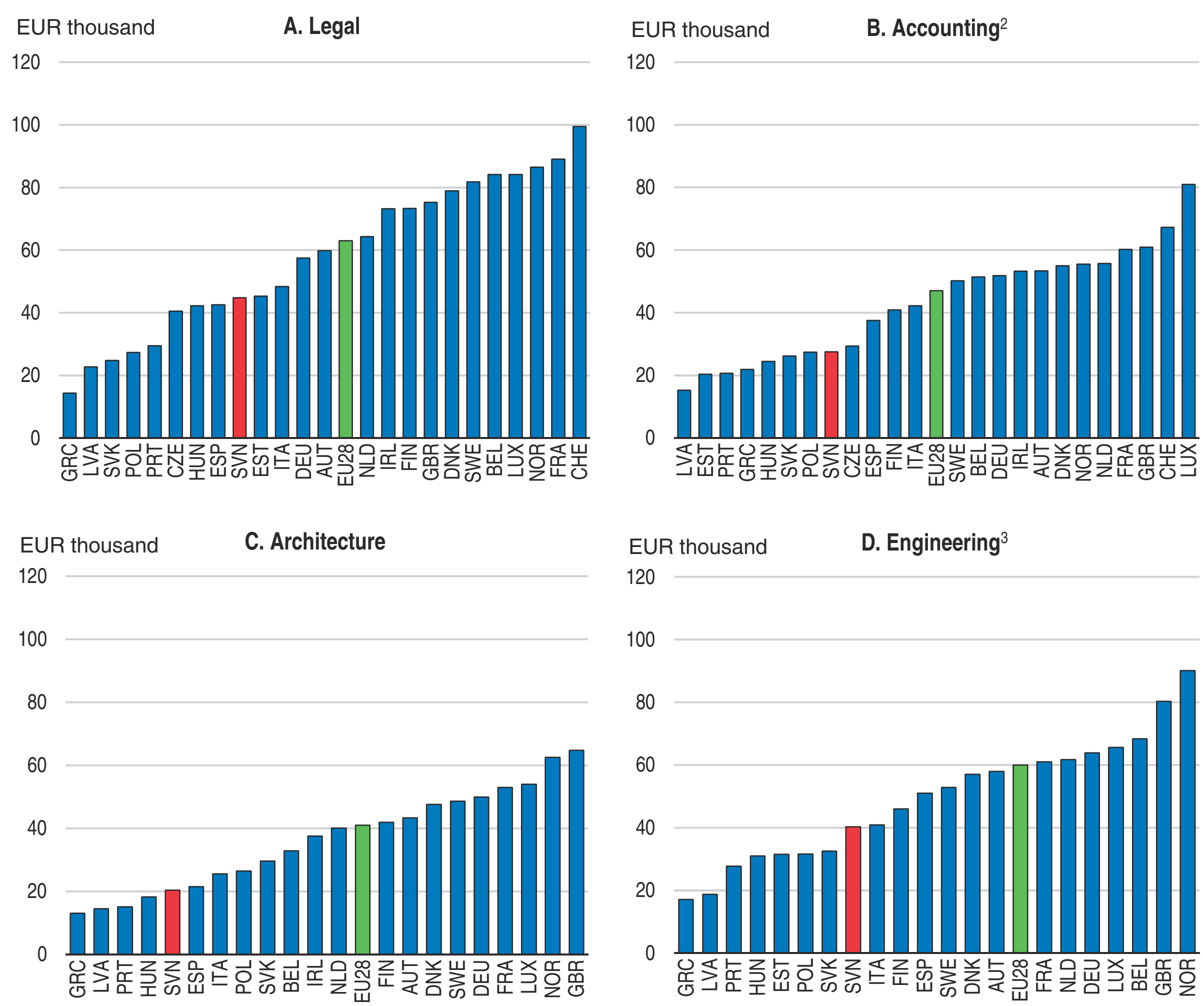
Less restrictive regulation of regulated professions to promote entry

The high entry barriers in business and professional services come in the form of significant educational requirements (university and specialised degrees, such as the state exam for tourist guides), long compulsory practical training (for example nine years for lawyers and with mandatory continuous professional development requirements for real estate agents), obligations to register in chambers, restrictive systems of concessions (for example tourist guides, patent/trademark and real estate agents benefit from reserve of activity and protection of title, whereas other EU countries tend to use only one of the two) and nationality requirements (lawyers and real estate agents) (European Commission, 2015b and 2017; OECD, 2015a).

In all, the Ministry of Labour lists 220 regulated occupations (albeit down from 324 in 2010) more than in most other EU members. One study of 135 of the regulated occupations estimated that they covered 11% of all employed individuals, (Koumenta et al., 2014; European Commission, 2015d). Moreover, real value added per employed person tends to be relatively low, which is likely to reflect, among other factors, lower productivity in the professions compared with most other EU member countries (Figure 2.10). This leads to higher prices for downstream production, reducing investment incentives and thus slowing

Figure 2.10. **Real value added in professional services is low**

Gross value added in thousand euros per person employed, PPPs, 2014[1]



1. 2012 for Ireland.
2. Accounting, bookkeeping and auditing; tax consultancy.
3. Including related technical consultancy.

Source: Eurostat, "Structural business Statistics – Services", *Eurostat Database*.

StatLink http://dx.doi.org/10.1787/888933556748

the move up the value chain. Reducing entry barriers would improve incentives to invest in new technologies in professional services, and the resulting higher value services would further bolster business investment incentives in downstream production.

In 2012 a programme for deregulating and simplifying access conditions in a number of professions was put in place. The government plans to extend this programme to include both some of those professional services that were covered in the 2012 measure (including construction and tourism), and new occupations, such as funeral parlours, chimney sweeping, real estate agencies, driving schools and legal professions (Government, 2016).

Looking ahead, the government should formulate a comprehensive national action plan in this area, as required by the EU mutual evaluation exercise (European Commission, 2017). This plan should include a sharp reduction in the number of regulated occupations to, for example, less than 40 as is the case in the best performing OECD countries – the Baltics and Sweden (Koumenta et al., 2014). Moreover, regulation that is not related to consumer protection, such as nationality requirements, should be removed. In addition, lighter regulation could be used, such as by reducing the length of required professional experience and easing territorial restrictions (notably used in health services, such as for pharmacies and general practitioners). Lighter regulation could also replace mandatory with voluntary registration in professional bodies, or, instead of reserving an activity for a certain group of professionals, focusing regulation on protection of professional title (European Commission, 2015d). The latter could be used, for example, to allow lawyers to perform notary services. Such a process could be guided via a structured approach to identify distortive restrictions, such as that used in the OECD's Competition Assessment Toolkit.

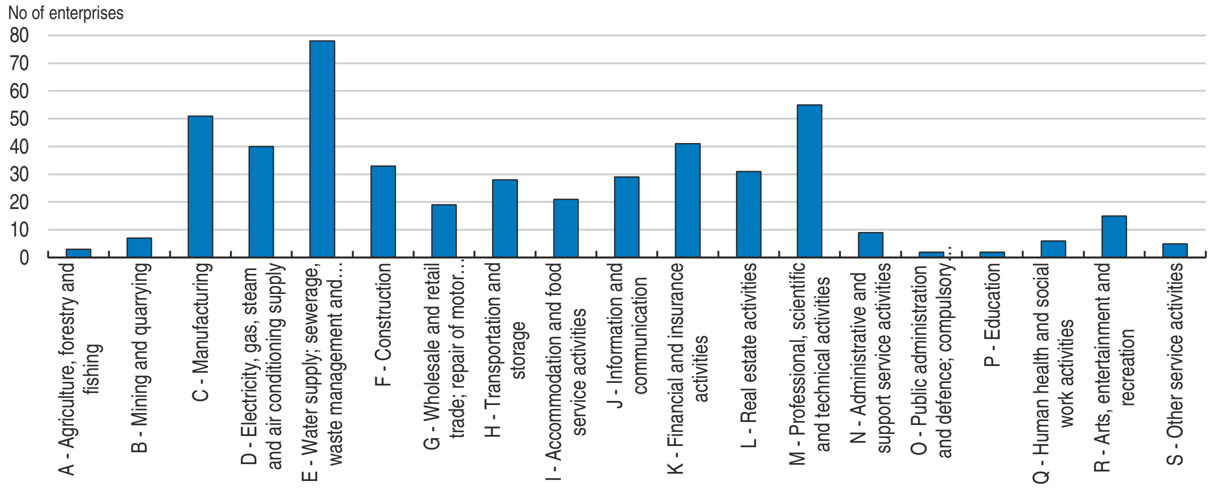
Improving the focus and governance of state-owned enterprises

The state is heavily involved in the economy through the nearly 650 (fully or partly) publicly-owned enterprises (SOEs) (including those owned by municipalities and subsidiaries) with nearly 100 000 employees (about 20% of employment in the non-financial sector), making the state the largest asset manager (with a third of total corporate assets) and corporate debtor (with a third of total corporate debt) in Slovenia (European Commission, 2015e). SOEs are found in most of the economy, with dominant positions in network sectors and significant market shares elsewhere, including in mining, consumer products, tourism, postal services, financial services and manufacturing (Figure 2.11). Public ownership is found in many sectors from which other governments have withdrawn (Ivanc, 2015). Furthermore, the scope of SOEs has expanded following the recent establishment of Slovenian Forests with the aim of stabilising the market for wood products and strengthening the forest and wood product chain (Government, 2016).

By mid-2017, nearly 100 SOEs were owned directly by the state. In addition, many of these SOEs have a large number of subsidiaries. The resulting conglomerates tend to be vertically integrated within their sector, but can also be horizontally oriented as they spread their activities over different activities and neighbouring countries. The high degree of public ownership together with strong government involvement in business operations is reducing the scope for business investment and hindering foreign firms' entry into domestic markets (OECD, 2016a). In addition, it may contribute to the public's perception of limited opportunities for entrepreneurship (Figure 2.12).

Between 2007 and 2013, the Slovenian SOEs significantly underperformed private firms across Europe in terms of productivity and profitability – a sign of distorted resource

Figure 2.11. **There are publicly owned enterprises in all sectors**



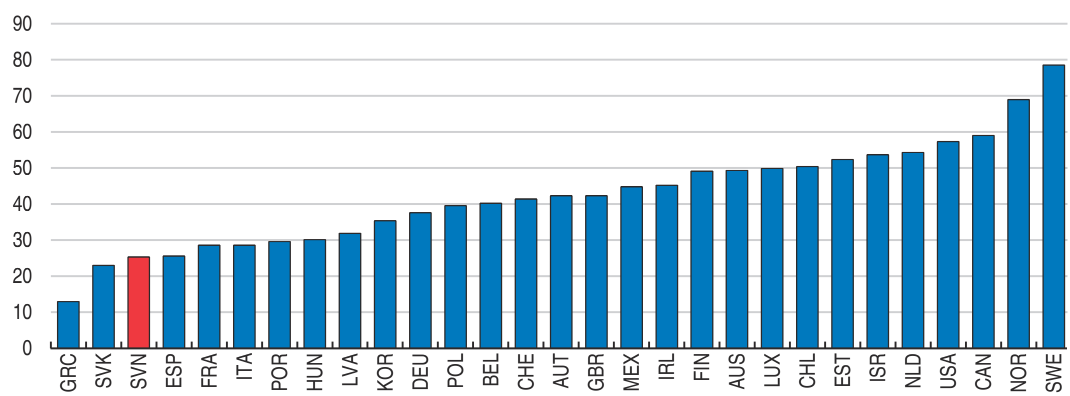
1. Not all SOEs are included. The reported figures are companies with direct equity shares held by SSH (Slovenian Sovereign Holding) or the Republic of Slovenia, and their subsidiaries as well as a number of companies owned by municipalities.

Source: Slovenian Sovereign Holding (*www.sdh.si/sl-si/upravljanje-nalozb/seznam-nalozb#* – February 2017); ORBIS data base.

StatLink *http://dx.doi.org/10.1787/888933556767*

Figure 2.12. **Slovenians have very low perceived opportunities for entrepreneurship, 2016**

% of 18-64 population who believe they have the required skills and knowledge to start a business



1. The GEM Adult Population Survey (APS) measures the level and nature of entrepreneurial activity around the world. It is administered to a representative national sample of at least 2 000 respondents.

Source: Global Entrepreneurship Monitor (GEM).

StatLink *http://dx.doi.org/10.1787/888933556786*

allocation (European Commission, 2015b and 2014b). Slovenian firm-level data show that SOEs have lower labour and multi-factor productivity than private enterprises (OECD calculations based on Adalet McGowan et al., 2017). Moreover, SOEs are less international in their outlook than similarly sized private companies, focusing on domestic markets where they often have dominant positions (Hobdari et al., 2011). Growth is further impeded by the SOEs' effects on product market competition, either through their often dominant positions or when they cross-subsidise activities in competitive markets. In addition, the political risks that are associated with SOEs may act as an entry barrier. An example of misallocation of resources is that since the start of the international financial crisis SOEs have invested more than similar private firms, but without achieving a corresponding increase in profits (Ivanc, 2015). Stronger corporate governance in SOEs is needed to counter such undesired behaviour.

SOE corporate governance was consolidated with the 2014 establishment of Slovenian Sovereign Holding (SSH), which took over most of the ownership and management responsibilities of SOEs by merging nearly all state funds – only the state pension fund (KAD) remains separate, controlling 12 directly owned SOEs. The OECD's Corporate Governance Committee considers this measure to be an important step forward in improving SOE corporate governance (OECD, 2015g). SSH's performance is measured against a set of financial targets, including profitability and completed privatisation.

In addition, the financial crisis led to increased state ownership, with the creation in 2013 of the Bank Asset Management Company (BAMC) to absorb EUR 5 billion of bad loans from state-owned banks and to take over a number of highly indebted private firms and public-private partnerships that were transformed into SOEs. State ownership of these companies is expected to be temporary, as the BAMC's mission is to sell them to private investors at the highest possible price by 2022 (originally 2018) (OECD, 2015a; BAMC, 2016). The time extension allows for an orderly privatisation process, although at the cost of a slower return of productive assets to the market, with negative consequences for growth and tax revenues. Indeed, asset management companies tend to be less successful in corporate restructuring than in recovery (OECD, 2015a). Bearing this in mind, the government should refrain from further extending the term of BAMC.

In 2015 the book value of SSH's portfolio was nearly EUR 12 billion (a third of GDP). The SSH's shareholdings are divided into three classes of investment: a) strategic investments, where the state's shareholding has to be above 50% (66.4% of the portfolio); b) important investment with a required state holding of more than 25% (18.4% of the portfolio) – in some cases accompanied by a requirement that no other investor has a larger stake; and c) portfolio investment that can be fully privatised (including half of the directly owned SOEs, with a book value of 15.2 % of the portfolio).

In 2013 an initial privatisation list of 15 companies was drawn up, effectively restarting the privatisation process (Box 2.2) (European Commission, 2014b). Since then, there have been 18 successful privatisations (of which half involved sales of stakes of less than 15%) totalling EUR 400 million (SSH, 2017a). Currently, the priority is to sell 20 more companies, including minority stakes in firms producing car parts, repair tools, and cable TV and gambling services (SSH, 2016). In all, the privatisation commitment amounts to 1% of the

Box 2.2. **Privatisation after independence**

Privatisation started in the mid-1990s with the privatisation laws allocating shares according to a formula under which workers would receive 20%, the Development Fund 20% for further sale, the National Pension Fund (the predecessor to KAD) 10%, and the Restitution Fund 10% (for settling claims arising from post-1945 nationalisation). The board of directors or the workers' council could decide whether the remaining 40% should be sold to workers (the internal method) or through a public tender (the external method). By 2000 the majority of small and medium-size SOEs had been sold to state funds, investment funds, managers and workers. Later, many of them bought out the state and investment funds. Control over the large firms was principally in the hands of state and investment funds (Domadenik et al., 2016). In the large SOEs there was political selection of supervisory board members. Later a capital investment management agency was created to make the selection process more transparent, although in practical terms that appeared to change little in the way of corporate governance, and the agency was abolished in 2011.

portfolio (European Commission, 2016). Moreover, the many indirectly held SOEs are outside this framework (EC, 2016). The most important planned privatisation is of the largest 100% state-owned bank, which has to be sold by end-2017 to meet the European Commission's state aid criteria, although the government asked in early 2017 permission to postpone the privatisation deadline. In May 2017, the intention of an initial public offering, comprising half of the bank, was announced. However, some offerings have received no bids, pointing to ongoing privatisation problems.

The SSH's mandate is to obtain the best possible sales price as well as to pursue non-financial objectives, such as company development, job preservation, maintaining head offices in Slovenia, respecting collective agreements, maintaining the use of the Slovenian language and the timely inclusion of employees' representatives in the privatisation process (Government, 2016). Such non-financial objectives may, together with the majority and controlling shareholding requirements, discourage strategic partners. The slow privatisation means that the Ljubljana Stock Exchange remains dominated by SOEs, that Slovenia is deprived of a deeper equity market that could benefit private firms and that the low level of inward FDI persists. As a result, the SOEs do not benefit from a transfer of technical and managerial knowledge that could strengthen their competitiveness (European Commission, 2014b). Portfolio investors, on the other hand, can still be attracted by a share-price discount that reflects political risk. Moreover, the large share of firms categorised as important or strategic means that the SOEs' economic impact will remain more or less unchanged.

The focus of the SSH's managerial responsibility is mostly on improving the financial performance of the directly owned SOEs. For example, in the energy market the SOEs have an average rate of return on equity of 4.2% – as compared with 13.3% for their peers in the other Visegrad countries (Ivanc, 2015). The SSH has individually negotiated profitability objectives for each SOE within the overall goal of raising the return on its assets (book value of equity) from 6¼ per cent to 8% by 2020 (Government, 2016). In addition, half of all SOEs have individual financial indicators that are benchmarked against their respective industries. SOEs also face a set of unpublished economic and non-economic indicators, depending on their investment category (portfolio, important or strategic). The higher financial objectives provide performance-enhancing incentives, but their effectiveness is undermined by the so-called Lahovnik Law that limits management remuneration to between three and five (increasing with turnover) times the average private-sector salary. Indeed, the SOEs' inefficient corporate governance may continue to distort resource allocation (European Commission, 2015b).

The remuneration of SOEs' management is not linked to the successful achievement of the financial performance objective. This reduces incentives to overcome the political risks associated with implementing cost-cutting measures, such as reducing employment or selling non-performing units, which could lower their high labour costs relative to their private domestic peers (European Commission, 2015e). Performance incentives are further dulled by the option for managers to renegotiate the agreement with the SSH in case the agreed rate of return becomes infeasible. Incentives are further undermined by the large subsidies that the SOEs receive from the state, amounting to nearly half a per cent of GDP (European Commission, 2014b and 2015b). Indeed, the SOEs' soft budget constraints and high leverage have had a large negative impact on public finances. Since 2007 the state's interventions in SOEs, particularly in the financial sector, can explain a third of the more than 60 percentage point increase in public debt to 83% of GDP in 2015 (European Commission, 2016a). Strengthening SOEs' corporate governance by increasing the performance element in the remuneration of management and hardening their budget constraints would probably improve their financial performance considerably.

The SSH has an arm's-length approach to managing its portfolio, relying on the SOEs' supervisory boards to bear down on management if the firm fails to deliver the agreed rate of return. The leeway given to managers prolongs adjustment of corporate strategy. For example, a financial holding and tourism conglomerate (and a former tyre producer) took a full year to try to find a strategic partner rather than commencing the separation of the two unrelated lines of businesses. Moreover, many SOEs have a high share of politically affiliated board members – reaching more than a third for large SOEs and more for firms in the non-tradables sector. Empirically, this has been shown to make such companies on average 2 ½ per cent less productive than private firms: appointing a politically affiliated member to a five-member board reduces the enterprise's long-run TFP by 11.3% (18.6% for firms in the non-tradables sector) (Domadenik et al., 2016). Under a set of simplifying assumptions, the economy-wide effect can estimated to be an aggregate loss of more than 4% of GDP. The SSH should take a more active approach in SOEs' strategic development; in particular, it should separate unrelated business and sell off non-core activities. In addition, the SSH should strengthen SOEs' corporate governance and bolster their performance by installing more professional supervisory boards, including by removing political appointees.

The SSH should have more leeway to optimise the return on its portfolio. The classification of SOEs into portfolio, important and strategic investments have been based on individual sectoral strategies, including the Platform for Smart Specialisation Strategy, the Slovenian Industrial Policy, the Resolution on Research and Innovation Strategy of Slovenia, the Resolution on the National Energy Programme, the Action Plan to Increase Competitiveness of Forestry and Wood Chain in Slovenian; although political considerations also seem to have played a role (Burger and Kunčič, 2014). This has led to a broad sectoral scope of important and strategic investments, encompassing SOEs in banking, financial holdings, gambling, post, telecommunication, transport and infrastructures, insurance, venture capital, energy, manufacturing, and tourism. In some cases, the notion of national interest has been used extensively. For example, when the Belgian brewery Interbrew and the Slovenian brewer Pivovarna Lasko were competing for control over the Slovenian brewer Union, a national interest argument was used to ensure Union remained domestically owned, even though it resulted in a duopoly. Similar arguments were used earlier with respect to the Nova Ljubljanska Banka, which now has to be privatised by end-2017 to avoid infringing EU state aid rules.

Many OECD countries consider certain sectors important for industrial development or security-of-supply, for example network sectors. There are different approaches to deal with such sectors, such as rules restricting activity or ownership to nationals and the use of state ownership. In Slovenia, the approach is somewhat different with the strong link between state ownership and economic development. However, it is not obvious that a sector is best promoted through the use of SOEs, particularly if the result is less competitive markets. In many countries, for example, banking and insurance sectors function well without SOEs.

Often the appropriate choice of measure to promote economic activities depends on the characteristic of the markets. For example in network sectors, many countries use a mix of state-ownership of networks and regulation to secure non-discriminatory third-party access for providers to promote efficiency. Slovenia is using this approach in telecommunication, while the electricity sector is dominated by SOEs. Selecting best regulatory approach requires balancing the multiple roles of the government as an owner, manager and regulator of SOEs as well as a policy maker to promote economic development. This should also include ongoing developments, such as the continued opening up of European markets.

Going forward, the scope of strategic and important firms should be narrowed to focus on addressing issues where markets cannot be expected to lead to outcomes that are beneficial for the whole economy, such as natural monopolies. If the government wants to preserve ownership in other cases, it should issue a document that clearly justifies the need for continued public ownership in that sector, including an estimation of the associated costs. This approach would entail focussing important and strategic SOEs on their core activities, requiring selling many of the subsidiaries as well as a reduction in the unusually large number of these SOEs, with the aim to reap the benefits of product market competition, external competitiveness and internationalisation, thereby promoting competitive firms with strong investment incentives. Moreover, the cost of saving failing SOEs has proved substantial and the heavy indebtedness of many SOEs implies a still significant contingent liability for the state. A further step could be to abolish the notion of important investments, particularly as significant public minority stakes are likely to bear on their value.

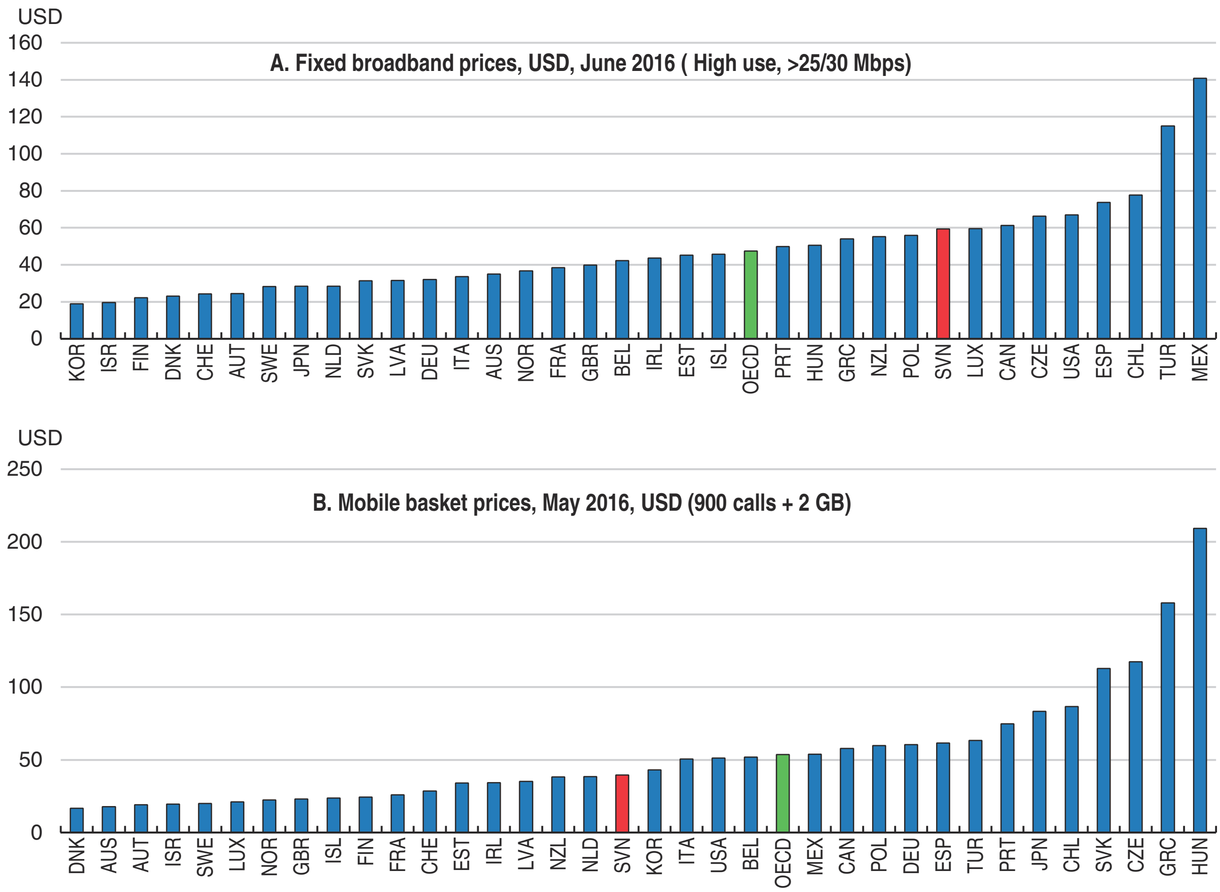
Competition in the telecommunications market has increased

The telecommunications market is highly concentrated, with an increasing degree of vertical integration as the three main mobile network operators have entered the market for fixed-line products (including broadband services). The main operators are the state-owned incumbent (Telekom Slovenije - 72% publicly-owned) with nearly half the market for mobile services and a third of the market for fixed-line broadband services and two foreign-owned operators (A1 Slovenija and cable operator Telemach). In addition, there is a vertically integrated operator T-2 with the largest fibre network. Limited competition in the mobile market is provided by a small number of virtual network operators (MVNOs – wholesale bulk purchasers of mobile capacity that resell to consumers) that are mostly specialised prepaid services.

The government is trying to privatise Telekom Slovenije, although a third attempt failed in 2015. The bidder cited a number of factors behind the withdrawal, including concerns over the regulatory environment, changes to EU roaming regulations, the complex nature of the political environment and public resistance to the privatisation (SSH, 2015). An additional complication may have been the diversification of Telekom Slovenije into non-telecom services, such as IT and multimedia services as well as electricity and insurance, enabling the company to link prices of mobile services to being an electricity customer (Balkan Energy, 2016; Telekom Slovenije, 2016).

The market structure is becoming even more concentrated. The third-largest broadband Internet service provider (T-2) was declared bankrupt in 2016 and was to be sold by the BAMC (DUTB, 2016), although the constitutional court invalidated the bankruptcy decision in early 2017 and the company continues to operate. In addition, vertical integration has increased as broadband and mobile phone operators have merged, with only a limited offset effect through a slight increase in the small number of MVNOs. On the other hand, the market is also being affected by larger international competitive pressures, such as the new EU roaming regulations and the emergence of new technologies (European Commission, 2016b). Examples of the latter include so-called Over-The-Top products, such as Skype, Netflix, Apple SIM (multi-operator SIM cards) and in the future new services, such as Google Project Fi.

Figure 2.13. **Competitive mobile prices are not matched in fixed broadband prices**



Source: OECD Broadband statistics.

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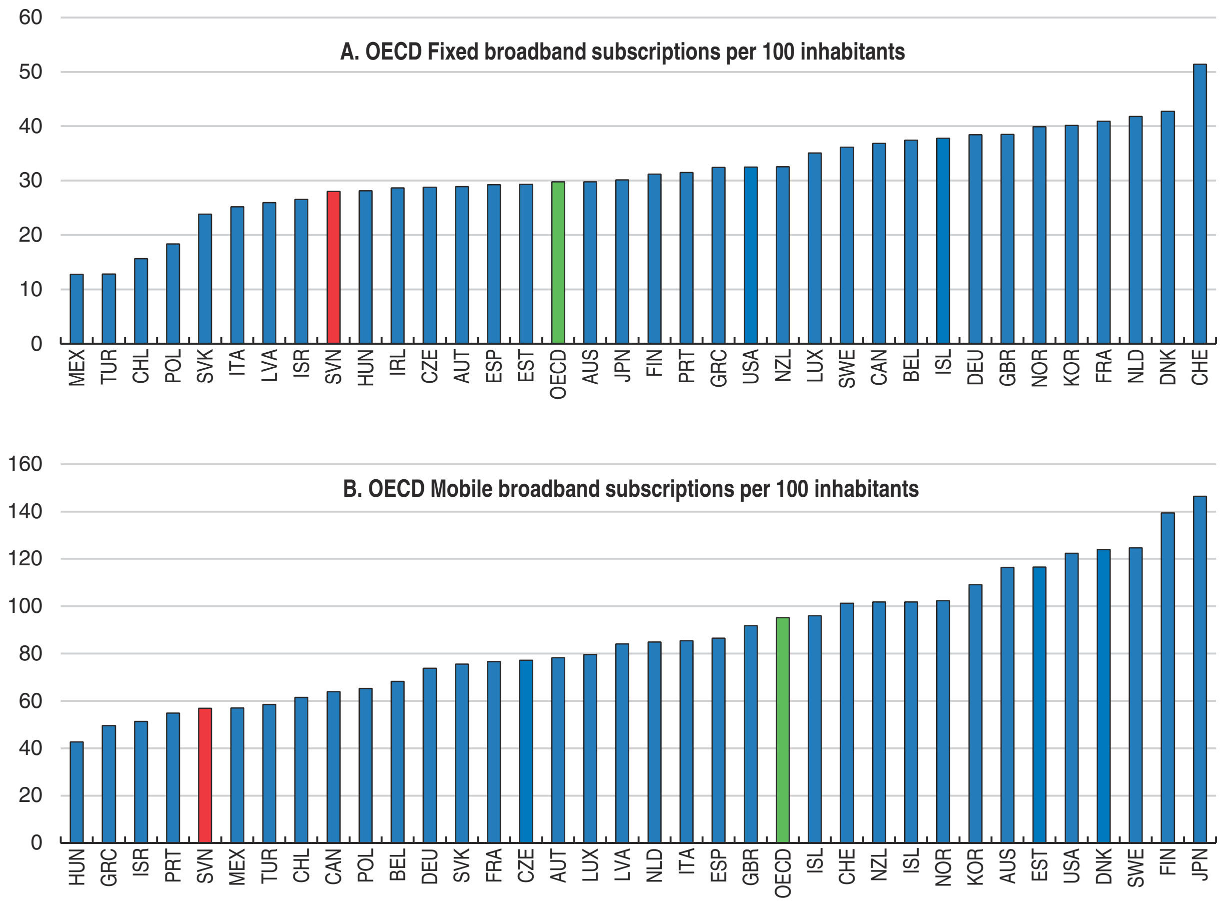
During 2016 price competition became more intense in the mobile segment, which is linked to the roll-out of G4 networks by three leading mobile operators. A possible additional factor could be efforts to capture the market share of the bankrupt service provider, although the latter continued to operate. This has led to very low prices (Figure 2.13) (OECD, 2015h). By early 2017 all the main providers were offering very similar packages at nearly identical prices. On the other hand, prices for fixed broadband connections remain relatively high, although prices for bundles of services, such as triple play, are closer to those prevailing in Europe. Following the introduction of new wholesale access regulation, which reduced allowed margins, more intense price competition may also be affecting internet provision over fixed broadband, which could boost the relatively low number of households with fixed or mobile broadband subscriptions, which is many cases have low speeds (OECD, 2017b; Figure 2.14).

Preserving the gains from price competition may be complicated by unwarranted market structure developments. In particular, privatisation efforts could have profound effects, as neither SSH nor BAMC are required to seek the opinions of the competition authority or the telecommunications regulator. Indeed, there is a potential conflict between the objectives of pursuing profitable privatisation and promoting competition. To sustain a pro-competitive market structure the government should continue to strive to sell all its

Figure 2.14. **There were relatively few broadband subscriptions in June 2016**



Source: OECD Broadband statistics.

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shares in the incumbent, while at the same time formulating a strategic view on the desired future market structure in consultation with the regulator and the competition authority. A pro-competitive market structure should be further supported by easing entry conditions for MVNOs, continuing the approach taken in the Telekom Slovenije and Debitel merger, which included a requirement to open up for a MVNO. To achieve this Slovenia can follow the example of other countries where such access has been achieved either through regulation (France, for instance) to secure non-discriminatory access to networks or by using the competition law's provisions against abuse of dominant position (as Denmark has done).

The government has an ambitious national broadband plan (Digital Slovenia) to provide fast broadband internet access speeds of at least 100 Mbps (megabits per second) to 96% of households and at least 30 Mbps to all other households by 2020 (European Commission, 2016c). The focus on households reflects the fact that most small firms already have broadband connections. Achieving such an objective could encourage the use of computers at home, promoting the digitalisation of the economy (OECD, 2015g). However, telecommunications investments need to be boosted considerably to reach such high speed broadband penetration as they are relatively low (as a share of revenues) and more in line with mature markets such as Finland and Germany (OECD, 2015g).

The government plans to secure the necessary investment by implementing measures to promote competition, including improved regulatory predictability and the removal of barriers to investment, as well as through EU structural funds. The total estimated cost is EUR 365 million, of which EUR 57.5 million in EU structural funds and EUR 15 million from state co-financing (European Commission, 2016c). Before committing such funds, the project should be subjected to a cost-benefit analysis (as the marginal benefit of extending fixed broadband connections may decline relatively quickly), and alternative options such as wireless solutions should be evaluated. Furthermore, a largely market-based solution is entirely possible through a more competitive market: currently the market for broadband access is dominated by the same firms that are active in providing mobile phone services. A first step in such a solution would be to pare down Telekom Slovenije to its core activities, as was done in the Czech Republic, and then fully privatise the company. This would help to ensure sufficient "middle mile" backbone infrastructure is available to support final access connections irrespective of the technology chosen by the market (e.g. fixed or wireless).

The electricity sector is becoming more internationally interconnected

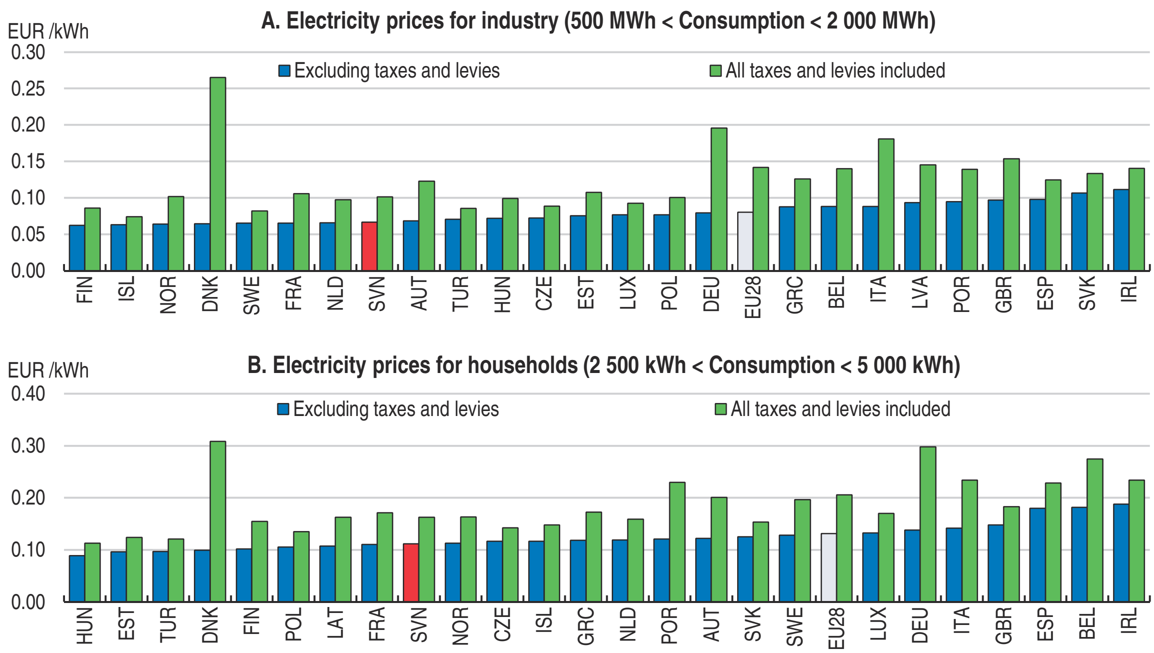
Slovenia's electricity market has been liberalised in accordance with EU regulations. In terms of effective market competition, there has been considerable progress. Synthetic indicators from the Agency for the Co-operation of Energy Regulators (ACER) show that compared with other European countries competition is relatively well developed in electricity, including a relatively large number of suppliers, although there is still considerable scope for progress to reach the levels enjoyed by the best performing countries, such as the United Kingdom, the Netherlands and the Nordics (ACER, 2016). The main remaining issues are centred on the large state involvement and weak separation of activities. A pertinent question is whether such features are viable in a situation where expanding international interconnection capacity is exposing the domestic market to stronger foreign price pressures. The policy challenge is to make the electricity market more competitive, allowing lower prices and greater choice to support growth and investment in downstream sectors.

The electricity sector consists almost entirely of SOEs, which are organised into two main holding companies, encompassing nine large generating companies (four in hydropower, one nuclear, three using fossil fuels and one focussed on combined heat and power (CHP) plants) as well as a number of smaller (typically renewables) generators, providing supported renewable electricity for 12.2% of total generation in 2015 (Agencija za energijo, 2016). The single transmission system operator and the single distribution system operator (who rents capacity from the five regional distribution networks) are also fully state owned. The holding companies are also active in the retail market, which has seven primary retailers. The majority of these are SOEs and often have a dominant position in their regional markets (European Commission, 2014c). Moreover, prevalent cross-ownership, leading to vertical integration, has been increasing with a recent merger between a regional distribution network and a retailer.

Slovenia is, in most years, a net exporter of electricity. Indeed, one of the largest interconnectors in Europe is with Italy, reflecting that Italy is a net importer of electricity, generating only 85% of its annual consumption (Red Electrica de Espana, 2012). Most electricity imports come from Austria, with an average market-determined, cross-border transmission cost that is 20% lower than that of the exported electricity to Italy. Looking ahead, international competitive pressures are likely to increase with the ongoing expansion of existing interconnection capacities with Austria and Croatia and the construction of a new link with Hungary.

Pre-tax electricity prices for both industry and households are around or below the EU average, although higher than in the competitive Nordic markets (Figure 2.15). This reflects the effects of international trade and that the average cost of generation is relatively low, as two-thirds of generated electricity comes from low-cost nuclear and hydropower plants (Agencija za energijo, 2015).

Figure 2.15. **Electricity prices for industry and households, 2016 S2**



Source: Eurostat, Energy Price statistics.

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In the coming years generation capacity is set to increase considerably. The share of low-cost hydropower will expand as new plants are installed by the large state-owned holdings. The importance of fossil fuels is also increasing with a new (publicly-owned) high-cost large-scale lignite (highly polluting brown coal) fired plant (TES 6), which currently accounts for nearly one-third of total generation capacity in Slovenia. Based on current plans total generating capacity should rise by nearly a quarter by 2023 (Agencja za energijo, 2016). In comparison, electricity consumption has increased only 4% over the past 15 years. Thus, the extra capacity is likely to increase exports, if the industry can keep costs down.

The high cost of electricity from TES 6 reflects: a) construction costs that are currently double those planned; and b) lignite from a state-owned lignite mine where production costs are unlikely to fall to the levels used in the project planning (Court of Audit, 2015; Slovenia Times, 2014; Premogovnik Velenje, 2016; Državni zbor Republike Slovenije, 2017). As a result, current total generation costs are around EUR 67.5 per MWh (and 40% higher when the prices of tradable permits their expected long-term price of EUR 30/tonne), which is on average at least one-third higher than international spot prices for next-day deliveries (OECD, 2016e).

It is unclear how TES 6 will remain competitive in face of stronger competitive pressures from abroad with the new interconnection capacity and higher prices for emission permits, potentially leaving a substantial share of Slovenian generating capacity in peril. Divesting or privatisation would reduce the state's contingent liabilities. Perhaps more importantly and discussed below, the project planning process for large public capital spending projects needs to be considerably strengthened to ensure the use of realistic assumptions and parameters to secure the best use of available financing.

Transmission and distribution companies are also state owned, with the transmission company ELES serving five regional distribution companies. These companies are also involved in a range of other activities, including trading and generation of electricity as well as unrelated activities, such as district heating, broadband and wireless telecommunications and charging stations for electric cars. Some of these activities are handled by subsidiaries. Otherwise, the distribution companies are subject to accounting separation – a relatively weak form – to avoid cross-subsidisation and to determine cost-based transmission and distribution charges (Agencija de energijo, 2016). Since 2012 distribution charges have been roughly unchanged in nominal terms but are 14% higher than the EU average (ACER, 2016). This suggests that the regulatory regime has been unable to generate efficiency gains (Makovŝek and Logožar, 2014). This could result from the weak separation, which gives the companies the ability to report relatively high costs. On the other hand, in 2002 it was established that most of the distribution companies lacked minimum efficient scale to reap the available scale economies in the sector, leading to an average cost premium of 35% (Filippini et al., 2002). As no material structural change has taken place in the distribution sector since then, this could still be a cause of the high charges.

Thus, although the sector has been opened to competition in accordance with EU regulation, its SOE-dominated structure is not conducive to competition. In particular, the high degree of state ownership may act as a barrier to new entry by private investors. A competition-enhancing restructuring of the sector would first require effective structural separation, including divestment of vertically and horizontally integrated companies, followed by substantial privatisation to create fully independent firms. This should be supplemented by a strong regulatory framework to secure non-discriminatory third-party access to the transmission and distribution networks.

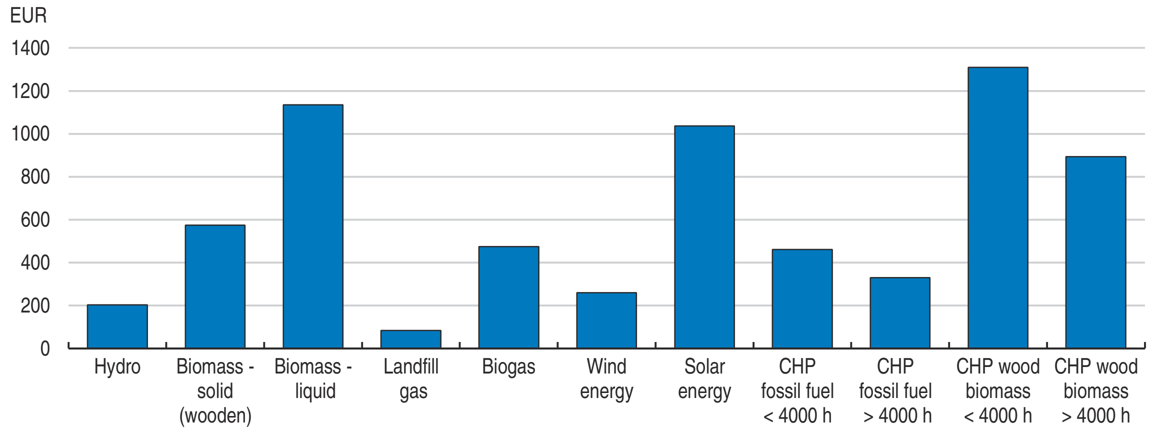
Environmental considerations

Slovenia has a 2020 renewables target of 25% – 4 percentage points higher than its 2014 outcome (European Commission, 2016d; European Environment Agency, 2016). Reaching the target should be facilitated by new hydropower projects coming on line. So far no national target has been set within the overall EU 2030 objective of 27%. The support scheme for renewables has been changed, notably by introducing a two-stage tendering process for deliveries of fixed amounts of renewable energy, bolstering price competition among providers. Small operators can continue to benefit from feed-in tariffs. The support scheme is financed through a surcharge levied on electricity customers with a partial exemption for energy-intensive customers. At the end of 2016, more than 3 800 production facilities (of which 85% are solar power plants) were covered by the support scheme. Since 2010 the number of combined heat and power (CHP) plants has grown by a factor of 15 to 390 and biomass plants by a factor of nearly 6 to 76, while wind power remains limited (Agencija za energijo, 2016).

CO_2 abatement costs vary considerably across technologies (Figure 2.16). For biomass, solar energy and biomass-based CHP, they are relatively high, but for wind relatively low (OECD, 2016f). Thus, the support system has a strong bias towards less efficient technologies.

Figure 2.16. **Abatement costs vary across technologies**

EUR/tonne of CO_2, 2014



Source: OECD calculations using data provided by the Energy Agency of Slovenia.

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This implies that Slovenia will experience important cost inefficiencies to reach its renewables target. Lower costs could be achieved by implementing a feed-in tariff system that is unbiased with respect to technology (i.e. having the same abatement cost across technologies). In addition, the associated abatement costs should also be used in selecting projects from the competitive tendering process to identify those that are most cost efficient.

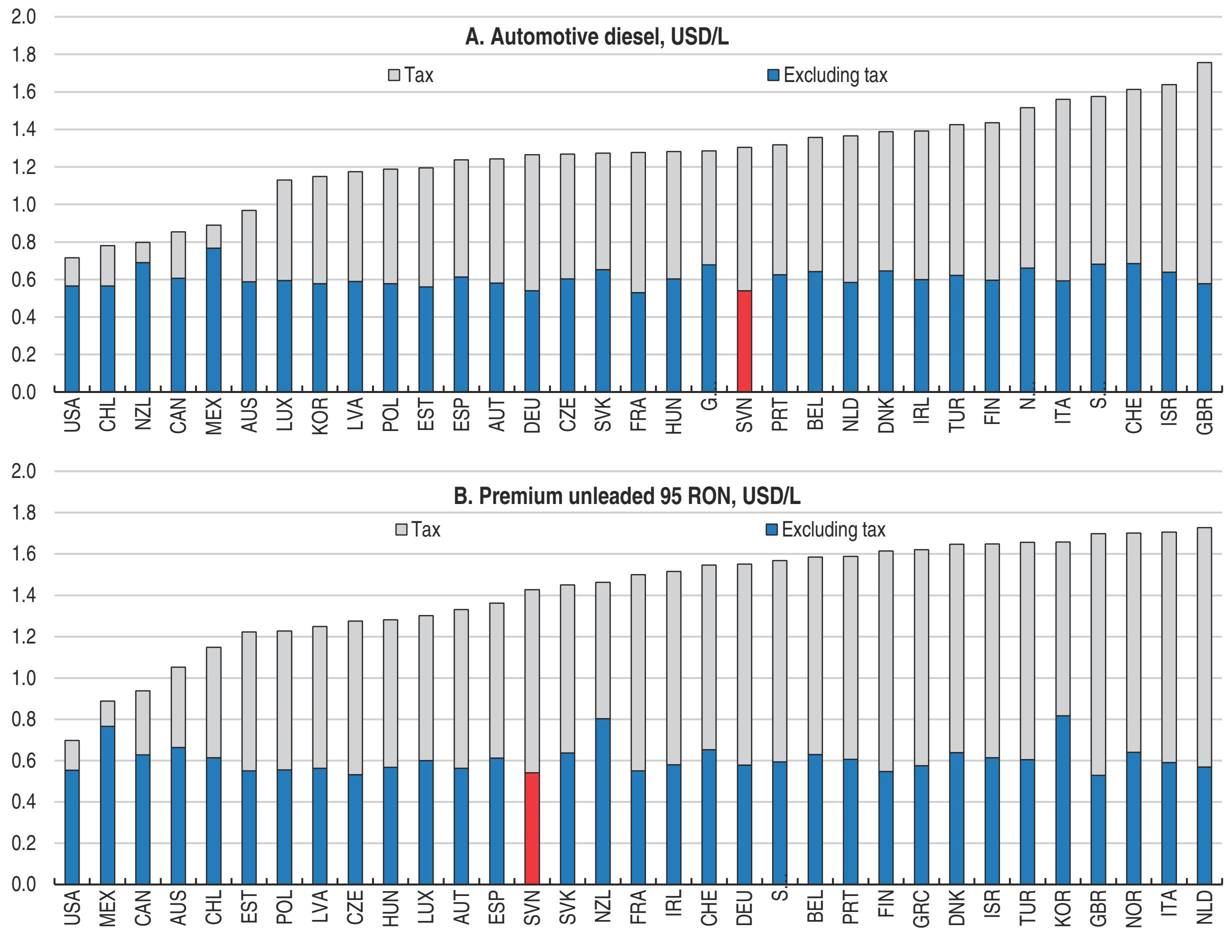
Regulation has mostly promoted competition in retailing

The retail sector has no limitations on evening and Sunday openings and few zoning limits. Moreover, foreign retailers have moved in, particularly hard discounters (such as Hofer, Lidl and Eurospin Eko), which have a combined market share of nearly one fifth. Nonetheless, regulation has shaped the market. Spatial planning and environment-permitting problems have probably curbed investment in hypermarkets, and new outlets are often located in commercial zones in urban peripheries. Indeed, IKEA is only now establishing an outlet – a quarter of a century after its entry into other eastern European OECD countries. Regulation has helped underpin market concentration and reduced consumer welfare through limited choice. The new regulation of the food industry (monitored by the CPA – see above) will further shape the sector, preventing consumers from reaping the benefits of more intense competition and reducing investment incentives in the sector.

A Slovenian particularity is the regulation of transport fuel retailing. Regulation constrains the market structure to a duopoly comprising an SOE and a private operator that are subject to strict margin regulation. The price structure of transport fuels reflects the importance of transit trade, as pre-tax prices are aligned with neighbouring countries', although post-tax prices tend to be slightly higher (Figure 2.17). In early 2017 the margin regulation was abolished on highway petrol stations (ALTA, 2016). However, highway petrol stations tend to enjoy local monopolies, which in unregulated markets allow them relatively high margins. Thus, it is unclear if the new measure will exert downward pressure on prices. One way of increasing competition is to end the prohibition on motor fuel sales by retailers.

Liberalisation of the transport fuel market needs measures to prevent the SOE from abusing its dominant position. It has the status of a strategic investment and operates 500 service stations (that double as convenience shops) in Slovenia and neighbouring

Figure 2.17. **Transport fuel prices for households, 2015**



Source: IEA, Energy prices and taxes.

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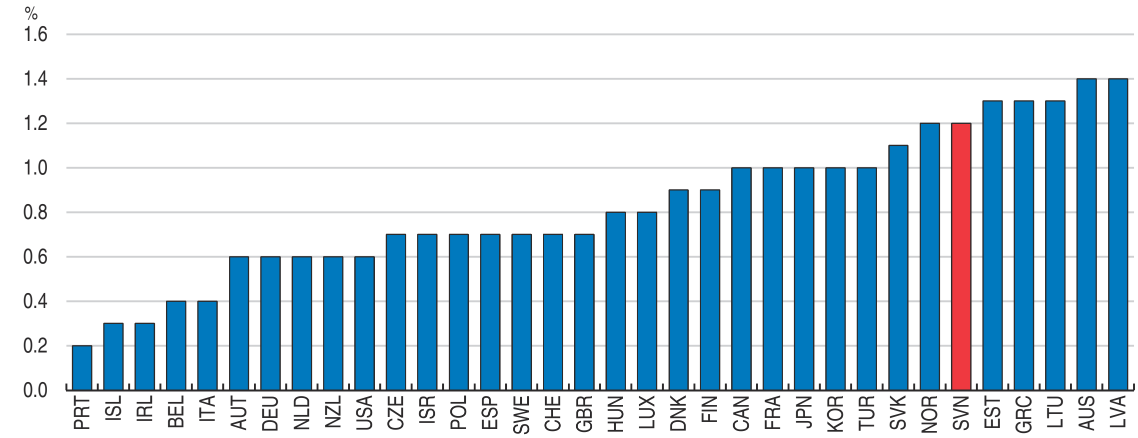
countries. In addition, the SOE has entered other businesses, such as gas distribution, district heating and electricity (Agencija za energijo, 2016). The broad range of its activities, many in non-competitive markets, enables the SOE to potentially engage in cross-subsidisation. To create a level playing field with non-distorted investment incentives, the SOE should at a minimum sell its non-core activities and preferably be privatised.

Well-developed infrastructure is an important growth facilitator

Developing modern infrastructure is important for supporting economic growth and essential for encouraging business investment. Slovenia has relatively high spending on transport infrastructure, largely financed by earmarked EU structural funds (Figure 2.18). However, this reliance on external funds means that most infrastructure investment decisions are based on the availability of earmarked funding, leading to relatively more investment in some types of infrastructure than others. In short, project-selection decisions give a larger role to financing consideration than on boosting social returns (OECD, 2016g). This is reflected in the development of road infrastructure, where EU funding has secured a well-developed highway system, but little investment has been made in improving the secondary and tertiary road networks, with only a third of these roads being in good or very

Figure 2.18. **Total inland transport infrastructure investment is high**

As a percentage of GDP, 2014



Source: OECD-ITF, *The International Transport Forum database*.

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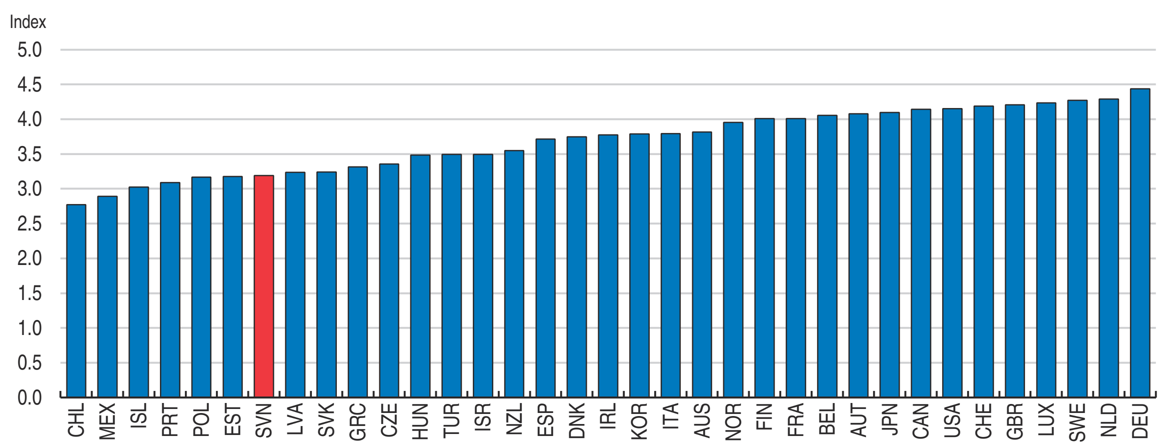
good condition (Ministrstvo za infrastrukturo, 2015). This is also reflected in relatively low perceived quality of transport infrastructure and to low capacity between regions that are not served by highways (Figure 2.19) (European Commission, 2015b).

Figure 2.19. **Logistics Performance Index**

Quality of trade- and transport-related infrastructure (e.g. ports, railroads, roads, information technology)



Source: World Bank, Logistics performance database 2016 (LPI).

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A more cost-efficient selection of investment projects is difficult to achieve in the absence of a unified framework for project selection. The government presented a national transport strategy in 2015. Nonetheless, existing plans are sector-based with relatively short time horizons, but a more cost-efficient selection of investment projects is difficult to achieve in the absence of a unified selection framework (OECD, 2016e). A further complication is insufficient data, as statistics on infrastructure investment flows are collected in the transport and communication areas, but not for energy projects, and in no cases are stock data available (OECD, 2016g). This hampers the co-ordination across projects and sectors needed to achieve the best allocation of available financial resources and infrastructure development to support mobility and business investment.

Examples of the problems resulting from the lack of a unified framework include the plans to develop the publicly owned and managed harbour into a regional transport hub by connecting it to the hinterland through a major project to expand rail capacity. An OECD analysis of the current project proposal shows that alternative models for doing so are economically viable and less costly to construct and could allow for a more phased development of the link. The latter is particularly important, as the analysis highlights the uncertainty surrounding some of the key future developments, such as the effects of increased competition from relatively numerous nearby foreign harbours and the ability of the port to penetrate the important German market to generate the necessary additional revenues (OECD/ITF, 2015).

The (mandatory) Slovenian evaluation did not take into account the alternative use of funding, other transport models, or of land (such as for tourism – a strategic sector) reducing the value of the exercise as a decision-making input. Such an instrument is needed to allocate scarce resources, particularly as the estimated project cost is equal to the cost of the all the necessary investment in the rest of the railway system put together. This includes important projects, such as modernising the TEN-T core network on the Mediterranean and Baltic-Adriatic Corridors (European Commission, 2016a). An additional aspect is whether the additional rail capacity will reduce the state-owned railway company's reliance on subsidies (an annual average of nearly 0.7% of GDP over the period 2007-14, more than in most other countries in the region), despite its near monopoly position (Ivanc, 2015). Thus, the project selection process did not benefit from the information arising from a full cost-benefit analysis, although that was to some extent mitigated by the fact that the projects were subject to feasibility studies by the EU Commission and the European Investment Bank.

Developing a common cost-benefit methodology for infrastructure and other large public capital spending projects is imperative to secure the best project selection and use of available funds to ensure economic development is sustainable and inclusive. Such a methodology should take into account not only the profitability of a given project, but also wider economic and social objectives, including environmental concerns, land-use issues and mobility of available resources. These factors can be evaluated in the context of Slovenia's broader economic, social and political objectives, including the Development Strategy and the achievement of the SDGs. Slovenia should develop a unified approach for cost-benefit analysis, with common models, parameters and mandatory presentation of alternative investments (OECD/ITF, 2017). Such an approach would also reduce perceptions of undue political influence in the decision-making process, particularly if combined with strong communication strategy. In this respect, establishing a single national authority in this area along the lines of the Dutch CPB could be helpful, both in terms of doing the analysis and of evaluating third-party analysis. A further use of cost-benefit analysis could be to implement consistent use of *ex post* budget and performance analysis, to improve projection implementation and assess the initial analysis (OECD, 2016g).

Main policy recommendations for promoting competitive firms

Strengthen the framework for regulatory policy

Key recommendations

- Ensure that the regulatory impact authority's common RIA framework is applied consistently with effective quality control including through methodology guidance and training.

Other recommendations

- Implement planned measures to speed up spatial and environment permit procedures. Give stronger incentives at the local level by increasing municipalities' tax revenues from economic development.

Ensure more effective competition enforcement

Key recommendations

- Simplify judicial proceedings.
- Increase resources and staff expertise at the competition authority.

Other recommendations

- Concentrate judicial competition expertise in a single court of review.
- Create independent career paths for the competition authority's employees.
- Move food industry regulation to a regulatory body with sector-specific expertise.
- Ensure systematic co-operation and exchange of market information between the competition authority and the market inspectorates.
- Provide procurement officers with training for detecting bid rigging and improving tender designs. Set up a comprehensive procurement database to improve oversight and detect bid rigging.
- Bolster competition advocacy through more market studies, and introduce mandatory and timely notification of proposed legislative changes and regulatory measures.

Enhance investment opportunities

Key recommendations

- Strengthen SOE corporate governance by directing them to focus on core activities, allowing more management pay flexibility and strengthening supervisory boards.
- Follow through with privatisation and narrow the group of SOEs that are considered strategic.
- Shrink the list of regulated professions, and, where regulation is retained, move to less restrictive forms.

Other recommendations

- Reduce cross-subsidisation possibilities by forcing SOEs to divest subsidiaries.

Open up network sectors for private investors, and make infrastructure more supportive of investment

Key recommendations

- Implement effective separation of activities and non-discriminatory third-party access to networks. Privatise competitive activities, except in sensitive sectors.
- Develop a common approach cost-benefit analysis for infrastructure project selection.
- Avoid technology biases in renewable-energy subsidies.

Main policy recommendations for promoting competitive firms *(cont.)*

Other recommendations

- Pare down the telecommunications SOE to its core activities before seeking full privatisation.
- Implement full structural separation in the energy sector. Privatise areas with feasible competition.
- Improve entry conditions for telecoms MVNOs, either through regulation or by using the prohibition against abuse of dominant position.
- Establish an authority that is responsible for ex post budget and performance analysis of large-scale infrastructure projects.

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