# development report 2013

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# Contents

# Introductory remarks

***The Development Report is a document that monitors the realisation of Slovenia's Development Strategy (SDS 2005–2013), while also addressing the key challenges of the current crisis.*** Adopted by the Slovenian government in June 2005, the SDS sets out the vision and objectives of Slovenia's development until 2013, classifying them into five development priorities. The structure of the report follows the development priorities of the SDS, but has also been modified to highlight the current problems during the economic crisis. The interpretation of the findings of the report also takes into account that the economic crisis has moved Slovenia away from a number of the SDS objectives, which can therefore no longer be achieved. The analysis and findings thus primarily focus on developments since the outbreak of the crisis in comparison with other countries and the most recent guidelines at EU level. The analysis therefore includes a review of the implementation of the EU strategic objectives, which are also binding for Slovenia (the EU 2020 strategy targets, Macroeconomic Imbalance Procedure Scoreboard). This year's report presents a review and assessment of the implementation of the strategy up to 2012, except where the latest data is only available for earlier years (2011, and rarely, 2010).

***The Development Report is divided into two parts.*** The review of the implementation of the SDS across the development priorities is followed by a detailed report on progress according to individual indicators of Slovenia's development. The findings in the report are mostly based on results obtained by means of these indicators. In areas where no relevant indicators were available due to data shortage, other sources have also been relied on (national and international research, reports on the implementation of sectoral strategies and programmes). The appendix contains a quantified aggregate assessment of development, which supplements the expert approach of the report, although it cannot replace a comprehensive assessment of progress in individual areas due to the time and geographical limitations in the availability of the data required for the calculation.

***At a time of economic crisis, development indicators expressed as a percentage of GDP should be interpreted with caution, as the contraction in GDP has had a significant impact during this period.*** In a period of sharp short-term fluctuations in economic activity, these indicators are profoundly affected by changes in GDP, which must be taken into account when analysing changes in their value over time and in comparison with other countries that did not experience such fluctuations in the analysed period. For this reason changes in absolute values are also highlighted for these indicators.

The Development Report is based on the official statistical data of domestic and foreign institutions available at the beginning of April 2013. In the analysis Slovenia was compared with all 27 EU Member States, and only in exceptional cases is reference made to the EU25 whenever data for Bulgaria and Romania is not yet available. The terms "European average" or "EU average" thus refer to the group of EU27 countries; the term "old Member States" means the EU15 group, whereas the EU12 countries that joined the European Union after the latest enlargement rounds in 2004 and 2007 are referred to as the "new Member States".

# Main findings

***Since the outbreak of the crisis Slovenia has been moving away from the EU average in terms of economic development, and there has been no visible progress in exploiting synergies between environmental and economic development.*** The decline in economic activity in Slovenia during the crisis was among the largest in the EU. Several years of unfavourable economic conditions have brought a significant deterioration in the situation on the labour market, which alongside the cuts in pensions and social transfers in 2012 has deepened the decline in disposable income seen in the last few years, and hence the material welfare of households. Environmental pressures are mostly not increasing in the adverse economic situation, but there have also been no major shifts towards their sustainable reduction.

***The setback in development is the result of the structural weaknesses in the economy, which have been a major factor in Slovenia's difficulties in accessing financing during the crisis.*** Economic growth in Slovenia in the years before the crisis reflected the favourable developments in the international environment and its good access to financing. The financing was however often allocated for less productive purposes, while economic restructuring and increases in competitiveness were too slow. The requisite adjustment of social protection systems to demographic changes has also not yet occurred. The implementation of development-oriented changes in the economy and society was also hindered by a number of institutional weaknesses. The stability of the financial sector and the public finances has therefore deteriorated substantially during the crisis, as did perceptions of Slovenia on the international financial markets. The competitiveness of the economy has also dropped noticeably during the crisis. In addition to the deterioration in access to financing, it has primarily been weakened by the inadequate innovative capacity of the economy and the resulting relatively low value added of goods and services and a non-stimulating business environment. The latter is also turning away prospective foreign investors that could accelerate the restructuring of the economy with fresh capital and knowledge. The deterioration in the situation on the labour market, the adjustment of general government expenditure to available funds and the changes in the system of social transfers were reflected in a decline in the main categories of household income and a consequent drop in real disposable income. Household welfare is also at risk from the financial unsustainability of social protection systems that have not yet been adjusted to the changed situation in society.

***In 2012 Slovenia carried out certain structural reforms to improve the economic environment and revive financial flows.*** In addition to fiscal consolidation measures, which curbed expenditure and reduced the deficit, pension reform and a legislative framework for the stabilisation of the banking sector were passed at the end of the year, followed by labour market reform at the beginning of 2013. While improving the business environment and limiting growth in expenditure related to the ageing of the population, these changes will also ease pressures in the financial system.

***In order to revive the economy and halt the decline in household welfare, further structural changes will be necessary. The efforts should focus on:***

- **Continuing fiscal consolidation** with more radical structural interventions to reduce expenditure, combined with measures to increase revenue.
- **Stabilising the banking system** and establishing stable conditions for corporate financing with the smallest possible increase in public debt. In the medium term, a financial system should be created in which equity will play a greater role in financing the corporate sector.
- **Adjusting the health and long-term care systems** to demographic changes and changes in society, and permanently adjusting the **pension system** to increases in life expectancy.
- **Increasing the added value** of goods and services by boosting the innovative capacity of the economy and adjusting the system and structure of education.
- **Creating a business environment** that fosters **entrepreneurship**, with special emphasis on reducing the administrative burden and creating an encouraging tax environment and a flexible labour market.
- **Improving labour market efficiency** by strengthening other flexicurity components alongside flexibility (active employment policy, lifelong learning), building a system to monitor the needs of employers and tailoring the education system to meet labour market needs.
- **Reducing environmental pressures** by designing a legislative framework and a system of incentives (both positive and negative) aimed at reducing pollution and improving efficiency in the use of resources while encouraging the development of environmentally friendly products, services and technologies.
- **Improving the institutional framework** in a way to enable developmental changes and their implementation, and ensure effective functioning of the legal, economic and political system.

# Summary

***After gradually closing the development gap with the EU, Slovenia has been continuously drifting away from the EU average since the outbreak of the crisis.*** Slovenia's per capita GDP at purchasing power parity had declined to 84% of the EU average by 2011, down 7 percentage points on 2008 when the gap with the EU was smallest. The setback during the crisis is a consequence of poor development decisions in the past, as a result of which Slovenian society has failed to adjust to the changing international environment, which has weakened the shock absorption capacity of the Slovenian economy.

***In recent years the competitiveness of the Slovenian economy has declined significantly.*** On the global market Slovenia is finding it increasingly difficult to compete in the production of less technology-intensive products or in rather labour-intensive production in otherwise technology-intensive sectors. Another obstacle to faster growth in exports is that they are predominantly focused on the markets of the EU and former Yugoslav republics, which are recovering more slowly during the crisis. Slovenia's global market share has thus fallen substantially since the beginning of the crisis, and the position of exporters has been additionally aggravated by a sharp decline in cost competitiveness.

***Weak corporate innovation and a discouraging business environment, coupled with rising unemployment of highly educated workforce, are hindering the increase in value added in Slovenia.*** Slovenia has increased investment in R&D and enhanced human capital for innovation in recent years. The share of people with a tertiary education has risen as a result of high public expenditure on education, but unemployment in this group has also grown during the crisis, which in turn is increasing the risk of a brain drain. With low efficiency of investment in innovative capacity, Slovenia is making only slow progress in terms of intellectual property, the transfer of knowledge to businesses and effective use of information and communication technologies, while corporate innovation is weak and is not growing. The productivity of the Slovenian economy is therefore low, and during the crisis the gap deepened further, while the improvement in the structure of exports towards more technology-intensive products and knowledge-based services has been too slow. The business environment, where the tax system provides little stimulus and there are numerous administrative barriers, is not contributing to faster growth or structural changes in the corporate sector. All of this is turning away prospective foreign investors that could accelerate the restructuring of the economy with fresh capital and knowledge.

***As a result of structural weaknesses, the situation in the banking system and in the public finances has deteriorated significantly during the crisis.*** In the period before the crisis and before the adoption of the euro, the banking system became increasingly dependent on foreign funding, while increasing its exposure to individual sectors of the Slovenian economy via the inefficient allocation of funds. As a result of the adverse situation on the international financial markets, the pressure on banking system liquidity increased significantly and the banks were no longer able to refinance their debts. At the same time they had to create impairments and provisioning because of a surge in the share of bad claims. The vulnerability of public finances also increased, given that in the period of strong economic growth Slovenia failed to ease the rigidity of general government expenditure and reduce the high structural deficit. As a result of the effect of automatic stabilisers and delayed fiscal consolidation, along with the attempts to stabilise the banking sector and rescue certain publicly owned companies via capital increases, the deterioration of the economic situation in Slovenia during the crisis was one of the largest in the EU. The aforementioned difficulties in the financial system hampered the financing of the Slovenian economy and, through the deteriorated perception of Slovenia on international financial markets, additionally impaired Slovenia's ability to obtain the necessary financing to revive the economy.

***The steps towards the stabilisation of the banking system and public finances in the last year represent a positive shift, but they will not be sufficient to stabilise the macroeconomic situation.*** The negative feedback loop between the fall in economic activity and the deterioration in the financial sector and public finances indicates the urgency of macroeconomic stabilisation. In this context significant shifts were made in the area of fiscal consolidation in 2012, albeit relatively late. The general government deficit (including the structural deficit) declined for the first time since the beginning of the crisis. Expenditure was lower year-on-year in nominal terms. However, as the measures to reduce expenditure were, to a certain extent, of an emergency nature, they do not necessarily ensure the sustainability of deficit reduction. By contrast, the pension reform adopted last year will alleviate the pressure of pension expenditure on the general government budget in the medium term. Ensuring the sustainability of public finances in the medium term will require more radical structural steps on the expenditure side (streamlining the public sector, developmental restructuring of expenditure and the enhancement and completion of reforms to social protection systems), which should be complemented with measures to increase revenues (such as expanding the tax base and introducing or raising indirect taxes). After the adoption of the framework legislation for the stabilisation of the banking system, it is vital that it is implemented as soon as possible. In this context it will be crucial, in addition to the establishment of stable conditions for corporate financing, to mitigate the impact of the stabilisation on the increase in public debt.

***The economic crisis is increasingly weakening the material welfare of households.*** In 2012 employment dropped for the fourth consecutive year and was much lower than before the beginning of the crisis. By the end of the year unemployment had reached the highest level since 2000. In 2012 household disposable income was, after four years of decline, more than 6% lower in real terms than in 2008. The largest decline was recorded last year, as a result of the significant drop in total social security benefits, primarily owing to the reform in social transfers and certain fiscal consolidation measures, in addition to the largest reduction in the total wage bill to date. The weakened income position of Slovenian households is also reflected in the movements of private consumption, which in 2012 recorded its first decline. Poverty risk remains low compared with other EU countries, but has started to rise, particularly in households with several children. Material deprivation increased even more, and certain other indicators of household material welfare have also started to deteriorate. By contrast, some quality-of-life indicators present a relatively favourable picture (access to public services, life expectancy, educational level, cultural engagement, etc.), although signs of deterioration can also be seen in these areas (e.g. waiting times to see a doctor, healthy life years, social climate).

***After a long period of unsuccessful attempts to carry out structural reforms to the labour market and to social protection systems, some significant changes have recently been made.*** At the end of 2012 new pension legislation was passed with a view to extending working life, ending the decline in pensions and stabilising pension expenditure in the medium term. In 2013 labour market legislation was amended to reduce labour market segmentation and increase flexibility. Meanwhile the reform of the system of social transfers was begun, which has significantly altered the eligibility criteria for social transfers, tightening them in some cases, and has reduced expenditure on social transfers. These important systemic changes are improving the functioning of these systems and their sustainability. However, for long-term sustainability, the pension system will still have to be adjusted to rising life expectancy in a more sustainable way. In view of the deterioration in the material position of households, it will also be necessary to review the suitability of the social transfer system and to correct the solutions that are not in keeping with the basic purpose of the changes and that have caused the position of socially vulnerable claimants to deteriorate. The health and long-term care systems will also have to be adapted to demographic and other changes in the environment, as they have not undergone any systemic changes in previous years. To increase labour market efficiency, it will be also necessary to strengthen other components of flexicurity (such as active employment policy, life-long learning systems) and, in particular, to adjust the education system to the needs of the labour market.

***Given the unfavourable economic situation, the pressure on the environment is not increasing, but there has been no visible progress in exploiting synergies between environmental and economic development.*** Greenhouse gas emissions have declined during the crisis, mainly due to lower economic activity, but given the continuation of high transport emissions, it will be difficult to reach the EU 2020 targets once the economic recovery takes place. The same holds for renewable energy resources, whose share in total energy consumption increased during the crisis. Reaching the EU 2020 targets will depend strongly on more efficient energy use, especially given that the developments with regard to the energy intensity of the economy remain unfavourable. Energy intensity in Slovenia is high in international terms, primarily as a result of extensive energy consumption and transport. It is however encouraging that it is decreasing in the manufacturing sector, where energy costs have a significant impact on competitiveness. The quantities of waste generated also declined as a result of the economic crisis, but Slovenia still lags behind the more advanced EU countries in terms of municipal waste management, despite a gradual improvement. Faster progress in this area is still being hindered by the sluggish modernisation of infrastructure and the resulting modest disbursement of EU funds, amid the granulated and therefore less efficient network of public utility providers. In the context of fiscal consolidation, environmental taxes have increased in the last year but the tax treatment is often still inadequate from the environmental perspective as it does not reflect environmental damage. Another important factor in improving competitiveness will be exploitation of the market for environmental technologies, which will improve energy and material efficiency.

***In the last year Slovenia has made important moves to exit from the crisis, but it will also have to set up an institutional framework that will facilitate developmental changes and enable the efficient functioning of the economy.*** After the economic structural changes (fiscal consolidation, stabilisation of the banking system, pension and labour market reforms), an increasingly important obstacle seems to be the existing institutional framework, as it strongly impedes the reaching of a social consensus for urgent changes. As a result, the adopted changes do not address (or fail to sufficiently address) the key shortcomings of the Slovenian economic environment. Identifying development priorities and measuring the effects of developmental changes and other programmes and projects that are realised by the use of public finance instruments remain an important challenge for Slovenia. The efficiency of the institutions that should ensure the proper functioning of the economy is also low. To exit from the crisis it is therefore essential to improve the rule of law and ensure the efficiency of regulatory and supervisory functions, as well as the withdrawal of the government from the economy to prevent it from directly intervening in the decision-making of economic entities.

# Part I.
# Development by the priorities of Slovenia's Development Strategy

# 1. Economic growth and the competitiveness of the economy

***SDS guidelines***: Economic growth and the competitiveness of the economy is one of the development priorities of SDS, and encompasses the following objectives: ensuring macroeconomic stability, promoting entrepreneurial development and increasing competitiveness, and improving the competitiveness of services. Since the outbreak of the international financial and economic crisis, the first objective, ensuring macroeconomic stability, mainly focuses on establishing fiscal stability, stabilising the situation in the financial sector and reviving economic growth. The second SDS objective, increasing competitiveness and promoting entrepreneurial development, focuses on the development of areas where Slovenia has a competitive advantage, encouraging entrepreneurship and development of small and medium-sized enterprises, promoting and developing an innovative environment and a culture of innovation, and supporting internationalisation and competition in the network industries market. The third objective, increasing the competitiveness of services, prioritises boosting the factors of effectiveness in services and simplifying the administrative framework for their provision. A special emphasis is placed on those services most closely linked to business operations (business, financial, distributive, infrastructural services) because these have the greatest impact on the economy's productivity and competitiveness.

***After gradually approaching the European Union's average level of development, Slovenia has been steadily moving away from it since the onset of the crisis.*** According to Eurostat's most recent data, Slovenian GDP per capita in PPS reached 84% of the EU average in 2011. This was the same as in the previous year and seven percentage points (pp) less than in 2008, when Slovenia came closest to the EU average; moreover, economic trends in 2012 indicate a further widening of the development gap. A decomposition of GDP per capita to productivity and rate of employment reveals that the economic development gap increased at the beginning of the crisis due to a sharp fall in productivity. In the following years (2010–2011), the gap slightly narrowed, but this resulted to a greater extent from reduction in employment than was the case in the EU (see indicator 1.11). Increasing productivity by boosting economic growth, which was weaker in Slovenia than in the EU as a whole, is of key importance for the recovery of the economic convergence process.

***Economic recession during the crisis is the consequence of structural weaknesses.*** In the years before the crisis, economic growth was based mainly on favourable trends in the international environment and easy access to financial resources. These financial resources were often channelled to less productive purposes, while the restructuring of the economic sector and increasing competitiveness were too slow. Moreover, the implementation of development-oriented changes in the economy and in society was often hindered by a number of institutional weaknesses. During the crisis, the pressures on the liquidity of the Slovenian banking system increased considerably due to the heavy reliance of banks on foreign sources of financing and their significant exposure to particular industries. The banking system, due to adverse conditions on the international financial markets, was no longer able to refinance debts from the past, while at the same time it had to create provisions and impairments due to a dramatic increase in non-performing loans. Preserving the rigidity of fiscal spending and high structural deficit even during the period of high economic growth also increased the fiscal exposure. Due to the operation of automatic stabilisers, the postponement of consolidation, and the attempts at rescuing the banking sector and certain state-owned enterprises through capital injections, the deterioration in the fiscal situation in Slovenia was among the worst in the EU. The above-mentioned problems in the financial system paralysed the financing of the Slovenian economy and, through the deteriorating perception of Slovenia on international financial markets, further restricted the access to financing resources necessary for economic recovery. During the crisis, the key economic activity factor was the export sector, but this could have recovered faster under a more efficient technological restructuring of the economy in past years. During the crisis, Slovenia's market share on the global market declined considerably and the situation of exporters was made even more difficult by deterioration in cost competitivness.

***It is vital to stabilise macroeconomic conditions as soon as possible in order to provide for the economic recovery.*** Because of the negative feedback loop between low economic activity and poor conditions in the financial sector and public finances, a prompt stabilisation of macroeconomic conditions is urgent to enable Slovenia to access financial resources, which is a prerequisite for its economic recovery. In 2012 important, though relatively late, moves in fiscal consolidation were made in this direction. The general government deficit (also structural) decreased for the first time since the onset of the crisis, but the reduction of expenditure was to a certain extent interventionist in nature, therefore drastic structural reductions in expenditure, which it would be reasonable to combine with measures aimed at increasing revenues, will be needed for medium-term fiscal sustainability. The pension reform, which will mitigate the pressure of pension expenditure on the fiscal budget in the medium term, was also adopted. The second key condition for restoring economic growth is to remedy the conditions in the banking sector. In the past year, framework legislation for the rehabilitation of the banking system was adopted. It is crucial to initiate its implementation as soon as possible and, along with

the establishment of normal conditions for corporate financing, to minimise the impact of the rehabilitation on increasing public debt.

***The provision of a stable macroeconomic environment should be accompanied by the establishment of conditions for enhancing competitiveness of the economy.*** Measures for improving competitiveness should be focused (i) directly on increasing the value added of products and services by boosting the economy's innovation capacity and (ii) on eliminating the barriers to the operation and development of companies. Restructuring of the economy with a view to creating higher value added for products and services for which there is a growing demand is essential. Slovenia is not competitive on the global market in terms of the implementation of labour-intensive production processes or production of technologically less demanding products. The analysis of our export market share trend indicates that a considerable part of the geographic markets which are the focus of our exports is not among those that are fast-growing. Therefore it is crucial to support the development of new products and services which are interesting for the global market and which will provide progress in the chain of value added creation. Attention should also be paid to the importance of knowledge-based services and non-technological innovation to increase the value added generated by the manufacturing sector. In recent years, domestic and foreign competitiveness analyses, in addition to severely restricted access to financial resources, highlighted in particular the lack of flexibility in the labour market, the non-stimulating tax environment and administrative barriers to the operation of companies as the barriers hindering the development of the business sector.

***A further important condition for exit from the crisis is the setting up of an institutional framework that will facilitate developmental changes and provide efficient operation of the economy.*** The exisitng institutional framework in Slovenia severly hinders the formation of social consensus for urgently required developmental changes (Šušteršič et al., 2010). In consequence, adopted measures often fail to address the key shortcomings of the Slovenian economic environment to a sufficient extent or fail to address them at all. In international comparisons, Slovenia is also ranked low in terms of quality of economic institutions, while the quality of its legal institutions has been impaired considerably in the recent period. International competitiveness indicators point in particular to an ineffective legal system and the functioning of the government and state apparatus. All this is also reflected in low public trust in institutions such as government, parliament, political parties and local authorities. Institutional competitiveness is also severely hindered by the relatively large role of the state in the economy.

## 1.1 Macroeconomic stability

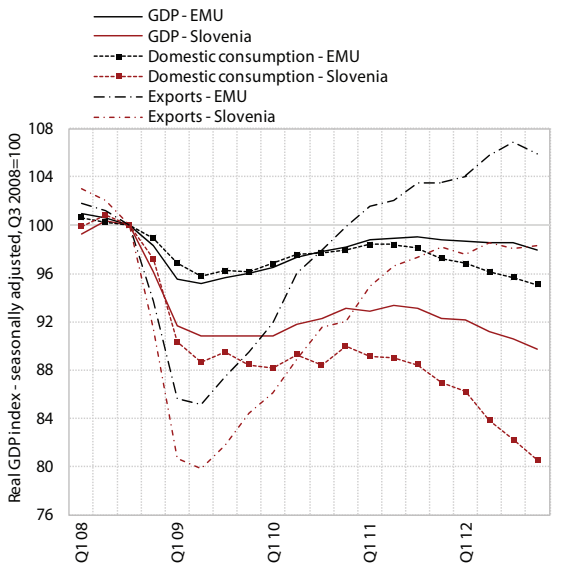
***Following a two-year period of modest growth, economic activity decreased in 2012.*** A sharp fall in GDP in 2009 was followed by two years of modest economic growth, but in 2012 GDP declined by 2.3% owing to export stagnation, further decrease in investment activities and drop in final consumption. Growth in exports, which was the main factor in the economic recovery in the previous two years, halted last year mainly owing to a slowdown in growth and/or a decline in economic activities in main trading partners. Last year, the stagnation of foreign demand was followed by a decline in the production of manufacturing industries and, in consequence, capacity utilisation. This in turn caused another decline in investments into machinery and equipment, which in 2011 had increased by almost a tenth. Despite a slightly less pronounced decline in construction investment than in the preceding three years, the total drop in investment activities last year was thus similar to that in 2011. Of all GDP components, investments lag behind the pre-crisis level the most, i.e. by almost a half[1]. The drop in final consumption also had a considerable impact on the decrease in GDP last year; this is to be associated with continued degradation of labour market conditions and fiscal consolidation, the latter being necessary owing to restricted foreign financing and the downgrade of the credit rating of the state and commitment in the context of the excessive deficit procedure. Since the consolidation started to be implemented relatively late (later than in the majority of other European countries), it had to be more intensive than it would have been if started earlier[2]. Government expenditure dropped markedly last year. For the first time since the onset of the crisis, household spending also decreased, which, along with the continued adverse conditions in the labour market, was a result of the fiscal consolidation structure causing a decline in the salaries of public servants and social transfers.

***Last year, economic activity in the eurozone decreased, with one of the most severe falls, as throughout the crisis, occurring in Slovenia.*** After growth of 1.4% in 2011, GDP in the eurozone fell by 0.5% last year. Last year, only Latvia and Greece saw a larger drop in GDP (from 2008) than Slovenia. The factors that most hinder the recovery of our economy lie mainly in our domestic environment; exports have also been recovering at a slower pace than in many other EU Member States. The most important among the domestic factors are limited access to financing and high corporate debt, which had a particularly adverse effect on investments: Ireland was

[1] Decline in investments during the crisis followed an extremely strong cycle in the period following Slovenia's accession to the EU and is related, in addition to the completion of large infrastructural projects, to the financial crisis itself and, as a result, limited private and public financial resources.
[2] In 2011 public deficit also increased only in Cyprus.

the only country experiencing a more severe decline in investments during the crisis than Slovenia. Moreover, last year final consumption in Slovenia dropped more than the eurozone average, which is associated with the delayed start of fiscal consolidation and therefore its more severe effects. Last year, exports also lagged behind the 2008 average due to inadequate geographic and output structure, while they considerably exceeded the 2008 average at the level of the eurozone. Over recent years, exports to rapidly growing states have been increasing, but these export market shares remain relatively small. The output structure is also inadequate, since the share of high-tech products is lower than in the majority of countries where the export recovery is faster (see Chapter 1.3).

*Figure 1:* **Gross domestic product, exports and domestic consumption in Slovenia and the eurozone**




Source: Eurostat Portal Page – National Accounts, 2013.

***The potential for economic growth in the medium term remains low.*** Continued deleveraging of banks and enterprises and the need for further fiscal consolidation, alongside limited sources of financing for the state and private sector, will remain the main factors that will continue to hinder faster recovery of the Slovenian economy in the absence of structural changes. Insufficient progress made in the resolution of structural problems decreased competitiveness, which, together with the expected further decline in foreign demand, hinders faster export recovery. In light of these circumstances, estimations of future GDP point to a diminishing potential for growth: in the period preceding the crisis, this amounted to approximately 4%, against 1% on average likely for the next medium-term period[3].

[3] The calculations of potential growth for the period from 2012 onwards are based on the production function method and take into account the Spring Forecast of Economic Trends 2012. Extraction of the cyclical component of total factor productivity requires application of the bivariate Kalman filter.

This shows a need for urgent structural changes and reforms in order to enhance the potential for growth and to prevent the situation deteriorating to an extent which would inhibit the provision of the financial resources required for development. This would help us avoid a longer period of weak economic growth or stagnation, which was characteristic of some countries during the past decade (e.g. Portugal).

***Following a four-year period of modest growth, the rise in consumer prices was greater last year due to one-off factors which resulted from economic policy measures.*** Last year, consumer prices went up by 2.7%. As in previous years, the inflation was a result of higher energy and food prices, but the higher total rise than in previous years resulted mainly from the increase in prices for services. Energy products contributed 0.7 pp to the total rise in prices, with liquid fuels again having the major share. The increase in global oil prices was smaller than in 2011, but excise duties rose, so the contribution of liquid fuel products to the total rise was similar to that in 2011. The contribution of all energy products to the total rise would have been even higher if natural gas prices had not fallen at the end of the year. The contribution of food prices (0.7 pp) was similar to the previous year; the rise in food prices resulted mainly from the increase in fresh fruit and vegetable prices. The rise in prices for services was greater last year due to one-off factors which were a result of economic policy measures; their contribution to the total rise was 0.8 pp[4]. Under the continued weak economic activity, the increase in prices for other goods remained stable, which is reflected in a modest growth of different measures of core inflation and shows the absence of inflationary pressures related to economic activity. An international comparison based on the harmonised index of consumer prices has shown that last year, inflation in Slovenia (3.1%), given the similar factors, was higher than the eurozone level (2.2%; see indicator 1.3).

***After the slowdown of growth in the period 2009–2011, the nominal gross wage in 2012 remained at the level achieved, but in real terms it decreased for the first time in the last 20 years.*** The nominal growth in average gross wage in the private sector considerably slowed down last year (0.5%), and the average salary in the general government sector decreased owing to more stringent austerity measures. In the period 2009–2011, growing unemployment, relatively low inflation and the aspirations of companies to maintain their competitive positions, in addition to the modest economic activity, influenced the average wage trends in the private sector, whereas the nominal growth was relatively high owing to a changed structure of the

[4] Abolishment of subsidised school meals (0.4 pp), reduced subsidy for the second child enrolled in kindergarten (0.1 pp) and increased annual road-user charge (0.1 pp) contributed most to this result.

employed[5] and above all a rise in the minimum wage[6]. In private non-financial corporations, last year the growth in wages, despite the final rise of the minimum wage to the statutory level, was considerably slowed down, which was also a consequence of the lowest 13th month payments and Christmas bonuses in the last eight years. In private financial corporations, the average gross wage even decreased nominally last year. The average wage also decreased in the majority of activities, besides construction particularly in service activities; its growth has slowed down least in industry. The reduction in public sector wages last year (by 0.9%) was ultimately affected by a 3% June reduction in the general government sector payroll. Following the entry into force of the Fiscal Balance Act (ZUJF), the wages of all public employees decreased by 8%; simultaneously the last two quarters of wage disparities were paid out. Before the effective date of the ZUJF, the average gross wage in the general government sector had stagnated for two years and a half; in 2012, it decreased by 2.2% on average. Such wage trends in the general government sector during the last three years were a consequence of austerity measures being adopted, including the amendments, since 2009, as a result of the general economic and fiscal situation[7]. In addition to decreased wages in the general government sector, which represents the major part of the public sector, the growth in wages in public companies slowed down slightly last year, but still remained above average (at 2.0%)[8], as in the past two years.

**The employment[9] in the private sector has been decreasing since the onset of the crisis, whereas in the general government sector it has been increasing.** The number of employees in 2012 was 6.7% lower than in 2008. At the onset of the crisis, their number dropped most dramatically in manufacturing and during the last two years in the construction industry. These two industries experienced the highest total drop during the period 2008–2012; in manufacturing, the number of employees was lower by almost a fifth compared with that in 2008 and in construction by over one-quarter. A relatively high drop in manufacturing is associated with the fact that labour-intensive and technologically less demanding industries experienced the most dramatic fall at the onset of the crisis and subsequently the weakest recovery. The employment in the majority of market services decreased as well. In contrast, the number of employees in the general government sector increased by 10,000 (6.5%) during the crisis, most notably in 2009 and 2010, while during the last two years, growth slowed down[10]. According to the data on the number of active employees, the number of employees in public administration, defence and statutory social security (activity O) has even decreased during the last two years, while the increase in employees in education, health and social security has just slowed down.

***Due to a sharp drop in domestic demand and continued deleveraging of the private sector, the structure of economic activity gradually resulted in a current account surplus.*** After the high deficit in pre-crisis years, the current account balance in the period 2009–2011 was kept near the point of balance; last year, a surplus amounting to EUR 874 million (i.e. 2.5% of GDP) was recorded. The positive current account balance was contributed to by a higher foreign trade surplus, i.e. a smaller goods deficit and a greater services surplus. The trade deficit was strongly reduced due to the fall in domestic demand, which significantly reduced imports, despite considerable slowdown in exports and further degradation of terms of trade. Adverse conditions in the domestic market were also reflected in the trade of services where the growth of exports also exceeded the growth of imports. A decline in disposable income and increased uncertainty among consumers resulted in reduced spending of the domestic population abroad, which, together with higher revenues from foreign tourists, improved the balance of inflows from tourism. The surplus in transport services trade increased as well, while the deficit in the trade of other services decreased; in particular, the balance of trade in licences, patents and copyrights and the balance in construction services improved. The latter indicates that domestic construction companies which managed to survive in the crisis are increasingly searching for opportunities abroad as a result of adverse domestic conditions. Revenue balances and regular transfers, however, deteriorated last year. In particular the revenue inflow and outflow structure reflects the adverse conditions on financial markets, since a lower deficit in the balance of interests last year was above all the consequence of the private sector's reduction of debt and changes in the structure of instruments of general government borrowing (the issue of treasury bills on the domestic financial market). Moreover, last year the payout of profits to foreign direct investors increased while simultaneously the inflows from investments by domestic investors into foreign securities decreased. Net disbursement of EU funds improved last year compared with 2011, but despite

[5] This was the result of redundancies mostly involving employees with low wages, which in statistical terms increased the average wage level. According to our estimates, 0.5/0.2 pp of average wage growth in the private sector (of 5.1%/2.6%) in 2010 and 2011 respectively was a result of the aforementioned effect. The greatest effect was recorded in 2009 (0.9 pp of 1.8%), while last year it was the same as in 2011.

[6] Particularly in 2010, when the new Minimum Wage Act took effect; according to our estimate, above 3 pp of 5.1% of growth in average gross wage in the private sector. In the following two years, the influence was much lower (below 1 pp).

[7] The first austerity measures took effect in the first year following the introduction of the long-planned wage reform, which resulted in a relatively high growth of wages (2008: 10.2%; 2009: 7.0%), i.e. in the period when wages in the private sector started to level off for reasons of the economic crisis.

[8] The growth in public non-finance corporations was 1.9% and in finance corporations 1.5%.

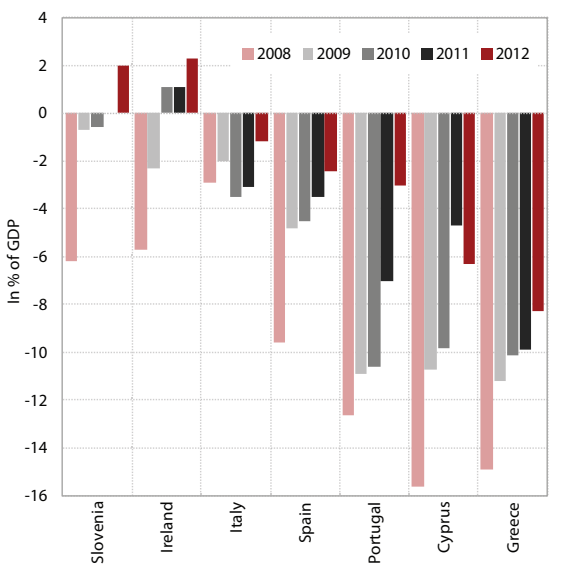
[9] According to the National Accounts statistics.

[10] The inclusion of two companies in the general government sector within the scope of reorganisation of Slovenian Railways was also a reason for a larger number of employees during the crisis, increasing this number by 3,756 in 2011.

this, the current transfers surplus slightly decreased, in particular owing to the increased payment of taxes and contributions abroad.

***We estimate that the improved current account balance is a consequence of cyclic and partially also structural factors; in comparison with so-called vulnerable economies, Slovenia is in a relatively better position according to the external balance indicator and the changes therein.*** It is estimated that the current account balance movement is, on the one hand, a consequence of effects of cyclical factors, because the turning point occurred after the onset of the crisis, when, first due to a relatively low utilisation of production capacities and then due to limited financial resources and the private sector's reduction of debt, investment activities decreased and gradual closing of the saving-investment gap began. On the other hand, certain structural shifts and/or internal adjustments, for example in the field of labour costs, were produced, which could have a positive impact on the sustainability of the current account balance. The cyclical component indicates that with enhanced economic recovery and improved accessibility to financial resources, the current account deficit could increase again. To maintain a sustainable external balance, the strenghtening of structural factors that would have effect through improved cost competitiveness and increased productivity is of key importance. By improving the external balance indicator, Slovenia differs from the majority of vulnerable economies, among which it was ranked by the European Commission[11]. In this group of states, current account deficits were reduced on average during the recession, but they still remained relatively high. Compared with these states, Slovenia has a much lower total external indebtedness (net international investment position), and in consequence lower net outflows from factor income, but at the same time, the domestic saving level is relatively high owing to private sector saving and fiscal consolidation**.**

*Figure 2:* **Current account of the balance of payments in vulnerable EU Member States**




Source: Eurostat Portal Page – National Accounts, 2013.

***Given the more difficult access to international financial markets and further deleveraging of domestic banks abroad, the foreign borrowing last year consisted of state borrowing and cash inflows from the Eurosystem within the long-term bank refinancing operations***. The total gross external debt in 2012 was EUR 40.8 billion (EUR 0.6 billion more than in 2011). The structure of debt flows reflects the adverse situation in the domestic banking system and limited accessibility to foreign financial resources, as well as noticeably increased inflows of Central Bank money from the Eurosystem. Government borrowing (EUR 2.4 billion more than the year before) contributed most to an increasing debt; in February, the government paid off a 1 billion euro bond, but in October issued a ten-year dollar-denominated bond worth EUR 1.7 billion and also borrowed on international market by instruments of short-term borrowing. Last year, domestic commercial banks continued to repay foreign loans; their external debt decreased by EUR 3.6 billion (by EUR 8.6 billion in the period from September 2008 to the end of 2012). Given the more difficult access to international financial markets, part of foreign liabilities was repaid by Central Bank money; last year, the Bank of Slovenia increased its liabilities towards the Eurosystem (by EUR 1.7 billion), particularly within the long-term bank refinancing operations. Last year, corporate borrowing abroad slightly increased as a consequence of increased volume of commercial loans raised to finance imports, whereas long-term financial liabilities decreased for the third year in a row. Last year in the total external debt structure, the share of public debt increased for the third year in a row (at the end of 2012, it was 31.3% of GDP), while in terms of maturity the share of long-term debt (approximately 70%) was slightly decreased. At the end of 2012, Slovenia's gross external debt reached 115.1% of GDP (which is 3.9 pp more than the year before) and has remained considerably below the average eurozone debt, which reached 211.1 % of GDP in 2011.

***Last year, a higher gross external debt had an adverse impact on the net international investment position, where Slovenia slightly exceeds the threshold within the system of macroeconomic imbalance indicators monitored by the European Commission.*** At the end of 2012, the net international investment position[12]

[11] Autumn forecast 2012 (European Commission), 2012. The European Commission evaluation of vulnerable states includes Ireland, Greece, Spain, Italy, Cyprus, Portugal and Slovenia. Apart from Slovenia, Ireland also recorded a current account surplus last year.

[12] The net financial position shows the situation in the total balance of claims and liabilities that the domestic economy has towards foreign countries at the end of each year, using a structure which is equal to the structure of the balance-of-payments financial account. Apart from debt instruments, which are included in the gross external claims and the gross external debt (the difference between the two shows the country's net external debt), the net financial position also includes claims and liabilities relating to ownership relations.

*Table 1:* **Slovenia's international investment position in % of GDP**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| 1 Debt claims | 40.1 | 68.1 | 66.6 | 80.1 | 74.5 | 76.7 | 74.8 | 74.5 | 74.4 |
| 2 Equity claims | 1.0 | 9.7 | 14.3 | 19.4 | 14.6 | 17.2 | 16.9 | 15.7 | 17.6 |
| **3 Total claims (1+2)** | 41.1 | 77.9 | 80.9 | 99.5 | 89.1 | 93.9 | 91.7 | 90.1 | 92.0 |
| 4 Gross external debt | 43.7 | 71.4 | 77.5 | 100.5 | 105.3 | 113.3 | 114.4 | 111.2 | 114.6 |
| 5 Equity liabilities | 9.1 | 17.5 | 20.5 | 20.8 | 19.4 | 20.2 | 20.2 | 20.1 | 22.0 |
| **6 Total liabilities (4+5)** | 52.9 | 88.9 | 98.0 | 121.4 | 124.8 | 133.5 | 134.6 | 131.3 | 136.5 |
| 7 Net external debt/claims (1–4) | -3.6 | -3.2 | -10.9 | -20.4 | -30.8 | -36.6 | -39.6 | -36.8 | -40.2 |
| 8 Net equity debt/claims (2–5) | -8.1 | -7.8 | -6.2 | -1.4 | -4.8 | -3.0 | -3.3 | -4.4 | -4.4 |
| **9 Net investment position (7+8)*** | -11.7 | -11.0 | -17.1 | -21.8 | -35.7 | -39.6 | -42.8 | -41.2 | -43.2 |

Source: BS; calculations by IMAD.

Note: *negative (positive) sign in the balance concerned indicates a net debt (credit) position.

demonstrated a net external debt position amounting to 43.2% of GDP (in 2011 it was 41.2% of GDP). Thus in 2012, Slovenia again exceeded the threshold value of this indicator set by the European Commission within the system of macroeconomic imbalance indicators (–35% of GDP; see Box 1). Slovenia's net international investment position has been deteriorating since 2005, more significantly since the onset of the crisis in 2008, when considerable negative changes in the values of equity portfolio investments were the main factor which contributed to this development, apart from the financing of the current account balance deficit. Given the more difficult access to international financial resources, the deterioration of the net debt position in the following years was the result of the general government's higher net borrowing and increased net liabilities of the Bank of Slovenia, which provided the funds for bank system liquidity through inflows from the Eurosystem within the long-term bank refinancing operations (see Chapter 1.2.). The composition of the international investment position shows a deterioration of the general government sector position due to a long-term bond issue, although holdings of external financial assets slightly increased last year through loans provided to the euro area countries within financial assistance packages. The Bank of Slovenia's net financial position deteriorated as well: the Bank of Slovenia reduced the value of financial assets due to the withdrawal of cash and deposits from foreign accounts, while simultaneously considerably increasing its external debt toward the Eurosystem through long-term bank refinancing operations. The private sector net debt decreased again last year due to the deleveraging of commercial banks.

***After three years of maintaining the general government deficit at about 6%, the fiscal imbalance, including its structural component, was considerably reduced last year through fiscal consolidation measures.*** After three years of maintaining the general government deficit at around 6% of GDP, it was reduced to 4% of GDP in 2012. In comparison with 2011, the deficit was lower by 2.4 pp, and in both years, without taking into account a one-off item of government expenditure[13], the deficit was lower by 1.5 pp. The reduction was reached by certain further interventions into the flexible part of budget expenditure, and in particular by bringing into effect the amendments from the Fiscal Balance Act (ZUJF)[14], which refer to the budget and also to other fiscal budgets and off-budget spending units. Fiscal consolidation was based primarily on the reduction of general government expenditure and also included measures to improve the efficiency of collection and quality of general government revenue. Unlike in the preceding years, considerable fiscal efforts were made in 2012, so that the expenditure dropped for the first time also in nominal terms. Thus a positive step was made and, through the measures based on systemic changes, there was also a deviation from the former predominant approach, which consisted of merely temporary interventions in the flexible part of the budget. Reduction of budget expenditure, supported by amended legislation, was based on three modules: (i) rationalisation of the public sector operation, including reduction of wages and other labour costs and limiting employment; (i) restriction of investments, subsidies and other programmes of spending; and (iii) adjusting labour market and social security policies. A reduction in labour costs, costs of goods and services, and social transfers constributed most to the reduction (see Chapter 3). In addition to fiscal consolidation measures, reductions in corporate income tax burden and investment reliefs were adopted with a view to stimulating economic growth, but their efficiency can only be assessed in the medium term. The adopted measures have resulted in a considerable reduction of cyclically adjusted deficit from

[13] In 2011: the recapitalisation of the bank and some other state undertakings and the assumption of debt of certain undertakings (1.3% of GDP). In 2012: losses of state undertakings covered by recapitalisation, due government guarantees paid, recognition of claims of state undertakings and super dividends (0.4% of GDP).

[14] The Act Amending the Fiscal Balance Act, which modifies more than 39 sector-specific acts, was adopted in the National Assembly on 12 May 2012.

*Box* 1: **Assessment of Slovenia within the framework of the European Commission's excessive imbalance assessment procedure**

***With a view to revealing imbalances at an early stage, in 2012 the European Commission launched its excessive imbalance assessment procedure, which takes into account the results of a set of ten macroeconomic imbalance indicators.*** It includes external imbalance indicators (*current account balance, net international investment position, export market shares, nominal unit labour cost and real effective exchange rate*) and internal imbalance indicators (*house prices, private sector debt, private sector borrowing, general government sector debt and the unemployment rate*). An indicative threshold has been set for each indicator; if this is exceeded, it shows that the country concerned faces a potentially problematic imbalance in a particular area. The indicator reading provides an early warning which is followed by an in-depth analysis to determine whether the imbalance identified is truly problematic. In cases of minor imbalances, the Commission issues preventive recommendations to the Member States, while in serious cases the country concerned has to prepare a corrective action plan. In the event that a country fails to respond adequately, it may ultimately be imposed financial sanctions of up to 0.1% of GDP.

***Since the onset of the crisis, macroeconomic imbalance indicators have pointed to two problematic areas in Slovenia, namely the competitiveness of the economy and the international investment position; furthermore, an in-depth analysis of the EC has highlighted the bank problems in connection with high business sector borrowing.*** The net international investment position has been over the threshold since 2008 and reflects high exposure of domestic banks to foreign financing and general government sector debt, which has increased substantially since the beginning of the crisis. After 2007, Slovenia's net international investment position was also greatly adversely affected by losses incurred in property values by Slovenian investors abroad (see more in Chapter 1.1). An upward trend in unit labour costs and a downward trend in market share on the global market recorded since the onset of the crisis indicate a deterioration of competitiveness. The weakening of cost competitiveness ended in 2011, when the reading of a scoreboard indicator for assessing imbalances (referring to a three-year cost increase) dropped slightly below the threshold for the first time since 2008. Given the significantly less favourable ratio between labour costs (share of wages) and GDP compared with the EU average – which was recorded even before the crisis – and its substantial deterioration in the period between 2008 and 2010, improvement in cost competitiveness remains Slovenia's great challenge (see more in Chapter 1.3.). Along with an intense cost pressure and unfavourable export geographic and product structure seen at the onset of the crisis, a gradual decrease in Slovenia's export competitiveness was also recorded in the period 2008–2010 (see more in Chapter 1.3.). In 2011, the indicator measuring a five-year percentage change of export market share slightly exceeded the threshold value specified within the excessive imbalance assessment procedure. Given a relatively low household debt, private sector borrowing does not exceed the threshold values; however, a particular problem lies in the corporate sector's high debt, showing an unfavourable debt to equity ratio, which represents a major obstacle to the economic recovery in the present crisis situation. The issue of corporate sector deleveraging and related pressure on banking stability was indicated as a serious imbalance by the European Commission in its in-depth review for Slovenia for 2012 and report on macroeconomic imbalances for 2013 (In-Depth Review for Slovenia, 2012; Alert Mechanism Report – 2013, 2012).

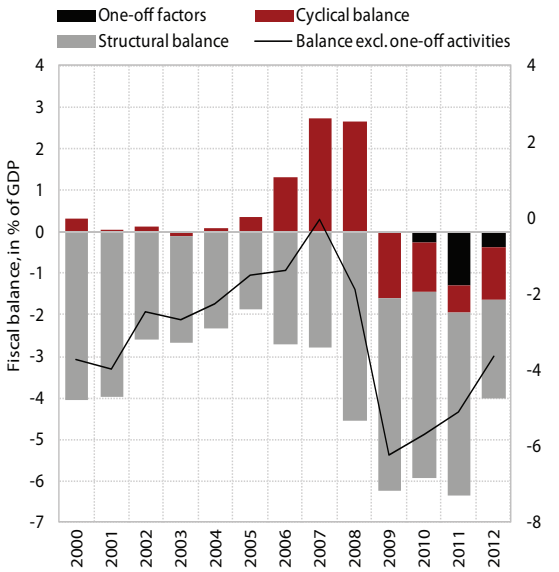
*Table:* **Results of macroeconomic imbalance indicators for Slovenia**

| | Indicator/Threshold | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| External imbalances | Current account, % of GDP (3-year average) | +6/-4 % | -1.9 | -0.5 | 0.1 | -0.8 | -1.7 | -2.3 | -3.0 | -4.5 | -3.9 | -2.5 | -0.4 |
| | Net international investment position, % of GDP | -35 % | -2 | 0 | -6 | -8 | -11 | -17 | -22 | -36 | -40 | -43 | -41 |
| | Real effective exchange rate (HICP deflator), 3 years % change | +/-11 % | -2.5 | 0.2 | 5.3 | 4.6 | 1.7 | -0.7 | 1.0 | 4.2 | 5.7 | 2.4 | -0.3 |
| | Share of world export (goods and services), 5 years % change | -6 % | -6.2 | 5.4 | 3.4 | 16.4 | 27.0 | 17.6 | 18.7 | 11.1 | 6.0 | -4.5 | -6.1 |
| | Nominal unit labour cost index, 3 years % change | +9 % | 22.2 | 24.0 | 20.6 | 14.6 | 9.7 | 6.2 | 5.2 | 10.3 | 18.4 | 15.9 | 8.3 |
| Internal imbalances | House prices index, year–on–year % change | +6 % | | | | 9.6 | 13.1 | 14.2 | 17.4 | 1.5 | -10.4 | -1.3 | 1.0 |
| | Private credit flow in % of GDP | 15 % | | 8.6 | 8.7 | 9.6 | 13.6 | 13.9 | 23.5 | 18.3 | 4.1 | 1.8 | 1.9 |
| | Private debt, % of GDP | 160 % | 64 | 67 | 71 | 75 | 85 | 91 | 106 | 117 | 127 | 128 | 128 |
| | General government gross debt, % of GDP | 60 % | 27 | 28 | 27 | 27 | 27 | 26 | 23 | 22 | 35 | 39 | 47 |
| | Unemployment rate, 3-year average | 10 % | 6.8 | 6.4 | 6.4 | 6.5 | 6.5 | 6.3 | 5.8 | 5.1 | 5.0 | 5.9 | 7.1 |
| | Total financial sector liabilities, unconsolidated, year–on–year % change | 16,5 % | | 24.3 | 12.6 | 11.5 | 17.7 | 13.8 | 28.5 | 6.6 | 7.4 | -3.4 | -1.3 |

Source: Eurostat portal page – Macroeconomic imbalance procedure statistics, 2013.

Note: Indicators found to exceed the threshold value by the EU excessive imbalance procedure are marked grey.

*Figure 3:* **General government balance, Slovenia**




Source: Main aggregates of the general government sector (SURS), 2013.

-5.7% of GDP in 2011 to -2.7% of GDP in 2012 (structural deficit[15] from –4.4% of GDP to –2.4% of GDP) for the first time since the onset of the economic crisis.

***Last year's increase of EUR 2.2 billion in the general government debt was intended for the covering of deficit and refinancing of liabilities from the past and current years; the repayments of interests have also increased.*** In 2012, the general government debt amounted to 54.1% of GDP, which was 7.2 pp more than the year before. In addition to a nominal increase in debt, a higher debt percentage in GDP was also a result of the nominal decrease in GDP (by 2%). The increase in the general government debt in the total amount of EUR 2.2 billion on the basis of the issued dollar bond (EUR 1.7 billion), treasury bills and loans taken was intended to cover the deficit and last year's financial liabilities[16], and in part also included preliminary borrowing for the purpose of financing the liabilities in the current year. Although the increase in the general government debt last year was less intensive in absolute and relative terms than in the preceding years, it was again among the highest increases in the euro area. The growth of public debt was accompanied by increased costs of its financing (last year, interest expenses amounted to EUR 748 million[17], which is 2.1% of GDP or 0.2 pp more than in 2011). Considering the fiscal consolidation and the commitment to further reduce the deficit, this means that last year, higher interest expenses were already largely crowding out other expenses. In the medium and long term, another of the risk factors for increasing the public debt is publicly guaranteed debt, which, however, was reduced by EUR 1.6 billion last year, after a considerable increase in the preceding three years as a result of state sureties and guarantees for alleviating the effects of the financial crisis. At the end of 2012, it amounted to EUR 5.3 billion, or 14.9% of GDP (in 2011, it amounted to 19.0% of GDP). The decrease (by EUR 1.4 billion) was mostly the consequence of the concluded guarantee scheme for domestic financial institutions. The volume of the sureties and guarantees exercised, which rose slightly in the past two years, remains relatively low (EUR 23.5 million at the end of 2012).

***The further growth of debt was accompanied by increased costs of its financing last year, which, in addition to domestic factors, was contributed to by the general deterioration of conditions in the Eurobond market in the middle of the year.*** Since March 2012, the expected yield on Slovenian government bonds has been relatively high and similar to that of the group of vulnerable economies in the euro area; their dynamics, in addition to the specific domestic factors, was influenced by the common factors in the euro area. In the middle of the year, the expected yield on Slovenian ten-year government bonds was strongly influenced by the adverse conditions in domestic banks, frequent hints that a request for foreign financial assistance may be necessary, and, towards the end of the year, factors associated with political instability. In August, all major agencies downgraded Slovenia's credit rating and maintained the negative outlook for future ratings. General conditions on the international financial market also had a strong impact on the movement of the expected yield. Until autumn, these conditions continued to deteriorate and confidence in the majority of the euro area countries was falling. The aggravated conditions in Spain and the likelihood of its applying for financial bailout in June boosted the growth of the expected yield in other high-risk eurozone countries, including Slovenia. In September, the ECB measures and EU action regarding further economic and monetary union integration and uniform banking supervision improved the mood on the European financial markets, which contributed to lowering the expected yield on the Slovenian government bonds to around 5% at the end of the year.

## 1.2 Financial sector

***The economic crisis has revealed the weaknesses of the Slovenian financial system, which has shrunk in recent years, and the development lag behind the EU average in most areas has been increasing.*** The increase in development gap is most evident in market capitalisation as an indicator in relation to GDP, as it only amounted to just over one-fifth of the EU average in 2012. Poor liquidity, poor transparency and a shrinking offer of the Slovenian capital market discourage potential investors. In the past, this strongly affected

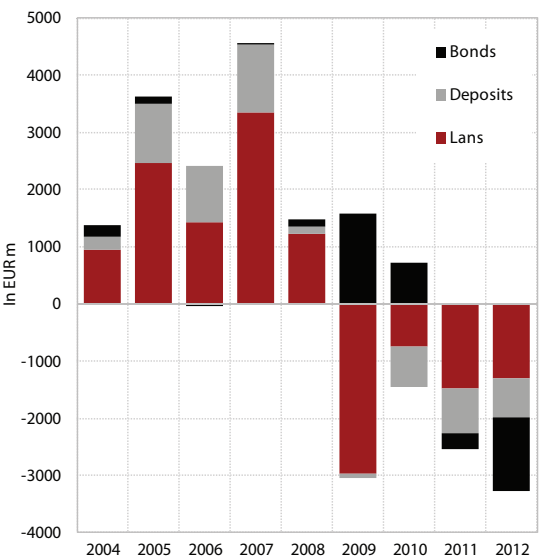
[15] Structural deficit is cyclically adjusted deficit free of the influence of specific one-off transactions.
[16] Part of financial liabilities for 2012 was also covered by the borrowing in 2011, when the increase in debt exceeded the funds required to finance the deficit.
[17] According to ESA95 methodology.

the financial structure of the Slovenian economy, which mostly depends on debt financing, i.e. the financing that was reduced most during the crisis. Thus in 2012, the index value of total bank assets (in relation to GDP) was 16.4 pp lower than the highest level (in 2009). The least affected among all segments of financial intermediation were insurance activities, where the total insurance premiums have not shrunk significantly. It is estimated that this is the consequence of two factors: the maturity of insurance contracts, which are normally long term, and the structure of insurance premiums, because the major part of all insurance premiums still consists of non-life insurance premiums, which are thought to be less sensitive to changes in the incomes of insured persons.

***An above-average share of banks in the financial system, characteristic of the financial structure of the Slovenian economy, is one of the major obstacles to the recovery of the economy, given the current problems of the banking system.*** Banks in Slovenia comprise more than three-quarters of financial assets of all financial intermediaries, whereas this percentage in the EU as a whole is more than 20 pp lower. Loans are thus an important source of financing for Slovenia's economy and have shorter maturities than other financing sources, such as capital and debt securities. During the economic take-off in the period 2004–2008, loans were the main source of financing for Slovenia's economy. During the loan expansion in the period before the crisis, the banks financed the major part of their investments through foreign borrowing and were much less focused on deposit sources of financing. In the pre-crisis period, Slovenia thus recorded one of the major increases in the ratio between loans and deposits in non-banking sectors. During the crisis, such a method of financing strongly reinforced liquidity pressures on the banking system, which, owing to the liabilities to foreign banks becoming due and very limited possibilities for their refinancing, was forced to considerably reduce its investment volume. The European Commission's analysis within the excessive imbalance assessment procedure in the EU Member States showed that an important imbalance in Slovenia's financial sector emerged in the period before the financial crisis, when the increase in the financial sector's financial liabilities, in particular owing to bank borrowing over the years, exceeded the threshold value determined in the alert mechanism for the early detection of imbalances (see Box 1). The growth of financial liabilities at first slowed down upon the onset of the crisis, and the financial sector made a net repayment of liabilities in 2010 and 2011[18]. An important part of this is associated with the deleveraging of the Slovenian banking system abroad. The banks largely compensated the loss of foreign sources of financing by increased ECB financing, which reached EUR 4 billion at the end of 2012, which is approximately 2.2 times more than at the end of 2008. At the beginning of the crisis, an important share of financing resources was also provided by the state, but this was brought to an end after 2011 due to adverse fiscal conditions and unfavourable trends on financial markets.

***The problems in Slovenia's banking system deepened in 2012.*** Banks continued to make net repayments of deposits and loans of foreign banks; moreover, bonds issued with state guarantees also matured in the same year. At the same time, banks strengthened additional provisions and impairments due to the increasing share of bad loans. Banks still did not have access to fresh sources of financing on international financial markets. This was a consequence of adverse conditions both in the Slovenian banking system and on international financial markets. In 2012, banks made net repayments of EUR 3.3 billion of liabilities to foreign banks (the total amount since the onset of the crisis was EUR 9.1 billion[19]), which is about 30% more than in 2011. This prompted a further decline in investments by the banking system, which was most painfully felt by Slovenian enterprises. At the end of 2011 and the beginning of 2012, liquidity pressures were relieved by the ECB's non-standard measures granting Slovenia's banks long-term funds with a maturity of three years. It is estimated that this slightly slowed down the decrease in loans granted to the Slovenian economy. However, on the basis of data provided by the Bank of Slovenia, it is estimated that liquidity pressures on Slovenia's banks will be reinforced upon the expiry of these measures, i.e. at the end of 2014. This points to the risk of further shrinking in the lending activities of Slovenia's banks if the accessibility of fresh sources of financing is not improved.

*Figure 4:* **Net flows of foreign sources of financing in Slovenia's banking system**




Source: BS; calculations by IMAD.

[18] Reduced financial liabilities were for the most part a consequence of shrinking liabilities towards financing sources of other monetary and financial institutions (banks) and financial intermediaries with the exception of insurance companies and pension funds.

[19] This comparison refers to September 2008, when the adverse conditions in the financial sector began to escalate considerably.

*Box* 2: **Private sector indebtedness**

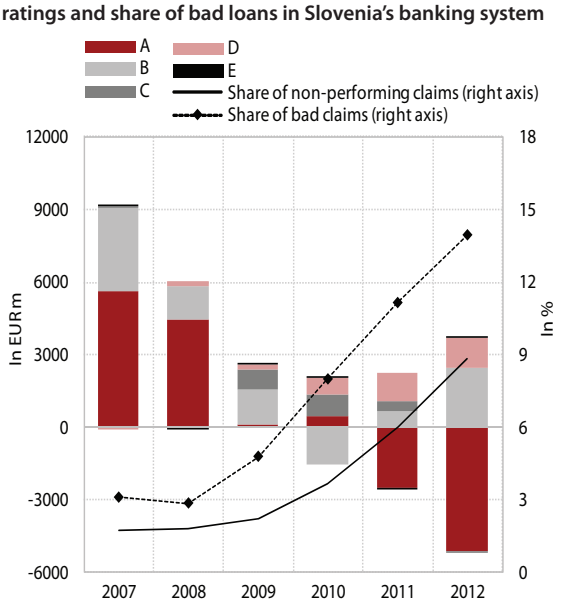
***The high private sector debt results from a significant increase in borrowing recorded in the period before the economic crisis.*** The growth in private sector credit (measured as the ratio between net credit flow and GDP) accelerated substantially in the years leading up to the crisis. In 2007 and 2008, Slovenia significantly exceeded the threshold reading on borrowing (15% GDP) in the macroeconomic imbalance scoreboard of indicators monitored by the European Commission. The onset of the crisis brought a considerable slowdown in borrowing; in 2011, for the second year in a row, borrowing was below 2% of GDP. A discontinued growth in private sector borrowing (measured as the ratio between debt and GDP) was also recorded; in 2011, it stood at the unchanged level of just over 128% of GDP and remained below the threshold value (160% GDP) set within the EU excessive imbalance assessment procedure. Household debt level (30.5% of GDP) recorded a slight further decrease, while corporate debt continued to grow and was only slightly below the EU average.

***There is high indebtedness recorded in the corporate sector.*** A deteriorating debt-to-equity ratio indicates a problem of increasing indebtedness; in recent years, this ratio has been affected by diminished equity volume of Slovenian companies resulting from negative trends on the capital markets and also from their poor business results. Given the fact that the growth in borrowing in the period 2005–2008 originated mostly from debt financing of companies through banks, it has to be pointed out that liabilities to banks are concentrated in a relatively small number of companies. AJPES data for 2011 show that 1.6% of all companies accounted for 80% of total liabilities to banks[1]. We estimate that larger companies had easier access to bank financing compared with smaller companies[2], which might be attributed to the latter's lesser influence and weaker negotiating powers and also to the limited availability of information about their performance used by the creditors when deciding on financing. Operating liabilities were an important debt financing source for companies from the first quintile; they exceeded, almost twofold, liabilities to banks, other financial liabilities and, to a lesser extent, financial liabilities to other companies in the group.[3] We believe that this can be attributed to the fact that the limited bank financing made the companies use other debt sources (e.g. commercial loans). Most companies are thus highly exposed to their business partners.

[1] AJPES analysis of the annual accounts of 57,177 companies registered in Slovenia in 2011; companies' financial liabilities to banks were divided into quintiles of approximately equal size. Financial sector companies (primarily leasing companies) and DARS were excluded.
[2] The largest number of companies is found in the first quintile.
[3] This financing method was also typical of the mainly foreign-owned companies, as they made use of the more favourable financing terms in the market available to their parent companies/owners.

***Last year, the quality of bank assets deteriorated drastically for the fourth year in a row.*** This process was still burdened by deterioration in the quality of claims in activities associated with the construction sector and takeover activities; at the same time, in 2012 there was a considerable deterioration of the claims in other activities[20], which is estimated to be the consequence of a general deterioration of conditions in the economy. Bad claims[21] increased by over 20% and totalled EUR 6.7 billion at the end of the year, or 14% of total bank exposure. The volume of C-rated claims has slightly decreased, which may point to a gradual slowing down in the deterioration of the quality of bank assets, and may also be the result of a slightly increased volume of transfers among non-performing claims[22]. These totalled EUR 1.2 billion last year and were almost 10% higher than in 2011. At the same time, a considerable decline in A-rated claims was recorded in 2012: at EUR 5.1 billion, double the amount recorded the year before[23]. It is estimated that this is partly due to downgrading the credit ratings of individual borrowers, which turns their debts into lower rated loans, and partly also to the net repayment of loans by the high-quality borrowers, which results in a further deterioration in the quality of bank assets. Such trends may be extremely harmful for Slovenia's banking system in the long term, because the share of clients with poor credit ratings would increase considerably, while the first-rate clients would turn to other sources of financing (foreign and commercial loans). As a result of the rapid

*Figure 5:* **Increase in debts according to individual credit ratings and share of bad loans in Slovenia's banking system**




Source: BS; calculations by IMAD.

[20] In particular manufacturing industries.
[21] C-, D- and E-rated loans.
[22] D- and E-rated loans.
[23] In 2009 and 2010, A-rated debts were still increasing.

*Box 2*: **Private sector indebtedness -** *continue*

*Table 1*: **Corporate indebtedness by quintiles with regard to financial liabilities to banks, Slovenia, 2011**

| Quintile | Financial liabilities to banks | Financial liabilities to companies in the group | Other financial liabilities | Operating liabilities | Value added | Average number of employees per company | Number of companies | Share of liabilities to banks in total liabilities (in %) |
|---|---|---|---|---|---|---|---|---|
| | v mio EUR | | | | | | | |
| 1 | 4,038 | 2,840 | 4,098 | 11,416 | 10,316 | 5 | 56,257 | 9.7 |
| 2 | 4,038 | 342 | 611 | 2,135 | 1,833 | 71 | 679 | 36.5 |
| 3 | 4,034 | 185 | 271 | 1,546 | 1,822 | 214 | 176 | 36.4 |
| 4 | 3,955 | 287 | 523 | 1,728 | 1,879 | 684 | 49 | 31.0 |
| 5 | 4,134 | 262 | 848 | 1,421 | 1,342 | 1,562 | 16 | 39.2 |
| Total | 20,200 | 3,917 | 6,351 | 18,245 | 17,192 | 8 | 57,177 | 23.2 |

Source: AJPES, calculations by IMAD.

***The strong indebtedness of the Slovenian corporate sector is also indicated by an unfavourable ratio of debt to free cash flow (EBITDA).*** Arranged by the debt-to-EBIDTA ratio, only 28% of companies have a ratio lower than 5 (and higher than 0), which is a value that is regarded as sustainable for this ratio. In 36% of companies the debt-to-EBITDA ratio is higher than 5, while in all other companies, which account for only 3% of the total corporate value added, the value of the free cash flow is negative (31%) or equal to zero (4%).

*Table 2*: **Corporate indebtedness in terms of debt-to-EBITDA ratio, group limits in indicator values of 0 and 5, Slovenia, 2011**

| Groups by debt-to-EBITDA ratio | Financial liabilities to banks | Financial liabilities to companies in the group | Other financial liabilities | Operating iiabilities | Value added | Average number of employees per company | Number of companies | Share of financial liabilities to banks in total liabilities (%) | Debt-to-EBITDA (group average) |
|---|---|---|---|---|---|---|---|---|---|
| | v mio EUR | | | | | | | | |
| 1 (below 0) | 3 207 | 1 095 | 1 446 | 2 689 | 493 | 2.5 | 17 728 | 28.0 | -19.0 |
| 2 (0¬-5) | 1 997 | 419 | 872 | 4 038 | 7 455 | 9.0 | 16 195 | 8.2 | 2.3 |
| 3 (over 5) | 14 906 | 2 397 | 3 979 | 11 442 | 8 431 | 11.8 | 20 808 | 29.2 | 12.1 |
| EBITDA=0 | 89 | 7 | 54 | 76 | 0 | 0.0 | 2 446 | 37.0 | 0.0 |
| Total | 20 200 | 3 917 | 6 351 | 18 245 | 16 379 | 7.6 | 57 177 | 23.2 | 8.6 |

Source: AJPES, calculations by IMAD.

deterioration in the quality of bank assets, the banks continue heavily to create additional provisions and impairments, which amounted to EUR 1.5 billion in 2012, which is by 30% more than in 2011.

***Low lending activity of banks remains one of the most important reasons for low economic activity.*** In 2012, the volume of loans to domestic non-banking sectors was reduced by EUR 1.3 billion, which is a reduction of 60% more than in 2011. The banks, due to strong liquidity pressures, further deterioration in the quality of bank assets and modest capital adequacy, severely limited the assuming of additional risks; at the same time, poor economic conditions kept demand for loans at a low level. The banks thus strengthened only their exposure to the state, while lending to households and enterprises decreased. The volume of loans to households was reduced by around EUR 185 million. Compared with past years, borrowing in the form of housing loans stabilised considerably also due to uncertain conditions in the real property market, while the repayment of consumer loans more than doubled. Along with poor conditions in banking, modest borrowing by households is also attributed to adverse conditions in the labour market and the resulting diminishing creditworthiness of households and highly uncertain conditions in the real property market. In 2012, the volume of loans granted to enterprises and NFIs dropped sharply and totalled EUR 1.6 billion. The sources of financing available to the Slovenian economy were limited in 2012 to such an extent that the enterprises and NFIs also repaid loans raised abroad amounting to EUR 28.4 million. The repayments made were on short-term loans, while the long-term net borrowing (EUR 50 million) even slightly increased in comparison with 2011.

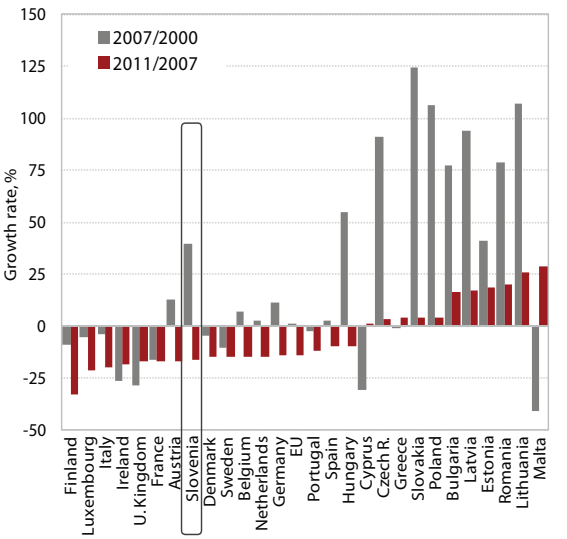
***In addition to their direct impact on economic activity due to the credit crunch, poor conditions in the banking system also exacerbate economic conditions through pressures on public finances; therefore the rehabilitation of the banking system is urgent.*** Poor conditions in Slovenia's banking system were first reflected in the need for fresh capital, mainly in the banks in which the state is an important owner. Recapitalisations of banks by the state caused further deterioration of public finance, constituting, together with poor conditions in the financial system, the key reason for the credit rating downgrades of both banks

and the state. This made the borrowing on international financial markets more expensive and severely limited the accessibility to such sources of financing. Thus the corporate sector's accessibility to loans has become increasingly restricted even for those entities that are not deeply in debt and that see business opportunities in the crisis. This has further impeded economic activity, thus further increasing the pressure on public finances. Because weak lending to clients with the best ratings is reflected in the increasingly poor business results of Slovenia's banking system, the banks' need for fresh capital is again increasing. This, combined with the lack of interest in Slovenia's banks among foreign investors, could again increase the pressures on the public finances. There is a considerable risk, then, that the flow of risks between the banking system and the public finances could escalate further, so the situation in the banking system should be remedied as soon as possible in order to render it capable again of performing its function of funding the economy, in particular those enterprises that are not deeply in debt and that also have business opportunities in the crisis. With this purpose, at the end of 2012 the government adopted the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability[24], which, in order to provide the stability of Slovenia's financial system, determined the following measures: (i) purchase or acquisition against payment of bank assets; (ii) Government guaranties for strengthening the stability of banks; and (iii) increasing the banks' share capital. At the same time, the Slovenian Sovereign Holding Act[25] was adopted. Its main purpose is to improve the managing of state capital investments, since poor management of state-owned banks is one of the main reasons for the bad situation in Slovenia's banking system.

## 1.3 Competitiveness of the corporate sector

***Export competitiveness has deteriorated considerably during the crisis.*** During the period between 2008 and 2011, Slovenia lost approximately 15.9% of its world merchandise market share and 6.7% with its most important trade partners. The sharpest drops were recorded in 2008 and 2010[26], while in 2011 its share remained approximately the same as in the previous year. The falling trend in Slovenia's market share came to a halt in 2011, this resulting from an increase in the EU market share, which was no longer much (just 1.5%) behind the pre-crisis (2007) level. The falling of the non-EU market share, which was the most dramatic during the crisis, also slowed down. The product structure in 2011 showed a growing trend in the market share of high-tech and low-tech products, whereas the falling trend in medium-tech products and labour-intensive products continued. The market share of high-tech products thus closely approached the pre-crisis level. The market shares of low-tech products and labour-intensive products lagged behind the pre-crisis level the most (by about a quarter), whereas the shares of medium-tech products and resource-intensive products were lower by around 15%. The contraction of world market shares during the crisis was characteristic for the whole of the EU; however, Slovenia was ranked eighth in the group of countries with a relatively sharp drop during the 2008–2011 period. This points to a relatively strong decline in our export competitiveness, which is worrying particularly in light of the first data for 2012, which indicate that the disruption in the falling market share trends in 2011 was only temporary.[27]

*Figure 6:* **Change in market share in the period before the crisis and during the crisis in the EU Member States**




Source: United Nations Commodity Trade Statistics Database, 2012; calculations by IMAD.

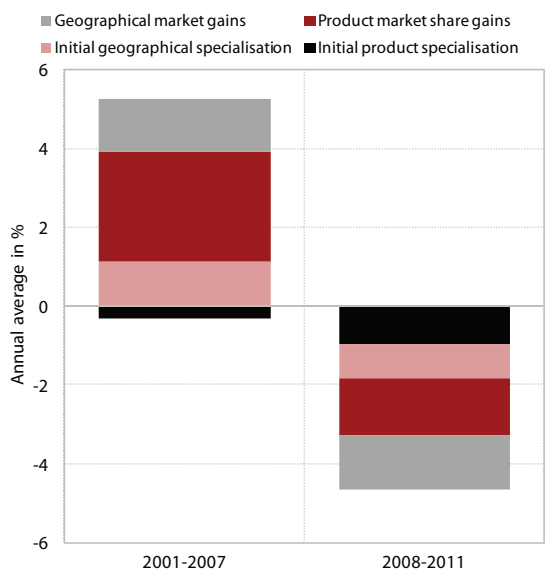
Note: The market share is calculated as the share of exports of a particular EU Member State in world merchandise exports.

***In addition to reduced export performance, the decline in export competitiveness during the crisis was also due to the product and regional composition of our exports.*** The regional and product composition of Slovenian exports, which is the result of the past export strategies and competitive advantages and also the geographic location of Slovenia, contributed approximately two-fifths to the decline in the world market share in the period 2008–2011, while the rest of the reduction was the consequence of poorer performance of our exports on foreign markets (e.g. due to non-competitive prices, inferior quality and lack of adaptability to the local taste). The negative impact of the regional and product export composition explains the above-average high share of goods (approx. 85%) which Slovenia exports to the EU market and the markets of the former Yugoslavia, where the growth in import demand was modest during

[24] ZUKSB, Official Gazette of the RS, No. 105/2012.
[25] ZSDH, Official Gazette of the RS, No. 105/2012.
[26] A relatively low drop in export share in 2009 was mostly due to the temporary high increase in the export of road vehicles associated with the incentives for their purchase in certain EU Member States at the beginning of the crisis.
[27] See indicator 1.12.

the crisis. Slovenia, however, was less present on the markets with a relatively high growth in import demand in that period (in particular the Asian and Latin American markets). At the same time, the import demand for food, raw materials and energy products, whose share in our exports is relatively low, increased most considerably during the crisis. The growth in import demand for manufacturing products, in particular products classified chiefly by material, machinery and transport equipment (vehicles), and partly also miscellaneous manufactured articles (furniture) with relatively high shares in the structure of our exports, was also lower. The falling export competitiveness since the beginning of the crisis can be largely attributed to insufficient past restructuring of the Slovenian economy towards high-tech products and rapidly growing markets. In addition, the European Commission (*A Closer Look...*, 2012) concludes that a relatively high decline or fluctuation in the market shares of small EU countries during the crisis is also a consequence of their small economies, which usually depend on a small number of products (smaller opportunities for the exploitation of the economies of scale) and export markets, which reduces the diversification of their exports.

*Figure 7:* **Shift-share decomposition analysis of Slovenia's global merchandise market share**



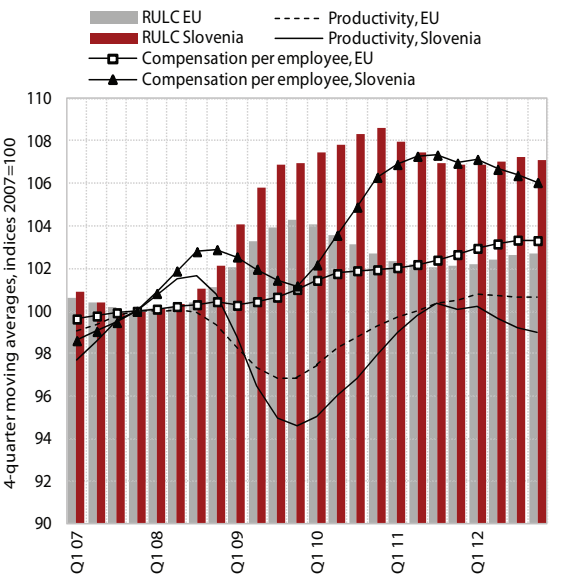

Source: United Nations, UNCTAD, 2012; calculations by IMAD.

Note: The product and geographical composition in the base year (initial product and geographical specialisation) indicate whether a country is specialised in fast-growing product markets and whether trade partners are fast-growing geographical destinations. The remaining two components, market share gains in geographic destinations or in product markets, show whether market shares increased within geographical markets and product markets. The latter two components represent the export competitiveness in the period analysed. Shift-share decomposition is made separately for the geographical and product component. Therefore the change in the market share as shown in the figure is equal to the sum of all four components divided by two (A Closer Look... V. Quarterly Report on Euro Area, 2012).

***Among price factors, increasing unit labour costs in particular affected the economic competitiveness.*** At the onset of the crisis in 2009, Slovenia was faced with a considerable drop in productivity, but at the same time it still recorded a relatively high growth of labour costs per employee in 2008 and 2010. In 2008, this was a result of the partial payout of wage disparities in the public sector and adjustment of wages to the inflation and productivity increase in the past, and in 2010 to the statutory increase of the minimum wage[28]. The combination of a drop in productivity and growing labour costs strongly accelerated the increase in unit labour costs during the first years of the economic crisis, so the deterioration in cost competitiveness (measured by real effective exchange rate and real unit labour costs) was among the worst in the EU.

***The decline in cost competitiveness in the crisis period is still considerably larger than in the EU overall.*** The gap with the EU, where labour costs reacted more swiftly to economic changes than in Slovenia, has slightly decreased in 2011 and 2012, through a slowdown in the growth of wages, but still remains wide. In 2012, real unit labour costs in Slovenia were around 7% higher than in 2007 (in the EU around 3% higher). The real effective exchange rate[29] lagged behind the pre-crisis level less due to a simultaneous drop of the euro (higher by 2.3% – data for the first three quarters of 2012), but in the majority of the EU Member States it was already lower than before the crisis. Less negative trends were recorded in terms of price competitiveness. In 2012, the real effective exchange rate deflated by consumer prices was, after a three-year depreciation, slightly below the level from the pre-crisis year 2007. However, most other EU Member States experienced an even larger fall in the

*Figure 8:* **Real unit labour costs in Slovenia and the EU**




Source: Eurostat Portal Page – Economy and Finance, 2012; calculations by IMAD.

Note: Real growth in labour productivity and compensation of employees per employee (GDP deflator).

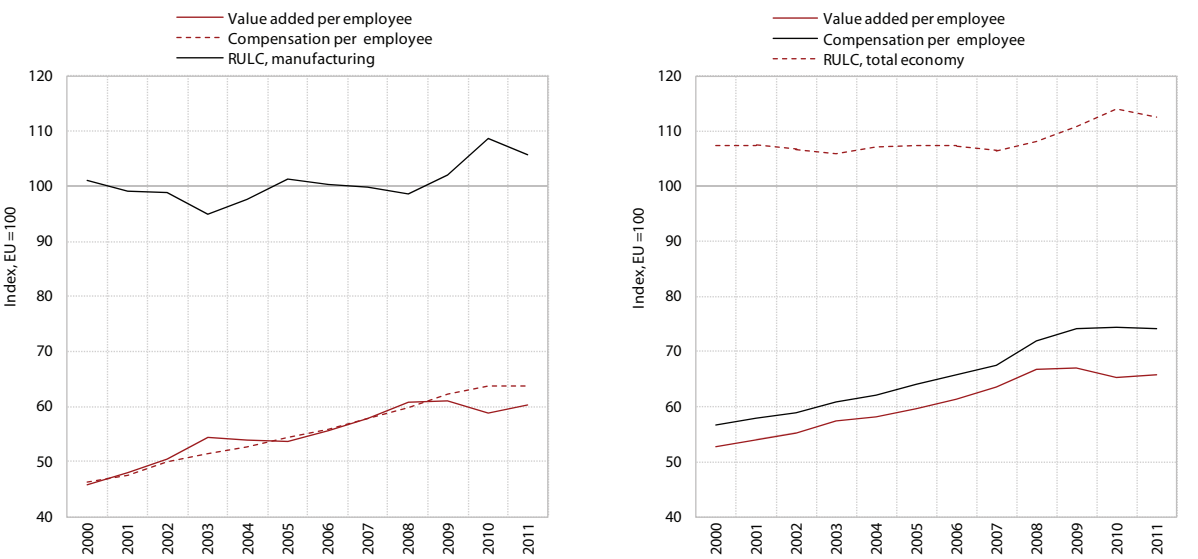
[28] In March 2010, the minimum wage was increased by 22.9% by the Minimum Wage Act, but due to a possible further gradual increase (by the end of 2011), its actual increase was less (in March 2010, it increased by 15.7% compared with the previous month).

[29] Deflated by relative unit labour costs.

real exchange rate during this period, because the effect of the reduced euro value on our price competitiveness was relatively low (owing to a greater focus of our trade on the EU market)[30].

***The deterioration in cost competitiveness in the period 2008–2011 was slightly less pronounced in the tradable sector, which also differs less from the EU average in terms of unit labour costs than is the case for the entire economy.*** The adjustment of unit labour costs in manufacturing, as the most export-oriented part of our economy, was faster in the years following the 2009 strong increase than in the economy, so in 2012 the pre-crisis level was exceeded slightly less in manufacturing than in the entire economy[31]. A similar trend was recorded in traditional market services (trade, transport and catering services), which are more exposed to foreign competition than other services. In both sectors, the ratio of labour costs to value added per employee (wage share) in the pre-crisis period was approximately equal to the EU average, but with the onset of the crisis, it deteriorated slightly more than in the EU. On the other hand, unit labour costs in the entire economy were higher than in the EU even prior to 2008, and during the crisis this gap has widened even more than in the tradable sector[32]. Relatively high unit labour costs in Slovenia's economy in comparison with the EU are the result of several factors, in particular (i) higher labour taxation on account of high social security contributions[33]; (ii) differences in the structure of the economy[34]; and (iii) relatively high unit labour costs in certain industries, in particular agriculture[35], followed by the mining industry, energy industry and water supply and professional, scientific and technical services.[36] Due to an extreme drop during the crisis, the construction sector also has a very unfavourable ratio of labour costs to value added compared with the EU; however, the unit labour costs before the crisis were much lower than in the EU. The tradable sector records minor deviations from the EU average, which is stimulating in terms of export competitiveness, but the increase in cost-effectiveness in the non-tradable sector is also important. Its lack of effectiveness can gradually spill over into export-oriented activities through higher prices (for example services) and thus reduce their profitability and competitiveness.

*Figure 9:* **Ratio of labour costs to value added per employee (wage share) in manufacturing (left) and Slovenian economy (right)**




Source: Eurostat Portal Page – Economy and Finance, 2012; calculations by IMAD.

Note: RULC – Real unit labour costs calculated as the ratio between the compensation per employee and value added per employee.

[30] The improvement in price competitiveness in Slovenia was slightly inferior also due to an increase in relative prices, which was mostly the influence of a one-off factor, i.e. the rise in the prices of school meals owing to elimination of the government subsidy for school meals.

[31] In 2012, labour costs per unit of value added in the entire economy were by 8.5% higher than in 2007, in manufacturing by 7.2% and in traditional market services (GHI) by 6%.

[32] In 2011, a unit of value added was generated by 0.747 units of labour costs, whereas the EU average was 0.653. In 2007, the ratio between labour costs per employee and value added per employee was 6.5% higher than the EU average, but in 2011 it was already 12.6% higher (in manufacturing 5.7% and in traditional market services 3.7% higher).

[33] See Chapter 3.1: Quality of public finances.

[34] In particular due to a relatively small share of financial intermediation and real property activities, where the ratios of labour costs to value added are relatively low, and a higher share of industry, where the ratios are higher on account of a relatively high share of labour-intensive industries.

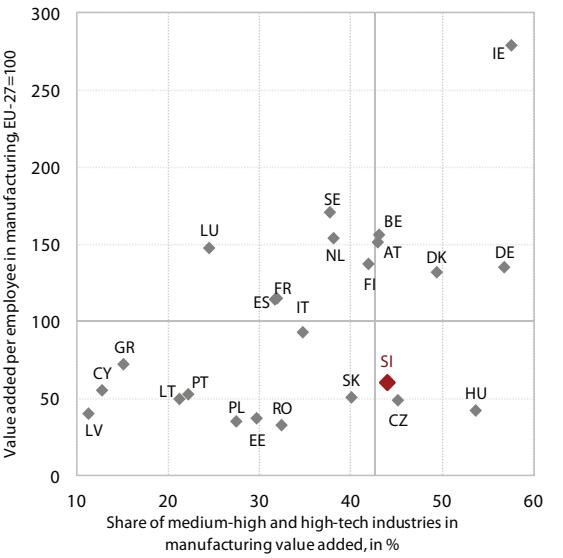
[35] With a large number of small farms and considerably larger share of self-employed persons, which results in relatively high unit labour costs. By excluding the agricultural sector, the differences in the ratios achieved between Slovenia and the EU average are reduced by slightly less than a third.

[36] See Chapter 1.3.1: Services.

***The share of more technology intensive industries and products has remained higher than before the onset of the crisis despite recent reductions.*** A strong drop in less technology intensive and less competitive manufacturing industries during the crisis was accompanied by a considerable increase in the share of industries of higher technology intensity between 2008 and 2010, even exceeding the EU average. In 2011, it slightly decreased but still exceeded the 2007 level by around 3 pp. Similar changes were recorded in the structure of goods exports, where the share of high-tech products increased rapidly in 2008 and 2009, only to drop again slightly in the following two years, though still remaining considerably higher than before the crisis. In contrast to the structure of manufacturing industries, the technological structure of goods exports is still considerably lagging behind the EU average[37], reducing the competitiveness of our exports. In 2011, the share of high-tech products was another 6 pp lower than the EU average and the share of low-tech and labour-intensive products was 4.5 pp higher than the EU average.

***The lag of productivity in manufacturing behind the EU average has not decreased since the beginning of the crisis.*** Besides structure, productivity is of key importance for competitiveness (value added per employee), which has been fluctuating at around 60% of the European average in the manufacturing industry since the onset of the crisis. Such a gap in productivity is surprising considering the relatively high share of more technology intensive industries in the value added of the manufacturing industries and shows that the products of more technology intensive industries are not necessarily ranked among the products with a high value added (per employee). This points to a considerable lag behind the EU in the share of high-tech products exported, and also to the fact that the majority of more technology intensive industries (with the exception of the pharmaceuticals industry) are among those that lag considerably behind the EU in terms of productivity.[38] Considering that in several more technology intensive industries the share of imported components in the exports is relatively high[39], the lag in productivity is probably a consequence of the fact that more labour-intensive segments of value added generation (for example assembly) are carried out in these industries. At the same time, these industries, in the process of value added generation, include relatively less the services which are increasingly used for differentiation of products and thus increasing the competiteveness of manufacturing industries[40] in more developed countries. In this respect it should be pointed out that certain other EU Member States (the Czech Republic, Slovakia and Hungary), under a very similar or slightly better technological structure of manufacturing industries and exports, achieve an even lower average productivity level of manufacturing activities, with the share of import components within the exports being even higher than in Slovenia (see Box 3). This could lead to a conclusion that under lower labour costs, these countries have an even higher share of labour-intensive production within the framework of otherwise technologically more-demanding activities.

*Figure 10:* **Technological structure and value added per employee in manufacturing, 2011**




Source: Eurostat Portal Page – National Accounts, 2013. calculations by IMAD.
Note: The horizontal and the vertical axes intersect at the EU average.

***The level of internationalisation of the Slovenian economy further increased in 2012, as during the crisis and in the circumstances of low domestic consumption, the key factor of economic growth was exports.*** In 2012, the average share of foreign trade in GDP, after a severe decline at the beginning of the crisis, increased for the third year in a row on account of exports and was at its highest so far (73% of GDP). However, these apparently positive trends are not a reflection of the improved competitiveness of the Slovenian economy. The increased intensity of Slovenia's foreign trade relations, which in the period 2010–2012 grew above the EU average and above the average of the majority of small EU economies (except the Baltic States, Malta and Slovakia), was largely the result of the fact that given the low domestic consumption, foreign demand was the only driver of the otherwise modest economic growth. However, our market shares in the EU and the rest of the world have decreased since 2007.

***The prospects for increased internationalisation through foreign direct investment (FDI) remain modest.*** FDI stock relative to GDP increased in 2011 to the highest level so far (32.3% of GDP), but only due to the increase in net claims of foreign parent companies towards their

[37] See indicator 1.14.
[38] This applies to the production of ICT equipment, production of electrical equipment, the chemical industry, and manufacturing of other machinery and equipment.
[39] See Box 3.
[40] The share of knowledge-intensive business services in manufacturing intermediate consumption in Slovenia was 6.4% in 2009 (latest available data) and 10% in the EU.

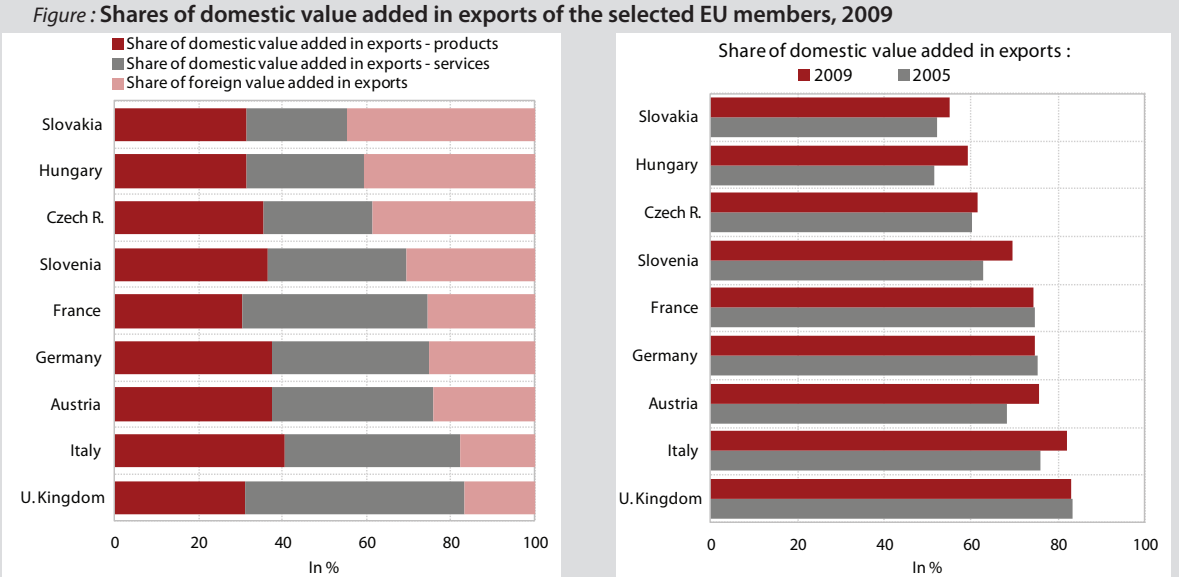
*Box 3*: **Measurement of trade in value added terms**

***Recent decades have seen growing fragmentation of production and business processes at the global level, which necessitated a new complement approach in recording of trade flows.*** Global value chains play a central role in enhancing competitiveness; they comprise all phases from access to energy and raw materials through research and development to after-sales services and recycling materials. Individual phases are carried out in different countries and are effectively integrated through modern traffic and communication infrastructure services. Manufacturing is not only dependent on the input of raw materials and semi-manufactured goods but is becoming increasingly dependent on various business services, such as designing, marketing and advertising, which increase the value of a product. The final value-added of a product or service consists of value-added of individual industries. With a view to obtaining a better understanding of mutual relationships between these industries, in 2012 the OECD and the WTO started to estimate export flows by value added. The approach is based on the construction of an input–output table[1] for the world prepared by the OECD. In January 2013, the first results[2] of this set were published; they showed value added broken down into domestic and foreign components.

***Trade in value added indicators show that Slovenia lags behind the selected EU member states especially in service export value added.*** Slovenia's share of domestic value added in exports is below the level obtained by the selected developed countries (Germany, Austria, Italy, France and the United Kingdom); this can in part be attributed to the country's size and related stronger integration in international trade flows and in part to Slovenia's position in the value added chain generation. Domestic value added content of exports in Slovenia exceeds those recorded by some new EU member states (Hungary, Czech Republic and Slovakia). In the period 2005–2009, it increased by 6.7 pp, which was one of the largest increases among the selected countries. Slovenia records the biggest lag behind the developed countries as regards domestic value added originating (directly and indirectly) in service exports. Less than a quarter (24%) of the value of Slovenia's gross exports originated in services, while the share of services in exports, in terms of value added, was twice as high (48%) but still behind the level recorded by developed EU countries[3].

***Within the manufacturing sector in Slovenia, particularly certain high- and medium-high technology industries have recorded a low content of domestic value added in exports.*** This is evident in the manufacture of vehicles and vessels, the manufacture of electrical and optical equipment, and the manufacture of machinery and equipment. In these industries, Slovenia's exports are positioned more to the middle part of the production chain, as we export a relatively large number of intermediate products[4]. This is most clearly seen in the manufacture of vehicles and vessels, with almost half of the export value (46%) represented by an import component (foreign value added), which is significantly higher than that in Italy (21%), Germany and the United Kingdom (approximately one-third). A clear lag is perceived in all three before mentioned industries, primarily in terms of the service sector's domestic value added content. This indicates that compared with other developed countries, the potential to add value and thus strengthen product competitiveness by using various services (e.g. education, marketing, servicing and designing) is exploited by the three industries in Slovenia to a significantly lesser extent. The highest domestic value added content is recorded by some low-technology processing industries (the food-processing, wood, paper and furniture industries), which can be attributed to the characteristics of the products of these industries rendering the integration into the production chains in the region relatively easier.

*Figure :* **Shares of domestic value added in exports of the selected EU members, 2009**




Source: OECD-WTO TiVA indicators, January 2013.

[1] Input–output tables eliminated inconsistencies between global export and import flows caused by the differences in displaying transit flows and the re-export between individual countries.
[2] OECD – WTO Database on Trade in Value-Added presents indicators for 40 countries covering three years (2005, 2008 and 2009) and broken down by 18 industries. This is the first release of date, which will be expanded by a wider set of indicators and data covering longer time series from 1995. The indicators published are estimates.
[3] In 2009, the share of services in exports in terms of value added stood at 51% in Austria and Italy, at 50% in Germany, at 59% in France, and at 63% in the UK.
[4] Final products represent 45% of electrical and optical equipment exports, 59% of machinery and equipment exports, and 68% of vehicles and vessels export.

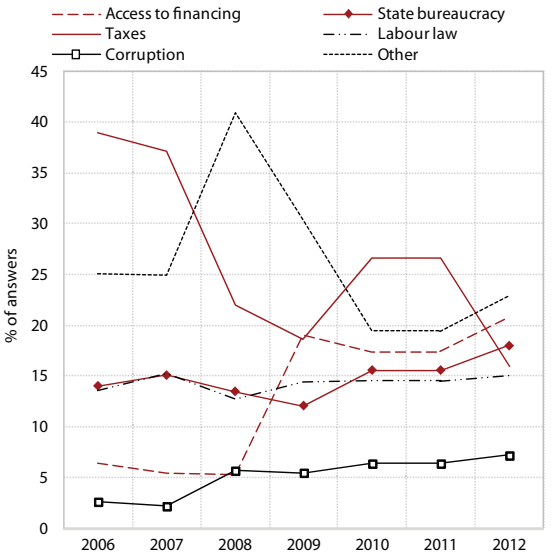
Slovenian affiliates, while the equity capital remained unchanged. Outward FDI in relation to GDP decreased (to 16.7% of GDP) as the result of the share capital reduction of Slovenian investors and the increase in their net claims towards foreign branches. Notwithstanding the changes in recent years, which were also influenced by the low GDP level during the crisis, in addition to changes in FDI inflows and outflows, Slovenia has remained among the EU Member States with the lowest inward and outward FDI stock in relation to GDP. According to our estimates, there were no significant improvements in FDI flows in 2012 (see indicator 1.16). A similar picture is shown by the results of surveys among foreign affiliates in Slovenia. The share of those predicting a drop in sales in the current year has increased considerably. Moreover, according to the latest survey, the share of those expecting sales and employment to grow in the next year has decreased considerably (Rojec, Jaklič 2012). The share of foreign affiliates assessing that the situation of Slovenia as a FDI location deteriorated due to the economic recession has increased considerably since the beginning of the crisis (from 44% in the 2009 survey to as much as 74% in the 2012 survey). Considering the modest prospects for an increase, FDI remains one of the untapped sources of attracting fresh capital, and also an opportunity for obtaining knowledge and experience that might accelerate technological restructuring of the economy.

***In 2012, the share of population engaged in entrepreneurship[41] increased following three years of decline, but Slovenia is still ranked in the bottom half of the EU countries in terms of new enterprise creation.*** After the decrease since the beginning of the crisis, early-stage entrepreneurial activity, which measures the share of the population getting involved in entrepreneurship, increased last year[42]. Despite the increase, the early-stage entrepreneurial activity was even lower than before the onset of the crisis (in 2008) and remained in the lower end of the EU range[43]. Last year, the increase in early-stage entrepreneurial activity was accompanied by a slight increase in the share of established entrepreneurship, and in consequence in the overall entrepreneurial activity, which includes early-stage and established entrepreneurship. The 2012 turn in the number of new and nascent enterprises is associated with increased granting of subsidies for self-employment during the crisis, since the number of subsidy recipients increased considerably in the period 2009–2011. It is estimated that in addition to identified business opportunities, the growing number of self-employed persons is also a consequence of searching for more flexible forms of employment in the uncertain conditions of the economic crisis[44]. Considering the fact that subsidy recipients must keep their self-employment for at least two years, it is still too early to estimate the long-term impacts of this measure on entrepreneurial activity. However, Eurostat data, which are available only until 2009 and so do not include the larger part of the economic crisis period, point to a high survival rate of enterprises in Slovenia even five years after their establishment compared with international figures. On the one hand, this is encouraging, but on the other, it may only be a consequence of low risk-taking, which is ultimately reflected in low early-stage entrepreneurial activity.

***The results of various international competitiveness surveys continue to point to numerous obstacles impeding the operation of enterprises in Slovenia.*** Significant progress has been made over the past few years in the efforts made to simplify and accelerate business incorporation procedures, but not enough has been done to provide support to businesses in their operations. In 2012, as in the previous two years, the entrepreneurs assessed (WEF, IMD, Doing Business) that the main obstacles to the operation of enterprises in Slovenia were limited access to financing, ineffective state bureaucracy and restrictive labour legislation. The access of enterprises to sources of financing deteriorated further and the assessed liquidity of banks was poor compared with other EU countries. It should be mentioned that in international comparison, Slovenian companies are among those with higher debts. The World Bank also highlights the deficiencies in the existing legislation in this area and the lack of a quality credit information system for all users. The operation of companies is impeded by the state bureaucracy, where the procedures required to obtain various documents and permits are unreasonably lengthy, as are contract enforcement procedures. Despite all this, certain positive modifications and reductions in administrative burdens emerged over the past two years, including a simplified payment system of taxes and other compulsory contributions[45], and the tax rate on profits was also reduced. Measures that improved the protection of investors, shortened certain procedures referring to insolvency of companies, and increased the protection of creditors and employees in the event of bankruptcy were also adopted. In comparison with other countries, the absence of structural reforms in the labour market, where the labour legislation referring to the hiring and dismissal of employees has persisted as the main problem over many years, rigidity of permanent employment and lack of flexibility in wage determination have been pointed out several times. Corporate performance has been severely impeded by a lack of good practice in Slovenia's business environment, as it is ranked the lowest in competitiveness surveys in terms of the effectiveness (responsibility) of supervisory boards, the enforcement of accounting standards, and management credibility. The downgraded ranking in this area during the crisis indicates inappropriate and slow adjustment of companies to the newly emerged conditions in recent years.

[41] The data are taken from research by the Global Entrepreneurship Monitor (GEM). For more details, see indicator 1.17.
[42] The survey is carried out in the first half of the year.
[43] As compared with 22 other EU Member States included in the GEM survey.
[44] See Chapter 4.1.
[45] The simplification includes a reduction in the number of payment orders and subaccounts used by taxpayers for payments of their obligations, which implies a corresponding reduction in time used and in transaction costs. The estimated annual savings for micro companies amount to EUR 3.9 million and for small, medium-sized and large companies EUR 1.1 million (Report on the implementation of activities for improving the legislation and eliminating administrative obstacles, 2012).

*Figure 11:* **The major obstacles to business operation in Slovenia**



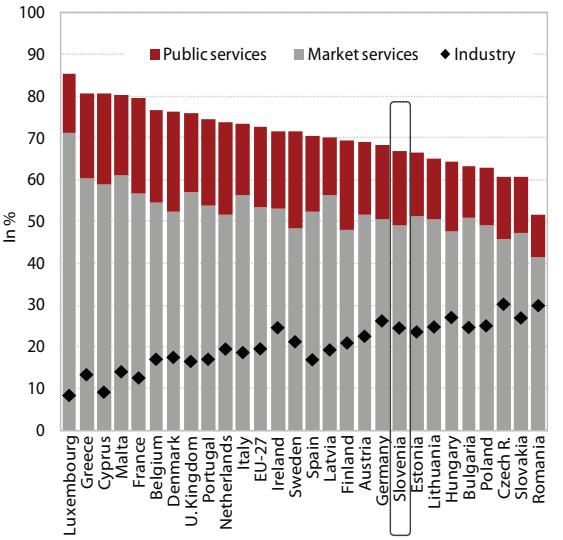

Source: WEF (World Economic Forum), various years.

Note: A particular value represents the percentage of answers to the question of which factor is perceived to be the most problematic for the operation of a company in the state. Those questioned in the survey pointed out 5 most problematic factors and ranked them accordingly. The greatest share in the group "Other" includes poor work ethics of employees, volatility of policies, workforce qualifications and inflation. Inflation was the most problematic factor for business operation in 2008.

## 1.3.1 Services

***During the recent period, the impact of the crisis through a drop in domestic consumption has spread increasingly to those services that are mainly focused on the domestic market and were relatively little affected at the onset of the crisis.*** After a drop in foreign demand in the initial period of the crisis affected mainly the export-oriented segments of services (in particular transport, catering services and partly also trade services), and also certain services associated with the domestic production and construction activities, its consequences, in combination with the deterioration of labour market conditions and implementation of austerity measures, also started to show in those market services and public services that are mainly focused on the domestic market. After a one-year improvement, the growth of value added in services slowed down considerably (a relatively strong growth in industry) in 2011, whereas in 2012 it decreased slightly due to a further drop in domestic consumption and slowing down in foreign demand. With the continuing crisis, the growth of value added in services also slowed down in the EU, but to a lesser extent than in Slovenia, in particular in market services. The share of services in the structure of the economy, which was strengthened considerably at the onset of the crisis due to a sharp drop in industry and construction, ceased to rise after 2010. This keeps Slovenia lagging behind the EU average in terms of the share of services to a relatively high extent[46]. In terms of both the share in value added and employment, Slovenia's lag behind the EU average continues to be the highest in market services. The lag of the public services' share behind the EU average is lower, particularly due to certain less-developed services (primarily healthcare and social assistance) outside the general government sector[47].

*Figure 12:* **The shares of services and industry in the value added of the economy, 2011**




Source: Eurostat portal page – Economy and Finance – National Accounts by 10 branches, 2013.

Notes: Activities according to the Standard Classification of Activities (SKD 2008). Industry – Activities from B to E; Market services – from G to T, without O,P,Q; Public services – from O to Q.

***The greatest potential for enhancing the competitiveness of Slovenia's economy lies in the services with an intensive use of knowledge and know-how, which increased rapidly until 2010, but these services have many disadvantages which reduce their competitiveness.*** After 2005, knowledge-intensive services (see indicator 1.18) were the main driving force of market services growth in Slovenia[48]. In 2010, they were already comparable to the EU average according to their share in the structure of the value added of the entire economy. However, their growth mostly originated in the great domestic boom (the construction sector and manufacturing), which in the current conditions of the crisis – collapse of the construction sector and an overall low domestic demand – strongly reduces any possibilities for their fast recovery. In 2011, the share of the knowledge-intensive services in the structure of the economy declined for the first time after 2005, which is probably mostly due to an exaggerated orientation of these services towards the domestic market, including their considerable dependance on public sector demand. Insufficient exposure of knowledge-intensive

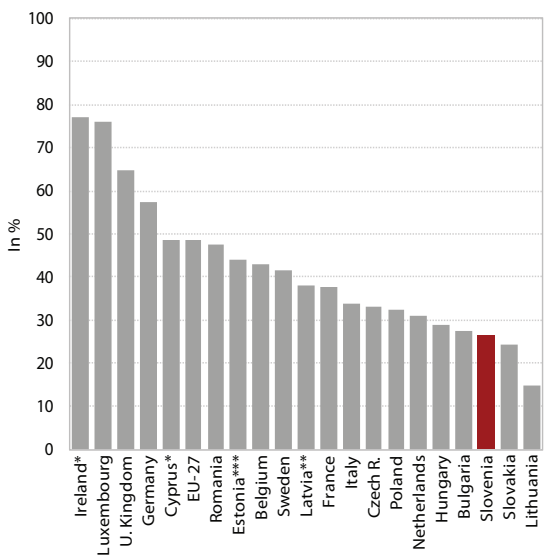
[46] In 2011, it amounted to 6 pp and before the crisis to around 8 pp.

[47] Public services may be performed both in the public and private sectors. For more details on access to public services, see Chapter 4: The labour market and welfare state.

[48] The fastest growing services included different information, legal and accounting services, business management and consultation services, and architectural and designing services.

services to foreign competition is reflected in their poor competitiveness and in consequence a modest share in total exports of services. This share is twice lower than the EU average and has not changed considerably in recent years. International comparisons of employment and value added shares indicate their relatively low productivity compared with the EU[49]. In consequence, the ratio between labour costs per employee and productivity as the indicator of the overall cost competitivenes is much less favourable than in the EU, particularly in professional, scientific and technical activities. In addition to low exposure to foreign competition and considering the size structure of companies, the low productivity of these services is also due to smaller opportunities for the exploitation of economies of scale, because these are very diverse activities which need a close relationship and interaction with clients, so their process standardisation and automation using ICT is lower. The aforementioned indicates that the opportunities for knowledge-intensive services, as the most dynamic part of market services in the pre-crisis period, are quite limited for any considerable increase in employment in the short-time period without a simultaneous increase in domestic demand. This is also supported by data indicating a considerable slowdown of growth in employment over recent years after an initial relatively high increase at the beginning of the crisis.

*Figure 13:* **The share of knowledge-intensive services in total exports of services, 2011**




Source: Eurostat portal page – Economy and Finance – Balance of payments – International transactions, 2013.

Notes: * Data for 2010, ** data for 2008, *** data for 2007. Export of knowledge-based services is calculated as the sum of exports of the following items of extended balance of payments classification: 207, 208, 211, 212, 218, 228, 229, 245, 253, 254, 260, 263, 272, 274, 278, 279, 280 and 284.

[49] Among market services, a higher share of value added and a lower share of employment (compared with the EU average) is recorded only in the group of traditional services (trade, catering, transport), whereas the majority of other marketing services lag behind the EU average in terms of their share in the overall employment less than in terms of their share in value added.

***During the period 2008–2011, the competitiveness of service exports on EU markets decreased, though they experienced a slight increase in the last year.*** In the period 2008–2011, Slovenia increased the concentration of its service exports to EU markets, which accounted for 72% of the total service exports in 2011. The market share of Slovenian exports of services to EU markets is modest and even declined during the crisis (by 3.5%). Among the five major partner countries[50], the market share was strengthened only on the Italian and Hungarian markets. Travel service providers reacted best to the crisis, since they increased their market share in the EU[51] during the period 2008–2011, despite the fact that the demand for these services in the EU decreased. The crisis most affected the exporters of other services[52], i.e. services which mostly use knowledge. The competitiveness of transport service exports slightly decreased as well. In 2011, both groups of services recorded a higher market share in the EU. However, it raises considerable concerns, particularly regarding the export of knowledge-intensive services, that the EU increased their imports during the crisis, which enabled the most competitive providers to maintain or expand their market shares. The lack of success of Slovenian providers of these services corraborates the findings on their insufficient competitiveness on foreign markets. The crisis accentuated the disadvantages originating in insufficient productivity, in the fact that the providers of the remaining services are mainly small and micro-sized companies, in their traditional focus on the domestic market and in the limited pressure of high-quality international providers.

***Innovation activity in market services remains weak and has decreased further during the recent period.*** The share of innovation-active enterprises in market services decreased to 44.7% in the period 2008–2010. This places Slovenia far behind the leading countries Germany and Portugal, with above 73% and 63% of innovation-active enterprises in services respectively. Considering these trends, it is hard to expect increased exports of services with high value added to international markets. New technologies provide for a range of opportunities for innovations in all activities, but service-providing companies introduce almost three times more non-technological innovations (organisational and marketing) than technological innovations. In addition, more service-providing companies are engaged in non-technological innovation than in manufacturing innovation. Specificities of innovation in service activities should be taken into account in the formulation of the innovation policy measures in Slovenia, just as in the

[50] Italy, Austria, Germany, Hungary, the United Kingdom – this is the sequence of major partners in services exports in the years 2008–2011.

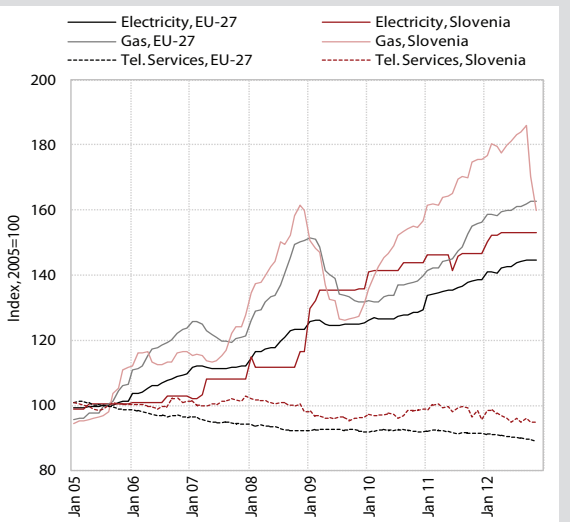
[51] On average by 13.7%, in Hungary even by 40% and in Italy by almost 25%. Slovenia exports an important share of travel services to non-EU countries, particularly Croatia and Russia. During the period 2008–2011, the export of travel to Croatia decreased, whereas to Russia it increased by slightly over a half.

[52] A decline of 12.3% in the market share during the period 2008–2011.

*Box 4*: **Competition in selected network industries**

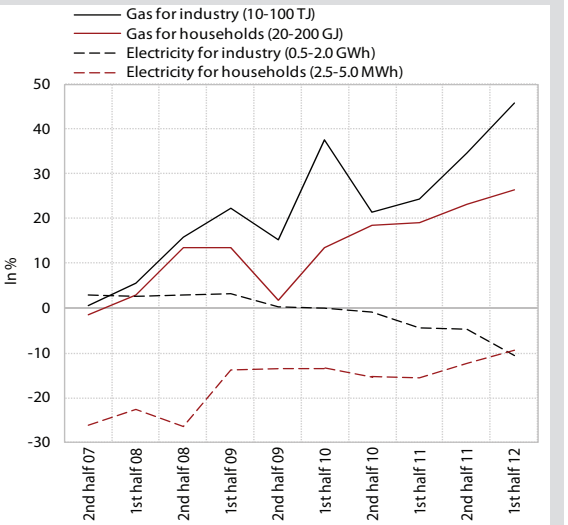
***In the area of network industries, the strongest competition is seen in broadband internet; recently, positive trends have also been perceived in the natural gas market.*** As regards *electronic communications*, the market share of the largest provider recorded the sharpest decline in fixed telephony in the period 2007–2010 (by 20 pp, but it still has considerably above the EU average); the traditional telephony segment (PSTN and ISDN) has been shrinking and replaced by internet telephony (VoIP) offered by new alternative providers (in the third quarter of 2012, the share of traditional fixed telephony was below 50%). Fixed telephony is being replaced by mobile telephony; in this segment, market concentration is significantly above the EU average. The market share of the largest service provider in individual telecommunication markets is lowest in broadband internet access, where it almost attains the average EU level. The most recent data show that in 2010, fixed and mobile telephony prices were generally lower than the EU average. In the period 2005–2012, telephone service prices decreased slightly more in the EU as a whole than in Slovenia. The smallest changes in the area of electronic communications were observed in ownership structures, which maintain a high proportion of state ownership in the largest telecommunication service provider. A similar situation can be observed in *electricity supply*, where competition is promoted by the ease of changing supplier. According to the AGEN–RS, the market share of the largest electricity producer was 62.4%[1] in 2011; an HHI of 4,655 pointed to a high concentration level. A total of 16 suppliers were operating on the electricity retail market in 2011, and the HHI of 1,501[2] indicated a moderate concentration level. As regards the distribution customers, the concentration index (1,822) in the market continues to indicate a relatively high concentration. According to Eurostat data, retail household electricity prices (tax excluded) recorded in Slovenia in the first half of 2012 were 9.3% below the EU-27 average (10.7% for industrial users). A significant improvement in competition in the electricity supply market is shown by the data provided by the AGEN–RS on the number of changes of supplier. In 2011, there were 39,135 of these (4.2% of all customers) or almost 2.2 times the number of the year before. After the liberalisation of the *natural gas* market, competition is expected to continue to be limited by the long-term supply contracts. According to the AGEN–RS data, the share of the largest provider in the wholesale market stood at 72.3% (HHI 5,926), and at 62.2% (HHI 4,035) in the retail market. There were less than 0.1% of changes of supplier. In the last months of 2012, a new supplier entered the market offering significantly lower prices; it thus prompted others to provide more competitive prices. Gas prices paid by households in Slovenia in the first half of the year were higher than in the EU as a whole by a good quarter (almost by a half for industry); but at the end of the year Slovenia saw a pronounced reduction in prices (in gas for households by 15.3% in October and November 2012).

*Figure 1 :* **Telephone service and product prices and electricity and gas prices for households in Slovenia and EU-27**




Source: Eurostat; calculations by IMAD.

*Figure 2 :* **Discrepancies in energy prices between Slovenia and EU-27**




Source: Eurostat; calculations by IMAD.

*Table:* **: Market shares[1] of the largest providers in the electronic communications market expressed as a percentage**

| | Slovenia | | | | | EU | | | | | EU-3[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2007 | 2008 | 2009 | 2010 | 2011 | |
| Fixed telephony | 93 | 87 | 78 | 73 | | 62 | 61 | 59 | 56 | | 47 |
| Mobile telephony | 67 | 72 | 56 | 55 | 53 | 40 | 39 | 38 | 38 | 37 | 32 |
| Broadband internet | 50 | 49 | 46 | 43 | 42 | 47 | 46 | 45 | 44 | 43 | 32 |

Source: Digital Agenda Scoreboard 2012, Electronic communication market indicators (European Commission), 2012.
Note: [1] In fixed telephony in terms of traffic expressed in minutes (in December), in mobile telephony in terms of active SIM cards (in October), and in the internet in terms of the number of connections (at the end of the year). [2] The average for the three EU Member States with the lowest shares.

[1] Only the Slovenian part of the electricity produced by the nuclear power plant is taken into account. The internationally comparable Eurostat statistics (by taking into account the total energy produced by the nuclear power plant) was 55% in 2010, which almost equals the (arithmetic) EU mean.
[2] The market share of the largest supplier was 22.1%.

more developed EU countries. Moreover, the key role of knowledge-intensive services in the introduction of innovations in all activities and in boosting their competitiveness on the domestic and foreign markets should not be neglected. Analyses show that the know-how of external providers of knowledge-intensive services (Inno-Grips, 2012) are very important for the success of organisational and marketing innovations in companies.

***A lack of competition in services in certain network industries and particular trade sectors continues to be evident despite gradual positive trends.*** In the recent period during the crisis, in certain highly concentrated[53] industries, mark-ups[54] were reduced below the EU average. Nevertheless, they are treated as activities with a relatively low competitition rate due to the large market share held by the major companies. Such are telecommunications, where the concentration index, following the merging of two large telecommunications companies in 2011, increased further. In particular telecommunications markets, the shares of the main operators were further reduced, but they are generally still higher than the EU average (see Box 4). The whole trade chain with motor fuels (wholesale and retail sale) recorded a decrease in mark-ups below the EU average, but the level of concentration has remained high in both activities. Highly concentrated industries that stood out in international comparisons in terms of relatively high mark-ups included postal services and the retail sector in non-specialised, predominantly grocery stores. In postal services, the main company still generated almost total revenues in the postal services sector. In 2011, the level of concentration in non-specialised, predominantly grocery stores was further reduced but remained high[55], which is, to a certain extent, also the result of the small size of the Slovenian market[56]. A. Kuhar et al. (2012) note that the transfer of costs through the food supply chain is swift and that the response of prices in the food processing industry and retail prices to the rising prices of agricultural products is mostly swifter than in the case of a decrease, which, over a longer period, is reflected in an enhanced growth of retail prices compared with the price rise in agricultural products.

***The crisis further exposed the weaknessess in the development of market services that have been present since the beginning of SDS implementation.*** Insufficient innovation activity of market services contributes to their poor productivity and the resulting falling competitiveness on foreign markets. It is expected that with the progress made in implementing the Directive on Services in the Internal Market, competitive pressures of foreign providers of services on the Slovenian market will be strengthened, which will stimulate domestic providers to increase their innovation activities. Although Slovenia has achieved a certain amount of progress in the implementation of the Services Directive, the latest report notes lagging behind with regard to ensuring effective competition to foreign providers of services. The Report on the Implementation of the Services Directive (2012) states that the use of points of single contact (PCS) in Slovenia for foreign providers of services is below the EU average[57], whereas domestic users find it easier to use points of physical contact. Further implementation of the Services Directive will further increase the opportunities of Slovenian providers of services for sales on EU markets, but this will be hard to implement owing to their insufficient competitiveness; therefore Slovenia has no chance of a breakthrough over a short-term period. Taking into account the nature of service activities where small companies prevail and where the possibilities for the protection of intellectual property rights are smaller than in industry, the experience of the more advanced EU members indicate that innovation policy should stimulate a swifter introduction of good innovation practices in the service sector and formation of clusters on knowledge-intensive services with higher value added (Uppenberg, Strauss, 2010). Slovenia also needs systematic efforts to enhance research and development in services, along with the possibility of a simplified utilisation of tax concessions, increased technological and non-technological innovation activities, in particular in small and medium-sized service companies, and their alliance and cooperation in taking up foreign markets.

[53] Concentration is measured in terms of the Herfindahl–Hirschman Index (HHI). According to this criterion, a high concentration is that which exceeds an index value of 1800.

[54] The mark-up has been calculated as the ratio between sales revenues and the cost of acquiring goods, services and labour.

[55] The HHI value for this industry dropped from 3,387 in 2006, when it reached its peak, to 2,408 in 2011.

[56] The countries with the highest shares of the three largest providers of grocery goods in the EU are predominantly small: in addition to Slovenia, these are Austria, Finland and Ireland (Structural Features of Distributive Trades..., 2011).

[57] As regards the operation of PSCs, Slovenia ranks among the five bottom EU Member States, together with Bulgaria, Romania, Ireland and Greece.

# 2. Use of knowledge for economic development

***SDS guidelines:*** SDS priorities aimed at efficient creation, two-way flow and application of knowledge for economic development and high-quality jobs are: improving the quality of tertiary education, promoting lifelong learning, and increasing the effectiveness and level of investment in research and technological development.

## 2.1 Education and Training

***Slovenia's human capital improved during SDS implementation, but it still lags behind the EU average in terms of the share of adults with tertiary education.*** In 2012, the share of the adult population (aged 25–64) with tertiary education rose to 26.1% and Slovenia's lag behind the European average was below the level seen at the beginning of SDS implementation (2005). During the past year, the share of the population with tertiary education rose only in the younger and middle age groups, where the highest increase was also recorded between 2005 and 2012, and declined in the age group above 45. Slovenia thus come very close to the EU's 2020 strategy objective for education of young people (40% by 2020), since the share of young people (aged 30–34) with tertiary education was 39.1% in 2012. Considering the favourable trends in the participation of young people in tertiary education, it may be expected that this objective will be reached in the forthcoming years. However, the share of young people aged 25–29 with tertiary education lags behind the EU average, which considering the high participation of young people in tertiary education points to low-level efficiency of studies. A continued, relatively rapid increase in the share of the population with tertiary education cannot be expected in the forthcoming years for demographic reasons. The rapid increase in the number of graduates recorded during the past few years will come to a halt due to the decline in the number of enrolled students (also for demographic reasons).

***The participation of young people in upper secondary and tertiary education highly exceeds the EU average and has also exceeded the SRS objective at the tertiary level for three consecutive years.*** The participation of young people (aged 15–19) in upper secondary education in 2010 remained approximately at the level of the previous two years and was well above the EU average. Due to a high rate of participation in education and a high upper secondary education completion rate, which is well above the OECD average, Slovenia also has a low share of early school leavers[58]. In 2011, the drop-out rate decreased to 4.2% and was below the national objective within the EU's 2020 strategy (5.1%) and well below the EU average. In the 2011/12 academic year, the participation of young people of enrolment age in tertiary education was 56.9% and exceeded the SDS target (55%) for the third consecutive year. The participation of the 20–24 age group in tertiary education in Slovenia is the highest in the EU. The high participation of young people in tertiary education is a result of: (i) a high percentage of students enrolled in upper secondary education programmes and programmes for continuing education at the tertiary level, (ii) a high number of study places available in relation to the number of applicants, (iii) absence of tuition fees for full-time level 1 and 2 studies and (iv) benefits of student status.

***Along with the shrinking generations of students, the structure of enrolment of young people in secondary schools has been moving towards increasing enrolment in technical and other vocational programmes.*** The proportion of young people enrolled in lower and middle vocational programmes has remained at approximately the same level during the past three years and has experienced the sharpest decline during SDS implementation. The past three years also saw a decline in the number of pupils enrolled in gymnasiums, though this still remains above the 2005 level. On the other hand, the number of young people enrolled in upper secondary technical and other vocational programmes has been on the increase. During SDS implementation, the number of enrolled students has decreased in all educational programmes except in the vocational course, due to the shrinking of student generations. In the future, young people should be additionally motivated to enrol in upper secondary technical and other vocational programmes and efforts should be made to increase the interest in vocational education, since there is shortage of certain occupational profiles.

***As regards the tertiary education enrolment structure, a decrease in the social sciences enrolment rate has been noted.*** In the academic year 2011/12, the number of students enrolled in tertiary education decreased for the second consecutive year (by 2.9%), due to demographic changes. In relative terms, the sharpest decrease was in the area of social sciences, business science and law, where the decline has been noticed since 2006. The number of enrolments was highest in the fields of health and welfare and science, mathematics and computing. In both areas, the highest enrolment increase was recorded during the entire period of SDS implementation. As a result, the structure of enrolment in tertiary education has changed significantly during the past few years. In 2011/12, the share of enrolment in social and business science and law decreased to 33.6%, but nevertheless exceeded the EU average (according to the latest international data) in 2010.

[58] Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training.

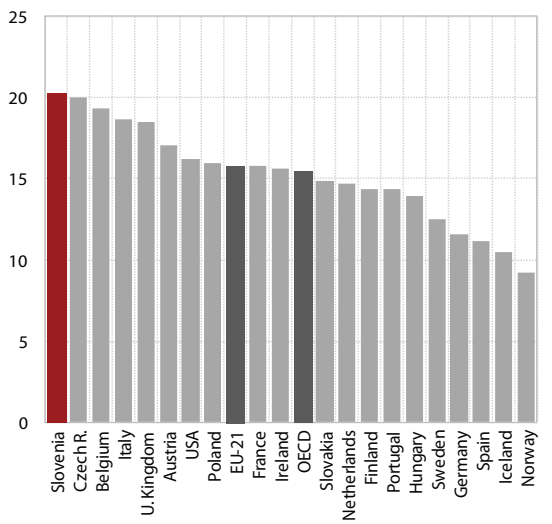
*Table 2:* **Enrolment in tertiary education by field of education, Slovenia 2005–2011**

| | No. of enrolments | Increase (%) | Difference | Enrolment structure (%) | |
|---|---|---|---|---|---|
| | 2011 | 2005–2011 | 2005–2011 | 2005 | 2011 |
| Total | 104,003 | -9.4 | -10,791 | 100.0 | 100.0 |
| Education | 8,258 | -18.4 | -1,860 | 8.8 | 7.9 |
| Humanities and arts | 9,016 | 4.9 | 420 | 7.5 | 8.7 |
| Social sciences, business and law | 34,962 | -29.9 | -14,941 | 43.5 | 33.6 |
| Science, mathematics and computing | 7,779 | 24.6 | 1,538 | 5.4 | 7.5 |
| Engineering, manufacturing, processing and construction | 20,027 | 11.5 | 2,065 | 15.6 | 19.3 |
| Agriculture and veterinary | 3,249 | -7.3 | -257 | 3.1 | 3.1 |
| Health and welfare | 11,135 | 31.6 | 2,673 | 7.4 | 10.7 |
| Services | 9,577 | -4.3 | -429 | 8.7 | 9.2 |

Source: SURS; calculations by IMAD.
Note: [1] International standard education classification Isced 97 and Eurostat Manual (Fields of education and training Manual).

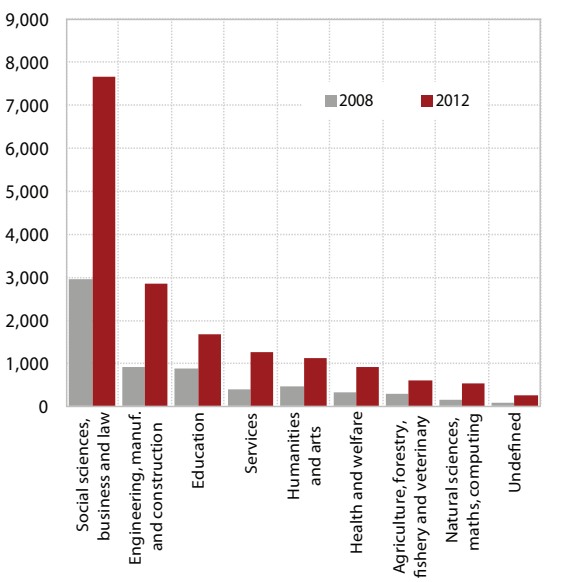
***Some tertiary education quality criteria point to a modest improvement in the past few years; however, the problem of employability of graduates has become aggravated.*** The ratio between the number of students and the number of teaching staff at the tertiary level, which is a frequently used international criterion, improved in 2011/12, continuing the favourable trends from previous years. In the period 2005–2011, this was due to the reduction in the number of students, larger number of teaching staff and the growing number of institutions that carry out tertiary education programmes. Despite the progress made during SDS implementation, Slovenia considerably lagged behind the OECD average in terms of the number of enrolments per teacher in 2010. It should be pointed out that this unfavourable ratio is partly due to fictitious enrolments motivated by the benefits offered by the status of being a student. The envisaged reduction in the number of students enrolled in tertiary education due to the shrinking of young generations could also result in an improved ratio between the number of students and the number of teachers in the future. The share of foreign students in Slovenia continued to increase in 2011/12 but nevertheless remained low. The average duration of undergraduate studies in higher education is also becoming shorter, largely due to the introduction of Bologna study programmes. In 2011, the average duration of university undergraduate studies was 5.8 years (6.1 years in 2010) and was also shorter than in 2005 (6.3 years), which is primarily the result of the growing share of Bologna study programme graduates. Simultaneously, the extremely rapid increase in the number of Bologna study programme graduates among the registered unemployed also points to their poor employability and/or overparticipation in tertiary education. Tertiary education thus also contributes to the growing labour market imbalances.

*Figure 14:* **The ratio between the number of students and the number of teaching staff in tertiary education for the academic year 2009/10**




Source: OECD.

*Figure 15:* **The number of unemployed people with tertiary education by field of education, Slovenia**




Source: Employment Service of the Republic of Slovenia.

***Labour market imbalances have increased during the crisis; from this perspective, abandoning of the system of monitoring the demand for specific vocational profiles is problematic.*** In the period 2008–2012, employment opportunities for people with tertiary education have declined sharply. The number of vacancies for people with tertiary education declined dramatically, mainly in the areas of the humanities and arts and the social sciences, business and law. Moreover, the number of such people among the unemployed greatly increased. Unemployment among all people with tertiary education more than doubled. The implementation of the amendments to the Labour Market Regulation Act, which abolishes the compulsory registration of job vacancies with the Employment Service of the Republic of Slovenia, will eliminate the legal basis for the system of monitoring the demand for vocational profiles, which represents an important source of public information about job opportunities for students deciding to continue their education and for the state management of the labour and education markets. It is therefore urgent to establish a system of monitoring and forecasting employers' requirements for knowledge and skills.

***The crisis has aggravated the problems of the transition of young people from education to employment, particularly among young people with tertiary education (aged 25–29).*** Due to the high level of participation of young people in upper secondary and tertiary education, the share of young people not in employment and not in any education and training (NEET levels) in Slovenia is relatively low[59] and declined during the period of SDS implementation. The share of NEET in Slovenia is lower than the EU average in all age groups. It rose sharply from the beginning of the crisis (by 4.1 pp in the period 2008–2011) in the 25–29 age group, however, which points to the problems with employing young graduates and their retreat into inactivity. This is associated with a decline in the demand for this type of labour, a sharp increase in unemployment among young people and a sharp increase in the number of graduates and with the fact that young people in this age group use almost every opportunity to get free education. A number of programmes aimed at facilitating the employment of young people have been carried out within the Active Employment Policy (e.g. *Prvi izziv* [First Challenge] and *Zaposli me* [Employ Me]) and were well received by young people and employers. However, the sharp increase in unemployment among graduates shows that these measures were not sufficient. At the same time, the number of young people moving abroad is on the increase.

***In the period 2005–2010, the participation of adults in formal education declined but still exceeded the EU average.*** The gradual decline in adult participation at all formal education levels in Slovenia continued in 2010. The adult participation (age 25–64) was 3.9%, which was above the EU average (3.3%). Adult participation in education was lowest at primary school level, where it could be higher given the relatively high share of adults with unfinished primary education. Adult participation in upper secondary education could also be higher given the high share of the population with only completed primary education. In the period 2005–2010, adult participation in upper secondary and teritary education declined. In addition to adult participation in formal education, participation in non-formal education, which did not undergo any significant changes during SDS implementation, and the strengthening of the assessment and evaluation of non-formally acquired knowledge are also important.

***Adult participation in lifelong learning[60] strongly declined during the crisis but still remained above the EU average.*** Adult participation in lifelong learning contributes to the flexibility of adults in the labour market and their employability. However, the labour cost data show that employers drastically reduced the costs of adult education during the crisis[61]. Adult participation in lifelong learning in (the second quarter of) 2012 was 14.7%. Compared with the previous year, it had declined by 2.5 pp and was lower than at the beginning of the crisis (2008), though nevertheless exceeding the EU average (9.7%). Higher older adult participation (aged 55–64), which is on the decline, could contribute to the maintenance of employability of older people (who are frequently less educated). The participation of the low educated is also low. The proposed Resolution on the Master Plan for Adult Education in 2012–2020 points in particular to the educationally disadvantaged.

*Table 3:* **Adult participation (aged 25–64) in formal education in Slovenia (%)**

| | 2005 | 2009 | 2010 |
|---|---|---|---|
| Total | 4.4 | 4.0 | 3.9 |
| primary education | 0.1 | 0.1 | 0.1 |
| upper secondary education | 1.0 | 0.7 | 0.7 |
| tertiary education | 3.4 | 3.2 | 3.2 |

Source: Eurostat.

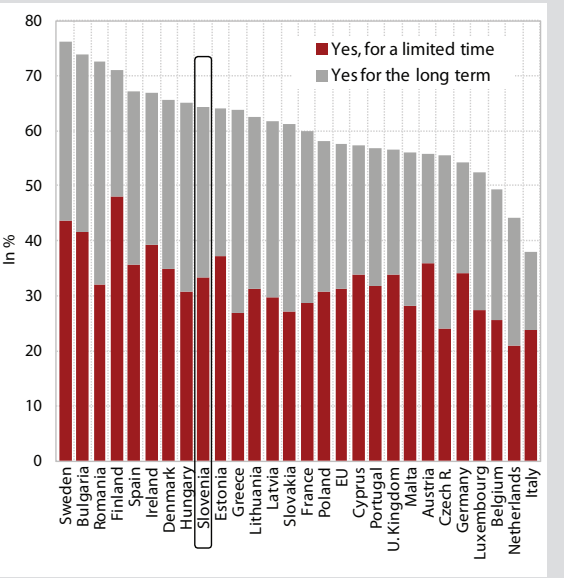
[59] In 2011 it was 8.8% among young people aged 18–24 (EU: 16,7 %).
[60] It includes the participation in formal and non-formal education.
[61] The average monthly education and training costs per employee totalled EUR 8 in 2011, which is one-third less than in 2009.

*Box 6*: **Emigrants and brain drain**

***The number of people leaving Slovenia started to rise before the onset of the crisis and has been relatively high since 2008***[1]. An average of more than 2000 people left the country each year in the period 2000–2006. In the last year before the crisis (2008), the number of people leaving Slovenia rose dramatically, and this trend also continued in the period 2008–2011. In 2011 alone, 4,679 people left the country, i.e. almost 20% more than in 2010. As many as 75.2% of this number was of working age population (15–64 years of age). Most people (58.7%) left for other EU countries, in particular Germany and Austria. Some 22.6% left for other countries of the former Yugoslavia, 43% being older than 50. Only 37.1% of the people leaving Slovenia were previously employed. In the first nine months of 2012, the number of people leaving the country rose again: the number of people leaving the country (6,583) was double the number in the same period of the previous year. This is associated with the continuing crisis, which is deeper in Slovenia than in most other EU Member States, the ensuing lack of employment opportunities in Slovenia, and free access to the German and Austrian labour market after 1 May 2011.

***A high proportion of people with tertiary education leaving Slovenia is recorded in the 25–39 age group.*** In addition to the increase in the number of graduates and the existing tertiary educated population, migrations abroad have an impact on the scope of the country's available human capital. The data on the migration of Slovenian citizens abroad shows an increase in the number of people with tertiary education leaving the country: a total of 919, or 22.9% of the total of people who left the country in 2011. The number of people with tertiary education leaving the country was much higher than in 2005. Young people (aged 30–34) accounted for the highest share, i.e. one-fourth of the total number of emigrant tertiary educated people in 2011. The aforementioned data and adverse labour market trends could lead to a conclusion that people with tertiary education left the country on the completion of their studies due to poor employment opportunities.

*Figure:* **The share of young people (aged 15–35) willing (desiring) to work in another European country, in 2011, in %**




Source: Youth on the move. Analytical report. Eurobarometer, 2011.

Note: The survey included young people aged 15–35. It was conducted by telephone between 26 and 30 January 2011. In Slovenia, the survey included 1,002 persons (also about 1,000 persons in most other countries).

***The share of young people willing to go to work abroad is very high. Therefore the lack of jobs for the tertiary educated could lead to an increased brain drain in the future.*** The most common destinations of the Slovenian tertiary educated citizens that left the country in 2011 were other EU Member States (59.3%), particularly Germany, Austria and the United Kingdom. Studies abroad provide young people with additional knowledge and increase their employment possibilities abroad. The number of students studying abroad increased in the period 2008–2010, which due to the adverse market conditions increases the probability that more young people will stay abroad after they finish their studies. The number of Slovenia's young people willing to go to find work abroad (regardless of their level of education) is the highest in the entire EU. As shown by the Eurobarometer data (2011), the share of Slovenia's young people aged 15–35 who are willing (or desire) to go to work in another European country is 64.2% (EU: 57,5 %). Due to the poor employment possibilities for the tertiary educated young people at home, migration flows are expected to intensify further, with all the negative consequences for innovative capacity and entrepreneurial activity this implies. Simultaneously, this would imply a temporary or permanent loss of human capital that cost a great deal of public funds.

[1] The statistical definition of the population was changed in 2008; nevertheless this is a rising emigration trend. The data include only the registered departures. This year, the Statistical Office succeeded for the first time in also acquiring the data on socio-economic characteristics of the people leaving Slovenia by establishing a link between regular annual statistics and the 2011 census data (cf. http://www.stat.si/novica_prikazi.aspx?id=5226).

*Box 7*: **Resolution on the National Programme of Adult Education 2012–2020**

***The new Resolution on the National Programme of Adult Education is in the process of being adopted.*** The Resolution is a basis for determining the annual adult education programmes adopted by the Government of the Republic of Slovenia, for substantive preparation of the measures and programmes for drawing the European cohesion policy funds until 2020, and for systemic regulation of the area of adult education and managing the education policy at the state and local levels. The vision of the National Programme of Adult Education 2012–2020 is to provide equal opportunities for a quality education in all stages of life to each adult in Slovenia, in particular by encouraging the educationally disadvantaged and other vulnerable groups. The purpose of the National Programme of Adult Education is to raise the competitive (educational) level of the population, to enhance the employability of the active population, to improve the possibilities of learning and participation in education, and to raise the general education level. Like the previous resolution, this resolution is also focused on three priority areas until 2020: increase in literacy, acquisition of basic capabilities, development of support activities (consulting, information, quality), spreading of non-formal general education forms, participation of local communities in defining educational products and services, etc. in the first area (general education); increase in the share of adults with finished primary education, four-year upper secondary and higher vocational education and opening of new possibilities for determining, evaluating and recognising knowledge in the second (education for increasing the education level of adults); development and implementation of educational programmes and activities adapted to labour market requirements and implementation of active employment policy measures (encouraging practical and non-formal training, training carried out by registered providers, lifelong career orientation and acquisition of basic and vocational competencies) in the third area (education and training for labour market needs). The level of participation of people aged 25–64 in lifelong learning, measured by the Slovene Labour Force Survey, should rise to 19% in 2020 and, measured by the Adult Education Survey, to 45%[1] (Resolution on the National Programme of Adult Education 2012–2020 – working material, 2013).

[1] According to the data obtained by the Slovene Labour Force Survey, adult participation in lifelong learning was calculated on the basis of annual data of quarterly averages. The Adult Education Survey measures the participation in education for the past 12 months before the survey. After 2013, the data obtained by the Adult Education Survey published every three years will be used as an indicator for measuring adult participation in lifelong learning at the EU level.

***The total public expenditure on education[62] expressed in relation to GDP remained high.*** In 2010, public expenditure on education decreased in real terms (by 1.7%) at all levels except pre-school. In relation to GDP, it remained at the 2009 level (5.66% of GDP) and was somewhat lower than in 2005. In relation to 2005, public expenditure was lower at the primary and upper secondary levels (fewer enrolments) and higher at the pre-school and tertiary education levels (more enrolments). According to the latest international data for 2009, expenditure on education somewhat exceeded the EU average (5.41% of GDP), which is due to a high level of participation of young people in education and the method of education financing. In the structure of public expenditure by purpose, the share of expenditure on transfers to students participating in education and households[63] increased in 2010; it was lower than in 2005 but still higher than in the EU as a whole (according to the 2009 data)[64]. The share of private expenditure on education of total expenditure was below the EU average (comparison for 2009), primarily due to the low share of private expenditure on tertiary education. Slovenia is one of the few countries where only a small proportion of students (only part-time students) pay tuition fees. According to data published in the National Student Fee and Support Systems (2012), no tuition fees are also paid in Sweden, Finland and Austria. Like in Denmark, tution fees are only paid by part-time students in Slovenia. Although public expenditure on tertiary education in relation to GDP exceeds the EU average, expenditure on tertiary education per participant considerably lags behind the average due to the relatively large number of participants. A possible solution for reducing public expenditure and increasing expenditure per participant is to introduce tuition fees, which would also contribute to improved efficiency of studies. Eventual introduction of tuition fees should be accompanied by a system of study assistance (scholarships and long-term student loans), such as is already in place in many other countries.

[62] The total public expenditure on education includes all budget expenditure at the state and municipality levels on formal education of young and adult people. It includes direct public expenditure on education institutions and transfers to households (scholarships, meals subsidies, travel expenses, accommodation and text book costs, etc.). Financial data for Slovenia are collected according to an internationally comparable methodology using a UOE questionnaire (a joint UNESCO, OECD and Eurostat questionnaire).

[63] Public transfers for education comprise scholarships, child benefits in the part where payment is made additionally conditional upon participation in education, transport, food, accommodation, textbooks, teaching technology and expert literature subsidies, etc.

[64] In 2009, the share of public expenditure on transfers to people participating in education and households in Slovenia was 7.8% (EU: 6.7%).

***Given the relatively high unemployment among those with tertiary education and the great dissatisfaction of employers with graduates' skills, the quality and efficiency of investments and responding to the needs of employers represent the major educational policy challenges.*** The share of people with tertiary education in Slovenia is on the increase and the public expenditure on education is relatively high. Empirical studies show that the high share of people with tertiary education generally has a positive influence on economic growth. However, given the modest demand for people with tertiary education, particularly during the crisis, the problem of their employability in Slovenia has become aggravated to a great extent. This raises the issue of the efficiency of investments in tertiary education and of the markedly high level of participation in tertiary education more than ever before. The expansion of the network of institutions at the tertiary level indeed increases their accessibility but raises the issue of education quality. From this perspective, it is urgent to find a new balance between the accessibility and the quality of education. A system of monitoring employers' needs by knowledge and skills should also be established.

## 2.2 Research & development, innovation and use of information-communication technologies

***Investment in R&D accounted for its all-time largest share of GDP in 2011 (2.47%), simultaneously with a considerable increase in the number of enterprises included in the survey.*** Slovenia significantly increased its R&D expenditures in 2011, which, given the modest GDP growth, was reflected in their larger share of GDP. The increase in expenditures was signficantly influenced by a higher number of reporting units of the business sector captured in the survey (643 reporting units) and some other changes (see indicator 2.4), which does not allow comparison with previous years. Slovenia increased its lead in relation to the EU average, where the share of R&D expenditures in GDP is stagnant (it accounted for 2.03% of GDP in 2011), and joined the five EU Member States[65] with the highest expenditures for R&D in relation to GDP. However, considering a continued shrinking of government budget appropriations for R&D[66] in 2012, the decline in economic activity in 2012 and the unfavourable forecast of economic trends for 2013, the business sector cannot be expected to compensate for the loss of government investment in R&D despite a higher tax allowance[67] introduced in 2012. Investments in R&D by the business sector in 2011 grew faster than in the government sector and the share of enterprises in gross domestic expenditure on R&D rose to 61.2%. In addition to the increase in own funds, the business sector was able to use foreign funds for R&D investments to a greater extent than before. In 2011, the inflow of these funds into Slovenia increased considerably and totalled EUR 63 million, of which EUR 30.2 million was provided by the European Commission. Although more than one-half of these funds were used by businesses, their share significantly lagged behind that of companies in other EU Member States (EU, 2011: 71,0%). This can be attributed to (i) inadequate participation of a larger number of small and medium-sized enterprises in international trade and cooperation with foreign partners, (ii) weak links with research institutions at home, (iii) lack of knowledge and skills of small enterprises for obtaining foreign funds, and (iv) an excessive administrative burden associated with reporting. Another shortcoming of R&D investment in Slovenia is related to the fact that service companies account for a small proportion of the total R&D expenditures by the business sector (about 14% in 2010 against between 30% and 60% in most EU Member States).

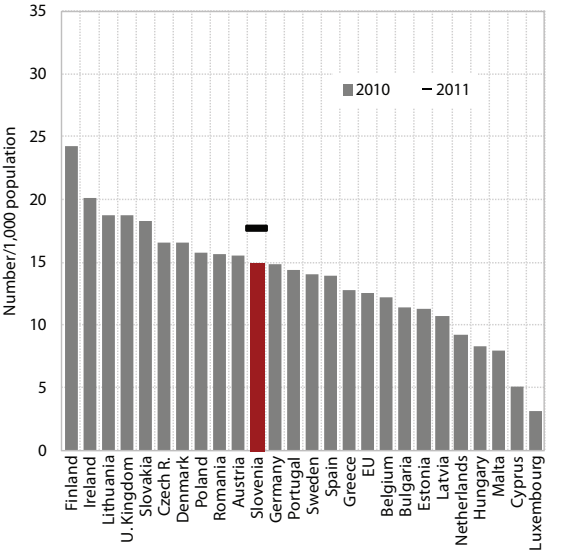
***Encouraging trends in strengthening the human capital for innovation continue.*** The growth of the total number of researchers was reflected in particular in their increase in the business sector in 2011. In the same year, Slovenia exceeded the EU average (2010: 44.9%) regarding the business sector share in the total number of researchers by 6.5 pp. In the period 2005–2010, trends in the number of doctorate graduates of science and technology were more favourable than those at the EU level, with the increase in their number much higher in Slovenia. These favourable trends came to an end in 2011, when the number and the proportion of doctorate graduates of science and technology in the total number of PhDs declined. As the number of enrolments in doctoral studies in science and technology rapidly increased over the past few years (including in 2011, when a 9.4% increase was recorded), their number may be expected to rise further in the future. The inflow of highly qualified staff is very important, as they can contribute to enhancing the competitiveness of businesses with their knowledge and international connections. The favourable trends regarding the growing share of researchers in the business sector and the increase in the number of doctorate graduates of science and technology were also due to the incentive measures of the government (young researchers, young researchers in the enterprise sector, interdisciplinary groups and capacity-building of R&D departments in companies). Evaluations have shown positive effects of certain measures for strengthening capacity, transfer of knowledge, and increasing the research and development activity in companies (e.g. young researchers in the enterprise

[65] Finland, Sweden, Denmark, Germany and Austria.
[66] In 2011, GBAORD declined by 7.9%.
[67] The general tax allowance for R&D investments increased from 40% to 100%, while the additional regional tax allowance for this purpose has been abolished (Corporate Income Tax Act, Official Gazette of the RS, No. 30/2012).

sector[68] and interdisciplinary groups in companies[69]). For the majority of measures introduced, the complexity of administrative procedures relating to tenders and reporting was seen as a problem.

***The number of science and technology graduates increased in 2011 and so did the risk of their brain drain.*** Favourable trends relating to science and technology graduates that have an important role in technological development and innovation, continued: in the period 2005–2011 their number increased substantially (by 14.2% in 2011 alone) and so did their share in the total number of graduates. Due to the shirinking of generations, the number of enrolments in science and technology courses declined in 2011/12. This is why there is a need to strengthen the interest in science already at the lower levels of education and provide students with better information about the employment demand for these job profiles. Unlike Slovenia, more than one-half of EU Member States have already adopted national strategies for developing key competencies in the areas of science and mathematics in primary and upper secondary education[70]. The Resolution on Research and Innovation Strategy of Slovenia 2011–2020 (ReRIS11-2020) called for encouraging students to pursue science and technology studies; however, the number of sponsorship scholarship recipients in this area is declining. The female population represents further opportunities for increasing enrolment, since it has a modest share in the total enrolment in science and technology courses (29.0% in 2010). Increased participation in the practicum during studies and the development of a system of medium- and longer-term timely monitoring of employers' needs (by area and skill) should also be put in place in the area of science and technology in order to improve the employability of graduates and increase the efficiency of investment in education. As the crisis continues, i.e. given the fact that further recruitment of staff in the public sector has been halted and that the forecasts for a rapid economic recovery are bad, the risks of major loss of human capital and particularly the emigration of graduates, which is not restricted to science and technology, are increasingly becoming reality (see Box 6).

*Figure 16:* **Number of science and technology graduates per 1,000 population aged 20–29 years, 2010**




Source: Eurostat Portal Page – Population and Social Conditions – Education and training, 2013.

***Innovation activity of Slovenian companies remains weak, and the lag behind the EU average increases.*** In the three-year period 2008–2010, Slovenia's share of innovation-active enterprises (IAE) dropped to 49.4%, or a percentage point less than in the period 2006–2008. The majority of the EU Member States have succeeded in maintaining or increasing the level of innovation intensity despite the economic crisis. Germany is the most successful EU Member State in terms of innovation, with almost 80% of innovation-active enterprises. A high level of innovation activity is also recorded in Portugal (60%), one of the countries hardest hit by the crisis. The lagging behind of Slovenia in terms of innovation activity reduces the competitiveness of its goods and services in foreign markets and brings a continued stagnation in the share of high-tech goods (see indicator 1.14) and knowledge-based services in total exports (see Chapter 1.3.1). In the majority of EU Member States, including Slovenia, companies most frequently introduce technological and non-technological (organisational and marketing) innovations simultaneously, which points to the interconnection between various types of innovation. The importance of the complementarity of technological and non-technological innovations is corroborated by empirical analyses which show that a combination of various types of innovation has a strategic importance, as the companies using such innovations are the most successful and generate the majority of further innovations (INNO-GRIPS, 2012).

***Slovenia considerably lags behind in innovation intensity of service activities.*** Similarly as in the EU, Slovenian manufacturing companies are more actively involved in innovation (54.4%) than service companies (44.7%). However, innovation activity in the EU Member States that recorded the highest growth in innovation

[68] The shortcoming of this measure was that it is oriented towards basic research, which reduces the applicability of research results, in particular for small and medium-sized enterprises that lack own research teams. Measures supporting applied research could facilitate the companies to faster introduce new knowledge in production processes, the increase in innovation activity and value added (Evaluation of measures to encourage R&D activities in the enterprise sector and knowledge institutions, 2012).

[69] Most companies with this type of groups increased the proportion of their highly qualified staff and the proportion of own funds for R&D investments and knowledge transfer (Jaklič et al., 2012).

[70] Eurydice Report (2012): Developing Key Competences at School in Europe: Challenges and Opportunities for Policy.

intensity in the period 2006–2010 increased more in services than in manufacturing. Slovenian service companies, on the other hand, recorded a greater decline in innovation activity than manufacturing companies. The share of Slovenian service companies in the total expenditure of innovation-active companies that introduced technological innovations in 2010 was considerably lower (18.4%) than in most EU Member States (between 25% and 65%). This is partly associated with the introduction of specific measures for stimulating innovation activity in services (e.g. Germany). The results of the EPISIS project show a series of policies that support service innovations, such as shifting the innovation policy from incentives for the supply of innovations to higher incentives for demand for innovations (e.g. public procurement); equal treatment of technological and non-technological research and innovations in state aids and other incentives; and more adequate support to service innovations related to key societal challenges, etc. (EPISIS Final Report, 2012). Slovenia is too slow in following these trends, since innovation policy instruments do not sufficiently take into account the structure of the economy or the specificities of innovation in service activities (Stare, 2012). This is probably one of the major reasons for the low level of innovation activity of small enterprises and its continued decline in the period 2006–2010, given the fact that the major part of small enterprises are in the service sector.

***The stimulation of innovation activity requires a wider range of incentive policies.*** The focus on R&D investments is too narrow, since many innovations do not depend on research but on the creativity of employees, their organisational and marketing skills, and develop in close cooperation with customers, i.e. by means of greater adaptation to the needs of the users of products and services (OECD STI Outlook, 2012). The business sector's innovation capacity also depends on the quality of support and on the innovation level of the public sector. The Eurobarometer analysis shows that the majority of Slovenian companies are satisfied with the access to information and advice on this support, but only 14% of the companies believe that the various measures provide a sound support for innovation in companies; moreover, only 17% of companies agree that the legislative and the tax system encourage companies' innovations. At the same time, as many as 82% of Slovenian companies consider that the public sector should enhance the innovativeness of its services in order to adapt them to the needs of companies, while the share of such companies at the EU level is considerably lower (58%) (Flash Eurobarometer, 2012).

***Slovenia is too slow in strengthening intangible assets, such as patents and Community design registrations, though makes more progress in applications for Community trademarks.*** Intangible assets[71] are becoming increasingly important for growth and productivity. The data on individual components of intangible assets are, for the time being, highly restricted; however, the trends indicate that investments in intangible assets are growing faster than those in tangible assets. In some OECD countries, investments by businesses in intangible assets are already the same or higher than in physical assets. The number of patent applications per million population in Slovenia declined in 2011, further increasing the country's lag behind the EU average (first estimates for 2011: 63.9 and 128.1 patent applications per million population in Slovenia and the EU respectively). Given the fact that legislation introducing the single European patent was adopted in 2012, cheaper and shorter procedures for obtaining unitary patent protection in the EU may be expected, which should further facilitate access to patent protection for small and medium-sized enterprises. The first estimates for 2012 show that Slovenia also considerably lags behind the EU average in Community designs, achieving less than half of the average. In 2012, Slovenian patent applicants filed considerably more applications for trademark protection with OHIM[72] than the year before, the number amounting to 66.8% of the EU average. The average annual growth in the number of Slovenian applications for legal protection of Community trademarks in the period 2005–2012 remains among the highest in the EU.

***The use of e-services in Slovenia has been stagnating since 2010, though it continues to increase in the EU.*** Slovenia lags behind most new EU Member States in terms of the population share that uses the Internet regularly (68%). The biggest difference in relation to the EU average (14 pp in 2012) remains in internet use by the older population (aged 55–74), although this difference declined in the past year. The crisis caused the biggest decline in the share of users with low levels of education and those with the lowest incomes. In the past few years, the public sector and businesses invested considerably in modern information and communication infrastructure which facilitates effective use of e-services; however, with a few exceptions, it has not yet been sufficiently used, including due to an inadequate legal regime[73]. The share of Slovenian companies which use automated data exchange with the public administration and financial institutions is higher than the EU average, but the proportion of companies with automated data exchange with customers and suppliers (use of e-invoices, exchange of information on products and transport documents) is substantially lower. The use of e-services enables an increase in the efficiency of operations and consequently facilitates breakthroughs into foreign markets. According to the Global Information Technology Report (2012), Slovenia is also ranked very low in terms of the impact of information and communication technology on the creation of new services and business models, the use of new organisational models, and the efficiency of public

[71] There are three types of intangible assets: a) software and databases; b) innovative property (R&D, patents, copyrights, design and trademarks); c) economic competencies which include company-specific human capital, organisational skills, certain aspects of advertising and marketing (Corrado et al., 2012).

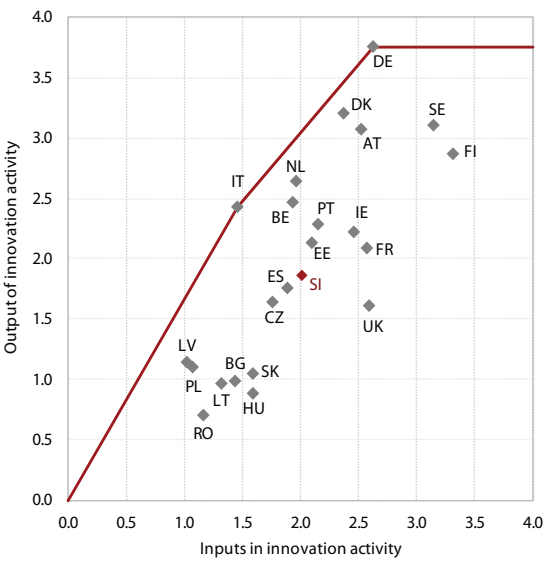
[72] Office of Harmonization for the Internal Market.

[73] On 1 January 2013, amendments to the VAT Act took effect and facilitated the issuing of e-invoices.

administration[74]. Slovenia's gap is also due to the fact that its companies (compared with the other new EU Member States) are substantially less internationalised in terms of formal ownership, as direct foreign investments normally accelerate the introduction of new technologies and procedures in companies, including automated data exchange with customers and suppliers. The increased use of information and communication technologies and the creation of new solutions and business models largely rely on the availability of qualified staff. Due to the versatile application of information and communication technology in the private and public sectors, a further increase in demand and a growing shortage of specialists in this field can be expected[75]. The inflow of information and communication technology specialists[76] from educational institutions in Slovenia is too modest, despite the increasing trend in the number of graduates. A further weakness is insufficient training and learning of participants through practice and insufficient contacts with companies during educational processes; moreover, as the crisis continues, there is also a risk of such participants, particularly graduates, migrating abroad.

***2012 witnessed a rapid increase in broadband access, which was available to almost all households with internet connection (74%).*** Households that do not use the internet indicate the high costs of access and equipment as the main reason for not using it, a fact that becomes increasingly common as the crisis continues. In the EU the proportion of respondents considering that the high costs inhibit access to the internet is twice lower. The lack of knowledge and skills to use the internet and the wide range of internet-related services (email, e-services provided by state institutions, social networks, etc.) represent the greatest obstacle for the elderly, whose share in the total population is increasing along with growing life expectancy. The all-Slovenian computer literacy campaign through intergenerational cooperation[77] has shown that there is a great deal of interest among the elderly in acquiring basic e-literacy skills and that also many young people want to take part in the teaching as volunteers. The state should give more support to these and similar activities with appropriate programmes that could also include temporary employment of young people. The model of cooperation between actors in non-profit, private and public sectors, which was used in the implementation of the Simbioz@ project, represents social innovation and a platform that could also be adapted to address problems in other areas.

*Figure 17:* **Efficiency frontier of the innovation system for selected EU Member States**




Sources: IMAD calculation based on data provided by. Eurostat Portal Page – Industry, Trade and Services – Information Society Statistics, 2012; Eurostat Portal Page – Population and Social Conditions – Education and Training, 2013; Eurostat Portal Page – Science and Technology – Research and Development, 2012. Handbook of Statistics 2007–2008 (United Nations), 2007; United Nations Commodity Trade Statistics Database, 2012; Innovation Union Scoreboard 2013 database, 2013.

Notes: The efficiency frontier of the innovation system was calculated in line with the non-parametric Data Development Analysis method. The input indicator is composed of the share of R&D expenditure relative to GDP, the share of ICT expenditure relative to GDP, the share of researchers in the business sector, the share of science and technology graduates, the share of new doctorate graduates of science per 1000 population, and the share of the tertiary educated in active population. The output indicator of innovation activity is composed of the share of small and medium-sized enterprises having introduced a) technological or b) non-technological innovations and the number of a) patents, b) trademarks or c) industrial designs per inhabitant.

***The efficiency of Slovenia's innovation system is weak, which is also reflected in low labour productivity compared with the EU average.*** Slovenia is faced with major challenges and risks in the implementation of the knowledge-based society, particularly considering the global changes where knowledge, creativity, prompt adaptation and introduction of technological advances to business processes and internationalisation of operations are increasingly becoming the key factors of economic progress and citizens' welfare. The analysis of the efficiency of the innovation system[78] has shown that

[74] Slovenia occupies 37th place among 142 countries on the Networked Readiness Index 2012. It is rated much lower in terms of economic effects: impact of information and communication technology in the creation of new services and business models (63rd), impact of information and communication technology on the use of new organisational models (72nd), and impact of the use of information and communication technology on the efficiency of public administration (61st). The data cover the period 2010–2011.

[75] There are currently 700,000 vacancies for this job profile in Europe. The European Commission, in cooperation with the largest companies in this area, is preparing a series of measures for increasing the inflow of qualified staff (e.g. training sponsored by companies, support to personnel mobility, improvement in the curricula for secondary and university-level education, training vouchers, etc.). (Digital Agenda for Europe, 2013).

[76] Computer science, electronics, information technology and similar profiles.

[77] The Symbioz@ project was carried out for the first time in October 2011 and again in October 2012, when 3,250 young volunteers took part in the training of 5,033 elederly participants at 300 locations throughout Slovenia.

[78] We used the non-parametric Data Envelopment Analysis method to calculate the efficiency frontier of the selected sample of countries and identify each country's efficiency with regard to the efficiency frontier. Since the innovation system efficiency depends on a number of factors, we used synthetic

Slovenia's investment in innovation processes is short of achieving sufficient results, ranking it 12th out of 23 EU Member States in terms of efficiency in 2011[79]. In the period since the beginning of the crisis (2008–2011), the efficiency of investment in innovation system further deteriorated while it improved in most EU Member States. According to the Innovation Union Scoreboard 2013, Slovenia's innovation performance deteriorated during the past year but remained among the innovation followers of the most innovative EU Member States. Despite the strengthening of some factors of innovation capacity during the crisis (an increase in R&D investment and the strengthening of human capital), progress in other areas is either slow (intellectual property, transfer of knowledge to companies[80], and effective use of information and communication technologies by companies and the public sector) or is even delayed (innovation intensity). Few innovation policy measures point to good results in terms of increasing the number of patents or scientific publications (e.g. centres of excellence and competence centres) and to a smaller extent in the applicatioin of new knowledge through the sale of new products and services on the domestic and foreign markets[81]. Considering the greater reduction in government budget appropriations for R&D in 2012 than in the majority of other public expenditures and the poor outlook for economic recovery that would encourage development expenditures of the business sector, the shrinking of the research and development activity, the decline of investment in new technologies and the risk of increased brain drain of tertiary educated people abroad, which in the long term weakens the knowledge capital for innovation activity in Slovenia, can be expected. After the adoption of the Resolution on Research and Innovation Strategy of Slovenia 2011–2010 (ReRIS11-2020), Slovenia faces a major challenge to strengthen its support to innovation and draft its national smart specialisation strategy[82] for research and innovation, which will serve as a basis for the drawing of funding from the EU Cohesion and Structural Funds in the next financial perspective (Udovič, Bučar, Erawatch, 2012).

indicators with equal weights in our analysis. It should be pointed out that the efficiency frontier largely depends on the size of the sample and on the choice and accuracy of the selected input and output data.

[79] Greece, Malta, Cyprus and Luxembourg were excluded from the group of EU Member States due to missing data.

[80] The research voucher introduced in the autumn of 2012 should contribute to the strengthening of cooperation and knowledge transfer among research organisations and companies. A special new feature is that it also facilitates the co-financing of research in the area of creativity and marketing.

[81] Evaluation of measures to encourage R&D activities in the enterprise sector and knowledge institutions, 2012.

[82] Smart specialisation is a strategic approach of the EU Strategy 2020 for Cohesion Policy Targeted Support to Research and Innovation. National research and innovation strategies for smart specialisation will be a preliminary condition for drawing the funding from the European Regional Development Fund (ERDF) and the European Agricultural Fund for Rural Development (EAFRD) in order to ensure efficient innovation policies and maximise the effects of EU investments.

# 3 Efficiency of the state

***SDS guidelines*** for the third priority cover three areas. First, structural reform of public finance comprising a reduction of general government expenditure as a share of GDP by at least two percentage points, restructuring expenditure in line with the priorities of the strategy and absorption of EU funds, and comprehensive tax reform aimed at removing burdens from labour, promoting competitiveness and employment, and simplifying the tax system. Second, increasing the institutional competitiveness and efficiency of government, which involves a reduction of state ownership in the economy, improvement of the quality of regulations and cutting red tape, introduction of public-private partnerships in infrastructural investment and public utilities, and increasing the efficiency of the civil service. And third, improving the functioning of the judiciary by making the system more effective and reducing court backlogs.

## 3.1 Quality of public finance

***Since 2007, Slovenia has been moving away from the SDS objectives in terms of the reduction of general government expenditure[83] and the development restructuring of expenditure and comprehensive tax system reform.*** During the period of high economic growth, by applying measures to reduce social transfers and restrict the growth in labour costs in 2005–2007, Slovenia recorded a substantial reduction in general government expenditure in comparison with GDP[84]. In 2008, the relative expenditure increased again due to the adopted measures (partial introduction of wage reform, expansion of rights in certain areas) and its increase only accelerated in the following years[85] as a result of the measures adopted to eliminate the consequences of the crisis in the economic and social areas and as a result of the growth of employment, particularly in education, health and social work. In 2011, general government expenditure was thus 5.4 pp of GDP higher than on the adoption of the SDS in 2005. After the adoption of somewhat stricter austerity measures, expenditure declined by 5.4% in nominal and 1.8 pp of GDP in relative terms in 2012. Due to the rigidity of general government expenditure[86], there was no major development restructuring during this period; however, a relatively high level of expenditure was maintained

[83] The objective of Slovenia's Development Strategy (SDS 2005–2013) is to decrease the general government expenditure by 2 pp of GDP in comparison with the reference year (2005). With the onset of the economic crisis in 2008, the situation in this area changed substantially (a fall in GDP and an increase in expenditure in 2009–2011); as a result, the objective cannot be met.

[84] In 2007, the expenditure was lower by 2.7 percentage points compared with the initial year of the SDS (2005).

[85] In part also due to the extremely sharp fall in GDP in 2009.

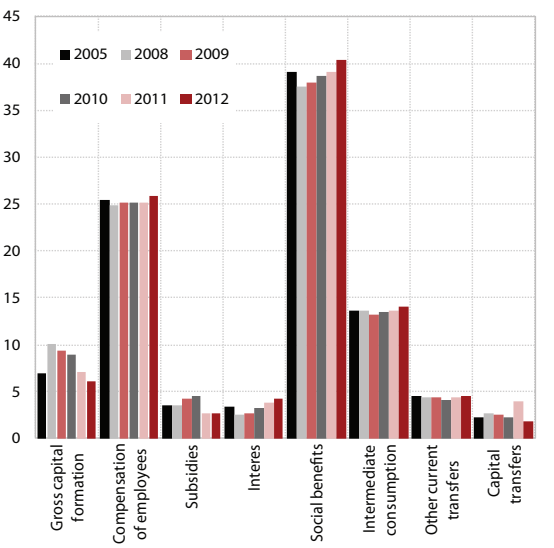
[86] The problem of rigidity of expenditure was identified by the IMF as early as 2007 (Todd and Gunnarsson, 2007).

by means of EU funding until 2012, which could have had a positive impact on development. There were some lesser changes in the tax policy area. The implicit tax rate on consumption still expresses a high level of taxes on consumption and a low level of capital taxes. The until then above-average implicit rate on labour declined below the EU average in 2010. These trends are partly consistent with the SDS objectives in the area of particular taxations, and the share of taxes and contributions in relation to GDP in the period 2005–2011 declined, which is in accordance with the objectives of this strategy.

***After a considerable increase in expenditure in the period 2008–2011, which was primarily the result of the economic crisis, expenditure declined by 5.4% following the adoption of radical fiscal consolidation measures in 2012.*** In the period 2008–2011, expenditure increased each year and in 2011 totalled EUR 1.8 billion more than in 2008. Along with a simultaneous decline in GDP in 2009 and modest economic growth in the following few years, it rose to 50.8% of GDP. According to the latest available data for 2010, the achieved expenditure was at EU average level[87] but the trend quite the opposite. Due to the implemented radical fiscal consolidation measures, the relative expenditure level declined in the EU as early as 2010 but continued to increase in Slovenia[88] until and including 2011[89]. After the adoption and enforcement of fiscal consolidation measures in 2012, general government expenditure considerably declined and amounted to 49.0% of GDP.

***In the economic structure of expenditure for the period 2008–2011, the fastest growth was recorded in expenditure on social benefits in cash and kind, but these were reduced by radical measures in 2012. The heaviest cuts were made in gross capital formation and capital transfers.*** The share of expenditure on social benefits in cash and in kind, which represent a good third of total expenditure, rose by 3.2 pp in the period 2008–2011, with 0.4 pp of GDP in 2011. The increase in expenditure in 2011 was almost entirely the result of the increase in the number of beneficiaries, since the adjustment of pensions and social transfers was restricted to one-fourth of the inflation rate by intervention law. A considerable relative increase in compensation of employees in 2008 and 2009 resulting from the partial wage reform was followed by a minimal increase in 2010 and 2011[90], which was due to a slight increase in the number of employees[91] and the restrictive wage policy in the general government sector. As a result of a gradual reduction of measures to mitigate the consequences of the crisis, subsidies decreased in 2010, and the heavy reduction in 2011 was primarily a result of institutional changes, i.e. the inclusion of two companies in the general government sector within the scope of reorganisation of Slovenian Railways[92]. Expenditure on capital transfers grew dramatically in 2011, which was a result of the state rescue of mainly public enterprises and institutions[93]. Expenditure on gross capital formation decreased for the second consecutive year and mitigated the rapid increase in general government expenditure. In the period 2008–2011, the increase in general government expenditure was focused on addressing primarily the consequences of the economic crisis through the rehabilitation of the existing situation (social distress of the population and mainly state companies), rather than through accelerated developmental activities which could have yielded better results and, in particular, long-term development progress. With the adoption of the package of institutional changes for fiscal consolidation[94], the share of expenditure on social benefits in cash and kind declined by 0.1 pp of GDP in 2012, which is a result of tougher conditions of access to social rights and their scope; the share of compensation of employees declined by 0.2 pp due to cuts in wages and a ban on new employment. Capital transfers and gross capital formation, which declined by 1.0 and 0.6 pp of GDP respectively, were the hardest hit by the

*Figure 18:* **Structure of general government expenditure according to economic categories, Slovenia**




Source: General government expenditure by function, Slovenia, 2012 (SURS, si-stat); calculations by IMAD.

[87] Slovenia: 50.3%; EU; 50.6% of GDP.
[88] In 2010, expenditures in Slovenia rose by 1.2 pp, whereas in the EU they fell by 0.5 pp of GDP.
[89] The measures adopted until 2012 were soft: frozen wages of civil servants, social transfers and pensions not adjusted to inflation; there were also cuts in intermediate consumption.
[90] Compensations of employees rose by 1.9 pp in 2010 and 2011, and by another 0.2 pp of GDP each year.
[91] The number of employees in the general government sector increased by 0.4% in 2011.
[92] This resulted in a reduction of subsidies and an increase in intermediate consumption in the general government sector.
[93] The recapitalisation of NLB and certain state companies, the assumption of receivables of Slovenian Railways, the assumption of the debt of a public company for the construction of the Sava HPPs, and the payment of guarantees that have fallen due.
[94] Exercise of Rights to Public Funds Act (ZUPJS) Official Gazette of the RS, No. 62/2010, Additional 2012 Intervention Measures Act (Official Gazette of the RS, No. 110/2011)and Fiscal Balance Act (ZUJF) (Official Gazette of the RS, No. 40/2012).

*Table 4:* **Annual drawing of European funds (as at 4 January 2013), Slovenia, in EUR million**

| Policies | Budgetary commitments | | | | | | | Cumulative amount 2007–2012 | Achievement in % |
|---|---|---|---|---|---|---|---|---|---|
| | 2007–2013 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | |
| OP RR | 1,768.2 | 0.0 | 0.0 | 78.8 | 308.2 | 361.6 | 326.0 | 1,074.6 | 60.8 |
| OP RČV | 755.7 | 0.0 | 0.0 | 6.4 | 104.7 | 127.3 | 107.4 | 345.8 | 45.8 |
| OP ROPI | 1,577.1 | 0.0 | 0.0 | 104.9 | 99.4 | 61.7 | 107.0 | 373.0 | 23.7 |
| Agricultural and fisheries policy | 1,654.8 | 0.1 | 208.3 | 220.3 | 217.9 | 220.2 | 267.5 | 1,134.3 | 68.5 |
| Other | 379.0 | 0.0 | 15.8 | 35.9 | 20.3 | 14.8 | 21.4 | 108.2 | 28.5 |
| Total | 6,134.8 | 0.1 | 224.1 | 446.3 | 750.5 | 785.6 | 829.3 | 3,035.9 | 49.4 |

Source: Ministry of Economic Development and Technology, EU Cohesion Policy Directorate, 2013; calculations by IMAD.
Legend: OP RR – Operational Programme for Strengthening Regional Development Potentials; OP RČV – Operational Programme for Human Resources Development; OP ROPI – Operational Programme for Environmental and Transport Infrastructure Development.

cuts in expenditure. The cuts in general government expenditure by 1.8 pp of GDP in 2012 resulted in reduced domestic consumption.

***The structure of expenditure by function has changed considerably since the adoption of the SDS in 2005; in 2008–2011, it was dedicated primarily to resolving the economic crisis.*** Social protection expenditure represented the largest structural share (about 37%). During the period of economic prosperity (2005–2007), its share declined considerably, but it saw a steep increase (to the 2005 level) during the economic crisis (2008–2011). Its nominal increase was as high as 15.9% and the government financed social protection measures to mitigate the distress of the population given the growing unemployment and deterioration of material standards. The highest nominal growth (17.6%) during the crisis was recorded in structurally much lower expenditure on economic affairs (by a good tenth), by which the government addressed the problems relating to manufacturing and employment. There was also a sharp increase in expenditure on recreation, culture, religion and general public services. In the first category, higher expenditure is due to extensive gross fixed capital formation, particularly for recreation and sports facilities, while the increase in expenditure on public administration was due to the extremely high increase in expenditure on servicing the public debt[95], which saw a major increase during this period.

***During the economic crisis, expenditure for potentially productive purposes rose more slowly than total general government expenditure.*** According to European Commission methodology (The Quality of Public Expenditures in the EU, 2012), which classifies expenditure on education, health, environmental protection, transport, communications, energy, and research and development as potentially productive expenditure, Slovenia started to increase its productive expenditure after 2007 (15.5% of GDP); in the period 2007–2011, it rose by 2.5 pp to 18% of GDP. Much of the increase stemmed from expenditure on health and education. Expenditure on transport rose by a good 20%, while there were no changes in expenditure on research and development, other infrastructure, or environmental protection. The comparatively good results are relative, since they were achieved due to a decline and slower GDP growth. The nominal growth of this expenditure since 2008 has been almost twice (only 6%) as slow as the overall increase in total general government expenditure (11.1%). In 2011, the share of productive expenditure in the structure of general government expenditure was 35.4%, thereby ranking Slovenia among the top one-third of EU Member States.[96] According to the research of the European Commission, potentially productive expenditure represents favourable development potential for growth and the implementation of the Europe 2020 strategy. Given that total general government expenditure experienced excessive growth, Slovenia could not continue to pursue such a policy, which caused expenditure to decrease in 2012.

***In the period 2007–2012, Slovenia financed a large part of general government expenditure (in particular gross capital formation and subsidies) with resources of the European Structural Funds, but the annual utilisation of funds lagged slightly behind budgetary commitments.*** In the 2007–2013 programming period, Slovenia could use EUR 4.2 billion of the Cohesion Policy funds, EUR 1.6 billion for agriculture and fisheries policy, and EUR 0.4 billion for other purposes. Due to a delay in drawing funds in the period 2007–2009[97], which Slovenia has not yet made up for despite accelerated drawdown in 2010–2012, the drawdowns in 2007–2012 lagged behind budgetary commitments[98]. Slovenia was most successful in drawing funds for strengthening its regional development potentials[99], where almost 80%

[95] 72.9% nominal increase.

[96] Higher shares of this expenditure were recorded in three Nordic countries (Denmark, Finland and Sweden), Ireland, The Netherlands, the United Kingdom and, among the new Member States, the Czech.

[97] In 2007 and 2008, Slovenia drew funds from the previous programming period.

[98] In terms of the amount of funds received in relation to budgetary commitments for the period 2007–2013, Slovenia ranked 11th among EU Member States and 4th among new Member States.

[99] 60.8% in relation to budgetary commitments for the entire finanancial period 2007–2013 and 85.4% in relation to budgetary commitments for the period 2007–2011.

of the funds were earmarked for investments. It was least successful[100] in drawing funds for environmental and transport infrastructure development[101], where the total funds were dedicated to investments (see Chapter 5.1). For this reason, the government adopted measures allocating additional budget commitments (besides the existing ones) to all operational programmes[102] in order to facilitate the reallocation of the funds to lower-risk projects. At the same time, a proposal for reallocating budget commitments within the operational programme of environmental and transport infrastructure development from the development priority "Railway and Transport Infrastructure" to the "Sustainable Use of Energy" development priority was prepared.

**General government expenditure that supports, from a development perspective, major investment activities declined after 2008 and reached 3% of GDP in 2012.** Following an extremely high increase in 2007 and 2008, gross capital formation started to decline in 2009 and experienced the sharpest drop in 2011. Despite the decline, it remained relatively high in 2010 (4.5% of GDP) and much above the EU average (2.7% of GDP)[103]. Due to a continued decline in 2011, gross capital formation was EUR 359 million lower in nominal terms than in 2008 and had declined to 3.6% of GDP. A large part of investments was financed with EU funds. In the period 2005–2011, only slightly more than half (52%) was allocated for potentially more productive purposes (Table 5). The largest proportion of gross capital formation was dedicated to transport, but this proportion has declined sharply since 2008 as a result of the completion of the motorway network, overly slow investing activities in railway system modernisation and the planning activities for the construction of the third motorway development axis. The period after 2009 also saw a decline in investments in environmental protection and health, while investments in education remained more stable. Other purposes include the very high investments in general public services in 2006 and 2007, when Slovenia was in the process of establishing the necessary Schengen border infrastructure, and investments in recreation, culture and religion, which were relatively high particularly in 2010, when they were used to build sports and cultural facilities. In 2012, gross capital formation declined by EUR 257 million to 3% of GDP.

*Table 5:* **General government expenditure on gross capital formation by function (in EUR million)**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| PRODUCTIVE PURPOSES* | 339.9 | 529.6 | 599.8 | 759.0 | 937.6 | 934.9 | 761.5 | 684.0 |
| Fuel and energy acquisition and distribution | 1.6 | 0.8 | 0.2 | 2.6 | 1.6 | 1.4 | 3.7 | 5.7 |
| Transport | 147.2 | 200.2 | 243.8 | 367.4 | 487.9 | 405.3 | 343.0 | 277.9 |
| Communications | 0.7 | 0.6 | 0.5 | 1.6 | 3.0 | 12.8 | 21.1 | 10.3 |
| R&D in economic affairs | 4.0 | 5.6 | 7.2 | 6.4 | 4.7 | 3.9 | 4.4 | 3.7 |
| Environmental protection | 39.6 | 63.7 | 80.3 | 87.8 | 100.9 | 153.7 | 118.2 | 123.6 |
| Health | 55.1 | 75.9 | 103.1 | 113.6 | 140.4 | 190.4 | 113.4 | 102.2 |
| Education | 91.7 | 182.8 | 164.7 | 179.6 | 199.1 | 167.4 | 157.7 | 160.6 |
| OTHER PURPOSES* | 249.7 | 384.2 | 558.8 | 719.0 | 727.3 | 707.6 | 835.0 | 621.8 |
| General public services | 78.9 | 158.0 | 203.9 | 266.3 | 168.6 | 146.1 | 140.0 | 158.3 |
| Defence | 14.3 | 36.1 | 80.2 | 150.1 | 126.2 | 139.0 | 118.6 | 54.0 |
| Public order and safety | 21.7 | 23.8 | 44.3 | 59.6 | 40.2 | 34.6 | 35.4 | 31.4 |
| General economic and commercial affairs and employment-related affairs | 8 | 10.7 | 14.5 | 12.2 | 19.4 | 12.8 | 17.1 | 16.1 |
| Agriculture, forestry, fisheries and hunting | 4.5 | 1.1 | 6.2 | 3.6 | 3.3 | 6.0 | 6.1 | 13.6 |
| Other activities | 0.2 | 0.3 | 0.6 | 10.7 | 17.6 | 16.9 | 14.6 | 16.0 |
| Other economic activities | 4.5 | 6.4 | 8.9 | 0 | 0 | 0 | 0 | 0 |
| Housing and community amenities | 42.6 | 49.9 | 71.6 | 80.8 | 149.4 | 145.1 | 119.2 | 115.8 |
| Recreation, culture and religion | 45.8 | 71.3 | 86.3 | 90.1 | 140.3 | 156 | 344.8 | 160.5 |
| Social protection | 29.3 | 26.6 | 42.3 | 45.5 | 62.4 | 51.2 | 39.2 | 55.9 |
| TOTAL GROSS FIXED CAPITAL FORMATION | 589.6 | 913.8 | 1158.6 | 1478 | 1664.9 | 1642.5 | 1596.5 | 1305.8 |

Source: General government expenditure by function, Slovenia, 2012 (SURS); calculations by IMAD.
Note: The classification of expenditure into productive and other purposes follows the methodology of the European Commission (The Quality of Public Expenditure in the EU, 2012).

[100] There are several reasons why the implementation of the projects is too slow: The report on drawing the European Cohesion Policy funds 2007–2013 (2012, p. 10) indicates justified (bankruptcy in the construction industry, appeals in public procurement procedures, liquidity problems of communities, etc.) and unjustified reasons (inadequate procedures within ministries).
[101] 23.7% of budgetary commitments for the entire 2007–2013 period and 42.1% in relation to budgetary commitments for the period 2007–2011.
[102] 16.56% of the already allocated commitments for OP ROPI, 5% for OP RR and 5% for OP RČV.
[103] A relatively high investment level was recorded only in four Member States: Poland, Czech Republic, Bulgaria and Lithuania.

***During the period up to and including 2010, the state also supported investment activity through state guarantees.*** The volume of these investments increased more notably in the period 2006–2008, when Slovenia accelerated the construction of motorways by borrowing with state guarantees. After 2008, there were fewer investment activities funded in this manner and consequently also fewer issued guarantees. Major investment activities were carried out in the construction of TEŠ 6, and an institutional framework[104] for issuing the guarantee for a part of the investment was adopted in mid-2012. The EIB loan was granted only this year. On 30 September 2012, the guarantees (excluding guarantees issued to mitigate the consequences of the financial crisis) amounted to EUR 4.996 billion[105], which is EUR 163 million less than in the same period last year. Almost two thirds (62.2%) of the guarantees related to transport and storage (Public Finance Bulletin, 2012). Given the current level of development, Slovenia should promote capital formation by general government expenditure and other public finance instruments more than developed EU Member States and OECD member states, while the selection of projects should comply with the development priorities of the state concerned. When financing capital formation through general government expenditure, restrictions on the availability of resources are essential, since financing merely through borrowing or issuing state guarantees imposes a burden on future generations in terms of the repayment of principal and interest.

***Owing to the capital increase in public undertakings and the banking sector, capital transfers recorded a significant increase in 2011, and a significant decrease in 2012.*** After a sharp increase in 2008[106], capital transfers remained relatively stable in 2009 and 2010. If higher expenditure on gross capital formation is characteristic of the less-developed EU Member States, the developed members are characterised by slightly higher capital transfers: in 2010, they accounted for 1.7% of GDP in the EU average. Slovenia lagged behind this average with 1.1% of GDP. In 2011, Slovenia recorded a sharp increase in capital transfers (by EUR 323.5 million), representing 2.0% of its GDP. Their increase was due to the recapitalisation of NLB and some state companies, the assumption of receivables of Slovenian Railways, the assumption of the debt of a public company for the construction of the Sava HPPs, and the payment of guarantees that have fallen due. This resulted in a further increase of the otherwise dominant share for economic affairs.

***In the area of industrial policy, very high subsidies further increased in the period 2009–2010, primarily as a result of measures adopted to mitigate the effects of the economic crisis, while they experienced a sharp decline in 2011 and 2012 on the expiry of these measures and institutional changes.*** After remaining unchanged for a number of years (1.6%), the share of subsidies in GDP rose to 2.2% of GDP in 2009 as a result of an increase in subsidies by EUR 151 million and a simultaneous decline in GDP. The increase in subsidies for general economic, commercial and labour affairs and transport continued in 2010, when a EUR 69 million increase was recorded. A dramatic decline in subsidies by EUR 328 million occurred in 2011 as a result of the expiry of anti-crisis measures and institutional changes brought about by the reorganisation of Slovenian Railways[107]. According to the latest internationally comparable data for 2010, subsidies in Slovenia considerably exceeded the EU average (1.3% of GDP) and, compared with the stable average in the period 2005–2008, they increased less in the EU than in Slovenia[108]. In 2012, subsidies remained at the relative 2012 level (1.3% of GDP), though declined in nominal terms by 2.7%. Until 2008, subsidies were granted predominantly to agriculture and transport, but the level of subsidies to general economic, commercial and labour affairs rose significantly in 2009 and 2010 with a view to alleviating the effects of the economic crisis. Subsidies to agriculture have declined since 2008, while subsidies to transport continued to increase in the period 2008–2010 but declined shaply in 2011 due to the aforementioned institutional changes. The relatively low subsidies for general economic, commercial and labour affairs increased considerably between 2008 and 2010 due to the measures adopted to preserve jobs and increase economic competitiveness. Although unemployment continues to increase and economic competitiveness remains too low, the level of subsidies for employment and increasing economic competitiveness declined considerably in 2011. It would be economically more efficient and fiscally more rational to carry out a programme of measures aimed at preserving the healthy core of failing businesses (due to non-payment practices or overindebtedness) and consequently also the long-term forward-looking jobs.

***The extent of industrial policy measures with the nature of state aid[109] reached the highest level after***

[104] The Act Regulating the Guarantee of the Republic of Slovenia for the Performance of Obligations from the Long-Term Loan Amounting to EUR 440 Million to be Obtained by the Šoštanj Thermal Power Plant was adopted.

[105] As at 30 September 2012, the total amount of guarantees was EUR 6.485 billion.

[106] By 0.3 pp of GDP.

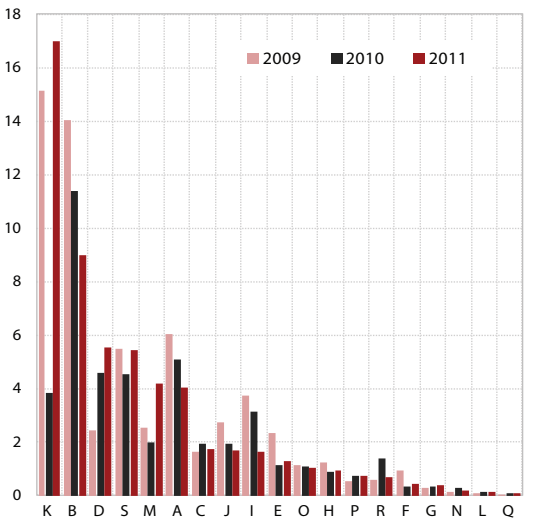
[107] Slovenian Railways were reorganised into four units: two units, Slovenian Railways – Passenger Transport and Slovenian Railways – Infrastructure, were included in the general government sector during the whole of 2011.

[108] This increase was 0.2 and 0.5 pp of GDP in the EU and Slovenia respectively. A higher level of subsidies than in Slovenia was recorded only in three EU Member States (3.5% of GDP in Austria and 2.5% of GDP in Belgium and Denmark).

[109] State aids arise from the EU's regime and represent all measures of a state in terms of its expenditure (subsidies, capital transfers) and revenues (reduced state revenues) allocated by various instruments (grants, tax exemptions and reliefs, favourable loans, guarantees, etc) to economic entities that have an impact on the single internal market of the EU. The impact on the market is defined arbitrarily, by rules adopted by the European Commission, the European Council and the European Court of Justice.

***Slovenia joined the European Union*[110].** In accordance with the European Commission's guidelines, the level of state aid gradually decreased until the outbreak of the economic crisis. On the adoption of measures to mitigate its effects, the level of state aid almost doubled in 2009 and then declined by EUR 185.4 million in 2010 due to the gradual expiration of anti-crisis measures. With the renewed major increase in aid under the scheme intended to remedy a serious disturbance in the economy, which was the result of NLB recapitalisation, and the increase in aid to, particularly, regional development and environmental protection, the level of state aid increased by EUR 247.8 million in 2011 and accounted for 2% of GDP (The 14th report on state aid allocated in Slovenia, 2012). Simultaneously, aid for R&D and employment decreased sharply during the renewed deepening of the crisis and aid for training completely dried up. The increase in horizontal aid (excluding aid to remedy serious disturbances in the economy) in the structure of total state aid continues to follow in global terms the development objectives set out in Slovenia's Development Strategy and the Europe 2020 Strategy; however, their structure (reduction in R&D and training aid, which is the most effective aid from a development perspective) is not very encouraging for its recipients or in terms of the effects of its reallocation on society as a whole. The level of less-development-efficient aid to specific sectors slightly declined in 2011[111]. State aid[112] relative to GDP is more than a half higher in Slovenia than the EU average. On the other hand, aid to the financial sector for battling the effects of the global financial crisis in the period 2008–2011 is lower by one-half (State Aid Scoreboard, 2012; Commission staff working paper, 2012).Compared with the values added achieved in the period 2009–2011, the level of state aid to financial activities is very high due to the banking system rehabilitation and the situation in mining, i.e. the coal industry, due to the years-long closure process of the Trbovlje–Hrastnik mine[113]; aid to agriculture is on the decline, whereas aid to electricity, gas and steam supply is gradually increasing. The aid granted under the "de minimis" rule[114] and considered as state aid has gradually declined after a marked increase in 2009, but its level was still much higher in 2011 than in 2008.

*Figure 19:* **State aid to value added ratio by activity, Slovenia**




Source: State aid: The 14th report on state aid allocated in Slovenia (2009, 2011 and 2011), 2012, p. 48; Value added: GDP output structure (output, intermediate consumption and value added by activity, SCA 2008), Slovenia, annual (SURS). Calculations by IMAD.
Legend: A = Agriculture, hunting, forestry and fishing; B = Mining; C = Processing industry; D = Electricity, gas and steam supply; E = Water supply, waste waters management and care for the environment; F = Civil engineering; G = Trade in, maintenance and repair of motor vehicles; H = Transport and storage; I = Accommodation and food service activities; J = Information and communication activities; K = Financial and insurance activities; L = Real estate services ; M = Professional, scientific and technical activities; N = Other miscellaneous business activities; O = Administration and defence activities, compulsory social security; P = Education; Q = Healthcare and social assistance; R = Cultural, recreational and sporting activities; S = Other activities.

***Anti-crisis measures adopted in Slovenia in 2009–2010 failed to produce the desired results.*** Burger et al. (2012) have noted that beneficiaries of anti-crisis measures were generally above-average-sized, productive and export-oriented enterprises which managed to preserve their relative advantages over average competitors from the same line of business, with the exception of sales and value added per employee, also in the years of crisis. Despite the particular increase in aid that normally produces favourable developmental effects, the desired results were not achieved. The biggest effect was manifested in average wages of beneficiaries of measures, which increased more than those of non-recipients. Similar findings were presented in studies (Rojec et al., 2008 and 2010) that analysed aid allocation before the crisis, but no advance was made in the system of state aid allocation afterwards. The studies highlighted the following: (i) multiple weaknesses in the creation of state aid allocation and distribution programmes; (ii) recipients did not use state aid as an additional source

[110] A comparison with the years before Slovenia joined the European Union is not realistic, since the data for those years include total state aids, while after that date state aids do not include a large part of aid to agriculture, following measures adopted on the basis of the Common Agricultural Policy that have no longer been treated as state aid since Slovenia's EU membership.

[111] The aid to land transport increased, while the aid to other sectors (agriculture and fisheries, maritime transport and coal industry) declined.

[112] The European Commission published a new scoreboard on state aid, excluding aid to address the economic crisis and aid to railway transport.

[113] The closure procedure is carried out in accordance with the provisions of the special Regulating the Gradual Closure of the Trbovlje–Hrastnik Mine Act and Development Restructuring of the Region Act (Official Gazette of the RS, No. 61/2000).

[114] The "de minimis" small aid amounts are an instrument by means of which EU Member States can provide quick support in a limited amount without notification to the European Commission and without entering into any administrative procedure. The rule is based on the assumption that a vast majority of aids paid in small amounts have no impace on trade and competition betwenn the Member States and that therefore they do not qualify as state aid as described under Article 87(1) of the European Union Treaty. The total value of aid granted to the same company must not exceed EUR 200,000 within the last three budget years.

of funds to finance the implementation of structural changes and technological renovation but only as a substitute for their own sources of financing; and (iii) the state aid policy did not realise its potential as a promoter of economic development. All three studies expressed the need to devise a Slovenian industrial policy which would more clearly define the objectives of Slovenia's economic development and adapt the necessary measures accordingly. The government adopted its national industrial policy at the beginning of February this year but still has to define the measures for the achievement of the set objectives.

***Compensation of employees, which accounts for more than 12% of GDP, increased despite restrictions in 2009–2001 and slightly declined in 2012.*** Several years of restrictions on employee compensations before the adoption of the euro resulted in their all-time low level in 2007 (10.5% of GDP). The following year was marked by the start of the implementation of the long-awaited wage reform aimed at ironing out wage disparities among occupational groups. The payments of the first and the second quarter of funds allocated for the elimination of wage disparities were made in August 2008 and January 2009 respectively[115]. The compensation of employees thus increased by 0.5 pp in 2008 and by another 1.4 pp of GDP in 2009; this increase was in part also due to a fall in GDP. Despite the fact that measures to freeze wages were adopted and that there was no increase in compensation of employees in 2010 and 2011, compensation to employees increased by 0.2% of GDP every year. This increase was due to the increase in the level of employment despite restrictions.[116] More restrictive wage policy measures were adopted in June 2012[117] which reduced the wage per employee by 2.2% and the compensation of employees by 3.3%. In 2010, Slovenia's compensation of employees, expressed as a share of GDP, was substantially higher than the EU average[118]; before the wage reform (2007), it was almost at the same level. Slovenia had a higher proportion of expenditure than the EU average particularly in education and health, which was due to a slightly higher share of general government employees and the relatively less developed private sector and general public services.

***A significant increase in expenditure on social benefits and transfers in cash and kind[119] continued in 2010 and 2011 due to the rapid growth in the number of beneficiaries, but came to a halt due to the adopted measures in 2012.*** The economic crisis and demographic trends caused a significant increase in social benefit expenditures. Due to a dramatic fall in GDP, they increased by 2.1 pp of GDP in 2009 and by another 1.1 pp in 2010 and 2011; however, according to the latest international data, they were below the EU average in 2010[120]. The swift growth in expenditure on social benefits was a response to a high increase in expenditure on the unemployed, family and children. There was also a significant increase in expenditure on some other minor groups (e.g. in education and housing). The accelerated growth in expenditure on unemployment had been anticipated given that the number of the unemployed significantly rose following the onset of the economic crisis. Owing to the still relatively low level of the unemployment rate in Slovenia compared with the EU as a whole, this expenditure as a share of total benefits, according to our estimates, is below the EU average. The increased expenditure on family and children mitigated the impact

*Table 6:* **General government expenditure on social benefits[121] by major functions, Slovenia, in %**

| Purpose | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| Health | 9.4 | 10.4 | 10.7 | 10.7 | 10.5 | 10.5 | 10.0 | 9.8 |
| Medical products, appliances and equipment | 5.9 | 6.5 | 6.5 | 6.3 | 6.0 | 5.8 | 5.5 | 5.4 |
| Outpatient services | 3.5 | 3.8 | 4.2 | 4.4 | 4.4 | 4.7 | 4.5 | 4.4 |
| Education | 1.3 | 1.5 | 1.4 | 1.5 | 1.7 | 1.7 | 1.7 | 1.8 |
| Social protection | 89.2 | 87.9 | 87.8 | 87.7 | 87.8 | 87.7 | 88.1 | 88.4 |
| Sickness and disability | 13.7 | 14.2 | 14.0 | 13.9 | 13.8 | 12.7 | 12.5 | 12.2 |
| Old age | 56.3 | 55.1 | 49.7 | 50.8 | 50.7 | 49.9 | 50.0 | 49.7 |
| Survivors | 2.2 | 2.3 | 9.1 | 9.0 | 9.3 | 8.6 | 8.5 | 8.4 |
| Family and children | 10.2 | 9.6 | 9.6 | 9.6 | 10.1 | 10.6 | 10.6 | 10.3 |
| Unemployment | 4.8 | 3.4 | 2.3 | 1.9 | 1.7 | 3.1 | 3.7 | 4.8 |
| Social benefits | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: General government expenditure by function, Slovenia, 2011 (SURS); calculations by IMAD.

[115] Wage per employee increased in nominal terms by 10.2% and 7% in 2008 and 2009 respectively.
[116] The level of state employment, including the incorporation of Slovenian Railways in the general government sector and excluding institutional changes, achieved 2% and 1.2% in the period 2008–2011 and in 2011 respectively.
[117] Wages in the general government sector decreased by 8%; simultaneously the last two quarters of wage disparities were paid out, which resulted in an avergage 3% decrease in wage per employee.
[118] Slovenia: 12.5% of GDP; EU: 11.3% of GDP.
[119] The COFOG methodology has been applied.
[120] Slovenia: 19.4%; EU: 21.6% of GDP.
[121] The data comprise social benefits, with the exception of social transfers in kind and those social transfers in kind relating to expenditure on products made available to households by market producers.

of the crisis on the most vulnerable population group; it ranked Slovenia among the countries with a slightly higher expenditure level. As a share of total benefits, expenditure on old age accounts for the greatest share, representing half of all benefits; in recent years, however, its share has recorded a downward trend. In 2009, expenditure increased substantially (by 5.5%) in nominal terms, which is a consequence of a growing number of beneficiaries and higher payments; its growth in 2010 (4.3%) and 2011 (3.1%) was restricted by an intervention law and was almost entirely due to a growing number of beneficiaries. In terms of expenditure on old age relative to GDP, Slovenia is ranked in the middle of EU Member States. Slovenia will mitigate the increase in the number of beneficiaries and their pressure on expenditure in the forthcoming years by the pension reform[122] adopted at the end of last year. Sickness and disability also account for an important share of total social benefit expenditure. The increase in this expenditure was extremely low after 2008 as a result of the reduction in the number of employed persons. The implementation of the Exercise of Rights to Public Funds Act, which was adopted in 2010, was postponed several times in 2011 and was finally carried into effect in 2012. The Fiscal Balance Act, which further reduced the level of earnings, was adopted in June 2012. The adopted measures reduced the expenditure on social benefits and transfers in cash and kind by EUR 171 million or in nominal terms by 2.4% in 2012.

***The share of taxes and social security contributions in GDP was reduced by a partial tax reform until 2008, remained at the achieved 2008 level until 2011 and then rose despite the adverse economic conditions in 2012.*** Poor operation results, reduction in the tax rate and increase in tax reliefs (for investments, R&D incentives and employment), which were introduced with a view to encouraging economic activity during the crisis, resulted in a sharp decline in revenues from corporate income tax, both in nominal and relative terms. The loss of income was offset by increased excise duties. The share of taxes on production and exports remained at the 2008 level in 2011, but declined last year after a period of growth in 2010 as a result of lower domestic consumption and the excise policy that reduced the level of excise duties on fuels. Adverse economic conditions also influenced the level of revenues from taxes and social security contributions. Their comparatively rapid increase after 2008 slowed down in 2011 due to a reduction in employment. The share of taxes and contributions in GDP in Slovenia in 2011 was considerably below the EU average[123], including because, given the deteriorated macroeconomic conditions, Member States introduced proactive tax instruments to increase taxes and consolidate their public finance deficits. Changes in taxation in the process of fiscal consolidation in the second half of 2012 resulted in a nominal and relative increase (as a share of GDP) in taxes and social security contributions. Due to the decrease in GDP, a nominal and relative increase was recorded only in taxes on production and exports; social security contributions increased only as a share of GDP, and the current taxes on income and property decreased in both nominal and relative terms.

***In 2010[124] an above-average burden was imposed in Slovenia on consumption, which decreased in 2011.*** The burden of taxes and contributions is expressed by implicit tax rates that are used to measure the actual or effective tax burden on particular economic functions[125]. In 2010, the implicit tax rate on consumption was much higher than the EU average[126]. The considerable differences in the implicit tax rate on consumption were slightly reduced on average in 2010. Seven Member States have a higher rate than Slovenia. The above-average implicit tax rate on labour[127] decreased below the EU average in 2010. Eleven Member States reported higher rates than Slovenia. The implicit tax rate on capital for Slovenia was estimated at 22.5%[128,129] Slovenia was ranked in the middle of Member States. The 2011 implicit rates for Slovenia, calculated by SURS, show that the burden on consumption and capital considerably declined in the same year (to 23% and 20.5%, respectively): the former due to increased household consumption and unchanged level of consumption tax revenues and the latter due to the decrease in revenues from corporate income taxes resulting from adverse economic circumstances. The implicit tax rate on labour rose to 35.1% in relation to the preceding year.

***A further important challenge to the rationalisation of general government expenditure is the effectiveness of expenditure.*** The SDS followed the European Commission guidelines on increasing the effectiveness of general government expenditure by determining the changes in budget preparation and implementation in accordance with the principles of result-oriented budget and more cost-effective public spending. In accordance with the adopted time schedule, the changes should have been defined and prepared by the end of 2006.

[122] The reform was adopted by the Pension and Disability Insurance Act (Official Gazette of the RS, No. 96/2012).
[123] Slovenia: 37.5%; EU; 40.1% and as much as 40.8% of GDP in eurozone countries.
[124] Latest internationally comparable data.
[125] The implicit tax rate on consumption is defined as a ratio between taxes on consumption and final household consumption in a country's territory in compliance with the national accounts methodology. The implicit tax rate on labour is defined as the ratio between taxes on labour and the compensation of employees increased by payroll tax, in compliance with the national accounts methodology.
[126] According to Eurostat data (Slovenia: 24.1%; EU: 19.7%); according to the most recent data from SURS (February 2013), the rate for Slovenia was slightly lower (23.7%).
[127] According to Eurostat data (Slovenia: 35.0%; EU: 36%); according to the most recent data from SURS (February 2013), the rate for Slovenia was slightly lower (34.9%).
[128] The most recent data from SURS (February 2013) show that the rate for Slovenia was lower by 0.5 pp (22.0%).
[129] No information available for the whole EU.

However, no activity was undertaken and a special institutional arrangement[130] defining the system of development planning and budget preparation was made only in 2007. The period after 2008 was marked by activities of shaping policies, programmes and expenditure sub-programmes. Slovenia was also warned of the slow implementation of these activities by the OECD (Slovenia: Towards a Strategic and Efficient State, 2012)[131]. The preparation and presentation of the budget is already carried out in accordance with expenditure programmes, whereas appropriate measurement and assessment of the effect is not yet in place. Only an initial set of objectives and indicators have been defined. The acceleration of programmes measuring the effectiveness of expenditure programmes represents a major challenge also from the perspective of rationalisation of general government expenditure and urgent fiscal consolidation and stabilisation. The reduction of general government expenditure is facilitated by eliminating ineffective or insufficiently effective expenditure programmes and also has less negative effects than linear reduction in expenditure which also includes effective programmes.

## 3.2 Institutional competitiveness

***The establishment of an institutional framework and effective functioning of the state and its institutions is of crucial importance for a stimulating business environment, for the competitiveness of the economy and for meeting the needs of the population.*** The SDS gave priority to reducing state property and its effective management, upgrading the institutional framework, and improving the standards of professionalism and transparency of the functioning of the state and its institutions. Due to the slow response to the changed circumstances and the accumulated deficiencies in the operation of the legislative, executive and judicial branches of power and inadequate civil society participation, institutional competitiveness in Slovenia at first gradually improved, but has deteriorated in the past few years. By using indicators relating to legal, economic and political institutions[132], Kunčič (2012) determined that, in international comparison, the quality of economic institutions in Slovenia, the poorest of the three types of institutions, stagnated in the period 2006–2009, that of political institutions declined, and that Slovenia's international competitiveness declined fastest in legal institutions. His calculations for 2010 point to a major decline in the quality of economic institutions and to continuing trends in political and legal institutions. Low institutional competitiveness is also reflected in the growing lack of confidence of business and individuals in politics, the state and its institutions.

***The year 2012 did not see any withdrawal of the state from direct or indirect ownership in companies and financial institutions.*** The reasons were the same as in previous years. The first and most important reason was the lack of legal grounds for decision-making on the withdrawal of the state from company ownership. The second reason was the lack of political will to do so. The third was the financial and economic crisis, which reduced the interest of portfolio and strategic investors in acquiring ownership shares in companies. The fourth was that compulsory settlements and bankruptcies of companies actually forced state-owned banks to make debt to equity swaps in these companies and the state to recapitalise state-owned banks. This led to a direct and indirect increase of state ownership in companies. The failure of the Capital Assets Management Agency of the Republic of Slovenia to sell the state's equity shares in companies and its simultaneous involvement in a series of recapitalisations of state-owned banks and companies in trouble over the past few years resulted in a steady increase in the book value of state equity shares in companies instead of its decline: it rose from EUR 7 billion in 2009 to EUR 8.6 billion in 2010 and EUR 8.8 billion in 2011. In December 2012, the state even purchased the stake of the Belgian KBC Bank in NLB and the privatisation process became closely associated with the bank rehabilitation process.

***The Slovenian Sovereign Holding Act[133] created the legal grounds for the establishment of an institutional framework for the state's withdrawal from company ownership.*** 2012 began with the Capital Assets Management Agency of the Republic of Slovenia (AUKN) as the principal actor in the field of corporate governance of state-owned enterprises and their privatisation, but without an adopted 2011–2015 Strategy for the Management of the Capital Investments of the Republic of Slovenia and with a clear dissatisfaction of the government with the work of the Agency. A new institutional solution was adopted in the form of the establishment of the Slovenian Sovereign Holding (SSH) as the only institution for the purpose of managing state holdings in the equity of Slovenian

[130] The Decree on Development Planning Documents and Procedures for the Preparation of the Central and Local Government Budgets (Official Gazette of the RS, Nos. 44/2007 and 54/2010) governed the planning, implementation and monitoring the efficiency of development documents, records of general government expenditure and measurement of the effects within the scope of development planning documents.

[131] The OECD pointed to (i) the establishment of clear connections between strategic and sectoral planning; (ii) creating capacities for the implementation of the strategy and strengthening the capacities for policy monitoring and assessment; and (iii) establishing stronger links between strategic planning and budget preparation.

[132] Legal institutions are a part of the legislative and legal system. The major areas included property rights, the source of the legal system, and implementation and establishment of legal institutions; political institutions comprise electoral systems and rules, the system of government, and the power of government and state; economic institutions overlap the legal ones, since they protect private property and the active market, establish regulations and barriers, and provide safeguards in the operation or establishment of economic activity.

[133] ZSDH, Official Gazette of the RS, No. 105/2012.

companies. The Slovenian Sovereign Holding Act came into force towards the end of 2012, abolishing the AUKN and enacting the establishment of the SSH. This Act represents the necessary institutional basis setting up the system and policy for managing state equity holdings in Slovenian companies. The actual establishment and operationalisation of this system and policy remain one of the main tasks in 2013.

***The future withdrawal of the state from company ownership will depend on efficient establishment and operation of the SSH and the bad bank, actual disposal of state equity holdings in companies, and willingness of foreign investors to invest in the Slovenian economy.*** The crucial task will be the actual start of operation of the SSH and the adoption of the classification of investments by the National Assembly, which will define investment segments (with the exception of portfolio equity investments), target shares in equity investments and disposal methods. An important role in further privatisation of Slovenian companies will also be played by the Bank Assets Management Company (DUTB) and by the Fund for the Stability of Banks (SSB)[134]. The banks' non-performing loans would be transferred to the DUTB – in the form of equity holdings and as outstanding corporate loans by redemption or acquisition of assets – which would at first increase the state's equity holdings in Slovenian companies, but would subsequently be gradually disposed of by the DUTB. No decision has yet been taken regarding the integration and joint management of companies by the SSH and DUTB; however, it will be of vital importance as the two institutions have been established for the purpose of effective management and disposal of equity holdings in companies and both will share the ownership of the same companies. The merging of holdings in these companies will be essential for their effective management and disposal[135]. It is also expected that fiscal consolidation will accelerate the privatisation process in the future to an extent depending on two factors: the genuine political will for the state's withdrawal from company ownership, the lack of which represented a major obstacle in the past, and the interest of foreign portfolio and strategic investors, which was small in the past, also due to their negative experience with the management of the procedure for the disposal of state-owned assets.

***The implementation of the programme of measures aimed at eliminating administrative barriers and drafting better regulations continued in 2012.*** The programme for elimination of administrative barriers by 25% is implemented in five stages. The first and second stages, which included an analysis of the current situation and measurements of administrative burdens, were carried out at the beginning of 2011. It was established that the analysed regulations imposed many administrative burdens on the economy and individuals. In order to achieve the "minus 25" objective the identified burdens needed to be reduced by EUR 362 million annually. In the third stage, individual ministries prepared a set of measures in the areas that proved to be problematic and in which administrative barriers represented a burden on both the economy and citizens. In the fourth and fifth stages, the relevant ministries should also implement the measures and verify their effects. However, the implementation of the programme slowed down considerably during the fourth stage[136], since certain laws regulating labour legislation were rejected in referenda, and the adoption of laws to be amended was almost entirely suspended in the second half of 2011. For this reason, in July 2012 the original programme of measures was revised and extended until 2013 and included 269 measures. According to the available information, 42 measures (15.6% of all measures) were carried out in full and 108 in part by September 2012, and five measures are scheduled

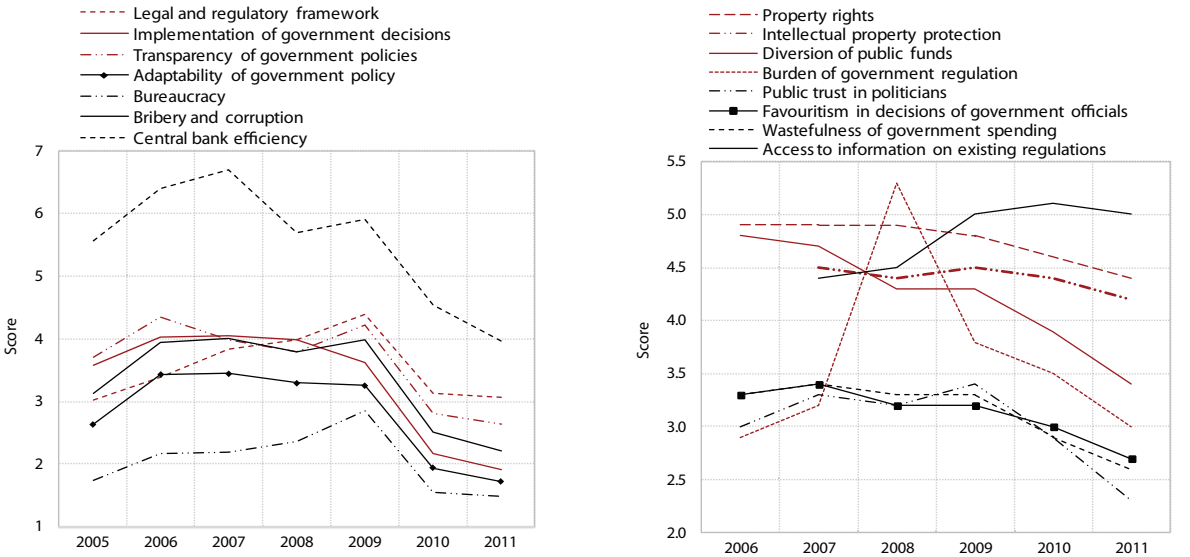
*Table 7:* **Slovenia's ranking with regard to institutional competitiveness according to IMD, WEF and World Bank indicators**

| | The country's structural indicator of competitiveness | | | Institutional competitiveness | | |
|---|---|---|---|---|---|---|
| | IMD | WEF | Doing Business* | IMD | WEF | WGI** |
| 2005 | 43 (51) | | | 39 | | 81.5 |
| 2006 | 39 (53) | 40(122) | | 37 | 44 | 77.6 |
| 2007 | 40 (55) | 39 (131) | 55 (178) | 35 | 40 | 80.1 |
| 2008 | 32 (55) | 42 (134) | 54 (181) | 33 | 48 | 85.0 |
| 2009 | 32 (57) | 37 (133) | 53 (183) | 30 | 43 | 84.7 |
| 2010 | 52 (58) | 45 (139) | 37 (183) | 46 | 48 | 80.9 |
| 2011 | 51 (59) | 57 (142) | 35 (183) | 53 | 54 | 79.6 |
| 2012 | 51 (59) | 56 (144) | 35 (185) | 52 | 58 | |

Source: IMD, WEF, Doing Business, World Bank Governance Indicators.
Notes: The ranking of Slovenia and (in brackets) the number of countries included in the research. * data incomparable with previous years due to a change in methodology after 2011. A major change in methodology occurred particularly in 2010, when the area of labour and employment was eliminated from the calculation. ** WGI – World Bank Governance Indicators – Efficiency of the State: the countries included in the research are not ranked by places but centiles (0–100).

[134] Act on the Measures of the Republic of Slovenia to Strengthen Bank Stability (ZUKSB), Official Gazette of the RS, No. 105/2012.
[135] The process of withdrawal of the state from company ownership with a simultaneous bank rehabilitation process provides an excellent opportunity for carrying out the corporate repayment process as the key ecomomic issue in Slovenia.
[136] According to the reports of the relevant ministries, 162 out of the 297 planned measures were implemented in individual areas in accordance with the original Action Programme in the period between 2009 and March 2012.

*Figure 20:* **State efficiency according to IMD (left) and WEF (right), score**




Sources: IMD World Competitiveness Yearbook, various issues, and The Global Competitiveness report, WEF, various issues.
Note: Higher scores are better; the maximum score in IMD (left) is 10 and in WEF (right) 7.

for implementation in 2013. The main focus of these measures is on the process of reducing the burden in the area of the environment and spatial planning, broader labour law legislation, cohesion policy (drawing on EU funds), finance (taxes, excise duties and other charges) and the economy (matters concerning legal status and financial reports). Only after the implementation of the last stage of the programme (due to be completed in June 2014) will it be possible to ascertain the level of implementation of the "minus 25" programme (Report on the implementation of activities for improving the legislation and eliminating administrative obstacles, 2012).

***Institutional competitiveness of Slovenia has deteriorated significantly over the past two years.*** While the two key competitive advantages of Slovenia are the high level of workforce qualification and reliable infrastructure, its international competitiveness is hampered by a number of factors, among the most important being its ineffective legal system and the functioning of the government and state apparatus. The efficiency of the state in Slovenia, which should also ensure proper functioning of the economy, is low compared with other EU and OECD members. In the majority of international comparisons of competitiveness indicators, it remains in the group of countries whose competitiveness declined most during the crisis. Since the onset of the crisis, a sharp decline could be noticed particularly in the field of public finance (particularly due to the high public deficit) and in the institutional framework. It is also noted by the OECD that Slovenia ranks among the least efficient OECD countries in terms of technical and cost effectiveness (OECD Economic Survey Slovenia, 2013). International research (IMD 2012; WEF 2012/2013) points to the business sector's dissatisfaction with the wastefulness of the state, low flexibility of government policies, slow response to changes in the economy and ineffective implementation of government decisions. A low rating continues to apply to the area of business legislation, which is marked by rigidity of labour legislation, the lack of responsibility and efficiency of supervisory boards, and poor protection of minority shareholders. The IMD points to corporate governance, in particular to the inefficient state ownership of enterprises, which has shown no significant improvement despite the adoption of certain measures (establishment of the AUKN), as a major weakness. The deterioration in the efficiency of the state during the crisis is also shown by the World Bank Governance Indicators 2012, where the indicators measuring the burden of government regulation and corruption reveal the highest deterioration level. The number of reported suspicions of corruption and other irregularities in this period increased dramatically[137], and the problem of corruption is also confirmed in the corruption perceptions index (Transparency International, 2012), where Slovenia's ranking has been on the decline for a number of years compared with other countries[138]. The Survey on the Quality of the Economic and Business Environment of the Republic of Slovenia 2012 has shown that corruption in Slovenian banks and corruption of civil servants and officials in awarding public contracts and preparing legislation represents a major obstacle to corporate operations in Slovenia (KPK Vestnik, June 2012).

[137] The number of reported suspicions of corruption by year – 2005: 270, 2008: 661, 2009: 1.027, 2010: 1.271, 2011: 1,237, 2012 (excluding December): 1166. (Annual Reports, Commission for the Preventiuon of Corruption, 2005–2011; KPK Vestnik December 2012).

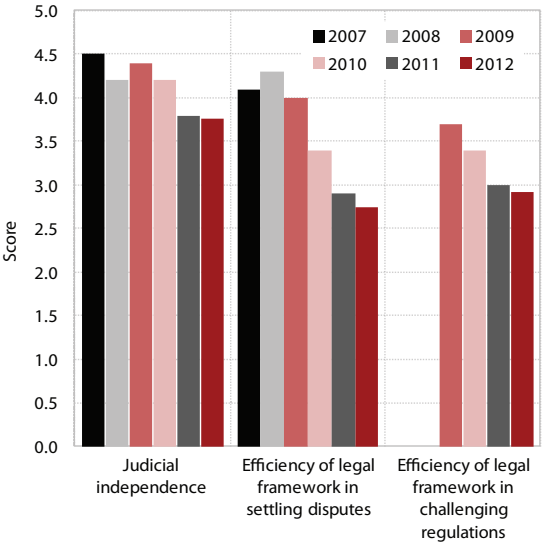
[138] Ranking in years – 2007: 27; 2008: 26; 2009: 27; 2010: 27; 2011: 35; 2012: 37.In 2012, 174 countries were included in the research.

***Slovenia ranked lowest among the EU Member States in terms of public trust in institutions in 2012.*** Eurobarometer survey data (Eurobarometer 78, 2012) point to the public's growing dissatisfaction with democracy and the loss of trust in institutions in Slovenia. Since the beginning of the crisis, public trust in the government, parliament, political parties and local authorities has deteriorated considerably. Despite the political changes towards the end of 2011, public trust remained low in 2012. The popular discontent can be attributed to the deterioration of the economic situation and to growing unemployment; the surveys show the public concern over the latter. There is also significant discontent with fiscal consolidation measures and structural changes, although people are aware of the urgency of these. Just like in other EU Member States which were most badly affected by the crisis, public confidence in EU institutions is also low.

## 3.3 Efficiency of the judiciary

***Slovenia's competitiveness is severely hindered by the inefficiency of the legal system and low level of confidence in the rule of law, which continues to deteriorate.*** Despite a similar trend in many other EU Member States, Slovenia has seen one of the severest decreases in confidence in institutions upholding the rule of law and holders of public authority and their credibility. The trust in the rule of law in Slovenia decreased during the economic crisis, which is also indicated by the 2012 World Bank Governance Indicators. The rule of law and public and corporate confidence in the legal system are still low due to court backlogs and particularly lengthy trials. Companies also point to the inefficiency of the legal framework in settling disputes and challenging regulations. Compared with other EU member states, the situation in Slovenia in these two areas deteriorated considerably during the crisis and continued to deteriorate in 2012. The WEF assessment also points to a continued deterioration of judicial independence from the influence of politics and the private sector (WEF 2012/13). The OECD analysis (Judicial performance and its determinants: a cross-country perspective, 2013) determined that court proceedings in Slovenia were lengthy, resulting primarily from low productivity of judges, inadequate identification of lengthy and problematic matters, and poor distribution of responsibility within courts. The share of budget funds earmarked for the judiciary in GDP is above average compared with the analysed countries. The findings of the European Commission (The EU Justice Scoreboard, 2013, and The Functioning of Judicial Systems and the Situation of the Economy in the European Union Member States, 2013) are similar. According to these findings, the lengthy court proceedings and inefficient processing of cases are the result of the annual influx of new cases, their distribution and the lack of efficiency in solving prodecural complications. Slovenia has sufficient resources for efficient operation of the judicial system,

*Figure 21:* **WEF indicators of efficiency of the judiciary in Slovenia**




Source: The Global Competitiveness report, WEF, various issues.
Note: Score is the value of the indicator. Higher score is better; the maximum score is 7. The legend of indicators represents ranking between two extremes: (i) to what extent is the judiciary independent from politics, citizens or enterprises?; (ii) how efficient is the legal framework for private companies in settling disputes?; (iii) how efficient is the legal framework for private companies in challenging the legality of work of the government and/or regulations?

since the funds available for justice and the number of judges per capita greatly exceed the EU average.

***Court statistics show that the reduction in the number of unresolved cases and court backlogs continued in the first nine months of 2012 compared with the same period last year.*** Court statistics, which are not entirely comparable between individual years due to frequent methodological changes, show a reduction in the number of unresolved cases in almost all courts in 2012, which was achieved in circumstances of a minimal increase in the number of submitted cases and a reduction in the number of judges (Court Statistics, 1–9, 2012). There was also a reduction in the number of court backlogs in accordance with Article 50 of the Court Rules, which means the reduction in short backlogs occurred primarily as a result of positive changes in land registry and executive areas. Lukenda project objectives were also achieved, although the settlement of commercial disputes and insolvency proceedings still remained critical[139].

[139] Information from the Ministry of Justice and Public Administration on the implementation and upgrade of the Lukenda project – court staff employed under the Lukenda project, 2012, p. 5.

# 4. Labour market and a welfare state

**SDS guidelines**: Maintaining and improving the achieved level of social security and quality of living and health is an important social value endorsed by SDS. The transition from a welfare state to a welfare society requires a more efficient welfare state, greater responsibility of citizens themselves, promotion of the activities of individuals, stronger public-private partnerships, and a more diverse and partly competitive range of social services. At the same time, it also calls for stronger social cohesion, improved access to social-protection systems, healthcare, education, culture and housing, and special care for the most vulnerable groups of the population. It is necessary to adapt social-protection systems to the needs of the long-living a society and to reduce social risks, poverty and social exclusion. The sustainable increase in welfare and quality of life is strongly underpinned by a higher employment rate, to be achieved mainly through economic growth and investment in knowledge.

## 4.1 Labour market

***In 2012, the labour market continued to adjust to reduced economic activity, which still considerably lags behind the 2008 level.*** In the overall period from 2009 to 2012, the labour market adjusted to lower economic activity through reducing employment and, in the past year, through lowering real wages (see Chapter 1.1.). In 2012, labour market conditions worsened only towards the end of the year; as a result, average annual data show a smaller deterioration than in the previous year. The decrease in the active working population (according to the register) for 2012 was somewhat smaller than in previous years (1.7%), since the drop in economic activity was not yet fully reflected in the level of employment. However, it could be noticed that low economic activity and austerity measures lowered the demand for labour (in both private and public sectors). The number of vacancies, which in 2011 grew considerably, decreased again in 2012. In the period 2009–2012, the private sector in particular adjusted to a lower activity level, while the growth of employment in the public sector[140] stabilised only over the last two years. Unemployment trends for 2012 show deterioration only towards the end of the year. On average, the registered unemployment rate was maintained at a similar level as in 2011, while the unemployment rate according to the labour force survey increased to 8.9%[141]. The inflow into unemployment occurred in the last quarter, when the number of registered persons who lost their jobs started to grow. In December 2012, the number of registered unemployed persons exceeded by 4.7% that from the end of 2011. During the year, registered unemployment remained stable due to a high number of deletions from the records on the grounds of breach of obligations (43.6% more than in 2011) and due to an increase in retirements (by 8.3%). With respect to age, the number of registered unemployed persons grew most in the over-60 age group (by 9.5%) in relative terms. In terms of level of education, the highest growth in the number of registered unemployed persons was recorded with those with tertiary education[142], as a result of low demand for this kind of labour force and of increasing numbers due to the entry onto the labour market of the first generation(s) of Bologna study degree holders (see Chapter 2.1). A shrinking in the possibilities of youth employment is reflected in a considerable increase in the rate of youth unemployment (15 to 24 years), which in the third quarter of 2012 amounted to 21.3%, i.e. an increase by 12.2% pp in comparison with the third quarter of 2008. An increase in structural problems is reflected in the growth of long-term unemployment, which more than doubled in the period 2009–2012.

***In the period 2009–2012, Slovenia drifted away from strategic objectives in the field of employment; the employment rate of the elderly in 2012 was among the lowest in the EU.*** The employment rate of the population aged 15 to 64 has been on the decrease for four consecutive years (63.1% in 2012) and is moving away from the target of a 70% labour participation rate by 2013 (SDS objective). The employment rate of the population aged 20–64, for which Slovenia set a goal of 75% employment by 2020, is also on the decrease. In 2012, this rate was 68.3%, which is 4.8 pp less than

*Table 8:* **Changes in the number of persons employed, Slovenia, in %**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| Total (1+2) | 1.5 | 3.3 | 2.6 | -1.8 | -2.2 | -1.6 | -1.3 |
| 1. Public services (OPQ) | 1.4 | 0.8 | 1.8 | 2.2 | 2.2 | 0.9 | 0.9 |
| 2. Other activities (A to N and R to T) | 1.6 | 3.9 | 2.7 | -2.6 | -3.1 | -2.2 | -1.7 |
| S13 government sector | 1.4 | 0.3 | 2.7 | 1.5 | 1.5 | 2.8* | 0.5 |

Source: SURS, national accounts statistics; calculations by IMAD.
Note: *Based on reorganisation of Slovenian Railways (SR), which resulted in four new companies; two SR parts (3,756 employees) fell under the state sector in 2011: without this change, the growth in the number of employed in 2011 would have been 0.5%. .

[140] General government sector according to ESA-95.
[141] IMAD calculation based on quarterly data.
[142] At the end of 2012, the number of registered unemployed persons with tertiary education exceeded that for 2011 by 15%.

*Table 9:* **Employment rates by age group in Slovenia**

| in % | 2008* | 2009* | 2010* | 2011* | 2012* |
|---|---|---|---|---|---|
| aged 15–24 | 37.3 | 34.7 | 32.9 | 30.9 | 25.8 |
| aged 25–54 | 86.6 | 85.0 | 84.2 | 83.4 | 83.1 |
| aged 55–64 | 33.6 | 36.4 | 35.5 | 30.6 | 32.8 |

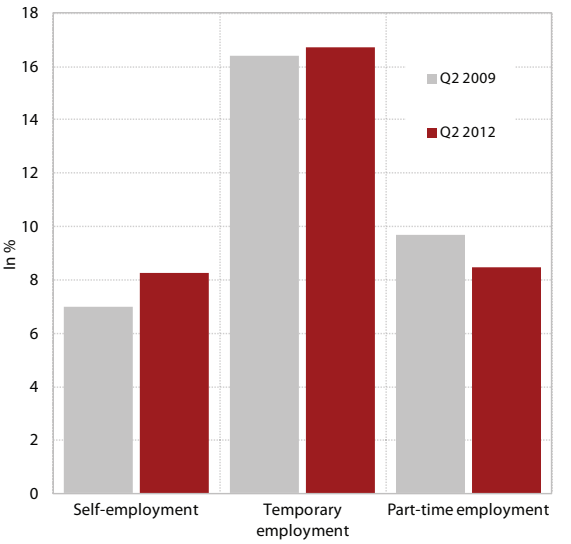
Source: Eurostat. Note: *Data apply to the second quarter.

in 2008. In the period 2008–2012, the largest drop was recorded in the employment rate of young people (aged 15–24), this circumstance to a large extent being due to a reduction in the volume of student work. The employment rate of older persons (aged 55–64) was at 32.9% in 2012 (1.7 percentage points higher than in the previous year) and was among the lowest in the EU during the SDS implementation period. Pension reform (adopted in December 2012), alongside an increase in retirement age, introduced additional incentives for longer work activity for both employees and employers. This may contribute to an increase in the employment rate of older workers in the future; moreover, it seems reasonable to support the pension reform also through other measures facilitating longer work activity (for example encouragement to lifelong learning for older people, adapting jobs to older people and the promotion of healthy living).

***In crisis periods, employers look for more flexibility, in particular through resorting to temporary jobs and mobilising self-employed personnel.*** Accordingly, in the period 2009–2012, the shares of temporary employment and of self-employment grew, while part-time employment declined. In the past year, the share of *temporary employments* diminished slightly, to 16.7% (0.8 pp less than the previous year), but remained somewhat higher than in 2009. This decrease was largely due to a reduction in the volume of student work[143], which in 2012 diminished by 15% in comparison with the previous year[144]. The number of *self-employed* (without employees), which was on the increase in the period 2009–2011, diminished in the past year. In our estimation, this increase is not just a result of entrepreneurial interest on the part of individuals, but may also be due to the fact that mobilisation of the self-employed is on the way to becoming one of the methods of hiring labour force instead of concluding employment contracts. The share of self-employed (without employees) in the overall employment picture in the second quarter of 2012 was 8.3%, which is 1.3 pp higher than in the second quarter of 2009. The situation of so-called "forced" self-employment in Slovenia is shown by the data from the labour force survey, where around 10% of the self-employed generally work for one client, while approximately 5% work on the premises of this client. The increase in the number of self-employed persons was also due to an active employment policy, which

[143] Student work falls under temporary employments; if it is part-time, it also falls under the category of part-time employment.
[144] In addition to lower economic activity, reduction in student work was also due to a rise in the concession fee for such work.

*Figure 22:* **Shares of flexible types of employment in overall employment, Slovenia**




Source: Eurostat; calculations by IMAD

in the period 2008–2011 enhanced the possibilities of obtaining a subsidy for self-employment. Last year, the share of *part-time employment* diminished for the second consecutive year and amounted to 8.5% in the second quarter of 2012 (1.2 pp less than in the second quarter of 2009). The decrease is a result of reduced volume of student work and of the termination of the Subsidising of Full-Time Work Act. Employers in Slovenia rarely use the option of part-time employment, since nearly half of part-time employment in Slovenia happens as a result of the possibilities provided for by the legislation on social protection. The crisis period facilitated an increase in the mobilisation of *workers hired through employment agencies*[145]. In 2011, these agencies provided 12,141 workers, which is slightly less than in 2010 but 24% more than in 2008.

***Flexible types of employment, which facilitate easier adaptation of employers to demand, are less favourable for employees in terms of income.*** Employees in flexible types of employment are more exposed to the risk of poverty than permanent employees, with the highest risk borne by the self-employed. In 2011, the risk of poverty for temporary employees in Slovenia (14%) was almost four times higher than for permanent employees (3.6%); this points to a higher concentration

[145] The share of workers employed via employment agencies in the overall number of active employees rose from 1.1% in 2008 to 1.5% in 2011.

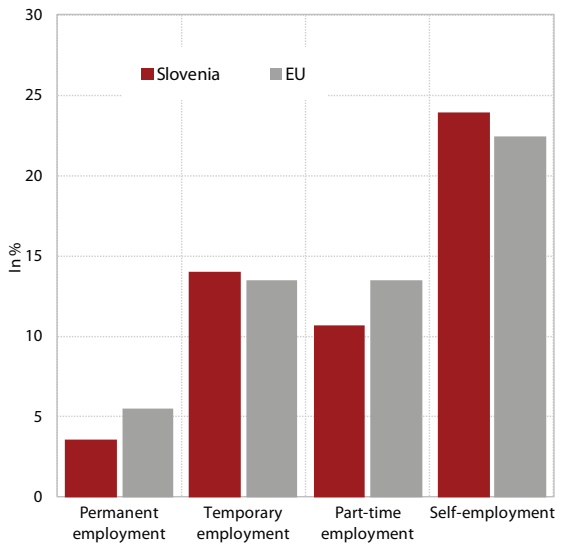
*Box 8*: **Changes relating to labour market regulation in 2013**

***In March 2013, certain changes were adopted in the labour market regulation.*** These concern the new Employment Relationships Act and the Act Amending the Labour Market Regulation Act. Coordination by the social partners concerning changes in the labour market legislation went on from the middle of last year and was concluded by reaching a consensus on the content of changes. The main objective was aimed at reducing labour market segmentation and enhancing its flexibility. As regards reducing labour market segmentation, all relevant changes could be operational, particularly those providing for reduced protection in regular employment (shorter notice periods, cuts in severance pay amounts and simplification of the procedure for the termination of regular employment contracts), and introduction of severance pay for fixed-term employment. Enhancement of flexibility, along with reduced protection in employment for an indefinite period of time, offers possibilities for temporary and part-time jobs for retirees, thus facilitating transfer of experiences to younger generations.

***In our estimation, given the entry into force of these changes, Slovenia will no longer be treated as a country with rigid labour market legislation.*** According to the employment protection legislation index (OECD methodology), frequently used for international comparisons concerning labour market regulation, and considering the latest changes in the labour market regulation, Slovenia is no longer regarded as a country with relatively high protection of employment. In our estimation, Slovenia's labour market regulation has been assessed as close to the OECD average.

of low annual revenues for temporary employees, since their employment does not last throughout the year (for example student work or work via employment agencies). The poverty risk rate for temporary employees in Slovenia was slightly above the EU average (13.5%). In 2011, the poverty risk rate for part-time employees was at 10.7%, which is 3.3 pp higher than the previous year. Since part-time employment in Slovenia often comes as a result of systemic opportunities for part-time jobs, this type of employment constitutes a considerably lower risk of poverty than temporary employment. Those particularly exposed to the risk of poverty are self employed-persons, since the risk of poverty in 2011 was at 23.4% (3.3 pp higher than the previous year). Although in the period 2008–2011 the poverty risk rate showed an increase for all categories of employees, this increase was particularly noticed for part-time and temporary employees[146].

*Figure 23:* **Poverty risk rate with regard to the type of employment/contracts in 2011 in Slovenia and EU**




Source: Eurostat.

[146] The poverty risk rate for all categories of employees was 5.1% in 2008 and 6.0% in 2011. In the period 2008–2011, the poverty risk rate for part-time employees rose from 8.1% to 10.7% and for temporary employees from 6.2% to 14%.

***Age segmentation of the labour market was also significant in 2012.*** Slovenia has stood out for years for its high share of young people in temporary employment.Over the past year, the share of temporary employment among young people (aged 15–24) somewhat diminished (to 69.9%), but is still the highest in the EU (42%). Strong age segmentation is a result of the labour market systemic regulation, i.e. of a huge gap between the rights originating from work relationships for regular and fixed-term employment, and from the current regulation of student work[147]. Reducing segmentation, which is the main objective of changes adopted this year, does not seem to be easily achievable, since the student work, which remained unchanged by the reform, constitutes an important ground for strong labour market segmentation.

***The labour market showed a deviation from implementing the concept of flexicurity by enhancing only the flexibility component.*** A more flexible regulation of work relationships was introduced in 2013 (see Box 8). On the other hand, the Fiscal Balance Act (ZUJF) provided for a reduction in unemployment benefits (reduced assessment percentage and maximum amount of benefits), which in our estimation enhanced incentives to work but affected the income security of the unemployed. In 2012, again, a drop occurred in the number of persons included in the active labour market policy programme, which, however, has not yet played an adequate role in the flexicurity framework. Lately, participation of adults in lifelong learning, one of the pillars of the flexicurity principle, has declined considerably; low rates of participation have been found with the elderly and with those with a low level of education

[147] Increase in the concession fee in mid-2012 (Fiscal Balance Act – ZUJF) strongly affected the price competitiveness of student work; however, this remains attractive to employers for its procedural simplicity and flexibility.

## 4.2 Social protection systems

***In 2012, despite further increase in the number of persons entitled to social transfers, growth of expenditure for social protection slowed down.*** According to latest available data, the social protection expenditure[148] in 2010 grew by 1.2% in real terms, which is considerably less than in previous years (see indicator 4.6). Growth largely happened as a result of a growing number of pensioners and recipients of unemployment benefits and financial social assistance. Expenditure growth was considerably lower than in the past on account of the first measures aimed at restricting public expenditure (adjustment only by half of social transfers, pensions and the health system austerity measures). As measures were stepped up in the following years (adjustment of growth by one-quarter in 2011, freeze of growth and selective reduction of certain benefits), it is our estimation that expenditure growth in 2011 and 2012 was rather low. Compared with GDP, social protection expenditure in 2010 (accompanied by low nominal growth of GDP) grew slightly (representing 24.8% of GDP), but was still much lower than the EU average (29.4% of GDP).

***In 2012, following a longer period of restricting expenditure growth solely through intervention measures, the first structural changes were introduced in the social security protection systems.*** These include implementation of the reform governing the system of social transfers which depend on the material situation of beneficiaries (reform already adopted in the previous year). At the end of the year, new pension legislation was adopted with the aim of extending the active working period, improving the ratio between insured employees and pensioners, and halting for a certain period of time the growth of expenditure on pensions. Relevant amendments to health and long-term care legislation are still in preparation.

***Reform of the social transfers system considerably changed and in certain cases tightened the criteria regarding entitlement to social benefits.*** Changes in the criteria and the altered method of assessing income and property (newly introduced) of the claimants reduced the number of beneficiaries with entitlement to most benefits; moreover, average amounts of particular benefits were changed too. Additional changes in the system of social transfers were put in place as part of intervention measures (in the beginning and middle of 2012 as part of the fiscal balance measures). Certain benefits/allowances have been reduced, while relevant criteria concerning their granting were increasingly aimed at beneficiaries in low income groups. On aggregate, these changes entail a decrease in public expenditure for the mentioned purposes and have an impact on the reduction of this source of disposable income. As a result, expenditure for certain transfers to individuals and households in 2012 considerably shrank in comparison with the previous year; moreover, the impact of the ZUJF in the period from June to December facilitated further reduction of relevant expenditure. These changes introduce a system increasingly targeting assistance to low-income beneficiaries. Alongside reduction of expenses, they also have an impact on changes regarding the social and economic situation of the population. According to the preliminary simulations[149], this situation should as a rule improve for low income groups of the population and worsen for those with higher income; however, worsening may also happen for a certain share of low income groups. Similar conclusions arise from the assessment of effects of the new legislation based on data obtained during the first year of its implementation[150]. As a result, solutions which

*Table 10:* **Expenditure for transfers to individuals and households**

| Type of transfer | In EUR million | | | | Increase (%) | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | VI.–XII. 2011 | VI.–XII. 2012 | 2012/2011 | VI–XII 2012/ VI–XII 2011 |
| Transfers to individuals and households – together | 6,533.5 | 6,383.6 | 3,719.1 | 3,713.1 | -2.3 | -0.2 |
| Transfers to individuals and households – without pensions | 2,395.1 | 2,235.6 | 1,377.7 | 1,252.9 | -6.7 | -9.1 |
| Unemployment benefits | 243.7 | 220.9 | 134.4 | 125.0 | -9.3 | -7.0 |
| Family benefits and parental allowances | 633.6 | 581.9 | 366.1 | 328.0 | -8.2 | -10.4 |
| Transfers providing for social security | 384.4 | 334.5 | 221.3 | 185.2 | -13.0 | -16.3 |
| Transfers to war-disabled, war veterans and victims of war | 79.5 | 74.0 | 46.4 | 41.5 | -6.9 | -10.5 |
| Pensions | 4,138.4 | 4,148.0 | 2,341.4 | 2,460.2 | 0.2 | 5.1 |
| Wage compensations | 172.5 | 168.6 | 99.6 | 97.0 | -2.2 | -2.6 |
| Sickness benefits | 215.0 | 223.4 | 120.7 | 121.5 | 3.9 | 0.6 |
| Scholarships | 121.2 | 102.2 | 70.5 | 55.4 | -15.6 | -21.4 |
| Other transfers to individuals | 545.2 | 530.0 | 318.7 | 299.3 | -2.8 | -6.1 |

Source: Ministry of Finance, consolidated balance sheet.

[148] According to ESSPROS methodology. This includes all social protection expenditure covered by public funds and supplementary health insurance funds.

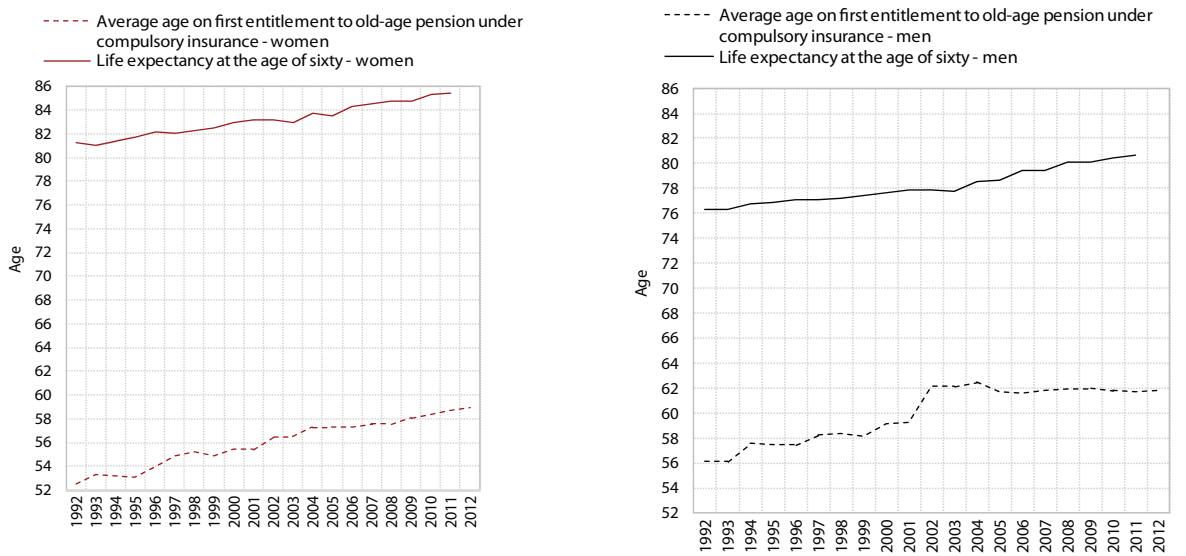
[149] Institute for Economic Research, micro-simulation model.

[150] Social Protection Institute, assessment of the new social legislation effects, 2013.

do not pursue the basic intention of the changes (accent on targeting, transparency and system efficiency) should be rectified as soon as possible.

***After 2009, growth in expenditure for pensions[151] slowed down; in 2012, it declined in real terms for the first time, due to austerity measures.*** In 2012, this expenditure amounted to EUR 4,148 billion. As regards expenditure for the three main types of pensions and given an increase in the number of recipients, only expenditure for old-age pensions showed nominal growth; however, due to non-indexation of pensions, reduction of the annual grant for pensioners and other intervention measures, such growth was less than the growth in the number of recipients. In 2012, the share of budget transfer in the pension insurance revenues

*Figure 24:* **Average age on retirement and life expectancy at the age of 60, Slovenia**




Source: Institute for Pension and Disability Insurance.

*Box 9*: **Main characteristics of the new pension system**

***The new pension act raised the retirement age, levelled off the retirement conditions for men and women, extended the period for calculating the pension rate base, and changed the method of revaluation and indexation of pensions.***[1] The Act levelled off the retirement age and the old-age pension qualifying period for both sexes. Following the new Act, an individual acquires the right to old-age pension at the age of 65 with at least a 15-year insurance period or at the age of 60 with a 40-year insurance period, without additionally purchased insurance period[2]. The calculation period for the pension rate base has been extended[3] from 18 to 24 years. The old-age pension will be assessed on the pension rate base in a percentage depending on the length of the pension qualifying period; for 40 years of pensionable period, this represents 57.25% of the pension rate base for men and 60.25% for women, which, together with the altered method of revaluation of past income is intended to prevent the pension-to-wage ratio from falling further. Indexation of pensions no longer depends on the growth of wages but, in its 40% share, also on the rise in consumer prices from the previous year, where the indexation may not be inferior to the growth by half of consumer price index. The new Act introduces more stimulative bonuses for staying active also after fulfilment of retirement criteria. Similarly, in cases of premature leaving of the labour market, pensions may be subject to more signigicant reduction than was the case under the old law.

[1] The Pension and Disability Insurance Act (ZPIZ-2), Uradni list RS, No. 96/2012. It started to apply on 1 January 2013.
[2] Full application of these criteria requires transitional periods. For retirement of women with at least 15-year insurance period, age will rise from the starting age of 63.5 years in 2013 by a half year, so that the statutorily determined age will take effect and start to apply in 2016. For retirements with 40 years of pensionable service without insurance period purchase (Article 27(5)), the transitional period will be effective until 2018 for men and 2019 for women, when the pensionable age will be increased by 4 months for every subsequent year. In 2013, retirement will be possible upon fulfilment of the criterion of 58 years and 4 months of age and 40 years of pensionable age without insurance period purchase for men, and 58 years of age and 38 years and 4 months of pensionable period without insurance period purchase for women. The age limit for obtaining the right to an old-age pension may be lowered subject to certain conditions concerning, in particular, care for children, compulsory military service and entering into an insurance contract before 18 years of age.
[3] To be done progressively; one year per each year until 2018.

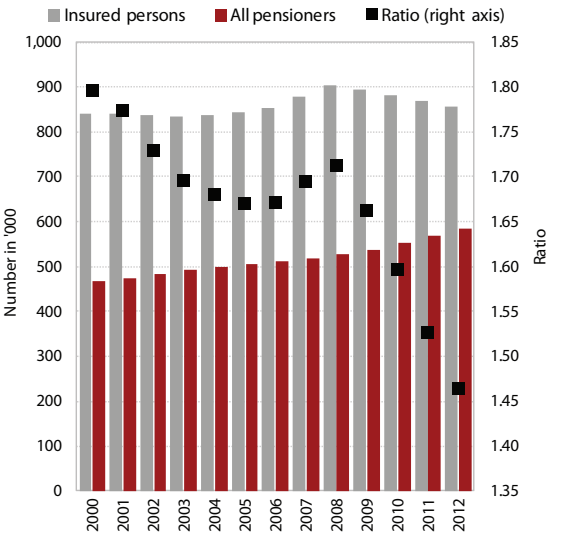
[151] According to the ZPIZ balance sheet of the Ministry of Finance, this expenditure includes: old-age, disability, survivors', farmers' and military pensions in place in the former Yugoslavia republics; pensions transferred to former Yugoslavia republics; pensions transferred abroad; pensioners' recreation grant; and other pensions.

slightly fell (from 30.4% in 2011 to 29.8%), though it remained higher than in the period 2007–2010[152]. In addition to lower expenditure growth for pensions, this was also facilitated by the abolition of the state pension[153]. Due to reduced GDP, the share of pensions in GDP grew for the fifth consecutive year, by 0.3 pp, and amounted to 11.7% (see indicator 4.7). Owing to the new pension regulation, this share is expected to be stable in the medium term; however, later on, when it starts to grow faster again, new and more radical changes to the pension legislation will be required. A key political response to these challenges in many EU countries seems to be a closer combination of pension parameters with longer life expectancy. Given the expected growth in the share of the older population in Slovenia (at the beginning of 2012, the share of the population over 65 years of age was 1 pp below the EU average (2012: 17.8%), however, according to EUROPOP2010 projections to 2060, this share is supposed to grow to 31.6% (EU 29.5%); given the lowest employment rate of elderly workers among EU countries, such a combination will be quite a challenge for Slovenia.

***The increase in the number of pension recipients recorded in the year preceding the adoption of the new pension system was the largest so far.*** Over the past two years it exceeded 15,000 persons (2011: 17,733; 2012: 15,426). In 2012, old-age, disability, widow's and family survivor's pensions were paid to 2.7% more persons than in the previous year (average number: 585,408 persons). Such increase is largely attributable to old-age pension holders (4.0% more than in the previous year) following a general increase in their number by approximately 9% over 2010 and 2011. Such increase, in addition to retirement of more generations, was also due to the lengthy process of adopting new pension legislation and to uncertainty which accompanied this process after the rejection at a referendum of the relevant law on pension reform. In 2012, the ratio of insured persons to pensioners was 100 to 68, which is 12 more than in 2000. In other words, in 2012 the ratio of retired to insured persons was 1:1.46, in 2000 it was 1:1.80 and in the period 2003–2008, which includes the period of favourable economic conditions, it was 1:1.69.

***At the end of September 2012, the decline in the number of persons included in supplementary pension schemes was even more significant.*** Insurance included 4.9% fewer persons than in the previous year, while

*Figure 25:* **Number of insured persons and pensioners, and relevant ratio, Slovenia**




Source: Institute for Pension and Disability Insurance, 2013

the share of compulsory insurance holders included in supplementary insurance schemes decreased by 2.5 pp and amounted to 59.9%. A decrease in the number of insured persons is related to the fact that an ever-growing number of these fulfil the criteria for acquiring a supplementary pension[154] (the first supplementary insurance pensions were paid out in 2011); however, the number of potentially insured persons is on the decrease due to the economic crisis. Persons with the right to a supplementary pension, instead of opting for a pension annuity, largely decide for one-off withdrawal of funds despite the lowered tax base (by 50%) on the pension annuity, which makes it more attractive in terms of taxation.This is due to the unfavourable financial situation of the population and to general uncertainty with regard to the economic situation.

***In 2012, public health expenditure was on the decrease for the third consecutive year[155]; relevant private health expenditure saw zero growth.*** According to the first estimate of the Health Insurance Institute of Slovenia (HIIS)[156], total health expenditure in 2012 amounted to 8.9% of GDP. Public health expenditure dropped in real terms; over the period 2010–2012, this drop was by 6.3% (in 2012 by 2.1%)[157]. In addition to public expenditure

[152] The Republic of Slovenia provides funds from the national budget and other sources to cover the difference between the ZPIZ revenues (contributions and other sources) and its expenditure (Pension and Disability Insurance Act, Official Gazette of the RS, No. 109/2006, Article 233).

[153] Which in the ZPIZ balance sheet falls under social security transfers and not pensions. In 2012, the state pension was transformed into a social security right and is no more a burden on the ZPIZ budget (Exercise of Rights to Public Funds Act (ZUPJS), Official Gazette of the RS, No. 62/2010, and Act amending the Exercise of Rights to Public Funds Act (ZUPJS-A), Official Gazette of the RS, No. 40/2011).

[154] Criteria for regular termination of supplementary pension insurance are: age of 58 years, right to a pension under compulsory insurance regulations and expiry of at least 120 months following conclusion of a supplementary insurance contract.

[155] Measured by SHA methodology (System of Health Accounts).

[156] HIIS 2011 Financial Report for 2012 (proposal, March 2013). The data according to SHA methodology were evaluated in cooperation with SURS.

[157] Pursuant to international recommendations (OECD, 2011), the implicit GDP deflator was used to calculate real growth rather than the consumer price index. Using a consumer price index deflator, the real drop over the years 2010–2012 was 12%, of which 4.2% in 2012.

decline, according to preliminary data for 2012, private expenditure had zero growth with respect to both expenditure from complementary health insurance and out-of-pocket expenditure. Expenditure from complementary insurance did not increase, despite the transfer of the coverage of certain health services from compulsory to complementary health insurance, while zero growth of out-of-pocket health expenditure has its roots in the economic crisis and in household expenditure decline (see Chapter 1.1). In spite of this and due to a considerable decrease in public expenditure, the share of private expenditure in total health expenditure in 2012 increased by 28.2% (with the share of expenditure from complementary insurance accounting for 13.3%, see indicator 4.8).

***In 2012, again, a set of largely intervention measures aimed at maintaining stable financing of the public healthcare system was adopted, aggravating, as a result, difficulties of health institutions.*** In 2012, following a three-year period of very low growth in HIIS revenues, these, for the first time, fell nominally by 0.9%, that is by 3.4% in real terms. The problem of HIIS operation was additionally exacerbated by the transfer of a part of liabilities due in 2011 to 2012 (time delay with respect to providers relating to 25% of monthly expenditure for healthcare services). Despite measures applied within the ZUJF (in the area of wages and other remunerations from employment, transfer of a part of payment for health services to complementary health insurance, reduction in the percentage of sick leave allowance from 90% to 80%, etc.) and additional linear reduction of prices for all health services by 3% since May, the HIIS in 2012 was not able to settle all outstanding liabilities (transfer of due liabilities to 2013 amounts to approx. 30% of monthly expenditure for health services); for this reason, the operating conditions of the HIIS in 2013 will be even more demanding; disposable expenditure, again, is expected to decrease by 4.1% in real terms. Losses in health institutions keep growing, largely because of linear reduction of prices (in the Ministry of Health estimation, the total figure for the reduction of prices in the period 2009–2012 amounts to 18.5%). According to the first operation assessment for 2012 (Ministry of Health, Feb. 2013), almost half the hospitals (12 out of 26 public hospitals) generated losses, while approximately one-third of primary healthcare centres had difficulties in their operation. In the second half of 2012, employment in the health sector started to fall for the first time and fell progressively in the period from July to December by a total of 1.3% (despite this, it grew in interim terms by 1.8% throughout 2012 as a result of high growth in the first half year). In 2011, the health sector (Q86) employed only 4.1% of the active working population, which is significantly inferior to more developed EU countries (6–8%). This lagging behind in the area of health sector employment has grown over the past ten years. In Slovenia, health sector (Q86) employment accounts for barely 76% of the EU average[158]. Slovenia also substantially lags behind in terms of the number of doctors per inhabitant; similarly, the gap to the EU average has only increased over the past ten years (see indicator 4.14).

***EU Directive on the Application of Patients' Rights in Cross-Border Healthcare will improve accessibility of health services abroad; however, this may cause even greater problems with public healthcare financing.*** In the coming years, growth in public funds for healthcare in Slovenia will still be strongly limited; for this reason, linear austerity measures should immediately be replaced by relevant systemic changes. Transferring the burden of financing to complementary health insurance is a measure which during the crisis largely contributed to preserving adequate accessibility of health services[159]; however, according to certain evaluations[160], it came very close to the critical limit which could cause a significant drop in voluntary health insurance. Accordingly, a further decrease in public funds could lead to an extension of waiting periods (deterioration of accessibility), a rise in out-of-pocket expenses and an ever increasing lagging behind the developed countries with regard to technological equipment and quality of health services. The latter, alongside implementation of the Directive on the Application of Patients' Rights in Cross-Border Healthcare due for October 2013, may seriously jeopardise public financing of healthcare in Slovenia, since in cases of long waiting periods, patients will be entitled to health treatment abroad at the expense of the compulsory health insurance scheme; in addition, patients will be free to seek other diagnostic and specialist outpatient services.[161] In order to preserve the already achieved level of quality and accessibility, necessary systemic changes are already urgent in 2013 – new legislation should intervene with further optimisation of health activity implementing processes, provide for broadening the basis for contributions, introduce amendments to the rights from compulsory health insurance and upgrade the payment models with respect to healthcare providers. Should transfers of financing certain health services onto private funds be further continued, it is necessary via a relevant form of private health insurance, which may be of a compulsory nature (contractual insurance), to ensure maintenance of already achieved financial accessibility to healthcare services. In addition to relevant healthcare

[158] According to data for 2011, Slovenia's health sector employs 1,905 persons per 100,000 inhabitants; the EU average is 2,516 (Eurostat Database, 2012).

[159] For more on accessibility to health services, see Chapter 4.3.2.

[160] Due to a reduction in the share of funds intended for covering health services under compulsory healthcare insurance, the monthly premium as of 1 July 2012 with all three insurance companies carrying out complementary health insurance rose by 15–20% or by more than 30% since 2009. According to some insurance companies, a monthly premium critical limit should be set at about EUR 30 per month (Slovenian Insurance Association, June 2011).

[161] Health treatment costs shall be reimbursed up to the amount covered by the compulsory health insurance for the same health service on the patient's own territory.

system changes, a key challenge in the area of health policy regarding improvement in the situation of health remains how to integrate all the policies and stakeholders which may significantly influence the socio-economic determinants of health, including reduction of costs associated with health inequalities.

***In 2010, expenditure for long-term care continued to grow***[162]***; the fastest growth has been recorded for private expenditure.*** Total expenditure for long-term care in 2010 slightly increased and reached 1.26% of GDP, which is lower than the OECD 25 average (1.41% of GDP), according to the latest comparable international data. Our long-term care expenditure as a share of GDP is lower than in other countries (Slovenia: 0.94% GDP; OECD: 1.29% of GDP); moreover, it is increasing at a slower pace than relevant private expenditure (see indicator 4.9*)*. In the future, pressure on the growth of private expenditure is expected to be higher, since a large part of the needs still remains to be covered. In order to guarantee stable sources of long-term care financing, systemic changes are urgent to pull together the non-connected sources of public financing, provide for more coordination with provision of services and more equal access to them, and via an altered system of financing promote development and performance of services at home and facilitate involvement of informal providers and other forms of care for the elderly.

***Following an increase in expenditure for kindergartens as a result of generational growth of children after 2005, expenditure in 2010 remained at the previous year's level.*** Expenditure amounted to 0.73% of GDP (0.58% public and 0.15% private expenditure). In 2009 (latest international data), the share of public expenditure in GDP was approximately at the EU average, whereas the share of public and private expenditure as a total of GDP significantly exceeded the average in 21 EU and OECD member states. Since 2005, such expenditure has grown on account of public expenditure growth as a

*Table 11:* **Work-incentive indicators, as a percentage**

| | **Tax burden on labour costs** for 67% of average wage | | **Unemployment trap** Move from unemployment benefit to 67% of average wage | | **Low-wage trap** Move from 33% to 67% of average wage | | **Low-wage trap** Move from 33% to 67% of average wage | |
|---|---|---|---|---|---|---|---|---|
| | **Single person (67% average wage)** | | | | | | **One-earner couple with two children** | |
| | **Slovenia** | **EU** | **Slovenia** | **EU** | **Slovenia** | **EU** | **Slovenia** | **EU** |
| 2001 | 43.5 | 40.7 | 82.60 | 74.51 | 39.10 | 45.83 | 99.40 | 54.13 |
| 2002 | 43.5 | 40.8 | 84.40 | 73.57 | 42.70 | 45.08 | 95.50 | 53.94 |
| 2003 | 43.5 | 40.5 | 86.10 | 74.03 | 46.10 | 45.12 | 94.80 | 56.26 |
| 2004 | 43.6 | 40.0 | 87.70 | 73.60 | 49.10 | 44.44 | 91.90 | 55.00 |
| 2005 | 41.8 | 39.9 | 83.00 | 74.78 | 51.00 | 44.83 | 76.00 | 57.07 |
| 2006 | 41.3 | 40.0 | 82.00 | 75.54 | 52.00 | 47.33 | 73.00 | 59.30 |
| 2007 | 40.9 | 39.9 | 81.00 | 75.08 | 51.00 | 47.47 | 67.00 | 58.24 |
| 2008 | 40.3 | 39.5 | 83.00 | 74.73 | 53.00 | 46.89 | 68.00 | 57.41 |
| 2009 | 39.7 | 39.3 | 83.00 | 75.39 | 53.00 | 48.01 | 68.00 | 59.82 |
| 2010 | 38.5 | 39.3 | 83.00 | 75.42 | 48.00 | 47.42 | 64.00 | 57.58 |
| 2011 | 38.5 | 39.6 | 90.00 | 74.81 | 46.00 | 47.22 | 61.00 | 58.46 |
| 2012 | 38,5 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Source: Eurostat Portal Page – Population and Social Conditions, 2013. Note: Owing to Eurostat and OECD methodology coordination (for example, taking account of 2/3 instead of 67% and 1/3 instead of 33%), data for Slovenia from the previous years have slightly changed.
Legend:
**Tax burden on labour costs** [163] reflects the share of taxes and social security contributions in the employer's costs with regard to gross wage. The conversion is made for a single person without children receiving 67% of the average gross wage. In 2011, in the case of an employee receiving 67% of the average wage, 38.5% was for the payment of tax and 61.35% for the net wage. Tax burden on labour costs reflects the share of taxes and social security contributions in the employer's costs with regard to gross wage. The conversion is made for a single person without children receiving 67% of the average gross wage. In 2011, in the case of an employee receiving 67% of the average wage, 38.5% was for the payment of tax and 61.35% for the net wage.
**The unemployment trap indicator**[164] shows the ratio of net to gross earnings of a single person without children upon transition from unemployment to employment, taking into account unemployment benefit in the amount of 70% or 80% of gross earnings of an employed person receiving 67% of the average gross earnings. In 2011, transition from unemployment to employment for such an unemployed single person increased his/her net earnings by 10.3% of gross wage or an increase in his/her net earnings by 0.103 euros for every additional euro paid in gross wage.
**The low-wage trap**[165] for a single person shows the ratio of net to gross earnings of an employed single person upon transition to a better paid job (from 33% of the average gross wage to 67% of the average gross wage).
**The low-wage trap** for a one-earner couple with two children shows the ratio of net to gross earnings of an employed single person in a four-member household upon transition to a better paid job (from 33% of the average gross wage to 67% of the average gross wage). In 2001, such a single person upon transition to a better paid job increased his/her net earnings by 53.5% of the gross wage gap; for a couple with two children this share was 38.8%. This means that every additional euro paid for gross wage increased the single person's net earnings by 0.535 euro and those of a couple with two children by 0.388 euro.

[162] Measured by SHA methodology (System of Health Accounts).
[163] Tax burden on labour (in %) = (income tax + social contributions by the employee + social contributions by the employer + payroll tax / gross wage + social contributions by the employer + payroll tax) x 100
[164] Unemployment trap (in %) = (1 – (net income from employment – net income during unemployment) / gross wage) x 100.
[165] Low wage trap (in %) = (1 – difference in net income (transition from 33% to 67%) / difference in gross wage (transition from 67%)) x 100.

result of increase in the size of generations of children at pre-school age. This entailed growth in the number of kindergartens, kindergarten units and employees; at the same time, parents were relieved of certain obligations regarding extra payment of kindergarten fees. In spite of this, kindergarten-related expenses per person in comparison with other EU countries (PPS) remain relatively high (129% of EU average).

***Changes in social protection systems increased an already high unemployment trap at international level, whereas the low wage trap slightly decreased.*** Work-incentive ("make work pay") indicators are used to measure the impact of combined action by the tax system, social security contributions, social transfers and amounts of wages and reflect the pay-off effect of work for job seekers. In 2011, changes in these indicators were subject to the influence of the provisions on the increase in unemployment benefits and a more restrictive social transfer revaluation. As a result, the unemployment trap this year increased by 7 pp due to the increase in unemployment benefit rate from 70% to 80% of base rate, which made transition towards employment even less encouraging than in the previous year. On the other hand, the low wage trap for a single person decreased by 2 pp and for a family with two children by 3 pp, which means that a move from lower to higher wage was more favourable than in the previous year. The situation had improved in 2010, with a change in the personal income scale; lowering the low wage trap (for families and partly for single persons) in 2010 and 2011 can be ascribed to a partial adjustment of social transfers, whereas wages (including the minimum wage) rose more considerably. The tax burden on labour costs for lower wages (38.5%) in 2012 remained at the 2010 level (a reduction which followed after 2008 was a result of tax relief on low wages). Compared with the EU average, the unemployment trap in Slovenia for 2011 was significantly higher (by 15.19 pp), which, in our estimation, is due to a smaller gap between the low wages (which grew as a result of a sharp rise in the minimum wage) and the relatively high assessment percentage for unemployment benefit for the first three months. The low wage trap for a single person and for a family with two children in Slovenia does not deviate essentially from the EU average (1.22 and 2.54 pp gap). The tax burden on labour costs (for wages amounting to 67% of the average wage) in 2011 was 1.1 pp lower than the EU average.

## 4.3 Living conditions, social exclusion and social risks

### *4.3.1 Material living conditions*

***Household disposable income has fallen for the fourth consecutive year; in 2012, it was already more than 6.0% lower than in 2008.*** In 2011, disposable income dropped 0.4% in real terms; the fall in 2012 was even deeper (5.3%). In 2011, the same reduction (–0.4% in real terms) was recorded for adjusted disposable income,[166] which fell for the second consecutive year. In 2011, the main contribution to this reduction came from the largest category of disposable income, i.e. compensation of employees, which saw the largest decline thus far. Gross operating surplus and mixed income, including entrepreneurial and other revenues, have also declined since 2008. The declines in compensation of employees and in mixed income brought about a lowering of taxes on income and wealth and social security contributions. Growth in social transfers slowed down over the past two years, particularly as a result of intervention measures[167] aimed at consolidating public finances. Nevertheless, social transfers[168] represent an increasingly important part of disposable income. Their share in disposable income has reached the highest level since 1995. On the other hand, the share of compensation of employees started to decline in 2009, as did the share of gross operating surplus. In 2011, social transfers in kind[169] remained at the previous year's level. For the most part (84.4%), they have been earmarked for healthcare and education, the rest for recreation, culture, religion and social protection. In comparison with the EU as a whole, Slovenia's lagging behind with respect to disposable income per capita slightly grew (in 2011 it amounted to 70.7% of per capita income in the EU; in 2008 the figure was 72.2%). A somehow smaller gap with the EU average exists at the level of adjusted disposable income per capita (expressed in purchasing power standards), which in 2011 amounted to 81.9% of per capita income in the EU.

***In 2012, the real decline in the wage bill was even more substantial than in past years; the number of minimum wage recipients increased with a considerable minimum wage rise.*** The relevant wage bill has been decreasing

[166] The adjusted disposable income is derived from the disposable income by adding the value of the social transfers in kind received and given. For households, these transfers represent sources, while for non-profit institutions providing services for households and the state, they mean expenditure.

[167] Intervention Measures Act – ZIU (Official Gazette of the RS, No. 94/2010); Exercise of Rights to Public Funds Act – ZUPJS (Official Gazette of the RS, No. 62/2010); Act Regulating Adjustments of Transfers to Individuals and Households in the Republic of Slovenia – ZUTPG-B (Official Gazette of the RS, No. 85/2010); Act Amending the Social Benefits Act – ZSVarPre-A (Official Gazette of the RS, No. 40/2011); Act Amending the Exercise of Rights to Public Funds Act – ZUPJS-A (Official Gazette of the RS, No. 40/2011).

[168] Social transfers include pensions, transfers to the unemployed, family benefits and parental supplements, transfers ensuring social security, wage compensations, sickness funds, scholarships, transfers to the war-disabled and veterans and victims of war, and other transfers to individuals, though excluding social benefits in kind.

[169] These include goods and services that public units and the NPISH ensure as transfers in kind to households, irrespective of whether they were acquired on the market or whether the public units or NPISH produced them as non-market output.They may be financed from taxes, other countries' revenues or social security contributions, and, in the case of the NPISH, from support and property-based income (European System of National and Regional Accounts 1995, 2005, par. 4.104).

*Table12:* **Disposable income, Slovenia**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **Real growth** | | | | | | | |
| Compensation of employees | 3.1 | 4.3 | 5.7 | 3.9 | -1.4 | -0.4 | -1.9 |
| Social benefits other than social transfers in kind | 2.5 | 2.4 | 2.1 | 3.9 | 5.4 | 2.8 | 2 |
| Gross operating surplus and mixed income | 5.3 | 3.6 | 6.8 | -1.1 | -3.4 | -4.7 | -0.9 |
| Property income | -7.6 | 12.7 | -6.9 | 8.4 | -31.2 | -21.4 | 28.5 |
| Other current transfers | 18.7 | -36.4 | -89.5 | - | - | - | 123.4 |
| Social security contributions | 3.4 | 3.7 | 4.9 | 4.7 | -0.2 | 0.3 | -0.7 |
| Current taxes on income, wealth, etc. | -2.5 | 9.3 | 3.6 | 10.1 | -5.5 | -3.2 | -1.3 |
| Disposable income | 3.9 | 3.0 | 4.7 | 1.5 | -0.2 | -0.6 | -0.4 |
| **Share of disposable income** | | | | | | | |
| A: Compensation of employees | 79.1 | 80.0 | 80.8 | 82.8 | 81.8 | 82 | 80.8 |
| B: Social benefits other than social transfers in kind | 25.9 | 25.7 | 25.1 | 25.7 | 27.12 | 28.04 | 28.7 |
| C: Gross operating surplus and mixed income | 25.3 | 25.4 | 25.9 | 25.3 | 24.5 | 23.4 | 23.3 |
| D: Property income | 1.8 | 2.0 | 1.8 | 1.9 | 1.3 | 1.0 | 1.4 |
| E: Other current transfers | 1.0 | 0.6 | 0.1 | -0.4 | 0 | 0.1 | 0.3 |
| F: Social security contributions | 23.8 | 23.9 | 24 | 24.7 | 24.7 | 25 | 24.9 |
| G: Current taxes on income, wealth, etc. | 9.3 | 9.8 | 9.7 | 10.5 | 10.0 | 9.7 | 9.6 |
| Net disposable income (A+B+C+D+E-F-G) | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

Source: SURS, Non-financial sector accounts.

since 2009. In 2011, the net wage bill decrease in real terms was the highest (1.2%) till that time, but in 2012 these trends were even more pronounced. Alongside continued decline in economic activity and additional austerity measures, the net wage per employee in 2012 fell by 2.1% in real terms; the number of wage recipients fell by 1.3%, resulting in a reduction in the net wage bill of 3.3% in real terms. In 2012, the gross wage per employee nominally remained almost unchanged (0.1%; 2.4% lower in real terms). As in the previous year, it rose only in private sector activities (with the lowest rise in the past twenty years of 0.8%); in public service activities, after two years of stagnation, it fell by 2.2%. 1 January 2012 was the concluding date for the progressive transition to the new statutory minimum wage amount determined in 2010. As a result and due to adjustment for inflation, the rise in the minimum wage was similar to that in the previous year. As indicated by the average for the period following 2000, the minimum gross wage growth in 2012 was higher than the growth in the average gross wage per employee. Therefore the ratio between the two increased even further, to 50.0%, which ranks Slovenia on top of EU Member States. Compared with 2009, the number of minimum wage recipients and their share in the total number of employed persons more than doubled in 2012 (see indicator 4.11). A high minimum wage increase and a resulting deterioration in competitiveness (see Chapter 1.2.), particularly in 2010, also had an impact on the loss of jobs.

***After 2009, the wage gap decreased as a result of changes in the employment structure, the minimum wage rise, and wage stagnation/reduction in certain activities with the highest wages.*** Following a slight increase in 2009, wage inequality in the period 2010–2011 fell. The ratio between the gross wage of the ninth and the first deciles fell to its lowest value since 1999[170]. This includes considerable decreases in the Gini coefficient and the share of employees with low wages[171], which kept growing in the period 2005–2009. Until the onset of the crisis, the highest/lowest average gross wage ratio among activities continued to grow every year, but then started to fall. A decrease in the aforementioned ratio in recent years has been attributed to the coincidence of two occurrences: a minimum wage rise and a relatively swift transition by most employers to the statutory amount increased the lowest wages, while with the crisis, wage growth in financial activities slowed down significantly. The period following the onset of the crisis has been characterised by a statistical increase in the level of the average gross wage by activities, due to the loss of low-wage jobs. In addition, the wage gap also narrowed as a result of public sector austerity measures, which in the period 2010–2011 completely halted the growth of wages and even reduced them in 2012. The impact of the crisis and the minimum wage rise also helped reduce the wage gap with respect to education. In the period 2009–2011, the highest rise in wages was recorded for low-education-level employees (10.9%), while wages for highly educated employees remained almost unchanged (0.6%). In the past two years, the

[170] According to the latest comparable data, Slovenia was ranked roughly in the middle of the scale of EU Member States, with a decile coefficient value of 3.4 (data for 2011). In 2010, this was the lowest in Scandinavian countries (Sweden 2.1, Finland and Norway 2.3), and the highest in Romania (4.7) and Portugal and Latvia (4.5).

[171] According to OECD methodology, these are employees earning an amount equal to or less than two-thirds of the median income (EUR 883 in 2011). According to the latest comparable data, the share of employees with low wages (17.9%) ranks Slovenia near the EU average (17%).

*Table 13:* **Wage inequality indicators, gross wages, Slovenia**

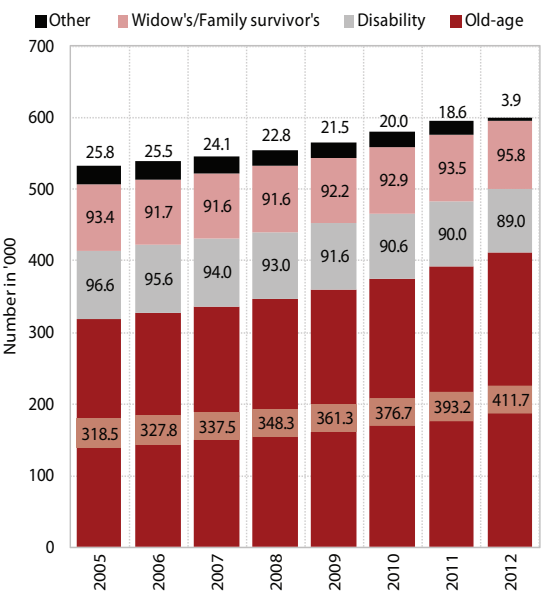
| | 2000 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| 9th decile/1st decile ratio[1] | 3.46 | 3.47 | 3.61 | 3.62 | 3.67 | 3.45 | 3.41 |
| Median/1st decile ratio[1] | 1.70 | 1.67 | 1.73 | 1.74 | 1.74 | 1.68 | 1.67 |
| 9th decile/median ratio[1] | 2.04 | 2.08 | 2.08 | 2.08 | 2.11 | 2.06 | 2.05 |
| Gini coefficient[1] | 0.294 | 0.290 | 0.292 | 0.279 | 0.283 | 0.271 | 0.268 |
| Share of low-wage earners[1], in % | 17.4 | 17.0 | 18.5 | 19.0 | 19.3 | 17.9 | 17.9 |
| Highest/lowest gross wage ratio by activity | 1.85 | 2.32 | 2.46 | 2.38 | 2.32 | 2.25 | 2.19 |
| Gap between women/men average gross wage[2], in % | 12.2 | 6.9 | 7.8 | 7.6 | 2.9 | 3.7 | 4.6 |

Source: SURS; calculations by IMAD. Notes: [1] Calculations for the period 2008–2011 are based on data from administrative sources and refer to the entire year, whereas for the preceding period, they are based on the statistical survey for the month of September of the current year. [2] According to wage structure statistics.

ratio of the average wage for women to that for men grew slightly only in two areas of activity (education and the real estate business), while the advantage in average wages for women over men in the construction sector was reduced. As a result of different gender representation with respect to activities and professions, the wage gap between women and men in the period 2009–2011 slightly grew, but is still considerably lower than the average in the period 2000–2008 (8.4%). In comparison with other EU countries, Slovenia shows a strong deviation, since the gap between women's and men's wages in the EU average according to the last All-European Structure of Earnings Survey shows a 16.2% advantage in favour of men (2010[172]).

***After 2009, average pensions started to decline in real terms.*** This reduction grew larger every year: in 2012, the average net pension[173] in comparison to the previous year was 3.5% less in real terms. The decrease in pensions was influenced by a restrictive indexation policy of pensions in effect since 2010, when indexation of pensions ceased to be carried out in its entire, statutorily determined volume (with respect to average wage). In 2010, pensions were adjusted by one-half of the average wage growth, a year later by a quarter, while in 2012 no pension indexation was carried out. In February 2013, pensions were adjusted by the average wage growth from 2012; consequently, the overall volume of increase in pensions must not exceed EUR 50 million[174]. In 2012, some pensioners failed for the first time to be paid an annual (recreation) grant (paid only to those whose pensions did not exceed EUR 622); this was received by 398,400 recipients (in 2011 the number was 599,942). In addition, the ZUJF enacted several other measures which caused a considerably larger decrease in pensions than in previous years. The average net wage ratio diminished and amounted to 62.1% for the old-age pension, 48.5% for the disability pension, and 40.3% for the widow's or family survivor's pension. The year 2012 saw the largest increase in the number of old-age pension recipients (by 4.0%), whose number over the past three years grew faster as a result, in particular, of retirement of more post-war generations, but also as a reaction to uncertainty regarding preparation of the new pension act. Falling trends in disability pensions have been present throughout the decade; a drop in the number of family survivor's pension beneficiaries has been ongoing since 2005, while the number of widow's pensions shows an upward trend as a result of the longer lifespan and lower pensions of women.The share of old-age pension recipients shows an upward trend, while those of disability, family survivor's and widow's pensions show downward trends. In 2012, the state pension was transformed into a new social security right[175]; accordingly, this form of pension, which in 2011 accounted for 2.3% of all pensions, ceased to exist as an autonomous benefit.

*Figure 26:* **Number of retired persons, Slovenia**




Source: Institute for Pension and Disability Insurance.

[172] EU-27 conversion for activities B–S (without O). Conversion for activities B–S available for a smaller number of countries; closest to Slovenia (the comparable figure for Slovenia according to these statistics is 0.9%) is Poland (4.9%). Highest gaps (over 20%) exist in Finland, Germany, Czech Republic and Estonia (over 24% in the last two mentioned countries).

[173] Average amount of all pensions (since 1 January 2012, no income support included, calculation based on comparable data for the preceding year) with exception of military pensions, pension advance payments, farmers' pensions under SZK (old-age insurance of farmers), and pension supplements.

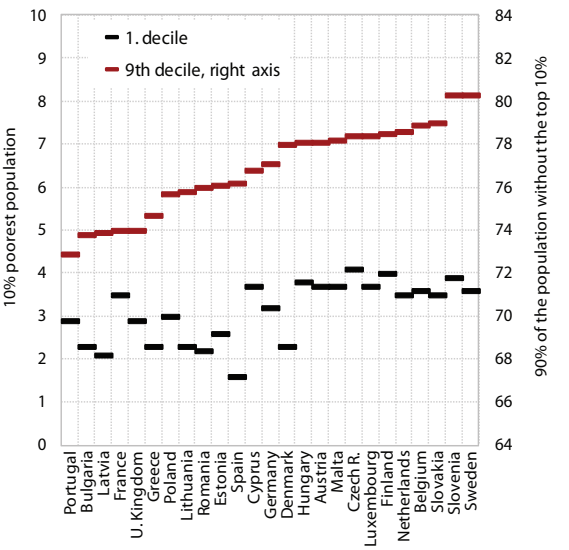
[174] Pension and Disability Insurance Act – ZPIZ-2 (Official Gazette of the RS, No. 96/12, 96/12, Article 430.

[175] Exercise of Rights to Public Funds Act – ZUPJS (Official Gazette of the RS, No. 62/2010) and Act Amending the Exercise of Rights to Public Funds Act – ZUPJS-A (Official Gazette of the RS), No. 40/2011.

***Indicators of income and poverty for 2011 show further deterioration in the income situation of the Slovenian population.*** The risk of poverty has been growing since 2009, when it was at 11.3%. In 2011, it increased by 0.9 pp to 13.6%. The at-risk-of-poverty rate before social transfers remained the same as in 2010 (24.2%), when it rose considerably.The impact of social transfers on the at-risk-of-poverty rate in Slovenia is considerable; however, in 2011 it was somehow lower than in previous years. In 2010, there were no systemic changes in this area. As a result, a minor impact on the at-risk-of-poverty rate may be ascribed to revaluation by half of the social transfers in 2010, which (alongside an increase in the number of social transfer recipients) additionally contributed to the fact that their growth considerably lagged behind that in wages. In the past two years (2010 and 2011), at-the-risk-of-poverty rates rose with respect to all socio-economic groups; the rise was highest for families with children. The at-the-risk-of-poverty rate for children exceeded for the first time the general risk of poverty for the whole population (see indicator 4.12.). The quintile coefficient (80/20) rose similarly, from 3.4 to 3.5 (the highest level in the past seven years), while the Gini coefficient remained the same as in the previous year.In 2011, the material-deprivation rate increased from 15.8% to 17.2%. It is now the highest in the past seven years and has been rising constantly since 2007, when it was at its lowest (14.3%) (see indicator 4.13).

***In spite of this, Slovenia, in comparison with other EU countries, still has the lowest income gap.*** Income inequality measured by both the quintile share ratio and the Gini coefficient remained the lowest among all EU Member States in 2011. Moreover, the value of the inter-decile ratio in Slovenia is among the lowest in the EU. Together with Sweden, Slovenia ranks among the countries where the 10% of people with highest income receive the lowest percentage of equivalent income by purchasing power. Moreover, Slovenia differs from other countries in terms of income distribution stability, since the distribution (percentage of equivalent income by decile) has not changed significantly since 2005.

*Figure 27:* **Percentage of equivalent income, in EUR by purchasing power, 2011**




Source: Eurostat Portal Page – Population and Social Conditions, 2012; calculation by IMAD. Note: Countries are ranked by the percentage of the upper bound value of the 9th decile. The upper bound value of the 1st decile is a limit separating 10% of the poorest population; it represents the equivalent income percentage received by the 10% of the population with lowest income. The upper bound value of the 9th decile is a limit separating the 10% of people with highest income; it represents the equivalent income percentage received by 90% of the population.

*Box 10*: **EU 2020 goals in the area of poverty and social exclusion**

***In 2011 Slovenia additionally deviated from meeting the EU common goal of reducing the risk of poverty and social exclusion.*** In 2011, the total number of persons exposed to poverty risk and social exclusion was 386,000 (2010: 366,000; 2009: 339,000)[1]. In 2010, Slovenia set the target[2] of reducing the number of persons with poverty risk to approximately 320,000 by 2020. This is deemed to be in conformity with the fifth goal of the Europe 2020 Strategy aimed at reducing poverty and social exclusion within the EU for at least 20 million citizens by the mentioned year. This is a movable target including a common indicator of the number of population at risk of poverty or social exclusion constituted by three sub-indicators: i) the at risk of poverty rate; ii) the severe material deprivation rate (defined as deprivation in at least four out of the total of nine measures of deprivation[3]); and iii) the share of persons living in households with very low labour intensity (less than 20% of total household labour potential). In Slovenia, the number of such persons in 2011 grew by all three sub-indicators: the number of persons living below the threshold of poverty reached 273,000 (254,000 in 2010); the number of severely materially deprived persons reached 123,000 (119,000 in 2010), and the number of persons living in households with very low labour intensity reached 121,000 (111,000 in 2010). In 2011, the total number of persons exposed to the risk of poverty and/or social exclusion accounted for 19.3% of Slovenia's population (1 pp more than in 2010). In 2011, the share of persons in the EU exposed to the risk of poverty and/or social exclusion was 24.1% (0.7 pp more than in 2010).

[1] This is the sum of the following: a) the number of people in the population living below the risk-of-poverty threshold; b) the number of materially deprived people not living below the risk-of-poverty threshold; and c) the number of persons in households with low labour intensity who, however, are neither below the risk–of-poverty threshold nor materially deprived. Persons falling within more groups are taken account of in the total number only once.
[2] In Slovenia, this target was adopted under the National Reform Programme, November 2010.
[3] See the material deprivation factors for indicator 4.13.

*Table 14:* **Housing, Slovenia and the EU**

| Share of population, in % | Slovenia | | EU | |
|---|---|---|---|---|
| | 2005 | 2011 | 2005 | 2011 |
| In houses | 70.3 | 70.8 | 57.6 | 57.7 |
| In flats | 29.4 | 28.9 | 41.1 | 41.5 |
| Owners | 83.2 | 77.5 | 68.0 | 70.7 |
| Owners with no housing loan or mortgage | 80.9 | 69.8 | 41.1 | 43.1 |
| Tenants* | 16.8 | 22.5 | 32.0 | 29.3 |
| Tenants paying rent at market price | 6.0 | 5.5 | 20.1 | 18.1 |

Source: Eurostat Portal Page – Income and living conditions.
Note: * In the SILC survey, which was a source of the above data, the so-called dwelling users are considered as tenants. These are persons living in dwellings where none of them owns the property; owners may possibly be their relatives, friends or other persons.

***Alongside growth in the number of housing units, an ever-increasing number of dwellings are in poor condition, entailing growth in housing costs.*** Since 2005, the number of dwellings has grown by 45,000, with the smallest rise in 2011. Most of the population live in houses, with Slovenia in first place among EU countries with respect to the share of the population living in detached houses (66.8%). The average size of flats still shows a slightly increasing trend. In 2011, the share of the population living in overcrowded dwellings was at 17.1%[176] (the same as the EU average). The majority of households live in privately owned dwellings. This share is gradually falling, whereas the number of tenants is on the rise. Nevertheless, the share of tenants paying a market rent is essentially lower than in other developed European countries and also lower than the EU average. Households in privately owned dwellings and tenants alike are finding it increasingly hard to cover their housing costs[177]. The share of households where housing costs constitute a considerable burden is constantly the largest for the tenants; lately, however, conditions have also deteriorated for owners and users of their relatives' dwellings. It is possible to conclude that such a situation and the high share of privately owned dwellings is associated with deterioration in the maintenance of dwellings. In 2011, 35% of the population lived in poorly maintained dwellings; in 2005, this share was only 20%[178].

***Deterioration of material conditions began to manifest itself through a decline in private consumption.*** While disposable income in 2011 dropped in real terms for the third consecutive year, private consumption still showed (rather slow) growth (0.9%). This shows that consumption-related habits are adapting more slowly to the new circumstances. In comparison with the previous year, expenditure on furniture and furnishing, and carpets saw the largest reduction. This was followed by expenditure on durables for recreation and culture, on audio-visual, photographic and computer equipment, and on electricity and gas. Expenditure on durable goods thus reached the lowest share of consumption (8.7%) since 1995, when such data were first made available. Between 2008 and 2011, households reduced consumption of durable goods in real terms by 9.3%; the reduction was largest for the purchase of vehicles and durables for recreation and culture. The services where consumption fell most include tourism – package holidays (a decline of 10.8%) and accommodation. The fall in consumption also affected other personal goods (jewellery, watches, etc.). In 2012, consumption declined by 2.9%; in our estimation, this trend is expected to deepen over 2013.

***During the crisis, restriction of expenditure of richer households on less essential goods and investments started narrowing the inequality gap with respect to consumption expenditure by households.*** According to (the latest) data for 2010, funds used by an average household, including its own production, amounted to EUR 20,861 and were thus 1.8% lower, which is less of a fall than in 2009. In 2010, the fifth of the households with the highest income spent 4.1 times more funds (EUR 36,436) than the fifth of the households with the lowest income (EUR 8,896). In 2010, the ratio between the consumption of the two quintiles was at its lowest since 2001. The ratio relating to expenditure on transport and recreation and culture declined in particular, since these goods are not essentially required in households. The lowest level so far was recorded for the ratio for the fifth and first quintile relating to major works and renovations of dwellings, which might point to the fact that richer households started saving on investments. The largest increase in the ratio was for expenditure on hotels, cafes and restaurants, on education and for other expenditure.

[176] Data not comparable with the previous years due to methodology change.
[177] In 2005 and 2011, housing costs constituted a great burden for 32% and 40% of households respectively.
[178] Data are not entirely comparable, as the 2008 survey questionnaire contained only one question concerning this issue, while that of 2008 had three. Dwellings in poor condition are dwellings with difficulties such as leaking roof, damp walls/floor, and rotten window frames or floors.

*Table 15:* **Household expenditure, the difference between the fifth and first income quintiles by groups of allocated assets**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| Total allocated assets | 3.9 | 4.2 | 4.4 | 4.2 | 4.4 | 4.2 | 4.1 |
| Consumption expenditure | 3.6 | 3.9 | 4.0 | 3.8 | 3.9 | 3.8 | 3.7 |
| Food and non-alcoholic beverages | 2.4 | 2.3 | 2.4 | 2.2 | 2.2 | 2.2 | 2.3 |
| Alcoholic beverages and tobacco | 2.7 | 2.1 | 2.1 | 1.7 | 1.8 | 1.8 | 2.2 |
| Clothing and footwear | 6.0 | 7.3 | 7.9 | 8.0 | 7.7 | 7.2 | 6.8 |
| Housing, water, electricity, gas and other fuels | 1.9 | 1.9 | 1.8 | 1.7 | 1.8 | 1.7 | 1.8 |
| Furnishings, household equipment and routine maintenance of the household | 3.3 | 4.6 | 4.6 | 4.1 | 4.3 | 4.2 | 4 |
| Health | 2.4 | 3.9 | 3.4 | 2.5 | 2.4 | 2.5 | 3 |
| Transport | 9.4 | 7.8 | 9.2 | 9.1 | 10.8 | 10.4 | 9.3 |
| Communications | 3.1 | 3.0 | 3.0 | 2.9 | 3.0 | 2.8 | 2.6 |
| Recreation and culture | 4.5 | 5.5 | 5.4 | 6.0 | 6.0 | 5.8 | 5.2 |
| Education | 10.6 | 20.2 | 23.6 | 13.9 | 13.2 | 13.1 | 20.7 |
| Hotels, cafes and restaurants | 6.1 | 6.6 | 6.2 | 5.1 | 6.5 | 7.3 | 8 |
| Miscellaneous goods and services | 3.3 | 3.7 | 3.8 | 3.7 | 3.8 | 3.8 | 3.8 |
| Expenditure on a dwelling, house | 10.6 | 9.5 | 10.0 | 10.2 | 12.3 | 12.5 | 7.9 |
| Other expenditure | 5.9 | 3.7 | 6.4 | 6.6 | 7.6 | 6.5 | 7.9 |

Source: SI-STAT Data Portal – Demography and social statistics – Level of living – Household budget survey.

## 4.3.2 Quality of life

***The number of children attending kindergarten is on the increase.*** The rate of attendance has increased most with respect to the younger age group in the overall period following 2005. In the 2012/13 school year, 55.7% of children aged 1–2 attended kindergarten; the percentage for the 3–5 year age group was 89.9%. Participation of the latter group is higher than the EU average (EU 2010: 81.2%). Higher attendance came through an increase in the number of kindergartens, kindergarten units and employees, including related expenditure. In spite of this, the problem of providing sufficient capacity still persists. The ratio between the number of children and the number of teaching staff is much more favourable than the EU average. In 2010, it remained at the level of the preceding year, whereas it slightly fell in the EU as a whole (see indicator 4.15). In past years, the financial accessibility of kindergartens improved through the introduction of free-of-charge kindergarten care for the second and each subsequent child[179]. In 2012, benefits regarding payment of kindergarten fees were somewhat reduced, since the Public Finance Balance Act abolished the free-of-charge kindergarten for parents with two or more children attending kindergarten (under the new rules, 30% of the kindergarten fee is paid for the second simultaneously attending child but parents are exempt from payment for any younger attending children). In spite of this, last year inclusion of children in kindergartens slightly increased.

***The participation of young people in the education process remains high, and the share of population with at least upper secondary school education is on the increase.*** In the second quarter of 2012[180], the share of the adult population with at least upper secondary school education (aged 25–64) amounted to 85.1%, showing a slight improvement compared with the previous year; as in previous years, it considerably exceeded the EU average (by 11.1 pp). The share of young people (aged 20–24) with at least upper secondary school education is among the highest in the EU. During the crisis, participation of the generation aged 15–19 in upper secondary school education remained high and greatly exceeded the EU average[181]. Accessibility of upper secondary school education was largely due to the existence of national scholarships. During the crisis, the share of upper secondary school students receiving national scholarships grew; however, in our estimation, it considerably fell in 2012, since in accordance with the Exercise of Rights to Public Funds Act, children under the age of 18 may no longer be entitled to a national scholarship but instead to increased child benefit. The upper secondary school graduation rate among the young is high[182], however, the share of early school leavers in the population remains low (in 2011, it fell to 4.2%); it is considerably lower than the EU average (13.5%) and much lower than the EU 2020 Strategy target to be attained by 2020 (10%). Due to the high level of participation of young people in secondary and tertiary education, the share of young people (aged 18–24) not in employment and not in any education and training

[179] Article 16 of the Act Amending the Kindergarten Act (ZVrt-D) stipulates that "if more than one child from a family is enrolled in a kindergarten, parents pay a fee reduced by one category for the older child and are exempt from the payment for younger children".

[180] According to the Slovenian Labour Force Survey.

[181] In 2010, participation of the young (aged 15–19) in upper secondary school education amounted to 77.9% (EU: 59.8 %).

[182] In 2010, the upper secondary school graduation rate was at 93.8%.

(NEET levels) is low and also markedly lower than the EU average[183].

***Between 2007 and 2011, school achievements of pupils improved.*** This applies equally to the sciences and mathematics and is true for both 4th- and 8th-grade pupils, whose achievements are assessed within the TIMSS[184] research survey. In 2011, their achievements exceeded the international average. The highest scores were achieved by the 8th-grade pupils in sciences, the lowest by the 8th-grade pupils in mathematics. Slovenia achieved its best score in the area of science by the 8th-grade pupils (sixth place among the countries included), just behind the leading Asian countries and Finland. The biggest improvement was achieved by the 4th-grade pupils in mathematics, the least by the 4th-grade pupils in sciences. In the PIRLS[185] assessment, Slovenia's 4th-grade pupils were ranked above the international average. In comparison with the previous assessment (2007), their achievements further improved.

***The burden of out-of-pocket health expenditure remains low; this shows that financial accessibility of health services is still maintained, though waiting periods started to lengthen in 2012.*** Over recent years, a rise in complementary health insurance premiums increased the burden of health expenditure on households; however, financing of health was transferred to private funding in such a way that the burden was not imposed solely on the sick and the elderly, who, as a result of reducing public funds, would be the most affected by less accessibility (extension of waiting periods) and higher direct payments (see indicator 4.8). However, the impact of lowering prices in health services and of the decline in additional public funds, earlier systematically channelled by the the HIIS towards shortening waiting periods, already in 2010 started to manifest itself in a drop in the number of patients treated in hospitals[186], and in 2012 in lower waiting periods.

***Life expectancy has continued to grow, while healthy life years expectancy has been on the decline.*** In 2011, life expectancy again rose and reached 80.1 years (2009 – EU: 79.7; Slovenia: 79.4); however, the expected healthy life years indicator considerably deteriorated for the second consecutive year, which placed Slovenia at the bottom of the list of EU Member States (see indicator 5.10). Slovenia lies deep below the EU average with respect to self-reported health. However, this situation has somewhat improved, as shown by data from the EU-SILC[187] survey and by the latest SJM survey data for 2012[188]. In 2010, mortality due to suicide slightly dropped but is still high above the EU average. Health-related socio-economic inequalities are still very high[189].

***Provision of capacities for long-term care of elderly persons in institutions continues to expand, whereas home care has stagnated.*** In 2011, intensive expansion of capacities in residential homes for the elderly continued. The number of persons receiving institutional care increased by 720, i.e. by more than a quarter since 2005. Homes for the elderly thus provided care to 5% of the population exceeding 65 years of age. Progress with home care is slow: the total number of persons receiving home care in comparison with the number of persons in residential homes for the elderly was almost three times smaller and accounted for less than 2% of the older population. A high share of the elderly with self-perceived limitations in daily activities shows that many elderly persons depend on informal forms of long-term care. This share continues to grow and exceeds the EU average[190]. Slovenia continues to lag behind other European countries with well-developed long-term care systems on account of poor development of home care.

***Participation in cultural events has grown over recent years.*** In 2011, the number of attendances at cultural events[191] increased by 8.3%; it grew strongly throughout the crisis period (2008–2011). The highest share of the population of visitors attending cultural events has

[183] In 2011, it amounted to 8.8% in Slovenia and to 16.7% in the EU.

[184] International research relating to Trends in International Mathematics and Science Study. The research assesses trends in mathematical and scientific knowledge in four-year cycles with elementary school pupils. In 2011, this involved participation by 62 countries and some autonomous school systems where certain countries perform research only with 4th- and some only with 8th-grade pupils.

[185] International research concerning Progress in International Reading Literacy Study. Reading literacy of children aged around ten is assessed every five years. PIRLS 2011 involved participation by 46 countries and 8 autonomous school systems.

[186] The rate of in-patient days, measured as a number of discharges from hospital per 1,000 inhabitants in the period 2003–2009, rose from 148 to 160, largely due to the efforts aimed at improving accessibility of particular interventions and surgeries; in 2010, this rate decreased to 156 (EU-24: 176).

[187] The share of the population assessing its health as good or very good increased by 60.4% in 2011 (2010: 59.6%); the EU average was 68% (2010: 68.3%).

[188] The share of respondents assessing their health as good grew from 54.9% in 2008 to 60.5% in 2012.

[189] At the age of 30, the gap between life expectancy of men with low and those with high education amounts to 10.4 years (this gap is wider in only five OECD states); this gap is smaller for women (4.4 years). A still wider gap is found with self-reported health conditions – in 2010, persons with the highest income assessed their health as good or very good twice more often than persons in the lowest income quintile; in terms of education, the gap between high and low education is similar and even the largest among the 23 OECD states which took part in the survey (OECD, Health Status Indicators and measures of inequality, 2012).

[190] In 2011, based on EU-SILC survey data, 33.8% of elderly persons aged 75–84 believed their limitations to be very high (EU 2010 average: 23.7%); the percentage for those aged 85 or above was 42.9% (EU 2010 average: 37.2%).

[191] These include museums, galleries, fine arts exhibitions, theatrical performances, cinemas, orchestral/choral concerts and performances given by cultural centres.

been recorded with the youngest age group (aged 18–24), though this also includes their participation in cultural events at school. A large gap is evident with respect to achieved level of education, whereby the rate of attendance is much lower for people with a low level of education than for those with upper secondary or tertiary education. On the other hand, the gap concerning attendance of cultural events with regard to the level of urbanisation is much narrower. In 2011, the share of people with a general library membership card was maintained at the level of the previous year (24.8%) but was previously on the decline since 2005; however, the number of visits to general libraries rose by 3.9%. In 2011, a good half of the population read a book or two in their leisure time; however, this proportion slowly drops off with age.

***The general deterioration of economic conditions has been reflected in certain social climate indicators[192].*** In comparison with 2010, general satisfaction with the present state of the economy, the government, education and the health system in 2012 was lower. Trust in institutions remained low (despite a slight rise since 2010); in 2012, it further fell for the majority of institutions. According to the ESS survey, people still have the highest trust in the police and the lowest in politicians and political parties. People were more satisfied with the way democracy works in Slovenia than in 2010, but during 2012 the level of satisfaction also declined in this area. Trust between people and the share of those convinced that people try to be helpful have increased[193]. In Slovenia, the share of people feeling to be threatened is even smaller than it was two years ago, though burglary or physical assault was experienced by more people than before. Average scores of happiness and life satisfaction remain at similar levels as in 2010. In comparison with 2011, the share of satisfied people even rose slightly (see indicator 4.16)[194]. However, the relatively high level of satisfaction with life may also be a result of people's expectation that the situation is bound to deteriorate.

*Table16:* **Social climate indicators, Slovenia**

| | 2006 | 2008 | 2010 | 2012 |
|---|---|---|---|---|
| **General satisfaction (average score)** | | | | |
| with the state of health services | 5.17 | 4.83 | 5.7 | 5.64 |
| with the state of education | 5.31 | 5.56 | 5.73 | 5.39 |
| with the government | 4.47 | 4.53 | 2.65 | 2.58 |
| with the present state of the economy | 4.95 | 4.29 | 2.87 | 2.56 |
| with democracy | 4.61 | 4.75 | 3.2 | 3.61 |
| **Trust in institutions (average score)** | | | | |
| the police | 5.01 | 5.05 | 4.99 | 5.38 |
| the legal system | 4.17 | 4.27 | 3.08 | 3.28 |
| the parliament; | 4.22 | 4.41 | 2.98 | 2.96 |
| politicians | 3.21 | 3.42 | 2.25 | 2.3 |
| political parties | 3.25 | 3.44 | 2.24 | 2.27 |
| **Trust in people (average score)** | 4.06 | 4.32 | 3.94 | 4.55 |
| **Feeling of safety (in %)** | | | | |
| safe (very safe and safe) | 88.3 | 87.3 | 92.3 | 94.2 |
| unsafe (very unsafe and unsafe) | 10.2 | 11.8 | 7 | 5 |
| **Personal experience with burglary/physical assault (in %)** | 13.5 | 11.4 | 9.2 | 10.2 |
| **Average score of happiness** | 7.24 | 7.23 | 7.28 | 7.26 |
| **Life satisfaction (average score)** | 6.97 | 6.93 | 6.97 | 6.98 |

Source: European Social Survey, Facurly of Social Sciences–Public Opinion and Mass Communications Research Centre (FDV-CJMMK). SJM 2012/2 – preliminary data. Note: Average score on a scale of 0–10.

[192] The source for comparison with 2010 is the European Social Survey (ESS) 2012 – preliminary data; that for trends during 2012 is Politbarometer (January–September 2012).

[193] Concerning answers to the question: "Would you say that most of the time people try to be helpful or that they are mostly looking out for themselves?" The average score rose from 4.41 to 4.99, and the share of those who are convinced that people try to be helpful from 22.1% to 30.2%.

[194] In 2012, according to the ESS, 63.5% of people were satisfied and 69.3% of respondents declared themselves to be happy. Satisfaction and happiness are scored through two questions: "All things considered, how satisfied are you with your life as a whole nowadays?" and "Taking all things together, how happy would you say you are?" on a scale of 0–10: dissatisfied or unhappy (0–3), medium (4–6), satisfied or happy (7-10). According to the Barometer survey, the four-grade scale showed 85% of satisfied respondents (satisfied and very satisfied taken together) – see indicator 4.16.

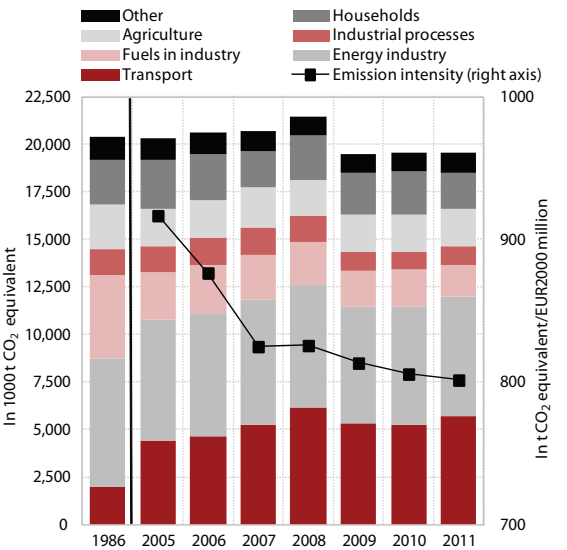
# 5. Integration of measures to achieve sustainable development

***SDS guidelines:*** The priority Integration of measures to achieve sustainable development covers development in the areas of the environment, sustained population growth, regional and spatial development, and culture. The environmental objectives of SDS involve reducing energy intensity and increasing the use of renewable energy resources, decreasing resource intensity and promoting waste recycling. Promoting development and environmental technologies will contribute to the achievement of these objectives. In the area of transport, the aim is to promote sustainable modes of mobility and boost the use of public passenger transport. Another goal is to protect nature. The objective of sustained population growth involves ensuring better conditions for greater inclusion of the working-age population, creating suitable working and societal conditions for elderly active citizens, and providing appropriate conditions for starting families. More balanced regional development extends to a wide range of activities – from establishing regions, making the system more polycentric and planning for regional development to preserving population density, maintaining transport networks and boosting local economies. The measures planned are mostly aimed at strengthening local economies, the higher-education network, development aid and local self-government, which would enable municipalities and regions to develop endogenously. The key priorities in the area of better spatial management focus on improving spatial management, with an emphasis on providing building plots and creating the conditions for improved operation of the housing market. The development of the national identity and culture calls for supporting the ethical, social, economic and political aspects of culture.

## 5.1 Integrating environmental criteria with sectoral policies

***In 2011, greenhouse gas (GHG) emissions in Slovenia remained at the level of the previous year, which, given the relatively low GDP growth, did not result in any significant reduction in the emissions intensity of the economy[195].*** After dropping considerably in 2009 owing to the economic crisis, GHG emissions in Slovenia remained more or less the same in 2010 (+0.3%) and 2011 (+0.1%). Similarly as before the crisis, the increase in emissions in 2011 was mainly due to emissions from transport, which increased by 8.2% and outbalanced the decrease in emissions from fuel combustion in households and industry. In Slovenia, transport accounts for about a half of all emissions that are not included in the EU Emission Trading System (EU ETS) and are crucial for the fulfilment of international obligations. This is particularly important for 2020 emission targets, while the economic crisis has brought Slovenia very close to Kyoto Protocol targets (see indicator 5.1). In order to achieve the long-term targets by 2020 alongside an economic recovery, it is essential to improve the emission intensity of the economy, i.e. to decouple GHG emissions from GDP growth. In 2011, the emission intensity of the economy fell by 0.5%, so progress has been slow since 2008. In any event, Slovenia is one of the countries where a unit of value added is generated by relatively high emissions. In 2010, the emission intensity in Slovenia was 20.7% higher than the EU average (in 2005 it exceeded it by 11.3%).

*Figure 28:* **Greenhouse gas emissions by sector and emission intensity of the economy, Slovenia**




Source: ARSO, SURS, calculations by IMAD.

***In 2011, after two years of high values, which were contributed to by certain one-off factors, the share of renewable energy sources (RES) decreased.*** The two most important RES in Slovenia are wood and hydropower, the share of hydropower being among the highest in the EU. The use of RES is, to a large extent, the result of natural conditions and is relatively high in Slovenia in comparison with other EU Member States. With the slow construction of larger facilities for renewable energy production[196], the use of RES fluctuates over the years mostly in relation to hydrological conditions, which in 2011, after two very favourable years, returned to the medium-term average of the 2005–2008 period[197].

[195] GHG emissions per unit of real GDP.

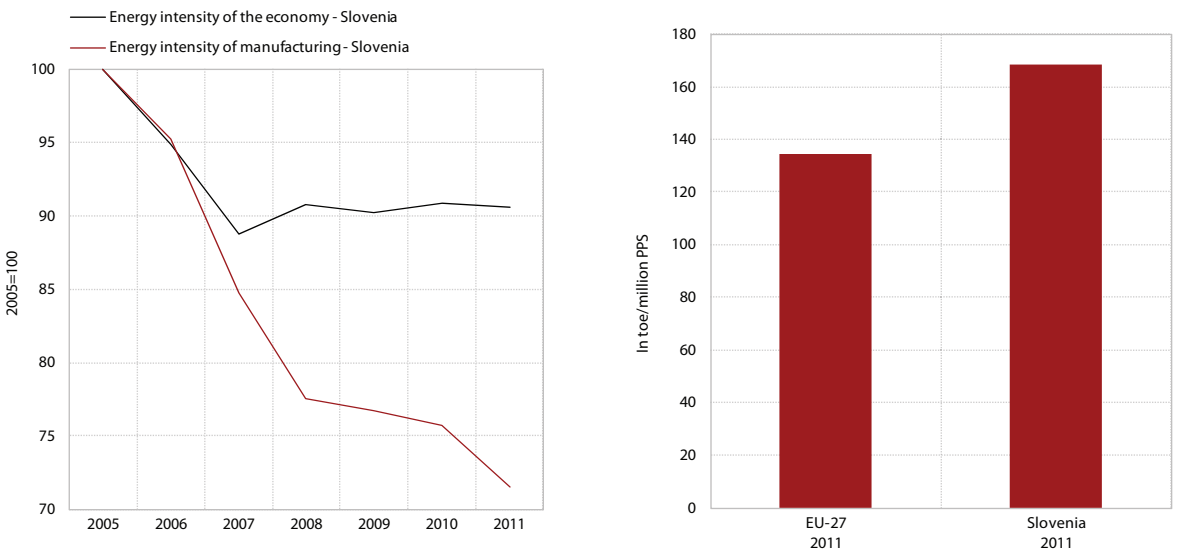
[196] In 2011, the capacities for the use of solar and geothermal energy increased considerably. However, these two sources still represent a small (5% in total) share of RES used. The first wind farm in Slovenia started to operate at the end of 2012.

[197] In 2009 and 2010, the use of hydro-energy was more than one-quarter higher than the average of the 2005–2008 period.

Furthermore, in 2011 the upward trend in the use of wood for energy was interrupted. Thus the total use of RES in Slovenia dropped by 10.3% in 2011 despite the strong increases in the use of solar (by 53%) and geothermal (13%) energy. Since the total consumption of energy in Slovenia rose slightly (by 0.6%), the *share of RES in primary energy consumption* fell considerably in 2011 (to 13.2%[198]). According to estimations for 2012, energy consumption in Slovenia decreased with a further shrinking of the economy, while the use of hydropower and solar energy increased[199]. We estimate that this led to a rise in the share of RES to over 14% of total energy consumption. The EU target for Slovenia is to achieve at least a 25% *share of RES in gross final energy consumption* by 2020 (18.9% in 2011[200]). In order to achieve this target, greater energy efficiency and/or a reduction in the energy intensity of the economy will be crucial, as will be increasing the capacities for RES.

***At the beginning of the crisis the reduction of the energy intensity of the Slovenian economy came to a standstill at a point well above the EU average, to which the extensive use of energy in road transport contributes significantly.*** Energy consumption per unit of GDP decreased by an average of 2.6% annually during the period 2000–2007, and post-2008 trends were mostly unfavourable in terms of energy intensity, as there was no further reduction. In 2011, energy consumption and GDP both increased by 0.6%, which meant that the energy intensity of the economy remained at the level of the previous year. Estimates for energy intensity in 2012 (a drop of 1.2%) are a little more favourable; however, in comparison with trends before the crisis, the reduction was still very small. Compared with the EU average, Slovenia used 25.4% more energy per unit of GDP in PPS in 2011 (12.7% in 2005). High fuel consumption in road transport[201] boosted Slovenia's energy intensity considerably; in 2011 only two EU Member States had a higher rate than Slovenia in this respect. A high rise in energy consumption and consequently energy intensity in the years before the crisis were also due to EU enlargement and the strengthening of international flows of goods through Slovenia and were additionally boosted by low fuel prices, which resulted in a rise in the purchase of fuels in Slovenia[202]. According to our estimates, in the absence of other pressures due to the poor economic situation, lower fuel prices in comparison with neighbouring countries also contributed to the increasing fuel consumption in 2011 and 2012. In addition to the above-average use of energy in transport, (energy intense) industry also has a relatively high share in Slovenia.

*Figure 29:* **Energy intensity, Slovenia, 2005–2011, and EU, 2011**




Source: Eurostat Portal page – Environment and Energy – Energy, Eurostat Portal page – Economy and Finance – National Accounts, 2013; calculations by IMAD.

[198] From 14.8% in 2010 (data from SURS). In addition to favourable hydrological conditions, improved data capture contributed to the high share of RES in 2009 and 2010.
[199] The estimate for solar energy is based on funds disbursed to support energy generation from RES. It can be expected that with the substantial increase in the RES support levy at the beginning of 2013, RES capacities and use will also increase. However, the assistance for rapidly increasing solar energy capacities will be lower.
[200] The calculation method for this indicator is different from the above calculation, as, for example, the share of RES is measured in the gross final consumption, which is a smaller aggregate than primary energy consumption, and the calculation also takes account of normalised use of hydropower, which moderates the yearly fluctuations.
[201] The statistical calculation of transport energy consumption takes into account the fuel quantities sold.
[202] Lower prices, particularly more flexible diesel fuel prices, in comparison with neighbouring countries stimulate the purchase of fuels in Slovenia, thus affecting the statistical calculation of energy intensity.

***The energy intensity of manufacturing continued to decrease in 2011, while the share of emission-intensive industries increased slightly.*** In 2011, Slovenia's manufacturing consumed 6.1% less energy per unit of generated value added than in the year before. Considering the trends in the 2006–2008 period, the decline in energy intensity was modest in 2011 but considerably better than in the preceding two years or when compared with the energy-intensity trend of the entire economy. A decomposition analysis (see indicator 5.2) of energy consumption shows that its decline was mostly due to *greater energy efficiency within individual industries*. Energy costs in relation to all operating revenues in manufacturing represented 3.4% on average, the highest being in metal production (11.8%). Better energy efficiency can thus significantly boost the competitiveness of this most export-oriented part of the Slovenian economy. In addition to better energy efficiency, the *impact of structural change* also contributed to lower total energy consumption in manufacturing in 2011. This means that in the structure of manufacturing value added, the share of more energy-intensive industries was slightly reduced. This is mainly the result of the lower share of the manufacture of non-metallic mineral products and the paper and rubber industry, which more than compensated for the high production activity and larger share of the most energy-intensive industry: metal production. On the other hand, the share of emission-intensive industries[203] further rose in 2011, reaching 24.5%. The importance of these industries is much greater in Slovenia than in most other EU Member States, especially bearing in mind that the share of manufacturing is relatively high in Slovenia.

***In 2011, the share of road transport in total freight transport declined for the second year in a row, thereby (temporarily) interrupting the trend of rapid increase in recent years.*** In 2011, rail freight transport volume in Slovenia increased more (by 9.7%) than road freight transport volume by Slovenian road transport operators (by 3.2%), resulting in a drop in road freight transport to 81.4%. According to estimates based on data for the first three quarters of 2012, rail freight transport volume declined and road freight transport volume remained the same, resulting in a slight increase in the share of road freight transport (to over 82%), which was the trend before the crisis. Before 2010, the share of road transport continued to increase steadily[204], an unfavourable development in terms of sustainable transportation. In the EU, on average 75.5% of goods were transported by road in 2011, which was less than in 2005. The road freight transport structure in Slovenia is less favourable compared with the EU average, and total freight transport volume is extremely high due to Slovenia's transit position. In 2011, Slovenian road transport operators transported 133% more tonne-kilometres[205] per capita than the EU average, and the volume of rail transport per capita was similarly above the EU average (119% higher). The growth in freight transport volume was particularly high after Slovenia's accession to the EU and the latter's subsequent enlargement; the unfavourable structure was stimulated by low prices of motor fuels and tolls for freight vehicles and by more modern road infrastructure than railway infrastructure.

***The volume of public passenger transport continued to decline in 2011 and 2012.*** In 2010, public passenger transport represented no more than 11.6% of total passenger transport in Slovenia (14.4% in 2005); among EU Member States, only Poland and Lithuania recorded lower shares. The high level of individualised forms of transport in Slovenia is corroborated by the higher number of personal cars per capita (in 2009, Slovenia: 521 per 1000 inhabitants; EU: 473 per 1000 inhabitants), despite below average economic development. However, this is also partly due to dispersed settlement in Slovenia[206]. In the 2005–2011 period, the volume of interurban coach transport[207] in Slovenia decreased by one-fifth. A similar decrease was recorded in the length of routes, which is probably to some extent due to the lack of competitiveness in coach services. In 2012, the declining trend in the volume of interurban transport was interrupted (+2%) for the first time since data have been available (2001). Unfavourable trends in urban passenger transport continued in 2012, the number of passengers carried falling by more than 8%. A similar decline in the volume of transport was recorded in rail passenger transport, according to data for the first three quarters of 2012, where the volume of domestic transport was one-tenth lower in comparison with 2005. The infrastructure network for rail transport has also not been expanded since 2005. These trends show that in 2011 and 2012 the share of public passenger transport in Slovenia remained at a low level or even declined. Consequently, fuel expenses are well above the average in the expenditure structure of Slovenian households, making the latter more sensitive to variations in the international oil price, which EU Member States can only partly mitigate with excise policy[208].

[203] According to the World Bank methodology, the emission-intensive industries are industries with high intensity of harmful emissions (into air, water and soil) per product unit, i.e. the manufacture of chemicals, chemical products and artificial fibres; pulp and paper industry; metal manufacturing and the metal and metal products industry; and (within non-metal mineral industry) the manufacture of cement, lime and plaster, and the manufacturing of abrasives and other non-metal mineral products.

[204] The share of goods transported by road increased by approximately 4 pp in the 2005–2011 period; in comparison with 2000, by as much as 10 pp.

[205] The majority of transports (86.8%) was international, as is characteristic for transport operators in small countries.

[206] Among 38 analysed OECD countries, only Slovakia had a lower population concentration than Slovenia (OECD Factbook 2010, 2010).

[207] Measured in passenger kilometres.

[208] Minimum excise duty on fuel is determined at the EU level.

***In 2011, the revenues from environmental taxes dropped; however, they remain well above the EU average owing to the extensive use of fuels in road transport.*** We estimate that the revenues from environmental taxes in 2011 nominally decreased by 3.5%, i.e. to EUR 1.2 billion. With the modest growth in economic activity, their share in relation to GDP fell to 3.4%. Compared with the EU average, the revenues from environmental taxes are high in Slovenia (3.6% of GDP in 2010; 2.4% in the EU), the difference being the result of greater inflow from *energy taxes*. In 2010, Slovenia had the highest share of revenues from energy taxes measured in relation to GDP among EU Member States (3.1% of GDP; EU: 1.8% of GDP). However, such large revenues are the result not of higher taxes on energy products but of their more extensive use, particularly in transport[209]. In 2011, the revenues from energy taxes fell, to a large extent because of lower excise duties. At the same time, the quantity of sold motor fuels in Slovenia increased, mainly because of lower prices in comparison with neighbouring countries. As the excise duty on diesel was reduced by more than that on petrol, the difference in taxation of both fuels increased, which is not environmentally justified. The discrepancy in taxation is even higher if we consider the excise duty refund scheme for commercial diesel fuel, which provides the beneficiaries with the possibility of excise duty refunds up to the minimum amount determined at the EU level. In 2011, EUR 37.8 million was refunded under three excise duty refund schemes[210]. In years when excise duty on diesel fuel is high, these environmentally harmful subsidies may reach even higher figures. A move towards greater balance between negative impacts on the environment and energy product taxation was made with the introduction of a $CO_2$ tax on engine fuels in July 2012.

***In 2012, transport taxes were raised, and other environmental taxes were introduced at the beginning of 2013.*** With regard to *transport taxes*, i.e. taxes on the ownership and use of transport means, some changes towards the greater inclusion of environmental criteria in taxation have already been made in previous years[211]. However, in comparison with other EU Member States, Slovenia had relatively low revenues from these taxes, which indicated a lower tax burden, despite the large volume of road transport operators' activities and the high number of private cars per capita. In July 2012, an additional tax was introduced on vehicles with larger engines, which is charged when they are registered for the first time. Furthermore, the annual road user charge was raised by almost 20% at the end of the year[212]. According to our estimates, transfer to the rise in revenues from transport taxes will be limited, as the purchase of (new) cars declined considerably in 2012 owing to the poor economic situation, which strengthened the trends of the 2009–2011 period. The majority of environmental taxes are quantitative, and if they are not adjusted from time to time, the tax burden decreases in real terms, which means that incentives for limiting environmental pollution also decrease. Therefore, at the beginning of the year, certain environmental taxes[213] were adjusted (approximately 15% rise), after remaining constant for several years. These were also the first short-term activities towards the green tax reform. In addition to the abovementioned changes in taxation, the application of the Decree on Green Public Procurement is another legislative change that is expected to have significant impact on the environment in 2012.

***Government budget appropriations for environment- and energy-related R&D further increased in 2011; however, green patents still lag considerably behind the EU average.*** There was a significant shift in government budget appropriations earmarked for *energy-related research*, as they increased by as much as 59.3% in real terms in relation to 2010. In contrast, government budget appropriations for *environment-related research* dropped by 1.9% in real terms at the annual level and were in quantity (EUR 7.1 million) almost equal to the appropriations for energy-related research (EUR 7.0 million). The share of energy investments in all R&D investments drew very close to the average of the EU, where, traditionally, more government budget funds are earmarked for energy than for the environment. In 2009, which is the latest year for which data are available, significant progress was made with regard to *green patents*, i.e. patents related to environmental technologies[214]. Slovenian applicants filed 7 first patent applications with the EPO, which was the highest

[209] Furthermore, motor fuels are normally more heavily taxed than other energy products, and their share in the structure of energy products additionally increases the revenues from energy taxes.

[210] For fuel used by agricultural and forestry machinery (EUR 14.9 million), for commercial diesel fuel (EUR 13.2 million), and for fuel for industrial and commercial purposes (EUR 9.7 million).

[211] Since 2009, EURO emission levels have been taken into account in the annual road-user charge for freight vehicles and buses, while environmental criteria ($CO_2$ emissions, PM and NOx) have also been considered in the tax on new motor vehicles since 2010.

[212] Both charges target in particular passenger cars of natural persons, which already represent the majority of all revenues from transport taxes.

[213] The following were raised: water fees, $CO_2$ tax, and the tax on pollution caused by the use of lubricant oils and liquids. It is planned that certain municipal taxes (e.g. charges on waste disposal), which are low in Slovenia according to available international comparisons, will also be raised.

[214] The following environment-related technologies are ranged among the green patents: general environmental governance (reducing air and water pollution, waste management, land restoration, environmental control); obtaining energy from renewable and non-fossil energy sources (wind energy, solar thermal energy, solar photovoltaic energy, geothermal energy, etc.); combustion technologies with potential to restrict the harmful impacts of fossil fuels; technologies contributing indirectly to the restriction of emissions (storage of energy, fuel-cells); reducing emissions in transport and improving fuel-efficiency in transport (electric, hybrid cars); and energy efficiency in buildings and lightning (OECD, Towards Green Growth, 2011).

*Table 17:* **Government budget appropriations for environment- and energy-related R&D, as a percentage of total government R&D budget***

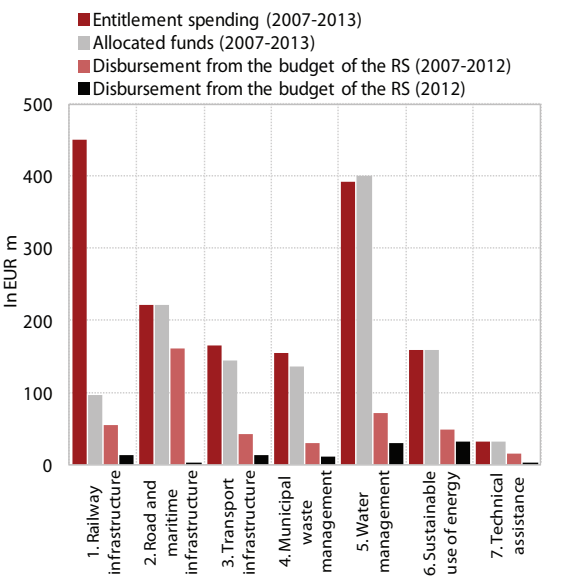
| | Slovenia | | | | | EU | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Environment | 1.36 | 3.51 | 2.27 | 3.27 | 3.54 | 2.66 | 2.88 | 2.81 | 2.63 | 2.52 |
| Energy | 1.07 | 1.11 | 1.58 | 1.99 | 3.51 | 3.13 | 3.66 | 3.70 | 4.04 | 4.24 |

Source: Eurostat Portal Page – Science and Technology – Research and Development, 2013.
Note: * In accordance with Frascati international methodology, this involves all appropriations earmarked by the state for the implementation of R&D within the state and abroad, regardless of the implementing sector (OECD, 2002).

number per year in the 2005–2009 period (in total 18 first patent applications). The majority of applications are still related to obtaining energy from renewable and non-fossil sources, more precisely from solar thermal and photovoltaic energy. In the 2005–2009 period, Slovenian applicants filed with the EPO 8.7 first patent applications per million population, while the European average was much higher (44.4). The relatively low volume of green patents and the dynamics of the global environmental technologies market[215] mean that there are still unexploited opportunities for Slovenian R&D and sustainable economic growth.

***The modest drawing on EU funds within the cohesion policy for transport and environmental infrastructure improved slightly in 2012.*** In 2012, EUR 104.6 million was disbursed to projects under the Operative Programme of the Environmental and Transport Infrastructure Development (OP ROPI), which is 48.4% more than in 2011 but only one-half of revenue foreseen in the revised national budget. Last year, the majority of funds were disbursed to projects for sustainable energy use (EUR 32.4 million). It is planned that in the entire period of the second financial perspective (2007–2013), EUR 1,577 million of EU cohesion funds will be disbursed to the projects under OP ROPI. By the end of 2012, EUR 1,189 million were allocated, which represents three-quarters of the available entitlement spending for OP ROPI, but only EUR 425 million or one-quarter of the entitlement spending for the 2007–2013 period was disbursed. In order to mitigate the loss of a large part of EU funds by the end of the current programme period, which was due to the difficulties in project implementation (demanding documentation, mobilisation of own funds for co-funding and liquidation problems of contractors) and to the value of signed contracts being lower than the estimated project value, a measure was adopted in 2012 allocating "additional entitlement spending" amounting to about EUR 260 million for the financing of reserve projects that should not encounter such problems. With regard to particular development priorities, the success of utilisation of funds by the end of 2012 was the lowest (12.4%[216]) in railway infrastructure, which is the most extensive field. In 2012, the largest of its projects, i.e. the construction of the second track of the Divača–Koper railway, was transferred to the next financial period. The available funds that were first allocated to the construction of the second track Divača–Koper railway, will be, with the introduction of reserve projects, utilised within the framework of railway infrastructure. In the case of a surplus of available funds in this area, these will be reallocated to the development priority "sustainable energy use", where the fastest utilisation of funds is expected in view of the strategic orientations of Slovenia and the EU and considering that project implementation is less demanding[217] in this field. By the end of 2012, less than one-fifth of entitlement spending was disbursed from the budget of the Republic of Slovenia for water management and municipal waste management, while the most successful utilisation of funds in this financial perspective was in the field of road and maritime infrastructure. These trends in the construction or modernisation of environmental and transport infrastructure are also reflected in the low shares of more sustainable rail freight and passenger transport and municipal waste management.

*Figure 30:* **EU funds within the cohesion policy for the Operational Programme of Environmental and Transport Infrastructure Development (OP ROPI) according to development priorities, Slovenia**




Source: Ministry of Economic Development and Technology, EU Cohesion Policy Directorate, 2013.

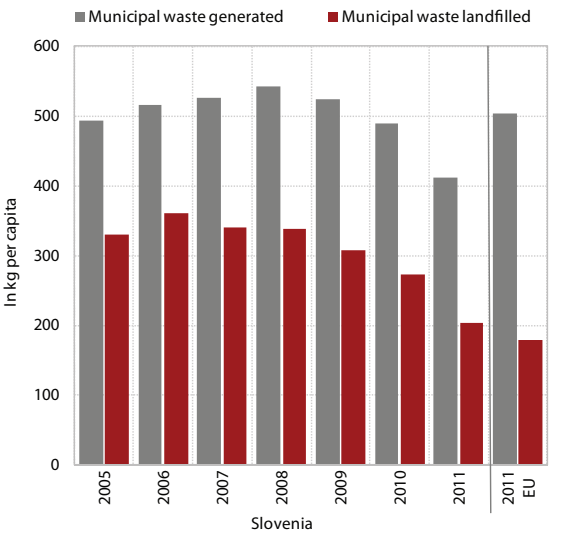
[215] In the 2007–2010 period, the global market of environmental technologies increased by 11.8% per year (GreenTech made in Germany 3.0, 2012).

[216] The share of funds disbursed from the budget of the Republic of Slovenia out of the total of funds earmarked for this field for the entire 2007–2013 period.

[217] For example, no spatial planning is needed for these projects.

***In 2011, trends concerning waste were more favourable, particularly in the municipal waste segment; however, Slovenia still lags behind the EU average with regard to their management.*** In 2011, approximately 6.5 million tonnes of waste were generated in Slovenia[218], 90% of which was from production and service activities, the rest being municipal waste. The total quantity of waste fell for the third year in a row (−1.6%). However, unlike in the previous years, this was the result of a considerable drop in the quantity of municipal waste. The quantity of *waste from production and service activities* increased[219], following the decline recorded in 2009 and 2010 owing to the effect of the economic crisis. The greater quantity of waste from thermal processes (mainly waste from thermal power plants), which represent more than one-quarter of all waste from production and service activities, contributed the most to the increase in 2011. In comparison with 2005, the greatest pressure increasing the quantities of waste was produced by construction and demolition waste, which in 2011 represented more than one-third of waste from production and service activities. The latest analyses of the management[220] of waste from production and service activities show relatively favourable trends, as in 2010 the majority of this waste (about 80%[221]) was recovered. The quantity of *municipal waste* declined considerably in 2011, and its management also improved. In 2011, the share of landfilled waste fell to 49.6%; however, it is still much higher than the EU average (35.6%)[222]. The quantity of municipal waste produced, which also depends on the general development level, is lower in Slovenia than in the rest of the EU (Slovenia: 411 kg/capita; EU: 503 kg/capita/year), but in 2011, the share of landfilled waste per capita was 14% higher than the EU average because of inadequate waste management. In recent years, better awareness and the extension of the network for separate waste collection have contributed to an improved municipal waste management, but Slovenia is still far from achieving the targets set for 2012[223]. One of the factors inhibiting better waste management is delay in the construction of more modern regional waste management centres (see the section on cohesion funds). Furthermore, the network of operators providing the service of waste collection and transport in Slovenia is ineffective and very diversified. According to the latest internationally comparable data, Slovenia ranks among the top countries with regard to the number of employees in the sector of waste collection and management and the recovery of secondary raw materials (E38) per 1,000 population[224]. According to data from AJPES, in the 2008–2011 period the number of employees in companies providing these services rose considerably (by 17%), despite the unfavourable economic situation, with the strongest rise in the segment of secondary raw materials recovery. This may partly be attributed to limited natural resources and raw materials, making waste an increasingly important source of secondary raw materials.

*Figure 31:* **Municipal waste per capita in Slovenia and the EU**




Source: Eurostat Portal Page – Environment, 2013.

***In comparison with other EU Member States, Slovenia is less productive in the use of raw material; positive trends since the onset of the economic crisis are the result of changes in economic structure and the more efficient use of resources.*** Material productivity represents the relationship between GDP and materials used in a country. It is one of the more important indicators of sustainable consumption and production.

[218] In 2010, 6.7 million tonnes of waste were generated (including stocks) (data from SURS). The growing trend of waste generation ended in the 2009–2011 period, which was considerably contributed to by the slowing down of economic activity.

[219] Although less waste was generated in the production and service activities in 2011, the total quantity of waste from these activities increased because a substantial quantity was transferred from temporary storage.

[220] Sustainable waste management is based on hierarchical principles – most efforts should go to the prevention of waste generation, followed by reuse, recycling, energy recovery, including incineration, and only finally landfilling.

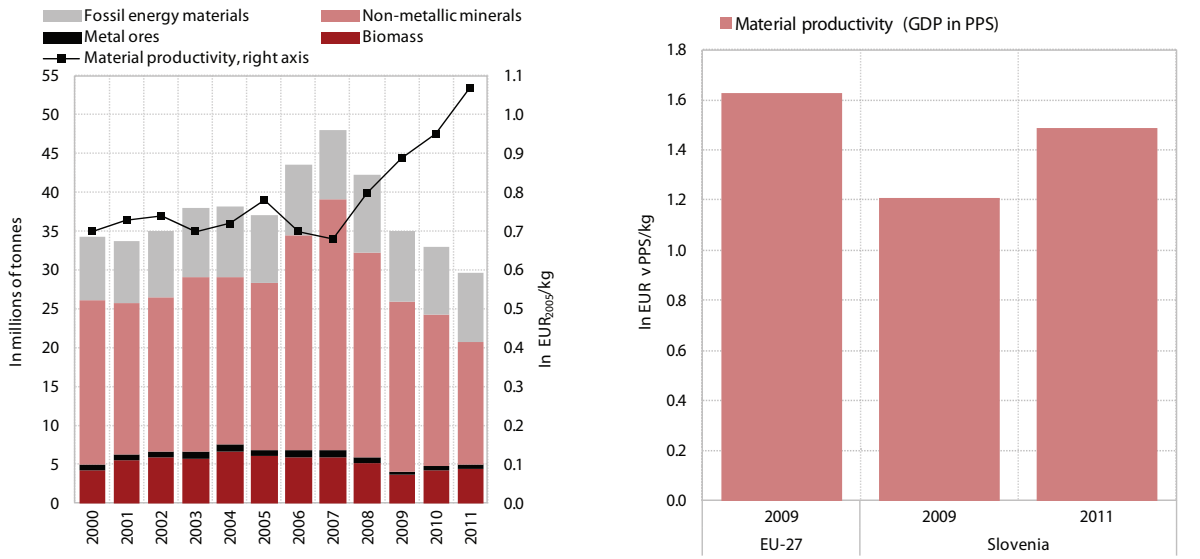
[221] Source: ARSO, 2012. In waste generated by production and service activities, Slovenia has already achieved the 65% goal set by the Resolution on the National Environment Protection Programme 2005–2012.

[222] The differences in waste management among EU Member States are substantial. In Germany, Belgium, Austria, The Netherlands, Sweden and Denmark, less than 5% of municipal waste generated was landfilled in 2011.

[223] At least 65% of the generated municipal waste should be included in pre-disposal procedures and at least 42% should be recovered (the goal of the Resolution on National Environmental Action Plan 2005–2012).

[224] According to Eurostat's data, the number of people employed in this sector per 1,000 population in 2010 was only higher in the Czech Republic and comparable in Italy, Bulgaria, Romania and Luxembourg.

*Figure 32:* **Domestic material consumption and material productivity***




Sources: SI-STAT data portal – Environment, 2013; Eurostat Portal Page – Environment, 2012; calculations by IMAD. Note: Waste and other products are not shown due to the small size of the categories in the figure (left). PPS – purchasing power standard. * Domestic consumption of materials is defined as the exploitation of domestic sources plus net import of materials (material imports minus exports); material productivity is the relationship between GDP and the domestic use of materials.

In Slovenia, material productivity in 2009[225] was at 75% of the EU average, and in comparison with 2005 the gap to the EU average had not been reduced (this difference is even greater than in labour productivity). Slovenia's low material productivity was also confirmed by an analysis based on the supply and use tables, which indicates that Slovenia has an above-average share of raw material costs[226] throughout the entire economy. This is a consequence of its economic structure, which is based on activities involving an extensive use of materials more than in other EU Member States; moreover, the share of costs is also above the average in the majority of comparable industries, which indicates a less efficient use of raw materials. The inefficient use of raw materials causes pressure on the aforementioned natural resources and may have a significant impact on competitiveness, particularly in export-oriented manufacturing; the difference with the EU average is at its greatest in certain high- and medium-high-tech industries. The extensive use of raw materials was also recorded in those industries that are mainly oriented towards the domestic market (e.g. the construction industry stands out in comparison with the EU), whereas the common indicator of material productivity varies greatly, depending on the consumption of non-metal minerals[227], which has a great impact mostly because of the weight of these products. Therefore, during the period observed, material productivity was lowest in 2006 and 2007, which was a result of high construction sector activity and was additionally stimulated by the completion of the motorway network[228]. In 2011, material productivity improved for the fourth year in a row (by 12.6%) and was by 37.2% higher than in 2005. Unlike before the advent of the crisis, the lower consumption of materials was mostly due to the lower use of construction materials. In 2011, the quantity of non-metallic minerals used fell by almost one-fifth, which more than compensated for the rise in other materials because of the extensive scope of this category. Data on annual variations in the scope and structure of the cost of used materials during the economic crisis also point to the rationalisation of the use of raw materials in the majority of industries.

***According to the indicators observed, pollution from agriculture fell in 2011; however, this was also the result of the shrinking of utilised agricultural land.*** Slovenian agriculture, which is not ranked among the more intensive according to international comparisons, has mostly reduced its environmental burden in recent years. This was mainly due to agricultural policy, which conditioned producers' eligibility for subsidies upon compliance with the prescribed environmental standards. In 2011, the total consumption of both plant nutrients in mineral fertilisers and pesticides declined. However, because of the shrinking of utilised agricultural land, their consumption per unit of surface area increased (by 1.1% and 4.2% respectively). Nevertheless, it was still much lower than at the start of the implementation of the

[225] The latest internationally comparable data; GDP is expressed in purchasing power standards. (Source: Eurostat).

[226] According to Eurostat's latest internationally comparable data, in 2008 the share of raw material costs in relation to the value of production was estimated at 9.9% in Slovenia and at 6.0% in the EU. The share of use of wider-definition materials, which also takes into account semi-finished products and final products for purposes of intermediate consumption, was also above average (Slovenia: 32.4%; EU: 22.0%).

[227] This mainly applies to the use of sand and gravel.

[228] According to the tables of use, the use of non-metallic materials in the construction of civil engineering structures (e.g. the construction of roads) is above average in comparison with other construction activities.

SDS (2005). Pesticide and fertiliser residues are the most important agricultural source of underground water pollution, and consequently drinking water pollution; therefore, special restrictions apply to agricultural activities on water protection areas. The monitoring of drinking water quality in Slovenia shows that, in general, the situation is good and is gradually improving. However, some areas near the most intensive agriculture are problematic. While there was a downward trend in 2011, the average nitrate values in the underground water on some more burdened sites slightly increased[229]. The intensity of agriculture, measured by the average yield of the two most important crops (wheat and maize), significantly lags behind the EU average; however, it increased in 2011. This shows that natural resources are being better utilised, although harvests greatly depend on the weather and climate. In animal husbandry, the average milk-yield per animal, which is one of the main indicators in animal husbandry, rose slightly after years of decline. From the aspect of environmental pollution per unit of production, at least a slightly higher level of intensity would be desirable[230]. In sustainable farming, progress was also made in 2011; however, it will not be sufficient to achieve the set targets[231]. The growth in the supply of organic agricultural products on the market is too slow considering the demand, and the supply structure also does not correspond to it. Organic production is present mainly in the animal husbandry segment, while there is a growing demand for organic fruit and vegetables. Producers face great difficulties in the organisation and integration and in marketing and promotion. There is also a lack of qualified organic farming advisers[232]. Considerably more attention will, therefore, have to be given to support measures in these fields.

***Slovenia could improve the economic utilisation of forests, while maintaining their important role in environmental protection.*** Extensive forest areas have a positive impact on the environment, as forests prevent soil erosion, provide protection against negative weather influences, improve water supply, increase biodiversity and are important sinks for carbon dioxide, which is the main cause of the greenhouse effect. At the same time, forests are also a source of ecologically acceptable raw materials and energy and are little exploited in Slovenia. The felling of trees and the production of raw-wood categories are increasing in the long term; however, the intensity of tree felling is relatively low with regard to possibilities. In 2011, it rose by 5.6 pp, meaning that the felling equalled a little over 47% of the annual wood increment, which is still a relatively modest result. In order to boost the competitiveness of the forestry–wood chain, the government adopted an action plan[233] in 2012, in which wood is defined as Slovenia's strategic raw material that has a lot of unused potential. The plan provides for many measures to encourage forest owners to form associations for joint forest management and joint action on the market and for stimulating integration along the entire forest–wood chain. This would contribute to the planned increase in felling and improved tending of forests, as well as to the rise in the quantity and processing of wood at more demanding levels. The latter is essential considering the current unfavourable structure, as less than two-thirds of wood produced in Slovenia is also processed here. The recorded consumption of fuel wood is increasing relatively quickly, which has recently been contributed to by higher prices of other fuels. However, where older solid-fuel boilers are used, this means increased air pollution. A special problem is the extensive and rapidly increasing export of unprocessed wood, particularly of high-quality sawmill and veneer logs, by which the opportunity to achieve a higher value added in the wood chain is lost.

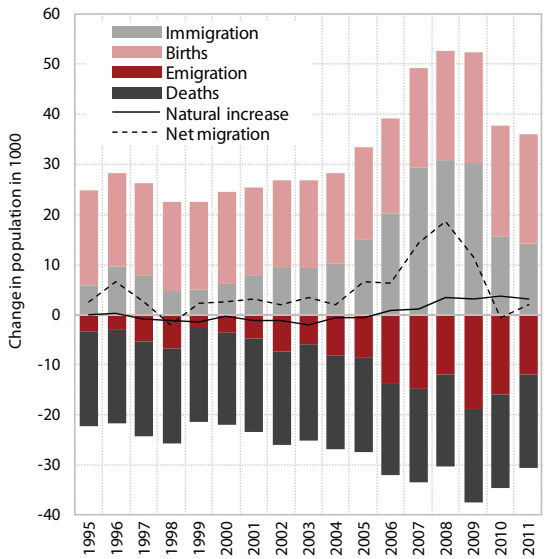
## 5.2 Sustained population growth

***The population in Slovenia is only slightly increasing, as the relatively high net migration of past years is slowing down.*** On 1 July 2012, Slovenia had 2,056,232 inhabitants (3,766 more than the preceding year). The population first exceeded two million in 2005. The net migration, which was related to the accelerating economic growth and Slovenia's accession to the EU and Schengen and was the main reason for population growth in the 2005–2009 period[234], has declined considerably in the last three years. After being negative in 2010[235], it increased to a low 1.0 per 1,000 population in 2011. Although there were fewer people immigrating to Slovenia in 2011 (by 8.6%), their number was higher than the number of emigrants, which fell by as much as 24.6% in comparison with the preceding year. In the first nine months of 2012, the numbers of immigrants and emigrants was considerably higher than in the same period of 2011; however, net migration fell to 0.4.

***The population is also increasing because of the positive natural growth rate; however, the birth rate is already declining.*** After the rise in the 2004–2010 period, the number of births fell (by 1.8% to 21,947 children) in 2011, but it was, nevertheless, still higher than the number of deaths, which is only negligibly increasing owing to longer life expectancy. On the basis of the data for the first nine months of 2012, we estimate that the decline in the number of births last year was similar to

[229] Source: Single database on water quality monitoring, ARSO, 2012.
[230] Source: Verbič J., 2008.
[231] Targets are set in the Action Plan for the Development of Organic Agriculture by 2015, 2005.
[232] Source: Final report of the working group on the monitoring of implementation of the Action Plan for the Development of Organic Agriculture by 2015, 2012.
[233] Action Plan to Increase the Competitiveness of the Forest-Wood Chain in Slovenia by 2020, June 2012.
[234] In 2008, the net migration rate reached 9.2 per 1,000 population. It is still among the highest in the EU, despite the poor economic situation, which caused it to drop (to 5.6) in 2009.
[235] This was the first time since 1998 that net migration was negative.

*Figure 33:* **Components of population growth, Slovenia**




Source: SI-STAT – Demography and social statistics, 2012.

that of the year before. In accordance with the decline in the number of births in 2011, there was also a slight drop in the total fertility rate (from 1.57 to 1.56), which was last at a level ensuring the renewal of generations in 1980 (2.11). The age of women at childbirth is still increasing. In 2011, it was on average 30.4, and 28.7 at the birth of the first child. The infant mortality rate increased in 2011 to 2.9 per 1,000 live born infants, which placed Slovenia in fifth worst place among EU Member States.

***The conditions for starting a family also affect the birth rate. The relatively favourable material conditions in Slovenia deteriorated in 2012.*** The set of measures for improving the conditions for starting a family and increasing the quality of family life undoubtedly includes a parental compensation system, family benefits and the organised care of preschool children. Slovenia still has one of the most parent- and child-friendly parental protection systems in the EU as it provides 12-months off work at the birth of a child. In 2011, 22,699 beneficiaries took advantage of parental compensation, which is approximately 0.9% more than in the preceding year. In the 2012/13 academic year, 89.9% of children aged 3–5 were enrolled in kindergartens, which – considering the latest internationally comparable data – is more than the preceding year and more than the EU average[236]. In 2012, material conditions for starting a family worsened slightly. The ZUJF[237] reduced parental compensation (for parental leave of 9 months following 3 months of maternity leave; maternity leave compensation is still 100% of compensation basis) to 90% of compensation basis (except when the basis does not exceed the minimum wage). The upper limit of parental compensation is no longer two-and-a-half times but two times the average wage. Child benefit was reduced by 10% in the 5th and 6th income brackets and eliminated in the 7th and 8th income brackets (above EUR 631.39 per family member). In addition, an income census was set for the birth grant and the large family allowance and the nursery school subsidy for the second child was reduced (30% of the price is now paid).

***Longer life expectancy leads to a higher share of elderly people and a high old-age dependency ratio.*** Life expectancy, which has been continually increasing in Slovenia since 1994, in 2011 reached 76.6 years for men and 82.9 years for women, and the difference between the sexes is diminishing. The sex gap in healthy life years at birth, which in the past was smaller than in respect of life expectancy, was almost closed in 2011; healthy life years at birth were 54 years for men and a little less for women (53.8 years). The figures were the lowest since 2005 (2.4 less for men and 6.3 less for women), when the available data start, and show that the quality of life deteriorated according to this indicator or, since this is an indicator of subjective perception, that people became more critical in assessing their condition (see indicator 5.10). Longer life expectancy has also led to changes in the age structure of the population. At the beginning of 2012, there were 24.4 persons over 65 years of age per 100 people of working age (see indicator 5.9) (which is 2.5 more than in 2005), and the share of elderly people was 16.8% (which is 1.4 pp more than in 2005). The old-age dependency ratio and the share of elderly people in the population are still lower than in the EU as a whole; however, according to the EUROPOP2010 population projections, they should exceed the EU average by 2025. By 2060, the share of the elderly in Slovenia is expected to rise to above 30%, and the old-age dependency ratio to about 58%. The comparison of actual population trend for the first two years (2011 and 2012) with the projection estimates shows that, because of the assumption that net migration would be high, the number of people of working age was overestimated. Owing to this and to the slightly higher number of elderly people, the old-age dependency ratio in 2012 was also higher than projected. Considering that Slovenia has the lowest employment rate of older workers in the EU, such demographic development will considerably increase the burden on the income of the active working population and the state. The expected trends and the given conditions, therefore, demand systematic and coordinated measures in demographic, social, employment and fiscal policies, in order to provide fiscal sustainability and the social sustainability[238] of social protection systems.

[236] In the academic year 2009/10, 85.8% of pre-school children enrolled in kindergartens, while the EU average was 81.2%. More in Chapter 4.3.2: Quality of life.

[237] Fiscal Balance Act (ZUJF), Official Gazette of the RS, No. 40/12.

[238] In 2011, the at-risk-of-poverty rate of people over 65 was 20.9% (EU average: 16%). The quality of life of elderly people is revealed by the material-deprivation rate of people over 65, which in 2011 reached 19.5% (15.2% in the EU). With regard to both indicators, a great difference can be seen between the elderly (65+) and total population average (13.6% or 17.2%); this gap is considerably smaller in the EU. The at-risk-of-poverty rate and material deprivation rate are also much higher for elderly women than men, while both indicators have increased from the onset of the crisis.

*Table 18:* **Difference between the population projection and the actual situation, Slovenia**

| | EUROPOP2010 projection | | SURS data | | Difference | |
|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 |
| Children (0–14) | 291,419 | 295,440 | 290,853 | 294,149 | -566 | -1,291 |
| Working age (15–64) | 1,430,442 | 1,433,399 | 1,420,392 | 1,416,347 | -10,050 | -17,052 |
| Elderly (65+) | 338,764 | 344,511 | 338,944 | 345,000 | 180 | 489 |
| Old-age dependency ratio | 23.7 | 24.0 | 23.9 | 24.4 | 0.2 o. t. | 0.4 o. t. |

Source: Eurostat, SURS; calculations by IMAD.

## 5.3 Regional development

***In 2010, the regional differences in terms of GDP per capita decreased, while the gap in relation to the EU average, which had been shrinking up to the onset of the crisis, widened in all regions.*** Following the decline in economic activity in all regions in 2009, trends in 2010 were a bit more favourable everywhere, though the economic growth was not high in any region. The most modest growth was in the Osrednjeslovenska region, which contributed considerably to the reduction of regional differences. This is supported by the reduction in relative dispersal by 0.4 pp, which usually does not fluctuate much and remains relatively low in comparison with other EU Member States[239]. The ratio between the regions at the extremes of the scale also diminished slightly. In 2010, GDP per capita in the Osrednjeslovenska region was 2.1 times higher than in the Pomurska region. That the poor economic situation is widespread is indicated by the fact that in 2009 and 2010 the gap to the EU average increased in all Slovenian regions, thus undoing the progress made in the 2005–2008 period. The only region to exceed the average economic development in the EU is the Osrednjeslovenska region. In 2008, it exceeded it by almost 28%, in 2010 by only 18%.

***In 2012 the registered unemployment rate mostly increased in the regions with low rates, which led to a reduction in regional differences.*** The growth in the number of the unemployed was greatest in south-eastern Slovenia, resulting in the rise in the registered unemployment rate above the Slovenian average. Thus the Notranjsko-Kraška region is the only one in eastern Slovenia where the rate remains below the Slovenian average. As the unemployment rate increased more in some regions with lower rate, regional differences measured by absolute dispersion, which have been gradually decreasing since 2003[240], also decreased in 2012. The ratio between the regions at the extremes of the scale also decreased a bit in 2011; the Pomurska region had a 1.9-times higher registered unemployment rate than the Gorenjska region. The downward trend in this indicator of regional differences can also be observed over a longer period (it was 3.1:1 in 2000). The unfavourable trends in the structure of the unemployed continued in 2012, as the number and share of the long-term unemployed further increased, the Pomurska region standing out with the 60% share. The educational level of job seekers is also increasing. The largest share (over 17%) of the unemployed with at least higher education is in the Osrednjeslovenska region, where it also increased the most in 2012. In all regions at least one-third of the unemployed lost their jobs because of the expiry of fixed-term employment, i.e. more flexible forms of employment, and their share is also increasing in all regions. In south-eastern Slovenia they constituted as much as 46% of newly registered job seekers. Even though the number of the unemployed rose in most regions compared with 2011, this was not the case with the number of unemployment benefit recipients. While in 2011 the number of recipients rose in all regions except the Pomurska and the Koroška regions, in 2012 only the Notranjsko–Kraška and the Obalno–Kraška regions recorded a slight increase. In all other regions, the number of recipients fell, which can mainly be attributed to the fact that for many recipients the right to unemployment benefit expired. In 2012, the majority of recipients – on average 19 per 1,000 population – were in the Notranjsko–Kraška region.

***Job concentration continues in the Osrednjeslovenska region, where there are already more than one-third of all jobs in Slovenia.*** More than one-quarter of Slovenia's population lives in the Osrednjeslovenska region and the share of active working population by place of work exceeds the share of active working population by place of residence by one-quarter, owing to which this region is considered a labour-force region[241]. In 2011, the Osrednjeslovenska region again had the highest total growth per capita[242] (6.2; in 2010 it was 6.8), which was not caused so much by migration as by natural demographic trend. Net migration among regions was still the highest of all regions, albeit more than two times lower than in 2010. The highest negative net migration was in the Zasavska and Koroška regions, which is contributed to, among other things, by the lack of jobs in these regions and poor transport connections with the Osrednjeslovenska and other regions. In 2012, the

[239] In 2009, it was lower in Denmark, Germany and Ireland.
[240] Exceptions are the years 2009 and 2010.
[241] Methodology interpretation is available on the SURS webpage: http://www.stat.si/doc/metod_pojasnila/07-234-MP.htm.
[242] Taking account of the natural population growth, net migration among regions and net migration from abroad.

population concentration index was 20.5. It is increasing, but is still among the lowest in the EU. Slightly higher (25.7) is the job concentration index[243], which is also on the rise. Job concentration increases suburbanisation, which puts pressure on agricultural land (see Chapter 5.4) and the existing local and social infrastructure in areas that receive immigrants and are usually not adapted to the population increase. It also causes stronger daily migration flows and consequently, because of the increased volume of personal motor vehicle transport (see Chapter 5.1), additional negative impacts on the environment.

***Regional differences in gross wages are decreasing, which is mostly due to the crisis.*** In 2011, the Gini coefficient and interdecile coefficient[244] decreased at the national level and within all regions; however, wage inequality varies among regions. In 2011, the Gini coefficient was again the lowest in the Koroška region (0.243) and the highest in the Osrednjeslovenska region (0.285). In the Osrednjeslovenska region, the gross wages of the 9th decile were four times higher than the gross wages of the 1st decile, while in the Koroška region they were 2.9 times higher. In 2010 and 2011, the inequalities in gross wages decreased in comparison with 2009 in all regions, most in the Koroška region and least in the Osrednjeslovenska region. This was mostly due to the minimum wage rise in 2010, which resulted in the rise of the level of the lowest wages. In addition, the wage increase was halted in activities where wages are highest (financial and insurance activities, public services). The minimum wage increase had a major impact on the reduction in inequality in economically weaker regions, as there are more employees with lower wages in these regions.

***Regional policy measures under the Pomurje 2015 Programme are yielding first results, while the activities carried out under the Pokolpje 2016 Programme have not yet produced a positive effect.*** Included in the endogenous regional policy measures, by which the state endeavours to achieve the strategic goal of balanced regional development, are additional temporary measures of development support for problematic areas with a high unemployment rate, within which the implementation of the Pomurje 2015 Programme[245] and the Pokolpje 2016 Programme[246] continued in 2012. On the basis of the Pomurje 2015

*Table 19:* **Selected groups of unemployed among all unemployed**

| | Unemployed total | | | Long-term unemployed | | | Unemployed with at least higher education | | | Because of the expiry of fixed-term employment | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number | | | Share (in %) | | | Share (in %) | | | Share (in %) | | |
| | 2006 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2010 | 2012 |
| **Slovenia** | 63,216 | 110,692 | 110,183 | 51.1 | 45.3 | 50.1 | 10.2 | 12.6 | 13.8 | 32.2 | 35.4 | 38.0 |
| **Zahodna Slovenija** | 21,062 | 42,318 | 43,030 | 48.7 | 42.1 | 47.3 | 13.8 | 14.8 | 16.3 | 32.2 | 32.9 | 35.4 |
| Obalno-Kraška region | 2,642 | 4,873 | 5,142 | 46.7 | 39.4 | 43.9 | 12.4 | 13.1 | 13.6 | 28.3 | 33.9 | 36.4 |
| Goriška region | 2,322 | 5,228 | 5,323 | 49.4 | 42.1 | 47.4 | 13.9 | 15.2 | 15.9 | 32.3 | 32.8 | 34.7 |
| Gorenjska region | 3,945 | 7,963 | 7,991 | 37.9 | 37.5 | 41.8 | 12.3 | 13.1 | 14.7 | 34.0 | 38.5 | 41.7 |
| Osrednjeslovenska region | 12,153 | 24,255 | 24,575 | 52.5 | 44.1 | 49.8 | 14.5 | 15.6 | 17.4 | 32.4 | 30.9 | 33.2 |
| Vzhodna Slovenija | 42,116 | 67,301 | 65,901 | 52.4 | 47.9 | 52.5 | 8.5 | 11.2 | 12.2 | 32.2 | 37.0 | 39.8 |
| Notranjsko-Kraška region | 1,224 | 2,457 | 2,534 | 41.7 | 41.3 | 45.8 | 12.7 | 11.6 | 12.5 | 35.7 | 36.7 | 37.7 |
| **Jugovzhodna Slovenija** | 4,223 | 7,735 | 8,470 | 56.4 | 48.6 | 52.5 | 6.9 | 9.6 | 10.4 | 28.8 | 31.4 | 35.3 |
| Spodnjeposavska region | 2,514 | 4,367 | 4,493 | 58.8 | 50.7 | 56.1 | 8.1 | 10.1 | 11.0 | 31.7 | 34.9 | 39.1 |
| Zasavska region | 1,682 | 2,586 | 2,825 | 47.0 | 43.2 | 48.9 | 6.7 | 9.5 | 10.2 | 31.4 | 34.4 | 38.0 |
| Savinjska region | 9,907 | 15,358 | 15,232 | 51.7 | 46.0 | 50.5 | 8.7 | 12.1 | 13.3 | 31.9 | 34.9 | 37.6 |
| Koroška region | 2,421 | 4,303 | 3,889 | 50.3 | 48.1 | 52.7 | 11.1 | 12.6 | 13.8 | 36.3 | 38.0 | 43.0 |
| Podravska region | 13,412 | 20,830 | 19,668 | 50.6 | 45.6 | 51.5 | 9.5 | 12.2 | 13.2 | 34.8 | 41.5 | 44.0 |
| Pomurska region | 6,733 | 9,665 | 8,790 | 56.1 | 57.1 | 59.4 | 6.0 | 9.0 | 10.1 | 27.6 | 36.1 | 38.5 |

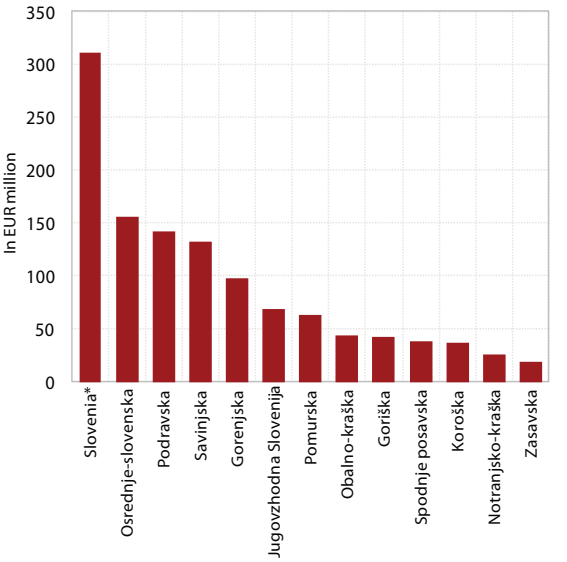
Source: ZRSZ; calculations by IMAD.
Note: The sum totals of the regions do not always equal the figures for Slovenia, as the latter include the unemployed without known residence. The sum of shares of selected groups is not 100%.

[243] Job concentration index, ( $[\sum_{i=1}^{N} | y_i - a_i | /2] * 100$ ), whereby yi represents the share of jobs in region i in the country, ai represents the share of surface area of region i in the country, and N represents the number of regions.
[244] The comparison between the 9th and 1st deciles shows that Slovenia ranks in the middle of the 27 EU Member States (the Gini coefficient for differences in gross wages by individual countries is not available).
[245] The Programme to Foster the Competitiveness of the Pomurje Region for the Period 2010–2015, which is valued at EUR 33 million. It is implemented through five instruments. The funds of the first instrument (about 67% of the programme funds) are earmarked for the developmental restructuring of the region, on the basis of which 563 new jobs will be created by the end of 2015.
[246] The Programme to Foster the Competitiveness of the Pokolpje Region for the Period 2011–2016, which is valued at EUR 290 million and is implemented through seven measures. To date, most activities have been carried out within Measure 1 (fostering the competitiveness of the region). A little less than 30% of funds provided for in the measure (which is 2% of funds provided for in the Pokolpje 2016 Programme) were tendered.

Programme, a new financial instrument for micro, small and medium-sized enterprises (MSME) was developed in 2012 to encourage MSME to apply for funds from the Pomurje Guarantee Scheme and banks to give loans to MSME and thus to ease the credit crunch. Public grants available under the new financial instrument increased 4.7-fold. In 2010 and 2011, the number of people using tax reliefs on employment and investment increased, as in 2012 did the number of people using incentives for the reimbursement of social security contributions paid by the employer. Statistical data show that in 2012 the registered unemployment rate in the Pomurje region fell for the second year in a row, although it still remains above the average. We estimate that the abovementioned measures contributed to that. In 2012, the activities under the *Pokolpje 2016 Programme* were also focused on the promotion of the competitiveness of the region through the creation of new jobs, reimbursement of social security contributions paid by the employer, and tax reliefs on employment and investment. The measures related to transport and electric power infrastructure are not being carried out according to schedule, owing to delays in the selection of sites for investments[247] and insufficient funds. Activities carried out within the Pokolpje 2016 Programme have not yet produced positive results in employment, as in 2012 the unemployment rate in south-eastern Slovenia exceeded the Slovenian average. However, it will only be possible to asses the long-term effects on the employment rate when more time has passed.

***The utilisation of EU funds for regional development was relatively high in 2012.*** In addition to financial resources of the own regional policy, cohesion funds are very important for the achievement of the strategic goal of balanced regional development. In the adverse conditions of the economic crisis, these are one of the few development funds in Slovenia. In 2012, the high utilisation rate was recorded mainly in relation to the funds within the European Regional Development Fund (ERDF), whereby EUR 326.4 million was reimbursed from the EU budget, which exceeded the expectations under the revised national budget. Under the Operational Programme for Strengthening Regional Development Potentials (OP RR), Slovenia's entitlement spending in the 2007–2013 financial period is EUR 1,768.2 million, of which 60.8% was drawn by the end of 2012. The majority of the funds disbursed under the OP RR (EUR 1,176 million), i.e. more than a quarter, were for projects implemented at the national level, half of that amount in the Osrednjeslovenska region and the least in the Zasavska region. 2013 is a particularly important year with regard to the utilisation of funds. If Slovenia does not wish to lose EU funds under the entitlement spending for the 2007–2011[248] period, it has to draw down the remaining funds by the end of 2013.

*Figure 34:* **EU funds disbursed for the Operational Programme for Strengthening Regional Development Potentials (OP SRDP)**




Source: Ministry of Economic Development and Technology – EU Cohesion Policy Directorate, 2013.

Note: * Projects without a territorial code of region or municipality are considered to be implemented throughout Slovenia.

## 5.4 Spatial management

***In 2012 and the beginning of 2013, spatial management legislation was amended[249] in such a way that could have a long-term negative impact on the environment and development.*** In Slovenia, the system of spatial planning and construction is complicated and ineffective, which is also reflected in the slow adoption of municipal spatial acts[250] and their vertical and horizontal inconsistency. This was also pointed out in the OECD study[251] in 2011. The reason that the spatial

[247] The construction of the southern sections of the third development axis, 3 A development axis, the renovation of the regional road R1-2016 ("Partisan main road"), and railway infrastructure in the Pokolpje region (Grosuplje–Kočevje and the state border with Croatia–Metlika–Črnomelj–Novo Mesto–Trebnje–Grosuplje). With regard to electric power infrastructure, only the most critical points have been provisionally dealt with, while the power infrastructure in the Pokolpje region needs an integral and long-term solution.

[248] Entitlement spending for the 2007–2011 period amounts to EUR 2,924 million according to EC data or EUR 2,675 million according to the MGRT.

[249] Act Amending the Spatial Planning Act – ZPNačrtB (Official Gazette of the RS, No. 57/2012); Act Amending the Act Governing the Siting of Spatial Arrangements of National Importance – ZUPUDPP-A (Official Gazette of the RS, No. 57/2012); Act Amending the Construction Act – ZGO-1D (Official Gazette of the RS, No. 57/2012); Act Amending the Act Amending the Spatial Planning Act – ZPNačrt-C (Official Gazette of the RS, No. 109/2012); Decree on the Classification of Buildings and Structures According to the Complexity of their Construction (Official Gazette of the RS, No. 18/2013).

[250] In almost five years since the enforcement of ZPNačrt, fewer than 20% of municipalities have adopted their municipal spatial plans (OPN). Source: Government's working material on the adoption of the Spatial Planning Act (ZPNačrt-B).

[251] Territorial Reviews: Slovenia 2011, 2011.

planning system is so ineffective lies in long procedures and ineffective coordination of interests of individual bodies responsible for spatial planning, as well as in the implementation of spatial planning regulations. In 2012 and the beginning of 2013, several changes were made to this legislation; however, instead of recasting spatial planning legislation so that the entire system would be simpler and procedures shorter, as was anticipated, these changes introduced features that allow certain land-use actions (e.g. the expansion of construction land areas) that disregard the basic principles of spatial planning. The new solutions, which have aroused controversy in the expert public[252], do not solve the fundamental problems of spatial planning. Furthermore, they could lead to the deterioration of spatial planning and could have long-term negative impacts on the environment and development.

***Property registration and the granting of building permits still represent important obstacles to the ease of doing business in Slovenia.*** In its report "Doing Business", the World Bank notes that the main obstacle to the ease of doing business are still lengthy procedures for obtaining various documents and permits. There were no significant changes made regarding *property registration* in 2012, while Slovenia's rank in terms of the ease of doing business fell (by four places to 83rd). This deterioration in ranking should be attributed not to the worsening of the situation in Slovenia but to the fact that other countries in the meantime adopted appropriate measures and moved up the scale. Even though the real estate register was set up, real estate valuated on a mass scale in 2011 and the computerisation of the Land Register launched, there is still a problem of two-tier procedures for recording real estate. Contributing to the lengthy procedures are uncoordinated Land Register and Land Cadastre records and two-tier recording of real estate data[253]. According to World Bank data, a company needs 110 days to register property in Slovenia, which is considerably more than in other EU Member States[254]. With regard to *obtaining building permits*, Slovenia's ranking in 2012 remained the same as in the preceding year (61st). Changes to spatial planning legislation in the previous year were intended to improve the situation with regard to obtaining building permits and the siting of construction projects. Through amendments to the Construction Act, time limits for granting project conditions were reduced and simplified procedures related to required approvals[255] were adopted. However, concerns remain that these legislative amendments, which are not comprehensive enough and are mainly focused on short-term and unilateral simplifications for investors, will again have a negative impact on long-term development and the visual image of built landscape. According to the World Bank data, which do not yet take account of the latest legislative amendments, 197 days are needed to obtain a building permit[256]. Procedures related to private/commercial providers are generally considerably shorter and comparable to those in other countries, the most lengthy being the procedure for obtaining necessary permits at administrative units (60 days) and for the registration of construction projects in official documentation (45 days).

***In 2011, there were in total 980 ha of brownfield land[257] in Slovenia, which represent potential areas for the location of new activities.*** Among the important reasons for the latest amendment to the Spatial Planning Act, proposers stated the lack of areas for the expansion of activities at existing locations and the lack of construction land in municipalities that have already adopted municipal spatial plans. A recently concluded study recorded 980 ha of brownfield land, which is suitable as a location for old and new activities[258] and the redevelopment of which would mean more efficient land use and protection[259]. The study only recorded brownfield land from abandoned activities, but there must also be many other degraded areas in Slovenia. The restoration of degraded areas for reuse has been very modest so far. Brownfield sites are not dealt with at a systemic level and are not included in basic development documents at the national, regional or local levels. There are no clear guidelines for the possibilities and conditions for reuse with regard to the type of brownfield site, and

[252] The amendment to Article 29 of the ZPNačrt-C is under constitutional review.

[253] Report on the implementation of activities for improving the legislation and eliminating administrative obstacles, MPJU, November 2012.

[254] In the EU, procedures for property registration last on average 28 days, the longest being in Belgium (64 days), France (59 days) and Poland (54 days). In the neighbouring countries, these procedures are much shorter, from 17 to 24 days, except in Croatia, where they are also lengthy (104 days).

[255] For example, the Decree on the Classification of Buildings and Structures According to the Complexity of their Construction (Official Gazette of the RS, No. 18/2013) extended the list of construction works that do not require a building permit.

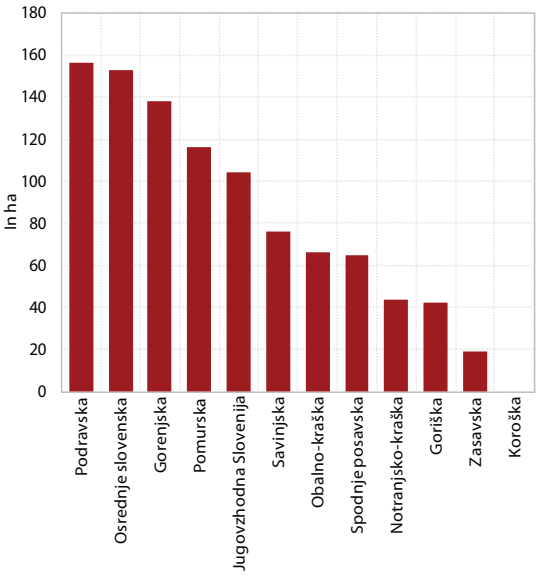
[256] In the EU, on average 182 days are needed to obtain a building permit. The longest time to obtain a building permit is required in Cyprus (677 days), also lengthy are the procedures in Italy (234 days), Slovakia (268 days) and Poland (301 days). Among the neighbouring countries, Croatia also has a lengthy procedure for granting these permits (307 days).

[257] On the basis of research under the Target Research Programme (CRP) "Slovenia's Competitiveness 2006–2013", the research project "Sustainable Rehabilitation of Environmental Burdens as a Sustainable Development Opportunity for Slovenia", University of Ljubljana, Faculty of Arts, Department of Geography, ordered by the MGRT (SVLR) and ARRS. It concerns brownfield sites (as of the spring of 2011) resulting from abandoned activities and the change (degradation) of land function. Included in the research were all areas degraded due to an industrial activity, military activity and mining (surface degradation) and areas of transport and infrastructure facilities exceeding 1 ha (10,000 m2).

[258] For example, production, business and logistics zones, solar power stations, educational institutions, tourist and recreational facilities and activities, treatment plants, waste management centres, and similar.

[259] This is also important for the ability of the land to provide ecosystem services, as the built land is for the most part changed irreversibly.

*Figure 35:* **Brownfield land, status in 2011**




Source: Research project "Sustainable rehabilitation of environmental burdens as a sustainable development opportunity for Slovenia", University of Ljubljana, Faculty of Arts, Department of Geography, 2012.

the tax and wider legislative system does not provide for incentives for the redevelopment of such sites[260]. It would be reasonable to consider them comprehensively, by integrating different sectors, as only in this way can the various aspects – spatial, environmental, social and health – of brownfield land be taken into account and a single definition determined for them. A register of brownfield sites should be established on this basis; this, in addition to keeping an updated record of such sites, would serve as a basis for status monitoring and for preventing the creation of new brownfield sites.

***In 2012, compensation for changing the land-use designation from agricultural to building land was reduced, which will lower the costs for investors but accelerate the permanent loss of agricultural land.*** After less than a year of its enforcement, the Agricultural Land Act was amended[261] so that the compensation for changing the land-use designation was reduced for the best-quality agricultural land and abolished for lower-quality agricultural land. Furthermore, pursuant to the amending act, the compensation is no longer calculated with regard to the entire plot but with regard to the surface area of the building, while the agricultural and certain civil engineering structures are entirely excluded from the calculation. The amendments are supposed to improve competitiveness, thus boosting economic development, enable a faster resolving of housing problems and the expansion of farms, and facilitate the implementation of other new construction projects. On the other hand, these amendments lead to the shrinking of the best agricultural land, because there is less pressure for construction projects to be carried out on lower-quality land, and this could have damaging consequences for food production. Lower revenue from these compensations will also contribute to the lower restoration of poor-quality agricultural land, which mitigated the total shrinking of utilised agricultural land. However, the shrinking[262] is also due to overgrowing. With regard to the arable land per capita[263] Slovenia is at the tail end of the list of EU Member States. The questionable solutions, which are the result of a partial approach to legislative amendments, create new conflicts in relation to the siting of activities, which could have been avoided with comprehensive and coordinated systemic changes concerning land policy, agricultural land, spatial planning and public finances (tax legislation).

***The prices of dwellings fell in 2012, though not sufficiently for the revival of the real property market, as the sales of dwellings, particularly new flats, also fell.*** In 2012, the number of all dwellings sold (new and existing flats and houses) dropped by 7.9% and was more than one-third[264] below the peak of 2007. The majority, i.e. approximately two-thirds, of property trade involved existing flats and one-tenth was of new flats. In 2012, the number of sales of existing flats was 5.5% lower than in 2011 and one-third lower than the peak of 2007. However, the number of sales of new flats dropped by almost 30% in comparison with 2011 and was more than 60% lower than in 2007, i.e. since the data have been available. Following the rise in the previous two years, the prices of dwellings also fell in 2012[265], but this was not sufficient to revive the real property market. In the deteriorated and uncertain economic situation and in the anticipation of even lower prices, potential buyers delayed buying. This imbalance on the property market in Slovenia, where prices are still high and transactions few, was pointed out by the European Commission in the report on macroeconomic imbalances in Member States[266]. The prognosis for 2013 is also not encouraging,

[260] One of the greatest limiting factors for the redevelopment of brownfield sites is ownership (e.g. several owners with different interests).

[261] Act Amending the Agricultural Land Act (Official Gazette of the RS, No. 58/2012) of 31 July 2012.

[262] According to the regular statistical studies, in the 2001–2011 period this figure fell by more than one-tenth (just in 2011 by more than 5%), while according to the data from the statistic survey of agricultural holdings, the field surface area reduced slightly less in the 2000–2010 period, i.e. by 2.4%.

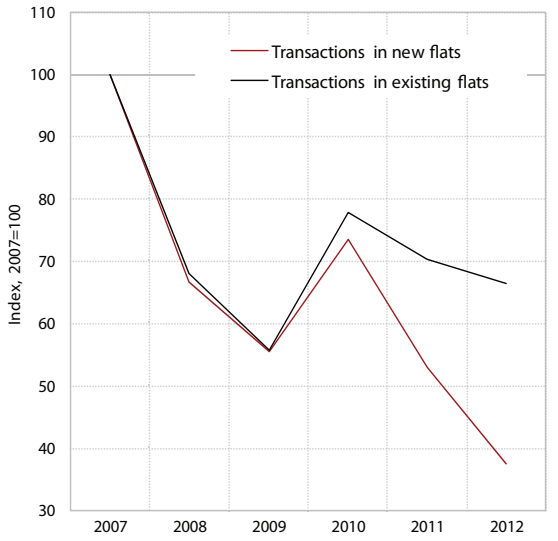
[263] In 2010, there was 0.08 ha of arable land per capita in Slovenia, while the EU average was 0.21 ha of arable land per capita. Only three countries had less arable land per capita than Slovenia – Malta, the Netherlands and Belgium (Source: Eurostat).

[264] Calculated on the basis of house price indices, SURS, 2013.

[265] By 9.5% for new and by 5.6% for existing dwellings (SURS, 2013; calculations by IMAD).

[266] Dwelling prices are also included in the set of indicators for establishing excessive imbalances between EU Member States as one of the indicators of internal imbalances. This is an interim change in the relative prices of residential property (Eurostat experimental harmonised index of dwelling prices (new and existing flats and houses together) relative to the private consumption deflator), for which a threshold value of 6% was set. In 2011 the value of this indicator in Slovenia amounted to 1.0%; in 2009 and 2010 the country faced a drop in the relative prices of real property, while the upper limit was exceeded during the period 2004–2007, peaking in 2007 (17.4%).

*Figure 36:* **Transactions and prices of new and existing flats, Slovenia**





Source: SURS, 2013; calculations by IMAD.

as the economic situation is expected to remain unfavourable. The revival of the real property market could be facilitated by the disposal of certain real property investments that banks have already partly written off and also by the setting-up of the "bad bank" pursuant to the Act Defining the Measures of the Republic of Slovenia to Strengthen Bank Stability, which would also take over and sell some loans related to real property. In accordance with the Business Policy of the Housing Fund of the Republic of Slovenia for 2012–2016 adopted at the end of 2012, the Housing Fund will continue to build and buy housing in 2013[267].

## 5.5 Culture

***In 2011, government expenditure on culture[268] decreased, thereby interrupting the upward trend of recent years. In relation to GDP, Slovenia's expenditure on culture is among the highest in the EU.*** In 2011, the share of *government expenditure on culture* fell to 1.31% of GDP. Of this, 0.87% of GDP was allocated to cultural services and 0.43% of GDP to broadcasting and publishing services. The expenditure on culture also decreased in real terms (by 5.0%) for the first time during the crisis. This is mainly related to the substantial reduction of expenditure for investments in cultural facilities, which was mostly due to the completed construction of certain larger cultural facilities in the preceding years[269] and also to the general decline in the government's investment activities in 2011. Despite the decrease, the share of government expenditure on culture expressed in GDP was higher than at the onset of the crisis (in 2008) and higher than in 2005[270]. In 2010 (latest internationally comparable data), it was the highest among EU Member States, apart from Estonia. After increasing for years, compensation of employees was reduced for the first time and subsidies were also lower. Considering the requirements of fiscal consolidation, it is expected that the financing of culture from government funds will be further reduced in the following years. In addition to public funds, culture is financed by donations, sponsorships and foreign funds (international funds, foreign sponsors and donors), however, these contributions are modest and also declined considerably in real terms in 2011 and the 2008–2011 period[271].

[267] At the end of 2012, the Housing Fund bought 154 housing units. The public call for the purchase of housing units is still open in 2013. The opening of bids is scheduled for March and September 2013. In 2013 and 2014, the Housing Fund should finish and hand over to buyers several housing units within the real property projects that have already been initiated.

[268] 5.5. According to the COFOG methodology. This covers expenditure on cultural services, broadcasting and publishing services. Expenditure on cultural services includes expenditure on cultural institutions (libraries, museums, galleries, theatres, monuments, zoos, botanical gardens, aquariums, etc.), the organisation and support of cultural events (concerts, film productions and other productions), and scholarships, loans and subsidies granted to artists, writers, designers, composers and other employees in the area of culture.

[269] In 2010, the Stožice Centre and certain other projects were completed (see also Progress Report 2012).

[270] In 2011, the share of government expenditure on culture fell by 0.07 pp, while in the 2008–2011 period it rose by 0.11 pp. In the 2005–2011 period the share increased by 0.45 pp. The expenditure increased particularly in 2008, when RTV SLO was included according to COFOG methodology.

[271] According to SURS data, in 2011 funds from these resources for radio and television organisations, cinemas, production and distribution of films, museums, galleries and art exhibitions, theatres, orchestras and choirs, and cultural centres amounted to EUR 7.48 million and in comparison with the previous year decreased by 48.3% in real terms.

***In 2010 (according to the most recent data from the Household Budget Survey), the expenditure on culture per household member increased considerably in real terms.*** All together the expenditure on culture per household member increased by 8.8% in real terms. Expenditure that according to the UNESCO definition is most directly associated to cultural contents (cinema, theatre, concerts, museums and galleries) increased, though its share in the expenditure structure is small (2.7%, which was the lowest in the 2005–2010 period). Expenditure on books also increased, while expenditure on newspapers and magazines dropped the most (by 5.5% in real terms) and its share further decreased in 2010. Expenditure on TV sets, video recorders, television and radio taxes and hire of equipment, which accounts for the largest share of expenditure structure, contributed the most to the rise in expenditure on culture in 2010, and its share is rising. The share of expenditure on culture and recreation[272] in the total expenditure of households was 8.7% in 2011, which is approximately at the level of the EU average (8.8%) and, similarly as the EU average, has been decreasing in recent years.

***In 2011, trends in cultural production were mostly favourable.*** The number of visitors to museums, galleries and exhibition grounds continued to increase, as in the preceding two years[273], and the number of exhibitions also rose. The inscription of Heritage of Mercury, Almadén and Idrija, on the UNESCO World Heritage List in 2012 was an important event for the preservation of cultural heritage. In 2011, attendance at theatrical performances increased for the second year in a row (by 9.7%). According to our estimations, this is related to the greater offer, i.e. greater number of performances and new productions, among which there was a strong increase in the number of productions by Slovenian authors. The programme within the Maribor 2012 – European Capital of Culture contributed greatly to the cultural events offer in 2012. In 2011, the number of cinema films produced and the number of viewers of foreign long films increased, while the number of viewers of Slovenian long films fell, although it was still higher than in 2005. Trends in book and brochure publishing were also favourable. Their number rose by 6.6% in 2011, after the drop in the previous two years. In literature, the number of published Slovenian titles increased (by 3.7%) and was higher than in 2005. In 2010, the average number of works borrowed from public libraries per capita also increased.

***In 2011, the number of people employed in culture remained at the level of the previous year and was higher than at the onset of the crisis.*** According to SRDAP data[274], there were 15,587 persons employed[275] in culture in 2011, which is approximately as many as in the preceding year and 3.6% more than at the onset of

*Table 20:* **Cultural production and attendance at cultural events, Slovenia**

| | 2005 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Museums, galleries and exhibition grounds:** | | | | | |
| Number of exhibitions | 1,809 | 2,119 | 2,169 | 2,039 | 2,382 |
| Number of visitors at exhibitions | 2,284,350 | 2,454,878 | 2,600,882 | 2,882,440 | 3,020,190 |
| **Theatres:** | | | | | |
| Number of theatrical productions | 5,226 | 4,160 | 3,776 | 4,650 | 5,848 |
| Number of new productions, total | 246 | 205 | 236 | 307 | 316 |
| – number of new productions by Slovenian authors | 90 | 86 | 131 | 132 | 176 |
| Number of visitors to theatrical performances, total | 928,629 | 867,220 | 782,491 | 864,482 | 948,618 |
| **Films:** | | | | | |
| Number of long films produced | 13 | 8 | 11 | 8 | 19 |
| Number of viewers of (Slovenian and foreign) long films | 2,443,776 | 2,417,994 | 2,772,073 | 2,888,391 | 2,867,224 |
| – number of viewers of Slovenian long films | 72,239 | 103,000 | 51,846 | 193,532 | 131,415 |
| **Books and brochures published:** | | | | | |
| Number of book and brochure titles | 4,394 | 6,358 | 6,139 | 5,621 | 5,991 |
| Number of literary titles | 993 | 1,274 | 1,473 | 1,315 | 1,456 |
| – number of Slovenian literary titles | 501 | 709 | 773 | 657 | 681 |
| **Public libraries:** | | | | | |
| Number of borrowed units of library material per capita | 10.4 | 12.7 | 11.7 | 12.0 | N/A |

Sources: SURS, Fivia, d.o.o., Slovenian Film Centre, Institute of Information Science, National and University Library.
Notes: The number of borrowed units of library material per capita is calculated with regard to the number of population on 1 July; N/A – no data.

[272] International comparison can only be made for culture and recreation together.
[273] The number of visitors in the 2005–2011 period also increased by 32.2%.
[274] Statistical Register of Employment – SRDAP. Included are persons in an employment relationship and self-employed persons (except farmers). These are annual data.
[275] According to the Eurostat definition, culture includes the following activities under SKD 2008: J 58 – Publishing activities; J 59 – Motion picture, video and television programme production, sound recording and music publishing activities; J 60 – Programming and broadcasting activities; R 90 – Creative, arts and entertainment activities; and R 91 – Libraries, archives, museums and other cultural activities.

the crisis in 2008. With the general decline in the number of employees in other sectors, the share of employees in culture in relation to all sectors also increased in this period and amounted to 2.0% in 2011[276]. In culture, the greatest increase in the number of employees in the relative sense was in motion picture, video and television programme production, sound recording and music publishing activities, and in the absolute sense in creative, arts and entertainment activities. In publishing activities, their number fell most in both absolute and relative senses, thus continuing the downward trend of recent years. Shrinking numbers were also recorded in libraries, archives, museums and other cultural activities. In the structure of people employed in culture in 2011, 20.9% were self-employed, which considerably exceeds the average of all sectors, the share increasing in the 2008–2011 period.

[276] Internationally comparable data from the labour force survey show that the share of people employed in culture in 2011 in Slovenia (1.9%) slightly exceeded the EU average (1.7%); however, there are considerable differences between the two methodologies for monitoring the number of employees. Consequently, trends in the number of people employed in culture according to SRDAP are quite different than shown by the labour force survey. For example, according to the labour force survey, the number of persons employed in culture in the 2008–2011 period fell. According to our estimates, this can be explained by the smaller extent of informal employments, which represent certain more flexible forms of employments and are included in these data.

# Part II
# Indicators of Slovenia's development

## THE FIRST PRIORITY:

## Economic growth and the competitiveness of the economy

- 1.1 Gross domestic product per capita in purchasing power standards
- 1.2 Real GDP growth
- 1.3 Inflation
- 1.4 General government balance
- 1.5 General government debt
- 1.6 Balance of payments
- 1.7 Gross external debt
- 1.8 Yield to maturity of ten-year government bonds
- 1.9 Development of the financial sector
- 1.10 Loan-to-deposit ratio
- 1.11 Labour productivity
- 1.12 Market share
- 1.13 Unit labour costs
- 1.14 Structure of merchandise exports by factor intensity
- 1.15 Exports and imports as a share of GDP
- 1.16 Foreign direct investment
- 1.17 Entrepreneurial activity
- 1.18 Share of non-financial market services

# 1.1 Gross domestic product per capita

***Since 2008 Slovenia has been falling behind the average level of development in the EU, the gap in 2011 having widened to 16 percentage points as measured by per capita GDP in purchasing power standards.*** According to Eurostat[1] figures, per capita GDP stood at PPS 21,000[2] or 84% of the EU average, bringing Slovenia down to the level of relative economic development of almost a decade ago (2003). Compared with 2005, when Slovenia's Development Strategy was adopted, Slovenia's position relative to the EU average deteriorated by 3 percentage points. The gap with the EU average has widened even more when compared with 2008, when the level peaked at 91% of the EU average. The principal reason for the deterioration in Slovenia's position since the onset of the crisis is a stronger decline in GDP compared with the EU average[3] in 2009 (by 3.5 percentage points) and a slower recovery in 2010 (by 0.9 percentage points) and 2011 (by 0.7 percentage points). Given that the contraction in 2012 was worse than in the EU overall[4], it is estimated that the development gap with the EU overall continued to widen last year. Only the fall in the general level of prices in Slovenia slightly offset the widening of the development gap. The general price level at the level of GDP dropped to 84% of the EU average, down 2 percentage points on 2009, as low economic activity coupled with subdued price trends in 2011. The breakdown of per capita GDP in terms of productivity and the employment rate shows that the key to closing the economic development gap again lies in higher productivity underpinned in particular by growth in value added. In the initial period of the crisis productivity plunged due to the decline in GDP (to 79% of the EU average in 2010), but in 2011 the gap with the EU average measured by productivity narrowed slightly for the first time since the start of the crisis (to 81% of the EU average). However, the headway in productivity relative to the EU stemmed solely from a decrease in employment,[5] whereas GDP growth was below the EU average.

***Slovenia is in the group of EU countries that saw the biggest decline in per capita GDP during the crisis.*** Since the start of the economic crisis in 2008, only Greece (14 percentage points) has suffered a larger fall than Slovenia (7 percentage points) in per capita GDP in purchasing power standards, whereas the downturn in Spain was similar to that in Slovenia (at 6 percentage points). Much like Slovenia, Greece and Spain had many structural weaknesses coming into the crisis. Both countries grappled with external imbalances as a consequence of competitiveness problems, while internal imbalances were evident in the rapid growth in the construction sector, real estate prices and lending. Additionally, Greece had a very high general government debt before the onset of the crisis. In other EU countries the changes during the crisis have been smaller, while two, Poland and Luxembourg, stand out in having managed to improve their position relative to the EU average (by 8 percentage points). Slovenia is the only new Member State to have lost ground between 2004, when it joined the EU, and 2011, while all the other countries improved their standing compared with the EU average, most notably Slovakia (by 16 percentage points) and Lithuania (by 15 percentage points).

[1] In December 2012 Eurostat released data on per capita GDP in PPS terms for the 2009–2011 period. The data is based on revised purchasing power parities for the aforementioned years, the latest revised data on GDP in national currencies for individual countries, and the latest data on population size.

[2] Per capita GDP in purchasing power standard terms allows for a comparison between countries by eliminating the effect of differences in price levels. The purchasing power standard (PPS), the selection of the currency in which the results are expressed, is a convention. In Eurostat's comparison the results are expressed in a currency known as PPS. PPS is an artificial, fictitious currency which, at the level of the EU, equals one euro. PPS or "EU-27 euro" is a "currency" that reflects the average price level in the EU-27.

[3] See also indicator 1.2.

[4] In Slovenia GDP fell by 2.3% in real terms, while across the EU it was down 0.3%.

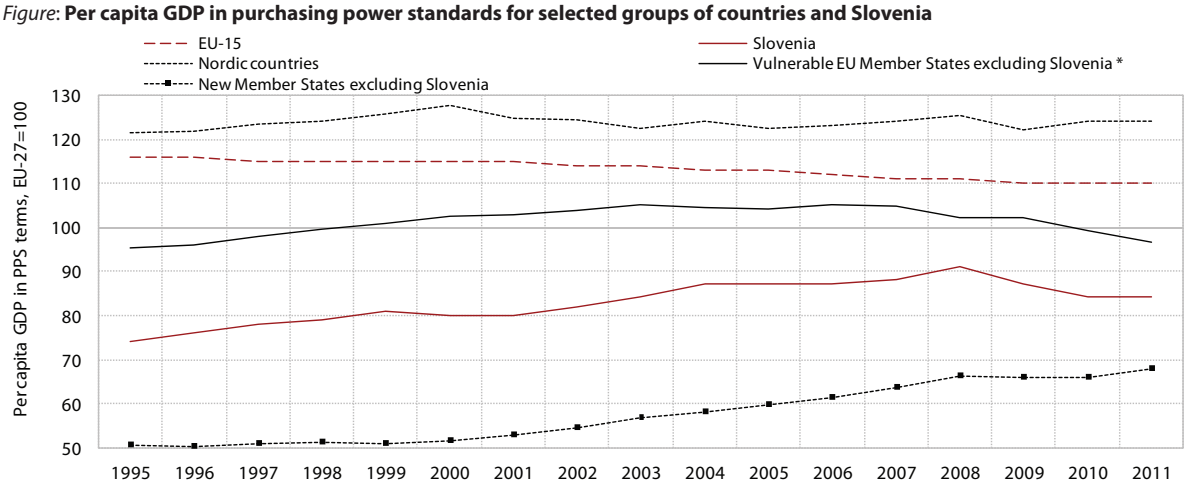
[5] Slovenia's unemployment rate reached 108% of the EU average in 2008 and 2009, and 104% in 2011.

*Table*: **Per capita GDP in purchasing power standards, index EU-27=100**

| | 1995 | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **EU-15** | 116 | 115 | 113 | 111 | 110 | **110** | **110** |
| Austria | 134 | 132 | 125 | 124 | 125 | 127 | 129 |
| Belgium | 128 | 126 | 120 | 116 | 118 | 119 | 119 |
| Bulgaria | 32 | 28 | 37 | 43 | 44 | 44 | 46 |
| Cyprus | 87 | 88 | 93 | 99 | 100 | 97 | 94 |
| Czech Republic | 76 | 71 | 79 | 81 | 83 | 80 | 80 |
| Denmark | 131 | 132 | 123 | 125 | 123 | 128 | 125 |
| Estonia | 36 | 45 | 61 | 69 | 63 | 63 | 67 |
| Finland | 107 | 117 | 114 | 119 | 114 | 113 | 114 |
| France | 116 | 115 | 110 | 107 | 109 | 108 | 108 |
| Greece | 84 | 84 | 91 | 93 | 94 | 87 | 79 |
| Ireland | 103 | 132 | 144 | 132 | 130 | 129 | 129 |
| Italy | 121 | 118 | 105 | 104 | 104 | 101 | 100 |
| Latvia | 31 | 36 | 50 | 58 | 54 | 54 | 58 |
| Lithuania* | 35 | 40 | 53 | 61 | 55 | 57 | 66 |
| Luxembourg | 222 | 244 | 254 | 263 | 255 | 267 | 271 |
| Malta | 86 | 85 | 78 | 79 | 83 | 85 | 85 |
| Hungary | 51 | 54 | 63 | 64 | 65 | 65 | 66 |
| Germany | 128 | 118 | 116 | 116 | 115 | 119 | 121 |
| Netherlands | 123 | 134 | 131 | 134 | 132 | 131 | 131 |
| Poland | 43 | 48 | 51 | 56 | 61 | 63 | 64 |
| Portugal | 77 | 81 | 79 | 78 | 80 | 80 | 77 |
| Romania | 33 | 26 | 35 | 47 | 47 | 47 | 49 |
| Slovakia | 47 | 50 | 60 | 73 | 73 | 73 | 73 |
| **Slovenia** | **74** | **80** | **87** | **91** | **87** | **84** | **84** |
| Spain | 91 | 97 | 102 | 104 | 103 | 99 | 98 |
| Sweden | 125 | 128 | 122 | 124 | 120 | 124 | 127 |
| United Kingdom | 114 | 119 | 123 | 113 | 111 | 111 | 109 |

Source: Eurostat Portal Page – Purchasing Power Parities, 2012.
Note: * population data for Lithuania for 2011 is calculated on the basis of the 2011 census; due to the break in the series the per capita calculations for 2011 are not entirely comparable with the previous years.

*Figure*: **Per capita GDP in purchasing power standards for selected groups of countries and Slovenia**




Source: Eurostat Portal Page – Purchasing Power Parities, 2012.
Note: * vulnerable EU Member States (Greece, Ireland, Italy, Portugal, Spain).

# 1.2 Real GDP growth

***After two years of subdued growth, GDP contracted by 2.3% in 2012.*** Export growth, which had been the driving force of the recovery in the previous two years, ground to a halt in 2012 as economic activity in Slovenia's main trading partners slowed. Amid a continued decline in investment activity, the slump in domestic demand deepened, as final consumption expenditure also dropped. Having contributed positively to GDP growth in the preceding two years, changes in inventories significantly exacerbated the decline in GDP.

***The weakness of the economies of the main trading partners led to a significant slowdown in exports in all manufacturing industries, coupled with lower exports of electricity and agricultural products, which contributed significantly to the export recovery in the preceding two years.*** Exports of goods and services grew 0.3% in real terms last year, 6.7 percentage points less than in the year before, whereby exports of goods stagnated and growth in exports of services strengthened slightly. Last year economic activity slowed significantly (Germany and Austria) or declined (Italy and Croatia) in all the main trading partners, resulting in a decline in exports to EU member states and the former Yugoslav republics after relatively brisk growth in 2011. Growth in exports to non-European countries meanwhile remained solid. Export trends deteriorated in all manufacturing industries last year. Export growth declined most in medium-low tech industries (rubber, metals, non-metallic mineral products) that produce intermediate goods and are among the first to feel the impact of reduced demand, while the smallest decline was recorded by the high-tech pharmaceutical and chemical industries. The decline in exports of agricultural products and electricity also contributed significantly to the deterioration in export trends, while high growth in oil[1] exports continued apace. The significant slowdown in total export growth and the deepening of the contraction in domestic consumption expenditure was coupled with a fall in imports of goods and services (-4.3%), which had increased over the preceding two years.

***Household and government consumption expenditure contracted last year on the back of the continued weakness of the labour market and fiscal consolidation measures.*** In 2012 household consumption expenditure dropped for the first time since the start of the crisis (-2.9%) as the decline in disposable income deepened. As employee compensation decreased following the first real drop in gross wages in 20 years and a further fall in employment, and social transfers also declined, consumer confidence dropped at the fastest pace since the start of the crisis. The process of fiscal consolidation, albeit necessary, also eroded government consumption expenditure (down 1.6%), which started to contract in 2011. The contraction in government expenditure is associated with restrictive wage and recruitment policies, as the Fiscal Balance Act resulted in a decline in wages in public service activities of 2.2% in nominal terms compared with the previous year, while growth in employment slowed significantly (to 0.9%).

***Gross fixed capital formation declined at a similar pace to the previous year despite a slightly slower contraction in construction investment, as investment in equipment and machinery dropped.*** A sharp contraction in all segments of construction, which followed the investment cycle in the years prior to the crisis, continued for the fourth consecutive year, bringing the level of construction investment to half its pre-crisis level. The drop in 2012 (15.7%) was nevertheless marginally lower than in the previous three years, largely as a consequence of the slower decline in the construction of buildings (in particular non-residential construction). Against the backdrop of weaker external demand and lower capacity utilisation, investment in machinery and equipment, which increased in 2011, contracted in 2012 (by 3.4%).

***GDP in the euro area also declined in 2012, but the contraction was smaller than in Slovenia.*** Euro area GDP declined by 0.6%, after two years of growth. Across the euro area, in particular in the countries with the biggest fiscal problems, the economic environment deteriorated compared with the previous year. The contraction in final consumption expenditure and the stalled recovery in exports were the key components that contributed to Slovenia's GDP falling further below its pre-crisis level. In the euro area final consumption expenditure had adjusted in the previous years, but in Slovenia fiscal consolidation was delayed and the decline was accordingly deferred; for the same reason, it was also more pronounced. Given their stronger export reliance on emerging economies and the higher share of technologically intensive products, exports in the majority of EU countries have been recovering faster than in Slovenia.

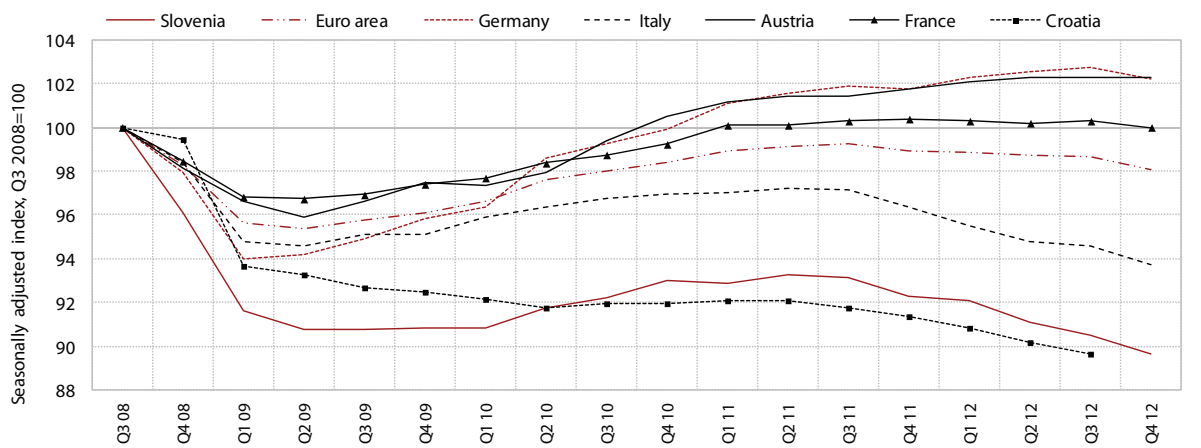
[1] For electricity and oil, these are re-exports. See also indicator 1.14.

*Table*: **Contribution of individual expenditure components to GDP growth, Slovenia, 1996–2012**

| | 1996 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP growth, % | 3.6 | 4.3 | 4.0 | 5.8 | 7.0 | 3.4 | -7.8 | 1.2 | 0.6 | -2.3 |
| **Contribution to GDP growth, percentage points** | | | | | | | | | | |
| External trade balance (exports - imports of goods and services) | 0.3 | 2.5 | 2.2 | 0.2 | -2.0 | 0.1 | 2.4 | 1.5 | 1.3 | 3.3 |
| - Exports of goods and services | 1.4 | 6.2 | 6.1 | 7.8 | 9.1 | 2.8 | -11.3 | 5.9 | 4.6 | 0.2 |
| - Imports of goods and services | 1.1 | 3.7 | 3.9 | 7.6 | 11.2 | 2.6 | -13.7 | 4.5 | 3.4 | -3.1 |
| Total domestic demand | 3.3 | 1.7 | 1.8 | 5.7 | 9.0 | 3.2 | -10.2 | -0.2 | -0.7 | -5.6 |
| - Household consumption expenditure | 1.9 | 0.4 | 1.1 | 1.5 | 3.3 | 1.2 | 0.1 | 0.8 | 0.5 | -1.7 |
| - Government consumption expenditure | 0.5 | 0.6 | 0.7 | 0.8 | 0.1 | 1.0 | 0.5 | 0.3 | -0.3 | -0.3 |
| - Gross fixed capital formation | 1.9 | 0.7 | 0.7 | 2.6 | 3.5 | 2.0 | -6.7 | -3.2 | -1.6 | -1.7 |
| - Change in inventories | -1.0 | 0.0 | -0.7 | 0.7 | 2.0 | -0.9 | -4.1 | 1.9 | 0.7 | -1.9 |

Source: SI-STAT Data Portal – National Accounts, 2013.

*Figure*: **GDP in Slovenia and its main trading partners**




Source: Eurostat Portal Page - Economy and Finance – National accounts, 2013.

# 1.3 Inflation

***Consumer price growth (2.7%)[1] was higher in 2012 than in the preceding four years, largely as a result of one-off factors.*** Much like in the previous year, consumer prices were driven by higher energy (5.3%) and food (4.8%) prices. Growth in services prices, by contrast, was higher (by 2.6%) largely as a result of a one-off factor, the increase in the price of school meals due to the abolition of subsidies. Compared with the previous year, tax measures also had a significant impact, having contributed 1.0 percentage points to annual inflation.[2] This was the result of higher excise duties on tobacco, alcohol and fuels, and a rise in environmental taxes. Overall, changes in the majority of consumer prices were driven by weak economic activity, as evidenced in the continuing subdued level of core inflation.

***Growth in energy prices was slightly slower than in the previous year as natural gas prices fell.*** Growth in fuel and energy prices slowed by 1.6 percentage points last year to 5.3%, thereby contributing 0.7 percentage points to headline inflation. Due to higher excise duties the increase in prices of liquid fuels for transportation and heating (10.4%) was significantly higher than in the previous year, despite substantially slower growth in global oil prices. In 2011 growth was entirely the result of higher global oil prices, but in 2012 higher excise duties on liquid fuels contributed 0.3 percentage points to headline inflation. Electricity prices also grew at a faster pace than in 2011, but natural gas prices fell last year (by 10.4%), after increasing in 2011 (by 12.3%), which reduced headline inflation by 0.2 percentage points.

***Food prices grew at a similar rate to the previous year, while growth in prices of other goods remained moderate.*** Year-on-year growth in food prices stood at 4.8% at the end of the year, contributing 0.7 percentage points to inflation. This was only slightly lower than in 2011, even though growth in food prices on global markets was substantially lower. Prices of unprocessed food recorded relatively high growth last year, the increase following a slowdown in 2011, which was, as in the euro area, mainly a result of higher prices of fresh vegetables (19.7%) and fruit (15.4%). Price growth in all other food categories slowed last year. Growth in prices of non-energy industrial goods remained moderate, as prices of semi-durables rose by just 0.2% and prices of durables fell by 3.1%.

***Last year's relatively high growth in services prices was primarily the result of one-off factors.*** After modest growth in 2011 (0.4%), services prices rose significantly last year (2.6%). They contributed 0.8 percentage points to inflation, most of which is attributable to one-off factors. The elimination of subsidies for school meals added 0.4 percentage points to headline inflation last year, while reduced subsidies for the second child in kindergarten and higher annual road user charges contributed an additional 0.1 percentage points each.

***Unlike in 2011, inflation in Slovenia was higher than the euro area average (2.3%).*** Euro area inflation as measured by the HICP[3] was lower last year than in the previous year. Despite the same external factors, it was also lower than in Slovenia (by 0.8 percentage points). In Slovenia and the euro area overall the rise in energy prices (in particular liquid fuels) acted to raise inflation, but in Slovenia their impact on headline inflation was more pronounced due to the higher share of energy in the structure of household consumption. In addition to energy prices, higher prices of unprocessed foods were also a factor in inflation in Slovenia and the euro area. In contrast to energy prices, growth in prices of unprocessed food in Slovenia, where the share is similar, was higher than that in the euro area as a whole. Slovenia also saw slightly higher growth in services prices; in both Slovenia and the euro area it was largely the consequence of tax measures, but their contribution to headline inflation was slightly higher in Slovenia.

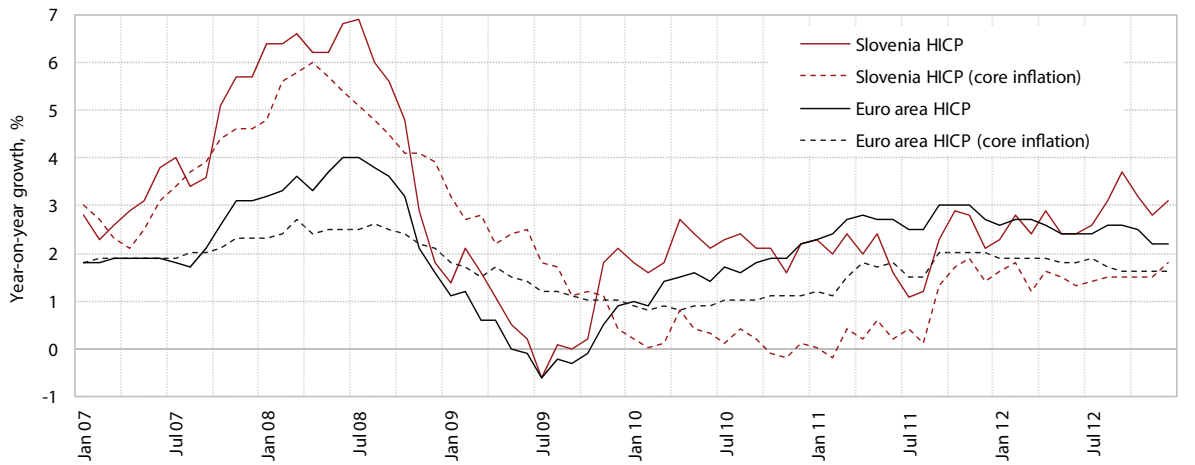
[1] December 2012 compared with December 2011.
[2] Contribution to year-on-year inflation as measured by the HICP, which stood at 3.1% in December 2012.
[3] HICP – The harmonised index of consumer prices is used for the comparison of consumer price growth in the euro area and the EU.

*Table*: **Annual price growth in Slovenia and the euro area, 2000-2012**

| % | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Consumer price index in Slovenia | 9.0 | 8.9 | 2.3 | 2.8 | 5.6 | 2.1 | 1.8 | 1.9 | 2.0 | 2.7 |
| Goods | 7.1 | 8.8 | 2.0 | 2.1 | 6.0 | 1.3 | 1.9 | 2.7 | 2.7 | 2.7 |
| Services | 15.9 | 9.2 | 3.0 | 4.3 | 4.8 | 3.8 | 1.6 | 0.0 | 0.4 | 2.6 |
| Administered prices | 10.0 | 16.0 | 7.7 | 2.1 | 7.2 | -7.8 | 12.6 | 11.5 | 7.1 | 4.6 |
| Energy | 8.2 | 18.9 | 9.8 | 3.7 | 9.6 | -11.9 | 14.7 | 14.3 | 9.1 | 6.4 |
| Other | 11.4 | 12.0 | 3.0 | -2.1 | 1.5 | 0.4 | 4.0 | 0.7 | 1.6 | 1.4 |
| Consumer price index in the euro area (HICP) | 2.5 | 2.5 | 2.2 | 1.9 | 3.1 | 1.6 | 0.9 | 2.2 | 2.7 | 2.2 |

Sources: SI-STAT data portal – Prices – Consumer price indices, 2013; annual data (SURS), 2013; Eurostat Portal Page – Economy and Finance – Prices – Harmonised index of consumer prices, 2013; IMAD calculations.

*Figure*: **Annual growth in consumer prices (HICP)**




Source: Eurostat Portal Page – Economy and Finance – Prices – Harmonized index of consumer prices, 2013.
Note: core inflation – consumer prices excluding energy and unprocessed food.

# 1.4 General government balance

***The general government deficit declined significantly in 2012, and was the lowest since the outbreak of the crisis in 2008.*** The deficit was 4% of GDP, 2.4 percentage points less than a year earlier. Excluding one-off expenditure in 2011 and 2012 (1.3% and 0.4% of GDP respectively),[1] the deficit reduction in 2012 was smaller (0.9 percentage points), but was still the first pronounced reduction since the beginning of the crisis. The reduction was due to cuts in expenditure as government revenue also fell somewhat (i.e. expenditure-based fiscal consolidation). The majority of the deficit was generated by the central government (3.8% of GDP). Local government recorded a small surplus (0.1% of GDP), while social security funds recorded a deficit (0.3%) that was significantly wider than in the previous year.[2]

***General government revenue declined in 2012 for the first time since 2009.*** General government revenue declined by EUR 105 m (-0.7%). Had it not been for a sizeable one-off transfer of profits from a government-owned company in December 2012,[3] the decline would have been even larger. Notwithstanding the nominal fall, revenue as a share of GDP increased to 45.0% (up 0.6 percentage points) due to the nominal decline in GDP. Total revenue from taxes declined by 0.9%, while revenue from social security contributions was down 0.8%. Tax revenue fell primarily due to lower revenues from corporate income tax (EUR 165 m or 27.1%), which alongside the significant deterioration in the macroeconomic situation was also the result of a cut in the tax rate[4] and a higher allowance for R&D and investment. Despite the decline in income from labour (-0.4%), revenue from personal income tax increased by 0.6%. Revenue from taxes on production and imports was also up (by 1.3%), mainly as a result of higher excise duty revenue amid higher excise duty rates for all excise products. The decline in consumption resulted in a decline in VAT revenues by EUR 44 m or 1.4%. Non-tax revenues, including transfer revenues (receipts from the EU budget) increased by EUR 14 m, EU funding recording its highest level to date (EUR 842 m).

***General government expenditure declined in nominal terms in 2012 for the first time in recent history.*** Expenditure fell by around EUR 1.0 bn (5.4%) last year, while as a share of GDP it declined by 1.8 p.p. to 49.0% (or by 3.7% or 0.9 percentage points of GDP if one-off transactions in 2011 and 2012 are excluded). The reduction in expenditure was broad-based, with the exception of interest expenditure, which increased (EUR 54 m). The main reductions in expenditure components were as follows: gross capital formation (-EUR 257 m); social benefits in cash and in kind (EUR -171 m); compensation of employees (EUR -151 m); intermediate consumption (EUR -67 m); and subsidies (EUR -13 m).

***The reduction in the general government deficit in 2012 was one of the largest in the EU.*** After Slovenia had been one of the few EU countries to see a deterioration in its fiscal position in 2010 and 2011, comparisons with other countries reveal that last year's deficit reduction in Slovenia was among the largest in the EU (only Ireland and Romania had larger improvements). According to the aforementioned data, 16 EU countries had deficits of more than 3% of GDP in 2012.

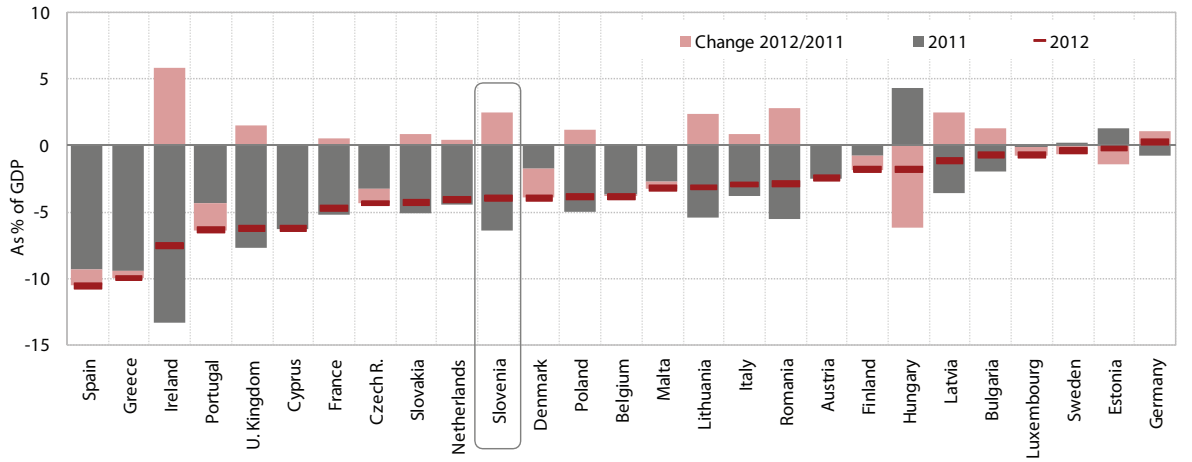
[1] In 2011, a capital increase at NLB, assumption of obligations of Slovenian Railways, a capital increase at Adria Airways and certain other companies; in 2012 a capital increase at NLB by SOD and KAD and other transactions.
[2] In 2011 KAD transferred EUR 90 m to the Pension Fund, which reduced the deficit of the social security funds in that year.
[3] EUR 80 m higher than in 2011.
[4] The nominal corporate income tax rate declined from 20% to 18% in 2012. Under the Act Amending the Corporate Income tax Act (Official Gazette of the RS, No. 30/2012), the corporate income tax rate is to be gradually reduced by 1 percentage point per year between 2013 and 2015 (to 15%).

*Table*: **General government revenue, expenditure and net balance according to the ESA 95, as % of GDP, Slovenia, 2000–2012**

| | 2000 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| General government revenue | 42.8 | 43.2 | 42.4 | 42.4 | 43.1 | 44.5 | 44.4 | 45.0 |
| General government expenditure | 46.5 | 44.6 | 42.4 | 44.3 | 49.3 | 50.4 | 50.8 | 49.0 |
| General government deficit | -3.7 | -1.4 | 0.0 | -1.9 | -6.2 | -5.9 | -6.4 | -4.0 |
| Central government | -3.2 | -1.4 | -0.1 | -1.3 | -5.3 | -5.2 | -6.3 | -3.8 |
| Local government | 0.0 | -0.1 | -0.1 | -0.6 | -0.6 | -0.4 | 0.0 | 0.1 |
| Social-security funds | -0.5 | 0.1 | 0.2 | 0.0 | -0.4 | -0.4 | 0.0 | -0.3 |

Source: SI-Stat Data Portal – Economy – National Accounts – General government accounts, 2013.

*Figure*: **General government deficit/surplus, 2011 and 2012, as % of GDP**




Source: Eurostat Portal Page - Economy and Finance – Government Statistics, 2013.

# 1.5 General government debt

***The general government debt at the end of 2012 was estimated at EUR 19.2 bn, or 54.1% of GDP.*** The ratio of debt to GDP was 2.5 times higher in 2012 than in 2008. The trend of increase slowed slightly in 2012, the increase amounting to 7.2 percentage points of GDP in 2012 (8.3 p.p. in 2011). In 2012 the increase in the debt ratio was larger than the estimated deficit (3.7 p.p. of GDP). The discrepancy between the increase in the deficit and the amount of borrowing is the result of borrowing to finance the budget in the future. The debt ratio in 2012 was strongly influenced by the decline in GDP at current prices (-2.0%). Central government accounts for the majority of the general government debt (97% of the total general government debt at the end of 2012), and is mainly long-term. Non-consolidated debt at local government level amounted to 2% of GDP, having recorded slightly slower growth in 2012 compared with previous years.

***In 2012 the majority of central government borrowing (76%) was undertaken via long-term instruments (EUR 2.2 bn).*** The main factor in the structure of borrowing was the situation on the euro area debt market, while the potential investor base widened. The government financed the bulk of the borrowing requirement for the 2013 budget (EUR 1.7 bn) by issuing a 10-year dollar-denominated bond on the US market (USD 2.25 bn). The remainder comprised treasury bills and domestic loans.[1] The weighted average maturity of the debt portfolio was 6.6 years. The central government financing needs for 2013 amount to 8.9% of GDP, and were partly pre-financed in 2012.[2]

***The conditions for government borrowing deteriorated last year, as financial markets became more sensitive to developments in Slovenia's economy, particularly in view of the adverse situation in public finances and the banking system, while the movements in required yields were also affected by the situation on the euro area bond market.*** In the middle of 2012 the required yields on Slovenian 10-year government bonds were strongly affected by the adverse situation in the domestic banking sector, renewed suggestions that Slovenia may have to seek an international bailout, and, to a greater extent towards the end of the year, by factors related to political instability. Slovenia underwent a sovereign downgrading by all the major rating agencies in August, its outlook remaining negative. The main factors in the movements in the spread of the required yield on 10-year sovereign debt over the German benchmark was the situation on the euro area bond market, in particular the similarity to Italy and Spain in investors' risk perceptions, and the wider EU policy response to the sovereign debt crisis and ECB intervention (see indicator 1.8).

***While growth in borrowing Slovenia was again among the highest in the EU last year, in terms of the debt ratio in 2012 it remained in the lower half.*** The increase in the debt ratio in 2012 was the sixth largest in the EU. The largest debt increases in the EU in relative terms were seen in the countries facing the greatest fiscal difficulties and/or recession. Alongside the nominal debt increase, this was mainly due to a decline in nominal GDP, which in Slovenia was among the largest in the EU last year.

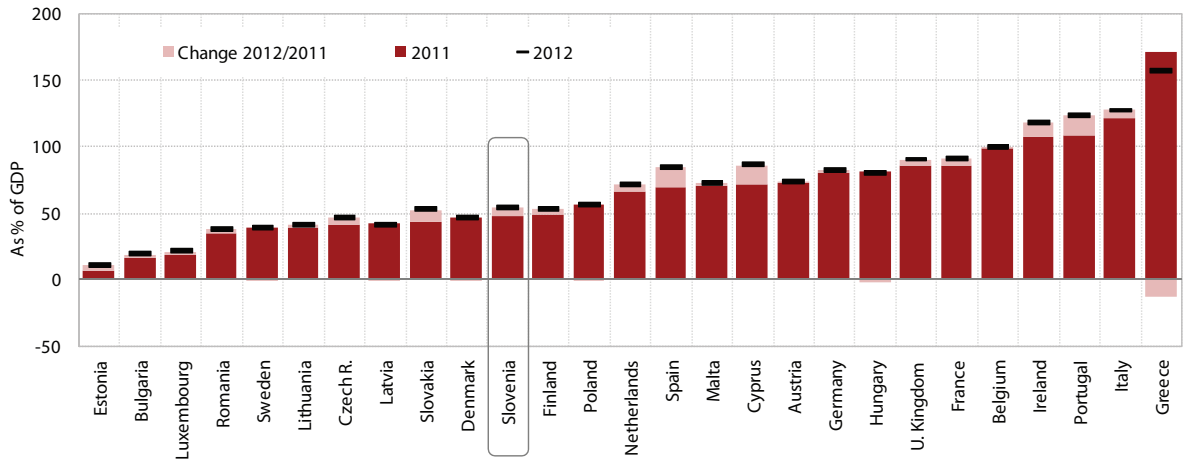
[1] The total amount of treasury bills issued was EUR 0.7 bn, while loans amounted to EUR 0.5 bn.
[2] Ministry of Finance, October 2012.

*Table*: **Consolidated general government debt by sub-sector, Slovenia, 2008–2012**

| | | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| | | | In EUR m | | | |
| 1 | **General government, total** | **8180** | **12.449** | **13767** | **16954** | **19189** |
| 1.1 | Central government | 8091 | 12110 | 13204 | 16347 | 18606 |
| 1.2 | Local government | 354 | 523 | 626 | 685 | 702 |
| 1.3 | Social-security funds | 3 | 2 | 52 | 52 | 52 |
| 1.4 | Consolidated debt between sub-sectors | -268 | -187 | -146 | -130 | -172 |
| | | | As % of GDP | | | |
| 1 | **General government, total** | **22.0** | **35.0** | **38.6** | **46.9** | **54.1** |
| 1.1 | Central government | 21.7 | 34.1 | 37.1 | 45.2 | 52.5 |
| 1.2 | Local government | 0.9 | 1.5 | 1.8 | 1.9 | 2.0 |
| 1.3 | Social-security funds | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| 1.4 | Consolidated debt between sub-sectors | 22.0 | 35.0 | 38.6 | 46.9 | 54.1 |

Source: Main general government aggregates (SURS), 2013. Note: The debt figures are consolidated (debts between government units are excluded).

*Figure*: **General government debt in 2011 and 2012, and change in 2012**




Source: Eurostat Portal Page – Economy and Finance – Government Statistics, 2013.

# 1.6 Balance of payments

***The current account, which was balanced in 2011, recorded a surplus in 2012.***[1] At the outbreak of the financial and economic crisis in 2009, the current account deficit narrowed sharply. Through 2011 the current account remained close to balance, but in 2012 it moved into a surplus of EUR 817.6 m (2.3% of GDP). Against the backdrop of a further contraction in domestic demand and, consequently, imports, the surplus was largely the result of a significant decline in the merchandise trade deficit, though the services trade surplus also widened. The deficit in factor income was marginally wider than in 2011, while the surplus in current transfers narrowed. In terms of the breakdown by sector, the public sector deficit narrowed again in 2012, while the private sector surplus widened.

***The merchandise trade deficit contracted sharply in 2012 to EUR 334.6 m, down EUR 708.6 m on the previous year.*** The contraction was the result of quantitative factors, as imports dropped substantially more than exports in real terms. The terms of trade deteriorated for the third consecutive year, primarily as a result of higher growth in import and export prices of manufactured goods, agricultural goods and inputs.[2] In terms of the classification by broad economic categories, the narrowing of the trade deficit was mainly a consequence of a lower deficit in the trade in intermediate goods, as the deficit in the trade of goods for the manufacture of parts and accessories narrowed despite higher prices of fuels and lubricants. The deficit in the trade in capital goods also narrowed over the previous year, mostly on account of lower imports of machinery and equipment. The surplus of trade in consumer goods was higher, largely due to a wider surplus of trade in non-durables, a consequence of export growth.

***The surplus of trade in services increased, primarily as a result of exports of travel and transport services.*** The surplus of trade in services amounted to EUR 1,700.7 m, up EUR 257.9 m on the previous year, which is largely attributable to higher net exports of travel services as income from foreign tourists rose while domestic household spending abroad declined. The surplus of trade in transport services also widened, despite a lower surplus in road and rail transport services. The deficit of trade in other services narrowed, as a higher deficit in trade in business, professional and technical services was offset by a higher surplus in trade in intermediation and construction services.

***Having narrowed in 2009–2011, the deficit in factor income widened last year as a result of a higher net outflow of capital income, although there was an increase in the net inflow of labour income.*** The deficit in factor income reached EUR 577.7 m in 2012, an increase of EUR 27.3 m over the previous year. The largest increase in income from FDI equity was recorded by payments of dividends and other profits to foreign direct investors. The decline in net income from investments in equities is attributable to declining returns. Net interest payments totalled EUR 448.6 m, and were slightly higher than in the previous year. Despite the lower interest rate for main refinancing operations of the Eurosystem, the Bank of Slovenia's net interest income was lower than in the previous year due to increased borrowing by the central bank. Given the continued deleveraging and fall in interest rates, net interest payments on the external debt of commercial banks and other sectors fell, but net interest payments on inter-company debt were higher, largely as a result of a decline in Slovenian investors' net liabilities to foreign affiliates. The government sector's net interest payments to the rest of the world were also marginally lower, the result mainly of changes in the structure of government borrowing instruments.[3] The higher net inflow of income from labour was driven mainly by higher income earned by Slovenian residents in the rest of the world.

***Despite the continued improvement in the disbursement of funds from the EU budget, the surplus in current transfers narrowed last year.*** The surplus in current transfers amounted to EUR 29.2 m in 2012, down EUR 123.4 m on 2011. The net disbursement of funds from the EU budget improved again last year to EUR 451.3 m (2011: EUR 407.1 m),[4] but the surplus in current transfers of the government sector was marginally narrower due to higher net payments of contributions and taxes to the rest of the world. Furthermore, the deficit in private transfers was higher than in the previous year as a result of higher payments of taxes and contributions to the rest of the world, which is related to the increase in income earned in the rest of the world by daily migrants.

[1] In the procedure for estimating excessive imbalances at the level of the EU and euro area countries, the EC determined the three-year average current account position as a percentage of GDP, which stood at 0.3% for Slovenia in 2012 (thresholds +6/-4%).

[2] The terms of trade (according to national accounts statistics) deteriorated by 1.3% (1.8% in 2011, 4.8% in 2010), with import prices rising by 2.5% and export prices by 1.2%.

[3] The government repaid the RS64 bond in the amount of EUR 1 billion and issued treasury bills on the domestic financial market.

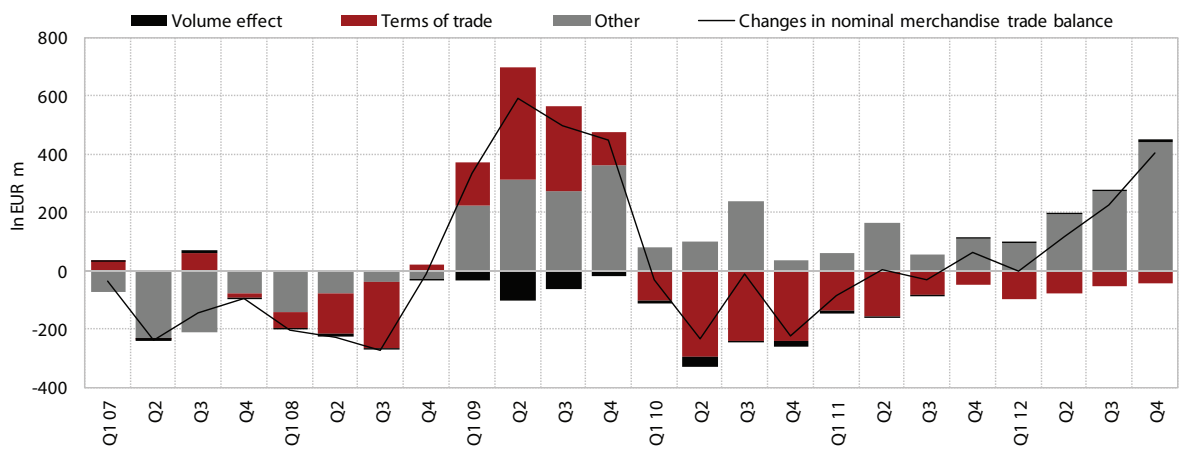
[4] Of the EUR 888.6 million of revenues forecast in the supplementary budget, Slovenia received EUR 841.6 million (94.7%) from the EU budget, while paying EUR 390.3 million into the EU budget.

*Table*: **Current account and terms of trade, Slovenia, 1995-2012**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Current account, % of GDP** | **-0.3** | **-2.7** | **-1.7** | **-2.5** | **-4.8** | **-6.2** | **-0.7** | **-0.6** | **0.0** | **2.3** |
| Merchandise | -4.5 | -5.7 | -3.6 | -3.7 | -4.8 | -6.4 | -1.4 | -2.8 | -2.9 | -0.9 |
| Services | 2.8 | 2.3 | 3.2 | 3.2 | 3.0 | 3.8 | 3.3 | 3.6 | 4.0 | 4.8 |
| Labour and capital income | 1.0 | 0.1 | -1.0 | -1.4 | -2.3 | -2.8 | -2.1 | -1.7 | -1.5 | -1.6 |
| Current transfers | 0.5 | 0.6 | -0.3 | -0.6 | -0.7 | -0.8 | -0.4 | 0.3 | 0.4 | 0.1 |
| **Real growth in trade in merchandise and services, %** | | | | | | | | | | |
| Exports of merchandise and services | 1.1 | 13.1 | 10.6 | 12.5 | 13.7 | 4.0 | -16.7 | 10.1 | 7.0 | 0.3 |
| Imports of merchandise and services | 11.3 | 7.1 | 6.7 | 12.2 | 16.7 | 3.7 | -19.5 | 7.9 | 5.2 | -4.3 |
| **Terms of trade, index** | | | | | | | | | | |
| Total | 103.0 | 96.8 | 98.0 | 99.5 | 100.9 | 98.5 | 103.8 | 96.1 | 98.4 | 99.1 |
| Merchandise | 103.1 | 96.2 | 97.6 | 99.5 | 100.5 | 98.2 | 104.1 | 95.2 | 98.2 | 98.8 |
| Services | 100.6 | 102.1 | 99.9 | 99.5 | 102.7 | 99.4 | 99.9 | 101.1 | 100.3 | 100.0 |

Sources: SI-STAT data portal – National accounts, 2013; Financial accounts, External economic relations (Bank of Slovenia), 2013; IMAD calculations.

*Figure*: **Contribution of volumes and prices to the merchandise trade balance**




Sources: SI-STAT Data Portal – National Accounts, 2013, IMAD calculations.
Note: The effect of the terms of trade and the volume effect are calculated on the basis of data from the national accounts statistics. The contribution of the terms of trade shows the contribution of the growth in foreign trade prices to the year-on-year change in the nominal balance, taking into account the volume of merchandise trade in the same quarter of the previous year. The contribution of the volume effect shows the contribution of real growth in merchandise trade to the change in the nominal balance, taking into account the terms of trade in the same period of the previous year. The item 'Other' shows the mutual impact of the growth in prices and the growth in volumes.

# 1.7 Gross external debt

***After declining in 2011, Slovenia's gross external debt rose slightly in 2012 as a result of an increase in the general government debt and the central bank debt, the latter primarily as a result of funding for domestic commercial banks.*** The total gross external debt rose by EUR 0.6 bn to EUR 40.8 bn amidst a deterioration in the maturity breakdown. Long-term debt continued to decline, and the overall increase was entirely the result of a significant rise in short-term debt. Borrowing by the general government accounted for the bulk of the total debt increase, as the gross general government debt increased by EUR 2.4 bn to EUR 11.1 bn. In February RS64 three-year bonds were repaid in the amount of EUR 1 bn, and in October a benchmark 10-year government bond was issued on the US market in the amount of USD 2.25 bn (EUR 1.7 bn) with a yield of 5.5%. To a lesser extent, the government also borrowed short-term via the issue of money market instruments (treasury bills) on the international financial markets. In addition to the general government, the Bank of Slovenia contributed significantly to the increase in overall debt last year, but the bulk of its debt comprises liabilities to the Eurosystem,[1] which rose mostly as a result of the inflow of long-term bank refinancing (by EUR 1.7 bn). Central bank debt totalled EUR 4.7 bn last year, 11.5% of the total gross external debt (end of 2011: 7.5%). The gross external debt of the commercial banks continued to decline last year, by EUR 3.6 bn to EUR 9.9 bn, their share of overall debt dropping from a third in 2011 to less than a quarter last year. As access to the international financial markets tightened, the commercial banks repaid a portion of their foreign liabilities with central bank money.[2] The gross external debt of affiliates (companies with a foreign ownership share of 10% or more) declined slightly last year, by EUR 0.2 bn to EUR 5.2 bn. Approximately two-thirds of the debt is attributable to non-banking financial institutions involved in financial leasing, and the remainder to non-financial corporations (corporates). The debt of other sectors (mostly corporates), which has been increasing modestly since the start of the crisis, rose at a similar pace to last year, by EUR 0.3 bn to EUR 10.0 bn. The subdued growth was largely a consequence of borrowing via short-term trade credits used by corporates to finance the imports of merchandise and services.

***In terms of the structure of the gross external debt, public debt in particular increased again in 2012, while non-guaranteed private debt fell.*** Non-guaranteed private sector debt contracted for the fourth consecutive year in 2012, as repayments of liabilities increased slightly (EUR 2.3 bn), bringing the private sector debt down to EUR 21.0 bn. Public and publicly guaranteed debt increased at an accelerated pace compared with the previous year. Public debt[3] rose by 2.3 bn in year-on-year terms, while publicly guaranteed debt[4] rose by EUR 0.5 bn (EUR 19.8 bn in total, of which public debt accounted for EUR 11.1 bn). The stock of guarantees to domestic financial institutions continued to decline, as two domestic commercial banks repaid government-guaranteed bonds to foreign portfolio investors. Central bank liabilities to the Eurosystem increased. At the end of 2012 public and publicly guaranteed debt accounted for 48.5% of the gross external debt (of which public debt was 27.1% and publicly guaranteed debt was 21.4%), an increase of 25.2 percentage points over 2008. Excluding liabilities to affiliates, which are not monitored for maturity, long-term debt accounted for 70.4% of the total gross external debt in 2012, down 5.6 percentage points on the previous year.

***Slovenia remains one of the least indebted countries in the euro area.*** Slovenia's gross external debt reached 115.1% of GDP at the end of 2012 (up 3.9 percentage points over the previous year) and remains well below the average debt in the euro area, which reached 211.1% of GDP in 2011.

[1] The Eurosystem position arises in the settlement of cross-border liabilities between euro area banks in the TARGET 2 system. These bilateral balances are automatically pooled and offset through the Eurosystem at the end of each trading day, leaving the individual national central banks with a single net bilateral position against the ECB. Some national central banks have claims and other liabilities vis-à-vis the ECB in the TARGET 2 system.

[2] Since the start of the financial crisis in September 2008, the commercial banks' gross debt has declined by EUR 8.6 billion in total.

[3] The external debt is generated via the borrowing of the government sector (according to the ESA 95) on foreign financial markets. The government may borrow from international financial institutions, foreign governments or government agencies, foreign commercial banks and even from private borrowers in the event of an issue of transferable securities on a foreign financial market.

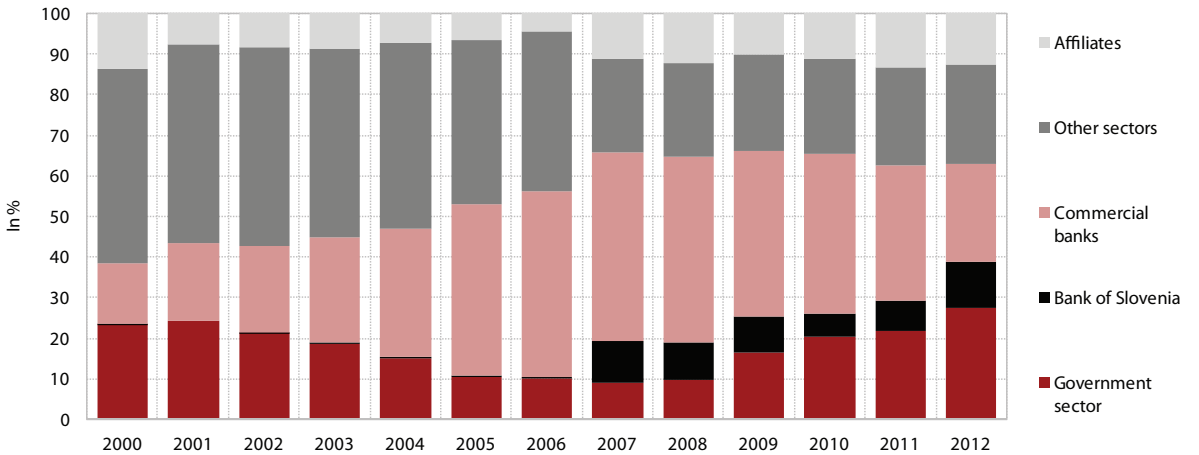
[4] Publicly guaranteed debt is a liability of a private legal entity, but payment is guaranteed by the government. Publicly guaranteed debt includes Bank of Slovenia liabilities to the Eurosystem incurred by the transfer of monetary policy from the central bank to the ECB.

*Table*: **Slovenia's gross external debt position, end of year, EUR m, 1995–2012**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total gross external debt** | 4,275 | 9,491 | 20,496 | 24,067 | 34,783 | 39,234 | 40,294 | 40,723 | 40,241 | 40,838 |
| Short-term debt | 1,470 | 2,283 | 4,573 | 5,239 | 10,733 | 11,595 | 9,640 | 8,429 | 8,356 | 10,542 |
| Public and publicly guaranteed debt | 0 | 0 | 70 | 77 | 3,588 | 3,603 | 3,360 | 2,145 | 2,774 | 4,613 |
| Non-guaranteed private debt | 1,470 | 2,283 | 4,503 | 5,162 | 7,145 | 7,992 | 6,280 | 6,284 | 5,582 | 5,929 |
| Long-term debt | 2,083 | 5,895 | 14,509 | 17,710 | 20,058 | 22,820 | 26,456 | 27,627 | 26,489 | 25,086 |
| Public and publicly guaranteed debt | 1,178 | 2,883 | 3,729 | 4,275 | 4,508 | 5,533 | 10,602 | 14,351 | 14,158 | 15,174 |
| Non-guaranteed private debt | 905 | 3,012 | 10,780 | 13,435 | 15,550 | 17,287 | 15,854 | 13,276 | 12,331 | 9,912 |
| Liabilities to affiliates | 722 | 1,312 | 1,415 | 1,119 | 3,992 | 4,818 | 4,198 | 4,666 | 5,396 | 5,209 |
| Public and publicly guaranteed debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-guaranteed private debt | 722 | 1,312 | 1,415 | 1,119 | 3,992 | 4,818 | 4,198 | 4,666 | 5,396 | 5,209 |

Source: Bulletin of the Bank of Slovenia, 2013.

*Figure*: **Structure of Slovenia's gross external debt by sector**




Sources: Bulletin of the Bank of Slovenia, 2013; IMAD calculations.

# 1.8 Yield on 10-year government bonds

***The yield on 10-year government bonds remained relatively high until the third quarter of 2012, but fell back towards 5% late in the year on the back of ECB measures.*** Last year's average yield on 10-year government bonds (5.9%) was 90 basis points above the 2011 average. The yield had surged in November 2011, when it exceeded 7%, and then (following a temporary fall in the first quarter) remained relatively high until October, mostly between 6% and 7%, before approaching 5% towards the end of the year.

***The yield curve was driven by specific domestic factors as well as external factors that affected yields in all vulnerable euro area countries.*** As Slovenia's standing on euro area financial markets deteriorated owing to delays in fiscal consolidation and structural reforms, the yield on Slovenian government bonds started following a similar trajectory to the bond yields of vulnerable countries in 2011. Each deterioration in the situation on the euro area sovereign bond market was therefore reflected strongly in the yield on Slovenian government bonds. In terms of the impact of various domestic and common factors, there were three distinct periods in 2012 affecting the yield curve. In the first period, most notably in February and March, the yield fell as a result of the impact of the ECB's long-term refinancing operations, reaching 5.06% in March. From March the dynamics were driven by specific domestic factors in addition to factors common to all euro area countries. The domestic factors highlighted by international rating agencies included the uncertainty surrounding the implementation of measures to reduce the general government deficit (until the adoption of the Fiscal Balance Act in May 2012), the deterioration in the domestic banking system and its adverse impact on public finances, renewed signs that Slovenia might need a bailout, poor growth prospects, and, to a greater extent towards the end of the year, factors associated with political instability. Of the external factors, the mounting debt crisis in Spain exerted a particularly strong impact from March, and combined with domestic factors led to a renewed rise in the yield to above 7% in August,[1] when all major rating agencies downgraded Slovenia and retained negative outlooks. In October yields in all vulnerable euro area countries fell once again in the aftermath of ECB action and measures at the EU level geared towards greater integration of the economic and monetary union and common bank supervision. For Slovenian government bonds, this brought a renewed fall in the yield to a level of around 5% by the end of the year, precipitated by external factors and the positive impact of the withdrawal of the referendum on a bad bank.

***Euro area bond yields are subject to a variety of factors, but they do not necessarily reflect specific fiscal and macroeconomic factors.*** Since the start of the crisis euro area bond yields have been affected by factors related to economic policy measures, and factors not necessarily related to the long-term fiscal and macroeconomic indicators in individual countries.[2] Even in 2011 there were significant differences in bond yields between the periphery countries and the core countries, based on differences in foreign bond investors' perceptions of the safety of their investments. Yields were driven by factors beyond the economic situation, such as political factors, specific one-off events and confidence indicators and, in 2012, by the prospects of the break-up of the euro area or the formation of a two-tier euro area. In contrast to the high yields of the periphery countries in the middle of the year, the yield on German bonds dropped to below 1%, while yields on Dutch, Austrian and French bonds also remained very low.

[1] The three biggest rating agencies downgraded Slovenia twice in 2012: first in January, when they revised the ratings of countries across the euro area, then in August, when the ratings of individual countries were revised (see table).

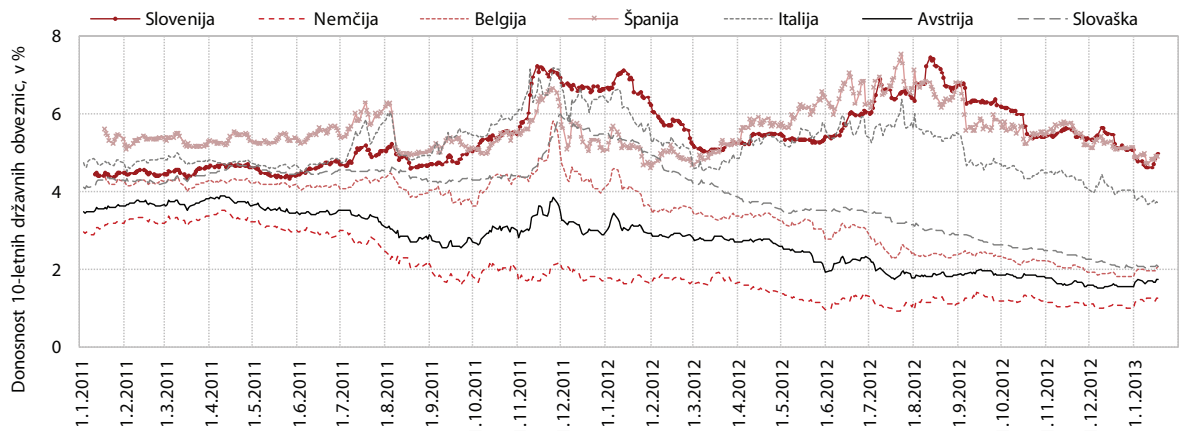
[2] This is also highlighted by De Grauwe P and Y Ji (2012), De Santis RA (2012), IMF Fiscal Monitor Update (2012). Di Cesare A, Grande G, Manna M and Taboga M (2012), Jesenko, M, Roter, M, and Žakelj, L ( 2011), and Metiu N (2012).

*Table:* **Credit ratings (March 2013) and changes between 2008 and 2013**

| Country | Agency | As of March 2013 | Change 2013/2008 |
|---|---|---|---|
| Greece | Fitch | CCC | ↓12 |
| | Moody's | C | ↓16 |
| | S&P | B- | ↓10* |
| Ireland | Fitch | BBB+ | ↓7 |
| | Moody's | Ba1 (neg) | ↓10 |
| | S&P | BBB+ | ↓7 |
| Portugal | Fitch | BB+ (neg) | ↓8 |
| | Moody's | Ba3 (neg) | ↓10 |
| | S&P | BB | ↓8 |
| Spain | Fitch | BBB (neg) | ↓9 |
| | Moody's | Baa3 (neg) | ↓12 |
| | S&P | BBB- (neg) | ↓8 |
| Italy | Fitch | BBB+ (neg) | ↓4 |
| | Moody's | Baa2 (neg) | ↓6 |
| | S&P | BBB+ (neg) | ↓3 |
| **Slovenia** | **Fitch** | **A- (neg)** | **↓4** |
| | **Moody's** | **Baa2 (neg)** | **↓6** |
| | **S&P** | **A-** | **↓4** |

Sources: Standard & Poor's, Moody's, Fitch, 2013.
Notes: * In December 2012 Greece was initially downgraded to SD (selective default), whereupon its rating was upgraded to B-; (neg): negative outlook; change: cumulative downgrade in the period.

*Figure*: **Yield on 10-year government bonds**




Source: Bloomberg, 2013.

# 1.9 Development of the financial sector

***Slovenia's financial sector is relatively poorly developed.*** International indicators of financial sector development place Slovenia lower in the rankings than its overall economic development would suggest. Banks account for the bulk of the financial sector, and they largely provide only debt financing to businesses. The poor state of Slovenia's banks is one of the key reasons why the development of the financial sector has stalled during the crisis.

***The value of the indicator of total bank assets relative to GDP has been declining since 2009.*** In 2012 it slipped to 128.7% of GDP. The drop was yet again the consequence of a steep decline in total bank assets (-6.3%), the sharpest since the start of the crisis, while the contraction of GDP had a countervailing effect. Liquidity pressures in the Slovenian banking system continued to escalate in 2012. Banks repaid EUR 3.3 bn net in liabilities to foreign banks, bringing the total since the start of the crisis to EUR 9.1 bn[1]. Other sources of bank financing were also severely limited. The combined effect of this is a widening gap with the EU average in recent years. In terms of total bank assets (relative to GDP), Slovenia achieved just under 37% of the EU average in 2011 (the latest year for which international data are available). This was the year in which the total assets of the EU's banking sector expanded most since the outbreak of the crisis (by 4.4%). Slovenia ranked in the group of countries in which the banking sector crisis escalated, forcing banks to scale back their operations. Only the Baltic countries, Ireland, Greece and Hungary experienced steeper or comparable contractions than Slovenia (3%). Since the situation in the Slovenian banking sector deteriorated at an accelerated pace in 2012, we estimate that the development imbalance relative to the EU became more pronounced last year.

***The value of the indicator of market capitalisation relative to GDP rose slightly in 2012, but it was still over three-quarters below the 2007 peak.*** Market capitalisation reached 13.8% of GDP, only slightly more than in the year before, when it had dropped considerably. The increase was the consequence of a marginally higher market capitalisation of shares as well as the contraction of GDP. The market capitalisation of shares on the Ljubljana Stock Exchange increased on the back of positive market trends, as the value of the benchmark SBITOP index rose almost 8% in 2012. Nevertheless, inadequate liquidity, poor transparency and the increasingly limited supply on the Slovenian capital market have been keeping potential investors away. We estimate that this also had a strong impact on the financial structure of the Slovenian economy, which depends primarily on debt financing, the very source that contracted the most during the financial crisis. Measured by market capitalisation, Slovenia's gap with the EU average widened during the crisis. Having already reached about two thirds of the EU average prior to the escalation of the crisis, the market capitalisation of shares relative to GDP dropped to just over 20% of the EU average in 2012. The average value of the indicator at the EU level rose by 4.4 percentage points to 61.1% of GDP in 2012, as the market capitalisation of shares rose due to positive trends in all major EU Member States.

***The volume of insurance premiums, an indicator of financial sector development in which Slovenia has the narrowest gap with the EU, has hovered slightly below 6% of GDP since 2009.*** Measured by this indicator, Slovenia achieved almost 75% of the EU average in 2011 and had the second-highest value among the new EU Member States, higher even than four old Member States (Austria, Spain, Luxembourg and Greece). The relatively narrow gap with the EU is still a consequence of the above-average share of non-life insurance premiums, which has been increasing in most of the last few years. However, Slovenia still lags behind the EU average in the share of life insurance premiums, which are considered more advanced insurance products. Their volume had been increasing rapidly until 2008, but the onset of the crisis stopped the positive trend. Slovenia achieves only a third of the EU average in this segment, suggesting that the insurance market is poorly developed and shallow.

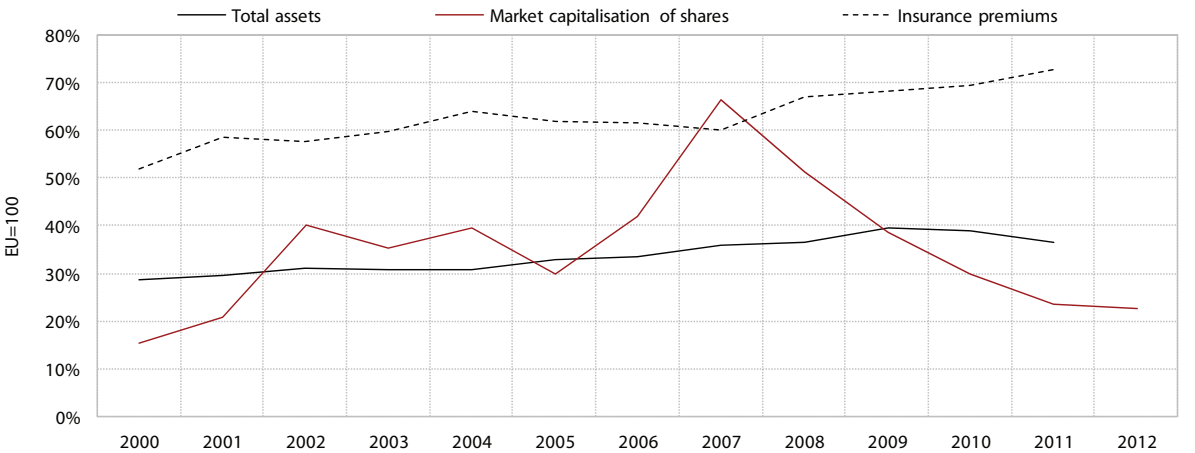
[1] The comparison refers to September 2008, when the situation in the financial sector escalated.

*Table*: **Indicators of financial system development, Slovenia, 1995-2012**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total assets, as a % of GDP** | 58.3 | 70.4 | 101.8 | 109.1 | 122.4 | 127.9 | 145.2 | 141.3 | 134.8 | 128.7 |
| Market capitalisation, as a % of GDP | 1.6 | 15.6 | 23.3 | 37.1 | 57.1 | 22.7 | 23.8 | 19.7 | 13.5 | 13.8 |
| Insurance premiums, as a % of GDP | 4.2 | 4.4 | 5.4 | 5.6 | 5.5 | 5.4 | 5.8 | 5.9 | 5.8 | N/A |

Source: Financial Stability Report (various volumes), Annual Statistical Report (Ljubljana Stock Exchange – various volumes), Statistical Insurance Bulletin (Slovenian Insurance Association – various volumes), National Accounts (SURS), 2013.
Note: N/A – not available.

*Figure*: **Indicators of financial system development, Slovenia, EU=100**




Source: Financial Stability Report (various volumes), Annual Statistical Report (Ljubljana Stock Exchange – various volumes), Statistical Insurance Bulletin (Slovenian Insurance Association – various volumes), National Accounts (SURS), Eurostat, European Insurance in Figures.

# 1.10 Loan-to-deposit ratio

*After Slovenia joined the EU the loan-to-deposit ratio in the Slovenian banking system surged.* The loan-to-deposit ratio is a measure of banks' and banking systems' dependence on non-deposit financing (particularly interbank markets) and indicates potential liquidity pressures associated with the maturing of bank liabilities. In Slovenia the first time that the volume of loans to non-banking sectors exceeded the value of non-bank deposits was in 2005. Given the poor development of other segments of financial intermediation (in particular the capital market), the bulk of economic activity in the period preceding the crisis was financed through borrowing, which soared in this period and substantially exceeded deposit growth in the banking system. Banks financed stronger lending primarily by taking loans from foreign banks, which totalled over EUR 12 bn net in 2005-2008, accounting for about 70% of the total exposure to foreign banks at the end of 2008. Liabilities to other foreign financial sectors accounted for nearly 35% of all financing liabilities. Due to the strong liquidity of international financial markets in this period, banks neglected financing in the form of non-bank deposits (in particular from households), which therefore spilled over to capital markets, where the yields were significantly higher than interest on deposits.By the end of 2008 the loan-to-deposit ratio had increased to 163.6%, and then plunged in 2009 to 146.2%. This was mainly the consequence of a strong inflow of government deposits. In that year the government borrowed EUR 4 bn through bond issues, depositing a significant portion of the funds with domestic banks. Inflows of household deposits, however, had already declined that year. In 2010 and 2011 the indicator dropped to about 140%, due in no small measure to the contraction of lending across the entire Slovenian banking system. The trend was even more pronounced in 2012, when the loan-to-deposit ratio changed little as inflows from non-bank sectors registered a steep decline. Household deposits in particular dropped, decreasing by about EUR 45 m on the annual level in what was the first contraction since comparable data have been available[1]. Nevertheless, during the crisis, household deposits turned out to be one of the most stable financing sources, rising by EUR 1.4 bn from the end of 2008 to the end of 2012, while the deposits of all non-bank sectors increased by EUR 3.6 bn. Liabilities to foreign banks, on the other hand, turned out to be a very unstable source of financing, as they almost halved in this period, dropping by EUR 8.5 bn.

***Slovenia places in the upper third of EU rankings in terms of the loan-to-deposit ratio.*** This indicates that the Slovenian banking system has above-average exposure to potential liquidity pressures, which have partially unfolded during the financial crisis. The Scandinavian and Baltic countries in particular had higher ratios than Slovenia, as did Ireland, Greece and Italy – countries that have been more strongly affected by the crisis. During the recovery and the resulting acceleration of lending, Slovenia was among the EU countries in which the indicator rose more robustly, but when the financial crisis escalated it also dropped more rapidly, though it remained above the EU average.

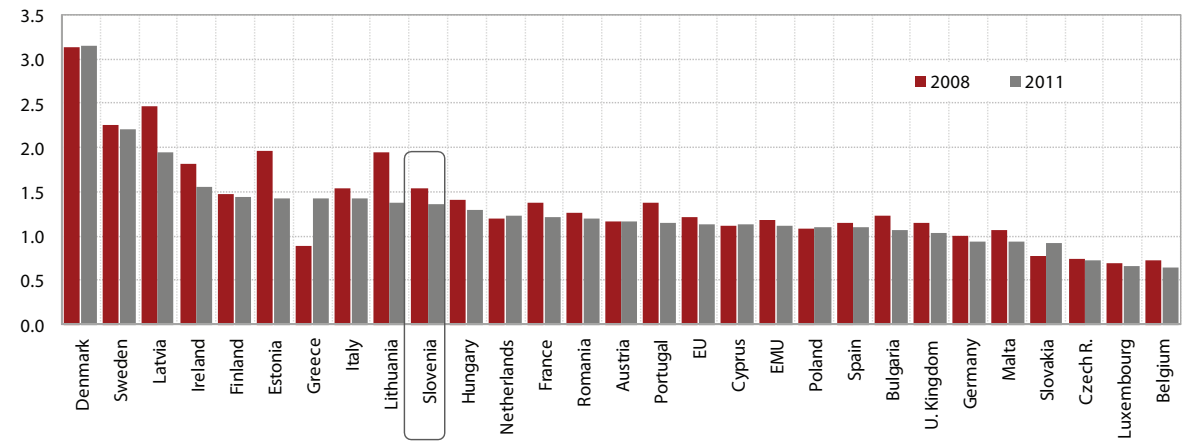
[1] The data are from 2005 onwards.

*Table*: **Volume of loans and deposits by domestic and foreign non-bank sectors in the Slovenian banking system, in EUR m, 2004-2012**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Loans** | | | | | | | | | |
| Households | 3,429 | 4,292 | 5,387 | 6,852 | 7,881 | 8,442 | 9,311 | 9,482 | 9,298 |
| Central government | 1,258 | 587 | 571 | 421 | 394 | 511 | 703 | 654 | 1,150 |
| Other non-bank sectors | 9,702 | 12,002 | 15,431 | 21,953 | 26,270 | 26,452 | 26,198 | 25,106 | 23,515 |
| **Deposits** | | | | | | | | | |
| Households | 10,324 | 10,856 | 11,680 | 12,809 | 13,992 | 14,639 | 15,170 | 15,445 | 15,411 |
| Central government | 442 | 698 | 945 | 1,270 | 1,724 | 3,922 | 3,558 | 3,796 | 3,589 |
| Other non-bank sectors | 4,335 | 4,834 | 5,309 | 5,760 | 5,401 | 5,657 | 5,912 | 6,159 | 5,731 |

Vir: BS, preračuni UMAR.

*Figure*: **Loan-to-deposit ratio, 2008 and 2011**




Source: EBF; IMAD calculations.

# 1.11 Labour productivity

***Labour productivity[1] fell in 2012 after two years of subdued growth.*** The strong decline at the start of the crisis (by 6.1% in 2009) was followed by moderate growth in 2010 and 2011 (3.5% and 2.2%). Given the sluggish growth in GDP (1.2% and 0.6%), the growth in labour productivity was mainly driven by lower employment (-2.2% and -1.6%), which typically adjusts to economic activity with a delay. In 2012 it slipped again (by 1.1%) as the drop in GDP was steeper than the contraction of employment.

***In 2012 productivity was weighed down by construction and market services, while the positive contribution of manufacturing activities declined sharply compared to the 2010–2011 period.*** At the peak of the business cycle (2005-2008), manufacturing and construction contributed the most to productivity growth, followed by traditional (trade and transportation) and financial services. These activities saw high sectoral productivity growth. Only in construction the structural component made a decisive contribution to overall productivity growth (the share of construction in total employment expanded strongly in this period). Having contracted sharply in 2009, productivity growth in 2010 and 2011 was again driven mainly by manufacturing and traditional services. Compared to 2005–2008, the share of knowledge-intensive market services (information-communication and professional-technical services) expanded slightly and the contribution of financial intermediation dropped. Construction recorded the most substantial change compared to the pre-crisis period: its contribution to productivity growth has been negative since 2009, as the share of this activity has been contracting (structural component) and its sectoral productivity has been declining. In 2012 the productivity of market services contracted after two years of growth, most notably in transportation, trade and information-communication services. Additionally, the construction sector contracted further and its productivity continued to decline. Despite their declining share of overall employment, only manufacturing activities had a positive contribution to productivity growth, but in 2011, and in particular in 2012, it was much more modest than in the period preceding the crisis.

***Slovenia achieves just slightly over 80% of the average productivity in the EU (expressed in purchasing power standards).*** Real productivity growth outpaced that in the EU in 2010 and 2011, but in the EU the decline was less pronounced than in Slovenia in 2009. Expressed in purchasing power standards, productivity thus rose to 80.6% of the EU average in 2011 (the latest year for which data are available), which is about 3 percentage points lower than at the onset of the crisis in 2008. Notably, productivity growth in Slovenia hinged to a larger extent than in the EU on employment trends[2], which adjusted to the sharp contraction of economic activity in the past. GDP growth, which is key to sustainable productivity growth, was weaker than in the EU[3]. Based on data for 2012, a further closing of the gap relative to the EU is not expected, as productivity contracted slightly in Slovenia but remained unchanged in the EU.

[1] Measured as the ratio between gross domestic product at constant prices and the number of employees based on the methodology of national accounts.

[2] In 2010 employment fell 2.2% in Slovenia and 0.5% in the EU; in 2011 it dropped by 1.6% in Slovenia but had already slightly recovered in the EU (by 0.3%).

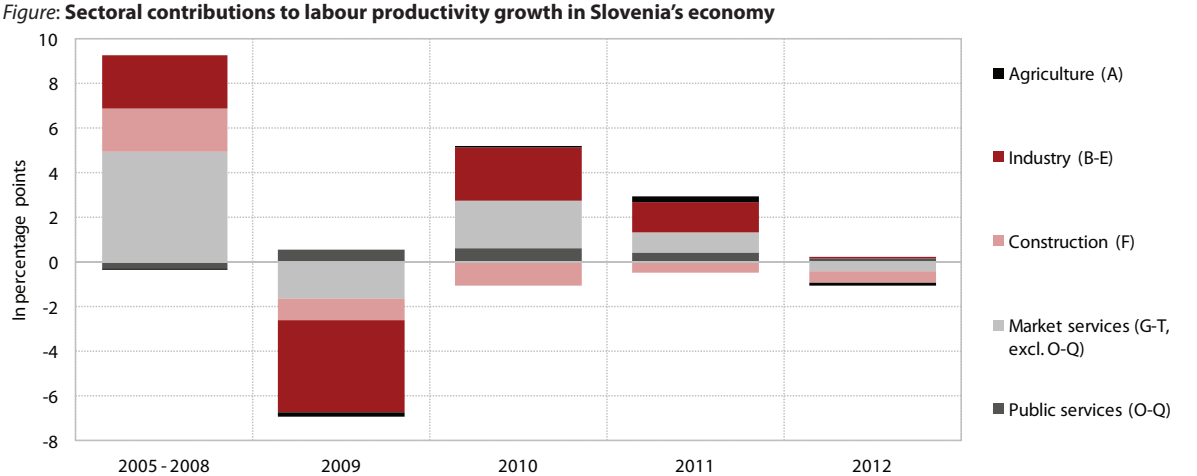
[3] In 2010 GDP grew by 1.2% in Slovenia and 2.1% in the EU, in 2011 it rose by 0.6% and 1.5%, respectively.

*Table*: **Labour productivity in PPS in Slovenia and the EU, EU-27=100, 2000-2011**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| **EU-27** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |
| **EMU-17** | **111.9** | **108.8** | **108.7** | **108.9** | **109.1** | **109.0** | **108.7** | **108.6** |
| Austria | 123.5 | 118.5 | 119.2 | 117.1 | 116.6 | 116.3 | 116.5 | 116.7 |
| Belgium | 137.3 | 130.5 | 129.3 | 127.7 | 127.1 | 127.9 | 128.6 | 127.6 |
| Bulgaria | 31.3 | 35.8 | 36.4 | 37.5 | 39.6 | 40.0 | 41.2 | 44.3 |
| Cyprus | 84.3 | 83.0 | 84.2 | 85.5 | 91.1 | 92.5 | 91.1 | 90.9 |
| Czech Republic | 65.6 | 73.1 | 74.0 | 76.3 | 74.1 | 75.9 | 73.8 | 74.1 |
| Denmark | 111.1 | 107.3 | 107.1 | 104.8 | 105.9 | 105.8 | 111.8 | 110.4 |
| Estonia | 47.2 | 60.8 | 62.4 | 66.7 | 65.8 | 65.1 | 68.4 | 68.0 |
| Finland | 115.5 | 111.3 | 110.7 | 113.7 | 113.4 | 110.2 | 108.9 | 109.4 |
| France | 119.4 | 116.5 | 115.4 | 115.6 | 115.4 | 117.3 | 116.5 | 116.5 |
| Greece | 94.2 | 95.9 | 97.2 | 95.5 | 97.7 | 98.2 | 93.3 | 90.1 |
| Ireland | 129.2 | 135.7 | 136.1 | 137.1 | 127.9 | 134.4 | 138.9 | 142.7 |
| Italy | 127.5 | 112.1 | 111.2 | 111.6 | 113.0 | 112.6 | 110.1 | 109.0 |
| Latvia | 40.1 | 47.8 | 48.9 | 51.4 | 51.6 | 52.9 | 53.7 | 62.4 |
| Lithuania | 43.2 | 55.0 | 56.8 | 59.6 | 62.1 | 58.0 | 62.5 | 64.8 |
| Luxembourg | 176.8 | 170.3 | 179.6 | 180.0 | 168.6 | 161.3 | 167.1 | 169.0 |
| Hungary | 57.1 | 67.7 | 67.8 | 66.6 | 70.7 | 72.4 | 70.9 | 71.1 |
| Malta | 100.9 | 94.6 | 93.2 | 92.3 | 94.5 | 97.5 | 97.2 | 94.8 |
| Germany | 107.2 | 108.6 | 108.8 | 108.4 | 108.0 | 104.3 | 106.1 | 106.6 |
| Netherlands | 115.0 | 114.6 | 114.4 | 114.5 | 115.5 | 112.7 | 112.1 | 111.6 |
| Poland | 55.5 | 61.8 | 61.2 | 62.3 | 62.4 | 65.5 | 67.4 | 68.8 |
| Portugal | 72.1 | 72.9 | 73.2 | 74.0 | 73.6 | 76.1 | 77.0 | 75.5 |
| Romania | 23.7 | 36.1 | 39.7 | 43.4 | 49.2 | 49.4 | 48.5 | 49.2 |
| Slovakia | 58.4 | 68.8 | 71.7 | 76.5 | 79.8 | 80.0 | 81.2 | 80.1 |
| **Slovenia** | **76.1** | **83.3** | **83.4** | **83.2** | **83.8** | **80.5** | **79.3** | **80.6** |
| Spain | 104.2 | 101.5 | 102.8 | 103.2 | 104.4 | 109.6 | 107.9 | 108.5 |
| Sweden | 114.9 | 112.1 | 113.1 | 114.9 | 114.4 | 112.2 | 114.5 | 115.7 |
| United Kingdom | 110.7 | 113.2 | 112.5 | 110.0 | 107.0 | 105.5 | 105.2 | 103.5 |

Source: Eurostat Portal Page - Economy and Finance – National accounts, 2012.

*Figure*: **Sectoral contributions to labour productivity growth in Slovenia's economy**




Source: IMAD calculations based on SURS data (National Accounts, 2012).

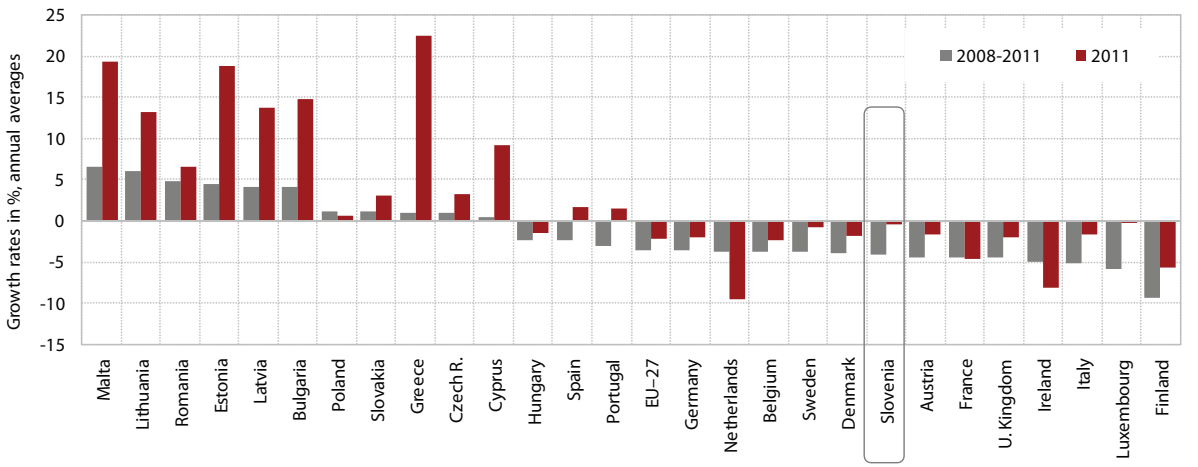
# 1.12 Market share

***The contraction of Slovenia's world market share eased off in 2011, but the cumulative decline compared to the level before the crisis was among the steepest in the EU.*** In 2008–2010 Slovenia was in the group of EU countries with the most pronounced erosion of world market share (fourth place). As its market share remained roughly unchanged in 2011 (-0.4%) against the slower decline in overall EU market share (to 2.3%), Slovenia was placed in the middle of the EU rankings. However, its gap compared to the level before the crisis was among the highest in the EU (15.9%, the eighth sharpest decline). This indicates that the export competitiveness of the Slovenian economy was strongly undermined during the crisis, which is partially a consequence of the regional and product composition of the country's exports (see chapter 1.3).

***In 2011 Slovenia's market share approached the pre-crisis level only on the EU market; in product markets only the share of high-tech products was close to the level of 2007.*** The market share in the EU rebounded in 2011 (1.7%) and was not noticeably below the pre-crisis level (1.5%), whereas the decline on extra-EU markets slowed down. On key EU markets, Slovenia's market share rose in Germany and Italy but contracted for the second year running in France, a trend associated with the phasing out of incentives for purchases of road vehicles through the end of 2010. After growing for a year, it also dropped in Austria. The slower contraction of extra-EU market shares was a result of growth in Croatia, the United States and Russia. In Serbia, Bosnia and Herzegovina and in Macedonia, Slovenia's market share shrank further. Broken down by the Standard International Trade Classification (SITC), Slovenia's market share of medical and pharmaceutical products, power generating and electrical machinery and equipment, and iron and steel, expanded in 2011. Among the key manufactured products, the market shares of these groups of products were the closest to the levels before the crisis or even exceeded them (power generating machinery). The market shares of miscellaneous manufactured articles rose as well, but like the majority of other manufactured products, they were significantly below the level prior to the crisis. In the group of food and raw materials, the market shares of electricity, oil and oil derivatives increased noticeably and were significantly higher than before the crisis[1]. This was a consequence of larger trade volumes in recent years, which were, however, not the result of changes in the structure of domestic consumption (see indicator 1.16). In terms of factor intensity, the market shares of high-tech and low-tech products and, to a lesser extent, resource-intensive products, rose while the shares of medium-tech products and labour-intensive products continued to decline. Only the share of high-tech products came close to the level before the crisis in 2011[2].

***Preliminary data for 2012 indicate a continuation of negative trends for Slovenia's export competitiveness.*** Quarterly data show that Slovenia's world market share declined more sharply than that of the EU in the first nine months of 2012[3]. The market

*Figure*: **Market shares of EU Member States on the world market, average annual growth rates in %**




Source: United Nations Commodity Trade Statistics Database, 2012; IMAD calculations.

[1] The market share of electricity was 1.7 times bigger than in 2007 and the market share of oil and oil derivatives rose by a factor of 4.3 in the same period.
[2] In 2011 it was down 0.6% over 2007. The decline was more pronounced for medium-tech products and resource-intensive products (by about 15%) and sharpest for low-tech and labour-intensive products (by about a quarter).
[3] The annual drop in Slovenia's world share of merchandise exports was 10.3% in the first nine months (EU: 7.0%).

share in the EU contracted again, on the back of a further deterioration of the market share in France and a decline in the majority of relatively less important EU markets. Market shares expanded in Germany and Austria and remained at the 2001 level in Italy. Among the main extra-EU partners, Slovenia's market share decreased in Croatia and the United States and rose in Russia and other countries of the former Yugoslavia.

*Table 1*: **Slovenia's world market share according to SITC**

| SITC code | | Share in Slovenia's exports, in % | Share on world market, annual growth in % | | |
|---|---|---|---|---|---|
| | | | 2001–2007 | 2008–2011 | 2011 |
| **0 do 9** | **Total[1]** | **100.0** | **4.7** | **-4.6** | **-1.4** |
| 0 do 4 | Food and raw materials | 13.8 | 5.8 | 4.1 | 6.3 |
| 5 do 8 | Manufactured products | 86.1 | 5.3 | -4.3 | -0.1 |
| 5 | Chemicals and related products n.e.s. | 15.9 | 5.7 | -1.9 | -0.6 |
| 54 | Medical and pharmaceutical products | 8.5 | 4.9 | -1.4 | 5.0 |
| 6 | Manufactured goods classified chiefly by material | 22.9 | 2.8 | -4.6 | 0.4 |
| 67 | Iron and steel | 4.0 | 3.0 | -2.3 | 9.1 |
| 68 | Non-ferrous metals | 3.3 | 0.7 | -6.5 | 0.7 |
| 69 | Manufactures of metals, n.e.s. | 4.7 | 5.9 | -5.2 | -0.3 |
| 7 | Machinery and transport equipment | 36.9 | 8.5 | -3.9 | -0.8 |
| 71 | Power-generating machinery and equipment | 3.0 | 4.3 | 1.4 | 4.1 |
| 74 | General industrial machinery n.e.s. | 5.7 | 9.3 | -5.2 | -3.7 |
| 77 | Electrical machinery, apparatus and appliances | 10.6 | 6.1 | -1.0 | 4.8 |
| 78 | Road vehicles | 12.6 | 9.5 | -5.9 | -11.1 |
| 8 | Miscellaneous manufactured articles | 10.4 | 0.3 | -8.2 | -1.6 |
| 82 | Furniture and parts thereof | 2.8 | -1.0 | -11.9 | -3.1 |
| 89 | Miscellaneous manufactured articles n.e.s. | 3.3 | 7.4 | -3.7 | 3.8 |

Source: United Nations, UNCTAD, 2012; IMAD calculations.
Note: SITC – Standard International Trade Classification. [1]All allocated products: SITC from 0 to 8 + 961+971.

*Table 2*: **Slovenia's market share on the world market and in main trading partners, in %, 1995-2011**

| | 1995 | 2000 | 2005 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| **Share of world market[1]** | | | | | | | | |
| Slovenia | 0.162 | 0.137 | 0.173 | 0.192 | 0.183 | 0.181 | 0.162 | 0.162 |
| EU | N/A | 37.437 | 38.351 | 37.919 | 36.352 | 36.305 | 33.529 | 32.859 |
| **Slovenia's market shares in main trading partners[2]** | | | | | | | | |
| Germany | 0.540 | 0.474 | 0.457 | 0.472 | 0.459 | 0.470 | 0.450 | 0.485 |
| Italy | 0.605 | 0.498 | 0.589 | 0.687 | 0.630 | 0.626 | 0.608 | 0.619 |
| Austria | 0.805 | 0.959 | 1.203 | 1.328 | 1.311 | 1.280 | 1.311 | 1.231 |
| France | 0.249 | 0.204 | 0.311 | 0.287 | 0.275 | 0.351 | 0.328 | 0.279 |
| United Kingdom | 0.088 | 0.055 | 0.086 | 0.115 | 0.110 | 0.110 | 0.106 | 0.108 |
| Poland | 0.361 | 0.470 | 0.446 | 0.515 | 0.487 | 0.437 | 0.480 | 0.432 |
| Hungary | 0.754 | 0.525 | 0.536 | 0.940 | 0.838 | 0.828 | 0.822 | 0.845 |
| Czech Republic | 0.522 | 0.468 | 0.521 | 0.574 | 0.507 | 0.514 | 0.458 | 0.478 |
| Croatia | 11.866 | 8.724 | 8.729 | 8.267 | 8.155 | 8.154 | 8.176 | 8.613 |
| Serbia | N/A | N/A | N/A | 5.447 | 5.109 | 5.587 | 5.381 | 4.864 |
| Bosnia and Herzegovina | N/A | N/A | 9.030 | 7.514 | 7.586 | 8.304 | 7.673 | 7.203 |
| Russian Federation | N/A | 0.564 | 0.587 | 0.473 | 0.445 | 0.429 | 0.315 | 0.339 |

Source: United Nations Commodity Trade Statistics Database, 2012; IMAD calculations.
Note: [1]The market share of exports is calculated as a share of merchandise exports of Slovenia or the EU (intra and extra) in world merchandise exports. [2]Slovenia's market shares in its main trading partners are calculated as shares of Slovenia's merchandise exports in the merchandise imports of its trading partner.

# 1.13 Unit labour costs

***After three years of deterioration, unit labour costs dropped in 2011.*** Real unit labour costs dropped in 2011 (by 1.6%) as wages decreased at a faster pace than productivity. The slowdown in wage growth stemmed mainly from the public sector, where wages remained unchanged for the second year running due to austerity measures, but private sector wage growth also tailed off. In the preceding three years unit labour costs increased, the result of a marked deterioration of labour productivity in 2009 and of high wage growth in 2008 and 2011[1].

***In manufacturing the ratio between labour costs and value added per employee improved to a greater extent than in the economy overall in 2011, after the decline in 2008–2009 had been steeper.*** In 2008–2009 a sharp contraction of foreign demand led to an above-average reduction of value added in manufacturing, and consequently of labour productivity. The growth in real unit labour costs in manufacturing (6% y-o-y) thus significantly outpaced those in the economy as a whole (3.8%), despite a more modest increase in compensation of employees per employee. Real unit labour costs in manufacturing had started to drop in 2010 and in 2011 declined at a far faster pace (4.5%) than overall unit labour costs (1.6%). As foreign demand recovered in 2010, higher value added and a steeper decline in employment led to productivity in manufacturing significantly outpacing overall productivity in the economy. However, given the concurrent increase in the minimum wage[2], the real drop in unit labour costs was nevertheless modest (-0.2%). In 2011 productivity growth slowed down but at a substantially slower pace than wage growth, hence the steeper drop in real unit labour costs.

***In 2008–2011 Slovenia was in the group of countries which saw the largest deterioration in cost competitiveness, despite an improvement in 2011.*** The erosion of cost competitiveness in 2008–2009 was less pronounced in the EU than in Slovenia, but while it continued to falter in Slovenia in 2010, in the EU the negative trend was already reversed[3]. In 2011, however, Slovenia's cost competitiveness improved faster than in the EU. Slovenia's relatively weak position in 2008 and 2010 was the result of growth in compensation per employee having outpaced that in the EU; in 2009 it was the consequence of a steeper decline in productivity on the back of one of the sharpest contractions in economic activity in the EU. In 2011 real unit labour costs in Slovenia (-1.6%) dropped at a more rapid pace than in the EU (-0.6%), as a consequence of higher labour productivity, for employment dropped even as it had already increased in the EU. However, even though Slovenia's economic recovery was slower than in the EU, compensation per employee rose at a similar pace.

***In the first three quarters of 2012 unit labour costs in Slovenia rose again, but at a slower pace than in the majority of other EU Member States.*** Unit labour costs grew (by 0.3%) in the first three quarters of 2012 owing to lower labour productivity and a renewed drop in economic activity. At the same time compensation per employee decreased as a result of wage cuts enshrined in the Fiscal Balance Act, though at a slower pace than labour productivity. In manufacturing the contraction of activity in the first three quarters of 2012 was slower than in the economy overall, while labour productivity continued to rise as employment fell further. Nevertheless, the erosion of cost competitiveness was similar to the economy overall, as wages grew, albeit modestly. Among the 21 EU Member States for which data are available, in 2012 cost competitiveness improved in nine and declined in twelve, with Slovenia recording the smallest deterioration in the latter group.

[1] In 2008 it was a consequence of the adjustment of wages to high past inflation and productivity, and the elimination of wage disparities in the public sector; in 2010 it was driven by the increase in the minimum wage.

[2] Additionally, it was affected in 2010 by changes in the structure of employment.

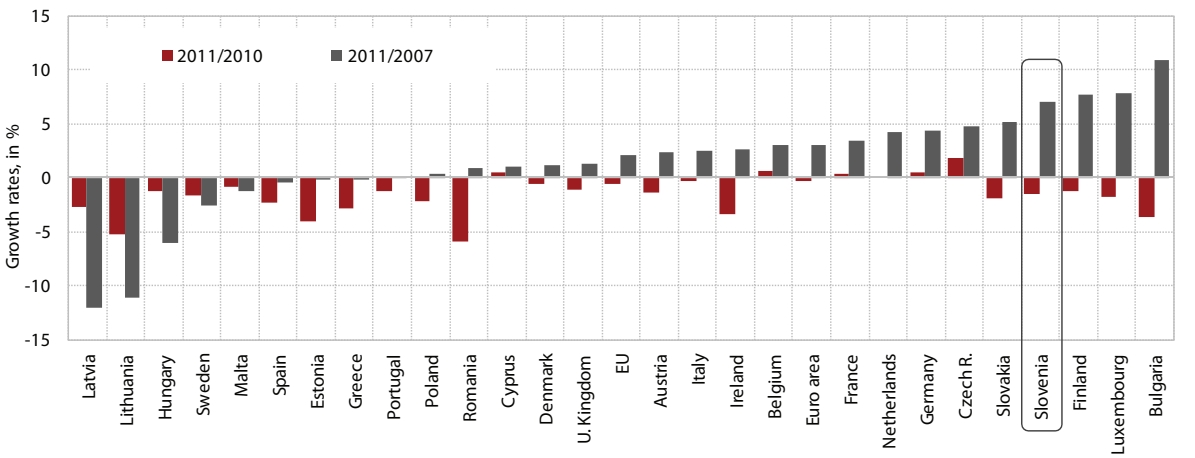
[3] In 2010 cost competitiveness deteriorated in only four Member States, with Slovenia registering the third biggest decline.

*Table*: **Unit labour costs in Slovenia and the EU, 1996–2012**

| Real annual growth rates, in % | 1996–2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|
| **Unit labour costs[1]** | | | | | | |
| Slovenia | -1.1 | 2.2 | 4.8 | 1.4 | -1.6 | 0.2 |
| EU-27 | -0.6 | 1.0 | 3.2 | -1.6 | -0.6 | 0.5 |
| EMU-17 | -0.7 | 1.7 | 3.2 | -1.6 | -0.3 | 0.4 |
| **Unit labour costs[2] – Slovenia** | | | | | | |
| Total | -1.3 | 2.2 | 5.3 | 1.8 | -1.6 | 0.7 |
| Manufacturing | -2.0 | 3.0 | 9.1 | -0.2 | -4.5 | 0.2 |

Source: SI-STAT data portal – Economy, 2012; Eurostat Portal Page – Economy and Finance, 2012.
Notes: [1]compensation of employees per employee at current prices divided by GDP per employee at current prices; [2]compensation of employees per employee at current prices divided by value added per employee at current prices.

*Figure*: **Real growth of unit labour costs in Slovenia and EU Member States, in %**




Source: Eurostat Portal Page – Economy and Finance, 2012.

# 1.14 Structure of merchandise exports by factor intensity

***The share of high-tech products in Slovenia's merchandise exports has declined since 2009, but given a similar trend in the EU, Slovenia's wide gap with the EU nevertheless narrowed slightly.*** Having expanded modestly for several years, the share of high-tech products rose more noticeably in 2008, as less competitive manufacturing sectors started to contract with the onset of the economic crisis. This process continued in 2009 mostly on account of a growing share of pharmaceutical products, which were not hit as hard by the drop in demand during the crisis. In 2010 exports of other merchandise groups gradually recovered, and the share of pharmaceutical products, and hence the share of high-technology products in Slovenia's merchandise exports, contracted again (by 0.8 percentage points). The drop continued in 2011 (by 0.2 percentage points), largely due to a decline in the share of exports of office machinery parts, whereas the share of pharmaceutical products inched up again (by 0.3 percentage points). The EU also saw a decline in high-tech exports that year (by 1.1 percentage points), meaning that Slovenia caught up with the EU in this field, although the gap with the EU average (6 percentage points) and the average of new EU Member States (1.6 percentage points) remains high. In 2011 the share of medium-tech products in Slovenia's merchandise exports dropped for the second consecutive year (by 1.7 percentage points)[1] due to a contraction in the exports of passenger cars.

***The importance of products with low value added[2] in merchandise exports has been declining for years as the share of labour-intensive products has been contracting, but since the start of the crisis the share of low-tech products has also fallen significantly.*** The contraction of the share of labour-intensive products continued in 2011, as exports of such products are very sensitive to competition from countries with low labour costs. The share of such products in overall merchandise exports has been dropping at an accelerated pace since Slovenia joined the EU, mostly on account of the relative decline in exports of textile products, furniture, paper and paperboard. Consequently, the relative scope of labour-intensive products has been approaching the EU average in recent years, exceeding it in 2011 by less than 3 percentage points – a level that is, however, still 1 percentage point above the average of the new Member States. The data for 2011 show a modest rise in the share of low-tech products in the breakdown of merchandise exports (by 0.4 percentage points), which had been relatively high until 2008 but has since been dropping. After several years of growth, the share of exports of miscellaneous metal articles dropped in 2009; the decline in the following year was chiefly a consequence of a decrease in the exports of iron and steel profiles, which however recovered slightly in 2011. Taking into account the latest changes, the share of low-tech products came very close to the EU average in 2011 (to 1.8 percentage points).

***The share of resource-intensive products[3] rose considerably in 2010 and 2011 owing to increased trading volumes that did not stem predominantly from structural changes in domestic output.*** The significant increase in 2010 (by 1.6 percentage points) was the consequence of a substantial rise in the share of electricity and aluminium exports, which we estimate was not based on increased production of these two products. Instead, as a result of significant differences in prices on individual markets and upgraded transmission capacities on the border with Italy, the transit of electricity from Croatia and Austria towards Italy surged. The higher trading volume led to a strong increase in electricity imports and exports, and hence electricity's share in merchandise exports, despite the fact that net exports accounted for only a fifth of the value of total electricity exports that year. The substantial year-on-year increase in the share of aluminium in merchandise exports in 2010 is attributable to higher prices. A further increase in trading in 2011 led to a renewed sharp increase in electricity imports and exports, which expanded the share of electricity in merchandise exports by 0.9 percentage points The share of resource-intensive products in exports rose by a further 1.5 percentage points to its highest level to date (19%).

[1] In the EU the share of exports of this product category increased (by 1.2 percentage points).

[2] The categories of low-tech and labour-intensive products include products with the lowest value added per employee such as: clothing, textile products, footwear, furniture, glass and glass products, flat- and rolled-iron products, and base-metal products.

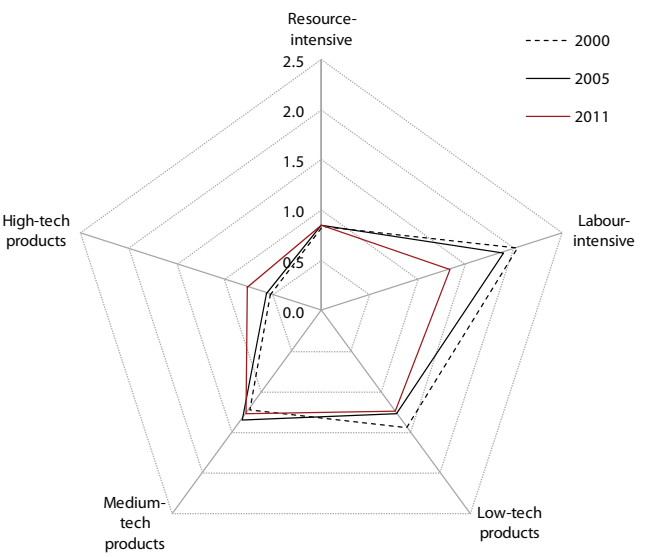
[3] The main groups of exported resource-intensive products in Slovenia's merchandise exports are: aluminium, finished mineral manufactures, electricity, rough and worked wood, veneer and other manufactured wood, wood manufactures, and non-alcoholic and alcoholic beverages.

*Table*: **Structure of merchandise exports by factor intensity[1], 2000–2011**

| In % | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Resource-intensive | EU-27 | 18.2 | 17.7 | 17.7 | 17.7 | 18.2 | 17.9 | 19.4 | 19.2 | 20.3 | 19.6 | 20.6 | 22.4 |
| | EU-15 | 18.0 | 17.5 | 17.7 | 17.6 | 18.2 | 17.8 | 19.4 | 19.3 | 20.5 | 19.6 | 20.7 | 22.4 |
| | EU-12 | 20.7 | 19.7 | 18.8 | 18.2 | 18.8 | 19.2 | 19.0 | 18.5 | 19.5 | 19.4 | 20.6 | 22.0 |
| | **Slovenia** | **15.3** | **15.1** | **14.6** | **14.6** | **14.0** | **15.4** | **16.1** | **15.5** | **15.8** | **15.9** | **17.5** | **19.0** |
| Labour-intensive | EU-27 | 10.6 | 10.7 | 10.7 | 10.4 | 9.8 | 9.0 | 8.6 | 8.5 | 8.2 | 8.7 | 8.2 | 8.1 |
| | EU-15 | 10.1 | 10.1 | 10.1 | 9.8 | 9.3 | 8.6 | 8.2 | 8.1 | 7.9 | 8.4 | 7.9 | 7.8 |
| | EU-12 | 18.5 | 18.9 | 18.8 | 17.7 | 15.8 | 14.0 | 12.3 | 11.4 | 10.2 | 10.8 | 10.2 | 9.9 |
| | **Slovenia** | **21.6** | **21.3** | **20.0** | **18.7** | **17.8** | **17.0** | **14.2** | **12.6** | **11.7** | **11.6** | **11.0** | **10.8** |
| Low-tech | EU-27 | 6.9 | 7.0 | 7.0 | 7.2 | 7.7 | 7.0 | 7.4 | 7.9 | 8.2 | 7.0 | 7.0 | 7.2 |
| | EU-15 | 6.6 | 6.7 | 6.7 | 6.9 | 7.4 | 6.6 | 7.1 | 7.6 | 7.8 | 6.7 | 6.7 | 6.9 |
| | EU-12 | 10.5 | 10.9 | 11.0 | 11.0 | 11.5 | 10.6 | 10.8 | 11.1 | 11.0 | 9.1 | 9.0 | 9.5 |
| | **Slovenia** | **9.9** | **9.9** | **9.9** | **10.1** | **10.8** | **8.8** | **10.2** | **10.4** | **11.1** | **9.8** | **8.6** | **9.0** |
| Medium-tech | EU-27 | 29.8 | 30.4 | 30.5 | 30.9 | 31.0 | 30.1 | 29.9 | 30.8 | 30.0 | 28.4 | 28.6 | 29.8 |
| | EU-15 | 29.8 | 30.3 | 30.5 | 30.7 | 30.8 | 29.8 | 29.5 | 30.2 | 29.5 | 27.8 | 28.0 | 29.2 |
| | EU-12 | 30.1 | 30.6 | 31.5 | 33.1 | 33.3 | 33.3 | 34.3 | 35.5 | 34.1 | 33.7 | 33.4 | 34.0 |
| | **Slovenia** | **36.2** | **36.2** | **37.3** | **37.3** | **38.3** | **40.2** | **39.1** | **40.9** | **39.3** | **39.9** | **39.6** | **37.9** |
| High-tech | EU-27 | 28.7 | 28.7 | 28.7 | 27.6 | 27.1 | 27.7 | 27.7 | 25.8 | 25.2 | 27.7 | 27.2 | 26.1 |
| | EU-15 | 29.4 | 29.4 | 29.5 | 28.3 | 27.9 | 28.5 | 28.6 | 26.5 | 25.8 | 28.3 | 27.7 | 26.7 |
| | EU-12 | 18.1 | 17.3 | 17.9 | 18.0 | 18.8 | 18.2 | 19.2 | 19.7 | 20.6 | 22.9 | 23.3 | 21.7 |
| | **Slovenia** | **15.5** | **16.0** | **16.7** | **17.9** | **17.2** | **16.0** | **17.1** | **17.4** | **18.8** | **21.1** | **20.3** | **20.1** |

Source: Handbook of Statistics 2007–2008 (United Nations), 2007; United Nations Commodity Trade Statistics Database, 2011; own calculations.
Note: [1]The classification of products into individual groups is based on the UN methodology (Trade and Development Report, 2002), which does not include all products. Consequently, the sum of the five product groups does not necessarily equal 100.

*Figure*: **Relative export advantage1 index of Slovenia's exports by factor intensity**




Source: Handbook of Statistics 2007–2008 (United Nations); United Nations Statistics Division: Comtrade; own calculations.
Note: [1]Relative Export Advantage Index – RXA Balassa index (or coefficient) – compares the share of Slovenia's exports of a certain group of products with the share of exports of this group of products in the group of countries that serves as a reference (in this case, the EU-27).

# 1.15 Exports and imports as a share of GDP

***Slovenia's trade integration rate rose only marginally in 2012 as foreign demand weakened and imports continued to contract.*** The average share of foreign trade reached 73% of GDP, up 1.2 percentage points over the year before. Slovenia's trade integration rate growth slowed down last year, largely as a consequence of a sluggish increase in merchandise trade relative to GDP, whereas the relative volume of services trade rose faster than in the year before. The nominal growth of merchandise exports was modest. Having expanded sharply in 2011, Slovenia's merchandise exports to EU markets contracted while the growth of exports to non-EU countries also slowed down. Exports to the countries of the former Yugoslavia declined, while the brisk growth of exports to the Russian Federation and the United Stated continued apace. The modest increase in nominal merchandise exports was underpinned by the exports of high-tech manufacturers (pharmaceutical raw materials and preparations). Slovenia saw a decline in the share of exports of motor vehicles, which dropped due to the crisis in the automotive industry, as well as in exports of low-tech industries. After two years of brisk growth, exports of electricity contracted. Merchandise imports dropped mainly due to weaker domestic demand. Given the continued contraction of domestic investment activity and private consumption expenditure, imports of capital goods products and consumer goods products saw the sharpest decline, while imports of intermediate goods edged lower on the back of weak growth of industrial output. A sharper decline in nominal merchandise imports was cushioned by the growth in import prices. Import prices outpaced export prices as the prices of primary raw materials and agricultural products grew. Services trade as a share of GDP has been growing at a slower pace than merchandise trade. Services exports relative to GDP were up 0.9 percentage points and services imports stagnated (up 0.1 percentage points). Slovenia has comparable advantages in exports of travel and transportation services, but this is still significantly below the EU average in terms of exports of knowledge-intensive services.

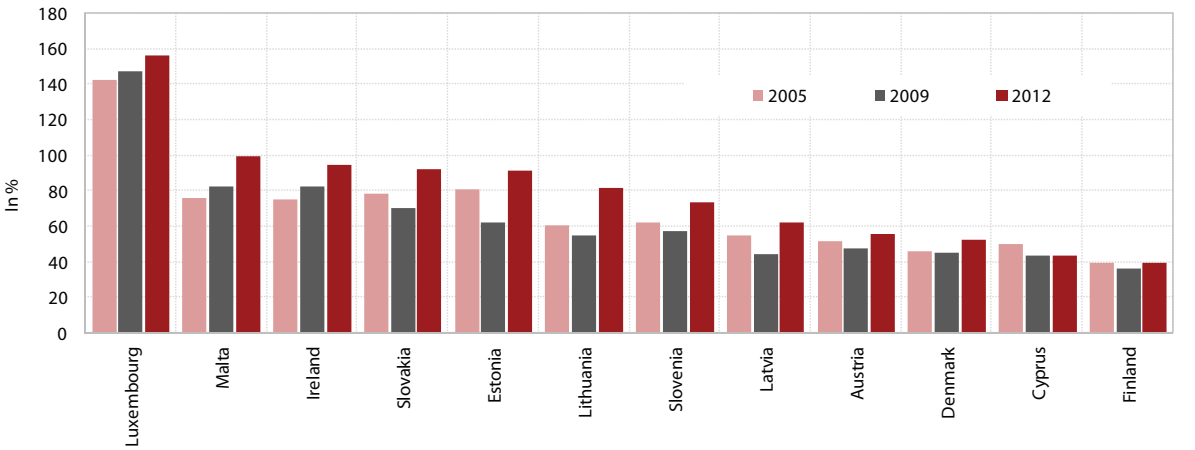
***Slovenia's trade integration rate in the past three years (2010–2012) outpaced the EU average and the rates in the majority of small EU economies.*** The contraction of global trade had an outsized impact on Slovenia in the first two years of crisis (2008–2009) compared to the EU average, but in 2010–2012 Slovenia's foreign trade relative to GDP recovered at a faster pace than in the EU. In the previous three years Slovenia's trade integration rate also improved more briskly than in the majority of small open EU economies, but it was nevertheless slower than in the Baltic countries, Malta and Slovakia, where the decline in the first two years of the crisis was more modest.

*Table*: **Average trade-to-GDP ratio (exports and imports)[1], 1995–2012**

| In % | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Trade-to-GDP ratio – Slovenia** | **50.6** | **55.4** | **62.4** | **66.8** | **70.4** | **69.2** | **57.7** | **65.5** | **71.8** | **73.0** |
| Goods | 42.1 | 47.1 | 52.6 | 56.7 | 59.7 | 57.7 | 46.9 | 54.1 | 60.3 | 60.9 |
| Services | 8.5 | 8.4 | 9.7 | 10.1 | 10.7 | 11.4 | 10.8 | 11.3 | 11.5 | 12.1 |
| **Exports of goods and services** | **49.6** | **53.7** | **62.2** | **66.5** | **69.5** | **67.9** | **58.7** | **66.0** | **72.4** | **75.0** |
| Goods | 39.7 | 44.2 | 50.8 | 54.8 | 57.2 | 54.5 | 46.2 | 52.7 | 58.8 | 60.5 |
| Services | 9.8 | 9.5 | 11.4 | 11.7 | 12.3 | 13.4 | 12.5 | 13.3 | 13.6 | 14.5 |
| **Imports of goods and services** | **51.5** | **57.2** | **62.6** | **67.1** | **71.2** | **70.4** | **56.7** | **65.0** | **71.2** | **71.0** |
| Goods | 44.4 | 49.9 | 54.5 | 58.6 | 62.1 | 61.0 | 47.6 | 55.6 | 61.8 | 61.4 |
| Services | 7.1 | 7.2 | 8.1 | 8.4 | 9.1 | 9.5 | 9.0 | 9.4 | 9.5 | 9.6 |
| **Trade-to-GDP ratio – EU-27** | **28.8** | **35.8** | **36.8** | **39.4** | **39.9** | **41.2** | **36.4** | **40.4** | **43.2** | **43.6** |
| Goods | 22.8 | 27.9 | 28.4 | 30.5 | 30.8 | 31.7 | 27.2 | 30.8 | 33.4 | 33.8 |
| Services | 6.0 | 7.9 | 8.5 | 8.9 | 9.2 | 9.5 | 9.3 | 9.6 | 9.8 | 9.9 |

Sources: SI-STAT data portal – National accounts, 2013; Eurostat Portal Page – Economy and Finance, 2013; IMAD calculations.
Note: [1]The ratio between the average value of total exports and imports according to the national accounts statistics and GDP at current prices.

*Figure*: **Average trade-to-GDP ratio (exports and imports)[1], in small EU economies**




Sources: SI-STAT data portal – National accounts, 2013; Eurostat Portal Page – Economy and Finance, 2013; IMAD calculations.

# 1.16 Foreign direct investment

***After falling in 2009, inward FDI stock rose in 2011 for the second year running, but the growth was the result solely of an increase in net claims of foreign parent companies to Slovenian subsidiaries.*** Inward FDI stock jumped 7.8% in 2011 to EUR 11,676.4 m, the highest level to date. Outward FDI stock dropped further (by 1.4%) and was 5.1% below its 2008 peak. The change in FDI stock is also confirmed by data on FDI flows in 2011, when inflows were by far the highest in the period after 2008, and as much as 2.7 times higher than in 2010. FDI outflows were registered, meaning fresh investments by Slovenian companies abroad, but they were very modest. In 2011 Slovenia recorded net FDI inflows. Breaking down the change in FDI stock to changes in equity capital and reinvested profits, and to changes in net claims (liabilities from intra-company loans), it is clear that inward FDI stock rose due to an increase in net claims of foreign parent companies to their Slovenian subsidiaries, whereas the stock of equity capital remained unchanged. In outward FDI Slovenian investors reduced their equity capital (by EUR 131.7 m) and increased net claims to their foreign subsidiaries (by EUR 43.9 m).

***Inward FDI stock relative to GDP reached the highest level to date on the back of the increase in 2011, but it nevertheless remains lower than in the majority of EU Member States.*** As a share of GDP, inward FDI stock rose significantly in 2005–2008 (from 21.7% to 30.1% of GDP). Having fallen to 29.6% of GDP in 2009, it rose in the subsequent two years to reach a record 32.3% of GDP in 2011. Outward FDI stock also surged in the second half of the previous decade (from 9.9% to 17.7% of GDP in 2005–2009), but then it declined for two years to reach 16.7% in 2011. In the EU, inward FDI as a share of GDP dropped since the start of the crisis, from 44.2% in 2007 to 41.4% in 2011. In part, the difference between the EU and Slovenia in relative inward FDI is a result of weaker economic trends in Slovenia. Slovenia remains among the EU countries with the lowest inward FDI stock as a share of GDP, with only Greece, Italy, Germany and Finland behind it. In terms of outward FDI stock as a share of GDP it lags behind Cyprus, Estonia and Hungary among the new Member States.

***FDI flows in 2012 indicate a renewed deterioration - a decrease of inward FDI flows and negative outward FDI flows.*** In 2012 inward FDI flows totalled only EUR 112m, six times less than in 2011. Outward FDI flows, meanwhile, stood at EUR 85 m compared to EUR 80 m in the year before. Inflows into Slovenia stemming from outward FDI were the result of a reduction in net claims to associates abroad and repatriation of profits, not a decline in equity capital. In 2012 Slovenia thus recorded net FDI inflows of EUR 197 m. The structure of FDI inflows was as follows: EUR 249 m from changes in equity capital, negative flow in the amount of EUR 137 m from reinvested profit, and EUR 45 m as a result of lower net liabilities of Slovenian subsidiaries to parent companies abroad (intra-company financing). The flows in 2011 suggested a gradual restoration of the confidence of foreign parent companies in Slovenian subsidiaries, but the trend reversed in 2012. The results of surveys among foreign subsidiaries in Slovenia show a similar picture. In 2009 as many as 68% of respondents forecast a drop in sales for the current year; the figure dropped to 59% in 2010 and only 23% in 2011, before surging to 55% in 2012. The expectations for next year are similar. In 2009, 61% forecast an improvement in sales for the following year and as many as 79% did in 2010 and 77% in 2011, but in 2012 that share dropped to 67%. As for the number of employees, 42% forecasted an increase in 2009 and 67% in 2010, but only 60% still did in 2012 (Rojec, Jaklič, 2012). The share of foreign subsidiaries that believe Slovenia's status as an FDI location will suffer due to the recession rose from 44% in 2009 to 74% in 2012.

*Table*: **Flows and stock of inward and outward FDI[1] in Slovenia, 2000-2102[2], in EUR m**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **INWARD FDI** | | | | | | | | | |
| Year-end stock | 3,109.8 | 6,133.6 | 6,822.3 | 9,765.1 | 11,236.3 | 10,540.3 | 10,826.7 | 11,676.4 | 11,881.8 (30. 9.) |
| Inflow | 149.1 | 472.5 | 513.3 | 1.106.4 | 1.329.5 | -469.7 | 271.0 | 718.8 | 111.9 |
| Stock as a % of GDP | 14.8 | 21.7 | 22.0 | 28.2 | 30.1 | 29.6 | 30.4 | 32.3 | N/A |
| **OUTWARD FDI** | | | | | | | | | |
| Year-end stock | 825.3 | 2,788.7 | 3,452.2 | 5,456.3 | 6,352.8 | 6,285.4 | 6,118.0 | 6,030.2 | 5,875.2 (30. 9.) |
| Outflow[3] | -71.7 | -515.6 | -687.0 | -1.362.3 | -1.002.1 | -186.9 | 159.7 | -80.8 | 85.2 |
| Stock as a % of GDP | 3.9 | 9.9 | 11.1 | 15.8 | 17.1 | 17.7 | 17.2 | 16.7 | N/A |

Source: www.bsi.si; SI-STAT data portal – National accounts, 2009, 2008; for 2012 Bank of Slovenia, 2013.
Notes: [1]Companies in which a foreign investor holds a 10% or higher capital share. [2] Since 1996, the figure also includes direct investment of companies in second affiliation. Since 2007, equity-related claims and liabilities cover all claims and liabilities a company has with the direct foreign owner as well as with all non-resident companies which are part of the foreign owner's group of companies (see International economic relations - Bank of Slovenia, March 2007, pp. 11–13). [3] Negative value denotes outflow; N/A – not available.

*Figure 1*: **Inward FDI stock relative to GDP, 2005 and 2011**

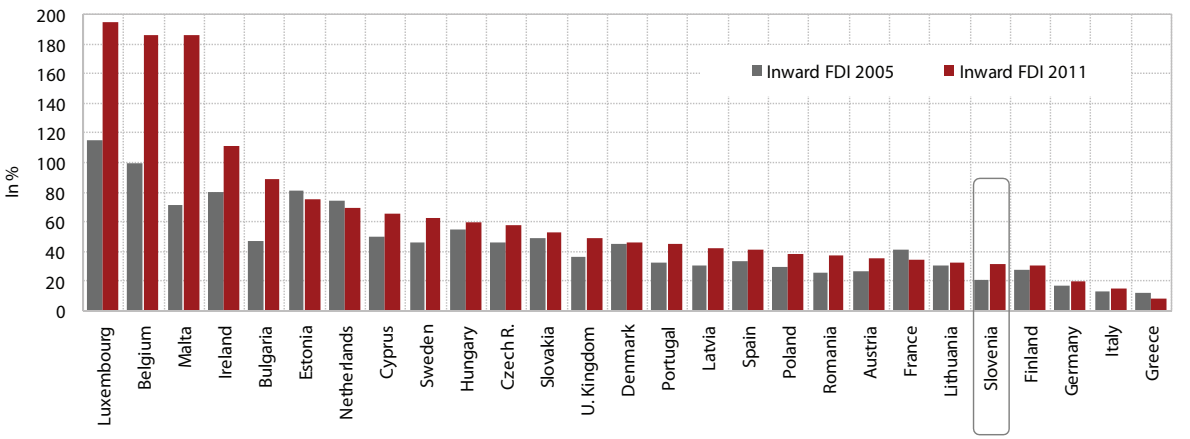
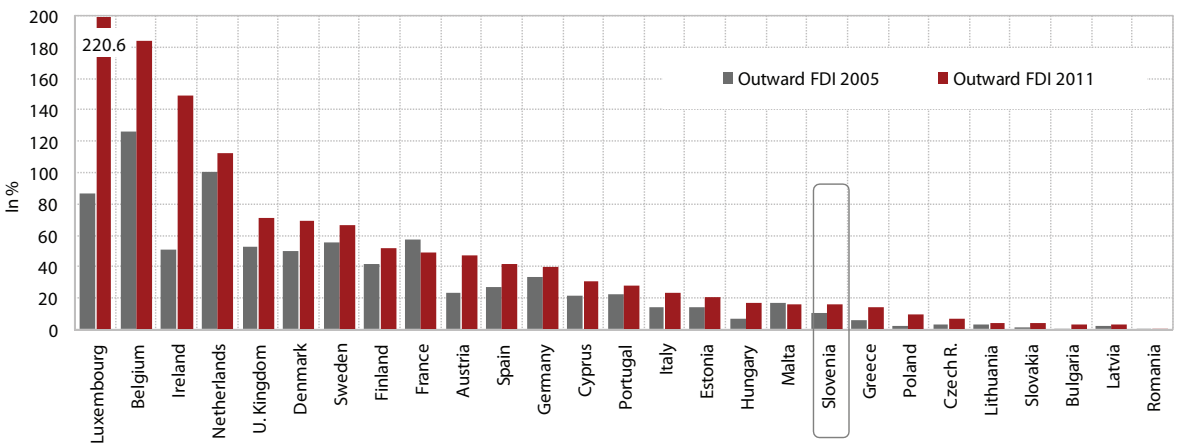



*Figure 2*: **Outward FDI stock relative to GDP, 2005 and 2011**




Source: UNCTAD, World Investment Report, 2012; for Slovenia see the table above.

# 1.17 Entrepreneurial activity

***Entrepreneurial activity in Slovenia picked up in 2012 after three years of decline.*** According to the Global Entrepreneurship Monitor (GEM), the rate of total early-stage entrepreneurial activity (TEA index)[1] rose significantly, to 5.4%, after dropping since the start of the economic crisis. In 2012 it was thus up two fifths over a year ago, though still more than a tenth below that in 2008. The turnaround in 2012 is probably connected to the relatively high number of recipients of self-employment subsidies in previous years. In the 2009–2011 period a total of 13,980 persons received self-employment subsidies and an additional 3,027 did in 2012 (Employment Service of the Republic of Slovenia, 2013). The improvement in total early-stage entrepreneurial activity was driven by the increasing share of nascent entrepreneurs, i.e. individuals actively trying to start a business or owning and running a business that has operated for no more than three months, as well as the share of new entrepreneurs, those who have been paying wages or salaries for less than 3.5 years. The share of the former rose by 1.1 percentage points and was still below the level of 2008 (by 1.1 percentage points) and the share of the latter by 0.7 percentage points to exceed the level of 2008 (by 0.1 percentage points). Since the share of established businesses, i.e. those in business over 3.5 years, also increased, overall entrepreneurial activity improved to 11.2% and stood slightly below its 2008 peak of 11.8%. In the 22 EU Member States included in the GEM[2] survey, average total early-stage entrepreneurial activity[3] remained roughly flat at 6.8% after having risen substantially in the year before. In four countries (Estonia, Latvia, Netherlands and Slovakia) it exceeded 10%. Slovenia's gap with the EU average narrowed significantly (to 1.4 percentage points). The decline in early-stage entrepreneurial activity in the EU was coupled with a decrease, to 5.7%, in the share of established businesses, bringing overall entrepreneurial activity down to 12.3%. Nevertheless, this was still 17.1% higher than in 2008.

***Necessity-driven early-stage entrepreneurial activity remains low, but the share of entrepreneurs engaging in a business to exploit a perceived opportunity rose in 2012, though it remains lower than before the crisis.*** Following a steep decline in perceived business opportunities in 2008–2011, the share of entrepreneurs engaged in early-stage entrepreneurial activity to exploit perceived business opportunities picked up last year to 4.9%. It rose 1.9 percentage points over the year before but is still 0.7 percentage points below the level in 2008. Necessity-driven early-stage entrepreneurial activity remained unchanged year-on-year at its lowest level of 0.4% for the second consecutive year. Considering the significant increase in the number of self-employed during the crisis, we estimate that the increase in the share of opportunity entrepreneurship is a consequence of the seeking of more flexible forms of employment in the uncertain economic environment (see also chapter 4.1). The average opportunity early-stage entrepreneurial activity in the 22 EU Member States remained unchanged last year at 5.0%, while necessity-driven entrepreneurial activity declined by 0.2 percentage points to 1.5%. Opportunity early-stage entrepreneurial activity dropped in nine Member States, with the steepest declines registered in Slovakia and Lithuania, and it increased the most in Slovenia and Hungary. Necessity-driven early-stage entrepreneurial activity dropped in seven EU countries spearheaded by Romania and Lithuania, and it increased the most in Hungary and the United Kingdom.

[1] For methodological explanation of measures of entrepreneurial activity see notes below the Table.

[2] In 2012 the GEM survey included 22 EU Member States, the highest number to date (only 14 did in 2009, for example). The same 19 countries as in 2011 (20 countries) participated as well as Austria, Estonia and Italy; the Czech Republic no longer participated.

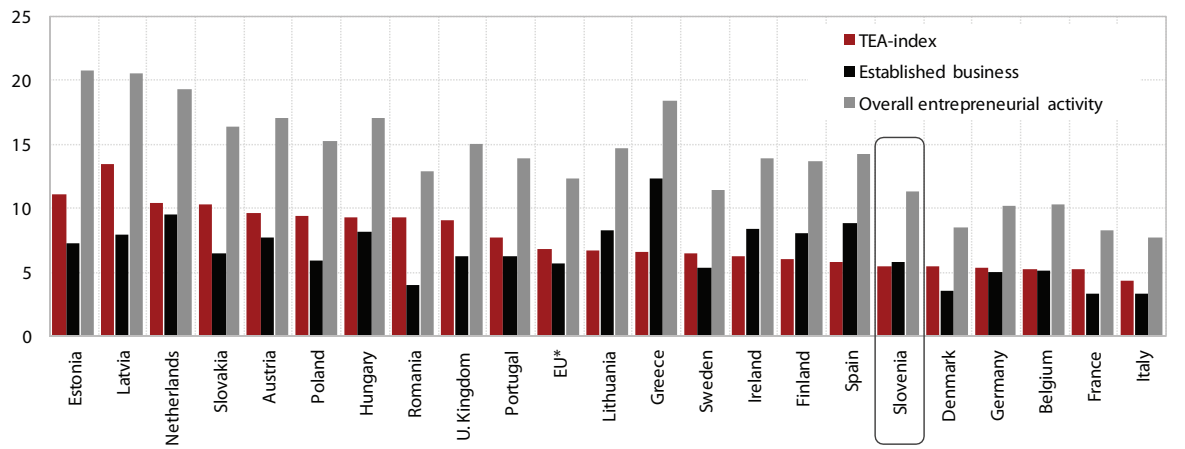
[3] The shares of nascent and new entrepreneurs changed at a similar rate (the former dropping 0.2 percentage points and the latter rising 0.1 percentage points).

*Table*: **Selected indicators of entrepreneurial activity, Slovenia, 2002–2012, as a % of the population (aged 18-64)**

| | 2002 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| TEA-index[1] | 4.6 | 4.4 | 4.6 | 4.8 | 6.4 | 5.4 | 4.7 | 3.7 | 5.4 |
| TEA-nascent entrepreneurs[2] | 3.3 | 3.0 | 2.9 | 3.0 | 4.1 | 3.2 | 2.2 | 1.9 | 3.0 |
| TEA-new entrepreneurs[3] | 1.5 | 1.4 | 1.8 | 1.8 | 2.4 | 2.1 | 2.4 | 1.8 | 2.5 |
| TEA-opportunity[4] | 3.3 | 3.8 | 4.0 | 4.2 | 5.6 | 4.7 | 3.7 | 3.0 | 4.9 |
| TEA-necessity[5] | 1.4 | 0.5 | 0.5 | 0.5 | 0.8 | 0.5 | 0.8 | 0.4 | 0.4 |
| Established business[6] | - | 6.3 | 4.4 | 4.6 | 5.6 | 5.7 | 4.9 | 4.8 | 5.8 |
| Overall entrepreneurial activity[7] | - | 10.1 | 9.0 | 9.3 | 11.8 | 10.8 | 9.5 | 8.4 | 11.2 |

Sources: Rebernik et al., 2002; Rebernik et al., 2004; Rebernik et al., 2005; Rebernik et al., 2006; Rebernik et al., 2007; Rebernik et al., 2008; Bosma et al., 2009; Rebernik et al., 2010; Rebernik et al., 2011, Rebernik et al., 2012; Xavier et al., 2013.
Notes: [1] The TEA-index is the rate of total early-stage entrepreneurial activity measuring the share of the population engaging in entrepreneurship. It includes individuals who have started setting up a new business or engaging in new business activities, including self-employment ([2] TEA-nascent entrepreneurs that have paid wages or salaries for no more than three months). It also includes individuals employed as owners/managers of new businesses who have been paying salaries for no longer than 42 months. ([3]TEA new entrepreneurs). [4] TEA-opportunity measures the share of the population who engage in entrepreneurial activity to exploit a perceived business opportunity. [5] TEA-necessity measures the share of the population who have set up a business out of necessity. [6] Established business represents the share of people who own a firm that has been operating for more than 42 months. [7] The overall entrepreneurial activity includes the TEA index and the share of established businesses.

*Figure*: **Selected indicators of entrepreneurial activity in Slovenia and 22 EU Member States included in the GEM, 2012**




Source: Xavier et al., 2013; calculations by IMAD.
Note: * Weighted average of 22 EU Member States included in the GEM 2012 survey.

# 1.18 Share of non-financial market services

***The share of non-financial market services in value added dropped in 2011 following several years of growth and subsequent stagnation in 2010.*** Non-financial market services[1] accounted for 44.0% of total value added in 2011 (40.0% of all persons in employment), down 0.4 percentage points over the year before and 1.5 percentage points more than when the SDS was adopted (2005). The bulk of the increase in previous years, as well as last year's drop, is attributable to knowledge-intensive services[2]. Predominantly traditional services (trade, transportation, accommodation and food services) account for the strongest share among other (non-financial) market services. Their economic importance increased significantly around the peak of the business cycle (2005–2008), but it has declined since the start of the economic crisis (2008), although it is still higher than in 2005.

***The decline in the share of knowledge-intensive services in 2011 is the result mostly of lower activity of certain services dependent on the construction sector.*** The share of knowledge-intensive non-financial market services, which include telecommunication services, certain business services and some transportation services, grew until 2010 after having stagnated in the period 2003–2006, but it dropped substantially in 2011 (by 0.4 percentage points) to 12.5%. Business services account for the bulk of knowledge-intensive services, their share having expanded by 1.4 percentage points in 2005–2010 before dropping by 0.3 percentage points to 10.6% (the target value in SDS is 12%). Computer programming and other information activities, legal and accounting activities, and business management and consultancy had recorded the biggest increases among knowledge-intensive services in the past, and they preserved their shares in 2011. The share of architectural and engineering activities, technical testing and analysis increased in the 2005–2010 period, but it dropped by 0.3 percentage points in 2011, which we attribute to the decline in investments in residential and commercial buildings during the crisis and the consequent decline in demand for such services.

***The rapid increase in the share of knowledge-intensive services brought Slovenia very close to the EU average in recent years, but we estimate that the favourable trend was interrupted in 2011.*** Slovenia's gap with the EU average in terms of the share of non-financial market services in the overall economic structure had been narrowing since 2001 to 3.3 percentage points in 2010, but it widened to 3.8 percentage points in 2011. The closing of the gap in the past was driven by business services, while the share of predominantly traditional services (trade, transportation, accommodation and food services) has been higher than in the EU for several years[3]. With the rapid growth in business services, which are the key component of knowledge-intensive services, the share of knowledge-intensive services in Slovenia was almost level with the EU average according to the latest international data for 2010 (in 2000 the gap was 2.2 percentage points, in 2005 1.3 percentage points). The trends in Slovenia in 2011 (contraction of the share of business services), however, indicate a renewed widening of the imbalance relative to the EU. Among knowledge-intensive business services, the share of professional, scientific and technical activities has been above the EU average since 2008. We estimate that the high share of these activities in the international comparison is a consequence of systemic differences[4] and the rapid expansion of construction-related services[5] during the construction investment boom. During the period of implementation of SDS, Slovenia also came very close to the EU average in terms of information activities (to 0.5 percentage points). The gap in miscellaneous business services (travel agency services, rental and leasing services, security, employment, investigation and other activities) has remained virtually unchanged (about 1.5 percentage points).

[1] Activities of the Standard Classification of Activities (SKD): G, H, I, J, L, M, N, R, S and T.

[2] According to Eurostat's methodology, knowledge-intensive services comprise water transport (section 50), air transport (section 51), motion picture, video and television programme production, sound recording and music publishing activities (59 and 60), telecommunications (61), computer programming and other information service activities (sections 62 and 63), scientific and technical activities (M), employment activities (78), security and investigation activities (80–82).

[3] A wide gap, which stood at 2.5 percentage points in 2012, has been recorded in real estate activities, but this could also be explained by a high share of proprietary housing in Slovenia, which is characterised by relatively low and constant growth rates of value added.

[4] As of 2002 all individuals working on a contractual basis and their value added are included among other professional and technical activities (sections 74 and 75). Such forms of work are more widespread in Slovenia than in the EU on average, mostly on account of the high volume of student work.

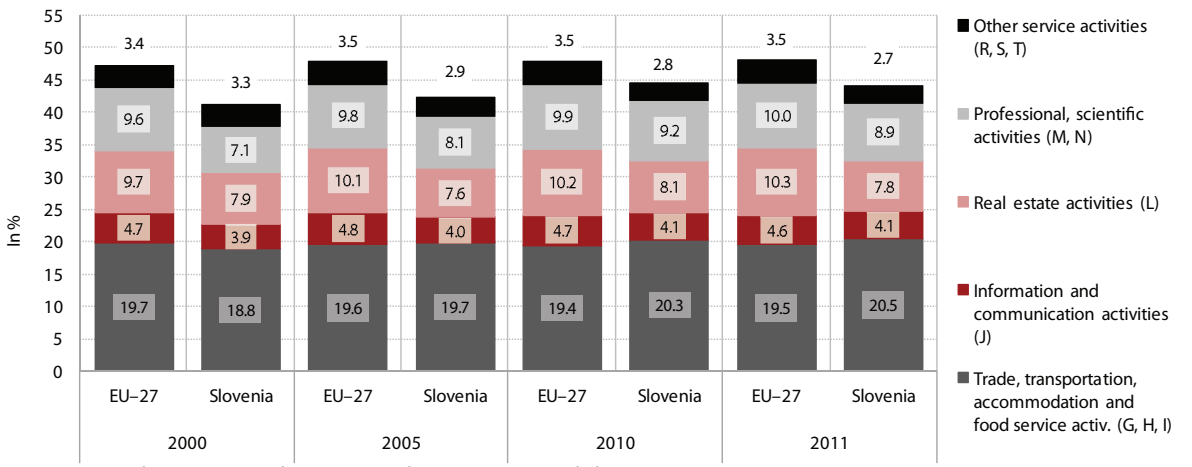
[5] In particular architectural and engineering activities, technical testing and analysis (section 71).

*Table*: **Share of non-financial market services in value added, Slovenia, 1995–2011**

| In % | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Non-financial market services – N,F,T,S | 39.7 | 41.0 | 42.5 | 42.5 | 42.9 | 43.7 | 44.4 | 44.4 | 44.0 |
| Trade, transportation, accommodation and food service activities (G,H,I) | 19.2 | 18.8 | 19.7 | 20.0 | 20.5 | 21.0 | 20.4 | 20.3 | 20.5 |
| Information and communication activities (J) | 2.9 | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 | 3.9 | 4.1 | 4.1 |
| Real estate activities (L)[1] | 7.9 | 7.9 | 7.6 | 7.4 | 7.1 | 7.3 | 8.4 | 8.1 | 7.8 |
| Professional, scientific, administrative and support service activities (M,N) | 6.6 | 7.1 | 8.1 | 8.3 | 8.6 | 8.9 | 8.9 | 9.2 | 8.9 |
| Other service activities (R,S,T) | 3.2 | 3.3 | 2.9 | 2.8 | 2.6 | 2.6 | 2.8 | 2.8 | 2.7 |
| Knowledge-intensive N,F,T,S | 8.6 | 10.0 | 11.8 | 12.0 | 12.3 | 12.7 | 12.6 | 12.9 | 12.5 |
| Part of transportation activities[2] | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 | 0.6 | 0.4 | 0.3 | 0.2 |
| Business activities[3] | 7.0 | 8.2 | 9.5 | 9.7 | 10.0 | 10.4 | 10.5 | 10.9 | 10.6 |
| Telecommunication activities[4] | 1.3 | 1.6 | 1.9 | 1.9 | 1.9 | 1.8 | 1.6 | 1.7 | 1.7 |

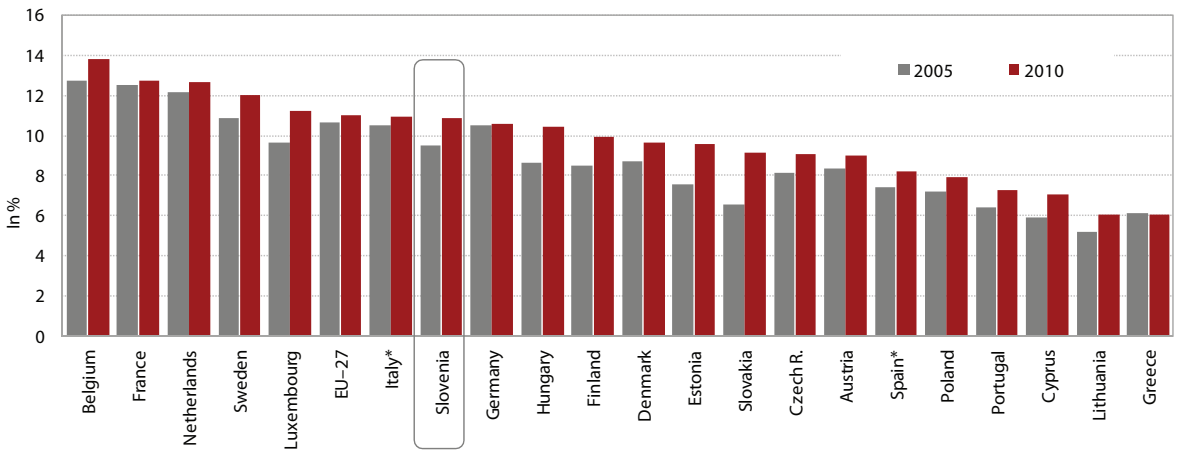
Source: SI-STAT Data portal – National accounts (SURS), 2013; IMAD calculations.
Notes: [1]The estimated housing activity of households, which is characterised by relatively low and constant growth rates of value added, accounts for the bulk of real estate activities (83.7% in 2011). [2] Knowledge-based transportation activities include: water transport (section 50) and air transport (section 51). [3] Knowledge-based business services include: motion picture, video and television programme production, sound recording and music publishing activities (59 and 60), computer programming and other information service activities (sections 62 and 63), professional, scientific and technical activities (M), employment activities (78), security and investigation activities (80–82.). 4 Telecommunication activities (section 61).

*Figure 1*: **Share of non-financial market services in value added**




Source: Eurostat Portal Page - Economy and Finance – National accounts, 2013; IMAD calculations.

*Figure 2*: **Share of knowledge-based business services in value added**




Source: Eurostat Portal Page - Economy and Finance – National accounts, 2013; IMAD calculations.
Note: * data for 2009.

## THE SECOND PRIORITY:

## Use of knowledge for economic development

- 2.1 Share of the population with tertiary education
- 2.2 Education expenditure
- 2.3 Adult participation in education
- 2.4 Gross domestic expenditure on R&D
- 2.5 Innovation activity
- 2.6 Intellectual property
- 2.7 Use of internet and e-services

# 2.1 Share of the population with tertiary education

***The share of the population with tertiary education further increased in 2012, but was lower than the EU average.*** The share of the adult population (25–64 years) with tertiary education in 2012 (second quarter) was 26.1%, which was an increase of 0.6 percentage points compared to the previous year. In the 2005–2012 period the gap behind the EU average narrowed as a result of the rapidly growing number of graduates, which in 2011 was 29.6% higher than in 2005. Due to demographic reasons, the share of graduates and the share of the population with tertiary education are not expected to further increase at such a rate.

***As regards the share of the young population with tertiary education, Slovenia exceeds the EU average, while in older age groups it lags behind it.*** In 2012 (second quarter), the share of young people aged 25–34 with tertiary education equalled 35.6% (EU: 34.9%). In 2005–2012, it increased faster than the EU average. The rapid increase was the result of high youth enrolment in tertiary education, which in Slovenia in 2010 was the highest among EU countries (29.9%), reaching as much as 48.3%. Also the share of young people aged 30–34 with tertiary education was high, totalling 39.1% (3.6 percentage points higher than in the EU), meaning that Slovenia came very close to the youth education target of the EU 2020 Strategy (target of 40% by 2020). In older age groups, the share of the population with tertiary education lags behind the EU average, and rose less markedly than in the younger age groups during the period of SDS implementation. This was due to a much lower share of adults enrolled in tertiary education, which in the period of SDS implementation decreased even further.

***In 2011, the positive trends in the number of science and technology graduates continued in terms of development and innovation capacities of the economy***[1]. Their number increased significantly in 2011 (by 14.2%), as did their share in the total number of tertiary education graduates (23.2%) which was already close to the EU average in 2010. Favourable trends in this area are attributed to the increase in the share of young people enrolled in science and technology in the 2005–2011 period. However, owing to a decrease in the size of generations for enrolment in tertiary education since the 2010/11 academic year, the number of students enrolled in science and technology has also been declining. In addition, unfavourable trends were also observed in scholarships, since the share of students enrolled in science and technology who are receiving sponsorship declined for the third consecutive year in 2011. Scholarships will therefore need to be enhanced in the future, so as to promote enrolment in science and technology, where it would make sense in particular to promote the enrolment of women, which is relatively low. In 2011/12 their share represented 29.5% of enrolled students in science and technology, which is significantly lower than the share of women in the total number of students enrolled in tertiary education (57.7%).

***The number of doctors of science in science and technology declined in 2011, as did their share in the total number of doctors of science.*** Thus, the positive trends seen in the last few years, when Slovenia recorded growth were brought to a halt. Considering the favourable trends in the number of those enrolled in PhD studies of science and technology in recent years, the drop in the number of doctors was indeed unexpected. In the 2005–2010 period, the number of doctors in science and technology increased more than the EU average. In the coming years a growing number of doctors in science and technology may be expected due to a rapid increase in the number of people enrolled in PhD studies over the last few years. Favourable trends in enrolment are also related to state incentives (young researchers and strengthening development departments in enterprises). What remains critical is the higher recruitment of new and highly-educated people in the business sector. Moreover, the envisaged reduction as regards the employment of doctors in the public sector may additionally increase the brain drain. Slovenia would thereby lose the knowledge of highly-qualified people who are needed in order to increase the innovative activities of the business sector.

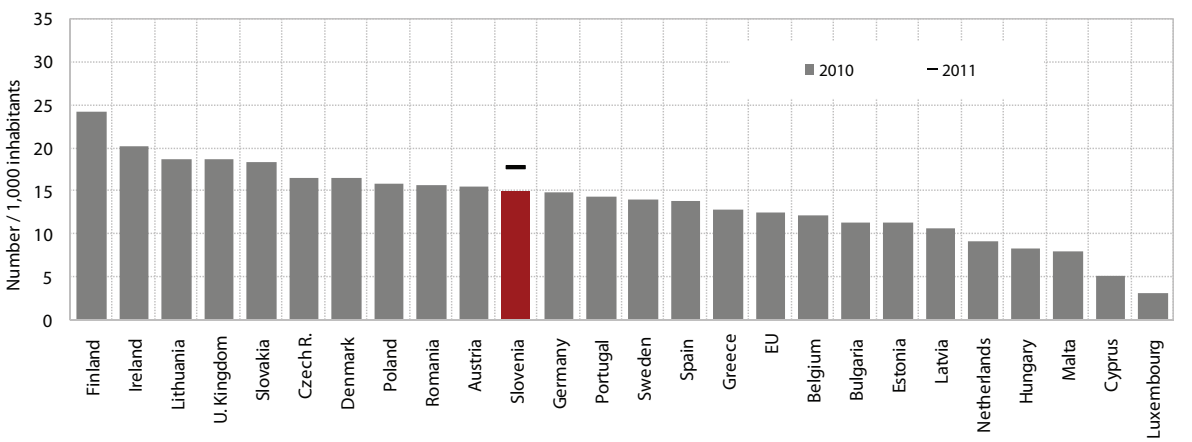
[1] According to ISCED 97, natural and technical sciences cover two broader areas, namely "science, mathematics and computing" (ISC 42,44, 46 AND 48), and "engineering, manufacturing and construction" (ISC 52, 54 and 58). The indicators cover the number of all graduates of tertiary education in the field of science and technology who completed their studies in the calendar year under observation.

*Table*: **Share of population aged 25–64 with tertiary education, EU, 1995–2012 (2nd quarter), in %**

| | 1998 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EU** | **9.4** | **18.5** | **22.2** | **22.8** | **23.4** | **24.1** | **25.0** | **25.7** | **26.5** | **27.5** |
| Austria | N/A | 14.5 | 17.6 | 17.7 | 17.7 | 18.1 | 19.1 | 19.5 | 19.0 | 19.9 |
| Belgium | 25.3 | 27.1 | 30.7 | 31.0 | 31.4 | 31.9 | 32.4 | 35.2 | 34.9 | 35.2 |
| Bulgaria | N/A | 18.4 | 21.4 | 21.7 | 22.1 | 22.8 | 22.9 | 22.8 | 23.4 | 23.4 |
| Cyprus | N/A | 25.1 | 27.8 | 29.9 | 33.0 | 34.6 | 34.3 | 35.1 | 37.1 | 39.5 |
| Czech Republic | 10.5 | 11.5 | 13.1 | 13.5 | 13.7 | 14.3 | 15.4 | 16.7 | 18.0 | 18.8 |
| Denmark | 25.4 | 25.2 | 32.9 | 34.8 | 30.5 | 34.3 | 32.7 | 33.1 | 33.2 | 33.0 |
| Estonia | 30.2 | 28.9 | 33.6 | 32.9 | 34.0 | 33.5 | 35.9 | 35.7 | 36.9 | 37.5 |
| Finland | 28.8 | 32.3 | 34.5 | 34.9 | 36.4 | 36.5 | 37.1 | 37.1 | 38.7 | 38.9 |
| France | N/A | N/A | 25.0 | 25.9 | 26.8 | 27.1 | 28.6 | 28.9 | 29.6 | 30.9 |
| Greece | 16.8 | 16.9 | 20.5 | 21.3 | 21.9 | 22.5 | 22.7 | 23.7 | 25.1 | 26.2 |
| Ireland | N/A | 21.2 | 28.3 | 30.1 | 31.2 | 32.7 | 34.2 | 36.1 | 36.9 | 38.2 |
| Italy | 8.6 | 9.4 | 11.9 | 12.7 | 13.5 | 14.3 | 14.4 | 14.7 | 15.0 | 15.6 |
| Latvia | 17.0 | 18.0 | 21.5 | 21.4 | 23.6 | 24.2 | 23.7 | 26.9 | 27.7 | 28.7 |
| Lithuania | 41.0 | 41.8 | 26.5 | 27.2 | 29.8 | 30.5 | 30.2 | 32.3 | 33.4 | 34.3 |
| Luxembourg | 0.0 | 17.9 | 26.5 | 24.0 | 28.6 | 28.3 | 34.0 | 34.5 | 35.9 | 38.6 |
| Hungary | 13.1 | 14.0 | 17.0 | 17.8 | 17.9 | 19.1 | 19.8 | 20.0 | 20.9 | 22.0 |
| Malta | N/A | 5.4 | 12.1 | 12.4 | 12.4 | 13.3 | 12.8 | 12.9 | 16.0 | 16.4 |
| Germany | N/A | 22.5 | 24.5 | 24.2 | 24.3 | 25.1 | 26.3 | 26.4 | 27.3 | 27.9 |
| Netherlands | 21.8 | 24.0 | 29.9 | 29.8 | 30.3 | 32.0 | 32.3 | 33.8 | 31.5 | 32.8 |
| Poland | 10.7 | 11.4 | 16.5 | 17.8 | 18.8 | 19.6 | 21.2 | 22.6 | 23.3 | 24.7 |
| Portugal | 8.3 | 9.0 | 12.7 | 13.4 | 13.6 | 14.2 | 14.7 | 15.5 | 16.9 | 18.4 |
| Romania | 8.7 | 9.2 | 11.0 | 11.8 | 12.0 | 12.9 | 13.2 | 13.4 | 14.3 | 15.1 |
| Slovakia | 10.3 | 10.2 | 13.9 | 14.4 | 14.4 | 14.6 | 15.6 | 17.1 | 18.4 | 18.7 |
| **Slovenia** | **14.4** | **15.7** | **20.0** | **21.5** | **22.9** | **21.9** | **22.5** | **23.7** | **25.5** | **26.1** |
| Spain | 20.0 | 22.5 | 28.2 | 28.4 | 28.9 | 29.3 | 29.5 | 30.5 | 31.4 | 32.2 |
| Sweden | 27.4 | 29.5 | 29.3 | 30.3 | 31.2 | 31.9 | 32.8 | 34.0 | 35.0 | 35.8 |
| United Kingdom | N/A | 24.4 | 28.3 | 29.3 | 30.4 | 31.6 | 32.9 | 34.5 | 36.6 | 37.9 |

Source: Eurostat Portal Page – Population and Social Conditions, 2013.
Note: N/A – not available.

*Figure*: **Number of science and technology graduates per 1,000 inhabitants aged 20–29, 2010 (2011)**




Source: Eurostat Portal Page – Population and Social conditions, SI-STAT data portal – Demography and social statistics – Education (SURS), 2013.

# 2.2 Education expenditure

***Total public expenditure on education[1] as a share of GDP[2] remained high in 2010, which was mainly due to the high participation of youth in education.*** In 2010, it amounted to 5.66% of GDP and was slightly lower than in the initial period of SDS implementation (2005). According to the latest international data (2009), it exceeded the EU average by 0.29 percentage points. In the 2005–2010 period, public expenditure on education rose by 6.3% in real terms, specifically due to increased direct expenditure on educational institutions, whereas public expenditure on transfers to students and households recorded a decrease. Due to the enforcement of the Exercise of Rights to Public Funds Act of 2010, which entered into force in 2012, a drop in public expenditure for transfers at the level of upper secondary and tertiary education is also expected in the next few years.

***In the 2005–2010 period, public expenditure on education relative to GDP increased at the pre-school and tertiary levels of education.*** At the pre-school level this was due to a higher number of children attending pre-school education. In 2010, it totalled 0.58% of GDP (0.11 percentage points more than in 2005) and was thus at a level similar to the EU average (0.56 percentage points of GDP in 2009). At the level of tertiary education, public expenditure rose with the growing number of employees, introduction of Bologna programmes and increased transfers to students. In 2010, it equalled 1.36% of GDP (0.11 percentage points more than in 2005) and exceeded the EU average, which in 2009 amounted to 1.22% of GDP. Public expenditure on primary education totalled 2.48% of GDP in 2010 (0.14 percentage points less than in 2005), while expenditure on upper secondary education equalled 1.24% of GDP (down 0.15 percentage points from 2005).

***The share of private expenditure on formal education[3] declined in the 2005–2010 period, thus lagging behind the EU average.*** The share of private expenditure on all levels of formal education, which is a significant indicator of the financial accessibility of education at the international level, totalled 11.6% in 2010 and was approximately the same as in the previous two years. According to the latest international comparisons (2009), it was 2.3 percentage points below the EU average. In the period from 2005 to 2009, it dropped at the pre-school level, which was largely underpinned by the adoption of the Act Amending the Pre-school Institutions Act in 2008, under which parents with more than one child enrolled in kindergarten, paid a one-category lower fee for the older child, while they were exempt from the fee for younger children. The share of private expenditure on the pre-school level of education is high (20.9%) and exceeds the average of the OECD countries (18.3%). The share of private expenditure at the level of primary and upper secondary education saw an increase in the period 2005–2010. However, a significant drop was recorded in the same period as regards the share of private expenditure on tertiary education (to 15.3%), which was significantly lower in Slovenia than in the EU (22.5% in 2009). The smaller share compared to other countries is the result of the differences in the modality of financing tertiary education. The substantial drop in this share in the period 2005–2010 reflects the decrease in enrolment in part-time studies and the rise in enrolment in 2nd cycle Bologna programmes, which are publicly funded[4] for full-time studies, and is also due to a significant decline in enrolment in the old masters and specialist programmes.

***Expenditure on educational institutions per student (in EUR PPS) increased in 2005–2010, exceeding the EU average at all education levels, except at the tertiary level.*** In 2009, the total expenditure per student amounted to EUR 6,609.5 PPS and was above the EU average by EUR 105.6 PPS. However, at the tertiary level, where in 2009 it rose to EUR 7,261.4 PPS, it still lags notably behind the EU average (EUR 9,243.7 PPS) which is mainly due to the exceptionally high enrolment of young people (20–24 years) in tertiary education in Slovenia[5].

[1] Total public expenditure on education comprises the total budgetary expenditure on formal education of youth and adults at national and municipal levels. It includes direct public expenditure on educational institutions and transfers to households (scholarships, subsidies for meals, transport, accommodation, textbooks, etc.). Financial data for Slovenia are gathered by using internationally comparable methodology based on the UOE questionnaire (the common questionnaire of Unesco, OECD and Eurostat).

[2] The share of total public expenditure on education in GDP is calculated with regard to GDP revision, SURS, August 2012.

[3] The share of private expenditure on educational institutions in the total expenditure on educational institutions (public and private) is shown here. Private expenditure on educational institutions includes expenditure of households and other private entities paid directly to educational institutions (expenditure on school fees, meals, open-air school, accommodation for pupils and students in residence halls).

[4] According to the Amendments and Supplements on Decree Amending the Decree on Budgetary Financing of Higher Education Institutions and Other Institutions, University Members, 2004–2008, adopted in 2006, public funds are provided for students enrolled in full-time higher/professional and university programmes before 11 June 2004, and in 1st and 2nd cycle programmes, excluding pre-graduation students at higher education institutions in the current academic year.

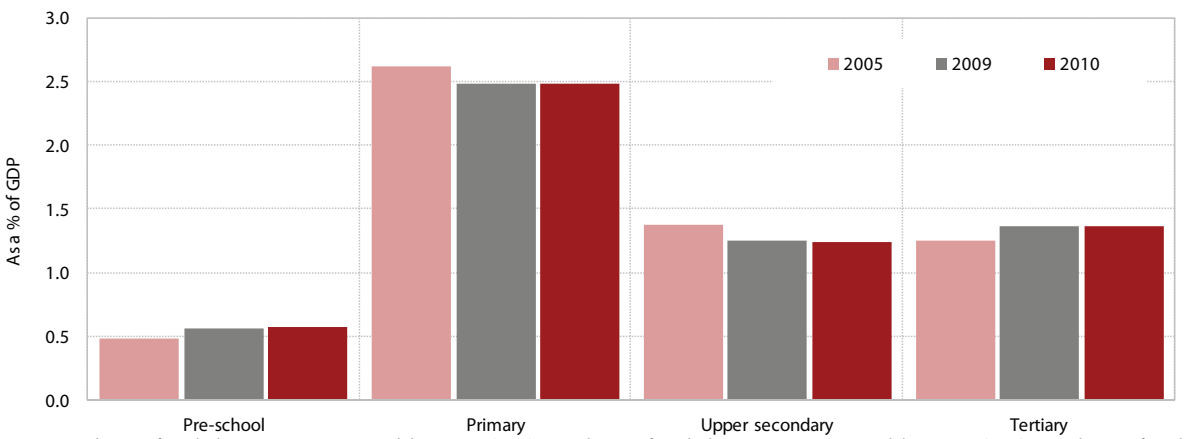
[5] The participation rate of this age group in Slovenia (48.3%) is the highest in the EU (average: 29.9%).

*Table*: **Expenditure on education, 2005–2009**

| | Total public expenditure on education, as a % of GDP | | | Expenditure on educational institutions per student, in EUR PPS | | | Share of private expenditure, in % | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2008 | 2009 | 2005 | 2008 | 2009 | 2005 | 2008 | 2009 |
| **EU** | **5.04** | **5.08** | **5.41** | **5,671.7** | **6,457.5** | **6,503.9** | **12.7** | **13.7** | **13.8** |
| Austria | 5.44 | 5.47 | 6.01 | 8,087.6 | 8,849.1 | 8,945.2 | 8.6 | 9.2 | 8.6 |
| Belgium | 5.92 | 6.44 | 6.57 | 6,427.6 | 7,852.2 | 7,658.5 | 5.8 | 5.7 | 5.7 |
| Bulgaria | 4.25 | 4.44 | 4.58 | 1,951.6 | 2,879.2 | 2,874.1 | 13.9 | 12.8 | 14.5 |
| Cyprus | 6.95 | 7.45 | 7.98 | 6,576.1 | 8,555.3 | 8,589.7 | 16.7 | 17.3 | 18.3 |
| Czech Republic | 4.08 | 3.92 | 4.38 | 3,790.2 | 4,350.6 | 4,621.0 | 12.4 | 12.7 | 12.0 |
| Denmark | 8.30 | 7.68 | 8.72 | 8,088.0 | 8,922.1 | 9,113.6 | 7.7 | 7.8 | 4.2 |
| Estonia | 4.88 | 5.59 | 6.09 | 2,823.3 | 4,273.2 | 4,172.1 | N/A | 5.3 | 5.8 |
| Finland | 6.30 | 6.10 | 6.81 | 6,198.4 | 7,046.1 | 7,084.5 | 2.2 | 2.6 | 2.4 |
| France | 5.67 | 5.62 | 5.89 | 6,291.9 | 7,001.5 | 6,987.5 | 9.2 | 10.0 | 9.8 |
| Greece | 4.09 | N/A | N/A | 4,479.4 | N/A | N/A | 6.0 | N/A | N/A |
| Ireland | 4.71 | 5.68 | 6.50 | 6,022.5 | N/A | N/A | 6.3 | 6.2 | 5.8 |
| Italy | 4.41 | 4.56 | 4.70 | 5,898.1 | 6,726.8 | 6,275.3 | 8.6 | 8.6 | 9.3 |
| Latvia | 5.09 | 5.75 | 5.64 | 2,679.3 | 4,283.6 | 3,721.8 | 13.8 | 9.9 | 9.8 |
| Lithuania | 4.88 | 4.87 | 5.64 | 2,444.3 | 3,560.7 | 3,509.1 | 9.8 | 9.9 | 11.0 |
| Luxembourg | 3.78 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Hungary | 5.46 | 5.10 | 5.12 | 3,799.5 | N/A | N/A | 8.7 | N/A | N/A |
| Malta | 6.75 | 5.86 | 5.46 | 5,910.8 | 6,275.3 | 6,836.4 | 5.3 | 5.0 | 19.9 |
| Germany | 4.57 | 4.57 | 5.06 | 6,616.6 | 7,023.9 | 7,299.0 | 18.0 | 14.6 | 15.0 |
| Netherlands | 5.48 | 5.48 | 5.94 | 7,312.9 | 8,082.6 | 8,358.7 | 16.0 | 16.4 | 16.3 |
| Poland | 5.47 | 5.08 | 5.10 | 3,066.4 | 3,759.1 | 3,927.8 | 9.3 | 12.9 | 13.3 |
| Portugal | 5.21 | 4.89 | 5.79 | 4,811.1 | 4.933.1 | 5,298.1 | 7.4 | 9.5 | 6.5 |
| Romania | 3.48 | N/A | 4.24 | 1,437.1 | N/A | 2,386.2 | N/A | N/A | 2.6 |
| Slovakia | 3.85 | 3.61 | 4.09 | 2,693.4 | 3,551.2 | 3,985.4 | 16.1 | 17.5 | 16.1 |
| **Slovenia** | **5.73** | **5.20** | **5.70** | **5,995.0** | **6,484.7** | **6,609.5** | **13.0** | **11.6** | **11.5** |
| Spain | 4.23 | 4.62 | 5.01 | 5,678.3 | 6,992.3 | 6,952.7 | 11.4 | 12.9 | 12.9 |
| Sweden | 6.89 | 6.76 | 7.26 | 7,025.7 | 8,142.9 | 7,950.0 | 3.0 | 2.7 | 2.6 |
| United Kingdom | 5.36 | 5.37 | 5.67 | 7,144.8 | 7,742.6 | 7,847.2 | 19.9 | 30.5 | 31.1 |

Source: Eurostat Portal Page – Population and Social Conditions, 2013; Expenditure on formal education, 2010 – provisional data – SURS (2012); Expenditure on formal education; 2009 – provisional data – SURS (2011); Expenditure on formal education, Slovenia, 2005 – 2008 – final data – correction SURS.
Note: N/A – not available.

*Figure*: **Total public expenditure on formal education, by level of education, Slovenia**




Source: Expenditure on formal education, 2009 – provisional data – SURS (2011); Expenditure on formal education; 2010 – provisional data – SURS (2012); Expenditure on formal education, 1995–2003 SURS (2006).
Note: Indicators for Slovenia are calculated based on the latest revision of GDP (August 2012).

# 2.3 Adult participation in education

***The level of adult participation in formal education is higher than the EU average, but in 2010 it declined for the fourth year in a row.*** Participation of the adult population aged 25–64 in all levels of formal education amounted to 3.9% in 2010 (the latest available data), exceeding the EU average by 0.6 percentage points. Adult participation in formal education dropped slightly in the last year, meaning that unfavourable trends seen in recent years continued. In Slovenia, adult participation in formal education declined in 2005–2020, as it did in the EU as a whole, although the drop in Slovenia was less significant (0.5 percentage points, EU: 0.9 percentage points).

***Adult participation in upper secondary and tertiary education recorded a decrease in the 2005–2010 period.*** The participation of adults is lowest at the level of primary education. In 2011 it represented 0.1% which is about the same as in the EU and the same as in recent years. The low number of adults participating in primary education is mainly due to the high share of young people successfully completing primary education and to the improvement of the education structure of the adult population (smaller share of people aged 25–64 with incomplete primary education). In 2010, adult participation in upper secondary education remained at the same level as in the previous year. It totalled 0.7%, which is about the same as in the EU. In 2005–2010, it decreased by 0.3 percentage points. The relatively low adult participation in upper secondary education is mainly due to the high enrolment rates of young people aged 15–19 in upper secondary education, the high completion rates in this education, and the low rates of early school leavers, which remained at a low level in 2010 and 2011. Nevertheless, the participation of adults in upper secondary schools could be higher, particularly in the older age group (40–64 years), which shows a negligibly low level (0.2%), whereas the share of the population with low education levels (with only elementary education completed) is quite high (20.2%). Among all levels of education, adult participation is highest at the tertiary level. In 2011/12 it was 2.7% and recorded a slight drop (by 0.1 percentage points) compared to the previous year. In 2010 the share otherwise exceeded the EU average (by 0.7 percentage points), but in the 2005–2011 period it fell markedly (by 0.8 percentage points).

***Adult participation (25–64 years) in non-formal education declined in 2011, while the participation of people with lower education remains low.*** Participation in non-formal education amounted to 9.8% in 2011, 0.4 percentage points less than in the previous year, but more than in 2005. Adult participation in non-formal education substantially exceeded the EU average in 2011 (by 3.4 percentage points); however, as in previous years, there are substantial differences in terms of socio-economic characteristics. Participation of people with low education lags far behind the participation of those with upper secondary and tertiary education[1]. The participation of people with low education was considerably below the EU average (EU: 2.9%) in 2011, witnessing a further decrease that year and reaching lower levels than in 2005. Adult participation in non-formal education is highest in the 25–34 age group and in the 35–44 age group, whereas it is lowest in the 55–74 age group. In 2005–2011, an increase was recorded only in the older age groups (aged 45–54 and 55–74), while in the 25–34 and 35–44 age groups it remained roughly the same.

***The participation of persons in employment and the unemployed in non-formal education decreased in 2011.*** In 2011, participation in non-formal education in terms of activity status was highest for persons in employment (11.7%), followed by the unemployed (7.9%) and inactive people (4.6%). Compared to the year before, the participation of employed and unemployed persons in non-formal education witnessed a drop, while the participation of inactive persons in education recorded a rise. In the 2005–2010 period, the participation of unemployed persons in non-formal education increased considerably, which is the result of the country's measures under the active employment policy in response to the crisis. An increase, albeit not substantial, was also seen in the participation of employed people in non-formal education.

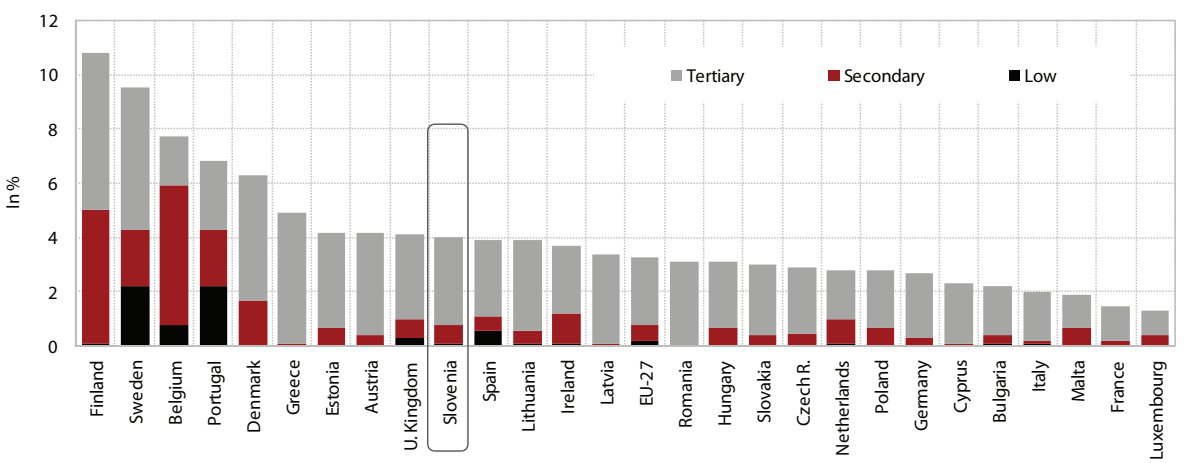
[1] The participation rate of people with low education in non-formal education was 2.0%, people with secondary education 7.3% and people with tertiary education 20.5%.

*Table*: **Participation of the population aged 25-64 in formal and non-formal education, EU, in %**

| | Participation in all levels of formal education, in % | | | | | Participation in all levels of non-formal education[1], in % | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 2000 | 2005 | 2009 | 2010 | 2004 | 2005 | 2010 | 2011 |
| **EU** | **2.8** | **3.3** | **4.2** | **3.3** | **3.3** | **7.4** | **7.0** | **6.7** | **6.4** |
| Austria | 3.2 | 3.4 | 2.6 | 3.5 | 4.2 | 10.6 | 10.5 | 10.5 | 10.3 |
| Belgium | N/A | 5.2 | 7.4 | 7.6 | 7.6 | 7.8 | 6.5 | 5.2 | 4.8 |
| Bulgaria | 1.5 | 1.5 | 1.7 | 2.2 | 2.2 | 0.3 | 0.2 | 0.3 | 0.2 |
| Cyprus | N/A | 0.3 | 1.0 | 2.1 | 2.2 | 8.1 | 4.8 | 5.3 | 5.7 |
| Czech Republic | 1.0 | 1.1 | 2.7 | 2.7 | 2.9 | 4.9 | 3.9 | 5.6 | 9.6 |
| Denmark | 4.7 | 5.0 | 6.7 | 6.3 | 6.3 | 20.3 | 22.0 | 28.6 | 27.9 |
| Estonia | N/A | 2.4 | 4.4 | 4.2 | 4.3 | 3.0 | 2.4 | 7.2 | 7.8 |
| Finland | 5.6 | 6.9 | 9.5 | 10.4 | 10.7 | 17.4 | 16.4 | 16.2 | 16.7 |
| France | N/A | 1.2 | 1.5 | 1.4 | 1.4 | 7.2 | 6.5 | 4.4 | 4.9 |
| Greece | 0.9 | 0.6 | 3.0 | N/A | N/A | 0.7 | 0.6 | 1.6 | 1.0 |
| Ireland | 1.7 | 2.0 | 2.8 | 2.8 | 3.7 | 4.2 | 4.1 | 3.0 | 3.0 |
| Italy | 1.7 | 1.9 | 2.2 | 2.1 | 2.1 | 4.1 | 3.0 | 3.6 | 3.2 |
| Latvia | 1.5 | 2.9 | 4.7 | 4.1 | 3.4 | 4.5 | 3.8 | 2.3 | 3.0 |
| Lithuania | 0.9 | 1.6 | 4.2 | 4.2 | 3.9 | 3.6 | 2.8 | 1.5 | 3.8 |
| Luxembourg | N/A | 0.3 | 0.4 | 0.4 | 1.3 | 8.9 | 7.4 | 11.4 | 11.4 |
| Hungary | 1.5 | 2.3 | 4.0 | 3.2 | 3.1 | 1.8 | 1.5 | 1.2 | 1.0 |
| Malta | 0.0 | 0.8 | 1.9 | 1.3 | 1.9 | 4.1 | 4.4 | 4.9 | 4.7 |
| Germany | 2.6 | 2.4 | 2.3 | 2.6 | 2.7 | 5.3 | 5.2 | 5.1 | 5.1 |
| Netherlands | 2.9 | 2.6 | 2.5 | 2.7 | 2.8 | 10.3 | 9.2 | 9.5 | 9.6 |
| Poland | 1.6 | 2.0 | 2.7 | 2.7 | 2.8 | 2.7 | 1.8 | 2.4 | 1.8 |
| Portugal | 2.8 | 3.3 | 3.3 | 7.2 | 6.8 | 2.0 | 1.3 | 1.8 | 5.9 |
| Romania | 0.6 | 0.7 | 1.8 | 3.4 | 3.1 | 0.4 | 0.2 | N/A | 0.5 |
| Slovakia | N/A | N/A | 2.2 | 2.9 | 2.9 | 3.4 | 3.2 | 1.1 | 2.1 |
| **Slovenia** | **1.5** | **2.5** | **4.4** | **4.0** | **3.9** | **11.3** | **9.5** | **10.2** | **9.8** |
| Spain | 2.4 | 2.5 | 3.8 | 3.7 | 4.0 | 2.9 | 8.0 | 8.4 | 8.2 |
| Sweden | 9.0 | 10.3 | 9.4 | 8.9 | 9.5 | 30.2 | 16.4 | 19.8 | 20.3 |
| United Kingdom | 7.1 | 11.0 | 14.0 | 4.2 | 4.2 | 32.1 | 25.2 | 17.2 | 13.4 |

Source: Eurostat Portal Page – Population and social conditions – Education and training, 2013.
Note: [1] Data on adult participation in non-formal education are available from 2004 onwards; N/A – not available.

*Figure*: **Participation rates of the population aged 25–64 in individual levels of formal education, 2011**




Source: Eurostat Portal Page – Population and social conditions – Education and training, 2013.

# 2.4 Gross domestic expenditure on research and development

***The share of gross domestic expenditure on R&D (GERD) further increased in 2011 and rose to 2.47% of GDP.*** This result was mainly attributable to a considerable real GERD growth and modest real GDP growth (0.6%) in 2011, as well as to the changes[1] related to an increased number of reporting units covered, particularly in the business sector (up by 643). In real terms, GERD increased by 17.8%, and by 84.6% in the 2005–2011 period, totalling EUR 894.2 m[2]. In 2011, Slovenia exceeded the average European GERD as a share of GDP by 0.44 percentage points for the second consecutive year, since real GERD growth in the EU as a whole slowed down significantly, while in Slovenia it accelerated considerably.

***The share of the business sector in the funding of GERD increased substantially in 2011.*** The business sector increased R&D investments by 23.5% in real terms, while its share in the funding of GERD rose by 2.9 percentage points to 61.2%. The business sector thus came very close to the highest share recorded in 2008. Business sector expenditure as a share of GDP increased by 0.29 percentage points to 1.51% of GDP[3]. Likewise, the sources of government sector funding and funding from abroad recorded an increase of 0.78% and 0.17% of GDP, respectively. In real terms, both sectors increased investments in R&D, particularly foreign sources (by 37.6%), while investments of the higher education sector and the private non-profit sector declined. Funds from abroad are still mostly going to the business sector, however, this share lags markedly behind the EU average (SLO: 56.8%, EU-2010: 71.0%).

***The volume of tax relief on investment in R&D and the number of taxpayers claiming tax relief continued to grow in 2011.*** The volume of tax relief on investments in R&D[4] totalled EUR 100.1 m, an increase of 6.9% compared to 2010. A total of 515 taxpayers claimed tax relief (2010: 491, 2008: 483), whereas the number of those who claimed additional regional relief on R&D rose to 185 (2010: 178, 2008: 195). The volume of claimed regional relief amounted to EUR 13.9 m and rose by almost a fifth, whereby it exceeded the level of 2008[5] by 3.6%. The data on claimed tax relief in 2011 do not show any changes in relation to activities for which eligible taxpayers claimed tax relief – four fifths of these investments still derive from the manufacturing sector[6], and a fifth from service activities. The ratio in additional regional relief in favour of manufacturing activities was even slightly higher (90:10).

***The number of researchers continued to grow in 2011 and the results in the business sector are particularly encouraging.*** The total number of researchers in the full-time equivalent rose by 13.9%, 33.1% in the business sector alone. Their share in the total number of researchers increased to 51.4% as a result of the rapid growth in the number of researchers in the business sector. In 2011, Slovenia exceeded the European average (2010: 44.9%) by 6.5 percentage points, although it still lags behind Sweden, Austria and Denmark, which record the highest share of researchers employed in the business sector by at least 10 percentage points.

[1] Ever since 2008, SURS has been improving the coverage of reporting units, particularly in the business sector, on the basis of Eurostat's recommendations (Action Plans on R&D statistics, 2011). These changes resulted in a considerable increase in the number of reporting units covered in the business sector, which rose by 643 units (2010: by 57), while in the government sector it dropped by 55. Pursuant to the Standard Classification of Institutional Sectors, the borderline reporting units of the government sector were classified in the business sector. In 2011, SURS weighted non-answers for the first time. The business sector sample comprised the newly introduced reporting units on the basis of records on the beneficiaries of state aid for investments in R&D (MF), taxpayers eligible for tax relief on investments in R&D (Tax Administration), and enterprises which have scientific and R&D activities registered as their principal activity (SCA activities of 2008: M 72) and employ two or more persons (Methodological explanations for R&D – SURS, 2013).

[2] On the basis of the GERD analysis for 2011, it became evident that non-answers contributed 10% to the total GERD. The new reporting units of the business sector contributed 12% while weighted non-answers also contributed 12% to the business sector's expenditure. As regards the latter, about 300 reporting units did not return the questionnaire on R&D, even though they were included in the sample for reporting on the basis of the records on state aid for investments in R&D or the records on the taxpayers eligible for tax relief on investments in R&D or research on innovation activities. In this respect it became evident that the definitions of R&D of different administrative sources (Tax Administration, MF, Slovenian Research Agency, SURS) are inconsistent, because of which as much as 30% of business sector reporting units responded that they did not deal with R&D in the reference year, but were included in the record of the Tax Administration, MF or the Slovenian Research Agency (Methodological explanations for R&D – SURS, 2013).

[3] The relative volume of the private sector's investments in R&D came fairly close to Slovenia's objective in the EU 2020 Strategy, which aims to achieve investments of this sector reaching 2% of GDP by 2020. The public sector contributed 0.79% of GDP for R&D financing.

[4] Introduced in 2006 based on the Corporate Income Tax (OG RS, Nos. 117/06, 56/08, 76/08, 5/09, 96/09 and 43/10).

[5] The amount of basic tax relief for investments in R&D from 2008 was exceeded already in 2010, namely by 49.6%.

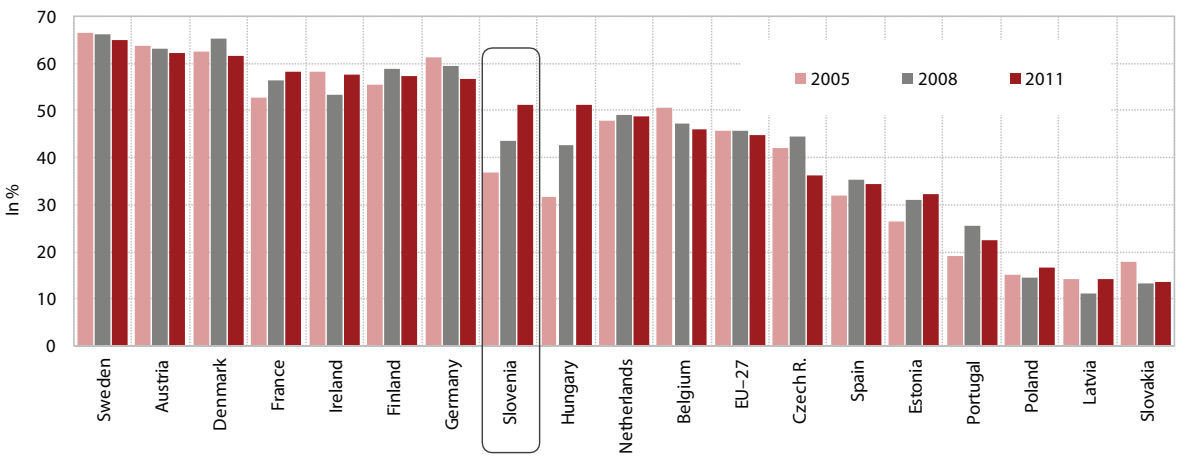
[6] Enterprises pertaining to the manufacture of pharmaceutical raw materials and preparations claimed 28.8% of all R&D investment tax relief, while the manufacture of motor vehicles, trailers and semi-trailers claimed 12.1% and electrical equipment 9.2%.

*Table*: **Gross domestic expenditure on R&D in Slovenia and selected EU Member States, in % of GDP**

| | 1996 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **1.78** | **1.86** | **1.82** | **1.85** | **1.85** | **1.92** | **2.02** | **2.01** | **2.03** |
| Austria | 1.60 | 1.93 | 2.46 | 2.44 | 2.51 | 2.67 | 2.71 | 2.79 | 2.75 |
| Belgium | 1.76 | 1.97 | 1.83 | 1.86 | 1.89 | 1.97 | 2.03 | 2.01 | 2.04 |
| Czech Republic | 0.92 | 1.17 | 1.35 | 1.49 | 1.48 | 1.41 | 1.47 | 1.55 | 1.84 |
| Denmark | 1.84 | 2.24 | 2.46 | 2.48 | 2.58 | 2.85 | 3.16 | 3.07 | 3.09 |
| Estonia | N/A | 0.60 | 0.93 | 1.13 | 1.08 | 1.28 | 1.43 | 1.63 | 2.38 |
| Finland | 2.53 | 3.35 | 3.48 | 3.48 | 3.47 | 3.70 | 3.94 | 3.90 | 3.78 |
| France | 2.27 | 2.15 | 2.11 | 2.11 | 2.08 | 2.12 | 2.27 | 2.24 | 2.25 |
| Ireland | 1.30 | 1.11 | 1.25 | 1.25 | 1.29 | 1.46 | 1.76 | 1.71 | 1.72 |
| Italy | 0.98 | 1.04 | 1.09 | 1.13 | 1.17 | 1.21 | 1.26 | 1.26 | 1.25 |
| Latvia | 0.42 | 0.45 | 0.56 | 0.70 | 0.60 | 0.62 | 0.46 | 0.60 | 0.70 |
| Lithuania | 0.49 | 0.59 | 0.75 | 0.79 | 0.81 | 0.80 | 0.84 | 0.80 | 0.92 |
| Hungary | 0.64 | 0.81 | 0.94 | 1.01 | 0.98 | 1.00 | 1.17 | 1.17 | 1.21 |
| Germany | 2.20 | 2.47 | 2.51 | 2.54 | 2.53 | 2.69 | 2.82 | 2.80 | 2.84 |
| Netherlands | 1.98 | 1.94 | 1.90 | 1.88 | 1.81 | 1.77 | 1.82 | 1.85 | 2.04 |
| Poland | 0.65 | 0.64 | 0.57 | 0.56 | 0.57 | 0.60 | 0.67 | 0.74 | 0.77 |
| Portugal | 0.56 | 0.73 | 0.78 | 0.99 | 1.17 | 1.50 | 1.64 | 1.59 | 1.50 |
| Slovakia | 0.91 | 0.65 | 0.51 | 0.49 | 0.46 | 0.47 | 0.48 | 0.63 | 0.68 |
| **Slovenia** | **1.29** | **1.38** | **1.44** | **1.56** | **1.45** | **1.66** | **1.85** | **2.09** | **2.47** |
| Spain | 0.81 | 0.91 | 1.12 | 1.20 | 1.27 | 1.35 | 1.39 | 1.39 | 1.33 |
| Sweden | N/A | N/A | 3.56 | 3.68 | 3.40 | 3.70 | 3.60 | 3.39 | 3.37 |

Source: Eurostat Portal Page – Science and Technology – Research and Development, 2013.
Notes: Data for 2011 are final only for the Czech Republic, Finland, Hungary, Poland, Romania, Slovakia and Spain; data for other countries are provisional; data for EU-27 are Eurostat's estimate; N/A – not available.

*Figure*: **Researchers employed in the business sector, in %**




Source: Eurostat Portal Page – Science and Technology – Research and Development, 2013; calculations by IMAD.
Note: For France, Germany and EU-27, the latest available data relate to 2010.

# 2.5 Innovation-active enterprises

***In the 2008–2010 period, unlike most EU countries, Slovenia recorded a slight drop in the share of innovation-active enterprises.*** In the three-year period 2008–2010[1], 49.4% of enterprises were innovation-active in Slovenia, which is 1 percentage point less than in 2006–2008. Slovenia increased its lag behind the European average by 3.5 percentage points (2006–2008: 1.3 percentage points), since most EU Member States were able to increase the intensity of innovation activity measured by the share of innovation-active enterprises despite the consequences of the global economic crisis (see figure). As in the previous period, the share of innovation-active enterprises in Slovenia remained higher in manufacturing (54.4%) than in selected services (44.7%). However, the latter recorded a greater drop in the share of innovation-active enterprises. Innovating enterprises most frequently introduce technological and non-technological innovations simultaneously, namely in manufacturing and service sectors (see table).

***Innovation-active enterprises generated an important percentage of total revenues in manufacturing.*** In nominal terms, the total revenues generated by innovation-active enterprises decreased by 5.3% in 2010 from 2008, whereas the greatest share of total revenues was seen in manufacturing (51.8%). This was only slightly more than in 2008. Progress was in fact made in knowledge-based services[2], where revenues of innovation-active enterprises increased to 16.4% of total turnover or by 1.2 percentage points, whereby the majority was generated by enterprises engaged in financial and insurance activities. Portugal, the Netherlands and Germany are the leading EU countries[3] in terms of share of total revenues generated by innovation-active enterprises in knowledge-based services (32.8%, 27.8% or 26.9%), which is also reflected in a relatively high percentage of innovation-active enterprises in the service sector, recording an increase over the previous period.

***The expenditure structure of innovation activity[4] reflects the predominant role of manufacturing.*** In 2010, Slovenian enterprises introducing a technological innovation[5] used 78.4% of expenditure for innovation activities in manufacturing (2008: 73.9%), which is the second largest share recorded in EU countries for which data are available[6], and is comparable to Austria. Over a quarter of this expenditure in Slovenia was used in the manufacture of pharmaceutical raw materials and preparations. 18.4% of expenditure on innovation activities was recorded in service sectors, and two fifths in the leading EU countries. Four EU Member States used as much as a half of their expenditure on innovation activities in service sectors (Luxembourg, Portugal, Latvia and Estonia). The uneven expenditure on innovation activities on the one hand reveals the different nature of innovation processes in the service and manufacturing sectors, which in the latter are more linked to investments in technology than in the service sector, while on the other hand individual countries implementing special innovation policy measures, encourage innovations in service activities more than Slovenia does, which is also reflected in higher expenditure of such companies on innovation.

***Innovation activity achieved by enterprises is growing with their size. However, according to the latest survey, only the share of medium-sized innovation-active enterprises recorded an increase in Slovenia.*** In 2008–2010, the percentage of innovation-active medium-sized enterprises rose by 2.1 percentage points to 65.5%, whereas the share of small-sized enterprises dropped by 1.4 percentage points to 43.1%. The latter further widened the gap behind the EU average (49.2%), since the share of small innovation-active enterprises is above 50% in 12 EU Member States (the highest ratios were observed in Germany and Portugal: 76.5% and 57.9%). Medium-sized and large enterprises have already exceeded the EU average in terms of innovation activities (EU - medium-sized: 64.6%, EU - large: 78.5%, Slovenia - large: 86.8%). The low level of innovation activities among small enterprises in Slovenia is also

[1] This is the second consecutive statistical survey of innovation activities which used the changed definition of innovation-active enterprises on the basis of the OECD methodology – Oslo Manual (OECD, 2005). Innovation-active enterprises were those introducing technological and/or non-technological innovations (a new or significantly upgraded product and/or service and/or manufacturing procedure and/or innovations in the field of marketing and/or organisation).

[2] SCA activities of 2008: J 58 – publishing activities, J 61 – telecommunications, J 62 – computer programming and consultancy, J 63 – information service activities, K – financial and insurance activities and M 71 – architectural and engineering activities, technical testing and analysis.

[3] Due to confidentiality, not all data by activities according to SCA 2008 are available, and there is also no information on the total revenues generated by innovation-active enterprises relative to the EU average.

[4] This information only applies to enterprises which introduced technological innovations on the basis of the previous definition of innovation-active enterprises (OECD, 1997).

[5] Enterprises introduced a new or significantly upgraded product and/or service and/or manufacturing procedure, whereby it is not ruled out that enterprises could also have introduced non-technological innovations.

[6] The same note as specified under No 16, only that this information refers to expenditure on innovation activity.

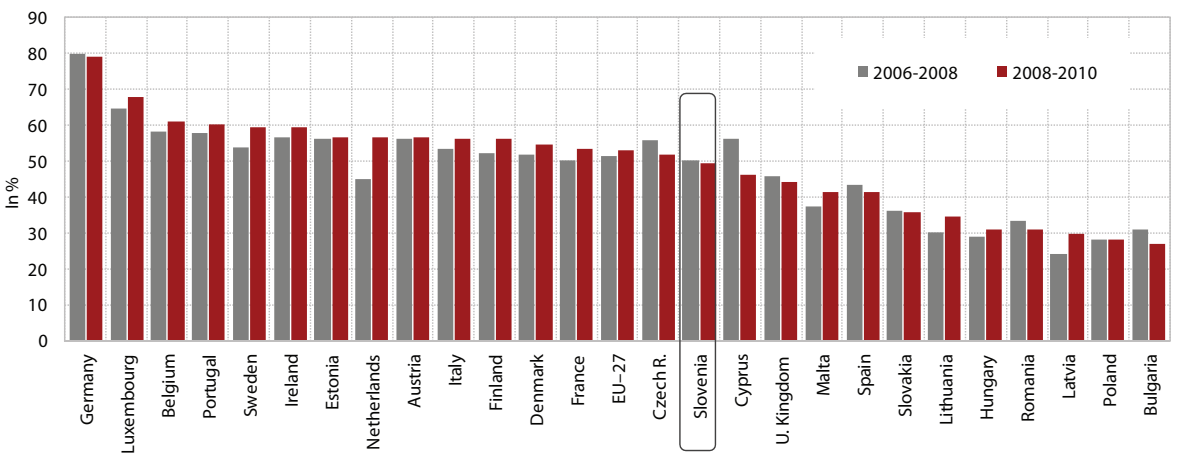
partly due to the fact that this group comprises the greatest share of enterprises pertaining to service sectors, where non-technological innovations are of particular importance. The lack of progress as far as innovations in small-sized enterprises are concerned may be attributed to the insufficient number of people adequately qualified for non-technological innovations as well as to horizontal measures which do not envisage the special features related to service innovation.

*Table*: **Innovation-active enterprises 2008–2010: changes relative to 2006–2008 and types of innovation activity in the period 2008–2010, in % of total number of enterprises**

| | TOTAL[1] | Technological innovations | Non-tech. innovations | Tech. and non-tech. innovations simult. | MANUFACT. ACTIVITIES[1] | Technological innovations | Non-tech. innovations | tech. innovations simult. | SERVICES[1] | Technological innovations | Non-tech. innovations | Tech. and non-tech. innovations simult. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **EU-27[2]** | **1.4** | **12.2** | **14.0** | **26.8** | **N/A** | **14.5** | **N/A** | **N/A** | **N/A** | **N/A** | **N/A** | **N/A** |
| Austria | 0.2 | 12.6 | 12.6 | 31.3 | 1.2 | 15.6 | 10.3 | 34.8 | -0.4 | 9.8 | 14.5 | 29.2 |
| Belgium | 2.8 | 17.9 | 9.3 | 33.7 | 4.9 | 22.0 | 9.2 | 36.7 | 1.1 | 14.8 | 9.3 | 31.9 |
| Czech Republic | -4.3 | 9.3 | 16.9 | 25.5 | -2.4 | 11.1 | 14.8 | 28.0 | -7.5 | 6.8 | 19.9 | 22.7 |
| Estonia | 0.5 | 20.1 | 10.1 | 26.6 | 1.2 | 23.6 | 7.9 | 29.5 | 0.7 | 16.1 | 12.9 | 24.4 |
| Finland | 4.0 | 15.9 | 9.8 | 30.6 | 3.9 | 20.0 | 7.4 | 33.7 | 4.9 | 12.6 | 12.2 | 28.7 |
| Italy | 3.1 | 12.7 | 15.9 | 27.8 | 3.2 | 15.2 | 13.0 | 31.1 | 3.7 | 8.2 | 21.0 | 22.6 |
| Hungary | 2.1 | 7.5 | 12.7 | 10.9 | 2.0 | 7.8 | 11.6 | 11.0 | 1.8 | 6.9 | 14.0 | 10.6 |
| Germany | -0.6 | 17.7 | 15.1 | 46.6 | -3.3 | 19.8 | 11.2 | 52.0 | 3.1 | 15.5 | 18.7 | 42.5 |
| Netherlands | 11.8 | 18.7 | 9.6 | 28.5 | 10.0 | 22.5 | 6.8 | 30.9 | 12.8 | 16.6 | 11.1 | 27.0 |
| Poland | 0.2 | 6.8 | 12.0 | 9.4 | -0.7 | 8.0 | 10.4 | 10.1 | 1.9 | 5.0 | 14.5 | 8.5 |
| Portugal | 2.5 | 12.4 | 14.0 | 34.0 | 2.0 | 13.5 | 12.2 | 30.5 | 2.9 | 10.7 | 16.5 | 39.6 |
| Slovakia | -0.5 | 6.5 | 7.5 | 21.7 | -0.6 | 8.4 | 5.3 | 22.9 | 0.2 | 4.0 | 9.9 | 21.4 |
| **Slovenia[3]** | **-0.9** | **10.2** | **14.7** | **24.5** | **-0.2** | **13.1** | **11.2** | **30.0** | **-1.4** | **6.6** | **18.5** | **19.6** |
| Spain | -2.2 | 12.9 | 12.2 | 16.3 | -0.8 | 15.5 | 10.2 | 18.2 | -3.6 | 10.1 | 14.4 | 14.5 |

Source: Eurostat Portal Page – Science and Technology – Community innovation survey, 2012; First Publication, SURS, 2012; calculations by IMAD.
Note: [1] The difference between the shares of innovation-active enterprise as shown in two consecutive statistical surveys on innovation activities (2008–2010 and 2006–2008), in percentage points. The TOTAL shares of innovation-active enterprises are shown in the figure below; [2] In the EU-27 aggregate no data are available for Greece; [3] Considering their availability, data for Slovenia in relation to manufacturing and service sectors are taken from the First Publication, 15 May 2012 (SURS).

*Figure*: **Share of innovation-active enterprises, in % of total number of enterprises**




Source: Eurostat Portal Page – Science and Technology – Community innovation survey, 2012; calculations by IMAD.

# 2.6 Intellectual property

***Slovenia's gap with the EU average in the number of patent applications with the EPO remains significant.*** Provisional data show that in 2012[1] Slovenian applicants filed 53 patent applications per million population with the EPO (the European average was 129.2 and remains twice as high). Based on experience from previous years, it is expected that Eurostat's first estimates on the relative number of patents will be higher for Slovenia while decreasing for the EU, meaning that Slovenia lags strongly behind the EU average. The number of patent applications per million population dropped by almost a fifth in 2012 compared to the year before, however Slovenia still ranked 14th among the EU Member States, as it has for several years now. Besides Slovenia, Slovakia and the Czech Republic recorded a similar annual drop in the relative number of patent applications with the EPO, while the decrease was even more pronounced in Bulgaria and Malta. In 2012, the relative number of patent applications with the EPO in the EU rose by 0.9% compared to the preceding year. In the period of implementation of Slovenia's Development Strategy, the number of patent applications per million population decreased somewhat relative to 2005, whereas a slight increase was seen in the EU.

***Community trademarks again recorded progress last year, while unfavourable trends in Community designs[2] continued.*** The provisional data show that in 2012 Slovenian applicants filed 101.7 applications for Community trademarks per million population with the OHIM[3], corresponding to an increase of 39.9% compared to 2011[4]. This increase was also the highest recorded among EU Member States, since only Lithuania and Malta witnessed a more accelerated application for Community trademarks with the OHIM. Slovenia reached 66.8% of the EU average (2011: 48.7%), which totalled 152.2 Community trademarks per million population. The relative number of applications for Community trademarks in the EU achieved an average increase of 2.0% last year. Thus, Slovenia's average annual growth in the number of applications for legal protection of Community trademarks remained among the highest in the 2005–2012 period. Some other new EU Member States have also been successful in bridging the gap behind the EU average (Slovenia: 30.2 %, Romania: 43.7 %, Bulgaria: 38.5 %, EU: 7.8 %). Provisional data show that in 2012, Slovenian applicants filed 60.3 applications for Community designs per million population with the OHIM, corresponding to a decrease of 6.3% compared to 2011 (2011: down by 7.8%). Besides Slovenia, only Latvia, Ireland and Belgium registered a lower relative number of Community design applications, since the highest annual growth recorded in the EU last year, in the period 2005–2012, equalled 18.9%. The European average was 122.6 Community designs per million population, whereas Slovenia reached less than a half of this average. In this context, the level of 2008 in relation to registered Community designs was already exceeded last year, while this has not been the case with trademarks.

[1] The data on patent applications for 2012 are taken from the EPO Annual Report, meaning that they refer to the current year. These are not necessarily the first patent applications on a global scale, as released by Eurostat (for more information see the Slovenian Economic Mirror 2/2009).

[2] A design means the visual appearance of a product protected by law, provided that it is new and unique (2010 SIPO Annual Report, 2012).

[3] Office for Harmonization in the Internal Market.

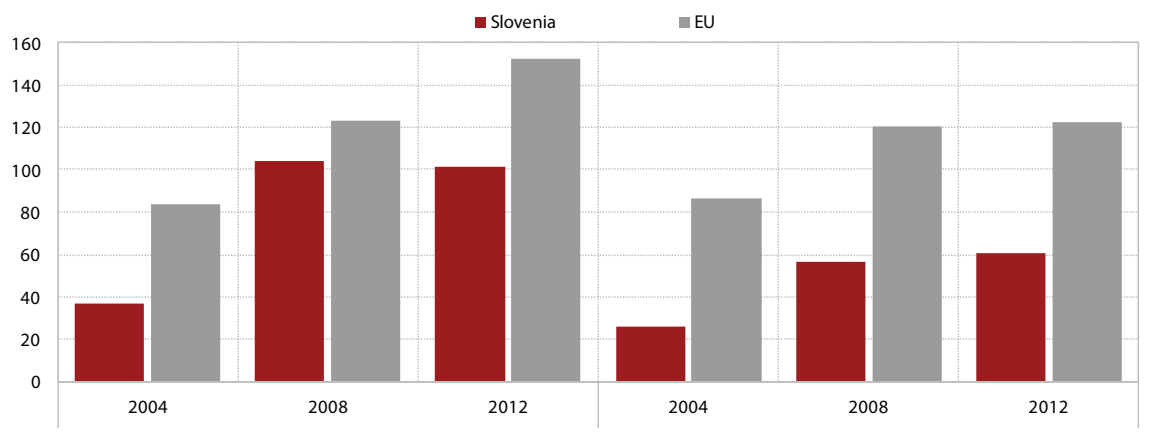
[4] In 2011, Slovenia completed one-third less applications for the legal protection of the Community trademarks with the OHIM than in 2010. In 2005–2012, a fall of 25.1% was recorded in 2009.

*Table*: **Patent applications with the EPO by year of first filling[1], per million population**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009[2] | 2010[3] | 2011[4] | 2012[4] |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **107.1** | **115.6** | **117.0** | **115.8** | **112.1** | **111.0** | **109.2** | **128.1[5]** | **129.2[5]** |
| Austria | 147.9 | 184.7 | 209.9 | 203.7 | 191.5 | 193.7 | 188.8 | 206.3 | 222.6 |
| Belgium | 128.5 | 143.8 | 144.8 | 144.9 | 136.4 | 133.8 | 130.2 | 181.4 | 171.2 |
| Bulgaria | 0.9 | 3.1 | 3.5 | 1.6 | 2.3 | 2.1 | 1.6 | 2.2 | 1.6 |
| Cyprus | 9.0 | 22.4 | 8.3 | 12.0 | 14.3 | 15.4 | 17.7 | 61.9 | 55.7 |
| Czech Republic | 6.5 | 10.6 | 15.0 | 17.8 | 20.0 | 23.0 | 25.7 | 15.4 | 13.1 |
| Denmark | 183.9 | 216.0 | 206.2 | 231.7 | 230.3 | 234.4 | 243.8 | 323.0 | 288.0 |
| Estonia | 4.1 | 4.4 | 15.8 | 21.0 | 25.6 | 32.6 | 38.2 | 21.6 | 30.6 |
| Finland | 277.6 | 252.5 | 253.3 | 235.4 | 233.3 | 226.8 | 218.1 | 289.8 | 351.8 |
| France | 120.7 | 133.3 | 133.3 | 134.2 | 134.3 | 134.7 | 135.3 | 148.2 | 151.2 |
| Greece | 5.2 | 10.0 | 9.5 | 9.3 | 8.2 | 7.6 | 7.0 | 7.0 | 7.0 |
| Ireland | 55.2 | 66.9 | 68.2 | 73.4 | 73.0 | 75.7 | 79.1 | 136.3 | 123.5 |
| Italy | 70.4 | 83.7 | 85.6 | 82.0 | 78.3 | 76.4 | 73.6 | 65.7 | 61.5 |
| Latvia | 3.8 | 8.2 | 7.6 | 7.2 | 10.0 | 10.7 | 11.7 | 13.0 | 12.2 |
| Lithuania | 1.3 | 2.6 | 2.8 | 2.9 | 4.8 | 5.6 | 6.5 | 4.6 | 6.0 |
| Luxembourg | 186.1 | 218.9 | 230.0 | 148.5 | 190.3 | 180.6 | 165.0 | 785.4 | 743.1 |
| Hungary | 11.9 | 13.3 | 16.4 | 18.8 | 17.8 | 19.3 | 20.3 | 9.7 | 10.3 |
| Malta | 11.8 | 27.9 | 16.9 | 16.8 | 13.4 | 16.3 | 16.2 | 77.0 | 47.9 |
| Germany | 269.1 | 289.9 | 290.2 | 291.5 | 277.0 | 273.0 | 267.5 | 320.7 | 333.5 |
| Netherlands | 218.4 | 214.0 | 225.8 | 199.5 | 206.3 | 203.2 | 195.3 | 337.8 | 302.9 |
| Poland | 1.1 | 3.4 | 3.7 | 5.3 | 6.1 | 7.0 | 8.1 | 6.5 | 10.0 |
| Portugal | 4.1 | 11.8 | 10.1 | 11.6 | 10.7 | 10.3 | 10.4 | 7.6 | 7.1 |
| Romania | 0.3 | 1.3 | 0.9 | 1.5 | 1.6 | 1.6 | 1.9 | 0.9 | 1.6 |
| Slovakia | 2.1 | 5.8 | 7.5 | 6.8 | 6.3 | 6.4 | 6.0 | 8.0 | 6.7 |
| **Slovenia** | **25.5** | **54.4** | **49.8** | **59.0** | **69.1** | **73.3** | **80.8** | **63.9** | **53.0** |
| Spain | 20.1 | 31.5 | 30.8 | 30.9 | 31.2 | 31.2 | 31.7 | 30.6 | 33.5 |
| Sweden | 259.5 | 267.4 | 286.9 | 301.7 | 295.0 | 303.4 | 308.3 | 382.3 | 366.0 |
| United Kingdom | 103.6 | 93.5 | 94.1 | 89.2 | 84.4 | 81.5 | 77.3 | 76.1 | 75.1 |

Source: Eurostat Portal Page – Science and Technology – Patent Statistics, 2013; EPO Annual Report – statistics 2012, 2013.
Notes: [1] Data for 2011 and 2012 relate to patent applications that are not necessarily the first on a global scale, but were filled with the EPO in the current year (EPO Annual Report – statistics 2012, 2013). [2, 3] Eurostat estimate; [4] provisional data; [5] IMAD estimate based on the calculation of data for Member States.

*Figure*: **Number of Community trademarks and registered Community designs applications per million population**




Source: OHIM Web Page, 2013; calculations by IMAD.
Note: 2004: EU-25.

# 2.7 Use of Internet and e-services

***The share of Internet users in Slovenia stagnated in the last two years, while in the EU it continued to increase.*** The relatively rapid expansion of Internet use over the past decade came to a halt after 2010. In 2012, the share of users who have used the Internet in the last three months (68%) and those who have used it once a week (65%) was at the level of 2010. Slovenia therefore shifted away from the EU average after the share of Internet users in 2010 had been practically the same as in the EU. Data by age groups show that the increase in the share of Internet users levelled off at users aged 25–54 (around 80%), thus falling slightly below the EU average in the last year. The share of older users (55–74 years) further increased to reach almost one-third, however, this did not narrow the substantial gap (14 percentage points in 2012) behind the EU average. The share of young Internet users (16–24 years), however, is now almost 100% and is higher than in the EU. What remains unfavourable is the education structure of Internet users. Following the significant fall seen in the previous year, the share of Internet users with low education slightly increased, but is still below the level of 2010. Likewise, the gap behind the EU average remains substantial (9 percentage points). There was a slight rise in the percentage of users with medium education, however, it continues to remain lower than in the EU as a whole (by 4 percentage points). The share of highly-educated Internet users did not alter in the last year, and recorded levels similar to the EU average. The perseverance of gaps in relation to less-educated Internet users compared to the EU is, in addition to the lack of proper skills, also attributed to the crisis, which is reflected in a decline in Internet use by the population group most affected by the crisis (e.g. the unemployed). This is also suggested by the data on Internet users relative to income, where, compared to the EU, a deterioration was perceived in the first two income quartiles.

***The growth in the number of households with Internet access slowed down considerably in 2012, while broadband Internet access again recorded a substantial increase.*** Following the relatively rapid increase in past years, the share of households with Internet access rose by 1 percentage point to 74% in 2012. A particularly strong increase was again seen in the share of broadband access, while narrowband access, which had been gradually falling for several years, dropped markedly this time. Thus, almost all households (99%) with Internet access had a broadband connection. As in the previous year, the share of all types of broadband connections recorded an increase, except in the telephone network (xDSL) which had been stagnating since 2010. According to the latest data (for 2010), the reasons for not having an Internet connection lie in the high cost of equipment and the lack of proper skills. Moreover, households often state that they do not have Internet access because they do not need it, yet this share is gradually decreasing. Financial accessibility which had been steadily improving until 2010, again slightly deteriorated in 2011 owing to the ever growing impact of the economic crisis on the financial standing of the population. In the EU, where twice fewer respondents believe the costs to be an obstacle to Internet access, a further rise in households with Internet access was recorded. In Slovenia, no progress as regards the necessary skills for the use of Internet was witnessed, since the share of households for which this represents an important obstacle is not decreasing and remains high in comparison to the EU. The study by Vehovar and Prevodnik (2011) points out the digital divide owing to the lack of e-competences, in particular, amongst older and less-educated users. Despite the relatively high level of households with advanced (broadband) Internet connections, the digital divide and the danger that it could worsen in times of crisis continue to present a significant obstacle to Slovenia's economic and social development.

***Internet access and usage by enterprises are high, as is the electronic data exchange of information, whereas automated data exchange with buyers and suppliers remains a soft point.*** Practically all enterprises[1] have broadband Internet access (98% in 2012), which is more than in the EU (92%). More than half of enterprises also have mobile Internet access (to access information and e-mail), which is also significantly above the EU (a solid 40%). The share of Slovenian enterprises using e-connections for data exchange between employees is above average (compared to the EU), while in some areas the same also applies to automated data exchange outside enterprises. What stands out is the high share (also compared to the EU) of enterprises with automated data exchange with public administration and financial institutions, which appears to be related to the relatively high availability of e-services in these institutions[2]. The share of enterprises with fully automated exchange with buyers and suppliers is much smaller, which also applies to the EU; however, Slovenian enterprises still lag significantly behind the EU average, particularly in the area of e-invoices,

[1] Enterprises with 10 or more employees, except those in the financial sector.

[2] The prevalence of e-government services in Slovenia is 95%; in the EU as a whole it is 84% (data for 2010).

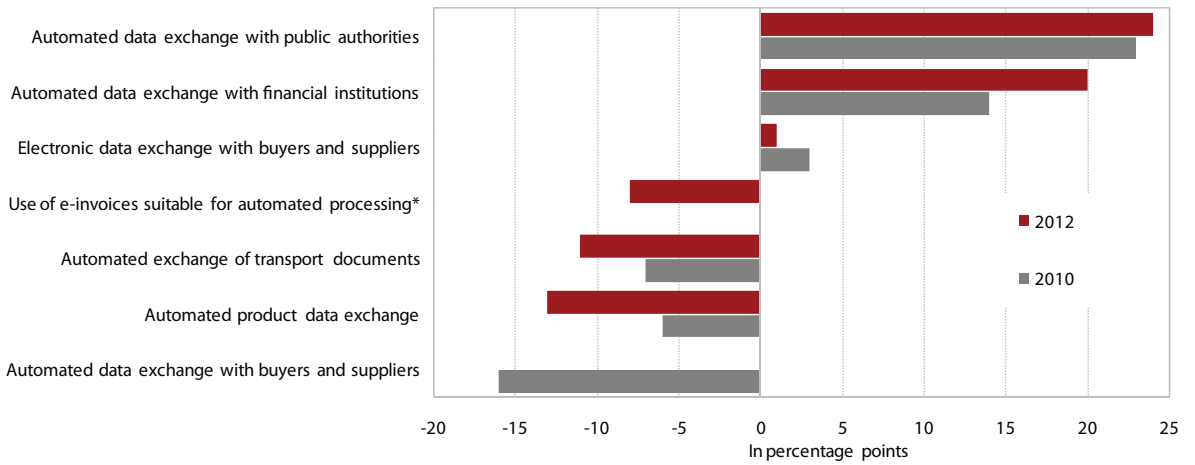
and in data exchange on products and transport documentation. In these areas Slovenia's gap behind the EU average generally did not diminish over the recent period, and remained the same compared to most of the other new EU Member States. This could also be related to a lower degree of integration among Slovenian enterprises in international flows as regards formal ownership compared to their counterparts in other new Member States, for example through foreign direct investment, which usually contributes to a faster introduction of new technologies and procedures in enterprises, including automated data exchange with suppliers and buyers.

*Table*: **Internet usage and access by households and individuals, Slovenia, 2005–2012**[1]

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | EU 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Households with Internet access at home | 48 | 54 | 58 | 59 | 64 | 68 | 73 | 74 | 76 |
| Households with broadband Internet access at home | 19 | 34 | 44 | 50 | 56 | 62 | 67 | 73 | 72 |
| Internet users in the last three months (16–74) | 47 | 51 | 53 | 56 | 62 | 68 | 67 | 68 | 73 |
| By age: | | | | | | | | | |
| 16–24 years | 84 | 86 | 89 | 94 | 98 | 97 | 99 | 97 | 95 |
| 25–54 years | 54 | 59 | 62 | 65 | 73 | 80 | 80 | 81 | 82 |
| 55–74 years | | 14 | 14 | 17 | 22 | 28 | 29 | 32 | 46 |
| By education: | | | | | | | | | |
| Low (or unskilled) | 21 | 22 | 25 | 29 | 40 | 42 | 31 | 40 | 49 |
| Medium | 48 | 53 | 56 | 57 | 61 | 69 | 71 | 73 | 77 |
| High | 90 | 90 | 90 | 89 | 93 | 94 | 95 | 95 | 94 |

Source: SI-STAT Data Portal – Information Society (SURS), 2012; Eurostat Portal Page – Information Society, 2012.
Note: [1] Data for all years refer to the first quarter of the year.

*Figure*: **Electronic integration of enterprises with other institutions – gap between Slovenia and the EU average**




Source: Eurostat Portal Page – Information society, 2013.
Note: A positive value means a higher share of such enterprises in Slovenia than in the EU as a whole. * Data for 2011.

## THE THIRD PRIORITY:

## An efficient state

- 3.1 General government expenditure according to economic classification
- 3.2 General government expenditure by function
- 3.3 Economic structure of taxes and contributions
- 3.4 Taxes and social security contributions
- 3.5 Subsidies
- 3.6 State aid

# 3.1 General government expenditure according to economic classification

***In 2012, the share of general government expenditure dropped by 1.8 percentage points to 49% of GDP; the majority of expenditure decreased while interest payments grew.*** General government expenditure was down 5.4% in nominal terms. Specific laws[1] were adopted to consolidate public finances, and this strongly impacted general government expenditure, while specific transactions (capital injections, recognition of claims, guarantees called by public companies) were lower than in 2011. The greatest decline (by 1 percentage point of GDP) was recorded by capital transfers, which had shown the highest growth in 2011 due to specific transactions. A considerable decrease in general government expenditure was attributed in part to reduced gross capital formation, which fell by 0.6 percentage points of GDP. Relative to GDP, compensation of employees was down by 0.2 percentage points of GDP as a result of the restrictive wage policy and limited employment in the general government sector. The share of social benefits in cash and kind dropped by 0.1 percentage points of GDP, due largely to the implementation of the new, emergency legislation which modified the scope and conditions for acquiring individual social rights, and cancelled the indexation of social transfers. Austerity measures also caused a nominal decline in expenditure on intermediate consumption and subsidies, while their relative shares remained unchanged. Interest payments were up by 0.2 percentage points of GDP due to government borrowing.

***In the 2005–2012 period, the share of general government expenditure grew by 3.5 percentage points of GDP; the increase was most pronounced in social benefits and benefits in cash and kind, as well as in compensation of employees, intermediate consumption and interest payments.*** The share of social benefits and benefits in cash and kind (2005: 17.7%; 2012: 19.7% of GDP) had already grown in 2008 with the introduction of a more favourable indexation of social transfers and pensions, and with the disbursement of the one-off pension allowance. Growth continued in 2009–2011, when despite the limited adjustment through emergency laws, the number of unemployed persons and recipients of other social benefits grew rapidly as a result of the deteriorating situation. In 2012, however, this share fell slightly thanks to legislative amendments. The share of compensation of employees (2005: 11.5%; 2012: 12.6% of GDP), which had shown a downward trend until 2007 as a result of the restrictive wage policy preceding entry into the euro area, picked up in 2008 and 2009 following the wage reform, only to slightly diminish again in 2012. Up until 2009, a growing trend had also been observed in expenditure on gross capital formation (2005: 3.2%; 2009: 4.6% of GDP), which later slowed down (2012: 3.0% of GDP) when capital formation, in particular, decreased as a result of restrictions in general government expenditure. The share of expenditure on subsidies rose in 2009 and 2010 as a consequence of the measures to mitigate the economic crisis; upon the expiry of these measures, and owing to institutional changes in Slovenian Railways (see Chapter 3), the share fell to 1.3% of GDP in 2011 and remained at the same level in 2012. The share of intermediate consumption had been rising since 2008 but came to a halt in 2012, remaining at the same level as the previous year. Relative to GDP, expenditure on capital transfers (2005: 1.0%; 2012: 1.1% of GDP) grew mainly in 2011, as a result of capital injections to NLB and certain other companies, assumption of the liabilities of Slovenian Railways and the payment of guarantees called, but declined in 2012 when one-off capital transactions were lower. As a share of GDP, expenditure on interest payments (2005: 1.6%; 2012: 2.1% of GDP) had been rising since 2008 owing to increased state borrowing.

***At 50.8% of GDP, general government expenditure in Slovenia in 2011 (as a share of GDP) was above the EU average (49% of GDP).*** Slovenia ranked sixth among the EU countries in terms of general government expenditure. Higher shares of general government expenditure relative to GDP were recorded only by Denmark, France, Finland, Belgium and Sweden. There are considerable differences among individual countries, however, and they have been growing over the years; for instance, in 2011 the difference between the country with the largest (Denmark: 58.0% of GDP) and the one with the smallest (Bulgaria: 35.2% of GDP) general government sector was as much as 22.8 percentage points of GDP. In 2009, the share of general government expenditure grew significantly in all Member States as a result of measures adopted to mitigate the impacts of the economic crisis as well as of the decrease in gross domestic product. Following

[1] Exercise of Rights to Public Funds Act (Official Gazette of the Republic of Slovenia No. 62/2010, 40/2011), Fiscal Balance Act (Official Gazette of the Republic of Slovenia No. 40/2012), Act of Intervention Steps because of Economic Crisis for 2012 (Official Gazette of the Republic of Slovenia No. 110/2012).

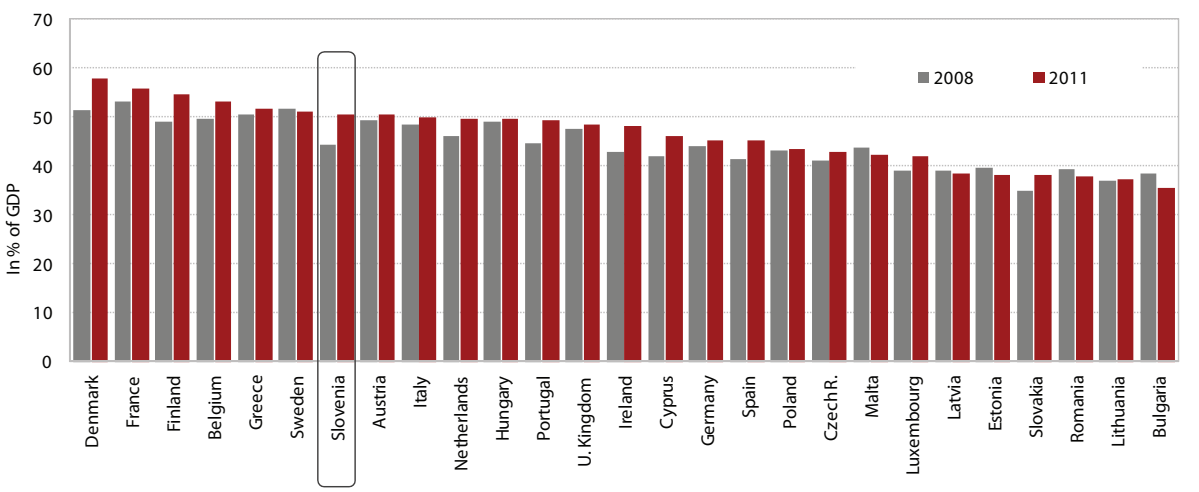
the 2010 and 2011 consolidations, the average share of expenditure in the EU fell by 0.5 and 1.5 percentage points of GDP, respectively. In 2011, as many as 23 countries reduced general government expenditure whereas Belgium, Cyprus, Slovenia and Denmark showed an increase. In 2009, expenditure relative to GDP rose by 4.8 percentage points in Slovenia and by 4.0 percentage points on the EU average. Since Slovenia had not yet launched measures to consolidate public finances, the share of expenditure further increased in 2010 (by 1.2 percentage points) and 2011 (by 0.5 percentage points). In the economic breakdown of general government expenditure, Slovenia diverges from the EU average while differences continue to grow. In 2011, Slovenia allocated 3.2 percentage points more for the compensation of employees than the EU average, 2.0 percentage points more for gross capital formation, 1.8 percentage points more for capital transfers, 0.2 percentage points more for subsidies and 0.1 percentage points more for intermediate consumption; but it spent less than the EU average on social benefits and benefits in cash and kind (4.3 percentage points) and interest payments (2.1 percentage points).

*Table*: **Breakdown of general government expenditure as a % of GDP, Slovenia, 2000–2012**

| in % of GDP | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Total general government expenditure** | **46.5** | **45.3** | **44.6** | **42.4** | **44.3** | **49.1** | **50.3** | **50.8** | **49.0** |
| Intermediate consumption | 6.6 | 6.2 | 6.2 | 5.6 | 6.0 | 6.5 | 6.8 | 6.9 | 6.9 |
| Compensation of employees | 11.3 | 11.5 | 11.2 | 10.5 | 11.0 | 12.4 | 12.6 | 12.8 | 12.6 |
| Other taxes on production | 0.5 | 0.5 | 0.4 | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Social benefits and benefits in cash and kind | 17.9 | 17.7 | 17.3 | 16.3 | 16.6 | 18.7 | 19.4 | 19.8 | 19.7 |
| Other current transfers | 1.3 | 2.1 | 2.0 | 1.6 | 2.0 | 2.2 | 2.1 | 2.2 | 2.2 |
| Subsidies | 1.9 | 1.6 | 1.6 | 1.6 | 1.6 | 2.1 | 2.3 | 1.3 | 1.3 |
| Property income, payable | 2.4 | 1.6 | 1.4 | 1.3 | 1.1 | 1.3 | 1.6 | 1.9 | 2.1 |
| Capital transfers | 1.6 | 1.0 | 0.9 | 0.9 | 1.2 | 1.2 | 1.1 | 2.1 | 1.1 |
| Gross capital formation | 3.2 | 3.2 | 3.7 | 4.3 | 4.5 | 4.6 | 4.5 | 3.6 | 3.0 |
| Total general government revenue | 42.8 | 43.8 | 43.2 | 42.4 | 42.4 | 43.1 | 44.5 | 44.4 | 45.0 |

Source: SURS, Main aggregates of the general government, 2013, calculations by IMAD.

*Figure*: **Total general government expenditure as a % of GDP in EU Member States, in 2008 and 2011**




Source: Eurostat, Government revenue, expenditure and main aggregates, 2013.

# 3.2 General government expenditure by function

***After 2008, the growth in general government expenditure failed to adjust to the significant decline in GDP, and a rapid increase was recorded mainly by expenditure on economic affairs and social protection.*** In 2008–2011, GDP in nominal terms shrank by 2.8% while general government expenditure rose by as much as 11.1%. An even faster growth was seen in expenditure on economic affairs (17.6%) and social protection (15.9%) as a result of the measures adopted to alleviate the consequences of the economic crisis. Among other expenditure groups, large increases were posted for expenditure on recreation, culture and religion, more precisely on gross capital formation in the recreation and sports activities subgroup, as well as on general public services, specifically public debt-servicing (by 72.9% in nominal terms). The remaining expenditure groups recorded a slower or even negative (e.g. defence and housing and community amenities) nominal rise in expenditure. Owing to the sharp decline of GDP in 2009 and its weak growth in subsequent years, in 2008–2011 expenditure relative to GDP surged by 6.4 percentage points

***The breakdown of expenditure has changed considerably since the adoption of SDS in 2005; expenditure on economic affairs and recreation, culture and religion have increased, the share of expenditure on social protection has remained unchanged, while other expenditure has declined.*** In 2011, Slovenia allocated 63.9% of total expenditure (1.9 percentage points less than in 2005) for social protection, education and health. The share of expenditure allocated for education has been decreasing since 2005, and has dropped over the past six years by as much as 1.6 percentage points The share of expenditure on health began to decline markedly after 2009. Expenditure on social protection, recording the largest share of all expenditures, had been falling until 2008 but has increased ever since, reaching the 2005 level in 2011. As regards other expenditure groups, large increases were posted for the shares of expenditure on economic affairs (as much as 2.7) and on recreation, culture and religion (0.8 percentage points).

***The potential productivity of general government expenditure in Slovenia is favourable, yet the growth of productive expenditure lags behind the growth of total expenditure.*** According to EC methodology[1], where productive expenditure includes expenditure on education, health, environmental protection, transport, communication, energy and R&D, productive expenditure in Slovenia began to increase in 2007 (15.5% of GDP), rising by 1 percentage point in 2008 and by a further 1.5 percentage points in the 2008–2011 period, thereby equalling 18% of GDP. The increase was most notable in expenditure on health and education (1.8 percentage points) and transport (0.6 percentage points). No major shifts were recorded in expenditure on R&D, other infrastructure and environmental protection, although the quite favourable results are considered to be relative, as they were achieved as a result of the decline and slower growth of GDP, while their nominal growth since 2008 has been nearly twice as slow (only 6%) than the total growth of all general government expenditure (11.1%). As for productive expenditure of the general government sector as a proportion of GDP, in 2010 Slovenia (17.8%) ranked eighth among 24[2] EU Member States.

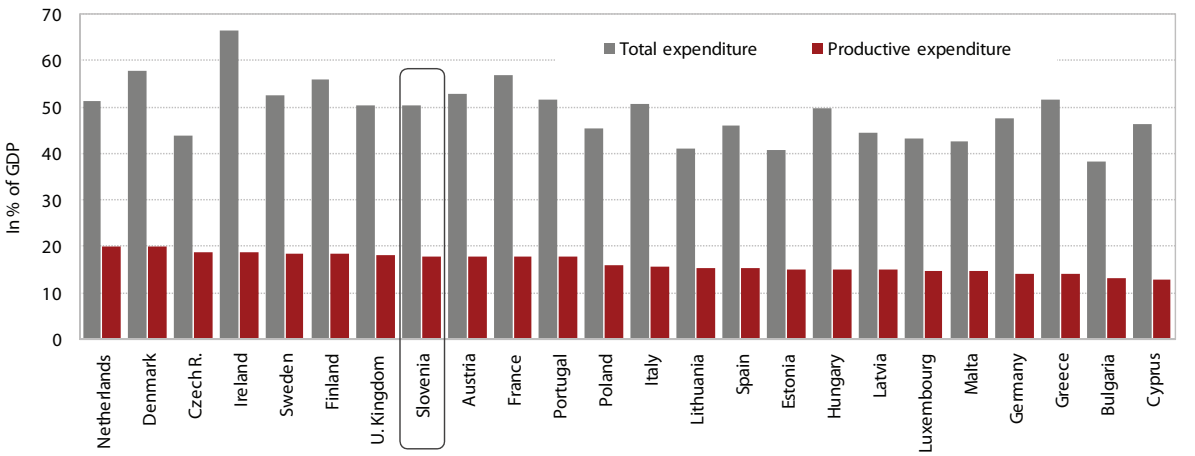
[1] European Commission, 2012.
[2] No data available for Belgium, Romania and Slovakia.

*Table*: **General government expenditure by function, Slovenia, as a % of GDP**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| General public services | 6.0 | 5.9 | 5.6 | 5.3 | 5.1 | 5.7 | 5.8 | 6.3 |
| Defence | 1.1 | 1.3 | 1.5 | 1.5 | 1.4 | 1.5 | 1.5 | 1.2 |
| Public order and safety | 1.8 | 1.7 | 1.7 | 1.6 | 1.6 | 1.7 | 1.8 | 1.7 |
| Economic affairs | 5.1 | 3.9 | 4.1 | 4.1 | 4.8 | 5.1 | 5.3 | 5.8 |
| Environmental protection | 0.6 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 |
| Housing and community amenities | 0.7 | 0.5 | 0.6 | 0.6 | 0.9 | 0.8 | 0.7 | 0.7 |
| Health | 6.4 | 6.3 | 6.3 | 5.9 | 6.2 | 7.0 | 6.9 | 6.9 |
| Recreation, culture and religion | 1.3 | 1.3 | 1.3 | 1.2 | 1.6 | 1.8 | 2.3 | 1.9 |
| Education | 6.2 | 6.6 | 6.4 | 5.9 | 6.1 | 6.5 | 6.6 | 6.7 |
| Social protection | 17.2 | 26.9 | 16.4 | 15.5 | 15.9 | 18.0 | 18.6 | 18.9 |
| TOTAL EXPENDITURE | 46.5 | 45.3 | 44.6 | 42.4 | 44.3 | 49.1 | 50.3 | 50.7 |

Source: General government expenditure by function, Slovenia, December 2012 (SURS); calculations by IMAD.

*Figure*: **Total and productive expenditure of the general government sector, 2010, as a % of GDP**




Source: Eurostat Portal Page - Government Finance Statistics, 2012; calculations by IMAD.
Note: Since at the second level of classification by function no data are available for Belgium, Romania and Slovakia nor for the EU average, these countries have been excluded from the overview.

# 3.3 Economic structure of taxes and contributions

***Slovenia diverges from the EU average in its higher share of taxes on consumption and labour and lower share of taxes on capital[1].*** The share of *taxes on consumption* in total taxes and contributions in Slovenia in 2010 totalled 37.5%, and exceeded the EU average (34.4%). The share of *taxes on labour* (51.8%) was also above the EU average (47.3%). The share of *taxes on capital* accounted for 11.1% of all taxes and contributions in Slovenia in 2010 (EU average: 18.4%). Slovenia was thus at the tail-end of the EU, with only Estonia, Lithuania and Latvia trailing behind, owing mainly to lower taxes on corporate income.

***In recent years, the classification of taxes into three groups according to economic function has been approaching the EU average.*** In 2005–2010, the share of *taxes on capital* in total taxes and contributions grew, while the average share in the EU declined. Slovenia recorded a distinct increase in 2007 when the conditions for capital gains were favourable, the rate of corporate income tax was high (25%) and there was no significant tax relief. Following the tax reform in 2007, the share of taxes on capital started to decline. The decline was due to a gradual phasing-down of the corporate income tax rate (from 25% to 20% in 2010) and higher tax relief, which pushed the effective tax rate below the legally provided value. The share of *taxes on labour* in total taxes and contributions in Slovenia has been decreasing over the past ten years, while remaining stable in the EU average. Slovenia has a higher tax burden on labour than other EU countries, mainly because of the relatively high social security contributions. After the tax reform, there was also a gradual decline in personal income tax. Personal income tax as a share of GDP is well below the EU average. In 2010, it accounted for 5.7% of GDP in Slovenia; the EU-27 average was 7.7% of GDP while in the euro area this share was 9.1%. After 2007, taxes and contributions on labour decreased in part due to a gradual phasing out of the payroll tax. The share of *taxes on consumption* in total taxes and contributions increased slightly between 2005 and 2010 both in Slovenia and the EU. In Slovenia, this increase was spurred primarily by changes in excise duties, while in the EU it was largely due to the increasing rates of VAT during the crisis.

***Implicit tax rates[2] reveal that in 2010, Slovenia had higher taxes on consumption and lower taxes on capital and labour compared to the EU average.*** In Slovenia, the *implicit tax rate on consumption* in 2010[3] was 24.1% compared to the EU average of 19.7%. Compared to the previous year, it grew by 0.1 percentage points in Slovenia and by 0.6 percentage points on average in the EU; this was estimated to be a consequence of increasing VAT rates. Seven Member States had higher rates than Slovenia. The *calculated implicit tax rate on labour* in Slovenia in 2010 was 35.0%, below the EU average of 36.0%. It decreased by 0.1 percentage points in Slovenia while remaining stable in the rest of the EU on average. Eleven EU countries had higher rates than Slovenia. The *implicit tax rate on capital* in 2010 was estimated at 22.5% for Slovenia and was below the EU-25[4] average (27.0%). Eleven Member States had lower rates than Slovenia.

***SURS data[5] for 2011 point to an increase in the implicit tax rate on labour and a decline in the rate on consumption and capital.*** In 2011, the implicit tax rate on labour equalled 35.1%, or 0.2 percentage points more than in the previous year. In nominal terms, taxes on labour were lower than the year before, while the nominal reduction of compensation for employees was slightly higher. The implicit tax rate on consumption was 23.0%, decreasing by 0.7 percentage points compared to 2010, despite the same nominal level of taxes on consumption and a modest rise of the tax base. The implicit tax rate on capital (20.5%) was down by 1.5 percentage points compared to the previous year. Taxes on capital declined in nominal terms, mainly owing to lower corporate income tax, while the tax base grew.

[1] The tax classification is based on the classification of taxes according to ESA-95 and the common rules for their classification. Taxes on consumption are defined as taxes on transactions between final consumers and producers and as taxes on the final consumption goods. Taxes on labour are directly tied to wages and paid by employees or employers. Taxes on capital relate to taxes on capital, corporate income, income from household capital (annuities, dividends, interest, other income from property), capital gains, property, etc.

[2] The implicit tax rate on consumption is defined as the ratio between taxes on consumption, and final household consumption expenditure in the territory of a country according to the methodology of national accounts. The implicit tax rate on labour is calculated as the ratio between taxes on labour and the compensation of employees according to the methodology of national accounts, increased by payroll tax.

[3] According to Eurostat data, based on EC calculations.

[4] EU-27 data not available.

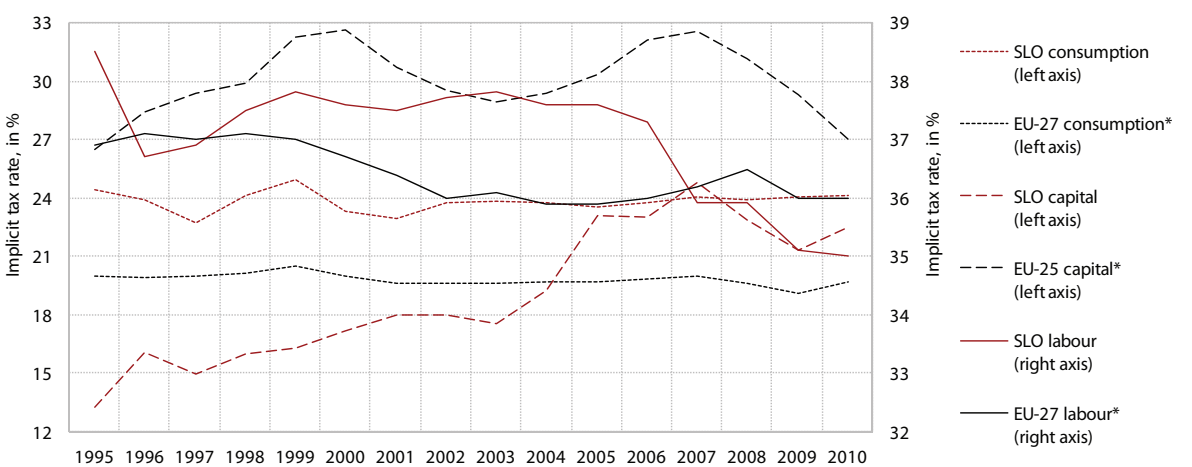
[5] The implicit tax rates, published by SURS for the first time this year, slightly diverge from EC calculations. In calculating implicit tax rates, SURS applied the same methodology as the European Commission, yet the classification of taxes into individual economic categories requires a further breakdown; likewise, decisions concerning the classification of taxes that fall between two economic functions can vary.

*Table*: **Implicit tax rate (ITR), 2005 and 2010, as a % of the base**

| | ITR – consumption | | ITR – labour | | ITR – capital | |
|---|---|---|---|---|---|---|
| | 2005 | 2010 | 2005 | 2010 | 2005 | 2010 |
| **EU-27**** | **19.7** | **19.7** | **35.9** | **36.0** | **30.3 *** | **27.0*** |
| Austria | 21.7 | 21.4 | 40.8 | 40.5 | 24.2 | 24.1 |
| Belgium | 22.3 | 21.4 | 43.6 | 42.5 | 32.5 | 29.5 |
| Bulgaria | 22.8 | 22.8 | 33.2 | 24.4 | N/A | N/A |
| Cyprus | 19.7 | 18.8 | 24.4 | 27.0 | 27.2 | 31.1 |
| Czech Republic | 21.1 | 21.1 | 41.3 | 39.0 | 20.4 | 16.7 |
| Denmark | 33.9 | 31.5 | 37.1 | 34.8 | 49.9 | N/A |
| Estonia | 22.0 | 25.6 | 33.8 | 37.0 | 7.7 | 9.1 |
| Finland | 27.6 | 25.2 | 41.6 | 39.3 | 28.8 | 28.4 |
| France | 20.4 | 19.3 | 41.7 | 41.0 | 38.3 | 37.2 |
| Greece | 15.5 | 15.8 | 33.7 | 31.3 | 17.9 | 16.5 |
| Ireland | 26.0 | 21.6 | 25.4 | 26.1 | 19.5 | 14.0 |
| Italy | 16.6 | 16.8 | 41.1 | 42.6 | 29.3 | 34.9 |
| Latvia | 20.3 | 17.3 | 33.2 | 32.5 | 9.8 | 7.4 |
| Lithuania | 16.5 | 18.2 | 34.9 | 31.7 | 9.0 | 6.8 |
| Luxemburg | 26.3 | 27.3 | 30.0 | 32.0 | N/A | N/A |
| Hungary | 26.3 | 27.2 | 38.4 | 39.4 | 17.1 | 17.5 |
| Malta | 19.3 | 18.9 | 22.1 | 21.7 | N/A | N/A |
| Germany | 18.4 | 19.8 | 37.5 | 37.4 | 20.4 | 20.7 |
| Netherlands | 25.0 | 27.0 | 32.3 | 36.9 | 17.1 | 12.5 |
| Poland | 19.7 | 20.2 | 33.8 | 30.1 | 20.7 | 20.5 |
| Portugal | 19.6 | 17.4 | 22.4 | 23.4 | 30.0 | 30.7 |
| Romania | 17.9 | 18.9 | 28.1 | 27.4 | N/A | N/A |
| Slovakia | 21.8 | 17.7 | 32.9 | 32.0 | 20.3 | 15.9 |
| **Slovenia** | **23.5** | **24.1** | **37.6** | **35.0** | **23.1** | **22.5** |
| Spain | 16.7 | 14.6 | 32.3 | 33.0 | 37.5 | N/A |
| Sweden | 27.2 | 28.1 | 43.6 | 39.0 | 33.5 | 34.9 |
| United Kingdom | 18.1 | 18.4 | 26.2 | 25.7 | 39.3 | N/A |

Source: Taxation trends in European Union, 2012.
Note:* data for EU-25; ** weighted average; N/A - not available.

*Figure*: **Implicit tax rate on consumption, labour and capital (as a % of the base)**




Source: Taxation trends in European Union, 2012 Edition.
Note: * Data for EU is a weighted average.

# 3.4 Taxes and social contributions

***In 2011, total taxes and social contributions[1] measured as a share of GDP[2] fell in Slovenia by 0.7 percentage points, while increasing in the EU on average by 0.5 percentage points of GDP.*** Total taxes and contributions in Slovenia thus accounted for 37.5% of GDP (EU average: 40.1%). Among the EU countries, the gap between the country with the highest (Denmark: 48.6% of GDP) and the country with the lowest taxes and contributions (Lithuania: 26.4% of GDP) amounted to as much as 22.2 percentage points. Slovenia is a middle-ranking Member State. In 2011, EU countries in deteriorated macroeconomic conditions introduced proactive tax instruments to control budget deficits, which increased the share of taxes and contributions in GDP.

***In Slovenia, the changes to tax instruments were aimed more at promoting the economy and less at preserving the taxation capacity.*** 2011 saw a nominal decrease of taxes and contributions (by EUR 18 m) and a shift in their structure. A EUR 60 m decline in taxes resulted from reduced *taxes on income and wealth*, mainly attributed to lower revenue from corporate income tax as a consequence of less favourable business performance and higher tax relief (for capital formation, investment in R&D, employment) introduced to stimulate activities during the economic crisis. *Taxes on production and imports* preserved the nominal level achieved in the previous year owing to weaker domestic spending and the excise duty policy, which in 2011 reduced excise duties on energy products. *Taxes on capital* fell somewhat in nominal terms and their structural share is insignificant. *Social security contributions* rose by EUR 42 m in nominal terms. With unchanged contribution rates, contributions kept pace with the growth of the wage mass, which lagged behind the nominal growth of GDP as a result of reduced employment.

***The highest share of all collected taxes and social security contributions, which pertain to central government, is gradually declining, while the shares of local governments and social security funds are rising.*** In 2011, 48.6% of all collected taxes and social contributions pertained to central government. After 2006, the share of central government declined by 6.8 percentage points. A total of 39.5% of collected taxes and contributions pertained to social security funds; their share in total taxes and contributions rose owing to more favourable growth of social security contributions. The share of local governments, which accounted for 11% of all taxes and contributions, is also increasing mainly because a greater amount of personal income tax is attributed to municipalities. Just under one percent of collected taxes and contributions pertain to European institutions.

***The share of taxes on production and imports and social security contributions relative to GDP is above the EU average, while the share of taxes on income and wealth is lower.*** In 2011, the share of *taxes on production and imports* totalled 14.4%; the EU average was 13.4% of GDP, with seven countries recording higher shares than Slovenia. Although in 2011 this share in Slovenia decreased, while in the past two years the EU recorded an increase (countries raised VAT and excise duty rates for the purpose of fiscal consolidation), it is still above the EU average as regards VAT (Slovenia: 8.4%, EU: 7.1% of GDP) and excise duties (Slovenia: 4.7%, EU: 3.7% of GDP). The share of *social security contributions* totalled 15.3% of GDP and was above the EU average (13.9%), while lagging slightly behind the average in the euro area (EA-17: 15.7% of GDP). Although in 2011 the average share of social security contributions in the EU remained unchanged and even fell slightly in Slovenia, only six countries had higher shares. Slovenia diverges from the EU average mostly as regards the share of *taxes on income and wealth*. In 2011, this share equalled 7.9% of GDP (EU average: 12.6%). Last year, the average share in the EU – after a small drop in 2009 – rose slightly, while in Slovenia the corresponding share fell by 0.3 percentage points due to the lowering of the tax burden on income and wealth. The shares of revenue from personal income tax (Slovenia: 5.7%, EU: 7.7% of GDP) and revenue from corporate income tax (Slovenia: 1.9%, EU: 2.7% of GDP) were below the EU average in 2010. The share of *taxes on capital* is very low, both on the EU average and in Slovenia (around 0.3 or 0.1% of GDP).

[1] Taxes and social security contributions account for around 85% of total general government revenue.

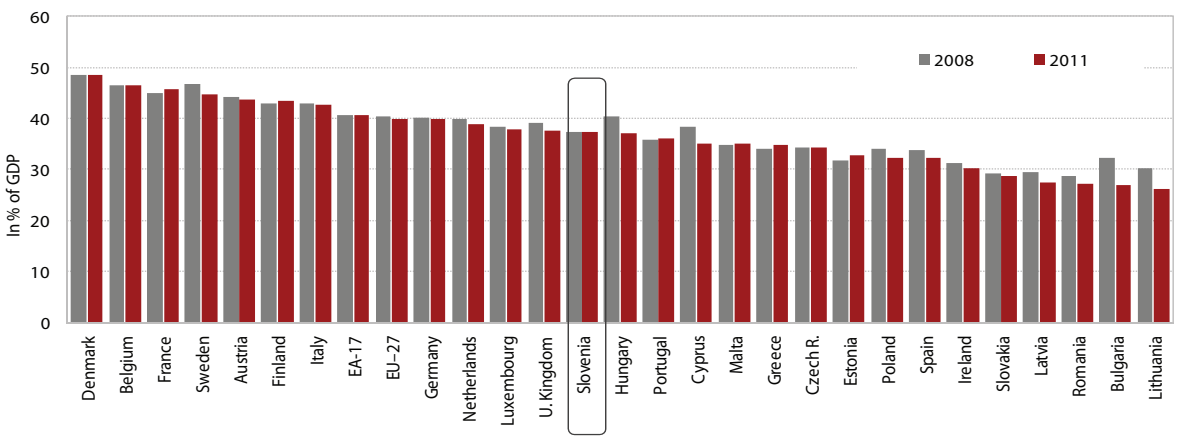
[2] In previous Development Reports, the indicator was named in accordance with SURS official statistical data as "Fiscal burden by taxes and contributions".

*Table*: **Taxes and social security contributions, Slovenia, 2000–2011**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| **In % of GDP** | | | | | | | | |
| Taxes and social contributions | 37.5 | 39.0 | 38.6 | 38.0 | 37.6 | 37.8 | 38.3 | 37.6 |
| Total taxes | 23.1 | 24.5 | 24.3 | 24.1 | 23.3 | 22.6 | 22.8 | 22.3 |
| Taxes on production and imports | 15.7 | 15.8 | 15.2 | 14.9 | 14.4 | 14.3 | 14.6 | 14.4 |
| Current taxes on income, wealth, etc. | 7.3 | 8.7 | 9.1 | 9.2 | 8.9 | 8.2 | 8.2 | 7.9 |
| Taxes on capital | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Social contributions | 14.4 | 14.5 | 14.3 | 13.9 | 14.3 | 15.2 | 15.4 | 15.3 |
| **Structure in %** | | | | | | | | |
| Taxes and social contributions | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total taxes | 61.6 | 62.8 | 63.1 | 63.4 | 62.0 | 59.9 | 59.7 | 59.3 |
| Taxes on production and imports | 42.0 | 40.4 | 39.4 | 39.2 | 38.2 | 38.0 | 38.2 | 38.3 |
| Current taxes on income, wealth, etc. | 19.4 | 22.3 | 23.6 | 24.1 | 23.7 | 21.8 | 21.3 | 20.9 |
| Taxes on capital | 0.2 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Social contributions | 38.4 | 37.2 | 36.9 | 36.6 | 38.0 | 40.1 | 40.3 | 40.7 |

Source: SURS; calculations by IMAD.

*Figure*: **Taxes and social security contributions, in % of GDP**




Source: Taxation trends in the European Union (Eurostat, European Commission), 2012.

# 3.5 Subsidies

***The very high subsidies provided in 2009 and 2010 mainly through measures to mitigate the economic crisis fell strongly in 2011.*** The consequences of the economic crisis were tackled through special anti-crisis measures. After remaining unchanged for several years, the share of subsidies in GDP (1.6%) increased to 2.2% of GDP in 2009, owing to an increase in subsidies (of EUR 151 m) and a concurrent decline in GDP. Some measures had a limited period of application and expired in 2010. New measures were adopted, however, increasing subsidies by an additional EUR 69 m. Given the expiry of anti-crisis measures as well as the institutional changes in transport[1], subsidies decreased significantly in 2011. Subsidies went down by EUR 328 m, thus accounting for 1.3% of GDP. In 2010 subsidies in Slovenia exceeded by far the EU average (1.3% of GDP), while their increase compared to the stable average recorded in 2005–2008 was lower in the EU (0.2 percentage points) than in Slovenia (0.5 percentage points). Only three Member States (Austria 3.5%, Belgium and Denmark 2.5% of GDP) recorded a higher level of subsidies than Slovenia. The drastic decline in 2011 brought Slovenia close to the 2010 EU average.

***The classification of subsidies by function shows that Slovenia allocates the bulk of subsidies for economic affairs, particularly general economic, commercial and labour affairs, and transport.*** Slovenia allocates around three quarters of subsidies for economic affairs; following the introduction of anti-crisis measures, their share grew to 79% in 2009, but fell to 71% in 2011. As regards individual functions, up until 2008 subsidies were mainly allocated for agriculture and transport, whereas 2009 and 2010 saw a significant increase of subsidies for general economic, commercial and labour affairs in order to alleviate the impact of the economic crisis. After representing around 30% of all subsidies for economic affairs in 2005–2008, subsidies for agriculture, forestry, fishing and hunting gradually fell, accounting for only 12.4% in 2011. Subsidies for transport were even higher (2008: 51%) and rose further in 2009 and 2010, only to drop to 35% in 2011. The relatively low subsidies for general economic, commercial and labour affairs surged in response to the economic crisis (2008: 14.4%; 2010: 43.6%), due to measures aimed at preserving jobs and fostering the competitiveness of the economy. Although the number of unemployed persons continues to grow while the competitiveness of the economy is still excessively low, in 2011 the subsidies for this function declined by as much as EUR 115.2 m, which is unfavourable considering that active employment policy measures (aimed mainly at the creation of new jobs) are better than passive policy measures (social transfers for the unemployed).

***Subsidies for other non-economic affairs slightly increased in 2008–2010 but fell in 2011.*** Subsidies for other non-economic affairs, representing from 20% (2009) to 25% (2008) of all subsidies, remained at the 2008 level in 2009 (just above EUR 150 m), increased by EUR 31 m in 2010, and dropped by EUR 43 m in 2011. Up until 2008, most subsidies had been allocated for environmental protection, while in the last two years their share fell considerably; conversely, a dramatic increase was recorded in subsidies for social protection and education.

***The efficiency of subsidies cannot be measured, since Slovenia still lacks a central register of beneficiaries; data from corporate annual accounts, however, reveal that the business performance of beneficiaries is improving significantly.*** In 2011, subsidies raised the achieved value added of beneficiaries by 4.9% and their total profit by 31.7%, and exceeded the reported corporate income tax by as much as 87%. The beneficiaries of subsidies were large companies and companies that were more export-oriented than those that did not receive subsidies[2]. As in previous years, the number of beneficiaries was very high[3], which can be attributed to numerous subsidy programmes that are highly fragmented among ministries. A single record of the government's development policies classifying all government measures – subsidies included – by programmes, projects and beneficiaries (as was planned in 2007)[4], has yet to be established. The effects of subsidies are therefore not measured, except by individual case studies, which cover only a narrow scope of measures by individual subsidy providers.

[1] With the reorganisation of Slovenian Railways, four units were established. Two of them – passenger transport and infrastructure – were part of the central government sector throughout 2011. This led to reduced subsidies and increased intermediate consumption.

[2] The beneficiaries of subsidies recorded 43% of net profits on foreign markets; companies that did not receive subsidies recorded only 25%.

[3] Around 10% of all companies, whereby several companies received very low amounts. 10% of beneficiaries alone received over 90% of all subsidies.

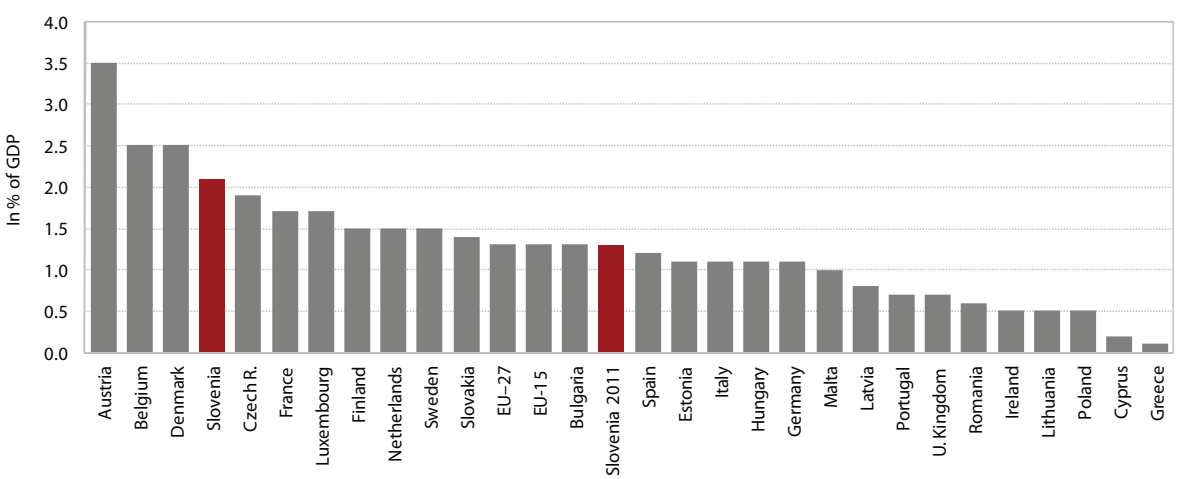
[4] Decree on the documents of development planning bases and procedures for the preparation of the central and local government budgets, Official Gazette of the Republic of Slovenia, No. 44/2007 and 54/2010.

*Table:* **General government subsidies, 1995–2010, in % of GDP**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| **EU-27** | **N/A** | **N/A** | **1.1** | **1.1** | **1.1** | **1.1** | **1.3** | **1.3** |
| **EU-15** | **1.6** | **1.3** | **1.1** | **1.1** | **1.1** | **1.1** | **1.3** | **1.3** |
| Austria | 2.8 | 3.1 | 3.4 | 3.4 | 3.3 | 3.5 | 3.5 | 3.5 |
| Belgium | 1.2 | 1.2 | 1.6 | 1.7 | 1.9 | 2.1 | 2.2 | 2.5 |
| Bulgaria | N/A | 1.0 | 0.8 | 0.7 | 0.8 | 1.1 | 1.2 | 1.3 |
| Cyprus | 0.9 | 1.4 | 0.7 | 0.5 | 0.4 | 0.4 | 0.2 | 0.2 |
| Czech Republic | 2.6 | 2.7 | 1.7 | 1.8 | 1.7 | 1.6 | 2.0 | 1.9 |
| Denmark | 2.7 | 2.4 | 2.3 | 2.2 | 2.2 | 2.2 | 2.6 | 2.5 |
| Estonia | 0.8 | 1.1 | 0.7 | 0.9 | 0.9 | 1.0 | 1.0 | 1.1 |
| Finland | 2.7 | 1.5 | 1.3 | 1.4 | 1.3 | 1.3 | 1.4 | 1.5 |
| France | 1.6 | 1.5 | 1.4 | 1.4 | 1.4 | 1.4 | 1.7 | 1.7 |
| Greece | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| Ireland | 1.0 | 0.7 | 0.5 | 0.4 | 0.5 | 0.5 | 0.6 | 0.5 |
| Italy | 1.4 | 1.2 | 0.9 | 0.9 | 1.0 | 1.0 | 1.1 | 1.1 |
| Latvia | 1.2 | 1.0 | 0.5 | 0.7 | 0.8 | 1.2 | 1.1 | 0.8 |
| Lithuania | N/A | 0.8 | 0.7 | 0.7 | 0.9 | 0.7 | 0.6 | 0.5 |
| Luxemburg | 1.6 | 1.5 | 1.6 | 1.5 | 1.6 | 1.6 | 1.8 | 1.7 |
| Hungary | 2.2 | 1.7 | 1.4 | 1.4 | 1.4 | 1.1 | 1.0 | 1.1 |
| Malta | 1.7 | 1.4 | 2.1 | 2.2 | 2.0 | 2.1 | 1.1 | 1.0 |
| Germany | 2.1 | 1.7 | 1.1 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 |
| Netherlands | 1.0 | 1.5 | 1.2 | 1.1 | 1.2 | 1.2 | 1.6 | 1.5 |
| Poland | N/A | N/A | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 |
| Portugal | 1.0 | 1.2 | 1.0 | 0.9 | 0.8 | 0.7 | 0.8 | 0.7 |
| Romania | 3.4 | 1.8 | 1.5 | 1.8 | 1.3 | 0.8 | 0.7 | 0.6 |
| Slovakia | 4.7 | 2.5 | 1.3 | 1.3 | 1.2 | 1.7 | 1.6 | 1.4 |
| **Slovenia** | **2.2** | **1.9** | **1.6** | **1.6** | **1.6** | **1.6** | **2.2** | **2.1** |
| Spain | 1.0 | 1.1 | 1.0 | 1.0 | 1.1 | 1.1 | 1.1 | 1.2 |
| Sweden | 3.6 | 1.6 | 1.4 | 1.5 | 1.4 | 1.4 | 1.5 | 1.5 |
| United Kingdom | 0.7 | 0.4 | 0.6 | 0.7 | 0.7 | 0.6 | 0.7 | 0.7 |

Source: Eurostat Portal Page - Government Finance Statistics, 2013.
Note: N/A – not available.

*Figure*: **Subsidies, 2010, in % of GDP**




Source: Eurostat Portal Page - Government Finance Statistics, 2012.

# 3.6 State aid

***In 2011, state aid[1] was the highest since Slovenia's accession to the EU[2].*** Prior to the onset of the economic crisis in the second half of 2008, state aid had been gradually declining in line with the orientations of EC policy. In 2009, state aid nearly doubled as a result of measures to mitigate the consequences of the economic crisis, while its share of GDP rose even further because of the serious decline in GDP. Following the phasing-out of anti-crisis measures, state aid in 2010 fell by EUR 185.4 m or 0.6 percentage points of GDP. In 2011, due to a special scheme intended to remedy a serious disturbance in the economy and increase regional aid, state aid increased by EUR 247.8 m compared to 2010, accounting for 2% of GDP. The level of state aid in 2011 was thus EUR 62.4 m higher than in 2009 (Fourteenth Survey on State Aid in Slovenia, 2012).

***The variation of state aid in 2009–2011 arose mainly from the use of the special temporary scheme entitled 'aid to remedy a serious disturbance in the economy'.*** As much as EUR 243.4 m in state aid was allocated under this scheme in 2011, which is nearly as much as in 2009 and 2010 together (EUR 249.4 m). In all three years, 94% of state aid was allocated to financial institutions, and the significant rise in state aid recorded in 2011 was entirely due to capital injections to NLB. An increase compared to 2010 was also recorded for aid for regional development (EUR 41.5 m) and environmental protection (EUR 21.7 m), as well as in much smaller amounts for small and medium-sized enterprises, risk capital, broadband network development, and natural disasters. The renewed intensification of the crisis significantly reduced development-efficient aid, i.e. aid for R&D and employment, and completely eliminated aid for training. Without the aid intended to remedy a serious disturbance in the economy, the increase of horizontal aid as a share of total state aid (2009: 40.3%; 2011: 44.0%) has pursued the development goals defined in Slovenia's Development Strategy and the Europe 2020 strategy, while the structure of such aid (decrease of development-effective aid, e.g. for R&D) is not particularly encouraging for the development of individual beneficiaries and, through spillover effects, of society as a whole. The amounts of state aid earmarked for special sectors declined somewhat in 2011 relative to 2010; state aid for land transport increased while aid for other sectors (agriculture and fisheries, maritime transport, coal sector) declined.

***State aid (excluding crisis aid and aid for rail transport[3]) is much higher than the EU average.*** According to EC data (State Aid Scoreboard, 2012), the average state aid in the EU is nearly one half lower than that in Slovenia (EU: 0.5%; Slovenia: 1.1% of GDP). Only Malta (1.6%), Finland and Greece (1.2% of GDP) recorded higher aid in relative terms, while Hungary was on a par with Slovenia. However, the amount of aid earmarked for the financial sector to mitigate the impact of the financial crisis in the 2008–2011 period was well below the EU average (Slovenia: 6.7%; EU: 12.8% of 2011 GDP) (Commission staff working paper, Autumn 2010 update, 2012).

***After the significant increase in 2009, state aid granted under the de minimis[4] rule, which is not considered state aid, has been shrinking***. Totalling EUR 28.6 m in 2008, the aid under this rule surged in Slovenia to EUR 84.9 m in 2009 and accounted for as much as 13% of total state aid. This remarkable increase was partly a consequence of measures adopted in response to the economic crisis and partly, to a certain extent, a consequence of the shift from controlled state aid. Although in decline since 2009 (2010: down 26.9%, 2011: down a further 14.7%), this aid remains high (EUR 52.7 m). It was granted for various purposes, particularly for employment and agriculture in 2011, while aid for small and medium-sized enterprises decreased by over EUR 10 m compared to the year before.

[1] State aid arises from the EU's regime and represents all measures of a state in terms of its expenditures (subsidies, capital transfers) and revenues (reduced state revenues) allocated through various instruments (grants, tax exemption and relief, favourable loans, guarantees, etc.) to economic entities that have an impact on the single market of the EU The impact of the market is defined arbitrarily, by rules adopted by the European Commission, the European Council and the European Court of Justice.

[2] A comparison with the pre-accession years, when total state aid had been taken into account, is not realistic, since following Slovenia's accession to the EU a significant portion of state aid to agriculture, i.e. measures under the Common Agricultural Policy (CAP), has no longer been considered state aid.

[3] In its latest survey the European Commission published only data on state aid without crisis aid and the aid for rail transport.

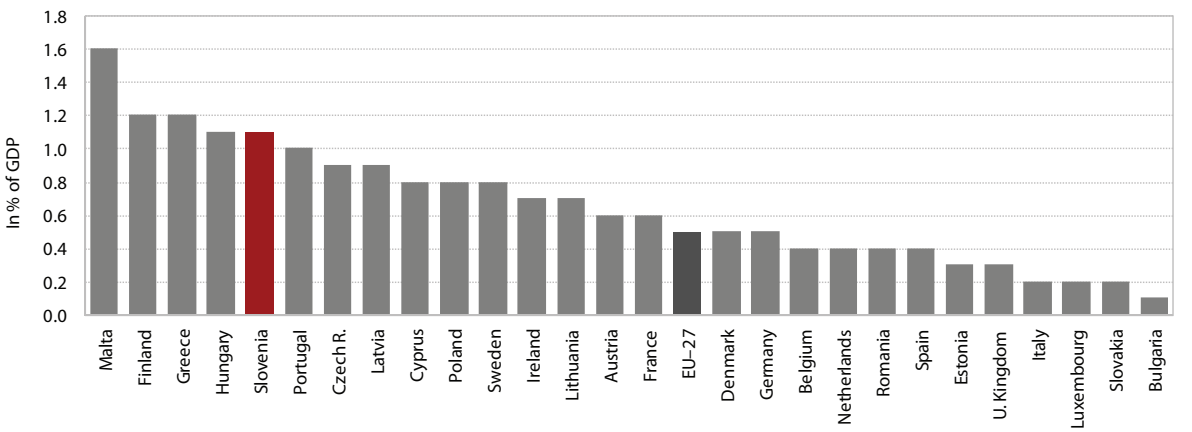
[4] The "de minimis" rule (aid of small amounts) is an instrument which allows Member States to grant subsidies of limited amount very rapidly, without notification to the Commission and entering into any administrative procedure. The rule is based on the assumption that, in the vast majority of cases, subsidies of a small amount do not have an effect on trade and competition between Member States and therefore do not constitute state aid pursuant to Article 87(1) EU. The ceiling for aid covered by the "de minimis" rule is EUR 200,000 per recipient over any three fiscal years.

*Table*: **State aid (excluding crisis aid and aid for railway sector), in % of GDP**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **1.0** | **0.7** | **0.6** | **0.8** | **0.5** | **0.6** | **0.6** | **0.6** | **0.5** |
| Austria | 1.1 | 0.7 | 0.5 | 0.8 | 0.4 | 0.6 | 0.8 | 0.7 | 0.6 |
| Belgium | 0.6 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.6 | 0.6 | 0.4 |
| Bulgaria | N/A | N/A | 0.1 | 0.1 | 0.6 | 0.6 | 0.5 | 0.1 | 0.1 |
| Cyprus | N/A | 2.7 | 1.4 | 0.6 | 0.7 | 0.6 | 1.0 | 0.7 | 0.8 |
| Czech Republic | N/A | 2.3 | 0.6 | 0.7 | 0.8 | 0.9 | 0.7 | 0.8 | 0.9 |
| Denmark | 0.6 | 1.0 | 0.8 | 0.7 | 0.8 | 0.8 | 1.0 | 0.4 | 0.5 |
| Estonia | N/A | 0.1 | 0.3 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| Finland | 2.8 | 1.4 | 1.3 | 1.3 | 1.1 | 1.1 | 1.2 | 1.2 | 1.2 |
| France | 0.8 | 0.6 | 0.5 | 1.7 | 0.5 | 0.7 | 0.7 | 0.8 | 0.6 |
| Greece | 1.4 | 0.7 | 0.4 | 0.4 | 0.5 | 0.7 | 0.9 | 0.9 | 1.2 |
| Ireland | 0.6 | 0.9 | 0.5 | 0.5 | 0.7 | 1.2 | 1.0 | 1.1 | 0.7 |
| Italy | 1.2 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.2 |
| Latvia | N/A | 0.7 | 1.1 | 1.3 | 2.2 | 0.6 | 0.7 | 1.0 | 0.9 |
| Lithuania | N/A | 0.3 | 0.5 | 0.5 | 0.6 | 0.4 | 0.6 | 0.6 | 0.7 |
| Luxemburg | 0.5 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 |
| Hungary | N/A | 1.1 | 1.8 | 1.5 | 1.3 | 2.1 | 1.7 | 2.0 | 1.1 |
| Malta | N/A | 3.4 | 3.6 | 2.8 | 2.4 | 2.0 | 1.9 | 1.4 | 1.6 |
| Germany | 1.6 | 0.8 | 0.8 | 0.8 | 0.6 | 0.7 | 0.7 | 0.6 | 0.5 |
| Netherlands | 0.4 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 |
| Poland | N/A | 1.0 | 0.8 | 0.8 | 0.6 | 0.9 | 0.9 | 0.9 | 0.8 |
| Portugal | 1.1 | 1.6 | 0.9 | 0.9 | 1.3 | 0.9 | 1.0 | 0.9 | 1.0 |
| Romania | N/A | N/A | 0.6 | 0.7 | 1.2 | 0.6 | 0.7 | 0.2 | 0.4 |
| Slovakia | N/A | 0.4 | 0.6 | 0.5 | 0.4 | 0.6 | 0.5 | 0.5 | 0.2 |
| **Slovenia** | **N/A** | **1.0** | **0.7** | **0.7** | **0.6** | **0.7** | **1.0** | **1.0** | **1.1** |
| Spain | 1.1 | 1.1 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 |
| Sweden | 0.5 | 0.4 | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.8 |
| United Kingdom | 0.4 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |

Source: State Aid Scoreboard, Autumn 2012, (European Commission), 2012.
Note: N/A – not available.

*Figure*: **State aid (excluding crisis aid and aid for railway sector), in % of GDP**




Source: State Aid Scoreboard, Autumn 2011, (European Commission), 2012.

## THE FOURTH PRIORITY:

## Labour market and a welfare state

- 4.1 Employment rate
- 4.2 Unemployment rate
- 4.3 Long-term unemployment rate
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# 4.1 Employment rate

***The employment rate has declined for the fourth consecutive year, and more sharply than in the EU overall over the last three years.*** It had been rising continually until 2008, then started to fall in 2009 as a result of the decline in economic activity. The fall in employment in 2009 was relatively small compared with the drop in economic activity, partly due to the usual lag in the labour market's response to the economic situation, but also as a result of government action in the form of two emergency laws[1] that helped to preserve vulnerable jobs. In 2010 and 2011 employment declined further as it adjusted to lower economic activity. The employment rate declined by 1.8 percentage points to 64.4% in 2011, and by an additional 0.3 percentage points to 64.1% in 2012 as enterprises continued to adjust to lower economic activity. Slovenia has thus moved further away from the high employment targets in the Europe 2020 strategy.

***In 2012 construction recorded the largest fall in employment for the second consecutive year. Various forms of informal work also declined substantially.*** According to the figures from the Statistical Register of Employment, in 2012 the number of persons in employment fell by slightly less in 2012 (-1.6%) than in 2011 (-2.1%). As in 2010 and 2011, the largest fall was recorded by construction (8,047, or 11.9%). Other significant falls were recorded by agriculture (1,795 or 4.6%), wholesale and retail trade (1,848 or 1.7%) and manufacturing (1,919 or 1.0%). In 2012, employment rose in the sectors of information and communication activities, and electricity and water supply. Among public services it increased in the sectors of human health and social work (1,311 or 2.4%) and education (778 or 1.2%), while it fell in public administration (650 people or 1.3%). Looking at employment, there was a fall in the number of employed persons(by 1.6%), particularly those employed by registered natural persons (4.8%), while there was also a smaller fall in the number of self-employed persons excluding farmers (0.7%). The figures from the Labour Force Survey also show a fall in the number of people employed in various types of informal work[2] in the second quarter of 2012, mainly student work (by 14.3% in year-on-year terms).

***Youth employment rate declined markedly in 2012, while the employment rate of older persons remains among the lowest in the EU.*** Employment of young people aged 15–24 has declined for four consecutive years. In 2007–2010 the rate fluctuated around the EU average, largely due to high informal employment (primarily work through student employment agencies), but in 2011 it fell again (2.6 percentage points) to 31.5%, below the EU average (33.6%). Youth employment also continued to decline strongly in 2012 (by 4.2 percentage points to 27.3%). After the substantial drop in 2011 (by 3.8 percentage points to 31.2%), the employment rate of older persons aged 55–64 rose slightly in 2012, to 32.9%, but was still among the lowest in the EU. The female employment rate is higher than in the EU overall: it rose rapidly between 2004 and 2008, reaching 64.5% in 2008. Since then it has been declining, reaching 60.5% in 2012. Since 2008, when it stood at 72.7% and was level with the EU average, the male employment rate has fallen much more than that for women, as the economic crisis has had a larger impact on sectors that predominantly employ men (construction and manufacturing). By 2010 it had fallen below the EU average (69.6%), and reached 67.4% in 2012.

[1] The Partial Subsidisation of Full-Time Work Act, OG RS 5/2009, and the Partial Reimbursement of Payment Compensation Act, OG RS 42/2009.

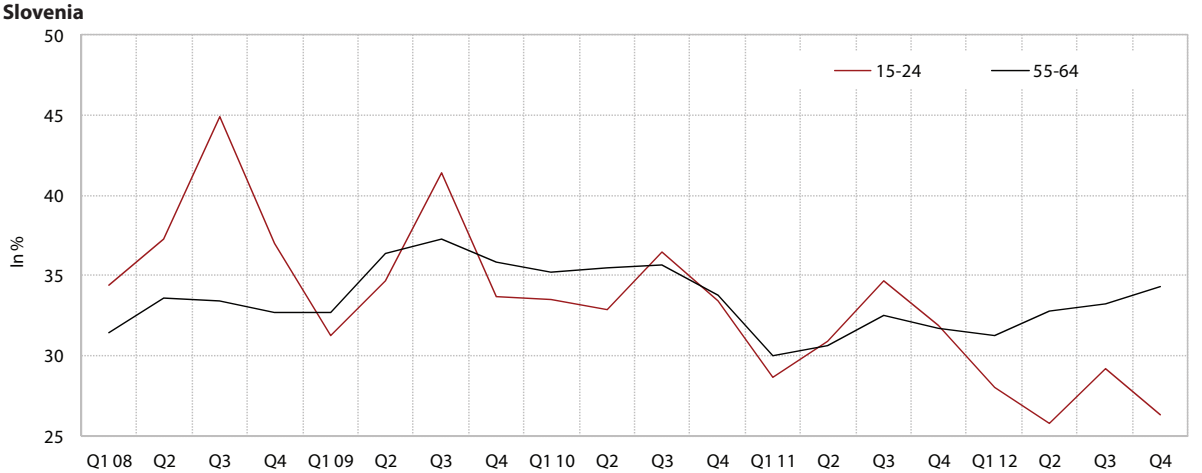
[2] People who work either as unpaid family workers, under contracts for work or in the grey economy.

*Table*: **Employment rates (15-64 age group) according to the Labour Force Survey, %**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **N/A** | **62.1** | **63.4** | **64.4** | **65.3** | **65.8** | **64.5** | **64.1** | **64.3** | **64.3** |
| Austria | 68.4 | 67.9 | 68.6 | 70.2 | 71.4 | 72.1 | 71.6 | 71.7 | 72.1 | 72.6 |
| Belgium | 56.3 | 60.9 | 61.1 | 61.0 | 62.0 | 62.4 | 61.6 | 62.0 | 61.9 | 61.8 |
| Bulgaria | N/A | 51.5 | 55.8 | 58.6 | 61.7 | 64.0 | 62.6 | 59.7 | 58.5 | 58.3 |
| Cyprus | N/A | 65.4 | 68.5 | 69.6 | 71.0 | 70.9 | 69.9 | 69.7 | 67.6 | 64.9 |
| Czech Republic | N/A | 64.9 | 64.8 | 65.3 | 66.1 | 66.6 | 65.4 | 65.0 | 65.7 | 66.5 |
| Denmark | 73.9 | 76.4 | 75.9 | 77.4 | 77.0 | 77.9 | 75.3 | 73.3 | 73.1 | 72.8 |
| Estonia | N/A | 60.3 | 64.4 | 68.1 | 69.4 | 69.8 | 63.5 | 61.0 | 65.1 | 67.1 |
| Finland | 59.7 | 68.1 | 68.4 | 69.3 | 70.3 | 71.1 | 68.7 | 68.1 | 69.0 | 70.4 |
| France | 59.6 | 61.7 | 63.7 | 63.6 | 64.3 | 64.8 | 64.0 | 63.9 | 63.9 | 64.1 |
| Greece | 54.5 | 56.6 | 60.1 | 61.0 | 61.4 | 61.9 | 61.2 | 59.6 | 55.6 | 51.7 |
| Ireland | 54.1 | 64.5 | 67.6 | 68.7 | 69.2 | 67.6 | 62.2 | 60.1 | 58.9 | 58.8 |
| Italy | 50.8 | 53.4 | 57.6 | 58.4 | 58.7 | 58.7 | 57.5 | 56.9 | 56.9 | 57.1 |
| Latvia | N/A | 57.4 | 63.3 | 66.3 | 68.3 | 68.6 | 60.9 | 59.3 | 60.8 | 62.4 |
| Lithuania | N/A | 59.6 | 62.6 | 63.6 | 64.9 | 64.3 | 60.1 | 57.8 | 60.3 | 62.3 |
| Luxembourg | 58.5 | 62.7 | 63.6 | 63.6 | 64.2 | 63.4 | 65.2 | 65.2 | 64.6 | 65.8 |
| Hungary | N/A | 55.9 | 56.9 | 57.3 | 57.3 | 56.7 | 55.4 | 55.4 | 55.8 | 57.2 |
| Malta | N/A | 54.5 | 53.9 | 53.6 | 54.6 | 55.3 | 55.0 | 56.1 | 57.6 | 58.5 |
| Germany | 64.7 | 65.3 | 65.5 | 67.2 | 69.0 | 70.1 | 70.3 | 71.1 | 72.5 | 72.7 |
| Netherlands | 64.2 | 72.9 | 73.2 | 74.3 | 76.0 | 77.2 | 77.0 | 74.7 | 74.9 | 75.1 |
| Poland | N/A | 55.1 | 52.8 | 54.5 | 57.0 | 59.2 | 59.3 | 59.3 | 59.7 | 60.0 |
| Portugal | 62.5 | 68.2 | 67.5 | 67.9 | 67.8 | 68.2 | 66.3 | 65.6 | 64.2 | 62.5 |
| Romania | N/A | 64.2 | 57.6 | 58.8 | 58.8 | 59.0 | 58.6 | 58.8 | 58.5 | 60.0 |
| Slovakia | N/A | 56.3 | 57.7 | 59.4 | 60.7 | 62.3 | 60.2 | 58.8 | 59.5 | 59.8 |
| **Slovenia** | **N/A** | **62.7** | **66.0** | **66.6** | **67.8** | **68.6** | **67.5** | **66.2** | **64.4** | **63.8** |
| Spain | 46.8 | 56.1 | 63.3 | 64.8 | 65.6 | 64.3 | 59.8 | 58.6 | 57.7 | 55.7 |
| Sweden | 70.7 | 71.1 | 72.5 | 73.1 | 74.2 | 74.3 | 72.2 | 72.7 | 74.1 | 74.2 |
| United Kingdom | 68.1 | 71.0 | 71.7 | 71.6 | 71.5 | 71.5 | 69.9 | 69.5 | 69.5 | 69.8 |

Source: Eurostat Portal Page – Population and social condition – Labour Market, 2013.
Note: N/A – not available.

*Figure*: **Employment rates of youth and older persons (15–24 and 55–64 age groups) according to the Labour Force Survey in Slovenia**




Source: Eurostat Portal Page – Population and social condition – Labour Market, 2013.

# 4.2 Unemployment rate

***The surveyed unemployment rate increased by less in 2012 than in the previous year, but it has more than doubled since the outbreak of the crisis.*** Having fallen to its lowest level on record (4.1%) in the third quarter of 2008, the survey unemployment rate had increased to a high 9.5% by the final quarter of 2012. It averaged 8.9% over the year, up 0.7 percentage points on 2011 and 4.5 percentage points on 2008. According to figures for the second quarter, at 8.2% the rate was lower than the overall rate in the EU (10.2%) and the euro area (11.1%).

***Last year the survey female unemployment rate rose more strongly, as did the unemployment rates for young people and people with higher education.*** The survey female unemployment rate, which hit its low in the third quarter of 2008 (4.4%), continues to rise. The rate was lower than the male rate in 2009 and 2010, before equalling it in 2011 (8.2%) and surpassing it in 2012 (9.4% compared with the male unemployment rate of 8.4%). The survey youth unemployment rate, which was lowest in the second quarter of 2007 (7.9%), rose to as much as 24.4% in the final quarter of 2012, averaging 20.5% over the year. We estimate that alongside the decline in demand for labour, other factors in the increase are the higher number of jobseekers as a result of Bologna programme graduates entering the labour market, and the decline in student work. The economic crisis has had a greater impact on those with low educational levels and upper secondary education. The survey unemployment rate for the low-educated rose from 6.2% in 2008 to 15.5% in the final quarter of 2012, averaging 14.8% over 2012. The survey unemployment rate for those with upper secondary education rose from 4.4% to 9.7% over the same period, and averaged 9.1% over 2012. The survey unemployment rate for those with tertiary education also rose slightly more in 2012 than in 2011 (by 0.6 percentage points to 4.9% in 2011 and then to 6.1% in 2012).

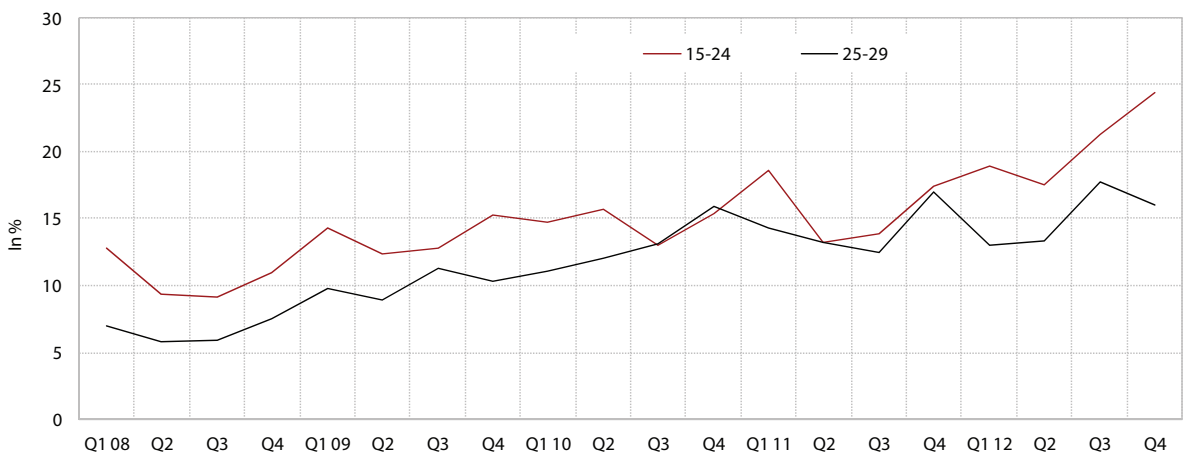
***The number of registered unemployed in 2012 was down slightly on 2011 in average terms, but rose at the end of the year to reach its highest level since 2000 in December.*** The fall in the average number of registered unemployed in 2012 was mainly the result of deregistrations for breaches of regulations. Having fallen in the first half of 2012, the number of registered unemployed started to rise strongly towards the end of the year as a result of higher inflows of first-time jobseekers, older workers and those reaching the end of temporary employment contracts. A total of 118,061 people were registered as unemployed at the end of December, up 5,307 (4.7%) on December 2011. Unemployment averaged 110,183 in 2012, down 509 (0.5%) on 2011. The total number of people newly registering as unemployed was up 7,184 in year-on-year terms (7.2%) in 2012. A total of 90,330 people registered as unemployed due to loss of employment, up 8,180 (10.0%) on the previous year, primarily as a result of a rise in the number of people whose temporary employment contracts ended (up 5,757 or 12.7%) and permanent redundancies (up 4,034 or 25.1%), while fewer people lost their jobs in bankruptcies (down 3,203 or 41.0%). The number of newly registered first-time jobseekers also rose, by 1,881 or 13.1%. There were 101,551 deregistrations in 2012, up 4,610 (4.8%) on the previous year. This was primarily attributable to a rise in the number of those removed from the register for breaches of regulations (up 5,919 or 43.6%) and retirements (up 8.3%), while the number of new hires declined (down 2,695 or 4.4%). The gap between the registered and survey unemployment rates narrowed in 2012, primarily as a result of a decline in informal work. Having increased towards the end of the year, the registered unemployment rate averaged 12.0% in 2012, up 0.1 percentage points on 2011. Between September 2008, when it was at its lowest point since 1990 (6.3%), and December 2012, the registered unemployment rate more than doubled (to 13.0%), although the increased deregistrations in 2012 meant that it did not rise significantly over the year as a whole.

*Table*: **Survey unemployment rate, %**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 Q2 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EU** | **10.7** | **8.4** | **9.0** | **8.2** | **7.1** | **7.0** | **8.9** | **9.6** | **9.6** | **10.2** |
| Austria | 4.4 | 4.7 | 5.2 | 4.8 | 4.4 | 3.8 | 4.8 | 4.4 | 4.2 | 4.3 |
| Belgium | 9.3 | 6.6 | 8.5 | 8.3 | 7.5 | 7.0 | 7.9 | 8.3 | 7.2 | 7.0 |
| Bulgaria | N/A | 16.2 | 10.1 | 9.0 | 6.9 | 5.6 | 6.8 | 10.2 | 11.2 | 12.3 |
| Cyprus | N/A | 5.0 | 5.3 | 4.6 | 3.9 | 3.7 | 5.3 | 6.2 | 7.9 | 11.4 |
| Czech Republic | N/A | 8.8 | 7.9 | 7.2 | 5.3 | 4.4 | 6.7 | 7.3 | 6.7 | 6.7 |
| Denmark | 7.0 | 4.5 | 4.8 | 3.9 | 3.8 | 3.4 | 6.0 | 7.5 | 7.6 | 7.8 |
| Estonia | N/A | 13.1 | 7.9 | 5.9 | 4.7 | 5.5 | 13.8 | 16.9 | 12.5 | 10.2 |
| Finland | 17.0 | 11.1 | 8.4 | 7.7 | 6.9 | 6.4 | 8.2 | 8.4 | 7.8 | 8.6 |
| France | 11.8 | 10.2 | 8.9 | 8.8 | 8.0 | 7.4 | 9.1 | 9.3 | 9.2 | 9.4 |
| Greece | 9.1 | 11.3 | 9.9 | 8.9 | 8.3 | 7.7 | 9.5 | 12.6 | 17.7 | 23.6 |
| Ireland | 12.0 | 4.3 | 4.4 | 4.4 | 4.6 | 6.0 | 11.9 | 13.7 | 14.7 | 15.0 |
| Italy | 11.7 | 10.9 | 7.7 | 6.8 | 6.1 | 6.8 | 7.8 | 8.4 | 8.4 | 10.5 |
| Latvia | N/A | 14.2 | 8.9 | 6.8 | 6.0 | 7.5 | 17.1 | 18.7 | 16.2 | 16.1 |
| Lithuania | N/A | 16.0 | 8.3 | 5.6 | 4.3 | 5.8 | 13.7 | 17.8 | 15.4 | 13.3 |
| Luxembourg | 2.9 | 2.3 | 4.5 | 4.7 | 4.1 | 5.1 | 5.1 | 4.4 | 4.9 | 4.0 |
| Hungary | N/A | 6.6 | 7.2 | 7.5 | 7.4 | 7.8 | 10.0 | 11.2 | 10.9 | 10.9 |
| Malta | N/A | 6.3 | 7.3 | 6.9 | 6.5 | 6.0 | 6.9 | 6.9 | 6.5 | 6.5 |
| Germany | 8.2 | 7.9 | 11.2 | 10.3 | 8.7 | 7.5 | 7.8 | 7.1 | 5.9 | 5.4 |
| Netherlands | 7.2 | 2.7 | 4.7 | 3.9 | 3.2 | 2.8 | 3.4 | 4.5 | 4.4 | 5.1 |
| Poland | N/A | 16.4 | 17.8 | 13.9 | 9.6 | 7.1 | 8.2 | 9.6 | 9.7 | 10.0 |
| Portugal | 7.1 | 3.9 | 7.7 | 7.8 | 8.1 | 7.7 | 9.6 | 11.0 | 12.9 | 15.2 |
| Romania | N/A | 7.1 | 7.2 | 7.3 | 6.4 | 5.8 | 6.9 | 7.3 | 7.4 | 6.9 |
| Slovakia | N/A | 19.1 | 16.3 | 13.4 | 11.1 | 9.5 | 12.0 | 14.4 | 13.5 | 13.6 |
| **Slovenia** | **N/A** | **6.9** | **6.5** | **6.0** | **4.9** | **4.4** | **5.9** | **7.3** | **8.2** | **8.2** |
| Spain | 22.7 | 13.8 | 9.2 | 8.5 | 8.3 | 11.3 | 18.0 | 20.1 | 21.7 | 24.7 |
| Sweden | 8.9 | 5.5 | 7.8 | 7.1 | 6.2 | 6.2 | 8.4 | 8.4 | 7.5 | 8.6 |
| United Kingdom | 8.7 | 5.6 | 4.8 | 5.4 | 5.3 | 5.6 | 7.6 | 7.8 | 8.0 | 7.8 |

Source: Eurostat Portal Page – Population and social conditions – Labour Market, 2012.
Note: N/A – not available.

*Figure*: **Youth employment rates (15–24 and 25-29 age groups) according to the Labour Force Survey, Slovenia**




Source: Eurostat Portal Page – Population and social condition – Labour Market, 2013.

# 4.3 Long-term unemployment rate

***The long-term unemployment rate in Slovenia rose slightly again in 2012: almost half of the unemployed are long-term unemployed.*** After a longer period of decline (2000–2009), the long-term unemployment rate almost doubled in 2010 and has been continuously increasing ever since. In the second quarter of 2012 it stood at 3.8% (up 0.3 percentage points on 2011), broken down into 4.3% for women and 3.6% for men. The proportion of total unemployment accounted for by the long-term unemployed increased again in 2012 after stagnating in 2011. It stood at 48.0% in the second quarter, up 3 percentage points on a year earlier. By the end of the second quarter of 2012 the average duration of registered unemployment had risen to 704 days. In the second quarter of 2012 some 49.6% of unemployed women were long-term unemployed (approximately the same figure as in the EU overall), while the corresponding figure for men was 46.4% (EU: 44.5%).

***The rapid rise in long-term unemployment in Slovenia is a cause for concern, although the rate is still slightly lower than in the EU overall.*** Between 2008 and 2012 the long-term unemployment rate in Slovenia drew close to the EU average,[2] increasing by 2.1 percentage points for women (EU: up 1.8 percentage points) and by 2.0 percentage points for men (EU: up 2.1 percentage points). In the second quarter of 2012 the male long-term unemployment rate in Slovenia was 1 percentage point lower and the female long-term unemployment rate 0.3 percentage points lower than the overall EU rates.

***The rise in the rate of very long-term unemployment is another indication of an increase in structural problems.*** Very long-term unemployment is a category that comprises those who have been unemployed for more than two years. The rate rose by 0.7 percentage points in Slovenia between 2008 and 2011, reaching 1.7% in 2011 (up 0.3 percentage points on 2010); the rate was 1.8% for women and 1.6% for men (up 0.3 percentage points on 2010). In the EU the very long-term unemployment rate averaged 2.2% in 2011 (up 0.4 percentage points on 2010).

[1] The long-term unemployment rate is the ratio of the number of long-term unemployed (people unemployed for a year or more) to the total workforce.

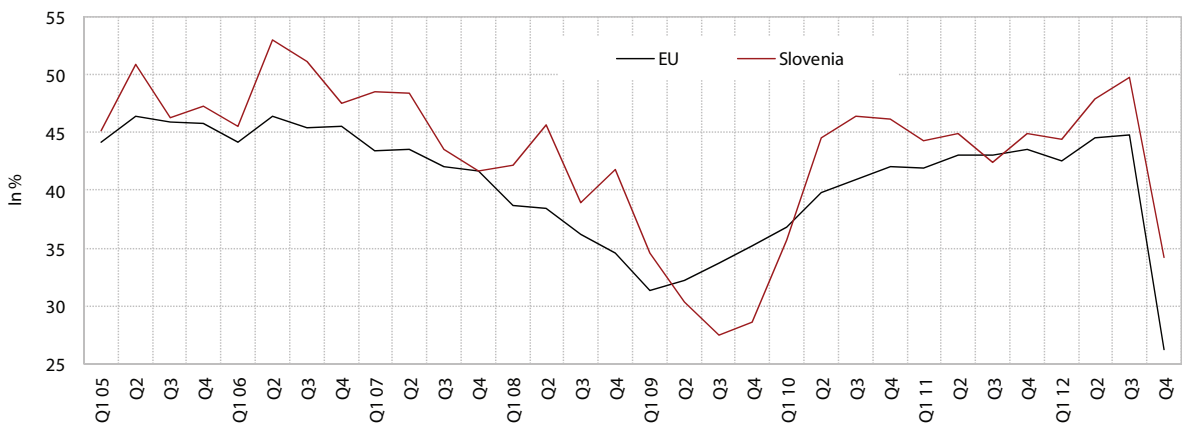
[2] The long-term unemployment rate in Slovenia was 1.2 percentage points less than the EU average in the second quarter of 2008, and 0.7 percentage points lower in the second quarter of 2012.

*Table*: **Long-term unemployment rate in EU countries 2000–2012, %***

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **3.5** | **4.1** | **3.8** | **3.1** | **2.6** | **2.9** | **3.8** | **4.0** | **4.6** |
| Austria | N/A | 1.2 | 1.3 | 1.2 | 0.8 | 0.9 | 1.2 | 1.1 | 1.1 |
| Belgium | 3.6 | 4.2 | 4.6 | 3.8 | 3.3 | 3.5 | 4.1 | 3.2 | 3.1 |
| Bulgaria | 9.6 | 6.0 | 4.9 | 3.9 | 2.9 | 2.8 | 4.4 | 6.4 | 6.9 |
| Cyprus | 1.3 | 1.5 | 0.8 | 0.7 | 0.4 | 0.5 | 1.2 | 1.2 | 3.2 |
| Czech Republic | 4.3 | 4.1 | 4.0 | 2.9 | 2.2 | 1.8 | 3.0 | 2.6 | 3.0 |
| Denmark | 0.8 | 1.2 | 0.8 | 0.6 | 0.5 | 0.4 | 1.4 | 2.0 | 2.1 |
| Estonia | 6.3 | 4.3 | 2.7 | 2.3 | 1.4 | 3.1 | 8.3 | 7.2 | 5.3 |
| Finland | 2.7 | 2.2 | 1.9 | 1.6 | 1.1 | 1.2 | 1.9 | 1.7 | 1.7 |
| France | N/A | 3.8 | 4.0 | 3.4 | 3.0 | 3.2 | 3.8 | 3.8 | 4.0 |
| Greece | 6.3 | 5.2 | 4.9 | 4.1 | 3.6 | 3.7 | 5.4 | 8.0 | 13.2 |
| Ireland | 1.7 | 1.6 | 1.6 | 1.4 | 1.7 | 2.9 | 6.4 | 8.2 | 9.4 |
| Italy | 6.3 | 3.9 | 3.5 | 2.9 | 3.2 | 3.3 | 4.1 | 4.2 | 5.6 |
| Latvia | 8.1 | 4.6 | 2.8 | 1.9 | 1.8 | 4.3 | 8.6 | 9.3 | 8.7 |
| Lithuania | 8.0 | 4.6 | 2.6 | 1.5 | 0.8 | 2.8 | 7.4 | 8.0 | 6.4 |
| Luxembourg | 0.5 | 1.2 | 1.3 | 1.3 | 1.8 | 1.3 | 1.4 | 1.8 | 1.4 |
| Hungary | 3.1 | 3.2 | 3.4 | 3.5 | 3.6 | 3.9 | 5.5 | 5.4 | 4.9 |
| Malta | 4.0 | 3.8 | 3.1 | 2.5 | 2.3 | 3.1 | 2.9 | 2.9 | 3.1 |
| Germany | 4.1 | 6.1 | 5.8 | 4.9 | 4.2 | 3.6 | 3.4 | 2.9 | 2.5 |
| Netherlands | N/A | 2.2 | 2.0 | 1.5 | 1.1 | 0.9 | 1.2 | 1.5 | 1.8 |
| Poland | 7.3 | 10.5 | 8.1 | 5.1 | 2.5 | 2.3 | 2.9 | 3.5 | 4.1 |
| Portugal | 1.9 | 3.9 | 4.2 | 4.1 | 3.9 | 4.5 | 6.2 | 6.3 | 7.3 |
| Romania | 3.4 | 4.0 | 4.0 | 3.3 | 2.3 | 2.3 | 2.4 | 3.0 | 3.1 |
| Slovakia | 10.5 | 11.7 | 10.6 | 8.4 | 7.4 | 5.9 | 9.2 | 9.1 | 9.1 |
| **Slovenia** | **4.3** | **3.0** | **3.1** | **2.2** | **1.9** | **1.7** | **3.2** | **3.5** | **3.9** |
| Spain | 4.9 | 2.3 | 1.9 | 1.7 | 1.8 | 3.8 | 7.2 | 8.6 | 10.9 |
| Sweden | 1.4 | N/A | 1.1 | 0.9 | 0.7 | 1.0 | 1.5 | 1.4 | 1.3 |
| United Kingdom | 1.5 | 1.0 | 1.2 | 1.3 | 1.3 | 1.7 | 2.6 | 2.6 | 2.8 |

Source: Eurostat Portal Page – Population and social condition – Labour Market, 2012.
Note: * Data refers to the second quarter of the year; N/A – not available.

*Figure*: **Proportion of long-term unemployed in total unemployment, Slovenia and EU**




Source: Eurostat Portal Page – Population and social condition – Labour Market, 2012.

# 4.4 Temporary employment

***The share of temporary employment in total employment in Slovenia declined slightly last year.*** The main factors in the frequent use of temporary employment are the rigid regulation of hiring and firing (employment protection of regular contracts), the uncertainty regarding future demand, and the possibilities for using temporary employees. In the period of modest growth employers opted for various forms of temporary employment as temporary jobs can be cut relatively quickly and involve no firing costs. Employers were thus able to adjust employment to declining demand by not renewing fixed-term employment contracts. After increasing in the period of modest economic growth (2010 and 2011), last year the share of temporary employment declined. The renewed fall in economic growth in 2012 and a further decline in employment translated into lower corporate demand for temporary employment, particularly for student work. In the second quarter of 2012, 16.7% of all employed people held temporary jobs, 0.8 percentage points less than in the same period of 2011. According to the Labour Force Survey, student work was down 15% in year-on-year terms in the second quarter of 2012.

***The prevalence of temporary employment in Slovenia has been above the EU average in the whole period of the implementation of SDS.*** The share of temporary employment in the EU averaged 13.9% in the second quarter of 2012, 0.3 percentage points less than a year earlier. The share of this type employment in Slovenia has exceeded the EU average since 2002. During the implementation of SDS the gap first widened, then declined in the last two years. Given that fixed-term employment and work through student employment agencies accounted for the largest share of temporary employment, the prevalence of temporary employment in Slovenia can be mainly attributed to the relatively strong protection of regular employment, and attractiveness of student work for employers due to high flexibility, the lower tax burden and the simplicity of hiring via student employment agencies.

***In the majority of countries temporary employment is more prevalent among women than among men. This is also true for Slovenia, but last year the share of temporary employment declined for women alone.*** In Slovenia 17.8% of employed women had temporary jobs in the second quarter of 2012 (EU: 14.5%), compared with 15.7% of men (EU: 13.3%). Last year the share of temporary employment among women fell (by 1.7 percentage points), while the corresponding figure for men remained unchanged. In the second quarter of 2013 the number of women (aged 15–64) in temporary employment was down 11.1% in year-on-year terms, while the number of men in temporary employment was up 2.2%. The substantial decline in temporary employment among women is to a great extent the result of lower demand for student work, given that in the second quarter of 2012 the number of women in this type of employment was 21% lower than in the second quarter of 2011.[1]

**The share of temporary employment is typically highest in the 15–24 age group. In Slovenia this share is the largest in the EU.** In the second quarter of 2012, 69.2% of employees aged 15–24 were in temporary employment, down 3.8 percentage points on a year earlier. The share fell largely as the result of a significant decline in student work, which was down 20.8% in this age group last year. The large share of young people in temporary employment in Slovenia is nevertheless due to student work. In the second quarter of 2012 student work in the 15–24 age group accounted for 55.7% of temporary jobs and 36.5% of total employment in this age group. The amount of student work in the 15–24 age group declined markedly last year, as did the relative importance of student work for this group.[2]

***The prevalence of temporary employment among people with higher education has increased sharply during the economic crisis.*** Between 2008 and 2012 the number of people with tertiary education in temporary employment rose by 30.5%, while the number of those with upper secondary and lower levels of education declined. The share of temporary employment among employees with higher education rose to 13.7% in the second quarter of 2012 (up 1.7 percentage points on the second quarter of 2008). The largest increase was in the 15–24 age group, an indication that graduates are finding it increasingly difficult to enter the labour market.

[1] The amount of student work among men in the second quarter of this year was down 8% in year-on-year terms.

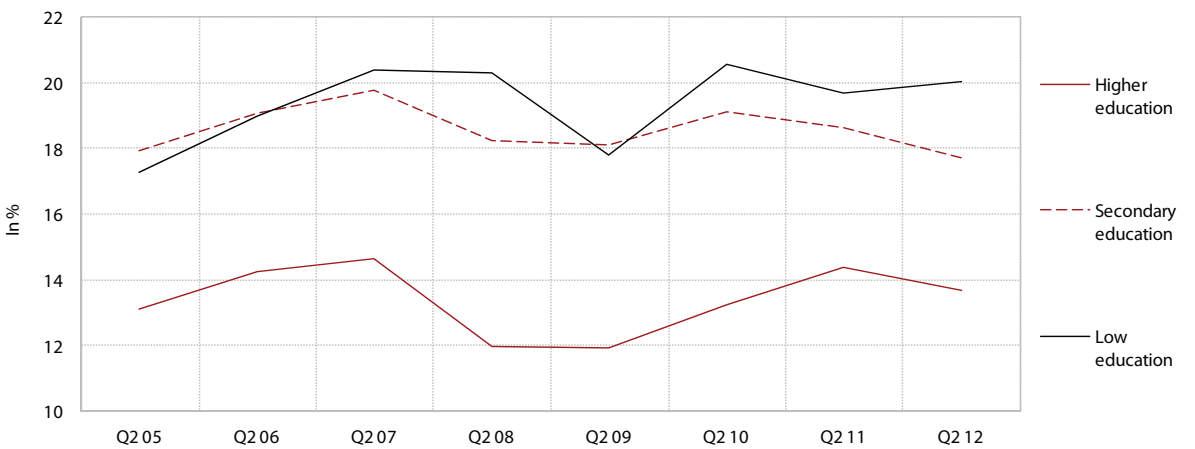
[2] In the second quarter of 2012 the share of student work stood at 55.8% of temporary youth employment (down 5.6 percentage points in year-on-year terms) and 38.7% of total employment (down 3.3 percentage points in year-on-year terms).

*Table*: **Share of temporary employment in total employment in 15–64 age group,* %**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **13.6** | **14.4** | **15.1** | **14.6** | **14.2** | **13.5** | **14.0** | **14.2** | **13.9** |
| Austria | 8.6 | 8.8 | 8.7 | 8.8 | 8.7 | 8.6 | 8.9 | 9.0 | 9.0 |
| Belgium | 9.0 | 9.1 | 8.8 | 8.8 | 7.7 | 8.2 | 7.5 | 8.8 | 8.1 |
| Bulgaria | N/A | 6.3 | 6.2 | 5.7 | 5.1 | 5.2 | 4.8 | 4.1 | 4.8 |
| Cyprus | 10.7 | 13.9 | 13.9 | 12.9 | 14.4 | 14.2 | 14.5 | 14.0 | 15.3 |
| Czech Republic | 7.2 | 8.0 | 8.1 | 7.9 | 7.4 | 7.4 | 8.2 | 8.0 | 8.3 |
| Denmark | 10.2 | 9.9 | 9.6 | 9.5 | 8.8 | 9.0 | 8.5 | 9.2 | 8.6 |
| Estonia | 2.3 | 3.3 | 3.3 | 2.3 | 1.8 | 2.3 | 4.2 | 4.7 | 3.1 |
| Finland | 17.7 | 18.1 | 18.0 | 17.3 | 16.9 | 15.9 | 16.8 | 16.7 | 17.3 |
| France | N/A | 14.0 | 15.1 | 15.1 | 15.0 | 14.3 | 15.2 | 15.3 | 15.3 |
| Greece | 13.8 | 12.1 | 10.9 | 11.2 | 11.6 | 12.2 | 12.8 | 11.9 | 9.9 |
| Ireland | 5.3 | 2.5 | 7.5 | 9.2 | 8.0 | 8.2 | 9.2 | 10.2 | 9.9 |
| Italy | 10.1 | 12.4 | 13.0 | 13.4 | 13.9 | 12.8 | 12.9 | 13.7 | 14.2 |
| Latvia | 6.7 | 8.4 | 7.1 | 5.3 | 2.8 | 3.7 | 6.7 | 7.4 | 4.7 |
| Lithuania | 3.8 | 5.1 | 4.7 | 3.7 | 2.7 | 2.7 | 2.6 | 3.6 | 3.0 |
| Luxembourg | 3.4 | 5.3 | 6.1 | 6.9 | 7.7 | 7.4 | 6.6 | 6.4 | 7.5 |
| Hungary | 6.8 | 7.2 | 6.7 | 7.5 | 7.8 | 8.2 | 9.7 | 9.2 | 9.6 |
| Malta | 3.9 | 4.0 | 3.8 | 5.5 | 4.1 | 4.9 | 4.9 | 5.2 | 6.6 |
| Germany | 12.8 | 13.9 | 14.2 | 14.3 | 14.7 | 14.3 | 14.6 | 14.7 | 13.8 |
| Netherlands | 13.8 | 15.1 | 16.1 | 17.9 | 18.0 | 17.9 | 18.5 | 18.0 | 19.1 |
| Poland | 5.6 | 25.4 | 27.1 | 28.1 | 26.9 | 26.5 | 27.0 | 27.0 | 27.5 |
| Portugal | 19.8 | 19.5 | 20.2 | 22.2 | 23.3 | 21.7 | 23.0 | 22.8 | 21.0 |
| Romania | 2.9 | 2.6 | 1.9 | 1.6 | 1.3 | 0.9 | 1.1 | 1.9 | 1.9 |
| Slovakia | 4.0 | 4.9 | 5.0 | 5.3 | 4.0 | 4.1 | 5.7 | 6.6 | 6.9 |
| **Slovenia** | **12.8** | **16.8** | **17.9** | **18.5** | **16.9** | **16.4** | **17.7** | **17.5** | **16.7** |
| Spain | 32.4 | 33.3 | 34.4 | 31.9 | 29.4 | 25.3 | 24.9 | 25.6 | 23.7 |
| Sweden | 14.3 | 16.0 | 17.3 | 17.7 | 16.4 | 15.5 | 15.8 | 16.3 | 15.8 |
| United Kingdom | 6.6 | 5.4 | 5.5 | 5.7 | 5.2 | 5.4 | 6.1 | 6.1 | 6.1 |

Source: Eurostat Portal Page – Population and social condition – Labour Market – Employment, 2013.
Notes: * – data for the second quarter; N/A – not available.

*Figure*: **Share of temporary employment in total employment by level of education, Slovenia**




Source: Eurostat Portal Page – Population and social conditions – Labour Market – Employment, 2013; calculations by IMAD.

# 4.5 Part-time employment

***Last year the proportion of part-time employment in Slovenia declined.*** Part-time[1] employment as a proportion of total employment in the 15–64 age group stood at 8.5% in the second quarter of 2012, down 0.4 percentage points on a year earlier. In 2012 it declined most notably among young people aged 15–24,[2] by 25.6%, primarily as a result of a lower amount of student work. The sole increase in the proportion of part-time employment was in the 25–49 age group (by 0.4 percentage points), where it stood at 5.8% in the second quarter of 2012.

***The proportion of part-time employment in Slovenia remains below the EU average, except for part-time youth employment.*** The proportion of part-time employment in total employment (15–64 age group) in Slovenia (8.5%) was lower than the EU average (19.3%) in the second quarter of 2012. Despite this overall gap, Slovenia has a higher proportion (36.9%) of part-time employment among the young (the 15–24 age group) than the EU overall (32.0%), which is largely attributable to student work, most of which is performed by young people aged 15–24.[3]

***The lower prevalence of part-time employment in Slovenia than in the EU is mainly the result of a lower proportion of this type of employment among women.*** Some 11.3% of women worked part-time in the second quarter of 2012 (EU: 32.1%), while the corresponding figure for men was 6.1% (EU: 8.5%). The significant gap in the prevalence of part-time employment among women relative to other countries can be explained by the low level of earnings in Slovenia and the breakdown of employment by sector, as the sectors that account for the highest levels of part-time employment in other countries are less developed in Slovenia than in the EU overall.[4]

***Part-time employment is most widespread in elementary occupations.*** The proportion of part-time employment in elementary occupations stood at 27% in Slovenia in the second quarter of 2012 (EU: 39.7%). Agricultural, forestry and fishery workers accounted for the second largest share in Slovenia (around 13%), while in the EU overall the second largest share was recorded by service and sales workers (31.3%). The gap between Slovenia and the EU can be attributed to the different breakdown of employment by sector; the proportion of employment in the service sector is lower in Slovenia than in the EU overall.

***Slovenia ranks among the countries with relatively low proportions of involuntary part-time employment.*** Although the proportion of people working part-time involuntarily grew slightly in Slovenia between 2008 and 2011, it was the second lowest figure in the EU in 2011 (8%). The corresponding figure in the EU overall was 26.1%, Greece recording the highest figure (60.5%), having increased notably during the crisis. The low proportion of involuntary part-time employment in Slovenia is corroborated by data on the reasons for part-time work: among the main reasons stated by part-time workers are sickness or disability (around 20%) and education and training (30%). It is estimated that almost half of part-time employment in Slovenia is a reflection of systemic possibilities for part-time work that are wholly or partly financed by the government.[5]

***Part-time employment is most widespread among low-skilled workers, but they also recorded the largest decline in part-time employment last year.*** In the second quarter of 2012, 13.8% of low-skilled workers worked part-time (down 2.8 percentage points on a year earlier). The corresponding figures for workers with upper secondary and higher education were 9% (down 0.7 percentage points) and 5.7% (up 0.2 percentage points) respectively. The total number in part-time employment was down 7.8% in 2012; the number of people with low levels of education in part-time employment was down 16% while the number of those with upper secondary education was down 9.1%. By contrast, the number of part-time workers with higher education rose by 4.8% last year.

[1] Part time employment is defined as work for fewer hours that the standard full-time schedule. According to the Labour Force Survey, part-time employment means that workers work less than 36 hours per week.

[2] The proportion of young people working part-time stood at 36.9% in the second quarter of 2012, down 3.2 percentage points on a year earlier.

[3] In the second quarter of 2012, 80% of student work was carried out by young people aged 15–24.

[4] The proportion of people employed in the human health and social work sector, which has the highest levels of part-time employment, is much lower in Slovenia than in the EU overall. The same is true of administrative and support service activities.

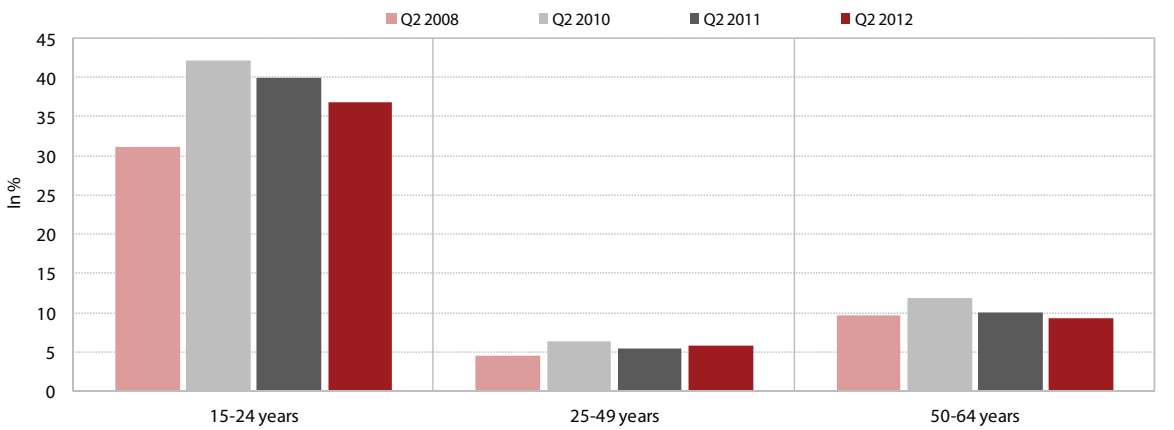
[5] The systemic possibilities include reduced hours.

*Table*: **Proportion of part-time employment in total employment in 15–64 age group, 2000–2012, %**

| | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **15.8** | **17.4** | **17.6** | **17.7** | **17.7** | **18.2** | **18.7** | **18.9** | **19.3** |
| Austria | 16.0 | 20.4 | 21.5 | 22.0 | 22.7 | 24.1 | 24.5 | 24.4 | 24.8 |
| Belgium | 20.6 | 21.7 | 22.9 | 22.5 | 22.4 | 23.0 | 24.1 | 25.1 | 24.5 |
| Bulgaria | N/A | 2.3 | 1.9 | 1.7 | 1.9 | 2.3 | 2.2 | 2.3 | 2.5 |
| Cyprus | 7.6 | 7.5 | 6.7 | 6.1 | 6.6 | 7.3 | 7.8 | 8.9 | 9.4 |
| Czech Republic | 4.8 | 4.3 | 4.4 | 4.4 | 4.3 | 4.8 | 5.2 | 4.7 | 4.9 |
| Denmark | 21.4 | 21.5 | 22.9 | 23.2 | 23.7 | 25.3 | 26.2 | 25.6 | 25.5 |
| Estonia | 6.3 | 6.8 | 7.1 | 7.0 | 5.6 | 10.7 | 10.4 | 9.5 | 9.7 |
| Finland | 11.9 | 13.2 | 13.0 | 13.0 | 12.3 | 12.7 | 13.6 | 13.6 | 13.9 |
| France | N/A | 17.2 | 17.2 | 17.3 | 16.9 | 17.2 | 17.7 | 17.8 | 17.9 |
| Greece | 4.4 | 4.6 | 5.6 | 5.5 | 5.2 | 5.8 | 6.1 | 6.2 | 7.2 |
| Ireland | 16.6 | N/A | 16.9 | 17.6 | 18.0 | 20.5 | 21.6 | 22.9 | 23.4 |
| Italy | 8.7 | 12.6 | 13.2 | 13.3 | 14.4 | 14.2 | 14.8 | 15.3 | 17.0 |
| Latvia | 10.5 | 8.9 | 6.0 | 6.4 | 5.7 | 7.6 | 8.9 | 8.1 | 9.2 |
| Lithuania | 8.9 | 6.3 | 8.6 | 7.9 | 6.3 | 8.2 | 7.7 | 7.7 | 8.5 |
| Luxembourg | 11.2 | 17.4 | 17.1 | 17.5 | 16.3 | 17.0 | 17.8 | 18.1 | 18.7 |
| Hungary | 3.4 | 4.1 | 3.9 | 3.8 | 4.1 | 5.2 | 5.3 | 6.5 | 6.5 |
| Malta | 6.1 | 8.8 | 9.6 | 10.7 | 11.4 | 11.0 | 11.2 | 12.0 | 12.6 |
| Germany | 19.1 | 23.6 | 25.4 | 25.6 | 25.4 | 25.5 | 25.7 | 25.9 | 25.8 |
| Netherlands | 41.0 | 45.8 | 45.8 | 46.3 | 46.7 | 47.6 | 48.5 | 48.5 | 49.1 |
| Poland | 9.3 | 9.7 | 9.0 | 8.5 | 7.6 | 7.8 | 7.8 | 7.2 | 7.2 |
| Portugal | 8.1 | 8.4 | 8.1 | 8.9 | 8.8 | 8.6 | 8.5 | 9.7 | 11.1 |
| Romania | 14.0 | 9.6 | 8.6 | 8.6 | 8.8 | 8.6 | 10.5 | 9.4 | 9.5 |
| Slovakia | 1.8 | 2.3 | 2.7 | 2.6 | 2.1 | 3.8 | 4.0 | 4.0 | 4.0 |
| **Slovenia** | **5.3** | **7.8** | **8.4** | **8.8** | **8.1** | **9.7** | **10.5** | **9.1** | **8.5** |
| Spain | 8.0 | 12.6 | 12.1 | 11.8 | 11.9 | 12.8 | 13.4 | 14.0 | 14.8 |
| Sweden | 21.8 | 24.3b | 24.3 | 24.3 | 26.1 | 26.0 | 25.4 | 24.9 | 24.6 |
| United Kingdom | 24.4 | 24.6 | 24.3 | 24.2 | 24.2 | 25.0 | 25.7 | 25.6 | 26.1 |

Source: Eurostat Portal Page – Population and social condition – Labour Market – Employment, 2013
Note: Data for the second quarter of the year. N/A – not available.

*Figure*: **Proportion of part-time employment by age group, Slovenia**




Source: Eurostat Portal Page – Population and social condition – Labour Market – Employment, 2013

# 4.6 Social protection expenditure

***Slovenia allocated nearly a quarter (24.8%) of GDP for social protection in 2010, but the amount of expenditure on social protection schemes increased much less than in previous years.*** Expenditure as a proportion of GDP rose by 0.6 percentage points, which alongside the increase in expenditure owing to the crisis and demographic changes, was also the result of the relatively modest nominal GDP growth.[1] Real expenditure on social protection rose by 1.2%, significantly less than in 2009 (when it was up 6.7%) and in the previous years (over the previous ten years it had increased at an annual rate of around 3% in real terms). Despite a higher number of recipients of social transfers and pensioners, growth in expenditure was relatively low as a result of various government fiscal consolidation measures (such as a partial indexation of social transfers and pensions, and streamlining measures in the health sector).

***The highest growth was recorded by expenditure directly related to the consequences of the economic crisis.*** Expenditure on social exclusion not elsewhere classified[2] was up most notably in year-on-year terms in 2010 (13% in real terms), as a result of a rise of 15% in the number of claimants of financial social assistance from 2009. This was followed by expenditure on unemployment (11.9% in real terms), largely as a result of a rise of 10.7% in the number of claimants of unemployment benefits from 2009. Expenditure on old age increased by 2.6% in real terms (given its large proportion of total expenditure, it made the largest contribution to the overall increase in expenditure), primarily as a result of a rise in the number of pensioners (up 2.6% on 2009).

***The breakdown of social protection expenditure remained more or less unchanged in 2010.*** Expenditure on old age accounted for the largest proportion of total social protection expenditure (nearly two-fifths), the figure having increased in 2010 (by 0.5 percentage points) owing to demographic changes. The proportion of expenditure on sickness and health care declined slightly, but was nevertheless close to a third of the total. The proportions of expenditure on unemployment and social exclusion not elsewhere classified also increased slightly (by 0.3 percentage points to 2.8% and by 0.3 percentage points to 2.4% respectively). Expenditures on old age and on sickness and health care also account for the largest proportions of total social protection expenditure in the EU overall (37.6% and 28.3% respectively). Slovenia and the EU alike earmark the smallest proportions for housing (2%) and social exclusion not elsewhere classified (1.5%).

***Per capita social protection expenditure at purchasing power parity in Slovenia remained at 72% of the EU average in 2010.*** In per capita PPS terms, expenditure in Slovenia has been at approximately three-quarters of the EU average since 2005 (74% in the early years and 72% over the last four years). In terms of individual categories of social protection expenditure, Slovenia only surpasses the EU average in expenditure on social exclusion not elsewhere classified (113%). Total expenditure is lower than in the EU, primarily as a result of the lower level of funds earmarked for sickness and health care, families and children, old age, unemployment and housing.

***Social protection receipts were up 2.3% in nominal terms in 2010, the largest proportion coming from government contributions.*** Employers' social contributions accounted for more than a quarter of all social protection receipts in 2010, while social contributions paid by protected persons accounted for just under two-fifths. The proportion of total receipts that they account for declined relative to the previous year on account of higher general government contributions and receipts from other sources, which together accounted for more than a quarter of all social protection receipts in 2010. The proportion accounted for by general government contributions grew throughout the 2008–2010 period, primarily as a consequence of the economic crisis, as social contributions grew much more slowly than expenditures (they were up 1.3% in nominal terms in 2010). The proportion accounted for by social contributions in Slovenia nevertheless remains more than 8.1 percentage points above the EU average (due to a higher share of social contributions paid by insured persons, while the proportion accounted for by employers' social contributions is just over a quarter lower than in the EU), and the proportion accounted for by general government contributions is just over 6 percentage points lower than in the EU. Social protection receipts in Slovenia thus mostly stem from contributions by employees (38.2%), in contrast to the EU, where the largest proportion is accounted for by general government contributions (39.8%).

[1] GDP rose by 0.3% in nominal terms, while expenditure was up 3.1%. In real terms (calculated using a different deflator), GDP grew slightly more (1.4%) than social protection expenditure (1.2%).

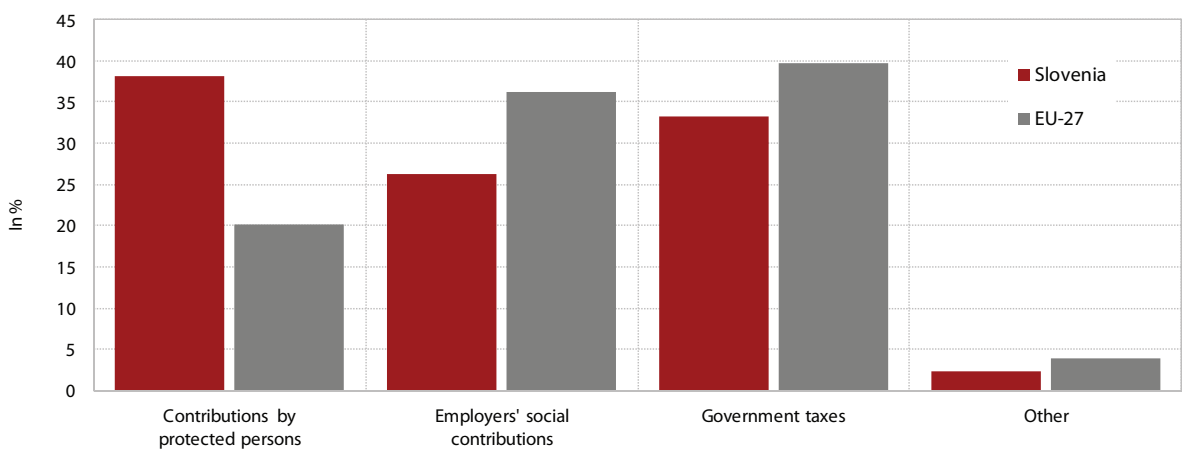
[2] I.e. benefits specifically intended to combat social exclusion where they are not covered by one of the other functions.

*Table*: **Social protection expenditure in Slovenia and in the EU, as % of GDP, 2005–2010**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| **EU-27** | **27.1** | **26.7** | **26.1** | **26.8** | **29.6** | **29.4** |
| Austria | 28.8 | 28.2 | 27.8 | 28.4 | 30.6 | 30.4 |
| Belgium | 27.3 | 27.0 | 26.9 | 28.1 | 30.4 | 29.9 |
| Bulgaria | 15.1 | 14.2 | 14.1 | 15.5 | 17.2 | 18.1 |
| Cyprus | 18.4 | 18.5 | 18.2 | 19.5 | 21.1 | 21.6 |
| Czech Republic | 18.4 | 18.0 | 18.0 | 18.0 | 20.3 | 20.1 |
| Denmark | 30.2 | 29.2 | 28.8 | 29.4 | 33.2 | 33.3 |
| Estonia | 12.6 | 12.1 | 12.1 | 14.9 | 19.3 | 18.1 |
| Finland | 26.7 | 26.4 | 25.4 | 26.2 | 30.4 | 30.6 |
| France | 31.5 | 31.3 | 30.9 | 31.3 | 33.6 | 33.8 |
| Greece | 30.1 | 29.0 | 27.9 | 28.1 | 31.5 | 30.7 |
| Ireland | 24.9 | 24.8 | 24.8 | 26.2 | 28.0 | 29.1 |
| Italy | 21.9 | 22.5 | 22.7 | 22.9 | 23.5 | 23.1 |
| Latvia | 18.0 | 18.3 | 18.9 | 22.3 | 27.4 | 29.6 |
| Lithuania | 26.3 | 26.5 | 26.6 | 27.7 | 29.9 | 29.9 |
| Luxembourg | 12.8 | 12.7 | 11.3 | 12.7 | 16.9 | 17.8 |
| Hungary | 13.2 | 13.3 | 14.4 | 16.1 | 21.2 | 19.1 |
| Malta | 21.7 | 20.4 | 19.3 | 21.4 | 24.0 | 22.7 |
| Germany | 18.4 | 18.3 | 18.0 | 18.4 | 20.0 | 19.8 |
| Netherlands | 27.9 | 28.8 | 28.3 | 28.5 | 31.6 | 32.1 |
| Poland | 19.7 | 19.4 | 18.1 | 18.6 | 19.2 | 18.9 |
| Portugal | 24.5 | 24.5 | 23.9 | 24.3 | 27.0 | 27.0 |
| Romania | 13.4 | 12.8 | 13.6 | 14.3 | 17.1 | 17.6 |
| Slovakia | 16.5 | 16.4 | 16.1 | 16.1 | 18.8 | 18.6 |
| **Slovenia** | **23.0** | **22.7** | **21.3** | **21.4** | **24.2** | **24.8** |
| Spain | 20.6 | 20.5 | 20.7 | 22.1 | 25.3 | 25.7 |
| Sweden | 31.1 | 30.4 | 29.2 | 29.5 | 32.0 | 30.4 |
| United Kingdom | 26.1 | 25.9 | 25.0 | 26.1 | 28.9 | 28.0 |

Source: Eurostat Portal Page – Social protection, 2012.

*Figure*: **Breakdown of social protection receipts in 2010, %**




Source: Eurostat Portal Page – Social protection receipts by type (ESSPROS), 2012.

# 4.7 Pension expenditure

***In 2012 pension expenditure[1] declined in real terms, while as a proportion of GDP it increased to 11.7%.*** It amounted to EUR 4.418 bn, up 0.2% year-on-year in nominal terms, and down 2.3% in real terms. Its increase as a proportion of GDP is thus solely the result of lower GDP, which declined by 2.0% in nominal terms. Expenditure fell as a result of the non-adjustment of pensions and the adoption of the ZUJF,[2] which reduced the yearly bonus for pensioners (which will apply up to and including the year after the first year that GDP growth exceeds 2.5%) and cut pensions for some categories of pensioners that were not based on paid social contributions. Without these measures, most of which are of an emergency nature, pension expenditure would have again increased significantly in 2012 as the number of beneficiaries[3] continued to grow. In 2012 it rose by 15,003 or 2.6% (compared with 16,764 in 2011). The large increases in both years reflect the rapid rise in the number of old-age pensioners (4.8% in 2011 and 4.0% in 2012), which can be attributed to retirements in larger post-war generations and accelerated retirement due to the anticipated tightening of the conditions for old-age retirement under the new Pension and Disability Insurance Act (ZPIZ-2).[4] Expenditure on old-age pensions was up just 0.1% in real terms, the smallest increase since 1993 when data first became available.

***The proportion of the total revenue of the Pension and Disability Insurance Institute (PDII) accounted for by the state budget remains significant.[5]*** In 2012 the budgetary transfer was EUR 83.9 m lower than a year earlier, at EUR 1.416 bn. The ratio of the budgetary transfer to total PDII revenue thus stood at 29.2%, which is also slightly less than a year earlier (30.4%), yet still more than in 2005–2010. The rise in this figure in previous years was the result of higher growth in PDII expenditure than in revenue from social contributions. Despite a further decline in the wage bill, and hence in the PDII's contribution-based revenue, the measures to cut expenditure in 2012 managed to reduce the difference between the PDII's expenditure and contribution-based revenue, and in turn the share of the budgetary transfer in total PDII revenue.

***In terms of pension expenditure[6] as a proportion of GDP, Slovenia was still below the EU average in 2010.*** Slovenia earmarked 11.2% of GDP for all pension categories combined in 2010 (the most recent data), 0.4 percentage points more than in 2009, while the EU average remained at the same level as the previous year, at 13.0%. However, all EU countries other than Hungary raised pension expenditure relative to the pre-crisis year of 2008 (Slovenia by 3.3 percentage points). Had the previous pension parameters under the ZPIZ-1 remained in force, Slovenia would have exceeded the EU average by 2020, the ratio of pension expenditure to GDP increasing to 12.2%.[7] The new pension law (ZPIZ-2[8]) is expected to halt the increase in pension expenditure for a certain period, which will have positive short-term and medium-term effects on fiscal sustainability. The decline in pensions is also expected to end. In the medium term pension expenditure will stabilise, but it will start rising again, meaning that the new pension regulation does not ensure fiscal sustainability in the long term (by 2060 expenditure on pensions is set to increase by more than 5 percentage points[9]).

[1] According to the PDII balance sheets, which comprise the following pension categories: old-age, disability, survivors', farmer's, military pensions, pensions claimed by Slovenian citizens in other republics of the former Yugoslavia, pensions remitted to other republics of the former Yugoslavia, pensions remitted abroad, annual bonus, other pensions.

[2] Fiscal Balance Act (ZUJF), Official Gazette of the RS, No. 40/2012, Article 143 (6).

[3] Recipients of old-age, disability, survivors', military, widow's/widower's pensions, advance pension payments, farmer's pensions under Farmers' Old-Age Insurance Act (PDII data).

[4] The ZPIZ-2 was passed in December 2012 and entered into force at the beginning of 2013.

[5] The difference between the PDII's revenues from contributions and other sources and its expenditure is covered by the government from the state budget and other sources. These are all funds under Transfers from the state budget to the PDII position (MF).

[6] According to the European System of Integrated Social Protection Statistics (ESSPROS) methodology.

[7] The 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010–2060). Available at: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-2_en.pdf.

[8] Pension and Disability Insurance Act (ZPIZ-2), Official Gazette of the RS, No. 96/2012.

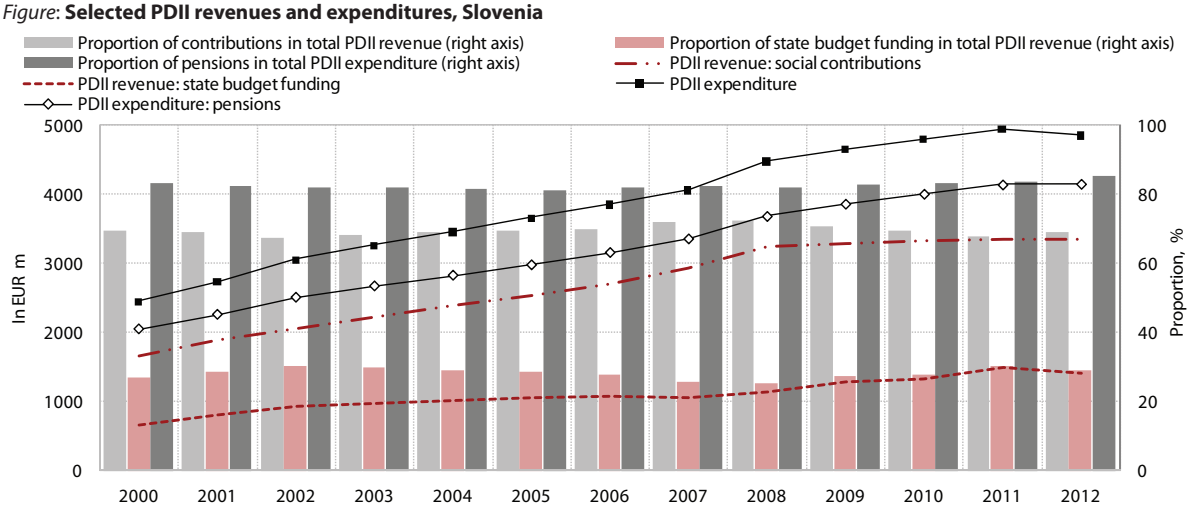
[9] Modernisation of the pension system in the Republic of Slovenia (ZPIZ-2), http://www.mddsz.gov.si/.

*Table*: **Ratio of pension expenditure to GDP, proportion of population aged 65 and over, employment rate of older workers and statutory retirement age**

| | Ratio of pension expenditure to GDP, % | | | Proportion of population aged 65 and over, % | | Employment rates of older workers (55–64 years) | | Statutory retirement age as at 1 July 2012 | |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2005 | 2010 | 2000 | 2012 | 2000 | 2011 | Men | Women |
| **EU-27** | **N/A** | **12.2** | **13.0** | **15.6** | **17.8** | **36.9** | **47.4** | **N/A** | **N/A** |
| Austria | 14.2 | 14.2 | 15.0 | 15.4 | 17.8 | 26.3 | 41.5 | 65 | 60 |
| Belgium | 11.0 | 11.2 | 12.1 | 16.8 | 17.3 | 20.8 | 38.7 | 65 | 65 |
| Bulgaria | N/A | 7.6 | 9.2 | 16.2 | 18.8 | 36.3 | 43.9 | 63y 4m | 63y 4m |
| Cyprus | 5.7 | 6.7 | 7.8 | 11.2 | 12.8 | 55.7 | 54.8 | 65 | 65 |
| Czech Republic | 8.2 | 8.0 | 9.2 | 13.8 | 16.2 | 37.6 | 47.6 | 62y 6m | <61y 4m |
| Denmark | 10.5 | 11.0 | 12.3 | 14.8 | 17.3 | 46.3 | 59.5 | 65 | 65 |
| Estonia | 6.6 | 5.9 | 9.0 | 15.0 | 17.2 | 45.3 | 57.2 | 63l | 61y 6m |
| Finland | 10.6 | 11.2 | 12.7 | 14.8 | 18.1 | 39.0 | 57.0 | 63–68 | 63–68 |
| France | 13.0 | 13.3 | 14.4 | 15.8 | 17.1 | 37.0 | 41.5 | 60–67 | 60–67 |
| Greece | 11.1 | 12.2 | 13.9 | 16.5 | 19.7 | 29.9 | 39.4 | 65 | 62–65 |
| Ireland | 3.6 | 4.9 | 7.2 | 11.2 | 11.9 | 27.7 | 50.0 | 65–66 | 65–66 |
| Italy | 14.3 | 14.6 | 16.0 | 18.1 | 20.6 | 49.4 | 37.9 | 66 | 62–63y 6m |
| Latvia | 9.6 | 6.4 | 10.0 | 14.8 | 18.6 | 36.0 | 50.5 | 62 | 62 |
| Lithuania | 7.8 | 6.5 | 8.6 | 13.7 | 18.1 | 40.4 | 50.5 | 62y 8m | 60y 4m |
| Luxembourg | 9.4 | 9.6 | 9.2 | 14.3 | 14.0 | 26.7 | 39.3 | 65 | 65 |
| Hungary | 8.7 | 9.8 | 11.0 | 15.0 | 16.9 | 22.2 | 35.8 | 62 | 62 |
| Malta | 7.9 | 9.2 | 10.0 | 12.1 | 16.5 | 28.5 | 31.7 | 61 | 60 |
| Germany | 13.1 | 13.4 | 12.8 | 16.2 | 20.6 | 38.2 | 59.9 | 67 | 67 |
| Netherlands | 12.5 | 12.5 | 12.9 | 13.6 | 16.2 | 28.8 | 56.1 | 65 | 65 |
| Poland | 12.6 | 12.7 | 11.9 | 12.1 | 13.8 | 28.4 | 36.9 | 65 | 60 |
| Portugal | 10.1 | 12.3 | 14.2 | 16.0 | 19.4 | 50.7 | 47.9 | 65 | 65 |
| Romania | 6.1 | 6.2 | 9.5 | 13.2 | 15.0 | 49.5 | 40.0 | 64y 4m | 59y 4m |
| Slovakia | 7.5 | 7.5 | 8.4 | 11.4 | 12.8 | 22.7 | 41.4 | 62 | 62 |
| **Slovenia** | **11.0** | **10.3** | **11.2** | **13.9** | **16.8** | **21.3** | **31.2** | **63** | **61** |
| Spain | 9.6 | 9.1 | 10.8 | 16.7 | 17.4 | 41.6 | 44.5 | 65 | 65 |
| Sweden | 11.3 | 12.2 | 12.1 | 17.3 | 18.8 | 64.9 | 72.3 | 61–67 | 61–67 |
| United Kingdom | 11.9 | 10.7 | 12.2 | 15.8 | 17.0 | 50.7 | 56.7 | 65 | >60 |

Source: Eurostat, 2012 Ageing Report: Economic and budgetary projections for the EU27 Member States (2010–2060), MISSOC – Comparative Tables on Social Protection.
Notes: N/A – data not available; > the retirement age is already higher than the stated age, which refers to the year before it started to increase; < the retirement age applies to women without children and is reduced with regard to the number of children.

*Figure*: **Selected PDII revenues and expenditures, Slovenia**




Source: Bulletin of Government Finance, Pension and Disability Insurance Institute of the Republic of Slovenia 1992–2012, 2013.

# 4.8 Health expenditure

***Total health expenditure declined again in 2012.*** It was equivalent to 8.8% of GDP[1] in 2011 and 8.9% of GDP in 2012, according to the first provisional estimate of the Health Insurance Institute of Slovenia (HII); last year's increase in the ratio of health expenditure to GDP was attributable solely to the decline in GDP. As a result of declining revenues from compulsory health-insurance contributions (and in view of the target that health care should be financed without any further borrowing or increase in the contribution rate), public health expenditure had declined for three consecutive years in real terms, having declined by 6.3% over the entire 2010–2012 period.[2] In 2011 public health expenditure as a proportion of GDP thus declined to 6.3% according to the HII estimate, and in 2012 to 6.4% of GDP.[3] At the same time there was a change in the ratio of public to private expenditure on health. The proportion of public expenditure stood at 72.3% in 2011 and 71.8% in 2012. In 2012 additional measures had to be taken to ensure stable funding of health. They were introduced by the ZUJF, which reduced public expenditure primarily by transferring a portion of health expenditure to complementary health insurance schemes and by lowering wages and sickness allowances; alongside the ZUJF measures, a linear reduction of health prices by an additional 3% was carried out again in May 2012.

***Slovenia had already recorded relatively low health expenditure growth before the crisis, but the even lower growth during the crisis called for stricter austerity measures than overall in the EU.*** International comparisons show that in 2010 growth in health expenditure was significantly slower or even negative in almost all EU Member States. After averaging 4.6% per year in real terms in the EU in 2000–2009 (3.6% in Slovenia), it declined to -0.6% in 2010 (-2.0% in Slovenia). Expenditure declined most in countries that were more strongly affected by the crisis, although growth in health expenditure remained positive in more than half of EU countries. The measures to reduce expenditure on health were more or less similar to those in Slovenia: cutting or curbing growth in wages, employment, administrative costs, coverage of health services from public funds and sales margins on medicines (OECD, 2012). The gaps between EU countries in per capita expenditure on health are widening. In 2010 the average per capita expenditure on health in the EU totalled EUR 2,171 in PPS terms, compared with EUR 1,896 in Slovenia (or 86% of the EU average, with the ten wealthiest EU countries exceeding the EU average by 40% to 90%).

***Direct health expenditure by households has recorded very moderate growth in the last two years, according to provisional figures.*** The main factor in financial access to health services is out-of-pocket health expenditure, which can be a significant financial burden on low-income households. In Slovenia out-of-pocket expenditure is very low in relative terms as most health services and medicines are covered by compulsory and complementary health insurance schemes. Out-of-pocket expenditure accounted for 12.9% of total health expenditure in 2010 (in 2012: 13.2%, according to provisional figures), compared with 21.5% in the EU overall (or EUR 249 in PPS terms in Slovenia, and EUR 378 in PPS terms in the EU overall). During the crisis a significant share of the shortfall in public funding was compensated for by complementary health insurance schemes, so that out-of-pocket expenditure increased only marginally. The rise in premiums[4] increased the burden of health expenditure on households, but the burden of saving was transferred to private assets in a way that did not solely impact those with lower incomes and seniors. Had this not been the case, they would have been significantly affected by lower availability and higher out-of-pocket payments as public funding declined. The slowdown in out-of-pocket household expenditure during the crisis indicates that health is, to a certain extent, a luxury good. According to the more detailed data of the Household Budget Survey, households in the lowest income quintile had already started to save on health expenditure in 2010: while allocating an increasingly large share of disposable income to food and other essentials, they postponed purchases of health services and goods that have to be paid out of pocket (dental care, prosthetics, corrective glasses). The share of health care in total household consumption declined slightly for low-income households (from 2.9% in 2009 to 2.6%), while the corresponding share for households with higher incomes was slightly higher (albeit just 1.9%). Slovenian households allocate the largest shares of out-of-pocket expenditure to medicines (27%), medical devices (21%; of which 17% is for glasses), various other health services (physiotherapy) and alternative medicine (14%), dental care (13%) and specialist outpatient

[1] The share in GDP is calculated based on the GDP revision of September 2012 (SURS, National Accounts).

[2] According to international recommendations (OECD, 2011), the GDP implicit price deflator was used to calculate real growth. When the consumer price index is used as the deflator, public expenditure was down 12% in 2010–2012, and 4.2% in 2012.

[3] HII Business Report 2012 (draft, March 2013). Data according to SHA methodology estimated in conjunction with the SURS.

[4] As a result of the decline in the coverage of health services from compulsory health insurance, the monthly premiums of all three supplementary health insurers rose by 15% to 20% on 1 July 2012 (at Vzajemna d.d. from EUR 24.62 to EUR 28.62), and by more than 30% since 2009 (Vzajemna d.d. figures). The critical limit of the monthly premium is around EUR 30, according to estimates by insurers (Slovenian Insurance Association, June 2011).

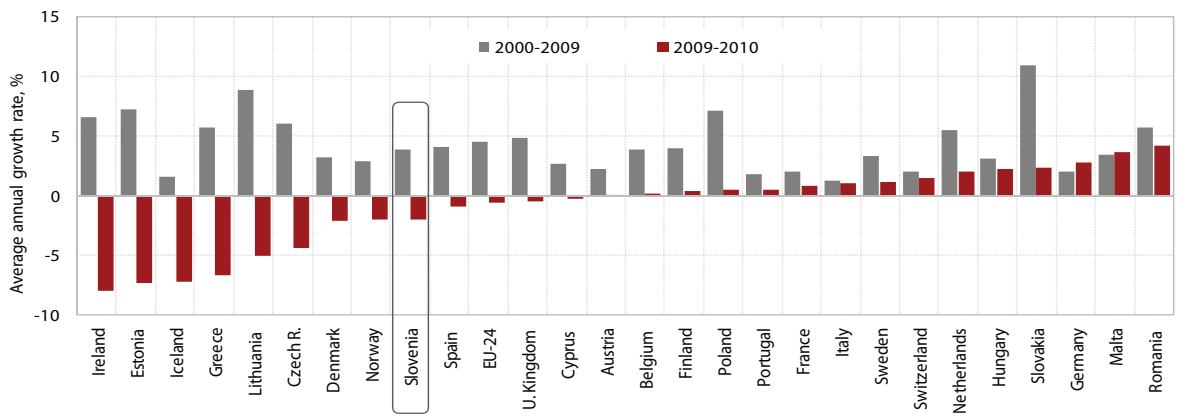
services (10%). In 2005–2010 the largest increases in out-of-pocket expenditure were recorded by specialist outpatient services, over-the-counter medicines, medical devices, diagnostic imaging, and services and diagnostic procedures in primary care.

*Table*: **Health expenditure in the EU-27, 2000, 2009, 2010**

| | Total health expenditure[3], as % of GDP[1] | | | Public health expenditure, as % of GDP[1] | | | Private health expenditure, proportion of total health expenditure, % | | Out-of-pocket expenditure, proportion of total expenditure, % | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2009 | 2010 | 2000 | 2009 | 2010 | 2000 | 2010 | 2000 | 2010 |
| **EU-27[1]** | **7.3** | **9.0** | **9.0** | **5.3** | **6.7** | **6.5** | **27.3** | **24.1** | **21.4** | **21.5** |
| Austria | 9.9 | 11.0 | 11.0 | 7.6 | 8.6 | 8.4 | 24.4 | 23.8 | 16.0 | 16.8 |
| Belgium** | 9.0 | 10.9 | 10.5 | 6.1 | 8.2 | 8.0 | 25.4 | 24.4 | 20.0 | 19.4 |
| Bulgaria | 6.1 | N/A | 7.2 | 3.7 | N/A | 4.0 | 40.6 | 42.2* | N/A | 43.4 |
| Cyprus | 5.7 | N/A | 7.4 | 2.4 | N/A | 3.2 | 58.4 | 57.9* | N/A | 49.4 |
| Czech Republic | 6.5 | 8.2 | 7.5 | 5.7 | 6.9 | 6.3 | 9.7 | 16.2 | 9.7 | 14.9 |
| Denmark | 8.3 | 11.5 | 11.1 | 7.3 | 9.8 | 9.5 | 16.1 | 14.9 | 14.7 | 13.2 |
| Estonia | 5.3 | 7.0 | 6.3 | 4.1 | 5.3 | 5.0 | 22.8 | 21.1 | 19.9 | 18.6 |
| Finland | 7.2 | 9.2 | 8.9 | 5.1 | 6.8 | 6.6 | 28.7 | 25.5 | 22.3 | 19.2 |
| France | 10.1 | 11.8 | 11.6 | 8.0 | 9.2 | 9.0 | 20.6 | 23.0 | 7.1 | 7.3 |
| Greece | 7.9 | N/A | 10.2 | 4.8 | N/A | 6.1 | 40.0 | 40.6 | N/A | 38.4 |
| Ireland | 6.3 | 9.5 | 9.2 | 4.6 | 7.2 | 6.4 | 24.9 | 30.5 | 15.3 | 17.4 |
| Italy | 8.1 | 9.5 | 9.3 | 5.8 | 7.4 | 7.4 | 27.5 | 20.4 | 24.5 | 17.8 |
| Latvia | 6.0 | 6.8 | 6.8 | 3.2 | 4.3 | 4.1 | 46.1 | 40.4* | N/A | 36.1 |
| Lithuania | 6.5 | 7.6 | 7.0 | 4.5 | 5.6 | 5.1 | 30.3 | 22.8 | N/A | 27.2 |
| Luxembourg | 5.8 | N/A | 7.9 | 6.4 | N/A | 6.6 | 14.9 | 16.0 | 11.8 | 11.6 |
| Hungary | 7.0 | 7.5 | 7.8 | 5.1 | 5.2 | 5.0 | 29.3 | 35.2 | 26.3 | 26.2 |
| Malta | 6.8 | N/A | 8.6 | 4.9 | N/A | 5.7 | 25.8 | 15.9 | N/A | 32.3 |
| Germany | 10.3 | 11.6 | 11.6 | 8.3 | 8.9 | 8.9 | 20.5 | 23.2 | 11.4 | 13.2 |
| Netherlands | 8.0 | 12.0 | 12.0 | 5.0 | 9.5 | 9.6 | 33.6 | 14.3 | 7.3 | 5.5 |
| Poland | 5.5 | 7.4 | 7.0 | 3.9 | 5.3 | 5.0 | 30.0 | 28.3 | 30.0 | 22.1 |
| Portugal | 8.8 | N/A | 10.7 | 6.2 | N/A | 7.1 | 33.4 | 34.2 | 24.3 | 26.0 |
| Romania | 5.2 | 5.7 | 6.0 | 3.6 | 4.5 | 4.8 | 32.7 | 18.0* | N/A | 19.2 |
| Slovakia | 5.5 | 9.1 | 9.0 | 4.9 | 6.0 | 5.8 | 10.6 | 35.5 | 10.6 | 25.9 |
| **Slovenia[2]** | **8.3** | **9.2** | **9.0** | **6.1** | **6.7** | **6.5** | **26.0** | **27.2** | **10.5** | **12.9** |
| Spain | 7.2 | 9.5 | 9.6 | 5.2 | 7.0 | 7.1 | 28.4 | 25.8 | 23.6 | 19.7 |
| Sweden | 8.2 | 10.1 | 9.6 | 6.9 | 8.2 | 7.7 | 15.1 | 19.0 | 16.6 | 16.8 |
| United Kingdom | 7.0 | 9.8 | 9.6 | 5.5 | 8.2 | 8.0 | 21.2 | 16.8 | 11.4 | 8.9 |

Source: OECD Health Data 2012, OECD Health at a glance Europe 2012; data for Slovenia for 2010: Health expenditure and financing (SURS), June 2012.
Notes: [1] For the EU-27, non-weighted arithmetic average according to OECD Health at a glance: Europe 2012. [2] The proportion of GDP is calculated on the basis of the revised GDP from September 2012 (SURS, National Accounts); N/A – not available.

*Figure*: **Average annual real growth rate of total health expenditure per capita, 2000–2010**




Source: Health at a glance Europe 2012 (OECD Health Data 2012, Eurostat Statistics Database, WHO Global Health Expenditure Database).
Data available only for the 24 countries shown in the figure.

# 4.9 Expenditure on long-term care

***Total expenditure on long-term care (LTC)[1] in Slovenia increased in 2010.*** It was equivalent to 1.26% of GDP (2009: 1.20%), of which public expenditure was 0.94% and private expenditure 0.32% of GDP. Despite the austerity measures, public expenditure on LTC still recorded relatively high real growth in 2010 (4.8%). However, private expenditure increased even more (by 8.6%), especially private expenditure on long-term social care services. These mainly involve co-payments for accommodation and food in residential homes for the elderly, which are rising mainly due to an increase in capacity (new homes for the elderly) and a higher, and hence more expensive, standard of care in new, mostly private, homes run on a concession basis. In terms of funding, the proportion of total LTC expenditure accounted for by private expenditure thus increased again in 2010 (to 25.1%), while in terms of function,[2] the proportion of LTC expenditure accounted for by long-term social care was up (to 41.5%). Private expenditure has been increasing much faster than public expenditure for a number of years.

***Slovenia continues to lag behind the OECD average in total and public expenditure on LTC as a proportion of GDP.*** LTC expenditure is also rapidly growing in the OECD; however, given that the OECD countries are revising the statistical measuring of this type of expenditure,[3] the most recent available data for 2010 indicates a higher average for OECD countries than in previous years. Total (public and private) expenditure averaged 1.41% of GDP in 2010 (2009: 1.42%) in 25 OECD countries, and 1.56% of GDP in 19 countries in the EU. However, data on public expenditure alone tends to be more reliable for international comparisons, as proper records on private expenditure are still lacking. Public expenditure in the 19 EU countries for which data is available averaged 1.37% of GDP in 2010 (2009: 1.36%), almost the same percentage as in the 25 OECD countries shown in the Figure (1.29% of GDP). However, alongside different development levels, the gaps between the countries also reflect differences in the systems of long-term care and the influence of demographic factors and life patterns, particularly regarding the role of family and informal care.

***In 2005–2010 OECD countries recorded substantially higher growth in public expenditure on LTC on average than Slovenia.*** This was a result of faster growth in expenditure on long-term health care. In Slovenia growth in public expenditure on long-term health care (75% of total public expenditure on LTC) was otherwise higher than growth in public expenditure on health (LTC 3.6%; health 3.3%), but substantially lower than the average growth in public expenditure on long-term health care in the OECD (6.8%). The main reason for this gap is that public expenditure on long-term health care at home (home-nursing service and attendance allowances for people dependent on assistance with basic activities of daily living) is also increasing rapidly in other developed countries, while in Slovenia this expenditure actually declined in real terms in 2005–2010 (by 2.1% each year on average). As a consequence, public expenditure on long-term health care at home also fell as a proportion of total public expenditure on long-term health care (from 30% in 2005 to only 22% in 2010).

***Long-term projections of public expenditure on long-term care[4] indicate that as a proportion GDP it will more than double by 2060.*** Under the AWG reference scenario, which takes account of population ageing in particular, public expenditure on long-term care in Slovenia is projected to rise by 0.3 percentage points of GDP by 2020, or by 1.6 percentage points of GDP by 2060, under the highest scenario, which also considers an increase in coverage by formal long-term care to the average level in the EU, it will rise by 0.5 percentage points of GDP by 2020, and by as much as 4.2 percentage points of GDP by 2060. Public

[1] As defined by the OECD, Eurostat and WHO (A System of Health Accounts 2011, pp 88–95 and p 114).

[2] The SHA methodology requires that LCD expenditure is broken down by function. **Long-term health care** is mostly financed from public sources (96.8% in 2010). These are mostly the HII funds intended for health care services in residential homes for the elderly and specialised social institutions, extended hospitalisation, and partly the home-nursing service providing long-term health care. Long-term health care also includes PDII funds earmarked for attendance allowances for people dependent on assistance with basic activities of daily living (ADL). Close to one half of expenditure (44.0% in 2010) on **long-term social care**, which is related to ADL, is covered by public funds (state budget and local government budgets), while slightly more than half comes from private sources (56.0%). Private funds mostly comprise top-up payments for accommodation and food in residential homes for the elderly and other types of institutional care, as well as household expenditure on assistance at home.

[3] After the revision of the System of Health Accounts methodology, the exact definition of long-term care is included in A System of Health Accounts (OECD, Eurostat, WHO), 2011. In 2012 an OECD study on the statistics of long-term care expenditure was made, which also includes Slovenia: Accounting and mapping of long-term care expenditure under SHA 2011 (Marn et al, 2012).

[4] Long-term projections of public expenditure related to population ageing, which also include expenditure on long-term care, are made every three years by the Ageing Working Group of the Economic Policy Committee at the European Commission. The last round of projections was completed in May 2012.

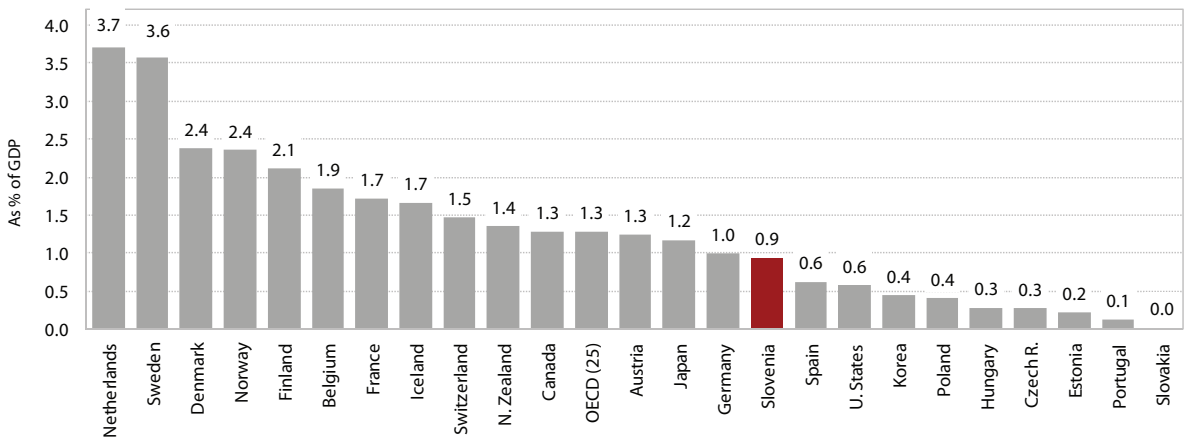
expenditure on long-term care in the EU is expected to rise by an average of between 0.3 percentage points and 0.5 percentage points of GDP by 2020 (various scenarios), or by between 1.5 percentage points and 3.1 percentage points of GDP by 2060 (European Commission and Economic Policy Committee: 2012 Ageing Report, May 2012).

*Table*: **Expenditure on long-term care by source of funding and by function, 2005-2010**

| | EUR m | | | as % of GDP | | | Breakdown, % | | | Real growth, % | Average annual real growth, % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2009 | 2010 | 2005 | 2009 | 2010 | 2005 | 2009 | 2010 | 10/09 | 2005–2010 |
| Long-term care | 315 | 428 | 447 | 1.10 | 1.20 | 1.26 | 100.0 | 100.0 | 100.0 | 5.8 | 4.6 |
| **By source of funding:** | | | | | | | | | | | |
| Public expenditure | 246 | 323 | 335 | 0.86 | 0.91 | 0.94 | 77.9 | 75.6 | 74.9 | 4.8 | 3.8 |
| Private expenditure | 70 | 104 | 112 | 0.24 | 0.29 | 0.32 | 22.1 | 24.4 | 25.1 | 8.6 | 7.3 |
| **By function:** | | | | | | | | | | | |
| Health care | 195 | 257 | 262 | 0.68 | 0.72 | 0.74 | 62.0 | 60.0 | 58.5 | 3.2 | 3.4 |
| Social care | 120 | 171 | 186 | 0.42 | 0.48 | 0.52 | 38.0 | 40.0 | 41.5 | 9.7 | 6.4 |

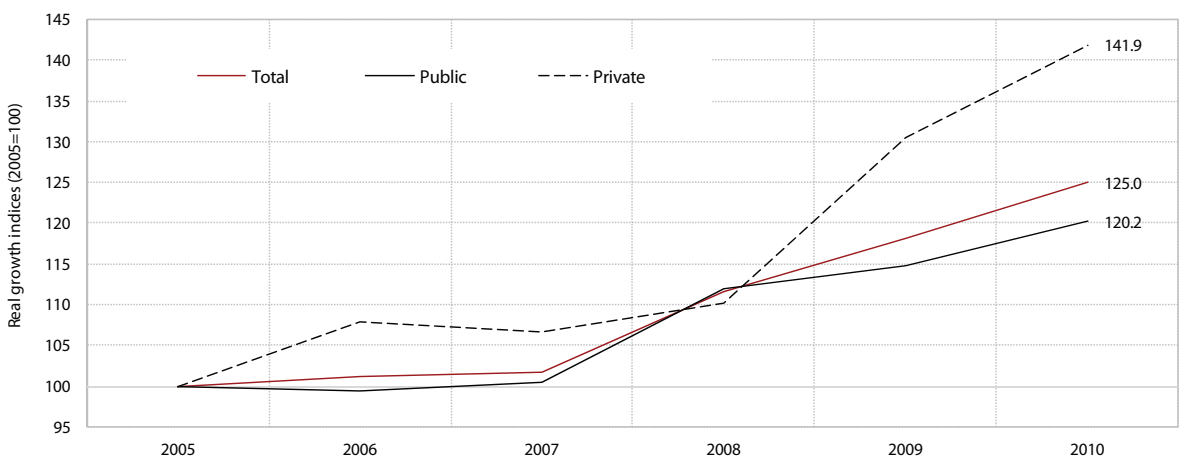
Source: SURS – Health expenditure and sources of funding (Release: June 2012), OECD Health Data 2012.
Note: According to international recommendations, the GDP implicit price deflator was used to calculate constant prices (instead of the consumer price index) (AHRQ, 2011 and OECD Health at a glance 2012 Europe 2012).

*Figure 1*: **Public expenditure on long-term care as a proportion of GDP, 2010**




Source: OECD Heath Data 2012. Note: The OECD average includes 25 countries for which data is available (own calculations). 2009: Spain, Japan.

*Figure 2*: **Real growth in expenditure on long-term care, Slovenia**




Source: OECD Heath Data 2012.
Note: According to international recommendations, the GDP implicit price deflator was used to calculate constant prices (instead of the consumer price index) (AHRQ, 2011 and OECD Health at a glance 2011).

# 4.10 Human Development Index

***According to the UN Human Development Report 2013, Slovenia remains in the group of countries with very high human development.***[1] The human development index (HDI 0.892) ranks Slovenia 21st (together with Finland) out of 186 countries, which is the same place as a year earlier (out of 187 countries). The highest HDI value was again recorded by Norway (0.955). The Netherlands is at the top of the EU (0.921), while Slovenia is in 10th place. In terms of non-income HDI,[2] Slovenia ranks 5th in the EU, while the highest place is held by Ireland.

***Slovenia's relatively high position is most attributable to education, and least attributable to income, as in previous years.*** As one of the main composite indicators of social wellbeing and development, the HDI measures three dimensions of human welfare: health, education and income. The *education dimension* is measured by the education indicator (expected years of schooling for children and mean years of schooling for adults). According to this indicator, a child of school-entrance age could expect to receive 16.9 years of schooling in 2011, the same as in 2010, while the mean years of schooling of the population aged 25 and older was 11.7, which is up 0.1% and 0.2% respectively on the figures in the UNDP Reports from 2011 and 2010. In the education dimension Slovenia surpassed the country that ranks highest in the EU on the human development indicator, the Netherlands. Among the countries with very high human development, Slovenia is among the first fifteen in the world on both education indicators. The *health dimension* is measured by the indicator of life expectancy at birth, which was 79.5 years for Slovenia in 2012 (79.3 in 2011; 78.8 in 2010). Slovenia is 30th out of 186 countries on this indicator (the same place as a year earlier). The highest life expectancy is recorded for people born in France (81.7 years). According to the *income dimension,* measured by the indicator of gross national income per capita at purchasing power parity (in US dollars), Slovenia was ranked 34th in 2012 (32nd in 2011). In 2012 this income was USD 23,999 (2011: USD 24,914; 2010: USD 24,451). Luxembourg has the highest income among EU countries (USD 48,285, which is just slightly below the highest income in all countries surveyed, Norway's USD 48,688).

***Among broader wellbeing indicators, the Inequality-Adjusted Human Development Index (IHDI) shows a slight deterioration and the Gender Inequality Index (GII) a significant improvement.*** The IHDI shows the potential human development (as indicated by the HDI) that could be achieved if there were no inequality in a country. Under perfect equality the IHDI would be equal to the HDI. In this sense, the IHDI can be viewed as an index of the actual level of human development (taking into account inequality). In 2012 the Slovenian IHDI totalled 0.840, meaning a loss of 5.8% in potential human development due to inequality.[3] This indicates that inequality in Slovenia increased slightly relative to the previous year, when the loss was 5.3%. The loss in potential is primarily the result of the difference in the income dimension (9.9%), as the differences in the education and health dimensions are low (4.1% and 3.2%, respectively). By contrast, Slovenia has significantly improved its ranking on the Gender Inequality Index (GII).[4] In 2012 the value for Slovenia was 0.080, which ranks Slovenia eighth among 187 countries included in the survey. Slovenia's position has improved relative to 2010 and 2011 (17th place among 138 countries surveyed), as the proportion of women in the Slovenian parliament rose from 10.8% to 23.1% in 2012.

[1] According to the report, countries with very high human development are those with HDI values higher than 0.804; countries with HDI values between 0.804 and 0.712 are classified as countries with high human development, while countries with medium and low human development are those with HDI values between 0.710 and 0.304.

[2] The non-income HDI is calculated without the income component (health and education alone).

[3] Among the countries with high human development, only the Czech Republic had a smaller loss (5.4%).

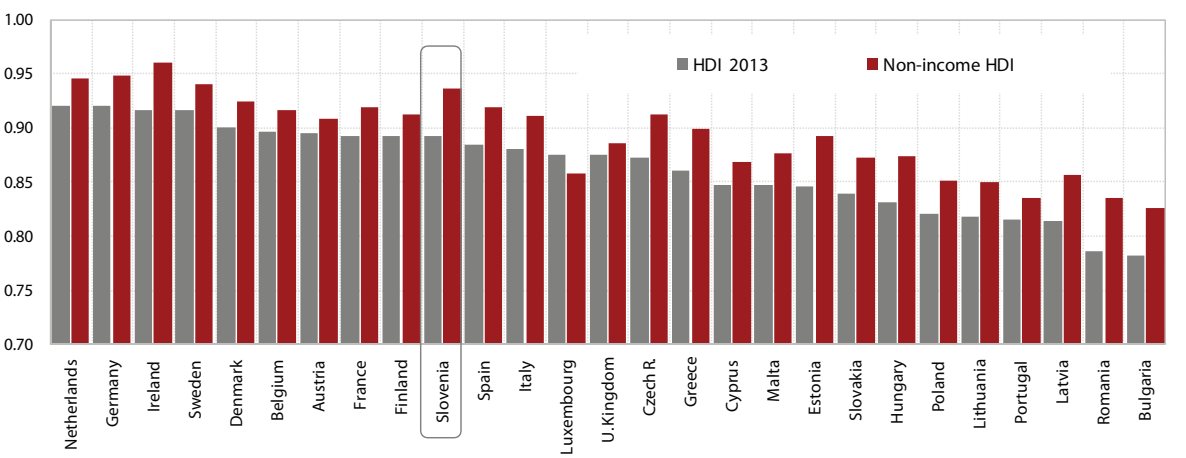
[4] The GII (which is still an experimental indicator) measures women's reproductive health (the maternal mortality rate and fertility rates of adult women), gender differences in educational attainment (participation in secondary and tertiary education) and female and male participation in political activities and in the labour force (parliamentary representation and labour force participation rates). The index ranges between 0 and 1, with higher values indicating higher gender inequality according to the above criteria.

*Table*: **HDI and HDI ranks of EU countries**

| | Human development index (HDI) | | | | | | | HDI rank[1] | Change in HDI ranks | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1990 | 2000 | 2005 | 2009 | 2010 | 2011 | 2012 | 2012 | 2010–2011 | 2011–2012 |
| Austria | 0.790 | 0.839 | 0.860 | 0.879 | 0.883 | 0.885 | 0.895 | 18 | 0 | 1 |
| Belgium | 0.811 | 0.876 | 0.873 | 0.883 | 0.885 | 0.886 | 0.897 | 17 | 0 | 1 |
| Bulgaria | 0.698 | 0.715 | 0.749 | 0.766 | 0.768 | 0.771 | 0.782 | 57 | 1 | -2 |
| Cyprus | 0.747 | 0.800 | 0.809 | 0.837 | 0.839 | 0.840 | 0.848 | 31 | 0 | 0 |
| Czech Republic | N/A | 0.816 | 0.854 | 0.863 | 0.863 | 0.865 | 0.873 | 28 | 0 | -1 |
| Denmark | 0.809 | 0.861 | 0.885 | 0.891 | 0.893 | 0.895 | 0.901 | 15 | 0 | 1 |
| Estonia | 0.717 | 0.776 | 0.821 | 0.828 | 0.832 | 0.835 | 0.846 | 33 | 0 | 1 |
| Finland | 0.794 | 0.837 | 0.875 | 0.877 | 0.880 | 0.882 | 0.892 | 21 | 0 | 1 |
| France | 0.777 | 0.846 | 0.869 | 0.880 | 0.883 | 0.884 | 0.893 | 20 | 0 | 0 |
| Germany | 0.795 | 0.864 | 0.895 | 0.900 | 0.903 | 0.905 | 0.860 | 5 | 0 | 4 |
| Greece | 0.766 | 0.802 | 0.856 | 0.863 | 0.862 | 0.861 | 0.916 | 29 | 0 | 0 |
| Hungary | 0.706 | 0.775 | 0.803 | 0.811 | 0.814 | 0.816 | 0.881 | 37 | 0 | 1 |
| Ireland | 0.782 | 0.869 | 0.898 | 0.905 | 0.907 | 0.908 | 0.814 | 7 | 0 | 0 |
| Italy | 0.764 | 0.825 | 0.861 | 0.870 | 0.873 | 0.874 | 0.818 | 25 | 0 | -1 |
| Latvia | 0.693 | 0.732 | 0.784 | 0.798 | 0.802 | 0.805 | 0.875 | 44 | 0 | -1 |
| Lithuania | N/A | 0.749 | 0.793 | 0.802 | 0.805 | 0.810 | 0.831 | 41 | 1 | -1 |
| Luxembourg | 0.788 | 0.854 | 0.865 | 0.863 | 0.865 | 0.867 | 0.847 | 26 | 0 | -1 |
| Malta | 0.753 | 0.799 | 0.825 | 0.827 | 0.830 | 0.832 | 0.920 | 32 | 0 | 4 |
| Netherlands | 0.835 | 0.882 | 0.890 | 0.905 | 0.909 | 0.910 | 0.921 | 4 | 0 | -1 |
| Poland | N/A | 0.770 | 0.791 | 0.807 | 0.811 | 0.813 | 0.821 | 39 | 0 | 0 |
| Portugal | 0.708 | 0.778 | 0.789 | 0.805 | 0.808 | 0.809 | 0.816 | 43 | -1 | -2 |
| Romania | 0.700 | 0.704 | 0.748 | 0.778 | 0.779 | 0.781 | 0.786 | 56 | 0 | -6 |
| Slovakia | 0.747 | 0.779 | 0.810 | 0.829 | 0.832 | 0.834 | 0.840 | 35 | 0 | 0 |
| **Slovenia** | **N/A** | **0.805** | **0.848** | **0.876** | **0.882** | **0.884** | **0.892** | **21** | **0** | **0** |
| Spain | 0.749 | 0.839 | 0.857 | 0.874 | 0.876 | 0.878 | 0.885 | 23 | 0 | 0 |
| Sweden | 0.816 | 0.894 | 0.896 | 0.898 | 0.901 | 0.904 | 0.916 | 8 | 0 | 2 |
| United Kingdom | 0.778 | 0.833 | 0.855 | 0.860 | 0.862 | 0.863 | 0.875 | 26 | 0 | 2 |

Source: Human Development Report 2013 (UNDP, 2013).
Note: [1] Among 186 countries; N/A – not available.

*Figure*: **Comparison of the HDI and the non-income HDI for EU countries, 2012**




Source: Human Development Report 2013 (UNDP, 2013).

# 4.11 Minimum wage

***In 2012 the minimum wage grew more than the average gross wage for the fourth consecutive year, but in terms of the ratio between the two, Slovenia is already at the top of EU countries.*** The transitional period[1] in which enterprises were allowed to pay out wages below the legal minimum wage ended on 1 January 2012. Taking into account the adjustment in January,[2] the minimum wage totalled EUR 763.06 in 2012. It was 6.3% higher than the average gross minimum wage paid in the previous year (having risen by 5.7% in 2011 and 14.6% in 2010). The increase was again much larger than that of the average gross wage, which stagnated (0.1%) due to austerity measures in the public sector and a further decline in economic activity. The ratio between the average minimum wage paid and the average gross wage thus rose by 2.9 percentage points to 50.0% in 2012. As in previous years, this ranks Slovenia at the top of the EU. In addition to Slovenia, the ratio also rose in eight other countries out of the seventeen for which data is available, while falling in seven.[3]

***The number of minimum wage earners increased further in 2012, having more than doubled (from 19,047 to 44,990) relative to the year before the adoption of the new Minimum Wage Act (2009).*** In 2012 the number of minimum wage earners was up 3.3% in year-on-year terms. The proportion of minimum wage earners in all employed persons increased as well, by 0.4 percentage points to 7.5% (2009: 3.0%). Around 86% of all minimum wage earners were in the private sector.[4] Last year their number fell slightly (by 87 to 38,888; 2009: 18,596), while between 2009 and 2012 their proportion of the total rose from 3.8% to 8.8%. In public service activities, the increase in the otherwise small proportion was much larger (from 0.3% to 3.9% or 451 to 6,102 persons), while last year's increase in the number (1,512) was also a consequence of the reduction in public servants' wages due to the ZUJF. Relative to the situation before the enforcement of the new act, the number of minimum wage earners in private sector activities rose most notably in wholesale and retail trade and in manufacturing. Together with administrative and support service activities, construction, and accommodation and food service activities, these two sectors employ around three-quarters of all minimum wage recipients.[5] With the exception of wholesale and retail trade, workers in these sectors are typically low-skilled.

***In the previous three years, the increase in the minimum wage contributed to a significant rise in earnings in the private sector, and a decline in the proportion of low-wage earners and in income inequality, but it also led to losses in cost competitiveness and job losses.*** It is estimated that in 2010 more than 3 percentage points of the wage growth in private sector activities can be attributed to the rise in the minimum wage and the relatively fast transition to its statutory level. The gradual nature of the increase continued to put pressure on wage growth in the following two years, although the effect was less than 1 percentage point in both years. The increase in the minimum wage thus put significant pressure on unit labour costs in 2010 in particular, reducing the competitiveness of the economy. In the short term around 7,000 people are estimated to have lost work due to the higher minimum wage; in the long term the figure is around 18,000.[6] At the same time, the large increase in the minimum wage resulted in lower inequality of income distribution as measured by the Gini coefficient and interdecile coefficient (9$^{th}$ decile / 1$^{st}$ decile).[7] Inequality according to both indicators declined in 2010 and 2011, for which the most recent data on the distribution of wages is available. In 2011 the proportion of low-wage earners[8] remained equal to that in 2010 (17.9%), when it recorded the first decline since 2005 (17.0%; 2009: 19.3%). According to the latest European Union Structure of Earnings Survey, the comparable figure in the EU overall was 17.0% in 2010.

[1] If an immediate rise would cause substantial financial losses and threaten the existence of the enterprise, there was an option of a gradual transition to the new level of the minimum wage from 1 March 2010 until 31 December 2011, but only in agreement with workers' representatives.

[2] On 1 January 2012 the minimum wage was raised by the year-on-year price growth at the end of 2011 (2%).

[3] The minimum wage rose in 14 countries in 2012, falling only in Poland, the Czech Republic and Greece, and remaining unchanged in Lithuania, Spain and Ireland.

[4] Activities A–N and R–S; public service activities are defined as activities O–Q.

[5] Manufacturing 28.7%, wholesale and retail trade 16.3%, administrative and support service activities 12.7%, construction 9.3% and accommodation and food service activities 6.0%.

[6] See the IMAD Working Paper, No. 3/2010 (Brezigar et al: Estimation of the Impact of the Minimum Wage Rise in Slovenia) and Economic Issues (Box 2: Effects of the rise in minimum wage in 2010 on the loss of jobs – Updated estimation of the labour demand function and estimation of the effects of the rise in minimum wage and labour costs on employment).

[7] Calculated from data on the distribution of persons employed with legal entities according to the level of gross earnings.

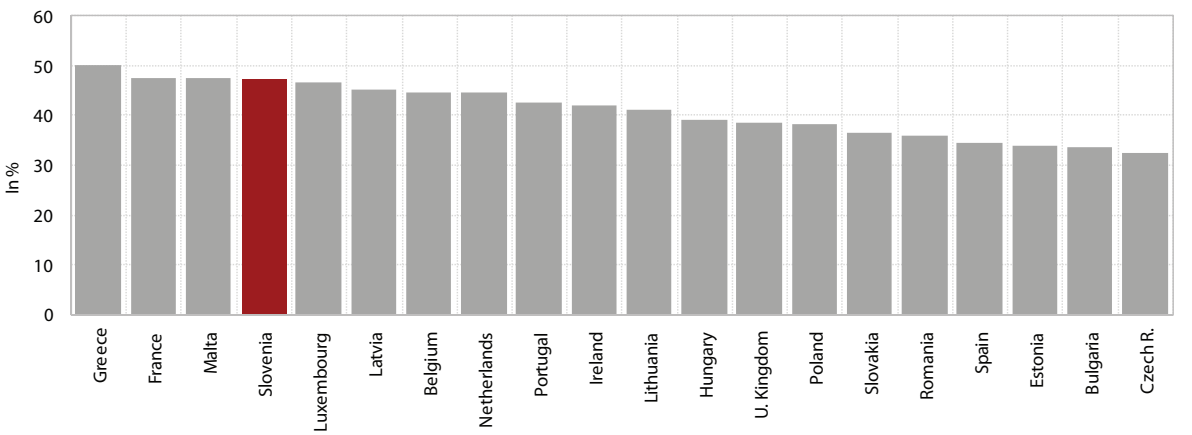
[8] According to the OECD's methodology, these are full-time workers who receive less than two-thirds of median earnings, i.e. up to EUR 883 in 2011.

*Table*: **Average gross minimum wage, average gross wage and ratio between the two, Slovenia, 2000–2012**

| | Minimum gross wage | Nominal growth in minimum wage | Real growth in minimum wage | Average gross wage | Nominal growth in gross wage | Real growth in gross wage | Ratio of minimum to average wage |
|---|---|---|---|---|---|---|---|
| 2000 | 322 | 10.3 | 1.3 | 800 | 10.6 | 1.6 | 40.3 |
| 2001 | 366 | 13.5 | 4.7 | 895 | 11.9 | 3.2 | 40.9 |
| 2002 | 408 | 11.5 | 3.7 | 982 | 9.7 | 2.0 | 41.5 |
| 2003 | 445 | 9.0 | 3.2 | 1.057 | 7.5 | 1.8 | 42.1 |
| 2004 | 476 | 7.0 | 3.3 | 1.117 | 5.7 | 2.0 | 42.6 |
| 2005 | 499 | 4.9 | 2.4 | 1.157 | 4.8 | 2.2 | 43.1 |
| 2006 | 516 | 3.3 | 0.9 | 1.213 | 4.8 | 2.2 | 42.5 |
| 2007 | 529 | 2.5 | -1.1 | 1.285 | 5.9 | 2.2 | 41.2 |
| 2008 | 571 | 8.0 | 2.2 | 1.391 | 8.3 | 2.5 | 41.1 |
| 2009 | 593 | 3.7 | 2.8 | 1.439 | 3.4 | 2.5 | 41.2 |
| 2010 | 679 | 14.6 | 12.6 | 1.495 | 3.9 | 2.1 | 45.4 |
| 2011 | 718 | 5.7 | 3.8 | 1.525 | 2.0 | 0.2 | 47.1 |
| 2012 | 763 | 6.3 | 3.5 | 1.525 | 0.1 | -2.4 | 50.0 |

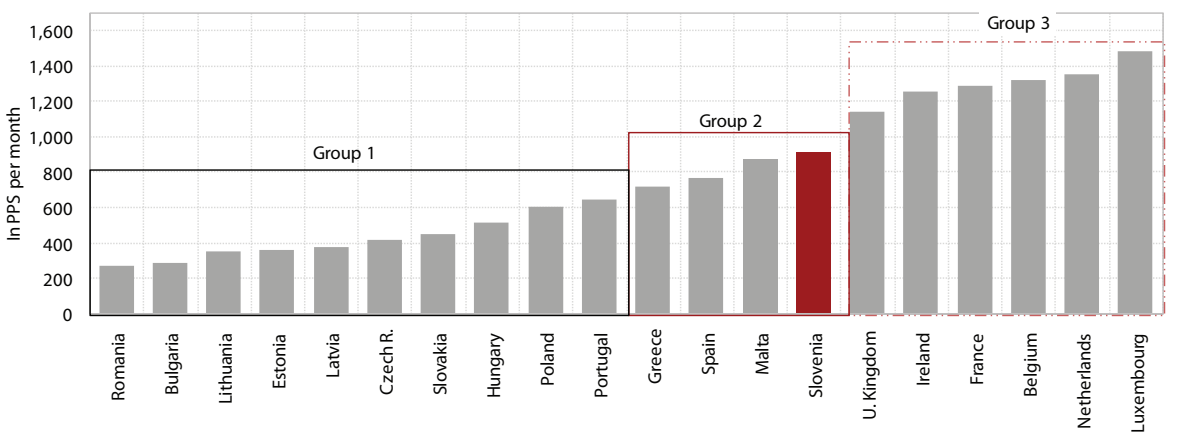
Sources: SURS, SCA 2002 until 2008, SCA 2008 from 2009 onwards, AJPES.

*Figure 1*: **Ratio of minimum gross wage to average gross wage, 2011**




Sources: Eurostat, for Slovenia SURS, AJPES. Note: For Belgium, France, the Netherlands data for 2010.
Data for other EU-27 countries not available.

*Figure 2*: **Minimum gross wage, July 2012, PPS**




Source: Eurostat.
Note: Formulation of groups as defined by Eurostat.

# 4.12 Risk of poverty

***The income inequality indicators for 2011 show a further increase in the proportion of the Slovenian population that is exposed to poverty risk.*** In 2011 around 273,000 people in Slovenia lived below the at-risk-of-poverty threshold (around 19,000 more than in 2010). In one year the at-risk-of-poverty rate (after social transfers) thus increased by 0.9 percentage points to 13.6%.[1] The at-risk-of-poverty threshold rose slightly (to EUR 600 for a single household, up EUR 13 on the previous year, and to EUR 1,260 for a family of four,[2] up EUR 28 on the previous year), while the depth of poverty declined by 0.3 percentage points.[3] The calculations are based on household income in 2010, when wage growth was relatively high due to a slight recovery of the economy and a substantial increase in the minimum wage, because of which the at-risk-of-poverty threshold was raised. At the same time, owing to a significant fall in employment, the income of some households declined and the number of recipients of social transfers increased.

***The impact of social transfers on the risk of poverty declined in 2011 but was nevertheless larger than in the EU overall.*** Social transfers lowered the poverty risk by 10.6 percentage points in 2011, compared with 11.5 percentage points in 2010. Nevertheless, social transfers in Slovenia were still more effective in reducing the at-risk-of-poverty rate after transfers (by 10.6 percentage points, from 24.2% to 13.6%) than in the EU overall (9.2 percentage points, from 26.1% to 16.9%). The at-risk-of-poverty rate before social transfers, having declined steadily since 2005, rose in 2010 for the first time in a long period, to 24.2%, and stayed at that level in 2011. Among the systemic reasons, the smaller reduction in poverty could partly be attributed to the 50% indexation of social transfers in 2010,[4] which was another reason why growth in transfers was significantly lower than growth in wages.

***Despite the increased risk, Slovenia still belongs in the group of countries with low at-risk-of-poverty rates.*** The at-risk-of-poverty rate in Slovenia was the sixth lowest in the EU in 2011, but it is rising faster than the EU average. Between 2009 and 2011 the at-risk-of-poverty rate rose by 2.3 percentage points in Slovenia and by 0.6 percentage points in the EU overall. Slovenia is thus among seven countries with the largest increases in the at-risk-of-poverty rates in three years, although it is still similar to some more developed Scandinavian countries and the Czech Republic, Slovakia, Austria and Luxembourg on this indicator. Nevertheless, given the different at-risk-of-poverty thresholds expressed in the purchasing power standard (PPS) in EU countries with similar poverty rates, Slovenia differs considerably from these countries in the material deprivation rate (see indicator 4.13). In terms of the at-risk-of-poverty threshold in PPS terms, Slovenia ranks approximately in the middle of the EU (12$^{th}$).

***In the last two years the at-risk-of-poverty rate increased for nearly all socio-economic groups.*** The population groups that are most exposed to poverty risk are similar to those in the EU, but some trends are different. In Slovenia the at-risk-of-poverty rates for children and various types of households with children rose significantly, while in the EU as a whole the at-risk-of-poverty rates for families with several children declined. Among all socio-economic groups, the at-risk-of-poverty rate for a family of two adults and three or more children increased the most in Slovenia in 2011 (by 4.6 percentage points). The at-risk-of-poverty rate among the under-18s is still substantially below the EU average, but the pace of the deterioration is worrisome, as Slovenia is among the four countries with the largest increases in this rate in recent years. The at-risk-of-poverty rates for older people in Slovenia are higher than in the EU overall. Moreover, they are rising, while the corresponding rates in the EU as a whole are declining or remaining unchanged.

[1] For more detailed data for Slovenia see SEM, July–August 2012, pp 29–32.

[2] The at-risk-of-poverty threshold is calculated for a household of two adults and two children younger than 14.

[3] The relative at-risk-of-poverty gap shows the difference between disposable income and the at-risk-of-poverty threshold. In 2011 the average income of people below the at-risk-of-poverty threshold totalled EUR 480.6, and was 19.9% below the at-risk-of-poverty threshold.

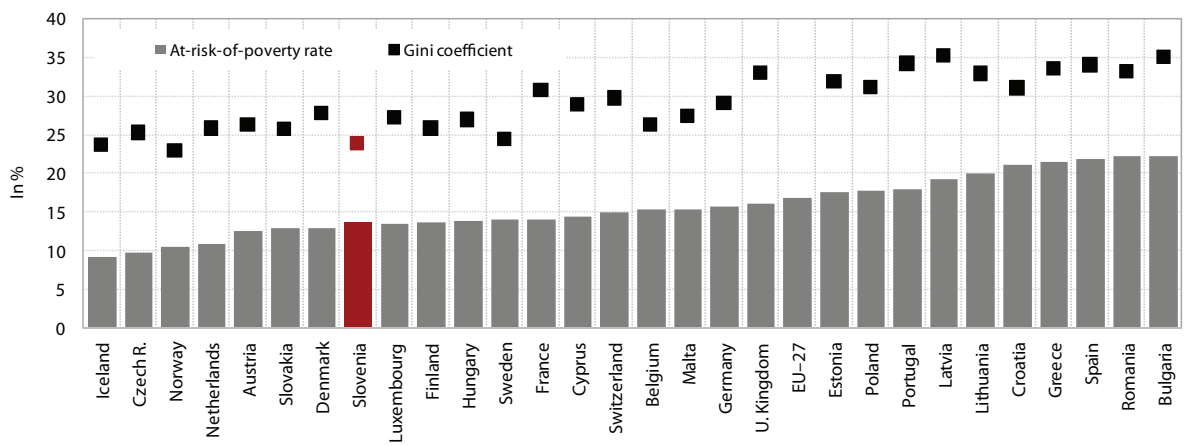
[4] Between 1 January 2010 and 31 December 2010 the Intervention Measures for the Economic Crisis Act (ZIUZGK, OG RS, No. 98/09) was in force, under which the adjustment percentage for transfers to individuals and households was cut by half.

*Table*: **Selected indicators of poverty and income inequality, Slovenia and EU* (excluding income in kind), 2005–2011**

| | | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|
| **At-risk-of-poverty rate, %:** | | | | | | | | |
| after social transfers | **SLO** | **12.2** | **11.6** | **11.5** | **12.3** | **11.3** | **12.7** | **13.6** |
| | EU | 16.4 | 16.5 | 16.5 | 16.4 | 16.3 | 16.4 | 16.9 |
| before social transfers* | **SLO** | **25.9** | **24.2** | **23.1** | **23.0** | **22.0** | **24.2** | **24.2** |
| | EU | 25.9 | 26.1 | 25.8 | 25.2 | 25.1 | 25.9 | 26.1 |
| women | **SLO** | **13.7** | **12.9** | **12.9** | **13.6** | **12.8** | **14.1** | **15.0** |
| | EU | 17.0 | 17.2 | 17.3 | 17.4 | 17.1 | 17.0 | 17.6 |
| men | **SLO** | **10.6** | **10.3** | **10.0** | **11.0** | **9.8** | **11.3** | **12.2** |
| | EU | 15.6 | 15.7 | 15.7 | 15.5 | 15.4 | 15.6 | 16.1 |
| children (under 18) | **SLO** | **12.1** | **11.5** | **11.3** | **11.6** | **11.2** | **12.6** | **14.7** |
| | EU | 19.9 | 19.8 | 19.5 | 20.1 | 19.8 | 20.5 | 20.6 |
| young people (aged 18–24) | **SLO** | **10.0** | **8.9** | **9.1** | **9.7** | **7.7** | **10.0** | **10.3** |
| | EU | 19.5 | 20.0 | 20.6 | 19.9 | 20.1 | 21.1 | 21.7 |
| 65 and over*** | **SLO** | **20.3** | **19.9** | **19.4** | **21.3** | **20.0** | **20.2** | **20.9** |
| | EU | 18.9 | 19.0 | 18.4 | 19.0 | 18.0 | 16.0 | 16.0 |
| tenants | **SLO** | **25.9** | **21.9** | **25.7** | **25.2** | **22.0** | **27.6** | **29.8** |
| | EU | 22.7 | 22.7 | 24.8 | 25.5 | 25.4 | 25.7 | 26.4 |
| single person | **SLO** | **44.0** | **42.4** | **39.2** | **41.9** | **43.4** | **38.5** | **40.0** |
| | EU | 23.8 | 23.9 | 25.2 | 26.1 | 25.8 | 25.1 | 25.7 |
| single-parent family** | **SLO** | **22.0** | **22.3** | **28.6** | **28.8** | **28.1** | **31.4** | **30.8** |
| | EU | 31.4 | 32.6 | 33.1 | 35.4 | 33.8 | 36.6 | 34.6 |
| couples with three or more dependent children (large family) | **SLO** | **16.6** | **15.2** | **15.2** | **11.3** | **15.7** | **13.6** | **18.2** |
| | | 25.9 | 25.9 | 25.6 | 25.8 | 25.7 | 25.8 | 24.8 |
| **Income inequality indicators:** | | | | | | | | |
| Quintile share ratio 80/20 | **SLO** | **3.4** | **3.4** | **3.3** | **3.4** | **3.2** | **3.4** | **3.5** |
| | EU | 5.0 | 4.9 | 5.0 | 5.0 | 4.9 | 5.0 | 5.1 |
| Gini coefficient | **SLO** | **23.8** | **23.7** | **23.2** | **23.4** | **22.7** | **23.8** | **23.8** |
| | | 30.6 | 30.2 | 30.6 | 30.8 | 30.4 | 30.5 | N/A |

Source: Eurostat Portal Page, 2012.
Notes: * (25 countries) weighted average; ** pensions included as income from work, *** in terms of statistics, this indicates a single-parent houshold with at least one dependent child; N/A – not available.

*Figure*: **At-risk-of-poverty rate and Gini coefficient, %, 2011**




Source: Eurostat Portal Page, 2012.

# 4.13 Material deprivation

***The material deprivation rate, which measures deprivation in at least three items[1] of consumer durables, or the economic strain on households, increased significantly in Slovenia in 2011.*** At 17.2% (2010: 15.8%), it was the highest figure in the last seven years. The proportion of households that feel deprived in seven, six, five or four items at the same time rose, while the proportions of those that do not feel deprived in any of the material deprivation items and those deprived in only one item declined. The severe material deprivation rate, i.e. the proportion of those who feel deprived in four or more items at the same time, stood at 6.1% in 2011, up 0.2 percentage points on 2010. The increase of 1.4 percentage points in the material deprivation rate relative to 2010 can largely be attributed to a higher material deprivation rate in the population above the at-risk-of-poverty threshold (up 1.3 percentage points), of whom there are many more (86.4% of the total) than those below the threshold (13.6%; see indicator 4.12), whose material deprivation rate was only slightly higher than in 2010. Both groups have higher rates than at the beginning of the implementation of SDS, but the material standing of people below the at-risk-of-poverty threshold deteriorated more.

***Material deprivation in Slovenia was below the EU average in 2011, and has been during the whole period since 2005.*** The material deprivation rate in the EU overall stood at 18.2%, but there are wide variations from country to country.[2] Slovenia was among the 14 EU countries where the material deprivation rate rose in 2011 (the largest rise was in Italy, at 6.3 percentage points) The intensity[3] of material deprivation is also lower in Slovenia than in the EU overall. Slovenian households feel deprived in 3.5 items on average, compared with 3.8 items in the EU overall, while the lowest intensity of deprivation (3.3 items) is recorded by Luxembourg and Sweden. The severe material deprivation rate is also lower in Slovenia than in the EU overall, but the proportion of the population that is not materially deprived is below average.

***The proportion of materially deprived people varies for each item used in calculating the material deprivation rate***. In Slovenia, most of the materially deprived people are regarded as such because they are unable to face unexpected expenses, afford a one-week annual holiday, or are in arrears on housing expenses. In 2011 a telephone, a washing machine and a colour TV were accessible practically to all, and 95% of respondents owned a computer and a car, and could keep their home adequately warm. There are no major changes relative to 2008; the deprivation rates are mostly lower. The results for the ability to afford a meal with meat (or a vegetarian equivalent) once a week are slightly worse. Households also have greater difficulties because of the lack of means to make regular payments of housing expenses, and almost a third of households cannot go on a one-week holiday away from home. Even more households cannot face unexpected expenses. The proportion of people deprived of all these items is much larger among the population below the at-risk-of-poverty threshold than among those above this threshold. The figures for the proportion of people that manage to make ends meet with great difficulty reveal a smaller deterioration. This figure in the total population did not rise in 2011, but was up 1 percentage point on 2008. This indicator also shows a much larger deterioration among people below the at-risk-of-poverty threshold, 28% of whom can barely make it through the month. However, the proportion of people who manage to live on their income with difficulty (with great difficulty, with difficulty, with some difficulty combined) was 88.5% of those below the at-risk-of-poverty threshold (EU: 78.6%) and 67.3% above it (EU: 49.5%). The latter figure is a cause for concern, having risen by 2.1 percentage points in 2011, reaching the highest figure in the last four years.

[1] Out of nine material deprivation items, which are: 1. the ability to face unexpected expenses, 2. a one-week annual holiday away from home, 3. a meal with meat, chicken or fish (or a vegetarian equivalent) at least every second day, 4. to pay for arrears (mortgage or rent, utility bills or hire purchase instalments), 5. to keep their home adequately warm, 6. to have a washing machine, 7. to have a colour TV, 8. to have a telephone/mobile, 9. to have a personal car.

[2] The figures in EU countries range from 60% (in Bulgaria, where households feel deprived in items 4 and 5 on average) to less than 5% (Sweden and Luxembourg).

[3] Defined as the average number of items that deprived households are deprived in.

*Table 1*: **(Severe) material deprivation with regard to the at-risk-of-poverty threshold, 2005–2011**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|
| **Material deprivation (deprivation in three or more items out of nine)** | | | | | | | |
| TOTAL | 14.7 | 14.4 | 14.3 | 16.9 | 16.2 | 15.8 | 17.2 |
| Above the at-risk-of-poverty threshold | 11.3 | 11.2 | 10.8 | 13.3 | 13 | 12 | 13.3 |
| Below the at-risk-of-poverty threshold | 38.9 | 38.7 | 41.4 | 42.7 | 40.9 | 41.9 | 42.1 |
| **Severe material deprivation (deprivation in four or more items out of nine)** | | | | | | | |
| TOTAL | 5.1 | 5.1 | 5.1 | 6.7 | 6.1 | 5.9 | 6.1 |
| Above the at-risk-of-poverty threshold | 3.4 | 3.4 | 3.3 | 4.5 | 4.3 | 3.8 | 4 |
| Below the at-risk-of-poverty threshold | 17.5 | 18 | 19.1 | 21.8 | 20.3 | 20.5 | 19.6 |

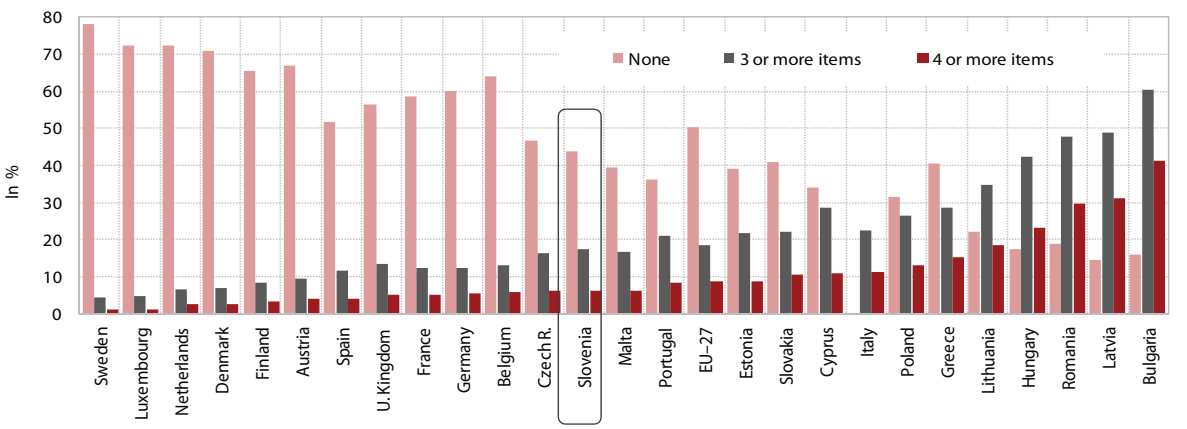
Source: SURS. Note: Income excludes income in kind.

*Table 2*: **Material deprivation by item, Slovenia and EU average, 2008–2011, %**

| | | Total | | | | Below the at-risk-of-poverty threshold | | | | Above the at-risk-of-poverty threshold | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2008 | 2009 | 2010 | 2011 | 2008 | 2009 | 2010 | 2011 | 2008 | 2009 | 2010 | 2011 |
| Telephone | **SLO** | **0** | **0** | **0** | **0** | **1** | **1** | **1** | **1** | **0** | **0** | **0** | **0** |
| | EU | 1 | 1 | 1 | 1 | 4 | 4 | 3 | 3 | 1 | 1 | 0 | 0 |
| Colour TV | **SLO** | **1** | **1** | **0** | **0** | **3** | **3** | **2** | **2** | **0** | **0** | **0** | **0** |
| | EU | 1 | 0 | 0 | 0 | 2 | 2 | 1 | 1 | 0 | 0 | 0 | 0 |
| Computer | **SLO** | **5** | **5** | **5** | **4** | **15** | **13** | **14** | **13** | **3** | **4** | **3** | **3** |
| | EU | 8 | 7 | 6 | 6 | 19 | 16 | 15 | 15 | 6 | 5 | 4 | 4 |
| Washing machine | **SLO** | **0** | **0** | **0** | **0** | **2** | **1** | **2** | **2** | **0** | **0** | **0** | **0** |
| | EU | 2 | 2 | 1 | 1 | 6 | 6 | 5 | 5 | 1 | 1 | 1 | 1 |
| Car | **SLO** | **3** | **3** | **3** | **4** | **14** | **15** | **14** | **15** | **2** | **2** | **2** | **2** |
| | EU | 9 | 8 | 8 | 8 | 20 | 20 | 20 | 21 | 7 | 6 | 6 | 6 |
| Warm home | **SLO** | **6** | **5** | **5** | **5** | **14** | **12** | **13** | **12** | **4** | **4** | **4** | **4** |
| | EU | 10 | 9 | 9 | 10 | 20 | 20 | 20 | 22 | 8 | 7 | 7 | 7 |
| Holidays | **SLO** | **30** | **30** | **31** | **32** | **63** | **62** | **66** | **63** | **26** | **26** | **27** | **27** |
| | EU | 37 | 37 | 37 | 38 | 66 | 68 | 68 | 68 | 31 | 31 | 31 | 32 |
| Meat | **SLO** | **12** | **11** | **9** | **10** | **26** | **28** | **20** | **23** | **10** | **8** | **7** | **9** |
| | EU | **9** | **9** | **9** | **10** | **22** | **22** | **22** | **24** | **7** | **6** | **6** | **7** |
| Unexpected expenses | **SLO** | **45** | **41** | **45** | **47** | **72** | **68** | **75** | **76** | **41** | **37** | **41** | **42** |
| | EU | 34 | 35 | 36 | 38 | 63 | 65 | 67 | 68 | 28 | 29 | 30 | 31 |
| Housing costs* | **SLO** | **16** | **18** | **20** | **19** | **29** | **30** | **36** | **35** | **14** | **17** | **17** | **16** |
| | EU | 10 | 12 | 12 | 11 | 21 | 24 | 25 | 25 | 8 | 9 | 9 | 9 |
| Households making ends meet with great difficulty** | **SLO** | **8** | **7** | **9** | **9** | **24** | **21** | **27** | **28** | **6** | **5** | **6** | **6** |
| | | 10 | 10 | 10 | 10 | 23 | 25 | 26 | 26 | 7 | 7 | 7 | 7 |

Source: Eurostat Portal Page, 2012.
Notes: * To make mortgage, rent, utility bill and hire purchase payments; ** Households making ends meet with great difficulty.

*Figure*: **Incidence of (severe) material deprivation and non-deprivation, EU**




Source: Eurostat Portal Page, 2012.

# 4.14 Health care resources

***Although the number of physicians has been growing more strongly in recent years, Slovenia's gap with the EU remains significant.*** According to the OECD's calculation, the number of physicians grew by an average of 1.2% annually in Slovenia in 2000–2010, and by 1.4% in the EU (1.7% in OECD countries). This means that the wide gaps with the OECD and the EU average increased in this period. In recent years the number of practising physicians has risen. It totalled 5,121 in 2011, according to the data of the Institute of Public Health, up 2.9% on 2010. The number of practising physicians per 100,000 population has also improved, reaching 249.5 (2010: 243.0; EU: 333.5). After Slovenia took certain measures[1] to strengthen primary health care, in recent years the number of general practitioners has increased more than in the past, in 2010 and 2011 by 2.7% and 3.9% respectively, and reached 1,085, or 52.9 general practitioners per 100,000 population in 2011. The gap with the EU average is nevertheless significant (2010: 82.0). The workload of general practitioners has been rising because of an increasing number of chronic patients, demographic changes and higher patient expectations. Adequate coverage by general practitioners would make it possible for certain services to be transferred from the secondary to the primary level in order to reduce costs, while better access to a general practitioner could prevent emergency admissions and reduce the cases of costlier treatment in specialised health care. One indicator showing the capacity of the primary level to assume a greater workload is the ratio of general practitioners to specialists. On this indicator too Slovenia is behind the EU average: the ratio of general practitioners to the total number of physicians stands at 21%, compared with 30% overall in the EU. Most countries are taking measures to address the shortage of general practitioners and entice medical graduates to become general practitioners (changes in financing, non-financial incentives); at the same time, more and more responsibilities at the primary level are being taken on by registered nurses.

***The number of registered nurses is rapidly rising.*** In 2011 there were 824 nurses[2] and medical technicians per 100,000 population in Slovenia, which is still slightly lower than the EU average (834.3 in 2010), while the number of nurses per physician (3.4 in 2010) is significantly above the OECD average (2.5). Owing to a number of new university colleges of nursing, the number of registered nurses in particular has been growing very rapidly in recent years. A total of 479 nurses graduated in 2011, 16% more than in 2010. Judging by the number of enrolled students, the inflow of graduates will continue to increase strongly in the coming years, according to the forecast by the Institute of Public Health (an additional 50 per year in 2013). The large inflow of nurses to the labour market will have to be regulated by additional systemic measures in both health care (a further transfer of certain duties from doctors to registered nurses) and long-term care (faster development of health care and care at home). Given the restrictions on hiring in the public sector, registered nurses may otherwise have difficulty finding a job.

***In most countries the decline in the number of acute care hospital beds has accelerated during the crisis, but this is not the case in Slovenia.*** Over the previous decade (2000–2010), the total number of hospital beds (beds for acute, non-acute, psychiatric and long-term hospital treatments) per 100,000 population declined by an average of 1.7% per year in Slovenia, and 1.9% in the EU overall. There has been a particular decline in the number of acute care beds, which is related to new technologies and medications that are shortening the average length of inpatient stays, and to the transfer of certain hospital treatments to day hospitals or specialist outpatient clinics. In a number of countries the decline in the number of acute care hospital beds accelerated in 2010 because of the economic crisis and austerity measures in public health care, while in Slovenia the number of acute care beds declined only slightly in 2010 and actually increased in 2011, which can be mainly explained by the absence of systemic measures in the provision of health care services. The total number of hospital beds in Slovenia is otherwise below the EU average, mainly because it does not include beds for long-term care of patients in residential homes for the elderly. The number of acute care hospital beds is roughly the same as in the EU overall (3.69 per 1000 population in 2011).

[1] In 2010 and 2011 Slovenia took certain measures to strengthen primary health care: (i) introduction of new teaching outpatient clinics where physicians specialising in general practice can register their patients; (ii) introduction of reference outpatient clinics where registered nurses assume greater responsibilities; and (iii) additional funding for the primary level of health care (Ministry of Health, 2012).

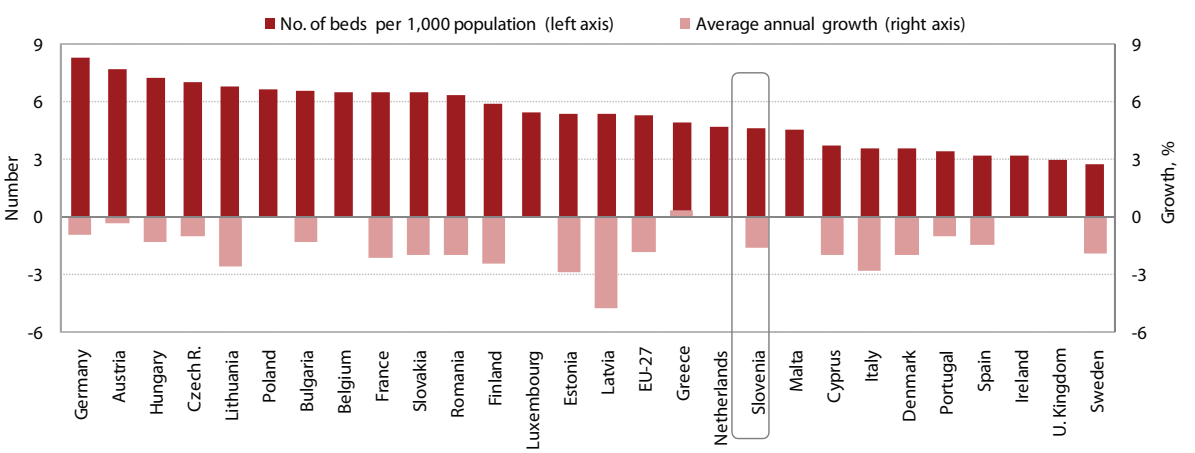
[2] According to the data of the Institute of Public Health, 17,061 nurses and medical technicians were employed in Slovenia at the end of 2011.

*Table*: **Human resources in the health care system in Slovenia[1] and EU countries, 2000 and 2010**

| | Practising physicians per 100,000 population | | | General practitioners per 100,000 population | | Practising dentists per 100,000 population | Practising nurses per 100,000 population | | Ratio of nurses to physicians |
|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 2009 | 2010 | 2000 | 2010 | 2010 | 2000 | 2010[6] | 2010 |
| **EU-27[1]** | **282.7** | **328.6** | **333.5** | **82.1** | **82.0** | **66.0** | **744.0** | **834.3** | **2.5** |
| Austria | 385.3 | 467.7 | 478.0 | 136.5 | 157.6 | 55.8 | 729.4 | 783.1 | 1.6 |
| Belgium[4] | 282.9 | 292.5 | 292.0 | 119.6 | 112.2 | 70.4 | 583.8 | 659.5 | 3.1 |
| Bulgaria | 336.9 | 368.5 | 371.1 | N/A | 66.5 | 84.8 | 435.9 | 465.0 | 1.1 |
| Cyprus | 259.4 | 287.0 | 301.7 | 41.5 | N/A | 96.0 | 422.5 | 466.9 | 1.6 |
| Czech Republic | 336.9 | 356.2 | 358.0 | 72.7 | 70.0 | 69.0 | 805.3 | 848.2 | 2.3 |
| Denmark[5] | 291.1 | 348.2 | 350 | 64.7 | 73.3 | 77.8 | 1.260.8 | 1.572.3 | 4.4 |
| Estonia[4] | 326.4 | 326.7 | 323.5 | 95.2 | 83.3 | 89.8 | 632.3 | 640.7 | 1.9 |
| Finland[3,5] | 249.9 | 290.0 | 330.0 | N/A | 112.7 | 74.4 | 954.6 | 997.0 | 4.3 |
| France[3] | 329.4 | 325.6 | 330.0 | 161.6 | 159.2 | 68.7 | 688.6 | 798.9 | 2.6 |
| Greece[3] | 432.8 | 610.6 | 610.0 | N/A | 30.0 | 129.1 | 309 | 364 | 0.5 |
| Ireland[3] | 220.2 | 406.6 | 406.6 | 47.7 | 278.8 | 61 | 1400.5 | 1.274.10 | 4.2 |
| Italy[4] | 606.9 | 608.9 | 608.9 | 82.8 | 94.3 | 56.3 | N/A | 658.5 | 1.0 |
| Latvia | 287.4 | 299.5 | 291.1 | 40.7 | 58.6 | 66.5 | 477.2 | 487.8 | 1.6 |
| Lithuania | 362.7 | 365.1 | 372.0 | 52.2 | 69.7 | 74.7 | 802.4 | 721.7 | 1.9 |
| Luxembourg | 215.0 | 271.0 | 277.3 | 63.6 | 81.7 | 82.5 | 760.3 | 1.141.3 | 4.0 |
| Hungary | 268.2 | 302.1 | 286.9 | N/A | 33.5 | 52.6 | 548.3 | 639.1 | 2.2 |
| Malta[3,4] | 261.6 | 373.2 | 373.2 | N/A | 159.9 | 44.2 | N/A | 682.2 | 2.1 |
| Germany | 325.9 | 363.6 | 373.1 | 148.4 | 156.6 | 79.5 | 978.0 | 1.150.7 | 3.0 |
| Netherlands[4, 5] | 301.4 | 366.6 | 366.6 | 116.4 | 125.9 | 49.8 | N/A | 855.4 | 4.0 |
| Poland | 221.1 | 217.1 | 217.9 | 7.7 | 45.8 | 32.9 | 550.3 | 585.0 | 2.4 |
| Portugal4 | 316.8 | 376.9 | 376.9 | 153.7 | 199.0 | N/A | 353.2 | 587.2 | 1.5 |
| Romania | 192.7 | 225.7 | 236.9 | N/A | 84.9 | 60.4 | 529.8 | 541.8 | 2.2 |
| Slovakia[3,5] | 323.3 | N/A | N/A | N/A | N/A | 50.0 | 750.7 | 631.6 | 1.8 |
| **Slovenia[2]** | **215.1** | **241.0** | **243.0** | **45.7** | **51.0** | **61.5** | **685** | **823.5** | **3.4** |
| Spain | 330.1 | 354.2 | 377.9 | N/A | 75.1 | 60.4 | 658.2 | 504.4 | 1.3 |
| Sweden[5] | 308.6 | 380.2 | N/A | 52.9 | 63.2 | 80.2 | 1031 | 1155 | 2.9 |
| United Kingdom | 195.8 | 266.8 | 271.2 | 64.4 | 80.2 | 51.7 | 916 | 1.012.5 | 3.5 |

Sources: Eurostat; OECD Health Data 2012; WHO HFA-DB.
Notes: [1] The source for the EU-27 average for physicians, general practitioners, dentists and nurses is WHO HFA-DB (the methodologies of data reporting for these categories were standardised with Eurostat and the OECD). [2] Slovenia: the indicators in the text are for 2011; the data in the table is for 2010, as this is the latest available data for EU countries. [3]FR, GR, NL, IR, FI, SK: all professionally active physicians and dentists (including those working in management, research, teaching positions, etc.); [4]BE, IT, PT, MT, IE: all licensed physicians and dentists; [5]DK, NL, SE, FI: 2009; SK: physicians and dentists, 2008; [6] DK, FI, GR: 2009, NL: 2008; N/A – not available

*Figure*: **Number of hospital beds per 1,000 population and average annual change in 2000–2010**




Source: Health at a glance: Europe 2012 (OECD, 2012).

# 4. 15 Capacities of the education system

***The number of children in preschool and elementary education increased in 2011/12 mainly for demographic reasons, while enrolment in upper secondary and tertiary education declined.*** The number of children in preschool education has been increasing for several years (by 2.3% in 2012/13) due to capacity expansion and financial accessibility. The number of pupils in elementary schools rose slightly in 2011/12 (by 0.2%) after several years of decline. By contrast, the number of pupils enrolled in upper secondary education declined in 2011/12 (by 2.9%), continuing its downward trend in recent years. Enrolment in tertiary education also fell, for the second consecutive year (by 2.9% in 2011/12).

***The ratio of children to teaching staff (i.e. teachers and teachers' aides) in preschool education is much more favourable than in the EU.*** In 2012/13 it was 6.2 in the first age group (children aged 1-2) and 9.4 in the second age group (children aged 3-5), compared with an EU average ratio of 15.1 in 2010. With standards and norms unchanged, in 2012/13 the average number of children per class remained at roughly the same level as a year earlier, averaging 12.4 in the first age group (in 2011/12: 12.5) and 20.3 in the second (in 2011/12: 20.4). During the implementation of SDS the ratio of children to teaching staff has deteriorated slightly in the first age group (by 0.4), while the ratio in the second age group has remained practically unchanged. The average number of children per class has also increased somewhat (in the first age group by 0.4 and in the second by 0.7), which is related to the lack of available places in preschool education.

***The average class size (i.e. the number of pupils per class) at the elementary school level is favourable.*** The average class size at Isced level 1, which covers the first six grades of elementary school in Slovenia (see the note under the table), was 18.4, while at Isced level 2, which comprises grades 7–9, it was 19.6. At both levels the number of pupils per class was similar to that in the preceding year and more favourable than in other EU countries.[1] The norm for establishing a class at elementary school level in Slovenia is 28 children, which is also the most common upper limit for class sizes in the EU, while some countries in the EU also have regulations on the minimum number of pupils per class. The average class size in Slovenia is low, owing to subsidiary elementary schools, combined-grade classes and certain other arrangements where the requirements are lower. During the implementation of SDS the average class size at Isced level 1 has risen slightly, while the average class size at Isced level 2 has declined. The student/teacher ratio at Isced level 1 is worse than in the EU overall, but improved in 2010. At Isced level 2 this ratio has remained unchanged, and is more favourable than in the EU overall.

***The ration of pupils to teaching staff in upper secondary schools was less favourable.*** In 2010 it totalled 14.3 and was, as in other years of the 2005–2010 period, higher than on average in the EU. The upper limit on the class size in gymnasiums (30) is among the highest in the EU.[2] In the 2011/12 school year the average number of pupils per class in gymnasiums was 29.9, and was highest in matura courses and lowest in short term vocational upper secondary schools. In 2005–2010 the average class size declined across all programmes, except in short-term upper secondary vocational education and vocational training courses.

***The ratio of students to teaching staff in tertiary education is improving, but remains high by international standards.*** In 2011/12 it stood at 18.2, down 1.0 on the previous year. As a result of a sharp increase in the number of teachers, the student/teacher ratio declined by 4.5 percentage points between 2005 and 2011, but Slovenia was still significantly behind the average of the 21 European countries that are OECD members (15.8) and behind the OECD average (15.5) in terms of this ratio. However, the ratio of students to teaching staff in tertiary education in Slovenia is also high because students enrol in tertiary education for the benefits associated with student status.

[1] Across the EU the average class size at Isced level 1 ranges from 15.3 in Lithuania to 24.4 in the United Kingdom; at Isced level 2 it ranges from 16.8 in Latvia to 24.7 in Germany.

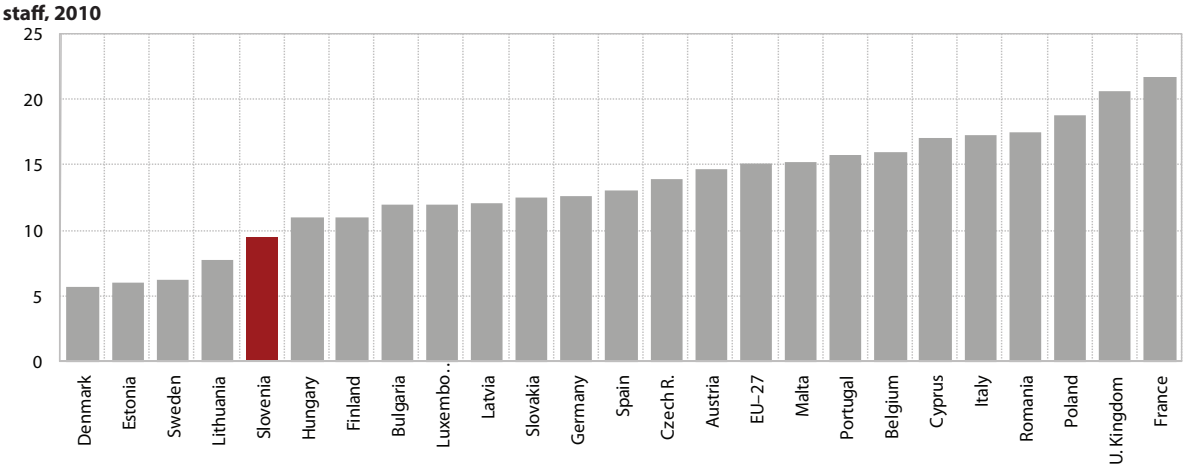
[2] It is highest in Spain and Hungary (35) and lowest in Germany (19).

*Table*: **Ratio of students to teaching staff, 2005-2010**

| | Isced 1 | | | Isced 2 | | | Isced 3 | | | Isced 5,6 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2009 | 2010 | 2005 | 2009 | 2010 | 2005 | 2009 | 2010 | 2005 | 2009 | 2010 |
| **EU*** | **14.8** | **12.5** | **12.5** | **13.7** | **11.6** | **11.8** | **13.5** | **11.2** | **11.5** | **16.4** | **15.5** | **15.8** |
| OECD | 16.7 | 16.0 | 15.8 | 13.7 | 13.5 | 13.7 | 13.0 | 13.5 | 13.8 | 15.8 | 14.9 | 15.5 |
| Austria | 14.1 | 12.6 | 12.2 | 10.6 | 9.6 | 9.3 | 11.3 | 10.2 | 10.1 | 15.3 | 15.6 | 17.1 |
| Belgium | 12.8 | 12.5 | 12.4 | 9.4 | 8.1 | 8.1 | 9.9 | 10.2 | 10.1 | 19.6 | 19.5 | 19.3 |
| Bulgaria | 16.3 | 17.4 | 17.6 | 12.6 | 12.5 | 12.7 | 11.9 | 12.0 | 11.9 | N/A | N/A | N/A |
| Cyprus | 17.9 | 14.5 | 14.0 | 11.9 | 10.2 | 10.0 | 11.5 | 10.2 | 10.1 | N/A | N/A | N/A |
| Czech Republic | 17.5 | 18.4 | 18.7 | 13.5 | 11.5 | 11.2 | 12.8 | 12.2 | 14.0 | 19.0 | 19.6 | 20.0 |
| Denmark | 11.9 | 9.9 | 11.5 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Estonia | N/A | 16.2 | 16.2 | N/A | 15.7 | 14.9 | N/A | 16.8 | 16.6 | 14.9 | N/A | N/A |
| Finland | 15.9 | 13.6 | 14.0 | 10.0 | 10.1 | 9.8 | 18.0 | 16.6 | 17.1 | 12.5 | 14.9 | 14.4 |
| France | 19.4 | 19.7 | 18.7 | 14.2 | 14.9 | 15.0 | 10.3 | 9.6 | 9.7 | 17.3 | 15.7 | 15.8 |
| Greece | 11.1 | N/A | N/A | 7.9 | N/A | N/A | 8.8 | N/A | N/A | 30.2 | N/A | N/A |
| Ireland | 17.9 | 15.9 | 15.9 | N/A | N/A | N/A | 15.6 | 12.6 | 14.4 | 17.4 | 14.3 | 15.6 |
| Italy | 10.5 | 10.7 | 11.3 | 10.5 | 10.0 | 11.9 | 12.0 | 11.8 | 12.1 | 21.4 | 18.3 | 18.7 |
| Latvia | 12.2 | 11.4 | 11.9 | 11.2 | 8.7 | 9.3 | 12.1 | 11.5 | 12.1 | N/A | N/A | N/A |
| Lithuania | 11.3 | 9.7 | 9.9 | 8.8 | 7.6 | 7.8 | N/A | N/A | N/A | N/A | N/A | N/A |
| Luxembourg | N/A | 11.6 | 10.1 | N/A | 18.4 | 24.3 | 9.0 | 9.2 | 7.6 | N/A | N/A | N/A |
| Hungary | 10.6 | 10.7 | 10.8 | 10.4 | 10.8 | 10.7 | 12.2 | 12.8 | 12.5 | 15.9 | 16.3 | 13.9 |
| Malta | 12.1 | 9.4 | 14.4 | 8.4 | 6.5 | 8.1 | 17.4 | 15.8 | 12.1 | N/A | N/A | N/A |
| Germany | 18.8 | 17.4 | 16.7 | 15.5 | 15.1 | 14.9 | 14.0 | 13.9 | 13.2 | 12.2 | 11.9 | 11.6 |
| Netherlands | 15.9 | 15.8 | 15.7 | N/A | N/A | N/A | 16.2 | 16.1 | 16.5 | N/A | 14.4 | 14.7 |
| Poland | 11.7 | 10.2 | 10.0 | 12.7 | 12.9 | 12.7 | 12.9 | 12.0 | 12.1 | 18.2 | 16.1 | 16.0 |
| Portugal | 10.8 | 11.3 | 10.9 | 8.2 | 7.6 | 7.9 | N/A | 7.7 | 7.2 | 13.2 | 14.1 | 14.4 |
| Romania | 17.4 | 16.4 | 16.7 | 12.4 | 12.2 | 12.2 | 16.0 | 14.4 | 14.9 | N/A | N/A | N/A |
| Slovakia | 18.9 | 17.7 | 17.1 | 14.1 | 14.0 | 13.6 | 14.3 | 15.1 | 14.6 | 11.7 | 15.6 | 14.9 |
| **Slovenia** | **15.0** | **16.7** | **16.2** | **11.1** | **7.9** | **8.0** | **14.5** | **14.3** | **14.3** | **22.7** | **20.3** | **20.3** |
| Spain | 14.3 | 13.3 | 13.2 | 12.5 | 10.1 | 10.1 | 8.1 | 9.3 | 9.6 | 10.6 | 10.9 | 11.2 |
| Sweden | 12.2 | 12.1 | 11.7 | 12.0 | 11.3 | 11.4 | 14.0 | 13.2 | 13.1 | 8.9 | 8.8 | 12.5 |
| United Kingdom | 20.7 | 19.9 | 19.8 | 17.0 | 16.1 | 17.1 | N/A | 12.3 | 15.2 | 18.2 | 16.5 | 18.5 |

Source: Eurostat Portal Page – Population and Social conditions, 2013.
Notes: According to the International Standard Classification of Education ISCED 1997, Isced 1 comprises primary education or the first stage of basic education, Isced 2 lower secondary or the second stage of basic education, Isced 3 upper secondary education, Isced 5,6 tertiary education; N/A – data not available. * For tertiary education, data for 2005 is available for the EU-19 (EU countries that were OECD members that year), while data for 2009 and 2010 is available for the EU-21 (EU countries that are OECD members).

*Figure*: **Ratio of the number of children enrolled in organised forms of early childhood education to the number of teaching staff, 2010**




Source: Eurostat Portal Page – Population and Social conditions, 2013.

# 4. 16 Life satisfaction

***In May 2012 life satisfaction[1] in Slovenia was similar (85% of people were satisfied[2]) to that a year earlier.*** Altogether 83% of respondents were satisfied with their lives in 2011 (2010: 85%). Similarly to 2011, Slovenia was ranked just below Austria, France, Ireland and Germany, and remains in the upper half of the EU in terms of this indicator (its ranking has varied only slightly over the years; in 2010 Slovenia was in 10th place among EU countries, while in 2011 it was 12th and in 2012 11th). As in all recent years, Slovenia still has the largest proportion of satisfied people among all new EU members, higher than the EU overall and higher than some older EU members (Spain, Italy, Portugal and Greece). Overall 12 countries in the EU (including Slovenia) recorded larger shares of satisfied people compared with a year earlier; the share increased the most in France. A special, extended Eurobarometer survey conducted in the last four years, Social Climate, gives a deeper insight into satisfaction with individual life dimensions in a country. The survey, which was carried out in June 2012, confirms that the share of satisfied people increased slightly in Slovenia and serves as the basis for drawing conclusions about possible causes.

***Overall life satisfaction is a type of summary of partial (dis)satisfactions with different areas of life, which can fluctuate significantly one way or the other.*** Satisfaction tends to be higher if people are able to meet their needs in the areas of life that they value more. The areas of life that are deemed most important in Slovenia are health, family and work. In June 2012 more than half of all Slovenians were satisfied with where they lived, the health system, the financial situation of their households, their own employment situation and their relations with people from different cultural backgrounds. The satisfaction of the Slovenian population exceeds the EU average in all these areas, except the financial situation and relations with people from different cultural backgrounds, where satisfaction is slightly below the EU average. Less than half of the people in Slovenia, yet still a larger share than in the EU overall, are satisfied with unemployment benefits, the pension system and the affordability of energy. In the last four years satisfaction in these areas has declined, although not by more than 6 percentage points, and in proportion to the shares and movements in the EU overall. People in Slovenia are less satisfied than in the EU overall with the effectiveness of public administration, the way that the country addresses inequality and poverty, the cost of living, the affordability of housing and the economic situation in the country. More notable than the lower satisfaction levels are the sharp declines in satisfaction in certain areas, also in comparison with the EU average. The decline in the share of people satisfied with the effectiveness of public administration in the last four years is particularly steep. Satisfaction with the affordability of energy also declined more significantly. The disproportionately high pessimism of people in Slovenia (i.e. the share of those expecting a deterioration) compared with the EU average is evident in practically all domains of life, except with the exception of the residential area and the personal employment situation. This pessimism could to a certain extent be based on past experience, given that with the exception of these two areas (the residential area and the personal employment situation), more than half of people estimate the situation to be worse than five years ago. In evaluations of the personal situation (the financial situation of the household and the personal employment situation) and relations with people from different cultural backgrounds, the decline in the share of satisfied people and the increase in the share of pessimistic people are not as pronounced as for social sub-systems and systemic solutions (except for the health system), where the shares of the worse assessments increased by as much as 20 percentage points over a period of four years. This is probably also being reflected in increased pessimism in areas where the share of satisfied persons has not declined significantly until now (for example health care and the perception of the personal situation). However, this pessimism to some extent explains the synthetic assessment of the current situation, i.e. satisfaction with life in general, where the share of satisfied people in 2012 is similar to that in 2009, and even 2 percentage points higher than in 2011: people increasingly value and assess the current situation as good, in general and on the whole, because they expect it to deteriorate.

[1] The Eurobarometer survey has the highest frequency of releases for all EU countries from the time that they joined the EU, and measures life satisfaction with the following question: All things considered, how satisfied would you say you are with your life these days? The possible answers are: very satisfied, satisfied, dissatisfied and very dissatisfied.

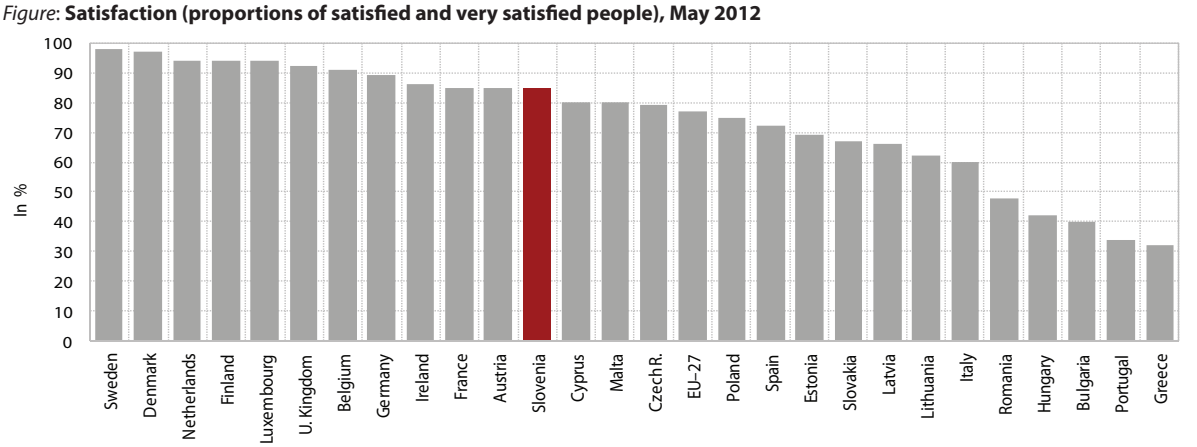
[2] Very satisfied and satisfied combined.

*Table*: **Life satisfaction, 2009 and 2012**

| % | | Proportion of satisfied people (satisfied and very satisfied) | | Proportion of people expecting things to deteriorate in the next 12 months[1] | | Proportion of people assessing that things have got worse compared with five years ago[2] | |
|---|---|---|---|---|---|---|---|
| | | SLO | EU-27 | SLO | EU-27 | SLO | EU-27 |
| General life situation | 2009 | 85 | 78 | 20 | 18 | 44 | 31 |
| | 2012 | 85 | 76 | 25 | 17 | 49 | 37 |
| **Proportion of people evaluating the following areas as good[3]** | | | | | | | |
| Residential area | 2009 | 87 | 87 | 18 | 10 | 30 | 17 |
| | 2012 | 84 | 84 | 21 | 12 | 40 | 24 |
| Health care provision | 2009 | 50 | 64 | 35 | 27 | 50 | 39 |
| | 2012 | 71 | 62 | 45 | 32 | 51 | 50 |
| Household financial situation | 2009 | 67 | 64 | 22 | 20 | 47 | 35 |
| | 2012 | 61 | 62 | 34 | 20 | 56 | 40 |
| Personal job situation | 2009 | 58 | 52 | 12 | 11 | 35 | 23 |
| | 2012 | 53 | 52 | 22 | 14 | 39 | 28 |
| Relations between people from different cultural backgrounds | 2009 | 58 | 53 | 32 | 25 | 47 | 33 |
| | 2012 | 53 | 56 | 40 | 25 | 54 | 37 |
| Unemployment benefits | 2009 | 43 | 36 | 42 | 31 | 51 | 38 |
| | 2012 | 45 | 38 | 64 | 37 | 72 | 49 |
| Provision of pensions | 2009 | 49 | 40 | 42 | 49 | 53 | 41 |
| | 2012 | 44 | 40 | 53 | 40 | 67 | 58 |
| The way the public administration is run | 2009 | 56 | 42 | 26 | 22 | 38 | 33 |
| | 2012 | 33 | 40 | 41 | 25 | 59 | 41 |
| Affordability of energy | 2009 | 41 | 33 | 43 | 41 | 65 | 62 |
| | 2012 | 30 | 29 | 60 | 52 | 82 | 73 |
| The way inequalities and poverty are addressed | 2009 | 32 | 31 | 39 | 30 | 53 | 38 |
| | 2012 | 29 | 31 | 51 | 31 | 65 | 46 |
| Cost of living | 2009 | 18 | 28 | 61 | 51 | 85 | 76 |
| | 2012 | 18 | 29 | 71 | 57 | 91 | 82 |
| Affordability of housing | 2009 | 17 | 27 | 45 | 37 | 71 | 62 |
| | 2012 | 14 | 25 | 52 | 43 | 75 | 67 |
| Economic situation in the country | 2009 | 17 | 22 | 43 | 36 | 73 | 78 |
| | 2012 | 8 | 30 | 64 | 42 | 93 | 70 |
| Employment situation in the country | 2009 | 8 | 15 | 46 | 38 | 76 | 76 |
| | 2012 | 5 | 22 | 63 | 42 | 93 | 70 |

Source: Eurobarometer: Social climate 2009, 2012. Notes: [1] What are your expectations for the next twelve months; will the next twelve months be better, worse or the same when it comes to ...? [2] Compared with five years ago, would you say things have improved, got worse or stayed about the same when it comes to ...? [3] How do you evaluate the current situation when it comes to ..? As good (very good and fairly good combined).

*Figure*: **Satisfaction (proportions of satisfied and very satisfied people), May 2012**




Source: Eurobarometer, 2012.

## THE FIFTH PRIORITY:

## Integration of measures to achieve sustainable development

- 5.1 Greenhouse gas emissions
- 5.2 Emission-intensive industries
- 5.3 Energy intensity
- 5.4 Renewable energy sources
- 5.5 Share of road transport in total freight transport
- 5.6 Environmental taxes
- 5.7 Agricultural intensity
- 5.8 Tree-felling intensity
- 5.9 Age-dependency ratio
- 5.10 Life expectancy and healthy life years
- 5.11 Fertility rate
- 5.12 Migration coefficient
- 5.13 Regional variation in GDP per capita
- 5.14 Regional variation in the registered unemployment rate

# 5.1 Greenhouse gas emissions

***Given the steep decline in GDP, greenhouse gas emissions declined substantially during the economic crisis, which moved Slovenia closer to its Kyoto Protocol targets, while most EU Member States had already been on track to fulfilling their commitments before the onset of the crisis.*** By ratifying the Kyoto Protocol, Slovenia committed to reducing greenhouse gas (GHG) emissions by an average of 8% in 2008-2012 compared with baseline emissions in 1986. Compared with the base year, in 2008–2010 total GHG emissions in Slovenia declined much less (by just 1.2%) than in the more advanced EU-15 Member States (–9.7%)[1]. With the exception of Slovenia, the most pronounced declines relative to the base year were recorded by new Member States, which was related to their extensive economic restructuring in the early 1990s. By allocating emission allowances to sectors that are included in the EU Emissions Trading System (EU ETS), countries indirectly determined the targets for sectors not included in the EU ETS. Countries can thus influence how Kyoto targets are met only by implementing measures that have an impact on emissions from sources that are not included in the EU ETS. If a country demonstrates proper forest management, it can include sinks[2] in meeting the Kyoto commitments, and acquire part of the required reduction it cannot achieve at home from other Member States via flexible mechanisms. In view of the above, according to the latest report produced by the European Environment Agency, Slovenia was on track to meet the Kyoto targets; however, this is mainly a consequence of the worse economic situation in recent years. Italy is the only EU Member State that is expected not to meet the Kyoto target, while to meet its commitments Spain intends to buy a large number of Kyoto units via the flexible mechanisms.

***In 2011 GHG emissions remained at a similar level to the previous year, but there was no progress regarding a decline in emission intensity of Slovenia's economy.*** After peaking in 2008, GHG emissions in Slovenia decreased substantially in 2009 as a result of the crisis. With economic activity remaining weak, GHG emissions remained at similar levels in 2010 and 2011[3]. Emissions in 2011 were down 4.2% on the base year of the Kyoto Protocol, while emissions during 2008–2011 were down 2.0% overall. Over the entire 1986–2011 period, the structure of emissions underwent significant changes; even though GHG emissions declined in most sectors, this progress was almost cancelled out by an increase in emissions from expanding road transport (up 184%). The share of transport emissions stood at 10% in 1986, but climbed to 29% in 2011. Even though the economic crisis caused transport emissions to decline in 2009, and to a limited extent in 2010, 2011 was again marked by high growth (by 8.2%). This was partly the result of the recovery in international trade, but the sale and consumption of fuel, particularly diesel fuel, increased further due to fuel prices being lower than in neighbouring countries. Emissions from the energy sector – which is the largest source of emissions, accounting for 32% of the total – increased significantly less (by 0.7% over the previous year) than transport emissions. Energy-related emissions are almost entirely due to thermal power plants; about three quarters of total energy-related emissions are from the largest thermal power plant in Slovenia. In 2011, emissions dropped most in household consumption of fuels (by 12.2%), which could be the result of more efficient use, additionally stimulated by higher fuel oil prices and changes in the structure of emissions in favour of less emission-intensive energy products as well as by a milder winter. Fuel consumption also dropped in manufacturing (by 10.3%). At the level of the economy as a whole, GHG emissions remained nearly unchanged amid modest growth in GDP, and consequently the emission intensity of the economy[4] decreased slightly compared with 2010 (by 0.5%). In the whole period since 2008 Slovenia has thus made only slow progress towards improving the emission intensity of the economy. In 2005, Slovenia generated 11.3% more emissions per unit of GDP in PPP than the EU average; in 2010 the difference was 20.7%.

***Meeting the 2020 targets will depend crucially on transport emissions.*** Within the Climate and Energy Package, the EU set a target of at least a 20% reduction in GHG emissions by 2020. For those involved in the EU ETS, the target is determined for the EU as a whole (a 21% reduction by 2020 compared with 2005). The EU ETS primarily includes larger installations in the energy and manufacturing sectors, which accounted

[1] The common EU-15 target is an emission reduction of 8% compared with the base year of 1990, but the targets for individual countries differ (see figure). Most new EU Member States have the same GHG reduction target, about 8% (with the exception of Poland and Hungary, 6%), but the base years differ. For Cyprus and Malta no targets are defined under the Kyoto Protocol.

[2] Slovenia in the amount of 1.32 Mt CO2 equivalent, 6.5% of total base-year emissions.

[3] According to the Slovenian Environment Agency, in 2010 GHG emissions increased by 0.3% and in 2011 by 0.1%.

[4] Emission intensity is the ratio of a country's GHG emissions to its GDP. For methodological purposes, we used GDP at constant prices in the time comparison and GDP in purchasing power standards (PPS) for a given year in the international comparison.

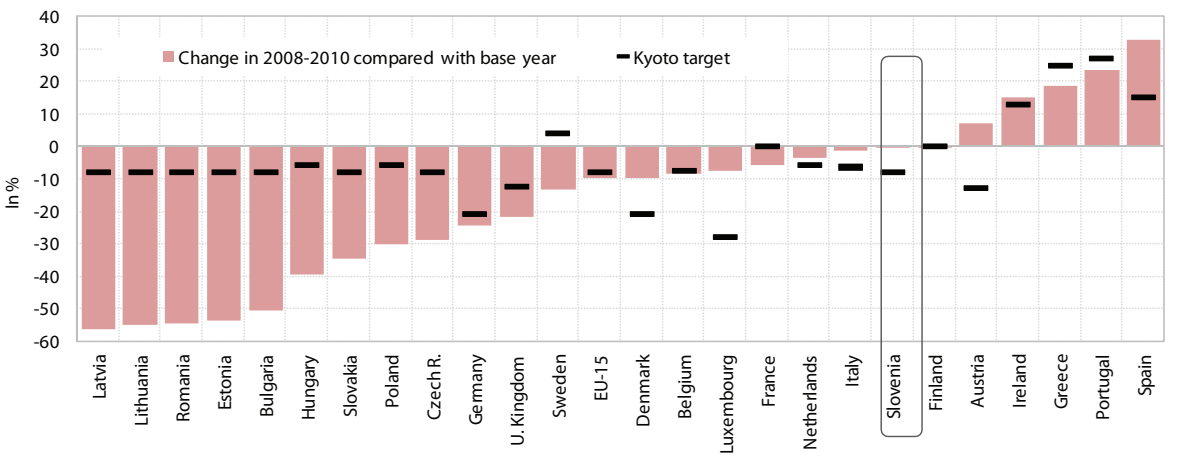
for about 41% of total emissions in Slovenia in 2011, and which, according to our calculations, reduced emissions by 8.3% compared with 2005. For emissions from sectors not included in the ETS (transport, household fuels, agriculture and waste), targets are set for each country separately; for Slovenia a 4% increase is allowed. In 2011, these emissions were 0.6% lower than in 2005, but it was precisely these emissions that had been growing fastest before the crisis, and they continued to increase in 2011. In the future, Slovenia will have to focus more on measures in these areas, and their effectiveness will to a large extent depend on a successful reduction of transport emissions.

*Table*: **Greenhouse gas emissions (in kt $CO_2$ equivalent), Slovenia, 1986–2011**

| | 1986* | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **TOTAL** | **20,354** | **18,920** | **20,309** | **20,554** | **20,690** | **21,406** | **19,427** | **19,482** | **19,509** |
| Transport | 2,008 | 3,862 | 4,428 | 4,647 | 5,229 | 6,158 | 5,325 | 5,265 | 5,699 |
| Energy | 6,729 | 5,498 | 6,325 | 6,379 | 6,596 | 6,388 | 6,087 | 6,214 | 6,259 |
| Fuels in industry | 4,406 | 2,269 | 2,486 | 2,593 | 2,346 | 2,305 | 1,918 | 1,900 | 1,704 |
| Industrial processes | 1,328 | 1,063 | 1,373 | 1,433 | 1,446 | 1,327 | 972 | 980 | 1,014 |
| Fuels in households | 2,366 | 3,053 | 2,585 | 2,360 | 1,915 | 2,277 | 2,186 | 2,226 | 1954 |
| Agriculture | 2,334 | 2,133 | 2,003 | 2,020 | 2,076 | 1,963 | 1,995 | 1,955 | 1,901 |
| Waste | 566 | 623 | 692 | 706 | 669 | 591 | 551 | 550 | 562 |
| Other | 618 | 420 | 416 | 415 | 413 | 397 | 393 | 392 | 417 |

Source: ARSO, Report on GHG Emissions, 2013.
Note: * Base-year emissions under the Kyoto Protocol.

*Figure*: **Greenhouse gas emissions[1] compared with the Kyoto base year, 2008–2010 average, and targets[2]**




Source: UNFCCC, 2012.
Notes: [1] Excluding emissions related to land use and carbon sinks, and emissions in aviation and maritime transport. [2] The gap between the average GHG emissions in 2008–2010 and the Kyoto targets is only an approximate estimate of meeting the Kyoto Protocol commitments, as it excludes carbon sinks and flexible mechanisms, and takes into account the actual emissions in EU ETS sectors.

# 5.2 Emission-intensive industries

***From 2010 on emission-intensive industries have again been recording higher growth in output than other sectors.*** In the whole period from 2000 to the outbreak of the economic crisis, the total output of emission-intensive industries[1] in Slovenia grew faster than the output of other manufacturing industries. The gap closed in 2008 and 2009 primarily as a result of lower output in manufacturing of basic metals, while with a general increase in output in 2010 there was an above-average increase in emission-intensive output again for the first time in two years. In 2011, the output of emission-intensive industries grew faster than the output of other industries[2], but with the slowdown of output growth the gap was less distinct. The share of value added of emission-intensive industries in total manufacturing further increased to 24.5%. Slovenia has one of the highest shares of emission-intensive industries in value added in manufacturing in the EU[3]. Given the greater significance of emission-intensive industries and greater energy intensity in manufacturing in Slovenia than in the EU as a whole, emissions trading is likely to have a greater effect[4] on production costs and consequently on performance and competitiveness than in other EU Member States. To reduce exposure to higher costs, it is therefore crucial for Slovenia to continue reducing energy intensity and to proceed with technological restructuring in emission- and energy-intensive industries.

***In 2011, Slovenia recorded a greater reduction in energy intensity in manufacturing than in the previous two years, but relative to the substantial reduction in 2006–2008, the 2011 results remain modest.*** Decomposition[5] analysis of energy consumption in manufacturing shows that the lower consumption of energy in 2011 mainly resulted from lower energy intensity in individual industries, which is an important indicator of qualitative changes. The decrease in energy consumption in 2011 was partly the result of a structural effect, i.e. a decrease in the share of value added of sectors that consume more energy per unit of value added. This is mostly a result of the lower shares accounted for by manufacturing of other non-metallic mineral products, and by paper and rubber manufacturing, which more than made up for the high production activity and the increasing share of the most energy-intensive manufacture of basic metals. Final energy consumption[6] per unit of value added in total manufacturing – reflecting both the effect of energy intensity of individual industries and the structural effect – declined significantly in the 2006–2008 period (at an average annual rate of 7.5%), but favourable trends slowed down in 2009 and 2010 (average annual decline by 1.6%). In 2011, energy intensity in manufacturing again dropped significantly, by 6.1%, but the results were more modest than in the years before the crisis, particularly taking into account the smaller contribution of lower energy intensity in individual industries. Given that lower energy intensity in manufacturing is, in most cases, linked to the replacement of old technology by more efficient technology, which requires investment, the trends in recent years can also be attributed to the diminished scope for such investment in a time of financial and economic crisis; it should also be taken into account, that a portion of energy consumption is fixed.

[1] According to the World Bank methodology and the categories in the Standard Classification of Economic Activities, emission-intensive industries include: manufacture of chemicals and chemical products; manufacture of paper and paper products; manufacture of basic metals; manufacture of cement, lime and plaster; and manufacture of other non-metallic mineral products.

[2] For the second consecutive year the increase in the output of emission-intensive industries in 2011 was based on strong growth in the manufacture of basic metals, while the growth in the chemical industry slowed down. In the manufacture of other non-metallic mineral products (lime, plaster, etc.), output continued to shrink due to low demand from the construction sector.

[3] In 2010, these industries generated 24.3% of total value added in manufacturing in Slovenia (compared with the EU average of 22.0%). Furthermore, in Slovenia manufacturing also has a higher share in total value added in the overall economy (19.2%; compared with the EU average of 15.1%). The share of the chemical industry is particularly high compared with the EU average. The share of basic metals manufacturing is also higher than the EU average.

[4] The adopted climate and energy package and the emission trading system are likely to have a double effect on the costs for businesses: direct costs due to the purchase of allowances and indirect costs paid through higher electricity prices.

[5] GHG emissions in industry are generated in the production process (i.e. process emissions) or as a result of fuel combustion. This part focuses on emissions from fuel combustion, which represent the larger part of emissions from industry. The change in final energy consumption (energy consumption in TJ) in manufacturing is broken down into three sets of factors: change in output level, change in output structure and change in energy intensity within individual industries.

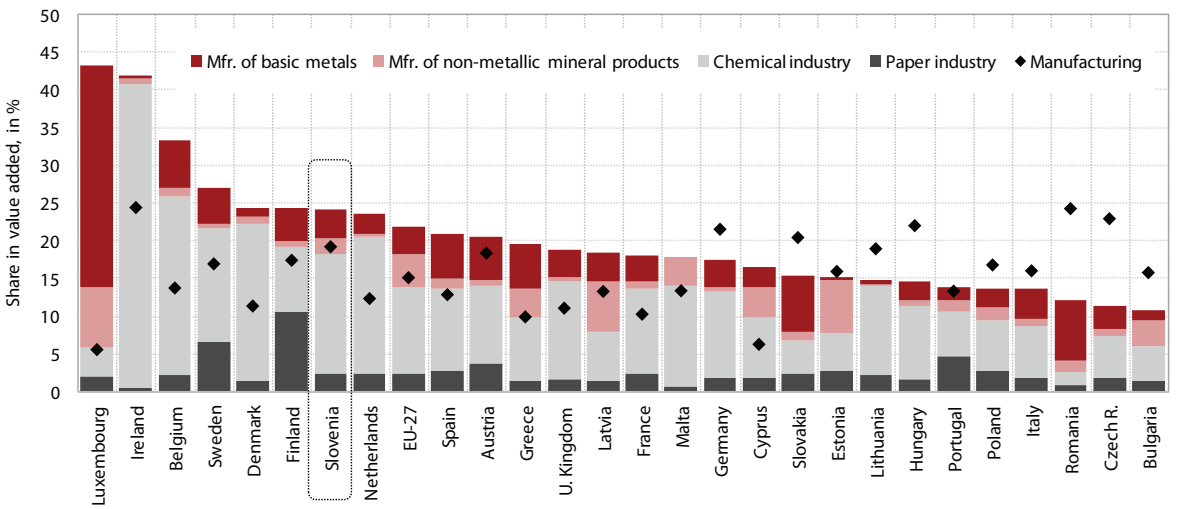
[6] Energy consumption by activity, in TJ (SURS).

*Table*: **Indices of growth of output and value added in manufacturing and emission-intensive industries, Slovenia, 2000–2012**

| Real growth index | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Value added in manufacturing | 109.8 | 103.5 | 107.4 | 108.4 | 100.2 | 82.8 | 107.3 | 103.4 | 99.1 |
| Output in manufacturing | 107.1 | 104.0 | 106.2 | 108.5 | 102.6 | 81.3 | 106.6 | 102.1 | 99.0 |
| Output in emission-intensive industries | 108.2 | 104.2 | 112.1 | 114.3 | 93.7 | 81.2 | 108.9 | 102.3 | 102.0 |
| Manufacture of pulp, paper and paper products | 105.1 | 102.5 | 99.0 | 98.5 | 89.8 | 89.8 | 101.3 | 100.7 | 97.0 |
| Manufacture of chemicals, chemical products and man-made fibres | 110.4 | 107.6 | 113.0 | 121.7 | 101.0 | 85.8 | 114.7 | 102.4 | 104.6 |
| Manufacture of other non-metallic mineral products | 96.4 | 93.1 | 106.2 | 105.8 | 102.5 | 72.4 | 98.7 | 90.7 | 95.9 |
| Manufacture of basic metals | 111.9 | 103.2 | 119.6 | 106.7 | 68.6 | 70.3 | 109.5 | 111.0 | 101.1 |
| Output in manufacturing excluding emission-intensive industries | 106.8 | 103.9 | 104.8 | 107.1 | 104.7 | 81.3 | 106.1 | 102.0 | 98.3 |

Vir: SI-STAT podatkovni portal – Nacionalni računi ter Rudarstvo in predelovalne dejavnosti (SURS), 2012; preračuni UMAR.
Opomba: Indeksi industrijske proizvodnje so do vključno leta 2004 izračunani iz količinskih podatkov, od leta 2005 pa iz vrednostnih podatkov.

*Figure*: **Share of emission-intensive industries in manufacturing and share of manufacturing in value added of the total economy, 2010**




Source: Eurostat Portal Page – Economy and Finance – National Accounts, 2012; calculations by IMAD.

# 5.3 Energy intensity

***Unfavourable trends in energy intensity in Slovenia continued in 2011; with the decline in energy intensity in EU Member States, the gap between Slovenia and the EU average widened.*** With regard to energy intensity calculated as energy consumption per unit of GDP in purchasing power standards (PPS)[1], Slovenia was ranked 16th among EU Member States in 2005 and five places lower in 2011. In terms of this indicator, Slovenia's energy intensity was 25.4% higher than the EU average in 2011 (in 2005, 12.7%). The differences between countries result from both the structure of the economy (transport volume, energy-intensive industries, the share of service activities, etc.) and differences in energy efficiency within industries, and thus general development (GDP per capita). Generally, new Member States are more energy intensive than the older members, but the gaps with the EU average are closing. The closing of the gap in energy intensity between Slovenia and the EU average stopped during the crisis. In the 2008–2011 period Slovenia did not reduce the energy intensity of its economy, while with a relatively strong reduction in 2011, EU Member States on average consumed about 5% less energy per unit of GDP than in 2008[2]. No major changes in the energy intensity of Slovenia's economy are expected in 2012. We estimate that the decline in energy consumption was in fact only slightly greater (-3.5%) than the decline in GDP (-2.3%), so energy intensity declined by 1.2%.

***The increase in total energy consumption in 2011 in Slovenia mainly resulted from higher energy consumption in road transport, while the decline in the EU mainly resulted from lower energy consumption by households.*** According to Eurostat data, total energy consumption in Slovenia increased by 0.3% in 2011[3] despite the decrease in energy consumption by households and industry (by 7.1% and 3.0%, respectively). The rise in total energy consumption was caused by transformation losses (6.8% growth), i.e. losses in transforming primary energy into final energy. In 2011, they were mostly the result of higher energy production in the nuclear power plant in the year without outage, where transformation losses are the highest. Even more significant for the rise in total energy consumption was the increase in energy consumption in road transport (by 7.8%). The difference in taxation and thus prices of motor fuels between Slovenia and neighbouring countries increased again in 2011, so that lower prices in Slovenia caused a larger increase in energy consumption in road transport than could be expected relative to economic activity. In the EU total energy consumption fell in 2011 by 3.3%, mostly as a result of the 11.4% decline in energy consumption by households yielded by efficient energy use measures. Energy consumption in services also fell, by 7.6%.

***Almost no decline in total energy consumption in Slovenia was recorded in 2005–2011, due to strong growth in energy consumption in road transport, while average consumption in the EU declined significantly.*** In the 2005–2011 period, total energy consumption in Slovenia decreased at a 0.1% annual rate, while in the EU the average annual decline was 1.2%. Final energy consumption in road transport, which showed almost no increase in the EU, was still rising in Slovenia by an average of 4.7% per year. This can mainly be explained by higher growth rates before the crisis as well as in 2011. Energy consumption in road transport in 2011 was 31.9% higher than in 2005, while the share of energy consumption in road transport relative to total energy consumption increased to 25.8% (EU: 17.5%). Such trends in energy consumption in road transport are attributed to soaring external trade flows through Slovenia after the last major EU enlargement, and the relatively lower prices of motor fuels than in neighbouring countries.

***The higher energy intensity in Slovenia also reflects the industrial structure of the economy****; however,* ***energy intensity in manufacturing has been declining faster than in the EU.*** Slovenia is still among the EU Member States where manufacturing accounts for a high share of total value added in the economy (20.3% in 2011; 15.5% in the EU overall). Energy consumption per unit of value added in manufacturing is also slightly higher than the EU average. In the 2005–2011 period, energy consumption in manufacturing fell almost twice as much as in the EU (in Slovenia by 4.6% and in the EU by 2.4% per year). A faster reduction than in the EU was recorded in mining of non-ferrous metal ores (aluminium), chemical industry, food production, and textile and paper manufacturing. With the restructuring of the economy towards a higher share of less energy-intensive service activities, and by improving energy efficiency in manufacturing, we can expect the downward trend in energy intensity to continue in the future. The speed of change will depend, however, on the speed of technological development and on a wide array of measures to promote energy efficiency.

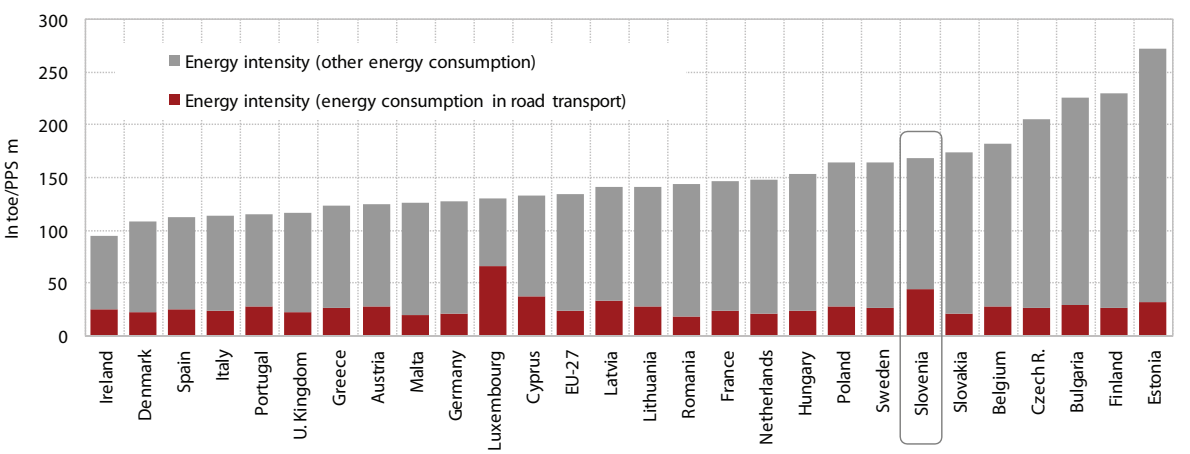
[1] For methodological purposes, GDP in purchasing power standards (PPS) is used in the international comparison for a given year.
[2] In the time comparison the indicator of comparison of primary energy consumption per unit of GDP at constant prices is taken into account.
[3] According to SURS data, by 0.6%.

*Table*: **Energy intensity (primary energy consumption per unit of GDP), toe/EUR m,** 2005 prices, 2005 exchange rate

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **190.7** | **171.1** | **164.8** | **159.6** | **153.1** | **151.9** | **150.2** | **151.6** | **144.4** |
| Austria | 141.4 | 129.3 | 140.3 | 135.6 | 129.5 | 128.4 | 126.2 | 133.4 | 125.9 |
| Belgium | 222.3 | 211.2 | 194.4 | 187.3 | 177.9 | 184.2 | 184.7 | 190.8 | 181.9 |
| Bulgaria | 1329.3 | 1050.2 | 863.3 | 833.4 | 770.3 | 717.3 | 663.9 | 675.1 | 713.6 |
| Cyprus | 207.5 | 206.2 | 185.2 | 184.7 | 183.6 | 186.6 | 185.3 | 177.3 | 173.7 |
| Czech Republic | 533.4 | 481.9 | 432.7 | 413.7 | 390.9 | 370.8 | 363.2 | 374.9 | 359.6 |
| Denmark | 119.8 | 101.6 | 95.3 | 98.6 | 94.9 | 89.5 | 96.7 | 98.0 | 90.7 |
| Estonia | 933.7 | 627.3 | 497.4 | 440.6 | 457.9 | 462.8 | 485.6 | 190.7 | 505.4 |
| Finland | 270.3 | 238.1 | 222.7 | 232.6 | 218.5 | 209.1 | 216.2 | 228.1 | 211.9 |
| France | 173.8 | 162.5 | 161.0 | 155.1 | 150.1 | 151.1 | 149.2 | 151.0 | 143.9 |
| Greece | 176.9 | 178.5 | 162.6 | 155.0 | 149.9 | 151.3 | 150.6 | 148.9 | 155.1 |
| Ireland | 140.2 | 111.6 | 93.4 | 90.3 | 88.3 | 89.8 | 88.9 | 90.1 | 82.1 |
| Italy | 130.9 | 128.5 | 131.2 | 127.3 | 124.0 | 123.1 | 121.9 | 123.6 | 121.3 |
| Latvia | 694.1 | 429.7 | 346.8 | 321.8 | 302.3 | 301.5 | 345.4 | 365.5 | 324.0 |
| Lithuania | 759.9 | 496.8 | 419.2 | 381.8 | 375.9 | 366.5 | 392.0 | 311.2 | 302.3 |
| Luxembourg | 175.7 | 142.8 | 158.9 | 149.0 | 137.1 | 138.1 | 135.5 | 140.4 | 135.9 |
| Hungary | 419.7 | 349.5 | 312.1 | 298.0 | 292.0 | 287.8 | 291.9 | 295.3 | 282.1 |
| Malta | N/A | 172.7 | 196.5 | 179.9 | 183.7 | 176.7 | 169.2 | 173.9 | 202.9 |
| Germany | 173.8 | 159.1 | 155.5 | 151.3 | 142.6 | 142.4 | 142.9 | 141.2 | 129.0 |
| Netherlands | 185.8 | 159.2 | 160.7 | 151.1 | 155.7 | 149.5 | 150.9 | 158.3 | 146.4 |
| Poland | 619.8 | 427.7 | 380.8 | 377.0 | 351.4 | 339.7 | 321.8 | 330.8 | 319.2 |
| Portugal | 171.7 | 169.6 | 177.6 | 164.2 | 164.0 | 157.4 | 160.3 | 153.7 | 153.1 |
| Romania | N/A | 609.5 | 493.0 | 474.1 | 443.3 | 412.2 | 386.8 | 393.0 | 392.1 |
| Slovakia | 700.4 | 593.4 | 496.1 | 453.8 | 388.5 | 377.8 | 362.8 | 370.1 | 349.1 |
| **Slovenia** | **311.7** | **267.2** | **254.1** | **241.1** | **225.6** | **230.8** | **229.3** | **231.0** | **230.2** |
| Spain | 161.4 | 160.1 | 158.7 | 152.8 | 149.5 | 143.7 | 137.1 | 137.1 | 135.0 |
| Sweden | 228.9 | 182.4 | 173.4 | 162.1 | 156.3 | 156.4 | 150.7 | 159.3 | 147.6 |
| United Kingdom | 165.8 | 145.2 | 126.4 | 121.5 | 113.2 | 112.8 | 111.3 | 111.7 | 103.6 |

Source: Eurostat Portal Page – Environment and Energy in Economy and Finance, 2013; calculations by IMAD.
Note: N/A – not available.

*Figure*: **Energy intensity*, 2011**




Source: Eurostat Portal Page – Environment and Energy in Economy and Finance, 2012; calculations by IMAD.
Note*: calculated on the basis of GDP in purchasing power standards (PPS).

# 5.4 Renewable energy sources

***After two years of high growth of renewable energy sources, which was influenced by some one-off factors, in 2011 the share declined.*** The share of renewables in gross final energy consumption decreased to 18.9% in 2011; more than two thirds of the decrease was contributed by lower use of renewables for heating. In 2009 and 2010 the increase was the result of improved coverage of data on the consumption of biomass and waste and the inclusion of geothermal and solar energy consumption in statistical monitoring. The high water levels of rivers in these two years, which enabled a high increase in hydro-energy consumption, had only a limited impact on the increased share of renewables in gross final energy consumption, because the calculation takes into account normalised (the average for the past 20 years) hydro-energy consumption. In line with EU targets, by 2020 Slovenia should achieve a 25% share of renewables in gross final energy consumption, while EU Member States should increase the average 12.5% share to 20% by 2020. According to Eurostat data, the share of renewables in total (primary) energy consumption decreased in 2011 in Slovenia to 13.0% (from 14.6%[1], which included above-average actual hydro-energy consumption). Based on the ELES data on hydroelectric power output, hydro-energy consumption in Slovenia increased again (by 11.0%) in 2012, while the increase was much higher as regards geothermal and solar energy consumption. As economic growth declined, total energy consumption is expected to have declined slightly too, which leads us to believe that the share of renewables in primary energy consumption in 2012 again increased to more than 14%.

***In Slovenia, wood and hydro-energy still account for the largest shares in total consumption of renewables; in the EU the share is lower, while the share of other renewables is higher.*** Traditional sources, i.e. wood and hydro-energy, accounted for 87% of total renewables in Slovenia in 2011, compared with only 63% in the EU. Slovenia stands out particularly in its consumption of hydro-energy; its share in total renewables (over 32%) was the third highest in the EU[2]. Fluctuations in the consumption of certain renewables are largely the result of weather conditions, while the volume of renewable energy sources mainly depends on each country's natural resources. In some countries (United Kingdom and Benelux countries) renewables account for just a few percent of total energy consumption, while other countries (Latvia, Sweden) generate more than a third of their total energy from renewables. According to SURS data, primary consumption of renewables in Slovenia fell by 10.3% in 2011. Most of this reduction (67%) resulted from lower production and consumption of hydro-energy from large hydroelectric power plants (after two years, below-average water levels of rivers again), while 30% came from lower consumption of wood (mild winter, greater investment in thermal insulation of buildings, modern water heaters). Solar energy consumption increased the most, by more than a half, which was largely the result of favourable subsidies. Consumption of biogas and geothermal energy also increased significantly, although this was practically neutralised by a decrease in biofuel consumption and consumption of hydro-energy from small and medium-sized hydroelectric power plants. In 2011, the consumption of renewables in the EU also decreased (by 1.8%), but much less than in Slovenia. Even though in Slovenia the share of so-called less traditional renewables in total renewables consumption is still relatively low (around 4% for biofuel, biogas and geothermal energy and less than 2% for solar energy), for the most part their consumption has recently been growing rapidly.

***The share of renewables in gross electricity consumption in Slovenia, which as a result of very favourable hydrological conditions in 2009 grew to more than a third, dropped substantially by 2011.*** In 2009 electricity from renewables accounted for 36.8% of total electricity consumption in Slovenia. Even though the hydrological conditions were still relatively favourable, the share declined to 33.1% in 2010 because of higher economic activity and hence higher electricity consumption. With much lower water levels of rivers and thus lower hydro-energy production in 2011, the share dropped to 26.2%. However, it was still above the EU average (20.4%), where in the past few years the share of renewables in electricity production has been gradually growing. According to ELES data, we estimate that with the increase in production in hydroelectric power plants and stagnation of gross electricity consumption, in 2012 the share of renewables in electricity production in Slovenia increased to around 30%.

***In 2012, the first major wind farm started to operate in Slovenia; with favourable grants photovoltaics also expanded significantly.*** In 2011, grants for solar power plants exceeded EUR 17 million. An even higher increase was achieved in 2012 (in the first three quarters they amounted to EUR 33 million or around 60% of all grants for renewable energy sources). At the end of 2012, the government reduced the

[1] According to SURS data the shares were 13.2% and 14.8%, respectively.

[2] The share of hydro-energy in total energy consumption was the fourth highest in the EU. In most EU Member States, including Slovenia, the main renewable energy source is wood (and wood waste).

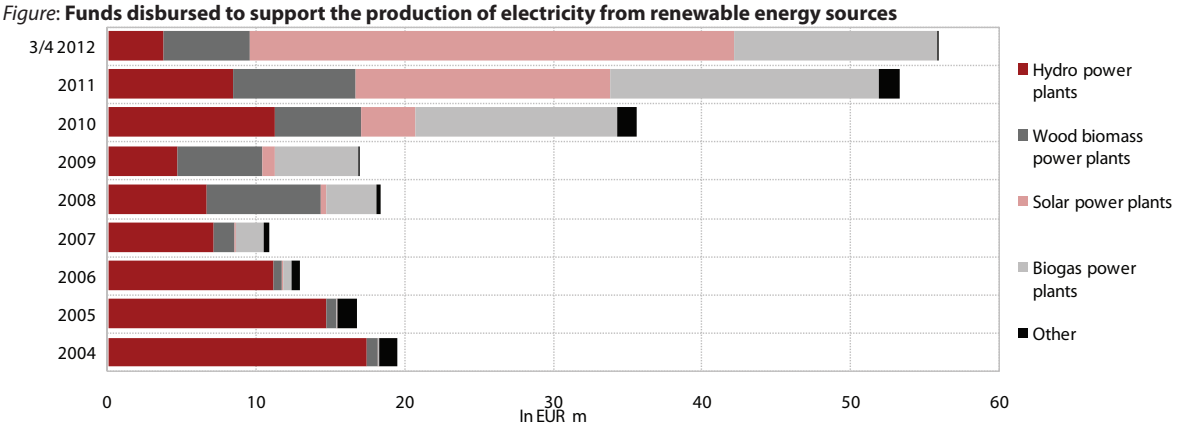
amount of support (per power unit) for this energy source. At the same time, in February 2013 a much higher contribution for implementation of support schemes for producing electricity from renewables and for CHP (combined heat and power production) was introduced, and this will further stimulate the use of these sources. For average household consumers, the higher contribution will translate into a 6.8% higher final electricity price (larger industrial electricity consumers will be even more affected); at the annual level over EUR 130 million will be collected for supporting the use of renewable energy sources.

*Table*: **Share of renewable energy sources in total primary energy consumption, in %, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **5.0** | **5.6** | **6.4** | **6.8** | **7.4** | **8.0** | **9.0** | **9.8** | **10.0** |
| Austria | 21.6 | 22.5 | 20.6 | 21.6 | 23.6 | 24.7 | 27.3 | 26.6 | 25.8 |
| Belgium | 1.0 | 1.1 | 2.0 | 2.3 | 2.7 | 3.1 | 3.9 | 4.2 | 4.8 |
| Bulgaria | 1.8 | 4.1 | 5.5 | 5.5 | 4.7 | 4.8 | 6.2 | 8.1 | 7.0 |
| Cyprus | 2.3 | 1.9 | 2.1 | 2.1 | 2.6 | 3.2 | 3.5 | 3.8 | 4.7 |
| Czech Republic | 2.8 | 3.3 | 3.9 | 4.2 | 4.6 | 4.9 | 5.7 | 6.2 | 6.8 |
| Denmark | 6.5 | 9.2 | 14.5 | 13.7 | 15.6 | 16.8 | 16.8 | 19.2 | 21.5 |
| Estonia | 6.3 | 10.3 | 10.6 | 9.8 | 9.9 | 11.0 | 13.5 | 39.4 | 13.5 |
| Finland | 20.7 | 23.5 | 23.1 | 22.7 | 22.9 | 25.0 | 23.3 | 24.8 | 25.4 |
| France | 7.1 | 6.2 | 5.6 | 5.8 | 6.2 | 6.9 | 7.4 | 7.8 | 7.0 |
| Greece | 5.4 | 5.0 | 5.2 | 5.6 | 5.5 | 5.4 | 6.1 | 7.5 | 8.0 |
| Ireland | 1.4 | 1.6 | 2.4 | 2.7 | 3.0 | 3.6 | 4.4 | 4.4 | 5.9 |
| Italy | 4.7 | 5.8 | 6.2 | 6.7 | 6.5 | 7.5 | 9.4 | 10.3 | 11.5 |
| Latvia | 27.2 | 31.8 | 32.9 | 30.9 | 29.6 | 30.0 | 36.2 | 34.6 | 33.8 |
| Lithuania | 5.7 | 9.4 | 10.0 | 10.8 | 10.3 | 10.9 | 12.3 | 15.5 | 15.0 |
| Luxembourg | 1.1 | 1.1 | 1.5 | 1.6 | 2.7 | 2.8 | 2.8 | 2.8 | 2.6 |
| Hungary | 3.3 | 3.3 | 4.3 | 4.5 | 5.1 | 5.9 | 7.2 | 7.5 | 7.5 |
| Malta | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.1 |
| Germany | 1.8 | 2.6 | 4.8 | 5.7 | 7.7 | 7.8 | 8.5 | 9.7 | 9.9 |
| Netherlands | 1.2 | 1.6 | 2.6 | 2.9 | 2.8 | 3.4 | 3.9 | 3.5 | 4.1 |
| Poland | 3.9 | 4.2 | 4.8 | 4.8 | 5.0 | 5.6 | 6.6 | 7.2 | 8.1 |
| Portugal | 16.1 | 15.0 | 12.7 | 16.4 | 17.1 | 17.2 | 19.3 | 22.5 | 21.5 |
| Romania | 5.9 | 11.0 | 12.6 | 11.7 | 11.7 | 13.2 | 14.8 | 16.4 | 13.9 |
| Slovakia | 2.8 | 2.7 | 4.2 | 4.4 | 5.4 | 5.4 | 7.2 | 7.8 | 7.8 |
| **Slovenia** | **9.0** | **12.3** | **10.6** | **10.5** | **10.0** | **11.0** | **14.2** | **14.6** | **13.0** |
| Spain | 5.4 | 5.6 | 5.8 | 6.3 | 6.8 | 7.4 | 9.5 | 11.5 | 11.4 |
| Sweden | 25.5 | 30.9 | 28.7 | 28.5 | 30.4 | 31.3 | 34.6 | 33.8 | 31.8 |
| United Kingdom | 0.8 | 1.0 | 1.7 | 1.8 | 2.1 | 2.5 | 3.0 | 3.2 | 3.9 |

Source: Eurostat Portal Page – Environment and Energy, 2013; calculations by IMAD.

*Figure*: **Funds disbursed to support the production of electricity from renewable energy sources**




Source: 2004-2011 MZIP, 3/4 2012 Energetika.NET.

# 5.5 Share of road transport in total goods transport

***After rapid growth of the volume and share of road freight transport[1] in Slovenia before the crisis, in 2010 and 2011 the share of road freight transport declined both in the EU and in Slovenia.*** In both years the volume of rail freight transport in Slovenia increased more (in 2011 by 9.7%) than the volume of road freight transport (by 3.2%), while in the EU rail freight transport grew by 7.3% while road freight transport fell slightly (by 1.1%). After the share of road freight transport in Slovenia exceeded the EU average in 2005, in 2011 Slovenia's share of road freight transport in total goods transport was around 6 percentage points higher than the EU average. Year on year, in the first three quarters of 2012 the volume of road freight transport in Slovenia was only slightly lower (by 1.8%), while the volume of rail freight transport was much lower (by 7.6%). We thus estimate that the share of road freight transport increased again (to over 82%) and reached the high pre-crisis level of 2008.

***The volumes of both road and rail freight transport per capita in Slovenia are among the highest in the EU.*** In 2003 the tonne kilometres per capita recorded by transport operators registered in Slovenia were still approximately the same as the EU average, but in 2011 their figure was more than 2.3-times higher[2] (only operators registered in Luxembourg recorded a higher figure). This rapid growth is largely attributable to Slovenia's transit location at the crossing of the trans-European corridors V and X, where transport has increased significantly with the two most recent enlargements of the EU. In addition to the above-average volume of road freight transport, Slovenia also recorded a large volume of rail freight transport per capita (119% higher than the EU average in 2011). The relatively large volume of transport by rail in Slovenia relative to the EU is linked more to the density of the railway infrastructure and the importance of the Port of Koper than to the structure of goods carried. In Slovenia as much as 27% of goods transport is the transport of metal ores and secondary raw materials (in the EU only 15%). On the other hand, in the EU more coal, coke, oil and liquid fuels are transported, i.e. goods with larger specific weight. The railway network in Slovenia is in terms of extent (per capita) the seventh largest in the EU; even more important is the connection with Slovenia's largest port, where around 60% of the transit of goods is performed by railway.

***In terms of sustainable transport policy, the rapid increase in road freight transport is unfavourable, and Slovenia has thus far made no visible progress in modernising its railway infrastructure.*** The volume of road freight transport in Slovenia in 2011 was 49.0% higher than in 2005, the third largest increase in the EU. A particularly large increase in transport by Polish operators (by 85.7%) and most of the other eastern European countries resulted in a significant increase in transport in the EU-10 (by 56.0%). In the same period the volume of road freight transport in the older Member States (EU-15) shrank by 12.0%, so that the volume of road freight transport in the EU-25 as a whole decreased by 2.3% (for 2005 data are not available for all Member States). In the 2005–2011 period, rail freight transport in Slovenia increased by 15.6%, which was (like in road freight transport) the third largest increase in the EU. The largest impact on the volume of transport in the EU-27 (a 1.3% increase) was that of the 18.8% increase in rail transport in Germany. The high increase in the volume of road freight transport in Slovenia in the observed period is related to the already relatively well-developed road infrastructure in that period. Faster modernisation of the railway infrastructure and improved access to the Port of Koper would increase the attractiveness of rail transport. Freight transport by rail (and waterways) is much more acceptable from the perspective of sustainable development, and it should thus be encouraged. However, despite plans, in 2012 investment in the railway infrastructure was not significantly expanded. A total of EUR 450 million in EU funding was earmarked from the Cohesion Fund for Slovenia to invest in railway infrastructure in the 2007–2013 period; by the end of 2012, only around EUR 56 million of budget funds had been allocated for railway projects (around EUR 13 million in 2012)[3]. In 2012, the project of constructing the second track between Divača and Koper was postponed to the next financing period.

[1] In total goods transport (roads, railways, inland waterways), in tonne km. In road freight transport, the statistics cover domestic carriers (the volume of carriage by road freight vehicles registered in the country) operating at home and abroad, while in rail transport, the figures indicate the volume carried in the national territory regardless of the operator's country of origin.

[2] Slovenian operators provide a large volume of transport abroad, as is typical for operators from smaller countries.

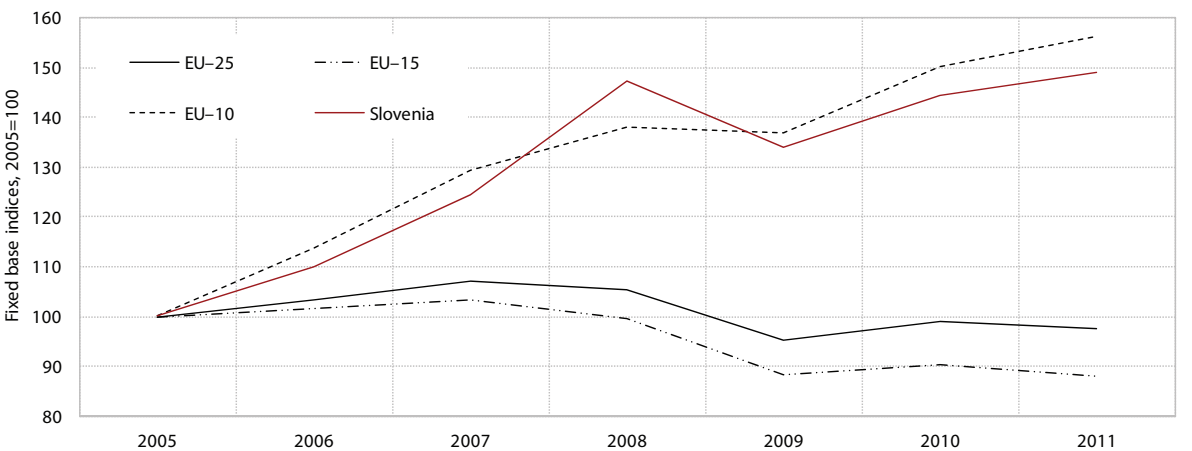
[3] Source: Ministry of Economic Development and Technology, 2013.

*Table*: **Share of road transport in total goods transport (in tkm), in %, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU** | **N/A** | **73.7** | **76.4** | **76.2** | **76.2** | **76.3** | **77.5** | **76.4** | **75.5** |
| Austria | 63.5 | 64.8 | 64.1 | 63.2 | 60.9 | 58.6 | 59.5 | 56.3 | 56.0 |
| Belgium | 77.4 | 77.4 | 72.4 | 71.1 | 69.7 | 68.5 | 72.9 | 67.9 | 66.3 |
| Bulgaria | N/A | 52.3 | 70.8 | 69.0 | 70.0 | 66.9 | 67.4 | 68.1 | 73.6 |
| Cyprus | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Czech Republic | 57.5 | 68.0 | 74.4 | 76.1 | 74.7 | 76.7 | 77.8 | 79.0 | 79.2 |
| Denmark | 91.8 | 92.1 | 92.2 | 91.8 | 92.2 | 91.3 | 90.8 | 87.0 | 87.8 |
| Estonia | 28.7 | 37.3 | 35.4 | 34.7 | 43.2 | 55.3 | 47.3 | 45.8 | 48.5 |
| Finland | 72.3 | 75.8 | 76.5 | 72.8 | 73.9 | 74.1 | 75.7 | 75.0 | 73.9 |
| France | 76.5 | 76.0 | 80.5 | 80.9 | 80.9 | 80.7 | 81.0 | 82.2 | 81.1 |
| Greece | 97.7 | N/A | 97.5 | 98.1 | 97.1 | 97.3 | 98.1 | 98.0 | 97.1 |
| Ireland | 90.1 | 96.2 | 98.3 | 98.8 | 99.3 | 99.4 | 99.3 | 99.2 | 99.0 |
| Italy | 88.2 | 89.0 | 90.3 | 88.5 | 87.6 | 88.3 | 90.4 | 90.4 | 87.8 |
| Latvia | 15.8 | 26.5 | 29.8 | 39.0 | 41.9 | 38.7 | 30.2 | 38.1 | 36.2 |
| Lithuania | 41.6 | 46.6 | 56.1 | 58.4 | 58.5 | 58.0 | 59.9 | 59.1 | 58.8 |
| Luxembourg | 85.9 | 87.8 | 92.3 | 91.5 | 93.8 | 93.3 | 94.6 | 92.7 | 93.7 |
| Hungary | 58.3 | 68.1 | 69.2 | 71.6 | 74.5 | 74.7 | 78.8 | 75.1 | 75.9 |
| Malta | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Germany | 63.9 | 65.3 | 66.0 | 65.9 | 65.7 | 65.5 | 67.0 | 64.9 | 65.8 |
| Netherlands | 63.6 | 63.4 | 63.6 | 63.1 | 59.4 | 59.9 | 63.8 | 62.1 | 58.2 |
| Poland | 42.6 | 56.9 | 69.0 | 70.4 | 73.5 | 75.9 | 80.5 | 80.6 | 79.4 |
| Portugal | 90.3 | 92.5 | 94.6 | 94.9 | 94.7 | 93.9 | 94.3 | 93.9 | 94.0 |
| Romania | 42.0 | 42.9 | 67.3 | 70.5 | 71.3 | 70.2 | 60.0 | 49.2 | 50.2 |
| Slovakia | 63.7 | 53.0 | 70.3 | 68.8 | 71.8 | 73.8 | 77.9 | 74.8 | 76.6 |
| **Slovenia** | **64.9** | **71.9** | **77.3** | **78.2** | **79.2** | **82.2** | **84.0** | **82.3** | **81.4** |
| Spain | 90.3 | 92.8 | 95.2 | 95.4 | 95.9 | 95.7 | 96.4 | 95.8 | 95.5 |
| Sweden | 62.0 | 63.9 | 64.0 | 64.2 | 63.6 | 64.9 | 63.2 | 60.7 | 61.8 |
| United Kingdom | 92.3 | 90.0 | 87.8 | 85.8 | 86.6 | 88.3 | 87.8 | 88.7 | 87.4 |

Source: Eurostat Portal Page – Structural Indicators in Transport, 2013; calculations by IMAD for 2008–2011.
Note: N/A – not available.

*Figure*: **Volume of road freight transport[1] in Slovenia and the EU[2]**




Source: Eurostat Portal Page – Transport, 2013; calculations by IMAD.
Notes: [1]in tkm; [2] Data for Malta not available.

# 5.6 Environmental taxes

***The relatively high revenue from environmental taxes indicates primarily the high energy consumption in Slovenia.*** In 2010, revenue from environmental taxes amounted to 3.6% of GDP in Slovenia, while the EU average was 2.4%. The difference can be attributed to higher revenue from taxes on energy. Of all EU Member States, Slovenia recorded the highest revenue from energy taxes in 2010 measured relative to GDP (Slovenia: 3.1% of GDP; EU: 1.8% of GDP). In addition to tax rates, revenue from environmental taxes is also affected by the structure of the economy and the efficiency of resource use. Above-average revenue from energy taxes, which has been characteristic of Slovenia for several years, is primarily the result of extensive consumption of energy products, particularly in transport[1], while in the period analysed excise duties on (and final prices of) some of the most important energy products were still below the EU average[2]. However, in Slovenia, too, taxes on energy products increased significantly, particularly after 2008, which was reflected in a high increase in the implicit tax rate on energy consumption. Revenue from transport taxes, i.e. taxes on the ownership and use of means of transport, was relatively low in 2010 in Slovenia (Slovenia: 0.4% of GDP; EU: 0.5% of GDP), which in view of the extent of transportation business and the number of cars[3] means that the tax burden is lower than in other EU Member States. Taxes on pollution and the use of natural resources are relatively modest sources of fiscal revenue both in Slovenia and in most of the other EU Member States (Slovenia: 0.17% of GDP; EU: 0.10% of GDP); nevertheless, through price signals they can be an important incentive for environmental objectives related to pollution control, waste management and efficient use of natural resources. For example, the international comparison shows that the levy on waste disposal is much lower in Slovenia than in most of the EU Member States[4].

***Revenue from environmental taxes decreased in 2011, as did its share in GDP (to 3.4%), in particular as a result of lower excise duties and despite further growth in motor fuel consumption.*** Compared to 2010, revenue from environmental taxes fell by 3.5% in nominal terms, mostly as a result of lower inflow from energy taxes, more precisely excise duties on motor fuels, involving lower excise duties (by about 17% for diesel fuel and 9.5% for petrol), while the amount of fuel sold in Slovenia increased[5]. The decline in revenue from excise duties on motor fuels was partly offset by higher revenue from electricity taxes, as both consumption and taxation increased over the previous year. Nevertheless, we estimate that due to a larger impact from the decline in excise duties, the implicit tax rate on energy consumption declined for the second consecutive year in 2011. As regards the taxation of energy products, some tax differentiations that are not justified from the environmental point of view[6] increased further in 2011 and 2012. For example, in 2011 and 2012 the excise duty on diesel fuel was about a fifth and a quarter lower respectively than the excise duty on petrol. Taking into account the possibility of reimbursement of the paid excise duty for commercial purposes, the difference is even higher. The shift towards greater integration of environmental criteria into the taxation of motor fuels was partly achieved through the implementation of the $CO_2$ tax in July 2012. As regards revenue from transport taxes, the decline that began in 2009 continued in 2011. In our estimate, lower revenue in 2011 was the result of reduced purchases of new cars, which was reflected in lower revenue from the tax on new motor vehicles[7], while revenue from annual registration fees increased. Most of the burden of transport taxes in Slovenia falls on the use and purchase of cars by natural persons. For example, annual fees on the use of motor vehicles in road traffic by natural persons represent 60% of revenue from transport taxes, while revenue from the tax on new motor vehicles, which also mostly burdens individuals, represents over 25% of revenue from transport taxes. The increase in revenue in 2011, although modest, was achieved only in taxes on pollution and use of natural resources as a result of higher revenue from water consumption charges and local utility charges, while revenue from the environmental pollution charge due to the discharge of wastewater remained at the previous year's level.

[1] Among EU Member States, only Luxembourg and Cyprus recorded larger contributions of fuel consumption in road transport to energy intensity. In addition, the tax burden on motor fuels is usually higher than on other energy products, so their high share in the structure of energy products additionally increases revenue from energy taxes.

[2] In 2010, electricity prices for typical household consumers in Slovenia were 83% of the EU average (similarly in 2012); the level for petrol was 90% and for diesel fuel 98% (in 2012 both stood at 91% of the EU average). So in recent years prices adjusted for purchasing power have already reached the EU average.

[3] In 2009, Slovenia had 521 cars per 1,000 inhabitants. Only four EU Member States recorded a higher figure.

[4] Among the 16 EU Member States analysed, only in three was it lower than in Slovenia. It was highest in the Netherlands, almost ten times higher than in Slovenia (source: OECD Environmental Performance Review: Slovenia, 2012).

[5] According to the Ministry of Finance, the final amount on which the excise duty was charged increased by about 14% for diesel fuel and 3% for petrol.

[6] For more, see Development Reports 2011 and 2012.

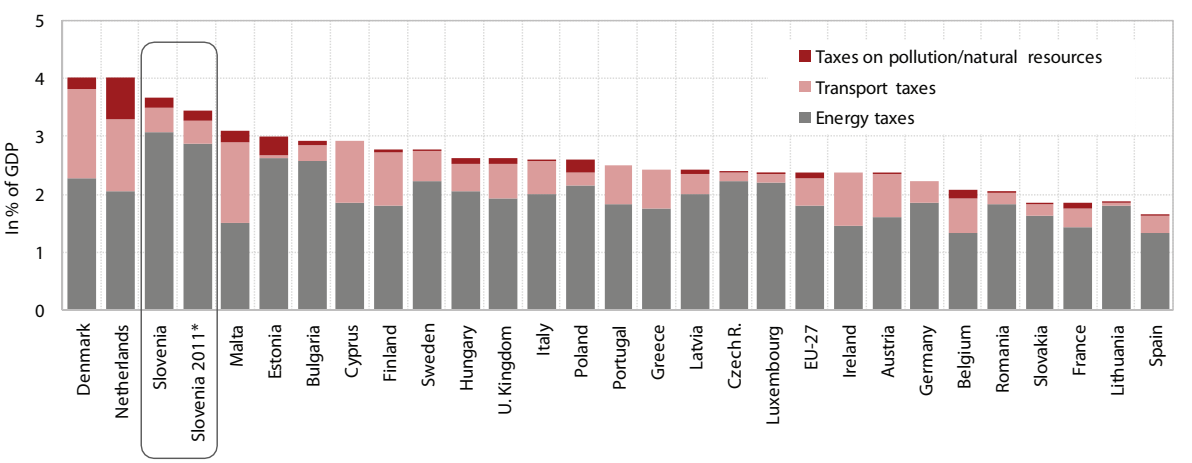
[7] Revenue from the tax on new motor vehicles decreased by 5.3% and first registrations of new cars used by individuals by 8.1% (SURS's data).

*Table*: **Implicit tax rate on energy consumption[1], in EUR/toe, 1995–2010**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|---|
| Austria | 124.1 | 138.9 | 141.9 | 136.2 | 141.4 | 141.7 | 145.0 | 135.3 |
| Belgium | 98.5 | 96.7 | 111.2 | 107.5 | 110.7 | 95.5 | 105.0 | 106.2 |
| Bulgaria | 19.4 | 40.4 | 50.6 | 51.8 | 67.4 | 73.9 | 73.3 | 68.8 |
| Cyprus | 29.7 | 43.2 | 127.2 | 123.9 | 122.4 | 110.3 | 112.9 | 130.6 |
| Czech Republic | 48.9 | 53.4 | 73.3 | 73.6 | 77.5 | 76.6 | 80.2 | 76.1 |
| Denmark | 215.7 | 299.2 | 290.1 | 280.9 | 277.2 | 276.5 | 283.5 | 289.4 |
| Estonia | 9.5 | 31.4 | 62.6 | 66.6 | 68.9 | 70.8 | 87.9 | 86.3 |
| Finland | 104.0 | 106.7 | 109.1 | 104.2 | 101.3 | 109.4 | 112.3 | 103.8 |
| France | 169.7 | 166.5 | 156.2 | 156.9 | 154.4 | 147.0 | 152.7 | 147.1 |
| Greece | 187.9 | 117.3 | 101.0 | 96.9 | 102.3 | 99.2 | 105.9 | 158.0 |
| Ireland | 136.9 | 140.4 | 144.4 | 140.4 | 139.9 | 139.0 | 169.3 | 167.0 |
| Italy | 295.2 | 245.3 | 204.6 | 207.4 | 204.7 | 189.3 | 210.7 | 200.3 |
| Latvia | 17.4 | 48.1 | 71.4 | 71.1 | 70.8 | 67.9 | 67.3 | 61.6 |
| Lithuania | 23.0 | 57.5 | 72.0 | 69.8 | 73.2 | 72.8 | 79.4 | 72.4 |
| Luxembourg | 152.0 | 166.2 | 175.2 | 172.8 | 177.3 | 176.3 | 175.1 | 168.0 |
| Hungary | 72.1 | 77.1 | 74.6 | 77.7 | 78.6 | 76.4 | 76.0 | 76.0 |
| Malta | 82.0 | 132.8 | 153.7 | 167.6 | 234.7 | 158.7 | 171.9 | 174.1 |
| Germany | 169.3 | 191.9 | 187.9 | 184.4 | 190.5 | 181.9 | 192.2 | 183.9 |
| Netherlands | 119.9 | 153.5 | 172.2 | 184.5 | 175.1 | 188.4 | 195.3 | 184.9 |
| Poland | 29.0 | 58.7 | 84.5 | 86.1 | 92.9 | 91.4 | 91.6 | 88.6 |
| Portugal | 185.6 | 111.5 | 143.4 | 142.8 | 143.3 | 138.1 | 142.4 | 139.5 |
| Romania | 19.8 | 57.7 | 47.2 | 49.7 | 58.6 | 53.8 | 64.4 | 68.8 |
| Slovakia | 37.8 | 41.3 | 52.6 | 53.6 | 54.5 | 53.7 | 51.7 | 45.4 |
| **Slovenia** | **134.4** | **118.5** | **131.7** | **130.4** | **140.4** | **135.0** | **176.2** | **172.2** |
| Spain | 143.4 | 137.8 | 119.5 | 120.1 | 117.5 | 113.7 | 119.8 | 120.7 |
| Sweden | 155.3 | 179.9 | 216.7 | 220.0 | 218.6 | 221.9 | 228.4 | 214.4 |
| United Kingdom | 213.6 | 248.8 | 244.1 | 242.3 | 250.7 | 245.7 | 271.7 | 262.0 |

Source: Eurostat Portal Page – Sustainable Development Indicators, 2013.
Note: [1] Revenue from energy taxation (deflated) per unit of final energy consumption in thousand tonnes of oil equivalent (TOE).

*Figure*: **Revenue from environmental taxes, 2010**




Source: Eurostat Portal Page – Environment and Energy, 2012.

# 5.7 Agricultural intensity

***With the decline in utilised agricultural area, in 2011 the consumption of all mineral fertilisers remained about the same as in the previous year, while the consumption of main plant nutrients declined.*** After the rise in the previous year, consumption of mineral fertilisers in agricultural production in 2011 was down 0.4%, which was a 4.9% rise calculated to the unit of utilised agricultural area (UAA)[1]. Consumption of main plant nutrients (NPK fertilisers)[2] was down 4.0%, while per unit of UAA it was up 1.1%. The decline in the consumption of plant nutrients was achieved over a longer period, so that in 2011 it was 18.7% lower than in 2005, and per unit of UAA, which is also declining, 9.8% lower. Lower fertilisation intensity is desirable not only in terms of the quality of produce but also in terms of possible pollution of groundwater and consequently drinking water. Despite the decline, consumption in Slovenia is still much higher than in the EU as a whole and in neighbouring countries[3] (2010 figures: Slovenia 103.0 kg/ha, EU-27 85.2 kg/ha, Italy 60.3 kg/ha, Austria 46.7 kg/ha, Hungary 72.1 kg/ha).

***Pesticide consumption continued to decline in 2011.*** The total quantity of active ingredients in pesticides sold in Slovenia, which are not used solely in agriculture[4], decreased by 1.1% in 2011 and was thus a fifth lower than in 2005. Measured per unit of UAA, this was a rise of 4.2% relative to the previous year, when consumption was at one of the lowest levels in the period analysed. A rough international comparison[5] of pesticide consumption per unit of UAA shows that pesticide consumption in Slovenia is comparable to countries with similar breakdowns of cultivated plants and similar conditions for agricultural production; it is lower in Austria and Hungary, but higher in Italy.

***Agricultural efficiency, measured by average yields of the most important crops and in livestock production by milk yield per animal, improved in 2011.*** Average yield of wheat increased by 7.8% and of maize for grains by 1.7% and was thus for both crops the highest in the period analysed. The area sown with maize was greater, so total output was also up, while the area sown with wheat was smaller and total output remained the same as in the previous year. Average yields are on the rise, so for wheat they are already close to the EU average (2011: Slovenia 5.2 kg/ha, EU-27 5.3 kg/ha, Italy 3.8 kg/ha, Austria 5.9 kg/ha, Hungary 4.2 kg/ha), while for maize they are higher (2011: Slovenia 8.7 kg/ha, EU-27 7.7 kg/ha, Italy 9.8 kg/ha, Austria 11.3 kg/ha, Hungary 6.5 kg/ha). On the other hand, Slovenia has relatively high livestock production measured by the number of animals per unit of utilised agricultural area. GHG emissions from this source are therefore relatively high, although in a downward trend[6]. Despite the modest increase, in Slovenia the average milk yield per animal, which should be slightly increased with a view to reducing the environmental burden per unit of output, remained relatively low in 2011 (Slovenia 5.5 l/animal, EU-15 7.1 l/animal, Italy 6.5 l/animal, Austria 6.2 l/animal, Hungary 7.2 l/animal).

***Organic and integrated farming increased in 2011, but much higher growth is needed to achieve the objectives.*** The number of agricultural holdings involved in controlled sustainable (organic and integrated) farming[7] grew by 1.6% in 2011, while the total area grew by 2.1%. The area cultivated using integrated methods was up 0.8%, while the area cultivated organically, which is one of the most efficient ways of sustainably using natural resources, was up by 4.8%. A fifth of total UAA was thus cultivated sustainably; two thirds in integrated and one third in organic farming. A large majority of the latter is permanent grassland. However, in the last few years the increases have no longer met the targets set in the Rural Development Programme 2007–2013 (64,000 hectares by 2013) and the Action Plan for Organic Farming (20% of UAA by 2015). Only 32,100 hectares of land were organically farmed in 2011, which is 7.0% of UAA. Nevertheless, due to high growth in the initial period the share is higher than in the EU as a whole and in Hungary, but lower than in Italy and much lower than in Austria, which has the highest share in the EU.

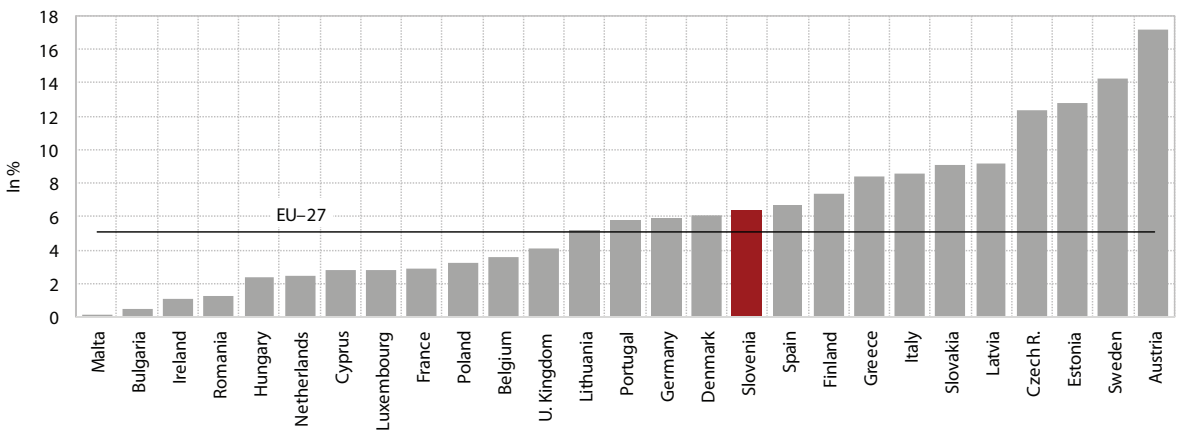
[1] Utilised agricultural area decreased by 5.1% in 2011, from 483,000 hectares to 458,000 hectares.
[2] NPK fertilisers are mineral fertilisers that contain the three most important plant nutrients: nitrogen, phosphorus and potassium.
[3] Comparison with neighbouring countries that have similar conditions for agricultural production.
[4] Pesticides are also used for other purposes such as maintaining of railways and roads, golf courses, parks and lawns.
[5] The figures for quantity are a sum of active ingredients with greatly varying levels of toxicity, so that a comparison of pesticide consumption between countries is not really appropriate. Slovenia uses a significant amount of older types of pesticides. They are biologically weaker and have to be used in greater quantities, but place a lower load on the environment.
[6] According to data and calculations by the Agricultural Institute of Slovenia.
[7] Controlled agricultural holdings are those that have certificates as well as those that are in conversion. The period of conversion from conventional to organic farming lasts at least two years; for permanent crops three years.

*Table*: **Selected agricultural intensity indicators, Slovenia, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **NPK fertiliser use** | | | | | | | | | |
| Use per unit of utilised agricultural area, kg/ha | 134.6 | 146.8 | 115.3 | 119.6 | 115.6 | 104.9 | 94.8 | 103.0 | 104.1 |
| **Pesticide sales** | | | | | | | | | |
| Pesticide sales, total, active substance, 1000 t | N/A | 1.47 | 1.41 | 1.28 | 1.16 | 1.22 | 1.16 | 1.13 | 1.12 |
| **Production intensity** | | | | | | | | | |
| Average yield of wheat, t/ha | 4.2 | 4.2 | 4.7 | 4.2 | 4.2 | 4.5 | 4.0 | 4.8 | 5.2 |
| Average yield of maize, t/ha | 6.3 | 5.9 | 8.3 | 6.9 | 7.5 | 7.3 | 7.8 | 8.5 | 8.7 |
| Number of livestock units per hectare, no./ha | N/A | 1.0 | 0.9 | N/A | 0.9 | N/A | N/A | 0.9 | N/A |
| Average milk yield per animal, t/cow | N/A | 4.5 | 4.9 | 5.3 | 5.9 | 5.6 | 5.5 | 5.3 | 5.5 |
| **Sustainable production** | | | | | | | | | |
| Controlled areas with organic farming, 1000 ha | N/A | 5.4 | 23.2 | 26.8 | 29.3 | 29.8 | 29.4 | 30.7 | 32.1 |
| Controlled organic farms, 1000 | N/A | 0.6 | 1.7 | 1.9 | 2.0 | 2.1 | 2.1 | 2.2 | 2.4 |
| Controlled areas with integrated farming, 1000 ha | N/A | N/A | 44.6 | 49.9 | 56.9 | 57.6 | 57.5 | 58.9 | 59.3 |
| Controlled integrated farms, 1000 | N/A | N/A | 5.5 | 5.8 | 6.0 | 5.9 | 5.6 | 5.5 | 5.4 |

Sources: SI-STAT data portal – Environment and natural resources – Agriculture and fishing, 2012; Website of the Ministry of Agriculture and the Environment; calculations by IMAD.
Note: N/A- not available

*Figure*: **Share of organic farming areas, 2010**




Source: Eurostat Portal Page – Statistics – Agriculture and Fisheries, 2012; SURS, 2012.

# 5.8 Tree-felling intensity

***After many years of increase, total forest area slightly declined for the second consecutive year in 2011.*** At the end of 2011, forests covered around 1,184,000 hectares in Slovenia, which was again slightly less than in the previous year, but 1.3% more than in 2005. This was the second decline in total forest area after it had grown rapidly in the previous century and then remained roughly unchanged in the past few years. Forests have an important role to play, both from the economic perspective and with regard to climate, water protection and other environmental factors. Nearly 60% of Slovenia's total area is covered with forest, which ranks Slovenia third in Europe behind Finland and Sweden. Changes at the local level are also important. In the past they were not favourable, as forests were mainly expanding in remote areas while shrinking in areas of intensive agriculture and especially suburban areas, where there is already little forest left[1].

***Tree felling increased significantly in 2011; however, in terms of potential felling it was still relatively low.*** Three removal, which has been rising for a number of years, went up by 15.5% in 2011 and was thus a fifth higher than in 2005. Because potential felling[2] according to the forestry management plans was also increasing, the gap between actual felling and potential felling did not shrink. In 2011, 71% of potential felling was carried out (a year earlier 63%, in 2005, 75%). The shortfall is almost entirely the result of insufficient tree felling in privately-owned forests, which account for nearly three quarters of total forest area[3]. Most felling was for tree-tending and sanitary purposes, while felling for forest clearance and infrastructure was relatively insignificant. Sanitary felling, which is vital for forest development and is therefore the largest factor, increased by almost a quarter last year, so its share in total falling also increased significantly (to 76%, in 2005 around 58%). Felling for infrastructure again went up, but there was little sanitary felling, since in 2011 there were no natural disasters that could harm the forest stands and there were no major problems with forest pests. Felling for forest clearance and unlawful forest activities – their shares in total felling are low – also decreased.

***The intensity of tree felling[4], having been relatively low in the entire period analysed, increased in 2011.*** With a higher increase in felling than wood increment, the intensity of tree felling increased by 5.6 percentage points to 47.1%. This was one of the highest fellings in the period analysed, but still relatively modest. Tree-felling intensity in Slovenia is in fact among the lowest in the EU. It was 17 percentage points lower than the EU average in 2005. The Action Plan to Increase Competitiveness of the Forest-Wood Chain in Slovenia by 2020[5] envisages that tree-felling intensity could increase to 75%. Slovenia could cut down 6.5 million $m^3$ of wood per year (in 2011 3.9 million $m^3$ were cut down) without jeopardising the stability of forests and their habitats.

***With the increase in tree felling, roundwood production also increased, while its breakdown remained unfavourable.*** Roundwood production grew by 15.0% in 2011, but its rather unfavourable breakdown did not improve. After two years of decline, the production of roundwood for saw logs and veneers, i.e. the highest-quality wood with high value added, went up by only 9.0%. The volume of pulpwood and stackwood increased more (by 20.3%), but the production of lower-quality wood, i.e. wood for industrial processing and heating, increased the most (by 21.2%). After several years of fluctuation, roundwood production in the EU as a whole remained at about the same level as in the previous year, but its breakdown was on average much better than in Slovenia. Whereas in Slovenia less than two thirds of wood has been used for industrial processing in recent years (more than a third has been used for heating), in the EU as a whole around four fifths of wood has been used for industrial processing (and a fifth for heating). Net exports of roundwood are also growing extremely fast in Slovenia, while exports of wood products are decreasing. Roundwood exports have been increasing significantly, particularly after 2005 – by more than a third in 2011 alone. As raw material exports mean less value added and untapped development potential, this is not a favourable trend.

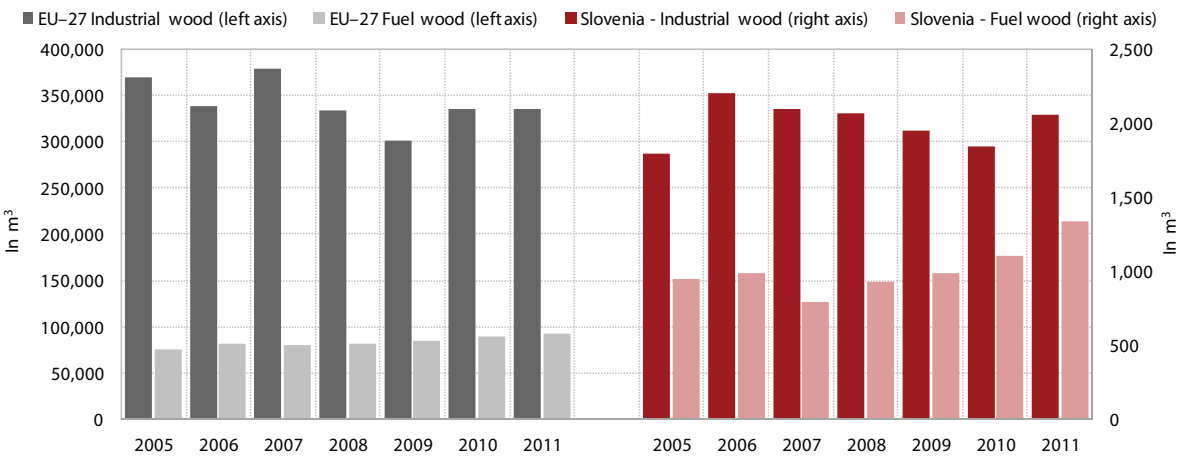
[1] Source: Resolution on the National Forest Programme, 2007 (OG RS, No. 111/07).
[2] Potential felling is determined by forestry management plans, which are based on plans of individual forestry management units. Through them the Slovenian Forest Service attempts to provide sustainable development (long-term stability) of all forests and their habitats, irrespective of ownership.
[3] Some analyses (Kranjc, Piškur, 2006) show that tree felling in privately-owned forests is underestimated. Based on analysis of measurements in permanent sampling areas, they conclude that the intensity of tree felling in privately-owned forests is higher due to unlawful felling.
[4] Ratio of annual felling to annual wood increment.
[5] Adopted by the Government of the Republic of Slovenia in June 2012.

*Table*: **Forest area, wood increment, growing stock, felling and felling intensity, Slovenia, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Forest area, thousand ha | 1,098 | 1,134 | 1,169 | 1,174 | 1,183 | 1,185 | 1,186 | 1,185 | 1,184 |
| Annual increment, 1000 $m^3$ | 5,995 | 6,872 | 7,569 | 7,652 | 7,822 | 7,869 | 7,985 | 8,117 | 8,266 |
| Growing stock, 1000 $m^3$ | 228,493 | 262,795 | 300,795 | 307,689 | 318,107 | 322,195 | 327,459 | 330,982 | 334,105 |
| Annual removal, 1000 $m^3$ | 2,092 | 2,609 | 3,236 | 3,718 | 3,242 | 3,427 | 3,374 | 3,374 | 3,896 |
| of which: tending | 1,325 | 1,849 | 1,873 | 2,288 | 1,966 | 2,100 | 2,196 | 2,389 | 2,963 |
| regeneration | 12 | 19 | 17 | 18 | 13 | 9 | 12 | 16 | 16 |
| protection - sanitation | 589 | 553 | 1.212 | 1.224 | 1.080 | 1.128 | 929 | 698 | 660 |
| for infrastructure | 15 | 40 | 49 | 50 | 48 | 61 | 64 | 64 | 88 |
| clearance | 35 | 53 | 65 | 86 | 87 | 68 | 82 | 122 | 89 |
| unlicensed | 113 | 91 | 35 | 49 | 38 | 48 | 74 | 68 | 60 |
| other | 2 | 3 | 2 | 1 | 9 | 12 | 16 | 16 | 20 |
| Felling intensity[1], % | 34.9 | 38.0 | 42.8 | 48.6 | 41.4 | 43.6 | 42.3 | 41.6 | 47.1 |

Source: SI-STAT data portal – Environment and natural resources – Forestry and hunting, 2012; Slovenia Forest Service, 2012; calculations by IMAD.
Note: [1] Ratio of annual removal levels to the annual wood increment.

*Figure*: **Structure and growth of roundwood production**




Source: Eurostat Portal Page – Statistics – Agriculture and Fisheries – Forestry, 2013; calculations by IMAD.

# 5.9 Age-dependency ratio

***The total age dependency ratio[1] continues to rise.*** The dependency ratio of children was decreasing up until 2003, mainly due to the decline in the number of births and thus the number of children, and in the 2004–2008 period because the number of births was growing more slowly than the working-age population, influenced by strong immigration. The young-age dependency ratio has been slowly increasing since 2009. Until 2011 the number of births was increasing more rapidly than the working-age population, which in 2012 started to decline. On the other hand, the old-age dependency ratio has been continuously increasing for a quarter of a century due to increasing life expectancy. At the beginning of 2012[2] Slovenia had 20.8 young people and 24.4 old people per 100 working-age population (together 45.1), which is 0.4 young people and 2.6 old people more than in 2005 and 0.3 young people and 0.5 old people more than in the previous year.

***The number of older people exceeded the number of children by more than 17%[3] in 2012, so the increase in the ageing index, which was put temporarily on hold in 2011, continued.*** The number of people aged 65 and over was higher than the number of children for the first time ever in 2003, while the ageing index, which is the ratio between these two population groups, exceeded 100. At the beginning of 2011 the ageing index was for the first time in the period shown to be slightly lower (116.5) than a year before, owing to higher fertility in 2010 and a much smaller generation of 65-year-olds that entered the group of older people at the beginning of 2011. Following previous trends, at the beginning of 2012 the ageing index again increased (to 117.3). The share of children in the population was slightly higher than a year before (14.3%, i.e. similar to 2005), while the share of older people increased even more (to 16.8%, which is 1.5 percentage points more than in 2005). The numbers of the working-age population (15–64 years) declined slightly for the second consecutive year, whereas the share of the working-age population in the total population (68.3%) has been declining since 2005[4] (despite high positive net migration at that time)[5], which is generally a consequence of the weak inflow of young people compared to the increased outflow of people over 65. In 2012 the first larger post-war generation (people born in 1947)[6] was classified among older people, which will additionally contribute to the increase in the share of older people, so an important challenge for Slovenia on the road to sustainable public finance (see indicator 4.7) will be to increase the activity of older people. The number of people over 80 has also been growing very rapidly (on average by 6% per year in the past 12 years), which requires systemic adjustments in expenditure on long-term care (see indicator 4.9).

***The old-age dependency ratio in Slovenia is still below the EU average, but the gap is closing.*** Most of the large EU Member States have higher life expectancies than Slovenia.[7] The ratio of old people to total population in the EU as a whole is therefore also higher. Other countries also have low shares of children. Since the share of working-age population is decreasing, they face similar problems related to population ageing. In all Member States except Lithuania – in which it did not change – the old-age dependency ratio increased in 2012 (EU 2012: 26.8 old people per 100 working-age population, 2.4 percentage points more than in Slovenia). The gap, which had been slowly closing up to 2009, slightly increased in the last three years. The old-age dependency ratio remains the highest in Germany, Italy and Greece, the countries which also have the highest shares of older people in the total population, while in addition to these countries Sweden has the highest share of people over 80 years of age.

[1] The age dependency of the population is measured by three ratios: a) the old-age dependency ratio, which is the ratio of the population aged 65+ to the working-age population (15–64 years); b) the young-age dependency ratio, which is the ratio of the population aged 0–14 to the working-age population; and c) the total age dependency ratio, which is the ratio of the young and old populations to the working-age population.

[2] Because Eurostat publishes detailed data on population by age only as of 1 January, for comparability with data for EU Member States the analysis of the age structure of Slovenia's population is shown as of 1 January.

[3] Older people: aged 65+; children: aged 0–14.

[4] This decline was also partly due to the change in the statistical definition of the permanent population in 2008, which does not include persons who have lived in Slovenia or have been absent from Slovenia for less than one year. However, the impact of the change is not significant. In 2008, the last year for which data are available according to both definitions, the share of the working-age population in the total population was 70.0% according to the previous definition, and 69.8% according to the new definition, which does not include foreigners with temporary residence.

[5] See indicator 5.12.

[6] The effect will be evident in population data as of 1 January 2013.

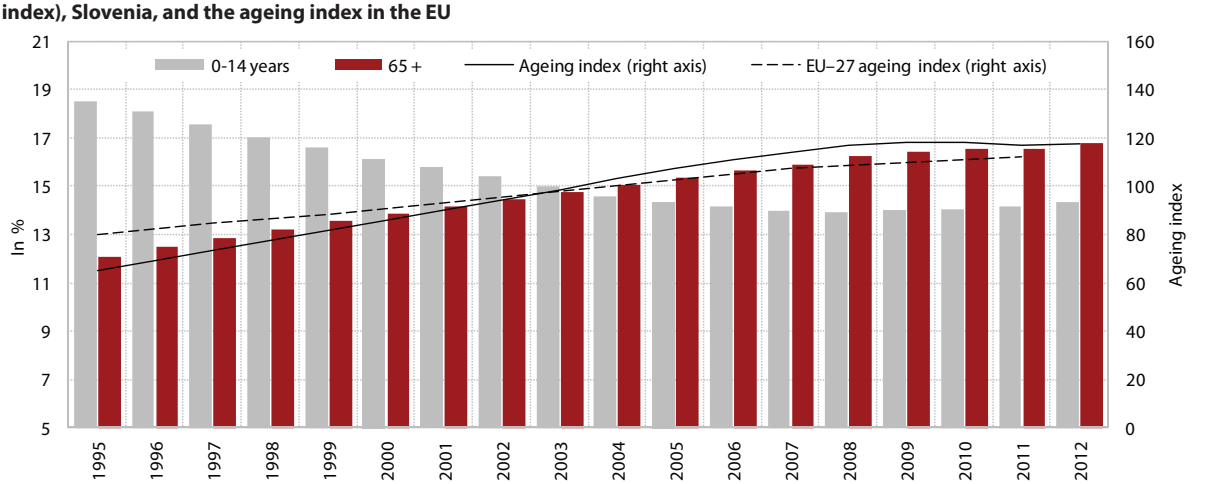
[7] See indicator 5.10.

*Table*: **Age-dependency ratio of the population aged 65+, in %**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **21.9** | **23.2** | **24.7** | **24.9** | **25.2** | **25.4** | **25.6** | **25.9** | **26.2** | **26.8** |
| Austria | 22.5 | 22.9 | 23.5 | 24.3 | 25 | 25.4 | 25.7 | 26.1 | 26.0 | 26.2 |
| Belgium | 23.8 | 25.5 | 26.3 | 26.2 | 25.9 | 25.8 | 25.9 | 26.0 | 26.0 | 26.4 |
| Bulgaria | 22.2 | 23.8 | 24.8 | 24.9 | 24.9 | 25 | 25.2 | 25.4 | 27.0 | 27.8 |
| Cyprus | 17.2 | 17 | 17.3 | 17.3 | 17.6 | 17.8 | 18.2 | 17.8 | 18.0 | 18.1 |
| Czech Republic | 19.3 | 19.8 | 19.8 | 20 | 20.2 | 20.5 | 20.9 | 21.6 | 22.3 | 23.4 |
| Denmark | 22.7 | 22.2 | 22.7 | 22.9 | 23.2 | 23.6 | 24.1 | 24.9 | 25.7 | 26.7 |
| Estonia | 20.2 | 22.4 | 24.3 | 24.5 | 25.1 | 25.3 | 25.2 | 25.2 | 25.2 | 25.5 |
| Finland | 21.1 | 22.2 | 23.8 | 24 | 24.8 | 24.8 | 25.2 | 25.6 | 26.5 | 27.7 |
| France | 22.7 | 24.3 | 25.1 | 25.1 | 25.1 | 25.2 | 25.4 | 25.6 | 25.8 | 26.6 |
| Greece | 22.2 | 24.2 | 26.8 | 27.6 | 27.6 | 27.8 | 27.9 | 28.4 | 29.0 | 29.9 |
| Ireland | 17.8 | 16.8 | 16.3 | 16 | 15.8 | 15.9 | 16.2 | 16.8 | 17.2 | 17.9 |
| Italy | 24 | 26.8 | 29.3 | 29.8 | 30.2 | 30.4 | 30.6 | 30.8 | 30.9 | 31.6 |
| Latvia | 20.5 | 22.1 | 24.1 | 24.4 | 24.8 | 24.9 | 25.1 | 25.2 | 27.2 | 27.7 |
| Lithuania | 18.5 | 20.8 | 22.3 | 22.5 | 22.7 | 23 | 23.2 | 23.3 | 26.6 | 26.9 |
| Luxembourg | 20.6 | 21.4 | 20.9 | 20.8 | 20.7 | 20.6 | 20.5 | 20.4 | 20.3 | 20.3 |
| Hungary | 20.9 | 22 | 22.7 | 22.9 | 23.2 | 23.5 | 23.8 | 24.2 | 24.4 | 24.6 |
| Malta | 16.3 | 17.9 | 19.3 | 19.8 | 19.8 | 19.8 | 20.1 | 21.2 | 22.6 | 23.9 |
| Germany | 22.5 | 23.9 | 27.8 | 28.9 | 29.9 | 30.4 | 30.9 | 31.4 | 31.2 | 31.2 |
| Netherlands | 19.3 | 20 | 20.8 | 21.1 | 21.5 | 21.8 | 22.3 | 22.8 | 23.3 | 24.4 |
| Poland | 16.6 | 17.8 | 18.7 | 18.9 | 19 | 18.9 | 18.9 | 19.0 | 18.9 | 19.4 |
| Portugal | 21.9 | 23.7 | 25.2 | 25.4 | 25.6 | 25.9 | 26.3 | 26.7 | 28.9 | 29.6 |
| Romania | 17.6 | 19.3 | 21.1 | 21.2 | 21.3 | 21.3 | 21.3 | 21.4 | 21.3 | 21.5 |
| Slovakia | 16.3 | 16.6 | 16.3 | 16.4 | 16.5 | 16.6 | 16.7 | 16.9 | 17.5 | 17.8 |
| **Slovenia** | **17.4** | **19.8** | **21.8** | **22.2** | **22.7** | **23.3** | **23.6** | **23.8** | **23.9** | **24.4** |
| Spain | 22.2 | 24.5 | 24.4 | 24.3 | 24.2 | 24.1 | 24.3 | 24.7 | 25.2 | 25.8 |
| Sweden | 27.4 | 26.9 | 26.5 | 26.4 | 26.4 | 26.7 | 27.1 | 27.7 | 28.4 | 29.2 |
| United Kingdom | 24.5 | 24.3 | 24.3 | 24.2 | 24.1 | 24.3 | 24.6 | 24.9 | 25.3 | 25.9 |

Source: Eurostat Portal Page - Population and social conditions – Population, 2013.
Note: N/A – not available.

*Figure*: **Old (65+) and young (0–14) population as a percentage of the total population and the ratio between them (ageing index), Slovenia, and the ageing index in the EU**




Source: SURS, 2012, calculations by IMAD.

# 5.10 Life expectancy and healthy life years

***Life expectancy in Slovenia increased again in 2011, slightly more for men.*** If mortality rates remained the same, a girl born in 2011 could expect to live 82.9 years and a boy 76.6 years. This is about 2.4 months and 3.6 months, respectively, more than for a girl/boy born a year earlier and 2.5 years and 1 year, respectively, more than for a girl/boy born in 2005. The gender gap, which stood at almost 8 years in the early 1990s, narrowed to 6.3 years in 2011 (by just over a month over the previous year). In most of the countries the narrowing of the gap was partly due to smaller differences in lifestyle risk factors (such as smoking) and a decline in male mortality due to cardiovascular diseases[1]. In recent years the mortality rate for men aged 65–74 has decreased, while for men aged 80–84 it has increased. In 2011 the mortality rate for men increased significantly only at age 80+ and decreased primarily for age groups 50–59 and 70–74. Now the mortality rate for women has increased in the age group 60–64 years (in which the share of deaths due to mental and behavioural disorders, diseases of the circulatory system, diseases of the respiratory system and diseases of the digestive system was significantly higher) and 85+. A total of 61.1% of women and 31.6% men who died in 2011 were over 80 years old. Life expectancy at birth continues to increase in most EU Member States, which can be attributed to several factors: higher living standard[2], healthier lifestyle, better education and greater access to health services.[3] Due to the shorter life expectancy for men, life expectancy in Slovenia is slightly lower than in the EU as a whole. In 2011 life expectancy in Slovenia (80.1 years) was again lower than in the older Member States (except for Denmark) and higher than in the new Member States (except for Cyprus and Malta). This is also true for the life expectancy of men, while as regards women Slovenia is slightly better ranked.

***A child born in 2011 can expect to live around 54 healthy life years[4], which is the lowest number after 2005 since the data are available.*** In 2011 the number of years spent without activity limitation in Slovenia was 54 for men and 53.8 years for women, which was 2.4 and 6.3 years less than in 2005. In contrast to life expectancy, in 2011 there was almost no gender gap, after having stood at around 3.5 years in favour of women in the 2005–2007 period and around 1 year in favour of women in the 2008–2010 period. According to this indicator, the quality of life for women declined more than it did for men. But because this indicator measures subjective perception, results can indicate greater criticism and sensitivity to limitation (during the crisis) in evaluating one's own position. A girl born in 2011 could expect to live 64.5% of her life without limitations in everyday activities (76% in 2007, when the share was the highest) and a boy 70.3% (79.9% in 2009, when the share was the highest). A woman aged 65 in 2011 can expect to live 6.9 more healthy life years and a man 6.2 years, i.e. 32.5% of the rest of their life for women and 36.9% for men. In 2011, life expectancy for men over 65 was 16.9 years and for women over 65 it was 21.2 years.

***In terms of the healthy life years indicator, in the past two years Slovenia has been ranked at the very end of the EU Member States.*** The number of years spent without activity limitation, which for women drew close to the EU average in 2005–2009, again shifted away significantly in 2010 and 2011 (EU 2011: 62.2 years for women and 61.8 years for men) – for both genders by about 8 years (more for women), which was the second lowest number of healthy life years in the EU. In the last two years (2010 and 2011) Slovenia was the country with the lowest number of years spent without activity limitation in total life expectancy in the EU, and thus with the greatest difference between life expectancy and the number of healthy life years, which indicates a much lower quality of life for older people than in other EU Member States.

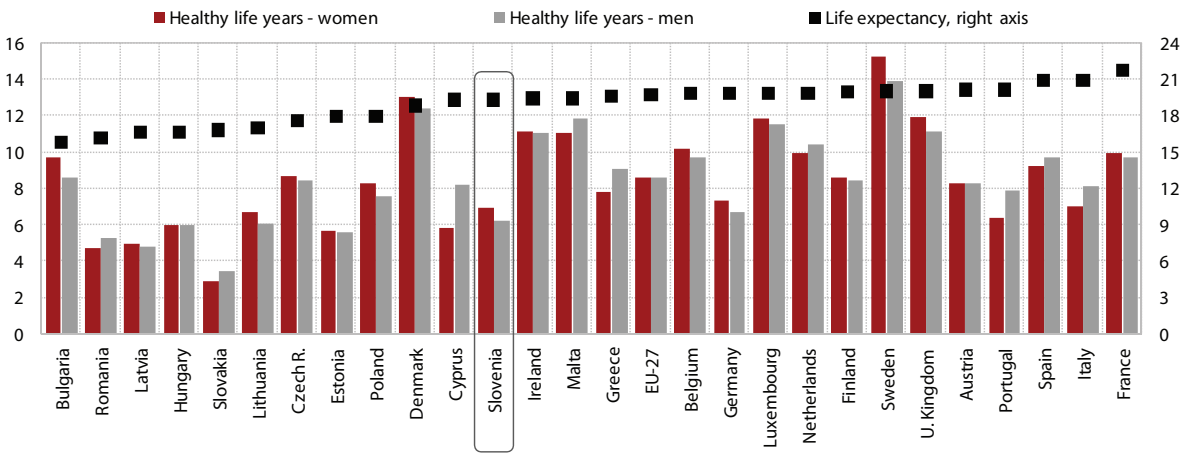
[1] OECD (2012), Health at a Glance Europe 2012.
[2] Over a longer period, since it is decreasing with the crisis (author's note).
[3] OECD (2012), Health at a Glance Europe 2012 po OECD (2011), How's Life? Measuring Well-being.
[4] Eurostat defines the number of healthy life years as the number of years spent free of activity limitation, This indicator of the quality of life is calculated on the basis of mortality statistics and data on own perception of limitations, which Eurostat obtains from the health module that is part of the EU-SILC survey (Statistics of Incomes and Living Conditions) (Healthy life years statistics, http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Healthy_life_years_statistics).

*Table*: **Life expectancy in Slovenia and EU Member States, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **N/A** | **N/A** | **78.5** | **79** | **79.2** | **79.4** | **79.7** | **80.0** | **80.4** |
| Austria | 76.9 | 78.3 | 79.5 | 80.1 | 80.4 | 80.6 | 80.5 | 80.8 | 81.2 |
| Belgium | 77.0 | 77.9 | 79.1 | 79.5 | 79.9 | 79.8 | 80.1 | 80.3 | 80.5 |
| Bulgaria | 71.0 | 71.6 | 72.5 | 72.7 | 73 | 73.3 | 73.7 | 73.8 | 74.2 |
| Cyprus | 77.4 | 77.7 | 78.9 | 80.3 | 80.1 | 80.8 | 81.1 | 81.5 | 81.2 |
| Czech Republic | 73.3 | 75.1 | 76.1 | 76.8 | 77 | 77.3 | 77.4 | 77.7 | 78.0 |
| Denmark | 75.3 | 76.9 | 78.3 | 78.4 | 78.4 | 78.8 | 79.0 | 79.3 | 79.9 |
| Estonia | 67.7 | 70.8 | 72.8 | 73.1 | 73.1 | 74.3 | 75.2 | 76.0 | 76.5 |
| Finland | 76.7 | 77.8 | 79.1 | 79.5 | 79.6 | 79.9 | 80.1 | 80.2 | 80.6 |
| France | N/A | 79.2 | 80.3 | 80.9 | 81.3 | 81.4 | 81.5 | 81.8 | 82.3 |
| Greece | 77.5 | 78 | 79.2 | 79.5 | 79.4 | 80.0 | 80.2 | 80.6 | 80.8 |
| Ireland | 75.5 | 76.6 | 79.4 | 79.7 | 79.7 | 80.2 | 80.2 | 81.0 | 80.6 |
| Italy | 78.3 | 79.9 | 80.9 | 81.5 | 81.6 | 81.9 | 82.1 | 82.5 | 82.8 |
| Latvia | N/A | N/A | 71 | 70.9 | 71.2 | 72.5 | 73.3 | 73.7 | 73.9 |
| Lithuania | 69.1 | 72.2 | 71.3 | 71.1 | 70.9 | 72.0 | 73.2 | 73.5 | 73.8 |
| Luxembourg | 76.8 | 78 | 79.6 | 79.4 | 79.5 | 80.7 | 80.8 | 80.8 | 81.1 |
| Hungary | 70.0 | 71.9 | 73 | 73.5 | 73.6 | 74.2 | 74.4 | 74.7 | 75.1 |
| Malta | 77.2 | 78.4 | 79.4 | 79.5 | 79.9 | 79.7 | 80.3 | 81.4 | 80.9 |
| Germany | 76.7 | 78.3 | 79.4 | 79.9 | 80.1 | 80.2 | 80.3 | 80.5 | 80.8 |
| Netherlands | 77.6 | 78.2 | 79.6 | 80 | 80.4 | 80.5 | 80.9 | 81.0 | 81.3 |
| Poland | 72.0 | 73.8 | 75 | 75.3 | 75.4 | 75.6 | 75.9 | 76.4 | 76.9 |
| Portugal | 75.4 | 76.7 | 78.1 | 78.9 | 79.1 | 79.4 | 79.6 | 79.8 | 80.9 |
| Romania | 69.3 | 71.2 | 72.1 | 72.6 | 73.2 | 73.4 | 73.5 | 73.8 | 74.6 |
| Slovakia | 72.4 | 73.3 | 74.1 | 74.4 | 74.6 | 74.9 | 75.3 | 75.6 | 76.1 |
| **Slovenia** | **74.7** | **76.2** | **77.5** | **78.3** | **78.4** | **79.1** | **79.4** | **79.8** | **80.1** |
| Spain | 78.1 | 79.3 | 80.4 | 81.2 | 81.2 | 81.5 | 81.9 | 82.3 | 82.4 |
| Sweden | 79.0 | 79.8 | 80.7 | 81 | 81.1 | 81.3 | 81.5 | 81.6 | 81.9 |
| United Kingdom | 76.7 | 78 | 79.2 | 79.6 | 79.8 | 79.9 | 80.5 | 80.7 | 81.1 |

Source: Eurostat Portal Page – Population and social conditions – Population – Demography – Mortality, 2013.
Note: N/A – not available.

*Figure*: **Healthy life years at age 65 relative to life expectancy, 2011**



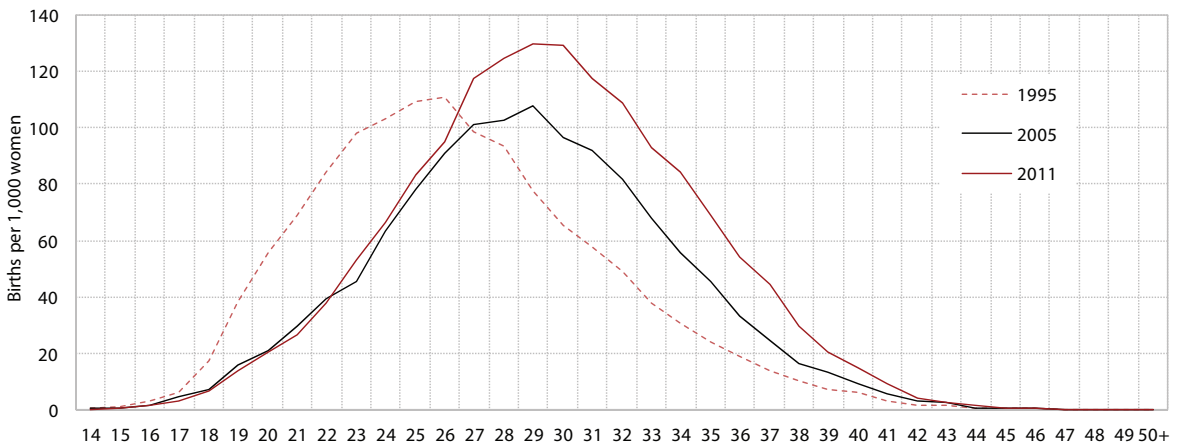

Source: Eurostat Portal Page – Population and social conditions – Health – Public Health, 2013; Eurostat Portal Page – Population and social conditions – Population – Demography – Mortality, 2013.

# 5.11 Fertility rate

***For the first time since 2003, in 2011 fewer children were born than in the previous year; this trend continued in 2012.*** A total of 21,947 children were born in 2011, 396 or 1.8% fewer than in the previous year but 26.7% more than in 2003, when the number started to rise. The total fertility rate[1] decreased slightly (from 1.57 to 1.56) but remained higher than in the 2005–2009 period. The fertility rate last stood at a level (2.11) that still enabled stable population renewal in 1980. In the first half of 2012, 1.8% fewer children were born than in the comparable period of 2011.

***The mean age of women at birth continued to rise in 2011. Women who gave birth in 2011 were on average just over a month older than women who gave birth a year before.*** The mean age of women at birth, which has been constantly rising since 1984, rose in 2011 to 28.8 years at first childbirth and to 30.4 years at all childbirths[2]. According to the latest data for 2009, it was slightly higher than in the EU as a whole. The fertility rate of women aged 35–39, which has been increasing for 20 years, again went up most; mothers in this age group gave birth to 14.5% of all children born in 2011 (0.9 percentage points more than a year before and 9 percentage points more than in 1993, when the share of children born to mothers in this age group started to rise). The mean age of women increased in the 2005–2011 period due to the increase in the fertility rates of women aged over 30, while after 2008 the downward trend in fertility rates of women under 25 years of age was halted. The fertility rate of women aged 25–29, which after 2008 was at the highest level in the past 30 years, also returned to a higher level. The share of children born outside marriage started to rise rapidly after 1980 (when it stood at 13%) and in 2011 reached 56.8%, which is the second highest share in the EU and can be linked to the openness and desecularization of society.

*Figure*: **Age specific fertility rates, Slovenia**




Source: SURS, 2012.

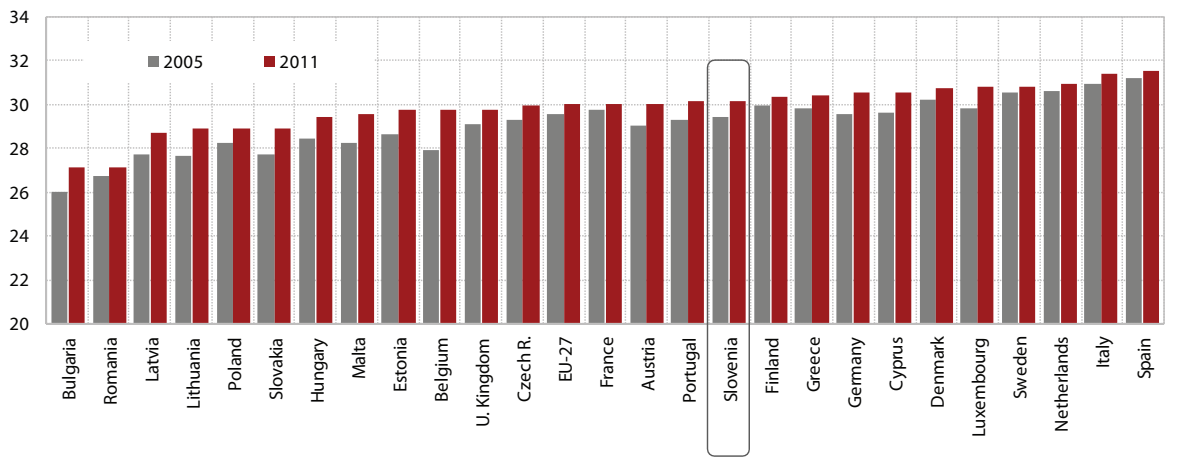
[1] The total fertility rate is the sum of age-specific general birth rates in a calendar year. It indicates the number of live births per woman if during her entire childbearing age the age-specific fertility rates were to remain unchanged from the given calendar year.
[2] This is partly the result of changes in the structure of women of childbearing age (15–49 years).

*Table*: **Total fertility rate in EU Member States, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **N/A** | **N/A** | **1.51** | **1.54** | **1.56** | **1.60** | **1.59** | **1.60** | **1.57** |
| Austria | 1.42 | 1.36 | 1.41 | 1.41 | 1.38 | 1.41 | 1.39 | 1.44 | 1.42 |
| Belgium | 1.56 | 1.67 | 1.76 | 1.80 | 1.82 | 1.85 | 1.84 | 1.86 | 1.81 |
| Bulgaria | 1.23 | 1.26 | 1.32 | 1.38 | 1.42 | 1.48 | 1.57 | 1.49 | 1.51 |
| Cyprus | 2.03 | 1.64 | 1.42 | 1.45 | 1.39 | 1.46 | 1.51 | 1.44 | 1.35 |
| Czech Republic | 1.28 | 1.14 | 1.28 | 1.33 | 1.44 | 1.50 | 1.49 | 1.49 | 1.43 |
| Denmark | 1.80 | 1.77 | 1.80 | 1.85 | 1.84 | 1.89 | 1.84 | 1.87 | 1.75 |
| Estonia | 1.38 | 1.38 | 1.50 | 1.55 | 1.63 | 1.65 | 1.62 | 1.63 | 1.52 |
| Finland | 1.81 | 1.73 | 1.80 | 1.84 | 1.83 | 1.85 | 1.86 | 1.87 | 1.83 |
| France | N/A | 1.89 | 1.94 | 2.00 | 1.98 | 2.01 | 2.00 | 2.03 | 2.01 |
| Greece | 1.31 | 1.26 | 1.33 | 1.40 | 1.41 | 1.51 | 1.52 | 1.51 | 1.42 |
| Ireland | 1.84 | 1.89 | 1.86 | 1.92 | 2.01 | 2.10 | 2.10 | 2.07 | 2.05 |
| Italy | 1.19 | 1.26 | 1.32 | 1.35 | 1.37 | 1.42 | 1.41 | 1.41 | 1.40 |
| Latvia | N/A | N/A | 1.31 | 1.35 | 1.41 | 1.44 | 1.31 | 1.17 | 1.34 |
| Lithuania | 1.55 | 1.39 | 1.27 | 1.31 | 1.35 | 1.47 | 1.55 | 1.55 | 1.76 |
| Luxembourg | 1.70 | 1.76 | 1.63 | 1.65 | 1.61 | 1.61 | 1.59 | 1.63 | 1.52 |
| Hungary | 1.57 | 1.32 | 1.31 | 1.34 | 1.32 | 1.35 | 1.32 | 1.25 | 1.23 |
| Malta | 1.81 | 1.70 | 1.38 | 1.39 | 1.37 | 1.44 | 1.43 | 1.38 | 1.49 |
| Germany | N/A | 1.38 | 1.34 | 1.33 | 1.37 | 1.38 | 1.36 | 1.39 | 1.36 |
| Netherlands | 1.53 | 1.72 | 1.71 | 1.72 | 1.72 | 1.77 | 1.79 | 1.79 | 1.76 |
| Poland | 1.62 | 1.37 | 1.24 | 1.27 | 1.31 | 1.39 | 1.40 | 1.38 | 1.30 |
| Portugal | 1.41 | 1.55 | 1.40 | 1.36 | 1.33 | 1.37 | 1.32 | 1.36 | 1.35 |
| Romania | 1.33 | 1.31 | 1.32 | 1.32 | 1.30 | 1.35 | 1.38 | 1.33 | 1.25 |
| Slovakia | 1.52 | 1.30 | 1.25 | 1.24 | 1.25 | 1.32 | 1.41 | 1.40 | 1.45 |
| **Slovenia** | **1.29** | **1.26** | **1.26** | **1.31** | **1.38** | **1.53** | **1.53** | **1.57** | **1.56** |
| Spain | 1.17 | 1.23 | 1.34 | 1.37 | 1.39 | 1.46 | 1.39 | 1.38 | 1.36 |
| Sweden | 1.73 | 1.54 | 1.77 | 1.85 | 1.88 | 1.91 | 1.94 | 1.98 | 1.90 |
| United Kingdom | 1.71 | 1.64 | 1.78 | 1.84 | 1.90 | 1.96 | 1.94 | 1.98 | 1.96 |

Source: Eurostat Portal Page – Population and social conditions – Population – Demography – Fertility, 2013.
Note: N/A – not available.

*Figure*: **Mean age of women at childbirth, 2005 and 2011**




Source: Eurostat Portal Page – Population and social conditions – Population – Demography – Fertility, 2013.

# 5.12 Migration coefficient

***The migration coefficient[1] in Slovenia was 1.0 in 2011, and again close to zero in the first half of 2012.*** After reaching the highest level on record in pre-crisis 2008 as a result of economic growth after Slovenia's accession to the EU and the Schengen Agreement, the migration coefficient started to fall in 2009 (to 5.6 per 1,000 population, which was still among the highest coefficients in the EU) and was negative in 2010 (-0.3; for the first time since 1998 more people emigrated from Slovenia than immigrated to it). In the 2007–2009 period around 30,000 people immigrated to Slovenia every year, while in 2010 immigration was cut in half. The reasons for the decline in net migration, which began in the second quarter of 2009 and accelerated in 2010, were the deteriorated labour market situation and stricter conditions for obtaining residence permits for foreign nationals in Slovenia. The migration coefficient increased slightly to 1.0 in 2011. The reason for population growth related to migration is the lower decline in immigration to Slovenia than emigration from Slovenia. According to SURS data, 14,083 people immigrated to Slovenia (down 8.6% on the previous year) and 12,024 people emigrated from Slovenia (down 24.6% on the previous year) in 2011. In the first half of 2012 the number of immigrants and emigrants was almost the same.

***The number of foreign nationals immigrating to Slovenia has been decreasing since 2009; most immigrants still come from the former Yugoslav republics.*** The greatest number of foreign nationals immigrated to Slovenia between 2007 and 2009, on average more than 27,000 per year. In 2010 the number of foreign immigrants dropped to just over 12,000 and in 2011 to just over 10,000, which is the lowest number since 2004. The highest share of foreign nationals who immigrated to Slovenia in 2011 was from Bosnia and Herzegovina (31.5%), followed by citizens of Serbia, Macedonia and Croatia (together 29.1%). In total almost 3.6-times fewer immigrants came from these countries than in 2007, when the largest number was recorded (23,410). Their net migration was again positive in 2011; a year before more of them emigrated than immigrated. Immigration from other EU Member states is still low; most of the immigrants came from Bulgaria (6.8% of all foreign immigrants) and Italy (3.0%). Most foreign nationals immigrated to Slovenia in 2011 to find employment (48.2%, but this is the lowest share after 2006) and to reunite with families (40.0%, twice as many as in the past). The mean age of foreign immigrants was 31.9 years. The number of foreign emigrants increased the most in 2009, when as many as 15,000 emigrated, twice as many as a year before. With the onset of the crisis, loss of employment and fewer opportunities to find work they probably emigrated elsewhere or returned home. Still, their net migration was 12,000. In 2010 the number of foreign immigrants and emigrants was almost the same, while in 2011 net migration was again positive (3,000). Among foreign nationals aged 15 or more who emigrated from Slovenia[2], 57.7% were aged 20–39, and most of them had basic (45.4%) or upper secondary (48.3%) education. Three out of four foreign emigrants aged 15 or more emigrated to the former Yugoslav republics, half of them to Bosnia and Herzegovina. More than half of foreign nationals who emigrated from Slovenia worked in construction (38.3%) and manufacturing (14.3%). The mean age of foreign emigrants was 37 years.

***Migration flows of Slovenian citizens have been relatively high since 2009.*** In the 2005–2007 period on average around 1,700 Slovenian citizens immigrated from abroad every year; and in the 2008–2011 period almost 2,900. In the 2005–2007 period on average 2,600 Slovenian citizens emigrated abroad every year; in the 2008–2011 period almost 4,300. Net migration of Slovenian citizens has been slightly negative since 2000[3]. Immigration and emigration flows of Slovenian citizens were the highest at the start of the crisis and in 2011, when 3,318 Slovenian citizens immigrated to Slovenia, 22.4% more than in the previous year and the most since 1995. In 2011, 4,679 Slovenian citizens emigrated from Slovenia, 19.8% more than in the previous year and the most since 2008. Almost half of the Slovenian citizens who emigrated in 2011 moved to the former Yugoslav republics and Germany. Among Slovenian emigrants aged 15 or more, 38.5% were aged 25–39 years; most of them had upper secondary (50.1%) or higher (35.1%) education. In the structure of emigrants with tertiary education, there is a high share of those aged 25–39 years, the share of young people who are willing to go to work abroad, so that we can expect larger emigration of this population group given the possibilities (see also Framework 6). A total of 40.3% of employed Slovenian emigrants worked in manufacturing, trade and construction. The mean age of Slovenian emigrants was 40.2 years and of Slovenian immigrants 38.5 years.

[1] The ratio of net migration to average population in a calendar year multiplied by 1,000 (net migration per 1,000 population); net migration is the difference between the number of immigrants and the number of emigrants in a calendar year.

[2] For the first time, this year SURS obtained data on socio-economic characteristics of emigrants by linking databases of regular annual statistics with data collected with the 2011 population census (see http://www.stat.si/eng/novica_prikazi.aspx?id=5226).

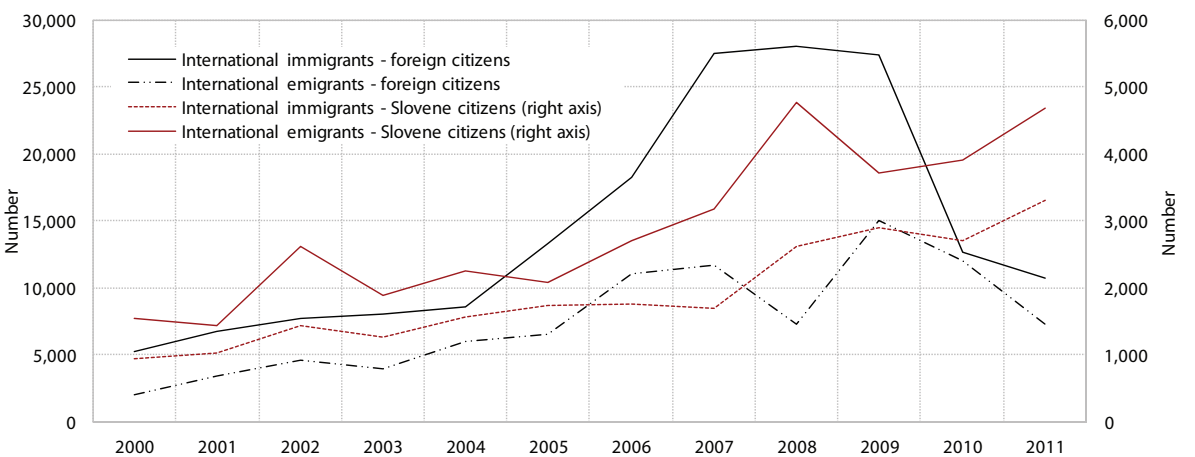
[3] The average migration coefficient of Slovenian citizens in the 2000–2011 period was -0.5 per 1,000 population.

*Table*: **Net migration (with statistical corrections), per 1,000 population, 1995–2011**

| | 1995 | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|
| **EU-27** | **1.4** | **2.3** | **3.6** | **3.2** | **3.9** | **2.8** | **1.8** | **1.9** | **1.7** |
| Austria | 0.3 | 2.2 | 6.1 | 3 | 4.1 | 4.1 | 2.5 | 3.3 | 4.4 |
| Belgium | 0.2 | 1.3 | 4.7 | 4.9 | 5.5 | 5.9 | 5.9 | 8.2 | 1.4 |
| Bulgaria | 0 | 0 | 0 | 0 | -0.2 | -0.1 | -2.1 | -3.2 | -0.7 |
| Cyprus | 9.2 | 5.7 | 19 | 11.2 | 9.4 | 4.5 | 2.3 | 19.2 | 21.3 |
| Czech Republic | 1 | 0.6 | 3.5 | 3.4 | 8.1 | 6.9 | 2.7 | 1.5 | 1.6 |
| Denmark | 5.5 | 1.9 | 1.2 | 1.9 | 3.7 | 4.6 | 2.8 | 3 | 2.4 |
| Estonia | -10.8 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0 | 0 | 0 |
| Finland | 0.8 | 0.5 | 1.7 | 2 | 2.6 | 2.9 | 2.7 | 2.6 | 3.1 |
| France | N/A | 2.7 | 3 | 1.8 | 1.2 | 0.9 | 1 | 1.1 | 1.2 |
| Greece | 7.3 | 2.7 | 3.6 | 3.6 | 3.6 | 3.2 | 3.1 | -0.1 | -1.3 |
| Ireland | 1.6 | 8.4 | 15 | 15.6 | 10.6 | 0.7 | -6.2 | -7.5 | -7.2 |
| Italy | 0.5 | 0.9 | 5.2 | 6.4 | 8.4 | 7.1 | 5.2 | 5.2 | 4 |
| Latvia | -5.5 | -2.3 | -0.2 | -1.1 | -0.3 | -1.1 | -2.1 | -3.5 | -11.2 |
| Lithuania | -6.5 | -5.8 | -2.6 | -1.4 | -1.6 | -2.3 | -4.6 | -23.7 | -12.6 |
| Luxembourg | 10.6 | 7.9 | 13.1 | 11.3 | 12.5 | 15.8 | 13.2 | 15.1 | 21.2 |
| Hungary | 1.7 | 1.6 | 1.7 | 2.1 | 1.4 | 1.6 | 1.7 | 1.2 | 1.3 |
| Malta | 0.2 | 2.3 | 4 | 5.3 | 4.2 | 5.9 | -0.4 | 5.4 | -0.3 |
| Germany | 4.9 | 2 | 1 | 0.3 | 0.5 | -0.7 | -0.1 | 1.6 | 3.4 |
| Netherlands | 1 | 3.6 | -1.4 | -1.6 | -0.1 | 1.9 | 2.3 | 2 | 1.8 |
| Poland | -0.5 | -0.5 | -0.3 | -0.9 | -0.5 | -0.4 | 0 | -0.1 | -0.1 |
| Portugal | 2.2 | 4.6 | 3.6 | 2.5 | 1.8 | 0.9 | 1.4 | 0.4 | -2.3 |
| Romania | -0.9 | -0.2 | -0.3 | -0.3 | 0 | 0.1 | -0.1 | 0 | -0.1 |
| Slovakia | 0.5 | -4.1 | 0.6 | 0.7 | 1.3 | 1.3 | 0.8 | 0.6 | 0.5 |
| **Slovenia** | **0.4** | **1.4** | **3.2** | **3.1** | **7.1** | **9.2** | **5.6** | **-0.3** | **1.0** |
| Spain | 1.8 | 9.7 | 14.8 | 13.7 | 15.6 | 9 | 1.1 | 1.3 | -0.9 |
| Sweden | 1.3 | 2.7 | 3 | 5.6 | 5.9 | 6 | 6.7 | 5.3 | 4.8 |
| United Kingdom | 1.1 | 2.4 | 3.8 | 3.2 | 3.5 | 3.1 | 3.3 | 3.6 | 3.8 |

Source: Eurostat Portal Page - Population and social conditions – Demography, 2012.

*Figure*: **International migrants by citizenship, Slovenia**




Source: SURS, 2012.

# 5.13 Regional variation in GDP per capita

***Low economic activity in the Osrednjeslovenska region had a major impact in terms of narrowing the gap in GDP per capita between the economically more developed regions of western Slovenia and economically weaker regions of eastern Slovenia.*** In 2010[1] the highest GDP per capita was recorded by the Osrednjeslovenska region (more than 41% higher than the national average), while the lowest was recorded by the Pomurska region (over a third lower than the national average). In the period analysed, the Obalno-kraška region was the only region other than the Osrednjeslovenska to exceed the national average (in 2010 by almost 10%). Trends in Obalno-kraška were relatively favourable in 2010, too. With low economic activity in the Osrednjeslovenska and Goriška regions, in 2010 the regional variation in GDP per capita between the economically more developed regions of western Slovenia and economically weaker regions of eastern Slovenia decreased. In 2009 economic activity declined in all regions. In 2010 it declined only in Spodnjeposavska. Despite more favourable trends, economic growth was not high in any region. The highest growth (by 3.1%) was recorded in Savinjska, which narrowed the development gap most and reached over 90% of the national average. On the other hand, Osrednjeslovenska lost a large proportion of its advantage over other regions. Its economic growth was among the most modest. Compared to 2005, the Koroška and Gorenjska regions widened their gap to the national average the most (by almost 5 percentage points).

***The gap by which Slovenian regions trailed the European average continued to widen in 2010.*** The statistical regions had been mostly narrowing their gaps with the EU average in the 2005–2008 period[2], but due to the economic crisis this came to a halt. In 2009 and 2010 the gap with the EU average widened in all regions. Trends were also unfavourable in the Osrednjeslovenska region, which is the only one that exceeds the EU average; in 2008 it exceeded the average economic development of the EU by almost 28% and in 2010 only by about a fifth. Progress achieved by Slovene regions in the 2005–2008 period was cancelled out in the next two years. Compared to 2005, the gap with the European average was widened by all regions, most of all by Koroška.

***The ratio between the two regions with the highest and lowest GDP per capita has remained almost unchanged and is relatively low.*** In 2010 GDP per capita in the Osrednjeslovenska region was 2.1-times that of the economically weakest Pomurska region, which is slightly less than in 2009 (2.2 : 1) and the same as in 2005. Taking into account the differences in purchasing power across the regions, the actual ratio is probably even lower. This is also indicated by the lower ratio between the highest and lowest net disposable income per capita (1 : 1.4), which has been practically unchanged since 2005 and varied between 1 : 1.5 and 1 : 1.4. The ratio of GDP per capita between the two regions with the highest and lowest figures at the NUTS 3 level in Slovenia is among the lowest in the EU. In 2009[3] it stood at 2.2 in Slovenia, compared with the highest figure of 10.5 in the United Kingdom and the lowest figure of 1.4 in Malta.

***Regional disparities in GDP per capita decreased slightly in 2010 and remain among the lowest in the EU.*** The relative dispersion[4] of GDP per capita, which is also one of the indicators of regional disparities, decreased by 0.4 percentage points relative to 2009, to 22.4% according to our calculations. The relative dispersion of GDP per capita has not changed much recently (since 2005 it has increased by 0.6 percentage points), while regional disparities at the NUTS 3 level in Slovenia are relatively low compared to other EU Member States. In European regions at the NUTS 3 level in 2009 this indicator of dispersion was the highest in Bulgaria (46.6%) and the lowest in the Netherlands (17.7%). Over the long term the differences between the EU Member States have been narrowing, which is mostly not the case for differences within the countries themselves, particularly as a consequence of higher growth in one or two regions, usually the region with the capital city.

[1] The latest available data.

[2] The advantage of the Osrednjeslovenska region was increasing.

[3] IMAD's calculations for 2009.

[4] $$RD_{Rt} = 100 \sum_{r} \left(\frac{P_{rt}}{P_{Rt}}\right) \left|\left(\frac{BDP_{rt}}{BDP_{Rt}}\right) - 1\right|$$

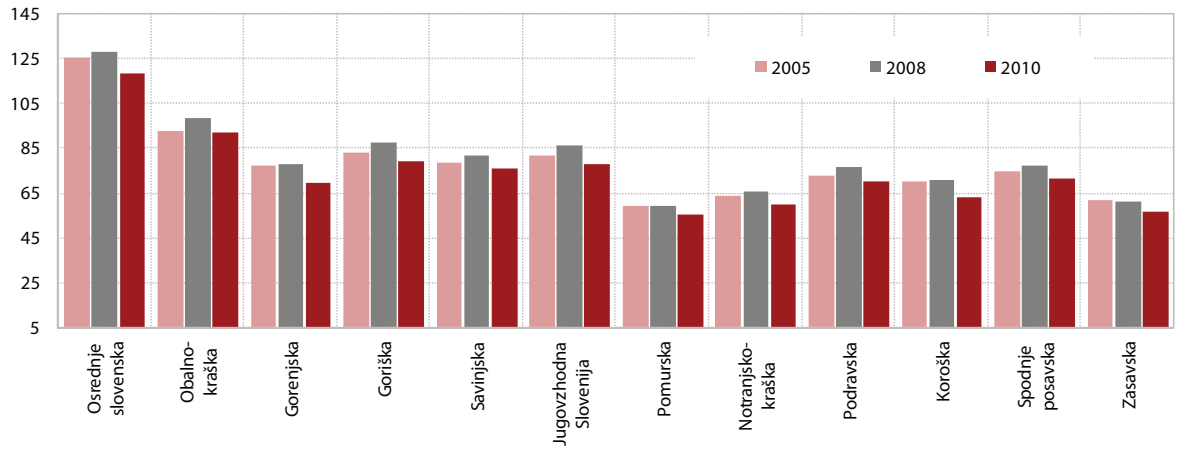
where $t$ = year,
$P_r$ = population of the region,
$P_R$ = population of Slovenia,
$BDP_r$ = GDP per capita of the region,
$BDP_R$ = per capita of Slovenia, expressed in percent.

*Table*: **Gross domestic product per capita and real GDP growth, 2000–2010**

| Cohesion region / Statistical region | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | EU=100, 2010 | Real GDP growth 2010/2009, % |
|---|---|---|---|---|---|---|---|---|---|
| **Slovenia** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **84** | **1.2** |
| **Zahodna Slovenija** | **118.2** | **120.3** | **120.8** | **120.5** | **119.6** | **119.8** | **119.5** | **100** | **N/A** |
| Obalno-kraška | 107.8 | 105.6 | 106.6 | 106.7 | 107.7 | 108.9 | 109.8 | 92 | 2.9 |
| Goriška | 97.8 | 94.4 | 93.4 | 95.5 | 95.7 | 94.6 | 94.3 | 79 | 0.7 |
| Gorenjska | 88.9 | 87.7 | 86.4 | 86.1 | 85.4 | 82.2 | 82.9 | 70 | 2.7 |
| Osrednjeslovenska | 137.3 | 142.5 | 144.0 | 143.0 | 140.8 | 142.3 | 141.1 | 118 | 0.4 |
| **Vzhodna Slovenija** | **84.6** | **82.7** | **82.2** | **82.3** | **82.9** | **82.5** | **82.7** | **69** | **N/A** |
| Notranjsko-kraška | 80.7 | 72.6 | 71.7 | 72.1 | 72.1 | 72.6 | 71.4 | 60 | 0.0 |
| Jugovzhodna Slovenija | 93.0 | 93.3 | 94.9 | 94.8 | 94.9 | 92.4 | 92.9 | 78 | 2.7 |
| Spodnjeposavska | 87.8 | 84.9 | 82.9 | 83.6 | 84.6 | 85.8 | 84.8 | 71 | -0.2 |
| Zasavska | 78.5 | 69.9 | 67.2 | 66.2 | 66.7 | 66.7 | 67.7 | 57 | 2.5 |
| Savinjska | 89.8 | 89.0 | 87.5 | 87.4 | 89.5 | 89.1 | 90.4 | 76 | 3.1 |
| Koroška | 83.8 | 79.8 | 77.8 | 77.9 | 77.6 | 75.1 | 74.9 | 63 | 0.9 |
| Podravska | 82.5 | 82.6 | 83.3 | 83.8 | 84.0 | 83.7 | 83.4 | 70 | 0.3 |
| Pomurska | 72.7 | 67.0 | 65.4 | 65.2 | 64.7 | 65.8 | 65.9 | 55 | 0.9 |

Source: SI–STAT data portal – Economy – National accounts – regional gross domestic product, 2012, Eurostat – general and regional statistics, 2012.

*Figure*: **Regional GDP per capita relative to the EU-27 average**




Source: SURS, Eurostat, calculations by IMAD.

# 5.14 Regional variation in the registered unemployment rate

***In 2012 unemployment decreased significantly in the two regions that were the most affected at the start of the crisis.*** The most heavily populated Osrednjeslovenska region, where unemployment remained at the previous year's level, accounts for over a fifth of total unemployment. Unemployment increased the most in the Jugovzhodna Slovenija and Zasavska regions (by about 9%), mostly due to the end of fixed-term employment. Unemployment decreased the most in the Koroška and Pomurska regions (by about 10% and 9%, respectively), which were the most affected at the onset of the economic crisis. Among people deregistered from the unemployment records, more than 60% of job seekers found jobs in these two regions. Compared to the pre-crisis 2008, unemployment more than doubled in the Goriška, Notranjsko-kraška, Gorenjska and Osrednjeslovenska regions, i.e. the regions with below-average registered unemployment rates; the lowest increase was recorded in the Pomurska region, which also had the highest registered unemployment rate in 2012.

***The registered unemployment rate decreased in 2012 only in three regions with above-average rates, the most in Koroška.*** The regions with above-average registered unemployment rates have been the same for a number of years, and are in the cohesion region of Vzhodna Slovenija. In 2012 Jugovzhodna Slovenija joined them for the first time, so that Notranjsko-kraška is the only region from the cohesion region of Vzhodna Slovenija below the national average for this indicator. The Pomurska region still has the highest registered unemployment rate (17.3%), which exceeds the national average by 5.4 percentage points (2012). In regions that have for several years had the highest registered unemployment rates (Pomurska, Podravska, Koroška) the gap with the national average continued to narrow in 2012, due to both the decline in unemployment rates in these regions and the rise in unemployment in the regions that are (were) below the national average (Jugovzhodna Slovenija, Obalno-kraška and Notranjsko-kraška). The Gorenjska region again had the lowest unemployment rate (8.9%), while the Zasavska region recorded the largest increase (by 1.3 percentage points). Zasavska thus became the region with the second highest registered unemployment rate in Slovenia.

***Regional disparities in registered unemployment rates declined further in 2012.*** The measure of absolute dispersion[1], by which regional disparities are measured, was 1.9 in 2012 (down 0.2 on 2011). Except in 2009 and 2010, regional disparities have been gradually falling since 2003; in recent years the decline in regional disparities has been mostly the result of growing registered unemployment rates in regions with below-average rates. Pomurska has a registered unemployment rate 1.9 times higher than Gorenjska, which means that the ratio between the two regions with the highest and lowest rates slightly declined in 2011. The ratio has been slowly but steadily falling since 2008, when it stood at 2.9 : 1.

***The unemployment categories that recorded the largest increases in terms of number and share were long-term unemployed, unemployed with at least higher education and unemployed whose fixed-term employment terminated.*** The number of long-term unemployed persons continues to grow, mainly in regions with above-average registered unemployment rates, i.e. more than half of the regions in Slovenia. Pomurska stands out with a share of almost 60%. The number and share of people who have been unemployed for more than two years are rising even more (42% in the Pomurska region). In all regions the educational structure of unemployed persons has been growing since 2008. Osrednjeslovenska has highest share of unemployed persons with at least higher education (17.4%). In 2012 this group of unemployed persons grew the most, by almost a fifth, in Jugovzhodna Slovenija. The share of job seekers who used to have fixed-term employment has also been growing persistently. They represent more than 40% in the Podravska, Koroška and Gorenjska regions. In 2012 their share increased the most in the Jugovzhodna Slovenija and Zasavska regions.

[1] $$AD_{Rt} = \sum_{r} (\frac{A_{rt}}{A_{Rt}}) |SB_{rt} - SB_{Rt}|$$

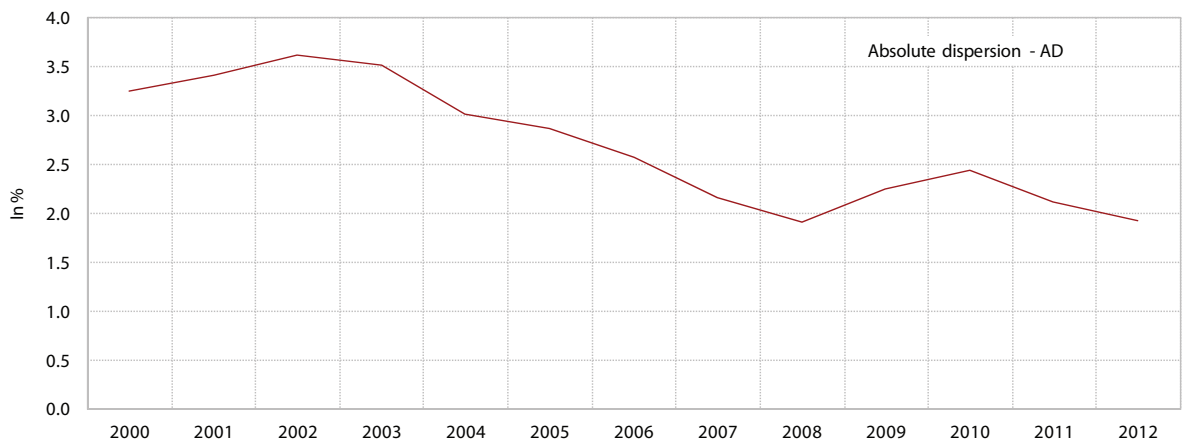
where $t$ = year,
$A_r$ = active population of the region,
$A_R$ = active population of Slovenia,
$SB_r$ = registered unemployment rate of the region,
$SB_R$ = registered unemployment rate of Slovenia.

*Table*: **Registered unemployment rate by region, in %, 2000–2012**

| Cohesion region / Statistical region | 2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| **Slovenia** | **11.8** | **10.2** | **9.4** | **7.7** | **6.7** | **9.1** | **10.7** | **11.8** | **12.0** |
| **Zahodna Slovenija** | **8.6** | **7.4** | **6.9** | **9.5** | **4.8** | **6.9** | **8.3** | **9.6** | **9.9** |
| Obalno-kraška | 8.8 | 7.5 | 7.2 | 6.3 | 5.2 | 6.9 | 7.9 | 9.6 | 10.2 |
| Goriška | 5.9 | 6.5 | 6.2 | 4.9 | 4.3 | 7.1 | 8.6 | 10.0 | 10.3 |
| Gorenjska | 9.7 | 7.3 | 6.4 | 4.9 | 4.4 | 6.9 | 8.1 | 8.8 | 8.9 |
| Osrednjeslovenska | 8.8 | 7.6 | 7.2 | 5.9 | 5.0 | 6.8 | 8.5 | 9.9 | 10.1 |
| **Vzhodna Slovenija** | **14.4** | **12.5** | **11.6** | **5.6** | **8.3** | **11.1** | **12.8** | **13.6** | **13.6** |
| Notranjsko-kraška | 10.4 | 7.9 | 7.0 | 5.4 | 4.9 | 7.1 | 8.5 | 10.0 | 10.4 |
| Jugovzhodna Slovenija | 10.4 | 8.8 | 8.6 | 7.0 | 6.3 | 8.9 | 10.0 | 11.6 | 12.8 |
| Spodnjeposavska | 13.4 | 11.5 | 10.5 | 8.9 | 7.7 | 10.2 | 12.2 | 13.4 | 13.9 |
| Zasavska | 14.9 | 13.8 | 12.0 | 9.7 | 8.2 | 11.0 | 11.9 | 13.3 | 14.7 |
| Savinjska | 13.1 | 12.7 | 11.6 | 9.4 | 8.0 | 10.3 | 11.8 | 12.7 | 12.7 |
| Koroška | 9.9 | 10.6 | 10.1 | 8.1 | 7.3 | 10.9 | 13.1 | 13.3 | 12.2 |
| Podravska | 18.1 | 13.5 | 12.7 | 10.4 | 9.1 | 11.9 | 13.5 | 14.5 | 14.1 |
| Pomurska | 16.7 | 17.1 | 15.7 | 13.4 | 12.2 | 15.9 | 19.0 | 18.0 | 17.3 |

Vir: SURS, 2013.

*Figure*: **Dispersion of the registered unemployment rate at the NUTS 3 level, Slovenia**




Source: SURS, 2013, calculations by IMAD.

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Tule spodaj gre verjetno za isti zakon?

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# III.
# appendix

# Calculation of a synthetic estimate of development

***The synthetic estimate of Slovenia's development based on selected indicators complements the Development Report's expert approach with a quantitative analysis.*** The calculation of a synthetic estimate enables an international time-series comparison of a country's development based on selected indicators without subjective evaluation. The two main difficulties of this approach relate to the selection of indicators, which is significantly limited by data availability, and even more by the fact that numerically measurable indicators cannot capture all the important dimensions and factors of development. A synthetic estimate thus arrived at should therefore only be used to complement other development estimation methods.

***The purpose of calculating a synthetic development estimate is to quantify development according to the priorities of SDS with regard to selected indicators.*** Several indicators are available for each priority, with different measures that are not directly comparable. There are generally no predetermined optimum indicator values to enable evaluation of Slovenia's divergence in terms of development. Slovenia's development is therefore assessed in relative terms as compared to other countries. In practice, evaluation with regard to the deviation of a specific indicator from the average and a (weighted) aggregate of points attained by indicators are often used for this purpose.

***The synthetic estimate of development according to individual SDS priorities and problem sets has been calculated by employing a standardised continuous scoring system.***[1] This means that the value of the considered indicator is standardised by the mean[2] and standardised deviation and multiplied by ten. To reduce the influence of extreme values, points are limited to 3 standard deviations (±30). Zero points in a particular indicator mean that its value equals the EU average, and 10 points that it exceeds the average by one standard deviation. To ensure that SDS policy areas are evenly covered, in adding the points some indicators were first merged by averaging the point values for individual indicators. Using selected indicators, the synthetic development estimate was calculated at two levels: first, at the level of specific problem sets within each priority, and second, at the level of development priorities. The synthetic estimate of development within a particular priority is the sum of points of all development indicators of that priority. Our estimate covers the period 2006–2011 and is presented in comparison with other European Union Member States.[3] The selection of indicators (see Table 1), which at the same time defines development by particular priorities and problem sets, complies with the required model criteria regarding data completeness for the analysed period and the countries compared. For some indicators, data for the last year were unavailable, and therefore the values of the previous year were used.

***The calculated synthetic estimate of development has a number of constraints which must be taken into account in its interpretation.*** Advantages of the methodology used to calculate the synthetic estimate of development mainly lie in the reduction of subjective evaluation. Its chief disadvantage, however, is on the side of data: although trying to select maximally suitable indicators for each priority,[4] we are limited by data (un)availability, as some SDS areas are not covered by adequate internationally comparable indicators; furthermore, the development estimate is influenced by the selection of indicators and countries compared. Hence, the calculated estimate does not necessarily fully reflect development in a particular priority or its problem set. Caution should also be exercised in interpreting the results due to the varied number of indicators for individual priorities, and in some cases also due to their quality and explanatory value. We should also bear in mind that because of the nature of the method applied, the development estimate may also vary due to changes in the other countries observed and not just because of better or poorer results for Slovenia. Since the definition of development, which may differ according to country, is determined by the selection of indicators which partly depends on data availability, the rankings of other countries must be seen exclusively from the perspective of Slovenia's own development goals. The use of the synthetic development estimate is thus only appropriate taking into account all the above constraints, i.e. only as a complement to the expert approach assessing Slovenia's realisation of SDS goals.

[1] Expressed as an equation: ((indicator value – EU average)/standard deviation)*10. This is a slightly adapted version of the methodology developed by the Lisbon Methodology Working Group (LIME) operating within the Economic Policy Committee (EPC).

[2] Unweighted average of indicator values for selected countries.

[3] For a number of indicators, data for 2012 are not available for all EU countries. Bulgaria, Cyprus, Malta and Romania were excluded from the analysis due to incomplete data, while Luxembourg was excluded due to its specificity.

[4] To cover as broad a dimension of development as possible, we also used some indicators that may not necessarily show a priority's development, but come closest to this from among the available sets of data.

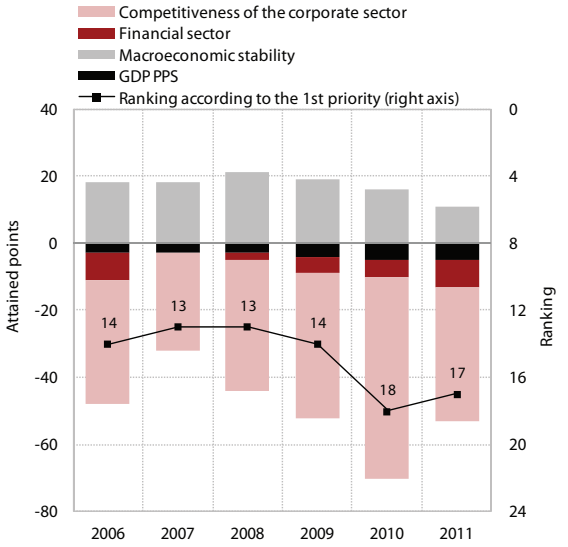
*Table*: **Synthetic estimate of development by priorities and problem sets within each priority, and the number of points assigned to individual indicators, Slovenia** (10 points in an individual indicator means one standard deviation from the EU average)

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|
| **1st priority** | **-30** | **-14** | **-23** | **-33** | **-54** | **-42** |
| **GDP PPS** | **-3** | **-3** | **-3** | **-2** | **-3** | **-4** |
| GDP per capita in PPS | -3 | -3 | -3 | -4 | -5 | -5 |
| **Macroeconomic stability** | **18** | **18** | **21** | **19** | **16** | **11** |
| Real GDP growth | 3 | 8 | 11 | -4 | -3 | -5 |
| Inflation | 2 | -2 | -1 | 2 | -2 | 11 |
| General government balance, % of GDP | -1 | 2 | 1 | 2 | 2 | -6 |
| General government debt, % of GDP | 8 | 8 | 10 | 9 | 9 | 7 |
| Balance of payments, % of GDP | 1 | -1 | -3 | -1 | -1 | 1 |
| Gross external debt, % of GDP | 6 | 5 | 5 | 5 | 5 | 5 |
| Cyclically adjusted general government balance, % of GDP | -2 | -3 | -5 | 2 | 2 | -3 |
| Government bond yields (Eurostat) | 1 | 1 | 3 | 4 | 4 | 1 |
| **Financial sector** | **-8** | **0** | **-2** | **-5** | **-5** | **-8** |
| Total assets of banks, % of GDP | -9 | -8 | -8 | -7 | -8 | -8 |
| Loan-to-deposit ratio | 12 | 12 | 12 | 9 | 10 | 8 |
| Insurance premiums, % of GDP | -3 | -3 | -3 | -2 | -2 | -2 |
| Market capitalisation, % of GDP** | -8 | -1 | -3 | -5 | -5 | -6 |
| **Competitiveness and entrepreneurial development** | **-37** | **-29** | **-39** | **-43** | **-60** | **-40** |
| Labour productivity | -4 | -5 | -5 | -6 | -7 | -7 |
| Market share | 3 | 8 | -4 | -1 | -7 | -2 |
| Unit labour costs | 3 | 8 | 1 | -8 | -15 | 0 |
| Share of high-tech products in total goods exports | -6 | -5 | -4 | -3 | -4 | -3 |
| Exports and imports as a share of GDP | 7 | 9 | 7 | 5 | 6 | 6 |
| Outward foreign direct investment, % of GDP | -7 | -7 | -6 | -7 | -7 | -7 |
| Inward foreign direct investment, % of GDP | -10 | -7 | -6 | -7 | -7 | -6 |
| Non-financial market services as a share of GDP | -9 | -9 | -7 | -6 | -6 | -8 |
| Share of other services in exports of goods and services | -8 | -7 | -6 | -7 | -7 | -7 |
| Market shares in network industries – mobile telephony | -30 | -30 | -30 | -19 | -22 | -22* |
| Market shares in network industries – electricity | 1 | -11 | 0 | -1 | -3 | -3* |
| **2nd priority** | **-39** | **-48** | **-44** | **-30** | **-15** | **-16** |
| **Education and training** | **-5** | **-15** | **-19** | **-11** | **-12** | **-10** |
| Share of population with a tertiary education | -4 | -2 | -5 | -5 | -5 | -3 |
| Public expenditure on education, % of GDP | 5 | 0 | -1 | -1 | -1* | -1* |
| Expenditure on educational institutions per pupil/student, compared to GDP per capita | -7 | -13 | -12 | -4 | -4* | -4* |
| Participation in education, population aged 25–64 | 1 | 0 | -1 | -1 | -2 | -2* |
| **Research and development, innovation and use of ICT** | **-34** | **-33** | **-25** | **-19** | **-3** | **-6** |
| Gross domestic expenditure on R&D, % of GDP | 0 | -2 | 0 | 1 | 3 | 6 |
| Number of researchers in FTE per 1,000 inhabitants | -1 | 0 | 1 | 2 | 2 | 4 |
| Science and technology graduates per 1,000 inhabitants | -8 | -8 | -7 | -6 | 0 | 0* |
| Number of patent applications to the EPO, per million inhabitants | -5 | -4 | -3 | -3 | -2 | -4 |
| Internet use, share of internet users aged 16–74 | -3 | -4 | -6 | -4 | -2 | -6 |
| Investment in ICT, % of GDP | -9 | -9 | -7 | -3 | 0 | 0* |
| Number of Community trademark applications to the OHIM, per 1,000 inhabitants | -10 | -6 | -1 | -5 | -3 | -8 |
| Number of registered Community designs with the OHIM, per 1,000 inhabitants | -5 | -6 | -5 | -6 | -4 | -4 |
| **3rd priority** | **-19** | **-15** | **-9** | **-16** | **-30** | **-35** |
| **Quality of public finance** | **-6** | **-2** | **1** | **-10** | **-13** | **-15** |
| General government expenditure according to economic classification – general government, % of GDP | 0 | 2 | 2 | 2 | -1 | -5 |
| General government expenditure according to economic classification – capital transfers and investment, % of GDP. | 2 | 6 | 8 | 7 | 0 | 8 |
| Economic structure of taxes and contributions – total burden of taxes and contributions, % of GDP | 0 | 1 | 1 | 0 | -1 | 0 |
| Economic structure of taxes and contributions – tax burden on labour, % of GDP | -4 | -2 | -1 | -2 | -3 | -3* |
| General government subsidies, % of GDP | -6 | -6 | -5 | -11 | -9 | -9* |
| State aid – total, % of GDP | 1 | 2 | 1 | -7 | -6 | -14 |
| State aid for horizontal objectives as a % of total state aid | 1 | -1 | 1 | 3 | 4 | 3 |
| **Institutional competitiveness** | **-8** | **-7** | **-5** | **-3** | **-13** | **-16** |
| Institutional competitiveness (IMD) | -8 | -7 | -5 | -3 | -13 | -16 |
| **Efficiency of the judiciary** | **-5** | **-6** | **-5** | **-3** | **-4** | **-4** |
| Rule of law (World Bank) | -5 | -6 | -5 | -3 | -4 | -4 |
| **4th priority** | **6** | **10** | **4** | **19** | **9** | **-3** |
| **Labour market** | **5** | **11** | **12** | **19** | **14** | **8** |
| Employment rate | 1 | 2 | 2 | 4 | 3 | 0 |
| Unemployment rate | 5 | 8 | 10 | 10 | 7 | 5 |
| Long-term unemployment rate | 1 | 3 | 3 | 7 | 5 | 4 |
| Part-time employment | -5 | -6 | -6 | -6 | -5 | -7 |
| Temporary employment | 7 | 7 | 6 | 7 | 8 | 7 |
| Share of self-employed people | -7 | -7 | -8 | -6 | -5 | -2 |
| **Modernisation of social protection systems** | **0** | **-2** | **3** | **-6** | **-5** | **-5** |
| Social protection expenditure, % of GDP | -1 | -2 | -4 | -4 | -3 | -3* |
| At-risk-of-poverty rate of the population older than 65 | 2 | 2 | 0 | 0 | -5 | -6 |
| Public and private expenditure on health, % of GDP | -1 | -4 | -3 | -2 | -2 | -2* |
| **Material living conditions** | **1** | **3** | **-1** | **6** | **5** | **0** |
| Material deprivation rate | 4 | 3 | 0 | 1 | 3 | 2 |
| Number of doctors and nurses, per 1,000 inhabitants | -12 | -12 | -12 | -12 | -12 | -11 |
| Life satisfaction | 6 | 7 | 6 | 6 | 5 | 3 |
| Population in jobless households | 3 | 5 | 5 | 11 | 9 | 6 |
| **5th priority** | **1** | **9** | **26** | **25** | **9** | **15** |
| **Environmental criteria** | **-3** | **-2** | **-5** | **1** | **-5** | **-4** |
| Implicit tax rate on energy consumption | -1 | 1 | 0 | 5 | 5 | 5* |
| Emission intensive industries, share in total manufacturing | 8 | 7 | 7 | 6 | 5 | 5* |
| Energy intensity | -1 | -1 | -3 | -3 | -6 | -5 |
| Renewable energy sources in primary energy consumption | 0 | -1 | 0 | 1 | 0 | -1 |
| Share of road freight transport in total freight transport | -2 | -3 | -4 | -4 | -4 | -4 |
| Agricultural intensity – use of NPK fertilisers per hectare of cultivated agricultural area | -5 | -4 | -5 | -3 | -5 | -5* |
| Agricultural intensity – share of controlled areas with organic farming | 0 | 1 | 0 | -1 | -2 | 0 |
| Agricultural intensity – average yield of wheat | 3 | 4 | 5 | 5 | 1 | -2 |
| Share of municipal waste that is not landfilled | -6 | -5 | -5 | -4 | -3 | -2 |
| **Sustained population growth** | **-4** | **6** | **21** | **15** | **3** | **8** |
| Old-age dependency ratio | 4 | 3 | 2 | 2 | 2 | 4 |
| Life expectancy (M) | 0 | 0 | 1 | 1 | 2 | 2 |
| Life expectancy (F) | 3 | 3 | 4 | 4 | 4 | 4 |
| Fertility rate | -9 | -7 | -3 | -3 | -1 | -1 |
| Migration coefficient | 0 | 8 | 19 | 13 | -1 | 2 |
| **Culture** | **8** | **5** | **10** | **9** | **11** | **11** |
| Household expenditure on culture, % of GDP | 8 | 7 | 6 | 2 | 2 | 1 |
| Household expenditure on culture, % of GDP | 7 | 3 | 14 | 16 | 20 | 20* |

Source: Calculations by IMAD.

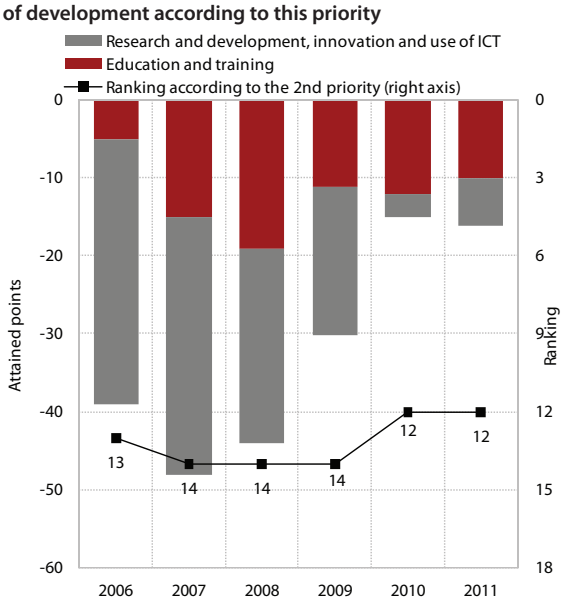
Note: Values marked with an asterix are calculations according to IMAD estimates based on data from previous years, while letters designate indicators that are combined into a new indicator in the calculation. ** Due to the limited availability of data, the "market capitalisation" indicator covers fewer countries. Because of its importance for the "Financial market" component, it has been taken into account in the calculations even though it does not reach the required standards for the completeness of data.

*Figure 1:* **Synthetic estimate of Slovenia's development in the 1st priority (A competitive economy and faster economic growth) and its main components, and Slovenia's ranking among 22 EU Member States in terms of development according to this priority**



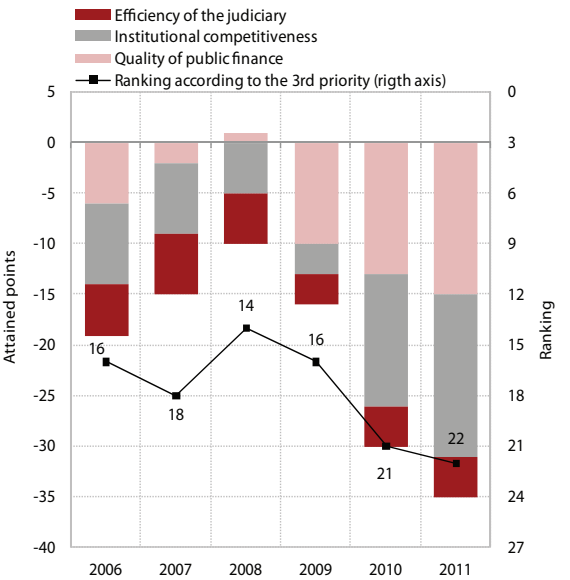

Source: calculations by IMAD..
Note: The columns show the points (development estimate) attained according to individual components, where a positive value means above-average development relative to the EU countries included in the analysis. Zero points for a component would therefore mean that in terms of development in this component Slovenia is equal to the average of countries included in the analysis, and a negative value that Slovenia lags behind the average in a certain year.

*Figure 2:* **Synthetic estimate of Slovenia's development in the 2nd priority (Efficient use of knowledge for economic development and high-quality jobs) and its main components, and Slovenia's ranking among 22 EU Member States in terms of development according to this priority**



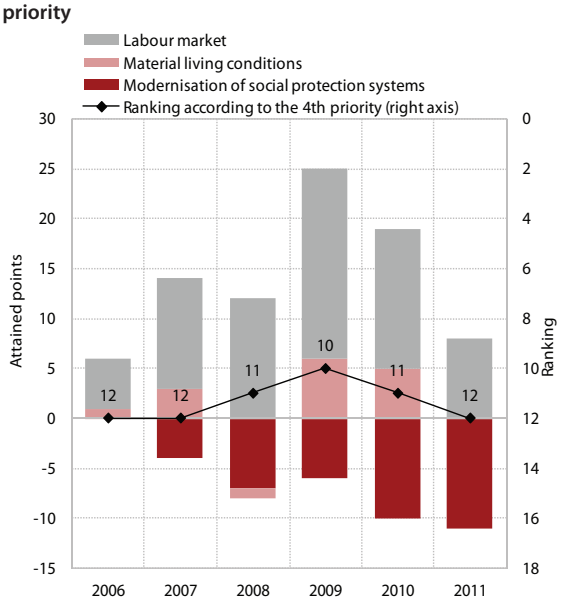

Source: Calculations by IMAD.
Note: See Figure 1.

*Figure 3:* **Synthetic estimate of Slovenia's development in the 3rd priority (An efficient and more economical state) and its main components, and Slovenia's ranking among 22 EU Member States in terms of development according to this priority**



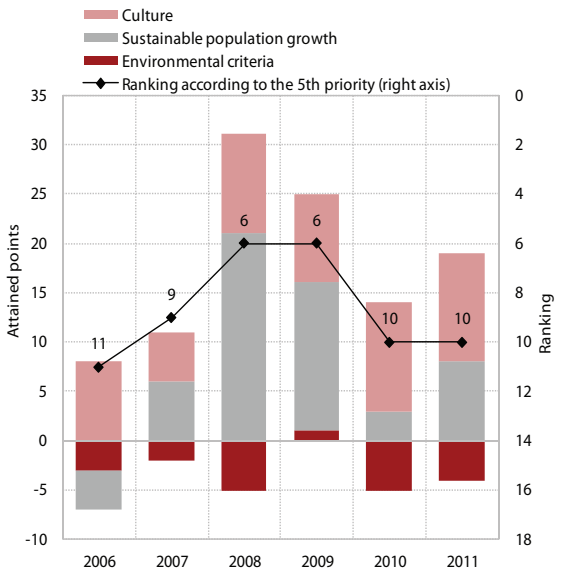

Source: Calculations by IMAD.
Note: See Figure 1.

*Figure 4:* **Synthetic estimate of Slovenia's development in the 4th priority (A modern welfare state and higher employment) and its main components, and Slovenia's ranking among 22 EU Member States in terms of development according to this priority**



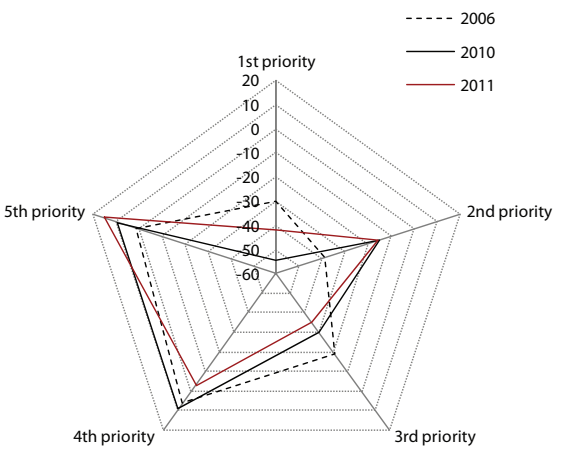

Source: Calculations by IMAD.
Note: See Figure 1.

*Figure 5:* **Synthetic estimate of Slovenia's development in the 5th priority (Integration of measures to achieve sustainable development) and its main components, and Slovenia's ranking among 22 EU Member States in terms of development according to this priority**



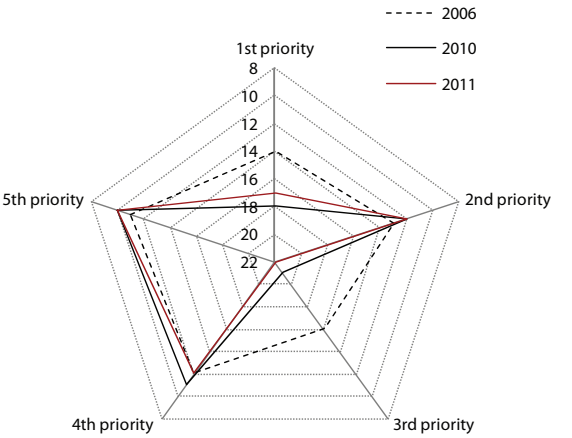

Source: Calculations by IMAD.
Note: See Figure 1.

*Figure 6:* **Synthetic development estimate according to SDS priorities (number of points according to the priorities)**




Source: Calculations by IMAD.

*Figure 7:* **Slovenia's ranking among 22 EU Member States according to the five priorities of Slovenia's Development Strategy**




Source: Calculations by IMAD.

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