**DEVELOPMENT REPORT 2021**

Ljubljana, April 2021

Institute of Macroeconomic Analysis and Development   
of the Republic of Slovenia

# Key findings and recommendations

**Many positive shifts after the economic and financial crisis**

**After the financial and economic crisis, Slovenia returned to the path of convergence with more developed Member States and achieved favourable values of social inclusion indicators; the efficiency of resource and energy consumption was steadily rising.** In the period of economic upturn (2014–2019), Slovenia gradually narrowed its gap in economic development with the EU average and employment reached record highs. This was reflected in higher household income and a significant improvement in the state of public finances after a deterioration during the economic and financial crisis. Social and societal development was also becoming more inclusive with stronger economic growth and favourable labour market conditions. In 2019, the rate of the risk of social exclusion, which is low by international standards, reached its lowest level ever and – as income inequality already in 2017 – the SDS target for 2030. The participation of young people in education remained high and 15-year-olds reached above-average results in mathematical and scientific literacy according to the PISA 2015 and 2018 surveys. Slovenia’s natural environment remained well preserved, on average, and the efficiency of resource and energy consumption was gradually improving.

**A strong impact of the covid-19 epidemic on the economy and population**

**In 2020, the covid-19 epidemic had a strong impact on the Slovenian economy and significantly affected quality of life; at the same time, it also brought certain opportunities.** The crisis caused by the covid-19 epidemic interrupted several years of economic growth and favourable labour market developments. Its impact on the economy and the population was markedly mitigated by government measures. They prevented a decline in household disposable income and alleviated cost pressures in companies, thus helping to preserve economic potential. However, owing to a sharp contraction of economic activity and the government financing of measures to mitigate the consequences of the epidemic, the public finance situation deteriorated notably. The crisis has had a much larger impact on the non-tradable part of the economy, which is mainly due to the nature of containment measures. For many areas, comprehensive data for 2020 are not yet available. The overall impact of the epidemic on Slovenia’s development and well-being of the population in 2020 is therefore not yet known and will also depend on the duration of the epidemic. However, based on the indicators already available and due to an uneven impact of the covid-19 crisis on different groups of the population and activities, we can expect a deterioration in some indicators, which have so far been mostly favourable (for example, health, gender inequalities, inequalities between regions, generations, etc.). The consequences of the temporary deterioration in access to and quality of education during the epidemic are uncertain as well. We also do not yet have adequate data to assess the environmental dimensions of the epidemic. Owing to lower economic activity and population mobility, the environmental burden could temporarily decrease, but this is not expected in the long run without appropriate action. The epidemic, however, has also brought certain opportunities, arising for example from the shortening of global value chains or introduction of remote work. Moreover, with support of appropriate economic policies, the introduction of digital solutions, innovation and new business models could also accelerate significantly under the changed conditions, as well as the necessary changes in health and long-term care.

**Some development challenges have deepened**

**The unresolved development challenges further increased Slovenia’s vulnerability during the epidemic, and some of them tightened further.** In recent years, economic convergence has been based only to a small extent on productivity gains. This is closely linked to insufficient investment, particularly in various forms of intangible capital (R&D, ICT, training of workers), which is an important driver of productivity in modern economies. In the case of a prolonged negative impact on corporate investment activity, the covid-19 crisis could also significantly worsen the prospects for medium-term productivity growth. In the period of recovery, it is thus necessary to strengthen investment activity, especially in the direction of digital and green transformation of the economy. In the years before the epidemic, it was difficult to find workers with appropriate knowledge and skills due to demographic change and labour market mismatches. With the epidemic, the need for certain workers has declined temporarily, but staff shortages in health and social work, which were already pronounced before the epidemic, have worsened significantly. However, ensuring the so-called skills and competences of the future (for example in the context of digital and green transformation and population ageing) is becoming an ever greater challenge. The labour market is also marked by a high exposure of young people to temporary employment forms, because of which their unemployment increased at an above-average rate in 2020. But especially the accumulated problems of the social protection systems have intensified during the epidemic, particularly those related to the insufficient adaptation of the system of long-term care to demographic change, the insufficient capacity of the health system and long waiting times. Demographic trends and technological changes that are affecting the labour market will also rapidly exacerbate the problem of financing social protection systems. New projections under the no-policy change scenario show an even larger increase in age-related expenditure in 2019–2070 than previous projections, particularly due to pension expenditure. From the perspective of the environmental dimension of sustainable development, the main problems are a too slow transition to a circular economy, high GHG emissions from transport, several-year stagnation in the use of renewable energy sources and insufficiently sustainable land use.

**Recommendations for development policy**

**The measures for the recovery should be combined with structural reforms for greater resilience of the economy and society to shocks and more sustainable development in the long term.** The short-term priorities of economic policy remain significantly related to preventing the spread of the covid-19 epidemic and mitigating its socio-economic consequences. As measures to mitigate the current consequences of the crisis continue to play an important role in sustaining economic and social potential, their withdrawal has to be gradual and well planned. A premature removal of measures when the situation returns to normal could be detrimental to the recovery. However, if measures are insufficiently targeted and kept in place for too long, they could worsen allocative efficiency. At the same time, measures for the restructuring and modernisation of the economy should also be designed and implemented as soon as possible, which should to the greatest possible extent be focused on exploiting new opportunities and accelerating the transition to a highly productive, low-carbon and circular economy. A comprehensive approach combining the measures for the recovery with structural reforms would make the economy and society more resilient to future shocks and improve the long-term sustainability of development to enhance the well-being of the population, which is the underlying objective of the Slovenian Development Strategy. The measures should be aimed primarily at

* **accelerating productivity growth** by (i) strengthening R&D activity and innovation by a stronger emphasis on breakthrough innovation, (ii) accelerating digital transformation by introducing new business models, servitisation and shifting to smart factory and other most advanced technologies, and (iii) increasing investment in human resources and the development of the ‘workforce of the future’, including by retraining workers to accelerate their transition to high-quality jobs with high value added and lower carbon footprint;
* **inclusive social development and intergenerational solidarity** by (i) establishing an appropriate systemic regulation of financing and increasing the capacity of the system of long-term care (particularly care at home) and health care, (ii) undertaking a comprehensive pension reform to ensure the fiscal sustainability of the pension system and adequate pensions, (iii) ensuring a sufficient workforce, also by active inclusion of immigrants in social and societal life, (iv) strengthening lifelong learning and adapting workplaces for older people to remain active longer and better integrate into society, (v) strengthening the culture of dialogue and the processes of democratic co-decision, communication and consultation among all relevant stakeholders, including civil society and (vi) promoting healthy lifestyles;
* **accelerated transition to a low-carbon circular economy** by (i) appropriately promoting sustainable mobility and upgrading related infrastructure, also by using state-of-the-art technological solutions, (ii) introducing new low-carbon circular business models, including more efficient waste management, and (iii) significantly increasing the capacities for greater use of renewable energy sources, particularly through more efficient siting of projects;
* **a strengthening of the developmental role of the government and its institutions** by (i) improving the strategic governance of public institutions for early identification and coordinated and effective dealing with developmental challenges, (ii) improving the legislative and business environment and (iii) restructuring general government revenue and expenditure by strengthening their developmental component.

To this end, it is particularly important to make best use of the European Commission’s funds, increasing particularly the share of available resources for the strengthening of R&D and innovation, a faster digital transformation and an efficient transition to a low-carbon circular economy.

# Summary of the findings according to the strategic orientations of the Slovenian Development Strategy 2030 (SDS 2030)

**A highly productive economy, which creates value added for all**

**In the period of economic growth (2014–2019), Slovenia reduced slightly its still wide development gap, but for further catching up with the EU average, it will be essential to accelerate productivity growth.** GDP per capita as a measure of economic development amounted to 89% of the EU average in 2019, which is still 2 p.p. less than at the beginning of the financial and economic crisis in 2008. A faster convergence after the crisis has mainly been limited by productivity growth, which, because of low investment (both private and public), also remained modest in the period of economic boom. In terms of achieving the strategic orientations, the slow progress in investment in various forms of intangible capital (R&D, ICT, on-the job training), which is the key driver of productivity in modern economies, stands out in particular. In 2020, several years of economic growth were interrupted by the covid-19 epidemic. Its consequences for the economy have been significantly mitigated by government measures, which reduced cost pressures in companies and maintained economic potential. Nevertheless, in the case of a prolonged negative impact on corporate investment activity, the covid-19 crisis could significantly deteriorate the prospects for medium-term productivity growth. Government investment is otherwise rising in the short term and it will be additionally boosted by EU funds. However, because of a sharp contraction of economic activity and measures to mitigate the consequences of the epidemic, the public finance situation also deteriorated notably in 2020, meaning that it will not be possible to maintain such levels of government investment in the medium term, especially given the necessary increase in other development expenditure. In addition to measures to mitigate the current impact of the crisis, which play a significant role in sustaining economic potential, efforts should thus also be focused on enhancing investment activity of the economy. In view of the expected long-term positive impacts on productivity growth and development, it is important to increase particularly the share of available EU funds for (i) strengthening R&D activity and innovation, including by a greater emphasis on breakthrough innovation, (ii) accelerating digital transformation by introducing new business models, servitisation and shifting to smart factory and other most advanced technologies, and (iii) an effective transition to a low-carbon circular economy.

Figure 1: A faster convergence in development is limited by weak productivity growth; R&D and ICT investment, an important driver of productivity growth in modern economies, is low

Source: Eurostat, 2020, 2021; calculations by IMAD.

**Despite the relatively well-educated population in Slovenia and a high level of skills and knowledge among young people, development of appropriate knowledge and skills is an increasing challenge in light of demographic change and the desired transition to a highly competitive, digital and green economy.** The participation of young people in education has been high for many years, which is reflected in the improving educational structure of adults. Mathematical and scientific literacy of young people is also high according to the PISA 2018 survey. In 2020, however, the national eduction system was challenged by the epidemic, so that thorough reflection is needed on how to effectively address possible gaps in children’s knowledge and skills and other impacts of the epidemic on education. Despite the relatively favourable overall picture, not enough has been done in recent years to address knowledge and skills mismatches on the labour market. A several-year decline in the participation of adults and employed people in lifelong learning stands out in particular. The structure of enrolments in tertiary education is changing towards increased enrolment in science and technology and health and social work, but due to smaller generations of students, the supply of this staff still falls short of demand. Amid unfavourable demographic trends, the development of appropriate knowledge and skills for young people and adults to meet not only the current but, especially, the future needs of society and the economy (due to population ageing, the urgency of green and digital transformation, etc.) therefore remains a major challenge. This requires increased investment in human resources and in the development of the ‘workforce of the future’, including by retraining workers and strengthening their competences to accelerate their transition into high-quality jobs with high value added and lower carbon footprint. This could also be achieved by a system to anticipate medium-term knowledge and skills demand, which is only being established in Slovenia.

**Lifelong learning**

Figure 2: Significant shortage of workers with appropriate skills in the period of economic boom and low participation of adults in lifelong learning

Source: ESS, 2020 a and b, 2019 a and b, 2018 a and b, 2017 a and b, 2016 a and b and 2015 (left); Eurostat, 2021 (right). Note: The participation of adults (25–64 years) in lifelong learning in the second quarter of the year

**An inclusive, healthy, safe and responsible society**

**In 2014–2019, Slovenia's development was generally inclusive, with challenges in individual population groups, while in 2020 the covid-19 epidemic significantly affected quality of life and society, tightening the long-term challenges of social protection systems in particular.** With stronger economic growth and favourable labour market developments, social and societal development was also becoming more inclusive in 2014–2019. In 2019, the at-risk-of-social-exclusion rate was the lowest so far and – as income inequality already since 2017 – in line with the SDS target for 2030. Satisfaction with life and some health dimensions improved as well. Despite positive economic and social developments, certain social groups continued to face various challenges: labour market segmentation remained a problem, particularly among young people, the at-risk-of-poverty rate of older women was still high and health and gender inequalities deepened in some areas. The covid-19 epidemic significantly affected quality of life at the beginning of 2020. We expect a negative impact on health indicators. Moreover, the epidemic also interrupted several years of favourable developments on the labour market, although government measures significantly mitigated the fall in employment and prevented, on average, a decline in household disposable income. Above all, the epidemic significantly aggravated the already existing and long-term problems of social protection systems, related particularly to the insufficient adaptation of the long-term care system to demographic change, staff shortages in the health system and long waiting times.Due to demographic and technological changes that are affecting the labour market, the problem of financing social protection systems will also be rapidly exacerbated in the future. The impact of the epidemic has also pointed to a number of other adaptations and changes faced by social sub-systems due to the new reality (e.g. remote schooling and work, balancing work and private life, etc.). To prevent longer-term negative impacts on the well-being of the population while taking advantage of all opportunities, it is necessary to quickly address all health, social and societal challenges caused or deepened by the epidemic with comprehensive and targeted measures.

Figure 3: The at-risk-of-social-exclusion rate before the epidemic was low; in 2020, government measures prevented a fall in disposable income amid a sharp contraction of economic activity due to the epidemic

Source: Eurostat, 2021; SURS, 2021 (left); SURS, 2021; calculations by IMAD (right).

Figure 4: The epidemic caused high excess mortality in the second wave and tightened the long-term challenges of social protection systems related to demographic change

Source: Eurostat, 2021 (left); EC, 2021 (right). Note: Excess mortality is the ratio of the number of deaths from all causes in a certain period to the average number of deaths in the same period of the last five years. The graph shows EU countries where excess mortality was above 60% in at least one month. Excess mortality is calculated on the basis of data on deaths, which are internationally and methodologically harmonised. \* Public expenditure on health: according to SHA methodology but excluding expenditure on LTC and including expenditure on investments according to COFOG methodology. \*\* Public LTC expenditure: health component and social component according to SHA methodology.

**Slovenia’s natural environment is well preserved on average, but the transition to a low-carbon circular economy needs to be greatly accelerated.** With a high proportion of protected areas, large forest cover and moderate agricultural intensity, the natural environment in Slovenia is on average relatively well preserved. Two problems that nevertheless stand out and where only modest progress has been made in recent years are poor air quality due to relatively high particle concentrations and unsustainable land use related to poorly utilised or abandoned areas. On most indicators that monitor the relationship between economic development and the consumption of natural resources and energy, waste and GHG emissions and are also used as a measure of the transition to a low-carbon circular economy, Slovenia still lags significantly behind the EU average and particularly behind the best-performing Member States. Resource and energy consumption and GHG emissions, which increased in the first years of recovery after the financial and economic crisis, have stabilised in the last few years. This has been reflected in a somewhat faster improvement in productivity expressed as the ratio of GDP to material and energy consumption and emissions, but the gap with the EU average is still wide. A faster improvement is held back particularly by rising energy consumption in transport. This is unsustainable and has a significant negative impact on the environment.Since 2005, the share of renewable energy sources in Slovenia has been rising at the slowest pace among all Member States and is set to fall behind the EU average and the targets in a few years’ time unless radical changes are made. Before the covid-19 epidemic, the amount of waste was rapidly rising. Waste management was improving, but the circular material use rate nevertheless remained below the EU average. The environmental burden was eased temporarily with the covid-19 epidemic, but in the long run this is not to be expected without appropriate measures and more responsible behaviour of the population. It is therefore important to make good use of all available financial incentives and link the recovery and development of the economy after the epidemic with a faster transition to the agreed low-carbon circular economy.

**A well-preserved, healthy natural environment**

Figure 5: The progress in energy and emission productivity of the economy is slow; according to the share of renewable energy sources, Slovenia is among the countries that lags the most behind the target

Source: Eurostat, 2021; calculations by IMAD.

**A high level of cooperation, competence and governance efficiency**

**Government efficiency has improved in individual areas in recent years; the main challenges remain further improving the efficiency of public sector governance and reducing administrative burdens.** By 2019, Slovenia had made progress in the digital transformation of public services, introduction of quality standards in public administration bodies and reduction of administrative barriers. The efficiency of the judiciary also improved, as did the profitability of state-owned enterprises. Despite progress, Slovenia's institutional competitiveness has for many years been marked by inefficient public sector governance due to poor coordination among all stakeholders, as well as a relatively high perception of corruption and a still high burden of government regulation. According to managers, the length and complexity of procedures related to public services and relatively rigid labour legislation and tax policy remain the main problems from the perspective of government efficiency in supporting the business sector. In the last years, Slovenia has otherwise taken some measures to reduce administrative barriers and lower the tax burden on personal income and holiday allowance. In 2020, the entire public service sector was significantly affected by the covid-19 epidemic, which further highlighted the urgency of improving the efficiency of governance and the capacity of public administration. The new situation has, at the same time, also contributed to a faster introduction of certain solutions in the field of digital transformation of public administration. One of the key conditions for successfully coping with the consequences of the epidemic and for a country’s recovery and development is also citizens' trust in institutions. This decreased further during the first wave of the epidemic and remains among the lowest in the EU. The main challenges therefore remain appropriate communication with the public, increasing transparency, and improving cooperation among the key actors in the adoption, implementation and monitoring of measures. At the same time, it should be noted that Slovenia has remained one of the most peaceful and safe countries in the world, which has a positive impact on the quality of life and well-being of its inhabitants.

Figure 6: According to managers’ opinion, government efficiency has improved after the economic and financial crisis but remains below the EU average; trust in institutions remains low

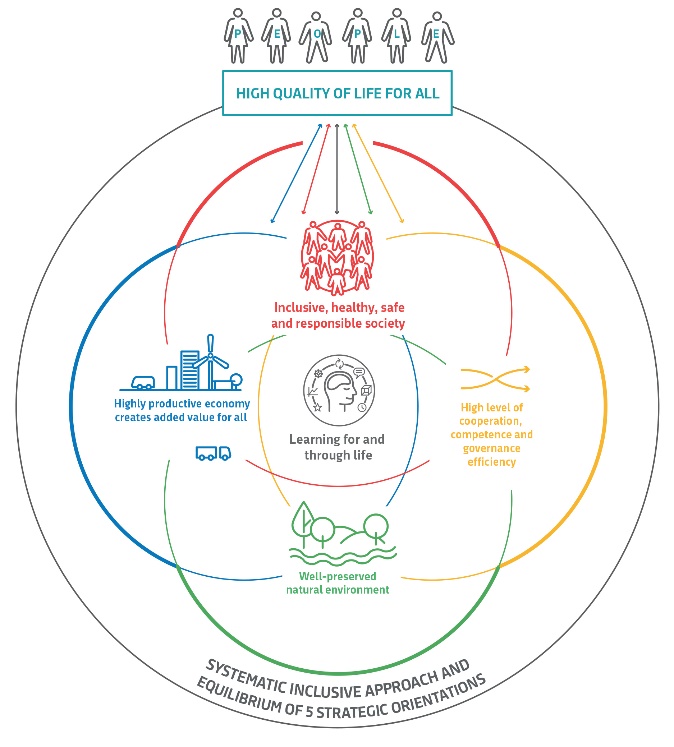
Source: IMD, 2020a (left); Eurobarometer, 2020a, 2020b (right). Note: In the indicators of a country’s government efficiency according to IMD, a higher score means higher efficiency. As the IMD survey for 2020 was conducted between February and the beginning of April 2020, the impact of the epidemic on managers’ opinion was taken into account to a limited extent. \* Data for 2020 refer to the summer measurement of trust. \*\* Countries that joined the EU after 2003. \*\*\* Sweden, the Netherlands, Denmark.

# Introductory remarks

**The Development Report is a document monitoring the implementation of the Slovenian Development Strategy.** The basic structure of the report (the main chapters) follows the five strategic orientations that the SDS identified as crucial for achieving its primary goal, which is to ensure a high quality of life for all: (i) a highly productive economy that creates value added for all, (ii) lifelong earning, (iii) an inclusive, healthy, safe and responsible society, (iv) a well-preserved natural environment, and (v) a high level of cooperation, competence and governance efficiency. The SDS also set 12 development goals in interconnected and interdependent areas identified as essential for the implementation of the strategic orientations. The report tracks the implementation of each development goal (sub-chapters of the report) within the strategic orientation with which it is most strongly linked, although each individual goal can contribute to the realisation of several strategic orientations (see Slovenian Development Strategy 2030, Figure 6). When this report was prepared, data for most indicators were available for 2019. Only for some indicators data for 2020 were also available. It was therefore not yet possible to provide a comprehensive analysis of the impacts of the covid-19 crisis on Slovenia’s development and the well-being of its population in 2020, but they are pointed out in many areas.

**The appendix to the report presents indicators for monitoring the implementation of the SDS in more detail.** The 30 performance indicators for which the SDS set target values for 2030 are complemented by indicators that provide a detailed overview of progress in individual areas. The indicators represent the main analytical basis of the report, which is complemented by an overview of other data, studies and research reports, particularly in those areas where no appropriate indicators for comparisons between countries or over time are available (for example because of the specificity of content). The report uses data sources released by 31 March 2021. Due to the UK’s withdrawal from the EU in 2020, we have moved to the average of 27 countries when comparing developments in Slovenia and the EU. As the EU average is also used in some numerical goals of the SDS, the value of individual goals has changed slightly. The abbreviation EU-13 still refers to the average of new Member States that joined the EU after 2003; EU-14 refers to the average of countries that were already in the EU before 2004 (the so-called old Member States) and EU-22 to the average of those that are also members of the OECD (this comparison is used in the case of OECD data sources, which do not generally include all EU Member States).

Figure 7: Primary objective and strategic orientations of the Slovenian Development Strategy 2030



Source: The Slovenian Development Strategy 2030, 2017.