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2022 Country Report - Slovenia

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Recommendation for a COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Slovenia and delivering a Council opinion on the 2022 Stability Programme of Slovenia

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Slovenia

2022 Country Report

ECONOMIC AND EMPLOYMENT SNAPSHOT

Slovenia’s economy proved resilient

The COVID-19 pandemic disrupted a period of strong growth and improving labour market conditions (see Annex 12)**.** Between 2014 and 2019, the economy grew by some 20%. In 2020, per capita GDP stood at 89% of the EU average. With the outbreak of the pandemic in 2020 and the enforcement of stringent measures to combat COVID-19, GDP declined by 4.2%. Policy actions to help soften the socio-economic effects of the crisis prevented a rapid increase in unemployment and bankruptcies, minimising the impact of the recession. Slovenia adopted ten support packages amounting to some 4.9 billion euros. Slovenia also received EUR 1.1 billion in temporary EU support to protect jobs and incomes (SURE programme). This helped the economy recover quickly and grow by 8.1% in 2021. It had already reached its pre-pandemic level by the third quarter of 2021.

The Russian war of aggression against Ukraine increases uncertainty and darkens the outlook

The economy was forecast to continue on a strong growth path despite facing some headwinds in the beginning of 2022. As in other countries, surging oil and gas prices have fuelled inflation. Moreover, supply bottlenecks were already apparent and reducing production capacity. At the same time, unemployment had reached a very low level and job openings were at an all-time high (see annex 12). The government also raised the minimum wage by almost 5 percentage points (pps) in 2022, reaching around 50% of the average monthly wage.

Russia’s war of aggression against Ukraine and broader geopolitical tensions weigh further on the economic outlook. Russia accounted for 2.2% of total exports of goods in 2021 and the most exposed sector is pharmaceuticals. The country also relies on Ukraine and Russia for supplies of energy, metals and chemical products. Slovenia is dependent on Russian gas (although it purchases it mostly through Austria), but natural gas does not play a very prominent role in general in the energy mix.

Growth is expected to continue at moderate pace while inflation is set to remain high. Besides the direct impact of the war on external trade, there is expected to be a sizeable impact on growth due to the added uncertainty, higher input prices and problems in supply chains. These are expected to weigh on the growth of private investments. In the Commission’s Spring 2022 forecast, GDP growth is therefore expected to slow to 3.7 % in 2022 and to 3.1 % in 2023. Inflation is forecast to reach levels not seen in recent decades - 6.1 % in 2022 and 3.3 % in 2023. Growth is expected to be mainly driven by the domestic demand, as private consumption is supported by the lowering of personal income tax rate and continued employment growth. Higher import prices, resulting in worsening terms of trade, are also set to lower the current account surplus. The unemployment rate is forecast to remain unchanged compared to 2021, at 4.8% and to improve to 4.6% in 2023.

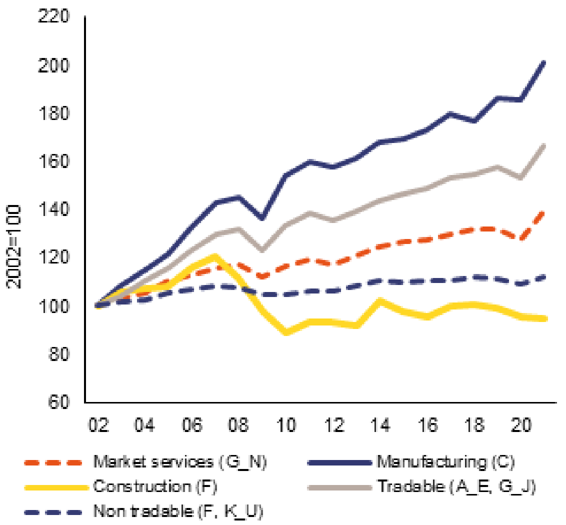
Some chronic challenges still to be addressed

Lacklustre investment has held back growth for years. ([1]) investment-to-GDP has remained rather low, at almost 3 pps of GDP below the EU average in 2019. Economic growth has been based on increased labour force participation and improved total factor productivity, rather than on investment. Slovenia has been unable to significantly increase investment in R&D and therefore become a leading innovator. Slovenia's spending on research and innovation (R&I) is 0.22 pps of GDP less than the EU average and 0.5 pps of GDP less than that the five leading countries, with the gap widening over time. Meanwhile, the economy is still energy- and GHG emissions-intensive and the pace of emission reduction is slow and there is room for improvement in the country's digital infrastructure, particularly as regards 5G connectivity and digital public services.

Surging house prices point to increasing vulnerabilities in the housing market. House prices have risen rapidly over recent years, by an increase of 12.9% in Q3-2021 compared to the same quarter in 2020 – well above the 8.8% in the euro area. Capacity shortages and rising costs are limiting new construction. The risk of overvaluation has increased and the housing market currently appears to be overvalued by 8.9%. While household indebtedness is low compared to other countries, the growth of mortgages reached 9% in 2021. Rising interest rates are likely to exert additional burden on the balance sheets of households and firms.

([1]) ECFIN study "Explaining the low level of investment in Slovenia" (Forthcoming)

Graph 1.1: **Productivity by sector (index)**



Source: Commission's calculations based on Eurostat data

Slovenia's continued poor performance in attracting foreign direct investment in some sectors might be partially due to the high share of state-owned enterprises (SOEs). On 31 December 2020, the book value of the SOE portfolio stood at EUR 9.9 billion. ([2]) The Slovenian state maintains stake in sectors usually seen as non-strategic: such as tourism, telecommunication and insurance ([3]).

Late payments became a severe problem during the pandemic. As in other EU Member States, more than 40% of companies experienced problems due to late payments in 2021. ([4]) However, this seems to have a more severe impact on these firms since the share of firms that had to delay their payments due to suppliers or to revise their investments or recruitment plans was 50% higher than the EU average.

The economy is on average more GHG emissions and energy-intensive than

([2]) Slovenia Sovereign Holdings portfolio composition: https://www.sdh.si/en-gb/asset-management/portfolio-composition

([3]) The telecom operator Telekom Slovenije and the insurance company Zavarovalnica Triglav which are partially state-owned held market shares of about 30% in their respective markets in 2020

([4]) Survey on the access to finance of enterprises SAFE, ECB and EC 2021

other EU Member States. This underlines that there are still opportunities to make Slovenia's economy more resilient and sustainable. While Slovenia is expected to surpass its 2030 greenhouse gas reduction target for non-ETS sectors, the country has been among the worst performing 25% of Member States in terms of reducing emissions across the economy since 1990. At the same time, energy intensity in industry, services and the residential sector remains relatively high and some exposure remains in coal, lignite and fossil fuel-based energy production. The energy-intensive industry provides jobs for 4.2% of the total employed workforce, for whom up- and reskilling could be particularly important (see Annex 6).

Reforms aim to improve competitiveness

Slovenia is implementing structural reforms to increase productivity in the economy. Slovenia's export market shares have increased by 20.2% over 2016-2020 and productivity growth has been strong in manufacturing. However, convergence towards the average level of the euro area has not been strong, as Slovenia's labour productivity has remained broadly stable compared to the EU since 2005 (fluctuating between 80-85% of EU average). Further, there are widespread regional differences in productivity, and disparities between Western and Eastern Slovenia and NUTS 3 level hinder the balanced development of the country (see Annex 15). Increasing public and private investment in skills, physical capital and digital technologies is essential to boost productivity and competitiveness.

Targeted reforms in key sectors can strengthen the business environment and boost Slovenia's competitiveness. Slovenia has significantly reduced the number of regulated professions, but this process has slowed down in recent years: regulatory restrictiveness in Slovenia is higher than the EU average for professions such as civil engineers, architects, lawyers, tourist guides and real estate agents. [5] While measures have been taken to reduce the administrative burden, to improve access to finance and speed up payments to help firms' liquidity, these efforts need to continue.

Public finances face pressure in the short term

The significant fiscal stimulus helped avert a deep and long recession. Prior to the pandemic -- supported by robust economic growth -- Slovenia's budget had been in surplus for 2 years and public debt had been decreasing. This trend reversed in 2020 due to the large-scale COVID-19 support measures, a considerable drop in GDP and lower revenues following a previous tax reform. After the peak in 2020, the budget deficit and debt decreased to 5.2% and 74.7% of GDP respectively in 2021.

The budget deficit is projected to decline in the coming years, but expenditure remains high. By 2023, the budget deficit and public debt are projected to decrease to 3.4% and 72.7% of GDP, respectively, thanks to a strong rebound in economic activity and the phasing out of temporary COVID-19 measures. However, not least due to a pay rise for health and social care workers followed by wage pressure in other sectors, government consumption will remain high. Additional costs for long-term care of up to 0.8% of GDP and lower revenues due to the recently-approved personal income tax cuts by up to 1.3% of GDP are expected to keep the budget deficit elevated until 2025.

Ageing remains a major challenge

An ageing population presents a serious challenge to growth prospects. Similar to other Member States, the Slovenian working-age population is expected to shrink over the next decades, pushing up the old-age

[5] SWD (2021) 185

dependency ratio. As a result of an ageing population, public expenditure on pensions, health care and long-term care is projected to rise by as much as 8.8 pps of GDP by 2070, the bulk of which is expected already by 2045. ([6]) These ageing costs contribute to the fiscal sustainability challenges Slovenia is expected to face in the medium and long term (see Annex 19). Although Slovenia managed the COVID-19 pandemic reasonably well, the crisis highlighted labour shortages and other insufficiencies in healthcare and long-term care. Population ageing will only aggravate these challenges for these sectors in the next years and decades. However, there is significant untapped potential among older people as only half of those aged 55 to 64 are employed (vs 59.6% for the EU-27; see Annex 12).

Slovenia performs relatively well on the sustainability and social indicators

Slovenia performs relatively well on most Sustainable Development Goals (SDGs) compared to other Member States, although challenges remain in a few areas. Further progress is needed on sustainable cities and communities (11); partnership for the goals industry, innovation and infrastructure (9); climate action (13); and zero hunger (2). Slovenia is progressing towards meeting SDG 12 on responsible consumption and production, but is performing worse than the EU average. Slovenia is performing better than the EU average regarding SDG 15 on life on land but has been moving away from meeting the goal (see Annex 1).

Slovenia is assessed as being at least 'on average' on 14 of the 16 indicators of the Social Scoreboard, supporting the European Pillar of Social Rights. On the indicators 'at risk of poverty or social exclusion' and 'disability employment gap', it is assessed as 'good but to monitor' (see Annex 12).

([6]) European Commission (2021), The 2021 Ageing Report: Economic & Budgetary Projections for the EU Member States (2019-2070), Institutional Paper 148, (https://ec.europa.eu/info/sites/default/files/economy-finance/ip148_en.pdf).

THE RECOVERY AND RESILIENCE PLAN IS UNDERWAY

Slovenia's recovery and resilience plan (RRP) has a total budget of about EUR 2.5 billion (4.8% of GDP), with EUR 1.78 billion in non-repayable financial support and EUR 705 million in loans. This comes in addition to EUR 3.54 billion in EU cohesion policy funds for 2021-2027 (see Annex 3). The RRP covers the green and digital transition, smart, sustainable and inclusive growth, healthcare and welfare (see Annex 2 for details on the size and structure of the RRP). The RRP's measures encompass all seven EU flagships and four multi-country projects. Implementation of reforms and investments is expected to help tackle almost all challenges identified in the country-specific recommendations that were addressed to Slovenia in 2019 and 2020, except for the recommendation on privatisation. Slovenia intends to submit its first two payment requests in 2022.

Large share of the RRP is dedicated to the twin transition

The RRP has a strong focus on accelerating the green transition by decarbonising the energy sector. The RRP includes key reforms that aim to address regulatory challenges and make the renewable energy sources network more integrated. It also contains energy-efficiency measures in industry, as well as a dedicated component on the energy renovation of buildings. This is expected to also improve air quality, which has been a significant concern in Slovenia.

The RRP also tackles climate, environment, and transport. The RRP includes flood prevention measures, as a significant share of Slovenia's population live in areas exposed to floods. The RRP aims to make the transport system more sustainable by upgrading rail infrastructure and by reorganising the public transport system. This is expected to help reduce the high GHG emissions intensity, increase the emission reduction in Slovenia and possibly step up the use of public transport, currently low by international standards. The RRP intends to accelerate the transition to a circular economy by increasing producer responsibility and promoting the integration of recycled materials in new products.

The RRP seeks to contribute significantly to the digital transformation. It focuses on digitalising the public sector and improving the availability of e-services. Investments in broadband connectivity, cloud capacities and digital skills are expected to help reduce the digital divide. The RRP also includes reforms on the cybersecurity and digitalisation of companies and refers to the participation of Slovenia in four multi-country projects.

The RRP includes much-needed structural reforms

Three flagship reforms of the RRP intend to address challenges linked to a rapidly ageing society, as well as help implement the European Pillar of Social Rights. These ambitious reforms of pensions, healthcare and long-term care are set to go a long way in modernising Slovenia's social welfare system and addressing the challenges post-COVID.

The planned pension reform is expected to ensure adequate pensions and ensure the financial sustainability of the pension system. It is set to introduce parametric changes to deal with key deficiencies of the current system, including by ensuring that workers remain active in the labour market for longer and adjusting retirement conditions (such as higher retirement age or indexation). The RRP includes measures to increase the employment rates of people with low skills, which are currently below the EU average (see Annex 12). This is crucial for Slovenia to reach the 2030 EU headline targets on employment and skills.

The reforms of the healthcare and long-term care systems are expected to improve transparency and adequacy. Creating a coherent regulatory framework for long-term care has been a long-standing country-specific recommendation. As part of the RRP, Slovenia adopted the framework law on long-term care in December 2021. However, the introduction of a compulsory long-term care insurance, which should cover at least 30% of the costs, has been pushed back to 2025. Complemented by investments in additional facilities for long-term care, the reform is expected to lead to significant improvements for people in need of long-term care. The reform of the healthcare system is expected to improve its quality, accessibility and resilience and transform its financing sources (see Annex 14).

The RRP also aims to cater to the needs of young people. It puts a strong focus on attaining competences (digital, green and financial literacy) at all levels of education and seeks to support investments in modern, digital and environmentally-friendly education (see Annex 13). Investments in affordable housing are expected to reduce the social impact of the crisis on marginalised groups, especially young people and young families, and improve their living conditions in the longer term.

The implementation of reforms to improve the business, research and innovation environment is progressing steadily. Slovenia has already adopted a number of acts, including those on 'debureaucratisation', promoting investment, development incentives for tourism, public procurement, and R&I as well as an amended housing act (see Annexes 10 and 12). In addition, cross-border projects have started.

In 2023, work on reforms is expected to advance and major investment projects are set to be kicked off. The act establishing a short-time work scheme for severe economic downturns and a ban on using fossil fuels for heating in new buildings are set to enter into force. Contracts for projects in many areas are expected to be awarded. These include investments in flood safety, urban wastewater discharge and treatment, the construction of clinics for infectious diseases in Maribor and Ljubljana, a national telemedicine system and facilities for long-term care. After consultation with employers and trade unions, draft amendments to the pension legislation are set to be submitted to the national parliament.

Box 2.1: **Key deliverables under the recovery and resilience plan in 2022-2023**

- Reform the promotion of renewable energy sources and address regulatory challenges to pave the way for private investments in this area.
- Entry into force of a new flood risk management plan and invest EUR 24.64 million in flood and landslide prevention.
- Reorganise and improve the system of public passenger transport, including significant investments in rail infrastructure.
- Adopt the 2021-2025 broadband plan and deploy the 5G network by 2023.
- Preparation of the reform of the pension system aiming to ensure adequacy and long-term sustainability and consultation of social partners.
- Set up a sustainable long-term care system to improve access to long-term care services for the general public.
- Strengthen the key competences of 1300 young people and help them find work.
- Remove administrative barriers with reforms on public institutions and improvements in public procurement.
- Reform the R&I governance by implementing the provisions of the new act on R&I and establishing a programme committee for R&I policy coordination.

FURTHER PRIORITIES AHEAD

Beyond the challenges addressed by the RRP, as outlined above, Slovenia faces additional challenges not sufficiently covered in the plan. Some measures were introduced recently (see Annex 4 on progress on country-specific recommendations), but further action is needed, especially on the sustainability of public finances, productivity and the business environment. Moreover, addressing various bottlenecks in accessing healthcare and accelerating the green transition will continue to pose challenges. Reducing regional disparities between Western and Eastern Slovenia would boost the country's economic potential. Addressing these challenges will also help to make further progress in achieving the sustainable development goals (SDG) related to macroeconomic stability and productivity (see Annex 1 on SDGs).

Fiscal sustainability faces substantial challenges

The sustainability of Slovenia's public finances faces substantial challenges in the medium and long term. Expenditure related to ageing as a share of GDP is projected to increase by the third highest rate in the EU as of 2035 and outpace the EU average by 2045 (see Graph 3.1). The expected increase in ageing costs is set to accelerate particularly after 2030 and it is largely driven by expenditure on pensions, which is estimated to reach 15.7% of GDP by 2050 – the second highest level in the EU –, followed by expenditure on healthcare and long-term care. These projections do not yet include the additional costs resulting from the newly adopted Long-Term Care Act, which are expected to put further pressure on public finances.

The healthcare and long-term care reforms planned in the RRP, while addressing major challenges, do not yet ensure the sustainability of government finances in the long term. Even though public financing of the health system is below the EU average (72.8% in 2019 vs 79.7% in the EU), a sharp increase in healthcare spending is expected, followed by a doubling of long-term care costs by 2055. [7] This points to the need for additional financing. However, the reforms in those areas undertaken in recent years mostly extended access to high-quality services and improved social inclusion and rights. In turn, this put additional strain on public finances. The reforms included in the RRP mostly focus on the quality of, access to and a stable revenue base for healthcare and long-term care. While the latter can be an effective tool to support fiscal sustainability in the short term, the long-term fiscal sustainability challenges stemming from ageing such as increasing needs and spending in the context of a shrinking revenue-generating capacity require additional measures.

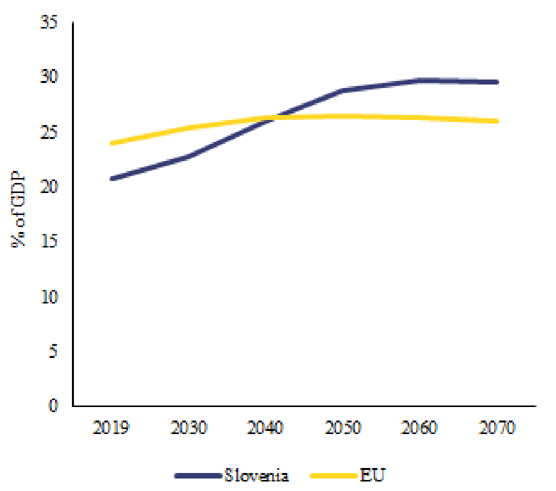
The recent labour tax cuts require compensating measures to fill the revenue gap. Notwithstanding the strong employment growth in the last year, it is estimated that the changes to personal income tax adopted to increase after-tax wages, will gradually reduce tax revenues by

(7) OECD/ European Observatory on Health Systems and Policies (2021), Slovenia: Country Health Profile 2021, State of Health in the EU, OECD Publishing, Paris/European Observatory on Health Systems and Policies, Brussels, (https://eurohealthobservatory.who.int/publications/m/slovenia-country-health-profile-2021).

European Union (2021), 2021 Long-Term Care Report: Trends, Challenges and Opportunities in an Ageing Society. Country Profiles. Volume II, (https://op.europa.eu/en/publication-detail/-/publication/b39728e3-cd83-11eb-ac72-01aa75ed71a1).

up to 1.3% of GDP by 2025. No measures have been proposed so far to cover this loss. This comes on top of the personal income tax cuts in 2020, which were only partly financed by higher taxes for companies. (8) Although the labour tax changes are expected to increase labour supply and GDP in the long term, they are unlikely to make up for the lower revenues any time soon. Simulations by Slovenia's Fiscal Council show that the recent tax reform could increase public debt by between 4 and 14 pp of GDP in the medium term. (9)

Graph 3.1: **Total ageing costs as % of GDP**



Source: The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070), European Commission

The tax mix in Slovenia offers considerable substantial room to increase revenues (see Annex 17). Although the country is doing well on many indicators related to environmental taxation, further revenue could still be generated, e.g. by limiting environmentally harmful subsidies like the excise duty refund for commercial transport, indexing energy taxes or introducing distance-based charges for private vehicles. (10) Another potential source of revenues would be higher recurrent taxes on immovable property as their revenues are relatively low in Slovenia (0.5% of GDP vs an EU average of 1.2% of GDP). Bringing property values in line with market values and factoring in the energy performance of buildings could help increase growth, reduce inequality and promote energy efficiency (see Annex 18). (11)

The business environment needs further reforms

Fostering competitive and innovative firms that are globally integrated remains a challenge (see Annex 8). The share of research personnel in Slovenia is higher than in the EU in general, yet the country's scientific research performance (12) and technology transfer (13) remain modest. (14) As regards its overall performance in digitalising the economy and society, Slovenia ranked 13th among the EU Member States and still performed below the EU average (see Annex 8). (15) Attracting foreign talent is one of the key challenges for companies, in particular tech start-ups.

The role of state-owned companies in key industries could be hampering firm entry into the market and investment. While Slovenia reduced its holdings in the financial sector, it has recently increased its level of ownership in the tourism sector. Slovenian state assets are managed by Slovenia

(8) European Commission (2020), Labour Tax Shift in Slovenia: Effects on Growth, Equality and Labour Supply, Economic Brief 57, (https://ec.europa.eu/info/publications/labour-tax-shift-slovenia-effects-growth-equality-and-labour-supply_en).

(9) Slovenia's Fiscal Council (2021), Analysis of Fiscal Effects Arising from the Proposed Amendments to Tax Legislation, (https://www.fs-rs.si/analysis-of-fiscal-effects-arising-from-the-proposed-amendments-to-tax-legislation/).

(10) OECD (2019), Tax revenue implications of decarbonising road transport: Scenarios for Slovenia, OECD Publishing, Paris, (https://doi.org/10.1787/87b39a2f-en).

(11) European Commission (2022), Immovable Property Taxation for Sustainable and Inclusive Growth, Discussion Paper 156, (https://ec.europa.eu/info/publications/immovable-property-taxation-sustainable-and-inclusive-growths_en).

(12) Measured by the 10% top-cited publications.

(13) Measured by the number of patent application per GDP.

(14) Ranked 17th in the EU in 2017 and 16th in 2019 and 15th in 2021 in the EU innovation scoreboard.

(15) Digital Economy and Society Index 2022.

Sovereign Holdings (SSH). Before the crisis, SSH managed to increase the return on equity for assets under its management to almost 7% (2019). The government continues to have stake in 3 publicly traded financial companies and numerous companies providing tourism and other services. According to the OECD's assessment [16], the government could narrow down the group of SOEs that are considered important or strategic (requiring controlling or majority government share holdings) and divest non-strategic assets. Companies could then focus on their core activities. In addition, Slovenia should consider further strengthening the SOE governance by allowing more flexibility as regards management pay, strengthening supervisory boards and refraining from politically motivated replacements of board members.

Despite government policies to further support equity financing, companies continue to rely heavily on bank loans. Over-reliance on bank finance exposes companies to financing risks and might limit their potential to borrow and grow, especially for innovative small and medium-sized enterprises (SMEs). More diversified financing of companies, including equity, could make companies more resilient. Greater use of equity financing by businesses would also help institutional and private investors in Slovenia diversify their portfolios.

Slovenia still faces regulatory issues that can adversely affect the business environment. Although, in general, regulatory barriers are not higher than the OECD average, businesses perceive red tape as one of the most problematic factors in doing business in Slovenia. Construction is one significant example where the issuance of permits remains a challenge.

Reducing regulatory barriers in the professional services sector will make entry easier and improve quality and prices. Regulatory restrictiveness in Slovenia is higher than in the EU on average for all of the professions analysed by the European Commission, with a few exceptions. [17] Slovenia regulates some professions quite strictly: restricting marketing, allowing only limited entry paths and limiting fees. Besides lawyers and civil engineers, other professionals like real estate agents and tourist guides face significant restrictions. Similarly, regulatory barriers could be further lowered in some retail segments, such as retail sale of medicines as well as in the road-freight transport sector, where industry representatives have a role in issuing licences, which may distort competition by preventing new businesses from entering.

Access to healthcare remains a challenge

The healthcare sector faces challenges as regards access due to shortages of health workers, in particular general practitioners and, in some areas, nursing staff. Personnel shortages in healthcare are most acute in family medicine and paediatrics at the primary level [18], which hampers the capacity of the primary care system to act as an effective entry-point and coordinating mechanism across the various levels of care. There are also staff shortages of registered nursing professionals in hospitals and in the provision of long-term care services, both in care homes for older people and at home. The sector needs to be modernised, in particular to make better use of skills and to ensure the attractiveness of care professions, next to other retention factors, such as those related to pay.

Long waiting times for certain medical treatments were exacerbated during the pandemic. In 2019, 2.7% of the population reported unmet needs for medical care, which is above the EU average. About a quarter of

(16) OECD Economic Policy Reforms 2021: going for growth, 2021: https://www.oecd.org/economy/growth/Slovenia-country-note-going-for-growth-2021.pdf.

(17) COM (2021) 385

(18) European Observatory on Health Systems and Policies, Albreht, Tit, Polin, Katherine, Brinovec, Radivoje P, Kuhar, Marjeta. et al. (2021). Slovenia: health system review. World Health Organization. Regional Office for Europe. https://apps.who.int/iris/handle/10665/346064.

the population reported forgone medical care during the first 12 months of the pandemic. ([19]) Long waiting times for certain medical treatments are a long-standing problem in Slovenia (see also Annex 14). Poor coordination between healthcare systems and inefficiencies in management were identified as main drivers of the problem. Long waiting times, especially for publicly funded secondary level specialist services ([20]) (such as orthopaedics, cardiology), are driving unmet medical need in Slovenia, raising concerns over access to healthcare services for society as a whole.

Need to ensure energy security and accelerate decarbonisation efforts

Slovenia has a diversified energy mix. Currently, oil has the highest (31%) share in the energy mix, followed by nuclear with 23%, and renewables with 18% (see Annex 5). By 2030, renewables, nuclear and natural gas would see an increasing share in Slovenia's energy mix, while the share of oil and solids would decline considerably compared to the current energy mix. Natural gas accounts for 11.3%, but with 100% of the natural gas being imported from Russia, there is still a high dependency on Russian gas, which is provided overwhelmingly by imports from Austria. Therefore, Slovenia similarly to some other Member States will also face a challenge in reducing its gas dependence on Russia. Although currently gas is less important in Slovenia than in the EU as a whole (apart from in some industries, particularly steel, paper), it is possible that its role would grow in the near future to substitute solid fuels in light of the announced coal phase-out by 2033. To this end, there is a need to ensure the implementation of the energy projects of common interest, especially when it comes to gas infrastructure and interconnections with neighbouring Member States. Slovenia should consider relying on access to LNG terminals of neighbouring Member States in order to diversify its gas supply.

In light of the new geopolitical tensions diversification of the energy supply with a further focus on renewables and on energy efficiency is more important than ever. More investments are needed to help expand renewable energy, as well as for network and energy storage infrastructure. Slovenia has reached its 2020 renewable energy sources target by using the EU mechanism of cross-border cooperation in line with Directive 2018/2001/EU (statistical transfers). Measures in Slovenia's RRP to promote renewable energy and support energy efficiency are expected to help improve its performance. However, these might not be sufficient to reach the target of 27% renewable energy sources in end-use energy by 2030, as set in its national energy and climate plan. In light of the restrictions for constructing renewable energy production installations in environmentally protected areas, proactively pre-identifying acceptable sites for their construction would facilitate site selection for project promoters. The existing energy storage in Slovenia is underdeveloped and insufficient to address the needs of local renewables production. Improving the grid capacity availability at the low-voltage grid level could help integrate rooftop photovoltaic into the grid. Furthermore, Slovenia is participating in a project of common interest for gas interconnection and a compressor station. Future investments should be future proof, where possible, to avoid lock in effects in the path to climate neutrality. The implementation of these projects is considered a priority in view of the Russian invasion of Ukraine.

Slovenia has increased its efforts towards the green transition in the transport sector but significant challenges remain. Transport emissions in Slovenia represent over two-fifths of the country's total CO_2 emissions. Further efforts

([19]) State of Health in the EU, Slovenia Country Health Profile 2021: https://ec.europa.eu/health/system/files/2021-12/2021_chp_sl_english.pdf.

([20]) See: "Analysis of Situation on 1.1., 1.6.2020 and 1.1.2021" National Institute of Public Health of Slovenia, https://www.nijz.si/sl/publikacije.

are needed to encourage the modal shift from private cars to public transport. ([21])

Despite making some progress, Slovenia still faces challenges on its path to a circular economy. The environmental goods and services sector already provides jobs to 2.8% of the employed population, compared to 2.1% in the EU (see Annex 6). There has been a steady increase in circular or secondary use of raw material in Slovenia in recent years but it still remains below the EU average (12.3% in 2020 vs 12.8% in the EU, see Annex 7). ([22]) Also, resource productivity is still well below the EU average. ([23]) Municipal waste generation, on the other hand, has started to increase in recent years. ([24]) These factors indicate that Slovenia's economic growth is not yet decoupled from its waste generation. Although the RRP covers several important measures for the transition to circular economy, further efforts will be needed to achieve the 2030 targets.

([21]) Transport-related weaknesses are confirmed by the green dimension of the resilience dashboards, in the area of climate change mitigation and adaptation.

([22]) Eurostat, Circular material use rate

([23]) With EUR 1.54/kg of material consumed in 2020 compared to the EU average of EUR 2.09/kg according to Eurostat, Resource productivity.

([24]) 487 kg/year/inhabitant in 2020 compared to 449 kg/year/inhabitant in 2015 according to Eurostat, Municipal waste by treatment.

KEY FINDINGS

Slovenia's recovery and resilience plan includes measures to address a series of structural challenges by:

- improving the **renewable energy** infrastructure and increasing the capacity for renewable energy sources. Incentivising the use of sustainable means of transport, e.g. through improving existing and developing new infrastructure. Investing in flood protection, including nature-based solutions, energy-efficient water systems and circular economy.

- removing **administrative barriers** and bottlenecks to increase investment. **Digitalising** the public sector and developing the broadband infrastructure.

- reforming the national **healthcare, long-term care and pension** systems.

- promoting the participation and integration of **young people** in the labour market.

Beyond the reforms and investments in the RRP, Slovenia would benefit from:

- ensuring the **sustainability of public finances** in the medium and long term by gradually normalising fiscal policy, constraining increases in primary expenditure and implementing reforms addressing the long-term sustainability of the healthcare and long-term care systems.

- using additional **revenue sources** to finance recent labour tax cuts; and rebalance the tax mix towards green and more growth-friendly taxes.

- **improving the business environment** by implementing measures to speed up payments across the economy; reducing the regulatory and administrative burden and removing barriers to competition in services, particularly for professional services.

- ensuring that a large presence/dominance of state-owned and state-controlled companies in certain non-strategic sectors does not undermine **market entry and competition** and that these companies are managed efficiently based on accepted corporate governance standards.

- focusing investment on the **green transition and on diversifying energy supply**, in particular by accelerating the use of renewable energy sources notably with further efforts as regards simplifying and expediting permitting and administrative procedures, enhancing electricity distribution networks, improving energy efficiency, but also by improving energy infrastructure and passenger rail transport.

- improving the **circularity of the economy** and **eco-innovation.**

ANNEXES

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This Annex assesses Slovenia's progress towards the Sustainable Development Goals (SDGs) along the four dimensions of competitive sustainability. The 17 SDGs and their related indicators provide a policy framework under the UN's 2030 Agenda for Sustainable Development. The aim is to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind. The EU and its Member States are committed to this historic global framework agreement and to playing an active role in maximising progress on the SDGs. The graph above is based on the EU SDG indicator set developed to monitor progress on SDGs in an EU context.

Slovenia performs 'very well', 'well' or is improving on several SDG indicators related to *environmental sustainability* (SDG 2, 6, 7, 9, 11, 15). In particular, the 'recycling rate of municipal waste' improved from 54.1% in 2015 to 59.3% in 2020, which is above the EU average of 47.8%. Slovenia is making progress on increasing the share of renewable energy in gross final energy consumption (SGD 7) and was able to increase it from 22.9% in 2015 to 24.1% in 2020. The RRP is expected to bring about significant changes in the area of renewable energy by addressing regulatory challenges. Regarding sustainable infrastructure (SDG 9), Slovenia is below the EU average in terms of share of buses and trains in passenger transport (SI: 13.4% of inland passenger-km in 2019; EU average: 17.2%). The RRP is expected to help tackle the challenges related to sustainable mobility, aiming to increase the currently low use of public transportation. This includes measures to upgrade the country's rail infrastructure.

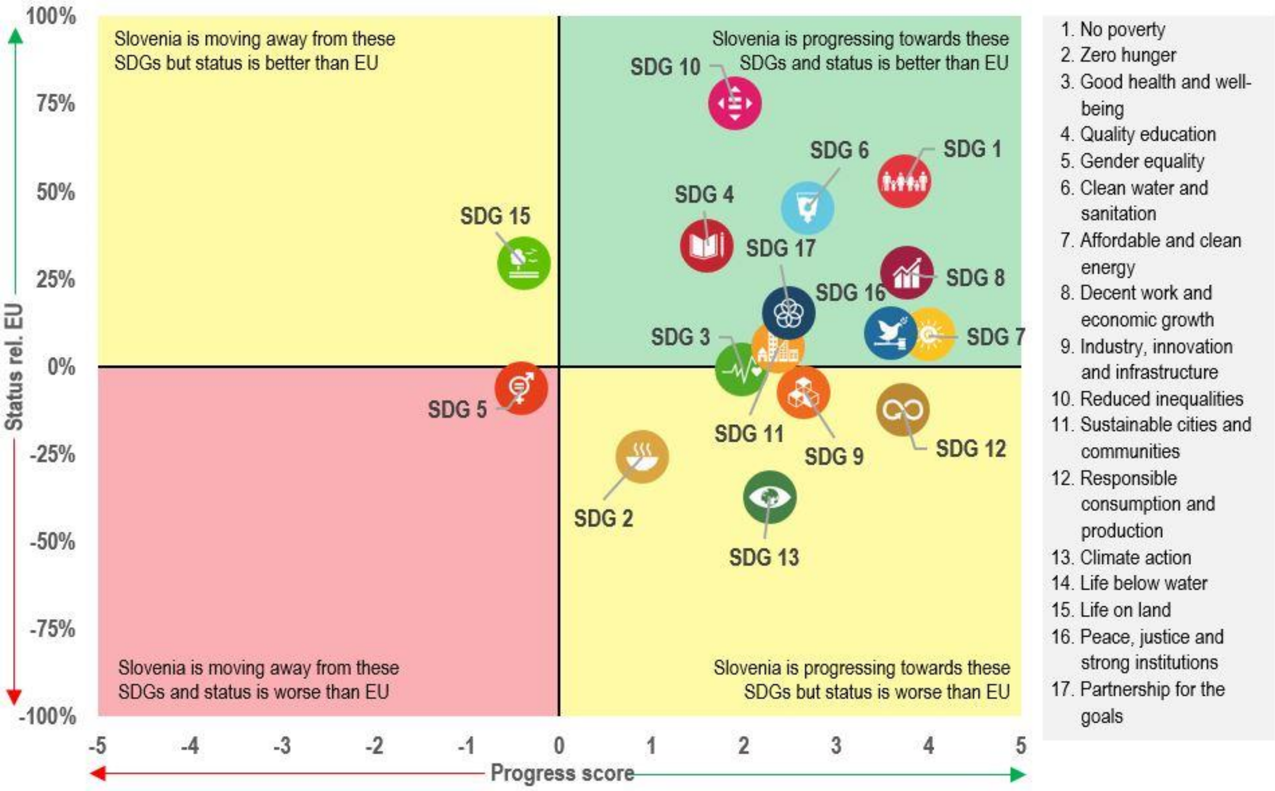
Slovenia generally performs very well or is improving on the SDG indicators assessing the *fairness* of society and economy (SDG 1, 2, 3, 4, 5, 8, 10). ([25]) Slovenia performs very well compared to the EU average on poverty and basic needs (SDG 1) but has regressed in recent years regarding access to medical care (SDG 3). Several measures in the RRP aim to address this challenge. In the context of fairness in society, Slovenia outperforms the EU average on basic and tertiary education (SDG 4).The RRP includes key reforms in long-term care, healthcare, education and the labour market, which will help Slovenia on its way to achieving the objectives of the European Pillar of Social Rights.

Slovenia performs very well on most SDG indicators related to *productivity (SDG 4, 8) and is improving on others (SDG 9).* In 2020, the share of households with high-speed internet connection in Slovenia (65.6%) was well above the EU average (59.3%), showing significant progress made on this indicator since 2015. The share of adults with at least basic digital skills has improved in recent years (2015: 51%; 2019: 55%) but is still slightly below EU average (2015: 54%; 2019: 56%). Although public expenditure R&I is increasing (0.56% of GDP in 2020), it is still below its 2010 level (0.66% of GDP) and the EU level (0.78% of GDP). The RRP will help digitalise the public and private sector in Slovenia and boost digital skills. The new R&I law increases the public spending on research to at least 1% of the GDP. These actions will ensure further progress is made on these SDGs.

Slovenia performs very well overall on SDG indicators related to *macroeconomic stability (SDG 8, 16).* Slovenia performs well on indicators measuring employment (SDG 8). In particular, the long-term unemployment rate decreased from 4.7% in 2015 to 1.9% in 2020, which is below the EU average (2.4%). The RRP includes measures to tackle unemployment among young people and help them quickly enter the labour market, which should help the country make further progress on SDG 8.

([25]) See 'Annex 12 – Employment, skills and social policy challenges in light of the European Pillar of Social Rights' for further information.

Graph A1.1: **Progress towards SDGs in Slovenia in the last five years**



(1) For detailed datasets on the various SDGs see the annual ESTAT report 'Sustainable development in the European Union', https://ec.europa.eu/eurostat/web/products-statistical-books/-/KS-03-21-096; Extensive country specific data on the short-term progress of Member States can be found here: Key findings - Sustainable development indicators - Eurostat (europa.eu)
Source: Eurostat, latest update of 28 April 2022. Data mainly refer to 2015-2020 and 2016-2021.

The Recovery and Resilience Facility (RRF) is the centrepiece of the EU's efforts to support its recovery from the COVID-19 pandemic, fast forward the twin transition and strengthen resilience against future shocks. Slovenia submitted its recovery and resilience plan (RRP) on 30 April 2021. The Commission's positive assessment on 1 July 2021 and the Council's approval on 28 July 2021paved the way for disbursing EUR 1.8 billion in grants and EUR 0.7 billion in loans under the Recovery and Resilience Facility over 2021-2026. The financing agreement was signed on 13 September 2021. The key elements of Slovenia's RRP are set out in Table A2.1.

The share of funds contributing to each of the RRF's six policy pillars is outlined in the graph below.

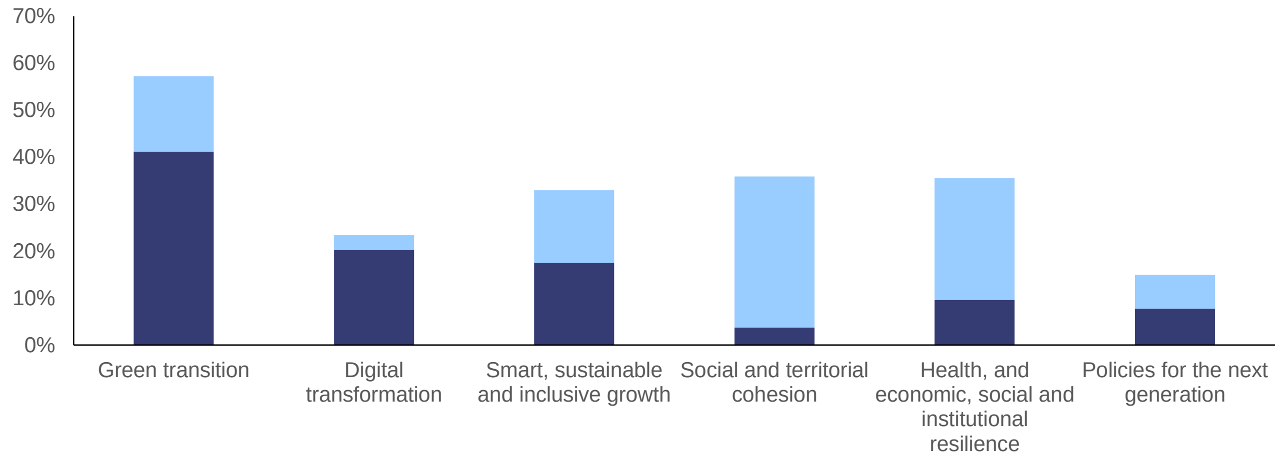
The progress made by Slovenia in implementing its plan is published in the Recovery and Resilience Scoreboard. The Scoreboard also gives a clear overview of the progress on implementing the RRF as a whole.

Table A2.1: **Key elements of the Slovenian RRP**

Total allocation	€ 1.8 billion in grants (3.7% of 2019 GDP) and € 0.7 billion in loans
Investments and reforms	59 investments and 34 reforms
Total number of milestones and targets	209
Estimated macroeconomic impact (1)	Raise GDP by 1.1%-1.7% by 2026 (0.6% in spillover effects)
Pre-financing disbursed	EUR 231 million (September 2021)
First instalment	Slovenia has not yet submitted a first payment request

(1) See Pfeiffer P., Varga J. and in 't Veld J. (2021), "Quantifying Spillovers of NGEU investment", European Economy Discussion Papers, No. 144 and Afman et al. (2021), 'An overview of the economics of the Recovery and Resilience Facility', Quarterly Report on the Euro Area (QREA), Vol. 20, No. 3 pp. 7-16.
Source: European Commission 2022

Graph A2.1: **Share of RRF funds contributing to each policy pillar**

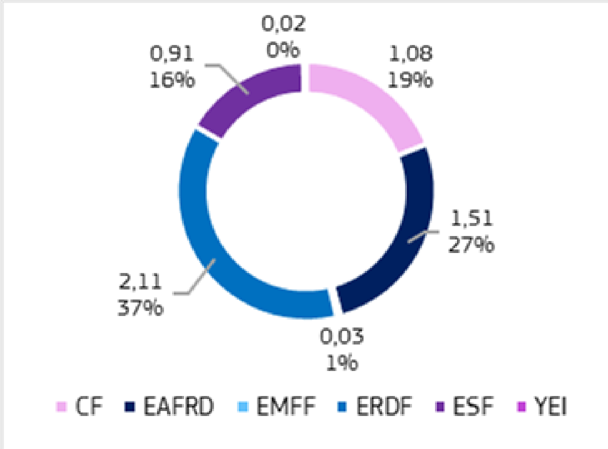


Each measure contributes towards two policy areas of the six pillars, therefore the total contribution to all pillars displayed on this chart amounts to 200% of the estimated cost of the 22 RRPs approved in 2021. The bottom part represents the amount of the primary pillar, the top part the amount of the secondary pillar.
Source: RRF Scoreboard https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html

The EU's budget of more than EUR 1.2 trillion for 2021-2027 is the investment lever to help implement EU priorities. Underpinned by about EUR 800 billion through Next Generation EU and its largest instrument, the Recovery and Resilience Facility, it represents significant firepower to support the recovery and sustainable growth.

In 2021-2027, EU cohesion policy funds ([26]) will support long-term development objectives in Slovenia by investing EUR 3.54 billion ([27]), including EUR 258.7 million from the Just Transition Fund to alleviate the socio-economic impacts of the green transition in the most vulnerable regions. The partnership agreement and programmes under the cohesion policy funds for 2021-2027 are designed taking into account the 2019-2020 country-specific recommendations and investment guidance provided as part of the European Semester, ensuring synergies and complementarities with other EU funding. In addition, Slovenia will benefit from EUR 1.2 billion support for the 2023-27 period from the Common Agricultural Policy, which supports social, environmental, and economic sustainability and innovation in agriculture and rural areas, contributing to the European Green Deal, and ensuring long-term food security.

Graph A3.1: **2014-2020 European Structural and Investment Funds (ESIF) - Total budget by fund (EUR billion, %)**



Note: *The data for the EAFRD and REACT-EU refer to the period 2014-2022.*
Source: European Commission 2022

In 2014-2020, the European Structural and Investment Funds (ESIF) for Slovenia had been set to invest EUR 4.50 billion ([28]) from the EU budget. The total investment including national financing amounts to EUR 5.65 billion (Graph A3.1), representing around 1.85% of GDP for 2014-2020 and 39.24% of public investment ([29]). By 31 December 2021, 108% of the total was allocated to specific projects and 68% was reported as spent, leaving EUR 1.81 billion to be spent by the end of 2023 ([30]). Research and innovation, competitiveness of SMEs, environmental protection and resource efficiency, network infrastructure in transport and energy, as well as sustainable and quality employment (in total EUR 2.5 billion) feature prominently among the 11 objectives for cohesion policy funding in Slovenia. By the end of 2020, Cohesion policy investments i) supported over 13 500 enterprises, with almost 1 300 new direct jobs created, ii) helped improve the water supply for almost

([26]) European Regional Development Fund (ERDF), European Social Fund+ (ESF+), Cohesion Fund (CF), Just Transition Fund (JTF), Interreg.

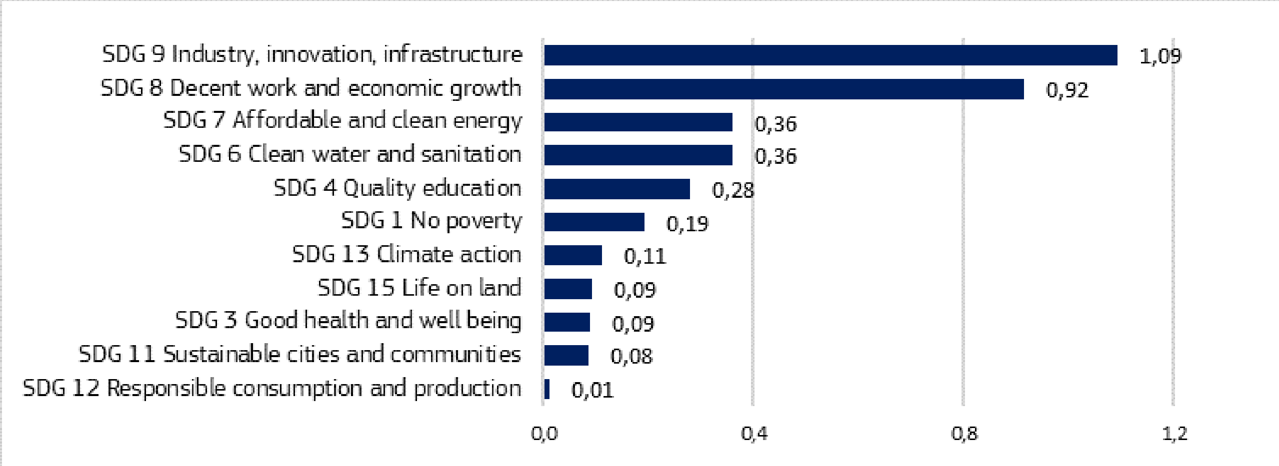
([27]) Current prices, source: Cohesion Open Data

([28]) ESIF includes cohesion policy funds (ERDF, ESF+, CF, Interreg) and European Agricultural Fund for Rural Development (EAFRD) and European Maritime and Fisheries Fund (EMFF). According to the 'N+3 rule', the Cohesion funds committed for the years 2014-2020 must be spent by 2023 at latest and the EAFRD funds committed for the years 2014-2022 must be spent by 2025 at the latest. Data source: Cohesion Open data; cut-off date 31/12/2021 for ERDF, ESF+, CF, Interreg; cut-off date 31/12/2021 for EAFRD and EMFF.

([29]) Public investment is gross fixed capital formation plus capital transfers, general government.

([30]) Including REACT-EU. ESIF data on https://cohesiondata.ec.europa.eu/countries/SI.

Graph A3.2: **Cohesion policy contribution to the SDGs (EUR billion)**



Source: European Commission 2022

160 000 people, and iii) led to a decrease in the annual energy consumption of public buildings by around 57 GWh/year. Furthermore, around 320 000 people participated in projects funded under the European Social Fund (ESF), including around 31 600 long-term unemployed people and nearly 81 000 young people. These measures allowed nearly 45 000 people to gain a qualification and over 18 400 received a job.

Cohesion policy funds already substantially contribute to the Sustainable Development Goals (SDGs) objectives. In Slovenia, cohesion policy funds support 11 of the 17 SDGs with up to 93% of the expenditure helping attain the goals.

The REACT-EU instrument (Recovery Assistance for Cohesion and the Territories of Europe) under NextGenerationEU provided EUR 278 million of additional funding to the 2014-2020 cohesion policy allocations for Slovenia. This was to help ensure a balanced recovery, foster convergence and provide vital support to regions following the COVID-19 outbreak. REACT-EU provided support in Slovenia to i) strengthen the healthcare system, e.g. by promoting energy efficiency in hospitals, ii) build the resilience of long-term care services, iii) contribute to the short-time work schemes, iv) strengthen the digital and green transition, and v) reduce material deprivation with direct food delivery.

The Coronavirus Response Investment Initiative ([31]) provided the first EU emergency support to Slovenia in relation to the COVID-19 pandemic. It introduced extraordinary flexibility enabling Slovenia to re-allocate resources for immediate public health needs (EUR 19 million) and support to businesses (EUR 58 million). For instance, Slovenia shifted resources to purchase protective and healthcare material, boost the capacities in the healthcare sector, provide working capital to SMEs, protect jobs and support the digitalisation of the education system.

Slovenia received support under the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) to finance short-time work schemes and similar measures. In September 2020, the Council granted financial assistance under SURE to Slovenia for a maximum of EUR 1.113 billion, which was disbursed by February 2021. SURE is estimated to have supported approximately 60% of workers and 80% of firms for at least one month in 2020, primarily in manufacturing, wholesale and retail trade, and accommodation and food services. Slovenia is estimated to have saved a total of EUR 0.05 billion on interest payments as a result of SURE's lower interest rates.

The Commission is providing tailor-made expertise via the Technical Support Instrument to help Slovenia design and implement reforms to boost growth, including expertise to help it implement its RRP. Since 2016, Slovenia has received assistance through 53

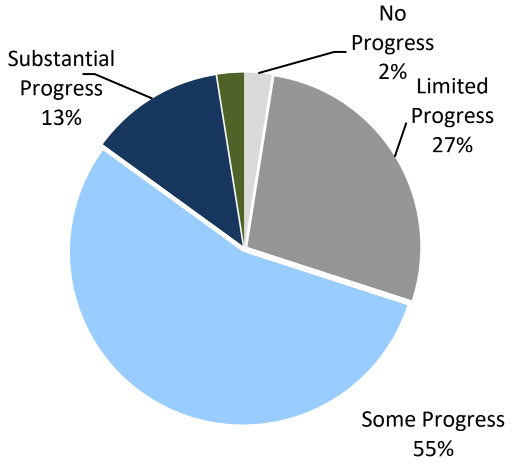
([31]) Re-allocating ESIF resources according to Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020, and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020.

technical support projects. Projects delivered in 2021 aimed to, e.g. develop the local capital markets, prepare the national strategy for the transition out of coal, and transpose the EU's clean energy package. The Commission is also helping Slovenia implement specific reforms and investments included in the RRP, e.g. for digital transformation of healthcare and the promotion of renewable energy sources. In 2022, new projects will start supporting, among other things, the optimisation of the governance model of the R&I ecosystem or innovative digital finance.

Slovenia also benefits from **other EU programmes**, such as the **Connecting Europe Facility**, which allocated EUR 349.3 million in EU funding to specific projects on strategic transport networks, and **Horizon 2020**, which allocated EU funding of EUR 379.4 million.

The Commission assessed the 2019-2021 country-specific recommendations (CSRs) ([32]) addressed to Slovenia in the context of the European Semester. The assessment takes into account the policy action taken by Slovenia to date ([33]), as well as the commitments in the Recovery and Resilience Plan (RRP) ([34]). At this early stage of the RRP implementation, overall 66% of the CSRs focusing on structural issues in 2019 and 2020 have recorded at least "some progress", while 34% recorded "limited" or "no progress" (see Graph below). Considerable additional progress in addressing structural CSRs is expected in the years to come with the further implementation of the RRP.

Graph A4.1: **Slovenia's progress on the 2019-2020 CSRs (2022 European Semester cycle)**



Source: European Commission

([32]) 2021 CSRs: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021H0729%2825%29&qid=1627675454457
2020 CSRs : https://eur-lex.europa.eu/search.html?textScope0=ti&lang=en&scope=EURLEX&qid=1526385017799&type=quick&AU_CODED=CONSIL&DD_YEAR=2020&andText0=recommendation&DD_MONTH=07
2019 CSRs : https://eur-lex.europa.eu/search.html?textScope0=ti&lang=en&scope=EURLEX&qid=1526385017799&type=quick&AU_CODED=CONSIL&DD_YEAR=2019&andText0=recommendation&DD_MONTH=07

([33]) Incl. policy action reported in the National Reform Programme, as well as in the RRF reporting (bi-annual reporting on the progress with implementation of milestones and targets and resulting from the payment request assessment).

([34])) Member States were asked to effectively address all or a significant subset of the relevant country-specific recommendations issued by the Council in 2019 and 2020 in their RRPs. The CSR assessment presented here takes into account the degree of implementation of the measures included in the RRP and of those done outside of the RRP at the time of assessment. Measures foreseen in the annex of the adopted Council Implementing Decision on the approval of the assessment of the RRP which are not yet adopted nor implemented but considered as credibly announced, in line with the CSR assessment methodology, warrant "limited progress". Once implemented, these measures can lead to "some/substantial progress" or "full implementation", depending on their relevance.

Table A4.1: **Summary table on 2019,2020 and 2021 CSRs**

Slovenia	**Assessment in May 2022***	**RRP coverage of CSRs until 2026**
2019 CSR1	**Limited Progress**	
Achieve the medium-term budgetary objective in 2020.	Not relevant anymore	Not applicable
Adopt and implement reforms in healthcare	Limited Progress	Relevant RRP measures planned as of 2024
and long-term care that ensure quality, accessibility and long-term fiscal sustainability.	Some Progress	Relevant RRP measures planned as of 2021.
Ensure the long-term sustainability and adequacy of the pension system, including by adjusting the statutory retirement age restricting early retirement and other forms of early exit from the labour market.	Limited Progress	Relevant RRP measures planned as of 2024.
Increase the employability of low-skilled and older workers by improving labour market relevance of education and training, lifelong learning and activation measures, including through better digital literacy.	Limited Progress	Relevant RRP measures planned as of 2024.
2019 CSR 2	**Some Progress**	
Support the development of equity markets.	Limited Progress	Relevant RRP measures planned as of 2022.
Improve the business environment by reducing regulatory restrictions and administrative burden.	Some Progress	Relevant RRP measures planned as of 2021.
Improve competition, professionalisation and independent oversight in public procurement.	Some Progress	Relevant RRP measures planned as of 2021.
Carry out privatisations in line with the existing plans.	No Progress	
2019 CSR 3	**Some Progress**	
Focus investment-related economic policy on research and innovation,	Some Progress	Relevant RRP measures planned as of 2021.
low carbon and energy transition,	Limited Progress	Relevant RRP measures planned as of 2022.
sustainable transport, in particular rail, and	Some Progress	Relevant RRP measures planned as of 2022.
environmental infrastructure, taking into account regional disparities.	Some Progress	Relevant RRP measures planned as of 2022.
2020 CSR1	**Some Progress**	
Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.	Not relevant anymore	Not applicable
Ensure the resilience of the health and long-term care system, including by providing the adequate supply of critical medical products and addressing the shortage of health workers.	Some Progress	Relevant RRP measures planned as of 2022.

(Continued on the next page)

Table (continued)

2020 CSR2	**Substantial Progress**	
Mitigate the social and employment impact of the COVID-19 crisis, including by providing adequate income replacement and social protection,	Substantial Progress	Relevant RRP measures planned as of 2021.
enhancing short-time work schemes and through flexible working arrangements.	Substantial Progress	Relevant RRP measures planned as of 2022.
Ensure that these measures provide adequate protection for non-standard workers.	Some Progress	Relevant RRP measures planned as of 2022.
2020 CSR 3	**Some Progress**	
Continue to swiftly implement measures to provide liquidity and financing to businesses and households and	Substantial Progress	Relevant RRP measures planned as of 2022.
reduce administrative burden.	Some Progress	Relevant RRP measures planned as of 2021.
Front-load mature public investment projects and	Substantial Progress	Relevant RRP measures planned as of 2024.
promote private investment to support the economic recovery.	Limited Progress	Relevant RRP measures planned as of 2024.
Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy,	Limited Progress	Relevant RRP measures planned as of 2024.
environmental infrastructure,	Some Progress	Relevant RRP measures planned as of 2022.
sustainable transport,	Some Progress	Relevant RRP measures planned as of 2022.
research and innovation, and	Some Progress	Relevant RRP measures planned as of 2021.
the rollout of the 5G network.	Some Progress	Relevant RRP measures planned as of 2022.
Promote digital capacities of businesses, and	Some Progress	Relevant RRP measures planned as of 2024.
strengthen digital skills,	Some Progress	Relevant RRP measures planned as of 2024.
e-commerce and	Limited Progress	Relevant RRP measures planned as of 2021.
e-health.	Limited Progress	Relevant RRP measures planned as of 2023.
2021 CSR1	**Some Progress**	
In 2022, maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.	Full Implementation	Not applicable
When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term.	Some Progress	Not applicable
At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition.	Some Progress	Not applicable
Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.	Limited Progress	Not applicable

* See footnote 34

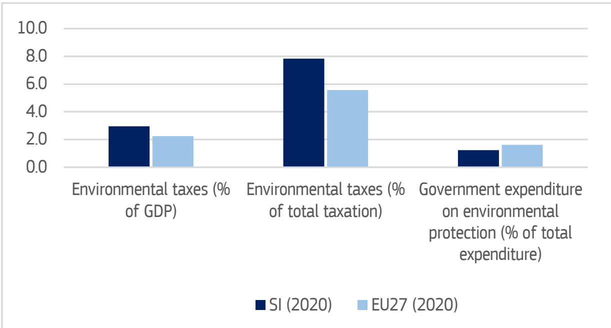
Source: European Commission

The European Green Deal intends to transform the EU into a fair and prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. This annex offers a snapshot of the most significant and economically relevant developments in Slovenia in the respective building blocks of the European Green Deal. It is complemented by Annex 6 on the employment and social impact of the green transition and Annex 7 for circular economy aspects of the Green Deal.

Slovenia is unlikely to achieve the current proposed greenhouse gas reduction target for 2030 with existing measures alone. Total greenhouse gas emissions have remained approximately at similar levels since 2016 with a slight decrease visible in 2019 and 2020 compared to the 1990 level. This decrease is considerably smaller , than the EU average. Slovenia intends to achieve more reductions than its current effort sharing target of -15% for 2030. With the additional measures, it is estimated that Slovenia will overachieve this target for sectors not covered by the EU emissions trading system, provided they are all implemented, and come close to achieving the proposed target for Slovenia under the Fit for 55 package. At the same time, the energy intensity in industry, services and the residential sector remains relatively high and the country's decarbonisation path to long-term climate neutrality is still unclear. Under current land management practices, Slovenia is projected to see moderate net removals by 2030. Slovenia has allocated 42% of its recovery and resilience plan (RRP) to climate objectives and outlines crucial reforms and investments to advance the transition to a more sustainable, low-carbon and climate-resilient economy.

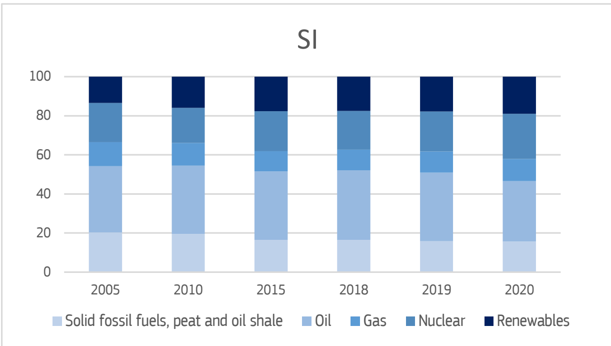
Slovenia is collecting more revenue in environmental taxes than the EU average, but government investment in environmental protection is below average. Slovenia's environmental tax revenues, both as a share of total tax revenues and as a share of GDP are above the EU average, driven mainly by energy taxes and to a smaller extent by transport and pollution taxes. At the same time, the Slovenian government spends a lower share of its expenditure on environmental protection than in the EU overall. Fossil fuel subsidies have been steadily decreasing from 2017. Still, Slovenia has been singled out in the European Court of Auditors' review as being among the 15 Member States, which spent more on fossil fuel subsidies than on renewable energy subsidies in 2020. [35] Meanwhile, the climate risk to public finances due to uninsured assets is considered low/medium, with a significant share of uninsured climatological losses. For more indicators on taxation, see Annex 18.

Graph A5.1: **Fiscal aspects of the green transition**



Source: Eurostat

Graph A5.2: **Thematic – Energy**
Share in energy mix (solids, oil, gas, nuclear, renewables)



(1) The energy mix is based on gross inland consumption, and excludes heat and electricity. The share of renewables includes biofuels and non-renewable waste.

Source: Eurostat

Slovenia's energy consumption remains dependent on fossil fuel sources, with renewable alternatives being underused. Renewables and biofuels make up only 18% of Slovenia's gross inland consumption in 2020. This

(35) Source: Review 01/2022: Energy taxation, carbon pricing and energy subsidies: Review 01/2022: Energy taxation, carbon pricing and energy subsidies (europa.eu).

figure comprises 8% primary solid biofuels and 10 % other renewable sources. Furthermore, Slovenia's existing energy storage is underdeveloped and insufficient to address the needs of renewables production locally. In addition, more efforts are needed to simplify the permits and administrative procedures for renewable power plant installations, which in turn may help spur the uptake of renewable energy sources. However, Slovenia's RRP aims to address the legislative obstacles to increasing the share of renewables. Since 2019, Slovenia has made some progress in reducing dependence on fossil fuel sources, for example with a reduction of oil and petroleum products from 35% to 31% between 2019 and 2020. Slovenia has also adopted a binding strategy to phase out the use of coal for electricity production by 2033 and to restructure the industry in coal regions. In 2020, nuclear heat made up 23% of Slovenia's energy mix in gross inland consumption, above the EU average of 13%.

In terms of biodiversity and health of the ecosystem, Slovenia is performing relatively well but with some exceptions. By 2021, 37.9% of the national land area of Slovenia was covered by Natura 2000 (EU average 18.1%), with special protection areas classified under the Birds Directive covering 25% (EU average 12.3%) and sites of community importance under the Habitats Directive covering 32.7% (EU average 13.8%) of Slovenia's territory. While the actions under the Natura 2000 network on land can be considered complete and above the EU average, there is still a gap in classification of marine special protection areas for the Mediterranean Shag in Slovenian marine waters for which the Commission initiated an infringement procedure in 2020. Taking into account both Natura 2000 and other nationally designated protected areas, Slovenia legally protects 40.5% of its terrestrial areas (EU-27 average 26%) and 2.48 % of its marine areas (EU-27 average 8%). According to the report submitted by Slovenia on the conservation status of habitats and species covered by the Article 17 of the Habitats Directive for 2013-2018 ([36]), the share of habitats with bad conservation status has increased to 61.8% and the share of assessments for species with bad conservation status has increased to 53%. The percentage of land used for organic farming has gradually increased over the years 10.8 % in 2020, which is marginally above the EU average of 9.07 %.

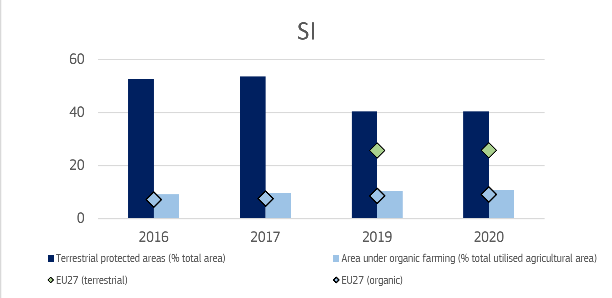
In terms of pollution, air quality in Slovenia is improving. The number of years of life lost due to air pollution from PM2.5 has dropped from 1 016 per 100 000 inhabitants in 2018 to 744 in 2019, which is below the EU average of 762. Similarly, number of years of life lost due to pollution from NO2 has dropped from 29 per 100 000 inhabitants in 2018 to 19 in 2019 (EU average is 99). Emissions from key air pollutants have decreased significantly in Slovenia over recent years, while GDP growth continued. As regards nitrates pollution of ground water, the situation is stable. However, the status of nitrate concentrations in surface water has deteriorated with the increase of eutrophication, from 4.2% (2012-2015) to 19.4% (2016-2019).

In terms of mobility, the market for zero-emission vehicles in Slovenia is developing slowly even though it may be stimulated in the near future as plans for a more ambitious deployment of recharging points are being prepared by the authorities (operation plan for structural funds). About half of the country's railway network is electrified.

Priority should be given to measures that will reduce the current dependence on fossil fuels (by replacing existing fleets with low- and zero-emission vehicles and boosting the use of renewable and low- carbon fuels). Action should be taken to shift more traffic towards more sustainable transport modes (in particular, increasing the number of passengers travelling by rail and commuting by public transport and active modes). Furthermore, it is necessary to take action to further increase the speed of fleet renewal, such as providing I) scrapping schemes where support for the purchase of a zero-emission vehicle is linked to the scrapping of an old vehicle, ii) incentives for retrofitting of old vehicles, or iii) measures disincentivising the use of older vehicles in business and corporate fleets.

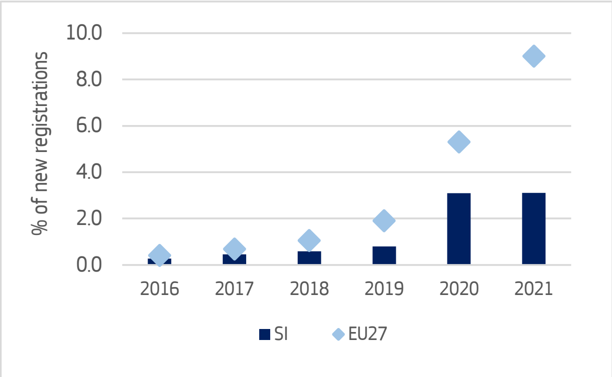
([36]) Source: EEA, Conservation status and trends of habitats and species, 2019.

Graph A5.3: **Thematic – Biodiversity**
Terrestrial protected areas and organic farming



(1) For terrestrial protected areas data for 2018, and data for the EU average (2016, 2017) is lacking.”
Source: European Environment Agency (terrestrial protected areas) and Eurostat (organic farming)

Graph A5.4: **Thematic - Mobility**
Share of zero emissions vehicles (% of new registrations)



(1) Zero emission vehicles (passenger cars) include battery and fuel cell electric vehicles (BEV, FCEV).
Source: European Alternative Fuels Observatory

Table A5.1: **Indicators underpinning progress on the European Green Deal from a macroeconomic perspective**

									'Fit for 55'		
						Target	Distance		Target	Distance	
			2005	2019	2020	2030	WEM	WAM	2030	WEM	WAM
Progress to policy targets	Non-ETS GHG emission reduction target (1)	MTCO2 eq; %; pp (2)	11,8	-9%	-15%	-15%	-6	11	-27%	-18	-1
			2005	2016	2017	2018	2019	2020	National contribution to 2030 EU target		
	Share of energy from renewable sources in gross final consumption of energy (1)	%	20%	22%	22%	21%	22%	25%	27%		
	Energy efficiency: primary energy consumption (1)	Mtoe	7,2	6,5	6,7	6,7	6,5	6,1	6,4		
	Energy efficiency: final energy consumption (1)	Mtoe	5,1	4,9	4,9	5,0	4,9	4,4	4,7		
			SLOVENIA						EU		
			2015	2016	2017	2018	2019	2020	2018	2019	2020
Fiscal and financial indicators	Environmental taxes (% of GDP)	% of GDP	3,9	3,9	3,7	3,4	3,3	3,0	2,4	2,4	2,2
	Environmental taxes (% of total taxation)	% of taxation (3)	10,3	10,3	9,8	9,1	8,9	7,8	6,0	5,9	5,6
	Government expenditure on environmental protection	% of total exp.	2,13	1,22	1,03	1,24	1,31	1,24	1,66	1,70	1,61
	Investment in environmental protection	% of GDP (4)	1,32	0,68	0,63	0,64	-	-	0,42	0,38	0,41
	Fossil fuel subsidies	EUR2020bn	0,08	0,08	0,09	0,08	0,06	-	56,87	55,70	-
	Climate protection gap (5)	score 1-4	1.5 out of 4 (slight decrease from historical level of 1.8). This is a low/medium risk category (4 being a high risk).								
Climate	Net GHG emissions	1990 = 100	91	95	95	95	92	86	79	76	69
	GHG emissions intensity of the economy	kg/EUR'10	0,48	0,49	0,48	0,45	0,43	0,43	0,32	0,31	0,30
	Energy intensity of the economy	kgoe/EUR'10	0,17	0,17	0,17	0,16	0,15	0,15	0,12	0,11	0,11
Energy	Final energy consumption (FEC)	2015=100	100,0	103,6	105,0	105,0	102,9	93,2	103,5	102,9	94,6
	FEC in residential building sector	2015=100	100,0	101,7	99,2	93,0	90,7	92,0	101,9	101,3	101,3
	FEC in services building sector	2015=100	100,0	108,3	105,8	104,4	99,4	91,4	102,4	100,1	94,4
Pollution	Smog-precursor emission intensity (to GDP) (4)	tonne/EUR'10 (6)	1,30	1,22	1,12	1,07	0,99	-	0,99	0,93	-
	Years of life lost caused due to air pollution by PM2.5	per 100.000 inh.	970	916	1021	1016	744	-	863	762	-
	Years of life lost due to air pollution by NO2	per 100.000 inh.	88	39	68	29	19	-	120	99	-
	Nitrate in ground water	mg NO3/litre	19,5	16,5	16,2	18,3	16,2	-	21,7	20,7	-
Biodiversity	Terrestrial protected areas	% of total	-	52,6	53,6	-	40,4	40,4	-	25,7	25,7
	Marine protected areas	% of total	-	-	-	-	5,2	-	-	10,7	-
	Organic farming	% of total utilised agricultural area	8,9	9,1	9,6	10,0	10,4	10,8	8,0	8,5	9,1
			2000-2006		2006-2012		2012-2018		00-06	06-12	12-18
	Net land take	per 10,000 km2	5,3		2,6		3,0		13,0	11,0	5,0
			2015	2016	2017	2018	2019	2020	2018	2019	2020
Mobility	GHG emissions intensity of transport (to GVA) (7)	kg/EUR'10	0,78	0,79	0,72	0,71	0,68	0,62	0,89	0,87	0,83
	Share of zero emission vehicles (8)	% in new registrations	0,2	0,3	0,5	0,6	0,8	3,1	1,0	1,9	5,4
	Number of plug-in electric vehicles per charging point		1	1	3	4	5	7	8	8	12
	Share of electrified railways	%	41,4	41,4	50,5	50,5	50,5	-	55,6	56,0	-
	Congestion (average number of hours spent in road congestion per year by a representative commuting driver)		26,8	26,2	26,2	26,7	25,8	-	28,9	28,8	-
			Year	SI	EU						
Digital	Share of smart meters in total metering points (9) - electricity	% of total	2018	58,2	35,8						
	Share of smart meters in total metering points (9) - gas	% of total	2018	0,1	13,1						
	ICT used for environmental sustainability (10)	%	2021	74,2	65,9						

(1) The 2030 non-ETS GHG target is based on the Effort Sharing Regulation. The FF55 targets are based on the COM proposal to increase EU's climate ambition by 2030. Renewables and Energy Efficiency targets and national contributions under the Governance Regulation (Regulation (EU) 2018/1999). (2) Distance to target is the gap between Member States' 2030 target under the Effort Sharing Regulation and projected emissions, with existing measures (WEM) and with additional measures (WAM) respectively, as a percentage of 2005 base year emissions. (3) Percentage of total revenues from taxes and social contributions (excluding imputed social contributions). Revenues from the ETS are included in environmental tax revenues (in 2017 they amounted to 1.5% of total environmental tax revenues at the EU level). (4) Covers expenditure on gross fixed capital formation to be used for the production of environmental protection services (i.e. abatement and prevention of pollution) covering all sectors, i.e. government, industry and specialised providers. (5) The climate protection gap indicator is part of the European adaptation strategy (February 2021), and is defined as the share of non-insured economic losses caused by climate-related disasters. (6) Sulphur oxides (SO2 equivalent), Ammonia, Particulates < 10µm, Nitrogen oxides in total economy (divided by GDP). (7) Transportation and storage (NACE Section H). (8) Zero emission vehicles include battery electric vehicles (BEV) and fuel cell electric vehicles (FCEV). (9) European Commission Report (2019) 'Benchmarking smart metering deployment in the EU-28'. (10) European Commission (2021). Each year the DESI is re-calculated for all countries for previous years to reflect any possible change in the choice of indicators and corrections to the underlying data. Country scores and rankings may thus differ compared with previous publications.

Source: Eurostat, JRC, European Commission, EEA, EAFO

The green transition not only encompasses improvements to environmental sustainability, but also includes a significant social dimension. While measures in this regard include the opportunity for sustainable growth and job creation, it must also be ensured that no one is left behind and all groups in society benefit from the transition. Slovenia's green transition benefits from positive labour market trends and recent promising policy measures; at the same time, the percentage of energy-intensive sectors remains sizeable and lower-income groups and certain areas of the country are likely to face challenges.

Slovenia's recovery and resilience plan (RRP) outlines some reforms and investments to support a green transition that is fair. The RRP includes measures to promote the lower use of fossil fuels and sustainable solutions for housing, such as its financing affordable housing projects. Other investments in ensuring the energy efficiency of public buildings, flood prevention and specific measures on the circular economy will also support the transition of key sectors of the economy, including through reforms in public procurement. The RRP also includes some measures to increase the green dimension in the education and training system and to develop green skills are also included in the RRP. Slovenia's 2020 integrated national energy and climate plan analyses the impacts on energy poverty, skills and to some extent the income distribution, and develops the approach for addressing energy poverty. The plan includes a timetable to introduce a legal definition for energy poverty and establish a monitoring framework with indicators and targets. However, it does not report on the number of households affected by energy poverty, nor the specific and measurable objectives to be fulfilled. (37)

The economy has slightly reduced its carbon footprint and though key energy-intensive sectors remain sizeable, the green economy is relatively large and provides strong potential for job creation. The intensity of greenhouse gas (GHG) emissions in the Slovenia economy decreased slightly between 2015 and 2020 (in terms of gross value added) and stands at 50% above the EU average, with a carbon footprint per worker at 14.13 tonnes of GHG emissions (slightly above the EU average of 13.61 in the EU) (see Figure 1). Slovenia has some sectors that are likely to decline due to the green transition, including coal, lignite and fossil fuel based energy production. (38) The energy-intensive industry provides jobs for 4.2% of the total employed workforce, for which up- and reskilling could be particularly important (see Annex 15). Conversely, the environmental goods and services sector already provides jobs to an above-average share of people employed (2.8% vs 2.1% in the EU) (39) and some solar energy potential as well as energy efficiency improvements offer opportunities for green jobs (40). However, the slight increase in the job vacancy rate (2.8% in Q3-2021 vs 2.4% in the EU) highlights the need to closely monitor potential labour shortages, particularly in sectors linked to the transition to a climate-neutral economy such as construction (6.2% vacancy rate).

As for the social dimension of the green transition, ensuring access to essential transport and energy services, appears less of a challenge overall in Slovenia. A relatively low and slightly decreasing share of the population in rural areas is at risk of poverty (12.2% versus 18.5% in the EU). (41) The share of the population unable to keep their homes adequately warm decreased from 5.6% in 2015 to 2.8% in 2020, which is below the EU average (8.2%). The two lowest income deciles are affected the most, while around 4.4% of lower middle-income groups experience energy poverty (see Figure 2). Consumption patterns vary across the population with the average carbon footprint of the top 10% of emitters being 5.3 times higher than that of the bottom 50% of the population, the same level as the EU average.

(37) SWD(2020) 923 final.

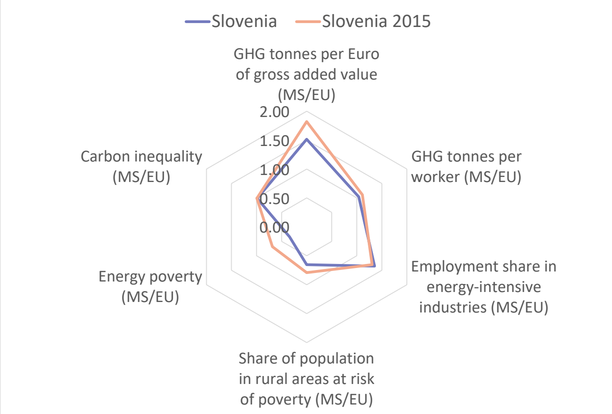
(38) SWD(2021) 275 final.

(39) There is currently no common EU-wide definition for green jobs. Accounts for the environmental goods and services sector only report on an economic sector that generates environmental products, i.e. goods and services produced for environmental protection or resource management.

(40) https://publications.jrc.ec.europa.eu/repository/handle/JRC126047

(41) Based on COM(2021) 568 final (Annex I) as a proxy for potential transport challenges in the context of the green transition (e.g. due to vulnerability to fuel prices).

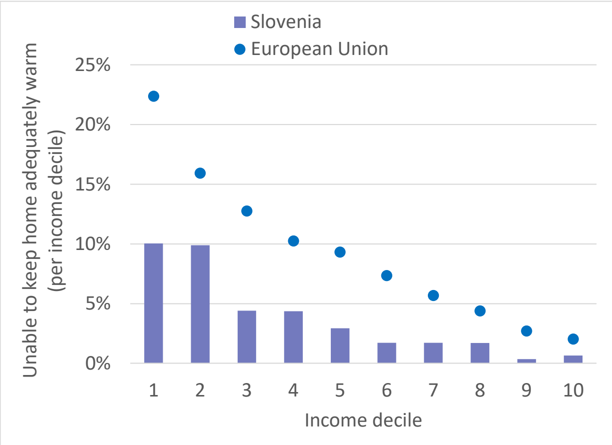
Graph A6.1: **Fair green transition challenges**



Source: Eurostat

Tax systems are key to ensuring a fair transition towards climate neutrality ([42]). Slovenia's revenues from total environmental taxes decreased from 3.88% of GDP in 2015 to 3.34% in 2019, and further decreased to 2.95% in 2020 (against 2.24% in the EU). The labour tax wedge for low-income earners ([43]) increased from 35% to 37.2% between 2015 and 2019 and to 39.5% in 2021, compared to 31.9% in the EU (see Annex 17). Redistributive measures accompanying environmental taxation have the potential to foster progressive measures and lead to positive impacts on the disposable income of households, in particular those at the lowest levels of the income distribution ([44]).

Graph A6.2: **Energy poverty by income decile**



Source: Eurostat

([42]) COM(2021) 801 final.

([43]) Tax wedge for a single earner at 50% of the national average wage (Tax and benefits database, European Commission/OECD).

([44]) SWD(2021) 641 final PART 3/3.

The efficient use of resources is key to ensuring competitiveness and open strategic autonomy, while minimizing the environmental impact. The green transition presents a major opportunity for European industry by creating markets for clean technologies and products. It will have an impact across the entire value chain in sectors such as energy and transport, construction and renovation, food and electronics, helping create sustainable, local and well-paid jobs across Europe.

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With an increase in its circularity rate, Slovenia is now on track towards reaching the EU average when it comes to secondary material usage. The circularity rate in Slovenia increased by 40% between 2015 and 2020 (from 8.6% to 12.3%), bringing the country close to the EU average of 12.8%. It demonstrates that Slovenia overall has a well-functioning waste management system with advanced rates of separate collection and a high recycling rate.

With fluctuating resource productivity over recent years, Slovenia still performs below the EU average. Slovenia's resource productivity reached EUR 1.99 purchasing power standards (PPS) per kg in 2020 (compared to EUR 2.23 PPS per kg for the EU-27), which leaves room for improvement when it comes to the country's ability to catch the value of its material resource.

On waste generation, the amount of waste generated increased from 2 661 kg per capita in 2016 to 3 964 in 2018, which is still below the EU average. On the other hand, the percentage of recycled waste rose steadily from 54.1% in 2015 to 59.3% in 2020 ([45]),putting Slovenia among only 8 Member States that achieved recycling rates of over 50%, well above the EU average of 48%. In 2018, hazardous waste was only 2% of total waste generated. The amount of the waste landfilled dropped from 52 kg/capita in 2019 to 33 kg/capita in 2020 ([46]).

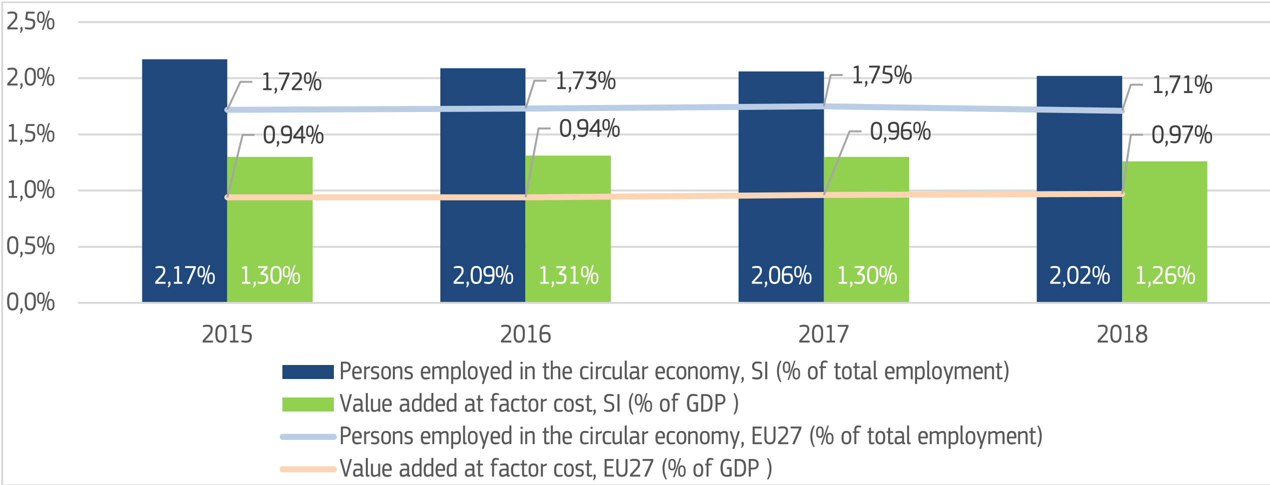
In 2021, Slovenia ranked 12th on the 2021 Eco-Innovation Index, with a total score of 113, resulting in an average eco-innovation performance. In one out of five components (eco-innovation inputs), Slovenia performed above the EU average. However, its performance is below the EU average for eco-innovation activities, eco innovation outputs, resource efficiency outcomes and socio-economic outfits.

The data on private investment in circular economy is not publicly available. The number of people employed in circular economy related jobs has slightly decreased (from 2.06% of total employment to 2.02%).

([45]) Source: Statistics | Eurostat (europa.eu)

([46]) Source: Statistics | Eurostat (europa.eu)

Graph A7.1: **Economic importance and expansion of the circular economy – employment and value added in the circular economy sectors**



Source: Eurostat

Table A7.1:**Selected resource efficiency indicators**

Key indicators - Slovenia

SUB-POLICY AREA	2015	2016	2017	2018	2019	2020	EU27
Circularity							
Resource Productivity (Purchasing power standard (PPS) per kilogram)	1.7	1.8	1.9	1.8	2.0	2.0	2.2
Material Intensity (kg/EUR)	0.6	0.5	0.5	0.5	0.5	0.5	0.4
Circular Material Use Rate (%)	8.6	8.7	9.8	10.0	11.4	12.3	12.8
Material footprint (Tones/capita)	15.4	14.6	15.4	16.5	15.4	-	14.6
Waste							
Waste generation (kg/capita, total waste)	-	2661	-	3964	-	-	5234
Landfilling (% of total waste treated)	-	6.9	-	3.7	-	-	38.5
Recycling rate (% of municipal waste)	54.1	55.6	57.8	58.9	59.2	59.3	47.8
Hazardous waste (% of municipal waste)	-	2.2	-	1.6	-	-	
Competitiveness							
Gross value added in environmental goods and services sector (% of GDP)	1.6	1.7	1.6	1.6	1.6	-	2.3
Private investment in circular economy (% of GDP)	-	-	-	-	-	-	0.1

Source: Eurostat

The Digital Economy and Society Index (DESI) monitors EU Member States' digital progress. The areas of human capital, digital connectivity, the integration of digital technologies by businesses and digital public services reflect the Digital Decade cardinal points ([47]). This annex describes Slovenia's DESI performance.

Slovenia's RRP has a digital share of 21.5%. The largest contributions to this share come from the digitalisation of public services, healthcare, skills development, the education system, and businesses.

In the human capital dimension, Slovenia has a solid performance. It is close to the EU average for basic digital skills and female ICT specialists and scores just above the EU average on the indicator for ICT specialists in employment.

In digital connectivity, Slovenia shows a mixed performance. The country's Very High Capacity Network coverage is above the EU average, and 5G deployment stands at 37%, SI scores below the EU average for digital public services for citizens.

In the integration of digital technology, Slovenia has a solid score. The country performs around the EU average for SMEs with at least a basic level of digital skills and above the EU average for cloud services and artificial intelligence. However, it falls short on the use of big data analysis.

In digital public services, Slovenia shows a good penetration level. It scores below the EU average for digital public services for citizens, while it surpasses it for digital public services for businesses.

([47]) 2030 Digital Compass: the European Way for the Digital Decade Communication, COM (2021) 118 final

Table A8.1: **Key Digital Economy and Society Index Indicators**

Human capital	Slovenia DESI 2020	Slovenia DESI 2021	Slovenia DESI 2022	EU DESI 2022	EU top-performance DESI 2022
At least basic digital skills % individuals	**NA**	**NA**	**50%** 2021	**54%** 2021	**79%** 2021
ICT specialists % individuals in employment aged 15-74	**3.9%** 2019	**4.4%** 2020	**4.8%** 2021	**4.5%** 2021	**8.0%** 2021
Female ICT specialists % ICT specialists	**20%** 2019	**17%** 2020	**17%** 2021	**19%** 2021	**28%** 2021
Connectivity					
Fixed Very High Capacity Network (VHCN) coverage % households	**64%** 2019	**66%** 2020	**72%** 2021	**70%** 2021	**100%** 2021
5G coverage % populated areas	**NA**	**0%** 2020	**37%** 2021	**66%** 2021	**99.7%** 2021
Integration of digital technology					
SMEs with at least a basic level of digital intensity % SMEs	**NA**	**NA**	**55%** 2021	**55%** 2021	**86%** 2021
Big data % enterprises	**10%** 2018	**7%** 2020	**7%** 2020	**14%** 2020	**31%** 2020
Cloud % enterprises	**NA**	**NA**	**38%** 2021	**34%** 2021	**69%** 2021
Artificial Intelligence % enterprises	**NA**	**NA**	**12%** 2021	**8%** 2021	**24%** 2021
Digital public services					
Digital public services for citizens Score (0 to 100)	**NA**	**NA**	**69** 2021	**75** 2021	**100** 2021
Digital public services for businesses Score (0 to 100)	**NA**	**NA**	**84** 2021	**82** 2021	**100** 2021

(*) The 5G coverage indicator does not measure users' experience, which may be affected by a variety of factors such as the type of device used, environmental conditions, number of concurrent users and network capacity. 5G coverage refers to the percentage of populated areas as reported by operators and national regulatory authorities.
Source: Digital Economy and Society Index

This annex provides a general overview on the performance of the Slovenian research and innovation system. Slovenia remains a 'moderate innovation performer' according to the 2021 edition of the European Innovation Scoreboard ([48]), even though it managed to reverse the decreasing trend it experienced between 2012 and 2019**.** Total R&D intensity reached 2.15% of GDP in 2020.

While business R&D intensity is on par with the EU average, low public investment in R&D continues to weigh on the performance of the R&D system. Public R&D expenditure of 0.56% of GDP in 2020 is still well below the 1% national target and the EU average (0.78% of GDP). Scientific excellence, as reflected in the share of the country's scientific publications that are among the top 10% most cited worldwide, has improved over the last decade but is still below the EU average. The overall quality of the R&D system especially the measurable output remains weak, as evidenced, for instance, by the low and declining number of patent applications. As part of Slovenia's recovery and resilience plan, a revision of the law on research and innovation was adopted in November 2021. An important objective of this major reform is to gradually increase public R&D spending to 1% of GDP.

Slovenian SMEs have limited access to financing during their scale-up stage. Even though venture capital investments in Slovenia increased to 0.005% of the GDP in 2020, this is still among the lowest across the EU and only a tenth of the EU average of 0.054%. Early-stage innovative SMEs rely on government and EU grants for support and face difficulties scaling up. This disproportionately affects investment-intensive sectors such as innovation and manufacturing.

([48]) 2021 European Innovation Scoreboard, Country profile: Slovenia https://ec.europa.eu/docsroom/documents/45935/attachments/1/translations/en/renditions/native

Table A9.1: **Key research, development and innovation indicators**

Slovenia	**2010**	**2015**	**2018**	**2019**	**2020**	**Compound annual growth 2010-20**	**EU average**
Key indicators							
R&D Intensity (GERD as % of GDP)	2.05	2.2	1.95	2.05	*2.15*	-1.3	*2.32*
Public expenditure on R&D as % of GDP	0.66	0.52	0.5	0.52	*0.56*	-1.3	*0.78*
Business enterprise expenditure on R&D (BERD) as % of GDP	1.39	1.67	1.44	1.51	*1.57*	-1.4	*1.53*
Quality of the R&I system							
Scientific publications of the country within the top 10% most cited publications worldwide as % of total publications of the country	6.3	7.3	7.8	:	:	2.7	9.9
PCT patent applications per billion GDP (in PPS)	3.2	2.1	2.5	:	:	-3.3	3.5
Academia-business cooperation							
Public-private scientific co-publications as % of total publications	8.4	10.0	8.7	8.7	9.8	1.6	9.05
Human capital and skills availability							
New graduates in science & engineering per thousand pop. aged 25-34	13.5	14.6	15.5	15.3	:	0.5	16.3
Public support for business enterprise expenditure on R&D (BERD)							
Total public sector support for BERD as % of GDP	0.288	0.228	0.223	0.251	:	-4.1	0.196
R&D tax incentives: foregone revenues as % of GDP	0.051	0.12	0.099	0.099	:	7.6	0.100
Green innovation							
Share of environment-related patents in total patent applications filed under PCT (%)	10.0	8.6	11.1	:	:	1.4	*12.8*
Finance for innovation and Economic renewal							
Venture Capital (market statistics) as % of GDP	0.001	0.009	0.005	0.002	0.005	12.9	0.054
Employment in fast-growing enterprises in 50% most innovative sectors	2.9	3.2	6.5	5.9	:	8.3	5.5

Data: Eurostat, OECD, DG JRC, Science-Metrix (Scopus database and EPO's Patent Statistical database), Invest Europe
Sources: *DG Research and Innovation - Common R&I Strategy and Foresight Service - Chief Economist Unit*

Productivity growth is a critical driver of economic prosperity, well-being and convergence over the long run. A major source of productivity for the EU economy is a well-functioning Single Market, where fair and effective competition and a business friendly environment are ensured, in which Small and Medium Enterprises (SMEs) can operate and innovate without difficulty. Businesses and industry rely heavily on robust supply chains and are facing bottlenecks that bear a negative impact on firms' productivity levels, employment, turnover and entry-exit rates. This may impact the Member State's capacity to deliver on Europe's green and digital transformation.

Slovenia is an export-oriented economy highly integrated into the single market with around three-quarters of its goods exports destined for the EU market. For inputs the country relies slightly less than the EU average on domestic and extra-EU sources in value added and more on the single market. Slovenia's trade integration is also above the EU average. This is shown by the ratio of intra- to extra-EU trade, which stood at 1.93 in 2021, compared to the EU average of 1.59. However, this value decreased from 2.47 in 2017. Slovenia has significantly reduced the number of regulated professions, but progress has slowed down in recent years and the Member State is more restrictive than the EU average regarding the following professional services: civil engineers, architects, lawyers, tourist guides and real estate agents.

The low level of investment was a key factor behind the declining productivity growth in Slovenia even before the COVID-19 epidemic. While public investments were driven by the uptake of EU funds, business investment faces a slow decline, partly explained by the restrictive business environment, the large presence of the State in the economy and an underdeveloped venture capital market.

The business environment has improved, although progress has slowed down recently. Slovenia's recovery and resilience plan (RRP) tackles administrative burdens and regulatory restrictions. These are the biggest obstacles for companies according to the 2020 Eurobarometer [49]. Late payments also constitute a key barrier to SME resilience and growth (42% of SMEs experienced payment delays in the last 6 months vs 35% for the EU) and they were the second biggest barrier for SMEs and start-ups. Access to finance, especially for SMEs, remains a challenge, with financing being heavily skewed towards loans as the equity market in Slovenia is still underdeveloped (0.05 compared to the EU average of 0.18). To make the financial market more resilient, the equity market should play a greater role and Slovenia's RRP includes a reform to support the development of better-tailored financial instruments to boost productivity and investments of companies. Competition in public procurement remains an issue. Slovenia has a comparatively high number of single bids in tender processes and a high proportion of procurement procedures that were negotiated with a company without any call for bids. [50] To address these challenges, the Slovenian RRP sets out measures to increase I) the competition in public procurement, ii) its digital transformation and iii) the professionalization of stakeholders. Public procurement bids and contracts from SMEs have slightly increased (1.4% and 1.3%, respectively) exceeding the EU average values.

The Slovenian economy has been relatively less affected overall by global supply chain disruptions. As a small, open economy, Slovenia remains vulnerable to the continued uncertainty at global level and a further decline in international trade dynamics. However, the economy's diversification should make it relatively resilient to sector-specific shocks. Slovenia relies slightly less on extra-EU imports and is slightly less dependent on key raw materials than the EU average. "Import concentration of a basket of critical raw materials" is at 16% for Slovenia compared with an EU average of 17%. This is partly explained by the low share of manufacturing in its economy. A shrinking working age population and weak participation of older workers in the labour market pose a challenge for 30% of firms (vs an EU average of 14%). The solvency of Slovenian companies did not deteriorate in 2020 and 2021, but there is a risk that the number of insolvent businesses will increase after all the measures to soften the impact of COVID_19 expire and the share of the most problematic over-indebted and zombie companies will rise. [51]

[49] Flash Eurobarometer 486

[50] https://single-market-scoreboard.ec.europa.eu/policy_areas/public-procurement_en

[51] IMAD Productivity report 2021

Slovenia's transposition of directives is below average, which shows that it may have some difficulties in monitoring the timely transposition of directives. With 12 directives presumed to have been incorrectly transposed, Slovenia is one of eight Member States that show a combination of a high transposition deficit and a high percentage of incorrectly transposed directives. Regarding infringements, Slovenia is no longer in the top 10 Member States with the lowest number of infringement cases but is currently at the EU average of pending cases. ([52])

([52]) https://single-market-scoreboard.ec.europa.eu/countries/slovenia_en

Table A10.1 **Key Single Market and Industry Indicators**

SUB-POLICY AREA	INDICATOR NAME	DESCRIPTION	2021	2020	2019	2018	2017	Growth rates	EU27 average*
		HEADLINE INDICATORS							
Economic structure	Value added by source (domestic)	VA that depends on domestic intermediate inputs, % [source: OECD (TiVA), 2018]				58.94			**62.6%**
	Value added by source (EU)	VA imported from the rest of the EU, % [source: OECD (TiVA), 2018]				24.66			**19.7%**
	Value added by source (extra-EU)	% VA imported from the rest of the world, % [source: OECD (TiVA), 2018]				16.4			**17.6%**
Cost competitiveness	Producer energy price (industry)	Index (2015=100) [source: Eurostat, sts_inppd_a]	115.6	113.5	108.7	96.5	93.1	**#####**	**127.3**
		RESILIENCE							
Shortages/supply chain disruptions	Material Shortage using survey data	Average (across sectors) of firms facing constraints, % [source: ECFIN CBS]	27	8	9	14	10	**170%**	**26%**
	Labour Shortage using survey data	Average (across sectors) of firms facing constraints, % [source: ECFIN CBS]	30	20	36	38	29	**3%**	**14%**
	Sectoral producer prices	Average (across sectors), 2021 compared to 2020 and 2019, index [source:Eurostat]						**4.8%**	**5.4%**
Strategic dependencies	Concentration in selected raw materials	Import concentration a basket of critical raw materials, index [source: COMEXT]	0.16	0.17	0.17	0.16	0.17	**-6%**	**17%**
	Installed renewables electricity capacity	Share of renewable electricity to total capacity, % [source:Eurostat, nrg_inf_epc]		36.5	36.5	36.5	38.6	**-5%**	
Investment dynamics	Net Private investments	Change in private capital stock, net of depreciation, % GDP [source: Ameco]		-2.1	0	-0.6	-1.4	**50.0%**	**2.6%**
	Net Public investments	Change in public capital stock, net of depreciation, % GDP [source: Ameco]		1.4	1.3	1.1	0.4	**250%**	**0.4%**
		SINGLE MARKET							
Single Market integration	Intra-EU trade	Ratio of Intra-EU trade to Extra-EU trade, index [source: Ameco]	1.93	1.71	2.04	2.38	2.47	**-22%**	**2.00**
Professional services restrictiveness	Regulatory restrictiveness indicator	Restrictiveness of access to and exercise of regulated professions (professions with above median restrictiveness, out of the 7 professions analysed in SWD (2021)185 [source: SWD (2021)185; SWD(2016)436 final])	4				3	**#####**	**3.37**
Professional qualifications recognition	Recognition decisions w/o compensation	Professionals qualified in another EU MS applying to host MS, % over total decisions taken by host MS [source: Regulated professions database]			73				**45%**
Compliance - cooperation EC and MS	Transposition - overall	5 sub-indicators, sum of scores [source: Single Market Scoreboard]		Below average	Above	On average	On average		
	Infringements - overall	4 sub-indicators, sum of scores [source: Single Market Scoreboard]		On average	On average	On average	On average		
Investment protection	Confidence in investment protection	Companies confident that their investment is protected by the law and courts of MS if something goes wrong, % of all firms surveyed [source: Flash Eurobarometer 504]	68						**56%**
		BUSINESS ENVIRONMENT - SMEs							
Business demography	Bankruptcies	Index (2015=100) [source: Eurostat, sts_rb_a]	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**	**70.1 (2020)**
	Business registrations	Index (2015=100) [source: Eurostat, sts_rb_a]	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**	**105.6**
Access to finance	Late payments	Share of SMEs experiencing late payments in past 6 months, % [source: SAFE]	41.2	49.2	38.8	n.a.	n.a.	**6.1%**	**45%**
	EIF Access to finance index - Loan	Composite: SME external financing over last 6 months, index from 0 to 1 (the higher the better) [source: EIF SME Access to Finance Index]		0.53	0.88	0.82	0.81	**-34.3%**	**0.56 (2020)**
	EIF Access to finance index - Equity	Composite: VC/GDP, IPO/GDP, SMEs using equity, index from 0 to 1 (the higher the better) [source: EIF SME Access to Finance Index]		0.05	0.08	0.18	0.11	**-54.2%**	**0.18 (2020)**
	% of rejected or refused loans	SMEs whose bank loans' applications were refused or rejected, % [source: SAFE]	15.7	8.6	16.4	9.3	11.6	**35.1%**	**12.4%**
Public procurement	SME contractors	Contractors which are SMEs, % of total [source: Single Market Scoreboard]		78	77	78	77	**1.3%**	**63%**
	SME bids	Bids from SMEs, % of total [source: Single Market Scoreboard]		74	74	75	73	**1.4%**	**70.8%**

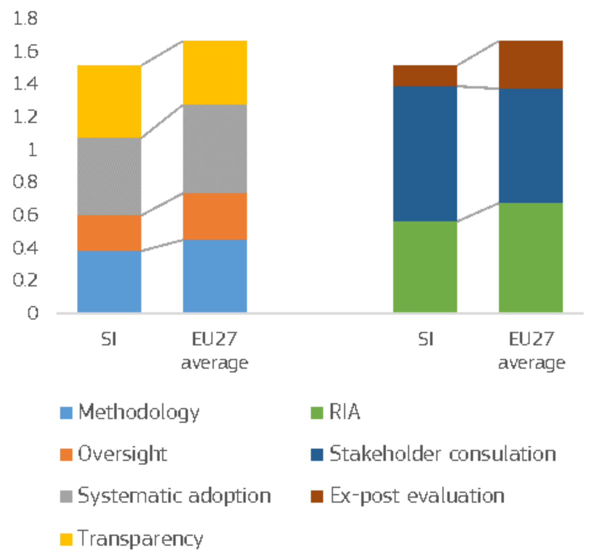
(*) latest available

Source: See above in the table the respective source for each indicator in the column "Description"

Good administrative capacity enables economic prosperity, social progress and fairness. Public administrations at all government levels deliver crisis response, ensure the provision of public services and contribute to building resilience for the sustainable development of the EU economy.

Overall, the public administration in Slovenia is effective, ranking around the EU-27 average. ([53]) Policymaking is open and transparent. However, the use of regulatory impact assessments and ex posts evaluation needs to be strengthened (graph A10.1). Recent changes to the Rules of Procedure of the Government ([54]) aim to improve public consultations by providing written feedback for public input in the law-making process. The government has drawn up an action plan to improve the planning, preparation and adoption of legislation, as well as its evaluation. Moreover, the country's recovery and resilience plan envisages legislative and regulatory simplification to improve the business environment.

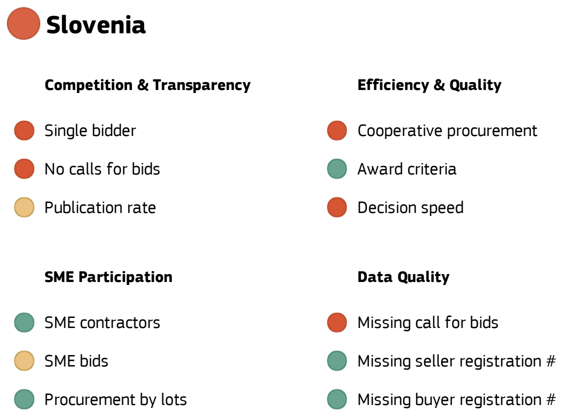
Graph A11.1: **Performance on evidence-based policy making indicators**



RIA: Regulatory Impact Assessment
Source: OECD (iREG indicators)

Certain areas of Slovenia's public financial management warrant attention. Its performance on the Single Market Scoreboard's public procurement indicator has traditionally been weak. This is due primarily to poor scores in measures of transparency and competition in procurement (Graph A10.2): reforms in Slovenia's recovery and resilience plan (RRP) aim to contribute towards a more effective and efficient public procurement system in Slovenia, in particular by improving competition. In addition, performance on the strength of the fiscal rules index is below the average.

Graph A11.2: **Performance on the single market public procurement indicator**



The competition and transparency indicators are triple-weighted, whereas the efficiency and quality indicators have unitary weights. All others receive a 1/3 weighting in the SMS composite indicator.
Source: Single Market Scoreboard 2020 data

Difficulties in recruiting staff in the public administration could undermine Slovenia's administrative capacity. Slovenia struggles to attract young civil servants.In 2020, it ranked in the EU-27's bottom third (28.8 %) ([55]) on the share of government employees under 39 years of age. Moreover, the number of applications for top civil service positions has been declining in general, from 4.71 applicants per position in 2015 to 2.61 in 2019 ([56]). Slovenia's recovery and resilience plan aims to launch a new civil service management strategy and a reform of the civil service legislation. A competence centre will be set up to

([53]) Worldwide Governance Indicators, 2020.

([54]) Official Journal of the Republic of Slovenia, No. 51/2021 of 2 April 2021, Amendments to the Rules of Procedure of the Government of the Republic of Slovenia

https://www.uradni-list.si/glasilo-uradni-list-rs/vsebina/2021-01-0977/spremembe-in-dopolnitve-poslovnika-vlade-republike-slovenije

([55]) European Commission, Directorate-General for Structural Reform Support, Public administration and governance: "European Public Administration Country Knowledge, Country brief 2021, Slovenia", Publications Office, 2022.

([56]) According to the 2020 Annual Report of the Civil Servants' Council, available in Slovenian.

provide training for staff and introduce a standardized skills-assessment system for public servants. Slovenia intends to improve the digital awareness and skills of civil servants. A new public-sector wage system is expected to improve the quality of staffing and its performance.

The E-government benchmark overall indicator scores below the EU average. However, 77% of internet users actively engage with public authorities online (an increase from 62% in 2017 and above the EU average of 70.7%). Slovenia's recovery and resilience plan aims to further advance the digitalisation of the public administration and the public sector.

The justice system works efficiently overall, but challenges in economic and financial crime court cases remain. As regards efficiency, the average length of proceedings at first instance courts rose to around 20 months in litigious civil cases and levelled off at 11 months in litigious commercial cases. Regarding money laundering offences, the length of trials in first instance courts fell to 876 days in 2019 (down from 1 132 days in 2018), on average, and remains among the highest in the EU. In 2020, the average length in administrative cases at first instance increased to 13.7 months. As regards the quality of the justice system, it has been continuously improving, although the electronic communication between courts and parties remains less developed and the Judicial Council and State Prosecutorial Council are experiencing shortages in resources. As regards judicial independence, no systemic deficiencies have been reported. ([57])

([57]) For more detailed analysis of the performance of the justice system in Slovenia, see the 2022 EU Justice Scoreboard (forthcoming) and the country chapter for Slovenia in the Commission's 2022 Rule of Law Report (forthcoming).

Table A11.1:**Public administration indicators – Slovenia**

SI	Indicator (1)	2017	2018	2019	2020	2021	EU27
	E-government						
1	Share of individuals who used internet within the last year to interact with public authorities (%)	62,0	67,0	63,0	77,0	77,0	70,8
2	E-government benchmark´s overall score (2)	na	na	na	na	66.6	70,9
	Open government and independent fiscal institutions						
3	2021 Open data maturity index	na	na	na	na	91.6	81,1
4	Scope Index of Fiscal Institutions	59,5	59,5	59,5	59,5	na	56,8
	Educational attainment level, adult learning, gender parity and ageing						
5	Share of public administration employees with tertiary education levels 5-8 (3)	62,7	62,9	68,0	71,8	73,4	55,3
6	Participation rate of public administration employees in adult learning	19,8	19,3	18,2	10,6	28,9	18,6
7	Gender parity in senior civil service positions (4)	14,0	12,2	14,8	14,6	14,2	21,8
8	Share of public sector workers between 55 and 74 years (3)	16,3	20,4	18,5	20,3	21,3	21,3
	Public Financial Management						
9	Medium term budgetary framework index	0,82	0,82	0,82	0,82	na	0,72
10	Strength of fiscal rules index	0,5	0,5	0,5	0,5	na	1,5
11	Public procurement composite indicator	-3,7	-4,0	-4,0	-4,0	na	-0,7
	Evidence-based policy making						
12	Index of regulatory policy and governance practices in the areas of stakeholder engagement, Regulatory Impact Assessment (RIA) and ex post evaluation of legislation	1,53	na	na	1,52	na	1,7

(1) High values stand for good performance barring indicators # 7 and 8.
(2) Measures the user centricity (including for cross-border services) and transparency of digital public services as well as the existence of key enablers for the provision of those services.
(3) Break in the series in 2021.
(4) Defined as the absolute value of the difference between the share of men and women in senior civil service positions.

Source: ICT use survey, Eurostat (# 1); E-government benchmark report (# 2); Open data maturity report (# 3); Fiscal Governance Database (# 4, 9, 10); Labour Force Survey, Eurostat (# 5, 6, 8), European Institute for Gender Equality (# 7), Single Market Scoreboard public procurement composite indicator (# 11); OECD Indicators of Regulatory Policy and Governance (# 12).

ANNEX 12: EMPLOYMENT, SKILLS AND SOCIAL POLICY CHALLENGES IN LIGHT OF THE EUROPEAN PILLAR OF SOCIAL RIGHTS

The European Pillar of Social Rights provides the compass for upward convergence towards better working and living conditions in the EU. The implementation of its 20 principles on equal opportunities and access to the labour market, fair working conditions, social protection and inclusion, supported by the 2030 EU headline targets on employment, skills and poverty reduction, will strengthen the EU's drive towards a digital, green and fair transition. This annex provides an overview of Slovenia's progress in achieving the goals under the European Pillar of Social Rights.

The labour market in Slovenia is recovering strongly as illustrated by rising employment and falling unemployment rates. Following a drop from 75.9% in 2019 to 74.8% in 2020, the employment rate recovered to 76.1% in Q4-2021, well above the EU average (73.6%). However, some long-term structural challenges persist. The share of young people in precarious forms of work (i.e. fixed-term contracts or temporary agency work) in Slovenia remains among the highest in the EU and higher than for other age groups ([58]). The low employment and activity rates of older workers, and in particular those with lower skills levels, remain a challenge. Labour shortages have increased recently with a high share of employers reporting shortages in the construction and information and communication sectors in 2020 (4% and 3%, respectively). As part of Slovenia's recovery and resilience plan (RRP), the investment in an online platform providing information (e.g. model contracts) and advice for employers and workers is expected to help promote more flexible working arrangements, especially for small and medium-sized enterprises. Another measure seeks to incentivise employers to hire young people under open-ended contracts. Other actions set out in the plan include adapting working environments to the needs of people with disabilities and providing training and education to employees are other actions set out in the plan. Slovenia uses the support it receives from the European Social Fund to increase access to employment and activation measures, in particular for young people, people who have been long-term unemployed and other vulnerable groups. The quality of social dialogue between employers and trade unions under the tripartite industrial relations council has worsened recently and requires attention.

([58]) IMAD (2021), Development Report, 2021 (https://www.umar.gov.si/fileadmin/user_upload/razvoj_slovenije/2021/angleski/POR2021_eng.pdf).

Table A12.1:**Social Scoreboard for Slovenia**

Social Scoreboard for SLOVENIA		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24) (2021)	3.1
	Individuals' level of digital skills (% of population 16-74) (2021)	50.0
	Youth NEET (% of total population aged 15-29) (2021)	7.3
	Gender employment gap (percentage points) (2021)	6.7
	Income quintile ratio (S80/S20) (2020)	3.3
Dynamic labour markets and fair working conditions	Employment rate (% population aged 20-64) (2021)	76.1
	Unemployment rate (% population aged 15-74) (2021)	4.8
	Long term unemployment (% population aged 15-74) (2021)	2.0
	GDHI per capita growth (2008=100) (2020)	114.7
Social protection and inclusion	At risk of poverty or social exclusion (in %) (2020)	14.3
	At risk of poverty or social exclusion for children (in %) (2020)	12.1
	Impact of social transfers (other than pensions) on poverty reduction (% reduction of AROP) (2020)	44.6
	Disability employment gap (ratio) (2020)	21.7
	Housing cost overburden (% of population) (2020)	4.4
	Children aged less than 3 years in formal childcare (% of under 3-years-olds) (2020)	44.3
	Self-reported unmet need for medical care (% of population 16+) (2020)	2.7

Critical situation | To watch | Weak but improving | Good but to monitor | On average | Better than average | Best performers

Update of 29 April 2022. Members States are classified on the Social Scoreboard according to a statistical methodology agreed with the EMCO and SPC Committees. It looks jointly at levels and changes of the indicators in comparison with the respective EU averages and classifies Member States in seven categories. For methodological details, please consult the Joint Employment Report 2022. Due to changes in the definition of the individuals' level of digital skills in 2021, exceptionally only levels are used in the assessment of this indicator; NEET: neither in employment nor in education and training; GDHI: gross disposable household income.

Educational performance is good overall, but major gaps between genders and native and foreign-born people persist. In 2021, the early school leaving rate of foreign non EU-born pupils is lower than the EU average (6% compared to 21.6%), but almost double the national average (3.1%). New measures entered into force to support migrant and Roma pupils in pre-primary and compulsory education; close monitoring is needed to ensure that the intended results are achieved (see Annex 13). In 2021, the gender gap in the tertiary educational attainment of 25 to 34-year-olds stood at 23.6 pps, compared to 11.1 pps in the EU. There is also a 26 pps gap between the native-born population and the foreign non EU-born (see Annex 13). Adult participation in learning (over the past 4 weeks) fell by 2.8 pps to 8.4% in 2020, which is below the EU average of 9.2%, and it is even lower among older (3.9%, EU average: 4.8%) and low-skilled persons (1.7%, EU average: 3.4%). Stepping up efforts to address the relatively low educational outcomes of students from migrant or disadvantaged backgrounds and improving the outreach to low-skilled and older workers could help Slovenia contribute to reaching the 2030 EU headline targets on skills and employment.

Slovenia has one of the lowest levels of income inequality and lowest shares of people at risk of poverty or social exclusion in the EU. The overall share of the population at risk of poverty or social exclusion risk stood at 14.3% in 2020 (0.6 pps higher than in 2019), far below the EU average of 21.9%. For people aged 65 or over, the rate increased from 19.4% in 2016 to 21% in 2020, slightly above the EU average of 20.4%. It deteriorated further for older women (24.4% in 2018 compared to the EU average of 20.9%), which may point to challenges for social protection. Housing deprivation is higher than the EU average. Slovenia's RRP addresses some of the key social challenges, in particular those linked with access to healthcare and long-term care while ensuring its long-term fiscal sustainability (see Annex 14). The adoption of parts of the relevant legislation on long-term care in December 2021 is a major step towards ensuring that the system can be better accessed and more resilient. The plan also aims to improve access to non-profit rental housing for young families, socially deprived individuals and marginalised groups. In combination with ESF+, further social policy action would allow Slovenia to contribute to reaching the 2030 EU headline target on poverty reduction.

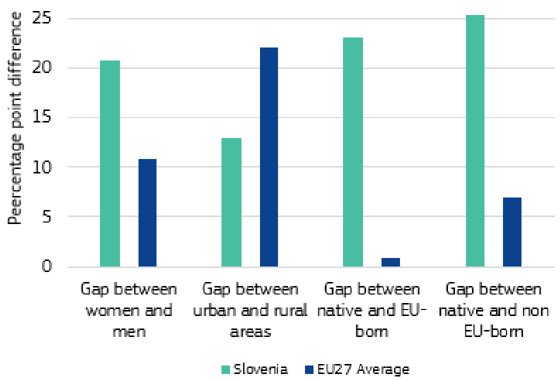
This Annex outlines the main challenges for Slovenia's education and training system in light of the EU-level targets of the European Education Area strategic framework and other contextual indicators, based on the analysis from the 2021 Education and Training Monitor. While education outcomes are overall good, Slovenia's education and training system struggles with some equity challenges that risk being worsened due to the pandemic.

Despite good education outcomes overall, the Slovenian education system struggles with equity challenges. The rate of early school leaving is well below the EU-level target. Educational outcomes, as measured by the OECD Programme for International Student Assessment (PISA), are better than the EU average in all three subjects tested: mathematics, reading and science. However, the rate of early school leaving for non-native students is nearly double the national average school leaving rate (see Annex 12). While the percentage of students with a migrant background who underachieve in reading is lower than the EU average, the gap between native and foreign-born students remains among the largest in the EU. The gap of 19 pps in underachievement between socio-economically advantaged and disadvantaged students is still substantial. The government introduced new measures to support migrant and Roma pupils in basic schools for the academic year 2020/2021. The gender gap is also sizeable, with girls significantly outperforming boys in reading. Furthermore, there are warning signs of upcoming teacher shortages, especially in mathematics and technical subjects (59).

There are further challenges related to gaps in tertiary education attainment rates and the falling employment rate of recent graduates from vocational education and training. Enrolment in vocational education and training was the highest in the EU in 2019, however, the employment of recent graduates decreased between 2018 and 2020 by nearly 13 pps. The impact of the pandemic is likely to worsen this trend. Tertiary educational attainment is high overall, but significant gaps remain between genders and between the native and foreign-born student population. As part of its recovery and resilience plan (RRP), the government has proposed measures to improve the labour market transition for young people and the labour market relevance of vocational education and training.

Reforms and investments planned under the Slovenia's RRP cover all education levels. The reforms and investments are focused on incorporating digital and sustainable development competences in modernised curricula for all levels of education, improving the labour market relevance of education, and providing better data connections for educational institutions. Planned actions include promoting vocational education and training, training mentors in companies, strengthening cooperation between schools and employers (in particular for practical skills in health, early childhood education and care, and social care), and developing a tracking application for vocational education and training graduates.

Graph A13.1: **Gaps in tertiary educational attainment rates, 2020**



Source: Eurostat

(59) Dolenc K., Šorgo A., & Ploj Virtič M. (2021). Signs of a Catastrophe: Predicted Shortage of Teachers of Lower Secondary Science and Technics and Technology in Slovenia . *Journal of Elementary Education*, *14*(2), 239-256. https://doi.org/10.18690/rei.14.2.239-256.2021

Table A13.1:**EU-level targets and other contextual indicators under the European Education Area strategic framework**

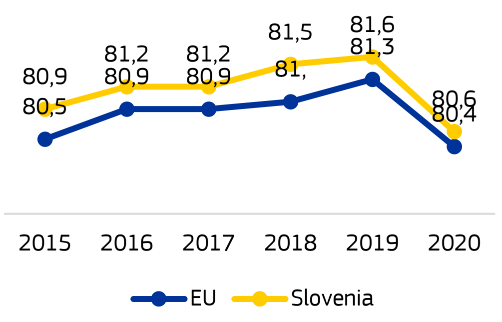
					2015		2021			
Indicator			**Target**		**Slovenia**	**EU27**	**Slovenia**		**EU27**	
Participation in early childhood education (age 3+)			**96%**		**88.0%**	**91.9%**	**92.1%**	**2019**	**92.8%**	**2019**
Low achieving 15-year-olds in:		**Reading**	**< 15%**		**15.1%**	**20.4%**	**17.9%**	**2018**	**22.5%**	**2018**
		Mathematics	**< 15%**		**16.1%**	**22.2%**	**16.4%**	**2018**	**22.9%**	**2018**
		Science	**< 15%**		**15.0%**	**21.1%**	**14.6%**	**2018**	**22.3%**	**2018**
Early leavers from education and training (age 18-24)	**Total**		**< 9 %**		**5.0%**	**11.0%**	**3.1%**		**9.7%**	
	By gender	*Men*			6.4%	12.5%	4.2%	u	11.4%	
		Women		u	3.4%	9.4%	1.9%	u	7.9%	
	By degree of urbanisation	*Cities*		u	4.6%	9.6%	2.7%	u	8.7%	
		Rural areas		u	4.8%	12.2%	2.9%	u	10.0%	
	By country of birth	*Native*			4.3%	10.0%	2.9%		8.5%	
		EU-born		u	:	20.7%	:	u	21.4%	
		Non EU-born		u	17.7%	23.4%	6.0%	u	21.6%	
Tertiary educational attainment (age 25-34)	**Total**		**45%**		**40.8%**	**36.5%**	**47.9%**		**41.2%**	
	By gender	*Men*			30.3%	31.2%	37.2%		35.7%	
		Women			52.%	41.8%	60.8%		46.8%	
	By degree of urbanisation	*Cities*			46.5%	46.2%	57.9%		51.4%	
		Rural areas			39.1%	26.9%	45.8%		29.6%	
	By country of birth	*Native*			42.6%	37.7%	50.2%		42.1%	
		EU-born		u	28.6%	32.7%	57.9%		40.7%	
		Non EU-born		u	17.9%	27.0%	24.3%		34.7%	
Share of school teachers (ISCED 1-3) who are 50 years or over					35.5%	38.3%	37.0%	2019	38.9%	2019

(1) The 2018 EU average on PISA reading performance does not include ES; u = low reliability, : = not available; Data is not yet available for the remaining EU-level targets under the European Education Area strategic framework, covering underachievement in digital skills, exposure of vocational education and training graduates to work based learning and participation of adults in learning.
Source*:* Eurostat (UOE, LFS); OECD (PISA)

Especially relevant in light of the ongoing COVID-19 pandemic, resilient healthcare is a prerequisite for a sustainable economy and society. This Annex provides a snapshot of the healthcare sector in Slovenia.

Life expectancy in Slovenia is slightly above the EU average, but fell in 2020 by a year due to COVID-19. By 17 April 2022, 3.13 cumulative COVID-19 deaths per 1 000 inhabitants and 476 confirmed cumulative COVID-19 cases per 1 000 inhabitants had been reported. Slovenia fares comparatively well in preventing deaths from treatable causes, but cancer mortality has been above the EU average.

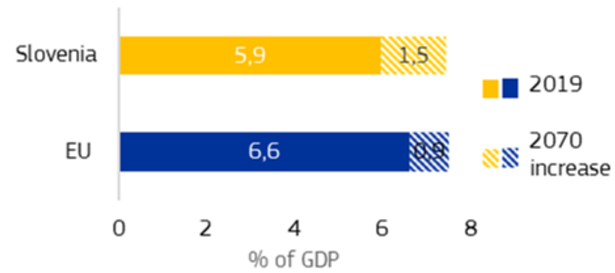
Graph A14.1: **Life expectancy at birth, years**



Source: Eurostat

Health spending relative to GDP in Slovenia was below the EU average in 2019. Spending on prevention is also below the EU average. The public share of health expenditure is comparatively low and 95% of residents subject to out-of-pocket payments have voluntary health insurance. With an ageing population that suffers from chronic diseases, public expenditure on health is projected to increase by 1.5 percentage points (pps) of GDP by 2070 (compared to 0.9 pps for the EU), raising long-term fiscal sustainability concerns.

Graph A14.2: **Projected increase in public expenditure on healthcare over 2019-2070 (reference scenario)**



Source: The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070), European Commission (Directorate-General for Economic and Financial Affairs) and Ageing Working Group (Economic Policy Committee)

Long waiting times for publicly funded services are the main factor driving unmet medical needs. This is linked to the scarce availability of health workforce in primary care and in some specialist outpatient services.

Through its recovery and resilience plan (RRP), Slovenia plans to invest EUR 224.9 million in healthcare (9.1% of the total RRP) to improve the communicable diseases hospital infrastructures, the digital infrastructure in the health sector and the health emergency services. The reform of the financing of the healthcare system is expected to make the healthcare funding mechanism more predictable and financially sustainable in the long term. The RRP should promote a more coherent and integrated service delivery, including with long-term care structures.

Table A14.1:**Key health indicators,**

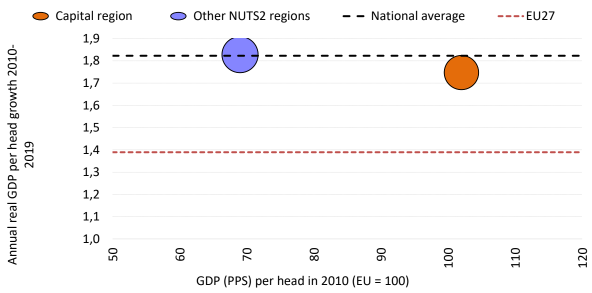
	2016	2017	2018	2019	2020	EU average (latest year)
Treatable mortality per 100 000 population (mortality avoidable through optimal quality healthcare)	79.6	78.2	77.4	72.0		92.1 (2017)
Cancer mortality per 100 000 population	308.5	304.8	309.3	290.1		252.5 (2017)
Current expenditure on health, % GDP	8.5	8.2	8.3	8.5		9.9 (2019)
Public share of health expenditure, % of current health expenditure	72.7	72.2	72.8	72.8		79.5 (2018)
Spending on prevention, % of current health expenditure	3.0	3.0	3.1	3.2		2.8 (2018)
Acute care beds per 100 000 population	418.9	420.4	413.4	413.2		387.4 (2019)
Doctors per 1 000 population *	3.0	3.1	3.2	3.3		3.8 (2018)
Nurses per 1 000 population *	9.7	9.9	10.1	10.3		8.2 (2018)
Consumption of antibacterials for systemic use in the community, daily defined dose per 1 000 inhabitants per day **	11.5	11.6	11.7	11.5	8.9	14.5 (2020)

(1) Doctors' density data refer to practising doctors in all countries except for FI, EL, PT (licensed to practice) and SK (professionally active). Nurses' density data refer to practising nurses in all countries (data from 2014 for FI) except for IE, FR, PT, SK (professionally active) and EL (nurses working in hospitals only).
More information: https://ec.europa.eu/health/state-health-eu/country-health-profiles_en
Source: Data sources: Eurostat Database; except: * Eurostat Database and OECD, ** ECDC.

The regional dimension is an important factor when assessing economic and social developments in Member States. Taking into account this dimension enables a well-calibrated and targeted policy response that promotes cohesion and ensures a sustainable and resilient economic development across all regions.

Regional disparities in Slovenia are still prominent. Western Slovenia (Zahodna Slovenija) scores better than Eastern Slovenia (Vzhodna Slovenija) in several economic and social indicators. The differences become even more pronounced at the NUTS-3 and lower levels. The gap between the capital region and the other regions is still very wide, which hinders the balanced development of the country.

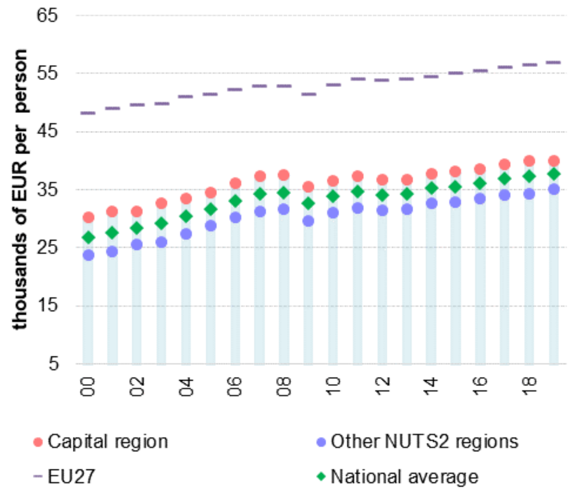
Graph A15.1: **GDP per head (2010) and GDP growth (2010-2019) in Slovenia**



Source: Eurostat

Convergence is progressing despite slower growth in certain less developed regions. In 2019, Eastern Slovenia was lagging behind Western Slovenia in terms of GDP per head (73% and 106% of the EU average respectively). Disparities are even more pronounced at the NUTS-3 level, with the GDP per head in the capital region (125% of EU average) being 40% higher than the national average and almost three times higher than that of the poorest region (Zasavska, 47%). Growth of GDP per head in the capital region was slightly higher than the EU average and just below the national average. More than half of the other NUTS-3 regions showed stronger growth, with Gorenjska growing by almost 3% per year. On the other hand, Zasavska displayed the lowest growth between 2010 and 2019.

Graph A15.2: **Labour productivity (real gross value added GVA per worker), EU27, Slovenia (NUTS-2 regions), 2000-2019**



Source: Eurostat

The productivity growth in both of Slovenia's NUTS-2 regions is above the EU average. In recent years, the productivity gap between Eastern and Western Slovenia narrowed. Labour productivity in Eastern Slovenia grew by 1.5% annually between 2010 and 2019, which was faster than in Western Slovenia (1.1%) and the EU average (0.7%). In terms of real growth productivity, Eastern Slovenia performs even better with an average annual growth of 1.65% as compared to 1.2% in Western Slovenia. However, both regions still had a lower productivity than the EU average in 2018.

Slovenia has made progress towards digital transformation. Next generation access broadband covers 88% of households, close to the EU average. However, this percentage is

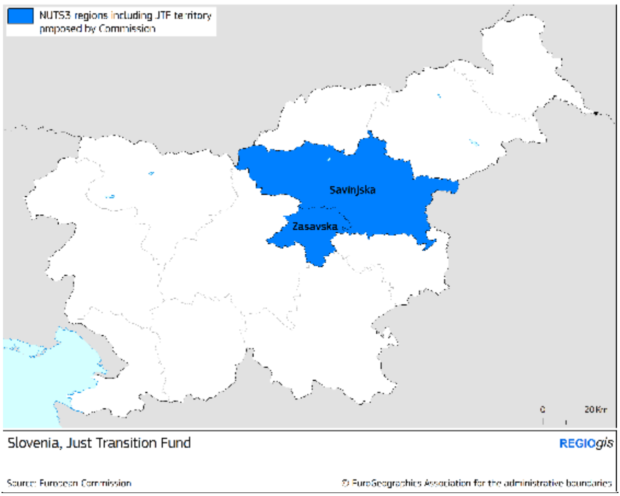
Table A15.1:**Slovenia, selected indicators at regional level – Slovenia**

NUTS 2 Region	GDP per head (PPS)	Productivity (GVA (PPS) per person employed)	Real productivity growth	GDP per head growth	Population growth	Unemployment rate	Regional Competitiveness Index	CO_2 emissions from fossil fuels per head	Innovation performance
	EU27=100, 2019	EU27=100, 2018	Avg % change on preceding year, 2010-2019	Avg % change on preceding year, 2010-2019	Total % change, 2011-2019	% of active population, 2020	Range 0-100, 2019	tCO_2 equivalent, 2018	RIS regional performance group
European Union	100	100	1.00	1.39	1.8	7.1	57.3	7.2	
Slovenija	89	80	1.43	1.82	2.2	5.0	60.9		
Vzhodna Slovenija	**73**	**74**	**1.65**	**1.83**	**0.1**	**5.5**	**54.7**	**9.9**	**Moderate innovator -**
Zahodna Slovenija	**106**	**86**	**1.20**	**1.75**	**4.6**	**4.4**	**68.0**	**6.2**	**Moderate innovator +**

Source: Eurostat, *EDGAR Database

significantly lower in rural areas. In terms of individuals with above basic overall digital skills, both regions are moderate performers. 77% of Slovenian internet users actively engage with e-government services compared to the EU average of 64%, with Western Slovenia having a higher number of users.

Graph A15.3: **Territories most affected by the climate transition in Slovenia (NUTS-3 level)**

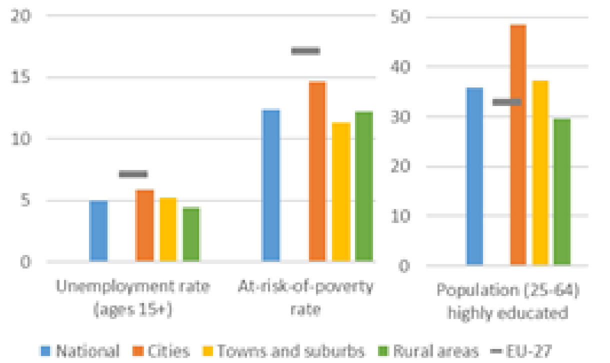


Source: Eurostat

CO2 emissions from fossil fuels per head in Eastern Slovenia are above both the national and EU average. For Eastern Slovenia 9.9 tCO2 equivalent were registered in 2018, while it was 6.2 for Western Slovenia. The increased climate and energy targets require an accelerated phase-out of one of the main sources of greenhouse gas emissions - coal. The Zasavska region is enduring the consequences of an incomplete transition away from coal-related activities, while the Savinjska region, in particular Savinjsko-Šaleška, continues to suffer from significant challenges linked to the on-going extraction and processing of fossil fuels. Both coal regions are targeted in the recently adopted National Strategy for Exit from Coal and Restructuring of Coal Regions in line with the principles of a just transition. They will benefit from the Just Transition Fund in 2021-2027.

Western Slovenia performs better than Eastern Slovenia in innovation and regional competitiveness. Slovenia's innovation performance compared to the EU has decreased from 98% in 2014 to 89% in 2021. Western Slovenia was a 'strong innovator' until 2019 and it still performs better than Eastern Slovenia. However, both regions are now only 'Moderate innovators'. Eastern Slovenia is also marked with a low level of public sector investment and lags behind Western Slovenia on several innovation activities. In terms of regional competitiveness, Western Slovenia performs above the EU average while Eastern Slovenia performs below the EU average. Western Slovenia is strong in the education dimension and innovation, while Eastern Slovenia underperforms its peers in all but two sub-dimensions (basic and higher education). Both regions lag behind the EU average in infrastructure provision and market size.

Graph A15.4: **Social indicators by degree of urbanisation in Slovenia, 2020**



Source: Eurostat

The social indicators for Slovenia show consistent improvement and remained better than the EU average in 2020. Western Slovenia has a higher employment rate (77%) than Eastern Slovenia (74%). The unemployment rate is particularly low in the Western region (4.4%) while in the Eastern region it is slightly higher (5.5%). The same trend can be observed in the share of people at risk of poverty where in the Western region it is 5 pps lower than in the Eastern region. The share of early school leavers in both regions (4.4%) is significantly lower than the EU average (10.4%) while the share of the population attaining a higher education degree, especially in Western Slovenia, remains high (10% above EU average). There are also clear differences in terms of social indicators between urban and rural areas (see Graph 15.3).

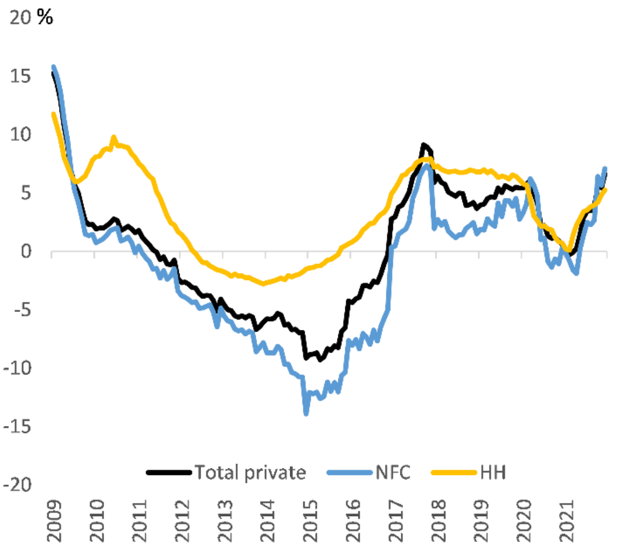
Both regions in Slovenia have been affected by the COVID-19 pandemic. It has had a negative impact on the Slovenian economy, leading to a drop in GDP per head by 4.2% in Western Slovenia and by 3.9% in Eastern Slovenia in 2020 compared to 2019. Furthermore, the socioeconomic consequences differ across both regions. The COVID-19 crisis has hit the trade, hospitality and transport sectors the hardest, particularly in Western Slovenia due to the composition of its labour force. On the other hand, Eastern Slovenia has been more negatively affected in terms of manufacturing activities.

ANNEX 16: KEY FINANCIAL SECTOR DEVELOPMENTS

This Annex provides an overview of key developments in Slovenia's financial sector. The banking sector performed well in 2021 thanks to improving asset quality, but the law on Swiss franc loans, which requires the banks to compensate customers for the losses caused by the appreciation of the Swiss francs, could cause significant losses in 2022. Return on equity has systematically exceeded 10% since 2018, thanks mainly to the continuous net release of impairments. The capital adequacy ratio remained stable, reaching 18.5% in Q3 2021 (vs. 19.3% in the EU). The non-performing loans ratio keeps improving; it reached 2.3% in Q3 2021; down from 3.1% one year earlier. Credit to households and to non-financial corporations has strongly recovered from the pandemic lows and grew at a dynamic year-on-year rate of 5.3% (vs. 4.2% in the euro area) and 7.1% (vs. 3.7% in the euro area), respectively, until December 2021. With a loan-to-deposit ratio of 65.0% (vs. 86.5% in the EU), banks benefit from a substantial excess of deposits over loans. This ensures a relatively stable funding basis and abundant liquidity, especially when combined with the high share of funding from the ECB (5.6% in December 2021). However, the new law voted on 2 February 2022 capping the exchange rate on Swiss franc loans, *currently challenged at the Constitutional Court,* would negatively affect the banking sector. Losses would significantly reduce banks' profit, and in some cases, they might even cause the most exposed banks to fall below capital requirements.

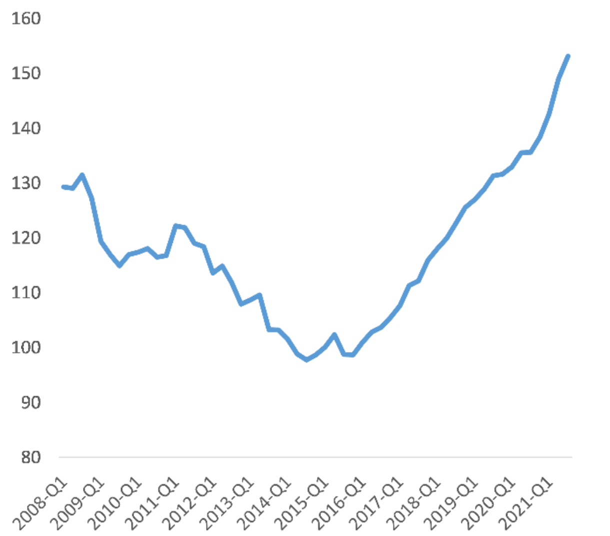
The residential real estate market shows medium vulnerabilities that are being reduced by appropriate and sufficient macroprudential policy measures. The European Systemic Risk Board (ESRB) (2022) [60] has identified several key vulnerabilities: elevated house price growth, elevated housing lending growth, improving but still relatively loose lending standards. The ESRB observes that the current policy mix is appropriate and sufficient and has been instrumental in reducing risks. The current macroprudential restrictions on household lending provide for debt service-to-income and loan-to-value limits. They have been effective in improving lending standards on new housing loans. However, introducing legally binding loan-to-value limits could become necessary if the recommended limits were not carefully followed. In addition, an excessive pick-up in credit as the recovery unfolds and excessive rise in house prices could ultimately justify introducing a sectoral systemic risk buffer.

Graph A16.1: **Credit growth**



(1) Note: Loans adjusted for sales and securitisation (y-o-y change)
Source: ECB

Graph A16.2: Evolution of house price index



(1) 2015=100
Source: Eurostat

(60) ESRB, Vulnerabilities in the residential real estate sectors of the EEA countries, February 2022, https://www.esrb.europa.eu/news/pr/date/2022/html/esrb.pr220211~9393d5e991.en.html.

Table A16.1:**Financial soundness indicators**

	2017	2018	2019	2020	2021
Total assets of the banking sector (% of GDP)	94.0	88.6	88.2	98.4	97.5
Share (total assets) of the five largest bank (%)	61.5	60.8	60.9	67.3	-
Share (total assets) of domestic credit institutions (%)[1]	54.2	54.0	51.0	48.3	49.4
Financial soundness indicators:[1]					
- non-performing loans (% of total loans)	9.2	6.0	3.4	3.0	2.3
- capital adequacy ratio (%)	18.1	17.9	18.5	18.3	18.5
- return on equity (%)	9.1	10.7	10.3	11.3	10.1
NFC credit growth (year-on-year % change)	1.9	1.5	2.7	0.3	7.1
HH credit growth (year-on-year % change)	7.2	6.8	6.1	0.7	5.3
Cost-to-income ratio (%)[1]	63.7	59.9	59.4	59.5	57.3
Loan-to-deposit ratio (%)[1]	74.7	73.1	73.3	66.6	65.0
Central bank liquidity as % of liabilities	3.5	3.3	2.8	3.5	5.6
Private sector debt (% of GDP)	76.1	72.6	68.8	69.7	-
Long-term interest rate spread versus Bund (basis points)	64.3	53.4	52.8	58.9	44.4
Market funding ratio (%)	34.0	34.0	32.2	32.2	-
Green bond issuance (bn EUR)	-	0.1	-	-	-

[1]Last data: Q3 2021.

Source: ECB, Eurostat, Refinitiv.

This Annex provides an indicator-based overview of Slovenia's tax system. It includes information on the tax structure, i.e. the types of tax that Slovenia derives most revenue from, the tax burden for workers, and the progressivity and redistributive effect of the tax system. It also provides information on tax collection and compliance, and on the risk of aggressive tax planning.

Slovenia's tax revenues in relation to GDP are slightly lower than for the EU aggregate and some relatively growth-friendly taxes are underused. In 2020, Slovenia's labour tax revenues as a percentage of GDP were slightly below the EU aggregate. At the same time, Slovenia relied strongly on labour taxation and was among the Member States with the highest share of labour taxes in total tax revenues. While revenues from consumption and environmental taxes were above the EU aggregate, revenues from capital taxes were below. In addition, revenues from recurrent property taxes, which are considered to be particularly conducive to growth, were clearly below the EU aggregate. A greater use of recurrent property taxes or inheritance and gift taxes would have the potential to boost economic growth, particularly in view of the adopted personal income tax reductions.

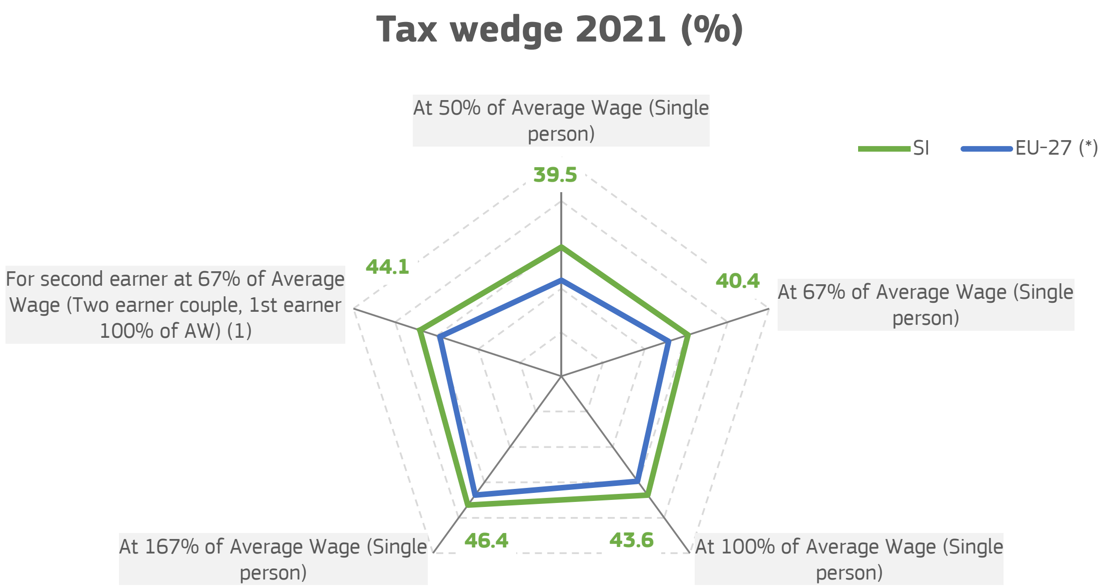
Slovenia's labour tax burden is relatively high across income levels. The labour tax wedge for Slovenia in 2020 was higher than the EU average at various income levels, i.e. for single

Table A17.1: **Indicators on Taxation**

		Slovenia					EU-27				
		2010	**2018**	**2019**	**2020**	**2021**	**2010**	**2018**	**2019**	**2020**	**2021**
Tax structure	Total taxes (including compulsory actual social contributions) (% of GDP)	38.0	37.5	37.3	37.6		37.9	40.1	39.9	40.1	
	Labour taxes (as % of GDP)	19.6	18.9	19.0	20.1		20.0	20.7	20.7	21.5	
	Consumption taxes (as % of GDP)	13.7	13.6	13.3	12.3		10.8	11.1	11.1	10.8	
	Capital taxes (as % of GDP)	4.7	4.9	5.1	5.2		7.1	8.2	8.1	7.9	
	Total property taxes (as % of GDP)	0.6	0.6	0.6	0.6		1.9	2.2	2.2	2.3	
	Recurrent taxes on immovable property (as % of GDP)	0.5	0.5	0.5	0.5		1.1	1.2	1.2	1.2	
	Environmental taxes as % of GDP	3.6	3.4	3.3	2.9		2.4	2.4	2.4	2.2	
Progressivity & fairness	Tax wedge at 50% of Average Wage (Single person) (*)	33.7	36.1	37.2	37.2	39.5	33.9	32.4	32.0	31.5	31.9
	Tax wedge at 100% of Average Wage (Single person) (*)	42.5	43.2	43.5	43.1	43.6	41.0	40.2	40.1	39.9	39.7
	Corporate Income Tax - Effective Average Tax rates (1) (*)		17.5	17.5	17.5			19.8	19.5	19.3	
	Difference in GINI coefficient before and after taxes and cash social transfers (pensions excluded from social transfers)	10.7	9.8	9.3	9.6		8.4	7.9	7.4	8.3	
Tax administration & compliance	Outstanding tax arrears: Total year-end tax debt (including debt considered not collectable) / total revenue (in %) (*)		7.3	6.8				31.9	31.8		
	VAT Gap (% of VTTL)		4.1	7.1				11.2	10.5		
Financial Activity Risk	Dividends, Interests and Royalties (paid and received) as a share of GDP (%)		2.8	2.9	2.4			10.7	10.5		
	FDI flows through SPEs (Special Purpose Entities), % of total FDI flows (in and out)		0.0	0.0	0.0			47.8	46.2	36.7	

(1) Forward-looking Effective Tax Rate (OECD).
(*) EU-27 simple average as there is no aggregated EU-27 value.
Sources: Commission services and OECD.

Graph A17.1: **Indicators on Tax wedge**



The tax wedge measures the difference between the total labour cost of employing a worker and the worker's net earnings: sum of personal income taxes and employee and employer social security contributions, net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social security contributions paid by the employer).

(1) The second earner average tax wedge measures how much extra personal income tax plus employee and employer social security contributions the family will have to pay as a result of the second earner entering employment, as a proportion of the second earner's gross earnings plus the employer SSCs due on the second earner's income. For a more detailed discussion see OECD (2016), "Taxing Wages 2016", OECD Publishing, Paris. http://dx.doi.org/10.1787/tax_wages-2016-en
(*) EU-27 simple average as there is no aggregated EU-27 value.
(2) Annual Report on Taxation 2021 - Publications Office of the EU (europa.eu
Source: Commission services

people at the average wage (100%) and at 50%, 67% and 167% of the average wage. Second earners at a wage level of 67% of the average wage, whose spouse earns the average wage, also faced a tax wedge considerably higher than the EU average. Yet the difference between their tax wedge and that of single earners at the same wage level is only slightly above the EU average. Slovenia has one of the lowest income inequality as measured by the GINI coefficient and the tax-benefit system helped reduce income inequality by more than the EU average in 2020. The newly adopted personal income tax cuts are expected to reduce the labour tax burden in Slovenia at a cost of lower labour tax revenues.

Slovenia is doing moderately well in digitalising its tax administration, which can help reduce tax arrears as well as cut compliance costs. Outstanding tax arrears have declined slightly by 0.5 pps to 6.8% of total net revenue. This is significantly below the EU-27 average of 31.8%, though that average is inflated by very large values in a few Member States. However, compliance costs for companies in Slovenia are much higher than the EU average, both for completing tax returns as well as for complying with corporate income tax audits ([61]). The VAT gap (an indicator of the effectiveness of VAT enforcement and compliance) has increased in Slovenia from 4.1% to 7.1%, but is still below the EU-wide gap of 10.5%. Furthermore, the average forward-looking effective corporate income tax rate was at 17.5%, slightly below the EU-27 average at 19.3% in 2020.

([61]) European Commission, Directorate-General for Taxation and Customs Union, Annual Report on Taxation 2021 : review of taxation policies in the EU Member States, Publications Office, 2021, https://data.europa.eu/doi/10.2778/294944, see section 2.1.4 Improving tax administration of the Annual Report on Taxation 2021 for further details

ANNEX 18: KEY ECONOMIC AND FINANCIAL INDICATORS

Table A18.1: **Key economic and financial indicators**

							forecast	
	2004-07	2008-12	2013-18	2019	2020	2021	2022	2023
Real GDP (y-o-y)	5.2	-1.0	2.7	3.3	-4.2	8.1	3.7	3.1
Potential growth (y-o-y)	3.4	1.8	1.2	2.7	2.4	2.7	3.1	3.3
Private consumption (y-o-y)	3.1	0.9	1.6	4.8	-6.6	11.6	4.1	2.5
Public consumption (y-o-y)	2.9	0.9	1.0	2.0	4.2	3.9	0.4	1.1
Gross fixed capital formation (y-o-y)	7.8	-8.9	2.9	5.5	-8.2	12.3	3.8	5.0
Exports of goods and services (y-o-y)	13.1	0.6	6.2	4.5	-8.7	13.2	4.9	6.0
Imports of goods and services (y-o-y)	12.6	-1.6	5.7	4.7	-9.6	17.4	4.3	5.7
Contribution to GDP growth:								
Domestic demand (y-o-y)	4.2	-1.5	1.6	3.9	-4.3	9.0	3.0	2.6
Inventories (y-o-y)	0.8	-0.9	0.4	-0.9	0.1	0.8	0.0	0.0
Net exports (y-o-y)	0.1	1.5	0.7	0.3	-0.1	-1.6	0.7	0.5
Contribution to potential GDP growth:								
Total Labour (hours) (y-o-y)	0.1	0.1	0.0	0.6	0.8	0.6	0.9	0.9
Capital accumulation (y-o-y)	1.6	0.6	-0.2	0.3	-0.1	0.3	0.4	0.6
Total factor productivity (y-o-y)	1.7	1.1	1.4	1.8	1.8	1.7	1.7	1.7
Output gap	4.3	-1.2	-2.8	3.5	-3.2	1.9	2.5	2.3
Unemployment rate	5.9	6.9	8.1	4.4	5.0	4.8	4.8	4.6
GDP deflator (y-o-y)	2.8	1.7	1.3	2.2	1.2	2.6	3.3	3.7
Harmonised index of consumer prices (HICP, y-o-y)	3.1	2.7	0.8	1.7	-0.3	2.0	6.1	3.3
Nominal compensation per employee (y-o-y)	6.3	2.7	2.2	5.0	3.5	5.4	3.6	5.5
Labour productivity (real, hours worked, y-o-y)	5.1	-0.1	1.8	0.6	0.6	2.4	1.7	0.8
Unit labour costs (ULC, whole economy, y-o-y)	2.2	2.9	0.9	4.2	7.4	-1.1	0.8	3.9
Real unit labour costs (y-o-y)	-0.6	1.2	-0.3	1.9	6.1	-3.6	-2.4	0.2
Real effective exchange rate (ULC, y-o-y)	0.3	0.6	0.0	1.3	.	.	.	.
Real effective exchange rate (HICP, y-o-y)	-0.4	-0.2	0.4	-0.4	0.5	-0.4	.	.
Net savings rate of households (net saving as percentage of net disposable income)	9.6	5.0	4.2	6.5	16.3	.	.	.
Private credit flow, consolidated (% of GDP)	14.0	3.6	-2.0	0.8	-0.9	.	.	.
Private sector debt, consolidated (% of GDP)	80.8	111.9	87.0	68.8	69.7	.	.	.
of which household debt, consolidated (% of GDP)	20.3	29.0	27.8	26.9	27.8	.	.	.
of which non-financial corporate debt, consolidated (% of GDP)	60.5	83.0	59.2	41.9	41.9	.	.	.
Gross non-performing debt (% of total debt instruments and total loans and advances) (2)	.	.	11.4	2.6	2.4	.	.	.
Corporations, net lending (+) or net borrowing (-) (% of GDP)	-6.7	0.0	4.6	0.3	3.5	3.7	3.7	3.7
Corporations, gross operating surplus (% of GDP)	18.8	18.9	19.6	19.8	20.9	22.3	22.6	22.8
Households, net lending (+) or net borrowing (-) (% of GDP)	4.8	3.6	4.2	5.0	11.4	6.3	2.0	1.8
Deflated house price index (y-o-y)	12.8	-3.7	0.7	5.3	5.2	.	.	.
Residential investment (% of GDP)	3.7	3.4	2.2	2.2	2.3	2.2	.	.
Current account balance (% of GDP), balance of payments	-2.6	-1.3	4.9	6.0	7.4	3.3	0.7	1.7
Trade balance (% of GDP), balance of payments	-0.7	0.8	7.8	8.7	9.3	5.6	.	.
Terms of trade of goods and services (y-o-y)	-0.7	-0.9	0.5	0.5	0.7	-2.4	-2.3	0.4
Capital account balance (% of GDP)	-0.3	0.0	0.0	-0.4	-0.5	0.1	.	.
Net international investment position (% of GDP)	-15.2	-41.4	-30.1	-15.9	-15.2	-7.1	.	.
NENDI - NIIP excluding non-defaultable instruments (% of GDP) (1)	-8.0	-37.8	-17.6	1.1	2.0	8.6	.	.
IIP liabilities excluding non-defaultable instruments (% of GDP) (1)	72.5	107.5	101.5	87.1	101.4	91.2	.	.
Export performance vs. advanced countries (% change over 5 years)	35.2	8.5	1.2	14.0	20.8	.	.	.
Export market share, goods and services (y-o-y)	4.0	-4.6	3.5	0.8	2.1	2.9	0.2	1.6
Net FDI flows (% of GDP)	0.5	-0.3	-1.7	-1.6	0.6	-1.0	.	.
General government balance (% of GDP)	-1.1	-4.7	-4.0	0.4	-7.8	-5.2	-4.3	-3.4
Structural budget balance (% of GDP)	-3.1	-4.1	-2.4	-1.1	-6.2	-6.1	-5.5	-4.5
General government gross debt (% of GDP)	25.6	38.9	76.0	65.6	79.8	74.7	74.1	72.7

(1) NIIP excluding direct investment and portfolio equity shares
(2) domestic banking groups and stand-alone banks, EU and non-EU foreign-controlled subsidiaries and EU and non-EU foreign-controlled branches.
Source: Source: Eurostat and ECB as of 2022-05-02, where available; European Commission for forecast figures (Spring forecast 2022)

This annex assesses fiscal sustainability risks for Slovenia over the short, medium and long term. It follows the same multi-dimensional approach as the 2021 Fiscal Sustainability Report, updated on the basis of the Commission 2022 spring forecast.

Table 1 presents the baseline debt projections. It shows the projected government debt and its breakdown into the primary balance, the snowball effect (the combined impact of interest payments and nominal GDP growth on the debt dynamics) and the stock-flow adjustment. These projections assume that no new fiscal policy measures are taken after 2023, and include the expected positive impact of investments under Next Generation EU.

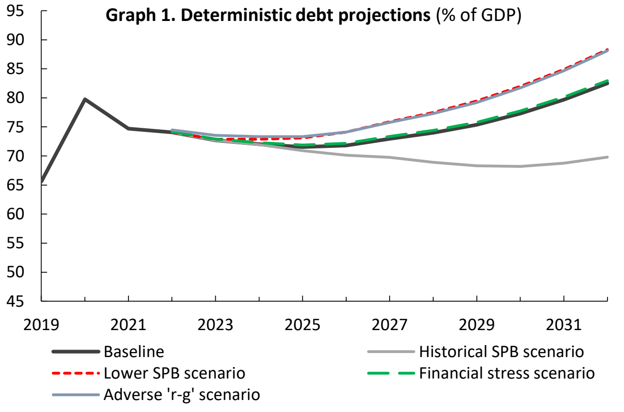
Graph 1 shows four alternative scenarios around the baseline, to illustrate the impact of changes in assumptions. The 'historical SPB' scenario assumes that the structural primary balance (SPB) gradually returns to its past average level. In the 'lower SPB' scenario, the SPB is permanently weaker than in the baseline. The 'adverse interest-growth rate' scenario assumes a less favourable snowball effect than in the baseline. In the 'financial stress' scenario, the country temporarily faces higher market interest rates in 2022.

Graph 2 shows the outcome of the stochastic projections. These projections show the impact on debt of 2 000 different shocks affecting the government's budgetary position, economic growth, interest rates and exchange rates. The cone covers 80% of all the simulated debt paths, therefore excluding tail events.

Table 2 shows the S1 and S2 fiscal sustainability indicators and their main drivers. S1 measures the consolidation effort needed to bring debt to 60% of GDP in 15 years. S2 measures the consolidation effort required to stabilise debt over an infinite horizon. The *initial budgetary position* measures the effort required to cover future interest payments, the *ageing costs* component accounts for the need to absorb the projected change in ageing-related public expenditure such as pensions, health care and

Table A19.1:**Debt sustainability analysis for Slovenia**

Table 1. Baseline debt projections	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Gross debt ratio (% of GDP)	**65.6**	**79.8**	**74.7**	**74.1**	**72.7**	**72.0**	**71.5**	**71.8**	**73.0**	**74.0**	**75.4**	**77.3**	**79.7**	**82.5**
Change in debt	-4.7	14.2	-5.1	-0.6	-1.4	-0.7	-0.5	0.3	1.2	1.0	1.4	1.9	2.4	2.8
of which														
Primary deficit	*-2.1*	*6.2*	*3.9*	*3.2*	*2.3*	*2.6*	*2.8*	*3.2*	*3.7*	*4.0*	*4.3*	*4.6*	*4.8*	*5.1*
Snowball effect	*-2.0*	*3.7*	*-6.6*	*-3.8*	*-3.7*	*-3.3*	*-3.3*	*-2.9*	*-2.6*	*-3.0*	*-2.9*	*-2.6*	*-2.5*	*-2.3*
Stock-flow adjustment	*-0.6*	*4.3*	*-2.4*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Gross financing needs (% of GDP)	6.9	20.9	13.9	15.0	13.8	13.7	13.6	13.8	14.3	14.6	14.9	15.3	15.8	16.5



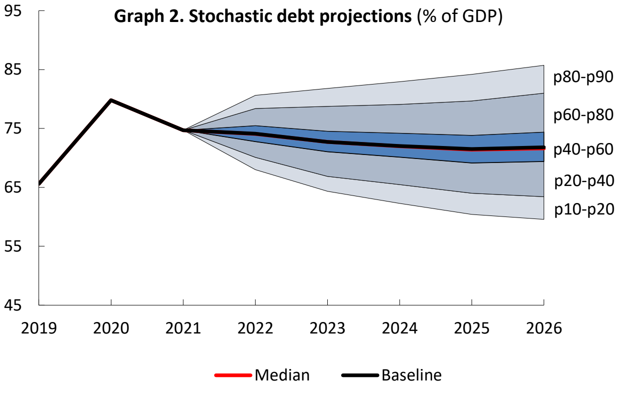


Table 2. Breakdown of the S1 and S2 sustainability gap indicators

		S1	S2
Overall index (pps. of GDP)		**4.6**	**11.1**
of which			
Initial budgetary position		1.9	3.7
Debt requirement		1.0	
Ageing costs		1.7	7.4
of which	*Pensions*	*1.1*	*5.3*
	Health care	*0.4*	*1.0*
	Long-term care	*0.2*	*1.0*
	Others	*0.0*	*0.1*

Source: European Commission

Table A19.2:**Heat map of fiscal sustainability risks for Slovenia**

Short term	Medium term										Long term	
			Debt sustainability analysis (DSA)									
					Deterministic scenarios							
Overall (S0)	Overall (S1+DSA)	S1	Overall		Baseline	Historical SPB	Lower SPB	Adverse 'r-g'	Financial stress	Stochastic projections	S2	Overall (S2+DSA)
LOW	HIGH	HIGH	MEDIUM	Overall	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	LOW	HIGH	HIGH
				Debt level (2032), % GDP	82	70	88	88	83			
				Debt peak year	2032	2021	2032	2032	2032			
				Fiscal consolidation space	90%	62%	94%	90%	90%			
				Probability of debt ratio exceeding in 2026 its 2021 level						39%		
				Difference between 90th and 10th percentiles (pps. GDP)						26		

(1) *Debt level* in 2032: green: below 60% of GDP, yellow: between 60% and 90%, red: above 90%. (2) The *debt peak year* indicates whether debt is projected to increase overall over the next decade. Green: debt peaks early; yellow: peak towards the middle of the projection period; red: late peak. (3) *Fiscal consolidation space* measures the share of past fiscal positions in the country that were more stringent than the one assumed in the baseline. Green: high value, i.e. the assumed fiscal position is plausible by historical standards and leaves room for corrective measures if needed; yellow: intermediate; red: low. (4) *Probability of the debt ratio exceeding in 2026 its 2021 level*: green: low probability, yellow: intermediate, red: high (also reflecting the initial debt level). (5) The *difference between the 90th and 10th percentiles* measures uncertainty, based on the debt distribution under 2000 different shocks. Green, yellow and red cells indicate increasing uncertainty
Source: European Commission (for further details on the Commission's multi-dimensional approach, see the 2021 Fiscal Sustainability Report).

long-term care, and the *debt requirement* measures the additional adjustment needed to reach the 60% of GDP debt target.

Finally, the heat map presents the overall fiscal sustainability risk classification (Table A19.2). The short-term risk category is based on the S0 indicator, an early-detection indicator of fiscal stress in the upcoming year. The medium-term risk category is derived from the debt sustainability analysis (DSA) and the S1 indicator. The DSA assesses risks to sustainability based on several criteria: the projected debt level in 10 years' time, the debt trajectory ('peak year'), the plausibility of fiscal assumptions and room for tighter positions if needed ('fiscal consolidation space'), the probability of debt not stabilising in the next 5 years and the size of uncertainty. The long-term risk category is based on the S2 indicator and the DSA.

Overall, short-term risks to fiscal sustainability are low. The Commission's early-detection indicator (S0) does not signal major short-term fiscal risks (Table A19.2).

Medium-term risks to fiscal sustainability are high. On the one hand, the debt sustainability analysis (DSA), points to medium risks. It shows that government debt is projected to overall increase from 74.1% of GDP in 2022 to around 83% of GDP in 2032 in the baseline (Table 1). This debt path is also sensitive to possible shocks to fiscal, macroeconomic and financial variables, as illustrated by alternative scenarios and stochastic simulations (Tables A19.1 and A19.2).

On the other hand, the sustainability gap indicator S1 points to high risks. It signals that a consolidation effort of 4.6 pps. of GDP would be needed to reduce debt to 60% of GDP in 15 years' time (Table 2). Overall, the high risk reflects the currently large deficit and significant debt, as well as the projected increase in public pension and health care expenditure.

Long-term risks to fiscal sustainability are high. Over the long term, the sustainability gap indicator S2 (at 11.1 pps. of GDP) points to high risks, driving the overall assessment. The S2 indicator shows that, to stabilise debt over the long term, it will be necessary to address the unfavourable initial budgetary position and future budgetary pressures stemming from population ageing, related to pension, health care, and long-term care expenditure (Table 2).