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Key findings and recommendations

A rapid recovery of the economy and stable income after the outbreak of the epidemic

Slovenia's economy saw a quick rebound in 2021 with the help of strong government measures that kept the material and financial situation of the population relatively stable. The measures taken to mitigate the impact of the epidemic made an important contribution to the rapid recovery of the economy, which already exceeded pre-crisis levels in 2021, as they made it possible to maintain the economic potential during the period of strict containment measures. As a result, the government took on a significant burden of the epidemic, which was reflected in a high general government deficit and an increase in general government debt, especially in 2020. Nevertheless, the epidemic had a more severe impact on certain service activities, which also led to an increase in regional development disparities after several years of improvement. Thanks to extensive government measures to mitigate the impact of the epidemic but partly also due to rapid improvement in labour market conditions (especially in 2021), total household disposable income continued to rise in 2020 and 2021. At the end of 2021, the number of persons in employment was higher than ever before and the number of registered unemployed persons was close to the lowest level reached in the second half of 2008. According to the first preliminary data, the financial situation of households and the rate of severe material and social deprivation improved again in 2021 after deteriorating slightly in the first year of the epidemic. The at-risk-of-poverty and social exclusion rate, which is still among the lowest in the EU, increased slightly in 2020 but these rates have not yet been significantly affected by the epidemic, as both indicators for 2020 are based on 2019 income and on a survey that captured only a small part of the impact of the epidemic on the living conditions of the population in that year. At the same time, certain groups of the population (especially older women, single-person households, people with low levels of education and some marginalised groups) have long been at higher risk of poverty and deprivation than the EU average. Income inequality, which in 2020 (based on 2019 income) reached its lowest level since 2009 and is within the SDS target, remains low by international standards.

The pace of transformation into a highly productive, low-carbon circular economy has been too slow

The transition to innovation-driven economic growth with a highly productive economy has been slow since the global financial crisis, and the transition to a low-carbon circular economy has been insufficient. The gap with the EU average in GDP per capita in purchasing power standards, which is an indicator of economic development and the material well-being of the population, only approached the 2008 level in 2021, and Slovenia is still far from the SDS 2030 target. The reason for the slow narrowing of the development gap in the last decade is modest productivity growth, mainly due to low investment after the global financial crisis. The impact of several years of declining investment in intangible capital after the previous (financial) crisis (on R&D, ICT and on-the-job training), slowing the transition to innovation-driven growth with a highly productive economy, is becoming increasingly evident. Progress is also too slow in decoupling economic growth from resource use and emissions. The gap with the EU average in energy, emission and resource productivity has not narrowed in the long term, and the share of renewable energy sources in Slovenia has increased at the slowest pace in the EU since 2005. There have been some recent shifts in addressing the challenges of the green transition and the transition to the fourth industrial revolution, however. For example, more funds will be allocated for these purposes in the future than in the previous medium-term period. This will be supported by the reformed part of the Recovery and Resilience Plan (RRP), which can reduce some of the implementation deficit in these areas. Nevertheless, the ambitious targets for achieving the twin transition suggest that their achievement will need to be further supported by systemic measures and resources, which will require finding the right balance with the challenge of fiscal consolidation. A growing obstacle to effective economic transformation and productivity growth is the growing shortage of appropriate labour arising from demographic change and the slow response to demand for new skills.

The COVID-19 epidemic has severely affected the health status of the population and has exacerbated the problem of access to healthcare and long-term care. The long-standing trend of improving the health status of the population has been interrupted by the epidemic. In 2020, life expectancy fell by one year due to the high

Deterioration of people's health status and accessibility to healthcare and increasing investment in the resilience of healthcare and long-term care systems

mortality rate. The consequences of the epidemic could lead to a decline in the number of healthy life years, which according to the latest data for 2019 is below the EU average and also below the SDS target. The epidemic has contributed to a further increase in mental health problems, and health inequalities are expected to widen further. Problems with access to healthcare have also been exacerbated. Healthcare accessibility is good in terms of financial coverage of rights, while the healthcare system faces shortages of health workers and consequently long waiting times. These have been exacerbated by limited access to healthcare during the epidemic, while the use of eHealth services has increased significantly. Several short-term measures have been taken to increase the resilience of the healthcare system. A special law was passed to ensure investment in healthcare until 2031, and significant funds were earmarked for this purpose in the RRP for the coming years. In the last two years, the long-standing problem of access to long-term care (LTC) has dramatically worsened due to poorly developed formal home care and lack of facilities and staff in residential care homes. In 2021, a framework law was adopted that will give the beneficiaries a wide scope of rights to LTC, but the biggest challenge remains the regulation of compulsory LTC insurance. In the long term, in addition to a sustainable structure of funding sources, adequate employment planning and improvement of working conditions will be crucial to increase the resilience of the healthcare system and the accessibility of LTC.

Recommendations for the development policy

Development policy measures should focus on accelerating the inclusive transition to innovation-driven growth with a highly productive low-carbon circular economy for long-term sustainable development and a better quality of life. Such a transformation and an acceleration of productivity growth, to be supported primarily by domestic and all available EU resources, are necessary in order to increase the prosperity of the population towards the central SDS target, i.e. to ensure quality of life for all. Higher productivity of the economy is key to increasing household income and maintaining fiscal sustainability in the face of growing pressure on general government expenditure in the context of demographic and climate change. To avoid the irreversible consequences of climate change, the transition to a low-carbon circular economy must also be a priority, as it is on a global scale. Taking measures to implement these changes would also help to increase the resilience of the economy and society to crises such as the one we are currently experiencing amid the tense geopolitical situation due to the war in Ukraine. The measures should therefore be aimed primarily at the following:

- **accelerating productivity growth** by (a) strengthening education and (re)qualification for the skills of the future based on modernised and future-oriented education and training systems; (b) significantly increasing investment in smart (especially digital) and sustainable transformation, both by the government (especially, but not exclusively, with EU funds) and by the business sector; (c) fostering a dynamic business environment and strengthening the scientific research, innovation and digital ecosystem on the public side and accelerating the adoption of new business models, breakthrough and disruptive innovations and customised business processes and organisation, including domestic and international networking, on the business side; and (d) accelerating change through social dialogue and active management of transformation;
- **accelerating transition to a low-carbon circular economy** by (a) significantly increasing the production of energy from renewable sources, particularly through more efficient siting of new projects, which is becoming increasingly important in view of the challenges related to the Ukrainian–Russian military conflict by reducing energy dependence; (b) promoting sustainable mobility, especially by upgrading the related infrastructure; (c) introducing new low-carbon circular business models, including more efficient waste management; and (d) radical systemic shifts based on new knowledge, innovations and sustainable investments in clean technologies;
- **strengthening the resilience of the healthcare system and the financial sustainability of social protection systems, in particular in view of an ageing population, while providing quality services and adequate incomes to vulnerable groups** by (a) increasing investment in prevention and public health and in the resilience of the health system, including by more effectively addressing labour shortages in the health and social care sectors; (b) implementing the Long-Term Care

Act to increase the capacity of the system, especially home care, and adequately regulating the financing of long-term care; (c) reducing the risk of (long-term) poverty and eliminating severe social and material deprivation among the most vulnerable groups in society; (d) implementing a comprehensive pension reform to ensure the fiscal sustainability of the pension system and adequate pensions; (e) ensuring a sufficient workforce by creating the conditions for attracting skilled workers (foreign and domestic) and actively integrating immigrants in social and civic life; (f) providing quality jobs and facilitating the entry of young people into the labour market; and (g) strengthening lifelong learning and adapting workplaces for older people so that they can remain active longer and better integrate into society;

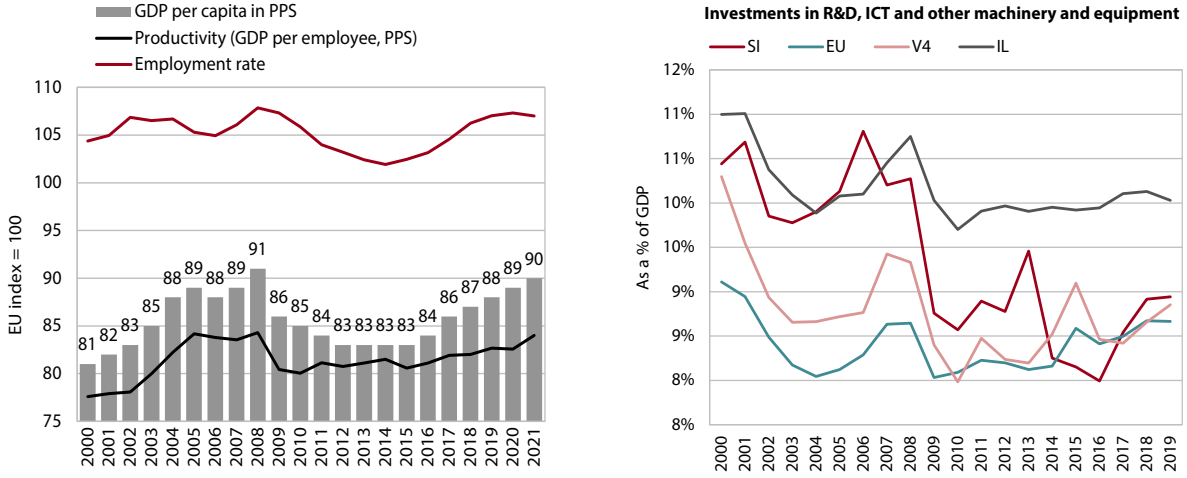
- **strengthening the developmental role of the government and its institutions** by (a) improving the strategic governance of public institutions to ensure that development challenges are identified early and addressed in a coordinated and effective manner; (b) ensuring a high-quality legal framework and a reduction in government regulation to increase the competitiveness of the economy, create a predictable business environment and simplify the lives of citizens; and (c) restructuring general government revenues and expenditures by strengthening their developmental role, whereby it is crucial to strike the right balance between economic growth and sufficient support for economic transformation to boost productivity and address the challenges of climate change and the sustainability of public finances.

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

A highly productive economy that generates value added for all

The Slovenian economy recovered quickly in 2021 from a downturn following the outbreak of COVID-19. However, overcoming the development gap with the EU average remains a challenge, requiring a transition to innovation-driven growth with a highly productive, low-carbon circular economy. By maintaining the economic potential during the crisis, the measures taken to mitigate the impact of the epidemic have made an important contribution to the rapid recovery of the economy, which already exceeded pre-crisis levels in 2021. As a result, the government has taken on a significant burden of the epidemic, which is reflected in a high general government deficit and an increase in general government debt, especially in 2020, although these both decreased slightly in 2021. Nevertheless, the epidemic had a more severe impact on service activities, which were also more affected by containment measures, and thus on more service-oriented regions. Slovenia's progress in terms of long-term economic development has been less favourable. In 2021, the development gap with the EU average, measured by GDP per capita in purchasing power standards, was slightly wider than in 2008, which means that Slovenia is still far below the SDS 2030 target. The reason for the slow narrowing of the development gap lies in low investment after the global financial crisis and thus modest productivity growth. Despite the reversal of recent trends, the impact of several years of declining investment in intangible capital after the last crisis (in R&D, ICT and on-the-job training), slowing down the transition to innovation-driven growth through the transformation to a highly productive and, especially in the case of the business sector, low-carbon circular economy, is becoming increasingly evident. In addressing the challenges of the dual transition, there have been some shifts in funding earmarked for this purpose, and there is also an incentive in the reform part of the Recovery and Resilience Plan (RRP), which can reduce some of the implementation deficit of the current development policy. Nevertheless, the ambitious targets for the implementation of the dual transition indicate that their achievement will need to be further supported by systemic measures and resources in the future, which will require finding the right balance with the challenge of fiscal sustainability in the medium term. An important medium-term risk to effective economic transformation and productivity growth is the growing shortage of suitable labour (given the demographic changes and rapid changes in the demand for skills).

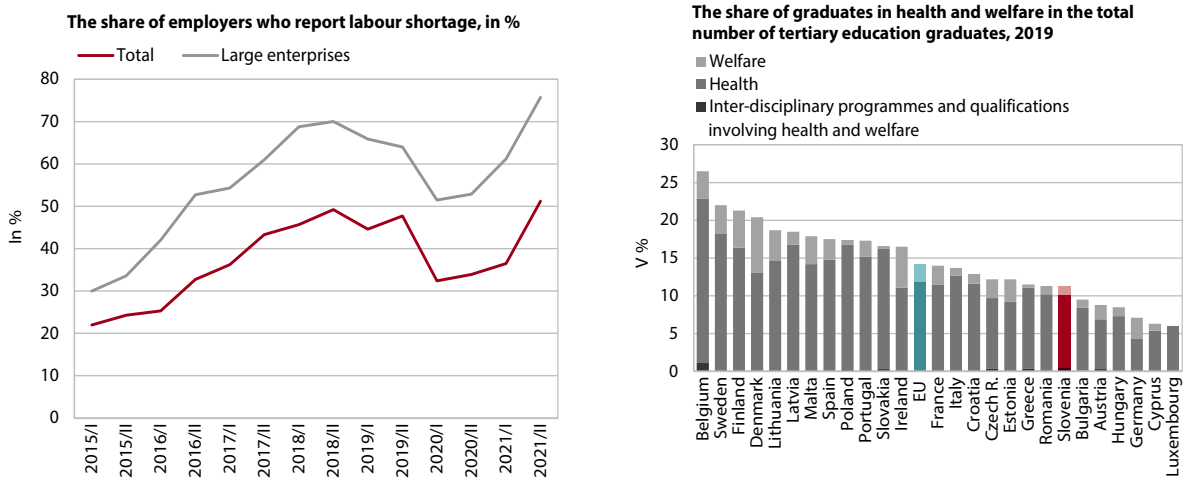
Figure 1: A faster economic convergence in the past decade was limited by weak productivity growth (left); investment in innovation and digitalisation, a key driver of economic transformation, has declined sharply since the global financial crisis (right)



Source: Eurostat (2022); calculations by IMAD. Note: The figure on the right shows investment in R&D, ICT, and other machinery and equipment combined, expressed as a % of GDP, for Slovenia (SI), the EU (computed as a weighted average of GDP, excluding data for Greece, Ireland, Cyprus and Croatia), the V4 (Visegrad Four) and the innovation leaders (IL): Sweden, Finland, Denmark and Belgium (since data for Denmark is not available, we assumed that the value for 2019 is the same as for 2018).

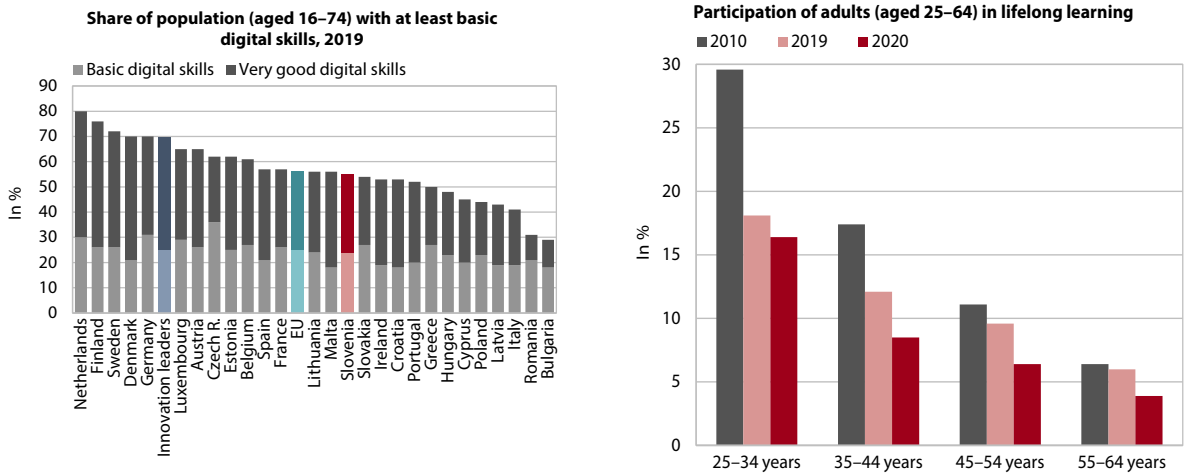
Lifelong learning **In 2020, Slovenia has reached the SDS target in terms of the educational level of the population.** The quality of young people's knowledge is also high, but in terms of lifelong learning, Slovenia has been moving away from the strategic goal for several years, which is extremely unfavourable given the skills mismatch. Due to the long-term high participation of young people in education, the share of tertiary education graduates in the population has improved and the SDS target was reached in 2020. The quality of young people's knowledge as measured by the 2018 PISA survey is high and, in the case of mathematical and scientific literacy, is also in line with the SDS target. At the same time, however, current research points to certain gaps in knowledge due to schooling from home during the epidemic, especially among vulnerable groups of children. With the rapid recovery of the economy after the epidemic and thus the increased demand for labour, the labour shortage and skills mismatch again came to the fore. The mismatch problem has also been exacerbated by the increased demand for health and social care services during the epidemic. Although there have been some changes in the structure of graduates to meet the demand in recent years, the shortage of health and long-term

Figure 2: In the midst of the post-epidemic economic recovery, businesses are once again facing significant shortage of staff (left); the low share of graduates in health and welfare is at odds with the needs of a long-lived society (right)



Sources: ESS (2014), ESS (2015a), ESS (2015b), ESS (2016), ESS (2017a), ESS (2017b), ESS (2018a), ESS (2018b), ESS (2019a), ESS (2019b), ESS (2020a) ESS (2020b), ESS (2021b), ESS (2021c) and Eurostat (2022).

Figure 3: Lack of digital skills among adults (left) and a sharp decline in their participation in lifelong learning in the last decade (right)



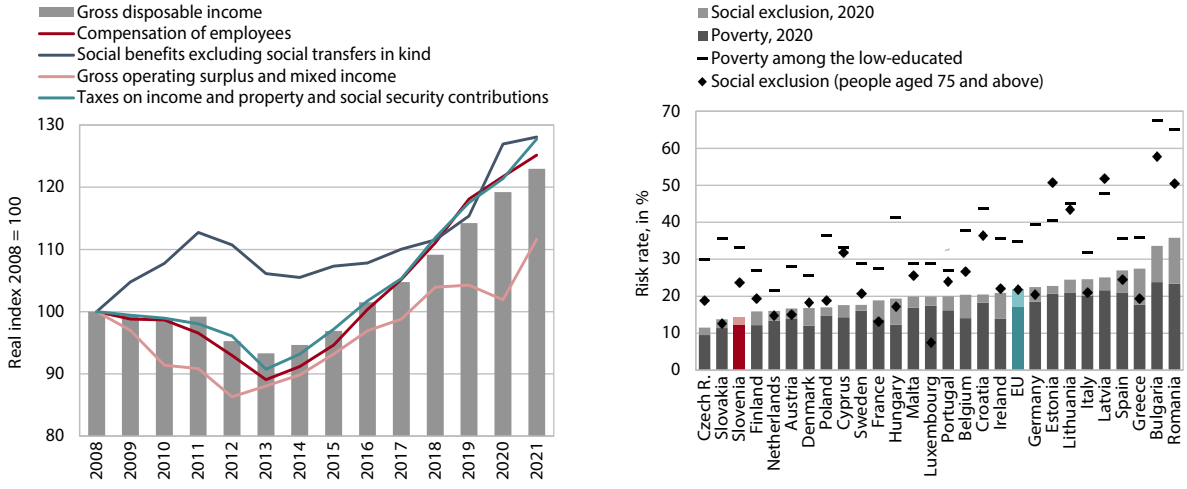
Source: Eurostat (2022). Note: Innovation leaders according to the European Innovation Index: Sweden, Finland, Denmark and Belgium.

care workers and ICT specialists is particularly acute from the perspective of the desired transition to a digital, low-carbon circular economy and the growing needs of a long-lived society. Certain key skills for life and work (e.g. the reading literacy and intercultural communication skills of young people and functional literacy and advanced digital skills of adults) are also insufficient, and given the rapid changes associated with the planned digital and green transformation, we can expect further changes in the demand for skills in the future. This will require an effective adjustment of all types of education and an increase in investment in education, as this has mostly not increased in the last decade. Above all, it will be necessary to establish a responsive and partnership-based system for forecasting skills needs in the medium term and to increase adult participation in lifelong learning. In contrast to demand, the latter has declined sharply since the global financial crisis and has moved away from the SDS 2030 target. Immigrants could also be an important source of labour, and therefore more attention should be paid to migration and integration policy measures. Furthermore, Slovenia should be made more attractive for (domestic and foreign) experts.

An inclusive, healthy, safe and responsible society

Total household disposable income has grown rapidly since 2014, and according to the latest available data, the risk of social exclusion and income inequality has remained low by international standards, while certain population groups still face a relatively high risk of poverty. Growth in household disposable income, typical of the period of recovery from the global financial crisis, continued in 2020 and 2021 as the government adopted extensive measures to mitigate the impact of the epidemic. Growth in 2021 was partly also the result of the rapid improvement in labour market conditions. At the end of 2021, the number of persons in employment was higher than ever before and the number of registered unemployed persons was close to the lowest level reached in the second half of 2008. The material well-being of the population, measured by individual consumption and GDP per capita, remains below the EU average, given the lower economic development in Slovenia, as does the financial sustainability of households, although the subjective perception of household financial sustainability improved significantly in 2021, even in the lowest income bracket. According to the preliminary EU-SILC survey data, the severe material and social deprivation rate improved again in 2021, after deteriorating in 2020. According to the latest EU-SILC 2020 survey (based on 2019 income), the at-risk-of-poverty or social exclusion rate, which has been among the lowest in the EU over the last decade, increased slightly, although the survey only covered part of the first wave of the epidemic and therefore does not reflect the full impact of the epidemic on living conditions. At the same time, certain groups of the population (especially older women, single-person households, people with low levels

Figure 4: Disposable income further increased during the epidemic (left); the at-risk-of-poverty or social exclusion rate is among the lowest in the EU despite a deterioration in 2020 but is relatively high for certain population groups (right)

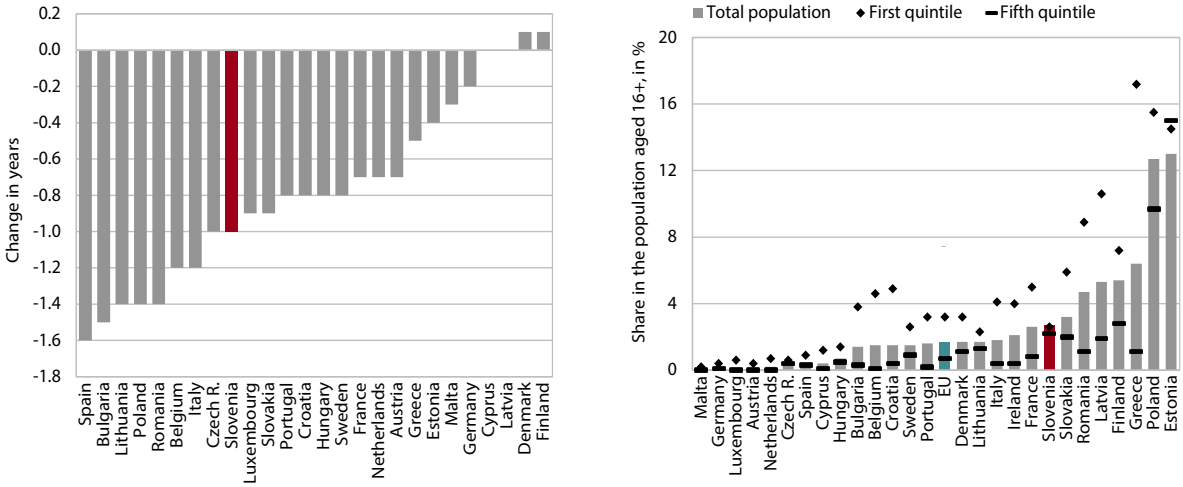


Sources: SURS (2022), calculations by IMAD, Eurostat (2022), EU-SILC 2020 data (based on 2019 income). Note: *Data for Italy in the figure on the right is for 2019; data for the EU average is Eurostat's estimate.

of education and some marginalised groups) have long been at higher risk of poverty and deprivation than the EU average. Income inequality, which in 2020 (based on 2019 income) reached its lowest level since 2009 and is within the SDS target, remains low by international standards. The exposure of young people to temporary employment is still higher than the EU average, mainly due to widespread student employment, which, however, is also an important source of livelihood for students. Unfavourable trends since 2017, due to lower political participation, include the deterioration of the situation of women as measured by the Gender Equality Index, which means that Slovenia has moved away from the SDS target in this regard.

The long-standing trend of improving the health status of the population was interrupted by the epidemic, existing problems related to access to healthcare and long-term care were exacerbated, and increasing efforts were made to improve the resilience of both systems. Life expectancy, which increased by 1.8 years in 2010–2019, fell by one year in 2020 due to the relatively high mortality rate associated with the COVID-19 epidemic. According to the data for 2019, the number of healthy life years is below the EU average and is far from the SDS target, and it may decrease further in the future due to the consequences of the epidemic. The epidemic has contributed to a deterioration of mental health problems and health inequalities are expected to widen further. The efficiency of healthcare in treating treatable diseases has improved over a longer period of time and is above the EU average. Mortality that could be avoided by prevention and public health measures is higher in Slovenia, mainly due to the high prevalence of an unhealthy lifestyles. Access to healthcare in Slovenia is good in terms of financial coverage of rights. However, due to the great shortage of general practitioners, certain specialists, graduate nurses and nursing staff, along with long waiting times, healthcare has further deteriorated during the epidemic. The problems of access to healthcare were somewhat alleviated by the increasing use of eHealth services. Several short-term measures were taken to increase the resilience of the health system. A special law was passed to ensure investment in healthcare until 2031, and significant funds were earmarked within the RRP for this purpose in the coming years. The epidemic has also exacerbated the long-standing problem of long-term care, access to which has been limited for many years by poorly developed formal home care and a shortage of staff in residential care homes. The framework law adopted at the end of 2021 will provide beneficiaries a wide scope of rights to LTC regardless of their income, but the biggest challenge remains the regulation of compulsory insurance for LTC. To increase the resilience of health and long-term care, adequate employment planning, improving working conditions and ensuring a fiscally sustainable structure of funding sources in both systems are also crucial in the long run.

Figure 5: Due to the COVID-19 epidemic, life expectancy at birth in Slovenia dropped significantly in 2020 (left); unmet needs for healthcare due to financial reasons, waiting times or geographical distance were already high at the outbreak of the epidemic (2020, right)

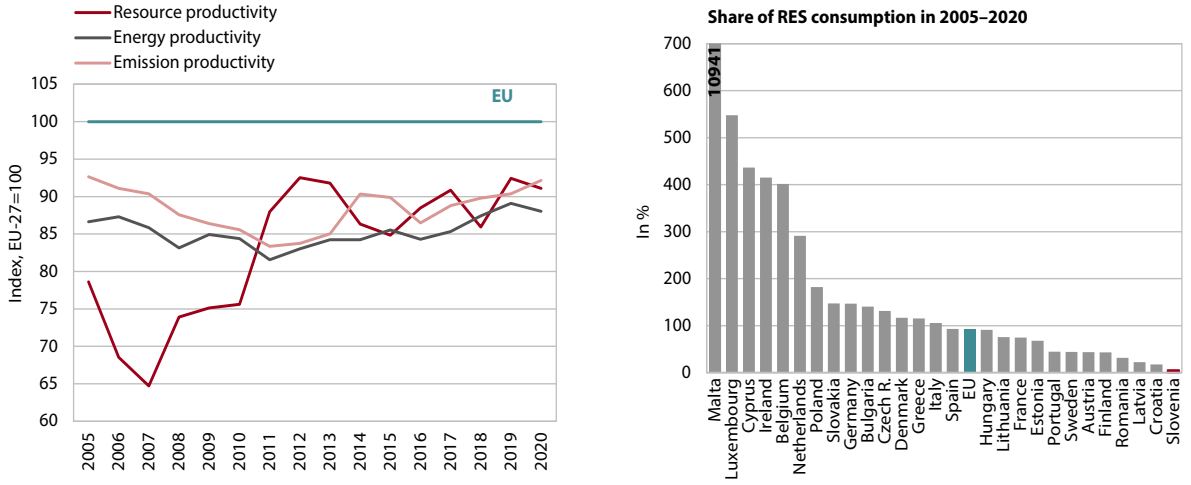


Source: Eurostat (2022).

A well-preserved and healthy natural environment

Slovenia's natural environment is well preserved on average, but since not enough permanent changes have been made in the long term with regard to the desired transition to a low-carbon circular economy, the so-called green investments will have to be significantly increased in the future. Given the high proportion of protected areas, the large forest cover and the moderate agricultural intensity, Slovenia's natural environment is relatively well preserved on average, with the exception of air quality due to a relatively high particulate matter concentration. Nevertheless, the high ecological footprint, which increased more in Slovenia than elsewhere in Europe during the recovery after the previous crisis (2015–2018), indicates that economic activity and current lifestyles are exerting too much pressure on nature. The 2020 energy efficiency and emissions reduction targets have been met, but the economic downturn and lower energy consumption in the crisis years of 2009 and 2020 made a major contribution to achieving this target. In the period of economic growth before the outbreak of the epidemic, growth in emissions, energy and material productivity, measured as the ratio of GDP to resource use and emissions, also accelerated slightly. However, this was not enough to significantly narrow the gap with the EU average, which remains at around 10% in all three areas. Trends in the use of renewable energy sources were even less favourable, as their share in Slovenia has increased the least among EU Member States since 2005, which means that the 2020 target in this field was not achieved. In 2020, the share increased, but this was due to lower overall energy consumption during the epidemic and therefore temporary. The pace at which the dependence of economic growth on resource use has been reduced over the last decade will not be sufficient to meet the 2030 SDS target and the much more ambitious national and EU climate-neutrality targets. In addition to funding from the Recovery and Resilience Plan for this area, which is primarily focused on environmental protection, we will have to make the best possible use of all available funds for the green transition. However, given the need to accelerate the decarbonisation process in line with the ambitious targets, additional systemic action is needed, supported by additional funding for sustainable investments in clean technologies, innovation and new knowledge.

Figure 6: The gap with the EU average in energy, resource and emissions productivity (left) remains; the increase in the use of renewable energy in 2005–2020 was the smallest among all EU Member States (right)

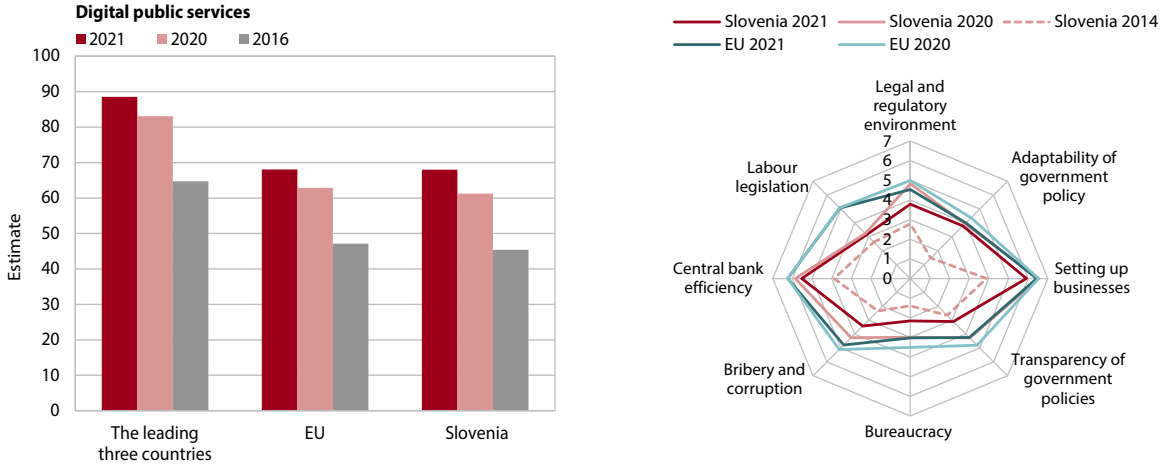


Source: Eurostat (2022), calculations by IMAD. Note: Emission productivity for 2020 based on estimates of greenhouse gas emissions for that year.

A high level of cooperation, competence and governance efficiency

In recent years, Slovenia has made significant progress towards improving government efficiency. The challenge is to continue to improve the efficiency of public sector governance, the predictability of the business environment and trust in key government institutions and to continue to work on the development of a common EU foreign and defence policy in the current difficult geopolitical situation. In recent years, Slovenia has made progress in the digital transformation of public services, introduction of quality standards in public administration bodies, reduction of administrative barriers and improvement of the efficiency of the justice system. Institutional competitiveness is still marked by inefficient public sector governance due to poor coordination among all stakeholders, a high burden of government regulation, distrust in the rule of law and the judiciary, and a relatively high perception of corruption. The epidemic, and before that the transition to the fourth industrial revolution, underlined the need for strategic management and response of public institutions, which play an important role not only in the efficiency of public administration, but also in development at national, regional and local levels. The strategic approach will thus only be possible with the participation of social partners and stakeholders, which in the long run will enable a stable, predictable and credible development policy that will be important for the digital and green transformation of the economy and will enhance the country's capacities. Adequate communication with the public and improving the participation with civil society and professionals in the adoption, implementation and monitoring of policies also remains a challenge. To ensure further development of the country, it is also important to strengthen citizens' and businesses' trust in institutions, which has declined during the epidemic and is among the lowest in the EU. In the last decade, Slovenia has been one of the safest and most peaceful countries in the world, which is also in line with the SDS target. The current uncertain situation related to the war in Ukraine is having an impact on the sense of safety not only in Slovenia, but in the entire European region. Cooperation with key partner countries and international organisations, especially the EU, is therefore crucial to reduce the potentially severe humanitarian, security and economic consequences.

Figure 7: Progress in digital public services in recent years and especially during the epidemic (left); after several years of improvement, managers estimate that institutional competitiveness deteriorated in 2021 (right)



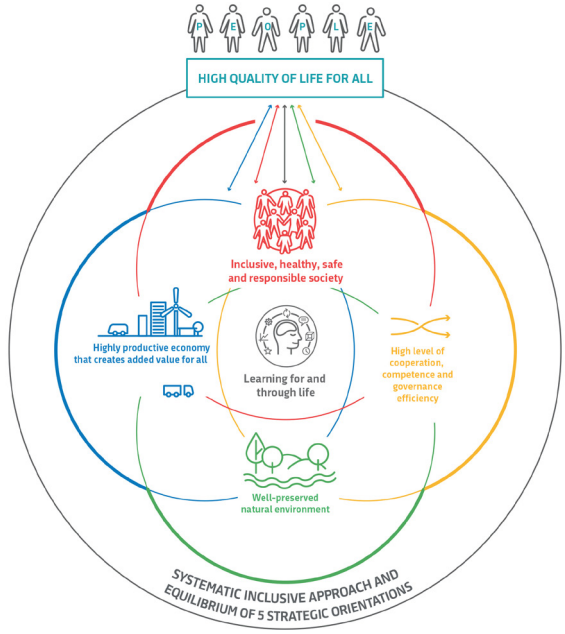
Sources: EC (2022a), IMD (2021). Note: The assessment of digital public services (figure on the left) is based on the Digital Economy and Society Index (DESI) calculated by the European Commission. The scores for each year are based on the previous year's data. The score ranges from 0 to 100. For the IMD's assessment of institutional competitiveness (figure on the right), a higher score is better. For the detailed indicators, the maximum score is 10. All indicators are based on surveys among managers. The survey takes place at the beginning of the second quarter of the year in which the results are published.

Introductory remarks

The Development Report is a document monitoring the implementation of the Slovenian Development Strategy. The basic structure of the report (the main chapters) follows the five strategic orientations that the SDS identified as crucial for achieving its primary goal, which is to ensure a high quality of life for all: (a) a highly productive economy that generates value added for all, (b) lifelong learning, (c) an inclusive, healthy, safe and responsible society, (d) a well-preserved natural environment, and (e) a high level of cooperation, competence and governance efficiency. The SDS also set 12 development goals in interconnected and interdependent areas identified as essential for the implementation of the strategic orientations. The report tracks the implementation of each development goal (sub-chapters of the report) within the strategic orientation with which it is most strongly linked, although each individual goal can contribute to the realisation of several strategic orientations (Figure 8). When the report was prepared, data for most indicators were available for 2020 and for some also for 2021, which means that this report analyses or at least hints at the impact of the COVID-19 epidemic on Slovenia's development and the well-being of the population.

The appendix to the report presents indicators for monitoring the implementation of the SDS in more detail. The 30 performance indicators for which the SDS set target values for 2030 are complemented by indicators that provide a detailed overview of progress in individual areas. The indicators represent the main analytical basis of the report, which is complemented by an overview of other data, studies and research reports, particularly in those areas where no appropriate indicators for comparisons between countries or over time are available (for example because of the specificity of content). The report uses data sources released by the beginning of April 2022. Due to the UK's withdrawal from the EU in 2020, we have moved to the average of 27 countries since the Development Report 2021 (i.e. last year's report) when comparing developments in Slovenia and the EU. As the EU average is also used in some numerical SDS targets, the value of individual targets has changed slightly. The abbreviation EU-13 still refers to the average of new Member States that joined the EU after 2003; EU-14 refers to the average of countries that were already in the EU before 2004 (the so-called old Member States) and EU-22 to the average of those that are also members of the OECD (this comparison is used in the case of OECD data sources, which do not generally include all EU Member States).

Figure 8: Primary objective and strategic orientations of the Slovenian Development Strategy 2030



Source: SVRK (2017).

1 A highly productive economy that creates value added for all

After falling with the outbreak of the COVID-19 epidemic, the Slovenian economy recovered rapidly in 2021 and exceeded the pre-crisis level. This was significantly influenced by the good financial position of the business sector before the outbreak and extensive measures to the benefit of the economy and the population to mitigate the effects of the epidemic. These prevented the decline of economic potential, including the maintenance of a high level of employment during the crisis, which then rose to a historically high level in 2021. As a result, the State has taken on a significant burden of the epidemic, which was reflected in a high general government deficit and an increase in general government debt, especially in 2020. Nevertheless, the service sectors that were most affected by the containment measures were hit hard by the epidemic, as were the more service-oriented regions, which led to a resurgence of development disparities between regions after several years. Along with rapid economic growth and price and supply shocks from the international environment, inflation also began to increase in 2021, which accelerated further with the aggravation of the geopolitical situation in the first months of 2022.

Slovenia's economic progress over a longer period of time has been less satisfactory. The development gap behind the EU average, measured by gross domestic product per capita in purchasing power parity, only started to narrow in 2016 and was still slightly larger in 2021 than in 2008. Slow decline in the development gap over the past decade was mainly due to low investment after the global financial crisis and the consequent modest growth in productivity. The impact of several years of declining investment in intangible forms of capital has become increasingly apparent since the previous crisis (in research and development, ICT, and employee training), which has slowed the transition to innovation-driven growth characterised by high productivity and, particularly in the case of the business sector, also

the low-carbon circular economy. Accelerating productivity growth is essential for achieving higher incomes in the long term, and with a successful green transition, these would also be achieved in a more sustainable way. All this would also contribute to increasing the economy's resilience to shocks in international markets (disruptions in global value chains, rising commodity prices, etc.), which have intensified sharply with the Russian–Ukrainian military conflict. Recently, there have been some positive developments in productivity-enhancing investments; an opportunity for this lies in extensive funding of the EU's Recovery and Resilience Fund intended for investments and reforms in greener, digital and resilient economies. Addressing these development challenges will require further fiscal consolidation to set the priorities for public spending, which will be increasingly affected by the demographic changes, due to which adjustments to social protection systems towards greater sustainability and stability of funding will be required. However, demographic change, together with rapid changes in the knowledge and skills required, also poses a significant risk to effective economic transformation and productivity growth due to the growing shortage of adequate labour.

1.1 Economic stability

Economic stability (Development Goal 5):

The content of the goal is to ensure economic stability, which is a key precondition for reducing the development gap behind more developed countries and increasing the quality of life for all. The basis of economic stability is a well-performing economy which maintains key macroeconomic balances. The achievement and preservation thereof require appropriate economic policy action throughout the economic cycle, long-term sustainability of public finances, a stable and competitive financial sector, and balanced regional development. With regard to economic stability, SDS 2030 highlights competitiveness and innovation along with sustainable and inclusive aspects of economic development. These are dealt with in depth in other SDS development goals, namely goals 6 (competitiveness and innovation), 3 and 7 (inclusive development), and 8 and 9 (sustainable development).

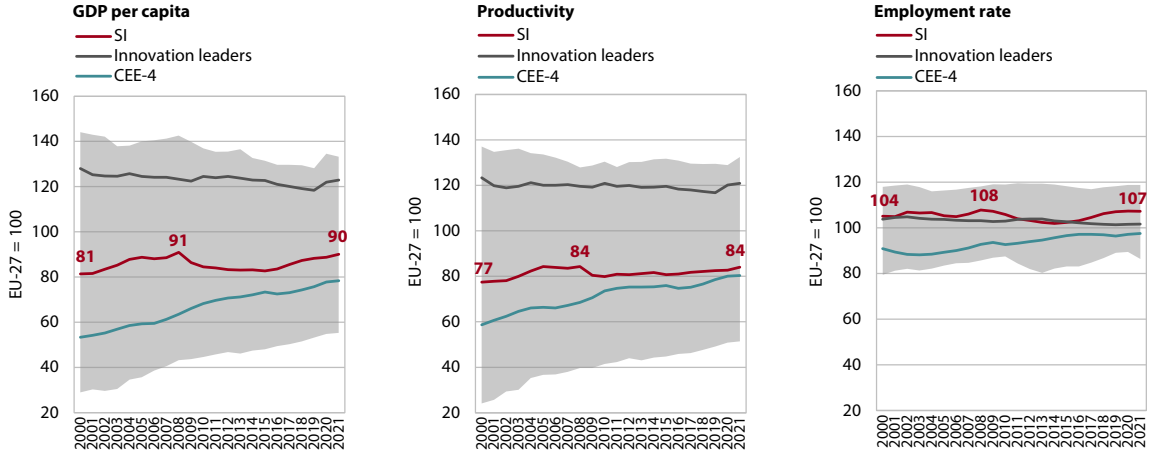
SDS 2030 performance indicators for Development Goal 5:

	Latest data		Target value for 2030
	Slovenia	EU average	
GDP per capita (at PPS), index EU-27 = 100	90 (2021)	100 (2021)	100
General government debt, as a % GDP	74.7 (2021)	88.1 (2021)	60

In 2021, Slovenia was only approaching the relative level of economic development from the 2008 peak, and the slow development catch-up is the result of modest productivity growth. Gross domestic product per capita (at purchasing power standards) as a measure of economic development in 2021 stood at 90% of the EU average and was still 1 p.p. lower than at the beginning of the global financial crisis in 2008. The decline compared to the EU average during the crisis (2008–2012) was followed by several years of stagnation, while the catching-up process resumed only in 2016. This was stimulated mainly by a rapid increase in the employment rate while the contribution of productivity growth was modest. Due to demographic changes that are reducing the supply of the working age population (20 to 64 years), closing the development gap in the future will depend crucially on increasing productivity, which should therefore be much faster than in the past decade (see Section 1.2.1).[1] The relatively favourable overall financial situation in companies after the first year of the COVID-19 crisis (Box 2) and large financial resources under the EU Recovery and Resilience Fund

[1] Despite the fact that the employment rate in Slovenia is relatively high by international standards, which is a consequence of the relatively high employment rate (compared to the EU average) of women, Slovenia still has the potential to increase this component of GDP per capita, especially in older age groups (especially the 60–64 age group).

Figure 9: Slow development catching up due to modest productivity growth

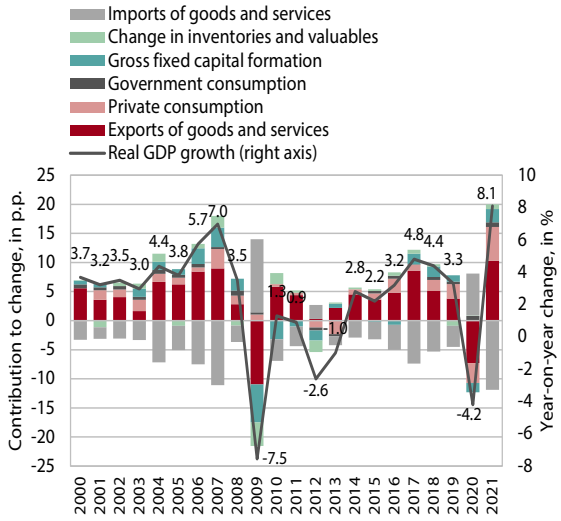


Source: Eurostat (2022); calculations by IMAD. GDP per capita and productivity (GDP per employee) are expressed in purchasing power standards, i.e. adjusted for purchasing power. The shaded field shows the range between the EU Member States with the lowest and highest values of the indicator, excluding Luxembourg and Ireland. According to the European Innovation Index, the innovation leaders are: SE, FI, DK, BE. CEE-4: CZ, HU, PL, SK.

(Box 1) represent a much better starting point for investment in key areas and thus productivity growth than after the global financial crisis of the previous decade. However, their efficient use for modernisation and restructuring into a highly productive economy will be crucial, in particular by accelerating the digital and green transition, which are the cornerstones of future growth and competitiveness (see Section 1.2.2).

After six years of solid growth, economic activity fell sharply in 2020 due to the COVID-19 epidemic; with a strong rebound in 2021, it has already exceeded pre-crisis levels. Besides measures for the stabilisation of the economy[2] after the global financial crisis, the rebound of GDP growth in 2014 was driven mainly by increasing exports resulting from the recovery of demand in trading partners and by the improved competitiveness of Slovenian exporters. Favourable domestic and international economic conditions also stimulated the strengthening of domestic consumption, which became an important factor in economic growth in the period 2014–2019. Robust growth in private consumption up to and including 2019 was associated with increased employment, stronger salary growth and favourable bank loans. Investment growth strengthened, especially in the period 2017–2018. In 2019, economic growth began to slow, primarily due to lower growth in foreign demand and increased uncertainty in the international environment, which was reflected in a slowdown in exports investment growth. In 2020, due to the epidemic and related severe restrictions to curb the spread of infections, all components of GDP fell on the expenditure side, with the exception of government consumption, while on the production side, the decline was particularly pronounced in tourism-related and contact-intensive services. In 2021, strong rebound in overall economic activity followed. Trade in goods and related activities, construction and investment exceeded their pre-crisis level as early as the end of 2020 or the beginning of 2021. Among investments, those in equipment and machinery grew faster, while those in construction grew more slowly. Due to problems in supply chains, the growth of manufacturing began to slow in the second half of 2021, while trade in goods grew sharply again in the last quarter after a decline in the third quarter. In 2021, the pre-crisis level was also exceeded by private consumption, which was the main driver of GDP growth in that year. Amid the easing of containment measures, it was stimulated mainly by growth in disposable income and the gradual use of high savings (Indicator 1.2). Last year, the lifting of containment measures also led to a recovery in trade in services, which by the end of the year had largely exceeded pre-epidemic levels, with the exception of trade in travel.

Figure 10: The most important growth factor in 2021 was private consumption



Source: SURS (2022).

In 2020, economic activity in Slovenia fell less than the EU average, and the rebound in 2021 was stronger, which was also made possible by extensive measures to limit the negative effects of the COVID-19 crisis on the population and the economy. The COVID-19 crisis is very different from the global financial crisis that began in 2008,[3] not only in terms of the shock it caused, but also in terms of the economy's preparedness for the crisis and policy responses to it. The depth of the decline due to the epidemic and the speed of recovery were influenced by several factors, among which the relatively good financial condition of the Slovenian economy before the crisis and extensive stimulating economic policy measures,[4] which prevented a deeper decline in economic activity and employment in 2020, were key.[5] Anti-coronavirus measures also had a significant impact in 2021, as they supported in particular some service activities that could not operate normally due to epidemic-related restrictions. While companies that resumed operations without restrictions recovered quickly. Due to the scale of the crisis, fiscal assistance measures were taken at the EU level. Already in the early months of the epidemic, a fiscal package was adopted to mitigate the effects of the crisis in the short term.[6] The EU's substantial support in the form

[2] Economic policy measures were essential for stabilising the economy, particularly the rehabilitation of the banking system and gradual fulfilment of fiscal commitments, which improved the financing conditions for the state and the economy.

[3] The recession after the financial crisis could also be described as the result of demand shocks stemming from a major deleveraging effort by households, governments, banks and businesses. The pandemic is affecting the economy both through demand and supply shocks striking at the same time (Codogno and van den Noord, 2020).

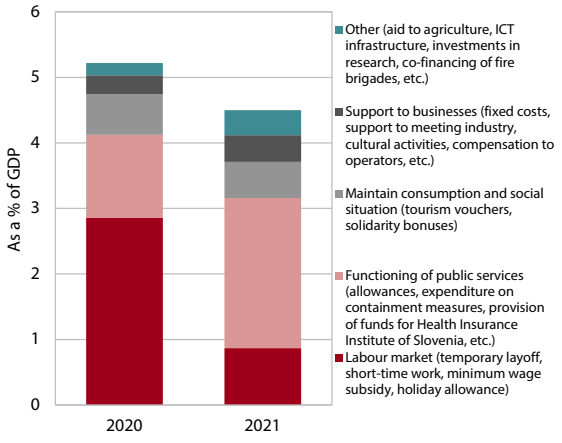
[4] In particular, fiscal aid measures aimed at stabilising the labour market situation and helping the businesses with liquidity problems and are described in more detail in the Autumn Forecast of Economic Trends (IMAD, 2021b).

[5] According to IMAD estimates, in the absence of measures, the drop in economic activity is expected to be higher by at least 4 p.p. (IMAD, 2021b).

[6] EUR 240 billion in precautionary loans from the European Stability Mechanism (ESM) is intended to support Member States in responding to the pandemic crisis, EUR 25 billion in guarantees from

of an extraordinary recovery instrument called the "Next Generation of the EU", agreed in July 2020, is intended in particular to address the development challenges of digitalisation and green transformation through the promotion of investment activity, which in Slovenia after the financial crisis significantly strengthened only in the period 2017–2019, but remaining low compared to the EU average (in recent years, the ratio of total investment to GDP in Slovenia has been 2 p.p. lower than in the EU).

Figure 11: Expenditure to mitigate the effects of the epidemic decreased in 2021, and their structure was changed, with the share of expenditure on public services increasing sharply

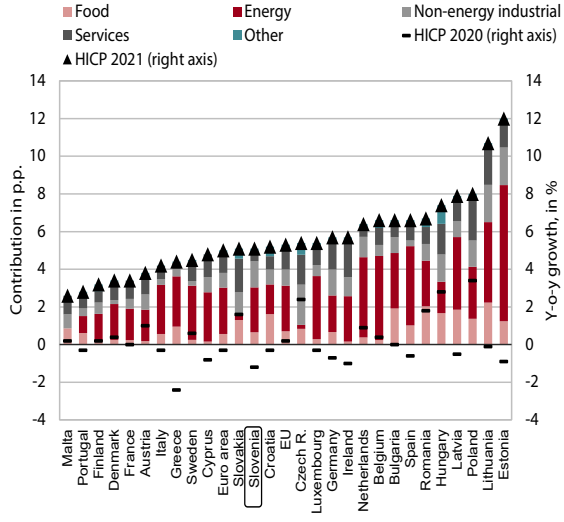


Source: IMAD assessment based on MF (2021).

The current account surplus decreased significantly (to EUR 1.7 billion or 3.3% of GDP) in 2021 due to stronger domestic demand and deteriorating terms of trade. At the outbreak of the global financial crisis in 2009, the current account deficit narrowed sharply, and in 2012 it turned into a surplus, which was the highest ever in 2020 (EUR 3.5 billion or 7.4% of GDP). The improvement in the current account balance between the two crises was related to extensive deleveraging of banks and companies abroad, favourable international conditions and an increase in exporters' competitiveness, along with moderate import growth due to relatively low domestic consumption. Positive terms of trade also contributed to the formation of the surplus. In terms of the savings and investment gap, the high surplus in that period reflected extensive savings of the private sector (households and non-financial corporations). In 2021, the current account surplus declined significantly, which was, given the lower commodity surplus, almost entirely due to the strengthening of household spending and investment, as real growth in imports was higher than that in exports. In addition to high growth in import prices, deteriorating terms of trade also contributed to the decline in trade surpluses, amounting to EUR 640 million. From the point of view of the savings and investment gap, the decrease in the current account surplus was mainly due to a decrease in net household savings and an increase in net investments of non-financial corporations, as well as to a lower current account deficit.

After the growth of consumer prices in Slovenia and the EU remained low after the outbreak of the financial crisis, it intensified considerably in 2021 and continued to grow in 2022. Over the past decade, consumer prices have risen by an average of just over 1% on an annual basis, with year-on-year growth reaching around 5% at the end of last year, the highest since 2007. The most important reasons for the increase and broader base price growth in 2021 were significantly higher fuel prices,[7] economic recovery after the outbreak of the epidemic and the impact of supply chain problems. In addition to the prices of fuel, which contributed the most to inflation, the contribution of non-energy industrial goods prices also increased significantly. In the period 2011–2020, this fell on average by around 0.5% each year, while last year price growth averaged around 4.5%. With bottlenecks in supply chains and pressures from higher commodity prices, the supply of some semi-durable and durable products did not follow the increased demand and consumption of households. Higher prices

Figure 12: Higher fuel prices contribute the most to the growth of consumer prices (HICP) in both Slovenia and the EU (2021 and comparison for 2020)



Source: Eurostat (2022); calculations by IMAD. Note: In addition to different growth in individual countries, contributions also differ due to different weights.

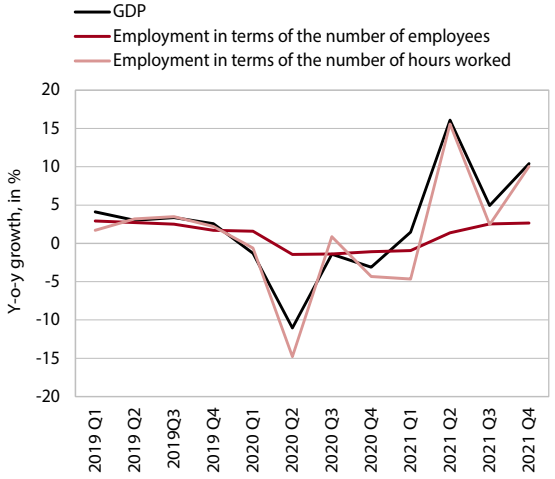
the European Investment Bank's Pan-European Guarantee Fund (EIB), which provides for the mobilisation of an additional EUR 200 billion of appropriations for corporate loans (mainly to small and medium-sized enterprises), and EUR 100 billion in loans on favourable terms from the Pan-European Short-Term Work Scheme (SURE) to prevent redundancies.

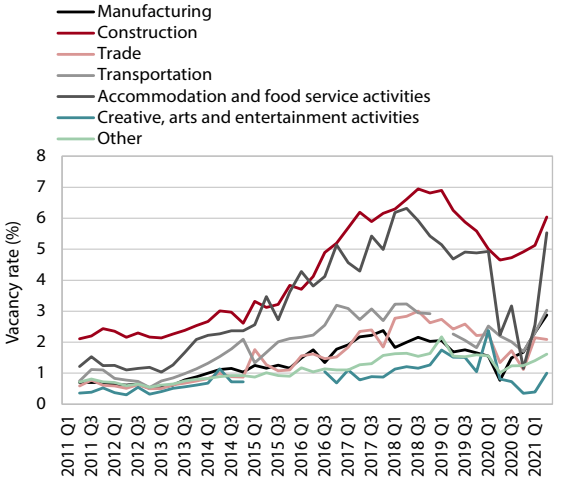
[7] In Slovenia, fuels contributed 2.4 p.p. to inflation and in the euro area 2.5 p.p.

of fuel, input materials and raw materials and a poor harvest affected food prices, and both processed and unprocessed food became more expensive. The overall growth in service prices was still subdued last year (1.5%).[8] Accommodation and food service activities and holiday-related services contributed the most to the rise in service prices last year, which we believe is due both to higher demand (including the redeeming of tourist vouchers) and to labour shortages in this segment of services. In our opinion, the impact of the labour market situation on overall inflation was still modest, but the risk of increasing wage pressures due to labour shortages in several industries increased, which along with higher corporate costs and higher demand (as a result of higher incomes) could spill over into higher final price growth, especially in services. In 2021, the HICP price growth in Slovenia was similar to the EU average, with only slightly larger differences in the composition of inflation. In Slovenia, the contribution of growth in the prices of non-energy industrial goods was above average, while the rise of prices of services was about half lower than the EU average. At the beginning of 2022, price growth intensified and was broad-based. The war in Ukraine has led to great uncertainties in the market for fuel, non-energy commodities and food and additional problems in supply chains, which maintains high pressures on further price growth.

After the interruption of many years of favourable trends in the labour market in early 2020, employment, supported by intervention measures and the recovery of economic activity, rose to a historically high level in 2021 and unemployment fell sharply, with some activities already experiencing labour shortages. Since mid-March 2020, containment measures have drastically worsened the labour market situation, but the rapid adoption of intervention legislation to retain jobs and mitigate the effects of the epidemic has allowed the fall in employment to be much smaller than the fall in GDP; adjustment in the labour market had a greater impact on the number of hours worked (Figure 13 left).[9] With the relaunch of most activities, the labour market situation began to improve in the second half of 2020. Employment continued to accelerate in 2021 and varied across activities since containment measures had an uneven impact across sectors.[10] With a rapid increase in labour demand, labour market participation has returned to pre-crisis levels. The rapid recovery in labour demand, low unemployment and lower net migration inflow, which was also linked to restrictions on mobility and travel during the epidemic, have significantly increased the shortage of adequate labour in some activities over the past year, given current demographic trends (Figure 13 right), which is already having a negative impact on the production volume of some companies. The record low volume of potentially

Figure 13: The labour market responded to the decline in economic activity during the epidemic to a greater extent by reducing hours worked than by reducing employment (left), and its recovery exacerbated the shortage of available labour (right)





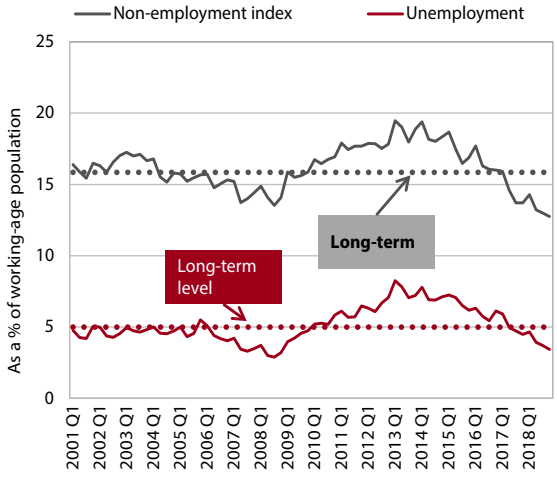
Source: SURS (2022b).

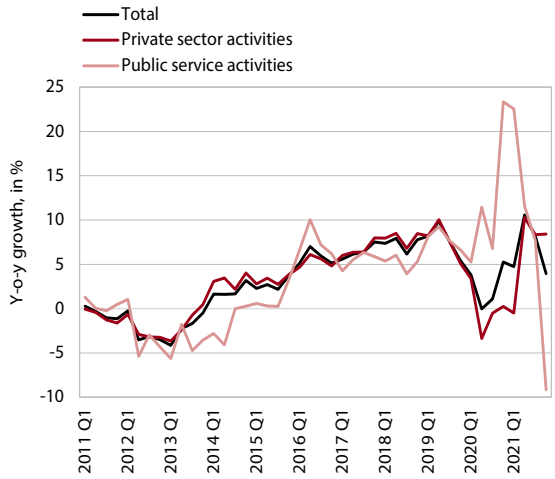
[8] The growth of services was also affected by a one-off event, but the growth of service prices would have been subdued even without this, at 2%. In 2021, in December, one of the insurance companies returned part of the savings (due to lower expenses for health services than planned due to the COVID-19 epidemic) to policyholders in the form of a lower premium for supplementary health insurance.

[9] This is also indicated by a comparison of the movement of the actual surveyed unemployment rate and its prediction, which derives from Okun's law, i.e. the long-term link between GDP and the unemployment rate. See also IMAD (2021c).

[10] Last year, total employment increased by 1.4% year-on-year, with the private sector recovering significantly in construction, manufacturing, trade, and professional, scientific and technical activities, while in the public sector it increased mainly in healthcare.

Figure 14: The non-employment index as a broader measure of the potentially employable workforce indicates its historically small size in 2021 (left); gross wage bill growth has fluctuated sharply since the onset of the coronavirus crisis (right)





Source: SURS (2022b); calculations by IMAD.

employable labour force is also indicated by the non-employment index, which is a broader indicator of labour slack than unemployment alone (Figure 14 left).[11]

The development of gross wages[12] over the last two years has been strongly influenced by intervention measures to retain jobs and the payment of bonuses related to the declaration of the epidemic. Wage growth had been rising steadily in the years before the epidemic and was still high year-on-year in early 2020 due to a rise in the minimum wage, a general labour shortage and agreements with public sector unions in 2018 (Figure 14 right). Since the second quarter of 2020, its movement in private sector activities has been strongly influenced by job-retention measures, as employees participating in the temporary layoff or part-time work measures were entitled to only partial wage compensation, which, together with the large number of referrals to these measures, significantly reduced wage growth according to national accounts statistics[13] on average over the year. The low growth was also influenced by some other factors related to the closure of activities, work from home (less travel expenses), loss of employment, lower volume of other forms of work (student and other contract work) and lower volume of holiday allowances. Wage growth in public service activities was mainly marked by the payment of allowances.[14] In 2021, wage growth was higher, in the public sector mainly due to the large volume of payments of allowances at the beginning of the year and in the private sector, in addition to the higher minimum wage (by 8.9%), mainly due to the dynamic of employees included in individual intervention measures returning back to employment. Wage growth in the private sector has also been affected by the gradual increase in pressures due to growing labour shortages, which an increasing share of companies are facing.

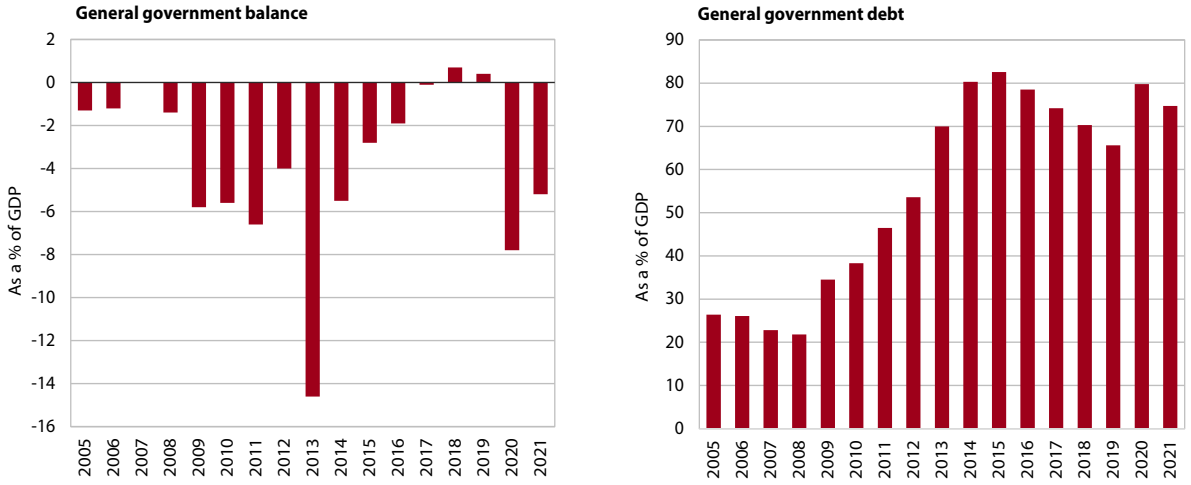
[11] The non-employment index is a broader measure of labour slack than the unemployment rate, as it also covers certain other categories of inactive persons and accounts for differences in each group's likelihood of transitioning into employment. The advantages of the non-employment index as a measurement of labour slack are the following: (i) unlike the unemployment rate, it correctly assumes that the potential additional labour force includes some other categories of working-age people besides the unemployed (students, retired people, discouraged job-seekers and other inactive persons) and (ii) it accounts for differences in these groups' likelihood of transitioning into employment. The non-employment index is thus a weighted (by probability of employment) sum of these groups. For more detailed description of the methodology, see IMAD (2019c).

[12] According to the national accounts statistics.

[13] Another common indicator of wage developments is wages according to wage statistics (the "Salaries of employees in legal entities" survey). The development of wages according to wage statistics has also been strongly influenced by intervention measures to retain jobs in the last two years and especially in connection with the methodology for calculating wages. This stipulates that companies report the number of recipients of salaries and the amount of paid salaries only in the amount paid to the debit (from the funds) of the employer and not the part co-financed by the State. Due to the posting of employees on temporary layoff, the number of wage earners and their wage bill decreased significantly, as they were not recorded in the wage statistics. This has affected the large fluctuation of the statistically reported average gross wage during the period of validity of the intervention measures but at the same time did not directly reflect the movement of employees' incomes. In 2020, the deployment of a significant part of employees on temporary layoff and the application of the measure of partial subsidy of full-time work had the effect of reducing the wages paid by the employer and even more of reducing the number of employees receiving wages, which, together with the allowances paid for work in crisis situations, led to a significant increase in the average gross wage (5.8%). In 2021, the growth of the average gross wage (6.1%), in addition to the higher minimum wage, growing pressures due to labour shortages and bonuses in the first half of the year, was mainly due to the return of employees to employment and thus to inclusion in wage statistics.

[14] The temporary introduction of the allowance for hazards and special burdens and the allowance for work in high-risk environment (under collective agreement) in the public sector and the payment of the allowance for work during an epidemic in the private sector.

Figure 15: In 2021, public finances improved slightly



Source: SURS (2022b).

Fiscal policy remained expansionary in 2021, which resulted from the strengthening of investments and also other current expenditures with a lasting structural impact on the fiscal situation, and, with the rapid economic recovery, the fiscal position improved slightly. A favourable public finance position, which in 2017–2019 was reflected in equilibrated balance or surplus and in 2015–2019 in reducing the public debt to GDP ratio, in exceptional economic circumstances due to the COVID-19 epidemic in 2020 turned into a sharp deterioration in the balance sheets of the general government sector. In 2021, with a marked economic recovery and a reduction in expenditure to mitigate the effects of the epidemic, the deficit and public debt decreased slightly (from 7.8% to 5.2% of GDP and from 79.8% to 74.7% of GDP respectively; see Indicators 1.3 and 1.4). According to IMAD estimates, expenditure to mitigate the effects of the epidemic has fallen from 5.2% of GDP in 2020 to 4.5% of GDP (Figure 15). Prior horizontal support, available to a wide range of businesses, has become targeted on only some of the service activities most affected by the epidemic (tourism, accommodation and food service activities, the meetings industry, and arts and recreation). Among the measures to mitigate the effects of the epidemic, the share of expenditure on public services increased in 2021, which, due to the long period of the declared epidemic, resulted mainly from increased payments of allowances for work in high-risk environments.[15] A temporary increase in wages during the epidemic already partially become permanent, which also stems from pressures due to lack of staff in these activities.[16] In contrast to the reduction in expenditure to mitigate the effects of the epidemic, the growth of other expenditure intensified in 2021. This was partly due to stronger investment growth as part of a broader European response to support the recovery, but also to remaining expenditure which is partly of a permanent nature and will have an impact on the general government position in the medium term (FC, 2022b). The estimated expansionary nature of fiscal policy in 2021 in Slovenia (excluding epidemic mitigation measures) and in most euro area countries is also indicated by the EC's fiscal policy stance indicator,[17] with the fiscal impulse in Slovenia being assessed as stronger. The fact that countries maintain supportive fiscal policies in 2021 for the recovery of the economy was based on the EC's recommendations.

The focus on the COVID-19 crisis, which required a rapid response, and the multiannual validity of the escape clause have pushed medium-term fiscal policy planning into the background, and in these circumstances some laws have been passed that permanently increase spending and reduce the government revenue. Fiscal planning determined by the Public Finance Act, which envisages a link with the

[15] In individual anti-coronavirus laws, 13 different supplements were introduced, in connection with work in high-risk environment or with patients with COVID-19, and the largest amount of payments was related to allowances under the Collective Agreement for the Public Sector. According to the Fiscal Council, the method of payment of allowances, with insufficient clarity of criteria that would link the amount of allowance to the actual exposure of different employees to risk situations, allowed too much arbitrariness in their payment, indicating systemic weaknesses (FC, 2021b). The government has drafted a proposal according to which allowances would be paid in three amounts instead of a percentage of the basic salary, about which no agreement has been reached with the unions yet.

[16] At the end of 2021, an agreement was reached to increase the salaries of employees in health and social work (permanently). Changed ratios between wages of individual professions in the public sector in the future may lead to higher wages in other parts of the public sector as well.

[17] In assessing the draft budget plans for 2022, the EC used a comparison of current expenditure growth (instead of changing the structural balance according to the economic cycle situation) from national sources to assess fiscal policy stance (which does not include temporary expenditure to mitigate the effects of the epidemic) from national sources in terms of potential economic growth in the medium term (EC, 2021e).

strategic document (Slovenian Development Strategy 2030)[18] has not been implemented in 2020–2022. Medium-term planning and the placement of adopted measures in the medium-term fiscal framework, which usually requires the setting of spending priorities due to limited public resources, has been pushed into the background over several years. The medium-term fiscal framework presented each year in the Stability Programme was prepared in the spring of 2021 in accordance with EC guidelines for the first time since the beginning of the COVID-19 epidemic. With policy proposals supporting its numerical targets set in the Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period, the document focused mainly on the first years and less on the medium term, due to the unknown way of achieving medium-term balance after 2023, resulting from the expected revision of economic governance in the EU. Since the spring of 2021, some legislative bases have been adopted, i.e. agreements which, due to the increase in expenditure, will have a significant fiscal impact on the general government position in the coming years,[19] as only some of them (especially investments in healthcare) are envisaged to receive EU funding (Box 1). In many cases, these are important substantive changes in the regulation of individual areas that also respond to long-term unresolved challenges, but for which no new sources of public funding are envisaged. At the same time, lower tax burdens were imposed in the field of resources in 2021–2022 (lower excise duties on fuel and motor vehicles and reduction of personal income tax in 2022),[20] which, in conjunction with the mentioned expenditure increases, will affect the process of fiscal consolidation in the next period, for which adoption at the EU level has not yet been agreed upon.

An agreement on the approach that will guide fiscal consolidation in the euro area countries and Slovenia in the coming years is expected in 2022. In October 2021, the EC resumed the debate on economic governance in the EU, which includes a debate on existing fiscal rules (EC, 2021f). The validity of the general escape clause for euro area countries in 2022 was confirmed on the basis of the EC spring 2021 forecast, and the decision was not changed, although the recovery of economies strengthened above expectations during the year – many countries, including Slovenia, reached the level of economic activity from the end of 2019, which was an important factor in assessing the continued application of the clause, as soon as in 2021.[21] Given the differences in the economic situation of countries and differences in the debt situation (for countries with low or medium debt and for countries with high debt), the EC has differentiated the recommendations on fiscal policy for 2022, which in most euro area countries this year remains expansive. A similarly differentiated approach was proposed by the EC for 2023. For medium-indebted countries, including Slovenia, it proposes priority support for investments that support the green and digital transition and a transition to a more neutral fiscal policy in terms of other, current expenditures, but these orientations are changing given the uncertainty arising from the war in Ukraine and may change further[22] (EC, 2021y). In 2022, a proposal for EC guidelines on possible changes in the EU's economic governance and fiscal framework is also expected, with the aim of reaching a broad consensus for 2023. The biggest challenge in consolidating public finances in the coming years is to find a balance between the pace of consolidation needed to narrow the timeframe for low interest rates in the coming years and ensuring that public resources make a sufficient contribution to meeting the challenges of climate transition, where measures cannot be delayed (see Section 4), and the transition to the Fourth Industrial Revolution. Taking into account the current situation and wider challenges requires a different path of consolidation than the current focus on the narrower role of fiscal policy and the effects of demographic change.

[18] Slovenian Development Strategy 2030 represents one of the key strategic bases in the preparation of programming documents for drawing on cohesion policy funds for the period 2021–2027.

[19] Adoption of the Long-Term Care Act (the Ministry of Health estimates additional funds from the state budget in 2025 at EUR 463 million), the Research and Innovation Act (the Act envisages an increase in state funding to 1% of GDP), the Act on the Provision of Financial Resources for investments in Slovenian healthcare in the years from 2021 to 2031 (provided by law in the amount of EUR 2.1 billion), the agreement on raising salaries in the police (with the Act Amending the Police Work and Organisation Act, estimated at EUR 16 million in the draft law), and the Agreement on urgent measures in the field of salaries in health and social work and continuing negotiations (estimated by the Health Insurance Institute of Slovenia at EUR 100 million). At the same time, the Strategic Plan of the Common Agricultural Policy 2023–2027, adopted in December 2021 and submitted to the EC, envisages that Slovenia will add additional funds to the mandatory minimum share for the rural development programme from national funds (EUR 310 million). At the beginning of 2022, there was also an extraordinary adjustment of pensions (estimated by the Pension and Disability Insurance Institute of Slovenia at EUR 145 million) and an amendment to the Health Care and Health Insurance Act when paying sickness benefits at the expense of the employer (estimated by the Health Insurance Institute of Slovenia at EUR 93 million).

[20] The decrees determining the amount of excise duties on fuel and electricity reduced excise duties for the period from 1 February to 30 April 2022 (the financial effect was estimated at EUR 28 million), the Motor Vehicle Tax Act abolished the additional motor vehicle tax in 2021 and changed the tax assessment scale (the proposed act estimated the financial impact at EUR 29 million), and the Act Amending the Personal Income Tax Act was adopted (in the proposed act, the financial impact in 2022 was estimated at EUR 247 million; due to further increases in the general tax relief until 2025, however, this effect will increase by 2025).

[21] In September 2021, the Fiscal Council also re-assessed the validity of the reasons for the existence of exceptional circumstances in 2022 and assessed that the conditions were met due to the existence of an unusual event that cannot be influenced and has significant consequences for the financial situation of the general government sector, while the second legal condition under the Fiscal Rule Act (serious economic downturn) would no longer be met according to forecasts for 2022 (FC, 2021a).

[22] In early March 2022, the EC published fiscal policy guidance for 2023 which Member States should take into account when preparing stability and convergence programmes. However, due to the high uncertainty posed by the situation in Ukraine and the impact on the economy, the EC will reassess the possibility of deactivation of the general escape clause as of 2023 and adjust its guidance if necessary, based on its spring forecast (May 2022).

Box 1: EU Financial resources

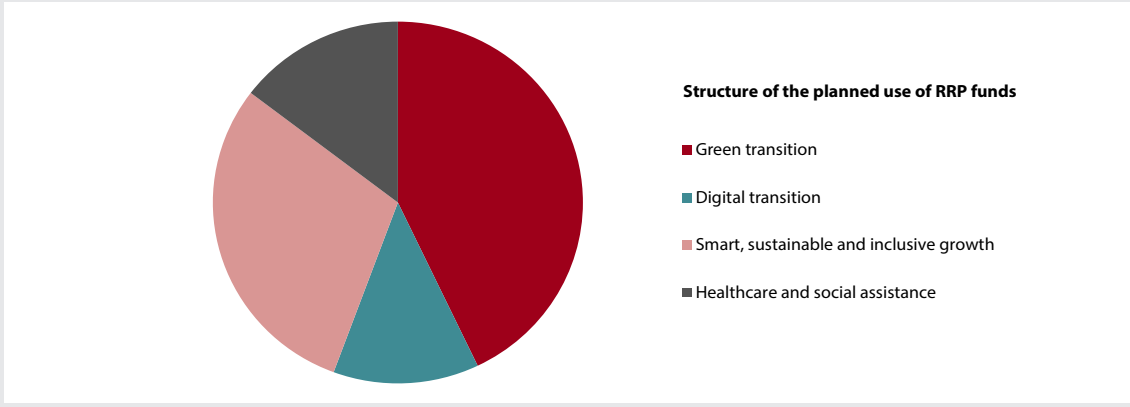
Extensive EU funding under the Cohesion and Common Agricultural Policies and the Recovery and Resilience Facility to support recovery and prepare the economy for future challenges is available this year and in the years to come. In addition to the expiry of the current Multiannual Financial Framework (MFF), in which EUR 797 million remained unpaid at the end of February 2022, approximately EUR 10 billion is available in the period 2021–2027, of which EUR 705 million is refundable funds. An overview of the available resources from EU funds shows that they will be significant but will not be sufficient to achieve all strategic objectives, so they will need to be combined with other public and private sources and prioritised within the strategic planning system.

EU funding intended primarily for the green transition, promoting competitiveness, digitalisation and strengthening resilience; in the breakdown of their spending, countries had to keep to a minimum for each area. Most of the funding goes to the green transition goal. Efforts to make the green transition are also strengthened by the principle of no significant harm to the environment, which is subject to an assessment of all reforms and investments under the Recovery and Resilience Plan (RRP) and the MFF 2021–2027. Within the RRP, 42.45% of funds have been allocated to Slovenia for the green transition (minimum required 40%); these are mainly intended for projects to reduce flood risk, clean municipal water, drinking water supply, increase railway infrastructure capacity and increase energy efficiency buildings. The largest part of the funds for the green transition is also provided from the MFF of Cohesion Policy 2021–2027. Although these are significant funds, the estimates from the National Energy and Climate Plan, which assesses the funds needed to achieve the goals of this plan by 2030 at EUR 28 billion (from public and private sources), show that the planned EU funds will not be enough and that the structure of the use of these funds, which is not optimal from the point of view of achieving climate goals, will be crucial for a successful green transition.[1] Countries had to allocate at least 20% of funds to digital transformation within the RRP, and Slovenia only slightly exceeded this share with 21.5%. An international comparison of RRPs shows that Slovenia will spend about 0.7% of GDP less on digitalisation than Central and Eastern European countries overall. According to the shares currently planned for this purpose from the MFF 2021–2027, Slovenia will allocate 1.2 p.p. of GDP less to digitalisation and smart transformation together with the RRP than other Central and Eastern European countries (IMAD, 2022). Low investment towards smart transformation will be particularly reflected in the second half of the financial perspective, when the available funds will already be allocated and fiscal rules will make it very difficult for supplementing from the integrated budget. In the field of health and social care, funds for investments are provided mainly from the RRP and React-EU, mainly for energy rehabilitation of buildings and new capacities or regulation of existing capacities in nursing hospitals and for deinstitutionalisation of long-term care.

The financial resources of the Recovery and Resilience Plan are also accompanied by commitments and timelines for the adoption of numerous reform proposals, which represent an opportunity to reduce the implementation deficit in the area of necessary structural adjustments in Slovenia. The reform proposals include the preparation of various strategies, starting points for the renewal of the regulation of certain areas and draft reform laws and their implementing regulations, and they concern all areas in which investments are also made. According to the RRP timetable, the preparation of these documents is focused on the first years of the plan, and the year 2022 stands out in terms of the intensity of preparations. In the field of healthcare and social security, the RRP includes the preparation of key legislation in healthcare, pensions and long-term care,[2] where demographic trends and their known strong impacts on the long-term sustainability of public finances require action. In previous years, Slovenia has received a number of specific recommendations from the EC in these areas. According to the RRP's commitments, the digital transformation should be supported by the Digital Transformation Strategy for Companies, the Digital Public Services Strategy 2021–2030, the amendment to the Companies Act, the Broadband Network Plan until 2025, etc. Among the key documents in support of the Green Transition are the Resolution on Slovenia's Long-Term Climate Strategy until 2050 (adopted in 2021), the revision of the Environmental Protection Act (adopted in 2022), the Renewable Energy Promotion Act, the Flood Risk Reduction Plan, the Decree on handling of packaging and packaging waste, etc. It is envisaged that a green budget will be prepared, allowing for the first comprehensive review of state budget revenues/expenditures that support the climate goals from the strategic documents, taking into account the selected taxonomy. Time commitments and the link between the adoption of reforms and the disbursement of EU funds represent an opportunity to make the necessary structural adjustments, where implementation has been delayed in the past; however, in addition to the actual adoption of many documents, their qualitative aspect will also be important, which will be a major administrative and political challenge in the coming years, in addition to the investments.

[1] Wuppertal Institute (2021).
[2] The Long-Term Health Care Act was adopted in December 2021; in 2022 implementing documents are to be adopted (see Box 6 in Section 3).

Figure 16: More than half of the funds under the Recovery and Resilience Plan after the epidemic in Slovenia are intended to finance the green and digital transition



Source: SVRK (2021a).

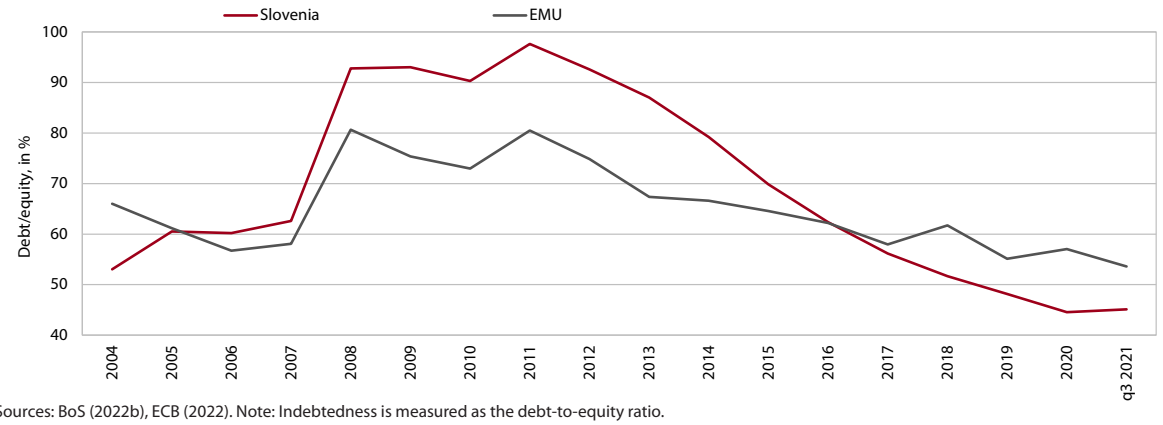
Table 1: By 2027, significant resources are available from EU resources to support recovery from the COVID-19 epidemic and strengthen the resilience of the economy, in EUR million

	The Recovery and Resilience Plan		React EU		Multiannual Financial framework* 2021–2027		Common agricult. policy	Total		TOTAL
	Grants	Refund.	Content	Grants	Content	Grants		Grants	Refund.	
Green transition	552	513	Support to SMEs and youth employment	20	PO2, PO3	1.326		1,898	513	2,411
Digital transformation	317		Digitisation and digital transformation of SMEs	30	PO1 (digital)	66		413		413
Smart, sustainable and inclusive growth	664	73	ICT for educational institutions	14	PO1 (no digital)	702		1,380	73	1,453
Healthcare and social security	245	119	Strengthening the resilience of the health and social protection systems, support for the poorest	172	PO4, FEAD	684		1,101	119	1,220
			Tourism and culture	42	PO5, PO6 (JTF)	334	1,855	2,231		2,231
					PO7	110		110		110
Total EU	**1,777**	**705**		**278**		**3,222**	**1,855**	**7,133**	**705**	**7,838**
Total SI				**36**		**1,216**	**705**	**1,957**		**1,957**
TOTAL	**1,777**	**705**		**314**		**4,438**	**2,560**	**9,090**	**705**	**9,795**

Source: adopted from SVRK (2021b) and adjustments by IMAD based on changes by the end of March 2022. Note: *In the context of the Multiannual Financial Framework 2021–2027, the policy objectives (PO) are: PO1 (A more competitive and smarter Europe by promoting innovative and smart economic transformation and regional ICT connectivity); PO2 (A greener, low-carbon transitioning towards a net zero carbon economy and resilient Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate change mitigation and adaptation, risk prevention and management, and sustainable urban mobility); PO3 (A more connected Europe by enhancing mobility); PO4 (A more social and inclusive Europe implementing the European Pillar of Social Rights); PO5 (A Europe closer to citizens by fostering the sustainable and integrated development of all types of territories and local initiatives), FEAD (Fund for European Aid to the Most Deprived), Specific objective of the JTF or PO6 (Just Transition Fund), PO7 (Technical Assistance). Due to rounding, the totals do not always match.

The financial system remained stable in 2020 and 2021, the capital market is the least developed compared to the EU average, and there is also a significant lag in the banking segment. The smallest development gap remains in the insurance sector, where an above-average share of non-life insurance stands out (relative to GDP and also in the structure of insurance), while the share of life insurance premiums lags behind many comparable EU Member States. The balance sheet total of banks, which are by far the most important segment of the financial system in Slovenia, reached 95.0% of GDP in 2021, i.e. slightly more than 30% of the EU average. In 2021, banks generated a profit that was 17% higher than in 2020 and, unlike in the previous year, was also fuelled by the reduction of impairments. With modest lending activity, which began to strengthen only in the middle of last year, and low interest rates, net interest income continued to decline and was 2.2% lower last year than in 2020. The share of non-performing loans also continued to decline gradually towards the EU average. Capital adequacy was still relatively high but fell slightly below the EU average after the merger

Figure 17: The indebtedness of non-financial corporations in Slovenia remained low in 2020 and 2021



Sources: BoS (2022b), ECB (2022). Note: Indebtedness is measured as the debt-to-equity ratio.

of two banks. The consolidation of the banking system continued.[23] The biggest development gap is in the capital market, which has remained small and illiquid since the last financial crisis and does not provide an adequate basis for strengthening longer-term old-age savings.

The financial structure of non-financial corporations remains solid. In the period before the outbreak of the global financial crisis, the increase in sources of financing in non-financial corporations was mainly based on corporate borrowing, but after the rehabilitation of the banking system and the deleveraging of the economy, the importance of capital gradually increased. In the first three quarters of 2021, capital also contributed the most to the growth of financing sources of non-financial corporations, increasing due to transactions (inflows from domestic and foreign investors) and even more to value changes amid favourable developments in capital markets. The share of capital in the financial structure at the end of the third quarter of 2021 represented about 55% of corporate financial liabilities, which is only

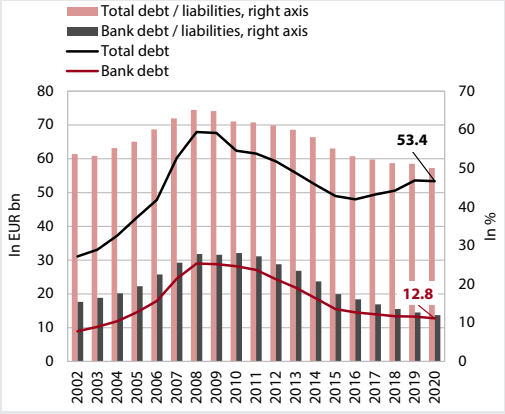
Box 2: Financial situation of the corporate sector and its exposure to insolvency during the COVID-19 epidemic[1]

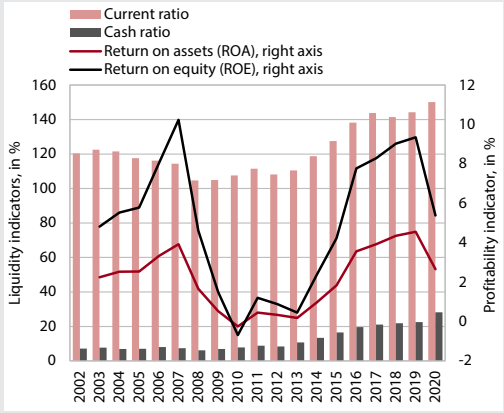
In the year of the outbreak of the epidemic (2020), the indebtedness and liquidity indicators of the corporate sector mostly improved with the help of government measures, while the profitability of the corporate sector declined sharply. The indebtedness of the corporate sector has decreased significantly since the global financial crisis and was low before the outbreak, but in 2020 it decreased even more (Figure 18). According to the majority of indicators, the ability of companies to repay their debts has also improved further and reached the best values throughout the observed period (since 2006).[2] In 2020, under the influence of extensive measures to mitigate the effects of the epidemic, the liquidity indicators of the corporate sector also improved and reached the most favourable values throughout the observed period. At the same time, profitability indicators have deteriorated as a result of the crisis. However, even within a favourable overall picture, the financial situation in certain segments of the economy has deteriorated significantly, especially in service activities, which were closed for at least some time in line with measures to prevent the spread of the virus (IMAD, 2022). In 2020, for the first time since 2009 (when it peaked), the overall over-indebtedness of the corporate sector also increased slightly,[3] but it remained close to its lowest level. The concentration of the net financial debt of over-indebted companies also increased compared to 2019.[4]

[1] See also Section 3.2 (IMAD, 2022).
[2] The indicators for total debt and bank debt in liabilities (which can be compared with the situation before 2006) reached the most favourable values throughout the period observed (since 2002, Figure 18). However, interest coverage (i.e. EBITDA/interest expense) deteriorated in 2020 as a result of significant reduction in EBITDA.
[3] Over-indebtedness is calculated as the sum of net financial debts (i.e. financial debt excluding cash), exceeding EBITDA by a factor of five (if FL≥5) or as the sum of the overall net financial debt (if EBITDA<0). EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) is free cash-flow from operating activities (earnings before interest, taxes, depreciation and amortisation). FL – financial leverage (i.e. net financial debt/EBITDA).
[4] Ten of the most indebted companies had about 29% and 50 had almost 46% of the net financial debt of all over-indebted companies.

[23] One of the foreign-owned banks announced the takeover of the second largest bank in Slovenia, which was privatised in 2015 after a successful rehabilitation.

Figure 18: Favourable indebtedness and liquidity indicators and reduced profitability

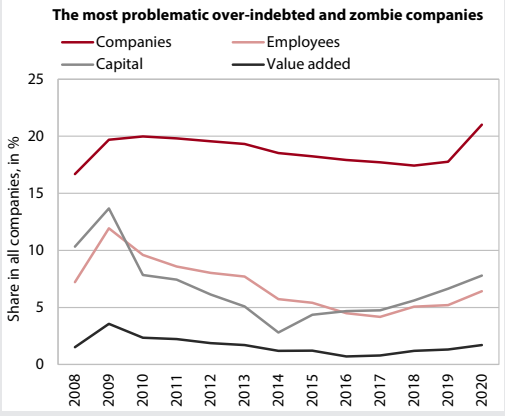


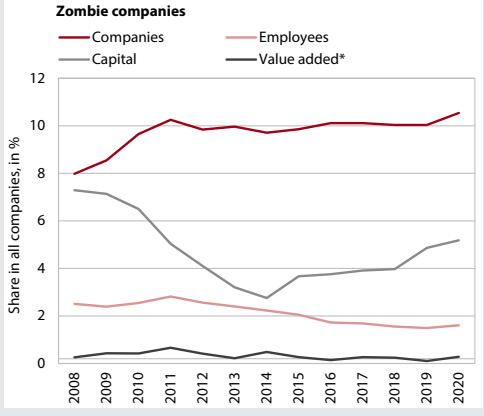


Source: AJPES (n.d.); calculations by IMAD.

The deterioration of the financial situation in the part of the economy most affected by the coronavirus crisis has led to an increase in the share of companies with the highest exposure to insolvency risk, which in 2020 was lower in most indicators compared to the period of the global financial crisis. These are the most problematic over-indebted companies (they have net financial debt and negative EBITDA) and zombie companies (which have had negative EBITDA for at least three years in a row).[5] According to our estimates, 21% of companies in 2020 were such (18.7% in the period 2008–2019), which generated 1.7% (1.6%) of the value added of all companies. They had 7.8% (6.7%) of total capital in their balance sheets and employed 6.4% of all employees (6.9%).[6, 7] Their share in the total number of companies was higher than in the global financial crisis (2008–2013), but both the contribution of these companies to value added and the shares of capital and employees was lower, especially the share of employees (Figure 19). During the first year of the epidemic, these companies received 8.8% of subsidies[8] (which is a 4.9 p.p. higher share than in the year before the epidemic). Their productivity in the whole observed period (2008–2020) was three-quarters lower than the level of the entire corporate sector (Figure 20), while relative indebtedness was much higher than in the rest of the corporate sector.[9] Their bank debt accounted

Figure 19: Increase in the share of companies that are relatively highly exposed to the risk of insolvency

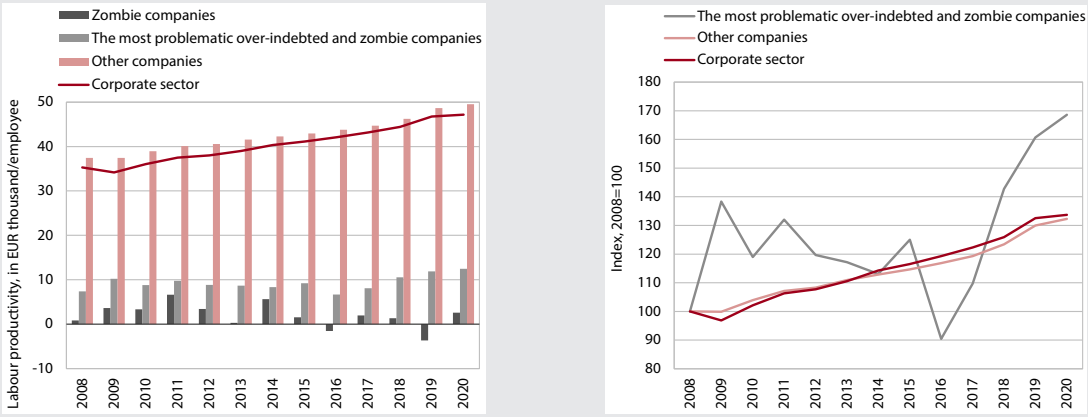




Source: AJPES (n.d.); calculations by IMAD. Notes: Employees – average number of employees based on working hours (AOP 188); Value added*: gross operating yield (AOP 126) – costs of goods, materials and services (AOP 128) – other operating expenses (AOP 148), slightly negative in 2016 and 2019; the most problematic over-indebted companies have net financial debt and negative EBITDA; zombie status is when a company has had negative EBITDA for at least three years in a row, so the data available is only from 2008 onwards.

[5] A company can also be classified in both groups of companies at the same time.
[6] In 2020, they employed a fifth more workers than in 2019 and more than in the period of economic growth (2014–2019; 5% of all employees), though significantly less than during the global financial crisis (2008–2013; 8.8% of all employees).
[7] In 2020, there were 10.3% of companies with the highest risk of insolvency (so-called zombie companies) (9.5% in the period 2008–2013). They employed 1.4% (2% in the period 2008–2013) of all employees, had 5% (4.5%) of capital and generated 0.1% (0.1%) of corporate value added.
[8] Subsidies – subsidies, grants, annual leave payments, compensations and other revenues related to business effects (AOP 124).
[9] The exceptions were relative indicators related to bank debt in 2019 and 2020.

Figure 20: Low productivity of the most problematic over-indebted and zombie companies



Source: AJPES (n.d.); calculations by IMAD. Note: for the sake of clarity, the figure on the right does not show the productivity growth of zombie companies, as their growth is too volatile.

for 6.9% (12.5% in the period 2008–2019) of the total bank debt of all companies.[10] The share of companies that are relatively highly exposed to the risk of insolvency is the highest in the group of micro, small and medium-sized enterprises, in terms of activities in holding and leasing companies and in the most affected market services, and regionally in the Obalno-kraška, Osrednjeslovenska and Goriška regions.

The production resources of companies that are relatively highly exposed to the risk of insolvency would not necessarily be permanently lost in the event of proper restructuring of over-indebted companies, also taking into account the general labour shortage. Measures should place even greater emphasis on the cessation of funding and thus the preservation of zombie companies (i.e. unhealthy cores of the economy), whose existence prevents the optimal allocation of production resources to more productive companies and, as a result, hampers both productivity and economic growth. They need to focus on healthy cores of the economy that are not over-indebted in the long run and are able to survive in the long run, especially on development-oriented niche parts of the economy with high growth potential.

[10] The share of bank debt increased by 1.3 p.p. in 2020 but was 10% in the entire period of economic expansion (2014–2019), while during the global financial crisis (2008–2013) it had been more than twice as high (15.1%).

slightly less than the EMU average.[24] The indebtedness of companies,[25] which reached historical highs during the global financial crisis, more than halved after the rehabilitation of the banking system and the economy and even after the outbreak of the epidemic reached levels below the EMU average. Solid business results and epidemic relief schemes have allowed companies to make extensive use of their own resources to finance production and investment. The volume of corporate deposits in the banking system increased by 12.1% in 2021 alone and reached EUR 9 billion, while compared to 2019 it was about a third higher. Prolonged epidemics, high uncertainty about future economic developments due to the aggravation of the situation in Ukraine and the accelerated withdrawal of measures in the event of higher inflation could affect financially more vulnerable companies with greater risk of risk spillovers.

After a long period of stability, the COVID-19 epidemic in 2020 had the effect of increasing regional disparities, especially in the Zahodna Slovenija regions. Due to the structure of the economy, the epidemic affected the Obalno-kraška region the most, where with a 10% real drop in GDP the share of accommodation and food service activities and tourism fell the most (by 3.5 p.p. to 35.6%). The Gorenjska region followed with a 9.1% real drop in GDP. In the Osrednjeslovenska region, drop in GDP was 50% lower than the Slovenian average (by 2%), while the regions of Vzhodna Slovenija also saw a smaller decline in economic activity than the Slovenian average. For 2021, only data on labour market developments are available, showing a recovery in all regions. All regions recorded higher employment (Indicator 3.17), which has already exceeded the 2019 levels, especially in the Vzhodna Slovenija regions, an increase in the number of

[24] In addition to debt and equity, liabilities also include other liabilities, among which liabilities to suppliers are relatively important in Slovenia (compared to the EU).

[25] Measured as a debt-to-equity ratio based on data from financial accounts. Box 2 shows the indicators on the basis of data from the AJPES database of individual data for companies (balance sheets and income statements), where the latest available data for 2020 are available.

jobs,[26] with an above-average increase in the Savinjska, Osrednjeslovenska, Pomurska and Zasavska regions, and a fall in the registered unemployment rate, which was highest in the Pomurska, Koroška, Savinjska and Primorsko-notranjska regions.

Measures related to the COVID-19 epidemic provide an opportunity to accelerate the structural restructuring of regions, which is essential for more balanced regional development. The efficient use of recovery and resilience funds, cohesion funds and coal restructuring funds[27] can accelerate processes in the areas of digital transformation, the introduction of new business models and green transition in the regions. In Vzhodna Slovenija, the regions are less competitive (ESPON, 2020b) and have a low knowledge capital but are included by the ESPON applied research project (ESPON, 2020a) among the regions with the possibility of shifting to the robotisation of traditional production and creative innovation, which in terms of digital transformation and modernisation is key to harmonious regional development (IMAD, 2020a). The analysis of productivity of fast-growing companies (IMAD, 2022) for the period 2014–2019 also showed that there are fast-growing companies in all statistical regions, with the Primorsko-notranjska region having the largest share of such companies of all companies in the region, followed by the Osrednjeslovenska, Jugovzhodna Slovenija and Obalno-kraška regions. Positive shifts in the restructuring of regions can also be stimulated by investments in new activities,[28] shortening of supply chains, logistical reorganisations and digitalisation of companies, taking into account the sustainable transformation to a low-carbon circular economy. This contributes to the greater attractiveness of rural areas and affects the balance between urban and rural areas, especially if a territorial approach[29] is used to promote development in functional areas of regions in accordance with the draft new spatial strategy of the Republic of Slovenia (MOP, 2020a), the new territorial agenda 2030 (TA, 2020) and OECD recommendations (OECD, 2020f).

Advantage should be taken of the opportunity to use remote work to a greater extent, because it can have positive effects not only on the development of the regions, but also on slowing down depopulation of rural areas. The epidemic-driven increased use of remote work when the nature of work and good access to high-speed broadband networks[30] allow this could have a number of positive effects in the regions (OECD, 2021n). It would reduce daily commuting, negative effects of transport on the environment, the need to build transport infrastructure and the construction of housing in areas of job concentration and thus maintain the population of rural areas. Not only is the population in Slovenia uneven and dispersed,[31] but the less accessible rural areas, especially the border regions, are being depopulated.[32] Remote work could slow these negative trends in combination with other comprehensive measures designed to promote more coherent regional and rural development, especially in relation to the opportunities offered by digitalisation, and perhaps even reverse them in the face of the opportunities offered by digitalisation and new technologies. The OECD (2021c) estimates that the medium-term or the long-term perspective of regional development after the COVID-19 pandemic can go in different directions.[33] The existing scattered settlement model in Slovenia can be a potential advantage if the appropriate policy response strengthens the international attractiveness of non-central regions and exploits their development potentials. Reversal of trends in doing so is possible at least in some rural areas, but this requires strategic reflection on the desired and achievable spatial development[34] by focusing efforts on areas with a longer-term perspective.

[26] Measured by the number of persons in employment by region of employment.

[27] From the Just Transition Fund.

[28] In the field of digital technology, activities that support remote work, health and other services, boutique, safe and sustainable tourism in connection with self-sufficient agriculture, etc.

[29] The territorial approach promotes a comprehensive local and regional approach to problem solving. It is a long-term strategy aimed at eliminating the underutilisation of local potentials and reducing social exclusion in specific areas through external interventions and multilevel governance (Barca, 2009).

[30] Poorer accessibility in some areas indicates the need to invest in digital transformation (see also IMAD, 2022b).

[31] This settlement pattern is the result of natural conditions, historical development, targeted promotion of a polycentric urban system and the fact that people place a high value on living close to nature. The most densely populated areas are the Ljubljana and Celje basins, the Šaleška valley, the Drava, Murska and Krška plains, the Vipava valley, and the littoral zone. Areas of low settlement are the Upper Soča, Idrija, Cerklje and Škofja Loka hills, Brkini, Haloze, the high Dinaric plateaus, and the border areas of Kozjansko and Goričko (Nared et al., 2019).

[32] Between 2008 and 2018, the depopulation areas covered about 57% of Slovenian territory (Nared et al., 2019).

[33] The following scenarios have been identified: (i) continuation of current development based on large cities with greater use of the hybrid working model, (ii) increased suburbanisation, (iii) rise of medium-sized towns and (iv) migration from urban to rural areas.

[34] Efforts to date to reverse this trend, which have mainly improved infrastructure and to a lesser extent employment and economic structure, have yielded only modest results.

1.2 A competitive and socially responsible entrepreneurial and research sector

A competitive and socially responsible entrepreneurial and research sector (Development Goal 6):

The aim is to raise competitiveness by creating products and services with high value added and to strengthen the social responsibility of businesses and research organisations. The creation of high value added will be supported by innovation, basic and applied research, promotion of creativity, and the exploitation of digital opportunities and every opportunity afforded by the fourth industrial revolution. Other factors listed in SDS 2030 as relevant in efforts to increase value added include internationalisation of businesses and research institutions and the provision of a supportive and predictable environment for business and investments, accommodating the needs of small enterprises. Achievement of the goal will also be contingent on suitable human resources, which the SDS deals with in Development Goal 2.

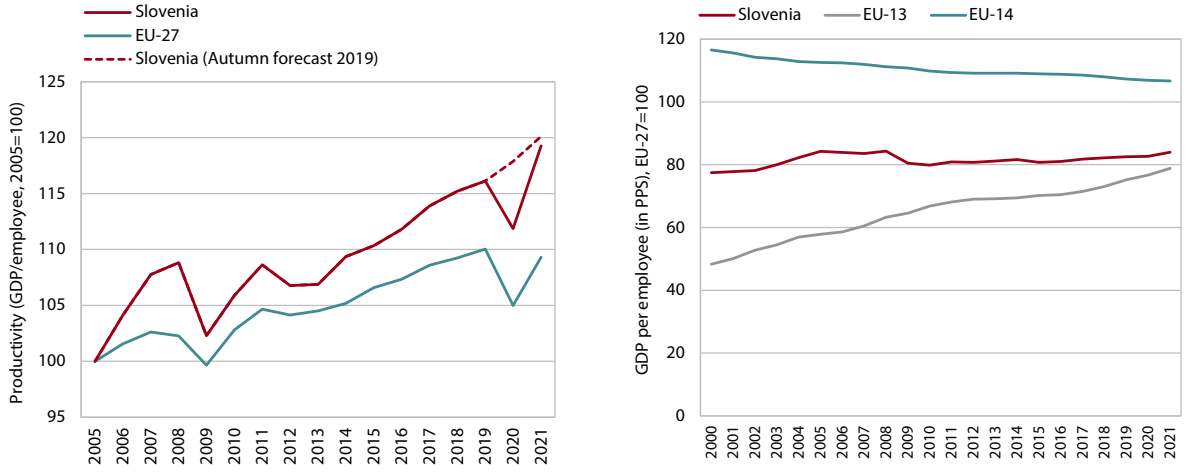
SDS 2030 performance indicators for Development Goal 6:

	Latest data		Target value for 2030
	Slovenia	Povprečje EU	
Labour productivity, index EU=100	84 (2021)	100 (2021)	95
European innovation index, index EU 2014 = 100	100.5 (2021)	112.5 (2021)	>125, i.e. ranking among innovation leaders
Digital Economy and Society Index, ranking among EU Member States	13th (overall in 2021) 8th–16th (across five components)	-	ranking in top third of EU Member States according to all five main components of the index

1.2.1 Competitiveness

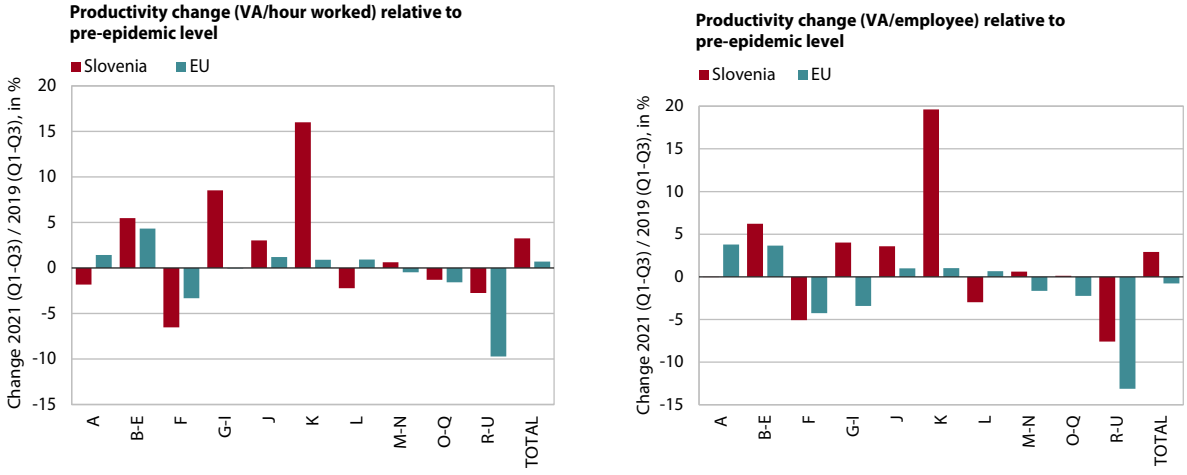
Productivity rose above pre-crisis levels after a sharp decline in the first year of the epidemic, but it still lags far behind the EU average after a decade of modest growth. Productivity growth gradually recovered after the global financial crisis (starting in 2008), but due to modest investments, it did not return to the level of average annual growth, which it had had in the period before the financial crisis (3.0% in 2000–2008); even in the period of high economic activity between 2014 and 2019 it reached only 1.4% on average per year. In 2020, the outbreak of the epidemic and the related containment measures significantly reduced

Figure 21: Convergence of productivity (GDP per employee) with the level envisaged before the epidemic (left), high lag behind the average level of productivity in the old EU Member States and declining advantage over the average of the new EU Member States (right), 2021



Source: Eurostat (2022); calculations by IMAD. Note: The comparison of productivity with the level predicted before the outbreak of the epidemic takes into account the forecast of productivity growth for the period 2020–2022, prepared by IMAD in autumn 2019 (IMAD, 2019b). EU-13 (EU-14) represents the countries that joined the EU in 2004 or later (before 2004).

Figure 22: In 2021, there was a relatively rapid recovery in productivity in most activities, but among the most affected were arts, entertainment and recreation, and construction



Source: Eurostat (2022); calculations by IMAD.

value added, but with the measures aimed at retaining jobs the volume of employees did not follow this trend with the same intensity. This led to a sharp statistical decline in productivity in 2020, as measured by gross domestic product per employee, and to a significant discrepancy between productivity so measured and the productivity indicator per hour worked, which did not decrease in 2020. In 2021, the recovery was followed by a strong increase in value added per employee, which was already 2.7% higher on average than in the pre-crisis year 2019 (the EU average is 0.7% lower than the pre-crisis level, and 0.4 higher among innovation leaders).[35] We attribute the relatively rapid rebound of productivity to the good financial situation of companies before the epidemic and extensive measures to support companies during the coronavirus crisis (see also Section 1.1), thus maintaining high production potential for renewed investment and activity growth. Nevertheless, the level of productivity of the Slovenian economy remained relatively low by international standards. With modest growth in the period between the two crises, the gap with the EU's average productivity level has not narrowed significantly. In 2021, productivity measured per employee and in purchasing power standards (PPS) reached 84.0% of the EU[36] average (84.3% at the 2008 peak). Labour productivity in PPS in Slovenia is higher than in most other Central and Eastern European countries, but in the past decade they have closed their gap much faster on average.

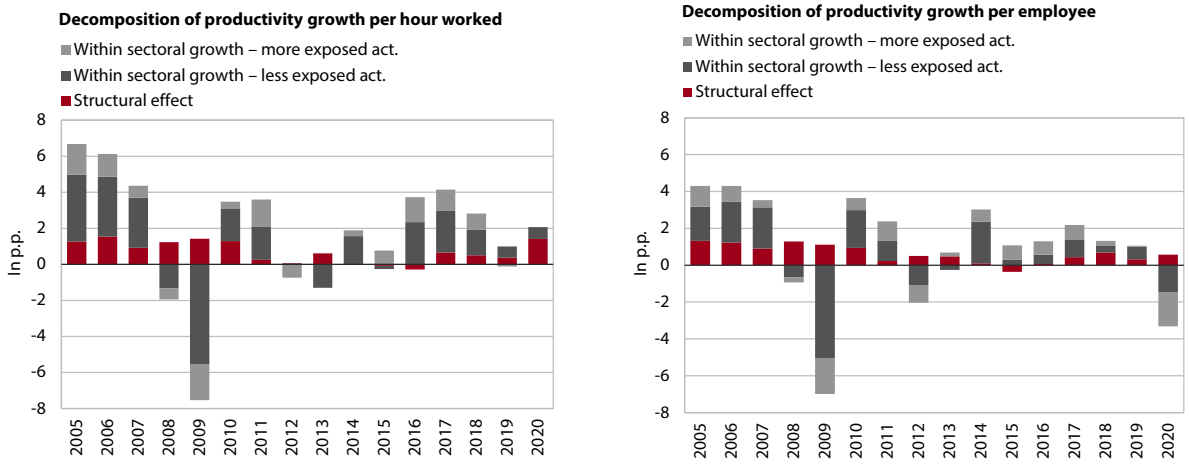
In most sectors, pre-crisis productivity levels were surpassed in 2021, but so-called high-contact services, which were hit hardest by the epidemic, and construction are still lagging behind. Productivity growth was lower in most activities in the decade after the global financial crisis than in the previous period, but it accelerated during economic expansion (2014–2019), especially in manufacturing and traditional market services. However, among the activities of the business sector, it remained relatively low in the construction sector, where the long-term growth potential decreased sharply during the global financial crisis, and in ICT services, which, unlike other activities, lagged far behind the EU average. The COVID-19 crisis mainly affected contact-intensive service activities, where restrictions on business due to the epidemic were greatest. A comparison of productivity on average in 2021 with the pre-crisis 2019 level thus shows the largest decline in arts, entertainment and recreation, and accommodation and food service activities. In those activities that were relatively less affected by the crisis and/or were able to adapt more quickly to changed business conditions, the pre-crisis productivity level was already exceeded, with the exception of construction. This was especially the case in financial services (K), manufacturing (C) and trade (G), but also to some extent in information and communication activities, which have also been given opportunities for faster development by the crisis due to the increased use of digital technologies and services. In all of them, growth has also been higher than the EU average since the beginning of the crisis.

Opportunities to accelerate productivity growth, but also numerous risks, require an appropriate and rapid economic policy response to support the fastest possible transition to innovation-driven growth through restructuring into a highly productive, low-carbon and circular economy.

[35] However, it lags behind the level projected for 2021 before the outbreak of the COVID-19 epidemic. The comparison of productivity with the level predicted before the outbreak of the epidemic takes into account the forecast of productivity growth for the period 2020–2022 prepared by IMAD in autumn 2019 (IMAD, 2019b).

[36] Productivity measured per hour worked and in PPS was 83.2% of the EU average.

Figure 23: Increase in the contribution of cross-sectoral reallocation to productivity growth, 2020



Source: Eurostat (2022); calculations by IMAD. Note: The contribution of cross-sectoral reallocation was higher in 2020 in terms of productivity per hour worked, as in that year the labour market adapted to the changed conditions more through working hours than by adjusting the number of employees. In accordance with the ECB (Lopez-Garcia and Szorfi, 2021), the more exposed activities also included those in G–I and R–T.

Current productivity growth means, above all, a return to the levels forecast before the epidemic. In order to reduce the development gap, it is necessary to accelerate productivity growth beyond what has been achieved in the past decade. This could be encouraged by a more investment-friendly environment after the epidemic than in the post-economic crisis, when the investment recovery was slow, accompanied by a very gradual economic recovery, long-term corporate deleveraging and high interest rates. All this resulted in an extremely modest contribution of capital deepening to the trend productivity growth (IMAD, 2019d). In 2020, amid extensive government measures to maintain corporate liquidity, the financial situation of the corporate sector did not deteriorate on average and remained at the favourable levels achieved before the outbreak (Box 2). At the same time, the changed situation due to the epidemic could speed up digitalisation processes and the introduction of new business models. Furthermore, companies are additionally encouraged to invest in digital transformation due to the reduced supply of labour as a result of demographic changes. Recently, there has been a reversal of negative investment trends with an impact on innovation and digitalisation (see Section 1.2.2). An opportunity to further increase investment and productivity also lies in the vast financial resources of the EU Recovery and Resilience Fund intended for investments and reforms in greener, digital and resilient economies (Box 1). However, the intertwined processes of digital and green transformation, which are the cornerstones of future growth, can be greatly slowed by the growing lack of relevant knowledge and skills (see Section 2.1). In addition, the current situation in connection with the Russian–Ukrainian military conflict brings additional constraints to productivity growth, mainly due to interruptions and disruptions in global value chains and further increased costs of raw materials (especially fuel). In order to meet these development challenges under conditions of necessary further fiscal consolidation, priorities need to be set for public spending, which will be increasingly affected by demographic change and require adjustments to social protection systems with a view to greater sustainability and stability of funding.

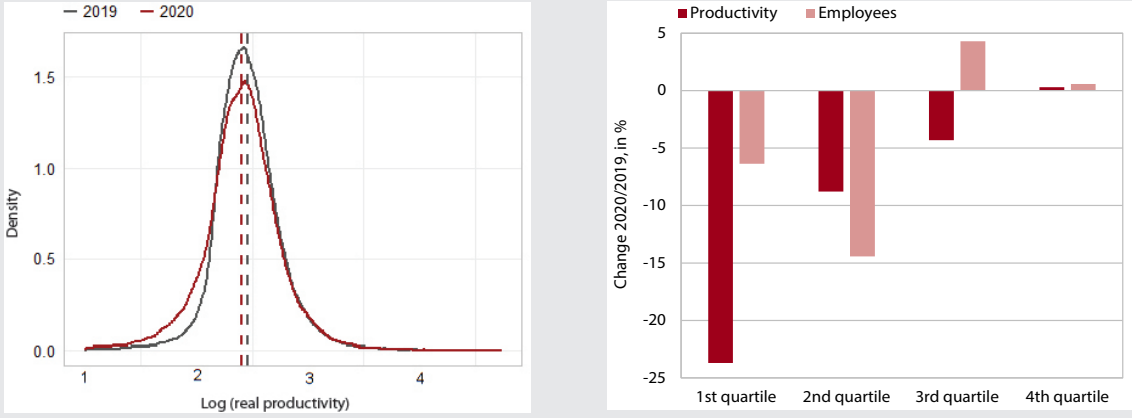
Improving allocation efficiency, which increased at least temporarily in the first year of the epidemic, is important for transforming the economy and raising productivity. In addition to improving the efficiency of individual companies, productivity is also significantly affected by the reallocation of production resources (labour and capital) from less to more productive companies and sectors, which usually accelerates in crises due to tighter business conditions (Lopez-Garcia and Szorfi, 2021). The COVID-19 crisis has had a diverse impact on sectors; most affected were service activities, which are contact-intensive (e.g. accommodation and food service activities, arts, entertainment and recreation). Meanwhile manufacturing and knowledge-based services, which on average achieve higher productivity, were less affected. The impact of cross-sectoral reallocation on productivity growth was therefore positive in 2020 and much greater than in previous years (Figure 23).[37] However, this impact is likely to be more short-term and will diminish with the normalisation of the situation (Lopez-Garcia and Szorfi, 2021). In addition, the contribution of the shift from less to more productive companies within sectors increased significantly in 2020; it was higher than in the global financial crisis and also when compared to the last 15 years (Box 3). This was due to the high contribution of

[37] The positive contribution of cross-sectoral reallocation is higher in the case of productivity measured per hour worked, since the labour market adapted to the changed activity to a greater extent with a changed number of working hours than a changed number of employees (Figure 23).

Box 3: The impact of employee reallocation between companies on productivity in 2020

In the first year of the epidemic, differences in productivity between firms widened, with the less productive firms suffering greater productivity losses. The change in the productivity distribution shows that the average (unweighted) productivity of companies in 2020 decreased, mainly due to a decrease in the average or below-average enterprises in terms of productivity (Figure 24), while the productivity of highly productive enterprises did not decrease or decreased significantly less. At the same time, more productive companies maintained employment, while the number of employees in companies in the bottom half according to productivity level, fell significantly on average. The increase in the share of employees in companies with a higher level and/or productivity growth indicates an increased contribution of reallocation to aggregate productivity growth. In the macro data, a shift of the labour force to more productive sectors was detected in the context of the increased contribution of cross-sectoral reallocation (see Section 1.2.1). This was partly related to the very nature of the COVID-19 crisis, which (also due to activity restrictions) has mostly affected contact- and labour-intensive sectors, which have on average lower value added per employee. Below, we try to assess the impact of intra-sectoral reallocation of work between companies.

Figure 24: Distribution of companies' productivity in 2019 and 2020 (left) and change in productivity and employment in 2020 by groups of companies according to productivity (right)



Source: AJPES (n.d.); calculations by IMAD. Note: Companies with at least one employee and positive value added are included. Productivity is defined as real value added (excluding subsidies) per employee (in full-time equivalents). The dashed line in the figure on the left represents the average (unweighted) productivity of companies in 2019 and 2020. The figure on the right shows the change in real productivity and the number of employees separately for the quarter of the least (<25%) or the most (<75%) productive companies, and those that fall between 25% and 50% and between 50% and 75% of companies by productivity. Changes in the simple (unweighted) average of these groups are shown.

Figure 25: Dynamic Olley–Pakes decomposition of productivity growth

Source: AJPES (n.d.); calculations by IMAD.
Notes: Companies with at least one employee and positive value added are included. Non-financial market services include G–N activities.

The impact of reallocation between firms within sectors was analysed using the Melitz–Polanec productivity growth decomposition. Differences in productivity between companies within same sectors are significant, even if they are narrowly defined. Shift of employees from one company to another of the same sector, as well as the entry and exit of companies, thus have a major impact on sectoral productivity developments. To analyse the impact of reallocation between companies in the same industry, we relied on the dynamic Olley–Pakes decomposition of productivity growth (Melitz and Polanec, 2015). This change in productivity is explained through the contributions of (i) changes in the average unweighted productivity of survivors, (ii) changes in covariance between productivity and the share of employees among survivors of the same industry, (iii) the exit of companies, and (iv) the entry of companies:

(i) **The high decline in the average productivity of companies in almost all sectors indicates the strong and widespread impact of the epidemic in the first year.** Compared to 2019, the average productivity of survivors decreased in almost all sectors. For most services, the decline was the largest since 2003, including the 2009 crisis year. Among market services, accommodation and food service activities (SKD I) and administrative and support service activities (N) stand out in particular, including organisation of travel (N79), accommodation (I55), and food and beverage service activities (I56). In only a few activities at the level of NACE Rev. 2 departments did companies manage to increase productivity on average in 2020, among them in the manufacture of basic pharmaceutical products (C21) and to a lesser extent in telecommunications (J61).

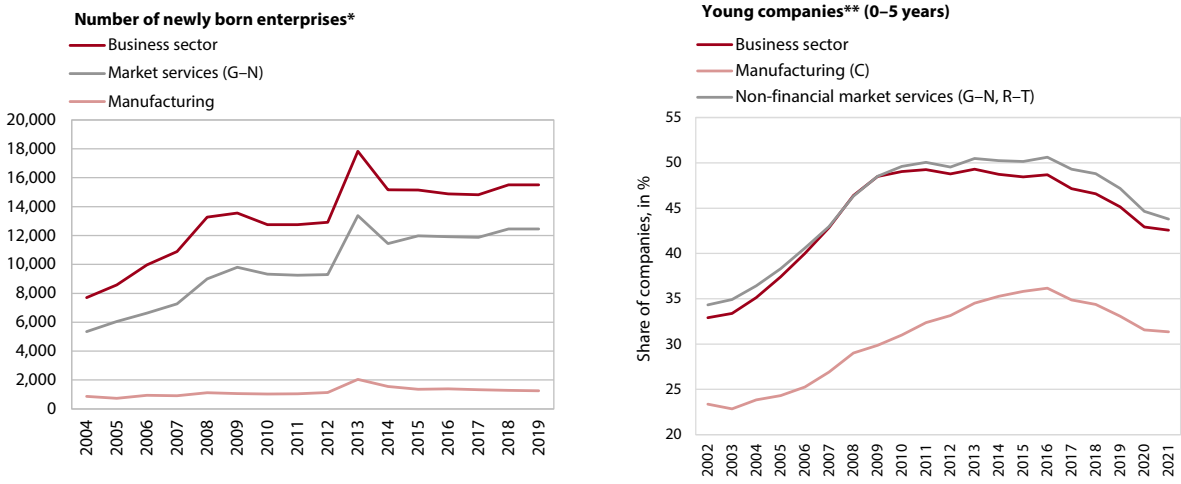
(ii) **The contribution of employee reallocation from less to more productive companies within the sector has increased.** The contribution of covariance, i.e. increasing the share of employees in companies with higher growth or the level of productivity at the expense of a decrease in the share in lower productive enterprises of the same sector, increased in the vast majority of activities both compared to the previous year and compared to the long-term average. In most of the activities, the effect of covariance was also higher than in the crisis year of 2009, while the overall lower contribution from non-financial market services (G–N) was mainly due to negative effects of individual sectors within transportation (H), professional, scientific and technical activities (M), and administrative and support service activities (N), more precisely travel agencies (N79), activities of head offices, management consultancy activities (M70), other professional, scientific and technical activities (M74), warehousing (H52), and postal and courier activities (H53).

(iii) **The small exit effect, i.e. the cleansing effect, is partly due to intervention measures.** The exit of unsuccessful companies is a natural process that enables the release and reallocation of production resources from unsuccessful (unproductive) to more successful (productive) companies. In times of crisis and in the years that follow, it usually increases. In 2020, however, the cleansing effect was small in most activities, compared both to the previous global financial crisis and to favourable business years. Compared to 2019, it increased slightly only in transportation (H) and accommodation and food service activities (I). In part, the low cleansing effect can be attributed to the moratorium on credit obligations and the limited operation of the courts, especially in the initial period of the COVID-19 epidemic, and the consequent lower number of bankruptcy proceedings. Larger subsidies (including measures to mitigate the effects of the epidemic) also contributed to the lower cleansing effect. In particular, the appropriateness of subsidies for zombie companies, i.e. those that had been unsuccessful for at least two years before the outbreak, is questionable (IMAD, 2022).

(iv) **In line with the low creation of companies, the modest contribution of entrants continued.** In the early stages, start-ups tend to have lower productivity, and their market entry has therefore, on average, a negative contribution on overall productivity. However, due to their rapid growth and new (even disruptive) ideas and business models, these companies, or at least some of them, can be an important lever for productivity growth in the medium and long term. Given the low dynamics of the formation of new companies, which further declined in 2020 (see Section 1.2.1), the (negative) contribution of entries was also modest. Compared to the previous year, it increased slightly in absolute terms in construction (F), especially in specialised construction activities (F43), while in accommodation and food service activities (I) and transportation (H) it was the lowest so far.

The total contribution of reallocation of production resources, which includes reallocation between survivors as well as entries and exits, was relatively high in the first year of the epidemic. In times of crisis, an increase in reallocation is to be expected, but due to extensive intervention measures, the impact of reallocation on productivity during the coronavirus crisis was somewhat questionable. The above analysis does not try to assess the extent to which the measures have inhibited (or, less likely, encouraged) reallocation or the impact they have had on the productivity of firms on average. Yet, we find that the impact of reallocation on overall productivity growth in 2020 was not low and was comparable or even slightly higher than in 2009, despite the lower cleansing effect. However, the relatively high contribution of reallocation could not compensate for the massive drop in productivity at the enterprise level caused by the shock of the COVID-19 outbreak, especially in the initial period.

Figure 26: Stagnation in the number of newly born enterprises and declining share of young companies



Source: Eurostat (2022); calculations by IMAD based on AJPES (n.d.). Notes: The business sector, by Eurostat definition, includes the activities of industry (B–E), construction (F) and services (G–N) excluding holding companies. *Data include limited liability companies, sole proprietors and some other less frequent legal forms of companies. **These are data on companies and sole proprietors on the basis of the business register.

reallocation of resources among existing companies, while the number of company exits decreased significantly in this year. This was related both to large-scale government measures to maintain corporate liquidity and jobs and to the reduced functioning of the courts during the epidemic. Since the share of the most problematic over-indebted companies, i.e. zombie companies, also increased slightly in 2020, we can expect more exits of companies after the withdrawal of all measures. When below-averagely productive companies leave the market, and these financially most exposed companies are such (IMAD, 2022), this is a desirable process towards increasing the overall productivity of the economy. Thus effective insolvency legislation and employee retraining programmes can contribute to making such restructuring more effective by minimising the loss of human capital and other consequences of possible longer-term unemployment.

For the efficient reallocation of resources and thus the transformation of the economy towards the creation of more value added, the creation of new companies is also important; however, business dynamism has been at a relatively low level in the last decade and decreased even further with the outbreak of the epidemic in 2020. The creation of new companies is important as it allows less productive companies to be replaced by those with greater potential for growth. The birth rate of enterprises[38] in Slovenia decreased after the global financial crisis, and in the last years before the outbreak of the epidemic, which were economically favourable, it mostly remained at the level already achieved. According to this rate, in 2019, Slovenia ranked only 15th among the 26 EU Member States with available data (Eurostat, 2022). In 2020, the number of new enterprises[39] decreased more markedly, due to a significant decline in service activities, which were more affected by the epidemic. The more modest entrepreneurial dynamics of the last decade is also reflected in the share of young companies (up to five years old), which initially stagnated after the start of the global financial crisis but has been declining since 2012, initially only in services but since 2015 also in manufacturing. The trend of early-stage entrepreneurial activity indicator, which measures the share of the population entering entrepreneurial activity, had been somewhat more favourable until the outbreak of the epidemic.[40] It increased during the 2014–2019 economic upswing, declining temporarily with the onset of the epidemic in 2020, with its associated increased uncertainty, and then increased in 2021 to a level close to the annual average in the pre-epidemic period.[41] Nevertheless, in international comparison, the measured early-stage entrepreneurial activity in Slovenia is low.[42] All this points to the need to accelerate the creation of new companies, especially those based on innovative ideas and which would contribute to faster and environmentally sustainable productivity growth. However, traditional measures to promote entrepreneurial dynamism are not enough[43]

[38] The rate of creation of new enterprises (or entry or birth rate of enterprises) is the ratio between the number of newly born enterprises in a given year and the number of active enterprises in that year expressed as a percentage.

[39] We comment the change in 2020 on the basis of data for commercial companies.

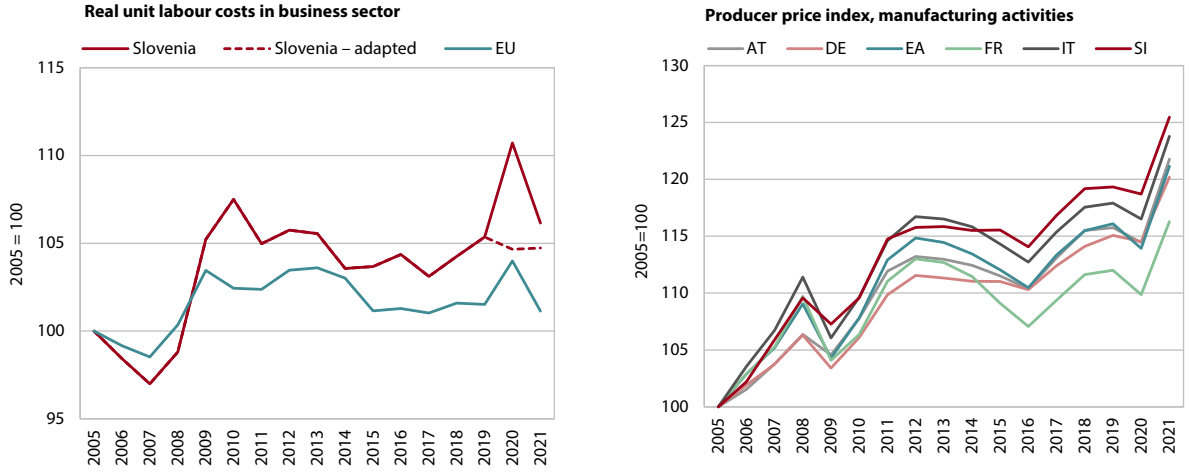
[40] Early-stage entrepreneurial activity includes individuals aged 18–64 who have started setting-up new businesses or are engaging in new business activities, including self-employment. It also includes individuals who are owners/managers of new businesses that operate less than 42 months.

[41] The GEM survey is usually conducted in the first half of the year.

[42] In 2021, the early-stage entrepreneurial activity in Slovenia reached 6.7% of the population aged 18–64, while the average of the 18 EU Member States included in the survey was 8.4%. Slovenia ranked 13th among these countries.

[43] Such as reducing administrative barriers and barriers to entry for new

Figure 27: Maintaining unit labour costs at an elevated pre-epidemic level and the spillover of raw material prices into industrial product prices at manufacturing producers



Sources: SURS (2022b), MF(2022b), ESS (2022), FURS (2021), Eurostat (2022); calculations by IMAD. Notes: Anti-coronavirus package measures that burden the state budget and not employers within the framework of funds for employees are excluded from the adjusted RULC. Real unit labour costs (RULC) show the ratio of compensation (of employees) per employee and productivity. EA – euro area.

– in particular what is needed are policies to promote innovation (including the innovation ecosystem) and strengthen human capital (OECD, 2020b; IMAD, 2022), to which not enough attention has been paid in Slovenia so far (see Sections 1.2.2 and 2.1).

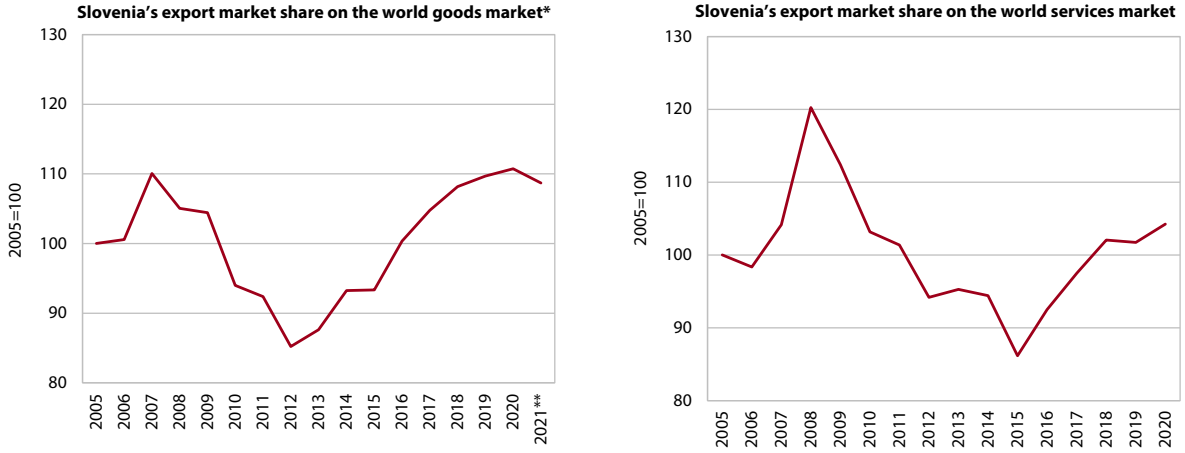
After the rise in unit labour costs before the outbreak of the epidemic, these have not increased further due to significant government support (especially in 2020) and the rebound in productivity (2021); however, in the case of a slowdown in productivity growth, the competitive position could deteriorate significantly in the face of growing wage pressures. Unit labour costs as a basic indicator of cost competitiveness stabilised at favourable levels after the global financial crisis, which enabled competitiveness to be maintained, but already in 2018, and even more so in 2019, they began to rise again. With the epidemic and a sharp drop in value added per employee (and a simultaneous rise in wages), they recorded a statistically sharp increase. However, in 2020 in particular, a relatively large part of the compensation of employees was financed from the budget, which relieved the burden on companies. Budget expenditures under government measures affecting compensation of employees remained high in 2021 but were more focused on the public sector and less on the business, market-oriented part of the economy. Due to the strong (and at least partly temporary) rebound in productivity, unit labour costs did not increase, but they remained at a relatively high pre-epidemic level, while in major trading partners and the EU average they fluctuated below pre-outbreak levels (Indicator 1.13).[44] If productivity growth loses momentum, the situation of labour shortages and high inflation, along with the associated pressures on wage growth, could lead to a resurgence of unit labour costs growth, which we witnessed before the epidemic, and thus to a more pronounced deterioration of the competitive position. Other cost pressures, however, have already begun to increase during the epidemic due to rising world prices of energy and non-energy commodities. The real effective exchange rate deflated by producer prices reached the highest levels in the last decade in 2020 and 2021. Among manufacturing producers, the increase in the prices of industrial products in the production of metals and metal products and in the furniture and paper industries is particularly pronounced. Such developments also point to the need for more efficient use of raw materials and the introduction of circular management models (see Section 4.1) in order to limit the impact of rising raw material prices on the competitive position of companies.

The epidemic interrupted many years of favourable trends in the export market share of goods in 2020 and 2021, while in services where export competitiveness did not improve significantly over a long period of time, a slight increase was achieved in 2020. The export market share of goods, which represents the ratio between Slovenian merchandise exports and import demand for goods from abroad, has been increasing since 2012 after falling sharply during the global financial crisis. Before the epidemic, it returned to its 2007 peak and was about a tenth higher than 15 years

businesses, ensuring favourable access to financial resources, and effective bankruptcy legislation.

[44] Assessing the cost competitiveness during the epidemic is difficult, because measures to retain jobs and incomes vary between countries in both scope and focus, and therefore a comparison of ULC statistics and consequently real effective ULC rates (REER ulc), in particular for 2020, is severely limited and does not reflect a change in the cost-competitive position of exporters.

Figure 28: Multiple years of favourable trends in Slovenia's export market share were interrupted by the epidemic**



Sources: SURS (2022b), UN Comtrade (2022), WTO (2022); calculations by IMAD. Notes: *Market share excluding the export of pharmaceutical products to Switzerland, which is an approximation of the greatly increased export of previously imported pharmaceutical products (re-export), whose impact on GDP is negligible and is not included in the national accounts export data. **Estimate based on data for the first three quarters of 2021.

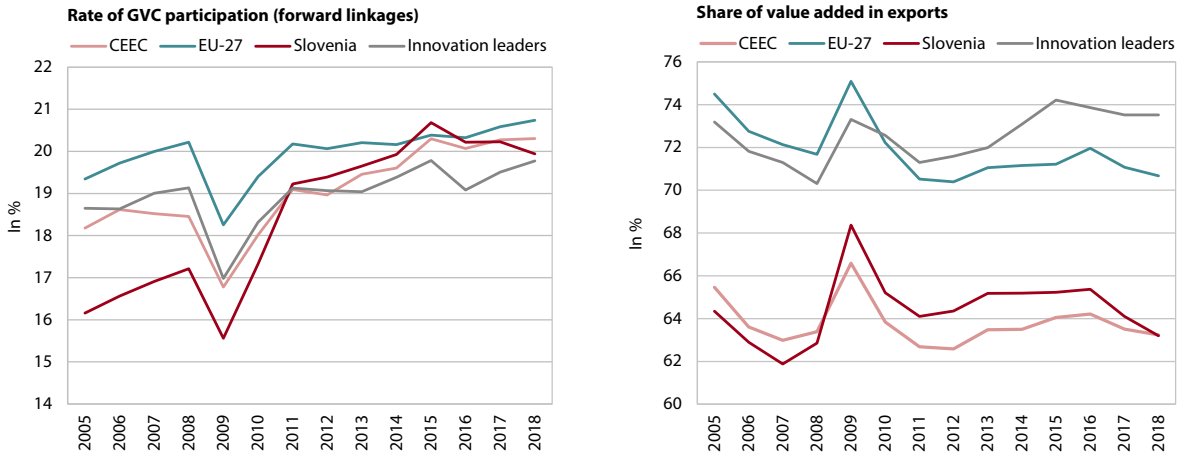
ago. Developments in the EU market, to which Slovenia exports the most goods, were even more favourable. Here, the market share in 2020 was about a fifth higher than the 2007 peak and about three-tenths higher than in 2005. The cessation of high growth in 2020 and the decline in market share in 2021 were mainly due to the markedly asymmetric impact of the COVID-19 pandemic on export markets, as demand for some important groups of products for Slovenia's exports fell sharply; in particular, the impact of the decline in international trade in road vehicles was significant (for details, see Indicator 1.12). In 2021, especially in the second half of the year, export competitiveness is likely to have been adversely affected by the above-mentioned cost pressures. The export market share of services on the global market, which began to increase only in 2016 after the global financial crisis, was only slightly higher in 2020 than 15 years before. It was dominated by exports of travel and transport services, with a smaller share of predominantly knowledge-based services, such as various ICT services, financial and other more knowledge-based services, for which global demand was growing rapidly (IMAD, 2022), which in the long run limits the growth of Slovenian service exports and export market share. Such export specialisation in services, in particular a large share of export travel, proved to be particularly unfavourable, especially in 2020, when demand for them fell sharply due to the pandemic.[45] Furthermore, given the expected relatively slower recovery of this segment of trade in services, the negative effect of the export structure is likely to be strong in the future as well.

The internationalisation of the Slovenian economy, as measured by export/import flows, foreign direct investment and participation in global value chains, has increased significantly since the past global financial crisis, and the share of domestic value added in exports is low despite some progress. As a small open economy, Slovenia ranks among the EU Member States with a high degree of participation in international trade flows and global value chains. The share of exports and imports in relation to GDP increased sharply in the period 2010–2019 (by 23 p.p. to 79.6% of GDP) and returned to a high pre-crisis level in 2021 after a fall at the outbreak of the epidemic. Participation in global value chains has also increased significantly since the global financial crisis, especially in the case of forward linkages, which measures the share of domestic value added in foreign exports compared to total (gross) exports. In 2018, for which the latest data are available, it was also much higher than in 2005, but it has been declining since 2015, falling below the EU average and that of the Central and Eastern European Countries (CEEC). After 2013, internationalisation through foreign direct investment (FDI) also intensified, mainly due to the growth of inward FDI, which, despite progress on an international scale, is still relatively low (see Indicator 1.14). However, given high participation in international trade, the share of domestic value added in gross exports is much lower than the average of EU Member States and countries that rank among the innovation leaders according to the European Innovation Index (EII) (Indicator 1.10). In the long run, Slovenia has made some progress in this area. The share of value added in exports was, on average, slightly higher than in the last economic cycle (2014–2018) compared to the 2005–2008 economic cycle.[46] In this comparison, it increased even more in the innovation leaders, while on average it decreased slightly in the EU as a whole and in the group of Central and Eastern European countries.

[45] The effect of the specialisation of service exports (mainly due to the high share of exports in travel) in 2020 reduced the growth of the export market share of services by about 8 p.p.

[46] The share of domestic value added in exports is characterised by a rather cyclical trend, so we compare the multi-year average of the two economic periods. A more detailed movement of the indicator by years is shown in Figure 29 (right).

Figure 29: There was a significant increase in GVC participation (forward linkages) but a low share of domestic value added in exports



Source: OECD (2022d); calculations by IMAD. Note: The degree of GVV participation continues to measure the share of domestic value added in foreign exports compared to gross exports. According to the European Innovation Index 2021 (EII), the innovation leaders are Sweden, Finland, Denmark and Belgium. CEEC countries are Central and Eastern European countries: Croatia, Bulgaria, Romania, Czech Republic, Slovakia, Poland, Hungary and Slovenia.

1.2.2 Research, innovation and digital capability

Innovation and digitalisation

In the field of innovation, Slovenia is moving away from strategic goals and is increasingly lagging behind both the EU and innovation leaders, while reducing its advantage over other Central European countries. Slovenia has made significant progress in terms of the level of the European Innovation Index[47] for 2021, but this has only returned it to the level it had already reached in 2017.[48] Despite the absolute return, it fell behind other countries, as before 2018 it ranked 11th in the group of strong innovators; in the last three years it fell among moderate innovators and in 2021 ranked 15th in the EU. In terms of the value of EII, in the period 2014–2021, it saw an increase in its lag behind the EU average from two to eleven index points and a lag behind the innovation leaders from 37 to 44 index points. Furthermore, it saw a reduction in its advantage over other Central European countries in the same period from 30 to 21 index points in 2021; and moved additional 8 index points away from the SDS target to be among the innovation leaders[49] (see Indicator 1.10).

The relative decline is mainly due to significantly too low innovation-related investments by both the Government and the business sector, while progress in sales impacts may indicate a gradual increase in the efficiency of the research and innovation system. Within the component of the innovation index[50] *finance and support*, expenditure on venture capital stands out in particular, where Slovenia ranks last in the EU, and it also lags far behind in expenditure on R&D in the public sector. According to the EII for 2021, at 17th place, it achieves only 62% of the intensity of these supports compared to the EU average, while the innovation leaders exceed the average by 40 p.p. Since 2017, it has also lagged sharply behind the overall indicator of *firm investments*, where it also lagged behind the average of Central European countries according to the last EII. The reason for this is not so much lower investments in R&D, but the marked lag in innovation investments that are not related to research and development,[51] which is also reflected in the lag in the introduction of process innovation for SMEs. In the areas of *linkages* and *human resources for innovation*, Slovenia still maintains a comparative advantage over the EU, but is gradually losing it due to faster progress of other countries. On the other hand, the business sector, at least in accordance with the indicators used, shows above-average results, both in terms of the situation and trends, in the *use of ICT technologies*.[52] In the areas of *intellectual assets,*

[47] The improvement in the value of EII was mainly due to the increase in innovation activity, measured by the survey on community innovation in the period 2016–2018.

[48] When interpreting the results of the EII index over time, it should be taken into account that the data for calculating the index in a given year usually refer to the two-year period before. To illustrate: The EII index for 2017, for example, uses data from the European Innovation Survey for the period 2014–2016, which should be taken into account in particular when defining the success of economic policy measures. Economic policy in the period 2013–2015 influenced the results of the European Innovation Survey for 2014–2016, which was the basis for the calculation of the EII index for 2017.

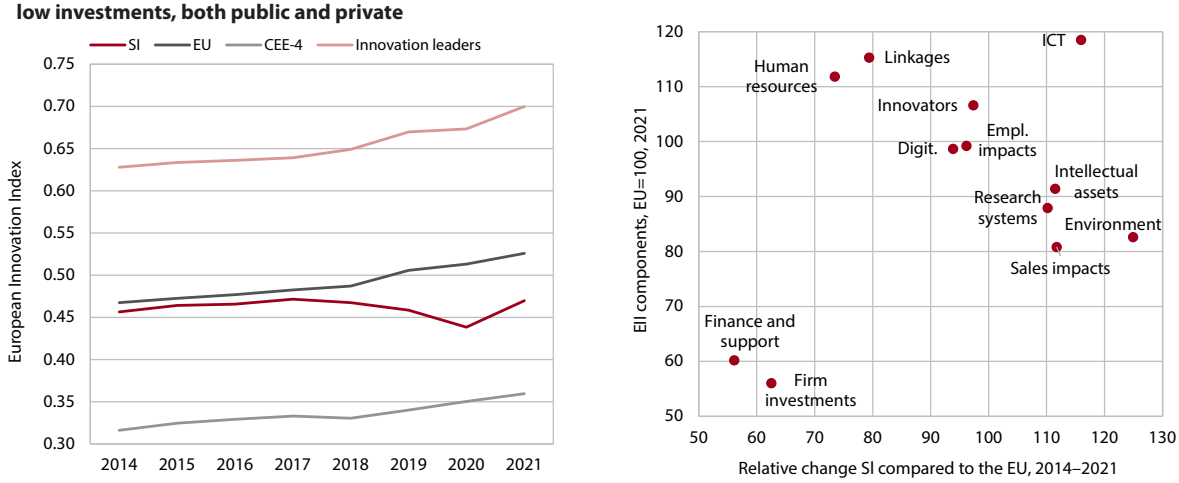
[49] According to the EII 2021, Sweden, Finland, Denmark and Belgium are among the innovation leaders, and these are countries whose EII exceeds 125% of the EU average.

[50] For an overview of all components, see Indicator 1.10.

[51] This refers to expenditure such as purchase of fixed assets (machinery and equipment, software and buildings), intellectual property rights, and external knowledge or training on innovation activities for employees.

[52] The EII related to the use of ICT technologies component is based on two indicators: the share of companies that train employees to acquire ICT skills and the employment of ICT professionals. The DESI

Figure 30: Slovenia is increasingly lagging behind according to the European Innovation Index, which is largely due to too low investments, both public and private



Source: EC (2021o); calculations by IMAD. Note: in the right figure, the ordinate shows the value of the EII in relation to the EU (100), and the abscissa shows the change in the EII in 2014–2021 in Slovenia in relation to the EU, expressed in the index. An index value exceeding 100 means that the increase in the index in an individual component of the EII in Slovenia was greater than that of the EU average or that the change in the index was smaller in Slovenia when it was less than 100. The framework identifies those components where Slovenia is in line with the EU in terms of both level and growth.

attractiveness of the research system, *environmental sustainability* and *sales impacts*, Slovenia is still achieving below-average results, but with faster progress than the EU average.

According to the regional European innovation index, both Slovenian cohesion regions are among the moderate innovators, with slightly greater progress having been achieved in the period 2014–2021 in Zahodna Slovenija. At the regional level, the effectiveness of research and innovation systems is measured by the composite Regional European Innovation Index (REII).[53] According to this indicator, Vzhodna Slovenija rose to 79.8% of the EU average in 2021 (74.1% in 2020) but remained far behind the 2014–2018 peak (around 88% of the EU average). In Zahodna Slovenija, the value of the indicator also increased in 2021 (to 98.1% of the EU average) but was again significantly below the highest value from 2014–2018 (107% of the EU average). Between 2014 and 2021, Zahodna Slovenija improved the efficiency of its research and innovation system more, but both regions lagged far behind internationally, as Zahodna Slovenija fell by 14 and the Vzhodna Slovenija by 18 places among 210 EU regions. If we disregard the concentration of knowledge institutions in Zahodna Slovenija, which provide significant support to the creation and publication of excellent scientific publications, two indicators can be highlighted as a relative advantage in both regions compared to the EU average: product innovators and employees with tertiary education in knowledge-based activities. In Vzhodna Slovenija, the number of PCT[54] patent applications also stands out due to the presence of the pharmaceutical industry, while Zahodna Slovenija has a great share of employed ICT experts.

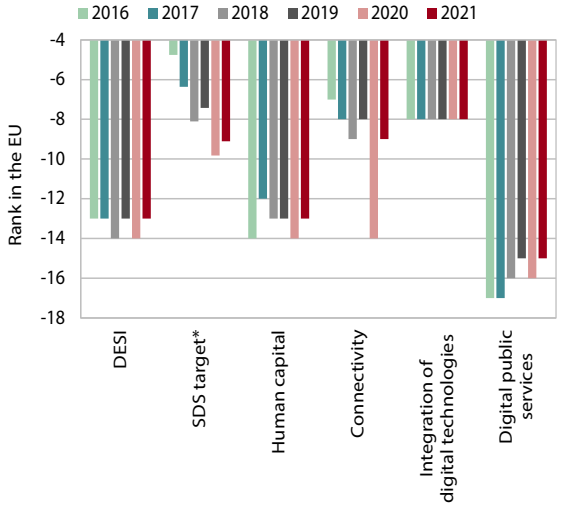
Slovenia is also increasingly moving away from its strategic SDS targets in the field of digitalisation of the economy and society. In the field of economy and society digitalisation (measured by the Digital Economy and Society Index (DESI; see Indicator 1.11) in the EU, Slovenia's ranking has stagnated between 13th and 14th place over the last six years and is even losing its advantage over the EU average (IMAD, 2022). This also widens the gap with the SDS target, according to which the DESI value target is to rank at least among the top nine countries in the EU (Figure 31). By individual dimensions, it achieves above-average results in the areas of connectivity and integration of digital technologies, where it has been around 8th place in the last six years, but with a noticeable reduction in advantages compared to the EU average (IMAD, 2022). In the field of human capital, Slovenia ranks 13th and is slightly above the EU average, but with similar dynamics as the EU. In the field of digital public services, the index score has reached the EU average in 2021 thanks to progress in the use of e-government services.

Index and the Digital Intensity Index of companies, using a wider range of indicators, confirm that the situation when it comes to the use of ICT technologies is above average compared to the EU, but that companies are facing negative trends or losing their comparative advantages (see continuation of the section).

[53] Due to lower availability of data at regional levels, it represents a narrower set of 21 indicators, while 32 were included in the EII in the last measurement (for 2021). For more, see Indicator 1.10 and EC (2021n).

[54] The PCT patent application refers to an international patent application valid in more than 150 signatories. Its purpose is not to grant a patent directly, but to file a patent application and conduct an international inquiry, which informs the applicant of the possibilities for obtaining a patent (for more, see http://www.uil-sipo.si/uploads/media/uil_informacija_PCT.pdf).

Figure 31: According to the Digital Economy and Society Index (DESI), Slovenia is not changing its ranking within the EU but is moving further and further away from the SDS target in this area



Source: EC (2022a); calculations by IMAD. Note: *The »SDS target« shows Slovenia's lag behind the ninth ranked EU Member State, which is the SDS target, expressed in index points in relation to the EU (100). Note: The place in the EU is expressed by a negative value so that improvement in the ranking is also reflected graphically.

In terms of both innovation activity and digitalisation, there is a marked gap between large companies on the one hand and small and medium-sized enterprises on the other. In the period 2016–2018, 86% of large companies were innovation-active, which is enough for 8th place in the EU and even exceeds the share in the innovation leaders by 3 p.p. and the share in the Visegrad Group by as much as 24 p.p. The corresponding shares among small and medium-sized enterprises (SMEs) are noticeably lower (59% and 44%), which is enough for 17th and 16th place in the EU respectively. This is still 16 or 17 p.p. more than the average of the Visegrad countries but as much as 14 p.p. below the average of the innovation leaders. The situation is similar with the digital intensity index, according to which the share of digitally advanced[55] large companies is 77%, which is the fourth highest share in the EU and is only 7 p.p. lower than the average of the innovation leaders, the difference being entirely due to the lower share of large companies with a very high digital index score.[56] Among the medium-sized companies, 40% are digitally advanced and among the small only 20%, which is only slightly above the EU average and suffices for 11th and 12th place respectively. Particularly marked is the gap in relation to the innovation leaders, with the medium-sized companies 22 p.p. behind and the small 16 p.p. behind. However, the difference in both cases stems entirely from the significantly higher share of SMEs with a very low digital index score.

Human Resources

In 2020, the number of researchers decreased after several years of growth and lags far behind the innovation leaders, which is unfavourable in terms of the research and development potential. The growth in the number of researchers in 2016–2019 was mainly due to the business sector (especially manufacturing). In the public sector,[57] their number increased in 2018 and 2019, but this did not compensate for the previous multi-year decline. In 2020, the number of researchers decreased again (by 2.4%), both in the public (by 2.7%) and the business sector (by 2.5%),[58] in contrast both with the EU average and with that of the innovation leaders, where it has increased even more.[59] Their number per 1,000 working population was higher than the EU average (by 9.3%) but 32.2% lower than among the innovation leaders, which indicates that the development of scientific staff requires more attention. Most researchers (60.7% in 2020, the same as in 2019) were employed in the business sector, and their share in 2020 was higher than the EU average and slightly lower than among the innovation leaders. Over the past decade, the share of women researchers had not increased and remained one of the lowest in the EU in 2020,[60] the low share in the business sector standing out. In 2018 and 2019, the share of researchers under the age of 35 increased slightly, but from the point of view of integration between the higher education and business sectors, their share in the higher education sector has been unfavourably reduced (Eurostat, 2022; SURS, 2022b), as younger researchers in this sector are significantly more open to working with the business sector and actively seeking opportunities to commercialise research (Bučar and Verdesoto González, 2017). Regarding the internationalisation of research and development, we note that the share of foreign doctoral students lags behind the innovation leaders (by 10.8 p.p.), though not behind the average of the 22 EU Member States that are members of the OECD (OECD, 2021b);[61] it increased in the academic year 2020/2021 (SURS, 2022b). The share of researchers from abroad (with foreign citizenship), who enrich human capital in research and development, was 4.1% in 2018 and 2019, which was an increase compared to 2017 (by 0.6 p.p.) (SURS, 2022b).

[55] Digitally advanced companies are those that, according to the digital intensity index, are in the group of advanced or very advanced companies.

[56] As data for Poland by company size are not available, comparison of digital intensity for the Visegrad Group is not possible.

[57] The public sector includes the higher education sector and the government sector.

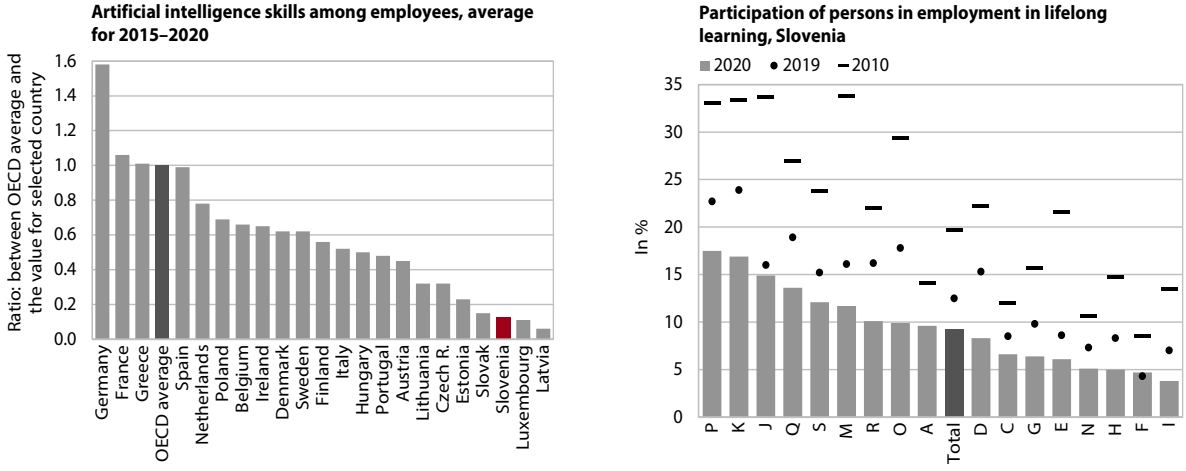
[58] In addition to the public and business sectors, researchers are also active in the private non-profit sector, where their numbers are small despite the increase in 2020 (82).

[59] The number of researchers in the innovation leaders increased by 4.3% in 2020 and by 2.1% on average in the EU (Eurostat, 2022).

[60] In 2020, 32.0% of researchers were women (SURS, 2022b), and in 2019 Slovenia ranked 16th among the 24 EU Member States for which data are available (Eurostat, 2022).

[61] In 2019 (latest available data), the shares of foreign doctoral students were 19.0% for Slovenia, 18.9% for the 22 EU Member States that are members of the OECD and 29.8% for the innovation leaders (OECD, 2021b). In the 2020/2021 academic year, it was 20.8% in Slovenia (SURS, 2022b).

Figure 32: Low artificial intelligence skills1 among employees (left); the sharp decline in the participation of the working population in lifelong learning in the period 2010–2019 in most activities was followed by an additional decline2 in 2020 due to the epidemic (right)



Sources: OECD (2021g) (figure left) and Eurostat (2022). Notes: 1The figure on the left shows the prevalence of artificial intelligence skills in employees, as reported by LinkedIn members in the period 2015–2020. The country-specific values are calculated on the basis of the OECD average of 1. For example, a value of 1.5 means that employees in the given country are 1.5 times more likely to report artificial intelligence skills than OECD average employees. The lowest value is 0, the highest is not specified. 2P – Education, K – Financial and insurance activities, J – Information and communication, Q – Human health and social work activities, S – Other service activities, M – Professional, scientific and technical activities, R – Arts, entertainment and recreation activities, O – Public administration and defence, compulsory social security, A – Agriculture, forestry and fishing, D – Electricity, gas, steam and air conditioning supply, C – Manufacturing, G – Wholesale and retail trade, repair of motor vehicles and motorcycles, E – Water supply, sewerage, waste management and remediation activities, N – Administrative and support service activities, H – Transportation and storage, F – Construction, I – Catering. No data available for A – Agriculture, forestry and fishing for 2019.

Not enough attention is paid to the development of (future) human resources for innovation. According to the EII for 2021, Slovenia's development of human resources in 2020 fell sharply from an otherwise strong starting point, so in the last two years it has been around the EU average in this regard. The lag is related to a decrease in adult participation in lifelong learning and a decrease in the number of new doctors of science and technology (per 1,000 population aged 25–34)[62] (EC, 2021o). This was the same in 2019 as the EU average but from 2017 lower than in the innovation leaders (Eurostat, 2022) and in 2020 decreased further. The total number of new doctors of science also decreased (see Indicator 2.3), which is unfavourable from the point of view of the development of human resources for innovation and the strengthening of the country's innovation potential. The number of researchers participating in the Young Researchers measure increased in 2020 but has not yet reached the 2011 peak (ARRS, 2021), and expressed per 1,000 working population was the lowest in the last ten years (ARRS, 2021; SURS, 2022b). The measure "Young Researchers in the Economy", which has enabled companies to strengthen their innovation capacity and access to basic research, which is the basis for industrial research, has not been implemented for several years. Trends in the share of science and technology graduates in the total number of tertiary education graduates were more favourable – in 2019 it was higher than the EU average (Slovenia: 27.5%, EU: 26.5%) (Eurostat, 2022), but their number decreased in 2019 and 2020, mainly due to demographic trends (smaller generations) (SURS, 2022b) and does not fully meet the demand for such workforce (ESS, 2021a). With the increase in the number of students enrolled in science and technology for the 2018/2019 academic year (SURS, 2022b), it is estimated that their number could increase in the coming years, but this has not yet ensured that their offer in the labour market in the future will be sufficient.

Digital skills are too low for the accelerated digital transformation of the economy, especially when it comes to advanced skills. The share of the population aged 16–74 with at least basic digital skills (basic and advanced together), which is a prerequisite for successful digital transformation of the economy, was 55% in 2019 and close to the EU average (56%) (see Section 2.1), but there is a strong lag behind the innovation leaders (70%). The difference does not stem from basic but entirely from advanced digital skills, and the same pattern can be seen in the qualifications of employees.[63] In addition, in the light of the digital transformation, there is a growing shortage of ICT professionals, and

[62] Slovenia's deterioration is related to unfavourable trends in the number of new doctors of science, according to SURS data (see Indicator 2.3), and to the fact that until 2016 Eurostat also added masters of science to new doctors of science, while since 2017 the data includes only new doctors of science (Eurostat, 2022).

[63] The share of the population (16–74 years) with advanced digital skills was 31% in Slovenia in 2019, the same as the EU average but much lower than in the innovation leaders (45%), while the corresponding share among employees in Slovenia was 37%, against 51% in the innovation leaders (Eurostat, 2022).

small businesses, in particular, have difficulty recruiting them (Eurostat, 2022). This is related to the insufficient number of ICT graduates.[64] Their share in the total number of graduates increased and in 2019 was slightly higher than the EU average but lower than in the innovation leaders, who rank ahead of Slovenia in the digital economy and society index (Eurostat, 2022). With the increase in the number of students enrolled in ICT studies from the 2017/2018 academic year, their number could increase in the future, but this will probably not be sufficient to fill the gap in the supply of such workforce without a further increase in the number of enrolment places. At the same time, attention must be paid to the development of knowledge and skills in the field of artificial intelligence, where Slovenia is one of the worst performers among EU Member States (OECD, 2021g). In order to meet the challenges of the digital economy, which is set to change in the coming years (IMAD, 2022), it is also essential to promote and enable education and (re)training of employees, especially given the multi-year unfavourable trends in workers' participation in lifelong learning, which was further reduced due to the reduced implementation of educational programmes during the 2020 epidemic (Figure 32). Although the trend in the share of companies providing ICT training is not negative, there are major differences between large and other companies. For example, the share is even higher among large companies, which rank third in the EU, than in innovation leaders, while medium-sized enterprises in particular lag far behind: at 41%, they are above the EU average, but 15 p.p. behind innovation leaders.

Developing new knowledge and skills for sustainable economic transformation is a precondition for raising competitiveness and creating new jobs. For a more intensive green transformation of the economy, it is necessary to strengthen the green skills[65] of employees needed for greening the existing and creating new green jobs. The sustainable transformation of the business sector not only affects the composition of jobs, but at the same time increases the need for (re)training of employees whose jobs and professions are threatened by transformation. It is therefore necessary to reverse the markedly unfavourable trends in the participation of the employed and the unemployed people in lifelong learning and to increase investment in it, including in the field of green skills (see Section 2.1). In particular, it is essential to strengthen the development of new high-tech skills for employees, which will enable the transition to a digital low-carbon circular economy (Section 4.1). Furthermore, the role of the population in the sustainable transformation of the business sector should not be neglected, as, through their attitudes towards the environment and climate change and their behaviour as well as their consumer habits, they can influence companies' business decisions and encourage them to develop (more) sustainable products and services. According to Eurobarometer (2021c), more people in Slovenia are taking action against climate change than the EU average, as shown by Eurobarometer (2020a) data,[66] but there is still much potential in this regard. At the same time, sustainable transformation also means an opportunity for companies to take a proactive approach and generate changes in consumer behaviour patterns, thus contributing not only to improving their competitive position but also to addressing environmental and climate issues.

Innovation and digitalisation-related investment

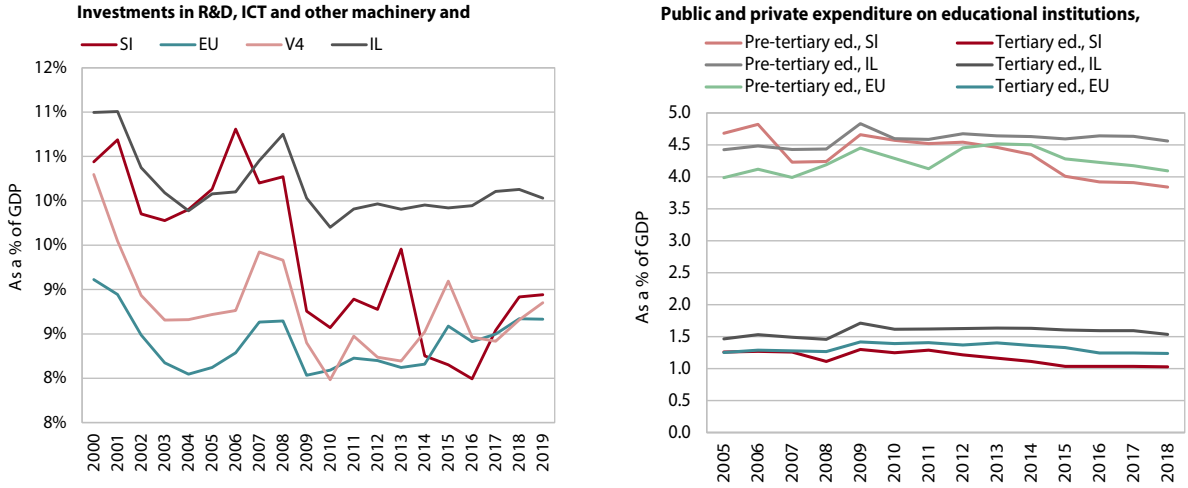
In terms of investments, which, besides human resources, have the most important impact on innovation, digitalisation and robotisation and therefore the strongest contribution to the transformation into a highly productive economy, Slovenia has moved from a leading to an average investor. The analysis of total investments in R&D and ICT and other machinery and equipment shows that between 2000 and 2008 Slovenia invested the fifth highest share within the EU for these purposes, with only a 0.2 p.p. of GDP lag behind the group of innovation leaders. In this period, it exceeded the EU average in terms of the volume of these investments by 1.7 p.p. of GDP and the Visegrad Group (V4) by 1.1 p.p. of GDP. After the outbreak of the global financial crisis in the period 2009–2013, it still maintained a high seventh place, but its advantage over the EU and V4 countries was roughly halved, while Slovenia was already one p.p. of GDP behind the innovation leaders (Figure 33). Such investments decreased the most in the process of fiscal consolidation, particularly in the period 2014–2016. By 2019, their share in terms of GDP had increased, but such investments were also accelerated by other countries. As a result, in the average of the period 2014–2019 Slovenia fell to the EU average in terms of investing in these three groups of investments, while the Visegrad countries had already overtaken it on average by 0.2 p.p. of GDP and the innovation leaders by as much as 1.5 p.p. of GDP. Expenditure on R&D investment increased over the three years to 2020, but in terms of share of GDP, it still lagged behind both the 2013 peak and the EU average and that of the innovation leaders (2020: by 0.2 p.p. and 1.2 p.p. respectively). The adoption of the Research and Innovation Activity Act in November 2021 and the Resolution on Slovenia's Research and Innovation Strategy 2030 in March this year raises positive expectations when it comes to public funding of R&D (which is expected to rise to 1.25% of GDP by

[64] The data on ICT graduates have been available since 2012 (Eurostat, 2022).

[65] Green skills are those skills needed to adapt products, services and processes to climate change and the related environmental requirements and regulations (OECD and CEDEFOP, 2014).

[66] According to the Special Eurobarometer (2020a), 36% of the population in Slovenia (more than the EU average of 31%) avoid buying products with a lot of packaging, 22% (likewise in the EU) buy products labelled with environmentally friendly labels, while 19% (20% in the EU) have changed their diet to include more sustainable foods.

Figure 33: Decrease in total investments in R&D, ICT and other machinery and equipment (left); the same applies to education expenditure, which is low by international standards (figure right)



Sources: Eurostat (2022) (recalculation by IMAD), OECD (2008), OECD (2009), OECD (2010), OECD (2011), OECD (2012), OECD (2013a), OECD (2014), OECD (2015a), OECD (2016a), OECD (2017a), OECD (2018b), OECD (2019a), OECD (2020c) and OECD (2021b). Note: The figure on the left shows total investments in R&D, ICT and other machinery and equipment, expressed as a % of GDP, for Slovenia (SI), the EU (calculated weighted average with GDP, excluding data for Greece, Ireland, Cyprus and Croatia), the V4 (Visegrad Four) and innovation leaders (IL); for Denmark, due to missing data for 2019, the same value is assumed as for 2018. The figure on the right takes into account expenditures for educational institutions, which do not include transfers to schoolchildren or households. Pre-tertiary education includes the second age group of pre-school education, basic education and upper secondary education. The data for the innovation leaders include data for Belgium, Finland and Sweden. The EU average includes Member States that are also members of the OECD.

2030), while at the same time the plans for the use of EU funds, due to the priority orientation towards traditional infrastructure, show that Slovenia is still lagging behind in investing in smart transformation (IMAD, 2022).

Investments in human resource development for the transition to innovation-driven growth are too low for a more intensive innovation breakthrough. Expenditure (public and private)[67] on *pre-tertiary education*,[68] (which is important for the development of future human resources and represents a long-term factor in the knowledge and innovation-based economy), has been declining since 2012 but increased to 4.1% of GDP in 2020. According to the latest international data, in 2018 it lagged behind the EU-22 average (4.1% of GDP; SI at that time: 3.8% of GDP) and especially behind the innovation leaders (4.6% of GDP) (Figure 33 right). Expenditure (public and private) on *tertiary education* increased in 2019 and 2020 (to 1.25% of GDP in 2020) after several years of stagnation but was still 0.10 p.p. below the 2011 peak. In 2018, according to the latest international data, it was one of the lowest among the EU Member States that are members of the OECD (EU-22). In the 2016/2017 academic year, state co-financing was reintroduced (MIZŠ, 2021b),[69] and a year later also systemic regular financing of doctoral studies.[70] In investments in the development of R&D staff, a positive shift was achieved in the direction of increasing government expenditure on the young researchers programme, which was increasing in 2017–2020 (amounting to EUR 24.7 million by the end of that period) but was 21.9% less in 2020 than the highest value (achieved in 2010). As in previous years, more than 60% of them were allocated to science and technology, and in areas with more than 10% only to biotechnology (ARRS, 2021). Public and private investment in lifelong learning, which according to the EII is one of the areas of human resource development in innovation, is low.[71]

The share of budget appropriation on R&D for environmental purposes began to increase significantly after 2014 and is also high by international comparisons, while the share for energy purposes is lower and the increase here was also slower. Unlike the EU and innovation leaders, Slovenia spends most of its expenditure on R&D for environmental and energy purposes on environmental research. In the period 2008–2020, environmental R&D investments were on average almost two-fifths higher than energy R&D investments. The share spent on the environment in total budget appropriations since 2010 has been above the EU average and that

[67] Account has been taken of expenditure for educational institutions in tertiary education, which does not include transfers to schoolchildren or households.

[68] Pre-tertiary education includes the second age group of pre-school education, basic education and upper secondary education.

[69] As the scheme for co-financing doctoral studies from the Structural Funds for the 2011/2012 generation ended, students who enrolled in the 2012/2013 academic year no longer had co-financed doctoral studies (MIZŠ, 2021b).

[70] According to ZViS-K (2016), third-level studies at public higher education institutions are co-financed from the state budget (ZViS-K, 2016).

[71] Public expenditure is low (OECD, 2019c), as is corporate expenditure (EIB, 2020; OECD, 2019h). Employers' expenditure on training per employee was about half lower in 2020 than in 2009 (SURS, 2022b).

of the innovation leaders.[72] The share spent on energy began to increase after 2015 and lags behind the EU average, exceeding the average of innovation leaders since 2016.[73] The combined share of both areas in R&D budget appropriations thus increased from 4.6% to 10.2% between 2008 and 2020, while it decreased in the EU and the innovation leaders (EU: from 7.1% to 6.9%; innovation leaders: from 6.2% to 4.8%), but with smaller total investments in R&D, this does not necessarily mean that Slovenia allocates a higher percentage of GDP for this purpose. In the future, investment in both areas is expected to increase further, given the growing green transition activities (see Section 4). Slovenia has been continuously improving its efficiency in the European Eco-Innovation Index[74] since 2017, and in 2021 it ranked 12th in the EU (2017: 18th), also ahead of Belgium, which is one of the innovation leaders. Among five areas, it ranked above the EU average in eco-innovation inputs due to the very good results of the above-mentioned total budget investments for environmental and energy purposes (third among EU Member States), while in other areas it lagged behind the EU average, most notably in terms of socio-economic outcomes, where it ranked 15th, due to the low share of exports of products from eco-industries. This may indicate a lack of efficiency of relatively high investments to achieve higher value added and competitiveness of the economy.

[72] The latest data are for 2020: Slovenia 6.3% of budget appropriations for R&D, EU 2.3%, innovation leaders 1.6%.

[73] The latest data are for 2020: Slovenia 3.9% of budget appropriations for R&D, EU 4.6%, innovation leaders 3.2%.

[74] The Eco-Innovation Index consists of 16 indicators in five areas: (i) inputs for eco-innovation, (ii) eco-innovation activities, (iii) eco-innovation outputs, (iv) resource efficiency outcomes and (v) socio-economic outcomes (EC, 2021x).

2 Learning for and through life

In Slovenia, the long-term high participation of young people in upper secondary and tertiary education leads to a gradual improvement in adult education attainment, which is reflected in an increase in the share of adults with tertiary education, but in the labour market there is a mismatch between supply and demand for educational profiles. The achievements of young people in mathematics and science literacy are also very high. In 2020 and 2021, the COVID-19 epidemic intervened in the implementation of education, which encouraged the use of ICT in education and the development of new approaches, but distance education increased inequalities among children and gaps in their knowledge. However, there is a major mismatch between supply and demand in adult knowledge and skills, which, together with the increasing overall labour shortage due to demographic change, limits the availability of adequate human resources for the development of society and the economy. In the structure of tertiary education graduates, there has been a positive shift in the long run towards a higher share of science and technology graduates and of health and social work graduates, but their offer is still insufficient. Immigrants are an important source of labour, so migration and integration policy measures require increased attention. Greater care should also be taken to encourage the return of emigrated experts and increase Slovenia's attractiveness for the employment of domestic experts, which would reduce their migration abroad. A further source of labour force are vulnerable groups (young people, the elderly and other vulnerable groups) who are less integrated into the labour market, so it is necessary to strengthen measures in the field of education and other measures to increase their employment. In the medium term, providing young people and adults with skills for the digital and green transformation of the economy and meeting the challenges of a long-lived society is becoming an increasing challenge, requiring consideration not only of current but also, and above all, of future needs. For this, establishment of a partnership approach in the medium-term forecasting of knowledge and skills needs seems to be crucial. It is also essential

to reverse the long-standing negative trends in adult participation in lifelong learning, i.e. by increasing investment, promoting lifelong learning and making it accessible.

In the field of culture, before the COVID-19 epidemic, the supply of cultural content was good, the trends in attending cultural events were mostly favourable and amateur culture was expanding. For many years, there have been mostly unfavourable trends in the field of publishing and public libraries, digitalisation in the field of culture has been too slow, and the development of language resources and technologies that contribute to the development and preservation of the Slovenian language has lagged behind. In 2020, the COVID-19 epidemic had a negative impact on the accessibility of cultural content, and the gap was only partially filled by the web. Containment measures have had a negative impact on the situation of the cultural and creative sectors, especially the non-institutional part. There were fewer opportunities for international cooperation in culture and thus for its promotion abroad. In order to develop culture and strengthen its role in social and economic development, the conditions for its operation should be improved, particularly in areas where shortcomings have existed for many years (e.g. publishing and the development of language resources and technologies) and in areas most affected by the epidemic.

2.1 Education

Knowledge and skills for a high quality of life and work (Development Goal 2):

The aim is to promote high-quality and accessible learning for and through life in order to improve the competitiveness of the economy and the prosperity of society. The goal will be realised through the promotion of learning for and through life across the entire population, with incentives for those with lower educational attainment and other marginalised groups to participate in education, with improvement of the functional literacy of young people and adults, by making sure education is efficient and of a high quality, by linking the education system to the economy, and by developing skills to improve employability. The realisation of this goal is essential for an active and healthy life, which the SDS addresses in Development Goal 1, for an inclusive labour market and quality jobs, which are addressed in Development Goal 7, for a decent life for all, which is addressed in Development Goal 3, for the competitiveness and digital transformation of the economy, which is addressed in Development Goal 6, and for sustainable development, which is addressed in Development Goals 8 and 9.

SDS 2030 performance indicators for Development Goal 2:

	Latest data		Target value for 2030
	Slovenia	EU average	
Participation in lifelong learning, in %	8.4 (2020)	9.2 (2020)	19
Share of population with tertiary education, in %	35.9 (2020)	32.8 (2020)	35
PISA results, ranking among EU Member States	Mathematical literacy: 5th Scientific literacy: 4th Reading literacy: 9th (2018)		Ranked in the top quarter of EU Member States

The educational structure of the adult population is gradually improving with the long-term high participation of young people in upper secondary and tertiary education. The participation rate of children in basic education has been above the EU average for many years, as has the participation rate of young people in upper secondary and tertiary education, which in 2019 remained one of the highest among EU Member States.[75] As a result, the share of young people (20–24 years) with at least upper secondary education is increasing and in 2020 was well above the EU average.[76] With the transition of younger, better educated persons to older age groups (demographic effect), the share of adults (25–64 years) with at least this level of education has been increasing for many years.[77] The share of adults with tertiary education is also growing; it has been above the EU average for several years and was higher than the SDS target for the first time in 2020 (35%), though it remained lower than in more economically developed countries (Indicator 2.1). However, its share in the private sector lags far behind the public sector, which is not encouraging in terms of increasing the competitiveness of the economy. The improvement in the educational structure is also reflected in the declining share of low-educated people, who on average have poorer employment opportunities and are more at risk of social exclusion. However, in the 45–64 age group, this share is still not insignificant (it was 13.5% in 2020).

However, with relatively high overall participation in formal education, more vulnerable groups, such as children and young people with lower socio-economic status, immigrants, Roma, and children and young people with special needs, face greater difficulties in participating in education. Students with lower socio-economic status perform worse in basic school than their peers and are more likely to enrol in lower and upper secondary vocational education (Cankar, 2020). Despite various measures for participation in education,[78] students with special needs face obstacles (Vršnik Perše et al., 2016), the consequences of which are reflected in their learning achievements.[79] Immigrant students are also facing difficulties in participating in education; the consequences of this are seen in poorer learning achievements than those of non-immigrants (according to the PISA 2018 survey; see Indicator 2.4) and in the much higher proportion of young people (18–24 years) with low education not involved in education

[75] In 2019, the participation of children (6–14 years) in basic education in Slovenia was 97.5% (EU: 93.1%), the participation of young people (15–19 years) in upper secondary education 79.3% (EU: 60.5%) and the participation of young people (20–24 years) in tertiary education 44.5% (EU: 33.4%) (Eurostat, 2022).

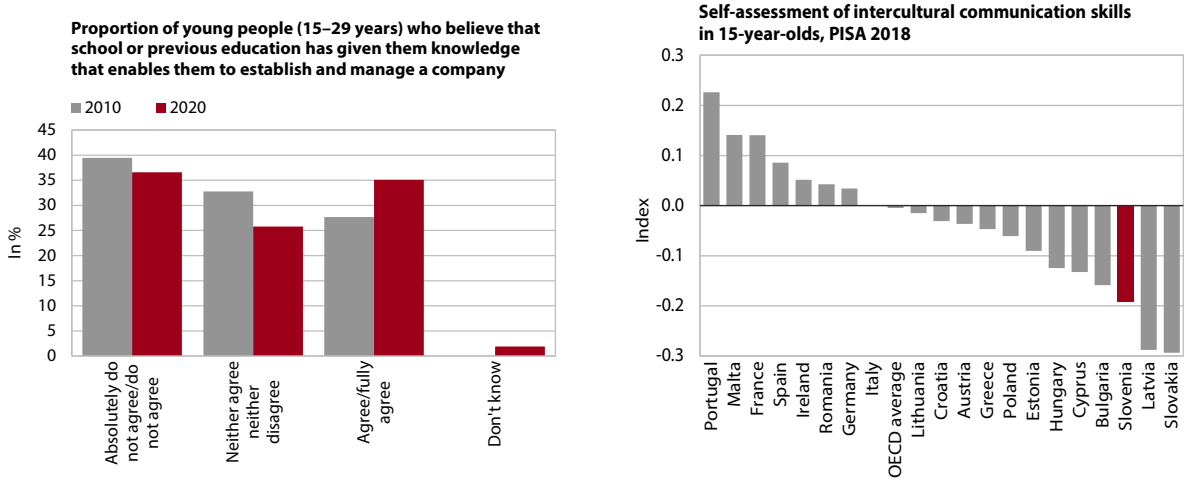
[76] In 2020, the share of young people (20–24 years) with at least upper secondary education totalled 92.8% (EU: 84.3%) (Eurostat, 2022).

[77] In 2020, the share of adults with at least upper secondary education totalled 90.2% (EU: 79.0%) (Eurostat, 2022).

[78] See the Placement of Children with Special Needs Act (ZUOPP-1, 2011).

[79] In regular basic schools, where children with special needs are also included, in the 2019/2020 academic year 3.3% (1.1% in the 2020/2021 academic year) of students with special needs repeated the school year (SURS, 2022b).

Figure 34: Increase in the share of young people who believe that school or previous education has given them the knowledge to set up and run a business between 2010 and 2020 (left) and low intercultural communication skills of 15-year-olds[1] (right)



Sources: Lavrič et al. (2021) (left); OECD (2020d) (right).
Note: [1]The index of the intercultural communication skills of 15-year-olds consists of indicators that measure attention in observing the responses of interlocutors, frequency of checking the correctness of comprehension, attention in listening to the interlocutor, attention in choosing words, explaining their ideas with concrete examples, and attention in explaining things (with gestures, re-interpretation, writing, etc.) when communication problems arise. Fifteen-year-olds assessed their intercultural communication skills according to a hypothetical scenario that presupposes that they are speaking in their mother tongue with people whose mother tongue is different from theirs. Index values range from -1 (worst) to 1 (best). The average of OECD countries is 0; the value of the index for Slovenia is -0.19.

and training.[80] The inclusion of immigrant children in kindergartens, which contributes to the improvement of their Slovenian language skills and preparation for basic school entry, is increasing but in the 2020/2021 academic year still remained lower than the inclusion of non-immigrant children (SURS, 2022b). The Roma face difficulties in participating in education, especially due to their poor knowledge of the Slovenian language (IMAD, 2021a).

Indicators of the quality of young people's knowledge were good in international comparison in 2018, while individual research points to gaps in the knowledge of children and young people due to distance learning. The quality of pre-school education, which is important for the good preparation of children for basic school, is good by international comparison; the ratio between the number of children and the number of educators and assistant educators was also more favourable in 2019 than the EU average (Eurostat, 2022). According to the PISA 2018 survey,[81] the results in reading, mathematics and science literacy of 15-year-olds, which are an indirect indicator of the quality of education, were above average by international comparison. The SDS target (by 2030), which is to be ranked in the top quarter of EU Member States, was achieved in mathematics and science literacy but not in reading literacy. However, some analyses point to shortcomings in working with gifted students (Breznik et al., 2021; Court of Audit of the Republic of Slovenia, 2021e). In 2020 and 2021, the COVID-19 epidemic strongly affected the implementation of education. Individual research has highlighted the negative effects of temporary distance learning on learning goals (Kerneža, 2021; Koštomaj, 2021; Educational Research Institute, 2020). Results of the national examinations, which is not an evaluation of distance learning, but only an integral part of it (Vogrinc, 2021), showed miscellaneous results[82] (RIC, 2019 and 2021). However, the correlation between students' achievements in national knowledge testing and socio-economic status remained similarly high as before distance learning (Rakinić et al., 2021).

In the education of children and young people and adults, there is a need for greater emphasis on the development of key competences. The key competences are those that all individuals need for personal fulfilment and development, employability, social inclusion, successful life in peaceful societies, a sustainable and healthy lifestyle, and active citizenship.[83]

[80] The share of young people (18–24) with low education who are not involved in education and training, which is an indicator of the Action Plan of the European Pillar of Social Rights, was 8.7% in 2020 (EU: (26.6%) and 3.8% for non-immigrants (EU: 8.8%) (Eurostat, 2022).

[81] In Slovenia, 15-year-olds generally attend upper secondary schools.

[82] In 2021, 6th and 9th grade students scored worse in mathematics than in 2019, better in English and better in Slovenian in 6th grade, and about the same as in 2019 in 9th grade. In 2018, the Council of the European Union adopted a recommendation on key competences.

[83] In 2018, the Council of the European Union adopted a Recommendation on Key Competences for Lifelong Learning, which sets out eight key competences: literary competence; mathematical competence and competence in science, technology and engineering; digital competence; multilingual competence; personal, social and learning to learn competence; citizenship competence; entrepreneurship competence; and cultural awareness and expression competence (Council of the EU, 2018).

In Slovenia, there are shortcomings in the development of the reading literacy of children[84] and young people (see Indicator 2.4). Pupils' achievements in foreign languages are relatively good by international standards, but many pupils do not reach the appropriate level of knowledge.[85] The functional literacy of adults is low in international comparison;[86] there are also shortcomings in the development of adult digital skills (see Section 2.1.2). According to the International Civic Education Survey 2016, students in Slovenia ranked in the middle of the 13 EU Member States that participated[87] in the survey in terms of achievements in the field of civic knowledge.[88] Progress has been made in the development of young people's entrepreneurial skills over a longer period of time; according to the Youth 2020 survey, the share of young people (15–29 years) who believe that the school has given them appropriate knowledge to start a business increased between 2010 and 2020 (Figure 34 left). It is also encouraging that adults are increasingly confident in their entrepreneurial skills (GEM, 2021). Basic and upper secondary schools and cultural institutions carry out a number of activities to develop children's creativity in the context of cultural and artistic education (see Section 2.2). However, shortcomings are present in the development of intercultural skills, which are a necessary condition for intercultural dialogue and important for living and working in multicultural societies. Fifteen-year-olds' self-assessments in the PISA 2018 survey showed that they were less interested in learning about other cultures[89] and lacked intercultural communication skills (Figure 34 right). Increased immigration increases the need to develop adult intercultural skills and promote intercultural dialogue. Attention is also paid to the development of the emotional and social skills of children and young people, which will be even more important in the future (OECD, 2019g), while the implementation of distance education during the epidemic in 2020 and 2021 has reduced opportunities for their development (Rupnik Vec et al., 2020). In adults, there are also shortcomings in social intelligence (OECD, 2021k).

The temporary implementation of distance education in 2020 and 2021 stimulated the development of new approaches in the education of children and young people and the use of ICT in education, while during the epidemic, differences in access to education increased, and the changed way of education also had other negative consequences for children and adolescents. In 2020 and 2021, as a result of COVID-19 containment measures, basic and upper secondary education was provided remotely most of the time, facilitated by a number of activities (Court of Audit of the Republic of Slovenia, 2020). Schools also showed a high degree of innovation (Ekipa Učitelj sem! Učiteljica sem!, 2021). Distance education has further encouraged the use of ICT in education, but problems have arisen due to the lack of coverage of some areas with fixed broadband infrastructure (IMAD, 2021c) and inequalities in the education conditions of children and young people at home have come to the fore.[90] Children and young people were deprived of important school functions (e.g. socialisation, psychological and emotional support, and (healthy) nutrition) (Jeriček Klanšček et al., 2021); they had more mental problems and decreased motor skills (see Section 3.1). Pupils and students from vulnerable groups, who generally have poorer learning conditions at home and are less able to count on the help of their parents, have found themselves in greater distress than their peers (Advocate of the Principle of Equality, 2021a). The epidemic has also affected children attending kindergarten, in particular the social and emotional development of some children due to the partial closure of kindergartens (Jager et al., 2021).

During the epidemic, higher education students also faced obstacles in their education, although higher education institutions made a number of adjustments to the study process during this period. During the COVID-19 epidemic in 2020 and 2021, study was temporarily conducted online. The survey performed by the National Institute of Public Health on the experience of the epidemic among higher education students in February and early March 2021 showed that a good quarter of students assessed the experience of distance learning as successful, but students also point out many related problems[91] (Gabrovec et al., 2021). In

[84] According to the International Reading Literacy Survey PIRLS 2016, Slovenia ranked 13th (4th grade students) among the 22 EU Member States that participated (Educational Research Institute, 2016).

[85] According to the European Survey on Language Competence (ESLC 2011), 9th grade basic school students show above-average achievement in English and German in listening comprehension and written communication and average in reading comprehension. The drawback is that a large proportion (41%) of students do not reach the required level of proficiency in reading comprehension in English (Educational Research Institute, 2012).

[86] According to the International Adult Skills Survey PIAAC, 400,000 adults have low literacy and numeracy skills (i.e. below the threshold of functional literacy) (OECD, 2017c). Literacy and numeracy skills are lower than the average of the 19 EU Member States that are members of the OECD (OECD, 2016c).

[87] At the IEA ICCS 2016 International Survey on Civic Education, the civic knowledge of 8th grade basic school students was assessed through questions about society and its systems, civic principles and civic identity (Klemenčič et al., 2019).

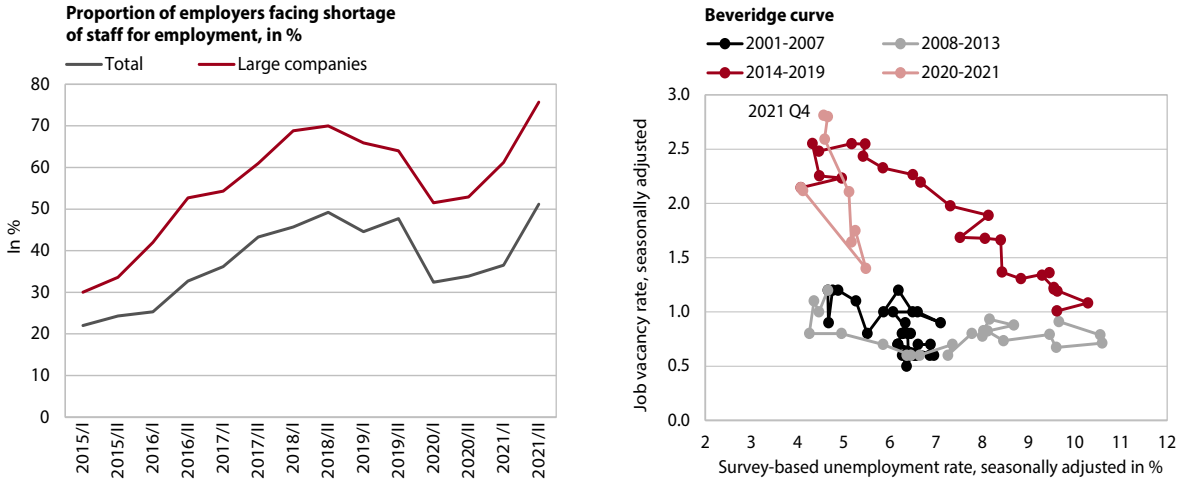
[88] 13 EU Member States participated in the survey, among which Slovenia ranked 6th in terms of student achievement in the field of civic knowledge, after Denmark, Sweden, Estonia, Finland and Belgium (Flanders) (Klemenčič et al., 2019).

[89] The PISA 2018 survey measured the interest of fifteen-year-olds in learning about other cultures using an index that measures interest in the lives of people in other countries, religions around the world, the views of people from other cultures and in inquiring about the customs of other cultures. The index has values from -1 (minimum interest) to 1 (maximum interest). The average of OECD countries is 0. The value of the index for Slovenia is -0.1 (OECD, 2020d).

[90] According to the Health Behaviour in School Aged Children (HBSC) survey, conducted online in October 2020 on a sample of 9th-graders and upper secondary school seniors, about a tenth of young people did not have access to a computer, tablet or phone to work for school or had it rarely, while about 15% of them did not have their own space to learn (Jeriček Klanšček et al., 2021).

[91] For example lack of motivation to perform study obligations, low quality of ICT equipment and internet connection, and inadequacy of the premises in which they study.

Figure 35: The shortage of suitable labour (left) and the Beveridge curve – the link between labour supply and demand – do not yet point to a permanent deterioration (right)



Sources: ESS (2014), ESS (2015a), ESS (2015b), ESS (2016), ESS (2017a), ESS (2017b), ESS (2018a), ESS (2018b), ESS (2019a), ESS (2019b), ESS (2020a), ESS (2020b), ESS (2021b) and ESS (2021c) (figure left) and SURS (2021c) (figure right).

this case, too, students from families with lower social status found themselves in a more difficult position. The obstacles posed to students by the challenge of studying from home also made it difficult to fulfil their study obligations (ŠOS, 2021). Students who were unable to complete their study obligations regularly and on time due to the epidemic were entitled to an extension of their student status in the 2020/2021 academic year (ZIUZEOP, 2020), which was reflected in a reduction in the number of graduates (SURS, 2022b) and their smaller supply on the labour market. In the 2021/2022 academic year, the study process was no longer conducted remotely and there were problems in fulfilling study obligations due to referrals to quarantine (ŠOS, 2022).

2.1.1 Skills mismatches and lifelong learning

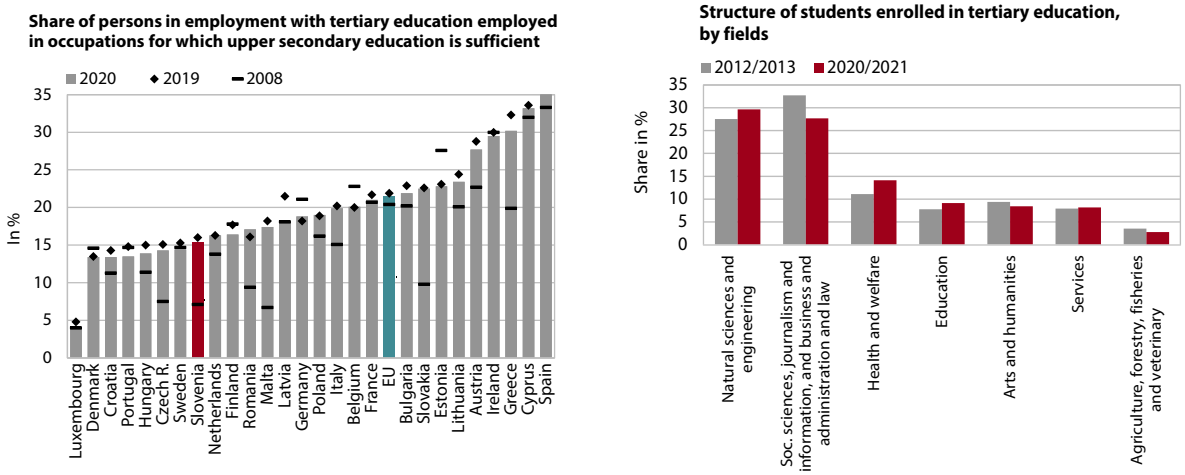
Skills mismatches, together with growing general labour shortages due to demographic change, reduce the availability of adequate human resources for the development of society and the economy. Before the COVID-19 epidemic, more and more companies faced difficulties in finding suitable staff. This is associated with a general labour shortage caused by demographic change, high labour demand during economic growth, lack of interest in certain professions among young people and low reputation of some professions (Indicator 2.4). In 2020, due to the epidemic and the decline in economic activity, significantly fewer companies had such problems, but as the economy recovered, their share began to increase, and in the second half of 2021 there were more than half such companies or three-quarters of large companies among them (Figure 35 left) (ESS, 2021c). For many years, there has been a lack of profiles with upper secondary vocational and professional education for work in the business sector.[92] In 2022, according to the Professional Barometer, there is a shortage of staff for many professions in the fields of health, ICT, construction, transport, accommodation and food service and education and a surplus of staff was detected in graduates of arts and humanities, some social studies and upper secondary educated workers (e.g. secretaries) (ESS, 2021a). From the point of view of tackling the challenges of a long-lived society and also in the light of the COVID-19 epidemic, the shortage of staff in healthcare and long-term care is becoming increasingly acute; with the accelerating digitalisation of the economy, there is also a severe shortage of ICT professionals (see Section 2.1.3). At the same time, during the epidemic, the opportunities for education and training of persons participating in job retention measures[93] were underused, and the implementation of AEP programmes was curtailed (see Section 3.3) (MDDSZ, 2021a).

At the macro level, structural imbalances in the labour market are measured by the Beveridge curve showing their increase in 2014–2019. This curve shows the relationship between the unemployment rate and the vacancy rate; its position and shifts over time may indicate an increase or decrease in matches between

[92] According to the Employment Forecast (ESS, 2021c), there is the greatest shortage of bricklayers and related workers, heavy truck and lorry drivers, welders and flamecutters, manufacturing labourers, waiters and bartenders, sales workers, cooks, building and related electricians, and metal working machine tool setters and operators.

[93] According to the emergency legislation (PKP), in the second half of 2020, jobseekers included in the short-time work measure and jobseekers who were sent on temporary layoff could be included in AEP programmes but only eight people joined informal education and training programmes (MDDSZ, 2021a). The reason for the low number of participants could be attributed to the expectations of employees that they would only be temporarily laid off or work part-time.

Figure 36: The sharp increase in the share of people with tertiary education employed in occupations for which upper secondary education is sufficient since 2008 (left) and the shift towards a higher share of those enrolled in science and technology and a lower share in social sciences (right)



Sources: Eurostat (2022) and SURS (2022b).

labour supply and demand.[94] As can be seen from Figure 35 (right), labour market imbalances were much higher in the period after 2014 than in the period 2001–2013, which could be related to the long-term impact of high unemployment during the global financial crisis and related exits to inactivity, stagnation, or a decline in the skills of long-term jobseekers. However, the increase in disparities during this period may also be due to changes in the structure of industries and thus the demand for certain occupational profiles. In the period of the COVID-19 epidemic, especially in 2020, the curve does not indicate an increase in disparities, but its counter-clockwise movement is associated with a decline in economic activity and thus lower labour demand, and in 2021 with again strengthening demand and thus a higher vacancy rate.

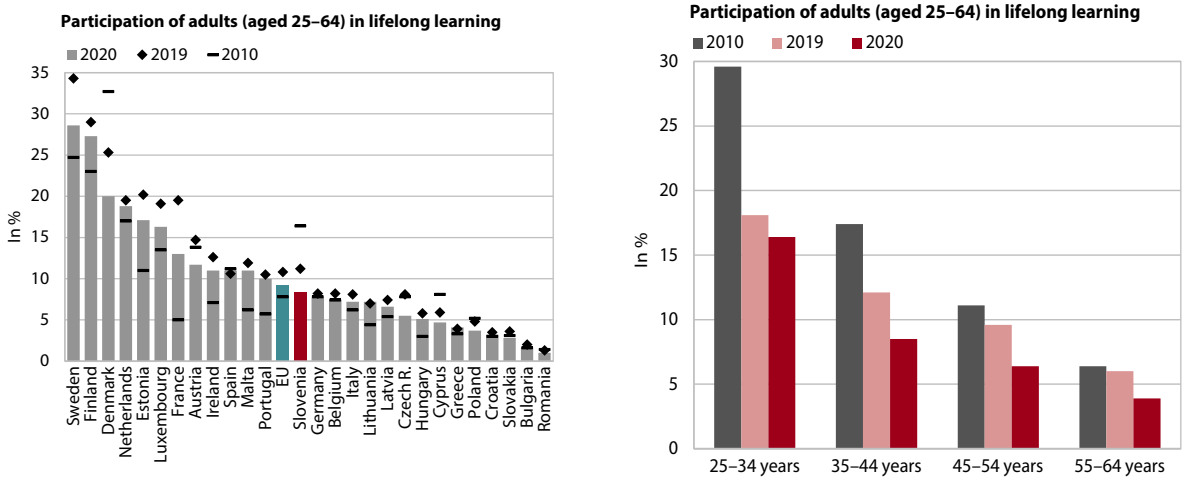
In addition to addressing current skills, it is essential to focus on future skills needs. These will soon be significantly different from the current ones due to technological developments and digital and green transformation (IMAD, 2022). These trends affect the changing professional structure of employees and the need for knowledge and skills in existing jobs, which increases the need for education and (re)training of employees. It is essential to establish a responsive system of adult education and training that is based on consideration of future needs when planning education and (re)training. In order to have a comprehensive picture of these needs, the establishment of a responsive and partnership-based system for forecasting medium-term skills needs which includes educational institutions, trade unions, employers and other stakeholders is crucial. Slovenia has in fact only very recently been included in the monitoring of needs for occupations with the Employment Forecast (ESS, 2021c) and the Professional Barometer (ESS, 2021a). In addition, some weaknesses need to be overcome, such as the lack of cooperation between different stakeholders at national, regional and local levels in human resource development (SIAE, 2021). Given the rapidly changing needs for knowledge and skills (IMAD, 2022), lifelong career orientation and motivation of adults for (re)training must be strengthened, while the development of systems for the evaluation of non-formal and informal learning requires greater attention (SIAE, 2021).

Young people who are not in education, employment or training (NEET) are over-represented in some socio-economic groups and represent a potential source of labour. In Slovenia, the share of NEET decreased from 2015 to 2019, which is attributed to favourable economic trends, general labour shortages and government measures for youth employment. In 2020, it increased due to the deteriorating labour market situation caused by the COVID-19 epidemic, but with high participation of young people in upper secondary and tertiary education, it remained one of the lowest among EU Member States[95] (Eurostat, 2022). In some groups, nevertheless, it is high. Thus young people moving from school to the labour market are often unable to find immediate employment, especially due to mismatches between their education and the needs of employers and to their

[94] The curve shows the relationship between excess labour supply (survey unemployment rate) and excess labour demand (vacancy rate). Shifting the curve left and down over time may indicate an increase in the match between labour supply and demand, while a shift up and to the right may indicate a decrease in the match and greater structural disparities when higher labour supply is also present alongside higher labour demand.

[95] The share of NEETs (15–29 years), which is the leading indicator of the Action Plan of the European Pillar of Social Rights (EC, 2021c), was 9.2% in Slovenia in 2020 (EU: 13.7%) (Eurostat, 2022).

Figure 37: Strong decline in adult participation in lifelong learning* since 2010 and low participation of older people in lifelong learning (right)



Source: Eurostat (2022). Note: *The indicator is calculated according to the currently applicable methodology of the Labour Force Survey.

lack of relevant work experience (MDDSZ, 2021c), so in the age groups 20–24 and 25–29, the share of NEETs increases markedly (and is higher for women than men). The share of NEETs (15–29 years) is also high among immigrants (Eurostat, 2022), Roma and young people with health problems (OECD, 2021f). Young people who are neither in education, employment or training are at risk of social exclusion, so it is necessary to strengthen the measures to integrate them into education and the labour market. Actively tackling this issue is also important in view of incompatibilities in the labour market and labour shortages. The Ministry of Labour, Family, Social Affairs and Equal Opportunities (MDDSZ, 2021c) emphasises the need to design educational and employment programmes tailored to the needs of groups of young people within AEP programmes to which Slovenia allocates relatively few funds (see Section 3.3) (OECD, 2021f), motivating for re-education, strengthening lifelong career guidance, gaining relevant work experience during studies and strengthening measures for NEET young people who are not registered as unemployed at the Employment Service of Slovenia.

In the absence of suitable workforce, it is increasingly important to attract staff from abroad and integrate them into society. With demographic changes, favourable economic trends and the growing needs of employers for labour, along with incompatibilities in the supply of staff, immigrants represent an additional potential source of labour with appropriate knowledge and education. Upon arrival in another country, the knowledge of the official language of that country is important for an immigrant to be employed and integrated into society, but in Slovenia the Slovene language course is relatively short and payable for some groups of immigrants. The successful integration of immigrants into the labour market requires the consistent implementation of the Labour Market Regulation Act, which stipulates the learning of the Slovene language at the basic level for the unemployed (ZUTD-E, 2019). In addition, there are shortcomings in ensuring adequate working and living conditions for immigrants. Immigrants to Slovenia are particularly low- and upper secondary-educated and usually in lower-paid jobs, which, as the Asylum Working Group and Counselling Office for Workers (2021) point out, are often subject to inadequate working and living conditions. This may reduce their motivation to stay in Slovenia longer and increase the supply of labour in the long run; as a result, more attention should be paid to integration policies. In addition, the reception of immigrants by the majority population requires attention, as according to SJM 2018/1 more than 60% of respondents are in favour of restricting immigration of people from other countries, with 25.1% in favour of restricting immigration even of people from abroad with skills and professions that Slovenia lacks (Toš, 2021). The supply of workforce on the labour market can also be enriched by talent from abroad, but the attractiveness for talent in Slovenia is lower than in most economically developed EU Member States[96] (IMD, 2020). Another potential source of labour are foreign students, whose share in 2019 was lower than the international average.[97] Despite the epidemic, it increased in the 2020/2021 academic year, but the restrictions on conducting studies in English and, from the 2021/2022 academic year, the tightening of the conditions for proving sufficient means of subsistence make it difficult to recruit foreign students.[98]

[96] Slovenia is ranked 16th among 26 EU Member States in terms of attractiveness for talent in 2020 (IMD, 2020).

[97] The share of foreign students in the academic year 2020/2021 was 9.2%; in 2019 (the latest international data) it was 6.7%, while the average of the 22 EU Member States that are members of the OECD was 7.5% (OECD, 2021b).

[98] Conditions for students' stay in Slovenia have been tightened by the Act Amending the Aliens Act (ZTuj-2F) (2021).

Box 4: EU targets for adult education and training by 2025 and 2030

The Skills Agenda and the European Pillar of Social Rights Action Plan 2030, adopted at the EU level in 2020, oblige Member States to increase adult participation in education and training. The purpose of the *European Skills Agenda for sustainable competitiveness, social fairness and resilience* is to promote digital (see Section 1.2.2) and green (see Section 4.2) transition by developing the relevant skills of young people and adults, to ensure the recovery of society and the economy after the COVID-19 epidemic, and to ensure social fairness. One of the targets set is an annual participation of at least 50% of adults in education or training at the EU level by 2025. The source of data for calculating the indicator will be Labour Force Survey, and the methodology for calculating the indicator will be aligned with the Adult Education Survey (EC, 2020h), which is quite different from the methodology for calculating the SDS target on participation in lifelong learning.

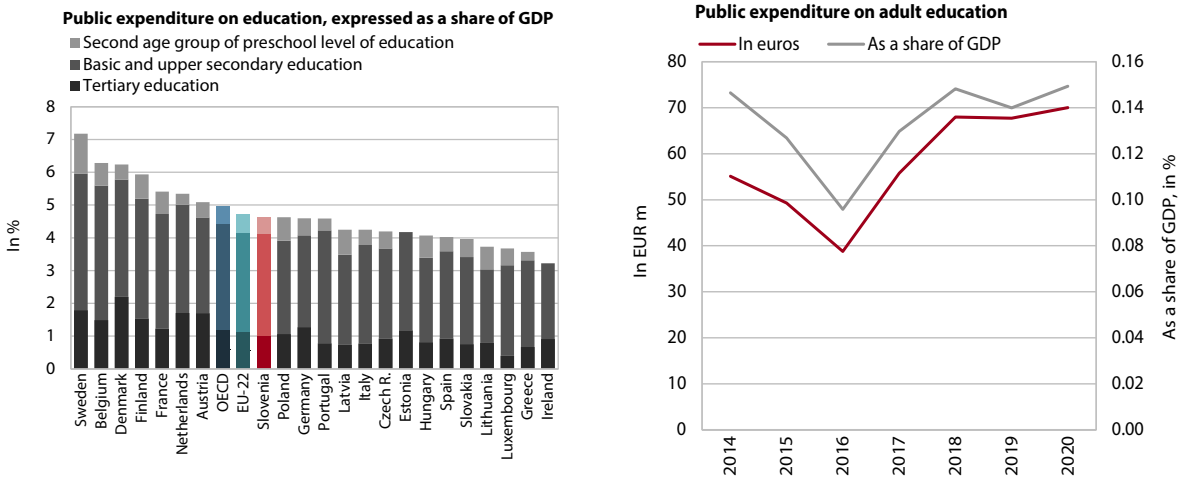
The European Pillar of Social Rights Action Plan lays down that by 2030 at least 60% of all adults in the EU should participate in education and training every year (EC, 2021c). In addition, EU Member States will have to set their own national targets for adult participation in education, which for Slovenia is at least at 60%.[1] This means that in Slovenia it will be necessary to increase the expenditure for adult education and the culture of lifelong learning, to develop new education and training programmes for life and work in a changing society, and to improve the accessibility of education for all social groups, with a special focus on less represented ones (IMAD, 2021a). In 2022, the National Assembly adopted a Resolution on the National Programme of Adult Education in the Republic of Slovenia 2022–2030 (ReNPIO 2022–2030) (MIZŠ, 2022b), which envisages the development of educational programmes for adults and the promotion of participation in them, the development of new approaches in adult education, the strengthening of partnership development between various stakeholders in the development of educational programmes, the development of lifelong career orientation, and many other activities. The implementation of these activities is expected to contribute to the pursuit of the Resolution's targets: (a) to increase adult participation in lifelong learning, (b) to increase the level of basic skills and improve the general education of adults, (c) to increase the educational level of adults, (d) to increase the population competence for successful responding to the needs of the labour market, (e) to strengthen research and development in the field of adult education, and (f) to improve and strengthen activities in the field of adult education. The implementation of the resolution is also expected to contribute to the realisation of the European Pillar of Social Rights.

[1] According to the methodology of the Adult Education Survey, which is different from that of the Labour Force Survey, on which the target of SDS 2030 on participation in lifelong learning is based.

The long-term decline in the participation of adults in lifelong learning is extremely negative in terms of their integration into society, their employability and their ability to cope with development challenges. Their participation has been largely declining since the 2010 peak and further declined in 2020 due to COVID-19 containment measures (Figure 37 left), thus further moving away from the 2030 SDS target (Indicator 2.6). Participation has decreased among the working population and the unemployed, which makes it more difficult for them to cope with rapid changes in the workplace (including in the light of the green and digital transition); for the unemployed, this reduces their employment opportunities, which also has an unfavourable impact on labour market disparities, given the overall labour shortage. The decline in participation over the last ten years was highest in the younger age groups, where the ongoing updating and acquisition of additional skills would be particularly important, as their expected period of employment is the longest. For many years, participation in lifelong learning has been low among people with low levels of education, which can lead to greater difficulties in adapting to changes in the labour market, and among older people, which limits their ability to maintain and prolong work and a healthy and active life (see Section 3.1). Low participation of immigrants in lifelong learning also has a negative impact on their integration into society. In 2020, adult education was strongly influenced by the implementation of COVID-19 containment measures. There was less adult education, especially non-formal education, than planned, though formal education was mostly provided (Možina, 2022). In this regard, particularly vulnerable groups of adults lacked ICT equipment and adequate digital skills, while workers in occupations that were most under pressure during the epidemic lacked time.. However, some adults saw distance education as an advantage, as it eliminates some of the disadvantages of traditional education (distance, time constraints, etc.). The advantages of distance learning should continue to be used and thus promoted in the future, while at the same time educational didactics should be further developed and adults should be supported in overcoming barriers to participation.

Strengthening investments in education for children, young people and adults is essential for developing the skills needed to face the challenges and opportunities of green and digital transformation, a long-lived society and other development trends. Public expenditure on formal education, which is mainly intended for the education of children and young people,

Figure 38: Public expenditure on education lagging behind the leading countries (left); public expenditure on adult education,[1] expressed as a share of GDP, in 2020 approximately at the 2014 level (right)



Sources: OECD (2021b) and SIAE (2021). Note: [1]Shown realised funds of ministries (MIZŠ, MDSZ, MAFF, MZ, MK, MNZ, MOP, MJU, MP, Mzl) for adult education under the annual adult education programmes.

mostly decreased in 2010–2020, and in 2018, according to the latest international data, was lagging behind the EU-22 average (Indicator 2.5) and much more behind the leading countries (Figure 38 left). Public expenditure on adult education has increased nominally after a considerable fall in recent years.[99] Expressed as a share of GDP, it reached 2014 levels in 2020 (Figure 38 right) and is too low given the many needs for skills for the green and digital transformation and to meet the challenges of a long-lived society and other development trends. In Slovenia many activities aimed at developing the education of children and young people are (co) financed by EU funds, and the dependence of the adult education on these funds is even greater. In the coming years, funds from the Recovery and Resilience Facility and the European Cohesion Policy (SVRK, 2021a) will be available to develop skills of children, young people and adults relevant for green and digital transformation and meeting other development challenges. The Partnership Agreement between Slovenia and the European Commission for the 2021–2027 period also provides that development gaps are addressed through education and training (SVRK, 2021c).

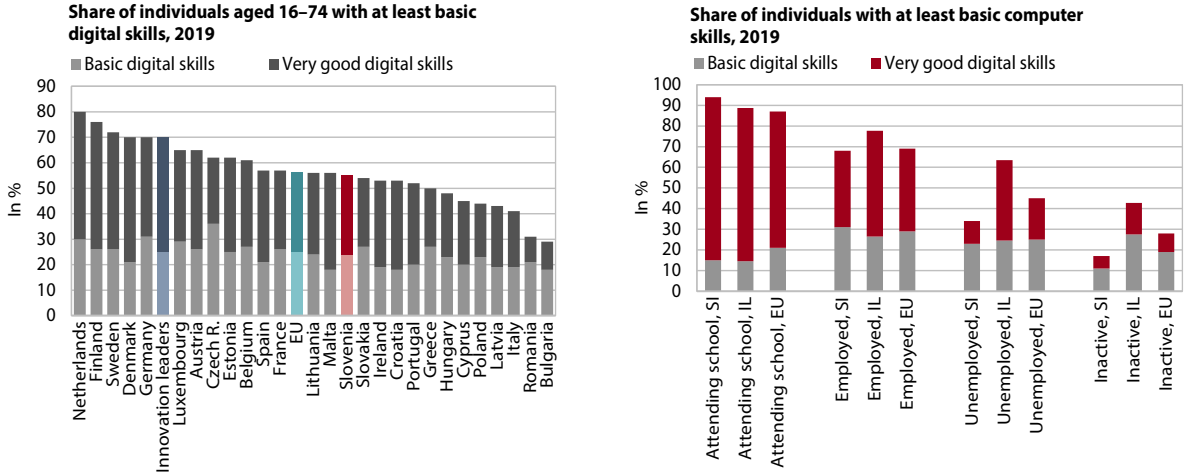
2.1.2 Skills for sustainable and green transformation and a long-lived society

Further enhancement of education relating to sustainable development is essential for faster sustainable transformation. In Slovenia, contents related to sustainable development are present in basic and upper secondary education, and the results of the PISA 2018 survey (OECD, 2020d) warn of gaps in knowledge of the climate issue, which is closely linked to environmental issues and sustainable development and knowledge of the impact of economic development on the environment in fifteen-year-olds. It is encouraging that the Integrating Climate Topics into the Broad Process of Education Development programme is being implemented, and numerous activities are being carried out at the pre-school, basic school and upper secondary school levels and in adult education (MIZŠ, 2021a). Adults can also take part in education for sustainable development activities implemented by the SIAE (SIAE, n.d.) and folk high schools (ZLUS, 2021) and activities within the Week of Education for Sustainable Development, (ZISS, 2021) the European Mobility Week (MI, 2021) and the Eco Fund (2020). Nevertheless, adults express the need for additional training (ZLUS, 2021). These findings are affirmed by Eurobarometer data (2020a) showing that less than a quarter of respondents in Slovenia (similar to the EU average) believe that more training and information should be provided on environmental topics (energy saving, waste management, etc.). In the light of increasing fuel prices and energy poverty and confrontation with climate change, it is increasingly important to develop energy literacy for all population groups. At the same time, it is essential for the sustainable transformation of the economy to strengthen the green skills of employees (Section 1.2.2).

Improvement of digital skills is indispensable for faster digital transformation of society and economy. According to data for 2019, the proportion of young people (16–19) with at least basic (basic and advanced) digital skills was 92% and higher than on average in the EU (82%), while for 16–74 year olds this proportion was 55% and close to the EU average (56%), but far behind

[99] The inter-annual variation in public expenditure is influenced by the availability of ESS funds that are part of public expenditure on adult education.

Figure 39: Average digital skills of the population in Slovenia (left) and low digital skills of the unemployed and inactive (right)



Source: Eurostat (2022). Notes: [1]The figure to the right shows residents regardless of age. [2]SI – Slovenia, IL –innovation leaders according to the European Innovation Index 2021 (Belgium, Denmark, Finland and Sweden).

the innovation leaders, the difference being mainly due to the lag in advanced digital skills (Figure 39 left). There are virtually no differences between women and men in the level of digital skills, but the low digital skills of the elderly, the low-educated,[100] individuals with low income, immigrants, and the unemployed and inactive stand out (Figure 39 right) (Eurostat, 2022); as a result, the digitalisation that has accelerated after the outbreak of the COVID-19 epidemic will be an increasing difficulty for them in integrating into society and the labour market. The share of employees with at least basic digital skills, especially advanced ones, lags behind the innovation leaders, which is slowing the digital transformation of the economy and the lag behind these countries in terms of digitalisation (Section 1.2.2).[101] In the future, the implementation of subsidised educational programmes intended to improve these skills is to contribute to improving the digital skills of residents,[102] whereby it is essential to ensure the appropriate quality of such training. This would contribute to the achievement of the goal of the European Skills Agenda for sustainable competitiveness, social fairness and resilience (EC, 2020h), which foresees, in terms of digital skills, that at least 70% of the population aged 16–74 should have at least basic digital skills by 2025, and the European Pillar of Social Rights target, according to which at least 80% of the population aged 16–74 should attain at least basic digital skills by 2030 (EC, 2020l). In Slovenia, given the great needs of the entrepreneurial sector, the development of digital skills and skills of employees (see Section 1.2.2) is too slow. At the same time, with the increasing problems of companies in the employment of ICT professionals and the increasing needs of the economy for effective digital transformation, it is essential to increase enrolment in ICT studies in tertiary education. In addition, the presence of ICT content in the education of children and youth should be strengthened, as Slovenia, unlike some other EU Member States, has no compulsory subject of computer science in basic schools (EC/EACEA/Eurydice, 2019a), nor is it compulsory in upper-secondary vocational schools (EC, 2020b). Remote training during the COVID-19 epidemic has prompted the use of ICT in education and increased the need for it and has promoted additional investments for this purpose.[103]

Slovenia is also facing a considerable lack of workforce to cope with the challenges of a long-lived society, especially in the field of health and long-term care. The needs for some vocational profiles with upper secondary and tertiary education in the field health and long-term care are increasing due to the ageing of the population and additionally due to the COVID-19 epidemic, and there is a shortage of appropriately trained personnel. Among high school profiles, there is a lack of staff with qualifications for health and social care (ESS, 2021a). This is associated with demanding working conditions and low pay for nursing and healthcare

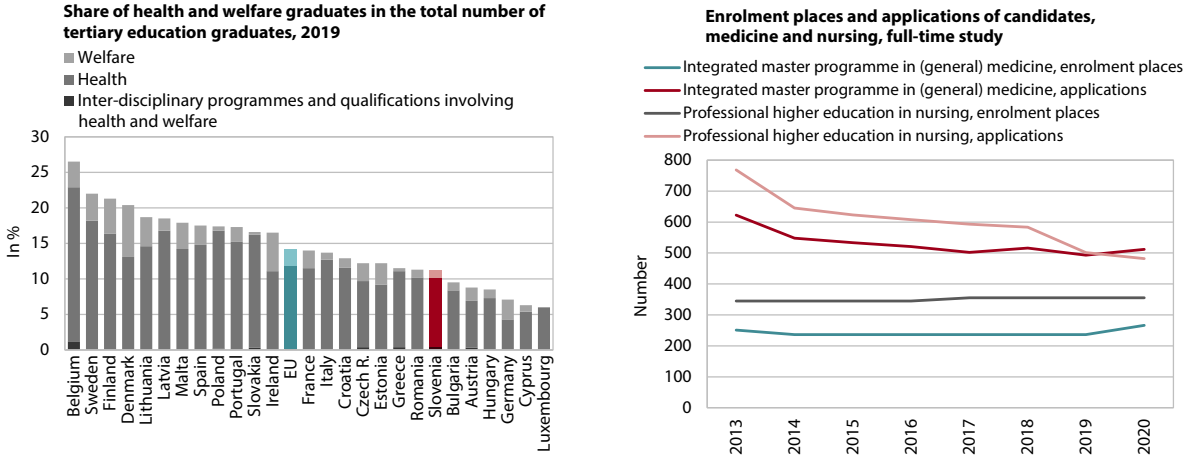
[100] In Slovenia in 2019, 33% of the population aged 55–64 had at least basic digital skills (EU: 40%; innovation leaders: 59%), as did 16% of population aged 65–74 (EU: 24%; innovation leaders: 40%), 32% of population with low education (EU: 32%; innovation leaders: 52%), 47% of population with upper secondary education (EU: 54%; innovation leaders: 67 %), and 90% of population with tertiary education (EU: 84%; innovation leaders: 88%) (Eurostat, 2022).

[101] In 2019, the proportion of employees with at least basic digital skills was 67% in Slovenia (innovation leaders: 78%; EU: 69%), while 37% had well-developed digital skills (innovation leaders: 51%; EU: 40%) (Eurostat, 2022).

[102] See The Digital Inclusion Act adopted in 2022 (ZSDV, 2022).

[103] In 2021, the Government Office for Development and European Cohesion Policy approved European funds for the "REACT-EU – ICT" programme for the purchase of modern information and communication technology for educational institutions of EUR 16.2 million, of which the European Regional Development Fund will contribute EUR 13.6 million (SVRK, 2021d).

Figure 40: Low share of health and welfare graduates (left) and many years of large surplus of applications for the study of medicine and nursing* in relation to the number of places available (right)



Sources: Eurostat (2022) (figure to the left) and MIZŠ (2022a) (figure to the right). Note: *The figure on the right shows the number of enrolment places and applications of candidates for full-time study of medicine at the Faculty of Medicine of the University of Ljubljana and general medicine at the Faculty of Medicine of the University of Maribor and the number of enrolment places and applications of candidates for full-time study of nursing at the Faculty of Health of the University of Ljubljana, Faculty of Health Sciences of the University of Maribor, Faculty of Health Sciences (Izola), Faculty of Health Sciences (Nova Gorica) of the University of Primorska, Faculty of Health Sciences Novo Mesto and Faculty of Health Angela Boškin. Displayed data apply to the first application deadline.

staff in long-term care and healthcare (see Section 3.1), which discourages employment in these professions in the face of a general labour shortage. The reduction in the number of staff with upper secondary education in health and welfare in recent years has also contributed to the shortage of staff, which is related to smaller generations of young people (demographic changes) as well as to their lower interest in these professions.[104] The number of adults enrolled in such training has also been declining in recent years, so people should be more encouraged to enrol in these programmes and such education made more affordable. Immigrant women who are not employed also represent a potential source of labour in these occupations, so it is necessary to adjust the measures for their greater work activity. In healthcare, there is a shortage of tertiary educated staff – the number of health graduates has even decreased in recent years, and their share, along with the share of health and welfare graduates, therefore remained one of the lowest in the EU in 2019 (Figure 40 left). Therefore, given the otherwise great interest of young people in the study of medicine and nursing, it is necessary to increase the number of enrolment places in higher education (Figure 40 left). Encouragement of doctors to specialise in areas where the shortage is most acute (such as family medicine) also requires more attention, as the Court of Audit of the Republic of Slovenia (2021b) points out.[105] In 2021, in order to increase the number of family physicians, allowances were introduced in the amount of 20% of the hourly rate of the basic salary of a specialist in choosing a specialisation in family medicine (ZNUPZ, 2021). In the same year, by easing the conditions regarding the knowledge of the Slovenian language (ZZdrS-I, 2022), a step was made in the direction of easier employment of doctors from abroad. In addition to ensuring access to healthcare (see Section 3.2), it is also important to develop health literacy, which is crucial for the empowerment and active participation of individuals in caring for their own health. In Slovenia, the National Institute of Public Health is implementing the project Raising Health Literacy in Slovenia (ZaPiS) (NIJZ, 2022c).

[104] The share of young people enrolled in health and welfare in the academic year 2020/2021 was the lowest in the period 2015/2016–2020/2021 (SURS, 2022b).

[105] The Ministry of Health and the Medical Chamber of Slovenia did not make sufficient effort to determine the actual needs for doctors, nor to determine the reasons for their possible lack (Court of Audit of the Republic of Slovenia, 2021b).

2.2 Culture

Culture and language as main factors of national identity (Development Goal 4):

The purpose of the goal is to preserve and develop the national culture and Slovenian language as factors of national identity, the country's visibility, and social and economic progress. The achievement of the goal will be supported by the promotion of participation in culture, development and preservation of culture and cultural heritage, protection of cultural diversity, connection with Slovenians abroad, strengthening of cooperation between businesses and culture, and promotion of creativity and creative industries. In addition, the SDS 2030 refers to digitalisation as an important factor for the preservation and development of the Slovenian language and access to culture and international cultural collaboration as a means to increase the country's visibility. Cultural participation contributes to the development of functional literacy, which is addressed in Development Goal 2, and to achieving a healthy and active lifestyle, which is addressed in Development Goal 1.

Performance indicators for Development Goal 4:

	Latest data		Target value for 2030
	Slovenia	EU average	
Attendance at cultural events, number per capita	2.0 (2020)	N/A	8
Share of cultural events held abroad, in %	2.6 (2020)	N/A	3.5
Open source language resources and tools, number	254 (2021)	N/A	153

Prior to the COVID-19 epidemic, the offer of cultural content was favourable, but in 2020 the epidemic had a markedly negative impact on their accessibility and attendance, and the resulting gap was partially filled by digitalisation. The offer of cultural events was relatively good before the epidemic and attendance was mostly increasing, but in 2020 it decreased significantly due to restrictions on the operation of cultural institutions and the gathering of people outdoors. Cultural institutions have severely curtailed their activities (Figure 41 left), which has been reflected in a sharp decline in attendance at cultural events and exhibitions (Indicator 2.7). In part, the gap in the supply of cultural content has been bridged by the web,[106] but this cannot replace the live experience. On the positive side, in terms of the accessibility of culture, cultural institutions have organised a number of free events (SURS, 2022b). In 2021, in order to encourage cultural visits and support creators and organisers in culture, the possibility of using so-called tourist vouchers for culture was added.[107] Despite the epidemic, some important activities were carried out in the field of culture.[108] Following previous mostly favourable trends, the epidemic in 2020 also curtailed amateur activity, which encourages residents to actively engage in cultural activity and develop their creativity and connecting between generations. Containment measures in 2020 had an impact on the sharp decline in attendance at cultural events and the average number of visits per capita, which deviated significantly from the SDS 2030 target (Indicator 2.7). The COVID-19 epidemic in 2020 and 2021 highlighted the importance of digitalising cultural heritage, where greater steps would be needed (Europeana, 2022). These are also needed in the field of cultural heritage conservation, where strengthening public funds for this purpose could have beneficial effects.[109] The inclusion of selected Plečnik works in Ljubljana on the UNESCO World Cultural and Natural Heritage List in 2021 is also important for its preservation and recognition (MK, 2021b). It is also important to enable and promote the development of non-majority cultures, which is important for their development and preservation and the promotion of cultural diversity. Various cultural activities of Roma (Government Office for National Minorities, 2021) and minority members (MK, 2022; Government Office for National Minorities, 2019) are carried out in Slovenia to this end.

Young people's interest in culture has increased over the years; the epidemic has curtailed cultural and artistic education in cultural institutions and promoted cultural and artistic education online. Engaging and actively participating in cultural and artistic activities offers young people the opportunity to enjoy and develop their personal, social and cultural

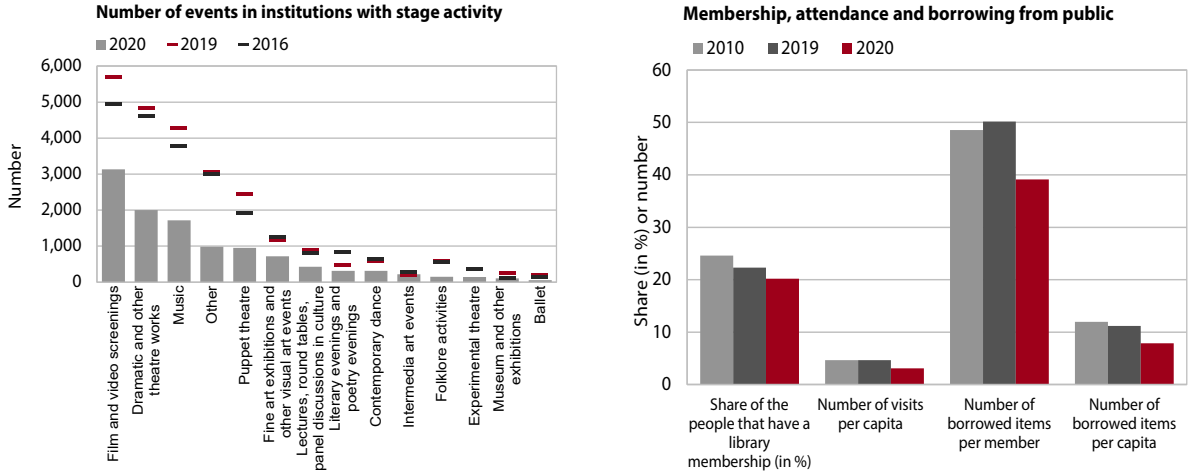
[106] Cultural institutions with stage activity held 3,974 e-events and museums and galleries organized 185 e-exhibitions, which had 650,605 visits (SURS, 2022b).

[107] For more details, see Decree on the method of redeeming vouchers for the improving of economic situation in the field of tourism, sports and culture consumption, reimbursement of funds through the information system of the Financial Administration of the Republic of Slovenia and keeping and managing voucher records (2021).

[108] E.g. opening of the renovated Cukrarna in 2021 (Cukrarna, 2021), many activities in the field of film were carried out by Kinoteka (2022) and in the field of theatre the Slovenian Theatre Institute (SLOGI, 2021).

[109] See the Act Providing Funds for Certain Urgent Cultural Programmes in the Republic of Slovenia (ZZSDNPK, 2019).

Figure 41: Marked reduction in the number of cultural events in 2020 (left) and negative trends in public libraries (right)



Sources: SURS (2022b) and NUK (2022b). Note: Stage activity on the stages of cultural centres, theatres and music institutions is included. Almost 98% of institutions with stage activity reduced their activity in 2020 (SURS, 2022b).

skills and creativity (see Section 2.1). According to the Youth 2020 survey (Lavrič et al., 2021) the shares of young people (15–29) interested in culture and of those engaged in culture and the arts increased between 2010 and 2020.[110] However, the share of young people who went to the cinema, theatre or a concert has decreased, which we associate with COVID-19 containment measures. Their attendance of this type of content online, however, was high. Cultural and artistic education plays an important role in promoting the interest of children and young people in culture and the arts. Cultural institutions conducted a range of educational activities for children and young people before the epidemic, but due to the epidemic in 2020, these activities were severely curtailed, resulting in fewer visits (SURS, 2022b); again, the gap was partly filled by the web. In 2020, the Children's Programme (MDDSZ, 2020) was adopted, which includes a number of activities in the field of cultural and artistic education for children and the promotion of their creativity.

Trends in publishing and public libraries have been largely unfavourable for many years. In the field of publishing, the numbers of published book titles and the average circulation have mostly decreased since 2010, as has the number of publishers and the number of people in employment in publishing. In 2020, the temporary physical closure of bookstores due to the epidemic and greater customer caution had an additional negative impact on publishing activity (NUK, 2021 and 2022a) and reduced book sales revenue, which was the lowest in ten years (SURS, 2022b). In the coming years, publishing could be positively influenced by the promotion of Slovenian books at the Children's and Youth Books Fair in Bologna in 2024 (JAK, 2021a) and the Frankfurt International Book Fair in 2023 (JAK, 2021b), in which Slovenia will participate as a guest of honour. Trends in the number of public library memberships and visits to public libraries, which play an important role in promoting literacy and book accessibility, and in meeting informational, educational and other needs of the population in local communities, were mostly unfavourable before the epidemic. In 2020, containment measures further reduced library membership and attendance, as well as the circulation of library materials (Figure 41 right). From the point of view of availability of books at the local level, it is encouraging that in 2020 the number of places with bibliobus stops increased (NUK, 2022b).

In the field of developing language resources and technologies,[111] activities are carried out that contribute to the preservation and development of the Slovenian language. The Resolution on the National Programme for Language Policy 2014–2018 provided for a number of measures in this area, but these were not fully implemented in line with the goals (ReNPJP21–25, 2021). In 2021, some projects were completed, while others were launched or continued (CJVT, 2022). The number of open available language resources and tools in the national CLARIN repository has increased,

[110] Active participation in cultural activities includes reading, music, dance, theatre, the fine arts, and written expression in the form of diaries, poems and letters.

[111] Language resources are a collective name for language manuals (dictionaries, grammar and spelling books, etc.) and linguistic collections (corpora and linguistic databases) that speakers use on a daily basis for independent and effective communication. Language technologies are a collective name for various computer tools and applications that use existing language (meta) data for solving users' practical dilemmas related to language (speech recognition and synthesis systems, machine translation, machine-assisted translation, spelling and grammar checkers, automatic question answering systems, text mining, etc.) or for computer analysis of natural languages for the production of, in particular, digital language guides and other resources (MK, 2017).

Box 5: Ranking of Slovenia in the Creative Barometer 2020

In international comparison, Slovenia is perceived as a stimulating environment for the development of creativity. In 2020, the Zavod Big and the Centre for Creativity (2021) produced for the first time their so-called Creative Barometer 2020, which is a way of measuring the creativity of countries. Creativity is understood as a mental ability of an individual to create something new and original, which is recognised by the community as valuable regardless of its economic potential. The Creative Barometer measures the creativity of countries with the help of qualitative and quantitative indicators of creativity, mostly with data for 2019. Qualitative indicators are international awards in the fields of architecture, interior design, product design and fashion.[1] Quantitative indicators[2] are complementary indicators of creativity that do not contribute to the final classification of countries but provide a deeper insight into the position of the cultural and creative sector of a particular country. The Creative Barometer 2020 covered 19 countries in South Eastern Europe.[3] Slovenia ranked in a strong fifth place after Italy, Austria, Turkey and the Czech Republic in terms of the share of international awards received by creators in the field of architecture, interior design, product design and fashion in 2019. Quantitative indicators also show that Slovenia offers a stimulating environment for the development of creativity. The country has the second largest share of artists who have participated in the Artists Abroad programme. Of the 19 participating countries, it was chosen eighth most often by the artists who took part in the Artists Abroad programme. Slovenia also ranked eighth in terms of the number of companies in the cultural sector and the share of self-employed artists.

[1] For more details on the awards included in the Creative Barometer, see Zavod Big and Centre for Creativity (2021).
[2] Quantitative indicators included in the Creative Barometer are population, GDP per capita, share of population (15–64) with tertiary education, mobility of artists, number of artists, writers, journalists and linguists, share of self-employed artists, writers, journalists and linguists, and number of companies in the cultural sector.
[3] These countries are: Albania, Austria, Bulgaria, Bosnia and Herzegovina, Cyprus, Czech Republic, Montenegro, Greece, Croatia, Italy, Kosovo, Hungary, Moldova, Romania, Republic of North Macedonia, Slovakia, Slovenia, Serbia and Turkey.

reaching 254 at the end of 2021 (CLARIN, 2021) (the SDS 2030 target was 153). In the future, the preservation and development of the Slovenian language will be positively influenced by the implementation of the Resolution on the National Programme for Language Policy 2021–2025 (ReNPJP21–25, 2021), adopted in 2021, the basic aim of which is to ensure a quality language life for all. In order to ensure the rights of persons with hearing impairments at all levels of society, especially in the field of sign language development, education and employment, the incorporation of the right to free use and development of Slovene sign language into the Constitution in 2021 is of great importance (UZ62a, 2021).

In 2020 and 2021, the epidemic also hampered the functioning of the cultural and creative sector, which could weaken its potential and role in social and economic development. The cultural and creative sector plays an important role in ensuring the quality of life of the population and in local development, revitalisation of rural and urban areas, tourism, and economic development. It creates new jobs, income and value added. The latter was demonstrated for Slovenia in a study by Murovec et al. (2020). The contribution of cultural activity, expressed as a share of value added in gross domestic product (GDP), was 1.1% in 2014–2019 and 1.0% of GDP in 2020[112] (SURS, 2021e). The link between culture and the economy also has many positive effects, as innovative practices in culture and creativity not only consolidate innovation capacity in the cultural and creative industries sector, but also spill over into new approaches, practices, services and products across the economy (CCIS, 2021). Compared internationally, Slovenia is also perceived as a stimulating environment for developing creativity (Box 5). In recent years, the Centre for Creativity has carried out numerous activities aimed at promoting the creative cultural industries, and its work continues in 2022 (MK, 2021a). The integration of science, art, technology and the economy is also promoted by the research art platforms KONS and RUK and as the Certificate Cultural Company project (Asociacija, 2021). Research on the impact of the COVID-19 epidemic on the lives and work of cultural and creative workers has shown that their workload and income have declined, leading to a deterioration in their economic and social situation. The epidemic did not affect all activities equally,[113] but rather affected the non-institutional part of culture, which on average is more subject to non-standard forms of employment. From the point of view of the further development of the cultural and creative sector, the adoption of the Resolution on the 2022–2029 National Programme for Culture is encouraging (ReNPK22–29, 2022), after culture had been without its national programme for several years.[114]

[112] In calculating the contribution of culture to GDP, so-called pure cultural activities without indirect effects on other activities were considered (SURS, 2021e).

[113] In 2021, the economic situation deteriorated the most for artists in the fields of music, photography, cultural and creative tourism, the performing arts, and fashion/textile design. On the other hand, the situation for artists has improved in some areas. Thus more than 30% of graphic designers, architects, media workers and programmers report that their economic situation has improved in 2021.
[114] The National Programme for Culture 2014–2017 expired in 2017.

Due to the COVID-19 epidemic, there were fewer opportunities for international cultural activities in 2020 and 2021. International cooperation in the field of culture and its promotion abroad contribute to the international recognition of culture and Slovenia as a country abroad and play an important role in diplomacy and international relations. In recent years, numerous activities have been carried out to increase the promotion of culture abroad, and Slovenian artists participated in numerous international cultural events abroad (MZZ, 2020) in 2020 too, though the volume of such activities had decreased (MZZ, 2021b).[115] The number of hosts of cultural events abroad also declined, and the share of cultural events held abroad in 2020 decreased, moving away from the SDS 2030 target (Indicator 2.8), while some planned international events were postponed (IMAD, 2021c). In 2021, artists from Slovenia participated in some major international cultural events abroad (Expo 2020 and Venice Biennale of Architecture). Cultural events organised by Slovenia in the framework of the Slovenian Presidency of the Council of the EU also contributed to the promotion of Slovenian culture (UKOM, 2021). Activities continued in the framework of the preparation of the European Capital of Culture 2025 event, which will be hosted by Nova Gorica and Gorizia (GO! 2025, 2022) and which are important for cultural and social cooperation on the border, tourism development, and the quality of life of the border population. In 2021, some activities important for the Slovenian minorities in Italy and Austria were also carried out, but there are also certain shortcomings in the exercising of their minority rights (Janežič, 2021; Kavčič, 2021; Vidau, 2021).

Total expenditure on culture declined in real terms in 2020, while the number of people in employment in culture increased again in 2021 after declining in 2020. After increasing in real terms from 2017 to 2019, government spending on culture fell in 2020. Within culture, expenditure on radio, television and publishing services declined, while expenditure on cultural services increased.[116] Despite the real and nominal decline, with a further decline in GDP, government expenditure on culture, expressed as a share of GDP, increased slightly in 2020 and amounted to 1.0% thereof [117] (SURS, 2022b). This was one of the lowest levels in the last ten years, but still higher than the EU average (0.7% of GDP) (Eurostat, 2022).[118] Private consumption on culture declined significantly in 2020 due to COVID-19 containment measures, after rising in 2018 and 2019. The containment measures in 2020 also had the effect of reducing the number of people employed in culture after several years of increase. In 2021, however, their number increased again;[119] in the field of culture, however, it declined in the visual arts and again in publishing (SURS, 2022b).

[115] From the joint fund, the Ministry of Foreign Affairs and the Ministry of Culture, in cooperation with the diplomatic and consular missions of the Republic of Slovenia abroad, supported 91 cultural and artistic projects, of which, however, only slightly more than 60 were carried out due to the pandemic.

[116] According to the purpose, among the main expenditure groups, compensation of employees, which accounts for half of all expenditure in the structure of cultural expenditure, and gross investment also increased in 2020, while intermediate consumption and subsidies, which account for a relatively small share in the structure of expenditure, decreased.

[117] Expenditure on culture consists of expenditure on cultural services and expenditure on radio, television and publishing. Expenditure on cultural services amounted to 0.7% of GDP in 2020, while expenditure on radio, television and publishing amounted to 0.3% of GDP.

[118] In 2020, the population of Slovenia spent an average of EUR 177 on culture (2019: EUR 218) (SURS, 2021e).

[119] In 2021, there were 2,858 employed persons in culture, and their number was 1.9% higher than in 2019 (SURS, 2022b).

3 An inclusive, healthy, safe and responsible society

Due to the high number of deaths during the epidemic, life expectancy at birth in 2020 has fallen by one year. The impact of the epidemic on the health status of the population is most worrying in some areas that have already faced considerable challenges in recent years: the mental health of all generations, especially children, health inequalities and an increase in non-communicable chronic diseases. Difficulties due to limited access to health services during the epidemic were somewhat mitigated by the use of e-health services, which has increased significantly in the last two years. In 2021, several measures were adopted to improve the situation at the primary level and the Long-Term Care Act was finally adopted after 12 years of preparation. Interim and mid-term measures to improve the resilience of healthcare and long-term care systems were also adopted and supported with increases in the expenditure from the state budget. In the long term, it will be essential to ensure sufficient staff and sustainable financing for both systems. The health risk factors related to environmental pollution are improving. The opportunities for an active and healthy life are good in Slovenia. However, in the last two years the lifestyle of adults has deteriorated and the motor fitness of children has decreased. The accessibility of leisure time activities was also limited. During the epidemic, life satisfaction has decreased slightly, while interpersonal trust has increased. The Gender Equality Index has fallen slightly since 2017 (mainly due to low political participation of women) and discrimination has increased.

In the last two years, the measures taken to mitigate the impact of the epidemic facilitated a rise in the total disposable income of the population and mitigated the impact of the crisis in the labour market. Slovenia is thus among the countries with the lowest employment reduction in this period, which contributed to further increases in personnel expenditures (the wage bill) and disposable income. In 2020, income inequalities in Slovenia (based on 2019 income) remained among the lowest in the EU and within the SDS target, while the improvement in the material well-being and financial sustainability of households continues to pose a challenge, particularly for people in the

lowest income bracket, who often also face severe housing deprivation. According to the EU-SILC 2020 survey (based on 2019 income), the risks of poverty and social exclusion and severe material and social deprivation have increased slightly, but Slovenia nevertheless maintained a position better than the EU average. These risks have increased for those social groups that have been facing various forms of deprivation for years (pensioners, in particular older women and low-educated older people, the unemployed, single-person households, persons with various forms of limitations, and other vulnerable or marginalised groups) and would need targeted measures. During the epidemic, young people and people with insecure jobs were exposed to greater labour market uncertainty, but in 2021 the status of the most affected groups in the labour market already improved. Due to the fast growth of the minimum wage in recent years, Slovenia has one of the highest minimum-to-average wage ratio among EU Member States. This is reflected in small differences in wages and in the great concentration of workers with a salary near the minimum wage, which can be unstimulating for certain groups and could cause problems in the adequate remuneration of certain low-educated staff.

3.1 A healthy and active life

A healthy and active life (Development Goal 1):

The goal is to ensure a quality life for all generations by promoting a healthy and active life. Achieving this goal will require raising awareness of the importance of a healthy lifestyle and mental health, preventing risky behaviour, strengthening prevention, reducing health risks from environmental pollution and climate change, and promoting sustainable consumption, intergenerational cohesion and gender equality. With demographic change, it will be an even greater challenge to maintain sustainable social protection systems that ensure adequate pensions and a high level of access to healthcare and long-term care and contribute to reducing health inequalities. In order to achieve this goal, it is also important to create conditions for a decent life of all generations, which is addressed by Development Goal 3.

Performance indicators for Development Goal 1:

	Latest data		Target value for 2030
	Slovenia	EU average	
Healthy life years at birth, number of years	Men: 60.8 years; 77.3% of life expectancy (2019)	Men: 64.2 years 81.8% of life expectancy (2019)	Men: 64.5 (80% of life expectancy)
	Women: 61.2 years; 72.4% of life expectancy (2019)	Women: 65.1 years 77.5% of life expectancy (2019)	Women: 64.5 (75% of life expectancy)
Gender Equality Index, index	67.7 (0–100) (2020)	67.9 (0–100) (2020)	> 78

Due to the epidemic, the long-term trend of population health gain was halted. In 2010–2019, the key indicators of health status of the population were improving, which was related to advances in medicine and improving quality in healthcare, along with a range of other factors, such as income growth, raising education levels and the population being better informed. In this period, the life expectancy at birth increased by 1.8 years, while in 2020 it fell by 1 year (EU: 0.7 years), mostly due to the high mortality rate caused by COVID-19[120] (see Indicator 3.3). In 2020, Slovenia had the highest number of deaths in the age group of 65 years and older and the second highest number of deaths (after Belgium) among people aged 85 and older, which was due to a very high mortality rate among the residents of care homes (OECD, 2021i). In 2020 and 2021, 2,823 people per million died with COVID-19 in Slovenia,[121] which is more than in the majority of EU Member States. The excess mortality, which includes deaths caused directly by COVID-19 and all other deaths, in 2020 was also among the highest in the EU (Eurostat, 2022), while the total of both years was among the highest ten (ECDC, 2022a) (Figure 42). Experts estimate (NIJZ, 2021) that lower accessibility of healthcare services[122] (see Section 3.2) during the epidemic will result in the worsening of chronic non-communicable diseases and mental health among the population. It is very likely that the healthy life expectancy, in which Slovenia lags behind the EU average (Indicator 3.1), will also go down.

Over the past decade, Slovenia has made significant progress in reducing treatable mortality, but less in reducing preventable mortality that can be avoided through effective public health and primary prevention interventions. In 2018 (most recent data available), 23 fewer people died in Slovenia due to causes that could have been avoided with timely and efficient healthcare (including screening programmes and treatment) than in 2011 and 15 fewer than the EU average. This indicator shows that healthcare is relatively effective with regard to treatment, especially in view of the relatively lower investment in healthcare than in the countries achieving comparable results (Indicator 3.6). Despite improvements, Slovenia still lags behind the EU average in the mortality preventable by enhanced primary prevention and public health measures. This is mostly related to the prevalence of unhealthy lifestyle, which is also the reason for the heavy burden of chronic diseases (circulatory diseases, diabetes and cancer[123]).

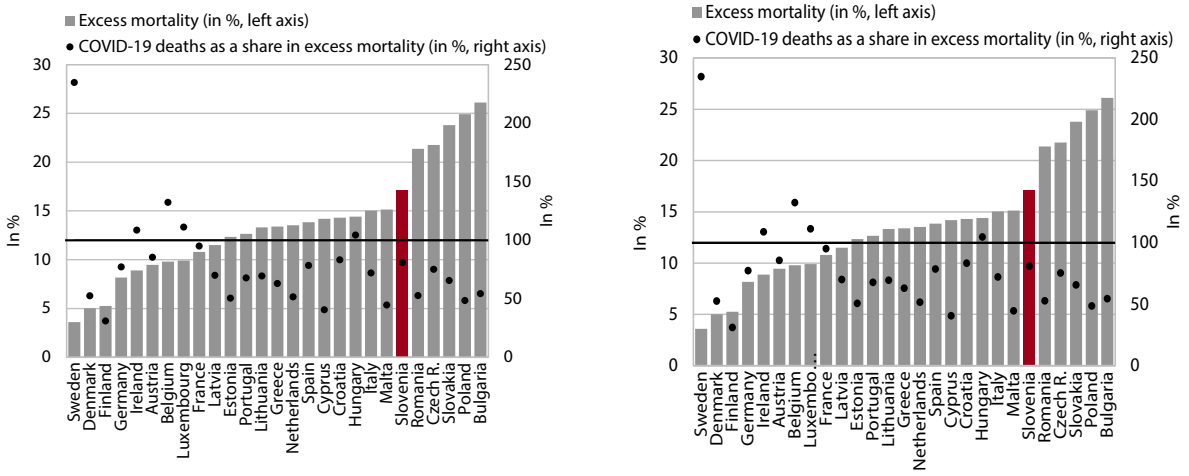
[120] In 2020, COVID-19 was the primary cause of death (13%), surpassing stroke, ischemic heart disease and lung cancer.

[121] In 2020, 3,130 people died with COVID-19 in Slovenia and in 2021 a further 3,093, with almost equal numbers of women and men. Of all deaths, 43.6% were in the age group of over 85 years and 92.3% in the age group of over 65 years (NIJZ, 2022a).

[122] The results of the SI-PANDA 2020/21 survey, conducted from the end of 2020 to 15 March 2021, show that contact with doctors decreased considerably, with 31–35% respondents refraining from visiting the doctor for problems unrelated to COVID-19. Of those with chronic diseases, 30–41% avoided seing a doctor, while this proportion was 47–63% among those with depressive disorders.

[123] According to the estimates of international institutions, Slovenia ranked 8th in the EU in terms of cancer prevalence and 7th in terms of mortality rate in 2020 (these estimates are based on data from the ECIS (European Cancer Information System) and were made in collaboration with the Joint Research Centre, the European Network

Figure 42: Excess mortality[1] was very high in Slovenia in 2020 and 2021 (left – Slovenia by months;[2] right – the 2020–2021 average in EU Member States[3])



Sources: SURS (2022b), Eurostat (2022), ECDC (2022a); calculations by IMAD. Notes: [1]Excess mortality in 2020 and 2021 is the ratio between the number of deaths due to all causes of death in 2020 or 2021 and the average for the 2015–2019 period. [2]Figure left – values calculated from weekly data, as gathered by Eurostat and ECDC; population data by ECDC. Reported COVID-19 deaths depend on the ability of countries to capture and monitor all infections. Here they are presented together with the excess deaths, as significant differences occur in certain countries, which could result from the fact that the number of excess deaths was considerably lower due to the lockdown of the country (e.g. fewer traffic and work-related accidents) or greater due to inaccessible healthcare services. [3]Figure right – the horizontal line represents the point where the number of COVID-19 deaths would equal excess mortality (100%).

Lung cancer and alcohol-related diseases predominate (OECD/EOHSP, 2021a). The rate of preventable alcohol-related deaths is almost twice as high as the EU average and Slovenia is also near the top among EU Member States in adult obesity (see Indicator 3.8).[124] In 2018, Slovenia was also above the EU average in the number of 15-year-olds who occasionally overindulged in alcohol, and there was an increase in the number of 15-year-olds who had used marijuana at least once in the last 30 days or who were overweight (OECD and EU, 2020). Health risk factors related to environmental pollution in Slovenia are improving, but air pollution, which poses the greatest risk to health (respiratory diseases, lung cancer, cardiovascular diseases) in developed countries, is significantly above the OECD average and exceeds the limit to which it is acceptable according to WHO guidelines (see Indicator 4.13 and Section 4.2) (OECD, 2017b). Several studies have shown that chronic diseases are an important risk factor for a severe course of COVID-19 (OECD/EU, 2021i), so additional measures to reduce the risky behaviour of the population, especially with regard to obesity and smoking, are increasingly at the forefront of health policy recommendations (Chu et al., 2020; Hoong et al., 2021; Hopkinson et al.; 2021). Due to the increasing number of cases of chronic diseases, Slovenia has been paying special attention for several years to the expansion of health promotion centres, referential clinics, and counselling and screening services at the primary healthcare level. Further progress will also require the introduction of integrated long-term care and an increase in employers' investment in health (see Section 3.2).

According to various indicators, health inequalities decreased between 2007 and 2019 but have since then increased again as a result of the COVID-19 epidemic. Between 2007 and 2019, the health gap in relation to education narrowed in some indicators (e.g. life expectancy at the age of 20, premature mortality, men's self-perceived health, smoking prevalence and suicide mortality) and widened in others (e.g. lung cancer mortality and depressive disorders) or remained unchanged (NIJZ, 2021). The COVID-19 epidemic increased health inequalities again, because it most affected the people in socially less privileged environments, those with lower income and lower education, and various other vulnerable groups. The main reasons for this were poor living conditions, poor basic health, lower response to testing and vaccination, and various obstacles to healthcare accessibility (OECD, 2021i). The use of remote healthcare services, which has contributed significantly to a safer access to healthcare and general accessibility during the epidemic (see Section 3.2 and Box 9), presented an additional obstacle to these population groups. The users of eHealth and mHealth services[125] are two to three times more likely to

of Cancer Registries and the International Agency for Research on Cancer).

[124] A study (OECD, 2019k) demonstrates very serious economic consequences of obesity. If the trends remain the same, they would amount to 3.1% of GDP on average in Slovenia (EU-23: 3.3%) in 2020–2050. The estimate takes into account the direct costs of the healthcare system, the reduction in life expectancy and the indirect costs due to the impact on the labour market.

[125] eHealth covers the provision of remote healthcare services and the introduction of e-referrals, e-medical records and digital communication in healthcare. Mobile health or mHealth is the

have better education and higher incomes than socially and economically disadvantaged people, even though on average the health of the latter is poorer (EC, 2021b; OECD, 2019a). Since October 2019, a project has been carried out to improve the health literacy of vulnerable groups and facilitate patients' navigation of the healthcare system, which will serve as a basis for drafting the national strategy for health literacy (MZ, 2022d).

The COVID-19 epidemic is exacerbating mental health problems and the mental distress of children and adolescents has also increased significantly. The prevalence of mental health problems has increased in Slovenia and other developed countries over the last decade (OECD and EU, 2018; IMAD, 2019e). In 2019, 5.7% of the population (EU: 6.5%) sought help from a psychiatrist, psychologist or psychotherapist; Slovenia deviated from the EU average especially in terms of the high share of women (NIJZ, 2020).[126] The suicide rate, which has fallen considerably in the last decade,[127] was still noticeably higher than the EU average in 2019 (Slovenia: 19; EU: 11 per 100,000 population) and markedly high among men. In 2020, the number of suicides further decreased slightly, i.e. to 17.5 per 100,000 population (NIJZ, 2022b). The COVID-19 epidemic led to further deterioration in the mental health of the population, in particular due to an increase in the incidence of depression, anxiety, addiction, burnout, fear, feelings of anger, domestic violence, child abuse and suicide (WHO, 2020). The prevalence of anxiety and depressive disorders in EU Member States increased by 24% in 2020 (Santomauro et al., 2021). In addition, one-third of patients who had recovered from a severe case of COVID-19 have problems with concentration and cognitive abilities, and the disease also increases the risk of anxiety, sleep disorders and dementia (NIJZ, 2021; Taquet et al., 2021). In Slovenia, community health centres and various other institutions established a network for psychological support, which is accessible to all by telephone. However, for quite some time there has been a severe shortage of psychiatrists and clinical psychologists to help people with major problems (NIJZ, 2020).[128] Therefore, an additional 30 posts for specialisation in clinical psychology were opened in 2021 (ZNUPZ, 2021). Remote schooling has significantly increased the mental distress of children and adolescents. In January 2021, paediatricians drew attention to the more than 30% increase in cases at paediatric psychiatric wards, and a similarly high increase was recorded in other institutions providing psychological help to children and adolescents. Young people are suffering from more anxiety disorders, panic attacks, obsessive compulsive disorders, eating disorders and behavioural problems.[129] Data for Belgium, France and the USA show that in 2020, the incidence of anxiety and depressive disorders among young people was 30–80% greater than in the population as a whole (OECD, 2021i). Pursuant to the Resolution on the National Mental Health Programme 2018–2028, the action plan for 2022 and 2023 was adopted in March 2022; this transfers the core of mental health services to the primary healthcare level (Government of the RS, 2022a).

According to the Gender Equality Index (GEI), the position of women in Slovenia has worsened in the last three years, mainly because of the lower political participation of women. Until 2017, Slovenia had progressed faster than the majority of EU Member States in terms of the GEI. However, the trend has reversed since then and in 2021 Slovenia fell behind the EU average. Slovenia is the only EU Member State where the GEI score was lower in 2021 than the year before and the only country where the trend had decreased for the third year in a row (see Indicator 3.2). This was mainly due to the worsening situation with regard to the dimension of power (lower share of female deputies and women in management boards and public media organisations) and the dimension of work as a result of gender segregation by sectors and occupations.[130] The COVID-19 epidemic placed an additional disproportionate burden on women and increased the existing inequalities (EIGE, 2021b; EC, 2021a, 2021q; EP, 2021a; Eurofound, 2021c).

In 2018, the satisfaction with work-life balance was slightly above the EU average and during the COVID-19 epidemic balancing work and life was less difficult for people in Slovenia than for an average EU citizen.[131] A good work-life balance has a positive effect on the health and satisfaction of employees (Humer et al., 2016; Barbara Kresal and Kresal Šoltes, 2016). In 2018, more people were satisfied with their work-life balance in Slovenia than the EU average (Slovenia: 81%, EU: 78%) and men were more satisfied than women (Eurobarometer, 2018a). In addition to the length of working time, the organisation of working time (regularity and predictability and atypical working hours) and working environment also have a significant impact on the work-life balance. High-intensity work and related stress can have a negative effect on private life,

component of eHealth that includes the use of all mobile devices and applications intended for health and well-being for informative public health purposes or for the remote treatment and monitoring of patients (EC, 2021h).

[126] According to the European Health Interview Survey (EHIS).

[127] In recent decades, the suicide rate has decreased by more than 30% in Slovenia; it has also decreased in other EU Member States (NIJZ, 2019a).

[128] According to the EHIS, only 2.1% of respondents visited a psychologist, psychotherapist or psychiatrist in 2014 (EU: 5.5%); the highest proportions of those who visited such specialists were in Germany (9.4%) and Denmark (10.4%). There are 15 psychiatrists per 100,000 population in Slovenia, which is nearly half the figure for Germany (27.5) and less than the EU the average (17.5). In 2015, Slovenia's public sector employed 15 psychologists per 100,000 population, whereas this number ranges between 100 and 150 in the Western European EU Member States (it is generally below 50 in the Eastern European countries) (Eurostat, 2022).

[129] For more details, see the Human Rights Ombudsman (2021).

[130] The data on power dimension are for 2020, while the data on work dimension are for 2019 (EIGE, 2021b).

[131] The study was conducted in April 2020, July 2020 and March 2021 (Eurofound, 2020b).

Box 6: Healthcare system resilience

The epidemic pointed out the importance of the resilience of healthcare systems and the long-term benefits of investments in healthcare. The resilience of a healthcare system is defined as the ability to respond to and manage shocks (OECD/EOHSP, 2021b). Many measures have been adopted over a relatively short period to manage the COVID-19 epidemic and support the functioning of the healthcare system. However, better preparedness for urgent health situations requires long-term planning of labour and increased investments in the healthcare system. Furthermore, megatrends such as population ageing and technological progress add to the needs of healthcare and social protection. New technologies, digitalisation and artificial intelligence will lead to a demand for new knowledge but will not significantly reduce the demand for services in these sectors. After the epidemic, the higher levels of public healthcare expenditure will have to be maintained and the long-term sustainable financing of healthcare and long-term care (LTC) will have to be ensured. The countries where healthcare systems are mainly financed from the contributions of the active population and are thus more vulnerable with regard to fluctuations in salaries and employment rate should also consider a more sustainable structure of healthcare financing resources in the long term (IMAD, 2019a).

Slovenia entered the epidemic with underfinanced and understaffed healthcare and long-term care systems. In 2019, Slovenia achieved 89% of the EU average[1] and a mere 68% of the average of the old EU Member States (EU-14), which are considered more developed, in terms of total health expenditure per capita (see Indicator 3.6). It lagged further behind in LTC, which can significantly contribute to the reduction in the need for healthcare services: public expenditure per capita only reached 62% of the EU average and 37% of the EU-14 average (see Indicator 3.7). The consequences of the lack of financial resources are reflected in understaffing, long waiting times and unmet healthcare (see Indicator 3.4) and long-term care needs (IMAD, 2021a). The greatest healthcare problem is a shortage of doctors at the primary level and of registered nurses at all healthcare levels; in hospitals, the shortage is especially severe in the most challenging wards and intensive care units, despite the increased recruitment.[2] In residential care homes, staffing standards have been too low for many years, as the proportion of people that need the most demanding care keeps increasing. There are not enough nurses trained to work with older and frail patients and there is a severe shortage of nursing staff. The shortage of staff is reflected in the international comparison of the volume of employment in healthcare and social protection,[3] which is significantly lower than in the majority of EU and OECD members (OECD, 2021i, p. 202).

Several temporary measures were introduced to manage the staffing situation during the epidemic, but to improve the resilience of the healthcare system in the long term, staffing in healthcare needs to be planned appropriately and working conditions need to be improved. The main temporary measures were staff reassignments, salary supplements, remote care, temporary mobilisation of retired staff and voluntary work. Like in other countries, the epidemic revealed the need for long-term solutions to the shortage of healthcare staff. The proposals include preparing the model projections of labour in healthcare with regard to both volume and structure; additionally training healthcare staff for work with new digital technologies; training staff for work with older multimorbid patients;[4] and improving conditions for work and introducing incentives to attract more young people into the profession (OECD/EOHSP, 2021b).

A very important short-term measure to improve the resilience of the healthcare system is vaccination against COVID-19. The vaccination successfully prevents the more severe course of the disease and reduces mortality (OECD, 2022a). Countries with a greater share of vaccinated population had a smaller share of patients hospitalised due to COVID-19 in the fourth and fifth waves, which helped maintain the accessibility and functioning of the healthcare system for other patients and resulted in fewer COVID-19 patients dying. By the middle of March 2022, only 68% of Slovenia's population was vaccinated with two doses, which is considerably below the EU average (ECDC, 2022b).

In 2021, a great part of the state budget contribution for healthcare financing was again allocated to covering the costs related to the epidemic. Pursuant to the emergency legislation, the Ministry of Health

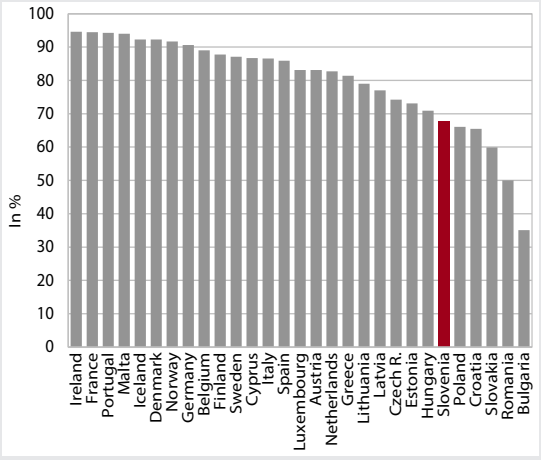
[1] The source of this data is Eurostat. However, the arithmetic average of EU Member States was taken into account and not the weighted average which is published by Eurostat. The weighted average primarily reflects the data of large countries (Germany, France).

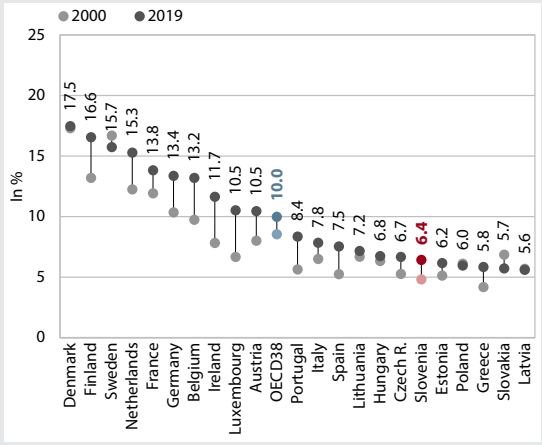
[2] In 2019, the total number of employed nurses and healthcare assistants was 21,464, which is 28% more than in 2010. The number of employees in nursing care per 1,000 population (10.3) was also the highest in the last 20 years, exceeding the OECD (8.8) and EU (8.4) averages. However, Slovenia still considerably lags behind in the number of registered nurses (OECD, 2021i; OECD/EOHSP, 2021b).

[3] This is the volume of employment in the activity category P according to national calculations. This is a wider category of employed nurses, as it includes all other employees in this sector: administrative support staff, clinical assistants, social carers, social workers, physiotherapists, occupational therapists and others.

[4] Patients having two or more chronic diseases simultaneously.

Figure 43: Vaccination coverage in Slovenia is lower than the EU average (left) and the share of people employed in healthcare and social protection is also very low (right)





Sources: ECDC (2022b) and OECD (2021).

paid healthcare providers EUR 306.9 million in crisis salary supplements, mostly due to the need for increased workload for many healthcare workers. This is another reason to ensure better staff preparedness for any future crises and systemically regulate the stable financing of the healthcare system.[5] Furthermore, indirectly through the Health Insurance Institute of Slovenia (HIIS), another EUR 211.4 million was paid from the state budget to healthcare providers to cover various costs related to preventing the spread of the epidemic.[6] The expenditure of the HIIS related to COVID-19, which amounted to EUR 293 million,[7] was also partly covered with a transfer from the state budget (EUR 179.1 million). The HIIS concluded the year with a surplus of EUR 120 million. In addition to the budget transfer, the favourable result was also due to a higher revenue from contributions, which in turn were due to favourable trends in the labour market and higher growth of salaries in the public sector as a result of the supplements paid during the epidemic.[8]

In the next few years, funds to improve the resilience of the healthcare system are planned within the Recovery and Resilience Plan (RRP), as are extensive national resources for investment under a special act. The funds planned in the RRP until 2026 amount to EUR 225 million, of which EUR 110 million is intended for investments in infrastructure for treating communicable diseases and for the strengthening of the primary healthcare level, and EUR 83 million for digitalisation. Measures concerning the healthcare system, including the amendments to the framework Health Care and Health Insurance Act, are also envisaged in the part of the RRP on reforms. Healthcare measures will be complemented with investments in the LTC system (EUR 79 million from the social component of the RRP) and the implementation of the Long-Term Care Act (see Box 9). In October 2021, the Slovenian Government also adopted the Act on Provision of Funds for Investments in Slovenian Healthcare in the Years 2021 to 2031, which provides for more than EUR 2 billion of budget funds.[9] The aim is to establish the most important operational capacities to increase the resilience of the system at the primary, secondary and tertiary levels and to increase the number of places available in science and education institutions. The funds will be allocated to public healthcare institutions, educational institutions for healthcare professions, and nursing hospitals and homes within the LTC system (ZZSISZ, 2021).

[5] This includes the supplements under Article 55 of the Act Determining Temporary Measures to Mitigate and Remedy the Consequences of COVID-19 (ZZUOOP); supplements for working with COVID-19 patients (Article 56 of the ZZUOOP and Article 33 of the Act Determining Intervention Measures to Assist in Mitigating the Consequences of the Second Wave of COVID-19 Epidemic (ZIUPOPDVE)); supplements under Article 87 of the ZIUPOPDVE (salary group J in healthcare); supplements for students (Article 88 of the ZIUPOPDVE); supplements for directors (Article 125 of the ZIUPOPDVE); supplements for community works and contractors (Article 86 of the ZIUPOPDVE); and supplements under Article 123 of the ZIUPOPDVE – Collective Agreement for Public Sector (ZIUPOPDVE, 2020; ZZUOOP, 2020).

[6] For the costs of testing and vaccination against COVID-19, distribution of medicinal products, vaccination against flu, telemedicine of COVID-19 patients, and reimbursement of various compensations for sick leave.

[7] Of this, EUR 179.9 million for healthcare services and EUR 113.1 million for compensations for isolation.

[8] For more information, see HIIS (2022), Section 5.1.2. The effects of the measures to mitigate the consequences of the epidemic on the operation of the HIIS.

[9] Each year from 2021 to 2031, a specified amount is to be ensured, from the minimum of EUR 127 million in 2021 to the maximum of EUR 253 million in 2026, after which the amount will be reduced gradually until 2031. The total in all years would amount to EUR 2,093 million.

The digital transformation of the Slovenian healthcare system started before the epidemic. According to plans, it should continue at an accelerated pace in the coming years. Within the eHealth project, which was carried out in 2008–2015, electronic prescriptions, electronic ordering (electronic referrals and online appointment scheduling) and several other digital solutions were introduced, which enabled the introduction of remote access to healthcare services at the outbreak of the epidemic (see also Section 3.2). The main goals of further healthcare digitalisation until 2026 are the following: introducing comprehensive electronic health records for patients, digitalising the prescription of medicinal products and introducing new digital services, including remote treatment (telemedicine); ensuring the integration and faster exchange of information at all healthcare levels and the use of ICT to communicate with patients; introducing a safer dispensing of medicinal products by using robots in hospitals; monitoring healthcare based on effects; establishing a platform for the management of key healthcare staff; and introducing speech technologies for hands-free work of healthcare workers (MZ, 2022a; Government of the RS, 2022b).

while the support of superiors and co-workers facilitates the balancing of work and private life (Eurofound, 2018c).[132] Although women in Slovenia do almost the same amount of paid work per week as men, they spend significantly more hours on caring responsibilities and unpaid housework than men. During the epidemic, mothers were faced with more problems in dividing their time between work and family than men (Eurofound, 2020b and 2021e).[133] Fathers do not make full use of their right to paternity leave,[134] and the share of fathers who take parental leave is low (between 5% and 7%). The right to part-time work due to parenthood is mostly exercised by mothers. The epidemic accelerated the transition to remote work, which generally facilitates the balancing of work and family life. However, it can also lead to excessive workload, longer working hours and difficulties in disconnecting from work, which has a negative impact on the health and well-being of workers and their private life (EESC, 2021; EP, 2021d). For this reason, the European Parliament resolution on the right to disconnect from digital tools, including ICT, for work purposes was adopted in January 2021 (see also Section 3.3).

Possibilities for an active and healthy life are very good in Slovenia. However, due to the epidemic, the lifestyle of adults has worsened and the motor fitness of children has also decreased significantly in the past two years. In 2013–2017, the share of population engaged in sports reduced (to approximately 50%), although it was still above the EU average. The least active were people with low income and older people (Eurobarometer, 2018d). In the first wave of the epidemic, physical activity among young men (aged 18–24) declined markedly, which can be attributed to the temporary closure of sports and recreation centres and the prohibition of group sports activities. The epidemic did not have a great impact on the physical activity of older people (aged 55–74) of either sex (Vinko and Pribaković Brinovec, 2021).[135] In the second wave, the impact on lifestyle was generally more negative than positive.[136] Remote education for children (see Section 2.1) and containment measures have had a very adverse impact on children's physical and motor development. Following a decade of improvement, the motor fitness of children deteriorated considerably in 2020, and obesity in children increased greatly. These negative trends continued in the spring of 2021 (Faculty of Sport, 2021; Starc et al., 2020) (see Indicator 3.8). As the motor fitness and aerobic endurance of children are closely related to health and academic performance, negative effects will also be reflected in the children's development (see Section 2.1). The participation of the population in cultural activities that contribute to an active lifestyle was higher than the EU average in 2017 (Eurobarometer, 2018b), but the epidemic severely reduced the opportunities for such participation, as well as for social inclusion, social activity and intergenerational integration. The accessibility of other activities promoting intergenerational cooperation carried out by intergenerational centres, the Third Age University and others has also been reduced, although many activities have moved online.

In Slovenia, volunteers do more hours of volunteer work than in the majority of EU Member States. Volunteering does not only help other people but also

[132] According to the European Social Survey for 2020, 68% of respondents believed that their line manager supports the employees in balancing their work and personal commitments (one quarter stated that they support them in full). On the other hand, 26% of respondents reported that employees are expected to respond to work communications outside working hours several times per week, and 17% that they are expected to work overtime several times per week (CJMMK, 2022).

[133] In 2020, the employment rate of mothers (in the 20–49 age group with children younger than six years) was again among the highest in the EU (the only country with a greater rate was Portugal). It was slightly lower (80.4%) than in 2017–2019 and was for the first time in the last ten years lower than that of women without children. The employment rate of fathers remained the same as in the previous two years (Eurostat, 2022).

[134] The majority of fathers (around 80%) only choose to take the first 15 days of paternity leave.

[135] The 2020 health-related lifestyle behaviour study included 17,500 people aged 18–74 years. The study was conducted from 11 May to the end of July 2020 (Vinko and Pribaković Brinovec, 2021).

[136] In November 2021, 35.7% of respondents reported that they spent more time in front of a TV, computer or other electronic device in the previous two weeks than before the pandemic; 14.5% reported a positive impact of the epidemic on their physical activity, but substantially more (32%) reported that the impact was negative (Grom et al., 2021).

has a positive impact on the volunteers themselves. Many examples of good practice show that experience in volunteering fosters a positive self-image in children, channels their energy to good deeds and strengthens their social sensitivity; in volunteering, people also gain new knowledge and remain active and socially included even if they lose their jobs or retire, which has a positive impact on their mental and physical health (Jamšek et al., 2015). Slovenia's share of the population who regularly performed unpaid volunteer work in 2016 (the latest available data) exceeded the EU average and had increased compared to 2012.[137] The volume of voluntary work was also relatively high during the epidemic compared to other EU Member States (Eurofound, 2020b).[138] Due to the containment measures, many group activities were not possible or were limited (intergenerational workshops and other activities for older people, activities in youth centres, camps for children and adolescents, etc.). However, new forms of volunteer work emerged (assistance with remote schooling, assistance in residential care homes, transport of healthcare workers without their own transport, childcare during the closure of kindergartens, etc.) (MJU, 2021d). In 2020, the most volunteer work in Slovenia was carried out in the field of social activities (almost 59% of all volunteer hours), followed by education and culture and arts (Slovene Philanthropy, 2021).

[137] In Slovenia, 34% of respondents (EU: 32%) performed unpaid volunteer work, 12% of them on a regular basis (EU: 10%) (Eurofound, 2016).

[138] According to the data gathered in the second round of the survey conducted in July 2020, in the last month before the survey, volunteers in Slovenia did an average of two hours of volunteer work per week (EU: 1.4 hours); only volunteers in Cyprus did more hours (2.7 hours). The data from March 2021 showed that the number of hours has fallen slightly in the majority of EU Member States (SI: 1.4 hours; EU: 1 hour) and only in Cyprus (1.5 hours) and Croatia (1.8 hours) did volunteers do more hours than volunteers in Slovenia.

3.2 A decent life for all

A decent life for all (Development Goal 3):

A decent life for all generations is based on creating the conditions in which all people will be able to realise their potential with dignity, equality and responsibility through activities in various areas. The main SDS guidelines to achieve this goal are aimed at (i) providing an appropriate level of income for a decent life and maintaining low income and wealth inequality; (ii) creating sustainable systems of social protection and child protection and security; (iii) ensuring a good quality of the living environment; (iv) strengthening cooperation, solidarity and volunteerism; and (v) eliminating all forms of discrimination. A decent life is linked to an inclusive and healthy society, which is described in Development Goal 1.

2030 SDS performance indicators for Development Goal 3:

	Latest data		Target value for 2030
	Slovenia	EU average	
At-risk-of-poverty or social exclusion rate, in %	14.3 (2020)	21.9 (2020)	< 16*
Income distribution inequality, quintile ratio (S80/S20)	3.3 (2020)	5.2 (2020)	< 3.5
Experience of discrimination, in %	9 (2019)	16 (2020)	< 10

Note: *The table shows the at-risk-of-poverty or social exclusion rate determined according to the new methodology (see Box 7), while the target was set in accordance with the old methodology, which will no longer be used as of 2022. In accordance with the European Pillar of Social Rights Action Plan, since May 2021 the European Commission has been harmonising, together with governments and line ministries, the new national at-risk-of-poverty or social exclusion rate targets for 2030, which are expected to be adopted in June 2022

Following accelerated growth in 2016–2019, the gross disposable household income[139] further increased during the COVID-19 epidemic, which was initially mostly due to the government measures to mitigate the consequences of the epidemic and in 2021 also to the improved labour market conditions. Due to the global financial crisis, compensation of employees, which accounts for the largest part of income, decreased markedly in 2009–2013 and, in addition to the decline in social benefits since 2012, had a significant impact on the decline in gross disposable income (see Figure 44). Since 2014, due to the revival of economic activity accompanied by growth in employment and wages, disposable income was increasing again and in 2016 it exceeded the 2008 level for the first time. The high growth, in particular in compensation of employees in 2016–2019, slowed in 2020 as a result of the economic consequences of the COVID-19 pandemic. The consequent deterioration in the labour market conditions was mitigated by the intervention measures to retain jobs, which prevented the reduction in compensation of employees despite the marked decline in economic activity (see also Section 1). Decline in the gross disposable income[140] was also prevented by various anti-coronavirus measures; social benefits paid were higher by one-tenth in real terms and reached the highest share in the structure since 2016.[141] Due to continuing epidemic and restrictions in business operation, the measures to retain jobs were partly extended to 2021. They were also supplemented by some additional measures to assist the population.[142] Labour market conditions had been improving during 2021, which had a positive impact on the growth in compensation of employees.[143] With the 0.9% growth in social benefits and a relatively high growth in mixed income,[144] the gross disposable income increased in 2021 by 3.1% in real terms (nominally by 7.7%). The growth in disposable income affected the growth in median equivalised disposable income, which reduced the lag behind the EU average[145] (Indicator 3.12).

[139] Gross disposable household income comprises gross household income from employment, social benefits in cash, operating surplus, and mixed income and property, less contributions and taxes.

[140] In 2020, Slovenia had the fourth highest growth in gross disposable income in the EU: it has increased in 12 Member States and decreased in 12 Member States; data for the remaining three is not yet available.

[141] For the more detailed content of past measures, see IMAD (2021c).

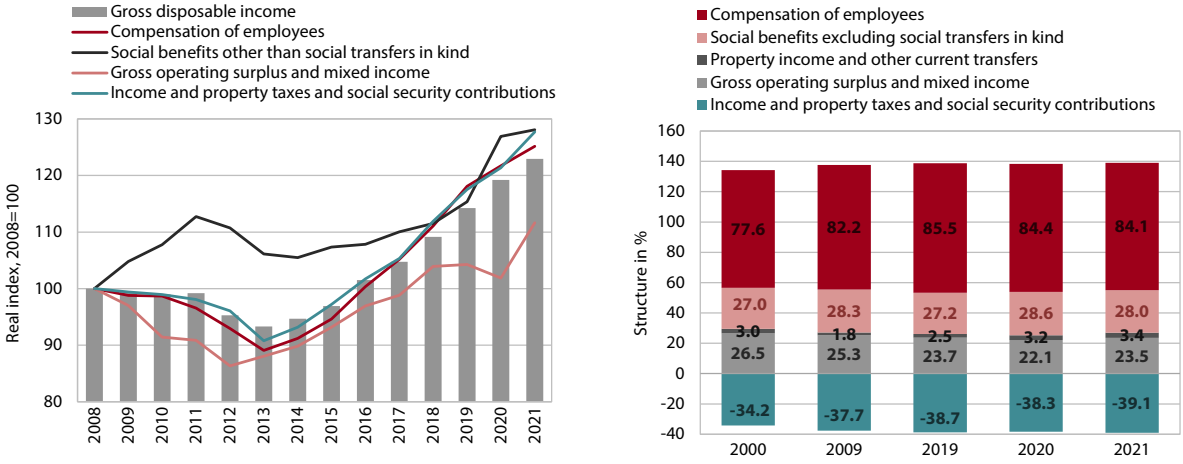
[142] A one-off crisis supplement for the most vulnerable groups – payment of supplements to pensioners, students, farmers and families and supplement for employees whose monthly salary is less than twice the minimum wage, who received a supplement of EUR 200 with the December salary (ZDUOP, 2021; ZIUPOPDVE, 2020). New vouchers were also introduced, which can be redeemed in the more affected activities in tourism, accommodation and food service, sport and culture sectors (ZIUPGT, 2021) and whose validity has been extended to the end of June 2022 (Decision to the ZIUPGT, 2021); the already extended tourism vouchers of 2020 were further extended to the end of June 2022 (ZDUPŠOP, 2021).

[143] In 2021, the number of people in employment fell by 12.6%, while the average gross wage increased by 6.1%.

[144] This was also due to the intervention measures concerning gross mixed income: the payments of a monthly basic income to the self-employed, a partial compensation for income lost due to quarantine or *force majeure*, the partial reimbursement of uncovered fixed costs, and the reimbursement of costs related to rapid tests. Assistance to more affected activities was also introduced in the form of an aid for financing holiday allowance and partial reimbursement of certain costs (costs of organising events and meetings, costs of producing films and audiovisual works, and costs of the operation of cableway installations).

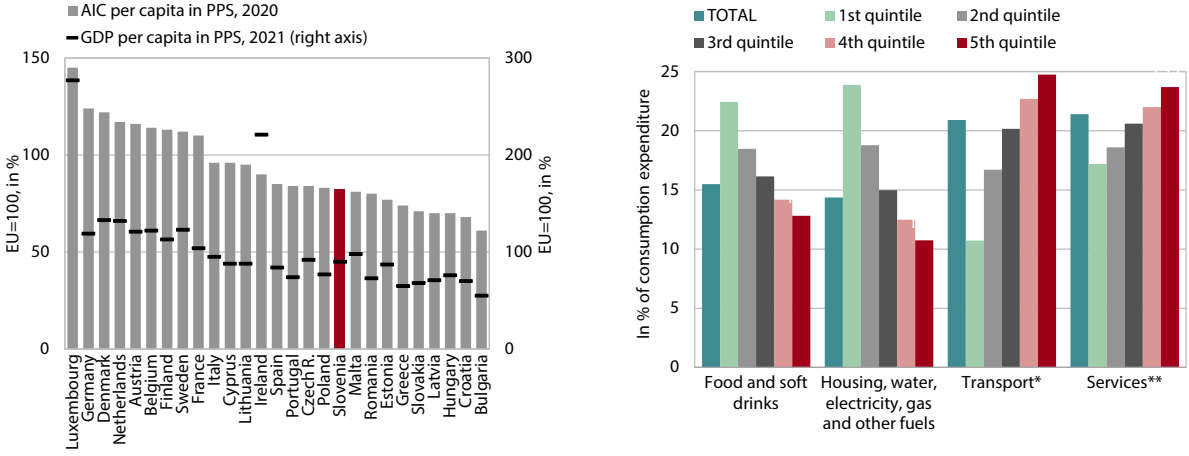
[145] With regard to the median equivalised disposable income in PPS, in

Figure 44: Gross disposable income has further increased with the help of government measures during the epidemic



Source: SURS (2022); calculations by IMAD.

Figure 45: Material well-being still lags behind the EU average (left); in 2018, the households in the lowest two income quintiles spent the largest share of their expenditure on housing and households in other quintiles on transport (right)



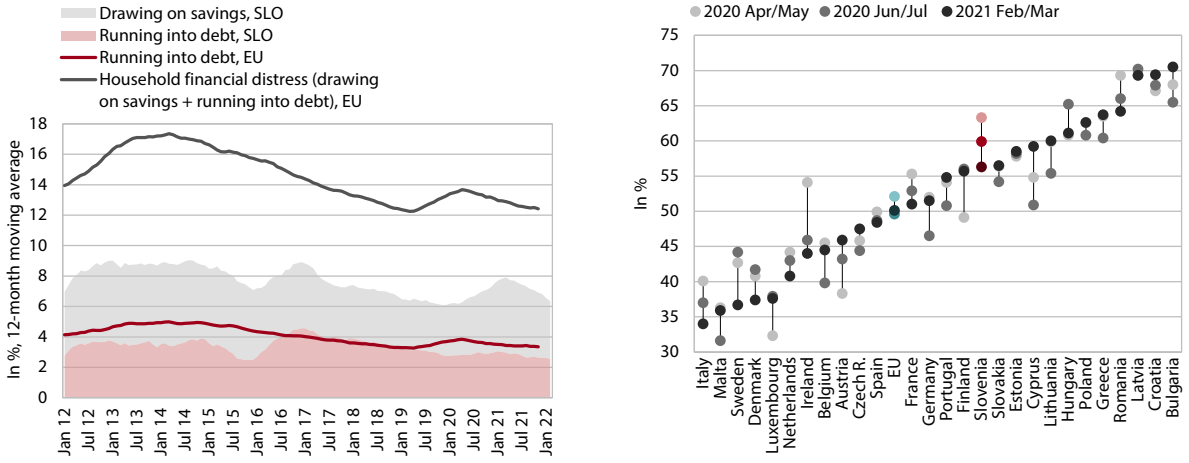
Sources: Eurostat (2022), SURS (2022b); calculations by IMAD. Notes: The expenditure for basic necessities includes the monetary value of own production; however, it does not include the expenditure that is not part of consumption expenditures (expenditure related to the purchase or renovation of a flat or house and various other expenditures). *Transport includes the purchase of vehicles, products and services for personal vehicles and transport services. **Services include communications, recreation and culture, education, and restaurants and hotels, with the categories also including particular goods (e.g. the communications category includes the purchase of devices etc.).

The material well-being of the population has been gradually improving, although it is still below the EU average; with growth in material well-being, the household expenditure structure is changing: expenditure on food and other basic necessities is decreasing, while expenditure on services is increasing. The material well-being of the population is measured by actual individual consumption (AIC) per capita in PPS and by GDP per capita in PPS.[146] In terms of AIC per capita in PPS, Slovenia has been ranking around 18th place among EU Member States for some time now. In 2020, it was 18% behind the EU average, similar to Poland and Malta. In terms of GDP, it was 10% behind the EU average in 2021, which is the lowest since

2020 Slovenia lagged behind Austria, which has the highest median after Luxembourg, by 27%, which is 7.5 p.p. less than in 2017.

[146] The AIC per capita in PPS is a measure of the material well-being of households. It comprises goods and services that individuals actually consume. When the AIC per capita, expressed in the national currency of the country in question, is divided by the purchasing power parity of the country, the result neutralises the differences in the price levels and expresses the actual AIC in the total price level. The AIC per capita in PPS is thus adjusted for price differences and is expressed as the ratio to the EU average (EU = 100). The indicator GDP per capita in PPS is a measure of the economic development of a country. The position of countries with regard to this indicator is similar to that regarding the AIC per capita in PPS, although the differences between countries are significantly greater (Čakarević and Stanojević, 2021; Stanojević and Čakarević, 2021).

Figure 46: In Slovenia, household financial distress[1] at the end of 2020 resulted in an increased drawing on savings (left); low subjective assessment of household financial fragility[2] improved during the epidemic, but it remains below the EU average (right)



Sources: EC (2021l), SURS (2022a), monthly consumer opinion survey, Eurofound (2020b, 2020a and 2021a). Notes: [1]The share of households running into debt or having to draw on savings. [2]The share of respondents whose households would be able to maintain the same standard of living less than three months or were without savings.

2008, and ranked just behind the Czech Republic and ahead of Cyprus and Lithuania (Figure 45 left). Due to the epidemic, the material well-being has deteriorated sharply in some Member States (most notably in Spain). Only in a few Member States has it improved noticeably (the most in Luxembourg, Ireland and Denmark). Slovenia is one of the countries where progress has been relatively small but constant and stable. With the gradual improvement of material well-being, household expenditure structure is also changing: in 2012–2018, the share of expenditure on food and other basic necessities decreased, while the share spent on services increased. Until 2012, households in the first two quintiles spent the largest share of expenditure on food, and since 2018 (the most recent data) on housing (Figure 45 right), while the households in the remaining three quintiles spent the largest share of their expenditure on transport and certain services. In 2018, households in the fifth quintile spent 3.6 times more on basic necessities than those in the first quintile.

In 2016–2019, households in Slovenia borrowed more than the EU average. At the onset of the epidemic in 2020, mostly drawing on savings increased; according to various indicators, the financial situation of households improved noticeably in 2021. Before the epidemic, fewer households were in financial distress (running into debt or drawing on savings) than in the previous decade, and those that were in financial distress were predominantly from the lower two income quartiles. As a result of the epidemic, financial distress of households became more acute at the end of 2020 and the beginning of 2021, and households mostly responded by drawing on their savings (see Figure 46 left). By the beginning of 2022, the financial distress of households returned to the levels of the end of 2019. The European Commission (2021l) ranked Slovenia among the six Member States where the financial distress of the lower income quantile of households was reduced considerably between the third quarter of 2020 and 2021 (by 4.6 p.p.; the most in Belgium, by 26.4 p.p., and the Netherlands, by 10.0 p.p.), while in Hungary it deteriorated significantly (by 14.4 p.p.) (Indicator 3.16). The subjective assessment of financial sustainability of households, which in Slovenia has been lagging behind the majority of other EU Member States and the EU average for years (see Figure 46 right), improved more than on average in the EU during the epidemic. The first preliminary data for EU-SILC 2021 show that the assessment of the financial situation of households that find it hard or very hard to make ends meet improved considerably (by 7 p.p. compared to 2020); the situation also improved in the households in mild financial distress (by 6 p.p. compared to 2020) (Inglič et al., 2022). In 2020, 48% of households found it easy or very easy to make ends meet, while in 2021 there were 61% of such households (Inglič et al., 2022).

Income inequality is one of the lowest in the EU and, according to the criteria of wealth inequality, Slovenia ranks around the middle of the EU Member States that are also members of the OECD. The ratio between the lowest and the highest income quintile was 3.3 in 2020[147] (Eurostat, 2022), which is the lowest since 2009, among the lowest in the EU[148] and within the 2030 SDS target (below 3.5; Indicator 3.10). Low income inequality in Slovenia, which is ensured by the system of

[147] The EU-SILC 2020 survey was based on 2019 income, so the results do not reflect the impact of the epidemic on income inequality in Slovenia.

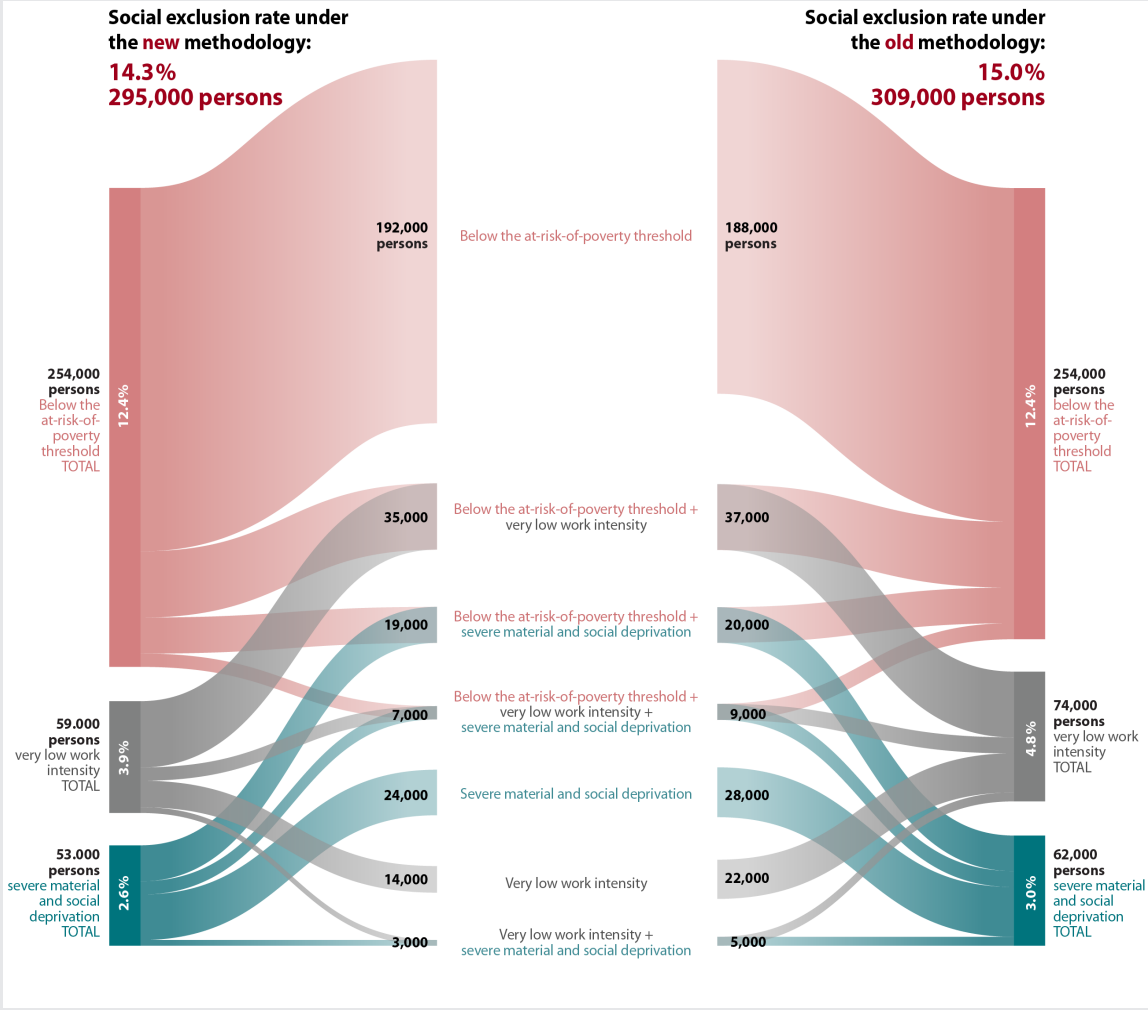
[148] In 2020, only Slovakia had a lower ratio between the lowest and the highest income quintiles (3.0) (Eurostat, 2022).

Box 7: A new methodology for monitoring the at-risk-of-poverty or social exclusion rate in the EU

In 2021, Eurostat and the European Commission started to use a new methodology for calculating social exclusion. As of 2022, the new methodology, which Eurostat and the national statistical offices of the EU Member States have been using in the field within the EU-SILC survey since 2015, with results published in 2021, will also be used in Slovenia's Development Report. The new methodology is not comparable to the old one, which included the data for 2005–2020 and has been used for our reports to date. Of the three indicators comprising the at-risk-of-poverty or social exclusion rate, only the at-risk-of-poverty rate remains unchanged with data available since 2005; the remaining two indicators were changed and are available from 2015. In 2021, the targets of the European Pillar of Social Rights Action Plan were also set based on the new methodology. The targets envisage reducing the at-risk-of-poverty or social exclusion by at least 15 million people (of which at least 5 million should be children) by 2030 (see IMAD, 2021a). The national targets are planned to be harmonised by June 2022.

The material and social deprivation rate and the severe material and social deprivation rate are measured by 13 deprivation items. In addition to the change in its name, i.e. *social deprivation* was added to the *material deprivation*, 13 deprivation elements are measured for this indicator according to the new methodology. Seven new

Figure 47: The at-risk-of-poverty or social exclusion in the EU-SILC 2020 survey (based on the income in 2019) according to the new methodology (left) and the old methodology (right)



Sources: SURS (2022), EU-SILC 2020 survey (based on the 2019 income). Note: The EU-SILC 2020 survey is not fully comparable with previous surveys, as part of it was carried out before the epidemic (in the first two months of 2020) and it was completed later than usual; see Inglič et al. (2021). All EU Member States were dealing with similar problems. On methodological obstacles of EU-SILC, see IMAD (2021a) and Guio et al. (2021).

items[1] have been added to the first six items,[2] which had been measured under the old definition, while three old items were abandoned.[3] According to the new definition, the calculation of material and social deprivation now includes persons who are deprived in at least 5 of the 13 items, and the calculation of severe material and social deprivation includes persons who are deprived in at least 7 of the 13 items.

According to the new definition, very low work intensity is measured for the population under 64 years of age and the indicator is also calculated differently. According to the new methodology, the calculation takes into account the age group 0–64 years (previously 0–59 years) and does not include certain groups that are not active in the labour market: (a) households only including students (current activity status) aged 18–24 years; (b) households only including persons over 64 years; (c) pensioners (current activity status) or persons receiving a pension (old-age or disability), and (d) inactive persons (current activity status) aged 60–64 years living in a household where pensions constitute the main income source.

[1] The new items are capacity to (7) replace worn-out or damaged furniture, (8) replace worn-out clothes with new ones, (9) have two pairs of properly fitting shoes for different weather, (10) get together with friends/relatives for a drink/meal at least once a month, (11) have regular payable leisure activities, (12) spend a small amount of money each week on oneself, and (13) have an internet connection at home.

[2] The six deprivation items used under both the old and the new definitions are capacity to (1) face unexpected financial expenses, (2) afford paying for one week's annual holiday away from home, (3) afford adequate meals, (4) pay loans and mortgages and arrears thereon, (5) keep the home adequately warm, and (6) afford a washing machine.

[3] These items were: (7) have a colour TV, (8) have a telephone (mobile phone), and (9) have a car.

progressive personal income tax and, to some extent, also by social transfers, has also been shown by the Gini coefficient for many years. In 2020, this coefficient was 0.235, which is the second lowest value in the EU, with only Slovakia having a lower value. Wealth inequality[149] is higher than income inequality in most countries, as the share of wealth held by higher income classes is much higher than the share of their income. Data for 2017 (the latest year available) showed that, in OECD countries, the wealthiest 10% of households owned about half of the wealth in the country, which is twice as much as is the case for disposable income. In Slovenia, the wealthiest 10% owned 44% of wealth and 19.9% of income (OECD, 2022; Eurostat, 2022).

The at-risk-of-poverty or social exclusion[150] increased slightly in 2020, although the EU-SILC 2020 results do not yet reflect the impact of the epidemic on living conditions. In 2015–2019, the at-risk-of-poverty or social exclusion gradually decreased and was low by international comparison. According to the latest EU-SILC 2020 survey, which was based on the 2019 income and only covered part of the first epidemic wave,[151] 295,000 persons were at the risk of social exclusion (Figure 48 left). The at-risk-of-poverty rate and the severe material and social deprivation rate increased (by 0.4 p.p. each), while the low work intensity rate decreased (by 0.4 p.p.) and remains the lowest in the EU for the fourth year in a row, though above the EU average for those close to retirement (aged 60–64 years). The at-risk of social exclusion has increased for all age groups but remained the lowest in the EU for children and young people and the second lowest (after the Czech Republic) for adults. In recent years, however, people aged 65 and over, and especially women aged 75 and over, have been more exposed to this risk than the EU average (30.4%; EU: 24.9%), and more so than at any time in the last five years (Indicator 3.9 and Figure 48, left). The material situation of pensioners compared to employed people also remains worse than the EU average, which reduces their possibilities for social inclusion (see IMAD, 2021). For several years, the risk of social exclusion of low-educated people, housing tenants and other vulnerable groups has been near the EU average (see IMAD, 2021a).

In 2017–2020, the at-risk-of-poverty rate[152] was among the lowest in the EU. However, it was high for certain vulnerable groups and markedly above the EU average for older people and single-person households, in particular women living alone. According to the EU-SILC 2020 survey, which was based on the 2019 income, the at-risk-of-poverty rate had increased slightly (to 12.4%; EU: 17.1%) and 254,000 persons lived below the at-risk-of-poverty threshold.[153]

[149] Wealth inequality is measured by the ratio of the average net wealth to the median net wealth or by the share of wealth owned by those at the top of the distribution (the wealthiest 10%, 5% or 1%) (OECD, 2018d).

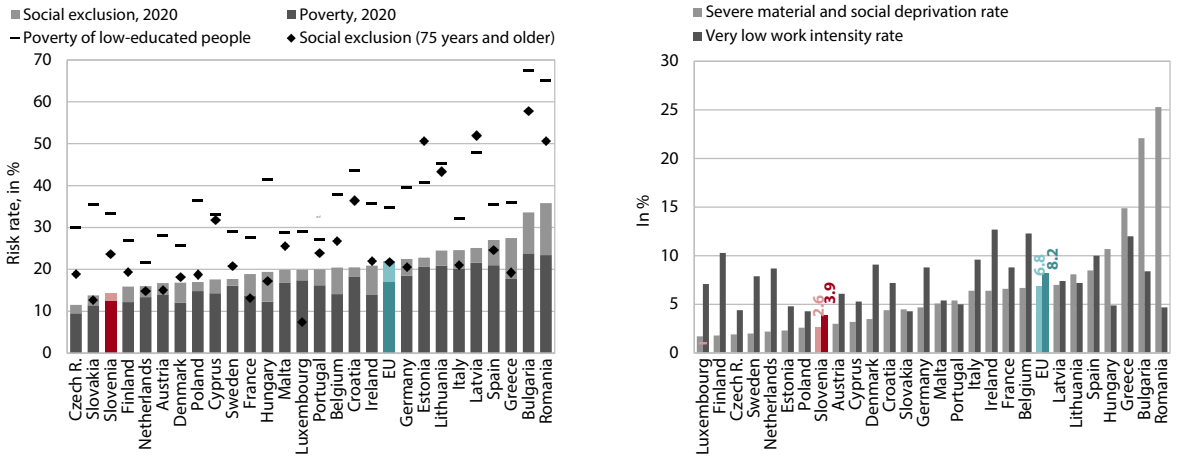
[150] The at-risk-of-poverty or social exclusion rate comprises the risk-of-poverty rate (the share of persons living in households with the equivalised disposable income of less than 60% of the national median equivalised income), the severe material and social exclusion rate (Indicator 3.16 and Box 7), and the share of persons living in households with very low work intensity (less than 20% of the household's total work potential, see Box 7). Persons falling in several categories are counted only once in the total number.

[151] The data for 2020 are not completely comparable to those of previous years and only a part of the data captures the impact of the first wave of the epidemic, as part of the EU-SILC 2020 survey was conducted before the first wave (January–March), while the second part was concluded later than usual (May–September). For more detail, see Inglič et al. (2021).

[152] The share of persons living in a household with an equivalised disposable income below the at-risk-of-poverty threshold (i.e. 60% of the national median equivalised income).

[153] The majority of them were pensioners (19.5% of all pensioners), followed by persons in employment (5%), minors (10.5%) and the unemployed (43.4%). The unclassified and inactive persons were the fewest (19.6%).

Figure 48: Despite the increase in 2020, the at-risk-of-poverty and social exclusion rates remain among the lowest in the EU (left); the severe material and social deprivation rate and the very low work intensity rate are also in the lower half of EU Member States (right)*



Sources: Eurostat, EU-SILC 2020 data (based on 2019 income). Note: *Figures for Italy on both graphs are for 2019; the EU average is as estimated by Eurostat.

People aged 60 years or older, in particular women, were more at risk of poverty than the EU average. With regard to the type of households, single-person households were more at risk of poverty than the EU average. The risk was by far greater for women than men living alone, but both indicators were well above the EU average. With regard to children at risk of poverty, Slovenia has ranked among the countries with the lowest rates for several years – in 2020, only Hungary and Denmark ranked better. Compared to the EU, multi-person households, households with children and households with adults are less exposed to the at-risk-of-poverty than the EU average. The Court of Audit of the Republic of Slovenia (2021d), the Human Rights Ombudsman (2021), IRSSV (2021) and 19 non-governmental organisations (EAPN, 2021) draw attention to the unsuccessful treatment of the most threatened and vulnerable groups, whose poverty and distress are intensifying. In addition to some groups at greater risk of poverty that have been indicated by statistical data for several years,[154] poverty is also increasing among certain precarious workers (those working under contracts for copyright work, job contracts and other contracts), persons with limitations (Figure 49 right) and other persons not adequately covered by EU-SILC surveys, which is also pointed out in IMAD (2021a).[155] The Court of Audit of the Republic of Slovenia (2021d) established that in strategic documents and regulations poverty is not defined in an unambiguous way and that the ministry had not taken a clear position on which measures or rights financed from its funds it would apply as preventive and which as curative measures to reduce poverty.

After years of decrease, the material and social deprivation rate[156] remained constant in 2019 and 2020. The severe material and social deprivation rate rose slightly in 2020, while the first preliminary data for 2021 indicate a significant decrease. In 2015–2019 in Slovenia, both rates decreased more than average in the EU (Indicator 3.16). In the first half of 2020, the favourable trend was interrupted in the majority of EU Member States. However, the data only partly reflect the impact of the first epidemic wave.[157] In Slovenia, the material and social deprivation rate remained at the same level as in 2019; it remained high but still below the EU average for people aged 65 years and older. The severe material and social deprivation rate increased (to 62,000 persons) but remained 2.6 times lower than the EU average (Figure 48 right). It has been among the lowest in the EU for children and young people for several years and in the middle for people older than 60 years, although still below the EU average. The share of severely materially and socially deprived single-parent households and families with one dependent child increased but remained considerably below the EU average. In 2020, the number of households receiving material and/or cash assistance from charitable organisations increased slightly. In the beginning of 2021, the number of beneficiaries of social assistance

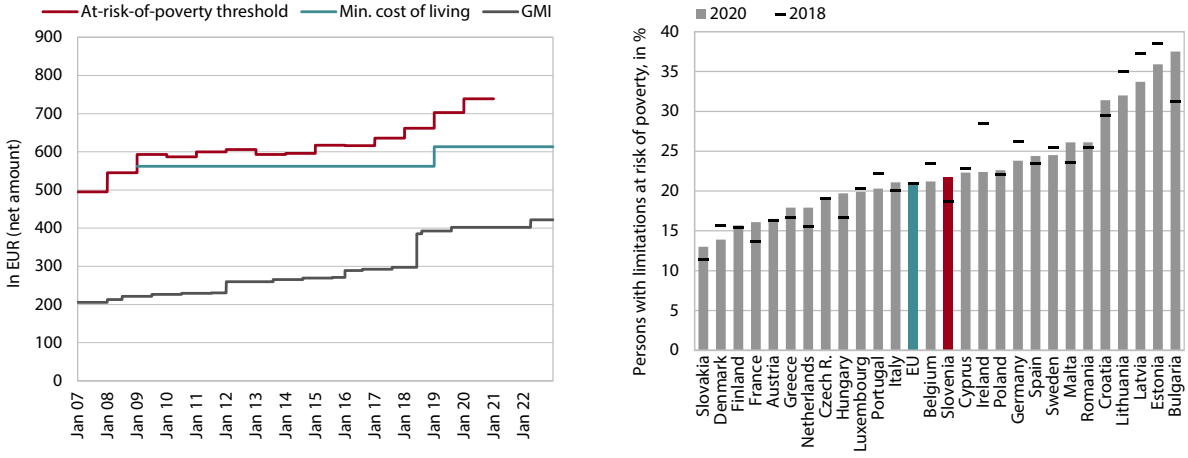
[154] Mostly older women, in particular widows and persons with low pensions. Vulnerable groups also include low-educated people, housing tenants and children (of low-educated parents, with foreign citizenship and from single-parent families); see IMAD (2021a).

[155] Persons with addiction problems, in institutional care, with disabilities, homeless, without a bank account, digitally illiterate, without citizenship, erased, etc.; for more detail, see (IMAD, 2021a).

[156] The material and social deprivation rate has been measured in at least five and the severe material and social deprivation in at least seven of the thirteen deprivation items presented in Indicator 3.16 Box 7.

[157] The EU-SILC 2020 survey is not fully comparable with previous surveys, as part of it was carried out before the epidemic and it was completed later than usual (Inglič et al., 2021). All EU Member States were dealing with similar problems, so Eurostat and SURS warn of the poor comparability of data to previous years, as well as between countries.

Figure 49: The gap between GMI and the at-risk-of-poverty threshold has been increasing since the last setting of the GMI amount in 2018 (left). In 2018–2020, the share of people with limitations* aged 16 years and older who are at risk of poverty increased (right)



Sources: SURS (2022b), calculations by IMAD; Eurostat (2022); EU-SILC 2020 (based on income in 2019). Note: *Eurostat (Global Activity Limitation Instrument – GALI) defines persons with limitations based on self-reported long-term limitations in daily activities due to health problems. Right: The figure for Italy is for 2019. The EU average is Eurostat's estimate.

benefit in cash[158] also increased, but since the beginning of 2022 it has fallen to the pre-crisis levels (MDDSZ, 2021d). Preliminary EU-SILC 2021 data show that the severe material and social deprivation rate decreased considerably in 2021 (from 2.6% in 2020 to 1.6% in 2021) (Inglič et al., 2022).

Social protection expenditure[159] is lower than the EU average, but it has more impact on the reduction of the at-risk-of-poverty; nevertheless, in particular older women, single-person households and low-educated people are still at risk of long-term poverty. In 2008–2019, social protection expenditure in the share of GDP was lower by 4.9 p.p. on average than in the EU, while in PPS per capita it only reached 67.2% of average EU expenditure in 2019. The major part of social protection expenditure in Slovenia and in the EU is intended for old age and illness and for healthcare (Indicator 3.14). Expenditure for old age has been increasing in recent years due to pension adjustment and partial amendments to the Pension Act, which can in no way replace the necessary comprehensive pension reform that would ensure decent pensions for all and maintain the sustainability of public pension expenditure. Social transfers play an important role in the reduction of poverty in Slovenia, as without them the risk-of-poverty rate would be almost twice higher. The share of the population that cannot escape from poverty despite social transfers remains relatively high: in 2020, 124,000 persons lived in long-term poverty.[160] People who are more at risk of long-term poverty than the EU average are people aged 65 years or over (in particular widows and female recipients of low pensions), single-person households and low-educated people. In the middle of 2021, 60% of pensioners received old-age pension of up to EUR 800 and one-tenth of up to EUR 500. In both groups there were 58% of women (ZPIZ, 2021),[161] which is a result of a short period of pensionable service in particular in older women.

The reduction of long-term at-risk-of-poverty could also be facilitated by a more appropriate regulation of the guaranteed minimum income (GMI). The risk of long-term poverty is affected by low intragenerational and intergenerational mobility[162] and low GMI,[163] which is set substantially below the minimum cost of living[164] and is adjusted every six years in accordance with law

[158] The number of beneficiaries was greatest in April 2021 (111,123), but by 1 January 2022 it has fallen considerably (to 86,712) (MDDSZ, 2021d).

[159] According to the ESSPROS methodology, expenditure covers the following categories: illness/healthcare, disability, old age, death of the breadwinner, family/children, unemployment, accommodation, and other forms of social exclusion. Also see IMAD (2021a).

[160] The risk-of-long-term-poverty rate shows the share of persons below the at-risk-of-poverty threshold in the current year and at least two out of three preceding years.

[161] At the end of January 2022, pensions were adjusted in different percentages for different groups of pensioners, which had a favourable impact on pension distribution; see e.g. ZPIZ (2022). Pensions were adjusted by 3.5% for people retired by the end of 2010, 1.7% for people retired in 2011 and 1% for people retired from 2012 on (ZPIZ-2L, 2022).

[162] Intragenerational mobility is the ability of a person to move between socioeconomic classes within their lifetime. Intergenerational mobility is the ability of a family to move on the socioeconomic ladder in one or several generations (Eurofound, 2021g; IMF, 2020; OECD, 2018a). In 2020, Slovenia ranked 13th of 82 countries in the global social mobility index. Its best rank was for low income inequality (4th place) and its worst for the high share of low-educated unemployed people (55th place) (IMF, 2020).

[163] Until 31 March 2022, GMI was EUR 402.18 per month; on 1 April 2022 it increased to EUR 421.89 per month.

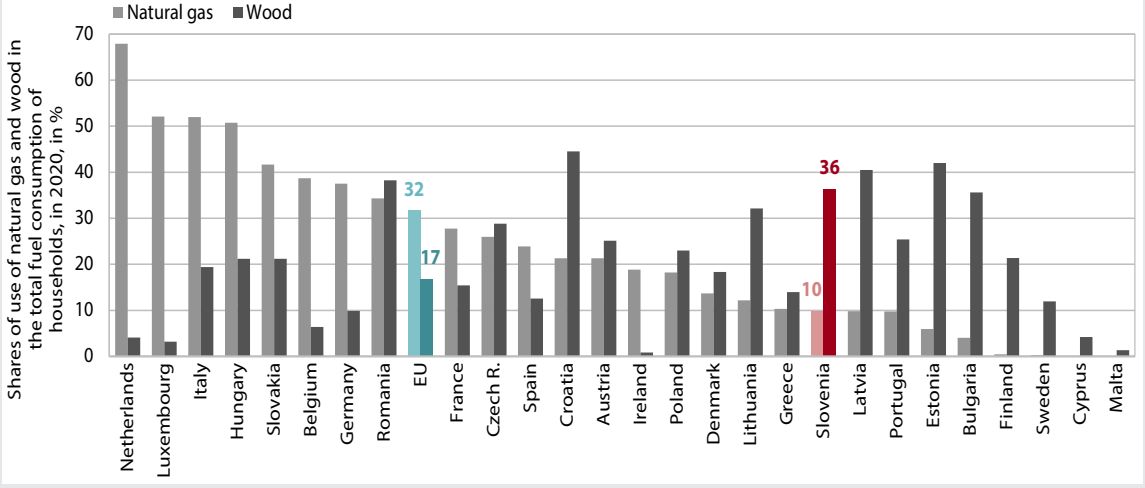
[164] In 2020, GMI only reached 35% of median equalised disposable income (EDI) in the case of single non-working persons and 48% of median EDI in the case of families with two dependent children and two non-working adults, meaning that single persons in particular were very far from the at-risk-of-poverty threshold (60% of median EDI) (OECD, 2022c).

Box 8: The impact of rising energy prices on households in Slovenia

The rise in energy prices in international markets in 2021 had a great impact on the rise in the price of energy and consequently other necessities in Slovenia, which even accelerated in 2022 due to the Russian–Ukrainian military conflict. Due to a large increase in energy prices in the global market, energy prices in the CPIs increased by almost one-fifth in 2021. They contributed 2 p.p. to the 4.9% inflation rate, which is the most in the last 20 years. The rise is primarily due to the prices of petroleum products, whose fluctuation in international markets is most quickly transferred to the final prices. On the year-on-year basis, the prices of motor fuels, which are mostly intended for transport, were higher by almost one-third, while the rise in heating gas oil price was slightly lower (13.7%), which was also due to the reintroduction of regulation. The prices of heat energy increased markedly, i.e. by 70%. In autumn 2021, the other energy prices, which according to our assessment follow price trends in international market to a lesser extent due to longer-term contracts, also started to rise. In 2021, gas prices were higher by more than one-tenth, but electricity prices only by 1%. In addition to the announced increase in the prices of some distributers, network charges have already increased in 2022 (Tariff rates, 2021), which will further increase the electricity prices. Higher energy prices indirectly affect other prices, for example food prices increased by 4% last year. The rise in energy prices in international markets accelerated in the first quarter of this year, primarily due to the Russian–Ukrainian military conflict. The prices of Brent oil thus increased by approximately 35% in the first quarter, and the prices of gas on the Dutch gas exchange by almost 80%. This contributed to the rise in consumer prices, which increased considerably but would have been even higher without the temporary measures to mitigate the effects of high fuel prices.

The fast rise in energy prices has a great impact on the poorest households, which allot a high share of their expenditure to energy. However, in view of exposure to rising energy prices in the global market, the structure of energy consumption in Slovenia is more favourable than in the EU generally. In 2018, households in Slovenia spent on average 5.3% of their expenditure (EU: 4.2%) on energy[1] (not including transport[2]). In 2012–2018 this share decreased in Slovenia and the EU; it increased again in 2020 (to 5.8% and 4.3% respectively), which was mostly due to the relatively great fall in total expenditure while energy expenditure remained the same. In Slovenia, the poorest households or the households in the first income decile, spend a considerably higher share of their expenditure on energy (13.4%) than the EU average (8.3%) (EC, 2020b). At the same time, the average Slovenian household (and this also applies to the poorest ones) is less exposed to rising prices in the global market with regard to the structure of fuel consumption, as it uses more wood,[3] which is mostly a domestic resource and is thus less affected by (substitution) effects of the rise in the price of other fuels. The average (and the poorest) household in the EU uses more natural gas.[4]

Figure 50: Of fuels, Slovenian households consume more wood and less natural gas compared to the EU average

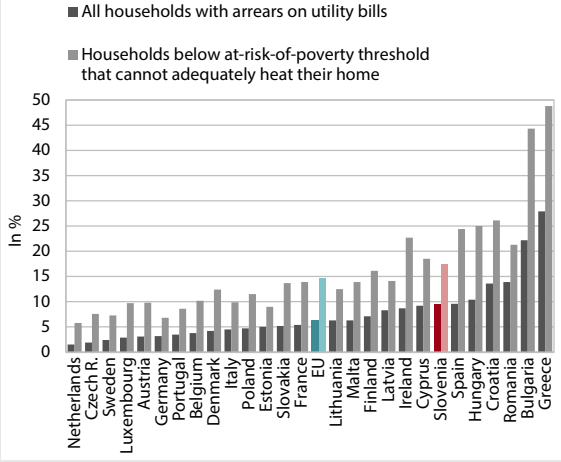


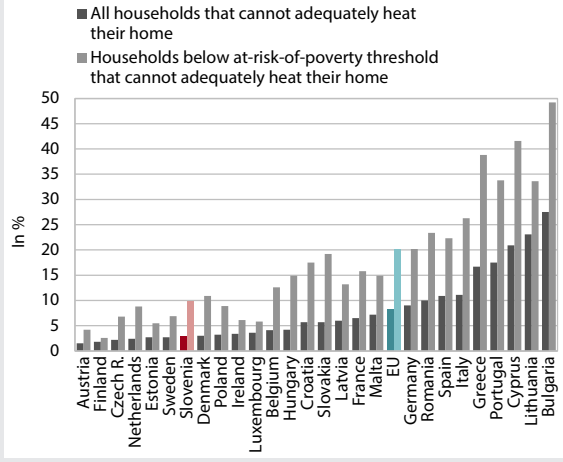
Source: Eurostat (2022); calculations by IMAD.

[1] Electricity, gas and other fuels within the item "housing, water, electricity, gas and other fuels".
[2] The rise in motor fuel prices in Slovenia could affect primarily the households in the third quintile, as the data for 2018 show that in the structure of their expenditures these households spent the most on transport, and households dependent on daily commutes by car.
[3] In 2021, the prices of solid fuels (wood pellets and briquettes) increased by 1.4%.
[4] In addition to wood, the poorest households in Slovenia also consume slightly more liquid fuels, but less natural gas and thermal energy. Electricity represents the highest share everywhere.

In households below the at-risk-of-poverty threshold, the rise in energy prices could exacerbate the problems with keeping their homes sufficiently warm and being late in paying utility bills. When they lack the financial means to survive, low-income households are often *in arrears with utility bills*. In 2020, almost one-tenth of all households were in arrears (9.4%; EU: 6.2) or 17.4% of the households below the at-risk-of-poverty threshold (EU: 14.6%).[5] The share has been higher in Slovenia for a number of years but has been falling faster than in the EU as a whole. The most vulnerable are single-parent households below the at-risk-of-poverty threshold with dependent children. In 2020, 39% of them were late with their payments (EU: 18.2%). The rise in energy prices can also affect housing heating. In 2020, *the share of households that were unable to keep their homes adequately warm* was 2.8% (EU: 8.2%), which is a long-term average in Slovenia. The share was much greater in the households below the at-risk-of-poverty threshold (9.8%) but still below the EU average (20%). The most vulnerable were single-person households below the at-risk-of-poverty threshold (12.5%; EU: 19%), with no substantial differences with regard to age. In 2020, the share increased slightly compared to the preceding year, but compared to 2010 it decreased more than the EU average. In 2020, as many as 30% of households below the at-risk-of-poverty threshold lived in dwellings that had problems with a leaking roof, damp walls, foundations or floors, or rotted window frames or floors (Indicator 3.15), which also contributed to higher energy costs.

Figure 51: In 2020, the share of households in arrears with the payment of utility bills was higher (left) and the share of households that were unable to adequately heat their home lower (right) than the EU average





Source: Eurostat (2022). Note: The figure for Italy is for 2019; the figure for the EU is the Eurostat estimate and the figure for Latvia is a preliminary figure.

Slovenia adopted measures to mitigate the consequences of high energy prices for households. Since the first half of November 2021, the regulation of heating gas oil prices has applied;[6] according to our estimate, this has reduced the price of one litre of fuel oil by approximately 10 cents. At the end of 2021, the 10th anti-coronavirus package (ZDUPŠOP, 2021) was adopted; this provided temporary measures to improve the financial situation of the most vulnerable groups, which somewhat mitigated the initial pressure on the increase in household expenses. The Act Determining Emergency Measures to Mitigate the Consequences of High Energy Commodity Prices (ZUOPVCE, 2022) provided the most targeted regulation of this problem. It defines temporary measures concerning energy, social protection and the rights to public funds and determined the financial assistance to be granted under certain conditions to the most vulnerable households and to a certain extent to all households. The Act Determining the Measures to Mitigate the Consequences of Rising Energy Prices in the Economy and Agriculture (ZUOPDCE, 2022) includes measures regarding the business and agriculture sectors. In March, the Government froze retail and wholesale prices of NMB 95 petrol and diesel until and including 30 April 2022 (Decree on setting prices..., 2022; Decree amending the Decree..., 2022). Some municipalities also responded to rising energy prices with their own mitigation measures. These measures apply for a short term and cannot permanently mitigate the consequences of high energy prices if they remain high over a long period of time or get even higher. In the long term, Slovenia will be able to reduce the impact of the global market if it increases its self-sufficiency in energy, which would be based on renewable energy sources (see Section 4) and would include local energy concepts and energy saving.

[5] Data related to the following question in EU-SILC: "In the past 12 months, has the household been in arrears, i.e. has been unable to pay the utility bills (heating, electricity, gas, water, etc.) of the main dwelling on time due to financial difficulties?" (Eurostat, 2021a).

[6] Following the deregulation in 2016, the margins for heating gas oil have increased from 6 cents per litre to approximately 15 cents per litre according to the estimates of the Ministry of Economic Development and Technology. In 2021, before they were regulated again, the average retail prices of fuel oil in Slovenia were almost one-tenth higher than the EU average.

(Figure 49). In 2005–2018, GMI lagged considerably behind the minimum cost of living and the at-risk-of-poverty threshold. The gap was narrowed by the mid-2018 increase, but will widen again significantly by the time the new GMI is set, which is planned for 2023. The GMI guarantees the minimum means of subsistence to all those who, for various reasons, are unable to support themselves, and its amount is important because it serves as the basis for calculating the amount and entitlement to certain social benefits.[165] The GMI is thus only partially effective as a macroeconomic stabiliser in times of crises and uncertainties (see IMAD, 2021a, pp. 162–174). In addition to the complex and outdated legislation, poorly functioning information system, and the shortage and poor qualifications of staff at social work centres, it has a number of other shortcomings (amount, procedures for setting its amount, scope, application and relation to labour market activation measures).

Severe housing deprivation and the housing cost overburdening are mostly present in economically weaker households. Low affordability of housing also contributes to poorer quality of life. In terms of housing, decent life is affected by housing deprivation, housing cost overburden and housing affordability. In Slovenia, severe housing deprivation (3.1%; EU: 4.2%) is related primarily to the share of the population living in poor housing conditions (Indicator 3.15). The quality of occupied housing has been gradually improving, but energy and functional and in some cases seismic renovations still need to be carried out (UIRS, 2021). The *housing overcrowding rate*[166] is not high in Slovenia (10.9% in 2020) and is still falling. It is highest in housing rented at market price (38.1%) and in households below the at-risk-of-poverty threshold (18.1%). It is also higher in urban areas (15.8%). The *housing cost overburden rate* is relatively low in Slovenia due to the high share of owner-occupied housing.[167] However, it is above the EU average in households below the at-risk-of-poverty threshold (see Indicator 3.15). In the current economic situation, the rise in housing costs, in particular in economically weaker households, is mostly due to the rising costs of fuels (Box 8). *Housing affordability* is poor in Slovenia due to the low supply of public rental housing and housing on the market (in 2018, the share of rented housing was only 7.7%) (SURS, 2022b)[168] and the resulting high housing prices. Housing is less affordable to households with low income and young people, who only leave their parents' household at the average age of 27.5 years (EU: 26.4 years) (Eurostat, 2022). In addition to building new housing, supply could be increased by renovating and activating unoccupied housing, which accounted for one-fifth of the total housing stock or 172,200 dwellings in 2018.[169] More than one half of unoccupied housing units were either old (built before 1945) or lacking a basic infrastructure element (toilet, bathroom, heating, electricity or water supply), and roughly 10% were holiday homes (Miklič, 2019). An unutilised source of housing supply and higher housing mobility is under-occupied housing.[170] In 2020, one-third of the population lived in such housing, which is close to the EU average.

The accessibility of education to children and young people has been good by international comparison for many years, but the epidemic caused it to decline. Due to a greater promotion of enrolment of children over a long period, *the participation of children in preschool education and care* has increased and is high compared to the EU average (Eurostat, 2022). In 2020, it fell in children under three years, while it remained at the same level for older children[171] (Eurostat, 2022). Despite the favourable past trends, the number of available kindergarten places is still insufficient in some regions, particularly for younger children (EC/EACEA/Eurydice, 2019b). In 2020 and 2021, the accessibility of preschool education and care was temporarily reduced due to the COVID-19 containment measures. *The participation of children in basic and upper secondary education* has been above the EU average for many years (Eurostat, 2022). However, some groups of children and young people face various barriers to their inclusion (e.g. due to the lack of knowledge in Slovenian – see Section 2.1). Remote education during certain periods of the epidemic had a markedly negative impact on some groups of children and young people (see Section 2.1). The accessibility of tertiary education is ensured by tuition-free study in the first and second cycles and a favourable ratio between the number of available places and the number of applications in higher education programmes. Nevertheless, young people from families with a poorer socioeconomic status, who on average achieve poorer academic results than their peers (Indicator 2.4), more rarely chose to go to university (OECD, 2019j), and those who go to university often face financial problems (IMAD, 2021a). Participation of adults in education has fallen in the last decade[172] and even further declined during the

[165] These include income support, social assistance in cash, extraordinary social assistance benefit in cash, bereavement payment, funeral payment, subsidised rent, state scholarship, reduced payment for kindergarten, subsidised meals in basic and upper secondary schools, exemption from the payment of social assistance services, contribution to the payment of home care assistant, the right to coverage of the difference between the full value of health services, and the right to the payment of the contribution for compulsory health insurance.

[166] The housing overcrowding rate is defined as the percentage of persons living in dwellings with an insufficient number of rooms with regard to the number, gender and age of household members (Intihar, 2020).

[167] In 2020, 74.6% of the population owned their dwelling (EU: 69.7%) (Eurostat, 2022).

[168] The actual share of rental housing is certainly higher than official statistics due to unregistered renting.

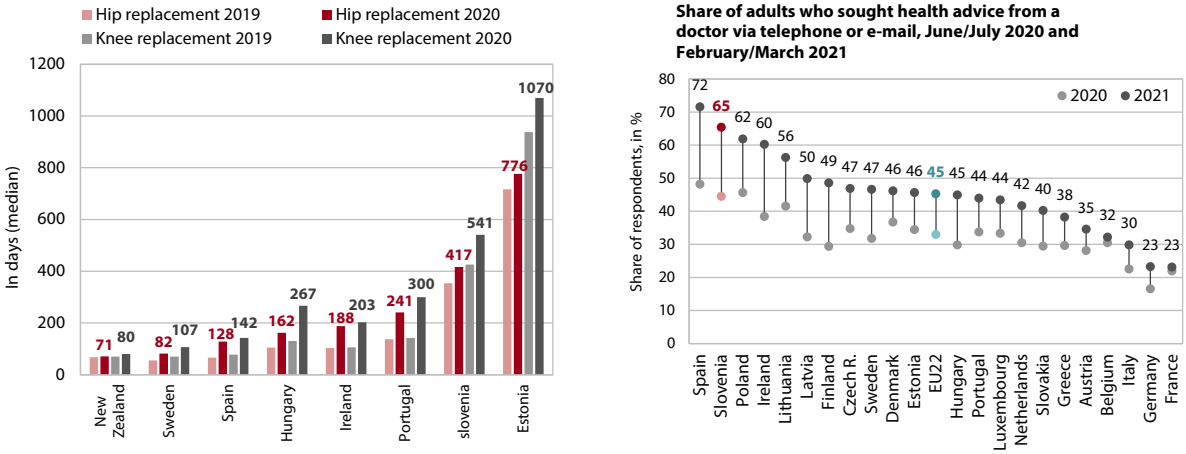
[169] This is a statistic and probably the upper limit, since it is possible that some dwellings are actually occupied but their residents are not registered for various reasons.

[170] An under-occupied dwelling is too large for the needs of the household members living in it (with regard to the number of bedrooms).

[171] In 2021, the EU adopted the action plan for the European Pillar of Social Rights (see IMAD, 2021b), which considers as indicators the participation of children under three years in preschool education and care and the participation of children aged three years and older in preschool education and care (EC, 2020l).

[172] In order to improve the accessibility of *adult education*, with vulnerable groups considered as a priority, this type of education is (co)financed from public funds, and various support activities (e.g. provision of

Figure 52: In Slovenia, waiting times are among the longest in the EU and have even increased in 2020 (left); during the epidemic, the share of remote consultations with doctors was among the highest in the EU (right)



Sources: OECD (2022b) and Eurofound (2021d).

epidemic due to poorer accessibility, in particular for vulnerable groups (see Section 2.1).

The accessibility of healthcare is good in terms of the financial coverage of rights, but the shortage of family doctors and long waiting times are highly problematic. In Slovenia, the very broad health benefit package[173] is financed from the combined compulsory and complementary health insurances. The coverage of the population with compulsory insurance is almost 100%, and 95% of persons liable for co-payment are included in the complementary insurance scheme. The complementary health insurance premiums for socially disadvantaged people (approximately 100,000 people) are covered by the State. Voluntary health insurance (mostly complementary health insurance) represents more than one half of private expenditure on healthcare and the out-of-pocket healthcare expenditure[174] is among the lowest in the EU (Indicator 3.6 and IMAD, 2021b). In 2018, only 0.8% of the population had dangerously high out-of-pocket expenditure, which is the least among EU Member States (6.5%) (OECD/EOHSP, 2021a). Despite the good financial accessibility of healthcare, the actual accessibility has been worsening for several years, particularly due to the shortage of healthcare staff at the primary and secondary levels. The shortage of staff is reflected in high unfulfilled needs for healthcare services (Indicator 3.4). At the primary level, the situation became serious in 2018 due to the lowering of standards regarding the number of people registered with a chosen doctor and doctors retiring or leaving the public healthcare network. Despite the guaranteed financial resources for the expansion of programmes in recent years,[175] service providers have only partly been able to carry them out, due to the lack of suitable staff. Several measures were adopted in 2021 to improve the situation at the primary level.[176] In recent years, better accessibility for vulnerable groups has been ensured by health promotion centres (see IMAD, 2021a), which treat chronic patients and thus promote a multi-disciplinary approach to care and reduce the workload of doctors. A problem at the secondary level is overly long waiting times, in particular for some elective (non-urgent) surgical procedures. In 2019, the share of patients who had been waiting for some surgical procedures for more than three months was the second highest among the eight countries for which comparable data are available. In 2020, this share even increased (Figure 52 left).[177]

information and consulting) are organised (SIAE, 2021).

[173] The benefit package includes services at the primary, secondary and tertiary levels, medicinal products, medical devices, reimbursement of sickness benefits for absences of more than 20 days, and certain travel expenses. Full coverage is provided for the services related to cancer, communicable diseases, family planning, emergency treatment, long-term medical care in hospitals and other environments, and services for children/students up to 26 years of age. Costs of other services are divided, this between 10% and 90% of the costs, which are covered from complementary health insurance (for more details, see IMAD, 2021).

[174] Out-of-pocket expenditure relates to direct payments for services not included in the obligatory benefit package and not covered from the compulsory and complementary health insurances. The greatest share of these (34%) is spent on non-prescription or "white prescription" medicinal products, followed by medical devices (corrective glasses), self-pay services, including physiotherapy and alternative medicine, dental services, etc. According to WHO recommendations, out-of-pocket expenditure is acceptable until it accounts for around 15% of health expenditure.

[175] A special government project for rewarding teams at clinics with more registered patients at the primary level (exceeding the weighted capitation of 1,895), extending the network of family medicine clinics to 64.6 teams, introducing healthcare administrators in family medicine teams, and facilitating faster employment of doctors from abroad (MZ, 2022c).

[176] Salary supplements for specialty trainees for family medicine and more posts for specialisation, the expansion of competences of nurses, a three-month internship in family or emergency medicine, additional scholarships for medical and nursing students, increased enrolment in medicine and stomatology programmes, and easing language conditions for employing foreign doctors (MZ, 2022c).

[177] Kuhar et al. (2021) found that in 2020, the number of patients waiting longer than admissible waiting time increased by 86% for the first

The COVID-19 epidemic reduced the accessibility of healthcare for many patients but also mitigated the accessibility problem by increasing the use of e-health services. The main problem of healthcare provision during the epidemic was the lack of staff. The measures to increase the capacities for the care of COVID-19 patients required slowing or temporarily suspending some non-urgent outpatient and inpatient treatments. At the primary level, the total number of visits fell slightly in 2020 but then increased by 15% in 2021, with a great surge in remote consultations (from 5% to 22% of all visits) (HIIS, 2022). At the secondary level, the impact of the epidemic was also smaller in 2021 than the year before. The number of treatments in specialist ambulatory services was already higher than in 2019. However, total realisation of all inpatient treatments was still lagging behind. This contributed to further increase in waiting times. On 1 January 2022, 88,233 patients had been waiting longer than the admissible waiting time (on 1 December 2020 there were 56,029 such patients). In order to mitigate the effects of poorer accessibility on public health, the volume of remote consultations, which the Health Insurance Institute of Slovenia has been acknowledging as provided healthcare services since the middle of 2020, have increased greatly in the last two years, and e-prescriptions and e-referrals have become the predominant form of issuing prescriptions and referrals. In the first 12 months of the epidemic, 64% of the population (EU: 53%) reported receiving a prescription via internet or telephone and 65% (EU: 45%) of population consulted medical staff in this manner (Eurofound, 2021d). As pointed out by OECD (2021i), remote consultations and other digital tools for healthcare are used less by older, low-educated and socially disadvantaged people, so it is likely that the gap in the accessibility of healthcare services between different groups has increased during the epidemic.

The problems of long-term care (LTC) were exacerbated by the epidemic, in particular due to the lack of staff in residential care homes and poorly developed in-home care. The share of the population over the age of 65 in institutional care in Slovenia is higher than the EU average,[178] but the problem lies in outdated standards regarding staff, of whom there is a critical shortage in residential care homes, and sometimes inadequate accommodation infrastructure (IMAD, 2021a). Every year, Slovenia is lagging more behind the developed countries in terms of inclusion of people over 65 years of age in the formal in-home care (OECD, 2021i). In 2019, only 17% of people over 65 years who were severely limited in basic daily activities said that they received a formal in-home care (EU: 34%) (Eurostat, 2021c). Furthermore, in Slovenia, persons with a medium-level limitation cannot cover co-payments for a formal long-term in-home care solely from their income (Hashiguachi and Llena-Nozal, 2020) (Indicator 3.7). Inadequately governed LTC at home increases the burden on families and the pressures on institutional care and the use of healthcare services (IMAD, 2021a). The Personal Assistance Act, which entered into force in 2019, improved the opportunities of persons with limitations to live independently at home, but public expenditure for this purpose has been rising sharply for three years, which is not fiscally sustainable.[179] In the middle of 2021, an amendment to the Act was adopted, providing additional conditions for assessing the eligibility to personal assistance and certain restrictions for service providers (Box 9). In 2020, the epidemic markedly exacerbated the staff situation in LTC.[180] Therefore the Government allocated additional funds for 620 new staff in institutional care, primarily in LTC (ZZUOOP, 2020). Since the main problem is the shortage of suitable staff on the labour market, additional recruitments were carried out by including the participants in community work programmes, paying temporary and occasional work, and establishing working hours for student work. In 2021, investments in improving the infrastructure of public residential care homes started with the assistance from the REACT-EU fund, in particular in converting multi-bed rooms into one- or two-bed rooms and setting up separate paths to prevent the spread of viruses and other diseases. In order to expand the network of residential care homes, in 2021 concessions were granted for 1,285 places and an invitation to tender for additional 1,100 places for new residents of care homes was published (MDDSZ, 2022b).

The accessibility of leisure activities increased in 2015–2020 and then took a downturn during the COVID-19 epidemic. In 2015 and 2016, the share of the population[181] that did not have access to leisure activities fell considerably and remained at more or less the same level in 2016–2020 (around 45%). Two-thirds of them were not able to afford leisure activities for financial reasons, in particular older people, low-educated people, and people below the at-risk-of-poverty and material and social deprivation thresholds (SURS, 2022b) and were thus at greater risk of social

specialist consultation in rheumatology, 34% for oral and maxillofacial surgery, 31% for diagnostic examinations with kidney and bladder x-ray, 56% for surgical procedures on the carpal tunnel, 22% for varicose veins surgery, 12% for cataract surgery, 20% for vascular surgery, 16% for knee endoprosthesis, and 13% for hip endoprosthesis.

[178] In 2019, 4.7% of the population were in institutional care in Slovenia (the OECD average was 4%). The ratio between the number of people included in in-home care and the number of those in institutional care was 60:40, while the average across 20 OECD countries was 70:30 (OECD, 2022b).

[179] Public expenditure on personal assistance increased from EUR 3.8 million in 2018 to EUR 130.5 million in 2021 (MDDSZ, 2022a).

[180] By the end of 2020, the number of confirmed COVID-19 cases among the residents reached 10,800, which was almost one half of all institutional LTC recipients. Unfortunately, 1,781 residents died (57% of all deaths). An analysis of LTC staff (Jež et al., 2016) showed that, in 2015, formal LTC services in Slovenia were provided by 11,514 carers, i.e. 2.7 carers per 100 LTC recipients over the age of 65, which is significantly less than the EU average (3.8 carers per 100 recipients) (for more information, see IMAD, 2021a). The too low staffing standards in residential care homes was also highlighted by the audit conducted by the Court of Audit of the Republic of Slovenia (2019).

[181] The indicator measures the share of the population aged 16 years or older who have no access to leisure activities.

Box 9: The Long-Term Care Act establishes a new social security system

Twenty years after the first drafts, the Long-Term Care Act (LTC Act) was adopted in December 2021. The LTC Act (ZDOsk, 2021) comprehensively regulates an area that was previously governed by several acts[1] and through separate social protection systems (healthcare, pension and social systems) (IMAD, 2021a). The establishment of the new system will be gradual: in 2022, implementing regulations will be adopted, single entry points will be set up and staff training will be carried out; in 2023, the LTC Act will enter into force in institutional care; and in 2024, in-home care services, e-care and cash benefits will be introduced. The LTC Act prescribes a single assessment of eligibility for LTC[2] and a coordinated exercising of rights, introduces the additional control of quality and safety of services, and ensures greater transparency of the use of public resources. LTC providers will be public institutions and concessionaires, which can be legal or natural persons, and also operators of complementary activities on farms that provide LTC in residential units.

The Ministry estimates that the number of LTC recipients will increase by approximately one-fifth. The recipients who enter the new LTC system based on the eligibility assessment will be classified in five categories according to the level of limitations. The Ministry of Health estimates (MZ, 2021) that the total number of recipients in 2024 will be roughly 63,000 and that it will rise by 3% per year in the next two years. This will mean a 20% increase in the number of beneficiaries by 2024 compared to the current situation, taking into account that some current beneficiaries will not meet the criteria for entry in the new system. According to the international methodology, the number of LTC recipients will be higher, as this methodology also includes the recipients of long-term nursing care (community nursing care), personal assistance and home help, which will continue to be governed by other acts (ZOA, 2019; ZSV, 1992; ZZVZZ, 1992).

The LTC Act provides a wide range of benefits not depending on the socioeconomic status of beneficiaries. Beneficiaries will be able to choose among institutional care, in-home care, a family member carer or a cash benefit. The Act also introduces co-financing of in-home e-care services for all beneficiaries, both in institutions and at home, and new services for strengthening and maintaining independence (physiotherapy, kinesitherapy, psychologist). It also envisages the training of informal carers and the improvement of the status of home care assistants (higher compensation for loss of income and 21 days of substitute care). In addition to the wide range of benefits, the LTC Act also lays down that all beneficiaries with the same level of limitations will receive the same scope of benefits regardless of their socioeconomic status. It should be noted that due to fiscal constraints, in the majority of OECD countries beneficiaries pay user charges at least for LTC and in-home care services depending on their income status (in 23 of 31 countries) and in some countries the income of family members is also taken into account (in 18 of 32 countries), similarly to Slovenia under the hitherto applicable regulation. In some countries (in 11 of 28) the amount of cash benefits also depends on the income position of the beneficiaries (Neubert et al., 2019).

Public expenditure for LTC is expected to almost double, while the rise of private expenditure should slow. The Ministry of Health estimates (MZ, 2021) that in 2025, public expenditure for all benefits under the new LTC Act will amount to EUR 763 million, of which EUR 300 million would be covered from the same financing sources as at present (the Pension and Disability Insurance Institute of Slovenia, the Health Insurance Institute of Slovenia, and the Ministry of Labour, Family and Social Affairs), while an additional EUR 463 million would come partly from the state budget and partly from the new compulsory insurance for LTC which is to enter into force in 2025.[3] This would be 1.2% of GDP. The public expenditure for the services that are considered LTC services according to the international methodology (Indicator 3.7) but will continue to be governed by the ZZVZZ, the ZOA and the ZSV will amount to an additional 0.5% of GDP. The rise in private expenditure should slow: in 2023, the residents of residential care homes will cover the accommodation part of the fee but not the social services that used to be included in the price. However, it should be noted that for the majority of residents the amount they will pay will not change much as under the existing system they receive an attendance allowance to cover a part of the fee, to which they will no longer be entitled under the new system. Much more than for residential care homes, the new system will reduce

[1] These areas are regulated by ZOA (2017), ZPIZ-2 (2013), ZSV (1992), ZSVI (2019), ZSVI (2019), ZSVarPre (2012), ZSDP-1 (2014), ZUPJS (2010), ZVojI (1996), ZVV (2003) and ZZVZZ (1992).

[2] The eligibility for LTC services and cash benefits is based on the following definition of long-term care: "long-term care is a series of measures, services and activities intended for those who, due to diseases, frailty associated with old age, injuries, disabilities, or lack or loss of intellectual capacities, are for an extended period of time that is not shorter than three months or permanently dependent on others for assistance with basic and instrumental activities of daily living" (ZDOsk, 2021).

[3] These estimates of the Ministry of Health have already taken into account the amendments and agreements adopted with regard to the amendments during the procedure for the adoption of the Act by the National Assembly and are slightly higher than in the proposal for the Long-Term Care Act that was submitted to public debate. The amendments included are the postponement of the start of formal care in institutions to 1 January 2023, a higher benefit for a family member carer, the expansion of the right to e-care services and higher co-financing of this right, and the financing of additional labour costs under Article 130, which arise from the Annex to the Collective Agreement for the Healthcare and Social Protection Sector.

the user charges for in-home care, because the scope of services per beneficiary will be substantially greater and free of charge for all beneficiaries under the LTC Act.

The introduction of a new compulsory insurance for LTC should solve the problem of public financing sources for LTC, but the long-term projections for age-related expenditure will also have to be taken into account. The LTC Act provides that one of the sources of financing the LTC benefits will be compulsory insurance for LTC, which is planned to be introduced by a special act by 30 June 2025 at the latest. Until this act is adopted, one part of the LTC benefits will be financed from the funds transferred for this purpose from the compulsory health insurance and pension and disability insurance and the remaining part from the state budget, the Demographic Fund, EU funds, and donations and other resources. In seeking suitable solutions regarding the new compulsory LTC insurance, long-term projections for public expenditure for LTC will have to be taken into account. The most recent projections, made in 2021 within the Ageing Working Group (AWG) of the European Commission (EC, 2021u), show that in 2019–2070, public expenditure for LTC will more than double or increase from 1.0% of GDP to 2.2% of GDP (reference scenario)[4] or, if various non-demographic factors are also taken into account (risk scenario), it will increase by 4.5 p.p. of GDP, i.e. to 5.5% of GDP (EC, 2021u). The adoption of the new LTC Act, which will expand the scope of benefits from public resources, will further increase the pressure on expenditure and financing.

In order to meet all the needs for LTC, the number of staff should be increased substantially. Taking into account the current ratio of LTC recipients to LTC staff, we estimate that in order to meet all the needs, the number of staff should be increased by 30% in institutional care and almost threefold in in-home care. Considering that there is already a shortage of staff in these professions, the recruitment can only be carried out if working conditions are improved and salaries increased to attract additional labour force from abroad. It is very likely that, due to fiscal constraints regarding salaries, there will be a lack of staff in the future and that, as a result, there will be waiting times for residential care homes or in-home care. Under the LTC Act, while waiting for LTC services, the beneficiaries will receive an attendance allowance to enable them to arrange certain services for themselves with the assistance of families or private providers. Considering the planned amount of assistance allowance, which on average will be relatively low (from EUR 89 to EUR 491 per month, depending on the LTC category) (MZ, 2021), the beneficiaries will very likely have to cover a substantial part of their care from their own funds.

[4] The AWG reference scenario in LTC projections takes into account the impact of changes in the demographic structure of the population, the growth in expenditure for LTC services in accordance with productivity growth and the assumption that for half of the additional life expectancy years people will not need assistance from others to perform daily tasks. In addition to the demographic changes, the risk scenario also takes into account the assumption of the convergence of expenses per recipient and the convergence of the LTC service coverage to the level of the EU average in 2070.

exclusion. In 2021, due to the temporary restrictions on several leisure activities because of the epidemic, the accessibility of such activities was reduced markedly (for 61% of the population). Although many activities moved online during the epidemic, they remained inaccessible to people without the necessary infrastructure, appropriate internet connection and digital skills (see Section 2.1). In 2021, the financial accessibility of leisure activities increased, at least temporarily, with the option to redeem tourism vouchers for culture, sports and recreation (ZIUPGT, 2021),[182] which resulted in people spending more time for such activities than before and more than was the EU average (Eurofound, 2021b).[183]

Life satisfaction has reduced slightly, while trust in people was higher; the majority of the population had at least one person in their lives to talk to about personal matters. In Slovenia, life satisfaction has been above the EU average since the beginning of measurements (2004); however, the lead has been reducing since 2017. Following the two years of the epidemic, it is slightly lower than in 2017–2019, but it remains above the long-term average and the EU average (see Indicator 3.13). Since 2014, trust in people has been increasing, but in 2018 it was still lower than the average of the European countries included in the survey[184] (ESS-ERIC, 2020). In 2020,[185] 27% of respondents felt that most people could be trusted, which is the most in 2002–2020. Trust in people's honesty and their readiness to help was also higher. The majority of people had at least one person in their lives to talk to about personal matters, which is important with regard to social support and inclusion. Older people, low-educated people and

[182] Adults could redeem vouchers of EUR 100 and minors vouchers of EUR 50.

[183] According to the survey on the quality of life during the COVID-19 epidemic conducted in February and March of 2021, the residents of Slovenia aged 18 years and over spent on average 9.7 hours (EU: 5.2 hours) per month for sport, culture and leisure activities.

[184] The chart shows the total average result of the selected countries regardless of the size of the national samples or the size of the country (Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Ireland, Hungary, Germany, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden and the UK).

[185] The data from the European Social Survey, which due to the epidemic was conducted in two stages: from 18 September to 19 October 2020 and from 1 June to 31 August 2021 (CJMMK, 2022).

people with low income were most prone to social isolation and loneliness.[186] Slightly more people than in previous years[187] and more people than during the first wave of the COVID-19 epidemic, when social contacts were maintained by using modern technology, had frequent contacts with relatives, friends or co-workers (at least once a week) (see Lenarčič and Smrdelj, 2020; IMAD, 2021c).

According to international data from 2019, exposure to various forms of discrimination in Slovenia was among the lowest in the EU; however, the most recent data of the Advocate of the Principle of Equality show that it increased in 2017–2020. According to an international survey, in 2019, 9% of respondents in Slovenia (EU: 16%) experienced discrimination or harassment (Eurobarometer, 2019). National surveys, which are not comparable to international ones, recorded a rise in discrimination[188] in 2017–2020 (Advocate of the Principle of Equality, 2017, 2021c) (see Indicator 3.11). Greater exposure to discrimination is related to the situation during the COVID-19 epidemic and the measures to contain the virus. These disproportionately affected vulnerable groups that are already disadvantaged due to a personal circumstance (children from vulnerable families, older people, Roma, foreigners, people with disabilities, socially disadvantaged people, women and other groups) (Dalli, 2021; ECRI, 2021; Marouda, 2021; Šimonović Einwalter, 2021; Advocate of the Principle of Equality, 2021b). Prolonged or repeated discrimination has a negative impact on the discriminated person or group and can lead to social exclusion; it increases the costs of healthcare services, contributes to the neglect of available resources, and reduces productivity and social well-being (Kogovšek and Petković, 2007).

According to the most recent data available, fewer women experienced violence from their partners in Slovenia than the EU average;[189] however, the COVID-19 epidemic contributed to an increase in the number of domestic violence cases. Any violence, be it physical, sexual, psychological or/and economic, is a violation of the victim's human rights, dignity and, at worst, the right to life (EC, 2021a). Men most often experience violence in a public space and women at home, which has significant consequences for the victims, as incidents at home often occur without the presence of other people or solely in the presence of children, who are thus also made victims of the violence (FRA, 2021).[190] One of the most frequent forms of violence based on gender[191] is domestic violence. This is a serious and often long-term and hidden social problem and one which has a negative impact on the emotional, economic and social well-being of the entire family (EP, 2021b). Due to the changes in the way of life during the COVID-19 epidemic, many countries reported an increase in the number of domestic violence cases (EC, 2021a; IMAD, 2021a, 2021c).[192] According to the police data (2021d), there were 10.7% more criminal offences of domestic violence in 2020 than the year before. In 2021, fewer domestic violence cases were reported and the number of female victims of crime (domestic violence and sexual violence) was again significantly higher than the number of male victims (Police, 2022). The rate of reporting violence to the police and other institutions is low in Slovenia, as the violence and its consequences are dealt with by victims on their own or with the help of friends and family (violence is considered a private matter) (FRA, 2014, 2020), and the data recorded by the authorities often do not reflect the actual scope of gender-based violence (EIGE, 2021b).

[186] In 2020, 5% of respondents over 15 years reported that they do not have a confidant in their lives. The majority were from the lowest income bracket (10%), older than 65 years (9%) or had no more than basic education (8%).

[187] In 2020, 56% of respondents had regular contacts with relatives, friends and co-workers, while in 2014–2018 this share was 53% to 55% and constantly below the average of the countries included in the survey (2018: 60%) (ESS-ERIC, 2020).

[188] In 2020, 22% of the Slovenian population experienced discrimination, which is 5 p.p. more than in 2017 (Advocate of the Principle of Equality, 2017, 2021c).

[189] In 2012, 13% of women suffered physical and/or sexual violence from their partners (EU: 22%) and 34% psychological violence from their partners (EU: 43%) (FRA, 2014).

[190] In 2019, in Slovenia and the EU physical violence was experienced on average by 11% of men and 8% of women (estimate for the last five years). Of these, 34% of men (EU: 36%) and 8% of women (EU: 20%) experienced violence in a public space and 47% of women (EU: 35%) and 13% of men (EU: 15%) at their homes (FRA, 2020).

[191] Members of the LGBTIQ+ community are also victims of violence based on gender, gender identity, gender expression and sex characteristics (EP, 2021c).

[192] Some EU Member States, including Slovenia, introduced several measures to support victims of violence during the COVID-19 epidemic (e.g. setting up a 24/7 helpline for victims, while pharmacies were identified as contact points for dissemination of information on the services of non-governmental organisations working in the field of domestic violence against women) (see EC, 2021a).

3.3 An inclusive labour market and quality jobs

An inclusive labour market and high-quality jobs (Development Goal 7):

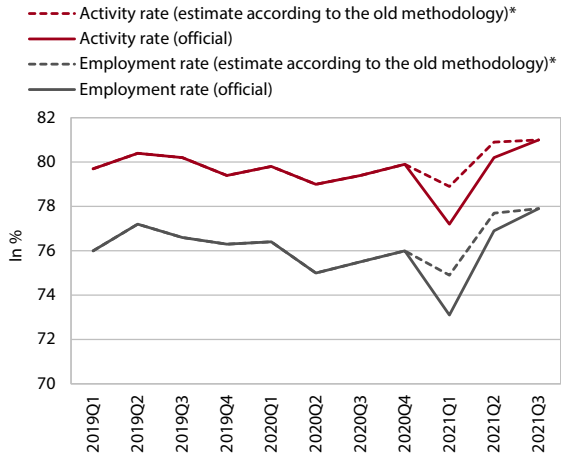
The goal is to create an inclusive labour market that will provide high-quality jobs with high value added (see also Development Goal 6). The introduction of the concept of sustainable working life and the adjustment of jobs to demographic changes will help increase the labour force participation of older workers and improve their health. Improving the system of flexicurity and promoting the employment of both genders in gender-atypical professions will contribute to the increased inclusion of under-represented groups in the labour market.

Performance indicators for Development Goal 7:

	Latest data		Target value for 2030
	Slovenia	EU average	
Employment rate (20–64 years), in %	75.6 (2020)	72.6 (2020)	> 75
At-risk-of-poverty rate of persons in employment, in %	5.0 (2020)	9.2 (2019)	< 5

After the deterioration caused by the outbreak of the COVID-19 epidemic, the labour market situation started to improve in the second half of 2020 due to the support of intervention measures and the revival of the economy. In the second quarter of 2020, the epidemic slowed and the containment measures[193] ended, noticeably weakening the long-term favourable trends in the labour market. Initially, the unemployment rate increased rapidly, as the first response of some businesses to the precarious situation was not to renew or to terminate fixed-term contracts. By swiftly adopting intervention measures to retain jobs,[194] the Government mitigated the effect of the fall in economic activity on the labour market. It also adopted other intervention measures to help the business sector and vulnerable groups. In the second half of 2020 and in 2021, the situation improved as the majority of activities restarted and the demand for labour grew rapidly, which again led to businesses having difficulties in finding workers. The labour market continued to improve in 2021. The number of persons in employment at the end of the year was the highest to date (916,756), and the number of registered unemployed persons (65,969) was close to the lowest level, which was reached in the second half of 2008. Following the temporary transition to inactivity (in particular among women) during the first wave of the epidemic, the labour market participation also returned to the pre-epidemic level (see Indicator 3.21). At the beginning of 2021, the change in the methodology used in the Labour Force Survey that gives internationally comparable data also affected the activity rate and employment rate (Figure 53).[195] In 2020, the employment rate declined, but was still above the SDS target.

Figure 53: In the second half of 2021, the employment rate and activity rate exceeded the pre-COVID-19 epidemic level; however, in early 2021, they were affected by the change in the methodology



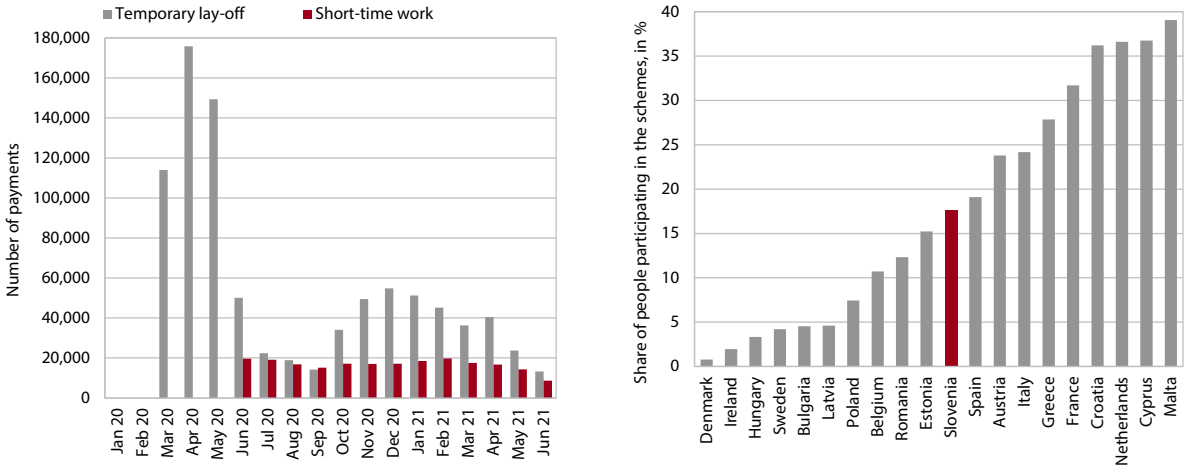
Sources: SURS (2021c and 2022b), IMAD estimates. Note: *The estimate of the activity rate and the employment rate applicable until the end of 2020 was made by IMAD based on the microdata from the Labour Force Survey. The estimate of both indicators is merely for the illustration of the effect of the methodology change. To measure the performance indicator (employment rate), values officially published by the Statistical Office of the Republic of Slovenia are used.

[193] In particular, the temporary lockdown and restrictions on certain activities.

[194] For a more detailed presentation of measures to retain jobs, see IMAD (2021c).

[195] The change in the methodology is related in particular to the change in the definition of persons in employment in relation to a temporary lay-off. According to the change in the methodology in early 2021, people who are laid off for more than three months or expect to be laid off for more than three months are no longer counted among the persons in employment but among the unemployed (if they are seeking work) or the inactive population. The change in the methodology primarily affected the number of persons in employment in the first half of 2021, when many employed people participated in measures. Accordingly, it mainly affected the activity rate and the employment rate.

Figure 54: The largest number of employees participating in the temporary lay-off scheme was in the second quarter of 2020; at that time, Slovenia had a medium share of people included in the schemes compared to other EU Member States



Sources: EC (2021b), Eurostat (2022), ESS (2021); calculations by IMAD.

After the outbreak of the COVID-19 epidemic, Slovenia adopted measures to retain jobs, which significantly mitigated the impact of the fall in economic activity on the labour market. The most important of these measures in terms of the volume of payments and the number of people included, was a partial subsidisation of compensation for temporary laid-off workers. The measures were aimed at reducing labour costs, which often account for a significant part of businesses' expenditure, to increase the chances of retaining jobs and keeping workers employed until the economy could recover.[196] In the period from March 2020 to October 2021, EUR 1.77 billion was paid out for job-retention measures, with the largest amount, of EUR 596 million, paid out for the temporary layoff measure.[197] In the second quarter of 2020, 375,000 payments were made with regard to temporary lay-offs, which was the most in the entire period the measure was in force.[198] In terms of job retention, the adopted measures have had a positive and desired effect, as their quick adoption significantly contributed to the fall in the employment being considerably smaller than the fall in economic activity.[199] The adjustments in the labour market mainly took the form of a reduction in the number of working hours (see also Section 1.1). The scope of application of the schemes in individual countries also depended on the epidemiological situation, the scope of containment measures, and the extent to which individual economic activities and economies were affected or the fall in GDP (OECD, 2021h). According to the data of the European Commission, in the second quarter of 2020, the greatest shares of workers included in the schemes were in Malta, Netherlands, Cyprus and Croatia (Figure 54 right). Slovenia is in the group of countries with the medium share of such workers (10–20%). Similar applies to the share of self-employed persons who received financial assistance from the Government in the second quarter of 2020 (Kajzer, 2021).

Following a long period of improvement of the position of vulnerable groups in the labour market, the situation deteriorated in the second quarter of 2020 with the outbreak of the COVID-19 epidemic; however, in the middle of 2021, the majority of vulnerable groups were in a situation similar to that before the crisis. The vulnerable groups in the labour market tend to have fewer opportunities for quality jobs and job security and are more often unemployed or inactive, which has a negative impact on their income security and quality of life. The epidemic initially caused

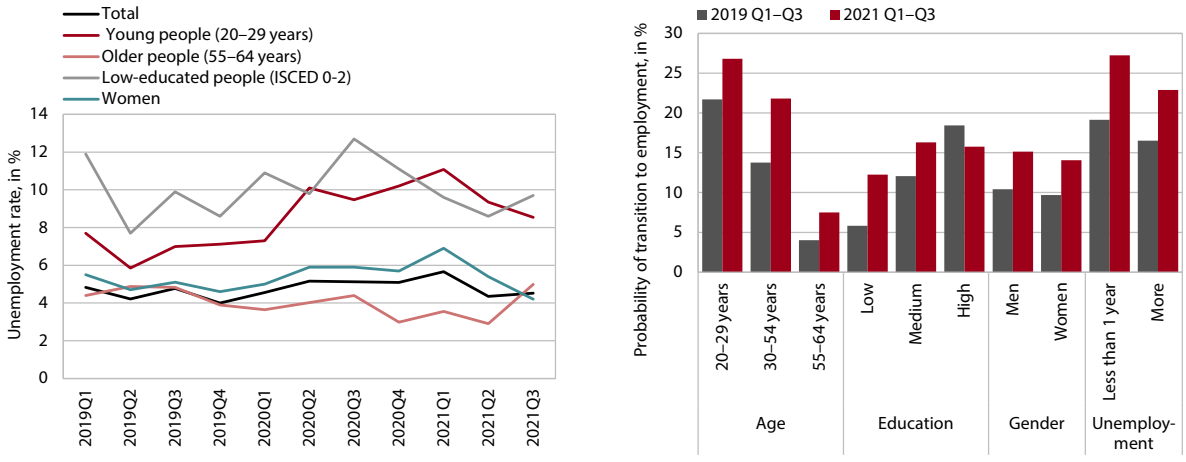
[196] The temporary lay-off measure also provided employers with the right to partial reimbursement of salary compensation paid to workers who could not be provided with work due to the epidemic and were temporarily laid off. Such workers were entitled to 80% of salary compensation, with the State reimbursing employers a part of this amount. In mid-2020, the measure of partial subsidisation of short-time work was also put in place. The measure enabled employers to temporarily impose short-time work (to a maximum of half the full working time), while for the rest of the time the worker was on temporary lay-off. In doing so, employers were entitled to a subsidy, the amount of which depended on how much the working time was shortened.

[197] Measures to retain jobs also included other measures, such as the payment of a basic income and social contributions to sole traders and other beneficiaries (EUR 440 million), payment of pension and disability insurance contributions to employees who worked during the epidemic (EUR 436 million), payment of social contributions for temporarily laid-off employees (EUR 124 million), partial subsidisation of short-time work (EUR 74 million), crisis allowance (EUR 58 million), subsidising of the minimum wage (EUR 25 million), and sickness benefits for employees (EUR 21 million).

[198] From March 2020 to June 2021, 31,700 companies have taken up this measure for 215,000 people.

[199] Assessments show that the measure benefited a wide range of different businesses. The broad orientation of the measure was aimed at protecting businesses and safeguarding jobs in response to the sharp decline in activity. This preserved the potential for a faster recovery and prevented excessive dismissals that could have slowed and prolonged the recovery. For more information, see Productivity Report 2021 (IMAD, 2022).

Figure 55: In 2021, the unemployment of vulnerable groups already came close to the pre-crisis levels (left), which is also reflected in better employment opportunities for these groups (right)*



Source: Eurostat (2022). Note: *The probability of transition to employment is a logistic regression estimate based on microdata from the Labour Force Survey. The transition to employment is defined as a transition from unemployment or inactivity to employment from one quarter to the next. Black and red columns represent the averages of quarterly estimates in the period concerned.

extreme deterioration of the position in the labour market of low-educated people, low-income people, young people and women. The greater impact on low-educated people and women was due to the marked sectoral and occupational dimension of the coronavirus crisis, as the sectors most exposed to the lockdown and reduced activity were accommodation and food service activities, tourism and, at least initially, also trade and sectors where women are predominantly employed and salaries are below average. Due to great exposure to temporary forms of work (in particular student work), young people were seriously affected at the start of the epidemic, as some businesses decided to downsize the number of employees by not extending or terminating temporary employment contracts and substantially reducing the volume of student work despite the rapid adoption of emergency measures to retain jobs.[200] With the reopening of activities (the quick recovery of economic activity) and employment, the situation in the labour market gradually improved also for the vulnerable groups. Similarly to the time before the coronavirus crisis, better employment opportunities for the vulnerable groups were due to labour shortage. In such circumstances, businesses often decide to employ the long-term unemployed or inactive persons with less suitable qualifications and skills. This is also one of the reasons that the long-term unemployment rate has not noticeably increased in the last two years (see Indicator 3.19). The share of the long-term unemployed among the unemployed remains high.[201] In the third quarter of 2021, the unemployment among young people and low-educated people had not yet reached the pre-crisis level, which is to some extent related to the restrictions for the control of the epidemic, which at that time still affected the extent of operation of some activities.[202] Active labour market policy (ALMP) programmes can also contribute to the improvement of employment opportunities for vulnerable groups, but for many years relatively small resources have been allocated to such programmes and their volume was further reduced during the epidemic. Slovenia is among the EU Member States with a below-average number of people included in ALMP programmes and below-average funds for such programmes.[203] When the demand for labour increases, the share of hard-to-employ among the unemployed usually also increases, which will require the adjustment of measures and funds for ALMP programmes, better integration with social protection services, greater investments in education

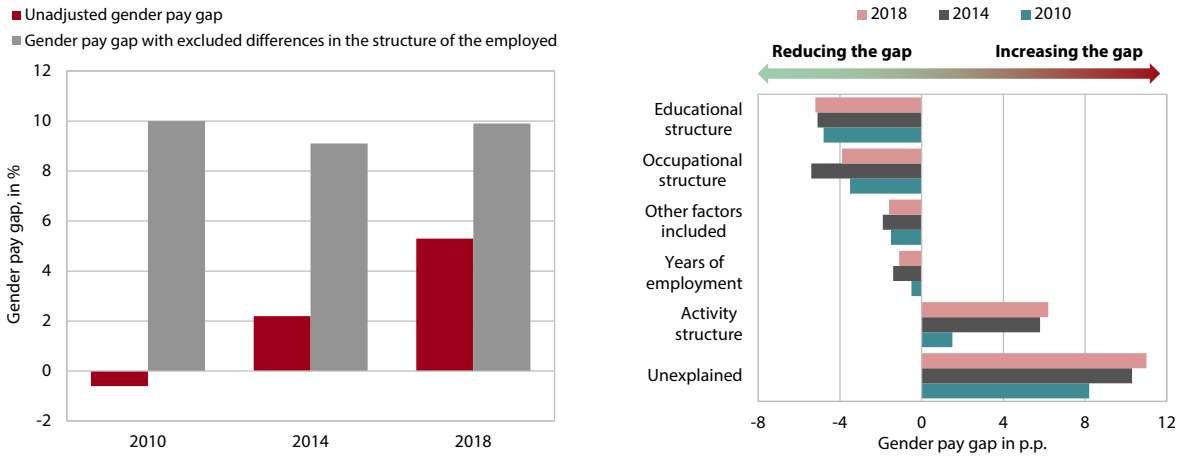
[200] In the second quarter of 2020, the volume of student work was 50% smaller on a year-on-year basis.

[201] The long-term unemployed are people without employment for one year or more. Although the long-term unemployment rate (i.e. the number of the unemployed compared to the number of persons in employment and the unemployed together) in the second quarter of 2021 was similar (1.9%) to that in the second quarter of 2019 (1.8%), while the share of the long-term unemployed among all the unemployed was slightly higher (by 2.1 p.p., amounting to 44.3%). This was due to the people with certain skills and knowledge in demand gaining employment, while the hard-to employ persons stay unemployed for long periods and thus increase the share of the long-term unemployed in total unemployment. The long-term unemployed are often at risk of their skills and knowledge diminishing due to long-term absence from the labour market, which can increase their stigma in the eyes of potential employers, further reduce their job prospects and have a lasting impact on future earnings. There is also an increased risk of health problems associated especially with depression and stress.

[202] This is also reflected in the fact that, as of the end of 2021, the employment in sectors such as accommodation and food service activities, culture and entertainment and various other business activities (including employment agencies) had not yet reached the level of the end of 2019.

[203] According to Eurostat data, in 2005–2019 the average number of people included in the AEP measures per 100 people seeking work was 13.5 in Slovenia and 30.4 in the EU. In the same period, the share of funds (as a % of GDP) allocated to the AEP measures was also considerably lower in Slovenia (0.19% of GDP) than in the EU (0.51% of GDP). For more information, see IMAD (2021a).

Figure 56: The adjusted gender pay gap is larger than the unadjusted one (left); the gap is best explained by the educational and occupational structure, but a substantial part remains unexplained (right)*



Source: SURS (2021d); calculations by IMAD. Note: *The unadjusted gender pay gap is the difference in the average salary of men and women expressed as the share of the salary of men. When the gap is positive (negative), the average salary is lower (higher) among women then among men. The gender pay gap with excluded differences in the structure of the employed is a regression estimate (grey columns in the figure on the left). Due to the methodological specifics, it is similar but not entirely equal to the unexplained part of the decomposition (in the figure on the right) For details on the methodology, see IMAD (2021a).

and training, and retraining. This could also reduce labour market mismatch and help job seekers from vulnerable groups to integrate into the labour market.

In the majority of EU Member States, the employment rate and average salary of women are lower than those of men. In Slovenia, these gaps are relatively small. Slovenia is among the countries with small differences in employment rate between men and women. The gap has been even further reduced in the last ten years, which was to a great extent due to the rise in employment in activities predominantly employing women. The gender pay gap also remains relatively small, despite an increase in the last ten years.[204] The differences in the employment rate and pay between genders can seep into different areas of work over the course of a lifetime.[205] In Slovenia, the adjusted gender pay gap[206] is greater than the unadjusted gap in the average salary between genders, but has been fairly stable in the last ten years (Figure 56 left). A model decomposition shows that the majority of differences in average salaries of men and women can be explained by the difference in the demographic employment structure of men and women (Figure 56 right). The factors that explain the greatest part of the unadjusted gender pay gap include the differences in the education level and occupational and sectoral structure, which reduce the gap in Slovenia, where on average women attain a higher level of education than men and thus receive higher pay and are employed in professions where the pay is relatively high. On the other hand, the sectoral structure, i.e. the structure of activities employing men and women, increases the pay gap as men are employed in the sectors where above-average salaries predominate. There is still a significant part of the gender pay gap that remains unexplained, which increased in 2010–2018.

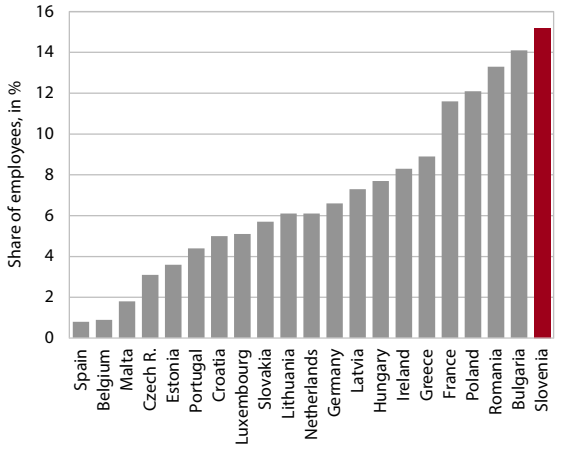
An important factor of quality employment is adequate pay, which is significantly affected by the trend in and amount of the minimum wage, which was increased in the majority of EU Member States also during the epidemic. In Slovenia, like in the majority of EU Member States, the statutory minimum wage continued to rise in 2020 and 2021. Following the rise in 2020, which was substantial in some countries, the minimum wage was raised again in 2021 in the majority of countries, but the governments and social partners were slightly more cautious this time. Some countries also decided to freeze the minimum wage (Eurofound, 2021f). In Slovenia, a part of the minimum wage increase in 2021 was temporarily assumed by the Government, which reduced the pressure on labour costs and prevented potential dismissal of minimum

[204] The internationally comparable data that served as the basis for determining the gender pay gap are from the Structure of Earnings Survey conducted every four years. The survey includes business entities (and their employees) employing more than 10 persons and classified in categories B to S of the Standard Classification of Activities (SKD), excluding category O (public administration, defence and compulsory social security).

[205] For example, the pay gap affects the amount of unemployment benefit and the pension gap, and all this in the short and long term adversely affects the well-being and position of women in society.

[206] There are two measures of gender pay gap – the unadjusted and the adjusted. The unadjusted gender pay gap is the gap in the average salary between men and women, while the adjusted gender pay gap is the gap in the average salary between men and women from which differences in the demographic and employment structure between genders are excluded by a regression analysis. The adjusted gender pay gap is thus the gap showing what the difference in the pay between genders would be if the demographic and education structure were the same in both genders. The gender pay gap adjusted in this way gives a clearer insight into pay differences between genders, as the differences in the demographic and employment structure can distort the picture of pay gap. This approach also gives an insight in how particular structural factors contribute to the gender pay gap.

Figure 57: In 2018, Slovenia had the highest share of people receiving a salary of up to 105% of the minimum wage among the countries with a statutory minimum wage



Source: Eurostat (2022).

wage recipients.[207] Unlike in many other countries, the minimum wage in Slovenia has been increasing faster than the average wage in the last ten years, which could have contributed to the small pay inequalities and low risk-of-poverty rate among those in work (Indicator 3.18) but also led to one of the highest ratios between the minimum and average wage compared to other countries. This is reflected in small differences in pay, in a great concentration of workers receiving the minimum wage compared to other EU Member States that have a minimum wage in place, and also in the greatest share of people receiving a salary of up to 105% of the minimum wage (Figure 57). All this can be unstimulating for certain groups and causes problems in the adequate remuneration of certain low-educated staff, for example in public services.

In order to ensure adequate remuneration in EU Member States, a proposal for an EU directive on adequate minimum wages was published at the end of 2020 (EC, 2021s) in accordance with one of the principles of the European Pillar of Social Rights adopted in 2017. In the proposal for the directive, the European Commission stresses that an adequate minimum wage ensures a decent living for workers and notes that many workers in the EU are currently not protected by adequate minimum wages.[208] The directive promotes collective bargaining with social partners on the amount of the minimum wage, envisages the establishment of clear and stable national criteria to ensure the adequacy of the statutory minimum wage, and regular updates of the statutory minimum wage. The national criteria should include at least the purchasing power of minimum wages, the general level of gross wages and their distribution, the growth rate of gross wages, and changes in labour productivity. In Slovenia, the Minimum Wage Act (2018), which was adopted in 2018 (i.e. before the directive on minimum wages), unilaterally set the amount of minimum wage for 2019 and 2020, which is contrary to the directive on minimum wages. The Act also envisaged that in 2021 a formula would start to be applied, according to which the minimum wage would have to exceed the calculated minimum living expenses by at least 20% but no more than 40%, which could be interpreted as a criterion for the purchasing power of the minimum wage. However, the last calculation of minimum living expenses was made with the data for 2015. The directive also requires timely and effective involvement of social partners in statutory minimum wage setting and updating, including through participation in consultative bodies. The Slovenian Act provides that the amount of the minimum wage is set and published by the minister responsible for labour, after a consultation with social partners. However, the form of the consultation is not formalised and does not ensure the inclusion of social partners in the selection of criteria for annual updates of the minimum wage. In view of the directive on adequate minimum wages, Slovenia will need to make a few minor adjustments, in particular to how the minimum wage is set and the calculation of the minimum living expenses are taken into account.

Labour market segmentation continued to reduce in the first year of the COVID-19 epidemic, but with the economic recovery in 2021 combined with still high uncertainty, it has increased again. The segmented labour market is characterised by a gap between workers in regular, protected, better-paid permanent jobs and those in less protected, lower-quality forms of work with less chance of moving to a safer form of employment. Following the increase in 2013–2017, the share of temporary employment had been falling until 2020, which was related to the increased demand for labour and the shortage thereof and the outbreak of the epidemic in 2020.[209] The economic recovery in the second half of 2020 and the easing of restrictions adopted to prevent the spread of the epidemic, combined with great uncertainty, increased the share of temporary employment again. Thus, in the second quarter of 2021, the share of temporary employment again rose above the EU average (see Indicator 3.20). Young people are exposed to temporary employment

[207] With regard to the minimum wage, the Additional Measures to Mitigate the Consequences of COVID-19 Act (ZDUOP, 2021) introduced the intervention measure of subsidisation by the State. In 2021, the Government helped employers with the increase in the minimum wage in two ways. For the remuneration for work from January to June 2021, it paid a EUR 50 subsidy for each worker. From June to December, it reduced the minimum base for calculating contributions from 60% of the average pay to the amount of the minimum wage.

[208] In almost every EU Member State, the national statutory minimum wages are lower than 60% of the gross median wage and/or 50% of the gross average wage, which are used as the criterion for the adequacy of the minimum wage (EC, 2021s).

[209] With a pronounced shortage of labour, in 2019 the share of temporary employment in Slovenia (12.5%) fell below the EU average (13.5%).

in all EU Member States, but in Slovenia this exposure is more pronounced, mostly due to student work, which is a very flexible form of work, while constituting an important financial resource for students' livelihood (see also IMAD, 2021b, p. 29).

There are no comprehensive data on the quality of the workplace and working environment for the period of the coronavirus crisis, but some analyses highlight the advantages and disadvantages of remote work. Although there is an extensive range of indicators that measure the individual dimensions of job quality, there are only few synthetic indicators that measure and rank countries according to the quality of employment (Cazes et al., 2016). In 2020, the European Working Conditions Survey, which is conducted every five years by the European Foundation for the Improvement of Living and Working Conditions (Eurofound) and serves as a basis for assessing workplace quality and calculating the European job quality index, was not carried out due to the COVID-19 epidemic. In 2005–2015, the aforementioned index indicated a deterioration of job quality in Slovenia. Eurostat data for 2020 (the most recent data) for Slovenia show that the incidence of certain work elements that have a negative impact on job quality has reduced (e.g. work through temporary work agencies, precarious employment and workers working at weekends). Following the reduction in 2020, in 2021 the share of temporary jobs, which are often of poorer quality, increased again, although it remained lower than before the epidemic (see Indicator 3.20) The increase in remote work during the epidemic also induced studies on the impact of such work on job quality. Although remote work usually facilitates the reconciliation of work and family life, this proved not to be entirely the case during the epidemic. This could be associated with the larger share of women among those who worked remotely, who were additionally burdened with childcare and housework due to the closure of childcare and educational institutions (see Section 3.1). The Eurofound survey (2021a) showed that in the summer of 2020, more respondents were satisfied with remote work in Slovenia than was the EU average (60.8%; EU: 57%).[210] In the first wave of the epidemic in the spring of 2020, Fana et al. (2020) analysed the impact of remote work on particular elements of job quality in France, Spain and Italy and established that (i) the majority of respondents did not detect any impact of remote work on their income; (ii) the impact of remote work on their job satisfaction very much depended on the type of job and the occupation, whereby reduced job satisfaction was primarily reported by the highly qualified and educated staff;[211] and (iii) the majority of employees did not consider the consequences of remote work for their career opportunities to be negative.

The increased volume of remote work and the COVID-19 epidemic brought new challenges to health and safety at work. Remote work can contribute to a more environmentally sustainable and regionally balanced development. Demographic changes require longer working lives, which also means a longer exposure to risks in the workplace. This also leads to a higher proportion of older workers and consequently the increased presence of chronic health problems. Therefore, an integrated lifelong approach to ensuring health at work is important, i.e. better prevention that ensures healthy ageing and a sustainable working life for all. In addition to the ageing of the population and the increased volume of remote work, the epidemic and its long-term effects on people's health also pose new challenges for health and safety at work. Petrišič (2020) points out that an increased volume of remote work could increase some of the risks of musculoskeletal disorders arising from poor workplace ergonomics and too intensive or frequent use of modern information technologies, thus posing new challenges for health and safety at work.[212] The right to disconnect is becoming increasingly relevant and included in the discussion on adequate working conditions. In January, the European Parliament passed a resolution on the right to disconnect and called for the drafting of EU legislation to ensure that workers have the right to digitally disconnect from work without facing negative repercussions. The increase in the volume of sick leave as a result of the epidemic also poses challenges to employers in organising uninterrupted work processes. The long-term health effects of COVID-19 (long COVID) may contribute to a future increase in the volume of sick leave, which is already above the EU average in Slovenia and increased considerably in 2021 (Indicator 3.22). That COVID-19 has long-term effects on health and the quality of life was also shown in some preliminary studies, according to which a large proportion of workers who recovered from COVID-19 did not return to previous jobs but started performing adjusted work tasks or transitioned to part-time work (Chopra et al., 2021). The increased volume of remote work caused by the epidemic also prompted reflections on the advantages of remote work. Many studies consider the increasing significance of remote work for reducing the pollution of the environment by transport (see Section 4.1) and ensuring more balanced regional development (see Section 1.1). Therefore, it would be reasonable to promote remote work also after COVID-19, primarily in the context of environmentally sustainable and regionally balanced development.

[210] This is the share of respondents who agreed or fully agreed with the statement that they were satisfied with remote work.

[211] This was primarily due to reduced social contact and the lack of professional recognition.

[212] For example, increased psychosocial risks that may be associated with (i) poor work organisation, (ii) lack of appropriate work instructions, and (iii) neglect of the right to disconnect outside working hours and to breaks during working hours.

4 A well-preserved and healthy natural environment

Burdening of the environment, as measured by greenhouse gas emissions, energy use, consumption of natural resources and generated waste, which mainly increased in the recovery period following the global financial crisis, decreased again in the last years of the previous decade and in particular in the first year of the COVID-19 epidemic. The 2020 targets for emissions and energy use have been achieved and exceeded, but the unachieved target for the share of renewables in total energy consumption, which has been growing at the slowest rate among all EU Member States since 2005, stands out. Productivity growth, expressed in relation to GDP generated, accelerated somewhat in terms of greenhouse gas emissions and energy consumption before and during the epidemic, which was largely an effect of restrictive measures in transport in the last observed year (2020). Productivity in material consumption remained unchanged in the context of relatively small changes in construction activity. Emission, energy and resource productivity were about one-tenth lower than the EU average. As this lag has not improved significantly over the long term, this will not be sufficient to achieve the SDS sectoral targets, and the much more ambitious national and EU targets for 2030 and 2050 will be more difficult to achieve. The circular material use rate, which is a criterion of the economy's circularity, will need to be significantly increased, also in view of the rising costs of raw materials, scarcity thereof in the environment and difficulties in supplying them. At the same time, this will lead to less waste generation; the upward trend in this came to a halt during the epidemic, but some new types of waste have emerged. For the transition to a low-carbon circular economy, it is crucial to

make effective use of all available financial resources, and in order to accelerate the decarbonisation process in line with ambitious targets, additional systemic measures are also needed, supported by additional resources for sustainable investments in clean technologies, innovation and new knowledge.

Slovenia's unsustainable economy and way of life are also reflected in its relatively high and growing ecological deficit. As in most developed countries, natural resources are being exploited at a much faster rate than they can be restored. The large share of protected areas, high forest cover and moderate intensity of farming contribute significantly to mitigating this problem in Slovenia. On average, soil and water are still relatively well-preserved natural resources. Air quality, measured by the content of the finest dust particles, is more problematic, due to the inadequate combustion of wood biomass in individual heating systems and extensive road transport.

4.1 A low-carbon circular economy

A low-carbon circular economy (Development Goal 8):

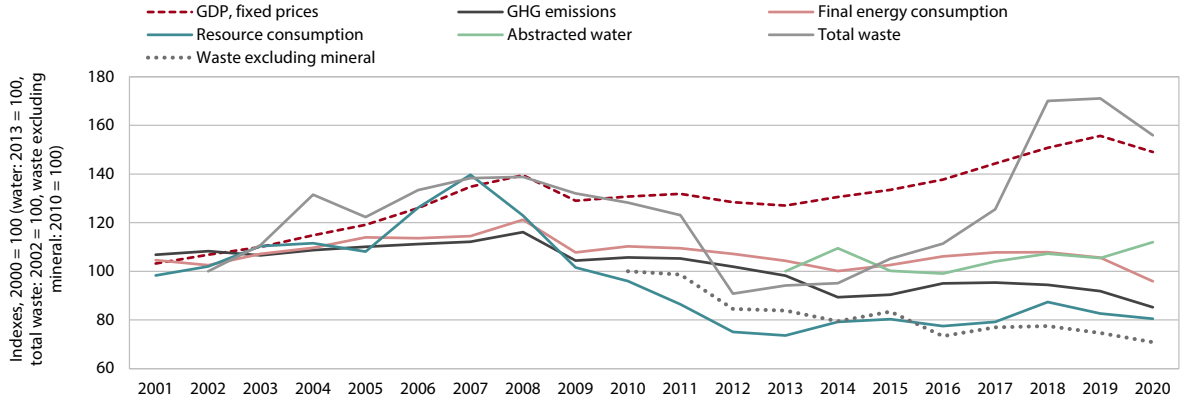
The goal of the SDS 2030 is to break the link between economic growth and the increasing consumption of raw materials and energy and the associated high burden on the environment. Sustainable growth will be achieved primarily through radical changes in consumption and production patterns, including more efficient exploitation of resources, waste management and energy use with a higher share of renewable energy sources. This will also help reduce GHG emissions. The planned changes will be supported by education and integration, the promotion of environmental innovation, and, above all, the phasing out of fossil fuels. In addition, the SDS 2030 underlines the urgency of changes in transport in order to accelerate the development of sustainable mobility.

Performance indicators for Development Goal 8:

	Latest data		Target value for 2030
	Slovenia	EU average	
Resource productivity, PPS/kg	2.0 (2020)	2.2 (2020)	3.5
Share of RES in final energy consumption, %	24.1 (2020)	22.1 (2020)	27.0
Emission productivity, PPS/M kg CO^2	3.5 (2020)	3.7 (2019)	EU average in 2030

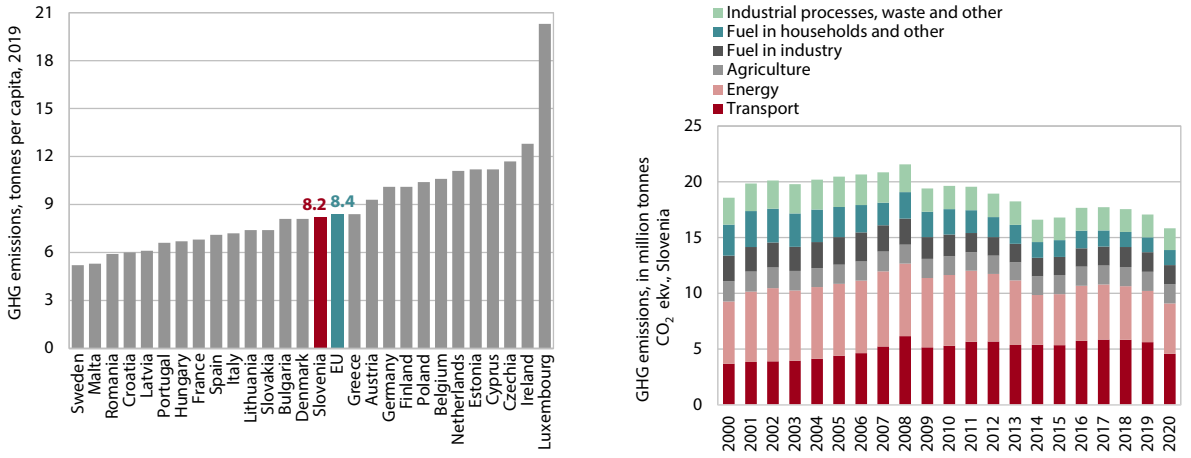
In the first year of the epidemic, 2020, the use of key natural resources decreased along with greenhouse gas (GHG) emissions with lower economic activity, as was expected, while the intended break between them and economic growth was more pronounced; however, more radical systemic changes will be needed to achieve the ambitious targets by the end of the decade. The environmental dimension of economic development is typically analysed using indicators that show the ratio between economic growth and emissions, the use of materials, energy and water, and the resulting GHG emissions. The use of resources and, consequently, GHG emissions, largely levelled off following an increase in the first years of economic upturn after the global financial crisis, but in 2019, and especially in the epidemic year 2020, the decline was greater. The shifts were towards achieving the set targets, but this was easier to achieve due to lower economic activity. As a rule, the ambition of environmental policies required by the increasing impact of climate change is limited due to the expected negative effects on the economy, but these have been relatively low on average so far (OECD, 2021a). In this context, major changes are expected in sectors where productivity is lower and the negative impact on the environment is high. More radical shifts will be needed to achieve the agreed short-term targets for rapid emission reductions and carbon neutrality by mid-century. This will require changes in technologies and reallocation of resources, monitoring of development performance and ongoing policy adjustments.

Figure 58: In the first year of the COVID-19 epidemic and the resulting lower GDP, GHG emissions, energy and material use, and waste generated decreased, while favourable hydrological conditions led to an increase in water use



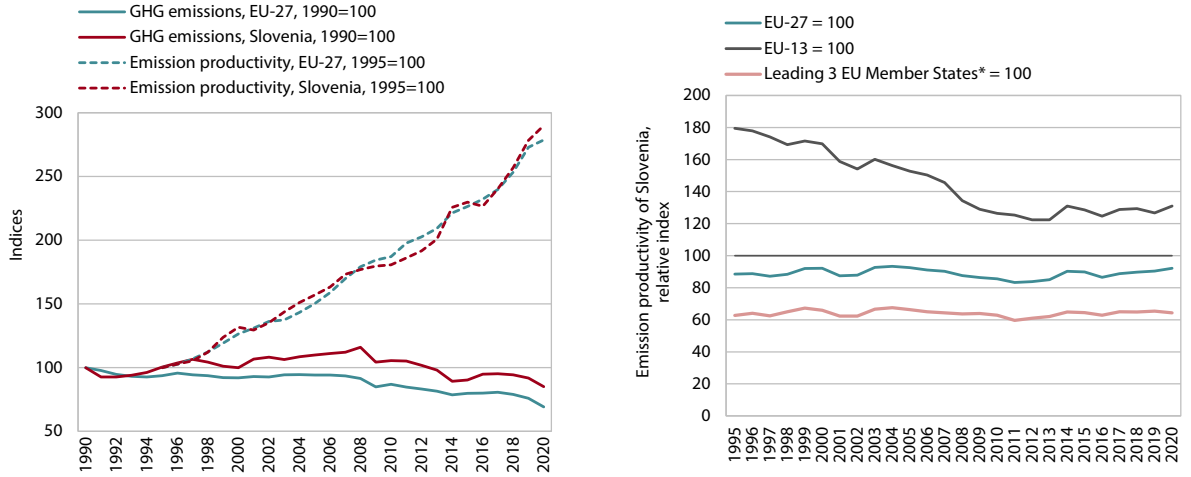
Source: SURS (2022b); calculations by IMAD. Note: the resulting wastes excluding mineral resources are not deducted from waste incineration and treatment (Eurostat methodology). The year 2020 was hydrologically favourable, so more water was used to power turbines in hydropower plants.

Figure 59: GHG emissions, which are at the level of the EU average if calculated in terms of per capita in Slovenia, fell to the lowest level in the last two decades in 2020, as had been expected



Sources: Eurostat (2022), ARSO (2022a); calculations by IMAD. The assessment for 2020 is preliminary.

Figure 60: In the long term, emissions decreased less than the EU average but slightly more in 2020; the lag behind the emission productivity of the EU and the three leading Member States has been roughly the same in recent years, as has the advantage over the group of new EU Member States, though this has declined significantly in the long term



Sources: ARSO (2022a), Eurostat (2022). Notes: *Sweden, Malta and France (see Indicator 4.1). The evaluation for 2020 is preliminary; a meaningful comparison in PPS with other countries can only be made for individual years and not for a longer time period.

Greenhouse gas emissions fell more than economic activity in 2020, bringing emission productivity back on track and somewhat closer to the EU average, while the first estimates of emissions for 2021 point to a renewed increase. As expected, GHG emissions decreased more considerably in 2020, by around 7% (see Indicator 4.1), and were about 5% lower than in 2014, when they reached the lowest level in the observed two decades following the global financial crisis and changes in energy use.[213] The lower emissions in 2020 were mainly due to around a fifth lower transport volume. Emissions from this sector, which had previously been growing rapidly, fell in 2020, with its sharply reduced activity, approximately to the 2005 level. Total GHG emissions increased again in the first three quarters of 2021, by around 5% year-on-year (EU average: 8%), which is lower than the growth in GDP.[214] The use of fossil fuels, which in past years has also been encouraged by exemptions from excise duties on fuels,[215] remains problematic, so the emissions from this activity continue to be high and will

[213] The reduction in emissions was mainly due to the decommissioning of certain large installations included in the EU ETS (Block 3 and Block 4 of Thermoelektrarna Šoštanj d.o.o., HSE-Energetska družba Trbovlje d.o.o., and Lafarge Cement d.o.o.) and only to a lesser extent due to the reduced GHG emissions of installations covered by the EU ETS due to improved efficiency (Court of Audit of the Republic of Slovenia, 2021c).

[214] Year-on-year GDP growth in the first three quarters of 2021 was 7.3%.

[215] Exemptions from excise duties on motor fuel used in agricultural and forestry machinery, for industrial commercial purposes, and for commercial transport.

Box 10: Greater awareness of the threat of global warming and the need to act as soon as possible

At the COP26 climate conference in Glasgow, 197 Parties reached a global compromise. The 26th session of the United Nations Framework Convention on Climate Change (UNFCCC, 2022) focused on promoting short-term reductions in greenhouse gas (GHG) emissions, mobilising public and private finances and helping communities adapt to climate impacts. To achieve the goal of limiting the global temperature increase to 1.5°C, global GHG emissions will need to be reduced by 45% by 2030 compared to 2010. The main objective is linked to (i) adaptation and promotion of concrete resilience-building activities; (ii) climate finance to channel financial flows from public and private sources towards emission reduction measures; (iii) nature conservation to prevent biodiversity loss as a result of climate change impacts; (iv) the transition to clean and sustainable transport through the development of zero-emission transport technologies; and (v) faster decarbonisation of the energy sector. For the first time in history, the phase-out of coal burning in thermal power plants and the elimination of fossil fuel subsidies have been addressed. A commitment was made to increase financial assistance to developing countries. Countries will review and strengthen their so-called national contributions, i.e. their current emissions targets for 2030. COP27 will take place in November 2022 in Egypt.

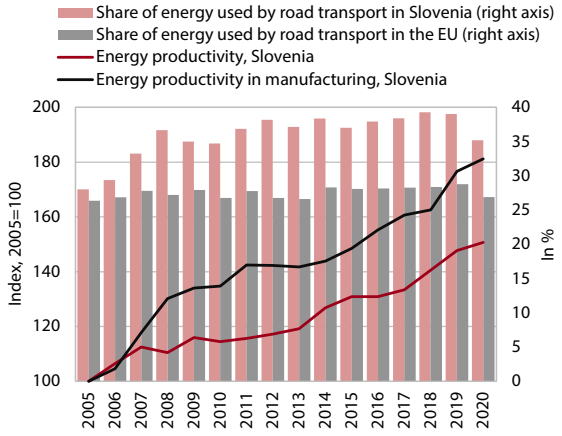
COP26 commitments will have a serious impact on several industry sectors, particularly energy and transport, but also finance and consumer goods (EIU, 2021). The priorities defined as "coal, cars, cash and trees" are to be translated into a raft of new regulations around emissions. In particular, most major companies are expected to increase their efforts to achieve net-zero emissions and increase investment in the green transition. In this context, there is a pressing need for oversight and harmonisation in regulation, especially in areas where changes will be immediate and greatest: from coal-dependent sectors to heavy industry and transport.

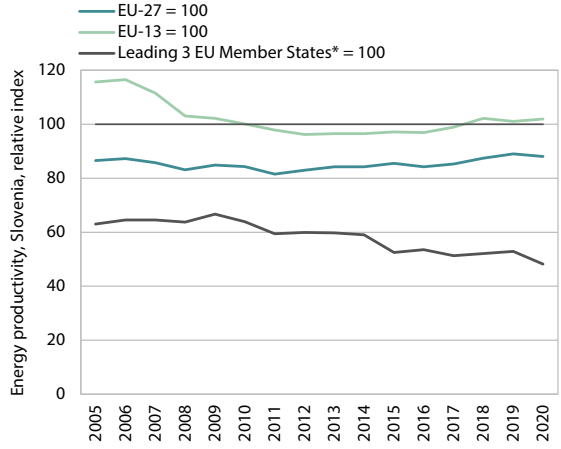
The EU has committed itself to reduce GHG emissions by at least 55% by 2030 in order to reach the target of climate neutrality by 2050, and is putting forward a set of new proposals and amendments with the Fit for 55 package. The objective of achieving climate neutrality by 2050 became legally binding with the adoption of the European Climate Law (2021), which also sets an interim target of reducing GHG emissions by at least 55% by 2030 compared to 1990 levels. A package of legislative proposals has been prepared for action (EC, 2021p), in which the rules already in force are tightened up. They relate to the following: (i) GHG emissions, where changes from the existing ETS should lead to a 61% reduction in emissions in these sectors in 2030 compared to 2005, with the scope then extended by including aviation and maritime transport; at the same time, emissions in non-ETS sectors should be reduced by 40%; (ii) removals of gases by sinks where there is a need to reverse the current downward trend of carbon removal and increase the natural sink; (iii) RES energy, with an EU-wide target of at least 40%; (iv) energy efficiency, reducing final energy consumption by 36% and primary energy consumption by 39%; (v) energy taxation in line with climate and environmental objectives; (vi) efforts to increase the use of alternative fuels and the number of charging stations for electric vehicles; (vii) just transition, i.e. helping the territories most affected by the transition; and (viii) carbon border adjustment, which will prevent the relocation of production from the EU to countries that are less ambitious in reducing emissions or replacing products with more carbon-intensive imported products.

Achieving such ambitious targets requires the establishment of a sustainable and climate-resilient carbon cycle, the so-called "sustainable carbon cycles" (EC, 2021d)**.** This should be achieved through three steps: (i) by drastically reducing our reliance on carbon, for instance by improving energy efficiency, increasing the use of RES, increasing the use of wood for building construction and reducing the use of primary resources and sustainable transport; (ii) recycling of carbon from waste streams, from sustainable sources of biomass or directly from the atmosphere, to use it in place of fossil carbon; and (iii) the removal of carbon from the atmosphere and its long-term storage in ecosystems through nature protection or in other storage forms. In order to achieve climate neutrality, it will be essential to develop and deploy innovative technological breakthroughs, which will require targeted support.

In Slovenia, greenhouse gas emissions are expected to decrease by about a third by 2030 and achieve net zero by 2050, following the adopted strategic targets in the NECP, but the targets will need to be reviewed and tightened to be consistent with the new EU targets. Targets for reducing GHG emissions by 2030 are set out in the Integrated National Energy and Climate Plan (Government of the RS, 2020) and the longer-term ones, to 2050, in the Resolution on the Slovenian Climate Long-Term Strategy (ReDPS50, 2021). The NECP targets include (i) reducing emissions of these gases by at least 20% in sectors not covered by the EU trading scheme (non-ETS) and thus reducing total emissions by at least 36% compared to 2005; (ii) increasing the share of RES in final energy consumption to at least 27%; and (iii) improving energy efficiency by at least 35% with regard to the 2007 basic scenario. The strategic goal set in the ReDPS50 is to achieve net zero emissions by 2050. Total emissions are expected to fall by 80% to 90% by 2050 compared to 2005; of this, in transport and energy by 90% to 99%, which should be sufficient for climate neutrality, taking into account the sink. The 2030 targets set in the NECP will need to be tightened in line with the new EU targets. In order to accelerate progress, additional possibilities will have to be analysed across sectors and appropriate additional measures agreed upon.

Figure 61: The share of energy consumption in road transport in final energy consumption remains high; Slovenia's energy productivity has improved slightly in relation to the EU average in recent years but has moved away from the most successful countries and was approximately at the level of new Member States





Source: Eurostat (2022); calculations by IMAD. Note: *Ireland, Malta and Denmark

require a more sustainable transformation (JSI-CEU, 2021). The EU 2020 Strategy target that emissions in sectors not covered by the Emissions Trading Scheme[216] should not increase by more than 4% in Slovenia compared to 2005 has been exceeded, but this was more easily achieved at the time of lower-than-expected economic activity. In order to achieve the significantly more ambitious 2030 targets set out in the NECP (Government of the RS, 2020),[217] it will be crucial to ensure more radical systemic changes towards sustainable development as soon as possible (Kovač, 2020).[218] Emission productivity, measured as the ratio of GDP to total GHG emissions, also improved in 2020, and the lag behind the EU average has been reduced to less than a tenth, according to initial estimates. This gap with the EU average widened during the global financial crisis; in subsequent years it initially narrowed under the impact of changes in the energy sector, but no further progress has been made more recently. In order to achieve the SDS target for emission productivity, which is to reach the level of the EU average, and to move closer to carbon neutrality, the cross-sectoral integration of economic development and emission reduction measures will need to be systematically strengthened through innovation and investment in clean technologies. Financial incentives are provided for the transition, and it will be of utmost importance to ensure their effective use as soon as possible.

Energy consumption decreased significantly in 2020 and will need to be further reduced in this decade in order to achieve the environmental goals. In the period 2005–2020, primary and final energy consumption in Slovenia decreased by about 15%. This was similar to the situation in the EU overall, except that in the EU, primary energy consumption decreased slightly more and final energy consumption slightly less. The 2020 *energy efficiency* targets have been met, indeed exceeded, for both primary and final energy consumption, but they were more easily achieved due to the global financial crisis and the epidemic situation in the last year. Primary energy consumption is estimated to be down by approximately 19% in 2020, which is more favourable than the target consumption for that year (see Indicator 4.2). In the crisis years 2009 and 2020, it decreased by 12% and 9% at the annual level respectively, which means that without these major reductions in energy consumption, the 2020 target would not have been reached. Energy use for heating has been reduced in the long term through more economical use, better insulation of buildings, increased efficiency of combustion installations and other efficiency-enhancing measures and owing to less cold winters. The use of solid fuels decreased in 2014 due to the closure of the thermal power plant powered by brown coal and modernisation of the power plant powered by lignite. Regarding liquid fuels, the use of petrol and heating oil[219] has been falling for a long time, while diesel fuel use fell considerably in 2020 due to traffic restrictions imposed during the epidemic. Energy productivity, measured by the ratio of GDP to total energy consumption, only improved in 2017–2020 as a result of the relatively lower GDP growth since the global financial crisis. The reduction in energy consumption would have been much more effective if

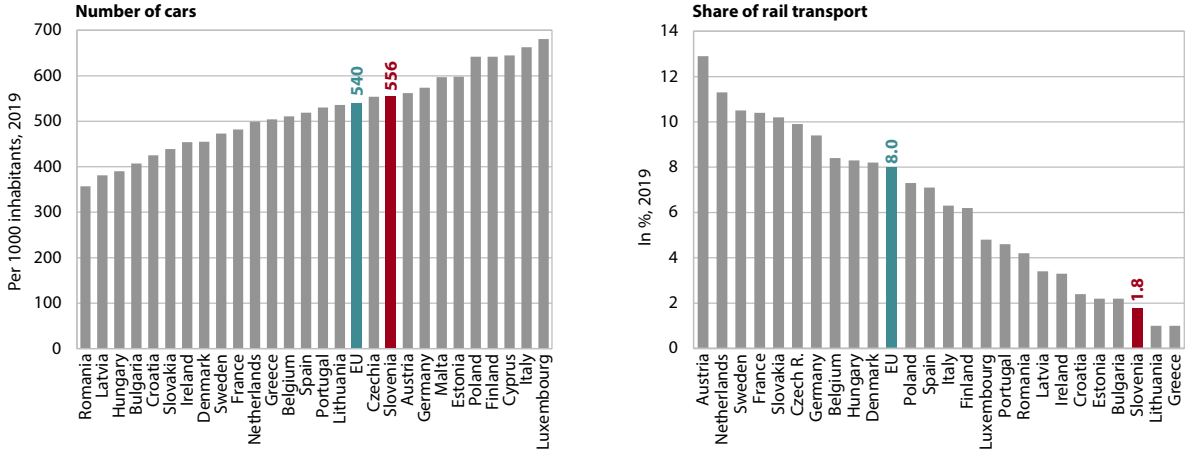
[216] The Emissions Trading Scheme, i.e. the EU ETS sectors, covers emissions mainly from energy, metals and non-metals activities. These companies receive or purchase emissions rights that they can trade with other companies. By attributing monetary value to carbon, businesses are encouraged to find the most cost-effective solutions to reduce emissions and invest in clean low-carbon technologies.

[217] The NECP set targets for Slovenia to reduce total emissions by 36% by 2030 compared to 2005, with emissions in the non-ETS sectors reduced by at least 20%.

[218] A faster transition to a low-carbon economy is also driven by high prices of emission allowances, which are becoming an increasingly important cost for activities covered by the EU ETS (Sandbag, n.d.; IMAD, 2022)

[219] The reduced consumption of fuel oil for space heating is partly compensated by the use of wood and wood briquettes.

Figure 62: Slovenia exceeds the EU average in terms of the number of cars per capita, but the share of rail passenger transport in total passenger transport is right at the tail end of the Member States



Source: Eurostat (2022); calculations by IMAD. Notes: (a) Figure to the left: Austria 2018; (b) Figure to the right: the indicator refers to travel within the country.

energy consumption in road transport had not increased significantly due to Slovenia's transit position in the enlarged EU in the years preceding the global financial crisis and then remained high, despite fluctuations, until 2019. In some years, this was further stimulated by the lower price of motor fuels compared to neighbouring countries. Slovenia's lag behind the EU in energy productivity narrowed again in 2019, to around one-tenth; in 2020, energy productivity increased both in Slovenia and the EU, the drop in energy consumption being greater than the drop in GDP, with the increase slightly higher in the EU.

Within a few years, the share of renewable energy sources (RES) will lag behind the EU average and the targets unless radical changes are made, as the use of RES since 2005 has experienced the smallest increase of all EU Member States. The overall share of RES peaked in 2013–2015, when it exceeded 22%; it then decreased by 1 p.p. and remained at approximately the same level until 2019. In 2020, the first year of the epidemic, it increased significantly, to around 24%, but still lagged slightly behind the 25% target (see Indicator 4.3). However, this increase in the share of RES was not related to the increased use of RES, but mainly to the reduced use of liquid fuels during the epidemic. On average in the EU as a whole, the share of RES persistently increased in all observed years and exceeded the target of 20% by more than 2 p.p. in 2020. In Slovenia, *the use of traditional RES,* i.e. wood and hydropower, strongly predominates. Slovenia ranks at the tail end of the EU by *use of other RES*, with the gap in wind energy being particularly wide. Wind energy is hardly exploited in Slovenia at all, whereas in the EU it already accounts for 15% of total RES consumption and even exceeds the use of hydropower. The increased consumption of solar and geothermal energy has been the main contributor to RES growth since 2009[220] (their shares each accounted for around 4% of total RES in 2020). In the last 15 years, the share of RES *in electricity consumption* has increased by 6 p.p. in Slovenia (to 35%) and by 21 p.p. in the EU (to 37.5%). *In heating*, the share of RES in Slovenia is also increasing at a slower pace than the EU average,[221] but it has remained relatively high due to the extensive use of wood. This can be problematic in terms of poor air quality in case of inappropriate heating. In 2020, a slight rise in the share of RES use was mainly driven by the increased use of RES in transport, where the target share of 10% was exceeded by 0.9 p.p. in the last year (as in the EU).[222] The target was exceeded mainly due to a sharp reduction in overall energy consumption in transport. An acceleration in green energy investments will be necessary to increase the use of RES towards reaching the SDS targets.[223] In order to replace fossil fuels and increase the use of RES, common solutions when siting individual energy projects should be sought more intensively to better exploit our favourable natural conditions, such as high forest cover and water and wind abundance.[224]

Transport, which has a major impact on the environment, has temporarily decreased in the context of the COVID-19 crisis; however, long-term

[220] In 2009, the share of RES use increased the most due to the crisis and the fall in energy use, while the use of RES has decreased less.

[221] The use of RES for electric heating is included in electricity generated from RES and not in RES in heating.

[222] It was only in the last three years that the share of biofuels in transport increased sharply, as at 2.6% in 2017, it was almost three times lower than in the EU overall.

[223] Slovenian energy companies plan at least EUR 4 billion of green energy investments for the 2021–2027 period. Most of the projects are being developed for renewable energy sources, which also include the reduction of GHG emissions, for the introduction of low-carbon technologies, smart grids, electric mobility and energy efficiency (Energy Industry Chamber of Slovenia, 2021).

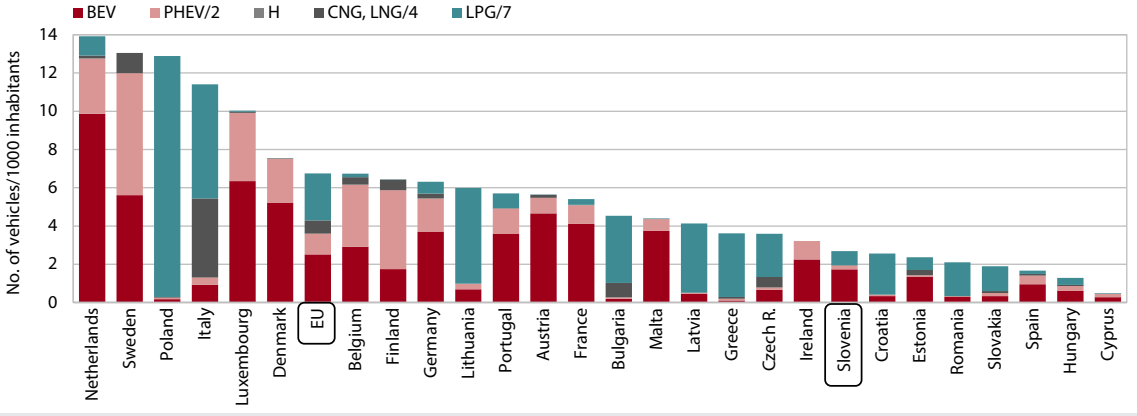
[224] Environmental issues are mainly related to the further increase in the use of water and wind energy.

Box 11: Promoting the use of passenger cars using alternative fuels

In order to meet the set climate targets, the EU is encouraging the increased use of low-emission[1] vehicles driven by alternative fuels to replace petrol and diesel vehicles. At the end of 2020, 4.4% of all passenger cars in the EU were alternative fuel vehicles and 0.5% were battery electric vehicles. The majority of vehicles powered by alternative fuels (about 70%) used LPG. In the last quarter of 2021, of all new passenger cars registered, around 28% were alternative fuel vehicles, around 14% battery electric vehicles and around 10% plug-in hybrids. Compared to the fourth quarter of 2020, the number of all registered new passenger cars (partly due to the epidemic and difficulties in the supply of semiconductors) was lower by a quarter, and the number of battery electric vehicles was higher by the same figure. The average CO_2 emissions of new passenger cars registered in the EU decreased from 139 g/km to 108 g/km over the period 2010–2020 (ACEA, 2022). After 2035, only zero-emission new vehicles, i.e. only battery electric and hydrogen-powered vehicles, are planned to be sold.

In Slovenia, no significant progress has yet been made in increasing the share of alternative fuel vehicles. At the end of 2020, the share of alternative fuel vehicles among all vehicles was 1.3% – three times less than in the EU. Liquefied petroleum gas vehicles were predominant. For battery vehicles, which accounted for only 0.3%, the same number of charging points was available as in the EU, i.e. one per five vehicles. The indicative conversion into zero-emission equivalent vehicles (in terms of CO_2 emissions) shows that at the end of 2020, Slovenia had less than three such vehicles per thousand population, while the EU average was close to seven.

Figure 63: At the end of 2020, there were significantly fewer alternative fuel vehicles in Slovenia than the EU average

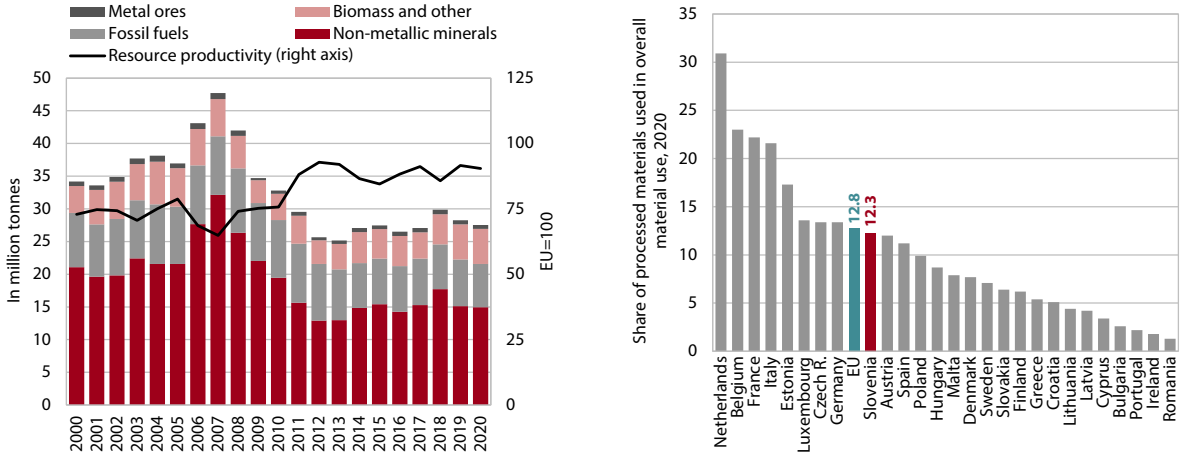


Source: EAFO (2022); calculations by IMAD. Note: In the indicative conversion, we assumed that the same reduction in CO2 emissions (compared to a petrol or diesel vehicle) as a zero-emission battery electric vehicle (BEV) or a hydrogen vehicle (H) is achieved by (i) two plug-in hybrids (PHEVs), (ii) four CNG and LNG vehicles, or (iii) seven LPG vehicles.

[1] Alternative fuels are electricity, hydrogen, biofuels, synthetic and paraffin fuels, compressed or liquefied natural gas, and liquefied petroleum gas. Electric vehicles include plug-in hybrids.

sustainable solutions are needed. Like elsewhere in the EU, most goods in Slovenia are transported by lorry and most passengers travel by car, which are the least environmentally acceptable modes of transport. Moreover, due to Slovenia's transit position, total freight transport is high and has even increased, in particular in the middle of the preceding decade. Per unit of GDP, it grew the most, by 17% in Slovenia in 2010–2019, compared with other EU Member States, while it decreased in the EU overall, by 3%. In per capita terms, much more goods are transported than in the EU overall. Road transport has increased by one-sixth, while at the same time a higher share of rail freight transport stands out favourably compared to the EU (see Indicator 4.4). In passenger transport, the use of rail and other modes of public transport is also very low by international comparison, while the share of the use of passenger cars is high. This is partly due to the lower degree of urbanisation and greater settlement dispersion and, in particular and increasingly, to the outdated and modest public passenger transport service. In 2020, public passenger transport, like car transport, was rather restricted amid efforts to contain the COVID-19 epidemic, but the share of public passenger transport in total transport is most likely to have further decreased. Increasing the decarbonisation of passenger transport will require an increase in the use of alternative fuel vehicles while also applying all other solutions. In cities, this may take the form of transition to non-motorised modes of transport, while in interurban transport, it

Figure 64: The lag in resource productivity behind the EU average has remained unchanged since 2011 (left) and the circular material use rate* lags only slightly behind the EU average (right)



Sources: SURS (2022b), Eurostat (2022); calculations by IMAD. Notes: Domestic resource consumption is defined as the exploitation of domestic resources increased by net imports of resources. *The ratio between the recovered amount of waste used and the total amount of resources used and waste.

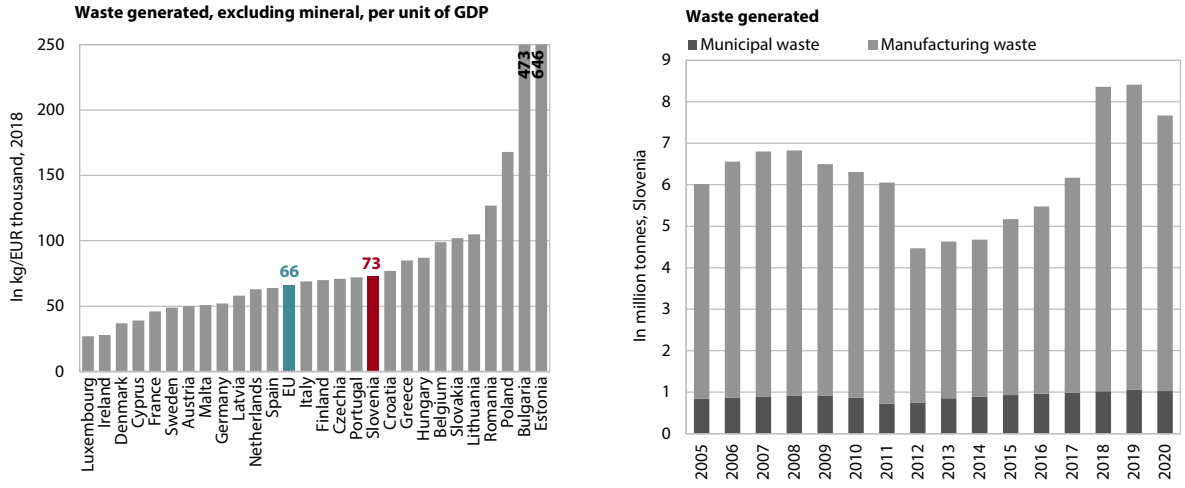
may include increased vehicle sharing, where shifts have already been made, protecting the environment and at the same time contributing to lower household costs.[225]

The EU's goal is to achieve sustainable, smart and resilient mobility, while there is increasing awareness of the importance of rail transport in Slovenia. The European Commission presented a new *Sustainable and Smart Mobility Strategy* addressing key areas for the future development of transport and transport infrastructure (EC, 2020k). To this end, three general objectives have been set: (1) sustainable mobility, whereby the implementation of measures for all modes of transport is envisaged in order to reduce greenhouse gas emissions from transport, including the availability and accessibility of effective incentives; (2) smart mobility – achieving seamless, safe and efficient connectivity, whereby digitalisation and automation should help exploit new technologies to provide multimodal solutions for sustainable mobility, which should also have a beneficial impact on transport times, transport costs, and reliability and safety in transport; and (3) more resilient mobility, with a single European transport area, which should help the transport sector bounce back after the COVID-19 crisis and become more resilient to future crises. In Slovenia, long-term systemic shifts will need to be accelerated, not least in view of the problems associated with increasing GHG emissions from this activity. It is desirable to increase the share of transport by rail, which is a safe and sustainable mode of transport. The *Vision of Rail Infrastructure Development 2050+* was adopted for upgrading and refurbishment (MzI, 2021). In freight transport, the capacity of railway lines, which will need to be upgraded in the initial phase, was highlighted. In passenger transport, the travel speed needs to be increased and cyclic schedules introduced. New high-speed lines are planned in order to achieve the desired standard, competitive travel times, and thus the transition of passengers from road to rail. Investments in railway infrastructure, which have been modest in the past, will require between EUR 300 and 450 million per year. They will be financed mainly from the state budget, but additional EU funds will also have to be mobilised.

Resource productivity, which is one of the basic indicators of a sustainable economy, improved during the global financial crisis due to lower resource consumption but has stagnated in recent years. In Slovenia, changes in resource productivity, calculated as the ratio of GDP to raw materials and materials consumed, are strongly impacted by construction activities and the related consumption of non-metallic minerals. In the structure of resource consumption, the share of construction materials is among the highest in the EU. After resource productivity had increased at a faster pace than the EU average in the 2007–2012 period, the pace had remained at about the same level over the next few years. There were no major changes in 2020, the first year of the epidemic. In Slovenia, resource consumption decreased slightly less than GDP, against slightly more in the EU, so Slovenia's lag in resource productivity increased slightly to almost 10% in this comparison (see Indicator 4.5). It is estimated that in 2021, the use of fuels and non-metallic minerals did not increase and resource productivity improved with GDP growth. The implementation of major construction projects, such as the planned construction of railway infrastructure and the road links of the third development axis, is expected to again slow the growth of resource productivity, so more attention will need to be devoted to the planned

[225] In 2019, 105,000 people, i.e. 7% (EU average: 8%) of the population aged 16 to 74, organised their transport with another natural person via an intermediary website, a mobile transport management app or social networks (SURS, 2022b).

Figure 65: The increase in the volume of waste, which Slovenia generates about a tenth more than the EU average, calculated per unit of GDP and excluding mineral waste, was halted due to lower economic activity during the COVID-19 epidemic



Sources: Eurostat (2022) and SURS (2022b). Note: The fall in waste generated in 2012 in Slovenia was the result of (i) a reduction in construction waste and (ii) a revised methodology: some waste categories have been reclassified as by-products.

measures pertaining to the materials cycle in order to achieve the set goal of bringing resource productivity closer to the EU average.

The circularity of the Slovenian economy, measured by the circular material use rate, has risen to the EU average; however, the potential for further more efficient use remains significant. With the overexploitation of natural resources, economic growth has a negative impact on the environment, while at the same time reducing the Earth's limited stocks of raw materials, increasing their prices and thus production costs.[226] The rate of integration of circular materials in the work processes of economic activities, which is calculated as the ratio between the quantity of used circular materials and the total amount of used materials,[227] has increased faster in Slovenia in the last decade than the EU average and came close to it in 2020. The success of the transition to a green and digital economy will depend heavily on the reliable supply of raw materials that are most important for the economy, with their supply at high risk of being disrupted. The crises have shown that disruptions in supply can escalate quickly and that economies are very vulnerable in this regard (EC, 2020f).[228] As prices of limited primary raw materials found in nature will increase and the prices of secondary raw materials will decrease, achieving higher productivity will require increased processing and decoupling of economic growth from the use of primary resources (OECD, 2019d, and International Resource Panel, 2019). In order to ensure steady supply and greater resilience to the limited availability of natural resources, reuse of products will have to be increased and the circular and efficient use of resources will have to be enhanced through green research and innovation, while strengthening supply chains and reducing dependence on imports (IMAD, 2022). In Slovenia, a model project is being implemented at the EU level under the auspices of the circular economy umbrella centre, supporting small and medium-sized enterprises and start-ups engaged in the systemic transformation into a low-carbon circular economy (EIT Climate-KIC, 2020).[229]

As expected, the total amount of waste generated in 2020 decreased after a long-term increase; in the course of recovery after the COVID-19 epidemic, it will also be necessary to considerably reduce waste generation from a systemic perspective and to increase the use of waste in the circular economy. The volume of *total waste generated* increased annually by a tenth per year in the period 2012–2019, but this trend was interrupted in 2020 (see Indicator 4.6). The amount of total waste generated, including when calculated per unit of GDP, has decreased. With lower

[226] Prices of all basic raw materials rose sharply in 2021 and remained at much higher levels than before the epidemic (WB, 2021).

[227] The circular material use rate indicator, which is a new indicator for monitoring the circularity of the economy, is lower than other circularity indicators, such as recycling rates. The latter indicates the share of recycled waste in the total amount of waste treated (see Indicator 4.6), while the indicator of the circular material use rate indicates the use of recycled materials in total material use. The difference between the two can be significant, because some materials cannot be recycled, e.g. fossil fuels or biomass. The different values of the indicator in individual countries are due not only to different recycling rates, but also to the different structures of the economies. For example, the use rate of circular materials may be low if the total domestic use of materials is high (Vozel, 2021).

[228] Around 30 materials are included in the EU's list of critical raw materials. The list grows longer every year: in 2020, for example, lithium, which is essential to the transition to e-mobility, was placed on that list. These raw materials are found in high concentrations only in certain areas of the world, e.g. in China, Turkey and South Africa.

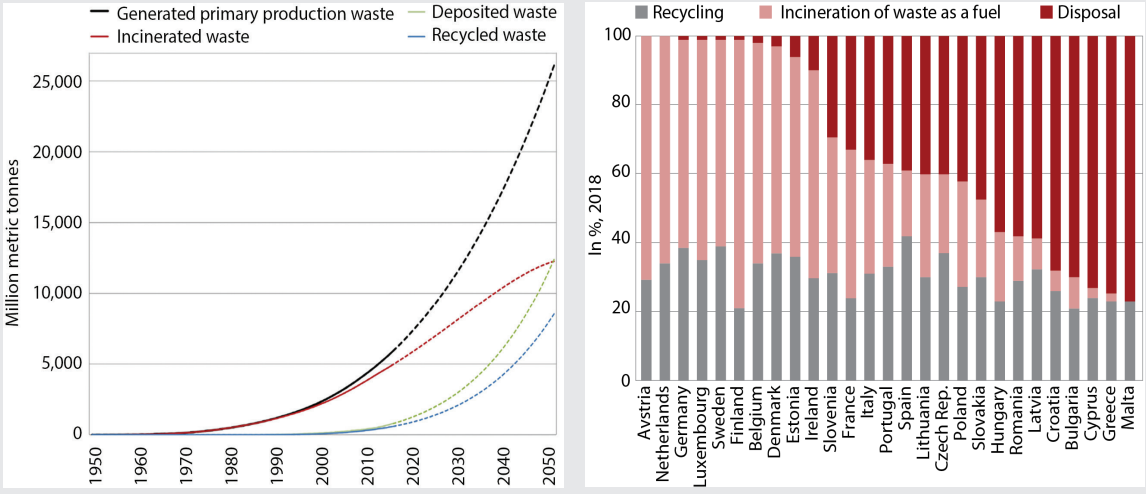
[229] This is the so-called Deep Demonstration Project. For more, see IMAD (2020b), Box 6 on p. 69.

Box 12: The environmental issue of plastic waste

Plastic waste is a major environmental problem that has been exacerbated by the COVID-19 pandemic, so it is crucial to use plastics more prudently and to increase the use of renewable raw materials and circularity in production. Plastic production is based on fossil fuel consumption, which has a negative impact on the environment and climate change. If the production of plastic increases as expected, the share of oil consumption in the plastics industry could rise to a fifth from the current 7% by 2050. Changes in the production and the increased use of disposable plastic products during the pandemic, such as personal protective equipment and packaging for ready-to-eat food or products sold online, may in the short term undermine the efforts to make the use of plastic more sustainable and circular and reduce environmental pollution (EEA, 2021b).

With the increased use of plastic, it is essential to increase its circular use. As global oil prices fell sharply during the period of lower economic activity, the production of fossil-based plastic products from non-recycled materials was significantly cheaper for producers and became cheaper than when using recycled plastic materials. Moreover, the lower demand for recycled plastics on the market has slowed efforts towards sustainable waste management. It will be important to assess the challenges to increase the use of biodegradable and compostable plastics. A faster transition to circular business models will require appropriate support policies that accelerate changes in consumption and behaviour while raising awareness and educating (EEA, 2021a).

Figure 66: Generation of plastic waste in the world will increase sharply and in handling such waste, zero disposal must be achieved in the circular economy



Sources: Geyer et al. (2017), PlasticsEurope (2020).

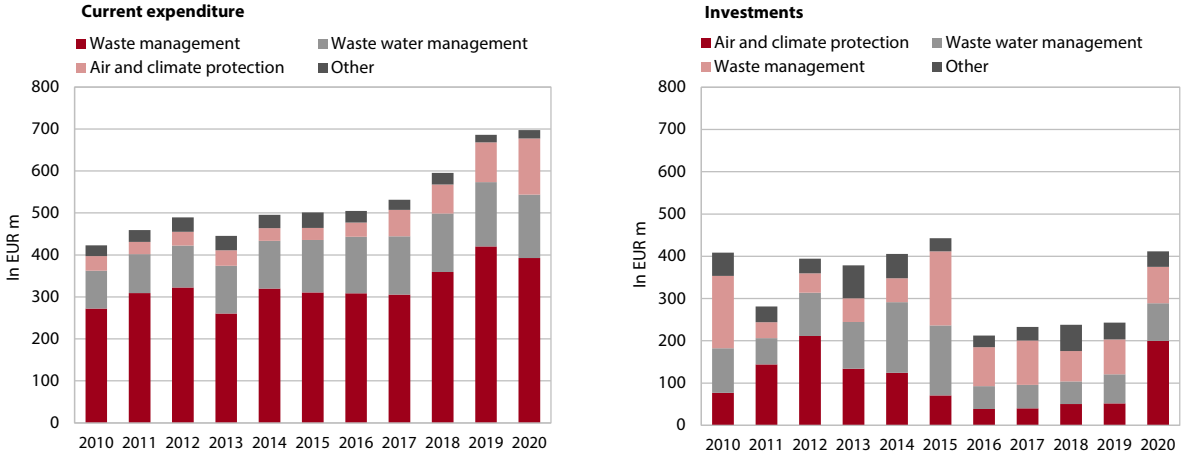
economic activity, the total waste generated was around 9% less than in the previous year; while the waste from economic activity decreased by around a tenth and the total municipal waste by about 4%, household waste and waste related to healthcare and more widespread online shopping, e.g. the use of medical accessories, personal protective equipment and disposable protective plastic packaging, increased.[230]

Waste management has improved considerably in recent years, partly due to several new or upgraded regional waste management centres. There has been a significant increase in recycling and a reduction in disposal, which is the least desirable handling of waste. The share of recycled waste in Slovenia, excluding mineral waste, is already the highest among the EU Member States.[231] A systemic shift of production towards a circular system is desired; this will require further investment and innovation towards achieving cleaner technologies (OECD, 2019b).This will contribute to a reduction in the use of primary raw materials, which are in short supply in nature due to their limited quantity and are becoming more and more expensive as their prices rise, along with

[230] Increased consumption of disposable plastic products also greatly increases the problem of plastic waste accumulation in global terms. It is estimated that humanity generates around 300 million tonnes of plastic waste per year, and in the COVID-19 pandemic, the amount has been increasing significantly. The problem of additional COVID-19-related waste from hospitals in Asian countries was raised. A major challenge is the discharge from rivers of plastics into the oceans, because in the next few years, a significant part of this debris will land on the beach or will accumulate on the seabed (Peng et al., 2021).

[231] The proportion of mineral waste is relatively high, accounting for about three-quarters.

Figure 67: Current expenditure on environmental protection increases in the long term and investment in environmental protection, which has been relatively low for several years, increased to normal levels in 2020



Source: SURS (2022b); calculations by IMAD.

the necessary decarbonisation of industry. One possible incentive for producing less waste or its increased reuse may be to include waste incineration in the greenhouse gas emissions trading scheme (EU ETS). As this would incur additional costs in activities, incineration would become more expensive than recycling and, as a result, only those waste residues that could not be used in any other way would be used as an energy source (Warringa, 2021). A particular problem is food waste, also due to its increasing volume.[232]

Funding for environmental protection increased significantly in 2020, with the main focus being on air and climate protection and waste management.[233] *Total current expenditure on environmental protection*, which is increasing over the long term, increased by around 2% in 2020, to around EUR 700 million. More than half, about 56%, was devoted to waste management. Most current expenditure was incurred in the Osrednjeslovenska region, this around 30%, followed by the Savinjska and Podravska regions. In 2020, EUR 412 million was earmarked for *total investments in environmental protection*, which is much more than in the previous four years, when these funds were relatively low, and about as much as in the first half of the decade. The main contributor to growth was increased investment in air and climate protection. Those rose approximately to the level of 2012, when they were the highest in the decade observed and when they accounted for about half in total investment for environmental protection. Most investments in environmental protection, about a third, were made in the Savinjska region, followed by the Osrednjeslovenska and Posavska regions.

A faster transition to a low-carbon circular economy will require significant public and private financial resources, and it will be important to make optimal use of all available EU funds. In financing the transition, in addition to the EU budget funds, the key role will be played by the European Investment Bank, which outlined the path towards becoming the so-called EU climate bank with the adoption of its 2021–2025 roadmap.[234] Additional funds for the transition to a low-carbon circular economy are provided by the NextGenerationEU agreement (EC, 2020e). Slovenia allocated 42.45% of the available funds (EUR 552 million in grants and EUR 513 million in refundable funds) to green transition measures in its Recovery and Resilience Plan. The majority of funds will be dedicated to reduce flood risks, ensure clean municipal water, supply drinking water, increase the capacity of railway infrastructure and increase the energy efficiency of buildings. This suggests that the

[232] In the period 2013–2020, the statistically recorded annual amount of food waste increased by 19% to around 143,000 tonnes, which in 2020 represented 68 kg of food waste per capita. The impact of the pandemic in 2020 was mainly reflected in the distribution of food waste quantities generated in this year by activity: more food was discarded by households and food trade than in 2019 and less in food production, the accommodation and food service activities. According to SURS, the food waste amounted to an estimated 60% of inedible food parts such as bones, peelings, eggshells and husks, while the remaining 40% were edible food parts and could have been reduced or prevented through awareness-raising and a correct attitude to food. Most food waste was processed anaerobically in biogas plants.

[233] SURS publishes all financial resources earmarked for the protection of the environment from pollution by environmental purposes: air and climate protection (i.e. climate), waste water management, waste management, protection and improvement of soil, groundwater and surface water, protection against noise and vibration, protection of biodiversity and landscape, protection against radiation, research and development, and other. The research involves companies and organisations that are registered for performing their activities and having at least 10 persons in paid employment. It includes resources from own resources, the national budget and EU funds, credits, and other sources of financing.

[234] It plans to achieve this by increasing the share of funding for climate action and environment measures to 50% of its operations (over a ten-year period such investments will amount to EUR 1 billion) and through the already adopted alignment of its activities with the goals of the Paris Climate Agreement.

GHG emission reduction targets set out in the NECP and the Long-term Climate Strategy (Box 10) will also need to be mobilised from other sources.[235] As by existing measures alone and the currently available public and private financing sources, environmental objectives cannot be achieved, it will be crucial to make the best use of these resources and align them with the climate transition objectives, but additional resources will be required as well. This is also confirmed by one of the first estimates of the volume of investments that contributed to the achievement of climate and energy targets in 2016–2020 and which, at the level of the national economy, amounted to EUR 5 billion or on average 2% of GDP per year. The identified dedicated resources available for the period 2021–2030 are estimated at between EUR 11.6 billion and EUR 12.3 billion, while the investment requirements for meeting the targets in the NECPs are estimated at EUR 28.4 billion, which amounts to, on average, 6% of GDP per year (FC, 2022a).

In addition to new public and private sources of funding, better use of the government budget revenue and expenditure will be necessary. After several years of declining, to finally reach 2.95% of GDP in 2020, the share of environmental taxes to GDP was at one of the lowest levels in the last two decades, but is still among the highest in the EU (see Indicator 4.7). The decline was due to lower *energy tax* revenues as a result of the reduced excise duties on fuels in 2018, and was even more pronounced during the COVID-19 epidemic due to lower economic activity and further reductions in excise duties on certain fuels adopted to mitigate the effects of the epidemic. The preliminary implementation of the 2021 state budget shows that the revenues from excise duties on fuels did not reach the 2019 level either. The reform of motor vehicle taxation and the abolition of the additional motor vehicle tax will also lead to a reduction *in turnover tax* revenues.[236] After 2015, the already modest share of revenue from *taxes on pollution and the use of natural resources* decreased. Although the majority of environmental taxes do not constitute a dedicated resource for financing and achieving environmental objectives,[237] such changes do not reflect efforts to limit emissions. The price deregulation of petroleum products in 2020 and the increase in margins in the final price of petroleum products announced by traders reduce the room for manoeuvre for raising excise duties on fuel in the future as this is limited by prices in neighbouring countries. At the beginning of 2022, excise duties decreased further, as part of the response to the strong increase in fuel prices in 2021, which has been exacerbated by the crisis in Ukraine in 2022[238] (see Section 1.1). The tax reforms which relieved the taxation of labour in 2019, 2020 and 2022 did not take advantage of the opportunities for green tax restructuring, while maintaining other tax incentives of various forms (subsidies and reliefs) which are contrary to the objectives of reducing environmental burdens (MF, 2019; JSI, 2020).

[235] In order to achieve the overarching climate-neutrality objective, it also sets strategic sectoral goals for 2030 and 2050, which must be taken into account consistently across every sector and integrated into their sectoral documents and plans.

[236] As of 2021, the additional tax on motor vehicles was abolished and at the same time the taxation of motor vehicles was reformed (taxation is now linked only to environmental factors and no longer to the selling prices of vehicles; the tax scale was also revised). When drafting the amendments to the Motor Vehicle Tax Act, the loss of revenue under this title was estimated at EUR 28 million.

[237] Most of the revenues from environmental taxes are integral (unallocated) revenues of the state budget. Only some environmental taxes are allocated, e.g. the proceeds from the sale of emission allowances that are channelled to climate change mitigation measures through the Climate Change Fund.

[238] Due to the high volatility of fuel prices after the beginning of the war in Ukraine, the Government of the Republic of Slovenia also set maximum permitted retail prices for premium (unleaded) gasoline and diesel for a period of one month in mid-March 2022.

4.2 Sustainable management of natural resources

Sustainable management of natural resources (Development Goal 9):

The goal of the SDS 2030 is to protect natural resources in a sustainable manner and plan their efficient use, as they are one of the key pillars of ensuring a healthy living environment, producing quality food and carrying out high value-added economic activities. The goal will be achieved by overcoming the silo mentality, preserving biodiversity, sustainable soil management, preserving quality agricultural land, sustainable forest development and efficient water management. The SDS 2030 recognises the importance of responsible spatial management. Mitigation of, effective adaptation to and exploitation of the opportunities provided by climate change will be of particular importance.

Performance indicators for Development Goal 9:

	Latest data		Target value for 2030
	Slovenia	EU average	
Share of utilised agricultural area, in %	23.9 (2020)	39.2 (2019)	>24
Watercourse quality, mg O_2/l	0.9 (2018)	2.0 (2018)	< 1
Ecological footprint, gha/person	5.4 (2018)	4.8 (2018)	3.8

Current production processes and lifestyles in Slovenia have been exerting too much pressure on nature since 2014. The *ecological footprint*, which is one of the most comprehensive indicators of environmental burden (see Indicator 4.8), dropped to roughly the level of the beginning of the last decade during the global financial crisis, but in the 2015–2018 period (latest data) it increased again and, on a per capita basis, exceeded the European average in this period. This shows that economic development in these years was achieved through increased use of resources and increased environmental pollution. The structure of the ecological footprint mostly contains the carbon footprint, mainly due to the use of fossil fuels in transport and energy.[239] The share of carbon in the overall footprint is comparable to the average in Europe and the rest of the world, with differences in structure occurring in other categories. Forest products account for a larger share due to greater use of wood in heating and construction. Timber exports in logs and imports of finished products contribute to increasing the ecological footprint[240] and reducing the added value of the economy. In Slovenia, *nature's biocapacity*, i.e. biological areas with regeneration capacity, is above the world average on a per capita basis but below the European average. Slovenia's largest biocapacity is provided by forests, which, by absorbing carbon dioxide emissions, mitigate climate change, although at the same time the consumption of forest products contributes to the environmental burden. In Slovenia, the difference between the ecological footprint and biocapacity, i.e. the *ecological deficit*, is above the European and the world average. Humanity consumes 70% more natural resources than can be restored, and in Slovenia we consume as much natural resources as if we had been living on three planets. A dignified life of the population within the limits of the planet's capabilities calls for a comprehensive and systemic transition to low-carbon circular solutions as soon as possible.

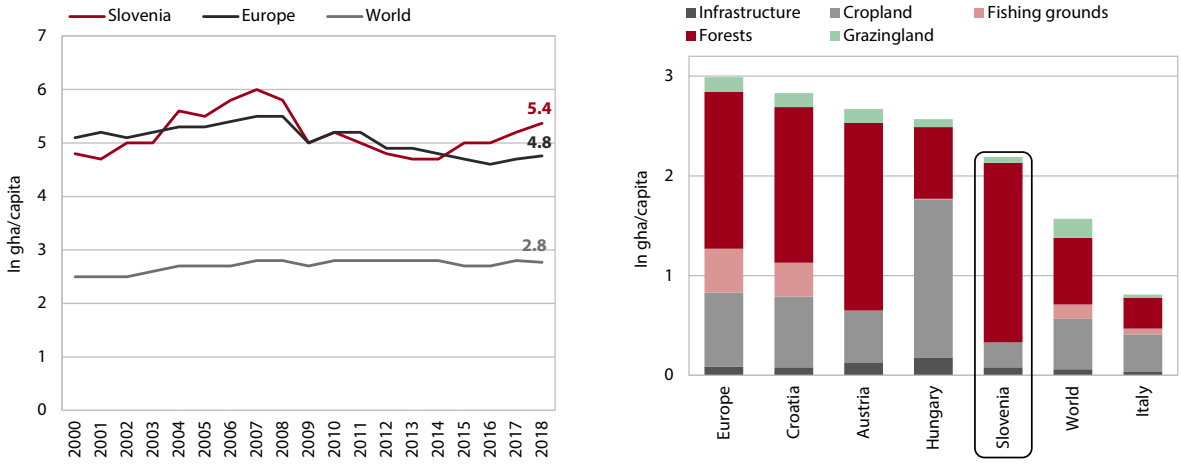
Slovenia is classified as an area of greatest biodiversity in Europe, and the need to find acceptable compromises in solving common challenges is becoming increasingly apparent. High biodiversity is primarily a natural condition but also a result of the systematic protection of plant and animal species and sound ecosystem management. Measured by the share of protected areas which, due to their great biodiversity and landscape diversity, are key to preserving the habitats of endangered species, Slovenia ranks at the top among EU Member States, with twice the average share of such areas. Yet despite numerous activities to protect it, biodiversity in Slovenia has also continued to decline over the long term. The farmland bird index, which is one of the indicators of change, shows a decline in the farmland bird population.[241]

[239] The methodologies for calculating greenhouse gas emissions under the GFN ecological footprint and the United Nations Framework Convention on Climate Change (UNFCCC), where actual emissions and sinks are taken into account, differ, and therefore the results of the calculations are very difficult to compare. According to the UNFCCC methodology, emissions in Slovenia amounted to 16.7 Mt CO_2 in 2014. The ecological footprint according to the GFN methodology amounted to 5,857 thousand gha this year, equivalent to 17.3 Mt CO_2 (Kovač and Piciga, 2020).

[240] The depletion of a country's biocapacity for export needs and the import of additional biocapacity constitute an ecological deficit. In the calculations, the same products produced in Slovenia have a lower ecological footprint than imported ones. With a higher rate of wood processing in Slovenia, transport routes would be shortened and waste biomass for heating would also be increased, which would reduce the use of fossil fuels and the related greenhouse gas emissions and ecological footprint.

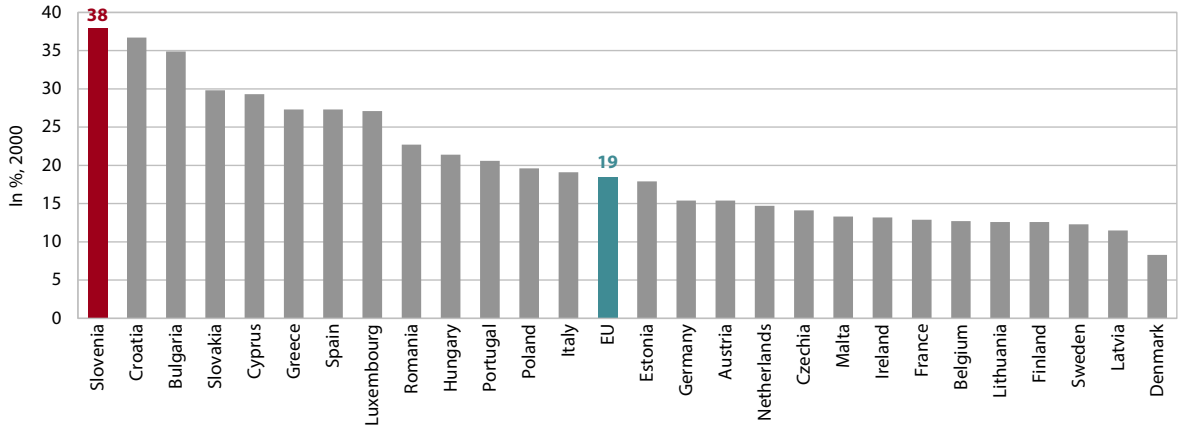
[241] It is quite difficult to determine biodiversity, because of the large number of species and interactions between them and with the abiotic

Figure 68: The ecological footprint in Slovenia was higher in 2015–2018 than in Europe as a whole and the gap widened (left), while nature's biocapacity in this comparison is lower and largely dependent on forests (right)



Source: Global Footprint Network (2022). Note: the global hectare (gha) is the fertile area needed to meet human needs for food and maintain humans' lifestyle and dispose of the waste generated in the process.

Figure 69: In the EU, the share of protected areas – Natura 2000 is the highest in Slovenia



Source: Eurostat (2022).

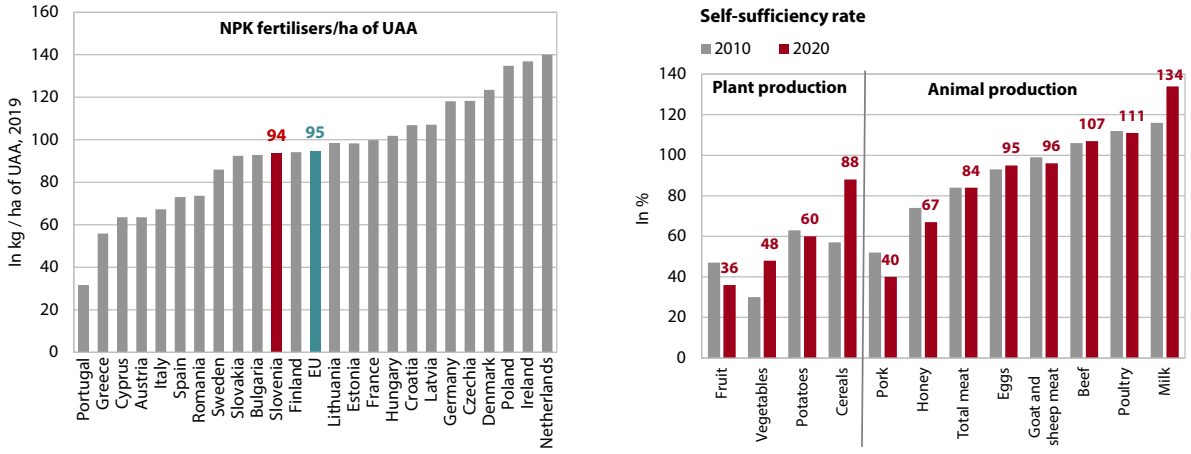
The most pressing problems are (i) development, with the spread of urbanisation, transport and economic activities, (ii) poorly conceived management of waterways, mostly in connection with flood prevention measures, and (iii) agriculture, which provides habitat for protected species but also shrinks habitat in areas of very intensive agriculture. Investment in the conservation and restoration of nature, which are becoming urgent, will also be instrumental in the economic recovery of Europe.[242] The challenges are to overcome silo mentality and seek a compromise between the interests of nature protection and economic activity. Recently, finding a compromise solution for the siting of power plants for the generation of energy from renewable sources has been extremely challenging.

Agriculture, which plays a key role in preserving biodiversity, is not particularly intensive in Slovenia by international standards, and the crisis has even intensified the awareness of the importance of food security, in particular the importance of efficient and competitive supply chains. Slovenia ranks among the EU Member States where the conditions for agricultural

environment. Indicators that broadly show the general condition include the population size of selected bird species, the farmland bird index, conservation of wildlife populations and forest conservation.

[242] More than half of the world's GDP depends on nature and its services, in particular three economic activities – construction, agriculture, and food and beverage production. The biodiversity crisis and the climate crisis are intrinsically linked as climate change accelerates the destruction of the natural world through droughts, flooding and wildfires, while the loss of nature and its unsustainable use are key drivers of climate change. But just as the crises are linked, so are the solutions. When restarting the economy after the COVID-19 crisis, this awareness will have to be raised, taking greater account of the business value of biodiversity and finding ways out of harmful former habits (EC, 2020j).

Figure 70: Sales of NPK fertilisers per unit of agricultural area (UAA) in Slovenia are close to the EU average, and the level of self-sufficiency of basic agricultural products is low, especially for plant crops



Sources: Eurostat (2022), SURS (2022b), MKGP (2021b).

production are on average more difficult: the share of agricultural land in the total area is relatively low, while the land is fragmented and a relatively large part of it lies in less-favoured areas. These conditions hamper agricultural production, reduce efficiency and, with a large proportion of grassland, direct activity more towards livestock farming. The share of arable land per capita is poor by international comparison (see Indicator 4.9). In agriculture, significant structural changes, such as increases in the size of agricultural holdings and their specialisation, are underway, but organic farming and rearing are also on the rise.[243] Since attention has increasingly been turned to environmental concerns, gross nitrogen and phosphorous surpluses, which are basic indicators of agriculture's impact on soil and water, have significantly declined over the long term.[244] The average yields per hectare are mostly below the EU average (see Indicator 4.10), which means that the impact on the environment is less severe but also indicates lower productivity of natural resources. Self-sufficiency in the majority of basic agricultural products, in particular organic produce, is relatively low, partly due to poor knowledge transfer to producers and their poor integration and technological backwardness of production. The imbalance in the levels of self-sufficiency between animal and plant products is high, not least because the livestock sector has been more financially supported during the current programming period (Court of Audit of the Republic of Slovenia, 2021). The vast majority of food is imported, with only about a fifth produced at home (ARSO, 2022b). In this context, the majority of exports are unprocessed, while processed agricultural products are imported, which is an untapped opportunity to increase value added. The establishment of efficient and competitive supply chains is crucial.[245] The scale of production is highly dependent on weather conditions, and this dependence will increase further under the influence of climate change. At the same time, agriculture also plays a major role in carbon storage (EC, 2021d).[246] Agricultural policy faces major challenges that relate to sustainable food production and also to the responsibility for nature and the conservation of its resources.

The management of forests, which cover a large proportion of the land area of Slovenia, has been under the impact of mitigating the effects of natural disasters for several years, but logging is declining and wood as a raw material still remains insufficiently exploited. Slovenia is one of the three most forested countries in Europe, with its forests being its best-preserved natural ecosystem. This has a beneficial effect on the environment. Forests play a major role in achieving the objectives of various policies, for example

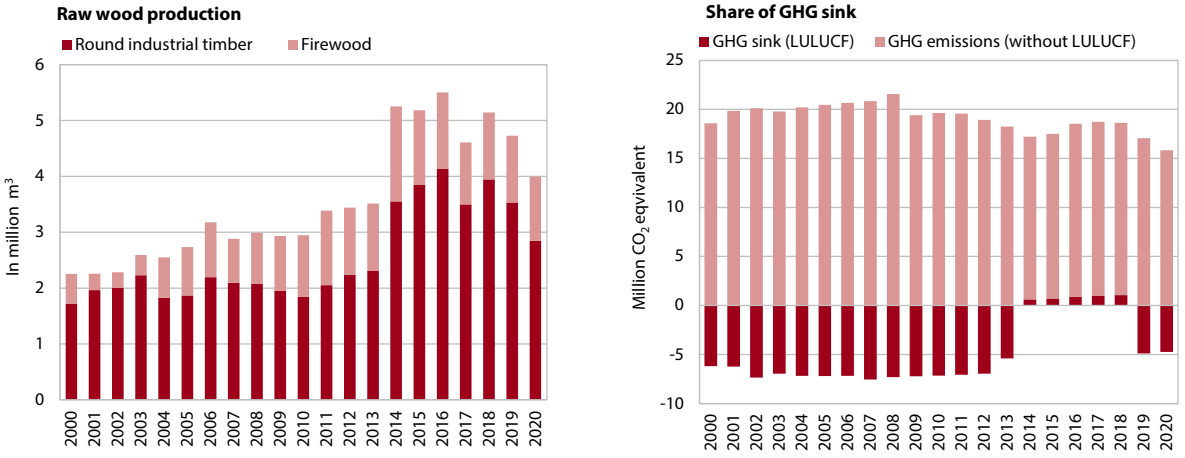
[243] By 2027, the share of organically cultivated agricultural land is expected to increase by 8 p.p., i.e. to 18%. The target has been set ambitiously in order to be able to move closer to the EU target of 25% of organically cultivated agricultural land by 2030 (MKGP, 2021a). In the EU, organic farming has been identified as one of the key mechanisms for achieving the objectives of the Green Deal.

[244] The reduction in the consumption of mineral fertilisers is due to the requirements of the Nitrates Directive and the principles of good agricultural practice in fertilisation to which all agricultural holdings are committed. Much attention is paid to the use of livestock manure and the consideration of plant nutrients in livestock manure in the planning of fertilisation with mineral fertilisers. Since agricultural holdings must have fertilising plans in place in which the used plant nutrients from livestock manure are also evaluated, the consumption of mineral fertilisers is being reduced accordingly (ARSO, 2022b). It is preferable that the balance surplus of the element, i.e. the positive difference between its input to the soil and crop uptake, is low.

[245] The COVID-19 epidemic has highlighted the importance of a stable and sustainable food supply chain. With the closure of the accommodation and food service acctivities, tourism and public institutions which had previously regularly purchased domestic agricultural products and foodstuffs, the producers who had concluded prior purchase agreements and contracts were the least affected.

[246] It is important to increase the organic matter in the soil through measures such as greening, successive secondary crops and crop rotation. This will also be encouraged in the context of the Strategic Plan 2023–2027 (MKGP, 2021c).

Figure 71: High production of raw wood products as a result of sanitary felling after glaze ice is decreasing, and forests, together with other land use, once again contribute significantly to GHG sinks



Sources: SURS (2022b), ARSO (2022a). Notes: Slovenia's forests were hit by glaze ice in early 2014. Forests contribute the major share to the GHG sink in the LULUCF sector, i.e. land use, land-use change and forestry.

as a carbon sink, for biodiversity protection, for rural development, for green job creation and for fossil fuel replacement, and are therefore crucial for the transition to a low-carbon society (EC, 2021z). In recent years, more than 60% of forests in Slovenia have been hard hit by natural disasters (ZGS, 2021): glaze ice in 2014, strong windthrows in 2017 and 2018, and consequently the overpopulation of wood pests. Due to a high share of older and thicker trees, which provide high biocapacity and carbon storage with a high average growing stock, the resilience of Slovenia's forests decreased (Stritih, 2018). Total tree falling, raw wood production and net exports[247] have increased in the context of relatively extensive sanitary felling, but after 2018 they decreased again as the population of pests diminished and damage to forests was mitigated (see Indicator 4.11). As intensity of tree felling lags far behind the annual wood increment, it should be increased and brought closer to that planned. At the same time, this would provide an opportunity to rejuvenate forests by planting tree species that are more resilient to climate change. Increased tree felling, which does not contribute to increased carbon sinks in forests, would encourage more extensive use of wood in building construction, processing for other activities and heating. It should be based on environmentally friendly technologies and efficient use in line with the principles of the circular economy.[248] Using modern technology, wood is a raw material with a low ecological footprint, so the replacement of fossil materials and fuels with wood also contributes to reducing greenhouse gas emissions and preserving the environment (Lin et al., 2020).

Soil, which is one of the basic limited natural resources, is mostly unpolluted in Slovenia. Despite the good overall condition of soil, there are individual areas highly contaminated by some *heavy metals*, e.g. cadmium, zinc, lead, arsenic and mercury (ARSO, 2022b). Exceeded action values, and in some areas critical values, have been detected in particular in areas with a long history of mining, smelting and metallurgic activity and in areas with denser traffic. Soil degradation may be caused by unsustainable management, overexploitation, climate change and pollution. Unlike in air or water, substances in soil build up, which means that reduced release does not typically result in reduced levels. The most polluted areas include the Mežica Valley, the Celje Basin, Jesenice and Idrija.[249] These and several other areas in Slovenia are facing a great need to clean polluted soil and conduct remediation of polluted sites, but this is often technologically demanding and entails high costs (Slovenian Soil Partnership, 2018). Furthermore, some of the pollution with heavy metals is not the result of human activity, since heavy metal levels may also depend on bedrock. In Slovenia, the pollution of soil with *organic pollutants* is less pressing, since in most areas action values have not been exceeded. In some areas of intensive agricultural production, limit values

[247] Relatively high exports of unprocessed wood decreased after 2016, when the Slovenski državni gozdovi d.o.o. company (SiDG), which manages one-fifth of all forests in Slovenia, was founded. One of the objectives of the SiDG is to increase the processing and treatment of timber and support the development of the domestic wood industry. When selling wood, the company gives preference to wood processors over wood traders. In 2018, it entered into long-term sales contracts for the first time to ensure a stable supply of raw material for the next three years. This is one of the key measures to support the development of forest–wood chains and to create higher value added in activities. The most important purchasers of unprocessed wood are sawmills, wood composite industries, and the cellulose and paper industries (SiDG, 2022).

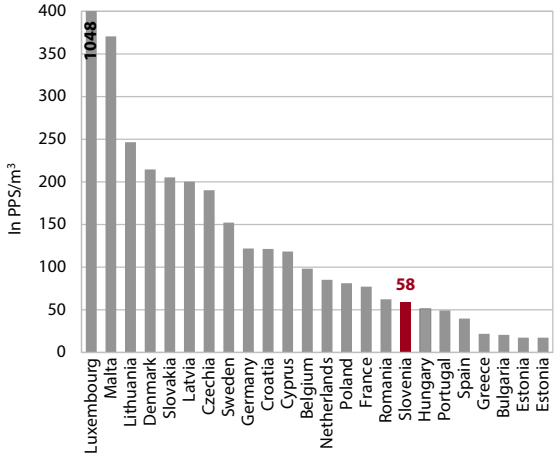
[248] Some incentives, e.g. from the Rural Development Programme and the Recovery and Resilience Plan, are dedicated to this as well.

[249] In the Mežica Valley, measures have been in place since 2008 to remedy the problem of soil pollution, including the asphalting of unmetalled roads, replacing polluted soil, resurfacing with unpolluted soil and planting grass. Lead content has dropped to below action level, but in some places, it has started to again increase gradually (MOP, 2017).

of pesticides or their breakdown products have been recorded to be moderately exceeded. It is particularly important to monitor soil quality on an ongoing basis and prevent excessive release of pollutants into the soil, especially in areas designated for food production, also due to the impact on water quality.

Slovenia has abundant water resources and the quality level of river waters is the highest among the EU Member States, according to the known data. The *abundance of water resources* is evident from the per capita availability of freshwater resources, which is at twice the EU average and is higher only in three other EU Member States. On average, water is sufficient, as only half of the quantity of surface waters flowing into or falling on the territory is utilised and only a fifth of groundwater. There are nevertheless occasional floods or water shortages, a consequence of weather and human intervention. In the face of major climate change, more attention needs to be paid to preventing changes in water conditions, as they may adversely affect fundamental values and needs, such as human health and ecosystems, food production and energy production. Water use in Slovenia is not optimal, as shown by *overall water productivity*, measured as GDP per unit of pumped freshwater, which remains low by international standards. The share of water for irrigation remains almost negligible. *Water quality*, measured with biochemical oxygen demand in rivers, has improved to the highest level among EU Member States due to the increasing and more efficient treatment of wastewater (see Indicator 4.12). There has been a significant improvement in its chemical, biological and microbiological parameters.[250] Slovenian rivers are fairly oxygen-rich on average and contain low levels of nutrients, organic matter and pesticides, though in some areas their content is nevertheless excessive. The situation is the worst in the Mura and Drava river basins, which are areas with more expansive and intensive agriculture,[251] while the Adriatic rivers and the Soča and Upper Sava basins have the best ecological status (ARSO, 2022b; Trobec, 2017).

Figure 72: Water productivity is relatively low in Slovenia



Source: Eurostat (2022). Note: Water productivity is measured as GDP per unit of pumped freshwater.

Air quality in Slovenia is held back by relatively high concentrations of particulate matter, but such air pollution was lower in 2020. The exposure of the urban population to the finest *dust or particulate matter (PM)* up to 2.5 µg, which are the most harmful to health, remains relatively high despite the downward trend in the international comparison (in 2019 in Slovenia 15.3 µg/m^3, the EU average 12.6 µg/m^3). In the cold part of the year, local concentrations are highly dependent on location (e.g. in basins) and wind conditions. Air pollution with the finest particles in 2020 was on average lower than in the period up to 2019 (ARSO, 2022b). The annual limit level for PM_{10} and $PM_{2.5}$ was not exceeded at any measuring point. The less polluted air with particles is mainly due to the favourable meteorological conditions that prevailed during the winter season of the year and which made it possible to dilute emissions from small combustion plants and from transport, which are the major sources of these particles. At the same time, there was also less traffic due to the epidemic. However, total emissions of dust particles increased in 2020 for the second year in a row, due to particles over 10 µg resulting from increased construction activity. In addressing problems *with some other pollutants, for example sulphur and nitrogen oxides*, *ammonia and carbon monoxide*, which were highly problematic in the past, efficient solutions have been achieved over the long term as legislation has been tightened and sectoral policy measures deployed (Ogrin, 2017).[252] In the years of the epidemic, lower economic activity also contributed to this result. In Europe, air pollution is recognised as the most significant environmental risk factor for human health, because it causes high morbidity and premature mortality, which is why policies in this area are being tightened.[253] In order

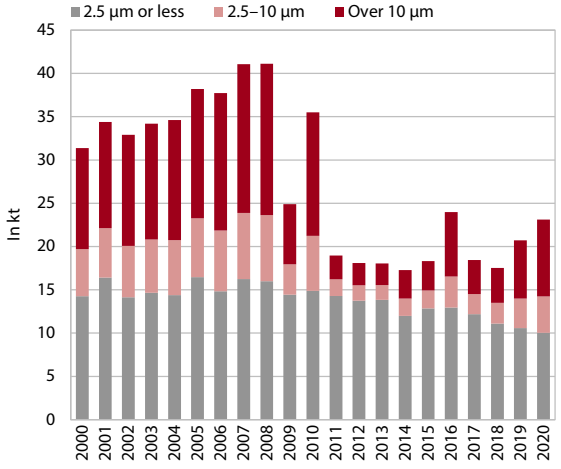
[250] The chemical status of waters is determined with reference to 45 priority substances including atrazine, benzene, cadmium and mercury. Their ecological status is assessed based on the condition of communities of water plants, algae, invertebrates and fish.

[251] The common agricultural policy is increasingly paying attention to environmental pollution, including the protection of waters against pollution from agricultural sources. As the low hanging fruits have been already collected, now more far-reaching measures will be needed to improve the positive trend (EC, 2021r).

[252] Recent efforts have been aimed at reducing emissions from small and medium-sized combustion plants.

[253] Based on the EU National Emission reduction Commitments Directive, which is the central element of the comprehensive Clean Air Programme for Europe, stricter limits for five major pollutants, including PM were set (Official Gazette of the Republic of Slovenia [*Uradni list RS*], No 48/18, 2018). Slovenia is expected to reduce $PM_{2.5}$ emissions by 25% after 2020 compared to 2005, and by 70% after 2030 (EU average by 22% and 51% respectively). This will require new investments, but the savings on labour are supposed to be several times higher due to lower healthcare and sickness absence costs. Initiatives such as more stringent air pollutant emission standards for vehicles, revision of the Industrial Emissions Directive, and any measures contributing to a climate-neutral and resource-neutral economy by 2050 will also contribute to reducing air pollution. The priorities and actions announced under the European Green Deal and the opportunities provided by the long-term budget for the 2021–

Figure 73: Particulate matter emissions, which decreased significantly since 2010, increased in 2019 and 2020 as a result of increased activity in the construction sector, while this year, the finest particles further decreased



Source: ARSO (2022a). Note: due to the introduction of a new source, the data are corrected for the entire observation period compared to previous publications. Particulate emissions from the construction of all roads have been added (previously only the construction of motorways was taken into account). Due to the increased construction activity in these works, emissions increased in 2020 – the calculation takes into account that the length of newly built roads has doubled compared to 2019.

to reduce the social costs associated with air quality, transport-related measures will also need to be stepped up by increasing investments in rail infrastructure development and alternative fuels vehicles, while promoting non-motorised forms of urban mobility.

In the case of land, which is also a limited natural resource, the process of revitalising functionally degraded areas (FDAs) continues, but construction is also expanding to the unbuilt areas, which is not moving in the direction of achieving the goal of net zero building on land after 2050. Unsustainable siting of activities can lead to a loss of soil, which, from the point of view of human civilisation, is a non-renewable natural resource and vital for existence in terms of the provision of ecosystem services. One of the orientations of the current Resolution on the National Environmental Action Programme 2020–2030 (ReNPVO20–30, 2020) is to gradually reduce the annual growth of developed (built-up) land, with the goal of zero growth after 2050. A review of municipal spatial plans shows that some municipalities also plan to build on undeveloped building land, while at the same time they have at their disposal abandoned areas of the same use that could be revived. This takes us away from the set goal, so it is important to focus initiatives more systematically on abandoned and functionally degraded areas. In addition, it will be necessary to follow more closely the orientations and needs in particular areas, otherwise the areas of new use may soon end up functionally degraded as well, thereby deepening the problem.

2027 period and the NextGenerationEU instruments will help to meet the commitments (EC, 2020e).

5 A high level of cooperation, training and governance efficiency

In recent years, Slovenia has made significant improvements in individual areas of governance of the State, while the COVID-19 epidemic has pointed to the functioning of public administration and public services and highlighted challenges that have not yet been adequately addressed. Progress has been made in the digitalisation of public services, the introduction of quality standards in public administration and the reduction of administrative barriers, while the profitability of state-owned companies and the efficiency of the justice system have also improved. However, institutional competitiveness is still characterised by a lack of effective public sector governance based on better coordination with all interested publics, a still high burden of state regulation, a lack of a predictable and stable business environment, mistrust in the rule of law and the judiciary, and a relatively high perception of corruption. The epidemic, and before that the transition to the fourth industrial revolution, also highlighted the need for strategic governance and response from public institutions, which plays an important role not only in the efficiency of public administration but also in development at national, regional and local levels. A strategic approach will only be possible with the involvement of all stakeholders (social partners and other interested public), which will enable a long-term stable, predictable and credible development policy, which is also important for the green and digital transformation of the economy. Therefore the challenge ahead lies in ensuring proper communication with the public, increasing transparency and improving the involvement of key stakeholders, including civil society and professional circles, in the adoption, implementation and monitoring of measures. One of the key conditions for the further development of the country is also to strengthen the confidence of citizens and businesses in institutions, which fell further during the epidemic and is among the lowest in the EU. It should be stressed, however, that Slovenia has been one of the most peaceful and safest countries in the world during the last decade, which has had a positive effect on the quality of life of its population.

The current precarious situation related to the war in Ukraine has an impact on the sense of security not only in Slovenia, but in the entire European region.

The country's efforts to increase global responsibility and solidarity, along with its engagement in international organisations (e.g. the EU Presidency in the second half of 2021, active engagement in the UN Human Rights Committee, and maintaining its contribution to international operations and missions, where it ranks among the allies with an above-average operational burden) also contributes to Slovenia's reputation. In the light of the war in Ukraine, cooperation with key partner countries and international organisations, and in particular with the EU, will be necessary to avoid potentially major humanitarian, security and economic consequences. While Slovenia ranks among the most successful countries in achieving the Sustainable Development Goals of the 2030 Agenda, Official Development Assistance (ODA) expenditure continues to be significantly lower than the international commitments.

5.1 Efficient governance and high-quality public service

Efficient governance and high-quality public service (Development Goal 12):

To achieve this goal, it is necessary to ensure effective strategic governance of public institutions and the formulation of quality public policies that respond to changes effectively and quickly. Significant factors listed in the SDS 2030 as contributing to stronger governance of the public sector include framing goal-oriented policies, creating a highly developed culture of cooperation between citizens and institutions to strengthen trust in the latter, involving stakeholders at all levels of policy development and monitoring, nurturing social dialogue, and ensuring accessibility of information. It is also important to make governance of public systems and services efficient (and innovative), improve oversight of institutional and social structures, and ensure accountability for adopted decisions.

Performance indicators for Development Goal 12:

	Latest data		Target value for 2030
	Slovenia	EU average	
Trust in public institutions, in %	Parliament: 19 Government: 25 Local authorities: 48 (2021, summer survey)	Parliament: 35 Government: 37 Local authorities: 57 (2021, summer survey)	At least half of the population trusts public institutions (average of the latest three surveys)
Executive capacity, average score on a 1–10 scale	4.97 (2020)	5.94 (2020)	EU average in 2030

Several years of improvement in institutional competitiveness was interrupted by a marked deterioration in survey responses in the first year of the epidemic. During the global financial crisis, institutional competitiveness, as measured by international indicators of competitiveness, deteriorated significantly,[254] with a marked decrease in the values of survey indicators measuring the perception of business people in the areas of functioning of state institutions[255] (IMD, 2021; Kaufmann and Kraay, 2021; WEF, 2019; WB, 2020). This was followed by several years of more favourable macroeconomic conditions and more stable public finances in the 2015–2019 period, which contributed to improving institutional competitiveness, which was among the highest in the EU during this period. With the spread of the epidemic, the business sentiment[256] in Slovenia, as in other EU Member States, declined sharply. This also contributed to a noticeable deterioration in survey responses in all areas of the IMD Index, with indicators measuring the perception of the legal and regulatory environment, transparency of government policies, and bribery and corruption deteriorating the most (Figure 74). The deterioration was greater in Slovenia than in other EU Member States, so the lag behind the EU average increased further. Despite the poorer assessment of the field, the relative improvement in ranking was only observed in the indicator of government policy flexibility (from 17th to 14th place among EU Member States), which is attributed to the adoption of economic and social measures to tackle the crisis (the so-called anti-coronavirus packages). The indicators of institutional competitiveness based on statistical data[257] have not changed significantly over the last year.

The degree of participatory democracy, i.e. the involvement of general public in all stages of framing and monitoring policies and regulations, is low. Cooperation with stakeholders is crucial for quality policy-making, increases public confidence in policies and regulations, strengthens the legitimacy of adopted regulations, and helps to facilitate policy implementation (OECD, 2021d).[258] The current arrangement of drafting regulations requires that drafters and proponents of a draft law submit, inter alia, a summary of participation of the public in drafting the legislation (ReNDej, 2009). In Slovenia, public participation is relatively low, with several surveys suggesting that the accepted minimum standards of participation[259] are often ignored, while the

[254] The decline in survey indicators was also the result of a sharp deterioration in business sentiment during the crisis, which was more pronounced than in other countries.

[255] Indicators measuring institutional competitiveness are mostly indicators from a survey of business people, mainly measuring respondents' perceptions in various areas related to the functioning of government institutions (Figure 74). The survey is usually conducted at the beginning of the second quarter of the current year and therefore measures mainly the perceptions relating to the previous year. For more about the IMD and WEF methodology and the issues of survey indicators, see Chiaiutta (2007).

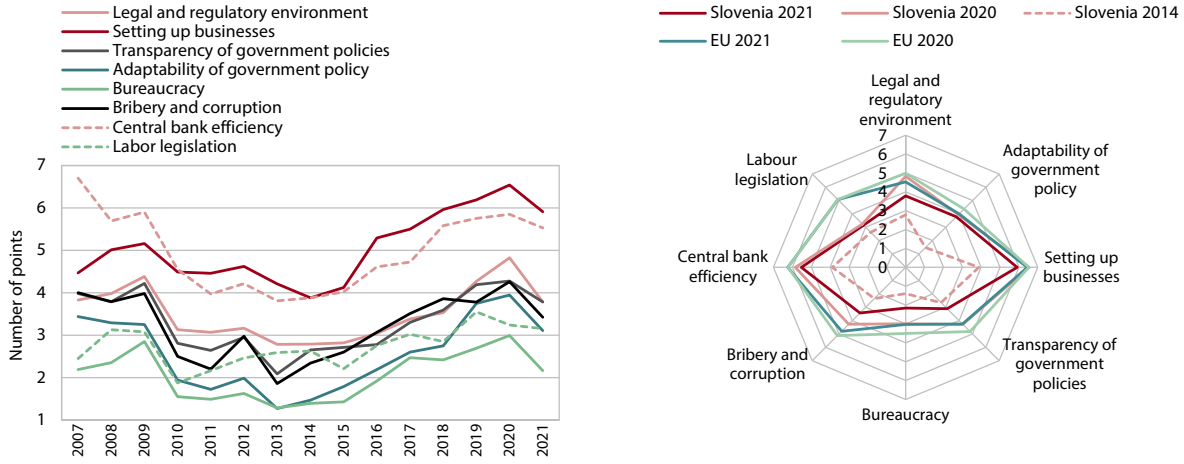
[256] Measured by the economic climate (SURS) and the ESI indicator (Eurostat).

[257] These are the indicators of a country's credit rating, interest rate range, exchange rate stability, etc. These indicators are for 2020.

[258] Public participation can be spontaneous (based on an individual's interest) or organised by addressing target groups and experts. In this context, it should be borne in mind that certain interest organisations' role in the process of drafting regulations is defined by means of specific regulations or arrangements (ReNDej, 2009).

[259] Public participation in the drafting of regulations should take from 30 to 60 days; an exception to this rule are the proposals of regulations

Figure 74: The improvement in institutional competitiveness was halted during the last measurement after several years of improvement



Source: IMD (2021). Note: Higher scores are better. With reference to more detailed indicators, the maximum score is 10; all indicators are survey-based. The survey takes place at the beginning of the second quarter of the year in which the results are published.

majority of ministries do not involve stakeholders in the drafting of regulations until the final stage[260] (Forbici et al., 2015; OECD, 2021d). On the other hand, the OECD data (2021m) indicate that in Slovenia the involvement of stakeholders in drafting regulations (in particular primary legislation) is stronger than on average in the EU, while the monitoring of their implementation is much weaker. In order to involve the population in the process of formulating government policies and measures, a web portal, predlagam.vladi.si, was set up in Slovenia at the end of 2009, through which more than 12,000 proposals for amendments to regulations and laws have been submitted so far. Public participation is also relatively low in referendums, which are one of the forms of direct democracy. Participation in the last referendum in 2021 was 46.46%, which is the second highest voter turnout in any legislative referendum to date (DVK, 2022). According to the Democracy Index (EIU, 2022), Slovenia ranks among the bottom half of EU Member States (17th place), i.e. among the countries with a democracy deficit.[261] The electoral process field and the possibility of participating in elections are rated the best, while the field related to political culture is ranked at the very bottom, which is also reflected in a very low level of trust in politics and political parties.

Trust in the country's institutions, which had always been relatively low in Slovenia, recorded a further decline in 2020 and 2021 and remained below the EU average. Following a gradual increase in the 2015–2019 period, the level of trust in key institutions decreased again in 2020 and 2021[262] amid the spread of the COVID-19 epidemic, while trust in the Government, Parliament and political parties was among the lowest in the EU (see Indicator 5.1). This is also reflected in satisfaction with the way democracy works, which, following an increase in previous years, declined in 2020 and in 2021 was the lowest in the EU.[263] Trust in government institutions is also important for successfully tackling the COVID-19 epidemic and for the country's post-epidemic recovery and development. It helps to facilitate policy implementation and effective governance of the State, as people who trust public institutions are more willing to comply with government authorities and laws, pay taxes and participate in joint actions (Eurofound, 2018). In 2021, 38% of respondents were satisfied with the measures taken by the government[264] in Slovenia, which is much less than in 2020[265] (64%) and also less than the EU average (53%). Also, more than half of the respondents (53%; EU: 25%) considered that the measures taken by public authorities to contain the epidemic were unjustified (Eurobarometer, 2021e).

where cooperation is not possible due to the nature of matters, such as urgent procedures, the State budget, etc. (ReNDej, 2009)

[260] It is important that stakeholders are involved both at the early stages of drafting of regulations, when problems and possible solutions are identified, as well as when they are ready for further procedure (OECD, 2021d).

[261] The umbrella index of democracy is the arithmetic mean of the five sub-indices, with a possible number of points between 0 and 10. Countries with scores between 8 and 10 are fully functioning democracies, those with scores between 6 and 8 are countries with a democracy deficit, while lower scores indicate hybrid and authoritarian regimes. Sub-indices consist of the electoral process areas and the possibilities to participate in elections, the functioning of the government, political participation, political culture and civil liberties (EIU, 2022).

[262] The year 2021 refers in the text to the latest available Eurobarometer data (June-July 2021 round).

[263] Altogether 35% of respondents were satisfied with the way democracy works in Slovenia (EU: 59%), which is 10 p.p. more than in the previous round (February–March 2021) but 12 p.p. less than in 2019. Greece's satisfaction level was the same as Slovenia's (Eurobarometer, 2021e).

[264] During the epidemic, trust in the government, which is responsible for the adoption of containment measures, was particularly volatile (OECD, 2020a).

[265] Eurobarometer data obtained in the period July–August 2020.

Social dialogue plays an important role in addressing issues and measures related to social and economic policies in Slovenia; however, its lack and disruptions in the functioning of the Economic and Social Council have been noticed in recent years. The Industrial Democracy Index[266] shows that the involvement of stakeholders in social dialogue is high, but cooperation between the social partners in Slovenia has been stagnating for a long time and could still be improved (Eurofound, 2018a). The last Social Agreement for the period 2015–2016 was signed in 2015 and since that time social dialogue has been less successful. A review of past practice shows that there is great potential in Slovenia for the development of social dialogue, which takes place within the framework of the Economic Social Council (ESC),[267] and this can be achieved by improving the knowhow, competences and awareness of social partners (RGZC and ZDSS, 2018). Representatives of civil society are also actively involved in social dialogue in the framework of the EC and other EU institutions, however in Slovenia, the non-governmental sector and other professional organisations have not played a significant role in social dialogue for a long time, despite the adoption in 2018 of the National Strategy for the Development of Non-Governmental Organisations and Volunteering up to 2023 and the EC Recommendations (IMAD, 2021a). The EC points out that the public in Slovenia does not always have sufficient opportunities to participate in legislative procedures,[268] as the recommended consultation period is often not taken into account and in some cases comments are not properly taken into account (EC, 2020g). In the first half of 2021, social dialogue was suspended due to employees' dissatisfaction with their participation in the drafting of intervention laws and the adoption[269] of some law proposals that were not related to the epidemic under the urgent procedure in the National Assembly (ESC, 2021; HIIS et al., 2021).

[266] The Industrial Democracy Index is composed of four parts: the autonomy of social partners in wage agreements, the representativeness at macro (social dialogue) level and in companies (work councils), participation of employees in corporate management decisions, and the interaction of all parties in collective bargaining and management decisions.

[267] In Slovenia, there is a tripartite dialogue going on within the ESC and it includes all types of negotiations, consultations or exchange of information between employers, employees and representatives of the country on issues of common interest regarding economic and social policies (for more, see IMAD, 2021a). In the process, even when it is not directly involved therein, the State is responsible for providing an appropriate institutional framework and for ensuring the right political and social climate (for more, see IMAD, 2021a).

[268] The draft laws are published on a dedicated e-Democracy website, through which citizens can send their contributions.

[269] For example, trade unions' opposition to the adoption of the Demographic Fund Act.

5.1.1 Performance of the public administration and the provision of public services

Strategic governance of public institutions and the efficiency of public administration are important factors for the country's performance and competitiveness and play an important role in development at local, regional and national levels. The country needs to take action and address the governance strategically, so a long-term, stable, predictable and credible development policy is essential, which is all the more important in the context of an intensive transition to Industry 4.0 (IMAD, 2020a). The basic document for the efficient functioning of public administration was the Public Administration Development Strategy 2015–2020, which was implemented in accordance with the adopted two-year operational programmes. The OECD's survey (OECD, 2018e) has pointed out that the objectives and measures have been properly designed but should be implemented more systematically (Rakar and Kovač, 2019). The COVID-19 epidemic has additionally highlighted the need for effective governance, as the new situation requires a different way of responding and ensuring the flow of information and points to the relevant competences of public employees and leaders. This has accelerated the introduction of some solutions, notably in the area of digitalisation of public administration. In its final report (2021b), the MJU states that most of the measures set out in the strategy have been implemented, but it does not provide a comprehensive analysis of the effectiveness of the implementation of the strategy and, above all, its impact on the functioning of public administration. In recent years, the rating of strategic governance of public institutions, measured by the executive capacity index, has been strongly affected by inefficient strategic planning (i.e. a lack of coherence between development policies and national and other strategies), the lack of organisational reforms, the fragmentation of public sector bodies, weak inter-ministerial coordination, and the low involvement of various expert publics in government decisions (see Indicator 5.2). The value of the Executive Capacity Index is slowly improving, but it still remains lower than in most other EU Member States and lags far behind the SDS target.

The development of eGovernment services has gradually improved in recent years and the adjustments required during the COVID-19 epidemic also contributed to reducing the lag in the uptake of these services behind the EU average. Citizens can access the eGovernment portal, offering a one-stop shop gateway to electronic services for dealing with the State, and the SPOT portal – Slovenia Business Point for businesses and entrepreneurs[270] (e-VEM). EC data show

[270] A total of 2,452,867 documents (which is almost 300,000 more than in 2020) were submitted via the SPOT portal in 2021. The largest number of documents were submitted for the purpose of registration and de-registration of insurance against occupational injury and disease.

that Slovenia has made progress in all digital public services indicators in recent years and has reached the EU average in terms of the development of eGovernment. The accessibility of services in particular is well assessed, as all basic public services are available to citizens online and the use of these services by citizens is similar to that in the EU generally.[271] Despite the wide range of available services, there is a big gap especially in the uptake of business services, which prevents taking advantage of all the possibilities of e-government services (EC, 2021g, 2021j). According to the European Commission (EC, 2021g), lower than expected uptake of digital public services could be linked to a lower level of trust, security concerns and poor interoperability. The uptake of e-health services, however, is among the highest in the EU (the introduction of electronic prescriptions and referrals), and the introduction of the electronic sick note in 2020 also made a positive contribution to this trend (eBol). The tax administration also offers a wide range of applications through e-tax services (e.g. tax returns for citizens and businesses). The limited use of physical services due to the COVID-19 epidemic increased the use of electronic services, including eGovernment services. A study by the Faculty of Administration indicated an increase in digitalisation in administrative units in terms both of doing business with customers and of cooperation with ministries and other administrative units. This is expected to increase the use of digital communication channels and eGovernment also after the end of the epidemic (Aristovnik et al., 2020). At the time of the epidemic, some identification requirements were lifted or relaxed, making digital public services more user-friendly (EC, 2021g). In 2021, the spread of the epidemic also accelerated the start of the transition to the SI-PASS service (or mobile smsPASS), which enables online registration and electronic signature of documents on several national and other portals that enable electronic business (eGovernment,[272] SPOT, z-Vem, eDavki, etc.).

The introduction of quality models in public authorities continues. An important goal of introducing a comprehensive quality governance system is to increase employees' awareness of the importance of quality as a value in public administration, since the competence of the state apparatus is of key importance for the implementation of the set tasks and the achievement of the objectives. Quality in the public sector is examined using the Common Assessment Framework (CAF),[273] which was initially introduced in administrative units and over recent years also in the state administration authorities. Since the beginning of the project, over 100 users have participated in the CAF quality assessment. The results of the regular CAF EPI external assessment (one ministry and five administrative units) in 2021 suggest that, as in previous years, more attention should be paid to the preparation of proposals for improvements and to acquainting users with assessment results. The comparison also shows that in 2021 the assessment averages for all principles of excellence were higher than in previous years, most notably in the principles of leadership and stability of purpose, result orientation, and employment inclusion (MJU, 2021c). The changed situation due to the COVID-19 epidemic has highlighted the need to increase the prevalence (and possibilities) of working from home. According to the MJU survey (2020a), almost three-quarters of employees worked from home or worked hybrid in 2020. As a result of changes in the working model, major changes in the organisation of work were also detected: the respondents stated that competences such as professionalism, IT literacy, creative thinking and problem-solving increased, while the greatest decrease was observed in cooperation and teamwork. Regarding the challenges and experiences of the crisis period, public officials cited increased flexibility in the state administration and measures related to the digitalisation of business as the most important measures, whose implementation is to be continued in the future. The quality of services is also related to the satisfaction of users of public services, as the survey has shown that the majority of customers are satisfied with the expertise and professional qualification of employees at administrative units, with dissatisfaction mostly associated with waiting times (MJU, 2018). In 2022, the responsible ministry, in cooperation with administrative units, set up the eNaročanje system, which will enable faster processing of customers at administrative units and thus improve the quality of services.

In recent years, a number of measures have been taken to modernise and digitalise the public procurement system, but the challenge remains to further increase its efficiency. The OECD (2019e) states that Slovenia ranks among the most developed EU and OECD countries in terms of transparency of public procurement and publicly available information but lags behind the systems that ensure greater efficiency (e.g. in terms of analysis of the effects of public procurement and lengthy procedures in handling complaints). The focus in recent years has been on modernising and digitalising the public procurement system, as in 2018 and 2019, the eJN information system was set up, which enables procurement procedures to be fully electronically implemented, thereby reducing contractor costs, shortening procedures and allowing for greater transparency (the STATIST application) and enabling better supervision of the use of public funds. Moreover, the e-Dražba portal was established,[274] which

[271] 77% of Slovenian internet users use eGovernment services, compared to 64% on average in the EU. 74% of internet users (EU: 67%) used digital public services for citizens and 78% of companies for businesses (EU: 84%).

[272] The transition on the SPOT portal is expected to be completed in the first half of 2022.

[273] The Common Assessment Framework in the public sector is a tool for comprehensive quality control developed in the public sector and for the public sector; it is based on the business excellence model of the EFQM European Quality Management Fund.

[274] While the awarding of public contracts using electronic auctions increased in 2020, it remains relatively low (1.2% of all public contracts awarded).

allows for the electronic submission of tenders and price formation in a dynamic way, and the eRevizija portal,[275] which allows for greater transparency in the event of audits and complaints. At the beginning of 2022, the Act Amending the Public Procurement Act entered into force; this increases transparency[276] and reduces certain administrative barriers (e.g. easier supplementation of tenders) (ZJN-3B, 2022).[277] The volume of public procurement in recent years represents over 12% of GDP,[278] of which around a third is represented by public procurement in the healthcare sector (MJU, 2021e; OECD, 2021d). In recent years, the priority was the centralisation of public procurement in the healthcare sector (e.g. pooling of contracts for medicines, medical devices and equipment), while the Court of Audit of the Republic of Slovenia (2021a) identified several irregularities and issued several negative opinions on the procurement of medicines in pharmacies in 2020. The lack of competition in public procurement remains a problem (EC, 2020c) due to a relatively large number of calls for tenders with only one contractor, which could increase the price and the risk of corruption (MJU, 2021e).[279] The number of requests for review and other applications in legal protection procedures also remains high, as in 2020 the National Audit Commission decided on 254 requests for review (12 more than a year earlier, while the value of public procurement contracts was lower by more than one-third), of which it satisfied applicants in one-third of all requests.[280] However, the structure of the requests received was dominated by requests for review in the field of construction, amounting to EUR 1.05 billion (around 80% of all requests),[281] followed by requests referring to goods (EUR 182 million) and services (EUR 79 million) (DKOM, 2021).

In recent years, Slovenia has achieved a significant reduction in administrative barriers, and the lag behind the EU average is gradually narrowing. Various programmes for the elimination of administrative barriers have been systematically implemented in Slovenia for more than ten years, with the currently applicable document being the Single Document for Ensuring a Better Regulatory and Business Environment, which was adopted in 2013 and is constantly complemented by new measures. The implementation of the programme of measures to eliminate administrative barriers and draft better regulations is ensured through the ongoing "STOP the Bureaucracy" project. By the end of 2020, more than 72% of the measures taken to remove administrative barriers had been implemented, the most important of which were the establishment of internet auctions in courts, the automatic exchange of data between education systems,[282] the abolition of the additional motor vehicle tax and the liberalisation of petroleum product prices (MJU, 2021a). In particular, the COVID-19 epidemic has accelerated the deployment of digital solutions. Based on surveys among business people, progress in reducing administrative barriers has been reported by several international surveys (IMD, 2021; Kaufmann and Kraay, 2021; WEF, 2019). In 2021, a new Debureaucratisation Act was adopted (ZDeb, 2022) to increase the competitiveness of the business environment by reducing administrative barriers. It introduces a number of simplifications of existing legislation (e.g. simplified and harmonised reporting to state institutions, the interconnection of different registers, the possibility of using electronic communications in the service of postal items of state authorities, etc.) and mechanisms to prevent the accumulation of existing regulations and to allow for the repealing of past (out-of-date) laws and the implementing regulations based thereon. In the field of regulatory impact assessment (RIA), an action plan for the 2019–2022 period was adopted in 2019; it contains systemic measures to optimise and modernise the drafting of regulations and the assessment of their effects (MJU, 2019a). Some progress has also been made in this area in recent years,[283] but shortcomings persist with regard to the implementation of the impact assessment of implementing regulations and better informing and participation of stakeholders and the public (OECD, 2021j, 2021d). In 2019, more than 96% of the proposed acts were assessed in terms of their impact on at least one area (public finance, economy, environment, society as a whole), with a very high proportion of assessments that found no impact on the area analysed (MJU, 2019b).

[275] The eRevizija portal is an online information portal of the National Review Commission; it is managed by Javno podjetje Uradni list Republike Slovenije, d.o.o. The portal is used for the electronic exchange of information and documents in the pre-review procedure, review procedure and appeal procedure and for the provision of information on the course of these procedures on the public procurement portal.

[276] All documents are published exclusively on the public procurement portal, as are all decisions on the awarding of contracts (including from negotiated procedures without prior publication, with the exception of urgent procedures).

[277] The amending act also raises the thresholds and simplifies the procedures for small-value contracts and introduces more flexibility to the EU thresholds, which should allow for greater regionalisation and consumption of Slovenian goods. Public procurement in EU Member States is regulated by directives and countries have no room for a different regulation above a certain threshold. Below the EU threshold (which is set for each area), however, countries have the option to make public procurement more flexible in order to promote local and regional economies and agriculture.

[278] According to the statistics, the volume of public contracts awarded in 2020 amounted to EUR 5.8 billion. The share of public procurement in GDP in 2020 stood at 12.6% (MJU, 2021e).

[279] The MJU also states that this could be due to the small size of the Slovenian public procurement market and the large number of low value contracts and to the possible formulation of the specifications of the subject of the public contract, the conditions and criteria set by individual contracting authorities in order to reduce competitiveness.

[280] In total, the applicants were at least partially successful in 89 applications; eight procurement procedures were fully annulled.

[281] In terms of value, the vast majority were requests related to the construction of the second track of Divača–Koper railway line.

[282] Among eVŠ, CEUVIZ and student services databases.

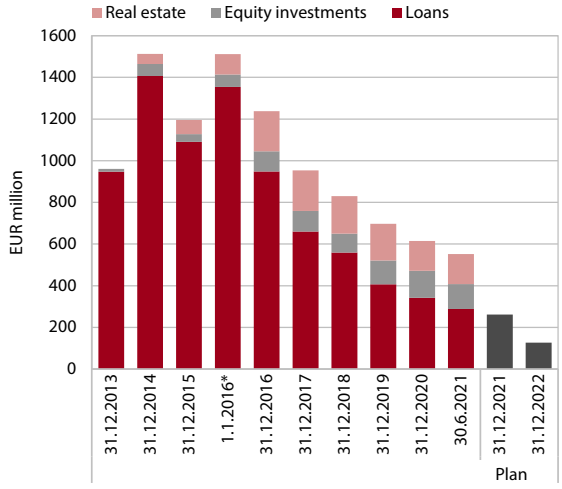
[283] In 2013, according to the MJU (2019b), only 68% of government materials (laws and other materials) underwent impact assessments, while this share in 2019 was 91% (an even higher percentage of impact assessments was recorded in laws, i.e. 96%). The proportion of draft laws published on eDemokracija also increased (2013: 46%; 2019: 89%).

5.1.2 Impact of public institutions on the economic sector

According to various estimates, the main obstacles to business remain high and are related in particular to the efficient functioning of state institutions. One of Slovenia's main advantages is its well-qualified workforce, with companies stating that good staff are hard to find and keep (Jaklič et al., 2018). International comparisons show that one of the main obstacles to doing business is excessive red tape, reflected in the density of regulations and the lengthy public service procedures, while other important obstacles are mainly associated with tax policy (e.g. the labour cost burden) and relatively rigid labour law (IMD, 2021; WEF, 2019). Relatively rapid changes in regulations and legislation also have a significant impact on business, which significantly affects the predictability and stability of the business environment. In recent years, Slovenia has taken several measures to gradually reduce administrative burdens, and the changes have also had a significant impact on the ease of doing business (the establishment of a one-stop-shop system, changes in insolvency legislation). In tax policy, reliefs from the taxation of holiday allowances were adopted in 2019 and a change in the personal income tax scale and general reliefs was introduced as of 2020, which resulted in an increase in income tax relief for certain groups of taxpayers (with higher education, professionals). The introduction of the eRačun has simplified the payment of taxes and contributions by means of a single payment order in electronic form (MF, 2022a; MJU, 2022). Despite the measures taken, barriers to doing business, including excessive bureaucracy, remain higher than the EU average (IMD, 2021; Kaufmann and Kraay, 2021; WEF, 2019).

State ownership of companies, despite a decline in recent years, remains high in Slovenia, especially in network industries. In the period 2008–2013, the state ownership of enterprises in Slovenia was among the highest in the EU, both in terms of the value of enterprises in GDP and in terms of the share of employees in these enterprises (EC, 2016). With the divestment of companies through SSH[284] and BAMC, state ownership in companies decreased in the following years, most notably in the financial sector. After the sale of two major banks in the period 2018–2019 there was no major divestment of shareholdings in companies. In certain sectors, state ownership remains high, especially in some network industries where state-owned enterprises are also market leaders (e.g. transport, energy and telecommunications) (OECD, 2018c). The BAMC is due to complete its operations by the end of 2022,[285] and in line with the BAMC's winding-up strategy, it was estimated that the company would complete the repayment of all liabilities by the end of 2022, leaving EUR 127 million in its portfolio to be transferred to SSH (BAMC, 2019). In its operational audit, the Court of Audit of the Republic of Slovenia (2022) found that the volume of assets and the amount of outstanding debt decreased over the years, but at a slower pace than projected in the BAMC's plans. In that regard, it stated that the planned values for each year had been subject to constant changes, but that, as a general rule, it was not possible to identify the reasons for those changes from the plans.

Figure 75: Assets managed by the BAMC are progressively, albeit slowly, decreasing



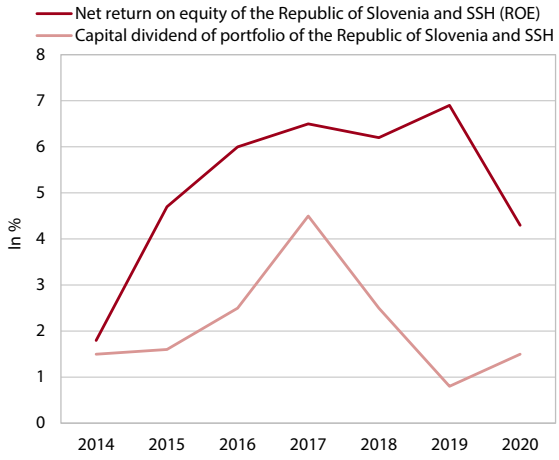
Source: BAMC (2021a and 2021b). Note: *On 1 January 2016, the value of the portfolio increased after the merger by acquisition of Factor banka and Probanka with the BAMC. Under the transaction, the BAMC also received a small leasing portfolio that is included among the loans. In 2019, the asset reduction plan for 2019–2022 was amended for failing to achieve the objectives.

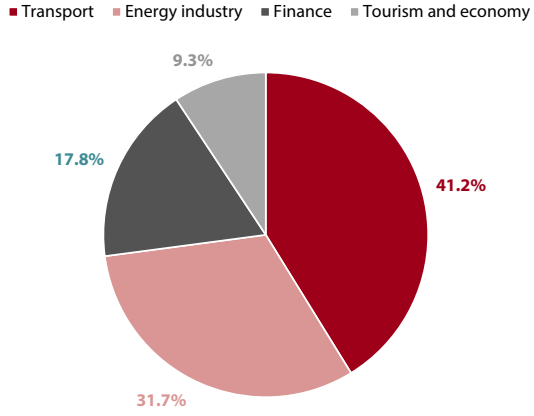
Improving corporate governance in Slovenia, especially in state-owned enterprises, remains an important challenge. The absence of a strong ownership function and good corporate governance in individual state-owned companies increases the risks of inefficiency and lack of competitiveness of companies (OECD, 2015b). In the case of state-ownership, international organisations have also cautioned against the interference of the State and politics in company operations and a lack of good corporate governance in state-owned companies (EC, 2020c; IMD, 2021; OECD, 2018c; WEF, 2019). Following accession to the OECD and the adoption of the Corporate Governance Code for Companies with State-Capital Investments, corporate governance has improved in recent years. However, the

[284] Equity stakes in 10 out of 15 state-owned companies designated for sale have been disposed of so far, while privatisation procedures for the remaining five are currently suspended or the companies no longer exist.

[285] The assets under the BAMC management amounted to EUR 615 million as of the end of 2020 and decreased by a further 10% by mid-2021 (to EUR 552 million). The impact of the COVID-19 epidemic on the redemption of receivables and on recovery procedures in 2020 was reflected in a reduced financial potential of debtors for the repayment of liabilities or repayment of debts, and during this period, the BAMC also managed the receivables through an insurance redemption strategy.

Figure 76: With the deteriorating economic situation due to the epidemic in 2020, the return on equity in state-owned investments declined markedly (left), with more than two-thirds of dividend payments being made up of companies in the transport and energy pillars (right)





Source: SSH (2021b).

analysis of the Code shows significant discrepancies in terms of compliance with the corporate integrity policy recommendations, communication with the SSH about the risks (especially when the SSH is not the sole shareholder of the company), and the establishment of internal audit and public announcements of concluded transactions in the procurement of services. Following a public debate, the code was supplemented in 2021 (Ljubljana Stock Exchange and Slovenian Directors' Association, 2021b and 2021a; SSH, 2020).

The profitability of asset management of state-owned equity stakes decreased markedly in 2020 due to harsh economic circumstances. Slovenian Sovereign Holding (SSH), as the manager of state-owned equity stakes in companies, provides conditions for active management of its assets in accordance with annual management plans (OdSUKND, 2015). The concentration of investments in the management portfolio remains relatively high, with the ten largest investments at the end of 2020 accounting for almost 79% of the book value of the total portfolio,[286] while SSH managed a total of 69 active financial assets. As a result of the sale of the shares of the Republic of Slovenia in two banks, the share of financial companies in the portfolio decreased significantly, while the major pillars (energy and turnover) already account for almost three-quarters of the management portfolio according to the available data (in 2016, this share was 61%).[287] Strategic investments (almost 81%) account for the largest share of investments (SSH, 2021b).[288] After several years of increase, the net return on equity (ROE) in the portfolios of Republic of Slovenia and SSH declined in 2020 (by 2.6 p.p. to 4.3% in 2020[289]), mainly due to the tightened economic situation as a result of the epidemic. The companies in the tourism industry have been worst struck by the crisis, while the least affected were the pharmaceutical industry and telecommunications. Compared to the previous year, however, there was a marked increase in the amount of dividends[290] for the financial year 2020, which was mainly due to the easing of conditions for the payment of dividends by banks and insurance companies, which were not allowed to pay dividends in the previous year due to unfavourable business conditions.[291] The assessment of the performance of the SSH portfolio companies shows that the ROE of the portfolio could reach 5.5% in 2021, as the year was successful for some large companies in the management portfolio of this pillar due to increased demand and favourable market conditions (the pharmaceutical industry and some companies) (SSH, 2021a).

[286] The largest strategic investment is DARS (pillar of transport), which represents 30% of the book value of the SSH portfolio.

[287] At the end of 2020, the book value of assets under management totalled EUR 9.9 billion and decreased slightly compared to the previous year as a result of the sale of shares in banks.

[288] State-owned assets are classified into strategic, significant and portfolio assets on the basis of predefined criteria set out in the State Assets Management Strategy (OdSUKND, 2015).

[289] In the calculation of the portfolio returns, the two major one-off events were excluded from the calculations in 2020. If these events had been included, the profitability would have stood at 2.2%.

[290] 2018: EUR 252.9 million EUR; 2019: EUR 85.9 million; 2020: EUR 150.9 million.

[291] Dividends for the current year are paid out with a one-year delay.

5.2 A trustworthy legal system

A trustworthy legal system (Development Goal 10):

The legal system is of significant national and strategic importance for the protection of the rights of citizens, economic development and prosperity, given the fact that all social systems and subsystems are highly dependent on it. The goal is to create a legal system that provides a high-quality and efficient legal framework. Key factors of trust in the legal system listed by the SDS 2030 include the protection of human rights, fundamental liberties and equal opportunities, clear procedural and substantive legislation, concern for the independence, efficiency and transparency of the judiciary, and the elimination of the causes of corruption.

Performance indicators for Development Goal 10:

	Latest data		Target value for 2030
	Slovenia	EU average	
Rule of law index, ranking between EU Member States	Ranking 18 (data for 20 EU Member States) (2020)	–	Ranking in the top half of EU Member States
Estimated time to resolve civil and commercial court cases, number of days	281 (2019)	258 (2019)	200

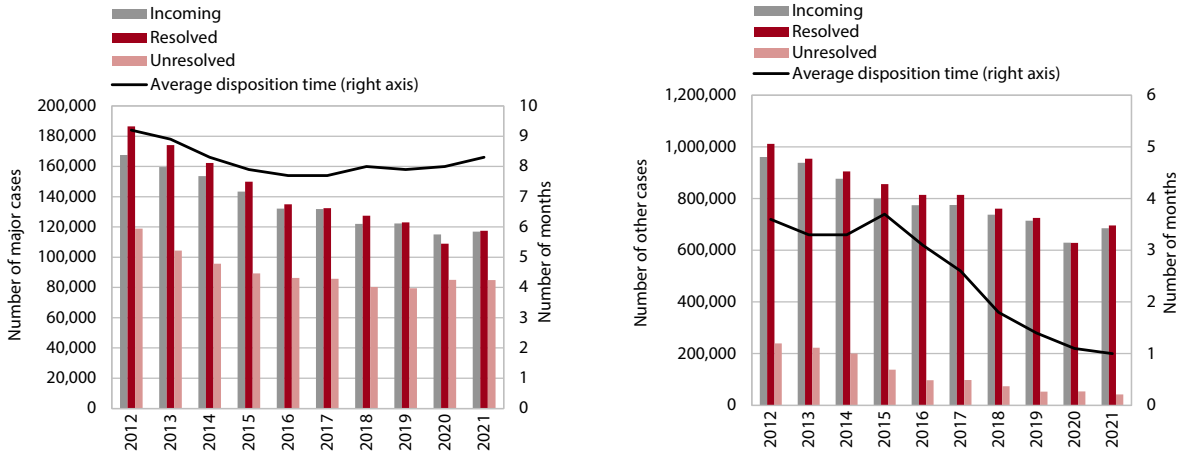
Trust in the rule of law and the judiciary is relatively low and has not changed significantly in recent years. The bedrock of people's trust in the legal order and respect for legislative provisions is clear, understandable, transparent and unambiguous legislation, while people's trust in the legal system and the rule of law also depends on the enforcement of rights in practice, the duration of administrative and court proceedings, accessibility to legal remedies, and the predictability and stability of legal standards. International comparisons (Kaufmann and Kraay, 2021; World Justice Project, 2021) suggest that trust in the judiciary in Slovenia has not changed significantly over the last five years and is around the EU average, while trust in the rule of law remains below the average (see Indicator 5.3). The EC (2021w) states that the level of perceived independence of the judiciary is improving, but trust in the independence of courts and judges remains much lower than in most other EU Member States. Surveys point to the perceived influence of politics on court decisions as the main reason and to the interference with or pressures on the courts due to economic or other special interests (Eurobarometer, 2021a, 2021b).[292] By 2020, the number of applications lodged before the European Court of Human Rights (ECHR) and the violations found have substantially decreased, and both indicators have no longer deviated from the EU average in the recent years. The COVID-19 epidemic posed a new challenge in the area of human rights, as basic freedoms such as freedom of movement, assembly or business initiatives have been restricted in many EU Member States. In the period between March 2020 and June 2021, the Constitutional Court received 188 complaints regarding the measures imposed to contain the COVID-19 epidemic (EC, 2021w), and in 2021 the number of applications lodged before the European Court of Human Rights (ECHR, 2022) increased again; this time, they mainly referred to the measures imposed to contain the epidemic. In Slovenia, the Constitutional Court imposed on the Government the obligation to regularly (periodically) review and adjust measures that must be proportionate and limited in time (Constitutional Court, 2020).

The main priorities set in the judiciary over recent years have been to improve the effectiveness, transparency and quality of the justice system. In implementing the Justice 2020 Strategy, one of the principal challenges was to create a predictable and stable legal environment. Significant progress has been made in recent years in terms of increasing efficiency and reducing employment; however, some of the goals set by the justice strategy by the end of 2020 have not been achieved. There has been a considerable delay in achieving the goals related to the expected time to resolve major pending cases, with the ratio between court staff and judges also being too low (Supreme Court, 2022).[293] Currently, the EU2020 project Slovenian Justice 2020 is in the implementation phase; it is aimed at increasing the quality of the entire judicial system, of

[292] The perceived independence of the judiciary among the general public improved slightly in 2021 (47% rating it fairly good or very good) but is lower than the EU average (54%). It has also improved among businesses (43%; EU: 49%). The main reasons for mistrust by the general public and businesses are similar. In both surveys, a significant proportion of respondents failed to reply (general public: 11%; businesses: 21%).

[293] The strategy pursues the goals that by 2020, the expected disposition time for major cases should be reduced to six months (the goal was not achieved, as the average length of proceedings is now eight months), and for other cases to three months (the goal was achieved). The number of judges per 100,000 population should also decrease (to 42; the number at the end of 2020 was 42.5), while the ratio between court staff and judges should increase to 4.3 (the number at the end of 2020 was 3.95).

Figure 77: The efficiency of courts improved in recent years, as, with the exception of 2020, a larger number of major (left) and other (right) cases were resolved; in particular, the time required for resolving land registry, enforcement and other matters (right) was considerably reduced



Source: Supreme Court (2022).

judges and court staff (increasing their competences), and awareness of parties and other participants in court proceedings (procedural justice, electronic auctions, access to foreign e-Justice systems, publication of decisions and electronic operation in civil judicial proceedings, records of liabilities and claims arising in court proceedings, and electronic files) (Supreme Court et al., 2021). In addition to digitalisation, the priority area remains the administrative area, in particular monitoring the resolution of administrative disputes. In recent years, the Administrative Court has failed to manage the caseload, reduce the number of pending cases and achieve a reasonable length of proceedings (Supreme Court, 2022).

The multi-annual trend of increasing court efficiency continued in 2021 after the increase was temporarily halted during the COVID-19 epidemic. Court statistics suggest that in the period 2014–2021, the number of pending cases in almost all courts continued to decrease annually, and the courts, despite a decrease in the number of judges and court staff, generally[294] resolved more pending cases than came in. The only exception was 2020, when the activity of courts was limited due to the containment measures imposed during the epidemic. This also affected their efficiency, as the courts resolved fewer cases in 2020 than came in (Supreme Court, 2022).[295] The average disposition time has shortened considerably since 2014, but the disposition time for major cases did not significantly change in recent years (see Indicator 5.4). However, the Supreme Court further points out that excessive shortening of proceedings may undermine the parties' right to be heard and to a fair trial; moreover, the increasing jurisdiction of courts has also had a considerable impact on their efficiency in recent years. Compared to other EU Member States, the expected duration of civil and commercial proceedings at first instance is longer and has even increased in recent years. Legal proceedings related to money laundering are also among the lengthiest in the EU (EC, 2021v).

The quality of the Slovenian judiciary is comparable to other EU Member States, while the changed situation due to the COVID-19 epidemic highlighted the need for faster implementation of ICT tools in the justice system. This includes, in the strict sense, the quality of court decisions (e.g. the appropriate structure and procedures, the merits of judgments and the legal bases used), and, in the broad sense, also the provision of judicial services. Quality is influenced by several factors, such as the accessibility of judicial services for users, quality assessment, the use of ICT, and financial and human resources. Since 2016, a project to improve the quality of the judiciary has been implemented by the Supreme Court; this has so far focused on judicial skills, transfer of knowledge, and the training and improving the competences of judges and court staff.[296] Within the framework of the Procedural Justice project, the judiciary has established a comprehensive communication system that enables its users to obtain the information they need in simple and comprehensible language; the system is intended for anyone who contacts the courts. In 2020,

[294] The Administrative Court had the biggest problem with efficiency, as the average disposition time for major cases was too long (14.8 months in 2021), while at the same time, it resolved fewer cases in recent years than came in.

[295] With a lower new caseload, the number of resolved cases decreased by around 13%, while the number of pending cases at the end of the year increased by 7.6% compared to the previous year. Reduced handling of caseload was particularly noticeable in respect of major cases at local, labour and social courts. In total, however, the courts managed to resolve 99% of the caseload.

[296] In the form of mentoring new judges and those who changed the legal field of adjudication or as on-the-job training for new judicial staff.

the focus of this project was on the implementation of training for judges and court staff, new content for the website and activities related to the renovation of court documents (Supreme Court, 2021). According to the EC survey (2021w), information and communication technologies (ICT) for the management of court cases are well[297] developed and, compared to other countries, Slovenia has very well-regulated monitoring and evaluation of court activities and transparent standards of efficiency. There are still some shortcomings in electronic communication with customers,[298] while progress was made in recent years in some procedures[299] (EC, 2021w). At the time of severe restrictions due to the COVID-19 epidemic, the work of the courts was severely disrupted; therefore access to videoconferencing of court proceedings was provided and a dedicated portal for judges and court staff (including access to the support system to panel sessions and similar) was set up (Supreme Court, 2021). According to the European Commission (EC, 2021w), the use of digital technologies has been particularly restricted in the Public Prosecutor's Office, while the lack of digitalisation within the police contributes to delays in complex cases (e.g. when a complaint is received only in paper form).

The perception of corruption is relatively high, and it increased further during the COVID-19 epidemic. The evaluation (perception) of corruption reflects the performance of institutions of the rule of law, public sector integrity and the quality of public sector management. The number of reports of corruption and other irregularities surged after the start of the global financial crisis, which can be largely attributed to the increased exposure of competent institutions and, as a result, the increased recognition and reporting of corruption. In recent years, some measures have been adopted to improve the integrity of institutions, public employees and holders of public office and increase the transparency of public sector operations (MJU, 2020b). Nevertheless, international comparisons of the perception of corruption suggest that the perception of corruption got slightly worse during the COVID-19 epidemic and has remained higher than the EU average (see Indicator 5.5), which is reflected in the lack of public trust in the work of competent authorities (Transparency International et al., 2022). According to the Commission for the Prevention of Corruption (KPK, 2021), the epidemic revealed a number of corruption risks and suspicions of irregularities in the procurement of medical equipment,[300] which further increased the number of reports of corruption in 2020. The Eurobarometer survey (2020b) shows that the respondents in Slovenia are of the opinion that high-profile and major cases of corruption are not properly sanctioned. In the area of legislative regulation, the Act Amending the Integrity and Prevention of Corruption Act (ZIntPK) was adopted; it should provide, inter alia, tools for more effective work of the Commission for the Prevention of Corruption (e.g. supervision of lobbying and regulation of the legal basis for the operation of the Erar application, clear and specific regulation of procedures applying to participants appearing before the Commission for the Prevention of Corruption, and extending the supervision of assets) and delimit the competences of the police and authorities for the prosecution of criminal offences of corruption (ZIntPK-C, 2020). In line with the adopted legislation and the promotion of greater integrity, the reporting of lobbying contacts has been increasing in recent years, which in 2020 was mainly related to exerting influence on anti-coronavirus legislation (CPC, 2021).

[297] Slovenia is among the best-ranked EU Member States in terms of the availability of online information on the judicial system for the general public and in terms of e-commerce of courts in civil proceedings.

[298] Digital solutions for conducting and monitoring judicial proceedings are limited, especially in criminal matters.

[299] In some areas, documents need to be submitted to the court only in electronic form, e.g. by notaries public and receivers in land registry proceedings, in cases concerning the court register and insolvency proceedings, and by the debtors in the recovery of uncontested debt.

[300] Based on the investigation, the thematic surveillance report identified a number of corruption risks that need to be better managed in the future in order to carry out procedures more efficiently and transparently. The Commission for the Prevention of Corruption also issued recommendations to the competent institutions.

5.3 A safe and globally responsible Slovenia

A safe and globally responsible Slovenia (Development Goal 11):

The aim is to address global challenges that Slovenia is facing, such as migration flows, terrorism, climate change and respect for human rights. Some of the challenges also pose threats and risks to national security. Factors listed by the SDS 2030 as instrumental to strengthening global responsibility and solidarity include providing a high level of security, which includes providing protection against terrorist and other supranational threats (cyber threats included), promoting prevention, and strengthening the capacity for managing natural and other disasters. The SDS 2030 also draws attention to increasing foreign policy cooperation at the bilateral and multilateral levels and defence capabilities. Through international development cooperation and humanitarian aid, Slovenia contributes to a more balanced and fair global development and the eradication of poverty and inequality.

Performance indicators for Development Goal 11:

	Latest data		Target value for 2030
	Slovenia	EU average	
Share of population that reported crime, violence or vandalism in their area, in %	7.3 (2020)	10.9 (2020)	< 10
Global Peace Index, Rank	3rd place (EU) (2021) 5th place (163) (2021)	–	Ranking among the top five countries in the EU or among the top ten in the world

Since its independence, Slovenia has been a member of the most important international organisations that maintain a stable international environment, security and human rights. In 1992, Slovenia joined the United Nations (UN), which is a uniform system established for dealing with global challenges in international peace and security, sustainable development, and human rights. For over a decade it has also been a member of the EU, its most important political and legal environment. The fundamental framework of institutional national security aside from the EU's common foreign and defence policy is NATO. Changes in the broader international environment affect both the EU and Slovenia, the two grappling not just with important developmental, political and economic issues, but also with global security challenges. Slovenia is also striving to increase global responsibility and solidarity and among the most successful countries in achieving the 2030 Sustainable Development Goals (Sachs et al., 2021).[301]

Russia's attack on Ukraine in February this year could have significant humanitarian, security and economic consequences. The aggression triggered a strong international response, with the EU, the US and some of the world's other important economies reacting as early as at the end of February with the imposition of large-scale sanctions aimed at isolating Russia financially and economically. The impact on international trade and economic activity could be seen mainly through disruptions in supply chains and higher prices of fuels and certain other raw materials. The suspension of food exports (mainly cereals), agricultural products and fertilisers from Russia and Ukraine could also have a major impact on food security in the wider region, as the Middle East and parts of Africa might be particularly affected (Glauber and Laborde, 2022). The war also triggered a refugee wave, with around 10.2 million people leaving their homes in the first four weeks of fighting and over 3.7 million population of Ukraine seeking refuge in neighbouring countries (UNOCHA, 2022). In early March, the UN approved by an overwhelming majority[302] a motion for a resolution condemning Russia's aggression and demanding an immediate end to the conflict and the withdrawal of Russian troops from Ukraine (UN, 2022), and the war was also unanimously condemned by the Council of Europe, which excluded Russia from the organisation for attacking a sovereign state and a member of the Council of Europe (CoE, 2022). War also represents a major challenge for the further development of the EU's Common Foreign and Security Policy. In this light, an important step forward is the adoption of the so-called Strategic Compass, which sets out guidelines for the development of European defence and security, crisis management, capability development, partnerships and resilience. It foresees a number of rapid action measures in the event of an outbreak of different types of crises (e.g. the establishment of an EU capacity for rapid deployment of forces) and includes measures to improve the ability to anticipate threats, ensure secure access to strategic domains and protect the citizens of the European Union (EEAS, 2022).

[301] Slovenia ranks 9th among 165 countries and has been rated best in terms of eradicating extreme forms of poverty and access to cleaner energy sources.

[302] 141 votes in favour, 5 against, 35 abstentions.

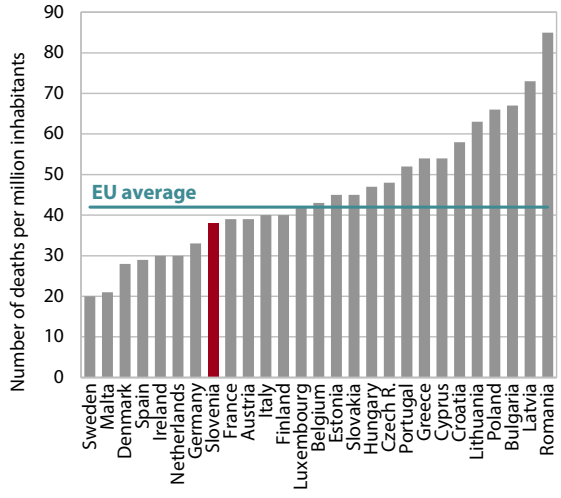
5.3.1 Safety

In the last decade, Slovenia has been one of the world's most peaceful and safest countries. The Global Peace Index shows that Slovenia ranked among the most peaceful countries in the world over the past decade, which is also a SDS 2030 target, with Europe being the most peaceful region, at least before the start of Russia's aggression in Ukraine (see Indicator 5.6). The number of criminal offences in 2020 was the lowest over the past ten years, with a decrease in general, economic, juvenile and organised crime compared to the previous year.[303] The downward trend in the number of criminal offences continued in the first half of 2021 (Police, 2021c).[304] General crime decreased the most,[305] which was partly due to the COVID-19 containment measures in 2020. Compared to 2019, there were fewer crimes of fraud, robbery, theft and grand theft in 2020, but the changed social situation was reflected in an increase in the number of crimes of domestic threats and violence (see Section 3.2) and a slight increase in the number of homicides (Police, 2021b). In 2017, the standardised death rate from assault in Slovenia was higher than in the previous five years and higher than the EU average (Slovenia: 1.1 persons per 100,000 population; EU: 0.7); in 2018 (the latest available data), it went down to 0.7 person (Eurostat, 2022). In 2018, the EU General Data Protection Regulation (GDPR) began to apply, strengthening and extending the protection of the rights of individuals with regard to their personal data, in particular in terms of information security, and Slovenia is the only EU Member State that has not yet transposed this regulation into its legal order nor adopted the relevant legislation.[306]

Slovenians have felt safe in their country over the past years. The sense of personal endangerment of people in their living environment has remained low at all times. The results of the European Social Survey show that in the period 2010–2020, the share of respondents who felt safe when walking alone in their neighbourhood at night ranged from 92% to 94% and, according to 2018 data, this share has remained higher than the international average (83%)[307] (CJMMK, 2022; ESS-ERIC, 2020). In 2020, the share of people who reported problems with crime, vandalism or violence in their living environment was the lowest ever (7.3%) and within the SDS 2030 target (Eurostat, 2022), and 10% of the respondents had a personal experience of burglary or physical assault, which is similar to previous years (CJMMK, 2022) (see Indicator 5.7). The sense of safety also depends on people's trust in the police, which has been significantly higher over recent years than trust in other institutions in the country, though it declined markedly in 2021, moving further away from the EU average.[308] This was also a consequence of the police's monitoring of the measures taken to contain the epidemic (the ban on public gatherings, restrictions on movement between municipalities and statistical regions, restricted movement at night, use of a protective masks, etc.), the duration of which increased general discontent among people, which was also reflected in many unregistered public rallies.[309]

Road safety deteriorated in 2021 compared to 2020, when the number of fatalities from road accidents was the lowest ever. Road safety has been improving since 2010. There are several factors behind the improvement, including better transport infrastructure (e.g. motorway construction), safer cars and preventive measures (e.g. the reduction of permitted blood alcohol level and education of young drivers). It should be noted that in the period 2000–2018, the volume of traffic increased

Figure 78: In 2020,[1] Slovenia recorded fewer deaths per million inhabitants as a result of traffic accidents than the EU average



Source: EC (2021t). Note: [1]The latest data for EU Member States are available for 2020.

[303] Organised crime accounted for the smallest percentage of total crime in the 2011–2020 period (2020: 1%) (Police, 2021b).

[304] Data for the first half of 2021 are compared with the data for the first half of previous years.

[305] The share of general crime in total crime has not changed much in the last ten years, fluctuating around 85% (Police, 2021b).

[306] The regulation became directly applicable in May 2018. It should be noted that the national data protection authority in Slovenia was established on the basis of the applicable national data protection legislation and supervises the application of the Regulation (EC, 2020m).

[307] The chart shows the total average result of the selected countries regardless of the size of the national samples or the size of the country (Austria, Belgium, Czech Republic, Denmark, Estonia, Finland, France, Ireland, Hungary, Germany, Netherlands, Poland, Portugal, Slovenia, Spain, Sweden and the UK).

[308] In autumn 2019, 65% of Slovenians trusted the police (EU: 71%) and in summer 2020, 67% (July–August survey). In winter (February–March survey) 2021, the trust dropped sharply (to 51%), before increasing to 58% in the summer (June–July survey) (EU: 71%) (Eurobarometer, 2021e).

[309] Despite the ban, more than 400 public rallies took place in 2020, with the police responsible for public order. At one of the public rallies in November 2020, there were serious violations of public order and peace (there were five serious violations in 2020), where the police used a water cannon vehicle, police horses and other means of temporary crowd control (Police, 2021b).

by more than 86% (OECD, 2021). In 2020, Slovenia recorded 38 deaths per million inhabitants as a result of traffic accidents, which is less than the EU average (42 per million inhabitants). The number of deaths from traffic accidents in the 2010–2020 period decreased by 42% (EU: 36%) and is much lower than before 2010.[310] In 2020, 80 people died in traffic accidents, which is 22% less than in the previous year and the lowest figure since records began.[311] This was mainly due to reduced traffic as a result of COVID-19 containment measures (see AVP, 2021). In 2021, the number of fatalities increased to 114 and was the highest in the last five years (AVP, 2022).

Natural and other disasters are among the constant sources of threat in Slovenia; the work of the protection and rescue system in 2020 was also linked to the COVID-19 epidemic. The goals, policies and strategy for the protection against natural and other disasters in the country are set out in the national programme for the 2016–2022 period, which was adopted in 2016.[312] In 2020, 16,895 different incidents took place in Slovenia[313] in which protection, rescue and relief personnel were engaged, in addition to other services. Since 2013, the number of incidents has fluctuated from year to year due to various circumstances and was the highest in 2017, mainly due to a number of fires and explosions. Compared to the previous year, the number of events decreased in 2020, mainly due to a lower number of traffic accidents and other accidents. There were also fewer natural disasters, with considerably fewer interventions in 2019 and beyond than in previous years.[314] However, there were more events where technical and other assistance was needed. Timely emergency response is ensured through emergency notification centres and public rescue services and by the preparedness of other rescue services, commissions and units and the Civil Protection Headquarters. The above-mentioned protection and rescue structures have also been actively involved in the implementation of activities related to the containment of COVID-19. In the first wave, most of the tasks of the protection, rescue and relief forces were related to the provision and distribution of personal protective equipment and disinfectants, the provision of quarantine facilities and the care of the most vulnerable population groups.[315]

The spread of a communicable disease in humans was identified as one of the major risks in Slovenia in the disaster risk assessment process in the period 2015–2018. In the light of the actual experience with COVID-19, an amended National Protection and Rescue Plan in the event of a communicable disease epidemic or pandemic in humans was adopted in July 2020 in order to better prevent the spread of communicable diseases. Potential risks in Slovenia also include earthquakes, aircraft accidents, terrorism, glaze ice and nuclear accidents, with flooding posing the greatest risk, which led to the adoption of a new National Plan for Flood Protection and Rescue in 2019 (URSZR, 2022). The key challenge is to create a system that will facilitate effective coordinated action and contribute to the mitigation of damage and other consequences of accidents. Preventive measures are an important factor as well, in particular in spatial planning and management and in protection against fire and other natural disasters.[316]

COVID-19 containment measures have had a significant impact on reducing the number of illegal border crossings and organised crime. Regarding national security, activities are primarily focused on ensuring the security of the EU's national and external borders, preventing, detecting and investigating organised crime, cybercrime and crime associated with firearms, and fighting terrorism. In recent years, the prevention of illegal border crossings has been one of the priority tasks of the police. The number of illegal state border crossings has increased since 2015, mainly as a result of increased migration from crisis areas, but this trend was halted in 2020. This was influenced by the actions of the countries at the European level, as transport communications were virtually cut off in spring and countries significantly tightened controls at their borders and inland, also in the second wave of the epidemic (Police, 2021b). The downward trend of illegal border crossings continued in 2021, but the number remains higher than in 2018.[317] Compared to the two previous years, there was also less organised crime in 2020. This was mainly due to a decrease in the number of organised crime offences related to illegal crossing of the state border or territory, which together with offences related to illicit drug trafficking and doping in sport are the most common organised crime offences.[318]

[310] In those Member States where the number of fatalities is less than 100 or close to this number, significant annual fluctuations are observed, which means that the actual trend can only be identified over a longer period of time (EC, 2020i).

[311] The number of fatalities caused by road accidents also decreased in most EU Member States (EC, 2021t).

[312] Resolution on the National Programme for Protection against Natural and Other Disasters 2016–2022.

[313] These are natural and other disasters, traffic accidents, fires and explosions, pollution incidents, accidents involving hazardous substances, nuclear and other incidents, finds of unexploded ordnance, supply disruptions, damage to buildings, and other events that required technical and other assistance (MO, 2021).

[314] There were fewer incidences of flood and strong wind, which generally cause the most problems and trigger most interventions among natural disasters (IMAD, 2021c).

[315] In the response 319,211 members of the protection, rescue and relief forces and public services participated, of these 300,023 at municipal level, 6,881 at regional level and 12,307 at state level (MO, 2021).

[316] Slovenia will also address these challenges by using EU funds, in particular for the 5th and 6th priority axes of the Operational Programme for the Implementation of EU Cohesion Policy (adaptation to climate change and better state of the environment and biodiversity).

[317] In 2015, a total of 452 illegal crossings of the national border were dealt with (not including migrants who entered Slovenia during the period of mass migrations (around 360,000 persons), with the figure increasing to 9,262 in 2018 and surging to around 16,259 in 2019 (Police, 2021b). In 2020, the number of illegal crossings decreased to 14,635, and in 2021 to around 10,000 (mostly citizens of Afghanistan, Pakistan and Bangladesh) (Police, 2021a).

[318] The highest number of organised crime offences in the last five years was in 2019 (809) (Police, 2021b).

The number of criminal offences of illicit manufacturing of and trafficking in firearms remained at the level of the previous year[319] in 2020 and these criminal offences were dealt with mostly in connection with other forms of organised crime. The investigation of cybercrime showed that in 2020, the highest number of criminal offences consisted of attacks on the information system, and the new forms of cybercrime such as malicious computer codes and cryptojacking remain at the forefront (Police, 2021b). In the field of terrorism, Slovenia has focused on preventive action (Police, 2021b).

5.3.2 Global responsibility

Changes in the international environment and new global trends are a challenge for Slovenia; the active role of foreign policy is growing. Slovenia is involved in geopolitical and geo-economic processes as a small country and as such it is in its interest to maintain and promote multilateralism and to fully respect international law and develop it in new areas that require international regulation (MZZ, 2015; MZZ, 2020a). Recent years have been marked by new global trends (e.g. climate change, radicalisation, violent extremism and terrorism, and increasing inequalities between regions and countries) and interference with the established system of international relations (EC and ESPAS, 2019). Thus the Foreign Policy Strategy was updated in 2021, in particular revising the assessment of the international environment and taking into account some new challenges, with a focus on cybersecurity, hybrid threats and addressing different forms of crises (e.g. the COVID-19 pandemic) (MZZ, 2021d). The strategy also puts particular emphasis on the EU's role in the international environment and on its efforts to increase its resilience and strategic autonomy. Bilateral political dialogue with the US was re-launched at the highest level in 2020, and cooperation with Central European countries has intensified over the past two years in order to coordinate the measures to curb the spread of the COVID-19 epidemic, with a focus on the cross-border movement of persons, goods and services. Despite good economic cooperation with Croatia, border issues remain unresolved, with no significant progress made in recent years (MZZ, 2021b). In line with the guidelines for strengthening the active role in the UN (MZZ, 2021c), the candidacy nomination for a non-permanent member of the UN Security Council (UNSC) for the 2024–2025 period was announced at the end of 2021 (MZZ, 2021a).[320]

Slovenia's Presidency of the Council of the EU in the second half of 2021 was the Government's main project in recent years and also an opportunity to re-position Slovenia within the EU. The year 2020 and the first half of 2021 were marked by organisational and human resources preparations and adjustment of priority areas (MZZ, 2020c). During the Presidency, Slovenia chaired 42 ministerial meetings of the Council of the EU and around 1,400 working group meetings; in Slovenia, 23 meetings were organised at ministerial level during this period. In negotiations with the European Parliament, 21 legislative proposals (trialogues) were completed under the ordinary legislative procedure.[321] The most important achievements of the Slovenian Presidency are progress in adopting legislation on digital services and digital markets, strengthening the European Health Union, and the recovery and resilience-building after the COVID-19 pandemic. Under the Next Generation Recovery Instrument, finance ministers endorsed 22 National Recovery and Resilience Plans, which allowed countries to receive advance payments worth more than EUR 54 billion under the mechanism (MZZ, 2022b). During the Presidency, the 2021 "Conference on the Future of Europe" also took place, focusing on European citizens' fora and debates on European democracy, values and rights, the rule of law, security, climate change, the environment, and health (Lange and Bobotsi, 2022). The main post-Presidency challenge, similarly as after the conclusion of the first Presidency in 2008, will be to maintain a higher level of focus on decision-making processes within the EU also in the future. This requires, in particular, further in-depth action in the field of EU affairs, closer coordination within the state administration and the reinforcement of staff of the competent institutions (Barbutovski et al., 2017).

Expenditure on official development assistance (ODA) has increased over recent years but remains well below internationally agreed commitments. International development cooperation and humanitarian aid are important components of global responsibility and contribute to the strengthening of Slovenia's bilateral relations and visibility in the world (Mrak et al., 2007). A new strategy up to 2030 was adopted in 2018, which established a framework for strengthening bilateral development cooperation and determined orientations for action at a multilateral level and was also aligned with the implementation of the 2030 Agenda (MZZ, 2018). The share of ODA expenditure increased from 0.13% to 0.17% of GNP in the 2010–2021 period and by around 70% in nominal terms, i.e. to EUR 79.6 million. Over the last three years, the share has not changed significantly and remains well below the internationally agreed commitments,[322] imposing on Slovenia the obligation to strive towards increasing official development assistance to 0.33% of GNI by

[319] Following a decrease in the previous years, the number of weapons-related crimes increased considerably in 2018 and then sharply declined again in 2019. In 2020, 63 such criminal offences were dealt with (Police, 2021b).

[320] In 2024–2025, the Eastern European regional group, to which Slovenia belongs within the UN framework, is assigned one non-permanent seat. Elections to the UN Security Council for the 2024–2025 period will be held in the UN General Assembly in June 2023. Slovenia was elected a non-permanent member of the UN Security Council in 1998–1999.

[321] More information on the EU legislative process: https://ec.europa.eu/info/law/law-making-process/adopting-eu-law_en.

[322] Resolution on the International Development Cooperation and Humanitarian Aid of the Republic of Slovenia, 2017.

2030 (MZZ, 2022a). The majority of assistance (around two-thirds) is multilateral assistance in support of EU development policies, while in recent years Slovenia's available bilateral assistance to priority geographical areas and thematic areas has slightly increased (see Indicator 5.8). This was in line with the OECD recommendations (2020e), as the share of assistance to the ten main partner countries increased from around 50% in 2015 to more than 75% in 2020. The structure of assistance in 2020 was also affected by the COVID-19 pandemic, with a stronger focus on implementation on activities in line with the partner countries' needs to cope with the pandemic, and this was associated with an increase in emergency and humanitarian aid (MZZ, 2022a).

Appendix:
Indicators of Slovenia's development

1 A highly productive economy that generates value added for all

Economic stability

1.1 Gross domestic product per capita in purchasing power standards

1.2 Real GDP growth

1.3 General government debt

1.4 Fiscal balance

1.5 Current account of the balance of payments and net international investment position

1.6 Financial stability

1.7 Financial system development

1.8 Regional variation in GDP per capita

A competitive and socially responsible business and research sector

1.9 Productivity

1.10 The European Innovation Index

1.11 The Digital Economy and Society Index

1.12 Export market share

1.13 Unit labour costs

1.14 Exports of high-technology products and knowledge-intensive services

1.15 Foreign direct investment

1.16 R&D expenditure and the number of researchers

1.17 Corporate environmental responsibility

1.1 Gross domestic product per capita in purchasing power standards

Since 2016, Slovenia has been gradually approaching the EU average in terms of economic development as measured by GDP per capita in purchasing power standards, although it still lags slightly behind the 2008 peak. With 29,100 PPS (purchasing power standards), Slovenia reached 90% of the EU average in 2021, which is 1 p.p. more than in 2020 and 1 p.p less than the 2008 peak. A decomposition of GDP per capita into productivity and employment rate shows that the lag in economic development behind the EU average is entirely the result of relatively lower productivity level, as the employment rate in Slovenia was above the EU average throughout the analysed period; in 2019–2021 it was 7% above the EU average. The slow convergence with the average level of development in the EU in the past decade was due to the relatively low productivity growth (GDP per person employed), with Slovenia reaching only 84% of the EU average in 2021, the same level as in 2005–2008. Slovenia's modest progress in this area after the global financial crisis was the result of the slow restructuring of the economy (low contribution of the structural component to productivity growth) and the insufficient increase in value added per person employed in individual economic sectors (inter-sectoral growth component) (IMAD, 2022) (see also Indicator 1.8).

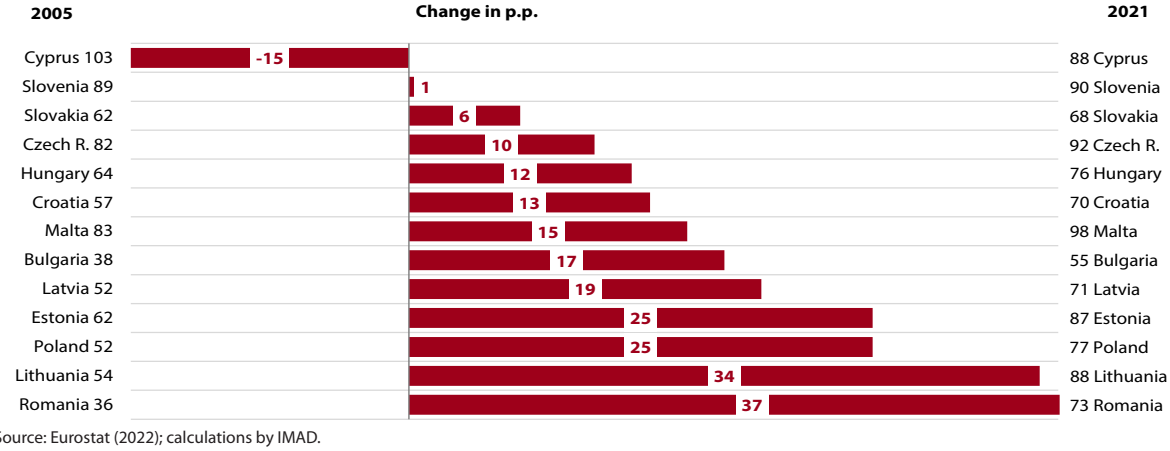
In 2021, 13 EU Member States were ahead of Slovenia in terms of the average level of development in the EU, and Slovenia's progress over the last 16 years was the lowest among the new EU Member States. In 2005, Greece (95%), Portugal (85%) and Malta (83%) were closest to Slovenia in terms of GDP per capita in PPS; in 2021, it was Cyprus and Lithuania (88%) and the Czech Republic (92%). Compared to 2005, Romania, Lithuania, Poland and Estonia made the most progress among the new EU Member States, while Malta and the Czech Republic, which were countries with a similar level of development to Slovenia's in 2005, both overtook Slovenia. In 2021, the greatest progress compared to 2020 among all EU Member States was made by Luxembourg (14 p.p.), Ireland (12 p.p.) and Croatia (6 p.p.), while the largest decline was made by Germany (-4 p.p.) and Austria (-3 p.p.). The gap in the GDP per capita indicator in PPS between the EU Member States narrowed from 1:9.3 (Romania/Luxembourg) at the beginning of the previous decade to 1:5 (Bulgaria/Luxembourg) in 2021.

Table: GDP per capita in purchasing power standards (EU=100)

	2000	2005	2008	2013	2014	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
Slovenia	81	89	91	83	83	83	84	86	87	88	89	90	100
Scandinavian countries	132	128	131	128	126	125	123	123	122	121	126	125	
New Member States excluding Slovenia	52	62	68	71	71	72	73	75	76	77	78	79	
Austria*	133	130	127	133	132	131	130	127	128	126	124	121	
Italy*	122	112	108	101	98	97	99	98	97	96	94	95	
Germany*	124	120	118	125	127	124	125	124	124	121	123	119	

Source: Eurostat (2022); calculations by IMAD. Note: *Three economically more developed countries that have strong economic ties to Slovenia.

Figure: Comparison of convergence to the EU average by GDP per capita in PPS from 2005 to 2021 for new EU Member States, in percentage points (EU=100)



Source: Eurostat (2022); calculations by IMAD.

Real GDP growth 1.2

After six years of growth, GDP fell sharply in 2020 due to the COVID-19 epidemic but already exceeded the pre-crisis level in 2021 with a strong upturn. After the recession during the global financial crisis, economic growth accelerated in 2014–2017 but then started to slow, mainly due to a slowdown in foreign demand and uncertainty regarding international trade and political relations. In 2020, all GDP components on the expenditure side, with the exception of government consumption, declined due to the epidemic and related restrictions. This was followed by a strong rebound of activity in 2021. Trade in goods and activities related to international trade, construction and investment already exceeded their pre-crisis levels by the end of 2020 or the beginning of 2021. Among investments, faster growth was recorded by investments in equipment and machinery, while slower growth was recorded in investments in construction. Amid supply chain problems, manufacturing growth began to slow in the second half of 2021, while trade in goods rebounded sharply in the final quarter after a quarterly decline in the third. In 2021, private consumption, which was the main driver of GDP growth in that year, also exceeded pre-crisis levels. With the easing of containment measures, it was stimulated by growth in disposable income, high savings[1] and vouchers. In 2021, trade in services continued to recover and was mostly above pre-epidemic levels by the end of the year, with the exception of trade in travel.

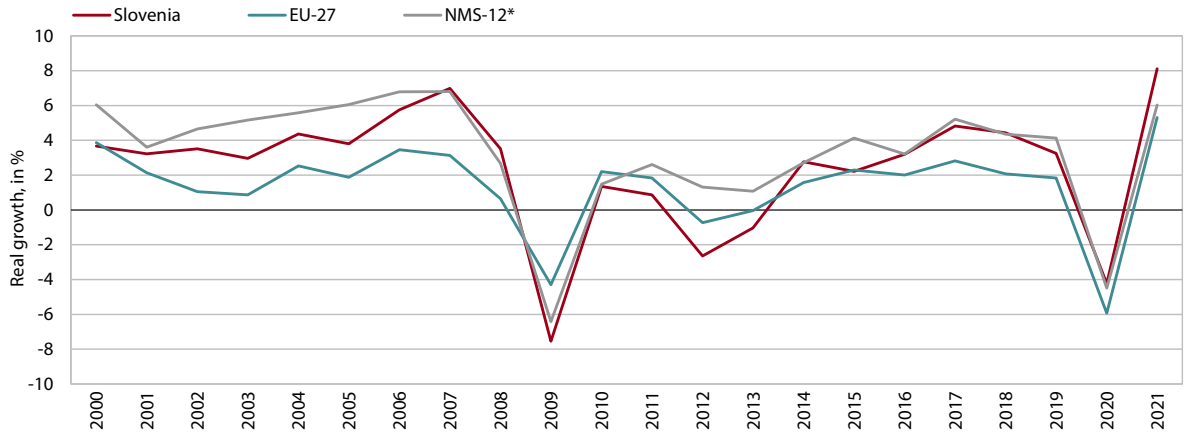
After several years of higher growth, the decrease in real GDP was lower than the EU average in 2020 and the recovery in 2021 was stronger (SI: 8.1%, EU: 5.3%). The stronger recovery was due to faster growth in all GDP components. Economic growth in Slovenia having been slower than the (unweighted) average of the other new EU Member States in previous years, the decline in 2020 was smaller and the rebound in 2021 larger, reducing Slovenia's cumulative growth gap since 2005 to 14.1 p.p.

Table: Contribution of expenditure components to GDP change, Slovenia

	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Real GDP growth, in %	3.7	3.8	3.5	-7.5	1.3	0.9	-2.6	-1.0	2.8	2.2	3.2	4.8	4.4	3.3	-4.2	8.1
Contribution to GDP growth, in p.p.																
Domestic consumption	1.3	1.7	3.5	-9.1	-0.8	-0.2	-5.4	-1.8	1.2	1.6	2.8	3.6	4.6	3.0	-4.2	9.7
Private consumption	-0.1	1.1	1.5	1.1	0.5	0.4	-1.2	-2.3	0.9	1.1	2.4	1.0	1.9	2.5	-3.4	5.8
Government consumption	0.7	0.5	0.9	0.4	0.0	0.0	-0.5	-0.4	0.0	0.4	0.5	0.1	0.5	0.4	0.8	0.8
Gross fixed capital formation	0.7	0.9	2.0	-6.5	-3.2	-1.0	-1.7	0.7	0.0	-0.2	-0.7	1.8	1.8	1.1	-1.6	2.3
Change in inventories	0.1	-0.9	-0.8	-4.1	1.9	0.4	-2.0	0.2	0.3	0.3	0.6	0.7	0.4	-0.9	0.1	0.8
External trade balance (goods and services)	2.3	2.1	0.0	1.6	2.1	1.1	2.8	0.8	1.6	0.6	0.4	1.2	-0.1	0.3	-0.1	-1.6
Exports of goods and services	5.6	6.3	2.8	-11.0	5.8	4.4	0.3	2.2	4.5	3.6	4.8	8.6	5.1	3.8	-7.3	10.3
Imports of goods and services	-3.2	-4.1	-2.8	12.6	-3.7	-3.4	2.4	-1.5	-2.9	-3.0	-4.3	-7.4	-5.3	-3.6	7.2	-11.9

Source: SURS (2022b).

Figure: GDP growth



Source: Eurostat (2022). Note: *Data for the NMS-12 represent an unweighted average for countries that joined the EU in 2004 or later except for Slovenia.

[1] The household savings rate, which was above 22% in 2020, declined in 2021 but remained higher than before the epidemic.

General government debt 1.3

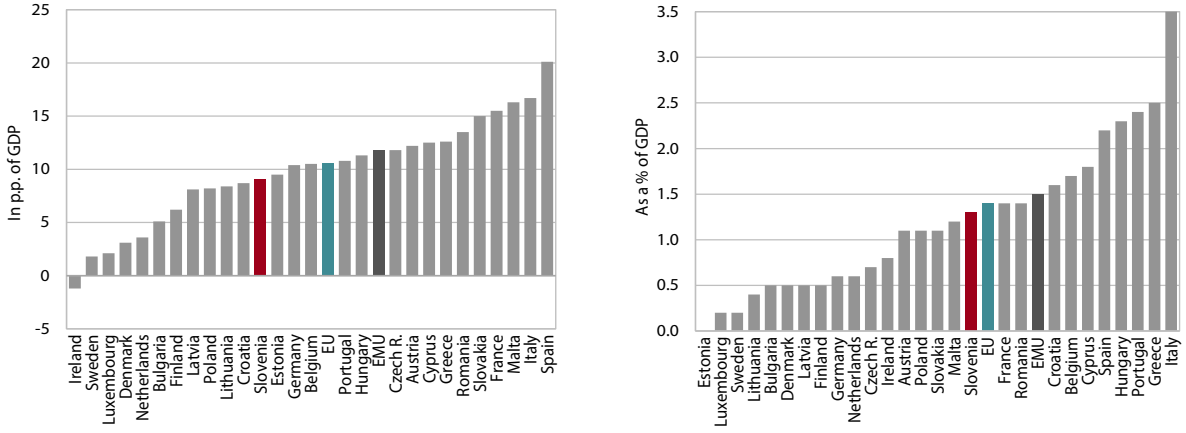
In 2021, general government debt stood at 74.7% of GDP, which is 5.1 p.p. lower than in 2020, when it had increased by 14.2 p.p. due to the COVID-19 epidemic. The sharp decline in debt in 2015–2019 (by 17 p.p.), which was larger among the EU Member States only in Ireland, was interrupted by a sharp debt increase in 2020 due to a decline in economic activity, measures to mitigate the impact of the epidemic and greater pre-financing of future borrowing, which the government used to increase the country's cash reserves. However, the strong economic recovery and the reduction in cash reserves lowered the debt-to-GDP ratio slightly again in 2021, partly due to a lower primary deficit than in the previous year. Despite the uncertainties, but with the support measures of the ECB, which kept the interest rates for borrowing by the EMU countries low, and with active debt management, some strategic objectives of debt management in relation to refinancing risk were further pursued, i.e. extending the average term to maturity and lowering the average interest rate (MF, 2020). Slovenia's debt-to-GDP ratio increase in 2019–2021 was lower than the average of EMU and EU countries and indeed among the lowest in the region.

Table: General government debt, Slovenia

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
In EUR billion	8.3	12.5	13.9	17.2	19.4	25.5	30.2	32.1	31.8	31.9	32.2	31.8	37.4	38.9	
As a % of GDP	21.8	34.5	38.3	46.5	53.6	70.0	80.3	82.6	78.5	74.2	70.3	65.6	79.8	74.7	60.0
Debt change, in p.p. of which:	-1.1	12.7	3.7	8.2	7.1	16.4	10.3	2.3	-4.1	-4.4	-3.8	-4.7	14.2	-5.1	
1. Primary balance	0.3	4.5	4.0	4.7	2.0	12.0	2.3	-0.4	-1.1	-2.5	-2.8	-2.1	6.2	3.9	
2. Snowball effect	-0.6	2.2	1.5	1.2	3.0	2.2	1.0	0.7	-0.2	-2.1	-2.5	-2.0	3.6	-6.4	
- Interest payments	1.1	1.3	1.6	1.9	2.0	2.5	3.2	3.2	3.0	2.5	2.0	1.7	1.6	1.3	
- Effect of GDP growth	-0.7	1.7	-0.4	-0.3	1.2	0.5	-1.9	-1.7	-2.5	-3.5	-3.1	-2.2	2.8	-5.8	
- Effect of inflation*	-1.0	.0.8	0.3	-0.4	-0.2	-0.9	-0.3	-0.8	-0.7	-1.1	-1.5	-1.5	-0.8	-1.9	
3. Stock-flow adjustments**	-0.7	5.9	-1.8	2.3	2.1	2.2	7.0	2.0	-2.7	0.3	1.5	-0.6	4.3	-2.4	

Source: SURS (2022c). Notes: *Measured by the GDP deflator. **The change in the debt-to-GDP ratio that is not a consequence of the primary balance or the snowball effect (currency, deposits, loans and other liabilities). Some calculations do not add up to total due to rounding.

Figure: Change in the public debt-to-GDP ratio in 2019–2021 (left) and interest expenditure in 2021 (right) in EU Member States



Source: Eurostat (2022).

Fiscal balance 1.4

Due to the strong impact of the epidemic on the economy and the strong measures taken to mitigate its consequences, the general government deficit was high in 2020, but it fell to 5.2% of GDP in 2021 given the strong recovery. Exceptional circumstances have interrupted the favourable fiscal performance since 2015. After falling in 2020 due not only to the deterioration in economic conditions caused by the epidemic but also to tax cuts and measures to support the economy (e.g. write-offs of tax liabilities), revenues rose sharply (by 11.9%) in 2021 due to the recovery in domestic demand, exceeding the 2019 level. The high revenue growth is due to the strong increases in VAT revenues from high household consumption, income tax and social security contributions, driven by the recovery of employment and higher wage growth, partly due to allowances for work in hazardous conditions in the public sector.[1] Growth in total expenditure slowed in 2021 (from 14.8% to 6.1%). Temporary expenditure on measures to mitigate the impact of the epidemic decreased slightly (from 5.2% to 4.5% of GDP) and was mainly concentrated on the activities most affected by the epidemic, especially in the second half of the year, while a significantly higher amount than in 2020 was allocated to the payment of public service allowances. Growth in other expenditure, which declined slightly in 2020 (from 5.1% to 3.1%), strengthened significantly in 2021 (to 7.3%). In addition to an increase in public investment as part of a broader European response to support a rapid recovery, this was influenced by increases in other expenditure that had a lasting impact, particularly in the area of the wage bill and social transfers.[2] The high growth in expenditure that supported recovery was made possible by the implementation of the escape clause.

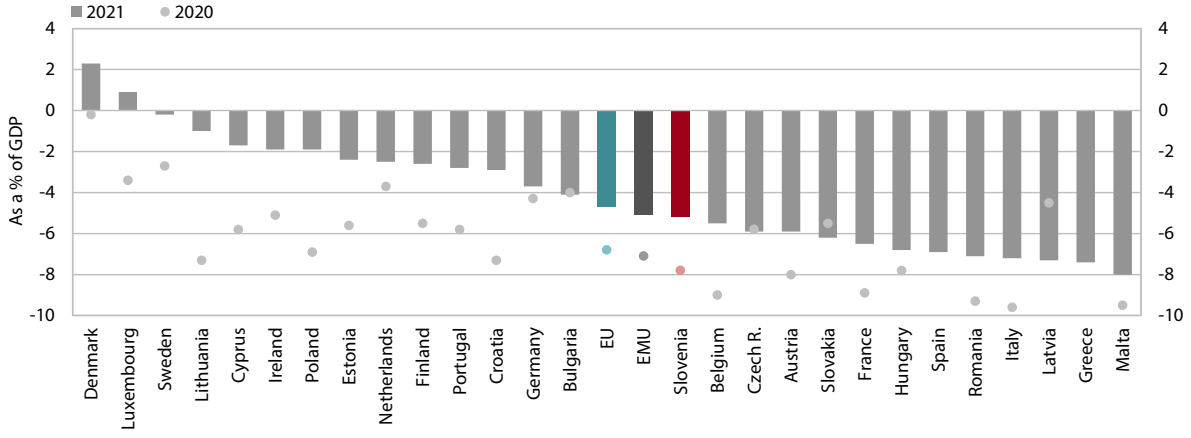
Last year, the general government deficit narrowed in most EMU countries but remained above 3% of GDP, with an average of 5.1% of GDP. In most countries, the deficit exceeded 6% of GDP in 2020 and 4% of GDP in 2021. It varied considerably from country to country, due, for example, to different containment measures and economic consequences, the impact of measures taken in previous years, and measures to mitigate the consequences of the epidemic. Some countries have largely taken measures that have a direct impact on public finances (such as Slovenia), while others have provided more support through various guarantee schemes. The EC notes that many countries, similar to Slovenia, in addition to taking temporary measures to deal with the COVID-19 crisis, have also taken measures that will have a lasting impact on the general government budgetary position over the medium term (EC, 2021m).

Table: General government revenue, expenditure and balance, ESA 2020, Slovenia, as a % of GDP

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	43.7	43.5	44.6	44.2	45.4	45.7	45.3	45.9	44.2	44.0	44.2	43.8	43.5	43.9
Expenditure	45.1	49.4	50.2	50.9	49.4	60.3	50.8	48.7	46.2	44.1	43.5	43.3	51.3	49.1
Balance	-1.4	-5.8	-5.6	-6.6	-4.0	-14.6	-5.5	-2.8	-1.9	-0.1	0.7	0.4	-7.8	-5.2
Primary balance	-0.3	-4.5	-4.0	-4.7	-2.0	-12.0	-2.3	0.4	1.1	2.5	2.8	2.1	-6.2	-3.9

Source: SURS (2022c).

Figure: General government balance in EU Member States in 2021 and comparison with 2020



Source: Eurostat (2022)

[1] Part of the allowances paid during the epidemic was exempted from income tax. In 2021, some additional taxes were reduced (abolition of the luxury tax on motor vehicles and changes in motor vehicle taxation, while VAT exemptions for certain goods had a smaller effect).

[2] Thus the compensation of employees further increased due to the impact of the 2018 wage agreement (annual disbursement of performance-related payments) and the increase in holiday allowance and some other labour cost reimbursements. Social transfers and benefits increased due to the increase in the minimum pension, the increase in the percentage to be applied in calculating the retirement pension, the extraordinary adjustment of pensions, etc.

Current account of the balance of payments and net international investment position 1.5

The current account surplus, which Slovenia has had since 2012, lowered significantly in 2021, amounting to EUR 1.7 billion (3.3% of GDP). Until the beginning of the COVID-19 epidemic, the surplus reflected the extensive deleveraging of banks and companies abroad, favourable international conditions and the improved competitive position of Slovenian exporters amid modest growth in imports due to relatively low domestic spending. In 2020, the epidemic affected all sectors of the economy and thus the structure of the current account surplus, which increased sharply and was higher than ever before (EUR 3.5 billion, i.e. 7.4% of GDP), mainly due to a severe domestic consumption shock and thus significant savings by the private sector (households and non-financial corporations). In 2021, the surplus declined due to the deteriorating terms of trade and the recovery of domestic demand. As import prices rose more than export prices, the terms of trade deteriorated, which led to higher operating costs of non-financial corporations. From the perspective of the savings/investment gap, the narrowing of the current account surplus was mainly due to a decline in net household savings and an increase in net investment by non-financial corporations. As gross disposable income continued to grow and the containment measures were gradually eased, households increased their private consumption and businesses increased their investment activity. The lower current account deficit of the government sector was mainly due to an increase in the country's GNI (higher import tax revenues, lower net interest payments and lower subsidy payments).

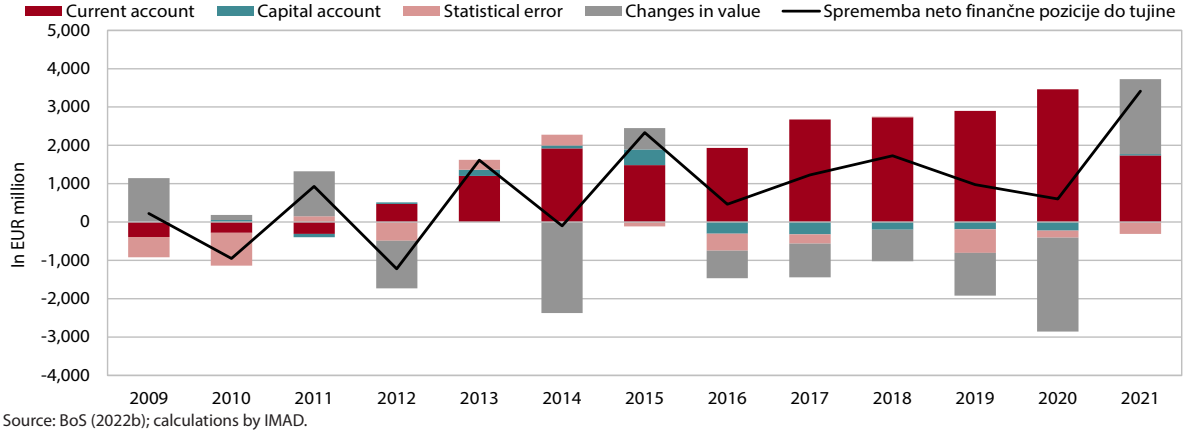
In the face of the epidemic, Slovenia's international investment position further improved in 2021 (to 7.1% of GDP). The net inflow of assets of the Bank of Slovenia (BoS) was significantly lower than the net outflow of government and private sector financial assets. The BoS's claims related to the TARGET payment system increased due to higher government deposits at the BoS, which also increased its liabilities within the Eurosystem. The BoS also reduced its purchases of foreign securities. In 2021, the general government sector reduced its net foreign liabilities. The government repaid a portion of its debt to foreign portfolio investors and reduced its derivative liabilities. Slovenia received a loan under the SURE programme to retain jobs during the epidemic. The private sector further increased its financial investments in foreign equity securities, while non-financial corporations increased their net liabilities on short-term commercial credits, consistent with the growth in foreign trade in goods and services. Commercial banks continued to deleverage abroad. Inward FDI flows have risen in recent years, on account of the sale of ownership stakes in domestic companies and capitalisations, and exceeded the outward FDI flows.

Table: Slovenia's international investment position, as a % of GDP

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
1 Debt claims	75.9	74.0	74.1	75.3	75.3	87.6	88.4	85.4	82.9	82.9	88.3	102.3	98.6
2 Equity claims	21.5	22.2	21.1	22.3	22.5	23.6	27.7	26.9	25.5	24.7	27.5	30.8	32.4
3 Total claims (1+2)	97.5	96.2	95.2	97.6	97.7	111.2	116.1	112.2	108.4	107.6	115.7	133.1	131.0
4 Gross external debt	115.0	115.6	111.8	117.4	112.9	124.3	118.8	109.6	100.5	91.9	91.5	101.9	97.0
5 Equity liabilities	23.1	23.8	23.2	24.2	24.2	25.2	28.4	31.4	32.1	34.7	40.2	46.4	41.1
6 Total liabilities (4+5)	138.1	139.3	135.0	141.6	137.1	149.6	147.2	141.0	132.6	126.6	131.7	148.3	138.1
7 Net external debt/claims (1–4)	-39.0	-41.5	-37.7	-42.2	-37.6	-36.7	-30.4	-24.2	-17.6	-9.0	-3.2	0.4	1.6
8 Net equity debt/claims (2–5)	-1.6	-1.6	-2.1	-1.9	-1.7	-1.6	-0.7	-4.6	-6.6	-10.0	-12.7	-15.6	-8.7
9 Net financial position (7+8)*	-40.6	-43.1	-39.8	-44.0	-39.3	-38.4	-31.2	-28.8	-24.2	-18.9	-15.9	-15.2	-7.1

Source: BoS (2022b); calculations by IMAD. Note: *A negative (positive) sign in the balance concerned indicates a net debt (credit) external financial position.

Figure: Breakdown in NIIP change, in EUR million (flows)



Source: BoS (2022b); calculations by IMAD.

Financial stability 1.6

The Slovenian financial system remained stable in 2020 and 2021 despite the COVID-19 epidemic. The response of economic policymakers during the epidemic significantly limited the spillover of risks to the financial system, which thus remains able to provide financial support to the economy. However, the risks remained high, especially in the medium and long term, as the rapid growth of public and, to a limited extent, private debt, the prolonged epidemic, and the deteriorating geopolitical situation could lead to a worsening of the financial system conditions. The situation could be further exacerbated by the persistence of higher inflation. This would lead to a faster monetary policy tightening and thus to a deterioration of credit conditions, especially in the peripheral EMU member states. At the end of 2021, the ECB already announced a gradual withdrawal of stimulative monetary policy measures, but by the beginning of 2022, financing conditions were already deteriorating slightly despite key interest rates being kept low.

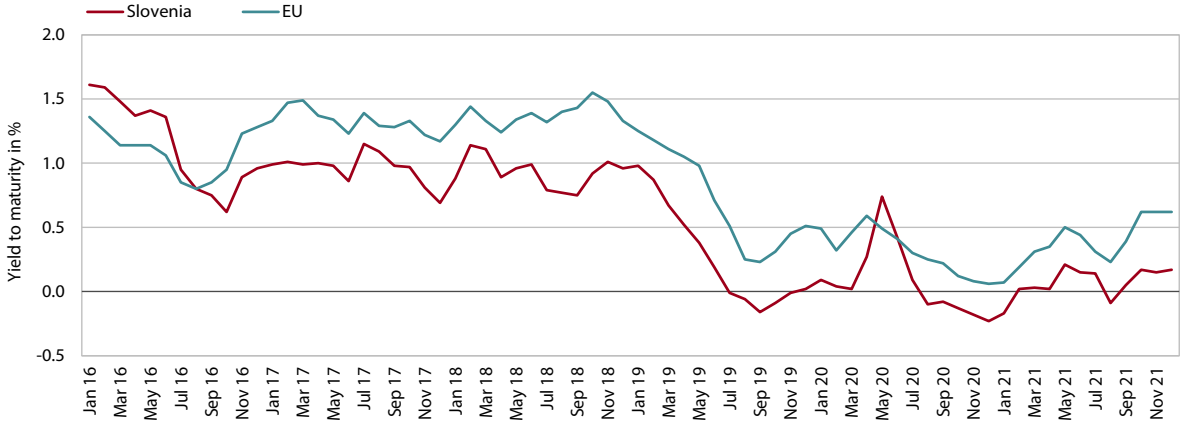
The situation in the banking system also remained stable. Banking system liquidity remained high in 2021 and the share of non-performing loans fell to 2.4% in the third quarter. Risk was slightly elevated in activities most severely affected by the containment measures, particularly in accommodation and food service activities, but the overall exposure of the banking system to this activity is relatively low.[1] The capital adequacy of the banking system deteriorated in 2020 but remained at a relatively high level given the minimum capital requirements. The lower capital adequacy was mainly due to a one-off event (the merger of two banks). In 2021, the capital adequacy increased slightly but still lagged behind the EU average. The inflow of deposits to banks slowed somewhat but remained at a relatively high level, more than sufficient for the credit activity of the banking system, which grew slightly in the last few months of 2021 and at the beginning of 2022. The loan-to-deposit ratio stabilised at around 0.70 last year and was more than half lower than at the onset of the global financial crisis. At the same time, dependence on foreign sources of finance remained modest. The share of liabilities to foreign banks was lower than 5% of the banking system's total assets.

Table: Financial system stability indicators*

	2015	2016	2017	2018	2019	2020	2021 Q3
Share of non-performing claims (in %)							
Slovenia	21.5	14.4	10.5	6.8	3.7	3.2	2.4
EU	5.8	5.1	4.1	3.2	2.7	2.6	2.1
TIER 1 capital adequacy ratio (in %)							
Slovenia	18.1	18.7	18.3	18.4	18.7	15.4	15.7
EU	14.8	15.5	16.3	16.3	16.7	17.2	17.0

Source: EBA (2022). Note: *Data refer to a sample of banks that changes annually. In 2021, 162 banks and bank branches were included, accounting for more than 80% of the EU banking system. According to the EBA definition. non-performing claims include not only arrears of more than 90 days, but also claims that meet the "unlikely to pay" criterion. Data up to 2019 also include the United Kingdom.

Figure: Yield to maturity of government bonds



Source: Eurostat (2022).

[1] About 1%.

Financial system development 1.7

Slovenia's gap with the EU average in the level of financial system development remains wide and the only sector where it has narrowed slightly is the insurance sector. In 2021, the banking system's total assets increased by 7%, but the indicator of total assets as a share of GDP further decreased slightly amid strong economic growth. The growth of the balance sheet total on the liabilities side was mainly due to the growth in domestic non-banking sector deposits (mainly household sight deposits), whose growth slowed slightly in 2021 due to higher household spending and the introduction of deposit fees on certain household deposits. On the asset side, amid subdued lending activity, banks again increased their deposits with the central bank, which already account for a fifth of banks' total assets. The loan-to-deposit ratio has stabilised at around 0.70 and was the lowest since 2004 (since comparable data are available). The gap in capital market development, measured by the stock market capitalisation-to-GDP ratio, also remains wide. The market capitalisation of shares listed on the Ljubljana Stock exchange increased by 37,5% in 2021, which is about 4 p.p. more than the EU average and is mainly due to the growth in the value of shares. A large part of the Slovenian capital market is represented by government bonds, while corporate financing via issuance of shares and bonds is still negligible compared to other sources of financing.

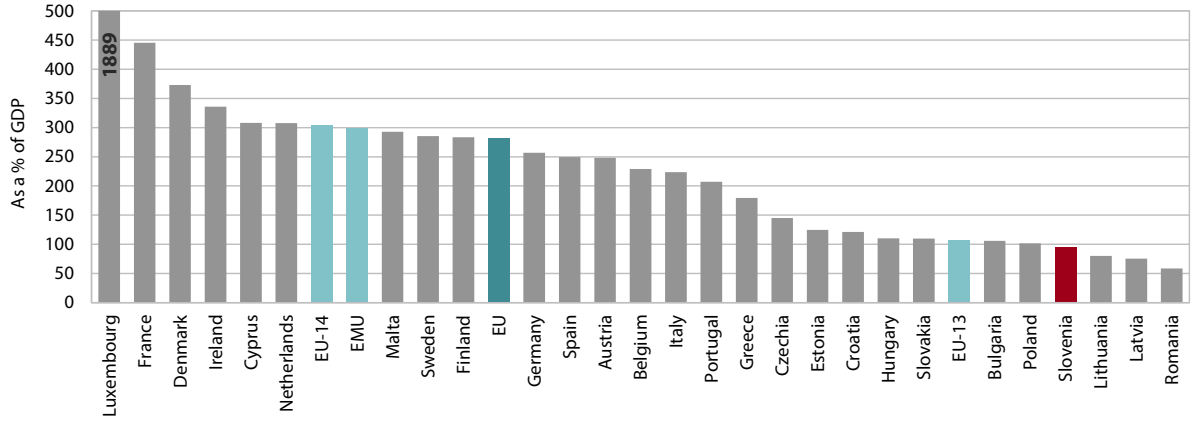
The development gap with the EU average is smaller in the insurance sector than in other segments of the financial system and further decreased markedly in 2020 to reach about three-quarters of the EU average. The smaller development gap is the result of continued growth in both life and non-life premiums in the insurance system, while in the EU the volume of premiums (especially life insurance) fell by almost 5% in the year of the outbreak of the epidemic. Nevertheless, the share of life insurance premiums in Slovenia is still well below the EU average. The large volume of household deposits in banks and low interest rates could lead to a somewhat faster shift in household savings habits towards an increase in retirement savings, which could increase the share of life insurance and capital market investments.

Table: Indicators of financial system development in Slovenia and the EU

In %	2000	2005	2008	2009	2010	2015	2016	2017	2018	2019	2020	2021
Banks' total assets, as a % of GDP												
Slovenia	84.5	103.5	129.2	147.3	145.8	107.1	99.4	94.0	88.6	88.2	98.4	95.0
EU	219.8	267.4	312.1	320.3	321.4	277.7	273.3	259.2	253.5	257.6	292.7	282.6
Insurance premiums, as a % of GDP												
Slovenia	5.0	5.3	5.3	5.7	5.8	5.1	5.1	5.1	5.1	5.2	5.5	
EU-24*		7.7	7.3	8.0	8.1	7.8	7.5	7.4	7.4	7.5	7.5	
Market capitalisation of shares, as a % of GDP												
Slovenia	17.7	23.0	22.3	23.3	19.3	14.2	12.4	12.3	13.8	14.6	14.7	18.3
EU	80.9	82.2	37.1	47.7	51.2	61.8	62.3	69.3	56.5	66.3	72.6	89.6

Sources: BoS (2022a), ECB (2022), SURS (2022b), Eurostat (2022), Slovenian Insurance Association (2021), Swiss Re (2021), Ljubljana Stock Exchange (2022), FESE (2022).
Note: *The indicator of insurance premiums (as a % of GDP) does not include data for the Baltic states.

Figure: Balance sheet total relative to GDP in 2021



Sources: BoS (2022a), ECB (2022), SURS (2022b), Eurostat (2022).

Regional variation in GDP per capita 1.8

The COVID-19 epidemic has had an uneven impact on regions, depending on their economic structure. The Osrednjeslovenska region, where the capital, with its state-building functions and numerous jobs that also provide employment for inhabitants of other regions, is located was one of the regions least affected by the COVID-19 crisis, with a GDP per capita 44.2% higher than the Slovenian average in 2020. Jugovzhodna Slovenija, whose economy is primarily focused on the pharmaceutical and automotive industries, recorded a smaller decline in economic activity than the Slovenian average in 2020, surpassing Slovenia's average GDP per capita for the first time. The Obalno-kraška region, which was hit hardest by the COVID-19 epidemic (10% drop in GDP in real terms) due to the high share of accommodation and food service activities and tourism, has widened its gap with the Slovenian average. The Posavska, Zasavska and Pomurska regions were less affected and narrowed their gap in GDP per capita with the Slovenian average. The Pomurska region thus overtook the Primorsko-notranjska region, which ranked second to last. The Zasavska region also narrowed its gap, but with 54.6% of the Slovenian average it is still at the tail end of the regions.

Regional disparities widened again in 2020 after being stable for a long period of time. In 2020, the relative dispersion of GDP per capita[1] was 1.8 p.p. higher than a year earlier, approaching the level of ten years ago. The ratio between the two extreme statistical regions decreased slightly (1:2.6), due to a smaller decrease in GDP per capita in the Zasavska region. The disparities between the two cohesion regions remained stable, but they widened considerably within the regions of Zahodna Slovenija due to the sharp decline in GDP in the weakest statistical regions.

Statistical regions, with the exception of Osrednjeslovenska, lag behind the European average and also the regions in neighbouring countries. With an increase of 3 p.p., the Osrednjeslovenska region remained the highest above the EU average in 2020, while the Obalno-kraška and Gorenjska regions saw their gaps widen the most. Given the considerable lagging behind of the majority of the regions, the catching up with the European average seems to be an extremely complex long-term objective. Therefore, we compared individual statistical regions with regions in neighbouring countries that are at a similar stage of development. In 2019, the Osrednjeslovenska region was at the same level as the Klagenfurt–Villach region, the Goriška region lagged behind the Italian Gorizia region by 16 p.p. and the Pomurska region lagged behind the Hungarian Vas region by 5 p.p. In 2020, the Zahodna Slovenija cohesion region was 6% above the European average, while the Vzhodna Slovenija cohesion region was among the less developed regions, at 74% of the European average.

Table: Regional GDP, Slovenia

Cohesion (NUTS 2) / statistical (NUTS 3) region	GDP per capita										GDP structure, in %
	Slovenia = 100								EU = 100		
	2008	2014	2015	2016	2017	2018	2019	2020	2019	2020	2020
Slovenia	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**88**	**89**	**100.0**
Zahodna Slovenija (KRZS)	**121.2**	**119.2**	**119.1**	**119.4**	**119.6**	**119.8**	**119.2**	**119.0**	**105**	**106**	**56.5**
Obalno-kraška	107.1	97.6	99.8	99.8	102.3	102.4	98.7	92.2	87	82	5.1
Goriška	95.5	90.6	91.7	92.2	92.3	90.4	89.3	87.6	79	78	4.9
Gorenjska	84.7	87.8	88.3	87.8	89.3	89.7	89.7	84.7	79	75	8.4
Osrednjeslovenska	144.9	142.1	140.9	141.5	140.6	141.0	140.8	144.2	124	128	38.1
Vzhodna Slovenija (KRVS)	**82.0**	**83.0**	**83.0**	**82.7**	**82.5**	**82.2**	**82.7**	**82.8**	**73**	**74**	**43.5**
Primorsko-notranjska	73.0	72.2	74.6	74.9	72.5	71.9	69.5	68.9	61	61	1.7
Jugovzhodna Slovenija	97.0	95.0	95.3	94.3	97.5	98.1	99.8	100.3	88	89	7.0
Posavska	79.8	83.6	83.9	83.7	83.1	83.1	84.5	87.7	75	78	3.2
Zasavska	60.7	56.7	54.2	53.5	52.6	52.3	52.9	54.6	47	48	1.5
Savinjska	89.5	91.3	92.4	92.0	91.6	90.5	90.5	89.1	80	79	11.0
Koroška	77.0	80.2	81.4	81.2	80.2	81.1	80.6	79.6	71	71	2.7
Podravska	83.7	83.4	82.6	82.1	81.1	80.8	81.5	81.5	72	72	12.7
Pomurska	63.3	68.4	67.3	68.1	67.6	67.9	67.7	69.2	60	61	3.8
Dispersion of GDP per capita (NUTS 3)	**23.0**	**21.8**	**21.2**	**21.6**	**21.5**	**21.8**	**21.6**	**23.4**			

Sources: SURS (2022b), Eurostat (2022); calculations by IMAD.

[1] One of the indicators of regional disparities. It is measured as the sum of the absolute differences between the regional and the national GDP per capita weighted by the share of the population. It is expressed as a percentage of national GDP per capita.

Productivity 1.9

Following the global financial crisis, productivity growth slowed and with it also the closing of the productivity gap to the EU average. The average annual productivity growth eased from 3.0% in 2000–2008 to 0.6% in 2009–2019 (or to 1.4% in the period of economic expansion 2014–2019). As productivity growth slowed, so did the closing of the gap and thus the process of real convergence with the more developed EU Member States. In 2021, Slovenia reached 84% of the EU average in terms of productivity level, which, despite the gradual convergence in recent years, is still at the level reached before the global financial crisis and far below the set SDS 2030 target (95%).

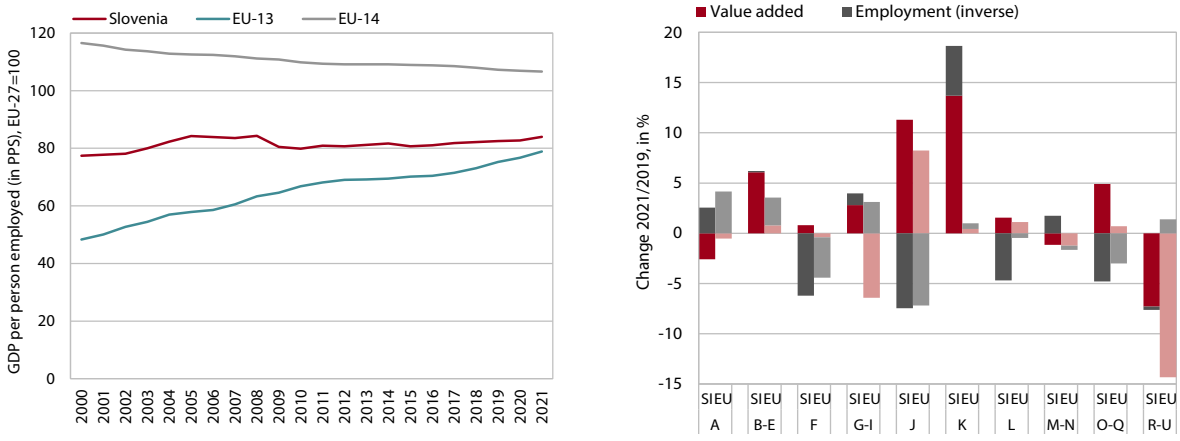
After a sharp downswing in the initial phase of the COVID-19 epidemic, productivity – per person employed – increased gradually, exceeding pre-epidemic levels in most activities. Productivity in the economy as a whole, measured by real GDP per person employed, exceeded 2019 levels by mid-2021; in 2021 as a whole, it was 2.7% higher than in the year before the COVID-19 outbreak (-0.7% in the EU).[1] The level of value added per person employed was significantly higher than in 2019 in financial services, manufacturing and, due to the strong upswing last year, also in trade. Productivity growth in these activities was also much higher than the EU average. The sharpest decline both in Slovenia and in the EU as a whole was recorded in services that were hampered by operating restrictions, i.e. the arts, entertainment and recreation. Construction also stands out when it comes to lagging behind the pre-epidemic levels, although activity in this sector was not significantly disrupted by the epidemic. Value added in construction grew slightly over this two-year period, but much less than employment, whose growth in Slovenia and the rest of the EU was among the highest among all economic sectors (higher only in ICT services). The high employment growth could indicate labour hoarding ahead of the expected investment boom, but it was probably also sustained by job-retention measures and partial compensation of labour costs during the epidemic.

Table: Labour productivity, Slovenia

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
Productivity level*, EU=100	84	80	80	81	81	81	82	81	81	82	82	83	83	84	95
Real productivity growth**, %	1.0	-6.0	3.5	2.6	-1.7	0.1	2.3	0.9	1.3	1.9	1.2	0.8	-3.7	6.6	

Sources: SURS (2022b), Eurostat (2022); calculations by IMAD.
Note: *GDP (in purchasing power standards) per person employed; **GDP (at constant prices) per person employed.

Figure: Productivity level (left) and real productivity growth by activities (right)



Source: Eurostat (2022); calculations by IMAD.
Note: Productivity level (left) measured by GDP (in PPS) per person employed; productivity growth (right) measured by value added (at constant prices) per person employed. EU-13 (EU-14) represents the countries that joined the EU in 2004 or later (before 2004). NACE classification: agriculture (A), mining and quarrying (B), manufacturing (C), energy supply (D), public utilities (E), construction (F), trade (G), transportation (H), accommodation and food service activities (I), information and communication activities (J), financial services (K), real estate (L), professional, scientific and technical activities (M), administrative and support service activities (N), public administration (O), education (P), human health and social work (Q), arts, entertainment and recreation (R), and other service activities (S).

[1] Labour productivity, measured by real GDP per hour worked, recorded slight growth already in 2020, which intensified in 2021. According to this productivity indicator, Slovenia exceeded the pre-epidemic level (2019) by 3.0% in 2021 (EU average: +0.8%). The difference between the two productivity indicators is largely due to large-scale intervention measures that enabled jobs to be retained, while work was adjusted to initially lower economic activity primarily by reducing the number of hours worked.

The European Innovation Index 1.10

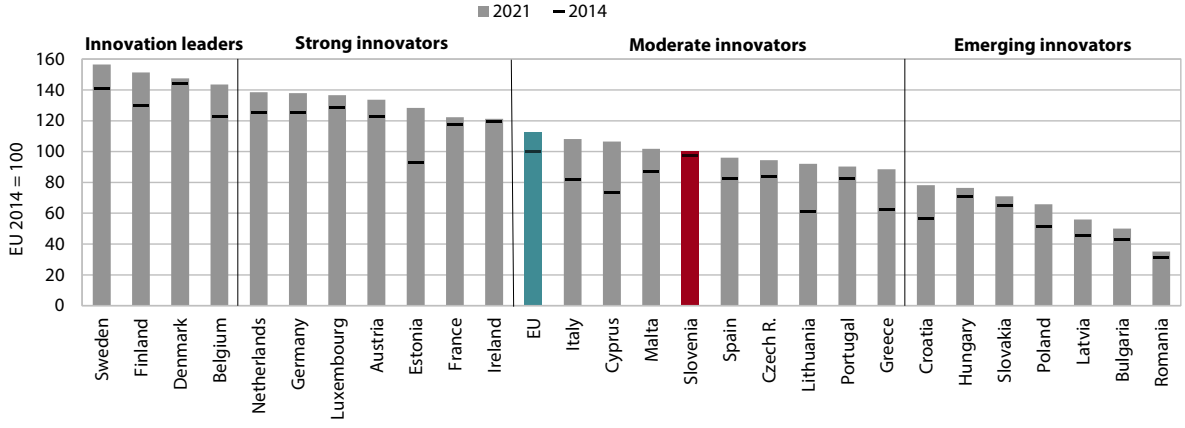
According to the European Innovation Index (EII), Slovenia was still classified in the group of moderate innovators in 2021, having been classified among the strong innovators before 2018. The EII is a composite indicator measuring the EU Member States' performance of national research and innovation systems on 12 components.[1] Its value determines the classification of countries into four groups.[2] The EII value for Slovenia had deteriorated in 2018–2020, while according to the latest measurement, for 2021,[3] this trend was halted due to a considerable improvement in the innovators component.[4] However, Slovenia still ranked second to last in terms of progress among EU Member States in the whole period from 2014 for which the data is available. Therefore, Slovenia was classified in the group of moderate innovators for the third year in a row, having previously been among strong innovators, with a value close to the EU average. The European average increased in 2014–2021, which means that Slovenia has moved away from the SDS 2030 target, according to which it should be classified among the innovation leaders. Broken down by EII components, the worst result compared to the EU average in 2021 was achieved in terms of firm investments, which is mainly a result of low non-R&D innovation expenditure.[5] Here the gap with the EU average widened the most between 2014 and 2021. The best result was recorded in the use of information technologies, due to a high proportion of companies providing ICT training for employees. However, the biggest improvement in the result compared to the EU average was achieved in environmental sustainability, mainly due to improved resource productivity (see Indicator 4.5).

Table: The European Innovation Index

	2014	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
Slovenia (EU index 2014=100)	97.6	99.3	99.6	100.9	100.0	98.1	93.8	100.5	>120 (ranking among innovation leaders)*
Slovenia (index EU=100)	97.6	98.2	97.6	97.7	96.0	90.7	85.4	89.3	
Slovenia	0.456	0.464	0.466	0.471	0.467	0.458	0.439	0.470	
EU	0.467	0.473	0.477	0.482	0.487	0.506	0.513	0.526	

Source: EC (2021n). Note: *Innovation leaders are countries with innovation performance above 125% of the EU average recorded in 2014. In 2021, the innovation leaders reached EII values of between 0.671 and 0.731.

Figure: The European Innovation Index



Source: EC (2021n).

[1] These are human resources, attractive research systems, finance and support, firm investments, linkages, intellectual assets, sales impacts, and environmental sustainability, with three indicators included, and digitisation, use of information technologies, innovators, and employment impacts, with two indicators included. The EII 2021 calculation covered 32 indicators.

[2] Innovation leaders achieved innovation performance above 125% of the EU average in 2014, strong innovators between 100% and 125%, moderate innovators between 70% and 100% and emerging innovators below 70% (EC, 2021n).

[3] The European Innovation Scoreboard 2021 has undergone methodological changes. For example, the threshold for inclusion in the group of innovators has been raised and content related to digitalisation and the environment has been newly included. The data included in the last EII 2021 calculation took into account the situation on 28 April 2021 and refer to the period from t-1 to t-5. Data for most indicators are for 2018 and 2019 and some for 2020, which should be taken into account in the interpretation (for more, see EC, 2021n).

[4] The indicators in the 2016–2018 Community Innovation Survey (CIS 2018) improved significantly, in particular the share of SMEs that introduced product innovations. Additionally, the share of SMEs that implemented a business process innovation is also included.

[5] It includes, for example, expenditure on the purchase of fixed assets (machinery and equipment, software and buildings), intellectual property rights, external expertise and training on innovation activities for employees.

The Digital Economy and Society Index 1.11

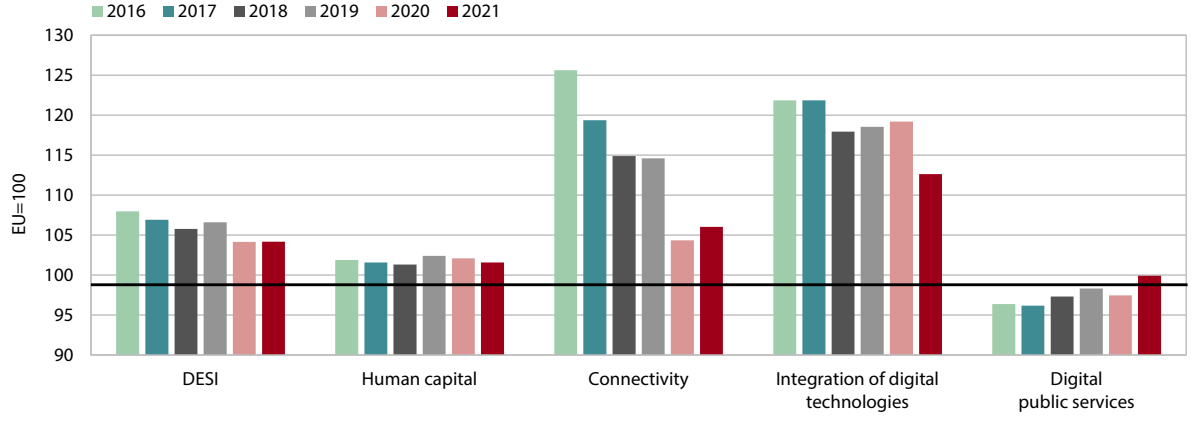
According to the new methodology, Slovenia is above the EU average in terms of the digital transformation of the economy and society, but it is gradually losing its advantage over the EU average in the long run. The methodology for calculating the Digital Economy and Society Index (DESI) was fundamentally changed in 2021 to align it with the four main points of the 2030 Digital Compass (EC, 2021i), which also changed the ranking of countries compared to previous years. Taking into account the new methodology for 2016–2021, Slovenia was above the EU average in all years, exceeding it by 8 p.p. in 2016 but by only 4 p.p. in 2021. Thus Slovenia ranks between 13th and 14th in the EU, which indicates that it is not making progress towards the set SDS strategic targets. The dynamics by individual DESI dimensions show that Slovenia's relative position in human capital, i.e. 13th place, is slightly above the EU average: slightly below average in internet user skills and slightly above the EU average in advanced ICT skills. The share of the population (aged 16–74) with at least basic digital skills (55%) is in line with the EU average but far behind the innovation leaders, where this share is 70%. Slovenia has made progress in the area of connectivity over the past year compared to the EU average (both through the allocation of 5G frequencies and progress in the broadband price index), but at the same time it has significantly reduced its comparative advantage in the long run, seeing its ranking fall by two places between 2016 and 2021. In terms of integration of digital technology, Slovenia is well above the EU average according to all three sub-dimensions, although it is gradually losing its advantage. In addition to losing its advantage when it comes to digital intensity of SMEs compared to the EU average (which decreased by six index points between 2016 and 2021), the decrease in comparative advantage in the use of digital technologies in enterprises is particularly worrying: if Slovenian enterprises still outperformed the EU average by 24 index points in 2016, their advantage decreased to only 10 index points in 2021. Notwithstanding the above, Slovenia has maintained its 8th place in the EU in terms of integration of digital technology throughout the period. Trends in digital public services were positive throughout the 2016–2021 period, both in absolute and comparative terms, meaning that Slovenia reached the EU average for the first time in 2021. The last measurement showed significant progress in terms of take-up of e-government services, but Slovenia continues to lag far behind the EU when it comes to the quality of digital services for businesses, ranking 22nd in the EU.

Table: Slovenia's ranking on the Digital Economy and Society Index (DESI) among the 27 EU Member States*

	2016	2017	2018	2019	2020	2021	SDS 2030 target
The Digital Economy and Society Index (DESI)	13	13	14	13	14	13	< or = 9
Human capital	14	12	13	13	14	13	< or = 9
Connectivity	7	8	9	8	14	9	< or = 9
Integration of digital technologies	8	8	8	8	8	8	< or = 9
Digital public services	17	17	16	15	16	15	< or = 9

Source: EC (2022a). Note: *Index calculations for individual years are based on data for the previous year. In 2021, the index methodology was improved and recalculations were made for the previous years, which changed the countries' rankings from previous DESI reports.

Figure: The Digital Economy and Society Index (DESI) and its dimensions, Slovenia



Source: EC (2022a).

Export market share 1.12

After a sharp decline during the global financial crisis, Slovenia's export market share increased in 2013–2019. In 2008–2012, Slovenia saw a sharp drop in world market share, one of the largest in the region. This was partly due to the export (mainly geographical) orientation on slower-growing markets, with a sharp decline in cost competitiveness at the beginning of the global financial crisis also having a negative impact (see also Indicator 1.12). With an improvement in price/cost factors and strengthening of import demand in Slovenia's main trading partners, the market share started to increase again after 2013, and even more significantly in 2016–2018.

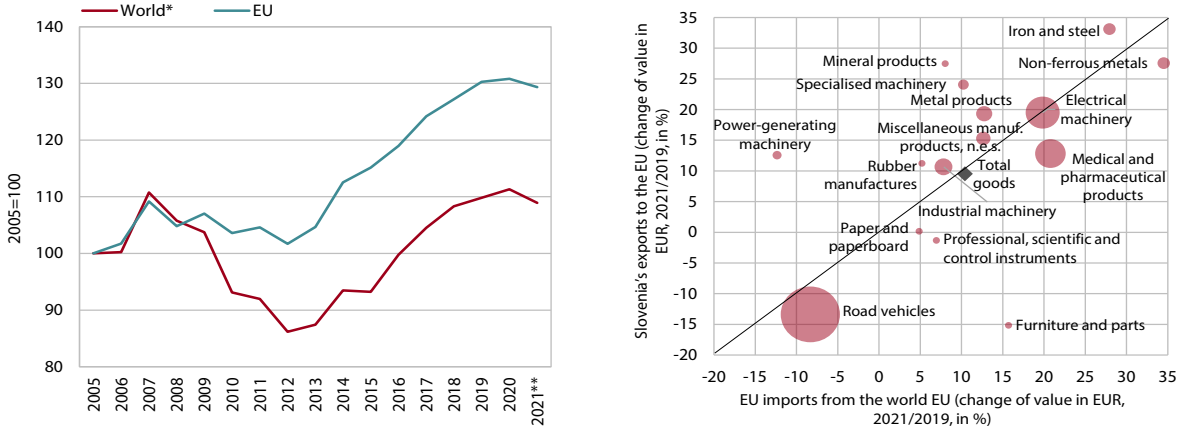
The outbreak of the COVID-19 pandemic had a very asymmetric impact on export markets, which had a strong effect on the dynamics of Slovenia's market share in 2020 and 2021. Despite a sharp decline in the initial phase of the COVID-19 pandemic, Slovenia's export market share in the global goods market increased by 1.3% in 2020 as a whole (0.4% in the EU market). In 2021, however, it shrunk, according to initial estimates – to a level slightly below that before the COVID-19 outbreak. The deterioration in competitiveness, with rising cost pressures in 2021, may already be contributing to this (see Section 1.2.1), but accouding to our estimations it is even more due to weak foreign demand for some of the most important Slovenian product groups. More detailed data on the export/import flows of EU Member States, to which Slovenia exports around three-quarters of all its goods exports, show that the pandemics and the problems in the supply of semiconductors have severely affected international trade in road vehicles,[1] which is the largest group of Slovenia's goods exports. In 2020, this strong negative structural effect was mitigated by favourable export trends in pharmaceuticals, but these were interrupted in early 2021. In the second half of 2021, exports of electrical machinery and equipment also lost momentum. 2021 was also marked by a notable increase in commodity prices on global markets. With a sharp rise in metal prices, the value of international trade in these products increased (although the increase in volume was less pronounced) – EU imports of metals (iron, steel and non-ferrous metals) already exceeded pre-epidemic (2019) levels by around 30%. Slovenian exporters also managed to increase their market shares in iron and steel. Since the beginning of the epidemic, the market shares of power generating, special purpose and industrial machinery and equipment have been increasing.

Table: Slovenia's market share in the world* and EU commodity markets

	Export market share, in %			Average annual growth rates, in %			
	2000	2007	2020	2001–2007	2008–2012	2013–2019	2020–2021**
World	0.138	0.195	0.189	5.1	-5.0	3.6	-0.4
EU-27	0.324	0.421	0.512	3.8	-1.4	3.6	-0.4

Sources: SURS (2022b); UN Comtrade (2022); calculations by IMAD. Notes: *Market share excluding the export of pharmaceutical products to Switzerland, which is close to the greatly increased export of previously imported pharmaceutical products (re-export), whose impact on GDP is negligible and is not included in national accounts export data. **The data for the world market is for the first three quarters of 2021.

Figure: Slovenian export market share dynamics (left) and change in the EU imports and Slovenian exports to the EU since the beginning of the COVID-19 epidemic, by major product groups (right)



Sources: SURS (SURS, 2022b); UN Comtrade (2022); Eurostat (2022); WTO (2022); calculations by IMAD. Notes: *The data for the world market share excluding the export of pharmaceutical products to Switzerland. **The data for the world market is for the first three quarters of 2021. The size of the circle represents the share of the product groups in Slovenian export to the EU (2019–2021 average), showing 15 major export manufacturing product groups.

[1] Unfavourable trends in the global and European automotive industry also have a major indirect impact on Slovenia, through lower exports of products related to the automotive industry, which are also an important part of the Slovenian economy.

Unit labour costs 1.13

Real unit labour costs (RULC) had started to rise again in the last two years before the COVID-19 epidemic, driven by higher wage growth and lower productivity growth. Under the impact of a fall in productivity (2009) and relatively strong wage growth (2010)[1] considering the economic situation at that time, Slovenia saw a significant deterioration in its cost competitiveness during the global financial crisis. The adjustments arising mainly from the labour market, more specifically restrained wage growth and (passive) productivity increase through declining employment, were followed by a period of relatively aligned increases in wages and productivity (2014–2017). Unit labour costs started rising again over the course of 2018 (especially in the business sector) and even more significantly in 2019.

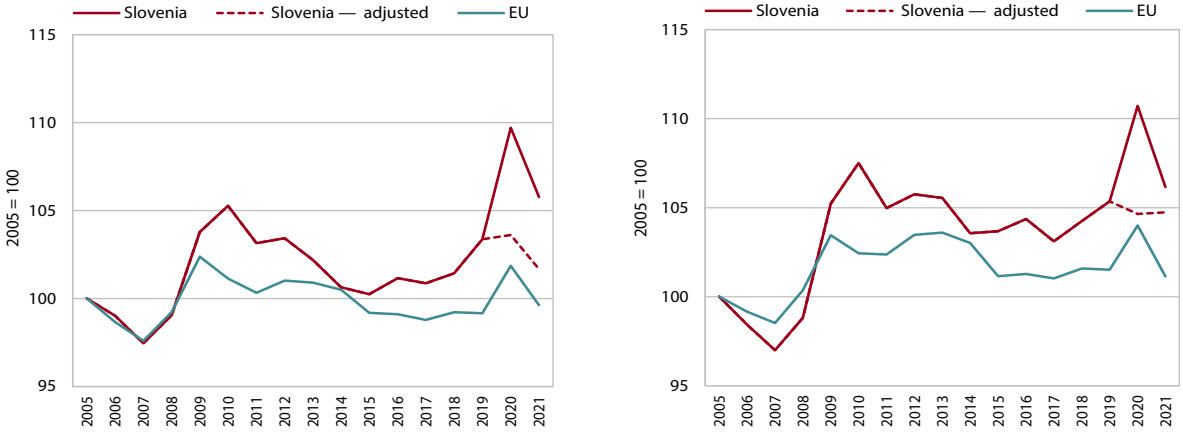
Estimates that take into account the impact of COVID-19 subsidies show that unit labour costs for businesses did not increase further during the epidemic, but they remained at a relatively high level compared both to past values and to the EU average. After the initial shock, productivity in Slovenia increased relatively quickly during the epidemic and was significantly above the (nominal) pre-epidemic level. The increase in wages, or more precisely in compensation of employees per employee, was even more pronounced in 2020 and 2021, rising by 9.1% in 2021 compared to 2019 (by 6.0% in the business sector).[2] This led to a strong growth of the RULC indicator, which increased by another 2.5% (by 1.8% in the business sector) relative to the already high 2019 level. In 2020, wage growth was largely supported by subsidies under the anti-coronavirus packages, meaning that it did not burden employers. Therefore we estimate that the RULC statistical indicator significantly overestimated the actual cost pressures and their negative impact on business results. However, in the course of 2021, the impact of subsidies in the business sector, i.e. the market-oriented part of the economy, most of which was already functioning normally, gradually declined.[3] Since measures to retain jobs and workers' incomes varied across countries in both scope and scale, the comparison of statistical indicators not adjusted for budget expenditures is very limited and does not reflect the change in the cost competitiveness of exporters during the epidemic. However, if productivity growth loses momentum, the high wage growth that Slovenia also experienced during the epidemic could quickly lead to a deterioration in the cost competitiveness of Slovenian exporters.

Table: Growth in unit labour costs in Slovenia and the EU, in %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Slovenia	1.6	4.8	1.4	-2.0	0.3	-1.2	-1.5	-0.4	0.9	-0.3	0.6	1.9	6.1	-3.6
EU	1.7	3.2	-1.2	-0.8	0.7	-0.1	-0.4	-1.3	-0.1	-0.3	0.4	-0.1	2.7	-2.2

Source: Eurostat (2022); calculations by IMAD.

Figure: Actual and adjusted unit labour costs, entire economy (left) and business sector (right)



Sources: SURS (SURS, 2022b), MF (2022b), ESS (2022), FURS (2021); calculations by IMAD. Note: The adjusted RULCs exclude the part financed by the state budget and not by employers under the anti-coronavirus measures (subsidy for part-time work, temporary layoff, payment of pension and disability insurance contributions for employees who worked, payment of social contributions for temporarily laid-off employees, quarantine, allowances for work with COVID-19 patients, allowances for work in hazardous conditions, crisis supplements (Dec. 2020 and Jan. 2021), subsidised part of the minimum wage and some other minor expenses).

[1] Boosted by the increase in the minimum wage.
[2] For comparison, they increased by 3.8% in these two years on average in the EU and by 0.6% in the business sector.
[3] However, some significant measures affecting public sector wages were still in place, especially in the first half of the year.

Exports of high-technology products and knowledge-intensive services 1.14

The share of exports of high-technology products has been fairly stable in recent years and higher than the EU average.[1] The technological intensity of exports in Slovenia increased more noticeably between 2005 and 2010 and especially during the global financial crisis, when some other less competitive industries (e.g. certain low-technology products, such as textiles) started to contract more markedly. In 2010–2019, exports of high-technology products increased further in nominal terms, while their share remained at the level achieved. Due to the COVID-19 epidemic and the downturn in the automotive industry (low- and medium-technology products), the share of high-technology products in the export structure increased in 2020, with the share of exports of medical and pharmaceutical products in particular increasing in the face of higher demand; the share of electrical machinery and equipment was also higher (the two groups account for more than half of all exports of high-technology products).

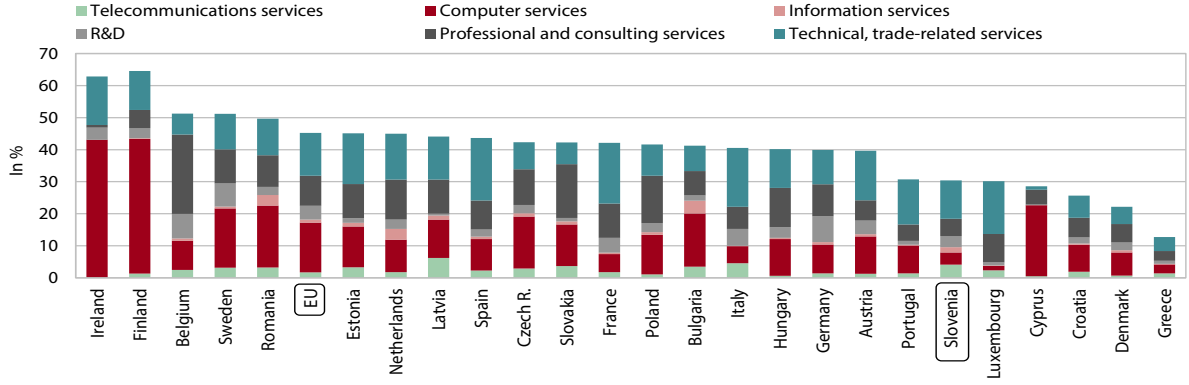
The share of exports of knowledge-intensive services[2] increased significantly in 2020, marked by the COVID-19 epidemic, but remained small by international comparison. It accounted for 30.4% of services exports (the highest in 2010–2020), though this still places Slovenia only 20th in the EU[3]. The sharp increase was mainly due to a significant decrease in exports of travel and transportation services due to the epidemic. Before that, it had gradually increased from 20.6% to 24.2% in 2010–2017 and afterwards stagnated around the level reached. As a result, Slovenia's gap with the EU average and the average of innovation leaders widened (lagging almost 15 p.p. behind both averages in 2020). As regards services, Slovenia's share was above the EU average and the average of innovation leaders in 2013–2020, especially in telecommunications services, and in the last two years the share started to increase again. Slovenia was furthest behind in computer services (in 2020 by more than 10 p.p.), as most Eastern European Member States achieved much higher growth in exports of such services (by 20% per year on average, Slovenia by 11.1%).

Table: Structure of goods exports by factor intensity

		2000	2005	2008	2011	2014	2015	2016	2017	2018	2019	2020
Natural resources	Slovenia	5.3	5.3	6.1	6.3	6.3	6.8	6.5	6.1	6.0	6.2	6.3
	EU	9.5	9.3	10.0	10.9	10.7	10.2	9.7	10.0	9.8	9.7	10.6
Resource-intensive goods	Slovenia	15.2	13.1	13.6	15.6	16.6	15.5	14.9	15.0	15.8	15.8	14.4
	EU	18.1	18.2	18.8	19.2	18.7	17.1	16.5	17.1	17.5	17.0	16.2
Low-technology products	Slovenia	27.1	23.4	20.8	18.8	18.0	17.9	18.0	17.7	17.6	17.0	16.6
	EU	23.4	20.9	17.4	15.9	16.3	16.5	16.9	16.3	16.3	15.9	15.9
Medium-technology products	Slovenia	38.1	41.8	41.0	37.0	36.7	37.3	38.5	39.0	39.5	38.8	39.0
	EU	29.3	31.6	32.8	32.1	33.3	34.5	35.6	35.4	35.8	35.9	35.0
High-technology products	Slovenia	13.1	13.7	16.2	18.3	19.5	19.7	19.6	19.8	19.0	20.0	21.6
	EU	15.7	15.4	15.5	16.4	15.5	15.9	17.2	17.0	16.6	17.6	18.8

Sources: UN Comtrade (2022); SURS (SURS, 2022b); calculations by IMAD. Note: The classification of products is based on the UN methodology (Lall). As some products are unclassified, the sums of the five product groups for individual countries do not equal 100. For the period 2018–2020, the data for Slovenia are adjusted so that the so-called re-export of medical and pharmaceutical products to Switzerland is excluded.

Figure: Share of knowledge-intensive non-financial market services* in total exports of services, 2020



Source: Eurostat (2022); calculations by IMAD. Notes: *Exports of telecommunications, computer and information services (SI), and other business services (SJ). For Ireland, data for computer and information services refer to 2016 as there is no data for the years after.

[1] According to the UN (Lall) methodology, under which the products are classified in compliance with their technological complexity. According to a much narrower Eurostat methodology, which only includes exports of high-technology products with the most intensive use of R&D, Slovenia's share is much lower (5.8% in 2018; 17.9% in the EU-28).

[2] Information and communication (J) and professional, scientific and technical activities (M) (OECD, 2013b).

[3] Data on exports of these services for Lithuania and Malta are not available.

Foreign direct investment 1.15

Inward foreign direct investment (FDI) into Slovenia had risen relatively rapidly from 2015 until the outbreak of the epidemic, while outward FDI had been modest, but during the epidemic inflow of inward FDI in particular decreased significantly. The amount of foreign direct investment increased by as much as 52.4% in 2015–2021, primarily owing to the inflow of equity capital, but also partly to debt instruments. Higher inward FDI was primarily due to the acceleration of the privatisation process and increased sales of equity stakes in Slovenian companies. There were also more expansions of the existing foreign-owned companies and new (greenfield) investment. EU Member States were the biggest investors in Slovenia, with Slovenia's main trading partners contributing about two-thirds of total inflow of FDI. The average implicit rate of return on foreign direct investment was 7.7%,[1] the highest among the international investment components.[2] Outward FDI had been increasing since 2014, but at a relatively slow pace. In 2021, the stock of such investment was only 21.5% higher than in 2010. Slovenian direct investors have the largest share of direct investment in the other countries of the former Yugoslavia. The declining share of goods exports to this region over the last seven years indicates that Slovenia is replacing part of its former exports with local production in these markets. The average implicit rate of return on foreign direct investment was 2.7%.

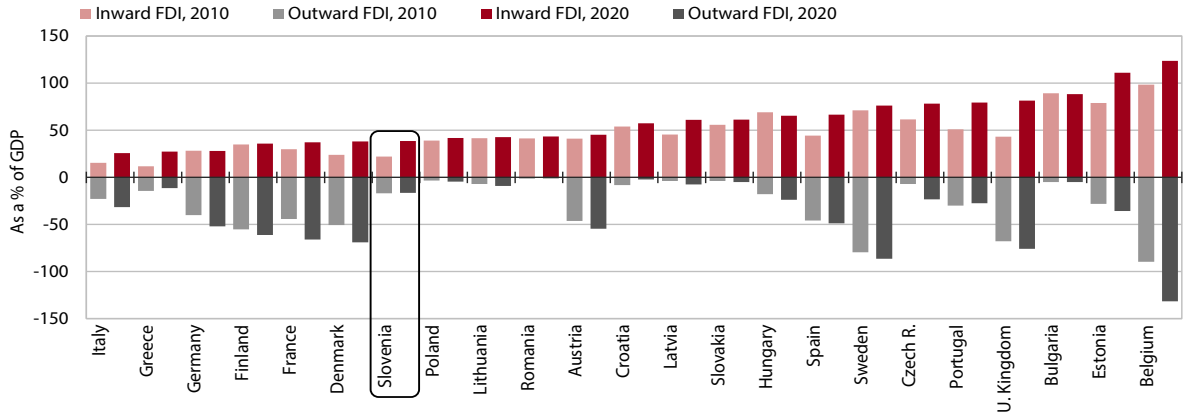
Despite some progress, Slovenia remains among the EU Member States with the lowest inward FDI stock as a share of GDP. Although by 2021, the share of inward FDI in GDP had risen to 34.0%, it remained lower than in the new EU Member States overall despite the highest growth among these countries in the period 2009–2020. In terms of the share of outward FDI in GDP, the only new EU Member States that Slovenia lagged behind were the Czech Republic, Hungary and Estonia, which all had significantly higher shares.

Table: Flows and stocks* of inward and outward FDI in Slovenia**

In million EUR	2005	2008	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Inward FDI													
Year-end stock	5,981	8,598	7,983	9,249	8,897	10,202	11,612	12,970	13,957	15,254	16,179	16,567	17,697
Inflow***	452	832	80	264	-114	791	1,510	1,126	795	1,172	1,096	463	1,283
Stock as a % of GDP	20.5	22.7	22.0	25.5	24.4	27.1	29.9	32.1	32.4	33.3	33.4	35.3	34.0
Izhodne NTI													
Year-end stock	2,777	6,085	6,097	5,710	5,179	5,335	5,508	5,741	5,969	6,107	6,840	6,954	7,408
Outflow***	505	961	-14	-201	-161	207	241	262	300	238	348	486	779
Stock as a % of GDP	9.5	16.0	16.8	15.8	14.2	14.2	14.2	14.2	13.9	13.3	14.1	14.8	14.2

Source: BoS (2022b). Notes: *Stocks are calculated by the new BPM6 methodology according to the directional principle used by the Bank of Slovenia since 2014. The stocks calculated according to the new methodology changed significantly owing to changes in the categories taken into account in the calculation. In the case of Slovenia, this holds true particularly for inward FDI: at the end of 2013, the stock of inward FDI amounted to EUR 10,729 million according to the previous and only to EUR 8,897 million according to the new methodology, while the stock of outward FDI totalled EUR 5,121 million according to the previous and EUR 5,179 million according to the new methodology (BoS, 2014). **Companies in which an individual foreign investor holds a 10% or higher equity stake. ***Inflows and outflows are shown according to the principle of investment direction.

Figure: Stocks of inward and outward FDI, as a % of GDP



Source: UNCTAD (2021). Note: For better illustration, the figure shows the EU Member States excluding Cyprus, Malta, Ireland, Luxembourg and the Netherlands, which stand out with their high FDI stocks in comparison with other countries.

[1] The rate of return is calculated by comparing the sum of direct investment expenditure flows (profits and interests) in the current year with the balance of direct investment liabilities in the previous year.

[2] The categories for which returns are calculated include direct investment, investment in securities and other investment.

R&D expenditure and the number of researchers 1.16

Expenditure on research and development (R&D) has been increasing over the last three years, but expressed relative to GDP, it still lags behind the 2013 peak and behind the EU average and the average of innovation leaders. It reached its highest nominal value in 2020,[1] but in relative terms it still lagged behind in international comparison. The lag behind the EU average has been observed since 2016 (in 2020 by 0.2 p.p.) and an even larger gap has been observed behind the innovation leaders (in 2020 by 1.2 p.p.). Relative investment in R&D declined in only three EU Member States in 2020, marked by the onset of the COVID-19 epidemic, but only five Member States have already exceeded the so-called Barcelona objective.[2] Over the period 2008–2020, Slovenia increased its relative investment in R&D by an average of 2.3% per year, but 12 other Member States increased it by much more (ranging from 2.9% in the Netherlands to 7.3% in Poland). Among the innovation leaders, a faster increase in R&D investment was recorded by Belgium (by 5%). Investments in R&D were falling in Slovenia with the consolidation of public finances after 2013, first in the public sector (by EUR 117 million by 2017 or around 40% compared to 2011); their nominal growth until 2020 covered only around 80% of this fall. The decline in R&D investment in the business enterprise sector in 2015–2017 (by EUR 175 million or by about 30% compared to 2014) was due to several factors,[3] and its nominal increase to 2019 did not yet offset this decline. With a further fall in investment in 2020, the decline increased further, with the volume of investment falling short of the 2014 peak by almost a fifth.

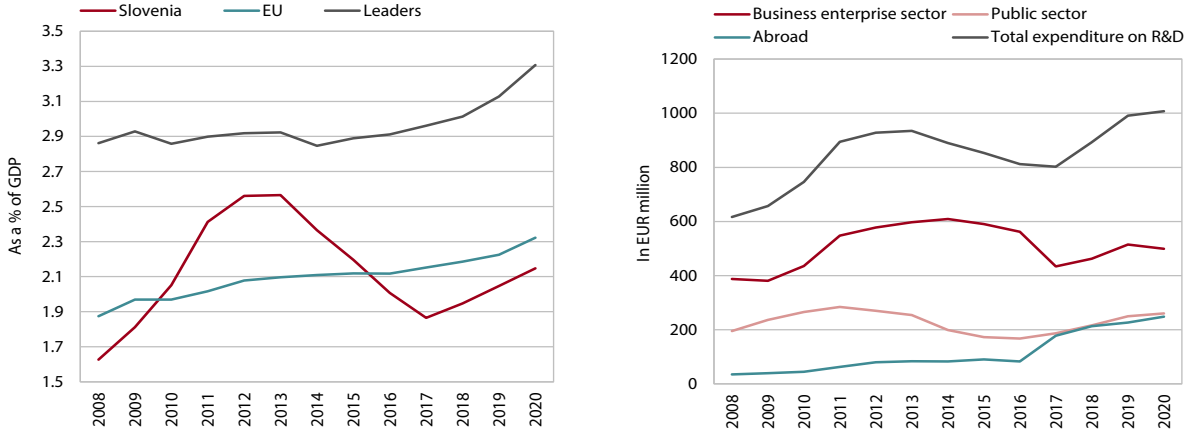
Growth in the number of researchers in the business enterprise sector was halted in 2020, although growth having been driven mainly by this sector in 2008–2019. In 2018–2020, the business enterprise sector employed 53.6% of researchers. In the innovation leaders, this share in 2020 was only slightly higher than in Slovenia (60.7% and 62.6%), and Slovenia has been above the EU average since 2011 (EU 2020: 55.4%). Although the trend of several years of decline in the number of public sector researchers ended in 2018, the gap with the 2010 peak widened slightly in 2020, to 351 researchers.

Table: R&D expenditure, as a % of GDP

	2000	2005	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Slovenia	1.36	1.42	1.63*	1.81	2.05	2.41*	2.56	2.56	2.37	2.20	2.01	1.87*	1.95	2.05	2.15
EU	1.81	1.78	1.87	1.97	1.97	2.02	2.08	2.10	2.11	2.12	2.12	2.15	2.19	2.23	2.32

Source: Eurostat (2022). Notes: Data for the EU are Eurostat estimates. *The breaks in the time series in 2008 and 2011 are due to the higher number of reporting units in the business enterprise sector, while in 2017 it is due to harmonisation of data with the revised methodology, the OECD's Frascati Manual (for more, see IMAD, 2019e).

Figure: Total R&D expenditure (left) and R&D expenditure in nominal terms by source of funds, Slovenia (right)



Sources: Eurostat (2022), SURS (2022b); calculations by IMAD.

[1] With the release of the final data, SURS also published revised data by source of funds for the period 2017–2019. Due to the revision, the data for the business enterprise sector and abroad are no longer comparable with the period before 2017 (Trol, 2022).

[2] The EU has set a target to spend at least 3% of GDP on R&D by 2020 (ReRIS11-20, 2011). Besides three innovation leaders (Belgium, Denmark and Sweden), the Barcelona objective was surpassed also by Germany and Austria.

[3] For more on factors, see IMAD (2022). In 2020, the amount of R&D tax relief claimed declined again, by one-fifth (MF, 2022c).

Corporate environmental responsibility 1.17

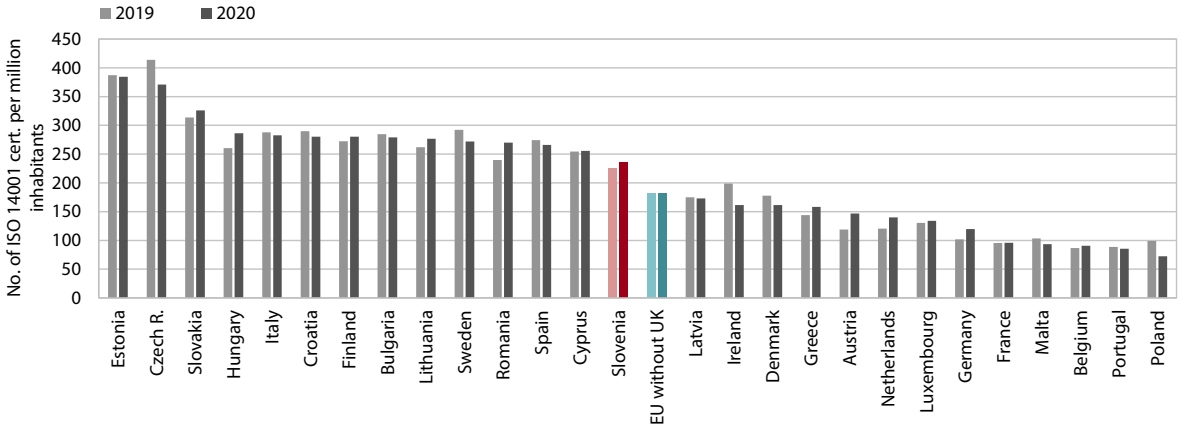
In the recent period, a slowdown in the growth in the number of ISO 14001 and EMAS environmental certificates issued has been observed both in Slovenia and in the EU as a whole.[1] Despite the epidemic, the number of ISO 14001 certificates issued per million inhabitants in Slovenia increased by 4.8% in 2020, which is still 2.8 p.p. lower growth than in the previous year. Growth was also lower in the EU. It decreased from 5% in 2019 to almost zero in 2020. The situation is even less favourable in the case of EMAS certificates, where the number of certificates issued per million inhabitants in Slovenia has stagnated for the third year in a row. In the EU, growth of 3.8% was recorded in 2020, but the prevalence of this certificate in 2021 remained at the previous year's level. Measured by the number of ISO 14001 environmental certificates per million inhabitants, Slovenia still lagged behind most other new EU Member States in 2020 but was still above the EU average. In terms of EMAS certificates, on the other hand, Slovenia still lagged behind the EU average in 2021 but was surpassed among the other new EU Member States only by Cyprus, Estonia and Slovakia.

Table: The number of environmental certificates in Slovenia and the EU, per million inhabitants

		2005	2008	2010	2015	2018	2019	2020	2021
ISO 14001*	Slovenia	N/A	N/A	N/A	N/A	209.0	224.9	235.7	N/A
	EU	N/A	N/A	N/A	N/A	172.4	181.0	182.0	N/A
EMAS**	Slovenia	0.5	0.5	1.5	4.8	5.2	4.8	4.8	4.8
	EU	6.9	8.8	9.9	8.7	8.5	8.2	8.6	8.6

Sources: Eurostat (2020), ISO (2020, 2022), MOP (2020), EC (2020, 2022), calculations by IMAD. Notes: Data on EMAS are available on Eurostat's webpage for the period 2005–2015; data for later periods were obtained at http://ec.europa.eu/environment. N/A – data not available. *Data for ISO 14001 since 2018 are not comparable with data for previous years due to changes in the reporting. **Calculations using data on the population for the previous year. Since the number of EMAS certificates changes every six months, the annual figure represents the average number of certificates in spring and autumn.

Figure: The number of ISO 14001 certificates in the EU



Sources: Eurostat (2020), ISO (2020, 2022); calculations by IMAD.

[1] The international standard ISO 14001 (environmental management system) and the EU Eco-Management and Audit Scheme (EMAS) (Chamber of Commerce and Industry of Slovenia, 2022; MOP, 2020b).

2 Lifelong learning

Knowledge and skills for a high quality of life and work

2.1 Share of the population with tertiary education

2.2 Enrolment in upper secondary and tertiary education

2.3 Tertiary education graduates

2.4 Performance in reading, mathematics and science (PISA)

2.5 Education expenditure

2.6 Participation in lifelong learning

Culture and language as main factors of national identity

2.7 Attendance at cultural events

2.8 Share of cultural events held abroad

Share of the population with tertiary education 2.1

The share of adults (25–64 years) with tertiary education increased further in 2020 and exceeded the SDS target, but at the same time it was much lower than in most economically developed countries. In 2020, it was 35.9%, which is higher than the EU average (32.8%) and the SDS 2030 target (35%) but much lower than in most economically developed EU Member States. The long-term growth of the share is related to the high participation of young people in tertiary education and the transition of younger, on average more educated, people to higher age groups (a demographic effect). As a result, the highest increase in the share of adults with tertiary education over the period 2010–2020 was seen in the 35–44 and 25–34 age groups (the participation in the former group was also the most above the EU average). In the 30–34 age group, it has also been higher than the EU target of 40% since 2013, although lower than in most economically developed EU Member States. Despite the high participation of young people in tertiary education, their share (in the 20–24 age group) is lower than the EU average. Due to their greater participation in tertiary education, the share of tertiary-educated women is higher than that of men and the difference between the citizens of the Republic of Slovenia and foreign citizens is larger than the EU average. The share of people with tertiary education is highest in the most developed Osrednjeslovenska region (47.2%), followed by the Zasavska region with a half lower share (23.4%).

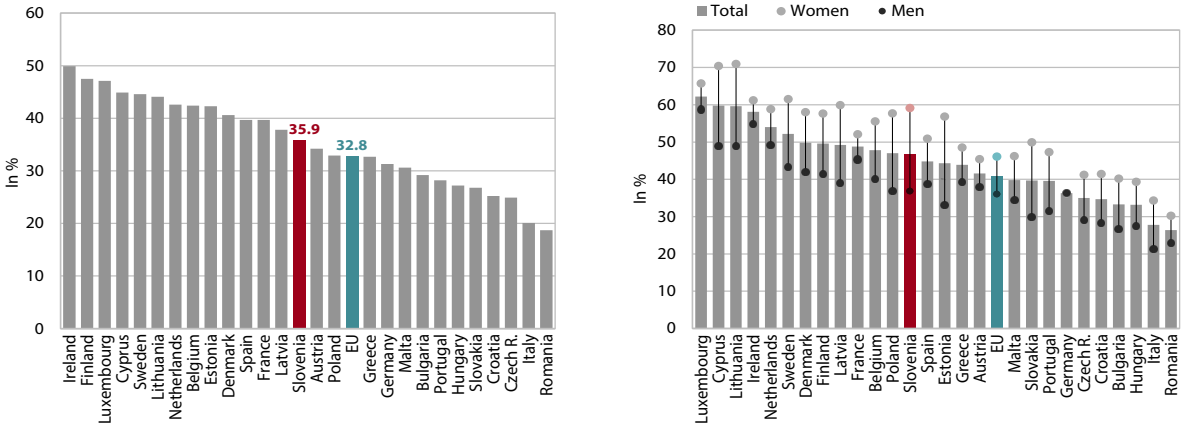
In 2010–2020, the share of employees with tertiary education increased and was higher than the EU average. In 2020, it was 42.2% (the EU average was 37.8%);[1] in most private sector activities it was lower than in the public sector.[2] With the increase in the share of employees with tertiary education, the share of tertiary educated people (20–64 years) also increased in 2010–2020 in occupations for which upper secondary or lower education is sufficient, in 2020 amounting to 15.3% (2010: 8.6%). The increase was higher in private sector activities, where the share was also higher than in the public sector. The share of the unemployed with tertiary education in the total number of unemployed also increased. This indicates a mismatch between tertiary education and labour market needs.

Table: Share of the population with tertiary education, in %

	2005	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia														
25–64 years	20.2	22.6	23.3	23.7	26.4	27.9	28.6	30.2	30.7	32.5	32.5	33.3	35.9	35.0
30–34 years	24.6	30.9	31.6	34.8	39.2	40.1	41.0	43.4	44.2	46.4	42.7	44.9	46.9	
EU														
25–64 years	21.5	23.1	23.9	24.6	26.2	27.1	27.7	28.5	29.1	29.9	30.7	31.6	32.8	
30–34 years	27.2	30.1	31.1	32.6	34.5	35.6	36.5	37.3	37.8	38.6	39.4	40.3	41.0	

Source: Eurostat (2022).

Figure: Share of the population aged 25–64 with tertiary education, 2020, in % (left) and share of the population aged 30–34 with tertiary education, 2020, in % (right)



Source: Eurostat (2022).

[1] The share of employees with tertiary education in Slovenia in 2020 was higher than the EU average in all activities except mining and quarrying, manufacturing, accommodation and food service activities, construction, and information and communication and administrative and support service activities.
[2] In 2020, it was the highest in education and the lowest in construction. It was also low in manufacturing.

Enrolment in upper secondary and tertiary education 2.2

The number of young people enrolled in upper secondary education increased again in the 2020/2021 school year after a long period of decline. In the longer term, the number of candidates for direct enrolment in tertiary education and participation in the labour market decreased. After declining for several years due to demographic reasons (smaller generations of young people), it rose again in the 2020/2021 school year with a slightly larger generation of young people (for demographic reasons) and was about a tenth lower than a decade ago (a good fifth lower at general upper secondary schools and 1.7% lower at vocational and technical schools). Although the share of those enrolled in vocational and technical programmes increased over the past ten years and is above the EU average, employers have difficulties in recruiting due to the low reputation of these professions and, consequently, the decision of young people to enrol in tertiary education and the increasing overall labour shortage due to demographic reasons and favourable economic developments.[1] According to demographic projections, the number of young people enrolled in upper secondary schools is expected to increase in the future. It will therefore be crucial to encourage young people to enrol in educational programmes that will enable them to acquire skills to face future challenges of society and the economy.

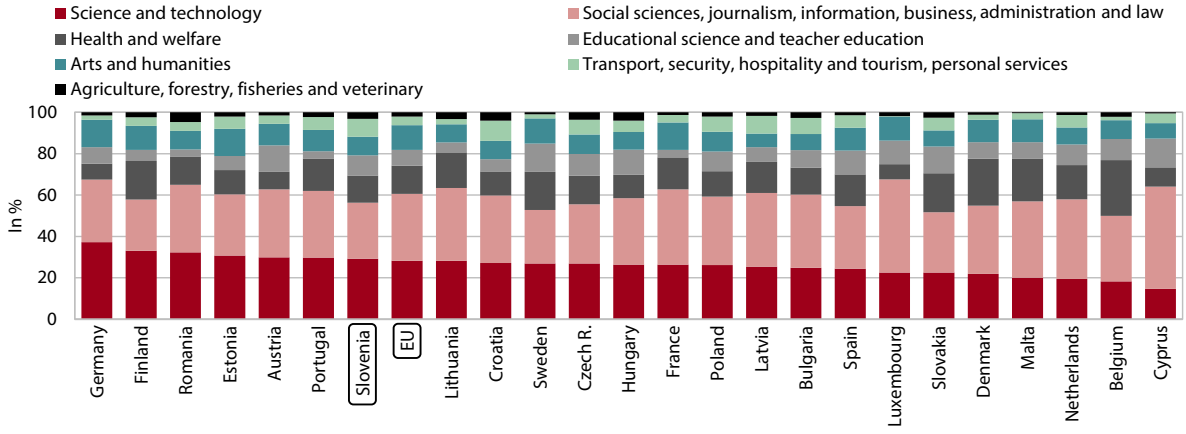
In the 2020/2021 school year, the number of students enrolled in tertiary education increased for the second year in a row after several years of decline. Past trends were mainly related to demography (smaller generations of young people). The increase in the number of students enrolled last year (by 7.8%) is mainly due to the increase in the number of students who were granted the right to extend their student status due to the COVID-19 epidemic.[2] In the long run, the number of students enrolled in social sciences and thus their share in the structure of enrolled students decreased and was lower in 2019 than the EU average. The share of students enrolled in science and technology, which was one of the largest among EU Member States in 2019, increased, but the number of students decreased, posing a pressing problem in terms of innovation needs. The number of students enrolled in health and welfare programmes has been rising for several years and their share was close to the EU average in 2019 but is still too low to meet the challenges of the long-lived society and to cope with the COVID-19 epidemic.

Table: Structure of young people* enrolled in upper secondary education by field of education, in %

		2005	2008	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Slovenia	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	General educational programmes	39.1	41.1	41.2	40.7	40.1	39.7	38.4	37.5	36.4	35.6	35.3	35.0
	Vocational programmes	60.9	58.9	58.8	59.3	59.9	60.3	61.6	62.5	63.6	64.4	64.7	65.0
EU	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	General educational programmes	44.1	46.5	46.8	47.2	47.6	50.4	51.2	51.0	51.6	57.5	57.2	57.1
	Vocational programmes	55.9	53.5	53.2	52.8	52.4	49.6	48.8	49.0	48.4	42.5	42.8	42.9

Sources: SURS (2022b) and Eurostat (2022). Note: *Full-time students.

Figure: Number of students enrolled in tertiary education, structure by field of education, 2019



Source: Eurostat (2022).

[1] According to the Employment forecast (ESS, 2021d).
[2] See ZIUZEOP (2020).

Tertiary education graduates 2.3

The number of tertiary education graduates decreased in 2020 for the second year in a row and was the lowest in the last decade. It decreased in all areas except social sciences, although here the decline was greatest compared to 2012. The largest increase was in the share of graduates in education.[1] The share of graduates in natural sciences and technology, which was among the highest in the EU in 2019, also increased significantly in 2020, but their number was below the 2012 peak and insufficient to meet the labour market needs.[2] The share of health and social welfare graduates also increased, but in 2019 it was among the lowest in the EU. Their number has been declining in the last few years, in contrast to the growing needs of the long-lived society. For a successful digital and green transformation of society and the economy, addressing the challenges of a long-lived society and promoting greater competitiveness of the economy, it is essential to increase the number of enrolment places for occupations for which demand will grow in the future. In 2020, 60.3% of tertiary education graduates were women. Their share has not changed significantly over the years and is higher than the share of men in all fields of education, with the exception of science and technology.

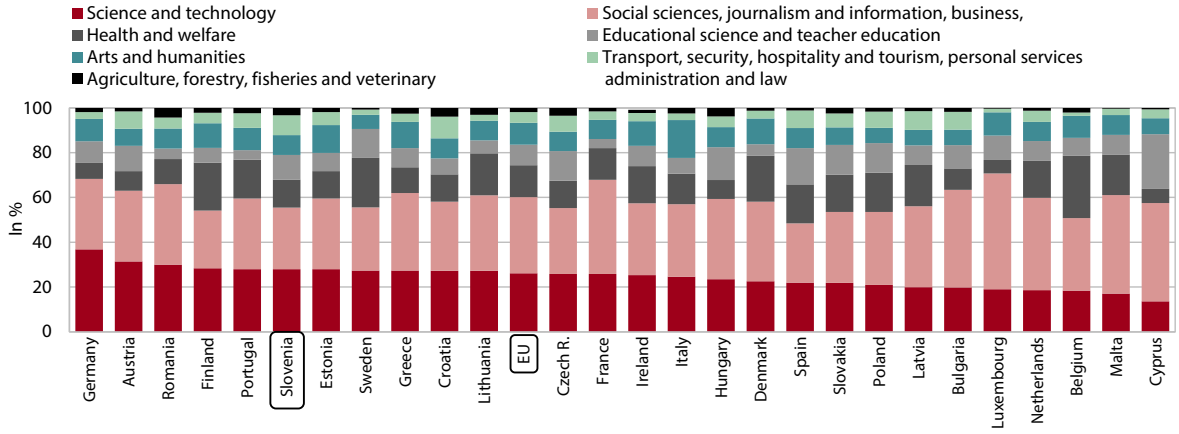
The number of new PhDs in 2020 was the lowest in the last decade. It peaked in 2015 and 2016[3] but has fluctuated since 2017 and was quite far from the peak in 2020. Such trends were related to the decrease in the number of those enrolled in doctoral studies from the 2012/2013 to 2015/2016 academic years, which could be attributed to the temporary suspension of co-financing of doctoral studies from public sources, years of reduced funding under the Young Researchers Programme, the ending of the Young Researchers in Economics programme and smaller generations. The decline in the number of new PhDs in 2020 could also be due to delays in completing studies because of the COVID-19 epidemic. In 2019, their number per 1,000 inhabitants aged 25–34 was 1.9, slightly above the EU average (1.7) but lower than in the innovation leaders, which adversely affects the country's innovation potential.

Table: Number of tertiary education graduates, per million inhabitants

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Slovenia	8,566.5	8,907.4	9,621.0	9,980.1	10,237.4	9,313.6	9,133.1	9,031.6	15,002.0	7,966.5	8,070.1	7,737.0	7,737.0
EU	8,187.1	7,917.6	8,417.8	9,232.6	7,634.6	8,932.5	8,958.7	8,908.4	8,883.1	8,957.3	8,932.3	8,748.9	N/A

Source: Eurostat (2022).

Figure: Structure of tertiary education graduates, by field of education, 2019



Source: Eurostat (2022).

[1] The field of education includes educational sciences and teacher education.
[2] According to Occupational barometer, there is a shortage particularly of engineers in the labour market (ESS, 2020c, 2021a).
[3] In 2016, the number of graduates was affected by the completion of pre-Bologna degree programmes with a deadline of 30 September 2016.

Performance in reading, mathematics and science (PISA) 2.4

In 2018, 15-year-olds in Slovenia achieved good results in mathematics, science and reading. According to the PISA 2018 survey,[1] they score higher than the EU average in all three literacy types, which are an indirect indicator of quality. The SDS target (by 2030), which is to be ranked in the top quarter of EU Member States, was achieved in mathematics and science. Between 2015 and 2018, the performance in science and especially in reading deteriorated, while in mathematics it remained roughly the same. One of the 2020 targets set in the Strategic Framework for European Cooperation in Education and Training is that the share of 15-year-olds with low achievement (below proficiency level 2) in reading, mathematics and science should be less than 15% by 2020 on the respective literacy scale. Slovenia achieved this goal only in science.[2]

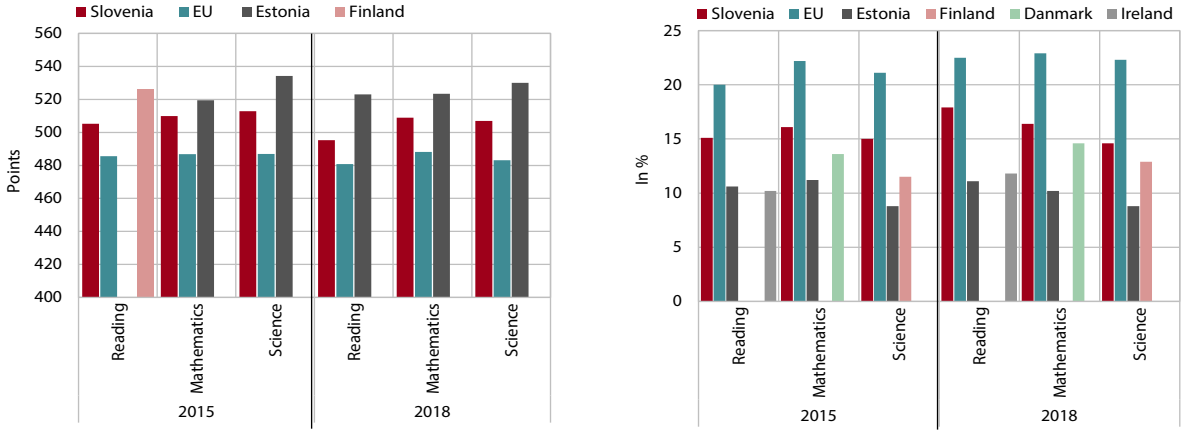
Inequalities in the learning achievements of 15-year-olds increased between 2015 and 2018. In 2018, girls achieved better results (in points) than boys in reading and science and the same as boys in mathematics. Fifteen-year-olds with the highest socio-economic status performed better than their peers with the lowest socio-economic status; the gap between the two groups was narrower than the EU average but widened between 2015 and 2018. The share of fifteen-year-olds with the lowest socio-economic status and low reading literacy scores was higher than the share of their peers with the highest status, with the gap being one of the smallest in the EU. Fifteen-year-olds with the lowest status were also more likely to enrol in upper secondary vocational education, including compared to other EU Member States, and had lower expectations of completing tertiary education than their peers with the highest status. Pupils from abroad performed worse in reading than their native peers, the difference between them being larger than on average in the EU.[3]

Table: Slovenia's ranking in science, mathematics and reading among EU Member States

	2006	2009	2012	2015	2018	SDS 2030 target
Reading	10	15	20	6	9	Ranking in the top quarter of EU Member States
Mathematics	8	7	9	5	5	
Science	4	5	7	3	4	

Sources: OECD (2016b) and OECD (2019i). Note: In Slovenia the PISA survey has been carried out since 2006.

Figure: Average performance of 15-year-olds in mathematics, science and reading (PISA) (left) and share of 15-year-olds with a low score* in science, mathematics and reading (PISA) (right)



Sources: OECD (2016b) and OECD (2019i) (left) and Eurostat (2022) (right). Notes: Of the EU Member States, for each type of literacy, the data for the country with the highest scores in the EU is shown. For the EU, the figure on the left shows the unweighted average. *Results below proficiency level 2 are regarded as poor.

[1] PISA (Programme for International Student Assessment) is an international survey of reading, mathematics and science literacy conducted under the auspices of the OECD. It look at the performance of 15-year-old pupils regardless of the type of school they attend. Carried out in three-year cycles, the survey is aimed at capturing data on the competencies of pupils that are needed in professional or private life and are important for both individuals and society.

[2] In 2018, it was 17.9% in reading, 16.4% in mathematics and 14.6% in science.

[3] Data for performance in mathematics and science are not available.

Education expenditure 2.5

Public expenditure on education[1] (as a % of GDP) increased in 2017–2020 after several years of decline, but was still below the previous peak; private expenditure was the lowest in ten years, and both public and private expenditure lag behind in international comparison. Public expenditure as a share of GDP fell from 2012 to 2017. In the first few years, the decline was mainly resulting from austerity measures after the global financial crisis, later from changes in social legislation and for demographic reasons. Since 2014, public expenditure has not kept pace with GDP growth. In 2018, it increased again and remained roughly unchanged in 2019. In 2020, public expenditure (especially at the basic education level) increased again and stood at 5.1%[2] of GDP, due to higher expenditure on educational institutions related to increased investment and wage bill for employees. However, it still lagged behind the 2010 peak, with the gap being widest in upper secondary education. According to data for 2018 (latest international data), public expenditure on education was below the EU average of EU Member States that are members of the OECD and much lower than in the economically highly developed countries (Denmark, Sweden, Belgium and Finland), with the gap being widest at the tertiary level. In 2020, private expenditure on education amounted to 0.57% of GDP (the same as the previous year) and was the lowest in ten years and, according to 2018 data, also below the EU-22 average (0.63% of GDP).

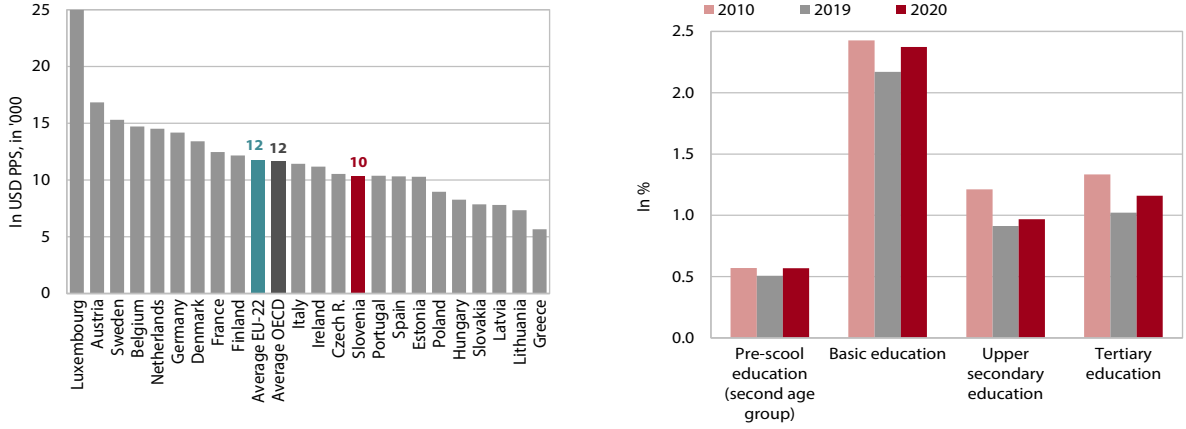
Although expenditure (both public[3] and private) per participant in education mostly increased in the last ten years, it remained low in international comparison, which limits opportunities to improve the quality of education. In 2018, the last year for which internationally comparable data are available, it only exceeded the average of EU Member States that are members of the OECD (EU-22) at the lower secondary level (in Slovenia this includes the third triad of basic schools). It lagged the most at the upper secondary school level (the gap was wider in vocational and technical education than in general upper secondary education), where the participation of young people in education is high and public and private expenditures are low.

Table: Total public expenditure on education as a share of GDP, in %

	2005	2008	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Slovenia	5.65	5.11	5.55	5.54	5.31	5.05	4.95	4.61	4.50	4.49	4.64	4.62	5.07
EU-23	5.37	5.35	5.59	5.62	5.20	5.31	5.22	4.88	4.78	4.76	4.73	N/A	N/A

Sources: OECD (2021b), SURS (2022b); calculations by IMAD. Note: N/A – data not available. Data since 2018 refer to the EU-22, which excludes the United Kingdom.

Figure: Expenditure (public and private) on educational institutions per participant*, 2018, and public expenditure on education as a share of GDP, by education levels, Slovenia, in % (right)**



Sources: OECD (2021b) (left) and SURS (2022b) (right). Notes: *Including basic, secondary, upper secondary and tertiary levels of education. **Data for the first age group of pre-school education is not available for 2010. In 2020, expenditure on this level of education amounted to 0.33% of GDP (2019: 0.29% of GDP).

[1] Total public expenditure on education comprises the total budgetary expenditure on formal education of young people and adults at state and local levels. It includes direct public expenditure on educational institutions and transfers to households (scholarships, subsidised meals, travel tickets, accommodation, textbooks, etc.).
[2] Excluding the first age group of the pre-school level of education. According to the International Standard Classification of Education (ISCED) 2011, which also includes this group, public expenditure on education totalled 5.40% of GDP in 2020.
[3] Public expenditure does not include transfers to students/households.

Participation in lifelong learning 2.6

The participation of adults (aged 25–64) in lifelong learning[1] declined over the longer term and was below the EU average for the first time in 2020. Since peaking in 2010, it has mostly declined and in 2020, with the outbreak of COVID-19, it fell sharply and slipped below the EU average for the first time, to 8.4% (EU: 9.2%). It has thus moved far away from the target of the Strategic Framework for European Cooperation in Education and Training by 2020 (15%) and even further away from the target of the Resolution on the National Programme of Adult Education in the Republic of Slovenia 2012–2020 and the SDS 2030 target (19%). As in the decade before the epidemic, participation in 2020 was particularly low among people with low levels of education, older people, men and immigrants. The decline in participation in lifelong learning has a negative impact on employment opportunities and social inclusion of adults. From a development perspective, the long-term decline in participation in lifelong learning is unfavourable in all regions.

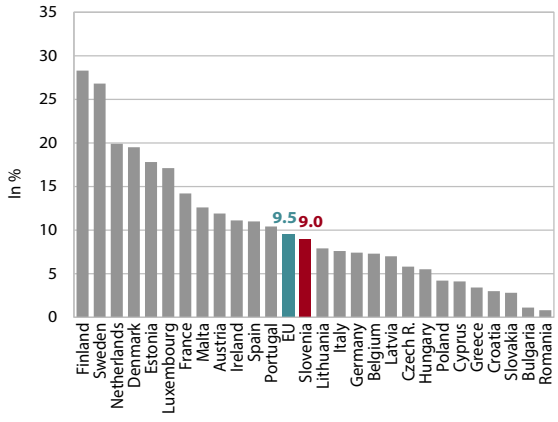
Broken down by activity status, participation in lifelong learning declined most in 2020 and over the 2010–2020 period among those in employment. The participation of the unemployed and inactive in lifelong learning was below the EU average.[2] Participation also varies among the employed. In the private sector, where the share of low-educated workers is higher, participation in 2020 was lower than in the public sector. Broken down by activity, participation was low in accommodation and food service activities, construction and manufacturing, while the highest level was in education. Lower participation of employed persons in lifelong learning has a negative impact on the achievement of higher competitiveness and the adaptability of workers to changes in the workplace due to digital and green transformation, technological progress, and other development trends. Only in 2020 did the reduced implementation of education and training under the AEP[3] result in lower participation of the unemployed in lifelong learning. In 2020, the smallest decline in participation in lifelong learning was found among the inactive, where it was already low.

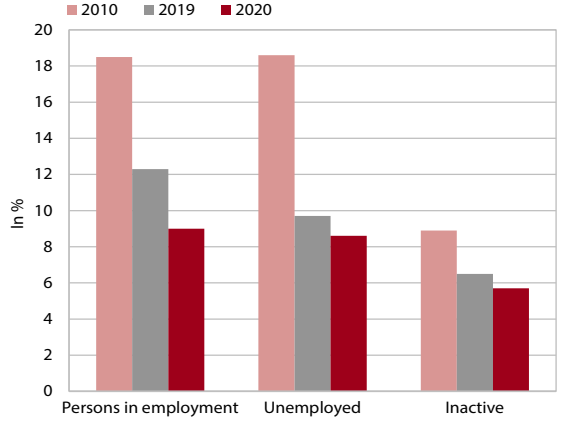
Table: Participation of adults aged 25–64 in lifelong learning, in %

	2005	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	15.3	14.3	14.8	16.4	16.0	13.8	12.5	12.1	11.9	11.6	12.0	11.4	11.2	8.4	19 %
EU	7.7	8.0	7.9	7.8	8.1	8.2	9.9	10.1	10.1	10.3	10.4	10.6	10.8	9.2	

Source: Eurostat (2022).

Figure: Participation of employed persons (aged 25–64) in lifelong learning, 2020, in % (left) and participation of adults (aged 25–64) in lifelong learning, by activity status, in % (right)





Source: Eurostat (2022).

[1] Lifelong learning includes formal and non-formal education.
[2] In 2020, the participation rate in lifelong learning for the employed totalled 9.0% (EU: 9.5%), the participation rate for the unemployed 8.6% (EU: 10.5%) and the participation rate for the non-active population 5.7% (EU: 7.7%).
[3] For details, see "Annual report on the implementation of state measures on the labour market in 2020" (MDDSZ, 2021a).

Attendance at cultural events 2.7

The average attendance at cultural events per inhabitant[1] plummeted in 2020. It was highest in 2012, owing to the many events hosted by Maribor, the city that held the European Capital of Culture title that year. In the remaining years it amounted to around 5–6 visits per inhabitant. After increasing for the most part in 2009–2019, the total attendance at cultural events fell by 68.4% in 2020 as the number of cultural events fell sharply. Attendance at cultural events in houses of culture and cultural centres, which had the highest number of visitors among all types of cultural institutions in 2020, also declined as the number of cultural events decreased significantly. The most unfavourable development was that of cinema attendance (-76.2%), of which 5.4% were visits to screenings of Slovenian films. Attendance at musical institutions, which had been declining for several years before the epidemic, and at museums, galleries, theatres and operas, which had fluctuated before the epidemic, also declined. After several years of stagnation, the number of visits to amateur cultural events increased in 2019 and then decreased by 68.5% in 2020.

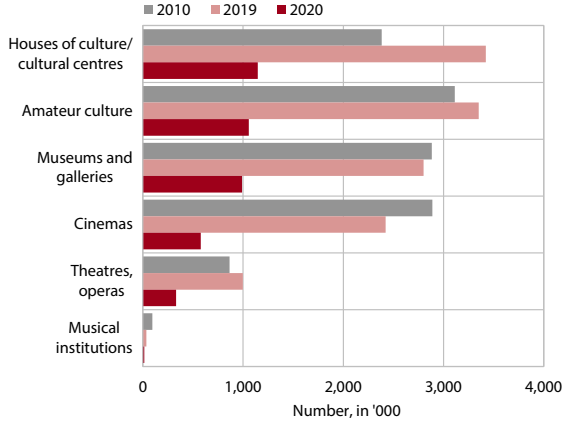
Before the epidemic, cultural institutions carried out many activities enriching the cultural offer but in 2020 these activities shrunk noticeably. The number of events held by institutions with stage activity[2] fluctuated in 2016–2019; in 2020, it fell by 55.0% (to 11.2 thousand). By type of activity, as in previous years, the highest attendance was recorded for film and video screenings (see Section 2.2), followed by events showing dramatic and other theatre works, and musical events, while the lowest attendance was recorded for ballet events. In 2020, institutions with stage activity performed a good third fewer new works than in the previous year, with a smaller proportion being co-productions with foreign co-producers (5.1%) and a larger proportion with Slovenian co-producers (about two-thirds). There were also fewer festivals organised. The COVID-19 epidemic in 2020 also affected the activities of museums and galleries, which organised 36.5% fewer exhibitions than in the previous year. In addition, some groups of the population (persons with reduced mobility and sensory impairments) face obstacles in accessing institutions with stage activity[3] and museums and thus cultural events.[4]

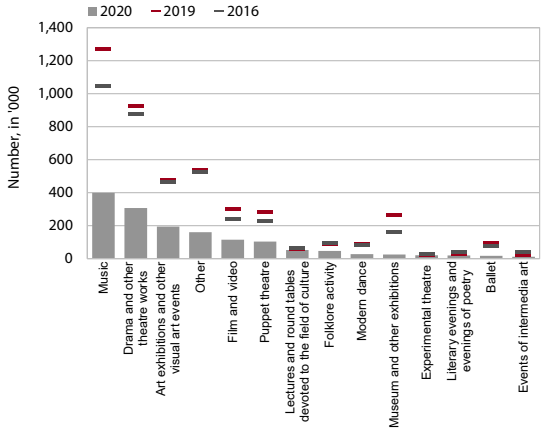
Table: Average attendance at cultural events per inhabitant

	2005	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	5.0	5.4	5.7	6.0	9.6	6.2	5.9	6.3	6.2	6.3	6.3	6.2	2.0	8.0

Sources: SURS (2022b), JSKD (2021) and SFC (2021); calculations by IMAD.

Figure: Attendance at cultural events, Slovenia, 2010, 2019 and 2020 (left) and attendance at events held by institutions with stage activity by type of event, 2010, 2019 and 2020 (right)





Sources: SURS (2022b), JSKD (2021) and SFC (2021) (left) and SURS (2022b) (right).

[1] In 2016, due to an extensive revision in the methodology, there was a break in the data series for the following groups: (i) museums, galleries and exhibition grounds, (ii) theatres, (iii) orchestras and choirs, and (iv) houses of culture and cultural centres. Since 2016, data on cultural performances cover: (i) museums and galleries, (ii) theatres and opera houses, (iii) musical institutions, (iv) cinemas, (v) houses of culture and cultural centres, and (v) amateur culture.
[2] This includes houses of culture and cultural centres, theatres and operas and musical institutions.
[3] In 2020, 57.0% of the institutions with stage activity were fully equipped for people with reduced mobility and 15.0% for those with sensory disabilities.
[4] In 2020, 29.0% of museums and galleries were fully equipped for people with reduced mobility and 9.7% for those with sensory disabilities.

Share of cultural events held abroad 2.8

In 2020, the share of cultural events held abroad[1] decreased for the second year in a row. Touring is an indirect indicator of the quality of cultural production, as invitations to perform abroad generally signify recognition of good work. In 2020, the share of cultural events held abroad totalled 2.6%. Due to the COVID-19 containment measures, it was lower compared to the previous year. The share of tours in museums has been declining for several years, while in stage-related activity it declined for the second year in a row in 2020. Among cultural events held abroad, those in the EU accounted for the highest share in 2020, i.e. 85.0%, which is more than in 2019. This indicates the geographical attachment of cultural institutions to this area. Due to the measures taken to contain the COVID-19 epidemic, it is estimated that the number of events held abroad remained modest in 2021.

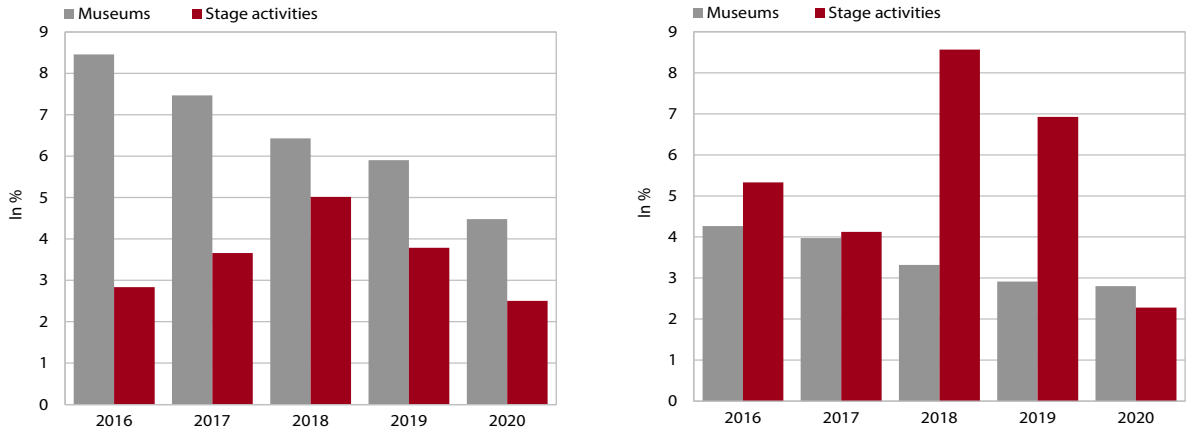
In 2020, the COVID-19 epidemic had a negative impact on hosting foreign events in Slovenia and on cultural production in Slovenia. Visiting events from abroad enrich the offer of cultural events in Slovenia and show the extent of cooperation with cultural institutions from abroad. Due to the COVID-19 epidemic, the number of visiting events from abroad in institutions with stage activity fell by 85.2% in 2020, the number of visiting exhibitions in museums and galleries fell by 39.0%, and the number of visiting events and exhibitions from Slovenia fell by 60.1%. Cultural production in Slovenia (Indicator 2.7), which is the basis for promoting and publicising culture abroad and attracting visitors from abroad, was also reduced. In 2021, the international Europa Cantat Festival, which took place in Ljubljana, had a positive impact on international cooperation in the field of culture.

Table: Share of cultural events held abroad in the total number of cultural events, in %

	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	2,8 (estimate)*	3.1	3.9	5.1	3.9	2.6	3.5

Source: SURS (SURS, 2022b). Note: *In 2016, due to a significant change in the methodology, a break in the data series occurred. Data for 2015 are therefore estimated, i.e. adjusted to the methodology used in the surveys "Activity of Houses of Culture, Theatres, Operas and Professional Orchestras and Choirs" (KU-ODER) and "Activity of Museums and Galleries" (KU-MZ) for 2016. The estimate was made by SURS. Data for houses of culture up to 2015 were not available. The sources of data were the surveys "Activity of Museums, Museum Collections, Special Museums for Art Heritage and Art Exhibition Grounds" (KU-MZ), "Activity of Theatres, Operas and Ballet" (KU-GL), and "Activity of Professional Orchestras and Choirs" (KU-FO).

Figure: Share of cultural events held abroad, Slovenia (left) and share of visiting cultural events from abroad in Slovenia (right)



Source: SURS (2022b). Note: Theatrical activity includes: (i) theatres, (ii) professional orchestras and choirs and opera, and (iii) houses of culture/cultural centres, cultural institutions and other organisers of cultural events.

[1] The indicator of the share of events held on tours abroad in the total number of events is the ratio of events held outside Slovenia to all events held by given cultural institutions. Data on cultural events include data for (i) museums, galleries or exhibition grounds, (ii) theatres, (iii) professional orchestras or choirs and opera, and (iv) houses of culture/cultural centres, cultural institutions and other cultural performers. In 2016, due to a significant change in the methodology, a break in the data series occurred. The sources of data are the surveys "Activity of cultural institutions, theatres, operas and professional orchestras and choirs" (KU-ODER) and "Activity of museums and galleries" (KU-MZ).

3 An inclusive, healthy, safe and responsible society

A healthy and active life

A decent life for all

An inclusive labour market and high-quality jobs

Healthy life years 3.1

In 2019, Slovenia's lag behind the EU average as regards the healthy life expectancy at birth indicator[1] was smaller than in the past. The SURS (2019) analysis showed that the very low value of this indicator in Slovenia in the past was mainly related to inadequate translation and the method of surveying. The data for 2019 already reflected changes in the survey method, so the results for Slovenia significantly improved. In 2020, the translation of the question was changed, but the data is not yet available. The indicator for 2019 shows that a person born in Slovenia can expect 60.9 years of healthy life, while the EU average is 65 years. Healthy life expectancy at the age of 65 is 8.6 years in Slovenia on average, compared with 10.3 years in the EU. According to the latest results, the number of healthy life years is higher for women than for men, which is similar to the situation in most other EU Member States (previously it was the opposite). Increasing the number of healthy life years, which requires higher investment in preventive care, should make a significant contribution not only to extending the working life of individuals, but also to slower growth in health and long-term care expenditure in the future.

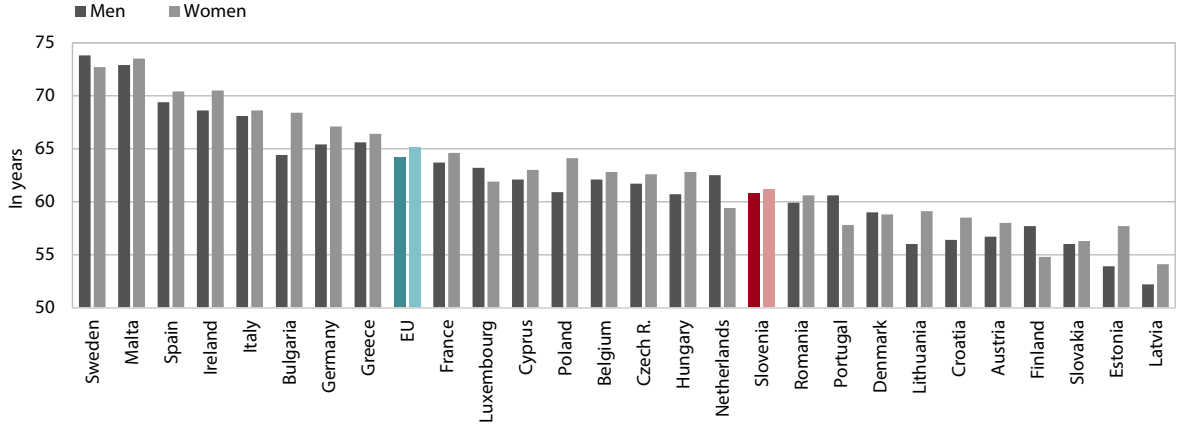
According to the latest data, the lag behind the EU average in the ratio between healthy life years and life expectancy is also significantly smaller.[2] In Slovenia, we had an average of 74.8% healthy life years in 2019 for both genders, which is still below the EU average (79.6%) but significantly better than in previous years. Slovenia's gap with the EU average is still mainly due to the lower number of healthy life years. The smaller share of years that a person on average spends healthy means more pressure on social protection systems due to early retirement and greater demand for health and long-term care services. The COVID-19 epidemic will bring about major changes in the indicator in the coming years. We can expect that the high number of deaths will lead to a decrease in life expectancy, but it is difficult to predict how this will affect healthy life years.

Table: Expected healthy life years at birth and the proportion of healthy life years in LE*

	Number of expected healthy life years at birth								Share of healthy life years in LE,* in %					
	Women				Men				Women			Men		
	2010	2018	2019	SDS 2030 target	2010	2018	2019	SDS 2030 target	2010	2019	SDS 2030 target	2010	2019*	SDS 2030 target
Slovenia	54.6	54.6	61.2	64.5	53.4	56.3	60.8	64.5	65.7	72.4	75.0	69.8	77.3	80.0
EU	62.2	64.2	65.1		61.3	63.7	64.2		75.0	77.5		80.0	81.8	

Source: Eurostat (2022). Note: In 2019, there was a change in the survey approach in the EU-SILC survey, on the basis of which the healthy life expectancy indicator is calculated. *LE – life expectancy.

Figure: Healthy life years expectancy at birth, 2019



Source: Eurostat (2022). Note: The countries are ranked according to the average number of years that men and women spend in a healthy state.

[1] The indicator of healthy life years measures the number of remaining years that a person of a specific age is expected to live without disability or activity limitations. This is a composite indicator which combines mortality and health status data. The estimate of activity limitations is based on the Global Activity Limitation Indicator (GALI), which, within the EU-SILC survey, measures self-perceived limitations people have experienced, because of health problems, in carrying out their everyday activities for at least six months.

[2] A decline in the ratio of healthy life years to life expectancy means a deterioration; an increase signifies an improvement.

The Gender Equality Index 3.2

In 2021, the gender equality index[1] for Slovenia was slightly below the EU average. Until 2017, Slovenia had progressed faster than the majority of EU Member States, but since then it has fallen furthest behind among all Member States, mainly due to a lower score in the area of power (lower political participation of women), and fell below the EU average in 2021. In order to meet the SDS 2030 target (> 78), Slovenia should improve the index value by more than 10 index points in 2021–2030.

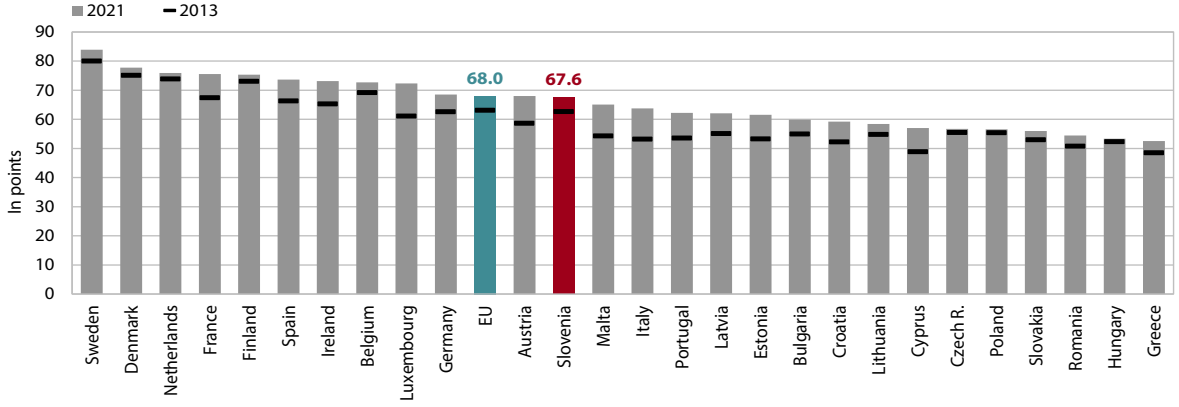
Since 2010, Slovenia has achieved the highest scores in the areas of health and money, while gender inequalities have been the most pronounced in the areas of knowledge and power. Men more often than women consider that they are in good or very good health, although women live almost six years longer on average than men. In the field of knowledge, the share of tertiary educated women is still higher than the share of men, and the uneven concentration of women and men in different study fields remains a key challenge.[2] The gender gap is also present in various labour market sectors.[3] The gender gap in the employment rate narrowed, while the pay gap is constant but small compared to other EU Member States (see Section 3.3, IMAD, 2021). Due to the introduction of gender quotas on candidate lists, women's political participation had increased since 2011, but since 2017 it has decreased again. According to the latest data for 2021, the share of women in the Slovenian Parliament was low (27.8%, EU: 33.2%), and the share of women ministers was even lower (11.1%, EU: 32.3%) (EIGE, 2021c). The COVID-19 epidemic has disproportionately affected women's quality of life, exacerbating pre-existing gender inequalities and jeopardising progress made in this area. Women were more exposed than men to additional workload and higher health risks (the majority of workers in human health, social work activities and trade are women), increased job insecurity (a large proportion of women are employed in the service sectors most affected by the crisis), difficulties in work/life balance and domestic violence (EIGE, 2021b; EC, 2021a, 2021q; EP, 2021a; Eurofound, 2021c).

Table: Gender Equality Index

	Slovenia						SDS 2030 target	EU					
Year of GEI publication	2013	2015	2017	2019	2020	2021		2013	2015	2017	2019	2020	2021
Reference year	2010	2012	2015	2017	2018	2019		2010	2012	2015	2017	2018	2019
GEI	62.7	66.1	68.4	68.3	67.7	67.6	> 78	63.1	64.4	65.7	66.9	67.4	68.0
Health	86.8	87.3	87.7	87.1	86.9	87.8		86.7	86.7	87.1	87.8	87.8	87.8
Money	80.3	81.3	81.6	82.4	83.0	83.7		79.1	79.1	80.1	81.1	81.6	82.4
Work	71.9	71.3	71.8	73.3	73.1	73.0		69.7	70.2	70.6	71.1	71.4	71.6
Time	68.3	72.4	72.9	72.9	72.9	72.9		65.2	68.1	64.9	64.9	64.9	64.9
Knowledge	55.0	54.9	55.0	56.0	55.9	56.6		59.8	61.1	62.4	62.6	62.8	62.7
Power	41.1	51.5	60.6	57.6	55.0	53.0		41.9	43.6	48.4	51.6	53.1	55.0

Source: EIGE (2021c). Note: An index value of 1 means total inequality and 100 full equality.

Figure: Gender Equality Index, 2013 and 2021*



Source: EIGE (2021c). Note: *An index value of 1 means total inequality and 100 full equality. The data for calculating the index for 2021 are mostly from 2019 and for 2013 from 2010.

[1] Based on 31 indicators, the Gender Equality Index measures progress and gaps between women and men in six areas (see table). An index value of 1 means total inequality and 100 full equality. The data for the calculation of the index include the latest available data (for 2021, the index is calculated based on 2019 data). For more about the methodology, see EIGE (2021a).

[2] In 2018, 43% of female students were enrolled in education, health and welfare, humanities, and arts, compared to 17% of male students (EIGE, 2021b).

[3] In 2019, 28% of women were employed in the fields of education, human health and social work activities, compared to only 6% of men.

Life expectancy 3.3

In 2020, life expectancy[1] at birth decreased in Slovenia and most other EU Member States due to the epidemic and consequent higher mortality. Life expectancy in Slovenia decreased to the 2013 level. The number of deaths was 18.8% higher than the 2015–2019 average (by about 14.6% in 2021).[2] In Slovenia, a total of 6,131 people died with COVID-19 in 2020 and 2021, 95% of whom were age 65 or older in 2020 and 90% in 2021 (NIJZ, 2022a). As a result, premature mortality[3] continued to decline (2000: 26.7%; 2020: 13.7%), while the average age at death also continued to rise (2000: 71.8 years; 2020: 79.2 years). When trying to determine future trends in life expectancy, the number of indirect deaths related to the unavailability of preventive and emergency health services and psychosocial support remains unknown (OECD and EU, 2020).

Even in the years before the epidemic, the rate of increase in life expectancy at birth in Slovenia and EU slowed. In the period 2002–2019, life expectancy increased by 3.5 months per year on average in Slovenia compared to 2.6 months per year on average in the EU. This was mainly due to the improvement of socio-economic living conditions, higher education, better healthcare and a better lifestyle (OECD, 2017b). However, after 2011, life expectancy gains slowed, mainly due to a slower decline in mortality rates for circulatory diseases, which had been the main reason for life expectancy gains in previous years (OECD and EU, 2018). The severe flu seasons, which mainly affected the elderly (2014/2015, 2016/2017 and 2017/2018) also contributed to the slowdown (OECD and EU, 2020).

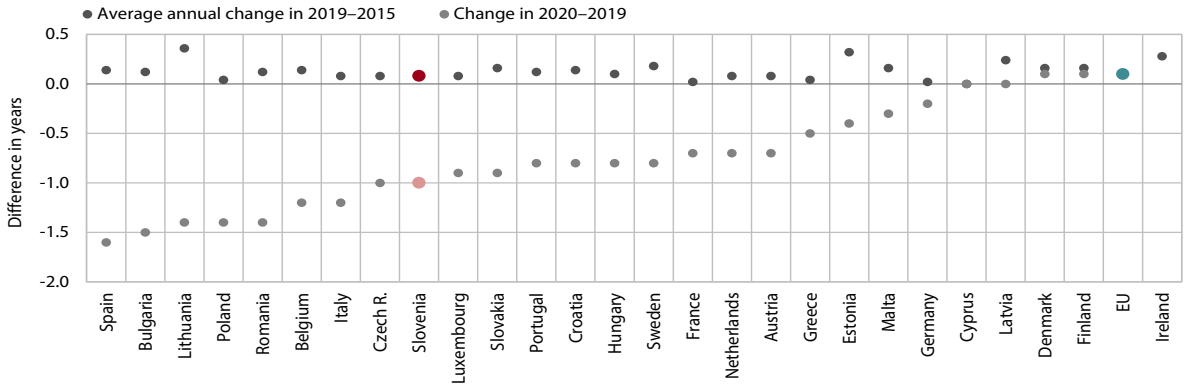
Due to the epidemic, life expectancy at birth decreased significantly in 2020 in most regions for the first time since 2011; it remains higher in the Zahodna Slovenija region. Compared to the previous year, it decreased the most among women in the Zasavska region (to the 2015 level) and among men in Jugovzhodna Slovenija (to the 2017 level). Women in the Goriška region (84.4 years) and men in the Osrednjeslovenska region (79.2 years) had the longest life expectancy at birth. Compared to the Vzhodna Slovenija regions, life expectancy in the regions of Zahodna Slovenija, with the exception of the Goriška region, is about one year longer. Premature mortality also continued to decline, especially among men, most markedly in the Koroška region (by 6.5 p.p. to 18.6%), and among women in the Podravska region (by 3.7 p.p. to 9.3%).

Table: Life expectancy at birth, in years

		2000	2005	2008	2010	2012	2015	2016	2017	2018	2019	2020
Slovenia	Total	76.2	77.5	79.1	79.8	80.3	80.9	81.2	81.2	81.5	81.6	80.6
	Men	72.2	73.9	75.5	76.4	77.1	77.8	78.2	78.2	78.2	78.7	77.8
	Women	79.9	80.9	82.6	83.1	83.3	83.9	84.3	84.0	84.4	84.5	83.4
EU	Total	N/A	78.4	79.3	79.8	80.2	80.5	80.9	80.9	81.0	81.3	N/A
	Men	N/A	75.1	76.1	76.7	77.1	77.7	78.0	78.1	78.2	78.5	N/A
	Women	N/A	81.5	82.4	82.9	83.1	83.3	83.7	83.6	83.7	84.0	N/A

Source: Eurostat (2022). Note: N/A – data not available.

Figure: Difference in life expectancy at birth compared to the previous year, 2015–2019 average and 2020



Source: Eurostat (2022).

[1] The average number of years that a person at a given age can expect to live, under the assumption that age-specific mortality rates remain constant throughout their lifetime (i.e. equal to the values in life tables for the observed year) (Šter, 2020). Due to the different methodologies used, Eurostat data (for comparison with the EU) differ slightly from SURS data.

[2] Excess mortality in 2020 and 2021 is the ratio of the number of deaths due to all causes of death in 2020 or 2021 compared to the average for the period 2015–2019. Sambt et al. (2021) point out that such an approach does not take into account changes in the number and age structure of the population, nor the trend of declining mortality over time. For Slovenia, the estimated excess mortality for 2020 would thus be around 4 p.p. lower.

[3] The share of deaths under the age of 65 among all deaths in a calendar year.

Unmet needs for healthcare 3.4

In 2020, 2.7% of the population in Slovenia had unmet needs for medical examinations, which is significantly above the EU average, the main reason being waiting times.[1] According to the EU-SILC 2020 survey, unmet needs for medical examinations did not increase during the epidemic, despite the cancellation of many health activities and poor accessibility of healthcare.[2] This is probably due to the fact that part of the EU-SILC 2020 survey was conducted before the first wave of the epidemic and only part after the first wave and partly to the fact that many people did not seek medical care at all, even in cases where they should have done so, and therefore did not report unmet needs. The differences between countries are large, both in terms of the proportion of the population reporting unmet needs and in terms of the reasons for unmet needs and income-based inequalities. In contrast to other Member States, respondents in Slovenia cite waiting times rather than financial reasons as the main reason for unmet needs, and the gap between the first and fifth income quintiles of the population is very small. This is related to a broad healthcare benefits basket, which is covered partly by compulsory and partly by complementary health insurance, which ensures good financial accessibility of healthcare, limited by long waiting times for many services. Unmet needs for dental care in Slovenia are also high mainly due to long waiting times in the public dental healthcare network and not due to financial reasons (see Table).

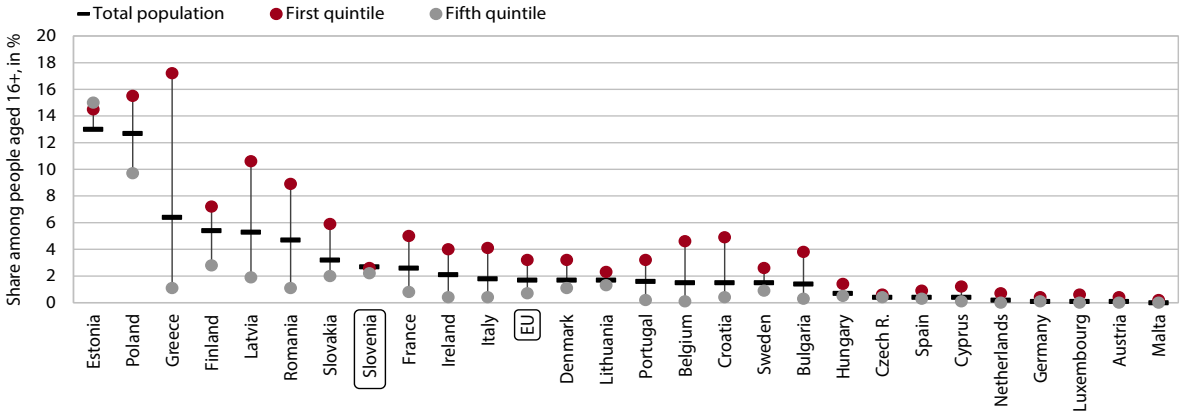
According to the EHIS survey, unmet needs for healthcare in Slovenia in 2019 were significantly higher than the EU average. In 2019, unmet needs for healthcare were reported by as many as 28% of respondents in need of healthcare.[3] According to this survey, the largest share reported problems due to waiting times (22.8%; EU: 19.4%) and a relatively high share of respondents reported unmet needs due to financial reasons (15.6%; EU: 13%). In Slovenia, higher unmet needs are reported by people with higher education and income, which is typical for some countries with high unmet needs due to waiting times. According to the previous EHIS survey from 2014, the share of unmet needs in Slovenia has increased mainly due to waiting times and to some extent also due to financial reasons.

Table: Unmet needs for healthcare in the population aged 16 and over, in %

Reasons for unmet needs		Waiting times, financial reasons, geographical distance			Waiting times		
		2018	2019	2020	2018	2019	2020
For medical examinations	Slovenia	3.3	2.9	2.7	3.2	2.9	2.6
	EU	1.8	1.7	1.8	0.6	0.7	0.7
For dental examinations	Slovenia	3.6	3.7	3.1	2.9	3.4	2.7
	EU	3.0	2.8	3.3	0.3	0.2	0.3

Source: Eurostat (2022), data according to the EU-SILC 2020 survey. Note: The EU average is Eurostat's estimate.

Figure: Unmet needs for medical examinations (due to waiting times, financial reasons or geographical distance) and the differences by income, 2020



Source: Eurostat (2022). Note: Data for Italy is for 2019. The EU average is Eurostat's estimate.

[1] The main indicator of accessibility to health services under the European Pillar of Social Rights is the survey indicator of unmet needs for medical examinations due to financial reasons, geographical distance or waiting times. Part of the problem with the unmet need indicator is that the surveys do not cover certain population groups (homeless people, some migrants and people living in institutions). In Slovenia, in the past there was a problem in the translation of the EU-SILC survey question, so the data is only relevant since 2017.

[2] At the primary level, the number of visits, including distance consultations, decreased by 1.7% compared to 2019, after increasing by around 3% annually before the epidemic. An even higher decrease in the number of treatments was observed in specialist ambulatory services (by 20%), in imaging diagnostics (by 15%) and in inpatient treatments (by 15%), which means that many patients did not receive treatment (HIIS, 2021).

[3] The proportion of unmet needs is higher according to the EHIS survey, as only those who actually needed medical care were interviewed.

Avoidable mortality 3.5

In 2011–2018, avoidable mortality[1] in Slovenia decreased twice as fast as the EU average. The rate of avoidable mortality, which consists of (i) preventable mortality that could be avoided through public health and preventive measures and (ii) treatable mortality (avoidable by healthcare), decreased by 57 persons per 100,000 inhabitants in Slovenia in 2011–2018 (in the EU as a whole by 28 persons). Slovenia was very successful particularly in reducing treatable mortality, which declined by 24% in seven years (by 11% on average in the EU).

The rate of preventable mortality decreased in 2018 but is still above the EU average. In 2018, 175 deaths per 100,000 inhabitants could have been avoided in Slovenia by public health measures and preventive measures (160 in the EU in 2017). The higher number of deaths in Slovenia is mainly is associated with a high prevalence of unhealthy lifestyles.[2] The main causes of deaths are lung cancer (smoking) and alcohol-related diseases (both together account for 45% of all preventable deaths). In 2018, the number of deaths decreased significantly due to the successful strengthening of primary prevention interventions focusing on smoking, alcohol consumption, nutrition, physical activity, screening programmes and counselling (OECD/EOHSP, 2021a).

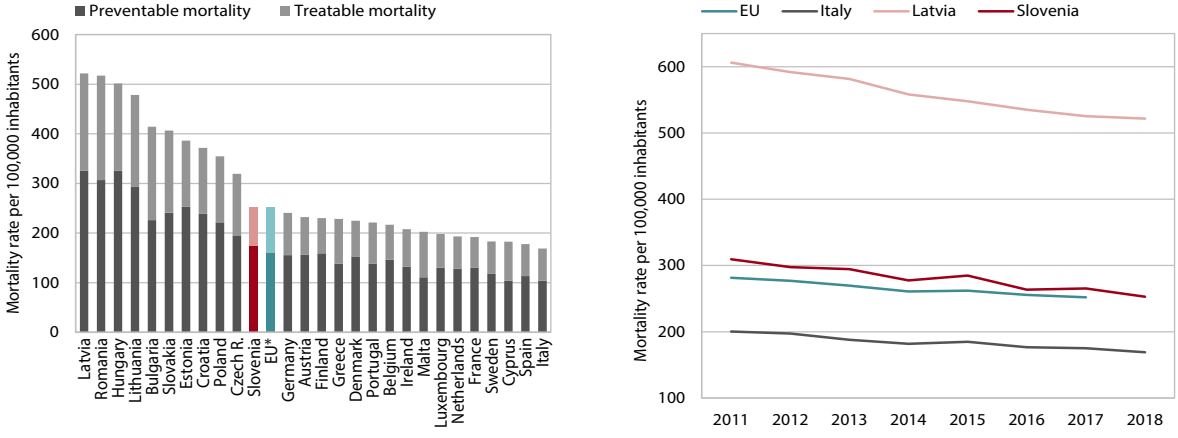
The rate of treatable mortality decreased further slightly in 2018 and was already well below the EU average, which indicates relatively effective healthcare from the aspect of treatment. In 2018, 77 people per 100,000 inhabitants died in Slovenia from causes that could have been avoided through timely and effective healthcare (including through screening programmes and treatment) (EU average: 92). The indicator points to effective healthcare in terms of treatment, particularly with regard to the relatively lower investment in health than in countries that reach comparable results (see also Indicator 3.6). The main causes of deaths are ischemic heart disease, colon and rectal cancer, followed by strokes and breast cancer. In all countries, the indicator is significantly worse for men than for women.

Table: Avoidable mortality, age-standardised rates per 100,000 inhabitants

	1. Avoidable mortality (1=2+3)			2. Preventable mortality			3. Treatable mortality		
	2011	2017	2018	2011	2017	2018	2011	2017	2018
Slovenia	309	265	253	209	187	175	101	78	77
EU	281	252	N/A	178	160	N/A	103	92	N/A

Source: Eurostat (2022). Note: N/A – data not available.

Figure: Avoidable mortality rates in the EU, 2018 (left) and mortality per 100,000 population (right)



Source: Eurostat (2022). Note: *Data for the EU average is from 2017 (left).

[1] In 2019, the methodology for calculating the indicator of avoidable mortality was changed. The indicator is used to assess the performance of the healthcare system and consists of two indicators: preventable mortality and treatable (amenable) mortality. The lists of both preventable and treatable causes of mortality were also changed in the indicators. The attribution of causes of death to the preventable or treatable mortality category is based on the criteria of whether these causes of death can be largely prevented through better prevention measures or more effective treatment. In addition, the age threshold used to define premature deaths is now 75 years (previously 65 years). For both indicators, the data series from 2011 to 2018 is available.

[2] According to the estimates of international institutions, in 2020 Slovenia ranked 8th in the EU by cancer incidence and 7th in terms of mortality (European Cancer Information System, 2022; International Agency for Research of Cancer, 2022).

Health expenditure 3.6

Health expenditure increased significantly in 2020 due to the epidemic. Slovenia entered the epidemic with an underfunded and understaffed health system, as health expenditure declined sharply during the global financial crisis. In 2013–2019, growth averaged only 2.6% per year, lagging behind the EU average (3.0%). In 2017–2019, the transmission of the financing of medical practitioners and traineeships to the state budget contributed to the additional revenues of the HIIS.[1] However, given the increasing demand, this additional budgetary resource was not sufficient for the health system, leading to a rapid increase in waiting times and thus unmet needs (see Indicator 3.4). In 2020, most of the costs of dealing with the COVID-19 epidemic were covered by the state budget (EUR 298 million, i.e. 0.64% of GDP according to the first estimate). According to the preliminary estimate by OECD (2022b), total government scheme (state budget) expenditure as a share in total current health expenditure increased from 4.2% in 2019 (EUR 174 million) to as much as 9.7% in 2020 (EUR 437 million), and the share of total current public expenditure increased from 72.8% to 75.2%.

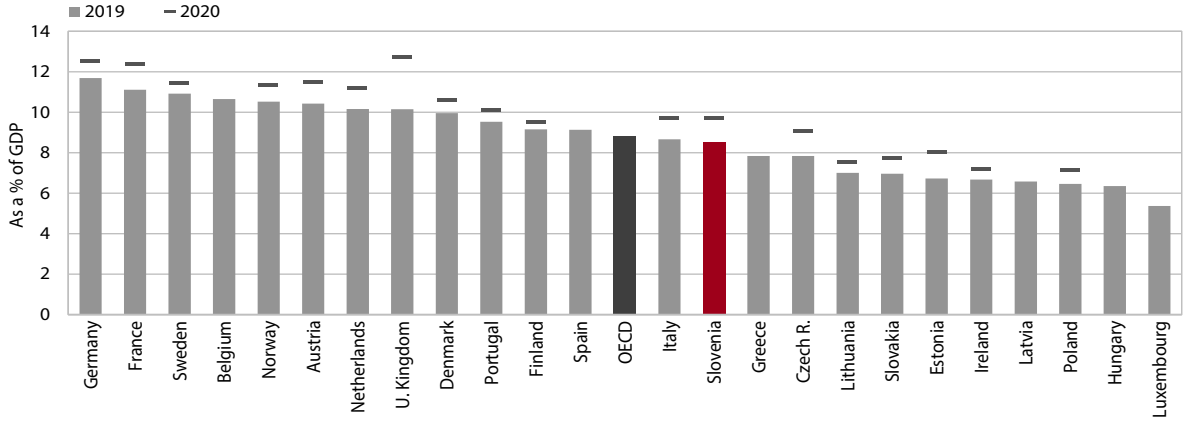
In 2021, the contribution from the state budget for healthcare related to the costs of dealing with the COVID-19 epidemic doubled compared to 2020. According to the Ministry of Health and HIIS (Ministry of Health, personal email, 24 March 2022; HIIS, 2022), a total of EUR 811.3 million (1.56% of GDP) was allocated in 2021 to combat the COVID-19 epidemic: EUR 306.9 million was paid directly by the Ministry of Health to healthcare providers to cover crisis allowances, an additional EUR 211.4 million was paid directly through the HIIS to cover various costs related to preventing the spread of the epidemic,[2] and EUR 179.1 million was transferred from the budget to the HIIS to cover part of the HIIS expenditure related to the COVID-19 (EUR 293 million in total[3]).[4] According to the first estimate, EUR 697.4 million, i.e. 1.3% of GDP, was allocated from the state budget for the management of the epidemic in 2021 (see Section 3.1, Box 6).

Table: Health expenditure[5]

	Health expenditure as a % of GDP				Public health expenditure as a % of GDP				Private health expenditure as a share of current health expenditure, in %			Out-of-pocket expenditure as a share of current health expenditure, in %		
	2010	2018	2019	2020	2010	2018	2019	2020	2010	2019	2020	2010	2019	2020
Slovenia*	8.6	8.3	8.5	9.7	6.3	6.0	6.2	7.3	26.6	27.2	24.8	13.0	11.7	10.6
EU**	9.0	8.3	8.3	N/A	6.5	6.1	6.1	N/A	29	27	N/A	23	21.7	N/A

Sources: For Slovenia SURS (2021) and OECD (2022); for the calculation of EU average Eurostat (2022). Note: N/A – data not available. *For Slovenia, the figure for 2020 is a preliminary estimate by SURS (see OECD, 2022); **EU is a usual arithmetic mean of EU Member States, calculation by IMAD; Eurostat and the EC publish a weighted EU average that mainly reflects data from large countries (Germany, France), so it differs significantly from the simple average.

Figure: The share of health expenditure as a % of GDP, 2019 and estimate for 2020



Source: OECD (2022b).

[1] In July 2017, amendments to the Medical Practitioners Act were adopted; according to these the obligation to finance traineeships and specialisations of doctors from the HIIS was transferred back to the state budget. The transfer was gradual: over 2017–2020 every year an additional EUR 20 million, to a total of EUR 80 million.
[2] To cover the costs of COVID-19 testing and vaccination, distribution of medicines, influenza vaccination, telemedicine care for patients with COVID-19 and various sickness benefit reimbursements.
[3] Of which EUR 179.9 million for health services and EUR 113.1 million for compensation for isolation.
[4] For more see HIIS (2022), Section 5.1.2., "Impact of measures to mitigate the consequences of the epidemic on HIIS operations".
[5] Expenditure on healthcare includes current expenditure according to the methodology of the system of health accounts (SHA, 2011); investments are not included.

Expenditure on long-term care 3.7

In 2019, the share of public expenditure on long-term care (LTC) increased significantly, but as a share of GDP it is still far below the EU average. In the structure broken down by financing schemes, the share of public expenditure on LTC in Slovenia increased sharply after two years of decline. Broken down by function, the share of expenditure on the health component of LTC, which is mainly financed from public sources, increased. The main reason for the increase in public expenditure was the adoption of the Personal Assistance Act (ZOA, 2019), which significantly increased public financing for LTC at home. The growth of private expenditure was also very high, mainly due to the rising costs of nursing home care.[1] International comparison shows that public expenditure for LTC in 2019 in the 22 EU Member States for which data are available averaged 1.3% of GDP, in contrast to still only 1.0% in Slovenia. In 2008–2019, expenditure on LTC as a share of GDP increased at a far slower pace than the average of EU and OECD countries. There are large differences between countries in the level of public expenditure on LTC, with the Scandinavian countries, Netherlands and Belgium standing out (at 2 to 4% of GDP). In addition to the different levels of development, these large differences also reflect differences in LTC systems, the impact of demographic factors and life patterns, particularly regarding the role of family and informal care (see IMAD, 2021a).

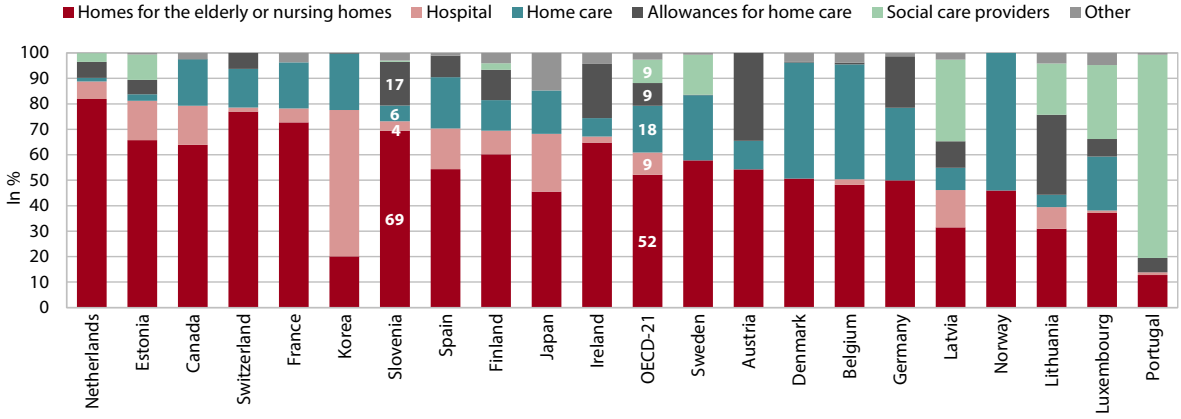
In Slovenia, formal LTC is still mainly implemented as institutional care, which is expected to change by the LTC Act, which was adopted at the end of 2021. In Slovenia, almost three-quarters of total expenditure on LTC is spent on institutional care in nursing homes (69%) and hospitals (4%), which is more than in most of the 21 OECD members for which data are available (OECD, 2021i). At the end of 2021, the LTC Act was passed to ensure, among other things, faster development of LTC at home and the introduction of new services to strengthen and maintain independence, co-finance e-care services at home, and improve the status of home care assistants (see Section 3.2., Box 9).

Table: LTC expenditure by source of funding and by function, 2009, 2018 and 2019

	In EUR million			As a % of GDP			Breakdown, in %			Real growth, in %	Average annual real growth, in %
	2008	2018	2019	2008	2018	2019	2009	2018	2019	2019/2018	2008–2019
Long-term care	349	547	617	0.99	1.19	1.34	100.0	100.0	100.0	9.9	2.3
By source of funding											
Public expenditure	269	400	454	0.77	0.87	0.99	77.2	73.3	73.7	10.5	2.1
Private expenditure	80	147	162	0.23	0.32	0.35	22.8	26.7	26.3	8.1	3.2
By function											
Healthcare	239	361	421	0.79	0.82	0.87	73.3	66.0	68.3	13.7	2.0
Social care	87	186	195	0.29	0.42	0.40	26.7	34.0	31.7	2.5	3.1

Sources: SURS (2021b) and OECD (2022b). Note: For definitions of LTC, healthcare, social care, and public and private expenditure, see Nagode et al. (2014).

Figure: Structure of total expenditure on long-term care by LTC providers, 2019



Source: OECD (2021i). Note: The figure only includes OECD members for which data is available. The category "social assistance providers" includes those providers who are mainly involved in assistance with instrumental activities of daily living (IADL) or other social care. For more explanations, see Nagode et al. (2014).

[1] Public expenditure on personal assistance has been growing sharply for the last three years, from EUR 3.8 million in 2018 to EUR 84.4 million in 2020 and EUR 130 million in 2021 (2021b). According to the international methodology, this expenditure will be included in public expenditure on LTC (at home). In 2021, an amendment to the Personal Assistance Act was passed that tightens the conditions for personal assistance providers and also provides for a reassessment of all personal assistance beneficiaries.

Overweight and obesity 3.8

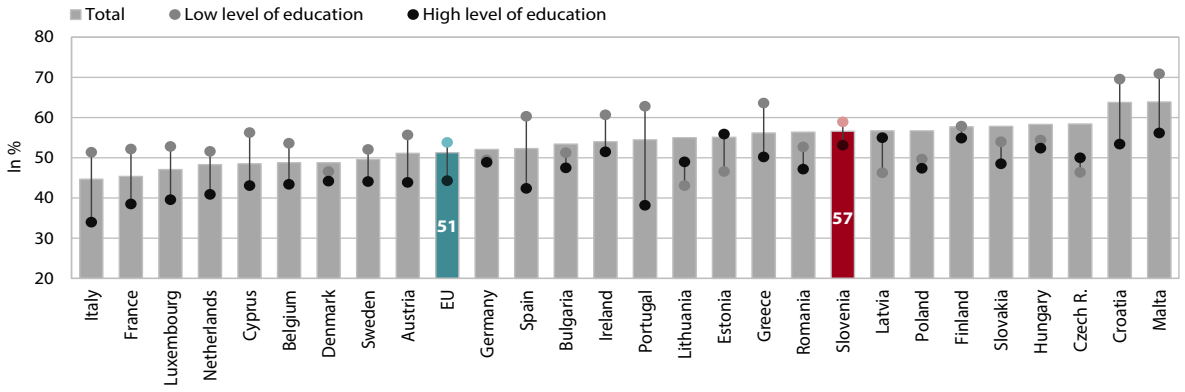
The share of overweight or obese adults in Slovenia increased over the 2014–2019 period and was above the EU average. In most EU Member States, the share of the population that is overweight or obese is lower among those with high education and higher among those with low education; in Slovenia, the difference is smaller than the EU average. The proportion of overweight or obese women is lower than the proportion of overweight or obese men. However, the reverse was true for those with low education in Slovenia in 2019. The proportion of overweight or obese adults in Slovenia and the EU average increased by 1.6 p.p. over the period studied, and the gap by educational attainment narrowed, mainly due to a lower number of overweight or obese men. Compared to the last survey from 2014, the share of overweight or obese people decreased the most among men with low levels of education, while it increased the most among women with high levels of education. Broken down by educational groups, the largest increase was observed among those with upper secondary education (from 19.2% in 2007 to 23.0% in 2019). According to the latest survey, Slovenia diverges from the EU average particularly in the prevalence of obesity in men with a high level of education and women with a low level of education. A high share of overweight or obese people can be associated with poor eating habits and excessive alcohol consumption. As much as 9% of adults, more men than women, consume sugary drinks daily, and in 2019 the average annual alcohol consumption per capita was 11.1 litres, which is significantly more than the EU average (2018: 10 litres). Overweight and obesity,[1] usually a consequence of excessive food intake and insufficient physical activity, are important risk factors for the development of chronic health conditions[2] and premature mortality. Cardiovascular diseases are the main cause of mortality in Slovenia and indeed in most developed countries. Obesity can, moreover, have not only medical but also socio-economic consequences (social exclusion, lower income, higher unemployment, more working days lost and early retirement). Research shows that obesity also increases the risk of severe illness and death due to COVID-19 (Katz, 2021). According to OECD model calculations (2019), life expectancy will be 2.7 years lower on average over the 2020–2050 period due to overweight; the cost of treating obesity-related diseases will amount to more than 8% of total health expenditure; due to the economic and social consequences, GDP will be 3.3% lower on average in OECD countries and 3.1% lower in Slovenia. Combating overweight and obesity therefore requires more targeted and restrictive measures than in the past: promotion of healthy diets and physical activity, taxes on high fat and high sugar foods, nutritional labelling of foods, agreements with the food industry to improve the nutritional value of products, and the introduction of physical activity prescription by general practitioners.

Table: Overweight and obesity, by sex and educational level, Slovenia and the EU average, 2014 and 2019

	Overweight and obesity, in %		Overweight, in %						Obesity, in %					
	Total		Total		Women		Men		Total		Women		Men	
	2014	2019	2014	2019	2014	2019	2014	2019	2014	2019	2014	2019	2014	2019
Slovenia	55.0	56.6	36.5	37.3	30.3	30.8	42.7	43.7	18.6	20.3	17.0	18.0	20.3	20.7
EU	49.7	51.3	34.8	35.2	28.4	28.8	41.7	42.1	15.4	16.0	15.3	15.8	15.6	16.3

Source: Eurostat (2022), according to the European Health Interview Survey (EHIS).

Figure: Share of overweight or obese adults by educational level, 2019



Source: Eurostat (2022), according to the European Health Interview Survey (EHIS).

[1] Adults with a body mass index (BMI) from 25.0 to 29.9 kg/m2 are defined as overweight and those with a BMI of 30 kg/m2 or over as obese. The BMI is a ratio of an individual's weight to the square of his or her height. This is a criterion according to the World Health Organisation (WHO, 2003). The BMI is a good indicator of the amount of body fat, but it has the major limitation that it says nothing about the distribution of body fat or functional muscle mass.

[2] The burden of non-communicable chronic diseases such as hypertension, diabetes and cardiovascular diseases is rapidly rising.

At-risk-of-poverty or social exclusion rate 3.9

The at-risk-of-poverty or social exclusion rate[1] calculated according to the *new methodology* (see Section 3.2, Box 7) decreased in Slovenia in 2015–2019 and increased slightly in 2020. According to the EU-SILC 2020 survey, which was based on 2019 income and covered only part of the first wave of the epidemic,[2] a total of 259,000 people were at-risk-of-poverty or social exclusion in Slovenia (14.3%). The at-risk-of-poverty rate and severe material and social deprivation rate increased (both by 0.4 p.p.), while the very low work intensity rate decreased (by 0.4 p.p.). Slovenia continues to have the lowest at-risk-of-poverty or social exclusion rate in the EU among those aged under 18 (12.2%, EU: 24.2%), which corresponds to about 47,000 children and young people, while the at-risk-of-poverty or social exclusion rate is higher than average among those aged 65 or more (21.0%; EU: 20.3%). The at-risk-of-poverty or social exclusion rate remains above the national and EU average in single-person households (46.8%; EU: 31.8%) and among women aged 75 and over (30.4%; EU: 24.9%). The risk is also high among those with low education, people with long-term limitations in activities of daily living and a number of other groups (see Section 3.2).

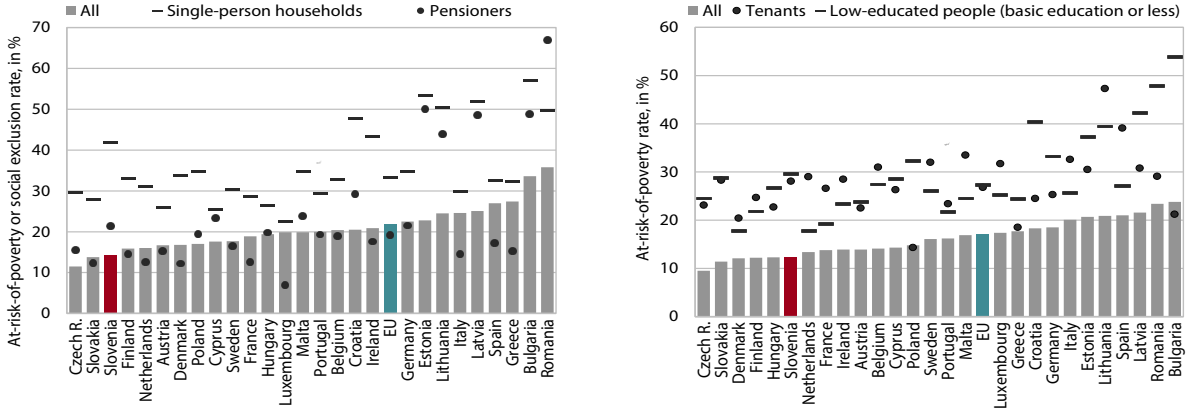
The at-risk-of-poverty rate, which was one of the lowest in the EU in 2017–2019, increased slightly in 2020, and the Court of Auditors and a number of other organisations point out that the most socially disadvantaged groups have not been successfully targeted. In 2020, every eighth person lived below the poverty line[3] (12.4%, EU: 17.1%). Broken down by age, the highest at-risk-of-poverty rate was seen in the age group of people aged 60 and over (19.4%; EU: 17.1%), especially among women (25.9%; EU: 19.0%), reaching the highest level since 2005. 10.5% of children, 19.5% of pensioners, 5% of employed persons, 43.4% of unemployed persons, and 19.6% of other inactive or unclassified persons lived below the at-risk-of-poverty threshold. In terms of the type of household, single-person households were at above-average risk of poverty (39.7%, EU: 26.5%), with the risk significantly higher for single women (42.1%, EU: 27.6%) than for single men (36.6%; EU: 25.2%). The Court of Auditors (2021d), Human Rights Ombudsman (2021), the IRSSV (2021) and 19 non-governmental organisations (EAPN, 2021) draw attention to the failure to take care of the most vulnerable groups of the population, whose poverty and hardship are increasing.

Table: The at-risk-of-poverty or social exclusion rate, in %*

	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	17.7	16.9	16.6	15.4	13.7	14.3	< 16*
EU**	24.0	23.7	22.4	21.7	21.9	21.9	

Sources: Eurostat (2022), EU-SILC 2020 data (based on 2019 income). Notes: *In 2021, Eurostat and national statistics switched to a new methodology for calculating the at-risk-of-poverty or social exclusion rate (see Section 3.2, Box 7). New national goals by 2030 according to the new methodology will be set in June 2022. **Data for the EU average are Eurostat's estimate.

Figure: The at-risk-of-poverty or social exclusion rate (left) and the at-risk-of poverty rate in the EU (right), 2020, in %*



Sources: Eurostat (2022), EU-SILC 2020 data (based on 2019 income). Due to the COVID-19 epidemic, it was very difficult to conduct the EU-SILC survey in 2020, which is why the national statistical offices and Eurostat pointed out that comparability between and among countries is difficult. Note: *Data for the Italy are for 2019. The EU average is Eurostat's estimate. The estimate of the EU average for the at-risk-of-poverty among tenants is for 2019.

[1] The at-risk-of-poverty or social exclusion rate is composed of the at-risk-of-poverty rate (the share of persons living in households with an equivalised disposable income below 60% of the median equivalised disposable income of all households), the severe material and social deprivation rate (see Indicator 3.16), and the proportion of persons living in households with very low work intensity (i.e. less than 20% of a household's total work potential). Persons included in more than one component are only counted once. In 2020, 7,000 persons were exposed to all three components of the at-risk-of-poverty or social exclusion rate.

[2] Part of the EU-SILC 2020 survey was conducted before the first wave of the COVID-19 epidemic and part was completed later than usual, so it is not fully comparable with previous surveys; see in particular Inglič et al. (2021) and IMAD (2021a).

[3] In 2020, people living below the at-risk-of-poverty threshold were those whose net disposable income per adult equivalent was below EUR 739 per month or EUR 8,864 per year. The threshold for a two-member household without children was set at EUR 1,108 per month and the threshold for a four-member household with two adults and two children younger than 14 at EUR 1,551 per month (Inglič et al., 2021).

Inequality of income distribution 3.10

The values of income inequality indicators (Gini coefficient[1] and quintile class ratios[2]) in Slovenia continue to be among the lowest in the EU. The EU-SILC 2020 survey is based on 2019 income and therefore does not yet reflect the impact of the COVID-19 epidemic on income inequality. The low income inequality in Slovenia is mainly due to progressive taxation and, to some extent, to social transfers. In 2020, the top 20% of households in Slovenia received 3.3 times as much income as the bottom 20%, which was within the SDS target for four years in a row and is equal for both sexes.[3] Even for people aged 65 and over, the income ratio is 3.3, which is noticeably closer to the EU average (4.5) than for those under 65 (5.4). A further breakdown of income distribution in Slovenia for 2020 showed that the gap between the fifth and third quintiles was 1.81 (EU: 2.19) and was slightly lower than the gap between the third and first quintiles, which was 1.84 (EU: 2.32) (SURS, 2022; calculations by IMAD). The poorest fifth of households accounted for around a tenth of total disposable income, while the wealthiest fifth accounted for a third.

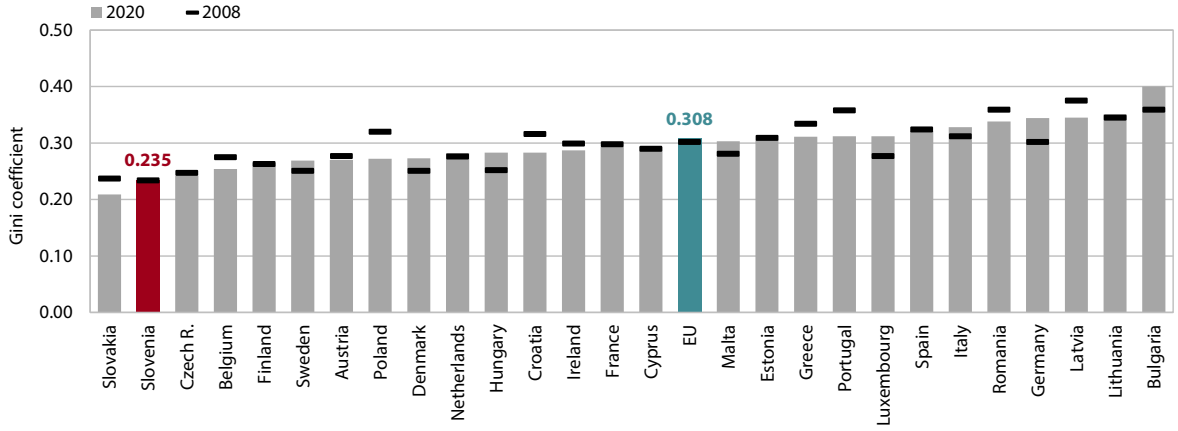
In 2008–2020, the inequality of income distribution changed only marginally both in Slovenia and in the EU as a whole. The quintile share ratio (80/20) in Slovenia was slightly lower than that in 2008, according to the latest available data. Inequality of income distribution increased slightly in 2009–2014, mainly due to the onset of the global financial crisis and the adoption of austerity measures following it. In 2014, it started to decline again with the rapid growth of economic activity and the phasing out of austerity measures. Similar movements for Slovenia are also indicated by the most commonly used measure of income inequality, the Gini coefficient. In 2020, the Gini coefficient was 0.235, slightly above the 2008 value and below the 2014 peak.

Table: Inequalities of equivalised disposable income distribution, quintile share ratio 80/20

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	3.4	3.2	3.4	3.5	3.4	3.6	3.7	3.6	3.6	3.4	3.4	3.4	3.3	< 3.5
EU*	N/A	N/A	4.9	5.0	5.0	5.1	5.2	5.2	5.2	5.0	5.1	5.0	5.2	

Sources: Eurostat (2022), EU-SILC 2020 (based on 2019 income). Note: N/A – data not available. Data for the EU is an estimate of the average.

Figure: Gini coefficient for equivalised disposable income



Source: Eurostat (2022). Note: For 2008, data from 2010 were taken into account for the EU and Croatia. For Italy, data from 2019 are used for 2020. Data for the EU is an estimate of the average.

[1] The Gini coefficient is a measure of statistical dispersion based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive and ranges from 0 (perfect equality) to 1 (perfect inequality) (OECD, 2021e).
[2] The quintile class ratio (80/20) is the ratio between the equivalent disposable incomes of the persons in the highest and the lowest quintile classes (the ratio between the income of the fifth of the population with the highest income and the fifth of the population with the lowest income) (Intihar, 2020).
[3] In 2020, the quintile share ratio (80/20) for both men and women was 3.3.

Experience of discrimination 3.11

According to internationally comparable Eurobarometer data, the share of people who experienced discrimination or harassment decreased over the 2015–2019 period and is within the SDS target. In 2019 (the latest available data), 9% of respondents felt discriminated against, which is one of the lowest shares in the EU. Among them, the share of those who felt discriminated against at work was the highest (33%; EU: 21%).[1] The most frequently given reasons for discrimination were age, gender, religion or beliefs, and general physical appearance (all 2%).[2] Discrimination on the grounds of disability, ethnic origin, sexual orientation, social class, political opinions, skin colour or being Roma was experienced by 1% of respondents. Though discrimination was below the EU average in terms of most personal circumstances, it was as common as the EU average in terms of sexual orientation, religion or belief, and being Roma. In Slovenia and the EU overall, the share of respondents discriminated against on the basis of age declined the most compared with 2015. Experience of discrimination was more frequently mentioned by individuals who considered themselves being part of a minority group.[3]

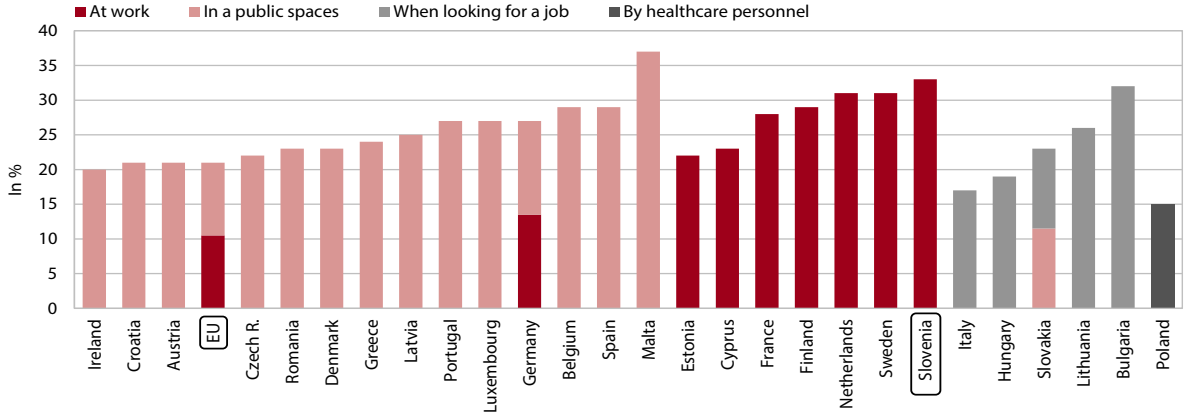
According to research by the Advocate of the Principle of Equality, the share of the population in Slovenia that has experienced discrimination[4] is significantly higher and increased over the 2017–2020 period. In 2020, 22% of respondents felt discriminated against, which is 5 p.p. more than in 2017 (Advocate of the Principle of Equality, 2017b and 2021c). This was also influenced by the COVID-19 epidemic and the measures taken to contain the spread of the virus, which caused many fears and concerns among the population.[5] Of those who felt discriminated against, more than half said that they felt discriminated against at work and when looking for a job (52%), followed by discrimination while receiving healthcare (17%), and in the provision of goods and services (15%). Most frequently mentioned reasons for discrimination were age (22%), education (20%), political opinions (16%), disability (14%), gender (12%) and social status (11%). Of those who felt discriminated against, the majority (80%) did not initiate proceedings to protect their rights, mostly because they believed it would not change anything (Advocate of the Principle of Equality, 2021c). Therefore a good awareness of people's rights in the event of discrimination and the constant efforts of the government to eliminate all forms of discrimination are important.

Table: Total share of those who have experienced some form of discrimination or harassment, in %

	2008	2009	2012	2015	2017	2019	SDS 2030 target
Slovenia	15	16	12	13	10	9	< 10
EU	15	16	16	21	16	16	

Source: Eurobarometer, 2008, 2009, 2012, 2015, 2018c, 2019.

Figure: The most frequent circumstances cited by persons who felt discriminated against in EU Member States, 2019



Source: Eurobarometer (2019). Note: Respondents answered under what circumstances (where and when) they felt discriminated against. Discrimination in a public place was the most frequently reported form of discrimination and Slovenia is among the countries with the highest share of people who experienced discrimination at work.

[1] It is followed by the share of those discriminated against in a public place (17%), at a café, restaurant or a night club (13%), and when looking for a job (12%). For more, see IMAD (2021a) and Eurobarometer (2019).

[2] In the EU, the most frequently given reasons for discrimination or harassment were gender and age (both 4%).

[3] In Slovenia, 11% of respondents considered themselves being part of a minority group (in the EU, 12%). 50% of respondents who considered themselves being part of a sexual minority said that they felt discriminated against or harassed, 40% of those belonging to a religious minority, 32% of those belonging to an ethnic minority, 28% of disabled persons and 16% of Roma respondents. On the insufficient involvement of marginalised and segregated social groups in research on discrimination, see IMAD (2021a).

[4] Answers to the question "Have you personally been a victim of discrimination in the last 12 months?"

[5] Due to the plight of the population, in 2020 the Advocate of the Principle of Equality carried out more consultations, received and dealt with more complaints against discrimination, and made several recommendations to improve the situation of the most vulnerable population groups (Advocate of the Principle of Equality, 2021c).

Median equivalised disposable income 3.12

In terms of the median equivalised disposable income (EDI), Slovenia was in the middle of the EU Member States. The strong growth in 2008 and 2009 was followed by a period of negative or low growth (2010–2013) as a result of lower economic activity, austerity measures (the ZUJF and ZUPJS) and changes in the allocation of transfers (ZSVarPre), which reduced the equivalised disposable income and thus its median value. After the recovery of economic activity (2014–2019) and phasing out of austerity measures after the global financial crisis, the median EDI in Slovenia gradually increased, which contributed to the improvement in the living standard of the population. In 2020, it reached the highest level in real terms in the entire period.[1]

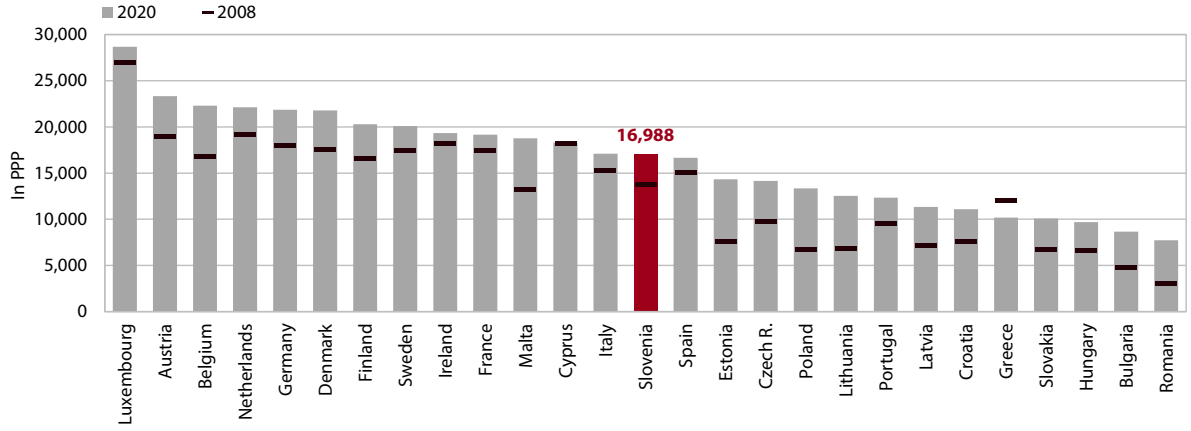
After several years of slow growth in the median ERD for those over 65, growth has increased markedly in the last two years. The increase in the median EDI in 2010–2020 (25.9%) was larger than the EU average (21.5%), with the working population in the 18–64 age group reaching the highest level in both Slovenia and the EU, as expected. The median EDI of the age group of 18 and under is similar to the total EDI, which is mainly a result of policies to protect the material well-being of children and young people in Slovenia. The median EDI of those aged 65 and over was lowest up to and including 2018, mainly because the increase in the average pension was very modest. After a significant increase in the average pension, the median EDI for this age group has also seen a strong increase in the last two years.[2] Over the period 2010–2020, the increase in median income for those with a high level of education was significantly lower than that of those with lower and upper secondary education. This was influenced by the progressive reduction in public sector wages during the fiscal consolidation period (2013) and by an increase in the share of young people with tertiary education employed in jobs requiring upper secondary or lower level education (see Section 2). The gap in Slovenia's median EDI in PPS compared to Austria, which is at the top in terms of income,[3] narrowed in 2015–2019, reaching 27% in 2020. The gap was larger for those with upper secondary education (29%) and especially for those over 65 (36%).

Table: Median equivalised disposable income, Slovenia and the EU average

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Slovenia	Slovenia (amount in EUR)	10,893	11,864	11,736	11,999	12,122	11,852	11,909	12,332	12,327	12,713	13,244	14,067	14,774
	Slovenia (real growth in %)	4.2	8.0	-3.1	0.1	-1.7	-4.1	0.1	4.4	0.2	1.5	2.2	4.4	5.3
EU	EU (amount in EUR)	N/A	N/A	14521	14,652	14,924	14,962	15,101	15,422	15,847	16,281	16,832	17,325	17,637
	EU (real growth in %)	N/A	N/A	N/A	-1.9	-0.7	-1.0	0.5	2.0	2.6	1.1	1.6	1.5	1.1

Source: Eurostat (2022); calculations by IMAD. Notes: N/A – data not available; data for the EU is an estimate of the average.

Figure: Median equivalised disposable income



Source: Eurostat (2022). Notes: for Croatia, data from 2010 are used for 2008; for Italy, data from 2019 are used for 2020.

[1] The EU-SILC 2020 survey is based on 2019 income and therefore does not reflect the impact of the COVID-19 epidemic.
[2] Growth in the average pension was higher in 2018–2020 and the intervention measures (PKP1) with a one-off solidarity allowance provided additional income to pensioners in 2020, which will only be included in EU-SILC 2021 data (based on 2020 income).
[3] The country with the highest incomes is Luxembourg, but for the sake of more appropriate comparability, we took the country with second highest incomes, i.e. Austria.

Life satisfaction 3.13

In 2021, life satisfaction[1] in Slovenia was higher than in 2020 but lower than in 2019. Life satisfaction in Slovenia has been above the EU average since measurements began (in 2004), but the gap has narrowed since 2017, when it was the widest. At the level of the EU average, in the summer of 2021 the share of those satisfied was the highest ever (85%), as was the share of those who were satisfied with the household financial situation (74%) and those who expressed optimistic expectations[2] about the household financial situation (25%). In 2021, satisfaction increased the most in Member States with the lowest satisfaction before the COVID-19 epidemic (Bulgaria, Greece, Romania, Italy, Portugal, Croatia and Hungary) but remained below the EU average. In 2021, Slovenia ranked one place better among EU Member States than in the previous year, i.e. 10th.

In 2021, the level of satisfaction with the personal employment situation in Slovenia was the highest recorded (69%). Satisfaction with one's own financial situation, which reached its highest level in 2020 (74%), fell below the 2019 level (73%) in 2021 (72%). At the national level, in the summer of 2021, the shares of those satisfied with the employment and economic situation were higher than in 2020 but lower than in 2019 (both by 7 p.p.). The shares of respondents who are optimistic about the personal employment situation, the household financial situation and the employment situation in the country also declined (the first two by 5 p.p. and the last by 2 p.p.), while the share of those who are optimistic about the economic situation in the country was 1 p.p. higher than in 2019.[3]

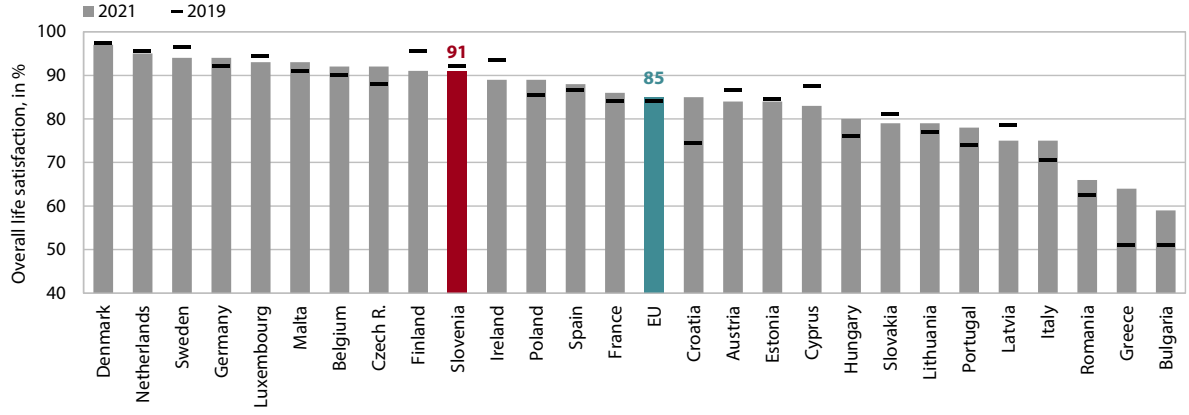
When asked about two main problems, Slovenian respondents cited health as the most important problem at all three levels (personal, state and EU), while the EU average cited the economic situation as the most urgent problem. At the personal level, the main concern[4] of Slovenian respondents in 2021 was still health (31%), followed by inflation and living costs (27%) and living conditions (22%). At the national level, Slovenian respondents in 2021 again pointed to health (47%) as the most important problem, followed by the economic situation (30%) and inflation and living costs (26%), which increased the most compared to autumn 2019 (by 14 p.p.). At the EU level, Slovenian respondents cited health (34%), the economic situation (28%) and immigration (26%) as the most pressing problems. On average in the EU, respondents pointed to the economic situation (27%) as the most important problem, followed by immigration and climate change (both 25%) and only then by health and the public finances of the Member States (both 22%).

Table: Life satisfaction, in %

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Slovenia	90	89	88	89	87	86	85	83	85	82	83	84	89	92	91	92	90	91
EU	81	81	82	80	77	78	78	77	77	75	80	76	81	82	83	84	84	85

Source: Eurobarometer (2021e). Note: The annual data represents the average of two measurements, except for 2004, 2020 and 2021. Only one survey was conducted in 2020, this in July and August 2020. Due to a methodological error, the winter survey is not taken into account (Eurobarometer, 2021f).

Figure: Overall life satisfaction, EU Member States, 2019 and 2021, in %



Source: Eurobarometer (2021e).

[1] The Eurobarometer survey measures life satisfaction with the following question: "All things considered, how satisfied would you say you are with your life these days?" In our analysis, the category of satisfied people includes very satisfied and satisfied people.
[2] The share of those expecting improvement in the next 12 months.
[3] Expectations for the next 12 months and perceptions of the situation at the country level tend to be more dependent on the presentation of reality in the media than those at the personal level that reflect one's personal situation.
[4] Respondents were asked to identify two areas (of those listed) they perceive as their greatest concerns at the personal, national and EU levels.

Social protection expenditure 3.14

Slovenia lags behind the EU average in terms of social protection expenditure[1] as a share of GDP and in purchasing power standards (PPS) per capita. As a share of GDP, it was around 4.9 p.p. below the EU average in 2008–2019. In PPS per capita, Slovenia achieved 67.2% of average EU social protection expenditure in 2019. Since the 2008 crisis (72.9%), this share has decreased due to austerity measures and the implementation of new social legislation,[2] reaching its lowest level in 2016 (66.2%; simple average in 2008–2019: 68.6%). Among the individual expenditure areas, Slovenia spent slightly more than the EU average on expenditure on social exclusion n.e.c. (i.e. expenditure on the poorest) in 2008–2019, followed by expenditure on sickness and healthcare (only 79.1% of the EU average).

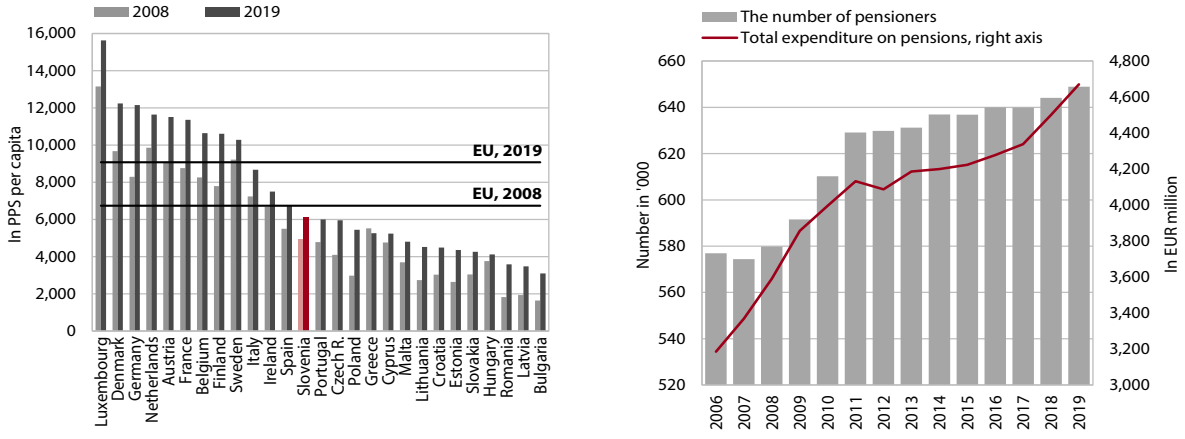
The major part of social protection expenditure in Slovenia and in the EU is intended for old age and sickness/healthcare. Slovenia spends slightly more on these two expenditure categories than the EU average. In 2019, it spent 40.4% (EU: 38.6%) on old age and 33.5% (EU: 28.3%) on sickness/healthcare. Expenditure on old age has increased in recent years due to pension adjustments (since 2016 and especially since 2018, when adjustments were higher), guaranteed pensions and their increases in 2017,[3] and the increase in the number of beneficiaries, which has been more moderate after the last reform. Expenditure on sickness/healthcare has increased due to higher expenditure on healthcare (see Indicator 3.6) and on sickness benefits (see Indicator 3.22). In 2019, the third largest transfer in Slovenia (8.2%) and the EU (8%) was intended for families and children. Compared to the EU average (2.2%), Slovenia (3.5%) spends a larger share of total expenditure on social exclusion n.e.c. It spends a lower share than the EU average in the areas of disability, unemployment and housing. The share of expenditure on disability has been declining for a long period, mainly due to a lower number of beneficiaries of disability pensions (according to the ZPIZ, their number was 15% lower in 2019 than in 2009). In the area of unemployment, the share of unemployment benefit beneficiaries among the unemployed is low compared to other EU Member States. The relatively low expenditure on housing (mainly on subsidised rents) is to a great extent attributable to the very high share of owner-occupied dwellings and the relatively poorly developed rental housing market.

Table: Social protection expenditure, as a % of GDP

	2000	2005	2008	2010	2012	2014	2015	2016	2017	2018	2019
Slovenia	23.8	22.7	21.0	24.4	24.7	23.9	23.8	23.2	22.6	22.0	22.2
EU	N/A	N/A	26.0	28.6	28.7	28.9	28.6	28.5	28.1	27.9	28.1

Source: Eurostat (2022). Note: N/A – data not available.

Figure: Social protection expenditure, in purchasing power standards per capita, 2008 and 2019 (left) and changes in the number of pensioners and pension mass according to the ESSPROS methodology (right)



Source: Eurostat (2022).

[1] According to the ESSPROS methodology, expenditure covers the following categories: sickness/healthcare, disability, old age, death of the breadwinner, family/children, unemployment, accommodation, and other forms of social exclusion (Zupanc et al., 2018). See also IMAD (2021a).

[2] The ZUPJS (2010) redefined the eligibility criteria for social benefits and family receipts in order to improve their targeting. The ZUJF (2012) limited or froze the payment of certain family receipts and parental compensation.

[3] In 2020 and 2021, some changes were introduced that are also expected to increase expenditure on old age, such as the increase in the accrual rates. For more about changes in this field, see IMAD (2021a). According to our estimates, the increase in these expenditures in 2022 will be higher than has previously been the case, which is the result of regular and extraordinary adjustment of pensions (on average by about 7% in total).

Housing deprivation rate 3.15

Slovenia has a relatively high housing deprivation (HD)[1] rate and a relatively low severe housing deprivation (SHD)[2] rate compared to other EU Member States. In 2020, more than a fifth of the population lived in poor housing conditions, which is one of the largest shares in the EU.[3] Compared to 2014, the HD rate fell by 9.1 p.p. Although this is a much larger decrease than the EU average (1.6 p.p.) the HD rate in Slovenia is still 6.8 p.p. above the EU average. A good quarter of households facing housing deprivation live in the Pomurska, Obalno-kraška, Zasavska and Posavska regions. This is mainly due to the old and poorly maintained housing stock in Slovenia, as more than 80% of dwellings were built before 1990. In 2016–2020, only about 4,000 dwellings were built in total, the most in Osrednjeslovenska and Obalno-kraška and the least in the Zasavska region. Nevertheless, the SHD rate (3.1%), which is also declining, is below the EU average (4.2%), even among households below the at-risk-of-poverty threshold (6.5%, EU: 9.2%).

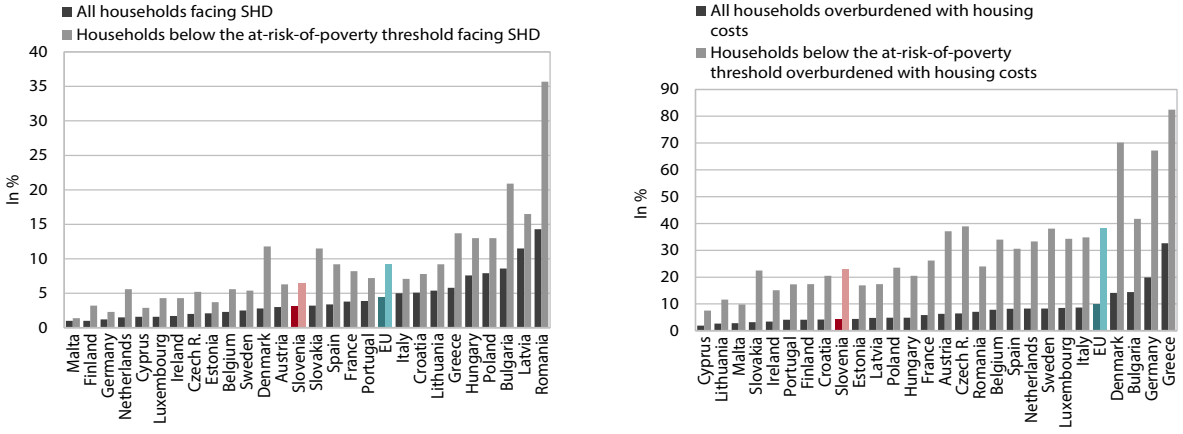
Compared to the EU average, housing costs in Slovenia were not high in 2020 and they were also below the EU average for households below the at-risk-of-poverty threshold. The housing cost overburden rate,[4] which had decreased since 2014, increased slightly in 2020 (to 4.4%) but is still more than half lower than the EU average (10%). Of households below the at-risk-of-poverty threshold, 23.1% were overburdened with housing costs (EU: 38.4%). In 2020, 30% of people in households below the at-risk-of-poverty threshold lived in poor housing conditions, most often households with elderly members (in the Goriška and Pomurska regions) who are less able to make renovations.[5] From the point of view of ownership, tenants who pay rent at the market price continue to be the most overburdened with housing costs. Their share decreased by 10.4 p.p. in the period from 2016 to 2020 (EU: 1.2 p.p.) and fell below the EU average (to 18.6%; EU: 25.8%).

Table: Housing deprivation (HD) rate and severe housing deprivation (SHD) rate, in %

	Slovenia							EU						
	2014	2015	2016	2017	2018	2019	2020	2014	2015	2016	2017	2018	2019	2020
HD	29.9	26.9	23.8	22.0	22.7	20.6	20.8	15.6	15.3	15.2	13.1	13.6	12.7	14.0
SHD	6.5	5.6	4.5	4.4	4.8	3.9	3.1	5.4	5.3	5.1	4.5	4.3	4.0	4.2

Source: Eurostat (2022). Note: Data for the EU is Eurostat's estimate.

Figure: SHD rate and housing cost overburden rate, in %, 2020



Source: Eurostat (2022). Note: Data for the EU is Eurostat's estimate, data for Italy is for 2019 and data for Latvia is preliminary.

[1] The proportion of the population living in in poor housing condition (roof leaking, damp walls/foundations/floors or rot in window frames/floors) (SURS, 2020). Data do not include homeless people, Roma, who are insufficiently included, or other low-income groups often living in poorer housing conditions (see IMAD, 2021a).

[2] The share of people in overcrowded housing who are simultaneously deprived of at least one of the deprivation elements: (i) poor housing condition, (ii) no bathtub or shower in the dwelling, (iii) no flushing toilet for own use, or (iv) the dwelling is too dark (Eurostat, 2021b).

[3] Until 2007, like most EU Member States, SURS collected data for the HD based on one question (see note above) and since 2008 based on three: (i) leaking roof, (ii) damp walls/floors/foundations, (iii) rot in window frames/floors. At least one positive answer means a poor condition of the dwelling. The changes were introduced due to the underestimation of the phenomenon in Slovenia (SURS, 2020). The results differ greatly depending on the old and the new method of measurement: the share of people living in poor housing conditions was 17.5% in 2007 and 30.2% in 2008.

[4] The share of the population living in a household where total housing costs represent more than 40% of the household's total disposable income. This includes total annual housing costs of a household (interest on a loan or mortgage, rent, insurance, the costs of regular maintenance and repairs, utilities (water, electricity, gas and heating), sewerage removal, waste removal, etc.), net of housing allowances (SURS, 2020).

[5] The Eco Fund for the renovation and energy efficiency of buildings offers soft loans and grants for the socially disadvantaged and professional support (Eco Fund, 2021).

Material and income deprivation 3.16

In 2015–2019, the level of (serious) material and social deprivation[1] decreased significantly in Slovenia and the EU; in 2020, serious material and social deprivation increased slightly in Slovenia; the latest provisional data for 2021 indicate a significant improvement. According to the new measurement methodology (see Section 3.2, Box 7), the decline in material and social deprivation in Slovenia was higher than the EU average in the period 2015–2019, while the decline in severe material and social deprivation was slightly lower. According to EU-SILC 2020, which only partially reflects the impact of the first wave of the epidemic on the living conditions of the population,[2] the material and social deprivation rate remained stable and the severe material and social deprivation rate increased slightly; both remained low compared to the EU average, placing Slovenia 10th among Member States. Provisional EU-SILC data for 2021 show that the severe material and social deprivation rate in Slovenia decreased by 1 p.p. or by around 20,000 people (to 1.6%), the lowest level since 2015 (Inglič et al., 2022).

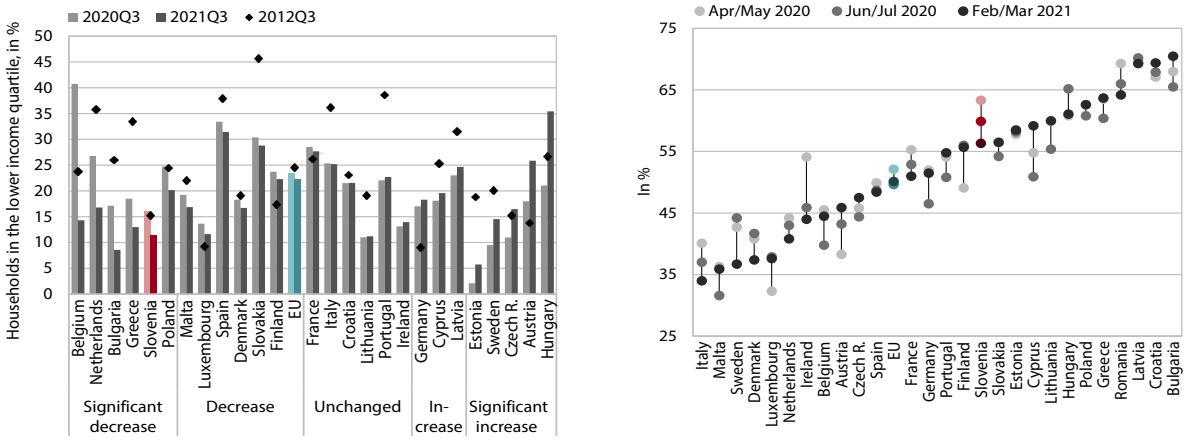
The financial and material situation of households in Slovenia has gradually improved since 2015 but remains below the EU average. At the beginning of the epidemic, households' financial distress worsened somewhat but remained relatively stable, while in 2021 they improved significantly. In 2019 and 2020, 20% of households estimated that it was difficult to make ends meet, compared to only 13% in 2021; the share of households that had no difficulty making ends meet also increased significantly (Inglič et al., 2022; Inglič et al., 2021; SURS, 2022b). Eurofound surveys (2020a, 2020b and 2021a) have shown that subjective perceptions of households' financial fragility in early 2021 improved the most in Slovenia and Ireland and worsened in Finland and Austria. Other surveys also show that the financial situation in Slovenia has been relatively stable since 2019 and that it improved in 2021 but also that the financial and material situation of households remains below the EU average (Demertzis et al., 2020; ECB, 2020; Midões, 2020). The European Commission (EC, 2021l) notes that the financial situation of the poorest households in Slovenia improved more than the EU average last year.

Table: (Severe) material and social deprivation rate, in %

		2015	2016	2017	2018	2019	2020
Material and social deprivation rate	Slovenia	12.1	10.1	10.6	8.8	6.1	6.1
	EU*	17.9	16.4	14.5	13.5	12.8	12.8
Severe material and social deprivation rate	Slovenia	4.8	4.1	4.5	3.2	2.2	2.6
	EU*	9.7	9.0	7.9	7.1	6.7	6.8

Source: Eurostat (2022), EU-SILC 2020 survey data. Note: *Data for the EU average are Eurostat's estimate.

Figure: Households' financial distress* in the lowest income quartile (left) and subjective assessment of households' financial fragility in the EU (right), in%**



Sources: EC (2021l), based on Business Tendency and Consumer Survey; Eurofound (2020a, 2020b, 2021a). Notes: *Share of respondents whose households need to "run into debt" or "draw on savings"; **share of respondents whose households would be able to maintain the same standard of living less than three months or were without savings.

[1] The material and social deprivation rate is the percentage of people facing at least five out of 13 deprivation items and the severe material and social deprivation rate is the percentage of those facing at least seven out of 13 deprivation items: inability 1. to face unexpected financial expenses, 2. to take a week of holiday away from home, 3. to eat meat, fish or a protein equivalent every second day, 4. to pay for arrears (mortgage or rent, utility bills, or hire purchase instalments), 5. to keep one's home adequately warm, 6. to have a car, 7. to replace worn-out furniture, 8. to replace worn-out clothes with some new ones, 9. to have two pairs of properly fitting shoes, 10. to get together with friends/relatives for a drink/meal at least once a month, 11. to have regular leisure activities, 12. to spend a small amount of money each week on him/herself ("pocket money"), or 13. to have an internet connection.

[2] The EU-SILC 2020 survey is not fully comparable to previous surveys, as part was carried out before the epidemic (in the first two months of 2020) and was completed later than usual; see Ingličar et al. (2021). All EU Member States faced similar problems also in 2022.

Employment rate 3.17

After several years of increase, the employment rate[1] (20–64 years) decreased in 2020 due to the COVID-19 epidemic and was at a similar level in the second quarter of 2021 as in 2019.[2] Along with economic growth and increased demand for labour, demographic trends also contributed to the increase in employment activity in the period 2013–2019. The rising trend in employment was interrupted in 2020 by the COVID-19 epidemic, which led to a significant drop in employment rates in the second quarter of 2020.[3] In 2021, in a situation of rapid economic recovery, employment has already reached a similar level to the second quarter of 2019 and would be even higher without the methodology change.[4] The employment rate of young people was still significantly lower than before the epidemic, as demand for student work fell sharply after the outbreak of the epidemic (more precisely in the second quarter of 2020). The employment rate among older working-age adults (55–64 years) increased slightly in 2020 despite the crisis and continued to increase in 2021, narrowing the gap with the EU average (to 5.2 p.p. in the second quarter) and no longer being among the lowest in the EU. After several years of growth, the employment level of those with low levels of education fell sharply due to the COVID-19 crisis, so that despite the increase, it still lagged behind the pre-crisis level in 2021. This was due to the high proportion of low-educated workers in the sectors that were most affected by the containment measures.

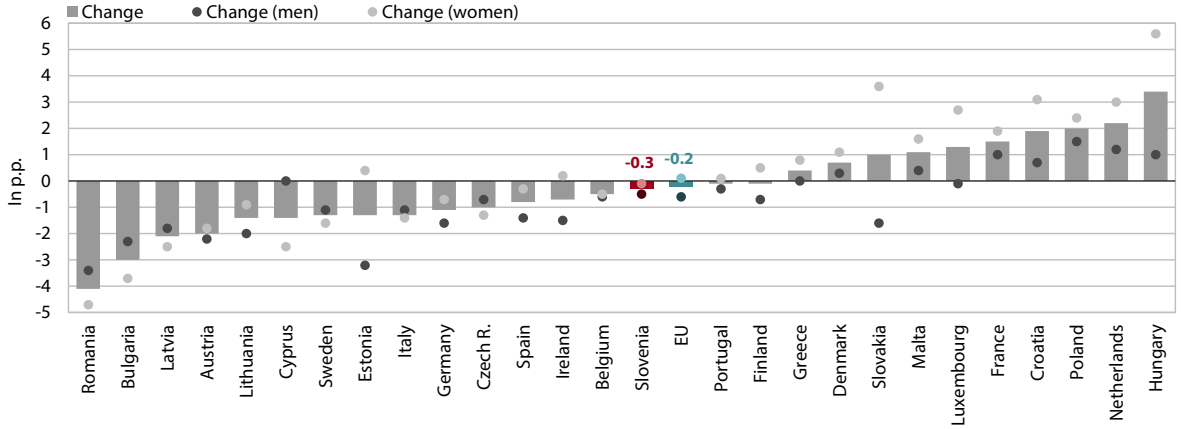
After falling since the outbreak of the epidemic, the employment rate rose again in most regions in 2021 and was already above the 2019 level in some regions. In the second quarter of 2021, the largest year-on-year increase was recorded in the Obalno-kraška region (by 5.9 p.p.), which experienced the sharpest decline in economic activity (see Indicator 1.8) and employment rate in 2020. Employment was already higher than in 2019, mainly in the Vzhodna Slovenija regions. The largest increase compared to the 2019 level was recorded by the Primorsko-notranjska region and the largest decrease by the Vzhodna Slovenija region. Employment was above the Slovenian average in the Osrednjeslovenska, Gorenjska and Goriška regions.

Table: Employment rate of the population aged 20–64, in %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
Slovenia	72.9	72.1	70.7	68.6	68.1	67.1	68.4	69.4	70.6	73.4	75.5	77.1	74.9	76.8	>75.0
EU	69.7	68.5	68.0	68.1	67.8	67.6	68.2	69.0	70.1	71.4	72.4	73.2	71.6	73.0	

Source: Eurostat (2022). Note: Data for individual years refer to the second quarter.

Figure: Year-on-year change in employment rates (20–64 years) by gender between Q2 2019 and Q2 2021, EU



Source: Eurostat (2022).

[1] This is the share of the employed (employees and self-employed) in the population of a certain age group.
[2] Among men, it lagged behind the Q2 2019 level by 0.5 p.p. and among women only by 0.1 p.p.
[3] It also achieved the SDS target in 2020, when the average annual employment rate was 75.6%.
[4] As a result of the change in methodology in early 2021, persons whose duration of layoff was longer than three months or was expected to be longer than three months are now excluded from the total number of employed persons. They are included either in the category of unemployed (if they are actively seeking work) or in the group of inactive persons. Due to the participation of workers in the measures, this methodological change slightly lowered the employment rate in the second quarter. See Section 3.3.

In-work at-risk-of-poverty rate 3.18

The rate of in-work at-risk-of-poverty,[1] which had fallen sharply in 2019, increased slightly in 2020[2] but still remained among the lowest in the EU. According to EU-SILC 2020 survey (based on 2019 income), the rate of in-work at-risk-of-poverty among employed persons aged 18–64 in Slovenia increased by 0.5 p.p. in 2020 and, as in previous years, was well below the EU average (9.3%). For employees, it declined over the period 2015–2020 and amounted to 3.2% in 2020. For the self-employed, it was again relatively high in 2020 (21.2%) after a sharp decline in 2019. Thus there was a higher overall rate of in-work at-risk-of-poverty.[3] The in-work at-risk-of-poverty rate for men is higher than for women in most Member States. This does not reflect the gender wage gap, although wages are the main source of household income.[4] The at-risk-of-poverty rate for employees in Slovenia is the highest among the low-educated. Broken down by education level, the rate decreased over the period 2010–2020 only for those with low education (by 2.6 p.p.), while it was slightly higher in 2020 than in 2010 for those with upper secondary or higher education.[5]

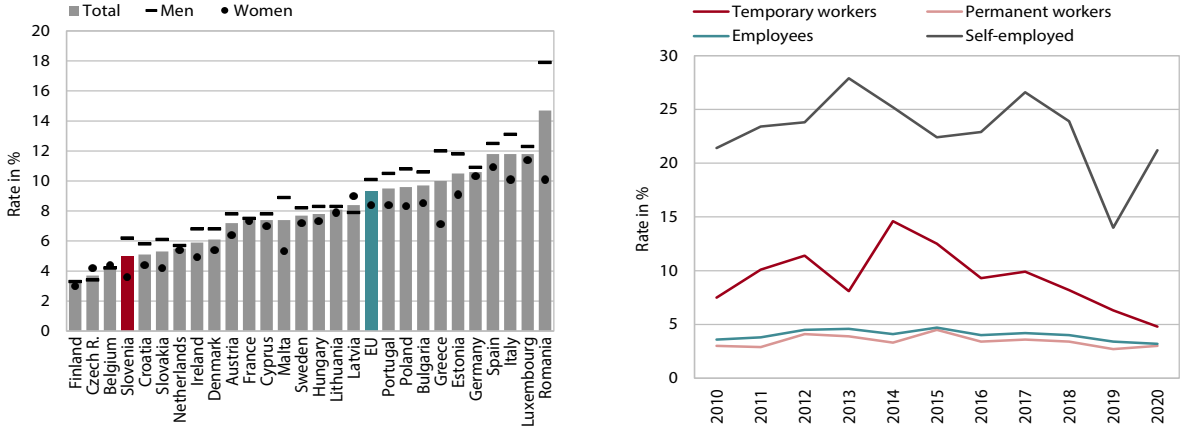
As in other countries, the in-work at-risk-of-poverty rate is much higher for temporary and part-time workers than for full-time and permanent employees. The at-risk-of-poverty rate for temporary workers in Slovenia has decreased over the last ten years, while it has remained at a similar level for those on permanent employment contracts. The at-risk-of-poverty rate for temporary workers fell from 7.5% in 2010 to 4.8% in 2020, while for permanent workers it was the same in 2010 as in 2020 (3%). Slovenia was one of the countries with the largest reduction in the at-risk-of-poverty rate of temporary workers in the period 2010–2020. The at-risk-of-poverty rate for part-time workers in Slovenia in 2020 was 10.9% and for full-time workers 4.5%, which is in line with the EU average.

Table: At-risk-of-poverty rate of employed persons aged 18–64, in %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	5.1	4.8	5.3	6.0	6.5	7.1	6.4	6.7	6.1	6.6	6.0	4.5	5.0	< 5
EU*	N/A	N/A	8.3	9.0	8.9	9.1	9.7	9.7	9.8	9.5	9.3	9.0	9.3	

Source: Eurostat (2022), EU-SILC 2020 data (based on 2019 income). Note: N/A – data not available. *Data for the EU average are Eurostat's estimate.

Figure: The rate of in-work at-risk-of-poverty (18–64 years) in EU Member States in 2020 by gender (left) and at-risk-of-poverty rate by type of employment in 2010–2020 in Slovenia (right)



Source: Eurostat (2022), EU-SILC 2020 data (based on 2019 income). Note: Data for Italy is for 2019; the EU average is Eurostat's estimate.

[1] The in-work at-risk-of-poverty rate is the percentage of persons living in households where the equivalised total disposable household income is below the at-risk-of-poverty threshold (i.e. below 60% of median equivalised disposable income of all households) (Intihar, 2020).
[2] Data for 2020 do not yet reflect the impact of the epidemic, as data on 2019 income are used.
[3] Employed persons include employees and self-employed.
[4] We estimate that this is influenced by the fact that women are more likely to live in a family with children and therefore more likely to receive family transfers.
[5] In 2020, the at-risk-of-poverty rate was 7.6% for those with a low level of education, 6.1% for those with upper secondary education (0.5 p.p.higher than in 2010) and 3% for those with a high level of education (0.9 p.p. higher than in 2010).

Unemployment and long-term unemployment rates 3.19

After a long period of decline, the unemployment rate increased at the beginning of the epidemic and returned to near 2019 levels in the second quarter of 2021. In 2014–2019, it declined as employment increased; it declined the most among those with low levels of education and the decline was similar for men and women. The focus of active labour market policy on young people and the increased volume of student work to 2019 contributed to a rapid decline in youth unemployment (15–24 years).[1] Due to the COVID-19 epidemic and the sharp decline in economic activity as a result of the containment measures, unemployment rose in 2020, most sharply in the second quarter,[2] but the increase was much smaller than it would have been without the job-retention measures. The highest increase was seen among those with low levels of education and women, as they were employed in the sectors most affected by the crisis.[3] Broken down by age, the sharp decline in economic activity due to the epidemic has hit young people (15–24 years)[4] in the labour market the hardest, especially due to a sharp drop in student work. In a situation of rapid economic recovery and growing demand for labour in the second half of 2020, unemployment fell again and in the second quarter of 2021 reached the level of the same period in 2019; this applies to all three education groups. The youth unemployment rate did not yet fall significantly in the second quarter of 2021 but still remained one of the lowest in the EU at 14.2%.

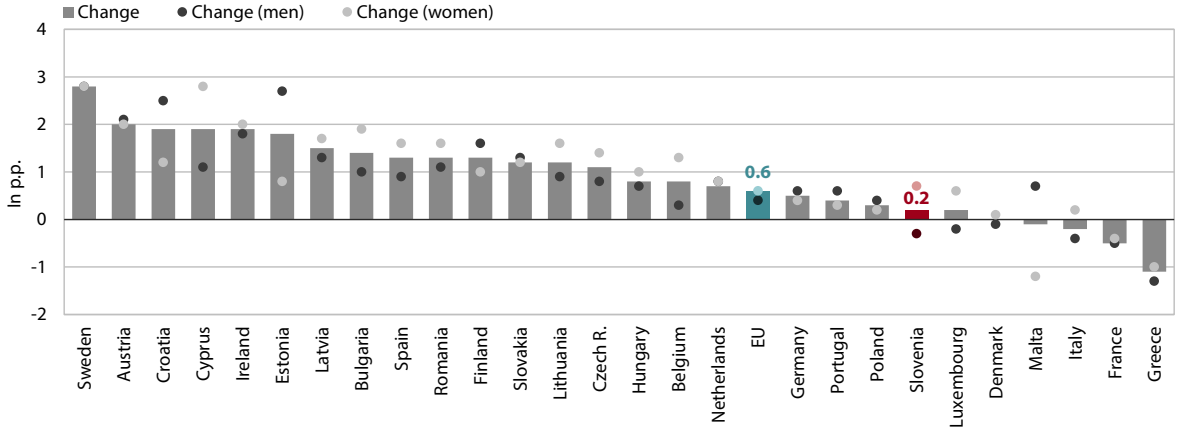
The long-term unemployment rate has not changed significantly in the last three years. After a sharp increase during the global financial crisis, the situation initially improved during the period of economic growth only for those with shorter unemployment duration, but since 2015, in the context of high demand for labour, the number of the long-term unemployed has also declined. With the COVID-19 crisis in 2020, the long-term unemployment rate in Slovenia increased slightly, while the EU average fell.[5] In the second quarter of 2021, long-term unemployment in Slovenia remained roughly unchanged, while it increased significantly in the EU, which means that the rate in Slovenia was again below the EU average. The share of long-term unemployed in the total number of unemployed, however, remained higher than the EU average.

Table: Unemployment and long-term unemployment rates (15–74 years), in %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Unemployment rate														
Slovenia	4.1	5.6	7.1	7.7	8.2	10.4	9.3	9.2	7.8	6.4	5.2	4.2	5.2	4.4
EU	7.1	9.0	9.8	9.6	10.6	11.3	10.8	10.1	9.2	8.1	7.3	6.6	6.7	7.2
Long-term unemployment rate														
Slovenia	N/A	1.7	3.2	3.6	3.9	5.1	5.3	4.7	4.3	3.3	2.3	1.7	2.0	1.9
EU	N/A	3.0	3.9	4.2	4.8	5.4	5.5	5.0	4.4	3.8	3.2	2.7	2.1	2.9

Source: Eurostat (2022). N/A – data not available; data for individual years refer to the second quarter.

Figure: Change in unemployment rate (15–74 years) by gender between Q2 2019 and Q2 2021, EU



Source: Eurostat (2022).

[1] In the second quarter of 2019, the unemployment rate for the 15–24 age group was 6.5%.
[2] In 2020, the unemployment rate increased by 0.5 p.p. to 5.0%.
[3] The unemployment rate among women, which was at a record low in the second quarter of 2019 (4.7%), rose to 5.9% in the same period of 2020.
[4] The third highest year-on-year increase among EU Member States in Q2 2020, but still below the EU average.
[5] The reduction in the long-term unemployment rate in the EU is linked to the inactivity of those who lost their jobs before the pandemic and abandoned the search during lockdown (EC, 2020d).

Temporary and precarious employment 3.20

The share of temporary employment, which had increased since 2013 and decreased in 2018–2020, increased again in 2021. The share of temporary employment increased in 2014–2017 with the rise in economic activity. Before the outbreak of the epidemic (in 2018 and 2019), the decline in the share of temporary employment was mainly due to labour shortage caused by demographic factors. After the outbreak of the COVID-19 epidemic, companies responded to the crisis by not renewing fixed-term contracts, reducing the amount of student work and employment of agency workers. Given the high demand for labour in the second quarter of 2021, the share of temporary employment among young people in the 15–29 age group in Slovenia and many other countries was already higher than before the crisis. In Slovenia, the share of temporary employment among young people is higher than average due to the existence and increase of student work, the volume of which was significantly higher in the second quarter of 2021 compared to the same period in 2020, as the containment measures were less stringent. In most countries, temporary work is most common among young people, women and the low-skilled.

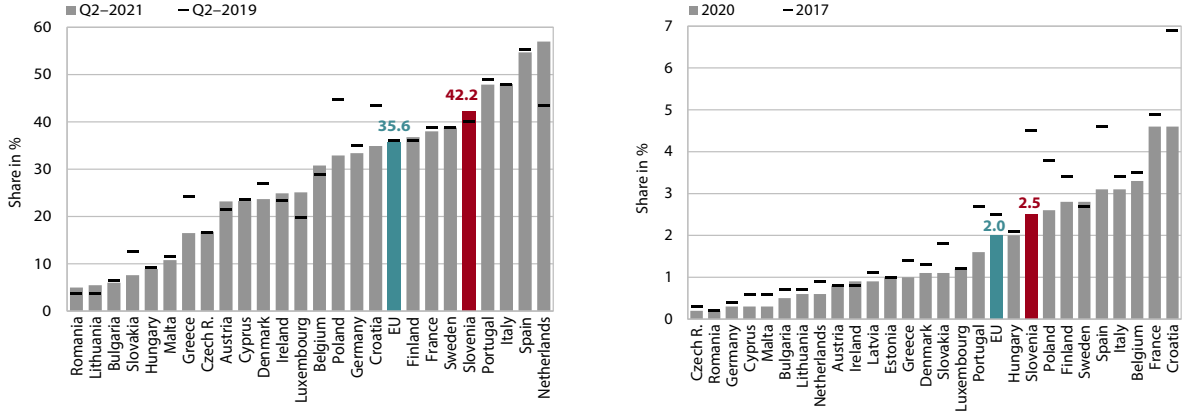
The share of precarious employment[1] has been decreasing since 2017 and remained slightly above the EU average. In 2020 (the latest available data), it was 2.5% in Slovenia, which is the lowest since 2000. In the EU, it has ranged between 2.0% and 2.5% over the past decade. The decline in precarious employment was due to labour shortages forcing employers to offer more permanent positions and, in 2020, to the sharp drop in demand for labour due to the COVID-19 crisis.[2]

Table: Share of precarious and temporary employment in total employment (20–64 years), in %

	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Share of temporary employment*													
Slovenia	15.8	15.5	16.9	14.3	15.2	16.7	17.3	17.7	17.1	15.5	12.6	9.3	13.2
EU	14.5	13.7	14.1	14.1	14.0	14.7	14.6	14.7	14.9	14.7	14.1	12.1	11.1
Share of precarious employment													
Slovenia	3.9	4.1	4.3	4.4	3.9	4.1	4.6	4.2	4.5	3.7	2.6	2.5	N/A
EU	2.3	2.1	2.3	2.4	2.3	2.4	2.5	2.5	2.5	2.4	2.3	2.0	N/A

Source: Eurostat (2022). Notes: N/A – data not available. *Data for individual years refer to the second quarter.

Figure: Share of temporary employment among young people (15–29) (left) and share of precarious employment among people aged 20–64 (right)



Source: Eurostat (2022).

[1] The measurement of the extent of precarious work is insufficient due to the many dimensions of such work, as often only one dimension is considered. Eurostat, for example, defines as precarious work only temporary work with a contract of three months or less, thus highlighting only one dimension of precarity. These Eurostat data are used in our analysis because they are internationally comparable and available annually. However, elements of precarity can also be found in other forms of work. The relatively high share of so-called dependent self-employed workers among the self-employed points to the elements of precarity among the self-employed in Slovenia. Outside the existing statistical categories that measure precarity, home care assistants and a number of other occupations, i.e. work where workers are somewhere between an employment relationship and a civil law contract and are exposed to a high risk of poverty, have for decades been in a very precarious situation in Slovenia. Also in other EU Member States, platform work stands out among such workers, where workers are often treated as independent contractors when in fact they are working as employees (Kresal, 2020), but in Slovenia this also applies to student work and work under copyright contracts and contracts for work/service (public works, apprenticeships, etc.). For more about the precarity of employment see also IMAD (2021a).

[2] Along with Croatia, Slovenia is one of the countries with the greatest decline in the share of precarious employment over the 2017–2020 period.

Activity rate 3.21

The increase in the activity rate was temporarily interrupted by the COVID-19 epidemic in 2020[1] but already reached the pre-crisis level again in 2021. Until the beginning of 2020, the activity rate had gradually increased, due to favourable economic conditions and thus greater employment opportunities, which also attracted to the labour market those people who normally have greater difficulty finding a job.[2] In the second quarter of 2020, it decreased significantly, which was related to measures to prevent the spread of COVID-19, i.e. the shutting down of activities, social distancing, temporary inability to find employment and transition to inactivity. The last was mainly the case for women, probably due to the sectors affected, as mainly activities which predominantly employ women were shut down, such as accommodation and food service activities, creative, arts and entertainment activities, and initially also trade. With a gradual opening of activities and the rapid increase in demand for labour, the activity rate quickly returned to pre-crisis levels in 2021.

In 2021, the number of inactive people was similar to pre-COVID-19-crisis levels. In the second quarter of 2020, the number of inactive people aged 20–64 in Slovenia increased by 8.7% compared to the same period in 2019, while it increased by 7.4% in the EU as a whole. This indicates a similar adjustment of the labour force in the labour market in many countries through a transition into inactivity due to the shut-down of activities. The number of inactive persons increased the most in Ireland, Spain and Italy. However, economic activity and increased labour demand brought both the activity rate and the number of inactive persons back to pre-crisis levels in most countries in the second quarter.

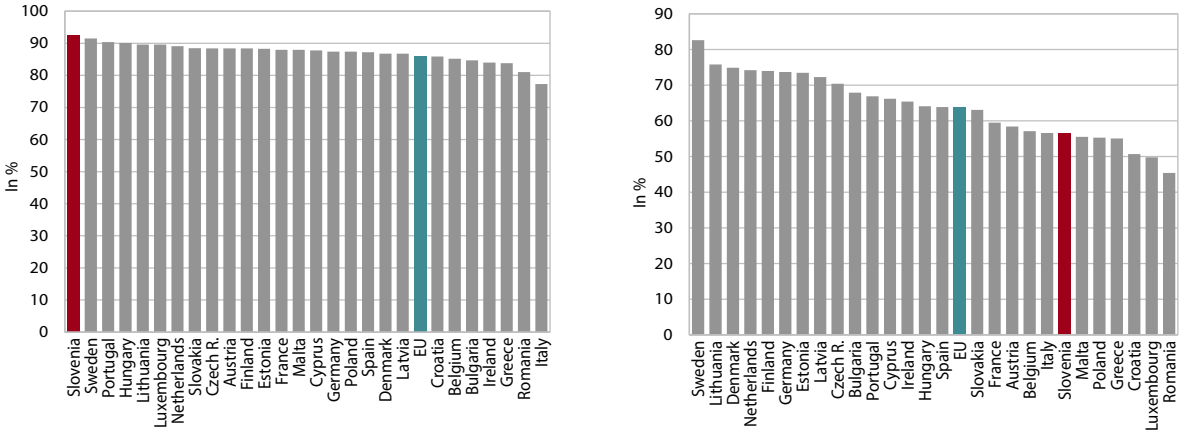
Although the activity rate in the population aged 25–54 is generally high (92.4%), it is much lower among low-skilled people and among older people. In the last decade, Slovenia has had a low activity rate of older people (55–64 years), which is gradually increasing, and of people with low levels of education, and these two groups often overlap. This is partly related to the educational structure of the population, as the share of people with low levels of education is higher in the older age groups than in the younger ones, and to the relatively early retirement or transition to inactivity. The activity rate in both groups is also much lower in Slovenia than the EU average.

Table: Activity rate in the 20–64 age group,* in %

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Slovenia	76.0	76.5	76.1	74.3	74.2	75.0	75.5	76.5	76.5	77.6	78.0	78.3	79.0	80.2
EU	74.8	75.0	75.2	75.1	75.2	76.0	76.3	76.6	77.1	77.6	78.0	78.3	76.6	78.4

Source: Eurostat (2022). Note: *Data for individual years refer to the second quarter.

Figure: Activity rate in the 25–54 age group (left) and activity rate in the 55–64 age group (right) in the second quarter of 2021



Source: Eurostat (2022).

[1] The activity rate is the percentage of active persons (employed and unemployed) in relation to the total population in a certain age group.
[2] The increase in the activity rate in the age group 20–64 is partly due to the decline in the population in this age group, which is used as the denominator in the calculation of the rate. The population decline in this age group is due to long-term unfavourable demographic trends.

Absence from work due to illness 3.22

In 2021, absence from work increased sharply again in Slovenia.[1] The rapid increase in 2014–2019 can be linked to employment growth, later retirement, longer waiting times in the health sector and the ageing of the working population. Absence from work due to illness was significantly higher among women, and the gap is widening every year, which can be partly explained by the increasing participation of children in kindergartens, full-time employment of women and their absence to care for parents due to the poorly functioning long-term care system (informal caregivers being mostly women). In 2020, the increase in absenteeism slowed somewhat due to lower employment and epidemic-related measures (school closures, temporary layoffs and work from home). In 2021, it increased sharply again, related to a high number of COVID-19 infections, isolation of people with COVID-19 (the number of days lost doubled compared to 2020) and also a significant increase in employment. According to National Institute for Public Health (NIJZ) data, employed persons were absent from work for an average of 17.9 calendar days in 2020, the share of absence from work due to illness[2] averaging 4.9%, which is the same as in 2019 but significantly higher than the lowest level in 2014 (see table). According to the NIJZ's preliminary estimate, the total percentage of absence from work due to illness rose to 5.1% in 2021. In particular, the proportion of absenteeism whose costs are covered by the HIIS has increased and has been rising rapidly since 2015 (in 2008, the proportion covered by the HIIS was 46% and in 2021 it was already 60%) (HIIS, 2022).

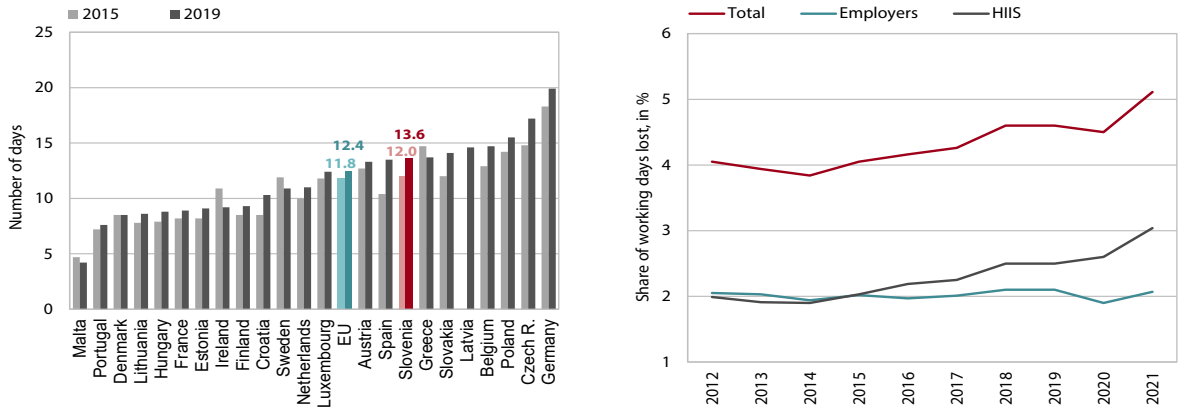
In terms of working days lost per employee, Slovenia exceeds the EU average. The number of working days lost per employed person due to illness, as reported to international databases (excluding the first day of absence and absence to care for a family member), had also risen in recent years (until 2019). In 2019, the average number of compensated work days lost per year due to illness totalled 13.6 in Slovenia and 12.4 in the 23 EU Member States for which comparable data are available. However, it should be noted that the international comparability of this indicator is limited because of methodological differences in data capture and differences in the health and social care systems and in eligibility criteria for sickness benefits.

Table: Absence from work due to illness

Indicators		2008	2014	2015	2016	2017	2018	2019	2020
Number of working days lost per worker (WHO)	Slovenia	11.5	11.3	12.0	12.2	13.1	13.5	13.6	N/A
	EU*	11.4	11.8	11.7	11.9	11.9	12.4	N/A	N/A
Number of calendar days lost per worker (NIJZ)	Total	15.5	13.7	14.5	14.5	15.3	16.5	17.7	17.9
	Men	13.2	11.4	12.0	11.8	12.4	13.2	14.0	14.2
	Women	18.6	16.5	17.5	17.6	18.8	20.4	22.3	22.5
Absence rate (percentage of calendar days lost per full-time worker, in %) (NIJZ)	Total	4.3	3.8	4.0	4.0	4.2	4.5	4.9	4.9
	Men	3.6	3.1	3.3	3.2	3.4	3.6	3.8	3.9
	Women	5.1	4.5	4.8	4.8	5.2	5.6	6.1	6.2

Sources: WHO (2022); NIJZ (2022b). Note: *The data for the EU are WHO estimates; N/A – data not available.

Figure: Number of working days lost per worker, 2015 and 2019 or last available year



Sources: OECD (2022b) for OECD members; WHO (2022) for Croatia, Poland, Malta and the EU average (left); HIIS (2022) (right). Note: in the figure on the left data for Portugal and Malta are from 2017 and data for Denmark and the EU average are from 2018. Data for Finland and Greece is based on surveys, while data for all other countries is based on administrative data on paid absence from work due to illness. Data for Latvia for 2015 is not available.

[1] Temporary absence from work for justified medical reasons, also referred to as sick leave, is one of the indicators for monitoring the health status of the employed (HIIS, 2019b).

[2] The percentage of calendar days of incapacity for work per person employed full-time.

4 A well-preserved and healthy natural environment

A low-carbon circular economy

4.1 Emission productivity

4.2 Energy efficiency

4.3 Share of renewable energy sources

4.4 Modal split of transport

4.5 Resource productivity

4.6 Waste

4.7 Environmental taxes

Sustainable and efficient natural resource management

4.8 Ecological footprint

4.9 Utilised agricultural area

4.10 Agricultural intensity

4.11 Intensity of tree felling

4.12 Quality of watercourses

4.13 Ambient air quality

4.14 Functionally derelict areas

Emission productivity 4.1

In 2020, the first year of the epidemic, greenhouse gas (GHG) emissions fell to their lowest level in two decades amid lower economic activity. After declining during the global financial crisis, they increased slightly in 2015–2017 but declined again in the following three years, amounting to 15.8 million tonnes of CO_2 equivalent in 2020. This was 7.3% less than a year before and 14.8% less than in 2000. As expected, the largest decrease in GHG emissions in 2020 was observed in the transport sector, which is the main source of emissions along with the energy sector, and in industrial processes and waste management. In the ETS sector, where they have decreased faster over the long term and contribute about 40% to total emissions, GHG emissions were 3% lower. In the non-ETS sector (including transport), where they have decreased more slowly over the long term, they fell more sharply in 2020, by one-tenth. According to the first quarterly estimates, total emissions rose again in 2021 as economic activity recovered: in the first three quarters, they were about 5% higher than in the same period of 2020 (about 8% higher in the EU), but still lower than in the same period of 2019.

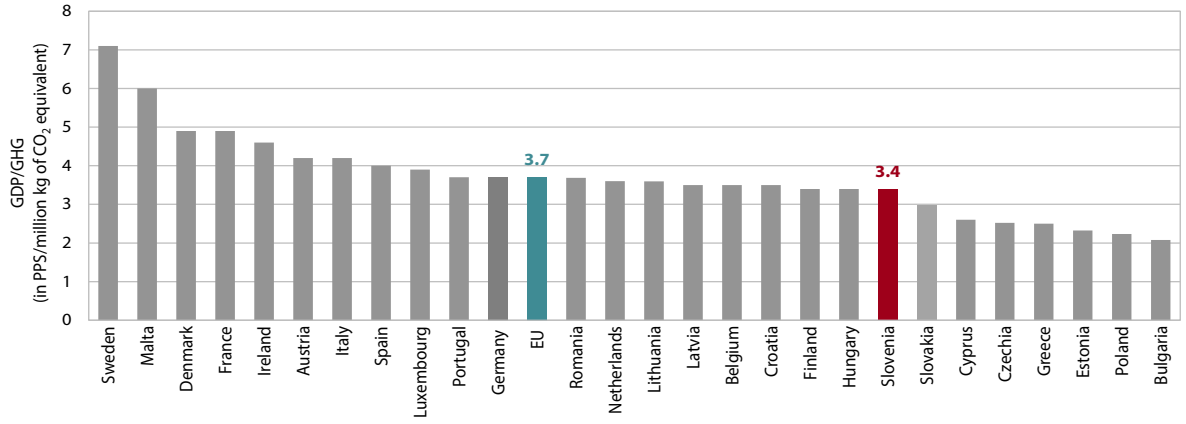
Emission productivity, which is relatively low in Slovenia, has increased since the global financial crisis, but the gap with the EU average remains largely unchanged. Productivity growth as measured by the ratio of GDP to GHG emissions accelerated again, as it did in the EU as a whole, after stalling during the 2008–2014 global financial crisis. It also increased in 2020, when economic growth declined, while the decline in emissions was even more pronounced. In 2014–2019, around one-tenth less GDP was generated per unit of GHG emissions than in the EU overall. According to preliminary estimates, this gap narrowed to about 8% in 2020.

Table: GHG emissions and emission productivity

		2000	2005	2008	2010	2013	2014	2015	2017	2018	2019	2020	Targets
GHG emissions, index, 1990=100 (for total GHG); 2005=100 (for ETS and non-ETS)													**EU 2020 target**
Total	Slovenia	99.9	110.0	116.0	105.6	98.1	89.3	90.3	95.3	94.4	91.8	85.1	-
	EU	92.1	94.2	91.6	86.9	81.5	78.7	79.8	80.7	79.0	76.0	N/A*	**80.0**
ETS	Slovenia		100.0	101.6	93.2	84.7	70.1	70.1	75.3	74.4	71.7	69.9	-
	EU		100.0	95.3	86.7	80.5	77.5	77.9	76.4	73.7	66.6	N/A	
Non-ETS	Slovenia		100.0	108.3	98.1	92.5	89.4	91.0	95.0	94.2	92.2	82.9	**< 104.0**
	EU		100.0	98.4	96.6	90.2	87.2	88.8	91.2	89.9	89.8	N/A	
Emission productivity, in PPS/million kg of CO_2 equivalent													**SDS 2030 target**
Slovenia		1.6	1.9	2.2	2.2	2.4	2.7	2.8	2.9	3.1	3.4	3.5	**Average EU**
EU		1.7	2.1	2.5	2.6	2.9	3.0	3.1	3.3	3.5	3.7	N/A*	
Slovenia / EU, index		92.2	92.6	87.5	85.5	85.0	90.3	89.9	88.8	89.8	90.4	N/A*	

Sources: ARSO (2022a) and Eurostat (2022); calculations by IMAD. For 2020 preliminary data by ARSO. Notes: *According to the quarterly estimates of GHG emissions published by Eurostat for the first time in November 2021, emissions in the EU fell by 9% in 2020, which means the EU's emission productivity in 2020 was around 3.8 PPS/million kg of CO_2 eq.; a meaningful comparison in PPS with the EU average can only be made for individual years and not for a longer time period; N/A – data not available.

Figure: Emission productivity, 2020



Source: Eurostat (2022); calculations by IMAD.

Energy efficiency 4.2

While primary energy consumption had declined in the years following the global financial crisis, mainly due to lower coal consumption, its decline during the COVID-19 epidemic mainly reflects lower energy consumption in transport. After a period of lower economic activity in 2009–2013, changes in thermal power generation[1] and in some years lower demand for heating, the development after 2014 was influenced not only by rising energy consumption in transport, but also by several other factors. Among the most important factors are the annual river level fluctuations and the schedule of regular overhauls at the nuclear power plant.[2] In 2019, total primary energy consumption fell more sharply again, also influenced by deceleration of economic activity (with lower consumption of solid and liquid fuels). In 2020, it fell even more given the sharp decline in economic activity. Total primary energy consumption fell by about 6% that year, with consumption in transport falling by 18%. Movements in energy efficiency involving a reduction or at least a limitation of the increase in energy consumption were thus favourable also due to the lower activity in the two crises mentioned above (in 2009 and 2020), while Slovenia had fewer problems meeting the Europe 2020 Strategy targets for both primary and final energy consumption.[3] According to our estimates, energy consumption increased slightly again in 2021 in view of the economic recovery.

Over the long term, energy productivity increased at a slightly faster pace than in the EU as a whole. Growth in energy productivity (defined as the ratio of generated GDP[4] to total energy consumption) only came to a halt in the first years of the financial crisis and in 2011 it was thus almost a fifth below the EU average. In 2019, with higher GDP growth, it increased more in Slovenia than in the EU as a whole. As a result, the gap in this comparison narrowed to almost 10%, the lowest since 2000, rising to 12% in 2020, with energy consumption in Slovenia falling less than in the EU in relative terms. Energy productivity is expected to have increased in 2021, as GDP is expected to have grown faster than energy consumption.

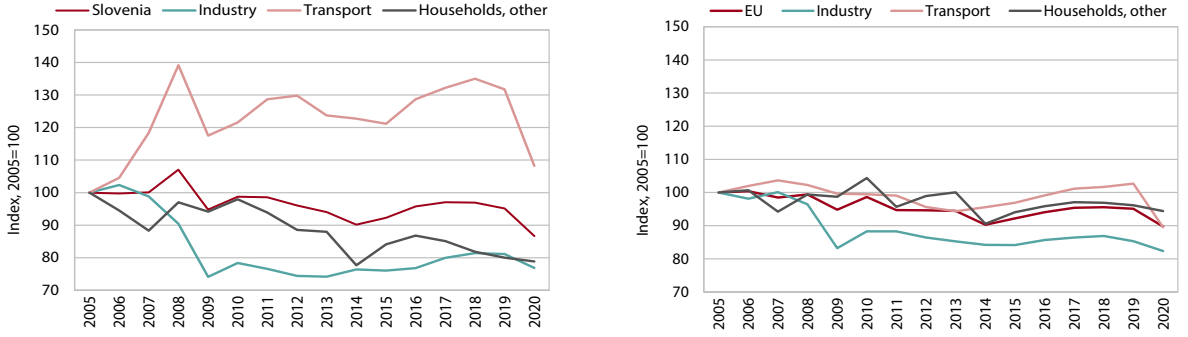
Since 2005, final energy consumption has also decreased at about the same pace as in the EU as a whole. Final energy consumption,[5] which had declined since 2008, has increased again since 2014. In the industry sector, it declined mainly due to the modernisation of aluminium production, but it has increased again in recent years due to economic growth. Household energy consumption, on the other hand, has decreased as a result of occasionally higher temperatures during the heating season, the installation of heat cost allocators, more efficient heating appliances and the energy renovation of buildings. In the transport sector, it increased owing to increased transit after EU enlargements[6] and then fluctuated for several years. In 2019 and especially in 2020, the first year of the epidemic, the significantly lower consumption in the transport sector was the main reason for the lower final energy consumption.

Table: Primary energy consumption, index, 2005=100

	2000	2005	2008	2010	2013	2014	2015	2016	2017	2018	2019	2020	Europe 2020 target
Slovenia	87.2	100.0	106.6	97.0	91.8	88.2	87.5	90.3	92.8	91.7	90.0	84.5	**104.3**
EU	93.3	100.0	99.4	97.3	92.4	88.9	90.4	91.1	92.4	92.0	90.4	82.6	**86.6**

Sources: Eurostat (2022); EC Energy Efficiency, Reporting Targets; calculations by IMAD.

Figure: Final energy consumption by sector of consumption, Slovenia (left) and the EU average (right)



Source: Eurostat (2022); calculations by IMAD.

[1] The Šoštanj thermal power plant was technologically modernised (with TEŠ 6), while the Trbovlje thermal power plant was shut down.
[2] Every third year there is no regular (monthly) overhaul, which means that 10% more nuclear power is generated (2 p.p. higher primary consumption).
[3] One of the three environmental targets of the EU Member States for 2020 is to improve energy efficiency, i.e. to achieve a 20% reduction in energy consumption compared to the consumption projected in the baseline scenario without additional measures. Most EU Member States thus had to reduce their energy consumption by 2020, while some, including Slovenia, were only required to limit its increase.
[4] In comparisons over time, we use GDP at fixed prices, while in comparisons between countries in individual years, GDP in purchasing power standards is used.
[5] Final energy consumption is primary consumption of energy excluding energy used by energy transformation processes, by the energy sector itself, and losses.
[6] See also Indicator 4.5. In 2020, energy consumption in road transport contributed 35% to final energy consumption in Slovenia and 27% in the EU.

Share of renewable energy sources 4.3

The share of renewable energy sources (RES) in final energy consumption has increased only modestly since 2005 (i.e. the period analysed). Slovenia is one of the few EU Member States that did not reach the target use of RES in 2020. The share of RES consumption increased more strongly in 2009, amid a fall in overall final energy consumption during the global financial crisis and almost unchanged RES consumption, which was also the case in 2020 during the epidemic. In both years, the share of RES consumption increased by more than 2 p.p. In the years between the two crises, it fluctuated with regard to RES consumption for heating (the impact of milder winters) and the use of hydropower (the impact of annual river flows), but there was no significant increase. Total RES consumption in Slovenia rose the least among all EU Member States in 2005–2020, by 6% (in the EU, by 92% on average). Despite the increase in the share last year, Slovenia is one of the four EU Member States that did not reach the 2020 target of 25% share of RES in final consumption. With such dynamics, the targets for the coming years are also very distant.[1] For 2021, we estimate that the share of RES slightly decreased amid higher use of liquid (fossil) fuels and slightly lower use of hydropower (however, data on the use of wood is not yet available).

Slovenia has a high share of traditional and a low share of other renewable sources in total RES consumption. *Traditional RES* (solid biomass and hydropower) still account for well above 80% of total RES consumption in Slovenia, compared with well below 60% in the EU overall. The extensive use of biomass for heating is generally desirable, but if biomass is not properly managed, it can also be unfavourable from the aspect of particle pollution. The share of *other RES* (wind, solar and geothermal energy, biofuels, heat pumps, and biogas), however, is among the lowest in the EU. The gap is the widest in the use of wind farms: their share in Slovenia is 0.002% compared to the EU average of 15.4%.

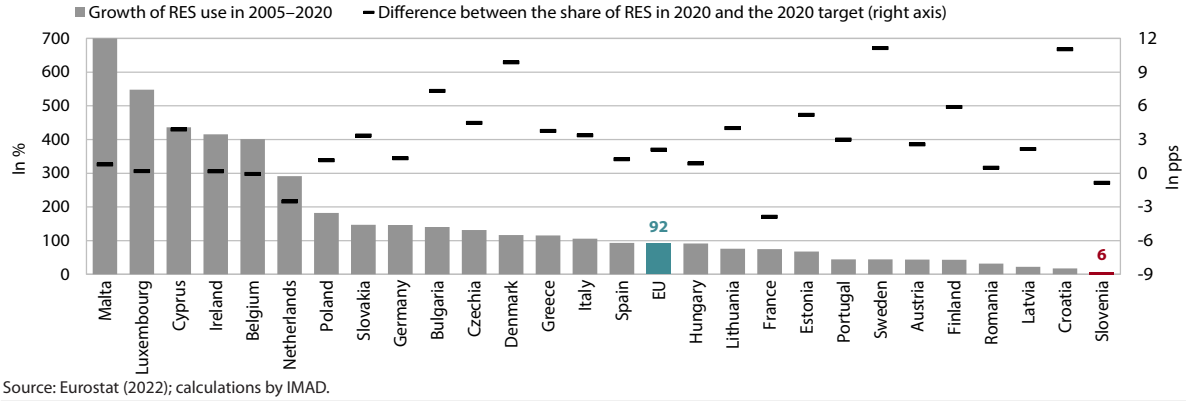
Within the support scheme for electricity generation from RES,[2] support for solar power plants has predominated since 2010. Support for solar power plants accounted for 61%, support for biomass power plants for 20% and support for biogas power plants for 11% of all support in 2021.[3] The rest was dedicated to hydropower plants. The amount of support per unit of electricity generated was highest for solar power plants. Total support, which had decreased significantly in 2019, increased slightly and amounted to around EUR 105 million in 2021.

Table: Share of RES consumption in gross final energy consumption, in %

		2005	2008	2010	2014	2015	2016	2017	2018	2019	2020	Europe 2020 target	SDS 2030 target
RES, total	Slovenia	19.8	18.7	21.1	22.5	22.9	22.0	21.7	21.4	22.0	24.1	25.0	27.0
	EU	10.2	12.6	14.4	17.4	17.8	18.0	18.4	19.1	19.9	22.1	20.0	
In electricity	Slovenia	28.7	30.0	32.2	33.9	32.7	32.1	32.4	32.3	32.6	35.1		
	EU	16.4	18.5	21.3	28.6	29.7	30.2	31.1	32.1	34.1	37.5		
In transport	Slovenia	0.8	1.8	3.1	2.9	2.2	1.6	2.6	5.5	8.0	10.9	10.0	
	EU	1.8	4.1	5.5	6.6	6.8	7.2	7.5	8.3	8.8	10.2	10.0	
In heating	Slovenia	26.4	27.5	29.5	34.6	36.2	35.6	34.6	32.3	32.1	32.1		
	EU	12.4	15.3	17.0	19.9	20.3	20.4	20.8	21.6	22.4	23.1		

Source: Eurostat (2022).

Figure: Increase in RES consumption over the period 2005–2020 and achievement of the RES use target for 2020



Source: Eurostat (2022); calculations by IMAD.

[1] Individual national RES targets for 2030 have yet to be determined. For Slovenia, the SDS took into account the target that at the time of the SDS adoption applied to the entire EU. Since then the target for the EU has been raised from 27% to 32%, and an increase to at least 38% has already been proposed.

[2] The support scheme is an instrument of government aid, which, through higher purchase prices, enables investment in environmentally friendly sources of electricity production. The support scheme includes several thousand production facilities, to which the support is paid by Borzen's Centre for RES/CHP Support.

[3] IMAD's estimate on the basis of Borzen's nine-month and annual reports.

Modal split of transport 4.4

Owing to Slovenia's transit location, road *freight traffic* is very heavy, but as a lot of freight is also transported by rail, the share of road transport is lower than in the EU as a whole. Over a longer period, the *share* of road transport declined slightly, to less than two-thirds, while it increased slightly on average in the EU, to more than three-quarters.[1] In 2005–2019, the *volume* of road freight transport increased by one-third and that of rail transport by two-thirds, which is significantly more than in the EU as a whole, where they increased by 11% and 3% respectively. From the environmental perspective, a high growth of road transport is less desirable. Road freight transport increased in Slovenia particularly due to the rising transit traffic – more than three-quarters of transport in Slovenia is thus already accounted for by foreign hauliers (predominantly from Hungary, Croatia and Romania). The increased transit is a consequence of EU enlargements and the opening of competition between hauliers on the common transport market, but it is also related to Slovenia's small size and its transit location. The volume of total freight transport per inhabitant is very high in Slovenia, 38% higher than the EU average, being higher only in five other EU Member States. Within that, transport by road is a sixth higher and transport by rail 2.8 times higher than the EU average. With the modernisation of the Divača–Koper railway line and some other sections, also planned with the help of funds from the Recovery and Resilience Plan, railway transport will strengthen further, as it is to a large extent linked to the trans-shipment of goods in the Port of Koper. We estimate that in 2020 and 2021 the share of road freight transport increased, since rail transport decreased more significantly during the epidemic and then recovered more slowly.

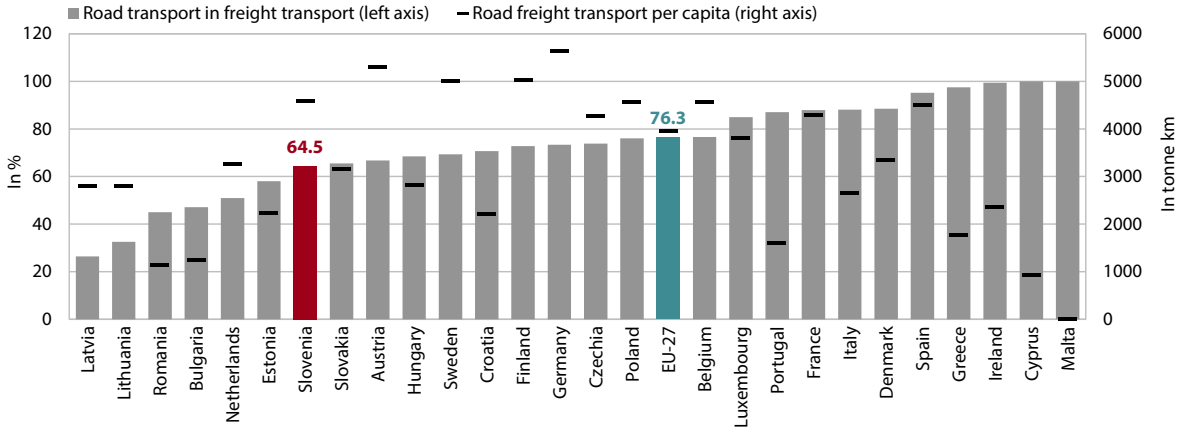
Transport by passenger car is the predominant mode of *passenger transport* in all EU Member States, but in Slovenia its share is among the highest. This can in part be attributed to the diversity of its landscape and its dispersed settlements,[2] which – in spite of subsidies – limit a greater extension of the public passenger transport network and its profitability. More people have difficulty in accessing public transport than in the EU overall (in 2012, one-quarter in Slovenia against one-fifth on average in the EU). With such a passenger transport structure (where public transport is used relatively little in comparison with transport by car), the share of transportation expenditure in total household expenditure is also higher than in the EU (in Slovenia 18%, in the EU 12%). In 2020, Slovenia faced major restrictions on public passenger transport due to the epidemic and, while car travel was also limited owing to the ban on travel between municipalities and quarantines, the already low share of public passenger transport in total transport is likely to have fallen further.

Table: Road transport in freight transport and car transport in passenger transport,* in %

		2005	2008	2010	2013	2014	2015	2016	2017	2018	2019
Freight	Slovenia	68.9	70.3	68.2	65.2	64.0	65.0	66.1	64.5	64.7	64.5
	EU	74.4	74.3	74.6	73.9	73.9	74.2	74.6	75.4	75.6	76.3
Passenger	Slovenia	85.6	86.4	86.8	86.3	86.3	86.1	86.3	86.5	86.4	86.6
	EU	82.6	82.2	83.0	81.9	82.2	82.4	82.6	82.9	82.8	82.8

Source: Eurostat (2022). Note: *Freight transport comprises transport by road (lorries), rail and inland waterways (in tonne km); passenger transport includes transport by car, bus and train (in passenger km).

Figure: Road freight transport, 2019



Source: Eurostat (2022).

[1] Road transport performance is calculated according to the territoriality principle and is therefore comparable to rail and inland waterway transport.

[2] Slovenia has a relatively low share of the population living in cities and a large share of the population living in rural areas: 20% and 44% respectively in 2019 (in the EU: 38% and 28% respectively) (Eurostat, 2022).

Resource productivity 4.5

Resource productivity in Slovenia has fluctuated significantly over the years, especially in relation to changes in the construction industry, while the gap with the EU average has not narrowed since the global financial crisis. Resource productivity, expressed as the ratio of GDP to material consumption, increased the most in 2007–2012 amid a decline in construction activity. The decline in construction activity was related to the global financial crisis and the completion of the motorway network (most of which was built by 2009). The consumption of non-metallic minerals,[1] which had accounted for more than two-thirds of total material consumption, therefore dropped significantly. The decline in total material consumption after 2011 was, in addition to lower consumption of non-metallic minerals, also significantly influenced by changes in thermal power generation (lower coal consumption). In 2019, when growth in construction activity again slowed significantly, the consumption of non-metallic minerals fell by almost 15%, which led to a significant improvement in resource productivity (to lag behind the EU average only by 8%). In 2020, construction activity was not significantly affected by the measures taken to contain the epidemic. A somewhat larger decline, which was nevertheless half lower than in the EU as a whole, was recorded only in the consumption of liquid fuels. As a result, in contrast to the EU as a whole, material consumption in Slovenia has decreased less than GDP and material productivity has decreased slightly, including compared to the EU average. We estimate that the use of energy products and non-metallic minerals did not increase in 2021, so material productivity is likely to rise again as GDP increases.

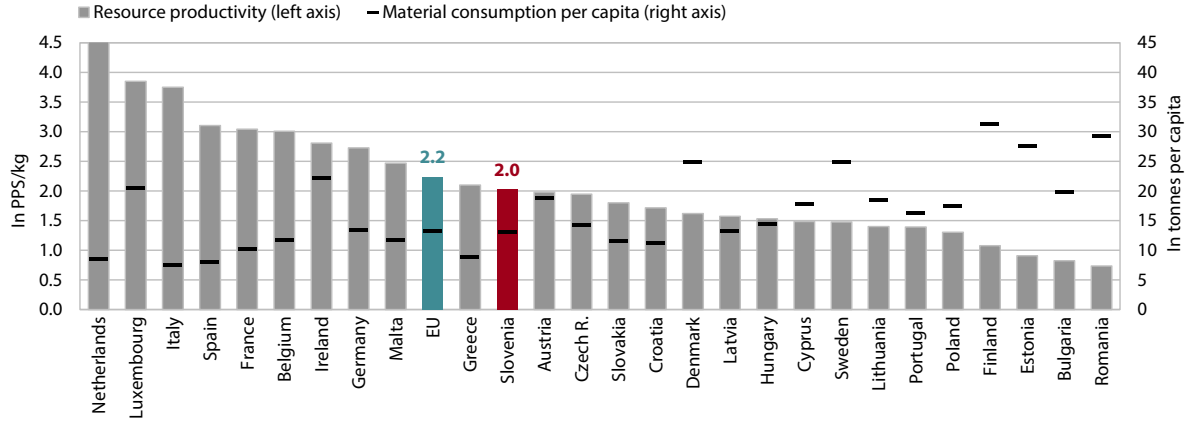
Slovenia's self-sufficiency in materials is slightly above the EU average. Slovenia is well supplied with certain resources. In the breakdown of domestic extracted resources, more than half is sand, gravel, limestone and gypsum. Other important domestic resources are agricultural products, lignite and wood. *Net imports* account for around 12% of total material consumption. In 2020, the bulk of net imports were of petroleum products, gas, metal ores and agricultural products. Since the ice glaze damage in 2014, only *net exports* of wood, particularly sawlogs and veneer logs, have been relatively high, but these have declined significantly over the past year and have returned to previous normal levels. High net exports of raw materials otherwise decrease domestic material consumption in the calculation, but from the point of view of efficient use of domestic resources, they represent untapped potential for creating higher value added in the domestic manufacturing industry.[2]

Table: Resource productivity, in PPS/kg

	2000	2005	2008	2010	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	0.87	1.06	1.11	1.32	1.77	1.69	1.71	1.84	1.91	1.84	2.04	2.03	3.5
EU	1.19	1.34	1.49	1.74	1.92	1.95	2.02	2.08	2.10	2.14	2.23	2.24	
Slovenia / EU, index	72.9	78.7	74.0	75.7	92.0	86.5	84.5	88.3	91.1	85.7	91.6	90.5	

Sources: Eurostat (2022) and SURS (2022); calculations by IMAD. Note: A meaningful comparison in PPS between countries or with the EU average can only be made for individual years and not over a longer time period.

Figure: Resource productivity and material consumption per capita, 2020



Source: Eurostat (2022).

[1] Among non-metallic minerals, sand and gravel accounted for 46%, one of the highest shares in the EU. A close relationship between the consumption of non-metallic minerals and construction activity is corroborated by the analysis of the Geological Survey of Slovenia made on data for 2014, when three quarters of non-metallic minerals were used as raw materials in construction, a further 17% as raw materials for the building materials industry and only 7% in manufacturing.

[2] See also Indicator 4.11. lej tudi kazalnik 4.11.

Waste 4.6

After a long period of increase, waste generation decreased in 2020, as expected with the COVID-19 crisis, while it increased in households. In 2020, about 7.7 million tonnes of waste were generated, 9% less than the previous year, but 72% more than in 2012, when the amount generated was the lowest in the period analysed (since 2000).[1] The amount of waste in *production and service activities*, where most of the waste is generated (mineral waste and construction waste make up the majority of waste due to their high specific weight), decreased by about one-tenth due to the lower economic activity. The amount of *municipal waste,* which was again below the EU average in terms of per capita generation, decreased by 4% overall, while it increased by 2% for households. The total amount of hazardous waste, which has increased in the long term, decreased by 5%, with its share in total waste generation being around 2%.

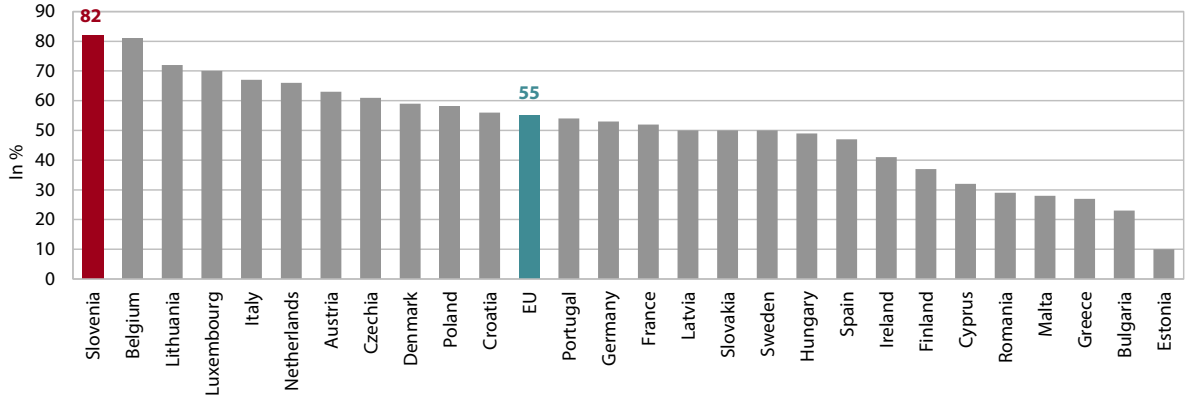
Similar to waste generation, the amount of waste treated also decreased in 2020. In 2020, 6.8 million tonnes of waste were treated in final processing, which is 9% less than the previous year, though a quarter more than ten years ago. The amount of waste treated decreased in all three processes: recycling, waste incineration as fuel and the use of waste for backfilling. The share of recycling, which is highly desirable, has increased significantly since 2010 and is high by international standards, except for mineral waste. As waste generation increases, the amount of waste used for backfilling is also increasing rapidly, successfully reducing the amount of waste landfilled, which is the least preferred option in the waste management hierarchy. Landfilling of municipal waste, around three-quarters of which was already collected separately, also decreased. The main problem is the growing amount of packaging waste, which is increasing rapidly in the midst of the COVID-19 epidemic.

Table: Waste generation and share of recycled waste

	2000	2004	2006	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total waste generation, excluding mineral waste, kg per capita													
Slovenia	N/A	2,163	1,982	2,018	1,706	1,692	1,604	1,684	1,481	1,553	1,545	1,506	1,430
EU	N/A	1,800	1,810	1,720	1,719	N/A	1735	N/A	1763	N/A	1,820	N/A	N/A
Of which: municipal waste generation, kg per capita													
Slovenia	513	485	516	490	362	414	432	449	457	471	486	508	487
EU	513	500	513	503	488	479	478	480	490	496	496	501	505
Waste recycled, total, excluding mineral waste, the share of total waste treated, %													
Slovenia	N/A	N/A	N/A	52	74	78	75	78	80	84	82	85	83
EU	N/A	N/A	N/A	53	35	N/A	54	N/A	N/A	N/A	55	N/A	N/A
Of which: municipal waste recycled, the share of total municipal waste generated, %													
Slovenia	6.0	20.4	15.4	22.4	41.9	34.8	36.0	54.1	55.6	57.8	58.9	59.2	59.2
EU	27.3	31.8	33.2	38.0	40.9	41.5	43.4	44.9	46.5	46.9	47.2	48.1	47.8

Sources: Eurostat (2022), SURS (2022b). Notes: Recycled waste is waste sent for treatment, excluding energy recovery and backfilling. The exclusion of mineral waste improves international comparability across countries, as mineral waste usually accounts for the vast majority of waste due to its high specific weight and has a decisive impact on the total amount; N/A – data not available.

Figure: Share of recycled waste in total treated waste, excluding mineral waste, 2018



Source: Eurostat (2022). Note: Data for Estonia is for 2010.

[1] In 2012, total waste decreased by one quarter. The decline was, in addition to a reduction in construction waste, also due to methodological changes (some waste categories being reclassified as by-products).

Environmental taxes 4.7

A long period of growth in revenue from environmental taxes was interrupted in 2018 and especially in 2020. According to our estimates, despite its increase, revenue in 2021 did not yet reach the 2019 level. The long period of growth in revenue before 2018, especially in revenue from energy taxes,[1] was underpinned mainly by growth in fuel consumption in transport and excise duties on motor fuels. In 2018, revenue fell slightly year-on-year for the first time since 2011 (-1.2%), which was linked to lower excise duties on unleaded petrol and diesel, introduced in May 2018 to neutralise the pressure from high crude oil prices, and the slowdown in economic growth. The even more significant drop in revenue in 2020 (-18.4%) was due to a decline in economic activity related to the COVID-19 epidemic and a reduction in excise duties on petrol and diesel adopted to mitigate the impact of the epidemic.[2] At the end of 2021, these duties remained below 2019 levels. Economic activity exceeded these levels, but preliminary state budget data show that revenue from excise duties on energy, which account for the largest share of environmental taxes, did not yet reach 2019 levels in 2021.

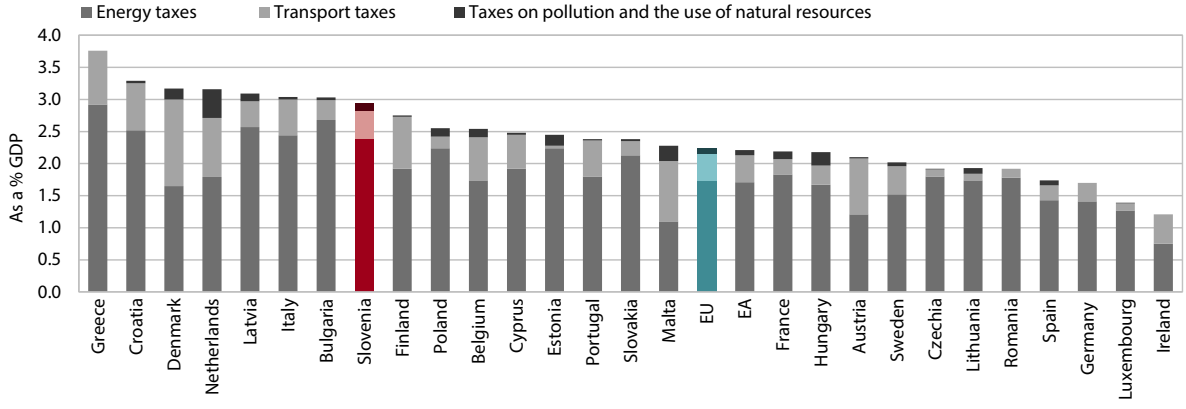
Revenue from environmental taxes as a share of GDP is still among the highest in the EU, despite the several years of decline. In 2005–2016, the share of environmental taxes in GDP expanded, then declined notably in 2017–2020, reaching 2.95% in 2020. It was significantly higher than the EU average, but the gap has narrowed since 2013, when it was widest, to less than 1 p.p. in 2020. The gap arises from energy taxes, which accounted for 81% of all environmental taxes in Slovenia in 2020. The high figure in Slovenia is a consequence of relatively high purchases and consumption of energy, which is related not only to extensive transit traffic and the strong transport sector in Slovenia, but also to dispersed settlement and the poorly developed public transport infrastructure.

Table: Revenue from environmental taxes

	2000	2005	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
In nominal terms, in EUR million														
Slovenia	632	920	1.261	1.312	1.277	1.389	1.428	1.453	1.509	1.569	1.578	1.560	1.615	1.383
As a share of GDP, in %														
Slovenia	2.89	3.16	3.48	3.61	3.45	3.83	3.92	3.86	3.88	3.88	3.67	3.40	3.34	2.95
EU	2.57	2.54	2.36	2.36	2.41	2.44	2.47	2.47	2.45	2.47	2.42	2.40	2.35	2.24
As a share of total revenue from taxes and social contributions, in %														
Slovenia	7.63	8.02	9.25	9.42	9.11	10.02	10.36	10.23	10.26	10.23	9.77	9.01	8.87	7.78
EU	6.24	6.38	6.01	6.05	6.09	6.04	6.02	6.02	5.99	6.04	5.90	5.83	5.74	5.42

Source: Eurostat (2022).

Figure: Revenue from environmental taxes, 2020



Source: Eurostat (2022).

[1] Environmental taxes include energy taxes, transport taxes and taxes on pollution and the use of natural resources.
[2] Excise duties on motor fuels (with the exception of excise duties on heating oil, which have remained unchanged since October 2015) increased in April and May 2020 and then fell to levels below those of 2019 for the remainder of 2020.

Ecological footprint 4.8

Slovenia's ecological footprint, a composite indicator of environmental development, increased in 2015–2018 and was above the EU average, indicating a significant and increasing environmental burden.[1] The ecological footprint is expressed in global hectares (gha), a standardised unit of biologically productive area. The biologically productive area is the fertile area needed to satisfy human needs for food and sustain their lifestyles, including to absorb or dispose of the waste generated in the process. The largest component of the ecological footprint is (i) the carbon footprint, resulting from carbon dioxide and other GHG emissions, followed by (ii) the biological footprint, i.e. the footprint of arable land, forestland, grazing land and other fertile areas, and (iii) the footprint of built-up land (i.e. infrastructure). Slovenia's ecological footprint declined during the recession related to the global financial crisis but then increased again, unlike in the EU overall, to reach 5.37 gha/person in 2018. The gap with the EU average has widened in recent years and was around 13% in 2018. This indicates economic development with a relatively high level of natural resource use and environmental pollution, meaning that Slovenia is not on track to reach the SDS target.

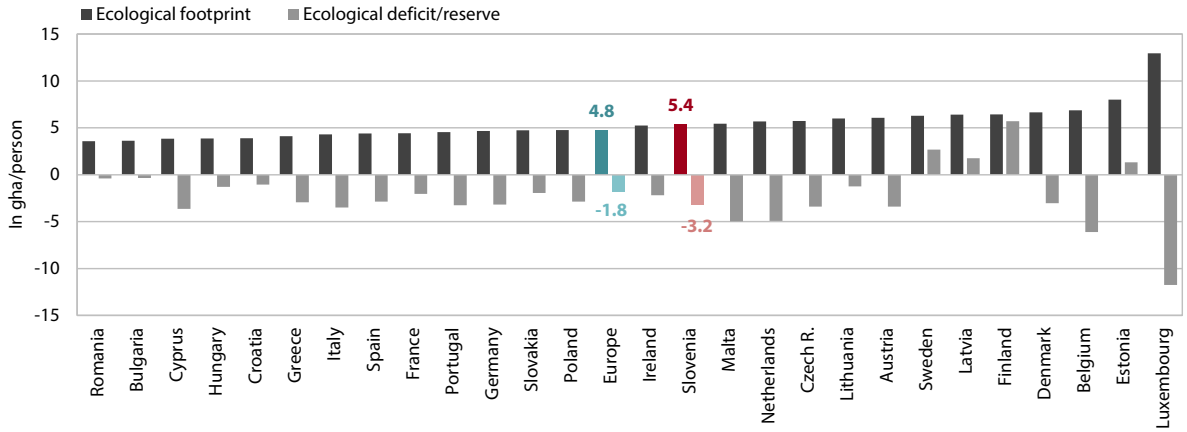
With its relatively high ecological footprint, the ecological deficit, i.e. the negative difference between the ecological footprint and the biological capacity, was also high. Biological capacity or biocapacity refers to the biologically productive areas capable of self-regeneration.[2] Like the ecological footprint, it is expressed in global hectares – each global hectare produces the same quantity of biological materials. Biocapacity is fairly stable and does not change significantly from year to year. The bulk of Slovenia's biocapacity is accounted for by forests, which despite their large surface area cannot sufficiently absorb carbon dioxide emissions. The share of other areas, particularly arable land and fishing grounds, is relatively modest compared with the EU average. The results of the latest calculations show that Slovenia's ecological footprint (5.4 gha/person) is more than two and a half times higher than the capacity of its nature to regenerate (2.2 gha/person). Most EU Member States have an ecological deficit – only some Northern countries with sustainable economies and relatively extensive fishing grounds have an ecological reserve. Slovenia's ecological deficit (-3.2 gha/person) is significantly higher than the world average (-1.2 gha/person) and also than the EU average (-1.8 gha/person).

Table: Ecological footprint in gha/person

	2000	2005	2008	2010	2012	2014	2015	2016	2017	2018	SDS 2030 target
Slovenia	4.8	5.5	5.8	5.2	4.8	4.7	5.0	5.0	5.2	5.4	3.8
Europe	5.1	5.3	5.5	5.2	4.9	4.8	4.7	4.6	4.7	4.8	
World	2.5	2.7	2.8	2.8	2.8	2.8	2.7	2.7	2.8	2.8	
Slovenia/Europe, index	95.3	103.1	106.3	100.4	97.1	98.0	106.2	108.2	110.7	112.7	

Source: Global Footprint Network (2022). Note: According to the latest calculations, the ecological footprint value for Slovenia for all observed years was revised upwards.

Figure: Ecological footprint and the ecological deficit/reserve, 2018



Source: Global Footprint Network (2022).

[1] The ecological footprint is measured by the Global Footprint Network. The results of its calculations are available for around 200 countries for individual years of 1961–2018.

[2] The total biologically productive area accounts for approximately a quarter of the Earth's surface, excluding ice masses, deserts and oceans, where renewable resources are not concentrated enough to have a significant impact.

Utilised agricultural area 4.9

Utilised agricultural area in Slovenia accounts for a significantly lower share of total land than in the EU as a whole, but this relatively modest share has stabilised in the last decade after a long period of decline. Utilised agricultural area (UAA),[1] the preservation of which is crucial for food self-sufficiency, covered around 484,000 hectares in 2020. Due to the abandonment of agriculture, overgrowth of land by trees and conversion to built-up land, UAA has decreased by 14% since Slovenia's independence, but it has remained largely unchanged over the last decade. The changes go both ways – conversion of agricultural land to other uses and conversion of non-agricultural land back to agricultural land, but, at least between 2014 and 2017, prime agricultural land was the most frequent subject of conversion (Court of Audit, 2021).

In terms of ensuring conditions for local food production, the modest share of arable land is of particular concern. In terms of *arable land* per person, arable land being the most important type of land from a food security perspective, Slovenia is among the bottom four countries in the EU. Its arable land per person is about 8.4 ares (EU average: 22 ares). Only about 3% of this land is used for growing vegetables, as a large part of the fields is used for growing fodder crops. These are also grown on *permanent grassland*, which accounts for the largest share, with about six-tenths of the utilised arable land. Around 6% of the utilised arable land is accounted for by *permanent cropland*, where vineyards and orchards predominate.

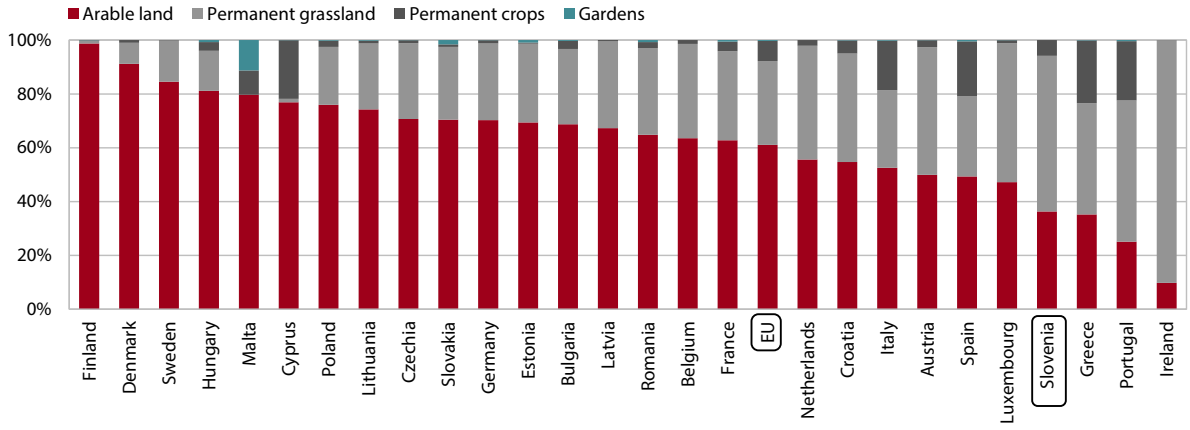
Organic farming, the most desirable form of agricultural production from an environmental perspective, is more widespread in Slovenia than in the EU as a whole and is constantly increasing. About 11% of all agricultural holdings were involved in controlled organic farming in 2020. Again, permanent pastures and meadows dedicated to fodder production account for the largest share, while the shares of the other types of land are relatively small. However, this is not in line with demand, which is highest for organically produced fresh fruit and vegetables and processed vegetarian foods (MKGP, 2021b). Given the natural conditions in Slovenia, i.e. the high proportion of farms in mountainous and other remote areas where intensive conventional farming is not possible, there is still much scope for further development.

Table: Utilised agricultural area (UAA), total and under organic farming

	2005	2008	2010	2012	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
UAA, share in total area, in %												
Slovenia	25.1	24.3	23.8	23.7	23.8	23.5	23.6	23.7	23.6	23.7	23.9	>24.0
EU	N/A	40.0	39.4	38.9	39.0	39.2	39.1	39.1	39.2	39.4	39.3	
UAA, share under organic farming, in %												
Slovenia	4.6	6.1	6.4	7.3	8.6	8.9	9.1	9.6	10.0	10.4	10.8	
EU	N/A	N/A	N/A	5.9	6.1	6.6	7.1	7.5	8.0	8.5	9.1	

Source: Eurostat (2022); calculations by IMAD. Note: N/A – data not available.

Figure: Structure of agricultural land, 2019



Source: Eurostat (2022).

[1] UAA includes the following land categories: arable land, permanent grassland and permanent crops. Arable land also includes fallow land, areas under clover and lucerne, grassland ploughed after five years, and hop fields. Land under permanent crops includes orchards, olive plantations, vineyards, nurseries, and vine and root-stock nurseries. Permanent grassland is land used for grazing or mown for hay that has not been ploughed for at least five years.

Agricultural intensity 4.10

Given its moderate average crop and livestock production, Slovenia is not among the countries with high agricultural intensity. The development of Slovenian agriculture is characterised by dualism: in addition to an increasing intensification of agriculture due to a decrease in the number of farms and thus a greater concentration of crop production, Slovenia has also seen an increase in organic farming, which is the most desirable form from an environmental perspective. A comparison with the EU average in *crop production* does not give a uniform picture, which is evident from the average yields for Slovenia's two most important crops, wheat and maize: for wheat, the yield per hectare tends to be lower than the EU average, while for maize it is generally higher. Under the impact of weather conditions, the yields vary considerably from year to year, but in the long term they are increasing as technology improves. As long as they are not too high, this means an improvement in the exploitation of natural resources. The environmental burden of *livestock production*, as measured by the number of animals per unit of agricultural area, is not among the lowest given the natural conditions, but the average milk yield per animal is below the EU average. This is favourable from the point of view of the burden on animals but somewhat less so from the point of view of environmental impact in relation to the number of animals.

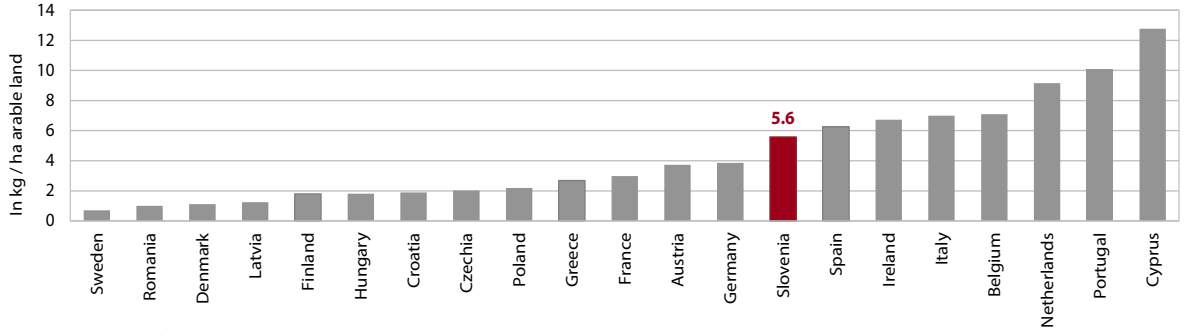
The downward trend in the consumption of mineral fertilisers and pesticides has resumed in the last two years analysed after being interrupted. In 2020, for the second year in a row, *fertilisation with plant macronutrients from mineral fertilisers*, i.e. nitrogen, phosphorus and potassium (NPK fertilisers), and pesticide consumption, measured in terms of the total quantity of active ingredients sold per unit of agricultural land, decreased.[1] A comparison of fertiliser consumption with the EU average shows a mixed picture: nitrogen consumption, which accounts for most of the NPK fertilisers, is lower per unit of land but phosphorus consumption is higher.[2] In terms of pesticide sales, Slovenia is in the upper middle range of EU Member States for which data is available. This measurement is quite challenging, as substances with different degrees of toxicity are involved and sales also depend on the type of crops grown and weather conditions and thus on the occurrence of diseases and pests.

Table: Average yields of the main crops and consumption of NPK fertilisers and pesticides

		2005	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Average yields of wheat, maize and milk, in tonnes/ha or tonnes/cow													
Wheat and spelt	Slovenia	4.7	4.8	5.4	4.4	5.2	5.1	5.2	5.0	4.4	5.2	5.8	5.8
	EU	N/A	N/A	N/A	N/A	N/A	N/A	5.2	5.7	5.2	5.8	5.5	
Maize for grain	Slovenia	8.3	8.5	7.1	5.4	9.2	9.0	9.5	7.1	9.5	9.3	10.8	9.1
	EU	N/A	7.1	6.0	6.8	8.1	6.4	7.3	7.8	8.4	7.9	7.3	7.4
Milk yield	Slovenia	5.5	5.5	5.6	5.4	5.6	5.9	5.8	6.0	5.8	6.1	6.3	N/A
	EU	N/A	N/A	N/A	6.5	6.7	6.8	6.9	6.9	7.1	7.3	7.4	N/A
Fertilisers and pesticides, Slovenia, growth, 2005=100													
NPK fertilisers, consumption per unit of utilised agricultural area		100.0	89.3	83.1	85.1	87.0	89.6	86.4	85.1	86.4	83.7	82.4	N/A
Pesticides sales, in tonnes of active ingredients		100.0	80.2	72.9	64.9	71.4	74.0	81.8	76.9	82.9	70.7	70.2	N/A

Source: Eurostat (2022); calculations by IMAD. Notes: N/A – data not available; data on the sale of NPK fertilizers in the EU Member States in 2015–2019 (see figure 70 in Section 4) and on the sales of pesticides in some EU Member States in 2011–2019 are available at Eurostat; there is no data for the EU average (see graph below).

Figure: Sales of pesticides calculated per unit of arable land, 2019



Source: Eurostat (2022).

[1] Around two-thirds of pesticides are estimated to be used in agriculture. The rest is applied on non-agricultural land (such as alongside railway tracks and roads and in golf courses and parks).

[2] The structure of NPK fertiliser consumption in Slovenia consists of about 60% nitrogen and 20% each phosphorus and potassium. Eurostat publishes data on nitrogen and phosphorus consumption.

Intensity of tree felling 4.11

The intensity of tree felling, which had been relatively large after 2014 as a result of sanitary felling, decreased significantly in 2020. The severe tree damage caused by the glaze ice in 2014 was exacerbated by a rapid spread of the spruce bark beetle in subsequent years, while in 2017 and 2018 forests were additionally damaged by strong windthrow. Therefore major sanitary felling was necessary. After the six-year period following the glaze ice, during which about 50% more wood mass was cut per year than before, logging fell by a fifth in 2020 and was only 8% higher than before the glaze ice event. The shortfall with the maximum felling level allowed increased again, to around 40%.[1] *Tree felling intensity*, expressed as the ratio of annual felling to annual wood increment, decreased again, to 48%. This means that it moved away from the goal determined with a view to ensuring sustainable development by 2020 (75%) (MKO, MGRT, 2012). However, the structure of cut wood, which had changed considerably during the period of sanitary felling, moved in the direction typical of normal conditions for the second year in a row in 2020. The share of sanitary logging decreased by 12 p.p. to 42%,[2] and felling for tree-tending purposes, which accounts for the largest share under normal conditions, accounted for more than half of the total tree felling for the first time since the glaze ice event.

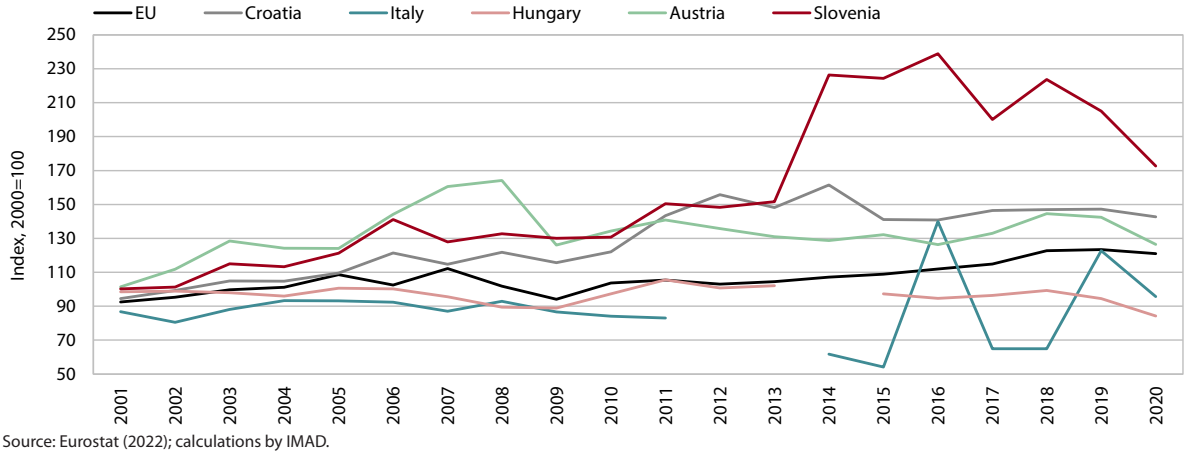
The lower felling in 2019 and 2020 was reflected in lower raw wood production, but the opportunities for further development of the forest-timber chain are still great, due to the large forest cover and the growing timber supply. After the glaze ice damage, *production* has increased for all wood categories, particularly pulpwood, but also sawlogs and veneer logs, i.e. the highest-quality wood, which generates the highest value added. However, *external trade in unprocessed wood* has increased more than total production. With annual imports slightly dropping, total exports have increased by around 60% annually in the period since the ice damage, and exports of coniferous logs alone more than doubled.[3] The high exports of this high-quality raw material, however, represent a lost opportunity for Slovenia to increase employment and achieve higher value added in other sectors up the forest–wood chain.

Table: Forests and their economic yield, Slovenia

	2000	2005	2008	2010	2013	2014	2015	2017	2018	2019	2020
Forest area (thousand ha)	1134.2	1169.2	1185.1	1185.2	1183.4	1181.9	1182.0	1180.3	1177.2	1176.8	1176.1
Growing stock (in million m³)	262.8	300.8	322.2	331.0	342.4	346.1	348.2	352.9	355.3	356.7	357.2
Annual wood increment (in million m³)	6.9	7.6	7.9	8.1	8.5	8.6	8.6	8.7	8.8	8.8	8.8
Removals (in million m³)	2.6	3.3	3.4	3.4	3.9	6.3	6.0	5.0	6.1	5.3	4.2
Roundwood production (in million m³)	2.3	2.7	3.0	2.9	3.5	5.3	5.2	4.6	5.1	4.7	4.0
Intensity of tree felling (in %)	38.0	43.0	43.6	41.6	46.2	74.0	70.1	57.3	68.9	59.9	48.1

Sources: ZGS (2021), SURS (2022b); calculations by IMAD. Note: The ratio of felled wood to roundwood production is also dependent on the structure of raw wood categories obtained and the type of felled trees. In the period after the glaze ice, the yield was 83% to 95% of felled wood.

Figure: Roundwood production



Source: Eurostat (2022); calculations by IMAD.

[1] The potential (or allowable) felling is determined with a view to ensuring sustainable development, i.e. the long-term stability of all forests and their habitats irrespective of ownership. In 2014–2019, the recorded tree felling accounted for a tenth of that allowed under forest management plans.

[2] Sanitary felling is the felling of sick, damaged or drying trees that have been damaged by biotic (pest and disease outbreaks, wildlife) or abiotic (wind, snow, glaze ice, drought, landslide, polluted air) disturbances to such an extent that there they have no silvicultural future (SiDG, 2022).

[3] Exports of coniferous logs constitute the bulk of the total exports of logs. For exports of non-coniferous logs, data for the period after 2016 are not available; these exports are included in total exports of non-coniferous industrial roundwood, which has increased by 30% annually in this period.

Quality of watercourses 4.12

The quality of Slovenian watercourses, as measured by biochemical oxygen demand, is high. Their cleanness, which was close to the EU average at the beginning of the previous decade, has improved significantly since 2005. For several years it has been among the highest among the EU Member States for which data are available. The concentrations of nitrates in groundwater and phosphates in rivers, which in excessive quantities degrade water quality, have also fallen in the long term and are below the EU average.[1] The decline in organic pollution, which is usually caused by municipal and industrial wastewater discharges and runoff from agricultural land, is a consequence of a significant improvement in wastewater treatment and abandonment of certain economic activities, which were polluting watercourses with wastewater in previous years.

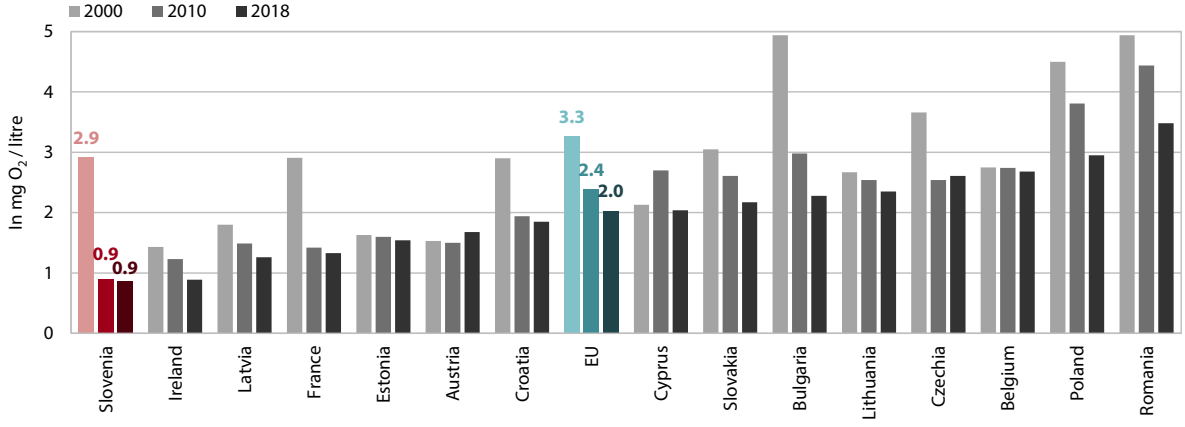
About one-fifth of wastewater in total is treated before discharge and about two-thirds of municipal wastewater. In Slovenia, which is fairly rich in water resources owing to its diverse natural conditions and has a relatively high amount of freshwater resources available per capita, 1,033 million m^3 of water in total was *abstracted* in 2020, 12% more than five years before. The majority of this water comes from surface water sources and is intended for industry (activities B, C, D and E), and only around one-fifth is abstracted from groundwater resources and intended for the public water supply system and irrigation. A total of 1,049 million m^3 of wastewater was *discharged* into the environment.[2] The share of water treated before discharge increased from 11% to 17% between 2015 and 2020, while the majority of untreated water is only thermally polluted due to its use in hydroelectric power plants. In 2020, 69% of the municipal wastewater from sewers was treated in wastewater treatment plants before being discharged into the environment.

Table: Water quality indicators

	2000	2005	2008	2010	2011	2012	2014	2015	2016	2017	2018	SDS 2030 target
Biochemical oxygen demand in rivers, in mg O_2/l												
Slovenia	2.9	2.3	0.9	0.9	1.0	0.9	0.8	0.8	0.8	0.9	0.9	< 1
EU	3.3	2.7	2.4	2.4	2.4	2.3	2.1	2.1	2.1	2.1	2.0	
Nitrates in groundwater, in mg NO_3/l												
Slovenia	19.4	18.9	18.8	24.0	14.8	15.9	17.8	19.5	16.5	16.2	18.3	
EU	21.2	21.1	21.0	21.0	20.7	20.5	21.1	21.3	21.7	21.2	22.0	
Phosphates in rivers, in mg PO_4/l												
Slovenia	0.04	0.03	0.02	0.02	0.02	0.02	0.02	0.04	0.03	0.03	0.02	
EU	0.08	0.07	0.07	0.06	0.06	0.06	0.06	0.06	0.06	0.06	0.06	

Source: Eurostat (2022). Notes: The values for Slovenia according to SURS are slightly different than according to Eurostat; N/A – data not available.

Figure: Biochemical oxygen demand in rivers



Source: Eurostat (2022). Note: The values for Slovenia according to SURS are somewhat higher than according to Eurostat due to a greater number of sampling places.

[1] Biochemical oxygen demand (BOD) is an index of the degree of organic pollution in water. It refers to the amount of oxygen required by aerobic microorganisms to decompose organic substances in a water sample under certain conditions. The cleanest rivers have BOD values of less than 1 mg O2/l, while moderately and heavily polluted rivers show values ranging from 2 to 8 mg O2/l. Nitrates in groundwater are long-lasting and accumulate through inputs from anthropogenic sources, mainly agriculture. To prevent adverse health effects, the EU drinking water standard is limited to 50 mg NO3/l. The high levels of phosphates in rivers can cause eutrophication, i.e. excessive growth of microphytes and algae, which has an adverse effect on water quality (Eurostat, 2022).

[2] Wastewater is not only water that is released back to the environment after use, but also runoff rainwater that flows back to the environment through the sewerage system or is captured and then discharged directly to rivers, streams or soil.

Ambient air quality 4.13

The quality of ambient air in Slovenia is to a large extent related to excessive particulate matter (PM) pollution,[1] which is mainly a consequence of inappropriate burning of wood biomass and poor ventilation of some areas. Most of the particulate matter (PM_{10}) pollution, about 60%, is due to emissions from *small combustion sources*, to a large extent owing to households' outdated wood biomass furnaces and the often unfavourable weather conditions in the poorly ventilated basins and valleys of the continental part of Slovenia. With pronounced temperature inversions, even a relatively low emission density can cause excessive air pollution. As there are no such problems in the warm season, the data on the annual averages show a better picture than the data on the number of days with the exceeded daily limit value, which are typical of the cold months of the year. Another major source of particulate emissions is *energy use in industrial processes and fuel combustion in industry*, followed by *road transport emissions*. In recent years, the overall average exposure of the urban population to particle pollution has been declining, partly as a result of milder winters, but exposure to the smallest particles is still significantly higher than the EU average.

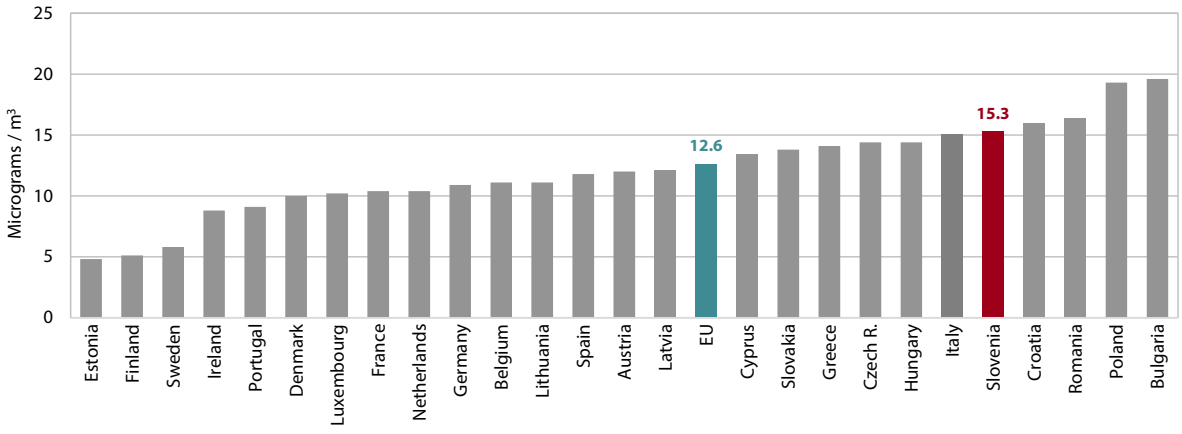
Another problem is the locally high presence of ground-level ozone. As the formation of ozone requires sufficient sunlight, the excessive concentrations of ozone, in contrast to particulate matter, mainly occur during the summer months. They are primarily the result of road traffic, the main source of ground-level ozone precursors. In Slovenia, the ambient concentration of ozone is significantly affected by transboundary air pollution and is highly dependent on winds from the west. It is highest in the Primorska region, although it is also high in most other areas, even in rural areas and at higher altitudes (ARSO, 2022a). As ozone concentrations are strongly dependent on weather conditions, no clear trend can be seen from the multi-year data series, but according to the most recent data, the exposure of the urban population to ozone was higher than the EU average.

Table: Urban population exposure to particulate matter and ozone, in micrograms per m³

	2000	2005	2008	2010	2012	2013	2014	2015	2016	2017	2018	2019
PM_{10}												
Slovenia	N/A	36.8	29.1	28.2	25.4	24.9	22.5	27.7	25.6	24.8	24.1	20.4
EU	32.2	29.4	27.4	27.2	25.9	25.1	23.3	24.1	22.0	22.6	22.5	20.5
$PM_{2.5}$												
Slovenia	N/A	N/A	23.9	21.8	20.4	20.1	17.5	21.6	21.6	19.7	18.3	15.3
EU	14.5	16.2	18.1	18.9	17.5	16.4	15.7	15.8	14.6	14.9	14.5	12.6
Ozone, Slovenia												
No. of days with exceeded values		46	33	24	40	41	31	28	24	32	26	31

Sources: Eurostat (2022), ARSO (2022b). Notes: Average annual particulate matter concentrations in urban background locations. The annual concentration limit recommended by the World Health Organisation to protect human health is 20 µg/m3 for PM10 and 10 µg/m3 for PM2.5 (ARSO, 2022b). The exceedance of the target values for ozone set for the protection of human health is determined on the basis of ozone concentrations that were measured in the previous three-year period at measuring points representative for the area (Decree on ozone in ambient air, 2003); data for measuring points in urban backgrounds are shown; N/A – data not available.

Figure: Urban population exposure to $PM_{2,5}$, 2019



Source: Eurostat (2022). Note: data for Malta not available.

[1] The most frequently measured particles are those sized 10 µm or less (PM10) and 2.5 µm or less (PM2.5). These are the most damaging for health, causing increased morbidity and mortality due to respiratory and cardiovascular diseases.

Functionally derelict areas 4.14

Functionally derelict areas (FDAs)[1] continue to undergo positive spatial changes, as reflected in the accelerated revitalisation of existing FDAs and the slower growth of new FDAs. In 2021, a higher number of building permits issued[2] and increased investment activity were also observed in the FDAs. Compared to 2020, changes were observed in about one-tenth of FDAs, and both their total number and area have decreased. At the same time, the consequences of the COVID-19 crisis started to show through the cessation of activities in areas intended for trade, services and industry, which could be reflected in new FDAs.[3] In 2017–2021, activities in about one-third of, i.e. 350, FDAs resumed or revitalisation efforts were still ongoing.

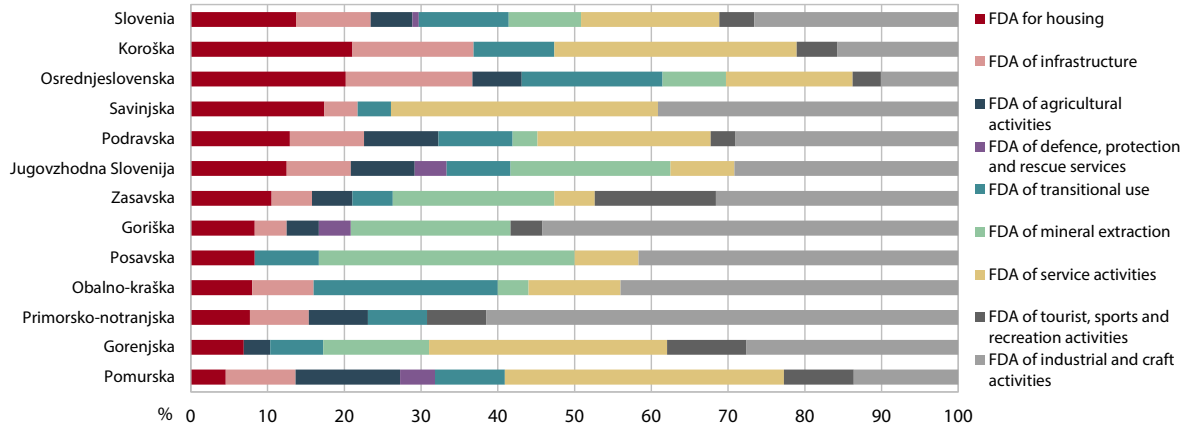
The revival was evenly distributed across the regions and was most concentrated in terms of structure on FDAs for housing. To a large extent (59% of all FDAs), the construction of unfinished residential areas on FDAs for housing has been completed, but mainly intended for elite residential neighbourhoods, which will not significantly alleviate the deficit of public rental housing (see Chapter 3). Most of the residential neighbourhoods whose construction was completed are located in the Osrednjeslovenska and Koroška regions (in both regions they accounted for one-fifth of all revivals in the region), but they are also located in other statistical regions (e.g. Savinjska, Podravska and Jugovzhodna Slovenija). Abandoned construction sites, which are classified as FDAs of transitional use, were also revived at 42% of locations. For FDAs of industrial and craft activities, the most positive changes were observed in the Goriška region, while for FDAs of service activities, the most positive changes were observed in the Osrednjeslovenska and Gorenjska regions.

Table: Changes in the revival, by type of FDA, 2017–2021

FDA:	Number of FDAs			FDA back in function or in the process of revival, 2017–2021		
	2017	2020	2021	Number	Area (ha)	Share in %
Industry and crafts	228	216	218	93	576	43
Infrastructure	128	164	163	34	66	21
Agriculture	74	85	84	19	88	23
Defence, protection and rescue	34	35	35	3	8	9
Transitional use	116	140	141	41	106	29
Extraction of mineral raw materials	172	182	181	33	127	18
Service activities	171	191	186	63	142	34
Tourism and sports and recreation	60	68	70	16	39	23
For housing	98	86	81	48	57	59
Total	1,081	1,167	1,159	350	1,209	30

Source: FF UL (2021).

Figure: Structure of positive FDA changes by types and regions, 2017–2021



Source: FF UL (2021).

[1] In accordance with the Spatial Planning Act (ZUreP-3, 2021), the term "degraded" has been changed to "derelict".
[2] In 2021, 17% more building permits were issued in Slovenia than in 2020 (Kastelic, 2022).
[3] From the point of view of recording spatial changes, one year is considered a short period. To be entered in the FDA register, the area must have been without function for at least one year, so some newly abandoned areas are not yet entered. FDAs are not deleted from the register until they are in use again.

5 A high level of cooperation, competence and governance efficiency

Efficient governance and high-quality public services

5.1 Trust in institutions

5.2 Executive capacity

A trustworthy legal system

5.3 The Rule of Law Index

5.4 The expected time needed to resolve litigious civil and commercial cases

5.5 The Corruption Perception Index

A safe and globally responsible Slovenia

5.6 The Global Peace Index

5.7 Share of households reporting problems with crime, vandalism or violence in the local area

5.8 Expenditure on official development assistance

Trust in institutions 5.1

After several years of improvement, trust in most institutions decreased in 2020 and 2021, remaining below the EU average, and was below the SDS target, except for trust in local authorities.[1] It was the highest and above the EU average in 2006 but has dropped significantly since then. Trust in most institutions was the lowest at the end of the global financial crisis, while it improved in 2013–2019.[2] The level of trust in key institutions decreased again in the last two years. In 2021,[3] trust in the government, parliament and political parties was among the lowest in the EU. The increased dissatisfaction was to a great extent due to the COVID-19 epidemic, which led to changes in the economy and people's lives.[4] In Slovenia, more than half of the respondents (53%; EU: 25%) thought that the measures taken by the public authorities to contain the epidemic were unjustified and 59% (EU: 50%) believed that things were heading in the wrong direction. Most respondents did not expect the economic situation and the general situation in Slovenia to improve in the next 12 months. Trust in local authorities was higher during the epidemic than before, and this is still the institution people trust the most, while political parties are the least trusted institution.

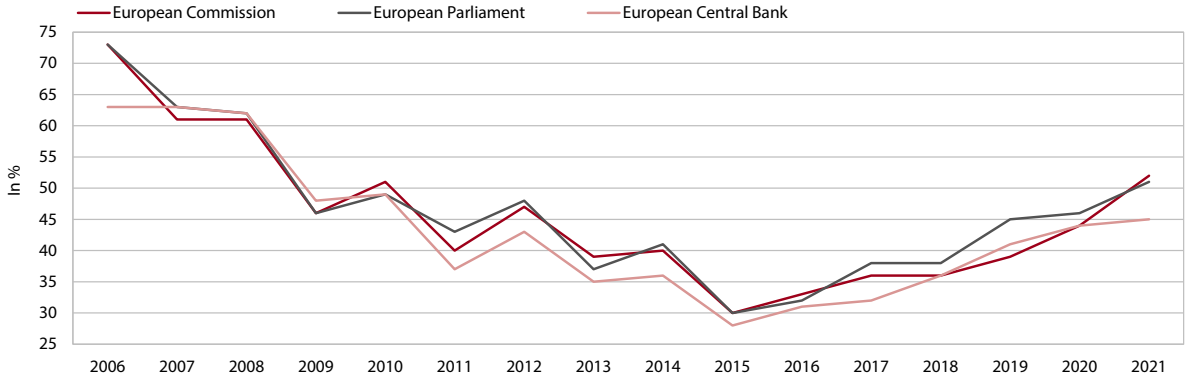
Trust in the EU and its institutions has increased since 2015. It was the highest in 2006 and the lowest in 2015 and has been rising again since then. In 2021, 55% of respondents trusted the EU, which is the most since 2008 and more than the EU average, which can be attributed to the increased reputation of the EU among Slovenian citizens.[5] In 2021, trust in European institutions also increased further compared to the previous year. More than half of all respondents trusted the European Commission (52%; EU: 50%) and the European Parliament (51%; EU: 53%) and slightly fewer the European Central Bank (45%; EU: 48%).

Table: Trust in institutions, in %

		2006	2008	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
Parliament	Slovenia	42	34	23	10	12	6	9	11	14	17	22	26	22	19	At least half of the population trust public institutions (the average of the last three years)
	EU	33	34	31	27	28	25	30	28	32	35	35	36	36	35	
Government	Slovenia	43	36	27	12	15	10	13	16	17	17	23	31	25	25	
	EU	30	34	29	24	27	23	29	27	31	36	35	35	40	37	
Local authorities	Slovenia	N/A	39	39	36	34	29	31	27	38	43	40	46	50	48	
	EU	N/A	50	47	45	43	44	43	42	47	51	54	54	57	57	
Political parties	Slovenia	20	17	11	7	9	6	6	6	6	8	10	14	12	10	
	EU	17	20	18	14	15	14	14	15	16	18	18	20	23	21	
EU	Slovenia	70	60	47	38	39	37	40	30	37	38	37	46	47	55	
	EU	45	47	42	34	33	31	37	32	36	41	42	45	43	49	

Source: Eurobarometer (2021e). Notes: The figures for individual years are the latest available data for that year (autumn measurements, for 2020 and 2021 summer measurements); For the EU, the figures for 2006 are for the EU-25, the figures from 2008 to 2012 are for the EU-27, the figures from 2013 to 2018 are for the EU-28, and the figures for 2019 and 2020 are for the EU-27. N/A – data not available.

Figure: Trust in EU institutions, Slovenia



Source: Eurobarometer (2021e). Note: The figures for individual years are the latest available data for that year (autumn measurements for 2020 and 2021 summer measurements).

[1] The source of the data is Eurobarometer, which is based on public opinion polls on the level of trust in selected institutions, with the possible answers being "tend to trust", "tend not to trust" and "don't know".
[2] Trust in political parties started to improve slightly only in 2017.
[3] The last available data is for 2021 (June–July 2021 survey).
[4] Trust in institutions was lowest in the February–March 2021 survey, when a series of containment measures were taken to prevent the spread of COVID-19.
[5] In 2021, 53% of respondents in Slovenia held a positive image of the EU. This is the highest figure since 2009 and 11 p.p. higher than in 2020 and is above both the EU average (45%) and the share of those who have a neutral image of the EU (36%). Half of the respondents also estimated that things were going in the right direction in the EU (EU: 41%).

Executive capacity 5.2

The executive capacity indicator, which measures the strategic governance of public institutions, is gradually improving in Slovenia but remains low compared to other EU Member States. The executive capacity indicator is a sustainable governance indicator measuring government and institutional performance in eight dimensions: strategic capacity, inter-ministerial cooperation, regulatory impact assessment, societal consultation, policy communication, the implementation of set measures, adaptability and the capacity for reforming the public administration.[1] Since 2017, the indicator value and Slovenia's rank among the EU Member States have improved, but Slovenia continues to lag significantly behind the EU average in all indicator dimensions.

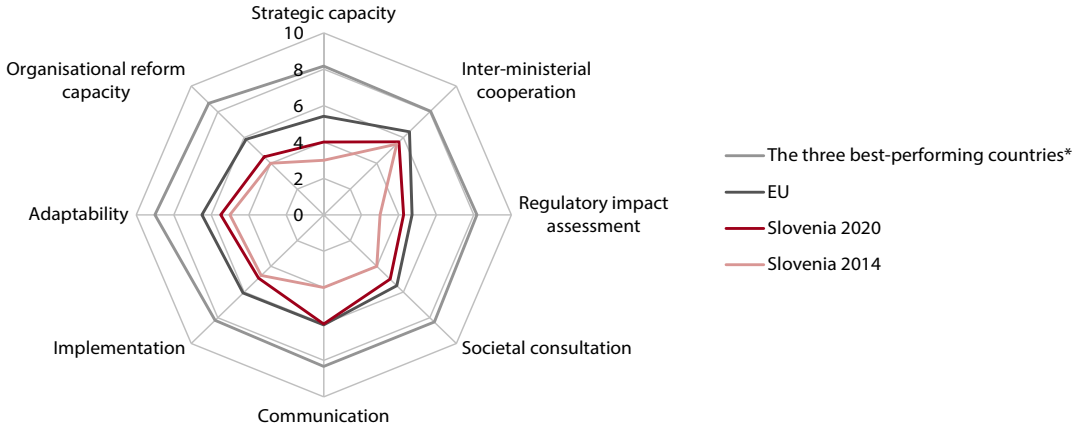
A low executive capacity score points to the relatively low values of the government and institutional performance indicators. In the SGI survey (Bertelsmann, 2020),[2] the main weaknesses identified were in effective strategic planning and organisational reforms, where only limited progress has been made in recent years. The implementation of policy measures at various levels of government (both central and local) is also assessed as significantly worse than in other EU Member States. One of the issues is political interference in recruiting in the state administration, even at expert levels. Despite the progress made over the past year, Slovenia also lags behind other countries in producing a comprehensive assessment of the impact of proposed regulations (RIA) on public finances, the economy, the environment and society as a whole.

Table: Executive capacity indicator, Slovenia and the EU

	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia*	4.46	4.64	4.81	4.77	4.81	4.91	4.97	EU average in 2030
EU	6.02	6.04	6.04	6.04	6.05	5.95	5.94	

Source: Bertelsmann, 2020; calculations by IMAD. Notes: Scores range from 1 to 10, with higher being better; *for Slovenia, the indicator was calculated for the first time in 2014.

Figure: Executive capacity indicator by dimension, 2020



Source: Bertelsmann, 2020; calculations by IMAD. Notes: *The top three countries are Sweden, Finland and Denmark. A higher score is better, with the highest score being 10.

[1] The main limitation of sustainable governance indicators (SGIs) is the small size of the sample of experts included in the survey in individual countries.
[2] The survey was conducted in the first half of 2020 and published in September 2020, which means that the impact of the COVID-19 epidemic on the executive capacity of the countries surveyed is largely ignored.

The Rule of Law Index 5.3

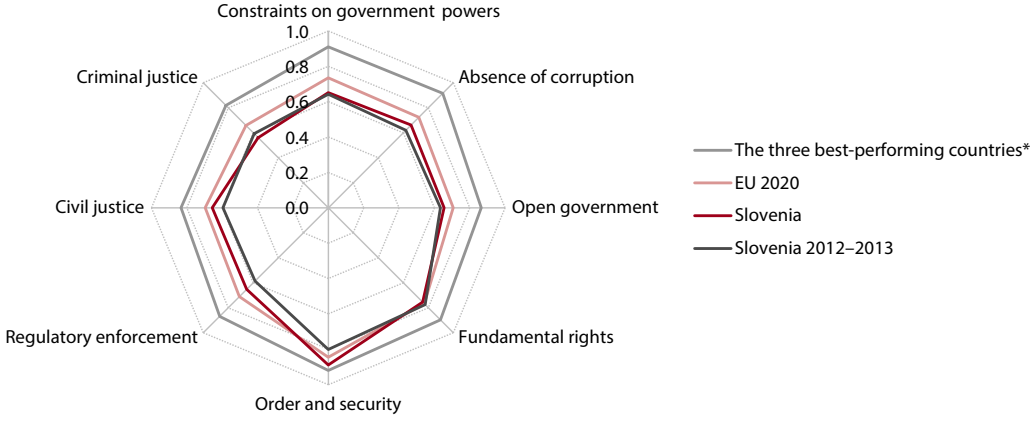
Slovenia ranks in the lower half of EU Member States on the Rule of Law Index; its ranking has not changed significantly since 2012.[1] The rule of law highlights the principle of equality before the law and emphasises the inviolability of the authority of the law and rules. This means that the Government itself respects the law, that the functioning of government bodies is bound by law, and that fundamental human rights and freedoms are ensured. By being ranked in the lower half of EU Member States on the Rule of Law Index, which has not improved in the long term (2012–2021), Slovenia lags behind the SDS target. Slovenia scores best in the category of order and safety, where it is close to the top-ranking Scandinavian countries. The only other category where it also ranks close to the EU average is fundamental rights (where it scores well on the right to life and security and labour rights indicators). On the other hand, it lags most behind the EU average in criminal justice, with indicators in this area reflecting mistrust in the justice system, particularly in its independence. The weaknesses in adherence to the rule of law are also indicated by the low indicator values in the areas of responsibility and powers of government policy (e.g. the sanctions for official misconduct indicator, compliance with legislation and respect for the judiciary by the government) and the absence of corruption (e.g. the risk of corruption in the executive branch and in the legislature). According to Eurobarometer (2021d), respondents in Slovenia are less well informed about the rule of law in Slovenia than the EU average, and a high proportion of respondents believe that the EU's fundamental values (human rights, the rule of law and democracy) are not sufficiently protected (Slovenia: 62%; EU: 32%).

Table: Rule of Law Index, Slovenia and the EU

	2012–13	2014	2015	2016	2017–18	2019	2020	2021	SDS 2030 target
Ranking among EU Member States									
Slovenia	14	14	14	14	14	13	13	18*	Ranking in the top half of EU Member States
Score									
Slovenia	0.66	0.65	0.66	0.67	0.67	0.67	0.69	0.68	
EU*	0.72	0.71	0.72	0.73	0.73	0.73	0.73	0.73	

Source: World Justice Project (2021). Notes: Scores range from 0 to 10, with higher being better; data for the overall index are available from 2012 onwards; *data for 2012–2020 was available only for 20 EU Member States; for 2021, data was available for all Member States, which affected the absolute ranking.

Figure: Rule of Law Index by sub-component, 2021



Source: World Justice Project (2021). Notes: Scores range from 0 to 1, higher being better; the three best-performing countries are Denmark, Finland and Sweden.

[1] The deterioration in 2021 is the result of a methodological change, i.e. an increase in the number of countries included in the survey (20 EU Member States were included in 2020 and 27 in 2021). Taking into account only the countries from previous years, Slovenia's rank did not change in 2021 (13th place).

The expected time needed to resolve litigious civil and commercial cases 5.4

The expected time needed to resolve litigious civil and commercial cases[1] shortened significantly in 2008–2019, but it remains longer than the EU average. In 2008–2014, Slovenia saw a shortening of the expected time needed to resolve litigious civil and commercial cases by more than 40%, in large part due to the project to eliminate court backlogs and other structural reforms (e.g. insolvency legislation). Since 2014, the time needed to resolve these cases has increased slightly (to 281 days in 2019), moving away from the SDS 2030 target (200 days). This can be attributed mainly to new competences given to the courts and a larger number of major cases. The gap with the EU average also widened in this period. Court proceedings related to money laundering take the longest compared to other countries.[2] Meanwhile, the expected length of second- and third-instance proceedings – where Slovenia has been among the best-performing countries in recent years – is shortening. However, owing to the different data and methodology used in the calculation, the expected disposition time differs from the time actually taken to resolve a case.

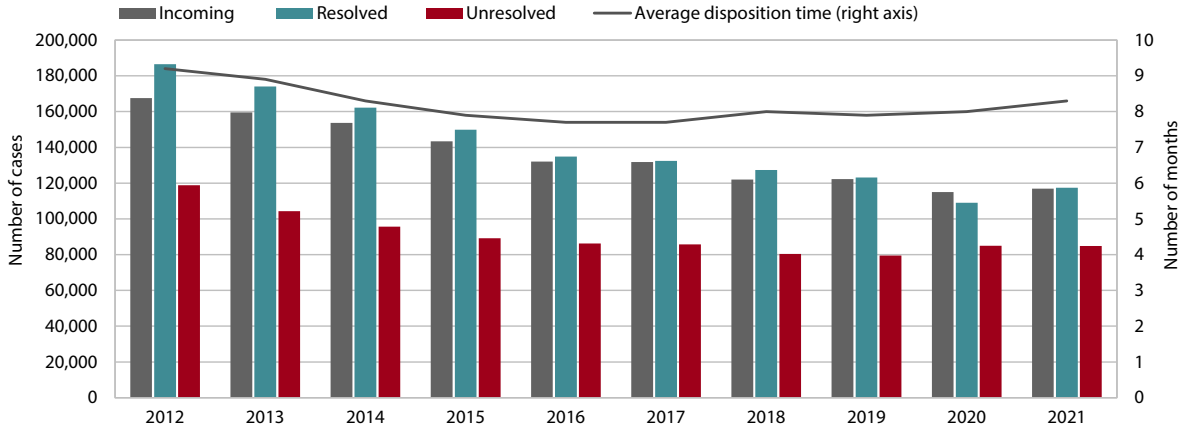
The efficiency of the justice system has improved in recent years. The average time needed to resolve a case shortened, though the time needed to resolve major cases has lengthened slightly.[3] The average time needed to resolve a case has shortened significantly over the past few years, to 1 month in 2021. Up to 2016, the time needed to resolve a major case was also rapidly decreasing, largely as a consequence of a smaller incoming caseload and greater efficiency on the part of the courts. This amount of time has not changed significantly since 2016 and has lengthened somewhat in the last two years. This can be attributed, among other things, to new competences given to the courts by legislative amendments, although the courts still resolved more cases than came in in most years.[4] The limited functioning of the courts due to the COVID-19 epidemic affected caseload and efficiency indicators in 2020,[4] but in 2021 the courts again resolved more cases than came in (0.4% of major cases and 1.5% of all cases). The share of pending major cases in the total number of unresolved cases has thus increased (by 46.9% in 2016 and 67% in 2021).

Table: Time needed to resolve litigious civil and commercial cases at the first instance, in days

	2008	2010	2012	2013	2014	2015	2016	2017	2018	2019	SDS 2030 target
Slovenia	460	315	318	301	270	277	280	292	283	281	200 days
EU	299	288	278	300	253	244	252	242	250	258	

Source: EC (2021v).

Figure: Major cases at courts, Slovenia



Source: Supreme Court (2022).

[1] The expected length of proceedings indicates the estimated time (in days) needed to resolve a case in court, i.e. the time taken by the court to reach a decision at the first instance.
[2] Court proceedings related to money laundering take longer only in Malta.
[3] Major cases, which account for around 15% of the total caseload, are all cases defined as such in the methodology for recording statistical data, which is published at: https://podatki.gov.si/dataset/sodna-statistika-bilten/
[4] The ratio of the number of resolved cases to the number of incoming cases in the last 12 months was above 100% in 2016–2021, except in 2020, when the functioning of courts was restricted due to the epidemic.
[5] In 2020, the courts resolved 5% fewer major cases than came in (there were 0.2% fewer cases overall).

The Corruption Perception Index 5.5

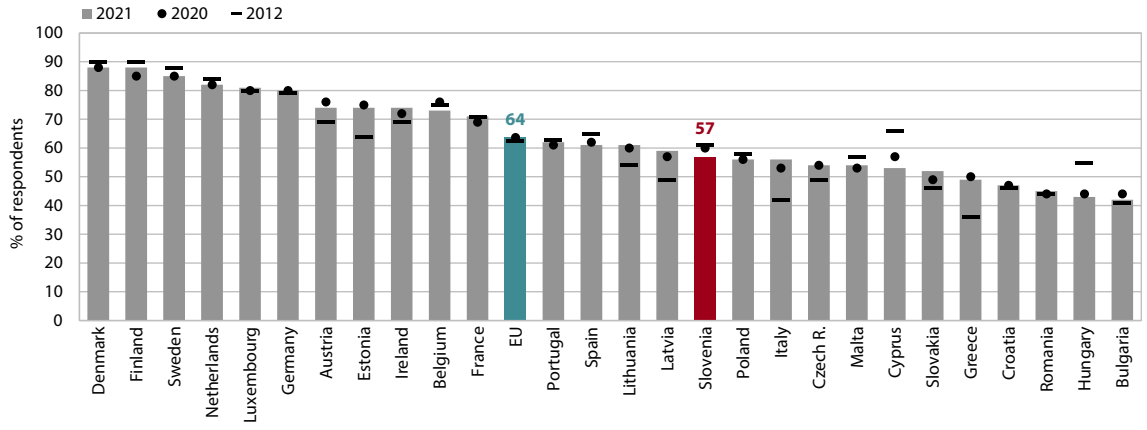
The already relatively high perception of corruption in Slovenia further increased over the past year.[1] The Corruption Perception Index (CPI) is based on the rate of public sector corruption as perceived by businesspeople, experts and analysts. In 2012–2020, Slovenia made no significant progress in the corruption perception ranking. Its ranking even slightly worsened in the last measurement and the gap with the EU average widened. Slovenia is among the EU Member States (with Cyprus, Hungary, Spain and Malta) where the index has fallen the most since 2012, reflecting a higher perception of corruption, but it is faring better than most countries that joined the EU after 2003. The last two years were marked by the COVID-19 epidemic and ensuing crisis, which exposed a number of corruption risks, as the number of corruption cases reported to the Commission for the Prevention of Corruption was higher in both years than in 2019. According to Eurobarometer (2020b), 87% of persons asked think that corruption is widespread in Slovenia, but at the same time, a large majority of respondents have no personal experience of corruption. The high perception of corruption in Slovenia can to a great extent be attributed to respondents believing that high-profile and major cases of corruption are not adequately sanctioned.

Table: The Corruption Perception Index

	2005	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Slovenia	61 (15)	67 (11)	66 (10)	64 (12)	61 (15)	57 (16)	58 (16)	60 (15)	61 (14)	61 (13)	60 (13)	60 (14)	60 (14)	57 (16)
EU	62.4	63.6	59.9	61.5	62.6	62.8	63.7	65.0	64.0	65.0	64.1	63.9	63.7	63.7

Source: Transparency international (2022). Note: The index scale ranges from 0 to 100, where 0 means that a country is perceived as being highly corrupt and 100 means that a country is perceived as being "very clean". The figure in brackets shows Slovenia's rank among the EU Member States.

Figure: The Corruption Perception Index



Source: Transparency International (2022). Note: The index scale ranges from 0 to 100, where 0 means that a country is perceived as being highly corrupt and 100 means that a country is perceived as being "very clean". The figure in brackets shows Slovenia's rank among the EU Member States.

[1] Most of the sources for compiling the Corruption Perception Index are based on research and surveys from 2020 or the first half of 2021.

The Global Peace Index 5.6

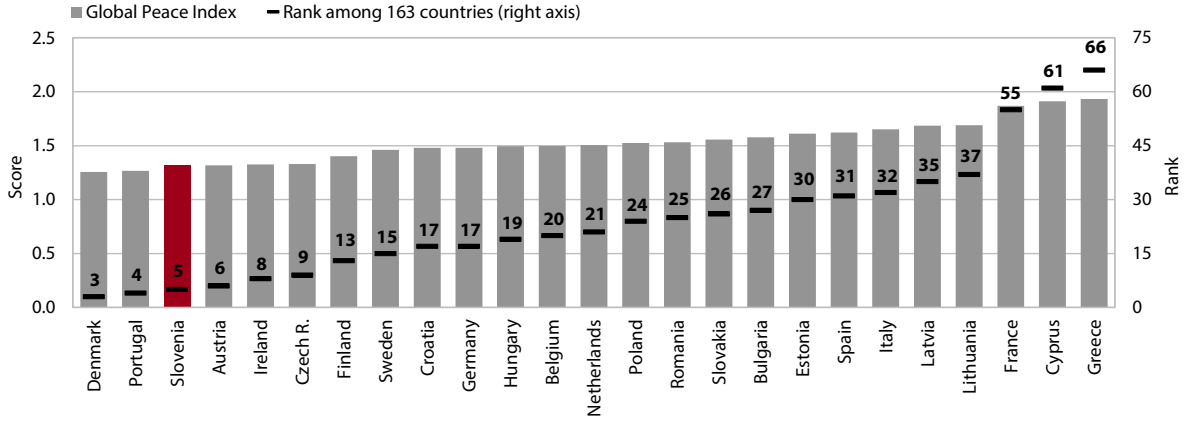
According to the World Peace Index,[1] Slovenia was once again one of the most peaceful countries in the world in 2021 and improved its rank compared to the previous year, remaining within the SDS 2030 target. In 2021, it ranked 5th out of 163 countries in the world and 3rd among EU Member States, which is in line with the SDS target. Only Iceland, New Zealand, Denmark and Portugal were ahead of Slovenia. Slovenia is among the ten best performing countries in the area of militarisation (2nd) and societal safety and security (7th). In both areas, it made slight progress compared to the previous year. It scores lower in the area of domestic and international conflict (50th), which is mainly due to the still slightly worse assessment of relations with neighbouring countries and the intensity of organised internal conflicts. It has also scored slightly lower over the past decade with regard to the indicators of the number of internal security officers and police per 100,000 people[2] and the likelihood of violent demonstrations.[3] Compared with other countries, Slovenia nevertheless ranks relatively high in these areas, but these scores indicate certain shortcomings, albeit ones that do not significantly affect the assessment of peace in the country. According to the Global Peace Index for 2021, Europe was the most peaceful region in the world and was home to eight of the ten most peaceful countries in the world (six of which are EU Member States). The Middle East and North Africa (MENA) was the least peaceful region in the world and Afghanistan was the least peaceful country in the world. Globally, the number of armed conflicts and wars did not change significantly in the years until 2021 and remained high (Strand and Havard, 2021), but the COVID-19 pandemic has created new tensions and insecurities that are manifesting themselves primarily in political and social unrest, but also in feelings of being threatened and interpersonal violence (IEP, 2021a).[4]

Table: Global Peace Index, Slovenia

	2008	2010	2011	2012	2015	2016	2017	2018	2019	2020	2021	SDS 2030 target
Rank among 163 countries												To be ranked among the top 10 countries in the world and the top 5 in the EU.
Global Peace Index	8	7	4	8	10	8	7	7	6	10	5	
Score												
Global Peace Index	1.381	1.383	1.378	1.419	1.387	1.353	1.346	1.364	1.329	1.349	1.315	
Militarisation	1.20	1.18	1.25	1.43	1.37	1.25	1.18	1.26	1.18	1.17	1.13	
Societal security and safety	1.46	1.48	1.43	1.42	1.39	1.37	1.39	1.39	1.35	1.41	1.35	
Domestic and international conflict	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.41	1.40	1.40	1.40	

Source: IEP (2021b). Note: Scores range from 1 to 5, with a lower score being better.

Table: Global Peace Index, Slovenia



Source: IEP (2021b). Note: Scores range from 1 to 5, with a lower score being better.

[1] The Global Peace Index, which is produced each year in cooperation with the Economist Intelligence Unit (EIU), evaluates countries according to their level of peacefulness. It includes 23 qualitative and quantitative indicators on a scale from 1 to 5, grouped into three thematic domains: militarisation (7 indicators), societal safety and security (10 indicators), and ongoing domestic and international conflict (6 indicators). The calculation of the Index for 2020 includes data from 2015 to March 2021.

[2] According to Eurostat (2022) data on the number of police officers per 100,000 inhabitants, Slovenia also ranked in the bottom half of EU Member States in 2019 (the latest available data).

[3] The two indicators fall under the area of societal safety and security.

[4] Between January 2020 and April 2021, more than 5,000 violent incidents related to the pandemic occurred in at least 158 countries, ranging from violent demonstrations and riots to physical attacks on people of Asian descent.

Share of households reporting problems with crime, vandalism or violence in the local area 5.7

The share of people[1] reporting problems with crime, vandalism or violence in the local area in 2020[2] was the lowest in the last 15 years and in line with the SDS target. It was 7.3%, slightly lower than the previous year, as in most other EU Member States, which may be partly due to the measures taken to contain the spread of COVID-19. In the last decade, it has constantly been below the EU average. The incidence of crime is mostly affected by socio-economic factors and social climate, and crime is also more common in urban environments. The proportion of households reporting problems with crime in their local environment decreased in most regions in 2020, with the smallest decrease in the Koroška region (SURS, 2022b). Jugovzhodna Slovenija continued to stand out on this indicator with the highest share, exceeding the Slovenian average by three-quarters. Despite the decrease in 2020, it grew the most in this area compared to 2010. In 2020, the Slovenian average was exceeded by the Obalno-kraška, Posavska and Osrednjeslovenska regions. In the last, the share of households reporting problems with crime decreased the most compared to 2010, but it was still above the Slovenian average in 2020. The Osrednjeslovenska region has the most urbanised areas in Slovenia, which increases the potential for crime. Important factors that contribute to a reduction in crime are a better quality of life for families in the community (the prevention and reduction of poverty and social exclusion), high-quality implementation of educational work in schools, and more comprehensive organisation of social life and surveillance in the local community (Meško and Sotlar, 2012).

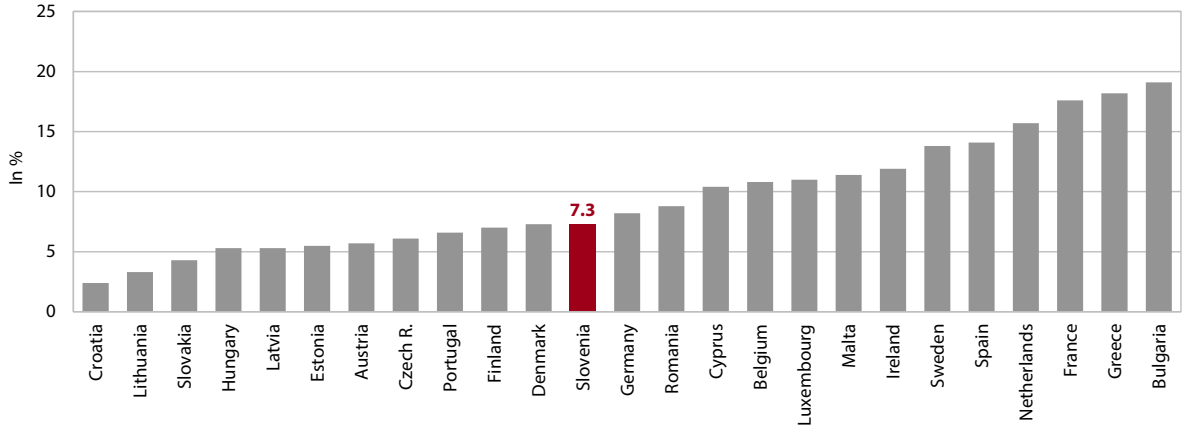
Slovenia is a safe country, which has a positive impact on the quality of life. The results of the European Social Survey suggest that the share of respondents who have had personal experience of burglary or physical assault after 2010 hoovered between 9% and 11% and, according to the 2018 data, was lower than the average for countries included in the survey (15%)[3] (ESS-ERIC, 2020). In 2020,[4] 10.2% of respondents reported such experience, which is slightly less than in 2018 (CJMMK, 2022). In addition to the personal experience of crime, people's quality of life is also affected by the feeling of being threatened in the immediate environment, which was consistently lower in Slovenia than the average of the countries participating in the survey. In 2020, 94% of respondents felt safe when walking alone in their neighbourhood at night, which is the same as in 2018 (EU-17: 83%).

Table: Reported crime, vandalism or violence in the local area, in %

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	SDS 2030 target
Slovenia	9.3	8.6	8.1	9.1	10.1	9.2	8.5	8.0	7.9	8.0	7.3	< 10 %
EU	13.1	13.2	12.8	14.1	13.6	13.2	12.5	11.5	11.5	11.0	N/A	

Source: Eurostat (2022).

Figure: Reported crime, vandalism or violence in the local area, 2020



Source: Eurostat (2022). Note: Data for Italy and Poland are not available.

[1] The unit described in the Living Conditions Survey (EU-SILC) is private households and the persons living in these households. Eurostat data refer to persons (household-level data are attributed to all persons in the household), while SURS data (regional survey) refer to households.

[2] In 2020, the survey was conducted in two periods due to the epidemic (January–March and May–September), so the data for 2020 are not fully comparable with the data from previous years (Stare et al., 2021).

[3] The chart shows the total average result of the selected countries regardless of the size of the national samples or the size of the country (Austria, Belgium, the Czech Republic, Denmark, Estonia, Finland, France, Ireland, Hungary, Germany, the Netherlands, Poland, Portugal, Slovenia, Spain, Sweden and the United Kingdom).

[4] Due to the epidemic, data for 2020 were obtained in two periods: from 18 September to 19 October 2020 and from 1 June to 31 August 2021.

Expenditure on official development assistance 5.8

In 2020, expenditure on official development assistance remained significantly lower than international commitments.[1] Official development assistance is defined as aid provided by advanced countries in support of sustainable development in developing countries. Compared to the previous year, 17 EU Member States increased their funds for official development assistance in 2020 to support partner countries in dealing with the COVID-19 pandemic (EC, 2021k). Slovenia allocated EUR 79.61 million for development assistance, 2% more than in 2019, thus maintaining the share of GNI[2] dedicated for this purpose, though this remained significantly below the EU average.[3] Expenditure on official development assistance (0.17% of GNI) falls considerably short of international commitments, according to which Slovenia should strive to increase the share of GNI for this purpose to 0.33% by 2030.

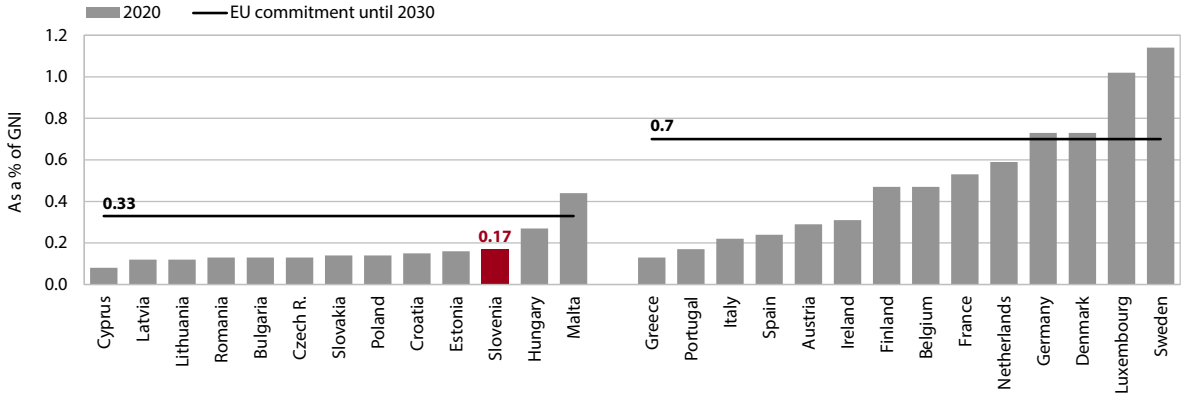
The structure of assistance in 2020 was affected by the COVID-19 pandemic. Development assistance is the sum of multilateral assistance (funding provided for the regular development activities of international organisations) and bilateral assistance.[4] To help partner countries address the health, economic and social challenges of the COVID-19 crisis, funding for bilateral humanitarian aid was significantly increased in 2020. Most of this aid was intended for emergency relief and was mainly financed by earmarked contributions to international organisations. Due to the situation, assistance focused on specific projects, which has accounted for a relatively large share of bilateral aid in recent years, saw the sharpest decline (by 65%) in 2020. Support for the operation of institutions increased the most (by 56%), but it remains relatively low in terms of funding (about 1.6% of all bilateral assistance). In recent years, Slovenia has used most of its aid to pay tuition fees and scholarships, which further increased in 2020 (by 19%) and the cost of caring for refugees and migrants also increased again (by 18%)[5]. In 2020, Slovenia again dedicated most of its bilateral aid[6] to Western Balkan countries, 76% in total, which is more than ever before. Most of this aid was again allocated to quality education projects (funds for paying tuition fees and scholarships). The volume of multilateral aid also increased, with the largest share (86%) of aid going to development cooperation programmes within the EU. Together with humanitarian aid, this has contributed to a relatively small increase in funding for official development assistance in 2020 (MZZ, 2022a).

Table: Official development assistance as a share of GNI, in %

	2005	2008	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Slovenia	0.11	0.13	0.13	0.13	0.13	0.13	0.12	0.15	0.19	0.16	0.16	0.17	0.17
EU	0.41	0.40	0.41	0.42	0.40	0.38	0.38	0.42	0.49	0.47	0.43	0.41	0.50

Source: Eurostat (2022).

Figure: Official development assistance as a % of GNI in the EU Member States in 2020



Source: Eurostat (2022).

[1] In 2015, the EU and Member States renewed their commitment to spend 0.7% of total GNI on official development assistance by 2030. The target for Member States that joined the EU before 2002 is to spend 0.7% of GNI on official development assistance, while the target for Member States that joined the EU after 2002 is 33% of GNI.
[2] The share of GNI for official development assistance in 2019 was corrected from 0.16% to 0.17% (see MZZ, 2022a).
[3] In most EU Member States, the share of GNI for official development assistance increased in 2020 or remained unchanged. Among the countries that joined the EU after 2002, Slovenia ranks third, behind Malta and Hungary, which increased their share of GNI for official development assistance most significantly (see Figure).
[4] In 2020, EUR 26.49 million was allocated for bilateral assistance. Bilateral assistance is the sum of disposable bilateral assistance (EUR 23.89 million) and administrative costs (EUR 2.61 million). In 2020, after a short period of growth, both administrative costs and available bilateral aid decreased (MZZ, 2022a).
[5] They were highest in 2015 and 2016 due to migration trends, mainly related to the situation in the Middle East, which was reflected in a disproportionate increase in the volume of development assistance.
[6] The priority development regions being (i) the Western Balkans (Bosnia and Herzegovina, North Macedonia, Serbia, Montenegro, Kosovo, and Albania), (ii) the European neighbourhood and (iii) Sub-Saharan Africa.

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Abbreviations

AEP	active employment policy
AIC	actual individual consumption
AJPES	Agency for Public Legal Records and Related Services
ARSO	Slovenian Environment Agency
ARRS	Slovenian Research Agency
AVP	Slovenian Traffic Safety Agency
BAMC	Bank Assets Management Company
GMI	guaranteed minimum income
BE	Belgium
BHI	basic health insurance
BoS	Bank of Slovenia
CAF	Common Assessment Framework
CAP	Common Agricultural Policy
CCIS	Chamber of Commerce and Industry of Slovenia
Cedefop	European Centre for the Development of Vocational Training
CEE 4	Czech Republic, Hungary, Poland and Slovakia
CEPEJ	European Commission for the Efficiency of Justice
CER	Center of Energy Efficient Solutions
CEUVIZ	Central Register of Participants in Education
CH4	methane
CJMMK	Public Opinion and Mass Communications Research Centre
CKZ	Health promotion centre
CLARIN	Slovene national consortium of the European research infrastructure CLARIN
CMEPIUS	Centre of the Republic of Slovenia for Mobility and European Educational and Training Programmes
CO_2	carbon dioxide
CoE	Council of Europe
COP26	26th Conference of the Parties to the United Nations Framework Convention on Climate Change
CPC	Commission for the Prevention of Corruption
CPI	Consumer Price Index
CŠOD	Centre for Curricular and Extracurricular Activities
CZ	The Czech Republic
DARS	Motorway Company of the Republic of Slovenia
DESI	Digital Economy and Society Index
DG SANTE	The Directorate-General for Health and Food Safety
DIH	Digital innovation hub Slovenia
DK	Denmark
DRSI	Slovenian Infrastructure Agency
DVK	State Election Commission
EACEA	European Education and Culture Executive Agency

EAPN	European Anti-Poverty Network
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EC	European Commission
ECB	European Central Bank
ECDC	European Centre for Disease Prevention and Control
ECHR	European Court of Human Rights
EDI	Equivalised disposable income
EEA	European Environment Agency
EEAS	European External Action Service
EFB	European Fiscal Board
EFQM	European Foundation for Quality Management
EHIS	European Health Interview Survey
EIB	European Investment Bank
EII	European Innovation Index
EJQI	European Job Quality Index
EIPA	European Institute for Public Administration
EMU	Economic and Monetary Union
EPO	European Patent Office
ESC	Economic and Social Council
ESI	economic sentiment indicator
ESLC	European Survey on Language Competences
ESM	European Stability Mechanism
ESPON	European Spatial Planning Observation Network
ESS	Employment Service of Slovenia
ESSPROS	European System of integrated Social PROtection Statistics
ET 2020	Education and Training 2020
ETS	Emissions Trading System
EU	European Union
EUA	European University Association
EUIPO	European Union Intellectual Property Office
EUR	euro
EUROAC	The Academic Profession in Europe: Responses to Societal Challenges
EUROSTAT	The Statistical Office of the European Union
EUSAIR	European Union Strategy for the Adriatic and Ionian Region
EU-SILC	The EU Statistics on Income and Living Conditions
eVŠ	web portal for higher education
FC	Fiscal council
FDA	Functionally degraded areas
FDI	foreign direct investment
FEAD	Fund for European Aid to the Most Deprived
FEANTSA	European Federation of National Organisations Working with the Homeless
FI	Finland

FRA	European Union agency for fundamental rights
FURS	Financial Administration of the Republic of Slovenia
GDP	gross domestic product
GDPR	General Data Protection Regulation
GERD	Gross domestic expenditure on R&D
GEI	Gender Equality Index
GEM	Global Entrepreneurship Monitor
GFN	Global Footprint Network
Gg	gigagram (1000 tonnes)
GHG	greenhouse gases
GNP	gross national product
GRECO	The Group of States against Corruption
ha	hectare
HBS	Household Budget Survey
HBSC	Health Behaviour in School-aged Children
HD	housing deprivation
HICP	Harmonised Index of Consumer Prices
HIIS	Health Insurance Institute of Slovenia
HU	Hungary
IAEs	innovation-active enterprises
ICT	information and communication technology
ICTWSS	Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts
IDEA	International Institute for Democracy and Electoral Assistance
IEA ICCS	International Civic and Citizenship Education Study
IEE	innovative environment entities
IER	Institute for Economic Research
IIBA	The International Institute of Business Analysis
IMAD	Institute of Macroeconomic Analysis and Development
IMD	Institute for Management Development
IMF	International Monetary Fund
ISCO	International Standard Classification of Occupations
ITR	implicit tax rate (on labour, capital, consumption and energy)
JAK	Slovenian book agency
JSI	Jožef Stefan Institute
JTF	Just Transition Fund
KIS	Agricultural Institute of Slovenia
KONS	Platform for Contemporary Investigative Art
LE	life expectancy
LFS	Labour Force Survey
LTC	long-term care
MDDSZ	Ministry of Labour, Family, Social Affairs and Equal Opportunities

MF	Ministry of Finance
MFF	multiannual financial framework
MGRT	Ministry of Economic Development and Technology
MIZŠ	Ministry of Education, Science and Sport
MJU	Ministry of Public Administration
MK	Ministry of Culture
MKGP	Ministry of Agriculture, Forestry and Food
MNZ	Ministry of the Interior
MO	Ministry of Defence
MOP	Ministry of the Environment and Spatial Planning
MP	Ministry of Justice
MRA	Master Restructuring Agreement
MTO	Medium-Term Objective
MzI	Ministry of Infrastructure
MZZ	Ministry of Foreign Affairs
N_2O	nitrous oxide
NA	National Assembly
NATO	North Atlantic Treaty Organization
NECP	National Energy and Climate Plan
NEET	not in employment, education or training
NEIG	non-energy industrial goods
NIJZ	National Institute of Public Health
NKMB	Nova kreditna banka Maribor
NLB	Nova Ljubljanska banka
NLO	Nobody Left Outside
NPK fertilisers	mineral fertilisers containing nitrogen, phosphorus and potassium
NUK	National and University Library
NUTS classification	the Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Cooperation and Development
OHIM	Office for Harmonization in the Internal Market
OP ETID	Operational Programme for Environmental and Transport Infrastructure Development
OP GHG	Operational Programme for Reducing Greenhouse Gas Emissions
OSHA	Occupational Safety and Health Administration
PA	personal assistance
PIAAC	OECD's Programme for the International Assessment of Adult Competences
PIRLS	Progress in International Reading Literacy Study
PKP	PISA – Programme for International Student Assessment
PKP	anti-coronavirus legislative package
PL	Poland
PM	particulate matter
PMR	product market regulation

PO	policy objective
p.p.	percentage point
PPP	purchasing power parity
PPS	purchasing power standard
RCH	residential care home
REACT EU	Recovery Assistance for Cohesion and the Territories of Europe
REER ULC	real effective exchange rate based on unit labour cost
ReNPIO 2022–2030	Resolution on the National Programme of Adult Education in the Republic of Slovenia 2022–2030
ReNPK22–29	Resolution on the 2022–2029 National Programme for Culture
ReNPVO20–30	Resolution on the National Environmental Action Programme 2020–2030
RES	renewable energy sources
RGZC	Celje Regional Chamber of Commerce
RIA	Regulatory Impact Assessment
RIC	National Examinations Centre
RISS	Research and Innovation Strategy of Slovenia
ROA	return on assets
ROE	return on equity
R&D	research and development activity
RRP	Recovery and Resilience Plan
RS	Republic of Slovenia
RUK	Network of Centres for Research Arts and Culture
RULC	real unit labour costs
S4	Slovenia's Smart Specialisation Strategy
SDS	Slovenia's Development Strategy
SE	Sweden
SEF	the Slovene Enterprise Fund
SFC	Slovenian Film Centre
SHA	System of Health Accounts
SHARE	Survey of Health, Ageing and Retirement in Europe
SHD	severe housing deprivation
SHI	supplementary health insurance
SI	Slovenia
SIAE	Slovenian Institute for Adult Education
SID	Slovenian Export Corporation
SiDG	Slovenski državni gozdovi, d. o. o., company for the management of state-owned forests
SILC	Survey on income and living conditions
SI-PASS	single point for verifying identity of various entities (citizens, business entities, public officials) and electronic signature of applications and other documents
SJM	Slovenian Public Opinion
SK	Slovakia
SKD	Standard Classification of Activities
SLOGI	Slovenian theatre institute

SMARS	Surveying and Mapping Authority of the Republic of Slovenia
SMEs	small and medium-sized enterprises
SPIRIT	Public Agency for Entrepreneurship, Internationalisation, Foreign Investments and Technology
SPOT	the Slovenian Business Point
SRIPs	Strategic Research and Innovation Partnerships
SSH	Slovenian Sovereign Holding
SVRK	Government Office for Development and European Cohesion Policy
SURE	Support to mitigate Unemployment Risks in an Emergency
SURS	Statistical Office of the Republic of Slovenia
ŠOS	Slovenian Students' Union
TA	teritorial agenda
TALIS	Teaching and Learning Survey
TAXUD	Taxation and Customs Union Directorate
TEA	total early-stage entrepreneurial activity
TEŠ	the Šoštanj Thermal Power Plant
TFP	total factor productivity
tkm	tonne-kilometre
UAA	utilised agricultural area
UIL	Slovenian Intellectual Property Office
UKC	University Medical Centre
UKOM	Government communication office
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNSC	United Nations Security Council
URSZR	Administration of the Republic of Slovenia for Civil Protection and Relief
USD	US Dollar
UTŽ	Slovenian Third Age University
VAT	value added tax
WEF	the World Economic Forum
WIPO	World Intellectual Property Organization
ZaPiS	Improvement of Health Literacy in Slovenia
ZGS	Slovenia Forest Service
ZJF	Public Finance Act
ZLUS	People's Universities Association of Slovenia
ZOA	Personal Assistance Act
ZPIZ	Pension and Disability Insurance Institute of Slovenia
ZRSŠ	The National Education Institute
ZISS	Association of Education and Counselling centres of Slovenia
ZSSS	Association of Free Trade Unions of Slovenia

ZSV	Social Assistance Act
ZUOPP-1	Placement of Children with Special Needs Act
ZUreP-3	Spatial Management Act
ZZSDNPK	Act Providing Funds for Certain Urgent Cultural Programmes in the Republic of Slovenia
ZZVZZ	Health Care and Health Insurance Act

Abbreviations of the Standard Classification of Activities (NACE): A – Agriculture, **B** – Mining and quarrying, **C** – Manufacturing, **D** – Electricity, gas, steam and air conditioning supply, **E** – Water supply, sewerage, waste management and remediation activities, **F** – Construction, **G** – Wholesale and retail trade, repair of motor vehicles and motorcycles, **H** – Transportation and storage, **I** – Accommodation and food service activities, **J** – Information and communication, **K** – Financial and insurance activities, **L** – Real estate activities, **M** – Professional, scientific and technical activities, **N** – Administrative and support service activities, **O** – Public administration, **P** – Education, **Q** – Human health and social work activities, **R** – arts, entertainment and recreation, **S** – Other service activities, and **T** – Activities of households.

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