



OECD Economic Surveys SLOVENIA

JULY 2024



OECD Economic Surveys: Slovenia 2024

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Please cite this publication as:

OECD (2024), *OECD Economic Surveys: Slovenia 2024*, OECD Publishing, Paris, <https://doi.org/10.1787/bc4a107b-en>.

ISBN 978-92-64-58186-9 (print)
ISBN 978-92-64-63178-6 (PDF)
ISBN 978-92-64-42590-3 (HTML)
ISBN 978-92-64-41958-2 (epub)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Slovenia
ISSN 1995-3585 (print)
ISSN 1999-0642 (online)

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Foreword

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Slovenia were reviewed by the Committee on 13 May 2024. The draft report was then revised in light of the discussions and given final approval as the agreed report of the whole Committee on 17 June 2024.

The Secretariat's draft report was prepared for the Committee by Jan Stráský, Martin Borowiecki, Volker Ziemann and Federico Giovannelli under the supervision of Mame Fatou Diagne. Research assistance was provided by Federico Giovannelli and editorial support by Robin Houg Lee and Emily Derry.

The previous Survey of Slovenia was issued in July 2022. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at <http://www.oecd.org/eco/surveys>.



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BASIC STATISTICS OF SLOVENIA, 2023

(Numbers in parentheses refer to the OECD average)

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million, 2022)	2.1		Population density per km ² (2022)	104.7	(39.0)
Under 15 (% , 2022)	15.1	(17.2)	Life expectancy at birth (years, 2022)	81.3	(79.6)
Over 65 (% , 2022)	21.0	(18.0)	Men (2022)	78.6	(77.0)
International migrant stock (% of pop., 2019)	12.2	(13.2)	Women (2022)	84.1	(82.4)
Latest 5-year average growth (%)	0.4	(0.4)	Latest general election	April 2022	
ECONOMY					
Gross domestic product (GDP)			Value added shares (% , 2022)		
In current prices (billion USD)	68.2		Agriculture, forestry and fishing	1.9	(2.8)
In current prices (billion EUR)	63.1		Industry including construction	32.8	(28.3)
Latest 5-year average real growth (%)	2.2	(1.6)	Services	65.3	(68.8)
Per capita (thousand USD PPP)	54.5	(58.9)			
GENERAL GOVERNMENT					
Expenditure (% of GDP, 2022)	46.7	(42.9)	Gross financial debt (% of GDP, 2022)	73.2	(113.2)
Revenue (% of GDP, 2022)	44.2	(39.6)	Net financial debt (% of GDP, 2022)	21.7	(67.4)
EXTERNAL ACCOUNTS					
Exchange rate (EUR per USD)	0.92		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.55		Chemicals	38.3	
In per cent of GDP (2023)			Machinery and electronics	17.7	
Exports of goods and services	84.0	(31.3)	Transportation	9.0	
Imports of goods and services	77.3	(31.4)	Main imports (% of total merchandise imports)		
Current account balance	4.5	(-0.1)	Chemicals	36.4	
Net international investment position	3.8		Machinery and electronics	14.6	
			Metals	9.2	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15 and over, %)	56.4	(58.0)	Unemployment rate, LFS (aged 15 and over, %)	3.7	(4.8)
Men	60.9	(65.5)	Youth (aged 15-24, %)	9.9	(10.6)
Women	51.8	(50.8)	Long-term unemployed (1 year & over, %, 2022)	1.7	(1.2)
Participation rate (aged 15 and over, %)	58.5	(60.9)	Tertiary educational attainment (aged 25-64, %, 2022)	40.1	(40.7)
Average hours worked per year (OECD: 2022)	1,616	(1,735)	Gross domestic expenditure on R&D (% of GDP, 2021)	2.1	(2.9)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2022)	3.1	(3.8)	CO ₂ emissions from fuel combustion per capita (tonnes, 2022)	5.7	(7.8)
Renewables (% , 2022)	15.5	(12.0)	Water abstractions per capita (1 000 m ³ , 2022)	0.4	
Exposure to air pollution (more than 10 µg/m ³ of PM 2.5, % of population, 2020)	99.2	(56.5)	Municipal waste per capita (tonnes, 2022)	0.5	(0.5)
SOCIETY					
Income inequality (Gini coefficient, 2021, OECD: latest available)	0.242	(0.316)	Education outcomes (PISA 2022 score)		
Relative poverty rate (% , 2021, OECD: 2020)	7.7	(11.7)	Reading	469	(476)
Median disposable household income (thousand USD PPP, 2021, OECD: 2020)	28.7	(26.7)	Mathematics	485	(472)
Public and private spending (% of GDP)			Science	500	(485)
Health care (2022)	8.8	(9.2)	Share of women in parliament (%)	38.7	(32.8)
Pensions (2019)	10.1	(9.5)	Net official development assistance (% of GNI)	0.2	(0.4)
Education (% of GNI, 2021)	4.6	(4.4)			

Note: The year is indicated in parenthesis if it deviates from the year in the main title of this table (2022). Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries. The relative poverty rate is after taxes and transfers, with a poverty line at 50% of median household income.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.



Executive Summary

The economy has been resilient

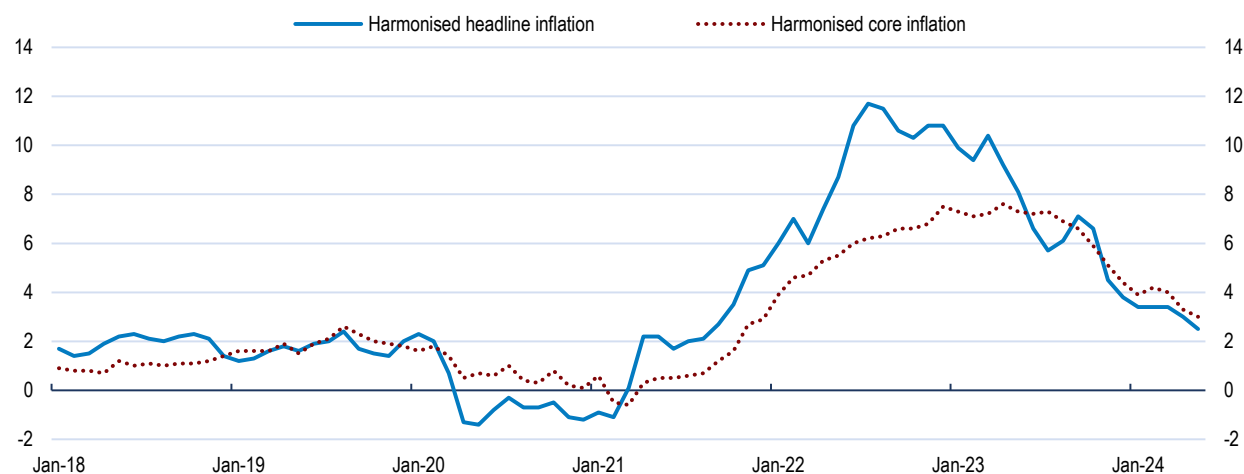
The economy proved resilient to external shocks following Russia's war of aggression against Ukraine, but the post-pandemic recovery has slowed. Inflation has fallen but remains elevated. Improving fiscal sustainability, amid ongoing reconstruction after the devastating floods of 2023, is a key challenge.

Following a robust recovery from the pandemic, economic growth has slowed amid weaker private consumption and foreign demand. The labour market remains tight, although employment growth is weakening, notably in manufacturing. A high number of job vacancies points to widespread labour shortages, leading to strong nominal wage growth. At the same time, real wage growth outpaced labour productivity and is eroding external competitiveness, adding to the headwinds facing the export sector.

Inflation has peaked but remains higher than in the euro area (Figure 1). While energy prices have fallen, services inflation remains elevated, mainly driven by strong wage growth. Policy-makers must find a balance between protecting real incomes, limiting second-round effects on inflation and avoiding sustained losses of competitiveness. Supportive fiscal measures add to inflationary pressures and need to be phased out swiftly.

Figure 1. Inflation remains high

Y-o-y % changes



Note: Core inflation refers to the index of consumer prices excluding food, energy, alcohol and tobacco.

Source: Eurostat Harmonised index of consumer prices (HICP) database.

StatLink  <https://stat.link/94zkb3>

Growth is projected to pick up gradually (Table 1). The labour market is projected to stay strong and private consumption will rebound as disinflation continues. Risks are dominated by the fallout from the ongoing war in Ukraine and further geopolitical disruptions.

Financial conditions have tightened considerably. Borrowing costs for households and firms have increased and the real estate market is cooling. Recent macroprudential measures, including higher counter-cyclical capital buffers, are effective in limiting financial stability risks and should be stepped up, as needed.

Table 1. Growth has slowed

	2022	2023	2024 ¹	2025 ¹
Real GDP (% change)	2.5	1.6	2.3	2.7
Private consumption (% change)	3.6	1.3	1.6	2.3
Gross fixed capital formation (% change)	3.5	9.5	4.0	3.9
Harmonised index of consumer prices (% change)	9.3	7.2	3.3	3.5
Unemployment rate (%)	4.0	3.7	3.7	3.5
General government fiscal balance (% of GDP)	-3.0	-2.5	-3.1	-2.6
Public debt (Maastricht, % of GDP)	72.5	69.2	69.7	69.2

1. OECD estimates.

Source: OECD Economic Outlook 115 database.

Fiscal consolidation is needed to support disinflation and rebuild fiscal space to address emerging pressures. Ageing-related costs, notably on pensions, will increase sharply and need to be countered. High labour tax wedges for low-wage workers could be reduced by broadening the

base for consumption taxes and increasing recurrent taxes on immovable property. The minimum retirement age and the minimum contribution period required for a full pension need to be increased, with the former linked to life expectancy.

Improving gender equality further

Female labour force participation is high but some gender wage gaps persist. Adjustments in the tax and benefit system are needed to further increase labour market participation of second earners and single parents.

Progress on gender equality has slowed. Despite above-average labour market participation of women, a gender wage gap persists. Adjustments are needed to the tax and benefit system to remove disincentives for second earners and single parents, often women, from entering the labour market or moving from part-time to full-time employment.

differences in sectoral activity. The recent increase in parental leave entitlements reserved for fathers is welcome, but it could be followed by other measures, for example expanding flexible working arrangements. Gender stereotypes could be reduced through positive role models, better career guidance and reforms to the education system. Policies to reduce the gender pension gap are needed to adjust for past gender differences in wages and should be complemented by pay transparency rules aligned with EU legislation.

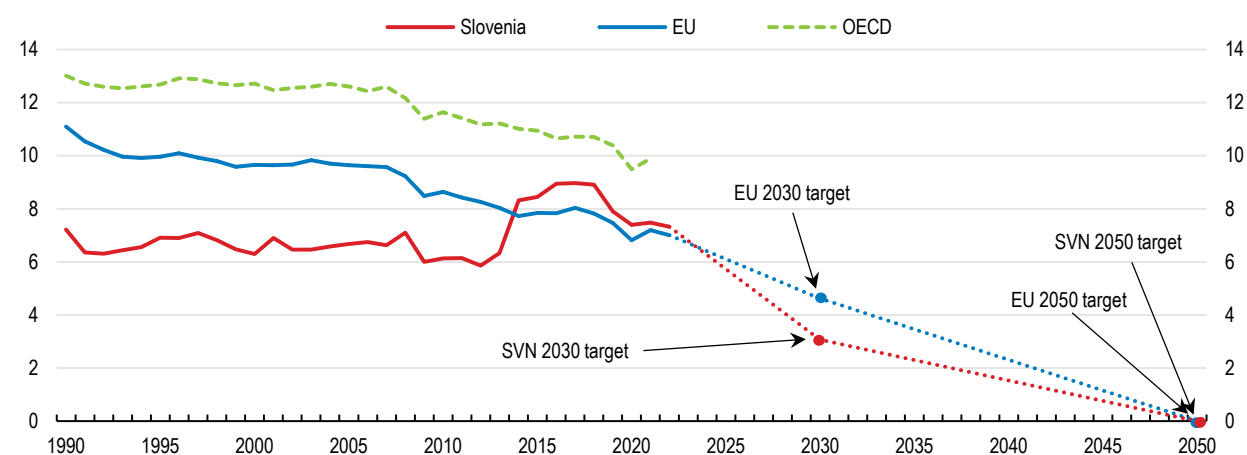
Complementary measures are needed in other areas. This includes better sharing of household and caring responsibilities to reduce gender

Accelerating the green transition

An acceleration of emission reductions is needed to achieve net zero emissions by 2050 (Figure 2). This entails reducing agricultural and transport emissions as well as additional measures to shift to clean energy, notably a faster deployment of renewables. Also, stronger adaptation to climate risks is needed.

Greenhouse gas emissions are in general low but have not been reduced over the past decade. Emissions in the transport sector have increased, while agricultural emissions have remained unchanged. In addition, power

generation accounts for a relatively large share of emissions due to the expansion of coal power since 2015. More action is needed across all sectors, but particularly in agriculture, energy and transport, to achieve the net-zero target by 2050.

Figure 2. Emission reductions must accelerateGreenhouse gas emissions, tonnes of CO₂ equivalent per capita

Note: Greenhouse gas emissions include those from the land use/land use change and forestry sector.

Source: Eurostat; European Environment Agency; OECD Environment database; OECD Population database; and OECD calculations.

StatLink  <https://stat.link/rlxu29>

There is a need for greater harmonisation of carbon rates, while raising them gradually.

Reduced tax rates on fossil fuels, including diesel and heating gas, impose heterogeneous abatement incentives across sectors, leading to higher costs of achieving climate targets. The additional revenues from higher carbon pricing could be used to provide targeted support to households most vulnerable to higher carbon pricing.

Emissions in the transport sector are on the rise. The relatively low taxation of transport fuels and the generous commuting allowance encourage passenger road transport. Insufficient charging stations slow the rollout of electric cars. Moreover, public transport needs to be developed further.

Agricultural emission reductions have stalled over the past decade. This reflects agricultural diesel subsidies and direct payments to farmers that keep livestock numbers high. Below-market

rental prices for state-owned agricultural land keep more agricultural land in use than would otherwise be the case. In addition, the polluter-pays principle does not apply to emissions from agriculture.

The deployment of renewables is behind schedule. Barriers to the deployment of renewables include lengthy planning procedures and land use restrictions.

Government subsidies for renewables mostly benefit cost-competitive technologies such as biomass, solar and wind. The recent relaxation of EU state-aid rules has reduced the use of competitive auctions, increasing the fiscal costs of the energy transition.

Many households are exposed to climate risks. The devastating floods in 2023 have exposed shortcomings in flood preparedness, including underinvestment in the maintenance of water infrastructure, and highlighted the need to reduce incentives to settle in flood areas.

Housing supply is insufficient

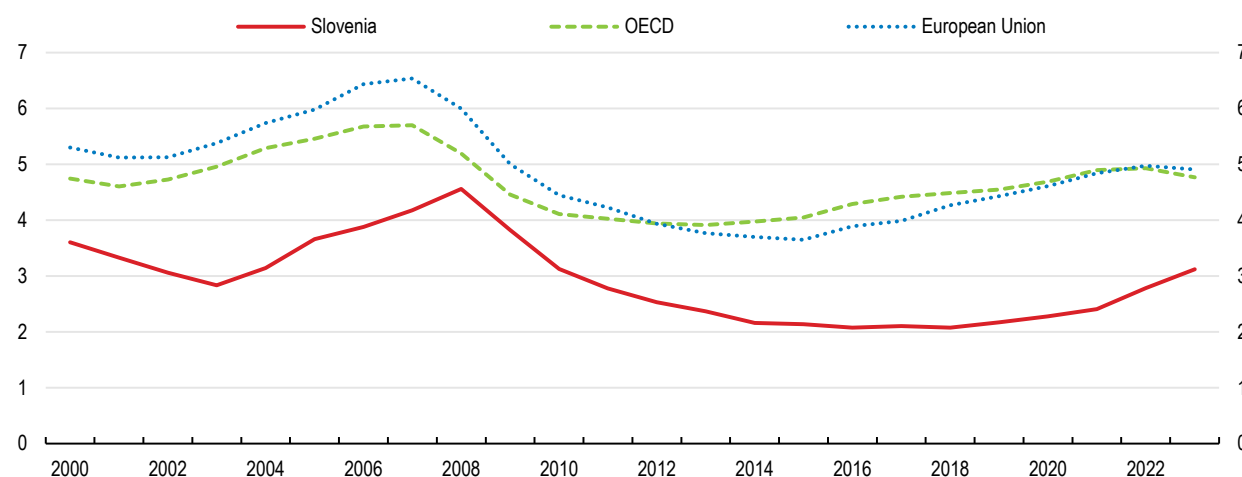
Slovenia's housing market is strained by high demand and insufficient supply, leading to low mobility and growing concerns over housing affordability. Comprehensive reforms are needed to address these issues, including improving the efficiency of the land use and permit system, developing the social and private rental sectors, making mortgage markets more competitive, and transitioning towards energy-efficient housing to meet decarbonisation challenges.

Slovenia's housing market faces growing tensions amid robust demand while supply has been slow to respond. Structural challenges are primarily inherited from the privatisation of housing in the 1990s, which has led to high homeownership, low mobility and increasingly restricted supply, constraining housing options for young families and first-time buyers. Comprehensive reforms are needed to make the housing sector more efficient, inclusive and sustainable.

Inefficient spatial planning and protracted permitting processes constrain residential


Figure 3. Residential investment is subdued

Investment in homebuilding, as % of GDP



Note: Data refers to the European Union including 27 countries. Unweighted averages for OECD and European Union aggregates.

Source: OECD Economic Outlook: Statistics and Projections database; Eurostat National Accounts database; OECD calculations.

StatLink  <https://stat.link/nv3s76>

The high prevalence of secondary homes and short-term rentals, facilitated by regulatory and tax frameworks, exacerbates the housing affordability challenge. Implementing broad-based recurrent taxes on immovable property can reduce high vacancy rates, mitigate inequality, stabilise the housing market, and support local governance.

Slovenia's social housing sector is underdeveloped compared to other European counterparts. Comprehensive reforms, including through the forthcoming new Housing Act, should include a thorough revision of the existing social rent formula to establish a more sustainable and economically viable model for social housing investment. Potential providers should also be allowed to lease or acquire land below market rates

construction (Figure 3). While recent improvements in permit issuance show promise, the pace remains insufficient to meet strong demand. Streamlining the system, notably through better coordination across municipalities, increasing involvement of the regions, and establishing one-stop shops for building permits could enhance land use efficiency and respond to housing demand more effectively. Metropolitan regions exhibit a low urban footprint, indicating a significant potential for densification, which would simultaneously address housing affordability and environmental concerns.

to facilitate more investment in the sector, including from limited or not-for-profit associations.

Slovenia's private rental market grapples with an inadequate regulatory framework and informality. The sector remains in its infancy, mainly due to high homeownership. Introducing standard rental contracts, eliminating tax biases, and better balancing tenant and landlord rights would enhance rent predictability and revitalise long-term renting, making it a more viable housing option.

Mortgage markets have yet to be developed. Raising awareness of the benefits of well-functioning mortgage markets, including by fostering financial literacy, can contribute to more efficient housing markets. Bank lending is

expensive and needs to become more competitive. Additionally, the current foreclosure system may protect borrowers excessively, which could explain high lending margins and tight lending standards.

A large portion of Slovenian residential buildings, predominantly pre-1980 constructions, are misaligned with modern

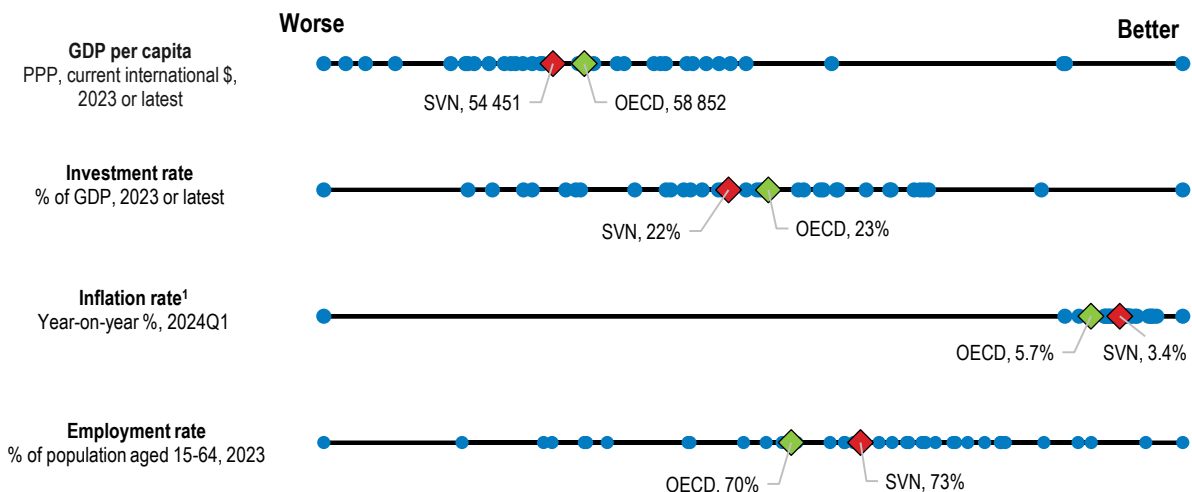
decarbonisation challenges. The recent cost-of-living crisis has highlighted the necessity and urgency of transitioning towards energy-efficient housing. The required investments are significant and beyond the capacity of many homeowners, emphasising the need to combine regulation with effective supportive measures to facilitate the shift towards a greener housing sector.

Main findings	Key recommendations
Strengthen the recovery and ensure fiscal sustainability	
Expansionary fiscal policy adds to continuing inflationary pressures.	Tighten the fiscal policy stance and start restoring fiscal buffers.
Minimum wage increases in a tight labour market have sustained real wage growth, especially at the lower end of the wage distribution, well above labour productivity growth, contributing to inflation and eroding external competitiveness.	Link real minimum wage increases to productivity developments.
High labour tax wedges deter labour market participation and transition to full-time work.	Implement growth-friendly fiscal consolidation by further reducing labour taxes, and increasing consumption and recurrent immovable property taxes.
Ageing-related costs, notably on pensions, will increase sharply, with most of the increase between 2030 and 2050.	Increase the minimum retirement age and the contribution period required for a full pension. Link the minimum retirement age to life expectancy.
Productivity growth is hampered by low levels of investment, limited access to equity financing, particularly for SMEs, and remaining barriers in professional services.	Lift barriers in retail trade and restrictions on professional services.
The anti-corruption framework needs further strengthening. High risk of corruption exists in public procurement.	Continue efforts to fight corruption by accelerating the adoption of the new anti-corruption strategy and defining measures for its application, such as post-employment restrictions for former public officials.
Rekindling progress on gender equality	
High social security contributions and loss of unemployment benefits reduce incentives to take up work for single parents.	Reduce marginal effective tax rates for low-income earners and second earners through slower and more coordinated withdrawal of benefits and social assistance.
Accelerate the decarbonisation of the economy	
The tax system imposes heterogeneous abatement incentives across sectors and activities. Regulated prices and reduced tax rates for environmentally harmful fossil fuels, including diesel and heating gas, continue to undermine decarbonisation efforts.	Remove reduced tax rates for diesel and heating gas. Swiftly implement the phase out of regulated gas prices. Gradually increase carbon taxes in the non-ETS sectors to the ETS price level and compensate social costs.
The market share of public transportation remains low, as the commuting allowance encourages private car use.	Enhance incentives for the use of public transportation, including by reducing the commuting allowance, introducing congestion-based road pricing and ensuring public transport fares are competitive.
Agricultural subsidies for diesel continue to promote emissions.	Remove agricultural diesel subsidies and redirect funding to support those most affected by higher mitigation costs.
Lengthy permitting times increase the deployment costs of renewables.	Streamline permitting procedures and lower land use restrictions for renewable energy projects.
Addressing housing challenges	
Spatial planning suffers from fragmentation and inefficient governance across layers of government.	Accelerate the implementation of regional spatial plans and incentivise inter-municipal cooperation in the design of local plans.
Processes for obtaining building permits are lengthy and costly.	Establish a centralised one-stop shop for submitting and tracking building permit applications.
Rental regulation is overly restrictive and often bypassed.	Introduce standardised rental contracts. Specify mandatory clauses to ensure the contracts comply with national law and protect both landlords and tenants.
Revenues from recurrent property taxes are low.	Reform recurrent property taxes based on regularly updated market values. Consider tax deferrals or compensatory measures to protect the most vulnerable.
The social housing stock falls short compared to many other European countries.	Support the establishment of revolving funding schemes by reviewing the social rent formula to cover construction and maintenance costs.

1 Amid macroeconomic challenges, policy reforms need to accelerate

Slovenia has been hit by multiple external shocks, which has put an end to a strong rebound of economic growth and improving public finances following the Covid-19 pandemic. Inflation rose to unprecedented levels, initially triggered by rising commodity prices and supply-chain bottlenecks, accompanied by a strong domestic policy stimulus that likely overheated the economy and later exacerbated by the fallout from Russia's war of aggression against Ukraine (Figure 1.1). As the interest rates in the euro area increased sharply to curb accelerating inflation, real incomes of households stagnated, borrowing costs spiked and business confidence weakened. Domestic demand softened while foreign demand for Slovenian exports abated on the back of the general slowdown in the euro area. At the same time, the labour market has remained resilient and firms in many sectors report persistent labour shortages. The supply-side constraints will also complicate reconstruction efforts after the devastating floods that hit last summer.

Figure 1.1. Economic indicators



Note: ¹ Indicator reversed so that the right side of the scale corresponds to a better outcome.

Weighted average for the OECD.

Source: OECD National Accounts database; OECD consumer price indices complete database; OECD labour market statistics database; and OECD calculations.

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Despite these shocks, fiscal policy has been mildly contractionary in 2023. As growth gradually recovers and inflation continues to diminish, the need to meet post-flood reconstruction needs while swiftly unwinding the remaining emergency measures adds to the existing medium-term challenges. Fiscal buffers need to be rebuilt, and, assuming no policy change, fiscal sustainability in the medium term remains under pressure from high ageing-related costs. Further reforms are imperative in the pension and health-care system as well as the public wage system.

Stronger productivity growth will be needed to sustain living standards amid a sharply declining share of the working-age population. Productivity growth has been held back by lacklustre investment in tangible and non-tangible capital and barriers in the service sectors. Reforms to further develop capital markets and strengthen competition would help boost business dynamism.

Progress on key reforms discussed in the last *Survey* has been limited. The tax and benefit system has been adjusted following devastating floods in August 2023, but the main reforms planned by the government – such as the pension reform, the public wage system reform, and the property tax reform – have stalled. Simulations from the long-term model show that increasing competition in services and network sectors to the average of the five best-performing OECD countries has the potential to raise GDP per capita by 0.9 percentage points over 10 years. Furthermore, reducing the high labour tax wedges and replacing these revenues of the tax system with less distortive sources, such as property taxation, could

raise GDP per capita by an additional 2.5 percentage points. Most importantly, tighter eligibility for unemployment benefits and a higher effective retirement age, even if introduced gradually over 10 years, would add another 2.6 percentage points to GDP per capita (Table 1.1).

Table 1.1. Illustrative impact on GDP per capita of structural reforms

Difference in GDP per capita 10 years after reform

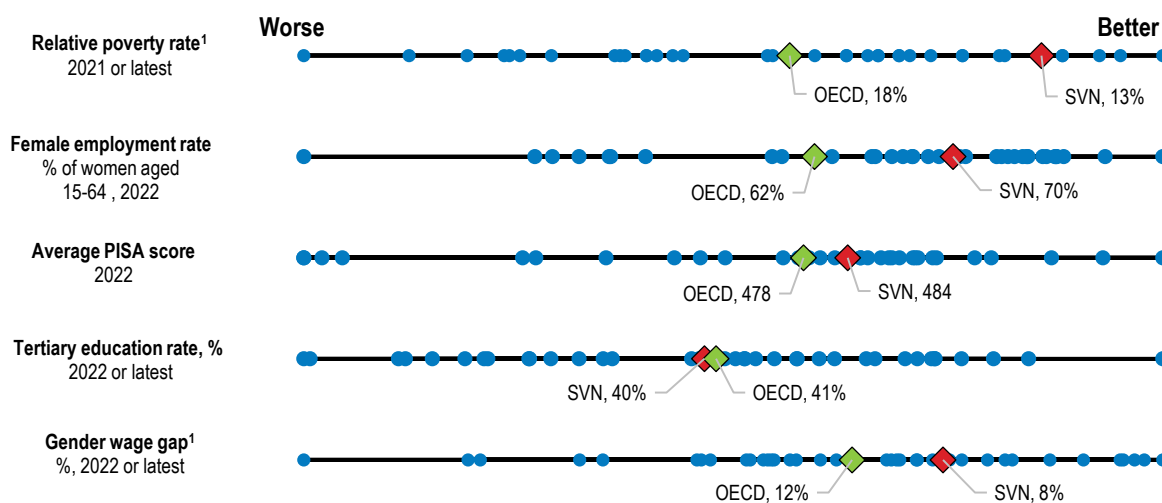
	% of GDP
Competition reform	
Increase competition in service and network industries to the average of 5 best performing OECD countries.	+0.9
Tax reform	
Reduce labour tax wedges to the OECD average while increasing recurrent taxes on immovable property.	+2.5
Pension reform	
Increase the minimum retirement age and the contribution period required for a full pension to increase the effective retirement age by 2 years.	+2.6
Total impact on GDP per capita	+6.0

Note: For the competition and tax reforms the time span is 5 years. The pension reforms are introduced over 10 years.

Source: Simulations based on the OECD Economics Department Long-term Model.

While female employment is relatively high (Figure 1.2), improvements in gender equality can further boost labour supply and enable optimal use of human capital. The tax and benefit system should be adjusted to increase labour market earnings of second earners and single parents, who are often women. Policies ensuring better sharing of household and caring responsibilities would help to further reduce the gender wage gap, together with swift transposition of EU legislation on pay transparency into domestic law.


Figure 1.2. Inclusiveness indicators



Note: ¹ Indicator reversed so that the right side of the scale corresponds to a better outcome.

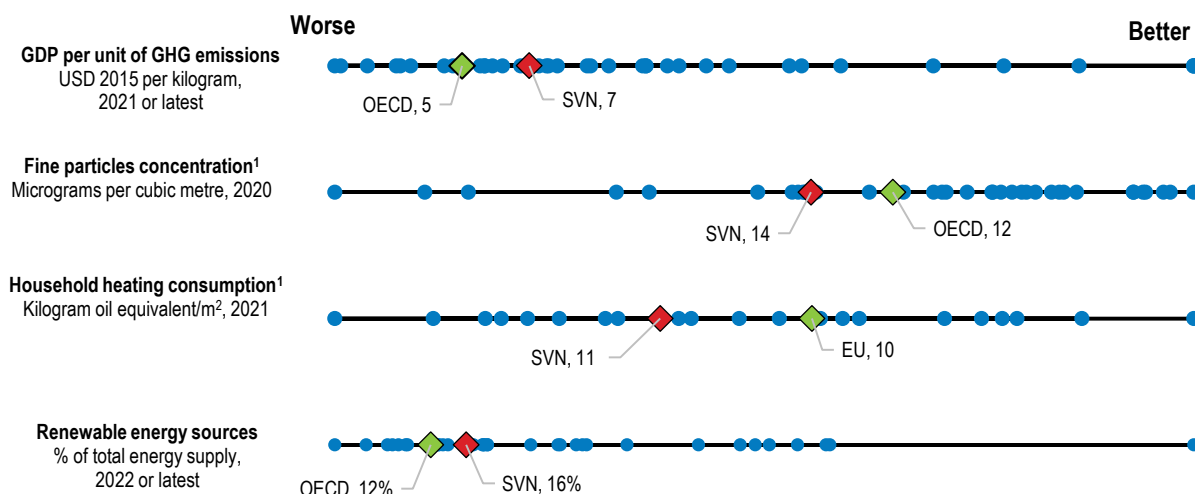
Weighted average for the OECD, except for the relative poverty rate (unweighted average). Relative poverty rate is the rate after taxes and transfers with poverty line at 60% median household income. Average PISA score is the average scores of math, science and reading.

Source: OECD income distribution database; OECD PISA database; OECD Education At a Glance database; OECD Employment Statistics; and OECD calculations.

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Another key challenge is to make growth more sustainable by accelerating the decarbonisation of the economy (Figure 1.3). This requires that all sectors contribute to emission reductions and calls for phasing out environmentally harmful fossil fuel subsidies in agriculture, energy and transportation. Such efforts should be complemented by additional measures to shift to clean energy and strengthen adaptation to climate risks.

Figure 1.3. Sustainability indicators



Note: ¹ Indicator reversed so that the right side of the scale corresponds to a better outcome.

Weighted average for the OECD. GDP per unit of GHG emissions is the production-based CO₂ productivity. Fine particles concentration is mean population exposure to PM_{2.5}. Household heating consumption is energy consumption per m² of households for space heating scaled to EU average climate.

Source: OECD Green growth indicators database; AIE database; Odyssee-mure; and OECD calculations.

StatLink  <https://stat.link/zolwaj>

Slovenia's housing market faces challenges that are, to a great extent, rooted in the privatisation era of the 1990s, resulting in high homeownership, low residential mobility and insufficient housing supply. This situation is particularly challenging for young families and first-time buyers, who are constrained in a market where strong demand meets inadequate supply. Inefficiencies in spatial planning and prolonged permitting processes weigh on residential construction activity. Insufficient social housing, as well as narrow private rental and mortgage markets restrict housing options, while the prevalence of secondary homes and short-term rentals, encouraged by the existing regulatory and tax frameworks, undermine housing affordability.

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

Fiscal policy needs to tighten to help fight inflationary pressures, restore fiscal buffers and address long-term spending pressures. Further macroprudential measures should be introduced, if needed, to ensure financial stability.

Tax and benefit system reforms are needed to lift labour market participation and further narrow the gender gap in wages and retirement savings. Policies encouraging equal sharing of childcare responsibilities and increased pay transparency could also help rekindle progress on gender equality.

The green transition requires further efforts to reduce emissions by using mitigation policies more effectively, including higher carbon pricing and regulatory measures. This entails greater harmonisation of carbon prices, before raising them gradually. In addition, a faster deployment of renewables will be key for the energy transition and achieving energy security.

The housing sector, strained by high demand and insufficient supply, requires swift and comprehensive reform. Streamlining spatial planning, overhauling property taxation and boosting the provision of social housing would expand tenure choices, enhance mobility and provide young families and non-owners with diverse, sustainable living options.

2 Macroeconomic developments and policy challenges

Jan Stráský

Federico Giovannelli

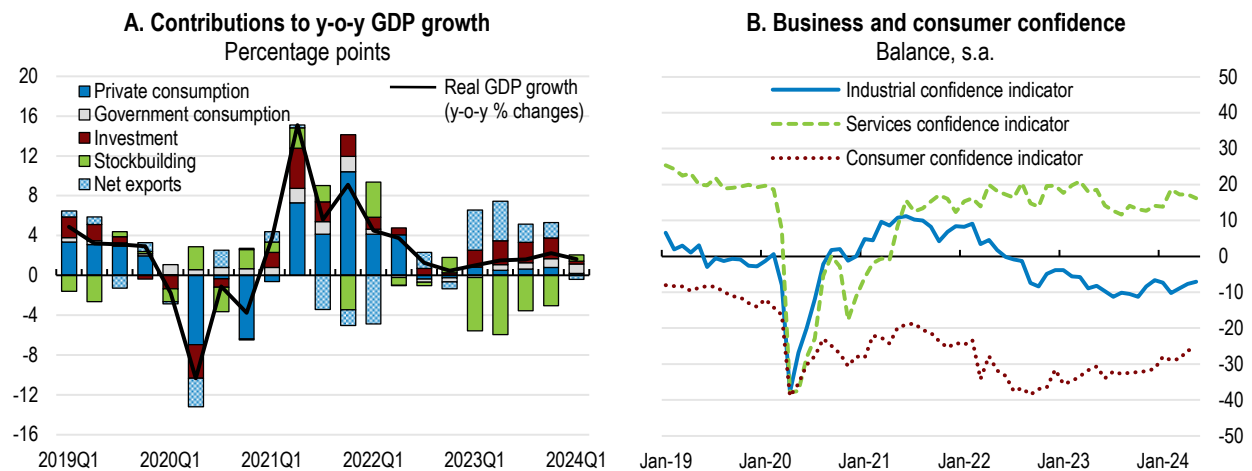
The economy has been resilient in the face of external shocks, amid elevated risks. The labour market remains tight, with labour shortages supporting strong wage growth. Inflation has started to fall, but services price growth remains elevated. Borrowing costs for households and firms increased, but recent macroprudential measures limit financial stability risks. Fiscal policy needs to restore fiscal buffers and continue addressing long-term challenges, notably related to population ageing. To ensure fiscal sustainability, pension reform should continue to increase the effective retirement age and link it to life expectancy. Lifting barriers in retail trade and restrictions on professional services would help boost productivity growth. Efforts to fight corruption need to continue to address remaining risks in public procurement and improve public spending efficiency.

Economic prospects weaken amid elevated risks

Economic activity has moderated reflecting weakening demand

Following a strong post-pandemic recovery, growth slowed in 2023 amid high core inflation, deteriorating export competitiveness and elevated geopolitical risks. The growth slowdown was driven by weaker private consumption, including declining demand for imports, destocking of inventories and cooling foreign demand in main trading partners, notably Germany (Figure 2.1, Panel A). On the other hand, strong government investment, supported by EU funds, and robust housing investment contributed positively to growth. Indicators of economic sentiment, such as business and consumer confidence, point to a continuation of weak activity (Figure 2.1, Panel B).

Figure 2.1. Growth has slowed and confidence remains weak



Source: OECD Economic Outlook: Statistics and Projections database; OECD Business Tendency Surveys database; and OECD Consumer Opinion Surveys database.

StatLink  <https://stat.link/unq7pd>

High-frequency indicators point to a recovery in household consumption at the end of 2023, while gross fixed investment and net export growth may remain anaemic, reflecting weak foreign demand and ongoing uncertainty. Investment in equipment and machinery in particular has been weak and remains about 2 percentage point of GDP below the level reached before the Great Financial Crisis, despite the recent acceleration. On the production side, construction activity continued to strengthen, while manufacturing output remained weak, notably in the energy-intensive low-technology segment (Figure 2.2, Panel A). While supply bottlenecks normalised and the effect of high energy prices on energy-intensive industries started to ease, labour shortages have become acute (Figure 2.2, Panel B). More than 40% of firms continue to report labour shortages as a factor limiting production. Slovenia ranked in the group of EU countries with the highest number of labour shortages in 2022, in 107 occupations from a total of 436 in the ISCO nomenclature, including many that required specific skills and knowledge for the green transition (European Labour Authority, 2023^[11]). The job vacancy rate in 2023Q3 also was slightly above the euro area average, both in industry and construction, at 2.9% compared to 2.6% in the euro area, and in services, at 3.3% compared to 3.1%. Although the job vacancy rates in Slovenia are in line with regional peers, they remain high compared to their longer-term values (Figure 2.3).

Figure 2.2. Supply bottlenecks have eased, but labour shortages weigh on production

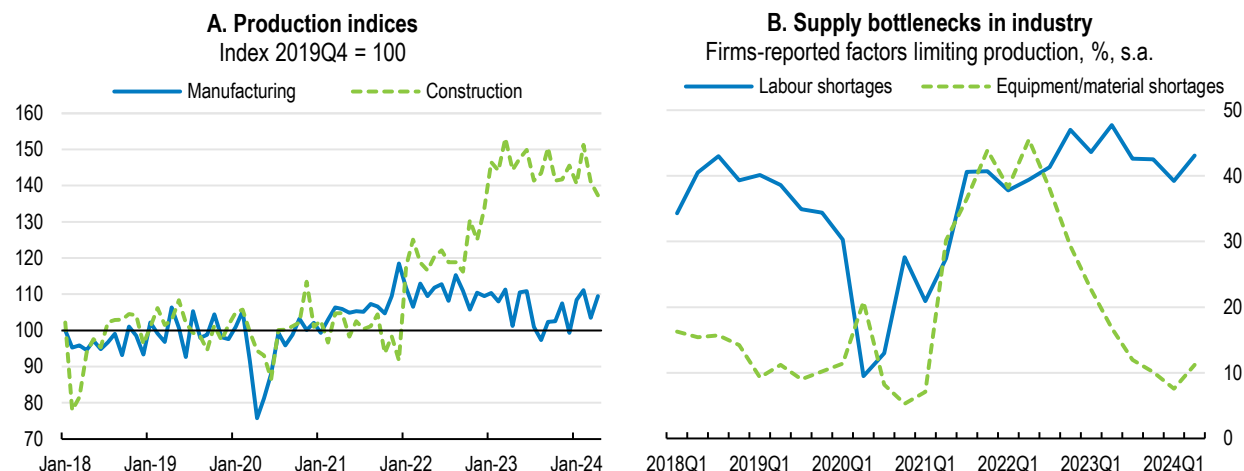
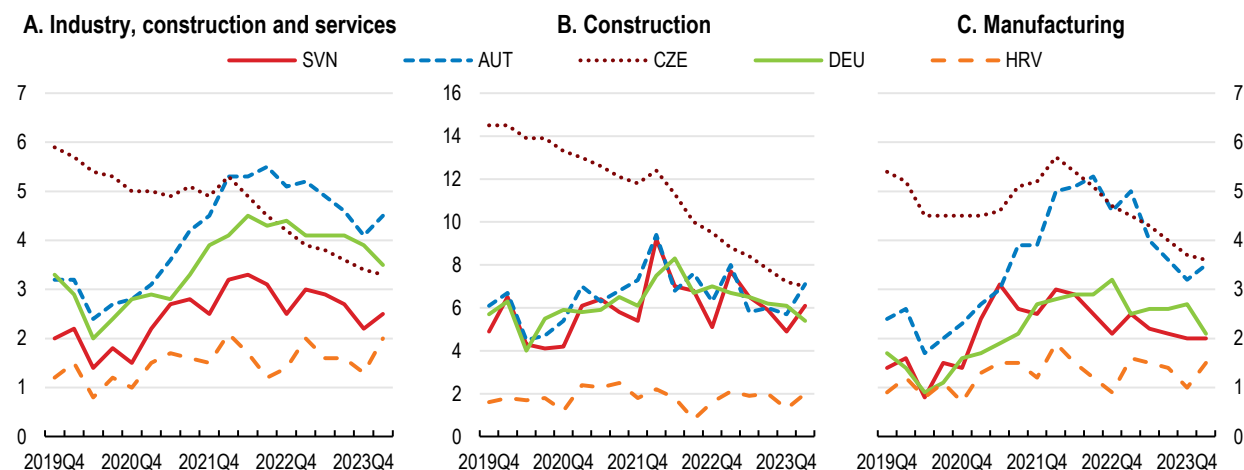


Figure 2.3. Job vacancy rates remain high

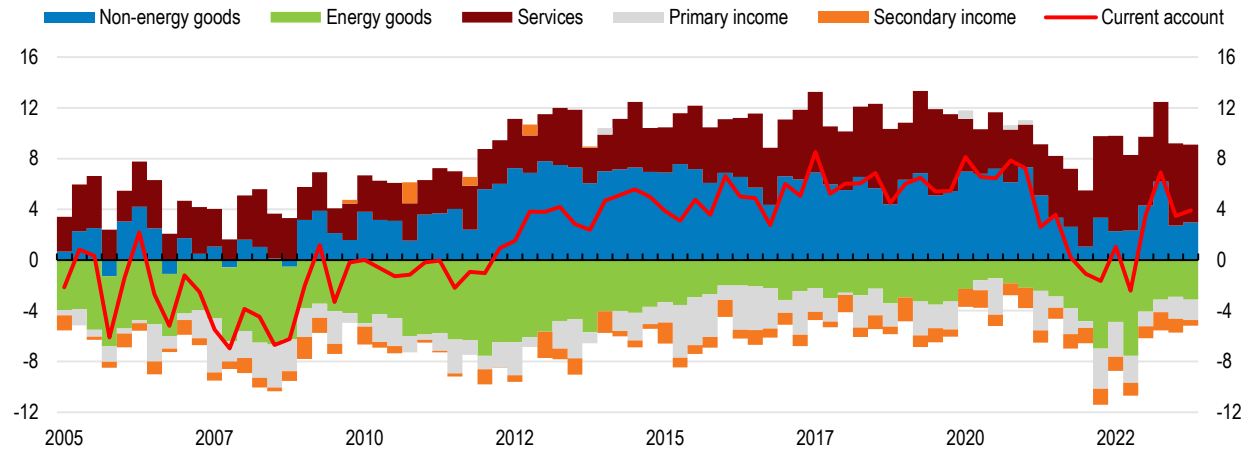
Job vacancy rate, %



Despite the loss of competitiveness on export markets, the current account balance improved in 2023 (Figure 2.4). The current account surplus of 4.4% of GDP mainly reflected more favourable terms of trade and the surplus in goods trade driven by declining demand for imports. The surplus in services trade also increased, primarily driven by transportation and construction services. The economy has withstood the effects of Russia's war of aggression against Ukraine so far, successfully reducing dependence on Russian natural gas through diversification of supply. However, higher gas prices continue to weigh significantly on gas-intensive manufacturing, which accounts for a larger share of employment, at 4.5%, than in most EU countries (OECD, 2022^[2]). The improvement in current account balance was also supported by lower deficits of primary and secondary income.

Figure 2.4. The current account balance improved as energy prices normalised

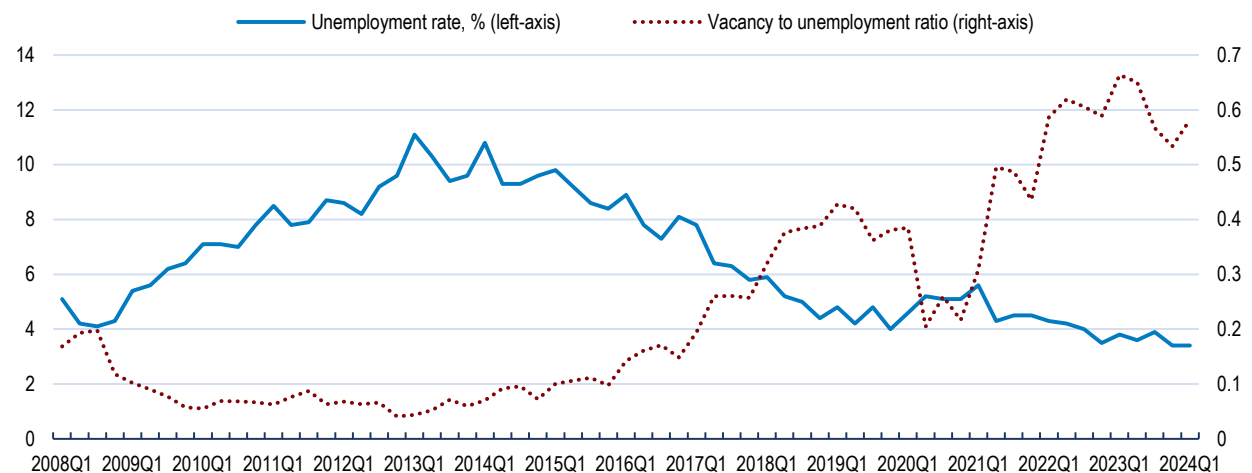
Current account balance, % of GDP



Source: Eurostat Balance of Payments database; Eurostat National Accounts database; Statistics Slovenia; and OECD calculations.

StatLink  <https://stat.link/2cqeis>**The labour market has been tight**

The domestic labour market has experienced a high number of job vacancies and a historically low unemployment rate (Figure 2.5). Employment is high, even though employment growth has slowed in 2023Q3, most notably in manufacturing. Companies have mainly addressed labour shortages by paying overtime, retraining existing employees and outsourcing work as well as employing foreign labour, particularly in construction and transportation where 48% and 33% of workers, respectively, are foreigners (IMAD, 2024^[3]). Hours worked per employed person rebounded strongly above the pre-pandemic level, increasing by almost 4% between the end of 2019 and 2023Q1 (OECD, 2023^[4]). Unemployment has also continued to decline in 2023, including among the long-term unemployed, bringing the unemployment rate close to historic lows and reducing the number of unemployment benefits recipients.

Figure 2.5. The labour market remains tight

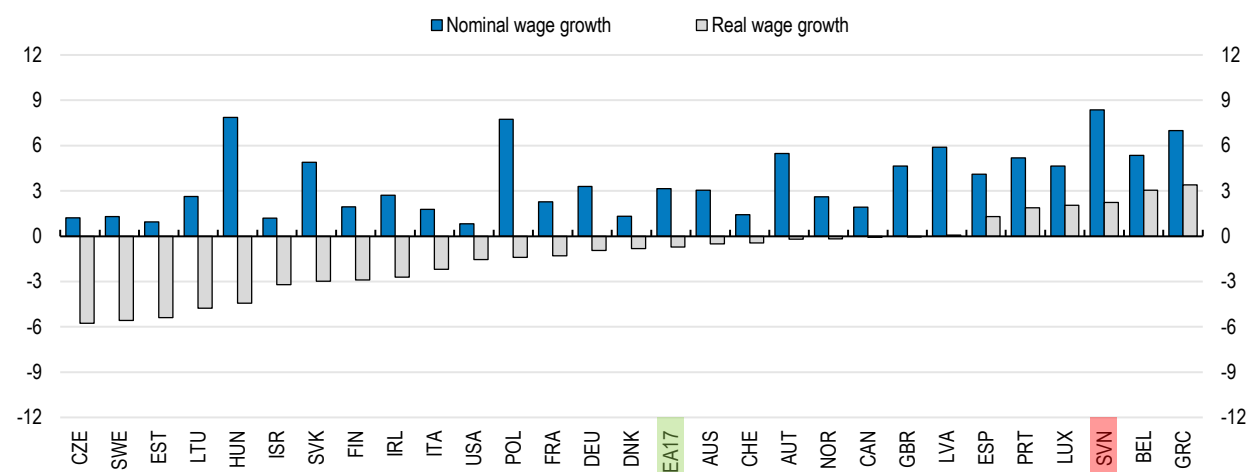
Source: Statistics Slovenia; and OECD calculations.

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The tightness of the labour market translated into high annual wage growth, despite a slowdown in the second half of 2023 (Figure 2.6). With inflation falling consistently in 2023, average wage growth has been positive in real terms, reaching 4.9% in December 2023. Strong wage growth in the public sector has mainly been driven by the implementation of the 2022 agreement with public sector unions, while in the private sector the main drivers have been ongoing labour shortages and the minimum wage increases (IMAD, 2023^[5]). The gross minimum wage increased by 12% in January 2023, reflecting both the October 2022 adjustment of the minimum cost of living, which resulted in an increase of the index by 9.2%, and the increase in the consumer price index. In January 2024, the gross minimum wage was raised again, by 4.2%, in line with the increase in the consumer price index.

Figure 2.6. Strong nominal wage growth has protected real wages

% ppt change between average annual pre-pandemic wage growth (2015Q1 – 2019Q4) and average annual wage growth over 2023Q1-latest available quarter



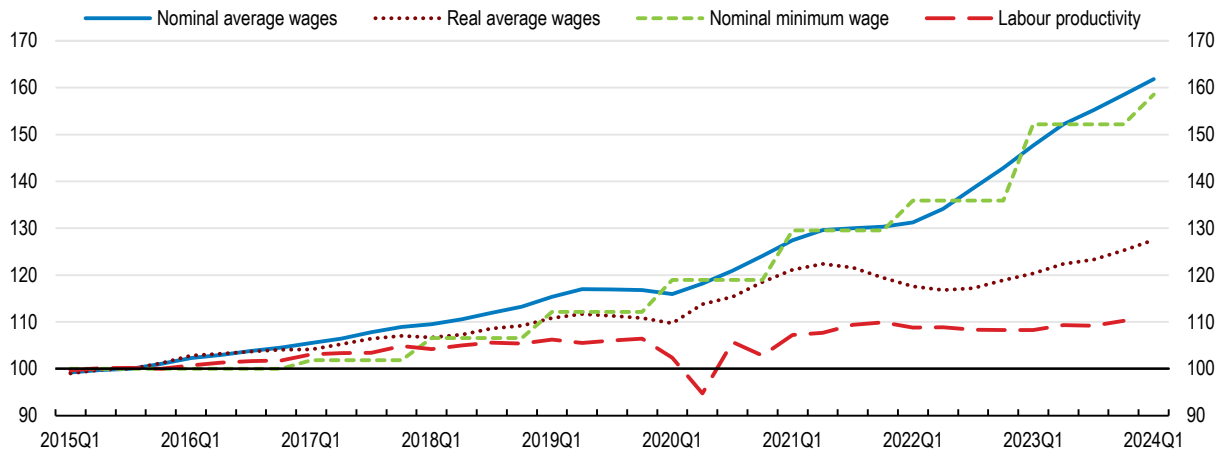
Source: OECD Economic Outlook: Statistics and Projections database; and OECD calculations.

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The semi-automatic increases in the minimum wage have pushed up nominal wages considerably in recent years and the minimum wage relative to the average wage is the highest in the EU. After increasing by 8% between 2011 and 2017, the minimum wage grew by almost 43% between 2018 and 2023, partly reflecting the amended minimum wage calculation linked to minimum costs of living applied since 2021 (Box 2.1). The cumulative growth of the minimum wage since 2013 exceeded the cumulative growth of the average wage by more than 7 percentage points. Automatic indexation helps to safeguard the purchasing power of minimum wage earners. However, it could also lead to an excessive compression of the wage distribution if other wages are not raised, reducing the job prospects of mainly low-skilled young unemployed (Laporšek, Vodopivec and Vodopivec, 2019^[6]). Strong growth in real compensation per employee continued in 2023, at 5.2% in the fourth quarter, and considerably exceeded the slightly negative labour productivity growth over the same period, limiting the sustainability of continued wage increases and eroding external competitiveness (Bank of Slovenia, 2024^[7]) (Figure 2.7). However, over the medium term, the real minimum wage should reflect productivity developments. Moreover, in case of a severe negative shock to the economy, flexibility of real wages along the whole wage structure may be needed for adjustment.

Figure 2.7. Average real wages have increased well beyond productivity growth

Index 2015 = 100



Source: OECD Economic Outlook: Statistics and Projections database; OECD Productivity database; Eurostat; and OECD calculations.

StatLink  <https://stat.link/ekb64v>**Box 2.1. Minimum wage rules and trends****The rules for minimum wage adjustments**

The Minimum Wage Act, which entered into force in 2010, has raised the minimum wage by 20% in the first two years. The 2018 amendment of the Act introduced changes to the definition of the minimum wage, phased in gradually over the next three years. From January 2020, seniority allowances, allowances for work in unfavourable conditions as well as work and business performance bonuses are no longer part of the minimum wage. From January 2021, the Minimum Wage Act requires the annual minimum wage to be set in a range of 120–140% of minimum living costs, which are primarily applied in the calculation of social benefits. The minimum cost of living increased by 9.2% in October 2022, its first revision since 2017, and the minimum wage has been harmonised with the new minimum living costs within three months, in January 2023. At the same time, the gross minimum wage increases once a year, every January, by the annual inflation rate of the previous December (in January 2023 this was 10.3%). The exact adjustment within the 120-140% range is decided by the Minister of Labour, based on an obligatory consultation with the social partners and other factors such as recent wage and employment trends and the economic outlook.

Minimum wage increases spill over strongly to other wages

The share of persons in employment earning close to the minimum wage is gradually declining. Still, many workers in Slovenia remain employed at low wages, mostly around the minimum wage, while a relatively small proportion of workers receive higher wages (2.8% earn more than 5.000 euro per month). Looking at the range of +/- 10% around the minimum wage, about 11% of all workers (some 85.000 people) received a wage in that range in 2021. The share of minimum wage earners is the highest in accommodation and food services, construction, and administrative and support service activities.

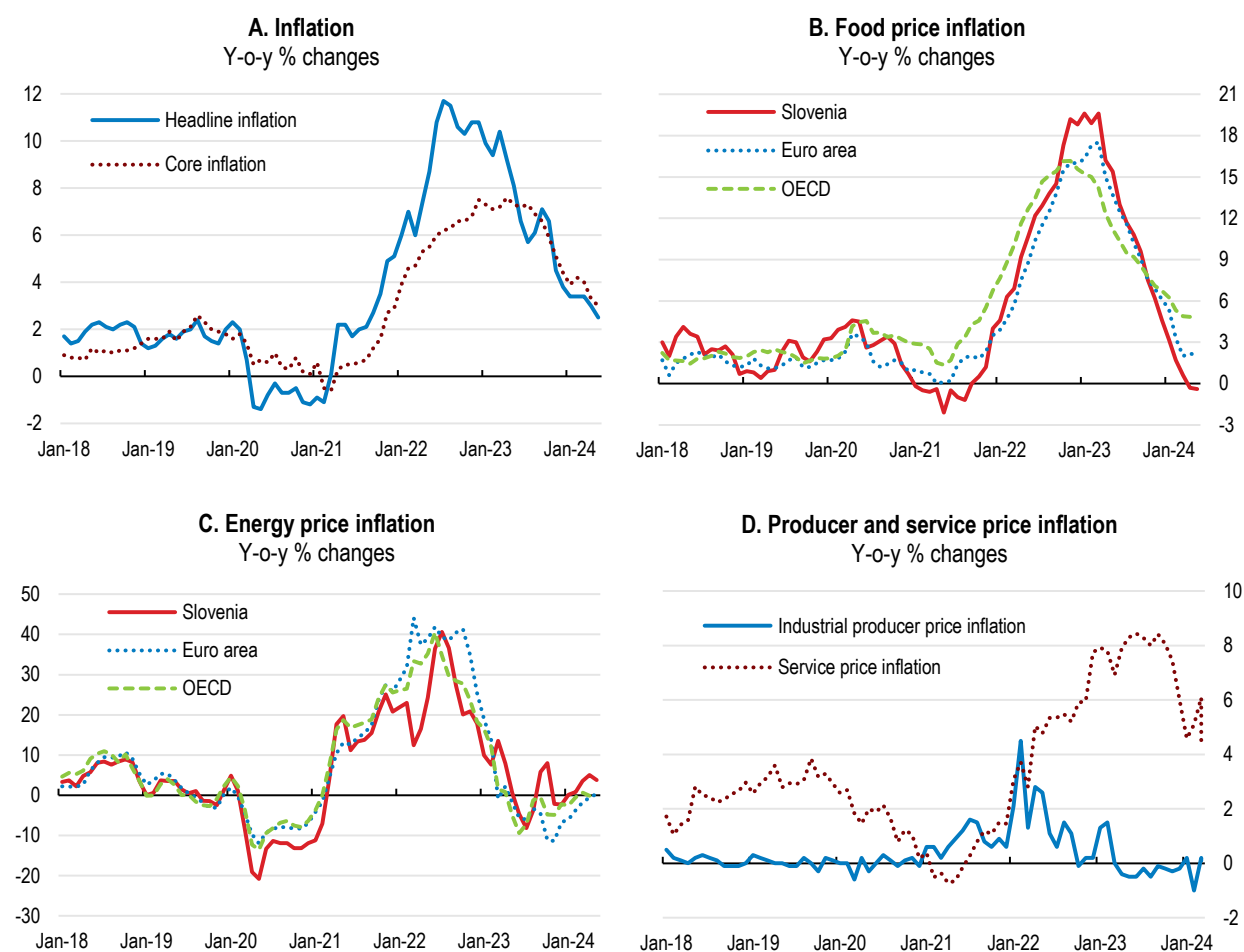
A sharp increase in the minimum wage naturally increases the share of minimum wage earners, while other wages gradually follow. At the same time, an increase in the minimum wage affects also other wages, via upward spillover effects, from wage policies in firms and pressure to maintain an appropriate wage structure among employees. For example, the substantial increase in the minimum wage in 2010 had an upward effect on wages of up to 50% above the minimum wage, with the effect gradually dissipating for higher wages (Laporšek, Vodopivec and Vodopivec, 2019^[6]).

Source: Laporšek, Vodopivec and Vodopivec (2019^[6]); IMAD (2023^[8]).

Inflation is declining but underlying price pressures remain

Headline inflation has gradually weakened, to 3.4% in February 2024, but remains slightly higher than in the euro area (Figure 2.8., Panel A). Similarly, core inflation has slowed, albeit less than in the euro area. The slowdown was broadly based but mainly driven by falling food and energy prices and a gradual moderation in service price growth (Figure 2.8., Panels B-D). The slowdown in energy prices mainly reflected a sharp decline in electricity prices, due to an exemption from environmental levies on renewable energy sources and combined heat and power granted from November 2023 until the end of 2024 (Government of Slovenia, 2023^[9]). The growth in non-energy industrial goods prices is also moderating, reflecting easing of supply bottlenecks and weaker demand, and confirming the improving dynamics of HICP inflation. At the same time, still elevated services inflation has peaked at a very high level, mainly driven by strong wage growth.

Figure 2.8. Inflation is decreasing but still high



Note: Panel D, industrial producer price inflation refers to industry except construction, sewerage, waste management and remediation activities.
Source: OECD Price Statistics database; and Eurostat.

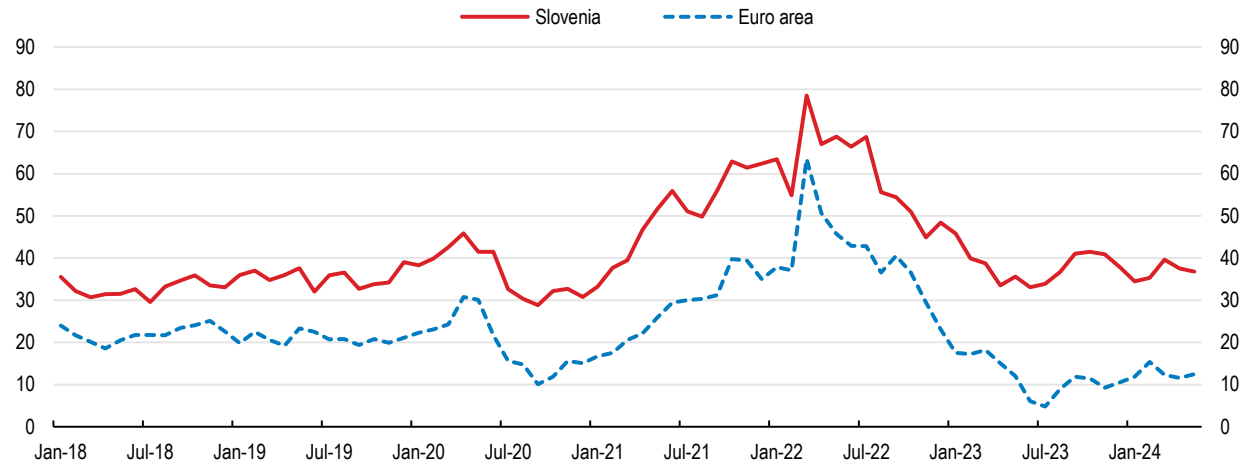
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Inflation expectations of consumers seem more elevated in Slovenia than in the euro area. However, the reported balances are not far from longer-term averages, suggesting the possibility of more persistent biases in expectation formation (Figure 2.9). This is consistent with earlier research findings that in 2001-2012 consumers in Slovenia formed inflation expectations that were fully backward-looking and significantly higher (relative to actual inflation outturns) than in other European countries (Lyziak and

Mackiewicz-Lyziak, 2014^[10]). The combination of persistently biased consumer expectations with a tight labour market characterised by acute labour shortages in many occupations could exacerbate the risk of triggering a wage-price spiral.

Figure 2.9. Inflation expectations remain elevated

Consumer price inflation expectations, balance s.a.



Note: Data refer to the responses to the question “By comparison with the past 12 months, how do you expect that consumer prices will develop in the next 12 months? Increase more rapidly / increase at the same rate / increase at a slower rate / stay about the same / fall / don’t know.” contained in the European Commission Consumer opinion survey. Answers obtained from the surveys are aggregated in the form of “balances”. Balances are constructed as the difference between the percentages of respondents giving positive and negative replies. The Commission calculates EU and euro-area aggregates on the basis of the national results and seasonally adjusts the balance series.

Source: European Commission, Business and consumer surveys, https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/business-and-consumer-surveys_en.

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Growth is projected to pick up gradually, but uncertainty is high

GDP is projected to pick up to 2.3% in 2024 and 2.7% in 2025, as disinflation continues, and global economic conditions gradually improve (Table 2.1). The labour market will remain tight. Real wages are projected to increase over the projection horizon, supporting household incomes and a rebound in private consumption. The negative impact of higher borrowing costs on investment will be partly offset by continuing inflows of EU Recovery and Resilience funds in 2024 and 2025. Headline inflation is projected to decrease swiftly to 3.3% in 2024, reflecting reductions in global energy and commodity prices, but to rise slightly in 2025, to 3.5%. Core inflation will stay above headline inflation in 2024, reflecting the lagged pass-through of energy prices to other goods prices and the effects of ongoing nominal wage increases.

Going forward, high wage growth is the main factor that could keep service inflation from falling, keeping open the gap between domestic and euro area core inflation. So far, the differential between domestic and the euro area core inflation seems largely attributable to negative shocks to labour supply, and to stronger domestic demand, including from the post-flood reconstruction. Bank of Slovenia estimates from a structural vector autoregression model suggest that the supply shocks on the labour market driven by rising labour costs were negative in 2023 and considerably more pronounced in Slovenia than in the euro area (Bank of Slovenia, 2023^[11]; Gabrovšek, 2023^[12]). Even so, the scope for further income adjustments consistent with limited second-round effects on inflation seems to be contracting, as evidenced by the drop in gross profit share from 36.4% in 2020 to 31.8% in 2022. Policy-makers and social partners will need to find a balance in the future between protecting the purchasing power for workers, limiting second-round effects of wages on inflation, and avoiding sustained competitiveness losses (European Commission, 2023^[13]).

The uncertainty surrounding the outlook is considerable and the risks are tilted to the downside (Table 2.2). A key downside risk is the renewed disruption in energy markets and a dip in global activity due to a prolonged war in Ukraine or an escalation of the conflict in Israel. Moreover, persistent wage growth and higher energy prices could rekindle domestic inflationary pressures. High debt-servicing costs and the risk of a decline in housing prices could weigh on consumption and residential investment. On the upside, stronger dissaving could support private consumption, recent measures to facilitate the recruitment of foreign labour could help alleviate labour market shortages and wage pressures, while stronger growth among trading partners may revive demand for exports.

Table 2.1. Macroeconomic indicators and projections

	2021	2022	2023	2024 ¹	2025 ¹
	Current prices (EUR Billions)				
Gross domestic product (GDP)	52.3	2.5	1.6	2.3	2.7
Private consumption	27.0	3.6	1.3	1.6	2.3
Government consumption	10.8	-0.5	2.4	3.9	1.7
Gross fixed capital formation	10.6	3.5	9.5	4.0	3.9
Housing	1.3	8.1	18.1	8.1	2.7
Final domestic demand	48.4	2.7	3.4	2.6	2.5
Stockbuilding ²	..	1.0	-4.4	0.0	0.0
Total domestic demand	49.2	3.7	-1.2	8.1	9.1
Exports of goods and services	43.7	7.2	-2.0	1.7	4.9
Imports of goods and services	40.6	9.0	-5.1	2.2	4.9
Net exports ²	3.1	-1.0	2.8	-0.3	0.4
<i>Memorandum items</i>					
Potential GDP		2.8	2.7	2.6	2.5
Output gap (% of potential GDP)		1.1	0.0	-0.3	-0.1
Employment		1.5	0.3	0.7	0.0
Unemployment rate (% of labour force)		4.0	3.7	3.7	3.5
GDP deflator		6.5	8.9	5.7	3.4
Harmonised index of consumer prices		9.3	7.2	3.3	3.5
Harmonised index of core inflation ³		5.9	6.7	3.6	3.5
Household saving ratio, net (% of household disposable income)		6.4	8.4	9.4	8.9
Current account balance (% of GDP)		-1.0	4.4	5.2	5.5
General government fiscal balance (% of GDP)		-3.0	-2.5	-3.1	-2.6
Underlying general government fiscal balance (% of potential GDP) ⁴		-3.5	-3.0 ¹	-3.6	-3.2
Underlying government primary fiscal balance (% of potential GDP) ⁴		-2.6	-2.3 ¹	-2.6	-2.2
General government debt, Maastricht definition (% of GDP)		72.5	69.2	69.7	69.2
General government net debt (% of GDP)		21.8	21.7	23.1	24.4
Three-month money market rate, average		0.3	3.4	3.7	2.8
Ten-year government bond yield, average		1.9	3.4	3.1	3.0

1. OECD estimates.

2. Contribution to changes in real GDP.

3. Index of consumer prices excluding food, energy, alcohol and tobacco.

4. EU recovery and resilience funds are treated as positive one-offs.

Source: OECD Economic Outlook 115 database.

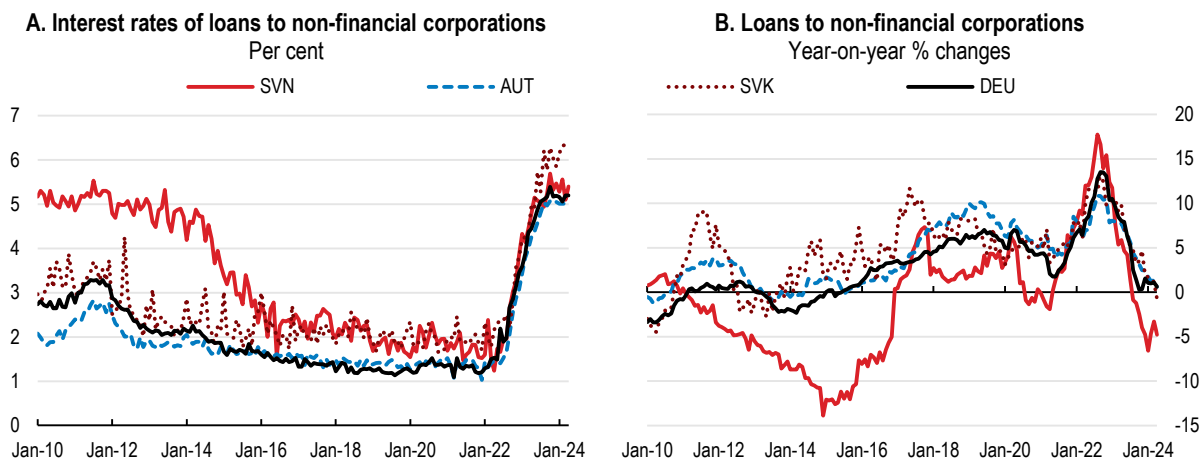
Table 2.2. Events that could lead to major changes in the outlook

Vulnerability	Possible outcomes
Further disruption in energy markets from Russia's war of aggression against Ukraine and the conflict in Israel.	Higher energy prices would limit the recovery and increase pressure on government to increase fiscal spending.
Activity and trade disruption from global trade tensions and protectionist measures or attacks on the Red Sea shipping lanes.	Supply side shocks would add to inflationary pressures and reduce foreign demand.
Persistent labour shortages, stoked by reconstruction following the August 2023 floods and continuing Next Generation EU investment.	Rapid wage growth would rekindle inflationary pressures and erode real incomes, lowering private consumption.

Tightened financing conditions have raised risks

Monetary conditions tightened sharply in the wake of the euro area policy rate increase by 450 bps between July 2022 and September 2023. The corresponding increase in borrowing costs and tighter credit standards have dampened the growth of credit to both firms and households, weighing on growth and pushing up the opportunity cost of business investment (Figure 2.10). The contraction in credit to non-financial corporations affected all sectors, mainly driven by declining demand for loans for investment and refinancing purposes. Higher borrowing costs and the weaker outlook for the real estate market also reduced demand for housing loans. New housing loans have been steadily declining since October 2022, but demand stabilised in the second half of 2023 and the growth rate of new housing loans is now close to the euro area average (Bank of Slovenia, 2023^[14]). However, this still corresponds to a much lower stock of housing loans, about 14% as a fraction of GDP, compared to 40% in the euro area.

Figure 2.10. Higher borrowing costs have triggered a credit contraction



Note: New business loans with an initial rate fixation period of less than one year. Loans other than revolving loans and overdrafts, convenience and extended credit card debt. In Panel B, loans adjusted for credit and securitisation.

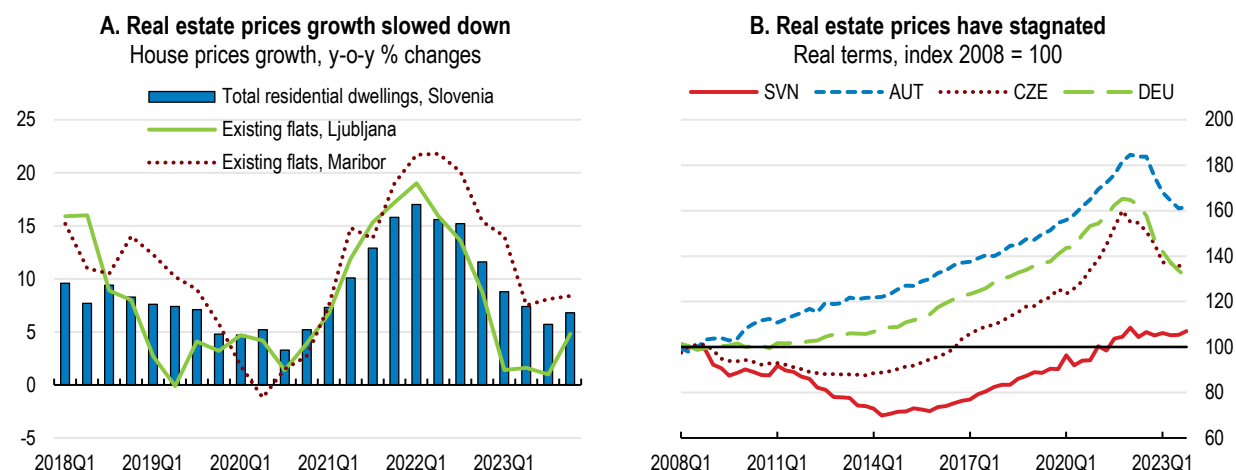
Source: ECB MFI Interest Rate Statistics database.

StatLink  <https://stat.link/lkzgdw>


The real estate market is cooling. Nominal house price growth peaked in 2022Q1, followed by a period of slowing price growth and a fall in the number of transactions. Nominal growth in residential housing prices slowed to 5.7% year-on-year in 2023Q3 and was particularly low, at 1%, for used flats in Ljubljana (Figure 2.11, Panel A). The increase in real estate prices since 2021 has been aligned with inflation, leading to stagnating housing prices in real terms (Figure 2.11, Panel B). The cooling of the real estate market is happening in most European countries and in Slovenia, prices of residential real estate in 2023Q3 decreased in real terms by 2.2% year-on-year. The supply of housing is not keeping up with demand, despite the rise in housing prices in recent years, and the ratio of gross investment in housing to GDP

remains low, about one half of the euro area average. The shortage of skilled workers and steadily increasing material and labour costs in construction, among other factors, are weakening the supply of housing as discussed in Chapter 5.

Figure 2.11. Real estate prices adjusted for inflation have stagnated



Source: Statistics Slovenia; and OECD Prices Statistics database.

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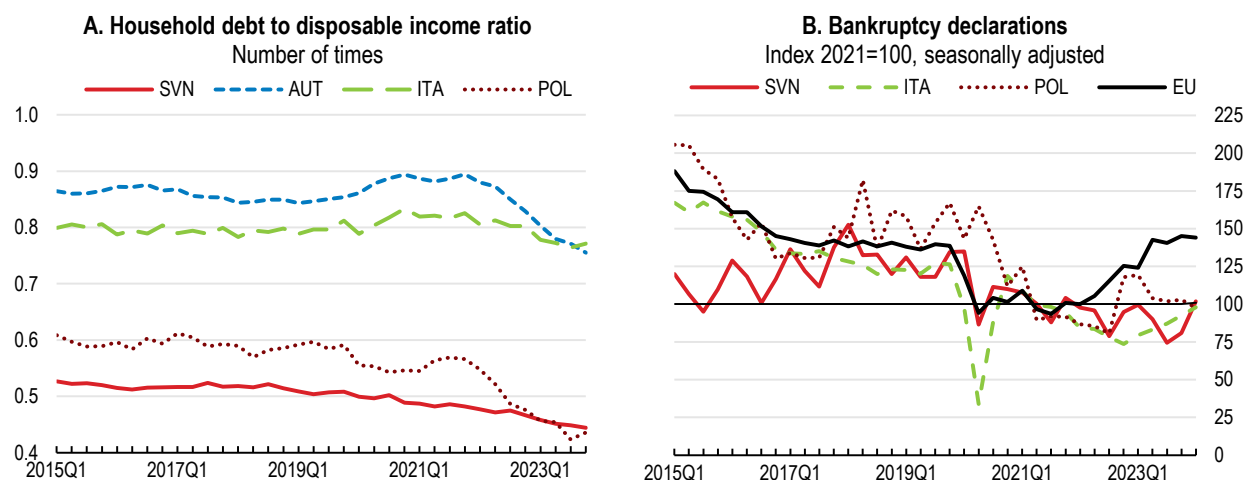
Financial vulnerabilities related to high interest rates appear limited so far (Figure 2.12). Household indebtedness is low compared to regional peers and has further decreased in the post-pandemic period, partly reflecting a wide range of measures to help households and firms cope with high energy prices. The number of bankruptcies is similarly decreasing again, following an uptick in education, health and social services in September 2023.

The banking sector appears broadly stable, with capital and liquidity ratios exceeding regulatory minima and still low levels of non-performing loans (Figure 2.13). However, the level of financial intermediation provided by Slovenian banks is relatively low. Total assets of the banking system in 2021 amounted to some 100% of GDP, compared to the euro area average of 325% and median value of more than 250%. The concentration of banking assets, as measured by the Herfindahl index, has increased considerably with the merger of Nova Kreditna Banka Maribor (NKBM) with Abanka in 2020 (Dolenc et al., 2021_[15]). Although Slovenia has had a concentrated banking system in terms of a high share of five largest banks for a long time, this was mainly due to the substantial market share of the largest bank, Nova Ljubljanska Banka (NLB). After the merger of NKMB with SKB Banka (which is expected to be completed in September 2024), the new structure will be characterised by two similarly sized banks, each controlling about 30% of the market. In December 2022, the government closed the Bank Asset Management Company, as planned, and transferred its remaining assets to the Slovenian Sovereign Holding. In addition, the state retains a 25% stake in NLB. Although negative effects of continuing public ownership are difficult to ascertain, the banking sector's efficiency remains weak, as evidenced, for example, by the high number of bank branches relative to the population (OECD, 2022_[16]) and elevated operating costs as a share of total assets, exceeding those in the similarly-sized banking systems of Lithuania and Estonia (Dolenc et al., 2021_[15]). The implications of ongoing consolidation for the stability of the banking sector and competitive provision of financial services deserve further monitoring (see also Chapter 5).

Bank profitability has improved but risks remain. High policy interest rates have buoyed interest income, while the high share of sight deposits and the very slow rise in interest rates on bank deposits is limiting the increase in interest expenses paid by banks. The banking system is one of the most profitable in the EU. In 2022, return on equity stood at 13.3% – and between 2017 and 2022 it averaged 11% in Slovenia – compared with 5.4% in the EU (Bank of Slovenia, 2023_[17]). Pre-tax profits are also expected above

average in 2023, driven by the marked improvement in net interest income and low net creation of impairments and provisions. However, low interest rates currently offered on bank deposits mean that households and non-financial corporations keep most of their funds, more than 80% of total, on sight deposits. Going forward, individual banks would do well to increase interest rates paid on bank deposits and such increases could trigger substantial flows of deposits among banks.

Figure 2.12. Households are moderately indebted, and bankruptcies remain limited

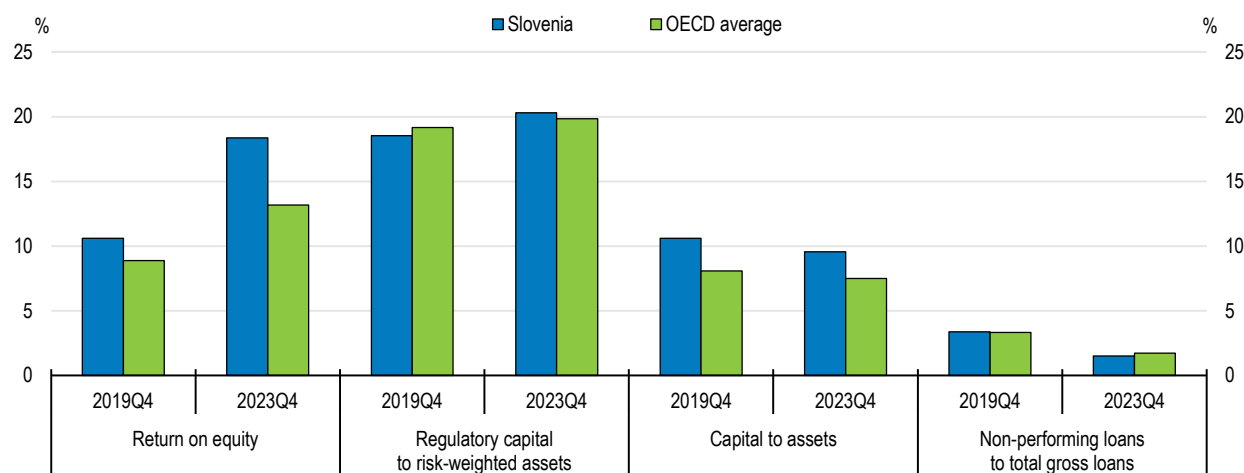


Note: In Panel A, debt is computed as the sum of the following liability categories in the financial balance sheet of the institutional sector: currency and deposits (AF2), debt securities (AF3), loans (AF4), insurance, pension, and standardised guarantees (AF6), and other accounts payable (AF8).

Source: Eurostat Financial Balance Sheets database; Eurostat Non-financial Transactions database; Eurostat Business Registration and Bankruptcy Index database; and OECD calculations.

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Figure 2.13. The banking sector seems stable on aggregate



Note: 2023Q4 data for the OECD average is calculated on the basis of latest available quarter for the OECD countries, ranging from 2022Q4 to 2023Q4.

Source: IMF Financial Soundness Indicators database.

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Some banks are also exposed to a high share of residential loans carrying a fixed interest rate, funded on the liability side by fixed-term deposits, on which they must pay increasing interest. The share of housing loans carrying a fixed interest rate almost doubled in the last three years, from 34% in 2020 to 67% in mid-2023. In addition, about 95% of newly granted housing loans had a fixed interest rate in 2023Q2. This shift

has reduced credit risk associated with such loans, while increasing interest rate risk. Most borrowers have paid negative real interest rates on their loans in the last two years, due to persistently high inflation. However, growth of new loans with fixed interest rate has recently slowed, helping to keep the interest rate risk in check.

At the same time, the banking system has a high level of liquidity. Primary liquidity, comprising cash in hand, balances at the central bank and sight deposits at banks, amounted to 22.7% of the balance sheet total in 2023Q1, well above the euro area average of 14.5% (Bank of Slovenia, 2023^[17]). However, considerable differences remain between individual banks in terms of their liquidity situation, despite increases in the liquidity coverage and net stable funding ratios.

Macroprudential measures currently in place may need to be tightened further to help mitigate these risks and maintain the resilience of the banking system. The probability of a systemic crisis, as assessed by the Bank of Slovenia's early warning signal model, has increased significantly following the severe weather events in August 2023 (Bank of Slovenia, 2023^[17]). More generally, greater variability in financial and economic indicators in the period of high interest rates will require close monitoring of risks and swift introduction of further counter-cyclical macroprudential measures, as needed. Two sectoral systemic risk buffers entered into force in January 2023 and a countercyclical capital buffer amounting to 0.5% of the total risk exposure amount has been put in place by the end of 2023 to help counter risks from high growth in residential real estate prices. In December 2023, an additional 0.5% requirement has been added, raising the countercyclical buffer to 1% as of 2025, while reducing one of the sectoral buffers by 0.5% (Bank of Slovenia, 2023^[18]). This amounts to introducing a positive neutral countercyclical capital buffer rate throughout the cycle. In addition, the revised methodology for setting the minimum buffer rate for other systemically important institutions has started to apply in 2024.

Moreover, Bank of Slovenia adjusted its macroprudential restrictions on consumer lending in July 2023. A cap of 50% on debt-servicing-costs-to-income (DSTI) ratio was put in place and the allowed deviations from the DSTI cap tightened to mitigate and prevent excessive credit growth and leverage. In addition, to preserve the usefulness of the indicator, the minimum creditworthiness threshold was linked to the minimum cost of living rather than the rapidly growing gross minimum wage. These policies, in particular the introduction in December 2023 of a positive neutral countercyclical capital buffer rate as in several other European countries, are welcome and should be supported by other policy tools, as needed.

Table 2.3. Past recommendations on financial stability

Recommendations in previous Surveys	Action taken since the 2022 Survey
Promote digitalisation in the financial sector through evaluating the regulatory burden, and a closer alignment of FinTech regulations with other European countries.	A capital market strategy for 2023-2030 of March 2023 focuses on promoting digitalisation and access of small and medium-sized enterprises (SMEs) to capital markets, including by expanding the scope of financial products. The Ministry of Finance and EBRD work on a FinTech Roadmap to support FinTech start-ups and incumbent financial institutions.

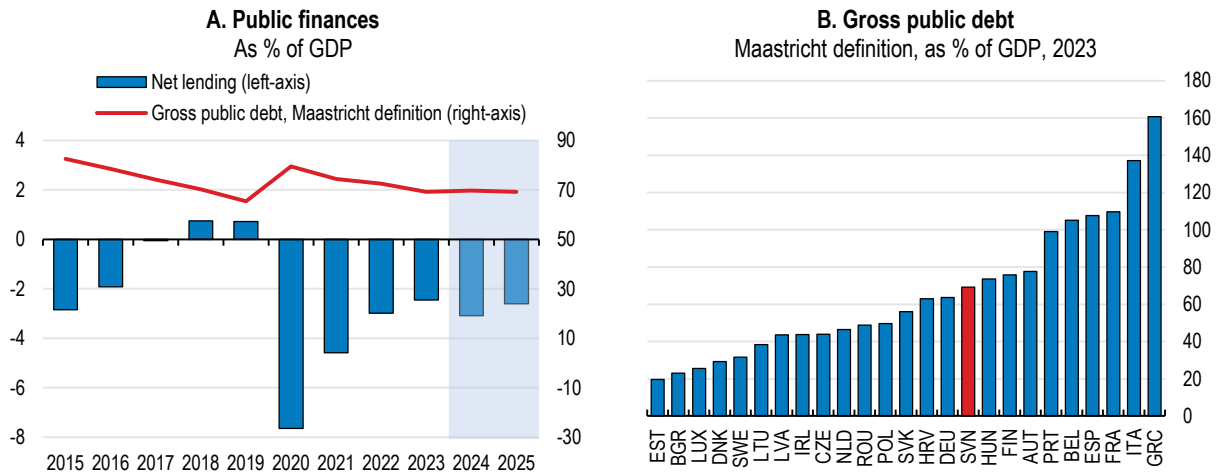
Challenges to fiscal policy need to be addressed

Supportive fiscal policy adds to demand and inflationary pressures

The general government deficit has tightened in 2023, despite slower real GDP growth, reflecting withdrawal of the measures to mitigate the effects of high energy prices as well as delays in spending to address the impact of the severe weather events of the summer. Taken together, these developments resulted in a budget deficit of 2.5% of GDP in 2023. Reflecting mainly the unwinding of energy-related measures and front-loading of post-flood spending, the fiscal stance is projected to loosen in 2024 before


tightening in 2025 (Figure 2.14). Measured by a change in cyclically adjusted primary balance, fiscal tightening provided in 2023 amounts to 0.7 percentage point of GDP and the cumulative tightening by 2025 to less than 0.2 percentage points of GDP.

Figure 2.14. Budget deficits and high public debt reflect extensive fiscal support



Note: Panel A, 2024-2025 data refer to projections.

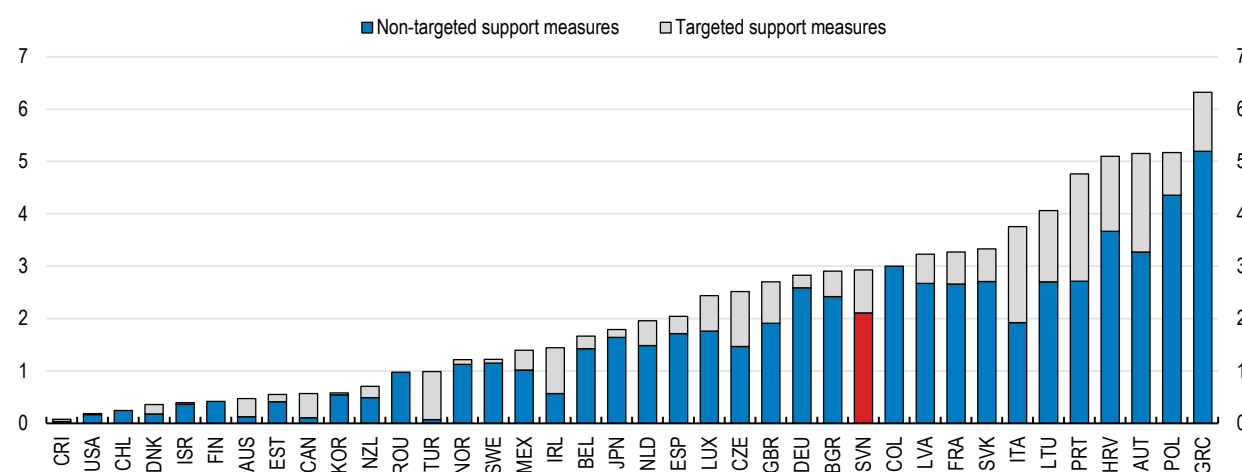
Source: OECD Economic Outlook: Statistics and Projections database.

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The measures mitigating high energy prices partly depend on market prices, but their fiscal costs are estimated at 1.1% of GDP in 2022 and 1.6% of GDP in 2023. The measures included tax reductions, transfers to households and aid to companies, including energy-intensive companies, compensation payments to suppliers for price caps on electricity and gas, and one-off payments to pensioners. Moreover, guarantees for electricity companies and liquidity measures, such as loans, were made available to companies (Box 2.2). While many energy support measures preserve, at least partly, the price signal, they are not sufficiently targeted to the most vulnerable households and companies (Figure 2.15). The fiscal stimulus to mitigate the consequences of COVID-19 and the energy crisis is being gradually withdrawn and all energy support measures, including the cap on electricity prices, are set to expire by the end of 2024 (IMAD, 2023^[5]).

Figure 2.15. Fiscal support during the energy crisis was mostly untargeted

Gross fiscal costs of energy support measures, % of GDP, 2022-23



Note: Support measures are considered targeted if their main beneficiaries are not “all households” or “all firms” or “all energy users”. The figure includes both price and income measures.

Source: OECD Energy Support Measures Tracker.

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Box 2.2. Energy support measures weighed on public finances

Slovenia adopted several support measures to help households and firms cushion the impact of high energy prices. The government temporarily regulated prices for electricity, gas and other energy products, notably for households and small and medium-sized enterprises. Electricity and gas distributors selling to consumers at regulated prices are eligible for compensation and business consumers who are not benefiting from regulated prices are eligible for subsidies linked to differentials in energy prices from 2021 to 2023. Furthermore, the government has reduced the VAT and some excise duties, and temporarily reduced the CO₂ emission levy on energy products at different times between February 2022 and May 2023. Following two rounds of energy vouchers in 2022, eligible households benefited from a temporary doubling of the child allowance from November 2022 to January 2023 and a temporary increase in pensions in late 2022. Social benefit amounts, which were indexed to inflation, were revised in March 2023.

In October 2023, the government extended the cap on electricity and gas prices for households and small businesses until the end of 2023 and will maintain it for all households in 2024, albeit at a lower level, reflecting lower market prices. The cap for electricity prices will cover up to 90% of current consumption in 2024, but the gas price cap will end in April 2024 with the heating season.

To boost its energy security, the government adopted measures to achieve energy savings and accelerate energy efficiency improvements, particularly in the public building sector. Traders, suppliers, aggregators, and large consumers were offered payments for reducing electricity consumption, administered by the system operator, and financed from the state budget.

Energy companies were given access to the short-term liquidity capital to ensure uninterrupted supply of electricity and gas. Energy suppliers and state-owned companies operating on international energy markets were also compensated for some of their losses, including through subsidies and guarantees.

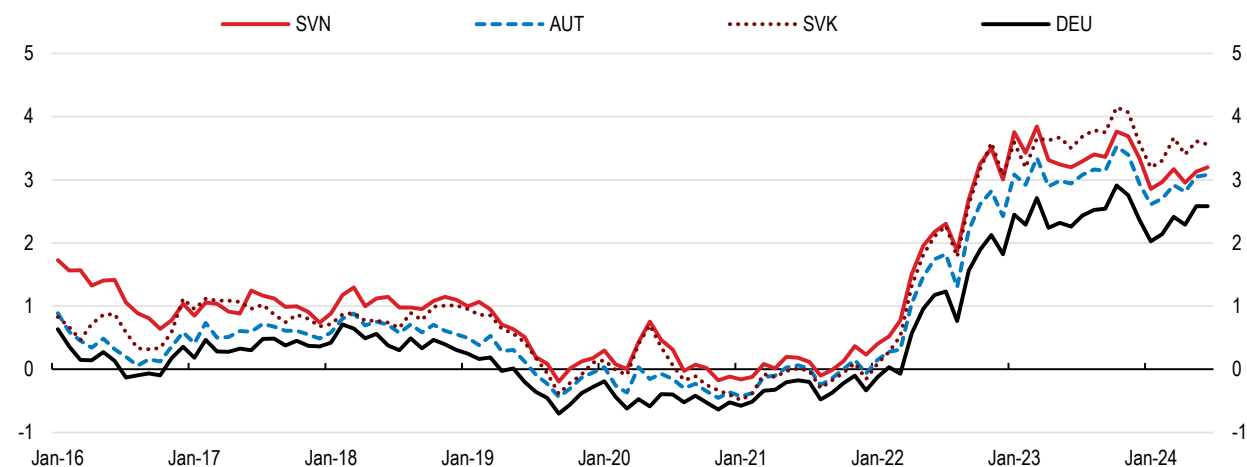
Source: European Commission (2023^[19]); OECD (2023^[20]) and Ministry of Finance (2024^[21]).

Post-flood reconstruction spending provided in 2023 is estimated to have reached 0.7% of GDP, mainly on investment transfers to municipalities. The government also announced flood recovery support amounting to 2% of GDP in 2024 and 0.8% in 2025 and the post-flood relief measures will unfold until at least 2028 (OECD, 2023^[22]). The bill on post-flood reconstruction adopted in December 2023 introduced several temporary tax measures, including a new flood relief tax on banks operating in Slovenia at a rate of 0.2% of total assets and an increase of the corporate tax rate by 3 percentage points to 22%, both from 2024 to 2028. Tax collected with these measures, accompanied by part of the profit from the Slovenian Sovereign Holding, will be transferred to a newly created Slovenian Reconstruction Fund and used to finance, among others, a EUR 200 million guarantee scheme for individuals who need to repair or rebuild their homes as well as loan guarantees and interest subsidies for businesses covering around 30% of their damages. This measure introduces new budget revenues to finance the additional spending, which is prudent, although it may lead to higher regulatory uncertainty and reduce corporate investment. Given the limited capacity of the construction sector, timely execution of reconstruction spending may be challenging. Additional structural fiscal measures include an increase in spending on long-term care of 0.2% of GDP in 2025 and 1% of GDP in 2026, due to reforms introducing payments for institutional long-term care for the elderly. This will be funded by a 2 percentage points increase in the social security contribution rate.

The yields on government bonds increased in line with higher policy interest rates in the euro area, but spreads vis-à-vis Germany remained limited (Figure 2.16). Borrowing costs, which averaged 3.8% in October, have risen more gradually than a year ago, as euro area policy interest rates remained unchanged. Slovenia maintained existing credit rating scores and a stable outlook in 2023. Although borrowing costs decreased marginally, to 3.2% in February 2024, tight financing conditions are resulting in higher interest payments that will add to government expenditure going forward.

Figure 2.16. Sovereign borrowing costs increased but the spreads remained tight

10-year bond yields, %



Source: LSEG.

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The multitude of discretionary measures adopted in recent years worsened the structural fiscal position. Fiscal support has added to demand and inflationary pressures since the intervention measures have often been poorly targeted. The current favourable liquidity position of the government budget, which reflects strong nominal GDP growth, increased bond issuance, as well as the inflows of EU funds under the Next Generation EU (NGEU) programme created some room for manoeuvre, but more efficient public spending and expenditure reductions are needed to reduce debt (Fiscal Council, 2023^[23]).

Slovenia will receive NGEU funds, in grants and loans, equivalent to more than 5.5% of 2019 GDP over 2022-2026. More than 50% of resources will support the green transition, but the National Recovery and

Resilience Plan will also help address technological change and ageing and improve energy security. Slovenia has received payments of about 1.7% of GDP so far. Disbursements are concentrated in 2024 with 42% of the total amount, or 2.3% of 2019 GDP. After that, about 1% of GDP is scheduled to be paid in 2025 and another 0.9% of GDP in 2026 (Car and Sapala, 2024^[24]).

Fiscal policy needs to tighten further and restore fiscal buffers to prepare for adverse shocks. The expansionary fiscal stance foreseen for 2024 poses challenges to disinflation in the presence of supply-side constraints (Fiscal Council, 2023^[23]). Severe floods in August 2023 added to the uncertainty about potential output. Direct damage is estimated by the authorities at around 5 per cent of GDP and the cost of rebuilding infrastructure in a climate resilient way is even higher. Given continuing labour shortages and limited capacity in the construction sector, tightening fiscal policy is appropriate. In addition, the government should continue pursuing several fiscal reforms that have been delayed.

Medium-term fiscal planning is central to the new EU economic governance framework and can lead to more predictable and sustainable fiscal policy. While medium-term fiscal planning is formally well established in Slovenia, as measured by the medium-term budgetary framework index, some important shortcomings remain. For example, the framework for the preparation of the general government budgets, which is established by the Fiscal Rule Act (ZFisP) and determines the nominal ceiling on government expenditure, has not been integrated into the annual budgeting process. Instead of serving to steer the annual budgetary process, the medium-term framework is often adjusted, even within a single year, to fit the annual budgeting outcomes. In addition, the medium-term projections often involve systematic underestimation of expenditure, notably on social benefits (Brložnik, 2023^[25]).

Spending reviews based on clear objectives and scope and conducted under clear governance rules could help improve the medium-term expenditure framework (Tryggvadottir, 2022^[26]). To do so, spending reviews need to be aligned with the budget process. For example, in New Zealand the baseline review of the Ministry of Social Development has been used to reprioritise its spending and feed directly into the budget. Similarly, in Norway, spending reviews are a routine part of budget planning. At the same time, capacity to perform spending reviews needs to be built, possibly by establishing a dedicated unit, such as in Norway.

Renewed demands for public sector wage increases pose a short-term risk to fiscal sustainability (Fiscal Council, 2024^[27]). The recent agreement to increase wages in the public sector by 80% of the increase in consumer prices between December 2022 and December 2023 will come into force in June 2024, but some professions have continued to demand adjustments of disparities between more and less senior employees and between officials from various parts of the public sector (e.g., doctors, dentists, judges, and prosecutors). The National Recovery and Resilience Plan includes a reform of the public wage system aimed at addressing difficulties in attracting and retaining young workforce by linking remuneration to work performance and increasing differentiation in remuneration across sectors (European Commission, 2023^[19]). However, the reform has been postponed until the second quarter of 2024 as negotiations between the government and unions continue.

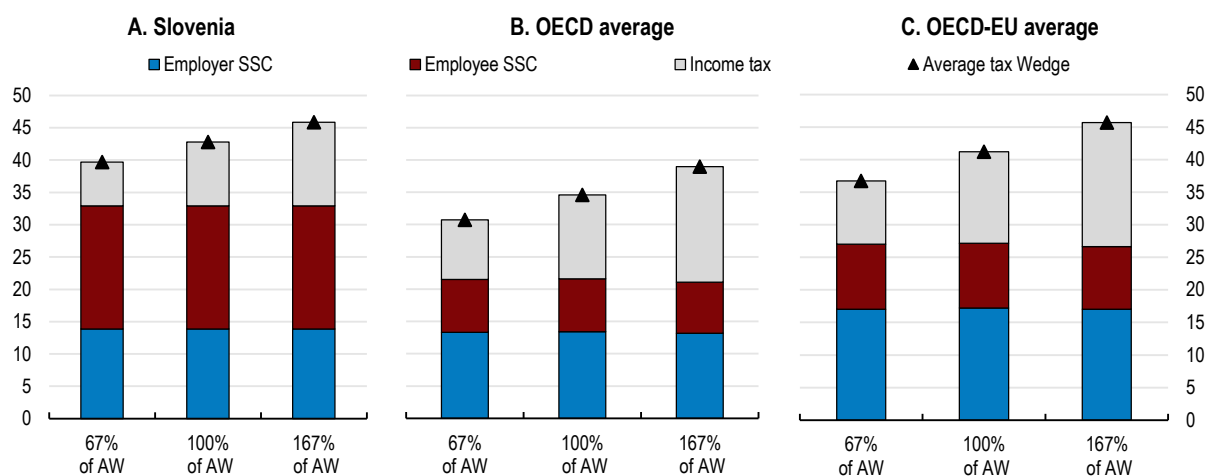
The tax burden on labour is high across different wage levels, but particularly for lower earners (Figure 2.17). Employee and employer social security contributions (SSCs) are high, and the personal income tax schedule is progressive. High labour taxation increases labour costs for firms and discourages transitions into employment, exacerbating labour shortages. Personal income tax cuts in the spring of 2022 have reduced the labour tax burden but were mostly reversed by changes to the Personal Income Tax Act in 2023, which increased the tax rate in the highest tax bracket from 45% to 50%. The 2023 adjustment will be beneficial for low-income earners, subjecting high incomes to higher taxation than in 2022 (European Commission, 2023^[19]). This change is welcome from the distributional perspective, but the high labour tax burden should be reduced further as part of a reform that lowers participation tax rates for workers with a weaker attachment to the labour market, such as younger and older workers and second earners (OECD, 2018^[28]). Another concern is that the personal income tax base is relatively narrow

because of exemptions and special tax provisions. Reducing personal income tax exemptions, such as the exemption of commuting expenses, the meal allowance, as well as the performance and annual bonuses, could raise fiscal revenues. For example, reducing tax exemptions by 25% would raise revenues by about 0.8% of GDP (OECD, 2018_[29]).

Recurrent taxes on immovable property should play a more significant role in the tax mix. At the current level of 0.5% of GDP in 2021, recurrent taxes on immovable property are less than a half of the EU aggregate value of 1.1% of GDP. To ensure a growth-friendly fiscal consolidation, an increase in less distortive recurrent taxes on immovable property owned by households together with lower distortive taxes on labour should be considered in a revenue-neutral reform package. For example, a 5 percentage points reduction in employees SSCs and a reduction of the top personal income tax bracket from 50% to 45% could be broadly financed by VAT base broadening and increasing revenues from the recurrent tax on immovable property to the OECD average (OECD, 2018_[28]). As discussed in Chapter 5, revenues from recurrent taxes are low, at 0.5% of GDP, and strengthening their role will require regular updating of property values. In addition to rebalancing the tax mix, such a reform package could be used to introduce changes in the financing of municipalities.

Figure 2.17. Tax wedges are particularly high for low-income workers

Average tax wedge decomposition, % of labour cost, 2022



Note: Single person, without child, at an income level of the average worker (AW). Data for OECD-EU refers to EU member countries that are also members of the OECD (22 countries).

Source: OECD Taxing Wages database.

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Pension funding is a key long-term fiscal challenge

According to the 2024 Ageing Report by the European Commission (2024_[30]), ageing-related costs including pensions, health care, long-term care and education will rise from 22.1% of GDP in 2022 to 27.5% in 2070, mainly driven by higher pension costs. Slovenia is projected to face the fourth largest increase in pension-related expenditures in the EU (+3.8pp, from 9.8% to 13.7% of GDP). Most of this increase (+2.7pp of GDP) is projected to take place between 2030 and 2050, in line with the rise in the ratio of people aged 65 or above to people aged 20-64. Moreover, pensioners after 2030 will also enjoy an increase in the ratio of average pensions to average wages (benefit ratio) due to higher accrual rates following the pension amendments in 2020 and the growing popularity of combining work and claiming part of pensions.

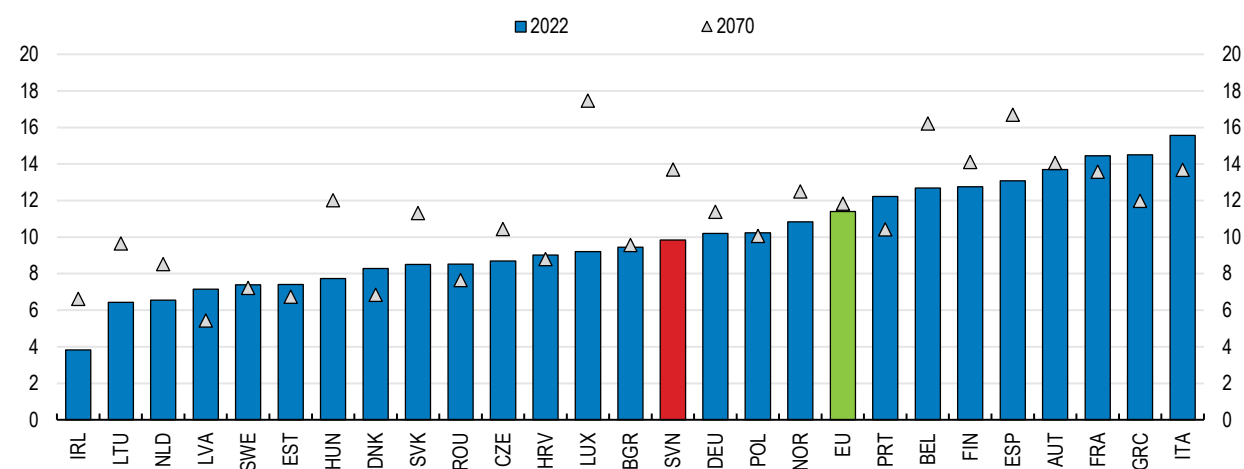
In most EU countries, the increasing dependency ratio effect will be countered by a decline in the ratio of average pensions to average wages (benefit ratio), driven by reforms lowering replacement rates and

limiting the increase in calculated pensions over time (Figure 2.18). By contrast, Slovenia is one of only four EU countries where the benefit ratio is planned to increase between 2022 and 2070, albeit from still a relatively low level (Figure 2.19). However, high replacement rates are only one factor, alongside a low effective retirement age, high life expectancy, and high pension indexation, which are together reflected in high levels of total pension entitlements paid during retirement in Slovenia. For example, after a career at the average wage, the total discounted net pensions received at the retirement age equal 14.4 years of net wages in Slovenia, on average, much higher than the OECD average of 11.2 years and on par with France, which has much higher contribution rates (OECD, 2022^[31]).

Fiscal sustainability simulations suggest that in the absence of reforms durably reducing total ageing-related costs, public debt would exceed 200% of GDP by 2060. The situation is broadly unchanged since the last *Survey*, reflecting more adverse projections, mainly due to the higher implicit interest rate paid on debt, from the OECD long-term model (Guillemette and Chateau, 2023^[32]), together with an updated, lower estimate of total ageing-related costs as a share of GDP (European Commission, 2024^[30]). However, these simulations and estimates of the fiscal impact that underpin them are only indicative and subject to limitations, such as the lack of endogenous behavioural responses. Reforming the pension system and implementing a structural fiscal deficit of 0.5% of GDP, as required by the EU Fiscal Compact, would lead public debt to reach 80% of GDP by 2060. In addition, complementing the EU Fiscal Compact requirement on structural primary balance with further growth-friendly structural reforms recommended in this *Survey* (Table 2.4) would bring public debt close to 60% of GDP by 2060 (Figure 2.20). The recommended reforms would expand the tax base, creating fiscal space over the medium term, and pivot the tax system towards more growth-friendly consumption and property taxation. For example, aligning property taxation with the OECD average and phasing out all reduced VAT rates would raise revenues by 0.6% of GDP and 1.7% of GDP respectively (OECD, 2018^[28]). The resulting fiscal space could be used to lower labour taxes or to address the ageing-related fiscal challenges. Phasing out the existing energy subsidies, which have amounted on average to 1% of GDP per year since the start of Russia's war of aggression against Ukraine, would also help improve the fiscal balance in 2024.

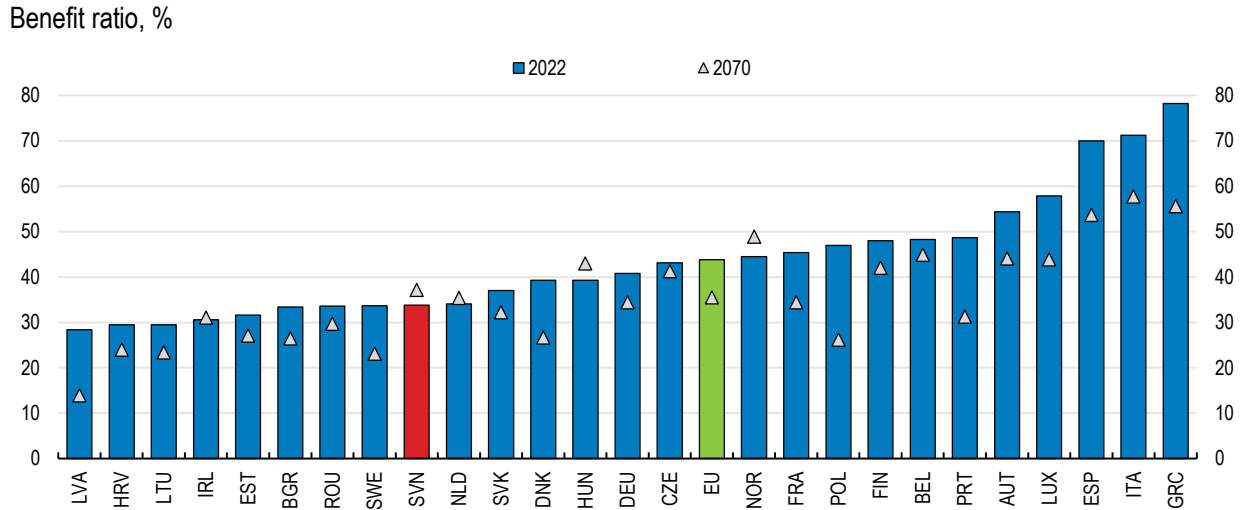
Figure 2.18. Without further reforms, pension expenditures will increase sharply

Pension expenditure, as % of GDP



Source: European Commission Ageing Report (2024).

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Figure 2.19. The benefit ratio of pensions is planned to increase

Note: The benefit ratio is the ratio between the average pension and the average wage, both measured in gross terms. Public pensions are earnings-related and refer to old-age earnings-related pensions, including flat-rate pension components.

Source: European Commission Ageing Report (2024).

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Table 2.4. Illustrative fiscal impact of recommended reform package

Fiscal savings (+) and costs (-) after 10 years

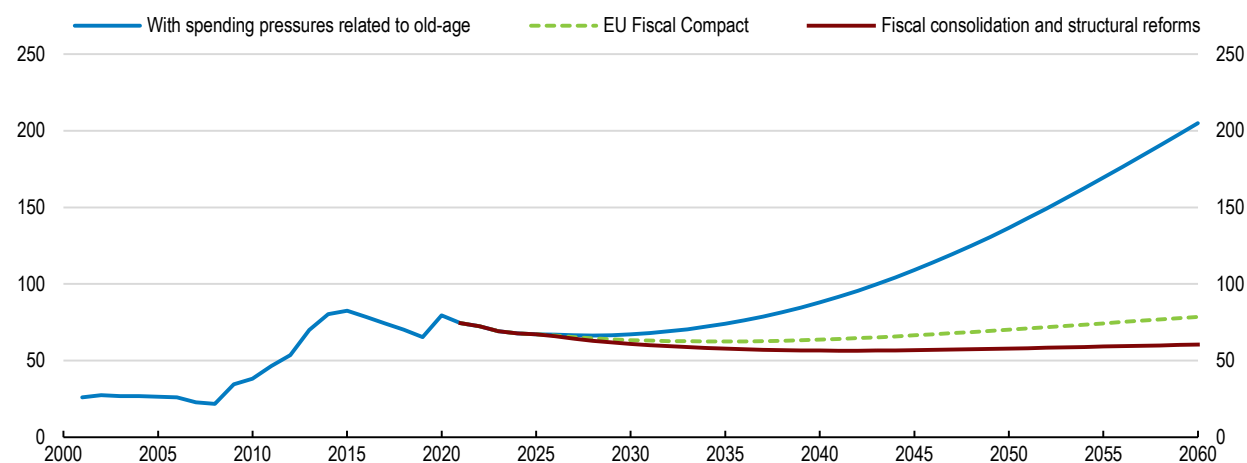
	% of GDP
Reduce labour taxes	-2.2
Broadening the personal income tax base by reducing tax allowances	+0.5
Increase property taxation	+0.6
Reduce VAT exemptions	+1.7
Total revenues	+0.6
Increase the statutory retirement age to 67 and change the pension indexation from today's mix of 60% of wages and 40% of prices to full price indexation.	+2.5
Total expenditures	+2.5
Total fiscal impact	+3.1

Note: Estimated effects of changes in labour taxes, property taxation, and the employment rate of older workers assume a move toward the OECD average. Broadening the personal income tax base assumes removing the exemption of home-work travel expenses, meal allowance, as well as the performance and annual bonuses, which are currently exempt from taxable personal income up to the level of average wage. Estimated effect of broadening the personal income tax assumes reducing tax allowances by 25%. Reducing VAT exemptions assumes removing all reduced VAT rates, including on food, non-alcoholic beverages, medicines, hotel accommodation and restaurants.

Source: OECD (2018^[28]) and OECD (2022^[16]).

Figure 2.20. Spending pressures related to population ageing must be addressed to safeguard fiscal sustainability

General government debt, Maastricht definition, as % of GDP



Note: The unabated old-age spending pressures scenario assumes that increased spending on health care, long-term care and pensions will add an additional 5.4 percentage point of GDP to annual government spending by 2070, from 22.1% in 2022 to 27.5% in 2070, in line with projections by the European Commission (2024). The EU Fiscal Compact scenario assumes a structural primary deficit of 0.5% of GDP from 2026 onwards (requirement for countries with debt-to-GDP ratio above 60%). The consolidation scenario assumes a structural primary balance of 0% of GDP from 2026 onwards, adding roughly the positive impact on GDP of the reform package simulated in the Long-term model.

Source: Adapted from OECD (2023), OECD Economic Outlook: Statistics and Projections (database), November; Guillemette, Y. and D. Turner (2018), "The Long View: Scenarios for the World Economy to 2060", OECD Economic Policy Paper No. 22., OECD Publishing, Paris; and European Commission (2024), 2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070)" Directorate-General for Economic and Financial Affairs.

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Box 2.3. Reducing the cost of ageing

Slovenia faces some of the highest ageing-related spending pressures in the OECD. Low effective retirement ages allow pensioners to spend more time in retirement and new spending pressures arise from the recent increase in accrual rates. Moreover, the pension system lacks actuarial fairness, meaning that most workers contribute much less to the pension system than they receive as pensioners (OECD, 2020^[33]). Special retirement systems provide exit routes into early retirement, also for workers still capable to work. This leads to large intergenerational transfers and erodes work and saving incentives. Finally, low-income workers are not incentivised to participate in occupational pension plans and the savings accumulated in this second pillar are low.

To address population ageing and to ensure fiscal sustainability of the pension system, the 2020 *OECD Economic Survey of Slovenia* recommended measures to increase actuarial fairness, further develop the second-pillar pension schemes and encourage people to remain active beyond the statutory retirement age (see Table 2.3). To improve actuarial fairness, the 2020 *OECD Economic Survey of Slovenia* recommended better aligning contributions and benefits for all contributors, making bonuses for later retirement and maluses for earlier retirement symmetric and applicable at the statutory retirement age. Furthermore, the *Survey* recommended enrolment in the second pillar to be made an opt-out choice and reducing tax advantages applied to higher contributions as well as introducing matching contributions for low-wage workers. Finally, the *Survey* emphasised the need to ensure that contributions are paid on all labour income and closing the unjustified exits into early retirement. To ensure higher labour market activity of older workers, the statutory retirement age should increase to 67 for both men and women and, if needed, be linked to gains in life expectancy. Action taken since the

2020 *Survey* has been limited to introducing the possibility to substitute part of early retirement entitlement for child-caring periods with higher annual accruals.

Population ageing will also increase demand for healthcare. The Slovenian healthcare system was characterised by an ineffective system of co-payments, abolished in June 2023, as well as low density of general practitioners in some parts of the country and a high number of small general hospitals that are inefficient in cost, quality and safety (Quentin et al., 2015^[34]). As a result, planning and budgeting is not performance-oriented and many doctors lack performance incentives, leading to long waiting lists for the patients. The recommendations of the 2020 *OECD Economic Survey of Slovenia* focused on strengthening the gatekeeper role of primary care and addressing inefficiencies in the health care sector. For example, per-patient payment (capitation) and fees-for-services could be made cost reflective and used to attract general practitioners to underserved areas. A nation-wide system for monitoring quality, safety and efficiency, and rules for more efficient operation of hospitals, including minimum interventions thresholds for maintaining services and greater responsibility in service supply decision would help optimise the network of healthcare providers. The National Strategy for the Quality and Safety in Healthcare adopted in April 2023 will support these changes. Since the 2020 *Survey*, some action has been taken on competitive salaries for doctors in 2022, but the implementation has been halted by a Constitutional Court decision. Additional steps, such as financial rewards for primary care providers with a large number of patients, faster recruitment of doctors from abroad and higher salaries for young specialists in family medicine, were taken to improve the accessibility of primary care. To improve access to secondary care, financial incentives for increased workloads of doctors and extended payments for additional specialist outpatient treatments were provided in 2023. The Long-Term-Care Act, also adopted in 2023, provided common financing and established eligibility criteria and social contributions for long-term care, while the Act on Provision of Funds for Investments in Slovenian Healthcare 2021-2031 has improved the incentives for hospitals to save and adopt multi-year investment plans.

Source: OECD (2020^[33]).

The planned pension reform will be key to addressing the long-term sustainability of public finances. Detailed recommendations for addressing the challenges of ageing were given in the 2020 *OECD Economic Survey of Slovenia* and include measures to increase the fairness and sustainability of the pension system and meet the increasing demand for healthcare (Box 2.3). To address the adverse demographic trends, notably the large fall in the working age population until 2060, and to ensure financial sustainability, the minimum eligibility conditions to pensions will have to be tightened. The effective retirement age in Slovenia is low by OECD standards and contributes to the low labour market participation rates of older workers. One can retire without a penalty at age 60, before the statutory retirement age of 65, following a 40-years career, or even after a 35-years career, provided that the missing insurance years are purchased and subject to a reduction in benefits. To reduce future spending and lift effective retirement ages, increasing the minimum retirement age as well as the contribution period required to get a full pension, should be considered (OECD, 2022^[31]). Moreover, the minimum retirement age should be linked at least in part to life expectancy to minimise the need for future ad hoc adjustments. In addition, childcare period should not result in lowering the minimum retirement age. Currently, mothers and fathers can retire four and two years below the statutory retirement age, respectively. While there are valid reasons to grant pension entitlements for periods of childcare (see Chapter 3), it is not clear that parents should be able to retire earlier compared to childless people. Only four other OECD countries, Czechia, Hungary, Italy and Slovakia, relax pension eligibility conditions based on having children. Czechia is phasing it out gradually, while in Slovakia, it is planned to end in 2024.

As the needed adjustment cannot be provided through tighter eligibility conditions alone, other measures, such as reducing the indexation of pensions in payment and basing pensions on the average lifetime earnings will have to be considered. Currently, the calculation is based on the best consecutive 24 years

of adjusted earnings, which is regressive, as it particularly benefits people with higher lifetime earnings (OECD, 2022^[31])

Table 2.5. Past recommendations on fiscal and ageing policies

Recommendations in previous Surveys	Action taken since the 2022 Survey
Implement fiscal consolidation to manage demand pressures.	The Government plans to phase out all COVID-19 and energy support measures in 2024. Underlying primary balance has been tightened by more than 2 ppt of GDP cumulatively in 2022-23.
Develop a medium-term fiscal consolidation plan to address the long-run challenges of ageing.	No action taken.
Raise the minimum years of contributions required to retire, and use lifetime incomes to determine pension benefits.	No action taken.
Increase the statutory retirement age to 67 years and link it thereafter to gains in life expectancy.	No action taken.
Secure sustainable long-term funding by strengthening health insurance for long-term care, while guaranteeing equal access for all.	The Long-Term Care Act adopted in 2023 regulates the financing of the system from various sources, including the state budget as well as mandatory contributions from workers and pensioners.
Introduce common financing mechanisms and eligibility criteria for long-term care.	The Long-Term Care Act, which will gradually come into effect over 2024-2026, unifies the long-term care system. In terms of eligibility, the system will ensure equal access regardless of socio-economic status.
Establish a rules-based system for public wage increases subject to sound budget constraints, while allowing flexibility in public wage setting to address recruitment problems.	No action taken.

A more dynamic business environment would lift productivity growth

Productivity growth has been weak since the Great Financial Crisis. Productivity, measured as GDP per person employed, has been fluctuating around 82% of the EU average. Real productivity growth averaged just 1% over the last five years, holding back Slovenia's convergence towards the more advanced EU economies (IMAD, 2023^[35]). Productivity growth is hampered by low business dynamics, which reflects weak competitive pressures, notably among firms that are focused on domestic markets (OECD, 2022^[16]).

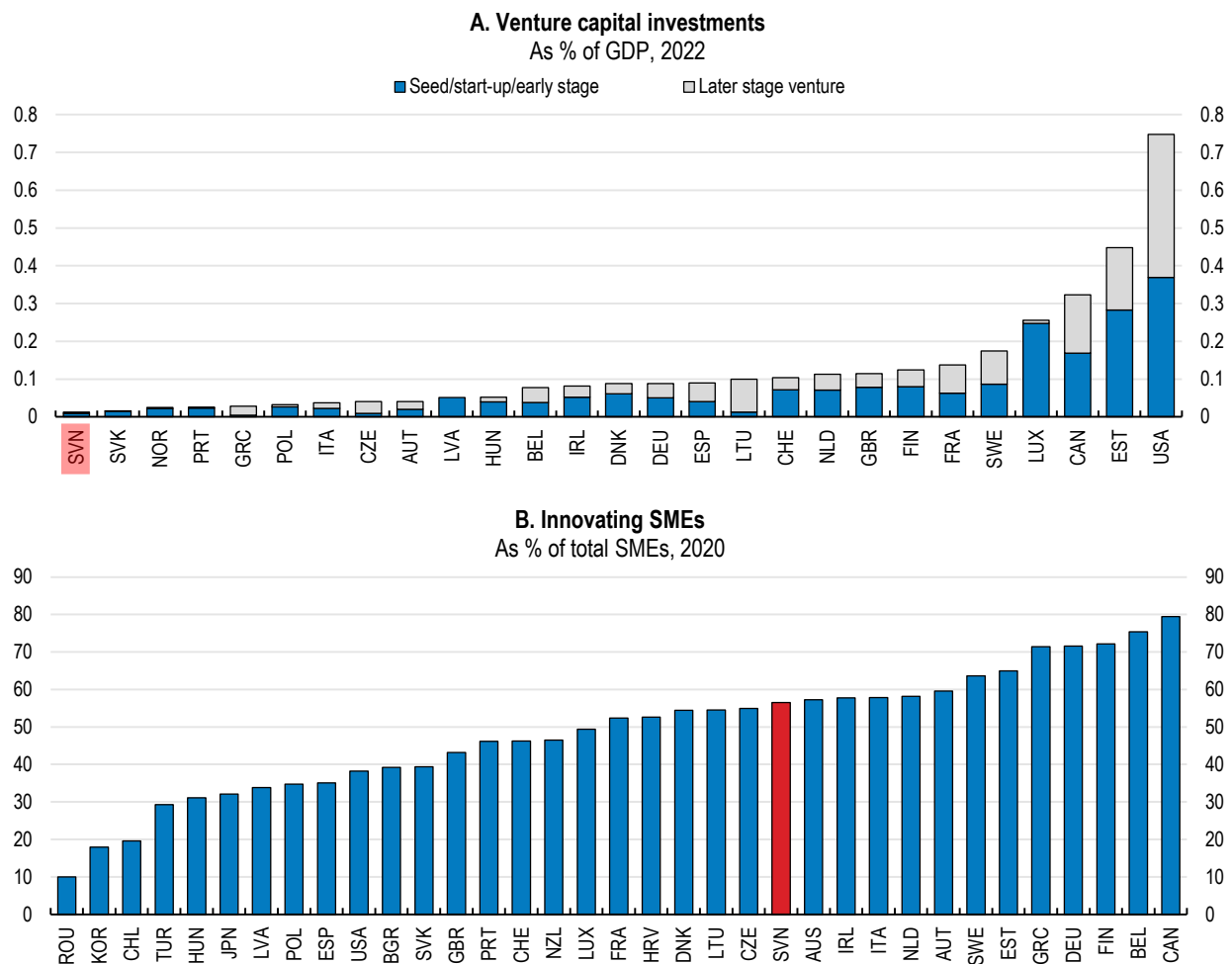
Productivity growth is hampered by low levels of investment into both tangible and intangible capital in the last decade (IMAD, 2023^[35]). This is partly due to shallow capital market and a lack of venture capital and other forms of seed and early-stage finance. Slovenia has a relatively high number of innovating small and medium-sized enterprises (SMEs), but they have limited access to venture capital, affecting their ability to scale up innovations (Figure 2.21). While firms continue to rely for financing on retained earnings and bank credit, the banking sector is not well suited to finance risky and innovative firms with know-how and intangible assets but limited collateral. At the same time, the Ljubljana Stock Exchange continues to face low and decreasing liquidity, with annual trading volume of 330 million euros in 2023.

Hence, reforms that could improve access of firms, particularly innovative small and medium-sized ones, to equity finance and help develop liquidity in Slovenia's capital markets, need to accelerate. The capital market development strategy adopted in 2023 rightly focuses on improving access of SMEs to equity finance, increasing the supply of financial products and improving financial literacy. The strategy also sets out welcome quantitative benchmarks for turnover volumes, the number of new share listings and total market capitalisation to be met by 2029 (Ministry of Finance, 2023^[36]). Although some measures, such as the adoption of a new act on alternative investment funds were implemented, as part of the National Recovery and Resilience Plan, further measures are needed. For instance, a new single digital platform for investing in SMEs based on distributed ledger technology and a single-entry point for market participants could help improve access to finance by reducing costs and improving transparency (Bianchini, Kwon and Cusmano, 2021^[37]). In addition, allowing municipalities to issue bonds under well-

defined conditions could lower their financing costs and improve market liquidity by raising bond issuance volumes.

The government's decision to issue 250 million euros in government bonds aimed at retail investors in 2024, to be followed by other issuances in 2025 and 2026, may help to stimulate interest in capital markets and provide an alternative with a higher yield to low-yielding bank deposits. To bolster capital market investment further, the government should continue privatisation efforts, as discussed in the 2022 *Economic Survey of Slovenia*, divesting shares of state-owned enterprises (OECD, 2022_[16]).

Figure 2.21. Venture capital is scarce, making it difficult for small firms to innovate



Source: OECD Enterprise Statistics database; and OECD, based on the 2021 OECD survey of national Innovation Statistics; and Eurostat, based on the Community Innovation Survey (CIS-2020).

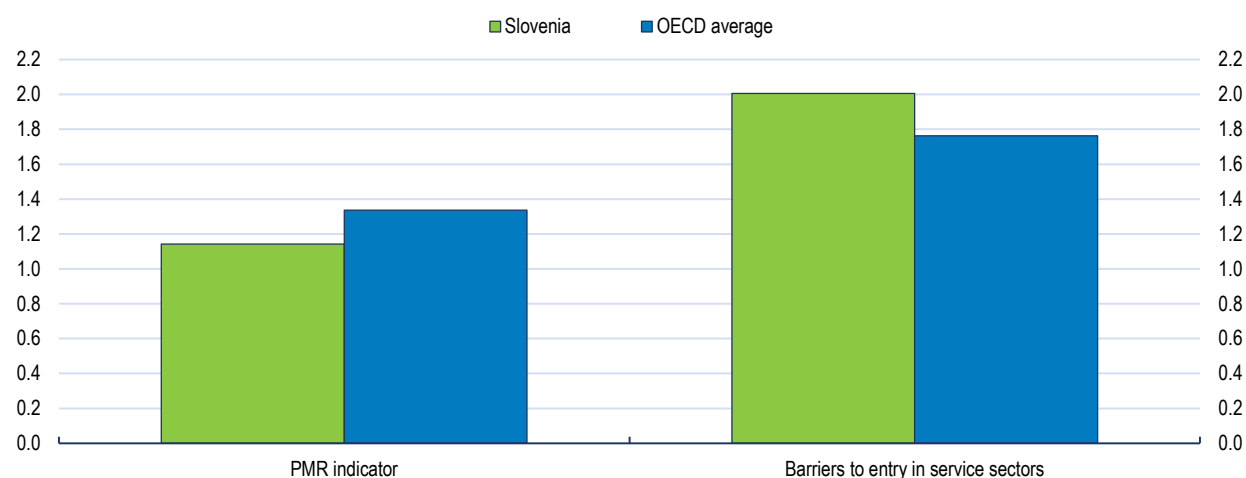
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Barriers remain in other areas impacting the business environment, such as the access to professional services. Overall, regulatory barriers are in line with the OECD average, except in retail and other service sectors (Figure 2.22). Moreover, in no area is Slovenia close to best OECD practice (OECD, 2022_[16]). Regulatory restrictiveness is higher than the EU average for professions such as real estate agents, lawyers, civil engineers, and tourist guides (European Commission, 2023_[19]). For example, lawyers are still banned from advertising their services, in breach of Article 24 of Directive 2006/123/EC on services in the internal market (European Commission, 2021_[38]). Moreover, for tourist guides, municipalities may still determine conditions for access to the profession in a given tourist area, resulting in diverging regional regulations, which may affect both national and cross-border service providers. These regulatory and

administrative barriers should be reviewed and reduced, if possible, to improve the regulatory environment and foster stronger business dynamics. A lower regulatory burden will support faster income convergence and lower the cost incentive for participating in the shadow economy, which at around 24% of GDP remains larger than in many OECD countries (Kelmanson et al., 2019^[39]; Elgin et al., 2021^[40]).

Figure 2.22. Competition could be strengthened, particularly in retail and other services

Product Market Regulation indicator and selected components scores, from 0 to 6 (most restrictive), 2023



Note: The Product Market Regulation (PMR) indicator is a composite index that encompasses a set of indicators that measure the degree to which policies promote or inhibit competition in areas of the product market where competition is viable. Scores range from 0 to 6 and increase with restrictiveness (data refer to 2023).

Source: OECD Product Market Regulation database.

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Table 2.6. Past recommendations on productivity

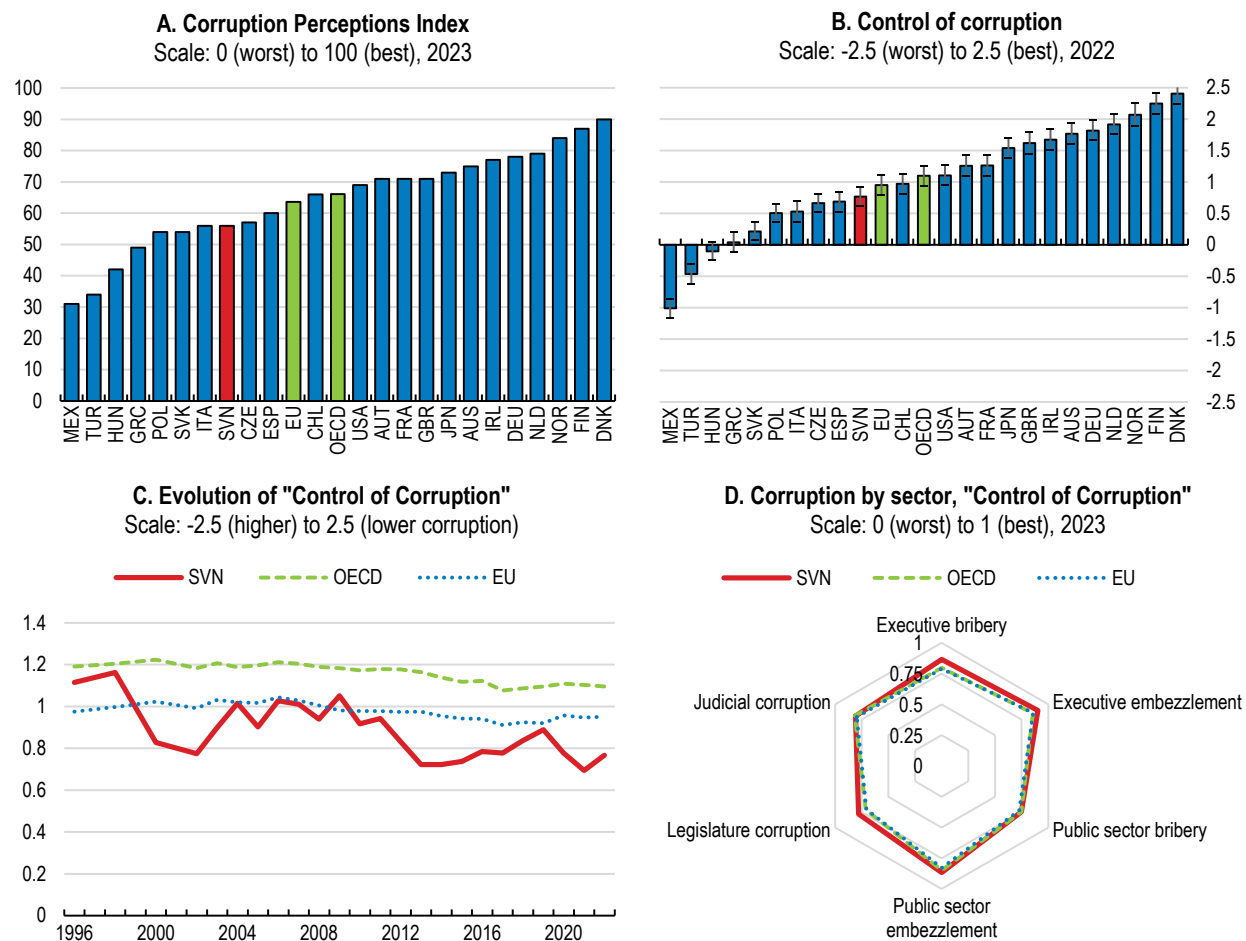
Recommendations in previous Surveys	Action taken since the 2022 Survey
Continue privatisation efforts particularly in inherently competitive sectors such as tourism and strengthen the corporate governance of State-Owned Enterprises.	A new Asset Management Strategy will in the course of 2024 introduce a new approach to the tourism sector.
Expand the possibilities for out-of-court settlements for debt restructuring.	No action taken.
Remove burdens on foreign companies to participate in tenders by publishing in English.	No action taken.
Transfer the management of all State-Owned Enterprises to the Slovenian Sovereign Holding.	The amended Slovenian Sovereign Holding (SSH) Act of November 2022 transferred management of almost all state-owned enterprises to the SSH and involved it in corporate governance management.
Encourage wage-setting at the firm level and determine framework conditions, such as seniority bonuses and minimum wages at the sectoral level.	No action taken.
Ensure that minimum wage growth does not outpace median wage growth.	No action taken.
Ease the regulatory burden, including zoning rules and rules for converting state-owned agricultural land into urban land.	No action taken.

The new anti-corruption strategy is crucial to boost the fight against corruption

Although the anti-corruption framework has improved in recent years, perception of corruption continues to be relatively high (Figure 2.23). After the conclusion of the third national anti-corruption strategy (2017-2019), a new strategy is being prepared. In 2023, the Commission for the Prevention of Corruption (CPC), the Ministry of Public Administration and the Ministry of Justice have been preparing the Resolution on the

Prevention of Corruption and the associated Action Plan, outlining the new national strategy (European Commission, 2023^[41]). As part of this process, at the beginning of 2023 the government adopted a new multiannual (2023-2026) Programme to Strengthen Integrity and Transparency in the Public Sector to complement the measures already existing in this area, for example, by enhancing training and awareness of integrity issues of public servants and by determining gifts and benefits reporting obligations for healthcare institutions (Government of Slovenia, 2023^[42]). Furthermore, the Commission in partnership with the National Education Institute has set up a comprehensive initiative, “Integrity: Generations’ Common Goal”, aiming at mainstreaming integrity and introducing integrity-enhancing programmes at all levels of education (UNDOC, 2023^[43]). Overall, Slovenia has established a strong internal control system and risk management framework, performing better than other OECD countries, with regulations and central control functions in place to promote best practices across the public administration, which is essential to preserve and sustain public integrity (OECD, 2024^[44]).

Figure 2.23. Corruption is perceived to be relatively high



Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the “Control of Corruption” indicator by the Varieties of Democracy Project.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

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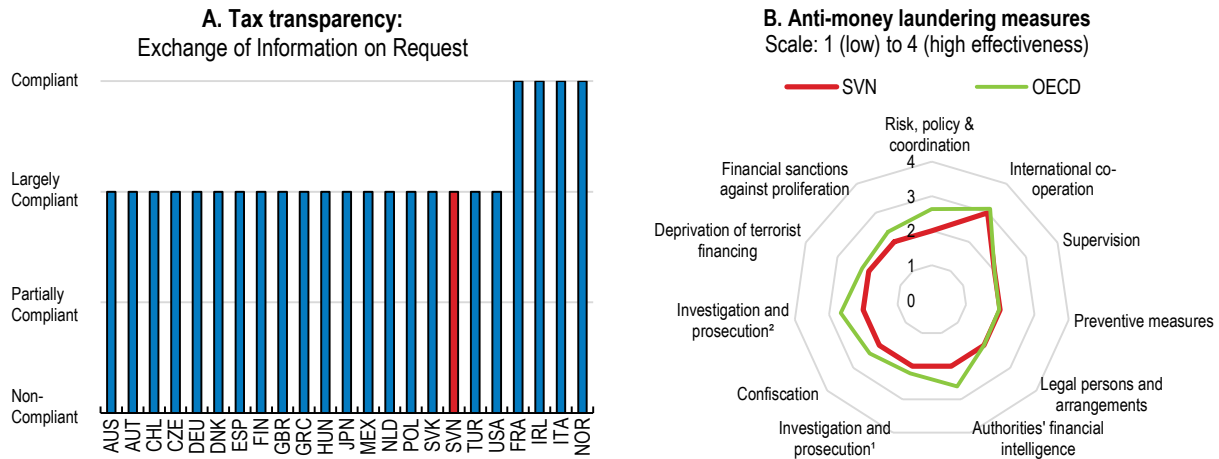
The process defining the new anti-corruption strategy has been comprehensive and based on public consultation and participation, involving stakeholders representing the public and private sectors as well as the civil society (European Commission, 2023^[41]). As discussed in the last *Economic Survey of Slovenia*, initiatives to enhance the participation of both citizens and the business sector in policymaking

could help to reverse persistent low public trust in institutions and relatively high perception of corruption (OECD, 2022^[45]). A survey conducted by the European Commission in 2023 revealed that 83% of respondents still consider corruption to be widespread in Slovenia, compared to the EU average of 70%, and that its level has either increased (54%) or stayed the same (37%) in the past three years. Furthermore, 81% of respondents think that there is corruption in the national public institutions and that bribes and abuse of power exist in different fields, such as political parties (64%) and in public tenders and building permits procedures (50%) (European Commission, 2023^[46]).

Despite delays in the formal adoption of the new strategy, some weaknesses identified in the previous *Survey* have been addressed over the past couple of years, in addition to integrity. Increased resources of the Commission for the Prevention of Corruption, the independent anticorruption authority, have allowed to recruit additional staff and adopt digital tools for monitoring the assets declarations of public officials and the lobbying registry (European Commission, 2023^[41]). Also, the success rate of corruption cases taken to court on the basis of the Commission's findings has improved as a result of amendments made to the Integrity and Prevention of Corruption Act in 2020 and to the Rules of Procedure in 2021, which brought more safeguards and clarity on the rights of individuals charged (European Commission, 2022^[47]).


Slovenia has transposed the EU Whistleblowing Directive and implemented it through the new Protection of Whistleblowers Act, which entered into force at the beginning of 2023. In addition to granting the Commission for the Prevention of Corruption monitoring power and additional resources, the Act aims to protect whistleblowers from retaliation and establish internal and external procedures for reporting the breach of legislation (European Commission, 2023^[41]). An assessment of the new legislation will be carried out in 2024 by the OECD Working Group on Anti-Bribery Convention to appraise if it ensures continued protection from disciplinary or discriminatory action for public and private sector employees who report suspected acts of foreign bribery, as previously recommended (OECD, 2021^[48]) (OECD, 2023^[49]).

The independence of the judiciary system is an important element of a strong and well-functioning anti-corruption and public integrity system. Improvements have been observed, for example, in digitalisation of communication tools beneficial to the activity of the State Prosecution Office, mainly in administrative cases. In criminal cases, the lack of use of digital tools is still a concern. The Supreme Court has been planning measures to introduce the electronic transmission of documents in criminal proceedings. Furthermore, amendments to the Organisation and Work of the Police Act in 2022 have restored the autonomy of the National Bureau of Investigation and the state prosecutors in pre-trial and criminal proceedings, previously subject to the Ministry of Interior's instructive power (European Commission, 2023^[50]). This aims to limit political influence on the police work. Similarly, legislative reforms have been proposed to transfer the power of appointing Supreme Court judges and first-time judges from the Parliament to the Judicial Council and the President of the Republic, respectively, to reduce political interference and ensure judges independence. However, the European Commission has recommended that such reforms also include sufficient safeguards for judicial independence as well as an adequate remuneration of judges and state prosecutors, which currently are not entirely in line with European standards. Moreover, the excessive length of trials in complicated cases, such as corruption and money laundering, remains a concern (Figure 2.24) (European Commission, 2023^[51]). In addition to limited specialised trainings available for judges and prosecutors, for example on foreign bribery, the length of trials is also related to inefficiencies in the investigation phase (OECD, 2022^[45]). The Ministry of Justice is currently working on modifications to the Criminal Procedural Code which could include measures to address these issues (European Commission, 2023^[41]).

Figure 2.24. Investigation and prosecution of money laundering cases could be improved

Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows results from the ongoing second round when available, otherwise first round results are displayed. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution" refers to money laundering. "Investigation and prosecution²" refers to terrorist financing.

Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink  <https://stat.link/65gzno>

Overall, despite these developments, challenges remain in various areas, such as conflict of interest and risk of corruption in public procurement. For example, in 2022 the Commission for the Prevention of Corruption analysed and identified potential risks of corruption after the conclusion of the mandates of public officials, following a change of government, due to difficulties in the application of post-employment restriction rules (GRECO, 2023^[52]). Moreover, in 2023 the Specialised Public Prosecutor's Office reported that high risks of corruption exist in public procurement and use of EU funds, specifically in the health and energy sectors (European Commission, 2023^[50]). Despite strong regulations in place, for example in the field of transparency in lobbying, conflict of interest and political finance, information on their implementation is sometimes missing and their application is incorrect in some cases, due to issues regarding their interpretation (OECD, 2024^[44]) (European Commission, 2023^[41]). Accelerating the adoption of the new anti-corruption strategy and definition of clear measures for its implementation should be a priority for the government (European Commission, 2023^[41]).

Table 2.7. Past recommendations on the fight against corruption and the judiciary

Recommendations in previous Surveys	Action taken since the 2022 Survey
Continue efforts to fight corruption by strengthening the independence and bolstering the resources of the anti-corruption authority.	New anticorruption strategy is being prepared.
Strengthen the resources of the Public Prosecutor's Office, including for hiring of experts. Accelerate the process for appointment of prosecutors.	In 2022, financial and human resources of the State Prosecution were increased: thirty-two new prosecutor posts and sixty posts for officials were approved for the period 2023-2024.

Table 2.8. Recommendations

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Completing disinflation and ensuring financial stability	
<p>Expansionary fiscal policy adds to continuing inflationary pressures. Medium- and long-term spending pressures, particularly related to ageing, are high.</p>	<p>Tighten the fiscal policy stance and start restoring fiscal buffers. Swiftly phase out energy support measures and replace them with targeted transfers if needed. Prepare a credible medium-term fiscal plan to ensure fiscal sustainability and use spending reviews to improve the efficiency of expenditures.</p>
<p>Minimum wage increases in a tight labour market have sustained real wage growth, especially at the lower end of the wage distribution, well above labour productivity growth, contributing to inflation and eroding external competitiveness.</p>	<p>Link real minimum wage increases to productivity developments.</p>
<p>Monetary policy has tightened sharply and the borrowing costs for households and firms increased. The real estate market is cooling, limiting demand for mortgage loans.</p>	<p>Stand ready to tighten existing macroprudential policy measures and capital requirements as needed.</p>
Accelerating structural reforms to ensure long-term fiscal sustainability	
<p>High labour tax wedges deter labour market participation and transition to full-time work.</p>	<p>Implement growth-friendly fiscal consolidation by further reducing labour taxes, and increasing consumption and recurrent immovable property taxes. Broaden the personal income tax base by reducing tax allowances.</p>
<p>Public wage bill is high, and the public compensation system fails to attract and retain younger workers.</p>	<p>Reform the public wage system to ensure fiscal sustainability and sufficient flexibility to address recruitment problems.</p>
<p>Ageing-related costs, notably on pensions, will increase sharply, with most of the increase between 2030 and 2050. Pension benefits are indexed 60 per cent on wages and 40 per cent on prices.</p>	<p>Increase the minimum retirement age and the contribution period required for a full pension. Link the minimum retirement age to life expectancy. Remove the lowering of the minimum retirement age based on childcare periods. Consider reducing the weight of wages in the indexation of pensions and base pensions on the average lifetime earnings.</p>
Boosting business dynamics to lift productivity growth	
<p>Productivity growth is hampered by low levels of investment, limited access to equity financing, particularly for SMEs, and remaining barriers in professional services.</p>	<p>Lift barriers in retail trade and restrictions on professional services. Consider partial listings of state-owned enterprises to boost capital markets and continue privatisation efforts particularly in inherently competitive sectors such as tourism.</p>
<p>Innovating SMEs have limited access to venture capital and other forms of early-stage finance.</p>	<p>Improve access of small and medium-sized firms to equity finance and increase the supply of financial products.</p>
<p>The anti-corruption framework needs further strengthening. High risk of corruption exists in public procurement.</p>	<p>Continue efforts to fight corruption by accelerating the adoption of the new anti-corruption strategy and defining measures for its application, such as post-employment restrictions for former public officials.</p>

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3

Rekindling progress on gender equality

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Although female labour market participation is above average in Slovenia, a gender wage gap persists, reflecting sectoral differences in gender outcomes. Adjustments in the tax and benefit system are needed to reduce disincentives to enter employment, notably for second earners and single parents, who are often women. Policies reducing gender differences in sectoral activity would encourage better sharing of household and caring responsibilities. At the same time, systematic reporting on pay transparency could help reduce the gender wage gap and should be swiftly transposed into domestic law. Policies reducing the gender pension gap can help reduce the risk of old-age poverty that mainly affects women.

Female labour market participation is high but other gender gaps persist

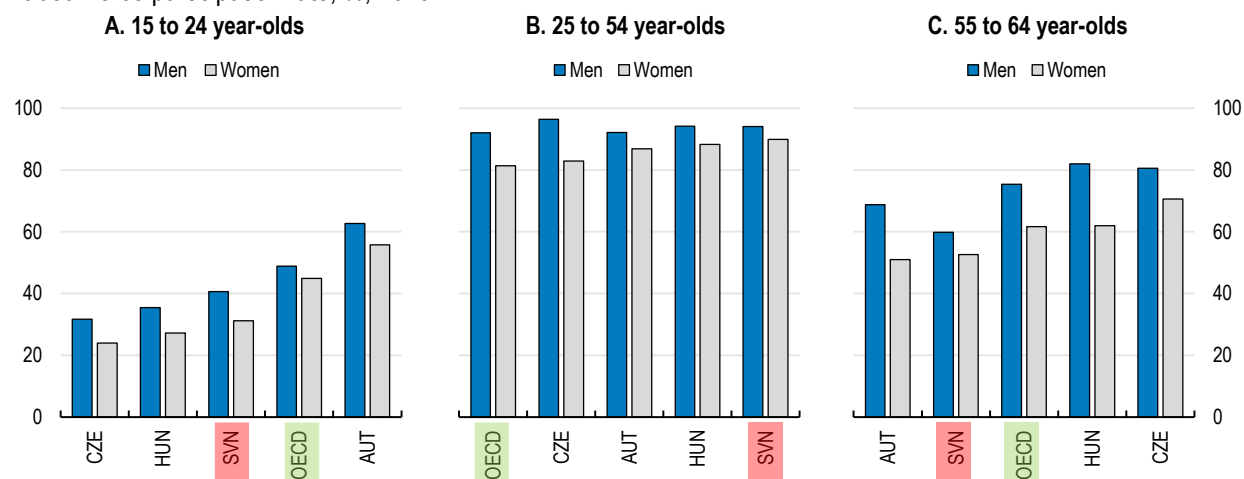
Female labour market participation is higher than the EU average and the share of women in part time employment is lower. However, despite often attaining higher levels of education than men, Slovenian women are still less likely to be employed full time, tend to earn less, and as in many other countries, are underrepresented in leadership positions and spend more time in unpaid work. In the presence of population ageing, increasing female labour force participation is also beneficial for fiscal sustainability. Closing gender gaps in labour market outcomes, while insufficient to offset the impact of declining working age population of long-term growth, could help alleviate sustainability concerns about long-term fiscal commitments, including pension and healthcare expenses (Guillemette and Turner, 2021^[1]). In addition, greater gender equality can boost innovation, for instance through more diverse teams in the workforce or greater female entrepreneurship (OECD, 2023^[2]).

Until 2017, Slovenia had managed to reduce gender inequality faster than most EU countries, but this progress has recently come to a halt. The Gender Equality Index, which measures gaps between men and women in areas of health, money, work, time, knowledge and power (EIGE, 2023^[3]) was already slightly below the EU average in 2019. The gap closed only marginally in 2021, with the biggest improvement in the sub-index of knowledge and the main slippage in health and time spent on social activities.

The labour market participation rate of prime-age women is high, but it sharply decreases after age 60 for both men and women (Figure 3.1). Childbearing seems to have little effect on participation, as the employment rate of mothers aged 20-49 is even higher than that of women of the same age with no children. Full-time employment of women is high by OECD standards, and only 6.8% of women choose to work part time. The extent of part-time female employment has been steadily decreasing since 2014. Women are also slightly better represented in green-task jobs, accounting for 33% of workers in such positions, than the OECD average of 28%, amid rapidly growing demand for green jobs (OECD, 2023^[4]).

Figure 3.1. The gender employment gap increases with age

Labour force participation rate, %, 2023



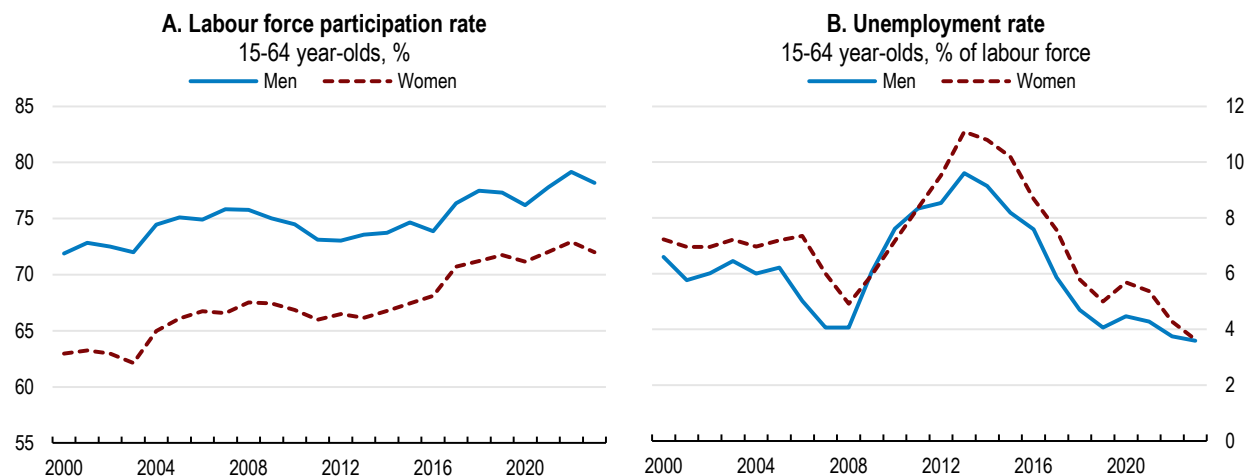
Source: OECD Labour Statistics database.

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The female labour force participation rate has increased steadily over time and the unemployment rate of women is now broadly aligned with that of men (Figure 3.2). However, data from the public employment service show that the duration of unemployment spells is longer for women than men, across most age groups. This can be partly explained by the different hiring and firing patterns in sectors dominated by men and women, such as construction and education, respectively. The long-term unemployment rate is

generally higher for older workers, who may lack sufficient and relevant skills to be attractive for employers (OECD, 2020^[5]).

Figure 3.2. Female labour participation has increased steadily



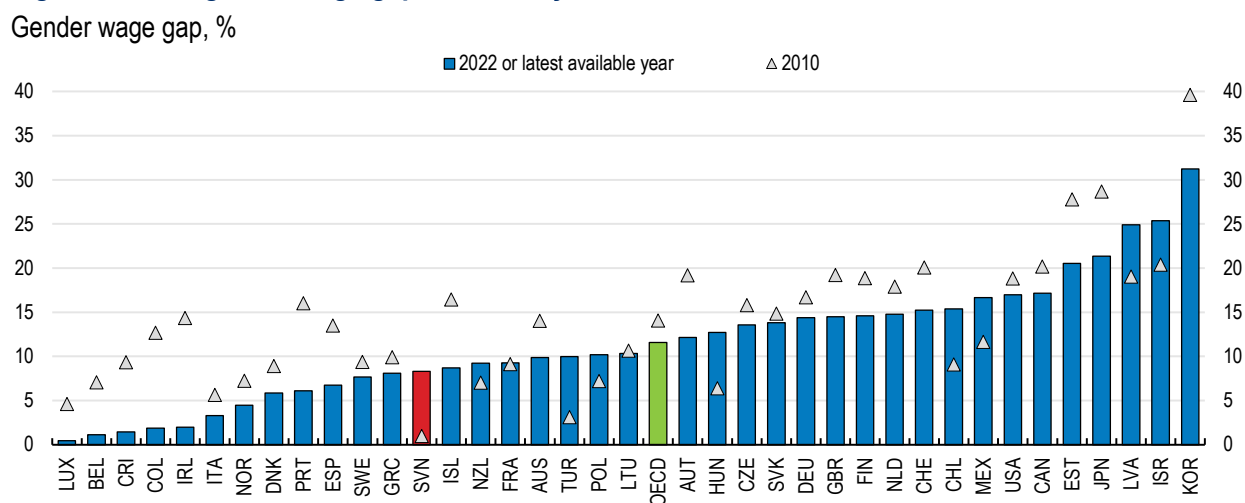
Source: OECD Labour Statistics database.

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The gender wage gap is relatively small but persistent

The gender wage gap is relatively small. Women working full-time earned on average 3.8% less per hour than men in 2021, a difference of about a third compared to the EU average gender pay gap of 12.7%. At median earnings, female workers earned around 8% less in 2022 than their male counterparts and the gender wage gap at median has been steadily increasing from 1% in 2010 and 5% in 2014 (Figure 3.3). As in many countries, gender differences in wages are most pronounced for women with tertiary education, who earned 16% less in 2021 than men with a similar education level. However, looking only at the general government sector, the gender pay gap was the highest, at 24.3%, among persons with upper secondary education (SURS, 2023^[6]).

Figure 3.3. The gender wage gap is relatively small but has increased



Note: The gender wage gap is defined as the difference between male and female median wages divided by the male median wages.

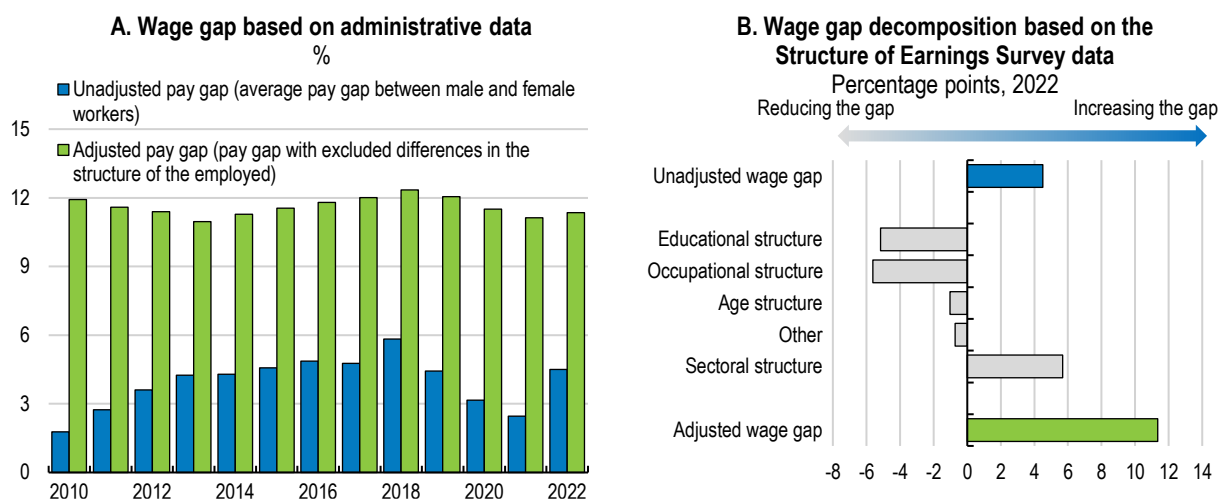
Source: OECD Gender Statistics database.

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Aggregate gender wage gaps largely capture composition effects due to women's overrepresentation in lower-pay industries and occupations (OECD, 2021^[7]). At the same time, the gender wage gaps tend to be lower in countries with lower female labour market participation rates, where mostly women with higher earning potential enter the labour market. In Slovenia, the combination of a high female labour force participation and a limited gender wage gap points to a low level of gender pay discrimination.

The aggregate (unadjusted) gender pay gap at the average wage is persistent, although gradually decreasing after 2018 (Figure 3.4, panel A). Using anonymised administrative data for Slovenia, one can estimate the adjusted gender pay gap, which removes certain measurable differences between men and women, such as age, sector of activity and education as well as occupational levels. This gap is higher than the unadjusted pay gap, but also more stable since the observable changes in the workforce structure has been accounted for. The Blinder-Oaxaca decomposition of the adjusted gender pay gap for 2022 shows that the educational structure and the occupational structure both reduce the gap as women on average attain higher levels of education and tend to be employed in higher-paying ISCO occupations; these factors are partly offset by the activity structure, since women are on average employed in NACE sectors with lower wages (Figure 3.4, panel B).

Figure 3.4. The gender pay gap is persistent and largely unexplained by observable characteristics



Source: Institute of Macroeconomic Analysis and Development of the Republic of Slovenia (IMAD).

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These results underscore the need for policies to reduce the sectoral drivers of gender gaps. At the same time, the decomposition suggests that women on average hold higher-level jobs in the existing occupational structure than men. However, it is important to note that the large unexplained part of the gap does not solely measure discrimination but also the gender differences affecting wages that are missing from the regression model, such as the household situation, total working experience and care responsibilities for children and elderly. Even so, parental leave and caring responsibilities are not equally shared in Slovenia and there is room for more wage transparency in the private sector.

Many women, especially once they become mothers, opt for part-time employment, or switch to more flexible working arrangements, even at the cost of lower pay (OECD, 2023^[2]). This contributes to sectoral differentials in gender-related outcomes, as some sectors are more suitable for part-time work, reflecting persistent traditional gender roles, but also existing policies. The policy levers for boosting gender equality are available both at the level of society and firms. At the societal level, adjustments in the tax and benefit system, alongside with family policies, such as effective parental leave sharing, affordable high-quality childcare as well as flexible work arrangements, and policies addressing gender stereotypes in educational and career choices can help reinforce labour market participation and gender equality. In addition, firm-

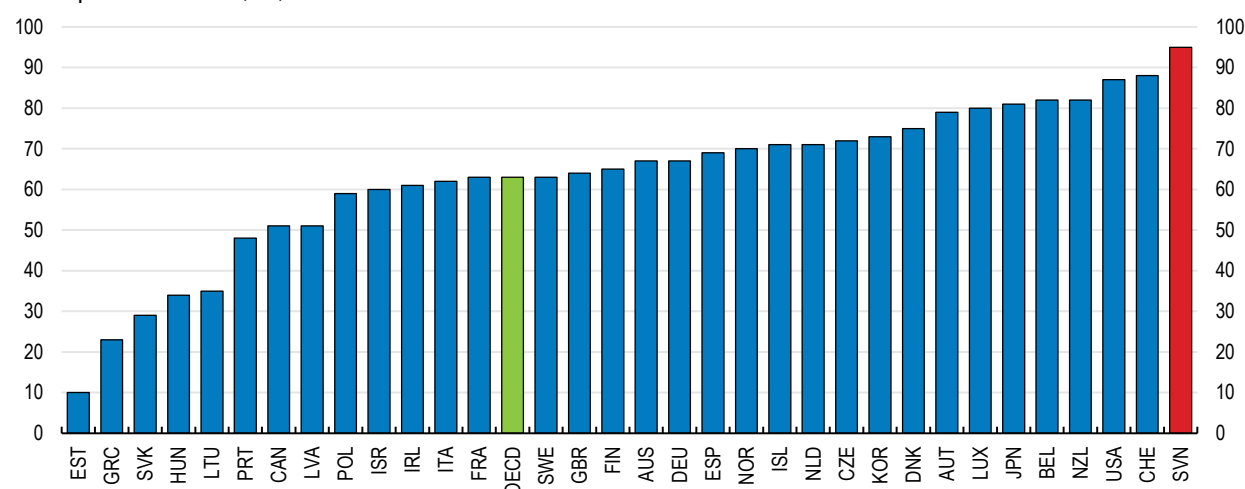
level policies to enforce equal pay legislation, if properly designed, could play a positive role in addressing gender pay differences.

The tax and benefit system discourages equal participation in the labour market

Labour market entry is negatively influenced by high participation tax rates, i.e., the share of additional gross earnings lost to either higher tax rates or lower benefits when a jobless person takes up employment. Participation tax rates (PTRs) vary widely across countries and can be particularly detrimental to single parents, who are often women (Figure 3.5). In Slovenia, PTRs are mainly driven by the high social security contributions levied on wage earnings and the loss of unemployment benefits. PTRs from long-term unemployment into full-time work (inactivity trap) are also high, reflecting mainly the loss of social assistance and the payment of social security contributions (OECD, 2018^[8]).

Figure 3.5. The cost of taking up employment is high for single parents

Participation tax rates, %, 2022



Note: The Figure refers to the share of gross earnings in a new job that pays 67% of average wage, for a single person with two children claiming guaranteed minimum income and using childcare services; participation tax rates include social assistance, temporary in-work benefits, and housing benefits; they do not include childcare benefits. OECD refers to the average of 33 member countries.

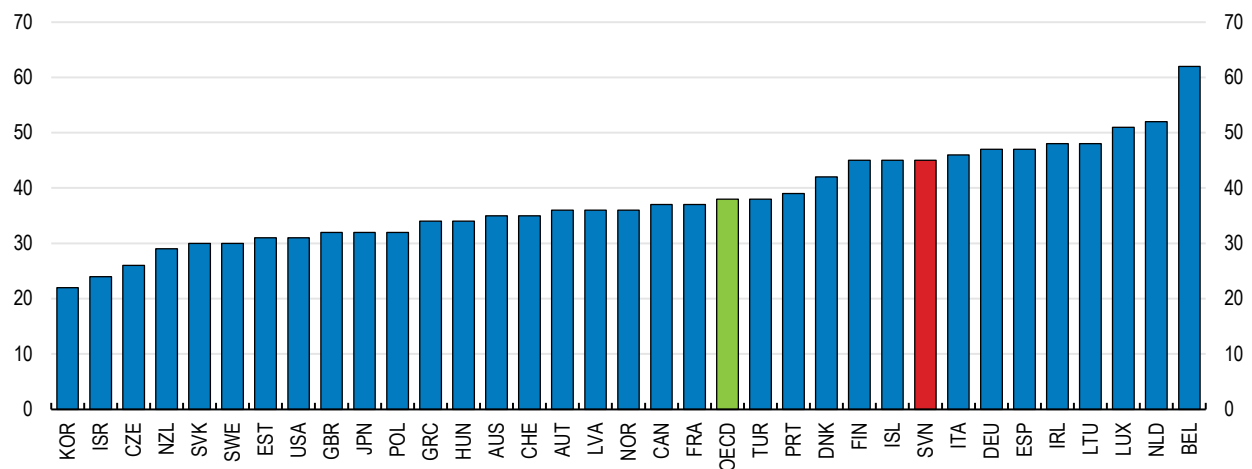
Source: OECD Benefits, Taxes and Wages database.

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The progressivity of the tax system in principle reduces the differential in after-tax incomes, including differences between part-time workers, who are predominantly women, and full-time workers, predominantly men. However, the system is also creating disincentives for part-time workers to move to full-time work (Harding, Paturot and Simon, 2022^[9]). The progressivity of the tax system, together with the removal of tax credits as well as benefits and allowances applied on a household basis, can lead to high marginal effective tax rates (METR) on second earners during the transition from part-time to full-time work (Figure 3.6). In Slovenia, tax and cash benefits targeted at children, such as homecare allowance, which increases the opportunity cost of childcare, discourage second earners to enter the labour market or work more hours.

Figure 3.6. High marginal effective tax rates create strong disincentives for second earners

Effective marginal tax rates, %, 2023



Note: The Figure refers to the share of gross earnings in a new job that pays the average wage when increasing hours worked from 50% to 100% of full-time employment, for second earner with two children and a partner working full-time in a job that pays the average wage; effective tax rates include social assistance, temporary in-work benefits, and housing benefits; they do not include childcare benefits. 2022 for Israel.

Source: OECD Benefits, Taxes and Wages database.

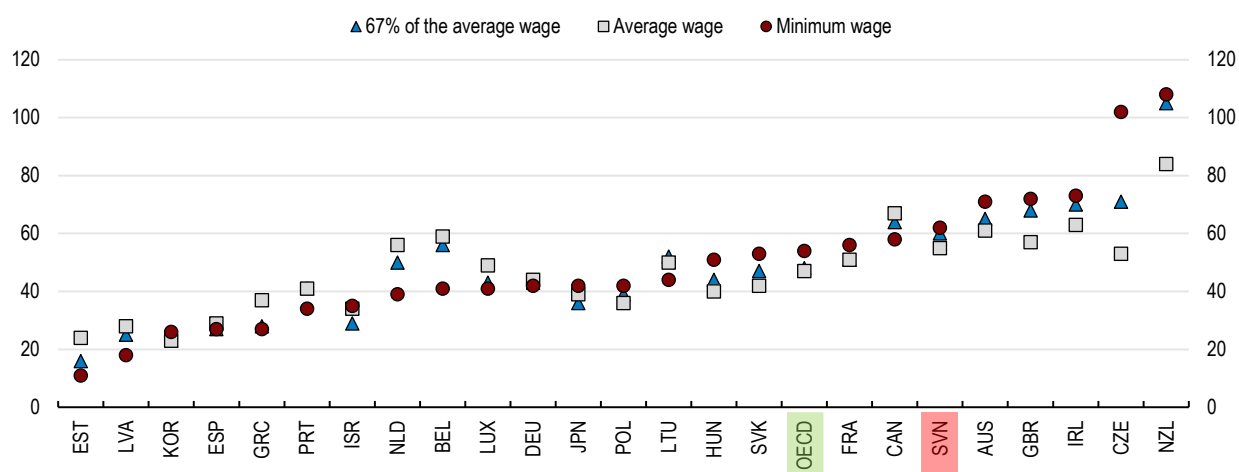
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The high opportunity cost of childcare adds significantly to the work disincentives for second earners and single parents. Overlaying out-of-pocket childcare costs on the impacts from the tax and transfer system shows that around 60% of additional earnings are lost for a second earner taking a job that pays 67% of the average wage (Figure 3.7). The childcare support is also in some cases insufficiently targeted to those who most need it. Childcare costs are charged using income-dependent fee structures, which is progressive in principle, but in the case of single parents, the support is wrongly targeted to higher-income individuals. As single parents lose homecare allowance when they start using non-parental childcare, the loss of this means-tested homecare allowance is higher in absolute amounts for low-income families (OECD, 2023^[10]). The disincentives for single parents, often women, to take up low-wage employment providing limited net financial gain need to be reduced.

Disincentives for second earners and single earners to work full time are at odds with the projected ageing of the population and the large gains in human capital accumulated by women over the past decades. The 2022 labour tax reform, which increased personal income tax allowances while increasing the tax rate for the highest income tax bracket from 45% to 50%, needs to be followed by further measures to reduce both participation tax rates and METRs for second earners. The options include a reduction in employee social security contributions, particularly for workers with weaker attachment to the labour market, and the use of targeted into-work benefits, such as a fixed percentage of the previous unemployment or social assistance benefit (OECD, 2018^[8]). In addition, the tax allowances could be turned into earned income tax credits and the second earners could be given access to tax-free threshold income (OECD, 2022^[11]). The current additional tax allowances could also be replaced by higher cash benefits for children. To limit the fiscal cost, the cash benefits could be reduced at high income levels, ensuring minimal impact on work incentives (OECD, 2018^[8]).

Figure 3.7. High childcare costs generate financial disincentives to enter employment

Per cent of earnings lost when entering employment and using childcare, 2022



Note: This indicator measures the percentage of earnings lost to either higher taxes or lower benefits when a parent of two children takes up full-time employment and uses centre-based childcare. Calculations refer to a couple with two children aged 2 and 3 where the other parent works full-time at 67% of the average wage.

Source: OECD Social and Welfare Statistics database.

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A well-designed tax and benefit system, including in-work benefits to strengthen participation for those with lower earnings, can be beneficial beyond the short-term increase in labour supply. For example, an influx of working mothers into the U.S. labour force following the introduction of the earned income tax credit have led to more positive social attitudes to working women (Bastian, 2020_[12]). The simplification and streamlining of benefit entitlements can also help individuals make better-informed decision regarding their labour market participation.

Table 3.1. Past recommendations on the tax and benefits system

Recommendations in previous Surveys	Action taken since the 2022 Survey
Make the tax system more growth friendly by further reducing labour taxes, and increasing consumption and property taxes.	No action taken.
Broaden the personal income tax base by reducing allowances.	No action taken.
Simplify the VAT system by moving towards a broader-based standard VAT rate.	No action taken.
Provide investors with tax deductibility for start-ups and growth financing for innovative start-ups and SMEs.	No action taken.
Increase subsidies for firm-sponsored training in SMEs, either as training vouchers or as tax credits or deductions.	No action taken.

Reducing segregation across occupations and sectors could lower the wage gap

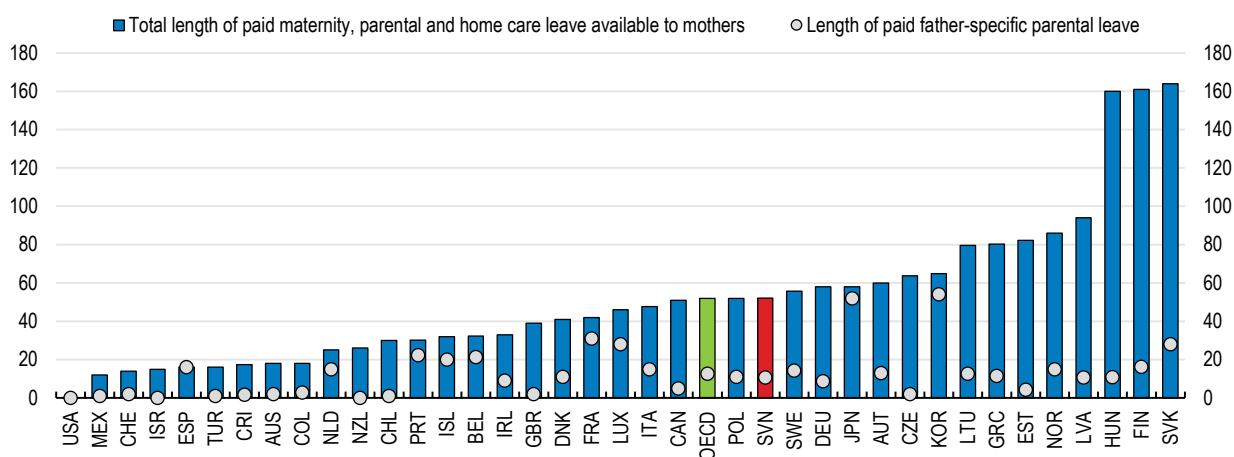
Paid parental leave shared by fathers and mothers, both directly around childbirth and in the first year of life, can increase family well-being as well as gender equality. Benefits of increased parental leave take-up by men include higher employment rate of mothers, while leaving the labour market attachment of fathers unaffected (Farré and González, 2019_[13]), higher involvement of fathers in unpaid work within family that continues beyond the time of actual leave-taking (Tamm, 2019_[14]), and improved life satisfaction for both parents (Korsgren and van Lent, 2022_[15]). Most of the parental leave in Slovenia is still taken by mothers who are entitled to maternity leave of 15 weeks (105 days) paid at 100% of earnings, with no maximum. However, non-transferable periods of parental leave for exclusive use of fathers were introduced in April 2023. According to the new rules, statutory paternity leave has been reduced from 30

days to 15 days, which must be taken in the first three months. In addition, parents are individually entitled to 160 days of paid parental and home care leave, with 60 non-transferable days for each parent, which must be taken by the child's eighth birthday (Figure 3.8). The maximum amount of parental benefit is set as 2.5 times the average wage for the past year, as calculated by the Statistical Office (SURs). In addition, more flexibility was introduced in part-time work for childcare purposes. Both parents are now able to work part-time at the same time, for up to 20 hours per week, until the youngest child's eighth birthday and the partial payment for loss of income has been raised by 20 per cent, to 1.2 times the minimum wage. This amendment is welcome, as it may encourage fathers' uptake of parental leave and help weaken persistent gender norms.

Flexible working arrangements, such as teleworking, flexitime or job-sharing, help create a family-friendly work environment that fosters the motivation and loyalty of employees and may make a firm more attractive for skilled young workers. However, this is only the case if flexibility is available to both genders and workers are not penalised for pursuing them. The Covid-19 pandemic was a catalyst for flexible work arrangements, but recent surveys suggest that women retained a stronger preference for remote working than men (Touzet, 2023_[16]). Although teleworking seems to be less stigmatised than part-time work, leading to less negative career outcomes, it should not be used by women primarily as a means of coping with unequal sharing of housework and caring responsibilities. To enhance the positive effects of teleworking, the government should encourage take-up among men and non-parents and complement teleworking with other family-friendly policies, such as flexible hours and the provision of high-quality child and elderly care (Tomei, 2021_[17]).

Figure 3.8. Parental leave entitlement is unevenly distributed between parents

Parental leave entitlements, number of weeks, 2023



Note: Maternity leave refers to the number of weeks of job-protected leave available for mothers just before and after childbirth. For countries where there is no separate legislation for maternity leave, the weeks of parental leave reserved for the exclusive use of mothers around childbirth are reported. Parental leave with job protection refers to the number of weeks after maternity leave which a woman can take as parental leave with her job protected, disregarding payment conditions. Total duration of paid maternity and parental leave refers to the total number of weeks which a women can be on paid leave after the birth of a child combining both maternity, parental and home care leave. Paid father-specific leave refers to the number of paid weeks reserved for the exclusive use of fathers, including entitlements to paid paternity leave, 'father quotas' or periods of paid parental leave that can be used only by the father and cannot be transferred to the mother, and any weeks of paid sharable leave that must be taken by the father in order for the family to qualify for 'bonus' weeks of parental leave.

Source: OECD Family database.

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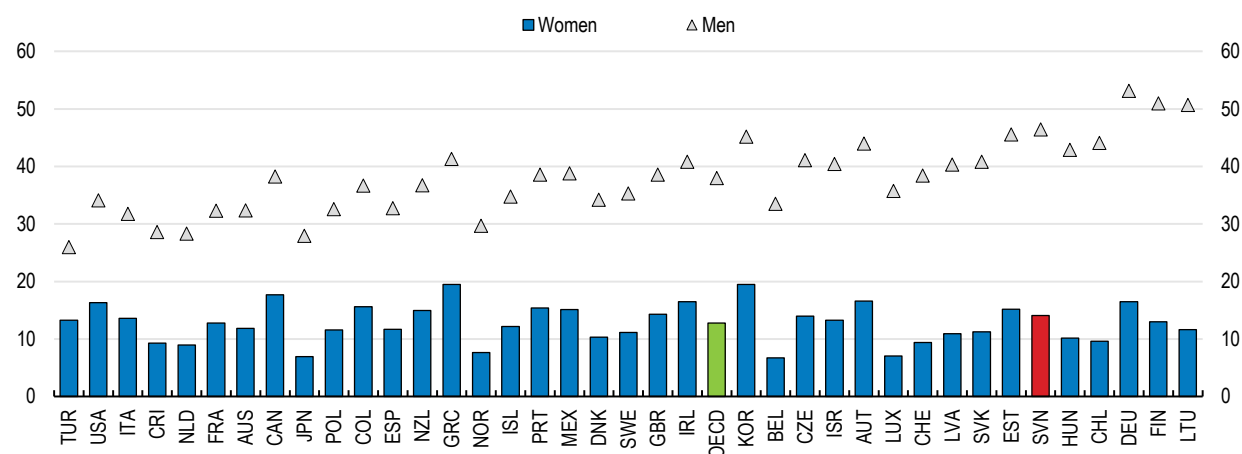
The gender gap in tertiary educational attainment is the highest in the EU, with 60% of girls aged 25-34 attaining tertiary education degree compared to 38% of boys in the same age group. (OECD, 2022_[18]). Despite their higher educational attainment, young women are still less likely to pursue studies of

engineering, mathematics or computing (Figure 3.9). The combined science, technology, engineering and mathematics (STEM) fields are often associated with the highest earnings (OECD, 2022^[19]). Gender imbalances in STEM fields dominated by men and care professions, such as teaching and nursing, dominated by women, are driven by gender norms and stereotypes, which may partly reflect an absence of role models.

Gender stereotypes at home as well as the absence of role models can play a role in determining fields of study and career expectations for girls, as well as boys. For example, there is evidence that female role models can be effective at encouraging girls to study science, for example through classroom interventions (González-Pérez, Mateos de Cabo and Sáinz, 2020^[20]; Breda et al., 2023^[21]). Existing projects highlighting female role models in the STEM sector, such as the Female Engineer of the Year Award (Inženirka leta), and networking events with female STEM researchers, such as the University of Maribor's International Girls in ICT Day, are thus welcome and could be complemented by other interventions, including bootcamps providing girls with practical experience in the STEM fields.


Figure 3.9. Fewer women graduate in Science, ICT and engineering

Share graduates in science, ICT and engineering by gender, %, 2021



Note: Data refer to graduates in science, mathematics and statistics, Information and Communication Technology and engineering.

Source: OECD Education at a Glance database.

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Gender stereotypes can also be countered by improved information and career guidance interventions, especially when provided at an early stage (Howard et al., 2015^[22]). In Slovenia, career guidance is organised both as school counselling service and outside the school system, in career centres of the public employment service (PES). In addition, a comprehensive electronic platform aggregates information on learning opportunities for both unemployed adults and those interested in career change. At the same time, there is room for improvement in designing effective career guidance interventions. Schools need to target their career guidance on students from families lacking strong social networks and aim at engaging employers of different sizes and sectors into their career guidance services. In terms of delivery, talks and career fairs are a relatively easy and effective tool. In addition, online platforms and other new technologies can facilitate high-volume, low-cost employer engagement in education, supporting the process of exposing students to the world of work (Musset and Mýtina Kureková, 2018^[23]). The quality of career guidance also seems hampered by the lack of reliable skills assessment and anticipation information. Such data could be collected and provided in a user-friendly online one-stop shop, as in many OECD countries (OECD, 2017^[24]).

A more modern, digitalised and international higher education system could come a long way in tackling gender stereotypes. With support from the Recovery and Resilience Facility, Slovenia is modernising

curricula to include digital and sustainability competences and it aims to introduce more flexible learning pathways, including through micro-credentials (European Commission, 2023^[25]). However, the development and recognition of micro-credentials is at an early stage (European Commission, 2023^[26]) and should be accelerated.

Policies improving pay transparency could help reduce the wage gap

Well-designed pay transparency measures can help combat discrimination in pay for equal work. While more than half of OECD countries require private sector firms to comply with pay reporting requirements or conduct gender pay audits, Slovenia does not currently have any systematic reporting requirements in place (OECD, 2021^[27]). The EU Pay Transparency Directive adopted in March 2023 will need to be reflected in national legislation by 2026, introducing both mandatory pay gap reporting rules and provisions for a version of gender pay audits, called “joint pay assessments” in the Directive (Box 3.1).

Box 3.1. Systematic gender pay gap reporting under the EU Pay Transparency Directive

The final text of the Directive was adopted by the EU Council on 24 April 2023 and must be implemented in national laws by June 2026. EU companies with more than 250 employees will be required to report annually how much they pay women and men for work of equal value and potentially conduct an equal pay audit, if their gender pay gap exceeds 5%. Employers will have to provide national authorities with data on the mean and median gender pay gap in base salaries, as well as in variable components, as well as the mean gender pay gap disaggregated by categories of workers. For companies with more than 150 employees, the reporting will take place every three years. Two years after the 2026 transposition deadline, the reporting every three years will apply to companies with more than 100 workers.

If the employer cannot justify the 5% pay gap by objective gender-neutral factors, nor close it within a specified time, (s)he must conduct a “joint pay assessment”, a wage and salary evaluation in cooperation with workers’ representatives. In cases of unjustified gender differences, the employer will have to act, in co-operation with worker representatives, the labour inspectorate and/or the equality body, to resolve the issue. EU countries are obliged to designate a body responsible for monitoring and supporting employers as well as providing resources needed for its proper functioning.

The new rules also oblige employers to inform job seekers about the starting salary or pay range of advertised positions, while refraining from asking candidates about their pay history. To prevent discrimination, employees will be entitled to information about average pay levels, broken down by sex, for categories of employees doing the same work or work of equal value, and have access to the criteria for pay and career progression, which must be objective and gender neutral.

In addition, there are new provisions on compensation for victims of pay discrimination and penalties, including fines, for employers who break the rules. Under the new rules, the burden of proof in pay discrimination cases will fall on the employer who will have to prove not violating the rules on equal pay and pay transparency.

Source: EU Council (2023^[28]) and OECD (2023^[29]).

Evidence from evaluating national regimes remains sparse, but some studies suggest that mandatory pay transparency may reduce the gender pay gap by slowing the growth of men’s wages rather than by increasing female wages (Bennedsen et al., 2019^[30]; Blundell et al., 2022^[31]). Reporting firms may also become less attractive for men, potentially due to lower male wage growth. Such unintended consequences suggest that the design of pay transparency measures, including enforcement and compliance mechanisms, may be important (Gulyas, Seitz and Sinha, 2023^[32]; Böheim and Gust, 2021^[33]). For instance, in Canada employers are required to develop a pay equity plan and achieve pay equity by

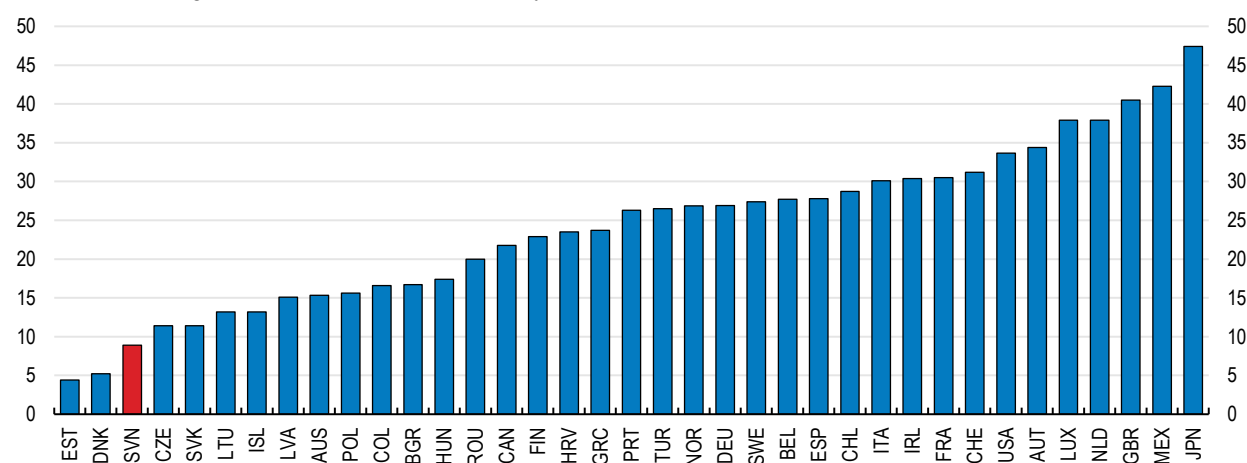
increasing the salaries in female-dominated jobs. Moreover, the use of digital tools and pre-existing data could ease the administrative burden on companies and promote participation in pay reporting. Online gender pay gap calculators and reporting portals, such as the Logib tool in Switzerland, can offer a comprehensive range of pay gap information, using modules tailored to small and larger companies (OECD, 2023^[29]).

The gender pension gap is small, but adds to the risk of poverty

Labour market differences between men and women accumulate through the working life and translate into lower pensions for women. In Slovenia, the gap is smaller than in most OECD countries (Figure 3.10). However, using the EUROMOD model and EU-SILC microdata from 2017, one can show that the gender pension gap widens significantly with age. While pensions of women aged 60-70 are broadly comparable to pensions of men, after the age of 70 the pension gap widens to about 19% for those aged 70-74 and more than 25% for those older than 75 (Kump, Kalar and Majcen, 2019^[34]). This gap is partly driven by lower accrual rates of older female pensioners who retired after a shorter contribution period, reflecting the earlier legislation, than younger female pensioners.

Figure 3.10. The gender pension gap is one of the smallest in the OECD

Gender pension gap, %, 2023 or latest available year



Note: The gender pension gap shows the percentage difference between women's average pension income and men's average pension income for individuals aged 65 and over. Pension income includes old age benefits, survivors' benefits as well as regular pensions from individual private plans.

Source: Eurostat EU-SILC database; and OECD (2021), *Towards Improved Retirement Savings Outcomes for Women*, OECD Publishing, Paris, <https://doi.org/10.1787/f7b48808-en>

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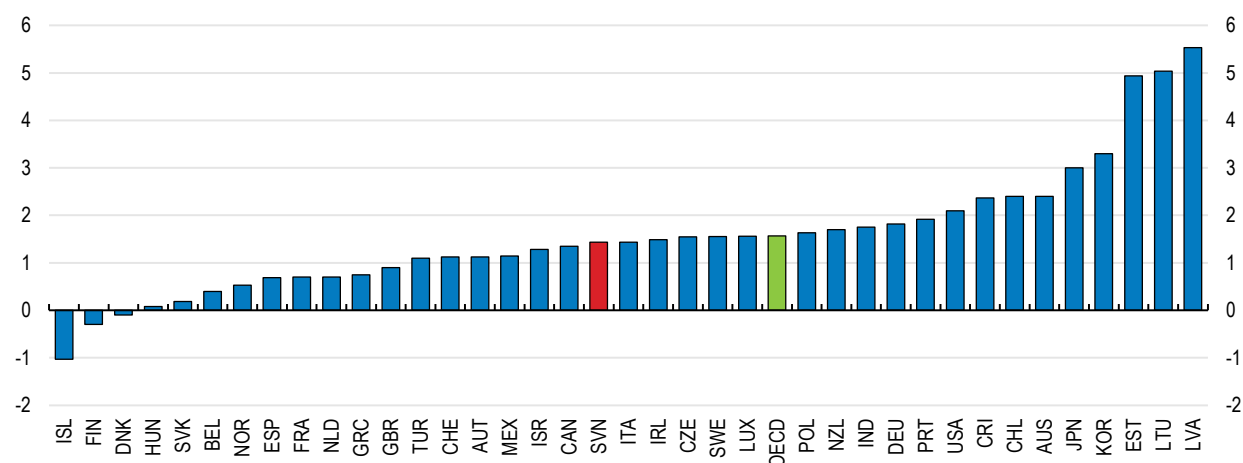
The gender pension gap is reflected in high at-risk-of-poverty rates, which increase more steeply for women than the general population (Figure 3.11). For example, the at-risk-of-poverty rate of total population older than 60 and 75 was 18.6% and 19.3%, respectively (Bartolj, Kalar and Kump, 2020^[35]). The corresponding rates for women aged above 60 and 75 were 21.1% and 25.2%. This mainly reflects the fact that the equivalised disposable income of retirees living alone is significantly lower than that of those living together (Kump, 2017^[36]), and that in Slovenia many more women than men live alone, partly because they are more likely to be widowed, than on average in other OECD countries (OECD, 2022^[37]). At the same time, the current gender pension gaps are essentially backward-looking, reflecting past labour market inequalities rather than current trends. The data from the Pension and Disability Insurance Institute show that in recent years, female pensioners entering the pension system have been receiving a higher

pension than male old-age pensioners, due to higher accrual rates and relatively small gender differences in the pension assessment base (Bartolj, Kalar and Kump, 2020^[35]).

Like many OECD countries, Slovenia faces a gender gap in retirement savings, as women are less likely to have a voluntary occupational retirement savings account than men and tend to have lower balances in their accounts. Negative effects of lower wages and career breaks related to childbirth and care are often compounded by particular features of retirement plans that contribute to the gender pension gap. For example, contribution breaks to retirement savings plans during periods of maternity and parental leave are one of the sources of the gender gap in private pensions in some OECD countries. In Slovenia, employer contributions to voluntary occupational schemes, as well as the mandatory occupational scheme for workers in arduous and hazardous occupations, are voluntary during maternity and parental leave, and hence are often not paid during these periods. At the end of 2017, account balances of voluntary occupational pension schemes were 17% lower for women and the amount of employer contributions was 14% lower for women, in cases where contributions were paid only by employees (OECD, 2022^[37]). Mandating employers to continue contributing to the retirement savings accounts of their employees during maternal and parental leave would help to ensure fair treatment of men and women.

Figure 3.11. The gender poverty gap is limited

Gender poverty gap, percentage points, 2021 or latest available year



Note: Difference between the share of women and the share of men living with less than 50% of the median income.

Source: OECD Income Distribution database.

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Pension rights and assets in supplementary pension schemes accumulated during the marriage are not automatically split upon divorce. Although retirement benefit entitlements are usually considered as joint property during the marriage or partnership, pension rights and assets may be overlooked in court settlements (OECD, 2022^[37]). Enforcing a split of pension assets in divorce settlements can help address this issue and several options may be considered to split pension rights and assets between former spouses (OECD, 2021^[38]).

Table 3.2. Recommendations

Main findings	Recommendations (key ones in bold)
	Ensuring that the tax and benefit system promotes gender equality

High social security contributions and loss of unemployment benefits reduce incentives to take up work for single parents.	Reduce marginal effective tax rates for low-income earners and second earners through slower and more coordinated withdrawal of benefits and social assistance.
The removal of tax credits and allowances applied on a household basis can lead to high marginal effective tax rates on second earners transitioning from part-time into full employment.	Reduce disincentives to work for second earners by replacing tax allowances with an earned income tax credit or through tax adjustments.
Improving gender equality in the labour market and in retirement	
Women are underrepresented in science, technology, engineering and mathematics (STEM) positions that often pay higher wages and may offer flexible work arrangements.	Encourage girls to study science by highlighting role models in the STEM sector and by improving the quality of career guidance.
Private sector firms do not face any systematic reporting requirements regarding pay transparency.	Implement swiftly the EU Pay Transparency Directive, introducing mandatory pay gap reporting and joint pay assessments.
Employers are not required to continue contributions to employee plans during childcare leave, which disproportionately affects women.	To narrow the gender gap in retirement savings, make employer contributions to voluntary occupational pension schemes mandatory during childcare leave.

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4 Accelerate the decarbonisation of the economy

Martin Borowiecki

A significant acceleration of emission reductions is needed to achieve net zero emissions by 2050. This entails greater harmonisation of carbon prices, before raising them gradually, and the phase out of environmentally harmful subsidies in agriculture, energy and transportation. Such efforts should be complemented by additional measures to shift to clean energy, notably a faster deployment of renewables. Also, stronger adaptation to climate risks is needed.

Slovenia has reduced greenhouse gas (GHG) emissions since 1990 through improvements in energy efficiency. Another noteworthy development has been the switch from oil to gas boilers, allowing the buildings sector to nearly halve its GHG emissions since 2005 (Al-Mansour and Cesen, 2021^[1]). Over the past decade, however, emission reductions have stalled. There are several challenges to overcome to reach the ambitious net zero emission target by 2050. The transport sector accounts for a larger share of emissions than the OECD average and the sector's emissions are still growing. Agricultural emissions, mainly from livestock and fertiliser use, have remained flat over the past decade and the government foresees the sector to reduce emissions only by 3% in 2030. In addition, power generation accounts for a relatively large share of emissions, reflecting the expansion of coal power since 2015. Looking ahead, achieving more ambitious emission reduction targets will require all sectors to contribute, and can only be reached with a significant acceleration of emission reductions in agriculture, energy and transport. This entails using mitigation policy more effectively, including stronger carbon pricing and regulatory measures.

This chapter provides recommendations for mitigation policy to achieve emission reductions more effectively. It also examines climate change adaptation, including the policies put in place in the wake of the devastating floods of August 2023. The decarbonisation of the housing sector is discussed in the special chapter on housing.

Towards more efficient climate change policy

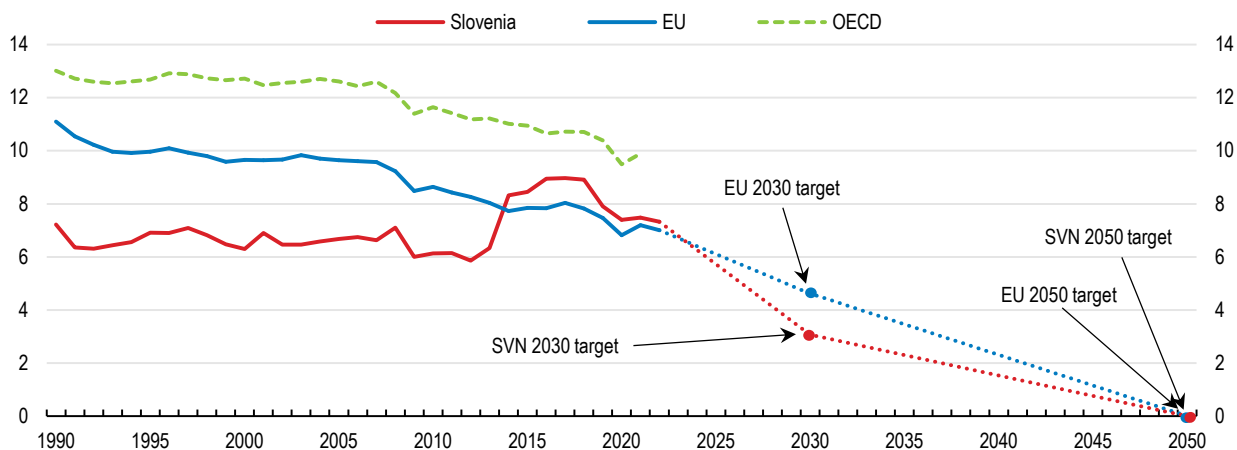
Improve the effectiveness of mitigation policy

Slovenia aims to achieve net zero GHG emissions by 2050 (National Assembly of the Republic of Slovenia, 2021^[2]). There is also an intermediate target of reducing GHG emissions by 36% by 2030 (compared to 1990). Other targets include increasing the share of renewables to 27% of final energy consumption and reducing final energy consumption by at least 35% by 2030 (National Assembly of the Republic of Slovenia, 2020^[3]). The government will publish a revised National Energy and Climate Plan in June 2024 with more ambitious intermediate emission reduction and renewable energy targets for 2030 (Ministry of the Environment, 2024^[4]).

The country has not reduced GHG emissions per capita over the past decade, although it reached its previous emission target for 2020. Net GHG emissions were reduced by 11% between 1990 and 2020, and by 16% (compared to 2005) in sectors outside the EU's emission trading system (ETS), well above the +4% emission target for these sectors (EEA, 2021^[5]). However, the country fell just short of its objective of 25% of renewables in final consumption in 2020, achieving 24%, and had to purchase the remaining share from Czechia. Looking ahead, the more ambitious target of a 36% reduction in GHG emissions by 2030 (relative to 1990) will require a significant acceleration of emission reduction efforts (Figure 4.1). To illustrate the challenge, reaching the 2030 target requires a twelve-fold increase in the annual rate of emission reductions relative to 1990 and 2020.

Figure 4.1. Emission reductions need to accelerate

Greenhouse gases emissions, tonnes of CO₂ equivalent per capita

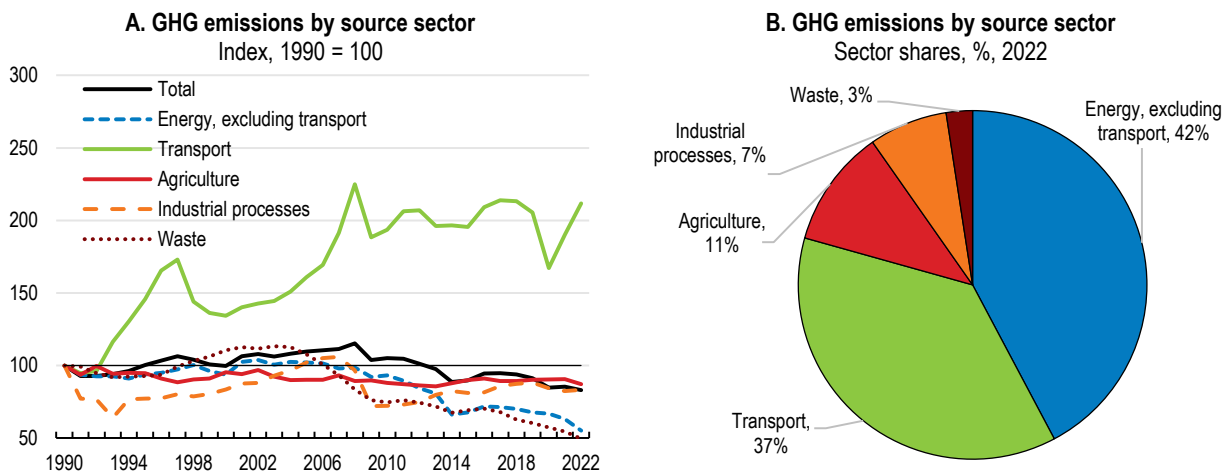


Note: Greenhouse gas (GHG) emissions include those from the land use/land use change and forestry sector (LULUCF).
 Source: Eurostat; European Environment Agency; OECD Environment database; OECD Population database; and OECD calculations.

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Energy (power and heat generation, including in industry and buildings), transport and agriculture produce the most emissions, accounting for 90% of total GHG emissions (Figure 4.2). Over the past two decades, the most notable emission reductions happened in energy and buildings. Between 2005 and 2020, GHG emissions declined by 30% in energy and 45% in buildings, driven mainly by improvements to energy efficiency and a switch from coal to gas as coal subsidies were phased out. In contrast, emissions in transport increased and they remained flat in agriculture. Achieving emission targets will require that all sectors contribute to emission reductions, including agriculture and transportation.

Figure 4.2. Agriculture, energy, and transport account for a large share of emissions



Note: Excluding land-use, land-use change and forestry (LULUCF).
 Source: Eurostat; European Environment Agency; and OECD calculations.

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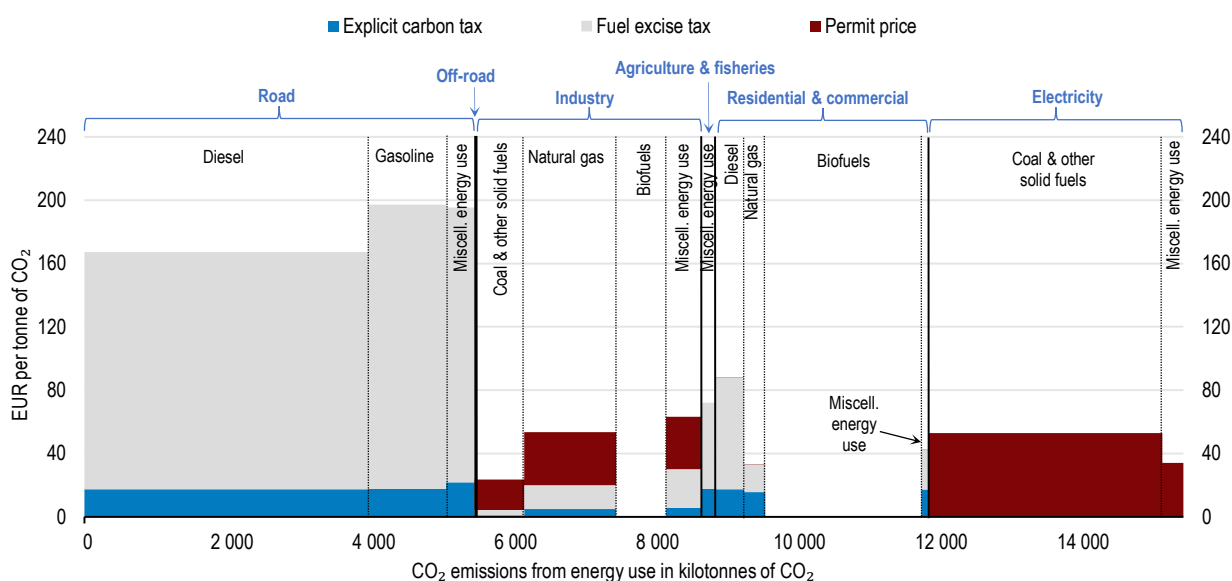
As an EU Member State, Slovenia is part of the EU's emission trading system, which puts an EU-wide carbon price on GHG emissions from power generation, energy intensive industry, and intra-European aviation. From 2027, EU-wide emission trading will be extended to fuel use in buildings, road transport and

industry (ETS 2), albeit at a lower carbon price than in the ETS. Alternatively, Slovenia may choose to tax transport and heating fuels using the current national carbon tax system until 2033, although at the higher ETS 2 rate (OECD, 2023^[6]). EU funding includes EUR 2.7 billion (or 5.8% of GDP) in grants and loans under the Recovery and Resilience Plan for the period 2021-2026. EU funds support mostly investment in adaptation, public transportation, and the deployment of renewables. Apart from EU policies, climate objectives are pursued through national environmental taxation, subsidies, and regulatory measures. The government taxes energy use, including transport and heating fuels, as well as vehicles, among other things. Current regulations include stricter energy efficiency standards for heating, and a ban on oil boilers in the housing sector since 2023 (see below).

Uneven emission reduction incentives are in place. In a number of cases, fossil fuels benefit from reduced tax rates, such as on diesel and heating gas. Moreover, more than half of all GHG emissions are subject to an effective carbon price that is less than the ETS price of about EUR 60 in March 2024 (OECD, 2023^[7]). This results in large differences in effective carbon prices across sectors, leading to a substantial variation in abatement incentives (Figure 4.3). The National Energy and Climate Plan foresees gradual cuts to fossil fuel subsidies (National Assembly of the Republic of Slovenia, 2020^[3]). In this regard, the government announced a plan to phase out reduced rates on commercial diesel. However, these efforts were halted in 2022 as energy prices rose in response to Russia's war of aggression against Ukraine. The government capped gas prices for households and small businesses and reduced excise duties and VAT rates on gas, among other measures. It extended the cap on gas prices for households until April 2024, albeit at a lower level. As a result, fossil fuel subsidies amounted to 0.6 per cent of GDP in 2022, up by 61 per cent compared to 2017 (OECD, 2023^[8]).

Figure 4.3. Fossil fuels benefit from a favourable tax treatment

Effective energy tax rates across sectors, 2021



Note: Off-road refers to emissions from miscellaneous energy use. The free allocation of EU ETS emission permits is not taken into account.
Source: OECD (2022), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, <https://doi.org/10.1787/e9778969-en>.

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Generous fossil fuel subsidies increase the cost of emission reductions as abatement activities are not targeted to where they are most cost-effective. First, the government should swiftly implement the phase-out of regulated gas prices. Furthermore, reduced tax rates on diesel and heating gas should be phased

out. Thereafter, the alignment of abatement incentives across sectors requires a gradual increase in the carbon tax in the non-ETS sectors to the ETS price level where this is not the case yet. In practice, this entails that the CO₂ tax for sectors not covered by the EU-ETS should gradually rise from its current level of about EUR 17 per tonne of CO₂, where it has been since over half a decade. The introduction of the ETS 2 for transport and heating fuels in 2027 will already lead to an increase in the carbon price for these sectors, albeit at a lower carbon price than in the ETS. The additional revenues from carbon pricing could be used to provide targeted support to population groups that are most vulnerable to higher carbon pricing.

Apart from carbon pricing, the government also uses regulations to reduce emissions. An important area is buildings regulations, where the government implemented a ban on oil boilers in 2023. This was predated by the phase-out of coal subsidies in 2012, which made gas boilers more attractive. The resulting switch from oil to gas boilers contributed to a 45% reduction of buildings emissions in 2020 (relative to 2005) (Al-Mansour and Cesen, 2021^[11]). Looking forward, further emission reductions will be more difficult to achieve. A switch from gas to electricity boilers would mean that the additional electricity demand may be covered by higher emission power generation as the deployment of renewables is slow and the country is still reliant on lignite power generation to meet additional demand. Moreover, heating gas benefits from regulated prices and a reduced tax rate, rendering electricity-based solutions less attractive. Phasing out reduced tax rates for heating gas could support regulations in further reducing emissions in the building sector. But this will require the additional electricity demand to be met by lower emission power generation (see below).

Strengthen adaptation to climate risks

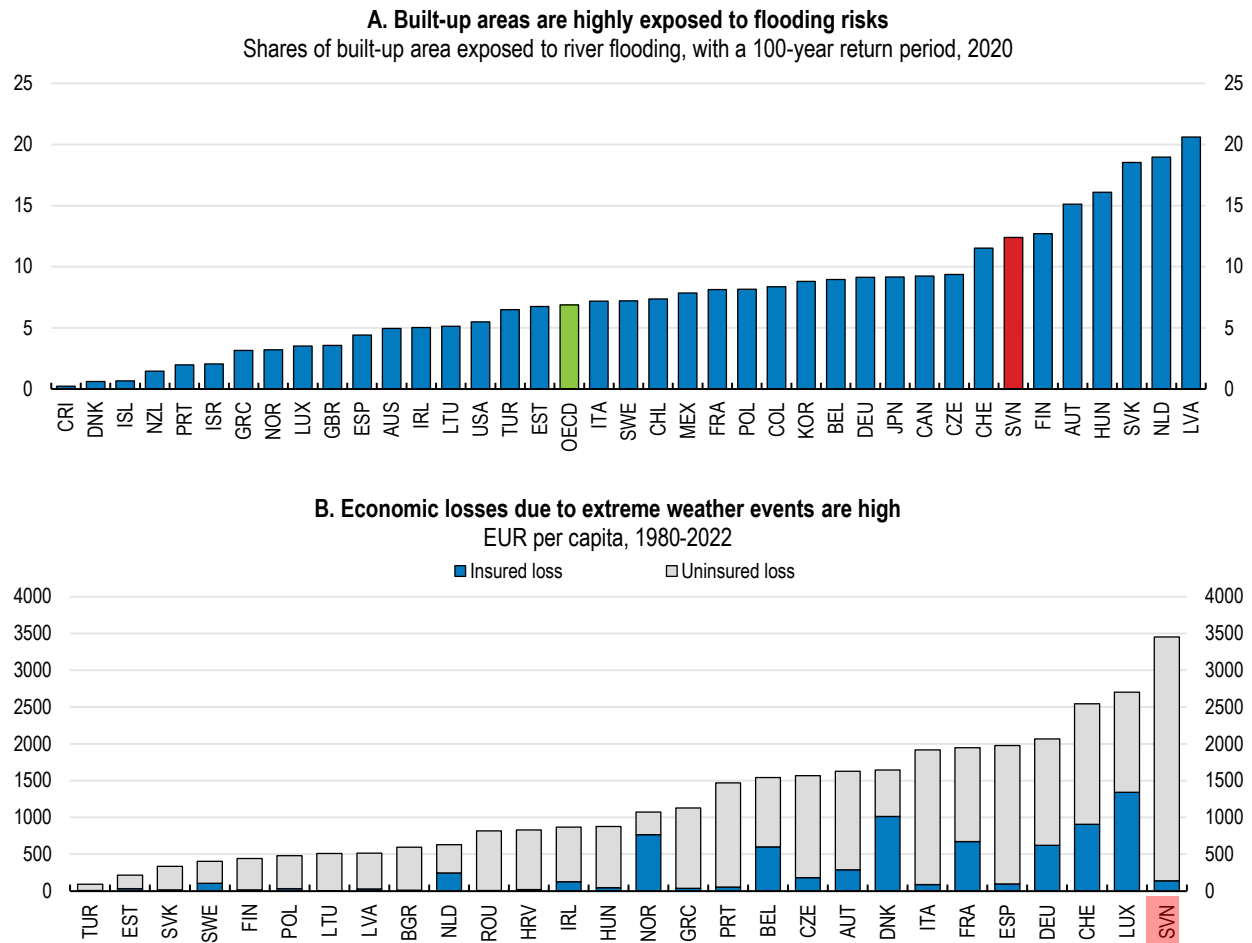
In addition to mitigation policies, adaptation policies are needed to reduce the impacts of climate change (OECD, 2024^[9]). In particular, the country is highly exposed to river flooding (Maes et al., 2022^[10]). The 2016 Strategic Framework for Climate Change Adaptation aims to integrate adaptation into environmental impact assessments for government planning and programming, although the strategy was not followed up with an implementation plan. Moreover, assessments of the preparedness of municipalities to climate events have been carried out since 2022. Nonetheless, the devastating floods of summer 2023 have exposed major shortcomings in flood preparedness (Sodnik, Mikoš and Bezak, 2023^[11]). A concern has been underinvestment in the maintenance of water infrastructure, which is under the responsibility of municipalities. Over the past decade, the country invested much less in water infrastructure per river kilometre than neighbouring countries such as Austria (Sodnik, Kogovšek and Mikoš, 2015^[12]). Since the floods in 2023, spending on water infrastructure has been substantially increased using national and EU funds, although implementation remains a challenge. The government also proposes to earmark revenues from the CO₂ tax to finance spending on adaptation. In addition, it is currently preparing a new adaptation strategy and regional implementation action plans that, apart from flood preparedness, also cover adaptation to climate risks in forestry, tourism, and agriculture sectors.

Going forward, municipalities will need new sources of revenue to fund the infrastructure that adaptation requires, in addition to the above-mentioned transfers from the central government as municipalities should not necessarily shoulder all the cost of adaptation. Since municipalities obtain their funding from recurrent immovable property taxes, one way is to raise revenues from recurrent immovable property taxation (Chapter 5). Another source of additional revenues are higher environmental fees for water and wastewater services, which are relatively low and do not reflect the associate costs of water infrastructure management as discussed in the last *Survey* (OECD, 2022^[13]). Other options to finance flood protection and water infrastructure include, among others, taxes on urban development in floodplains as discussed in more detail in the latest *OECD Studies on Water* (OECD, 2022^[14]; OECD, 2020^[15]).

Adaptation policies include regulations that require the insurance and banking sectors to reveal their exposure to climate risks. However, many households remain highly exposed to floods. More than 3% of all buildings are in flood areas, and 12% of the country's build-up area is exposed to river flooding (Komac, Natek and Zorn, 2008^[16]). As a result, economic losses from extreme weather events are among the

highest in the OECD (Figure 4.4, Panel A). The floods in summer 2023 have exposed the lack of adaptation to floods as the government had to step in to pay households for flood damages. The government disbursed 0.7% of GDP for flood reconstruction in 2023 and announced flood-related spending of 2% of GDP in 2024, financed by EU funds, a three-percentage points increase in the corporate tax rate to 22% (until 2028) and a new 0.2% tax on banks' assets (Government of Slovenia, 2024^[17]). However, government compensation increases households' incentives to settle in flood areas. Exposure to floods can be reduced by more stringent land-use planning that prohibits new construction in high-risk flood areas (OECD, 2016^[18]). In this regard, the government's proposal to strengthen restrictions for new construction in flood-risk areas is a step in the right direction and should be implemented.

Figure 4.4. Economic losses due to extreme weather events are high



Source: OECD (2022), Climate-related hazards: River flooding, Environment Statistics (database), <https://oe.cd/dx/58w> (accessed on 24 July 2023); and European Environment Agency (EEA).

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Insurance covers less than a tenth of economic losses from extreme weather events, as less than a quarter of Slovenian households are estimated to have flood insurance (European Insurance and Occupational Pensions Authority, 2023^[19]) (Figure 4.4, Panel B). The floods in 2023 have exposed this insurance gap as the government had to step in to pay households for flood damages not covered by insurance. However, government compensation reduces households' incentives to buy flood insurance. A stronger uptake of flood insurance could reduce risks for the budget. For instance, flood insurance could be made mandatory for all properties irrespective of location as done in France. Such an insurance scheme helps to keep

premiums in high-risk areas affordable, with the insured in non-flood areas effectively subsidising settlements in flood areas. Another approach is to require flood insurance for mortgages in flood areas as done in Belgium and Denmark, two countries with high coverage of flood insurance. Governments remain exposed to budgetary risks as such insurance schemes require state-backed insurers or reinsurers to keep premiums affordable. In Slovenia, the government already co-finances 60% of insurance premiums for agricultural producers since 2023 with the aim to increase insurance uptake against natural hazards. More frequent climate hazards might lead to higher government involvement in the insurance sector as more areas will become highly exposed to climate events. Developing insurance schemes will help to lower risks for the budget while aligning incentives for adaptation. Importantly, insurance will have to be complemented by regulations that prohibit new construction in high-risk flood areas (see above) (OECD, 2024^[9]).

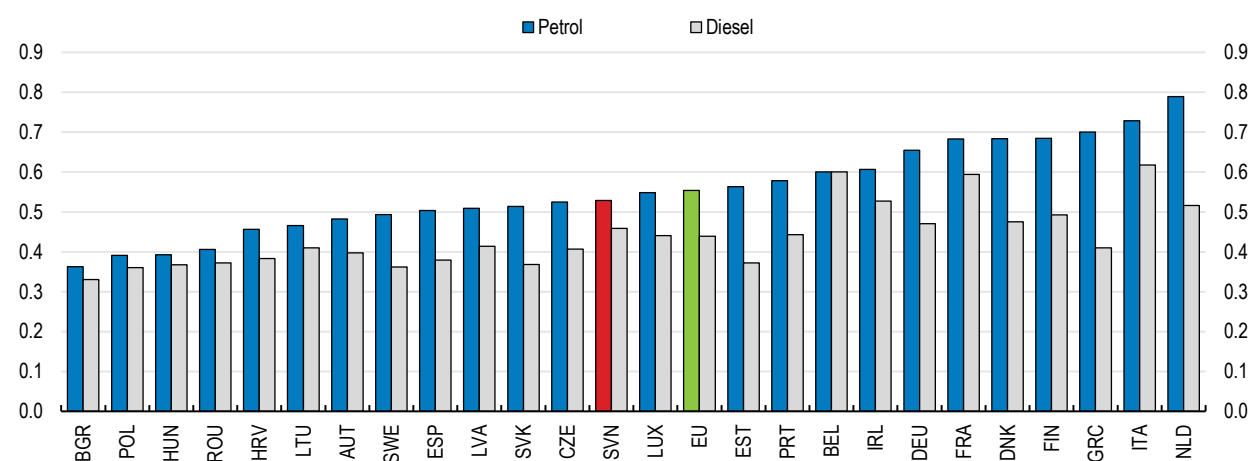
Accelerating the green transition in high-emitting sectors

Reducing emissions in transportation

The transport sector has seen an increase in emissions over the past decade. This reflects transit freight and widespread commuting due to residential dispersion, supported by generous commuting allowances. Another contributing factor has been the relatively low taxation of transport fuels, especially for diesel (Figure 4.5). A new EU-wide emission trading system for transport, industrial and residential heating fuels will gradually increase the carbon price for transport fuels from 2027 (OECD, 2023^[6]). However, tax reductions for commercial diesel and diesel used in agriculture in the order of 0.1% of GDP in 2022 reduce the effective tax rate for diesel, despite its higher environmental harm (European Commission, 2024^[20]; Financial Administration of the Republic of Slovenia, 2022^[21]). Such a tax advantage for commercial diesel encourages freight trucks to fuel in Slovenia on their route between Central and South-Eastern Europe, leading to emissions being accounted for in Slovenia. A similar tax advantage is in place for agricultural diesel.

Figure 4.5. Excise duties on diesel are relatively low

Road fuel excise duties, Euros per litre of road fuel, 01-Jan-2024



Note: Unweighted average for the EU.

Source: European Commission, Taxation and Customs Taxes Database, https://ec.europa.eu/taxation_customs/tedb/advSearchResult.html.

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The government plans to phase out the reimbursement of excise duties on commercial diesel conditional on the approval of the new EU energy tax directive that foresees such a phase out of fossil fuel support in all EU countries, although agriculture will continue to benefit from diesel subsidies. Tax advantages for

diesel should be phased out, including for agricultural diesel, to align incentives to reduce emissions in the sector (OECD, 2023^[22]).

Generous commuting allowances encourage passenger road transport and contradict efforts to decarbonise the sector. Employees benefit from a tax-free commuting allowance amounting to 10% of the gasoline price times the kilometre distance between home and the workplace. Such a per kilometre commuting allowance increases incentives to use private cars considerably, while discouraging the use of public transportation (see below). Moreover, the allowance per kilometre driven can be up to a third of the carbon price on gasoline, including excise duty and carbon tax, reducing the carbon price's effect on emission reductions. To reduce emissions in road transport, the government should reduce incentives for commuting with private cars, starting with taxing the commuting allowance. This should be complemented by congestion pricing to capture other negative effects from road transport, such as air pollution and congestion, as recommended in the last *Survey* and *OECD Environmental Tax Policy Reviews* (OECD, 2022^[13]; OECD, 2023^[22]). As the share of combustion engine cars is projected to gradually decline over the longer term, a sustainable tax policy will also require shifting from taxes on fuels to taxes on distances driven to compensate for revenue losses. Hence, a gradual reform of transport taxation will be important, even more so for Slovenia where excise duties and carbon taxes levied on transport fuels accounted for 15% of the central government's tax revenues in 2016 (OECD/ITF, 2019^[23]).

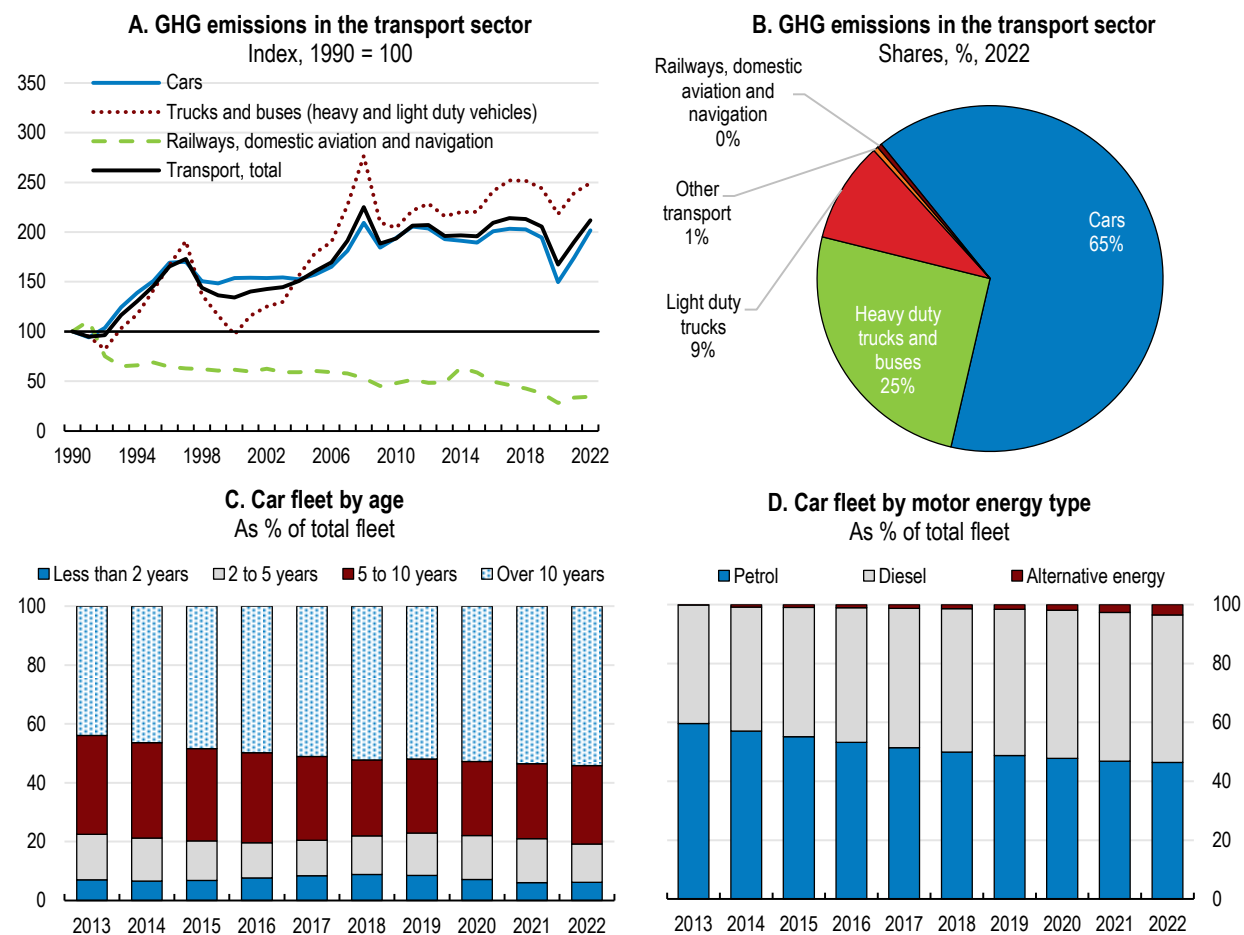
More stringent CO₂ emission standards for cars foresee that after 2035 new cars are only allowed to emit zero CO₂. However, this regulatory measure will only affect newly registered vehicles. It may not be sufficient to lower overall emissions in road transportation given the increasing average age of the car fleet with a higher share of cars with diesel engines (Figure 4.6). An additional factor is that the composition of the car fleet may only change slowly as the new emission standards are likely to lead to a fall in the resale value of used cars, increasing incentives to extend the life span of the existing car fleet.

Vehicle taxation already promotes cleaner cars by focussing on environmental factors (OECD, 2022^[24]). However, one factor behind the slow renewal of the car fleet is the relatively low taxation of transport fuels, notably diesel. Other factors that may slow the renewal of the car fleet are households' budget constraints and the fact that cars are not written down as quickly as other goods. Also, the generous commuting allowance is not based on the carbon-intensity of cars. For road transport to contribute significantly to emission reductions, taxation of transport fuels should be raised, and relatively more for diesel to reflect its higher environmental harm. In addition, commuting incentives should be gradually reduced as discussed above. Such a policy mix to reduce emissions could be complemented with congestion pricing, and in the longer-term with distance-based pricing (OECD, 2023^[22]). The resulting higher tax revenues could be used, for instance, to lower the relatively high labour tax burden to soften negative employment effects (Chapter 2).

Another factor behind the ageing car fleet is the slow rollout of electric cars, although this has started to pick up significantly since 2022. Fully electric cars accounted for 5% of new sales in 2022 against 10% in the EU, and their share in the stock of vehicles remains low at around 1% (Figure 4.7, Panel A) (Statistical Office of Slovenia, 2023^[25]; European Environment Agency, 2023^[26]). The government offers subsidies and tax incentives for the purchase of new and used electric vehicles, depending on the price of the vehicle, although cars priced above EUR 65 000 are not subsidised. However, the relatively low number of charging stations outside urban areas may slow the rollout of electric cars (Figure 4.7, Panel B). In particular, rural areas with the greatest need for private cars and motorways remain underserved (Prah, Kmetec and Knez, 2022^[27]).

Countries with a higher uptake of electric cars have shifted policy focus from purchase subsidies to subsidies for charging stations. For instance, purchase subsidies were removed in Denmark and Germany in 2023 and 2024, respectively, while support for charging infrastructure was stepped up, including for home charging stations.

Figure 4.6. The ageing car fleet is the main source of emissions in the transport sector



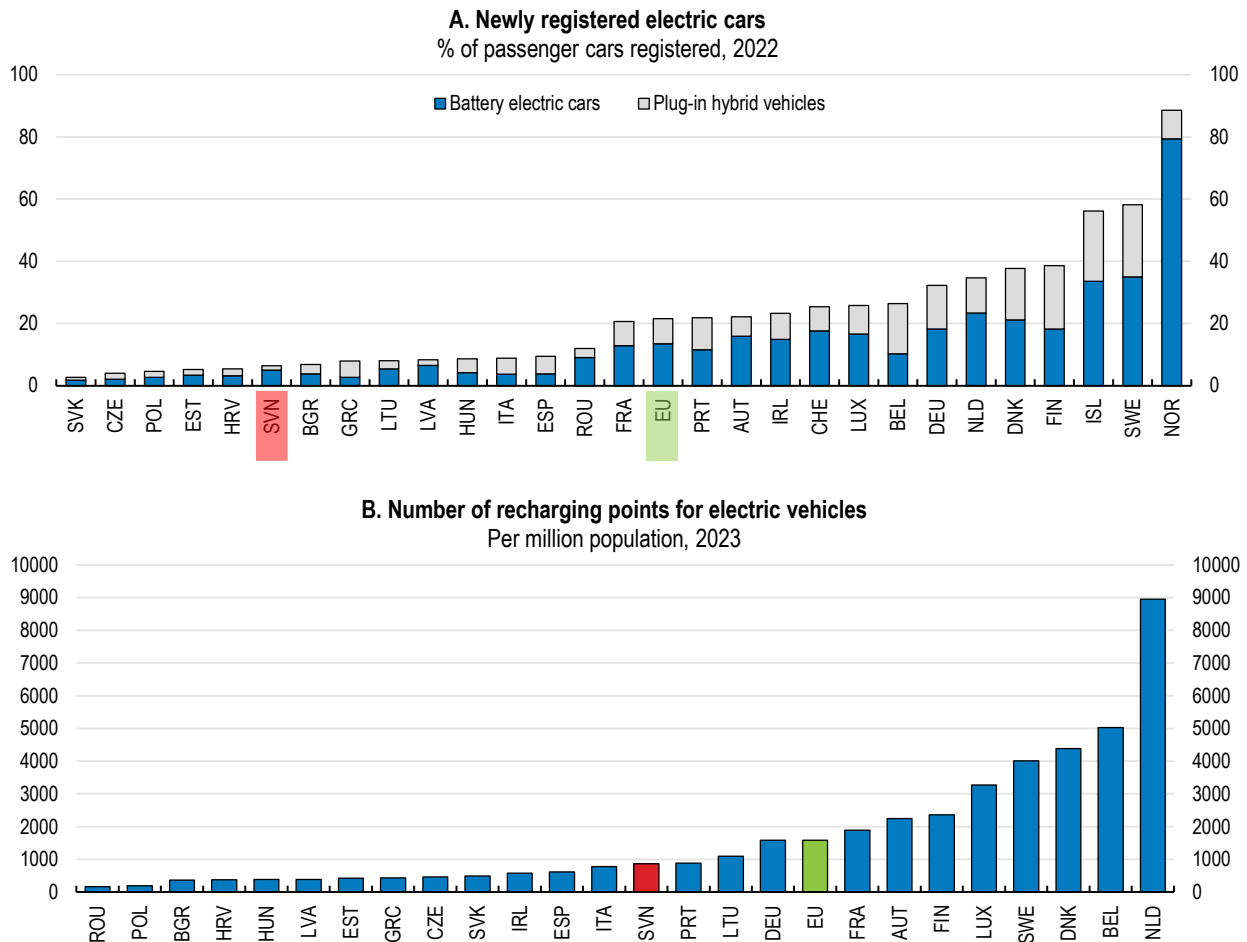
Note: In Panel A and B, GHG emissions from international aviation and navigation are excluded.

Source: Eurostat; European Environment Agency; and OECD calculations.


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To encourage the rollout of public charging stations, the government plans to provide 0.5% of GDP in subsidies to the private sector for the deployment of public charging stations in remote areas and along motorways (National Assembly of the Republic of Slovenia, 2023^[28]). This will be complemented by EU support for investment in public charging stations of 0.1% of GDP until the end of 2026. A more efficient solution would be to let the market provide public charging stations. In areas where the market does not provide sufficient public electric charging capacity, targeted subsidies could be provided for home charging stations. Cost-benefit analysis and detailed cost models could inform better targeting of subsidies to remote areas. For instance, granular data on access to public charging stations could be used to calculate co-financing rates for home charging stations in remote areas.

Figure 4.7. The network of charging stations remains underdeveloped



Note: Panel B shows alternating current and direct current power recharging points based on the EU Alternative Fuels Infrastructure Directive. Source: European Environment Agency; European Alternative Fuels Observatory (EAFO); Eurostat Population database; and OECD calculations.

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Other barriers to electric charging include difficulties in comparing prices and paying for charging, which often requires a subscription to a payment provider. These factors risk reducing the confidence and trust in electric cars. To increase price transparency, charging station operators are required to share price data with a new national digital platform from 2024. However, there are concerns about exclusionary behaviour, with charging station providers offering better terms of access to customers of their payment providers than to customers of rival payment providers (Elektro Ljubljana, 2024^[29]). It will be important to monitor and assess competition concerns to ensure a competitive electric charging market. In this regard, the competition authority should conduct a market study, as done in the United Kingdom (Competition and Markets Authority, 2021^[30]).

Incentives to use public transportation are weak. This is despite public trains and buses having on average lower carbon emissions per kilometre than private passenger transport (ITF, 2023^[31]). Public transportation had a relatively low market share of 10% in 2021, almost a third lower than the EU-average of 14% (Eurostat, 2023^[32]). This reflects residential dispersion, which makes public transportation less attractive for commuting due to the low frequency and speed of connections (European Commission, 2019^[33]). Another factor are generous incentives for commuting with private cars, notably the tax-free commuting allowance. The government plans to expand the offer of public passenger train services and regional public

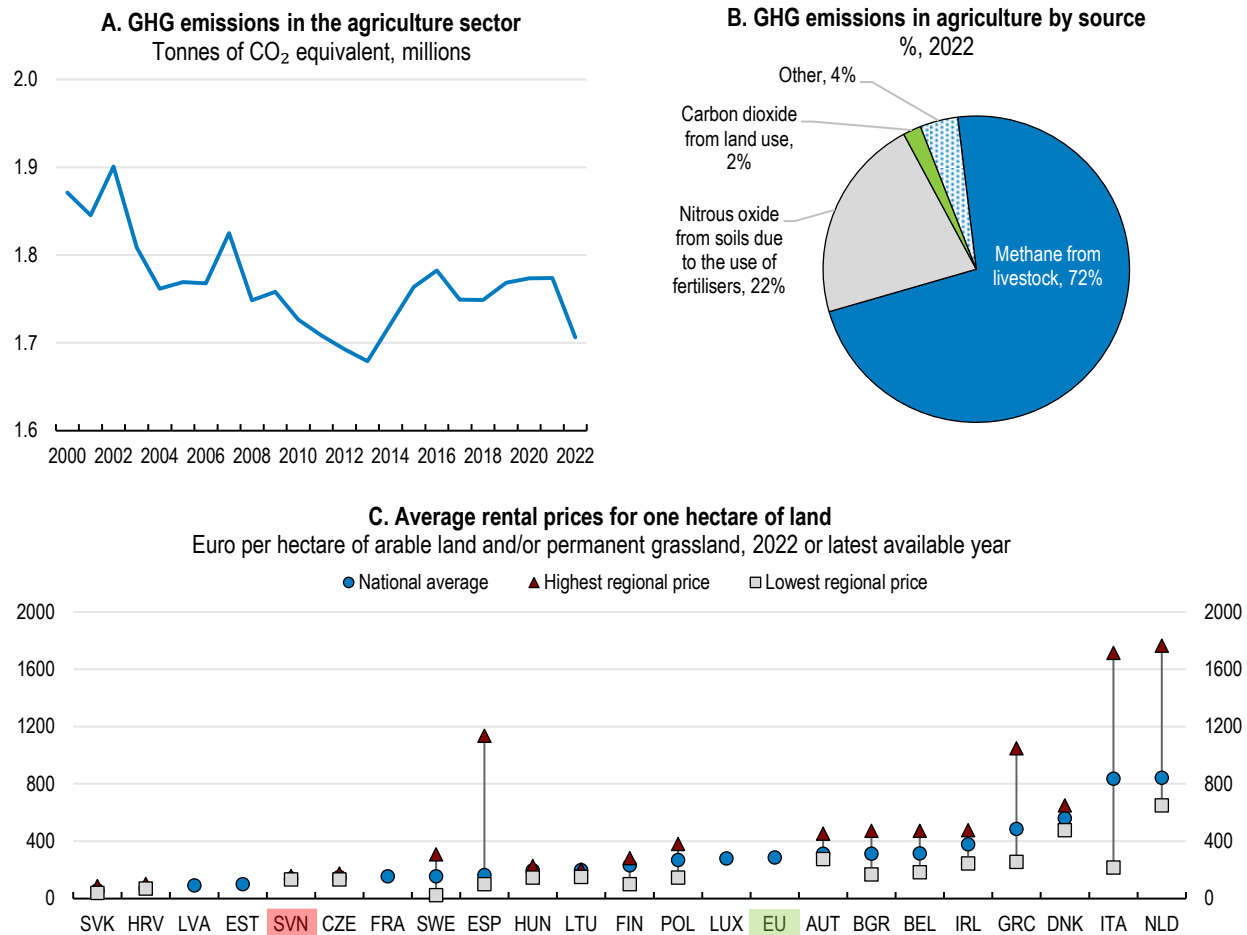
bus services. Preference is given to investment in railways, with spending of 1% of GDP in 2023. However, these measures are mostly about expanding the supply of public transportation.

To reduce emissions from passenger road transport, stronger incentives for the actual use of public transportation are required. This would entail a strategy to stimulate demand for public transportation with view to raising the average load on a train or bus route throughout the day. To raise public transportation's market share, it will be important to integrate service and ticketing to ensure prices and services are competitive with private car transportation. A positive development in this regard has been the establishment the Passenger Transport Management Company in 2022, which aims to better integrate planning and management of regional bus and train services. At the same time, generous incentives for commuting with private cars need to be reduced (see above).

Public spending on railways includes investment in the railway line connecting the state-owned port of Koper to Austria and Germany, primarily for the purpose of freight transport. However, spending efficiency is a concern. Spending of about 3% of GDP in railway connections for the port of Koper since 2015 have not led to a higher market share, with the port's cargo volume remaining low at about 0.03% of EU ports' total cargo volume between 2017 and 2022 (Port of Koper, 2018^[34]; Port of Koper, 2023^[35]; Eurostat, 2023^[36]). This reflects comparative advantages of already established ports which serve Central Europe, such as Rotterdam and in neighbouring countries. The rationale for state-ownership of the port is not clear. State-ownership also binds public resources which could be used more effectively in other areas. Hence, the port of Koper could be privatised to free up public resources. Moreover, to ensure cost-efficiency of public spending, investment decisions in public transportation should be based on a thorough cost-benefit analysis including a mapping of emissions from distinct types of public transportation as discussed in the last *Survey* (OECD, 2022^[13]).

Bringing agricultural emissions on a downward track

Agricultural emissions have been reduced by about 10% between 1990 and 2019, mainly reflecting declines in emissions from livestock and fertiliser use. However, the fall in emissions happened mostly in the 1990s and 2000s, while emissions have not been reduced over the past decade. This reflects in part agricultural subsidies (so-called coupled payments) for livestock, which accounts for 72% of overall agricultural emissions. Coupled payments also support good land management and the maintenance of biodiversity. In addition, agricultural producers benefit from diesel subsidies, in the form of reduced excise duty rates, and below-market rental prices of state-owned agricultural land (Figure 4.8). Such subsidies and favourable rental prices support farmers' incomes. However, they have also contributed to a fragmented agricultural sector which is dominated by inefficient small farms specialised in emission-intensive livestock, although smaller farms contribute to the preservation of biodiversity. Another important factor behind the fragmentation is geography, with the numerous mountainous areas offering limited space for larger farms. Reducing agricultural emissions will require, first, phasing out environmentally harmful agricultural diesel subsidies, and second, withdrawing coupled payments for livestock. The resulting revenues could be used to redirect funding to support low-income farmers most vulnerable to higher mitigation costs.

Figure 4.8. Agricultural emission reductions have stalled

Note: GHG refers to greenhouse gases emissions. Panel C, unweighted average for the EU.
Source: Eurostat.

StatLink  <https://stat.link/e82q4y>

The State owns 9% of all agricultural land, about 10% of which is used for purposes other than agriculture, such as private gardening (Agricultural Land and Forest Fund of the Republic of Slovenia, 2023^[37]). The Agricultural Land and Forestry Fund manages state-owned land with the aim to consolidate the sector by increasing the average farm size to raise agricultural productivity, although rental protection of existing small farms on state-owned land slows the process. Another factor behind the slow consolidation is rents for state-owned land that are regulated below market prices, leading to a misallocation of state-owned land despite high and growing land demand for renewables and housing. For instance, the monthly regulated rent for state-owned permanent grassland stood at EUR 84 per hectare in 2022, compared to a monthly market rent of EUR 140 per hectare for privately-owned permanent grassland (Eurostat, 2024^[38]; Farmland and Forest Fund of the Republic of Slovenia, 2022^[39]). Below-market rental prices also keep more agricultural land in use than would otherwise be the case. The rationale for regulated rents is to strengthen agricultural self-sufficiency since the country imports most of its food. However, this policy stands in contrast with the goal to consolidate the sector to improve agricultural efficiency. Rents should follow market prices to ensure a reduction of agricultural emissions from land use (Brady et al., 2017^[40]). Moreover, there is a lack of clear rules for converting agricultural state-owned land into buildable land, reflecting that municipalities are responsible for land use. Having clear rules for selling state-owned land can help renewable and housing supply adjust faster to growing demand (Chapter 5).

The polluter-pays principle does not apply to emissions from agriculture. Pricing is not in place for most of the sector's GHG emissions, which consist of methane mostly from livestock and nitrous oxide from soils due to the use of fertilisers. At the same time, the agricultural sector contributes to carbon sinks, with grasslands capturing more emissions than emitting them, although incentives are not in place for carbon sequestration. Thus, bringing agricultural emissions on a downward track will require higher and broader emissions pricing. This could entail a carbon tax or expanding emission trading to include agriculture, as planned in Denmark and New Zealand, although in the latter country explicit carbon pricing has been delayed by successive governments (OECD, 2024^[41]). The extension of emission trading will require stronger support for farmers to set up systems to monitor and report emissions (see below). This could be done by diverting agricultural subsidies to support low-income farmers most vulnerable to higher mitigation costs as these often cannot pass on higher costs to consumers. Additional safeguards could ensure that smaller farms are not overburdened with the new carbon pricing framework, including a gradual phase-in and free allowances. An alternative solution is to implement carbon pricing in agriculture at the European level to address carbon leakage concerns, as discussed in the *OECD Economic Survey of the European Union and euro area* (OECD, 2023^[6]). A carbon price would also reward carbon removals.

Measuring farm-level emissions is technically challenging. Thus, it is necessary to find proxies, such as livestock numbers and sales of fertiliser and feed. For instance, emission trading could be introduced for upstream suppliers of feed and fertilisers, and for downstream processors of meat and dairy products. These producers are usually larger and in a better position to invest in emission monitoring systems. From an environmental perspective, however, such a system only gives weak emission reduction incentives through a more efficient use of feed and fertilisers, and a switch to less emission-intensive types of crops and meat. To provide stronger emission reduction incentives, farmers could opt in a voluntary calculation of farm-level emissions at their own expense, certified by recognised third parties, as done in New Zealand (Box 4.1). These calculations would allow farmers to demonstrate stronger emission reductions and earn carbon credits. Initially, only farms which would be able to demonstrate significantly lower emissions would find this option attractive. Over time, such a voluntary system may lead to the development of a farm-level emission monitoring system that accounts for how mitigation practice affects emissions. To provide additional mitigation incentives, carbon removals could be integrated in emission trading. To do so, tradable certifications for carbon removals will be important. In this regard, the EU proposed to extend the carbon removal certification framework to agriculture in 2026.

Further research is needed to improve the accuracy of farm-level emission approaches and to ensure actions to reduce emissions are being awarded carbon credits. In New Zealand, for instance, the government supports partnerships between research institutes, farms, and dairy processing companies for better measurement of on-farm emissions, the dissemination of best practices in feed, and the deployment of new techniques such as methane vaccines (OECD, 2024^[41]). The EU supports similar partnerships through European Innovation Partnerships.

The government foresees the agricultural sector to reduce emissions by only 3% in 2030. This reflects that measures to reduce farm emissions are voluntary, such as new eco-schemes that provide additional direct payments for farmers to reduce ammonia and livestock emissions and emissions from fertiliser use, among other things. However, eco-schemes remain input-based and do not require a reduction in emissions. To improve cost-efficiency, payments should be made conditional on achieving emission reductions (OECD, 2022^[42]). Such results-based payments come with difficulties since emission monitoring and reporting is not in place in agriculture. Initially, outcome-based payments could be introduced to incentivise farms to set up emission monitoring systems (see above).

Box 4.1. Approaches for calculating farm-level emissions

Methods are available to estimate farm-level agricultural emissions in the European Union and New Zealand.

European Union: The Joint Research Centre developed a calculator for measuring GHG emissions (Tuomisto et al., 2015^[43]). The calculator includes farm-level mitigation practices that reduce GHG emissions, such as reducing synthetic fertiliser use, improving manure management, and biogas production. Farm-level emissions are calculated for crop residues, manure use and management, fertiliser use, enteric fermentation, feed stuff, and on-farm energy use.

New Zealand: The government and the agricultural sector jointly developed a calculator of farm-level emissions. It considers mitigation practices, including practices that improve production, reduce the feed and fertiliser use, and manage effluents. The use of new mitigation practices such as biogas production, feed additives and methane vaccines is also accounted for. Emissions are calculated for manure use, fertiliser use, enteric fermentation, and feed stuff.

The agricultural sector already has experience with emission reporting in New Zealand. Companies in the agricultural supply chain (e.g., meat processors, dairy processors, nitrogen fertiliser manufacturers and importers) are required to monitor and report their agricultural emissions within the framework of the ETS. In addition, the government mandated all farmers running 80 hectares or more to know their farm's greenhouse gas emissions by 2023. A range of different calculators have been made available to help farmers calculate their carbon footprint (New Zealand Agricultural Greenhouse Gas Research Centre, 2024^[44]).

Source: Trinomics (2023^[45]).

Further lowering energy emissions while ensuring energy security

Power generation accounts for a relatively large share of emissions despite the increasing share of renewables, reflecting the expansion of coal (lignite) power since 2015. To reduce emissions, the government announced a phase out of coal generation by 2033. To replace coal-based power, it prioritises domestic renewable production over imports of renewable energy due to energy security concerns, although imports of renewable energy can be cheaper. The Slovenian electricity system is well interconnected with neighbouring countries, which allows to import up to 200 per cent of annual electricity consumption. In contrast, the deployment of renewables is behind schedule. Bottlenecks include lengthy planning procedures, insufficient grid capacity, local resistance to wind farms (which need the approval of municipalities), and a ban on solar and wind farms on agricultural and forest land (or approximately 90% of the country's land surface). Another factor is geographical conditions that are not ideal for wind energy. All these factors increase the costs for domestic renewable production. To reduce the costs of the deployment of renewables, the government plans to abolish municipal restrictions on windmills. It has also announced EUR 3.5 billion (or 7.5% of GDP) in investment in electricity grids until 2032. Such efforts should be complemented by further reductions in permitting times for renewable energy projects. A way forward could be applying silence-is-consent rules and bolstering the resources and staff of permitting authorities as done in Germany (OECD, 2023^[46]).

Investment in renewable energy is supported through national and EU funds, mostly benefiting biomass and solar energy (European Commission, 2023^[47]). This means that achieving the 2030 renewable energy target will also rely on burning biomass, although biomass can be emission-intensive (Brack, Birdsey and Walker, 2021^[48]). Moreover, the government provides direct grants to small producers of solar and wind energy, including EUR 280 per thousand watts of wind capacity installed, while municipalities are eligible for a one-off EUR 200 000 for each megawatt of new wind capacity installed. However, geographical

conditions do not favour wind energy, with many of the more suitable locations lying within environmentally protected areas. In contrast, the potential for an expansion of solar power is greater (Obrecht and Denac, 2013^[49]). The government also announced a referendum to be held in autumn 2024 on the construction of a second nuclear power plant to increase energy independence. Subsidies for wind energy and the expansion of nuclear energy may come at a fiscal cost as cheaper energy sources are available, including domestic solar energy and imports of renewable energy. As a small country in Europe, energy security is best ensured through integration within Europe. Investment in renewables should be based on clear cost-benefit analyses.

A positive development has been the move from government-set feed-in-tariffs to auctions via a competitive tender since 2018. Competitive tenders were found to enhance the deployment of renewable capacities, especially of larger projects, and reduce fiscal costs of renewable support in the European Union. In Slovenia, the effect of competitive tenders on the deployment of renewable energy has been somewhat weaker since solar photovoltaic and wind energy projects are mostly small, making them less suited for public tenders (European Commission, 2022^[50]).

The announced introduction of direct grants for smaller renewable projects of up to EUR 25 million per beneficiary at the end of 2024 may reduce the attractiveness of the auction system. These grants will be introduced following the temporary relaxation of EU state aid rules in response to the energy crisis and aim to support smaller solar and wind energy projects, while bigger projects will be supported via the auction system. Direct grants can support the development of new technologies that are not yet competitive. However, solar and wind technologies have become cost-competitive over the last decade, reducing the need for government subsidies. Moreover, state-aid will be available only for smaller renewable projects, reducing incentives for larger renewable projects. Hence, direct subsidies for solar and wind should be phased out and rechannelled towards new technologies, as also recommended for the European Union in the latest *OECD Economic Survey of the European Union* (OECD, 2023^[6]). This would also strengthen the use of competitive auctions. To lower the costs of domestic renewable production, the government could further reduce permitting times and ease land-use restrictions (see above).

The announced coal phase out by 2033 means that the largest coal plant Šoštanj will have to be decommissioned, although it was only brought online in 2015. The phase out may even proceed ahead of the current 2033 timeline due to economic and business considerations, as projected rising ETS prices make operations more expensive. Such an earlier-than-expected decommissioning is welcome as it will contribute to a significant reduction in emissions. However, it also leads to stranded assets as the state-owned company operating the plant recorded debt and losses in the order of 2% of GDP in 2022 due to the decommissioning (Termoelektrarna Šoštanj, 2023^[51]). The closure of the state-owned coal plant will likely lead to fiscal costs. To reduce costs, the government is examining the viability of repurposing the coal plant into small modular nuclear reactor facilities. Going forward, a more cost-effective planning and investment policy could help reduce fiscal costs. This can be achieved by introducing an internal carbon price (or shadow carbon price) to be used for cost-benefit analysis of public energy projects, as done in the United Kingdom, and recommended in the last *Survey* (OECD, 2022^[13]). Indeed, such internal carbon prices should be introduced in all public investment, planning, and cost benefit analysis for projects with a carbon impact to secure full cost analysis with an emphasis on environmental aspects.

Table 4.1. Past recommendations on green growth

Recommendations in previous Surveys	Action taken since the 2022 Survey
The tax system imposes heterogeneous abatement costs across sectors and activities.	No action taken.
Align effective tax rates on different forms of energy to reflect environmental damage.	No action taken.
Large parts of the population are exposed to small particles.	Ban on oil boilers was adopted in 2023. The eco-fund provides a replacement bonus for old wood and oil boilers.
Introduce congestion charges.	No action taken.
Avoid technology biases in renewable-energy subsidies.	No action taken.
Upgrade the railway system, and improve efficiency of railways, especially in the freight sector.	New investments from the EU Cohesion Fund and the EU Recovery and Resilience Facility in the second track of the Divača–Koper line. Investments in regional railway networks are focused on upgrading from single track to modern double track standard to allow for increased train capacity and frequency of service.
Fragmented budgetary and planning policies impose heterogeneous abatement costs across government programmes.	No action taken.

Table 4.2. Recommendations

Main findings	Recommendations (key ones in bold)
Improve the effectiveness of mitigation policy	
The tax system imposes heterogeneous abatement incentives across sectors and activities. Regulated prices and reduced tax rates for environmentally harmful fossil fuels, including diesel and heating gas, continue to undermine decarbonisation efforts.	Remove reduced tax rates for diesel and heating gas. Swiftly implement the phase out of regulated gas prices. Gradually increase carbon taxes in the non-ETS sectors to the ETS price level and compensate social costs.
Strengthen adaptation to climate risks	
Many households are exposed to climate risks, including floods. The coverage of flood insurance is low. Government compensation in case of floods reduces households' incentives to settle outside of flood areas and to buy flood insurance.	Introduce and enforce stringent land-use planning that prohibits new construction in high-risk flood areas. Develop insurance schemes to lower risks for public finances while aligning incentives for adaptation.
Accelerate emission reductions in agriculture, energy, and transportation	
The market share of public transportation remains low, as the commuting allowance encourages private car use.	Enhance incentives for the use of public transportation, including by reducing the commuting allowance, introducing congestion-based road pricing and ensuring public transport fares are competitive.
Insufficient charging stations outside urban areas slow the rollout of electric cars. Difficulties in comparing prices reduce the confidence and trust in electric cars. Charging station providers offer better terms of access to customers of their payment providers than to customers of rival payment providers.	Align subsidies to reflect the actual deployment costs of charging stations in underserved areas, using cost-benefit analysis. Review the competitive conditions in the electric charging market, including exclusionary pricing.
Agricultural subsidies for diesel continue to promote emissions. Below-market rental prices for state-owned agricultural land keep more agricultural land in use than would otherwise be the case. The lack of clear rules for converting agricultural state-owned land into buildable land slows the adjustment of renewable and housing supply to growing demand.	Remove agricultural diesel subsidies and redirect funding to support those most affected by higher mitigation costs. Ensure market-based rents for state-owned agricultural land. Introduce clear rules for selling of state-owned land.
The polluter-pays principle does not apply to emissions from agriculture.	Consider introducing carbon pricing in agriculture, for instance by extending emission trading to upstream suppliers of feed and fertilisers, and downstream processors of meat and dairy products. Establish emission monitoring and reporting systems (e.g., for emissions from livestock and fertiliser use).
Mitigation measures in agriculture have not led to emission reductions.	Make payments under the eco-schemes conditional on achieving emission reductions.
Lengthy permitting times increase the deployment costs of renewables.	Streamline permitting procedures and lower land use restrictions for renewable energy projects.
Government support for renewables mostly benefits cost-competitive biomass, solar, and wind. Direct grants reduce the use of competitive auctions.	Phase out direct grants for biomass, solar and wind installations, and provide subsidies only for renewable technologies that are not yet competitive.
Spending efficiency is a concern for investment in energy projects.	Introduce cost-benefit analysis based on an internal carbon price to identify most cost-efficient investments.

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- Tuomisto, H. et al. (2015), “Development and testing of a European Union-wide farm-level carbon calculator”, *Integrated Environmental Assessment and Management*, Vol. 11/3, pp. 404-416, <https://doi.org/10.1002/ieam.1629>. [43]

5

Housing market challenges and policy options

Volker Ziemann

Slovenia's current housing challenges are characterised by strong demand and inadequate supply, exacerbated by rising construction and financing costs. High ownership rates mask the affordability challenge for younger cohorts or those who want to move amid limited rental markets and insufficient residential construction activity. This chapter proposes a range of policy options to make housing more efficient, inclusive and sustainable. Streamlining spatial planning and permitting systems would foster housing supply responsiveness. Levelling the playing field in rental markets and overhauling real estate taxation can boost market efficiency. Enhancing access to mortgage financing and improving framework conditions for the provision of social housing would expand housing options for households. Finally, housing policies should aim at accelerating the transition to a net-zero economy by aligning energy taxation more closely with the carbon content of the source, strengthening the support programmes for renovation works and improving framework conditions for the deployment of district heating and electrification.

Slovenia's housing market faces structural challenges

The housing market of Slovenia, similarly to its regional peers, is shaped by the historical context of the privatisation of state-owned properties during the transition to a market economy in the early 1990s. Due to the resulting high ownership rates, effective housing costs are low. Still, many households find themselves in dwellings that require extensive repairs and face financial constraints when it comes to affording the necessary renovations or accessing commercial mortgages for better housing.

The public rental housing stock is low in Slovenia compared to many other European countries. Additionally, the private rental market is relatively underdeveloped and suffers from informality, which weighs on the efficiency of the housing sector. Construction activity is subdued partly due to inefficient spatial planning and permitting systems. A considerable portion of the housing stock is old, with most of the buildings constructed before 1980. These structures often fall short in energy efficiency, contributing to a high prevalence of energy poverty among low and middle-income households. The recent spike in energy prices has further exacerbated this issue.

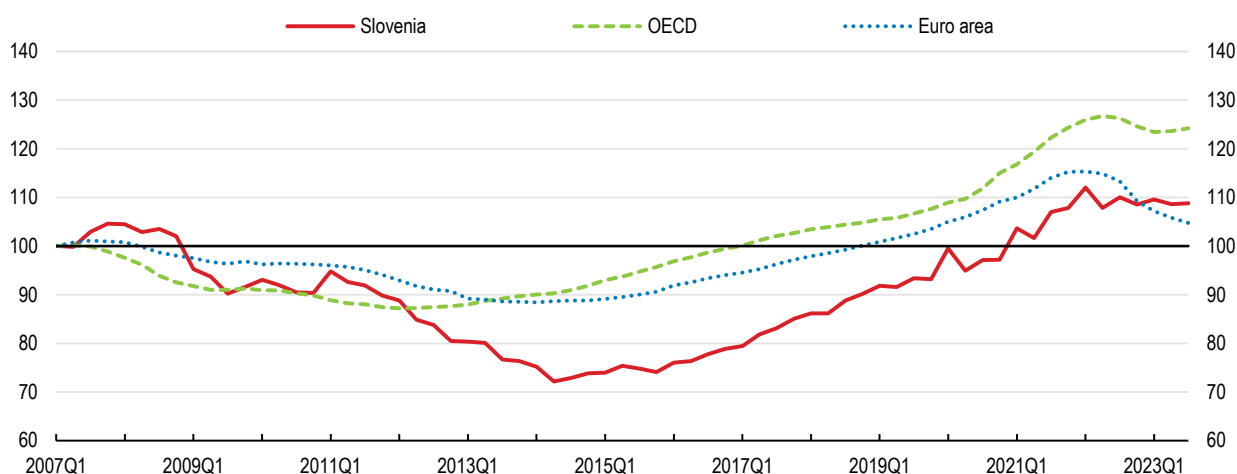
In response, government efforts have been directed towards enhancing the affordability and quality of housing, notably by stimulating the public and private rental market. Housing initiatives within the EU Recovery and Resilience Plan have paved the way for broader housing policy reforms, including a planned update of the 2003 Housing Law. This chapter examines housing market challenges and suggests policy reforms inspired by international best practices.

Strong demand meets insufficient supply

Following a sharp correction in the wake of the Global Financial Crisis (GFC), house prices have grown more rapidly in Slovenia than in other European countries over the last decade (Figure 5.1). Real house prices peaked in early 2022 when the number of sales transactions started to decrease as high prices and increasing interest rates started to weigh on demand. The decline was most notable in transactions for flats in multi-family residences. The transactions of building land sales decreased by over 15% due to high costs and declining purchasing power. The market for existing dwellings remains robust.

Figure 5.1. House prices in Slovenia have outpaced EU and OECD averages over the last decade

Real house price, index 2007Q1 = 100, seasonally adjusted

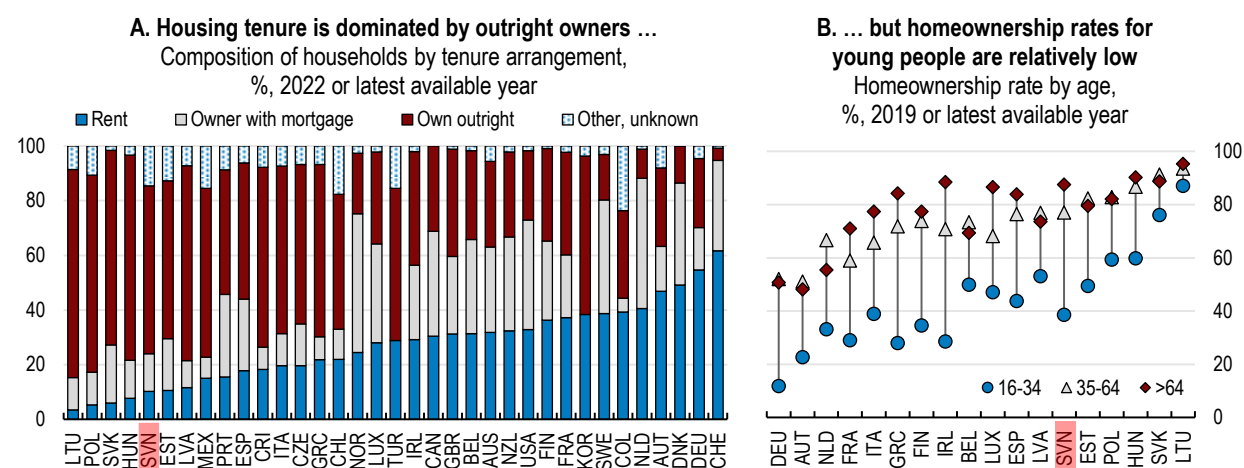


Source: OECD Price Statistics database.

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Like in many other Eastern European countries, most households own their homes in Slovenia, partly as a legacy of the mass privatisation during the transition to a market-oriented economy in the early 1990s. As a result, the private rental market is comparatively small, and only few people buy their homes using mortgage loans (Figure 5.2, Panel A). In contrast to mid-age and older cohorts, the homeownership rate of young cohorts is lower and comparable to what can be observed in Western and Southern European countries (slightly below 40%, Figure 5.2 Panel B). The combination of small rental and mortgage markets compounds the housing affordability challenge for prospective buyers or renters amid sharp increases in house prices and rents over the past decade.

Figure 5.2. Housing tenure is dominated by outright owners



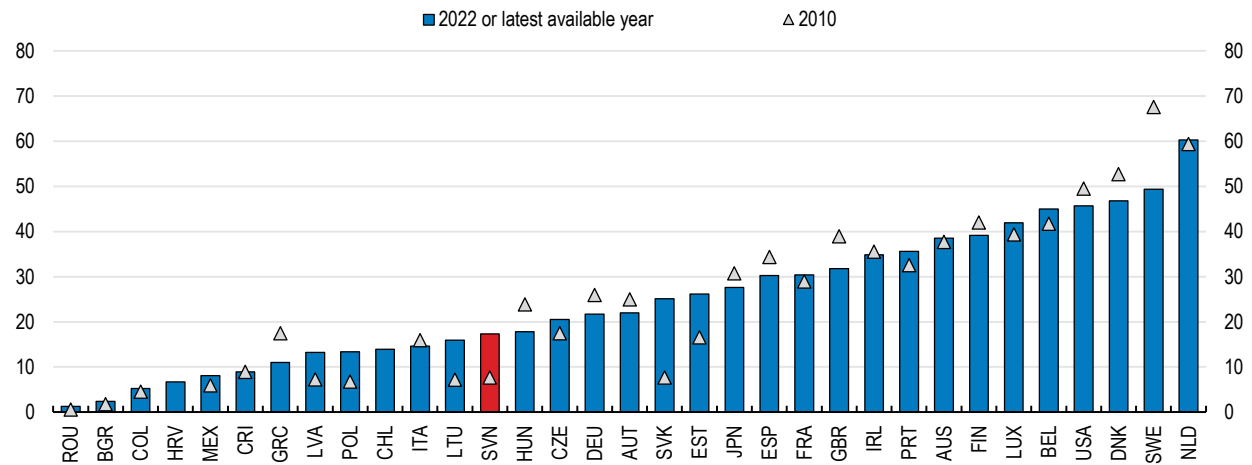
Source: OECD Housing Wealth Distribution Indicators Dashboard, <https://www.oecd.org/housing/policy-toolkit/data-dashboard/wealth-distribution/>.

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The share of residents with a mortgage has increased sharply since 2010, albeit from low levels in international comparison (Figure 5.3), reflecting strong housing demand patterns and the willingness and growing capacity of younger cohorts to form independent households. Housing demand has been underpinned by robust growth of disposable income and reduced economic uncertainty amid historically low levels of unemployment (Figure 2.5). The share of young adults (20-29-year-olds) living with their parents decreased from almost 80% in 2007, the then-highest value among OECD countries, to 69% in 2020, the biggest drop registered in any country (Cournède and Plouin, 2022_[1]).

Figure 5.3. The share of the population with a mortgage has increased from low levels

Share of population with a mortgage, %

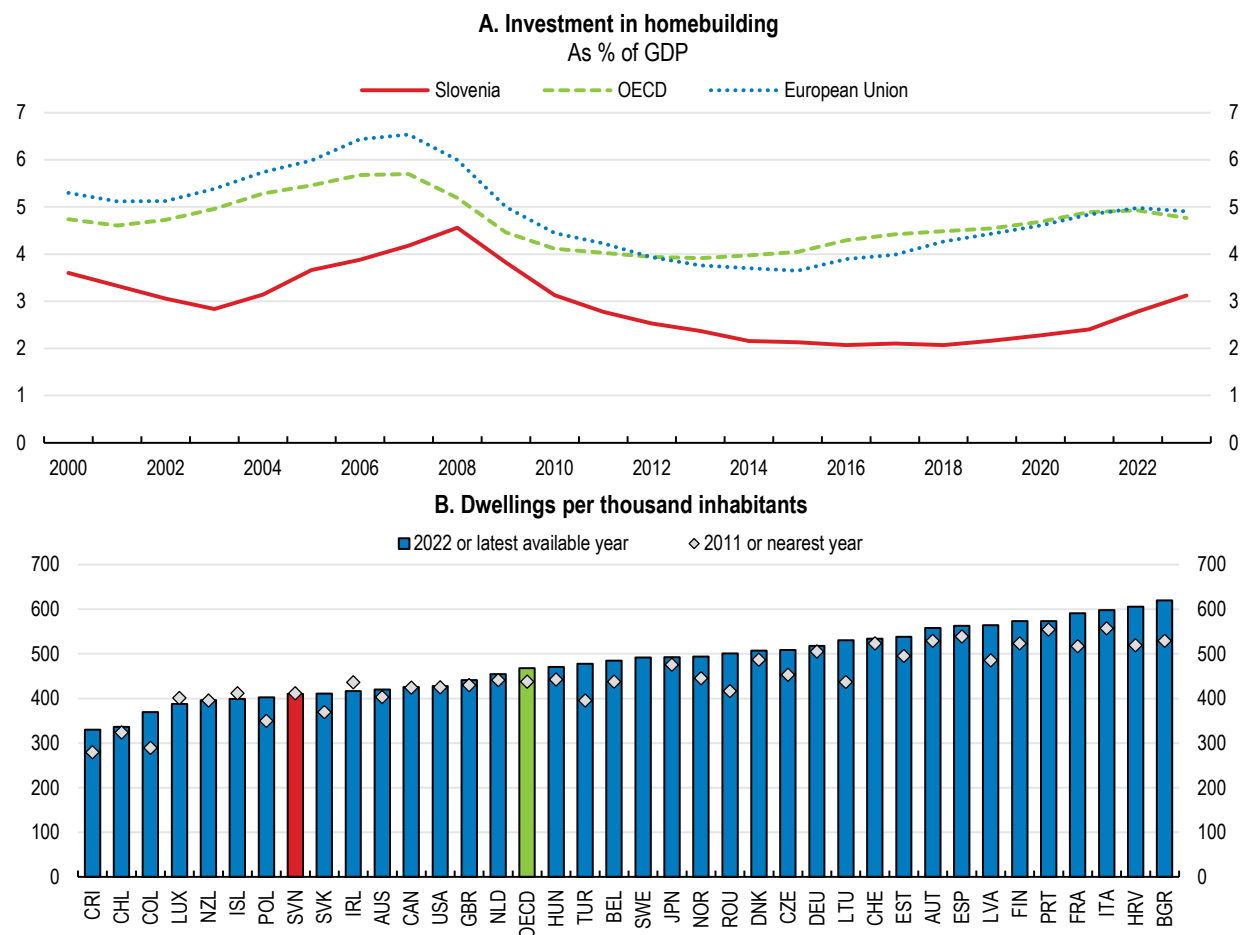


Source: OECD Affordable Housing database.

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Yet, despite a recent uptick, housing investment as a share of GDP remains subdued compared to the OECD or European Union averages (Figure 5.4, Panel A). The number of dwellings per 1,000 people has remained unchanged at around 410 since 2011 despite rising demand for homes (Figure 5.4, Panel B). Nonetheless, residential construction had gained pace before the COVID-19 pandemic and accelerated even further in the period 2021-2023, partly reflecting pent-up demand. New construction and extension of existing residential buildings added around 1 million square meters of residential floor area annually between 2021 and 2023 against an annual average of 700,000 for 2013-2019.

Figure 5.4. The supply of homes is lagging behind



Note: Data refers to the European Union, including 27 countries. Unweighted averages for OECD and European Union aggregates. Panel B: 2021 for Slovenia instead of 2022.

Source: OECD Economic Outlook: Statistics and Projections database; Eurostat National Accounts database; OECD Affordable Housing database; and OECD calculations.

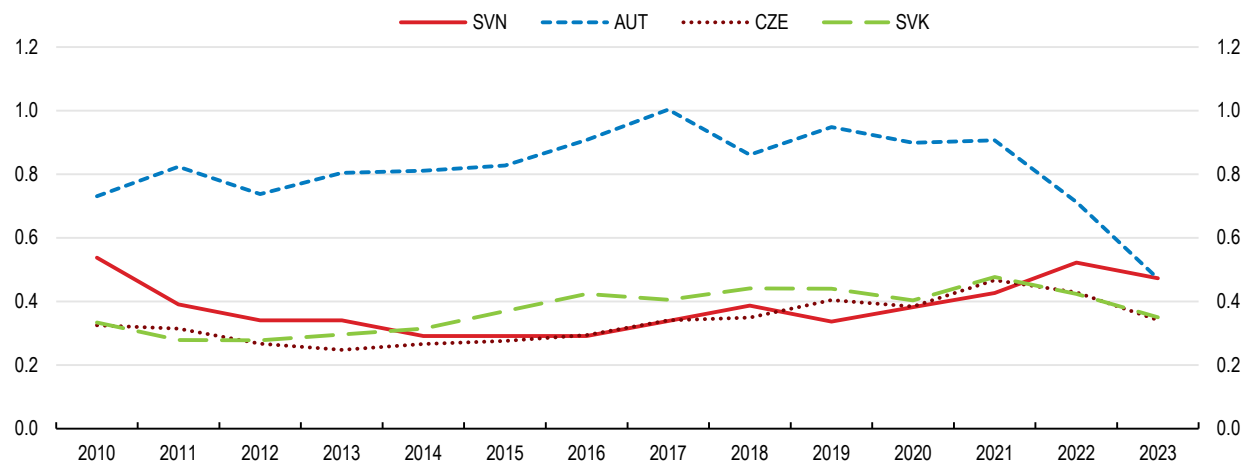
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Costly and lengthy processes for obtaining building permits are often cited as the main factors behind the insufficient provision of residential units. There has been some improvement in permit issuance, with the number of construction permits issued up by more than 30% in 2023 compared to the average between 2014 and 2019. Nonetheless, the speed at which building permits are issued is still insufficient for supply to meet demand and lags behind the average level of building permits across the EU, though Slovenia shares this condition with other central, eastern and southeastern European countries (Figure 5.5).


Rising construction costs, amplified by the COVID crisis and Russia's invasion of Ukraine, increase producer prices and constrain housing supply even further. The increase in construction producer prices was more substantial in Slovenia than in the euro area on average or in neighbouring Austria (Figure 5.6). High occupational entry barriers and low competition in sectors associated with the construction of residential buildings, such as the construction sector itself and architectural and engineering services, intensify skill shortages in some occupations and exacerbate wage pressures.

Figure 5.5. Construction activity is subdued

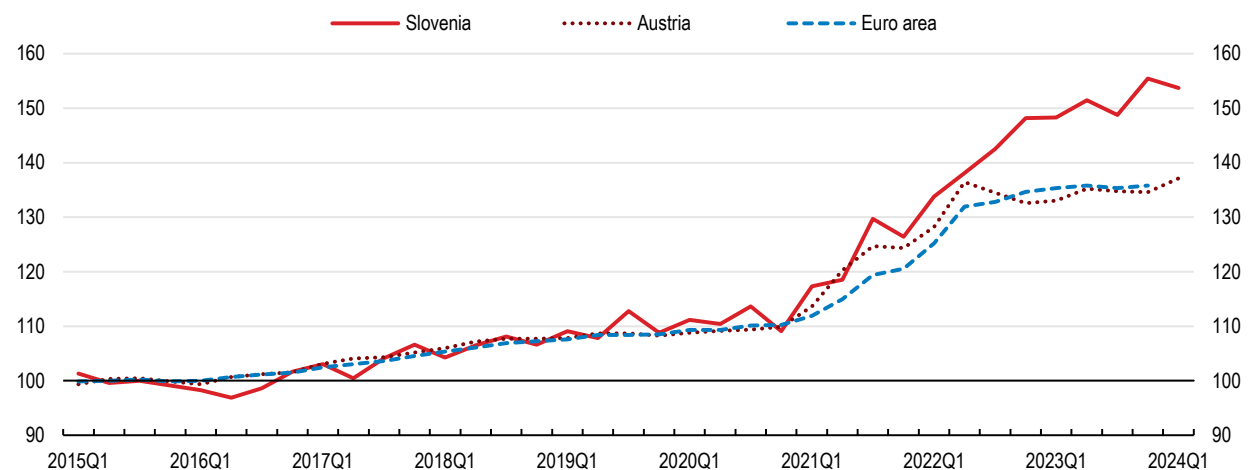
Construction permits for residential buildings, square metres per inhabitant



Source: Eurostat Building permits database.

StatLink  <https://stat.link/pl841>**Figure 5.6. High construction costs weigh on housing supply**

Construction cost index, residential buildings except residences for communities, index 2015=100



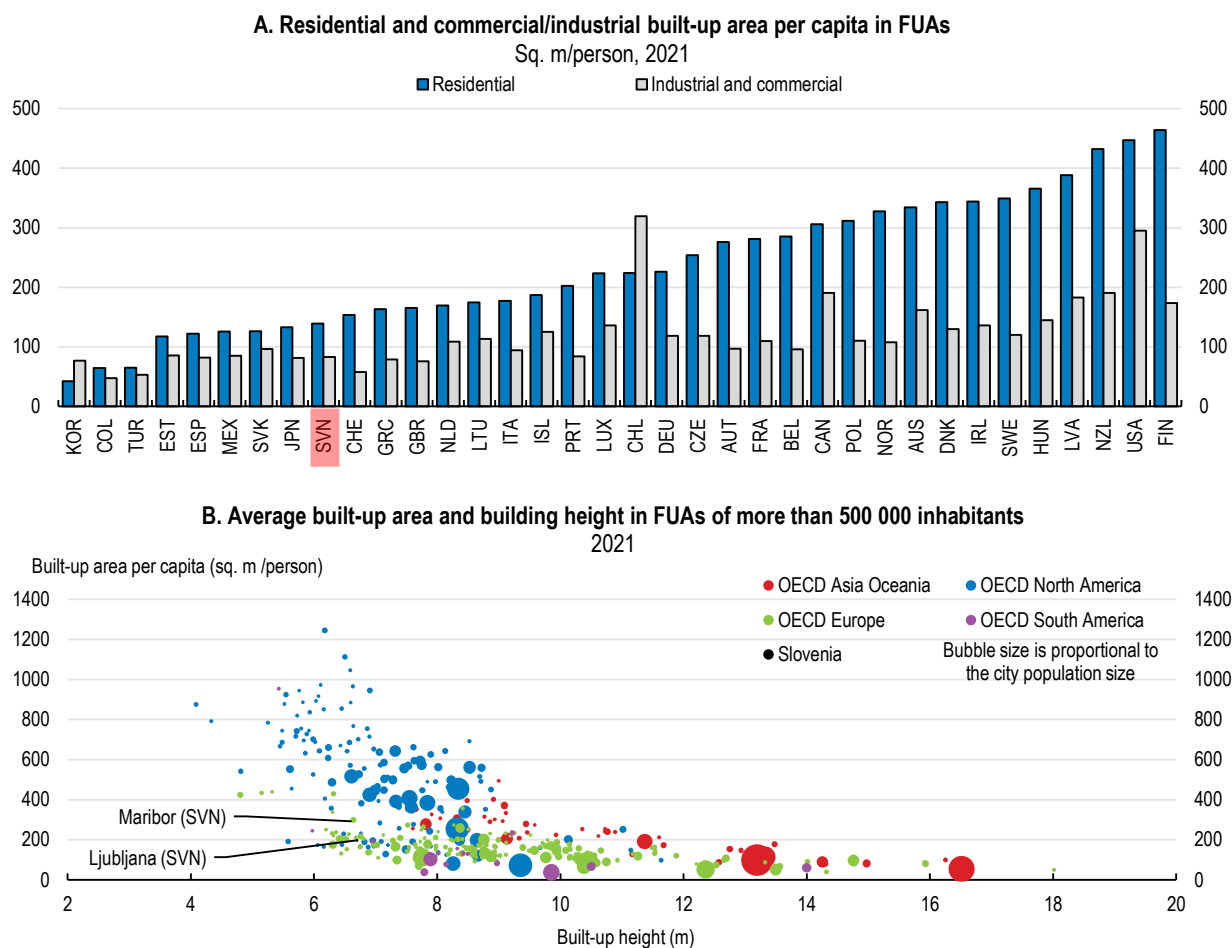
Note: Construction producer prices or costs, new residential buildings.

Source: Eurostat.

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The urban footprint (i.e. the share of land that is developed or built-up) in metropolitan areas remains low in international comparison, signalling room for densifying already urbanised areas without necessarily increasing the share of artificialised land (Figure 5.7). Indeed, even when accounting for the relatively small size of Slovenian cities, average building heights are far below the levels seen in other countries. Besides increasing the supply of dwellings and thereby alleviating the housing affordability challenge, densification also delivers environmental benefits relative to urban sprawl and low urban density, which result in longer commutes and detrimental ecological impacts.

Figure 5.7. Density and building height are low in urban areas



Note: Built-up surface estimated for 2021 using the OECD land use model (Banquet et al., 2022). Population counts estimated for 2020 based on GHS-POP 2022 release (JRC, 2022). In Panel B, data for Slovenia refer to FUAs with less than 500 000 inhabitants.

Source: OECD (2022), OECD Regions and Cities at a Glance 2022, OECD Publishing, Paris, <https://doi.org/10.1787/14108660-en>.

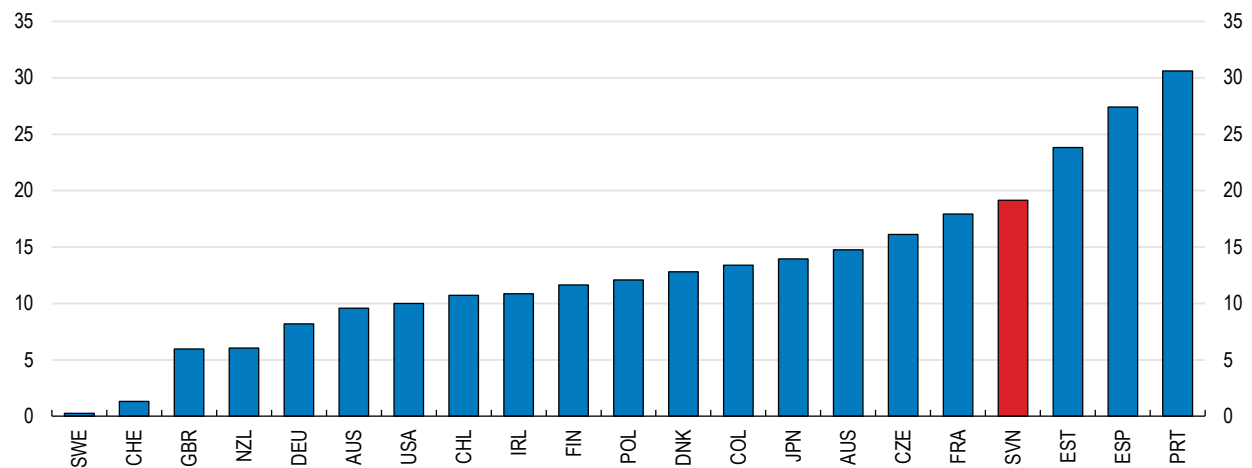
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High vacancy rates exacerbate perceived housing supply shortages in Slovenia. While reliable and internationally comparable statistics are difficult to come by, Slovenia arguably exhibits one of the highest shares of vacancy and secondary or holiday homes in OECD countries (Figure 5.8). Secondary homes and short-term rentals pose unique challenges extending beyond traditional notions of housing vacancy. The primary difficulty lies in accurately measuring this specific type of vacancy, as these properties may be occupied intermittently or seasonally, complicating efforts to gauge their actual impact on housing supply. This ambiguity in occupancy status can lead to a skewed perception of housing availability, particularly in high-demand areas like popular tourist destinations or cities with many secondary homes. Such properties, while technically vacant for significant portions of the year, are not available to meet the long-term housing needs of local residents, thereby contributing to a tightening of the housing market.

Furthermore, the prevalence of short-term rentals can inflate property values and rents, making housing less affordable for permanent residents. This situation is exacerbated in areas with already limited housing supply, where the conversion of long-term rentals into short-term vacation properties reduces the number of homes available for local residents, leading to increased competition and prices in the remaining housing stock.

Figure 5.8. A high vacancy rate reduces the effective supply of homes

Percentage of vacant dwellings and seasonal/holiday homes, out of the total dwelling stock, 2022 or latest year available



Note: Data refer to 2022, except for Denmark and Iceland (2023); Australia, Czechia, Estonia, Poland, Portugal, Slovenia, Spain, Sweden, United Kingdom (England), the United States (2021); Colombia, Germany, Japan, New Zealand (2018); Austria, Chile (2017).

Source: OECD Affordable Housing database.

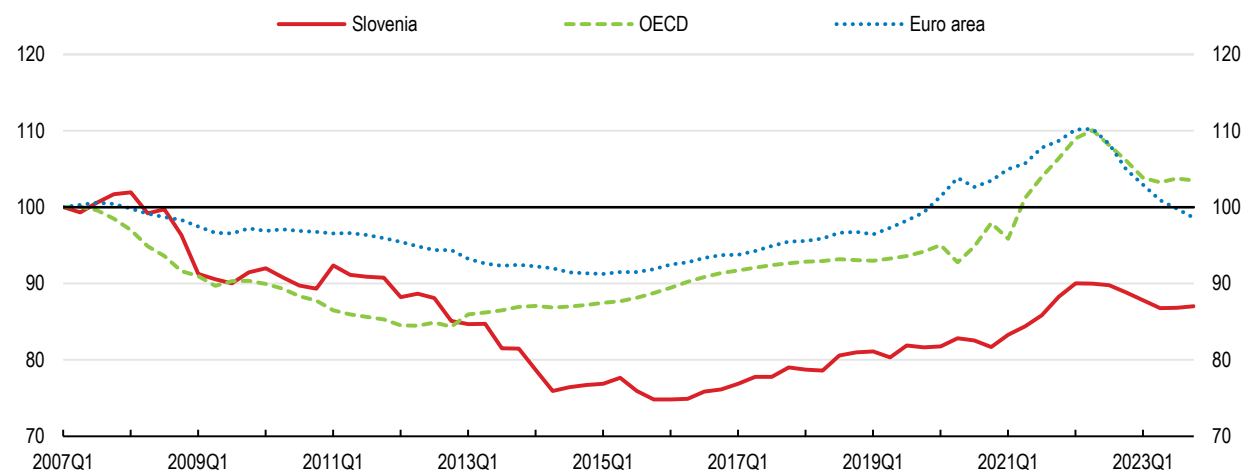
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Rising construction and financing costs exacerbate the housing affordability challenge

As a result of the strong demand and insufficient supply, and similar to many other European countries, housing affordability became a concern in Slovenia, especially for young families and first-time buyers. Since the onset of the pandemic, house prices have risen more than five percentage points faster than incomes, thereby partly offsetting affordability gains on the back of the bursting of the housing bubble following the GFC (Figure 5.9).

Figure 5.9. Affordability has weakened since 2015

Price to income ratio, index 2007Q1 = 100, seasonally adjusted



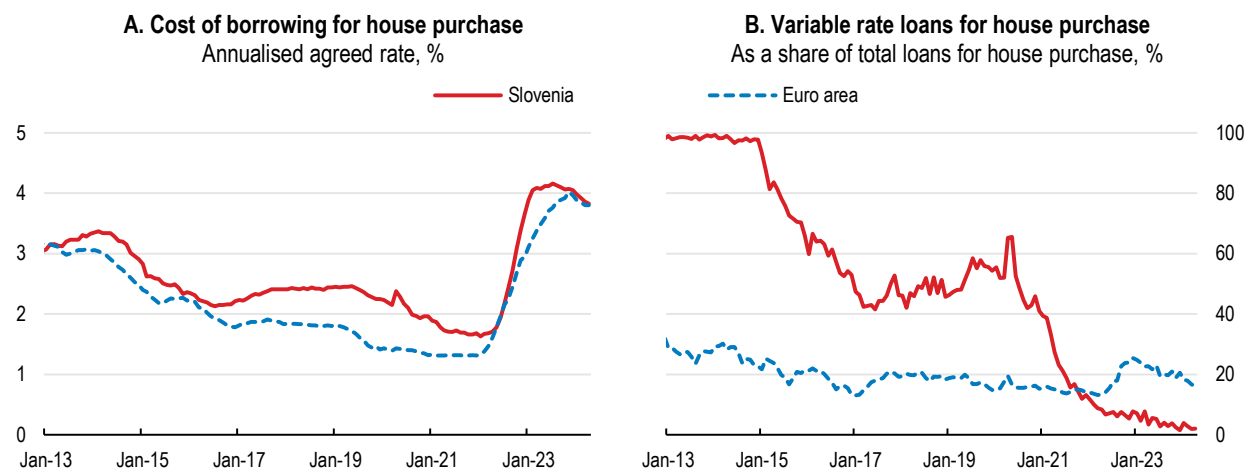
Source: OECD Price Statistics database.

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In this context, increased interest rates have further exacerbated the housing affordability challenge as the cost of borrowing for house purchases increased rapidly (Figure 5.10, Panel A). This is particularly hurting

prospective buyers and those with variable-rate mortgage loans. The share of such loans has been successfully reduced over the past decade, weakening the passthrough of interest rate increases on housing costs (Figure 5.10, Panel B). However, high interest rate margins, underdeveloped capital markets, and high bank concentrations weigh on the efficiency of mortgage markets.

Figure 5.10. Cost of borrowing has increased sharply since 2022, mostly hurting new buyers



Note: Panel A, lending for house purchase excluding revolving loans and overdrafts, convenience and extended credit card debt. Data refer to annualised agreed rate / narrowly defined effective rate. Panel B, share of new loans to households for house purchase with a floating rate or an initial rate fixation period of up to one year in total new loans from MFIs to households.

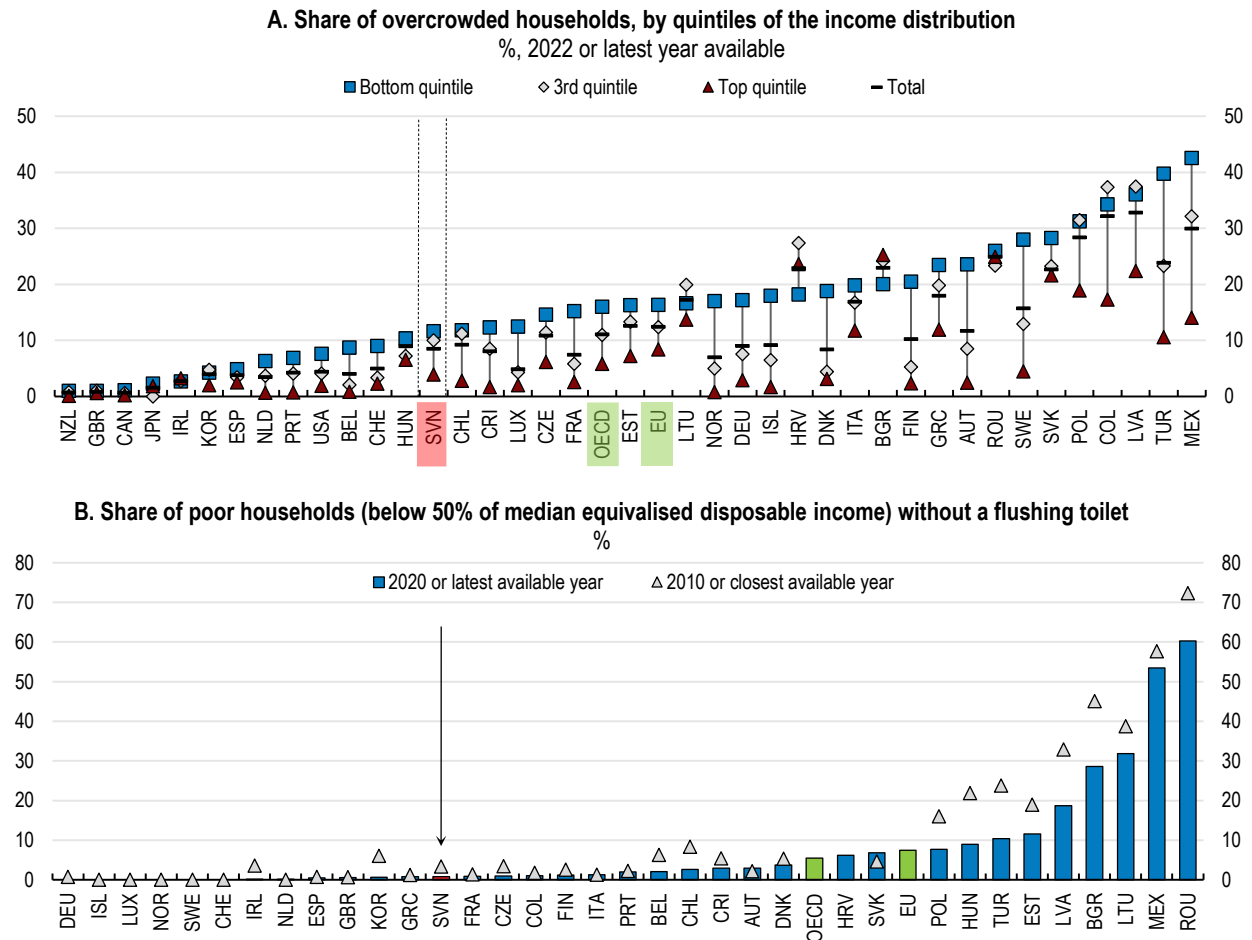
Source: European Central Bank (ECB).

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Slovenia enjoys solid housing quality and living conditions despite an old housing stock

Slovenia exhibits good performance in terms of housing conditions, especially when compared to its regional peers. In 2022, 10.5% of low-income Slovenian households were overburdened by housing expenses, defined as a situation where a household spends more than 40% of its income on mortgage and rent. This is one of the lowest shares in OECD countries. Additionally, with less than 12% of bottom-quintile households living in overcrowded dwellings, Slovenia fares quite favourably when compared to regional peers (Figure 5.11), namely Austria (24%), Poland (31%), Hungary (10%), Czech Republic (15%), and Slovakia (28%). Yet, the share of overcrowded households in the bottom-income quintile attains 35% for renters (OECD Affordable Housing database, indicator [HC2.1.4](#)), underscoring the precarious situation of non-homeowners in Slovenia.

Figure 5.11. Housing quality standards are relatively good

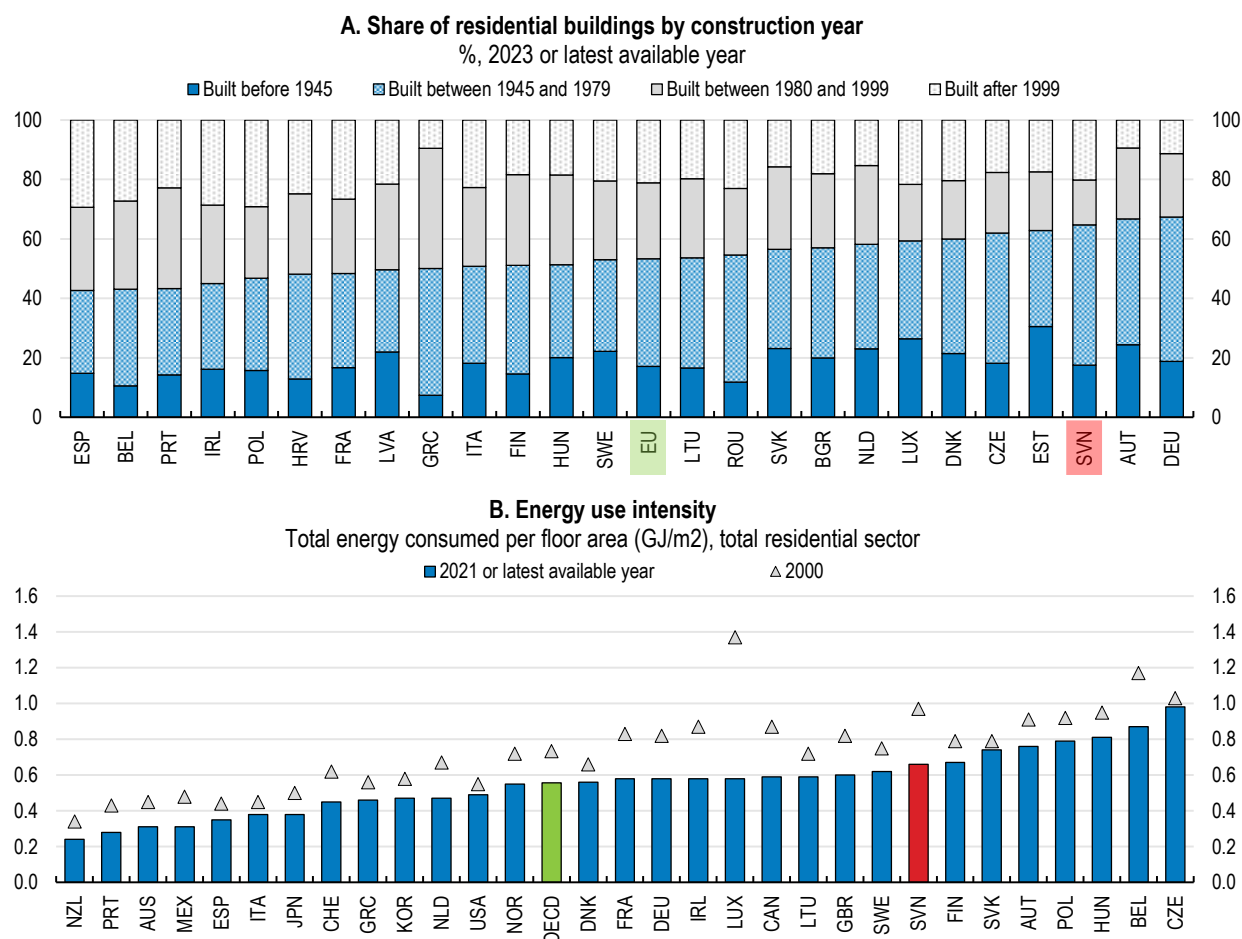


Source: OECD Affordable Housing database.

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The vast majority of residential buildings in Slovenia date from before 1980, when building standards were still misaligned with the decarbonisation challenge (Figure 5.12). As a result, energy consumption in residential buildings is high in international comparison. In the wake of Russia's war of aggression against Ukraine, the escalating prices of fossil fuels have highlighted the pressing need to transition the housing sector towards a greener future. Well-insulated homes equipped with energy-efficient devices lower overall energy consumption and shield residents from the financial strain of volatile energy costs. Yet, improving the energy efficiency of buildings requires investments that many homeowners cannot undertake alone. Indeed, while benefitting from low housing costs, many homeowners cannot afford to maintain or upgrade the quality of their existing dwellings. Moreover, in the case of rentals, incentives for investments in energy-efficient upgrades are misaligned, as landlords bear the cost of these improvements while tenants accrue the financial benefits through reduced energy expenses, a situation known as the split-incentive problem.

Figure 5.12. Ageing housing stock weighs on energy efficiency



Note: In Panel A, 2021 for Slovenia. In Panel B, 2019 for Slovenia. OECD is an unweighted average of available countries shown in the figure.
Source: European Commission, EU Building Stock Observatory database; and International Energy Agency (IEA).

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Table 5.1. Past recommendations on housing

Recommendations in previous Surveys	Action taken since the 2022 Survey
Ease the regulatory burden, including zoning rules and rules for converting state-owned agricultural land into urban land.	No action taken.
Tax owner-occupied housing as other assets to remove investment bias.	No action taken.
Promote the private rental market by introducing regulation that better balances the interest of landlords and tenants.	In 2021, the notice period to terminate a lease agreement was shortened from 90 to 60 days, and eviction in case of non-payment was facilitated.

Policy options to make housing more efficient, inclusive and sustainable

Streamline the spatial planning, land use and permitting systems

Since the end of social planning in 1991, the spatial planning systems have changed several times. Land use and spatial planning at the municipal level are still relatively new in Slovenia. It has only been since 2003 that municipalities have been obliged to create detailed plans for land use and zoning regulations,

transposing the strategic plans established by the national government. Frequent modification of the Spatial Planning Act over the past 20 years has complicated establishing and harmonising local plans (Box 5.1). In particular, the role of regional plans has been subject to heated debate and change. A welcome development of the latest reform is the re-establishment of the regional-level plans to foster vertical and horizontal integration of spatial planning and land use. Table 5.2 summarises the evolution of planning documents across three Spatial Planning Acts (2002, 2007, and 2017).

Table 5.2. The evolution of spatial planning governance in Slovenia

Overview of planning documents according to the three Spatial Planning Acts (2003, 2007, and 2017)

Level	Type	2002 (ZureP-1)	2007 (ZPNačrt)	2017 (ZUreP-2)
National	Strategic	<ul style="list-style-type: none"> ✓ The Spatial Development Strategy of Slovenia ✓ Spatial Order of Slovenia 	<ul style="list-style-type: none"> ✓ National Strategic Spatial Plan 	<ul style="list-style-type: none"> ✓ The Spatial Development Strategy of Slovenia ✓ Action programme for delivery of the strategy (Spatial Order of Slovenia)
	Detailed	<ul style="list-style-type: none"> ✓ National detailed site plan 	<ul style="list-style-type: none"> ✓ National spatial plan 	<ul style="list-style-type: none"> ✓ National spatial plan ✓ National detailed site plan
Regional	Strategic	<ul style="list-style-type: none"> ✓ Regional conception of the spatial development 	-	<ul style="list-style-type: none"> ✓ Regional spatial plan
	Detailed	<ul style="list-style-type: none"> ✓ Intermunicipal detailed site plan 	-	-
Local	Strategic	<ul style="list-style-type: none"> ✓ Strategy of the Spatial Development of the municipality 	<ul style="list-style-type: none"> ✓ Municipal strategic spatial plan Intermunicipal spatial plan 	<ul style="list-style-type: none"> ✓ Municipal spatial plan (strategic)
	Detailed	<ul style="list-style-type: none"> ✓ Municipal Spatial Order ✓ Municipal detailed site plan 	<ul style="list-style-type: none"> ✓ Municipal spatial plan Municipal detailed site plan 	<ul style="list-style-type: none"> ✓ Municipal spatial plan (detailed) ✓ Municipal detailed site plan

Source: "The Slovenian planning system 30 years later: Lessons learnt and lessons not learnt", (Marot, N., 2021)

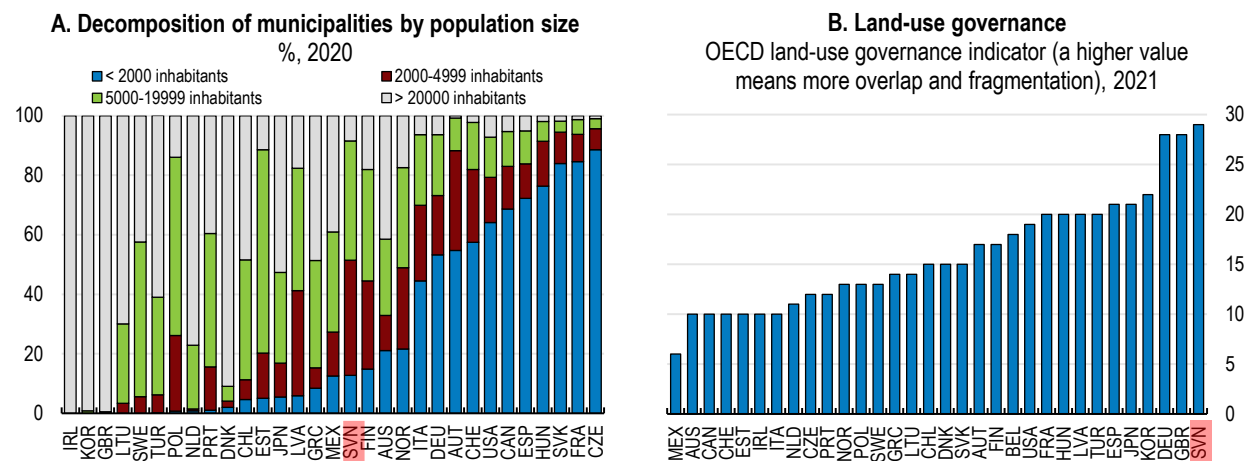
The relatively small size of Slovenian communities compounds the challenges of decentralisation by making land use policy even more fragmented (Figure 5.13, Panel A). Evidence gathered through the 2021 OECD's Questionnaire on Affordable and Social Housing (QuASH) confirms that Slovenia's land use governance is highly decentralised and, in addition, characterised by overlaps across levels of government (Figure 5.13, Panel B). The latest reforms to the Spatial Planning Act (Box 5.1, Table 5.2) stipulate the creation of regional spatial plans which would improve Slovenia's position, provided the plans are detailed enough and enforceable.

Although regions exist only as statistical units and not as administrative or political levels of government, some national policies, such as drawing development plans, are executed at the regional level. Authorities should build on the expertise of these regional agencies and implement the strategic regional spatial plans as stipulated by ZUreP-2 and ZureP-3. Progress with the implementation of the regional plans is slow, partly due to uncertain capacity building. Regional plans will be financed 60% by central government and 40% by local budgets. Nonetheless, establishing the plans will be complex, notably due to the requirement of unanimous agreement among all municipalities covered by a regional plan.

Another policy option to overcome fragmentation could involve mergers of municipalities or, if this is politically unfeasible, at least inter-municipal cooperation (IMC). In countries where spatial plans go beyond the confines of local government borders, localities can collaborate effectively despite occasional conflicting interests and varying capabilities. Moreover, land-use policy instruments like tradable or transferrable development rights gain increased effectiveness when their application is within the same metropolitan area, allowing a sufficiently large and competitive market (OECD, 2021^[2]). Reviving the idea of inter-municipal spatial plans, stipulated by ZureP-1 (Table 5.2) in 2002, can potentially increase the efficiency of horizontal and vertical coordination of spatial planning. The Council of Europe has created an IMC toolkit, and several pilot projects as part of the "Territorial Agenda 2030" are underway. Successful

cooperations in spatial planning have been conducted in Belgium (Veneco project around Ghent), Czechia (Desná Valley) or Poland (Zielawa Valley).

Figure 5.13. Housing governance is inefficient



Source: OECD Housing Governance Indicators Dashboard, <https://www.oecd.org/housing/policy-toolkit/data-dashboard/housing-governance/>

StatLink  <https://stat.link/g1h3qt>

Box 5.1. A brief history of spatial planning systems in Slovenia

The Slovenian spatial planning system presents a unique blend, influenced neither purely by historical practices nor solely by Western transpositions (Marot, 2021^[3]). Slovenia operates as a unitary state with two levels of governance: the national government and 212 municipalities. The national government sets the legislative framework for spatial planning through the Ministry of the Environment and Spatial Planning, which is responsible for national spatial plans, environmental impact assessments, nature conservation areas, land surveys, and land and cadastre data. Additionally, other ministries can propose National Spatial Plans when needed. The government also manages land use for national infrastructure, agriculture, and heritage protection and issues building permits through an administrative agency. Municipalities are in charge of the operational part of spatial planning, namely drawing detailed plans for land use and zoning regulations at the local level.

The Spatial Planning Act of 2003 (ZureP) introduced a regional level of planning to bridge the gap between the national and local levels. This was particularly relevant after a 1991 administrative reform, which increased the number of municipalities from 64 to 212. However, the 2007 Spatial Planning Act (ZPNačrt) removed the regional planning level to emphasise faster planning processes and building permit issuance. This change prioritised investor security and altered the planning system's structure and authority, giving the state more oversight.

The 2017 Act (ZUreP-2, in 2022 replaced by ZureP-3) returned to the 2003 model, reinstating regional planning and streamlining planning processes at the national level by establishing a centralised spatial information system to monitor spatial development better. In addition, the new spatial planning Acts ZUreP-2 and ZureP-3 allow for modifications of existing plans so long as only details such as adding a floor to a building are concerned. The tool considerably reduced the administrative burden and uncertainty for builders.

Source: Ministry of the Environment and Spatial Planning

ZUreP-3 legislation also moved the due date for the communal fee for waste management, sewage and water to after the start of the construction. This is welcome as the communal fee, a one-off payment payable to get the building permit, can be a major obstacle for cash-flow-restricted investors. However, similar to other prescriptions from the new Act, the rule has not yet been implemented. Following the 2023 floods, the implementation of the measure was delayed, in favour of a gradual phase-in that will encompass all permits by early 2026. Authorities should revisit this decision and expedite the enactment of the new legislation.

Land Value Capture (LVC) mechanisms have gained traction in urban policy discourse to promote optimal land use, finance necessary public infrastructure and services and avoid windfall gains from public investments. By making it financially less attractive to hold onto underdeveloped land, LVC mechanisms can stimulate the market to increase the supply of new housing. Several land value capture instruments are used in Slovenia, including land readjustments, developer obligations and strategic land management but more can be done to use brown- and greenland more efficiently (OECD/Lincoln Institute of Land Policy, PKU-Lincoln Institute Center, 2022^[4]).

For instance, land readjustment, a tool facilitating urban expansion and development, is grounded in national law but could be used more. Typically executed within planning zones, both local governments and private landowners can initiate these projects. Most projects are landowner-driven and funded, but local communities often co-finance related public infrastructure projects and services. On average, only five such projects occur per year in Slovenia. They are mainly contract-based, necessitating landowner agreement and a spatial development authority's confirmation. Majority-based readjustment requires consent from 67% of landowners or by landowners who own 67% of the land. Although legally outlined and transparent, with public consultations and hearings, landowners can appeal decisions. According to Foski (2009^[5]), evaluating the content and method of land readjustment in Slovenia is mostly based on subjective judgment, which hinders a more widespread application.

According to the latest available Doing Business Indicator from the World Bank (2020), Slovenia ranks very low in the category "Dealing with Construction Permits" mainly due to a high number of procedures (17) and time to obtain the permit (247.5 days). While this indicator reflects business activity (warehouse), procedures in the residential sector are typically even more cumbersome, although some progress has been made with the introduction and amendments of the new Spatial Planning Act (Box 5.1).

In Slovenia, obtaining building permits involves multiple government agencies and entities, each responsible for specific aspects of the permitting process. These agencies, 54 of them, are typically local administrative units and specialised agencies for specific utilities like water, electricity, and sewage. The process begins with obtaining planning documentation to ensure the land is suitable for building, followed by a land survey conducted by a certified land surveyor. The next steps involve the creation of an idea project by an architect or building engineer, obtaining location data, and requesting project conditions from local authorities. Once these conditions are met, detailed construction drawings are prepared for the building permit. The application for a building permit is then submitted to the Local Administrative Unit (Table 5.3).

Table 5.3. Steps to obtain a building permit in Slovenia

Example for a construction worth 2 EUR million in Ljubljana

Step	Description	Agency	Time	Cost (€)
1	Electricity, Water/Sewage and other Approvals	Elektro Ljubljana d.d, JP Vodovod-Kanalizacija d.o.o. and others	30 days	Free
2	Building Permit	Administration Unit Ljubljana	90 days (average)	730.00
3	Geodesist Service	Authorised Geodesist	Varies	370-700
4	Appointment of Building Control	Authorised Building Control Company	during construction	Varies ¹
5	Registration of the start of construction	Administration Unit Ljubljana	not a procedure with fixed period	Free
6	Construction Site Report	Labor Inspection Agency	15 days	Varies
7	Water/Sewage Connection	JP Vodovod-Kanalizacija d.o.o	during construction	9240
8	Telecommunications Connection	Telekom Slovenije/Other	during construction	Varies
9	Obtain License for Use	Administration Unit Ljubljana	60 Days	271.83
10	Official Records Registration	Regional Surveying and Mapping Authority	after the start of use	19.37

Source: Ministry of Natural Resources and Spatial Planning.

Complex and larger projects (typically with a gross area of more than 2,000m² and higher than 25m) benefit from a more streamlined process orchestrated directly by the line ministry, acting as a one-stop shop. Experts in the field confirm that such a process would greatly benefit residential investors and homebuilders and could be channelled through the 54 subregional agencies that ultimately issue the building permits. The steps described in Table 5.3 could be merged or at least centralised. Accordingly, authorities could establish a One-Stop Shop operating under the principle of tacit agreements, whereby if a regulatory agency fails to respond or reacts too late to a permit application, approval is automatically granted.

The Real Estate Cadastre Act (ZKN) unified previously scattered registers and ensured a streamlined process and a centralised and digitised source of information, diminishing ambiguities, increasing transparency and alleviating potential disputes. The act also reduces the time to register constructions and buildings from 6 months to 2 months. With the ZKN's alert system actively identifying and flagging discrepancies in property data, property stakeholders can enjoy increased trust in the data's accuracy. Moreover, the act's stringent oversight and accountability mechanisms, including the provision for second professional opinions and vigilant supervision by the Survey Inspector, further enhance legal certainty. This comprehensive approach can significantly attenuate legal uncertainties and foster a transparent, reliable property management system. As such, it represents a blueprint for the streamlining of the other administrative procedures in the process of obtaining building permits. Notably, application procedures and delivery of building permits could be digitised following experience in other countries, such as the "eDozvola" system in Croatia or the "Ehitisregister" in Estonia (OECD, 2024^[6]).

Reform housing taxation to boost efficiency

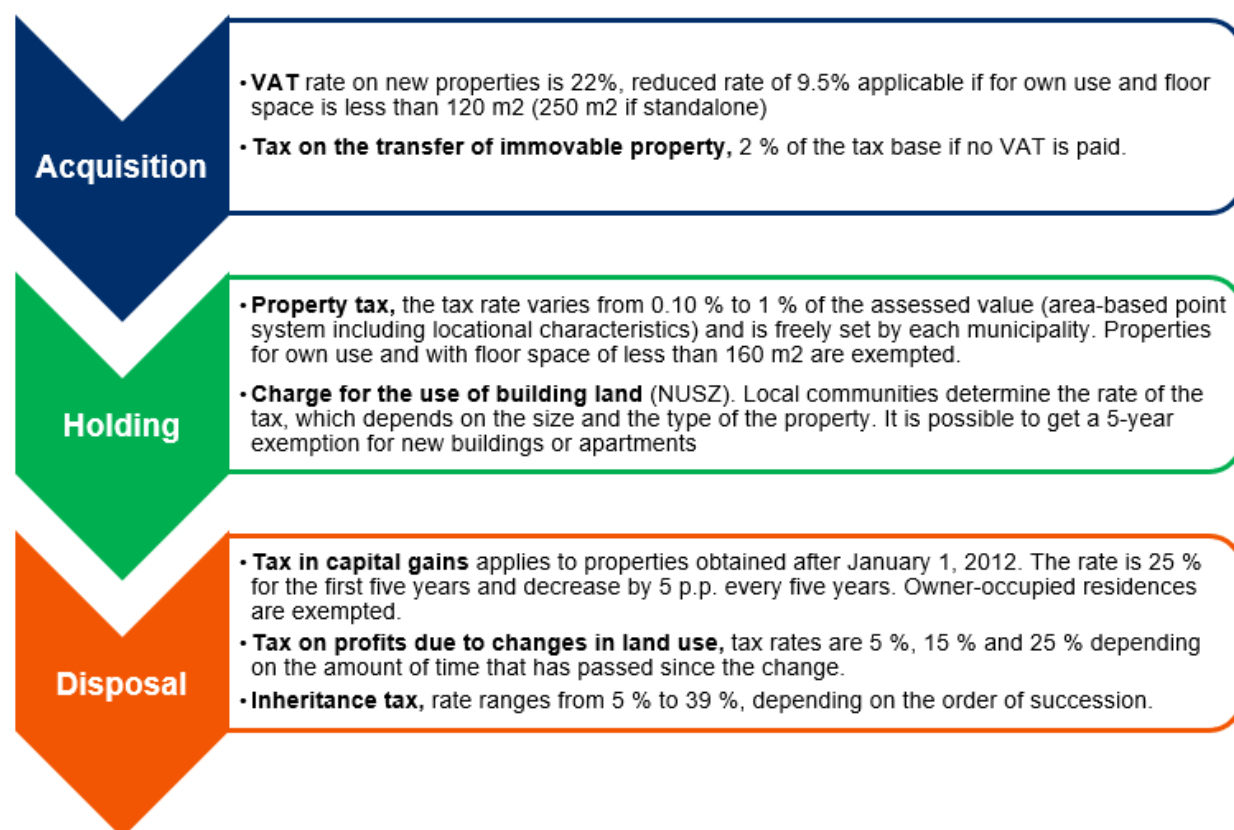
Housing taxation plays a critical role in shaping the dynamics of real estate markets, influencing affordability, investment patterns, and urban development. Effective taxation policies need to consider housing taxation along the cycle of ownership. Well-designed taxes can help to deter speculative investments that drive up prices, encourage the optimal use of urban land, and generate revenues for public services and infrastructure. In Slovenia, the current system was inherited from former Yugoslavia, and reforming it has repeatedly surfaced on the policy agendas since 2013, yet substantial progress in this area remains elusive. Figure 5.14 illustrates the main characteristics of housing taxation in Slovenia along the life cycle of its ownership, from acquisition and holding up to its disposal.

Recurrent residential property taxes are considered among the most efficient taxes, and they can stabilise housing markets, address inequality, and fund local governance, thereby fostering urban development and

infrastructure. Broad-based taxation to capture all immovable properties, empowering local authorities, modernising cadastral information systems, and phasing in property taxes gradually with supportive measures such as deferrals would help raise revenue while minimising distortions and improving acceptance (OECD, 2022^[7]). Despite potential fiscal benefits for local authorities, public sentiment towards property taxes is mixed, especially in countries with high homeownership rates.

Two distinct duties are levied on the holding of real property in Slovenia: the "charge for the use of building land" and "property tax", both serving as exclusive revenue sources for municipalities. The former charge applies to both vacant and developed building land owned or used by individuals. Local communities levy it based on several factors, including the land's urban characteristics, designated use (residential or complex construction), adoption of a spatial implementation plan, and the availability of electricity and water supply. The calculation varies for developed and undeveloped land. Municipal assemblies set chargeable areas considering criteria such as infrastructure, land use, and potential economic benefits. The tax base is the product of points, land area, and point value, set annually by municipal decisions. Municipalities maintain detailed real estate registers for charge assessment, increasingly, though not mandatorily, utilising state-level databases.

Figure 5.14. Residential real estate taxation in Slovenia



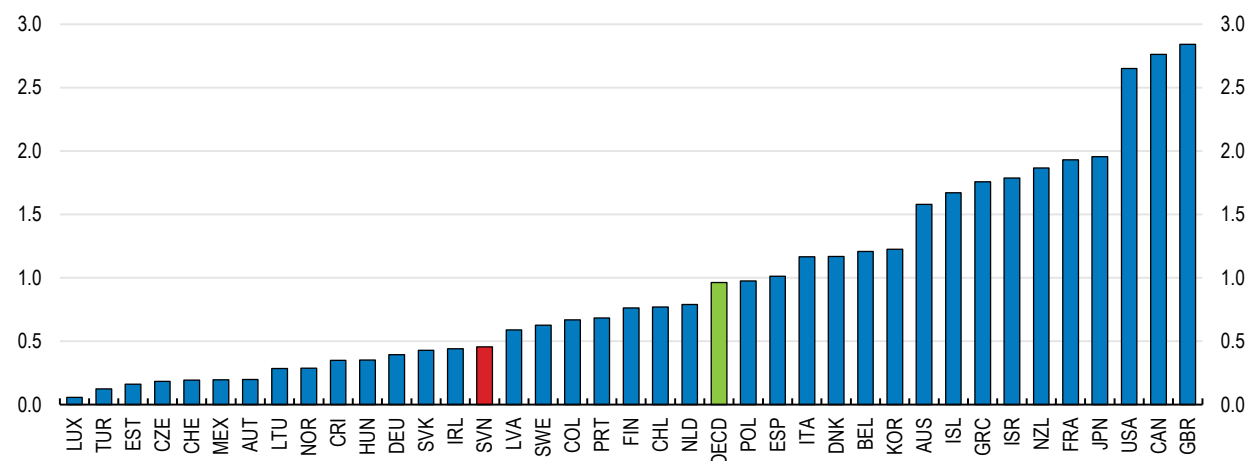
Source: The Financial Administration of the Republic of Slovenia (FURS)

A recurrent property tax is levied on premises such as buildings, apartments, garages, and secondary homes. New owners must report property acquisitions and characteristics to the tax authority using a specific questionnaire. The tax base is the value ascertained by criteria issued by the government and local communities, with all characteristics assigned points under a unified scoring system across Slovenia. Municipalities determine the property valuation annually, considering factors like construction elements, net internal floor area, size, and location impact. Tax rates vary based on property type and value, with different rates for dwellings and commercial buildings. Exemptions include owner-occupied residential

properties under 160 square meters, agricultural buildings, cultural or historical monuments, and business premises used for business activities. Mainly as a result of the wide range of exemptions and the low tax base, revenues from recurrent taxes are low in Slovenia (0.5% of GDP, Figure 5.15).

Figure 5.15. Revenues from recurrent taxes on immovable property are low

Revenue from recurrent taxes on immovable property, % of GDP, 2022 or latest available year



Note: OECD unweighted average.

Source: OECD Revenue Statistics database.

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Strengthening the role of recurrent taxes on immovable property, particularly by ensuring that they are levied on regularly updated property values that reflect actual market values, would increase efficiency in the housing market and improve vertical and horizontal equity (OECD, 2022^[7]). By generating substantial revenue from property taxation, there may be less need to rely on other taxes that can be more distortionary and regressive, such as labour taxes. Countries like Denmark and Ireland have successfully reformed property taxes, showing that with careful planning, nations can optimise the fiscal potential of such taxes while maintaining public support and mitigating the impact on the most vulnerable. In both cases, progressive tax structures, tax deferrals and public service improvements have ensured public and political support for the reforms.

Authorities should consider merging the land tax (NUZS) with the property tax to reap the benefits of a split-rate property taxation model, notably by making the tax rate and incidence comparable. Advocating for a higher tax rate on land than on structures involves several compelling arguments rooted in economic efficiency, social equity and environmental sustainability. It discourages speculative holding of vacant or underused land since owners are motivated to develop or sell the property to those who will, reducing land speculation and increasing its productive use. It also incentivises densification and home improvements, rewarding a higher capital-to-land ratio. This can reduce the pressure to develop greenfields, preserve natural habitats, and reduce urban sprawl. Taxing land value separately and with higher rates than buildings redistributes wealth more fairly as land value increases are often due to external factors like public infrastructure improvements or community development rather than the landowner's investment.

Examples of split-rate property taxes are scarce and mainly concentrated in a few cities in the U.S. states of Pennsylvania (where almost two dozen municipal governments have introduced split-rate taxes to date) and Hawaii (where regional governments may choose to levy split-rate taxes). Split-rate taxes also apply at the national level in Finland. Empirical evidence on the effectiveness of split-rate taxes is scarce. Banzhaf and Lavery (2010^[8]) found that split-rate taxes increased the ratio of capital to land, mostly through additional dense residential development within Pennsylvania. While the evidence on split-rate taxes remains limited and context-specific, policymakers should be mindful of the interaction of property taxes

with existing land-use policies. For instance, split-rate measures are likely to be ineffective when, for example, existing height restrictions limit the possibility for greater housing densities or in urban areas with restrictive zoning regulations (OECD, 2022^[7]).

Recurrent property taxes are also a suitable tool to internalise the negative externality short-term rentals and mostly vacant secondary homes exert on local housing markets by reducing the available supply of homes, particularly in highly demanded urban centres. Increasing property tax rates for vacant homes, like in France, can incentivise a more efficient use of the existing housing stock. These measures can ensure a more balanced and equitable housing market, especially in areas characterised by the proliferation of secondary homes and short-term rentals. Yet, evidence shows that successful implementation of vacant home taxes requires efficient enforcement mechanisms, which can lead to increasing administrative costs (OECD, 2022^[7]).

Authorities might also consider capping the capital gains tax exemption for the sale of residential property to ensure that the highest-value gains are taxed to strengthen progressivity and reduce some of the upward pressure on house prices. The sale of primary residence is totally exempted, irrespective of the holding period. The sale of secondary homes is taxed at 25% if held less than five years, with a reduced rate of 20% after five years, 15% after a holding period of ten years and a total exemption after 15 years. These exemptions allow homeowners to avoid taxes on windfall gains from rising property values, often influenced by public investments or market dynamics. They may also incentivise homeowners to resist new housing developments, potentially exacerbating price increases. If a sufficiently high exemption limit were set, most homeowners would remain unaffected, while those at the higher end of the value spectrum would be taxed. The exemption limit should apply to a specific time frame, not a single transaction. Such a system would promote fairness between those who move frequently and those who stay in their homes for extended periods, thereby fostering residential mobility.

A few OECD countries have successfully implemented such caps with varying thresholds and conditions. For instance, in the United States, up to USD 250,000 (USD 500,000 for married couples) of capital gains can be excluded, provided the property has been the main residence for at least two of the past five years. Mexico allows an exemption for gains below USD 250,000 if the owner has not sold another property in the last five years. Korea exempts gains from houses valued below approximately USD 790,000, subject to certain conditions. These examples illustrate diverse approaches to balancing revenue collection with homeowner equity and market efficiency.

Level the playing field in rental markets

The private rental segment has remained underdeveloped since the privatisation of state-owned housing. As a result of inadequate regulations and enforcement, the small private rental market is dominated by informal short-term contracts, rendering it unattractive as a longer-term solution for tenants. Inadequate inspection and non-existing registers mean most rental activity is unofficial (Sendi and Mali, 2015^[9]). There are no rules on rent increases, weighing on rent predictability and reducing incentives for long-term renting. Property owners also face disincentives for renting due to the lack of rules on deposits to cover potential claims after contract termination and on the parties' responsibilities regarding maintenance works. Furthermore, lengthy court procedures for tenancy disputes are discouraging rentals. The average length of proceedings is 13.2 months, with another average of 4.6 months for appeals.

The implicit tax bias in favour of short-term rentals is one of the biggest obstacles to the supply of standard long-term rentals. Rental income for standard long-term rentals is taxed at a flat rate of 25% from 2023 onwards (up from 15% in 2022 to align it with the taxation of capital income). In contrast, short-term rentals are, in most cases, taxed at 4% as landlords benefit from preferential treatment of business activities (Box 5.2). Taxation for short-term rentals ought to be aligned with those applied to standard long-term rentals, fostering fairness and equity within the rental market and encouraging property owners to offer standard long-term rentals.

Another major obstacle is informality. Landlords are more or less free to decide the form and scope of rental agreements. This commonly leads to underreporting of rents to tax authorities and the inability to monitor actual rents. Countries can combat tax evasion by requiring taxpayers to report all rental income, even below exemption thresholds, and by enforcing more rigorous reporting from third parties like rental agencies and digital platforms. This expanded data collection will improve tax authorities' ability to detect tax evasion by cross-referencing taxpayer information. Recent examples include Denmark and France, which have imposed these third-party reporting obligations on digital platforms, potentially deterring income underreporting by taxpayers.

Developing standardised lease agreements with compulsory minimum information and clauses would improve transparency and reduce regulatory uncertainties. The government may provide guidelines and legislation, possibly a template, that help formulate these standardised contracts, ensuring they comply with national law. Key elements could include detailed descriptions of the rental property, terms regarding rent, utility costs, rent increase mechanisms, security deposit specifications, landlord and tenant maintenance obligations, rules on property use, subletting conditions and procedures for property inspections and renovations, and mechanisms for resolving disputes.

Box 5.2. Taxation of short-term rental income

In Slovenia, owners who let out their dwelling occasionally (no more than 5 months in a calendar year, offering guests up to 15 beds) can choose between two models for the taxation of the received rental income :

- **Option 1 - Actual Revenue and Expenses:** This option involves calculating tax based on the actual rental revenue minus actual expenses and adding it to personal income. The taxable income is taxed using Slovenia's progressive personal income tax rates ranging from 16% to 50%.
- **Option 2 - Fixed Costs Method:** the tax base is the difference between actual revenue and fixed costs, which are capped at 80% of the revenue but not exceeding €40,000. The tax rate for this method is a flat 20%.

Example: For gross rental income of EUR 7,000 with actual expenses for house insurance (€500), electricity and maintenance (€600) and social security (€400). The tax computation under the two options is as follows:

	Option 1	Option 2
Rental income	€10000	€10000
Deductible costs	€1500	€800
Taxable rental income	€8500	€2000
Tax rate*	25%	20%
Tax liability	€2125	€400
Effective tax rate*	21.25%	4%

*assuming personal income other than rental of €30000.

Option 2 is limited to €50,000 of annual rental income for individuals. If rental income exceeds €50,000 or the dwelling is rented out for more than 5 months in a calendar year, individuals can opt to become sole proprietors, in which case the threshold to use Option 2 increases to €300,000. However, for regular sole proprietors under Option 2, the cap on fixed costs is €80,000, subject to certain conditions like employing a full-time employee for a specified duration. For so-called "afternoon" sole proprietors who do not employ staff, the fixed costs are capped at €40,000.

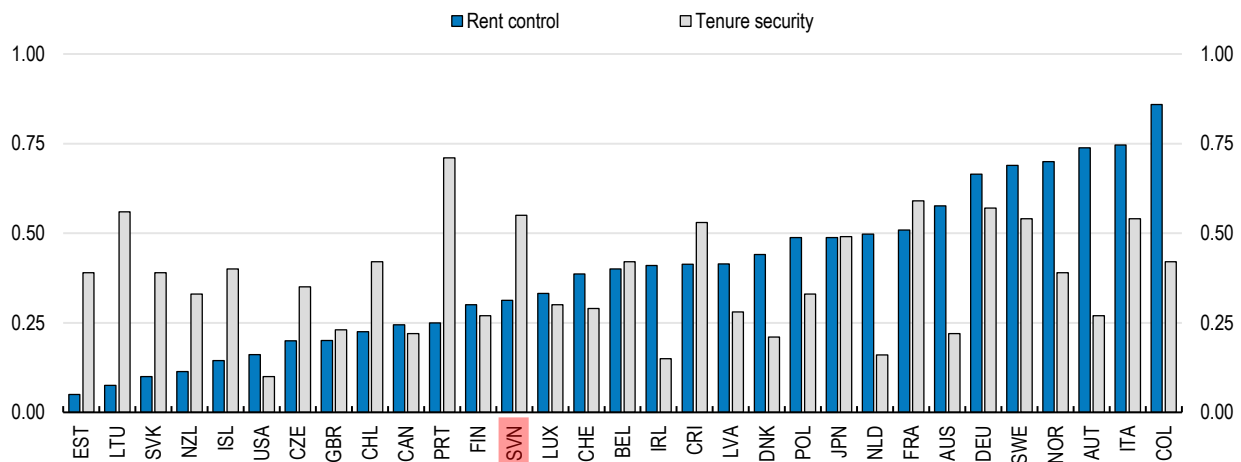
Source: AirBnB, "Slovenia – tax considerations on short-term lettings", September 2021.

These contracts should also outline the responsibilities for annual maintenance, the handling of damages, and provisions that allow landlords to pass on costs for energy efficiency improvements, addressing the split incentive issue whereby landlords lack motivation to invest in such upgrades as they do not directly benefit from reductions in energy bills (OECD, 2023^[10]; Hoeller et al., 2023^[11]). Based on preliminary evidence from the 2023 OECD survey of tenancy regulations, 27 countries report that, under some circumstances, landlords are allowed to increase rents when their costs increase; however, just six of these countries explicitly allow landlords to partially pass through costs of energy efficiency improvements to rents, Slovenia not being one of them.

Slovenia exhibits one of the highest *de jure* tenure security levels across OECD countries (Figure 5.16). Restrictive rental agreements can lead to more informal agreements or prudent preselection, negatively impacting vulnerable renters and impeding residential and labour mobility (OECD, 2021^[2]). Specifically, landlords who are hesitant about eviction difficulties due to excessive tenant protection might demand proof of stable income, disadvantaging renters with uncertain job prospects, such as low-wage or irregular workers. Notably, compared to most other OECD countries, reasons to terminate a contract are still very limited and, for instance, do not include the occupation by the landlord or the sale of the dwelling (OECD Affordable Housing Database, Indicator PH6). Regulation that better balances the interests of tenants and landlords is needed. A well-functioning rental market could help improve labour reallocation by boosting residential mobility. This, in turn, will have positive effects on employment and productivity.

Figure 5.16. High tenure security holds back rental market development

Index from 0 (least restrictive) to 1 (most restrictive)



Note: The rent control and tenure security indices range from 0 (no restrictions) to 1 (all types of restrictions) according to answers to the 2021 OECD Questionnaire on Affordable and Social Housing.

Source: OECD calculations.

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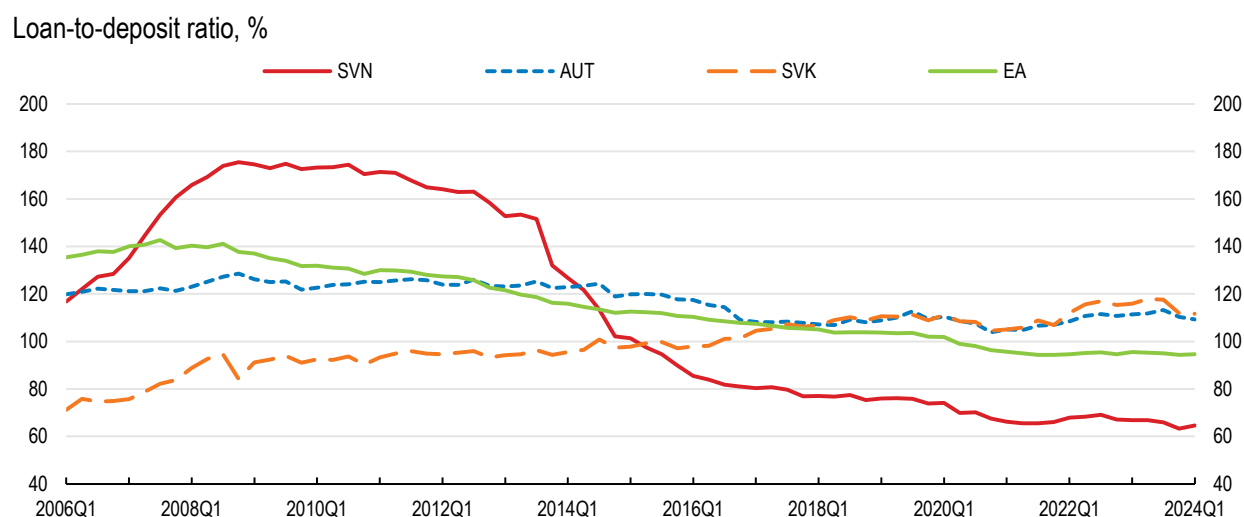
Enhance access to mortgage financing

Efficient and well-regulated mortgage markets contribute to the smooth functioning of the housing market, influencing both supply and demand. Slovenia exhibits one of the smallest mortgage markets in the OECD as high risk aversion among lenders and borrowers following financial crisis experiences seems to prevail. In 2022, only 13.8% of Slovenian households, against an OECD average of 24.7%, were paying off a mortgage, a share that even reduces to 4.1% (OECD average: 10.4%) for low-income households (OECD's Affordable Housing Database, [Indicators HM1.3.1 and HM1.3.3](#)). This suggests that Slovenia's mortgage markets are underdeveloped, even considering Slovenia's relatively high share of homeowners

inherited from mass privatisation during the transition to the market economy. In Slovakia, for instance, 21.1% of households are owners with a mortgage (16.8% among low-income households).

The loan-to-deposit ratios in Slovenian banks have been falling considerably in the wake of the GFC and bank privatisation and are very low in international comparison (Figure 5.17). In late 2023, the loan-to-deposit stood at approximately 65%, indicating a considerable volume of liquidity that could be extended as loans to firms and households. At the same time, 70% of the deposits are highly liquid sight deposits, which makes them less suitable for banks to use as a primary source for generating loans (Banka Slovenije, 2023^[12]).

Figure 5.17. Loan-to-deposit ratios are very low



Source: European Central Bank (ECB).

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Mortgage lending margins are high in international comparison (Figure 5.18), which raises concerns regarding the overall efficiency and competitive landscape of the banking sector (see also Chapter 2). The number of banks operating in Slovenia has declined over the past decade amid the privatisation of previously state-owned banks and a series of mergers and acquisitions. In 2022, Slovenian banks exhibited the highest return on equity and highest net stable funding ratios across all euro area countries (ECB, 2023^[13]). The merger of two of the largest banks will further increase concentration measures in 2024. The Authorities should carefully monitor the concentration in the banking sector and ensure a sufficiently high level of competition.

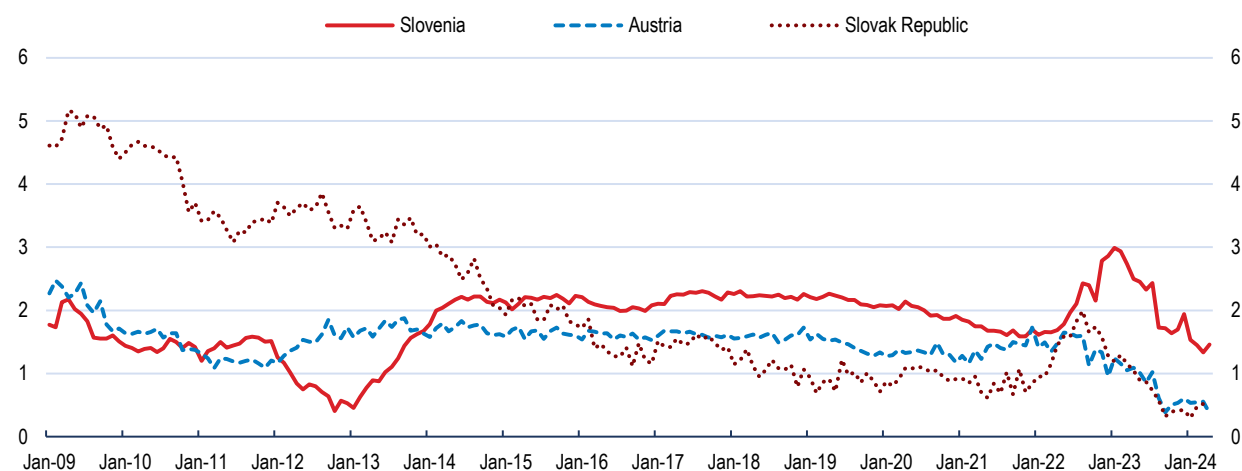
Another reason for the wider margins could be related to the Bank of Slovenia's decision to apply stricter macro-prudential regulation to banks' mortgage exposure. Indeed, the reduced risk weight of 35% only applies for the part of the loan up to 60% of the underlying property value (against up to 80% of the loan as stipulated by EU Capital Requirement Regulations). For the part of the loan above 60% of the property value, a risk weight of 100% applies. This weighs on banks' capital ratios and might undermine the attractiveness of mortgage loans compared to other financial assets. However, this measure has been in place since 2007 and is unlikely to explain the widening margins since 2015, depicted in Figure 5.18.

Lending standards appear to be tight. The latest Household Financing and Consumption Survey from the ECB revealed that, in the period 2020/2021, 18% of Slovenian households that applied for a loan were not approved or received a smaller amount than they wanted (ECB, 2023^[14]). While this share has decreased from 31.6% in 2017, it remains above the euro area average of 10.5% (stable from 10.6% in 2017). High risk aversion seems to prevail, and banks face difficulties externalising their credit risk. Authorities should enhance transparency, ensure comprehensive disclosures, and broaden access to and utilisation of the

central credit registry. A well-functioning credit registry fosters project financing by reducing information asymmetry between borrowers and lenders, enhancing financial inclusion, lowering the cost of credit and improving credit risk management (World Bank, 2020^[15]).

Figure 5.18. Subdued competition in the bank sector may weigh on mortgage rates

Monetary Financial Institutions (MFIs) lending margins on loans for house purchase, %



Source: European Central Bank (ECB).

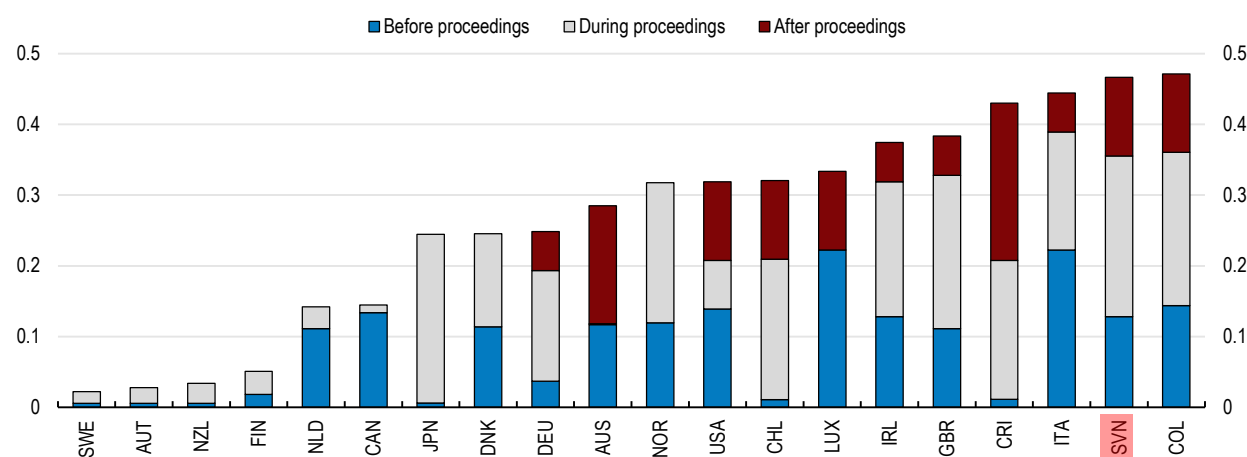
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The development of mortgage markets also depends on how mortgage defaults are regulated. The ideal foreclosure system ensures a fair balance, protecting both parties' interests during mortgage defaults. According to the OECD Foreclosure Regulation Index (van Hoenselaar et al., 2021^[16]), Slovenia exhibits one of the most borrower-friendly foreclosure regulations across the sample of countries together with Italy and Colombia. The Foreclosure Regulation Index measures how the rights of both lenders and borrowers are balanced in each country and is based on answers to the 2019 OECD Questionnaire on Affordable and Social Housing.

Figure 5.19 illustrates borrower and lender rights inherent in foreclosure regimes across jurisdictions. Research by van Hoenselaar et al. (2021^[16]) suggests that extreme settings, i.e. strong protection of either borrowers or creditors, discourage mortgage lending. Against this backdrop, stakeholders should try to reduce the time and cost of foreclosure proceedings in Slovenia, for instance, by encouraging out-of-court procedures. This would rebalance foreclosure proceedings and reduce the lender's risk of extending mortgages.

Figure 5.19. Foreclosure regulations differ considerably across countries

OECD foreclosure regulation index



Note: Higher values indicate more protection of borrowers, while lower values correspond to more protection of lenders.

Source: Update from "Mortgage finance across OECD countries", Van Hoenselaar et al. (2021).

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On the demand side, a lack of knowledge of financial products and basic financial terms can hold back the development of mortgage markets. The latest report by the Slovenian National Financial Education Program (NFEP), presented in March 2023, identified the absence of a fundamental analysis of Slovenia's financial literacy, highlighting the need for a comprehensive critical survey. Slovenia did not participate in a recent study conducted by the OECD, which included 39 countries, 20 of which are OECD members (OECD, 2023^[17]). The study found that only 34% of adults reached the minimum target score on financial literacy. While 84% of adults understand the definition of inflation, only 63% can apply the concept of the time value of money to their savings, and only 42% can correctly answer a question about compound interest.

The Bank of Slovenia and the Ministry of Finance are collaborating on a project assessing the current state of financial literacy, identifying key gaps, and developing financial educational programs. These initiatives include creating an online platform for easy access to financial information and enriching the educational content of the Bank of Slovenia Museum. The project includes conducting a survey on the financial literacy of the general population and SMEs to identify gaps and propose measures for improvement. Additionally, an update of the NFEP, expected in 2024, will lead to the establishment of a central website for financial education, offering resources for consumers, teachers, and students. These initiatives could be accompanied by coordinated efforts to organise workshops, seminars, and campaigns focused on promoting responsible borrowing and understanding of mortgage products.

Unlock the potential of social housing

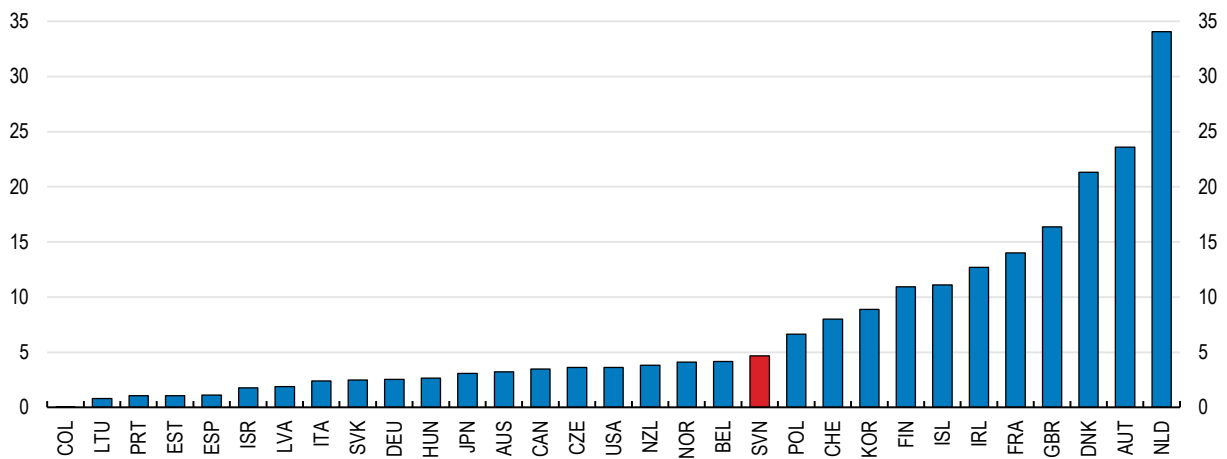
There is an ongoing debate concerning the effectiveness and interaction between tenant-based and place-based housing subsidies. Tenant-based interventions via housing vouchers or rent subsidies offer flexibility in supporting vulnerable households. Still, in the long run, the support is at least partly capitalised in the rent and benefits the landlord (Viren, 2013^[18]; Kangasharju, 2010^[19]; Eerola and Lyytikäinen, 2020^[20]). Cash transfers also often fail to improve housing quality (Seo, Hwang and Lee, 2024^[21]) and lack the positive spillover effects to the rest of the market through more housing supply provided by the construction of social and affordable housing (OECD, 2021^[2]).

Against this backdrop, place-based interventions that stimulate the supply of social and affordable housing can be an important tool to address housing affordability concerns. The definition, size, scope, target


population, and types of social housing providers vary considerably across OECD countries (OECD, 2020^[22]). For instance, social rental housing makes up less than 5% of the total dwelling stock in most OECD countries, including Slovenia, but more than 20% of the total stock in Austria, Denmark, and the Netherlands (Figure 5.20). The government has identified the expansion of the social housing stock as one of the key avenues to improve access to affordable housing. The Ministry of Solidarity-Based Future oversees reform efforts to amend the National Housing Act to improve framework conditions for the construction of social rental housing. The plan encompasses amendments to make social housing investments financially sustainable, including by attracting private investments, to limit the burden on public finances.

Figure 5.20. There is scope to expand the social housing stock

Social rental dwellings, as % of the total housing stock, 2022 or latest available year



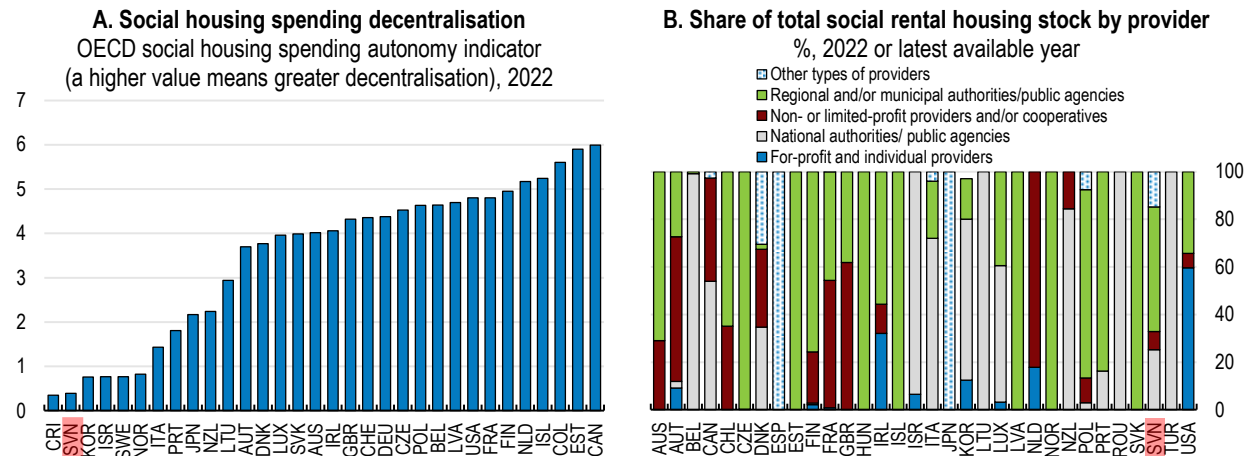
Source: OECD Affordable Housing Database (AHD).

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Slovenia's public social housing policy builds on three pillars: i) The National Housing Programme (Nacionalni Stanovanjski Program), which defines the government goals and planning; ii) The National Housing Fund (Stanovanjski Sklad Republike Slovenije), which implements the National Housing Programme and funds investment projects (cf. Box 5.3) and iii) The National Housing Act (Stanovanjski zakon, SZ), which since 2003 provides a legal framework for the Housing Programme and Fund, supporting greater efficiency in the provision and management of the housing stock (OECD, 2023^[23]).

Spending decisions regarding social housing are highly centralised, and provision occurs mainly through the public sector (Figure 5.21). Investors in social housing are confronted with the challenge of acquiring land at market rates, a significant barrier given the limited profitability of such ventures due to the low levels of social rent. This context renders the presence of non-profit or limited-profit providers in the market almost negligible. Reform efforts should focus on finding the right balance that does not overly strain state budgets while simultaneously making investments in social housing attractive to private investors. Tax incentives could facilitate the emergence of private investors, such as housing associations and limited or not-for-profit developers. For instance, Austria and Denmark grant corporate tax exemptions for housing associations that invest in the construction of social rental housing. In Denmark, housing associations are also exempted from VAT. Such support for social housing falls within the scope of "Services of General Economic Interest" and is therefore exempted from the EU State Aid regulation under some strict conditions such as cost-based pricing, mandatory reinvestment of profits and income ceilings (OECD, 2023^[24]).

Figure 5.21. The governance of social housing



Source: OECD Housing Governance Indicators Dashboard, <https://www.oecd.org/housing/policy-toolkit/data-dashboard/housing-governance/>
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Until the recent injection of EUR 25 million in 2023, the National Housing Fund (HFRS) had not been recapitalised since 1991 (Box 5.3). Without new capital, the HFRS' main leverage to provide new housing units is cofinancing and co-investing. The ability to take loans of up to 50% of its equity offers leverage to the Fund and has allowed several new projects since 2021. However, without crowding in substantial amounts of private investments, the HFRS's funding is insufficient to fill the gap of an estimated 10,000 housing units in the medium term (SSRS, 2022^[25]). Addressing this problem requires thoroughly examining and potentially revising the existing social rent formula to create a more sustainable and viable economic model for social housing investment. Alternatively, the government could allow potential providers to acquire the publicly-owned land at below-market rates.

Box 5.3. The National Housing Fund (HFRS)

The Housing Fund of the Republic of Slovenia (HFRS) provides favourable long-term loans to legal entities for acquiring and maintaining non-profit rental housing, invests in housing construction and land development, and operates in real estate markets to serve public interests. As of late 2023, the HFRS had contributed to building 5000-6000 housing units over the past ten years, with 900 units in the planning stage and a target of 2500 new units to be built in the next ten years.

Funding for the HFRS comes from various sources, including the state budget, capital generated from the sale of social housing, grants, issuing securities, revenues from asset disposal, and revenues from its operations. However, in practice, there has been no direct provision of public financial contributions to the Fund from 1991 to 2023, and the Fund stopped selling its social housing units in 2018. In 2023, a recapitalisation of EUR 25 million took place. Since June 2021, the HFRS can acquire debt up to 50% of its equity (about EUR 415 million at the end of 2022). In 2021, the Fund borrowed an additional EUR 70 million from the Council of Europe Development Bank for 10 projects in 7 regions, through which it expects to build 912 housing units (of which 58 serviced apartments for the elderly).

Sources: HFRS, Ministry of Solidarity-Based Future.

To be enacted in the second half of 2024, the new Housing Law plans to revisit the social rent formula, focusing on old apartments whose value is so low that the rental payments are insufficient to cover maintenance costs. Instead of solely targeting maintenance, lawmakers should also integrate construction cost coverage in the social rent formula to stimulate the provision of new social housing, including by not-for-profit or limited-profit housing associations. Inducing more flexibility to the rent formula could also create

an intermediate market for middle-income households that could afford rent between social and market rent levels.

The rent-setting mechanism is pivotal in setting up a self-sustainable social housing sector (OECD, 2023^[24]). A rent level that allows the cost of building or acquiring the dwelling to be recovered is a prerequisite for revolving fund schemes managed by independent housing funds (like in Denmark) or limited-profit associations (like in Austria). In Copenhagen and Vienna, the social rent level is considerably closer to the market rent than in Ljubljana. While actual rent levels are difficult to assess, survey-based evidence suggests that social rents amount to 56% of the market rent in Copenhagen, 70-80% in Vienna, but only 23-35% in Ljubljana (see OECD Affordable Housing Database, [indicator PH4-3](#)).

Cost coverage of social rents ensures the financial sustainability of public and private housing funds and housing associations in Austria and Denmark. In Denmark, the National Building Fund, established in 1967, is a dedicated, independent housing fund. Funding is based on a share of tenants' rents (2.8% annually of the total acquisition cost of the property), in addition to housing associations' contributions to mortgage loans (about 3% of the property development cost). In Austria, low-profit housing associations (LPHA) finance 10-20% of new projects from their equity, while tenants contribute with 3-7% via rent payments. Surpluses generated by the LPHA must be reinvested into affordable housing.

Another reason for raising the social rent and offering subsidised funding for the construction of social housing could be more efficient utilisation of public funds. Presently, individuals eligible for social housing receive a rent subsidy that covers the gap between market and social rents. However, this approach often leads to the absorption of such subsidies into market rents (Viren, 2013^[18]; Kangasharju, 2010^[19]), especially in the longer run (Eerola and Lyytikäinen, 2020^[20]), thereby worsening housing affordability and increasing public spending further.

Amendments to Slovenia's 2003 Housing Act, enacted in 2021 as part of the milestones of the National Recovery and Resilience Plan, increased the social rent level by 33% in 2021 after 18 years of stagnation. However, the level is still insufficient to cover the cost of construction and maintenance. In addition, the new Housing Law could include provisions to mandate residential housing investors, particularly those in the multi-family sector, to allocate a portion of their developments to social housing coupled with tax advantages to sustain the profitability of residential investments. Integrating social housing units within high-demand residential developments can lead to more cohesive communities, reducing segregation, ensuring equal access to economic and social activities, and enhancing the overall quality of life for all residents.

The design, implementation, and governance of social housing also matter. Transparent and equitable eligibility criteria are needed to ensure that support reaches those most in need without creating lock-in effects that restrict residents' mobility (OECD, 2021^[2]). The portability of benefits is key to allow residents to move freely within the housing market, supporting residential mobility and social mixing. The balance between universalist and targeted social housing systems presents complex trade-offs. While universalist approaches aim to provide housing assistance broadly, potentially diluting the focus on the most vulnerable, targeted systems concentrate resources on specific groups, which can deepen social divides. Effective social housing policy must be designed and implemented carefully to maximise inclusion and support while minimising segregation risks.

Accelerate the decarbonisation of the housing sector

Slovenia has already significantly reduced its carbon footprint from energy consumption in residential buildings between 2000 and 2021 as gas and electricity have replaced a big chunk of oil combustion at home, and energy consumption per capita decreased faster than in most comparable countries (Figure 5.22). The share of oil in total energy consumption in residential buildings declined from 30% in

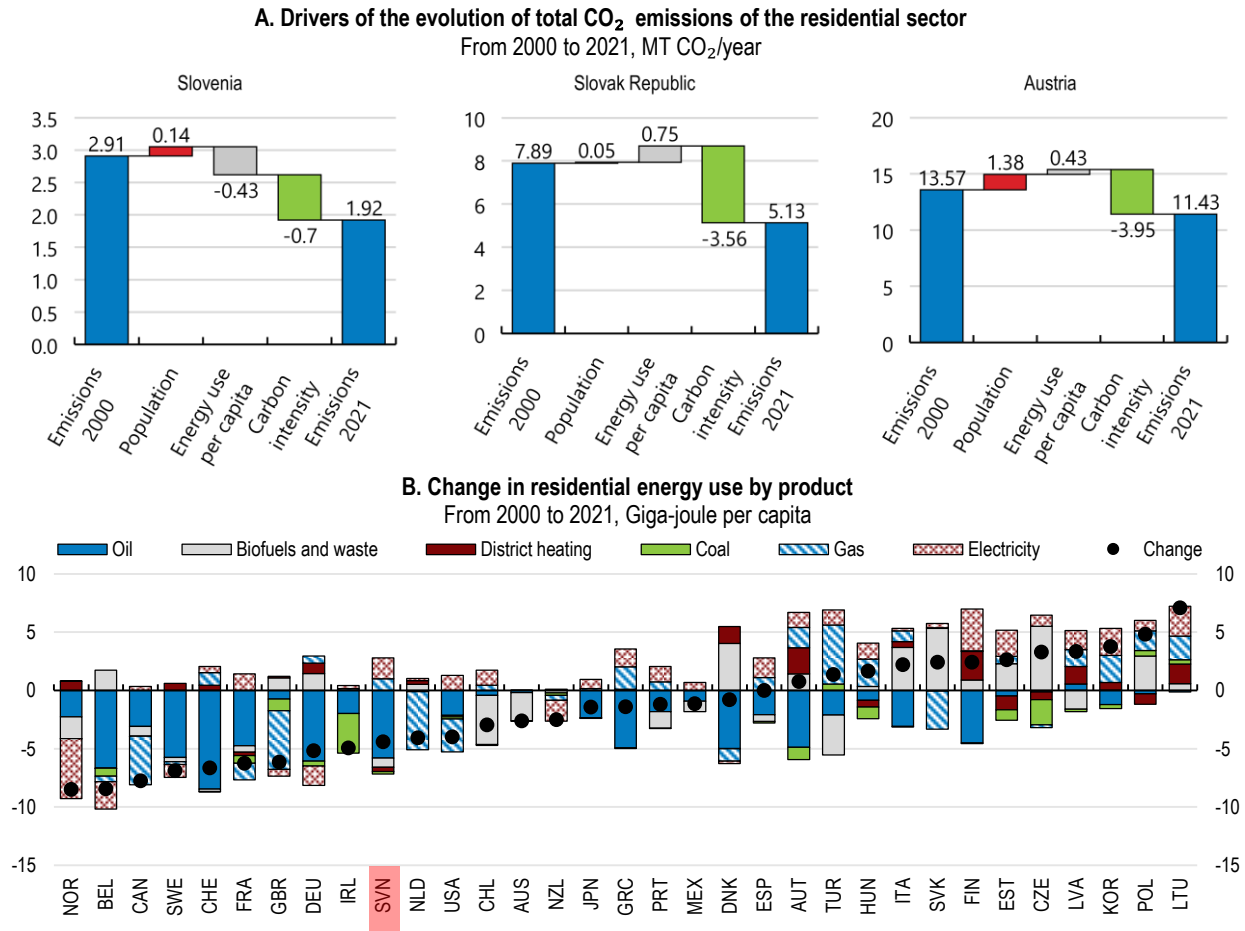
2000 to slightly above 10% in 2021. The share of electricity increased from 18% to 30% over the same period, and the share of gas doubled from 5% to 10%.

Utilisation of biofuels and waste in residential energy consumption is high. Although these products have low CO₂ emission factors, their combustion releases significant amounts of fine particulate emissions, including PM_{2.5}, which exacerbate air pollution and pose risks to public health. This situation amplifies the decarbonisation challenge, highlighting the imperative to expand electricity and district heating networks. Both alternatives offer the advantage of integrating renewable, non-polluting energy sources, presenting a cleaner and more sustainable solution to energy needs. District heating remains low in international comparison as a share of total energy consumption in residential buildings (7% in Slovenia in 2021 against 11% in Austria or 15% in Slovakia). An analysis conducted under the helm of the LIFE IP CARE4CLIMATE project found a lack of clear connection between local and national goals in the use of renewables and energy efficiency that undermines the development of district heating (Čižman and Staničič, 2022^[26]). Like electricity, district heating systems have great potential to decarbonise the building sector as they can effectively integrate up to 100% of renewable energy sources. A uniform framework and better coordination of local energy concepts would help to better integrate future supply networks in municipal spatial plans and reap the benefits of the potential of district heating and renewable energy sources (Čižman et al., 2022^[27]). Adopting inter-municipal cooperation or regional plans would effectively support the achievement of this objective.

The energy efficiency of new and existing buildings will need to improve through a mix of regulation, incentives and financial support. Energy efficiency of homes as measured by energy use per square meter has improved over the past two decades but is still above the OECD average, partly due to a relatively old housing stock (Figure 5.12, Panel B). Overall, CO₂ emissions from the residential sector are below the OECD average. The share of direct emissions in homes is relatively small (Figure 5.23.).

The urgency of phasing out the use of fossil fuels was undermined by the recent energy price shock. Energy poverty rates among Slovenian households surged to 7.2% in 2022 (SURS). Government relief measures were often untargeted and distorted price signals, inadvertently reducing incentives for energy saving or alternative energy sources. Going forward, emergency measures should be targeted to vulnerable groups and disconnected from current energy use. Resources should focus on structural changes to reduce fossil fuel demand, promoting high-efficiency and low-emissions options and aiding poorer consumers with upfront costs. In this regard, policy indicators from the aforementioned OECD CAPMF (cf. Figure 5.24) suggest that Slovenia has some room for progress in banning or phasing out fossil-fuel-based heating equipment (Nachtigall et al., 2022^[28]). While oil boilers have been banned since 2023, natural gas continues to be subsidised (see Chapter 4). Additionally, the cross-country comparison suggests that Slovenia lags behind comparable countries regarding the generosity and take-up of financing mechanisms for energy efficiency improvements.

Figure 5.22. Slovenia successfully reduced residential fossil fuel combustion

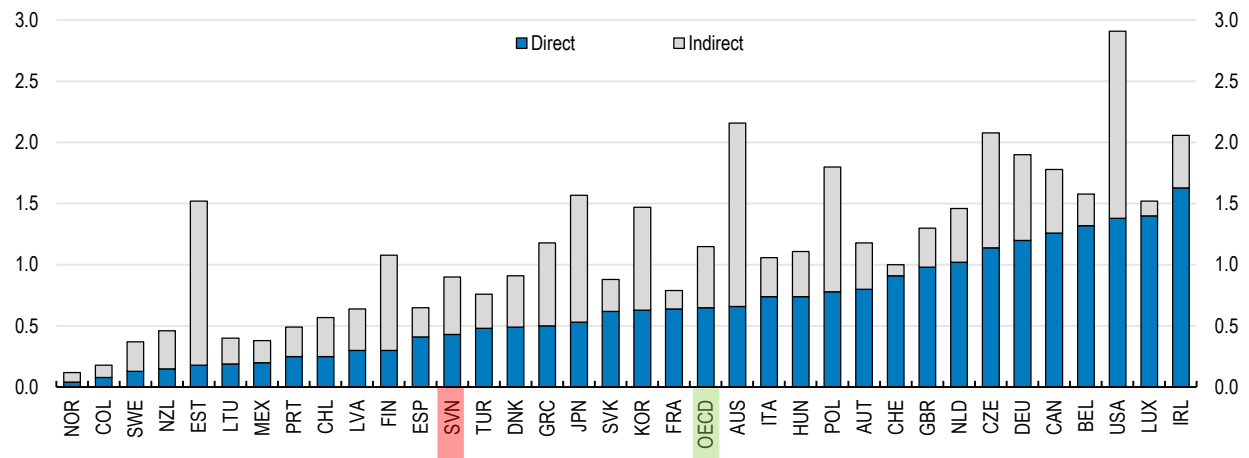


Source: IEA Energy Efficiency Indicators, 2023.

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Figure 5.23. Direct emissions from homes are small compared to peers

Total CO₂ emissions per capita from the residential sector by country, 2021.

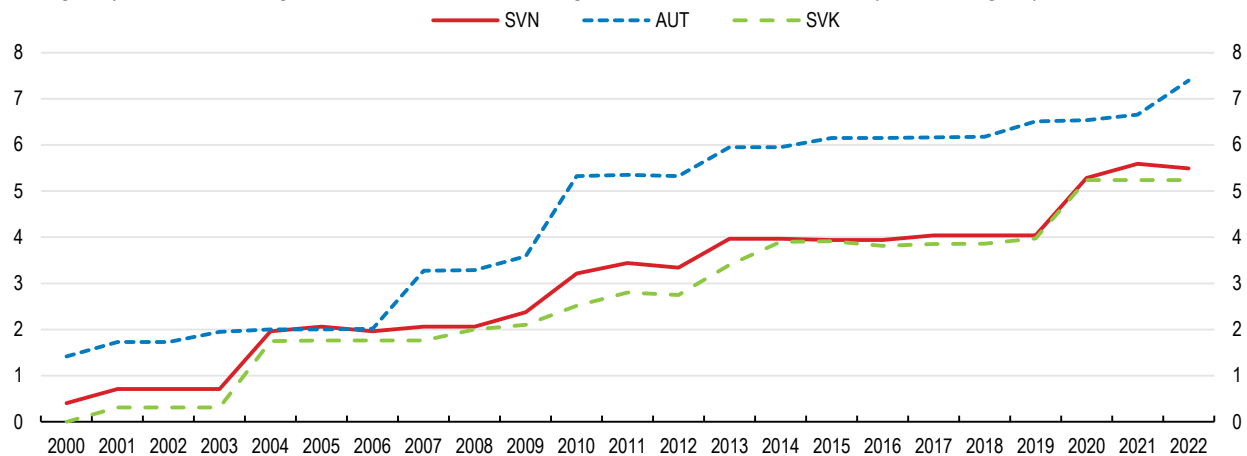


Source: IEA (2023), Energy Efficiency Indicators Database; and IEA (2023), Emission Factors Database and OECD calculations.

StatLink <https://stat.link/mkc8ix>

Figure 5.24. Stringency of climate mitigation policies in the building sector

Stringency of climate mitigation policies in the building sector, score from 0 to 10 (more stringent)



Note: Policy stringency is defined as the degree to which climate actions and policies incentivise or enable GHG emissions mitigation.

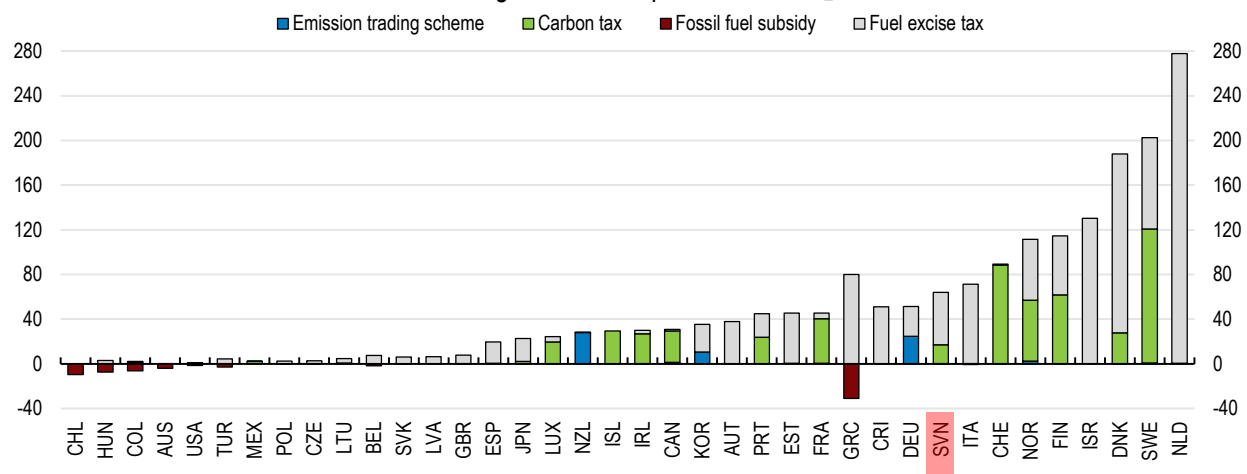
Source: OECD Climate Actions and Policies Measurement Framework (CAPMF), Nachtigal et al. (2022)

StatLink <https://stat.link/k91wga>

Carbon pricing is one of the key instruments to incentivise aligning energy consumption with the carbon content of the energy source used. Within the OECD, the housing sector tends to exhibit relatively modest effective carbon rates in the building sector (Garsous et al., 2023^[29]; OECD, 2022^[30]). While Slovenia is one of the few countries that has implemented a carbon tax covering the building sector (cf. Figure 5.25), its effectiveness is limited as the tax rate has remained unchanged at a low level since its introduction in 1996. Predominantly, OECD member states resort to levying taxes on fossil fuels to account for housing-induced emissions, while direct carbon pricing in this sector is rare (OECD, 2023^[10]). Still, Slovenia lags behind countries like Germany or Austria in adopting emission trading schemes specifically for energy use in residential buildings. Introducing such an instrument prior to the implementation of the EU Emissions Trading System 2 (ETS-2) in 2027 would represent a significant step forward and create stronger incentives for reducing fossil fuel use in homes.

Figure 5.25. Carbon prices are relatively high but could be increased further

Estimated effective carbon rates in the building sector, EUR per tonne of CO₂, 2021



Note: The extended ETS in Austria entered into force in 2022 and is thus not covered.

Source: OECD (2022), Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, <https://doi.org/10.1787/e9778969-en>.

StatLink <https://stat.link/klfmyg>

Other tools, like energy performance labels/certifications, in tandem with established standards and regulatory guidelines, can bolster carbon price signals. Such labels and certifications aid in assessing energy efficiency across properties and devices, incentivising investments towards enhancing and sustaining the thermal attributes of structures and procuring energy-efficient devices. For these certifications to truly bear fruit, they must be universally applicable, spanning beyond merely new properties or those in the sale/rental market, as is customary in several countries across the OECD.

Slovenia's framework for Energy Performance Certificates (EPC) and energy standards is rooted in EU directives that have been transposed into national legislation. Before finalising any sale or rental agreement, the owner is required to present a valid EPC for the building or the specific portion being transacted. Exceptions include properties being sold during liquidation or enforcement, sales of older structures that are no longer fit for residential purposes or rentals with a contract duration under one year. The latter creates the phenomenon that the length of residential leases is generally 11 months. And even for longer leases, enforcement is low, and penalties are not applied. Closing this loophole and ensuring all rental properties have a valid energy performance certificate would not only improve transparency and clarity regarding energy efficiency and housing quality but also mitigate the precarity and instability faced by renters due to short-term leases.

More generally, extending the requirement for EPC to all buildings would raise awareness about the benefits of home improvements. Appropriate EPC frameworks also provide a basis for lenders to better recognise the credit quality attached to energy-efficient homes, reduce funding and lending costs and create markets for products that finance retrofit loans. Scaling up the market for green housing finance products requires reliable, internationally comparable EPC of all buildings, not just those for sale or rent, with sufficient transparency of the related financial products, lending or investment vehicles.

Enhancing the use of financial markets is key to expediting the transition to more energy-efficient housing. Financial intermediaries could be pivotal in distributing the costs of energy retrofitting over long periods, making it more manageable. Currently, in most countries, including Slovenia, there is a noticeable gap in funding for such renovations, particularly when compared to more common financial products like consumer or mortgage loans. As a matter of fact, investments in energy efficiency not only increase property values but also reduce future energy costs, thus improving the homeowner's ability to repay loans and, hence, his creditworthiness.

Progress in this sector hinges on improving the transparency and uniformity of energy efficiency ratings in real estate financial products. The current market is fragmented and not transparent enough, hindering the ability of lenders to acknowledge the reduced risk associated with loans for home energy improvements. Authorities should support efforts such as the European data model named EPC4EU, aiming at the harmonisation of datasets of energy performance certificates (Serna-González et al., 2021^[31]).

As part of the Fit for 55 package, the European Commission adopted the Energy Performance of Buildings Directive (EPBD) to gradually improve the energy performance of buildings across Europe while accounting for national circumstances. Its 2023 update stipulates that all new residential buildings must have zero on-site emissions from fossil fuels, and that energy use from residential buildings is to be reduced by 16% in 2030 (compared to 2020). This requires a renovation wave triggered by mandatory national Building Renovation Plans, building renovation passport schemes and one-stop shops for homeowners, SMEs and all actors in the residential building renovation business.

In Slovenia, the Integrated National Energy and Climate Plan (NECP) includes provisions that transpose the EU Energy Performance on Buildings Directive (EPBD) and stipulates that Slovenia reduces final energy consumption in buildings by 20 % by 2030 compared to 2020 and greenhouse gas emissions from buildings by at least 70% by 2030 compared to 2005. Specifically, the plan sets several targets for the share of renewable energy sources (RES) in residential buildings energy consumption:

- at least 52 % share of RES in electricity generation,
- at least 41 % share of RES in heating and cooling,
- 2/3 of energy use in RES in final use of energy products, excluding electricity and district heating
- prohibition of sale and installation of new boilers using fuel oil after 2022
- an annual increase of at least 2-3 % in the share of RES in district heating and cooling systems and achieving at least 25-40 % of that production by 2030
- By 2050, 74% of single dwellings and 91% of multi-apartment buildings ought to be renovated

With these ambitious goals, the government exceeds the target set by the revised EPBD in terms of reductions of energy use in residential buildings (EPBD: 16% by 2020). Accordingly, almost half of the residential buildings constructed before 2000 shall be renovated by 2030. For comparison, between 2012 and 2016, only 5% of the buildings were renovated. Sustainable construction metrics and strategies to boost deep renovation of existing residential buildings are being developed as part of the comprehensive CARE4CLIMATE project, overseen by the Ministry of the Environment, Climate and Energy.

The government's "Long-term energy renovation strategy for 2050" document includes provisions for the development of policy measures to i) develop sustainability criteria for buildings ii) legally ban the use of fossil fuels for heating in buildings, iii) establish a building energy performance portal by 2024, iv) draw up a financing plan for the broader renovation of buildings and v) ensure sufficient resources to provide financial incentives for energy efficiency improvements and renewable energy use. Oil boilers have been banned since 2023 (see Chapter 4). While switching from oil to gas is a welcome development, eliminating and replacing gas with carbon-free district heating or electrified heating appliances will require further action, notably the ban on gas boilers.

Multi-family buildings account for roughly 27% of the total floor area of the residential sector. Targeted renovation rates are higher for these buildings than for single dwellings. Yet, coordination across homeowners to reach majorities for retrofitting investments can be challenging. Lowering the bar for votes on energy renovation work in multi-family buildings can be a solution, but this could face opposition, particularly in the presence of liquidity-constrained owners. Targeted support programs and grants can enhance adoption rates and alleviate liquidity challenges, effectively reducing the payback periods for renovations, a growing concern against the backdrop of an ageing population.

Several financial support programmes have been launched. The ZERO500 program aims to reduce energy poverty for low-income households through fully funded energy efficiency upgrades, while Slovenia's Eco Fund offers loans and grants for such improvements in existing buildings, and the ENSVET scheme ensures quality in energy audits for multi-apartment renovations. The government should perform regular reporting to gather data on the uptake of the programmes. Reports should include detailed statistics on the number of beneficiaries, the amount of funds disbursed, and the geographical and sectoral distribution of these incentives. They might also include qualitative feedback from beneficiaries to gain insights into the user experience and potential areas for improvement. In addition, monitoring should include periodic impact assessments to evaluate the effectiveness of the incentives. Based on these reports, the government should engage with all stakeholders to continuously refine and improve the incentive schemes.

Table 5.4. Recommendations for better housing policies

MAIN POLICY FINDINGS	RECOMMENDATIONS (key recommendations in bold)
Streamline land use planning and permitting systems	
Spatial planning suffers from fragmentation and inefficient governance across layers of government.	Accelerate the implementation of regional spatial plans and incentivise inter-municipal cooperation in the design of local plans.
Processes for obtaining building permits are lengthy and costly.	Establish a centralised one-stop shop for submitting and tracking building permit applications. Consider applying tacit agreement, automatically approving permit applications if a regulatory agency fails to respond within a set deadline.
Remove regulatory and fiscal distortions to tenure neutrality	
Rental regulation is overly restrictive and often bypassed. Underreporting and informality create vulnerabilities for tenants and uncertainty for market participants.	Introduce standardised rental contracts. Specify mandatory clauses to ensure the contracts comply with national law and protect both landlords and tenants. Enforce reporting to tax authorities based on these standardised rental contracts. Balance tenant and landlord rights further, for instance, by including occupation by the landlord as a valid reason to terminate rental contracts.
Revenues from recurrent property taxes are low. The tax base does not reflect market values, tax rates are low and at the discretion of local governments. Reform plans have existed since 2013 but are currently in a stalemate.	Reform recurrent property taxes based on regularly updated market values. Consider tax deferrals or compensatory measures to protect the most vulnerable.
A separate land tax exists, but it is very low, disconnected from the property tax and at the discretion of local governments.	Consider merging land and property taxation into a split-rate property taxation model whereby land is taxed at a higher rate than the buildings to incentivise new construction and improvements.
Current housing taxation is distortive and not tenure-neutral.	Cap capital gains exemptions for immovable residential properties.
The tax system favours short-term rentals over long-term rentals.	Level the playing field between short-term and long-term rentals by harmonising the taxation of rental revenues. Apply higher property tax rates on secondary homes and short-term rentals than on primary residences.
Enhance access to mortgage financing	
Mortgage markets are underdeveloped, and lending margins are high.	Monitor concentration in the banking sector and ensure a sufficiently high level of competition. Enhance the accessibility and utilisation of the central credit register to reduce the information asymmetry between borrowers and lenders.
High outright ownership, experiences of financial crises and gaps in financial literacy reduce demand for mortgages.	Foster financial literacy and raise awareness of the benefits of diverse tenure structures, including mortgage-financed ownership.
Foreclosure regulations seem to raise mortgage costs for lenders.	Review foreclosure regulations and improve the balance between lender and borrower rights.
Unlock the potential of social housing	
The social housing stock falls short compared to many other European countries. The endowment of public housing funds is low and rents do not cover construction and maintenance costs.	Support the establishment of revolving funding schemes by reviewing the social rent formula to cover construction and maintenance costs. Consider the sale of public land to social housing providers below market rates.
Private investments in social housing are scarce, and the development of a limited or not-for-profit sector is lagging behind.	Facilitate through regulatory and tax instruments the creation of not-for-profit and other housing developers that lease at affordable or social rent levels. Provide public loans and guarantees to not-for-profit and other housing developers that want to lease at affordable or social rent levels.
Accelerate the decarbonisation of the housing sector	
The housing stock is old and energy-inefficient. Energy performance certificates are only mandatory for new dwellings, those for sale, and leases with a duration of at least one year. Expanding the coverage could increase the take-up of renovation support measures, facilitate the scaling up of deep energy renovation and stimulate the growth of green finance.	Conduct regular reviews and impact assessments of financial support measures for residential building energy efficiency, aiming to increase take-up. Expand the coverage of mandatory Energy Performance Certificates, notably including all rentals of dwellings. Relax voting rules for renovations in multi-apartment buildings.
Carbon pricing in the housing sector is low compared to other sectors.	Bring forward the introduction of an emission trading system for direct emissions from residential buildings.
The expansion of district heating is lagging behind that of peer countries.	Foster horizontal and vertical cooperation in the planning and development of district heating infrastructure.

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The Slovenian economy proved resilient following the energy crisis and devastating floods. Growth is projected to pick up gradually. The labour market remains tight, with widespread labour shortages leading to strong wage growth. Inflation has slowed but remains elevated in services. Fiscal consolidation is needed to rebuild fiscal buffers and address emerging pressures from ageing-related cost, notably on pensions. Productivity growth would benefit from lifting remaining barriers in retail trade and restrictions on professional services. Female labour market participation is high, but the gender wage gap could be reduced further through adjustments in the tax and benefit system. Greater harmonisation of carbon prices, notably the removal of reduced tax rates for fossil fuels, is needed to reach emissions targets. High homeownership rates and a limited rental market, combined with insufficient residential construction, constrain housing options for many, especially the young and vulnerable. Enhancing housing supply can be achieved by streamlining spatial planning and permitting systems, reforming housing taxation, improving rental regulations, expanding access to mortgage finance, and promoting the development of social and affordable housing.

SPECIAL FEATURE: ADDRESSING HOUSING MARKET CHALLENGES

Volume 2024/15
July 2024



PRINT ISBN 978-92-64-58186-9

PDF ISBN 978-92-64-63178-6

ISSN 0376-6438
2024 SUBSCRIPTION
(18 ISSUES)



9 789264 581869