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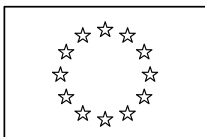

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COMMISSION STAFF WORKING DOCUMENT

Assessment of the 2012 national reform programme and stability programme for SLOVENIA

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Slovenia's 2012 national reform programme and delivering a Council opinion on Slovenia's updated stability programme, 2012-2015

{COM(2012) 327 final}

1. EXECUTIVE SUMMARY

According to the Commission services’ 2012 spring forecast, Slovenia's economic activity is projected to further contract in 2012, by 1.4%, before rebounding in 2013. Unemployment is foreseen to continue rising.

No major structural reforms were taken in 2011. The latter part of the year was marked by early elections and the caretaker government took temporary measures. Slovenia lacked a fully-fledged budget for 2012 until mid-May, creating uncertainty, notably over the achievement of the 2012 deficit target. Following the early elections of December 2011, Slovenia is now in the condition to address the structural reforms it needs.

The challenges already identified last year remain relevant in 2012. Indeed, the intensification of market pressures lends new urgency to credible and durable fiscal consolidation, cleaning of bank balance sheets and pension reform. Failure to overcome the other challenges could hamper the economy's adjustment and return to growth. Notably, labour market segmentation remains high in Slovenia and skills mismatches are being observed, with risks of transitions from short-term to long term unemployment. The business environment is not attractive enough for businesses and investors. Finally, given current policy settings, renewed economic growth could reignite wage developments detrimental to competitiveness.

1. INTRODUCTION

In June 2011 the Commission proposed six country specific recommendations (CSRs) for economic and structural reform policies for Slovenia. In July 2011 the Council adopted these recommendations which concerned (i) public finances and fiscal governance, (ii) pension reform, (iii) banking sector balance sheets, (iv) labour market segmentation, (v) skills mismatches and (vi) selected aspects of the business environment.

In November 2011, the Commission published its Annual Growth Survey for 2012 (AGS 2012) in which it set out its proposals for building the necessary common understanding about the priorities for action at national and EU level in 2012. It focused on five priorities – growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and social consequences of the crisis, and modernising public administration – and encouraged Member States to implement them in the 2012 European semester.

Slovenia submitted the National Reform Programme ("NRP") on 13 April 2012 and the Stability Programme ("SP") on 26 April. These programmes give details on progress made since July 2011 and plans going forward. The NRP follows some but not all of the guidelines provided by the Commission. It outlines measures and structural reforms and plans related to the 2012 AGS priorities and the Europe 2020 targets and clearly shows CSR implementation progress in the standard assessment table. Slovenia's Europe 2020 targets have not changed since the 2011 NRP. The SP describes the fiscal consolidation strategy over 2012-2015 and includes all the elements requested in the Code of Conduct, with the exception of minor gaps in compulsory and optional data. Some additional information was made available by the authorities to update aspects of the programme following parliamentary adoption on 11 May of the austerity package (supplementary budget for 2012 and Act on Balancing Public Finances). Consistency between the NRP and SP is ensured through the sharing of a common macroeconomic scenario. The NRP was discussed in the competent committees of the National Assembly, in the National Council and the Economic and Social Council, with both organisations involving representatives of employee and employer associations. The SP was discussed in the competent committees of the National Assembly.

However, the NRP often lacks detail on the reform agenda, particularly on how it will be implemented, by when, by whom and with which budgetary consequences. This is particularly the case as regards major structural reform challenges in areas such as pensions, labour market functioning and the business environment. As a result, the NRP is insufficiently specific to enable the Commission to make a full assessment of the impact of reforms. In part this reflects the embryonic stage of development of the new government's reform agenda and the fact that the reforms currently planned do not measure up to the scale and urgency of the economic challenge.

This Staff Working Document assesses the state of implementation of the 2011 CSRs as well as the AGS 2012 in Slovenia. It identifies current policy challenges and, in this light, examines the country's latest policy plans.

Overall assessment

2011 was a difficult year in Slovenia as the tentative economic recovery lost all momentum. There was a complete absence of major structural reform. The latter part of the year was

marked by early elections and the caretaker government took temporary measures. Slovenia lacked a fully-fledged budget for 2012 until mid-May, creating uncertainty, notably over the achievement of the 2012 deficit target, and decisions regarding the availability of a public backstop in the recapitalisation of the biggest bank were postponed to the new government, by which time the European Banking Authority (EBA) deadline was fast approaching. The period was notable for high yields on Slovenian government bonds and multiple downgrades of the country's sovereign and commercial bank credit ratings.

This lack of reform and policy implementation and the renewed weakness of the economy mean the challenges already identified and reflected in the country-specific recommendations addressed to Slovenia in June 2011 remain relevant in 2012. Indeed, the intensification of market pressures lends new urgency to credible and durable fiscal consolidation, cleaning of bank balance sheets and pension reform. Failure to overcome the other challenges could hamper the economy's adjustment and return to growth. Notably, the reduction of labour market segmentation and the prevention of skills mismatches will be important to contain unemployment and prevent transitions from short-term to long-term unemployment. In the past year the business environment has not improved, making it harder for Slovenia to attract investment in productive activities.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

Recent economic developments

In the years preceding the crisis, Slovenia enjoyed faster economic growth than the euro area average, driven by buoyant exports and investment. However, by 2007 there were mounting indications that underlying trends were leading to overheating pressures and potential macroeconomic imbalances, particularly over-indebtedness in the corporate segment.

Rapid growth ended in the third quarter of 2008, when the economy was hit hard by the global crisis, chiefly through the trade channel, coming on top of a correction in the over-sized construction sector. By mid-2009, real GDP had dropped by nearly 10 pps. from the peak reached in the third quarter of 2008, reversing part of the previous catch-up process. Difficulties in wholesale financial markets forced banks to turn to ECB funding, bond issuances (both with and without government guarantees) and government deposits.

The export-led recovery Slovenia enjoyed in 2010 was very modest due to the continued drag from weak domestic demand. The recovery ended in 2011 by an accelerated contraction in gross fixed capital formation, with construction investment falling by 23 %, and by the renewed international slowdown. The real GDP growth outturn was negative in all quarters of 2011, with the steepest fall in the fourth quarter. Whereas the recession in 2009 spread through the trade channel to the domestic economy on the verge of overheating, the situation in 2011 was very different, with domestic demand already depressed, deleveraging already underway and more subdued price and wage developments.

Weak domestic demand was a persistent feature of the Slovenian economy during the 2009 recession, the period of export-led recovery in 2010 and the subsequent slowdown in 2011, with wide-ranging consequences. Firstly, the economy has undergone a degree of adjustment, notably as regards the external balance and the inflation gap vis-à-vis the euro area average, although this may reflect cyclical as much as structural developments. Secondly, Slovenia's

public finances deteriorated rapidly due to strong, in-built expenditure dynamics predicated on high growth, and for purely cyclical reasons. Thirdly, employment continues to fall (after initial resilience in 2009 due to labour market support measures, reflected in labour productivity). Finally, many companies, especially those targeting the domestic market, struggle to service debts. There have been significant bankruptcies, particularly in the construction sector. As a result, banks have continued to face substantial losses on their loan portfolios at a time when they face repeated stress on the funding side, where government deposits are required for deficit financing, guaranteed bonds are coming to maturity and the availability of wholesale foreign funding has not improved. These trends have combined to push the non-financial corporate sector into the early stages of a difficult deleveraging process and caused Slovenian banks to access the ECB's three-year longer-term refinancing operations for funds amounting to almost 11 % of GDP in December 2011 and February 2012.

Outlook

Slovenia is forecast to continue to underperform the euro area in terms of real GDP dynamics as real GDP is forecast to contract by 1.4 % in 2012 before rebounding by 0.7 % in 2013. The main drag on growth from the retrenchment in construction (due to the lack of new large infrastructural projects and a high stock of unsold new housing) and also private consumption (in response to further job losses and negative real wage growth per head) is projected to continue in 2012 and, to a lesser extent, in 2013. Negative employment growth is projected to continue and inflation is expected to remain below the euro-area average to the forecast horizon.

The macroeconomic scenario underlying the budgetary projections of the stability programme, which is the same as that of the national reform programme, projects real GDP growth will rebound and strengthen gradually, from -0.9 % in 2012 to 2.2 % by the end of the programme period (2015), driven by improving investment and private consumption prospects. A delayed response of the labour market and structural labour market weaknesses are projected to result in a jobless rebound with employment stabilising only in 2015. Assessed against currently available information, including the Commission services' 2012 spring forecast, these macroeconomic projections appear favourable throughout the programme period.[1]

2.2. Challenges

The 2011 European Semester assessment identified six key challenges:

(i) ensuring long-term sustainability of public finances, including by addressing the low employment rate of older workers;

(ii) repairing the financial sector;

(iii) improving Slovenia's external trade prospects, which are hampered by past losses to its cost competitiveness;

(iv) reducing labour market segmentation, including that arising from "student work";

(v) improving the overall business and competition framework, particularly in services;

[1] The exception to this pattern is the macroeconomic scenario's employment projection, which is more unfavourable than the Commission services' 2012 spring forecast.

(vi) better harnessing research and development and meeting the needs for new skills to support growth and the upgrading of Slovenia's production structure.

These challenges, which were reflected in the country-specific recommendations addressed to Slovenia in June 2011[2], remain equally relevant in 2012 because nothing significant has happened to alter this assessment in the intervening period, during which the economic recovery lost its momentum and economic reforms failed to materialise.

These challenges, as brought forward from 2011, are also in line with the priorities outlined in the 2012 Annual Growth Survey. If anything, recent developments lend even greater emphasis to some of them. This is notably the case for fiscal policy and pension sustainability, as it is now clear that even relatively low-debt countries such as Slovenia can face severe difficulties funding their general government deficit and debt rollover needs on the market. Likewise, the continued deterioration in the labour market and the extent of sectoral restructuring still required following the construction boom further emphasise the pertinence of the challenges identified in the labour market and the overall business and competition framework. Furthermore, it is now apparent that the financial sector challenge is greater than previously thought and that the extent of repair required before credit flow to productive activities and high investment levels can be restored will have to go beyond balance sheet cleaning and recapitalisation. It will inevitably involve a painful period of deleveraging and it will require more equity financing from abroad.

The challenges facing the Slovenian economy are closely interwoven and developments in the past year have emphasised the crucial link between the banking sector and the business environment, in the broadest sense, including judicial and legal frameworks. The banking sector is struggling to restructure its problematic exposure to over-indebted non-financial corporations, requiring timely resolution either through bankruptcy or restructuring. There are lengthy and cumbersome court proceedings, during which loan collateral — often in the form of real estate or stocks — may effectively be frozen. Restructuring of loans and the resolution of uncertainties over future ownership are difficult, especially when several banks are involved. These difficulties harm banks, keep the real estate market in suspended animation and stifle financing and investment in viable companies, notably small and medium-sized enterprises. This expanded challenge relating to the business environment (in the broadest sense) also corresponds to a 2012 Annual Growth Survey priority.

Box 1: Summary of the results of the in-depth review under the macroeconomic imbalances procedure

Rapid growth, credit expansion and strong domestic demand have left Slovenia with a legacy of thinly capitalised banks reliant on foreign funding, over-indebted companies, a bloated construction sector, high real estate prices, deteriorated cost-competitiveness and a large negative net international investment position. This was caused by excessive and — in retrospect — unwise lending by banks during the years of plentiful and cheap wholesale financing. Luckily the financial health of households was largely unscathed and the boom was relatively short-lived, meaning the stock of internal and external debt has remained — in aggregate — relatively limited. De-leveraging is underway and the necessary adjustment process in Slovenia is expected to be lengthy. However, negative spillover effects for other euro-area economies are expected to be small.

[2] The 2011 recommendations covered (i) public finances and fiscal governance, (ii) pension reform, (iii) banking sector balance sheets, (iv) labour market segmentation, (v) skills mismatches and (vi) selected aspects of the business environment.

Depressed output has helped to close the current account deficit, but competitiveness losses accumulated in 2008-2010 could contribute to the future reappearance of external imbalances. Solid economic growth and strong export performance would help correct these internal imbalances and prevent the re-emergence of external imbalances. However, this is difficult to achieve in the face of weak external demand, a shrinking construction sector, private sector deleveraging and fiscal consolidation. It is also hampered by the current product structure and geographical orientation of Slovenia's exports. It will take a substantial amount of time to overcome these obstacles given the weaknesses identified in the economy's adjustment capacity.

In this context, possible further areas for a relevant policy response could be found in corporate governance and prudential standards in the financial sector, in the business environment for FDI and in cost competitiveness. Some specific areas for consideration include reducing the state's shareholdings, addressing the multiple challenges identified in the business environment in the context of the European semester, and refraining from public and minimum wage policies that could put pressure on wage costs.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The main goal of the programme's medium-term budgetary strategy is to bring the general government deficit below 3 % of GDP in 2013, the deadline set by the Council and to pursue further deficit reduction thereafter so as to broadly achieve Slovenia's medium-term budgetary objective (MTO) by the end of the programme period (2015)[3]. The MTO is defined as a balanced position in structural terms, unchanged from the previous programme. The 2011 assessment was that this MTO could not be regarded as appropriate for Slovenia under the provisions of the Stability and Growth Pact as it was predicated on the expected beneficial impact of a pension reform on age-related spending in the long term, an impact that could not be assessed at the time. Given that this pension reform has since been rejected in a referendum, the conclusion that this MTO cannot be regarded as appropriate remains because, based on current policies and projections, it does not ensure sufficiently rapid progress towards long-term sustainability.[4]

The deficit outturn for 2011 is 6.4 % of GDP. Without significant one-offs related to capital support operations (including a recapitalisation of the largest banking group, NLB), estimated by the Commission services at 1 % of GDP[5], it would have been 5.4 % of GDP. The difference from the deficit target of 5.5% of GDP set in the April 2011 programme is explained by lower-than-planned revenue growth (2.4 % *vs.* 1.2 %), with a large undershoot in indirect taxes, as well as by a more negative starting position as the 2010 deficit turned out to

[3] According to the programme, the (recalculated) structural balance (i.e. the cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology) is -0.1% of GDP in 2015. Additional information received from the authorities updating aspects of the programme after parliamentary adoption on 11 May of the austerity package points to a structural deficit of -0.2% of GDP in 2015.

[4] This assessment is based on the minimum MTO established in 2009. The minimum MTO will be updated this year, in line with Article 2a of Regulation (EC) No 1466/97 requiring that the MTO should be revised every three years.

[5] This is the figure used in the rest of the text (the programme estimates one-offs in 2011 at 1.3% of GDP). The programme does not indicate one-offs in the remaining years of the programme period.

be higher than estimated in the previous programme (5.5% *vs.* 6.0% of GDP) due to expenditure slippages. Expenditure grew less than budgeted in 2011 (2.3% *vs.* 2.0%)

The deficit target for 2012 is set at 3.5% of GDP (3.6% according to additional information from the authorities following parliamentary adoption of the austerity package), better than in the previous programme (3.9%) in spite of the worse-than-planned deficit outturn for 2011 and a strong downward revision of the underlying macroeconomic scenario (real GDP growth in 2012 has been revised from +2.2% in the previous programme to -0.9%).

The consolidation effort planned over the programme horizon is frontloaded as the deficit is targeted to drop by almost 2 percentage points of GDP in 2012 (excluding the one-offs recorded in 2011) and by about 1 percentage point in each of the remaining years. As the interest burden is projected to rise markedly in 2012 (from 2% of GDP in 2011 to 2.5%), the adjustment in primary terms in 2012 is even higher; after 2012 interest expenditure is projected to remain broadly stable as a percent of GDP. Growing primary surpluses are planned to be recorded as of 2013. Compared with the previous programme, the planned pace of headline deficit reduction in 2013-14 is unchanged so that the deficit targets for those years are slightly better given the more demanding target set for 2012. According to additional information received from the authorities, the impact of the final version of the austerity package, which was approved by Parliament after the submission of the stability programme, is to increase the deficit targets for the period 2012-15 marginally, namely by 0.1 pp. of GDP in each year.

The programme's revenue and expenditure projections (as updated to reflect parliamentary approval of the austerity package) indicate a predominantly expenditure-based consolidation effort. In particular, primary expenditure is planned to fall by almost 6 percentage points of GDP between 2011 and 2015 (again, excluding the one-offs recorded in 2011), while revenue is projected to drop by some ½ percentage point. The envisaged expenditure restraint is broad-based, affecting social transfers, the public sector wage bill and intermediate consumption, which together fall by more than 4 percentage points of GDP, while subsidies, public investment and other expenditure fall by about ½ percentage point each.

The planned consolidation effort is fully underpinned by measures for 2012 and partly as far as the remaining years of the programme are concerned.[6] In particular, the supplementary budget for 2012 was adopted by parliament on 11 May 2012,[7] together with the Act on Balancing Public Finances, which has a multi-annual perspective and extends some of the budget consolidation measures until after 2012 and implements some additional ones. The main measures are summarised in Box 2.

Box 2. Main measures

The budget for 2012 and Act on Balancing Public Finances, which were adopted by parliament on 11 May 2012, implement broad-based expenditure restraint. Most expenditure-restraining

[6] This is reflected in the wide gap between the 2013 deficit target and the deficit projection in the Commission services' 2012 spring forecast of 1.3% of GDP. The gap is due to (i) the base effect from a worse deficit projection for 2012 in the spring forecast, (ii) a worse macroeconomic scenario for 2013 and (iii) a cautious assessment of the measures foreseen for 2013.

[7] The original budget for 2012 was adopted in autumn 2010 as part of the two-year budget (2011/2012) that is usual practice in Slovenia, but did not contain any measures to underpin the 2012 targets and projections set therein. The adoption of the supplementary budget for 2012 was postponed to spring 2012 given the December 2011 early general elections.

measures are of a temporary nature, with either a fixed expiry date (e.g. till end-2013) or a conditional one (e.g. until the year after the year in which real GDP growth exceeds 2.5 %). On the revenue side, for 2012 the positive impact of higher excise duties and charges (concession fees) on student work and of the new temporary real estate tax (till end-2014) is almost fully offset by the impact of direct tax relief. The corporate income tax rate will gradually be cut further until 2015, while in 2013 the government will implement some changes to the personal income tax system with net revenue-reducing impact.

The programme does not include the impact on the public finance projections of major macro-structural reforms as these reforms (of pensions and health care) are to be agreed in the context of negotiations with social partners on the Social Agreement for the period 2012-2016.

Main budgetary measures

Revenue	Expenditure
2011	
• Higher excise duties on tobacco (0.1 %)	• Lower indexation of pensions (until end-2012) and other social benefit rates (until end-2014) (-0.25 %) • Public sector wage bill: freeze on promotions (until end-2012) and lower performance and workload bonuses (until end-2013) (-0.3 %)
2012	
• Reduction in the corporate income tax rate from 20 % to 18 % and higher R&D and investment allowances for personal and corporate income tax (-0.3 %) • Higher excise duty rates on tobacco and alcohol (0.1 %) • Higher charges (concession fees) on student work (0.1 %) • New real estate tax (until end-2014) (0.2 %; full-year impact: 0.4 %)	• Public sector wage bill: net cut in wages by 3 % and lower holiday and other allowances (the latter until end-2013) (-0.3 %; full-year impact: -0.6 %) • Lower recreational allowance for pensioners (until the year after the year in which real GDP growth exceeds 2.5 %) and lower specific pensions not based on paid contributions (until end-2012) (-0.15 %) • Lower coverage of certain health-care services and medicines from mandatory health insurance scheme (-0.15 %; full-year impact: -0.3 %) • Restraint in subsidies (-0.3 %) • Restraint in gross fixed capital formation (-0.4 %)
2013	
• Further reduction in the corporate income tax rate, to 17 % (-0.1 %) • Higher taxation on vehicles, road use and financial income of households (0.1%) • Personal income tax relief: higher threshold for the bracket taxed at 41 % (permanent), partly compensated for high-wage earners by new bracket taxed at 50 % (until end-2014) (-0.1 %)	• Lower parental allowance for child care (until the year after the year in which real GDP growth exceeds 2.5 %) (-0.1 %) • Restraint in subsidies (-0.3 %)
2014	
• Further reduction in the corporate income tax rate, to 16 % (-0.1%)	
2015	
• Further reduction in the corporate income tax rate, to 15 % (-0.1%)	

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure. The degree of detail reflects the type of information made available in the stability programme and other budget documents.

There are risks that the deficit outcomes could be worse than targeted throughout the programme period. The measures for the period 2013-15 are not yet fully spelled out and the

programme also does not indicate what measures will be taken to compensate for the expiry of the temporary expenditure-restraining measures (see Box 2 for overview). Furthermore, there is a general risk of expenditure overruns based on the past track record, especially in view of the very significant restraint embodied in the programme projections, although, as has happened before, emerging overruns in primary current expenditure may to some extent be offset by higher-than-planned cuts in public investment. Also, the revenue projections may be on the optimistic side because (i) the macroeconomic scenario could turn out worse than envisaged, (ii) the roll-out of the new IT tax administration system could generate lower additional revenue than expected, (iii) revenue from the new real estate tax could fall short of expectations and (iv) the impact of the multi-annual direct tax relief could be larger than accounted for in the programme[8]. This risk might be partly offset by revenue from possible auctions for CO_2 emission coupons as from 2013, which is not included in the SP projections. Finally, there is a non-negligible risk of additional capital support operations (e.g. the pending second recapitalisation of NLB) and the calling of guarantees could entail higher outlays than currently projected (about 0.1 % of GDP annually).

The frontloaded nature of the planned consolidation effort is confirmed by the programme's projections for the change in the (recalculated) structural balance, as updated to reflect parliamentary approval of the austerity package. This indicates a fiscal effort of 2¼ % of GDP in 2012, followed by ½ % in 2013, ¼ % in 2014 and ½ % in 2015. The average annual fiscal effort over the EDP correction period (2010-13) is thus planned to be almost 1 % of GDP, slighty above the level recommended by the Council (¾ %). Based on the Commission services' 2012 spring forecast, which is based on a cautious assessment of the measures for 2012-13 in the draft supplementary budget and draft Act on Balancing Public Finances, the average annual fiscal effort for the period 2010-12 stands at around ¾ % of GDP, still in line with the Council recommendation. The structural balance is projected to improve by another ¼ % of GDP in 2013 taking into account all measures known at the forecast cut-off date, which implies that additional effort will have to be made to respect the recommendation over the entire correction period. A re-assessment of the spring forecast reflecting the parliament-approved version of the austerity package points to a slightly lower average annual fiscal effort for the period 2010-12 (still rounded to ¾ % of GDP) and no further structural improvement in 2013, thus reinforcing this assessment. However, when taking into account the change in the macroeconomic scenario between the projections underlying the EDP recommendations and the 2012 spring forecast, it appears that the current estimate of the fiscal effort is affected by the downward revision of underlying growth prospects; when correcting for this downward revision, the estimated fiscal effort over 2010-12 would actually exceed the one recommended by the Council.

After the envisaged correction of the excessive deficit in 2013, the annual pace of progress towards the MTO according to the programme is in line with the 0.5 % benchmark set in the Stability and Growth Pact in 2015 but below it in 2014. According to the information provided in the programme, the expenditure benchmark (which applies only after the planned correction of the excessive deficit) will be respected in 2014-15 as the real growth rate of government expenditure, net of discretionary revenue measures, is planned to be negative and will thus be below a rate which is lower than the reference medium-term rate of potential GDP growth and which ensures an annual structural adjustment towards the MTO by 0.5 % of GDP (0.64 %). Following an overall assessment of Slovenia's budgetary plans after the planned correction of the excessive deficit, with the structural balance as a reference and

[8] The programme recalls that the previous multi-annual corporate tax reform implemented over the 2007-2010 period had a larger negative impact on revenue than initially estimated.

including an analysis of expenditure net of discretionary revenue measures, the planned adjustment path towards the MTO seems to be broadly appropriate. However, the risks to the budgetary strategy highlighted above imply that progress towards the MTO could be slower than appropriate, thus putting the planned achievement of the (inappropriately low) MTO by 2015 at risk.

Overall, some parts of the 2011 country-specific recommendation in the area of fiscal consolidation were implemented and others were not. In particular, although the 2011 deficit target was not achieved, the 2012 deficit target, which is more demanding than the one meant in the 2011 country-specific recommendation, was underpinned with concrete measures and some measures for the period beyond were also spelled out in the Act on Balancing Public Finances, although most of them are of a temporary nature. At the same time, based on the Commission services' evaluation, the average annual fiscal effort over the period 2010-12 is in line with the Council recommendation under the EDP but an additional effort will be needed in 2013. Furthermore, there is some risk to the appropriateness of the pace of adjustment towards the MTO and the MTO itself cannot be regarded as appropriate for Slovenia.

From around 48 % of GDP in 2011, general government gross debt is projected in the programme to rise to 53 % by 2013 before falling slightly to 51 % by the end of the programme period. The snowball effect increases the debt ratio over the entire period but for the primary deficit and stockflow adjustment this holds only until 2012. Risks to the debt projections in the programme arise from those to the deficit targets highlighted above and from a higher-than-projected stock-flow adjustment. According to the Commission services 2012 spring forecast, the debt ratio is likely to be much higher in 2012-13 given the higher primary deficits, lower economic growth and higher stock-flow adjustment. Still, the debt ratio should remain below the 60 % of GDP reference value until 2013, so the debt reduction benchmark is not applicable.

Long-term sustainability

The long-term change in age-related expenditure is clearly above the EU average. The initial budgetary position compounds the long-term costs. Under a no-policy-change assumption, debt is likely to increase to 66.8 % of GDP by 2020. However, the full implementation of the stability programme should be enough to put debt on a downward path by 2020. Ensuring sufficient primary surpluses over the medium term and reforming the pension system, so as to curb the projected substantial increase in age-related expenditure, would improve the sustainability of public finances.

Slovenia was recommended to take the required steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions (see section 3.3 for the assessment of labour market aspects covered by this 2011 recommendation). Systemic changes were not within the power of the government, owing to the 12-month moratorium on legislation after a referendum,[9] but short-term cost containment measures were prolonged and strengthened at the end of December 2011 and again in the May 2012 Act on Balancing Public Finances. While relevant and beneficial in the short term, these stop-gap measures are clearly insufficiently ambitious to address the long-term challenge. In the NRP and SP the government envisages a new pension reform, based on a multi-pillar system and a rise in the

[9] The previous parliament adopted a pension reform in December 2010, which was rejected in a referendum in June 2011.

effective retirement age, to be implemented by the end of 2013. While no further details are provided, the degree of ambition of these reform plans seems modest given the scale of the challenge.

Fiscal framework

Slovenia was recommended to implement a more binding medium-term budgetary framework. The recommendation was not implemented as parliament rejected relevant amendments to the Public Finance Act. Slovenia's medium-term budgetary framework and expenditure rule thus remain insufficiently binding and insufficiently focused on achieving the medium-term objective for the budgetary position and to secure long-term sustainability. The recently established Fiscal Council does not yet weigh in on fiscal strategy as it has yet to earn a reputation and an important role within Slovenian budgetary procedures. Efforts to make Slovenia's fiscal framework more binding are underway, with a constitutional fiscal rule currently under consideration (a two-thirds parliamentary majority will be needed) stipulating that the general government budgetary position in structural terms should be balanced or in surplus unless there are exceptional circumstances. A parallel draft constitutional act sets out implementing provisions for this new rule, including escape clauses, an automatic correction mechanism and a stronger role of the Fiscal Council. This approach certainly appears relevant, but the stringency of the rule will depend on the final technical details.

Tax system

Compared to the EU average, in Slovenia the tax burden on capital is low, average in relation to labour and high in relation to consumption. A specific feature of the tax system is the relatively high share of social contributions, which offsets a relatively low share of income taxes. Overall, taxation on consumption has remained stable since 2000 with the implicit tax rate oscillating around 24 %. Taxation on labour has declined, as shown by a drop from 37.5 % to 35 % of the implicit tax rate on labour during the last four years in observation. In autumn 2011, the tax administration launched a new electronic system for tax collection, which in time could have a positive impact on the time for tax compliance and help combat tax evasion. This may also help combat the shadow economy. Furthermore, the time taken for tax compliance may indicate scope for administrative simplification (although the system is already cost-efficient). The new government has drafted an aggressive direct tax relief, most of which was already adopted in April 2012 with effects as of January 2012. It provides for a gradual lowering of the corporate income tax rate from 20 % in 2011 to 15% by 2015 and increased tax allowances for R&D and investment. The NRP envisages a further simplification of the tax system, including for small and medium-sized enterprises, and the restructuring of taxation of movable and immovable property (no details available). There is scope for growth-friendly, revenue-neutral tax shifting as recurrent taxation of immovable property is rather low. A closer link between the recurrent property value tax and actual market values might also restrain future housing market bubbles.

3.2. Financial sector

Slovenia was recommended to facilitate the strengthening of banks' balance sheets, with a view to enhancing the flow of credit to the real economy. This is fully in line with the 2012 Annual Growth Survey. Following the October 2011 European Council conclusions and the temporary recapitalisation exercise for systemically important banks coordinated by the European Banking Authority, the biggest bank (NLB) was requested to raise fresh capital to

comply with the higher minimum core Tier 1 capital ratio of 9 %.[10] As highlighted above, the situation in the banking sector now appears even more challenging than at the time of the 2011 assessment. The full-year losses of the sector in 2011 were substantial and, looking ahead, the slowing economy will bring further loan losses as more companies struggle with debt service. Increasing competition for scarce capital and retail deposits will prove expensive for banks with limited income-generating opportunities. Tighter lending conditions mean companies (especially small and medium-sized enterprises that lack collateral) struggle to obtain funding for investment projects and for working capital.[11] It may not be possible to resume healthy levels of lending until further balance sheet repair is carried out both in banks and in non-financial corporations, which are often themselves lightly capitalised.

Judged against the 2011 recommendation, the Annual Growth Survey priorities, and the worsening situation, the measures introduced or announced so far lack ambition given the scale of the challenge. Against a backdrop of increasing political deadlock, the previous government did not push forward the urgent second recapitalisation of NLB. The new government has indicated its intention to reduce its shareholdings in the systemically important major banks to a blocking minority (which may itself deter some investors) but has so far failed to clarify the relationship between this longer-term goal and the immediate and pressing need for fresh capital, where the state as majority owner unambiguously carries the burden of responsibility in the final analysis. A clear privatisation strategy underpinned by timely injections of capital to cover realised and anticipated losses, a guarantee of good governance and professional, de-politicised management would make this policy and the potential sale of these banks more credible.

In 2011, a modest, selective balance sheet tax was introduced to stimulate lending but in the 2011 Staff Working Document, this was not expected to incentivise banks to reprioritise lending to industries with growth potential and lower indebtedness. However, it would be difficult to discern the precise impact of this small measure in the overall context of relatively rapid deleveraging. Initiatives to facilitate recovery of claims and asset disposals where companies owed money to several banks have stalled due to lack of cooperation and agreement among banks. The NRP lacks substance on measures to repair the financial system in spite of recognising the lack of sufficient capital and the need for efficient and de-politicised management. It states that the second recapitalisation of NLB should be carried out primarily without any direct budget funds. The Bank of Slovenia has recently adopted prudential regulations to limit the pressure of competition for deposits on banks' margins, which may help incumbents in the retail banking market to protect their deposit base from banks seeking to enter this market. The Bank of Slovenia has also signalled that it has the power to intervene directly in the management of commercial banks, which may play a role in encouraging management to focus on balance sheet cleaning and recapitalisation, but which in any case would not be required if good corporate governance were guaranteed at the state-owned banks.

[10] The EBA's October 2011 temporary bank recapitalisation exercise identified additional capital needs of EUR 320 m at NLB (which had already received a capital injection of 0.7% of GDP from the state in March 2011). Further losses in 2011 have now resulted in a greater recapitalisation need at NLB and the appearance of a shortfall below the required 9 % core Tier 1 capital ratio at a second bank, NKBM. At the time of writing, these recapitalisations have not occurred.

[11] Larger companies are less dependent on the domestic banking sector.

3.3. Labour market, education and social policies

Several labour market challenges were identified in 2011 and these were reflected in recommendations relating to the employment of older workers, labour market segmentation, skills and competences and — implicitly — professions. These recommendations, which are broadly in line with 2012 Annual Growth Survey priorities, have either not been implemented at all or only partially. Meanwhile, the context has worsened, with employment still falling, unemployment rising and hence a greater risk of long-term unemployment. Prospects remain subdued pending correction of the unit labour cost increases accumulated in 2008-2010.

Policy intervention over the past year has avoided further damage to the economy's cost-competitiveness, but has not sought to redress the deterioration that has accumulated since 2008. Public-sector pay restraint has been extended and tightened. The wage bill was contained by ceasing to pay various bonuses, a ban on promotions, recruitment restrictions and limited indexation. The remaining instalments of the public-sector wage agreement will be paid out in June 2012, but they will be more than offset by a nominal cut in the public sector wages in June 2012 and a cut in holiday and other work related allowances for public employees. As regards the minimum wage, there was no further discretionary uplift as there was in 2010, although there is full indexation for inflation in the previous year. In 2011 the minimum wage as a percentage of the average wage was among the highest in the EU (it is still below the poverty threshold). In these respects, policy has been less harmful than in 2008 and 2010, cutting nominal growth of average wages in the private sector from 5.1 % in 2010 to 2.6 % in 2011 and achieving a second consecutive year of zero nominal growth of average wages in the public sector. However, as policy currently stands, there are strong in-built dynamics in both these areas that could reignite adverse trends in the coming years. Renewed economic growth would also put pressure on wages just above the level of the new minimum wage as employees seek to re-establish differentials that were compressed in 2010.

Regarding the 2011 recommendation on pension sustainability and adequacy, Slovenia was recommended to increase the employment rate of older workers by postponing the retirement age and better tailoring active labour market policies. The NRP does not specify whether the announced pension reform negotiations will also encompass issues related to active ageing and lifelong learning and does not indicate whether the government will seek to equalise the retirement age for men and women. So far, no specific measures tailored for older workers have been implemented, although the 2012-15 guidelines for the implementation of active labour market policy measures and the 2012 plan for the implementation of active employment policy measures (both adopted in December 2011) address older unemployed persons as a specific target group. The guidelines offer a framework of measures to tackle problems in the Slovenian labour market and the plan sets concrete goals regarding the inclusion of the unemployed in active labour market policy measures. However the numbers are similar to those included in active labour market policy measures in 2010, and appear inadequate given the rising trend in unemployment. Older workers, who are regarded as one of the most vulnerable groups, are entitled to 'priority treatment' by the public employment service to foster their activation. The evaluation of the active employment policy measures is not available yet. The NRP underlines the need to adapt workplaces, however it lacks specific measures going beyond changed severance pays and periods of notice. The policy agenda therefore appears incomplete and — where specific plans exist — insufficiently ambitious in terms of coverage.

Slovenia was recommended to reduce asymmetries between the protection given to workers on permanent and temporary contracts and to tackle misuse of 'student work'.[12] Negotiations with social partners on the Labour Relationship Act started in 2011 but no agreement has been reached or amendments adopted. The NRP restates the need for structural reforms increasing flexicurity and addressing segmentation. It indicates some measures, including the revision of severance pay with a possible establishment of a special purpose fund and changes to periods of notice, but provides no timetable for their adoption. The recently adopted Act on Balancing Public Finances raises charges (concession fees) for student work by around two thirds to 25 % to reduce the attractiveness of this labour market status but no additional measures are currently envisaged. These measures have some relevance, but overall they cannot be regarded as an adequate response to the recommendation. In particular, they do not address the high procedural barriers to dismissals.

Slovenia was also recommended to forecast labour market needs in terms of skills and competences and to evaluate the effectiveness of the public employment service. The education and training system remains insufficiently responsive to labour market needs, although career guidance services are currently being introduced in the whole cycle of education and beyond and efforts are being made to provide information on future professional careers. No concrete steps have been taken to set up a system to forecast labour market demand. Some projects co-financed by the European Social Fund were launched to promote professions in high demand in the labour market. These measures are relevant but taken together are inadequate as a response to the recommendation. The second part of the recommendation has not been addressed as the external expert evaluation of the overall effectiveness of the public employment service in Slovenia is not yet finalised. The NRP announces that the public employment service will focus more on tailor-made services to employers and employees.

The current tertiary attainment rate in Slovenia is above the EU average and is set to improve further as overall entry rates into tertiary education are relatively high. However, the relatively slow throughput and drop-out rates of university students clearly indicate inefficiencies. There is still no new Higher Education Act to operationalise the participation and completion rates planned in the National Higher Education Programme 2011-2020 adopted in 2011. In vocational education and training, enrolment is in decline. The NRP identifies the main challenges to make programmes more attractive, with a focus on intensified co-operation with employers to define curricula and provide apprenticeships. While the policy intentions in this area seem relevant, overall it is premature to assess them fully.

Slovenia is one of the top performers in the EU with regard to tackling early school leaving. A comprehensive strategy to combat early school leaving, based on an analysis of the rate and drivers, is set to be adopted before the end of 2012, so it is too soon to assess the policy intentions in this area.

The Annual Growth Survey 2012 prioritises the need to protect the vulnerable by improving the effectiveness of social protection systems and ensuring that social automatic stabilisers play their role. The share of the population in Slovenia at risk of poverty or social exclusion (18.3 % in 2010, 1.2 pps. higher than in 2007) remains low compared to the EU average (23.5 %).

[12] As in the case of pension reform, some aspects of labour market protection were subject to a 12-month legislative moratorium following the rejection of the Mini Jobs Act in a referendum last April.

In January 2012, a social reform (amendments to the Social Benefits Act and Exercise of Rights of Public Funds Act) came into effect. The new legislation introduces substantial systemic changes to means-tested cash benefits with the aim of providing adequate income support, stimulating work and achieving a more efficient management and use of public funds by better regulating social and family benefits. Key features are the 'single entry point' at Centres for Social Work and increased targeting of social transfers on the basis of income and property. A preliminary analysis by Slovenia's research institute IMAD suggests these measures will decrease inequality by raising income at the bottom of the income distribution, although the at-risk-of poverty rate for children may increase. However, it is too early to assess the impact of this reform. The NRP and SP announce an increase in the number of means-tested benefits and cuts in certain social rights to underpin the consolidation of public finances.

3.4. Growth and competitiveness structural measures

The past year has seen very little progress on structural measures for growth and competitiveness, and consequently the structural aspects of Slovenia's competitiveness have changed very little. The structural aspects of the business and competition environment in Slovenia still hold back foreign direct investment. Business prospects are held back by the limitations of transport and energy infrastructure, while progress on environmental sustainability and the EU 2020 targets remains patchy. Planned improvements in R&D and education await implementation. Meanwhile, the business environment has worsened significantly, with viable firms — especially small and medium-sized enterprises — facing subdued demand and tightened borrowing conditions. However, financial instruments from the Slovenian Enterprise Fund and SID Bank have helped to provide public guarantees and venture capital to innovative firms and small and medium-sized enterprises even in the absence of an industrial policy. There may be scope to further incentivise equity investments, for which only locally established funds benefit from tax breaks. Overall, however, the approach to attracting investment outlined in the NRP still seems to rely on financial incentives and promotion rather than on making improvements to the business environment.

Internal market and competition environment

Concerning services, past delays in implementing the Services Directive are to some extent reduced by new legislation regulating construction, services for installations and equipment, real estate and land surveying. As regards requirements where the Directive left a margin of appreciation to Member States to streamline the regulatory environment for the establishment of service providers, some measures have been identified which may raise questions of compatibility with the Directive, mainly concerning the legal form requirement, capital ownership and fixed tariffs for lawyers. Also, it seems that for any service where the sector-specific legislation does not explicitly provide for cross-border service provision, the sector-specific legislation applicable to established providers also applies to cross-border providers. This raises concerns, including for construction, tourism, industrial property representatives and crafts. The point of single contact cannot yet be considered as fully functioning. It is based on the e-government e-VEM (Vse na Enem Mestu – One Stop Shop) portal for the online registration of businesses but currently provides only partial information to service providers, and places restrictions on some users. The Commission will monitor the development of the upgraded portal that should provide complete information, for both domestic and foreign service providers, in Slovenian and English.

Although developments in recent years may have put pressure on mark-ups in previously highlighted industries such as construction and food retail, there are still many markets marked by an absence of competition. This is particularly evident in network industries. For instance, there are no foreign operators in the retail and wholesale energy markets (infringement proceedings have been opened in relation to the Third Energy Package[13]) and switching of suppliers in 2010 was as low as 2 % (electricity) and 0.2 % (gas). Regarding transport networks, the railway market still appears to be a closed shop. There is no significant competition in either the freight or the passenger sectors, probably due to the lack of separation between infrastructure and transport operators. Public service contracts are still awarded via direct negotiations. It is disappointing that the NRP provides no information on action taken and planned measures to invigorate competition in these industries.

Research and innovation

Slovenia regards research and development as a priority for enhancing long-term growth prospects and research and development intensity continues to exceed the EU average, due to slightly above-average expenditure by both businesses and the public sector. Structural funds are an important source of funding for research and innovation. The measures outlined in the 2011 Research and Innovation Strategy and the above-mentioned National Programme for Higher Education are yet to materialise, pending further roadmaps. The EU 2020 research and development intensity target of 3 % seems achievable so the main challenges remain the effective and efficient deployment of available resources (including from the European Regional Development Fund), the structure of policies to provide support to research and especially to stimulate innovation, enhanced cooperation with the business sector and focus on strategic industrial sectors, and investment to support key enabling technologies. Tax allowances for research and development were increased in April 2012. The NRP indicates the government will steer research and development towards enhancing the economy's non-price competitiveness (trademarks and patents).

Environment and climate issues, including infrastructure

Slovenia's energy infrastructure leaves room for improvement. Slovenia is growing in importance as a transit country for electricity flows and the national transmission grid is starting to become a bottleneck that hampers regional integration. This applies to both internal connections and international connections, to Italy and on the north-south axis. No legal framework is in place yet to roll out smart metering. There is potential for upgrading the gas infrastructure, which would help Slovenia shift to relatively less carbon-intensive sources, including implementation of the Recovery fund project to enhance cross-border gas transmission in Europe.

Slovenia's geographic location represents an opportunity and a challenge as regards the country's transport infrastructure for reasons of both trade and environmental impact. Gaps in railway infrastructure (linked to delays in Cohesion Policy investments and insufficient administrative capacity) and the still low quality of the network hold back business potential. By contrast, motorway density is high compared to the EU average and the large volume of traffic transiting through the country contributes to the high energy and carbon intensity of the country's transportation sector. On motorways and the Ljubljana ring road, smaller private

[13] The process of adopting legislation to complete the internal energy market, in particular transposition of the Third Energy Package, is being delayed. In January 2012 a new Energy Act was passed, but so far Slovenia has not yet notified full implementation of the package and therefore two infringement procedures are still open: case 2011/1126 (gas) and case 2011/1125 (electricity).

vehicles require a tax disc and freight vehicles pay tolls (revenues in 2010 were around 0.8 % of GDP).

Slovenia has committed to limiting the increase in greenhouse gas emissions in sectors not covered by the Emission Trading System to 4 % (compared to 2005) by 2020. By 2010, greenhouse gas emissions were reduced by 2 %, mostly due to decreasing levels of liquid fuel consumption (as a result of a decrease in foreign trade, a slow recovery after 2009 and the high price of oil) according to the NRP. Based on existing measures Slovenia expects greenhouse gas emissions to rise by 17 % (compared to 2005) by 2020 but full implementation of currently planned measures could achieve a 6 % reduction. Most of these measures relate to the transport and building sectors. While some positive steps are being taken in the buildings sector, Slovenia will only achieve the target if emissions from transport in particular are tackled effectively. GHG emissions from transport accounted for 27.6 % of Slovenia's total emissions in 2009, the third highest share in the EU. In addition, the share of renewable energy sources in transport was 1.9 % in 2009, against a target of 10 % in 2020. Progress to date has been limited as there is no evidence yet of a substantial modal shift, while distortions generated by differential taxation across fuel types remain in place.

Regarding energy efficiency, the Eco Fund (and structural funds) will continue to provide capital to support investors in the public and private sectors, as well as households, to promote efficient energy use. Further measures were reported in 2011, such as those aimed at accelerating the renovation of public-sector buildings. Slovenia has not set any quantitative energy efficiency targets for 2020 so its contribution to the overall EU 2020 target for energy efficiency is unclear.

The share of renewable energy in gross final energy consumption reached 16.9 % in 2009 and an estimated 19.9 % in 2010, compared to the EU 2020 target of 25 % by 2020. The Directive on promotion of the use of energy from renewable sources has only partially been transposed. Reaching the 2020 target may be difficult as investment in renewable energy sources may be crowded-out by large-scale non-renewable energy projects, such as recent plans for a new coal-fired power plant.

Slovenia faces challenges on waste policy. The level of landfilling is still relatively high (58 %) but, with a recycling rate of 39 %, Slovenia is making progress towards its recycling target of 50 % by 2020. Cohesion Policy funds could be tapped to help build recycling infrastructure. Producer responsibility applies to only a few waste streams and it is not clear whether it covers the full cost of separate collection and recycling. Financial incentives to foster prevention and participation in separate collection are in place only in limited zones ('pay as you throw' schemes). Full implementation of legislation in the field of waste policy and progress towards the objectives of the Roadmap on resource efficiency could contribute substantially to reducing greenhouse gas emissions.

3.5. Modernisation of public administration

Slovenia was recommended to streamline regulated professions and improve the administrative capacity of the Competition Protection Office (CPO) and to streamline regulated professions in order to improve the business environment and attract investment. Despite legislative changes in April 2011 to transform the CPO into an independent agency that was supposed to become operative as of 1 January 2012, the CPO is not yet an independent agency as a November 2011 amendment stipulates that several procedural conditions have to be fulfilled first. Moreover, in 2011, the CPO's resources were reduced.

These developments affect its ability to expand enforcement action and to lend institutional weight to competition-boosting reform.[14] In 2011, a screening of entry requirements was announced for Slovenia's numerous regulated professions. Work is still ongoing and no concrete proposals have been put forward to date. The NRP indicates policy action in this area only in a vague manner[15] with line ministries responsible for preparing regulatory changes. Ideally, these should reduce unnecessary entry barriers while ensuring consumer protection, but it is too early for an assessment. Overall, there has not been adequate implementation of the 2011 recommendation.

The overall business environment is also rife with legal and regulatory issues protecting incumbents and representing barriers to outside investors. Debtor-friendly and sometimes problematic insolvency proceedings can impede the cleaning of banks' balance sheets and coincide with high levels of payment indiscipline.[16] Cumbersome spatial planning procedures can impede major domestic and foreign investment projects.[17] The NRP announces action to make spatial planning more flexible, including quicker decision making procedures and improved access to building and land data.

Slovenia committed in its 2011 NRP to ensuring high standards of corporate governance in state-owned enterprises, a challenge that was identified in the 2011 European Semester and that has been repeatedly highlighted by the OECD. This was supposed to be achieved through arms-length management by the Capital Assets Management Agency (AUKN) and by adopting a more strategic approach to the state's shareholdings. However, policy actions have if anything pursued rather different, more interventionist, objectives. The AUKN was involved in orchestrating the participation of state-owned companies in the recapitalisation of state-owned bank NKBM and there was repeated interference in the banks' attempts to sell seized shares to foreign bidders. The AUKN eventually published a strategy that made no recommendations for strategic divestment and the Ministry of Finance has now taken back several of the agency's competences, including the drafting of a new strategy.

The government intends to sell assets identified as non-strategic while retaining a stake of 25 % plus one share in strategic assets. State-owned enterprises continued to weigh on public finances, above all with recapitalisations of the state-owned railways and airline. Corporate governance failings extend beyond the state sector, narrowly defined, as evidenced by the insolvency of the three biggest construction companies following the scheduled end of the highways building programme, and as seen in the over-indebtedness and poor payment discipline of firms more generally. Thus, there has been no effective implementation in this area and the policy agenda clearly fails to address this deficit.

There have been some policy developments that do not concern state-owned enterprises. Tax administration has been modernised, as mentioned above, with the introduction of e-government features such as online tax declarations and a new tax payment regime. The savings identification phase of the 'minus 25 % administrative burden' programme has now concluded and in the next phase measures to ease administrative burdens on businesses and citizens will be prepared. The legislation governing public procurement has been streamlined

[14] Notwithstanding currently subdued demand and prices, the role of the CPO is crucial given state involvement in the economy and the history of high mark-ups and high concentration in certain segments of the services sector (notably food retailing, construction, professional services and land transport, see also above).

[15] A study on 'Deregulation of professions in the Republic of Slovenia — between the public interest and competitiveness' was completed at the end of March.

[16] Payment discipline has not improved, despite legal changes.

[17] This can also hinder absorption of Structural and Cohesion Policy funds.

and made potentially more friendly for small and medium-sized enterprises. However, problems remain in public procurement implementation, notably as regards payment discipline and staff skills. A public procurement agency was established in 2011 to professionalise and harmonise procurement, but it is now due to be abolished and integrated into the Ministry of Finance.[18]

[18] The available statistical information suggests that Slovenia's public procurement market above EU thresholds is less competitive than in most Member States. Policy monitoring capacities and control functions of the public procurement administration may not be strong as Slovenia has not submitted a statistical report on public procurement to the Commission since 2008.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Achieve the 2011 deficit target, underpin the 2012 deficit target with concrete measures and implement the necessary consolidation rigorously, standing ready to adopt additional measures to prevent possible slippages. Underpin this required adjustment process over the programme period with additional measures to ensure the average annual fiscal effort in line with the Council recommendations under the EDP and adequate progress towards an appropriate medium-term objective. To this purpose, use structural measures to contain expenditure and address identified inefficiencies and implement a more binding medium-term budgetary framework. Accelerate the reduction of the deficit if economic or budgetary conditions turn out better than currently expected.	Slovenia has implemented the CSR partially. Although the 2011 deficit target was not achieved, the 2012 deficit target was underpinned with concrete measures and some, mainly temporary measures for the period beyond were also spelled out. An additional effort may be needed in 2013 to ensure an average annual fiscal effort in line with the EDP recommendation. There are risks to the appropriateness of the pace of adjustment towards the MTO and the MTO itself cannot be regarded as appropriate. The part on a more binding framework was not implemented.
CSR 2: Take the required steps to ensure the long-term sustainability of the pension system, while preserving the adequacy of pensions. Increase the employment rate of older workers through later retirement, and by further developing active labour market policies and lifelong learning measures.	Slovenia has not implemented the CSR: no structural action was taken on long-term sustainability, and the policy agenda regarding older workers is incomplete.
CSR 3: Take further measures in the banking sector, where appropriate, to strengthen the balance sheets and the loan portfolio, with a view of enhancing the flow of credit to the real economy.	Slovenia has not implemented the CSR,: the measures introduced are unlikely to help and the policy agenda lacks ambition when compared with the scale of the challenge.
CSR 4: Take steps, in consultation with the social partners and in accordance with national practices, to reduce asymmetries in rights and obligations guaranteed under permanent and temporary contracts. Renew efforts to tackle the parallel labour market resulting from 'student work'.	Slovenia has not implemented the CSR. However significantly higher charges (concession fees) for 'student work' were introduced and the NRP announces some measures to increase flexicurity and address segmentation.
CSR 5: Set up a system to forecast skills and competencies needed to achieve a responsive labour market. Evaluate the effectiveness of the public employment service, notably on career guidance and counselling services, to improve the matching of skills with labour market needs.	Slovenia has not implemented the CSR and the education and training system remains insufficiently responsive to labour market needs. The expert evaluation of the effectiveness of the public employment service is not yet finalised.
CSR 6: Streamline regulated professions and improve the administrative capacity of the Competition Protection Office, in order to enhance the business environment and attract investment.	Slovenia has not implemented the CSR. A study was completed in March 2012 on the regulation of professions (no concrete proposals for reform yet). An independent CPO has not yet been effectively created.
Euro Plus Pact (national commitments and progress)	
Improvements to the medium-term fiscal framework, including public debt limit at 45 % of GDP, balanced budgetary position by 2016 and adoption of amended Public Finance Act.	The commitment was not implemented.
Target ULC growth lower than in main trading partners; and extend public sector wage restraint to the end of 2012.	Target not met but public sector wage restraint strengthened and prolonged.
Various targets for 2012 reprised from the 2011 NRP regarding R&D, FDI and the business environment.	Cannot be assessed before the end of 2012.
Europe 2020 (national targets and progress)	
Employment rate target (in %): 75 %	As the employment rate fell from 71.9 % in 2009 to 70.3 % in 2010, no progress has been made towards achieving the target.

R&D target (in % of GDP): 3 %	Spending on R&D rose significantly from 1.86 % of GDP in 2009 to 2.11 % in 2010, so clear progress is being made towards the EU 2020 target.
GHG emissions target: + 4 % (compared to 2005, ETS emissions are not covered by this national target)	Change in GHG emissions between 2005 and 2010: -2 % (this data corresponds to the current ETS scope).
Renewable energy target: 25 %	The share of renewable energy in gross final energy consumption rose only marginally between 2005 and 2009, from 16 % to 16.9 %, and is estimated by the authorities to reach 19.8 % in 2010. The estimate for 2010 would imply that Slovenia has achieved its 2011/2012 interim target.
Energy efficiency — reduction in primary energy consumption by 2020 in Mtoe: -	The Slovenian authorities have not yet specified the national target for energy efficiency. The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology to express the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet able to present this overview.
Early school leaving target (in %): 5 %	Early school leaving, measured by the percentage of the population aged 18-24 with at most lower secondary education and not in further education or training, fell from 5.3 % in 2009 to 5.0 % in 2010. This means the target has been achieved.
Tertiary education target (in %): 40 %	Tertiary educational attainment rose markedly between 2009 and 2010, from 31.6 % to 34.8 %, implying clear progress towards the target.
Target for reducing the population at risk of poverty or social exclusion (in number of persons): 40 000	The number of people at risk of poverty or social exclusion, which is relatively low compared to the EU average, rose markedly between 2009 and 2010, from 339 000 to 366 000. This indicates that no progress is being made towards the target.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	4.3	3.7	5.1	-8.0	1.4	-0.2	-1.4	0.7
Output gap [1]	0.2	0.4	4.4	-3.5	-3.2	-3.2	-4.4	-4.1
HICP (annual % change)	8.1	6.9	3.6	0.9	2.1	2.1	2.2	1.7
Domestic demand (annual % change) [2]	6.2	3.1	5.1	-10.0	-0.1	-1.6	-2.8	-0.2
Unemployment rate (% of labour force) [3]	7.1	6.4	5.5	5.9	7.3	8.2	9.1	9.4
Gross fixed capital formation (% of GDP)	23.9	24.7	27.1	23.4	21.6	19.5	18.9	18.9
Gross national saving (% of GDP)	23.8	24.6	26.1	21.2	21.8	21.3	20.5	21.5
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.4**	**-3.0**	**-1.2**	**-6.1**	**-6.0**	**-6.4**	**-4.3**	**-3.8**
Gross debt	**22.0**	**27.0**	**24.6**	**35.3**	**38.8**	**47.6**	**54.7**	**58.1**
Net financial assets	**n.a**	**12.2**	**10.1**	**-0.1**	**-0.8**	**n.a**	**n.a**	**n.a**
Total revenue	43.1	43.4	43.0	43.2	44.2	44.5	44.4	44.0
Total expenditure	46.5	46.4	44.1	49.3	50.3	50.9	48.7	47.9
of which: Interest	2.2	2.1	1.3	1.4	1.6	2.0	2.5	2.6
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.6**	**-3.4**	**-8.2**	**-0.6**	**-1.5**	**-0.5**	**-1.6**	**-0.9**
Net financial assets non-financial corporations	**n.a**	**-93.0**	**-110.3**	**-117.7**	**-123.1**	**n.a**	**n.a**	**n.a**
Net financial assets financial corporations	**n.a**	**7.3**	**4.0**	**3.4**	**4.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	15.4	16.9	19.8	12.6	13.8	13.9	13.5	13.5
Gross operating surplus	14.5	16.8	19.0	17.8	17.5	18.0	17.3	18.0
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**3.8**	**4.9**	**5.3**	**5.3**	**6.6**	**6.4**	**5.8**	**5.9**
Net financial assets	**n.a**	**67.9**	**74.7**	**78.7**	**82.7**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	46.7	45.7	44.5	46.9	47.4	47.1	47.0	45.9
Net property income	1.3	1.6	1.3	1.3	1.2	1.2	1.3	1.4
Current transfers received	20.0	21.0	19.4	20.9	21.7	22.3	22.5	22.3
Gross saving	8.9	10.3	10.5	9.9	10.4	9.9	9.4	9.4
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.2**	**-1.5**	**-4.1**	**-1.3**	**-0.8**	**-0.6**	**0.0**	**1.2**
Net financial assets	**n.a**	**5.9**	**21.7**	**36.5**	**37.7**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-1.9	-0.9	-1.5	1.4	0.6	1.0	1.4	2.6
Net primary income from the rest of the world	0.5	-0.4	-1.7	-2.0	-1.5	-1.7	-2.1	-2.2
Net capital transactions	0.0	-0.3	-0.2	0.0	0.0	-0.3	0.3	0.5
Tradable sector	47.5	47.2	46.7	43.6	44.1	45.4	n.a	n.a
Non-tradable sector	38.7	40.1	41.0	43.6	42.9	41.9	n.a	n.a
of which: Building and construction sector	5.6	5.5	6.7	7.0	5.6	4.5	n.a	n.a
Real effective exchange rate (index, 2000=100)	105.5	102.5	106.1	115.5	114.1	113.6	111.0	108.8
Terms of trade in goods and services (index, 2000=100)	102.2	102.6	101.0	104.5	100.6	99.2	97.8	98.2
Market performance of exports (index, 2000=100)	103.3	107.3	124.4	123.5	121.6	123.7	124.7	125.3

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	-0.2	-0.2	-1.4	-0.9	0.7	1.2	2.2	2.2
Private consumption (% change)	-0.3	-0.3	-1.5	-1.2	-0.4	0.2	1.5	1.5
Gross fixed capital formation (% change)	-10.7	-10.7	-4.6	-1.5	1.2	4.0	3.0	3.0
Exports of goods and services (% change)	6.8	6.8	2.2	1.4	5.1	5.4	6.1	6.1
Imports of goods and services (% change)	4.7	4.7	0.4	-1.6	4.1	4.9	5.5	5.5
Contributions to real GDP growth:								
- Final domestic demand	-2.7	-1.6	-2.5	-3.0	-0.2	0.7	1.5	1.5
- Change in inventories	1.0	1.0	-0.3	-1.3	0.0	0.0	0.0	0.0
- Net exports	1.4	1.4	1.3	2.1	0.8	0.5	0.7	0.7
Output gap[1]	-3.2	-3.4	-4.4	-4.3	-4.1	-3.6	-2.1	-0.7
Employment (% change)	-1.7	-1.7	-1.7	-2.2	-1.0	-1.2	-0.3	0.0
Unemployment rate (%)	8.2	8.2	9.1	8.8	9.4	9.3	9.1	8.7
Labour productivity (% change)	1.6	1.6	0.3	1.4	1.6	2.4	2.5	2.2
HICP inflation (%)	2.1	1.8	2.2	2.0	1.7	1.8	1.9	2.0
GDP deflator (% change)	0.8	0.8	0.3	0.9	1.5	1.4	1.8	1.9
Comp. of employees (per head, % change)	2.0	1.5	0.5	1.6	1.0	1.9	3.0	3.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-0.6	n.a.	0.0	n.a.	1.2	n.a.	n.a.	n.a.

Note:

[1] In per cent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.

Source :

Commission spring 2012 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**44.5**	**44.4**	**44.7**	**44.0**	**44.1**	**43.8**	**43.7**	**-0.8**
of which:								
- Taxes on production and imports	14.1	14.4	14.3	14.4	14.4	14.6	14.7	0.6
- Current taxes on income, wealth, etc.	8.2	7.8	8.0	7.7	7.6	7.5	7.4	-0.8
- Social contributions	15.5	15.5	15.4	15.1	15.1	15.0	15.0	-0.5
- Other (residual)	6.7	6.7	7.0	6.8	7.0	6.7	6.6	-0.1
Expenditure	**50.9**	**48.7**	**48.2**	**47.9**	**46.7**	**45.3**	**44.1**	**-6.8**
of which:								
- Primary expenditure	49.0	46.1	45.7	45.2	44.1	42.8	41.6	-7.4
of which:								
Compensation of employees	12.7	12.4	12.1	11.9	11.5	11.3	11.1	-1.6
Intermediate consumption	6.5	6.3	6.2	6.2	6.0	5.6	5.3	-1.2
Social payments	20.1	20.1	19.8	19.9	19.3	18.7	18.3	-1.8
Subsidies	1.9	1.6	1.6	1.6	1.3	1.4	1.3	-0.6
Gross fixed capital formation	3.6	3.2	3.2	3.2	3.2	3.1	3.1	-0.5
Other (residual)	4.0	2.5	3.5	2.5	3.4	3.3	2.6	-1.4
- Interest expenditure	2.0	2.5	2.5	2.6	2.6	2.5	2.5	0.5
General government balance (GGB)	**-6.4**	**-4.3**	**-3.5**	**-3.8**	**-2.5**	**-1.5**	**-0.4**	**6.0**
Primary balance	**-4.5**	**-1.7**	**-1.0**	**-1.2**	**0.1**	**1.0**	**2.1**	**6.6**
One-off and other temporary measures	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
GGB excl. one-offs	**-5.4**	**-4.3**	**-3.5**	**-3.8**	**-2.5**	**-1.5**	**-0.4**	**5.0**
Output gap[2]	-3.2	-4.4	-4.3	-4.1	-3.6	-2.1	-0.7	2.5
Cyclically adjusted balance[2]	-5.0	-2.2	-1.6	-1.9	-0.9	-0.6	-0.1	4.8
Structural balance[3]	**-3.9**	**-2.2**	**-1.6**	**-1.9**	**-0.9**	**-0.6**	**-0.1**	**3.8**
Change in structural balance		*1.7*	*2.3*	*0.3*	*0.7*	*0.3*	*0.5*	
Structural primary balance[3]	-2.0	0.3	0.9	0.7	1.7	1.9	2.4	4.4
Change in structural primary balance		*2.3*	*2.9*	*0.4*	*0.8*	*0.2*	*0.5*	
Expenditure benchmark								
Public expenditure growth[4] (real)		-7.74	-9.20	-2.51	-6.49	-2.65	-3.08	-
Reference rate[5,6]		1.67	1.67	1.67	1.67	*1.67*	*1.67*	-
Lower reference rate[5,7]		0.64	0.64	0.64	0.64	*0.64*	*0.64*	-
Deviation in % of GDP from applicable reference rate		-4.27	-4.77	-1.47	-3.13	*-1.34*	*-1.46*	-
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	-2.87	-3.95	*-2.24*	*-1.40*	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically adjusted balance according to the programme as recalculated by the Commission on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically adjusted (primary) balance excluding one-off and other temporary measures.

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source :

Stability programme (SP); Commission spring 2012 forecasts (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**29.1**	**47.6**	**54.7**	**51.9**	**58.1**	**53.1**	**52.6**	**50.9**
Change in the ratio	2.4	8.8	7.1	4.3	3.3	1.2	-0.5	-1.7
Contributions[2] :								
1. Primary balance	**1.7**	**4.5**	**1.7**	**1.0**	**1.2**	**-0.1**	**-1.0**	**-2.1**
2. Snowball effect	**0.3**	**1.7**	**3.1**	**2.5**	**1.5**	**1.2**	**0.5**	**0.4**
Of which:								
Interest expenditure	1.4	2.0	2.5	2.5	2.6	2.6	2.5	2.5
Growth effect	-0.5	0.1	0.7	0.4	-0.4	-0.6	-1.1	-1.1
Inflation effect	-0.5	-0.3	-0.1	-0.4	-0.8	-0.7	-0.9	-0.9
3. Stock-flow adjustment	**0.4**	**2.6**	**2.3**	**0.8**	**0.7**	**0.1**	**0.0**	**0.0**
Of which:								
Cash/accruals diff.								
Accum. financial assets								
Privatisation								
Val. & residual effects								

Notes:

[1]End of period.

[2]The snowball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, the accumulation of financial assets, and valuation and other residual effects.

Source :

Stability programme (SP); Commission spring 2012 forecasts (COM); Commission calculations.

Table V. Sustainability indicators

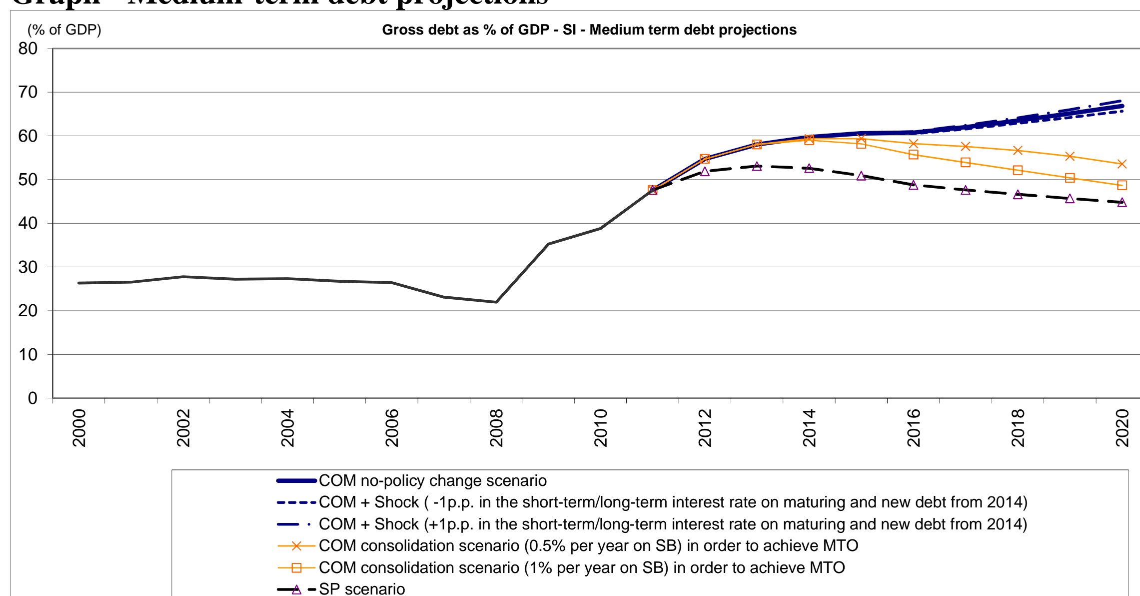
	SI		EU27	
	No-policy change scenario	Stability programme scenario	No-policy change scenario	Stability programme scenario
S2	7.5	5.5	2.9	0.7
of which:				
Initial budgetary position (IBP)	0.6	-0.9	0.7	-1.6
Long-term change in the primary balance (LTC)	6.8	6.3	2.3	2.4
of which:				
pensions	4.7	4.5	1.1	1.2
health care and long-term care	1.8	1.7	1.5	1.5
other	0.3	0.1	-0.3	-0.3
S1 (required adjustment)*	2.2	-1.4	2.2	-0.1
Debt, % of GDP (2011)	47.6		82.8	
Age-related expenditure, % of GDP (2011)	24.2		25.8	

Source: Commission, 2012 stability programme.

Note: The 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Graph - Medium-term debt projections



Source: Commission, 2012 stability programme

Table VI. Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	37.5	38.6	37.7	37.2	37.6	38.0
Breakdown by economic function (% of GDP)[1]						
Consumption	13.4	13.4	13.2	13.4	14.1	14.2
of which:						
- VAT	8.3	8.6	8.5	8.5	8.5	8.5
- excise duties on tobacco and alcohol	0.9	1.1	1.1	1.1	1.3	1.4
- energy	2.7	2.5	2.3	2.4	3.0	3.1
- other (residual)	1.5	1.3	1.3	1.4	1.3	1.3
Labour employed	20.0	19.8	18.3	18.5	18.7	18.8
Labour non-employed	0.7	0.7	0.6	0.6	0.8	0.9
Capital and business income	2.5	3.9	4.8	4.0	3.2	3.3
Stocks of capital/wealth	0.9	0.9	0.9	0.9	0.9	0.9
p.m. Environmental taxes[2]	3.2	3.2	3.0	3.0	3.6	3.6
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	64.5	66.6	69.0	67.6	62.5	62.3

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table VII. Macrofinancial stability indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	125.9	131.4	151.2	149.7	146.3
Share of assets of the five largest banks (% of total assets)	59.5	59.1	59.7	59.3	…
Foreign ownership of banking system (% of total assets)	28.5	30.8	29.1	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1]	1.8	1.8	2.3	8.2	12.1
- capital adequacy ratio (%) [1), 2]	11.2	11.7	11.6	11.3	12.1
- return on equity (%) [1), 3]	16.3	8.1	3.9	-3.2	-2.6
Bank loans to the private sector (year-on-year % change)	33.2	17.3	2.3	1.6	-2.3
Lending for house purchase (year-on-year % change)	37.4	23.0	16.0	18.4	6.2
Loan to deposit ratio	144.5	162.8	159.0	156.7	149.3
CB liquidity as % of liabilities	0.4	2.7	4.5	1.5	3.8
Banks' exposure to countries receiving official financial assistance (% of GDP)[4]	…	…	…	…	…
Private debt (% of GDP)	77.3	84.5	92.3	94.2	90.9
Gross external debt (% of GDP) [4]					
- Public	8.9	10.6	18.1	22.7	27.8
- Private	35.1	39.6	37.9	39.3	40.2
Long term interest rates spread versus Bund (basis points)*	31.4	62.2	115.3	108.9	236.3
Credit default swap spreads for sovereign securities (5-year)*	…	…	…	…	…

Notes:

[1] Latest available September 2011.

[2] The capital adequacy ratio is defined as total capital divided by risk weighted assets.

[3] Net income to equity ratio.

[4] Latest data 2011Q3.

[*] Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	71.5	72.4	73.0	71.9	70.3	68.4
Employment growth (% change from previous year)	1.3	2.5	1.1	-1.5	-1.5	-3.1
Employment rate of women (% of female population aged 20-64)	66.5	67.1	68.5	67.9	66.5	64.8
Employment rate of men (% of male population aged 20-64)	76.3	77.5	77.4	75.6	74.0	71.8
Employment rate of older workers (% of population aged 55-64)	32.6	33.5	32.8	35.6	35.0	31.2
Part-time employment (% of total employment)	9.5	9.6	9.2	10.9	11.7	10.7
Part-time employment of women (% of women employment)	11.9	11.7	11.7	13.5	15.0	13.7
Part-time employment of men (% of men employment)	7.4	7.9	7.2	8.6	8.8	8.1
Fixed term employment (% of employees with a fixed term contract)	17.3	18.5	17.4	16.4	17.3	18.2
Unemployment rate[1] (% of labour force)	6.0	4.9	4.4	5.9	7.3	8.2
Long-term unemployment[2] (% of labour force)	2.9	2.2	1.9	1.8	3.2	3.6
Youth unemployment rate (% of youth labour force aged 15-24)	13.9	10.1	10.4	13.6	14.7	15.7
Youth NEET[3] rate (% of population aged 15-24)	8.5	6.7	6.5	7.5	7.1	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	5.6	4.1	5.1	5.3	5.0	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	27.0	30.1	30.0	30.4	31.3	:
Labour productivity per person employed (annual % change)	4.2	3.4	1.0	-6.3	4.0	1.6
Hours worked per person employed (annual % change)	-1.7	-0.8	0.9	0.0	0.3	-0.8
Labour productivity per hour worked (annual % change; constant prices)	6.1	4.2	0.1	-6.3	3.7	2.4
Compensation per employee (annual % change; constant prices)	3.2	1.9	3.0	-1.1	5.4	1.2
Nominal unit labour cost growth (annual % change)	1.1	2.6	6.2	8.7	0.3	0.4
Real unit labour cost growth (annual % change)	-1.0	-1.5	2.0	5.6	1.4	-0.4

Notes:

[1] According to ILO definition, age group 15-74)
[2] Share of persons in the labour force who have been unemployed for at least 12 months.
[3] NEET are persons that are neither in employment nor in any education or training.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	**2005**	**2006**	**2007**	**2008**	**2009**
Sickness/Health care	7.29	7.12	6.67	7.02	7.83
Invalidity	1.92	1.88	1.69	1.64	1.74
Old age and survivors	9.54	8.45	8.20	8.03	9.22
Family/Children	1.94	1.90	1.73	1.78	2.11
Unemployment	0.74	0.61	0.43	0.38	0.59
Housing and Social exclusion n.e.c.	0.01	0.02	0.01	0.01	0.01
Total	23.0	22.7	21.3	21.4	24.3
of which: Means tested benefits	2.19	2.02	1.79	1.77	2.01
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	17.1	17.1	18.5	17.1	18.3
Risk-of-poverty or exclusion of children (% of people aged 0-17)	14.3	14.7	15.3	15.1	15.2
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	22.5	22.4	24.4	23.3	22.8
At-risk-of-poverty rate[2] (% of total population)	11.6	11.5	12.3	11.3	12.7
Value of relative poverty threshold (single household per year) - in PPS	7292	7753	8287	8646	8227
Severe material deprivation[3] (% of total population)	5.1	5.1	6.7	6.1	5.9
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	6.9	7.2	6.7	5.6	6.9
In-work at-risk-of poverty rate (% of persons employed)	4.8	4.7	5.1	4.8	5.3

Notes:

[1] People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:

For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	3.6	3.5	1.0	-6.3	4.0	3.3
Labour productivity[1] in manufacturing (annual growth in %)	7.2	7.0	0.5	-8.1	15.3	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	6.1	0.8	2.8	-10.8	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	3.8	5.2	-5.4	-13.9	-5.4	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	1.6	1.7	1.6	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	1350	1350	1290	1290	1290
Time to start a business[3] (days)	n.a.	60	19	6	6	6
R&D expenditure (% of GDP)	1.4	1.4	1.7	1.9	2.1	n.a.
Tertiary educational attainment (% of 30-34 years old population)	24.4	31.0	30.9	31.6	34.8	n.a.
Total public expenditure on education (% of GDP)	5.8	5.2	5.2	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1.5	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	0.9	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2.7*	n.a.	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies for the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[4] The methodologies of the Product market regulation indicators are presented in detail at the website

[5] Aggregate ETCR.

*figure for 2007.

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the produc

Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green growth performance

Slovenia		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.29	0.27	0.25	0.26	0.26	0.26
Carbon intensity	kg / €	0.84	0.75	0.71	0.71	0.70	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.53	1.60	1.65	1.40	1.25	n.a.
Waste intensity	kg / €	n.a.	0.22	0.19	0.17	n.a.	n.a.
Energy balance of trade	% GDP	-3.5%	-5.1%	-4.8%	-6.3%	-4.0%	-5.1%
Energy weight in HICP	%	13	13	13	13	12	14
Difference between change energy price and inflation	%	1.52	5.6	0.2	8	-5.1	11.5
Environmental taxes over labour taxes	ratio	15.7%	14.9%	15.7%	15.5%	18.2%	n.a.
Environmental taxes over total taxes	ratio	8.6%	7.9%	8.0%	8.1%	9.5%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.23	0.23	0.20	0.18	0.17	n.a.
Share of energy-intensive industries in the economy	% GDP	13.8	14.0	13.4	13.3	12.1	n.a.
Electricity prices for medium-sized industrial users	€/ kWh	0.06	0.07	0.08	0.09	0.10	0.09
Public R&D for energy	% GDP	n.a.	0.00%	0.01%	0.01%	0.02%	n.a.
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.02%	0.03%	n.a.
Recycling rate of municipal waste	ratio	24.5%	38.0%	40.3%	37.6%	41.5%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	43.2%	44.0%	41.6%	41.7%	n.a.
Transport energy intensity	kgoe / €	0.84	0.76	0.75	0.83	0.80	n.a.
Transport carbon intensity	kg / €	2.53	2.28	2.23	2.47	2.41	n.a.
Change in the ratio of passenger transport and GDP	%	-2.1%	-3.7%	-1.0%	-1.8%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	51.7%	52.1%	52.5%	55.1%	49.0%	n.a.
Diversification of oil import sources	HHI	n.a.	0.00	0.00	0.00	0.00	n.a.
Diversification of energy mix	HHI	0.24	0.24	0.24	0.26	0.26	n.a.
Share of renewable energy in energy mix	%	10.9%	10.5%	10.0%	11.0%	12.7%	n.a.

Country-specific notes:
The year 2011 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN explanations given below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector
Passenger transport growth : measured in %-change in passenger kilometres
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents