

NTA Accounts for Slovenia: Independence and Return in the Family of European Market Economies

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Background on country

- In the period 1945-1991 Slovenia was one of the six republics of the Socialistic Federal Republic of Yugoslavia (SFRY).
- Private property and entrepreneurships were prohibited with the exception of some small and marginal activities (e.g. small farming, hand-crafts, etc.). Consequently, social ownership caused quite egalitarian income distribution.
- In 1991, Slovenia declared independence and became independent internationally recognized state in the 1992. It was a kind of "undo" of the former socialist revolution after the World War II.
- In 2004, Slovenia joined the European Union. It was the second behind Cyprus in the development ranking of the ten new member states at that time. GDP per capita (PPS) amounted to 18,900 EUR and represented 80.8 percent of the EU-25 average in 2005.

Taxes on labor and progressivity

- Implicit tax rate was about 2 percentage points higher than the average of EU-25 countries (37.8 versus 35.6 %) in the year 2004. Contributions have no ceiling which is rather unusual solution with strong equalization effect compared to other EU countries.
- Tax reform entering into force in the year 2007 reduced the number of personal income tax categories from 5 to 3 whereby the highest tax rate was lowered from 50 to 41 percent. The intention of the reform has been alleviating the level and progressiveness of the labor tax burden to increase incentives to work on the supply side of the labor market.
- The country has also high progressiveness on the transfer side. Beside the obvious categories with social function, there are also hidden social notes in other public sub-systems.
- The ideas of equality are strong in the society and people are very sensitive on the increase of inequality. There have not been many complaints about the individuals' contributions without the ceiling.

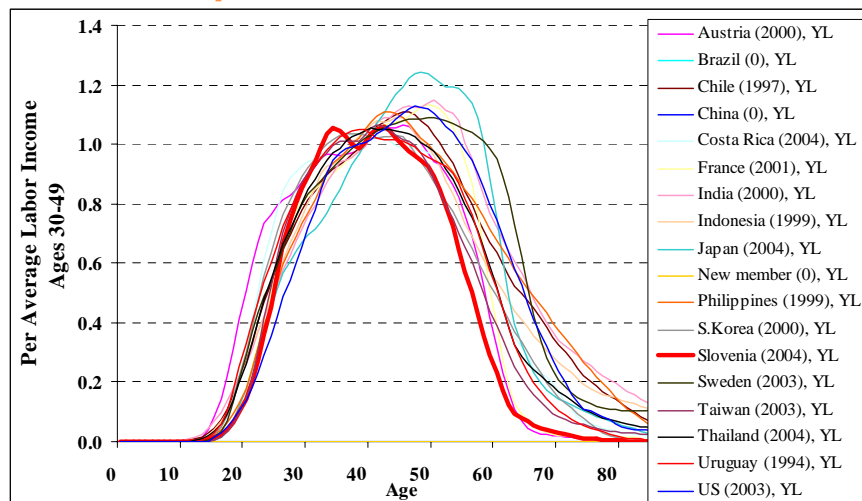
psychological socialist inheritance

- In the habit of the former system (socialism) many older people still expect that state should take care about almost everything, instead that they would be left on their own. These high requirements are close to the generous welfare state arrangements that some high developed countries had provided.
- Pensioners don't want to renounce their benefits. With current low employment rates and unfavorable demographic situation this is hard to support and this will be even much harder in the future. European Commission projected increase in pension expenditures from 11.0% in the year 2004 to 18.3% in the year 2050 (especially problematic is the indexation of pensions to wages).
 - Only 71.2% of pension expenditures (broadly defined) in 2005 were covered by contributions from the workforce and some other minor categories of incomes while remaining 28.8% had to be covered directly by the central government, i.e. funds, collected by taxes.

The Data

- “Big CES” (2003-2005) as the standard approach that Statistical Office of the Republic of Slovenia calculates to enlarge the number of observations: 11,303 individuals, constituting 3,725 households, containing data on expenditures and income.
- European System of Accounts (ESA), harmonized with SNA, against which we calibrated most of the age profiles.
- Various other sources (Institute for Pension and Disability Insurance, Ministry of Finance, The Health Insurance Institute of Slovenia, etc.).

Labor income profile, compared to other countries

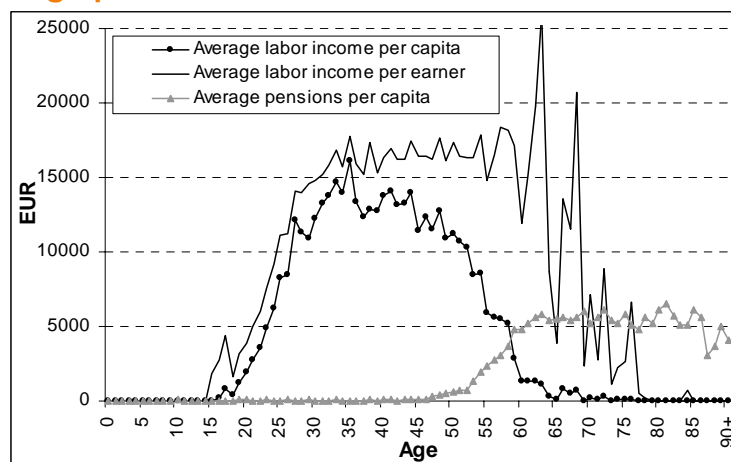


Source: NTA project, www.ntaccounts.org.

Entering late, withdraw early

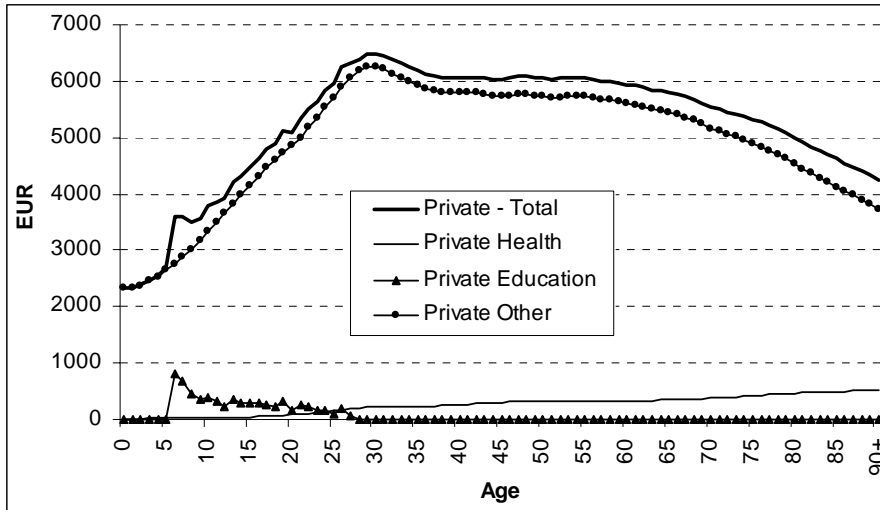
- Students enjoy many benefits and they are much cheaper workers than regularly employed people.
- In the case of monthly receiving the average net payment equal to the Slovenian average net wage in the year 2004, the student work was in that year for employers 40 percent cheaper than having regularly employed worker (9,754 EUR instead of 16,210 EUR per year).
- Retirement age before the Pension Act in 1992 was set to 55 years for men and 50 for women with further early retirement options (also to mitigate unemployment).
- Since then the age at retirement was increasing by 6 month each year to reach 58 years for men and 53 for women in the year 1998.
- Currently there is a transition period for women up to the year 2013, increasing the age at retirement to 58 years also for them – required working period will be for women however still lower than for men (38 years instead of 40 years).

**Labor income profile *without mixed income* (decomposed to average labor income per capita and average labor income per earner) and pension age profile.
The age profile flattens out?**



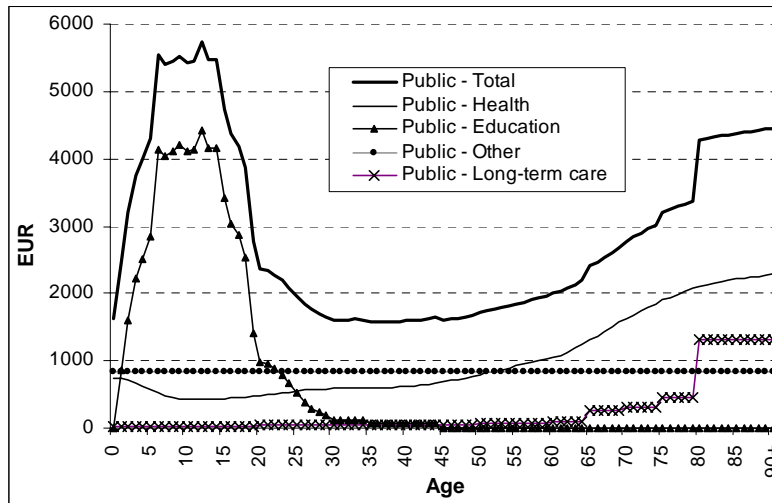
Source: NTA calculations, based on various data sources.

Composition of the private consumption



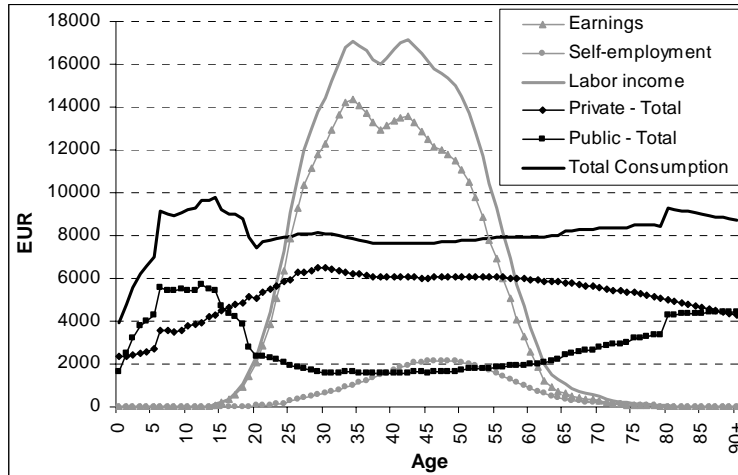
Source: NTA calculations, based on various data sources.

Age profile of public consumption and its components



Source: NTA calculations, based on various data sources.

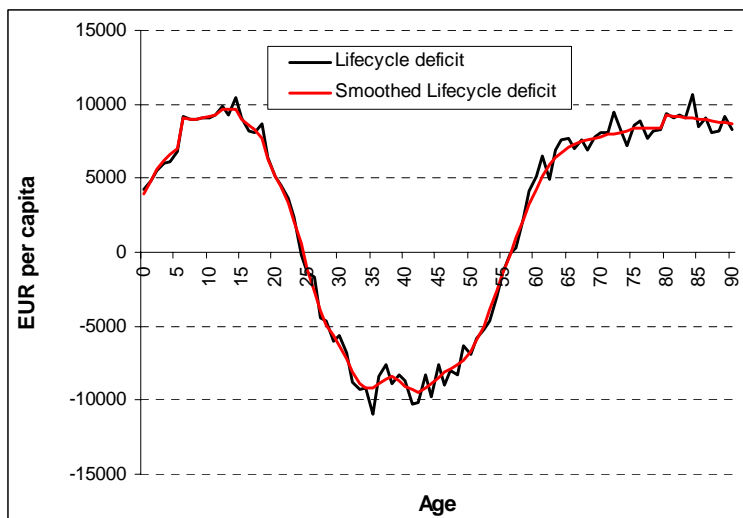
Components of the most important graph



Note: grey lines denote labor income (components) and black lines denote consumption (components).

Source: NTA calculations, based on various data sources.

Lifecycle deficit



Source: NTA calculations, based on various data sources.

Conclusions

- Ongoing and forthcoming rapid changes of the demographic structure in Slovenia.
- Entering late and escaping early into/from the employment combined with age profiles and generous indexation of pensions is projected to have strong impact on long-term sustainability of public finances.
- In Slovenia the debate about the flows of resources among different age groups is highly relevant and obtaining insight into happening would be very important.