

Assessing the Effects of (Some) Structural Measures in Slovenia

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/ Institute of Macroeconomic Analysis and Development

- Independent government office
- Monitors and analyses current trends and development
- Prepares macroeconomic forecasts
- National productivity board, which include analysis of productivity and competitiveness developments in Slovenia and preparing annual productivity reports.

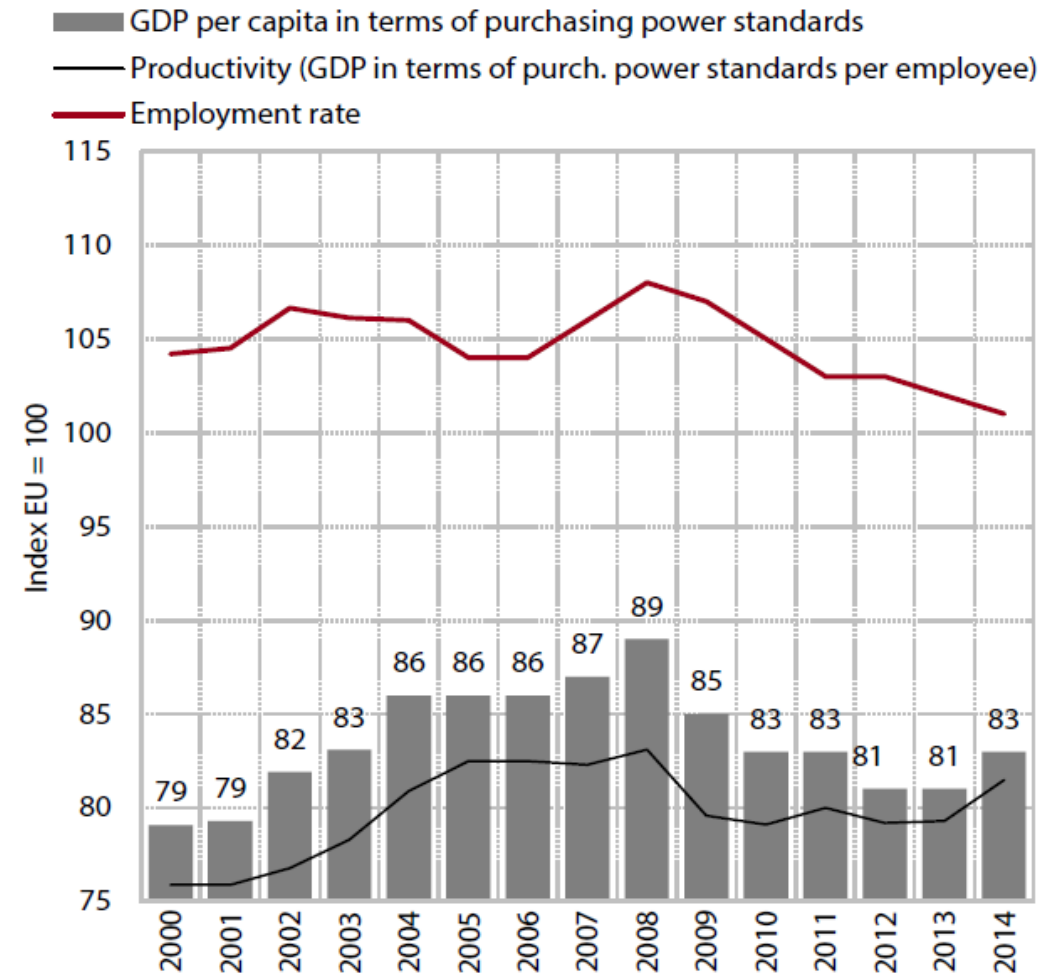
■ Assessing the Effects of Some Structural Measures in Slovenia

- Published in 2016
- https://www.umar.si/fileadmin/user_upload/publikacije/kratke_analize/A_strukturni_ukrepi.pdf
- Aim: „to encourage debate“
- Various measures; various challenges

- Development Report 2016

Productivity of Slovenia's economy remains low by international standards. Before the crisis, productivity (expressed in purchasing power standards) was at 83% of the EU average, but had already stopped converging to the EU average several years before the crisis. In 2009 and 2010, Slovenia's productivity gap widened by another 4 percentage points amid less favourable GDP movements, and persisted at a very similar level over the next three years. It narrowed more noticeably only in 2014, but productivity remained low compared with the EU (82% of the EU average).

Figure 17: GDP per capita in terms of purchasing power parity and its components (productivity and employment)



Source: Eurostat Portal Page – National accounts, 2015; calculations by IMAD.

/ Productivity

- Higher R&D efficiency
- Reducing administrative barriers
- Deregulation of services

Productivity – Reducing administrative barriers

- Development Report 2016:

that they were considerably shortened in the last year. Especially time-consuming are procedures concerning public services that need to go through various levels of decision-making (in particular getting different permits and documents from local authorities) and procedures where numerous stakeholders are involved and there is the possibility of appeal (protracted court proceedings). On the other hand, Slovenia is more successful in terms of the ease of starting a business, highly skilled and educated workforce; in the last year doing business was also simplified by the amended insolvency legislation.

/ Productivity – Reducing administrative barriers

- QUEST macroeconomic model
- Developed by Directorate General for Economic and Financial Affairs (DG ECFIN)
- Calibrated to Slovenia
- Structural macro-model; New-Keynesian tradition
- Microeconomic foundations derived from utility and profit optimisation
- Frictions in goods, labour and financial markets.

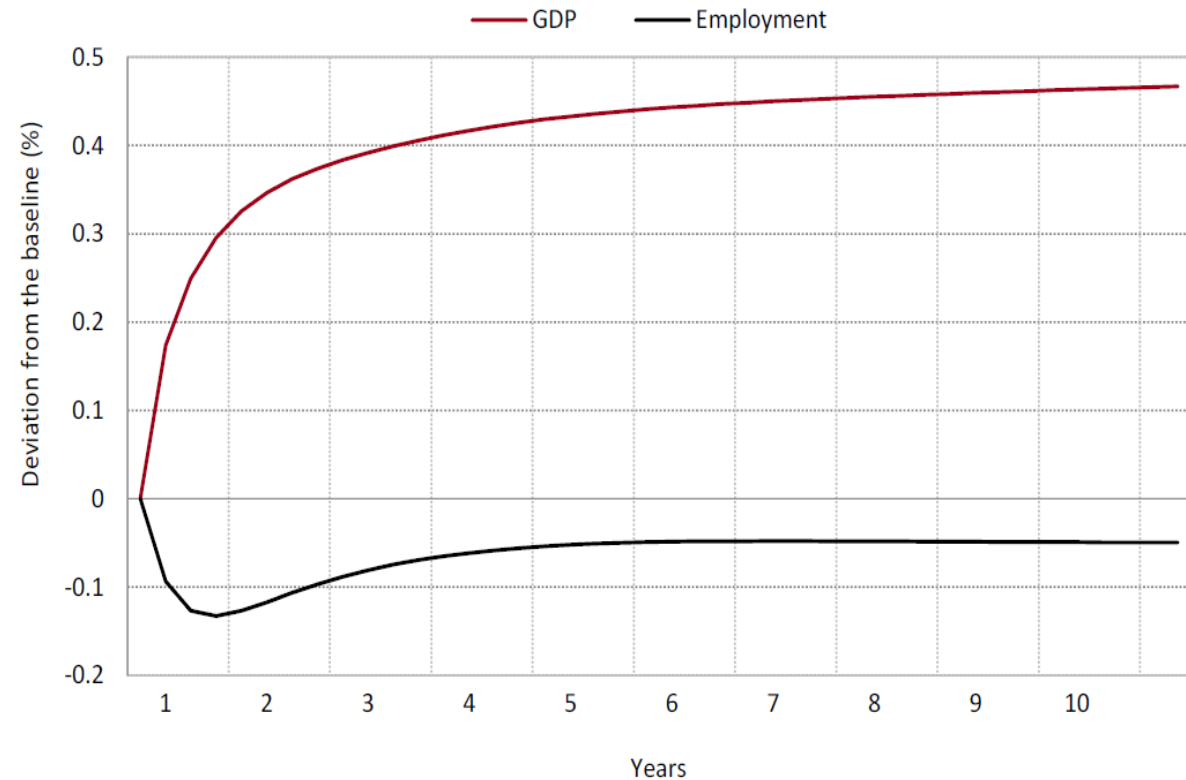
/ Productivity – Reducing administrative barriers

- World Bank indicator of the ease of doing business
- Lengthy proceedings for businesses and high costs in some areas
- Shortening proceeding and reducing costs to EU average => improves the value of the ease of doing business indicator by 10%
- QUEST: Administrative costs; fixed costs

Productivity – Reducing administrative barriers

- Reduced costs for producers
- Labour demand decreases
- Increases profitability and investment
- Prices, competitiveness, exports

Figure 4: Simulation of the effect of reducing administrative overhead costs for companies in the finished product sector



Source: calculations by IMAD.

Productivity – Deregulation of services

- Development Report 2016:

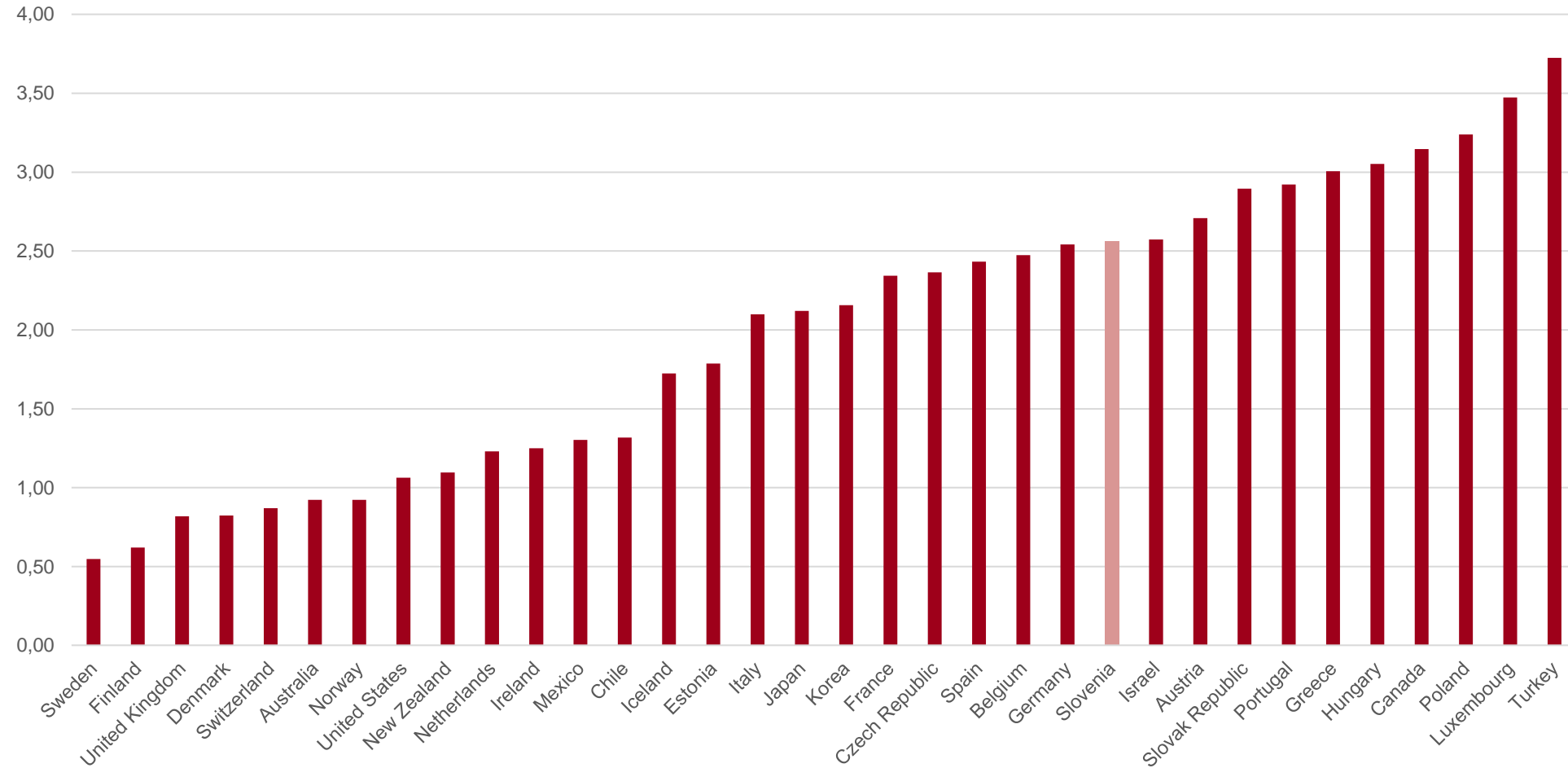
Further deregulation of services would have a positive impact on the competitiveness of the economy and the level of GDP. Analyses show that liberalisation has a positive impact on the efficiency of services and consequently, on the economy as a whole.⁵³ Between 2010 and 2015 the number of regulated professions in Slovenia dropped considerably mainly due to deregulation in crafts, but continues to be considerably above the EU average. According to OECD, regulation

/ Productivity – Deregulation of Services

- OECD PMR (Product Market Regulation) Indicator
- Economy-wide PMR
- Sector PMR
- Network sectors, Retail trade, Professional services

Productivity – Deregulation of Services

OECD PMR Professional services, 2013



/ Productivity – Deregulation of Services

- Improvement to the OECD level in those areas where Slovenia is furthest from the average
- PMR indicator for professional services from 2.56 to 1.46
- But QUEST is silent on PMR

/ Productivity – Deregulation of Services

- Thum-Thyssen and Canton (2015). Estimation of service sector mark-ups determined by structural reform indicators.
- PMR => change to the mark-up in professional services
- Mark-up in professional services declines from 19% to 13%
- QUEST silent on professional services

/ Productivity – Deregulation of Services

- Input/output tables: 90% of these services used as intermediate inputs in other sectors
- Professional services' output 6% share of total intermediate inputs
- Intermediate inputs mark-up from 10% to 9.64%

Productivity – Deregulation of Services

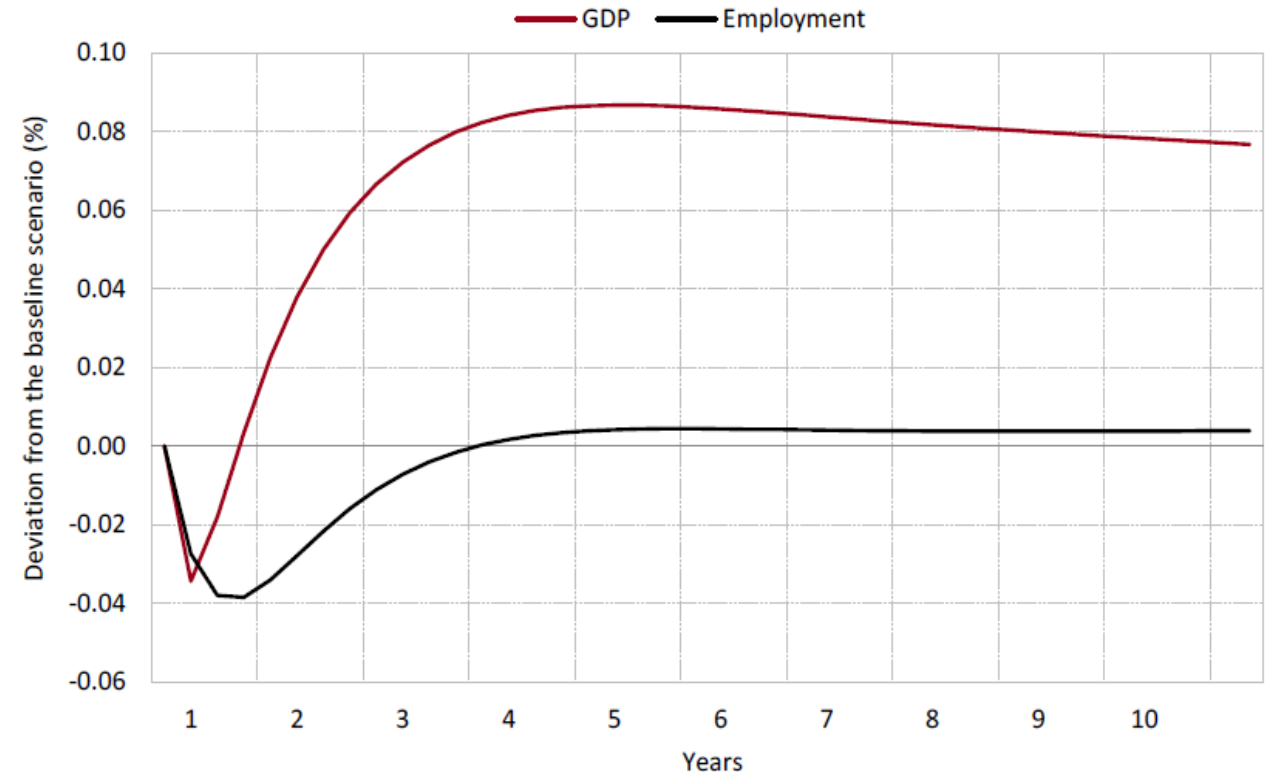
Lower prices:

- increase demand
- but also reduces entry of new firms

Relatively small effect:

- Small sector in terms of GDP
- Intermediate inputs vs. final goods

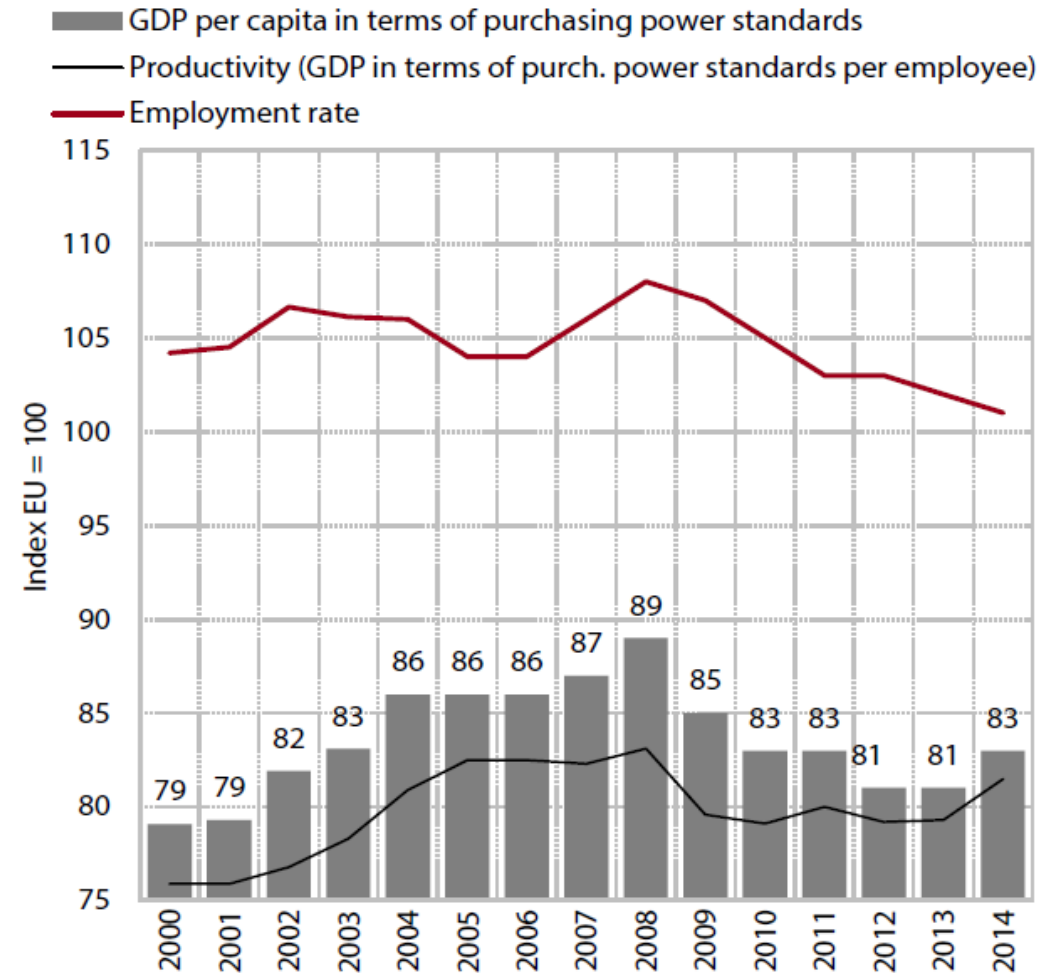
Figure 3: Simulation of the effect of a mark-up reduction in the intermediate inputs sector



Source: calculations by IMAD.

- Development Report 2016

Figure 17: GDP per capita in terms of purchasing power parity and its components (productivity and employment)



Source: Eurostat Portal Page – National accounts, 2015; calculations by IMAD.

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Although the unemployment rate of young people has decreased in recent years, the issue of young people struggling to enter the labour market is a burning one. During the crisis, the increase in the unemployment rate of young people (aged 15–24) in Slovenia exceeded the EU average; the unemployment rate reached its peak in 2013 (21.6%, based on an LFS) and, although remaining high, is on the decrease ever since (see Indicator 3.5).

people. The employment rate of older people (aged 55–64) remained higher in 2015 than in 2008, particularly as a result of the pension reform and the demographic effect of employed people entering the group of older workers, thereby increasing the employment rate for this group. Nevertheless, the employment rate for older people is still one of the lowest in the EU.

- Increasing spending on ALMP training programmes
- Reducing the replacement rate for unemployment benefits
- Lowering the tax wedge for the highly educated labour force

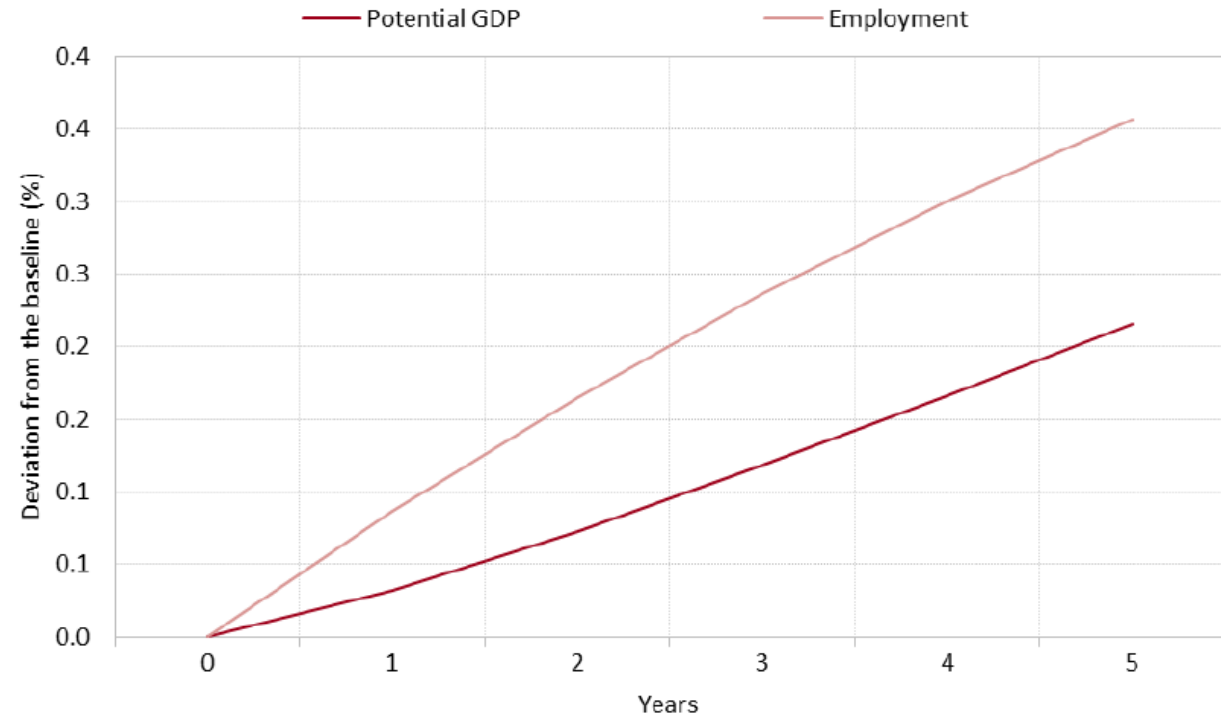
/ Labour market - ALMP

- Low employment rate in some groups
- ALMP; ass. effective in raising rates
- Defined as the level of spending per unemployed person as a share of GDP per capita; following Bassanini and Duval (2006) and Bouis and Duval (2011)
- Increases the employment rate by 0.4% in 5 years

Figure 5: Effect of increasing ALMP spending on training programmes on employment and potential GDP

Production function

- Cobb-Douglas, labour coefficient of 0.7



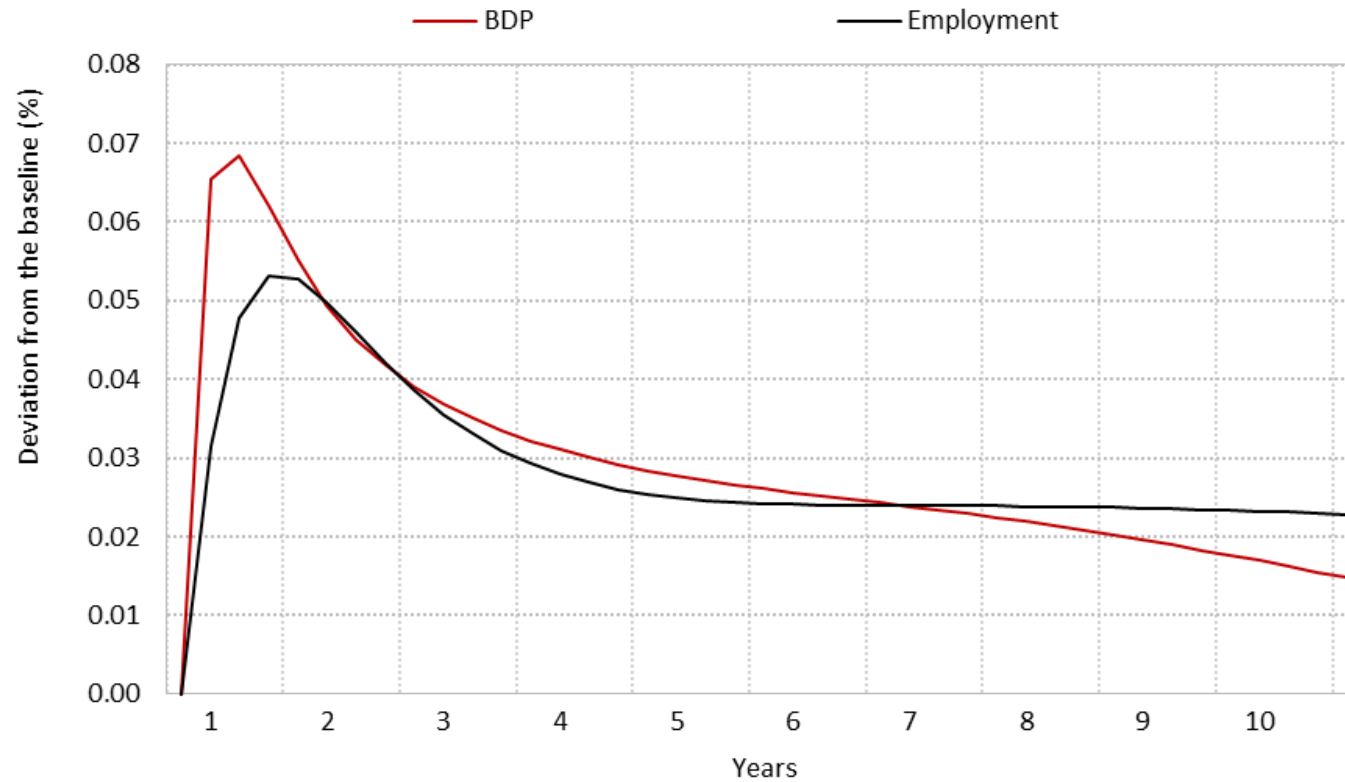
Source: IMAD estimates.

▮ Labour market - Lowering the tax wedge

- Lowering of the tax wedge on high income, QUEST
- Model: tax wedge simulations for earnings at 167% AW
- Labour supply increases
- K/L and wages decrease
- Small positive gains in GDP; due to low share of highly educated persons in employment
- Model definition of highly educated

Labour market - Lowering the tax wedge

Figure 7: Effect on employment and GDP of a reduction in the tax wage for highly educated people



Source: IMAD estimates.

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THANK YOU!