Center of Excellence in Finance

YEARS OF MAKING THINGS HAPPEN

Monitoring Structural reforms in Social examples

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Contents

Warm-up > Trainspotting & frog cooking exercise

Who,what/why/when…

…imminence of SRs.

% of GDP	2019	2020	2030	2040	2050	2060	2070	Difference 2070-2019
Total expenditure	39.5	42.0	41.9	46.4	52.7	58.4	64.0	24.5
Of which: age-related expenditures	21.0	22.3	22.9	26.2	29.1	30.0	29.9	8.9
Pension expenditure	10.0	10.9	10.8	13.6	15.7	16.1	16.0	6.0
Old-age and early pensions	7.7	8.4	8.4	10.7	12.4	12.7	12.7	5.1
Disability pensions	1.1	1.2	1.2	1.5	1.7	1.7	1.6	0.5
Other pensions	1.2	1.3	1.2	1.4	1.6	1.7	1.6	0.5
Health care	5.9	5.9	6.5	7.0	7.2	7.4	7.4	1.5
Long-term care	1.0	1.1	1.3	1.6	2.0	2.2	2.3	1.3
Education	3.8	3.8	3.9	3.6	3.9	4.1	3.9	0.1
Unemployment	0.3	0.5	0.4	0.4	0.4	0.4	0.4	0.1
Wage compensations	0.3	0.3	0.2	0.2	0.2	0.1	0.1	-0.2
Subsidies	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0
Government investments	3.2	3.2	3.2	3.2	3.2	3.2	3.2	0.0
Total primary expenditure	37.9	39.7	39.4	42.9	45.9	46.7	46.7	8.8
Interest expenditure	1.6	2.3	2.5	3.5	6.8	11.7	17.3	15.6
Total general government revenue	40.1	41.6	39.9	39.6	39.3	39.3	39.2	-0.8

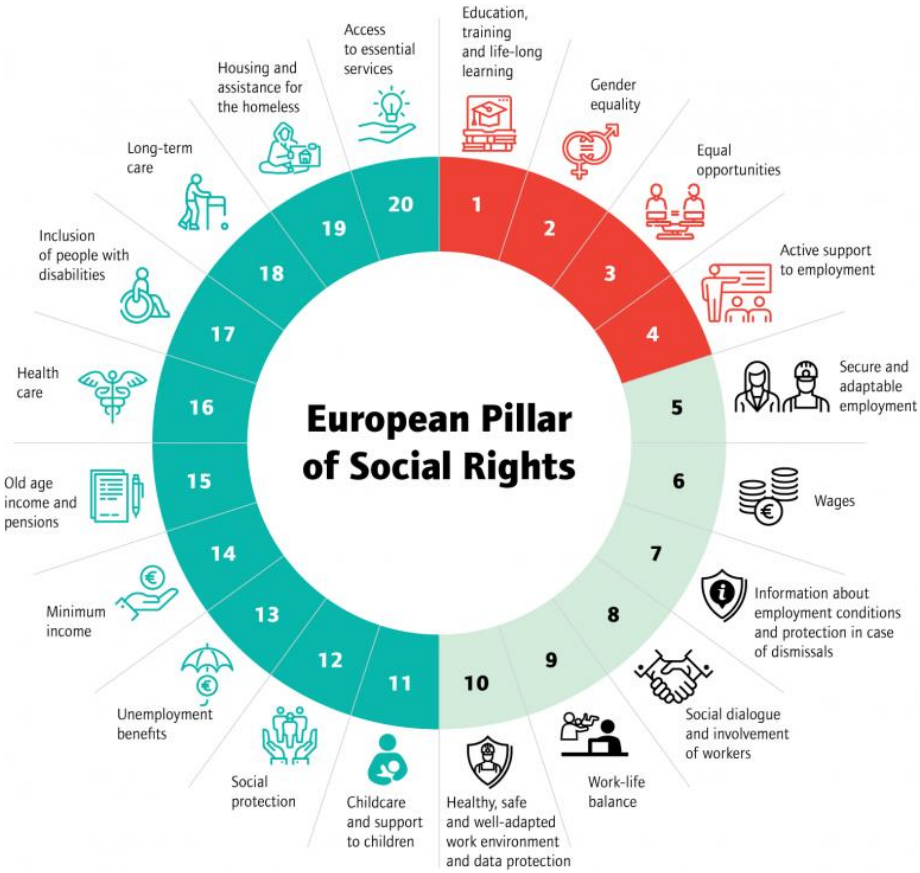
Source: Stability programme, 2021 – Slovenia, Long-term sustainability of public finance, upper part of table no. 5.

1. Employment and social protection – examples

Employment and social protection – examples (1/13)

The european pillar of social rights

- Delivering on a **more social and fairer** Europe - European Pillar of Social Rights
- **compass** - socio-economic convergence/progress
- three main **dimensions**/20 **principles**/numerous **indicators**
  - **Equal opportunities** - skills development, life-long learning and active support for employment
  - **Fair working conditions** - balance of rights and obligations between workers and employers
  - **Social protection and inclusion** - access to health, social protection benefits and high-quality services, including childcare, healthcare and long-term care



≈72%↓
at least **78%** of the population aged 20 to 64 should be in employment by 2030

≈37%
at least **60%** of all adults should be participating in training every year by 2030

≈97m↑
a reduction of at least **15 million** in the number of people at risk of poverty or social exclusion

Sources: www.ec.europa.eu, www.etui.org

Employment and social protection – examples (2/13)

The european pillar of social rights – indicators

- Eurostat states it has your key to European statistics – it appears it is already yours, therefore, use it!☺
- European pillar of social rights
  - Social scoreboard indicators (link),
  - Headline indicators/flagships
  - Secondary indicators

Social protection and inclusion

Indicator	Latest value	Trend
Headline indicators		
At-risk-of-poverty or social exclusion rate (AROPE) *% of population*	13.7 [2019]	
At-risk-of-poverty-rate (AROP) *% of population*	12.4 [2020]	
Severe material and social deprivation rate (SMSD) *% of population*	2.2 [2019]	
Persons living in a household with a very low work intensity *% of population <65*	4.3 [2019]	
At-risk-of-poverty rate or exclusion of children *% of population 0-17*	11.6 [2019]	
At-risk-of-poverty-rate (AROP) for children *% of population 0-17*	10.5 [2020]	
Severe material and social deprivation rate (SMSD) for children *% of population 0-17*	1.2 [2019]	
Children living in a household with a very low work intensity *% of population 0-17*	2.6 [2019]	
Impact of social transfers *reduction of AROP*		
Disability employment gap *R*		
Housing cost overburden		
Children aged less than 3		

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European Commission > Eurostat > European Pillar of Social Rights > Methodology

EUROPEAN PILLAR OF SOCIAL RIGHTS | METHODOLOGY

Employment and social protection – examples (3/13)

The european pillar of social rights – zooming in

- The nature and the implications of the selected (KP)Is?
  - sensitivity, volatility, magnitude, intensity, time, interdependence / correlation, etc.
- What does it tell you? Good, bad, average? Value to the policy maker… it is about understanding (also) the big picture.
  - value, trend, efficiency of policy/measures feedback (?), priorities framework, peer pressure, etc.
- ER - % of employed p. in relation to the comparable total population
- AR - % of active p. in relation to the comparable total population (i.e. empl&unempl).

Fair working conditions

Indicator	Latest value	Trend
Headline indicators		
Employment rate *% of population 20-64*	75.6 [2020]	
Unemployment rate *% of labour force 15-74*	5 [2020]	
Long term unemployment rate *% of labour force 15-74*	1.9 [2020]	
Real gross disposable income of households *Per capita increase (Index = 2008)*	110.09 [2019]	
Secondary indicators		
Activity rate *% of population 15-64*	74.6 [2020]	
Youth unemployment rate *% of labour force 15-24*	14.2 [2020]	
Employment in current job by duration *% of employed 20-64 from 0-11 months*	10.7 [2020]	
Transition rates from temporary to permanent contracts *% (3 year average)*	47.9 [2020]	
In-work-at-risk-of-poverty rate *% population*	5 [2020]	

Employment and social protection – examples (4/13)

Activity rates > Slovenia > setting the scene

Setting the stage/background - **small vs. big** comparability (?):

- GDP EUR 47mrd, GDP p.c. EUR 23k (current prices; 2020), **population 2,1m**, size 20.273 km^2,
- Slovenia has a **small and open** economy/**labour market**,
- Extreme and fast moving **volatility** (5-7 years), good „**shock absorbers**“:
  - **insured** Δ140K (&50k+70k) => 910k (10/2008), 830k (2/2013), 970k (2/2020).
  - **unemployment** Δ70k => 60k (6/2008), 130k (1/2014), 70k (6/2019),
  - **foreign workers** Δ50k => 50k (2013), 100k (2020),
  - **other „absorbers“** - atypical forms of work (…), public sector empl., community work arrangements, LIS/NEETS, education (VII+), sabbatical, im/emigration, maternal/paternal leave, retirement, etc.

Sources: Eurostat, ZPIZ&ZRSZ monthly reports, SURS.

Employment and social protection – examples (5/13)

Activity rates > Slovenia > setting the scene

- Mid-long term (fin.) forecast @ high risk, therefore **constant adapting to „moving targets“** is essential:
  - pensioners 625k of which 460k old age (**90k more** than in 2010),
  - 65+/15- ratio currently @ 1,3 and will **rise to 2 by 2033** (20>28% in 20 years); 65+ @20%,
  - pension expenditure approx. 10% of GDP in 2019, expected to rise above **15% in 2040**.

- Labour force participation rates:
  - **65+** neglectable (SI 3,1% / EU 6,6% / DE 7,8%),
  - **55-64 low**, but rising fast (SI 48,6% / EU 60% / DE 72,7%),
  - **25-54 employment rate very high**, (No1 in OECD; SI 87,8% / EU 81,3% / DE 85,6%),

Sources (%): EUROSTAT, OECD, ZPIZ monthly reports.

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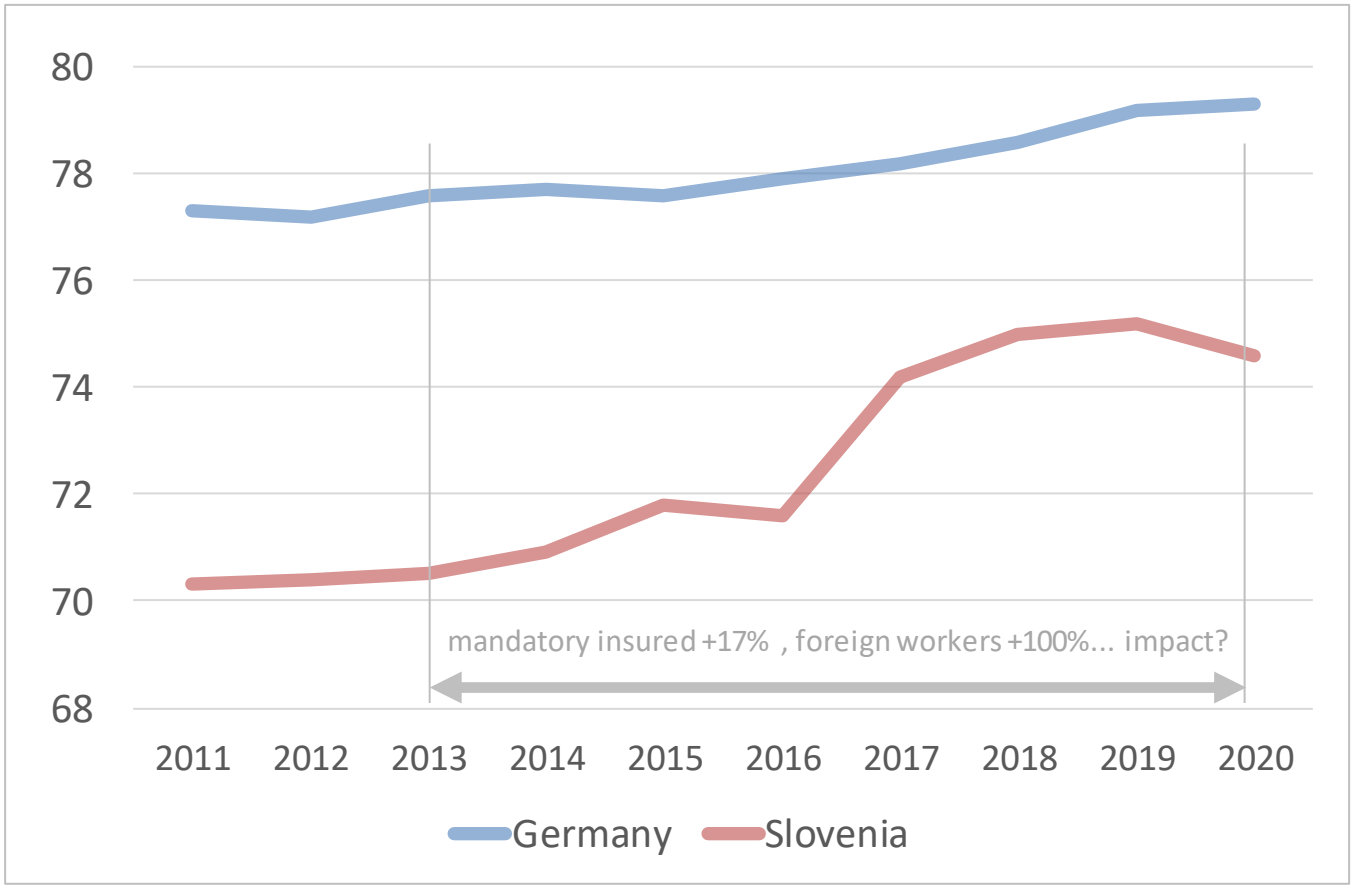
20 YEARS OF MAKING THINGS HAPPEN

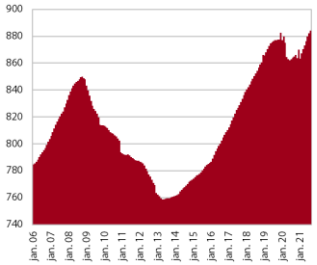
Employment and social protection – examples (6/13)

Activity rates > Slovenia > setting the scene

Impact on activity rates - % of total population 15-64 (empl&unempl)



Work active (thousand)



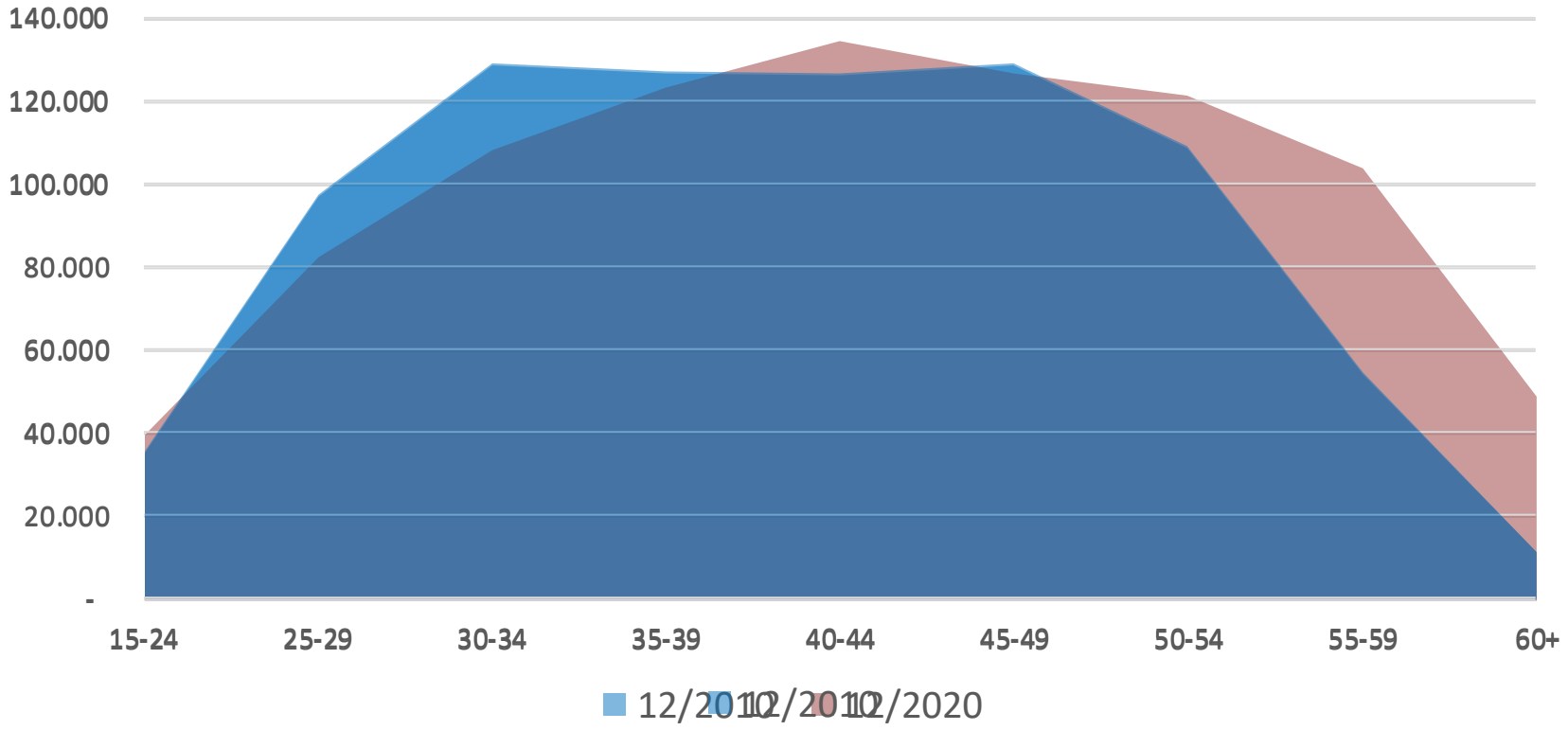
Sources: Eurostat, ZRSZ, ZPIZ (data), UMAR, calculations, adaptation TB

Employment and social protection – examples (7/13)

Activity rates > Slovenia > setting the scene

- A tectonic move under way… decomposition based on age – better insight.

Labour force participation by age in 2010 and 2020



Source (data): SURS.

Employment and social protection – examples (8/13)

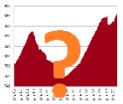
Activity rates > Slovenia > examples of policy failures

Policy failures with initial/temporary positive impact – examples

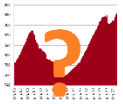
- Some policies/measures tend to cause:
  - positive implications in the short run/negative in the long run,
  - cause unexpected negative externalities to arise,
  - adversely interact with other policies/measures.
- Mitigating the above risk:
  - permanent KPIs monitoring and periodical post-implementation assessments,
  - introducing umbrella strategies and taking a holistic approach to change (i.e. SRs).

Examples (1 of 4)

- **Subsidising first labour market entrants** and long term unemployed to opt for entrepreneurship (i.e. **sole entrepreneurs**) and **flat rate taxation**
  - short term – unemployment and inactivity↓
  - long term – market distortions (price/quality dumping), downward spiral for the individual and his household, social insecurity (>90% minimum SSC insurance), default tax/SSC liabilities, high social transfers and other benefits (kindergarden), inflation of atypical forms of work/shadow economy, etc.



- **scholarships for shortage occupations**
  - shortage in staff due to poor wage, work, safety and health conditions,
  - attracting scholars from lower income households „inheriting the poverty trap“.

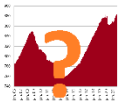


Employment and social protection – examples (9/13)

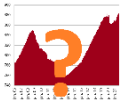
Activity rates > Slovenia > examples of policy failures

Examples continued (2 of 4)

- Combining the **low minimum wage** competition model with high social transfers/benefits (i.e. the working poor)
  - indirectly subsidising of low productivity/low added value businesses
  - high cost to the public finance, society and individuals caught in the spiral (high at poverty risk significantly increasing in old age – sick leave, disability, unemployment, retirement),
  - (!) modern economies/welfare states cannot afford low wages, low productivity, low added value, etc.,



- **Work activity allowance** and detached tax/social policy
  - An increase of the social assistance by more than 30% in 2018 increased the census for social assistance in case of activity to approx. 90% of minimum wage; translation through various factors caused **minimum differences in household income in case of activity/inactivity** (social transfers, benefits – kindergarden, meals, health insurance, etc.),
  - **Distortions in decisions** of individuals/households – **disincentivised vertical transition**/additional income and labour market participation/inactivity, increased risk of entering the long term poverty spiral, etc.,
  - on/off limits pertaining to social benefits add to the problem (glass/steel ceiling)

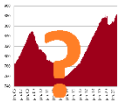


Employment and social protection – examples (10/13)

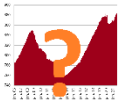
Activity rates > Slovenia > examples of policy failures

Examples continued (3 of 4)

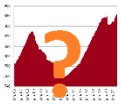
- Mandatory insurance contributions for employees **assigned to work abroad** based on comparable salary in Slovenia (i.e. mostly minimum wage)
  - inadequate part of actual income subject to mandatory insurance – risks not adequately covered (sick leave, disability, unemployment, retirement),
  - reduced SSC flows to state budget, asymmetry burden sharing and benefits (social transfers, retirement),



- **limiting the view to pensioners income only**
  - Importance/implications of expenditures (accommodation, food, transport, heating, long term care services, etc.)
  - Hidden externalities – poor long-term care, daily care, etc. causes (mostly) women to leave the labour market too soon (**escaping the labour market**),



- **bridge to retirement/(re)activation – stimulating free-riding**
  - Rewarding inactivity – unemployment, sick leave (20% „activity bonus“, 4%pt additional accrual rate),
  - Gaps in unemployment benefits regulation (25/1/25/1…, 9/3/9/3…)



Employment and social protection – examples (11/13)

Activity rates > Slovenia > examples of policy failures

Examples continued (4 of 4)

- Dealing with/monitor multiple converging/duplicating measures,
- In Slovenia there are **multiple measures pertaining to children**; some of these are listed below:
  - Ministry of Labour and social Affairs > child allowances (250m), large family allowance (10m), scholarships, maternity and paternal leave, etc.
  - Ministry of Education and Sports > school and student meal allowances (10m), scholarships, student accommodation,
  - Ministry of health > health insurance,
  - Ministry of the Environment and Spat. Plan. > not-for-profit family accommodation,
  - Ministry of finance > dependant family member tax allowance (300), annual duty for vehicles exemption, motor vehicles tax exemption,
  - Ministry of Infrastructure > highway vignette for large families,
  - Municipalities > childbirth grant(s), payment of health insurance (threshold), transport to school, kindergarten, etc.
- Measuring, interpreting and understanding the underlying implications is **beyond complex** – introducing a universal child allowance/income?
  - May reduce the complexity but not necessarily improve the impact.

Employment and social protection – examples (12/13)

Key takeaways

The risks > potential remedies:

- being caught in your **own policy bubble** > interdepartmental and interministerial workgroups, single set of main priorities to which lower grade priorities have to adhere, umbrella (horizontal) strategies to generate goal congruence, tracking the work of other departments/ministries, etc.
- failing to detect **negative externalities** > (permanent) KPIs monitoring and periodical post-implementation assessments, looking at the data from different viewpoints (stat. analysis),
- **taking credit or blame** for items within/out of your reach > decomposition of (KP)Is understanding their nature and drivers; secondary/partial (KP)Is and targets to be used for assessing contribution to the global result, etc.
- **quantity is not everything** > understand and provide for the shortcomings of quantitative statistics/(KP)Is; sound interpretation and communication, use of qulitative (KP)Is and target setting, etc.

Employment and social protection – examples (13/13)

Questions – your experience

Have you identified any policy failures in your country? Is there a pattern that you recognised (e.g. politically/vote sensitive issues – a „politicians beauty contest“)?

How were the failures identified?

- post implementation evaluation,
- KPIs/internal controls,
- red-flagged by other ministries/departments/stakeholders,
- other.

Was the impact of negative externalities estimated? How?

How long did it take to change/did it change?

2. COVID 19 – data at your fingertips

COVID 19 – data at your fingertips (1/8)

Speed and accuracy matters – understanding behaviour

- „Split-second“ decision/policy making in austerity times relies heavily on **availability of data&analysis** in real time,
- **„traditional“ periodical reports** provided by SURS, ZRSZ, UMAR, etc. not enough/obsolete when made available,
- special/ad-hoc reports&sets of data needed,
- new **sources, tools and approaches** have to be developed to:
  - support decision-making over a broad range of tailor made measures,
  - allow for their **timely activation, intensity and deactivation** (measuring, interpreting and understanding impact),
  - assuring efficient and effective use of public funds while mitigating market distortions,
  - provide input/support for communication with stakeholders,
  - etc.,
- not **helping** (just) the loudest/strongest, but **the most in need**.

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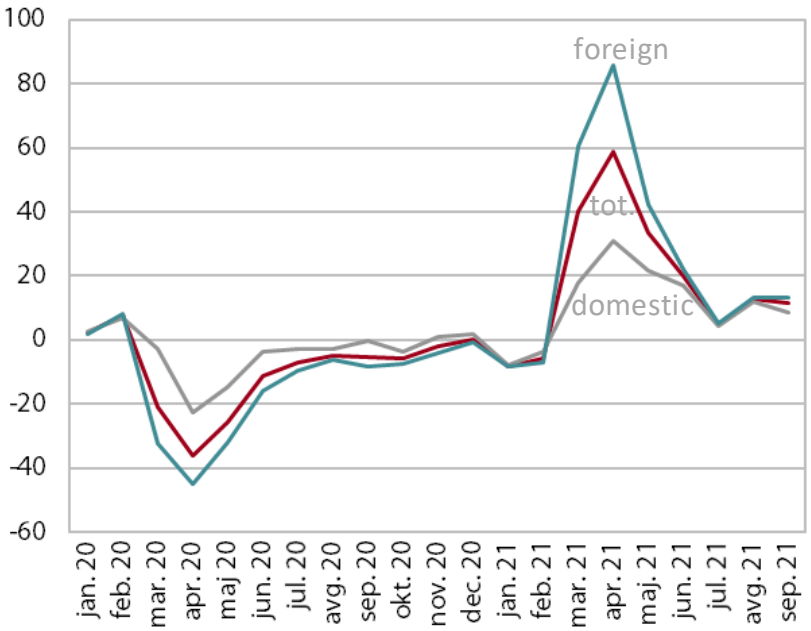
COVID 19 – data at your fingertips (2/8)

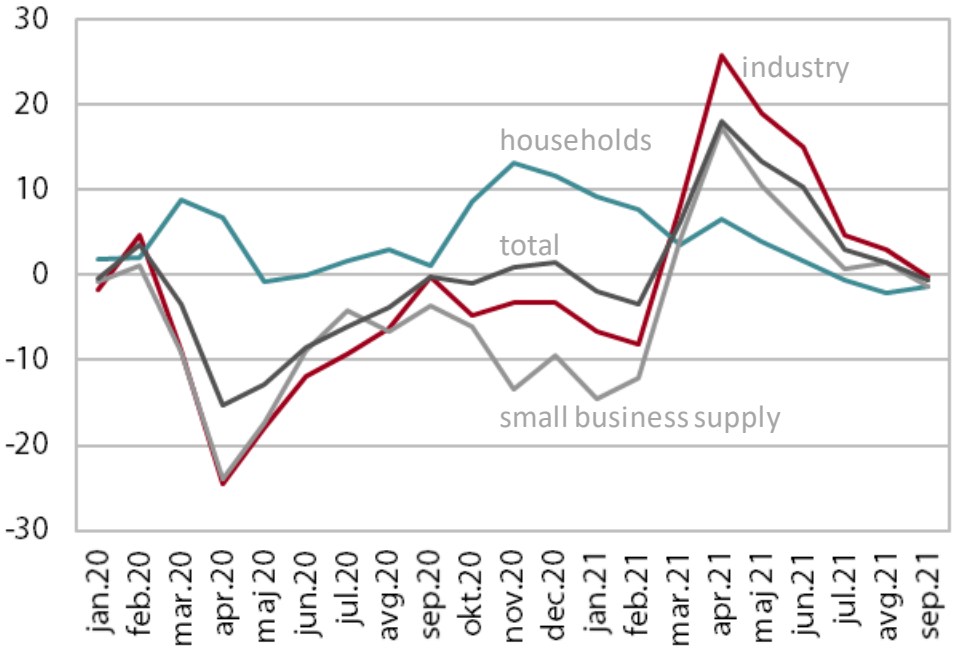
Examples of data collected in real time

HW traffic > 3,5t year-on-year change (%)



Source: DARS (data), UMAR (processing&graphics), TB (adaptation).

Electricity, year-on-year change (%)



Source: SODO (data), UMAR (processing&graphics), TB (adaptation).

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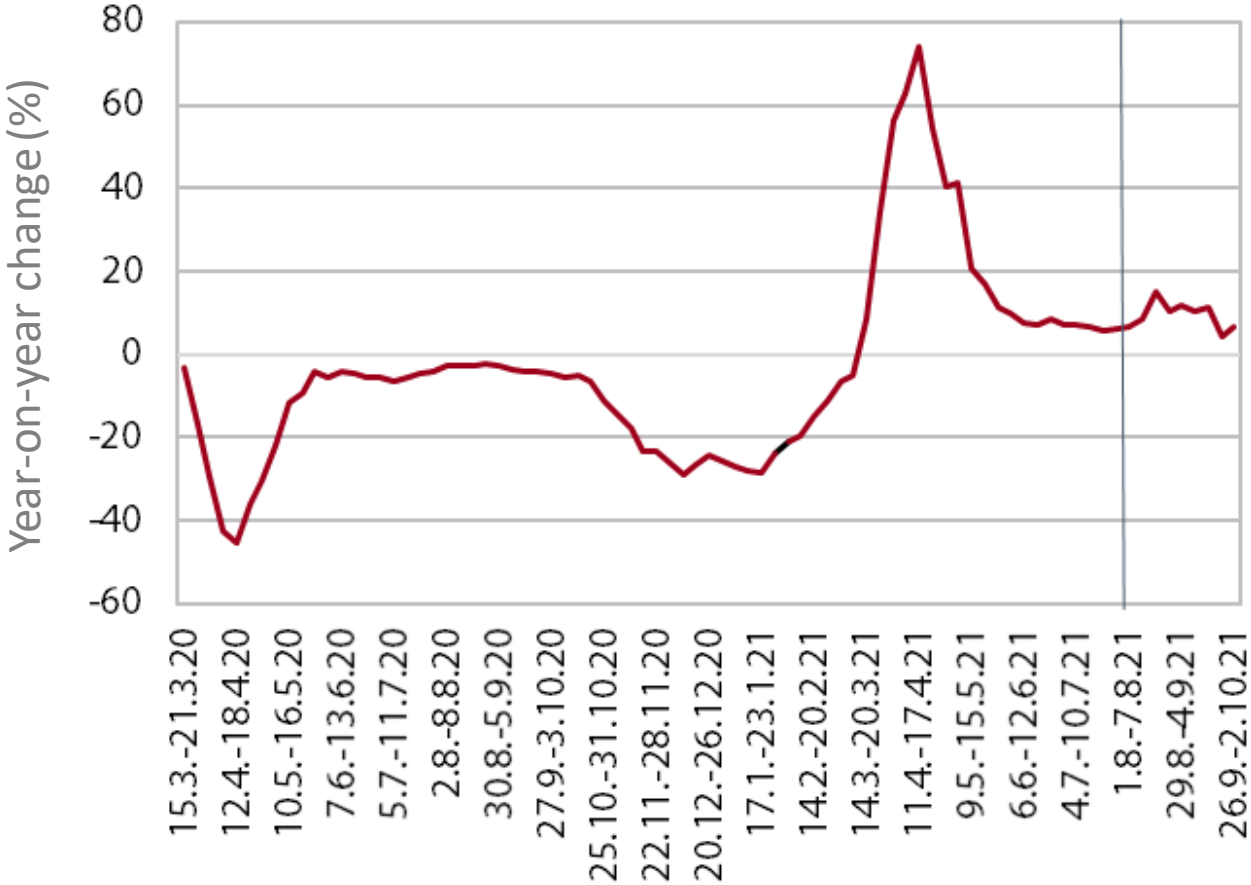
YEARS OF MAKING THINGS HAPPEN

COVID 19 – data at your fingertips (3/8)

Examples of data collected in real time

Online tax cash registers – invoices registered



Sources: FURS (data), UMAR (processing&graphics), TB (adaptation).

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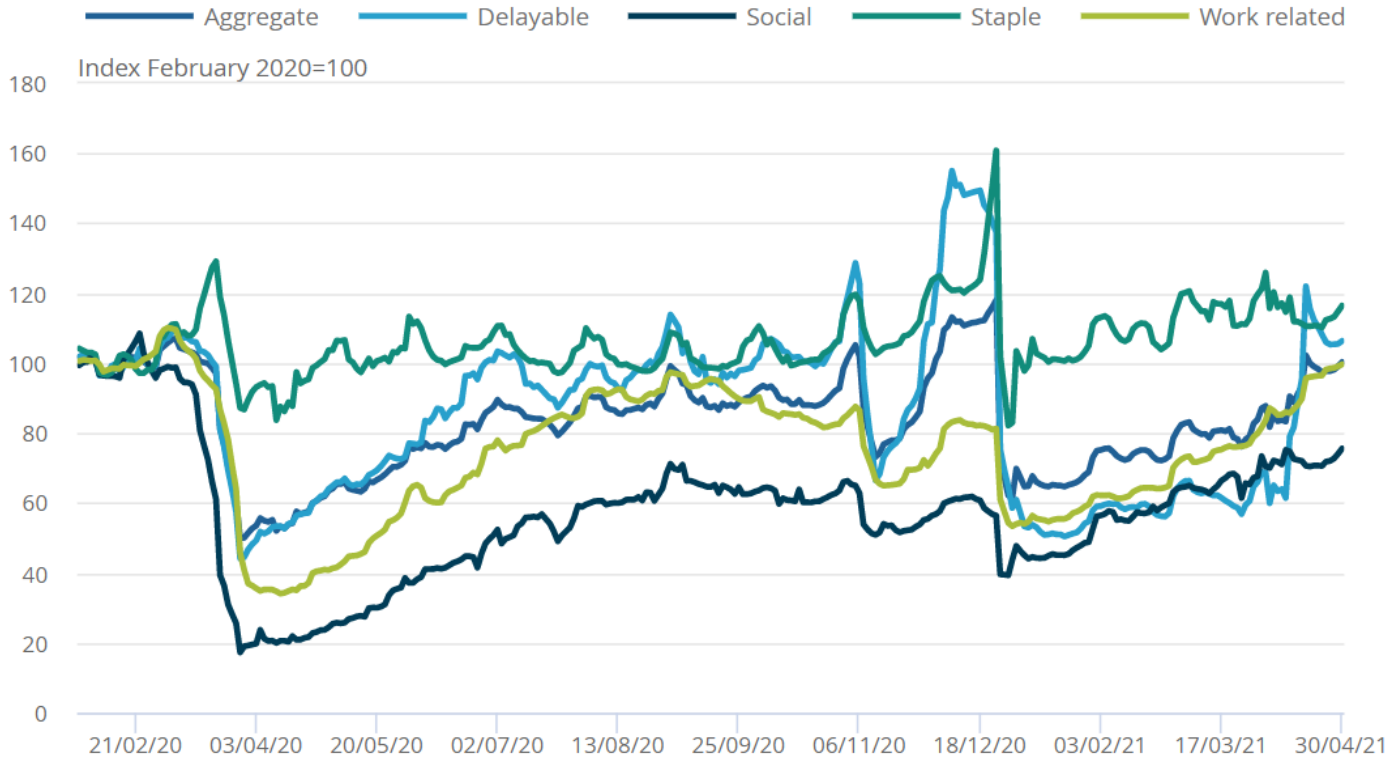
COVID 19 – data at your fingertips (4/8)

Examples of data collected in real time

Debit/credit card purchases and impact on spending (UK)



Sources: Office for National Statistics (UK) and Bank of England calculations

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20 YEARS OF MAKING THINGS HAPPEN

COVID 19 – data at your fingertips (5/8)

Speed and accuracy matters

- **examples of data collected in real time** (i.e. at least daily) in Slovenia that may be used to generate new (KP)Is, monitor and tune the responses to the COVID-19:

Data	Information (micro&macro)	Source
On-line **cash registers** data flow	• **volume/frequencies/distribution of sales** - determining stores opening hours to balance limiting purchase interactions/crowdedness, estimate impact, etc.; • **spending/consumption/liquidity** across a variety of sectors (retail, catering, tourism, etc.) - assess access to goods/services, calibrate support needed, impact of measures, tax revenues estimation, state budget/treasury liquidity planning, etc.; • **region/area, business activity impact** - when/where/how to adapt measures by region/activity, • **identification of distortions/misuses** of financial assistance to businesses and individuals	FURS
cash balances on account @ COB time, frequencies	economy and population liquidity status (by account and aggregated – sector, region. etc.)	BSI
customs (pre)clearance / customs warehouses „traffic“	incoming goods via e.g. Port of Koper and customs warehouses signal issues in the supply chain, reduced/increased orders to manufacturing	FURS

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20 YEARS OF MAKING THINGS HAPPEN

COVID 19 – data at your fingertips (6/8)

Speed and accuracy matters

- **examples of data collected in real time** (i.e. at least daily) in Slovenia that may be used to generate new (KP)Is monitor and tune the responses to the COVID-19 :

Data	Information (micro&macro)	Source
employees (de)**registration**	labour market/economy „pulse“ measuring (changes in mandatory insurance basis – employee, unemployed, pensioneer, dependent family member etc.)	ZZZS/AJPES
companies (de)**registration**	businessess expectations/optimism „pulse“ measuring (types/volumes of entities)	AJPES
electricity consumption	(manufacturing) industry „pulse“ measuring	SODO
electronic **tolling**	logistics and transport „pulse“ measuring	DARS
electronic registration of **turist guests**	tourism (accommodation) „pulse“ measuring	AJPES
social assistance and other rights from public funds	broad range of social assistance and other needs by area, type, volume etc. (trends, structure, impact etc.)	MDDSZ – ISCSD2
new **Corona 19 cases**	plan for hospital/intensive care capacity needs in 10 days, health-related measures impact (lockdowns, vaccination, hygene reccomendations, etc.)	MZ/NIJZ

COVID 19 – data at your fingertips (7/8)

A look beyond the superstorm – long term implications

- Increased **efficiency and effectiveness** in a broad range of policy areas may be expected to occur – **new (KP)Is**,
- some of the **long term positive externalities**:
  - **new sources** of data mapped,
  - increased capacity/sensitivity for **identification of emerging data** sources,
  - decision and policy making closer to the **needs**&developments,
  - narrowly **targeted** (niche) measures resulting in a higher value for money impact, etc.
- Example – **labour market**: future quality and response times
  - supplementing the „mammoth“ policies with **„JIT“** preventive/proactive measures; **anticipating and interfering** with the movement of KPIs,
  - (central) **tuning/synchronisation** and identification of adverse measures.

COVID 19 – data at your fingertips (8/8)

A look beyond the superstorm – long term implications

Long term **challenges** not (really) changing but **evolving**:

- more is not necessarily better/data abundance
  - capacity to select relevant and reliable sources,
  - assuring integrity/consistency/quality of data,
  - collection, processing and interpretation capacities (staff, equipment, leveraging by using AI augmentation, etc.),
  - maintenance of data flows/storage, etc.,
- building **resilience** to data misuse and misinterpretation,
- the shifting **asymmetry** of information – stakeholders.

4. Follow-up experience on pension reform

Follow-up experience on pension reform (1/5)

What was it about?

Addressing:

- Decent living of eldery population
- Increasing the retirement age

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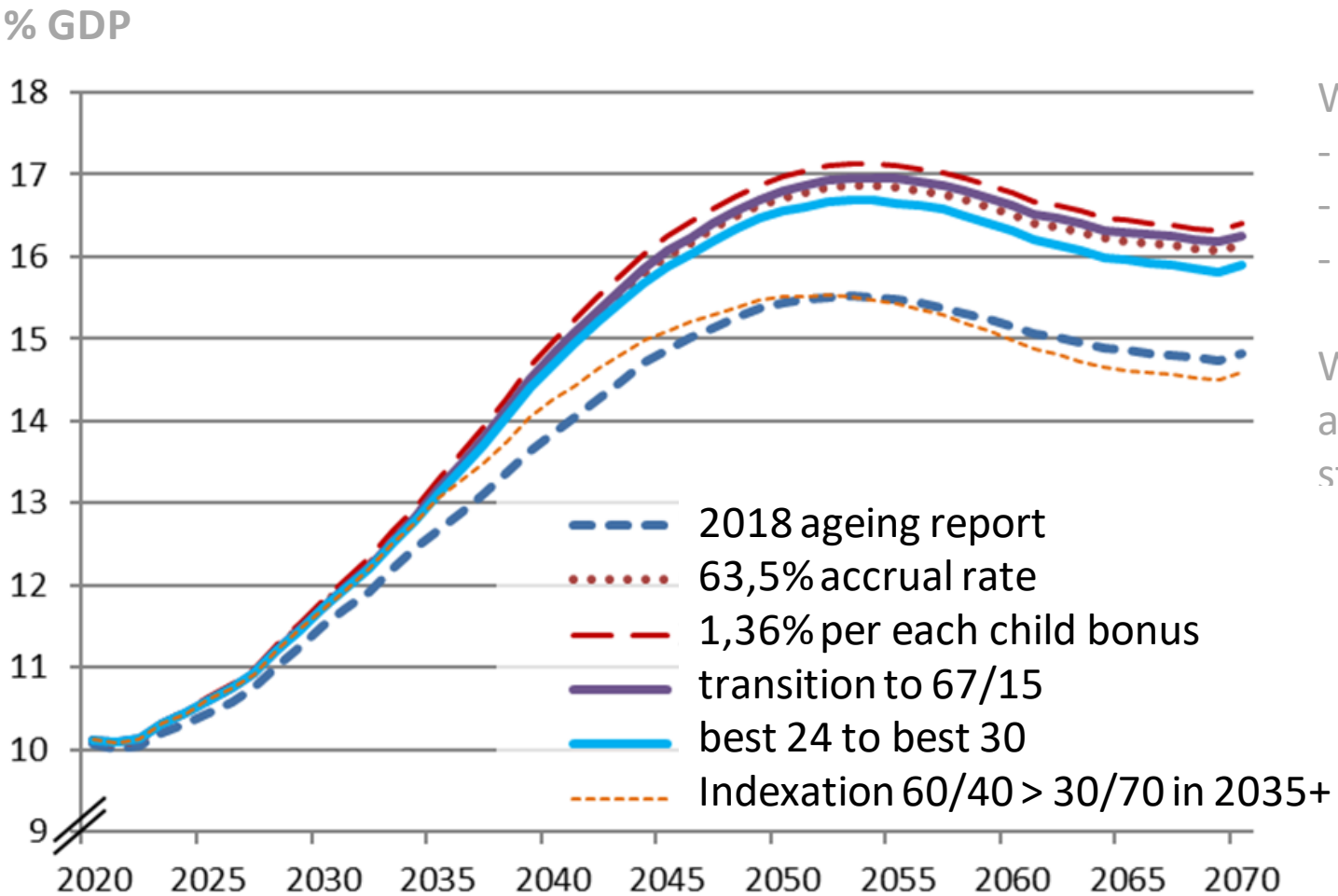
Follow-up experience on pension reform (2/5)

Ski jumps are popular in Slovenia – translating it to public finance?



What about 2045…
- long time care,
- health sys,
- etc.

Will we be able to afford policies that stimulate activity?

Sources: ZPIZ (data), IER (graph).

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Follow-up experience on pension reform (3/5)

2019 change to pension system and labour market laws

Pension law	Part of section	> 2019	2020 >
Accrual rates (future pensions 5-15% increase by the end of the transition period)	Lowest pension	26%	29,50%
	Old-age, 40 years worked	57,25% M; 63,5% W	63,50%, min. p. impact (40yw)
	Other accrual rates	survival, family: 33, disability: 36 (M), 39 (W)/57,25	survival, family: 38, disability: 41/63,5
	children	decrease of retirement age („up“ to 58 years)	Additional possibility available (1,36% up to 3x OR age requirement reduction)
	accelerated accrual rates	4% p.a. 41 - 43 years worked; (1% per 3m)	3% p.a. 41 - 43 years worked; (1,5% for 6m)
	Transition period	n/a	6 years
„Double status“	1-3 years after fulfilling old-age retirement conditions	20%	40% when meeting conditions to retire (40/60, 15/65); incompatible with long term sick leave
	after 3 years	20%	20%, no limitation

Follow-up experience on pension reform (4/5)

2019 change to pension system and labour market laws

Labour mkt. law	Section	> 2019	2020 >
Unemployment benefits	Unemployment benefit insurance period requirement	9m/24m	10m/24m; agreement to update the law on working time registration
	25m unemployment allowance right ("waiting for retirement„)	25 l.z.d./55 l./25 m.	25 insured years /53 age/19 m; 28 insured years/58 age/25 m
	Increase (minimum) unemployment allowance	350 EUR gross	530,19 EUR gross; net equal to „social assistance“
Other relevant changes (bridge to retirement)	sanctions	possible avoidance	removal of bypass(es)
	accumulating rights pertaining to unemployment benefits	no limitations	removal of bypass(es)
	„double insurance“ (sick leave/pension)	no limitations	remove

Follow-up experience on pension reform (5/5)

What happened? The course of a minority government (since 2018)

- Transition period 2025 > 2023
- Indexation – regular/additional (plan – target distortion only)
  - regular 2,7 (1/2019); 3,2 (1/2020)
  - additional 1,5 (12/2019); 2,0 (12/2020); 2,5 (1/2021); 3,5 being discussed (12/2021)
  - permanence of impact/long term sustainability
- average net pension w/o partial 9/2019 EUR 740 > 820 9/2021
- minimum pension (530 > 620) – adversity of impact
- additional benefits (farmers, purchase of years and voluntary inclusion/unactive)
- Corona 19 measures – one time additional payments
- Corona 19 distortions – 03/2020-9/2021 +4,7mrd spent on measures to mitigate the impact

…

- inflating (long term) expectations > future reforms/negotiations (tripartite dialogue)
- aligning measures to public perception (and not facts)
- relevance of the pre-set (micro) indicators (replacement ratio, average age of new old-age retired), reactivation no., no. working past retirement statutory age, activity rates 60-64, unemployment 55+, etc.) > communication > fall-back to basic KPI to raise the alarm (pensions expenditure to GDP, updated projections)

5. The Statesman experience game

Thank you!