



European Construction Sector Observatory

Country profile **Slovenia**

October 2020



In a nutshell

Since 2010, Slovenia's GDP has increased by 17.7%, amounting to EUR 44.8 billion in 2019. This also represents an annual growth of 2.4% compared to the 2018 levels.

Slovenia's GDP performed well in 2019, mostly driven by rising private consumption, sustained domestic demand as well as increased investment in residential construction, machinery and equipment.

Mirroring this growth, the **number of enterprises** in the broad construction sector increased by 18.1%, from 28,771 in 2010 to 33,972 in 2019, with the real estate activities sub-sector reporting the highest increase of 62.2%, followed by the architectural and engineering activities sub-sector (+46.7%) over the 2010-2019 period.

In parallel, the **volume index of production** in the broad construction sector increased by 19.8% over the 2015-2019 period, mainly driven by a 57.9% increase in the production activity in the construction of buildings during the same reference period. In parallel, the production in civil engineering increased by 7.5% between 2015 and 2019.

Volume index of production in the construction of buildings between 2015 and 2019

↑ 57.9%

The **total turnover** in the broad construction sector stood at EUR 8.8 billion in 2017, representing a decline of 10.3% compared to 2010 (EUR 9.8 billion). It further increased to EUR 10.8 billion in 2019, a 9.8% increase since 2010. This overall increase was mainly driven by growth in

the architectural and engineering activities (+14.7%), the manufacturing (+14.0%) and the real estate activities (+9.6%) sub-sectors over the 2010-2019 period.

Turnover in the architectural and engineering activities sub-sector between 2010 and 2019

↑ 14.7%

Similarly, the **gross operating surplus** of the broad construction sector recorded a significant increase of 49.7% between 2010 and 2017, reaching EUR 1.1 billion. The majority of this increase was driven by growth in the narrow construction sub-sector (+64.9%), followed by the manufacturing (+61.8%) and the architectural and engineering activities (+53.4%) sub-sectors over the 2010-2017 period. Furthermore, the **gross operating rate** of the broad construction sector, an indicator of the sector's profitability, increased from 7.2% in 2010 to 12.1% in 2017. This is still lower than the EU-27 average of 16.6%.

In terms of employment, there were 110,152 **persons employed** in the broad construction sector in 2019, representing a drop of 4.1% since 2010. This was primarily due to the fall in employment in the manufacturing (-14.3%) as well as the narrow construction (-6.1%) sub-sectors, offsetting the rise in the real estate activities (+16.4%) and the architectural and engineering activities (+13.3%) sub-sectors during the same reference period.

Essentially, there are two major issues hindering the development of the Slovenian construction sector. Firstly, the issue of late payments by the customers. The outbreak of COVID-19 pandemic has made the situation even more difficult. According to the

European Payment Report 2020, 50.0% of the SME respondents expect late payments to have a high impact on liquidity squeeze, slightly above the EU average of 45.0%. Secondly, the existing shortage of skilled labour continues to be a major concern for the sector.

In 2019, almost 40.0% of the employers in the construction sector reported labour shortages. Moreover, according to the CEDFOP Skills Panorama, more than one-fourth (+27.7%) of the workers employed in the Slovenian construction sector in 2018 were aged between 50-64 years¹, nearing retirement.

Despite a considerable growth in business enterprise R&D expenditure (BERD) over the 2010-2017 period, total investment is still limited. Additionally, the number of **construction-related patent applications** have declined from five in 2018 to two in 2019. Slovenia also faces challenges in the innovation front due to the lower digital skills level of its workforce and inadequate integration of digital technologies into business. However, the country has started making progress in this front.

The **outlook for the broad construction sector remains promising** with the Slovenian Housing Fund planning to build 2,000 new rental apartments by the end of 2020 and eventually, 10,000 units by the end of 2050. In the civil engineering segment, the construction of the second track of the *Divača–Koper* line, reconstruction of *Karavanke* Tunnel as well as the upgrading of the *Zidani Most–Celje* and *Maribor–Šentilj* lines, the *Pragersko* hub and the *Ljubljana–Kranj–Jesenice* line are also progressing well. Additionally, the construction of the second tube of the *Karavanke* motorway tunnel is expected to start in 2020.

The Slovenian construction sector faced some short disruptions resulting from the three-month long COVID-19 lockdown in the country. The existing construction projects have resumed their activities and the sector is forecasted to see major improvements from 2021 onwards, following broader macro-economic trends².

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Key figures

Construction market

In 2019³, there were 33,972 **enterprises** in the broad construction sector in Slovenia, with the narrow construction sub-sector accounting for 60.6% of the total firms, followed by the architectural and engineering activities sub-sector comprising 22.6% of the total firms. The number of firms in the broad construction sector grew by 18.1%, with the real estate activities sub-sector reporting the highest increase of 62.2% followed by the architectural and engineering activities sub-sector (+46.7%) over the 2010-2019 period. Similarly, the narrow construction and manufacturing sub-sectors reported increments of 7.2% and 1.5% respectively in the same period (Figure 1).

Number of enterprises in the real estate activities sub-sector between 2010 and 2019

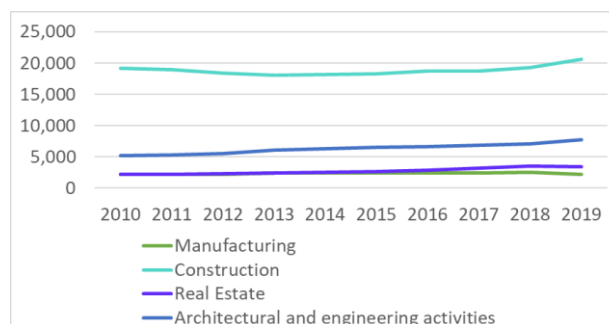
↑ 62.2%

The volume index of production in the broad construction sector increased by 19.8% over the 2015-2019 period. This was mostly driven by a 57.9% increase in production volume in the construction of buildings over the same reference period (Figure 2). Lastly, production in civil engineering increased by 7.5% between 2015 and 2019.

Volume index of production in the construction of buildings between 2015 and 2019

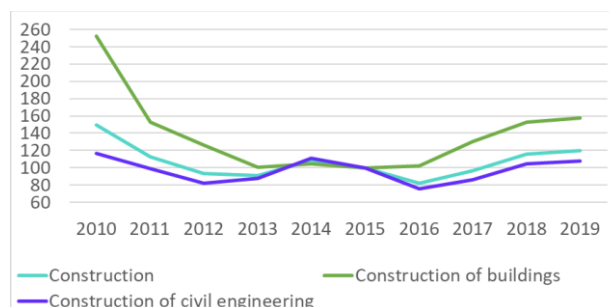
↑ 57.9%

Figure 1: Number of enterprises in the Slovenian broad construction sector between 2010 and 2019



Source: Eurostat, 2020.

Figure 2: Volume index of production in the Slovenian construction sector between 2010 and 2019 (2015=100)

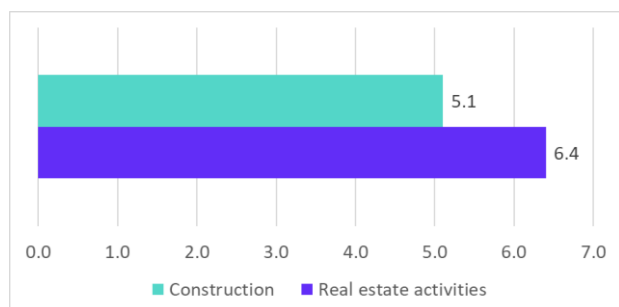


Source: Eurostat, 2020.

The **total added value at factor cost**⁴ of the broad construction sector amounted to EUR 3.2 billion in 2019, with the narrow construction sub-sector contributing to 57.0% of the total (EUR 1.8 billion), followed by the architectural and engineering activities (+17.2%), the manufacturing (+16.0%) and real estate activities (+9.9%) sub-sectors.

The **share of gross value added** of the broad construction sector in GDP reached 14.0% in 2017⁵, compared to the EU-27 average of 16.9%, with the real estate activities having the largest contribution (more details Figure 3).

Figure 3: Gross value added as a share of GDP in the Slovenian broad construction sector in 2019⁶ (%)



Source: Eurostat, 2020.

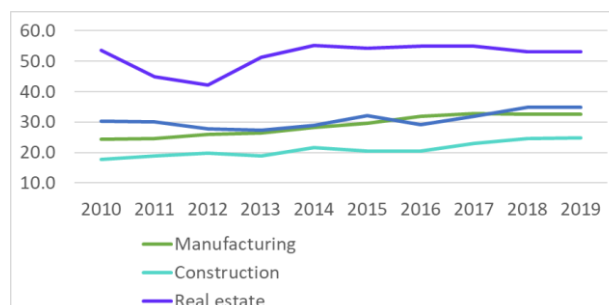
Slovenia is statistically divided into two NUTS-2 statistical regions - *Vzhodna Slovenija* and *Zahodna Slovenija*. The **regional gross value added** in the narrow construction and the real estate activities sub-sectors of the *Vzhodna Slovenija* region increased by 21.5% and 14.8% between 2010 and 2018, respectively. Similarly, the regional gross value added in the narrow construction and the real estate activities sub-sectors of the *Zahodna Slovenija* region also increased by 6.6% and 16.7% over the 2010-2018 period.

Productivity

Overall, the **apparent labour productivity**⁷ in the Slovenian broad construction sector has shown signs of improvement between 2010 and 2017⁸, increasing from EUR 21,819 to EUR 27,683 (+26.9%). However, it remains below the EU-27 average of EUR 50,079 (Figure 4). In case of sub-sectors, the narrow construction sub-sector reported the highest increase of 39.9%, growing from EUR 17,700 in 2010 to EUR 24,754 in 2019, followed by the manufacturing sub-sector increasing from EUR 24,316 to EUR 32,570 (+33.9%) over the 2010-2019 period. The architectural and engineering activities sub-sector reported an increase of 15.7% over the same period, totalling EUR 34,953 in 2019⁹ respectively. In contrast, the real estate activities sub-sector witnessed a slight decrease of 0.8%, from EUR 53,500 in 2010 to EUR 53,098 in 2019¹⁰.

Labour productivity of the narrow construction sub-sector between 2010 and 2019 **↑ 39.9%**

Figure 4: Labour productivity in the broad construction sector in Slovenia between 2010 and 2019 (EUR k)



Source: Eurostat, 2020.

Turnover and profitability

The total **turnover** of the broad construction sector amounted to EUR 8.8 billion in 2017, reporting a decrease of 10.3% as compared to 2010 (EUR 9.8 billion). However, it increased by 22.4% over the 2017-2019 period, totalling EUR 10.8 billion in 2019 and registering a total growth of 9.8% over the 2010-2019 period.

This increase in the overall turnover was primarily driven by two sub-sectors – architectural and engineering activities (+14.7%) and the manufacturing (+14.0%) sub-sector over the 2010-2019 period, followed by the real estate activities (+9.6%) sub-sector and the narrow construction (+7.4%) sub-sector over the same reference period.

Total turnover of the architectural and engineering activities sub-sector between 2010 and 2019 **↑ 14.7%**

The **gross operating surplus** of the broad construction sector amounted to EUR 1.1 billion in 2017¹¹, a 49.7% rise as compared to 2010 levels. In terms of its sub-sectors, the largest increase was reported by the narrow construction (+64.9%), followed by the manufacturing (+61.8%) and the architectural and engineering activities (+53.4%) sub-sectors over the 2010-2017 period. The real estate activities sub-sector also witnessed an increase of 15.6% over the same reference period.

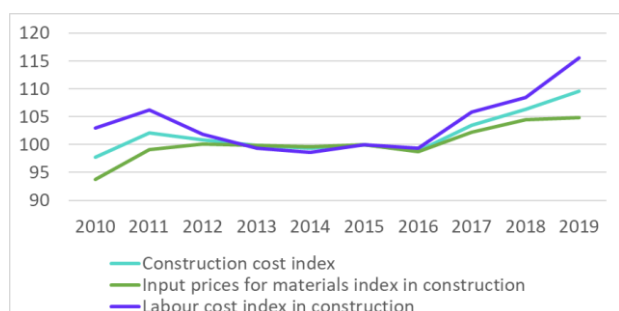
Gross operating surplus of the narrow construction sub-sector between 2010 and 2017 **↑ 64.9%**

At the same time, the **gross operating rate** of the broad construction sector¹², an indicator of the sector's profitability, increased from 7.2% in 2010 to 12.1% in 2017. This is still lower than the EU-27 average of 16.6%.

In terms of sub-sectors, the largest improvement was seen in the narrow construction sub-sector, which went from 4.8% in 2010 to 9.8% in 2017. This was followed by the architectural and engineering activities sub-sector, which rose from 7.4% in 2010 to 12.2% in 2017. Despite being the most profitable sub-sector, the real estate activities reported a moderate increase from 27.4% in 2010 to 31.3% in 2017. The lowest growth was seen in the manufacturing sub-sector, which increased from 7.9% in 2010 to 10.9% in 2017.

Additionally, the **construction cost index** increased by 9.6% between 2015 and 2019, mainly driven by an increase of 15.5% in labour costs and a 4.8% increase in input prices for materials for the same reference period (Figure 5).

Figure 5: Construction cost index for residential buildings between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

Employment



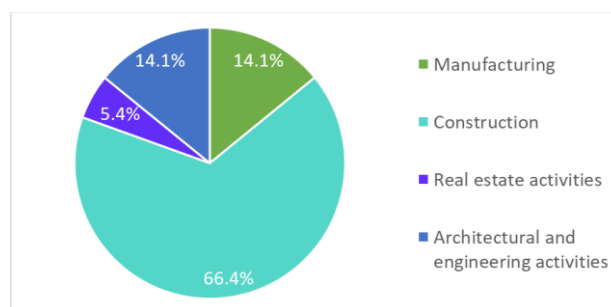
In 2019¹³, the broad construction sector employed 110,152 persons, representing a decline of 4.1% as compared to 2010 levels.

The narrow construction sub-sector employed the majority of the total construction workforce (66.4% i.e. 73,120 persons) (Figure 6), even though the number of persons employed in this sub-sector experienced a 6.1% decline over the 2010-2019 period. The largest increase in employment over the same reference period was recorded in real estate activities sub-sector (+16.4%), followed by

architectural and engineering activities (+13.3%). In contrast, the manufacturing sub-sector reported the largest decline (-14.3%) over the 2010-2019 period. In absolute terms, the architectural and engineering, the manufacturing and the real estate activities sub-sectors employed 15,582, 15,550 and 5,900 persons respectively over the above reference period.

As for **employment by specific occupation** over the 2010-2019 period, the craft and related trade workers reported the largest increase (+90.2%) while the plant and machine operators and assemblers accounted for the largest drop (-31.6%) in employment in the manufacturing sub-sector. With regards to the narrow construction sub-sector, the largest increment was seen in the professionals (+21.7%) while the biggest decline was reported for managers (-44.4%). Lastly, in the case of real estate activities sub-sector, the technicians and associate professionals registered the largest increase of 33.3% over the same reference period.

Figure 6: Percentage of people employed per construction sub-sectors in Slovenia in 2019



Source: Eurostat, 2020.

In parallel, the number of **self-employed** workers in the narrow construction sub-sector increased from 12,200 in 2010 to 13,900 in 2019 (+13.9%), representing 12.2% of all the self-employed workers in the general economy. This is slightly above the EU-27 average of 11.9%. Similarly, the number of **self-employed** workers in the real estate activities sub-sector increased from 700 in 2010 to 1,200 in 2019 (+71.4%), representing only 1.0% of all the self-employed workers in the general economy. In contrast, this is lower than the EU-27 average of 1.4%.

Number of self-employed workers in the real estate activities sub-sector between 2010 and 2019 **71.4%**

In parallel, **full-time employment** in the narrow construction sub-sector decreased by 2.2%, from 55,800 in 2010 to 54,600 in 2019. In contrast, an increase of 9.0% was recorded in the real estate activities sub-sector, reaching 240,700 in 2019 from 220,800 in 2010.

Conversely, **part-time employment** in the narrow construction sub-sector increased by 4.5%, from 2,200 in 2010 to 2,300 in 2019. In comparison, a decline of 18.2% was reported in the real estate activities sub-sector, reaching 10,800 in 2019 from 13,200 in 2010.

The *Zahodna Slovenija* region saw a 23.9% decrease in the number of persons employed in the narrow construction sector over the 2010-2017¹⁴ period. In contrast, it reported a moderate growth in the number of people employed in the real estate activities (+25.6%) sub-sector for the above referred period. Likewise, the *Vzhodna Slovenija* region experienced a decline of 12.9% and an increment of 5.7% in terms of persons employed in the narrow construction and real estate activities sub-sectors over the same reference period, respectively.

2

Macroeconomic indicators

Economic development

The Slovenian economy reported a strong economic growth in 2019, mainly driven by rising private consumption, sustained domestic demand and increased investment in residential construction.

In 2019, the Slovenian **GDP** amounted to EUR 44.8 billion, representing an increase of 17.7% and 2.4% since 2010 and 2018, respectively. This growth is driven by various factors including increased private consumption and sustained domestic demand supported by rising disposable income. Growing investment in residential construction, machinery and equipment have also contributed to Slovenia's economic growth, partially offsetting the global trade decline related to COVID-19 pandemic restrictions¹⁵.

The **potential GDP** in 2019 amounted to EUR 43.5 billion, resulting in a positive output gap of 3.0%. The **inflation rate** in Slovenia is relatively moderate, standing at 5.1% in 2019 as compared to 2015 as its base year, and is mainly linked to rising energy and food prices, particularly the prices of services¹⁶.

Demography and employment

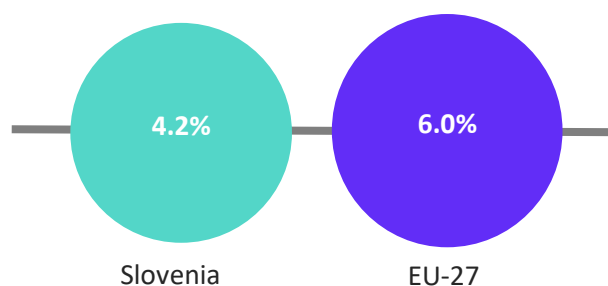
The labour market has also been improving, in line with the ongoing favourable macroeconomic context. Since 2013, the **unemployment rate** has been on a declining trend, reaching 4.2% in 2019, well below the EU-27 average of 6.0% and its 2010 level (+6.7%). **Youth unemployment rate** (below the age of 25) stood at 8.1% in 2019, significantly lower than the EU-27 average of 15.1% and the lowest since 2010 (+14.7%).

Demographically, Slovenia's **total population** reached 2.1 million people in 2019. It is projected to remain stable until 2030, increasing by 1.2% and subsequently declining until 2050 to reach 2.0

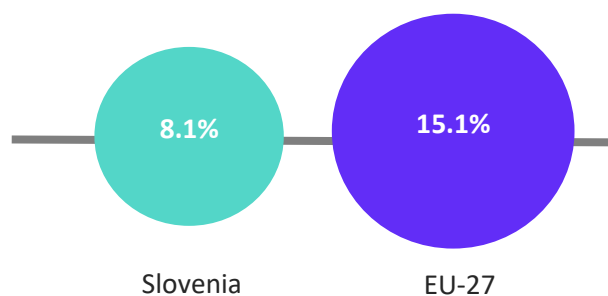
million. In parallel, net migration has been increasing since its negative values in 2010 (with 521 people leaving the country). In 2018¹⁷, 14,928 people moved to the country.

Slovenia's **working age population**, which makes up 65.1% of the total population in 2019, is projected to shrink to 55.9% by 2050, while people aged 65 or older will make up 30.7% of the total population. The ageing population will therefore put pressure on age-related public spending, particularly in terms of the healthcare system, and facilities¹⁸.

Unemployment rate in 2019



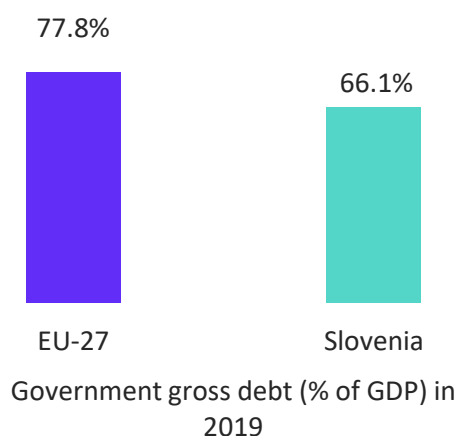
Youth unemployment rate in 2019



Public finance

In 2019, **general government expenditure** accounted for 43.7% of GDP, lower than the EU-27 average of 46.7% and the 2010 level (+50.2%). The **general government deficit** in 2019 stood at 0.5% as compared to -5.6% in 2010 and well above the EU-27 average of -0.6%. In similar lines, **general government gross debt** accounted for 66.1% of the

country's GDP, representing a substantial increase compared to 2010 (+38.3%) while still being well below the EU-27 average of 77.8%. Moreover, the public debt is forecast to fall below 60.0% of the GDP in 2021¹⁹. The containment of public debt is expected to be on account of economic recovery, fast policy action, a low interest rate environment and active debt management aimed at reducing the interest payments²⁰.



With regards to Slovenia's monetary policy, the Slovenian Central Bank has cut the **official interest rate** over the last years, from 1.0% in 2010 to 0.0% in 2016, which is still its level in 2019.

Entrepreneurship and access to finance



According to the 2019 Global Competitiveness Report by the World Economic Forum, Slovenia ranks 42nd out of 141 economies in the financing of SMEs²¹.

As per the 2019 Global Competitiveness Report, Slovenia ranks 60th in venture capital availability, 77th in domestic credit to the private sector and 90th in market capitalisation as a percentage of GDP.

As per the 2019 SBA Fact Sheet, Slovenia's overall score on "Access to finance" is broadly in line with EU-28²² average²³, with seven indicators above the EU-28 average and the other three just below it. Slovenia continues to perform in line with the EU-28 average in "entrepreneurship". In particular, Slovenia has its highest score of 77.2% in 2018 in the

"Media attention given to entrepreneurship" indicator, significantly better than the EU-28 average of 56.9%. Other major indicators in which Slovenia performed better than the EU-28 average includes "Entrepreneurial intentions" (percentage of adults who intend to start a business within 3 years) and "High status given to successful entrepreneurship". Nonetheless, there were also indicators in which Slovenia could further improve its performance including "Early stage entrepreneurial activity", "High job creation expectation rate" and "Entrepreneurship education at basic school". The worst performing indicator for Slovenia was "Early stage entrepreneurial activity for female population" with a score of 3.8% compared to the EU-28 average of 5.7%²⁴.

During 2018-2019 period, two important measures were implemented by the government to boost entrepreneurship within the country:

- **"Promoting entrepreneurship among the young unemployed"** to promote innovation and creativity among unemployed youth (aged up to 28) by providing training and mentorship to develop business ideas. An additional EUR 5,000 subsidy is also provided for people who successfully complete the training and get ready to start their own business.
- **"Mentoring scheme for social economy enterprises"** to transfer appropriate know-how to employees, strengthen their skills and ensure market sustainability in social enterprises. This also includes "train the trainers" programmes for mentors. Monetary incentives of up to EUR 25,000 are also available for the mentoring programmes.

As per the Global Entrepreneurship Monitor 2018-2019 survey, Slovenia stands above the high-income countries average in terms of the support it provides to SMEs in relation to access to finance²⁵.

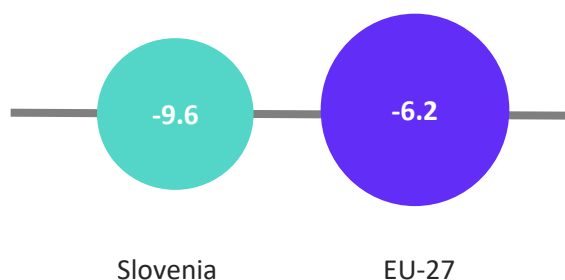
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Key economic drivers of the construction sector

Business confidence

Over the 2010-2019 period, the **consumer confidence indicator** saw progression, standing at -9.6 in 2019 as compared to -22.7 in 2010. Nevertheless, it remains below the EU-27 average of -6.2. The **construction confidence indicator** also improved significantly in 2019, ending at 10.2, well above the 2010 level of -57.9 as well as the EU-27 average of 5.1. In contrast, the **industry confidence indicator** slightly declined over the years, going from 0.9 in 2010 to 0.1 in 2019. Still, this is well above the EU-27 average of -4.8.

Consumer confidence indicator in 2019



The **investment ratio** also declined marginally to 19.4% in 2019 compared to 21.5% in 2010. This is also slightly below the EU-27 average of 21.7% in 2019.

Similarly, **investment per worker** in the broad construction sector decreased from EUR 21,506 in 2010 to EUR 21,175 in 2017²⁶. In terms of sub-sectors, investment per worker in the real estate activities sub-sector dropped from EUR 50,200 in 2010 to EUR 47,000 in 2017. In contrast, investment per worker in the narrow construction sub-sector increased from EUR 3,500 in 2010 to EUR 4,700 in 2017²⁷.

Domestic sales

The ranking of the **most domestically sold construction products** in Slovenia between 2010 and 2018 has remained relatively constant, except for “Prefabricated wooden buildings” replacing “Particle boards and similar boards of wood”. The top five most domestically sold construction products in comparison to the most sold in the EU-27 are presented in Table 1. Slovenia’s most domestically sold products accounted for 55.2% of total domestic construction product sales in 2018.

Table 1: 5 most domestically sold construction products in Slovenia and in the EU in 2018²⁸

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
1	Other structures, etc. (group 251123)	112.4	18.4	Other structures, etc. (group 251123)
2	Windows, French windows, etc. (group 162311)	77.0	12.6	Doors, windows, etc. (group 251210)
3	Prefabricated wooden buildings (group 162320)	65.3	10.7	Ready-mixed concrete (group 236310)
4	Prefabricated structural components for building, etc. (group 236112)	43.0	7.0	Prefabricated buildings of metal (group 251110)

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
5	Doors, windows, etc. (group 251210)	39.3	6.4	Prefabricated structural components for building, etc. (group 236112)

Source: PRODCOM, 2020.

Export of construction-related products and services

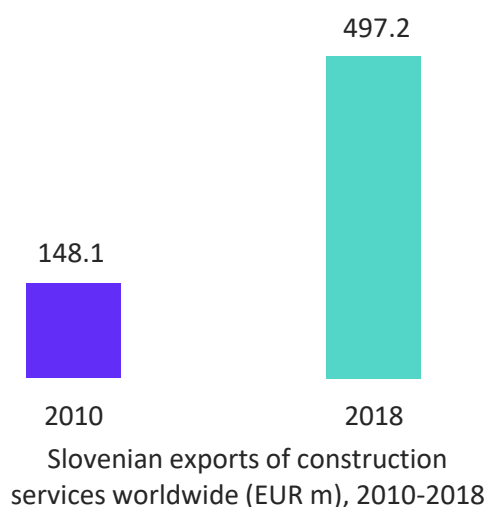
The ranking of the **most exported construction products** has witnessed a few changes since 2010. In particular, “Windows, French windows, etc. (group 162311)” have been replaced by “Pellets and briquettes, etc. (group 162915)”. Moreover, “Other structures, etc. (group 251123)” is also a new addition to the ranking, given its 2010 data is missing. The top five most exported construction products in Slovenia and in the EU-28 are summarised in Table 2. Together, these made 48.8% of all construction products exports in Slovenia in 2018.

Table 2: 5 most exported construction products in Slovenia and in the EU in 2018²⁹

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product exports (%)	Product
1	Prefabricated buildings of metal (group 251110)	145.1	17.2	Ceramic tiles and flags (group 233110)
2	Doors, windows, etc. (group 251210)	90.3	10.7	Other structures, etc. (group 251123)
3	Pellets and briquettes, etc. (group 162915)	62.0	7.4	Fibreboard of wood, etc. (group 162115)
4	Prefabricated wooden buildings (group 162320)	58.0	6.9	Doors, windows, etc. (group 251210)
5	Other structures, etc. (group 251123)	55.4	6.6	Marble, travertine, alabaster, etc. (group 237011)

Source: PRODCOM, 2020.

In **cross-border provision of construction services**³⁰, Slovenia **exported** EUR 497.2 million worldwide in 2018³¹, representing a significant rise of 235.7% compared to the 2010 levels (EUR 148.1 million). Of this total, EUR 455.2 million was exported to the EU-27 countries, i.e. 91.6% of the total. In parallel, it **imported** a total of EUR 176.9 million in construction services in 2018, an increase of 161.7% compared to EUR 67.6 million in 2010, with 82.3% (i.e. EUR 145.6 million) from the EU-27 countries. Slovenia thus achieved a **trade surplus** of EUR 320.3 million.



Access to finance in the construction sector

According to the Chamber of Commerce and Industry of Slovenia, construction companies are increasingly reluctant to take bank credits, owing to a high number of bankruptcies in the past. Moreover, the insolvency and restructuring framework in Slovenia has relatively improved over the years. The number of new personal insolvency cases and all kinds of restructuring cases decreased by 10% and 15% respectively in 2018 with a 6% increase in corporate bankruptcy cases³².

According to the SME access to finance of enterprises (SAFE) 2019 results, on average, only 8.0% of the respondent SMEs consider “access to finance” as the most important problem faced by them, slightly better than the EU-28 average of 7.2%³³.

As per the EIB Investment Survey 2019, almost one-fifth of the firms in the Slovenian construction sector reported investing too little compared to

their requirements, slightly above the EU average of 15.0%. According to the survey, 43.0% of the firms in the construction sector consider “availability of finance” as a long-term impediment. Furthermore, about 62.0% of the construction firms’ investment needs were met through internal financing while only 38.0% were being covered through external financing sources. Additionally, almost half of the external financing in the construction sector is achieved through bank loans, slightly lower compared to the EU average of 58.0%³⁴.

Access to housing

The **number of households** in Slovenia increased by 13.9%, from 807,100 in 2010 to 919,600 in 2019. The **mean equivalised net income** grew from EUR 12,653 in 2010 to EUR 14,127 in 2018 (+11.6%). This is well below the EU-28 average of EUR 19,078. In parallel, the share of **total population living in cities and greater cities** has mostly remained stable over the past few years, amounting to 19.4% in 2017³⁵. In particular, the proportion of the population living in densely populated areas increased from 18.5% in 2010 to 19.5% in 2019.

Moreover, lending to households for home purchases picked up, with total **outstanding residential loans** growing by 28.8%, from EUR 4.8 billion in 2010 to EUR 6.2 billion in 2018. This increase in residential loans is partly supported by the rising incomes and declining **interest rates on mortgages**, currently standing at 2.3% in 2019 as compared to 3.5% in 2010.

Consequently, the housing market is recovering, as evidenced by the increase in house prices. The **house price index** for total dwellings increased by 31.0% over the 2015-2019 period, mostly driven by a 24.8% and 31.6% increase in new dwellings and existing dwellings over the same reference period, respectively. This steep rise in housing prices is also driven by low investment levels as well as the demand for residential buildings being higher than its supply. Nonetheless, early signs of price moderation were observed in 2019. With the increase in construction activities and a gradual slowdown in demand for residential buildings due to declining affordability, house prices are forecasted to become more moderate in the coming years³⁶.


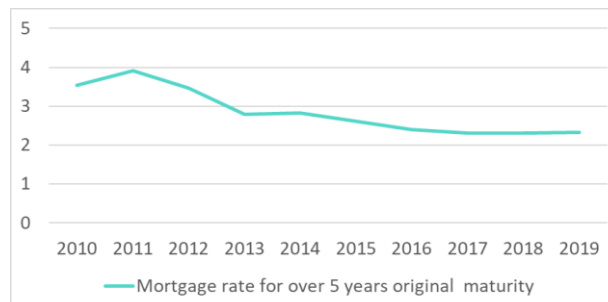
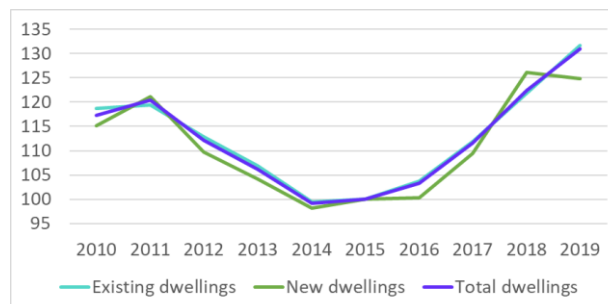
House price index for existing dwellings between 2015 and 2019  **31.6%**

Figure 7: Mortgage rates for loans for over 5 years original maturity (%) between 2010 and 2019




Source: ECB MFI Interest Rate Statistics, 2020.

Figure 8: House price index in Slovenia between 2010 and 2019 (2015=100)



Source: Eurostat, 2020.

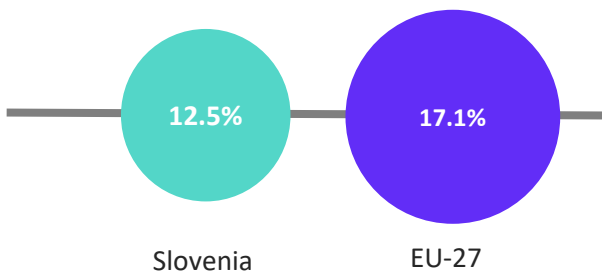
The number of dwellings under construction decreased from 16,002 in 2010 to 10,554 in 2019³⁷, reflecting an overall decline of 34.0% over the 2010-2019 period. At the same time, the number of **building permits** also followed a positive trend, with a total of 6,154 being issued in 2019, compared to 3,902 in 2010³⁸. Non-residential buildings performed better in terms of building permits issued, as these spiked up from 1,032 in 2010 to 3,582 in 2019 (+247.1%). In contrast, building permits for residential building decreased by 10.4%, from 2,870 in 2010 to 2,572 in 2019³⁹. Similarly, the number of **dwellings completed** declined by 46.3%, from 6,355 in 2010 to 3,415 in 2019⁴⁰, respectively.

Number of building permits issued for non-residential buildings between 2010 and 2019  **247.1%**

Finally, **home ownership** in Slovenia declined to 74.8% in 2019 as compared to 78.1% in 2010. Home ownership increased to 77.5% for the population that earns **above 60% of the median equivalised**

income⁴¹ whereas it declined to 55.6% for the population earning below 60% of the median equivalised income. Moreover, the **housing cost overburden rate**⁴² stood at 4.9% in 2018, well below the EU-27 average of 9.6%⁴³. This overburden rate further declined to 4.1% in 2019. The **severe housing deprivation rate**⁴⁴ also stood at 4.8%⁴⁵ in 2018, slightly above the EU-27 average of 4.0%. Conversely, the **overcrowding rate**⁴⁶ stood at 12.5% in 2018, lower than the EU-27 average of 17.1%⁴⁷. This rate dropped to 11.6% in 2019.

Overcrowding rate in 2018



Infrastructure



According to the 2019 Global Competitiveness Report, Slovenia ranks 33rd out of 141 economies in its overall infrastructure quality⁴⁸.

Overall, Slovenia ranked 14th for its railroad density, 33rd for its quality of road infrastructure, 45th for the efficiency of its seaport services, 46th in linear shipping connectivity, 62nd for the efficiency of its train services, 74th in its efficiency of air transport services, 76th in its road connectivity and 101th for its airport connectivity. The country has well developed gas and electricity infrastructure although issues with storage and the operational part on the interconnections persist. With regards to investment in rail infrastructure, despite the increase in investment levels in recent years, an investment backlog still exists making the modernisation and upgrading process extremely slow⁴⁹.

4

Key issues and barriers in the construction sector

Company failure

In Slovenia, the number of **company deaths** in the narrow construction sub-sector decreased from 2,676 in 2010 to 950 in 2017⁵⁰ (-64.5%). Over the same reference period, the number of **company births** in the same sub-sector also declined, from 2,217 to 1,535 (-30.8%). In contrast, the real estate activities and architectural and engineering activities sub-sectors experienced an increase in the number of company births (by 133.9% and 28.2% respectively) and a decline in the number of company deaths (-38.2% and -26.9% respectively) over the 2010-2017 reference period.

Number of company deaths in the narrow construction sub-sector between 2010 and 2017

↓ 64.5%

Number of company births in the real estate activities sub-sector between 2010 and 2017

↑ 133.9%

Slovenia's business demography continues to remain robust and dynamic as evidenced by the increase in the number of new companies in recent years. Nonetheless, a high administrative burden and regulatory density also continues to prolong the market entry and expansion timeline, resulting in steeper business set-up and operational costs for companies. As such, it becomes difficult for smaller firms to cope with Slovenia's complex business environment⁵¹.

Although the construction sector was not directly impacted by the COVID-19 epidemic, it indirectly influenced Slovenia's construction market. Many

construction firms have been finding it difficult to purchase the required construction materials for their projects. This is in addition to companies facing higher construction costs, labour shortages and restrictive government measures initiated to curb the spread of the epidemic⁵².

Trade credit

As per the Survey on the Access to Finance of Enterprises (SAFE) 2019, trade credit constitutes a relevant source of financing for almost one-fifth of Slovenian SMEs (+19.3%), considerably below the EU-28⁵³ average of 31.0% in 2019⁵⁴.

Around 34.8% of Slovenian SMEs applied for trade credit in the last six months in 2019, well above the EU-28 average of 31.7%. In contrast, only 8.4% of the respondent SMEs applied for trade credit from their business partners in the last six months, compared to 16.7% in the EU-28, while 75.1% of the respondents did not consider it relevant for their enterprise, compared to the EU-28 average of 66.6%. According to the survey, 61.3% of Slovenian enterprises believe that availability of trade credit will remain unchanged in the future, which is currently slightly below the EU-28 average of 64.7%⁵⁵.

Late payment



According to the European Payment Report 2020, 50.0% of Slovenian company respondents expect late payments to have a high impact on their liquidity, slightly above the EU average of 45.0%⁵⁶.

As per the report, the COVID-19 pandemic is also expected to reinforce the impact of late payment on the liquidity of companies. Furthermore, about 73.0% of respondents from the real estate and construction sectors have agreed to accept longer payment terms to avoid damaging client relationships. 69.0% of Slovenian company respondents in the general economy have agreed to accept longer payment terms, exactly in line with the EU average of 69.0%⁵⁷.

As per the CRIBIS D&B Payment Study 2020, only 1.3% of the respondent companies in the Slovenian construction sector in 2019 made payments by the due date while 46.8% of respondent companies made payment after more than 90 days passed the due date. This is particularly alarming because in 2019, only 1.0% of the overall Slovenian respondent companies made payment after more than 90 days passed the due date as compared to EU average of 3.9%. Broadly, in 2019 almost half of the Slovenian respondent companies (49.9%) cleared their payment dues on time, well above the EU average of 44.3%⁵⁸.

Time and cost of obtaining building permits and licenses

In Slovenia, obtaining construction permits is relatively burdensome, due to the high number of procedures, the limited administrative capacity of the entities issuing building and environmental permits, and spatial planning delays. According to the World Bank's Doing Business 2020 report, the country ranked 119th out of 190 economies with respect to **"Dealing with construction permits"**⁵⁹. Completing the formalities to build a warehouse⁶⁰ requires 17 administrative procedures (significantly higher than the OECD high-income average of 12.7) and takes 247.5 days compared to the 152.3 OECD average. The cost to complete the formalities is above OECD high-income average, as it represents 2.7% of the warehouse value compared to 1.5% (Table 3). Reforms have been planned in order to simplify and speed up the procedures for obtaining building permits and for spatial planning, a prerequisite for boosting investment, also from foreign investors.

Table 3: Construction procedures timing and costs in Slovenia

Procedure	Time to complete	Associated costs
Obtain the location information	0.5 days	EUR 18
Obtain project conditions from water and sewage provider	21 days	No charge
Obtain project conditions from electricity provider	21 days	No charge
Obtain geotechnical study of the land plot	14 days	EUR 1,500
Obtain topographic survey of the land plot	14 days	EUR 500
Obtain project approval from water and sewage provider	30 days	No charge
Obtain project approval from electricity provider	30 days	No charge
Apply for and obtain a building permit from the Local administration Ljubljana	60 days	EUR 797
Hire an external supervising engineer to conduct supervision on construction	1 day	EUR 16,401
Hire a geodesist company to conduct marking out before construction and after construction	1 day	EUR 960
File the report of the construction site with the Labour Inspection Agency	1 day	No charge
Request license for use and receive technical examination by the Local Administration Ljubljana	45 days	EUR 272
Obtain the license for use	12 days	EUR 19
Apply for water and sewerage connection	1 day	EUR 9,000
Receive an inspection for water and sewerage connection	1 day	EUR 60
Obtain water and sewerage connection	30 days	No charge
Register warehouse with the Land Registry and the Regional Surveying and Mapping Authority	45 days	EUR 19

Source: Doing Business overview for Slovenia, World Bank, 2020.

Skills shortage

The number of **job vacancies** in the narrow construction sub-sector stood at 3,802 in 2019, representing an increase of 413.1% compared to 2010 level (741). As such, Slovenia's **job vacancy rate** has hence increased to 6.2% in 2019 as compared to 1.1% in 2010. Similarly, in the real estate activities sub-sector, the number of job vacancies increased from 28 to 112 between 2010 and 2019 with the job vacancy rate increasing from 0.7% to 1.9% over the same reference period.

Slovenia continues to experience high labour shortages across all sectors, particularly in the construction sector where 40.1% of the employers reported labour shortages in 2019. This is partly due to the tightening of labour market conditions as well as a high inactivity rate of workers aged 55-64 years attributable to various factors including low participation in life-long learning⁶¹.

As per Skills Panorama, more than one-fourth (+27.7%) of the workers employed in the Slovenian construction sector in 2018 were aged between 50-64 years⁶².

According to the Chamber of Commerce and Industry of Slovenia, the narrow construction sub-sector lacks skilled workers due to i) low interest in working in the construction sector (as workers are paid low salaries); and ii) a low number of graduates who finish a degree in the field of construction. In addition, the Chamber aims to improve labour market conditions, to better respond to the fluctuation of the number of projects construction companies commit to, especially in the context of public procurement related projects.

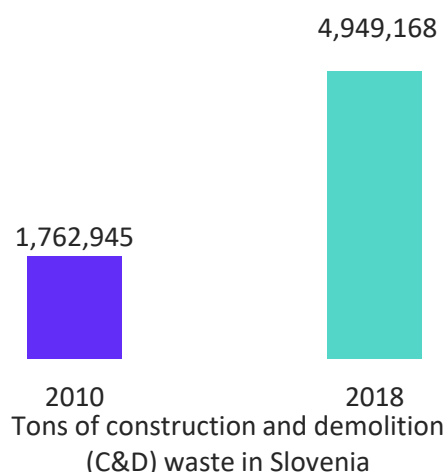
Adult participation in education and training in narrow construction and real estate activities sub-sectors decreased substantially over the past, from 9.9% and 29.4% in 2010 to 5.3% and 23.4% in 2017⁶³ respectively. In the narrow construction sub-sector, this rate further deteriorated to 5.0% in 2019. In parallel, the number of **tertiary students** enrolled in engineering, manufacturing and construction decreased by 6.8% from 3,072 in 2010 to 2,862 in 2018⁶⁴. In particular, 580 tertiary students were enrolled in architecture and building in 2018 as compared to 712 in 2010. This represents a decline of 18.5% in the number of tertiary students over the above reference period.

Sector and sub-sector specific issues

Material efficiency and waste management

In 2018⁶⁵, 4,949,168 tons of **construction and demolition (C&D) waste** was generated in Slovenia as compared to 2,715,795 tons in 2017. This represents a considerable increase from 2010 (1,762,945 tonnes)⁶⁶, and is partly explained by intense construction activity over the period 2015-2018 due to the need to complete EU-funded

projects. The narrow construction sub-sector in Slovenia generated 661,137 tonnes of waste in 2018 of which 99.7% comprised non-hazardous waste. The waste generated by real estate activities increased from 2,109 tonnes in 2010 to 322,610 tonnes in 2018, of which 99.9% was non-hazardous in nature. The total waste generated by the manufacturing sub-sector remained relatively constant in 2018 at 1,554,253 tonnes as compared to 1,567,140 tonnes in 2010 of which 99.5% comprises non-hazardous waste⁶⁷.



C&D waste is governed by the Decree on the management of waste arising from construction work of 22 April 2008, which defines the framework conditions for C&D waste and determines when there is an obligation for a waste management plan.

Nonetheless, Slovenia continues to increase its efforts to transform into a circular economy. It has already drawn up a circular-economy policy framework. It has an advanced waste management system with a high recycling rate of 58.9% as compared to EU average of 47.0% in 2018⁶⁸. The country also participated in the EU-funded REBIRTH project (Promotion of the Recycling of Industrial Waste and Building Rubble), aimed at achieving a 70% recycling rate in the industrial, construction and demolition waste by 2020⁶⁹.

Climate and energy

Emissions of greenhouse gases (carbon dioxide, methane and nitrous oxides) from activities in the narrow construction and real estate activities sub-sectors amounted to 1,117,916 tonnes and 63,648 tonnes in 2018⁷⁰, respectively. The former increased by 21.4% since 2010 (920,807 tonnes), whereas the latter declined significantly by 34.5%

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(97,163 tonnes) over the 2010-2018 period. Air pollution emissions have peaked primarily due to increased road transport, higher energy production and heat generation from solid fuels⁷¹.

With regards to emissions productivity, Slovenia lies in the bottom quartile region within the EU Member States. This, in turn, further raises climate concerns about the country falling short of achieving both the EU decarbonisation targets as well as its own development strategy objectives for 2030⁷².

5

Innovation in the construction sector

Innovation performance

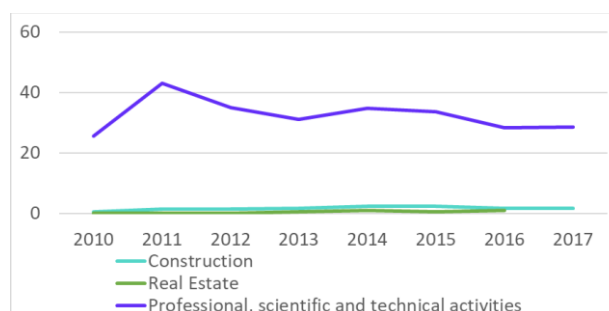
According to the 2020 European Innovation Scoreboard, Slovenia is a Moderate Innovator, similar to its rank in 2019⁷³.

Since 2018, Slovenia's position as an innovator has been deteriorating, from a strong to a moderate innovator, primarily due to weak performance on New doctorate graduates and the indicators using CIS data. Nonetheless, the relative strengths of the country's innovation system are in Linkages, Human resources and Firm investments. In particular, Slovenia scored high on International scientific co-publications, Public-private co-publications, Innovative SMEs collaborating with others, and Enterprises providing ICT training⁷⁴.

Conversely, its relative weaknesses are in Finance and support, Sales impacts and Innovators. Slovenia performed sluggishly, scoring low on indicators such as Venture capital expenditures, Exports of knowledge-intensive services, Foreign doctorate students and Design applications⁷⁵.

In the broad construction sector, **business enterprise R&D expenditure (BERD)** generally increased over 2010-2017⁷⁶ (Figure 9). The narrow construction sub-sector reported a substantial increase of 287.9%, from EUR 0.4 million in 2010 to EUR 1.6 million in 2017. BERD in professional and technical activities sub-sector followed a similar trend, growing at 11.6%, from EUR 25.6 million in 2010 to EUR 28.5 million in 2017. BERD in the real estate activities sub-sector reached EUR 1.0 million in 2016⁷⁷, compared to a negligible level in 2010.

Figure 9: Business enterprise R&D expenditure (BERD) per construction sub-sector in Slovenia between 2010 and 2017 (EUR m)



Source: Eurostat, 2020.

In parallel, the **total R&D personnel** (full-time equivalents – FTE⁷⁸) also experienced a growing trend, in line with the positive developments in BERD. Notably, 647 FTE were employed in the professional and scientific activities sub-sector in 2017⁷⁹, compared to 502 in 2010 (+28.9%). Similarly, FTE in the narrow construction sub-sector increased from six in 2010 to 45 in 2017. As for the real estate activities sub-sector, the R&D FTE reached 17 in 2017, compared to 0 in 2010.

The number of annual **construction-related patent applications** over the period 2010-2019 averaged at five, peaking at 13 in 2014 but then declining to two in 2019.

Eco-innovation and digitalisation



As per to the 2018 Eco-Innovation Scoreboard (Eco-IS), Slovenia scored 107, slightly above the EU-28⁸⁰ average of 100⁸¹.

As per the report, the biggest challenge for Slovenia continues to be the resource efficiency outcomes component, including material productivity, water productivity, energy productivity and GHG emissions intensity⁸². Despite being ranked 10th in the list, Slovenia suffers from both low material productivity and high energy intensity. In some instances, recycled materials cannot compete

against cheaper primary resources as is reflected in the circular (secondary) use of materials in Slovenia, being only 8.5% in 2016, well below the EU average of 11.7%⁸³.

As per the **European Commission Digital Economy and Society Index (DESI) 2020**, Slovenia is ranked 16th out of EU-28 countries with a score of 51.2, marginally below the EU-28 average score of 52.6⁸⁴. As per the Index, in 2019, the country has improved its performance in all five dimensions but has advanced in ranking only in the integration of the digital technology dimension⁸⁵.

Adopted in March 2016, Slovenia is currently in the middle of the implementation of the “Digitalna Slovenija 2020” strategy⁸⁶.

The country is also in the process of drafting an all-inclusive artificial intelligence strategy together with updating the strategy **Digital Slovenia**⁸⁷. Additionally, there is a growing awareness in the Slovenian economy with regards to the need to integrate digital technologies into daily business processes. Three-fourths (75.0%) of Slovenian firms have implemented - either fully or partially - at least one digital technology, considerably more than the EU average of 58.0%. However, the degree of integration differs significantly across various economic sectors⁸⁸.

With regards to the construction sector, Slovenia foresees the development of several initiatives, with a view to foster (sustainable) innovation⁸⁹. These include the participation in the Interregional innovation pilot project (Sustainable buildings – Smart campus pilot project), and the smart specialisation strategy, aimed at establishing strategic research and innovation partnerships. In addition, the **Competence Centre for Sustainable and Innovative Construction (KC TIGR)** sponsored by the Ministry of Education, Science, Culture and Sport, brings together industry and public research institutions with the goal to strengthen the sector by developing new technologies, competitive products, services and processes⁹⁰. Furthermore, the **Construction Cluster of Slovenia (Slovenski Gradbeni Grozd)** groups key stakeholders in building design, consulting, engineering, contracting and production of building materials in order to improve competitiveness through innovation, R&D, and networking⁹¹.

In September 2019, the European Commission announced an allocation of EUR 50.0 million under the Urban Innovative Actions (UIA) scheme to support innovative projects for sustainable urban development in Slovenia. The programme focuses on air quality, a circular economy, culture and cultural change and demographic changes. The initiative is guided by European Regional Development Fund Regulation⁹².

Under the “smart buildings and homes” priority, Slovenia aims to develop an integrated management system for buildings, homes and the working environment of the future, as well as smart appliances for energy efficiency and zero-energy buildings.

Moreover, Slovenia seeks to achieve the integration of the wood chain in the design of homes and working environments by promoting research and innovation related to the use of wood and natural materials⁹³. To this end, the project **InnoRenew CoE - Renewable materials and healthy environments research and innovation centre of excellence** was launched in April 2017 and is expected to last until 2022. The EU-funded project aims to develop a centre of excellence for research, development and innovation in renewable materials, and specifically wood resources, with a focus on supporting the circular economy and providing positive health benefits in buildings⁹⁴.

With regard to the digitalisation, the **siBIM Association** brings together professionals in the fields of civil engineering, architecture, construction and ICT to promote the use of **Building Information Modelling (BIM)** in the Slovenian construction sector, particularly in the processes of design, construction and maintenance. The Association organises training and events, including the annual BIM Forum. Slovenia is also part of the EU BIM Task Group, highlighting the industry’s interest in digitalisation of the building process⁹⁵. In June 2020, siBIM was established as a local branch of **buildingSMART International (bSI)**, a non-profit professional organisation focused on developing openBIM standards. This new branch is expected to be a connecting link between bSI and events in the field of digitalisation of the built environment in Slovenia⁹⁶.

6

National and regional regulatory framework

Policy schemes

The **National Housing Programme 2015-2025** in Slovenia addresses the main issues related to housing, such as the affordability of rental housing and the short supply of social housing. Specifically, the objectives of the Housing Programme are to provide a balanced supply of suitable housing, to allow easier access to housing, to ensure the quality of housing as well as to improve the residential mobility of the population⁹⁷. The Housing Programme foresees a number of actions, including, among others: enhancing the security of tenancy; implementing a New Rental Policy; introducing a Scheme for Young People; constructing public rental housing; and conducting an active land policy⁹⁸.

The **Housing Fund** (*Stanovanjski sklad Republike Slovenije - RS*) has been operating since the 1990s as one of the main instruments to carry out housing policy. Acting in the interest of the state, the Fund performs activities such as investing in construction, renting dwellings, providing long-term loans with favourable interest rates, as well as renting social housing⁹⁹. For the 2017-2020 period, the Fund aims to proceed with the acquisition of 500 new public rental housing units to be rented out to young people, families and the elderly. In October 2018, the Housing Fund announced its plan to construct 800 non-profit residential units in Slovenia, in line with its goal to construct 2,000 new rental apartments by the end of 2020¹⁰⁰.

Over the 2019-2020 period, the government plans to adopt the **National Energy Concept** (NEC) and the **Integrated National Energy and Climate Plan** (NECP), pursuant to Article 3 of the regulation (EU) 2018/1999 on the Governance of the Energy Union and Climate Action. These may offer further

schemes for the construction sector, especially when it comes to energy efficiency renovation and zero carbon housing. For instance, in December 2019, the Slovenian Finance Ministry introduced a new law that provides 100% government guarantees for housing loans amounting up to EUR 150,000 in principal with a maturity term of up to 30 years. The borrowers will be required to provide 20% in the form of their own funds, in line with the central bank loan requirements. With a budget of EUR 500.0 million in principal, the scheme targets young families and individuals (between the ages of 35 and 40 years)¹⁰¹.



Slovenia's national government intends to build an additional 2,000 new rental apartments by 2020, with the underlying objective to have almost 10,000 public rental units by 2050¹⁰².

Lastly, social housing defined as “**non-profit rented dwellings**” is provided at the local level either by municipalities or registered non-profit organisations. People with low to middle income are eligible, but priority is given to families with children, unemployed, young persons and the disabled¹⁰³.

With regards to the COVID-19 epidemic outbreak, although no construction activities were prohibited, the Ministry of Economic Development and Technology and the Construction chamber by the Slovenian Chamber of Commerce issued guidelines and instructions to be followed for construction works. Although the country has officially declared the end of the epidemic, there is a likelihood of these restrictions being prolonged in the near future¹⁰⁴.

Building regulations

The real estate activities in Slovenia are governed by the Law of Property Code (*Stvarnopravni zakonik*), the Land Register Act (*Zakon o zemljski knjigi*), the Real Estate Recording Act (*Zakon o evidentiranju nepremicnin*), the Agricultural Land Act (*Zakon o kmetijskih zemljiščih*), the Housing Act (*Stanovanjski zakon*), the Protection of Buyers of Apartments and Single Occupancy Buildings Act (*Zakon o varstvu kupcev stanovanj in enostanovanjskih stavb*), the Spatial Planning Act (*Zakon o prostorskem načrtovanju*) and the Real Estate Agencies Act (*Zakon o nepremicninskem posredovanju*). The **Spatial Planning Act** defines the provisions for spatial planning at the national, municipal and intermunicipal level. The objective of the Spatial Planning Act is to allow for coherent spatial development through a coordinated approach between environmental protection, nature conservation and cultural heritage, as well as natural disaster adaptation¹⁰⁵.

The **Construction Act (PGI-1)**, on the other hand, regulates the conditions for construction of all facilities and determines the requirements for carrying out the activities in the field of construction. It includes provisions on the organisation and working area of professional organisations. It also sets the rules for inspection and supervision of construction works, including potential sanctions¹⁰⁶.

The **Construction Law (GZ)** entered into force in November 2017 and became applicable as of June 2018. It requested construction companies to obtain a valid building permit before construction begins. This law allowed for the subsequent acquisition of buildings and operating permits for already constructed buildings.

The **Law on Spatial Planning (ZureP-2)** and the GZ contain several provisions to facilitate the placement of facilities and become more flexible:

- the enactment of permissible deviations from the Spatial Act using the location verification institute;
- permitting the temporary use of land by location verification;
- allowing the renovation of buildings, replacement works within the framework of the provisions on rational land use;

- allowing minor deviations during the construction of objects;
- re-qualification of approvals in opinions, the possibility of their coordination, the overtaking of conditions without a legal basis and the substitution of the silence of the opinion-maker;
- combining and streamlining procedures¹⁰⁷.

In addition, the **Act on Chartered Architects and Civil Engineers (Zakon o pooblaščenih arhitektih in inženirjih)** defines the provisions relating to chartered architects, landscape architects, spatial planners, surveyors and engineers, currently defined in the Construction Act.

Lastly, the advent of COVID-19 has also brought some notable changes within the country's building regulations. For instance, in April 2020, the Slovenian government adopted a new Decree on Mandatory Disinfection, thereby further tightening the hygienic requirements across the country. Under this new act, the Slovenian government introduced mandatory disinfection of multi-dwelling buildings such as shared houses and apartments blocks, etc., with building managers and real estate owners being deemed responsible for the disinfection of their property¹⁰⁸.

Insurance and liability related regulations

In Slovenia, the liability framework for construction is governed by the Civil Code (*Obligacijski zakonik*), the Construction Act (*Zakon o graditvi objektov*) and the Environmental Act (*Zakon o varstvu okolja*).

The duration of liability for building defects is defined in Art. 662 of the Civil Code and stipulates that the contractor is liable for defects regarding the solidity of the building up to 10 years after delivery. Defects of the ground are also under the liability of the builder, unless an expert has confirmed its suitability. Similarly, the liability applies to the designer in case defects are related to design. The Civil Code foresees that the contractor and designer have joint liability for errors¹⁰⁹.

Insurance is mandated in the Construction Act for all main participants to the construction project including the designers, building contractors, project auditors and supervisors. A minimum sum of

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EUR 41,000 must be insured. In terms of scope, the insurance shall cover liability for damage arising to investors and third parties linked to the performance of their activities¹¹⁰. A minimum cover insurance is offered on the market, which provides

general public liability insurance covering property damage and injuries, employer's liability insurance, liability for damage to the works under construction. An all-risk insurance is also available¹¹¹.

Current status and national strategies to meet Construction 2020 objectives

hTO 1 – Investment conditions and volumes

Total investment by the broad construction sector¹¹² has been generally declining between 2010 and 2018¹¹³. Investment by the real estate activities sub-sector fell from EUR 1.3 billion in 2010 to EUR 935.1 million in 2018, representing a 26.2% decrease. Conversely, investment by the narrow construction sub-sector marginally increased from EUR 219.9 million in 2010 to EUR 226.3 million in 2018 (+2.9%). In terms of investment in intangible assets, the narrow construction sub-sector invested EUR 5.0 million in intellectual property products in 2018, compared to EUR 4.6 million in 2010 (+8.7%), whereas the real estate activities sub-sector invested EUR 1.8 million, lower by almost one-fifth (-21.7%) compared to the 2010 level of EUR 2.3 million.

Figure 10: Investments by the Slovenian broad construction industry between 2010 and 2018 (EUR m)



Source: Eurostat, 2020.

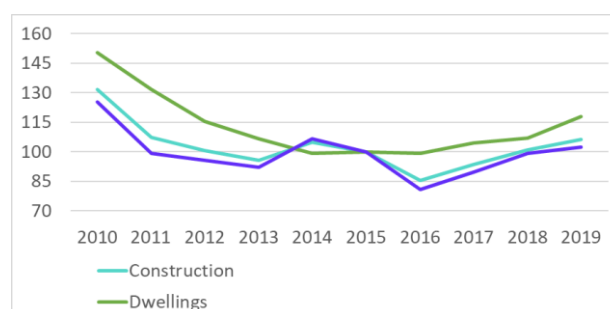
Total investment by the real estate activities sub-sector between 2010 and 2018 ↓ **26.2%**

Total investment index in the broad construction sub-sector¹¹⁴ increased by 6.1% over the 2015-2019 period. Investment in dwellings by the whole economy followed a similar trend, rising by 17.8% in comparison to the 2015 value. Investment in non-residential construction and civil engineering also slightly increased by 2.2% over 2015-2019. In absolute terms, investment in the construction sector totalled EUR 3.6 billion in 2018¹¹⁵ while EUR 955.4 million was invested in dwellings and EUR 2.7 billion in non-residential and civil engineering¹¹⁶.

Total investment in dwellings by the whole economy between 2015 and 2019

↑ **17.8%**

Figure 11: Investment index in the Slovenian construction sector between 2010 and 2019 (2015=100)



Source: AMECO, 2020.

The share of **total inland**¹¹⁷ **infrastructure investment** in the GDP reached 0.5% in 2017¹¹⁸ as compared to 1.0% in 2010. Notably, investment in air infrastructure decreased by 85.7% from EUR 7.0 million in 2010 to EUR 1.0 million in 2018¹¹⁹. Road infrastructure investment remained relatively stable from EUR 221.0 million in 2010 to EUR 219.0 million in 2018 (-0.9%). Although,

investment in rail infrastructure increased from EUR 131.0 million to EUR 376.0 million in 2015, it subsequently declined in line with other forms of transport infrastructure investment reaching EUR 153.0 million in 2018, representing an overall increase of 16.8% since 2010.

Air infrastructure investment between 2010 and 2018

↓ 85.7%

Rail infrastructure investment between 2010 and 2018

↑ 16.8%

On the other hand, the country increased its maintenance expenditure on rail and road infrastructure. Investment in road infrastructure maintenance increased from EUR 137.0 million in 2010 to EUR 229.0 million in 2018 (+67.2%). Similarly, investment in rail maintenance reached EUR 123.0 million, registering an 80.9% growth compared to the 2010 level of EUR 68.0 million. Investments in infrastructure development comprising rail and road networks aim to boost sustainable mobility and the efficient consumption of renewable energy. With regards to railways, construction of the second track of the *Divača–Koper* line, reconstruction of *Karavanke* Tunnel as well as the upgrading of the *Zidani Most–Celje* and *Maribor–Šentilj* lines, the *Pragersko* hub and the *Ljubljana–Kranj–Jesenice* line are progressing well. The *Kočevje* line was modernised in 2018, with the freight transport to *Kočevje* relaunched in April 2019. Furthermore, the establishment of passenger transport is also scheduled for a mid-2020 launch¹²⁰.

Investments will be primarily focussed on the modernisation and upgrading of the existing railway network, in line to support further development of the inter-modal TEN-T network. These also include the upgrading of the *Ljubljana–Divača*, *Zidani Most–Dobova*–state border lines as well as the construction of a direct rail connection between the *Primorska* and *Gorenjska* lines (Tivoli curve). Additionally, with regards to the motorway network, the construction of the second tube of the *Karavanke* motorway tunnel is also expected to start in 2020¹²¹.

The *Divača–Koper* railway project has already secured EUR 153.0 million in European grants and EUR 80.0 million (USD91.75mn) under the Cohesion Fund. It involves construction of 27km of track, eight tunnels and two viaducts, and is scheduled to be completed by 2025¹²².

Investments in transport and transport infrastructure are uniformly spread over years 2018 to 2023. They focus on road maintenance, signals and markings, reconstruction and modernisation of roads and road junctions, geotechnical projects, construction of new roads, bypass and cycling lanes and rehabilitation of embankments, walls and landslides. The **Connecting Europe Facility (CEF)** financed EUR 159.8 million for various road transport projects over the 2014-2020 period. The completed projects comprise the implementation of an electronic toll collection facility for freight vehicles, a roadway between *Draženci* and the international border crossing in *Gruškovje*¹²³.

With regards to public airports, spatial planning documents are being prepared to promote the development and expansion of airport activities at *Ljubljana Jože Pučnik* Airport, *Maribor Edvard Rusjan* Airport, and *Portorož* Airport¹²⁴.

The **European Structural and Investment Funds (ESIF)** account for almost half of the total public investment in Slovenia. It committed to allocate EUR 3.9 billion over the period 2014-2020 in addition to EUR 1.0 billion of national co-financing.

In 2019, the EIB Group invested almost EUR 22.0 million in infrastructure¹²⁵.

In parallel, Slovenia has also benefitted from investments from the **European Fund for Strategic Investments (EFSI)**. As of July 2020, the financing under EFSI amounted to EUR 188.0 million and is set to trigger additional investments of EUR 1.3 billion. Under the Infrastructure and Innovation Window, four projects have already been approved, amounting to EUR 153.0 million and are set to trigger EUR 321.0 million in total investments. Under the SMEs Window, four agreements have been approved, involving a total financing of EUR 34.0 million, and are set to trigger investments of up to EUR 996.0 million¹²⁶.

Since 2010, the **household renovation spending** has grown significantly. It increased from

EUR 61.0 million in 2010 to EUR 86.8 million in 2018¹²⁷, representing a rise of 42.3% over the same reference period. Overall, renovation spending accounted for a minimal stake (0.3%) of household disposable income in 2018, similar to its 2010 level and well below the EU-27 average of 0.9%.

Household renovation spending between 2010 and 2018

↑ 42.3%

According to the Fitch Solutions 2020 report on Slovenia's infrastructure, the country's residential and non-residential building sector is expected to grow by 3.4% annually over the 2020-2029 period, primarily driven by rising wages and increased access to mortgage financing¹²⁸.

In October 2018, the Slovenian Housing Fund declared its plan to construct 800 non-profit residential units in Slovenia. This project is also being partially funded by the Council of Europe Development Bank (EUR 50.0 million). In January 2019, the Housing Fund also announced its plans to construct two housing complexes in Ljubljana and Maribor, respectively. These two projects are in line with the Fund's goal to construct 2,000 new rental apartments by the end of 2020¹²⁹.

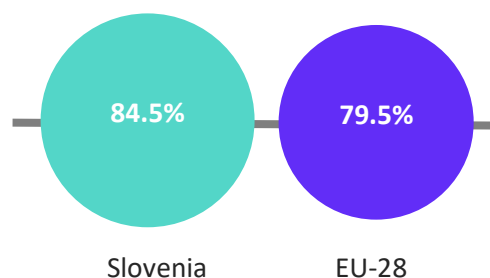
The Ljubljana Public Housing Fund (*Javni stanovanjski sklad Mestne občine Ljubljana*) has also announced the construction of 240 new subsidised rental units, to be completed by the end of 2020. As per the Fund, about 174 flats built at *Brdo* are in the final construction stage, with construction work already resumed on the other 156 units emerging as part of the *Rakova Jelša II* project¹³⁰.

TO 2 – Skills

Availability of skilled staff is considered a barrier to investment by 78% of the businesses in the broad construction sector¹³¹. The employment rate of recent **Vocational Education and Training (VET)** graduates in Slovenia stood at 84.5% in 2018, well above the EU-28 average of 79.5%. **Adult participation in learning** reached 11.4% in 2018, slightly above the EU average of 11.1%¹³². To address weaker participation of low qualified adults

in upskilling activities a new **Adult Education Act** was adopted in January 2018. The law provides services such as consulting, mentoring, training for educators, primary school for adults and counselling¹³³.

Employment rate of recent VET graduates, 2018



In co-operation with OECD, Slovenia has finished the second phase of its National Skills Strategy and has received eight recommendations to improve governance in adult learning. In response to these recommendations, Slovenia has started the formulation of its new Master Plan for Adult Education (2021-2030). Over the 2018-2022 period, several key projects (including the *Munera*, *Panup* and *Atena* projects) are supporting the upskilling of low-skilled adults to enable them to increase their employability¹³⁴.

The country is also introducing an apprenticeship system to better tailor vocational education to the needs of the labour market and improve the participation of local companies. Indeed, by 2021, about EUR 2.7 million will have been set aside for the upgrade of the vocational education and training system, including the pilot implementation of the apprenticeship system, EUR 2.1 million of which will have come from EU funds¹³⁵. The Slovenian Chamber of Engineers plays an active role in the provision of lifelong education through its Training Academy. The Chamber organises workshops, seminars, conferences and symposia on a variety of topics, from fire safety to **Eurocodes**. In terms of training, the Chamber covers subjects such as nearly-zero energy buildings, energy-efficient buildings, design and installation of heating systems, as well as legal and contractual aspects. Furthermore, the Chamber operates a portal allowing its member companies to publish job vacancies and facilitate matchmaking between job seekers and employers¹³⁶.

TO 3 – Resource efficiency / Sustainable construction

The **National Energy Efficiency Action Plan 2014-2020** defines the measures to be implemented in order to reach the energy efficiency target set in Directive 2012/27/EU. The building stock has great potential to bring about important energy savings, as approximately a quarter of the stock is in need of renovation to improve its energy performance.

The **Long-term Strategy to promote investments in energy refurbishment of buildings** determines the intermediate goals for energy efficient refurbishment of buildings, namely: i) reduce the final energy consumption by 15% by 2020 and by 30% by 2030; ii) increase the share of renewable energy in buildings to at least two-thirds; iii) reduce greenhouse gas emissions in buildings by 60% by 2020 and by 70% by 2030 (compared to 2005); and iv) renovate 1.3 to 1.7 million square meters of building area per year, including one third of nearly zero energy buildings. To achieve these objectives, an estimated EUR 6.7 billion of investment will be needed until 2030, or about EUR 350-450 million per year¹³⁷.

Public buildings are a key element of the Strategy, as they represent about 10% of the total housing stock. The target is the renovation of 3.0% of public buildings. To address this, the Slovenian Ministry of Infrastructure has been awarded grants through **ELENA (European Local Energy Assistance) programme** for energy reconstruction and renovation projects for the public sector buildings. For instance, under the **'EE Programme for Building and Facilities of Bratislava'**, EUR 1.4 million was contributed by ELENA (out of a total budget of EUR 1.5 million) to improve energy efficiency of public buildings and public lighting systems using the Energy Performance Contracting approach. The project was implemented over the 2015-2020 period and is expected to realise investments worth EUR 66.1 million¹³⁸. ELENA is a joint initiative of the European Investment Bank (EIB) and European Commission (EC) operating under the Horizon 2020 programme¹³⁹. In addition, from 2018 the public sector authorities are only allowed to purchase nearly zero-energy buildings¹⁴⁰. To fund various innovation, research and development activities in Slovenia, Horizon 2020 provided EUR 210.0 million.

The programme **Energy Renovation of State and Municipal Owned Buildings** was launched with a dedicated budget of EUR 115.0 million in subsidies and EUR 50.0 million in revolving funds¹⁴¹. The programme is carried out as a public-private partnership, benefiting from a total budget of EUR 76.5 million, of which EUR 21.3 million are coming from the Cohesion Fund¹⁴².

Financial instruments are also used as tools to stimulate private capital for energy efficient renovation of buildings. Indeed, the **ECO Fund**, the Slovenian environmental public fund, provides soft loans for environmental investments, as well as subsidies for residential and multi-residential/apartment buildings¹⁴³. By September 2019, the public fund had contributed EUR 29.0 million of subsidies primarily aimed at making buildings more energy efficient. Over the last ten years, the ECO Fund has granted almost EUR 260.0 million in subsidies linked to 110,000 investments in energy efficient consumption¹⁴⁴.

Slovenia also introduced its national **Energy Performance Certification (Energetska izkaznica stavbe)** in the form of a public document on the energy performance of buildings, including recommendations for measures to increase energy efficiency¹⁴⁵.

TO 4 – Single Market

Overall, Slovenia's performance was in line with respect to the 2020 EU Single Market Scoreboard metrics. In particular, it performed considerably well in terms of Transposition of law, EU Pilot, e-Curtis, EURES and SOLVIT metrics¹⁴⁶.

In relation to other 2020 EU Single Market Scoreboard metrics, Slovenia's performance was average, particularly in cases of infringements and Your Europe – EU's single digital gateway aimed at providing access to information, procedures, assistance and problem-solving services¹⁴⁷. Notably, Slovenia's performance was significantly weak in terms of the Internal Market Information System (IMI) metrics¹⁴⁸. According to the 2019 SBA Fact Sheet, Slovenia performed well in line with the EU-28 average. In particular, Slovenia is well above the EU-28 average in terms of SMEs with intra EU exports and imports of goods as well as intra EU online exporters. Nonetheless, it can further

improve its operations with regards to the average transposition delay for overdue directives as well as in public contracts secured broadly by SMEs¹⁴⁹.

According to the Corruption Prevention Commission, Slovenia's measures against corruption have been relatively ineffective for procurement by local administrators and state-owned enterprises. Practices such as cartel agreements, bid rigging, and abuse of public procurement procedures have been highlighted¹⁵⁰.

According to the Chamber of Construction and Building Materials of Slovenia, unreasonably low tender prices are frequent, and the lowest price criterion is still prevalent. This leads to social dumping and unfair competition, particularly from countries with cheaper labour, affecting the entire Slovenian construction value chain¹⁵¹.

Nonetheless, the business churn rate for architectural and real estate activities is lower in Slovenia as compared to the EU average, suggesting a lower dynamism and reduced competition within regulated professions in these sectors. Tools such as SPOT Portal ("*Slovenska poslovna točka*") and the "Single Document" had been introduced to reduce the high regulatory and administrative burden on businesses¹⁵². Some of the measures under the "Single Document" have been fully or partially implemented. However, SME representatives still assert that many measures are still pending and that the resulting impacts of these implemented measures do not always meet the set expectations. Additionally, public participation in formulating the burden-reduction measures under the Single Document continues to be rather low¹⁵³.

As for the implementation of **Eurocodes**, all parts are published as National Standards and no other standards are used apart from Eurocodes. 22 Parts are translated in national language. The series EN 1990, EN 1991 and EN 1998 are compulsory for structural design, as per the "Rules on the mechanical resistance and stability of buildings". Eurocodes are further mandated in public procurement¹⁵⁴.

TO 5 – International competitiveness

According to the 2019 Global Competitiveness Index, Slovenia ranks 35th out of 141 economies in terms of its performance¹⁵⁵.

In terms of **trade openness**, out of 141 economies, Slovenia ranked 7th in trade tariff percentage, 18th in prevalence of non-tariff barriers and 24th in border clearance efficiency, while 113th in complexity of tariffs¹⁵⁶.

With regards to the **internationalisation of construction SMEs**, the export value of all construction-related projects in Slovenia stood at EUR 841.4 million in 2018, representing an increase of 58.0% compared to its value of EUR 532.4 million in 2010. Slovenia's share of exports of all construction-related products in 2018 stood at 100.3% of the total production value, significantly above the EU-27 average of 11.4% for the same reference period.

Exports value of all construction-related products between 2010 and 2018

 **58.1%**

In the context of **inward FATS (Foreign affiliates statistics)**¹⁵⁷, value added at factor cost in the narrow construction sub-sector increased by 689.8% between 2010 and 2017¹⁵⁸. Similarly, turnover in the narrow construction sub-sector increased by 106.1% over the 2010-2017 period. In contrast, turnover in the narrow construction sub-sector, in terms of **outward FATS**¹⁵⁹ declined by 16.2% between 2010 and 2017¹⁶⁰.

In terms of FDI, Slovenia's direct investment abroad (DIA) for the manufacturing sub-sector stood at EUR 547.5 million in EU-27 in 2018, the largest compared to other construction sub-sectors, followed by the real estate activities sub-sector with investment reaching EUR 194.5 million in EU-27 over the same period.

Overall, Slovenia's performance is in line with the EU average in relation to **internationalisation**. As per the 2019 SBA Fact Sheet, Slovenia has performed better than the EU average in terms of formalities – automation and procedures along with border agency cooperation indicator. In contrast, the country performed well below the EU average

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in terms of information availability, involvement of trade community, advance rulings and extra-EU online exporters¹⁶¹.

The Slovenian Chamber of Commerce and Industry (GZS) is involved in supporting export-oriented

construction companies. To this purpose, it launched the **Catalogue of Civil Engineering** that showcases the most distinguished performances of Slovenian civil engineering firms¹⁶².

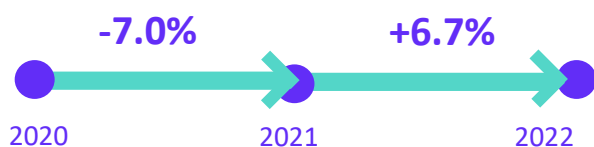
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Outlook

Despite a strong economic performance since 2014, Slovenia's economy is expected to decelerate in 2020 before witnessing a revival in 2021. The primary cause of this deceleration is the weak external environment currently reeling under the COVID-19 epidemic and its resulting implications.

Slovenia's **GDP** is forecast to annually decrease by 7.0% in 2020 and then increase by 6.7% in 2021, totalling EUR 44.5 billion in 2021.

Expected GDP growth between 2020-2022



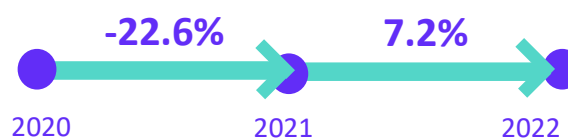
Accordingly, the **volume index of production** in the broad construction sector is estimated to decline by 15.7 index points (ip) in 2020, primarily due to a decline in the construction of buildings and civil engineering sub-sectors by 12.6 ip and 16.2 ip in 2020, respectively. In contrast, the volume index of production in the broad construction sector is expected to rise by 8.6 ip in 2021, mostly driven by a similar rise in construction of buildings and civil engineering sub-sectors by 13.1 ip and 7.3 ip, respectively in 2021. This further supports the forecast that the sector will mostly pick up growth in 2021.

Furthermore, the **total value added of the broad construction sector** is expected to annually decrease by 21.4% in 2020 and then increase by 6.5% in 2021, respectively. Likewise, the **turnover of the broad construction sector** is projected to initially annually decline by 21.7% in 2020 before rising by 6.9% in 2021, respectively.

As a result, the **number of persons employed** in the broad construction sector is also expected to annually decrease by 22.6% to 85,206 in 2020 and

increase by 7.2% to 91,352 in 2021. Most of this decline is forecasted to come from three sub-sectors: the manufacturing (-24.9%), real estate activities (-17.6%) and the narrow construction (-16.8%) sub-sectors.

Number of persons employed in the broad construction sector between 2020 and 2022



Similarly, the **number of enterprises** in the broad construction sector is expected to initially fall by 22.3% in 2020 and subsequently rise by 6.1% in 2021, totalling 28,013 enterprises.

Moving forward, several major projects have already resumed construction activities following the COVID-19 pandemic. The Slovenian government has already identified 187 important investments to restart the economy, including 76 projects in the regional development sector relating to the construction of residential neighbourhoods, educational institutions, healthcare centres, etc. and 70 projects in the transport sector¹⁶³.

The majority of the **civil engineering** projects relate to the expansion of the country's railway network including the *Divača-Koper* line, the *Karavanke* Tunnel, the *Kočevje* line, etc. In particular, the *Divača-Koper* railway project involves construction of 27km of track, eight tunnels and two viaducts, and is scheduled to be completed by 2025. Additionally, a direct rail connection between the *Primorska* and *Gorenjska* lines (Tivoli curve) is also underway. Furthermore, the construction of the second tube of the *Karavanke* motorway tunnel is expected to start in 2020.

The **housing market**, which is one of the drivers of the construction sector, suffered from the

COVID-19 pandemic with a number of transactions declining in the first six months of 2020. However, private sector actors are confident in their ability to cope with e.g. a declining demand¹⁶⁴. In addition, the government will support the sector by providing assistance through a housing scheme for young families and the construction of rental housing¹⁶⁵.

Overall, the Slovenian broad construction sector is expected to witness short-term disruptions in 2020, followed by long-term demand and growth for construction services. Despite several anti-crisis measures including a boost to civil-engineering construction, the construction output is expected to decline by 5.5% in 2020. Resumption of existing construction projects in the pipeline along with a rise in investment in public housing is expected to increase the total construction output by 2.6% in 2021¹⁶⁶.

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