



European Construction Sector Observatory

Country profile **Slovenia**

October 2021



In a nutshell

Since 2010, Slovenia's GDP has increased by 12.3%, amounting to EUR 42.7 billion in 2020. Contrarily, this represents a 5.5% decline as compared to the 2019 levels.

In line with the overall economy, the **number of enterprises** in the broad construction sector increased by 22.7%, from 28,771 in 2010 to 35,313 in 2020, with the real estate activities sub-sector reporting the highest increase of 72.0%, followed by the architectural and engineering activities sub-sector (+41.8%) over the 2010-2020 period.

Number of enterprises
in the real estate
activities sub-sector
between 2010 and 2020  **72.0%**

In parallel, the **volume index of production** in the broad construction sector increased by 30.3% over the 2015-2020 period, mainly driven by a 24.0% increase in the production activity in the construction of buildings during the same reference period. In parallel, the production in civil engineering slightly increased by 5.5% between 2015 and 2020.

Production in the broad
construction sector
between 2015 and 2020  **30.3%**

The **total turnover** in the broad construction sector stood at EUR 11.2 billion in 2020, representing an increase of 13.6% as compared to 2010 (EUR 9.8 billion). This growth was mainly driven by an increase in the manufacturing (+21.1%), the real estate activities (+13.4%), the narrow construction (+12.2%) as well as the architectural and engineering activities (+11.6%) sub-sectors over the 2010-2020 period.

Turnover in the narrow
construction sub-sector
between 2010 and 2020

 **12.2%**

Similarly, the **gross operating surplus** of the broad construction sector recorded a significant increase of 84.4% between 2010 and 2018, reaching EUR 1.3 billion. The majority of this increase was driven by growth in the narrow construction sub-sector (+102.1%), followed by the architectural and engineering activities (+92.9%), the manufacturing (+89.0%) and the real estate activities (+48.5%) sub-sectors over the 2010-2018 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 12.7% in 2018. This is still lower than the EU-27 average of 16.7%.

In terms of employment, there were 114,321 **persons employed** in the broad construction sector in 2020, representing a marginal drop of 0.5% as compared to 2010 levels. This was primarily due to the fall in employment in the manufacturing (-9.0%) as well as the narrow construction (-1.8%) sub-sectors, offsetting the rise in the real estate activities (+20.8%) and the architectural and engineering activities (+10.2%) sub-sectors over the same reference period.

Several initiatives have been launched by the Slovenian government to promote the **housing market**. Under its EUR 2.5 billion Recovery and Resilience Plan (RRP), Slovenia dedicates 2.4% of its budget (EUR 60.0 million) towards non-profit public affordable housing so as to mitigate the social impact of the COVID-19 crisis on marginalised people. It also allocated EUR 33.5 million towards digital transformation of public services linked to

planning, real estate, nature and water. This involves recasting of the Construction Act and the Spatial Planning Act to reduce the cost and the time taken to become compliant with administrative requirements. The amendment is also aimed at digitalising the key spatial-data systems and streamlining the procedures for obtaining construction permits.

Slovenia's final RRP comprises EUR 1.8 billion in grants and EUR 666 million in loans. 'Component 2' aims to improve the energy efficiency of buildings in the public sector, contributing to sectoral objectives of the National Energy Program¹.

Slovenia allocated EUR 146.0 million towards renewable energy and energy efficiency, EUR 86.1 million for sustainable renovation of buildings as well as EUR 48.0 million for circular economy – resource efficiency.

With regards to the **civil engineering market**, the European Commission has allotted EUR 80.0 million for the construction of second track along the Divaca - Koper railway line. Additionally, the European Investment Bank (EIB) has also announced a EUR 250.0 million loan for the project, with the track expected to become operational in 2026. Moreover, the EIB will invest EUR 90.0 million

in the modernisation and extension of the Karavanke tunnel linking the motorway between Slovenia and Austria. The EU bank will also fund a EUR 95.0 million loan for linking the existing Austrian highway to the new 8km tunnel.

While these policy initiatives will support the development of the construction sector, the latter faces two major issues. Firstly, the issue of late payments squeezes liquidity in the sector. The outbreak of COVID-19 pandemic has made the situation even more difficult. As per the Intrum European Payment Report 2021, about 54.0% of Slovenian businesses acknowledged that COVID-19 pandemic has resulted in liquidity challenges for debtors, making collection of prompt payments in the next 12 months a major issue for the businesses. Secondly, the existing shortage of skilled labour and digital skills continue to be a major concern for the sector.

Overall, the Slovenian construction sector has a positive outlook in the medium and long term. Non-residential and civil engineering market are expected to be the primary growth drivers. Public sector infrastructure, digitalisation, transport system upgradation and shift towards a circular economy, supported by EU funding, are expected to dominate the sector's growth.

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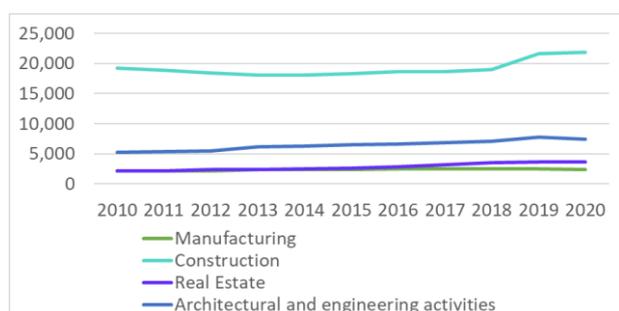
Key figures

Construction market

In 2020², there were 35,313 **enterprises** in the broad construction sector in Slovenia, with the narrow construction sub-sector accounting for 61.8% of the total firms, followed by the architectural and engineering activities sub-sector comprising 21.0% of the total firms. The number of firms in the broad construction sector grew by 22.7%, with the real estate activities sub-sector reporting the highest increase of 72.0%, followed by the architectural and engineering activities sub-sector (+41.8%) over the 2010-2020 period. Similarly, the narrow construction and the manufacturing sub-sectors reported increments of 13.8% and 7.5%, respectively, over the same reference period (Figure 1).

Number of enterprises in the narrow construction sub-sector between 2010 and 2020 **↑ 13.8%**

Figure 1: Number of enterprises in the Slovenian broad construction sector between 2010 and 2020



Source: Eurostat, 2021.

The **volume index of production** in the broad construction sector increased by 30.3% over the 2015-2020 period.

This was mostly driven by a 24.0% increase in production volume in the construction of buildings over the same reference period (Figure 2). Lastly, production in civil engineering increased by 5.5% between 2015 and 2020.

Volume index of production in the broad construction sector between 2015 and 2020 **↑ 30.3%**

Figure 2: Volume index of production in the Slovenian construction sector between 2010 and 2020 (2015=100)

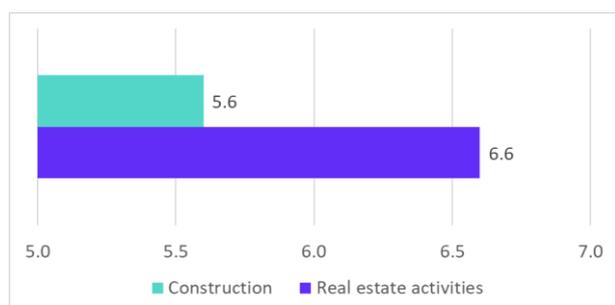


Source: Eurostat, 2021.

The **total added value at factor cost³** of the broad construction sector amounted to EUR 3.4 billion in 2020, with the narrow construction sub-sector contributing to 56.0% of the total (EUR 1.9 billion), followed by the manufacturing (17.1%), the architectural and engineering activities (15.9%) and the real estate activities (11.0%) sub-sectors.

The **share of gross value added in the GDP** of the broad construction sector reached 14.5% in 2018⁴, compared to the EU-27 average of 16.5%. In 2020, the real estate activities had the largest contribution, standing at 6.6%, followed by the narrow construction sub-sector (more details Figure 3).

Figure 3: Gross value added as a share of GDP in the Slovenian broad construction sector in 2020⁵ (%)



Source: Eurostat, 2021.

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 37.3% and 18.9% between 2010 and 2019, 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 15.6% and 23.0% over the 2010-2019 period.

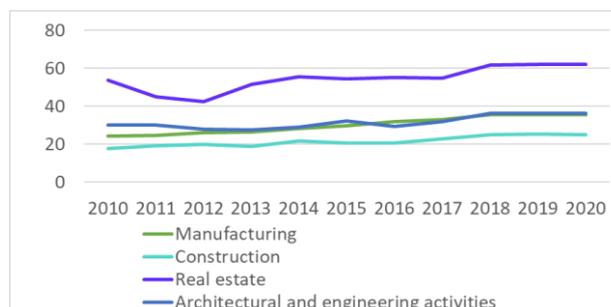
Productivity

Overall, the **apparent labour productivity**⁶ in the Slovenian broad construction sector has shown signs of improvement between 2010 and 2018⁷, increasing from EUR 21,819 to EUR 30,404 (+39.3%). However, it remains below the EU-27 average of EUR 51,960 (Figure 4). In case of sub-sectors, the manufacturing sub-sector reported the highest increase of 45.7%, growing from EUR 24,316 in 2010 to EUR 35,432 in 2020, followed by the narrow construction sub-sector increasing from EUR 17,700 to EUR 25,104 (+41.8%) over the 2010-2020 period. The architectural and engineering activities sub-sector reported an increase of 19.6% over the same period, totalling EUR 36,115 in 2020⁸ respectively. Similarly, the real estate activities sub-sector witnessed an increase of 15.6%, from EUR 53,500 in 2010 to EUR 61,840 in 2020⁹.

Labour productivity of the narrow construction sub-sector between 2010 and 2020

↑ 41.8%

Figure 4: Labour productivity in the broad construction sector in Slovenia between 2010 and 2020 (EUR k)



Source: Eurostat, 2021.

Turnover and profitability

The total **turnover** of the broad construction sector amounted to EUR 10.3 billion in 2018, reporting an increase of 5.0% as compared to 2010 (EUR 9.8 billion). It further increased by 8.2% over the 2018-2020 period, totalling EUR 11.2 billion in 2020 and registering a total growth of 13.6% over the 2010-2020 period.

With regards to sub-sectors, this increase in the overall turnover was primarily driven by the manufacturing sub-sector (+21.1%), followed by the real estate activities (+13.4%), the narrow construction (+12.2%) as well as the architectural and engineering activities (+11.6%) sub-sectors over the 2010-2020 period.

Total turnover of the narrow construction sub-sector between 2010 and 2020

↑ 12.2%

The **gross operating surplus** of the broad construction sector amounted to EUR 1.3 billion in 2018¹⁰, a 84.4% rise as compared to 2010 levels. In terms of its sub-sectors, the largest increase was reported by the narrow construction (+102.1%), followed by the architectural and engineering activities (+92.9%) and the manufacturing (+89.0%) sub-sectors over the 2010-2018 period. The real estate activities sub-sector also witnessed an increase of 48.5% over the same reference period.

Gross operating surplus of the narrow construction sub-sector between 2010 and 2018

↑ 102.1%

At the same time, the **gross operating rate** of the broad construction sector¹¹, an indicator of the sector's profitability, increased from 7.2% in 2010 to 12.7% in 2018. This is still lower than the EU-27 average of 16.7%. In terms of sub-sectors, the largest improvement was seen in the narrow construction sub-sector, which went from 4.8% in 2010 to 9.7% in 2018. The architectural and engineering activities sub-sector rose from 7.4% in 2010 to 13.5% in 2018. Likewise, the real estate activities sub-sector increased from 27.4% in 2010 to 37.0% in 2018. The lowest growth was observed in the manufacturing sub-sector, which increased from 7.9% in 2010 to 11.8% in 2018.

Additionally, the **construction cost index** increased by 11.0% between 2015 and 2020, mainly driven by an increase of 20.4% in labour costs and a 3.0% increase in input prices for materials for the same reference period (Figure 5).

Figure 5: Construction cost index for residential buildings between 2010 and 2020 (2015=100)



Source: Eurostat, 2021.

Employment

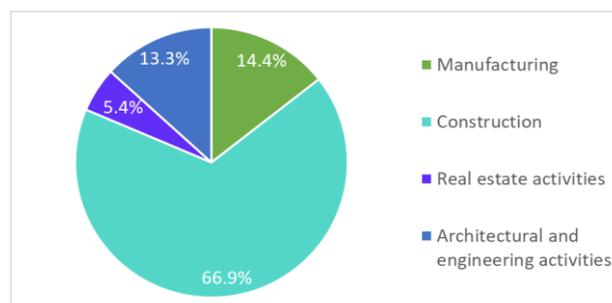


In 2020¹², the broad construction sector employed 114,321 persons, registering a marginal decline of 0.5% as compared to 2010 levels (114,878 persons).

The narrow construction sub-sector employed the majority of the total construction workforce (66.9% i.e., 76,522 persons) (Figure 6), even though the number of persons employed in this sub-sector experienced a 1.8% decline over the 2010-2020 period. The largest increase in employment over the same reference period was recorded in the real estate activities sub-sector (+20.8%), followed by the architectural and engineering activities (+10.2%). In contrast, the manufacturing sub-sector reported the largest decline (-9.0%) over the 2010-2020 period. In absolute terms, the

manufacturing, the architectural and engineering and the real estate activities sub-sectors employed 16,519, 15,158 and 6,123 persons, respectively, over the above reference period.

Figure 6: Percentage of people employed per construction sub-sectors in Slovenia in 2020



Source: Eurostat, 2021.

As for **employment by specific occupation** over the 2010-2020 period, the professionals reported the largest increase (+92.4%) while the plant and machine operators and assemblers accounted for the largest drop (-34.6%) in employment in the manufacturing sub-sector. With regards to the narrow construction sub-sector, the largest increment was seen in the professionals (+47.8%) while the biggest decline was reported for managers (-38.9%). Lastly, in the case of the real estate activities sub-sector, the technicians and associate professionals registered the largest increase of 55.6% over the same reference period.

In parallel, the number of **self-employed** workers in the narrow construction sub-sector increased from 12,200 in 2010 to 14,000 in 2020 (+14.8%), representing 13.5% of all the self-employed workers in the general economy. This is slightly above the EU-27 average of 11.7%. Similarly, the number of **self-employed** workers in the real estate activities sub-sector increased from 700 in 2010 to 900 in 2020 (+28.6%), representing only 0.9% of all the self-employed workers in the general economy. In contrast, this is lower than the EU-27 average of 1.6%.

Number of self-employed workers in the narrow construction sub-sector between 2010 and 2020

↑ 14.8%

In parallel, **full-time employment** in the narrow construction sub-sector slightly increased by 1.1%, from 55,800 in 2010 to 56,400 in 2020. In contrast, an increase of 7.2% was recorded in the real estate

activities sub-sector, reaching 236,600 in 2020 from 220,800 in 2010.

Conversely, **part-time employment** in the narrow construction sub-sector increased by 40.9%, from 2,200 in 2010 to 3,100 in 2020. In comparison, a decline of 22.0% was reported in the real estate activities sub-sector, reaching 10,300 in 2020 from 13,200 in 2010.

The *Zahodna Slovenija* region saw a 14.5% decrease in the number of persons employed in the narrow

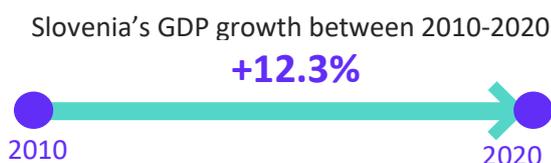
construction sector over the 2010-2019¹³ period. In contrast, it reported a moderate growth in the number of people employed in the real estate activities (+37.5%) sub-sector for the above referred period. Likewise, the *Vzhodna Slovenija* region experienced a decline of 7.6% and a marginal increment of 1.0% in terms of persons employed in the narrow construction and the real estate activities sub-sectors over the same reference period, respectively.

2

Macroeconomic indicators

Economic development

In 2020, the Slovenian **GDP** amounted to EUR 42.7 billion, representing an increase of 12.3% since 2010. This growth is driven by various factors including increased private consumption and sustained domestic demand supported by rising disposable income. However, in 2020 the GDP registered a decline of 5.5% as compared to 2019. This is probably explained by the onset of COVID-19 pandemic and the related decline in global trade due to imposed government restriction, offsetting the investments in the country's residential construction, machinery and equipment¹⁴.

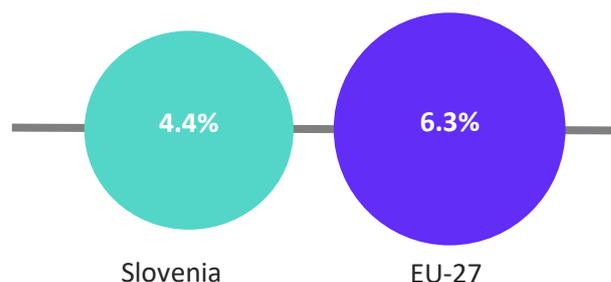


The **potential GDP** in 2020 amounted to EUR 44.3 billion, resulting in a negative output gap of 3.4%. The **inflation rate** in Slovenia is relatively moderate, standing at 4.8% in 2020 as compared to 2015 as its base year.

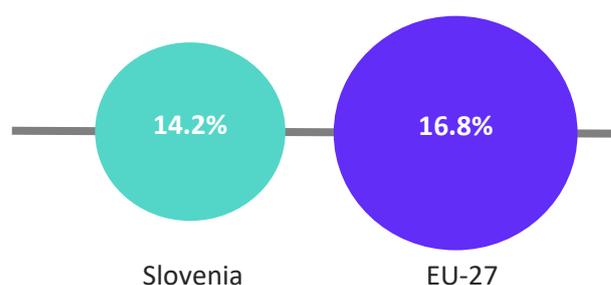
Demography and employment

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 4.4% in 2020, well below the EU-27 average of 6.3% and its 2010 level (6.7%). **Youth unemployment rate** (below the age of 25) stood at 14.2% in 2020, slightly lower than the EU-27 average of 16.8%.

Unemployment rate in 2020



Youth unemployment rate in 2020

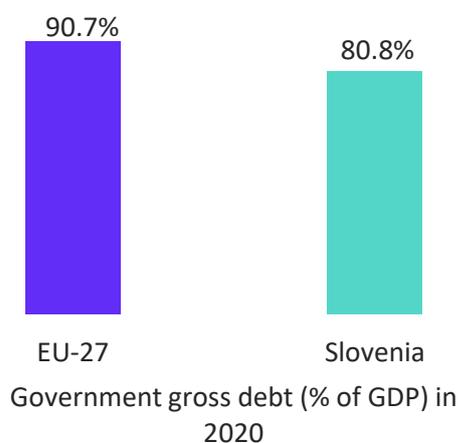


In terms of demographics, Slovenia's **total population** reached 2.1 million people in 2020. It is projected to increase by 0.5% by 2030 and subsequently decline by 2.5% in 2050, reaching 2.0 million. In parallel, net migration has been increasing since its negative values in 2010 (with 521 people leaving the country). In 2020, 18,365 people moved to the country. This may in turn boost housing demand and help address the labour shortage in the overall economy.

Slovenia's **working age population**, which makes up 64.6% of the total population in 2020, 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 facilities¹⁵.

Public finance

In 2020, **general government expenditure** accounted for 52.0% of GDP, slightly lower than the EU-27 average of 53.4% and the 2010 level (50.2%). The **general government deficit** stood at -8.4% in 2020, higher as compared to -5.6% in 2010 as well as the EU-27 average of -6.9%. In similar lines, **general government gross debt** accounted for 80.8% of the country's GDP, representing a substantial increase compared to 2010 level (+38.3%) while still being below the EU-27 average of 90.7%.



Entrepreneurship and access to finance



As per World Bank Doing Business 2020 report, Slovenia ranked 41st out of 190 countries in terms of ease of starting a business with a score of 93.0. This is one rank lower as compared to its previous year's 40th rank^{16,17,18}.

As per the report, starting a business in Slovenia requires three procedures, taking eight days and costing negligible in terms of per capita income. This is well below as compared to OECD high-income average requiring 4.9 procedures, taking 9.2 days while costing 3.0% of per capita income. Moreover, the paid-in minimum capital required (i.e., the amount that the entrepreneur needs to deposit in a bank or with a notary before registration and up to three months following incorporation) is 34.3% of per capita income, almost four times higher as compared to the OECD high-income average (7.6% of income per capita)¹⁹.

According to **Global Entrepreneurship Monitor 2020**, perceived opportunities (representing adult population aged 18 to 64 years) as well as entrepreneurial intentions (representing adult population not involved in entrepreneurial activities) for Slovenia stood at 42.0% and 11.9%, respectively²⁰.

Access to finance for companies remains a challenge in Slovenia. Overall, Slovenia's loans to non-financial corporations decreased by 56.3% over 2010-2020 period, from EUR 20.8 trillion in 2010 to EUR 9.1 trillion in 2020.

Loans to non-financial corporations between 2010 and 2020 ↓ 56.3%

According to the **Survey on the Access to Finance of Enterprises (SAFE) Report 2020**, 8.7% of SME's respondents reported that **access to finance** is the most important problem they faced, slightly below the EU-27 average of 9.9%²¹. In this context, it is crucial for Slovenia to not only continue supporting access to finance through traditional finance, but also through alternative financing such as equity financing (venture capital). This is even more important considering that the Slovenian equity market is still deemed to be underdeveloped²².

Over the past few years, 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.

The advent of COVID-19 crisis further escalated the issue of access to finance for SMEs. As per a Bank of Slovenia survey, in 2020, 60.0% of Slovenian SMEs applied for government support (e.g., refunds for the furlough scheme, etc.). Out of this, majority of

the applicant firms received support. Nonetheless, some inherent weaknesses of the system were also highlighted including the long-time taken to process the applications, demanding conditions to avail support as well as difficulty in understanding²³.

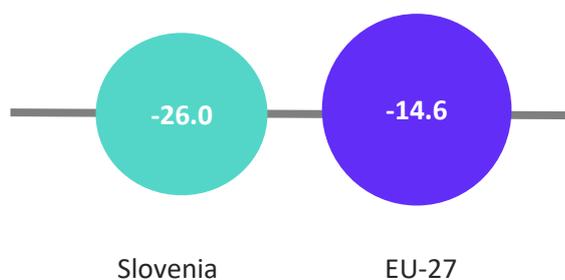
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Key economic drivers of the construction sector

Business confidence

Over the 2010-2020 period, the **consumer confidence indicator** registered a marginal improvement, reaching -26.0 in 2020 as compared to -27.0 in 2010. Nevertheless, it remains below the EU-27 average of -14.6. The **construction confidence indicator** also improved significantly, ending at -6.5 in 2020, well above the 2010 level of -57.9 as well as the EU-27 average of -9.3. In contrast, the **industry confidence indicator** declined over the years, going from 0.9 in 2010 to -9.7 in 2020. Still, this is slightly above the EU-27 average of -14.4.

Consumer confidence indicator in 2020



The **investment ratio** also marginally declined to 20.0% in 2020 as compared to 21.5% in 2010. This is also slightly below the EU-27 average of 21.8% in 2020.

Similarly, **investment per worker** in the broad construction sector decreased from EUR 21,506 in 2010 to EUR 19,633 in 2018²⁴. In terms of sub-sectors, investment per worker in the real estate activities sub-sector dropped from EUR 50,200 in 2010 to EUR 44,200 in 2018. In contrast, investment per worker in the narrow construction sub-sector increased from EUR 3,500

in 2010 to EUR 4,400 in 2018²⁵. However, improvements of these indicators can be expected following the increased confidence in the sector.

Domestic sales

The ranking of the **most domestically sold construction products** in Slovenia between 2010 and 2020 has remained relatively constant, except for 'Other structures, etc. (group 251123)' replacing 'Ready-mixed concrete (group 236310)'. Additionally, over the 2010-2020 period, the value of 'Windows, French windows, etc. (group 162311)', 'Doors, windows, etc. (group 251210)', 'Prefabricated structural components for building, etc. (group 236112)' and 'Prefabricated wooden buildings (group 162320)' has increased by 9.9%, 23.4%, 34.3% and 127.4%, respectively.

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 57.7% of total domestic construction product sales in 2020.

Table 1: Five most domestically sold construction products in Slovenia and in the EU in 2020

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
1	Other structures, etc. (group 251123)	116.6	18.7	Other structures, etc. (group 251123)
2	Prefabricated wooden buildings (group 162320)	72.4	11.6	Ready-mixed concrete (group 236310)

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product domestic sales (%)	Product
3	Doors, windows, etc. (group 251210)	59.6	9.5	Doors, windows, etc. (group 251210)
4	Windows, French windows, etc. (group 162311)	58.6	9.4	Prefabricated buildings of metal (group 251110)
5	Prefabricated structural components for building, etc. (group 236112)	52.8	8.5	Prefabricated structural components for building, etc. (group 236112)

Source: PRODCOM, 2021.

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)' has been replaced by 'Pellets and briquettes, etc. (group 162915)' and 'Other structures, etc. (group 251123)'. Moreover, since 2010, the value of 'Prefabricated wooden buildings (group 162320)', 'Prefabricated buildings of metal (group 251110)' and 'Doors, windows, etc. (group 251210)' has increased by 96.4%, 125.5% and 163.7%, respectively.

The top five most exported construction products in Slovenia and in the EU-27 are summarised in Table 2. Together, these made 48.7% of all construction products exports in Slovenia in 2020.

Table 2: Five most exported construction products in Slovenia and in the EU in 2020

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product exports (%)	Product
1	Prefabricated buildings of metal (group 251110)	155.8	17.2	Ceramic tiles and flags (group 233110)
2	Doors, windows, etc.	109.9	12.1	Other structures, etc.

	Slovenia			EU-27
	Product	Value (EUR m)	Share in construction product exports (%)	Product
	(group 251210)			(group 251123)
3	Other structures, etc. (group 251123)	61.4	6.8	Fibreboard of wood, etc. (group 162115)
4	Pellets and briquettes, etc. (group 162915)	57.6	6.3	Doors, windows, etc. (group 251210)
5	Prefabricated wooden buildings (group 162320)	57.3	6.3	Builder joinery and carpentry, etc. (group 162319)

Source: PRODCOM, 2021.

In **cross-border provision of construction services**²⁶, Slovenia **exported** EUR 648.5 million worldwide in 2020, representing a significant rise of 337.9% as compared to the 2010 levels (EUR 148.1 million). Of this total, EUR 616.4 million was exported to the EU-27 countries, i.e., 95.1% of the total. In parallel, it **imported** a total of EUR 220.0 million in construction services in 2020, an increase of 225.4% as compared to EUR 67.6 million in 2010, with 91.2% (i.e., EUR 200.7 million) from the EU-27 countries. Slovenia thus achieved a **trade surplus** of EUR 428.5 million.

Access to finance in the construction sector

According to the **2020 Survey on the Access to Finance of Enterprises (SAFE)** report, around 45.4% of small and medium enterprises (SMEs) in Slovenia reported of bank loans being relevant (marginally above the EU-27 average - 44.4%), with around 12.7% of the SMEs having used bank loans recently. During the same period, 27.0% of SMEs in Slovenia applied for a bank loan, while 48.4% did not do so because of insufficient internal funds (well above the EU-27 average of 35.1%)^{27, 28}.

Moreover, the availability of bank loans for Slovenian SMEs has also changed. Around 21.2% of SMEs mentioned that it has deteriorated, well above the EU-27 average of 14.2%²⁹.



Credit extended to the non-financial corporations in the general economy decreased by 56.3%, from EUR 20.8 trillion in 2010 to EUR 9.1 trillion in 2020.

As per the **European Investment Bank (EIB) Investment Survey 2020**, 50.0% of the Slovenian construction firms consider availability of finance as a long-term barrier for the sector. Leasing makes up the highest share of external finance (almost 51.0%) in construction sector in Slovenia, closely followed by bank loans (42.0%). About 60.0% of the Slovenian firms in the construction sector rely on internal sources of finance for investment purposes, almost in line with the EU-27 average of 62.0% but well above as compared to the external sources (35.0%). This is also driven by the fact that almost 92.0% of the Slovenian construction firms reported making a profit, well above the EU-27 average of 80.0%. Nonetheless, the share of 'financially constrained'³⁰ firms in the construction sector (6.0%) is lower than the firms operating in the manufacturing (8.0%) and service sectors (12.0%) in Slovenia³¹.

The impact of COVID-19 on investment strategies has also been quite negative with 39.0% of Slovenian construction firms investing lesser in 2020, slightly lower as compared to the EU-27 average of 45.0%. However, almost 80.0% of construction firms believed their investment over the last three years was about the right amount, slightly higher than the EU-27 average of 75.0%³².

Access to housing

The **number of households** in Slovenia increased by 13.3%, from 807,100 in 2010 to 914,200 in 2020. The **mean equivalised net income** grew from EUR 12,653 in 2010 to EUR 15,836 in 2020 (+25.2%). 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 2018³³. In particular, the proportion of the population living in densely populated areas increased from 18.5% in 2010 to 19.2% in 2020.

Moreover, lending to households for home purchases picked up, with total **outstanding residential loans** growing by 36.0%, from EUR 4.8 billion in 2010 to EUR 6.6 billion in 2019³⁴. This increase in residential loans is partly supported by the rising incomes and declining **interest rates on mortgages**, currently standing at 2.3% in 2020 as compared to 3.5% in 2010.

Figure 7: Mortgage rates for loans for over 5 years original maturity (%) between 2010 and 2020

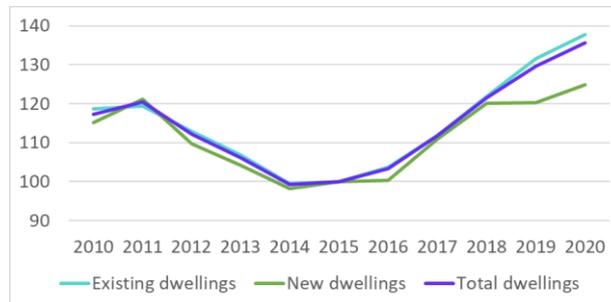


Source: ECB MFI Interest Rate Statistics, 2021.

Consequently, the housing market is recovering, as evidenced by the increase in house prices. The **house price index** for total dwellings increased by 35.7% over the 2015-2020 period, mostly driven by a 24.9% and 37.9% increase in new dwellings and existing dwellings over the same reference period, respectively.

House price index for new dwellings between 2015 and 2020  **24.9%**

Figure 8: House price index in Slovenia between 2010 and 2020 (2015=100)



Source: Eurostat, 2021.

Conversely, the number of **dwellings under construction** decreased from 16,002 in 2010 to 10,958 in 2020³⁵, reflecting an overall decline of 31.5% over the 2010-2020 period. Similarly, the number of **dwellings completed** declined by 44.3%, from 6,355 in 2010 to 3,540 in 2020³⁶.

With regards to **building permits**, the number of new buildings has increased by 68.8%, from 3,192 in 2010 to 5,389 in 2020. This was mostly driven by a significant rise in non-residential buildings (from 747 to 3,062, i.e., +309.9%), offsetting the slight decrease in residential buildings (from 2,445 to 2,327, i.e., -4.8%) over the same reference period. In contrast, the number of new dwellings has decreased by 23.5%, from 4,286 in 2010 to 3,277 in

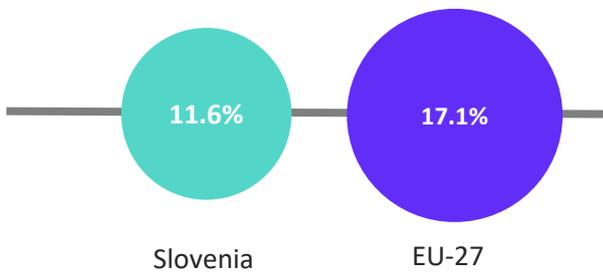
2020. This is primarily due to a similar decline in the residential (from 4,225 to 3,271, i.e., -22.6%) and non-residential (from 61 to 6, i.e., -90.2%) dwellings between 2010 and 2020³⁷.

Number of building permits issued for non-residential buildings between 2010 and 2020

↑ 309.9%

Finally, **home ownership** in Slovenia declined to 74.6% in 2020 as compared to 78.1% in 2010. This increased to 76.8% for the population earning **above 60.0% of the median equivalised income**³⁸ whereas it declined to 59.1% for the population earning below 60.0% of the median equivalised income. Moreover, the **housing cost overburden rate**³⁹ stood at 4.1% in 2019, well below the EU-27 average of 9.4%⁴⁰. This overburden rate further increased to 4.4% in 2020. The **severe housing deprivation rate**⁴¹ also stood at 3.9%⁴² in 2019, slightly above the EU-27 average of 4.0%. This further decreased to 3.1% in 2020. Conversely, the **overcrowding rate**⁴³ stood at 11.6% in 2019, well below the EU-27 average of 17.1%⁴⁴. This rate dropped to 10.9% in 2020.

Overcrowding rate in 2019



Infrastructure



As per the 2019 Global Competitiveness Report, Slovenia ranked 33rd out of 141 economies in its overall infrastructure quality^{45,46}.

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 101st 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 slow⁴⁷.

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 921 in 2018⁴⁸ (-65.6%). Over the same reference period, the number of **company births** in the same sub-sector also declined, from 2,217 in 2010 to 1,709 in 2020 (-22.9%). In contrast, the architectural and engineering activities and the real estate activities sub-sectors experienced an increase in the number of company births (by 22.7% and 190.6%, respectively) and a decline in the number of company deaths (-20.7% and -2.1%, respectively) over the 2010-2018 reference period.

Number of company deaths in the narrow construction sub-sector between 2010 and 2018

↓ 65.6%

Number of company births in the real estate activities sub-sector between 2010 and 2018

↑ 190.6%

Slovenia's regulatory framework is relatively heavy, translating into slower business set-up and operational costs for companies. As such, it becomes difficult for smaller firms to cope with Slovenia's complex business environment⁴⁹.

As per World Bank Doing Business 2020 report, resolving insolvencies in Slovenia is faster (0.8 years) and cheaper (4.0% of the value of the debtor's estate) as compared to the EU-27 average of 2 years and 10.6% of the debtor's estate, respectively. Moreover, Slovenia also has a free public 'Early Warning Slovenia' mentoring programme aimed at helping SMEs that are experiencing the first signs of business problems⁵⁰.

Trade credit



According to the 2020 SAFE Report, around 20.6% of Slovenian SMEs respondents reported trade credit to be relevant, well below the EU-27 average of 27.7%^{51,52}.

As per the 2020 SAFE Report (September October 2020), around 4.2% of the Slovenian SMEs respondents disclosed using trade credit in the past six months, well below the EU-27 average of 13.6%. During the same period, around 19.0% of Slovenian SMEs applied for trade credit as compared to the EU-27 average of 31.4%. Around 6.0% of SMEs did not apply due to possibility of rejection and 45.3% of SMEs did not apply because of sufficient internal funds, well above the EU-27 averages of 4.4% and 33.1%, respectively⁵³.

Regarding the availability of trade credit, around 16.8% of Slovenian SMEs also reported that the availability of trade credit had deteriorated, slightly above the EU-27 average of 14.7%⁵⁴.

Late payment



As per the Intrum European Payment Report 2021, 58.0% of Slovenian businesses are concerned about debtor's ability to pay debt on time and 50.0% of businesses expect the widening gap between payment terms and payment duration to become a serious risk for sustainable business growth⁵⁵.

As per the report, about 54.0% of Slovenian businesses acknowledged that COVID-19 pandemic has resulted in liquidity challenges for debtors, making collection of prompt payments in the next 12 months a major issue for businesses. This is slightly above the EU-27 average of 48.0%. Additionally, almost 51.0% of the respondents disclosed that late payments prevented them from hiring new employees. Moreover, 30.0% of the business respondents reported that the administrative inefficiencies of their customers may accrue into a major threat to prompt payments over the next 12 months. This is slightly above the EU-27 average of 25.0%⁵⁶.

Similarly, about 47.0% of the business respondents concluded that the current payment terms offered to customers were too generous and were hurting them as a business, higher in comparison to EU-27 average of 43.0%. Some of the major challenges still faced by companies making customers pay on time included debtor's facing liquidity challenges due to impact of COVID-19 (54.0%), risk of pan-European recession (38.0%), debtors in financial difficulties (37.0%), as well as lack of business experience among customers (34.0%)⁵⁷.

Monthly profit margins of real estate and construction sector companies in 2020 (impacted by COVID-19)⁵⁸

↓ 61.0%

Overall, 42.0% of business respondents use pre-payments as a precautionary measure,

followed by credit checks (35.0%), debt collection (25.0%), credit insurance (14.0%), bank guarantee (10.0%), factoring (9.0%) and fraud prevention (9.0%)⁵⁹.

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. As per the World Bank's Doing Business 2020 report, the country ranked 119th out of 190 economies with respect to "Dealing with construction permits"⁶⁰. Completing the formalities to build a warehouse⁶¹ 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 high-income 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	1 day	EUR 960

construction		
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, 2021.

Skills shortage

The number of **job vacancies** in the narrow construction sub-sector stood at 2,970 in 2020, representing an increase of 301.2% as compared to 2010 level of 740. As such, Slovenia's **job vacancy rate** has hence increased to 4.8% in 2020 as compared to 1.1% in 2010. Similarly, in the real estate activities sub-sector, the number of job vacancies increased from 28 in 2010 to 62 in 2020 with the job vacancy rate increasing from 0.7% to 1.0% over the 2010-2020 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 2019⁶².

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. Additionally, 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 the narrow construction and the 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 case of the narrow construction sub-sector, this rate increased to 5.6% in 2020. In parallel, the number of **tertiary students** enrolled in engineering, manufacturing and construction decreased by 8.1% from 3,072 in 2010 to 2,823 in 2019⁶⁴. In particular, 495 tertiary students were enrolled in the architecture and building in 2019 as compared to 712 in 2010. This represents a decline of 30.5% in the number of tertiary students over the above reference period.

Sector and sub-sector specific issues

Material efficiency and waste management

In 2018⁶⁵, the Slovenian construction sector generated 669,341 tonnes of **construction and demolition waste (CDW)**. This represented a considerable decrease from 2010 (1,509,476 tonnes)⁶⁶, and is partly explained by intense construction activity over the period 2015-2018 due to the need to complete EU-funded projects. Out of the total waste generated, 99.7% comprised of non-hazardous waste. CDW 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 move towards 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 59.2%, well above as compared to EU-27 average of 47.7% in 2019⁶⁷. The country also participated in the EU-funded REBIRTH project (Promotion of the Recycling of Industrial Waste and Building Rubble), aimed at achieving a 70.0% recycling rate in the industrial, construction and demolition waste by 2020⁶⁸.

Climate and energy

Emissions of greenhouse gases (carbon dioxide, methane and nitrous oxides) from activities in the narrow construction and the real estate activities sub-sectors amounted to 981,116 tonnes and 54,441 tonnes in 2019⁶⁹, respectively. The former increased by 36.6% since 2010, whereas the latter declined significantly by 40.2% over the 2010-2019 period. Air pollution emissions have peaked

primarily due to increased road transport, higher energy production and heat generation from solid fuels⁷⁰.

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 2030⁷¹.

5

Innovation in the construction sector

Innovation performance

As per the 2021 European Innovation Scoreboard, Slovenia is a Moderate Innovator, similar to its rank in 2020⁷².

The top three indicators of the Slovenian innovation system include public-private co-publications, international scientific co-publications as well as enterprises providing ICT training. The country also demonstrated strong performance in use of information technologies, linkages and human resources indicators⁷³.

As per the scoreboard, Slovenia's innovation performance improved in 2020 primarily driven by substantial performance improvement in product innovators, venture capital and sales of innovative products. The country also achieved above average scores in in-house product innovators with market novelties while average scores on the climate change related indicators⁷⁴.

In the broad construction sector, **business enterprise R&D expenditure (BERD)** generally increased over 2010-2017⁷⁵ (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 2016⁷⁶, compared to a negligible level in 2010.

The **total R&D personnel** (full-time equivalents – FTE⁷⁷) has experienced a growing trend. Notably, 696 FTE were employed in the professional and scientific activities sub-sector in 2018⁷⁸ as compared to 502 in 2010 (+38.6%). Similarly, FTE in the narrow construction sub-sector increased from six in 2010 to 33 in 2018 (+450.0%). As for the real estate activities sub-sector, the R&D FTE reached 18 in 2018 as compared to zero in 2010.

Likewise, the number of annual **construction-related patent applications** over the 2010-2020 period averaged at five, peaking at 13 in 2014 but then declining to six in 2020.

Eco-innovation and digitalisation



According to the 2021 Eco-Innovation Scoreboard (Eco-IS), Slovenia scored 113, slightly below the EU-27 average of 121⁷⁹.

As per the report, in 2019, Slovenia's performance was in line with the EU averages in four components in the Eco-innovation Index. However, the country was considerably below as compared to the EU average in resource efficiency outcomes. Given Slovenia's goal of becoming a climate neutral and circular society, the main challenges faced by the country include material productivity, water productivity, energy productivity and GHG emissions intensity. The country has recognised sustainable mobility as one of the priority areas for transitioning into a circular economy. Nonetheless, several barriers do exist at the procedural level such as complex administrative or legal procedures, lack of expertise in implementing circular activities, lack of human resources and difficulties in accessing finance⁸⁰.

As per the **European Commission Digital Economy and Society Index (DESI) 2020**, Slovenia ranked 16th out of EU-28 countries with a score of 51.2, marginally below the EU-28 average score of 52.6⁸¹. 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 dimension⁸².

Adopted in March 2016, Slovenia is currently in the middle of the implementation of the "Digitalna Slovenija 2020" strategy⁸³. The country is also in the process of drafting an all-inclusive artificial intelligence strategy together with updating the

strategy **Digital Slovenia**⁸⁴. 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 sectors⁸⁵.

With regards to the construction sector, Slovenia foresees the development of several initiatives, with a view to foster (sustainable) innovation⁸⁶. 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.

Additionally, 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 processes⁸⁷. 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 networking⁸⁸.

The Construction Cluster of Slovenia has initiated, coordinated and is an active member of the International Circular Construction Cluster (ICCC), an international organisation focusing on the development of circular construction. They support Slovenian construction companies to be at the forefront in the development of the country's circular economy⁸⁹.

As per the **European Investment Bank (EIB) Investment Survey 2020**, the most frequent long term impacts of COVID 19 on Slovenian construction firms were changes in supply chain (21.0%) and increased use of digital technologies (21.0%), followed by changes in their services and products portfolio (16.0%) as well as permanent reduction in employment (7.0%). Nonetheless, more than 34.0% of Slovenian construction sector firms are expected to have implemented digital technologies within their business, either fully or partially. According to

the report, the top digital technologies implemented by businesses in Slovenia, either partially or fully, in the broad construction sector includes internet of things (25.0%), drones (12.0%) and 3-D printing (10.0%)⁹⁰.

Under its EUR 2.5 billion Recovery and Resilience Plan (RRP), Slovenia has contributed 21.4% of its budget towards achieving digital objectives. In particular, more than EUR 260.0 million has been allocated to improve the digital transition of the public administration. Additionally, EUR 55.0 million is also allocated to support the digitalisation of the Slovenian business sector⁹¹.

Moreover, the country has also designated four multi-country projects to foster the development of advanced technologies in collaboration with other EU Member States. The RRP also involves a reform measure to adopt a building-information-modelling (BIM) strategy in order to promote the energy-efficiency potential of the construction sector. The strategy encourages using BIM both in the building - construction as well as management phases⁹².

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, the country 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 2022⁹⁴.

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 open BIM 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.

Likewise, **Digital Innovation Hub Slovenia**⁹⁷ and the **Vouchers for digitalization**⁹⁸ are other notable incentives for micro, small and medium-sized

enterprises (MSMEs) which provide the opportunity of co-financing up to 60.0% of the cost involved in key areas of digitization. Public calls for digitization vouchers have also been published by the Slovenian Enterprise Fund (SPS). In response, the Slovenian government has announced four vouchers on the topic of raising digital competencies, digital marketing, preparation of digital strategy and cyber security.

6

National and regional regulatory framework

Policy schemes

Slovenia's **National Housing Programme 2015-2025** 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 population⁹⁹. 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 policy¹⁰⁰.

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. The Fund performs numerous activities such as investing in construction, renting dwellings, providing long-term loans with favourable interest rates, as well as renting social housing¹⁰¹. For the 2017-2020 period, the Fund acquired 500 public rental housing units to be rented out to young people, families and the elderly¹⁰².

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 100.0% 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 20.0% 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)¹⁰³.

Slovenia's national government intends to build an additional 10,000 new public rental apartments by 2050¹⁰⁴. 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 disabled¹⁰⁵.

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 future¹⁰⁶.



Under its EUR 2.5 billion 2021-2026 Recovery and Resilience Plan (RRP), Slovenia has contributed 2.4% of its budget (EUR 60.0 million) towards investment in affordable housing so as to mitigate the social impact of the crisis on marginalised people¹⁰⁷.

The government aims to reduce the housing cost for people at risk of poverty, social exclusion and other vulnerable groups by constructing new non-profit public rental housing units as well as renovating the country's existing housing stock. This also includes the construction of additional long-term care and nursing homes to strengthen community-based care services, which is expected to aid in the acquisition and renovation of almost 2,000 existing housing units¹⁰⁸. However, given the size and the scope of the budgetary allocations, some stakeholders (*Slovenski Gradbeni Grozd – Giz - Construction Cluster of Slovenia, 2021*) consider that the dedicated funds may not be sufficient to achieve the intended goal. Moreover, the RRP narrowly focuses primarily on seismic interventions and energy retrofitting.

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 adaptation¹⁰⁹.

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 sanctions¹¹⁰.

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 procedures¹¹¹.

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.

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 property¹¹².

Under its EUR 2.5 billion 2021-2026 Recovery and Resilience Plan (RRP), Slovenia has allocated EUR 33.5 million towards digital transformation of public services. This includes measures linked to spatial planning and real estate, aimed at reducing the cost and the time necessary to comply with administrative requirements¹¹³.

The RRP aims to tackle administrative burdens and regulatory restrictions through various regulatory amendments. This includes recasting of the Construction Act and the Spatial Planning Act in order to reduce the cost and the time taken to become compliant with administrative requirements. The planned amendment is aimed at digitalising the key spatial-data systems and streamlining the procedures for obtaining construction permits. This will also facilitate in accelerating planning, thereby resulting in faster economic development¹¹⁴.

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 errors¹¹⁵.

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 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 activities¹¹⁶. 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 available¹¹⁷.

Current status and national strategies to meet Construction 2020 objectives

TO 1 – Investment conditions and volumes

Since 2018, total **investment by the broad construction sector**¹¹⁸ has been on an increasing trend. Investment by the real estate activities sub-sector declined from EUR 1.3 billion in 2010 to EUR 1.1 billion in 2019, representing a drop of 9.6% as compared to 2010 level. Conversely, investment by the narrow construction sub-sector marginally increased from EUR 219.9 million in 2010 to EUR 254.8 million in 2019 (+15.9%).

Similarly, with regards to investment in machinery, the narrow construction sub-sector increased to EUR 78.3 million in 2019 as compared to EUR 64.3 million (+21.8%). In contrast, investment in machinery by the real estate activities sub-sector declined by 5.9% over the 2010-2019 period, reaching EUR 14.3 million in 2019.

In terms of investment in intangible assets, the narrow construction sub-sector invested EUR 7.0 million in intellectual property products in 2019 as compared to EUR 4.6 million in 2010 (+52.2%), whereas the real estate activities sub-sector invested EUR 2.3 million, same as compared to the 2010 level.

Total investment by the narrow construction sub-sector between 2010 and 2019



15.9%

Figure 9: Investments by the Slovenian broad construction industry between 2010 and 2019 (EUR m)



Source: Eurostat, 2021.

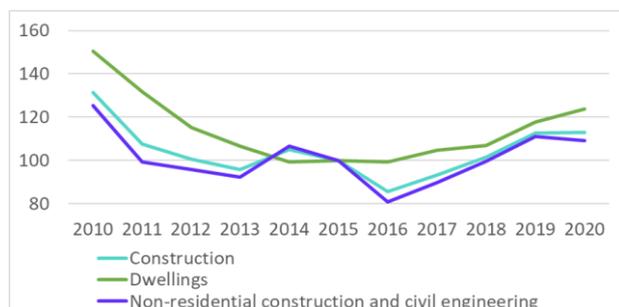
Total investment index in the broad construction sub-sector¹¹⁹ increased by 12.8% over the 2015-2020 period. Investment in dwellings by the whole economy followed a similar trend, rising by 23.8% in comparison to its 2015 value. Investment in non-residential construction and civil engineering also slightly increased by 9.2% over the 2015-2020 period. In absolute terms, investment in the construction sector totalled EUR 4.1 billion in 2019¹²⁰ with EUR 1.1 billion invested in dwellings and EUR 3.1 billion in non-residential and civil engineering¹²¹.

Total investment in dwellings by the whole economy between 2015 and 2020



23.8%

Figure 10: Investment index in the Slovenian construction sector between 2010 and 2020 (2015=100)



Source: AMECO, 2021.

The share of **total inland¹²² infrastructure investment** in the GDP stood at 0.9% in 2019¹²³ as compared to 1.0% in 2010. Notably, investment in air transport infrastructure decreased by 71.4% from EUR 7.0 million in 2010 to EUR 2.0 million in 2019¹²⁴. Similarly, road infrastructure investment also declined by 7.7%, from EUR 221.0 million in 2010 to EUR 204.0 million in 2019. Contrarily, investment in rail infrastructure increased by 58.8% over the 2010-2019 period, reaching 208.0 million in 2019.

Air infrastructure investment between 2010 and 2019

↓ 71.4%

Rail infrastructure investment between 2010 and 2019

↑ 58.8%

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 206.0 million in 2019 (+50.4%). Similarly, investment in rail maintenance reached EUR 121.0 million, registering an 77.9% growth as 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, in September 2020, the European Commission allocated EUR 80.0 million to Slovenia for the construction of second track along the Divaca - Koper railway line.

The European Investment Bank (EIB) has also announced a EUR 250.0 million loan for the project and the railway track is expected to become operational in 2026. Additionally, the EIB will invest EUR 90.0 million in the modernisation and extension of the Karavanke tunnel linking the motorway between Slovenia and Austria. The bank will also fund a EUR 95.0 million loan for linking the existing Austrian highway to the new 8km tunnel¹²⁵.

Under its EUR 2.5 billion Recovery and Resilience Plan (RRP), Slovenia has allocated EUR 292.0 million towards upgrading congested railway lines, refurbishing railway stations, increasing the capacity, speed and safety of rail transport as well as digitalising rail infrastructure¹²⁶.

In 2020, the EIB Group invested almost EUR 121.0 million in infrastructure¹²⁷. In parallel, Slovenia has benefitted from investments from the **European Fund for Strategic Investments (EFSI)**. As of December 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 million benefitting more than 4,760 SMEs and mid-cap companies from improved access to finance¹²⁸.

Since 2010, the **household renovation spending** has grown significantly. It increased from EUR 61.0 million in 2010 to EUR 92.7 million in 2019¹²⁹, representing a rise of 52.0% over the same reference period. Overall, renovation spending accounted for a minimal stake (0.3%) of household disposable income in 2019, similar to its 2010 level and well below the EU-27 average of 0.9%.

Household renovation spending between 2010 and 2019

↑ 52.0%

TO 2 – Skills

According to EIB Investment Survey 2020, low availability of skilled staff is considered as a barrier to investment by 83.0% of the business respondents in the broad construction sector¹³⁰. The employment rate of recent **Vocational Education and Training (VET)** graduates in Slovenia stood at 79.1% in 2019, slightly below its 2018 value of 84.5% but in line with the EU-27 average of 79.1%. The total upper secondary VET enrolment remained stable in 2018¹³¹, with 70.9% of students attending vocational programmes. Slovenia continued to implement and monitor its new apprenticeship programmes introduced over the 2018-2020 period¹³².

Adult participation in learning in Slovenia marginally decreased from 11.4% in 2018 to 11.2% in 2019. This is slightly above the EU-27 average of 10.8%. Investment in adult education continues to be a challenge with low-skilled workers and older workers being the most vulnerable groups in the labour market¹³³.

In co-operation with OECD, Slovenia has finished the second phase of its National Skills Strategy. It has also started the formulation of its new Master Plan for Adult Education (2021-2030). Over the 2018-2022 period, several key projects (including the Monera, Panup and Atena projects) have been supporting the upskilling of low-skilled adults to enable them to increase their employability¹³⁴. The Slovenian VET Institute (CPI) developed new continuing VET programmes focused on employers' needs for upskilling their workforce¹³⁵.

Under its EUR 2.5 billion Recovery and Resilience Plan (RRP), Slovenia has allocated EUR 114.0 million towards strengthening digital literacy through education and life-long learning¹³⁶.

This includes developing digital skills of students by updating curricula and organising trainings for 20,000 teachers, improving connectivity of schools, as well as increasing the digital skills training for employees and public servants. The plan also allocated EUR 28.0 million towards reducing youth unemployment by providing faster entry into the labour market. In this regard, financial incentives will be provided to employers to hire young people up to 25 years of age on open-ended contracts¹³⁷.

Nonetheless, there are various issues which still hinder the growth of adult education in the country. Firstly, the implementation of the publicly financed 'Basic School for Adults' is delayed due to lower participation levels by students. Additionally, the development in recognition and certification of non-formally acquired knowledge and skills continues to be difficult¹³⁸.

The country has also introduced 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 funds. 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**. Furthermore, the Chamber operates a portal allowing its member companies to publish job vacancies and facilitate matchmaking between job seekers and employers¹³⁹.

TO 3 – Resource efficiency / Sustainable construction

Slovenia's long-term strategy to promote investments in energy refurbishment of buildings includes: (i) reducing the final energy consumption by 15.0% by 2020 and by 30.0% by 2030; (ii) increasing the share of renewable energy in buildings to at least two-thirds; (iii) reducing greenhouse gas emissions in buildings by 60.0% by 2020 and by 70.0% by 2030 (compared to 2005); and (iv) renovating 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 year¹⁴⁰.

Under its EUR 2.5 billion 2021-2026 Recovery and Resilience Plan (RRP), Slovenia has allocated EUR 146.0 million towards renewable energy and energy efficiency, EUR 86.1 million for sustainable renovation of buildings as well as EUR 48.0 million for circular economy – resource efficiency¹⁴¹.

The plan involves a reform measure to adopt a building-information-modelling (BIM) strategy in order to promote the energy-efficiency potential of the construction sector. The strategy advocates using BIM both in the building-construction and building-management phases in addition to a legal ban on the usage of heating-oiland coal boilers for heating buildings. The plan also includes setting up a revolving fund for energy renovations in the public sector which will be self-financed through energy savings. As per estimates, the various reforms linked to housing will cover the acquisition and renovation of almost 2,000 existing housing units in the country. The investment plan will address not only buildings energy efficiency considerations in the Slovenian economy but also broader resource efficiency considerations including sustainable construction materials¹⁴².

Slovenia has 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 efficiency¹⁴³.

TO 4 – Single Market

As per the 2020 EU Single Market Scoreboard, Slovenia's performance was in line with the EU-27 average. In particular, it performed considerably well in terms of Transposition of law, EU Pilot, e-Curtis, European Employment Services (EURES) and SOLVIT metrics¹⁴⁴.

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 services¹⁴⁵. Notably, Slovenia's performance was significantly weak in terms of the Internal Market Information System (IMI) metrics¹⁴⁶.

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 highlighted¹⁴⁷.

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 businesses¹⁴⁸. 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 low¹⁴⁹.

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 procurement¹⁵⁰.

TO 5 – International competitiveness

As per World Bank Doing Business 2020 report, Slovenia ranked 1st out of 190 economies in the ease of trading across border, achieving a full score of 100 in trading across border dimension¹⁵¹.

As per the report, in Slovenia it takes only one hour to be documentary compliant. Moreover, it only takes a few minutes to be border compliant. In terms of costs, businesses do not need to spend any money to be documentary and border compliant¹⁵².

With regards to the **internationalisation of construction SMEs**, the export value of all construction-related projects in Slovenia stood at EUR 907.9 million in 2020, representing an increase of 70.5% compared to its value of EUR 532.4 million in 2010. Slovenia's share of exports of all construction-related products in 2019 stood at 106.1% of the total production value, significantly above the EU-27 average of 11.3% for the same reference period. Conversely, Slovenia's share of

exports slightly decreased to 98.3% in 2020, probably due to the onset of COVID-19 pandemic.

Exports value of all construction-related products between 2010 and 2020

 **70.5%**

In the context of **inward FATS (Foreign affiliates statistics)**¹⁵³, value added at factor cost in the narrow construction sub-sector increased by 891.7% between 2010 and 2018¹⁵⁴. Similarly, turnover in the narrow construction sub-sector increased by 170.3% over the 2010-2018 period. Similarly, in terms of **outward FATS**¹⁵⁵, turnover in the narrow construction sub-sector also increased by 9.4% between 2010 and 2018¹⁵⁶.

With regards to FDI, Slovenia's direct investment abroad (DIA) for the manufacturing sub-sector stood at EUR 547.5 million in EU-27 in 2018¹⁵⁷, the largest as 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. In contrast,

DIA for the narrow construction sub-sector stood at -EUR 11.9 million.

Overall, Slovenia is performing well in relation to **internationalisation**. As per the 2020 Flash Eurobarometer 486¹⁵⁸, about 41.0% of the SMEs in Slovenia exported to other EU countries, well below as compared to EU-27 average of 23.0%. With regards to SMEs selling goods online to other EU countries, Slovenia share of 6.0% is well above the EU-27 average of 4.0%. The government is also prioritising the internationalisation of Slovenian SMEs. It has already highlighted this issue in its recent action plan 'International Challenges 2019-2020' wherein it defined goals, target markets, sectors as well as measures to further strengthen the Slovenian presence in global markets. This included encouraging Slovenian companies to develop their export activities, consolidate their position in foreign markets and the dedicated support of SPIRIT Slovenia, a public agency in charge of the promotion of entrepreneurship, internationalisation, foreign investments and technology¹⁵⁹.

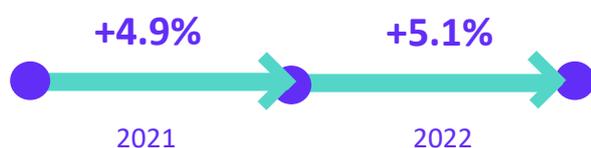
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Outlook

Over the 2020-2022 period, the Slovenian GDP is expected to increase by 10.2%, primarily driven by massive infrastructural and digitalisation investment backed by EU funding.

Slovenia's **GDP** is forecast to annually increase by 4.9% in 2021 and by 5.1% in 2022, reaching EUR 47.1 billion by end-2022.

Expected GDP growth in 2021 and 2022



Likewise, the outlook for the Slovenian broad construction sector is moderate. The **volume index of production** of the broad construction sector, construction of buildings and construction of civil engineering are projected to increase by 19.2%, 17.4% and 19.9% over the 2020-2022 period, respectively.

Similarly, the **turnover of the broad construction sector** is also projected to increase by 6.1% in 2021 as compared to 2020. At the same time, the **total value added** of the broad construction sector is expected to reach EUR 3.6 billion in 2021, increasing by 6.3% over 2020.

Correspondingly, the **number of persons employed** in the broad construction sector is projected to rise by 6.0% in 2021 over 2020, reaching 121,163 persons in 2021.

With regards to the **housing market**, the Slovenian government has announced some new initiatives to promote the sector. Under its EUR 2.5 billion 2021-2026 Recovery and Resilience Plan (RRP), Slovenia has contributed 2.4% of its budget (EUR 60.0 million) towards affordable non-profit rental housing in order to mitigate the social

impact of the crisis on marginalised people. Slovenia has also allocated EUR 33.5 million towards digital transformation of public services linked to planning, real estate, nature and water. This includes recasting of the Construction Act and the Spatial Planning Act to digitalise the key spatial data systems and streamlining the procedures for obtaining construction permits.

In relation to **non-residential** and **civil engineering** construction, Slovenia has allocated EUR 292.0 million towards upgrading congested railway lines, refurbishing railway stations and digitalising rail infrastructure. The country has also contributed EUR 146.0 million towards renewable energy and energy efficiency, EUR 86.1 million for sustainable renovation of buildings as well as EUR 48.0 million for circular economy – resource efficiency. For achieving its digitalisation goals, Slovenia has allocated 21.4% of its RRP budget i.e., more than EUR 260.0 million towards improving the digital transition of the public administration. In addition, EUR 55.0 million is also allocated to support the digitalisation of the Slovenian business sector.

In case of EU-approved grants, Slovenia has been allotted EUR 80.0 million for the construction of second track along the Divaca - Koper railway line. Moreover, the EIB has also announced a EUR 250.0 million loan for the project, in addition to EUR 90.0 million for the modernisation and extension of the Karavanke tunnel linking the motorway between Slovenia and Austria.

Overall, the Slovenian construction sector is forecasted to recover from 2021 onwards, driven by large-scale digitalisation and infrastructural projects backed by EU funding. Output in civil engineering is expected to be primarily driven by investment in railways and road infrastructure.

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- 5 More recent data is not available.
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- 7 No data available for subsequent years for the productivity in the broad construction sector.
- 8 Please note that this 2019 data is a nowcast - please refer to the methodology notes for further details.
- 9 Please note that this 2019 data is a nowcast - please refer to the methodology notes for further details.
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