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Table of contents

Figures, tables and boxes:

Figures:

Tables:

Boxes:

Executive Summary

The Bank of Slovenia assesses that the risk to growth in foreign demand in 2016 is continuing to increase. Signals from the international environment are mixed. The geopolitical turmoil in the Middle East is worsening, albeit without significant economic consequences for the moment. There was no significant decline in the weighted growth forecasts for the main trading partners towards the end of 2015, while the economic sentiment in the euro area remained stable. Estimates of global economic growth continued to decline at the same time. Growth in the major economies remains uneven, which has also begun to be reflected in a divergence between the monetary policies of the ECB and the Fed. Via the impact on the euro exchange rate this will continue to contribute positively to the price competitiveness of the euro area export sector, while low commodity prices will prevent an increase in its input costs, although deflationary pressures will therefore be maintained.

Economic growth in Slovenia slowed slightly more towards the end of the year, at least on the basis of the available monthly figures. Although the situation on the main markets going into the final quarter of 2015 was stable, at least on aggregate, Slovenia's growth in merchandise exports slowed more than would have been expected on the basis of the base effect and growth in industrial production. The slowdown is most likely temporary, as November figures for exports turned positive and the major exporters remained relatively optimistic in their assessments of expected orders. Export sector's cost competitiveness relative to firms elsewhere in the euro area also strengthened further. Figures suggest that the recovery in domestic demand has remained moderate; monthly growth in turnover remained low in the retail sector, and actually came to a halt in other services. The current account surplus over the preceding 12 months thus remained high at 7.6% of GDP in October.

Quarterly economic growth slowed in the third quarter of 2015, albeit only as a result of a decline in construction activity. This was the result of the end of a strong government investment cycle prompted by the uneven disbursement of EU funds. The decline in construction investment was also the sole factor in the decline in year-on-year growth in domestic demand to just 0.3%. The slowdown in aggregate growth conceals some positive changes in the economy. The robustness of economic growth from the perspective of value-added increased in the third quarter of 2015, and the structure of investment improved again. The contribution made to GDP growth by industry remained at the level of previous quarters despite the moderation in export growth, while there was a sharp increase in growth in services, which contributed just over a half to aggregate growth. At the same time there were signs of a reversal towards moderate growth in investment in machinery and equipment, which is being facilitated by the high corporate financial surplus. Year-on-year growth in household consumption and government consumption remained positive, although both rates remain among the lowest in the euro area. This was reflected, via weak imports, in the high contribution made by net trade, which accounted for 2.3 percentage points of GDP growth of 2.5% in the third quarter.

Aggregate developments on the labour market remained positive in the second half of 2015. Uncertain forms of employment remained prevalent. Self-employment accounted for almost a third of the rise in employment. At the same time, the labour market reform of 2013 is no longer having the desired effects, as the proportion of permanent new hires is again declining and the proportion of those registering as unemployed because their temporary employment has ended is increasing. Wage growth has remained very moderate, partly as a result of increased employment of low-income workers. The structure of employment is being reflected in low growth in labour productivity, which is nevertheless outpacing wage growth.

Slovenia recorded deflation overall in 2015, for the first time since price growth begun to be measured by the HICP. This was the result of factors both from the international and domestic environment. Prices fell more sharply than those in the euro area overall as a result of the larger impact of foreign factors conditioned by differences in price structure, and as a result of weaker growth in final consumption.

Slovenia's main fiscal objective in 2015 was to reduce its general government deficit to below 3% of GDP. The objective was realised according to the latest estimates; the official annual data will be known at the end of March 2016. General government revenues over the first three quarters of 2015 were up 3.8% in year-on-year terms, as a result of the improved macroeconomic situation and a rise in levels of certain taxes and contributions. General government expenditure was approximately unchanged in year-on-year terms after the exclusion of one-off factors.

Main macroeconomic indicators

	2012	2013	2014	15Q1	15Q2	15Q3	2012	2013	2014	15Q1	15Q2	15Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	-2.7	-1.1	3.0	2.8	2.7	2.5	-0.9	-0.3	0.9	1.3	1.6	1.6
- industry	-2.6	-0.1	4.8	5.8	4.7	5.4	-1.0	-0.6	0.5	1.4	2.0	1.7
- construction	-7.7	-8.7	9.5	-0.8	-6.0	-7.6	-5.8	-3.5	-0.6	-0.7	0.2	0.4
- mainly public sector services	1.2	-0.4	1.0	0.2	0.1	0.3	0.0	0.4	0.5	0.7	0.7	0.9
- mainly private sector services	-3.1	-0.8	4.4	3.3	2.9	3.3	-0.8	-0.3	1.0	1.5	1.7	1.6
Domestic expenditure	-5.8	-2.2	1.6	2.5	0.9	0.3	-2.4	-0.7	0.9	1.4	1.4	1.8
- general government	-2.3	-1.5	-0.1	-1.0	0.4	0.9	-0.2	0.2	0.9	1.4	1.3	1.7
- households and NPISH	-2.5	-4.1	0.7	0.7	1.2	1.3	-1.2	-0.7	0.8	1.7	1.6	1.8
- gross capital formation	-17.5	2.7	5.7	11.2	0.6	-2.6	-7.5	-1.8	1.3	0.7	0.9	2.1
- gross fixed capital formation	-8.8	1.7	3.2	1.5	-0.7	-3.9	-3.3	-2.6	1.3	2.1	2.7	2.0
- inventories and valuables, contr. to GDP growth in pp	-2.0	0.2	0.5	1.9	0.3	0.2	-0.9	0.2	0.0	-0.3	-0.4	0.0
Labour market												
Employment	-0.9	-1.4	0.6	1.5	1.6	1.3	-0.4	-0.7	0.6	0.9	1.0	1.1
- mainly private sector services	-1.4	-1.6	0.6	1.7	1.8	1.5	-0.6	-1.0	0.5	1.0	1.1	1.2
- mainly public sector services	1.0	-0.6	0.4	0.8	0.7	0.7	0.0	0.2	0.8	0.6	0.6	0.9
Labour costs per employee	-1.0	0.5	1.1	0.5	0.9	0.3	1.5	1.6	1.4	1.3	1.3	1.1
- mainly private sector services	-0.3	1.7	2.1	0.4	1.1	0.4	1.7	1.5	1.5	1.4	1.4	1.2
- mainly public sector services	-3.3	-3.2	-2.0	-1.0	0.3	0.3	0.8	1.6	0.9	1.0	1.1	0.9
Unit labour costs	0.5	-0.1	-2.0	-0.7	0.1	-1.1	1.7	1.1	1.1	0.8	0.8	0.8
- industry	3.6	0.8	-1.0	-3.7	-0.9	-3.1	2.2	2.0	1.6	0.7	0.3	0.2
	in %											
LFS unemployment rate	8.9	10.1	9.8	9.8	9.2	8.6	11.3	12.0	11.7	11.7	10.9	10.3
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP	2.6	5.6	7.0	6.7	7.1	7.7	1.5	2.2	2.3	2.1	1.1	0.0
External trade balance as contr. to GDP growth in pp	3.0	1.1	1.6	0.5	1.9	2.3	1.5	0.4	0.0	-0.1	0.3	-0.1
Real export of goods and services	0.6	3.1	5.8	6.1	6.1	4.5	2.6	2.1	4.1	5.2	6.0	4.2
Real import of goods and services	-3.7	1.7	4.0	6.0	4.0	1.7	-1.0	1.3	4.5	5.8	5.7	4.9
Financing	*in % of GDP*											
Banking system's balance sheet	141.0	128.9	116.7	114.5	110.6	109.2	322.6	297.6	299.3	309.5	295.1	291.7
Loans to NFCs	52.9	45.1	31.5	29.9	29.1	27.8	44.6	42.0	40.2	40.1	39.8	39.4
Loans to households	23.0	22.6	21.5	21.3	21.3	21.2	52.4	51.8	50.7	50.5	50.4	50.3
Inflation	*in %*											
HICP	2.8	1.9	0.4	-0.5	-0.8	-0.8	2.5	1.3	0.4	-0.3	0.2	0.1
HICP excl. energy, food, alcohol and tobacco	0.7	0.9	0.6	0.7	-0.2	0.3	1.5	1.1	0.8	0.7	0.8	0.9
Public finance	*in % of GDP*											
Debt of the general government	53.7	70.8	80.8	81.8	80.8	84.1	89.3	91.1	92.1	92.9	92.3	…
One year net lending/net borrowing of the general government	-4.1	-15.0	-5.0	-4.7	-4.6	-4.1	-3.7	-3.0	-2.6	-2.5	-2.4	…
- interest payment	2.0	2.6	3.2	3.2	3.2	3.2	3.0	2.8	2.7	2.6	2.5	…
- primary deficit	-2.1	-12.4	-1.9	-1.5	-1.4	-0.9	-0.6	-0.2	0.1	0.1	0.1	…
- deficit excl. bank recapitalisations	-4.0	-4.9	-4.1	-3.8	-3.7	-3.2						
- primary deficit excl. bank recapitalisations	-1.9	-2.3	-0.9	-0.6	-0.5	0.0						

Source: SORS, Eurostat, Bank of Slovenia, ECB, Ministry of Finance.

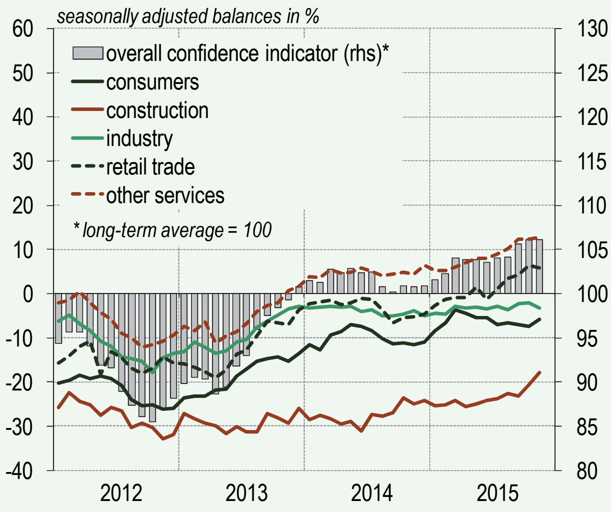
1 | International Environment

The economic growth forecasts for some of Slovenia's most important trading partners were reduced again to a lesser extent in December. Economic growth in the euro area slowed in the third quarter, and the available figures for October suggest that growth remained low in the final quarter. The situation on the labour market is improving, and consumer confidence and economic sentiment remained above their long-term averages at the end of the year. The monetary policies of the ECB and the Fed have diverged. The Fed raised its key interest rate in December, while the ECB extended its non-standard measures and simultaneously reduced the interest rate on the deposit facility, although this did not have a significant impact on the euro exchange rate against the US dollar, the markets having already priced in the measures by the two central banks. Prices of oil and other commodities also fell in December.

Economic sentiment and activity in the euro area

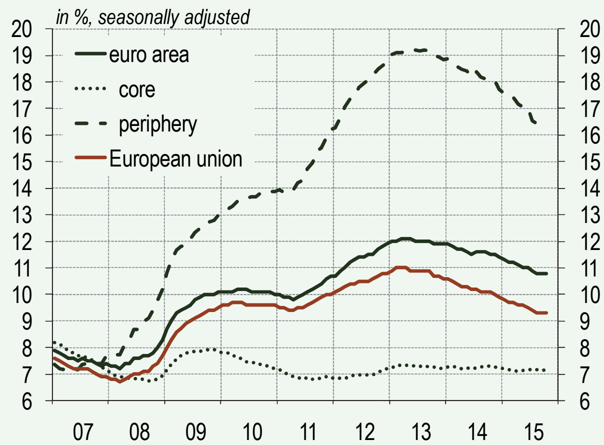
The economic sentiment indicator in the euro area remained stable in November for the second consecutive month, while consumer confidence improved. Employment in the euro area was up in the third quarter of 2015, by 0.3% in quarterly terms and 1.1% in year-on-year terms. Developments on the labour market remained favourable at the beginning of the final quarter. The harmonised unemployment rate fell to 10.7% in October, its lowest level since January 2012. Consumer confidence increased in November in the wake of the gradual improvement in the situation on the labour market, while the rise in the economic sentiment indicator came to an end as it remained unchanged for the second

Figure 1.1: Confidence indicators – euro area



Source: European Commission.

Figure 1.2: Harmonised unemployment rate



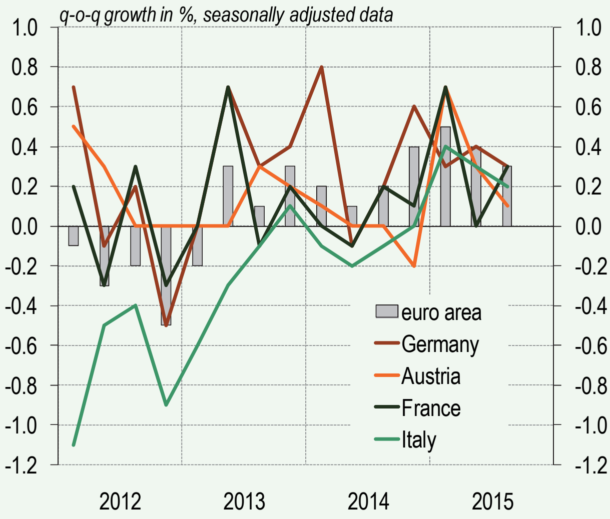
Note: The Euro area core is the average of data for AT, BE, DE, FI, FR, LU, NL, weighted by the active population size. The Euro area periphery is the weighted average of data for CY, ES, GR, IE, IT in PT.
Sources: Eurostat, Bank of Slovenia's calculations.

consecutive month. The economic sentiment indicator and the consumer confidence indicator nevertheless both remain above their long-term averages. November's largest improvement in the confidence indicators was recorded by financial services, while construction recorded the largest deterioration.

The aggregate PMI for the euro area declined slightly in December, but nevertheless remained high. December's decline in the composite PMI measured by Markit, a provider of financial information services, was attributable to a slowdown in activity in the service sector, while the manufacturing sector recorded its largest increase of the last year and a half. In the composite PMI new orders recorded a sharp increase in manufacturing but a decline in services, while job creation increased in both sectors. The developments varied from country to country. According to the PMI surveys Germany continued to record solid growth in December, while France ended 2015 in stagnation. A similar divergence was seen in employment: job creation in Germany was at its highest since September 2011, but was unchanged in France.

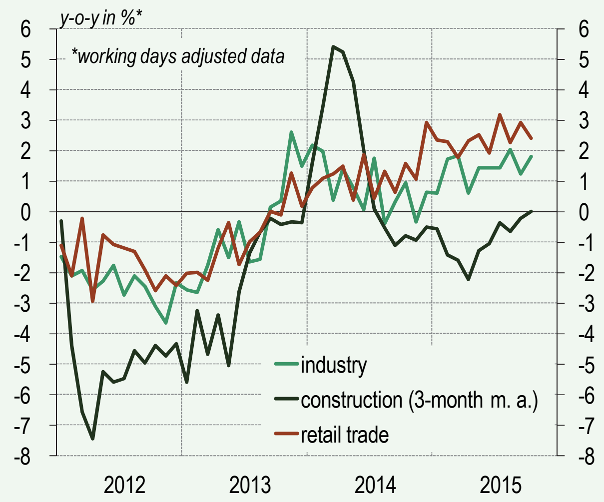
Quarterly GDP growth in the euro area in the third quarter was the weakest rate of the year, and the economic developments remained similar in October. GDP in the third quarter of 2015 was up just 0.3% in quarterly terms, and 1.6% in year-on-year terms. The slowdown in the third quarter was attributable to the stagnation in gross fixed capital formation, while private-sector spending accounted for 0.2 percentage points of growth. The contribution made to GRP growth by inventories was the same, while the contribution made by net exports was negative, export growth having declined sharply in the third quarter. Of Slovenia's most important euro area trading partners, Germany, Italy and Austria saw a slowdown in quarterly economic growth, while economic growth in France strengthened slightly. As unemployment fell, economic developments remained similar in the early part of the final quarter of 2015. Turnover in the retail sector in October was down slightly in monthly terms for the second consecutive month, but was still up 2.5% in year-on-year terms. Industrial production rose in monthly terms in October after falling for two months, and was up 1.9% in year-on-year terms. The amount of construction put in place remains low, but was nevertheless up in monthly terms and in year-on-year terms in October.

Figure 1.3: GDP



Source: Eurostat.

Figure 1.4: Volume turnover in retail trade, real value of construction put in place and industrial production volume in EA



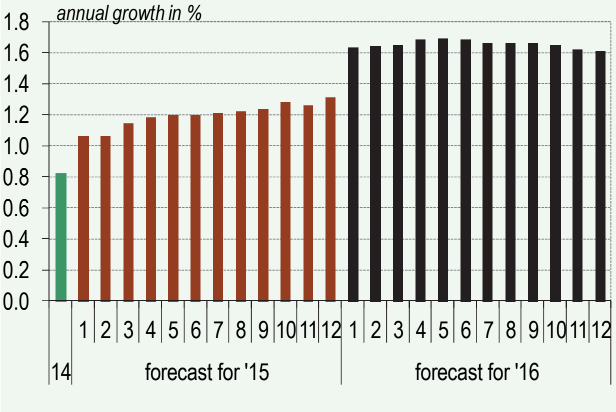
Source: Eurostat, Bank of Slovenia calculations.

Economic forecast

The weighted aggregate economic growth forecasts for Slovenia's main trading partners in 2016 were revised only slightly downwards. Of the major trading partners, in December Consensus lowered its economic growth forecasts for 2016 for the US, the UK and the Netherlands by 0.1 percentage points to 2.5%, 2.4% and 1.8% respectively. Consensus left its overall euro area forecast unchanged at 1.7%. Of Slovenia's main euro area trading partners, in December Consensus lowered its economic growth forecasts for Austria and France only, by 0.1 percentage points to 1.4%, and left its forecasts for Germany and Italy unchanged at 1.8% and 1.3% respectively. Of the major countries of eastern Europe, in December Consensus raised its 2016 economic growth forecast for Poland by 0.1 percentage points to 3.5%, but continued to forecast economic contraction for Russia, where GDP was expected to decline by 3.8% in 2015 and by 0.2% in 2016.

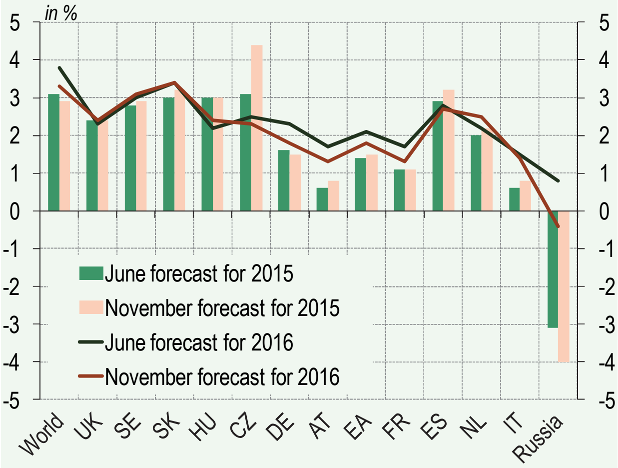
In November the OECD lowered its global economic growth forecast for 2016. It lowered its global forecast for 2016 by 0.5 percentage points in November to 3.3%. The forecast for OECD countries was lowered by 0.3 percentage points to 2.2%, while the forecasts for the BRICS countries were also lowered, most notably the forecast for Brazil, by 2.3 percentage points. The forecast for Russia was also lowered by 1.2 percentage points to -0.4%. The OECD also lowered its economic growth forecast for the euro area, to 1.8%, down 0.3 percentage points on the June forecast. The largest downward revision was for Germany, by 0.5 percentage points to 1.8%, while the forecasts for Austria and France were lowered by 0.4 percentage points to 1.3%.

Figure 1.5: Weighted forecasts for Slovenia's major trading partners by month



Note: Trading partners with at least 1% share in Slovenia's total goods exports in the last 12 months with available data (more than 20 countries with a total share of close to 90%). Growth estimate for 2014 and forecasts for 2015 and 2016 are weighted with each country's share in total goods exports.
Source: Consensus, Bank of Slovenia calculations.

Figure 1.6: OECD forecasts for GDP growth in 2015 and 2016



Note: Trading partners from EU with at least 1% share in Slovenia's total goods exports are presented.
Source: OECD, 2015.

Financial markets and commodity prices

The monetary policies of the ECB and the Fed have become divergent. In December the ECB cut the interest rate on the deposit facility by 10 basis points to -0.30%, and left the rates on main refinancing operations and the marginal lending facility unchanged at 0.05% and 0.30% respectively. With regard to the non-standard measures, the ECB continued the expanded programme[1] of monthly securities purchases in the amount of EUR 60 billion that it has been pursuing since March 2015, and in December extended it to at least March 2017.[2] In contrast to the ongoing easing of monetary policy in the euro area, in the US in the wake of favourable economic data and falling unemployment the Fed indicated as early as the summer of 2015 that there would be a possibility of a rise in the key interest rate, which had stood in the interval between zero and 0.25% since 2009. This it duly carried out in December, raising the key interest rate to the interval between 0.25% and 0.50%. Monetary policy in the US thus remains expansionary, and the markets expect subsequent rises in the key interest rate to be gradual, and dependent on economic developments.[3]

[1] https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

[2] https://www.ecb.europa.eu/press/pr/date/2015/html/pr151203.en.html

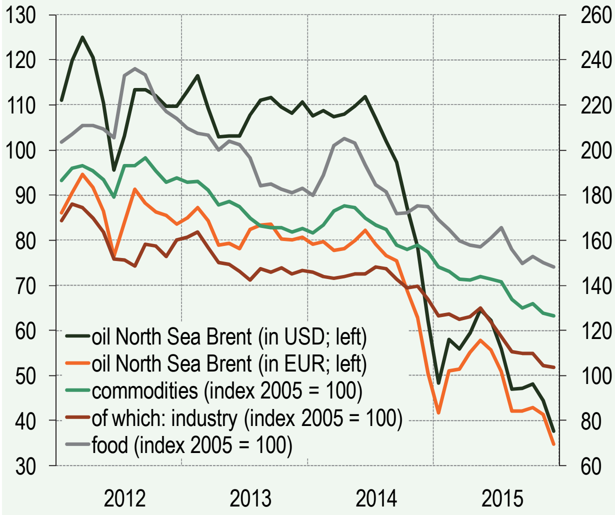
[3] http://www.federalreserve.gov/newsevents/press/monetary/20151216a.htm

There was no significant change in the euro against the US dollar in monthly terms in December, but oil prices did fall significantly. Having fallen by 4.4% between October and November, the average euro exchange rate against the US dollar strengthened slightly in December to USD 1.088, up 1.3% on November. The euro also appreciated in monthly terms in December against the majority of other major global currencies, most notably by 2.7% against the pound sterling and 9.4% against the Russian ruble. Having fallen by 7.7% in November, US dollar oil prices fell even more sharply in December. A barrel of Brent crude averaged just USD 38 in December. The fall was attributable to the forecasts of a slowdown in the global economy, and the announcement by Opec that there would not be any changes in production. US dollar industrial commodity prices were down 0.8% in monthly terms in December, as metal prices fell by almost 2%.

International capital markets

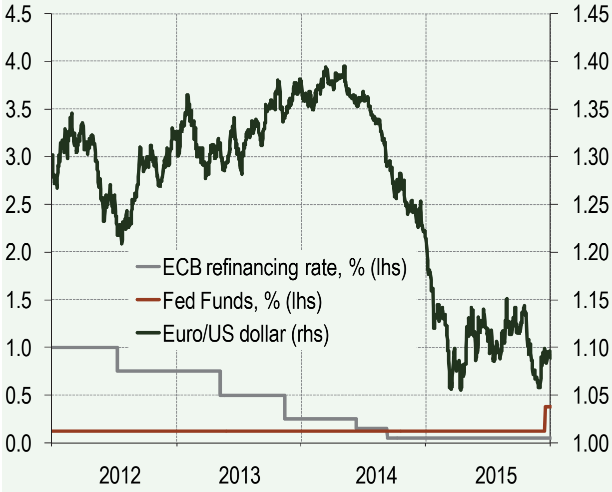
The negative trend seen on international capital markets since April 2015 eased in the final quarter, when the majority of stock markets recorded positive growth. In addition to the positive quarterly performance by technology companies in particular, expectations of further measures by individual central banks brought a positive short-term reversal in the negative medium-term trend seen on international capital markets in 2015. If the initial speculation about further central bank measures encouraged positive growth in October and November, the decisions by the ECB and the Fed in December triggered increased volatility on the markets. The Governing Council of the ECB decided to cut the interest rate on the deposit facility, and to extend the use of non-standard monetary policy measures until March 2017. In mid-December the Fed decided on its first rise in short-term interest rates for seven years, thereby signalling an end to the extraordinary period of low interest rates. The markets responded negatively to the ECB decision in particular, because it did not meet market expectations. Despite the increased volatility in the final quarter of last year, the composite DJ EuroStoxx, which tracks growth in share indices in western Europe, and the S&P 500 in the US

Figure 1.7: Commodities



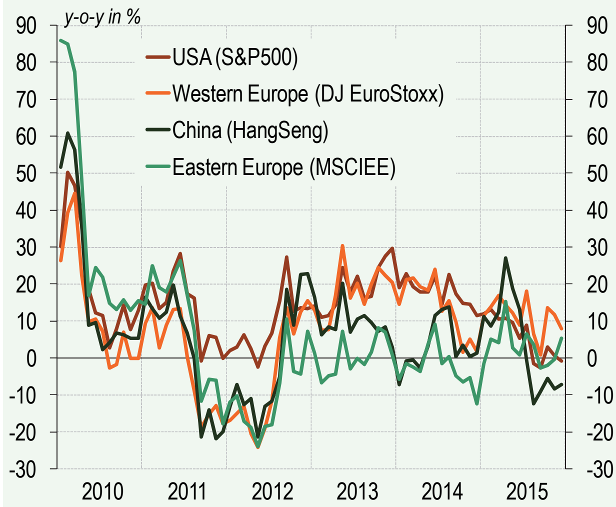
Source: The Economist, Bloomberg, Bank of Slovenia calcuations.

Figure 1.8: Euro/US dollar exchange rate and central bank interest rates



Sources: ECB, Federal Reserve.

Figure 1.9: Foreign stock exchange indices



Source: Bloomberg.

recorded growth of 6.5% and 6.3% in this period, while the HSI in China recorded growth of 5.1%. Russia's RTSI fell by 4.1%, as a result of negative pressure on oil prices.

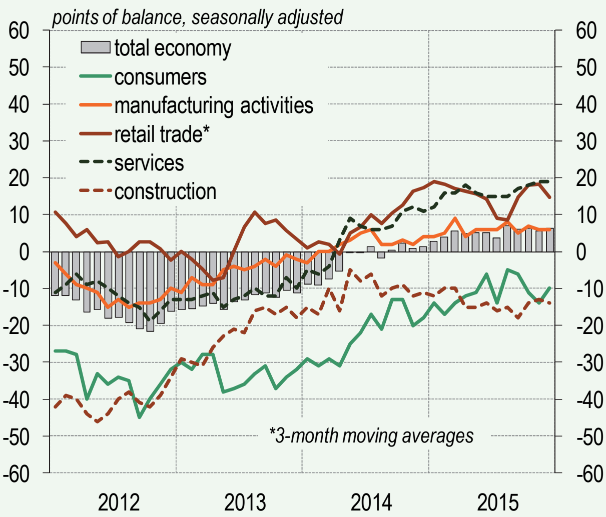
2 Economic Developments

The robustness of economic growth from the perspective of value-added increased in the third quarter of 2015, while the structure of investment improved again. The contribution made to GDP growth by industry remained at the level of previous quarters despite the slowdown in export growth, while there was a sharp increase in growth in services, which accounted for just over a half of aggregate growth. The main factor reducing economic growth was the fall in activity in the construction sector, which was the result of the end of a strong government investment cycle prompted by the uneven disbursement of EU funds. The decline in construction investment was also the sole factor in the decline in year-on-year growth in domestic demand to just 0.3%. At the same time there were signs of a reversal towards moderate growth in investment in machinery and equipment, which is improving the output potential of the economy. Year-on-year growth in household consumption and government consumption remained positive, but among the weakest in the euro area. This was reflected in net trade, which accounted for 2.3 percentage points of the GDP growth of 2.5% in the third quarter. According to the monthly indicators of activity, the slowdown in economic growth continued in the final quarter.

Confidence indicators and limiting factors

The economic sentiment indicator was stable in the final quarter of 2015, at a relatively high level. Manufacturing firms were relatively optimistic throughout the year. Large manufacturing firms in particular again gave a favourable assessment of current demand and demand expectations on the domestic and foreign markets in the final quarter, at least according to the survey data. The retail confidence indicator declined slightly towards the end of the year, primarily as a result of assessments of weaker growth in current sales, which coincides with the quarterly decline in consumer confidence. In contrast to the retail sector, optimism at firms in other service sectors strengthened in the final quarter as a result of an improvement in the business position and favourable assessments of demand. Construction confidence in 2015 was weaker than in the previous year, orders having declined. Construction firms nevertheless remained positive at the end of 2015 in their expectations with regard to future orders.

Figure 2.1: Confidence indicators



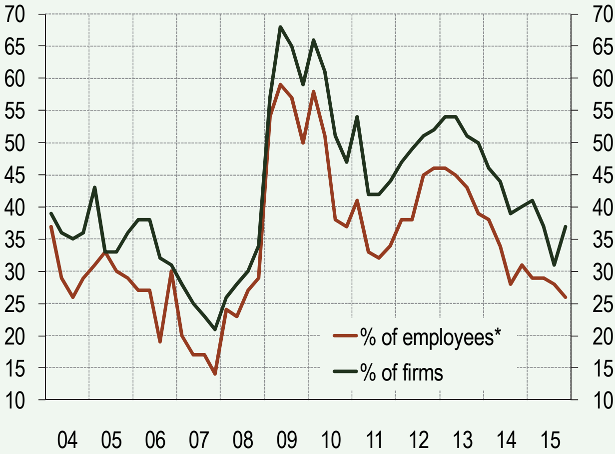
Source: SORS, Bank of Slovenia calculations.

Domestic demand is recovering only gradually, and is still the main limiting factor, most notably at smaller firms. The most evident variation in terms of corporate size is at firms in the retail sector. Almost half of them were still facing insufficient demand at the end of 2015, while only a fifth did according to the indicator weighted by turnover. In manufacturing the proportion of firms facing insufficient domestic demand increased to 37% in the final quarter, while the corresponding indicator weighted by headcount declined further to 26%. In construction and services the variation between different corporate sizes was smaller. The proportion of construction firms facing problems owing to insufficient demand began declining after the first quarter of 2015, in contrast to the amount of construction put in place, although at the end of the year it still stood at around 40%. In services other than retail the proportion remained relatively stable at close to 50%.

GDP

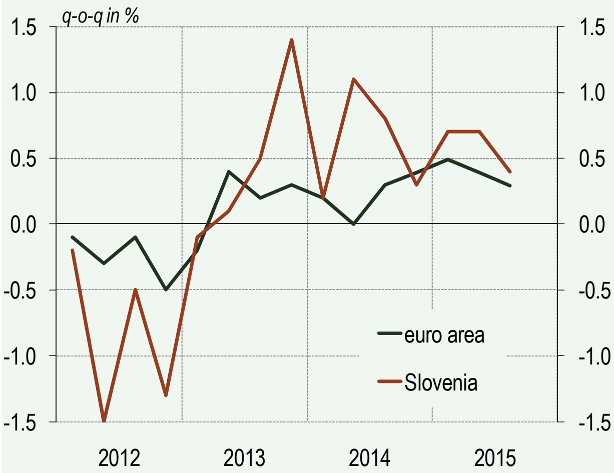
Quarterly economic growth in the third quarter of 2015 declined to close to the euro area average. According to the SORS's initial estimates, GDP was up 0.4% on the second quarter, compared with an average rise of 0.3% in the euro area. The slowdown in growth in the Slovenian economy was attributable to the further decline in value-added in construction as a result of weak

Figure 2.2: Manufacturing activities – limits to production: insufficient domestic demand



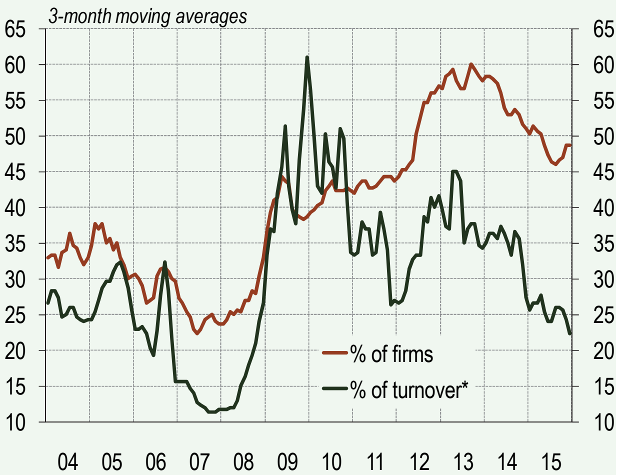
*Note: * Indicator weighted with number of employees in manufacturing firms.*
Source: SORS.

Figure 2.4: GDP growth in Slovenia and the euro area



Source: Eurostat – national accounts; seasonally and working days adjusted data.

Figure 2.3: Retail trade – limits to activity: low demand



*Note: * Indicator weighted with turnover of retail operators.*
Source: SORS.

Figure 2.5: GDP, production side

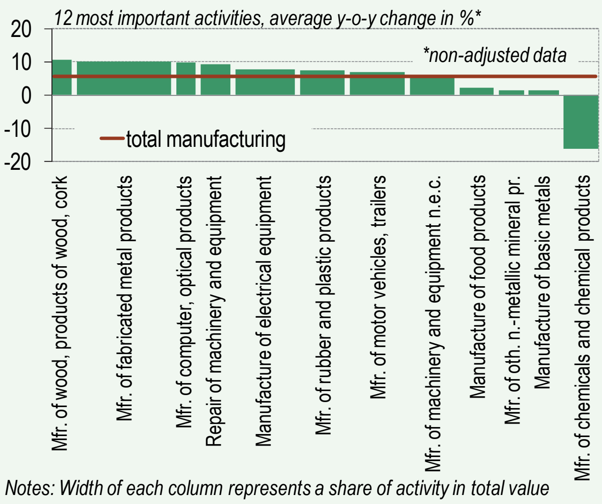
Source: SORS, Bank of Slovenia estimates of private sector services' growth rates.

government investment, which over the first three quarters of the year was significantly less than had been planned. Growth in industrial production remained solid, at just over 1%. Quarterly growth in value-added in private-sector services picked up at the same time. The rate reached 1.3% in the third quarter, up 0.5 percentage points on the first half of the year. Activity increased in all private-sector services other than financial and insurance activities, with a pronounced increase in professional, scientific and technical activities.

Year-on-year growth in value-added was higher than in the second quarter in the majority of sectors. Growth in industry exceeded 5%, with equal growth in turnover on the domestic and foreign markets, and a simultaneous expansion in inventories. The high growth suggests that the expected slowdown in growth in the car industry in connection with the production cycle at Revoz has been partly compensated for by a number of other manufacturing sectors. Year-on-year growth in value-added in private-sector services approached 3%, which was attributable to all categories of services, as wholesale and retail trade, transportation and storage, and accommodation and food service activities all recorded notable growth. According to the monthly indicators, growth in turnover in the retail sector remains primarily related to major purchases of consumer durables, most notably cars. There was increased growth in land transport, which was attributable to an increased dynamic on the domestic market as lower growth in merchandise exports slowed. Growth in turnover in accommodation and food service activities remained solid, which was largely attributable to an excellent season in the tourism sector.[4] Value-added in public services increased moderately in the third quarter for the seventh consecutive quarter, as a result of a less strict approach to fiscal consolidation. The sole sector where activity declined sharply in year-on-year terms was construction.

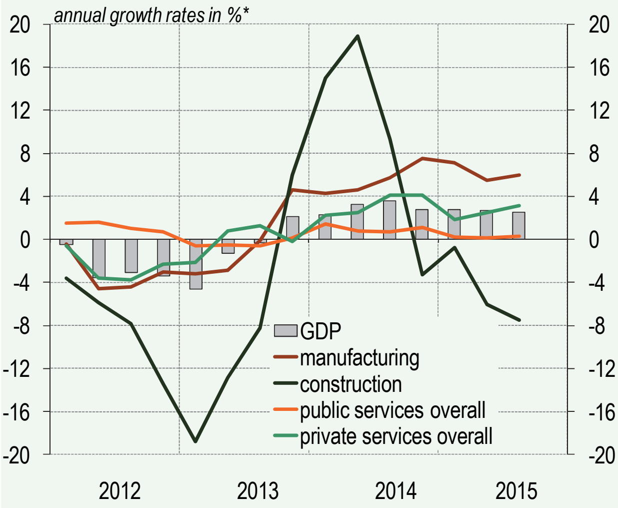
The outperformance of the average year-on-year GDP growth in euro area narrowed, primarily as a result of

Figure 2.7: Manufacturing production: Jul. 2015 – Sep. 2015



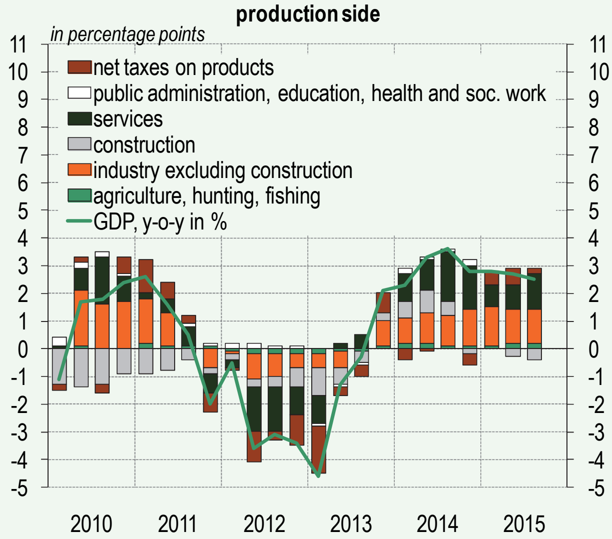
Notes: Width of each column represents a share of activity in total value added in manufacturing in 2014. Pharmaceuticals are not included due to data confidentiality.
Source: SORS, Bank of Slovenia calculations.

Figure 2.6: GDP



Source: SORS, Bank of Slovenia estimates of private sector growth rates.

Figure 2.8: Contributions to y-o-y GDP growth, production side



Source: SORS.

[4] The number of arrivals by domestic and foreign travellers in the third quarter of 2015 was up almost 14% in year-on-year terms, while their number of overnight stays was up more than 9%.

Box 2.1: Alternative view on investment

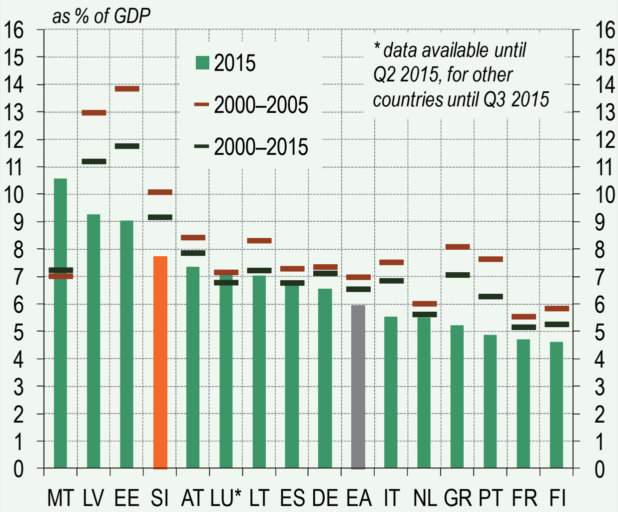
Weak investment was purported to be one of the main factors preventing faster economic growth in Slovenia, and across the euro area. Although it is the case that the level of aggregate gross fixed capital formation in Slovenia is low and sharply down on its pre-crisis level, itemising it by types of investment[1] and by investing sector reveals a more favourable picture. This is particularly true of manufacturing, which makes up the majority of the export-oriented and technologically advanced parts of the economy. There is also no problem, at least according to survey data, in the main factors of investment, of which only the uncertain economic situation remains notably negative in Slovenia. This is understandable, as firms became more cautious during the crisis, and the reversal in economic growth has not yet lasted long. It should also be borne in mind that in the years of fastest economic growth before the crisis, investment was unsustainably high in a number of euro area countries, including Slovenia. Re-reaching the pre-crisis levels of investment would inevitably lead to fears of another bursting of the investment bubble.

Investment in machinery and equipment, which could be considered the most productive in the medium term, is not down much on its long-term average as a proportion of GDP. Levels of this type of investment vary significantly from country to country in the euro area, which is partly a reflection of differences in the level of technological development, and partly a reflection of differences in the structure of the economy. In Slovenia investment in machinery and equipment in the total economy averaged just over 9% of GDP between 2000 and 2015, and around 10% of GDP between 2000 and 2005, when economic growth was at a sustainable level. This was around 3 percentage points more than the average across the euro area. The ratio of this type of investment to GDP during the first three quarters of 2015 stood at just under 8% in Slovenia, a shortfall of 1.5 to 2.0 percentage points, or between EUR 570 million and EUR 760 million a year. Given that the corporate sector's 12-month financial surplus exceeded EUR 1.3 billion in the second quarter, from a financial perspective the shortfall could be made up immediately. The shortfall across the euro area stands at less than 1% of GDP.

Current demand for additional investment in manufacturing is relatively low. This can be concluded from production capacity utilisation, which stood at almost 84% in Slovenia in 2015. This is 2.5 to 3.0 percentage points in excess of its long-term average, and deviates significantly from the euro area average. Although the basic comparison indicates a need for growth in investments, a comparison with the most advanced industrial nations of the euro area reveals that during the crisis there was most likely an improvement in the efficiency of capacity use, and thus an improvement in the competitiveness of Slovenian manufacturing. Capacity utilisation across the euro area is practically no different from its long-term average. There are large variations between countries, from high utilisation in Germany, Austria, Slovenia and France, to low utilisation in the Baltic states, Luxembourg and Greece. Taking a long-term view, the Baltic states stand out: the high ratio of investment in machinery and equipment to GDP is coinciding with low production capacity utilisation.

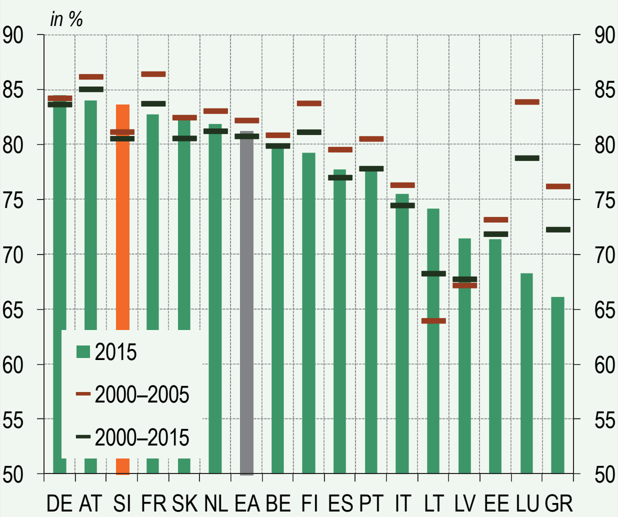
Current manufacturing output in Slovenia and across the euro area does not indicate any need for a significant increase in

Figure 1: Total investment into machinery and equipment



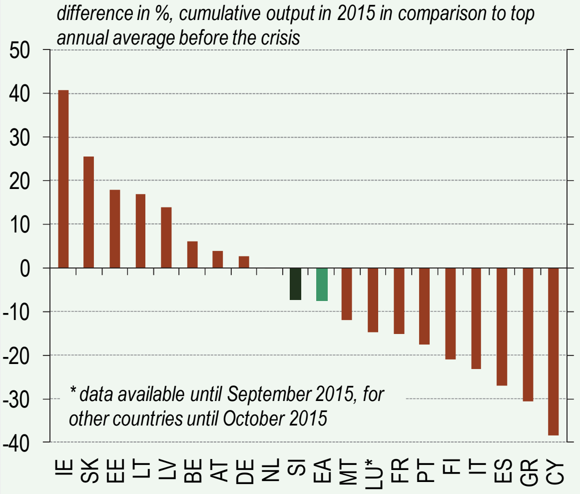
Source: Eurostat, Bank of Slovenia calculations.

Figure 2: Capacity utilisation in manufacturing activities



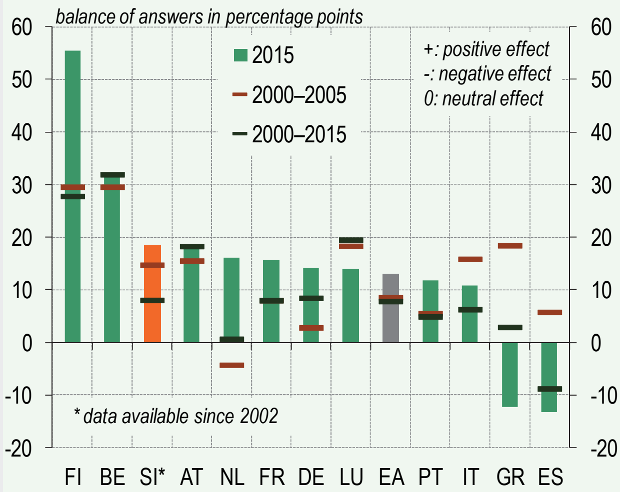
Source: Eurostat, Bank of Slovenia calculations.

Figure 3: Manufacturing output volume: 2015 in comparison to pre-crisis peak



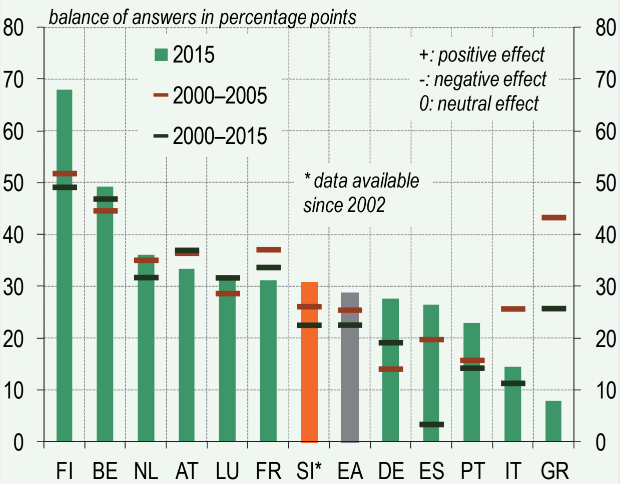
Source: Eurostat, Bank of Slovenia calculations.

Figure 5: Effect of availability of financial sources on investment in manufacturing activities



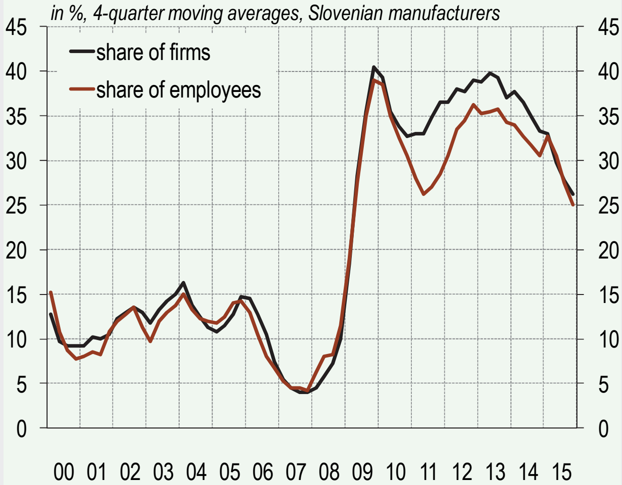
Source: Eurostat, Bank of Slovenia calculations.

Figure 4: Demand effect on investment in manufacturing activities



Source: Eurostat, Bank of Slovenia calculations.

Figure 6: Manufacturing activities – limits to production: uncertain economic situation



Source: SORS, Bank of Slovenia calculations.

investment. Average manufacturing output in the euro area over the first ten months of the year was down more than 7% on its pre-crisis peak. The shortfall in output in Slovenia was similar. As Europe's industrial powerhouse, output in Germany during the first ten months of the year was up less than 3% on its pre-crisis level, but even in this case variation from country to country is pronounced.

Two key factors of investment, namely demand and availability of financial resources, should have had a positive impact on investment in manufacturing in 2015. The impact of demand estimated by survey was actually more favourable in 2015 than on average between 2000 and 2015 and between 2000 and 2005, both in Slovenia and across the euro area. Of the euro area countries, only in Greece was it significantly below the averages in the two aforementioned periods. The availability of financial resources for investment in 2015 was higher on average across the euro area than its long-term average according to survey responses. In Slovenia too the availability of financial resources in 2015 also presented no obstacle to investment on aggregate in the manufacturing sector. Availability was higher than the averages over the two aforementioned periods. In the euro area, only in Greece and Spain did this factor act to curb investment.

The uncertainty of the economic situation has diminished significantly since 2013 in the opinion of manufacturing firms in Slovenia. It nevertheless remains significantly higher than before the crisis. Around a quarter of firms cited the uncertain situation as a factor holding back performance in 2015, approximately 12 percentage points more than the average between 2000 and 2005. This is most likely also being reflected in firms' reticence to invest.

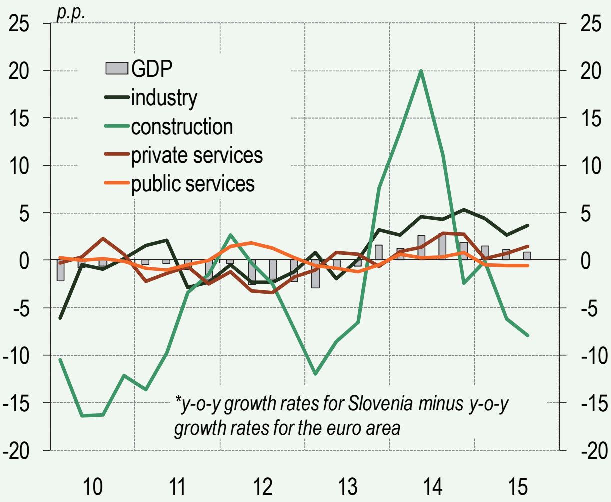
[1] Total gross fixed capital formation expressed as a proportion of GDP in Slovenia amounted to less than 20% over the first three quarters of 2015. This was down almost 5 percentage points on the average between 2000 and 2015, and 6.5 percentage points on the average between 2000 and 2005. The main reason for the shortfall is construction investment, which was down approximately 4 percentage points as a proportion of GDP. The ratio of investment to GDP over the first three quarters of the year across the euro area was also below 20%, and down approximately 2 percentage points on its long-term average. The main reason for the shortfall was likewise lower construction investment.

the crisis in construction. Slovenian GDP in the third quarter was up 2.5%, with equal contributions coming from industry and private-sector services. While contribution made by industry has been relatively stable for several quarters at just over 1 percentage point, the contribution made by private-sector services increased to 1.3 percentage points in the third quarter, comparable to its average in 2014. The decline in activity in construction was sole factor acting to reduce economic growth, and is also slowing growth in parts of industry, retail and other services. The slowdown in construction activity reduced economic growth by 0.4 percentage points in the third quarter. The gap by which Slovenia is outperforming the euro area arrowed to just 0.9 percentage points in the third quarter. Both industry and private-sector services were factors in this outperformance.

Aggregate demand

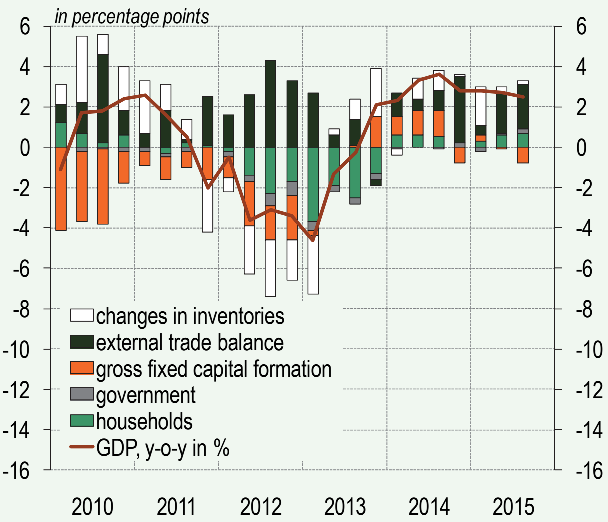
Year-on-year growth in domestic consumption slowed sharply in the period to the third quarter as a result of the fall in construction investment. Aggregate domestic consumption in the third quarter was up just 0.3% in year-on-year terms, down 2.2 percentage points on the beginning of the year, and down 1.6 percentage points on the average in 2014. The decline was the result of the decline in construction investment, a major factor in which was the basis from 2014, when government investment increased sharply before the local elections. Year-on-year growth in final household consumption remained relatively low, and actually reached zero in quarterly terms, which had previously been signalled by retail turnover, the stagnation in confidence and the declining growth in disposable income. In contrast to government investment, final government consumption re-

Figure 2.9: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area - production side*



Soures: Eurostat, Bank of Slovenia calculations.

Figure 2.10: Contributions to y-o-y GDP growth, expenditure side



Source: SORS.

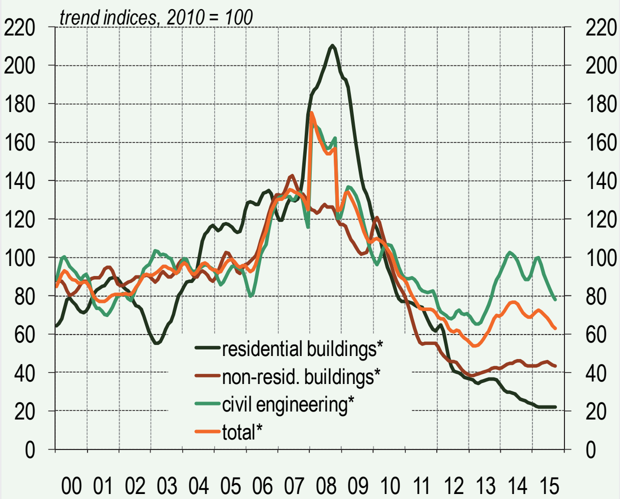
Box 2.2: Construction in Slovenia: situation and outlook

In mid-2013 Slovenia entered a new cycle of economic growth, to which a significant contribution was made in the initial phase by government investment in infrastructure, which was the engine for Slovenia's construction sector. The proportion of GDP accounted for by construction stood at around 5% in 2014, above the euro area average. With the decline in the government investment cycle prompted by the disbursement of EU funds, and weak private-sector construction investment, after high growth in 2014 construction again found itself in crisis in 2015. The depth and duration of the crisis is hard to estimate, as developments in the indicators of potential demand for construction work vary greatly.

Activity over the first ten months of 2015 was weak in all segments of construction. Only in non-residential construction was the year-on-year contraction in activity relatively small, which was attributable to the expansion of certain retailers. The amount of residential construction put in place was down a fifth, while civil engineering work, which had previously attracted government investment, was down more than a tenth. It should nevertheless be borne in mind that proportion of GDP accounted for by construction was 4.5% in the third quarter, which was still the same as the average across the euro area.

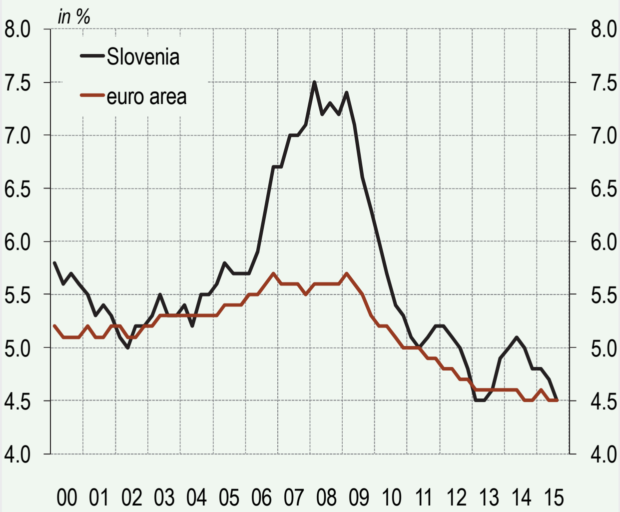
Growth in construction has recently been almost entirely dependent on government investment, which has in turn been dependent on the government's ability to obtain EU funds. During the previous financial framework disbursement was highly concentrated in the final period, which led to a short and powerful cycle in construction, with distorting effects on aggregate economic growth. Construction contributed 0.4 percentage points to GDP growth in 2014, but reduced GDP growth by the same amount in the third quarter of 2015. The pronounced current decline in value-added in construction is attributable to a base effect, but is also attributable to the weakness of private-sector construction investment. This is indicated by the real value of new contracts in construction, which over the first ten months of 2015 was down significantly in year-on-year terms in all segments of construction. At the same time a significant decline in government investment is expected for 2016, on account of fiscal consolidation and more modest disbursement of EU funds in the early part of the new financial framework.[1]

Figure 2: Construction



*Note: *Real value of construction put in place.*
Source: SORS.

Figure 1: Value added in construction as a share of GDP

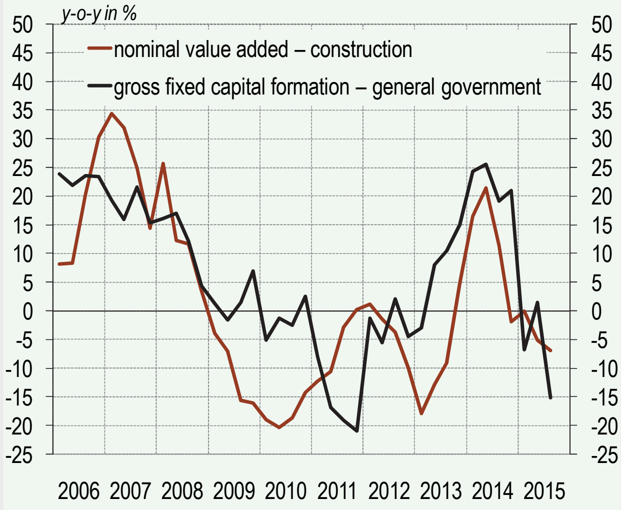


Source: Eurostat.

Figure 3: Contribution of construction to y-o-y GDP growth

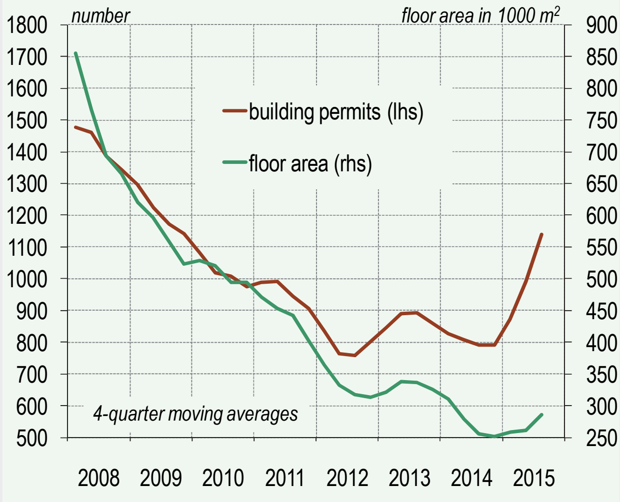
Source: SORS, Bank of Slovenia calculations.

Figure 4: General government investment and value added in construction



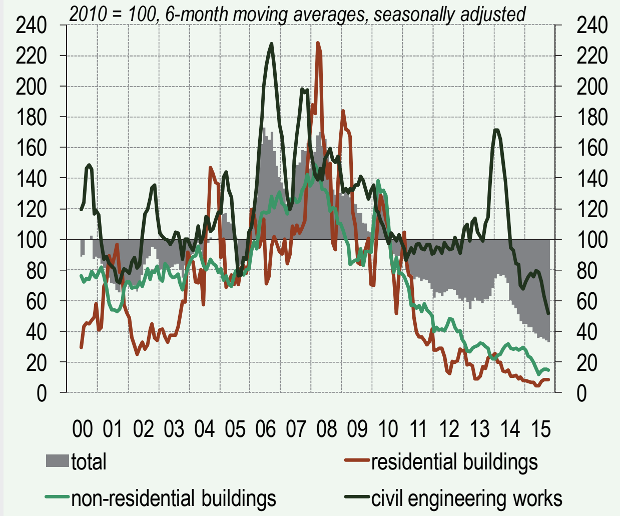
Source: SORS, Bank of Slovenia calculations.

Figure 6: Issued building permits and corresponding floor area



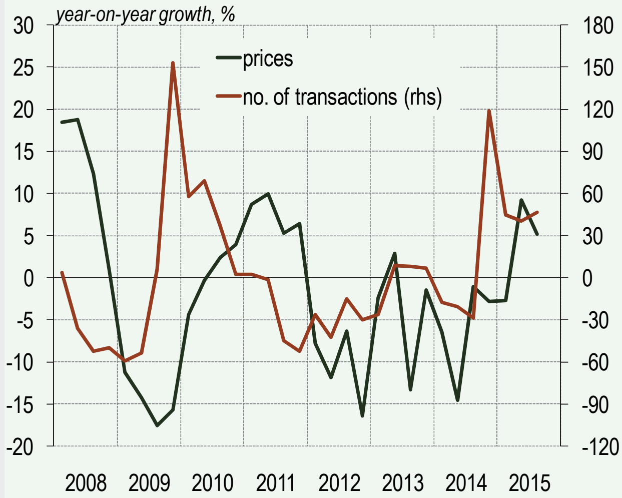
Source: SORS, Bank of Slovenia calculations.

Figure 5: Real value of new contracts in construction



Source: SORS, Bank of Slovenia calculations.

Figure 7: New dwellings – prices and number of transactions



Source: SORS, Bank of Slovenia calculations.

By contrast, some indicators in the construction sector suggest an improvement in the situation in the future. The number of building permits issued in the first three quarters of the year was up almost 60% in year-on-year terms, most notably for non-residential buildings. The area of the planned buildings also increased, by almost a fifth. At the same time the market in new-build residential real estate is reviving, as prices of new-build housing began to rise in the wake of increased sales supported by domestic bank loans.[2] This could gradually lead to new investment in residential construction. The survey-measured limiting factors in construction have also become less pronounced. Firms cited an improvement in financial conditions in 2015, and expected problems with insufficient demand to diminish significantly in the second half of the year. The latter perhaps reflects an acceleration of government investment towards the end of the year; it was sharply down on the planned levels in the first three quarters of the year, at least according to the figures released to date.[3]

[1] Gross investment by the government sector was planned to exceed EUR 2.1 billion in 2015, but is expected to decline by almost a third in 2016 according to the draft budget plan for 2016.

[2] New housing loans to households over the first ten months of 2015 were up more than EUR 210 million in year-on-year terms, or just over 40%. The number of transactions in new-build residential real estate in the first half of the year was up 35% in year-on-year terms, while prices of new-build residential real estate rose by more than 7% in the second quarter.

[3] Last October's report on the general government deficit and debt for 2015 envisaged an increase in investment of approximately a tenth relative to 2014. Government investment over the first three quarters of the year was down almost 7% in year-on-year terms.

Box 2.3: Analysis of over-/under-valuation of residential real estate in Slovenia

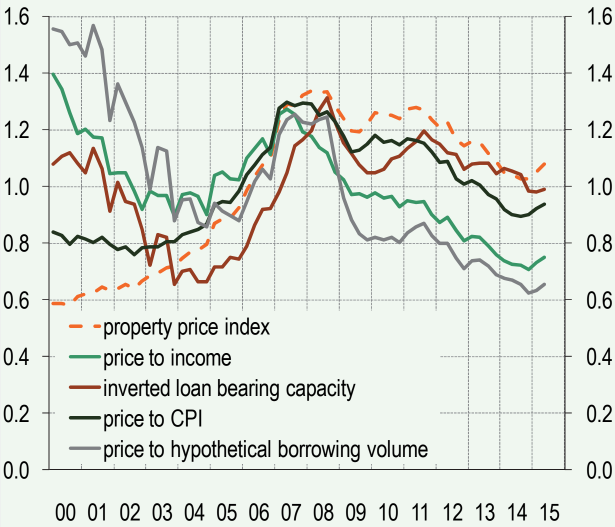
Between 2005 and 2008 Slovenia saw rapid rise in real estate prices, which was followed by a sharp correction that bottomed out in the third quarter of 2014, when the price index for existing flats was down 22% on the record highs of the third quarter of 2008. However, volatility in real estate prices alone does not necessarily reflect any over-valuation or under -valuation of real estate market, as it can be entirely in line with and supported by the economic fundamentals. The over-valuation and under-valuation of real estate therefore needs to be treated in the context of deviations in real estate prices from demand factors (Figure 1) and supply factors (Figure 2).

From the perspective of demand factors, it can be assumed that economic entities interpret justifiable growth in real estate prices in the context of a general trend of rising prices in the economy, which is supported by data from European countries showing the stationary relation between house prices and general price level over the medium and long terms (Schneider, 2013). The ratio between the index of used housing prices in Slovenia and the consumer price index indicates that over-valuation peaked in 2007 and 2008, when the ratio of real estate prices to consumer prices deviated by more than 20% from its long-term average. By contrast, the ratio declined by approximately 30% between 2009 and 2015, in line with the assumption of medium-term and long-term corrections in the raised real index of real estate prices. Alongside prices, household income is also a significant factor indicating housing demand and real estate affordability. The ratio between the average price for a square metre of existing dwellings in Slovenia and the real average net wage is illustrated in Figure 1. In 2008, when the index of real estate prices peaked, an employee on the average wage would have required 107 net monthly wages to cover the purchase of 50 m2 of used housing; by 2013 the figure was just 67.

In the purchase of durables such as real estate, alongside income another significant factor is the interest rates at which economic entities can borrow on the financial markets. An indicator that combines both is the ratio of real estate prices to the maximum amount that the average employee can potentially borrow on the financial market for the purposes of purchasing housing (Figure 1).[1] Like the wage and income ratio, this indicator also reveals over-valuation, and a clear deviation in real estate prices from actual purchasing power between 2004 and 2007, with a sustained correction in the crisis and post-crisis period. The deviation between 2004 and 2007 coincided with increased lending activity expressed as the ratio of housing loans to the maximum amount that the average employee could potentially borrow (Figure 1). The rise of more than 70% by the end of 2007 in the index denotes a sharp deterioration in the position of households from the perspective of the financing of loan liabilities and the banks' increased exposure to the household portfolio, and indicates the potential for a downward revision in the index of real estate prices in the future which was essentially realized in the period after 2008.

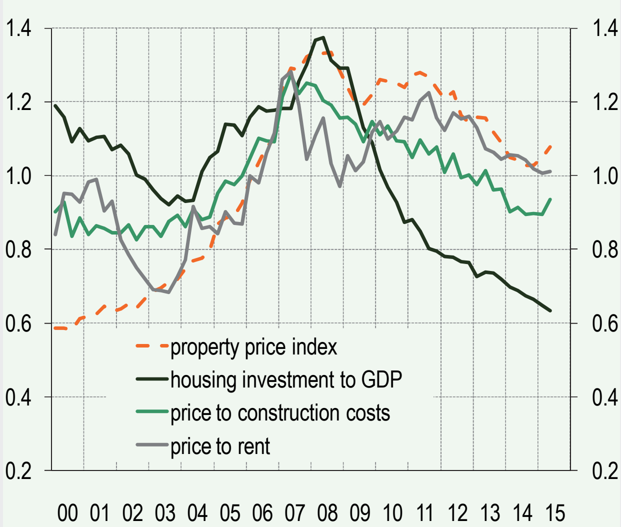
A similar dynamic of over-valuation and under-valuation of real estate in Slovenia can be elucidated from the supply-side indicators (Figure 2). The attractiveness of investing in real estate can be defined by the ratio of the average price per square metre of used housing to the corresponding rent.

Figure 1: Demand indicators (average = 100)



Source: SORS, Bank of Slovenia calculations.

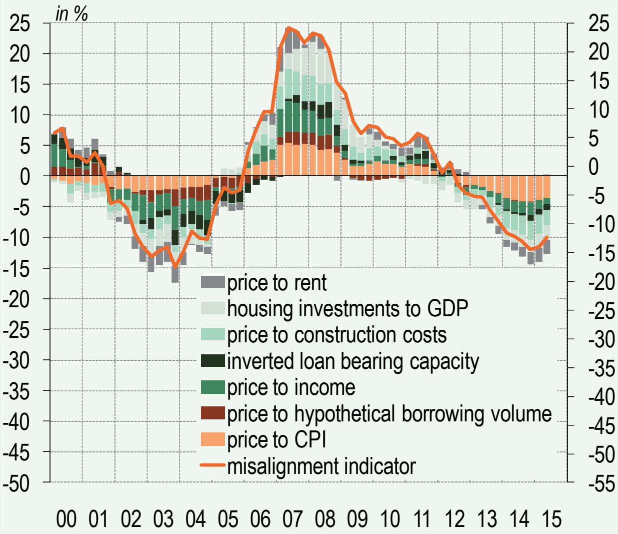
Figure 2: Supply indicators (povprečje = 100)



Source: SORS, Bank of Slovenia calculations.

From the perspective of investor perception, the expected returns on investment in housing were most overstated in the second quarter of 2007, when the largest deviation in the average price from the average rent was recorded. Excessive optimism of this type in the valuation of housing investments coincided with the profound overheating of the construction sector between 2005 and 2007, and the final collapse at the end of 2008, which was evident in the ratio of investment in real estate to GDP. After a sustained decline since the end of 2008, the ratio of housing investment to GDP reached a low of 2.2% in 2015, down approximately 1.5 percentage points on the pre-crisis period, and down 2.5 percentage points on the first quarter of 2008 and the current average across the euro area. Another significant aspect of construction activity and real estate supply is construction costs, by means of which real estate prices can be interpreted over the long term (Schneider, 2013). The ratio of the index of real estate prices to the index of construction costs peaked in 2007, and denoted an over-valuation of 15% relative to the long-term expected value of housing under a cost approach, but by the second quarter of 2015 the deviation was negative in the amount of 15% and a positive correction to prices could be expected over the long term.

Figure 3: Misalignment indicator



Source: SORS, Bank of Slovenia calculations.

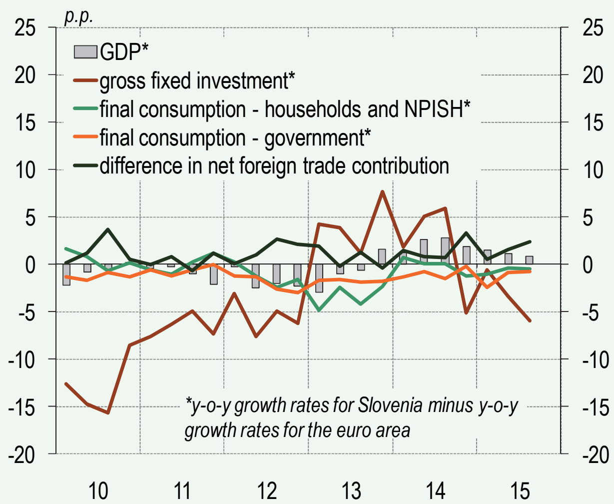
Figure 3 illustrates the composite indicator of over-/under-valuation of real estate in Slovenia calculated on the basis of the weighted values of the supply and demand indicators presented above.[2] Judging by the indicator, prices of real estate in Slovenia were most over-valued in the second quarter of 2007 (by 24%), while since the end of 2012 there has been a sustained negative deviation in real estate prices from their historical average. Real estate remains approximately 13% under-valued in 2015 compared with the long-term average. Compared with euro area countries, the period and intensity of the over-valuation of real estate coincided strongly with the real estate bubbles recorded in Ireland, Portugal and Spain.

[1] A detailed description of the calculation is given by Lenarčič and Damjanović (2015).

[2] The weights of the indicators are calculated on the basis of the principal component analysis. Deviations in individual indicators from the long-term historical trend are included. See Lenarčič and Damjanović (2015).

mained more expansionary. After declining in the first quarter, year-on-year growth in final government consumption stood at just under 1% in the third quarter. As it accounts for more than a quarter of aggregate final consumption, its contribution to GDP growth stood at 0.2 percentage points.

Figure 2.11: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*



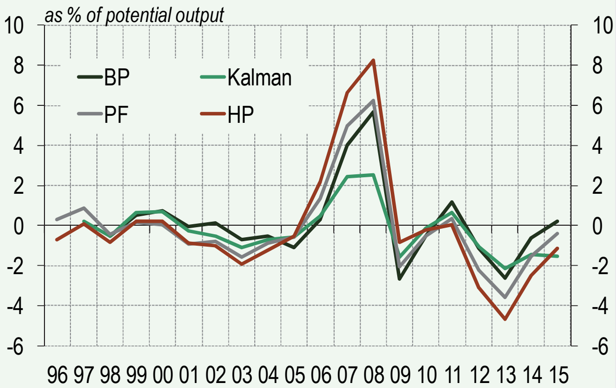
Soures: Eurostat, ECB, Bank of Slovenia calculations.

Growth in domestic consumption in the third quarter was among the weakest in the euro area. With the decline in construction investment, dynamics in gross fixed capital formation in Slovenia was significantly below the euro area average, where the year-on-year rate was more than 2% in the third quarter. Growth in final consumption was also among the weakest in the euro area. Growth in final household consumption was 0.4 percentage points less than the euro area average, while growth in final government consumption was 0.7 percentage points less. Economic growth in Slovenia thus outperformed the euro area solely because of the greater contribution made by net trade.

Box 2.4: Output gap in Slovenia estimated by various methods

Potential output and the output gap are important indicators for economic policy. The first represents the maximum sustainable level of output which can be attained using available production factors, while the second is the difference between actual GDP and potential GDP, and indicates where in the business cycle the economy is. A positive output gap means that the economy faces excess demand, which could lead to inflationary pressures. The reverse is true of a negative output gap, when the economy faces deflationary pressures. These two concepts are used in producing estimates of the cyclically adjusted and structural fiscal balance in the case of fiscal policy, and cyclically adjusted unit labour costs to calculate real exchange rates to monitor developments in international competitiveness. The size and the sign of the output gap may influence the central bank's acting on economic activity via adjustment of interest rates and other measures. Therefore, reliable and timely estimations of potential output and the output gap are of crucial importance.

Figure 1: The output gap in Slovenia estimated with four methods, 1996–2015



Note: HP stands for HP filter (lambda = 50), Kalman stands for bivariate unobserved components model estimated with Kalman filter. PF stands for the production function method and BP stands for the band-pass filter (Baxter-King fixed length symmetric). To avoid end-of-sample bias we used the latest Bank of Slovenia projections in the majority of methods.
Source: Bank of Slovenia calculations.

This box gives an illustration of estimates of the output gap in Slovenia obtained by different methods, which allows for more robust results and more credible interpretation. The following statistical methods were used: the Hodrick-Prescott filter, the band-pass filter, the bivariate model of unobserved components estimated by Kalman filter, and the quasi-theoretical production function approach.

The main advantages of the HP and band-pass filters are that the GDP series alone is used to estimate potential, and they are relatively simple to use. The main weakness of the HP filter is end-of-sample bias, which is also seen to a lesser extent in the estimates with the band-pass filter. This weakness can to a certain extent be rectified by extending the series with forecasts. The main advantages of the production function method and the estimates with the Kalman filter are the inclusion of other series and economic theory. The latter is also tied to specific assumptions that are not necessarily consistent with the data, which represents their weakness. An additional advantage of the production function method is that it allows for analysis of contributions to growth, although it often uses an HP filter for filtering individual components, which has the weakness of end-of-sample bias (for more, see Jemec, 2012).

The dynamic in the estimates of the output gap using various methods is relatively similar. As it is evident from Figure 1, in

Table 1: Estimates of potential output growth in Slovenia, from 1996 to 2015

	1996-2000	2001-2005	1996-2008	2009	2010	2011	2012	2013	2014	2015
Potential output growth	4.5	3.7	3.8	0.2	-0.3	-0.2	-0.2	0.3	1.0	1.4
Contributions										
*TFP**	2.4	1.7	1.8	-0.6	-0.6	-0.4	-0.2	0.2	0.7	1.0
Capital	1.4	1.4	1.5	0.9	0.5	0.4	0.2	0.2	0.3	0.3
Labour-of which	0.6	0.5	0.5	-0.1	-0.2	-0.3	-0.3	-0.2	0.0	0.1
- working age population		0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4
- labour force part.rate		0.4	0.4	0.2	0.2	0.2	0.2	0.3	0.4	0.5
- unemployment rate	0.2	0.1	0.1	-0.2	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1
*residual***				-0.1	0.0	-0.1	-0.1	0.0	0.0	0.1

*Note: To avoid end-of-sample bias we extended the data with the latest Bank of Slovenia projections. * Total factor productivity. ** Residual comes from the fact that labour sub-component no longer add to labour component, due to the fact they are filtered and of different length.*
Source: Bank of Slovenia calculations.

the majority of the methods the output gap was positive at the end of the nineties and in the final years before the economic and financial crisis. Despite positive economic growth in the last two years the output gap has remained negative, and is not yet giving rise to any upward pressure on prices. As a result core inflation remains low. However, in the wake of the ECB's recent monetary policy measures and the forecasts for further favourable economic growth, the output gap can be expected to slowly close over the coming years.

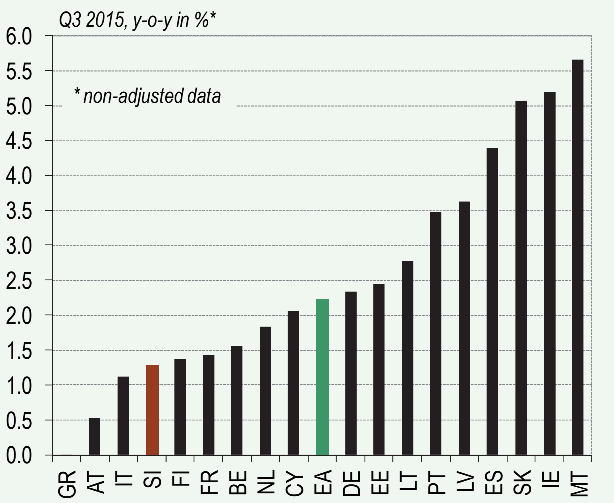
Detailed analysis of the contributions to growth (see Table 1) reveals that total factor productivity was a leading source of growth on average between 1996 and 2008. However, in the crisis its contribution fell most notably in absolute terms. The contribution made by capital was relatively high before the crisis, and declined sharply during the crisis. The contribution made by labour was the lowest, and actually became negative during the crisis. However, the contributions made by all the main components have turned positive in the last two years, in keeping with expectations.

Due to uncertainty related to the measure of the output gap, a particular caution is required when drawing policy conclusions based on these estimates. Especially in the case when large structural changes happen, it is vital to take into account other available information. The longer-term effects of the crisis very much depend on the flexibility of the economy and the policy reaction to the crisis. The crisis has triggered some structural reforms, making labour and product markets more flexible and competitive. Those structural reforms, if fully and timely implemented, are expected to increase GDP growth by 0.2 percentage point per year in the next 10 years (OECD, 2015).

References:

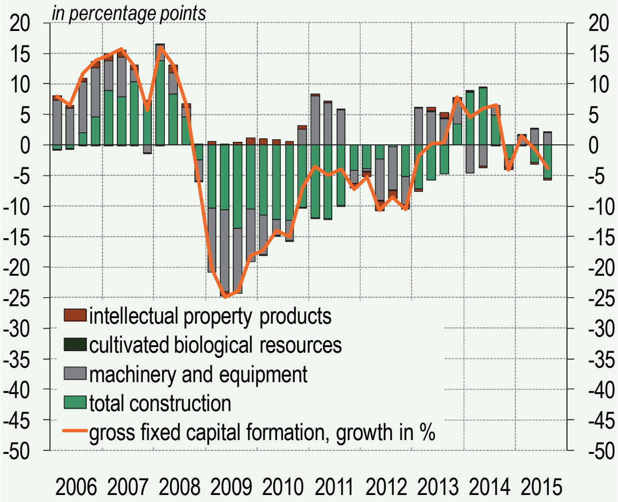
- Jemec, N (2012) Output gap in Slovenia. What can we learn from different methods, Surveys and Analyses 4/2012, November 2012.
- OECD (2015), OECD Economic Survey of Slovenia 2015, OECD Publishing, Paris. http://dx.doi.org/10.1787/eco_surveys-svn-2015-en.

Figure 2.12: Final consumption of households and NPISH in euro area member states



Source: Eurostat.

Figure 2.13: Contributions to volume y-o-y growth in gross fixed capital formation – Slovenia



Source: SORS, Bank of Slovenia calculations.

Aggregate gross fixed capital formation was weak, although its structure is improving from the perspective of output capacity. Gross fixed capital formation in the third quarter was down almost 4% in year-on-year terms, albeit only as a result of the sharp decline in construction investment. The most notable decline was recorded by non-residential construction, owing to the decline in government investment. Investment in residential construction is also continuing to decline. In line with the improved conditions and performance in the private sector, investment in machinery and equipment is gradually strengthening. Year-on-year growth in investment in transport equipment again exceeded 10% in the third quarter, which is being financed by the solid growth in turnover in the transport sector seen since mid-2013. Investment in other machinery and equipment is also increasingly moderately, in line with expectations. These developments in investment suggest an improvement in the output potential of the economy.

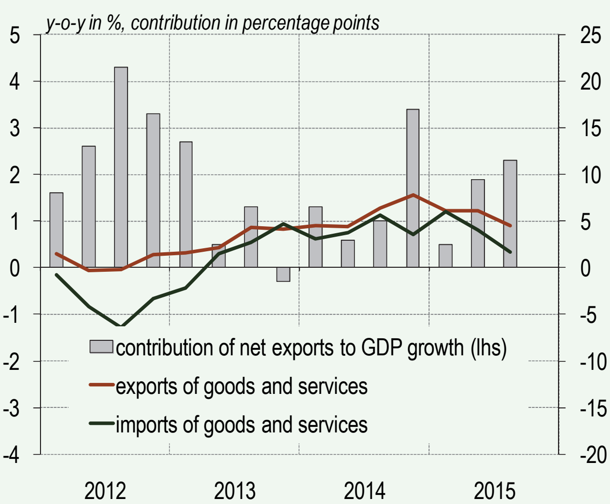
Table 2.1: Economic activity

	12 mes. do Oct.14	12 mes. do Oct.15	2015 Aug.	2015 Sep.	2015 Oct.	2015 Jul.	2015 Oct.
			y-o-y in %			monthly ++	
Industrial production: - total *	1.8	4.3	5.1	6.1	3.2	0.8	*0.3*
- manufacturing	3.3	5.2	5.0	7.3	3.7	1.1	*0.8*
Construction: - total **	24.6	-7.9	-13.9	-12.0	-11.8	-6.9	*-9.4*
- buildings	4.9	-4.8	-11.9	-4.1	-8.9	7.8	*-8.6*
- civil engineering	32.9	-9.0	-15.1	-15.2	-12.8	-16.0	*-10.5*
Trade (volume turnover)							
Total retail trade	-0.1	0.3	0.0	0.1	0.5	0.1	*-0.2*
Retail trade except automotive fuel	-1.2	1.3	0.4	0.9	2.7	0.0	*0.2*
- food, beverages, tobacco	-2.2	0.6	-1.7	-0.1	-0.7	-0.8	*-1.1*
- non-food (except automotive fuel)	-0.3	1.8	1.9	1.8	5.6	0.0	*1.2*
Retail trade and repair of motor vehicles	6.4	12.4	13.0	13.8	10.4	4.2	*1.4*
Private sector services *** +	2.6	2.7	2.6	3.3	3.3	0.6	*0.5*
Transport and storage +	5.4	2.7	2.1	0.3	2.9	0.9	*-0.4*

Notes: Data are working days adjusted.
** Volume of industrial production. ** Real value of construction put in place. *** Excluding trade and financial services. + Nominal turnover.*
++: 3-month moving average compared to the corresponding average 3 months earlier. Data are seasonally and working days adjusted (except for construction where data are seasonally adjusted).
Source: SORS, Bank of Slovenia calculations.

As a result of the decline in domestic consumption, the contribution made by net trade increased sharply in the third quarter. Year-on-year growth in imports in the third quarter fell below 2%, as growth in merchandise imports declined and imports of services stagnated. Growth in exports also slowed as expected, to 4.5%. The contribution made to GDP growth by net trade thus increased to 2.3 percentage points in the third quarter, the highest figure since the final quarter of 2014.

Figure 2.14: Foreign trade

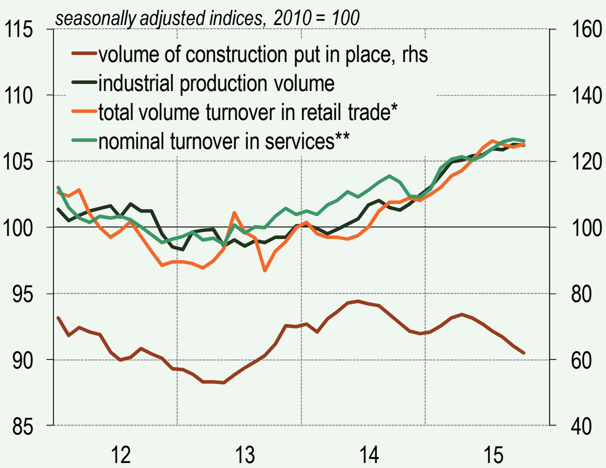


Source: SORS - national accounts.

Economic developments in the final quarter of 2015

According to the available monthly figures for economic activity, quarterly economic growth was relatively weak in the last quarter of 2015. Industrial production was unchanged overall in monthly terms in October and November, while the year-on-year rates of growth were indicative of problems in the chemicals and beverages industries in particular. The monthly figures for

Figure 2.15: Monthly economic activity indicators



*Notes: * Retail trade and trade and repair of motor vehicles. ** Private sector services excluding trade and financial services.*
Source: SORS.

turnover in retail and other services and in construction indicate weak growth in domestic demand. After declining in October retail turnover increased in monthly terms in November, albeit again primarily as a result of improved sales of motor vehicles. Aggregate turnover in other services declined slightly in monthly terms in October for the second consecutive month. Growth in turnover in accommodation and food service activities stalled, while a decline in turnover was recorded by architectural activities, technical services, telecommunications services, and warehousing and storage. The monthly decline in the amount of construction put in place slowed sharply in October, but the figure was nevertheless down more than a tenth in year-on-year terms.

3 Labour Market

Developments on the labour market remained positive in the second half of 2015, as employment continued to rise and unemployment fell. Growth in employment slowed in the third quarter. The largest contributions to the rise in total employment came from employment activities, wholesale and retail trade, accommodation and food service activities, and manufacturing. Uncertain forms of employment remain prevalent: self-employment accounted for almost a third of the rise in employment. The largest factor in the fall in unemployment was a decline in the number of people newly registering as unemployed, although the number of deregistrations caused by a decline in subsidised jobs also fell. The labour market reform from 2013 no longer has the desired effects, as the proportion of permanent new hires is declining and the proportion of those registering as unemployed because their temporary employment has ended is increasing. Wage growth remains merely slow, partly as a result of increased employment of low-wage workers.

Employment

Total employment is continuing to rise, self-employment accounting for almost a third of the increase in 2015. Employment has been rising since the beginning of 2014; year-on-year growth stood at 1.5% over the first three quarters of 2015, although the rate slowed slightly in the third quarter. The number of self-employed was up 2.2% in year-on-year terms, and accounted for almost a third of the rise in total employment.[5]

Employment is primarily increasing in the private sector. Employment during the first three quarters of 2015 was up 1.7% in year-on-year terms, although the rate slowed to 1.5% in the third quarter. More than 40% of the increase in employment was attributable to professional, scientific and technical activities and administrative and support service activities, most notably the expansion of employment activities.[6] There were also rises of 1.6% in the third quarter in employment in wholesale and retail trade, vehicle repair, transportation and storage, and accommodation and food service activities, and also in manufacturing. The number of employees in information and communication activities and in other personal service activities also increased, by more than 3%. In contrast to the developments in value-added, there was a continuation of the year-on-year growth in employ-

[5] The employment analysis uses national accounts figures. According to the monthly figures, the workforce in employment in the first ten months of the year was merely up just under 1%. The discrepancy is the product of the different methodologies used to monitor employment. The national accounts figures for employment include permanent employees, self-employed and assisting family members in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, employment at Slovenian diplomatic and consular offices in the rest of the world, and firms without employees. The monthly figures only count employees with employment contracts and the self-employed in the workforce in employment.

[6] On the basis of the monthly figures, which are not wholly comparable with the national accounts figures (see previous note), it is evident that employment in administrative and support service activities, which includes employment activities, during the first ten months of the year was up just under 14% in year-on-year terms, as employment activities recorded growth of around 46%, although the rate slowed from 105% in January to 17% in October, partly as a result of the higher basis from the end of 2014. The employment activities segment includes employment agencies, which employ people but assign them to work at other firms. They constitute one of the uncertain forms of employment.

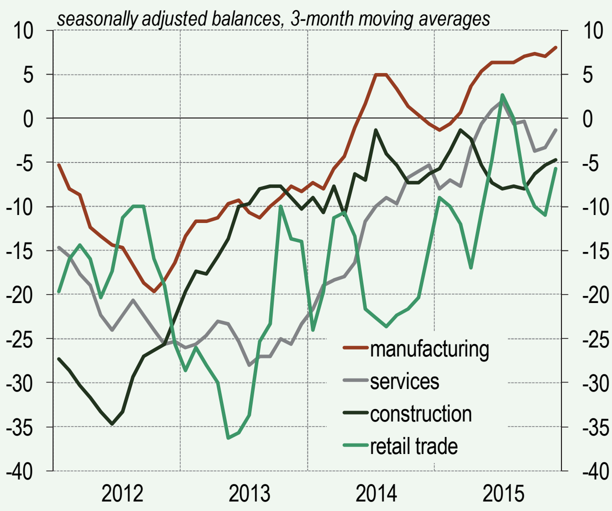
ment in construction that began in the second quarter, although the number of employees has already begun falling at the quarterly level. Employment in financial and insurance activities fell again in quarterly terms, having fallen for several years now owing to the restructuring of the banking sector.

Employment in mostly public services is continuing to rise.[7] Employment in public services began rising in 2014, and was up 0.7% in the third quarter of 2015. Employment in the government sector is stagnating, but is continuing to rise in sectors not under direct government control where private supply is also present. This is confirmed by the monthly SORS figures, which are not entirely comparable to the national accounts figures, and reveal that the workforce in employment in human health and social work and in education has been increasing in year-on-year terms since mid-2013. The total number of employees in October was up 2.3% in year-on-year terms in the human health and social work sector, and up 1.6% in the education sector.

The slowdown in growth in employment in the third quarter was accompanied by a decline in the number of vacancies. The number of vacancies in the third quarter was down just under 8% on the previous quarter.[8] According to figures for employment expectations for the third quarter, employers in manufacturing and construction notified the largest number of vacancies.

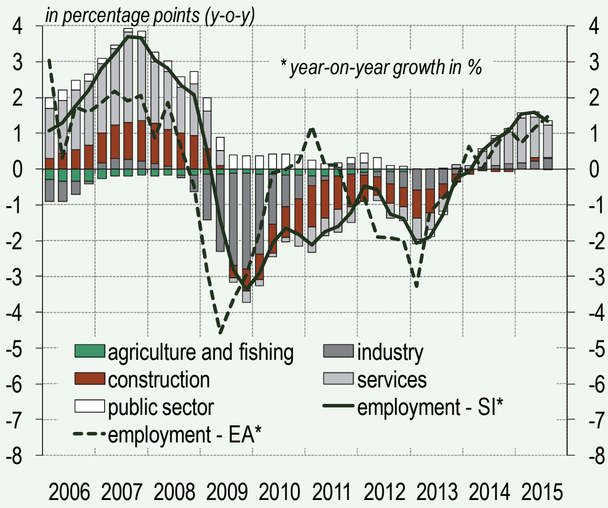
The shortage of skilled workers remained unchanged in the final quarter of 2015.[9] The gap between the shortage of skilled workers and the shortage of workers in general, which is one of the indicators of structural mis-

Figure 3.2: Expected employment



Source: SORS.

Figure 3.1: Contributions to employment growth



Source: SORS - national accounts; Bank of Slovenia calculations.

Figure 3.3: Labour shortage*

Source: SORS, Bank of Slovenia calculations.

[7] Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2010).
[8] In April 2013 the Labour Market Regulation Act abolished the mandatory notification of vacancies at the Employment Service for all employers other than the public sector and firms under majority government ownership. Between April 2013 and the end of 2014 the figures were no longer complete, for which reason the SORS conducted independent surveying of vacancies in the first quarter of 2015. Analysis of vacancies was thus only conducted for 2015. The sample framework included all business entities with at least one employee whose primary registered business activity was in one of Sectors B to S.
[9] The figure relates solely to manufacturing.

Table 3.1: Unemployment and employment

	2010	2011	2012	2013	2014	14Q3	14Q4	15Q1	15Q2	15Q3
					in 1000					
Registered unemployed persons	100.5	110.7	110.2	119.8	120.1	114.5	116.9	121.6	112.5	107.4
Unemployment rate					*in %*					
- ILO	7.3	8.2	8.9	10.1	9.8	9.3	9.6	9.8	9.2	8.6
- registered	10.7	11.8	12.0	13.1	13.1	12.5	12.7	13.2	12.3	11.7
Probability of transition between employment and unemployment					*in %*					
- probability to become employed[1]	14.2	13.8	13.2	13.6	15.4	14.5	13.1	17.9	16.9	15.8
- probability to lose a job[2]	2.8	2.6	2.8	2.8	2.6	2.2	2.9	3.1	2.0	2.1
					in 1000					
Total employment[3]	962.1	946.0	937.2	924.3	929.6	940.1	939.0	927.4	940.7	952.7
					annual growth in %					
Persons in paid employment	-2.7	-2.0	-1.3	-2.8	0.6	0.9	1.3	1.3	1.3	1.2
Self-employed	0.7	-0.1	0.8	4.9	0.4	0.6	0.0	2.4	2.6	1.7
By sectors										
A Agriculture, forestry and fishing	-2.1	-2.4	-1.1	0.0	-0.2	-0.1	0.0	0.0	0.0	-0.1
BCDE Manufacturing, mining and quarrying and other industry	-5.6	-0.2	-1.1	-1.9	0.3	0.4	0.6	0.7	0.9	1.3
F Construction	-9.1	-11.7	-7.5	-7.0	-1.1	-1.2	-1.1	0.0	1.4	0.5
GHI Trade, accommodation, transport	-2.2	-2.6	-1.2	-1.3	-0.3	0.3	0.8	1.5	1.8	1.6
J Information and communication	0.8	0.3	2.1	2.3	2.6	2.7	3.0	3.8	3.4	3.7
K Financial and insurance activities	-0.8	-2.7	-1.7	-2.8	-2.1	-2.1	-2.1	-1.7	-0.9	-0.9
L Real estate activities	0.0	-2.7	-1.4	0.5	0.9	1.9	1.9	1.9	0.0	-1.9
MN Professional, technical and other business activities	2.3	0.9	0.4	-2.2	3.7	4.1	4.2	5.9	4.4	2.7
RSTU Other activities	1.1	-1.3	0.2	6.0	3.2	3.5	4.0	3.7	3.7	3.1
- mainly private sector (without O..Q)[4]	-3.0	-2.3	-1.4	-1.6	0.6	0.9	1.2	1.7	1.8	1.5
- mainly public services (O..Q)[4]	2.2	1.0	1.0	-0.6	0.4	0.5	0.6	0.8	0.7	0.7
Total employment[3]	-2.1	-1.7	-0.9	-1.4	0.6	0.8	1.0	1.5	1.6	1.3

[1] Newly employed as a share of registered unemployed persons according to Employment Service of Slovenia. The higher the indicator's value, the better chance of finding a job.
[2] Newly registered unemployed due to a job loss as a share of total employment. Calculation is based on Employment Service of Slovenia's data and registered data of total employment. The higher the indicator's value, the higher chance of losing a job.
[3] Employed and self-employed persons.
[4] Public administration, education, human health and social work services according to NACE rev. 2.
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

matching on the labour market, narrowed slightly, as a result of an increased shortage of workers in general, the shortage of skilled workers having remained unchanged. The Employment Office's research states that there is primarily a shortage of vocational profiles (welders, drivers of heavy goods vehicles and tractor units, toolmakers, chefs, lathe operators, bricklayers, waiters, etc.).

The employment expectations indicators have improved in particular in manufacturing and at employment agencies. According to SORS survey figures, firms in manufacturing were expecting an increase in employment in the final quarter of 2015, while the forecasts for services, construction and retail were less optimistic. Research by Manpower, an HR firm, finds that the largest hiring in the final quarter will be by production firms, and in the sectors of transport, logistics and communications, while the greatest uncertainty was expressed by employers in construction, which recorded the largest fall in employment opportunities compared with the previous quarter. The Employment Service's Employment Preview 2015/II is forecasting that the largest hiring in the first half of 2016 will be by employment agencies, in transportation and storage, in information and communication activities, in public administration and defence, and in manufacturing, primarily manual workers.

Labour market flows and unemployment

Unemployment fell in 2015 in line with the favourable economic figures. The figures for surveyed unemployment reveal a fall in unemployment from 9.8% in the first quarter to 8.6% in the third quarter, the same level as in 2012. There was a similar fall in the registered unemployment rate, from 13.5% in January to 11.7% in October. The number of unemployed has been falling in year-on-year terms since mid-2014, the fall amounting to 6.1% in 2015. Unemployment stood at 113,000 in December.

The number of people deregistering from unemployment fell by just over 3% in 2015. This was primarily the result of a fall of 4% in new hires. The developments in deregistrations from unemployment in 2014 were more favourable: they increased by just under 5%, primarily as a result of an increase in new hires. The fall in the number of deregistrations for reason of employment was also attributable to a halving of the funding for the active employment policy, which reduced the opportunities for the unemployed to enrol in programmes of subsidised employment and self-employment. The number of retirements over the first eleven months of 2015 was down 17% in year-on-year terms, most likely as a result of the pension reforms, which are gradually raising the retirement age.

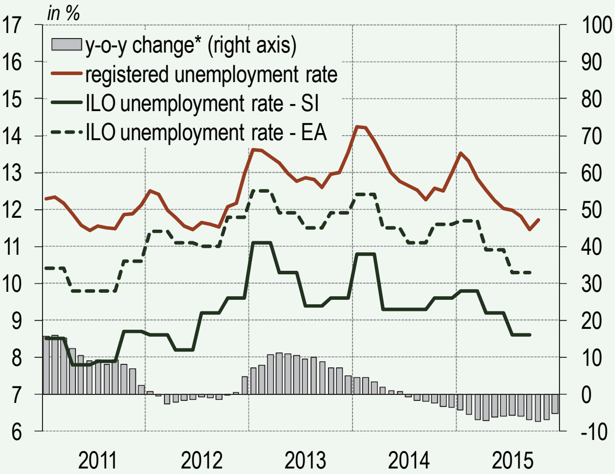
The labour market reforms of 2013[10] are no longer having the desired effects, as the proportion of permanent new hires is declining after a temporary increase. The proportion of new hires accounted for by temporary employment is thus increasing again, and stood at 75% over the first ten months of 2015, and 82% for young people (aged 15 to 29). Young people are a vulnerable group: approximately three-quarters of them are in temporary employment,[11] students recording the highest figure. The corresponding figure across the entire workforce is less than 20%.

The favourable developments on the labour market were also reflected in a decline in inflows into registered unemployment. The number of newly registering as unemployed in 2015 was down 4.9% in year-on-year terms. The largest factors in this decline were falls of a fifth in job losses on business grounds and from corporate bankruptcies, and a fall of 15% in inflows of first-time jobseekers. The latter was the result of increased employment opportunities for young people, and a smaller outflow from full-time schooling. By contrast, inflows from loss of temporary employment during the year were up just over 3% in year-on-year terms. The figure had been falling in year-on-year terms since the labour market reform of March 2013, which now indicates that the reform

Figure 3.4: The share of permanent contracts among all new contracts

Source: SORS.

Figure 3.5: Unemployment

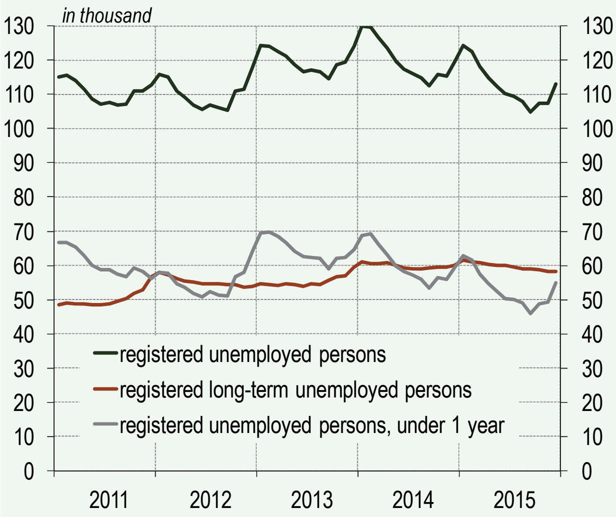


*Note: * Number of registered unemployed persons, y-o-y change.*
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

[10] The labour market reforms passed on 5 March 2013 incentivised against temporary employment by limiting the chaining of contracts for the same job to a maximum of two years, introducing severance pay in the event of termination of temporary employment at a level comparable to severance pay for permanent employment, increasing the employers' contributions to unemployment insurance on temporary contracts, and exempting employers from paying this contribution for the first two years after hiring an employee permanently.
[11] In the 15 to 24 age group.

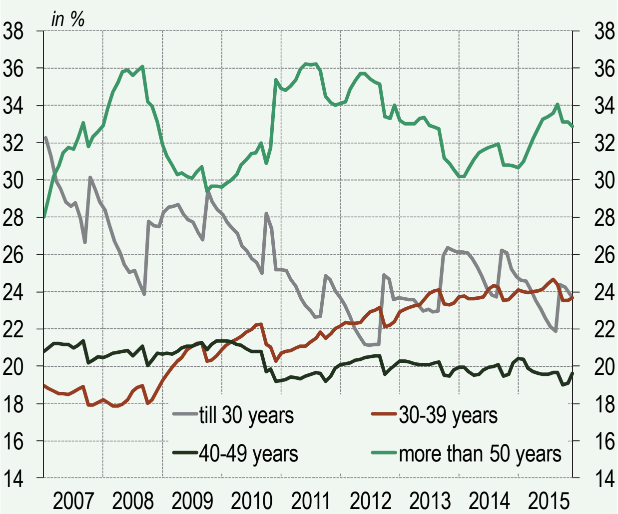
is no longer having the desired effects. The proportion of total unemployment accounted for the long-term unemployed increased from 49% in January to 51% in December as a result of the decline in the number of people newly registering as unemployed. The deepening of structural employment is also evidenced in the continual increase in the number of unemployed people who have been registered at the Employment Service for more than three years, who accounted for 45% of the total number of long-term unemployed in December. The proportion of the unemployed accounted for by those with tertiary qualifications is also increasing.

Figure 3.6: Long-term unemployed persons



Source: Employment Service of Slovenia, Bank of Slovenia calculations.

Figure 3.7: The share of unemployed by age



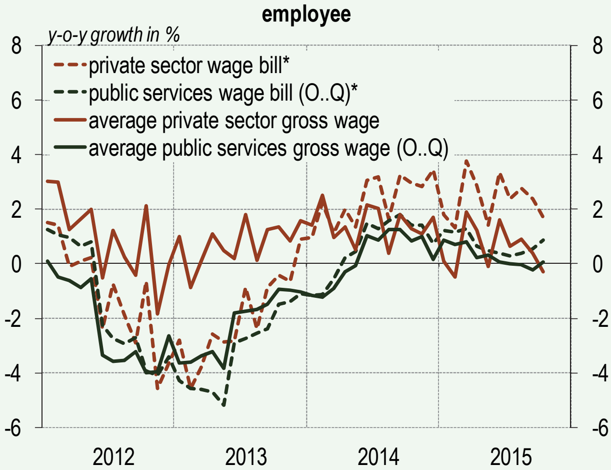
Source: Employment service of Slovenia, Bank of Slovenia calculations.

The proportion of youth unemployment has been declining in year-on-year terms since the end of 2014, partly as a result of the *Youth Guarantee* scheme.[12] One of the possible reasons is that funding for active employment policy is being directed to those aged 29 and under or 50 and over, although the proportion of unemployment accounted for by the latter is nevertheless increasing. The proportion accounted for by the 30 to 39 age group also increased over the first eleven months of the year, by 1% in year-on-year terms.

Wage developments

Wage growth is still being outpaced by economic growth. The average nominal gross wage in the total economy over the first ten months of the year was up just 0.4% in year-on-year terms (the rate in October was actually negative), compared with a rise of just over 1% in the same period of the previous year. The slowdown compared with the previous year was partly the result of a change in the structure of employment, as firms are mostly hiring lower-wage workers. The wage growth was the result of a rise of more than 0.6% in the average nominal gross wage in the private sector. The rise was driven by primarily export-oriented manufacturing, where wages rose by 1.9%, and by financial and insurance activities, where they rose by 2%. After pronounced growth

Figure 3.8: Total wage bill and average monthly gross wage per employee



Note *The wage bill is calculated as the product of the average gross wage for employees of legal persons who received pay and the total number of employees of legal persons.
Source: SORS, Bank of Slovenia calculations.

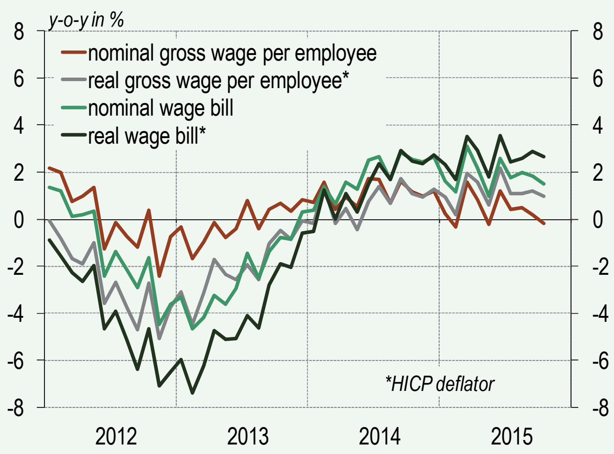
[12] The Youth Guarantee action plan for 2014 and 2015 aims to improve the position of young people on the labour market. It combines 36 measures from various government departments, the aim of which is to improve youth employability and to help young people activate themselves on the labour market.

Table 3.2: Labour costs indicators

	2010	2011	2012	2013	2014	14Q3	14Q4	15Q1	15Q2	15Q3
					in EUR					
Average gross wage	1495	*1525*	1526	1523	1540	1524	1581	1535	1537	1529
					nominal year-on-year growth, %					
Average net wage	3.9	2.1	0.4	0.6	0.8	0.9	0.9	0.1	0.3	0.2
Average gross wage	3.9	2.0	0.1	-0.1	1.1	1.3	1.1	0.5	0.6	0.4
- mainly private sector (excl. O..Q)[1]	5.0	2.6	0.9	0.7	1.4	1.4	1.4	0.5	0.9	0.6
- mainly public services (O..Q)[1]	-0.1	0.0	-2.2	-2.3	0.2	1.1	0.7	0.8	0.2	-0.1
Average gross wage in manufacturing	8.9	3.9	2.5	2.8	3.3	3.1	3.2	2.1	2.3	1.8
Average real net wage[2]	1.8	0.1	-2.3	-1.3	0.5	0.8	0.9	0.7	1.2	1.0
Labour costs per hour worked[3]	1.0	2.0	-0.3	-2.1	2.0	2.2	1.0	2.5	1.9	-1.8
Labour costs per hour worked in manufacturing[3]	3.2	1.9	2.9	0.6	3.7	5.9	3.2	1.9	2.1	-1.9
Gross wage per unit of output[4]	0.4	-0.4	1.9	-0.5	-1.3	-1.4	-0.6	-0.8	-0.5	-0.8
Gross wage per unit of output in manufacturing[4]	-4.8	0.7	4.0	1.2	-1.5	-2.1	-3.4	-3.9	-2.0	-2.4
Unit labour costs[4,5]	0.6	-0.8	0.8	0.2	-1.3	-1.2	-0.3	-0.8	-0.2	-0.9
Labour costs per employee[5]	4.0	1.5	-1.0	0.5	1.1	1.6	1.4	0.5	0.9	0.3
Output per employee	3.4	2.4	-1.8	0.3	2.5	2.8	1.8	1.3	1.1	1.2
Output per employee - manufacturing	14.3	3.2	-1.4	1.6	4.8	5.3	6.8	6.2	4.3	4.3
HICP	2.1	2.1	2.8	1.9	0.4	0.1	0.0	-0.5	-0.8	-0.8
GDP deflator	-1.0	1.1	0.3	0.8	0.8	0.6	0.6	0.6	0.2	0.5

1 Public administration, education, human health and social work services according to NACE rev. 2.
2 HICP deflator.
3 Labour costs according to SORS calculations.
4 Unit of output for the total economy is defined as real GDP per person employed, and in manufacturing as real value added per person employed (both based on national accounts).
5 Labour costs calculated on the basis of employee compensation (national accounts).
Source: SORS, Bank of Slovenia calculations.

Figure 3.9: Total wage bill and average gross wage per employee



Note: Wage bill is calculated as the product of average gross monthly wages for employees of legal persons who received pay and the total number of employees of legal persons.
Source: SORS, Bank of Slovenia calculations.

in 2014, wages declined significantly in the mining sector. Wages in the energy sector were down almost 2%, having not previously declined since measurement of this data began in 2005. Wages in mostly public services over the first ten months of the year were up 0.3% in year-on-year terms, having stagnated in the third quarter. Wage growth was higher than in the same period of 2014, partly as a result of promotion payments and higher wage growth at public enterprises. The largest year-on-year rise in wages over the first ten months of the year was recorded by public administration and defence, by 1%, while wages were unchanged in education and human health.

Growth in employment and wages has also been reflected in a rise in the nominal wage bill. The nominal wage bill over the first ten months of the year was up 2.1% in year-on-year terms, having increased by 2.5% in the private sector and 0.9% in mostly public services. Average growth in the real wage bill stood at 2.8%, owing to deflation.

4 Balance of Payments, External Debt and Competitiveness Indicators

The decline in growth in merchandise exports since July was sharper than might have been expected owing to the base effect, but was probably only temporary in nature. October was particularly notable, as exports actually declined slightly in year-on-year terms, and export developments were weaker in a significant number of major product categories and in almost all the major markets. After June import growth also declined significantly, which coincided with a further fall in oil prices and weaker growth in domestic consumption. In contrast to merchandise exports, growth in exports of services remained robust, which was attributable to miscellaneous business services in addition to tourism. As imports declined, this resulted in a significant increase in the surplus of trade in services. The 12-month current account surplus stood at 7.6% of GDP in October, its expansion in recent months having been held back by a widening deficit in income alongside weaker merchandise exports.

Slovenia was a net financer of the rest of the world over the first ten months of 2015 in the amount of EUR 2.5 billion, compared with EUR 1.9 billion in the same period of 2014. Slovenia increased its borrowing in the form of a government bond issue in July, for the first time since November 2014. The proceeds of the bond issue were placed in the rest of the world, so that the effect of the bond issue on the net external debt was neutral. Other major transactions in 2015 included 1.) an increase of EUR 1.0 billion in general government sector borrowing in the form of loans, in connection with hedging against currency risk on government bonds, 2.) a decline in currency and deposits of the central bank (EUR 2.6 billion), and 3.) an increase in FDI equity (EUR 1.2 billion). The net external debt in October 2015 was down EUR 3.8 billion in year-on-year terms, primarily as a result of an increase in claims.

The year-on-year fall in domestic prices and unit labour costs continued in the second half of 2015. These developments contrasted with those in the euro area overall, where average inflation began rising towards the end of the year, and wage growth exceeds growth in labour productivity. The competitiveness of the domestic export sector on euro area markets is thus continuing to increase. The strengthening of competitiveness on markets outside the euro area has slowed, primarily as a result of the weaker fall in the euro.

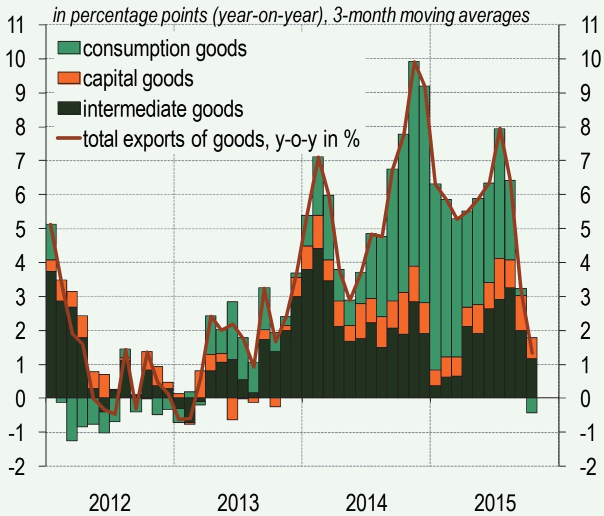
Current account position

The increase in the 12-month cumulative current account surplus came to a halt at a high level at the beginning of the final quarter of 2015. The 12-month current account surplus stood at 7.6% of GDP in October. The increase in the ratio of the 12-month merchandise trade surplus to GDP came to a halt, as growth in exports declined sharply after July. The surplus of trade in services continued to widen, largely as a result of growth in exports of travel services. At the same time the deficits in primary and secondary income amounted to 2% of GDP, 1.5 percentage points more than a year earlier. The main factor in the widening of the deficit in primary income was a reversal in estimated reinvested earnings from a significant surplus in 2014 to a deficit in 2015, while the deficit in secondary income was mainly attributable to a reduced inflow on EU funds for administering certain common policies.

Merchandise trade

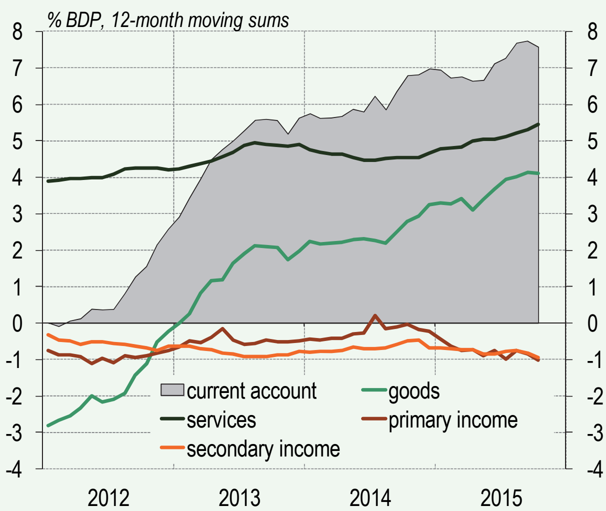
Nominal year-on-year growth in merchandise exports slowed more sharply than expected after July; the main factors in weaker imports were the fall in oil prices and weaker growth in domestic consumption. Year-on-year growth in exports in the second half of the year was reduced by a sharp base effect, which will continue in the first half of 2016. Nevertheless, growth falling below 3% and later a 1% contraction in October was worse than expected, the monthly rates of export growth having stagnated.[13] The contribution made by exports of cars began declining after July in line with the production cycle at Revoz, although exports of the majority of other major product categories also weakened, most notably medical and pharmaceutical products. October was particularly notable for the number of product categories that made a negative contribution to overall export growth. Growth in merchandise imports has also slowed sharply

Figure 4.2: Contributions of main BEC groups to export growth



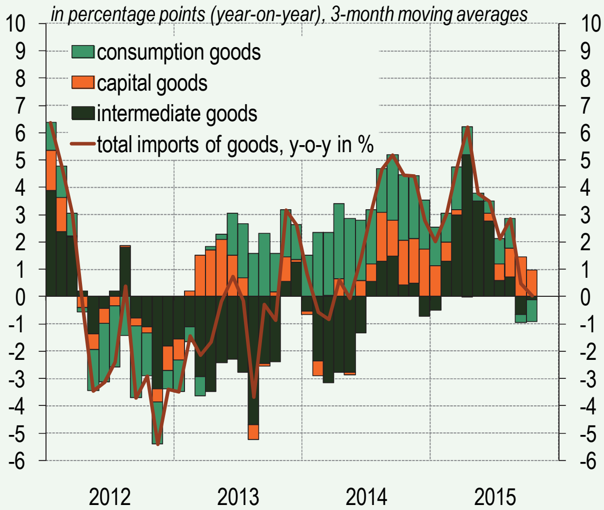
Source: SORS, Bank of Slovenia calculations.

Figure 4.1: Current account components



Source: Bank of Slovenia.

Figure 4.3: Contributions of main BEC groups to import growth



Source: SORS, Bank of Slovenia calculations.

[13] The sharper slowdown was most likely only temporary in nature: growth in merchandise exports resumed in November according to the initial SORS figures. Exports were up 4.4% in year-on-year terms, despite the high basis.

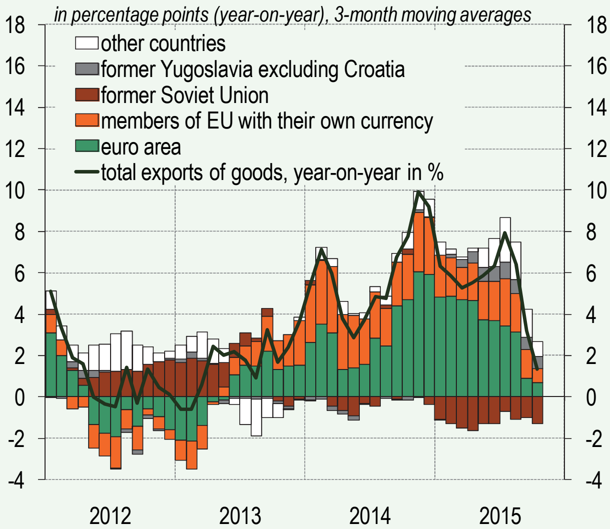
since June; imports were down 1% in year-on-year terms in October. The main factor in weak nominal imports was the fall in oil prices, while the contribution made by imports of road vehicles is also increasingly negative. At the same time the contribution made by imports of several other groups of consumer goods also declined significantly. Despite the weaker developments in later months, merchandise exports over the first ten months of the year were still up 4.5% in year-on-year terms, which widened the merchandise trade surplus by EUR 360 million to more than EUR 1.4 billion as imports increased by just 2.8%.

Growth in exports began falling after July in all the main groups of markets. The most pronounced decline in growth was recorded by exports to the euro area, which was largely attributable to a rising basis. The contribution made by exports to EU Member States outside the euro area and to non-traditional markets also declined significantly. Only growth in exports to Serbia and to Bosnia and Herzegovina slowed to a smaller extent. The sanctions between Russia and the West, the fall in the ruble and the crisis in Ukraine are coming to greater expression in this situation. As exports to other major markets mostly stagnated, October's year-on-year decline in total merchandise exports was almost entirely the result of the decline in exports to Russia and Ukraine.

Trade in services

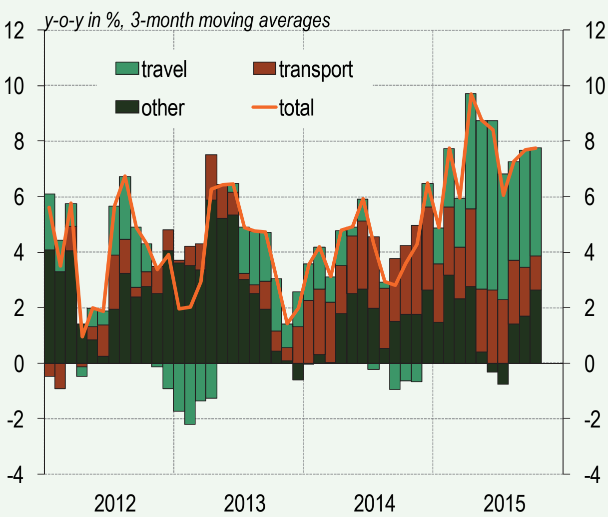
Growth in exports of services remained solid until October, while imports of services began declining after August. Exports of travel services were up significantly in year-on-year terms in September and October, in line with the rise in the number of arrivals and overnight stays by foreign travellers. Exports of services other than travel and transport also began increasing more sharply since July, most notably miscellaneous business services. Of the major categories, only transport services recorded a significant decline in growth in exports, in line with the developments in merchandise trade. A simultaneous decline in imports was seen in the majority of major services. Construction services were notable for their decline, which was in line with the decline in construction

Figure 4.4: Contributions to export growth by country groups



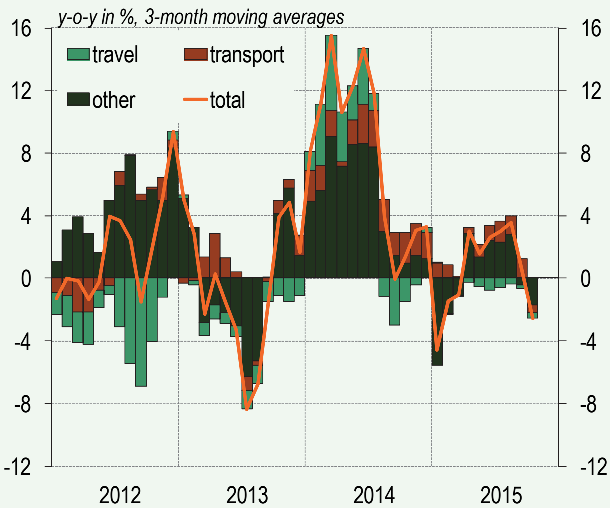
Source: SORS, Bank of Slovenia calculations.

Figure 4.5: Services exports



Source: Bank of Slovenia.

Figure 4.6: Services imports



Source: Bank of Slovenia.

investment by the government. The decline in imports of transport services was particularly sharp in October, and coincided with a decline in merchandise imports. At the same time the decline in imports of travel services continued.[14] Year-on-year growth in exports of services exceeded 7% over the first ten months of the year, which widened the surplus of trade in services by EUR 347 million to more than EUR 1.8 billion as imports declined.

Table 4.1: Components of the current account

				in 12 months to							
	2012	**2013**	**2014**	**Oct.14**	**Oct.15**	**14Q2**	**14Q3**	**15Q2**	**15Q3**	**Oct.14**	**Oct.15**
						in EUR million					
Current account balance	930	2,023	2,607	2,524	2,903	666	703	822	962	349	292
1. Goods	-81	708	1,210	1,038	1,572	299	309	416	486	180	178
2. Services	1,509	1,761	1,736	1,680	2,083	443	578	534	694	130	190
2.1. Transport	633	660	727	711	804	188	199	215	214	61	75
2.2. Travel	1,278	1,345	1,325	1,316	1,521	303	448	394	518	116	130
2.3. Other	-401	-243	-315	-347	-242	-48	-70	-75	-38	-47	-15
3. Primary income	-271	-172	-87	-14	-388	-7	-114	-9	-157	8	-54
3.1. Labour income	376	385	420	421	474	129	96	152	95	34	34
3.2. Investment income	-890	-867	-717	-683	-1,029	-215	-217	-254	-273	-33	-88
3.3. Other income	243	310	209	249	167	79	8	93	21	7	0
4. Secondary income	-227	-275	-252	-181	-364	-68	-70	-119	-61	31	-22
						in % of BDP					
Current account balance	2.6	5.6	7.0	6.8	7.6	7.0	7.3	8.3	9.7	11.0	8.9
1. Goods	-0.2	2.0	3.2	2.8	4.1	3.1	3.2	4.2	4.9	5.7	5.4
2. Services	4.2	4.9	4.7	4.5	5.4	4.6	6.0	5.4	7.0	4.1	5.8
2.1. Transport	1.8	1.8	1.9	1.9	2.1	2.0	2.1	2.2	2.2	1.9	2.3
2.2. Travel	3.6	3.7	3.6	3.5	4.0	3.2	4.7	4.0	5.2	3.7	4.0
2.3. Other	-1.1	-0.7	-0.8	-0.9	-0.6	-0.5	-0.7	-0.8	-0.4	-1.5	-0.5
3. Primary income	-0.8	-0.5	-0.2	0.0	-1.0	-0.1	-1.2	-0.1	-1.6	0.3	-1.6
3.1. Labour income	1.0	1.1	1.1	1.1	1.2	1.3	1.0	1.5	1.0	1.1	1.0
3.2. Investment income	-2.5	-2.4	-1.9	-1.8	-2.7	-2.2	-2.3	-2.6	-2.7	-1.0	-2.7
3.3. Other income	0.7	0.9	0.6	0.7	0.4	0.8	0.1	0.9	0.2	0.2	0.0
4. Secondary income	-0.6	-0.8	-0.7	-0.5	-1.0	-0.7	-0.7	-1.2	-0.6	1.0	-0.7
						nominal year-on-year growth rates in %					
Export of goods and services	1.6	2.4	5.7	4.8	5.6	3.8	6.3	6.5	4.6	8.3	0.1
Export of goods	1.0	2.1	6.0	5.0	5.2	3.4	7.3	6.0	3.8	8.7	-1.0
Export of services	4.1	4.1	4.5	4.1	7.1	5.9	2.8	8.4	7.7	6.8	5.4
Transport	2.9	3.9	9.4	8.8	7.6	9.1	10.0	9.4	7.2	10.0	1.5
Travel	1.7	1.5	0.8	0.9	9.5	2.1	-2.0	17.4	9.3	1.4	6.9
Other	8.0	7.1	5.0	4.0	4.2	7.3	5.1	-0.9	5.7	10.0	7.1
Import of goods and services	-2.3	-1.6	4.3	4.3	2.5	4.2	5.1	4.0	0.7	4.0	-2.3
Import of goods	-3.1	-1.7	3.8	3.7	3.0	2.6	6.2	4.2	0.7	2.9	-1.0
Import of services	2.8	-1.2	7.5	7.7	-0.3	14.7	-0.1	2.6	0.6	10.5	-9.8
Transport	-1.6	3.4	8.8	8.1	2.6	11.3	8.7	4.4	6.8	8.1	-15.6
Travel	-10.6	-4.9	5.4	4.4	-1.5	19.1	-9.9	-3.8	-0.8	5.3	-3.4
Other	10.0	-1.6	7.8	8.7	-1.0	14.5	2.8	4.1	-0.8	12.8	-9.3

Note: Shares in GDP are calculated on the basis of monthly estimates of GDP.
Source: Bank of Slovenia.

[14] The decline in residents' expenditure on travel in the rest of the world has coincided with a rise in the number of arrivals and overnight stays at domestic tourist destinations.

Box 4.1: Inward FDI in Slovenia[1]

Inward FDI in Slovenia recorded a net increase of EUR 789 million over the first ten months of 2015. Equity increased by EUR 1,071 million, while liabilities under debt instruments declined by EUR 282 million.

The stock of inward FDI stood at EUR 10.1 billion at the end of 2014, up 14% on the end of 2013. Foreign owners provided net financing to Slovenian firms throughout the period between 1994 and 2014.[2] Debt instruments accounted for 15.2% of total FDI on average, the figure reaching 20.0% in 2014.

EU Member States were prevalent among investor countries, and accounted for 85% of total inward FDI in Slovenia in value terms at the end of 2014. The most important of these investors is Austria, which accounted for 34% of all inward FDI. Switzerland stood in second place, with 11% of the total.

The breakdown of inward FDI by sector reveals the highest concentration of FDI in the sectors of retail trade except motor vehicles and financial services except insurance and pension funding. Service activities are prevalent over the longer term: they accounted for 65% of the total value of inward FDI in 2014. Annual growth in FDI in service activities averaged 8% over the last ten years, the rate reaching 16% in 2014.

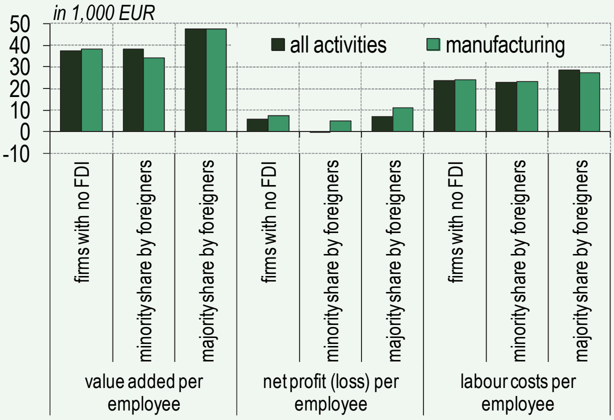
In the breakdown by statistical region, the highest concentration in total inward FDI in value terms was in the region of Central Slovenia, which accounted for 63% of the total at the end of 2014. It was followed by Gorenjska and the Coastal-Karst region with 6% and Podravska with 5%.

At the end of 2014 firms with FDI accounted for 4.5% of the entire population of Slovenian firms (excluding financial intermediaries), the same figure as in 2013. The most important sector was manufacturing, which in 2014 accounted for 12% of all firms with FDI and employed nearly half of all employees at firms with foreign capital.

Net profit per employee and value-added per employee amounted to EUR 5,420 and EUR 40,414 respectively in the manufacturing sector overall (the sector with the most employees) in 2014. The figures at manufacturing firms with FDI were higher, at EUR 8,366 and EUR 45,562 respectively. Net profit per employee and value-added per employee in the sector of trade and repair of motor vehicles (the second most important sector in terms of number of employees) amounted to EUR 3,796 and EUR 37,596 respectively, compared with higher figures of EUR 4,453 and EUR 41,111 respectively at firms with FDI in this sector.

A comparison of wages for 2014 at firms with FDI indicates that workers employed at these firms received above-average wages. The average annual wage per employee of EUR 20,101 at firms with FDI was 12% higher than the overall average of EUR 17,872. The average wage of employees at firms with FDI in the manufacturing sector exceeded the average wage in the sector by 8%, while the average wage at firms with FDI in the sector of trade and repair of motor vehicles was 10% higher than the sector average.

Figure 1: Performance indicators of the companies in Slovenian corporate sector in 2014



Note: Firms with no FDI - less than 10% of its equity shares belong to foreign investors. Minority share by foreigners - more than 10% and less than 50% of its equity shares belong to foreign investors. Majority share by foreigners - more than 50% of its equity shares belong to foreign investors.
Source: Bank of Slovenia.

[1] Detailed figures for FDI and descriptions of methodology are available in the Bank of Slovenia's Direct Investment 2014 publication, which can be viewed at: http://www.bsi.si/iskalniki/ekonomski-odnosi-s-tujino-en.asp?MapaId=714.

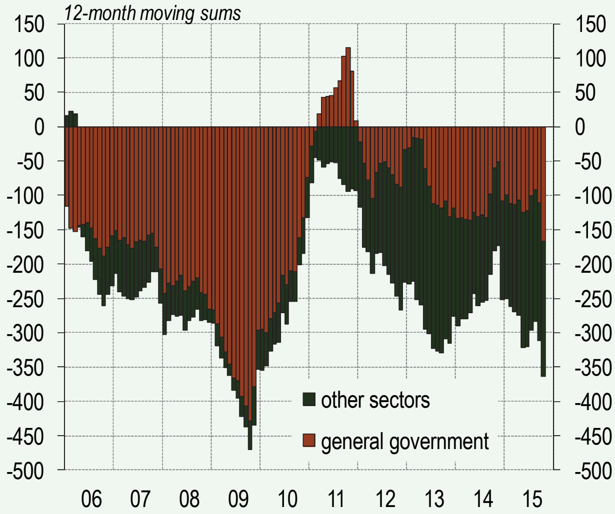
[2] Net financing is defined as liabilities minus claims vis-à-vis foreign owners.

Primary and secondary income

After remaining unchanged between April and August, the deficit in primary income widened again in year-on-year terms in September and October. This was attributable to an increase in the deficit in income from FDI, most notably dividends paid to non-resident owners of firms in Slovenia. The change in the position in reinvested earnings remained the main factor in the year-on-year widening of EUR 300 million in the deficit in primary income over the first ten months of the year. Reinvested earnings recorded a surplus of EUR 379 million over the first ten months of 2014, compared with a deficit of EUR 71 million over the same period of 2015.[15]

The position in secondary income also deteriorated in year-on-year terms in September and October. It recorded a deficit of EUR 30 million in total, compared with a surplus of EUR 50 million over the same months of 2014. The difference is primarily attributable to the smaller inflows of EU funds for administering certain common policies. The year-on-year widening of EUR 112 million in the deficit in secondary income over the first ten months of the year was attributable to the government sector's wider deficit, primarily as a result of a decline in EU funds, and to the wider deficit recorded by other sectors.

Figure 4.8: Net secondary income

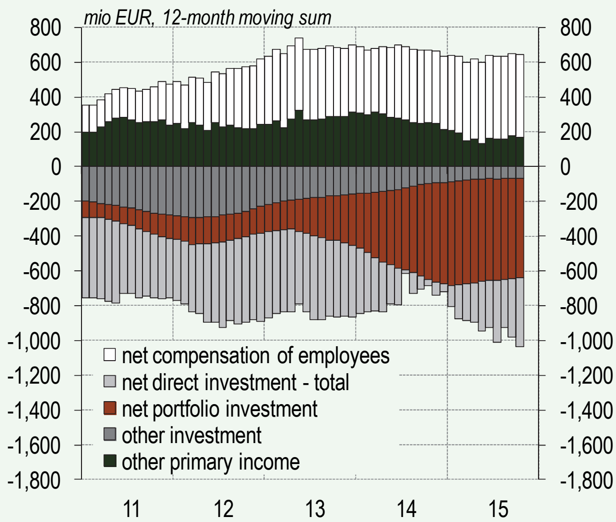


Source: Bank of Slovenia.

Financial account

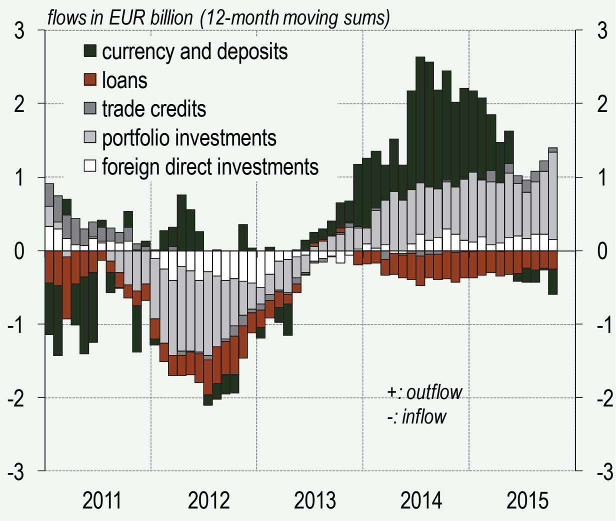
FDI accounted for EUR 680 million of the net increase in liabilities to the rest of the world over the first ten months of the year. Analysis of FDI in terms of direction of investment reveals that inward FDI increased by EUR 789 million over the first ten months of the year, the majority in the form of equity (EUR 1,185 million).[16] The largest contributions came from the increases in equity in March (EUR 308 million) and August (EUR 371 million), although both instances primarily involved debt-to-equity

Figure 4.7: Net primary income



Source: Bank of Slovenia.

Figure 4.9: Private sector's financial claims on the rest of the world



Source: Bank of Slovenia.

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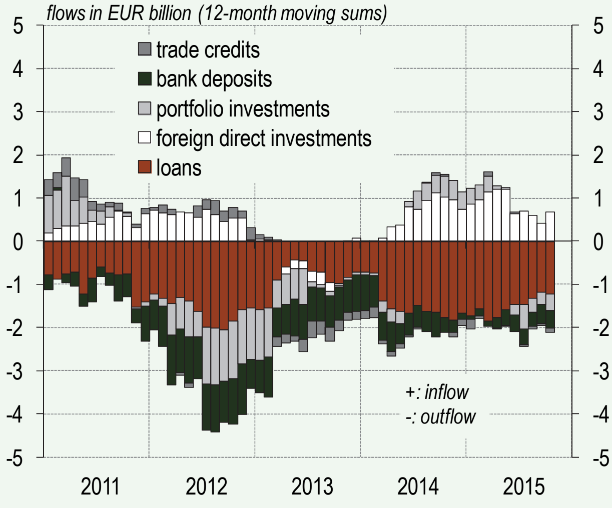
[15] For a detailed description of the recording of reinvested earnings in statistics of international economic relations, see Economic and Financial Developments with Projections, October 2015, p 45.

[16] Reinvested earnings and net debt reduced FDI by EUR 114 million and EUR 208 million respectively.

conversion. Equity increased by EUR 217 million in October, mostly by means of the proceeds from several instances of the sale of firms to foreign owners. Outward FDI increased by EUR 109 million over the same period. The corresponding increase in equity was EUR 129 million, and debt contributed EUR 164 million to the increase, while estimated reinvested earnings reduced overall transactions in outward FDI by EUR 184 million.

Investments in securities recorded a net outflow of EUR 1.8 billion over the first ten months of the year. The majority of the transactions related to debt securities. Holdings of debt securities increased by EUR 1.3 billion, the largest proportion of which was at the central bank (EUR 429 million), followed by pension funds (EUR 216 million), and captive financial institutions and

Figure 4.10: Private sector's financial liabilities to the rest of the world



Source: Bank of Slovenia.

Table 4.2: Components of the financial and capital account

	in 12 months to										
	2012	2013	2014	Oct.14	Oct.15	14Q2	14Q3	15Q2	15Q3	Oct.14	Oct.15
						in EUR million					
1. Private sector	2,233	2,958	3,033	2,966	2,516	850	88	940	566	419	127
Claims	-690	1,385	2,411	2,619	1,312	1,239	-77	323	296	642	447
Capital transfers	391	399	791	493	825	130	132	137	127	33	39
Outward FDI	-439	24	146	295	158	45	-42	166	-23	125	58
Portfolio investments and fin. der.	-304	286	867	671	1,133	239	172	110	299	6	310
Trade credits	-48	20	-15	21	65	78	-48	29	-6	103	23
Loans	-277	-189	-348	-381	-252	-86	-108	-101	-30	1	-20
Currency and deposits	34	846	1,239	1,489	-340	871	-160	3	-75	341	26
- Households	-79	264	56	109	55	69	-32	110	-34	7	106
- Banks	-17	473	1,201	1,366	-431	799	-99	-32	28	312	-73
- Enterprises	130	109	-18	13	36	2	-29	-75	-69	22	-7
Other claims	-47	-2	-11	31	-20	-37	-23	-22	4	32	11
Liabilities	-2,923	-1,573	-622	-347	-1,204	389	-166	-617	-270	223	320
Capital transfers	235	206	266	249	281	65	75	57	68	16	23
Inward FDI	27	71	746	1,031	683	590	308	89	77	95	363
Portfolio investments and fin. der.	-1,301	-128	378	439	-414	164	217	-442	183	67	-34
Trade credits	291	-182	-135	50	-93	75	-49	6	-135	88	50
Loans	-1,552	-718	-1,655	-1,763	-1,213	-334	-711	50	-440	-105	-135
- Enterprises	-261	301	-802	-888	-623	-140	-270	145	-190	-106	-100
- Banks	-1,291	-1,019	-853	-876	-590	-194	-441	-96	-250	1	-36
Deposits at banks	-670	-849	-156	-353	-413	-133	9	-388	-34	4	24
Other liabilities	47	27	-67	0	-35	-39	-15	11	11	58	30
2. Government	-729	-3,506	-3,695	-5,283	2,067	-674	33	2,128	497	191	666
3. Bank of Slovenia	-1,687	1,828	3,177	4,030	-1,511	435	554	-2,062	-371	-522	-568

Note: + (increases in claims/liabilities), - (decreases in claims/liabilities), net items are calculated as net claims - net liabilities.
Source: Bank of Slovenia.

money lenders together with insurance corporations (a total increase of EUR 328 million in holdings). Liabilities under debt securities declined by EUR 0.4 billion over the first ten months of the year. The banks made the largest contribution to the decline in liabilities (EUR 293 million). The government paid down debt via this instrument in the first half of the year, then in July increased its debt in the form of long-term debt securities for the first time since November 2014, in the amount of just under EUR 1 billion. The government sector's cumulative transactions in this instrument in 2015 disclosed a decline of EUR 113 million in debt.

External debt

The gross external debt amounted to EUR 44.8 billion at the end of October, down EUR 0.7 billion on a year earlier. All sectors other than the general government sector, whose debt increased by EUR 2.0 billion over one year, reduced their debt levels. The general government sector accounted for the largest proportion of the gross external debt (51%), followed by other sectors (25%) and banks (12%).

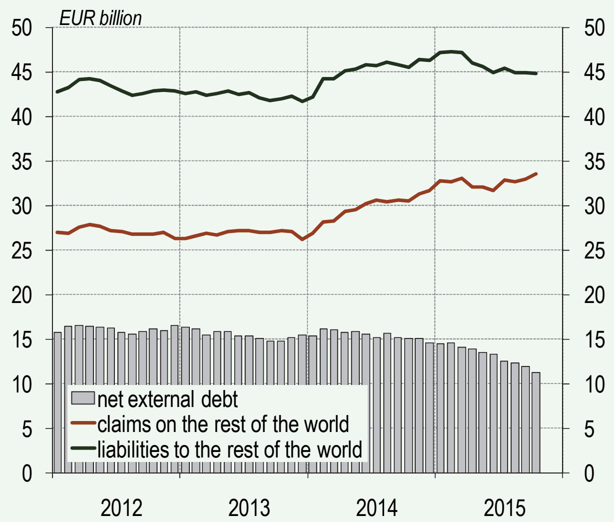
Gross external claims amounted to EUR 33.6 billion at the end of October, up EUR 3.1 billion on a year earlier. The largest year-on-year change was recorded by the general government sector, which increased its external claims by EUR 4.3 billion, primarily via currency and deposits, which was related to currency risk hedging for government securities and the placement of the proceeds of bond issues in accounts in the rest of the world.

As a result the net external debt stood at EUR 1.2 billion at the end of October, down EUR 3.8 billion on the end of October 2014. Net external debt was held by the general government sector (EUR 16.6 billion), other sectors (EUR 1.1 billion) and capital affiliates (EUR 0.1 billion). The central bank and the banks were net creditors of the rest of the world, in the amount of EUR 5.0 billion and EUR 1.6 billion respectively.

Selected competitiveness indicators

The price competitiveness of the Slovenian economy strengthened again in the second half of 2015. The year-on-year fall in domestic prices remained at the record levels seen in the first half of the year, while average inflation across the euro area began to rise towards the end of the year. Slovenia's harmonised price competitiveness indicator against the euro area thus again depreciated. The improvement in domestic exporters' price competitiveness on major markets outside the euro area slowed slightly as a result of the weaker depreciation of the euro. The year-on-year depreciation in Slovenia's harmonised price competitiveness indicator relative to 19 trading partners outside the euro area nevertheless remained pronounced.

Figure 4.11: External debt

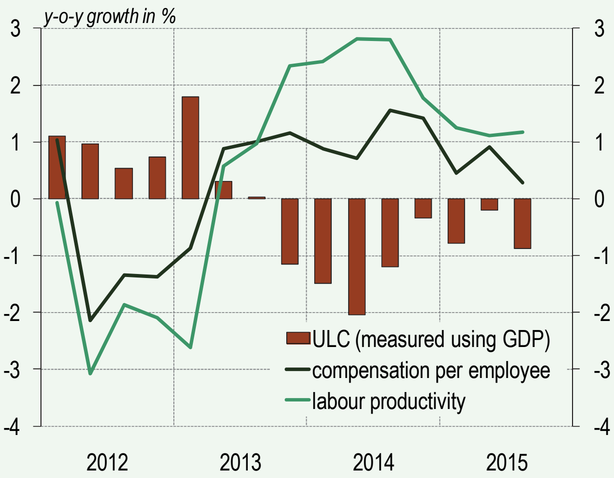


Source: Bank of Slovenia.

Figure 4.12: Harmonised price competitiveness indicators (based on HICP/CPI deflators)

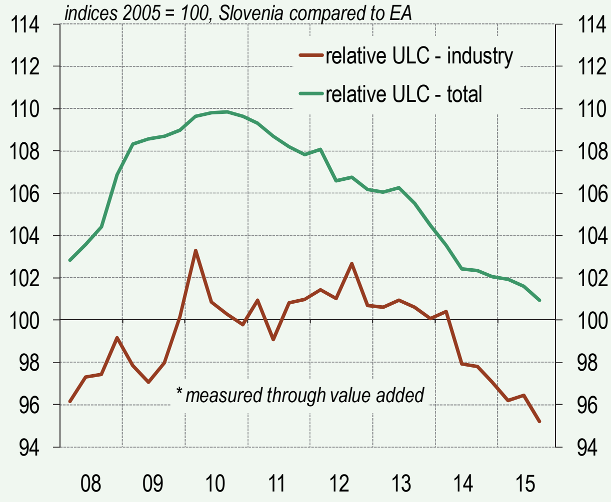
Source: ECB.

Figure 4.13: Labour productivity, ULC and compensation per employee – total economy, Slovenia



Source: Eurostat, Bank of Slovenia calculations.

Figure 4.14: Nominal unit labour costs* in relative terms



Source: Eurostat, Bank of Slovenia calculations.

Slovenian exporters' cost competitiveness on the euro area markets has continued to improve. Domestic unit labour costs have been falling in year-on-year terms for more than two years, as growth in labour productivity has outpaced wage growth. The overall developments across the euro area have been the reverse, as wage growth has outpaced growth in labour productivity, as a result of which unit labour costs are rising. Unit labour costs in industry in Slovenia were almost 5% lower than the euro area average in the third quarter of 2015, while those in the total economy were just 1% higher.

5 Financing of Non-Financial Corporations, Households and Banks

With the exception of the general government sector, all the domestic institutional sectors have recorded financial surpluses for the third consecutive year. The overall surplus against the rest of the world over the 12 months to the second quarter amounted to 6.2% of GDP, an indication that national saving is significantly larger than investment. Corporate saving has now surpassed the level seen before the crisis. At the same time investment is merely half of its pre-crisis level, although the level of investment was unsustainably high at that time. The non-financial corporations sector also directed its surplus into paying down debt, while households directed their surplus into currency and bank deposits. The restoration of confidence in the banks has improved their funding structure, thereby reducing systemic risks, although the shortening of average funding maturities is simultaneously increasing the instability of funding structure. Despite favourable financing conditions and increasing demand for loans, the banks have remained cautious with regard to investments.

Financing of domestic institutional sectors and the rest of the world

The large surplus in the current account is an indication of a surplus in national saving over investment. The domestic institutional sectors' financial surplus against the rest of the world increased from 2.7% of GDP in 2013 to 5.8% of GDP in 2014, and amounted to 6.2% of GDP on an annualised basis in the second quarter of 2015. Saving is significantly larger than investment in the non-financial corporations sector and has already exceeded its pre-crisis level, while investment is half of its level of 2008.[17] The non-financial corporations sector's surplus remained at the level of 4.4% of GDP, as non-financial corporations also directed the surplus into paying down debt and improving their financing structure. Households remain cautious with regard to consumption. The household sector's surplus has been increasing since the middle of 2013, and reached 2.8% of GDP in the second quarter of 2015 on an annualised basis, which was primarily reflected in an increase in holdings of currency and deposits. After temporarily increasing in the wake of measures to stabilise the banking system in late

Figure 5.1: Financing of institutional sectors

Source: Bank of Slovenia - nonconsolidated financial accounts, SORS.

[17] The ratio of investment to GDP stood at 29.6% in 2008, 6.6 percentage points more than in the euro area overall.

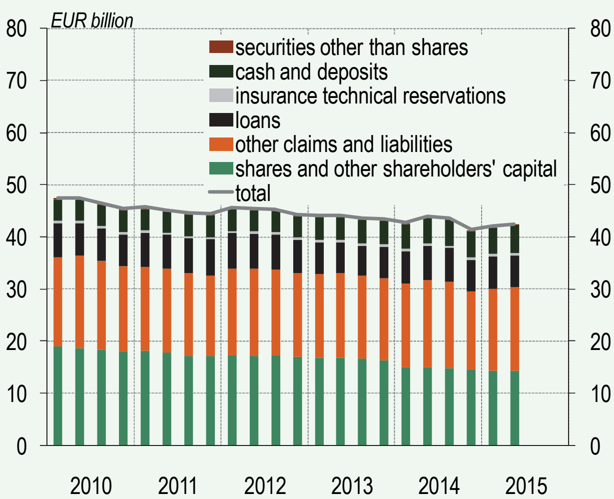
2013, the financial corporations sector's surplus and the government sector's deficit have returned to a stable level. Financial corporations recorded a surplus of 3% of GDP on an annualised basis in the second quarter of 2015. The banks, with a surplus of 2% of GDP, continued to reduce their total assets. The government sector's deficit amounted to 4% of GDP.

Corporate financial assets and financing

The financial assets of non-financial corporations stood at EUR 42.5 billion at the end of the first half of 2015, having declined by EUR 2 billion in 2014, but increased by EUR 1.1 billion over the first half of 2015. Non-financial corporations saw an increase in other accounts receivable, most notably intra-sector, and in trade credits and advances in the first half of 2015, particularly vis-à-vis the rest of the world, while business-to-business lending continued to decline. Bank deposits and loans to the rest of the world also increased.

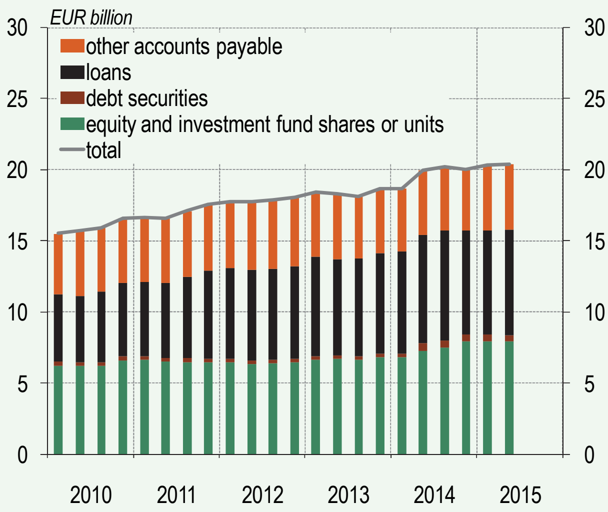
Corporate deleveraging slowed during the first half of 2015. The liabilities of non-financial corporations stood at EUR 82.8 billion at the end of the first half of 2015, having declined by EUR 1.9 billion in 2014, and by EUR 0.2 billion over the first half of 2015.[18] Non-financial corporations reduced their liabilities from loans in the first half of 2015, paying down debt to the government sector, intra-sector and at banks, but borrowing in the rest of the world. They also recorded a decline in their liabilities from equity, primarily via revaluations. Other accounts payable increased intra-sector and to the government sector, while liabilities from trade credits and advances increased vis-à-vis the rest of the world but declined intra-sector.

Figure 5.2: Financial claims towards the rest of the world – NFCs (S.11)



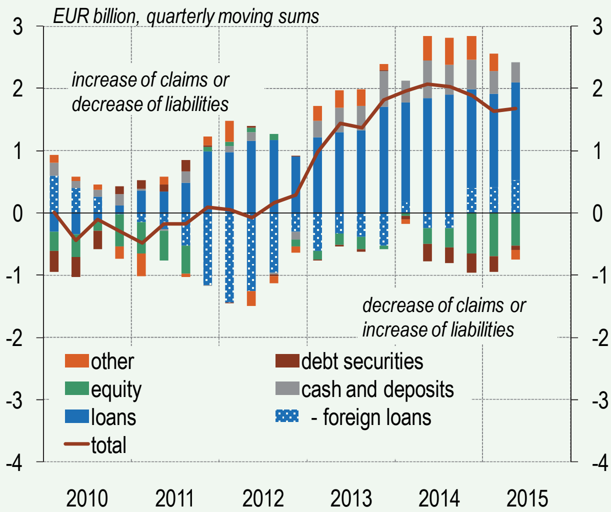
Source: Bank of Slovenia.

Figure 5.3: Financial liabilities of NFCs (S.11) to rest of the world



Source: Bank of Slovenia, non-consolidated data.

Figure 5.4: Net financial transactions of NFCs (S.11)



Source: Bank of Slovenia, consolidated data.

Comparing the indebtedness of Slovenian non-financial corporations with the euro area average is highly dependent on the choice of indicator. The debt-to-equity ratio in financing stood at 124% in the second quarter of 2015, down 23 percentage points on its peak in the second quarter of 2010, but still 34 percentage points higher than the average across the euro area. In terms of this indicator only six of the 19 euro area countries were

[18] Liabilities from loans and debt securities declined by EUR 1.7 billion in 2014, and by EUR 587 billion over the first half of 2015.

Box 5.1: What the financial accounts show[1]

The period of 2002 to 2008 saw rapid borrowing at banks by non-financial corporations, which was mostly funded from the rest of the world, in the context of a relatively strong surplus in the household sector and a moderate deficit in the general government sector. Revaluation changes in connection with shares had a major impact on the net financial positions of the institutional sectors in 2007 and 2008. The crisis and post-crisis period of 2009 to 2014 was marked by a loss of funding from the rest of the world, intensified debt repayments in the rest of the world by banks, a large general government deficit, which in 2013 was primarily related to bank recovery and resolution, and a stable household surplus. The highly leveraged non-financial corporations have been deleveraging since 2012.

The deleveraging process of non-financial corporations and financial corporations was gradually slowing by the first half of 2015. The indebtedness of non-financial corporations in Slovenia has declined more over the last two years than in the euro area overall, thereby improving their financing structure. The banks remain cautious in lending to non-financial corporations and households. The net financial surplus vis-à-vis the rest of the world remained large, while the general government deficit gradually narrowed, and the household surplus was unchanged.

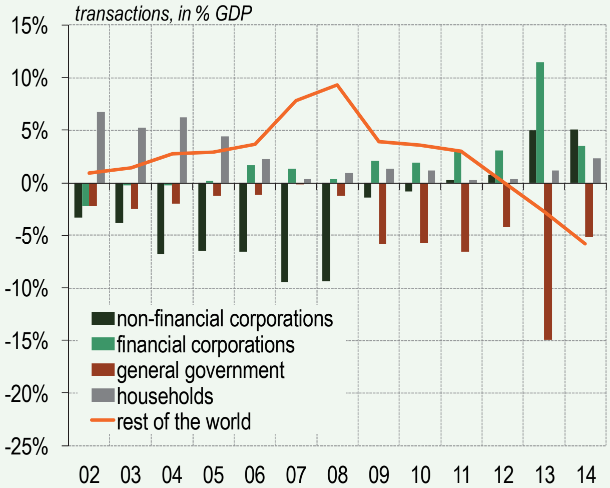
The ratio of non-financial corporations' debt (liabilities minus equity) to GDP stood at 123% in Slovenia at the end of 2014 (down 23 percentage points between 2009 and 2014), compared with 141% across the euro area (down 4 percentage points). When other accounts payable, primarily trade credits and advances, are excluded from the calculation of debt, the indicators of Slovenian non-financial corporations' indebtedness become even more favourable compared with the euro area overall. The debt figure adjusted in this manner stood at 82% of GDP in Slovenia, compared with 108% of GDP across the euro area. Leverage calculated as the debt-to-equity ratio reached 123% in Slovenia (down 19 percentage points between 2009 and 2014), compared with 97% across the euro area (down 16 percentage points).

The banks are continuing to make debt repayments in the rest of the world, and are limiting lending to non-financial corporations and households. On the asset side of the balance sheet, the banks have reduced the stock of loans to the

Figure 2: Liabilities of other monetary financial institutions to the rest of the world

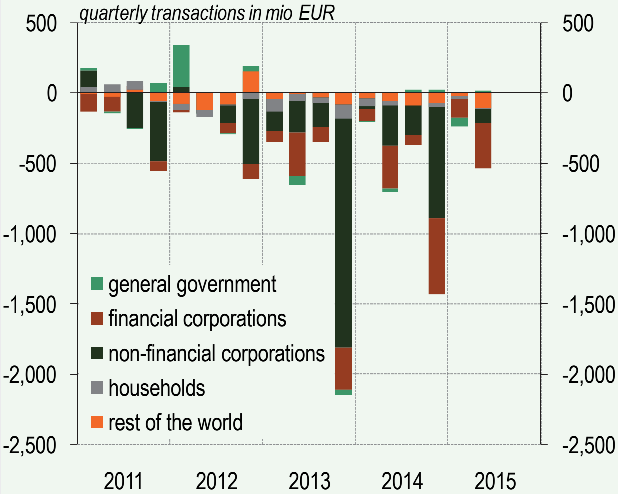
Source: Bank of Slovenia – non-consolidated financial accounts.

Figure 1: Net financial claims of domestic sectors and the rest of the world



Source: Bank of Slovenia.

Figure 3: Claims of other monetary financial institutions from loans

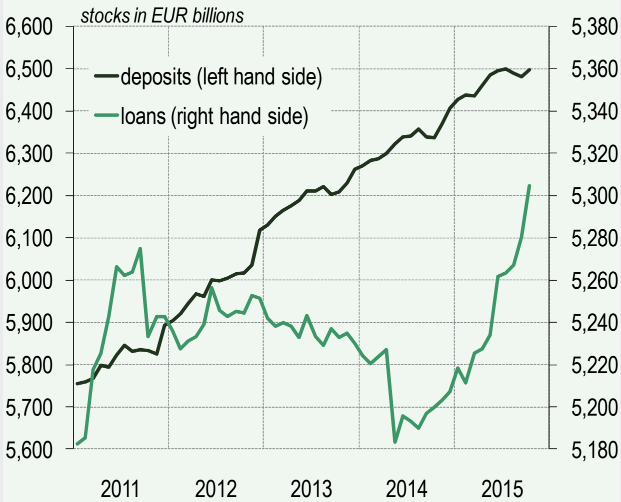


Source: Bank of Slovenia – non-consolidated financial accounts.

Figure 4: Deposits and loans of households in Slovenia

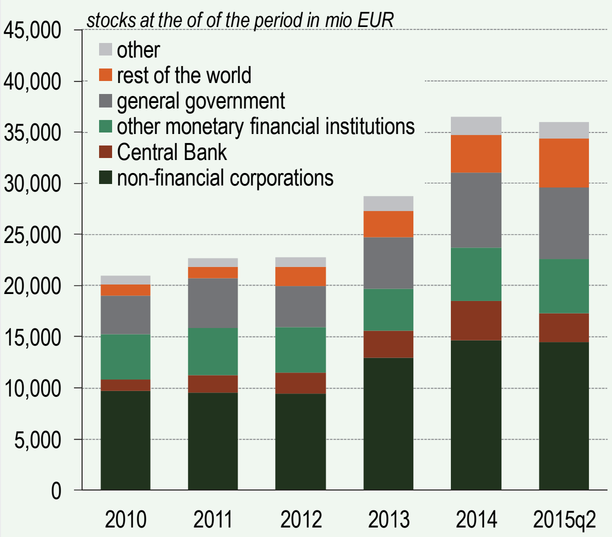
Source: ECB.

Figure 5: Deposits and loans of households in euro area



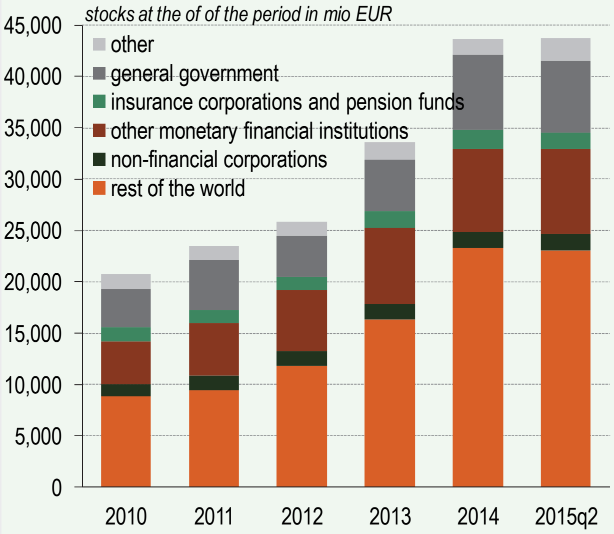
Source: ECB.

Figure 6: Financial assests of general government



Source: Bank of Slovenia – non-consolidated financial accounts.

Figure 7: Liabilities of the General government



Source: Bank of Slovenia – non-consolidated financial accounts.

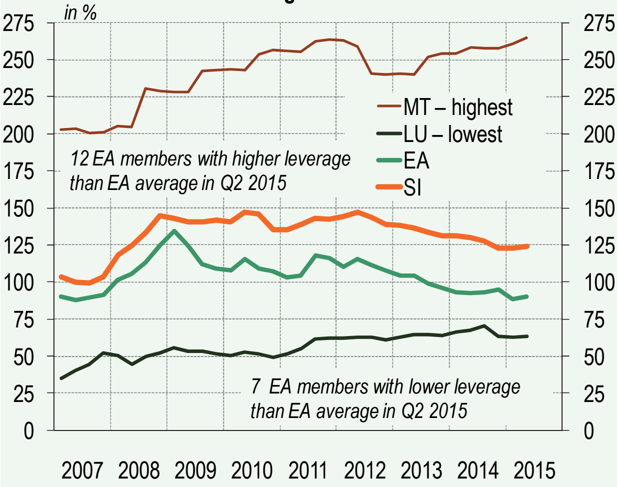
non-banking sector in recent years despite surplus liquidity, and have increased their investments in securities.

The trend of increasing household financial assets continued in 2015, while transactions declined. Household deposits increased by 5.9% between the beginning of 2014 and the end of the third quarter of 2015. Sight deposits account for the majority (more than 50%), an indication of the response to low deposit rates. Household liabilities from loans have remained almost unchanged in the last year, and indication of the limited lending by banks. The increase in the stock of loans was almost exclusively the result of exchange rate differences (a change in the Swiss franc exchange rate). Both deposits and loans in the euro area have increased by around 1% in the last year and a half.

The government sector's financial assets declined slightly in the first half of 2015, while its liabilities were unchanged. The government invests the majority of its assets in banks in the rest of the world, where positive interest rates are available on deposits of more than 6 months. On the liability side, the largest debt is in the form of debt securities, most notably vis-à-vis the rest of the world (67%), banks (22%) and pension funds (5%).

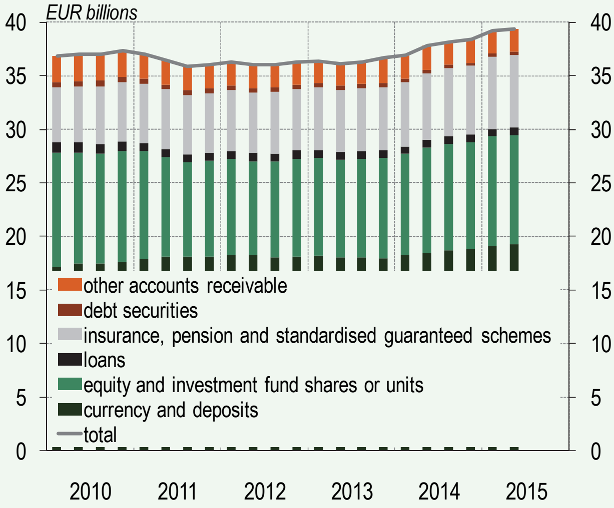
[1] A comprehensive overview of Slovenia's financial accounts by institutional sector with tables and graphs can be found at http://www.bsi.si/iskalniki/financial-accounts.asp?MapaId=923.

Figure 5.5: Cross EA-country comparison of financial leverage* of firms



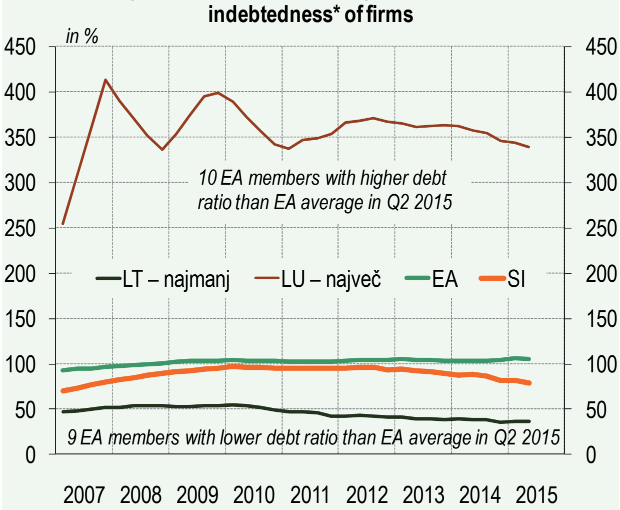
Note: * Debt to equity ratio.
Source: ECB, Bank of Slovenia calculations.

Figure 5.7: Financial assets of households (S.14 and S.15)



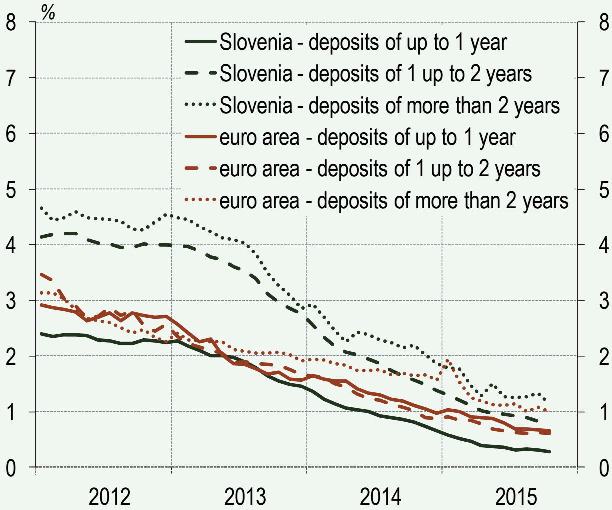
Source: Bank of Slovenia, non-consolidated data.

Figure 5.6: Cross EA-country comparison of indebtedness* of firms



Note: * Debt (loans + debt securities) to GDP ratio.
Source: ECB, Bank of Slovenia calculations.

Figure 5.8: Interest rates on household deposits, by maturity



Source: ECB, Bank of Slovenia.

more indebted than Slovenia in the second quarter. At the same time the ratio of debt to GDP stood at 79%, 26 percentage points less than the euro area average. In terms of this indicator 12 euro area countries were more indebted than Slovenia in the second quarter.

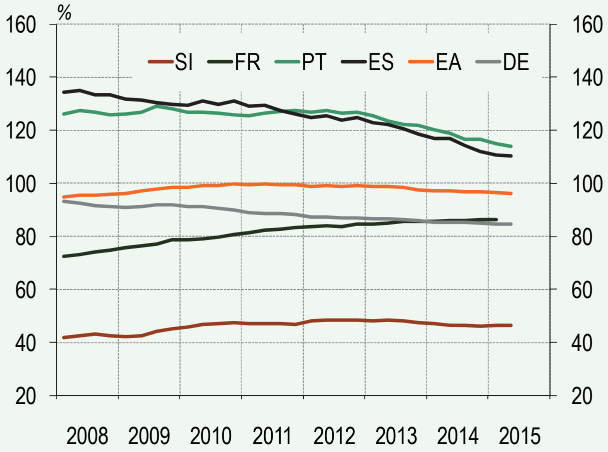
Household financial assets and financing

Household financial assets stood at EUR 39.4 billion at the end of the first half of 2015, having increased by EUR 1.7 billion in 2014, and by EUR 0.9 billion over the first half of 2015. Households remain cautious with regard to consumption, and are primarily investing their surpluses in currency and deposits. The increase in household deposits is an indication of the renewed confidence in the domestic banks.

The fall in interest rates remains an additional factor in the shortening of average deposit maturity. Interest rates on deposits of all maturities fell in 2014 in Slovenia and in other euro area countries, and continued to fall in 2015 in the wake of additional measures by the ECB. Interest rates on short-term deposits in Slovenia remain below the euro area average, while interest rates on medium-term and long-term deposits in Slovenia are now entirely comparable to the euro area averages.

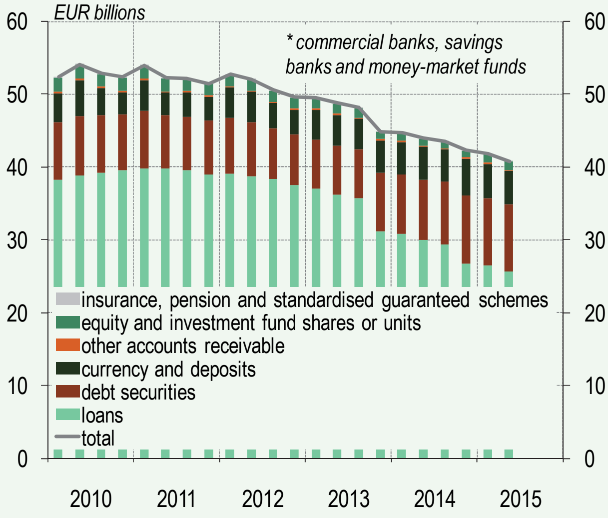
Despite the favourable financing situation, households have not undertaken additional borrowing, and

Figure 5.9: Cross country comparison of household indebtedness*



*Note: * Indebtedness is calculated as debt (loans+debt securities) over gross disposable income.*
Source: ECB.

Figure 5.11: Financial assets of banks* (S.122 and S.123)



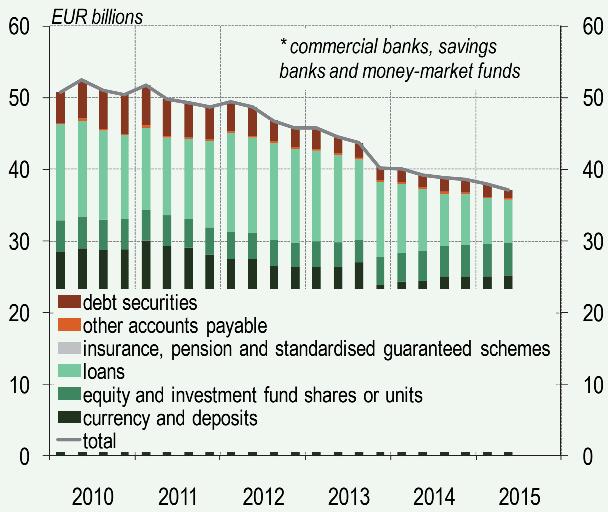
Source: Bank of Slovenia, non-consolidated data.

remain among the least-indebted in the euro area. Household financial liabilities amounted to EUR 12.2 billion at the end of the first half of 2015, virtually unchanged over the preceding two years. The stock of bank loans, which are the most important form of household borrowing, began to increase in May 2015 after falling for three years. Household indebtedness in Slovenia thus remains low, and is barely half of the euro area average.

Bank funding and investments

Debt repayments on foreign markets and the increased confidence in the banking system are bringing a gradual improvement in the structure of bank funding. The restoration of confidence in the domestic banks is being evidenced in a gradual rise in deposits by the non-banking sector, households and non-financial corporations in particular, although sight deposits account for an increasing proportion. Deposits by the non-banking sector accounted for 67% of total bank funding at the end of the first half of 2015. Because deposits are the most stable and important source of bank funding, the systemic risks associated with refinancing on foreign markets are also diminishing. In the first half of this year the banks succeeded in repaying a portion of the liabilities to the ECB, which as a ratio to total liabilities are now below their pre-crisis level, while loan liabilities to domestic and foreign banks and liabilities from debt securities have also declined (particularly to the rest of the world). Debt repayments on foreign markets were the largest factor in the contraction of the balance sheet. Banks' total financial liabilities stood at EUR 37.1 billion at the end of the first half of 2015, having declined by EUR 1.7 billion in 2014, and by EUR 1.5 billion over the first half of 2015. The structure of bank funding has altered significantly in the last year, and is becoming similar to that seen before the period of increased borrowing in the rest of the world by the banks.

Figure 5.10: Financial liabilities of banks* (S.122 and S.123)



Source: Bank of Slovenia, non-consolidated data.

Despite favourable financing conditions and increasing demand for loans, the banks have remained cautious with regard to investments. Lending activity is continuing to contract. Banks' total financial assets stood at EUR 40.8 billion at the end of the first half of 2015,

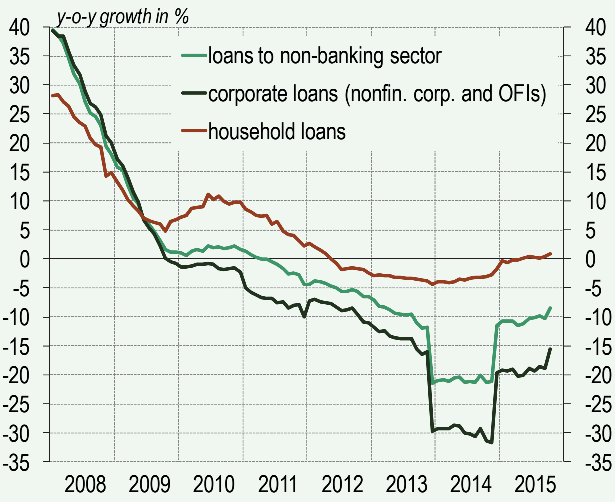
Box 5.2: Bank performance in the first ten months of 2015

The situation in the banking system improved in 2015, as a result of the effects of the stabilisation measures and the improved macroeconomic environment. Credit risk is diminishing, but remains one of the most significant risks in the system, on account of portfolio segments that are still heavily burdened by non-performing claims. The decline in credit risk has had a favourable impact on bank profitability, but the environment of low interest rates and the ongoing contraction in balance sheets is maintaining income risk at a high level. The widening maturity gap between assets and liabilities is increasing interest rate risk, particularly in a situation of increased remuneration of long-term investments at fixed rates without adequate hedging on the liability side. The decline in dependence on wholesale funding and the prevalence of domestic funding are helping to further reduce refinancing risk, although the instability of funding structure is increasing owing to the simultaneous shortening in average funding maturity.

Lending activity remains weak, although the pace of the contraction in loans is slowing. The year-on-year contraction in loans to the non-banking sector reached 8.5% at the end of October. A turnaround in corporate lending is still uncertain, although certain indicators suggest a more favourable dynamic in the future. Loans to non-financial corporations were down 14.5% in year-on-year terms at the end of October. Corporate demand for loans is strengthening, above all loans for investment purposes. The proportion of new corporate loans accounted for by long-term loans is increasing, a reflection of the banks' search for higher returns on the longer part of the yield curve. Growth in household loans has been positive since May 2015, the year-on-year rate reaching 0.9% at the end of October. This was largely attributable to growth in housing loans, which remained at 2.6%, while the contraction in consumer loans is continuing to slow.

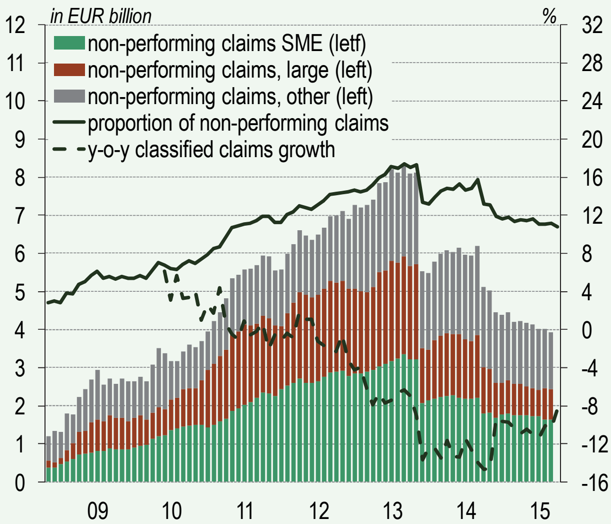
The banks' refinancing risk remains at a relatively low level. After several years of debt repayments, dependence on wholesale funding was relatively low in October at 12.5% of total liabilities, and the maturity structure of the residual debt was more favourable than in previous years. The stock and burden of debt to the rest of the world declined very sharply in previous years. The banks will see just over EUR 1 billion of debt fall due on the wholesale market in the year to October 2016, or a quarter of residual debt to the rest of the world, while the amount falling due within a year stood at EUR 1.9 billion a year earlier, and accounted for almost a third of total liabilities. Surplus liquidity and the availability of liquidity via the ECB's non-standard measures are having a beneficial impact in reducing refinancing risk. Funding via deposits by the non-banking sector is stable and maintaining positive year-on-year growth, the rate standing at 2.1% in October. Household deposits were up 3.4% in year-on-year terms. A specific risk entails a decline in the stability of this funding as a result of a sustained shortening of average maturities caused by falling deposit rates. Interest rates on household deposits of more than 1 year had equalised with the euro area average by September. The spread with interest rates on deposits of up to 1 year narrowed significantly to just 0.5 percentage points, which reduced the incentive for fixing deposits for longer terms. Given the household sector's risk aversion, owing to confidence in bank saving, the likeli-

Figure 1: Loans to non-banking sector



Source: Bank of Slovenia.

Slika 2: Non-performing claims



Source: Bank of Slovenia.

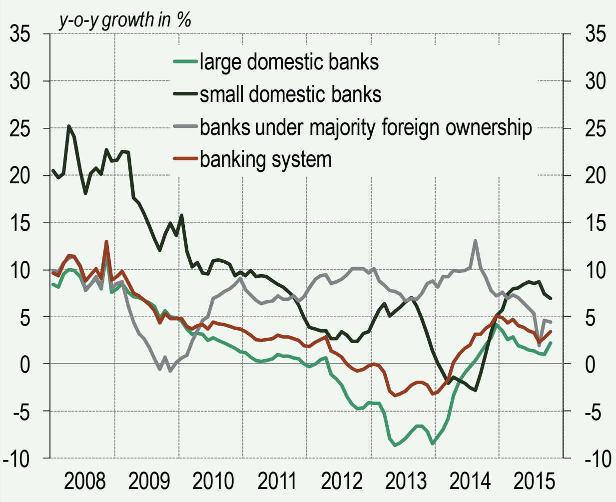
hood of rapid withdrawal of bank deposits for income reasons is relatively low.

Together with the changes in the maturity structure of interest-bearing assets and liabilities, the environment of low interest rates is increasing interest rate risk at the banks. On the asset side, the average maturity of loans is increasing, as are the proportions accounted for by long-term loans and investments in securities concluded at fixed interest rates for the entire repayment term or at a fixed coupon rate. Inadequate hedging against interest rate risk by means of an appropriate maturity structure on the liability side is exposing the banks to high risk in the event of a rise in interest rates.

The decline in credit risk is having a favourable impact on the banks' profitability via lower impairment and provisioning costs. The banks generated a pre-tax profit of EUR 235 million over the first ten months of 2015, as impairment and provisioning costs declined by 66%. Despite the decline in impairment and provisioning costs, income risk remains at a relatively high level. The persistence of income risk is attributable to low and falling interest rates, the narrowing interest rate spread on new transactions, and the simultaneous reduction in interest-bearing assets and liabilities, the latter as a result of the shortening of average funding maturities.

The lowering of lending interest rates and the gradual maturing of relatively high-yielding securities, which the banks will have to replace with lower-yielding investments because of the sharp fall in interest rates, mean that they will find it hard to achieve the required returns. This could encourage the banks to seek higher-risk investments. This would expose them to credit risk, and consequently to income risk. The developments in the banks' non-interest income are limited by the scale of lending activity and by developments on financial and capital markets, for which reason the banks are unable to use it to compensate for the decline in net interest income. Another factor in the banks' profitability is the rising burden from regulatory and reporting requirements, which are increasing operating costs. These have been declining in nominal terms for several years now, but recently the proportion of the disposal of gross income that they account for has slightly increased.

Figure 3: Household deposits



Source: Bank of Slovenia.

The quality of the credit portfolio is improving. The proportion of classified claims more than 90 days in arrears stagnated at 11.1% in the third quarter, before declining again in October to 10.8%. The stocks of classified claims and claims more than 90 days in arrears are also declining. The decline in the latter was attributable to the banks' activities in the forbearance and write-off of claims, and the favourable impact of economic growth. Non-financial corporations still account for the majority of the banks' claims more than 90 days in arrears: the figure stood at 61% in October. Within the corporate sector, claims against SMEs more than 90 days in arrears have increased significantly faster since the outbreak of the financial crisis, and now account for 41% of total claims in arrears across the banking system. Forbearance as an approach to resolving banks' non-performing claims is most widespread in the corporate sector. Among all forborned claims, 73.6% are in this sector. The banks are also carrying out significant forbearance of claims against large enterprises, although the forbearance of claims against SMEs also increased in 2015.

The high proportion of non-performing claims entails higher credit risk, when it is combined with low coverage of such claims by impairments and with low coverage of unimpaired claims by capital. The intensive creation of impairments saw coverage of claims by impairments reach 63% in previous years. The high coverage by impairments and the bank recapitalisations have helped bring a sharp improvement in the indicator of the coverage of unimpaired non-performing claims by capital. The two coverage indicators are relatively high with regard to other euro area countries, and reflect the increased stability of the banking system and the reduced risk of substantial credit risk losses.

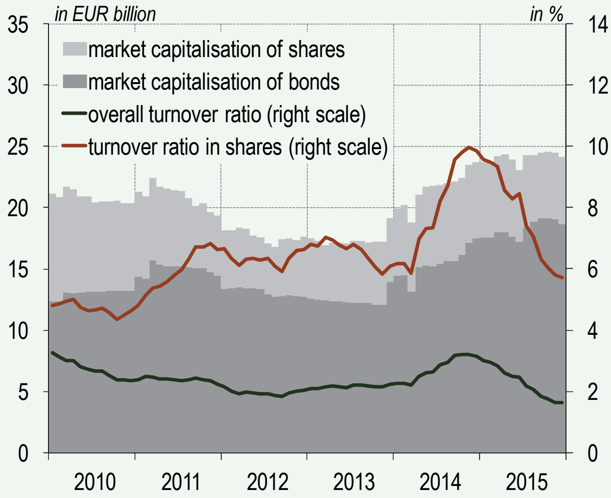
The Slovenian banking system's solvency improved further in 2015. The overall capital ratio on a consolidated basis stood at 18.1% at the end of September, and remains above the euro area average. The small domestic banks remain the most exposed to solvency risk, despite a moderate improvement in capital adequacy indicators. The banks improved their capital adequacy not only via recapitalisations, but also by generating internal capital via profitable performance. In a period of low interest rates and declining lending activity, the generation of profit and thereby internal capital is limited, for which reason the optimal use of existing capital continues to play an important role in the maintenance of capital adequacy.

having declined by EUR 2.6 billion in 2014, and by EUR 1.5 billion over the first half of 2015. There were declines in loans granted (by EUR 1.1 billion) and deposits (by EUR 0.5 billion). Holdings in debt securities amounted to EUR 9.2 billion, virtually unchanged. Despite the fall in asset interest rates and the narrowing spread with average euro area interest rates, the banks' credit standards remain a strong limiting factor on the supply side.

Domestic financial market

After several months of negative trends, the SBI TOP rose again in the final quarter of 2015, primarily as a result of the positive reversal on international capital markets. The domestic index nevertheless lost 11.2% over the year. The market capitalisation of shares amounted to EUR 5.5 billion at the end of 2015, down 12.5% in year-on-year terms. The cumulative volume of trading in shares on the Ljubljana Stock Exchange over the year amounted to EUR 333.7 million, down 45.1% in year-on-year terms. The decline in volume was primarily attributable to the slowdown in the privatisation process in 2015. In December the turnover ratio thus declined to its level of 2011. The monthly volume of trading in shares averaged EUR 27.1 million over the final quarter, down 2.4% on the monthly average across the year. The proportion of domestic shares held by non-residents stood at 29.3% at the end of December, having increased over the preceding three months, primarily as a result of the completion of the sale of two companies.

Figure 5.12: Market capitalisation on the LJSE in EUR billion and annual turnover ratios (TR)



Source: Ljubljana Stock Exchange.

The volume of trading in bonds declined last year, but their market capitalisation increased. The cumulative volume of trading in bonds amounted to EUR 55.9 million in 2015, down 19% in year-on-year terms. The market capitalisation of bonds increased by 6.4% to EUR 18.7 billion. The increase in market capitalisation was primarily dictated by Slovenian government bond issues made in the first eight months of the year. Three treasury bills with a total nominal value of EUR 144.1 million were issued in the final quarter.

6 Public Finances

Slovenia's main objective in the fiscal area in 2015 was to durably correct the excessive general government deficit, which is a condition for abrogating the excessive deficit procedure. The general government deficit stood at 2.9% of GDP in 2015 according to the latest estimates; the official annual figures will be known at the end of March 2016. General government revenues over the first three quarters of 2015 were up 3.8% in year-on-year terms, as a result of the improved macroeconomic situation and a higher burden of certain taxes and contributions. General government expenditure was approximately unchanged in year-on-year terms after the exclusion of one-off developments.

After abrogating the excessive deficit procedure, under the preventive arm of the Stability and Growth Pact Slovenia will have to converge to the medium-term objective, which was defined as a balanced structural position. At the same time it will be subject to a transitional arrangements as regards compliance with the debt criterion. In light of the size of the debt and the output gap, under EU rules the structural position should improve by 0.6% of GDP in 2016. The main measures in the fiscal area in 2016 include the extension of certain measures in the area of wages and social transfers, the omission of regular pension increases, and the maintenance of the VAT rates raised during the crisis.

General government debt stood at 84.1% of GDP at the end of September 2015. The pre-financing of future debt repayments and the hedging of currency risk for bonds issued in US dollars had an impact on the level of debt.

The risks in the fiscal area are related to macroeconomic developments potentially being less favourable than those expected when the fiscal plans were drawn up, to the upward pressure on expenditure from various interest groups, to potential one-off factors, and to the high level of implicit and potential liabilities.

General government deficit

According to government plans and the latest estimates, the general government deficit is estimated to have stood at 2.9% of GDP in 2015, which would allow Slovenia to exit the excessive deficit procedure. In the October Reporting of government deficits and debt levels, the Ministry of Finance forecast a general government deficit of 2.9% of GDP in 2015, and the forecast was confirmed in the Draft budgetary plan for 2016. The European Commission's forecast in November was the same. The narrowing of the deficit compared with the

Table 6.1: General government deficit and debt in Slovenia 2012–2019

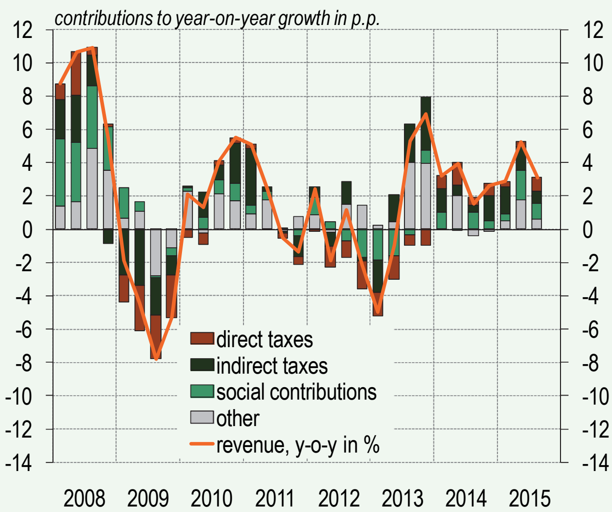
	SORS				Draft Budgetary Plan		Stability Programme					EC		
as % BDP	**2012**	**2013**	**2014**	**2015(1-9)**	**2015**	**2016**	**2015**	**2016**	**2017**	**2018**	**2019**	**2015**	**2016**	**2017**
Revenue	44.4	45.3	44.8	44.0	44.8	43.4	44.7	43.1	42.5	42.0	41.5	44.8	43.4	42.5
Expenditure	48.6	60.3	49.8	46.6	47.7	45.5	47.6	45.3	44.3	43.4	42.4	47.7	45.8	44.4
of which: interest	2.0	2.6	3.2	3.1	3.0	2.9	3.1	2.9	2.6	2.5	2.4	3.0	2.9	2.6
Net lending (+) / borrowing (-)	-4.1	-15.0	-5.0	-2.6	-2.9	-2.2	-2.9	-2.3	-1.8	-1.4	-0.9	-2.9	-2.4	-2.0
excl. support to fin. institutions	-4.0	-4.9	-4.1	-2.6	-2.9	-2.2	-2.9	-2.3	-1.8	-1.4	-0.9	-2.9	-2.4	-2.0
Structural balance	…	…	…	…	-1.8	-1.3	-2.2	-1.6	-1.3	-1.0	-0.8	-2.7	-2.5	-2.9
Debt	53.7	70.8	80.8	84.1	84.1	80.8	81.6	78.7	79.6	79.4	78.2	84.2	80.9	78.3
Real GDP (growth, %)	-2.7	-1.1	3.0	2.7	2.7	2.3	2.4	2.0	2.1	2.2	2.2	2.6	1.9	2.5

Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2015), Stability Programme (Ministry of Finance, April 2015), European Commission (EC, November 2015).

previous year is a reflection of the smaller impact of one-off factors,[19] the improved economic situation, an increase in certain taxes and contributions, and measures to restrict government expenditure. According to the European Commission the general government deficit across the euro area was forecast at 2.0% of GDP in 2015, less than the figure for Slovenia.

General government revenues increased over the first three quarters of the year, primarily as a result of the improved economic situation and an increase in certain taxes and contributions. General government revenues were up 3.8% in year-on-year terms. Revenues from net social security contributions increased by 3.2%, partly as a result of the favourable situation on the labour market, primarily employment growth, and partly as a result of a rise in contributions for student health and pension insurance. The measures taken also contributed to growth in indirect taxes, which were up 3.7% in year-on-year terms. These include a rise in the carbon dioxide emissions tax, and a rise in the tax rate on financial transactions and insurance services. The slightly more favourable developments in household consumption were reflected in growth in VAT revenues (up 2.3% in year-on-year terms), while revenues from excise duties were up around 2.5%. The excise duty burden was higher on average in 2015 than in the previous year. The rise of 3.1% in direct taxes was primarily attributable to increased revenues from corporate income tax, an indication of the improvement in the economic situation. The rise in the burden of taxes and contributions is estimated to have increased revenues by around 0.4% of GDP in 2015. Revenues from dividends and profit distributions were up 23.8%, while revenues from capital transfers were up just over a tenth.

Figure 6.1: General government revenue



Source: SORS, Bank of Slovenia calculations.

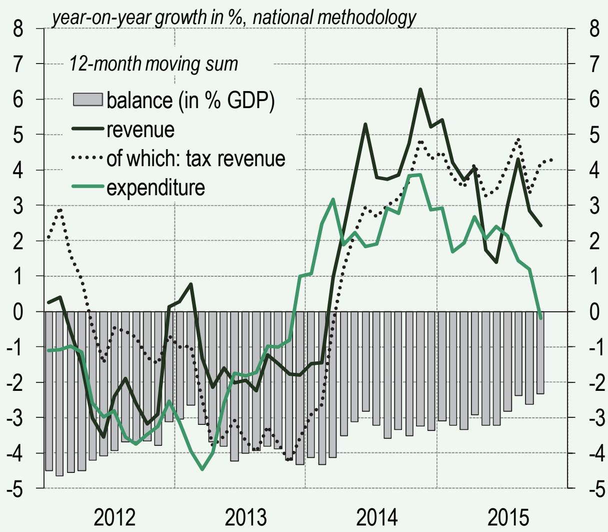
[19] The main factors affecting the general government deficit in 2014 were the recapitalisation of Abanka and Banka Celje in the amount of 0.9% of GDP, and the recognition of liabilities to Ljubljanska banka savers on the basis of a ruling by the European Court of Human Rights in the amount of 0.7% of GDP. In both years the general government deficit was also widened by BAMC transactions owing to capital transfers resulting from debt-to-equity swaps, the partial repayment of debt of firms in compulsory composition proceedings or loan repayment via the calling of guarantees, and BAMC transactions related to the acquisition of real estate.

Box 6.1: Public finance developments according to cash flow methodology, January – October/November 2015

The consolidated general government deficit over the first ten months of 2015 narrowed by EUR 364 million in year-on-year terms to EUR 785 million. The narrowing deficit was primarily a reflection of an increase in revenues from taxes and contributions. The deficit primarily derives from the state budget deficit, which amounted to EUR 881 million over the first eleven months of the year, and is forecast at EUR 1,385 million at year end under the latest budget revision. The planned deficit is larger than had been realised in 2014, owing to delays in some funding from EU funds at the end of the financial framework. The Health Insurance Institute recorded a surplus of EUR 1 million over the first eleven months of the year, down EUR 25 million on 2014, while the local government sub-sector recorded a surplus of EUR 59 million over the first ten months of the year, while in the same period of the previous year the decifit of the similar amount was realised.

Revenues over the first ten months of the year were up 2.3%, while expenditure was down slightly. Revenues from taxes and contributions were up 4.4%. There were several factors in this. First, the favourable situation on the labour market has been reflected in higher inflows of social security contributions and personal income tax, while indirect taxes are also in-

Figure 1: Public finance developments



Source: SORS, Ministry of Finance, Bank of Slovenia calculations.

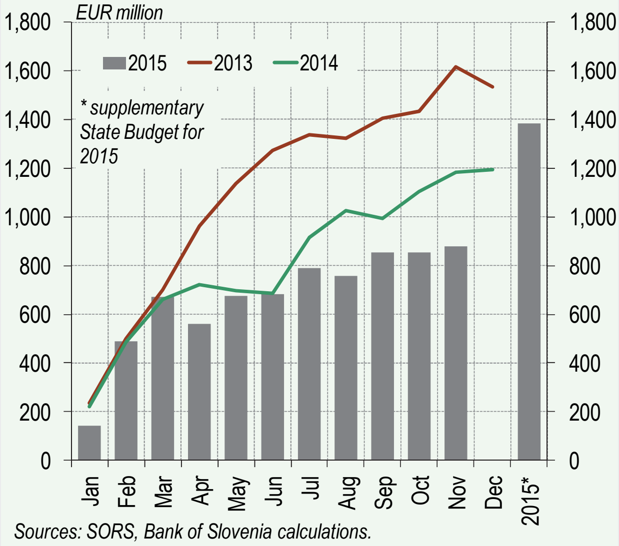
Table 1: Consolidated general government (GG) balance*, January–October 2015

	2014	last 12 months to Oct.15			2014 Jan.-Oct.	2015 Jan.-Oct.	Jan.-Oct.15
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**15,494**	**15,786**	**41.2**	**2.4**	**12,608**	**12,900**	**2.3**
Tax revenue	13,193	13,676	35.7	4.2	10,859	11,342	4.4
- goods and services	5,191	5,341	14.0	2.7	4,307	4,456	3.5
- social security contributions	5,272	5,431	14.2	3.6	4,345	4,504	3.7
- personal income	1,916	1,965	5.1	3.1	1,555	1,605	3.2
- corporate income	468	572	1.5	25.5	387	491	26.7
From EU budget	1,040	1,035	2.7	1.5	681	676	-0.8
Other	1,261	1,076	2.8	-15.4	1,068	883	-17.4
Expenditure	**16,755**	**16,683**	**43.6**	**-0.2**	**13,757**	**13,685**	**-0.5**
Current expenditure	7,043	7,050	18.4	0.3	5,884	5,890	0.1
- wages and other personnel expenditure (incl. contributions)	3,610	3,610	9.4	-0.3	3,006	3,005	0.0
- purchases of goods, services	2,233	2,218	5.8	0.3	1,797	1,782	-0.8
- interest	1,097	1,053	2.8	-3.4	1,009	965	-4.4
Current transfers	7,592	7,558	19.7	-0.6	6,316	6,282	-0.5
- transfers to individuals and households	6,335	6,361	16.6	0.4	5,296	5,322	0.5
Capital expenditure, transfers	1,717	1,663	4.3	-1.8	1,218	1,164	-4.4
To EU budget	403	413	1.1	6.9	340	349	2.9
GG surplus/deficit	**-1,261**	**-897**	**-2.3**		**-1,149**	**-785**	

*Note: * Consolidated central government budget, local government budgets and social security funds (pension and disability insurance fund and health insurance fund) in cash accounting principle.*
Source: Ministry of Finance, Bank of Slovenia calculations.

creasing via the impact from household consumption. Second, corporate performance was good in 2014, which resulted in a higher settlements of corporate income tax in 2015, while tax prepayments were also higher than in the previous year. Third, certain tax rates and levies have been raised (e.g. tax on financial services, increased taxation of student work). Non-tax revenues in 2015 were down on the previous year, when there was a high inflow into the state budget from the concession fees for the mobile telephony radio spectrum and the surplus from the management of the single treasury account. Revenues from the EU budget over the first eleven months of the year were similar to those in the same period of 2014. Consolidated general government expenditure was down 0.5%; the largest reductions were in subsidies, investment expenditure and interest expenditure. Expenditure on goods and services was down, while transfers to individuals and households increased slightly as a result of higher payments to ensure social security. The largest increase was recorded by expenditure on reserves, including the water fund and the climate change fund.

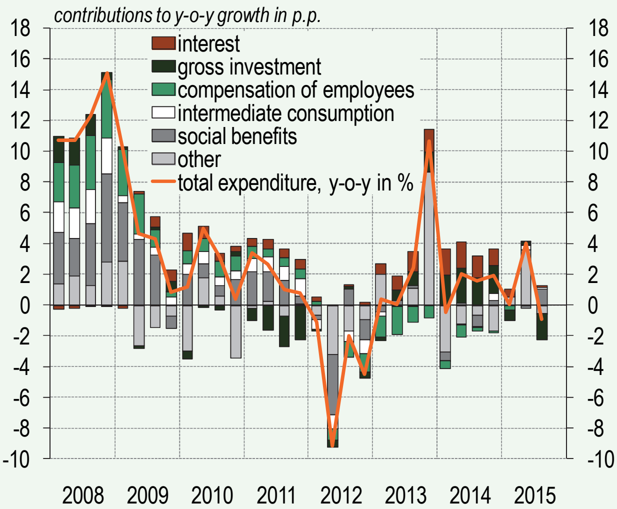
Figure 2: Cumulative State Budget deficit



Sources: SORS, Bank of Slovenia calculations.

General government expenditure (after the exclusion of one-off factors) over the first nine months of the year was broadly unchanged in year-on-year terms. Interest expenditure continued to increase, while the main declines were in investment expenditure and subsidies. General government expenditure over the first nine months of the year was up 1.0% in year-on-year terms, but was broadly unchanged after one-off effects have been excluded. Interest expenditure was up 3.4%. Government investment declined over the aforementioned period, despite a major increase having been planned for 2015. An increase in investment expenditure was thus expected to be made at the end of the year, as the inflow of EU budget funds on the basis of the financial framework 2007–2013 comes to a close. Expenditure on compensation of employees declined slightly, while the number of employees remained unchanged in year-on-year terms and expenditure on intermediate consumption increased by 1.1%. Expenditure on social benefits and support was up 0.7%, albeit only as a result of growth in the third quarter. The number of pensioners rose by 0.5% over the first eleven months of the year. Pensions were not adjusted for wage growth and inflation, while more funding was earmarked for the payment of the annual bonus for pensioners. Unemployment benefits declined significantly, as a result of the improved situation on the labour market and losses of entitlements. By contrast, social security payments and sick pay increased.

Figure 6.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

General government debt and government guarantees

The general government debt had increased to 84.1% of GDP by the end of September 2015, the government having borrowed to pre-finance liabilities in light of the favourable situation on the financial

markets. The general government debt stood at EUR 32,106 million, up EUR 1,511 million on June. Borrowing in the third quarter was mostly via the issue of RS75 and RS76 government bonds in July and August with a total nominal value of EUR 1.8 billion, while the amount of debt in the form of issued treasury bills and loans declined, an indication of debt restructuring towards longer-term forms. In addition to the pre-financing, which accounted for debt in the amount of around 14% of GDP and is expected to gradually decline,[20] some of the debt is related to deposits for hedging against currency risk for bond issues in US dollars (around 3% of GDP). This effect is dependent on the movement in the US dollar exchange rate against the euro; the last issue of the US dollar bonds matures in 2024. According to the consolidated general government figures, around EUR 2.3 billion of debt was repaid over the first ten months of the year, while the government's balances in cash and deposits increased by EUR 361 million.

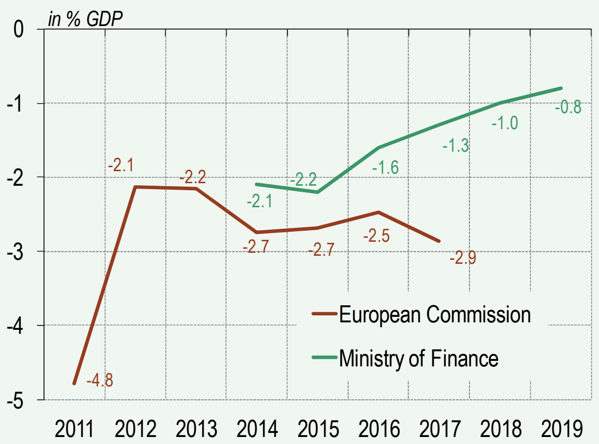
Government guarantees declined as debtors settled their maturing liabilities. They amounted to EUR 7.6 billion or 19.9% of GDP at the end of September 2015, down EUR 390 million on the end of June. A portion of the guarantees relating to BAMC bonds and the guarantee to the EFSF are already included in the general government deficit (6.4% of GDP). The majority of the decline was related to the maturing of guarantees to the EFSF and regular government guarantees, including guarantees given to DARS d.d., all liabilities having been settled. According to the budget figures, around EUR 6 million of guarantees were called over the first eleven months of the year, while repayments from paid government guarantees amounted to EUR 35 million. The latter were mostly related to the repayment of a guarantee that was called in mid-2014 for the two banks undergoing the orderly wind-down process, in the amount of EUR 428 million.

The required yield on Slovenian 10-year bonds has been falling since mid-2015. Since the rise in the required yields on the government bonds of euro area periphery countries on the financial markets in mid-2015, which was related to the negotiations over renewed financial assistance to Greece, the required yields on Slovenian 10-year bonds have been gradually falling. They stood at close to 1.7% at the end of December, and the spread over the German benchmark bond of comparable maturity stood at around 100 basis points.

Planned developments in the general government deficit

After the abrogation of the excessive deficit, in accordance with the preventive arm of the Stability and Growth Pact Slovenia will have to pursue the appropriate structural improvement in the budget position.[21] The preventive arm of the Stability and Growth Pact sets a structural adjustment benchmark of at least 0.5% of GDP annually during the period of convergence to the medium-term objective. The level of the required adjustment is set with regard to the size of the output gap, economic growth and the level of debt. Given that Slovenia's debt exceeds 60% of GDP and that the output gap is estimated to be less than 1.5% of GDP according to the European Commission, a slightly larger structural improvement of 0.6% of GDP will be required in 2016 following the exit from the excessive deficit procedure. According to the European Commission's estimates, the

Figure 6.3: Public finance structural balance



Note: Structural balance estimate by the MoF reflects targeted dynamics, while the EC estimate only includes adopted measures.
Source: EC, Ministry of Finance - Stability Programme, April 2015.

[20] The state budget for 2016 envisages a reduction in cash and deposits at banks of around 6.6% of GDP.
[21] The cyclically adjusted general government position reveals the position after the elimination of cyclical developments. The structural position is calculated by eliminating one-off effects and other temporary measures in addition to cyclical components.

structural deficit in 2015 stood at 2.7% of GDP, and Slovenia's medium-term objective is a structurally balanced position.

Further reductions in the general government deficit are planned in the budgets for 2016 and 2017, but the European Commission is forecasting that the fiscal effort in 2016 will be less than required. According to the ESA methodology, the (nominal) general government deficits in the aforementioned years are forecast at 2.3% of GDP and 1.75% of GDP. The measures to reduce the deficit include the permanent retention of the VAT rates raised in 2013, the introduction of fiscal cash registers, curbs on labour costs,[22] the extension of certain measures in the area of social transfers,[23] and an agreement on pension increases. Expenditure on investment will be reduced significantly. The refugee crisis is projected to widen the deficit in 2016 by approximately 0.1% of GDP. Changes in personal income tax are neutral from a revenue perspective (an extension of the 50% marginal tax rate into 2016 and 2017, and relief for recipients of income earning more than 1.5 times the average wage). According to the European Commission's estimates, the structural deficit is forecast to narrow by 0.2% of GDP to 2.5% of GDP in 2016, a smaller fiscal adjustment than required. The European Commission therefore considers Slovenia to be one of the countries whose Draft budgetary plan for 2016 is broadly compliant with the Stability and Growth Pact, whereby the deviation in the structural position is just below the threshold that would mean a significant deviation (0.5% of GDP).

There are various risks to the realisation of the planned targets. Throughout the projection horizon the risks are related to the potential deterioration in the macroeconomic situation and the adverse impact of one-off factors (e.g. the refugee crisis, BAMC transactions, court judgements). Certain measures, particularly in the area of wages, are still temporary, which entails upward pressure on expenditure in the future. The government and the trade unions have agreed to negotiate in early 2016 on the gradual relaxation of the remaining measures and the framework for growth in the wage bill in the public sector between 2017 and 2019, the aim being to reach an agreement by the end of April 2016. The measures in the area of social transfers are also temporary: relaxation is tied to economic growth of more than 2.5% and simultaneous growth of more than 1.3 percentage points in the employment rate, and will be carried out in the year after the year in which the conditions are met.

[22] On 18 November 2015 the National Assembly approved the Law on Measures pertaining to Salaries and Other Personnel Costs for the year 2016 and other Measures in the Public Sector. In addition to the promotions at the end of 2015 and 2016, which were agreed in advance, more funding will be required in 2016 for holiday payment, and on 1 September 2016 the reduction in wage scale will be abolished. The freezing of ordinary performance-related pay, reduced performance-related payments for workload, and reduced premiums for collective supplementary pension insurance will remain in force.
[23] Certain changes are being made in 2016 in the area of social transfers. Cash social assistance is being raised to EUR 288.81, child benefit for those in the fifth and sixth wage grades is being raised by a tenth, and entitlement to government scholarships is being expanded.

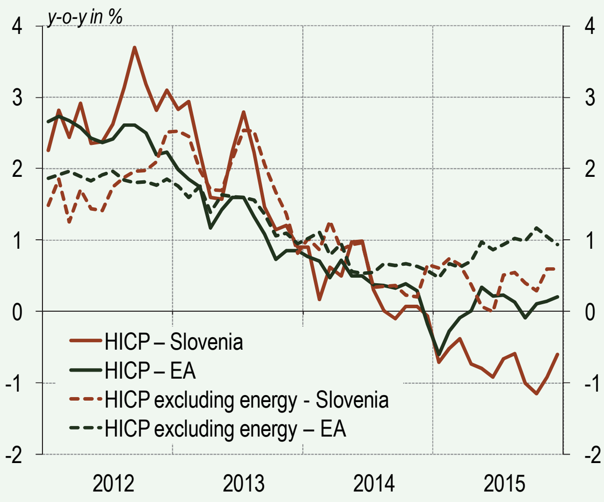
7 Price Developments

Price dynamics are subject to diminishing pressures from the international environment and the domestic environment. The fall in commodity prices on global markets was reflected in negative growth in energy prices and low growth in food prices in 2015. Slovenia thus recorded deflation overall in 2015, for the first time since price growth began to be measured by the HICP. There were two reasons why prices fell faster in Slovenia than in the euro area overall: first, foreign factors had a greater impact on final prices in Slovenia owing to the higher weighting, and second, growth in final household consumption in Slovenia is below the euro area average.

Structure of price developments

Annual inflation as measured by the HICP averaged -0.8% in 2015, the lowest figure to date, down 1.2 percentage points on the previous year. Slovenia thus recorded deflation in 2015 for the first time. The largest contributions to the fall in prices relative to 2014 came from energy prices and services prices, while the contribution made by food prices and non-energy industrial goods remained almost unchanged. The sharp fall in oil prices on global markets is the key factor in dezinflation in Slovenia. At the same time persistently low domestic demand is not raising prices of non-energy industrial goods or services prices. In addition to low food prices on global markets, year-on-year growth in prices of processed food was further reduced by the previous rise in excise duties on tobacco dropping out of the calculation, while a base effect led to slightly higher growth in prices of unprocessed food.

Figure 7.1: Inflation in Slovenia and euro area



Source: Eurostat.

Macroeconomic factors and core inflation indicators

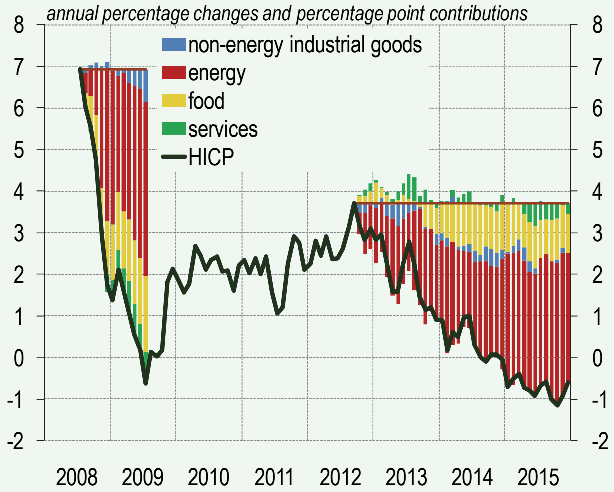
The fall in prices deepened again in the final quarter of 2015. This was primarily attributable to a renewed fall in prices of non-energy industrial goods, and also to further falls in energy prices and a fall in prices of unprocessed food. The sole slight rise was in services prices, which was largely attributable to a one-off effect, rather than any major shifts in demand.

Box 7.1: Slovenia: why is inflation low or negative?

We have been witnessing a decline in the growth rate in prices for some years now. This is particularly relevant this year when inflation turned into deflation, making Slovenia one of the countries with the lowest growth in prices in the euro area. This box offers a short analysis of the determinants of disinflation in Slovenia and their differences to the euro area.

The falling trend in global oil prices is the main factor in falling prices in 2015. The higher weight given to energy prices in the HICP basket means that energy prices had a greater impact in Slovenia relative to the average amount by which energy prices acted to reduce inflation across the euro area. Energy prices reduced inflation by 1.1 percentage points in Slovenia in 2015, 0.4 percentage points more than the corresponding figure across the euro area, where 0.1 percentage points of the gap was attributable to lower average growth in Slovenian energy prices, and 0.3 percentage points was attributable to the different weights given to energy prices in the HICP basket. It should be noted that the relative size of the negative contribution made by energy prices is comparable to that at the outbreak of the global financial crisis in 2009. In the wake of renewed downward pressure on oil prices, headline inflation remains at low, negative levels.

Figure 1: Contributions of HICP components to disinflation from peak to trough in 2009 and 2015

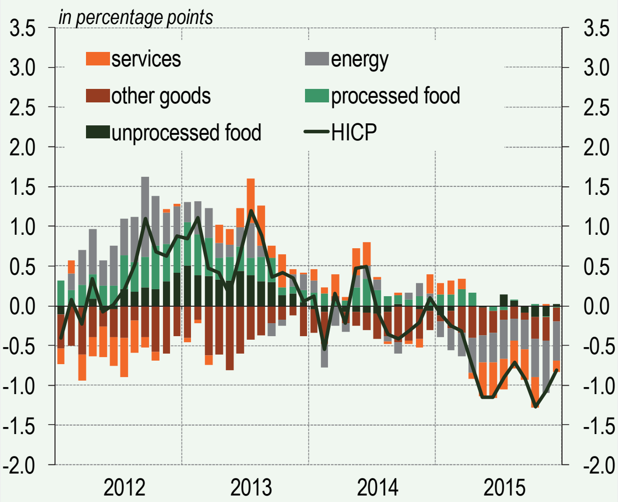


Source: ECB, BoS calculations.

Another important factor that is limiting Slovenian inflation is domestic demand. It is evident from Figures 3 to 5 that both public consumption and private consumption in Slovenia are significantly down on their peak levels. These were reached in the third quarter of 2009 and in 2011 respectively. The decline that followed was the result of fiscal consolidation measures by the government. Most notably these included the introduction of the ZUJF in the spring of 2012, which led to a sharp decline in households' real income and confidence. In 2012 and 2013 the decline in wages was thus sharper than in the euro area overall, for which reason purchasing power and final consumption also declined more sharply, and the recovery was slower.

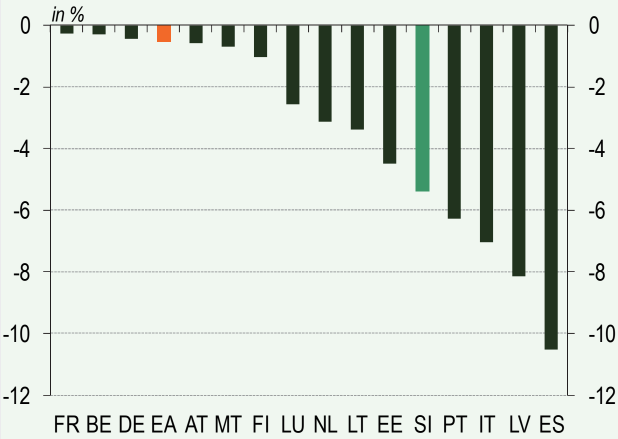
After weak growth in 2014, household expenditure on final consumption increased slightly more strongly in 2015, in particular expenditure on more durable goods, although the recovery was still slower than in the majority of euro area countries, and was still not passing through into final consumer prices. This is attributable to growth in the wage bill primarily being driven by growth in employment, which is based on

Figure 2: Difference in inflation between Slovenia and euro area



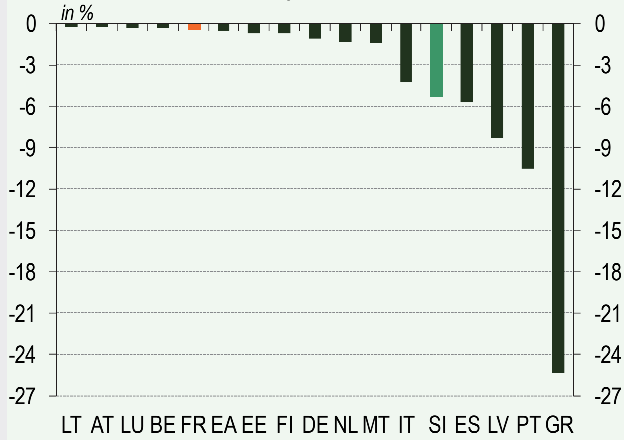
Source: Eurostat, Bank of Slovenia calculations.

Figure 3: Difference in household consumption between average 2015 and the peak



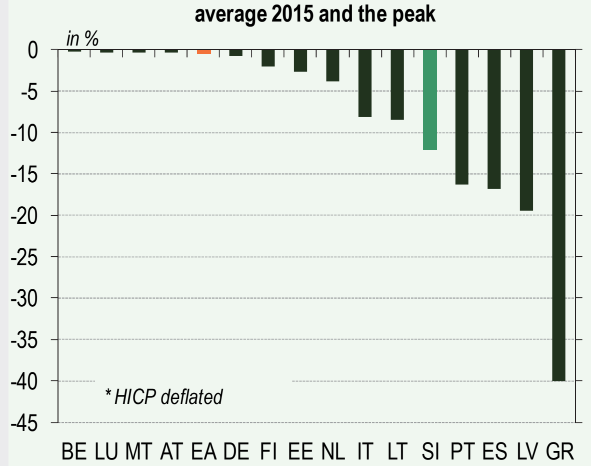
Note: The data is available until Q3 2015 (Luxembourg until Q2), peak represents quarter between 1995 and 2015Q3 with the highest index.
Source: Eurostat – national accounts.

Figure 4: Difference in government consumption between average 2015 and the peak



Note: The data is available until Q3 2015 (Luxembourg until Q2), peak represents quarter between 1995 and 2015Q3 with the highest index.
Source: Eurostat – national accounts.

Figure 5: Difference in real* gross wages between average 2015 and the peak



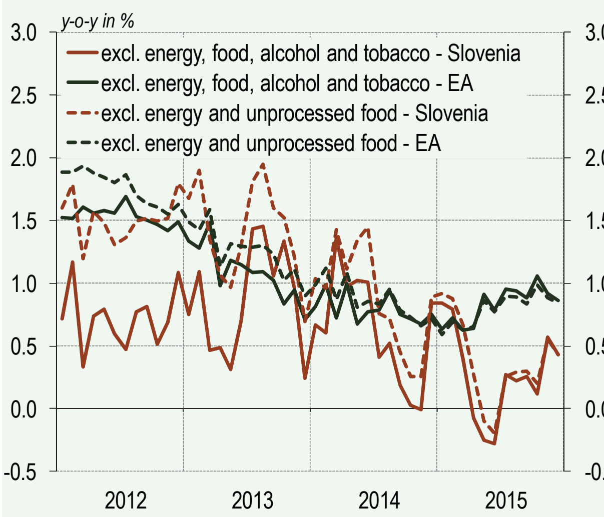
Note: The data is available until Q3 2015 (LU and NL until Q2), peak represents quarter between 1995 and 2015Q3 with the highest index.
Source: Eurostat – national accounts.

uncertain forms of employment with lower wages. It can be concluded that a substitution effect is prevailing among consumers, where purchases of more durable goods means that they are spending less on everyday products. Households nevertheless mainly remain cautious, and are maintaining a high level of saving. There are no signs of any major upward pressure on prices on the supply side: for now productivity growth is outpacing wage growth, while firms' inputs costs are continuing to fall.

It currently seems that the weak deflation is acting beneficially, as it is contributing to the renewed strengthening of the real wage bill and is therefore supporting household consumption, while at the same time it is contributing to the price and cost competitiveness of Slovenian exporters. However, caution is needed with regard to the effects of longer-term deflation, as it holds back nominal growth in fiscal revenues, thereby making consolidation more difficult. The de-anchoring of inflation expectations could lead to the formulation of lower wages and lower prices. In addition it could also pass through into consumer behaviour, where purchases would be deferred in the expectation of further falls in prices, but for now there is no sign of this.

Core inflation rose again in the final quarter, but remains below the euro area average. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco averaged 0.4% in the final quarter, up 0.1 percentage points on the third quarter. This was the result of year-on-year growth in services prices, while year-on-year growth in prices of non-energy industrial goods slowed again. The rate was 0.6 percentage points less than the euro area average; the gap was attributable to limited consumer purchasing power, which was the result of government austerity measures on one hand, and uncertain forms of employment on the other. Year-on-year growth in the HICP excluding energy and unprocessed food also rose in the final quarter, while year-on-year growth in the broadest indicator, the HICP excluding energy, remained unchanged. Year-on-year growth in the core inflation indicators thus remained below the euro area averages in the final quarter.

Figure 7.2: Core inflation in Slovenia and euro area



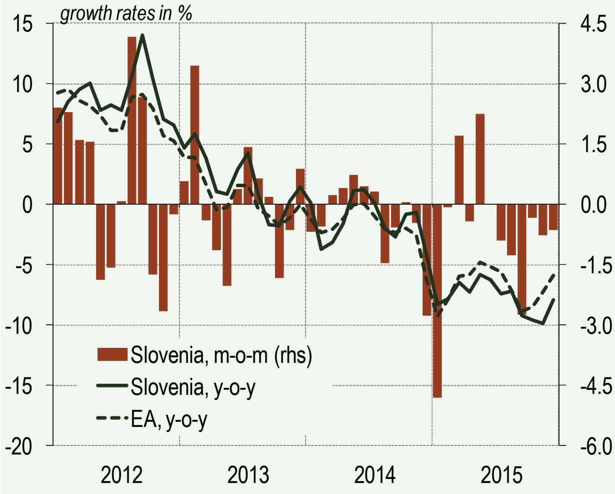
Source: Eurostat, Bank of Slovenia calculations.

The positive macroeconomic turnaround is not yet being reflected in the core inflation indicators. The gradual recovery in private consumption has not led to a rise in final consumer prices, as it remains significantly down on its peak in 2011 (see Box 7.1). The improvement in the situation in the labour market is based on uncertain forms of employment, which is not encouraging additional consumption. Year-on-year growth in consumer loans also remains negative. There are also no discernible pressures on the supply side: wages are being outpaced by productivity, while input costs also remain low. Foreign and domestic factors alike are limiting growth in core prices.

Microeconomic factors and the structure of inflation

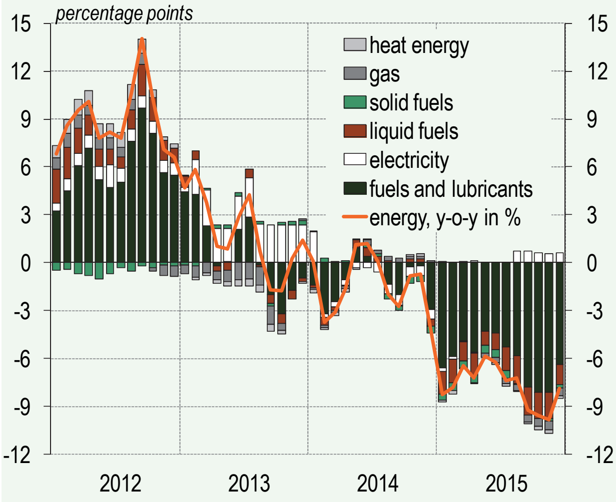
Oil prices on global markets continued to fall in the final quarter, deepening the year-on-year fall in energy prices. Oil prices failed to recover in the final quarter, and were down 43% on the previous year, when the sharp fall in oil prices began. This brought a further year-on-year fall in prices of refined petroleum products and gas. The year-on-year fall in energy prices consequently increased by 1.2 percentage points to 9.1% in the final quarter, and made a negative contribution of 1.3 percentage points to inflation. Owing to the higher weight given to energy prices in the basket of goods and services in Slovenia, the fall was slightly larger than in the euro area

Figure 7.3: Energy prices



Source: Eurostat, Bank of Slovenia calculations.

Figure 7.4: Contributions to energy inflation



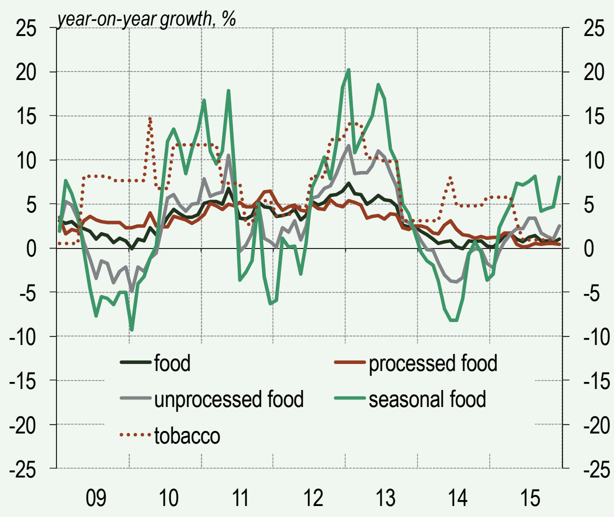
Source: ECB.

Table 7.1: Breakdown of the HICP and price indicators

y-o-y in %	weight	quarterly average 15Q1	15Q2	15Q3	15Q4	*last 12 months average* Dec.14	Dec.15	month Oct.15	Nov.15	Dec.15
HICP	*100.0%*	-0.5	-0.8	-0.8	-0.9	0.4	-0.8	-1.1	-0.9	-0.6
Breakdown of HICP:										
Energy	*14.2%*	-7.5	-6.4	-7.9	-9.1	-1.4	-7.8	-9.6	-9.9	-7.9
Food	*22.9%*	0.7	1.1	1.2	0.8	0.8	1.0	0.8	0.7	1.1
processed	*15.9%*	1.4	0.7	0.4	0.5	1.8	0.8	0.5	0.5	0.4
unprocessed	*7.0%*	-0.6	2.0	2.8	1.6	-1.5	1.4	1.3	1.0	2.5
Other goods	*26.5%*	-0.8	-1.1	0.0	-0.4	-1.0	-0.6	-0.5	-0.6	-0.2
Services	*36.3%*	1.7	0.4	0.5	1.0	1.8	0.9	0.6	1.5	0.9
Core inflation indicators:										
HICP excl. energy	*85.8%*	0.7	0.1	0.5	0.5	0.7	0.4	0.3	0.6	0.6
HICP excl. energy and unprocessed food	*78.7%*	0.8	0.0	0.3	0.4	0.9	0.4	0.2	0.6	0.4
HICP excl. energy, food, alcohol and tobacco	*62.9%*	0.7	-0.2	0.3	0.4	0.6	0.3	0.1	0.6	0.4

Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 7.5: Food prices

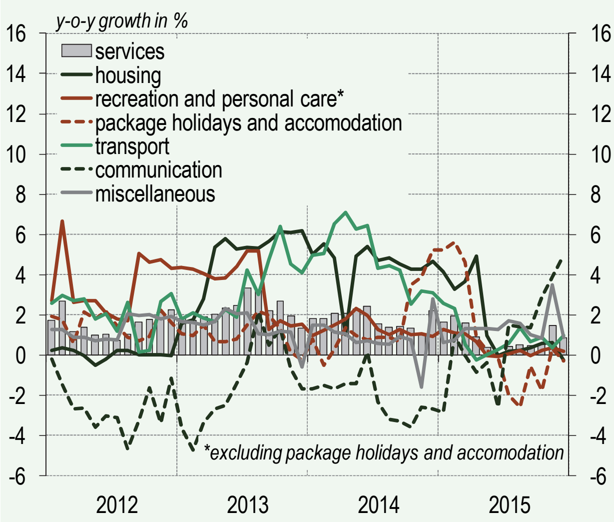


Sources: Eurostat, Bank of Slovenia calculations.

overall, where energy prices in the final quarter were down 7.2%.

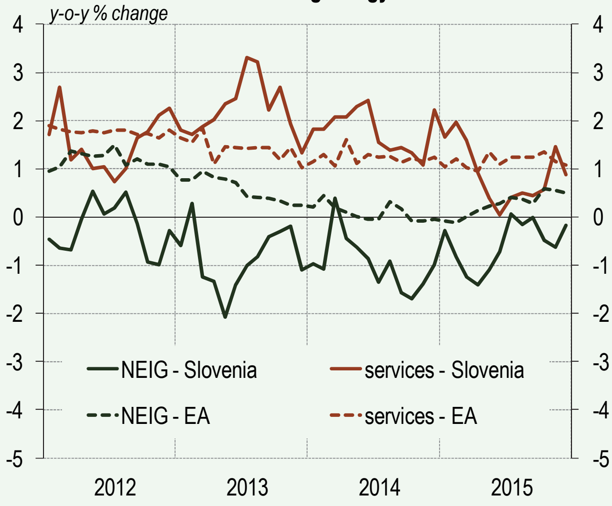
The fall in food prices on global markets is being reflected in low food prices in Slovenia. Year-on-year growth in food prices in Slovenia declined by 0.4 percentage points to 0.8% in the final quarter. The negative growth in food prices on global markets also passed through into final prices in Slovenia, where prices of processed food have been recording low year-on-year growth for several months now, averaging 0.5% over the quarter. Other factors in the decline in year-on-year growth in prices of unprocessed food were volatility in prices of seasonal food and certain base effects. By contrast, growth in prices of unprocessed food has been increas-

Figure 7.6: Prices of categories of services



Source: Eurostat.

Figure 7.7: Prices of services and industrial goods excluding energy



Source: Eurostat, SORS, Bank of Slovenia calculations.

ing in the euro area overall. Year-on-year growth in food prices thus increased in the final quarter in the euro area overall, but declined in Slovenia; in the third quarter there was no gap between the rates.

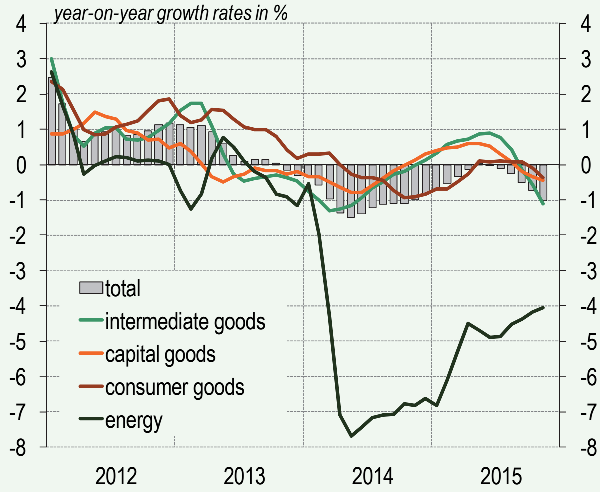
Year-on-year growth in services prices remained at low levels in the final quarter. Year-on-year growth in services prices increased slightly compared with the previous quarter, as a result of a base effect and a rise in prices of certain marketable services. Year-on-year growth in prices of services increased temporarily in November as a result of a decline in the contribution for supplementary insurance at Vzajemna in November 2014. The rise in services prices was also attributable to prices of telephone and internet services, and prices of accommodation. By contrast, prices of package holidays were down, as a result of the sharp growth recorded in the same period of 2014. Overall growth in services prices continues to be outpaced by growth in the euro area overall, which is primarily attributable to the weaker recovery in purchasing power in Slovenia.

Prices of non-energy industrial goods fell again in the final quarter. After remaining unchanged in the third quarter, prices of non-energy industrial goods fell again in the final quarter, by 0.4% in year-on-year terms. In the consumer durables segment, car prices are continuing to fall, despite an increase in turnover. The main development in the semi-durables segment was the end of a period of high growth in prices of sports equipment, which had been caused by base effects. This was in line with the fall in commodity prices on global markets, and with the limited recovery in disposable income in Slovenia. The latter is also a particular factor in the gap with the euro area overall, where year-on-year growth in these prices is already increasing slowly.

Industrial producer prices

The year-on-year fall in industrial producer prices on the domestic market deepened again after a positive trend in the first half of the year. Year-on-year growth averaged -0.5% in the third quarter, down 0.5 percentage points on the previous quarter, while the year-on-year rate slipped to -1.3% in November. The largest factor in the decline was the renewed fall in commodity prices, which have been falling for some time now on the global market. The fall in the euro meant that producer prices of commodities on the domestic market nevertheless rose, but the trend turned downwards in the middle of the year even though the euro remained at low levels. Year-on-year growth in prices in this category turned negative again in the last three months, reaching -1.5% in November. The fall in prices of consumer non-durables has also continued to deepen, primarily on account of a fall in prices in the manufacture of food products, which was the result of the fall in food prices on global markets. Prices of capital goods are also contributing to the fall. By contrast, growth in prices of consumer durables is increasing, as a result of which overall prices of consumer goods are unchanged. The fall in prices in energy production is continuing to slow, as a result of the slowdown in the fall in oil prices, while exchange prices of electricity also rose sharply in the final part of the year.

Figure 7.8: Producer prices on domestic market



Source: SORS, Bank of Slovenia calculations.

8 Statistical Appendix

The appendix cites a selection of statistics drawn up the Bank of Slovenia, for which it is responsible. They cover financial institutions and markets, international economic relations, and financial accounts.

The broader selection of statistics disclosed in the tables of the statistical appendix are available in the Bank of Slovenia bulletin and on the statistics pages of the Bank of Slovenia website, where there is also a link to the data series.

The concise methodological notes for the statistics in this appendix are given on page 82, while more detailed explanations are given in the appendix to the Bank of Slovenia bulletin.

Table 8.1: Consolidated Balance Sheet of the Monetary Financial Institutions

EUR million	**2012**	**2013**	**2014**	**15Q2**	**15Q3**	**Oct. 15**	**Nov. 15**
1.1. Claims of the Bank of Slovenia	5,538	4,771	7,278	5,964	5,587	5,142	5,193
1.2. Claims of other MFIs	5,797	5,165	6,680	6,181	6,352	6,427	6,787
1. Claims on foreign sectors (foreign assets)	**11,335**	**9,936**	**13,958**	**12,145**	**11,938**	**11,570**	**11,980**
2.1. Claims of the Bank of Slovenia on central government	221	233	263	1,045	1,699	1,942	2,175
2.2.1.1. Loans	1,131	1,083	1,149	1,155	1,142	1,121	1,108
2.2.1.2. Securities	3,926	5,480	6,105	6,231	6,158	6,258	6,279
2.2.1. Claims on central government	5,057	6,563	7,254	7,386	7,300	7,379	7,387
2.2.2.1. Loans	610	581	671	634	624	623	618
2.2.2.2. Securities	0	0	0	0	0	0	0
2.2.2. Claims on other general government	610	581	671	634	624	623	618
2.2. Claims of other MFIs on general government	5,667	7,144	7,926	8,021	7,925	8,003	8,004
2.3.1.1. Loans	18,643	14,135	11,213	10,893	10,438	10,333	10,209
2.3.1.2. Securities	827	767	524	503	504	491	479
2.3.1. Claims on nonfinancial corporations	19,470	14,902	11,737	11,396	10,942	10,824	10,688
2.3.2. Households and non-profit institutions serving households	9,267	8,917	8,762	8,836	8,825	8,873	8,857
2.3.3.1. Loans	1,813	1,460	1,087	916	890	880	867
2.3.3.2. Securities	322	303	408	551	544	543	545
2.3.3. Claims on nonmonetary financial institutions	2,135	1,763	1,495	1,467	1,434	1,423	1,412
2.3. Claims of other MFIs on other non-MFIs	30,872	25,582	21,995	21,698	21,201	21,120	20,956
2. Claims on domestic non-MFIs	**36,761**	**32,959**	**30,183**	**30,765**	**30,825**	**31,065**	**31,136**
3. Remaining assets	**5,021**	**3,670**	**3,771**	**3,391**	**3,248**	**3,226**	**3,196**
Total assets	**53,116**	**46,565**	**47,912**	**46,300**	**46,011**	**45,860**	**46,311**
1.1. Bank of Slovenia	4,450	1,054	10	12	0	94	149
1.2. Other MFIs	10,802	8,241	7,409	6,039	6,037	6,023	6,047
1. Obligations to foreign sectors (foreign liabilities)	**15,252**	**9,294**	**7,419**	**6,051**	**6,037**	**6,117**	**6,196**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	3,997	4,189	4,673	4,763	4,812	4,819	4,843
2.1.1.2. Overnight deposits at other MFIs	8,829	8,832	10,441	11,821	12,488	12,634	12,875
2.1.1.3.1. Non-monetary financial institutions	14	15	44	11	39	63	16
2.1.1.3.2. Other government sector	18	28	28	24	42	34	35
2.1.1.3. Overnight deposits at the Bank of Slovenia	31	43	71	36	81	96	52
2.1.1. Banknotes and coins and overnight liabilities	12,858	13,065	15,185	16,621	17,381	17,549	17,770
2.1.2.1. Deposits at the Bank of Slovenia	-	-	1	1	1	1	1
2.1.2.2. Deposits at other MFIs	10,111	9,804	9,363	8,470	7,893	7,843	7,731
2.1.2. Time deposits	10,111	9,804	9,364	8,471	7,894	7,844	7,732
2.1.3. Deposits reedemable at notice up to 3 months	63	209	379	465	391	376	347
2.1. Banknotes and coins and deposits up to 2 years	23,032	23,078	24,929	25,558	25,666	25,769	25,848
2.2. Debt securities, units/shares of money market funds and repos	80	80	42	61	66	52	51
2. Banknotes and coins and instruments up to 2 years	**23,112**	**23,157**	**24,971**	**25,619**	**25,732**	**25,821**	**25,899**
3. Long-tern financial obligations to non-MFIs	**1,987**	**1,498**	**1,598**	**1,564**	**1,553**	**1,536**	**1,539**
4. Remaining liabilities	**15,017**	**15,783**	**17,229**	**16,070**	**15,666**	**15,307**	**15,602**
5. Excess of inter-MFI liabilities	**-2,253**	**-3,168**	**-3,305**	**-3,004**	**-2,978**	**-2,921**	**-2,925**
Total liabilities	**53,116**	**46,565**	**47,912**	**46,300**	**46,011**	**45,860**	**46,311**

Table 8.2: Balance Sheet of the Bank of Slovenia

EUR million	2012	2013	2014	15Q2	15Q3	Oct. 15	Nov. 15
1.1. Gold	129	89	101	107	103	106	103
1.2. Receivable form IMF	388	369	392	385	363	366	374
1.3. Foreign cash	0	0	0	0	0	0	0
1.4. Loans, deposits	406	373	3,031	1,374	1,015	519	489
1.5. Securities	4,520	3,844	3,651	3,995	4,004	4,049	4,124
1.6. Other claims	96	96	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**5,538**	**4,771**	**7,278**	**5,964**	**5,587**	**5,142**	**5,193**
2.1. Claims on central government	221	233	263	1,045	1,699	1,942	2,175
2.2.1. Loans	3,982	3,682	1,098	840	813	810	888
2.2.2. Other claims	3	3	3	2	18	26	44
2.2. Claims on domestic monetary sector	3,985	3,685	1,101	842	831	836	932
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**4,208**	**3,919**	**1,366**	**1,889**	**2,532**	**2,780**	**3,109**
3. Remaining assets	**2,835**	**2,200**	**2,317**	**1,999**	**1,831**	**1,764**	**1,729**
Total assets	**12,581**	**10,890**	**10,961**	**9,853**	**9,950**	**9,686**	**10,031**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**3,997**	**4,189**	**4,673**	**4,763**	**4,812**	**4,819**	**4,843**
2.1.1.1.1. Overnight	1,338	1,503	1,526	1,439	1,656	2,189	2,060
2.1.1.1.2. With agreed maturity	-	605	-	-	-	-	-
2.1.1.1. Domestic currency	1,338	2,108	1,526	1,439	1,656	2,189	2,060
2.1.1.2. Foreign currency	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,338	2,108	1,526	1,439	1,656	2,189	2,060
2.1.2.1.1. Overnight	23	364	2,718	1,721	1,470	495	870
2.1.2.1.2. With agreed maturity	1,000	1,350	-	-	-	-	-
2.1.2.1. In domestic currency	1,023	1,714	2,718	1,721	1,470	495	870
2.1.2.2. Foreign currency	75	73	94	59	58	57	59
2.1.2. General government	1,098	1,787	2,812	1,780	1,528	552	930
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	16	17	45	13	40	64	18
2.1.3. Other domestic sectors	16	17	45	13	40	64	18
2.1. Domestic sectors	2,452	3,912	4,383	3,231	3,224	2,805	3,008
2.2. Foreign sectors	4,450	1,054	10	12	0	94	149
2. Deposits	**6,902**	**4,966**	**4,393**	**3,243**	**3,224**	**2,899**	**3,157**
3.1. Domestic currency	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-
3. Issued securities	**0**	**0**	**0**	**0**	**0**	**0**	**0**
4. SDR allocation	**252**	**241**	**257**	**271**	**270**	**274**	**280**
5. Capital and reserves	**1,180**	**1,339**	**1,440**	**1,384**	**1,439**	**1,473**	**1,508**
6. Remaining liabilities	**250**	**156**	**197**	**191**	**204**	**220**	**244**
Total liabilities	**12,581**	**10,890**	**10,961**	**9,853**	**9,950**	**9,686**	**10,031**

Table 8.3: Balance Sheet of other Monetary Financial Institutions

EUR million	2012	2013	2014	15Q2	15Q3	Oct. 15	Nov. 15
1.1.1. Cash	261	282	292	272	262	236	250
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,338	2,108	1,526	1,439	1,656	2,189	2,060
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,599	2,390	1,818	1,711	1,918	2,425	2,310
1.2.1. Loans	3,064	2,432	1,719	1,305	1,349	1,363	1,346
1.2.2. Debt securities	620	363	378	201	246	290	244
1.2.3. Shares and other equity	172	117	61	63	62	62	62
1.2. Claims on other MFI's	3,856	2,912	2,158	1,569	1,657	1,715	1,652
1.3.1. Loans	31,465	26,176	22,883	22,434	21,920	21,830	21,659
1.3.2. Debt securities	4,139	5,702	6,352	6,463	6,397	6,504	6,527
1.3.3. Shares and other equity	936	849	685	823	810	789	775
1.3. Claims on nonmonetry sectors	36,540	32,727	29,920	29,720	29,127	29,123	28,961
1. Claims on domestic sectors (domestic assets)	**41,994**	**38,028**	**33,897**	**32,999**	**32,701**	**33,264**	**32,923**
2.1.1. Cash	23	23	29	38	33	30	32
2.1.2. Loans	1,231	1,697	2,839	2,552	2,570	2,495	2,669
2.1.3. Debt securities	590	372	498	468	666	831	994
2.1.4 Shares and other equity	619	559	572	571	567	567	567
2.1. Claims on foreign monetary sectors	2,463	2,651	3,938	3,629	3,836	3,923	4,262
2.2.1. Loans	2,770	2,530	2,135	1,854	1,766	1,727	1,690
2.2.2. Debt securities	1,234	1,378	1,878	1,792	1,776	1,798	1,833
2.2.3. Shares and other equity	93	273	329	359	368	368	373
2.2. Claims on foreign nonmonetary sectors	4,097	4,181	4,342	4,005	3,910	3,893	3,896
2. Claims on foreign sectors (foreign assets)	**6,559**	**6,833**	**8,279**	**7,635**	**7,744**	**7,817**	**8,159**
3. Remaining assets	**2,234**	**1,455**	**1,399**	**1,329**	**1,321**	**1,369**	**1,375**
Total assets	**50,787**	**46,315**	**43,575**	**41,963**	**41,766**	**42,449**	**42,457**
1.1.1. Deposits, loans from the Bank of Slovenia	3,982	3,682	1,098	840	813	810	888
1.1.2. Deposits, loans from other MFIs	3,122	2,440	1,733	1,348	1,362	1,369	1,348
1.1.3. Debt securities issued	298	150	93	55	60	85	38
1.1. Laibilities to monetary sectors	7,402	6,272	2,924	2,243	2,235	2,264	2,274
1.2.1.1. Overnight	8,664	8,542	10,129	11,484	12,090	12,933	13,181
1.2.1.2. With agreed maturity	13,777	12,214	12,481	11,541	10,942	10,692	10,546
1.2.1.3. Reedemable at notice	67	221	449	558	491	571	536
1.2.1. Deposits in domestic currency	22,508	20,977	23,059	23,583	23,523	24,196	24,263
1.2.2. Deposits in foreign currency	521	441	463	564	578	573	593
1.2.3. Debt securities issued	604	256	176	123	133	84	84
1.2. Liabilities to nonmonetary sectors	23,633	21,674	23,698	24,270	24,234	24,853	24,940
1. Obligations to domestic sectors (domestic liabilities)	**31,036**	**27,946**	**26,622**	**26,514**	**26,469**	**27,117**	**27,215**
2.1.1. Deposits	7,113	4,538	3,551	2,852	2,657	2,658	2,612
2.1.2. Debt securities issued	1,462	1,200	1,344	690	983	975	976
2.1. Liabilities to foreign monetry sectors	8,575	5,738	4,895	3,542	3,640	3,633	3,588
2.2.1. Deposits	1,702	2,054	2,052	2,008	1,907	1,900	1,961
2.2.2. Debt securities issued	104	32	25	27	27	27	27
2.2. Liabilities to foreign nonmonetary sectors	1,806	2,086	2,077	2,035	1,934	1,927	1,988
2. Obligations to foreign sectors (foreign liabilities)	**10,381**	**7,824**	**6,972**	**5,576**	**5,574**	**5,560**	**5,577**
3. Capital and reserves	**3,889**	**3,906**	**4,512**	**4,631**	**4,702**	**4,731**	**4,772**
4. Remaining liabilities	**5,481**	**6,641**	**5,469**	**5,242**	**5,020**	**5,040**	**4,894**
Total liabilities	**50,787**	**46,315**	**43,575**	**41,963**	**41,766**	**42,449**	**42,457**

Table 8.4: Interest rates of new loans and deposits in domestic currency to households and nonfinancial corporations

in % on annual level	2012	2013	2014	15Q2	15Q3	Oct. 15	Nov. 15
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.75	8.47	8.19	8.07	8.02	8.02	8.02
Households, extended credit	8.65	8.02	7.98	7.92	7.92	7.86	7.86
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.02	5.05	4.81	4.42	4.27	4.32	4.29
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.22	7.10	6.77	6.28	5.84	5.76	5.67
Loans, households, consumption, over 5 years initial rate fixation	7.33	7.35	6.92	6.13	5.61	5.53	5.42
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.78	4.48	4.39	4.04	3.71	3.87	3.84
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	6.06	6.58	6.19	5.84	5.84	5.66
C. loans, households, consumption, over 5 year initial rate fixation	6.93	7.13	5.32	5.85	5.84	3.97	4.71
APRC, Loans to households for consumption	7.70	7.97	8.02	7.61	7.46	7.60	7.47
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.27	3.26	2.89	2.61	2.45	2.40	2.32
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	**5.61**	**7.02**	**5.87**	**5.05**	**3.71**	**3.93**	**3.67**
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.48	5.36	4.38	3.34	3.39	3.34	3.39
Loans, households, house purchase, over 10 years initial rate fixation	5.47	6.50	4.16	2.90	3.44	3.27	3.27
C. loans, households, house purchase variabel and up to years initial rate fixation	3.27	3.24	2.89	2.61	2.41	2.33	2.27
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.59	7.54	4.85	2.65	3.04	3.11	2.89
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.38	5.60	4.07	3.14	3.18	3.13	2.97
C. loans, households, house purchase, over 10 years initial rate fixation	5.80	7.23	4.20	2.81	3.43	3.24	3.22
APRC, Loans to households for house purchase	3.63	3.58	3.19	2.98	3.04	2.95	2.92
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.62	5.53	4.28	4.11	3.67	3.85	3.82
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	6.64	5.93	6.11	7.29	5.98	6.52	6.81
Loans, households, other purposes, over 5 years initial rate fixation	**5.83**	**5.61**	**7.72**	**8.12**	**6.73**	**7.77**	**7.93**
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	**5.39**	**5.63**	**4.99**	**4.59**	**4.25**	**3.85**	**3.69**
S.11, extended credit	7.25	7.33	7.37	7.40	7.31	7.25	7.30
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	5.69	5.12	4.18	3.99	3.72	3.27	3.47
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	6.40	6.22	5.06	4.72	4.18	3.68	3.72
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	6.99	6.25	5.60	5.09	4.36	4.63	5.00
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	6.94	5.23	6.27	6.41	4.24	5.75	5.87
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	6.94	6.09	5.08	5.72	5.54	4.86	5.08
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	8.19	6.17	4.59	4.59	4.59	4.33	4.40
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	5.22	4.93	4.29	3.30	3.17	3.07	2.74
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	6.04	5.99	4.66	4.24	3.06	3.00	2.88
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	6.35	5.02	5.38	4.55	3.07	3.53	3.58
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	6.77	6.91	-	4.53	4.69	1.41	4.58
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	**5.47**	**6.40**	**4.23**	**4.30**	**-**	**-**	**2.06**
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	-	-	-	-	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	4.21	4.28	3.11	3.02	2.78	3.22	2.36
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	5.66	5.03	4.07	3.79	3.18	3.33	3.00
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	5.70	-	4.50	3.39	-	6.96	-
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.40	4.59	1.00	-	-	0.00	1.71
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	5.95	-	3.03	5.50	0.73	-	-
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	**4.81**	**4.81**	**3.03**	**-**	**-**	**-**	**-**
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	**0.20**	**0.09**	**0.06**	**0.05**	**0.05**	**0.03**	**0.03**
Deposits, households, agreed maturity up to 1 year	2.31	1.46	0.66	0.46	0.36	0.31	0.28
Deposits, households, agreed maturity over 1 and up to 2 years	4.06	2.76	1.37	1.11	0.95	0.84	0.82
Deposits, households, agreed maturity over 2 years	4.46	2.85	1.86	1.47	1.26	1.32	1.15
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.30	0.12	0.08	0.07	0.04	0.03	0.02
Deposits, S.11, agreed maturity up to 1 year	2.11	1.36	0.33	0.30	0.24	0.12	0.11
Deposits, S.11, agreed maturity over 1 and up to 2 years	4.24	2.92	1.34	1.08	0.79	0.65	0.67
Deposits, S.11, agreed maturity over 2 years	4.02	2.44	1.69	1.29	1.14	1.01	0.93
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	1.52	1.08	0.55	0.31	0.22	0.10	0.10
Deposits redeemable at notice, over 3 months notice	2.73	1.53	1.16	1.38	1.27	1.21	1.28

Table 8.5: International investment position

EUR million		2012	2013	2014	15Q1	15Q2	15Q3
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,968**	**-16,562**	**-16,260**	**-15,887**	**-15,057**	**-14,379**
1	**ASSETS**	**33,547**	**33,371**	**39,373**	**41,027**	**39,527**	**40,502**
1.1	**Direct investment**	**7,198**	**6,813**	**6,941**	**7,054**	**7,163**	**7,065**
1.1.1	Equity	4,184	3,795	3,746	3,678	3,602	3,579
1.1.2	Debt instruments	3,014	3,018	3,196	3,376	3,561	3,486
1.2	**Portfolio investment**	**11,631**	**11,386**	**12,375**	**13,204**	**13,215**	**13,273**
1.2.1	Equity and investment fund shares	2,532	2,755	3,193	3,608	3,524	3,228
1.2.2	Debt securities	9,098	8,631	9,182	9,596	9,691	10,045
1.3	**Financial derivatives**	**151**	**89**	**83**	**88**	**63**	**59**
1.4	**Other investment**	**13,845**	**14,414**	**19,135**	**19,781**	**18,192**	**19,264**
1.4.1	Other equity	370	530	629	639	636	637
1.4.2	Currency and deposits	5,122	5,647	10,737	10,852	9,571	10,773
1.4.3	Loans	4,247	4,181	3,729	3,686	3,408	3,306
1.4.4	Insurance, pension and standardized guarantee schemes	141	131	141	151	148	148
1.4.5	Trade credit and advances	3,668	3,636	3,602	4,129	4,141	4,109
1.4.6	Other accounts receivable	297	289	298	324	288	291
1.5	**Reserve assets**	**722**	**669**	**837**	**900**	**893**	**841**
1.5.1	Monetary gold	129	89	101	113	107	103
1.5.2	Special drawing rights	242	220	247	227	260	259
1.5.3	Reserve position in the IMF	146	149	145	132	125	103
1.5.4	Other reserve assets	205	211	345	428	401	375
2	**LIABILITIES**	**51,515**	**49,933**	**55,632**	**56,914**	**54,583**	**54,881**
2.1	**Direct investment**	**10,737**	**10,531**	**11,756**	**12,215**	**12,236**	**12,329**
2.1.1	Equity	7,617	7,292	8,107	8,482	8,360	8,809
2.1.2	Debt instruments	3,120	3,240	3,649	3,733	3,876	3,520
2.2	**Portfolio investment**	**12,273**	**16,091**	**22,876**	**23,251**	**21,526**	**22,525**
2.2.1	Equity and investment fund shares	737	811	1,010	1,046	1,046	980
2.2.2	Debt securities	11,536	15,280	21,865	22,206	20,481	21,545
2.3	**Financial derivatives**	**269**	**150**	**175**	**223**	**179**	**169**
2.4	**Other investment**	**28,236**	**23,161**	**20,825**	**21,225**	**20,641**	**19,857**
2.4.1	Other equity	21	23	26	26	27	27
2.4.2	Currency and deposits	8,343	4,165	3,338	3,042	2,544	2,316
2.4.3	Loans	15,435	14,759	13,136	13,607	13,527	13,096
2.4.4	Insurance, pension and standardized guarantee schemes	239	275	218	212	215	215
2.4.5	Trade credit and advances	3,788	3,527	3,425	3,621	3,611	3,476
2.4.6	Other accounts payable	159	171	425	440	446	457
2.4.7	Special drawing rights	252	241	257	277	271	270

Table 8.6: Gross external debt

EUR million		2012	2013	2014	15Q1	15Q2	15Q3	Oct.15
	TOTAL (1+2+3+4+5)	**42,872**	**41,658**	**46,314**	**47,137**	**44,971**	**44,895**	**44,818**
1	**GENERAL GOVERNMENT**	**11,091**	**15,459**	**22,416**	**23,730**	**22,317**	**23,276**	**23,044**
1.1	**Short-term, of that**	**191**	**58**	**602**	**1,466**	**1,303**	**1,377**	**1,486**
	Debt securities	163	30	166	51	13	4	13
	Loans	0	0	157	1,131	1,003	1,071	1,174
	Trade credit and advances	28	28	21	27	30	45	42
	Other debt liabilities	0	0	257	257	257	257	257
1.2	**Long-term, of that**	**10,900**	**15,402**	**21,814**	**22,264**	**21,014**	**21,899**	**21,558**
	Debt securities	10,060	14,114	20,261	20,769	19,521	20,411	20,069
	Loans	833	1,281	1,548	1,490	1,488	1,484	1,485
2	**CENTRAL BANK**	**6,071**	**2,742**	**2,083**	**1,884**	**1,768**	**1,580**	**1,620**
2.1	**Short-term, of that**	**5,820**	**2,500**	**1,826**	**1,607**	**1,496**	**1,310**	**1,346**
	Currency and deposits	5,820	2,500	1,825	1,607	1,496	1,310	1,346
2.2	**Long-term, of that**	**252**	**241**	**257**	**277**	**271**	**270**	**274**
	Special drawing rights (allocations)	252	241	257	277	271	270	274
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**9,892**	**7,519**	**6,591**	**6,309**	**5,414**	**5,306**	**5,302**
3.1	**Short-term**	**1,470**	**893**	**747**	**776**	**600**	**610**	**694**
	Currency and deposits	1,148	707	597	603	419	448	477
	Debt securities	164	58	0	0	0	0	0
	Loans	138	121	144	158	158	148	170
	Trade credit and advances	0	0	0	0	0	0	0
	Other debt liabilities	19	7	6	15	22	13	47
3.2	**Long-term**	**8,422**	**6,626**	**5,844**	**5,533**	**4,814**	**4,696**	**4,608**
	Currency and deposits	1,375	958	916	832	628	558	554
	Debt securities	892	837	954	921	501	696	671
	Loans	6,152	4,800	3,941	3,747	3,651	3,407	3,349
	Trade credit and advances	2	3	4	3	4	5	4
	Other debt liabilities	0	29	29	30	30	30	30
4	**OTHER SECTORS**	**12,697**	**12,698**	**11,575**	**11,481**	**11,596**	**11,213**	**11,141**
4.1	**Short-term, of that**	**4,272**	**4,039**	**3,947**	**4,151**	**4,312**	**4,178**	**4,110**
	Debt securities	3	4	5	2	2	2	2
	Loans	425	444	456	466	640	640	538
	Trade credit and advances	3,750	3,492	3,393	3,585	3,572	3,419	3,456
	Other debt liabilities	94	100	94	98	98	118	114
4.2	**Long-term, of that**	**8,425**	**8,659**	**7,628**	**7,330**	**7,284**	**7,035**	**7,031**
	Debt securities	253	238	480	463	443	432	426
	Loans	7,887	8,113	6,890	6,615	6,586	6,346	6,349
	Trade credit and advances	8	4	6	6	6	7	7
	Other debt liabilities	277	304	252	246	249	249	249
5	**DIRECT INVESTMENT: intercompany lending**	**3,120**	**3,240**	**3,649**	**3,733**	**3,876**	**3,520**	**3,711**
	NET EXTERNAL DEBT POSITION	**16,563**	**15,457**	**14,591**	**14,121**	**13,270**	**11,900**	**11,256**

Table 8.7: Balance of payments

EUR million	2012	2013	2014	15Q1	15Q2	15Q3	Oct.15
I. Current account	**930**	**2,023**	**2,607**	**443**	**822**	**962**	**292**
1. Goods	**-81**	**708**	**1,210**	**351**	**416**	**486**	**178**
1.1. Export of goods	**21,256**	**21,692**	**22,989**	**5,878**	**6,072**	**5,935**	**2,145**
Export f.o.b.	21,061	21,549	22,936	5,855	6,079	5,880	2,146
Coverage adjustment	-20	-180	-188	-55	-55	-36	-18
Net export of goods under merchanting	189	291	227	73	44	88	17
Nonmonetary gold	26	32	15	5	5	4	0
1.2. Import of goods	**21,337**	**20,984**	**21,780**	**5,527**	**5,656**	**5,449**	**1,967**
Import c.i.f.	22,078	22,114	22,580	5,710	5,867	5,629	2,044
Coverage adjustment	-148	-517	-160	-27	-45	-23	-18
Valuation adjustment	-639	-642	-656	-166	-170	-164	-59
Nonmonetary gold	47	29	15	10	5	7	0
2. Services	**1,509**	**1,761**	**1,736**	**400**	**534**	**694**	**190**
2.1. Export of services, of that	**5,106**	**5,314**	**5,555**	**1,247**	**1,498**	**1,718**	**504**
Transport	1,346	1,398	1,529	377	424	415	141
Travel	2,008	2,039	2,057	410	569	794	183
Construction services	224	280	277	61	65	74	29
Telecomm., computer and inform. services	415	452	457	123	113	135	33
Other business services	683	717	779	179	209	188	75
2.2. Import of services, of that	**3,597**	**3,553**	**3,819**	**847**	**964**	**1,024**	**314**
Transport	713	738	802	192	209	201	66
Travel	730	695	732	132	175	276	53
Construction services	103	259	234	21	56	22	6
Telecomm., computer and inform. services	466	460	483	112	119	132	59
Other business services	843	864	1,003	220	247	249	81
3. Primary income	**-271**	**-172**	**-87**	**-127**	**-9**	**-157**	**-54**
3.1. Receipts	**1,159**	**1,078**	**1,403**	**344**	**453**	**315**	**99**
Compensation of employees	474	491	540	151	183	129	44
Investment	207	48	368	74	85	87	27
Other primary income	478	539	495	119	184	99	27
3.2. Expenditure	**1,430**	**1,249**	**1,491**	**471**	**462**	**471**	**153**
Compensation of employees	98	106	119	26	31	34	10
Investment	1,097	915	1,086	346	339	359	115
Other primary income	235	229	286	99	91	78	27
4. Secondary income	**-227**	**-275**	**-252**	**-182**	**-119**	**-61**	**-22**
4.1. Receipts	**931**	**925**	**942**	**185**	**202**	**217**	**79**
4.2. Expenditure	**1,157**	**1,201**	**1,193**	**367**	**321**	**278**	**101**

Table 8.8: Balance of payments – continued

EUR million	2012	2013	2014	15Q1	15Q2	15Q3	Oct.15
II. Capital account	**41**	**71**	**-176**	**30**	**-28**	**56**	**13**
1. Nonproduced nofinancial assets	-4	-10	-24	6	-7	4	0
2. Capital transfers	45	81	-152	24	-21	52	13
III. Financial account	**-142**	**1,350**	**2,339**	**555**	**978**	**748**	**237**
1. Direct investment	**-466**	**-47**	**-600**	**-353**	**77**	**-100**	**-304**
Assets	-439	24	146	70	166	-23	58
Equity and reinvested earnings	-42	-80	-56	-23	-40	13	-5
Debt instruments	-396	103	202	92	206	-36	64
Liabilities	27	71	746	422	89	77	363
Equity and reinvested earnings	-6	-57	801	438	-58	513	178
Debt instruments	33	128	-55	-16	148	-436	185
2. Portfolio investment	**220**	**-3,967**	**-3,968**	**624**	**1,672**	**-959**	**504**
Assets	-143	-467	426	337	353	355	374
Equity and investment fund shares	45	60	127	35	31	16	42
Debt securities	-188	-527	299	302	321	339	332
Liabilities	-362	3,501	4,394	-287	-1,319	1,314	-130
Equity and investment fund shares	115	113	96	14	11	13	2
Debt securities	-478	3,387	4,298	-301	-1,331	1,301	-132
3. Financial derivatives	**89**	**32**	**-3**	**22**	**5**	**-7**	**0**
4. Other investment	**45**	**5,327**	**6,821**	**282**	**-798**	**1,863**	**16**
4.1. Assets	**456**	**732**	**4,800**	**341**	**-1,358**	**1,158**	**121**
Other equity	155	152	82	8	-2	1	0
Currency and deposits	38	564	5,037	46	-1,270	1,188	111
Loans	371	1	-300	-80	-101	-30	-20
Insurance, pension and stand. guar. schemes	28	-10	8	12	-3	0	0
Trade credits and advances	-49	19	-14	346	35	-5	19
Other assets	-88	6	-14	8	-16	4	11
4.2. Liabilities	**411**	**-4,595**	**-2,021**	**59**	**-560**	**-705**	**105**
Other equity	0	-29	3	0	0	0	0
Currency and deposits	1,019	-4,169	-831	-325	-498	-220	60
Loans	-938	-269	-1,239	373	-81	-376	-32
Insurance, pension and stand. guar. schemes	41	39	-54	-7	4	0	0
Trade credits and advances	285	-182	-141	13	9	-119	47
Other liabilities	5	16	240	5	7	11	30
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-31**	**5**	**89**	**-20**	**23**	**-49**	**21**
IV. Net errors and omissions	**-1,113**	**-743**	**-92**	**82**	**184**	**-270**	**-67**

Table 8.9: Non-consolidated financial assets – outstanding amounts

EUR million	2012	2013	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2
Domestic sector								
Total	180,611	179,701	185,001	187,240	186,930	186,979	189,554	186,223
Monetary gold and SDRs	371	309	333	333	342	348	340	368
Currency and deposits	36,269	36,984	42,097	43,570	43,905	45,943	46,626	44,043
Debt securities	17,236	18,319	18,330	18,098	18,567	19,912	20,397	21,004
Loans	54,089	49,970	49,147	48,109	46,600	45,036	44,548	43,190
Shares	18,457	19,529	19,833	20,628	20,672	20,175	20,693	20,227
Other equity	22,111	22,483	22,630	22,947	23,009	23,002	23,318	23,300
Investment fund shares/units	2,980	3,105	3,158	3,354	3,544	3,642	4,096	3,990
Insurance and pension schemes	6,454	6,541	6,735	6,964	7,065	7,132	7,449	7,478
Other	22,643	22,460	22,737	23,238	23,225	21,788	22,088	22,623
Non-financial corporations								
Total	44,236	43,387	42,734	44,010	43,540	41,352	42,035	42,491
Currency and deposits	3,991	4,588	4,701	5,029	4,945	5,053	5,052	5,331
Debt securities	248	194	198	188	185	184	192	178
Loans	6,494	6,151	6,272	6,626	6,568	6,043	6,284	6,118
Shares	5,198	4,525	3,579	3,524	3,297	3,063	2,934	2,914
Other equity	11,804	11,806	11,456	11,499	11,520	11,359	11,408	11,340
Investment fund shares/units	123	108	95	104	124	108	110	106
Insurance and pension schemes	416	387	436	441	426	408	452	455
Other	15,961	15,628	15,997	16,600	16,475	15,136	15,603	16,049
Monetary financial institutions								
Total	62,094	55,703	55,893	54,562	53,910	53,221	53,273	50,569
Monetary gold and SDRs	371	309	333	333	342	348	340	368
Currency and deposits	6,777	7,351	8,474	9,205	9,746	10,358	10,621	7,994
Debt securities	11,483	12,086	12,081	11,765	12,077	13,241	13,387	14,230
Loans	41,344	34,556	33,543	31,880	30,412	27,863	27,312	26,416
Shares	1,283	846	820	795	746	666	671	660
Other equity	228	186	204	225	220	314	509	519
Investment fund shares/units	27	12	13	12	12	12	12	11
Insurance and pension schemes	37	35	36	37	37	37	37	39
Other	544	322	389	311	317	382	384	334
Other financial institutions								
Total	15,205	15,225	16,950	17,130	17,506	17,462	18,296	17,774
Currency and deposits	1,350	1,096	1,261	1,273	1,382	1,316	1,506	1,438
Debt securities	4,715	5,108	5,136	5,351	5,504	5,727	5,949	5,775
Loans	3,756	3,624	3,688	3,534	3,505	3,388	3,324	3,243
Shares	2,629	2,598	3,426	3,532	3,619	3,580	3,825	3,710
Other equity	224	196	638	648	668	640	634	641
Investment fund shares/units	1,545	1,672	1,708	1,788	1,856	1,918	2,142	2,070
Insurance and pension schemes	225	202	253	254	236	218	238	234
Other	762	731	840	749	736	675	678	662
General government								
Total	22,782	28,698	32,462	33,741	33,818	36,519	36,757	36,024
Currency and deposits	6,062	5,985	9,434	9,608	9,191	10,369	10,339	10,061
Debt securities	400	598	568	502	518	507	515	501
Loans	1,751	4,940	4,941	5,342	5,372	7,052	6,950	6,700
Shares	6,936	9,091	9,470	10,026	10,169	10,128	10,469	10,163
Other equity	4,245	4,560	4,595	4,773	4,851	4,904	4,946	4,954
Investment fund shares/units	146	163	165	181	192	206	233	222
Insurance and pension schemes	2	2	2	6	8	12	15	17
Other	3,240	3,359	3,288	3,301	3,515	3,341	3,290	3,406
Households and NPISHs								
Total	36,293	36,687	36,961	37,797	38,156	38,425	39,193	39,364
Currency and deposits	18,089	17,964	18,228	18,455	18,641	18,847	19,107	19,219
Debt securities	390	334	347	292	283	253	353	320
Loans	744	700	703	727	743	691	678	713
Shares	2,410	2,469	2,538	2,750	2,841	2,739	2,795	2,780
Other equity	5,610	5,734	5,737	5,801	5,750	5,785	5,820	5,847
Investment fund shares/units	1,139	1,151	1,177	1,269	1,360	1,398	1,599	1,580
Insurance and pension schemes	5,774	5,914	6,008	6,225	6,358	6,457	6,707	6,734
Other	2,136	2,420	2,223	2,277	2,182	2,255	2,134	2,173
Rest of the world								
Total	52,272	51,079	53,808	55,782	56,455	57,409	58,262	55,842
Monetary gold and SDRs	252	241	242	244	254	257	277	271
Currency and deposits	8,490	4,293	3,205	3,176	3,247	3,497	3,212	2,708
Debt securities	11,893	15,807	19,676	21,297	22,031	22,493	22,584	20,798
Loans	17,261	16,697	16,599	16,493	16,042	15,676	16,175	16,183
Shares	3,890	3,687	3,754	4,228	4,356	4,556	4,543	4,385
Other equity	4,511	4,815	4,934	4,993	5,150	5,401	5,497	5,571
Investment fund shares/units	21	28	22	21	22	21	24	24
Insurance and pension schemes	239	275	275	230	228	218	212	215
Other	5,716	5,235	5,101	5,100	5,123	5,288	5,739	5,686

Table 8.10: Non-consolidated liabilities – outstanding amounts

EUR million	2012	2013	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2
Domestic sector								
Total	199,294	197,430	203,431	205,503	205,254	205,213	206,923	202,967
Monetary gold and SDRs	252	241	242	244	254	257	277	271
Currency and deposits	39,175	35,125	37,656	37,166	37,184	38,390	38,625	37,109
Debt securities	19,871	25,359	29,223	30,618	31,699	32,858	33,026	31,731
Loans	65,646	61,027	60,028	58,913	57,045	55,220	55,197	53,997
Shares	19,790	20,887	21,268	22,418	22,535	22,274	22,501	21,904
Other equity	23,639	24,199	24,522	24,828	25,048	25,395	25,802	25,901
Investment fund shares/units	1,818	1,839	1,870	2,002	2,115	2,143	2,432	2,392
Insurance and pension schemes	6,553	6,684	6,864	7,047	7,151	7,209	7,510	7,545
Other	22,551	22,067	21,759	22,268	22,222	21,467	21,554	22,117
Non-financial corporations								
Total	86,602	84,904	84,015	85,804	85,242	83,023	83,127	82,803
Debt securities	838	818	872	1,094	1,040	1,088	1,128	1,163
Loans	32,883	31,297	30,917	31,216	30,903	29,342	29,427	28,680
Shares	14,314	14,225	13,962	14,714	14,636	14,233	14,055	13,701
Other equity	21,910	22,453	22,358	22,611	22,754	23,013	23,165	23,272
Other	16,657	16,111	15,907	16,168	15,909	15,346	15,351	15,986
Monetary financial institutions								
Total	57,909	50,512	50,680	49,272	48,642	48,917	48,921	46,458
Monetary gold and SDRs	252	241	242	244	254	257	277	271
Currency and deposits	37,318	33,048	33,868	33,361	33,718	34,122	34,599	33,236
Debt securities	2,484	1,667	1,663	1,577	1,756	1,666	1,604	918
Loans	13,114	10,427	9,530	8,652	7,261	7,073	6,364	6,053
Shares	3,302	3,866	3,993	4,085	4,156	4,399	4,522	4,484
Other equity	859	823	848	873	912	945	1,010	986
Investment fund shares/units	24	36	36	34	35	37	36	54
Other	557	404	500	446	550	419	510	456
Other financial institutions								
Total	16,303	16,071	17,722	17,620	17,669	17,421	18,087	17,781
Debt securities	50	39	107	112	136	136	138	97
Loans	5,420	5,070	5,437	4,952	4,756	4,334	4,015	3,972
Shares	1,492	1,486	1,986	2,105	2,166	2,174	2,341	2,151
Other equity	457	472	866	888	886	947	1,153	1,167
Investment fund shares/units	1,794	1,804	1,834	1,968	2,080	2,106	2,396	2,338
Insurance and pension schemes	6,553	6,684	6,864	7,047	7,151	7,209	7,509	7,545
Other	538	516	627	549	496	516	534	511
General government								
Total	25,872	33,642	38,729	40,570	41,416	43,634	44,595	43,749
Currency and deposits	1,857	2,077	3,787	3,805	3,467	4,268	4,026	3,873
Debt securities	16,500	22,835	26,581	27,834	28,767	29,967	30,156	29,552
Loans	3,100	3,448	3,414	3,411	3,448	3,846	4,689	4,578
Shares	682	1,309	1,327	1,514	1,577	1,469	1,583	1,568
Other equity	413	451	449	455	496	491	474	476
Other	3,321	3,521	3,171	3,550	3,661	3,593	3,668	3,703
Households and NPISHs								
Total	12,607	12,301	12,285	12,237	12,284	12,218	12,193	12,175
Loans	11,128	10,785	10,731	10,682	10,677	10,625	10,703	10,713
Other	1,479	1,516	1,554	1,555	1,607	1,592	1,490	1,462
Rest of the world								
Total	33,588	33,349	35,377	37,518	38,130	39,174	40,894	39,098
Monetary gold and SDRs	371	309	333	332	342	348	340	368
Currency and deposits	5,584	6,151	7,647	9,580	9,968	11,050	11,213	9,642
Debt securities	9,257	8,767	8,782	8,777	8,900	9,548	9,955	10,071
Loans	5,704	5,640	5,718	5,689	5,597	5,492	5,526	5,376
Shares	2,556	2,330	2,320	2,438	2,494	2,457	2,735	2,708
Other equity	2,983	3,099	3,042	3,112	3,111	3,008	3,013	2,970
Investment fund shares/units	1,184	1,294	1,311	1,373	1,451	1,520	1,687	1,623
Insurance and pension schemes	141	131	145	147	143	141	151	148
Other	5,808	5,628	6,080	6,070	6,125	5,610	6,274	6,191

Table 8.11: Net financial assets

EUR million	2012	2013	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2
Domestic sector	-18,683	-17,729	-18,430	-18,263	-18,324	-18,234	-17,368	-16,744
Non-financial corporations	-42,367	-41,517	-41,281	-41,794	-41,702	-41,671	-41,092	-40,312
Monetary financial institutions	4,186	5,191	5,213	5,290	5,268	4,304	4,352	4,111
Other financial institutions	-1,098	-846	-772	-490	-163	40	209	-7
General government	-3,090	-4,944	-6,266	-6,829	-7,598	-7,114	-7,838	-7,725
Households and NPISHs	23,686	24,386	24,675	25,560	25,872	26,207	27,000	27,189
Rest of the world	18,683	17,729	18,431	18,263	18,324	18,235	17,369	16,744

Table 8.12: Non-consolidated transactions in financial assets – four quarter moving sum of flows

EUR million	2012	2013	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2
Domestic sector								
Total	-736	-1,494	4,028	1,794	1,521	3,738	139	-1,950
Monetary gold and SDRs	-1	-12	22	17	17	12	-43	0
Currency and deposits	-1,168	767	6,083	4,084	4,394	8,807	4,310	267
Debt securities	-141	993	993	688	822	661	1,181	2,699
Loans	1,505	-3,799	-3,737	-4,006	-4,604	-4,613	-4,394	-4,428
Shares	29	139	213	68	-284	-824	-846	-526
Other equity	179	431	487	481	357	183	409	335
Investment fund shares/units	15	27	64	75	92	152	208	235
Insurance and pension schemes	23	-23	18	125	145	182	249	217
Other	-1,175	-17	-115	262	581	-822	-935	-748
Non-financial corporations								
Total	-931	138	488	1,375	1,287	-418	-480	-822
Currency and deposits	-126	579	351	600	478	472	358	318
Debt securities	-1	-16	14	-5	-16	-14	-20	-17
Loans	-325	-207	195	533	705	75	107	-268
Shares	56	-6	21	-23	-241	-337	-334	-265
Other equity	111	110	95	39	-86	-100	-28	-5
Investment fund shares/units	-22	-20	-14	-10	-8	-1	-5	-3
Insurance and pension schemes	-11	-41	-8	7	10	24	20	18
Other	-613	-261	-167	235	445	-537	-577	-601
Monetary financial institutions								
Total	887	-3,413	-3,052	-3,314	-3,528	-1,531	-1,937	-2,729
Monetary gold and SDRs	-1	-12	22	17	17	12	-43	0
Currency and deposits	24	613	1,188	1,956	2,274	2,936	2,038	-1,307
Debt securities	-371	512	599	401	627	805	987	2,424
Loans	1,307	-4,344	-4,808	-5,704	-6,467	-5,251	-4,966	-3,982
Shares	3	-147	-130	-94	-116	-208	-216	-149
Other equity	47	148	180	212	212	155	336	304
Investment fund shares/units	-52	-13	-10	-9	-8	-4	-4	-2
Insurance and pension schemes	-4	-1	-1	0	1	2	2	2
Other	-65	-169	-92	-93	-68	22	-72	-17
Other financial institutions								
Total	-329	96	127	-77	-14	-116	79	150
Currency and deposits	-166	-270	-220	-120	64	158	216	130
Debt securities	221	305	208	235	184	100	361	341
Loans	-487	-92	-103	-280	-279	-304	-298	-309
Shares	-100	75	123	57	-43	-79	-104	12
Other equity	60	13	47	55	56	26	-7	-8
Investment fund shares/units	148	74	71	47	47	59	85	78
Insurance and pension schemes	45	-24	0	26	18	15	-17	-18
Other	-50	14	2	-97	-61	-91	-157	-76
General government								
Total	-129	1,529	6,234	3,064	2,912	5,010	1,472	513
Currency and deposits	-916	-71	4,672	1,147	911	4,356	849	391
Debt securities	49	191	170	112	99	-131	-86	-23
Loans	987	866	1,016	1,446	1,417	866	764	123
Shares	124	271	255	186	204	-123	-110	-56
Other equity	-69	148	148	147	145	76	76	12
Investment fund shares/units	9	4	4	17	14	16	14	13
Insurance and pension schemes	0	0	-1	4	5	2	5	3
Other	-312	120	-31	5	116	-52	-39	51
Households and NPISHs								
Total	-233	155	232	746	864	793	1,004	937
Currency and deposits	16	-84	93	502	667	885	848	735
Debt securities	-38	0	2	-55	-71	-99	-61	-26
Loans	24	-23	-37	0	20	1	0	10
Shares	-54	-54	-56	-58	-87	-77	-81	-69
Other equity	31	13	18	28	29	27	32	32
Investment fund shares/units	-69	-19	12	31	46	83	118	149
Insurance and pension schemes	-7	43	27	87	111	138	239	212
Other	-135	279	173	212	148	-164	-90	-106
Rest of the world								
Total	-111	-789	409	1,519	1,830	3,313	2,188	-1,101
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	942	-4,186	-5,377	-3,432	-3,799	-805	-34	-497
Debt securities	-535	3,784	6,762	5,686	5,895	4,430	1,074	-1,449
Loans	-650	-196	-708	-785	-697	-1,142	-544	-433
Shares	129	54	53	404	606	1,040	1,061	739
Other equity	-26	-32	-146	-48	-61	-51	399	210
Investment fund shares/units	4	2	-5	-11	-11	-11	-4	1
Insurance and pension schemes	41	39	17	-54	-45	-54	-59	-15
Other	-15	-254	-188	-241	-57	-95	294	342

Table 8.13: Non-consolidated transactions in liabilities – four quarter moving sum of flows

EUR million	2012	2013	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2
Domestic sector								
Total	-713	-2,472	2,768	130	-286	1,563	-1,980	-4,305
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-311	-3,999	-1,000	-2,735	-3,303	3,181	827	-190
Debt securities	-444	5,338	8,099	6,758	7,215	4,602	1,460	61
Loans	683	-4,031	-4,614	-4,745	-5,211	-5,690	-4,790	-4,779
Shares	113	271	332	415	217	172	165	194
Other equity	140	248	196	301	144	85	750	589
Investment fund shares/units	-109	-38	-39	-8	24	39	113	160
Insurance and pension schemes	35	27	40	61	93	121	187	198
Other	-821	-288	-244	83	534	-946	-691	-539
Non-financial corporations								
Total	-1,214	-1,677	-1,472	-694	-733	-2,304	-2,111	-2,498
Debt securities	63	20	98	300	242	288	215	35
Loans	-937	-1,389	-1,582	-1,076	-966	-1,921	-1,813	-2,373
Shares	136	32	43	52	-114	54	41	77
Other equity	124	106	104	203	95	153	283	171
Other	-600	-445	-135	-173	9	-879	-836	-408
Monetary financial institutions								
Total	-156	-7,302	-6,683	-6,691	-6,994	-2,320	-2,710	-3,538
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	542	-4,221	-3,145	-3,142	-3,569	1,002	609	-228
Debt securities	-1,678	-627	-767	-359	8	14	-53	-644
Loans	1,167	-2,320	-2,720	-3,184	-3,604	-3,367	-3,214	-2,644
Shares	-29	-23	32	107	131	114	119	90
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	-3	12	14	11	9	0	0	20
Other	-155	-122	-97	-125	30	-82	-170	-132
Other financial institutions								
Total	-389	-162	-191	-380	-487	-635	-268	-189
Debt securities	0	-10	-12	-8	-8	1	4	-47
Loans	-344	-350	-302	-468	-534	-694	-963	-895
Shares	5	56	56	56	-1	3	4	27
Other equity	16	141	91	98	48	-68	468	418
Investment fund shares/units	-106	-50	-53	-20	15	39	113	140
Insurance and pension schemes	35	27	40	61	93	121	186	198
Other	4	25	-11	-98	-101	-36	-81	-31
General government								
Total	1,387	6,937	11,348	8,107	8,079	6,909	3,236	2,034
Currency and deposits	-853	222	2,144	407	265	2,180	218	38
Debt securities	1,169	5,956	8,781	6,825	6,973	4,299	1,294	717
Loans	1,098	347	256	232	94	395	1,279	1,169
Shares	0	205	200	200	200	0	0	0
Other equity	0	0	0	0	0	0	0	0
Other	-27	207	-34	443	546	35	444	109
Households and NPISHs								
Total	-341	-268	-233	-212	-150	-87	-127	-113
Loans	-301	-317	-267	-249	-201	-103	-79	-35
Other	-43	47	32	37	50	16	-48	-78
Rest of the world								
Total	-133	188	1,669	3,183	3,637	5,487	4,307	1,255
Monetary gold and SDRs	-1	-12	22	17	17	12	-43	0
Currency and deposits	85	579	1,707	3,388	3,898	4,821	3,449	-40
Debt securities	-232	-561	-343	-384	-498	488	794	1,189
Loans	171	36	170	-46	-90	-65	-147	-82
Shares	45	-78	-66	57	104	44	51	18
Other equity	14	151	146	132	152	48	57	-44
Investment fund shares/units	128	67	98	72	57	102	92	77
Insurance and pension schemes	28	-10	-5	10	6	8	3	3
Other	-369	16	-59	-62	-10	29	50	133

Table 8.14: Net financial transactions – four quarter moving sum of flows

EUR million	2012	2013	14Q1	14Q2	14Q3	14Q4	15Q1	15Q2
Domestic sector	-23	978	1,260	1,664	1,807	2,175	2,119	2,355
Non-financial corporations	283	1,815	1,961	2,069	2,020	1,886	1,631	1,676
Monetary financial institutions	1,043	3,889	3,631	3,377	3,466	789	773	810
Other financial institutions	60	257	318	303	474	519	348	340
General government	-1,517	-5,407	-5,114	-5,043	-5,167	-1,899	-1,763	-1,520
Households and NPISHs	108	424	465	958	1,014	880	1,131	1,050
Rest of the world	23	-978	-1,260	-1,664	-1,807	-2,175	-2,119	-2,355

METHODOLOGICAL NOTES

International economic relations

The balance of payments methodology and Slovenia's international investment position are based on the recommendations of the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (IMF, 2009). The external debt statistics are based on the External Debt Statistics: Guide for Compilers and Users (IMF, 2014), which was also issued by the IMF and is fully compliant with the aforementioned manual.

The **balance of payments** is a statistical illustration of economic transactions between residents of a certain economy and non-residents taking place during a specific period. A *transaction* is an interaction between two institutional units that occurs by mutual agreement or through the operation of the law and involves an exchange of value or a transfer.

The **international investment position** is statistical statement that shows at a point in time the value of financial assets of residents of an economy that are claims on non-residents or are gold bullion held as reserve assets, and the liabilities of residents of an economy to non-residents.

The **gross external debt** is derived from the international investment position. It consists of non-contingent liabilities requiring the repayment of principal and/or interest at a specific period in the future that are simultaneously debt to a non-resident of a specific economy. The **net external debt** is derived from the difference between the claims and liabilities vis-à-vis non-residents via such instruments. The concept of external debt does not include equities or financial derivatives.

Statistics of financial institutions and markets

The methodology for the balance sheets of financial institutions is based on the methodology of the European Central Bank (ECB) and the euro area. The data source is the statistical report by monetary financial institutions.

The features of the methodology are as follows:

- The sector of monetary financial institutions (MFIs) comprises banks, savings banks, credit unions and money-market funds.
- Loans are disclosed in gross amounts.
- The items "loans and deposits" and "debt securities" under claims and liabilities, on account of the inclusion of marketable/non-marketable securities in the items of loans and deposits and securities. According to the ECB methodology non-marketable securities are included under loans and deposits, while marketable securities are included under debt securities.
- Under the ECB methodology relations on behalf and internal relations are included in net amounts.
- The figures for certain items (loans, deposits, securities other than shares, issued debt securities) are disclosed at nominal value in accordance with the ECB requirement. The nominal value for individual instruments means the amount of principal that the obligor owes the creditor under the contract:
  - loans: outstanding principal, excluding accrued interest, commission and other costs,
  - deposits: amount committed for a fixed term, excluding accrued interest,
  - debt securities: nominal value.

The **consolidated balance sheet of monetary financial institutions** discloses the overall (consolidated) balance sheet of the Bank of Slovenia and other monetary financial institutions at the end of the month. Mutual claims and liabilities of sectors S.122 and S.121 are excluded. On the liability side of the balance sheet, liabilities to domestic sector S.1311 are excluded in certain items, and are captured under other liabilities.

The **balance sheet of the Bank of Slovenia** discloses the balance sheet of the Bank of Slovenia at the end of the month in accordance with ECB's methodology.

The **balance sheet of other monetary financial institutions** discloses the aggregate balance sheet of other monetary financial institutions, i.e. banks, savings banks, credit unions and money-market funds, at the end of the month.

The legal requirements with regard to **interest rate statistics of MFIs** are set out in Regulation ECB/2013/34 amended by Regulation ECB/2014/30, which defines the statistical standards according to which monetary financial institutions report their interest rate statistics. The interest rate statistics of MFIs relate to the interest rates on which a credit institution or other institution reach agreement with a client. A new operation is defined as a new agreement between a household or non-financial corporation and a credit institution or other institution. New agreements include all financial contracts whose terms first set out the interest rate on a deposit or loan, and all new negotiations with regard to existing deposits and loans.

Financial accounts statistics

The methodological basis for compiling the financial accounts consists of the ESA 2010, which sets out common standards, definitions, classifications and accounting rules.

The financial accounts disclose the stocks and transactions recorded by individual institutional sectors in individual financial instruments as claims and liabilities.

The **institutional sectors** comprise the domestic sectors and the rest of the world. The domestic sectors comprise non-financial corporations, monetary financial institutions (central bank, deposit-taking corporations, money-market funds), other financial institutions (investment funds, other financial intermediaries, financial auxiliaries, captive financial institutions and money lenders, insurance corporations, pension funds), the general government sector (central government, local government, social security funds), households and non-profit institutions serving households (NPISHs).

Financial instruments comprise monetary gold and SDRs (special drawing rights), currency and deposits, debt securities, loans, shares, other equity, investment fund shares/units, insurance and pension schemes, and other instruments (financial derivatives, other accounts receivable/payable).

Transactions comprise the difference between increases (acquisitions) and decreases (disposals), i.e. the net transactions in an individual financial instrument.

Net financial assets discloses the difference between the stock of financial assets and the stock of financial liabilities, while net transactions discloses the difference between transactions in financial assets and transactions in financial liabilities.

The annual and quarterly stocks at the end of the period and the annual and quarterly transactions (four-quarter moving sums) are given in the table. The figures are unconsolidated, which means that they include claims and liabilities between units within the framework of an institutional sector.