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Executive Summary

Growth in the majority of major global economies was stable during the first quarter, including in the euro area where private consumption is contributing decisively to growth. Forecasts of global economic growth and trade have nevertheless been cut further, but for the moment without impacting the forecast of aggregate growth in Slovenia's trading partners for this year. Following previous cuts, the latter was raised to 1.8% in June, comparable with the forecast from the beginning of the year. That forecast does not, however, take yet account of the potential effects of Brexit, which are expected to be negative for the United Kingdom due to the previously identified slowdown in investment. However, shifts on the financial markets at the end of June and beginning of July have already proven that the initial responses to Brexit were likely exaggerated, and that it is too early for realistic assessments of Brexit's impact on economic activity.

Economic growth in Slovenia remained well above the European average during the first quarter. The only major limiting factor was a decline in construction investment due to a major slowdown in general government infrastructure investment; in the absence of the aforementioned factor, economic growth would have even accelerated. Contributing most to the latter were manufacturing segments, which recorded sharp growth in output relative to the final quarter of last year. We also find that the majority of other economic sectors are also becoming more active on the foreign market, an indication of the increasing export orientation of the economy as a whole. Growth in private consumption was below expectations during the first quarter; growth was down considerably but more than likely only temporarily, as the situation on the labour market continues to improve. Activity and confidence indicators also point to continued solid economic growth in the second quarter.

Growth in employment and wages has strengthened, the number of registered unemployed having fallen below 100,000 in June for the first time since 2010. According to national accounts figures, employment rose by 1.4% during the first quarter, with industry, trade and repair of motor vehicles, transportation and storage, and accommodation and food services contributing most to that growth. Various surveys for the coming months indicate continued growth in employment. The year-on-year decline in the number of registered unemployed exceeded 9% in June. The average year-on-year growth in nominal gross wages during the first four months of the year was the highest in the last four years, while year-on-year growth in the nominal wage bill was the highest of the last six years, which provides the basis for higher growth in private consumption.

Inflation, as measured by the HICP, was positive in June for the first time since 2014. The aforementioned turnaround was rapid; at 0.1% inflation was no longer below the euro area inflation rate. Core inflation reached the euro area level in May and exceeded it in June. The reasons for that reversal are varied: both external and internal cost pressures are gradually emerging, while it is still difficult to assess the impact of domestic consumption, which was quite weak in the first quarter.

The nominal general government deficit is expected to narrow to 2.2% of GDP this year. The narrowing of the deficit during the first quarter was a reflection of growth in revenue, in particular from taxes and contributions, while the decrease in expenditure was the result of a sharp drop in government investment due to a slow start to the drawdown of funds from the new European financial framework. Government debt at the end of the first quarter was up slightly on the end of last year, on account of additional borrowing, to stand at 83.8% of GDP.

Main macroeconomic indicators

	2013	2014	2015	15Q3	15Q4	16Q1	2013	2014	2015	15Q3	15Q4	16Q1
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	-1.1	3.0	2.9	2.6	3.3	2.5	-0.3	0.9	1.7	1.6	1.9	1.6
- industry	-0.1	4.8	5.0	5.3	4.6	5.5	-0.6	0.6	1.9	2.0	2.2	0.9
- construction	-8.7	9.5	-3.3	-6.0	-0.4	-18.3	-3.3	-0.9	0.3	0.3	1.5	0.6
- mainly public sector services	-0.4	1.0	0.3	0.3	0.7	1.3	0.4	0.5	0.9	0.9	0.9	0.9
- mainly private sector services	-0.8	4.4	3.5	3.4	4.1	2.7	-0.3	1.0	1.7	1.6	2.0	1.5
Domestic expenditure	-2.2	1.6	2.1	1.4	3.7	0.6	-0.7	0.9	1.8	1.9	2.4	2.1
- general government	-1.5	-0.1	0.7	0.8	3.0	2.7	0.2	0.8	1.3	1.1	1.7	1.6
- households and NPISH	-4.1	0.7	1.7	2.5	2.6	0.7	-0.6	0.8	1.7	1.9	1.6	1.9
- gross capital formation	2.7	5.7	4.4	-0.6	8.1	-1.5	-1.8	1.4	2.8	2.7	5.7	3.3
- gross fixed capital formation	1.7	3.2	0.5	-2.0	3.4	-8.2	-2.6	1.3	2.9	2.6	4.0	2.3
- inventories and valuables, contr. to GDP growth in pp	0.2	0.5	0.8	0.3	0.8	1.3	0.2	0.0	0.0	0.0	0.3	0.2
Labour market												
Employment	-1.4	0.6	1.4	1.3	1.3	1.4	-0.6	0.6	1.1	1.1	1.2	1.4
- mainly private sector services	-1.6	0.6	1.6	1.5	1.4	1.5	-0.9	0.5	1.1	1.2	1.3	1.5
- mainly public sector services	-0.6	0.4	0.8	0.7	0.8	1.1	0.2	0.8	0.9	1.0	1.0	1.1
Labour costs per employee	0.5	1.1	0.8	0.3	1.5	2.6	1.6	1.3	1.3	1.3	1.2	1.3
- mainly private sector services	1.7	2.1	0.8	0.4	1.2	1.8	1.5	1.3	1.4	1.4	1.2	1.3
- mainly public sector services	-3.2	-2.0	0.8	0.3	0.8	1.9	1.6	1.1	1.1	0.9	1.1	1.4
Unit labour costs	-0.1	-2.0	-0.6	-1.2	-0.7	1.5	1.1	1.0	0.8	1.0	0.7	1.3
- industry	0.8	-1.0	-2.1	-3.0	-0.7	-0.8	1.9	1.3	0.1	0.0	-0.6	1.2
	in %											
LFS unemployment rate	10.1	9.8	9.0	8.6	8.4	8.9	12.0	11.7	10.9	10.3	10.6	...
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP	4.8	6.2	5.2	6.5	4.7	7.0	2.2	2.3	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	1.1	1.6	1.0	1.4	-0.1	1.9	0.4	0.0	-0.1	-0.2	-0.4	-0.4
Real export of goods and services	3.1	5.8	5.2	5.0	3.3	5.3	2.1	4.1	5.3	4.8	5.0	2.8
Real import of goods and services	1.7	4.0	4.4	3.7	3.9	3.2	1.3	4.5	6.1	5.7	6.4	4.0
Financing	*in % of GDP*											
Banking system's balance sheet	128.9	116.7	107.8	109.4	107.8	104.6	297.6	299.3	285.5	291.6	285.5	288.0
Loans to NFCs	45.1	31.5	26.5	27.9	26.5	25.1	42.0	40.2	39.0	39.4	39.0	38.9
Loans to households	22.6	21.5	21.2	21.3	21.2	21.0	51.8	50.7	50.3	50.3	50.3	50.0
Inflation	*in %*											
HICP	1.9	0.4	-0.8	-0.8	-0.9	-0.9	1.3	0.4	0.0	0.1	0.2	0.0
HICP excl. energy, food, alcohol and tobacco	0.9	0.6	0.3	0.3	0.4	0.3	1.1	0.8	0.8	0.9	1.0	1.0
Public finance	*in % of GDP*											
Debt of the general government	71.0	81.0	83.2	84.4	83.2	83.8	91.1	92.1	90.7	91.8	90.7	...
One year net lending/net borrowing of the general government	-15.0	-5.0	-2.9	-4.1	-2.9	-2.8	-3.0	-2.6	-2.1	-2.1	-2.1	...
- interest payment	2.6	3.2	3.0	3.1	3.0	3.0	2.8	2.7	2.4	2.5	2.4	...
- primary deficit	-12.5	-1.8	0.0	-1.0	0.0	0.2	-0.2	0.1	0.3	0.4	0.3	...
- deficit excl. bank recapitalisations	-4.9	-4.0	-2.9	-3.2	-2.9	-2.8						
- primary deficit excl. bank recapitalisations	-2.3	-0.9	0.0	-0.1	0.0	0.2						

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

1 International Environment

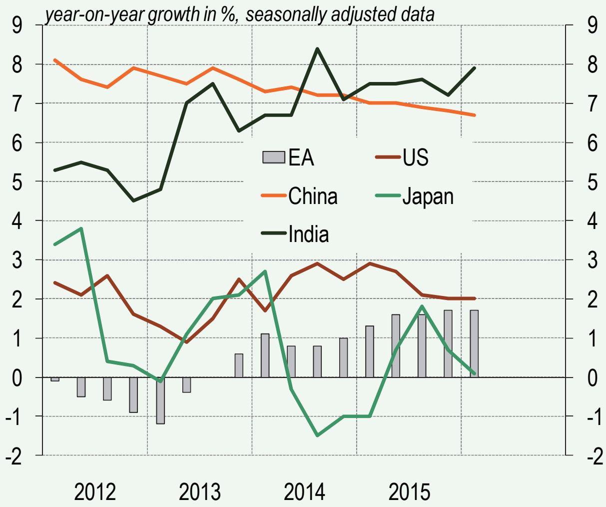
Global economic growth remained moderate in the early part of the year. The forecasts for 2016 have mostly been revised downwards in recent months, although the forecast for the euro area remained relatively stable until the beginning of June at 1.6%, the same as last year's figure. European growth is being strongly driven in the current cycle by growth in private consumption on the basis of employment. With regard to the volatility of the financial markets, it is probably still too early for a realistic assessment of the economic consequences of Brexit. After rising slightly against the US dollar in the second quarter, the euro fell after the Brexit result was announced. Global commodity prices began recovering after January, most notably oil prices, and to a lesser extent food prices.

Global economy

Global economic growth remained moderate in the early part of the year. Year-on-year GDP growth in the euro area stood at 1.7% in the first quarter, the same as the previous quarter and 0.1 percentage points more than the average in 2015. In the US growth also remained at its level of the previous quarter, at 2.0%, which was 0.4 percentage points below last year's average. Growth in Japan slowed from last year's average of 0.6% to zero. The developments in emerging economies varied. Growth in China slowed to 6.7%, the lowest figure since 2009, while growth in India strengthened to 7.9% in the first quarter. The situation in Russia is slowly improving, although the aggregate rate remains slightly negative.

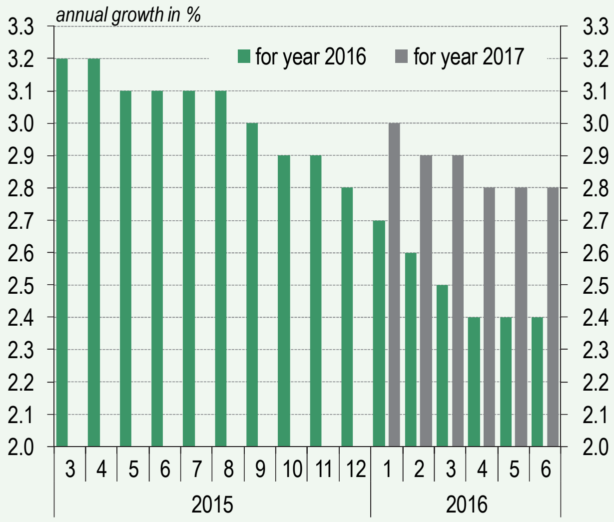
Global growth forecasts were mostly being lowered, even before the news of Brexit. The European Commission, the OECD and the World Bank lowered their June forecasts, while after lowering its forecast at the beginning of the year Consensus had made no further changes by early June. The OECD forecast for this year is now 3.0%, still higher than last year's 2.6%, while the World Bank and Consensus lowered their forecasts to 2.4%. Growth in the euro area is forecast to remain at 1.6% this year, while growth in the US is expected to slow from last year's 2.4% to around 1.9%. For developing countries the current trends are expected to continue, which entails a continuation of strong growth in India, a further gradual slowdown in China, and a faster emergence from crisis in Russia, where GDP is expected to contract by less than 1% this year.

Figure 1.1: GDP in larger economies



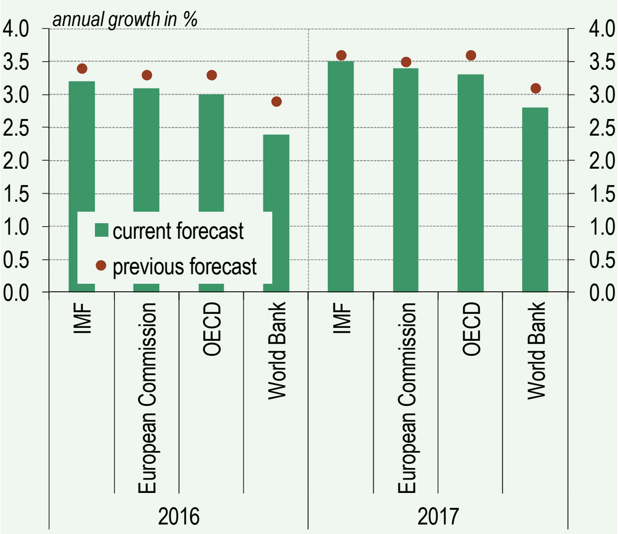
Source: Eurostat, BEA, Tradingeconomics.

Figure 1.2: Changing monthly forecasts of global GDP growth



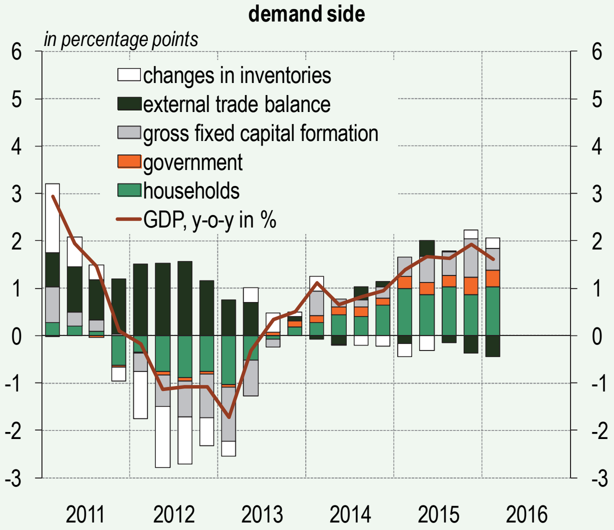
Source: Consensus.

Figure 1.3: Global GDP growth



Source: IMF, European Commission, OECD, World Bank.

Figure 1.4: Structure of GDP growth in the euro area – demand side



Source: Eurostat, Bank of Slovenia calculations.

Certain institutions were very quick to release lowered growth forecasts after the result of the UK referendum. On 28 June Consensus released the first rapid and temporary adjustment to its forecasts, with the growth forecasts for 2016 and 2017 revised downwards by 0.5 percentage points and 1.7 percentage points respectively for the UK, by 0.1 percentage points and 0.6 percentage points respectively for the euro area, and very slightly for the US. Developments on the financial markets have now shown that the initial response to Brexit was probably exaggerated, and that the initial deviations were partly neutralised in the final days of June and early July. It is probably still too early for a more realistic assessment of the consequences for economic activity.

The forecasts for growth in global trade are continuing to be reduced more than GDP growth forecasts. The main reasons are the decline in economic growth in China and the general slowdown in global growth, and the clear slowdown in investment activity. The advanced economies in particular have turned more than ever to domestic demand over the last two years. In its June forecasts the World Bank left its forecast for growth in global trade (according to its own definition) unchanged from last year at 3.1%, while the OECD again lowered its forecast, from last year's 2.6% to 2.1%.

Euro area

Quarterly economic growth was slightly above expectations in the first quarter, although the year-on-year rate merely remained at the level of the previous quarter. Year-on-year growth remained at 1.7%, up 0.1 percentage points on the average in 2015. Growth has been driven by domestic demand since 2014, after its recovery from a temporary stagnation. Household consumption was up 1.7%, and accounted for fully 1 percentage point of growth in the first quarter. Government consumption accounted for 0.3 percentage points of aggregate growth, while gross fixed capital formation accounted for 0.6 percentage points. The contribution made by net exports remained negative. The largest contribution made by any sector was by manufacturing, where year-on-year growth was 2.2%, followed by wholesale and retail trade, transportation, and accommodation and food service activities.

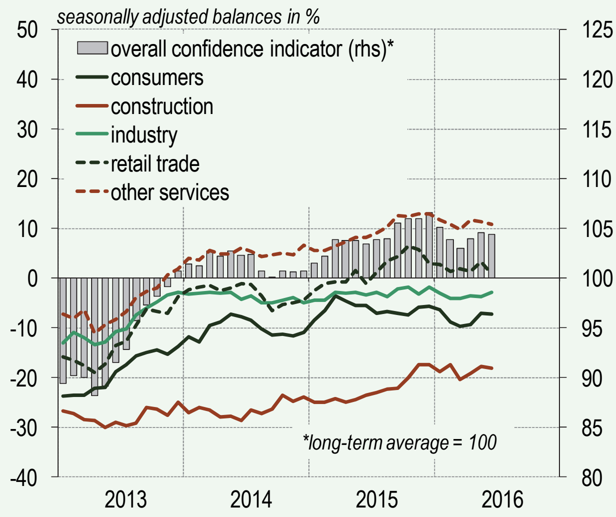
Growth in private consumption, which is being driven by employment, is making a decisive contribution to the new cycle of GDP growth. GDP was up 1.7% in year-on-year terms in the first quarter, while employment was up 1.4%. The harmonised unemployment rate fell to 10.1% in May, down from 11.0% in May of last year, the lowest level since July 2011. The unemployment rate across the EU is now below its average of the 2000 to 2005 period, although not yet in the euro area. Germany's unemployment rate in June was its lowest of the last 25 years.

The forecasts for this year's economic growth in the euro area were lowered in the early part of the year, but were raised again after the release of the GDP figures for the first quarter, and are relatively similar across the forecasters. The changes have been small. Consensus had lowered its forecast for 2016 to 1.5% by March, then soon after raised it again to 1.6%, where it remained until June, before the news about Brexit. The European Commission's forecast and the OECD's June forecast were the same. This figure is the same as the economic growth realised in 2015, while the forecasts for 2017 are at the same level or slightly higher. Growth is expected to continue being driven by all components of domestic demand, at roughly the same tempo as last year. The rate of unemployment is expected to fall further, albeit slightly more slowly. It is probably still too early for a more solid adjustment in the forecasts to the new post-Brexit situation.

Slovenia's trading partners

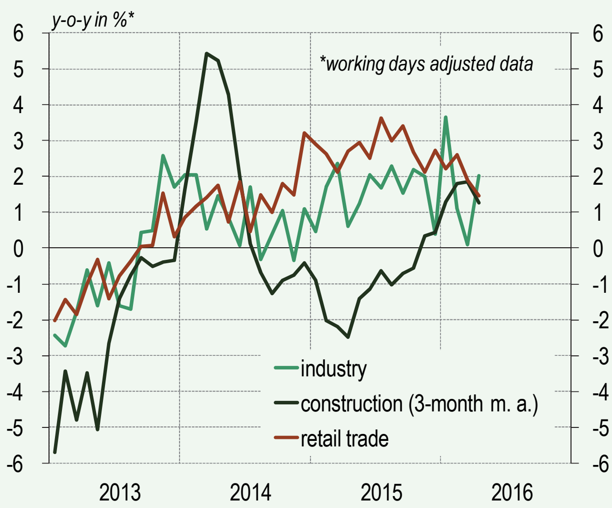
The weighted economic growth forecast for Slovenia's main trading partners in 2016 has corrected again in the last two months after a decline. In June Consensus raised its aggregate weighted growth forecast for 2016 for the main trading partners, each of which account for at least 1% of Slovenia's total exports, by more than in May, to just under 1.8%, its level of the beginning of the year. In June – before Brexit – the forecasts for

Figure 1.5: Confidence indicators – euro area



Source: European Commission.

Figure 1.6: High frequency indicators for euro area



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.7: Projections of GDP growth in Slovenia's main trading partners for the year 2016

Source: Consensus Economics.

euro area countries were raised to 1.7% for Germany, 1.5% for France and 1.4% for Austria, the Netherlands and Spain, while the forecast for Italy remained unchanged at 1.1%. The forecasts were also raised for other major European partners, to 1.8% for Croatia, 2.1% for Serbia and -0.9% for Russia. The forecast for the US was also raised slightly. The only certainty to date in connection with Brexit is that it will hit the UK, if for no reason other than the already evident slowdown in investment.

Euro exchange rate and commodity prices

The ECB is continuing its extremely expansive monetary policy. By contrast, monetary policy in the US remains unchanged at a lower level of expansiveness. This difference is holding the euro exchange rate relatively stable, down sharply on its level against the US dollar since the beginning of 2015. It actually rose slightly in the second quarter, primarily as a result of a slight deterioration in results in the US economy, before sliding by just under 3% after the result of the UK referendum, less than the previous appreciation, and remaining around USD 1.11 until the end of June.

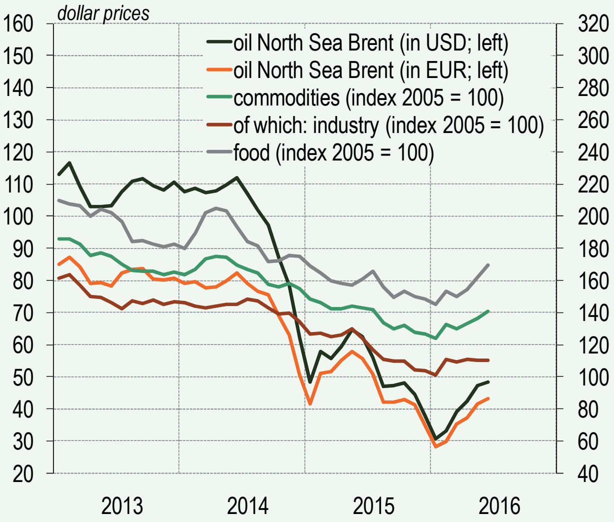
After reaching a low of more than ten years in January, oil prices then underwent a sustained rise in the following months. The price of Brent crude almost doubled between mid-January and the end of May, reaching USD 50 or EUR 45 (although it should be noted that it was merely regaining its level of last autumn, well below the level of around USD 110 or EUR 80 in previous years). The rise came to an end in early June, the price falling to around USD 48 or EUR 43 by the end of the month.

After falling more gradually since 2012 and particularly sharply last year, other commodity prices have ceased falling since January of this year. The aggregate index of US dollar prices of non-oil commodities rose slowly but steadily until May, primarily as a result of faster growth in food prices, which in May were up 1.5% in year-on-year terms. Prices of metals and aggregate prices of industrial commodities grew more slowly, or not at all since February, and were still down almost a fifth in year-on-year terms as a result of a sharp fall in May of last year.

International capital markets

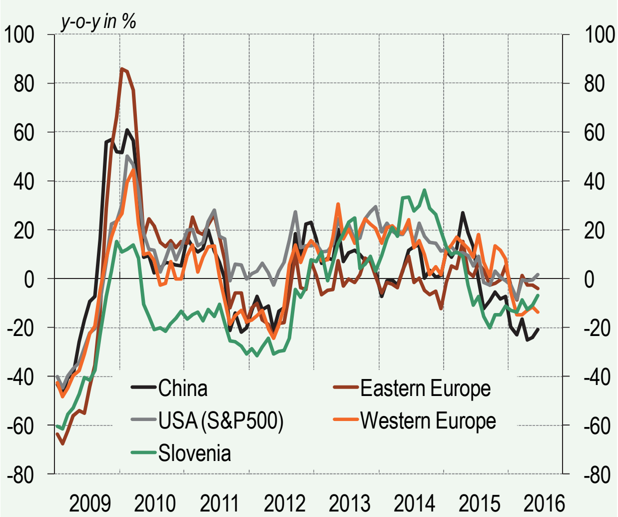
International stock markets were hit at the end of the second quarter of the year by the UK referendum on leaving the EU. The majority of stock market indices recorded low but positive monthly growth in April and May. Despite mixed global economic results, the markets focused on the positive results in the euro area and China. In June attention turned to the referendum in the UK. The decision to leave the EU was thought unlikely, which was subsequently reflected in international stock

Figure 1.8: Commodities



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

Figure 1.9: Foreign stock exchange indices



Source: Bloomberg.

markets. When it became clear that the UK was leaving the EU, the markets reacted violently. The pound sterling lost several percent each day against the euro and the US dollar over the first two business days after the result of the referendum was announced. Similar falls were seen in the main stock market indices, which were later partly recovered in the final days of June. The composite indices for western and eastern Europe lost 5% and 4% respectively in the second quarter, while the S&P in the US gained 2%.

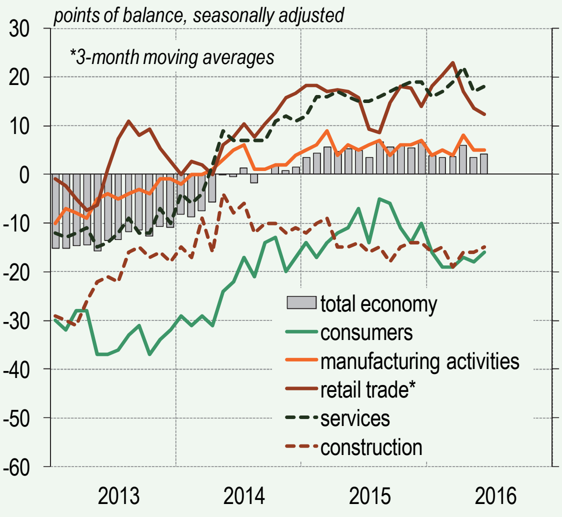
2 Economic Developments

Growth in the Slovenian economy remains significantly above the euro area average, even without government investment support. The anticipated decline in construction investment was the only major limiting factor in the first quarter of this year; in the absence of that factor, economic growth would actually have increased. The main factor was manufacturing, which recorded sharp growth in output relative to the final quarter of last year. The majority of other economic activities are also becoming more active on the foreign market, an indication of the increasing export orientation of the economy as a whole. Running contrary to expectations during the first quarter was growth in private consumption, which was down sharply, albeit merely temporarily, as the situation on the labour market continues to improve. Economic growth remained around 2% in the second quarter, at least according to the available monthly indicators.

Confidence indicators

The economic sentiment remained positive and stable in the second quarter of this year. Manufacturing firms assessed the level of orders as better than in the first quarter, and in June raised their expectations with regard to orders in the third quarter. According to the SURS survey, output also increased significantly at the end of the second quarter. Only the increase in inventories acted to limit the rise in the manufacturing confidence indicator. Firms in services other than retail also assessed the pace of demand in the second quarter and the third quarter as positive. Retail firms reported slower growth in sales in the second quarter, while the most notable change was in their assessment of expected price developments. Retail firms expected prices to rise sharply, which is likely related in part to the liberalisation of prices of refined petroleum products and the reporting by firms that sell such products. Confidence in the construction sector has stabilised at a low level, in the wake of a fall in current orders and the maintenance of optimism with regard to future demand. Consumer confidence has also stabilised.

Figure 2.1: Confidence indicators

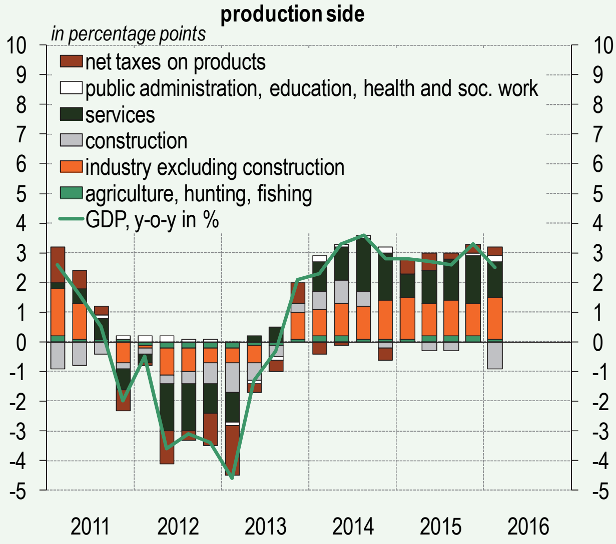


Source: SORS, Bank of Slovenia calculations.

GDP

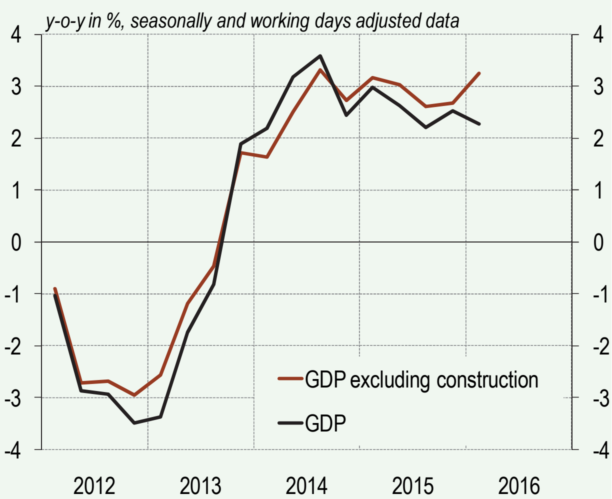
Economic growth in the first quarter of this year remained significantly above the euro area average, despite a fall in construction activity. Year-on-year growth in GDP slowed to 2.5%, down 0.8 percentage points on the final quarter of last year, but was still 0.9 percentage points higher than the figure across the euro area. The only sectors to record a decline in value-added were construction, and financial and insurance activities. Construction was notable for its decline of almost a fifth, which reduced GDP growth by 0.9 percentage points. The decline in construction was nevertheless expected, and has coincided with a decline of 50% in construction investment by the government sector.[1] Growth in value-added in private-sector services also declined from 4.1% in the final quarter of last year to 2.9%. In addition to financial and insurance activities, the slowdown is related to the decline in turnover in architectural and engineering activities, which is highly dependent on construction investment. Growth in manufacturing output increased significantly, to almost 7%, which was broadly in line with developments in merchandise exports. Growth in value-added in the Slovenian economy thus remained solid, despite weaker domestic demand, and is a reflection of the increasing export orientation of most sectors.[2]

Figure 2.2: Contributions to y-o-y GDP growth, production side



Source: SORS.

Figure 2.3: Direct effect of construction's value added on GDP growth

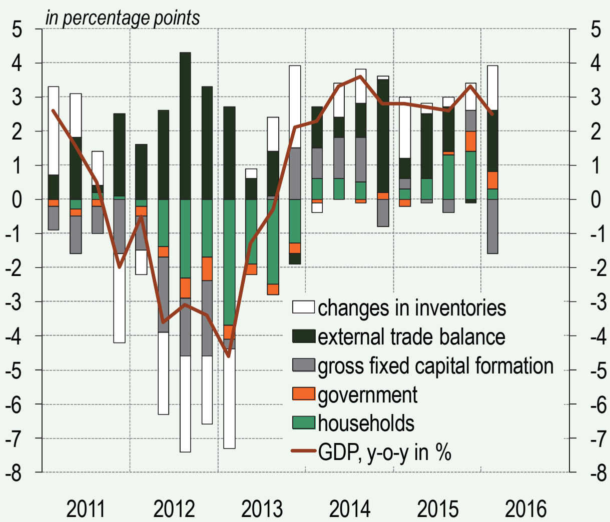


Source: SORS, Bank of Slovenia calculations.

Aggregate demand

Growth in domestic demand in the first quarter of this year was lower than expected, as a result of weak household consumption. Year-on-year growth in domestic demand declined to just 0.6%, down 1.5 percentage points on the average in 2015. The main factor in the decline was the anticipated decline in construction investment in the wake of the changeover to the new European financial framework. The decline exceeded 25%, and reduced GDP growth by fully 2.3 percentage points. It was also the sole reason for the year-on-year decline of more than 8% in aggregate gross fixed capital formation. Investment in machinery and equipment continued to increase, investment in transport equipment remaining notable in this respect. This has been growing at high rates for more than three years now, an indication of the expansion of capacity in the domestic transport sector. In

Figure 2.4: Contributions to y-o-y GDP growth, expenditure side



Source: SORS.

[1] Sources: Ministry of Finance consolidated public finances, Bank of Slovenia calculations.
[2] The proportion of total sales revenue accounted for by turnover on foreign markets stood at 37% in 2015, up 2 percentage points on 2014 and 9 percentage points on 2008.

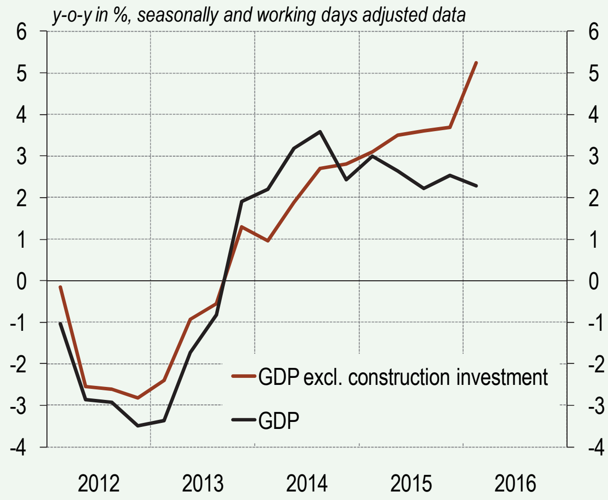
the wake of a strong improvement in investment factors, most notably high corporate profitability in 2015, investment in other production capacity is also gradually increasing, although the rates are still rather low, and are the result of a strong base effect. Most notably, household consumption was unexpectedly weak in the first quarter. Year-on-year growth in final household consumption declined to just 0.6%, down 1.1 percentage points on the average in 2015. The slowdown tracked the decline in consumer confidence, but was in contrast to the large increase in the total wage bill in real terms. Final government consumption, which was up 2.7% in year-on-year terms, again made a positive contribution to GDP growth.

Exports were the main factor in economic growth remaining solid in the first quarter. Real year-on-year growth in total exports was up 2 percentage points on the final quarter of last year at 5.3%, as both merchandise and services recorded increases. At the same time weaker domestic demand brought a slight slowdown in growth in imports, to 3.2%. Growth in imports was nevertheless relatively high compared with aggregate final consumption, which means that imports were directed towards the needs of the export sector and to the build-up of inventories. Net trade thus accounted for 1.9 percentage points of the GDP growth of 2.5%.

Economic developments in the second quarter

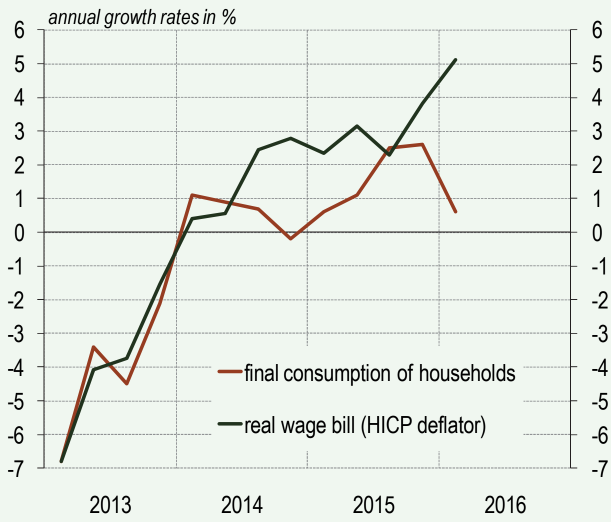
Economic growth remained solid in the second quarter. The monthly indicators for April and May suggest that growth in industrial production remained relatively high on the basis of exports. At the same time year-on-year growth in retail turnover also remained high, primarily as a result of a further increase in purchases of durables. Growth in activity in other private-sector services slowed, partly as a result of the fall in construction activity, which had an adverse impact on engineering activities in particular. Construction activity was down more than 30% in year-on-year terms in April, although not all segments recorded a decline in amount of construction put in place, as residential construction continued to grow, albeit from a low basis.

Figure 2.5: Direct effect of construction investment on GDP growth



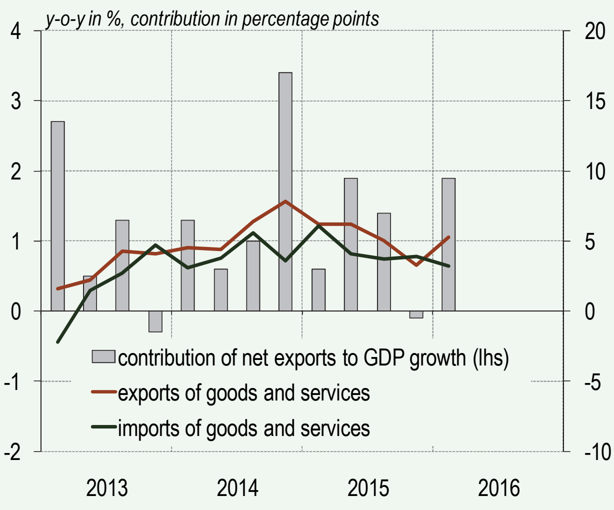
Source: SORS, Bank of Slovenia calculations.

Figure 2.6: Final consumption of households and wage bill



Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Foreign trade



Source: SORS - national accounts.

Table 2.1: Economic activity

	12 months to Apr.15	12 months to Apr.16	2016 Feb.	2016 Mar.	2016 Apr.	2016 Jan.	2016 Apr.
			y-o-y in %			*monthly ++*	
Industrial production: - total *	3.6	5.1	6.3	4.6	5.3	1.0	*2.2*
- manufacturing	5.1	5.9	8.3	6.0	7.1	1.2	*2.8*
Construction: - total **	9.2	-15.6	-29.7	-36.0	-31.2	-6.6	*-14.3*
- buildings	0.3	-4.7	-2.8	-7.5	-11.7	-2.8	*-4.7*
- civil engineering	13.1	-19.5	-39.3	-45.1	-37.6	-5.8	*-16.8*
Trade (volume turnover)							
Total retail trade	-0.2	1.0	-1.1	0.6	1.9	0.4	*-0.1*
Retail trade except automotive fuel	0.0	2.0	7.8	1.1	2.6	0.7	*1.6*
- food, beverages, tobacco	-0.5	-0.5	3.3	-2.8	-2.0	1.0	*-0.4*
- non-food (except automotive fuel)	0.7	4.0	11.8	5.0	6.6	1.3	*2.8*
Retail trade and repair of motor vehicles	7.6	17.6	29.2	21.1	27.9	6.4	*9.2*
Private sector services * +**	2.7	…	2.8	2.4	…	1.8	…
Transport and storage +	4.7	…	2.1	1.7	…	1.8	…

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.

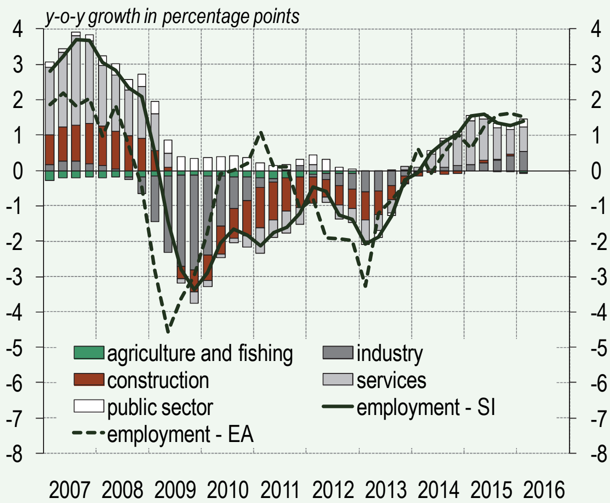
3 Labour Market

Developments on the labour market remained favourable in the early part of this year. According to national accounts figures, employment growth strengthened again in the first quarter to 1.4%, the largest contributions to the growth coming from industry and trade, transportation and storage, accommodation and food service activities. While employment has been growing at an increasing rate, growth in the number of self-employed is slowing. Various surveys of employment expectations for the coming months point to further growth. The falling in the number of unemployed has strengthened further in recent months. The number of unemployed fell below the hundred thousand mark in June for the first time since October 2010, reaching 99,795, down 9.5% in year-on-year terms. The average year-on-year growth in nominal gross wages over the first four months of the year was the highest figure of the last four years, while year-on-year growth in the nominal wage bill was the highest of the last six years.

Employment

After slowing in the second half of last year, employment growth strengthened again in the first quarter of this year. Employment in the first quarter was up 1.4% in year-on-year terms, which was in line with the average rate last year.[3] Growth in the number of self-employed has been slowing since the second half of last year (to a year-on-year rate of 0.5% in the first quarter), while growth in the number of employees is increasing (a year-on-year rate of 1.6%). Year-on-year growth in employment increased in the first quarter in both the private sector (to 1.5%) and in mostly public services (to 1.1%),[4] where growth exceeded 1% for the first time since the

Figure 3.1: Contributions to employment growth



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

[3] The employment analysis uses quarterly national accounts figures. According to the monthly SURS statistics, the average workforce in employment in the first quarter was up 0.6%. The discrepancy between the national accounts figures and the monthly figures is attributable to 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, and employment at Slovenian diplomatic and consular offices in the rest of the world. The monthly figures only count employees with employment contracts and the self-employed in the workforce in employment. These figures also include the highly volatile and statistically less reliable category of self-employed farmers, which has contracted unusually sharply since April 2015. The aggregate workforce in employment excluding this category recorded growth of 1.8% in the first quarter of this year.

[4] Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2008).

second quarter of 2012. The largest contributions to the growth in the private sector came from industry and trade, transportation and storage, accommodation and food service activities. The monthly SURS figures, which are not entirely comparable with the national accounts figures, show that on average over the first quarter of this year the largest contributions to the growth in the workforce in employment came from manufacturing, human health and social work, and administrative and support service activities. The sectors that continued to record a year-on-year decline on average over the first quarter were agriculture, forestry and fishing, electricity, gas, steam and air conditioning supply, mining and quarrying, construction, and financial and insurance activities.

The rise in the number of vacancies continued in the first quarter of this year. According to SURS survey figures, the number of vacancies in the first quarter of 2016 was higher than 10,000 for the first time since 2008, and was up 25.7% on the first quarter of last year.[5] The manufacturing and construction sectors notified the largest number of vacancies. The largest numbers of vacancies notified by employers at the Employment Service (ZRSZ) in May were for positions as waiting staff, drivers

Table 3.1: Unemployment and employment

	2011	2012	2013	2014	2015	15Q1	15Q2	15Q3	15Q4	16Q1
					in 1000					
Registered unemployed persons	110.7	*110.2*	119.8	120.1	112.7	121.6	112.5	107.4	109.3	114.8
Unemployment rate					*in %*					
- ILO	8.2	8.9	10.1	9.8	9.0	9.8	9.2	8.6	8.4	8.9
- registered	11.8	12.0	13.1	13.1	12.3	13.2	12.3	11.7	11.9	12.5
Probability of transition between employment and unemployment					*in %*					
- probability to become employed[1]	13.8	13.2	13.6	15.4	15.7	17.9	16.9	15.8	12.2	20.6
- probability to lose a job[2]	2.6	2.8	2.8	2.6	2.5	3.1	2.0	2.1	2.9	3.0
					in 1000					
Total employment[3]	946.0	937.2	924.3	929.6	942.9	927.4	940.7	952.7	950.9	940.4
					annual growth in %					
Persons in paid employment	-2.0	-1.3	-2.8	0.6	1.3	1.3	1.3	1.2	1.4	1.6
Self-employed	-0.1	0.8	4.9	0.4	1.9	2.4	2.6	1.7	0.8	0.5
By sectors										
A Agriculture, forestry and fishing	-2.4	-1.1	0.0	-0.2	-0.1	0.0	0.0	-0.1	-0.3	-0.5
BCDE Manufacturing, mining and quarrying and other industry	-0.2	-1.1	-1.9	0.3	1.2	0.7	0.9	1.3	1.9	2.4
F Construction	-11.7	-7.5	-7.0	-1.1	0.6	0.0	1.4	0.5	0.5	-0.5
GHI Trade, accommodation, transport	-2.6	-1.2	-1.3	-0.3	1.6	1.5	1.8	1.6	1.4	1.8
J Information and communication	0.3	2.1	2.3	2.6	3.4	3.8	3.4	3.7	2.9	1.5
K Financial and insurance activities	-2.7	-1.7	-2.8	-2.1	-1.1	-1.7	-0.9	-0.9	-0.9	-1.8
L Real estate activities	-2.7	-1.4	0.5	0.9	-0.5	1.9	0.0	-1.9	-1.9	0.0
MN Professional, technical and other business activities	0.9	0.4	-2.2	3.7	3.7	5.9	4.4	2.7	2.0	1.9
RSTU Other activities	-1.3	0.2	6.0	3.2	3.2	3.7	3.7	3.1	2.5	1.9
- mainly private sector (without O..Q)[4]	-2.3	-1.4	-1.6	0.6	1.6	1.7	1.8	1.5	1.4	1.5
- mainly public services (O..Q)[4]	1.0	1.0	-0.6	0.4	0.8	0.8	0.7	0.7	0.8	1.1
Total employment[3]	-1.7	-0.9	-1.4	0.6	1.4	1.5	1.6	1.3	1.3	1.4

[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.

[5] 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 has conducted independent surveying of vacancies since the first quarter of 2015. The sample framework includes all business entities with at least one employee whose primary registered business activity was in one of Sectors B to S.

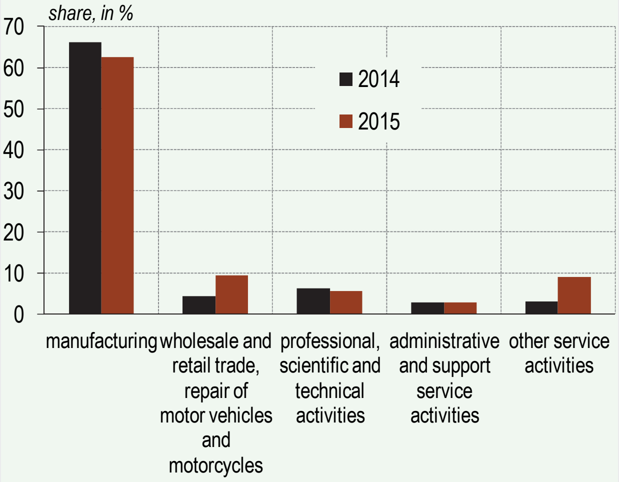
Box 3.1: Analysis of staffing agency employment by sector

Employment via so-called atypical forms of work has increased significantly in recent years in Slovenia. Atypical forms of work include less-secure forms such as temporary employment, reduced working hours, agency work, civil contracts (subcontractors and intellectual services), student work and self-employment (Ministry of Labour, Family, Social Affairs and Equal Opportunities; MoLFSAEO). Analysis of the effects of changes in labour market regulation reveals that firms increased their engagement of staffing agencies in 2014, citing increased flexibility and the replacement of workers on temporary contracts as the reasons (Kohont, 2015). Further evidence of adjustments in the number of employees via the more frequent use of flexible forms of work came from analysis of the Wage Dynamics Network survey conducted by the Bank of Slovenia on firms in Slovenia.

Employment in employment activities (Sector N78), which includes staffing agencies, began to increase in 2014, while the growth was slowing towards the end of last year. Administrative and support service activities, which includes employment activities, contributed most to overall growth in the persons in employment in 2014 and 2015. The contribution to overall growth in the persons in employment made by administrative and support service activities declined in the first four months of 2016, while the contribution made by certain other sectors increased, an indication of increased direct recruitment by firms.

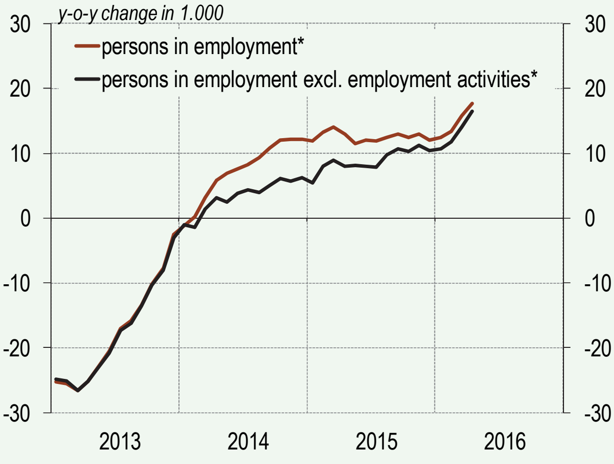
The increased use of staffing agencies is clouding the real picture of employment in each sector, as agencies assign workers to work at other firms. Staffing agencies are required to file a statistical report with the MoLFSAEO once a year, which covers information about their assignment of workers to different sectors. In 2015 agencies assigned most workers to industry, most notably manufacturing, and to mostly private-sector services, most notably wholesale and retail trade, repair of motor vehicles and motorcycles, and other service activities. In 2014 manufacturing accounted for the largest number of assignments, followed by electricity, gas, steam and air conditioning supply, and professional, scientific and technical activities. Last year assignments of more than 12 months accounted for the largest proportion of the total (28%), while assignments of 3 to 9 months (26%) were the most common among those of less than one year. Almost half

Figure 2: Activities where most of agency workers were transferred to in 2015



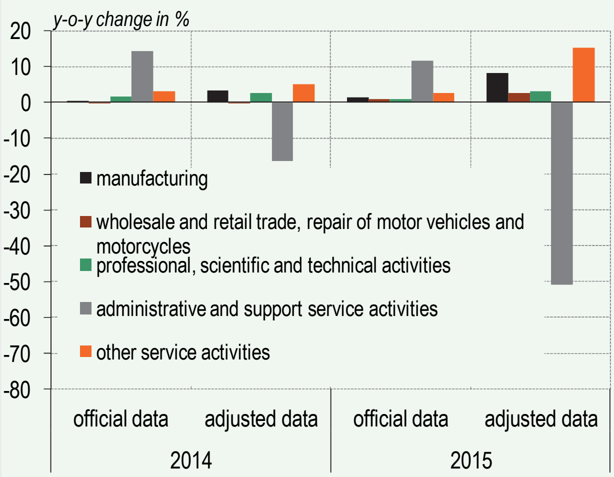
Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities, calculations Bank of Slovenia.

Figure 1: Persons in employment



*Note: * Persons in employment are calculated as the sum of employed and self-employed persons, excluding self-employed farmers.*
Source: SORS, calculations Bank of Slovenia.

Figure 3: Growth rates of persons in employment for activities, where most of agency workers were transferred to in 2015



Source: Ministry of Labour, Family, Social Affairs and Equal Opportunities, calculations Bank of Slovenia.

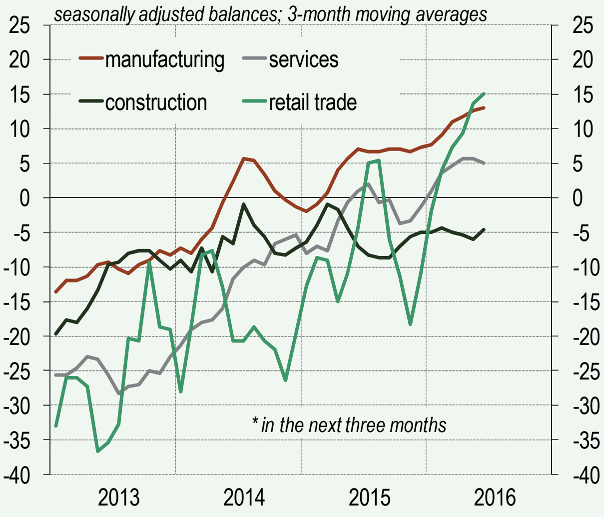
of the workers were assigned to the region of Central Slovenia, followed by Southeast Slovenia and Podravska region.

The adjusted figures, including the staffing agency workers assigned to individual sectors, reveal differences in the year-on-year rates of growth in the persons in employment in each sector, compared with the official SORS figures. Year-on-year growth in the persons in employment in 2015 according to the adjusted figures was more than 5 percentage points higher than the official figures in the sectors of other service activities (Sector S), manufacturing, and mining and quarrying, while the largest negative gap relative to the official figures was in administrative and support service activities. The differences in the year-on-year growth rates in the persons in employment between the official figures and the adjusted figures were smaller in 2014. Similarly to 2015, the largest negative gap in year-on-year growth in the persons in employment in 2014 according to the adjusted figures relative to the official figures was in administrative and support service activities, while the largest positive gaps were recorded by electricity, gas, steam and air conditioning supply, manufacturing, and other service activities. With regard to the adjusted figures for monthly labour market statistics, the largest contribution to the overall growth of 0.9% in the persons in employment in 2015 came from manufacturing, followed by wholesale and retail trade, repair of motor vehicles and motorcycles, and other service activities.

of heavy goods vehicles and tractor units, and elementary occupations in manufacturing.

The favourable economic situation is being reflected in positive indicators of employment expectations. According to SORS survey figures, firms in manufacturing, retail and services are expecting an increase in employment in the summer months. Employment expectations in the construction sector remain less favourable. A similar picture is presented by Manpower, an HR firm, which is forecasting employment growth in the third quarter in the majority of sectors, most notably in manufacturing, financial and business services, insurance, real estate, and transport, logistics and communications. According to seasonally adjusted figures, the employment forecast is slightly lower than the same period last year. Another indication of further growth came from the Employment Service survey entitled *Employment Preview 2016/I*, in which employers forecast employment growth of 1.4% for the second half of 2016. The main factor in employers' expectations of employment growth is replacement (retirements, maternity, departures), while expansion of activities is also a factor. The largest growth in employment is forecasted by employers in the sector of administrative and support service activities, which includes employment activities. This is an indication that employers will continue to rely on staffing agencies. According to the aforementioned survey, the sectors of construction and accommodation and food service activities are expected to record high growth in employment in the second half of the year. The positions most sought by employers will include drivers of heavy goods vehicles and tractor units, welders, and elementary occupations in manufacturing. Survey results reveal the structural imbalances on the labour market, as the occupations for which there is demand include many in which there has long been a shortfall, while furthermore a quarter of employers report that they have already faced a shortfall of qualified personnel.

Figure 3.2: Expected employment*



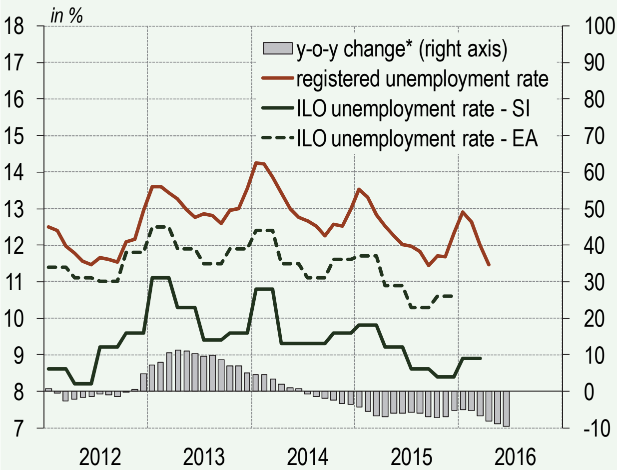
Source: SORS, Bank of Slovenia calculations.

Unemployment

Unemployment has been falling in year-on-year terms since mid-2014, the pace of the fall accelerating in recent months. There were 99,795 registered unemployed at the end of June, down 9.5% in year-on-year terms. The number of unemployed is falling in year-on-year terms at all educational levels. The favourable situation on the labour market is also acting to reduce unemployment rates. The surveyed unemployment rate stood at 8.9% in the first quarter, down just under 1 percentage point in year-on-year terms, while the registered unemployment rate stood at 11.5% in April, down 1 percentage point in year-on-year terms. During the crisis the surveyed unemployment rate in Slovenia remained below the EU28 average, although it rose more quickly between the final quarter of 2009 and the second quarter of 2013. Structural unemployment is deepening, despite the favourable developments on the labour market. The proportion of long-term unemployed has been increasing in year -on-year terms since December 2013, where the proportion of those unemployed for more than three years has in particular been increasing this year. The proportion of unemployed aged over 50 has also been increasing since 2015, among whom the number of unemployed aged 60 and over is rising in particular.

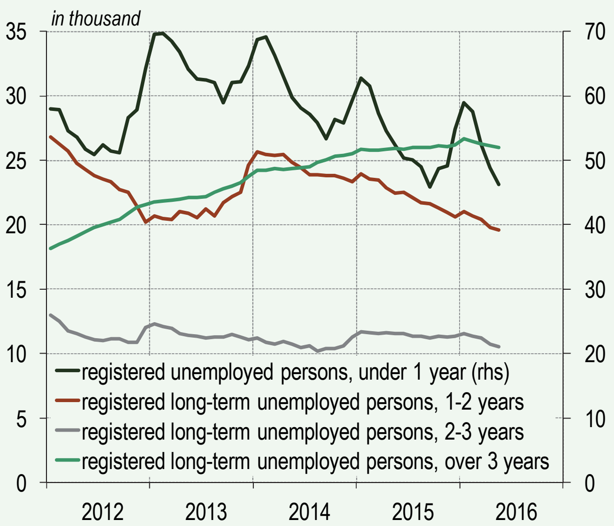
The number of deregistrations over the first five months of this year was just over 10,000 more than the number of people newly registering as unemployed. The number of deregistrations over the first five months of the year was up 4% on the same period last year, while the number of people newly registering as unemployed was down 4.5%. The largest increase in outflows from unemployment came from new hires, while the largest decline in inflows was recorded by first-time jobseekers. In line with the fall in the latter, the proportion of unemployed aged under 30 is also declining in year-on-year terms. Temporary employment contracts remain prevalent among new hires: they accounted for 79% of the total in April, up 3 percentage points on last April.

Figure 3.3: Unemployment



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

Figure 3.4: Long-term unemployed persons

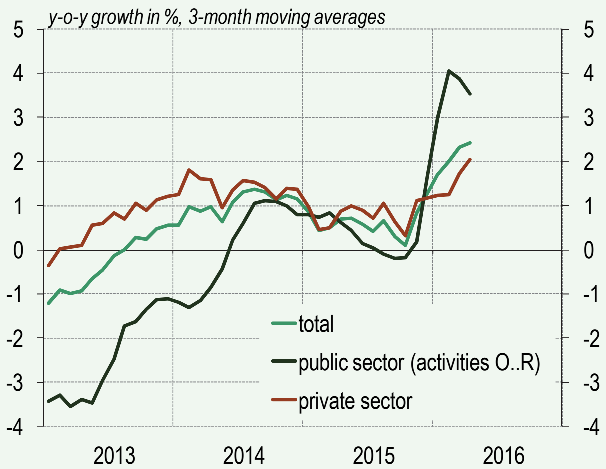


Source: Employment Service of Slovenia, Bank of Slovenia calculations.

Wage developments

Year-on-year growth in nominal gross wages increased over the first four months of the year, and the average over this period was the highest figure of the last four years. Year-on-year growth in the nominal gross wage averaged 2.1% over the first four months of the year. The growth was attributable to both the private sector (which recorded year-on-year growth of 1.5%),

Figure 3.5: Nominal gross wages



Note: Due to the change in source, series before 2014 were adjusted based on the growth rates of the previous series.
Source: SORS, Bank of Slovenia calculations.

where the nominal gross wage increased in the majority of sectors, and to mostly public services, which recorded year-on-year growth of 3.6%, primarily as a result of growth of 6.5% in the sector of public administration and defence. The growth in wages in the private sector has followed last year's good corporate performance, while the year-on-year growth in mostly public services is primarily a reflection of promotions of civil servants at the end of last year. Within the private sector, the sectors of administrative and support service activities, wholesale and retail trade, repair of motor vehicles and motorcycles, water supply, sewerage, waste management and remediation activities, manufacturing, and financial and insurance activities recorded above-average year-on-year growth over the first four months of the year. Only three private sectors recorded an overall decline in wages over the first four months of the year: other service activities (Sector S), transportation and storage, and mining and quarrying.

The growth in employment and wages is being reflected in a strengthening of the growth in the nominal wage bill, which over the first four months of the year recorded the highest figure of the last six years. Year-on-year growth in the nominal wage bill averaged 4.3% over the first four months of the year, as growth in the private sector averaged 3.9% and growth in mostly public services averaged 5.2%. Growth in the real wage bill was even higher, on account of the deflation. The year-on-year growth rate averaged 5.1% over the first four months of the year, as growth in the private sector averaged 4.7% and growth in mostly public services averaged 6.1%.

Table 3.2: Labour costs indicators

	2011	2012	2013	2014	2015	15Q1	15Q2	15Q3	15Q4	16Q1
					in EUR					
Average gross wage	1,530	1,531	1,528	1,545	1,556	1,540	1,542	1,534	1,607	1,576
					nominal year-on-year growth, %					
Average net wage	2.1	0.4	0.6	0.8	0.4	0.2	0.3	0.1	1.1	2.0
Average gross wage	2.0	0.1	-0.2	1.1	0.7	0.5	0.6	0.3	1.3	2.3
- mainly private sector (excl. O..Q)[1]	2.6	0.9	0.7	1.4	0.8	0.5	0.9	0.6	1.2	1.7
- mainly public services (O..Q)[1]	0.0	-2.2	-2.3	0.2	0.6	0.8	0.1	-0.2	1.7	3.9
Average gross wage in manufacturing	3.9	2.5	2.8	3.3	2.1	2.1	2.3	1.8	2.3	2.4
Average real net wage[2]	0.1	-2.3	-1.3	0.5	1.2	0.7	1.1	0.9	2.1	2.9
Labour costs per hour worked[3]	2.0	-0.3	-2.1	2.0	0.8	2.5	1.9	-1.8	0.7	0.7
Labour costs per hour worked in manufacturing[3]	2.0	2.9	0.5	3.7	0.5	1.8	2.1	-1.9	0.2	0.5
Gross wage per unit of output[4]	-0.4	1.9	-0.5	-1.3	-0.7	-0.8	-0.6	-1.0	-0.7	1.2
Gross wage per unit of output in manufacturing[4]	0.7	4.0	1.2	-1.5	-2.1	-3.9	-1.8	-2.3	-0.5	-1.4
Unit labour costs[4,5]	-0.8	0.8	0.2	-1.3	-0.6	-0.8	-0.2	-1.0	-0.5	1.5
Labour costs per employee[5]	1.5	-1.0	0.5	1.1	0.8	0.5	0.9	0.3	1.5	2.6
Output per employee	2.4	-1.8	0.3	2.5	1.4	1.3	1.1	1.3	2.0	1.1
Output per employee - manufacturing	3.2	-1.4	1.6	4.8	4.3	6.2	4.1	4.2	2.8	3.8
HICP	2.1	2.8	1.9	0.4	-0.8	-0.5	-0.8	-0.8	-0.9	-0.9
GDP deflator	1.1	0.3	0.8	0.8	0.4	0.5	0.2	0.1	1.0	1.1

[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.

4 Balance of Payments, External Debt and Competitiveness Indicators

According to revised figures, the current account surplus over the first four months of the year widened significantly. The main factor was the increase in the merchandise trade surplus. Over the first four months of this year it reflected the increased competitiveness of the export sector, a fall in import prices, and weaker growth in domestic demand, and the consequent significant outpacing of nominal import growth by export growth. Growth in exports of services also remains solid, while its structure is evidence of a gradual increase in the export orientation of a larger number of service segments. The sole factor acting to narrow the current account surplus was income deficit, which increased markedly last year as a result of changes in the reinvested earnings position. This year the narrowing of income deficit has primarily been restrained by the reduced disbursement of EU funds in the wake of the changeover to the new financial framework.

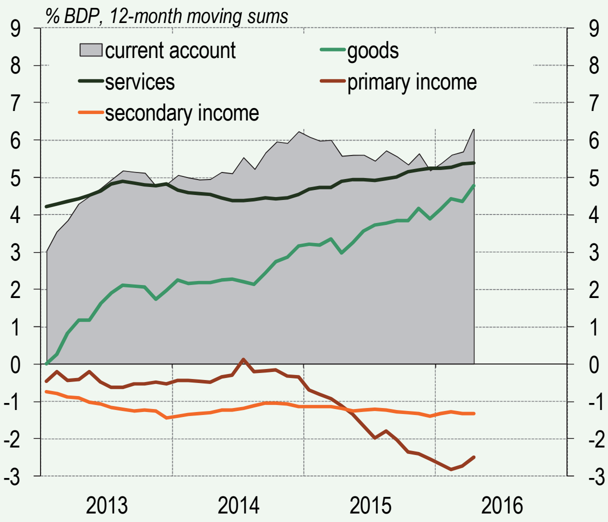
Slovenia was a net financer of the rest of the world over the first four months of 2016 in the amount of EUR 0.2 billion, compared with EUR 0.6 billion in the same period last year. The largest net outflow item was investments in securities, in the amount of EUR 1.1 billion, where the majority of transactions relate to debt securities. The government issued long-term bonds with a nominal value of EUR 1.5 billion in March 2016, although a previous debt repayment meant that the effect on the net external debt was neutral. The other two major net outflow items were loans and trade credits, in the total amount of EUR 0.9 billion. The largest net inflow items were currency and deposits in the amount of EUR 1.1 billion, and direct investment in the amount of EUR 0.7 billion, of which a just over third was the result of the sale of NKBM. The net external debt stood at EUR 11.9 billion at the end of April, down EUR 2.5 billion on a year earlier. There was no significant change in external claims, while the external debt of all domestic sectors declined.

Current account position

The 12-month current account surplus exceeded 6% of GDP in April.[6] The main factor in the increase was solid growth in merchandise exports, while at the same time nominal imports were rather weak over the first four months of the year as a result of relatively weak growth in domestic demand and a fall in import prices. The 12-month surplus in merchandise trade reached 4.8% of GDP in April, up 1.8 percentage points on a year earlier. At the same time the surplus of trade in services also widened, to 5.4% of GDP, as a result of a wider surplus in travel services and in transport and construction services. The growth in the current account surplus was held back by the widening deficit in income. This increased by 1.5 percentage points to stand at 3.8% of GDP over the 12 months to April, mostly as a result of the deficit in reinvested earnings in 2015 and the decline in the net disbursement of EU funds.

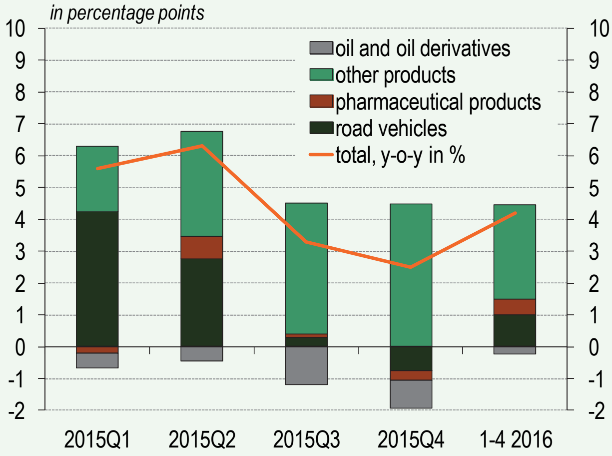
[6] There were comprehensive changes during the revision of the balance of payments, which are methodologically explained in the May 2016 International Economic Relations. The publication was released in the second half of July at http://www.bsi.si/iskalniki/ekonomski-odnosi-s-tujino.asp?MapaId=302.

Figure 4.1: Current account components



Source: Bank of Slovenia.

Figure 4.2: Contributions of groups of products to nominal growth of goods exports



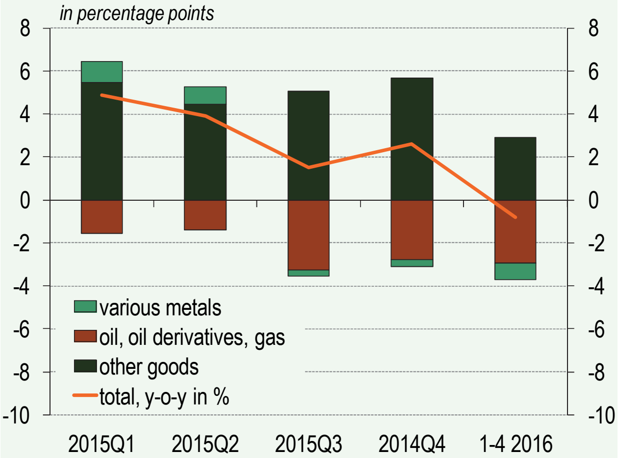
Note: SORS data on goods exports are not entirely comparable to balance of payments data due to methodology differences.
Source: SORS, Bank of Slovenia calculations.

Merchandise trade

Solid growth in exports, a fall in import prices and weak growth in domestic demand all contributed to an additional increase in the merchandise trade surplus over the first four months of this year. According to balance of payments figures, year-on-year growth in nominal exports exceeded 4%. This was attributable to increased exports of road vehicles and pharmaceutical products, and a smaller fall in the value of re-exports of oil and refined petroleum products. By contrast, imports during the first four months of the year were actually down on the same period last year in nominal terms. The value of imports of various commodities declined again in line with the developments in import prices. At the same time growth in imports of other products was also weaker, which was connected to the slowdown in growth in domestic demand. The merchandise trade surplus over the first four months of the year widened by EUR 370 million in year-on-year terms to EUR 725 million.

The impact of the fall in prices in merchandise trade on the value of imports and exports strengthened further over the first four months of the year. The year-on-year fall in import and export prices had deepened to 3% by April, the largest fall in both cases since the recession in 2009, while average fall over the first four months of the year exceeded 2%. On the import side, only energy and commodities recorded a fall in prices, which is also reducing aggregate import prices owing to the proportion of total merchandise imports that they account for.[7] In contrast to imports, the fall in export prices was more general, with capital goods recording the sharpest falls.[8] The estimated real year-on-year growth in merchandise trade over the first four months of the year

Figure 4.3: Contributions of groups of products to nominal growth of goods imports



Note: SORS data on goods exports are not entirely comparable to balance of payments data due to methodology differences.
Source: SORS, Bank of Slovenia calculations.

[7] The proportion of total nominal merchandise imports accounted for by crude materials and by mineral fuels, lubricants and related materials according to the SITC declined from 23% in 2012 to 14% during the first four months of this year. The decline was primarily related to the fall in oil prices on the global market.

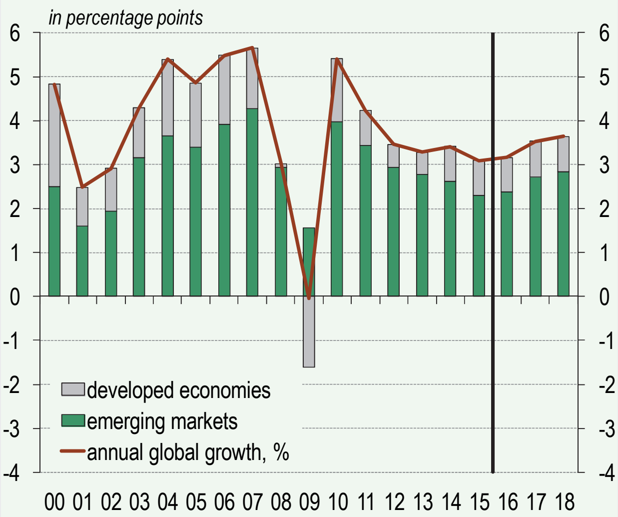
[8] The fall in export prices is evidence of the pass-through of firms' lower input costs into exports, and of the increase in turnover on foreign markets solely by means of quantity. The improvement in export competitiveness was also attributable to developments in domestic labour costs and deflation, which from the perspective of corporate input costs have been more favourable than the average development across the euro area.

Box 4.1: Emerging markets and their direct importance for Slovenia's merchandise exports

Emerging markets, which account for 60% of global GDP at purchasing power parity, accounted for three-quarters of global economic growth between 2000 and 2010, but their growth has slowed since 2010. The high growth between 2000 and 2010 was primarily attributable to strong foreign demand, favourable conditions on the financial markets, demographic dynamics and rapid integration into the global economy. Rising commodity prices also contributed to economic growth in commodity exporters. According to IMF figures, the subsequent decline in aggregate growth in emerging markets was significant, from 7.5% in 2010 to 4% in 2015, but the reasons for the slowdown vary from individual market to individual market. After the financial crisis, there was a change in the majority of factors that had contributed to the higher economic growth in these countries. The main factors in the slowdown in economic growth were weaker demand from advanced economies and China, and slower growth in global trade and the gradual deterioration in conditions on the financial markets. Other factors in the slowdown in growth in certain countries were the fall in commodity prices, structural barriers and macroeconomic imbalances.

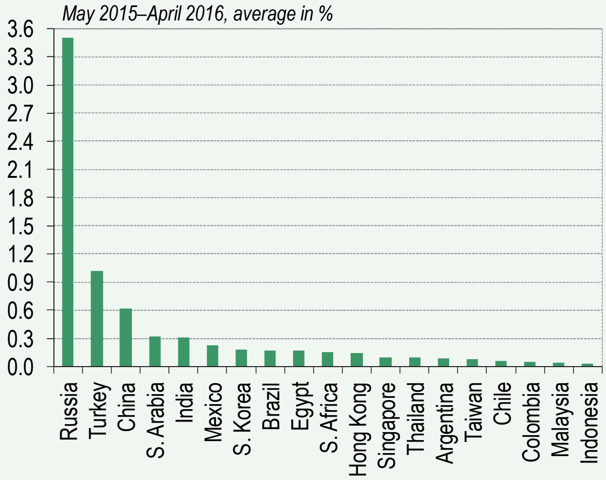
Of the major emerging economies, evidently the most important to the Slovenian economy is Russia, while the proportions of Slovenia's merchandise exports accounted for by other countries are small.[1] The proportion of exports accounted for by emerging markets increased from 6.2% in 2007 to 8.8% in 2013. The main factor in this increase was Russia, whose proportion of total exports increased by 1.2 percentage points to 4.8%. Exporters were also more active in other emerging markets. The proportion of exports accounted for by Turkey increased to 1%, the proportion accounted for by China increased to 0.7%, and the proportion accounted for by the remaining markets increased to 2.4%. A downturn followed after 2013. Emerging markets accounted for 7.2% of exports during the first four months of this year. The decline was entirely the result of the deterioration in the Russian economy, which was primarily hit by the fall in oil prices and the resulting sharp depreciation in the ruble. At the same time reciprocal trade sanctions brought a deterioration in economic relations between the EU and Russia. The proportion of Slovenia's exports accounted for by Russia declined to just 3.2%, the lowest figure of the observation period. Exports to Russia exceeded EUR 1 billion in 2013. By

Figure 1: Country group's contributions to global GDP growth



Source: IMF, April 2016.

Figure 2: Shares of emerging markets in Slovenia's goods exports*



*Note: *Emerging markets according to ECB Economic Bulletin, May 2016.*
Source: Bank of Slovenia.

Figure 3: Shares of emerging markets in Slovenia's goods exports* since 2006

*Note: *Emerging markets according to ECB Economic Bulletin, May 2016.*
Source: Bank of Slovenia.

2015 the figure had declined by EUR 230 million, and declined by a further EUR 34 million in year-on-year terms over the first four months of this year. The majority of the decline since 2013, in the amount of EUR 170 million, was the result of a decline in exports of pharmaceutical products. The proportions of exports accounted for by other emerging markets remained stable.

The proportion of overall growth in Slovenia's merchandise exports accounted for by major emerging markets is relatively small. Annual growth in nominal exports averaged 5.8% between 2006 and 2015, of which emerging markets accounted for 0.5 percentage points. The importance of Russia is particularly evident. The increased exports to Russia accounted for 0.8 percentage points of the overall growth in merchandise exports in 2012, which prevented a decline in total exports at the time of the peak of the euro area debt crisis. By contrast, the decline in exports to Russia in 2015 reduced overall growth in exports by 0.9 percentage points to 4.5%.

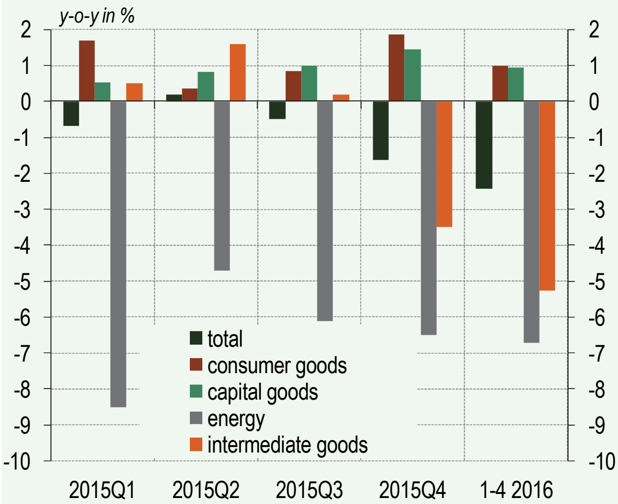
Figure 4: Emerging markets'* contributions to Slovenia's goods export growth

*Note: *Emerging markets according to ECB Economic Bulletin, May 2016.*
Source: Bank of Slovenia.

The IMF forecasts suggest the gradual strengthening of economic growth in emerging markets after 2015, which could also increase their demand for Slovenia's exports. According to the IMF's April forecasts, their overall GDP growth is expected to reach 4.1% this year, and to rise to 4.8% by 2018, although this will be unevenly distributed, and lower than the averages of the last two decades. The main reasons for the slower growth are the harsher financial conditions, the worse outlook for commodities markets, and the impact of the slowdown in China on other emerging markets. The IMF forecasts a decline of 1.8% in GDP for Russia in 2016, followed by growth of no more than 1% in 2017 and 2018. The economic situation in Russia is expected to remain adverse, primarily as a result of low oil prices, international sanctions and structural weaknesses. For China, the IMF is forecasting a gradual slowdown in economic growth to 6.5% this year, and to 6.0% by 2018. The main reason is the changeover from an export-driven economy to an economy driven by private consumption and services. Economic growth in Turkey is expected to remain stable. The forecast for this year is 3.8%, with growth primarily based on domestic demand. Turkey's GDP is forecast to grow by 3.4% in 2017, and by 3.5% in 2018.

[1] In the analysis of Slovenia's exports, the capture of emerging markets is taken from the ECB Economic Bulletin of May 2016, and is narrower than that of the IMF. The emerging markets include Russia, Turkey, China, Saudi Arabia, India, Mexico, South Korea, Brazil, Egypt, South Africa, Hong Kong, Singapore, Thailand, Argentina, Taiwan, Chile, Colombia, Malaysia, Indonesia and Venezuela.

Figure 4.4: Import prices across groups of products



Source: SORS, Bank of Slovenia calculations.

Figure 4.5: Output prices of domestic producers on foreign market

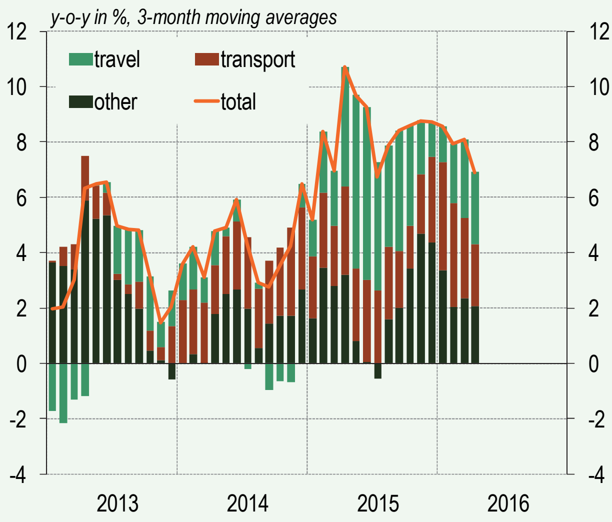
Source: SORS, Bank of Slovenia calculations.

was significantly higher than the nominal rate. The rates stood in excess of 6% on the export side, and around 2% on the import side.

Trade in service

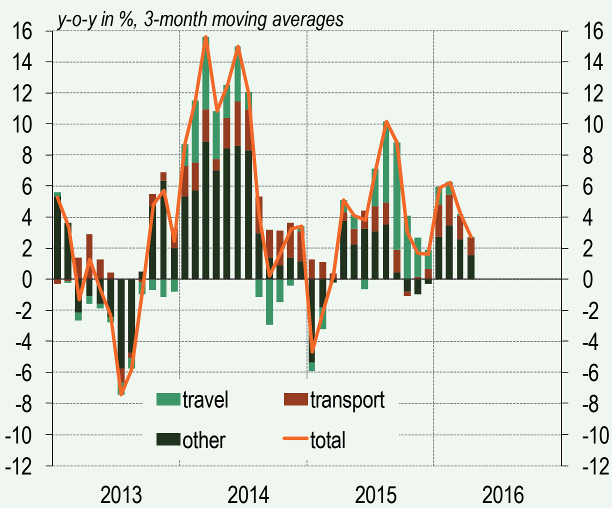
Growth in exports of services remained solid, while transport and business services brought a smaller increase in imports. Exports of services over the first four months of the year were up 6.5% in year-on-year terms. The structure of the growth was relatively robust,

Figure 4.6: Services exports



Source: Bank of Slovenia.

Figure 4.7: Services imports



Source: Bank of Slovenia.

with roughly even contributions coming from transport services, travel services and other services. Growth in exports of transport services exceeded 8%. In parallel with the number of arrivals by foreign visitors, exports of travel services strengthened relative to the final quarter of last year.[9] A notable result under other services was recorded by construction, where exports of services increased by EUR 19 million, or just under a quarter.[10] Having been very weak in the final quarter of last year, growth in imports of services recorded a small increase, exceeding 3% over the first four months of the year. There was a particular increase in imports of transport services, and various financial and business services. Growth in imports of travel services, which was pronounced in the second half of last year, slowed sharply, in line with the weaker growth in private consumption.

The surplus of trade in services is primarily being widened by travel, transport and construction. The overall surplus over the first four months of the year was up EUR 80 million in year-on-year terms at EUR 689 million. The surpluses widened by EUR 32 million in transport services, by EUR 42 million in travel services and by EUR 23 million in construction services. The only factor curbing growth in the overall surplus of trade in services was the deficit in financial and other business services, which over the first four months of the year widened by EUR 52 million in year-on-year terms.

Primary and secondary income

After a sharp increase in 2015, the deficit in primary income narrowed slightly over the first four months of this year. The deficit in primary income widened by EUR 857 million in 2015 to EUR 982 million, which was practically attributable solely to the change in the reinvested earnings position. According to estimates, the deficit in reinvested earnings over the first four months of the year narrowed by EUR 34 million in year-on-year terms to EUR 137 million. The deficit in income from investments in securities over the first four months of the

[9] After slowing towards the end of last year, year-on-year growth in the number of arrivals by foreign visitors strengthened to more than 12% over the first four months of this year.
[10] The growth in exports of construction services is probably related in part to exports of prefabricated buildings, which over the first four months of the year were up almost 60% or EUR 38 million in year-on-year terms.

year narrowed by EUR 35 million in year-on-year terms, as residents' increased investment in foreign securities brought an increase in inflows, while outflows for interest on long-term securities declined. The deficit in income from other investments over the first four months of the year was insignificant, largely as a result of increased inflows of interest on corporate loans granted to the rest of the world. The surplus in labour income was practically unchanged in year-on-year terms at EUR 148 million. There was a particularly sharp decline in the government sector's surplus in primary income of EUR 62 million in year-on-year terms, which was related to the slower disbursement of funds from the new European financial framework. The deficit in primary income amounted to

Table 4.1: Components of the current account

				in 12 months to							
	2013	**2014**	**2015**	**Apr.15**	**Apr.16**	**14Q4**	**15Q1**	**15Q4**	**16Q1**	**Apr.15**	**Apr.16**
						in EUR million					
Current account balance	1,732	2,325	1,998	2,101	2,474	582	435	460	649	85	347
1. Goods	708	1,181	1,498	1,126	1,867	312	348	344	547	7	177
2. Services	1,732	1,697	2,019	1,842	2,098	386	394	492	459	216	230
2.1. Transport	660	715	821	751	852	173	184	210	208	73	81
2.2. Travel	1,335	1,315	1,435	1,377	1,477	315	279	320	313	138	144
2.3. Other	-264	-333	-237	-286	-231	-102	-69	-38	-62	5	5
3. Primary income	-192	-125	-982	-423	-972	-45	-114	-252	-190	-97	-11
3.1. Labour income	390	423	489	437	487	105	106	136	105	43	43
3.2. Investment income	-862	-694	-1,564	-962	-1,491	-172	-309	-377	-279	-130	-87
3.3. Other income	280	146	93	103	31	21	90	-11	-17	-11	34
4. Secondary income	-516	-428	-537	-444	-520	-71	-193	-124	-168	-41	-49
						in % of BDP					
Current account balance	4.8	6.2	5.2	5.6	6.3	6.2	4.9	4.7	7.0	2.6	10.3
1. Goods	2.0	3.2	3.9	3.0	4.8	3.3	3.9	3.5	5.9	0.2	5.3
2. Services	4.8	4.5	5.2	4.9	5.4	4.1	4.4	5.0	5.0	6.7	6.8
2.1. Transport	1.8	1.9	2.1	2.0	2.2	1.8	2.1	2.1	2.2	2.3	2.4
2.2. Travel	3.7	3.5	3.7	3.7	3.8	3.3	3.1	3.3	3.4	4.3	4.3
2.3. Other	-0.7	-0.9	-0.6	-0.8	-0.6	-1.1	-0.8	-0.4	-0.7	0.2	0.1
3. Primary income	-0.5	-0.3	-2.5	-1.1	-2.5	-0.5	-1.3	-2.6	-2.1	-3.0	-0.3
3.1. Labour income	1.1	1.1	1.3	1.2	1.2	1.1	1.2	1.4	1.1	1.3	1.3
3.2. Investment income	-2.4	-1.9	-4.1	-2.6	-3.8	-1.8	-3.5	-3.8	-3.0	-4.0	-2.6
3.3. Other income	0.8	0.4	0.2	0.3	0.1	0.2	1.0	-0.1	-0.2	-0.3	1.0
4. Secondary income	-1.4	-1.1	-1.4	-1.2	-1.3	-0.7	-2.2	-1.3	-1.8	-1.3	-1.5
						nominal year-on-year growth rates in %					
Export of goods and services	2.5	5.6	5.4	6.1	5.2	8.4	6.3	4.0	4.0	2.3	6.5
Export of goods	2.1	5.9	4.7	6.2	4.6	8.8	6.1	2.9	3.1	-0.3	7.5
Export of services	4.1	4.5	8.4	5.8	7.7	6.5	7.0	8.7	8.1	13.4	2.8
Transport	3.9	9.4	9.3	9.8	9.2	10.8	7.3	10.9	9.6	12.1	4.8
Travel	1.7	0.8	9.6	2.8	8.3	2.6	6.0	3.9	8.6	25.0	3.2
Other	7.1	4.9	6.4	6.0	5.8	6.9	7.6	11.2	6.4	4.5	0.8
Import of goods and services	-1.5	4.4	3.5	4.6	2.0	3.7	4.3	2.4	0.3	5.7	-1.1
Import of goods	-1.7	3.8	3.5	4.8	1.5	3.8	5.0	2.5	-0.3	6.8	-1.3
Import of services	-0.3	7.7	3.7	3.3	4.7	3.4	0.1	1.6	4.2	-0.7	0.2
Transport	3.4	10.4	4.5	8.4	5.3	9.2	1.7	3.0	6.5	2.7	-1.4
Travel	-3.1	5.3	10.4	-0.5	10.3	2.5	-0.3	8.8	0.8	1.7	-1.4
Other	-0.6	7.6	1.3	2.9	2.7	1.8	-0.3	-0.4	4.2	-2.5	1.3

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

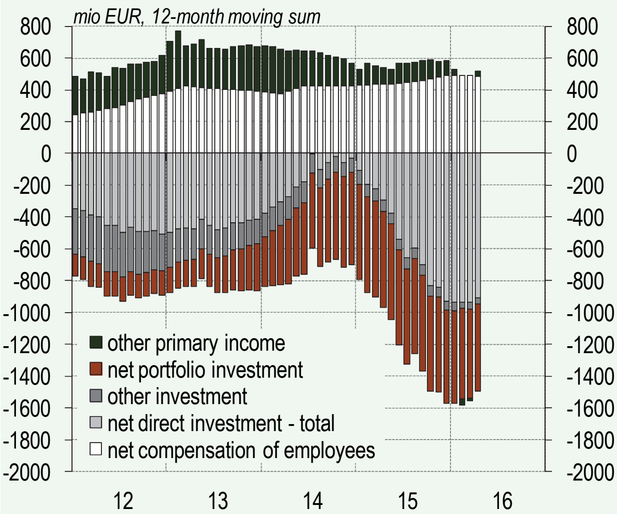
EUR 201 million over the first four months of the year, down EUR 10 million in year-on-year terms.

The deficit in secondary income over the first four months of the year narrowed in year-on-year terms, as a result of lower payments into the EU budget. The decline in payments into the EU budget on the basis of VAT and gross national income was larger than the decline in inflows of funds for the administration of certain common policies. The government sector's deficit in secondary income over the first four months of the year narrowed by EUR 21 million in year-on-year terms to EUR 154 million. At the same time other sectors' deficit in secondary income increased by just EUR 4 million to EUR 62 million. The overall deficit in secondary income thus amounted to EUR 217 million over the first four months of the year, having narrowed by EUR 17 million in year-on-year terms.

Financial account

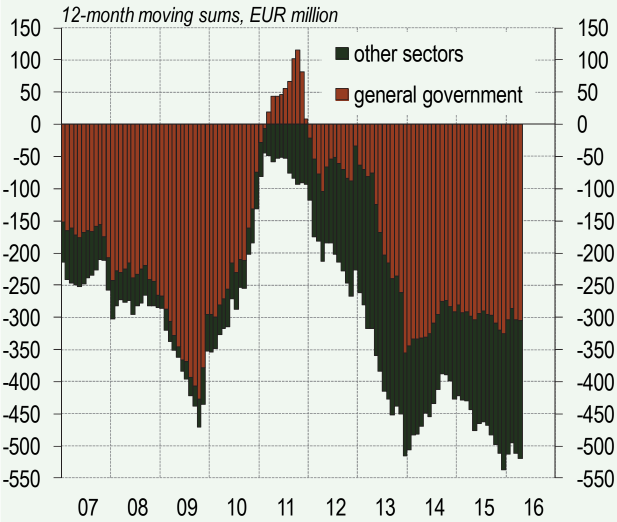
Direct investment accounted for EUR 662 million of the net increase in liabilities to the rest of the world over the first four months of the year. This was largely attributable to an increase of EUR 477 million in liabilities from equity; EUR 269 million was recorded in April alone as a result of the sale of NKBM. Debt to foreign owners also increased, by EUR 206 million over the first four months of the year. Outward FDI increased by

Figure 4.8: Net primary income



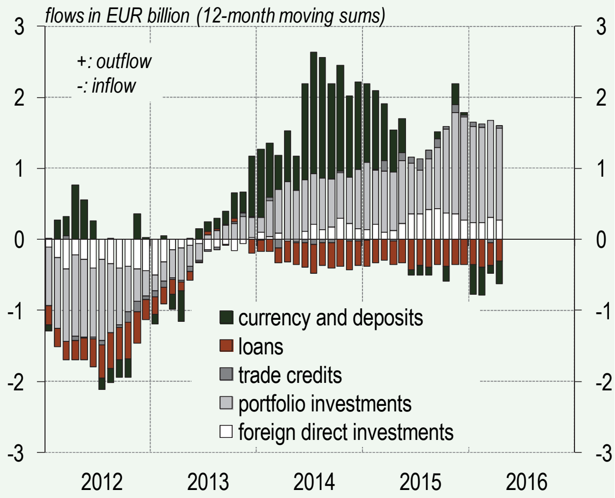
Source: Bank of Slovenia.

Figure 4.9: Net secondary income



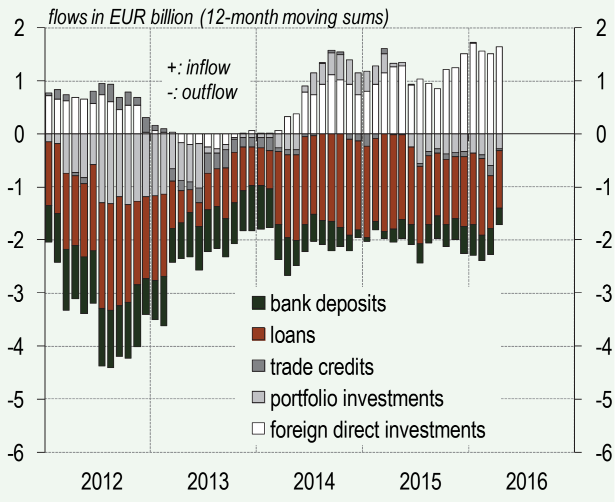
Source: Bank of Slovenia.

Figure 4.10: Private sector's financial claims on the rest of the world



Source: Bank of Slovenia.

Figure 4.11: 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							
	2013	2014	2015	Apr.15	Apr.16	14Q4	15Q1	15Q4	16Q1	Apr.15	Apr.16
						in EUR million					
1. Private sector	2,999	3,071	2,575	2,205	1,488	695	690	674	488	236	-649
Claims	1,385	2,449	2,094	1,755	1,650	471	524	822	302	-105	-326
Capital transfers	399	820	722	862	734	482	112	333	113	39	50
Outward FDI	24	155	278	133	276	20	93	-140	124	43	11
Portfolio investments and fin. der.	286	867	1,388	785	1,272	226	195	784	152	86	14
Trade credits	20	-17	20	-25	39	-253	367	-352	307	-91	-12
Loans	-189	-348	-353	-326	-304	-75	-24	-78	10	-46	-31
Currency and deposits	846	1,239	43	596	-320	337	-246	277	-403	-134	-339
- Households	264	52	127	-169	77	48	-164	135	-310	-103	-7
- Banks	473	1,201	-108	649	-284	248	-291	187	-82	85	-300
- Enterprises	109	-15	24	117	-113	41	209	-44	-11	-116	-32
Other claims	-2	-9	55	-13	12	-7	28	57	1	-4	-19
Liabilities	-1,615	-622	-482	-450	162	-224	-166	148	-186	-341	323
Capital transfers	164	275	308	309	285	81	74	103	59	22	15
Inward FDI	71	739	1,516	1,273	1,641	-166	441	488	439	231	357
Portfolio investments and fin. der.	-128	383	-358	35	-319	-4	-49	-52	-315	-350	-45
Trade credits	-182	-137	-104	-17	-36	53	14	20	-80	-167	-4
Loans	-718	-1,663	-1,308	-1,778	-1,076	-256	-538	-378	-222	60	-23
- Enterprises	301	-810	-684	-914	-534	-269	-318	-321	-33	122	-12
- Banks	-1,019	-853	-624	-864	-542	13	-220	-58	-189	-62	-10
Deposits at banks	-849	-156	-516	-238	-322	97	-107	13	-83	-163	8
Other liabilities	27	-63	-20	-33	-12	-28	-1	-45	16	25	16
2. Government	-3,973	-4,029	1,485	111	1,297	-346	-771	-192	565	1,004	-521
3. Bank of Slovenia	1,828	3,177	-2,659	-232	-1,708	217	604	-449	-891	-1,224	1,222

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

EUR 135 million over the same period. The increase in debt amounted to EUR 119 million, while the increase in equity amounted to EUR 40 million. Estimated reinvested earnings reduced outward FDI by EUR 24 million.

Investments in securities recorded a net outflow of EUR 1.1 billion over the first four months of the year. The majority of the transactions related to debt securities. Holdings of debt securities increased by EUR 581 million, the largest proportion of which was at the central bank (EUR 372 million), followed by insurance corporations (EUR 87 million) and banks (EUR 70 million). Liabilities from debt securities declined at the same time, by EUR 526 million. The banking sector accounted for just over half of this decline, and the government sector for just over a third. The government issued 16-year bonds with a nominal value of EUR 1.5 billion in March, but debt repayments over the first four months of the year were even larger, at EUR 1.7 billion.

External debt

The gross external debt amounted to EUR 44.2 billion at the end of April, down EUR 2.3 billion on a year earlier. The largest reduction in debt was recorded by banks, in the amount of EUR 1.1 billion. There were reductions of debt in the amount of EUR 0.6 billion in the form of loans, EUR 0.2 billion in the form of currency and deposits, and the same amount in the form of debt securities. Other sectors reduced their gross external debt by EUR 0.7 billion, via a reduction in liabilities from loans.

The government sector accounted for the largest proportion of the gross external debt (52%), followed by other sectors (24%). The largest decline since the outbreak of the crisis has been in the proportion of Slovenia's external debt accounted for by the banks, which fell from 44% at the end of 2008 to 10% in April 2016.

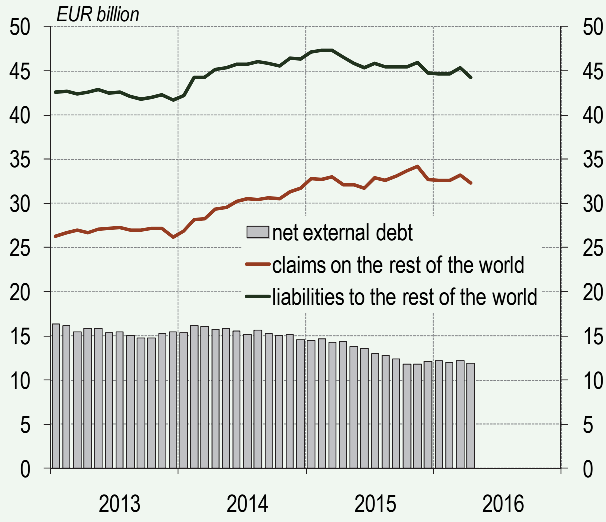
Gross external claims amounted to EUR 32.3 billion at the end of April, broadly unchanged from a year earlier. The central bank had reduced its external claims by EUR 1.7 billion relative to April 2015, mostly in the form of currency and deposits, while the government sector saw an increase of EUR 1.6 billion. The latter 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 11.9 billion at the end of April 2016, down EUR 2.5 billion in year-on-year terms. Net external debt was held by the general government sector (EUR 18.1 billion), other sectors (EUR 0.7 billion) and capital affiliates (EUR 0.3 billion). The net creditors of the rest of the world were the central bank (EUR 4.9 billion) and the banks (EUR 2.2 billion).

Selected competitiveness indicators

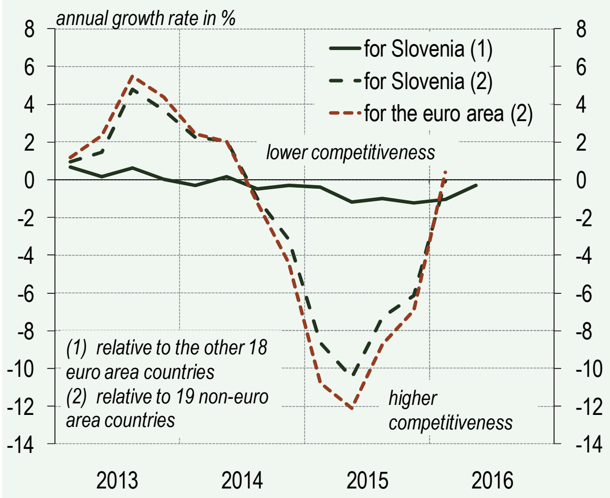
Slovenia's price competitiveness improved inside the euro area over the first five months of the year, before the improvement came to an end in June, while in relation to other markets it deteriorated slightly as a result of the rise in the euro. Domestic prices continued falling in year-on-year terms until May, but the fall came to an end in June. The harmonised price competitiveness indicator relative to the euro area as measured by the HICP depreciated by around 1% in year-on-year terms for four consecutive quarters, but only by 0.3% in the second quarter of this year; the rates of price growth in Slovenia and across the euro area had equalised by June. Having improved sharply in the previous period, price competitiveness relative to 19 major trading partners outside the euro area has deteriorated slightly this year as a result of the euro's rise against currencies in the corresponding basket.

Figure 4.12: External debt



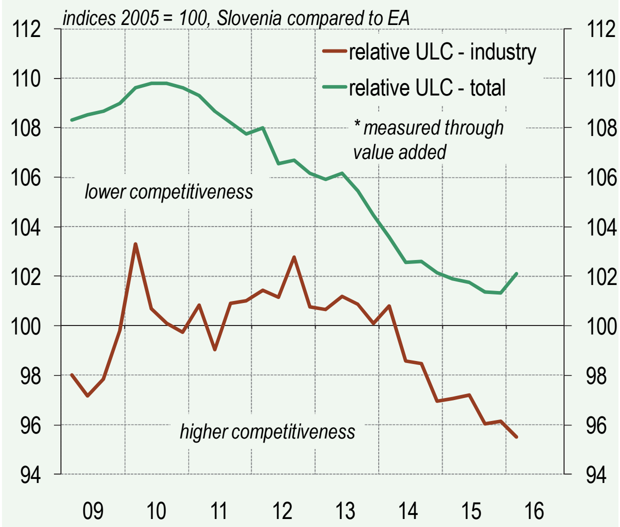
Source: Bank of Slovenia.

Figure 4.13: Harmonised price competitiveness indicators (based on HICP/CPI deflators)



Source: ECB.

Figure 4.14: Nominal unit labour costs* in relative terms



Source: Eurostat, Bank of Slovenia calculations.

The improvement in the cost competitiveness of the main export sector continued in the first quarter. The harmonised cost competitiveness indicator as measured by the unit labour costs (ULCs) deflator across the total economy deteriorated in the early part of this year as a result of the large increase in wages in public services. Meanwhile relative ULCs in industry have continued to decline both in relation to the euro area average, and in relation to other major trading partners. Slovenia's ULCs in the first quarter were up 1.5% in year-on-year terms across the total economy, but down 1.1% in industry, compared with a rise of 0.5% across the euro area.

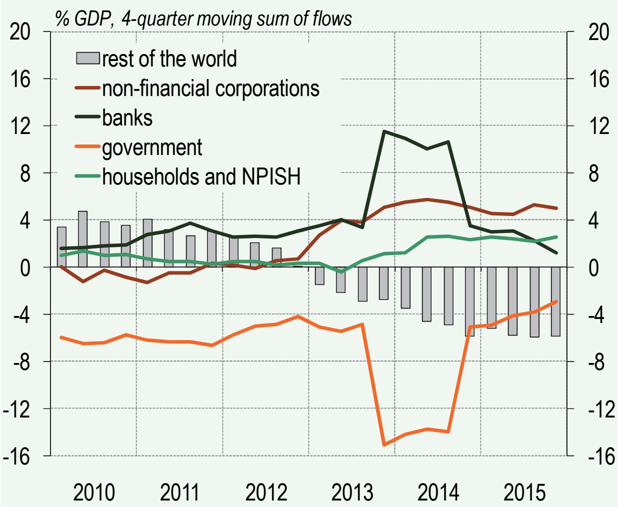
5 Financing of Non-Financial Corporations, Households and Banks

Economic growth and the general improvement in the situation in the economy have also been reflected in financial surpluses in all the domestic institutional sectors other than the government sector. That national saving is significantly larger than investment is evident from the domestic institutional sectors' overall financial surplus against the rest of the world, which amounted to 5.8% of GDP in 2015. Non-financial corporations recorded high profits in 2015, which were mostly directed into debt reduction, while the remainder was primarily placed in sight deposits at banks. In the wake of growth in employment and wages, households also generated just under EUR 1 billion of new assets, which were also mostly placed with banks in sight deposits. In the low deposit rate environment, the private sector is also converting maturing fixed-term deposits into sight deposits: fixed-term deposits at banks declined by EUR 2.3 billion in 2015, while sight deposits increased by EUR 2.8 billion. In the context of these conditions of bank saving, a slight increase in saving in the form of pension and life insurance and investments in investment funds was evident in 2015 for the first time in several years. The banks remain cautious. Lending activity has continued to contract, although funding structure is improving as deposits grow and external debt is repaid. Caution will nevertheless be required in the future, as the shortening of average deposit maturities is increasing the instability of bank funding.

Saving-investment gap by institutional sector

A surplus in national saving over investment is evident for the third consecutive year, and has been reflected in a large current account surplus. The domestic institutional sectors' financial surplus against the rest of the world increased from zero in 2012 to 5.8% of GDP in 2015. Non-financial corporations recorded high profits in 2015, which were mostly directed into debt reduction, while on the investment side the main destination was sight deposits at banks. In the wake of essentially unchanged investment, non-financial corporations' financial surplus has stabilised over the last two years, and amounted to 5% of GDP in 2015. The non-financial

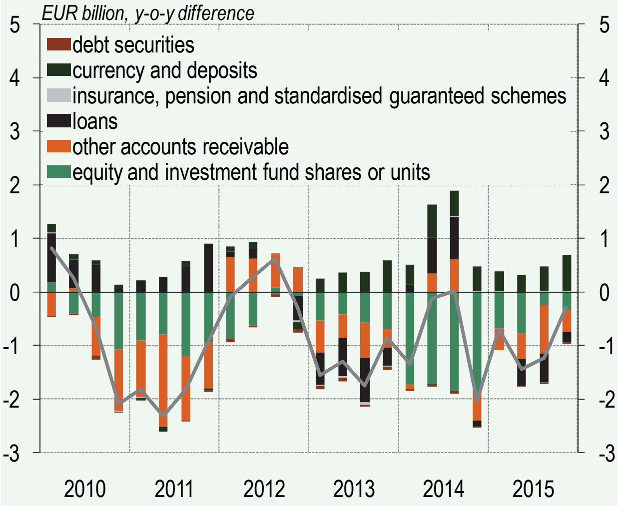
Figure 5.1: Savings-investment gap



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

corporations sector has been a net lender for the third consecutive year, which is not typical of this sector. Lower unemployment and higher wages are bringing an increase in the household sector's financial surplus, despite higher consumption. The surplus amounted to 2.6% of GDP in 2015. Households also mostly placed their surplus funds with banks in the form of sight deposits. The government sector's deficit and the financial corporations sector's surplus returned to a more stable level in the wake of the measures to stabilise the banking system at the end of 2013. The latter is slowly declining, primarily as a result of the ongoing contraction in the banks' total assets, and amounted to 1.2% of GDP in 2015. The government sector's deficit amounted to 2.9% of GDP.

Figure 5.2: Financial assets of NFCs (S.11)



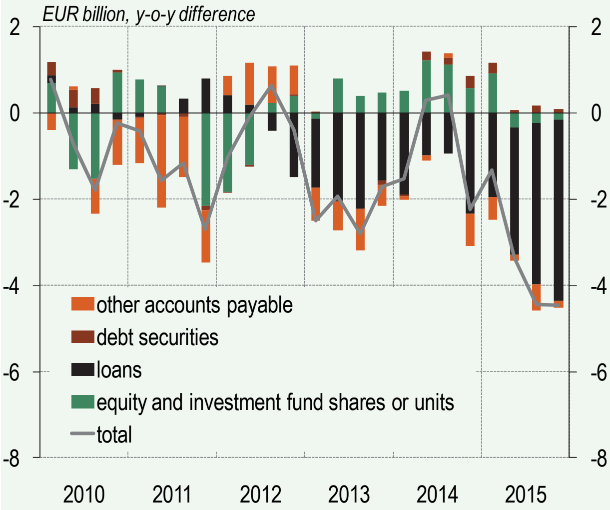
Source: Bank of Slovenia, non-consolidated data.

Non-financial corporations

Non-financial corporations' stock of financial assets stood at EUR 41.1 billion at the end of 2015, down EUR 0.3 billion on the end of 2014. The decline was primarily attributable to a decline in business-to-business lending, while lending to the rest of the world increased by EUR 0.3 billion. In 2014 and 2015 non-financial corporations again recorded high profits, after a long period of not doing so, and mainly invested their surpluses in banks, primarily in the form of sight deposits, in the amount of EUR 0.7 billion in 2015. Investments in equity also increased, by EUR 0.3 billion, as a result of recapitalisations, but negative revaluations in the amount of EUR 0.7 billion more than neutralised this flow.

Non-financial corporations' financial liabilities declined by EUR 4.5 billion in 2015 to EUR 78.1 billion, EUR 1.6 billion of which was the result of the transfer of loans to the BAMC. Business-to-business lending via loans and trade credit declined by EUR 0.6 billion, the same amount as the decline in loans raised in the rest of the world. Despite the sustained fall in interest rates on loans, debt repayments at banks are still continuing, and amounted to EUR 1 billion in 2015. Liabilities from loans to the government sector also declined, by EUR 0.6 billion. Liabilities from equity remained at the level recorded in 2014, as a result of negative revaluations and positive transactions.

Figure 5.3: Financial liabilities of NFCs (S.11)



Source: Bank of Slovenia, non-consolidated data.

Household sector

The household sector's financial assets amounted to EUR 39.4 billion at the end of 2015, up EUR 0.9 billion. EUR 0.5 billion of the increase was invested in domestic banks in the form of sight deposits, while EUR 0.2 billion was invested in fixed-term deposits at foreign banks. Given the very low interest rates, households are no longer interested in renewing fixed-term deposits, for which reason they are being converted into sight deposits. The household sector's stock of fixed-term deposits declined by EUR 0.9 billion in 2015, while its stock of sight deposits increased by EUR 1.6 billion. The proportion of total household deposits accounted for by sight deposits stood at merely just over a third in 2008, but had exceeded a half by 2015. In the context of these less favourable conditions of bank saving, a slight increase in pension and life insurance and in investments in investment funds was evident in 2015 for the first time in several years, in the total amount of EUR 0.3 billion. Slovenian households nevertheless remain cautious, and only earmark just over a fifth of their financial assets to such forms of saving. The majority, more than a half, is still invested in currency and deposits.

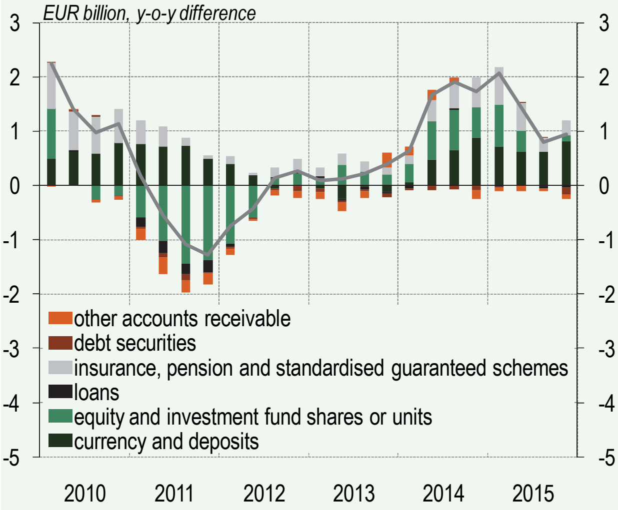
The switching of deposits from fixed-term to sight deposits is primarily attributable to the very low interest rates both in Slovenia and across the euro area. Interest rates on short-term deposits in Slovenia were half the euro area average in 2015, while those on long-term deposits were comparable. The spread between interest rates in Slovenia and the euro area was significantly larger even in 2013: interest rates on long-term loans in Slovenia were double the euro area average.

The indebtedness of Slovenian households remains unchanged, despite the favourable financing conditions, and is half that of the euro area overall. Household indebtedness as measured by the ratio of debt to GDP stands at 28% in Slovenia, compared with 59% in the euro area overall. Bank loans remain the most important form of borrowing. The household sector's total liabilities amounted to EUR 12.2 billion at the end of 2015.

Banks

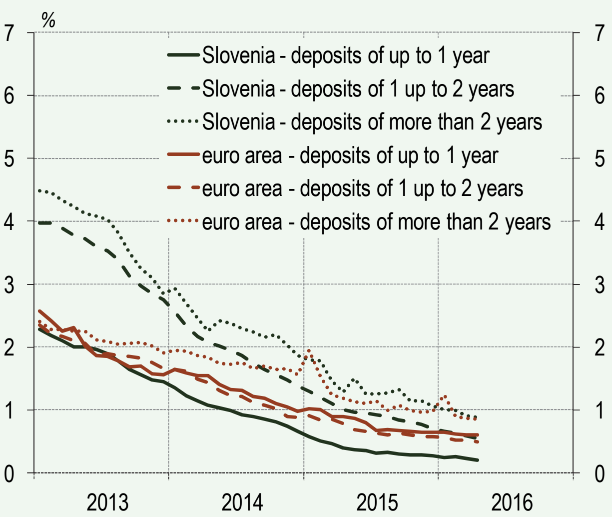
The banks remain cautious in their investments. Their financial assets declined by EUR 1.9 billion to EUR 40.4 billion, primarily as a result of the contraction in lending activity. Loans granted declined by EUR 2.3 billion, a third of which was accounted for by write-offs. The largest decline was recorded by corporate loans. Investments in debt securities amounted to EUR 9.4 billion at the end of 2015, having increased by EUR 0.2 billion. The majority (64%) consisted of government securities, while foreign debt securities accounted for 31%.

Figure 5.4: Financial assets of households (S.14 and S.15)



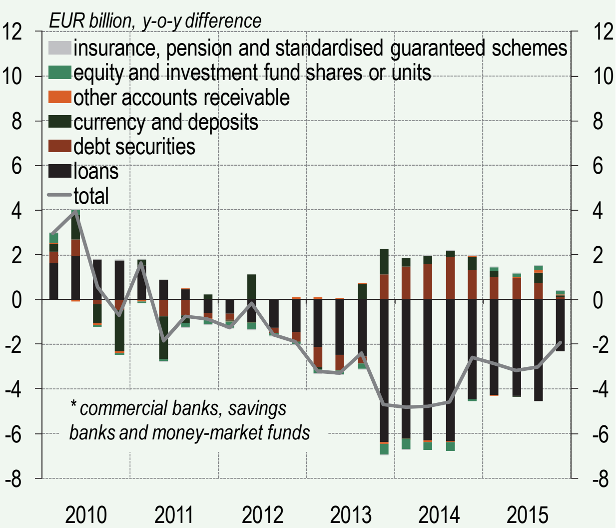
Source: Bank of Slovenia, non-consolidated data.

Figure 5.5: Interest rates on household deposits, by maturity



Sources: ECB, Bank of Slovenia.

Figure 5.6: Financial assets of banks* (S.122 and S.123)



Source: Bank of Slovenia, non-consolidated data.

Box 5.1: ECB monetary policy and its effect in a period of low interest rates

The euro area has been operating in an environment of unprecedentedly low interest rates for several years now. The important issues that are raised in this connection from the perspective of monetary policy analysis, and that are addressed in this box are: a) how to make a proper quantitative evaluation of monetary stimulus in an environment in which short-term interest rates no longer provide information about the monetary policy stance; b) what effect non-standard measures have had on interest rates and the real economy; and c) how monetary transmission is altered in a period of low interest rates.

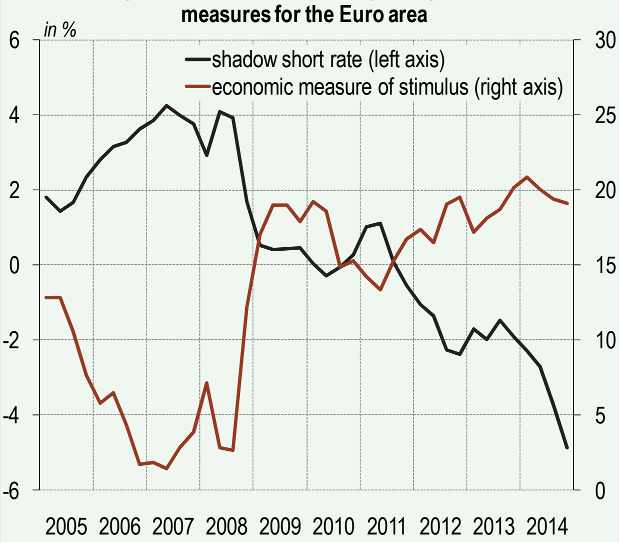
In recent literature[1] two alternative measures of monetary policy have gained wider support, namely the shadow short-term interest rate and the economic stimulus measure. The first reflects the hypothetical level of short-term interest rates that would prevail in the absence of the zero lower bound on interest rates, while the second aggregates the difference between the expected future path of short-term interest rates and the neutral interest rate (the interest rate that reflects a monetary policy that is neither expansionary nor contractionary). The two concepts are derived from the estimated yield curve, which is a reliable indicator of future economic activity and of inflation and monetary expectations, which essentially governs monetary decisions. The yield curve can be assessed by employing-term structure models adjusted for the zero lower bound. When comparing the two alternative measures, the economic stimulus measure exhibits greater robustness towards different model specifications and shows higher consistency with the actual ECB monetary policy events. On the other hand, an appealing feature of the shadow rates is allow for analysis of the financing conditions in individual euro area countries. In contrast, the economic stimulus measure does not provide information on disaggregated level, as it is not possible to reliably asses the neutral interest rate on the basis of interest rates in individual countries, since they also reflect credit risk.

The two alternative monetary policy measures are for the euro area outlined in Figure 1. The ECB's expansionary policy is related to higher values of economic stimulus measure, while the interpretation of shadow rate dynamics follows the usual conventional measures, where stimulative monetary policy is connected with lower values.

The two alternative concepts therefore allow for the modelling of the effects of monetary policy in a period of near zero interest rates. Namely, the standard monetary VAR model can be used to calculate the hypothetical realisation of macroeconomic series in the absence of monetary shocks, where the latter are identified through alternative monetary measures.[2] In that respect, Figure 2 indicates that realization of the euro area industrial production index between 2008 and 2014 would have on average been lower by 0.8 % had the monetary policy measures not been introduced. The accommodative effects were achieved with insignificant effects on general price levels, where the lack of price response to monetary policy measures indicates a potential change in the monetary transmission mechanism during the crisis.

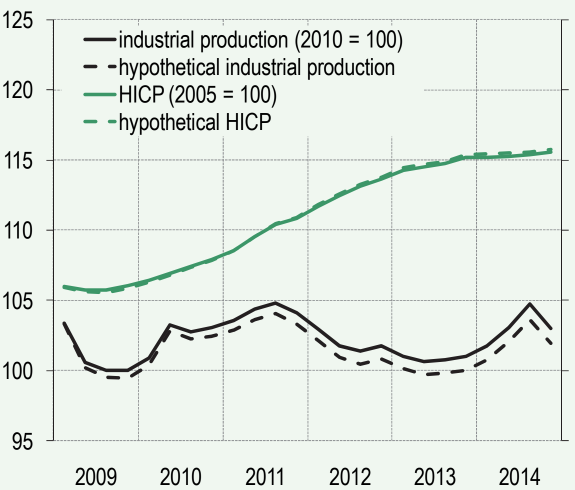
From the perspective of individual euro area countries, the non-standard measures had a positive effect in improving financing conditions in the countries hit hardest by the economic and financial crisis. These conclusions can be drawn

Figure 1: Alternative monetary policy stance measures for the Euro area



Source: Bloomberg, Bank of Slovenia calculations.

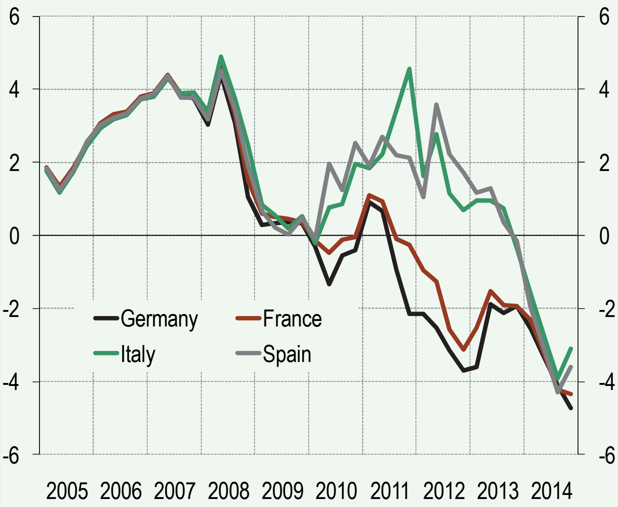
Figure 2: Counterfactual realizations of Euro area macroeconomic variables



Source: Bloomberg, Bank of Slovenia calculations.

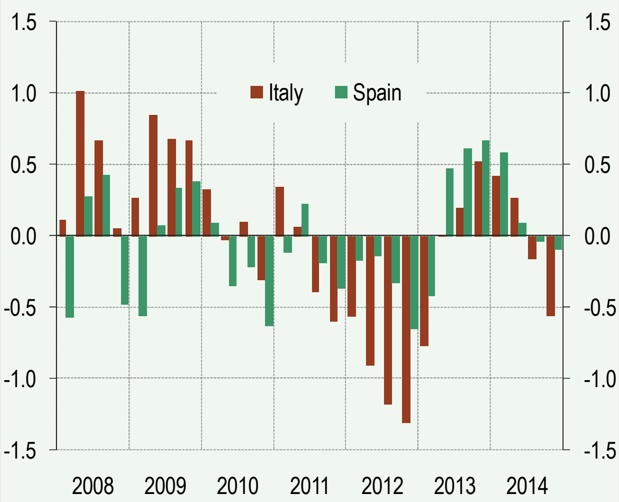
from the strong convergence in shadow interest rates between two selected euro area periphery countries, Italy and Spain, and two core countries, Germany and France, where convergence in chronological terms occurred after the introduction of the non-standard monetary policy programmes aimed at the debt crisis (Figure 3). The latter is quantitatively supported in Figure 4, which illustrates the active contribution of common euro area monetary policy shock to the declines in Italian and Spanish shadow interest rates between the second half of 2012 and the beginning of 2014. The improved financing conditions were reflected in the real economy with a lag, with the first stimulus measures identified in 2013. Figure 5 illustrates that the effects of the common monetary policy were larger in the case of Italy, while the much smaller and insignificant effects in the Spanish economy suggest that the improvement in financing conditions was not transmitted into

Figure 3: Shadow short rate series for individual Euro area countries



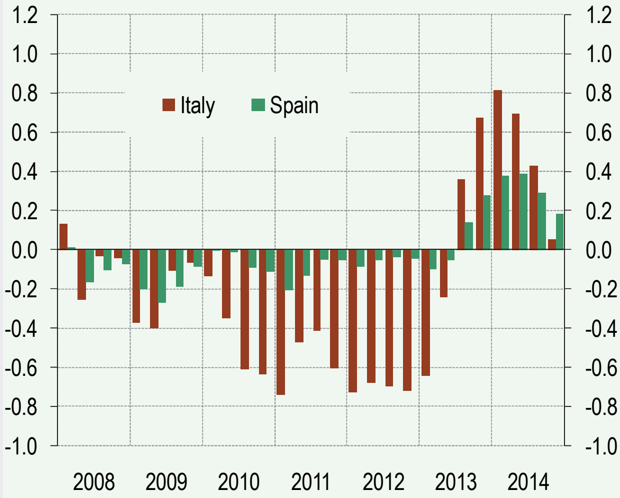
Source: Bloomberg, Bank of Slovenia calculations.

Figure 4: Contribution of the common Euro area monetary policy shock to the development of shadow rate series



Source: Bloomberg, Bank of Slovenia calculations.

Figure 5: Contribution of the common Euro area monetary policy shock on GDP growth



Source: Bloomberg, Eurostat, Bank of Slovenia calculations.

Table 1: Decomposition of 10-year Euro OIS rate

Monetary policy program	Announce-ment date	Change in expectation component	Change in term permium	Residual change	Observed yield change
CBPP	07.05.2009	24	-1	2	25
SMP	10.05.2010	12	-1	6	16
CBPP2	06.10.2011	8	-2	0	7
OMT	06.09.2012	12	-5	2	10
CBPP3	04.09.2014	-6	5	0	-1
EAPP	22.01.2015	-16	11	-6	-11

Source: Bloomberg, Bank of Slovenia calculations.

active lending to the real economy. This is confirmed by Borstel, Eickmeier and Krippner (2015), who illustrate that the reduced yields on government bonds were not transformed into lower bank rate margins.

In contrast to the periphery countries, the non-standard measures before 2012 did not generate the anticipated reduction in yields in the remainder of the euro area. The reasons can be found in the future corrections in the monetary policy expected by the financial markets. This is indicated by the model-based inspection of yields indicated in Table 1, where the change in the 10-year EONIA is decomposed into a time premium and an estimated monetary expectation component on the day of the introduction of each of the non-standard measures. The yield decomposition suggests that the markets only recognised a credible commitment to a sustained expansionary policy with the first two quantitative easing programmes introduced at the end of 2014 and in early 2015.

[1] Krippner (2015), Wu and Xia (2014), Lombardi and Zhu (2014), Francis et al. (2014), Claus et al. (2015) and others.
[2] See Damjanović and Masten (2016).

Box 5.2: Bank performance in the first five months of 2016

The trends of the previous period continued over the first five months of the year: the contraction in total assets is slowing, debt repayments to the rest of the world have continued, and lending activity is declining. Consumer loans moved into the territory of positive year-on-year growth in April. Household deposits are continuing to strengthen, albeit primarily sight deposits. The trend of decline in the stock and proportion of claims more than 90 days in arrears has continued. The release of impairments and provisions is having a favourable impact on the banks' profitability.

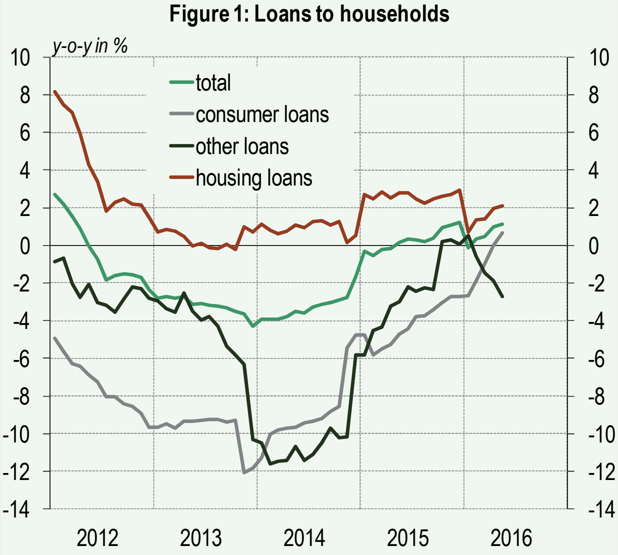
Year-on-year growth in the banks' lending activity remained negative over the first five months of the year. Loans to the non-banking sector were down 5.8% in May, similar to December. Household lending is continuing to recover at low rates of growth, while the contraction in corporate lending slowed slightly, to a still-high year-on-year rate of 11.4% in May.

Growth in loans to households is slowly increasing, reaching 1.1% in May. The stock of household loans accounted for 43% of loans to the non-banking sector in May, and on bank balance sheets has been larger than the stock of loans to non-financial corporations since last October. Reduced interest rates on loans, the low level of household indebtedness and low real estate prices are contributing significantly to the ongoing growth in housing loans, which stood at 2.1% in May. The aforementioned factors were also reflected in consumer loans, in which the banks have been recording positive year-on-year growth since April, the rate reaching 0.7% in May.

The banks are continuing to pay down debt on the wholesale markets. The banks repaid EUR 580 million of these liabilities over the first five months of the year, down just over a half on the same period last year. The debt servicing burden will decline again in the future, the banks having already repaid a large part of the external debt. The proportion of bank funding accounted for by wholesale funding is now just 11%, which is merely a third of the figure at the outbreak of the crisis. Deposits by the non-banking sector have continued to increase in importance, and accounted for 68% of bank funding in May. This year it has been household deposits in particular that have strengthened: they increased by EUR 455 million over the first five months of the year. The year-on-year rate of growth increased in the second quarter, reaching 5.2% in May. However, in the ongoing low interest rate environment, the maturity breakdown of deposits by the non-banking sector is continuing to shift in the direction of an increase in sight deposits, which is reducing the stability of this funding, and will increase the need for effective liquidity management in the future. The banks are maintaining high excess liquidity, a moderately increasing proportion of secondary liquidity among total assets, and a high free proportion of the pool of eligible collateral, which provides access to liquid assets with the Eurosystem.

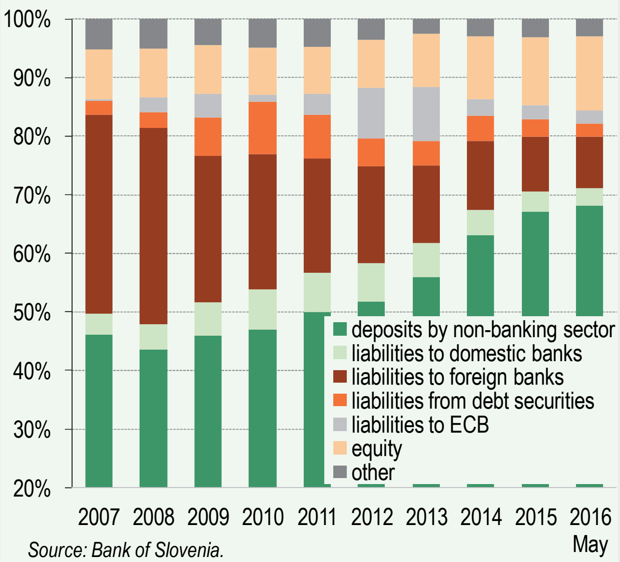
The quality of the banks' credit portfolio is continuing to improve. The trend of decline in the stock and proportion of claims more than 90 days in arrears has continued, in the wake of a further contraction in bank lending activity. The orderly wind-down of Factor banka and Probanka was com-

Figure 1: Loans to households



Source: Bank of Slovenia.

Figure 2: Breakdown of the Slovenian banking system's funding



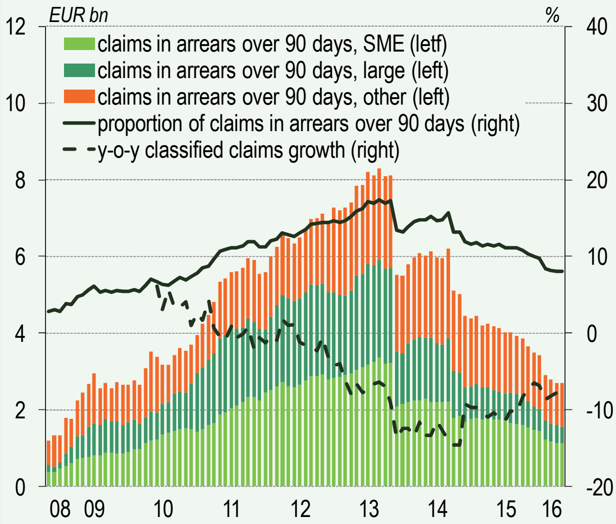
Source: Bank of Slovenia.

pleted in February with their absorption into the BAMC. This was reflected in a significant decline in the stock and proportion of claims more than 90 days in arrears (EUR 0.5 billion), although the trend of decline also continued in the remainder of the banking system. Claims more than 90 days in arrears declined by EUR 761 million over the first five months of the year to stand at EUR 2.7 billion, and accounted for 8% of classified claims in May. According to the EBA definition, the proportion of non-performing exposures in the Slovenian banking system stood at 10.8% at the end of March 2016, down 3.4 percentage points on the first reporting in June 2015. The decline in claims more than 90 days in arrears was also attributable to bank activity, as they reduced non-performing claims via forbearance and write-offs. Coverage of claims more than 90 days in arrears by impairments and provisions is increasing (reaching 68% in May), as is coverage by capital, thereby making the banking system more resilient in the event of defaults.

Certain segments of the portfolio are more burdened with non-performing claims, most notably claims against SMEs, against which 41% of all claims more than 90 days in arrears are concentrated, and claims against non-residents, which account for 24% of the total. The proportion of claims against the construction sector more than 90 days in arrears has declined in 2016 to its lowest level since 2007, but remains above the average for non-financial corporations. The figure for real estate activities is declining more slowly than in other major sectors, and the sector is well above average in terms of the burden of claims more than 90 days in arrears. Wholesale and retail trade is a less-burdened sector, where the corresponding figure is 14.4%, but the size of the sector means that it accounts for the largest proportion of total claims against non-financial corporations more than 90 days in arrears, at 22%. There has been a sharp improvement in manufacturing, where the proportion of claims more than 90 days in arrears declined to 7.6%, and the stock declined from EUR 1.2 billion before the first transfer to the BAMC to EUR 263 million.

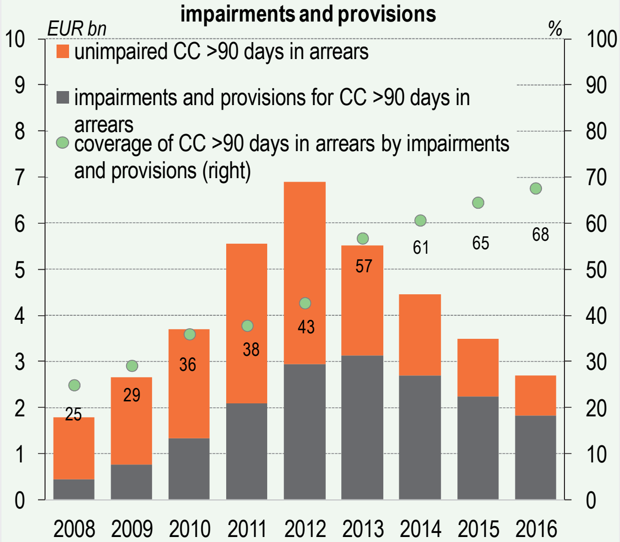
The banks generated a solid pre-tax profit of EUR 245 million over the first five months of 2016. They recorded a net release of impairments and provisions over this period, which was the decisive factor in the high profits. There has been a favourable impact on this year's developments in impairment and provisioning costs from bank activity aimed at the resolution of non-performing claims, the low interest rates and favourable financing conditions, and the banks having created large impairments in previous years. At the same time, in the low interest rate environment the banks remain exposed to

Figure 3: Claims in arrears over 90 days



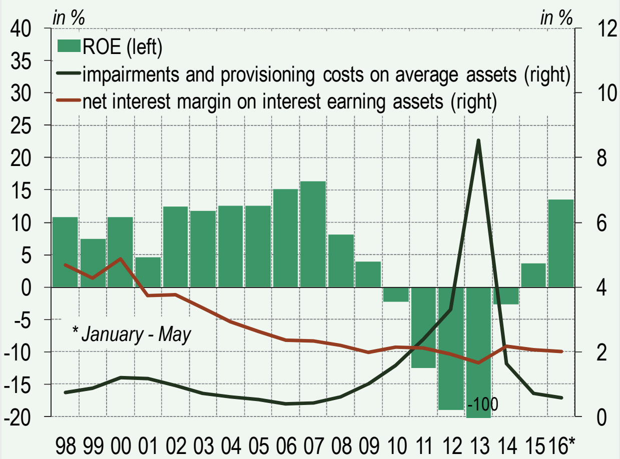
Source: Bank of Slovenia.

Figure 4: Coverage of claims more than 90 days in arrears by impairments and provisions



Source: Bank of Slovenia.

Figure 5: ROE, NIM and impairments and provisioning costs on assets



Note: Figures for net interest margin and the ratio of impairment and provisioning costs are calculated over the preceding 12 months.
Source: Bank of Slovenia.

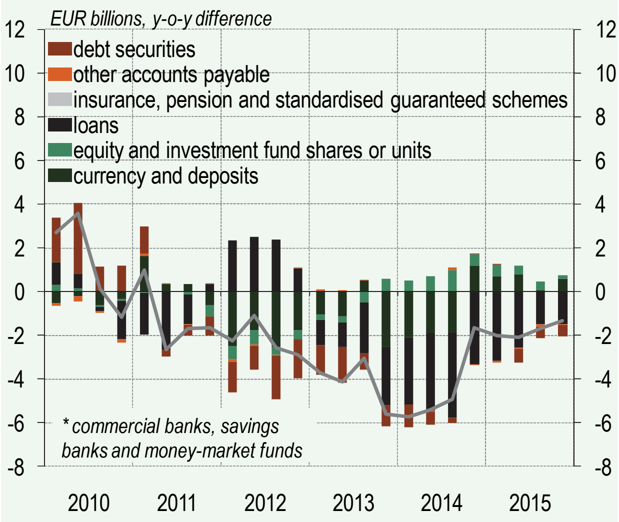
relatively high income risk. The banks' net interest income is being reduced by factors such as the persistent contraction in lending activity, and the fall in lending rates and in returns on securities. On the other hand the sharp fall already seen in liability rates and the increased proportion of sight deposits are reducing room for further reductions in interest expenses. The trend of a slow but sustained decline in the net interest margin has continued, albeit slightly more slowly in recent months than in the previous months. The net interest margin over the first five months of the year declined only very little compared with a year earlier, to reach 2%. The further contraction in net interest income and the fall in yields on securities mean that a further gradual reduction of the margin can be expected. The banks have seen a slight improvement in performance this year, partly as a result of positive growth in net non-interest income. Operating costs are continuing to fall.

The increase in corporate and household deposits and the repayment of debt on foreign markets are improving funding structure. Deposits by the non-banking sector were up EUR 0.5 billion, as non-financial corporations invested EUR 0.7 billion in deposits and households EUR 0.5 billion. Non-residents and the government sector withdrew deposits in the amount of EUR 0.7 billion from the banks. As stated above, fixed-term deposits are being converted into sight deposits as they mature. Sight deposits increased by EUR 2.3 billion in 2015, while fixed-term deposits declined by EUR 2.8 billion. Deposits nevertheless represent the most stable and important source of bank funding, and in the wake of the sharp fall in liability interest rates and the shift in maturities to sight deposits the banks will face income risk unless lending activity is not improved. The instability of bank funding structure is thus increasing. The banks reduced their liabilities in the form of loans in the amount of EUR 1.5 billion in 2015. This comprised a partial repayment of liabilities to the ECB, and debt repayments to both domestic and foreign banks. Liabilities from debt securities, on both domestic and foreign markets, also declined, by EUR 0.5 billion. The banks' financial liabilities amounted to EUR 37.2 billion at the end of 2015, down EUR 1.3 billion.

Domestic financial market

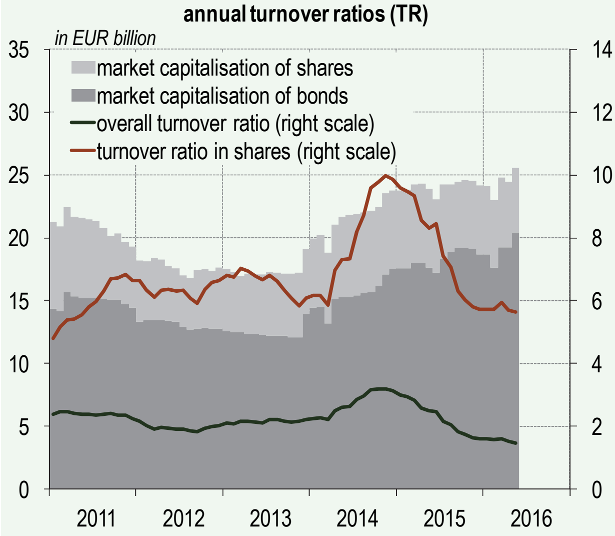
The fall in the number of quoted shares and the shallowness of the market at the Ljubljana Stock Exchange are increasingly affecting developments on the domestic stock market. The market capitalisation of shares amounted to EUR 5.1 billion at the end of May, down 18.3% in year-on-year terms. The cumulative volume of trading in shares on the Ljubljana Stock Exchange over the first five months of this year amounted to EUR 115.4 million, down 18.1% in year-on-year terms. Four shares on the prime market accounted for the majority of the volume, in the amount of EUR 90.3 million. The proportion of holdings of domestic shares accounted

Figure 5.7: Financial liabilities of banks* (S.122 and S.123)



Source: Bank of Slovenia, non-consolidated data.

Figure 5.8: Market capitalisation on the LJSE in EUR billion and annual turnover ratios (TR)



Source: Ljubljana Stock Exchange.

for by non-residents stood at 27.7% at the end of May, down 1.6 percentage points on the end of 2015, as a result of the delisting of shares in takeover targets. After rising in March, the SBI TOP lost ground in April and May, and the slide increased further in June as a result of increased uncertainty on foreign markets.

The volume of trading in bonds on the Ljubljana Stock Exchange declined sharply over the first five months of the year, although the market capitalisation was up 9.6% on the end of 2015 at EUR 20.4 billion. This year's increase in the market capitalisation of bonds was attributable to the issuance of a new government bond in March and an increase in two government bond issues in May. The cumulative volume of trading in bonds amounted to EUR 9.4 million over the first five months of the year, down 38.7% in year-on-year terms. The volume of trading in bonds was extremely low in January and May, while volumes in the other months only deviated slightly from last year.

6 Public Finances

Slovenia reduced its general government deficit to below 3% of GDP in 2015, thereby meeting the conditions for exiting the excessive deficit procedure. This year it is moving to the preventive arm of the Stability and Growth Pact, within the framework of which it is required to improve the structural position by at least 0.6% of GDP this year. Transitional arrangements with regard to debt reduction also apply to Slovenia.

The plans for this year in the Stability Programme of April 2016 follow these requirements, while the structural effort planned for the coming years is less than required. In May the European Commission assessed that there is a risk of some deviation from the required adjustment in the structural position in 2016, and a significant deviation in 2017, assuming no-policy change basis. The transitional provisions with regard to debt should be met or mostly met by Slovenia in the aforementioned two years.

The nominal general government deficit is expected to reach 2.2% of GDP this year. The narrowing of the deficit during the first quarter was a reflection of growth in revenues, in particular from taxes and contributions, while the decrease in expenditure was the result of a sharp decline in government investment due to a slow start to the disbursement of funds from the new European financial framework. The general government debt at the end of the first quarter was up slightly on the end of last year at 83.8% of GDP, although the figure does not yet include the effects of debt restructuring in May. The risks in the fiscal area are related to macroeconomic developments potentially being less favourable, 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

Slovenia met the conditions for exiting the excessive deficit procedure last year, and is planning a further reduction in the general government deficit this year. Slovenia reduced its general government deficit to 2.9% of GDP in 2015, as a result of which the European Commission proposed in May that the excessive deficit procedure be abrogated. Slovenia is thereby moving to the preventive arm of the Stability and Growth Pact, within the framework of which it will be committed to reducing the structural deficit at an appropriate speed. The reduction in the general government deficit is expected to continue this year, the nominal deficit reaching 2.2% of GDP according to the government's plans. The Stability Programme is also planning an appropriate reduction in the structural position, in the amount of 0.6% of GDP. According to the European Commission's forecasts, the general government deficit is expected to stand at 2.4% of GDP this year, while the structural improvement is expected to be 0.2% of GDP, less than the 0.6% of GDP required.

The increase in general government revenues in the first quarter of this year was primarily attributable to taxes and net social security contributions, which rose on account of the favourable situation on the labour market and the ongoing economic recovery. General government revenues were up 1.1% in year-on-year terms. Among the major categories of tax revenue, the largest increase was recorded by direct taxes (5.6%), which include personal income tax and corporate income tax. The increase was related to the continuing favourable situation on the labour market, as employment increased by 1.4%, and average employee compensation increased by even more. The ongoing economic growth brought growth in corporate income tax revenues. Revenues from net social security contributions were up 2.7%, while indirect taxes were up 2.8%, although estimated private consumption over the period was less favourable than in the previous several quarters. This year there has been no change in tax rates or in the tax and excise duty burden, other than minor changes in excise duties on energy products. The main year-on-year decline in other revenues was recorded by capital transfers, which was related to the slow start to the disbursement of funds from the EU budget under the 2014-2020 financial framework.

General government expenditure declined in the first quarter of this year, primarily as a result of an extremely large decline in government investment expenditure. General government expenditure was down 0.2% in year-on-year terms, which was attributable to a decline of 34% in government investment. The sharp decline in investment had been expected: according to Ministry of Finance forecasts investment is expected to decline by just over a third this year. Other expenditure mostly increased. Employee compensation was up 6.3%, primarily as a result of promotions at the end of last year, although the number of employees also increased (by 0.6% in year-on-year terms, partly as a result of the absorption of Factor banka and Probanka by the BAMC, which is in the government sector). Growth in expenditure on intermediate consumption was also high,[11] partly as a result of costs related to the refugee crisis. Social security benefits were up 2.0%, partly in reflection of the relaxation of certain measures at the beginning of this year, including a rise in cash social assistance, child benefit for families in the fifth and sixth income bands, and a rise in the number of government scholarship recipients. Pensions were increased by 0.7% in January, after several years of zero or very modest increases (0.1% in 2015). The number of pensioners is continuing to rise moderately (it was up 0.3% in year-on-year terms at the end of May).

Figure 6.1: General government revenue

Source: SORS, Bank of Slovenia calculations.

Figure 6.2: General government expenditure excluding support to financial institutions

Source: SORS, Bank of Slovenia calculations.

General government debt and government guarantees

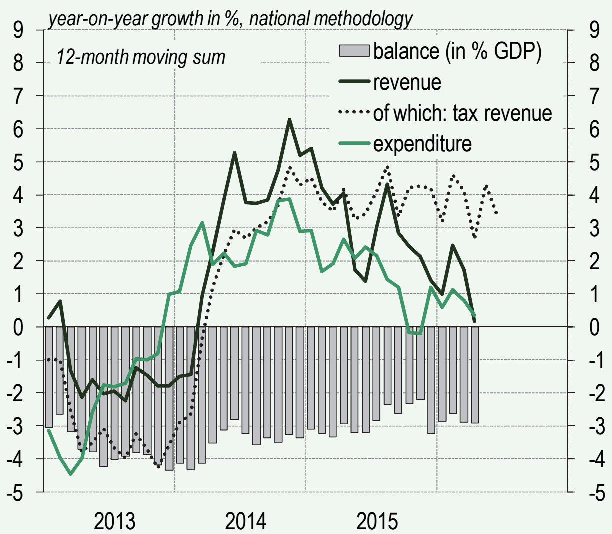
The general government debt increased somewhat in the first quarter of this year. It amounted to EUR 32,577 million or 83.8% of GDP at the end of March, up 0.6 GDP percentage points on the end of last year. The increase was primarily the result of issuance of long-term securities in the first quarter, which outweighed the maturing bonds. A debt restructuring was carried out in

[11] Intermediate consumption includes expenditure on goods and services.

Box 6.1: Public finance developments according to cash flow methodology, January to April 2016

The general government deficit over the first four months of the year narrowed in year-on-year terms. It amounted to EUR 446 million. Both revenues and expenditure were down on the same period last year, in connection with the reduced disbursement of funds from the EU budget at the beginning of the new financial framework. There was nevertheless an increase in tax revenues and other non-tax revenues. The increase in taxes and social security contributions was the result of the favourable situation on the labour market, with both employment and average wages growing, the latter allowing for increased household consumption. The year-on-year decline in taxes on goods and services over the first four months of the year was the result of this year's deferral of the payment of excise duties from April to May, on account of the payments calendar. According to the available figures, revenues from taxes and social security contributions in the first half of the year were up around 3.3%. Funds received from the EU budget over the first four months of the year were down around 36% on last year, as disbursement from the new financial framework is only progressing slowly. The latter is also being reflected on the expenditure side, where there was a decline of 47% in investment expenditure and transfers over the period in question. The other main categories of expenditures (wages and social security contributions, expenditure on goods and services, and transfers to individuals and households) were up in year-on-year terms.

Figure 1: Public finance developments



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

The budget position is more favourable especially at the state and at the local government level. A deficit of EUR 789 million is projected for the state budget approved for this year. The

Table 1: Consolidated general government (GG) balance*, January – April 2016

	2015	*last 12 months to Apr.16*			*2015 Jan.-Apr.*	*2016 Jan.-Apr.*	*Apr.16*
	EUR millions		*% GDP*	*y-o-y, %*	*EUR millions*		*y-o-y, %*
Revenue	**15,714**	**15,675**	**40.2**	**0.2**	**5,076**	**5,037**	**-0.8**
Tax revenue	13,746	13,811	35.4	2.6	4,525	4,589	1.4
- goods and services	5,347	5,322	13.6	0.3	1,728	1,703	-1.4
- social security contributions	5,474	5,548	14.2	4.1	1,794	1,869	4.1
- personal income	1,986	2,004	5.1	3.7	690	709	2.6
- corporate income	595	505	1.3	-5.9	235	145	-38.1
From EU budget	882	771	2.0	-26.5	315	203	-35.5
Other	1,085	1,094	2.8	-4.6	236	245	3.7
Expenditure	**16,956**	**16,814**	**43.1**	**0.3**	**5,626**	**5,483**	**-2.5**
Current expenditure	7,168	7,179	18.4	2.0	2,543	2,554	0.4
- wages and other personnel expenditure (incl. contributions)	3,610	3,623	9.3	0.3	1,211	1,224	1.1
- purchases of goods, services	2,311	2,334	6.0	6.1	682	705	3.3
- interest	1,043	1,035	2.7	-5.7	595	588	-1.2
Current transfers	7,540	7,586	19.4	0.2	2,551	2,596	1.8
- transfers to individuals and households	6,371	6,411	16.4	1.0	2,107	2,147	1.9
Capital expenditure, transfers	1,815	1,662	4.3	-4.2	327	173	-47.0
To EU budget	433	388	1.0	-6.2	206	160	-22.0
GG surplus/deficit	**-1,242**	**-1,138**	**-2.9**		**-550**	**-446**	

*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.

deficit over the first five months of the year amounted to EUR 425 million (compared with EUR 676 million over the same period last year). Lower investment expenditure also brought a year-on-year improvement in the overall local government position. Meanwhile the Health Insurance Institute disclosed a similar deficit to the same period last year over the first five months of the year, as revenues recorded relatively solid growth (3.4%).

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

	SORS					Draft Budgetary Plan		Stability Programme				EC	
v % BDP	**2012**	**2013**	**2014**	**2015**	**2016 (1-3)**	**2015**	**2016**	**2016**	**2017**	**2018**	**2019**	**2016**	**2017**
Revenue	44.5	45.2	44.9	45.1	42.8	44.8	43.4	43.5	43.8	43.2	42.3	43.4	43.2
Expenditure	48.6	60.3	49.9	48.0	46.1	47.7	45.5	45.7	45.4	44.3	42.7	45.7	45.2
of which: interest	2.0	2.6	3.2	3.0	3.1	3.0	2.9	2.9	2.6	2.5	2.4	2.8	2.6
Net lending (+) / borrowing (-)	-4.1	-15.0	-5.0	-2.9	-3.4	-2.9	-2.2	-2.2	-1.6	-1.0	-0.4	-2.4	-2.1
excl. support to fin. institution	-3.9	-4.9	-4.0	-2.9	-3.4	-2.9	-2.2	-2.2	-1.6	-1.0	-0.4	-2.4	-2.1
Structural balance	…	…	...	...	...	-1.8	-1.3	-1.5	-1.3	-1.0	-0.6	-2.5	-2.9
Debt	53.9	71.0	81.0	83.2	83.8	84.1	80.8	80.2	78.2	76.5	73.8	80.2	78.0
Real GDP (growth, %)	-2.7	-1.1	3.0	2.9	2.5	2.7	2.3	1.7	2.4	2.3	2.3	1.7	2.3

Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2015), Stability Programme (Ministry of Finance, April 2016), European Commission (EC, May 2016).

mid-May, whereby EUR 1.25 billion of US dollar bonds were replaced with EUR 1.25 billion of euro-denominated bonds.

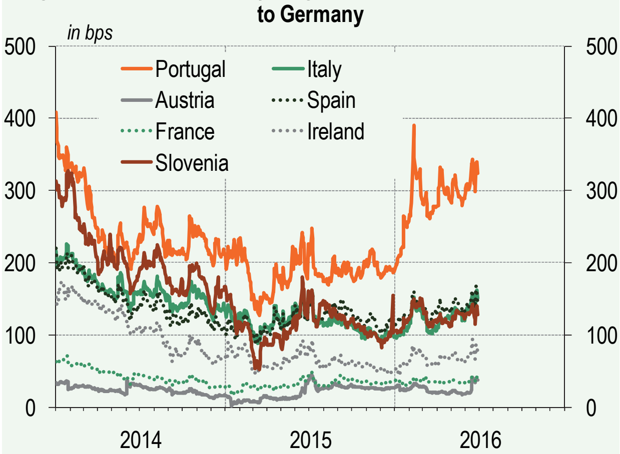
Guarantees were down on the end of last year. Guarantees amounted to EUR 6.9 billion or 17.8% of GDP at the end of the first quarter, down from 18.3% of GDP at the end of last year. Approximately half of the guarantees related to the liabilities of DARS d.d. and the liabilities of the EFSF. The decline was the result of the maturing of liabilities that were settled by the guarantee holders themselves (most notably DARS and SID banka). Guarantees represent a contingent liability for the government, although a portion of guarantees in the amount of 5% of GDP is included in the debt. The latter relates to issued BAMC bonds, and to part of the guarantees from the EFSF.

In the wake of monetary policy stimulus measures, the required yield on Slovenian government bonds remains at a low level. There was a certain risk aversion on the financial markets in the first quarter, which subsided when additional measures were announced by the ECB. The spreads over the benchmark German bond and the required yields on 10-year Slovenian government bonds were subsequently maintained at low levels, similarly to other euro area periphery countries. In June Standard and Poor's upgraded Slovenia's long-term debt by one notch from A- to A, which has been a further factor in the maintenance of the required yields on Slovenian government debt at low levels. A small rise in mid-June was a reflection of the uncertainty of the financial markets in the wake of the UK referendum on leaving the EU. The required yield on 10-year Slovenian government bonds averaged 1.31% in June, as the spread over the benchmark German bonds reached 130 basis points.

Planned developments in the general government deficit

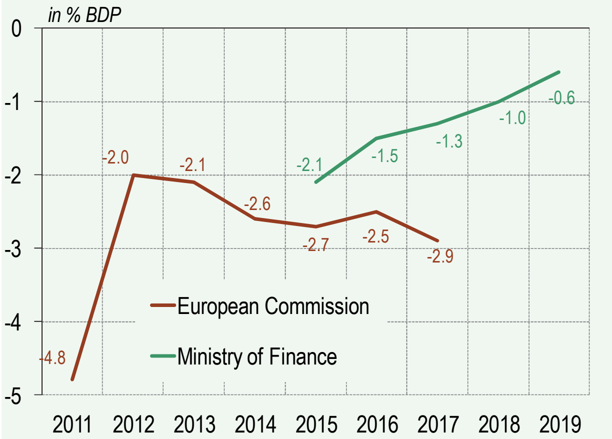
The general government position is planned to be in balance in both nominal and structural terms by 2020. The government is planning an annual reduction in the nominal position of 0.6% of GDP, thereby reducing the general government deficit to 0.4% of GDP by 2019. The measures for reaching this target announced in the April update to the Stability Programme encompass an improvement in the efficiency of tax collection (including

Figure 6.3: Spreads on 10-year government bonds as compared to Germany



Note: Spread is calculated as a difference between yield of 10-year government bond and the yield of reference German bond on a daily basis and is used as a measure of country's credit risk.
Source: Bloomberg, Bank of Slovenia calculations.

Figure 6.4: 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 2016.

mandatory fiscal verification of invoices as of this year), modernisation of the real property taxation system, and the control over costs of wages, social transfers and subsidies. Negotiations are also in progress with the public sector unions with regard to the wage bill between 2017 and 2020. This could increase by around 2.5% in 2017 solely as a result of measures carried out this year.[12] The reduction of the deficit could be hindered by less favourable economic developments at home and abroad, and by factors of a one-off nature (the refugee crisis, the impact of BAMC transactions, court judgments).

After the abrogation of the excessive deficit, Slovenia is committed to an improvement in the structural position under the preventive arm of the Stability and Growth Pact.[13] The European Commission requires a structural fiscal effort from Slovenia, namely a reduction in the structural deficit in the amount of 0.6% of GDP both this year and next year. On the basis of its spring forecasts the European Commission finds that there is a risk of somedeviation from the required adjustment for meeting the medium-term objective in 2016, and the risk of a significant deviation in 2017, assuming no-policy change basis. The latter entails a need for additional measures to ensure that the requirements are met. Transitional arrangements with regard to debt also apply to Slovenia; according to the European Commission assessment, Slovenia is expected to meet them this year and to mostly meet them next year. Slovenia has also not yet aligned the medium-term objective with the requirements of the Stability and Growth Pact.

Structural reforms are in preparation in the areas of pensions, healthcare and long-term care. The ageing population is a risk factor for the long-term sustainability of public finances. According to the European Commission's estimates in its Ageing Report 2015, in Slovenia the largest increase by 2060 will be in expenditure on pensions, while expenditure on healthcare and long-term care is also expected to increase substantially. A white paper on the long-term sustainability of the pension system presented in April of this year outlines the following proposals: (i) the raising of the retirement age to 67 (with the retention of the lower limit of 15 years for the insurance period); (ii) an increase in the number of years counted towards the pension base in the 34 best consecutive years of service; (iii) annual pension increases to be gradually adjusted to keep pace with inflation only; (iv) abolition of the possibility of early retirement, and retention of bonuses for the extension of years of service. Changes are also being prepared in the area of healthcare and long-term care.

[12] In addition to the promotions at the end of 2015 and 2016, more funding will be required this year for employee leave, and on 1 September 2016 the reduction in wage grades will be abolished. The freezing of ordinary performance-related pay, reduced performance-related payments for workload, and reduced premiums for collective supplementary pension insurance remain in force.
[13] 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.

7 Price Developments

June headline annual inflation, measured by the HICP, turned positive for the first time in two years standing at 0.1%. Additionally, for the first time in two years it has not been lower than the euro area average. Core inflation, on the other hand, reached the euro area average in May, and surpassed it in June. This development owes to the gradual manifestation of both external and domestic cost pressures although it is still difficult to assess the pass-through from the domestic demand given that its relatively weak growth in the first quarter.

Structure of price developments

The deflation in Slovenia came to slowdown in May after which turned positive in June, reaching 0.1%. Headline annual inflation in June was up 0.6 percentage points on May. This was primarily driven by the considerable rises in food prices and services prices. The year-on-year fall in energy prices slowed although they are still acting to sharply reduce the headline inflation rate.

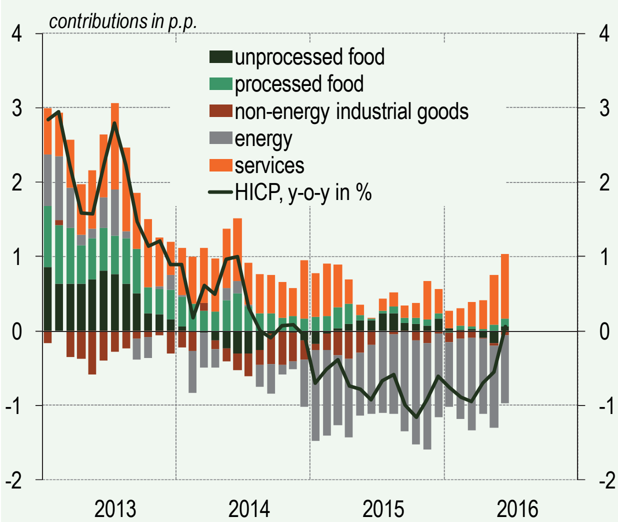
Macroeconomic factors

The year-on-year change in the core inflation indicators outpaced the euro area average by 0.3 percentage points in June. Core inflation, as measured by the HICP excluding energy, food, alcohol and tobacco, rose from 0.3% in the first quarter to 0.9% in the second quarter, reaching 1.2% in June, thereby outpacing the overall rate in the euro area by 0.3 percentage points. The annual growth of the other two core inflation indicators also rose, primarily as a result of the higher annual growth in service prices, which may be attributable to the improvement in the economic situation and the recuperation of the domestic labour costs.

The wage bill and private consumption pass-through to core inflation seems to be improving. The conditions on the labour market have been continually improving this year as both employment and average wages have increased. The decline in the market confidence indicator from mid-2015 turned into a moderate growth after February, and inflation expectations increased significantly in the first half of the year. However, the significant slowdown of the private consumption average growth in the first quarter indicates that the effect of these dynamics is merely a limited one.

Core inflation dynamics is also attributable to supply-side factors. The rise in global oil prices and energy

Figure 7.1: Contributions to headline HICP inflation



Source: Eurostat, Bank of Slovenia calculations.

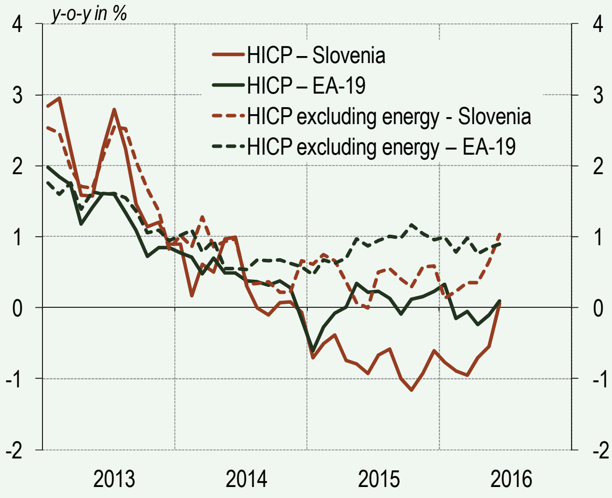
prices affects the prices of certain categories of services, most notably passenger air transport and package holidays. On the other hand, the decrease in price of some commodities came to a halt in the beginning of this year; moreover, there was a slight rise in prices of food and non-food agricultural commodities. For the first time in more than two years growth of labour costs per employee outpaced productivity growth, while growth in unit labour costs was positive. In light of the developments on commodities markets and the rise in unit labour costs, cost pressures can also be expected to gradually strengthen.

Microeconomic factors

Energy prices are slowly rising in line with the growth in oil prices on the global market, although the year-on-year changes remain strongly negative for the moment. Year-on-year growth in energy prices averaged -7.2% over the second quarter, up 0.6 percentage points on the previous quarter. Over the same period the annual fall in energy prices across the euro area increased by 0.4 percentage points. In addition to growth in oil prices, the current rise in Slovenian prices of refined petroleum products was also somewhat affected by the partial price liberalisation. And while there is a slight slowdown in the annual fall of gas prices, prices of district heating considerably decreased.

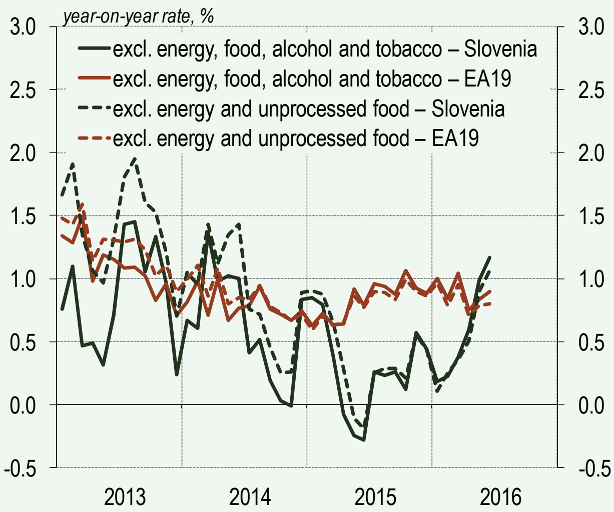
After the decree on setting prices for refined petroleum products ceased to be valid in October of last year, the Ministry of Economic Development and Technology proposed to the government that prices of refined petroleum products on the domestic market be liberalised. On the basis of an assessment of the impact of price deregulation, the government opted for the partial liberalisation of prices of refined petroleum products, namely prices of 98-octane and higher-rated petrol and heating oil. In addition to the rise in prices of refined petroleum products caused by the rise in global oil prices, prices of heating oil rose more strongly in May and June, while prices of 98-octane petrol rose slightly more strongly than prices of 95-octane petrol. In the coming months the government will examine the impact of

Figure 7.2: Inflation



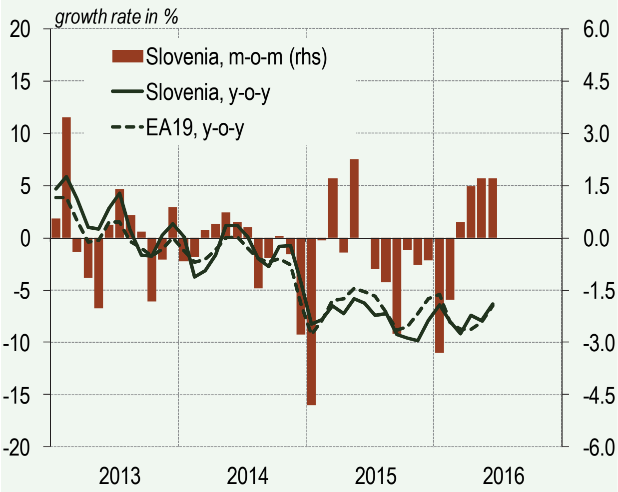
Source: Eurostat.

Figure 7.3: Core inflation

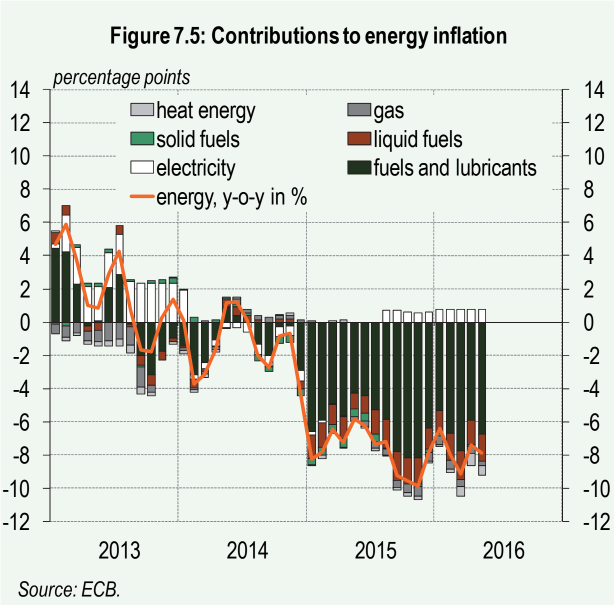


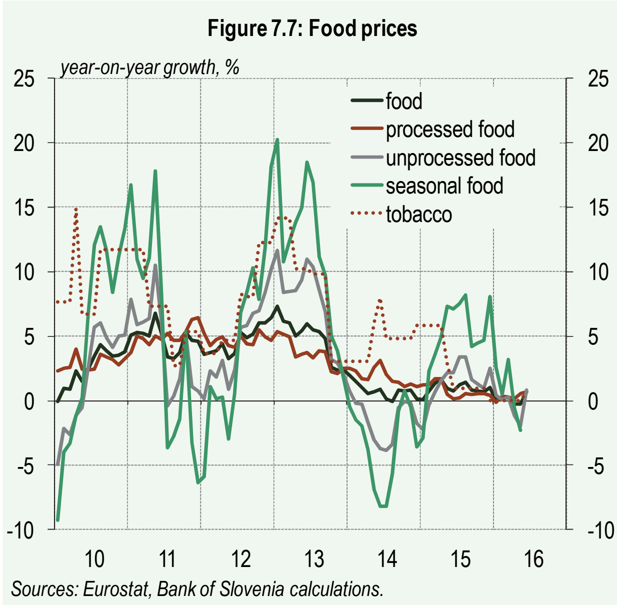
Source: Eurostat, Bank of Slovenia calculations.

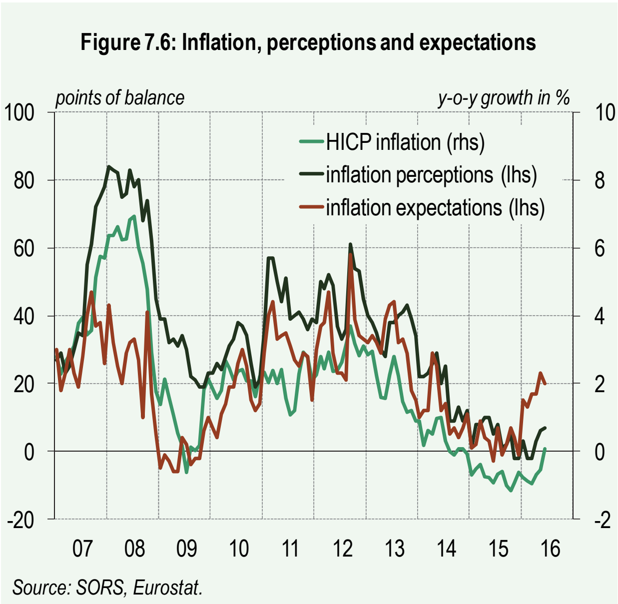
Figure 7.4: Energy prices

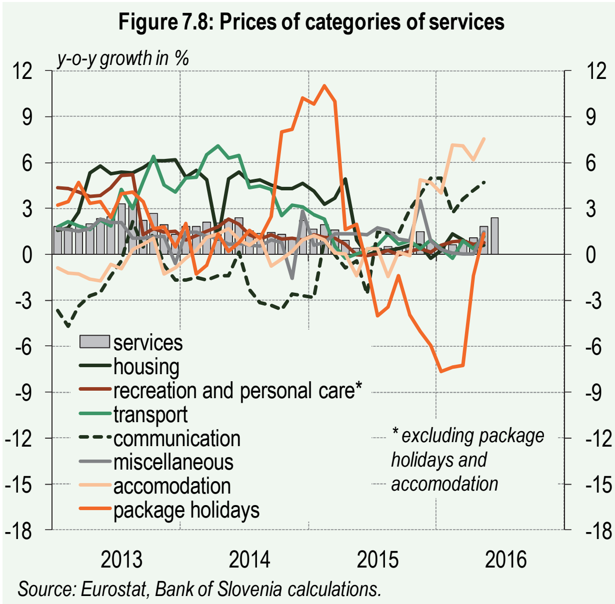


Source: Eurostat, Bank of Slovenia calculations.







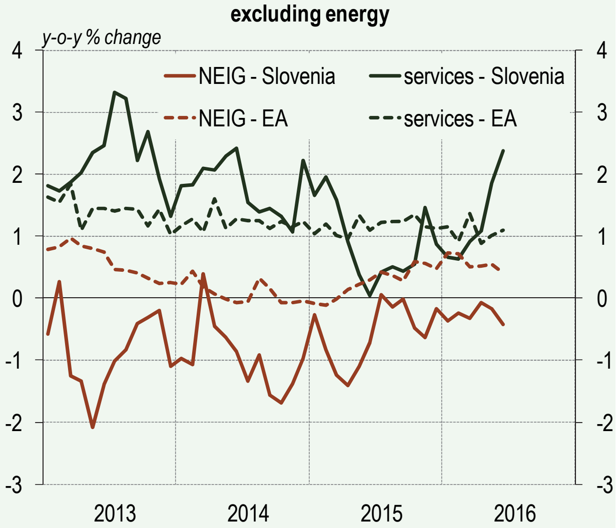


liberalisation on the budget, and to decide on the potential full liberalisation of fuel prices in the central motorway network. In January of this year, simultaneously with the public being informed of the planned government measures, there was a sharp jump in the surveyed inflation expectations indicator, which rose even further over the next months.

Average year-on-year growth in food prices slowed slightly in the second quarter, although the rate increased sharply in June. Year-on-year growth in prices of unprocessed food slowed to well below zero in April and May, before leaping to 0.8% in June, primarily as a result of a significant rise in prices of meat. Growth in prices of processed food increased in May, and reached 0.7% in June, which was largely attributable to prices of bread and pasta. Overall growth in food prices, which stood at 0.2% in the first quarter, increased to 0.7% in June, but remained below the euro area average.

The favourable economic situation seems to be gradually starting to affect service prices whose growth surpassed the euro area's growth in the second quarter. In the second quarter the annual growth in service prices was up 1 percentage point compared to the first and stood at 1.8% on average. In June the growth rate in service prices reached 2.4%. Several factors contributed to such an increase. In expectation of a

Figure 7.9: Prices of services and industrial goods excluding energy



Source: Eurostat, SORS, Bank of Slovenia calculations.

good upcoming holiday season, the annual growth of accommodation services increased further after a new major price rise in February. Prices of passenger air transport and package holidays have risen some more in recent months, which can be perhaps attributed to this year's rise in oil prices. May's considerable increase in administrative fees for certain services and June's rise in healthcare prices accounted for approximately 0.4 percentage points growth in service prices. Service prices across the euro area in the second quarter were up 1.0% in year-on-year terms, which is 0.8 percentage points less than in Slovenia.

Growth in prices of non-energy industrial goods has not yet begun to increase. Prices in this category were down 0.2% in year-on-year terms in the second quarter, 0.1 percentage points less than in the first quarter. The increase in prices of clothing and footwear, which have been steadily growing since February, has positively contributed to the developments in prices of the non-energy industrial goods. By contrast, the annual growth in car prices has remained negative for the last three months, at around -3.0%, declining slightly further relative to the previous quarter. Year-on-year growth in prices of non-energy industrial goods across the euro area has been positive for some time, and averaged 0.5% in the second quarter.

Table 7.1: Breakdown of the HICP and price indicators

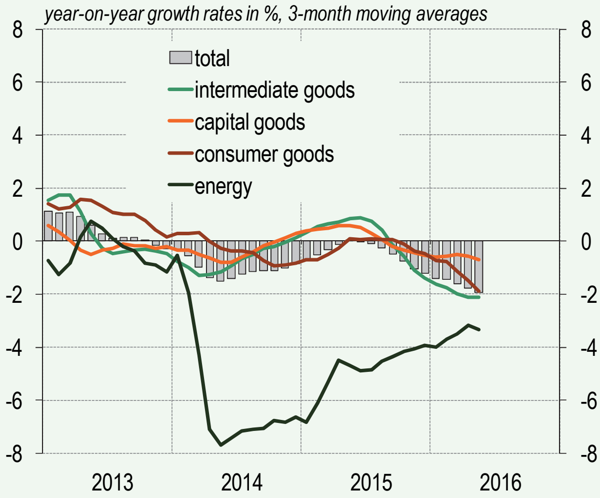
	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2016	2012	2013	2014	2015	1H16	15Q1	15Q2	15Q3	15Q4	16Q1	16Q2
HICP	*100.0%*	2.8	1.9	0.4	-0.8	-0.6	-0.5	-0.8	-0.8	-0.9	-0.9	-0.4
Breakdown of HICP:												
Energy	*13.0%*	9.0	1.8	-1.4	-7.8	-7.5	-7.5	-6.4	-7.9	-9.1	-7.9	-7.2
Food	*22.7%*	4.7	4.9	0.8	1.0	0.1	0.7	1.1	1.2	0.8	0.2	0.1
processed	*15.7%*	4.7	3.6	1.8	0.8	0.3	1.4	0.7	0.4	0.5	0.2	0.4
unprocessed	*7.1%*	4.5	7.6	-1.5	1.4	-0.3	-0.6	2.0	2.8	1.6	0.3	-0.8
Other goods	*27.7%*	-0.2	-0.9	-1.0	-0.6	-0.3	-0.8	-1.1	0.0	-0.4	-0.3	-0.2
Services	*36.5%*	1.5	2.2	1.8	0.9	1.2	1.7	0.4	0.5	1.0	0.7	1.8
Core inflation indicators:												
HICP excl. Energy	*87.0%*	1.8	2.0	0.7	0.4	0.5	0.7	0.1	0.5	0.5	0.2	0.7
HICP excl. energy and unprocessed food	*79.9%*	1.5	1.4	0.9	0.4	0.5	0.8	0.0	0.3	0.4	0.2	0.8
HICP excl. energy, food, alcohol and tobacco	*64.3%*	0.7	0.9	0.6	0.3	0.6	0.7	-0.2	0.3	0.4	0.3	0.9
Other price indicators:												
Industrial producer prices on domestic market		1.0	0.3	-1.1	-0.5	-1.8	-0.3	0.0	-0.5	-1.2	-1.6	-2.0
GDP deflator		0.3	0.8	0.8	0.4	...	0.5	0.2	0.1	1.0	1.1	...
Import prices[1]		2.1	-1.5	-1.1	-1.3	...	-1.4	-0.1	-1.5	-2.2	-3.2	...

Note: [1] National accounts figure.
Source: SORS, Eurostat, Bank of Slovenia calculations.

Industrial producer prices

Year-on-year growth in industrial producer prices on the domestic market continues to display a declining trend. The fall in prices in the first quarter has deepened relative to the last year's final quarter, reaching 1.9% in May. With the exception of energy prices, whose annual fall slightly slowed down in the second quarter concurrently with the slower annual fall in oil prices, all price categories contributed to the negative trend of industrial producer prices. The largest negative contribution came from the developments in the prices of consumer durables, where there was a reversal in the temporary positive trend seen earlier this year reaching annual fall of 2.0% in May. By contrast, prices of consumer non-durables and prices of capital goods were down slightly less in year-on-year terms.

Figure 7.10: Producer prices on domestic market



Source: SORS, Bank of Slovenia calculations.

8 Special Topics

8.1 Some Issues in the Area of Monetary and Fiscal Policy Making

The conduct of monetary and fiscal policy has changed significantly in the last decade. With the outbreak of the economic and financial crisis in 2008, also euro area countries were faced with the problems in the financial sector, a decline in demand and the sustainability of the government debt. This led to measures and adjustments being undertaken by both fiscal and monetary policy. In the area of monetary policy, in addition to the gradual reduction in interest rates, even to negative levels, numerous non-conventional measures have been adopted, and are still being expanded. Fiscal policy faced a widening general government deficit, and issues of the sustainability of the increased general government debt. There were also many changes in the institutional field. After the stabilisation of the situation, which is characterised by low growth in activity, and low or even negative inflation, the need for the revival of the euro area economy has come increasingly to the fore.

Taking fiscal policy measures to support monetary policy in the stabilisation of the economy requires available fiscal space. Whether a country has such space at its disposal also depends on the success of the conduct of fiscal policy during the good times, when fiscal space can be created or expanded. Often fiscal policy fails to take this opportunity. Given the need for more responsible fiscal policy, greater focus was given, during and after the crisis, to the functioning of fiscal rules and fiscal councils. In monetary policy the toolkit of non-standard measures, which are designed to approach to the inflation target (via the revival of demand and thereby the revival of the economy), was very wide and intensive after the crisis. It should also be noted that their impact on economic growth is not immediate.

Monetary and fiscal policy during the crisis

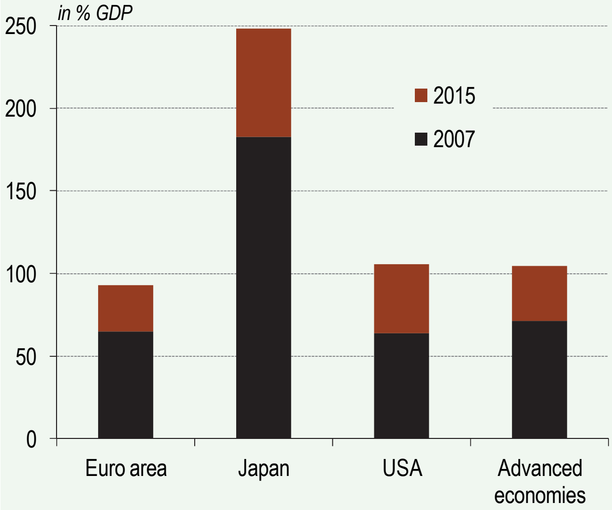
Macroeconomic policy commonly targets sustainable economic growth, full employment and price stability. For the purposes of maintaining stability, these primary targets are often accompanied by secondary targets such as a favourable external position and fiscal sustainability. Fiscal and monetary policy thus primarily focus on different targets: in the euro area monetary policy primarily targets inflation, while fiscal policy targets the general government deficit and debt within the framework of the rules of the Stability and Growth Pact. To meet these targets they use a wide toolkit of measures ranging from changes to the tax system and general government expenditure, to changes in interest rates and the money supply. During the crisis period the toolkit of instruments expanded significantly. The euro area has a single monetary policy, while fiscal policy lies in the hands of the individual countries, although it is the subject of coordination within the Stability and Growth Pact.

The recent economic and financial crisis hit the majority of the global economy. Japan faced a similar situation earlier in the nineties, when the problems of insufficient demand, high public debt and low or even negative inflation all appeared. In 2008 the crisis stroke the US first, and was subsequently also spread to the euro area, which is the focus of this article. In the euro area the negative effect of the crisis varied greatly from country to country.

The monetary policy response to the crisis was extensive. The euro area, whose key target is an inflation rate of close to but less than 2% in the medium term, responded to the crisis, which primarily derived from the financial system, and to the excessive fall in inflation by lowering the key interest rate, and by introducing non-standard measures[14] and regulatory changes in the area of banking and macroprudential supervision.

In the area of public finances, there has been a notable increase in the general government deficit and debt. This was followed by consolidation measures, due to certain countries having faced difficulties with financing on the financial markets and a failure to meet the fiscal rules set out by the Stability and Growth Pact.

Figure 8.1.1: General government debt



Source: IMF WEO database, April 2016.

Given the need to restore economic growth, momentum developed for increased cooperation of fiscal and monetary policy, which in the pre-crisis period had mainly been independent of each other. Several issues and dilemmas are raised regarding the increased interaction between the two policies. In respect of monetary policy, these are primarily related to the effectiveness of the measures to meet the inflation target in a situation of low (even negative) interest rates, and, in connection with the fiscal policy, to the maintenance of the independence of the central bank. In respect of fiscal policy, the key issue relates to realising the objective of stabilising the economy while simultaneously ensuring the sustain-

[14] The non-standard measures used by the ECB to realise the primary objective of price stability and to promote the functioning of the monetary policy transmission mechanism encompass a wide range of the so-called quantitative easing measures, and also the public actions of the ECB by which it has often exerted an influence on the financial markets. A particularly high-profile example was the speech by Mr Draghi, the president of the ECB, in July 2012, when he said that the ECB was ready to do whatever it takes to defend the euro. In July 2013 the ECB communicated that its key interest rate would remain at a low level for an extended period of time, in an approach known as forward guidance. The ECB's main quantitative easing measures include:

(1) Enhanced Credit Support in mid-2009, where the banks' access to liquidity at the ECB was increased further via longer-term refinancing operations.

(2) The Securities Market Programme, where the injection of central bank money was sterilised, which had an impact on government bond yields. It was first introduced in May 2010 and again in July 2011, and was then abolished by the introduction of the Outright Monetary Transactions.

(3) Outright Monetary Transactions (OMTs) were announced in September 2012, but were never used.

(4) Two 3-year Longer-Term Refinancing Operations in December 2011 and February 2012.

(5) Targeted Longer-Term Refinancing Operations (TLTROs), first carried out in September 2014, and then quarterly until June 2016.

(6) A second series of four TLTROs, first in June 2016 and then quarterly until March 2017.

(7) The Asset Purchase Programme (APP), which encompasses several measures:

a) Public Sector Purchase Programme (PSPP), announced in January and initiated in March 2015. The purchased bonds are also available for lending.

b) Covered Bond Purchase Programme (CBPP), introduced first in July 2009, then in November 2011 and September 2014.

c) Asset-Backed Securities Purchase Programme (ABSPP), introduced in September 2014.

d) Corporate Sector Purchase Programme (CSPP), initiated in mid-2016.

ability of public finances and respecting the rules of the Stability and Growth Pact.

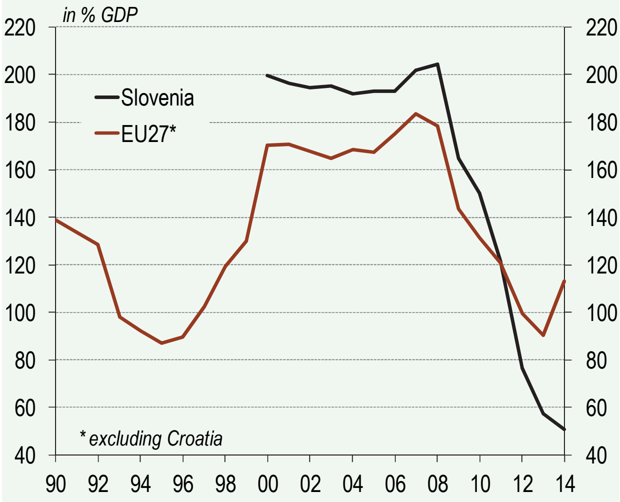
Fiscal space

Currently one of the most important questions in the economic policy debates is the availability of fiscal space. It is a matter of whether fiscal policy can contribute to the realisation of economic policy objectives, or whether it can take action in the case of unanticipated events (e.g. revived economic recession) without threatening the sustainability of government debt. In the most recent crisis government debt increased sharply in advanced economies as a result of the extraordinary costs associated with the restructuring of the financial sector together with the simultaneous significant deterioration in primary balances (Ostry et al., 2015).

There are several approaches to calculating fiscal space; this paper focuses on two. Under the first approach, the estimate is based on the calculation of the debt limit, while under the second, fiscal space is estimated by taking account of fiscal rules.[15]

Under the first approach, fiscal space is calculated as the difference between the debt limit and the current level of government debt. Here the debt limit is defined as the critical point above which the historical fiscal response of the country to rising debt is not sufficient to maintain debt sustainability (Ostry et al., 2010, Ghosh et al., 2013). The approach is thus based on an assessment of the historical response of the country or countries to rising debt. It is seen that as the debt approaches the debt limit, interest rates on government bonds rise. Countries' responses in the present can of course differ from those in the past (and change with the level of debt). The optimal level of debt is lower than the debt limit, partly on account of the precautionary principle, the unreliability of estimates of the debt limit and the rollover risks. Estimates in Ostry et al. (2010) were given for 23 advanced economies. The median debt limit under various assumptions lies between 171% and 192% of GDP. A similar approach is followed by Moody's (2014), the ECB and the OECD. Moody's (Zandi et el., 2011) states that in light of historical experience it is desirable for countries to have at least 125 GDP percentage points of fiscal space. The estimates are sensitive to the economic fundamentals, and even a small change can entail a large change in the estimate of available fiscal space.

Figure 8.1.2: Fiscal space in EU 27 and Slovenia



Source: Nerlich, Reuter, 2015 (data provided by the authors).

The research shows that fiscal space varies between countries and over time. The ECB estimates (Nerlich & Reuter, 2015), which were drawn up on a sample of 27 EU countries, reveal that "the steep decline in interest rates in the run-up to EMU is likely to have contributed to the improvement in fiscal space in the countries joining the euro area. With the financial and sovereign debt crisis unfolding, the fiscal space diminished in many countries, in some of them sharply, from 2007 onwards." It can therefore be concluded that what looks a safe level of debt at a certain point is actually not. Estimates of fiscal space for Slovenia and the EU are illustrated in Figure 8.1.2.

The second approach to the estimation of fiscal space is based on fiscal rules employed in the EU. It proceeds from the concept of the medium-term fiscal objective. In light of the Stability and Growth Pact, a country only has fiscal space if it is ahead of this objective (European Commission, 2015), otherwise it has to converge towards such goal at a certain pace, which is defined with regard to the level of debt and the output gap. Regarding this criterion alone, only very few euro

[15] For an overview of other methods of estimating fiscal space, see Nerlich and Reuter (2015).

area countries currently have fiscal space. According to the European Commission's spring forecasts, it is most notably Germany and Luxembourg that have fiscal space.

The fiscal space of the euro area countries therefore mainly shrank during the crisis, and many countries have no space or very limited space. Of the larger euro area countries, only Germany is thought to have available fiscal space. It should be noted that fiscal space is currently larger due to the low interest rate environment in a situation of expansionary monetary policy.

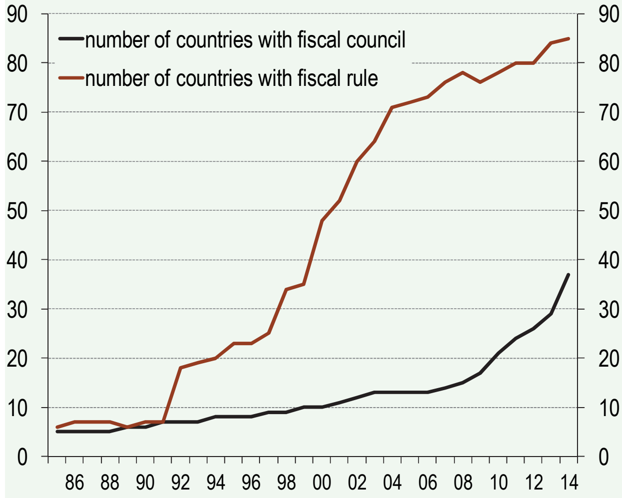
Fiscal rules

The fiscal and economic crisis in the euro area strengthened the role of fiscal rules and fiscal councils. In the conduct of fiscal policy, regarding the economic perspective, decisions are taken with regard to two objectives: the stabilisation of economic growth, and the long-term sustainability of public finances. In addition to this economic dilemma, fiscal policy decisions are subject to other influences such as concern for electoral performance, lobbying pressures, and compromises within governing coalitions. To limit such pressures, the role of fiscal rules and fiscal councils was strengthened during the crisis (see Figure 8.1.3). Studies show that fiscal discipline thereby improved.[16]

Fiscal rules restrict fiscal policy by setting numerical targets for certain fiscal aggregates. Rules regarding the implementation of budget processes are usually established at the same time. The rules are basically designed to prevent excessive government spending, and to increase responsibility for decision-making and the sustainability of the country's fiscal position. In a monetary union fiscal rules also provide a framework for better coordination of fiscal and monetary policy. The use of fiscal rules nevertheless has certain weaknesses. These are primarily related to restrictions of the space to conduct an expansionary fiscal policy at a time of recession, to the potential setting of incorrect priorities to follow the rules, and to the use of creative accounting to allow the country to avoid the rules. Numerical rules can be divided into four categories: balanced budget rules, debt rules, expenditure rules and government revenue rules. A balanced budget rule is the most common, often in combination with other rules (Schaechter et al., 2012; Kumar et al., 2009).

EU fiscal rules are both numerical and procedural, and are relatively complicated.[17] They are included in the Stability and Growth Pact,[18] and in essence require a general government deficit of less than 3% of GDP and general government debt of less than 60% of GDP or, if higher, a commitment to reducing them towards these limits at sufficient pace. When countries fail to meet the rules, they are placed under the corrective arm. If the rules are being met, but a country is nevertheless failing to realise the medium-term public finance objective,[19] the country is placed under the preventive arm. Slovenia met

Figure 8.1.3: Number of countries with fiscal rule and fiscal council since 1985



Source: IMF.

[16] See for example Debrun and Kinda (2014), Debrun et al. (2008), European Commission (2006), Nerlich and Reuter (2013), Kumar et al. (2009), and Beetsma and Debrun (2016).

[17] The fiscal rules are explained in more detail in Vade Mecum on the Stability and Growth Pact: http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip021_en.pdf.

[18] Signatories to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, including Slovenia, were required to insert the fiscal rule (a numerical rule from the category of balanced budget rules) in their own internal legal systems, on a constitutional basis where possible.

[19] The medium-term fiscal objective is set for each country separately with regard to its specific characteristics, and can be altered, as it is reviewed every three years. The medium-term objective belongs to the category of balanced budget rules, and is defined in the form of a specific target value for the general government's structural position (see Vade Mecum on the Stability and Growth Pact).

the requirements from the corrective arm in 2015, and this year has been moved to the preventive arm, in which under the European Commission recommendations it will need to reduce its structural deficit by 0.6% of GDP in 2016, and by the same amount again in 2017.[20] The EU rules were mainly tightened during the economic and financial crisis because of concerns over the sustainability of public finances, but recently, when the need has arisen for a greater focus on the stabilisation of the economy, they have become slightly more flexible.[21]

An awareness that fiscal rules are not always enough for greater responsibility in the conduct of fiscal policy has now seen the establishment of fiscal councils. Fiscal councils are independent institutions that primarily play the role of an independent monitor of fiscal policy, policy plans and the implementation of measures with regard to macroeconomic objectives. These are related to the long-term sustainability of public finances, and to short-term and medium-term stability. They also review the compliance of fiscal policy with other official objectives, for example verifying whether fiscal rules are being met. Often they also review the macroeconomic forecasts on which budgets are based, inform and educate the public on fiscal policy, draw up research in the area of public finance, and similar. However, it is important at the same time that they do not dictate fiscal policy measures, which on democratic principles must remain in the hands of the chosen representatives of the people (Debrun & Kinda, 2014; Kumar et al., 2009; Beetsma & Debrun, 2016). In the EU the number of countries that have fiscal councils has risen in particular since the requirements of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union entered into force, although Slovenia is still waiting for its fiscal council. The middle of this year will see the beginning of the work of the European Fiscal Board, which was created at the proposal of the Five Presidents' Report.[22] It will primarily have an advisory role, and its work will include coordinating the network of national fiscal councils.

Functioning of monetary policy

Even during the crisis euro area monetary policy measures focused on meeting the price stability objective, i.e. an annual inflation rate of less than but close to 2%. The standard measures for meeting the objective during this period were primarily related to reductions in the key interest rate, while on the other side the ECB also introduced a series of non-standard measures, such as quantitative easing and forward guidance. The latter is aimed to reduce the uncertainty surrounding future restrictive or expansionary policies. In July 2013 the ECB communicated that it would hold interest rates at the current level or even lower for a longer period (ECB, 2013).

Quantitative easing can affect economic growth via various channels and effects. In general this measure expands the central bank's balance sheet, usually via purchases of financial assets or via lending to the financial system. Broadly, authors have identified the following effects (Joyce et al., 2011; Krishnamurthy et al., 2014):

- A forward guidance effect, which acts by communicating monetary policy decisions, for example that an expansionary policy will be in place over a longer period, thereby aiming to influence expectations.

- A wealth effect, which acts via purchases of securities by the central bank. This raises prices of securities and reduces yields. This further increases the value of the assets of holders of such investments, which can have a positive impact on their spending.

- A portfolio effect, where a fall in yields on assets purchased by the central bank reduces the yields and raises the prices of other assets as investors move from the former to the latter.

- A liquidity effect, which is caused by the increase in the liquidity of the securities purchased by the central bank. The quantity of money in the financial system also increases.

[20] See: http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_slovenia_en.pdf.
[21] The rule tightening occurred for example with the introduction of legislation from the Six-Pack of 2011 and the Two-Pack of 2013, while increased flexibility was brought by allowances during the introduction of structural reforms, regarding investment, and in the consideration of the economic cycle when meeting fiscal rules. The latter was explained in detail in the European Commission communication issued in January 2015: http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm.
[22] Five Presidents' Report, 2015 (namely the President of the European Commission, the President of the Euro Summit, the President of the Eurogroup, the President of the ECB and the President of the European Parliament). The report was issued on 22 June 2015.

- An effect on confidence, which acts via expectations. The announcement of quantitative easing or the quantitative easing itself can for example have a positive impact on the confidence of households and firms, and thus on their spending.

- An effect on bank lending, whereby central bank purchases of financial instruments increase the deposits by the non-banking sector at banks (those selling the financial assets). This increases the banks' credit potential.

- A downward effect on the risk premium, as required yields on long-term government instruments fall. This increases the country's fiscal space, which can be further used for more expansionary (or less restrictive) fiscal policy.

- An effect on the exchange rate, which acts via the increase in the quantity of money. This causes the currency to depreciate, thereby improving price competitiveness and exports.

Outside the euro area the effects of quantitative easing vary from country to country. The research reveals that the impact of quantitative easing in the US and in the UK was primarily evident in a fall in the required yields on government bonds and private-sector bonds (Gagnon et al., 2011; Altavilla & Giannone, 2014; Williams, 2014; Breedon et al., 2012). In Japan this effect was less pronounced (Gagnon et al., 2011). Certain research finds this effect to have been relatively short-lived, particularly in the US and Japan (Wright, 2012; Schenkelberg & Watzka, 2013). The effect on bank lending varied. In the case of Japan there was weak lending growth (Bowman et al., 2011), while research in the UK does not show any effect from quantitative easing via the traditional channel of bank lending (Butt et al., 2014). The effect on the exchange rate also varies across the research. Fratzscher et al. (2013) find that in the US there was first an increase in investment in US dollar-denominated securities from foreign countries (appreciation of the US dollar), and later there was a switch from US dollars into other currencies due to increased investment in higher-yielding non-dollar securities (depreciation of the US dollar). Meanwhile Neely (2015) concludes that quantitative easing caused depreciation in the US dollar, and a global decline in long-term interest rates. With regard to the general effect on the economy, the research for the US, the UK and Japan find a weak positive effect on economic growth and increased inflation that failed to compensate for the adverse impact of the most recent economic and financial crisis (Chen et al., 2012; Kapetanios et al., 2012; Bridges & Thomas, 2012; Berkmen, 2012; Schenkelberg & Watzka, 2013).

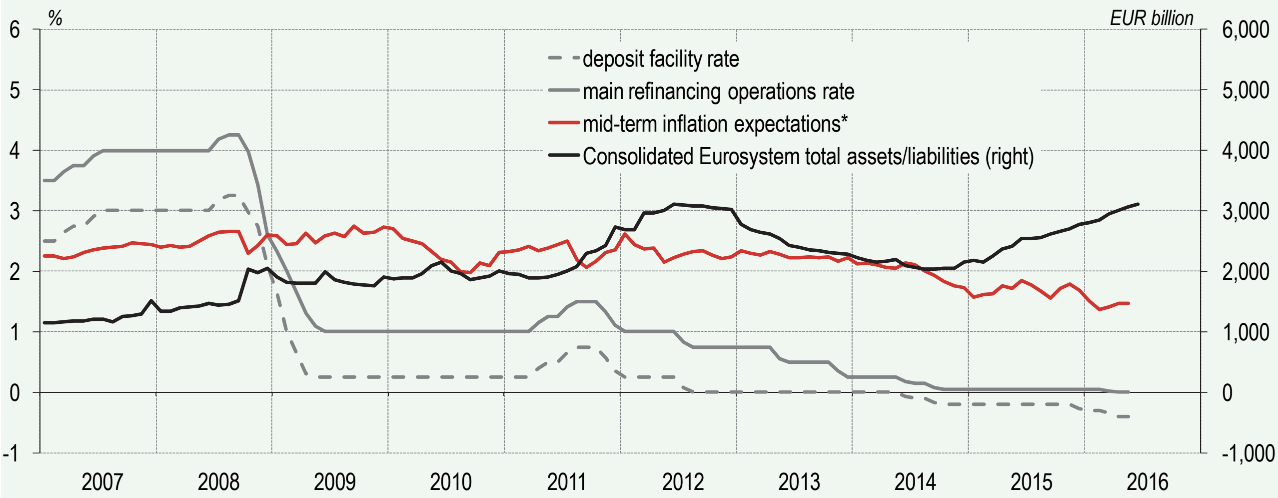
Quantitative easing in the euro area has taken place in different circumstances to those in the US, the UK or Japan. The differences primarily lie in the different structure of the financing of the private sector (greater reliance on bank lending), legal restrictions (central banks in the Eurosystem are not allowed to purchase government bonds on the primary market), problems with financing the debt of certain periphery countries after 2010, the differing economic positions of euro area countries, the absence of banking and fiscal union during the crisis, the granularity of financial markets within the euro area, and the conduct of quantitative easing in a low interest rate environment (Blot et al., 2015). In addition to raising inflation, the purpose of quantitative easing is to improve the functioning of the transmission mechanism and to encourage bank lending, whereby both serve to meet the inflation target. The term used is credit easing.

Within the euro area the effects on the economy manifest themselves with major lags, although the effect of yield reduction is notably faster. Research to date on the effectiveness of ECB measures points to a decline in required yields (Pattipeilohy et al., 2013) and a small positive effect on credit activity (Acharya et al., 2015), while by contrast only relatively small effects on economic growth and inflation are evident (Giannone et al., 2012, Gambacorta et al., 2014). Similarly, the IMF finds that the latest ECB measures, most notably the move to larger purchases of private-sector securities, brought positive effects on the financing conditions (e.g. a decline in premiums on government bonds, looser lending terms from banks), while at the same time they caused the euro to depreciate and led to a short-term rise in inflation expectations. Inflation expectations later declined owing to the fall in oil prices and the slowdown in growth in certain emerging economies, most notably China. According to the IMF's expectations, the impact of the adopted measures on economic growth via increased lending should only be seen with a longer time lag, and is thought to depend on a strengthening of the position of banks (e.g. a reduction in non-performing loans), new regulatory restrictions on the banking system, corporate restructuring and other factors (IMF, 2015).

Similarly to other researchers, the ECB also finds that a contribution from other policies is vital to meeting the inflation target and to strengthening the impact of the expansionary monetary policy on the economy. At the same time it emphasises that the nature of the shock reducing the inflation rate is also important. Currently, the main action is from the shock of falling oil prices, which is a supply-side shock. Monetary policy measures are acting on demand and inflation in the current situation, albeit with a longer time lag, owing to: (1) the weaker functioning of the transmission mechanism; (2) restrictive fiscal policy measures and their often unhelpful structure from the perspective of economic growth; (3) the relatively late and slow implementation of structural reforms; (4) an unstable institutional environment, which is deterring firms from investing and is increasing precautionary saving (Draghi, 2016).

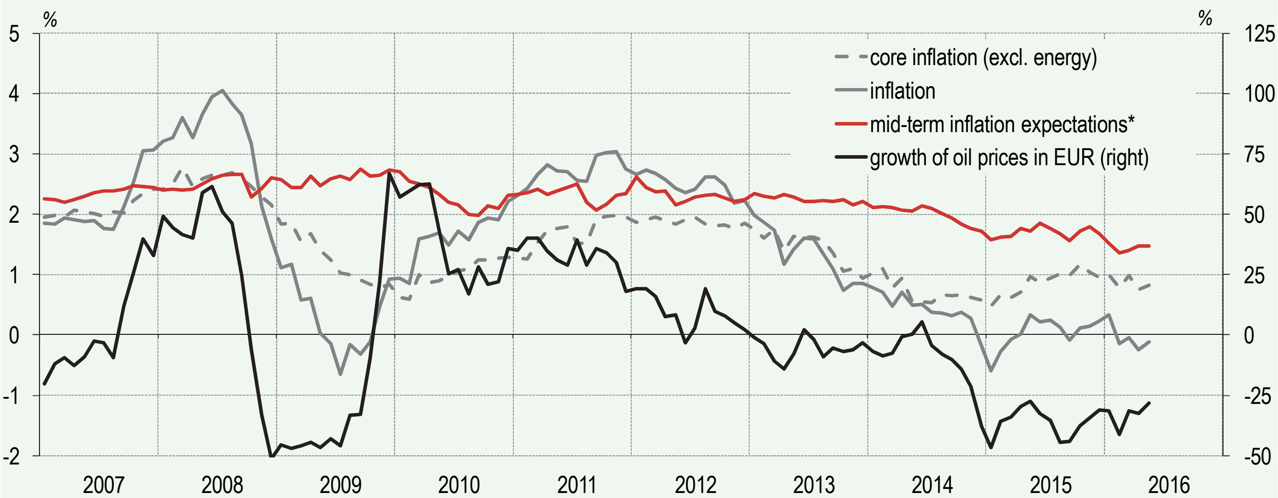
Recently, in addition to the introduction of non-standard measures, monetary policy has increasingly focused on ensuring general financial stability. The importance of financial stability was confirmed in theoretical research by numerous authors (e.g. Gertler & Karadi,

Figure 8.1.4: Monetary policy measures in euro area



*Note: * Based on the difference between 10 and 5-year inflation swap rate.*
Sources: ECB, Bloomberg.

Figure 8.1.5: Inflation, core inflation, oil prices and inflation expectations in euro area



*Note: * Based on the difference between 10 and 5-year inflation swap rate.*
Sources: Eurostat, Bloomberg.

2013; Leeper & Nason, 2015), with findings that various financial frictions are significantly reshaping the monetary policy transmission mechanism and are at the same time significantly impacting risk sharing within the economy. On the basis of theoretical findings there are attempts to define basic financial indicators that reflect the state of financial stability. They are divided into major categories, such as various credit aggregates, interest rates and interest rate spreads, prices of major assets and goods, information on financial intermediaries, the financial position of households, and the level of risk take-up (Vredin, 2015).

Further directions of economic policy making

Further focus of both, fiscal and monetary policy, on the strengthening of aggregate demand will be the key in the future. The right measures can renew encouragement for economic growth, meet the inflation target and reduce unemployment.

The further deepening of the integration of the euro area's single market in the spirit of the conclusions of the Five Presidents' Report of June 2015[23] is of fundamental importance. The report proposes measures in four areas: (1) Completing economic union, which entails a boost to competitiveness and structural convergence, the strengthening and better coordination of the implementation of procedures in connection with macroeconomic imbalances, greater focus on employment and social performance, and stronger coordination of economic policies within a renewed European Semester. (2) Completing the financial union, which includes completing the banking union, and speeding up the creation of the capital markets union. (3) Establishing the fiscal union, which will be responsible for fiscal sustainability and fiscal consolidation. In this connection the establishment of a European Fiscal Board is also envisaged. (4) Closer political union, which on the basis of democratic accountability, legitimacy and institutional strengthening would provide the foundations for the three aforementioned areas. Deepening political integration would primarily be implemented via increased dialogue between the European Parliament and other EU institutions (e.g. the European Commission, the Eurogroup), increased cooperation between European and national parliaments, consolidation of the external representation of the euro area, the integration of intergovernmental solutions in the EU legal framework, and the gradual introduction of a euro area treasury. The deepening is to proceed in two phases, both of which are scheduled for completion by 2025. A better-integrated euro area would also become more attractive for other EU Member States joining the single currency. The proposed measures would increase confidence in the viability and stability of the union, although it would pave the way for some degree of higher cross-country risk sharing, which would at the same time have to be accompanied by stronger democratic participation and accountability both at national and European levels.

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8.2 Performance of Firms and Sole Proprietors Since Emergence from the Crisis

Slovenian firms recorded high profits in 2014 and 2015. Ignoring two bigger electric power industry firms that recorded heavy losses in 2015 as a result of poor business decisions made in the past, corporate profits in 2015 actually exceeded profits in 2008. Employment increased, as firms created 12,600 new jobs over the course of the year, and labour productivity also increased. Further evidence that firms recorded a sharp improvement in performance in the year after emerging from the crisis comes from the increase of 10% in value-added relative to 2013. The situation is also improving strongly from the point of view of indebtedness. Firms have reduced their debt by a quarter relative to 2008, although the debt remains heavily concentrated. The 25 largest debtors accounted for a fifth of total corporate debt in 2015 (EUR 8.7 billion), while the 100 largest accounted for almost a third (EUR 14 billion). Corporate leverage improved by 11 percentage points in 2015.

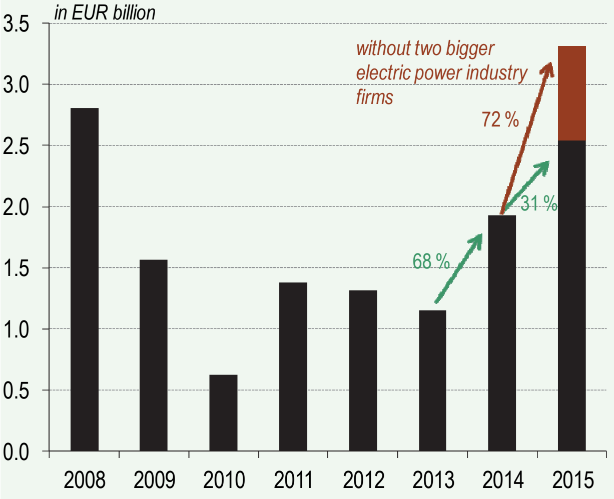
Corporate performance, 2008 to 2015

Corporate performance has a profound impact on the economy of every country, either from the perspective of the provision of jobs, or from the perspective of wealth creation. Slovenian firms were in an overheating economy in 2007. Economic growth stood at almost 7%, and firms had borrowed excessively. Growth in Slovenian firms' debt increased from an average of 11% between 2002 and 2006 to 26% in 2007. The global financial crisis followed in 2008 and 2009, and its effect also echoed in Slovenia. In autumn 2008 the Slovenian banks were hit by the shock of a breakdown in the functioning of international financial markets, which prevented the continuation and rollover of borrowing in the rest of the world. The banks consequently reduced the credit supply, and tightened credit standards, which firms tried to bridge by reducing and modifying the structure of current financing. However, this solution was merely short-term. In 2009 the financial crisis was followed by a widespread economic crisis in Slovenia. The decline in economic activity was almost 8%, and the banks continued to reduce lending.

All of this was reflected in total corporate profits, which almost halved in 2009, and the duration and depth of the economic crisis had an even bigger impact on profits in 2010, when they merely amounted to just over a fifth of those in 2008. There followed a modest economic recovery in 2011 and 2012, with moderately positive GDP growth, although corporate profits failed to return to the level seen before 2009, as bank lending and business-to-business financing continued to contract, in conjunction with the poor response to the change in circumstances. In this situation the errors related to bad business decisions during the time of boom were soon revealed and had an impact on corporate payment discipline, which was reflected in bank balance sheets more than in business-to-business operations. A new financial crisis followed in 2012 and 2013, which brought the banks their heaviest losses since the outbreak of the crisis. The process of the restructuring and recovery of the domestic banking system thus began in late 2013, and had a positive impact on the domestic economy, and on the confidence of foreign investors.

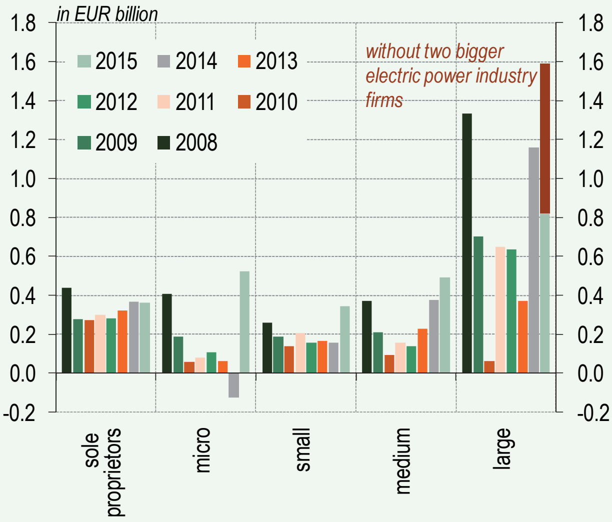
A new recovery followed in 2014 and 2015, which had a profound impact on corporate performance. Total

Figure 8.2.1: Total profit of corporates



Source: AJPES, Bank of Slovenia calculations.

Figure 8.2.2: Total profit of corporates by size



Source: AJPES, Bank of Slovenia calculations.

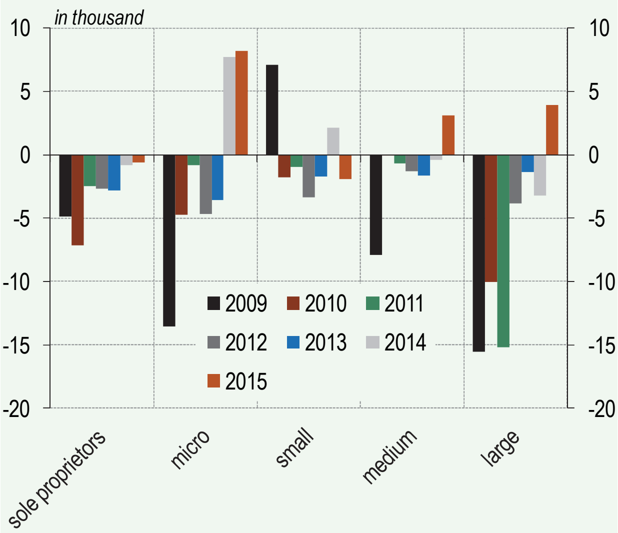
profits of firms increased sharply in these two years: by 68% to EUR 1.9 billion in 2014, and by 31% to EUR 2.5 billion in 2015. Ignoring losses at two bigger electric power industry firms, that amounted to EUR 0.8 billion in 2015 as an one-off result of bad business decisions in the past, total profits of firms in Slovenia amounted to EUR 3.3 billion, up 72%. Bearing this in mind, corporate profits in 2015 exceeded those of 2008.

Corporate performance since emergence from the crisis

Certain attributes of the two extremes of corporate size distribution came to full expression in 2015: large enterprises, which have driven the domestic economy for some time now, and micro enterprises, which recorded the largest improvement in performance. SMEs also recorded a strong improvement in results in 2015, but their dynamics of performance remain relatively stable. Notwithstanding this division into two extremes, and certain flagship sectors, the importance of sole proprietors should not be ignored. There are as many of the latter as there are firms in total.

Although there are fewer large enterprises, they account for just over a third of total employment, and generate almost half of gross value-added in the corporate sector. They also generate the largest net sales revenue, half of the total, and record the highest costs, both labour costs and costs of goods, material and services. They are also among the most indebted: their debt accounts for almost half of total corporate debt, or EUR 21 billion, although they have recorded the largest reduction in debt (their debt was down EUR 8.8 billion or 30% between 2008 and 2015). Despite the high level of debt, large enterprises also have more equity compared with firms in other size categories; their leverage as measured by the debt-to-equity ratio is lowest (with the exception of sole proprietors) at 89%. Large enterprises' profits account for almost a third of total profits of firms, having increased sharply in 2014 and 2015. Excluding the two large electric power industry firms that recorded enormous losses in 2015, large enterprises recorded

Figure 8.2.3: Annual change of employment in corporates by size



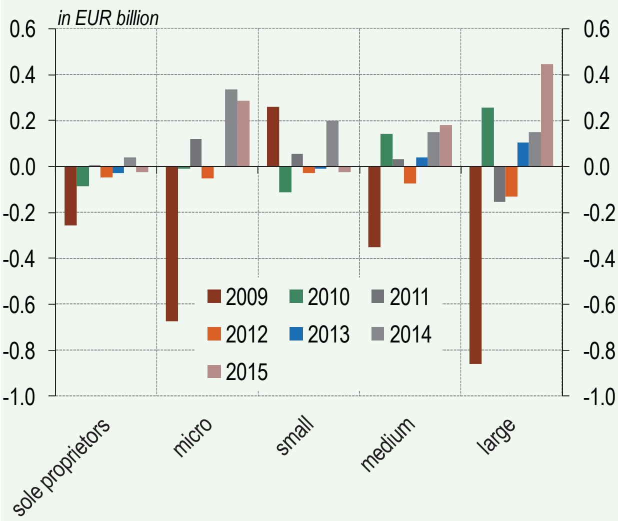
Source: AJPES, Bank of Slovenia calculations.

Table 8.2.1: Main corporate performance indicators

	as % of firms in 2015					amounts (in EUR millions)			growth in %
	sole proprietors	micro	small	medium	large	firms	sole proprietors	total corporates	2014/2015
number of firms	49 %	48 %	2 %	1 %	0 %	64,490	62,089	126,579	-3 %
number of employees	9 %	29 %	13 %	15 %	34 %	440,320	41,005	481,325	3 %
value added	7 %	21 %	13 %	14 %	45 %	18,036	1,279	19,316	5 %
labor productivity*	31,203	29,647	39,005	38,852	52,123	40,961	31,203	40,130	2 %
net revenues from sales	6 %	18 %	12 %	14 %	50 %	78,151	4,633	82,784	3 %
cost of goods, materials and services	5 %	18 %	12 %	14 %	52 %	60,709	2,880	63,588	3 %
labor costs	6 %	24 %	14 %	16 %	40 %	10,824	667	11,491	4 %
debt	3 %	28 %	11 %	10 %	48 %	41,781	1,384	43,165	-6 %
financial leverage	74 %	195 %	117 %	100 %	89 %	74%	111%	105%	-11 p.p.
net operating profit (EBIT)	11 %	17 %	12 %	16 %	44 %	2,938	364	3,302	4 %
total profit	14 %	21 %	14 %	19 %	32 %	2,179	361	2,540	31 %

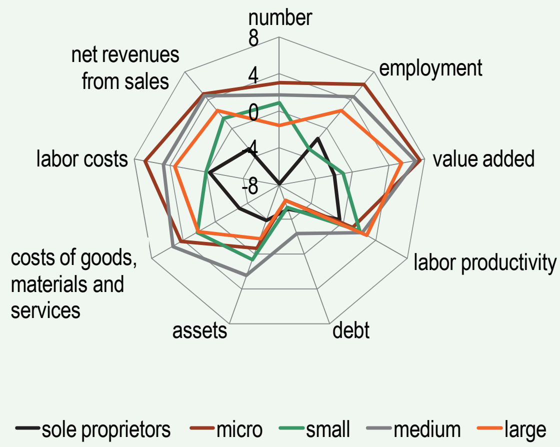
*Note: * Labour productivity is calculated as value added per employee, amounts in EUR.*
Source: AJPES, Bank of Slovenia calculations.

Figure 8.2.4: Annual change of corporates' value added by size



Source: AJPES, Bank of Slovenia calculations.

Figure 8.2.5: Growth rate of selected indicators in year 2015



Source: AJPES, Bank of Slovenia calculations.

profits of EUR 1.6 billion in 2015, having already recorded very high profits of EUR 1.1 billion in 2014. After several years of falling employment, large enterprises recorded an increase in employment in 2015, creating almost 4,000 new jobs.

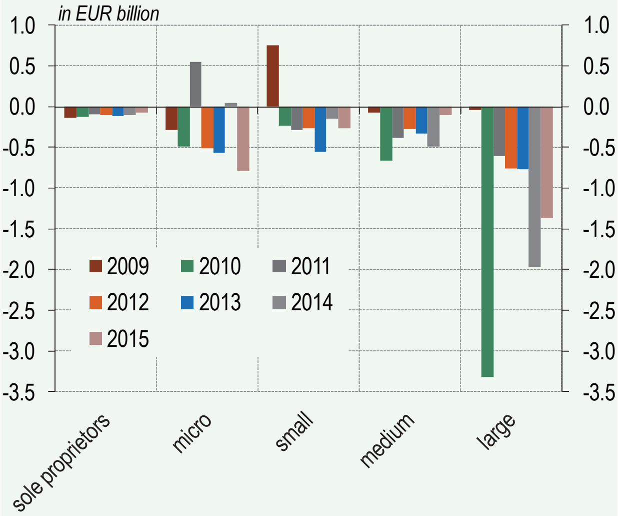
In contrast to the other size categories, the number of micro enterprises has been rising consistently since 2008. Because they are typically very dynamic (many start-ups and wind-downs), the crisis had a profound impact on them. Micro enterprises recorded losses of EUR 0.1 billion in 2014, but profits of EUR 0.5 billion in 2015. This was more than their total profits over the six previous years. Micro enterprises also recorded the largest increase in employment in 2014 and 2015, creating almost 16,000 new jobs over the two years. They also recorded a large increase in value-added: they actually outperformed large enterprises in this respect in 2014 and 2015. All of this is evidence of the ever-increasing success and importance of micro enterprises. From the point of view of indebtedness they represent a lower risk. In 2015 alone they reduced their debt by EUR 0.8 billion, the largest figure of recent years, and more than the debt reduction managed by SMEs.

The deleveraging process occurred over practically the entire observation period, across all size categories and almost all major sectors, although the in-

debtedness itself was strongly concentrated. The 25 largest debtors accounted for a fifth of total firms' debt in 2015 (EUR 8.7 billion), while the 100 largest accounted for almost a third (EUR 14 billion). The debt was primarily concentrated at large enterprises, while the most notable sectors were manufacturing, wholesale and retail trade, and transportation.

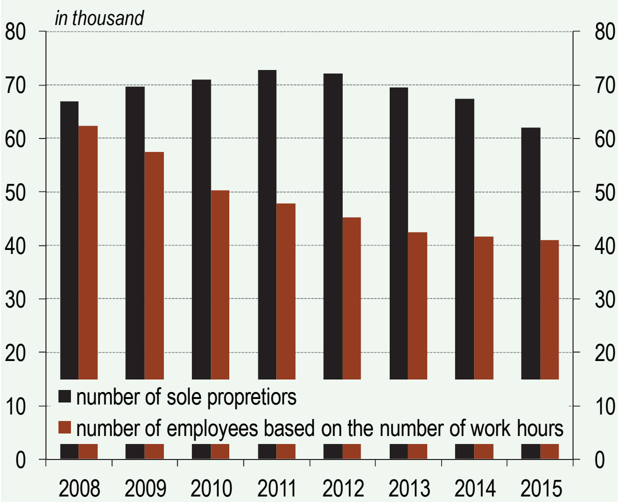
Sole proprietors responded differently to the crisis than did firms, as their operations also differ. They too typically have a high frequency of start-ups and wind-downs, although the developments in the total number in various periods of the crisis differed from what might have been expected. The number of sole proprietors rose during the period of economic slowdown until 2011, and began to fall during the time of renewed economic recovery. By contrast, the total number of employees fell consistently. This is indicative of an increase in atypical forms of employment during the period of operational streamlining and cuts in labour costs. During the first crisis, which was the most profound, it is likely that many individuals registered as sole proprietors solely because no other type of job with an employer was available to them.[24] In 2014 and 2015 the situation began to improve, and employment in the sole proprietors sector stagnated, while the number of

Figure 8.2.6: Annual change of corporates' debt by size



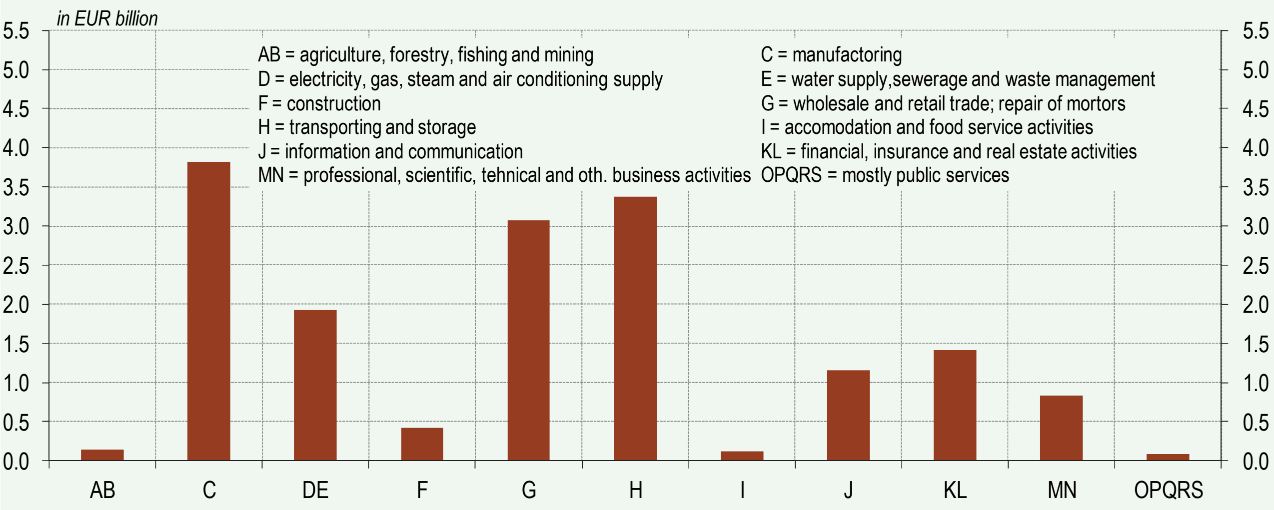
Source: AJPES, Bank of Slovenia calculations.

Figure 8.2.8: Number of sole proprietors and their employment



Source: AJPES, Bank of Slovenia calculations.

Figure 8.2.7: Stock of debt of the 100 largest debt owners by industry in year 2015



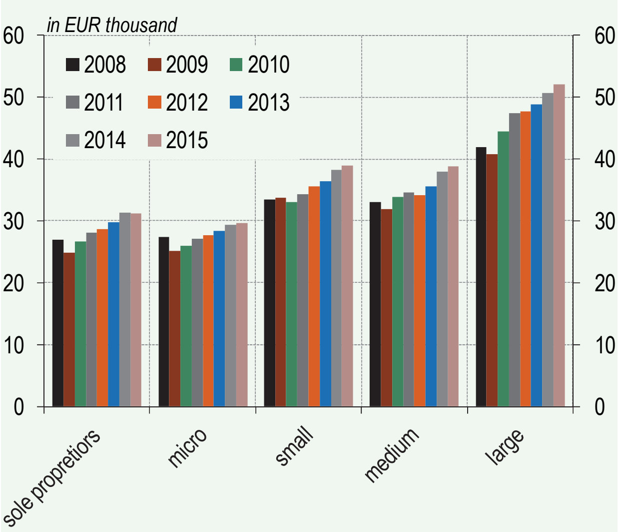
Source: AJPES, Bank of Slovenia calculations.

[24] This has also been found by the Financial Administration of the Republic of Slovenia, which has warned sole proprietors and firms that employment of this type is unlawful.

sole proprietors fell. Together with falling unemployment, this could be an indication of the gradual renewed normalisation of the labour market, which is being accompanied by a decline in atypical forms of employment.

Apart from the aforementioned atypical dynamics during the crisis, sole proprietors are an important and stable segment of the economy. With the exception of 2008, their profits have been relatively consistent over the years, and accounted for 14% of total corporate profits in 2015. It is also by no means negligible that they account for 7% of total corporate value-added. Although they employ just a tenth of the number of people that firms do, their labour productivity has been higher than the productivity of employees at micro enterprises for the last five years. Sole proprietors are also free of over-leveraging: they account for just 3% of total corporate debt, or EUR 1.4 billion. Although the sums involved are relatively small, sole proprietors are also deleveraging fastest: they reduced their debt by 35% between 2008 and 2015. Given the low levels of debt, and the relatively high levels of equity (sole proprietors are liable with their own assets, and have cash freely at their disposal),[25] they also have no difficulties with high leverage. The relevant figure was just 74% in 2015.

Figure 8.2.9: Labour productivity in corporates by size

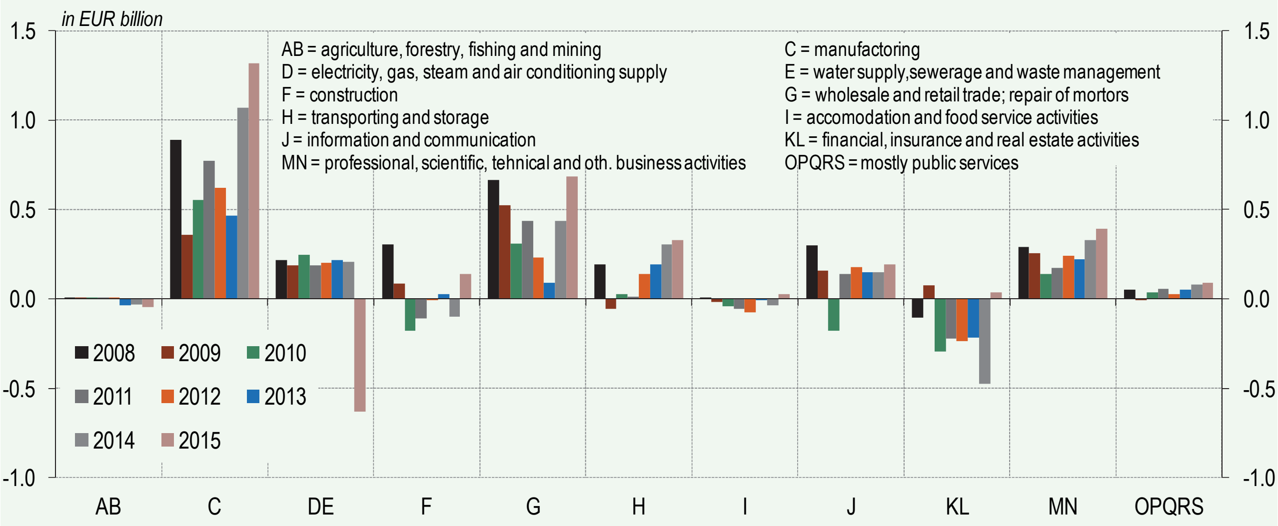


Source: AJPES, Bank of Slovenia calculations.

Corporate performance since emergence from the crisis by sector

In addition to the variations between the different size categories, the Slovenian economy is also primarily dependent on a few flagship sectors. Although the improvement in the general business environment was primarily the result of improvements in these flagship sectors, it should be noted that all sectors saw an overall improvement in their indicators in 2015. The sole exception was the energy sector, where the aforementioned losses of two firms had a profound impact on profits, value-added and labour productivity. Otherwise these attributes increased in all sectors. Employment also increased across the board in 2015, as firms created 12,600 new jobs. Debt was reduced in all sectors other

Figure 8.2.10: Total profit of corporates by industry



Source: AJPES, Bank of Slovenia calculations.

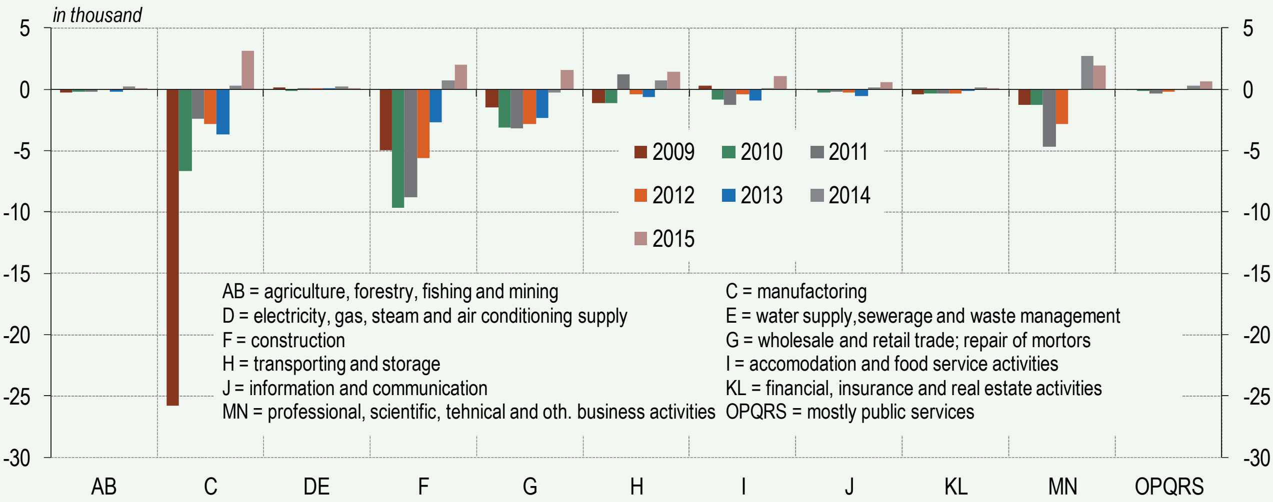
[25] For this reason leverage at sole proprietors is not best comparable with the corresponding indicator at firms.

than information and communication activities, by EUR 2.6 billion in total. Leverage was also reduced in almost all sectors.

The main flagship sectors of the Slovenian economy are manufacturing, and wholesale and retail trade. Firms in these sectors generate the largest profits, and also make the largest contributions in the form of value-added. They generate the largest net sales revenues, and employ the most people. Consequently they also have the largest debts, which are highly concentrated: the 150 largest debtors account for half of the total. Evidence that their debts are not so problematic is provided by the low leverage figures, particularly at manufacturing firms.

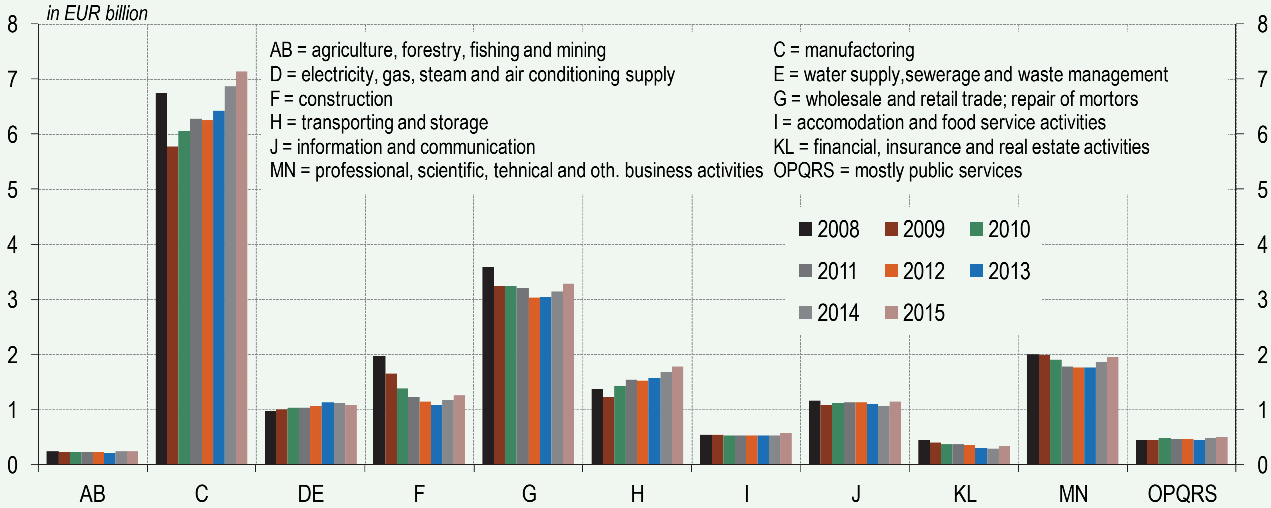
A significant improvement in the construction sector was also evident in 2014 and 2015. After heavy job losses in previous years, there were 2,700 new hires in the sector in 2014 and 2015. Value-added and labour productivity also increased at construction firms. Construction firms also undertook the most deleveraging: their debt was down a half on its peak in 2008. Despite the sharp reduction in leverage, the figure was still the highest, at 216%. Construction firms faced the largest problems during the crisis, and consequently recorded losses. Their performance improved in 2015, as they recorded profits of EUR 140 million, in which micro construction firms were the largest factor.

Figure 8.2.11: Annual change in employment in corporates by industry



Source: AJPES, Bank of Slovenia calculations.

Figure 8.2.12: Value added of corporates by industry



Source: AJPES, Bank of Slovenia calculations.

The financial crisis was survived relatively well by firms in the sectors of professional, scientific and technical activities and administrative and support service activities, whose importance has risen in recent years in the form of an increase in value-added. Firms in these sectors have also been increasing their profits since 2010, and in 2015 they amounted to EUR 0.4 billion, the third largest figure of any sector. These firms have also deleveraged sharply in the last two years, reducing debt by EUR 1 billion. After long years of job losses, they also increased employment in the last two years, creating 4,700 new jobs. Their labour productivity also increased slightly, although it remains among the lowest.

Methodology

Data capture

The analysis of the performance of firms and sole proprietors is based on data from annual reports submitted to Ajpes (the Agency for Public Legal Records and Related Services) each year by firms and sole proprietors in accordance with the Companies Act. Sole proprietors are usually not included in such analysis of economic developments, but on this occasion there was a decision to also focus on their contribution to the economy, in light of their numerousness. Sole proprietors were compared with firms, and together they constitute the corporate sector.

The data excludes firms whose performance would have made the collective illustration of corporate performance unrealistic,[26] and also firms classified under the government sector or the financial corporations sector. The latter are usually required to report to their parent financial or investment institutions, be they insurance corporations, investment funds, pension funds, etc.

Definitions

The **number of employees** is calculated as the average number of employees on the basis of the number of hours worked in the calendar for which employees received wages and wage compensation, divided by the number of possible hours worked in the calendar year.

Gross value-added is calculated as gross operating profit minus costs of goods, materials and services and other operating expenses.

Labour productivity is calculated as gross value-added per employee.

Leverage is measured as the ratio of debt to equity.

Corporate **size categories** are defined in accordance with Article 55 of the Companies Act, and comprise micro, small, medium-size and large, on the basis of data from two consecutive financial years. Corporate size is calculated on the basis of three criteria, whereby at least two of the three must be met to conform to the definition:

1. A micro enterprise is a firm that meets at least two of the following criteria:
- the average number of employees in the financial year does not exceed 10,
- net sales revenue does not exceed EUR 2 million,
- total assets do not exceed EUR 2 million.

2. A small enterprise is a firm that is not a micro enterprise, and meets at least two of the following criteria:
- the average number of employees in the financial year does not exceed 50,
- net sales revenue does not exceed EUR 8.8 million,
- total assets do not exceed EUR 4.4 million.

3. A medium-size enterprise is a firm that is not a micro enterprise or small enterprise, and meets at least two of the following criteria:
- the average number of employees in the financial year does not exceed 250,
- net sales revenue does not exceed EUR 35 million,
- total assets do not exceed EUR 17.5 million.

4. A large enterprise is a firm that is not a micro enterprise, small enterprise or medium-size enterprise.

Because it can happen that a firm cannot be assigned to a size category because it meets just one rather than two of the three criteria (e.g. a firm is a micro enterprise according to the employment criterion, a medium-size enterprise according to the sales revenue criterion, and a large enterprise according to the assets criterion), the following order was established: total assets (first priority), net sales revenue (second priority), average number of employees (third priority). Should a firm still not have a defined size category after all these steps (because it fails to report any values for the three required criteria in a particular year), it is classified on the basis of the first possible indications of size from the past.

Assumptions

Firms are required to report in accordance with the Companies Act, and are liable themselves for the accuracy of reporting. In certain cases firms fail to report all of the values, making it necessary to assume a value of zero to calculate the relevant indicators and various aggregates. Were all firms that fail to report the values of the specific items required for the analysis

[26] Excludes Slovenski državni holding d.d., Kapitalska družba pokojninskega in invalidskega zavarovanja d.d. and the BAMC.

to be excluded, the sample would be significantly reduced and would no longer reflect the whole corporate sector, but just a smaller cross-section. The aforementioned assumption has therefore been applied, with an awareness that the results could be slightly biased on these grounds.

9 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 88, while more detailed explanations are given in the appendix to the Bank of Slovenia bulletin.

Table 9.1: Consolidated Balance Sheet of the Monetary Financial Institutions

EUR million	2012	2013	2014	15Q3	15Q4	16Q1	May 2016
1.1. Claims of the Bank of Slovenia	5,538	4,771	7,278	5,587	5,410	5,390	5,655
1.2. Claims of other MFIs	5,797	5,165	6,680	7,744	8,263	8,143	7,846
1. Claims on foreign sectors (foreign assets)	**11,335**	**9,936**	**13,958**	**13,331**	**13,673**	**13,533**	**13,502**
2.1. Claims of the Bank of Slovenia on central government	221	233	263	1,699	2,327	2,987	3,378
2.2.1.1. Loans	1,131	1,083	1,149	1,142	1,298	1,285	1,265
2.2.1.2. Securities	3,926	5,480	6,105	6,158	5,814	5,737	5,589
2.2.1. Claims on central government	5,057	6,563	7,254	7,300	7,112	7,022	6,853
2.2.2.1. Loans	610	581	671	624	622	601	594
2.2.2.2. Securities	0	0	0	0	0	0	0
2.2.2. Claims on other general government	610	581	671	624	622	601	594
2.2. Claims of other MFIs on general government	5,667	7,144	7,926	7,925	7,734	7,623	7,447
2.3.1.1. Loans	18,643	14,135	11,213	10,438	10,068	9,499	9,447
2.3.1.2. Securities	827	767	524	504	465	406	422
2.3.1. Claims on nonfinancial corporations	19,470	14,902	11,737	10,942	10,533	9,905	9,870
2.3.2. Households and non-profit institutions serving households	9,267	8,917	8,762	8,825	8,856	8,830	8,891
2.3.3.1. Loans	1,813	1,460	1,087	890	898	891	827
2.3.3.2. Securities	322	303	408	544	511	506	505
2.3.3. Claims on nonmonetary financial institutions	2,135	1,763	1,495	1,434	1,409	1,397	1,332
2.3. Claims of other MFIs on other non-MFIs	30,872	25,582	21,995	21,201	20,798	20,132	20,093
2. Claims on domestic non-MFIs	**36,761**	**32,959**	**30,183**	**30,825**	**30,859**	**30,741**	**30,917**
3. Remaining assets	**5,021**	**3,670**	**3,771**	**3,247**	**3,102**	**2,737**	**2,644**
Total assets	**53,116**	**46,565**	**47,912**	**47,403**	**47,633**	**47,011**	**47,063**
1.1. Bank of Slovenia	4,450	1,054	10	0	16	742	193
1.2. Other MFIs	10,802	8,241	7,409	6,037	5,920	5,379	5,433
1. Obligations to foreign sectors (foreign liabilities)	**15,252**	**9,294**	**7,419**	**6,037**	**5,936**	**6,122**	**5,625**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	3,997	4,189	4,673	4,812	4,956	4,902	4,931
2.1.1.2. Overnight deposits at other MFIs	8,829	8,832	10,441	12,488	13,057	13,799	14,082
2.1.1.3.1. Non-monetary financial institutions	14	15	44	39	9	7	7
2.1.1.3.2. Other government sector	18	28	28	42	53	53	60
2.1.1.3. Overnight deposits at the Bank of Slovenia	31	43	71	81	63	61	67
2.1.1. Banknotes and coins and overnight liabilities	12,858	13,065	15,185	17,381	18,075	18,761	19,080
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	7,893	7,837	7,542	7,255
2.1.2. Time deposits	10,111	9,804	9,364	7,894	7,838	7,543	7,256
2.1.3. Deposits reedemable at notice up to 3 months	63	209	379	391	315	404	520
2.1. Banknotes and coins and deposits up to 2 years	23,032	23,078	24,929	25,666	26,229	26,708	26,857
2.2. Debt securities, units/shares of money market funds and repos	80	80	42	66	56	68	67
2. Banknotes and coins and instruments up to 2 years	**23,112**	**23,157**	**24,971**	**25,732**	**26,285**	**26,776**	**26,923**
3. Long-tern financial obligations to non-MFIs	**1,987**	**1,498**	**1,598**	**1,553**	**1,550**	**1,542**	**1,558**
4. Remaining liabilities	**15,017**	**15,783**	**17,229**	**15,666**	**15,370**	**14,062**	**14,475**
5. Excess of inter-MFI liabilities	**-2,253**	**-3,168**	**-3,305**	**-1,586**	**-1,508**	**-1,491**	**-1,518**
Total liabilities	**53,116**	**46,565**	**47,912**	**47,403**	**47,633**	**47,011**	**47,063**

Table 9.2: Balance Sheet of the Bank of Slovenia

EUR million	2012	2013	2014	15Q3	15Q4	16Q1	May 2016
1.1. Gold	129	89	101	103	100	111	111
1.2. Receivable form IMF	388	369	392	363	367	398	403
1.3. Foreign cash	0	0	0	0	0	0	0
1.4. Loans, deposits	406	373	3,031	1,015	699	358	431
1.5. Securities	4,520	3,844	3,651	4,004	4,141	4,421	4,607
1.6. Other claims	96	96	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**5,538**	**4,771**	**7,278**	**5,587**	**5,410**	**5,390**	**5,655**
2.1. Claims on central government	221	233	263	1,699	2,327	2,987	3,378
2.2.1. Loans	3,982	3,682	1,098	813	901	906	826
2.2.2. Other claims	3	3	3	18	44	87	86
2.2. Claims on domestic monetary sector	3,985	3,685	1,101	831	945	993	913
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**	**2,532**	**3,275**	**3,981**	**4,292**
3. Remaining assets	**2,835**	**2,200**	**2,317**	**1,831**	**1,665**	**1,435**	**1,340**
Total assets	**12,581**	**10,890**	**10,961**	**9,950**	**10,349**	**10,807**	**11,288**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**3,997**	**4,189**	**4,673**	**4,812**	**4,956**	**4,902**	**4,931**
2.1.1.1.1. Overnight	1,338	1,503	1,526	1,656	1,634	1,895	2,155
2.1.1.1.2. With agreed maturity	-	605	-	-	-	-	-
2.1.1.1. Domestic currency	1,338	2,108	1,526	1,656	1,634	1,895	2,155
2.1.1.2. Foreign currency	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,338	2,108	1,526	1,656	1,634	1,895	2,155
2.1.2.1.1. Overnight	23	364	2,718	1,470	1,730	1,186	1,877
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	1,470	1,730	1,186	1,877
2.1.2.2. Foreign currency	75	73	94	58	60	54	54
2.1.2. General government	1,098	1,787	2,812	1,528	1,789	1,239	1,931
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	16	17	45	40	11	8	8
2.1.3. Other domestic sectors	16	17	45	40	11	8	8
2.1. Domestic sectors	2,452	3,912	4,383	3,224	3,434	3,143	4,094
2.2. Foreign sectors	4,450	1,054	10	0	16	742	193
2. Deposits	**6,902**	**4,966**	**4,393**	**3,224**	**3,450**	**3,885**	**4,287**
3.1. Domestic currency	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-
3. Issued securities	**0**	**0**	**0**	**0**	**0**	**0**	**-**
4. SDR allocation	**252**	**241**	**257**	**270**	**275**	**267**	**272**
5. Capital and reserves	**1,180**	**1,339**	**1,440**	**1,439**	**1,449**	**1,541**	**1,551**
6. Remaining liabilities	**250**	**156**	**197**	**204**	**220**	**211**	**247**
Total liabilities	**12,581**	**10,890**	**10,961**	**9,950**	**10,349**	**10,807**	**11,288**

Table 9.3: Balance Sheet of other Monetary Financial Institutions

EUR million	2012	2013	2014	15Q3	15Q4	16Q1	May 2016
1.1.1. Cash	261	282	292	262	294	285	282
1.1.2. Accounts and deposits at the Bank of Slovenia, other c	1,338	2,108	1,526	1,656	1,634	1,895	2,155
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,599	2,390	1,818	1,918	1,928	2,180	2,437
1.2.1. Loans	3,064	2,432	1,719	1,349	1,264	1,184	1,125
1.2.2. Debt securities	620	363	378	246	245	190	242
1.2.3. Shares and other equity	172	117	61	62	62	50	50
1.2. Claims on other MFI's	3,856	2,912	2,158	1,657	1,571	1,424	1,417
1.3.1. Loans	31,465	26,176	22,883	21,920	21,742	21,106	21,023
1.3.2. Debt securities	4,139	5,702	6,352	6,397	6,050	5,994	5,864
1.3.3. Shares and other equity	936	849	685	810	739	654	653
1.3. Claims on nonmonetry sectors	36,540	32,727	29,920	29,127	28,531	27,754	27,540
1. Claims on domestic sectors (domestic assets)	**41,994**	**38,028**	**33,897**	**32,701**	**32,032**	**31,358**	**31,393**
2.1.1. Cash	23	23	29	33	34	35	36
2.1.2. Loans	1,231	1,697	2,839	2,570	2,767	2,672	2,401
2.1.3. Debt securities	590	372	498	666	1,027	1,043	1,067
2.1.4 Shares and other equity	619	559	572	567	567	567	567
2.1. Claims on foreign monetary sectors	2,463	2,651	3,938	3,836	4,395	4,317	4,071
2.2.1. Loans	2,770	2,530	2,135	1,766	1,602	1,462	1,401
2.2.2. Debt securities	1,234	1,378	1,878	1,776	1,870	1,946	1,955
2.2.3. Shares and other equity	93	273	329	368	396	419	419
2.2. Claims on foreign nonmonetary sectors	4,097	4,181	4,342	3,910	3,868	3,827	3,775
2. Claims on foreign sectors (foreign assets)	**6,559**	**6,833**	**8,279**	**7,744**	**8,263**	**8,143**	**7,846**
3. Remaining assets	**2,234**	**1,455**	**1,399**	**1,321**	**1,321**	**1,210**	**1,214**
Total assets	**50,787**	**46,315**	**43,575**	**41,766**	**41,615**	**40,711**	**40,453**
1.1.1. Deposits, loans from the Bank of Slovenia	3,982	3,682	1,098	813	901	906	826
1.1.2. Deposits, loans from other MFIs	3,122	2,440	1,733	1,362	1,301	1,249	1,168
1.1.3. Debt securities issued	298	150	93	60	38	17	28
1.1. Laibilities to monetary sectors	7,402	6,272	2,924	2,235	2,240	2,172	2,023
1.2.1.1. Overnight	8,664	8,542	10,129	12,090	12,661	13,347	13,635
1.2.1.2. With agreed maturity	13,777	12,214	12,481	10,942	10,604	9,744	9,442
1.2.1.3. Reedemable at notice	67	221	449	491	474	675	675
1.2.1. Deposits in domestic currency	22,508	20,977	23,059	23,523	23,739	23,766	23,753
1.2.2. Deposits in foreign currency	521	441	463	578	599	633	635
1.2.3. Debt securities issued	604	256	176	133	84	70	68
1.2. Liabilities to nonmonetary sectors	23,633	21,674	23,698	24,234	24,422	24,469	24,455
1. Obligations to domestic sectors (domestic liabilities)	**31,036**	**27,946**	**26,622**	**26,469**	**26,661**	**26,643**	**26,478**
2.1.1. Deposits	7,113	4,538	3,551	2,657	2,588	2,363	2,272
2.1.2. Debt securities issued	1,462	1,200	1,344	983	975	713	713
2.1. Liabilities to foreign monetry sectors	8,575	5,738	4,895	3,640	3,563	3,076	2,985
2.2.1. Deposits	1,702	2,054	2,052	1,907	1,944	1,893	1,886
2.2.2. Debt securities issued	104	32	25	27	27	24	23
2.2. Liabilities to foreign nonmonetary sectors	1,806	2,086	2,077	1,934	1,971	1,917	1,910
2. Obligations to foreign sectors (foreign liabilities)	**10,381**	**7,824**	**6,972**	**5,574**	**5,535**	**4,992**	**4,895**
3. Capital and reserves	**3,889**	**3,906**	**4,512**	**4,702**	**4,706**	**4,866**	**4,907**
4. Remaining liabilities	**5,481**	**6,641**	**5,469**	**5,020**	**4,714**	**4,211**	**4,173**
Total liabilities	**50,787**	**46,315**	**43,575**	**41,766**	**41,615**	**40,711**	**40,453**

Table 9.4: Interest rates of new loans and deposits in domestic currency to households and nonfinancial corporations

in % on annual level	2012	2013	2014	2015	Feb.16	Mar.16	Apr.16
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.75	8.53	8.20	8.04	7.99	7.98	7.97
Households, extended credit	8.65	8.06	8.02	7.89	7.86	7.86	7.85
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.02	5.04	5.01	4.37	4.22	4.20	4.16
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.22	7.21	7.00	5.97	5.81	5.70	5.63
Loans, households, consumption, over 5 years initial rate fixation	7.33	7.19	7.07	5.75	5.55	5.52	5.81
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.78	4.76	4.47	3.92	3.79	3.67	3.53
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	6.74	6.60	5.96	5.27	5.38	5.32
C. loans, households, consumption, over 5 year initial rate fixation	6.93	7.15	6.53	5.21	5.31	4.27	5.24
APRC, Loans to households for consumption	7.70	8.00	8.28	7.61	7.41	7.27	7.30
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.27	3.14	3.18	2.45	2.15	2.06	2.04
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.61	5.54	5.65	4.02	3.38	3.38	3.18
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.48	5.40	5.06	3.54	2.91	2.75	2.71
Loans, households, house purchase, over 10 years initial rate fixation	5.47	5.17	4.87	3.28	3.15	3.03	2.93
C. loans, households, house purchase variabel and up to years initial rate fixation	3.27	3.11	3.16	2.44	2.10	2.06	2.04
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.59	5.90	5.41	3.02	3.29	2.73	2.63
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.38	5.34	5.03	3.19	2.76	2.56	2.37
C. loans, households, house purchase, over 10 years initial rate fixation	5.80	5.71	4.87	3.25	3.08	2.96	2.88
APRC, Loans to households for house purchase	3.63	3.48	3.55	2.97	2.79	2.70	2.67
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.62	5.69	5.11	3.87	3.51	3.37	3.27
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	6.64	6.51	5.96	6.48	6.41	6.06	4.88
Loans, households, other purposes, over 5 years initial rate fixation	5.83	6.42	6.44	7.67	6.96	6.60	7.20
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.39	5.53	5.30	4.12	3.28	3.37	3.18
S.11, extended credit	7.25	7.39	7.28	7.30	7.02	7.15	7.19
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	5.69	5.55	4.81	3.69	3.41	3.21	2.96
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	6.40	6.44	5.77	4.09	3.64	3.64	3.19
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	6.99	6.57	5.92	4.89	4.34	4.19	4.94
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	6.94	6.28	5.93	5.79	6.13	5.79	5.76
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	6.94	6.70	5.82	5.15	5.89	5.32	6.48
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	8.19	7.58	5.87	4.27	4.59	4.51	3.60
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	5.22	5.08	4.62	3.14	3.04	2.65	2.54
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	6.00	5.29	3.38	3.01	2.71	2.75
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	6.35	6.31	5.27	3.89	3.75	-	3.11
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	6.77	5.60	5.97	4.23	1.39	3.05	2.22
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	5.47	5.83	5.46	3.37	-	1.86	1.83
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	7.50	6.32	4.07	2.73	-	3.87
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	4.21	4.21	3.94	2.90	2.28	1.79	2.65
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	5.66	5.15	4.84	3.06	2.25	2.42	1.50
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	5.70	4.07	4.60	3.53	-	1.98	2.58
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.40	4.49	4.07	1.90	-	1.71	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	5.95	3.84	4.62	1.83	3.04	1.77	1.76
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	4.81	4.81	2.35	3.73	-	-	3.04
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.20	0.11	0.07	0.04	0.02	0.02	0.02
Deposits, households, agreed maturity up to 1 year	2.31	1.86	0.98	0.37	0.25	0.24	0.20
Deposits, households, agreed maturity over 1 and up to 2 years	4.06	3.46	1.90	0.96	0.63	0.59	0.55
Deposits, households, agreed maturity over 2 years	4.46	3.86	2.33	1.36	0.99	0.91	0.89
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.30	0.23	0.13	0.04	0.02	0.01	0.01
Deposits, S.11, agreed maturity up to 1 year	2.11	1.58	0.63	0.19	0.09	0.07	0.07
Deposits, S.11, agreed maturity over 1 and up to 2 years	4.24	3.47	1.85	0.82	0.38	0.40	0.32
Deposits, S.11, agreed maturity over 2 years	4.02	3.08	1.79	1.12	0.42	0.58	0.54
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	1.52	1.22	0.82	0.21	0.09	0.09	0.07
Deposits redeemable at notice, over 3 months notice	2.73	1.79	1.30	1.21	1.01	1.08	0.58

Table 9.5: International investment position

EUR million		2012	2013	2014	15Q2	15Q3	15Q4	16Q1
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,968**	**-16,749**	**-16,496**	**-15,380**	**-14,997**	**-14,931**	**-15,355**
1	**ASSETS**	**33,547**	**33,392**	**39,437**	**39,941**	**41,067**	**41,032**	**40,709**
1.1	**Direct investment**	**7,198**	**6,813**	**6,970**	**7,410**	**7,394**	**7,204**	**6,917**
1.1.1	Equity	4,184	3,795	3,769	3,849	3,908	3,910	3,468
1.1.2	Debt instruments	3,014	3,018	3,202	3,561	3,486	3,295	3,449
1.2	**Portfolio investment**	**11,631**	**11,386**	**12,375**	**13,216**	**13,274**	**14,458**	**14,863**
1.2.1	Equity and investment fund shares	2,532	2,755	3,193	3,525	3,229	3,482	3,332
1.2.2	Debt securities	9,098	8,631	9,182	9,691	10,045	10,976	11,532
1.3	**Financial derivatives**	**151**	**89**	**83**	**63**	**59**	**65**	**65**
1.4	**Other investment**	**13,845**	**14,435**	**19,171**	**18,359**	**19,499**	**18,517**	**18,078**
1.4.1	Other equity	370	530	629	644	646	641	640
1.4.2	Currency and deposits	5,122	5,647	10,737	9,605	10,893	10,274	9,945
1.4.3	Loans	4,247	4,181	3,729	3,410	3,308	3,122	2,996
1.4.4	Insurance, pension and standardized guarantee schemes	141	131	141	148	131	129	129
1.4.5	Trade credit and advances	3,668	3,636	3,601	4,167	4,131	3,737	4,023
1.4.6	Other accounts receivable	297	310	335	384	390	614	345
1.5	**Reserve assets**	**722**	**669**	**837**	**893**	**841**	**787**	**786**
1.5.1	Monetary gold	129	89	101	107	103	100	111
1.5.2	Special drawing rights	242	220	247	260	259	264	201
1.5.3	Reserve position in the IMF	146	149	145	125	103	104	196
1.5.4	Other reserve assets	205	211	345	401	375	320	278
2	**LIABILITIES**	**51,515**	**50,141**	**55,934**	**55,322**	**56,064**	**55,962**	**56,064**
2.1	**Direct investment**	**10,737**	**10,531**	**11,837**	**12,525**	**12,838**	**13,308**	**13,156**
2.1.1	Equity	7,617	7,292	8,186	8,580	9,226	9,772	9,425
2.1.2	Debt instruments	3,120	3,240	3,651	3,945	3,612	3,536	3,731
2.2	**Portfolio investment**	**12,273**	**16,299**	**23,099**	**21,673**	**22,703**	**22,308**	**22,456**
2.2.1	Equity and investment fund shares	737	811	1,030	1,066	998	1,041	1,023
2.2.2	Debt securities	11,536	15,488	22,069	20,607	21,705	21,266	21,434
2.3	**Financial derivatives**	**269**	**150**	**175**	**179**	**170**	**163**	**200**
2.4	**Other investment**	**28,236**	**23,161**	**20,822**	**20,944**	**20,353**	**20,183**	**20,252**
2.4.1	Other equity	21	23	28	31	32	32	28
2.4.2	Currency and deposits	8,343	4,165	3,338	2,889	2,844	2,965	3,525
2.4.3	Loans	15,435	14,759	13,128	13,521	13,091	12,852	12,373
2.4.4	Insurance, pension and standardized guarantee schemes	239	275	218	215	217	221	221
2.4.5	Trade credit and advances	3,788	3,527	3,427	3,571	3,441	3,431	3,399
2.4.6	Other accounts payable	159	171	425	446	457	407	438
2.4.7	Special drawing rights	252	241	257	271	270	275	267

Table 9.6: Gross external debt

EUR million	2012	2013	2014	15Q3	15Q4	16Q1	Apr.2016
TOTAL (1+2+3+4+5)	**42,872**	**41,866**	**46,514**	**45,637**	**44,954**	**45,389**	**44,230**
1 GENERAL GOVERNMENT	**11,091**	**15,668**	**22,619**	**23,436**	**23,169**	**23,408**	**22,978**
1.1 Short-term, of that	**191**	**73**	**664**	**1,386**	**1,507**	**1,266**	**1,198**
Debt securities	163	45	228	13	15	27	27
Loans	...	...	157	1,071	1,201	936	870
Trade credit and advances	28	28	21	45	35	48	49
Other debt liabilities	...	...	257	257	257	256	252
1.2 Long-term, of that	**10,900**	**15,595**	**21,956**	**22,050**	**21,662**	**22,142**	**21,780**
Debt securities	10,060	14,307	20,403	20,562	20,158	20,641	20,279
Loans	833	1,281	1,548	1,484	1,500	1,497	1,497
2 CENTRAL BANK	**6,071**	**2,742**	**2,083**	**2,109**	**2,217**	**2,857**	**2,123**
2.1 Short-term, of that	**5,820**	**2,500**	**1,826**	**1,838**	**1,942**	**2,590**	**1,854**
Currency and deposits	5,820	2,500	1,825	1,838	1,942	2,590	1,854
2.2 Long-term, of that	**252**	**241**	**257**	**270**	**275**	**267**	**268**
Special drawing rights (allocations)	252	241	257	270	275	267	268
3 DEPOSIT TAKING CORPORATIONS, except the Central Bank	**9,892**	**7,519**	**6,591**	**5,306**	**5,195**	**4,639**	**4,613**
3.1 Short-term	**1,470**	**893**	**747**	**610**	**702**	**708**	**716**
Currency and deposits	1,148	707	597	448	490	485	498
Debt securities	164	58	...	...	...	...	...
Loans	138	121	144	148	207	206	200
Trade credit and advances	...	...	...	...	...	...	...
Other debt liabilities	19	7	6	13	5	17	18
3.2 Long-term	**8,422**	**6,626**	**5,844**	**4,696**	**4,493**	**3,931**	**3,897**
Currency and deposits	1,375	958	916	558	534	450	444
Debt securities	892	837	954	696	652	368	344
Loans	6,152	4,800	3,941	3,407	3,301	3,110	3,106
Trade credit and advances	2	3	4	5	7	3	3
Other debt liabilities	0	29	29	30	0	0	0
4 OTHER SECTORS	**12,697**	**12,698**	**11,570**	**11,175**	**10,837**	**10,753**	**10,711**
4.1 Short-term, of that	**4,272**	**4,039**	**3,947**	**4,138**	**3,973**	**4,195**	**4,141**
Debt securities	3	4	5	2	0	1	1
Loans	425	444	453	635	488	739	709
Trade credit and advances	3,750	3,492	3,396	3,383	3,383	3,333	3,295
Other debt liabilities	94	100	94	117	102	123	136
4.2 Long-term, of that	**8,425**	**8,659**	**7,623**	**7,037**	**6,864**	**6,558**	**6,570**
Debt securities	253	238	480	432	441	397	391
Loans	7,887	8,113	6,885	6,346	6,156	5,886	5,902
Trade credit and advances	8	4	6	7	7	16	16
Other debt liabilities	277	304	252	252	260	260	262
5 DIRECT INVESTMENT: intercompany lending	**3,120**	**3,240**	**3,651**	**3,612**	**3,536**	**3,731**	**3,805**
NET EXTERNAL DEBT POSITION	**16,563**	**15,644**	**14,750**	**12,416**	**12,020**	**12,184**	**11,903**

Table 9.7: Balance of payments

EUR million	2013	2014	2015	15Q3	15Q4	16Q1	Apr.2016
I. Current account	**1,732**	**2,325**	**1,998**	**641**	**460**	**649**	**347**
1. Goods	**708**	**1,181**	**1,498**	**424**	**344**	**547**	**177**
1.1. Export of goods	**21,692**	**22,961**	**24,039**	**5,934**	**6,160**	**6,062**	**2,088**
Export f.o.b.	21,549	22,936	23,940	5,882	6,117	6,067	2,088
Coverage adjustment	-180	-188	-149	-35	-5	-54	-18
Net export of goods under merchanting	291	199	231	84	45	43	17
Nonmonetary gold	32	15	17	4	3	5	0
1.2. Import of goods	**20,984**	**21,780**	**22,541**	**5,510**	**5,817**	**5,514**	**1,910**
Import c.i.f.	22,114	22,580	23,305	5,689	6,010	5,688	1,974
Coverage adjustment	-517	-160	-115	-20	-27	-15	-7
Valuation adjustment	-642	-656	-678	-166	-175	-165	-57
Nonmonetary gold	29	15	30	7	8	6	...
2. Services	**1,732**	**1,697**	**2,019**	**609**	**492**	**459**	**230**
2.1. Export of services, of that	**5,317**	**5,558**	**6,025**	**1,730**	**1,524**	**1,362**	**538**
Transport	1,398	1,529	1,672	420	442	418	149
Travel	2,043	2,060	2,257	798	474	449	199
Construction services	280	277	290	76	86	73	28
Telecomm., computer and inform. services	452	457	519	136	144	121	46
Other business services	717	779	824	190	242	195	61
2.2. Import of services, of that	**3,586**	**3,862**	**4,006**	**1,121**	**1,032**	**903**	**308**
Transport	738	814	851	207	232	210	68
Travel	708	745	822	354	154	136	54
Construction services	259	234	120	22	19	16	7
Telecomm., computer and inform. services	460	483	533	134	164	107	38
Other business services	864	1,003	1,024	252	297	251	80
3. Primary income	**-192**	**-125**	**-982**	**-285**	**-252**	**-190**	**-11**
3.1. Receipts	**1,117**	**1,396**	**1,632**	**371**	**407**	**332**	**165**
Compensation of employees	495	537	609	149	166	132	54
Investment	54	368	501	135	138	111	38
Other primary income	567	490	522	86	102	89	74
3.2. Expenditure	**1,309**	**1,521**	**2,614**	**656**	**659**	**523**	**176**
Compensation of employees	106	114	120	32	30	27	11
Investment	917	1,063	2,065	530	515	390	125
Other primary income	286	344	429	93	113	105	40
4. Secondary income	**-516**	**-428**	**-537**	**-107**	**-124**	**-168**	**-49**
4.1. Receipts	**632**	**709**	**725**	**173**	**215**	**152**	**52**
4.2. Expenditure	**1,148**	**1,137**	**1,262**	**280**	**339**	**319**	**101**

Table 9.8: Balance of payments – continued

EUR million	2013	2014	2015	15Q3	15Q4	16Q1	Apr.2016
II. Capital account	**187**	**157**	**371**	**127**	**136**	**24**	**-35**
1. Nonproduced nofinancial assets	-10	-24	-37	3	-39	-7	-25
2. Capital transfers	197	181	408	124	175	32	-10
III. Financial account	**1,042**	**2,377**	**1,772**	**478**	**168**	**187**	**17**
1. Direct investment	**-47**	**-584**	**-1,238**	**-218**	**-628**	**-315**	**-347**
Assets	24	155	278	23	-140	124	11
Equity and reinvested earnings	-80	-45	165	59	10	21	-6
Debt instruments	103	200	113	-36	-150	103	16
Liabilities	71	739	1,516	241	488	439	357
Equity and reinvested earnings	-57	791	1,803	655	561	311	279
Debt instruments	128	-51	-287	-414	-73	128	78
2. Portfolio investment	**-4,176**	**-3,968**	**2,929**	**-993**	**1,549**	**584**	**477**
Assets	-467	426	2,015	355	971	464	87
Equity and investment fund shares	60	127	116	16	34	-27	-2
Debt securities	-527	299	1,900	339	937	491	89
Liabilities	3,709	4,394	-914	1,348	-578	-120	-390
Equity and investment fund shares	113	101	52	13	13	19	-3
Debt securities	3,595	4,293	-966	1,335	-591	-139	-387
3. Financial derivatives	**32**	**-3**	**28**	**-9**	**10**	**-6**	**6**
4. Other investment	**5,227**	**6,843**	**166**	**1,746**	**-697**	**-87**	**-91**
4.1. Assets	**632**	**4,815**	**-672**	**1,225**	**-853**	**-75**	**-901**
Other equity	152	84	10	0	-2	1	0
Currency and deposits	564	5,037	-545	1,273	-636	-387	-847
Loans	1	-299	-408	-27	-78	10	-31
Insurance, pension and stand. guar. schemes	-10	8	-8	-15	-2	...	...
Trade credits and advances	19	-16	-4	-15	-357	306	-4
Other assets	-94	1	283	8	222	-4	-18
4.2. Liabilities	**-4,595**	**-2,028**	**-837**	**-521**	**-156**	**12**	**-810**
Other equity	-29	7	1	1	0	0	0
Currency and deposits	-4,169	-831	-400	-37	116	566	-728
Loans	-269	-1,246	-315	-376	-235	-491	-88
Insurance, pension and stand. guar. schemes	39	-54	3	2	4	...	...
Trade credits and advances	-182	-144	-101	-122	9	-77	-3
Other liabilities	16	240	-25	12	-49	15	11
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**5**	**89**	**-113**	**-49**	**-67**	**10**	**-29**
IV. Net errors and omissions	**-877**	**-105**	**-596**	**-290**	**-428**	**-486**	**-296**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2012	2013	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Domestic sector								
Total	180,549	179,611	186,691	186,629	188,956	185,866	187,219	184,779
Monetary gold and SDRs	371	309	342	348	340	368	362	363
Currency and deposits	36,336	37,061	43,983	46,009	46,545	44,012	46,690	46,560
Debt securities	17,236	18,319	18,528	19,819	20,318	21,041	22,085	22,828
Loans	54,089	49,970	46,473	44,812	44,201	42,880	41,679	39,459
Shares	18,457	19,529	20,672	20,175	20,684	20,212	19,369	19,713
Other equity	22,111	22,483	23,009	23,002	23,318	23,302	23,943	23,288
Investment fund shares/units	2,980	3,105	3,544	3,642	4,096	3,990	3,686	3,879
Insurance and pension schemes	6,454	6,541	7,065	7,132	7,449	7,478	7,366	7,406
Other	22,513	22,293	23,073	21,690	22,006	22,582	22,038	21,282
Non-financial corporations								
Total	44,226	43,365	43,522	41,341	42,022	42,558	42,294	41,052
Currency and deposits	3,991	4,588	4,945	5,053	5,052	5,331	5,398	5,717
Debt securities	248	194	185	184	192	178	160	142
Loans	6,494	6,151	6,568	6,043	6,284	6,118	6,035	5,848
Shares	5,198	4,525	3,297	3,063	2,934	2,914	2,836	2,896
Other equity	11,804	11,806	11,520	11,359	11,408	11,340	11,770	11,202
Investment fund shares/units	123	108	124	108	110	106	98	99
Insurance and pension schemes	416	387	426	408	452	455	458	427
Other	15,951	15,606	16,457	15,124	15,590	16,115	15,537	14,721
Monetary financial institutions								
Total	62,094	55,703	53,910	53,221	53,273	50,569	50,401	50,657
Monetary gold and SDRs	371	309	342	348	340	368	362	363
Currency and deposits	6,777	7,351	9,746	10,358	10,621	7,994	7,713	7,560
Debt securities	11,483	12,086	12,077	13,241	13,387	14,230	15,041	15,973
Loans	41,344	34,556	30,412	27,863	27,312	26,416	25,670	25,179
Shares	1,283	846	746	666	671	660	651	641
Other equity	228	186	220	314	509	519	519	490
Investment fund shares/units	27	12	12	12	12	11	10	9
Insurance and pension schemes	37	35	37	37	37	39	38	38
Other	544	322	317	382	384	334	396	404
Other financial institutions								
Total	15,205	15,225	17,463	17,368	18,224	17,846	17,291	17,325
Currency and deposits	1,350	1,096	1,382	1,316	1,504	1,468	1,292	1,212
Debt securities	4,715	5,108	5,465	5,634	5,888	5,833	6,056	6,220
Loans	3,756	3,624	3,505	3,388	3,324	3,243	3,151	3,033
Shares	2,629	2,598	3,619	3,580	3,816	3,694	3,387	3,427
Other equity	224	196	668	640	634	641	624	612
Investment fund shares/units	1,545	1,672	1,856	1,918	2,142	2,070	1,924	2,001
Insurance and pension schemes	225	202	236	218	238	234	210	182
Other	762	731	732	675	678	662	648	639
General government								
Total	22,726	28,631	33,640	36,274	36,407	35,676	38,287	36,371
Currency and deposits	6,062	5,985	9,191	10,369	10,339	10,061	12,955	12,347
Debt securities	400	598	518	507	515	501	540	368
Loans	1,751	4,940	5,246	6,827	6,603	6,389	6,129	4,746
Shares	6,936	9,091	10,169	10,128	10,469	10,163	9,864	10,048
Other equity	4,245	4,560	4,851	4,904	4,946	4,956	5,153	5,179
Investment fund shares/units	146	163	192	206	233	222	223	244
Insurance and pension schemes	2	2	8	12	15	17	32	23
Other	3,184	3,292	3,463	3,320	3,287	3,365	3,391	3,417
Households and NPISHs								
Total	36,297	36,687	38,156	38,425	39,031	39,216	38,947	39,373
Currency and deposits	18,157	18,042	18,719	18,914	19,028	19,158	19,332	19,723
Debt securities	390	334	283	253	336	299	287	125
Loans	744	700	743	691	678	713	694	653
Shares	2,410	2,469	2,841	2,739	2,795	2,780	2,631	2,701
Other equity	5,610	5,734	5,750	5,785	5,820	5,847	5,877	5,806
Investment fund shares/units	1,139	1,151	1,360	1,398	1,599	1,580	1,433	1,528
Insurance and pension schemes	5,774	5,914	6,358	6,457	6,707	6,734	6,628	6,736
Other	2,072	2,342	2,104	2,189	2,067	2,106	2,065	2,101
Rest of the world								
Total	52,272	51,088	56,496	57,505	58,476	56,190	56,467	56,455
Monetary gold and SDRs	252	241	254	257	277	271	270	275
Currency and deposits	8,490	4,293	3,247	3,497	3,357	3,048	2,990	3,167
Debt securities	11,893	15,807	22,070	22,587	22,663	20,755	21,935	21,661
Loans	17,261	16,697	16,042	15,676	16,165	16,168	15,420	15,129
Shares	3,890	3,687	4,356	4,556	4,543	4,385	4,337	4,539
Other equity	4,511	4,815	5,150	5,401	5,497	5,571	5,745	6,104
Investment fund shares/units	21	28	22	21	24	24	23	25
Insurance and pension schemes	239	275	228	218	212	215	217	221

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2012	2013	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Domestic sector								
Total	199,232	197,350	205,056	204,959	206,549	202,653	203,184	200,728
Monetary gold and SDRs	252	241	254	257	277	271	270	275
Currency and deposits	39,243	35,203	37,262	38,457	38,689	37,175	38,536	39,172
Debt securities	19,871	25,359	31,699	32,858	33,026	31,731	33,622	33,154
Loans	65,646	61,027	56,918	54,996	54,839	53,671	51,906	49,577
Shares	19,790	20,887	22,535	22,274	22,501	21,904	21,242	21,615
Other equity	23,639	24,199	25,048	25,395	25,802	25,903	26,645	26,412
Investment fund shares/units	1,818	1,839	2,115	2,143	2,432	2,392	2,181	2,303
Insurance and pension schemes	6,553	6,684	7,151	7,209	7,510	7,545	7,452	7,498
Other	22,422	21,909	22,073	21,371	21,473	22,061	21,330	20,723
Non-financial corporations								
Total	86,546	84,839	85,035	82,591	82,559	82,309	80,600	78,137
Debt securities	838	818	1,040	1,088	1,128	1,163	1,192	1,179
Loans	32,883	31,297	30,776	28,954	28,916	28,229	27,040	24,756
Shares	14,314	14,225	14,636	14,233	14,055	13,701	13,242	13,421
Other equity	21,910	22,453	22,754	23,013	23,165	23,272	23,900	23,652
Other	16,600	16,047	15,828	15,302	15,295	15,944	15,225	15,130
Monetary financial institutions								
Total	57,909	50,512	48,642	48,917	48,919	46,458	46,507	47,006
Monetary gold and SDRs	252	241	254	257	277	271	270	275
Currency and deposits	37,318	33,048	33,718	34,122	34,597	33,236	33,219	34,012
Debt securities	2,484	1,667	1,756	1,666	1,604	918	1,223	1,149
Loans	13,114	10,427	7,261	7,073	6,364	6,053	5,753	5,574
Shares	3,302	3,866	4,156	4,399	4,522	4,484	4,562	4,539
Other equity	859	823	912	945	1,010	986	994	1,005
Investment fund shares/units	24	36	35	37	36	54	61	56
Other	557	404	550	419	510	456	424	396
Other financial institutions								
Total	16,303	16,069	17,669	17,573	18,239	17,916	17,300	17,306
Debt securities	50	39	136	136	138	97	92	73
Loans	5,420	5,070	4,756	4,486	4,167	4,107	3,989	3,791
Shares	1,492	1,486	2,166	2,174	2,341	2,151	2,003	2,093
Other equity	457	472	886	947	1,153	1,167	1,162	1,155
Investment fund shares/units	1,794	1,804	2,080	2,106	2,396	2,338	2,120	2,247
Insurance and pension schemes	6,553	6,684	7,151	7,209	7,509	7,545	7,452	7,498
Other	538	513	496	516	534	511	482	448
General government								
Total	25,867	33,629	41,396	43,632	44,589	43,751	46,510	46,062
Currency and deposits	1,925	2,155	3,545	4,335	4,092	3,939	5,317	5,160
Debt securities	16,500	22,835	28,767	29,967	30,156	29,552	31,115	30,753
Loans	3,100	3,448	3,448	3,846	4,689	4,578	4,432	4,738
Shares	682	1,309	1,577	1,469	1,583	1,568	1,435	1,562
Other equity	413	451	496	491	474	478	588	600
Other	3,248	3,430	3,563	3,525	3,595	3,635	3,623	3,250
Households and NPISHs								
Total	12,607	12,301	12,314	12,245	12,243	12,220	12,268	12,217
Loans	11,128	10,785	10,677	10,637	10,705	10,704	10,692	10,718
Other	1,479	1,516	1,637	1,608	1,538	1,515	1,575	1,498
Rest of the world								
Total	33,588	33,349	38,130	39,174	40,883	39,402	40,501	40,506
Monetary gold and SDRs	371	309	342	348	340	367	362	363
Currency and deposits	5,584	6,151	9,968	11,050	11,213	9,886	11,144	10,555
Debt securities	9,257	8,767	8,900	9,548	9,955	10,065	10,399	11,335
Loans	5,704	5,640	5,597	5,492	5,526	5,376	5,192	5,012
Shares	2,556	2,330	2,494	2,457	2,726	2,693	2,464	2,637
Other equity	2,983	3,099	3,111	3,008	3,013	2,970	3,043	2,981
Investment fund shares/units	1,184	1,294	1,451	1,520	1,687	1,623	1,528	1,602
Insurance and pension schemes	141	131	143	141	151	148	131	129
Other	5,808	5,628	6,125	5,610	6,273	6,273	6,238	5,892

Table 9.11: Net financial assets

EUR million	2012	2013	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Domestic sector	-18,684	-17,739	-18,365	-18,330	-17,593	-16,788	-15,965	-15,949
Non-financial corporations	-42,320	-41,475	-41,512	-41,250	-40,538	-39,751	-38,306	-37,085
Monetary financial institutions	4,186	5,191	5,268	4,304	4,354	4,111	3,894	3,651
Other financial institutions	-1,098	-844	-206	-205	-15	-69	-9	19
General government	-3,142	-4,998	-7,756	-7,358	-8,182	-8,075	-8,224	-9,691
Households and NPISHs	23,690	24,386	25,842	26,179	26,788	26,997	26,679	27,157
Rest of the world	18,684	17,739	18,365	18,331	17,593	16,788	15,965	15,950

Table 9.12: Non-consolidated transactions in financial assets – four quarter moving sum of flows

EUR million	2012	2013	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Domestic sector								
Total	-718	-1,498	1,522	3,760	-65	-2,035	2,132	887
Monetary gold and SDRs	-1	-12	17	12	-43	0	0	0
Currency and deposits	-1,171	777	4,405	8,795	4,154	159	2,580	439
Debt securities	-141	993	822	661	1,181	2,699	3,334	3,086
Loans	1,505	-3,799	-4,616	-4,645	-4,502	-4,431	-3,685	-3,080
Shares	29	139	-284	-824	-846	-540	-165	43
Other equity	179	431	359	185	410	333	837	627
Investment fund shares/units	15	27	92	152	208	235	211	167
Insurance and pension schemes	23	-23	145	182	249	217	192	178
Other	-1,155	-31	582	-758	-876	-706	-1,170	-573
Non-financial corporations								
Total	-931	138	1,289	-409	-458	-797	-465	284
Currency and deposits	-126	579	478	472	358	318	467	673
Debt securities	-1	-16	-16	-14	-20	-17	-28	-36
Loans	-325	-207	705	75	110	-265	-305	-193
Shares	56	-6	-241	-337	-334	-265	-34	100
Other equity	111	110	-86	-100	-28	-5	371	248
Investment fund shares/units	-22	-20	-8	-1	-5	-3	-1	-3
Insurance and pension schemes	-11	-41	10	24	20	18	36	23
Other	-613	-261	447	-528	-558	-579	-970	-529
Monetary financial institutions								
Total	887	-3,413	-3,528	-1,531	-1,937	-2,709	-1,959	-1,807
Monetary gold and SDRs	-1	-12	17	12	-43	0	0	0
Currency and deposits	24	613	2,274	2,936	2,038	-1,307	-2,081	-2,849
Debt securities	-371	512	627	805	987	2,424	2,893	2,764
Loans	1,307	-4,344	-6,467	-5,251	-4,966	-3,982	-3,080	-1,929
Shares	3	-147	-116	-208	-216	-129	-54	9
Other equity	47	148	212	155	336	304	313	205
Investment fund shares/units	-52	-13	-8	-4	-4	-2	-2	-2
Insurance and pension schemes	-4	-1	1	2	2	2	2	1
Other	-65	-169	-68	22	-72	-17	50	-6
Other financial institutions								
Total	-329	96	-14	-116	77	177	72	226
Currency and deposits	-166	-270	64	158	216	160	-112	-122
Debt securities	221	305	184	100	361	341	477	493
Loans	-487	-92	-279	-304	-298	-309	-317	-192
Shares	-100	75	-43	-79	-104	12	57	49
Other equity	60	13	56	26	-7	-8	0	15
Investment fund shares/units	148	74	47	59	85	78	64	31
Insurance and pension schemes	45	-24	18	15	-17	-18	-24	-34
Other	-50	14	-61	-91	-160	-78	-73	-14
General government								
Total	-112	1,525	2,911	5,023	1,397	485	3,701	1,197
Currency and deposits	-916	-71	911	4,356	850	392	3,705	1,925
Debt securities	49	191	99	-131	-86	-23	14	-122
Loans	987	866	1,405	833	652	116	28	-749
Shares	124	271	204	-123	-110	-90	-75	-72
Other equity	-69	148	147	77	78	10	120	121
Investment fund shares/units	9	4	14	16	14	13	32	26
Insurance and pension schemes	0	0	5	2	5	3	5	0
Other	-295	116	125	-8	-5	65	-127	69
Households and NPISHs								
Total	-233	155	864	793	857	808	784	987
Currency and deposits	14	-74	677	874	691	596	601	812
Debt securities	-38	0	-71	-99	-61	-26	-22	-13
Loans	24	-23	20	1	0	10	-11	-17
Shares	-54	-54	-87	-77	-81	-69	-58	-44
Other equity	31	13	29	27	32	32	32	38
Investment fund shares/units	-69	-19	46	83	118	149	119	116
Insurance and pension schemes	-7	43	111	138	239	212	172	188
Other	-133	268	138	-152	-80	-96	-49	-93
Rest of the world								
Total	-111	-789	1,828	3,311	2,371	-662	423	-882
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	942	-4,186	-3,799	-805	111	-156	-273	-350
Debt securities	-535	3,784	5,895	4,430	1,074	-1,454	-79	-999
Loans	-650	-196	-697	-1,142	-549	-448	-788	-731
Shares	129	54	606	1,040	1,081	789	587	288
Other equity	-26	-32	-61	-51	424	270	803	1,036
Investment fund shares/units	4	2	-11	-11	-4	1	2	3
Insurance and pension schemes	41	39	-45	-54	-59	-15	-11	3

Table 9.13: Non-consolidated transactions in liabilities – four quarter moving sum of flows

EUR million	2012	2013	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Domestic sector								
Total	-695	-2,476	-287	1,583	-2,015	-4,235	-128	-1,364
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-313	-3,988	-3,293	3,170	816	-201	1,186	644
Debt securities	-444	5,338	7,215	4,602	1,460	61	1,838	338
Loans	683	-4,031	-5,223	-5,723	-4,907	-4,800	-4,391	-3,660
Shares	113	271	217	172	184	211	389	197
Other equity	140	248	145	87	777	647	1,638	1,741
Investment fund shares/units	-109	-38	24	39	113	160	145	142
Insurance and pension schemes	35	27	93	121	187	198	189	189
Other	-801	-302	533	-884	-645	-511	-1,121	-954
Non-financial corporations								
Total	-1,197	-1,681	-764	-2,314	-2,175	-2,497	-2,491	-1,635
Debt securities	63	20	242	288	215	35	122	83
Loans	-937	-1,389	-978	-1,953	-1,925	-2,365	-3,053	-2,585
Shares	136	32	-114	54	61	64	235	109
Other equity	124	106	97	155	309	194	1,053	1,134
Other	-582	-449	-12	-858	-836	-425	-847	-377
Monetary financial institutions								
Total	-156	-7,302	-6,994	-2,320	-2,709	-3,508	-2,708	-2,289
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	542	-4,221	-3,569	1,002	609	-227	-554	-146
Debt securities	-1,678	-627	8	14	-53	-644	-530	-525
Loans	1,167	-2,320	-3,604	-3,367	-3,214	-2,644	-1,542	-1,536
Shares	-29	-23	131	114	119	120	121	37
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	-3	12	9	0	0	20	26	19
Other	-155	-122	30	-82	-170	-132	-230	-138
Other financial institutions								
Total	-389	-162	-487	-635	-269	-173	-30	233
Debt securities	0	-10	-8	1	4	-47	-52	-72
Loans	-344	-350	-534	-694	-963	-912	-785	-491
Shares	5	56	-1	3	4	27	33	51
Other equity	16	141	48	-68	468	453	474	496
Investment fund shares/units	-106	-50	15	39	113	140	119	123
Insurance and pension schemes	35	27	93	121	186	198	189	189
Other	4	25	-101	-36	-82	-33	-8	-62
General government								
Total	1,387	6,937	8,079	6,923	3,245	2,043	5,152	2,331
Currency and deposits	-855	232	275	2,168	207	26	1,739	791
Debt securities	1,169	5,956	6,973	4,299	1,294	717	2,297	851
Loans	1,098	347	94	395	1,279	1,169	988	871
Shares	0	205	200	0	0	0	0	0
Other equity	0	0	0	0	0	0	111	111
Other	-25	197	536	59	464	130	17	-293
Households and NPISHs								
Total	-341	-268	-120	-71	-106	-100	-51	-4
Loans	-301	-317	-201	-103	-84	-48	1	80
Other	-43	47	80	33	-22	-52	-52	-84
Rest of the world								
Total	-133	188	3,637	5,487	4,321	1,538	2,683	1,368
Monetary gold and SDRs	-1	-12	17	12	-43	0	0	0
Currency and deposits	85	579	3,898	4,821	3,449	204	1,121	-555
Debt securities	-232	-561	-498	488	794	1,183	1,417	1,749
Loans	171	36	-90	-65	-144	-79	-83	-151
Shares	45	-78	104	44	51	38	33	134
Other equity	14	151	152	48	57	-44	2	-78
Investment fund shares/units	128	67	57	102	92	77	68	28
Insurance and pension schemes	28	-10	6	8	3	3	-8	-8
Other	-369	16	-10	29	62	156	133	249

Table 9.14: Net financial transactions – four quarter moving sum of flows

EUR million	2012	2013	14Q3	14Q4	15Q1	15Q2	15Q3	15Q4
Domestic sector	-23	978	1,809	2,177	1,950	2,200	2,260	2,251
Non-financial corporations	265	1,819	2,053	1,904	1,717	1,700	2,025	1,919
Monetary financial institutions	1,043	3,889	3,466	789	773	799	749	482
Other financial institutions	60	257	474	519	346	350	102	-8
General government	-1,499	-5,411	-5,168	-1,899	-1,848	-1,557	-1,451	-1,134
Households and NPISHs	108	424	984	863	963	908	835	991
Rest of the world	23	-978	-1,809	-2,177	-1,950	-2,200	-2,260	-2,251

METHODOLOGICAL NOTE

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.