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Executive Summary

It is increasingly evident that economic activity in different countries is being shaped by their approaches to dealing with the epidemic and the success of these approaches. *Although the global economic situation improved significantly at the end of last year, and the availability of a vaccine against Covid-19 lifted the mood in the real sector and, significantly more so, on the financial markets, there were pronounced differences between economies. For example, the PMI points to an expansion in economic activity in China, India, Brazil, the US and, to a lesser extent, even the UK. In the latter two cases, this is despite the introduction of more stringent containment measures on account of the renewed spread in the epidemic. It is a different case in the majority of continental Europe, where a profound recession has again taken hold in services as the epidemiological picture worsens. There was an uptick in some of the short-term indicators in the euro area in December, but no significant improvement is expected at the beginning of this year, as the epidemic is not yet under control. The renewed rise in case numbers could also worsen the mood on the financial markets. According to the December projections drawn up under the aegis of the ECB, GDP in the euro area is forecast to increase by just 3.9% this year, and is not forecast to regain its pre-crisis level until mid-2022. The monetary policy stance has therefore been made even more countercyclical. US dollar prices of oil and other commodities rose significantly at the end of the year, but their pass-through into euro area inflation will be limited by the sharp appreciation of the euro. The euro area was actually facing deflation again in December: prices were down 0.3% in year-on-year terms.*

The domestic epidemiological situation in the final quarter was among the worst in the euro area, and required the long-lasting tightening of containment measures, which triggered a sharp decline in economic activity. *In contrast to the first wave, when manufacturing was also under severe pressure, this time it was mainly services that were hit. Domestic private consumption declined sharply, and sectors reliant on foreign visitors suffered an event harder shock. The situation in construction and industry was significantly better. Construction activity actually declined slightly in October, but a larger decline towards the end of the year would be surprising considering the survey indicators. The signals from the manufacturing sector were even better. Output in October was down just 1.2% in year-on-year terms, while the PMI was strongly positive in the final quarter of last year, in line with the German indicator, and capacity utilisation had already regained its level from a year earlier. Therefore, the shock in economic activity was not as large as in the first wave. Further evidence of this comes from the economic sentiment indicator, which remained higher than in the spring, although the poor health picture means that the situation in the Slovenian economy cannot be expected to improve quickly. As the fight against the epidemic goes on, the national accounts figures for the third quarter show that economic policy can effectively protect a large amount of economic potential, thus allowing for a faster recovery when the health crisis is resolved.*

The situation on the domestic labour market remained better than the euro area average, although it is deteriorating in response to the new wave of the epidemic. *Registered unemployment has undergone a sustained increase since November, and on 6 January was just 1,600 less than its peak during the first wave. The number of unemployed in December was up 15.9% in year-on-year terms. An even worse situation is being prevented by the support measures: almost a tenth of all employees were on furlough in December. Despite the new crisis shock,* *vacancies remain significantly higher than in the spring, and firms are more optimistic than the euro area average in their assessments of future employment. The outlook for this year is nevertheless uncertain, and developments on the labour market are primarily dependent on the continuation of the support measures and on the successful management of the health crisis. Wage growth remained high in October, at almost 5%. Growth in real unit labour costs is now well above the euro area average, which in the longer term could harm the competitiveness of the economy. However, a more credible assessment of the actual effects needs to wait until after the end of the epidemic and the withdrawal of the support measures, which are having a profound impact on the measurement of labour costs.*

The beginning of the second wave of the epidemic did not have an adverse impact on Slovenia's export sector, with the exception of tourism. *According to balance of payments figures, merchandise exports in October were down only 2.6% in year-on-year terms, as sales on euro area markets recovered and exports to Asia actually increased strongly. The initial estimates for November are also encouraging. At the same time manufacturing firms remained relatively optimistic at the end of last year in their short-term export expectations. Imports too were yet to respond to the new wave of the epidemic by November. Imports of consumer goods in October were actually up in year-on-year terms, while the decline in imports of capital goods relative to the previous year was small. The year-on-year fall in imports diminished further in November, according to initial estimates. This is slightly surprising given the new shock in domestic demand, and might be indicative of stockpiling, as seen in the spring. The worsening epidemic in Europe additionally hit tourism. The new shock in tourism and travel industry saw total imports and exports of services decline by 16.0% and 18.6% in year-on-year terms respectively in October, despite growth in most other segments of services trade. The current account surplus continued to strengthen, in reflection of the weakness of domestic demand compared with foreign demand, and an improvement in the terms of trade.*

The epidemic has profoundly altered the financial position of the institutional sectors. *The government sector saw a sharp reversal over the first three quarters of last year, as the additional borrowing required by the emergency measures brought an end to the two-year trend of net saving. Non-financial corporations responded to the economic shock with their usual crisis behaviour, and increased their saving while postponing investment, although they were already net savers before the new crisis on account of the increasing uncertainty in the international environment. The saving-investment gap in the total economy continued to be driven by households, who have been saving at even greater rate (including forced saving) since the outbreak of the epidemics. The excess saving by the private non-financial sector primarily flowed in the form of deposits to banks, which in turn continued to place the money with the central bank. The financial accounts are also shedding further light on the seriousness of the situation, as the banking system ended its additional financial support for the real economy in the third quarter of last year. The year-on-year increase in lending came to a complete halt.*

The crisis caused by the epidemic led to deflation last year, driven largely by the external environment, although domestic inflation factors were also getting continually weaker. *Year-on-year inflation as measured by the HICP averaged -0.3% last year, down 2 percentage points on the previous year. Energy prices were responsible for 1.4 percentage points of the decline, driven primarily by falling global oil prices. There was also a significant overall decline in import prices. Inflation in the euro area averaged 0.3% over the year, but has been negative since August. Similarly to the first wave, deflation in Slovenia deepened at the end of the year as the containment measures were re-tightened, and the weakness of domestic price pressures became increasingly evident. December saw deflation of 1.2%, while core inflation stood at just 0.1%. It should be reiterated that there were also sharp falls in service prices and prices of non-energy industrial goods over the course of the year. The renewed rise in* *unemployment, the huge uncertainty among consumers, the low income levels and the renewed shock to private consumption further weakened domestic price factors at the end of the year, as a result of which core inflation is likely to remain low for some time even after the containment measures are lifted. Assessments of price developments at the end of last year were not entirely reliable, as price measurement has again been made difficult by the reimposition of stringent containment measures in the second wave of the epidemic. Comparing the HICP and the CPI has also been made more difficult: methodological differences meant that there was considerable discrepancy between the two inflation measures last year. This demands caution in the interpretation of the differences in the inflation analyses and forecasts by various institutions. In light of the current epidemiological picture, future price developments remain uncertain.*

The extensive anti-crisis measures have significantly worsened the fiscal position, although debt levels remained lower than in the euro area overall. *Consolidation will be very gradual. The general government deficit over the first nine months of last year stood at 7.7% of GDP, primarily on account of the shock in the second quarter. The decline in revenues was driven by corporate income tax and taxes on consumption, as the epidemic had a profound impact on corporate performance and on private consumption. The impact of the epidemic was even more evident in the 12.9% rise in expenditure, where the main factor was the measures on the labour market. According to the government's October estimates, the year-end deficit is forecast at 8.6% of GDP, and will remain high this year at 6.6% of GDP, as various support measures remain in place, albeit in smaller scale than last year amid the anticipated waning of the epidemic. The general government debt stood at 78.5% of GDP at the end of September. Amid additional borrowing, largely via the issuance of 30-year bonds in October, it is forecast to have exceeded 80% of GDP by the end of last year, and only then to gradually decline. Nevertheless, it will remain significantly lower than the euro area average. The terms of borrowing have further improved, thanks to extensive monetary policy support; 10-year government bonds were issued at negative yield for the first time in January of this year. Once the epidemiological situation has eased, it will be vital to withdraw the fiscal measures gradually, to prevent adverse shocks during the economic recovery.*

The economic recovery after the epidemic needs to be increasingly based on sustainable growth and progress in society, which relates in part to environmental sustainability. *This will gradually lead to structural changes in the economy and in manufacturing processes. Slovenia has shown progress over a longer time horizon in a variety of environmental indicators, such as emissions, and resource and energy productivity, but it is yet to reach the European average in these measures. Adapting to climate change needs to be sharply accelerated to reach the target of carbon neutrality by the middle of this century. For this purpose, funding will also be available from the EU's Recovery and Resilience Facility.*

Main macroeconomic indicators

	2017	2018	2019	20Q1	20Q2	20Q3	2017	2018	2019	20Q1	20Q2	20Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	4.8	4.4	3.2	-2.4	-13.0	-2.6	2.6	1.9	1.3	-3.0	-14.8	-4.3
- industry	7.0	2.9	6.1	-0.9	-15.8	-2.9	3.4	1.7	-0.9	-4.5	-19.3	-5.7
- construction	7.1	8.1	7.1	1.6	-8.9	1.4	1.9	2.4	3.0	-1.9	-14.4	-4.6
- mainly public sector services	1.9	1.8	1.5	0.1	-4.1	1.5	1.2	1.0	1.1	-1.3	-8.3	0.3
- mainly private sector services	5.7	4.8	3.8	-1.3	-14.3	-3.3	3.0	2.1	1.3	-2.9	-16.1	-5.5
Domestic expenditure	3.9	5.0	3.4	-3.2	-12.5	-5.0	2.3	1.9	1.9	-1.6	-14.2	-4.1
- general government	0.4	3.0	1.7	4.1	-1.1	1.4	1.1	1.2	1.9	0.8	-2.0	2.2
- households and NPISH	1.9	3.6	4.8	-6.3	-17.3	-0.8	1.8	1.5	1.3	-3.6	-16.1	-4.4
- gross capital formation	13.6	10.3	1.5	-2.2	-10.5	-19.6	4.9	3.5	3.3	1.3	-20.4	-9.4
- gross fixed capital formation	10.2	9.6	5.8	-3.2	-14.2	-1.8	3.8	3.2	5.8	1.7	-20.5	-4.8
- inventories and valuables, contr. to GDP growth in pp	0.8	0.3	-0.9	0.2	0.8	-4.0	0.2	0.1	-0.5	-0.1	0.0	-1.0
Labour market												
Employment	3.0	3.2	2.5	1.2	-1.8	-1.8	1.6	1.6	1.2	0.4	-3.1	-2.3
- mainly private sector services	3.1	3.4	2.6	1.0	-2.6	-2.7	1.7	1.7	1.1	0.1	-4.2	-3.2
- mainly public sector services	2.5	2.2	1.8	2.1	1.7	2.2	1.2	1.2	1.5	1.2	0.2	0.5
Labour costs per employee	3.0	3.9	4.9	3.1	-2.2	3.6	1.7	2.2	1.9	0.6	-4.6	0.7
- mainly private sector services	3.0	4.1	4.5	2.7	-6.7	2.7	1.7	2.3	1.9	-0.1	-7.0	0.1
- mainly public sector services	3.1	3.3	6.6	6.1	7.3	7.2	1.8	2.1	2.1	2.3	1.4	2.1
Unit labour costs, nominal*	1.2	2.8	4.2	6.8	10.4	4.4	0.7	1.9	1.9	4.1	8.4	2.8
Unit labour costs, real**	-0.3	0.6	1.9	4.1	7.4	4.4	-0.4	0.5	0.2	2.1	6.0	1.9
	in %											
LFS unemployment rate	6.6	5.1	4.5	4.6	5.2	5.1	9.1	8.2	7.6	7.5	7.3	8.4
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	6.2	5.8	5.6	5.9	6.0	6.5	3.1	2.9	2.3	2.0	2.2	2.0
External trade balance as contr. to GDP growth in pp	1.2	-0.2	0.1	0.6	-1.6	2.0	0.4	0.1	-0.5	-1.5	-1.1	-0.4
Real export of goods and services	11.1	6.3	4.1	-1.0	-23.4	-9.5	5.5	3.6	2.5	-2.9	-21.7	-8.7
Real import of goods and services	10.7	7.2	4.4	-1.9	-24.2	-13.1	5.2	3.7	3.9	0.2	-20.8	-8.8
Financing	*in % of GDP*											
Banking system's balance sheet	93.9	88.4	88.0	90.0	94.9	96.0	260.4	256.2	261.2	280.2	295.6	297.3
Loans to NFCs	21.8	20.6	19.9	20.2	20.7	20.4	36.9	36.4	36.1	36.5	39.4	40.1
Loans to households	21.5	21.7	22.0	22.0	22.4	22.7	49.3	49.0	49.2	49.6	51.4	52.5
Inflation	*in %*											
HICP	1.6	1.9	1.7	1.6	-1.2	-0.6	1.5	1.8	1.2	1.1	0.2	0.0
HICP excl. energy, food, alcohol and tobacco	0.7	1.0	1.9	1.6	0.6	0.6	1.0	1.0	1.0	1.1	0.9	0.6
Public finance	*in % of GDP*											
Debt of the general government	74.1	70.3	65.6	69.0	78.3	78.5	87.7	85.8	84.0	86.2	95.1	...
One year net lending/net borrowing of the general government***	-0.1	0.7	0.5	-0.8	-4.8	-5.4	-0.9	-0.5	-0.6	-1.1	-3.7	...
*- interest payment****	2.5	2.0	1.7	1.7	1.7	1.7	1.9	1.8	1.6	1.6	1.6	...
*- primary balance****	2.4	2.7	2.2	0.9	-3.1	-3.8	1.0	1.4	1.0	0.5	-2.1	...

Notes: Data is not seasonally and working days adjusted.
** Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.*
*** Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.*
**** 4-quarter moving sum.*
Source: SORS, Eurostat, Bank of Slovenia, ECB, Ministry of Finance, Bank of Slovenia calculations.

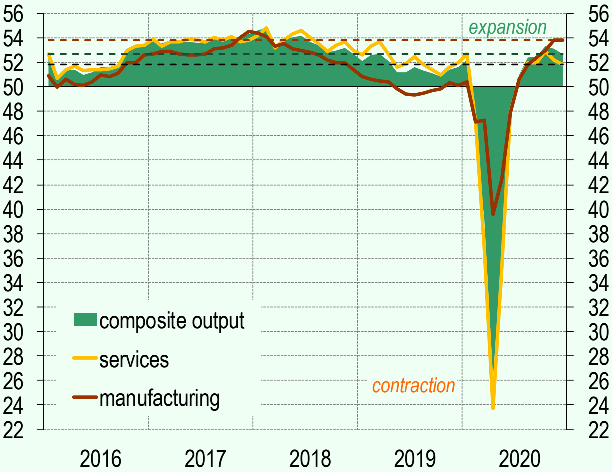
1 International Environment

The global economic situation improved significantly at the end of last year. Amid the increasing availability of vaccines against coronavirus, the risks in the international environment also eased slightly. Differences between countries are becoming more evident. The reimposition of stringent containment measures has not yet had an evident impact on economic activity in the US, while GDP in the euro area declined in current terms during the final quarter of last year, albeit significantly less than in the second quarter. Although the December figures were slightly more promising, with an uptick in several short-term indicators, there is no expectation of a significant improvement in the economic situation in the euro area in the early part of this year. According to the ECB's latest core projections, euro area GDP is forecast to increase by just 3.9% this year, meaning that last year's losses will not be fully regained until the middle of next year. The Eurosystem has responded to the difficult situation by expanding the pandemic emergency purchase programme (PEPP), which has been extended until the end of 2022, and further easing the terms of the targeted longer-term refinancing operations (TLTRO-III). The euro approached USD 1.23 at the turn of the year, its highest level in almost three years. The price of a barrel of Brent crude also rose to approximately USD 53, but remained down more than 20% in year-on-year terms.

High-frequency indicators of economic activity in December

The global economic situation improved significantly at the end of last year. Although global economic growth slowed slightly further in December, the final quarter of last year saw the strongest growth in the last two years, at least according to the JPMorgan PMI (see Figure 1.1). The highlight was a sharp increase in activity in manufacturing, where the PMI in December was unchanged from the previous month, when it reached its highest level since the beginning of 2018. The situation in the service sector also remained favourable: the PMI's average over the final quarter of last year was its highest level of the

Figure 1.1: JPMorgan Purchasing Managers' Index (PMI) – global

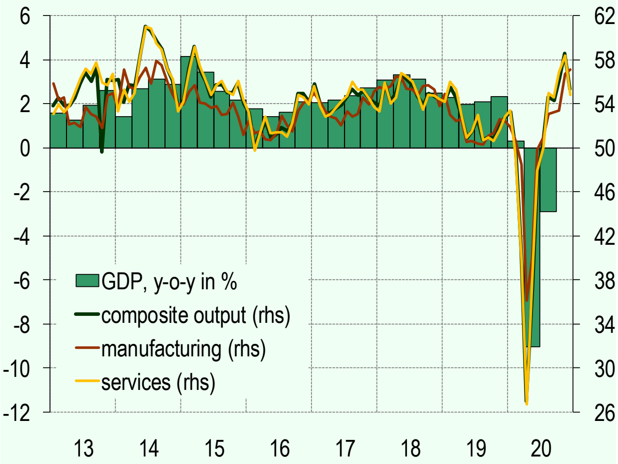


Note: Dashed line represents the value of the last observation.
Source: IHS Markit.

year and a half. The differences between countries widened. Activity strengthened in the US in December, for the sixth consecutive month, albeit by slightly less than in the two previous months, which was a reflection of the rising number of cases and the reimposition of stringent containment measures in certain states (see Figure 1.2). Among the major economies, at least according to the PMI, growth was also being recorded by India, Brazil, China and, to a lesser extent, the UK, while GDP was falling in current terms in the euro area, Russia and Japan.

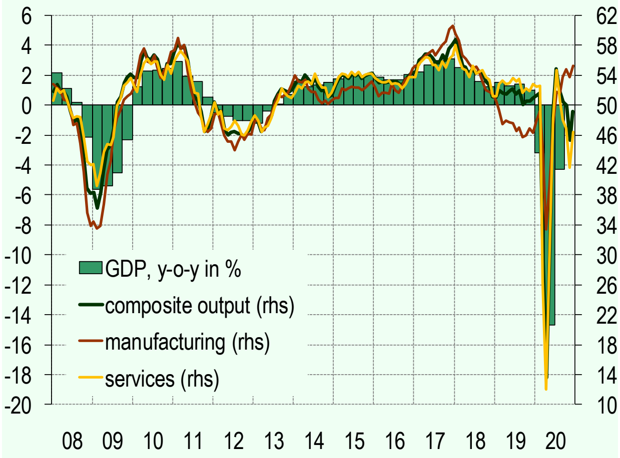
The new wave of the epidemic triggered a fall in economic activity in the euro area in the final quarter of last year. It was considerably smaller than in the second quarter, as the containment measures were less stringent, despite the significant rise in the number of cases (see Figure 1.3). This is indicated by the composite PMI, which after sliding to 45.3 points in November actually rose slightly in December, although it still averaged under the 50 mark over the final quarter of last year (see Figure 1.4). Amid stronger foreign demand, particularly from China, growth in manufacturing activity picked up sharply in December, and according to the PMI was at its highest rate in more than two and a half years. By contrast, activity in private-sector services continued to contract, albeit less intensively than in November. The European Commission's ESI was also slightly higher in December, and has been adjusted by Bank of Slovenia to reflect the

Figure 1.2: Purchasing Managers' Index (PMI) and GDP growth in the US



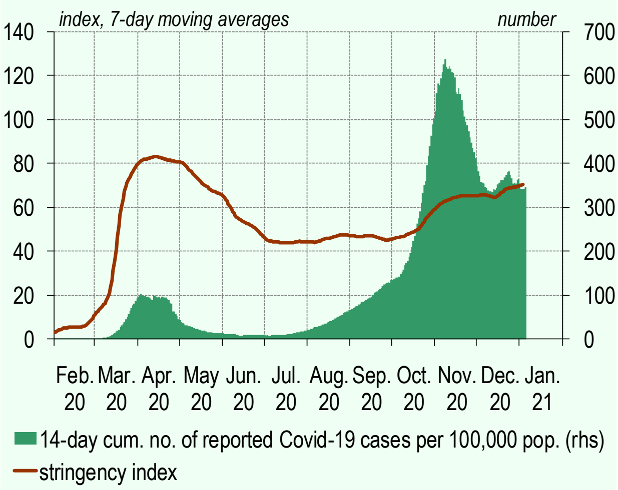
Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: Investing, IHS Markit, Fred.

Figure 1.4: Purchasing Managers' Index (PMI) and GDP growth in the euro area



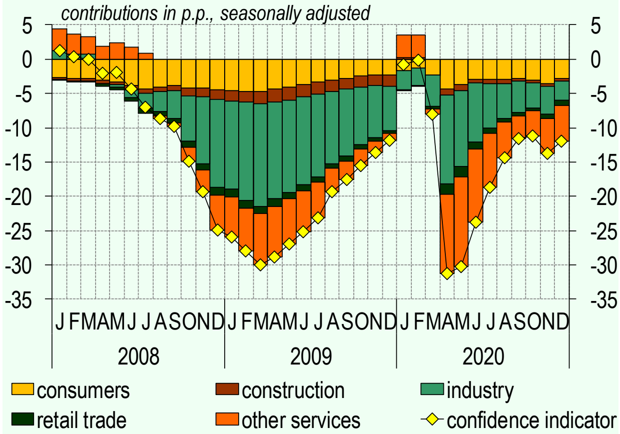
Note: Index PMI above 50 indicates an increase in activity and below 50 a decrease in activity.
Source: IHS Markit, Eurostat, Bank of Slovenia calculations.

Figure 1.3: Number of reported Covid-19 cases and stingency index – euro area



Source: Oxford Economics, Eurostat, Bank of Slovenia calculations.

Figure 1.5: Confidence indicators in the euro area



Note: The weighted economic sentiment indicator is composited from the figures for industry (40%), services (30%), construction (5%), retail (5%) and consumers (20%). It differs from the European Commission indicator.
Source: Eurostat, Bank of Slovenia calculations.

contributions by individual sectors and consumer categories;[1] it reached -11.9 percentage points, down 10.3 percentage points on a year earlier (see Figure 1.5).[2] The outlook with regard to the evolution of employment was also better, with the exception of other private-sector services. Consumers remain rather pessimistic, and are expecting a sharp rise in unemployment this year.

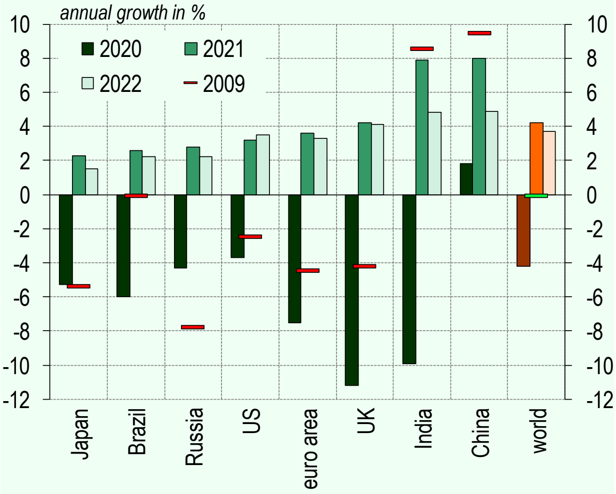
Economic forecasts

International institutions are forecasting a relatively sharp recovery in the global economy, with the pre-crisis level of GDP being regained by the end of 2021. In its December projections the OECD forecast a deep decline of 4.2% in global GDP in 2020, followed by roughly equal growth this year and growth of 3.7% in 2022.[3] The best-performing major economy in 2021 is expected to be China, with growth of 8.0%, having been the only economy that did not slide into recession last year. High growth will also be recorded by other countries hit hardest by the Covid-19 pandemic, namely India and the UK, where GDP growth is forecast at 7.9% and 4.2% respectively. The euro area will only see a moderate recovery: activity is forecast to strengthen by 3.6%,[4] largely as a result of extensive economic policy support, including the Next Generation EU instrument, and the recovery in foreign demand. By contrast, slightly slower economic growth of around 2.6% is forecast for Japan, Brazil and Russia this year, while growth of 3.2% is forecast for the US.

Economic developments in the third quarter of 2020

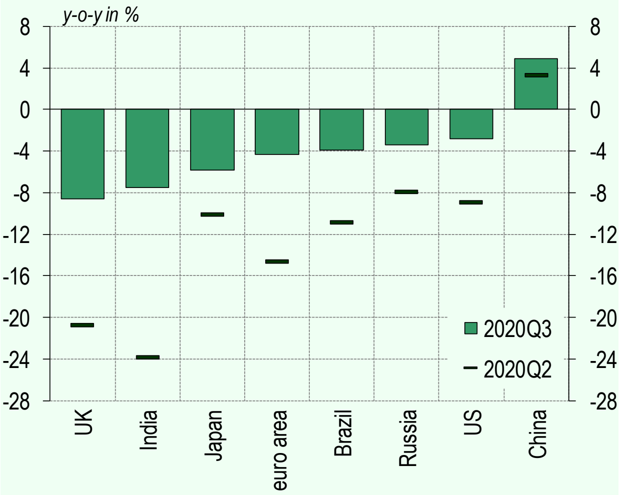
Economic activity in numerous economies strengthened sharply as expected in the third quarter of last year, but remained below its pre-epidemic level. The economic recovery in most countries was driven by private consumption and, to a lesser extent, corporate investment activity. Of the major global economies, the largest year-on-year declines in GDP were seen in the UK (8.6%) and India (7.5%), but the euro area also recorded a sharp year-on-year decline in activity (of 4.3%). GDP was also down in year-on-year terms in Japan and Brazil, for the fourth and third consecutive

Figure 1.6: OECD GDP growth forecasts in major developed countries and BRIC



Source: IMF, OECD Economic Outlook.

Figure 1.7: Economic growth in major developed countries and BRIC



Source: Tradingeconomics, Fred.

[1] The weighted economic sentiment indicator is composited from the figures for industry (40%), services (30%), construction (5%), retail (5%) and consumers (20%). It differs from the European Commission indicator, which is disclosed in the form of a ratio to the long-term average.

[2] For more information, see Box 1.1 on page 17.

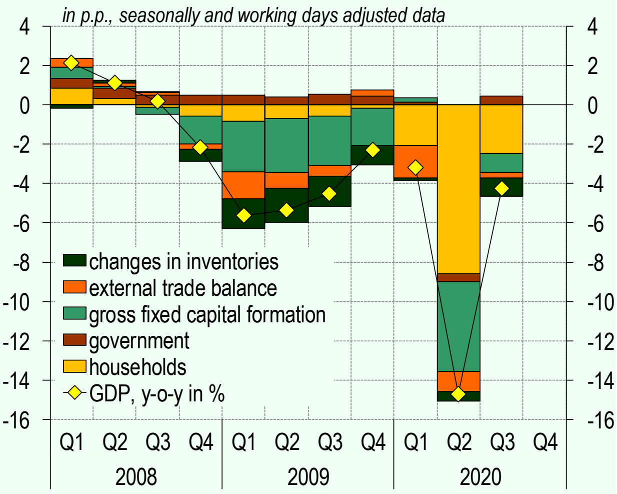
[3] According to the latest World Bank forecasts, global GDP growth is expected to reach 4.0% this year, and 3.8% in 2022.

[4] In its December projections the ECB forecast euro area GDP to decline by 7.3% in 2020, followed by growth of 3.9% this year and 4.2% in 2022. GDP would thus regain its pre-epidemic level by the middle of next year.

quarters respectively. The smallest declines in economic activity were again recorded by Russia and the US, while year-on-year economic growth in China increased by 1.7 percentage points to 4.9% (see Figure 1.7).

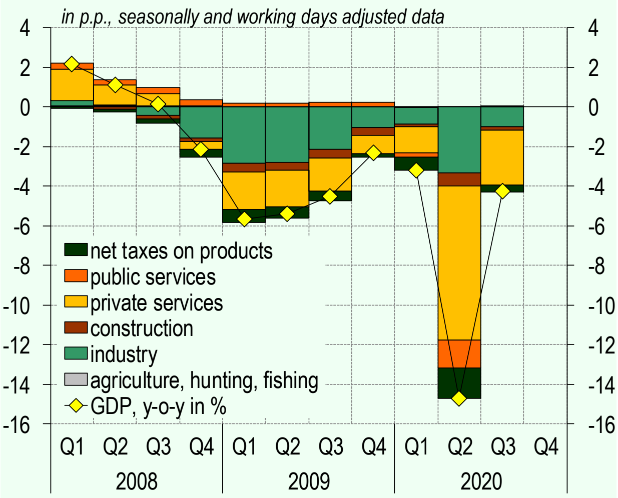
The euro area recorded its largest ever quarterly increase in economic activity in the third quarter of last year. According to seasonally and calendar-adjusted figures, euro area GDP was up 12.5% in quarterly terms, but remained down 4.3% in year-on-year terms, only 1.4 percentage points less than at the worst point of the crisis of 2009. The prevailing factor in the economic recovery was private consumption, which was nevertheless down 4.6% in year-on-year terms, 11.4 percentage points less than the decline in the second quarter of last year, but still significantly more than at the worst point of the crisis of 2009 (see Figure 1.8). The negative contributions made by gross fixed capital formation and net trade were also smaller, while government consumption mitigated the decline in GDP by around 0.5 percentage points. The situation improved in all sectors (see Figure 1.9), most notably industry, where the year-on-year decline in value-added diminished by 13.1 percentage points to 5.9%. The year-on-year decline in value-added in private-sector services was similar, and was 10.1 percentage points less than in the previous quarter, which was nevertheless larger than the worst figure of 2009.

Figure 1.8: Structure of GDP growth in the euro area, expenditure side



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.9: Structure of GDP growth in the euro area, production side



Source: Eurostat, Bank of Slovenia calculations.

Euro exchange rate and oil prices

Given the economic downturn, the Governing Council of the ECB took additional monetary policy measures at its December meeting. One of the most notable measures was the expansion of the envelope of the pandemic emergency purchase programme (PEPP) by EUR 500 billion to a total of EUR 1,850 billion, and the extension of the horizon to March 2022 at least, with the principal of maturing securities being fully reinvested at least until the end of 2023. At the same time the terms of the targeted long-term refinancing operations (TLTRO-III) were further eased, until June 2022. The Fed's monetary policy also remains strongly accommodative. The euro exceeded USD 1.22 at the end of last year, its highest mark against the US dollar since April 2018 (see Figu-

Figure 1.10: Brent oil prices and EUR/USD exchange rate

Source: Bloomberg, Bank of Slovenia calculations.

re 1.10). The euro exchange rate stood at USD 1.23 on 7 January, up approximately 10.0% on a year earlier.

Oil prices rose towards the end of 2020, to reach their pre-epidemic levels. The price of Brent crude has gained just over 45% since the beginning of last November. The price moved past USD 53 per barrel at the turn of the year, the highest mark since February of last year, and more than its average of 2020 (see Figure 1.10). The rise was attributable in part to positive news with regard to the efficacy of the Covid-19 vaccine, the expectations of a recovery in global demand for oil, and the agreement between members of Opec+ to cut pumping over the next two months.

International capital markets

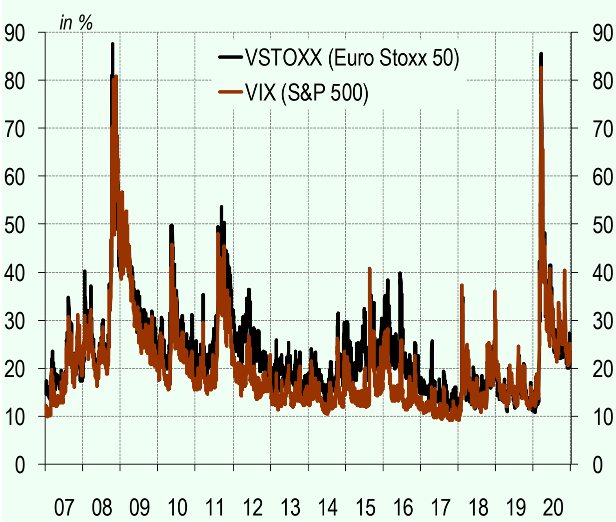
After falling in October of last year in response to the renewed spread of the pandemic, share prices rose significantly in November and December, and actually hit new highs in the US. The optimistic news about the development of a vaccine against Covid-19, and the extremely decisive support from fiscal policy and monetary policy prevented the fall in equity markets seen in October from continuing over the remainder of the year (see Figure 1.11). The rise in share prices in the euro area and the US was driven primarily by the improved sentiment on the financial markets of the two economies, and the resulting decline in the risk premium. After rising sharply during the outbreaks of the first and second waves of the pandemic, uncertainty eased over the final few weeks of last year (see Figure 1.12). The release of corporate performance results and profit forecasts will be a significant factor in any long-term improvement of the sentiment on the equity markets. Firms in the US and the euro area alike reported slightly higher profits in the third quarter of last year, while revising their expectations for the final quarter downwards. The key will be corporate profit announcements in the beginning of this year and the opportunity for the improved sentiment on the equity markets to be transferred into more optimistic forecasts of corporate sector over the next two years and beyond.

Spreads on government bonds of euro area countries over the German benchmark continued to fall in the

Figure 1.11: Equity prices in the euro area and in the US (in EUR)

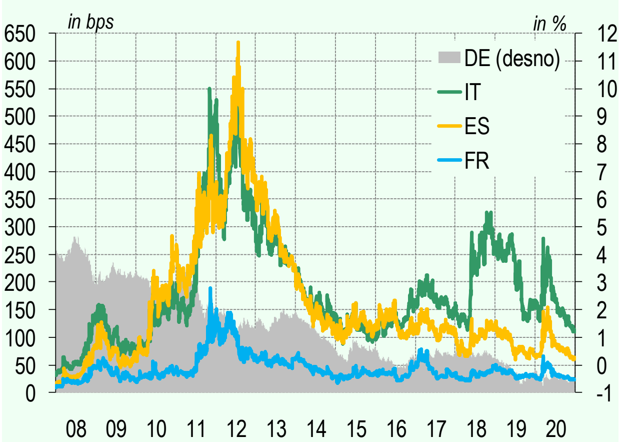
Source: Bloomberg.

Figure 1.12: Implied volatility



Source: Bloomberg.

Figure 1.13: Spreads on 10-year government bonds (relative to Germany) and the yield of 10-year German bond



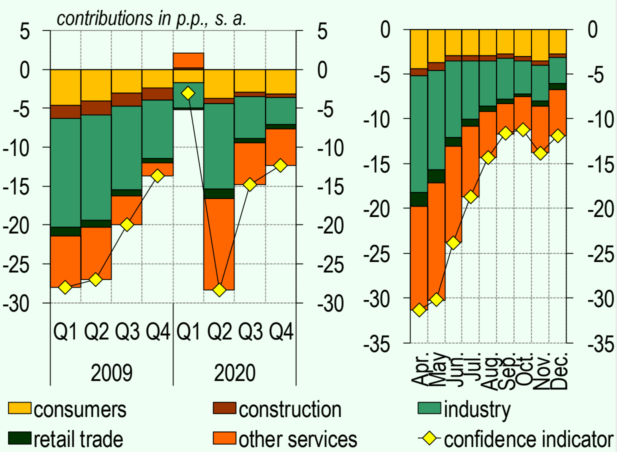
Note: Spread is calculated as a difference between yield of 10-year government bond and the yield of reference German bond and is used as a measure of a country's credit risk.
Source: Bloomberg, Bank of Slovenia calculations.

final quarter of last year. Although the second wave of the pandemic in Europe has been worse than the first, yields on government bonds have reached record lows in many euro area countries (see Figure 1.13). Spreads on government bonds over the German benchmark fell in all the major euro area countries after October's meeting of the Governing Council of the ECB, reaching levels below those seen before the outbreak of the pandemic. Yields on shorter-maturity bonds (up to two years) entered negative territory in all euro area countries. The measures put in place in December by the ECB and the fiscal policy instruments (e.g. NGEU and SURE) reinforced the low yields, and prevented any rise in bond spreads in euro area countries with higher credit risk (e.g. Italy and Portugal).

Box 1.1: Confidence indicators in euro area countries in the final quarter of 2020

Numerous euro area countries recorded their largest ever quarterly increases in economic activity in the third quarter of last year. The highest rates were achieved by the countries that had been hit hardest by the Covid-19 pandemic, including France (18.7%), Spain (16.4%) and Italy (15.9%).[1] Slovenia too recorded high economic growth, of 12.4%.[2] The strong rebound in activity after the most stringent containment measures were lifted is indicative of the preservation of economic potential in euro area countries. The experience of the third quarter with the retention of countercyclical economic policy measures points to the capacity for a similar uptick after the autumn and winter wave of the epidemic comes to an end. The available economic confidence indicators suggest that this wave has seen a renewed decline in GDP, primarily on account of a significant decline in November.

Figure 1: Confidence indicators in the euro area

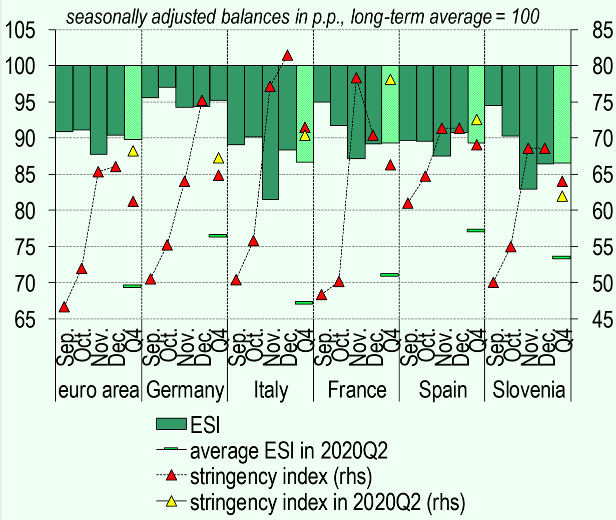


Note: The weighted economic sentiment indicator is composited from the figures for industry (40%), services (30%), construction (5%), retail (5%) and consumers (20%). It differs from the European Commission indicator.
Source: Eurostat, Bank of Slovenia calculations.

The average economic sentiment in the euro area improved slightly in the final quarter of last year. The European Commission's ESI averaged 89.7 percentage points in the final quarter, up 2.8 percentage points on the previous quarter (see Figure 1[3]). The average weighted indicator of current demand at firms in the private sector[4] in the final quarter was up 8.7 percentage points on the previous quarter, while the assessments of demand expectations of firms in private-sector services and industry[5] were 9.3 percentage points lower. The most notable deteriorations were in Slovenia[6] and Italy: their economic sentiment indicators averaged around 3.0 percentage points less in the final quarter of last year than the euro area average (see Figure 2). The majority of indicators saw an uptick at the end of the year.

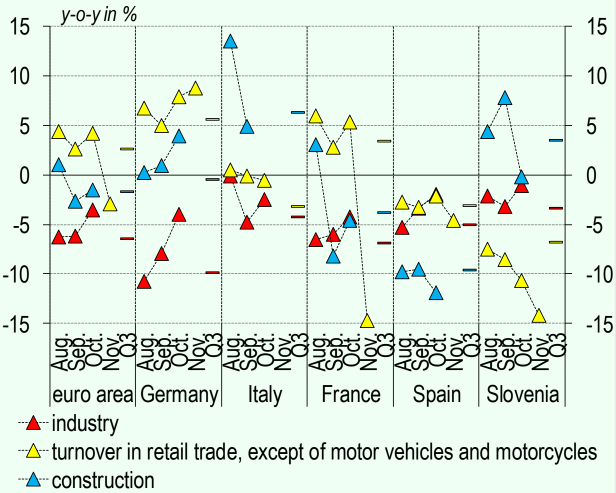
The new wave of the epidemic brought the improvement in economic confidence in the euro area to an end in October. The economic sentiment indicator remained close to 91.0 percentage points, its highest mark since March, but nevertheless down 9.1 percentage points on a year earlier. The bad epidemiological picture was mainly reflected in reduced assessments of demand expectations by firms in retail and other private-sector services. There was considerable variation between euro area countries. The composite economic sentiment indicator deteriorated most in the countries that had more stringent containment measures, most notably Slovenia and France, with monthly declines of 4.2 and 3.2 percentage points respectively.[7] By contrast, the economic deve-

Figure 2: Economic sentiment indicator in euro area countries



Source: Eurostat, Oxford Economics, Bank of Slovenia calculations.

Figure 3: Monthly indicators of economic activity



Note: Seasonally and working days adjusted data.
Source: Eurostat, Bank of Slovenia calculations.

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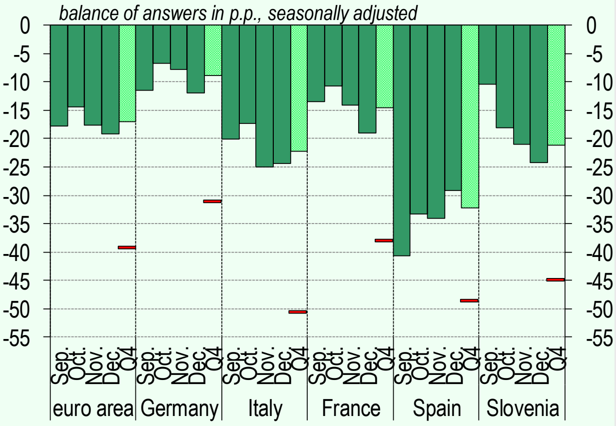
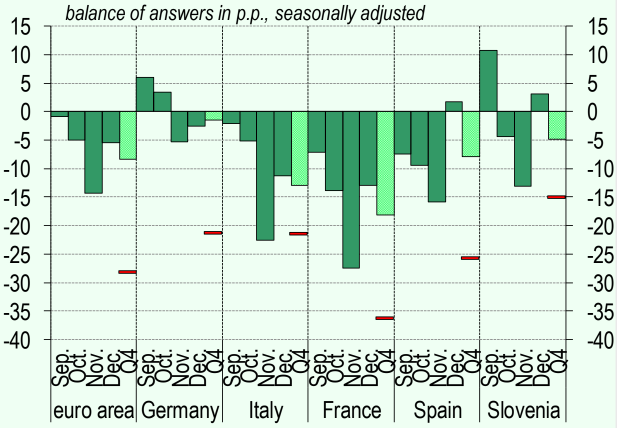
EVROSISTEM

Figure 4: Current demand in the private sector – survey estimation by companies*



*Note: The dashes represent the average value in 2020Q2. *The measure is calculated by taking into account value added shares. Included are companies in retail trade, other private services, industry and construction.*
Source: Eurostat, Bank of Slovenia calculations.

Figure 5: Expected demand in private services and industry – survey estimation by companies*



*Note: The dashes represent the average value in 2020Q2. *The measure is calculated by taking into account value added shares. Included are companies in retail trade, other private services and industry.*
Source: Eurostat, Bank of Slovenia calculations.

lopments in Germany and Italy were again relatively favourable in October, primarily on account of a further improvement in the situation in industry.[8] The monthly indicators of economic activity mostly tracked the confidence indicators, having suffered no major impact from the outbreak of the second wave. They too show considerable variation between sectors and between countries. Of the largest euro area economies, the worst situation according to the monthly indicators in October was in Spain (see Figures 3 and 4).

The economic situation in the euro area worsened significantly in November as certain sectors faced greater restrictions. The confidence indicator declined for the first time since April, by 3.4 percentage points, leaving it down 13.0 percentage points in year-on-year terms. The economic sentiment deteriorated in all sectors, most notably retail and other private-sector services, albeit significantly less than at the outbreak of the first wave. Further evidence of the bad situation in those sectors comes from the year-on-year decline in real turnover in retail excluding motor vehicles, which amounted to 2.9% in the euro area overall (see Figure 3).[9] Firms in the private sector lowered their assessments of current demand for the first time since May (see Figure 4). At the same time firms in private-sector services and industry further lowered their assessments of the evolution of demand; French and Italian firms remained the most pessimistic (see Figure 5). Confidence deteriorated in most countries,[10] most notably Italy, Slovenia and France.[11]

Confidence remained low in the euro area in December. The confidence indicator nevertheless rose slightly. The main optimism came from manufacturing firms' assessments of the evolution of demand. The economic sentiment indicator reached 90.4 percentage points, down 10.5 percentage points on a year earlier. The largest improvements in economic mood came in Italy, Slovenia and Spain,[12] while developments in the German economy remained among the most favourable in the euro area.

Given that stringent containment measures are still in place, the outlook for the first quarter of this year is deteriorating. But in light of the increasing availability and use of vaccines against Covid-19, it is nevertheless our assessment that the general economic situation could be at least slightly better than in the final quarter of last year. This is also evidenced in the assessments of the evolution of demand by firms in private-sector services and industry: this indicator rose in December for the first time in four months, by 8.9 percentage points to -5.5 percentage points. Improvements were recorded by all of the aforementioned countries, although French and Italian firms remain more pessimistic with regard to demand in the first quarter (see Figure 5).

[1] Quarterly economic growth in the euro area stood at 12.5% in the third quarter of last year, according to seasonally and calendar-adjusted figures.

[2] For more information, see Box 2.1 on page 25.

[3] Figure 1 illustrates the weighted economic sentiment indicator, which is computed by Bank of Slovenia as a sum of contributions from industry (40%), services (30%), construction (5%), retail (5%) and consumers (20%). It differs from the European Commission's ESI, which is disclosed in the form of a ratio to the long-term average.

[4] The weighted indicator of current demand of firms in the private sector (industry, construction, and retail and other private-sector services) is computed using each sector's share in total value-added.

[5] The weighted indicator of demand expectations of firms in private-sector services (retail and other private-sector services) and industry is computed using each sector's share in total value-added.

[6] The SORS discloses the economic sentiment indicator in the form of a weighted synthetic indicator of the balance in responses, but Eurostat publishes the results in the form of a ratio to the long-term average, and therefore differences in interpretation are possible.

[7] Among euro area countries, large monthly declines in the confidence indicator were also recorded by Malta (6.2 percentage points), Ireland (3.9 percentage points) and the Netherlands (2.2 percentage points).

[8] The largest improvements in the confidence indicator were recorded by Estonia (3.5 percentage points), Belgium (2.9 percentage points) and Finland (2.9 percentage points).

[9] The largest year-on-year declines were recorded by France (14.7%) and Slovenia (14.2%).

[10] There were only four exceptions: Ireland, Finland, the Netherlands and Cyprus.

[11] The economic sentiment indicator also declined sharply in Malta (by 9.4 percentage points), Luxembourg (6.7 percentage points), Austria (6.2 percentage points) and Portugal (4.2 percentage points).

[12] The economic sentiment indicator also improved sharply in Malta, Austria and Belgium.

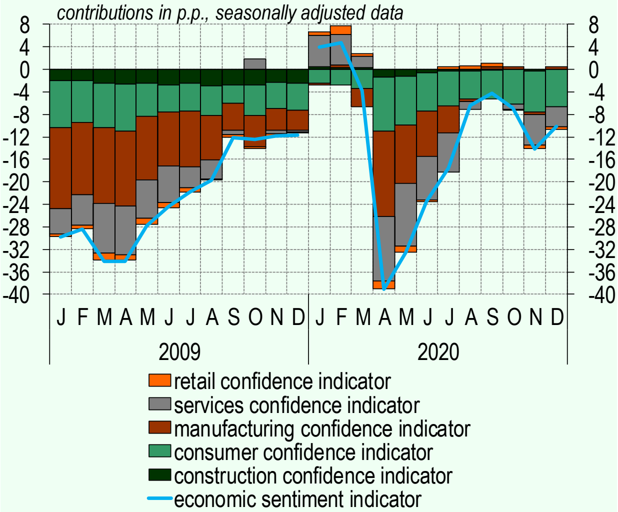
2 Economic Developments

The failure to contain the second wave of the epidemic and the resulting long-lasting imposition of stringent containment measures brought a sharp downturn in the situation in the domestic economy in the final quarter of last year. The differences in the business conditions between services where direct contact between the customer and the provider is essential on one hand, and construction and export-oriented industry on the other, widened further. Private consumption declined sharply according to alternative high-frequency indicators, and sectors reliant on foreign visitors suffered an even harsher shock. By contrast, construction activity has not been strongly affected according to the figures currently available, and industrial production is actually thought to have increased. The shock in economic activity was not as large as in the second quarter. Further evidence of this comes from the economic sentiment indicator, which remained significantly higher than in the spring. With the gradual rollout of a Covid-19 vaccine, the mood in the economy actually improved slightly at the end of last year, as did assessments of the evolution of demand. The chances of a stronger rebound in economic activity in the early part of this year are nevertheless small, as the epidemiological situation at home and in the rest of Europe remains unfavourable.

Economic sentiment indicators – December 2020

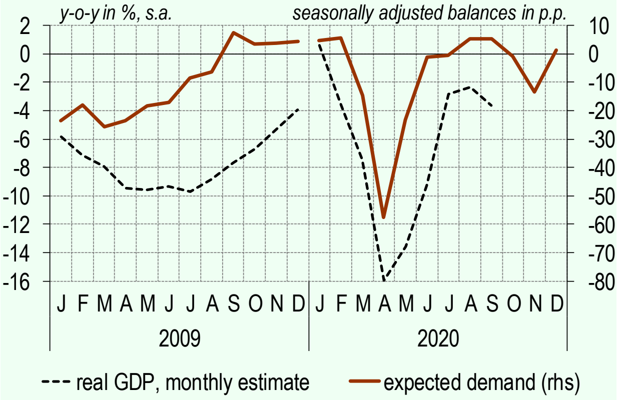
Economic confidence improved in December, despite the bad epidemiological picture and the low assessments of current demand. The economic sentiment indicator was up 3.9 percentage points on November. Confidence strengthened in all sectors and among consumers (see Figure 2.1). The aggregate assessment of current demand at firms did however decline again, while consumer assessment of the timing of major purchases remained at a very low level. The improvement in the economic sentiment was mainly attributable to reduced pessimism about the coming months, which most likely is being driven at least in part by the rollout of the

Figure 2.1: Economic sentiment indicator for Slovenia



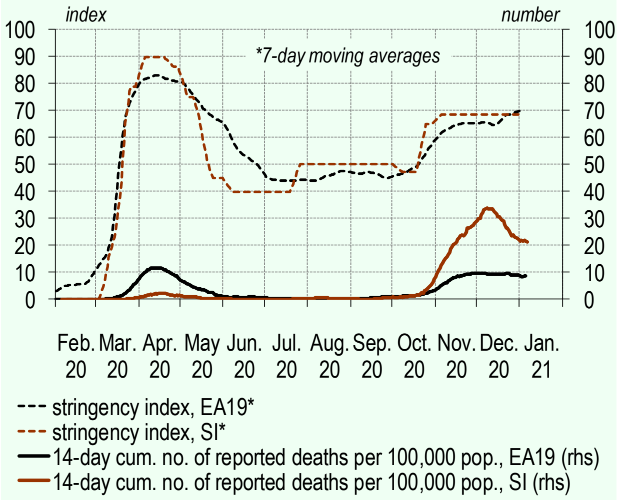
Source: SORS, Bank of Slovenia calculations.

Figure 2.2: Expected demand and GDP – Slovenia



Note: Expected demand is the weighted average of expected demand in manufacturing and services, expected construction orders, expected retail sales, and major consumer purchases over the next twelve months. The weights are the same as SORS's weights for compiling the economic sentiment indicator.
Source: SORS, Bank of Slovenia estimations and calculations.

Figure 2.3: Number of reported Covid-19 deaths and stringency of containment measures



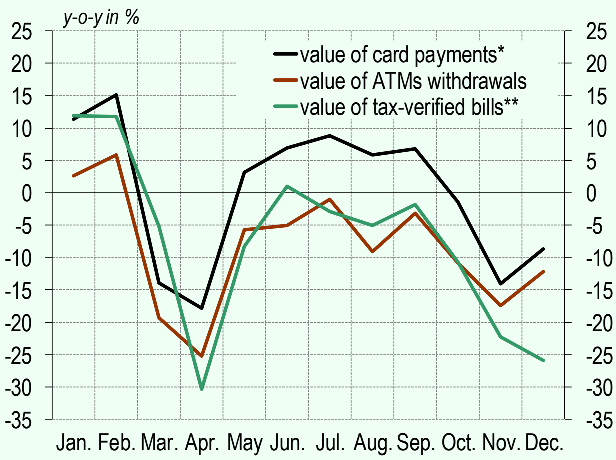
Source: Oxford Economics, Eurostat, Bank of Slovenia calculations.

vaccine against Covid-19. In December firms in all sectors raised their assessments of the evolution of demand in the first quarter of this year, most markedly in services. The aggregate assessment of the evolution of demand, which includes households, also increased (see Figure 2.2). The financial position of firms remained very solid at the end of last year relative to the economic situation, at least on the basis of the SORS survey. In 2020 as a whole, the economic sentiment indicator was down 18.9 percentage points on 2019 at -12.5 percentage points, 9.9 percentage points better than in 2009. In contrast to consumers, the confidence indicators in all segments of the private sector remained at a significantly higher level than in 2009.

Economic developments in the final quarter of 2020

The high-frequency indicators for the final quarter of last year are indicative of a sharp decline in domestic demand and a solid situation in the merchandise export sector. The epidemiological situation in Slovenia was among the worst in the euro area, and required the reimposition of more stringent containment measures (see Figure 2.3). Retail turnover recorded a small monthly

Figure 2.4: Selected alternative high-frequency indicators



*Note: *The source of card payments is Bankart, which covers more than 80% of all card payments in Slovenia. **Data up to 20 December are taken into account.*
Source: Bankart, FURS, Bank of Slovenia calculations.

decline even in October, but in November it was hit by the shock, which deepened the year-on-year decline in turnover in retail excluding motor vehicles to 14.2%, and in motor vehicles to 19.8%. The aggregate decline in turnover in November was only slightly smaller than that in March. A shock of at least equal strength is likely in certain other services, where the decline in demand is additionally being driven by the absence of foreign visitors.[1] Card payments, cash withdrawals at ATMs and invoices registered with tax authorities in the final quarter of last year were down 8.0%, 13.4% and 18.9% respectively in

[1] For example, turnover in accommodation and food service activities in October was down 34.4% on September, deepening the year-on-year decline in activity to 42.5%. The year-on-year fall in the number of arrivals by foreign visitors stood at 88.1%, with a total collapse in November.

Table 2.1: Economic activity – volume indices of production

	12 m. to Oct. 19	12 m. to Oct. 20	2020 Aug.	2020 Sep.	2020 Oct.	2020 Jul.	2020 Oct.
			*y-o-y in %***			*monthly****	
Industrial production – total	2.7	-5.9	-2.0	-3.3	-1.0	**-1.6**	9.8
Manufacturing	3.2	-5.6	-1.8	-3.5	-1.2	**-1.8**	10.4
Construction – total	6.4	-2.5	4.3	7.9	-0.3	**-11.9**	8.5
Non-residential buildings	0.1	-7.6	-12.4	-2.2	-9.6	**-21.3**	0.8
Residential buildings	9.0	12.8	5.1	25.6	28.2	**3.1**	12.0
Civil engineering	8.3	-2.2	11.0	9.6	-0.1	**-12.5**	10.5
Trade and service activities* – total	4.0	-7.6	-5.6	-4.1	-7.0	**4.5**	5.3
Wholesale and retail trade and repair of motor vehicles and motorcycles	2.7	-9.9	1.4	-2.9	-6.6	**40.7**	1.7
Retail trade, except of motor vehicles and motorcycles	5.0	-3.9	-0.3	-3.6	-4.4	**9.3**	-1.6
Other private sector services	3.2	-9.5	-8.5	-4.5	-9.2	**-0.1**	9.6
Transport and storage	4.1	-9.3	-9.3	-1.5	-2.1	**-0.7**	12.1
Accommodation and food service activities	5.1	-26.3	-13.0	-11.7	-42.5	**12.2**	28.0
Information and communication	1.7	0.4	-1.2	7.5	3.6	**-2.3**	6.6
Professional, scientific and technical activities	7.2	-2.8	-1.4	-3.7	-5.6	**5.5**	2.4

*Note: *Excluding financial services. **Working days adjusted data. ***3-month moving average compared to the corresponding moving average 3 months earlier in %, seasonally adjusted data.*
Source: SORS, Bank of Slovenia calculations.

year-on-year terms, which is actually a larger decline than in the second quarter.[2] Final household consumption was down 17.3% in nominal terms on that occasion. The lifting of certain containment measures meant that December's year-on-year decline in consumption was slightly smaller than November's, but card payments for example were still down 8.6% (see Figure 2.4).[3] The situation in construction and industry was significantly better. The amount of construction put in place actually declined slightly in October, but a larger decline towards the end of the year would be surprising considering the survey indicators. The signals from industry were even better. Output in October was down just 1.0% in year-on-year terms, while the Purchasing Association of Slovenia's PMI was in strongly positive territory in line with the indicator for German manufacturing in the final quarter of last year, and capacity utilisation had already regained its level of the final quarter of 2019.

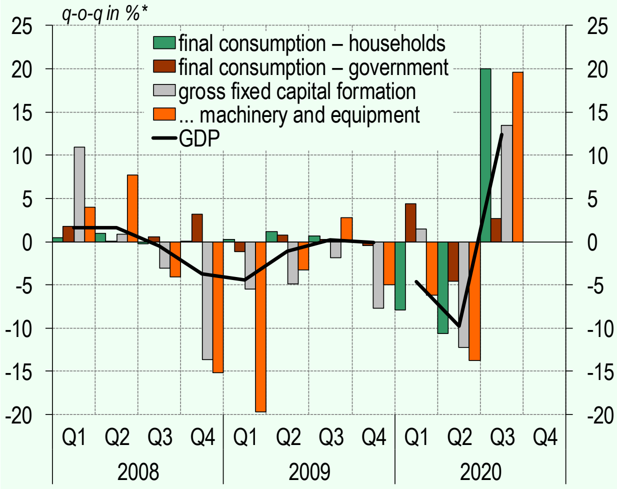
Illustration of the economic recovery in the third quarter of 2020

As expected, there was a strong rebound in economic growth in the third quarter: the year-on-year decline in GDP was predominantly attributable to a single factor, the run-down of inventories. Quarterly growth reached 12.4%, as private consumption increased by 20.0% and gross fixed capital formation by 13.5% (see Figure 2.5). From a developmental perspective, the most encouraging aspects were the strong rebound in investment in machinery and equipment, and the renewed growth in investment in research and development. The high quarterly growth was largely attributable to the improvement in the situation in May and June as the most stringent containment measures were lifted, and the higher level of GDP going into the third quarter; the recovery was already losing steam during the third quarter. GDP in

[2] The source for card payments is Bankart, which covers more than 80% of all card payments in Slovenia. The figures for invoices registered with tax authorities go up to 20 December.

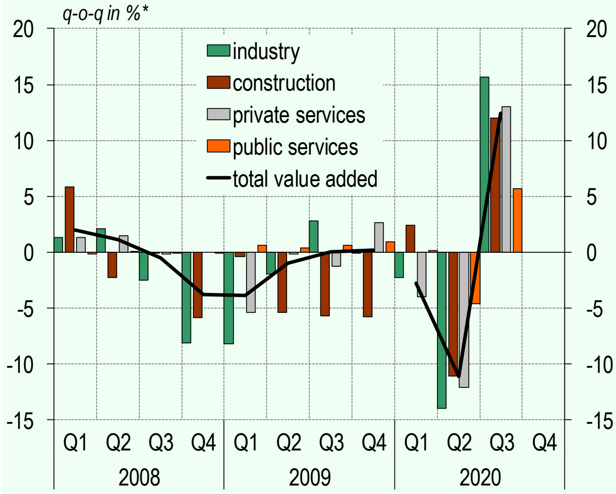
[3] Alongside a sharp decline in private consumption, as expected the epidemic also brought changes to payment habits last year. Card payments declined by just 0.1% last year according to the Bankart figures, as payments at POS terminals declined by 3.2% while online payments increased by fully 24.7%. The proportion of card payments accounted for by online payments stood at 11.2% in 2019, but 14.0% last year. At the same time ATM withdrawals' value declined by 8.5% last year, according to the Bankart figures.

Figure 2.5: Domestic demand and GDP



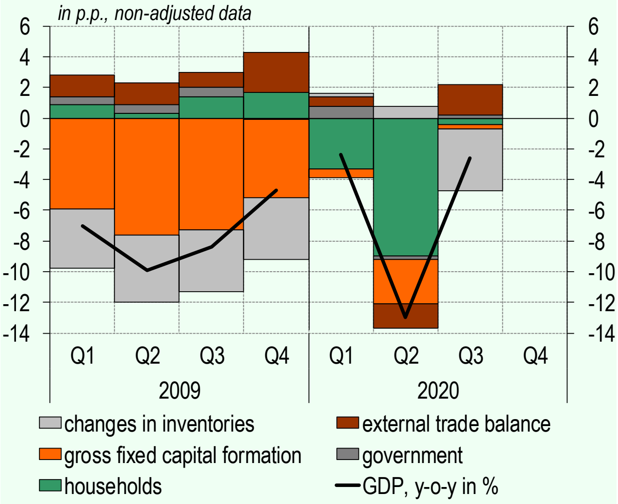
Note: *Seasonally and working days adjusted real data.
Source: SORS.

Figure 2.7: Value added by activities



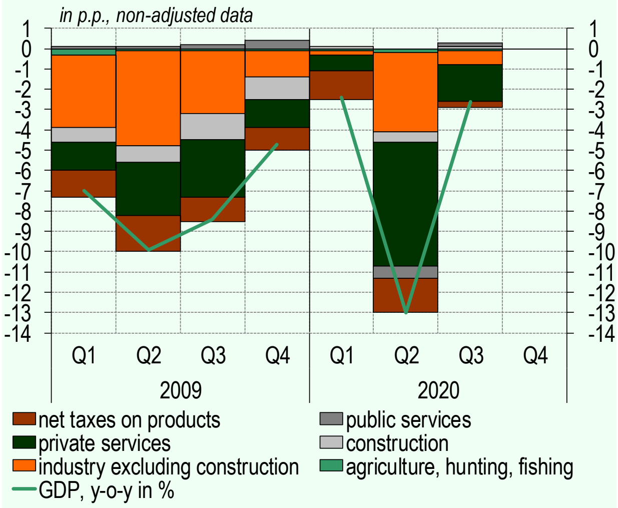
Note: *Seasonally and working days adjusted real data.
Source: SORS, Bank of Slovenia calculations.

Figure 2.6: Structure of GDP growth – expenditure side



Source: SORS.

Figure 2.8: Structure of GDP growth – production side



Source: SORS.

the third quarter was down just 2.6% in year-on-year terms, 1.7 percentage points less than in the euro area overall. The expenditure side breakdown of the year-on-year decline was even more favourable: the main contribution of 4.0 percentage points came from the run-down of inventories (see Figure 2.6).[4] Amid weak imports and the recovery in foreign markets, the contribution made to GDP growth by net trade was strongly positive, in the amount of 2.0 percentage points.

Despite the high aggregate quarterly growth, the business conditions in the third quarter varied considerably from sector to sector. Growth resumed in the construction sector, where value-added was actually up in year-on-year terms. This was primarily attributable to an increase in civil engineering work, alongside strengthening residential construction. The normalisation of the situation in supply chains and strengthening foreign demand also brought an improvement in industry, where value-added in the third quarter was down just 2.9% in year-on-year terms, albeit with considerable variation between sectors. There was even greater divergence in private-sector services, where the year-on-year decline in

[4] According to the SORS, inventories of merchandise and finished products in manufacturing declined sharply in the third quarter. Our assessment is that it was a case of the run-down of stockpiled inventories from the first two quarters, when sales were constrained by the containment measures.

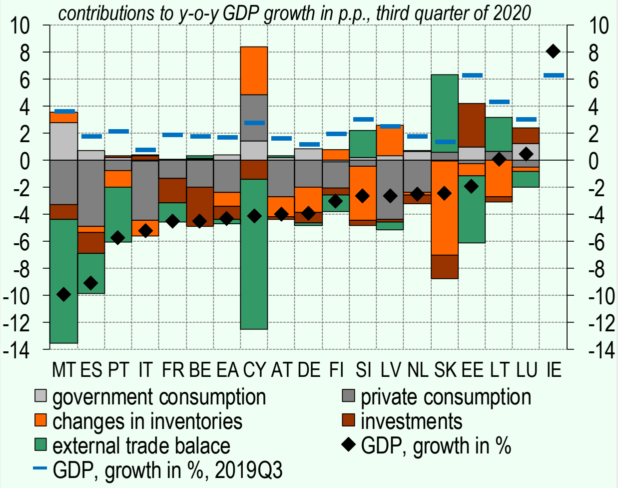
value-added nevertheless amounted to 4.1%, despite the pronounced quarterly growth (see Figure 2.7). The sectors of financial and insurance activities and real estate activities have not felt the impact of the crisis for now, judging by the value-added statistics. In the first instance the main factor is insurance corporations, where premiums exceeded claims last year according to the SORS information, and provisions declined in the third quarter. In the second instance the decisive factor is the measurement approach, which includes imputed rents. The business conditions remained most challenging in services that rely on social contact or on international tourism. While the rebound in domestic private consumption meant that real turnover in retail (excluding fuel sales) in the third quarter surpassed last year's level, the year-on-year declines in real turnover in transportation and storage, in accommodation and food service activities and in administrative and support service activities still ranged from 6.8% to 23.4%.[5]

[5] The lifting of the most stringent containment measures also brought renewed growth in value-added in public services. It stood at 1.5% in year-on-year terms in the third quarter, partly in response to strengthened recruitment.

Box 2.1: GDP developments in euro area countries in the third quarter of 2020

After the shock in March and April, the majority of euro area economies recovered strongly in the third quarter of last year, although activity remained down on the same quarter of the previous year. The recovery signposted at the end of the second quarter, which followed the partial lifting of containment measures in all euro area countries, carried over into the third quarter.[1] The strongest recoveries came in the three worst-hit countries in economic terms (Spain, France and Italy), but for the third consecutive quarter they remained among the countries with the largest year-on-year declines in GDP. These also included Malta, Portugal and Belgium. The main factors were the slower easing of the epidemic over the summer, a renewed deterioration in September, and the presence of more stringent containment measures (see Figure 2), which was reflected in particular in private-sector services and in extremely bad holiday seasons.[2] According to original figures, the only countries to record year-on-year increases in activity were Ireland, Luxembourg and Lithuania. Slovenia was among the countries with the smallest year-on-year declines in activity: at 2.6%, it was 1.7 percentage points better than the euro area average. Differences in the hit from the pandemic, in the responses from each country and in the structures of their economies transmitted to the heterogeneity of the recovery: even ignoring Ireland as an outlier,[3] there was a range of more than 10 percentage points in the year-on-year GDP growth rates in the third quarter of 2020 (see Figure 3).

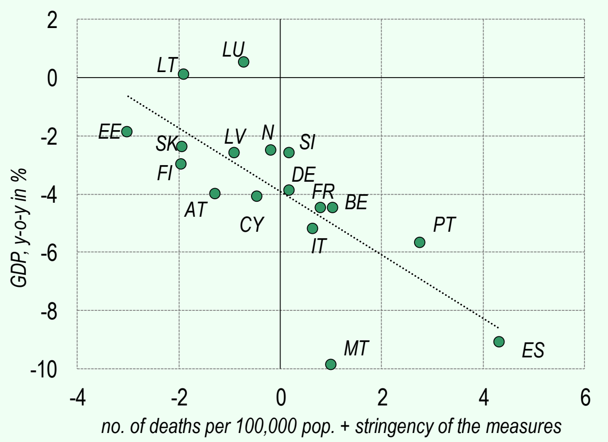
Figure 1: Economic growth in euro area countries by expenditures



Note: Detailed data for Greece and Ireland are not available.
Source: ECB, Eurostat.

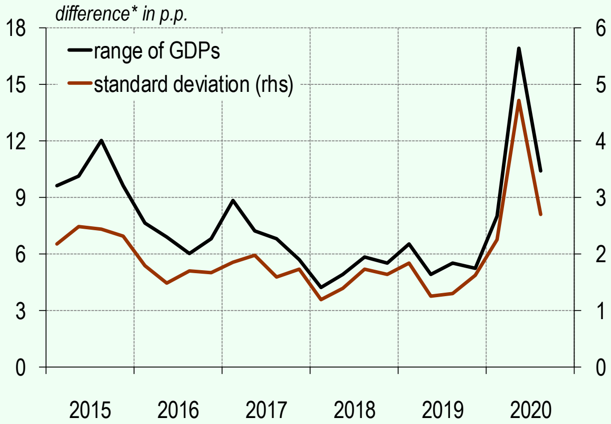
Private consumption was the main factor in the renewed but smaller year-on-year decline in GDP in most euro area countries. Despite the strong recovery triggered by the lifting of most containment measures, household consumption was restrained, because certain containment measures were left in place, and with them came uncertainty about the future epidemiological picture and the situation on the labour market. The largest year-on-year decline in private consumption was recorded by Spain, followed by Latvia and Italy. Private consumption in Slovenia fully approached its level of a year earlier, mainly due to strong government support for the labour market and the tourism sector. The decline of 1% was one of the smallest year-on-year declines in the euro area. Only consumption of non-durables remained low, on account of the containment measures, while consumption of durables actu-

Figure 2: Epidemic's cruelty, containment measures and GDP in euro area countries in 2020Q3



Note: Epidemic's cruelty is measured by number of deaths, intensity of the containment measures by stringency index. Both measures are normalized. Data for Greece are not available, Ireland is not illustrated.
Source: Oxford Economics, Eurostat, Bank of Slovenia calculations.

Figure 3: Heterogeneity of the economic activity in euro area countries



*Note: *Difference between euro area country with lowest and highest y-o-y GDP growth (non-adjusted data). Ireland is not in the calculation due to the large impact of multinational companies on the national accounts figures.*
Source: Eurostat, Bank of Slovenia calculations.

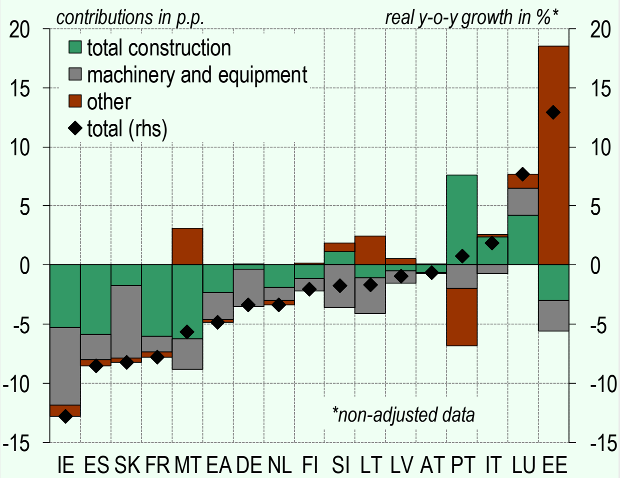
ally exceeded its pre-crisis level. Cyprus, Lithuania and Slovakia were the only countries where private consumption made a positive contribution to GDP growth.

The incomplete recovery in gross fixed capital formation and the reduction of inventories were the main factors in the persistence of a year-on-year decline in GDP in most euro area countries. In Belgium and France the lack of gross fixed capital formation was the main factor in the year-on-year decline in GDP, while in Spain, which was still facing a profound lack of construction investment, the lack of gross fixed capital formation further exacerbated the shortfall in the recovery compared with other euro area countries. Slovenia's year-on-year decline of 1.8% was among the smallest in the euro area. The most important factor was the year-on-year increase in construction investment, while investment in machinery and equipment was still down on its level of the previous year, despite a strong recovery. A few euro area countries have surpassed their pre-crisis level of investment activity, including Italy, which recorded its largest year-on-year increase in construction investment since 2003. Changes in inventories also had a major impact on GDP dynamics on this occasion. While they sharply reduced GDP in Slovenia, in Cyprus and Latvia they prevented an even larger year-on-year contraction in GDP.

Government consumption in the third quarter was up in year-on-year terms in the majority of euro area countries. The exceptions were Finland and Slovakia, which recorded small declines. Government consumption reduced the year-on-year decline in GDP by 0.4 percentage points in the euro area, 0.2 percentage points more than in Slovenia. It increased slightly more strongly in other smaller countries: Malta, Cyprus, Luxembourg and Estonia. They were followed immediately by Germany and Spain.

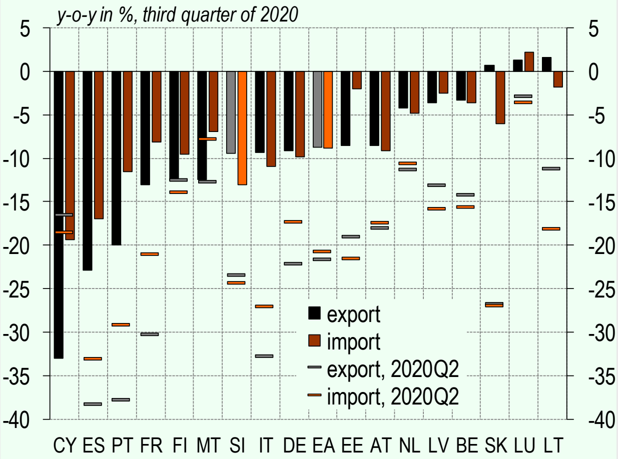
The revival of external trade was curtailed by certain restrictions on international trade that are still in place, and by the constraints on international tourism. The largest negative contributions to year-on-year GDP growth from net trade were recorded by Cyprus and Malta (see Figure 1), where they faced an even larger year-on-year decline in services exports than in the second quarter, due to extremely bad holiday seasons. Among the countries with the weakest export performance in year-on-year terms were Spain and France, the former because of services exports, the latter because of merchandise exports. By contrast, the contribution by net trade entered positive territory in Italy, where the year-on-year recovery in exports outpaced that in imports. The picture was similar in Slovenia, where the size of the contribution (ignoring Ireland) was behind only Slovakia and Lithuania, although the year-on-year decline in trade was significantly larger than in the two aforementioned countries, and worse than the euro area average, and the decline in imports was the third-worst of all euro area countries.

Figure 4: Gross fixed capital formation in euro area countries



Note: Detailed data for Belgium, Cyprus and Greece are not available.
Source: Eurostat, Bank of Slovenia calculations and estimations.

Figure 5: External trade in euro area countries



Note: Ireland is not illustrated due to the large impact of multinational companies on data on external trade balance. Detailed data for Greece are not available.
Source: Eurostat, Bank of Slovenia calculations.

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[1] Quarterly growth according to seasonally and calendar-adjusted figures reached record highs in the third quarter of last year in most euro area countries. The exceptions were Finland, Lithuania and Estonia, which were the countries least affected by the epidemic, and which suffered the smallest declines in economic activity in the second quarter. The aforementioned countries also recorded the lowest quarterly growth in the third quarter, given their higher basis.

[2] In the third quarter the number of reported Covid-19 cases per 100,000 inhabitants and the number of reported deaths per 100,000 inhabitants were highest in Spain. It was followed by Malta, Portugal and France in terms of deaths. The most stringent containment measures on aggregate in the third quarter were retained by Portugal and Spain, according to the stringency index (source:

Oxford Economics). The largest year-on-year decline in the number of overnight stays in the third quarter was recorded by Malta, followed by Greece, Spain and Portugal (source: Eurostat; data for France are not available). Industry recovered more slowly in Italy and France, as did construction in Spain.

[3] Ireland’s national accounts figures are heavily affected by reporting by multinationals.

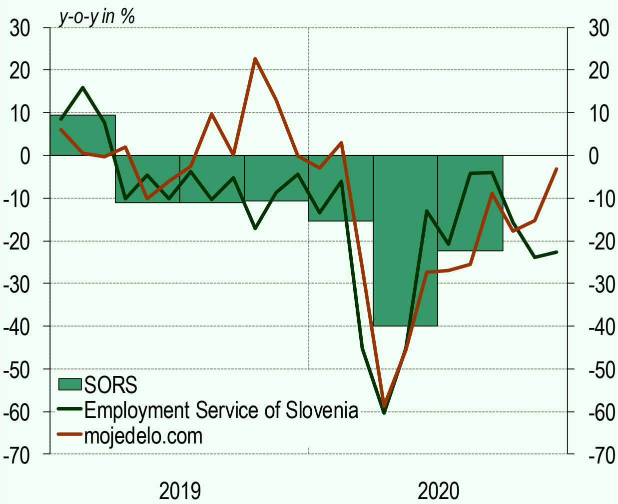
3 Labour Market

The recovery in the labour market was interrupted by the new wave of the epidemic. While registered unemployment reached its lowest level since March in mid-November, it has been consistently rising since then. For now the downturn on the labour market remains less pronounced than during the spring wave of the epidemic, largely due to the support measures and the relatively stable supply of vacancies. The outlook for 2021 is uncertain, although firms' employment expectations remain significantly more optimistic than last spring. The future evolution of employment will largely depend on the continuation of the temporary lay-off scheme, and most likely also on the outcome of the negotiations to raise the minimum wage, which could significantly increase labour costs in some of the worst-hit sectors. Wage growth remained high in October, at almost 5%. This was attributable to high growth in mostly public services, which was driven by epidemic-related bonus payments in human health and social work activities. Wage growth in the private sector slowed on account of a methodological effect in connection with the large number of employees participating in job retention schemes.

Employment

The situation on the labour market began deteriorating significantly in the second half of November, but remained relatively favourable given the containment measures put in place. In contrast to the spring wave of the epidemic, growth in unemployment has remained much slower since the epidemic was re-declared in the autumn. A key factor contributing to the relative stability of the labour market is robust hiring, which in recent months declined much less than in the spring. The figures from the Employment Office and from the employment portal mojdelo.com show that the year-on-year fall in the number of posted vacancies in December was around a third of than seen at the depths of the first wave in April of last year, when it amounted to approximately 60% (see Figure 3.1). At the same time the job preservation measures still in place helped to keep the labour market in relatively good shape, given the state of the economy. According to survey data from the market research agency Valicon the imposition of more

Figure 3.1: Vacancies



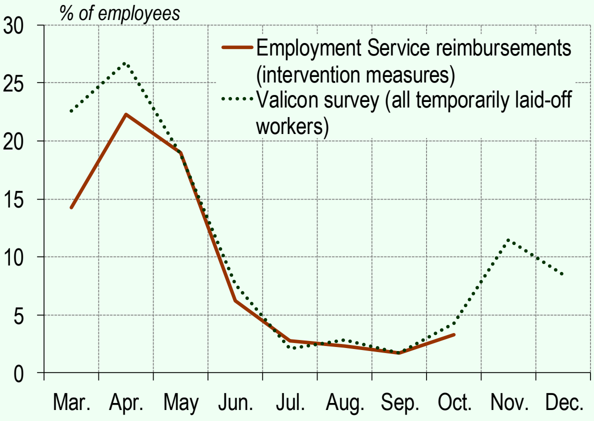
Source: SORS, ESS, mojedelo.com, Bank of Slovenia calculations.

stringent containment measures brought a significant renewed increase in the share of employees whose jobs are being supported by government subsidies. Just under a tenth of all employees are thought to have been on the temporary lay-off scheme in December of last year (see Figure 3.2).

In contrast to the spring, the imposition of more extensive containment measures in the autumn did not trigger a downturn in firms' employment expectations. Employment expectations in the private sector were positive in December for the fifth consecutive month. Relative to November expectations actually increased in December in all sectors other than retail. The improvement was most pronounced in services, which is attributable to the optimism engendered by the news at the end of the year of the availability of a vaccine. Construction firms remain the most optimistic, and retail firms the least optimistic. The evident differences in employment outlook thus largely reflect the inequalities between sectors in terms of their exposure to the worsening epidemiological picture, while the pessimism in retail can also be attributed in part to the impact still being felt from the closure of shops on Sundays and holidays. A more significant recovery of employment in 2021 will depend heavily on the successful management of the health crisis.

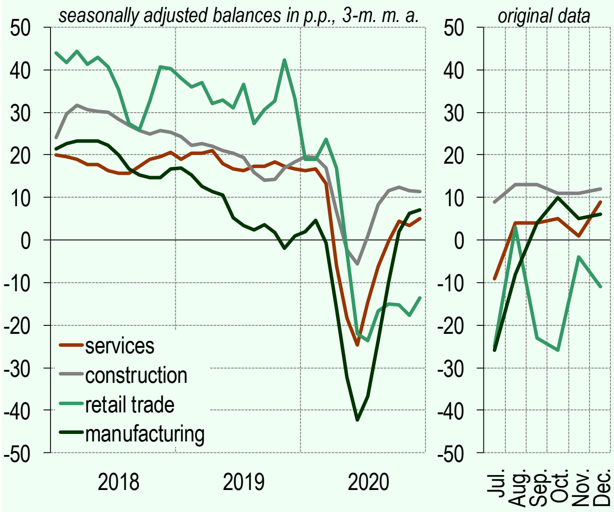
Despite positive survey assessments of employment outlook, the downside risks to the labour market are large. Given their likely continuation until the spring, the loss of revenue caused by several months of containment measures being in place will cause a significant deterioration in the financial position of the most at-risk firms, thereby increasing the pressure to cut jobs. Another significant factor here could be the current plans to end the temporary lay-off scheme at the end of January. Despite the recent extension of the subsidisation of short-time work until the end of June of this year, the expectation is that not all employees who until now were on the temporary lay-off scheme will move over to short-time work. This is particularly the case in the services worst hit by the current crisis because of extensive containment measures. In particular in these services the expectation is that the short-time work scheme will be less effective at

Figure 3.2: Share of temporarily laid-off workers



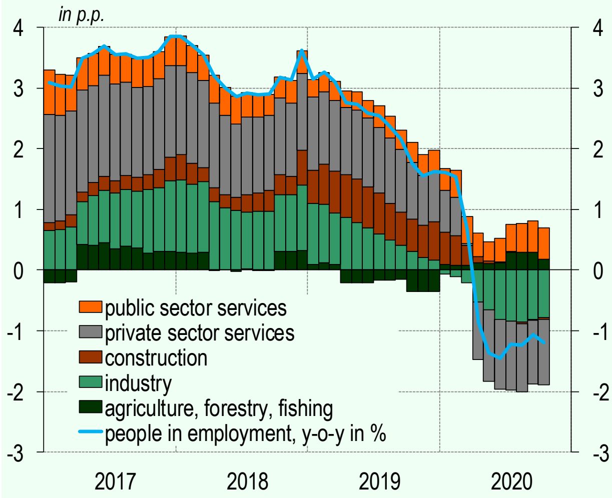
Note: Employment Service data on wage reimbursements of temporarily laid-off workers as of December 16. Online survey #Newnormal conducted by Valicon has a representative sample of population between age 18 and 75. Latest survey conducted on 24 – 27 December.
Source: ESS, SORS, Valicon, Bank of Slovenia calculations.

Figure 3.3: Expected employment in the next three months



Source: SORS, Bank of Slovenia calculations.

Figure 3.4: Contributions to y-o-y growth in the number of people in employment



Source: SORS, Bank of Slovenia calculations.

Table 3.1: Demography, unemployment and employment

	2015	2016	2017	2018	2019	19Q3	19Q4	20Q1	20Q2	20Q3
						in 1,000				
Working age population[1]	1383	1371	1362	1352	1350	1347	1352	1356	1362	1362
						in %				
Activity rate[2]	71.8	71.7	74.2	75.1	75.3	75.7	74.6	75.0	73.9	74.7
Employment rate[3]	65.2	65.9	69.3	71.1	71.9	72.1	71.6	71.5	70.0	70.8
						in 1,000				
Registered unemployed persons	112.7	103.2	88.6	78.5	74.2	71.1	73.4	78.4	89.5	87.1
Unemployment rate						*in %*				
- LFS	9.0	8.0	6.6	5.1	4.5	4.8	4.0	4.6	5.2	5.1
- registered	12.3	11.2	9.5	8.3	7.7	7.4	7.5	8.0	9.2	9.0
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	15.7	18.0	19.2	19.5	18.9	16.4	16.0	21.1	16.1	22.4
- probability to lose a job[5]	2.5	2.3	2.1	1.9	1.8	1.6	2.1	2.5	3.2	2.0
						in 1.000				
Total employment[6]	943.9	961.2	989.6	1021.4	1046.7	1053.8	1054.3	1045.2	1027.1	1034.6
						year-on-year growth rates in %				
Persons in paid employment	1.3	2.2	3.3	3.4	2.7	2.6	1.9	1.3	-1.9	-2.2
Self-employed	1.2	0.2	1.6	2.5	1.7	1.6	1.4	0.6	-1.4	-0.3
By sectors										
A Agriculture, forestry and fishing	-0.9	-1.3	-1.0	-0.4	-0.5	-0.7	-1.0	-1.5	-1.9	-1.8
BCDE Manufacturing, mining and quarrying and other industry	1.7	2.5	3.1	4.3	2.5	2.2	1.1	-0.3	-2.3	-3.3
F Construction	0.5	-0.8	2.3	6.5	9.1	8.8	7.5	5.4	-0.4	-1.2
GHI Trade, accommodation, transport	1.7	2.5	3.5	3.5	3.2	3.2	2.4	1.3	-2.0	-2.6
J Information and communication services	2.9	4.1	3.4	4.6	3.5	3.5	3.5	3.5	2.8	2.2
K Financial and insurance activities	-2.8	-2.0	-1.5	-0.9	-0.8	-0.5	-0.9	-0.9	-1.9	-2.4
L Real estate activities	1.4	4.6	7.9	6.5	4.6	4.5	4.5	2.9	2.9	2.9
MN Professional, technical and other business activities	2.6	2.2	5.6	3.0	0.4	0.7	-0.2	0.8	-7.5	-5.5
RSTU Other activities	2.7	2.7	3.5	3.3	4.0	4.2	4.4	2.7	-1.4	-0.5
- mainly private sector (without OPQ)[7]	1.4	1.8	3.1	3.4	2.6	2.6	1.8	1.0	-2.6	-2.7
- mainly public services (OPQ)[7]	0.8	2.1	2.5	2.2	1.8	1.8	1.9	2.1	1.7	2.2
Total employment[6]	1.3	1.8	3.0	3.2	2.5	2.4	1.8	1.2	-1.8	-1.8

[1] Working age population comprises all persons aged 15 to 64 years according to the Labour Force Survey (LFS) data.
[2] Labour force participation rate represents the labour force as a percentage of the working age population according to the LFS data.
[3] Employment rate represents persons in employment as a percentage of the working age population according to the LFS data.
[4] Newly employed as a share of registered unemployed persons according to Employment Service of Slovenia. The higher the indicator's value, the better the chance of finding a job.
[5] 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 the chance of losing a job.
[6] Employed and self-employed persons.
[7] Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

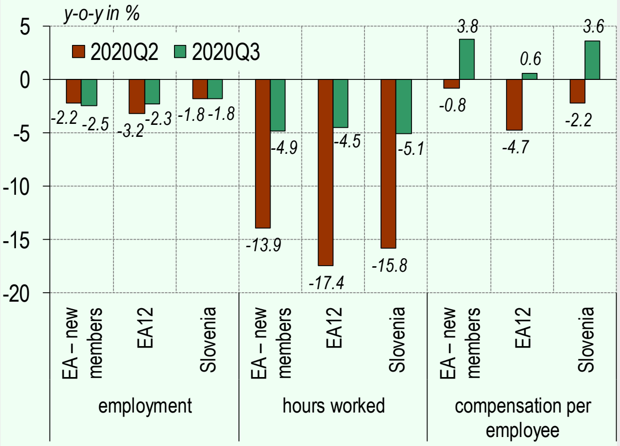
preserving jobs, as it allows for no more than a 50% reduction in work hours, with a maximum subsidy of EUR 448 per employee. Additionally, in the absence of an agreement between the social partners, firms will be additionally burdened by the minimum wage rise envisaged by law this year.[1] The firms that would be hardest hit by a rise in the minimum wage are largely those from the worst-affected sectors (e.g. accommodation and food

[1] Under the Minimum Wage Act, from January 2021 onwards the calculation of the minimum wage will be based on a formula whereby the minimum net remuneration for full-time work will have to be at least 20% higher than the computed minimum cost of living. Having regard for the latest available computation of the minimum cost of living from 2016 (EUR 613.4), the minimum wage in January 2021 would have to rise by at least 5.2%.

Box 3.1: Labour market situation in euro area countries

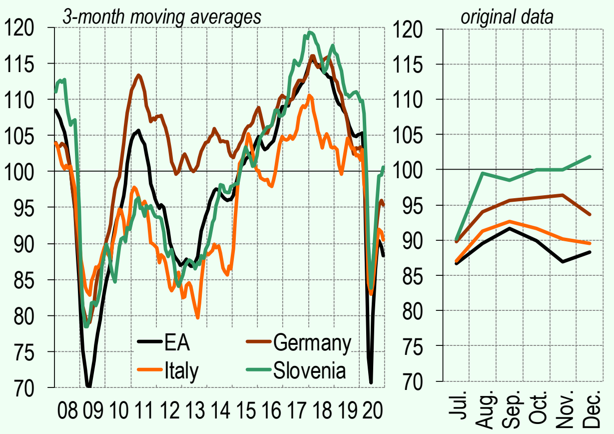
The year-on-year fall in euro area employment diminished in the third quarter of last year, while firms' expectations are not yet suggesting a significant downturn on the labour market in the coming months. While employment in the euro area was down 3.1% in year-on-year terms in the second quarter of last year, the year-on-year decline eased to 2.3% in the third quarter amid the economic recovery (see Figure 1). Thanks to the extensive job preservation fiscal measures, Slovenia's year-on-year decline of 1.8% ranked it among the countries with below-average declines in employment. Employment was down in year-on-year terms in all euro area countries other than Malta, with the largest declines recorded in Spain (5.0%) and Estonia (4.7%). Even more so than in employment, the recovery in the labour market in the third quarter was evident in the pronounced quarterly growth in the number of hours worked, the year-on-year decline in which slowed by 12.7 percentage points to 4.5% in the third quarter. Given the general deterioration in the epidemiological picture and the imposition of more stringent containment measures, the labour market situation is expected to deteriorate further in the final quarter of last year and the first quarter of this year. Employment expectations in the euro area declined again slightly in the final quarter of last year, but for now firms' expectations remain less pessimistic than during the spring wave of the epidemic. Despite the extensive containment measures and the bad epidemiological situation, employment expectations in Slovenia improved in December, and were again significantly higher than the euro area average (see Figure 2).

Figure 1: Labour market in euro area



Note: EA – new members: Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, Slovenia; EA12: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain.
Source: Eurostat, Bank of Slovenia calculations.

Figure 2: Expected employment in the next three months



Note: The indicator shows the weighted average of expected employment in all four activities surveyed (i.e. industry, services, retail trade and construction). The April 2020 data for Italy is not available. Seasonally adjusted data, long-term average = 100.
Source: European Commission, Bank of Slovenia calculations.

service activities, wholesale and retail trade), where the share of employees on the minimum wage is above-average.

Before the imposition of more stringent containment measures, employment in October was at its highest since March. The workforce in employment excluding self-employed farmers in October was up by just over 3,000 persons or 0.4% on the previous month, leaving the year-on-year fall at 1.4%, unchanged from September.[2] The number of employees was down 1.6% in year-on-year terms, while the number of self-employed excluding farmers was up 0.3%. The year-on-year decline diminished slightly in manufacturing (to 3.4%), but deepened by further 2.8 percentage points in accommodation and food service activities to 8.8%. Growth in the workforce in employment in mostly public services, which stood

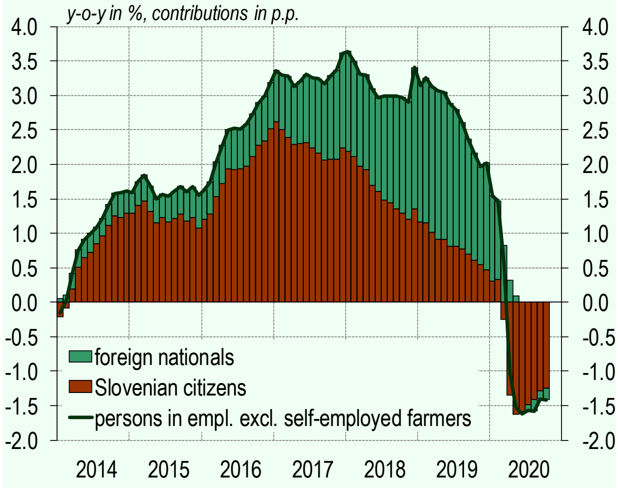
[2] Employment according to the national accounts in the third quarter of last year was down 1.8% in year-on-year terms, but the number of hours worked was down 5.1%. The year-on-year fall in employment remained unchanged from the second quarter, while year-on-year growth in the number of hours worked was up 10.7 percentage points as a result of a fall in the number of employees included in job preservation measures.

at 2.5% in October, was still being driven by significant hiring in human health and social work activities (where growth stood at 4.6%). The contribution to the fall in the aggregate workforce in employment from foreign nationals was proportionate to the share of aggregate employment that they account for, at 0.2 percentage points (see Figure 3.5). October's 1.4% year-on-year fall in the number of foreign nationals employed did not differ from the aggregate fall. It should be noted that year-on-year growth in the number of foreign nationals employed was down more than 13 percentage points on the beginning of the year. The number of valid work permits for foreign nationals was nevertheless still up 5% in year-on-year terms in November.

Unemployment

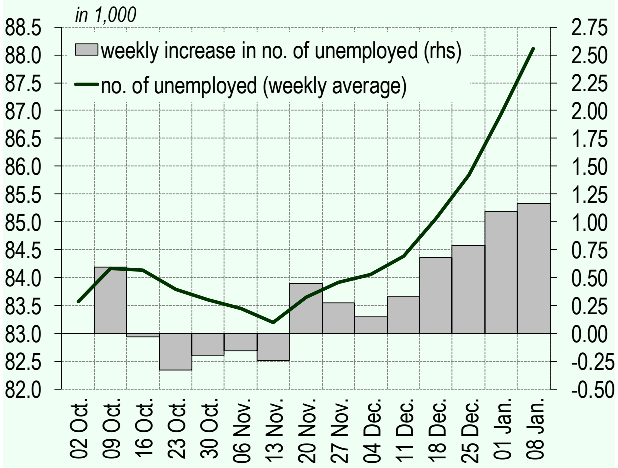
The rise in unemployment strengthened markedly in the second half of December. Registered unemployment stood at 87,283 at the end of last year, and had risen further to 88,779 by 6 January, according to the Employment Office's unofficial daily figures. Compared to 19 October, when the epidemic was re-declared, unemployment was thus up approximately by 4,800 persons, while relative to its peak during the first wave of the epidemic in May of last year it was down by 1,600 persons. Unemployment has been rising continually since mid-November, with the rise gaining extra pace in the second half of December (see Figure 3.6). December's incrase in unemployment was driven by a rise in the number of people newly registering as unemployed, and a fall in the number of deregistrations. The largest inflows into unemployment came from those whose temporary employment came to an end, while the decline in outflows was largely attributable to a fall in the number of new hires. The highest, more than 100%, year-on-year rise in the number of people newly registering as unemployed was recorded in November and December in accommodation and food service activities. Unemployment is expected to continue rising in the first quarter of this year as the epidemic continues and the containment measures remain in place. According to the SORS's December survey, Slovenian consumers are also expecting unemployment to rise in 2021.

Figure 3.5: Contribution of foreign workers to growth in persons in employment



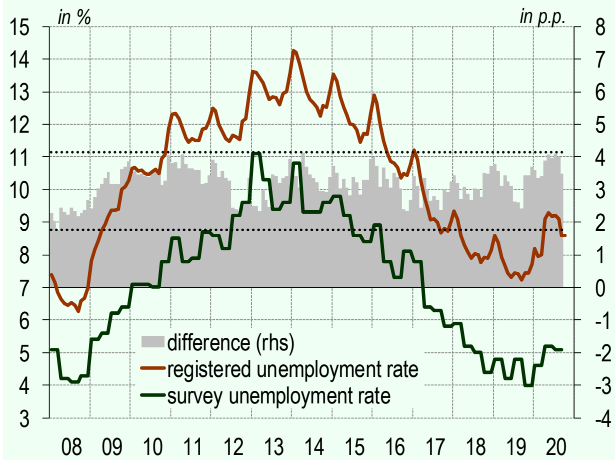
Source: SORS, Bank of Slovenia calculations.

Figure 3.6: Number of registered unemployed persons by weeks



Note: Data up to 6 January are taken into account.
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

Figure 3.7: Unemployment rates



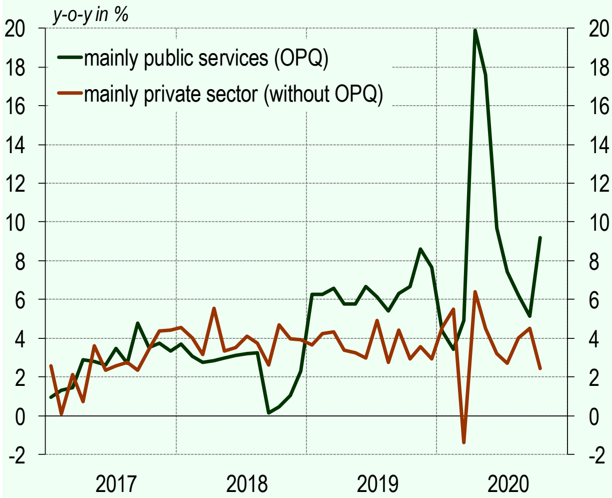
Note: The horizontal lines represent the smallest and largest difference between the two unemployment rates.
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

The registered unemployment rate stood at 8.6% at the end of October, 0.7 percentage points less than last year's peak in May. It was up 1.2 percentage points in year-on-year terms, but at the same time was significantly lower than the peak of 14.2% recorded in January 2014 after the financial crisis. The survey unemployment rate in the third quarter of last year stood at 5.1%, down 0.1 percentage points on the previous quarter, as the number of surveyed unemployed remained unchanged at 53,000. The unemployment rate was driven down by a slight increase in the workforce in employment according to the Labour Force Survey. Amid the reviving economy, in the third quarter there was a sharp increase in the volume of work via the student service compared with the previous quarter.

Wage developments

Amid the worsening epidemiological situation, growth in the average gross wage strengthened in mostly public services in October of last year on account of the emergency measures, while it slowed in the private sector. The average gross wage stood at EUR 1,821 in October, up 4.6% in year-on-year terms. In mostly public services the monthly rise in October stood at 3.8%, raising the year-on-year rate of growth by 4 percentage points to 9.2% (see Figure 3.8). The latter was largely attributable to high growth in human health

Figure 3.8: Nominal gross wages



Source: SORS, Bank of Slovenia calculations.

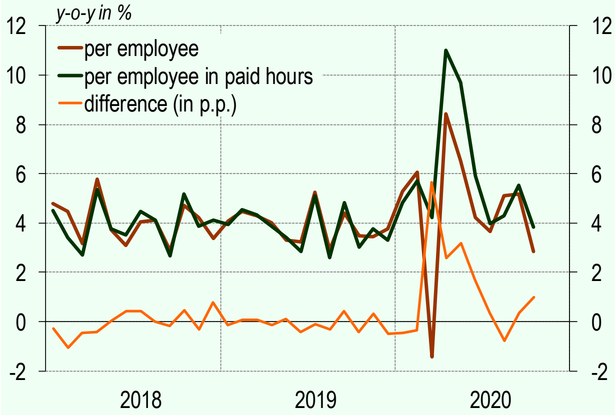
Table 3.2: Labour costs

	2015	2016	2017	2018	2019	19Q3	19Q4	20Q1	20Q2	20Q3
					in EUR					
Average gross wage	1,556	1,584	1,626	1,681	1,754	1,725	1,832	1,788	1,881	1,808
					y-o-y growth in %, nominal					
Average net wage	0.4	1.7	3.1	2.9	3.7	3.8	4.0	4.1	10.5	5.5
Average gross wage	0.7	1.8	2.7	3.4	4.3	4.5	4.2	3.2	9.0	4.8
- mainly private sector (excl. OPQ)[1]	0.8	1.3	2.6	3.9	3.6	4.0	3.2	2.8	4.7	3.7
- mainly public services (OPQ)[1]	0.6	3.3	2.8	2.4	6.5	6.0	7.6	4.2	15.7	6.3
Average gross wage in manufacturing	2.1	2.1	3.2	4.0	3.5	3.9	2.9	4.2	3.0	3.0
Average real net wage[2]	1.2	1.8	1.5	1.0	2.0	1.7	2.3	2.4	11.8	6.2
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	0.6	1.8	1.2	2.8	4.2	4.2	3.9	6.8	10.4	4.4
Unit labour costs,[3,4] real	-0.4	0.9	-0.3	0.6	1.9	1.8	1.5	4.1	7.4	4.4
Labour costs per employee,[4] nominal	1.5	3.1	3.0	3.9	4.9	4.9	4.1	3.1	-2.2	3.6
Labour productivity, nominal	1.9	2.2	3.3	3.3	3.0	3.0	2.5	-1.0	-9.0	-0.8
Labour productivity, real	0.9	1.3	1.8	1.1	0.7	0.6	0.2	-3.5	-11.4	-0.8
HICP	-0.8	-0.2	1.6	1.9	1.7	2.1	1.6	1.6	-1.2	-0.6
GDP deflator	1.0	0.9	1.5	2.2	2.3	2.3	2.3	2.6	2.7	-0.1

[1] Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.
[2] HICP deflator.
[3] Unit of output for the total economy is defined as real GDP per person employed (based on national accounts).
[4] Labour costs calculated on the basis of employee compensation (national accounts).
Source: SORS, Bank of Slovenia calculations.

and social work activities, where the average gross wage in October was up 13.6% in year-on-year terms on account of increased payments of epidemic-related bonuses. Year-on-year wage growth in the private sector almost halved in October to 2.4%, as wage growth decelerated in all sectors but two due to the rise in the number of employees participating in the temporary lay-off scheme. The restrictions imposed in October on accommodation and food service establishments meant that the largest year-on-year decline was recorded in accommodation and food service activities, where the average wage was down 8.5% in year-on-year terms. Over the remainder of the year and similarly to the first wave of the epidemic, wage growth was subject to the methodological effects related to the rise in the number of employees participating in job retention schemes. This is a consequence of the fact that the calculation of the average wage in the monthly statistical survey entitled Wages of employees of legal entities takes into account solely wages and compensation paid by the employer (see Figure 3.9).[3]

Figure 3.9: Growth of average wage in private sector based on number of employees and number of employees in paid hours



Note: Average wage per employee relates to employees at legal persons in private sector, while average wage per employee in paid hours relates to employees at legal persons that are not budget users.
Source: SORS, Bank of Slovenia calculations.

[3] The methodological effects of the government's job preservation measures on wage statistics are examined in detail in Box 3.2 of the October issue of Economic and Financial Developments.

4 Current Account and Competitiveness Indicators

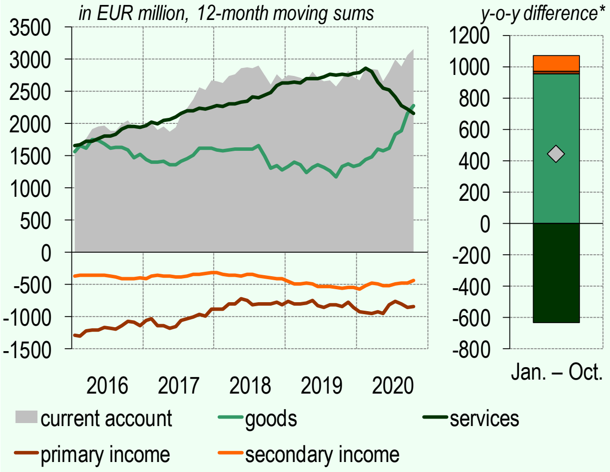
By October of last year the second wave of the epidemic had not led to any downturn in international trade, with the exception of tourism. Merchandise exports in October were down only 2.6% in year-on-year terms, as sales on euro area markets almost recovered and exports to Asia increased strongly. After the recovery stalled in the third quarter, merchandise imports were also slightly more encouraging from the perspective of domestic demand in October. Imports of consumer goods excluding pharmaceutical products from Switzerland were up in year-on-year terms, while the decline in imports of capital goods was only small. The year-on-year decline in aggregate merchandise imports nevertheless still stood at 7.6% in October. Despite worsening epidemic in Europe, developments in the majority of services trade segments were favourable: imports and exports excluding international tourism were up in year-on-year terms. Nevertheless, the renewed deepening of the crisis in travel services trade saw aggregate imports and exports of services decline by 16.0% and 18.6% respectively in year-on-year terms. The current account surplus continued to strengthen, an indication of the stronger shock in domestic demand compared with the decline in foreign demand, and an improvement in the terms of trade.

The price competitiveness of the Slovenian economy remained unchanged in year-on-year terms in the third quarter. There was a slight improvement relative to other euro area countries, and a slight deterioration relative to partners outside the euro area as the euro appreciated. The cost competitiveness of the domestic economy has also continued to deteriorate. Growth in real unit labour costs remained high, and outpaced the euro area average and the European average for the second consecutive year. Caution is still required in the interpretation of all competitiveness indicators, as they do not necessarily present a genuine picture. Monitoring external competitiveness became much harder after the outbreak of the Covid-19 epidemic, as a result of the difficulties in measuring inflation and also unit labour costs.

Current account position

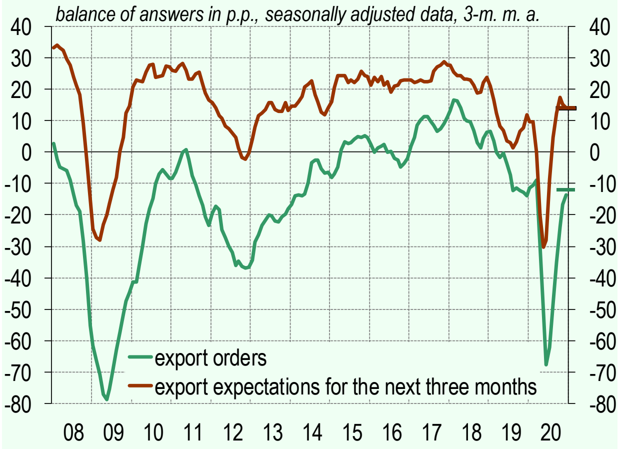
The current account surplus has widened further in the new economic crisis. It approached EUR 3.2 billion over the 12 months to October of last year, up EUR 466 million in year-on-year terms. The surplus began to strengthen with the outbreak of the epidemic in the spring, which also brought major changes to its structure. The merchandise trade surplus increased sharply, an indication of the stronger shock in domestic demand compared with the decline in foreign demand, and the positive effects of the improved terms of trade. Services trade has suffered an even sharper decline in the pandemic, particularly in the tourism sector, where the situation ad-

Figure 4.1: Current account components



Note: *Change in EUR million in the first ten months of 2020 compared to the same period of the previous year.
Source: Bank of Slovenia.

Figure 4.2: Export orders and export expectations – manufacturing



Note: The dashes represent data points for December 2020 without moving averages.
Source: SORS, Bank of Slovenia.

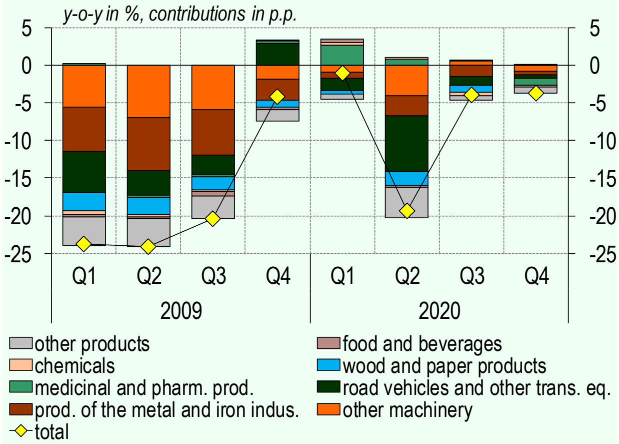
ditionally worsened during the autumn. Because the Slovenian economy typically sees strong net exports of travel services, the virtual standstill in international tourism caused a sharp decline in the surplus of trade in services (see Figure 4.1). The impact of the crisis on the income position was less evident, and has primarily been reflected in a decline in inflows of labour income, reduced outflows of taxes on income and wealth and social security contributions, and a decline in dividend payments to the rest of the world.

Merchandise trade

Despite the adversity caused by the epidemic, manufacturing firms' assessments of foreign demand in the final months of last year were still relatively optimistic. Although the export orders indicator deteriorated slightly in December, it was up in year-on-year terms for the second consecutive month. Manufacturing firms also remained optimistic with regard to the evolution of demand: the indicator's average over the final quarter of last year was the highest level of the last two years (see Figure 4.2).

With the recovery in exports outpacing that in imports, the merchandise trade surplus is continuing to widen dramatically. According to balance of payments figures, nominal merchandise exports were down only 2.6% in year-on-year terms in October. This was largely attributable to recovering sales on euro area markets, most notably Italy. Exports to Asia rose sharply at the same time, although they account for no more than 5% of aggregate exports. The breakdown by product category, which takes account of the figures for adjusted merchandise exports[1], shows that the slowdown in the year-on-year decline was mainly attributable to a rise in exports by the metal industry and the wood industry (see Figu-

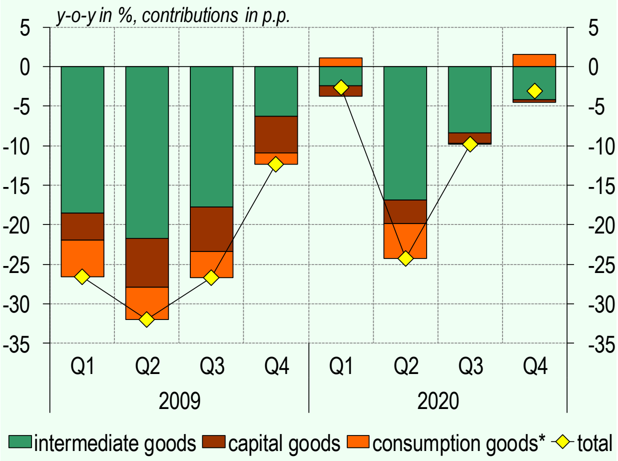
Figure 4.3: Growth structure of adjusted merchandise export*



Note: *Excluding exports of medicinal and pharmaceutical products to Switzerland, oil and petroleum products, electric energy and gas. For 2020Q4 the October data is shown.
Source: SORS, Bank of Slovenia calculations.

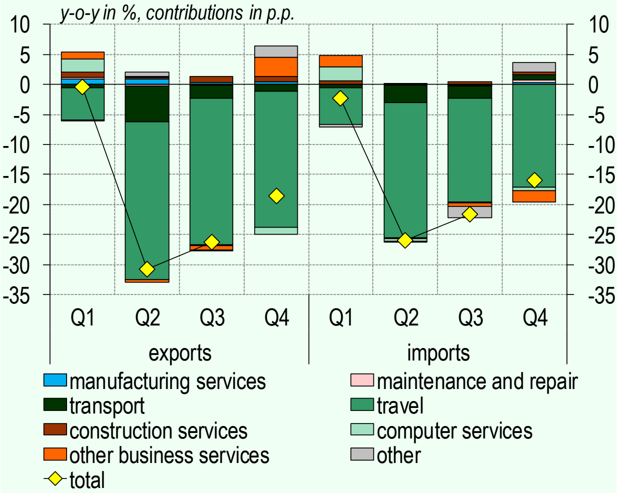
[1] Adjusted merchandise exports exclude exports of medical and pharmaceutical products to Switzerland, and exports of petroleum and refined petroleum products, electricity and gas. The exclusion of exports of medical and pharmaceutical products to Switzerland makes it easier to compare the SORS figures with the balance of payments figures, while the exclusion of petroleum, refined petroleum products, electricity and gas from merchandise exports eliminates a major share of re-exports, which usually contain little value-added. This indicator is thus a more accurate metric of manufacturing performance on foreign markets.

Figure 4.4: Growth structure of adjusted merchandise import*



*Note: *Excluding imports of medicinal and pharmaceutical products from Switzerland. For 2020Q4 the October data is shown.*
Source: SORS, Bank of Slovenia calculations.

Figure 4.5: Services trade in 2020



Note: For 2020Q4 the October data is shown.
Source: Bank of Slovenia.

re 4.3). Conversely the contribution by exports of medical and pharmaceutical products turned negative, while exports of miscellaneous machinery and equipment[2], which in the third quarter were slightly mitigating the decline in aggregate merchandise exports, were also down in year-on-year terms. After unfavourable September, the year-on-year decline in nominal merchandise imports slowed to 7.6% in October according to balance of payments figures, 5.8 percentage points less than in the third quarter, mainly as a result of a smaller year-on-year decline in imports of intermediate goods (see Figure 4.4). The merchandise trade surplus over the first ten months of 2020 amounted to EUR 2,221 million, almost EUR 1 billion wider in year-on-year terms. This increase was also attributable to the favourable terms of trade: import prices of industrial goods over the first ten months of the year were down 3.6% in year-on-year terms, while export prices were down only 1.2%[3].

Services trade

With the exception of travel services, developments in services trade in October were more favourable than in the third quarter. The year-on-year decline in nominal exports of services slowed to 18.6% in October, approximately half of that seen at the depths of the first wave of the epidemic in April, but still comparable to the worst decline in the crisis of 2009. In contrast to previous months, this was largely attributable to an increase in exports of other business services, which reduced the overall decline in services exports by 3.2 percentage points. At the same time the year-on-year decline in services imports slowed to 16.0%, 5.5 percentage points less than in the third quarter, largely as a result of increased imports of transport services. Exports of transport services contrastingly remained down in year-on-year terms in October, albeit only by 3.8%. The surplus of trade in transport services over the first ten months of last year narrowed by EUR 119 million in year-on-year terms to approximately EUR 1 billion. The rise of the second wave of the epidemic brought a further deterioration in the situation in international tourism in October. The year-on-year decline in travel services trade deepened to around 80%, as the decline in exports of travel services over the first ten months of the year approached EUR 1.5 billion, reducing the surplus of trade in travel services by fully EUR 672 million in year-on-year terms. The surplus of trade in services over the first ten months of the year amounted to EUR 1,725 million, EUR 631 million less than a year earlier, and the lowest figure since 2016.

[2] The category of miscellaneous machinery and equipment includes electrical machinery and equipment, industrial machinery, machinery for special types of industry, engines and drives, metal processing machinery and office equipment.

[3] Our initial assessments for November suggest an additional improvement in the situation in the merchandise exports sector. The year-on-year fall in merchandise imports also diminished again in November, according to initial estimates. This is slightly surprising given the shock in domestic demand, and might be indicative of stockpiling, as seen in the spring.

Table 4.1: Current account components

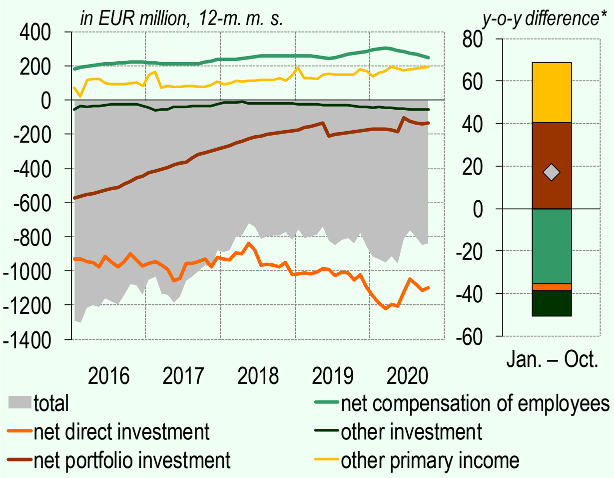
	in 12 months to										
	2017	2018	2019	Oct. 19	Oct. 20	19Q2	19Q3	20Q2	20Q3	Oct. 19	Oct. 20
	in EUR million										
Current account balance	2,674	2,680	2,723	2,699	3,164	690	662	650	915	386	491
1. Goods	1,617	1,282	1,330	1,332	2,285	434	204	576	741	214	343
2. Services	2,254	2,625	2,787	2,762	2,155	691	831	408	535	301	233
2.1. Transport	1,067	1,331	1,318	1,338	1,199	335	327	252	306	126	113
2.2. Travel	1,201	1,221	1,253	1,253	581	292	463	57	148	120	26
3. Primary income	-879	-819	-853	-838	-836	-329	-239	-192	-275	-78	-63
3.1. Labour income	236	258	285	273	249	61	78	41	53	31	22
3.2. Investment income	-1,226	-1,219	-1,305	-1,262	-1,280	-435	-297	-286	-321	-113	-95
3.3. Other income	110	141	167	151	195	45	-20	53	-7	4	10
4. Secondary income	-317	-408	-541	-557	-440	-106	-134	-142	-86	-52	-21
	in % GDP										
Current account balance	6.2	5.8	5.6	5.6	6.8	5.7	5.3	6.0	7.5	9.0	12.4
1. Goods	3.8	2.8	2.7	2.8	4.9	3.6	1.6	5.3	6.1	5.0	8.6
2. Services	5.2	5.7	5.8	5.7	4.6	5.7	6.7	3.7	4.4	7.0	5.9
2.1. Transport	2.5	2.9	2.7	2.8	2.6	2.7	2.6	2.3	2.5	2.9	2.8
2.2. Travel	2.8	2.7	2.6	2.6	1.2	2.4	3.7	0.5	1.2	2.8	0.6
3. Primary income	-2.0	-1.8	-1.8	-1.7	-1.8	-2.7	-1.9	-1.8	-2.3	-1.8	-1.6
3.1. Labour income	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.4	0.4	0.7	0.5
3.2. Investment income	-2.8	-2.7	-2.7	-2.6	-2.8	-3.6	-2.4	-2.6	-2.6	-2.6	-2.4
3.3. Other income	0.3	0.3	0.3	0.3	0.4	0.4	-0.2	0.5	-0.1	0.1	0.3
4. Secondary income	-0.7	-0.9	-1.1	-1.2	-0.9	-0.9	-1.1	-1.3	-0.7	-1.2	-0.5
	nominal y-o-y growth rates in %										
Export of goods and services	13.9	8.8	4.2	5.3	-9.9	5.9	3.9	-24.3	-11.0	1.0	-5.9
Export of goods	14.0	8.6	3.9	4.9	-8.2	5.5	3.7	-22.6	-6.2	1.1	-2.6
Export of services	13.5	9.6	5.5	6.6	-16.2	7.4	4.8	-30.9	-26.3	0.7	-18.6
Transport	17.7	12.6	2.7	4.2	-8.3	4.5	3.0	-19.5	-8.8	-2.6	-3.8
Travel	11.1	7.2	1.8	3.7	-51.9	5.1	2.8	-82.1	-56.6	-2.4	-78.3
Other	12.4	9.5	11.2	11.3	8.4	12.0	9.2	3.4	0.4	5.6	12.6
Import of goods and services	14.2	9.8	4.1	5.0	-11.9	5.9	6.1	-25.7	-14.8	-4.2	-8.8
Import of goods	14.5	10.4	3.9	5.1	-11.7	5.8	6.6	-25.7	-13.4	-4.5	-7.6
Import of services	12.3	6.6	5.2	4.5	-13.5	6.2	3.8	-25.9	-21.5	-2.0	-16.0
Transport	19.6	0.8	7.1	5.8	-5.9	9.5	8.4	-13.6	-11.4	-2.7	4.2
Travel	12.4	12.1	1.2	3.1	-50.4	7.6	-4.8	-83.4	-47.5	-5.3	-78.2
Other	9.6	6.2	6.5	4.8	2.1	4.1	9.8	-1.2	-5.1	-0.3	0.3

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

Primary and secondary income

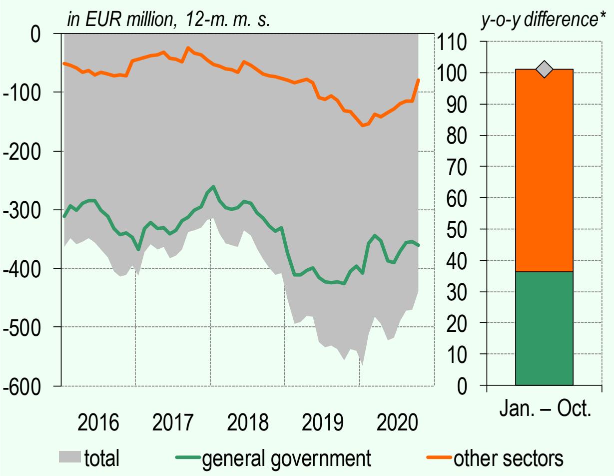
The coronavirus crisis had not had a significant impact on the deficit in primary income by October of last year. The deficit over the first ten months of the year amounted to EUR 638 million, EUR 17 million less than a year earlier (see Figure 4.6). The impact of the crisis was primarily evidenced in the decline in the surplus in labour income, which narrowed by EUR 36 million over the period in question, as inflows declined significantly more than outflows. The decline in the surplus in labour income has coincided with a sharper fall in employment in Austria and Italy compared with Slovenia. The surplus in the category of other primary income widened by EUR 28 million in year-on-year terms, as a result of the increased surplus in the general government sector's primary income driven by rising inflows of EU subsidies. The deficit in capital income narrowed by virtually the same amount: it amounted to EUR 975 million over the first ten months of the year. The narrowing was driven by a smaller deficit in income from investments in securities, as a result of lower dividend payments to portfolio investors holding shares in Slovenian firms. Dividend payments to owners of FDI also declined. An important role is being played here by the Bank of Slovenia macroprudential measure, which restricted dividend payments with the aim of increasing the capital solidity of the commercial banks during the new crisis.

Figure 4.6: Net primary income



*Note: *Change in EUR million in the first ten months of 2020 compared to the same period of the previous year.*
Source: Bank of Slovenia.

Figure 4.7: Net secondary income



*Note: *Change in EUR million in the first ten months of 2020 compared to the same period of the previous year.*
Source: Bank of Slovenia.

The deficit in secondary income gradually narrowed last year, in contrast to the two previous years. It amounted to EUR 413 million over the first ten months of the year, around EUR 100 million less than a year earlier. Other sectors' deficit in secondary income narrowed by EUR 65 million, driven by the narrowing deficit in miscellaneous current transfers, in which the main factors were reduced outflows of taxes on income and wealth and social security contributions, and a rise in inflows of net non-life insurance premiums. The government sector's deficit in secondary income, which accounts for the majority of the aggregate deficit in secondary income (see Figure 4.7), narrowed at the same time. It amounted to EUR 362 million over the first ten months of the year, down EUR 36 million in year-on-year terms, largely as a result of a decline in contributions to the EU budget on the basis of VAT and gross national income.

Selected competitiveness indicators

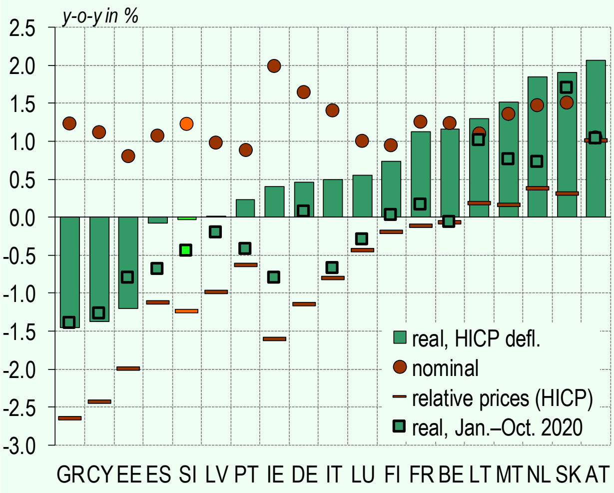
The Covid-19 epidemic has badly impeded the monitoring of external competitiveness. Caution is therefore advised in the interpretation of competitiveness indicators, as they do not necessarily present a true picture of developments, given the difficulties in measuring inflation and also unit labour costs.[4]

The price competitiveness of the Slovenian economy in the third quarter of last year remained close to its

[4] Difficulties in measuring inflation, which is an input for the computation of price competitiveness, became particularly evident in Slovenia and other countries in April and towards the end of last year, while the collection of data from the labour market that is a major determinant of cost competitiveness via unit labour costs (employee compensation and number of employees) was still also being badly impeded everywhere while the labour market support measures were in place (see Box 3.2 in the July 2020 issue of Economic and Financial Developments, Box 6.1 in the April 2020 issue of Economic and Financial Developments and Box 6 in the December 2020 issue of the Macroeconomic Projections for Slovenia).

level a year earlier. This is shown by the ECB figures[5] (no change) and Bank of Slovenia own effective exchange rate indicator[6] (a rise of 0.4%). The ongoing favourable price developments were the only factor at work: the euro appreciated in year-on-year terms against a basket of trading partners' currencies. According to the ECB figures, there was a slight improvement in competitiveness relative to euro area countries (a decline of 0.8%), and deterioration relative to other partners outside the euro area (a rise of 1.0%). Only in four euro area countries did exporters record more favourable developments in the third quarter relative to the group of 37 trading partners, in every instance on account of even higher deflation (see Figure 4.8). The developments in domestic price competitiveness over the first ten months of last year were also among the most favourable in the euro area.

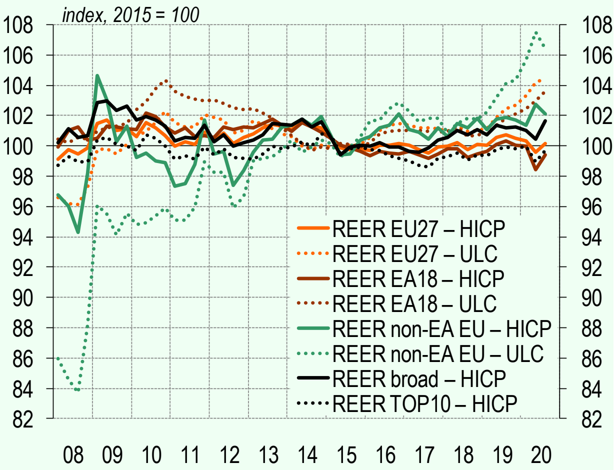
Figure 4.8: Harmonized price competitiveness indicator against 37 trading partners in the third quarter of 2020



Source: ECB, Bank of Slovenia calculations.

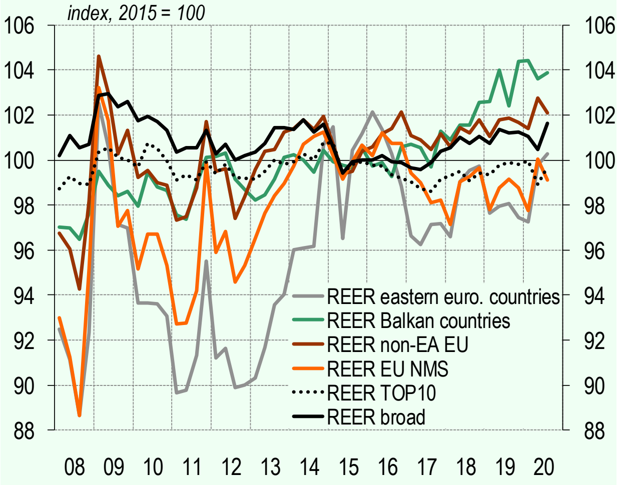
Developments in price competitiveness varied according to region. The own effective exchange rate indicators show that the composite price competitiveness indicator relative to 39 partners remained virtually unchanged in year-on-year terms in the third quarter of last year, with similar figures vis-à-vis the ten most important trading partners (a decline of 0.2%), and newer EU Member States and non-EU countries (a decline of 0.1% and a rise of 0.3%). A slightly larger improvement was recorded vis-à-vis euro area countries (a decline of 0.9%; see Figure 4.9), while price competitiveness vis-à-vis Balkan and eastern European countries deteriorated over the last year (rises of 1.5% and 2.3%), primarily as a re-

Figure 4.9: External competitiveness indicators of Slovenia vs. different trading partners, HICP and ULC deflators



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

Figure 4.10: Regional price competitiveness indicators of Slovenia, HICP deflator



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

[5] Price competitiveness against 37 partners (18 euro area countries and 19 countries outside the euro area) is measured by the ECB's harmonised competitiveness indicator deflated by the HICP.

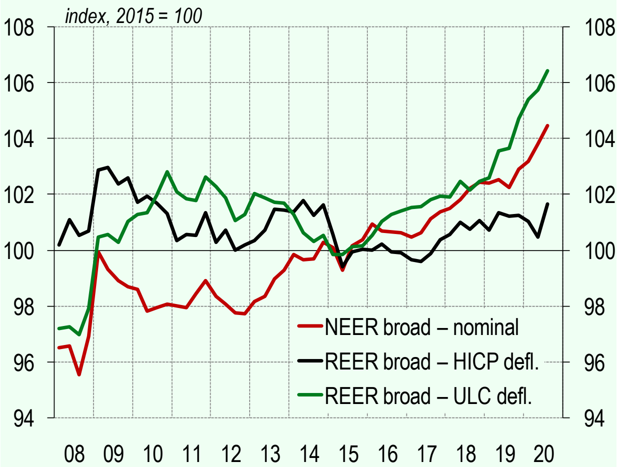
[6] The composite price competitiveness indicator (REER-HICP) covers 39 trading partners: alongside the euro area, Bosnia and Herzegovina, Bulgaria, Brazil, China, Croatia, Czech Republic, Denmark, Hungary, India, Japan, Kosovo, North Macedonia, Poland, Romania, Russia, Serbia, Sweden, Switzerland, Turkey, the UK and the US. All price competitiveness indicators are computed using Bank of Slovenia's own methodology, and may differ from the competitiveness indicators of other institutions because of the capture of different trading partners, economic sectors, deflators and weights. For more on the methodology for calculating the composite indicator, see the January 2020 issue of Economic and Financial Developments.

sult of the larger appreciation of the euro against the basket of currencies of partners in those regions[7] (see Figure 4.10).

In contrast to the ongoing relatively favourable developments in price competitiveness, the cost competitiveness of the domestic economy has deteriorated significantly over the last year.[8] Alongside the euro's appreciation against a basket of partners' currencies, relative unit labour costs were also a factor.[9] The less favourable exchange rate developments accounted for 2.2 percentage points of the year-on-year deterioration of 2.7% in the composite cost competitiveness indicator, and higher unit labour costs for a further 0.5 percentage points (see Figure 4.11).

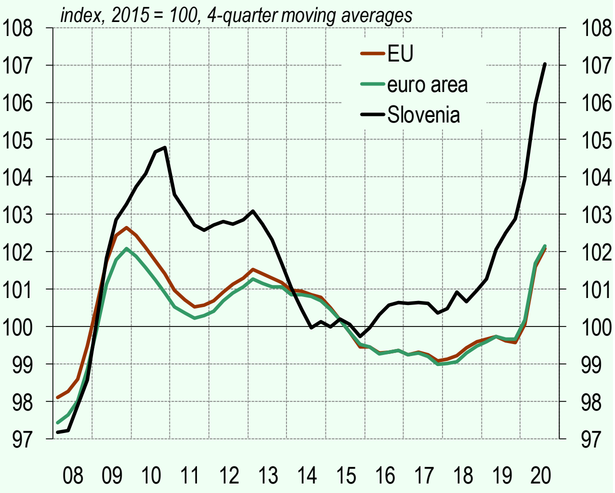
Year-on-year growth in real unit labour costs (RULCs) slowed slightly in the third quarter of last year, but nevertheless remained high.[10] It stood at 4.4%, again above the euro area and EU averages (of 1.9% and 2.0% respectively), outpacing them for the eighth consecutive quarter (see Figure 4.12). On this occasion Slovenia's rate of real growth in compensation per employee[11] (3.6%) was significantly higher than the developments in other countries; the euro area average and EU average

Figure 4.11: Broad external competitiveness indicators of Slovenia vs. 39 trading partners



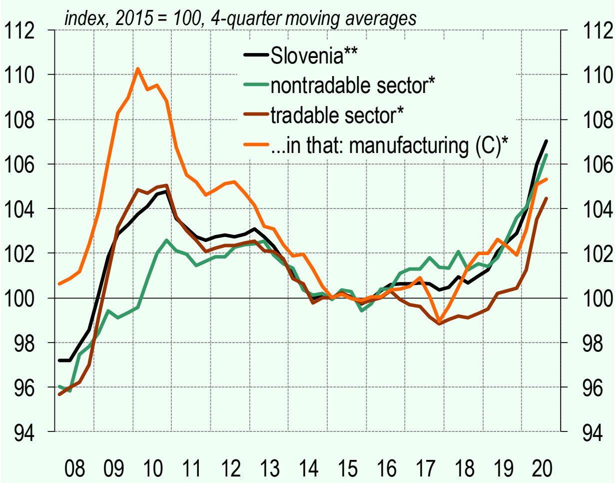
Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, own calculations and methodology.

Figure 4.12: Real unit labour costs



Note: GDP based calculations.
Source: Eurostat, Bank of Slovenia calculations.

Figure 4.13: Real unit labour costs, Slovenia



*Note: *Calculations based on value added. **GDP based calculation.*
Source: Eurostat, Bank of Slovenia calculations.

[7] The euro appreciated in year-on-year terms in the third quarter of last year against the Croatian kuna (1.8%), the Romanian leu (2.4%), the Polish zloty (2.8%), the Czech koruna (2.9%), the Hungarian forint (7.7%), the Russian rouble (20.2%) and the Turkish lira (34.3%).

[8] All cost competitiveness indicators are computed using Bank of Slovenia's own methodology. The composite cost competitiveness indicator against 39 trading partners (REER-ULC) is deflated by unit labour costs.

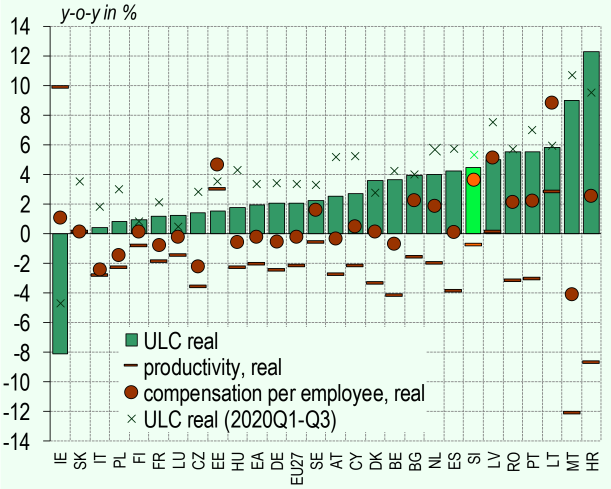
[9] Relative unit labour costs are domestic unit labour costs compared with those of trading partners.

[10] The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures. The relationship between wages and productivity, and the dynamic of wage growth in this section could therefore differ from those illustrated in Sections 2 and 3.

[11] Under the methodology for measuring unit labour costs, the deflator used to compute real growth in compensation per employee is the same as that used to compute real growth in productivity, i.e. the GDP deflator.

both recorded year-on-year declines[12] (of 0.2% and 0.3% respectively; see Figure 4.14). By contrast, the decline in productivity in the third quarter was significantly lower (at 0.8%) than the average performance of other countries, where it exceeded 2.0%. Growth in domestic RULCs was relatively even between the tradable sector (4.0%) and the non-tradable sector[13] (4.8%; see Figure 4.13), in both cases outpacing the comparable rates of growth in the euro area and across the EU, as it has done since the second quarter of 2019.

Figure 4.14: Real unit labour costs in 2020Q3



Note: Data for Greece in 2020Q3 are not available.
Source: Eurostat, Bank of Slovenia calculations.

[12] The interpretation of the data still requires a good deal of caution, as different countries were affected by and responded to the Covid-19 epidemic differently; this means that there are major differences in the disclosure of employee compensation and the number of employees, which both enter into the computation of economies' cost competitiveness.

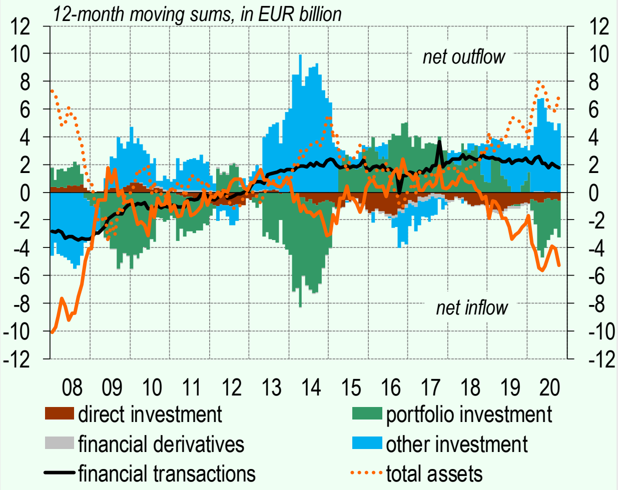
[13] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food services and transportation (G to I), information and communication (J), and professional, scientific and technical activities and administrative and support service activities (M and N). The non-tradable sector consists of all other sectors under the SKD 2008.

Box 4.1: Disposal of the financial account surplus

Last year Slovenia again recorded a surplus in the financial account, thus acting as a net financer of the rest of the world. At EUR 1.8 billion over the 12 months to October, the surplus remained high,[1] but was EUR 0.5 billion narrower in year-on-year terms. It narrowed because the year-on-year increase in financial liabilities to the rest of the world exceeded the year-on-year increase in residents' holdings of financial assets in the rest of the world. The breakdown by instrument shows that capital in the total economy mainly moved to the rest of the world via net other investments in the amount of EUR 4.9 billion, most notably currency and deposits,[2] which were up EUR 1.5 billion on a year earlier, the highest figure since 2014 (see Figure 1). The net outflow of capital was reduced by the increase in net liabilities to foreign portfolio investors in (debt) securities (EUR 2.6 billion),[3] and, to a significantly lesser extent, to foreign direct investors.[4] In the breakdown by institutional sector, the largest factor in the net outflow of capital to the rest of the world in the amount of EUR 1.8 billion was the central bank's net financial transactions (with a net outflow of currency and deposits of more than EUR 3 billion), followed by the net transactions of the financial sector in the amount of approximately EUR 700 million. Conversely the net outflow of capital in the preceding 12 months was mainly reduced by the government sector, which recorded a net inflow of financial assets in the amount of more than EUR 2 billion, primarily via bond issuance (see Figure 2).

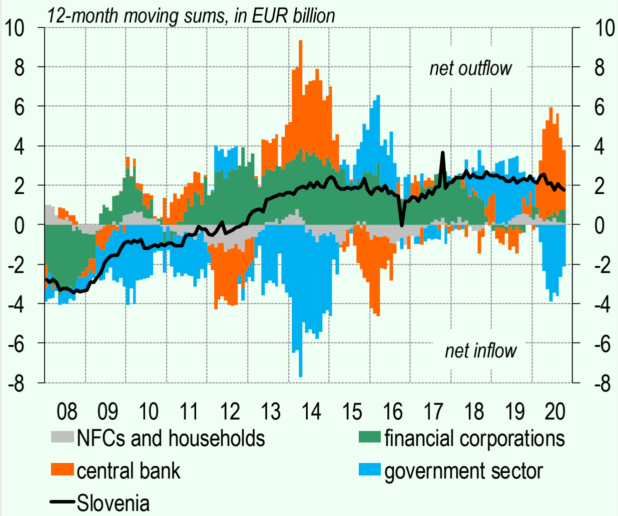
Similarly to the last nine years,[5] the private sector again moved capital to the rest of the world last year. Over the 12 months to October it recorded a net outflow of financial assets in the amount of approximately EUR 750 million, significantly more than a year earlier, but just a quarter of the record outflow seen in 2013. The sector's assets primarily left the country via the net outflow of other assets in the amount of more than EUR 920 million, most notably through loan repayments and an increase in deposits in accounts in the rest of the world, but also through net investments in securities[6] (of close to EUR 420 million). The sector's loan repayments to the rest of the world over the preceding 12 months amounted to EUR 550 million, a similar dynamic to the previous year, but significantly less than between 2011 and 2017, when they amounted to well in excess of

Figure 1: Financial transactions of the balance of payments



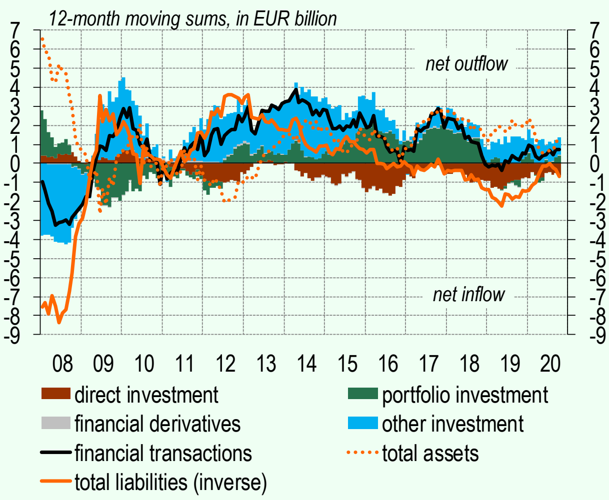
Source: Bank of Slovenia.

Figure 2: Sectoral structure of financial transactions with ROW



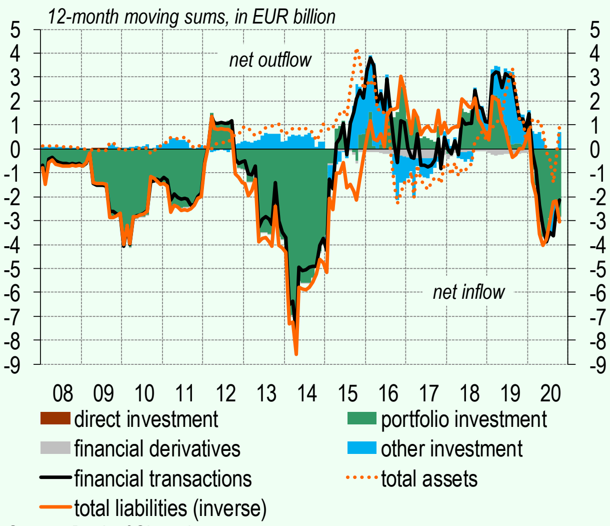
Source: Bank of Slovenia.

Figure 3: Financial transactions of private sector*



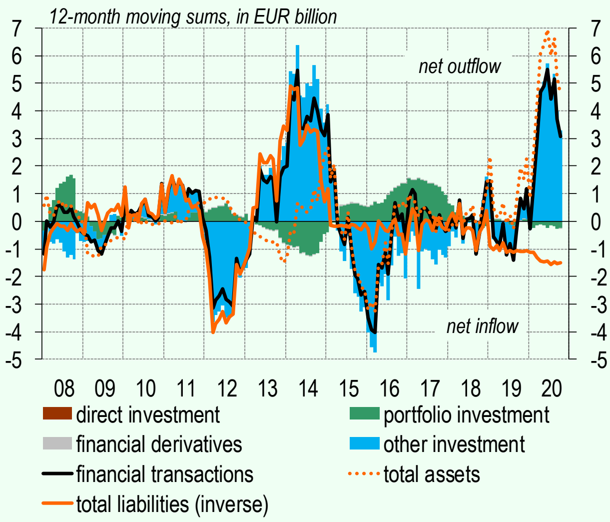
Note: *All sectors except government and central bank (S.13 in S.121).
Source: Bank of Slovenia.

Figure 4: Financial transactions of the government sector



Source: Bank of Slovenia.

Figure 5: Financial transactions of the central bank



Source: Bank of Slovenia.

EUR 1 billion each year. Capital conversely flowed into the private sector over the preceding 12 months mainly via non-residents' net inward FDI (in the amount of EUR 630 million), as has been the case for a number of years now.

Non-financial corporations[7] recorded a modest net inflow of financial assets from the rest of the world in the amount of EUR 280 million over the 12 months to October, while households recorded a net outflow of approximately EUR 350 million. The main feature of non-financial corporations' net financial inflow position over the preceding 12 months was a net inflow of direct investment in the amount of around EUR 500 million, but there was also a net inflow of trade credits in the amount of EUR 160 million.[8] The overall net financial inflow to non-financial corporations from the rest of the world was slightly reduced by further loan repayments (EUR 160 million) and an increase in deposits in accounts in the rest of the world (EUR 150 million). Households, who have consistently recorded very modest statistics for financial flows with the rest of the world, moved net savings to the rest of the world in the amount of around EUR 350 million over the preceding 12 months, primarily into bank holdings of currency and deposits (EUR 175 million), but partly into shares (around EUR 65 million) and other equity and other assets (around EUR 80 million in total).

Financial corporations again recorded a net outflow to the rest of the world last year,[9] for the tenth consecutive year, although in the last three years it has been significantly smaller than before. Their net outflow of capital over the 12 months to October amounted to EUR 680 million, down dramatically on the peak figure recorded at the end of 2012 (EUR 3.9 billion). It was largely attributable to loan repayments to the rest of the world, and also to increased bank lending to the rest of the world (EUR 600 million in total[10]). An additional EUR 350 million flowed to the rest of the world via financial corporations' net portfolio investments, mostly in the form of investments in shares and equity. The net outflow position over the period in question[11] was slightly reduced by the net inflow of EUR 140 million via non-residents' inward FDI. The increase in all of the sector's financial assets in the rest of the world again significantly outpaced the increase in its liabilities over the preceding 12 months,[12] which was typically the case over the whole of the last decade. The exception was the period of 2018 and 2019, when the main feature of financial corporations' capital flows was an increase in liabilities to non-resident portfolio investors.[13] The developments over the last 12 months are once again more comparable to previous years, although the net flows are significantly smaller.[14]

Over the last year there has been a significant reversal in the government sector's financial flows, as a result of government bond issues to finance anti-crisis measures. Even a year ago there had been a net outflow over the preceding 12 months (in the amount of EUR 1.3 billion), primarily via an increase in holdings of currency and deposits in accounts in the rest of the world, but the outbreak of the coronavirus crisis reversed these capital flows. The government sector recorded a sharp net inflow of capital in the amount of EUR 2.1 billion over the 12 months to October, driven by an increase in non-residents' holdings of government debt securities.[15] The inflow of capital was the largest since 2014, although it was also just a third of the then record 12-month inflow during the recovery and resolution of the banking system. The sole factor reducing the government's net inflow position vis-à-vis the rest of the world was an increase in deposits in the rest of the world (of about EUR 900 million).

The central bank recorded a net outflow of financial assets to the rest of the world over the 12 months to October, in the total amount of EUR 3.1 billion. The entire capital outflow consisted of a net increase in holdings of currency and deposits via the TARGET2 system in the amount of EUR 3.3 billion. The central bank's net outflow was reduced by sales of foreign bonds, which amounted to EUR 240 million.

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1 The current account surplus over the 12 months to October 2020 amounted to EUR 3.2 billion. The difference between them is attributable to a negative statistical error of EUR 1 billion, which illustrates the difference between the recorded balances of real transactions and financial transactions.

2 Other investments include, alongside currency and deposits, other equity, loans, trade credits and advances, other accounts payable/receivable, and insurance, pension and standardised guarantee schemes.

3 There was a net inflow in investments in debt securities for the first time since 2014: they contributed EUR 3.0 billion to the net inflow of capital over the 12 months to October.

4 The net inflow of direct investment into Slovenia declined last year for the second consecutive year, and amounted to EUR 630 million over the 12 months to October.

5 With just one exception, that of 2018, when there was a moderate net inflow of capital, as a result of strengthened inflows into non-financial corporations in the form of direct investment, diminishing investment by financial corporations in the rest of the world, and the privatisation of one of the domestic systemically important banks.

6 The net outflow into equities was particularly strong (more than EUR 330 million), driven almost exclusively by an increase in non-financial corporations' holdings. By contrast, the increases in assets and liabilities vis-à-vis the rest of the world in the form of debt securities were roughly equal, at around EUR 0.5 billion, which produced a small net outflow of around EUR 80 million.

7 Non-financial corporations (S.11).

8 This was the result of repayments by foreign non-financial corporations (EUR 380 million) outstripping domestic non-financial corporations' repayments to the rest of the world (EUR 220 million).

9 Financial corporations (S.12) excluding the central bank (S.121). The sector has been in a net outflow position throughout the last decade, either as a result of the increase in assets outpacing the increase in liabilities, or as a result of the decline in liabilities outpacing the decline in assets.

10 Less than two-thirds of the amount consisted of loan repayments, while the remainder consisted of an increase in loans granted to the rest of the world. Loan repayments in the recent period have nevertheless been entirely negligible compared with the amounts between 2009 and 2016, when the commercial banks were making intensive debt repayments to the rest of the world of more than EUR 1 billion each year, and more than EUR 2 billion in some years.

11 Over the 12 months to October 2020.

12 The latter increased by more than EUR 360 million over the 12 months to October, while the increase in assets was just over EUR 1 billion.

13 As a result of the sale of one of the banks, in the amount of more than EUR 600 million (end of 2018).

14 They averaged more than EUR 2 billion between 2011 and 2017, and amounted to more than EUR 3 billion in certain years.

15 The government sector's holdings of assets in the rest of the world increased by around EUR 900 million over the 12 months to October, while its liabilities increased by more than EUR 3 billion. The latter was driven primarily by foreign portfolio investors in government bonds, to whom liabilities increased by EUR 2.9 billion.

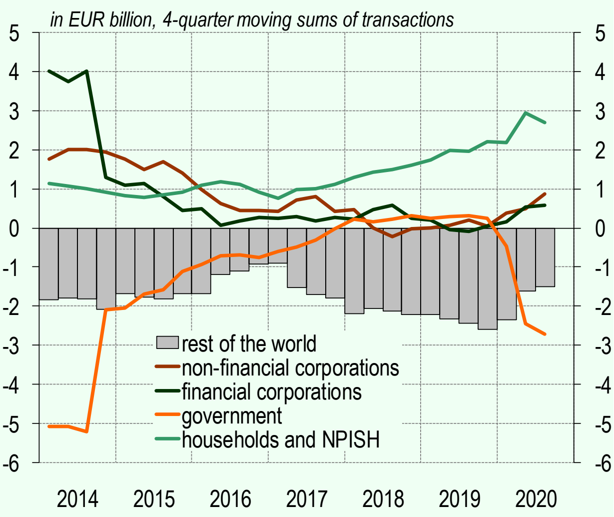
5 Financial Standing of Non-Financial Corporations, Households and Banks

Non-financial corporations, households and banks entered last year's crisis in good financial shape, but the financial accounts reveal significant changes in their behaviour over the first three quarters of 2020. The largest reversal as a result of the introduction of the emergency measures and the corresponding additional borrowing at the outbreak of the Covid-19 epidemic came in the government sector, where a two-year trend of net saving came to an end. At the outbreak of the epidemic, non-financial corporations further strengthened their saving relative to their investment, although they had already been more cautious in their behaviour on account of the increasing uncertainty in the international environment before that. The household sector, which still has the most prominent saving-investment gap, is now saving at even greater rate (including forced saving). The excess saving by households and non-financial corporations primarily flowed last year in the form of deposits to banks, who in turn continued to place the money with the central bank. The year-on-year increase in the banks' financial assets and liabilities last year underwent its most pronounced surge of the last ten years.

Saving-investment gap by institutional sector

The outbreak of the Covid-19 epidemic brought a reversal in the net financial position of domestic institutional sectors. The gap by which aggregate saving exceeded aggregate investment had narrowed to just EUR 1.5 billion by the end of the third quarter of last year. This was largely attributable to a reversal in the net position of the government sector: its investment once again exceeded its saving last year, after not having done so for two years. By contrast, other sectors actually recorded increased growth in their net financial assets, most notably households, whose net saving in the amount of EUR 2.7 billion meant that they remained the dominant factor in the aggregate net financial position against the rest of the world.

Figure 5.1: Savings-investment gap

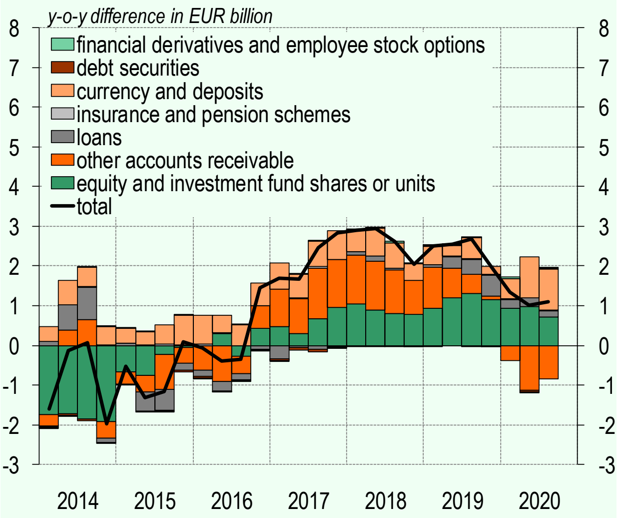


Source: Bank of Slovenia, SORS.

Financial assets and financing of non-financial corporations

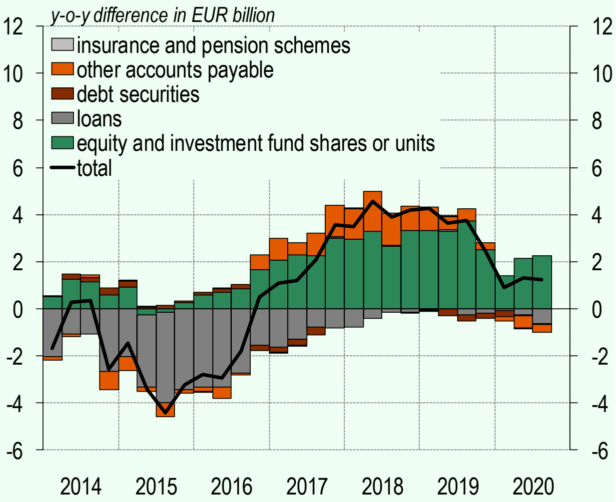
Year-on-year growth in non-financial corporations' financial assets and, in particular, liabilities slowed significantly last year.[1] Non-financial corporations' financial assets at the end of the third quarter were up only around EUR 1.1 billion in year-on-year terms (see Figure 5.2). The largest year-on-year decline was recorded for the third consecutive quarter by trade credits granted, at around EUR 780 million. The increase in their holdings of equity and investment fund shares and of loans also slowed, while amid the huge uncertainty on international markets non-financial corporations actually reduced their holdings of financial assets in the rest of the world slightly (by EUR 40 million in year-on-year terms), which has not happened since 2014.[2] Non-financial corporations contrastingly saw record inflows of deposits to banks, of around EUR 1 billion in the third quarter, which can be attributed to their caution and the need to maintain liquidity. Non-financial corporations' financial liabilities were up EUR 1.2 billion in the third quarter, primarily driven by an increase in liabilities in the form of equity (EUR 2.2 billion; see Figure 5.3). At the same time companies continued to pay down debt to banks, to issuers of debt securities and to other non-financial corporations via trade credits (in the total amount of EUR 1.3 billion). Non-financial corporations again increased their financial liabilities to the rest of the world slightly (by EUR 0.5 billion), but by significantly less than a year earlier.[3]

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



Source: Bank of Slovenia.

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



Source: Bank of Slovenia.

Financial assets and financing of households

Households last year directed their financial surpluses even more intensively into currency and deposits, while slowing the increase in their financial liabilities at the same time.[4] Households' financial assets at the end of the third quarter were up around EUR 4.1 billion in year-on-year terms (see Figure 5.4). The largest factor in the increase on this occasion was again the increase in sight deposits, of EUR 2.4 billion. This is primarily attributable to reductions in spending by households, or even an inability to spend, owing to the uncertain situation amid the outbreak of the Covid-19

[1] The year-on-year increase in the stock of assets was just 2.2% in the third quarter (compared with 5.8% a year earlier), while the increase in non-financial corporations' liabilities stood at 1.4% (compared with 4.5% a year earlier).

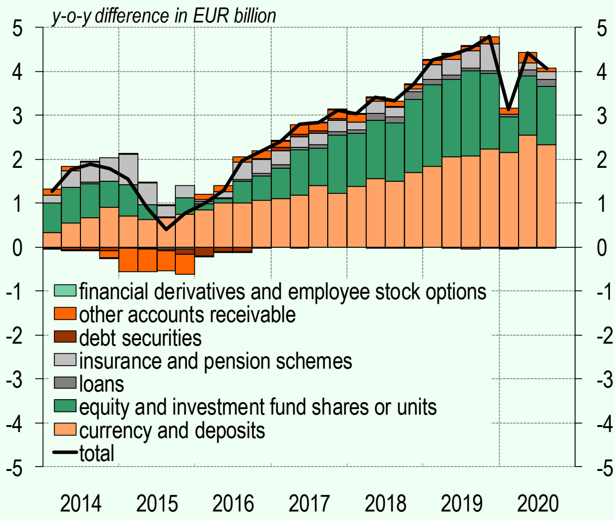
[2] This was largely attributable to a decline in trade credits granted, the halving of the increase in investments in foreign equity and investment fund shares, and a decline in loans granted.

[3] The increase was particularly evident in equity (EUR 700 million).

[4] The year-on-year increase in assets stood at 7.3% at the end of the third quarter (compared with 8.8% a year earlier), while the increase in liabilities slowed sharply over the last year (from 4.6% to 1.4%).

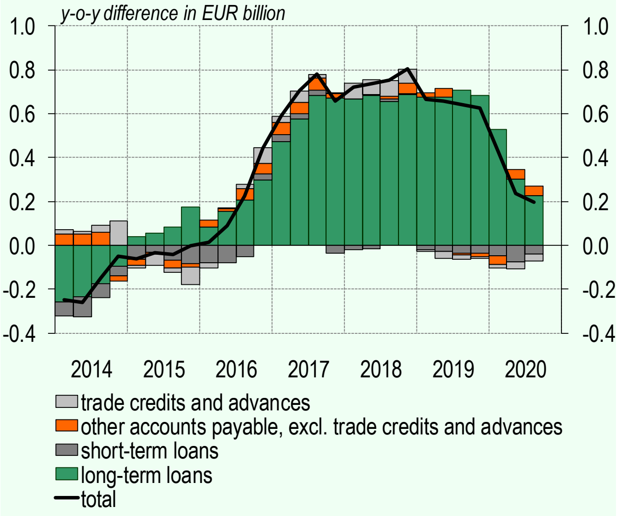
epidemic and the containment measures. There were also increases in households' holdings of equity and investment fund shares (by EUR 1.3 billion), albeit driven primarily by positive revaluations and not by actual new investments, and of insurance and pension schemes (by EUR 175 million). The increase in households' financial liabilities is continually slowing: they were up merely around EUR 200 million in year-on-year terms in the third quarter (see Figure 5.5). Most notably the year-on-year increase in long-term loans is rapidly diminishing: at EUR 230 million, it was less than a third of the increase seen a year earlier. This is most likely attributable to the increased general uncertainty and the resulting increased caution on the part of households when it comes to borrowing, to declining income, and to a Bank of Slovenia macroprudential measure.

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



Source: Bank of Slovenia.

Figure 5.5: Financial liabilities of households (S.14)

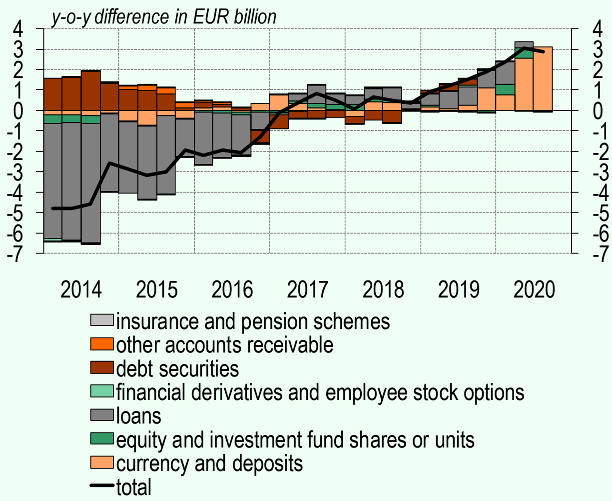


Source: Bank of Slovenia.

Financial assets and financing of banks

The year-on-year increase in the banks' financial assets and liabilities again underwent its most pronounced surge of the last ten years in the third quarter of last year.[5] Their financial assets at the end of the third quarter were up EUR 2.9 billion in year-on-year terms, driven largely by an increase of EUR 3.1 billion in bank deposits (primarily in accounts at the central bank), while the increase in the banks' lending activity came to a total standstill after three and a half years.[6] The banks' financial liabilities also increased only slightly less strongly over the observation period (by EUR 2.7 billion), driven entirely by an increase in holdings of deposits by non-financial corporations and households, which were up EUR 2.6 billion in year-on-year terms. The banks' liabiliti-

Figure 5.6: Financial assets of banks and money-market funds (S.122 and S.123)



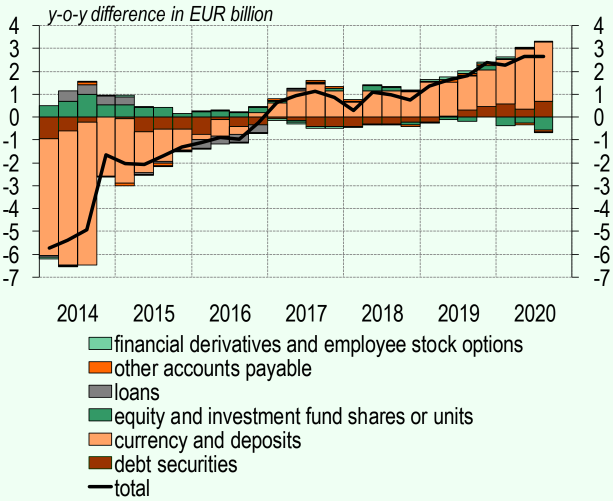
Source: Bank of Slovenia.

[5] The year-on-year increase in assets stood at 7.0% at the end of the third quarter (compared with 3.7% a year earlier), while the increase in liabilities stood at 6.6% (compared with 4.8% a year earlier).

[6] The stock of bank loans granted was down around EUR 40 million in year-on-year terms, compared with an increase of EUR 890 million a year earlier. Loans in this section are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 5.1.

es were also slightly increased by the issuance of debt securities (around EUR 670 million), while their equity and investment fund shares declined by EUR 580 million in year-on-year terms, primarily as a result of revaluations at the outbreak of the epidemiological crisis. The banks' liabilities to the rest of the world increased slightly in year-on-year terms (by around EUR 280 million), but were still significantly lower than before and during the previous financial crisis. The changes in bank performance in October and November are analysed in Box 5.1.

Figure 5.7: Financial liabilities of banks and money-market funds (S.122 and S.123)



Source: Bank of Slovenia.

Box 5.1: Bank performance in 2020

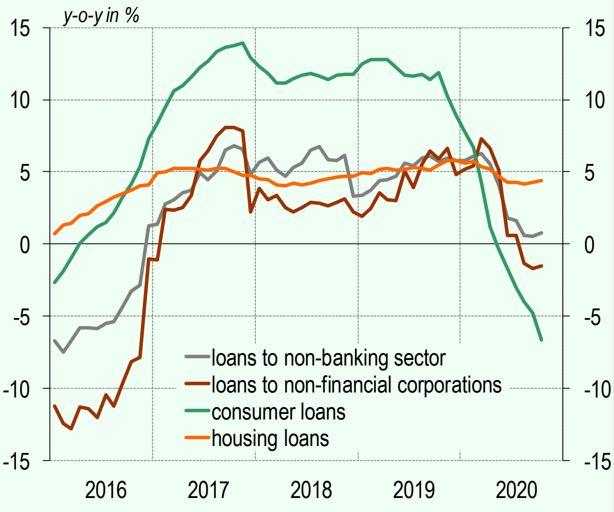
The sharp deterioration in the epidemiological situation in the autumn also worsened the business conditions for banks. They nevertheless recorded relatively high profits over the first eleven months of last year, albeit primarily as a result of a one-off effect. The increase in the balance sheet total continued to be driven by an increase in deposits by the non-banking sector, which the banks are manly directing into accounts with the central bank as credit activity falls. In the final quarter of last year non-performing exposures (NPEs) began to rise in the most-exposed customer segments. The banking system is maintaining a good capital position and liquidity position.

The balance sheet total increased, primarily as a result of growth in deposits by the non-banking sector. It increased by EUR 3 billion over the first eleven months of the year to stand at EUR 44.2 billion, up 8.2% in year-on-year terms. The main increases on the asset side were in claims against the central bank, while credit growth slowed sharply. The proportion accounted for by securities remained stable at a fifth of total assets.

As a result of the pandemic's adverse impact on economic activity, the banks' credit activity declined sharply in 2020, although there are substantial differences between the individual sectors. Year-on-year growth in loans to the non-banking sector remained positive, despite dropping by more than 5 percentage points last year, and stood at 0.5% in November. Year-on-year growth in household loans slowed to 0.4%, primarily as a result of the continual decline in consumer loans. They were down 7.3% in year-on-year terms in November, which can be attributed to the increased level of general uncertainty, the decline in household income and, in part, the effect of the macroprudential restrictions on household lending. By contrast, year-on-year growth in housing loans slowed to 4.2%, but did not deviate significantly from the average growth over the last five years. This can be attributed to the relatively stable developments in the majority of real estate market indicators. Growth in loans to non-residents has been strengthening since September, but only at certain banks. After the huge drop in economic activity following the declaration of the pandemic, growth in corporate loans slowed sharply last year, turning negative for the first time since January 2017. The rate reached -2.2% in November (see Figure 1).

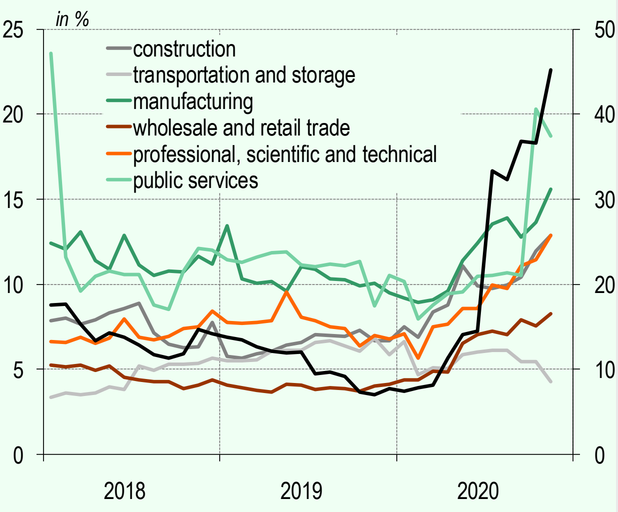
After declining for several months following the outbreak of the epidemic, NPEs increased slightly in October and November in the corporate and household portfolios. In the non-financial corporations portfolio the sharpest increases in the NPE ratio came in accommodation and food service activities, where it rose by 2.6 percentage points to 10.1%, and in public services, where it rose by 0.7 percentage points to 8.1%. Given the banks' relatively low exposure to these sectors, the NPE ratio across the entire portfolio increased by just 0.1 percentage points to 3.8%. Numerous banks are still seeing a reduction in legacy NPEs, which is a factor that is reducing the net increase in NPEs. Further indication of the deterioration in portfolio quality comes from the reclassification of claims to a stage with increased credit risk (Stage 2 under the IFRS), which has been more pronounced

Figure 1: Growth of loans to the non-banking sector



Source: Bank of Slovenia.

Figure 2: Share of exposure in credit risk stage 2 by activities

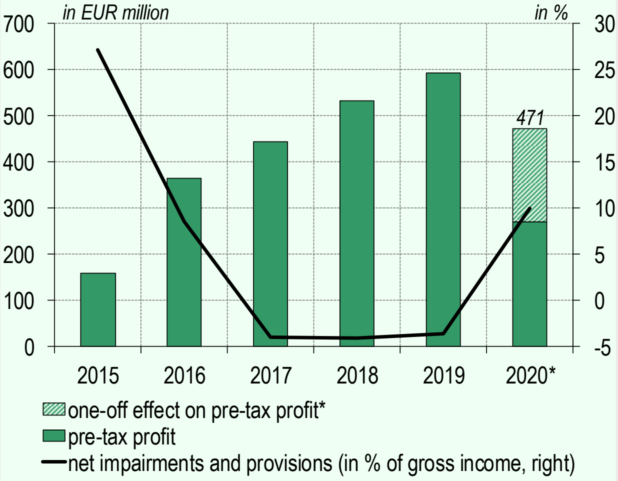


Source: Bank of Slovenia.

at firms in accommodation and food service activities since July, and also in public services over the last two months. The share of claims in this stage has also increased in the sectors of manufacturing, professional, scientific and technical activities, construction, and, to a slightly lesser extent, wholesale and retail trade (see Figure 2). In the household portfolio there was a small increase in the stock of NPEs in both consumer loan and the housing loan portfolios, although the NPE ratio increased slightly in the consumer loan portfolio alone, to 2.8%.

Deposits by the non-banking sector have also increased during the epidemic, mainly in the form of sight deposits. Deposits by the non-banking sector remained the most important source of funding for the banks, and now account for more than three-quarters of the balance sheet total. They were up 9.6% in year-on-year terms in November, driven primarily by increases in household and corporate deposits. Household deposits increased by EUR 1.7 billion over the first eleven months of last year, which is the largest increase in comparable periods in history. The pronounced increase can be mainly attributed to decreased consumption during the shutdown of certain economic sectors and the lockdown, and the simultaneous government aid to alleviate the impact of the pandemic. Corporate deposits were up 14.5% in year-on-year terms in November, although the monthly figures remain volatile. Firms will most likely gradually reduce their holdings of bank deposits, particularly those firms being hit hardest by the current situation. The main increase was in sight deposits, which allow savers instant access to their savings in the event of need. In November sight deposits accounted for almost 78% of total deposits by the non-banking sector, and 59% of

Figure 3: Pre-tax profit and net impairments and provisions in gross income



*Note: *Jan. – Nov.*
Source: Bank of Slovenia.

the banking system's total liabilities. The banking system's dependence on wholesale funding and other sources of financing remained low.

The banking system's profitability declined in 2020 as the economy struggled. Pre-tax profit amounted to EUR 471 million over the first eleven months of last year, down almost a fifth on the same period of the previous year (see Figure 3). Pre-tax ROE stood at 10.5%, compared with 13.2% over the same period of the previous year. The relatively small year-on-year decline is mostly attributable to a one-off effect in non-interest income as a result of the merger of two banks in September of last year. Net interest income over the first eleven months of last year was down 6.3% in year-on-year terms, as a result of the decline in lending and lower returns on bank assets. The decline in the net interest margin has thus continued: it reached 1.59% in November for the preceding 12 months. Net impairment and provisioning costs have returned as a factor on the expense side, and they will be a key factor in bank profitability in the future. They still account for a relatively low share of the disposal of gross income (10%), primarily on account of loan moratoria, but the expectation is that they will increase in the future amid the uncertain epidemiological picture and economic situation. The banks have relatively good control of operating costs. Operating costs over the first eleven months of the year were up 3.0% in year-on-year terms, driven primarily by a methodological effect.[1]

The liquidity of the banking system has strengthened even during the epidemic. The most liquid forms of asset, cash on hand and balances at the central bank, increased by EUR 2.7 billion over the first eleven months of last year to stand at EUR 8.5 billion, thereby reaching their highest share of the balance sheet total in the history, at 19.2%. The sharp growth in this primary liquidity is a consequence of the pronounced increase in deposits by the non-banking sector and the decline in credit activity, particularly after the declaration of the epidemic. The LCR in the banking system stood at 322%, thus remaining more than three times higher than the regulatory requirement (100%). There remained considerable differences in the LCR at individual banks, but all were meeting the regulatory minimum requirement.

The banking system remained well-capitalised, despite the economic downturn. The total capital ratio on a consolidated basis had increased to 20.0% by September of last year, and the common equity Tier 1 capital ratio to 18.2%, both above their euro area averages. The banks increased their common equity Tier 1 capital via profits brought forward from the previous financial year, which were retained in full in line with a Bank of Slovenia macroprudential measure. In addition to common equity Tier 1 capital, there was also an increase in Tier 2 capital via the issuance of subordinated debt instruments by certain banks. Risk-weighted assets declined, as a result of reduced lending to non-financial corporations and households. Almost all of the banks improved their capital adequacy over the first three quarters of last year, although there remained considerable differences between them. The expectation is that the banks with lower capital surpluses and the banks with larger exposure to the sectors hit hardest in the crisis will find it harder to deal with the adverse consequences of the epidemic.

[1] Change in the classification of costs in connection with contributions to the deposit guarantee fund.

Box 5.2: Capital markets union: from the launch of the initiative to one of the EU's key priorities

The European financial system is dominated by the traditional banking sector, and the capital market is relatively small, and fragmented across different countries. Financing and saving for businesses and households in the EU are based on the banking system, which in terms of size (relative to GDP) is much larger than the banking systems in the US and Japan.[1] Alongside loans, another important source of corporate financing is equity in the form of unlisted shares, while financing via the issuance of listed shares is at a significantly lower level than in other major economies. This is reflected in the relatively low market capitalisation of (listed) shares, which in the EU reached 52% of GDP in 2019, significantly less than in the US (170% of GDP), the UK and Japan (more than 100% of GDP).[2] There are advantages in large exposure to the banking sector, but also weaknesses, such as risk concentration, and thus greater vulnerability to shocks in the banking system. The EU capital market still consists of 27 more or less diverse national capital markets. Capital investment mainly focuses on national markets, and because of barriers is failing to exploit the size of the EU market, and to support firms in the way that it could. The fragmentation and shallowness of the European capital market entail less choice in financing, fewer forms of saving, and a barrier to investment and economic growth.

The current crisis and the challenges of digitalisation, the aging population and the transition to a green economy are only increasing the need for financing. For the economic recovery and the EU's longer-term objectives, it is important that traditional bank loans are supported by a more advanced and effective environment for financing via the capital markets. In 2020 the European Commission therefore drew up a new action plan for a capital markets union, which is more ambitious than the first plan from 2015. Alongside the 2015 plan, the new plan is also based on the mid-term review of the first action plan from 2017, and the report by the high-level forum on the capital markets union from 2020. The new plan is described in brief below.

Harmonising and deepening the capital markets of EU Member States is a complex and gradual process, which gained momentum in 2015, although there was still too little ambition. The free movement of capital is one of the four fundamental freedoms of the EU single market[3] envisaged in the Treaty on the Functioning of the European Union (TFEU, Articles 63 to 66). Despite the progress in the liberalisation of capital flows in the EU in recent decades, barriers in this area have not yet been removed, and the EU capital market is not functioning as a single market.

- A significant step forward was taken in 2015, when the leaders of European institutions envisaged the completion of the banking union and the construction of a capital markets union in the Five Presidents' Report: Completing Europe's Economic and Monetary Union. Even before this, in the same year the European Commission had drawn up a green paper on building a capital markets union, in which progress in this area was defined as one of its priorities.[4]
- In autumn 2015 the European Commission presented its first action plan for creating a capital markets union.[5] The plan envisaged 33 measures, which were augmented by the European Commission after its mid-term review in 2017,[6] in part to address the consequences of Brexit. The project was scheduled for completion in autumn 2019, but despite the majority of the measures being realised, it did not lead to a genuinely functional capital markets union, as the measures were not deep-rooted enough. The EU capital market thus remains fragmented across the various national capital markets.
- With the aim of promoting the integration of capital markets, the European Commission created the high-level forum on the capital markets union in November 2019. It is a forum of 28 experts, who in mid-2020 completed the most comprehensive report[7] to date with a review of the situation (barriers) in individual areas, and 17 specific recommendations (packages of measures) to remove the biggest barriers in EU capital markets and to increase their competitiveness. The proposed measures, most of which also come with a proposed timetable, are divided into four categories: (a) creating a vibrant and competitive business environment, (b) building stronger and more efficient market infrastructure, (c) fostering retail investments in capital markets and (d) going beyond boundaries across the internal market. These are interconnected measures in multiple areas, and focus on enhancing the trust and confidence of EU citizens in capital markets, simplifying the existing rules and reducing legal uncertainty from the different enforcement of rules across Member States, reducing high compliance costs, improving access to and reducing the cost of information, reviewing (and removing) investment barriers, and incentivising the use of new digital technologies.

In September 2020 the European Commission released its new action plan entitled A capital markets union for people and businesses,[8] which was further motivated by the crisis caused by the pandemic and by Brexit. This consists of a plan of demanding measures in a number of areas, which are grouped into 16 actions (see Table 1) with three key objectives:

1. supporting a green, digital, inclusive and resilient economic recovery by making financing more accessible to European companies, SMEs in particular;
2. making the EU an even safer place for individuals to save and invest long-term;
3. integrating national capital markets into a genuine EU-wide single market.

Table 1: New action plan for the capital markets union with timetable of European Commission activities

1. Measures to support economic recovery by making financing more accessible to companies			
Action 1:	setting up an EU-wide platform (European single access point) that provides investors with seamless access to financial and sustainability-related company information.	→	legislative proposal by Q3 2021
Action 2:	streamlining and simplifying the current rules for listing on public markets (SME growth markets and regulated markets), standardising the definition of SMEs, potentially simplifying the regime to combat market abuses.	→	assessment of potential improvements by Q4 2021
Action 3:	reviewing the legislative framework for European long-term investment funds (ELTIFs) with a view to encouraging their creation and channelling more long-term financing to companies and infrastructure projects (in particular those contributing to the objective of smart, sustainable and inclusive growth).	→	review of ELTIF Regulation (2015/760/EU) by Q3 2021
Action 4:	encouraging more long-term and equity financing from institutional investors via the removal of regulatory barriers to long-term investment by insurance corporations, and appropriate prudential treatment of long-term SME equity investment by banks (more flexible implementation of Basel III).	→	examination of options for changing rules (Solvency II Directive, CRR, CRD IV) by Q3 2021
Action 5:	introducing a requirement for banks to direct SMEs whose credit applications they have turned down to providers of alternative funding.	→	assessment of benefits and feasibility by Q4 2021
Action 6:	strengthening the securitisation market to increase banks' credit provision to EU companies, in particular SMEs.	→	review of EU securitisation framework by Q4 2021
2. Make the EU an even safer place for individuals to save and invest long-term			
Action 7:	developing a European financial competence framework, and assessing the possibility of introducing a requirement for Member States to promote financial education, in particular in relation to responsible and long-term investing.	→	feasibility study by Q2 2021
Action 8:	amending the existing legal framework for retail investors (to receive fair advice, and clear and comparable product information) and improving the level of professional qualifications for advisors in the EU.	→	review of rules and proposal of amendments by Q1 2022
Action 9:	developing dashboards for monitoring pension adequacy, and developing best practices for the set-up of national tracking systems for individuals.	→	development of dashboard, launch of study by Q4 2021
3. Integrating national capital markets into a genuine EU-wide single market			
Action 10:	lowering the tax burden on cross-border investors by introducing a common, standardised, EU-wide system for withholding tax relief at source.	→	legislative proposal by Q4 2022
Action 11:	harmonising non-bank insolvency law to make the outcome of cross-border investment more predictable as regards insolvency proceedings.	→	legislative or other proposal by Q2 2022
Action 12:	facilitating cross-border shareholder engagement by introducing an EU definition of "shareholder", harmonising rules governing the interaction between investors, intermediaries and issuers, and examining national barriers to the use of new digital technologies in this area.	→	examination of options by Q3 2023
Action 13:	improving the cross-border provision of settlement services in the EU.	→	review of various rules, proposal of amendments to Regulation 236/2012/EU by Q4 2021
Action 14:	creating an effective and comprehensive post-trade consolidated tape for equity and equity-like financial instruments (comprehensive EU-wide overview of trading).	→	proposal of legislative amendments by Q4 2021
Action 15:	strengthening the investment protection and facilitation framework in the EU (improving the enforcement of rules, improving the effectiveness of dispute resolution mechanisms, consolidating information on opportunities for investors).	→	proposal by Q2 2021
Action 16:	working towards an enhanced single rulebook for capital markets, monitoring progress towards supervisory convergence, and increasing the effectiveness of supervision (stronger supervisory coordination or direct supervision at EU level).	→	reporting on findings and progress in Q4 2021

Source: Taken from European Commission (2020).[9]

The implementation of the measures will increase the level of information for investors, and trust in the capital markets, make participating in the capital market simpler and cheaper, promote equity and other long-term investing (particularly in the financing of SMEs), increase the transparency of pension expectations for individuals, increase the effectiveness of the supervision of capital markets, and reduce investor uncertainty from the perspective of taxation and insolvency proceedings. The role of the European Commission has been defined with regard to individual measures, with a deadline for implementation of individual activities by the end of 2023. It is largely a matter of drafting and submitting legislation and other legal bases, and studying potential improvements; it will be necessary to wait a little longer for the implementation of practical solutions.

The implementation of the new action plan will demand decisiveness on the part of all involved, and forceful political will. Progress needs to be made in a number of substantive areas, at EU level and at national level alike. This is one of the priorities of the presidency of the Council of the EU of Germany, Portugal and Slovenia, which runs from July 2020 to December 2021.

- In December 2020 the Council of the EU approved its conclusions on the new action plan.[9] It defined as priorities measures that would improve the financing of the economy (SMEs in particular), mobilise private capital, strengthen the role of insurance corporations, banks and other institutional investors as long-term investors in firms, improve the level of information and financial literacy, and harmonise the supervision of capital markets and insolvency proceedings. EU Member States thereby supported the speeding-up of work to create a genuine capital markets union, and provided the political guidelines for the European Commission's work in this area.
- In addition to drafting and beginning the implementation of the action plan for the capital markets union, the EU is adopting urgent measures that will allow capital markets to support the economic recovery after the current crisis. The capital markets recovery package[10] focuses on changes to: (a) the prospectus regulation, with the creation of an EU recovery prospectus, which will be significantly shorter than usual and available for secondary share issues by firms, (b) the MiFID II, with the aim of reducing the administrative burden for experienced investors, and (c) the rules for securitisation (i.e. bundling assets such as bank loans into financial products that banks can sell on the capital markets) to allow banks to remove non-performing exposures from their balance sheets and to strengthen credit activity.

Integrating EU capital markets entails expanding the options for financing and saving, improving the transmission of ECB monetary policy, and strengthening the international role of the euro. A deeper, more-integrated EU-wide capital market will ease the flow of capital to firms in different EU Member States and to infrastructure projects and other projects (including the introduction of digital and green technologies), thus making it easier for them to grow or to be realised. This will back up bank financing, and if the changes are quick enough, it is also expected to support the EU's economic recovery after the current crisis by encouraging investment. It will expand the opportunities for saving and investment, particularly long-term, for households, non-financial corporations, institutional investors and, not least, banks. The financial system will become better-balanced, while increased risk-sharing will make it more resilient to shocks in the banking system.[11] As is often highlighted at ECB level, deepening the capital market is also important from the point of view of strengthening the international role of the euro and making it easier to face the challenges of the

Table 2: Benefits of the capital markets union

Citizens	Businesses	Investors	Banks
Greater variety and more transparent investment products to choose from	Access to non-bank financing, such as venture capital and crowdfunding	More long-term investment opportunities	Healthier balance sheets
Getting the most out of long-term savings to finance retirement	Easier and cheaper access to public markets	Fewer barriers when investing beyond national borders	More opportunities to lend to businesses

Source: European Commission.

financial markets post-Brexit (and the loss of London as the largest capital market in the EU), and goes hand-in-hand with the completion of the banking union.

Harmonising and deepening the EU capital market entails challenges for Slovenia, alongside the significant opportunities. As is the case for most of the countries that joined the EU in 2004 or later, Slovenia's capital market is less developed than in the older EU Member States,[12] and bank financing of firms and household savings in the form of bank deposits are even more dominant. In addition to the aforementioned opportunities brought by new sources of financing under the capital markets union, challenges also lie ahead for domestic institutions and players on the capital market in exploiting these opportunities. They include ensuring adequate quality in the financial reporting by firms, the relatively small size of firms (and the domestic stock exchange), ensuring sufficient competitiveness in the highly competitive capital market, establishing trust on the part of (small) investors, developing investment banking services at banks, the rise in foreign competition in the market for investment banking services and brokerage, and harmonising and expanding supervision of supervisory authorities (in Slovenia, the SMA in particular).

[1] Bhatia, A.C. et al. (2019). A Capital Market Union for Europe. IMF Staff Discussion Note SDN/19/07.

[2] Guindos, L., Panetta F. and Schnabel, I. (2020). Europe needs a fully fledged capital markets union – now more than ever. The ECB blog, 2 September 2020; Janse, K.A. and Strauch, R. (2020). Momentum builds for Europe's capital markets union, [https://www.esm.europa.eu/blog/momentum-builds-europe%E2%80%99s-capital-markets-union].

[3] European Parliament (2020): Free flow of capital [https://www.europarl.europa.eu/factsheets/en/sheet/39/prosti-pretok-kapitala]; European Commission (2020).

[4] Council of the European Union (2020). Capital markets union [https://www.consilium.europa.eu/en/policies/capital-markets-union/].

[5] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Action Plan on Building a Capital Markets Union, COM/2015/0468 final.

[6] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Mid-Term Review of the Capital Markets Union Action Plan, SWD/2017/0224 final; SWD/2017/0225 final.

[7] European Commission (2020). Capital markets union: Final report by High-Level Forum pushes for the completion of the CMU. [https://ec.europa.eu/info/files/200610-cmu-high-level-forum-final-report_en].

[8] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A Capital Markets Union for people and businesses - new action plan, COM/2020/590.

[9] Council Conclusions on the Commission's CMU Action Plan, 12898/1/20, REV 1, Brussels: 2 December 2020.

[10] Council of the European Union (2020). Capital Markets Recovery Package: Council agrees its position. [https://www.consilium.europa.eu/en/press/press-releases/2020/10/21/capital-markets-recovery-package-council-agrees-its-position/].

[11] Bast, J., Houben A. and Schoenmaker, D. (2020). Boosting the resilience of Europe's financial system in the coronavirus crisis. Bruegel blog post, 17 July 2020 [https://www.bruegel.org/2020/07/boosting-the-resilience-of-europes-financial-system-in-the-coronavirus-crisis/].

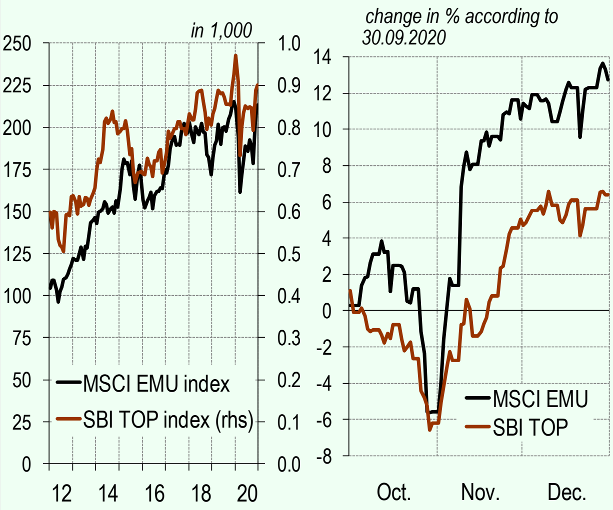
[12] Lehmann, A (2020). Emerging Europe and the capital markets union. Bruegel Policy Contribution, 17 September 2020 [https://www.bruegel.org/2020/09/emerging-europe-and-the-capital-markets-union/].

Box 5.3: Shares of Slovenian companies on the domestic capital market

The rise in share prices on the domestic market in the final quarter of last year[1] was slightly less than in the euro area overall. Shares in Slovenian firms included in the SBITOP rose by 6.4%, compared with the rise of 12.7% in the MSCI EMU, the broad index of euro area firms (see Figure 1, right). The reasons behind the slightly weaker performance of domestic shares are the longer lockdowns in the second wave, the more stringent rules for obtaining support for firms hit by the pandemic, the lower liquidity of the capital market, and the different dynamics in profit forecasts for domestic firms compared to the average of firms across the euro area. The profit forecasts of firms included in the SBITOP and firms included in the DJ STOXX 50, a slightly narrower euro area index, show that after suffering a smaller decline in 2020 Slovenian firms are forecast to see a more pronounced decline in profits in 2021, and slightly higher growth in 2022 (see Figure 2). The profit forecasts of Slovenian firms are therefore slightly more volatile, which brings additional uncertainty in the valuation of domestic firms relative to the euro area average, which is most likely another factor of the lower share prices.

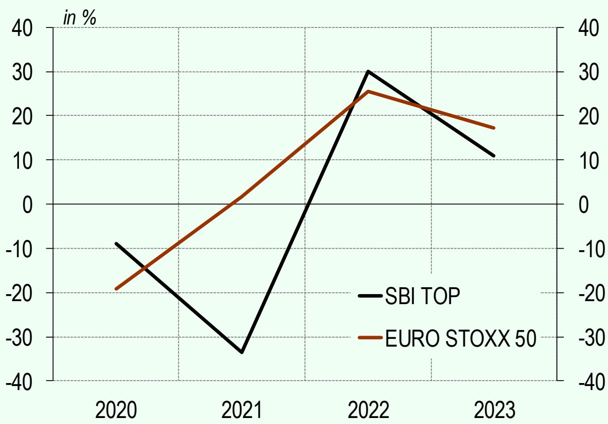
[1] From 30 September to 31 December 2020.

Figure 1: Equity prices in Slovenia and in the euro area



Source: Bloomberg, Bank of Slovenia calculations.

Figure 2: Annual growth rates of profits in Slovenia and in the euro area



Note: Annual growth rates are calculated based on the latest available data (third quarter for euro area and second half of 2020 for Slovenia) and analysts' projections for the rest of 2020 and for the period 2021–2023.
Source: Bloomberg.

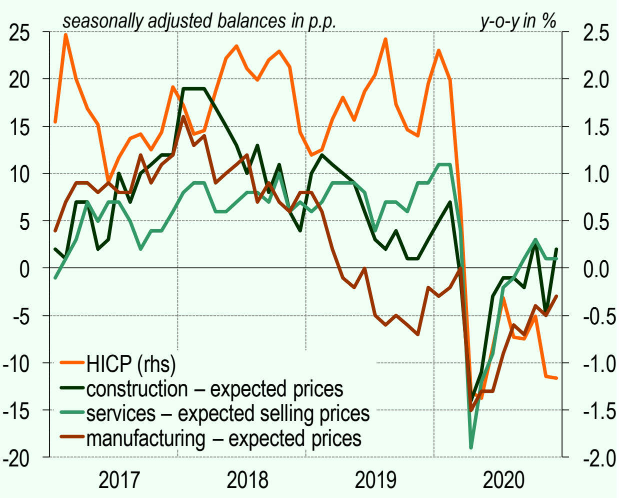
6 Price Developments

Deflation as measured by the HICP deepened in the final quarter of last year, similarly to the first wave of the epidemic. Due to the tightening of the containment measures, the analysis of price developments was again impeded during the second wave. The year-on-year fall in consumer prices stood at 1.2% in December. It thus remained deeper than the fall in the euro area overall, where deflation has stood at 0.3% since September. The largest driver of the deflation in Slovenia remains the year-on-year fall in energy prices, motor and liquid fuels in particular, in line with the movements in oil prices. Food price inflation slowed in the final quarter, as year-on-year growth in prices of fresh fruit weakened. Amid weakening domestic price pressures, most notably related to the private consumption constraints, service price inflation slowed further from its already-weak level, and the fall in prices of non-energy industrial goods deepened. The narrowest core inflation indicator fell further in the last two months of last year and stood at just 0.1% in December, in the wake of the renewed deterioration in the epidemiological situation. As in the first wave of the epidemic, the core inflation rate was lower than the euro area average due to a sharper fall in prices of non-energy industrial goods, where it remained at 0.2% in December. In light of the current epidemiological picture, future consumer price developments remain uncertain.

Survey-based inflation expectations in December

Despite the bad epidemiological picture, firms' expectations were not pessimistic in December with regard to future growth in (selling) prices. As the epidemic worsened, the share of firms forecasting a rise in selling prices over the next three months in November declined in all sectors, although the confidence indicators remained higher than during the first wave of the epidemic (see Figure 6.1).[1] After sharp fall in April, the price expectations indicator in the service sector remained positive in December for the fourth consecutive month, and price expectations in construction have also recovered

Figure 6.1: Price expectations according to business survey



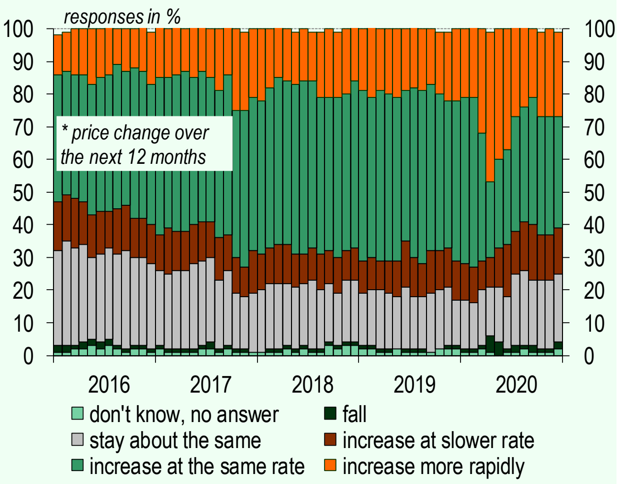
Source: SORS, Bank of Slovenia calculations.

[1] The indicator in retail trade is excluded from this analysis due to its extreme volatility.

since the first wave. The indicator remained the lowest and negative in manufacturing, where more firms are expecting prices to fall than to rise, however the expectations were similarly low already in 2019.

Consumer assessments of future price developments were lower than during the first wave of the epidemic, yet the divergence of expectations remained wide in the environment of pronounced uncertainty. According to the consumer opinion survey, the price expectations indicator remained practically unchanged in December. It stood at 31 percentage points, close to its average over the second half of 2020. The breakdown of responses with regard to perceived price developments has remained similar since October, when the share of consumers expecting inflation to rise over the next 12 months slightly increased, but remained below the level observed during the first wave of the epidemic. By contrast, the share of consumers expecting inflation to remain unchanged or to be lower over the next 12 months also increased in the second half of the year. The persistent divergence in consumers' inflation expectations is a reflection of the huge uncertainty associated with the current crisis. After a three-month decline, consumer confidence strengthened slightly in December, but the indicator was nevertheless still down 19 percentage points on the previous year. Last year consumer pessimism was at its highest level since 2013.

Figure 6.2: Consumer opinion survey, consumer prices expectations*

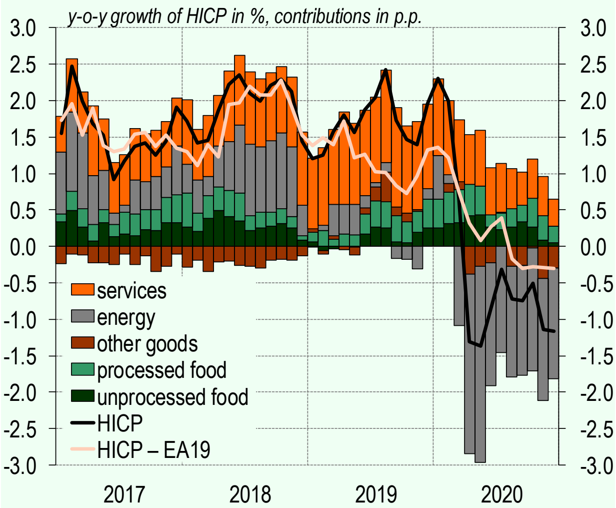


Note: Due to rounding, the totals do not add up.
Source: SORS.

Structure of inflation and core inflation indicators

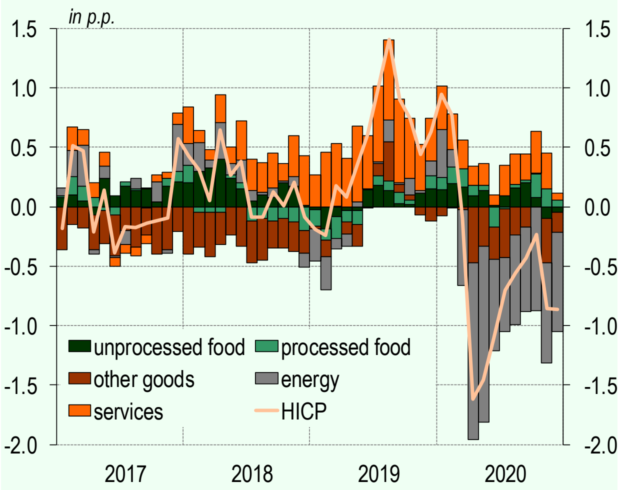
Deflation deepened in the final quarter of last year, driven primarily by slower growth in prices of unprocessed food and a year-on-year fall in energy prices, but also due to domestic factors. The year-on-year fall in consumer prices as measured by the HICP stood at 1.2% in December (see Figure 6.3). Although energy prices rose in current terms in December, deflation was still largely driven by the negative contribution by energy prices (-1.5 percentage points). Euro oil prices have been rising at the monthly level since November, and had reached their highest level since February by December.

Figure 6.3: Contributions to headline HICP inflation – Slovenia



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 6.4: Difference in inflation between Slovenia and the euro area



Source: Eurostat, Bank of Slovenia.

Table 6.1: Structure of the HICP and price indicators

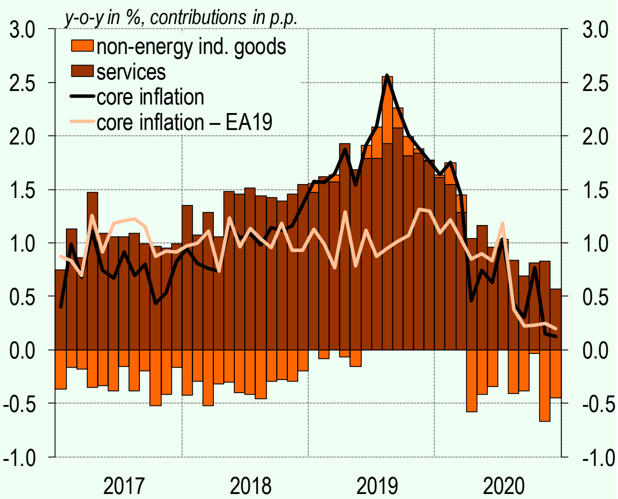
	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2020	2016	2017	2018	2019	2020	19Q3	19Q4	20Q1	20Q2	20Q3	20Q4
HICP	*100.0%*	-0.2	1.6	1.9	1.7	-0.3	2.1	1.6	1.6	-1.2	-0.6	-0.9
Breakdown of HICP:												
Energy	*12.8%*	-5.2	4.7	6.0	0.8	-10.8	0.0	-0.9	-0.9	-17.8	-11.8	-12.7
Food	*21.1%*	0.5	2.2	2.4	1.6	2.8	2.5	2.2	3.3	3.3	2.4	2.1
processed	*17.1%*	0.4	1.4	1.4	1.4	1.9	2.0	1.8	2.4	1.9	1.4	1.9
unprocessed	*4.1%*	0.7	5.7	6.6	2.5	6.6	4.6	4.0	7.2	9.2	6.8	3.3
Other goods	*28.8%*	-0.5	-0.7	-0.8	0.3	-0.5	0.9	0.2	0.4	-1.0	-0.6	-0.9
Services	*37.3%*	1.6	1.8	2.4	3.1	1.8	3.4	3.2	2.6	1.9	1.5	1.3
Core inflation indicators:												
HICP excl. energy	*87.2%*	0.6	1.1	1.4	1.8	...	2.3	2.0	2.0	1.3	1.0	0.8
HICP excl. energy and unprocessed food	*83.2%*	0.6	0.9	1.1	1.8	...	2.2	1.9	1.8	0.9	0.7	0.7
HICP excl. energy, food, alcohol and tobacco	*66.1%*	0.7	0.7	1.0	1.9	...	2.3	1.9	1.6	0.6	0.6	0.3
Other price indicators:												
Industrial producer prices on domestic market		-1.4	1.3	1.9	1.9	...	1.9	2.0	1.3	0.3	0.3	...
GDP deflator		0.9	1.5	2.2	2.3	...	2.3	2.3	2.6	2.7	-0.1	...
Import prices[1]		-2.2	3.1	2.4	-0.3	...	-1.5	-1.1	-1.8	-2.4	-2.6	...

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

The contribution to headline inflation by food price inflation declined by roughly 0.1 percentage points between November and December, as a result of weaker year-on-year growth in prices of unprocessed food. Annual food price inflation stood at just 1.3% in December. Already weak service price inflation slowed further to 1.0% in December, hitting its lowest level in four years. The year-on-year fall in prices of non-energy industrial goods decreased slightly to 1.0% in December, being half a percentage point lower than in November. Year-on-year consumer price deflation in the euro area also deepened in the final quarter of last year, reaching 0.3%. In this period, deflation in Slovenia was almost 0.7 percentage points stronger, driven primarily by a larger year-on-year fall in energy prices and the higher weight of this aggregate in the overall consumer basket (see Figure 6.4).

Core inflation reached a five-year low of 0.1% in December. Core inflation (inflation excluding energy, food, alcohol and tobacco) was driven down by the fall in prices of non-energy industrial goods, which deepened slightly further on average over the final quarter of last year (see Figure 6.5). Service price inflation also weakened, and contributed just 0.6 percentage points to core inflation in December. The slowdown in growth in prices of unprocessed food reflected in the slower year-on-year growth in broader core inflation indicators.[2] Similarly, measures of core inflation declined in the euro area overall, where the narrowest core inflation stood at 0.2% in December.

Figure 6.5: Contributions to narrowest indicator of core inflation



Source: Eurostat, SORS, Bank of Slovenia calculations.

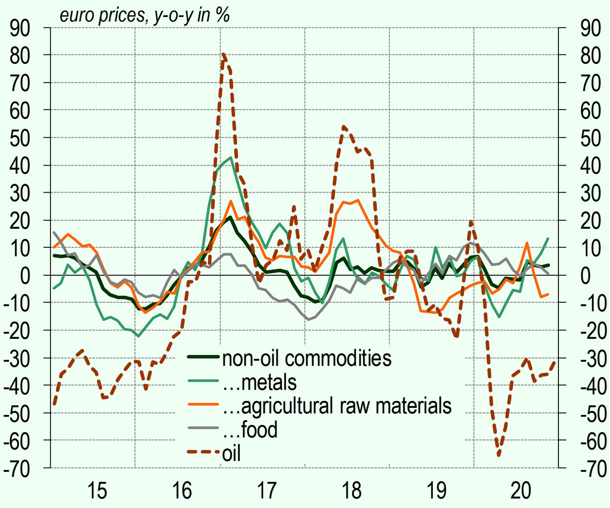
[2] The two broader measures of core inflation (excluding energy and excluding energy and unprocessed food) stood at 0.4% in December.

Drivers of inflation

Due to the impact of the epidemic, domestic inflationary pressures remained weak. Growth in industrial producer prices on the domestic market computed as average year-on-year growth in October and November strengthened slightly, but at 1.0% remained below its average of the last three years (see Figure 6.6). Year-on-year growth in producer prices of services has been steadily declining since the outbreak of the epidemic. It averaged 0.6% in the third quarter of last year, just over a fifth of the rate a year earlier. During this period, private consumption was still considerably limited, however due to the fiscal policy measures to alleviate the impact of the epidemic the situation on the labour market remained stable, including the unemployment rate. In addition to domestic demand, foreign demand has remained weaker than a year ago as well, most notably on account of the absence of foreign visitors.

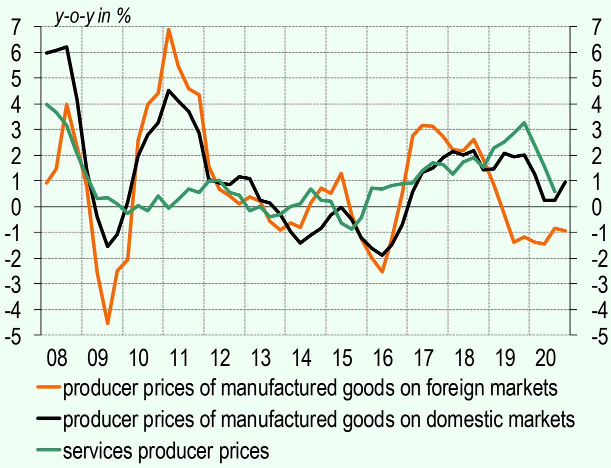
Deflationary pressures from the external environment weakened slightly towards the end of the year, on account of the monthly recovery in oil prices and other commodity prices. Oil prices on global primary commodity markets have been falling in year-on-year terms since February, but there was no major fall in euro oil prices during the second wave of the epidemic (see Figure 6.7). The price of a barrel of Brent crude rose in current terms and reached EUR 41 in December. It was down 31% in year-on-year terms, 34 percentage points less than the sharpest year-on-year fall in April. Non-oil commodity prices, which have been rising in year-on-year terms since August, driven primarily by metals and food commodities, indicate the global economic recovery. The dynamics in primary commodity prices on global markets was reflected in a year-on-year fall in import prices, which has been slowing since May and stood at 3.6% in November. An even more pronounced slowdown in the fall in import prices was prevented by lower prices of capital goods and consumer goods (see Figure 6.8).[3] Import prices have been declining in year-on-year terms since June 2019.

Figure 6.7: Commodities



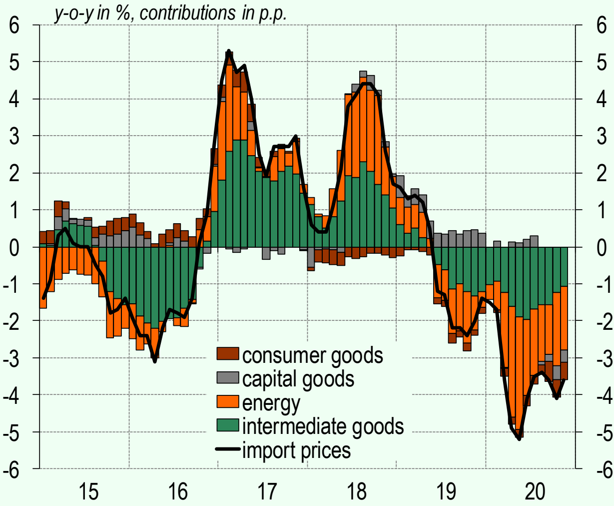
Source: ECB, Bloomberg.

Figure 6.6: Producer prices



Note: Growth of producer prices of manufactured goods in the last quarter of 2020 is calculated as average year-on-year growth in October and November.
Source: SORS, Bank of Slovenia calculations.

Figure 6.8: Import prices



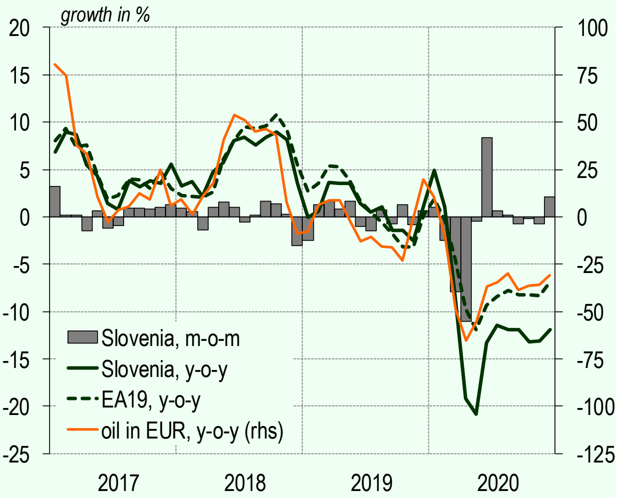
Source: SORS, Bank of Slovenia calculations.

[3] The data for euro-denominated commodity prices has been obtained from the ECB website, where indices are calculated by weighting individual commodity prices with regard to their relative value in euro area imports.

Price developments by subcategory

Despite the full price liberalisation of refined petroleum products, year-on-year energy price deflation deepened slightly in the final quarter of last year. The 12.7% fall in energy prices in the final quarter was still largely driven by motor fuels, which fell sharply in price during the first wave of the epidemic as global oil prices plummeted. Despite the liberalisation of prices that until October of last year were being set by the government, they remained down more than a fifth in year-on-year terms in the final quarter, partly as a result of a brief fall in global oil prices amid the renewed deterioration in the epidemiological picture. The price of Brent crude rose again towards the end of the year, and in December reached its highest level since the fall during the first wave of the epidemic, while prices of motor fuels rose by 4.1% from November. The monthly rise in prices at the end of the year also slowed the year-on-year fall in euro energy prices, which stood at 6.9% in December. The persistent gap between energy price inflation in Slovenia and in the euro area overall is partly attributable to last year's cuts in excise duties on refined petroleum products in Slovenia. The year-on-year fall in energy prices in Slovenia in the final quarter of last year was approximately 2.7 percentage points larger than it would have been had excise duties been left unchanged.

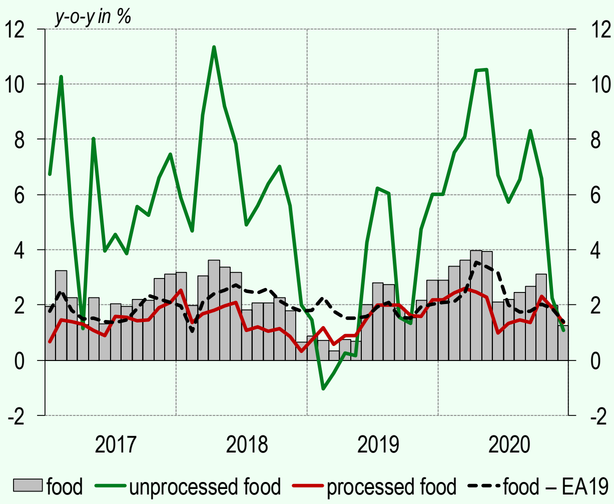
Figure 6.9: Energy prices



Source: Eurostat, ECB, Bank of Slovenia calculations.

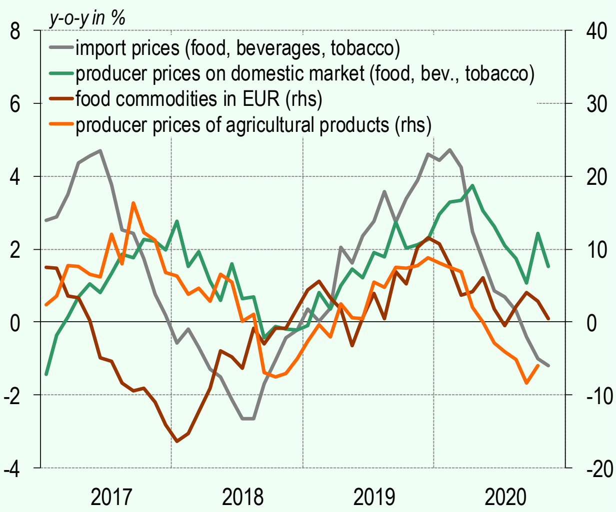
Despite a rise in excise duties on tobacco, food price inflation slowed in the final quarter of last year, reaching 1.3% in December. After rising to almost 4% during the first wave of the epidemic, year-on-year food price inflation slowed sharply at the end of last year, driven primarily by unprocessed food as a result of a better harvest and a current fall in prices of fresh fruit (see Figure 6.10).[4] Year-on-year growth in meat prices also slowed after the first wave, and had entered negative territory by December. Year-on-year growth in prices of processed food meanwhile remained relatively high in

Figure 6.10: Growth in food prices



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 6.11: Food prices and prices of food commodities in EUR



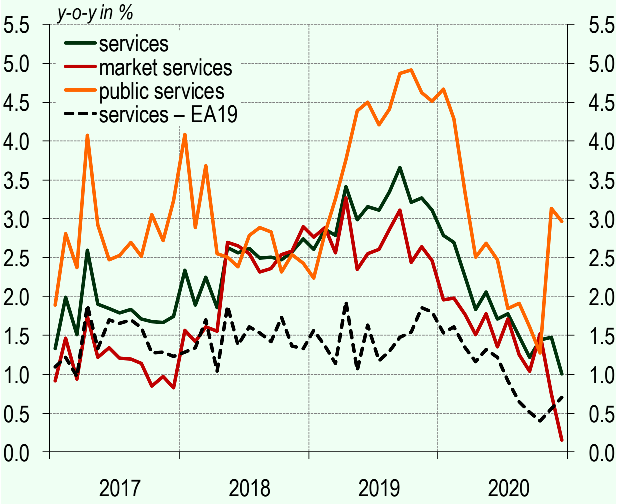
Source: ECB, SORS, Bank of Slovenia calculations.

[4] The rise in prices of fruit, driven by adverse weather conditions and the outbreak of the pandemic, which hit trade and impeded seasonal work, kept growth in prices of unprocessed food at a high level from May osf last year. Fresh fruit prices were up more than 27% in year-on-year terms in August, and by 6.7% even in December after four months of current falls.

the final quarter of last year (1.9%), although rising prices of tobacco and tobacco products caused by a rise in excise duties accounted for 1 percentage point of the growth. The slowdown in growth in food prices excluding tobacco followed the easing of the situation on global food commodity markets and the fall in import prices of food, but after the first wave of the epidemic the domestic environment too saw a sharper year-on-year fall in producer prices of agricultural produce and a slowdown in growth in producer prices of food (see Figure 6.11). Alongside the weaker price pressures, year-on-year food price inflation has also been driven downwards since November by negative base effects, which will continue lowering it until April of this year, given the price rises in the first wave of the epidemic. Similarly to Slovenia, the decline in year-on-year growth in prices of unprocessed food also slowed overall food price inflation in the euro area, which stood at 1.4% in December.

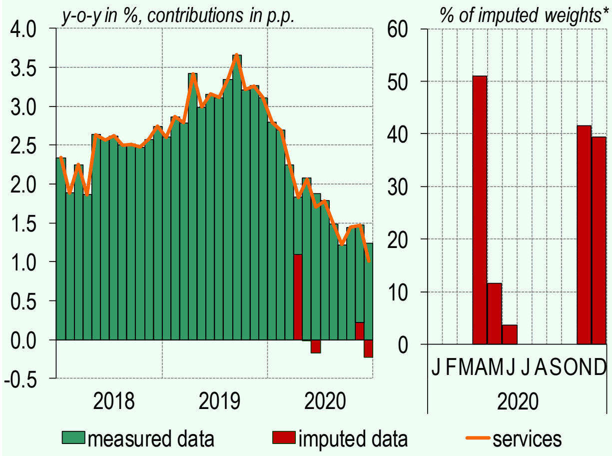
Services price inflation weakened after the outbreak of the epidemic, on account of the containment measures and the very weak domestic price pressures, while the November and December data has again become less reliable owing to measurement difficulties. After slowing throughout last year, year-on-year service price inflation averaged 1.3% in the final quarter, down 1.9 percentage points on a year earlier, and was merely 1% in December. The slowdown was attributable to prices of market services, which were up just 0.2% in year-on-year terms in December, as a result of the reimposition of stringent containment measures and the decline in private consumption. There was a notable decline in the contribution by services related to tourism and catering, as a result of the restrictions on travel and the closure of catering establishments. Services price inflation was maintained above 1% by the year-on-year rise in prices of public services (see Figure 6.12): healthcare services rose sharply in price in November, and accounted for 0.5 percentage points of the year-on-year services price inflation during the final two months of the year. Amid a worsening epidemiological situation, services price inflation in the euro area overall slowed in the final quarter, and

Figure 6.12: Public and market services



Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 6.13: Services prices during epidemics



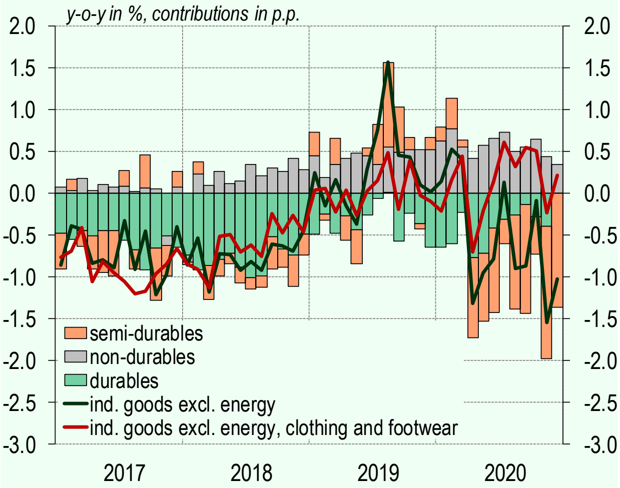
*Note: *Share of expenditure weight in services price index, for which more than half of the price data was imputed in a given month.*
Source: SORS, Eurostat, Bank of Slovenia calculations.

remained lower than in Slovenia at 0.6%. Given the difficulties in collecting price data amid the reimposition of stringent containment measures and the temporary suspension of the sale of goods and services directly to consumers, as in the first wave the missing data on prices of individual services was compiled in line with the Eurostat recommendations. Approximately 40% of all data on services prices in the final two months of the year was imputed, only slightly less than in April (51%), but the imputed data contributed significantly less to services price inflation in the second wave (see Figure 6.13).[5]

[5] This is the share of aggregate services prices, measured according to weight, where at least half of the data has been imputed. Price indices for individual services where the share of imputations exceeds 50% are flagged as less reliable by the SORS.

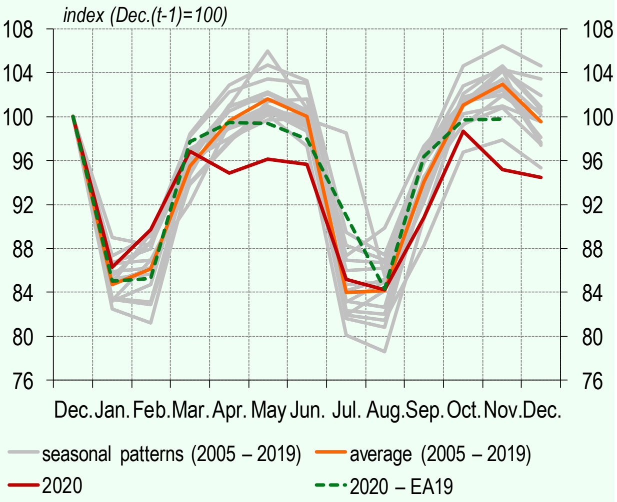
Prices of non-energy industrial goods fell sharply in year-on-year terms in the wake of the reimposition of stringent containment measures: the fall averaged 1.3% over the final two months of the year. The fall in prices was even deeper than during the first wave, but on this occasion the SORS is reporting no difficulties in collecting this price data. Compared with the price falls during the first wave, on this occasion the price falls were more narrowly based: the majority of the deflation came from semi-durables, whose contribution averaged 1.5 percentage points over the final two months of the year, driven most notably by clothing and footwear (see Figure 6.14). In contrast to the usual seasonal pattern, the epidemic, the closure of shops and additional discounts meant that prices of clothing and footwear fell in monthly terms, similarly to April (see Figure 6.15). The year-on-year fall averaged almost 6% over the final two months of the year, a much weaker performance than the euro area average. Excluding clothing and footwear, prices of non-energy industrial goods did not fall. With prices of semi-durables responding more strongly to the decline in demand for non-essentials in the second wave of the epidemic, the fall was again larger than in the euro area overall, where it averaged 0.4% over the final two months of the year.

Figure 6.14: Contributions to growth in prices of non-energy industrial goods



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 6.15: Seasonal pattern of clothing and footwear prices



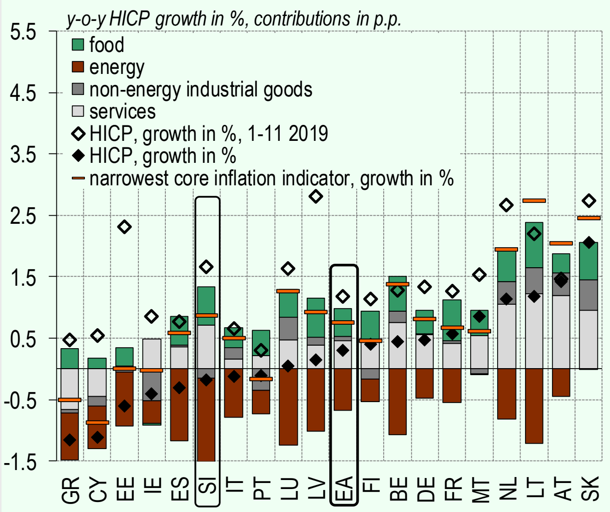
Source: SORS, Eurostat, Bank of Slovenia calculations.

Box 6.1: Price developments in euro area countries

Driven by the epidemic, inflation in the euro area fell last year, and its structure has changed significantly compared to previous years. Year-on-year consumer price inflation averaged 0.3% over the first eleven months of last year, 0.9 percentage points less than in the same period of 2019 (see Figure 1). The slowdown was primarily the result of a decline in the contribution by energy prices. At the same time service price inflation weakened slightly, and the growth in prices of non-energy industrial goods was falling consistently, however due to the jump in July remained at similar levels as in previous years. The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco from headline inflation, fell by 0.3 percentage points and averaged 0.7% over the first eleven months of the year. To a slightly lesser extent, the two broader measures of core inflation also weakened. Alongside services prices, rising food prices, particularly prices of unprocessed food, kept inflation in positive territory.

The epidemic had a negative impact on inflation in all euro area countries. Eight of the euro area countries recorded deflation over the first eleven months of last year, as the contributions by energy prices and services prices declined. With the exception of Estonia and Slovenia, these included the countries where inflation had been low even before the outbreak of the epidemic. Slovenia's average inflation in 2019 was among the highest in the euro area, but together with Estonia and Latvia it was one of the countries where the average fall in prices over the first eleven months of last year was most pronounced relative to the previous year. In most of

Figure 1: Average inflation over the first eleven months of 2020



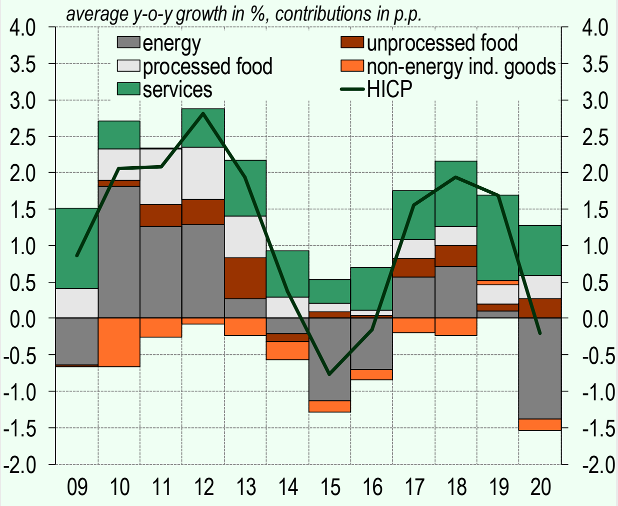
Source: SORS, Eurostat, Bank of Slovenia calculations.

these countries energy prices typically have a higher weighting in the headline basket of consumer prices. The fall in prices over the first eleven months of last year was the largest in Greece, at 1.2%. The highest inflation was recorded in Slovakia (2.0%) and Austria (1.4%), while of the Baltic States only Lithuania (1.2%) remained among the countries with higher inflation. In these countries the highest contributions to headline inflation stemmed from services prices and prices of non-energy industrial goods, and core inflation also rose in all of them relative to 2019. In the absence of a market, and given the difficulties of collecting data on prices of goods and services during the epidemic, the measurement of inflation also became less reliable in the euro area last year.

Box 6.2: Review of price developments in 2020

The crisis caused by the Covid-19 epidemic led to deflation last year, driven primarily by external factors. Year-on-year inflation as measured by the HICP averaged -0.3% last year, down 2 percentage points on the previous year (see Figure 1). It was below average inflation in the euro area, which was positive in the amount of 0.3%. The more-pronounced fall in consumer prices in Slovenia was primarily driven by energy prices. Their contribution to the headline figure slid from 0.1 percentage points in 2019 to -1.4 percentage points last year, as a result of the fall in global oil prices during the first wave of the epidemic. After the fall in global oil prices, the fall in prices of motor fuels persisted mainly due to the countercyclical excise duty policy in place until October, when the government fully liberalised prices of refined petroleum products. Prices of motor fuels fell by more than 15% last year. The sharp fall in energy prices in the spring wave of the epidemic was also influenced by electricity prices, which were also driven down by anti-crisis measures. Alongside energy prices, last year also saw a fall in prices of non-energy industrial goods, which after a period of growth in 2019 were mainly driven down by prices of clothing and footwear and prices of used cars. Only services prices and food prices made positive contributions to inflation last year. Food price inflation almost doubled as a result of the epidemic. The rate of 2.8% was driven by processed food and unprocessed food alike. Service price inflation remained positive (at 1.8%), but slowed during the year as a result of lower prices of accommodation and package holidays, and prices of other services. It was only 0.8 percentage points higher than in the euro area overall.

Figure 1: Contributions to headline HICP inflation - Slovenia



Source: SORS, Eurostat, Bank of Slovenia calculations.

Core inflation decreased amid consistently weakening domestic price factors. Core inflation excluding energy, food, alcohol and tobacco was down 1.1 percentage points at 0.8%, driven by external factors, and also by weakening domestic price factors. Domestic demand was weakened by the containment measures, precautionary saving and a decline in household disposable income. This was reflected in a decline in private consumption, which together with the year-on-year decline in exports increased the level of unutilised production capacity. Despite the measures to alleviate the socio-economic impact of the epidemic, the decline in economic activity also brought a rise in the unemployment rate, albeit to a lesser extent. The gap between the narrowest core inflation measure in Slovenia and in the euro area overall narrowed to 0.1 percentage points (core inflation stood at 0.7% in the euro area overall). Inflation analysis was hindered while the containment measures were in place because of the difficulties in collecting data and the potential loss of quality, which is an obstacle that has been faced by other countries as well.

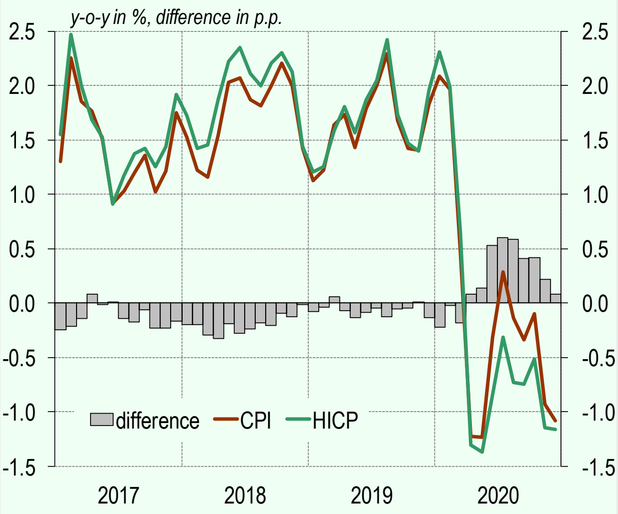
Box 6.3: Differences in consumer price inflation measured by the HICP and the CPI

Last year the gap between inflation as measured by the national index (CPI) and inflation as measured by the harmonised index of consumer prices (HICP) widened. Year-on-year growth of CPI was 0.6 percentage points higher than growth of HICP in July and August. In July there was inflation according to the CPI, but deflation according to the HICP. The gap averaged slightly less over the year (0.2 percentage points), or 0.3 percentage points if only the months after the outbreak of the epidemic are taken into account (see Figure 1). Although the gap between the two indicators is hindering the monitoring of inflation in Slovenia, the existence of two measures is justifiable on the grounds of their differing purposes of use. In the event of major discrepancies, it is therefore important to know the origin of the differences. This box examines factors in the gap between the two measures of inflation, which in Slovenia are the result of differences in the weighting scheme.

Although the national consumer price index and the harmonised version measure price changes in a consumer basket of goods and services, they differ in the purpose of use and the coverage of household consumption that they monitor. As the main indicator of price developments, the CPI represents the official measure of inflation in Slovenia, and is used for national purposes such as the indexation of wages and other social transfers. As such it monitors price changes according to the national concept, under which the consumer basket is composed with regard to the expenditure that domestic households intend for final consumption at home and abroad. By contrast the HICP is designed for comparing price developments between EU Member States, and represents the ECB's official measure in ensuring price stability. Because the ECB monitors price changes in the territory of individual Member States, and not in individual households, the domestic concept applies in the composition of the HICP. This means that the basket is based on expenditure by domestic and foreign consumers intended for purchasing goods and services for final consumption in the territory of the individual country.

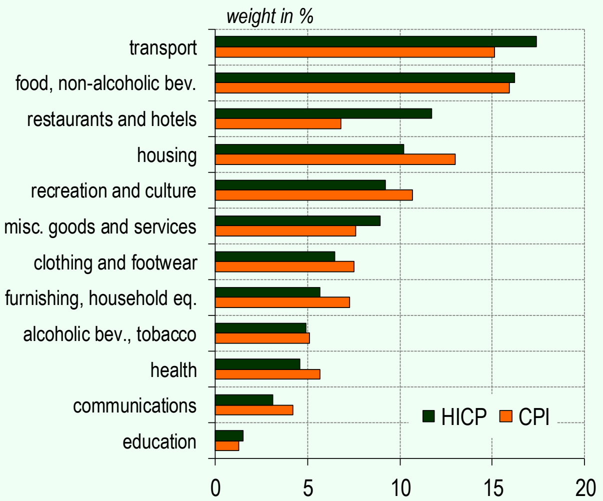
The application of different concepts of consumption is reflected in the composition of the consumer baskets of the CPI and the HICP. In general the national and harmonised indices can differ in many respects, but in Slovenia the great methodological similarities in the compilation of both indices mean that differences only arise through different geographic and population coverage, and thus different weights.[1] In line with the national concept, the weights used in the CPI are drawn up on the basis of survey data on household consumption. This describes the consumption patterns of private residential households at home and abroad. The main source for computing weights in the HICP is national accounts data on final household expenditure, which captures consumption of all private and institutional resident households and non-residents in the territory of Slovenia. The weights representing shares of expenditure in final consumption are illustrated for the 12 main categories of the HICP and the CPI in Figure 2. Last year they were very similar in the majority of categories; major differences arise primarily in the categories of restaurants and hotels (11.7% in the HICP

Figure 1: CPI and HICP year-on-year growth



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 2: Weights of products and services categories in CPI and HICP in 2020



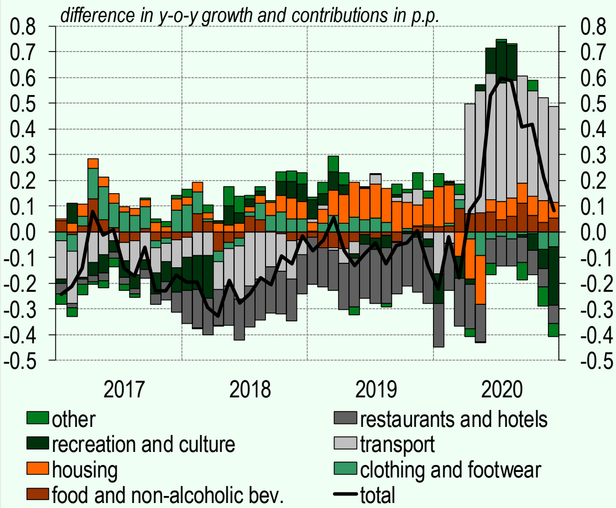
Source: Eurostat, SORS.

versus 6.8% in the CPI), transport (17.4% in the HICP versus 15.1% in the CPI) and miscellaneous goods and services (8.9% in the HICP versus 7.6% in the CPI), where the weights in the HICP basket exceed the weights in the CPI basket. In the case of goods and services in the categories of restaurants and hotels and transport in particular, this is related to higher consumption by non-residents. By contrast, the weights in the HICP basket are lower than the weights in the CPI basket in the category of housing, which alongside rents and utility costs also includes services related to maintenance (10.2% in the HICP versus 13.0% in the CPI).

A detailed examination of the weights in individual categories reveals that the difference between the weights in the HICP and in the CPI is often caused by individual components. Of the 2.3 percentage point higher weighting of transport in the HICP in 2020, 2.1 percentage points came from motor fuels. The larger weight in the HICP derives from higher consumption by non-residents, as prices of diesel and petrol in Slovenia are lower than in certain other countries.[2] Similarly, the difference in the weights of restaurants and hotels is mainly caused by the higher weight of services related to restaurants, cafés and dancing establishments. The components whose weight in the CPI basket is more than 1 percentage point higher than the weight in the HICP basket include wireless telephone services, household furniture, package international holidays, pharmaceutical products and private health insurance. These are mainly goods and services aimed at domestic households.

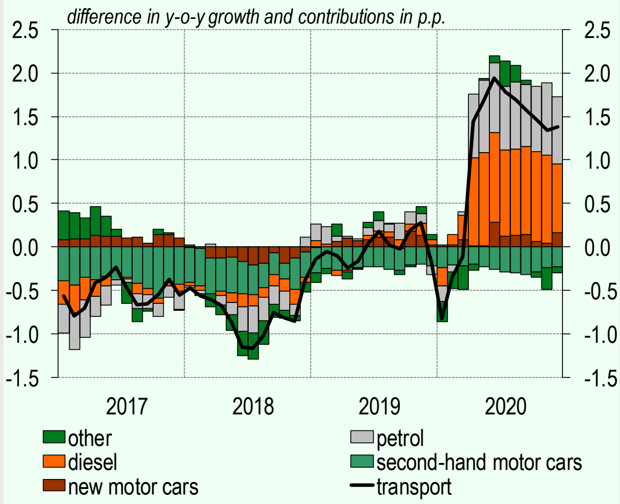
The main reason for last year's gap between annual inflation rates as measured by the CPI and the HICP is the sharp fall in prices of motor fuels, whose weight in the HICP is half again as large as their weight in the CPI. The contributions to the gap between inflation rates as measured by the CPI and the HICP are illustrated in Figure 3, where a positive gap indicates a higher rate in the CPI. A positive contribution by a particular category thus entails a higher impact on inflation as measured by the CPI, and comes from (1) a rise in prices in categories whose weight is higher in the CPI than in the HICP, or (2) a fall in prices in categories whose weight is lower in the CPI than in the HICP. A negative contribution entails the opposite. Last year's smaller fall in inflation as measured by the CPI is primarily attributable to a positive contribution by the transport category. Prices there fell sharply, and accounted for an average of 0.3 percentage points of the gap between the two measures. The fall in transport prices was driven by falling prices of motor fuels (see Figure 4), which were down 15% on average last year. Given their higher weight in the basket, the fall in prices of motor fuels had a larger impact in inflation as measured by the HICP. Conversely, the gap between the two measures was narrowed most notably by year-on-year growth in prices in the restaurants and hotels category (by 0.1 percentage points on average), as a result of their higher weight in the HICP basket. The epidemic also drove large divergences in certain other categories in individual months. Most notable in this respect were goods and services in the housing category, which with the exception of the period between March and May contributed positively to the gap between CPI and HICP year-on-year growth. Their extremely negative contribution during the first wave of the epidemic was a reflection of the cut in electricity prices, which have a higher weight in the CPI than in the HICP.

Figure 3: Contributions to difference in y-o-y growth in CPI and HICP



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 4: Contributions to difference in y-o-y growth in prices of transport in CPI and HICP



Source: Eurostat, SORS, Bank of Slovenia calculations.

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SORS (December 2020). Consumer price indices and average retail prices, methodological note. Available online (in Slovene) at: https://www.stat.si/StatWeb/File/DocSysFile/7800/04-136-MP.pdf.

[1] In addition to geographical and population coverage, the gaps between the national and harmonised measures can in general derive from differences in the coverage of items in goods and services basket, the aggregation formula for compiling the indices at the lowest level, the frequency of updates to the basket, etc. In Slovenia the gap is attributable to the different coverage of household consumption, and prior to 2018 was also related to the computation of average prices of goods and services, as at the elementary level the HICP used the geometric mean, while the CPI used the arithmetic mean. Since 2018, when the computation methodology was standardised, average prices have also been computed with the geometric mean in the case of the CPI.

[2] The weights for 2020 are derived from the consumption data for 2018 in the case of the HICP and the CPI alike. At that time the prices of diesel and petrol in Slovenia were higher than in Austria and Hungary, but lower than in Croatia and Italy, according to the European Commission data (Weekly Oil Bulletin).

7 Public Finances

The Covid-19 epidemic has had a huge impact on the public finances. The year-on-year deterioration in the position in the third quarter was smaller than in the two previous quarters, but in light of the renewed deterioration in the epidemiological picture and economic situation a further impact on the general government position can also be expected in the final quarter of last year. The decline in revenues over the first nine months of last year was largely driven by corporate income tax and taxes on consumption, as the epidemic had a profound impact on corporate performance and on private consumption. The impact of the epidemic was even more evident in the 12.9% rise in expenditure, where the main factor was the measures on the labour market. The general government deficit over the first nine months of last year amounted to 7.7% of GDP, and the government forecast from October was for it to reach 8.6% of GDP by the end of the year. It will remain high this year and next year, despite the projected improvement. The epidemiological situation means that various measures to support businesses and households are again in place this year, but the expectation is that they will be smaller in scope than last year.

General government debt stood at 78.5% of GDP at the end of September. Amid additional borrowing, largely via the issuance of 30-year bonds in October, it is forecast to have exceeded 80% of GDP by the end of last year. The borrowing terms remained favourable for all euro area countries, including Slovenia, which at the beginning of this year issued a 10-year government bond with a negative yield to maturity and a zero coupon rate for the first time in its history.

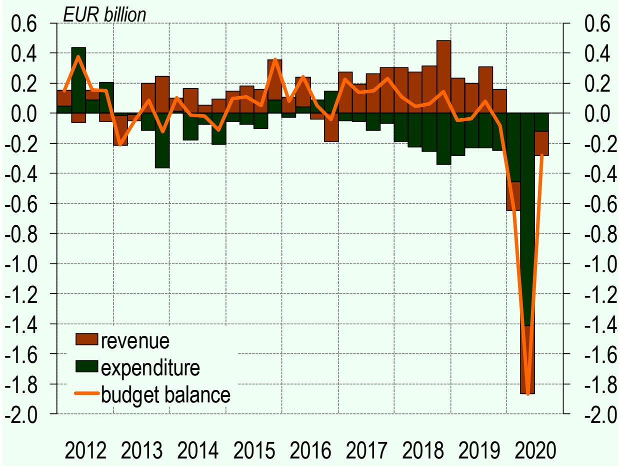
Fiscal developments are subject to numerous risks and uncertainties. Macroeconomic developments remain uncertain this year, although given a successful rollout of a vaccine a gradual improvement in the economic situation can be expected, in part thanks to the government measures to alleviate the impact of the Covid-19 epidemic that are still available to businesses and households. Given the need to maintain an adequate economic stimulus, Slovenia will again be allowed to deviate from the domestic and European fiscal rules this year.

General government balance

The general government deficit in the third quarter of last year was smaller than in the two previous quarters, amid the improvement in the economy. It amounted to EUR 146 million or 1.2% of GDP, compared with a surplus that was only slightly smaller in size in the same quarter of the previous year. The deficit swelled to EUR 2,638 million or 7.7% of GDP over the first three quarters of the year. Similarly to other euro area countries, the deficit of this magnitude was driven by a cyclical decline in revenues, and a rise in expenditure on account of measures to alleviate the impact of the epidemic. The rise in expenditure accounted for more than two-thirds of the year-on-year deterioration (see Figure 7.1). The epidemiological picture and the economic situation deteriorated again in the final quarter of last year, which will also have an impact on the public finances. According to the government's estimates from October, the deficit was forecast to reach 8.6% of GDP last year, while the available estimates from the final quarter suggest a deficit of 8% of GDP or slightly larger for the euro area.

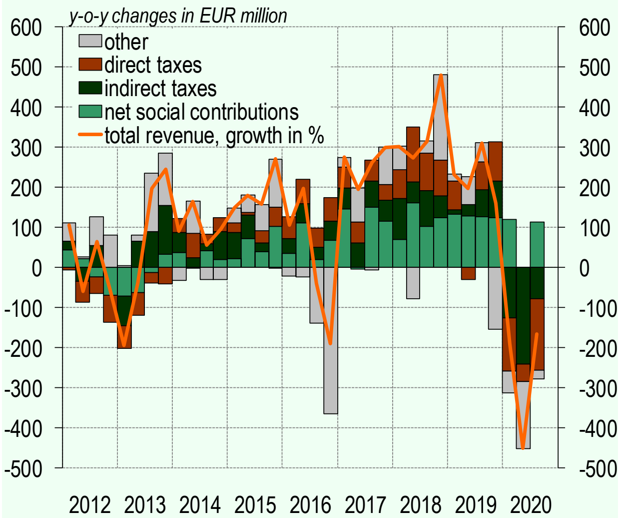
General government revenues, which recorded their smallest decline of the first nine months of last year in the third quarter, were driven down primarily by lower tax revenues, most notably corporate income tax and taxes on consumption. General government revenues in the third quarter were down 3.1% in year-on-year terms, taking their year-on-year decline over the first three quarters of the year to 5.2% (or EUR 805 million). According to SORS estimates, the largest decline in tax revenue was recorded by corporate income tax, at about a half. There was also a large decline of around 9% in revenues from indirect taxes, which matches the decline in private consumption, which is one of most important sources of tax. An outlier during the first nine months of the year was the rise of 4.1% in net social security contributions, which was partly attributable to the buoyant labour market in the early part of the year, the government's extensive job preservation measures during the epidemic, and other factors that raised wage

Figure 7.1: Contribution of government revenue and expenditure to y-o-y changes in general government budget balance



Note: Budget balance and expenditure do not include bank recapitalisations.
Source: SORS, Bank of Slovenia calculations.

Figure 7.2: General government revenue



Source: SORS, Bank of Slovenia calculations.

Table 7.1: General government deficit and debt in Slovenia, 2014–2022

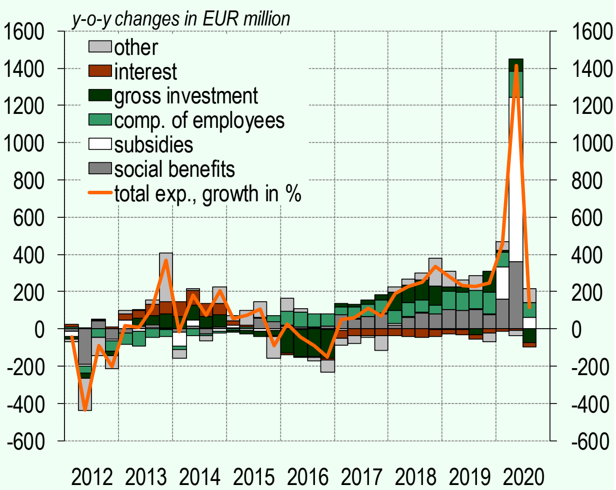
	SORS							Draft Budgetary Plan		European Commission		
% GDP	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020(1-9)**	**2020**	**2021**	**2020**	**2021**	**2022**
Revenue	45.3	45.9	44.2	44.0	44.3	43.8	43.1	45.2	44.4	45.1	44.3	43.7
Expenditure	50.8	48.7	46.2	44.1	43.5	43.3	50.8	53.9	51.0	53.8	50.7	48.8
of which: interest	3.2	3.2	3.0	2.5	2.0	1.7	1.7	1.7	1.6	1.7	1.6	1.5
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	-0.1	0.7	0.5	-7.7	-8.6	-6.6	-8.7	-6.4	-5.1
Primary balance	-2.3	0.4	1.1	2.4	2.7	2.2	-6.0	-6.9	-5.0	-7.0	-4.8	-3.6
Structural balance	...	...	...	...	...	...	...	-5.9	-5.2	-6.9	-6.2	-5.6
Debt *	80.3	82.6	78.5	74.1	70.3	65.6	78.5	82.4	80.9	82.2	80.2	79.8
Real GDP (growth, %)	2.8	2.2	3.2	4.8	4.4	3.2	-6.0	-6.7	5.1	-7.1	5.1	3.8

*Note: *Debt refers to the end of the year or quarter.*
Source: SORS (realisation), Draft Budgetary Plan (Ministry of Finance, October 2020), European Commission (November 2020).

growth (e.g. the rise in the minimum wage, the agreed wage increases in the public sector). Personal income tax revenues are also estimated to have risen minimally, while all other revenues were down in year-on-year terms. Having accounted for approximately a seventh of total revenues in 2019, non-tax revenues were down significantly in year-on-year terms over the first nine months of last year. For example, revenues from property, which include dividends, were down approximately a quarter, while the decline in capital transfers was significantly larger.

General government expenditure grew moderately in the third quarter of last year, but the year-on-year increase over the first nine months of the year nevertheless remained high, driven largely by measures to alleviate the impact of the epidemic. General government expenditure was up by 2.2% in year-on-year terms in the third quarter, and by 12.9% (or almost EUR 2 billion) in all over the first three quarters of the year. Subsidies accounted for more than half of the increase (see Figure 7.3). These encompass labour market measures aimed at preserving jobs and economic potential, which had the largest financial weight in the packages of anti-coronavirus legislation passed. A second category encompassing a major package of measures to alleviate the impact of the epidemic is social benefits, which recorded growth of 8.3%. These include one-off transfers to vulnerable population groups. Employee compensation continued to increase, as a result of bonus

Figure 7.3: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

payments in connection with the epidemic and a rise in the number of employees, in addition to measures covered by the agreement on wages and other labour costs in the public sector from the end of 2018. Growth in intermediate consumption stood at 2.4%. There was only a slight increase in government investment, as growth in the first half of the year was followed by a decline in the third quarter. Interest payments are declining; while debt is rising, the favourable borrowing terms mean that the implicit interest rate is also falling, and stood at approximately 2.2% last year. As a result of its rapid increase, and the decline in economic activity, general government expenditure amounted to more than 50% of GDP last year, a significant increase on the previous year.

General government debt and government guarantees

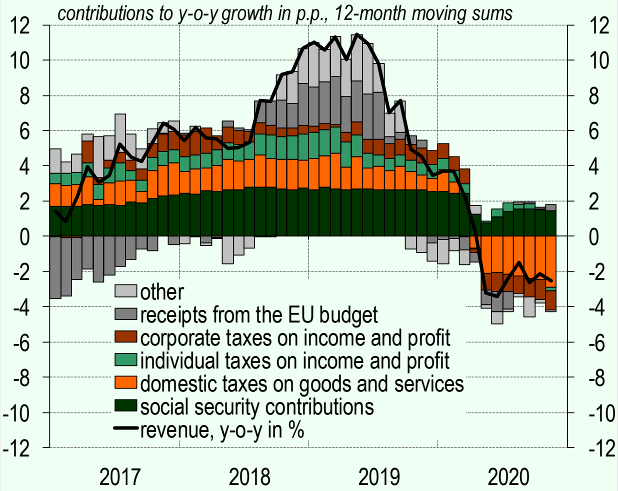
The general government debt increased significantly because of the epidemic, which drove up the government's financial needs, but at the beginning of this year Slovenia issued a 10-year government bond without future interest payments for the first time in its history. The debt in the third quarter remained broadly unchanged from the second quarter, at EUR 36.7 billion or 78.5% of GDP, up approximately EUR 5 billion on the end of 2019. There had been a more pronounced increase in the second quarter, when the general government deficit was widened sharply by the containment measures. The debt is forecast to have risen slightly by the end of the year, to just over 80% of GDP, with government borrowing outpacing debt repayment in the final quarter. It was primarily undertaken via the issuance of a new 30-year bond with a nominal value of EUR 1 billion, while the government also received EUR 200 million of loans from the SURE scheme and EUR 100 million from issuance of treasury bills. The government also undertook substantial borrowing in early January of this year, when it issued a new 10-year bond with a nominal value of EUR 1.75 billion, and increased its issue of 30-year bonds by EUR 250 million. The borrowing is earmarked to cover the deficit, and also for debt refinancing, with around EUR 2.4 billion of principal falling

Box 7.1: Public finance developments according to the cashflow methodology

The consolidated general government deficit amounted to EUR 2.6 billion over the first eleven months of last year, compared with a surplus of EUR 346 million over the same period of the previous year. Revenues declined as the economy contracted, while the rise in expenditure was largely driven by measures to preserve jobs and household income. The most pronounced year-on-year deterioration in the position, in the total amount of around EUR 2 billion, came during the first wave of the epidemic between April and June. The second wave, which began in the autumn and brought the re-declaration of the epidemic in mid-October, has been reflected less in the figures to date. The year-on-year deterioration in the consolidated general government balance amounted to approximately EUR 700 million between July and November, and averaged EUR 200 million a month over the last three months of this period. The decline in revenues accounted for less than a tenth of the deterioration in the balance between September and November of last year; most originated from the increased expenditure in connection with Covid-19 (including refunds to healthcare providers for the failure to perform activities, the holiday voucher scheme, a monthly basic income, the furlough scheme and the short-time work scheme).

Consolidated general government revenues over the first eleven months of the year were down 3% in year-on-year

Figure 1: General government revenue



Note: Cash flow methodology.
Source: Ministry of Finance, Bank of Slovenia calculations.

Table 1: Consolidated balance sheet* of public finance

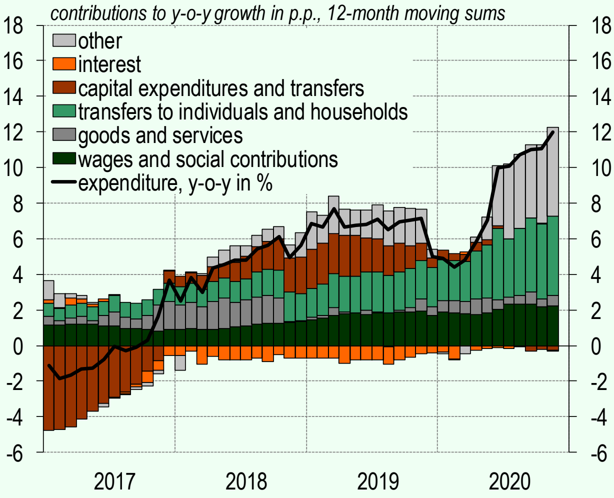
	2019	*last 12 months to Nov. 20*			*2019 Jan.–Nov.*	*2020 Jan.–Nov.*	*Jan.–Nov. 20*
	EUR million		*% GDP*	*y-o-y, %*	*EUR million*		*y-o-y, %*
Revenue	**19,232**	**18,702**	**40.4**	**-2.5**	**17,417**	**16,886**	**-3.0**
Tax revenue	17,179	16,565	35.8	-3.1	15,657	15,043	-3.9
- goods and services	6,127	5,584	12.1	-9.1	5,660	5,117	-9.6
- social security contributions	7,021	7,257	15.7	4.0	6,357	6,592	3.7
- personal income	2,592	2,512	5.4	-1.4	2,302	2,222	-3.5
- corporate income	997	775	1.7	-21.5	917	695	-24.2
From EU budget	731	814	1.8	8.8	539	623	15.5
Other	1,323	1,322	2.9	-1.0	1,220	1,220	0.0
Expenditure	**18,969**	**21,380**	**46.2**	**12.0**	**17,070**	**19,482**	**14.1**
Current expenditure	8,228	8,816	19.1	5.9	7,472	8,060	7.9
- wages and other personnel expenditure (incl. contributions)	4,470	4,903	10.6	9.5	4,095	4,527	10.6
- purchases of goods, services	2,728	2,866	6.2	4.0	2,424	2,562	5.7
- interest	791	778	1.7	-0.6	778	765	-1.7
Current transfers	8,704	10,584	22.9	21.5	7,948	9,828	23.7
- transfers to individuals and households	7,324	8,156	17.6	11.7	6,719	7,551	12.4
Capital expenditure, transfers	1,527	1,477	3.2	-3.5	1,163	1,114	-4.3
To EU budget	510	504	1.1	-3.9	486	480	-1.2
Surplus (+) / Deficit (-)	**263**	**-2,679**	**-5.8**		**346**	**-2,596**	

*Note: *Consolidated accounts of the state budget, local government budgets, pension and health fund on cash accounting principle.*
Source: Ministry of Finance, Bank of Slovenia calculations.

terms, primarily as a result of a decline in taxes and social contributions, while revenues from the EU budget have continued to strengthen since the end of June. Revenues over the first eleven months of the year were down EUR 530 million. They actually recorded a slight year-on-year increase in the third quarter (of EUR 221 million). This was attributable to several factors, including the payment of contributions by the government in connection with measures on the labour market, the deferred settlement of corporate income tax in line with legislation, and payments of past-due instalments and deferrals of taxes. Tax (and aggregate) revenues were down in year-on-year terms again in October and November, which coincided with the deterioration in the epidemiological situation and the downturn in the economy. The most notable positive development on the revenue side was in social security contributions, although their contribution to growth in revenues was down on previous years, as expected. The largest decline over the first eleven months of last year was recorded by revenues from corporate income tax, in the amount of approximately a quarter. Revenues from personal income tax were also down, only partly as a result of the tax reductions based on changes to the tax bands and changes to allowances. Revenues from the EU budget in the second half of last year were up in year-on-year terms; more funding came from the structural and cohesion funds. With contributions to the EU budget remaining broadly unchanged in year-on-year terms, the balance with the EU budget improved by approximately EUR 90 million to yield a surplus over the first eleven months of the year in the amount of EUR 143 million.

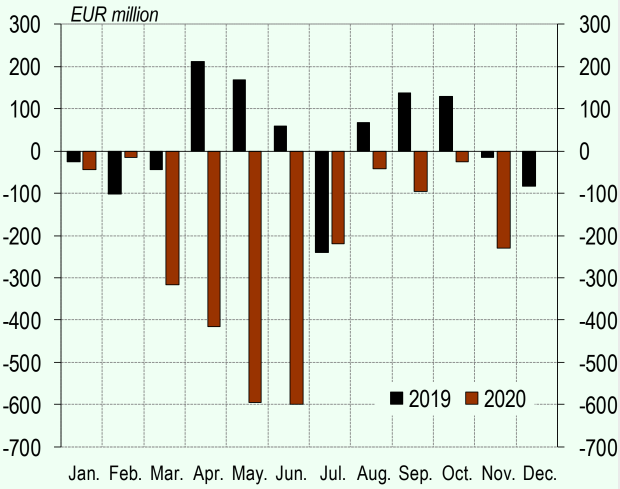
Consolidated general government expenditure over the first eleven months of last year increased significantly, as expected, driven largely by measures to alleviate the impact of the epidemic. Expenditure was up EUR 2,412 million or 14.1%. Two expenditure categories accounted for more than a third of the increase: subsidies (EUR 906 million) and transfers to individuals and households (EUR 832 million). The growth in subsidies was driven by the financing of labour market measures (including subsidies to those working in the spring, the furlough scheme, and the short-time work scheme). Transfers to individuals and households included emergency support for vulnerable population groups including pensioners, students and certain others, and basic income for the self-employed, but there were also increases in ordinary transfers to individuals and households. Pensions were up 6.2% in year-on-year terms as a result of a pension increase and a rise in the number of pensioners, while there was an increase of around 10% in sick pay for the fourth consecutive year (the average rate of growth over the last six years was actually slightly higher). Growth in expenditure on wages also remained high. Civil servants have again been entitled to performance-related bonuses since the beginning of July, and have also been entitled to bonuses for heavy workload or work with Covid-19 patients during the epidemic. Other agreed pay increases have also had an impact on growth. Investment expenditure and transfers over the first eleven months of last year were down in year-on-year terms, while interest expenditure has also continued to decline in the low interest rate environment.

Figure 2: General government expenditure



Note: Cash flow methodology.
Sources: Ministry of Finance, Bank of Slovenia calculations.

Figure 3: Budget balance of consolidated public finance budgetary accounts



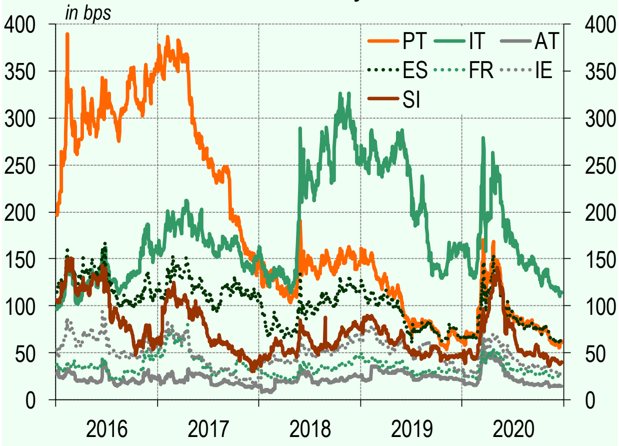
Source: Ministry of Finance.

due by the end of April. The interest rates on the borrowing remain extremely favourable. The treasury bills were still being issued at negative interest rates, the SURE loan is interest-free, the coupon rate on the 30-year borrowing is slightly below 0.5%, while the coupon rate on the 10-year bond is zero for the first time in Slovenia's history.

The stock of government guarantees continued to decline last year, with repayments exceeding the new guarantees issued due to the epidemic. The stock of government guarantees amounted to EUR 5.1 billion or 11% of GDP at the end of the third quarter, down EUR 228 million on the end of 2019. The decline was mainly driven by a decline in the guarantees issued to DARS and the BAMC, who are gradually reducing their debts. At the same time there was a slight increase in the guarantees approved as part of the measures to support the economy during the epidemic, which amounted to EUR 79 million at the end of the third quarter. In light of the extension of the guarantee measures into 2021, and the low utilisation of the available quota from the anti-coronavirus packages of support, the stock of guarantees could increase this year in the event of a deterioration in liquidity in the economy.[1]

The required yield on Slovenian 10-year government bonds declined slightly further in the final quarter of last year, and was negative on average over the quarter. The required yield entered negative territory in the final quarter of last year, and the spreads over the German benchmark also narrowed. The required yield averaged -0.1% over the final quarter, and the spread averaged 43 basis points. At the beginning of this year the yield to maturity at issue of the 10-year government bonds also remained negative in the amount of -0.096%, for the first time. The fall in required yields on euro area government bonds over the course of last year was primarily attributable to the ECB's monetary policy stimulus measures, besides the agreement on aid packages to alleviate the impact of the epidemic and the EU's new financial framework had a favourable impact as well. A Brexit deal was agreed with the UK at the end of last

Figure 7.4: 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 a country's credit risk.
Source: Bloomberg, Bank of Slovenia calculations.

year, the rollout of a vaccine against Covid-19 began, and a new fiscal stimulus package was approved in the US. All of this helped to reduce required yields on euro area government bonds on international market, including Slovenian bonds. Conversely, the fall in yields was slowed at the end of the year by news of the new strain of coronavirus, which is more transmissible, and the stringent lockdown of certain EU economies because of rising case numbers. Rating agencies Fitch and S&P left their ratings for Slovenia unchanged in December, with a stable outlook.

Planned developments in general government balance and debt

There was a large general government deficit in 2020, and it is expected to narrow only gradually this year and in the following years. The estimates for 2020 drawn up in the final quarter of last year range close to the government's own forecast for the deficit of 8.6% of GDP. Last year the key factors in the large deficit were the cyclical slowdown in the economy, and the large size of the measures in connection with Covid-19, which amounted to 5.3% of GDP according to the government estimates from October of last year. This estimate does not

[1] Utilisation of the quota had reached 31% by the end of November for the guarantee scheme put in place by the first package of anti-coronavirus measures, and less than 3% by the end of December for the scheme under the second package of anti-coronavirus measures.

yet include the sixth package of measures.[2] These two factors are expected to have the opposite effect this year and in the following years, and will act to improve the general government position. After last year's sharp decline in GDP, the latest estimates available for this year point to growth, although the forecasts vary considerably (between approximately 3% and 5%), while the size of the measures in connection with the epidemic is forecast to be smaller according to the estimates from the final quarter of last year (between 1% and 1.2% of GDP). These estimates do not yet include the sixth and/or seventh packages of measures, which were adopted in late November and late December of last year. Furthermore, the general government position is worsening because of factors that are structural in nature. A lower motor vehicle tax entered in force, while the average level of excise duties on energy products will also be significantly lower this year if kept at the current level. Pensions received an irregular increase of 2% in December of last year, which will be followed this year by a regular increase of 2.5%. The government's latest estimate from October of last year forecasts a deficit of 6.6% of GDP for this year, but the range of other forecasts from the final quarter of last year is indicative of the considerable uncertainty.

The government will face a higher level of debt, on account of last year's financing of measures to alleviate the impact of the epidemic and the gradual reduction of the deficit in the future. Various institutions, Bank of Slovenia among them, are mostly forecasting the debt to approach or slightly exceed 80% of GDP last year and this year, although this also depends on estimates of nominal GDP.[3] The ratio of debt to GDP will decline very gradually in the future. Given the forecast for persistently large deficits, this will only be possible in the event of faster growth in nominal GDP and the continuation of the period of low interest rates on government debt and/or a reduction in the government's cash reserves. As a ratio to GDP, debt will remain higher than in the pre-epidemic years, at least over the horizon of the latest projections. Over the longer term the reduction in debt will also be held back by the costs of the aging population, which will reduce the manoeuvring room for countercyclical fiscal policy measures. Other euro area countries will face similar constraints, particularly those that had a high level of debt even before the epidemic. According to the ECB's December projections, general government debt in the euro area is forecast to average very close to 100% of GDP this year and over the next two years. The relative modesty of the decline forecast for the following years is primarily attributable to the persistently high deficits, which will be mitigated by favourable developments in nominal GDP and the continuation of the low interest rate environment.

For the sake of economic recovery, increased flexibility is temporarily being applied in the fiscal rules, both domestic and European, while an extensive package of incentives has also been created under the aegis of the Next Generation EU (NGEU) instrument. Given the far-reaching economic impact of the epidemic, the European and domestic fiscal rules were relaxed for 2020 and 2021. Slovenia is expected to receive around EUR 11.3 billion in funding in the coming years under the various EU programmes. There are three main schemes: EUR 4.5 billion is currently earmarked for Slovenia under the new multiannual financial framework, EUR 5.7 billion from the NGEU instrument, and EUR 1.1 billion from the SURE scheme aimed at preserving jobs in the current crisis situation. EUR 6.6 billion of the funding is in the form of grants, while the remainder consists of loans, which will increase debt when they are disbursed. Slovenia drew down EUR 200 million of loans from the SURE scheme in October of last year.

[2] The Bank of Slovenia projections estimate the measures at 5.7% of GDP, taking the first rough estimate of the sixth package of measures into account.

[3] More on the Bank of Slovenia forecasts is available in the Macroeconomic Projections for Slovenia. The projections of general government position and debt are explained in detail in Box 3.

8 Selected Theme

8.1 Environmental progress in Slovenia and the EU

The climate change produced by global warming is a worldwide environmental problem. The rise in global temperatures is being driven by greenhouse gas emissions, and limiting these emissions is the focus of attention in climate policy. The EU has set a target of carbon neutrality by 2050, and an intermediate target of cutting greenhouse gas emissions by 55% relative to 1990 by 2030. Slovenia's current target is a 36% reduction in greenhouse gas emissions by 2030 (relative to 2005), with an awareness that a more ambitious approach will be needed to achieving net zero emissions by the middle of the 21st century. Progress was made in the past in improving environmental indicators in Slovenia and across the EU, at least to a certain extent, in terms of both reducing greenhouse gases and improving productivity indicators. Emission productivity, resource productivity and energy productivity are improving, but Slovenia is underperforming the EU averages. By contrast, Slovenia attains a higher share of renewable energy in gross final energy consumption. Alongside emissions trading, taxation is one of the ways of incentivising the meeting of climate targets, but there are also measures in some countries that take us further away from these targets (e.g. subsidising the use of fossil fuels). The level of environmental taxes in Slovenia is above the EU average, but there are also some subsidies that are undesirable from an environmental perspective.

Introduction

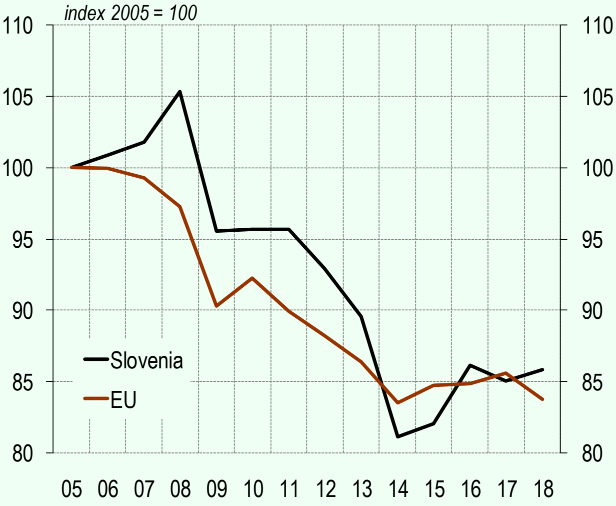
Slovenia is part of wider international efforts to adapt to climate change.[1] EU Member States signed the Paris Agreement at the end of 2015, and at the end of 2019 passed the European Green Deal, which sets out a timetable for making the EU economy sustainable. The EU is committed to the target of carbon neutrality by 2050 as Europe's long-term objective under the Paris Agreement, and to a target of reducing greenhouse gas (GHG) emissions by 55% by 2030 in line with the agreement of December 2020. Economic activity has a major impact on the environment, and the objective is cutting the link between GDP growth and increased consumption of natural resources and energy, and consequently GHG emissions, while maintaining the competitiveness of the economy. EU Member States have reduced emissions over the past decades, but the targets for the future are even more ambitious. This selected theme describes some of Slovenia's main targets in the area of climate policy, and illustrates where it stands in comparison to other EU Member States. It addresses certain indicators that clearly illustrate the performance of Slovenia and the EU in facing environmental changes. The level of environmental taxes in EU Member States is also examined, together with an assessment of Slovenia's environmentally harmful subsidies.

[1] For more on the climate aspects of economic policy, see Box 1.1 in the October 2020 issue of Economic and Financial Developments, and the Report on Climate Risks in Slovenia, November 2020.

Reduction of GHG emissions

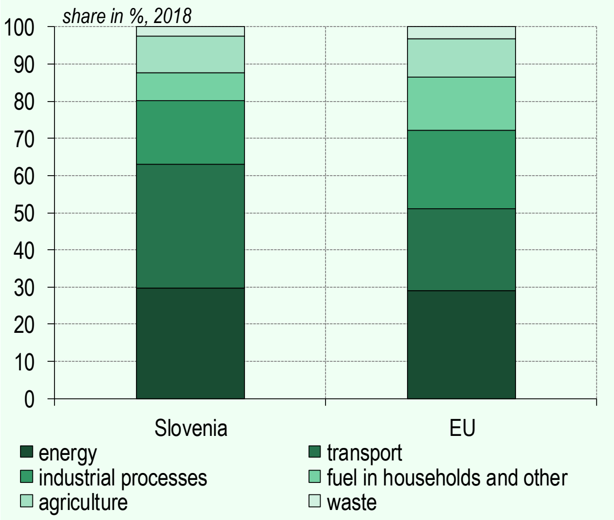
Reducing emissions of the GHGs[2] that cause climate change is one of the key objectives of climate policy. Emissions are monitored separately for EU-ETS sectors,[3] which are included in emissions trading, and non-ETS sectors, which are not part of the emissions trading system, although they are subject to national targets on the basis of burden-sharing legislation.[4] In Slovenia, as in the EU overall, just over a third of emissions are generated in EU-ETS sectors, while almost two-thirds are generated in non-ETS sectors. GHG emissions fell sharply in the economic and financial crisis, and reached their low in Slovenia and in the EU in 2014.[5] Later, as economic growth strengthened, they gradually increased again, including in the transport and energy sectors, where the largest emissions are generated (see Figures 1 and 2). In contrast to other sources of GHGs in Slovenia, transport was the only sector to record a large increase in emissions in 2018 relative to 2005. The increase amounted to almost a third, compared with a slight decline in the EU overall. The overall decline in GHG emissions in Slovenia between 2005 and 2018 was similar or slightly smaller than in the EU overall, at around 15%.[6] Emissions in Slovenia were down 5.9% in non-ETS sectors, and 25.8% in EU-ETS sectors.[7] Slovenia only has binding targets for 2020 for non-ETS sectors (a maximum 4% increase in emissions relative to 2005), which are likely to have been met given its previous outperformance of the target.

Figure 8.1.1: Greenhouse gas emissions



Source: Eurostat, Bank of Slovenia calculations.

Figure 8.1.2: Greenhouse gas emissions by source sector



Source: Eurostat, Bank of Slovenia calculations.

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[2] Greenhouse gases include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and F-gases.

[3] The EU's emission trading system was established in 2005. It covers the sectors of electricity and heat production, manufacturing and industrial processes. Slovenia's total revenues from the sale of emission allowances in the EU-ETS amounted to EUR 103 million between 2013 and 2017, and it spent approximately two-thirds of its revenues for climate and energy purposes (European Commission, 2019). Prices of allowances rose significantly over the following years, as did budget revenues, which amounted to around EUR 65 million in 2018 and 2019, with indications of a similar figure in 2020.

[4] The non-ETS sectors include transport, agriculture, general consumption, waste management, industry and energy (those parts of the sector not included in the emissions trading system).

[5] Slovenia's reduction in emissions in 2014 was partly attributable to the shutdown of Trbovlje power station and Block 3 of Šoštanj power station, and the scaling-back of output at TEŠ (Climate Mirror: GHG emissions and EU-ETS sectors, 2020).

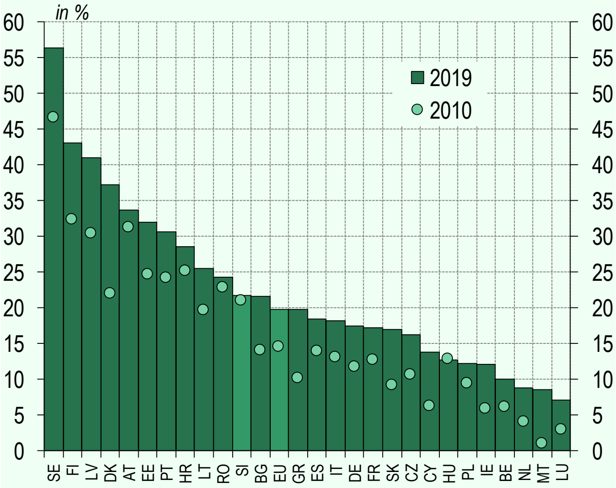
[6] Over the longer term, i.e. from 1990, the reduction in GHG emissions in the EU overall exceeded a fifth, significantly more than in Slovenia, where the reduction was around 6%. This put the EU on a good path to meeting the target of a 20% reduction in 2020, which was marked by the Covid-19 epidemic, which reduced emissions.

[7] The key factor in the smaller reduction in non-ETS sectors is the rising emissions in transport, which is one of the major sources of GHG emissions in Slovenia, and whose share of the total non-ETS emissions has exceeded a half in recent years. The rise in emissions in transport demands measures to increase the share of renewable energy sources, to increase the amount of public passenger transport, and to expand sustainable mobility in other areas (Ministry of the Environment and Spatial Planning, 2020).

The GHG emissions targets for Slovenia and other EU Member States will be more demanding in the future. As part of its Integrated national energy and climate plan (NEPN; February 2020), Slovenia is planning to cut GHG emissions by 36% by 2030 (relative to 2005),[8] with emissions from non-ETC sectors being reduced by at least a fifth. Different sectors are forecast to make very different contributions. A rise of no more than 12% is projected for the transport sector, while other sectors are forecast to see reductions ranging from 1% (agriculture) to 76% (general use / buildings). Slovenia is planning to achieve net zero emissions and carbon neutrality by 2050, in line with the EU targets. In line with the draft long-term climate strategy, it is aiming to reduce GHG emissions by 80% to 90% relative to 2005, and to simultaneously improve its carbon sinks.[9] At EU level national leaders reached an agreement in December 2020 to reduce GHG emissions by at least 55% by 2030, which means strengthening the European climate targets (previously a 40% reduction had been targeted).[10]

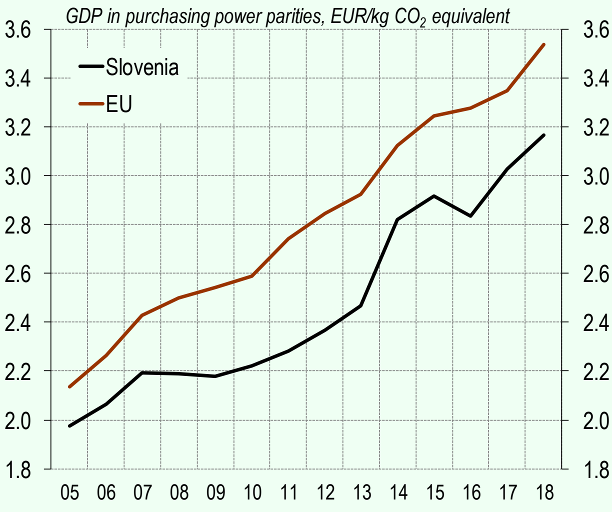
Reductions in GHG emissions have been achieved in the past while economic growth was strengthened. Emission productivity, which is measured by the ratio of GDP to GHG emissions, thus increased in Slovenia and in the EU overall, although in Slovenia it is below the EU average. Slovenia's shortfall was more pronounced during the economic and financial crisis, but in recent years it has generated approximately a tenth less GDP per unit GHG emissions than the EU average. The target of the Slovenian 2030 development strategy is to reach the average level of emission productivity in the EU by 2030.

Figure 8.1.3: Share of renewable energy sources in final energy consumption in EU member states



Source: Eurostat.

Figure 8.1.4: Emission productivity in Slovenia and EU



Source: Eurostat, Bank of Slovenia calculations.

Replacing existing energy sources with renewable is one way of reducing GHG emissions. Slovenia's national target is for at least 27% renewable energy sources (including solar, hydro, wood and other biomass) in gross final energy consumption by 2030. According to the latest figures, Slovenia had reached a share of 21.7% by 2019, while there is considerable variation across the EU (see Figure 8.1.3). Slovenia has outperformed the EU average every year, but its progress over the last decade was minimal, while EU Member States overall increased their share of renewable energy sources by an average of just over 5 percentage points between

[8] The draft national long-term climate strategy to 2050 states that in light of the guidance and documents already adopted (e.g. the European Green Deal), by 2023 Slovenia will set higher targets for reducing GHG emissions by 2030.

[9] Sinks are systems that capture more carbon than they release through their actions, e.g. forests and oceans. In Slovenia's LULUCF sector (land use, land-use change, and forestry) was responsible for approximately 1.4% of total national emissions in 2018, but had previously been a major sink, up to and including 2013. The change is a consequence of natural disasters (glaze storms in 2014 and bark beetle infestations).

[10] A report by the European Environment Agency (2020) states that progress in Europe in reducing GHG emissions was relatively stable, and was sufficient to meet the target of a 20% reduction relative to 1990 by 2020. However, given the average reduction achieved between 1990 and 2018, the target of a 40% reduction by 2030 will not be met without extra efforts, let alone any more ambitious targets.

2010 and 2019. By 2019 the EU had almost reached a 20% share of renewable energy sources, its target for 2020, while Slovenia had fallen significantly behind its target of 25% on account of shortfalls in the transport and electricity production sectors. Slovenia aims to reach at least a 60% share of renewable energy sources by 2050. Part of reaching this target is to phase out the use of coal and to restructure the coalmining regions, for which Slovenia is drawing up a strategy on the principles of just transition. To this end it will have EU funding at its disposal from the Just Transition Fund.

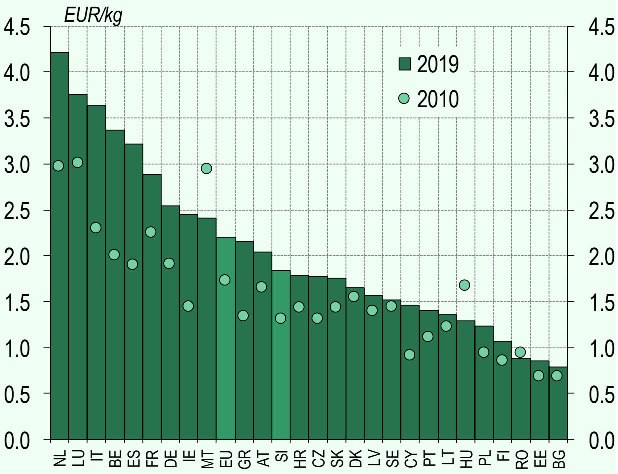
Resource and energy productivity

Slovenia is also improving its resource and energy productivity, which are not yet at the EU average level. The resource productivity and energy productivity indicators (see Figures 8.1.5 and 8.1.6) illustrate the consumption of natural resources and materials or energy compared with output. Resource productivity is measured as the ratio of GDP to domestic material consumption (raw materials and other materials), while energy productivity is the ratio of GDP to gross available energy. A higher resource productivity means that higher GDP is generated for the same consumption of resources, while a higher energy productivity means that each unit of energy consumption yields a higher economic output. Resource productivity in Slovenia has risen over the last decade, but remains behind the EU average. Construction activity has a major impact on the figure. It stood at EUR 1.8 per kg of resources (at purchasing power standard) in 2019, approximately 16% behind the EU average, which is the approximate shortfall in GDP generated in Slovenia per unit of resources consumed. Slovenia also remains behind the EU average in terms of energy productivity.

Environmental taxes and harmful subsidies

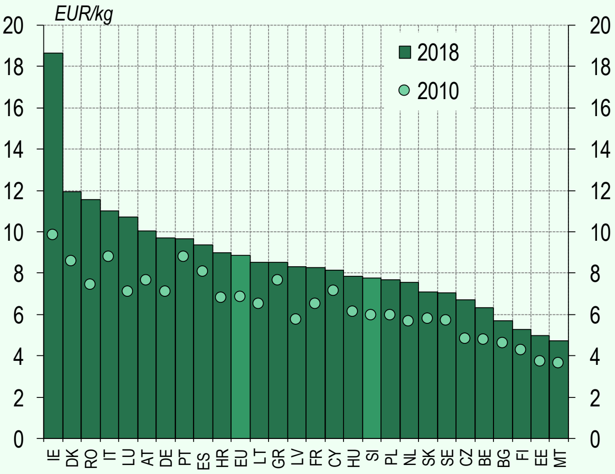
To meet their targets in the area of environmental policy, countries use a variety of instruments, including taxes. Revenues from environmental taxes in

Figure 8.1.5: Resource productivity in EU member states (GDP in purchasing power parities)



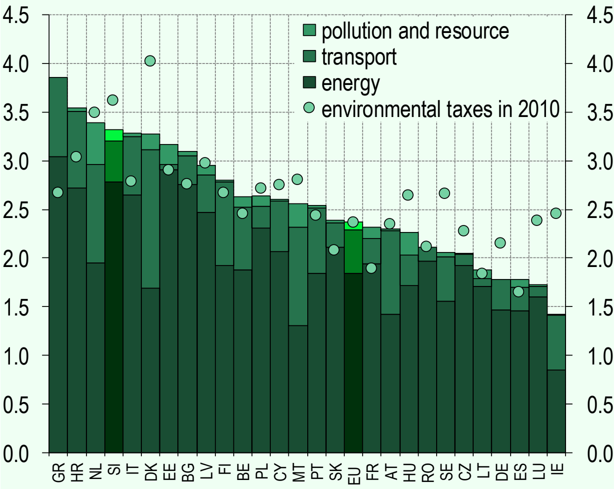
Source: Eurostat (2019: provisional, Eurostat estimates).

Figure 8.1.6: Energy productivity in EU member states (GDP in purchasing power parities)



Source: Eurostat.

Figure 8.1.7: Environmental tax revenue in EU member states in 2019 by type and comparison with 2010 (in % GDP)



Source: Eurostat.

Slovenia are higher than the EU average. They amounted to 3.3% of GDP in 2019, compared with the EU average of 2.4% of GDP. The gap by which Slovenia is ahead was thus just under 1 GDP percentage point, the smallest gap of the last decade. Energy taxes constitute the majority in all countries. They account for more than four-fifths of environmental taxes in Slovenia, while the EU average figure is slightly lower. These include excise duties and carbon emissions taxes. Over the last two years for which the data is available, environmental taxes have accounted for around 9% of total taxes and social contributions (compared with less than 6% in the EU overall), and in some years the figure has been around a tenth. Taxation of this type is therefore more important in Slovenia. In Slovenia a larger part of the burden of environmental taxes, just under two-thirds, falls on households, while in the EU overall the figure is just over a half. Over the longer term there is expected to be less dependence on fossil fuels, which is positive from the perspective of health and the environment, but also entails lower tax revenues under the current structure of taxation. An OECD/ITF study (2019) on the tax revenue implications of decarbonising road transport estimates that revenues from the taxation of fossil fuels in Slovenia could fall by more than half as a result of the transition to other energy sources for cars by 2050 (under certain assumptions). Timely adjustments to taxation policy need to be made to compensate for these revenue sources (they cite distance-based charges as an option). The NEPN cites a gradual rise in environmental taxes on pollution caused by carbon dioxide emissions as one of its measures. The price of the tax should converge on the price of ETS allowances. At the EU level there are also initiatives to expand sources of taxation, including those relating to the environment, such as taxation of plastic packaging waste.

From an environmental perspective, subsidies that act contrary to the target of reducing GHG emissions have an adverse impact. According to the Jožef Stefan Institute, they amounted to EUR 124.3 million or just under 0.3% of GDP in Slovenia in 2018.[11] Refunds of excise duties on diesel for commercial purposes account for just over one-third of the total. The NEPN states that tax breaks and refunds that encourage the use of fossil fuels and act contrary to the aim of reducing GHGs will be gradually phased out by 2030. The gradual rise in the carbon emissions tax will make the use of fossil fuels uneconomical. Incentives are planned at the same time, for example in the form of allowances for investment in energy efficiency. Through green budget reform (a set of policies that aim to bring about changes in the behaviour of economic operators and other entities, and individuals who burden the environment), the government can make a significant contribution to climate targets.

It is evident from the review that Slovenia is already adapting to the climate situation, but activities will need to be stepped up in the future to meet the more ambitious targets. The environmental indicators are mostly improving, both in Slovenia and in the EU overall. GHG emissions are falling, but their level per unit GDP in Slovenia remains higher than the EU average. Resource productivity and energy productivity are also increasing, but the gap behind the EU average is significant. Conversely, Slovenia has a higher share of renewable energy sources in final energy consumption, but is falling behind its national targets. Given the current trends, like other EU Member States, Slovenia will have to devote more attention to meeting the more ambitious environmental targets, and will have to take timely measures and put them into practice. It will also be able to use EU funding to this end, including the new EU Recovery and Resilience Facility.[12]

[11] The estimates made as part of the Life Climate Path 2050 project are available at: Incentives that work against the goal of reducing GHG emissions | Environmental indicators (gov.si).

[12] General government expenditure on environment protection (based on the classification of general government expenditure by function) amounted to EUR 274 million or 0.6% of GDP in 2019 (compared with an average of 0.7% of GDP over the ten years to 2019 inclusive), approximately 40% of which went on government investment. The highest expenditure on environmental protection (1% of GDP) came in 2014 and 2015, which coincided with the conclusion of the previous EU financial framework. The largest amount of funding over this entire period was earmarked for wastewater management. Spending on environment protection in the EU overall has averaged 0.8% of GDP per year over the decade.

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9 Statistical Appendix

The appendix cites a selection of statistics drawn up by 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 are given in this appendix, while more detailed explanations are given in the appendix to the Bank of Slovenia bulletin.

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2017	2018	2019	20Q1	20Q2	Sep. 20	Oct. 20	Nov. 20
1.1. Claims of the Bank of Slovenia	7,143	8,168	10,594	11,522	14,659	13,549	14,051	14,422
1.2. Claims of other MFIs	8,504	8,279	8,342	8,439	8,303	8,819	8,953	9,001
1. Claims on foreign sectors (foreign assets)	**15,647**	**16,447**	**18,936**	**19,960**	**22,962**	**22,368**	**23,004**	**23,423**
2.1. Claims of the Bank of Slovenia on central government	6,247	7,165	7,719	7,399	9,007	10,438	11,012	11,421
2.2.1.1. Loans	1,425	1,174	1,048	1,010	996	947	947	947
2.2.1.2. Securities	3,744	3,763	3,648	3,743	3,887	3,758	3,754	3,693
2.2.1. Claims on central government	5,170	4,937	4,696	4,753	4,884	4,705	4,701	4,640
2.2.2.1. Loans	571	580	602	613	602	602	598	607
2.2.2.2. Securities	0	-	-	-	-	-	-	-
2.2.2. Claims on other general government	571	580	602	613	602	602	598	607
2.2. Claims of other MFIs on general government	5,740	5,517	5,297	5,367	5,486	5,307	5,299	5,248
2.3.1.1. Loans	9,311	9,177	9,290	9,780	9,411	9,265	9,275	9,265
2.3.1.2. Securities	334	319	298	290	299	297	278	283
2.3.1. Claims on nonfinancial corporations	9,645	9,497	9,587	10,070	9,711	9,562	9,552	9,548
2.3.2. Households and non-profit institutions serving households	9,735	10,370	10,981	10,954	10,828	10,970	11,025	11,007
2.3.3.1. Loans	1,171	1,070	1,248	1,263	1,244	1,245	1,242	1,231
2.3.3.2. Securities	395	432	412	412	411	411	412	411
2.3.3. Claims on nonmonetary financial institutions	1,566	1,502	1,661	1,675	1,656	1,656	1,653	1,642
2.3. Claims of other MFIs on other non-MFIs	20,946	21,369	22,229	22,699	22,194	22,187	22,230	22,197
2. Claims on domestic non-MFIs	**32,934**	**34,050**	**35,245**	**35,465**	**36,687**	**37,933**	**38,542**	**38,865**
3. Remaining assets	**1,461**	**1,477**	**1,660**	**1,672**	**1,562**	**1,513**	**1,544**	**1,520**
Total assets	**50,042**	**51,974**	**55,842**	**57,097**	**61,210**	**61,814**	**63,090**	**63,808**
1.1. Bank of Slovenia	1,506	63	134	106	59	45	41	67
1.2. Other MFIs	4,436	3,986	4,342	4,477	4,225	4,466	4,586	4,567
1. Obligations to foreign sectors (foreign liabilities)	**5,943**	**4,049**	**4,476**	**4,583**	**4,284**	**4,511**	**4,627**	**4,634**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,371	5,655	5,847	5,933	6,155	6,256	6,291	6,335
2.1.1.2. Overnight deposits at other MFIs	17,727	19,877	21,699	22,570	23,971	24,374	24,534	25,009
2.1.1.3.1. Non-monetary financial institutions	11	76	296	291	325	300	309	296
2.1.1.3.2. Other government sector	107	100	111	124	125	154	146	156
2.1.1.3. Overnight deposits at the Bank of Slovenia	118	176	407	415	450	454	454	452
2.1.1. Banknotes and coins and overnight liabilities	23,216	25,708	27,953	28,918	30,576	31,084	31,279	31,795
2.1.2.1. Deposits at the Bank of Slovenia	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	6,127	5,727	5,697	5,456	5,346	5,260	5,229	5,166
2.1.2. Time deposits	6,127	5,727	5,697	5,456	5,346	5,260	5,229	5,166
2.1.3. Deposits reedemable at notice up to 3 months	473	492	541	539	497	546	567	526
2.1. Banknotes and coins and deposits up to 2 years	29,816	31,927	34,190	34,913	36,419	36,891	37,076	37,488
2.2. Debt securities, units/shares of money market funds and repos	55	78	55	89	73	70	76	72
2. Banknotes and coins and instruments up to 2 years	**29,871**	**32,006**	**34,246**	**35,002**	**36,492**	**36,961**	**37,152**	**37,560**
3. Long-tern financial obligations to non-MFIs	**1,524**	**1,314**	**1,285**	**1,333**	**1,246**	**1,230**	**1,259**	**1,268**
4. Remaining liabilities	**14,035**	**15,675**	**17,232**	**17,473**	**20,473**	**20,482**	**21,432**	**21,687**
5. Excess of inter-MFI liabilities	**-1,330**	**-1,069**	**-1,396**	**-1,294**	**-1,285**	**-1,370**	**-1,379**	**-1,340**
Total liabilities	**50,042**	**51,974**	**55,842**	**57,097**	**61,210**	**61,814**	**63,090**	**63,808**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2017	2018	2019	20Q1	20Q2	Sep. 20	Oct. 20	Nov. 20
1.1. Gold	111	115	138	150	161	164	165	151
1.2. Receivable form IMF	338	372	381	385	398	389	391	387
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	233	1,464	3,661	4,708	7,744	6,699	7,151	7,526
1.5. Securities	6,359	6,114	6,271	6,129	6,179	6,099	6,143	6,140
1.6. Other claims	103	103	142	149	175	196	201	218
1. Claims on foreign sectors (foreign assets)	**7,143**	**8,168**	**10,594**	**11,522**	**14,659**	**13,549**	**14,051**	**14,422**
2.1. Claims on central government	6,247	7,165	7,719	7,399	9,007	10,438	11,012	11,421
2.2.1. Loans	1,142	1,102	995	1,055	1,359	1,385	1,385	1,385
2.2.2. Other claims	98	3	51	51	58	85	86	86
2.2. Claims on domestic monetary sector	1,240	1,105	1,046	1,106	1,417	1,470	1,471	1,471
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**7,489**	**8,271**	**8,767**	**8,507**	**10,426**	**11,911**	**12,485**	**12,894**
3. Remaining assets	**279**	**314**	**396**	**374**	**343**	**334**	**332**	**327**
Total assets	**14,911**	**16,753**	**19,757**	**20,403**	**25,427**	**25,793**	**26,868**	**27,642**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,371**	**5,655**	**5,847**	**5,933**	**6,155**	**6,256**	**6,291**	**6,335**
2.1.1.1.1. Overnight	2,939	3,391	4,348	4,159	5,914	6,241	6,410	6,883
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,939	3,391	4,348	4,159	5,914	6,241	6,410	6,883
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,939	3,391	4,348	4,159	5,914	6,241	6,410	6,883
2.1.2.1.1. Overnight	2,521	3,704	3,120	3,590	5,959	5,386	5,964	6,123
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	2,521	3,704	3,120	3,590	5,959	5,386	5,964	6,123
2.1.2.2. Foreign currency	56	5	6	6	7	6	6	6
2.1.2. General government	2,577	3,708	3,126	3,596	5,966	5,391	5,970	6,129
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	11	76	296	291	325	300	309	296
2.1.3. Other domestic sectors	11	76	296	291	325	300	309	296
2.1. Domestic sectors	5,527	7,176	7,770	8,046	12,205	11,932	12,689	13,308
2.2. Foreign sectors	1,506	63	134	106	59	45	41	67
2. Deposits	**7,033**	**7,238**	**7,904**	**8,152**	**12,264**	**11,977**	**12,731**	**13,375**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**256**	**262**	**266**	**269**	**265**	**260**	**261**	**258**
5. Capital and reserves	**1,883**	**1,945**	**2,763**	**2,666**	**2,959**	**3,215**	**3,375**	**3,361**
6. Remaining liabilities	**367**	**1,653**	**2,976**	**3,383**	**3,783**	**4,086**	**4,211**	**4,313**
Total liabilities	**14,911**	**16,753**	**19,757**	**20,403**	**25,427**	**25,793**	**26,868**	**27,642**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2017	2018	2019	20Q1	20Q2	Sep. 20	Oct. 20	Nov. 20
1.1.1. Cash	355	425	432	452	424	443	440	412
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	2,939	3,391	4,348	4,159	5,914	6,241	6,410	6,883
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	3,294	3,817	4,780	4,611	6,338	6,683	6,850	7,294
1.2.1. Loans	873	865	788	754	746	714	714	702
1.2.2. Debt securities	71	18	94	96	95	135	135	135
1.2.3. Shares and other equity	2	1	0	451	451	6	6	8
1.2. Claims on other MFI's	947	883	882	1,301	1,292	856	855	846
1.3.1. Loans	22,213	22,371	23,168	23,620	23,082	23,029	23,086	23,057
1.3.2. Debt securities	3,775	3,797	3,674	3,767	3,908	3,775	3,753	3,697
1.3.3. Shares and other equity	698	717	683	678	690	690	690	691
1.3. Claims on nonmonetry sectors	26,687	26,885	27,526	28,066	27,680	27,495	27,529	27,444
1. Claims on domestic sectors (domestic assets)	**30,927**	**31,585**	**33,187**	**33,978**	**35,310**	**35,034**	**35,235**	**35,584**
2.1.1. Cash	35	35	40	38	44	45	42	42
2.1.2. Loans	2,154	1,681	1,640	1,867	1,769	1,941	2,022	1,955
2.1.3. Debt securities	1,333	1,311	1,312	1,248	1,290	1,558	1,590	1,565
2.1.4 Shares and other equity	579	578	578	578	578	578	578	578
2.1. Claims on foreign monetary sectors	4,100	3,605	3,570	3,732	3,681	4,122	4,232	4,140
2.2.1. Loans	899	1,023	1,103	1,157	1,188	1,208	1,272	1,341
2.2.2. Debt securities	3,190	3,346	3,364	3,244	3,128	3,181	3,141	3,211
2.2.3. Shares and other equity	314	305	305	305	306	308	308	309
2.2. Claims on foreign nonmonetary sectors	4,404	4,674	4,772	4,707	4,622	4,697	4,721	4,861
2. Claims on foreign sectors (foreign assets)	**8,504**	**8,279**	**8,342**	**8,439**	**8,303**	**8,819**	**8,953**	**9,001**
3. Remaining assets	**1,015**	**762**	**1,136**	**1,228**	**1,162**	**1,145**	**1,183**	**1,146**
Total assets	**40,447**	**40,626**	**42,666**	**43,645**	**44,775**	**44,999**	**45,371**	**45,732**
1.1.1. Deposits, loans from the Bank of Slovenia	1,142	1,102	995	1,055	1,359	1,385	1,385	1,385
1.1.2. Deposits, loans from other MFIs	962	931	917	882	885	862	861	841
1.1.3. Debt securities issued	12	-	16	15	15	15	15	15
1.1. Laibilities to monetary sectors	2,115	2,033	1,928	1,952	2,259	2,262	2,261	2,241
1.2.1.1. Overnight	17,287	19,396	21,191	22,035	23,428	23,781	23,972	24,462
1.2.1.2. With agreed maturity	8,125	7,477	7,418	7,190	6,898	6,799	6,790	6,718
1.2.1.3. Reedemable at notice	548	561	622	650	550	632	668	634
1.2.1. Deposits in domestic currency	25,960	27,434	29,232	29,874	30,877	31,212	31,430	31,814
1.2.2. Deposits in foreign currency	593	626	613	652	666	688	670	675
1.2.3. Debt securities issued	15	15	68	69	69	55	55	55
1.2. Liabilities to nonmonetary sectors	26,569	28,075	29,913	30,595	31,612	31,955	32,155	32,544
1. Obligations to domestic sectors (domestic liabilities)	**28,683**	**30,108**	**31,840**	**32,547**	**33,871**	**34,217**	**34,416**	**34,785**
2.1.1. Deposits	1,627	1,550	1,282	1,303	1,155	1,618	1,714	1,701
2.1.2. Debt securities issued	327	111	428	547	547	897	897	897
2.1. Liabilities to foreign monetry sectors	1,954	1,660	1,710	1,850	1,702	2,515	2,612	2,598
2.2.1. Deposits	1,975	1,693	1,910	1,905	1,802	1,232	1,255	1,250
2.2.2. Debt securities issued	22	22	85	84	84	84	84	84
2.2. Liabilities to foreign nonmonetary sectors	1,997	1,715	1,994	1,990	1,886	1,315	1,338	1,334
2. Obligations to foreign sectors (foreign liabilities)	**3,952**	**3,375**	**3,704**	**3,840**	**3,588**	**3,831**	**3,950**	**3,932**
3. Capital and reserves	**4,904**	**4,886**	**5,097**	**5,072**	**5,169**	**4,868**	**4,921**	**4,939**
4. Remaining liabilities	**2,908**	**2,256**	**2,024**	**2,186**	**2,148**	**2,082**	**2,084**	**2,075**
Total liabilities	**40,447**	**40,626**	**42,666**	**43,645**	**44,775**	**44,999**	**45,371**	**45,732**

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

in % on annual level	2016	2017	2018	2019	Sep. 20	Oct. 20	Nov. 20
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	7.84	7.85	7.81	7.77	7.74	7.74	7.73
Households, extended credit	7.73	7.75	7.63	7.52	7.84	7.84	7.85
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.23	4.44	4.65	4.60	4.73	4.60	4.59
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.66	5.92	6.04	6.03	6.00	5.99	5.94
Loans, households, consumption, over 5 years initial rate fixation	6.12	6.20	6.29	6.27	6.04	6.12	6.03
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.47	3.69	3.74	3.26	3.95	3.67	4.08
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.27	4.89	5.11	4.37	5.61	5.57	5.37
C. loans, households, consumption, over 5 year initial rate fixation	5.05	5.19	5.06	5.34	5.06	5.53	5.10
APRC, Loans to households for consumption	7.55	7.73	7.64	7.88	7.61	7.55	7.33
Loans, households, house purchase, floating and up to 1 year initial rate fixation	2.04	1.99	1.89	1.81	1.72	1.70	1.74
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	3.58	2.75	3.22	3.15	2.23	2.18	2.15
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.49	2.65	2.74	2.50	2.06	2.00	2.05
Loans, households, house purchase, over 10 years initial rate fixation	2.56	2.91	2.95	2.70	2.28	2.21	2.22
C. loans, households, house purchase variabel and up to years initial rate fixation	2.02	1.99	1.87	1.84	1.73	1.70	1.76
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.12	2.38	3.01	2.48	2.11	2.30	2.41
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	2.38	2.34	2.56	2.28	2.10	1.92	2.02
C. loans, households, house purchase, over 10 years initial rate fixation	2.53	2.85	2.89	2.69	2.28	2.20	2.22
APRC, Loans to households for house purchase	2.58	2.77	2.75	2.52	2.38	2.32	2.33
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.49	3.58	3.68	3.82	3.84	3.84	3.73
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.28	5.30	4.78	4.85	4.73	4.97	4.48
Loans, households, other purposes, over 5 years initial rate fixation	5.92	5.35	6.73	6.38	6.77	6.44	6.27
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	2.81	2.41	2.22	2.23	2.17	2.17	2.17
S.11, extended credit	6.70	-	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	2.74	2.69	2.32	2.30	2.40	2.77	2.93
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	3.31	2.89	2.50	2.68	2.31	2.76	2.58
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	4.52	3.98	3.72	3.91	3.60	3.57	3.13
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	4.57	4.03	4.24	4.70	3.50	4.30	3.79
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	4.56	3.51	4.16	5.18	4.62	4.45	4.42
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	2.92	2.22	4.25	3.84	4.62	4.44	4.64
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	2.19	1.89	2.04	1.91	1.79	1.55	1.55
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.49	2.09	2.09	1.98	2.35	2.51	2.57
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	1.21	1.94	1.87	1.81	2.26	2.81	2.73
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	1.70	-	1.31	1.31	1.23	2.27	1.45
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	1.94	2.57	1.74	1.81	1.64	1.48	1.33
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	2.10	-	-	-	4.65	3.39	1.36
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.61	2.23	1.85	1.10	2.03	1.51	1.52
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	2.35	1.58	1.76	2.81	1.98	1.86	2.63
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	-	-	0.75	0.89	-	0.50	1.46
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	1.06	1.15	-	0.84	1.00	1.25	1.26
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	1.92	-	1.47	1.77	1.00	0.00	1.92
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	2.23	1.88	2.04	2.20	1.27	2.12	1.07
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.02	0.01	0.01	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.23	0.14	0.17	0.18	0.14	0.15	0.15
Deposits, households, agreed maturity over 1 and up to 2 years	0.44	0.51	0.54	0.29	0.20	0.25	0.22
Deposits, households, agreed maturity over 2 years	0.72	0.69	0.89	0.65	0.58	0.42	0.83
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.05	0.04	0.00	0.01	0.00	0.01	0.01
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.20	0.12	0.19	0.09	0.07	0.04	0.05
Deposits, S.11, agreed maturity over 2 years	0.49	0.26	0.19	0.32	0.19	0.19	1.21
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.02	0.00	0.00	0.00	-0.07	-0.06	-0.07
Deposits redeemable at notice, over 3 months notice	0.55	0.52	0.89	0.93	0.07	0.15	0.17

Table 9.5: International investment position

EUR million		2016	2017	2018	19Q4	20Q1	20Q2	20Q3
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-11,645**	**-10,416**	**-8,714**	**-7,430**	**-8,377**	**-8,361**	**-8,114**
1	**ASSETS**	**45,384**	**46,608**	**49,339**	**55,827**	**58,114**	**61,286**	**61,288**
1.1	**Direct investment**	**7,767**	**8,328**	**8,825**	**9,860**	**9,805**	**10,011**	**9,920**
1.1.1	Equity	4,149	4,345	4,754	5,188	5,292	5,361	5,289
1.1.2	Debt instruments	3,618	3,984	4,071	4,671	4,512	4,650	4,631
1.2	**Portfolio investment**	**17,639**	**20,660**	**20,618**	**22,505**	**21,182**	**22,070**	**22,745**
1.2.1	Equity and investment fund shares	4,436	5,028	4,849	5,779	5,077	5,667	5,910
1.2.2	Debt securities	13,202	15,632	15,769	16,725	16,105	16,403	16,834
1.3	**Financial derivatives**	**1,086**	**302**	**384**	**562**	**767**	**802**	**805**
1.4	**Other investment**	**18,187**	**16,575**	**18,696**	**21,995**	**25,377**	**27,383**	**26,788**
1.4.1	Other equity	1,190	1,274	1,335	1,434	1,444	1,462	1,477
1.4.2	Currency and deposits	8,515	6,328	7,829	10,642	13,388	16,055	15,254
1.4.3	Loans	2,703	2,431	2,593	2,909	2,988	3,026	3,088
1.4.4	Insurance, pension and standardized guarantee schemes	141	148	141	155	157	161	161
1.4.5	Trade credit and advances	4,202	4,801	5,206	5,220	5,611	5,064	5,197
1.4.6	Other accounts receivable	1,436	1,593	1,593	1,635	1,788	1,615	1,610
1.5	**Reserve assets**	**705**	**743**	**816**	**905**	**983**	**1,021**	**1,031**
1.5.1	Monetary gold	112	111	115	138	150	161	164
1.5.2	Special drawing rights	207	235	242	246	249	245	239
1.5.3	Reserve position in the IMF	154	103	131	136	137	153	150
1.5.4	Other reserve assets	232	294	329	385	447	461	477
2	**LIABILITIES**	**57,030**	**57,024**	**58,053**	**63,257**	**66,491**	**69,647**	**69,402**
2.1	**Direct investment**	**14,996**	**16,316**	**17,972**	**19,231**	**19,435**	**19,749**	**19,857**
2.1.1	Equity	11,563	12,590	13,905	15,033	15,300	15,457	15,514
2.1.2	Debt instruments	3,433	3,726	4,067	4,198	4,135	4,292	4,343
2.2	**Portfolio investment**	**21,439**	**21,200**	**20,867**	**21,799**	**22,824**	**25,345**	**24,859**
2.2.1	Equity and investment fund shares	966	1,085	1,751	2,012	1,481	1,706	1,665
2.2.2	Debt securities	20,473	20,115	19,116	19,787	21,343	23,639	23,193
2.3	**Financial derivatives**	**139**	**81**	**206**	**2,374**	**3,806**	**4,288**	**4,282**
2.4	**Other investment**	**20,456**	**19,428**	**19,008**	**19,853**	**20,426**	**20,266**	**20,404**
2.4.1	Other equity	36	37	44	42	42	43	44
2.4.2	Currency and deposits	3,413	3,747	3,226	4,169	4,582	5,020	5,350
2.4.3	Loans	12,188	10,377	10,034	9,840	9,880	9,610	9,310
2.4.4	Insurance, pension and standardized guarantee schemes	213	219	228	263	303	332	332
2.4.5	Trade credit and advances	3,711	4,161	4,602	4,624	4,564	4,171	4,252
2.4.6	Other accounts payable	619	630	612	649	786	825	857
2.4.7	Special drawing rights	275	256	262	266	269	265	260

Table 9.6: Gross external debt

EUR million		2017	2018	2019	20Q1	20Q2	20Q3	Oct. 20
	TOTAL (1+2+3+4+5)	**43,231**	**42,148**	**43,796**	**45,862**	**48,154**	**47,896**	**49,043**
1	**GENERAL GOVERNMENT**	**21,980**	**21,094**	**21,687**	**23,330**	**25,766**	**25,081**	**25,745**
1.1	**Short-term, of that**	**652**	**732**	**832**	**1,069**	**1,176**	**1,209**	**1,221**
	Debt securities	75	85	19	51	37	48	48
	Loans	273	336	510	671	671	627	648
	Trade credit and advances	35	35	34	33	42	41	45
	Other debt liabilities	269	276	268	315	427	493	480
1.2	**Long-term, of that**	**21,328**	**20,362**	**20,855**	**22,261**	**24,590**	**23,872**	**24,524**
	Debt securities	19,517	18,602	19,171	20,577	22,891	22,196	22,852
	Loans	1,809	1,758	1,681	1,680	1,672	1,670	1,670
2	**CENTRAL BANK**	**3,011**	**2,661**	**3,753**	**4,086**	**4,589**	**4,928**	**5,041**
2.1	**Short-term, of that**	**2,755**	**2,399**	**3,487**	**3,817**	**4,324**	**4,668**	**4,780**
	Currency and deposits	2,755	2,399	3,487	3,817	4,324	4,668	4,780
2.2	**Long-term, of that**	**256**	**262**	**266**	**269**	**265**	**260**	**261**
	Special drawing rights (allocations)	256	262	266	269	265	260	261
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**3,782**	**3,344**	**3,544**	**3,743**	**3,453**	**3,570**	**3,683**
3.1	**Short-term**	**1,058**	**927**	**946**	**1,042**	**929**	**922**	**1,034**
	Currency and deposits	765	669	601	685	616	647	756
	Debt securities	...	...	...	...	...	...	...
	Loans	200	251	310	253	245	223	230
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	92	7	35	104	68	53	48
3.2	**Long-term**	**2,724**	**2,418**	**2,598**	**2,700**	**2,524**	**2,648**	**2,649**
	Currency and deposits	227	159	82	80	80	35	35
	Debt securities	168	88	316	432	431	671	672
	Loans	2,323	2,162	2,196	2,186	2,011	1,940	1,940
	Trade credit and advances	6	7	4	1	2	1	1
	Other debt liabilities	1	1	1	1	1	1	1
4	**OTHER SECTORS**	**10,731**	**10,982**	**10,614**	**10,569**	**10,054**	**9,974**	**10,153**
4.1	**Short-term, of that**	**4,596**	**5,182**	**5,286**	**5,311**	**4,811**	**4,817**	**5,004**
	Debt securities	0	1	2	2	1	1	1
	Loans	281	375	446	504	466	394	396
	Trade credit and advances	4,094	4,540	4,565	4,511	4,085	4,182	4,362
	Other debt liabilities	220	267	273	294	259	240	246
4.2	**Long-term, of that**	**6,135**	**5,800**	**5,327**	**5,257**	**5,243**	**5,157**	**5,149**
	Debt securities	355	340	279	281	279	278	277
	Loans	5,490	5,154	4,698	4,585	4,545	4,456	4,448
	Trade credit and advances	26	17	16	16	16	21	21
	Other debt liabilities	264	289	335	375	403	402	403
5	**DIRECT INVESTMENT: intercompany lending**	**3,726**	**4,067**	**4,198**	**4,135**	**4,292**	**4,343**	**4,422**
	NET EXTERNAL DEBT POSITION	**7,572**	**4,131**	**976**	**380**	**238**	**186**	**-110**

Table 9.7: Balance of payments

EUR million	2017	2018	2019	20Q1	20Q2	20Q3	Oct. 20
I. Current account	**2,674**	**2,680**	**2,723**	**838**	**650**	**915**	**491**
1. Goods	**1,617**	**1,282**	**1,330**	**561**	**576**	**741**	**343**
1.1. Export of goods	**28,372**	**30,817**	**32,013**	**7,842**	**6,417**	**7,345**	**2,830**
Export f.o.b.	28,265	30,858	33,548	8,839	7,252	8,102	3,156
Coverage adjustment	-141	-299	-1,928	-1,106	-938	-874	-370
Net export of goods under merchanting	229	238	367	101	94	109	44
Nonmonetary gold	20	21	25	7	8	7	0
1.2. Import of goods	**26,756**	**29,535**	**30,682**	**7,281**	**5,841**	**6,603**	**2,487**
Import c.i.f.	27,606	30,706	34,082	8,382	6,816	7,761	2,938
Coverage adjustment	-114	-363	-2,540	-919	-828	-989	-378
Valuation adjustment	-774	-853	-886	-210	-169	-191	-72
Nonmonetary gold	37	45	27	28	22	22	0
2. Services	**2,254**	**2,625**	**2,787**	**549**	**408**	**535**	**233**
2.1. Export of services, of that	**7,394**	**8,104**	**8,548**	**1,773**	**1,450**	**1,790**	**618**
Transport	2,164	2,438	2,503	606	514	563	218
Travel	2,523	2,704	2,752	379	119	451	48
Construction services	422	497	590	153	147	165	66
Telecomm., computer and inform. services	544	540	629	161	158	148	49
Other business services	1,248	1,341	1,444	308	332	311	159
2.2. Import of services, of that	**5,140**	**5,478**	**5,762**	**1,224**	**1,042**	**1,255**	**385**
Transport	1,098	1,106	1,185	274	262	257	105
Travel	1,322	1,483	1,500	201	63	303	22
Construction services	126	177	200	46	45	56	23
Telecomm., computer and inform. services	539	544	606	158	136	140	52
Other business services	1,324	1,442	1,528	364	367	345	116
3. Primary income	**-879**	**-819**	**-853**	**-107**	**-192**	**-275**	**-63**
3.1. Receipts	**1,381**	**1,578**	**1,701**	**455**	**366**	**313**	**117**
Compensation of employees	385	431	480	112	81	93	34
Investment	703	802	843	193	191	187	58
Other primary income	293	345	378	151	94	34	25
3.2. Expenditure	**2,260**	**2,397**	**2,554**	**562**	**558**	**588**	**180**
Compensation of employees	149	173	195	41	40	39	12
Investment	1,929	2,020	2,148	465	477	508	154
Other primary income	182	204	211	55	42	40	14
4. Secondary income	**-317**	**-408**	**-541**	**-164**	**-142**	**-86**	**-21**
4.1. Receipts	**828**	**793**	**805**	**198**	**198**	**188**	**88**
4.2. Expenditure	**1,145**	**1,201**	**1,346**	**362**	**340**	**273**	**110**

Table 9.8: Balance of payments – continued

EUR million	2017	2018	2019	20Q1	20Q2	20Q3	Oct. 20
II. Capital account	**-324**	**-225**	**-187**	**-54**	**-18**	**-26**	**-15**
1. Nonproduced nofinancial assets	-76	-47	-24	9	23	-4	-4
2. Capital transfers	-248	-178	-163	-63	-41	-22	-11
III. Financial account	**2,112**	**2,524**	**2,454**	**809**	**145**	**507**	**322**
1. Direct investment	**-495**	**-934**	**-748**	**-175**	**-118**	**-105**	**-15**
Assets	570	373	773	30	197	-79	184
Equity and reinvested earnings	230	443	291	73	68	-72	20
Debt instruments	340	-70	482	-43	129	-7	164
Liabilities	1,065	1,307	1,521	205	315	26	199
Equity and reinvested earnings	932	1,088	1,669	263	157	57	150
Debt instruments	133	220	-149	-58	158	-31	49
2. Portfolio investment	**2,990**	**744**	**791**	**-1,940**	**-1,916**	**1,281**	**-412**
Assets	2,851	492	753	-205	119	536	62
Equity and investment fund shares	333	117	54	108	67	158	31
Debt securities	2,518	375	699	-313	52	377	31
Liabilities	-138	-252	-38	1,736	2,035	-745	474
Equity and investment fund shares	39	543	83	-17	5	-6	-1
Debt securities	-178	-795	-121	1,752	2,030	-739	475
3. Financial derivatives	**-185**	**-81**	**-163**	**53**	**-32**	**10**	**-5**
4. Other investment	**-287**	**2,743**	**2,537**	**2,822**	**2,181**	**-705**	**743**
4.1. Assets	**-1,372**	**2,039**	**3,424**	**3,399**	**2,030**	**-645**	**1,183**
Other equity	73	68	84	13	19	14	5
Currency and deposits	-2,154	1,493	2,836	2,751	2,673	-792	844
Loans	-108	215	412	79	41	55	69
Insurance, pension and stand. guar. schemes	5	-7	13	2	3	…	…
Trade credits and advances	615	303	42	403	-545	76	225
Other assets	197	-33	38	151	-160	1	40
4.2. Liabilities	**-1,085**	**-704**	**887**	**576**	**-151**	**60**	**440**
Other equity	0	2	2	0	0	0	0
Currency and deposits	365	-524	935	416	440	334	221
Loans	-1,846	-482	-158	40	-256	-327	53
Insurance, pension and stand. guar. schemes	5	20	27	40	18	…	…
Trade credits and advances	411	331	62	-58	-393	19	176
Other liabilities	-20	-51	19	138	39	33	-10
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**89**	**52**	**37**	**49**	**29**	**26**	**11**
IV. Net errors and omissions	**-239**	**69**	**-81**	**24**	**-488**	**-382**	**-153**

Table 9.9: Non-consolidated financial assets – outstanding amounts

mio EUR	2017	2018	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Domestic sector								
Total	197,522	207,364	214,523	218,233	222,418	224,303	236,644	237,572
Monetary gold and SDRs	346	356	370	389	385	399	406	404
Currency and deposits	46,776	51,961	52,542	54,265	57,573	61,351	69,691	69,186
Debt securities	28,530	29,251	30,497	31,073	30,731	29,706	31,815	33,656
Loans	35,974	36,342	37,455	37,623	37,679	38,751	37,999	37,792
Shares	20,218	19,566	19,696	19,619	20,261	18,560	19,868	19,261
Other equity	29,327	32,354	34,215	34,795	35,838	36,200	36,907	37,221
Investment fund shares/units	4,703	4,466	5,188	5,528	5,736	5,008	5,581	5,835
Insurance and pension schemes	8,003	8,073	8,556	8,646	8,705	8,421	8,751	8,868
Other	23,645	24,996	26,004	26,296	25,511	25,909	25,625	25,348
Non-financial corporations								
Total	45,039	47,092	48,765	49,083	49,088	49,765	49,784	50,177
Currency and deposits	7,104	7,523	7,386	7,794	7,736	8,055	8,406	8,827
Debt securities	109	112	143	122	111	109	102	130
Loans	5,510	5,490	6,026	5,990	6,017	5,955	6,241	6,150
Shares	2,367	2,325	2,223	2,177	2,304	2,182	2,219	2,134
Other equity	13,193	14,026	14,393	14,575	15,051	15,206	15,396	15,357
Investment fund shares/units	61	58	214	231	209	182	190	205
Insurance and pension schemes	444	442	496	476	453	487	504	500
Other	16,251	17,117	17,886	17,717	17,208	17,590	16,726	16,873
Monetary financial institutions								
Total	54,397	56,595	57,537	58,613	61,451	63,165	69,404	69,852
Monetary gold and SDRs	346	356	370	389	385	399	406	404
Currency and deposits	8,067	9,327	8,656	9,090	12,533	13,629	18,691	18,142
Debt securities	21,263	21,894	22,750	23,123	22,654	21,996	23,783	25,380
Loans	23,097	23,362	23,983	24,251	24,225	24,753	24,246	24,209
Shares	729	771	743	719	690	1,280	1,253	692
Other equity	351	383	397	398	408	408	419	421
Investment fund shares/units	5	3	25	35	48	56	82	102
Insurance and pension schemes	40	41	41	41	39	39	38	37
Other	498	457	572	568	468	605	486	466
Other financial institutions								
Total	18,151	18,414	19,465	19,732	20,167	19,169	20,051	20,248
Currency and deposits	1,163	1,188	1,454	1,375	1,342	1,422	1,330	1,254
Debt securities	6,520	6,601	6,923	7,134	7,223	6,901	7,226	7,446
Loans	2,859	2,864	2,761	2,717	2,729	2,694	2,663	2,630
Shares	3,688	3,684	3,818	3,873	4,057	3,405	3,864	3,845
Other equity	686	857	912	909	1,027	1,185	1,202	1,226
Investment fund shares/units	2,354	2,208	2,438	2,608	2,706	2,385	2,624	2,758
Insurance and pension schemes	199	204	227	224	219	265	259	249
Other	681	809	932	890	864	912	883	842
General government								
Total	30,390	31,972	32,924	34,251	33,552	34,367	37,044	36,593
Currency and deposits	6,729	8,481	8,227	8,797	8,227	9,952	11,828	11,378
Debt securities	416	421	466	484	509	489	492	497
Loans	3,467	3,398	3,427	3,404	3,415	4,060	3,451	3,369
Shares	10,369	9,677	9,768	9,710	9,935	8,660	9,161	9,181
Other equity	5,706	6,009	7,094	7,366	7,223	7,184	7,488	7,720
Investment fund shares/units	302	297	337	372	364	325	360	371
Insurance and pension schemes	16	23	25	26	26	25	26	27
Other	3,386	3,665	3,580	4,093	3,853	3,672	4,238	4,050
Households and NPISHs								
Total	49,545	53,291	55,831	56,554	58,161	57,838	60,360	60,702
Currency and deposits	23,713	25,441	26,819	27,208	27,735	28,292	29,436	29,586
Debt securities	222	222	216	210	234	210	212	203
Loans	1,041	1,227	1,258	1,262	1,292	1,290	1,398	1,435
Shares	3,065	3,109	3,146	3,139	3,275	3,033	3,371	3,409
Other equity	9,391	11,080	11,419	11,547	12,128	12,217	12,401	12,497
Investment fund shares/units	1,981	1,900	2,174	2,282	2,410	2,060	2,326	2,399
Insurance and pension schemes	7,304	7,363	7,766	7,879	7,968	7,606	7,924	8,056
Other	2,830	2,948	3,034	3,027	3,119	3,130	3,292	3,117
Rest of the world								
Total	57,659	58,567	62,314	65,308	64,306	67,172	70,485	70,557
Monetary gold and SDRs	257	263	264	270	267	269	265	260
Currency and deposits	6,292	5,650	5,959	6,128	6,685	7,005	7,235	7,446
Debt securities	20,555	19,516	20,102	20,725	20,148	21,510	23,922	23,466
Loans	10,309	10,345	10,419	10,641	10,186	10,264	10,447	10,085
Shares	5,275	6,428	6,826	6,759	7,031	6,354	6,631	6,877
Other equity	8,451	9,201	9,677	9,827	10,119	10,314	10,385	10,494
Investment fund shares/units	29	29	33	38	40	35	39	40
Insurance and pension schemes	219	228	289	299	263	303	332	366
Other	6,274	6,906	8,744	10,621	9,566	11,117	11,228	11,523

Table 9.10: Non-consolidated liabilities – outstanding amounts

mio EUR	2017	2018	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Domestic sector								
Total	208,564	216,868	223,636	228,197	230,624	233,249	245,730	246,687
Monetary gold and SDRs	257	263	264	270	267	269	265	260
Currency and deposits	45,557	48,450	48,127	48,993	52,161	53,502	59,316	59,753
Debt securities	33,041	32,629	33,772	34,699	33,837	34,752	38,995	39,940
Loans	41,637	41,864	42,642	42,984	42,491	43,652	42,924	42,373
Shares	21,781	22,332	22,611	22,408	23,161	21,214	22,425	21,913
Other equity	33,274	36,788	38,760	39,384	40,210	40,749	41,489	42,023
Investment fund shares/units	2,572	2,396	2,692	2,848	3,008	2,548	2,874	2,974
Insurance and pension schemes	8,074	8,161	8,694	8,792	8,813	8,567	8,922	9,075
Other	22,371	23,986	26,074	27,818	26,677	27,995	28,521	28,378
Non-financial corporations								
Total	82,830	87,007	88,443	88,276	89,431	89,016	89,750	89,499
Debt securities	1,010	977	763	759	732	724	728	716
Loans	22,797	22,646	23,087	22,949	22,473	22,858	22,833	22,318
Shares	12,784	13,139	13,159	12,992	13,394	12,594	13,384	13,301
Other equity	29,603	32,581	33,682	34,020	34,848	35,237	35,602	35,948
Other	16,636	17,663	17,750	17,556	17,984	17,604	17,203	17,216
Monetary financial institutions								
Total	52,727	55,284	56,374	57,448	60,634	61,778	67,888	68,475
Monetary gold and SDRs	257	263	264	270	267	269	265	260
Currency and deposits	44,669	47,534	47,274	48,125	51,274	52,632	58,478	58,920
Debt securities	377	148	393	393	600	728	730	1,067
Loans	201	218	217	217	236	235	262	262
Shares	4,875	4,744	4,771	4,740	4,936	4,433	4,511	4,146
Other equity	1,896	1,957	2,758	3,048	2,797	2,751	3,039	3,253
Investment fund shares/units	55	79	61	57	56	90	74	71
Other	397	340	636	599	468	639	530	496
Other financial institutions								
Total	17,508	17,801	18,875	19,127	19,647	18,586	19,432	19,497
Debt securities	113	113	146	146	232	199	198	198
Loans	2,664	2,558	2,531	2,570	2,590	2,559	2,506	2,446
Shares	2,463	2,682	2,813	2,806	2,911	2,429	2,554	2,464
Other equity	1,225	1,511	1,521	1,516	1,676	1,873	1,953	1,924
Investment fund shares/units	2,518	2,317	2,631	2,791	2,952	2,458	2,800	2,903
Insurance and pension schemes	8,074	8,161	8,694	8,792	8,813	8,567	8,922	9,075
Other	449	459	538	506	472	501	499	487
General government								
Total	42,109	42,588	45,527	48,624	46,104	49,203	54,014	54,289
Currency and deposits	888	916	852	868	887	870	837	833
Debt securities	31,540	31,390	32,469	33,401	32,272	33,101	37,339	37,958
Loans	4,301	4,083	4,141	4,386	4,189	5,027	4,430	4,295
Shares	1,659	1,767	1,868	1,869	1,920	1,758	1,975	2,001
Other equity	550	738	798	801	888	889	896	898
Other	3,172	3,694	5,399	7,298	5,948	7,559	8,536	8,304
Households and NPISHs								
Total	13,391	14,187	14,416	14,722	14,809	14,666	14,646	14,928
Loans	11,674	12,358	12,665	12,863	13,004	12,974	12,893	13,053
Other	1,716	1,829	1,751	1,859	1,805	1,692	1,753	1,875
Rest of the world								
Total	46,617	49,063	53,201	55,345	56,099	58,226	61,399	61,441
Monetary gold and SDRs	345	356	370	388	384	398	406	403
Currency and deposits	7,512	9,161	10,375	11,399	12,097	14,854	17,611	16,880
Debt securities	16,044	16,138	16,827	17,100	17,042	16,463	16,743	17,182
Loans	4,645	4,823	5,232	5,280	5,374	5,363	5,522	5,504
Shares	3,712	3,663	3,911	3,970	4,131	3,700	4,075	4,225
Other equity	4,504	4,767	5,133	5,238	5,748	5,765	5,802	5,692
Investment fund shares/units	2,159	2,099	2,529	2,718	2,768	2,495	2,747	2,901
Insurance and pension schemes	148	141	151	153	155	157	161	160
Other	7,548	7,916	8,674	9,099	8,400	9,031	8,332	8,493

Table 9.11: Net financial assets

mio EUR	2017	2018	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Domestic sector	-11,042	-9,504	-9,113	-9,963	-8,206	-8,945	-9,086	-9,115
Non-financial corporations	-37,791	-39,915	-39,678	-39,192	-40,343	-39,251	-39,967	-39,322
Monetary financial institutions	1,670	1,311	1,163	1,165	817	1,387	1,516	1,378
Other financial institutions	643	612	590	604	520	583	619	751
General government	-11,719	-10,616	-12,603	-14,373	-12,552	-14,836	-16,970	-17,696
Households and NPISHs	36,155	39,104	41,415	41,832	43,352	43,172	45,715	45,774
Rest of the world	11,042	9,504	9,113	9,964	8,206	8,946	9,087	9,116

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

mio EUR	2017	2018	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Domestic sector								
Total	6,035	7,732	5,373	6,986	8,429	13,492	19,843	18,494
Monetary gold and SDRs	43	1	1	1	1	1	0	0
Currency and deposits	1,074	5,144	3,253	5,225	5,555	10,380	17,136	14,961
Debt securities	2,373	1,030	875	533	606	251	1,415	2,699
Loans	652	824	1,733	1,740	1,994	2,501	1,041	688
Shares	111	-863	-1,750	-1,520	-658	-137	184	288
Other equity	223	572	580	526	654	608	525	312
Investment fund shares/units	256	101	22	174	216	311	342	339
Insurance and pension schemes	146	165	248	245	305	247	230	281
Other	1,156	759	412	62	-244	-669	-1,029	-1,073
Non-financial corporations								
Total	2,100	1,442	1,380	1,177	1,024	800	548	840
Currency and deposits	733	425	265	541	229	527	1,022	1,016
Debt securities	-18	21	14	-7	-14	-9	-33	-6
Loans	-51	44	344	377	587	257	304	285
Shares	73	41	-198	-198	-179	10	95	104
Other equity	134	285	331	259	533	542	495	293
Investment fund shares/units	15	1	-7	-3	-31	-31	-22	-20
Insurance and pension schemes	6	-8	23	10	8	24	17	33
Other	1,208	632	607	198	-109	-519	-1,329	-864
Monetary financial institutions								
Total	2,840	2,521	1,462	2,396	4,354	6,858	11,889	11,921
Monetary gold and SDRs	43	1	1	1	1	1	0	0
Currency and deposits	-505	1,251	26	1,135	3,195	5,144	10,031	9,080
Debt securities	2,403	837	496	177	131	-43	1,070	2,343
Loans	947	526	1,080	1,166	1,132	1,322	477	165
Shares	-24	-13	-51	-43	-71	387	379	397
Other equity	46	23	-62	-62	-31	-23	9	9
Investment fund shares/units	-1	1	22	30	40	47	54	61
Insurance and pension schemes	2	1	0	0	-2	-2	-4	-4
Other	-71	-106	-49	-8	-41	25	-128	-130
Other financial institutions								
Total	94	272	-70	302	527	617	547	599
Currency and deposits	-92	36	46	117	131	20	-121	-103
Debt securities	10	137	309	329	415	274	356	352
Loans	29	38	-48	-47	-32	-40	-14	-37
Shares	44	-8	-399	-278	-210	62	134	194
Other equity	-9	9	48	38	42	53	45	57
Investment fund shares/units	105	36	-19	103	124	183	183	167
Insurance and pension schemes	11	4	-12	3	16	45	33	25
Other	-5	18	5	38	40	19	-68	-57
General government								
Total	-819	974	-143	411	-414	2,501	3,534	2,104
Currency and deposits	-319	1,733	852	1,349	-287	2,486	3,594	2,588
Debt securities	-26	11	33	40	86	41	33	20
Loans	-315	18	251	185	220	894	117	84
Shares	-39	-929	-1,067	-980	-194	-599	-467	-466
Other equity	-6	19	48	42	38	-4	-4	-4
Investment fund shares/units	11	16	9	31	3	16	14	-6
Insurance and pension schemes	0	-2	4	-1	2	-3	-9	-9
Other	-124	108	-275	-256	-282	-329	255	-102
Households and NPISHs								
Total	1,819	2,524	2,744	2,698	2,938	2,716	3,326	3,031
Currency and deposits	1,257	1,698	2,063	2,082	2,288	2,204	2,609	2,380
Debt securities	4	23	22	-6	-11	-12	-11	-9
Loans	43	198	106	59	86	68	157	191
Shares	57	46	-35	-22	-5	3	42	60
Other equity	59	236	215	250	72	40	-20	-43
Investment fund shares/units	126	47	17	13	79	96	114	136
Insurance and pension schemes	127	170	233	234	281	183	193	236
Other	147	106	123	90	148	134	241	79
Rest of the world								
Total	58	513	1,497	2,450	2,190	4,433	5,969	4,671
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	63	-647	796	759	1,020	1,344	1,273	1,328
Debt securities	45	-581	-1,370	-672	-520	1,785	4,014	2,836
Loans	-1,724	-242	-82	48	-247	-59	-88	-612
Shares	273	860	1,666	1,505	843	354	148	80
Other equity	705	781	676	549	756	782	804	757
Investment fund shares/units	-1	0	0	-1	0	0	0	1
Insurance and pension schemes	5	20	26	48	27	27	32	30
Other	692	321	-215	213	311	200	-214	251

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

mio EUR	2017	2018	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Domestic sector								
Total	4,240	5,516	3,053	4,555	5,829	11,144	18,228	16,998
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,205	2,847	1,511	2,187	3,670	6,118	11,181	10,810
Debt securities	-152	154	-1,082	-342	-465	2,029	5,464	5,286
Loans	-973	340	1,058	1,131	1,094	1,889	576	-274
Shares	195	-104	-61	12	130	127	215	151
Other equity	747	949	910	834	805	792	807	776
Investment fund shares/units	29	5	-7	26	86	108	101	134
Insurance and pension schemes	146	191	274	291	319	268	253	304
Other	1,043	1,133	451	416	191	-187	-369	-191
Non-financial corporations								
Total	1,665	1,455	1,306	978	978	410	65	-39
Debt securities	93	-12	-268	-263	-251	-245	-21	-53
Loans	-503	-133	322	48	226	234	-80	-418
Shares	202	6	34	73	61	59	117	97
Other equity	710	825	859	816	773	758	789	735
Other	1,164	769	359	304	168	-398	-740	-400
Monetary financial institutions								
Total	2,642	2,356	1,515	2,439	4,225	6,807	11,510	11,540
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,127	2,824	1,510	2,168	3,701	6,138	11,198	10,845
Debt securities	-418	-229	26	317	454	582	339	679
Loans	1	17	18	6	18	6	45	45
Shares	-9	-110	-103	-63	67	67	98	61
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	-44	25	14	5	-10	29	13	15
Other	-15	-171	52	7	-5	-15	-182	-105
Other financial institutions								
Total	21	192	-74	340	604	499	388	409
Debt securities	-8	1	33	33	119	90	56	56
Loans	-251	-89	-106	-28	47	77	13	-83
Shares	2	0	2	1	0	1	1	-7
Other equity	37	109	40	18	31	34	18	41
Investment fund shares/units	74	-20	-21	21	96	79	88	119
Insurance and pension schemes	146	191	273	291	318	267	253	304
Other	22	-1	-296	2	-10	-52	-43	-22
General government								
Total	-789	654	-432	92	-655	2,973	5,971	4,813
Currency and deposits	78	23	1	17	-34	-22	-19	-35
Debt securities	181	395	-873	-429	-787	1,602	5,090	4,604
Loans	-915	-211	110	383	107	1,034	295	-86
Shares	0	0	6	1	1	0	0	0
Other equity	0	15	10	0	0	0	0	0
Other	-132	433	314	121	58	359	605	330
Households and NPISHs								
Total	700	858	737	706	677	455	294	275
Loans	696	755	715	723	696	537	303	268
Other	5	103	23	-17	-19	-83	-9	7
Rest of the world								
Total	1,853	2,730	3,817	4,880	4,789	6,780	7,584	6,168
Monetary gold and SDRs	43	1	1	1	1	1	0	0
Currency and deposits	-2,068	1,650	2,537	3,797	2,905	5,606	7,228	5,479
Debt securities	2,570	295	587	203	551	7	-35	249
Loans	-98	242	593	657	653	553	377	350
Shares	189	96	-23	-26	55	90	117	218
Other equity	182	409	347	241	605	597	522	292
Investment fund shares/units	226	96	30	148	130	203	241	206
Insurance and pension schemes	5	-7	0	2	13	6	9	6
Other	804	-52	-255	-142	-124	-282	-874	-631

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

mio EUR	2017	2018	19Q2	19Q3	19Q4	20Q1	20Q2	20Q3
Domestic sector	1,795	2,217	2,320	2,431	2,600	2,348	1,615	1,496
Non-financial corporations	434	-13	73	200	46	391	483	879
Monetary financial institutions	198	165	-53	-43	129	51	379	381
Other financial institutions	73	80	4	-38	-77	117	159	190
General government	-30	319	289	319	241	-472	-2,437	-2,709
Households and NPISHs	1,119	1,666	2,006	1,992	2,261	2,261	3,031	2,756
Rest of the world	-1,795	-2,217	-2,320	-2,431	-2,600	-2,348	-1,615	-1,496

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 a 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.