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Executive Summary

The economic situation in the international environment is improving. Global economic growth forecasts were again strengthened slightly at the end of the second quarter, while the survey indicators of confidence and activity indicate rising economic growth in the euro area. The latest weighted estimates based on the Consensus forecasts suggest that aggregate growth in Slovenia's main trading partners will be slightly higher in 2017 and 2018, which is improving the already favourable outlook for growth in Slovenian exports. Price pressures on global energy and commodities markets have eased at the same time, which could neutralise the expected inflationary impact of the domestic economic expansion. The appreciation of the euro is also helping to reduce import price pressures.

The restoration of faster convergence with the more advanced euro area countries is becoming increasingly evident. Economic growth in Slovenia in the first quarter of this year was very high at 5.3%, significantly higher than the average across the euro area. However, it remains balanced, at least for now, as activity in the export sector has increased sharply alongside the rapid growth in domestic final consumption and investment. As a result, the contribution made to GDP growth by net trade was strongly positive, in the amount of 0.8 percentage points, while the trade surplus remained wide throughout the first five months of the year. The high growth continued in the second quarter, and the outlook for the third quarter is also favourable for the moment: according to surveys at least, corporate activity and revenues are increasing in all sectors, with construction firms anticipating the largest pick-up. The growth is also attributable to the cessation of the corporate deleveraging process, as firms are gradually increasing debt financing via domestic banks. Banks are also encouraging private consumption and housing investment via significant growth in household loans.

The surplus supply of labour is rapidly diminishing. Growth in employment is still strengthening, and the proportion of permanent employment increased, while at the same time firms are increasingly facing a serious shortage of qualified workers. The number of registered unemployed in June was down fully 15% in year-on-year terms. However, for the moment the decline in the surplus supply of labour is not causing wage pressures, as nominal wage growth remains low, while real wage growth was actually negative over the first four months of this year. In the first quarter, wage growth was significantly outpaced by productivity growth, which further improved the cost competitiveness of the economy.

The high economic growth is creating the conditions for balanced public finances, as growth in general government revenues is outpacing growth in expenditure. The consolidated general government deficit amounted to just EUR 85 million over the first four months of the year, EUR 360 million narrower in year-on-year terms. The Ministry of Finance is forecasting a reduction in the budget deficit to 0.8% of GDP this year, 1 percentage point less than last year, while the general government debt is forecast to decline to 77% of GDP. Despite the improvement in the fiscal position, the risks remain significant, and are partly related to the upward pressure on expenditure from various interest groups, which has been strengthened by the favourable economic situation, while an electoral season is also approaching. Despite the pressures, it is recommended that the government take advantage of the favourable economic situation to introduce structural reforms in the area of healthcare, pensions and long-term care, and to gradually balance the structural fiscal position. Over the long term this would strengthen the ability to act countercyclically in the event of any renewed deterioration in the economic situation.

The easing of price pressures on global energy and commodities markets pushed inflation below 1% in June. June's euro price of a barrel of Brent crude was down 20% on February, while the contribution made to inflation in Slovenia by energy prices declined from 1.1 percentage points to 0.2 percentage points, partly as a result of a waning base effect.

Growth in services prices remained practically unchanged compared with the second half of last year, while prices of non-energy industrial goods are continuing to fall. Core inflation thus remains below 1%, as the pass-through of high economic growth into price growth remains surprisingly weak.

Main macroeconomic indicators

	2014	2015	2016	16Q3	16Q4	17Q1	2014	2015	2016	16Q3	16Q4	17Q1
			Slovenia						*euro area*			
Economic developments						*y-o-y growth rates in %*						
GDP	3.1	2.3	2.5	2.5	2.6	5.3	1.2	2.0	1.8	1.7	1.5	2.5
- industry	4.5	1.5	5.6	5.7	4.8	7.0	2.5	4.1	1.6	0.8	1.3	3.6
- construction	9.2	-1.3	-12.3	-9.2	-9.2	13.0	-1.2	0.1	1.7	1.9	0.8	3.0
- mainly public sector services	0.1	1.0	2.3	2.1	3.5	2.6	0.5	0.9	1.2	1.4	1.2	1.5
- mainly private sector services	4.7	2.5	2.6	2.7	2.5	6.2	1.4	2.1	1.8	1.6	1.4	2.7
Domestic expenditure	1.8	1.4	2.4	1.7	3.7	5.0	1.3	1.9	2.2	1.8	2.2	2.5
- general government	-1.2	2.4	2.6	1.7	2.8	1.7	0.7	1.3	1.8	1.7	1.4	1.3
- households and NPISH	2.0	0.5	2.8	2.1	4.0	4.0	0.8	1.8	2.1	1.9	1.9	1.7
- gross capital formation	4.3	2.8	1.0	0.5	3.8	10.5	3.5	2.8	3.0	1.6	4.0	5.8
- gross fixed capital formation	1.4	1.0	-3.1	-2.5	0.9	12.0	1.6	3.2	3.7	2.1	5.2	4.0
- inventories and valuables, contr. to GDP growth in pp	0.6	0.4	0.8	0.6	0.5	-0.1	0.4	-0.1	-0.1	-0.1	-0.3	0.4
Labour market												
Employment	0.4	1.1	2.0	2.1	2.4	2.6	0.5	1.0	1.4	1.3	1.4	1.5
- mainly private sector services	0.5	1.2	2.0	2.1	2.3	2.6	0.4	1.0	1.4	1.4	1.4	1.5
- mainly public sector services	0.4	0.8	2.2	2.4	2.7	2.6	1.0	0.9	1.2	1.3	1.2	1.2
Labour costs per employee	1.3	1.4	2.2	1.6	1.5	1.6	1.4	1.2	1.2	1.3	1.3	1.4
- mainly private sector services	2.3	1.5	1.4	0.7	1.0	1.8	1.5	1.3	1.2	1.2	1.2	1.4
- mainly public sector services	-2.0	1.2	5.0	5.0	5.0	4.0	1.1	1.2	1.4	1.5	1.6	1.4
Unit labour costs	-2.0	0.3	1.7	1.1	1.2	-1.2	0.7	0.3	1.0	1.0	1.3	0.3
- industry	-0.8	1.1	-0.7	-1.3	0.0	-1.8	-0.8	-2.3	0.1	0.9	0.6	-1.2
						v %						
LFS unemployment rate	9.8	9.0	8.0	7.3	8.1	7.8	11.7	10.9	10.0	9.6	9.8	9.9
Foreign trade						*y-o-y growth rates in %*						
Current account balance as % of GDP	6.2	5.2	6.8	7.1	5.2	6.7	2.3	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	1.4	1.1	0.3	0.9	-0.8	0.8	0.0	0.2	-0.3	-0.1	-0.7	0.2
Real export of goods and services	5.7	5.6	5.9	5.6	4.6	8.7	4.4	6.2	3.0	2.4	3.1	6.0
Real import of goods and services	4.2	4.6	6.2	5.0	6.3	8.8	4.9	6.3	4.1	2.8	5.1	6.2
Financing						*in % of GDP*						
Banking system's balance sheet	116.6	107.7	100.8	100.3	100.8	100.5	297.8	283.0	277.4	282.9	277.4	279.1
Loans to NFCs	31.5	26.5	22.9	23.1	22.9	23.2	40.2	38.9	38.1	38.3	38.1	38.0
Loans to households	21.4	21.2	21.4	21.1	21.4	21.5	50.5	50.0	49.7	49.6	49.7	49.5
Inflation						*in %*						
HICP	0.4	-0.8	-0.2	0.0	0.7	2.0	0.4	0.0	0.2	0.3	0.7	1.8
HICP excl. energy, food, alcohol and tobacco	0.6	0.3	0.7	0.8	0.8	0.7	0.8	0.8	0.9	0.8	0.8	0.8
Public finance						*in % of GDP*						
Debt of the general government	80.9	83.1	79.7	82.8	79.7	81.4	92.0	90.3	89.2	90.0	89.2	...
One year net lending/net borrowing of the general government	-5.4	-2.9	-1.8	-1.7	-1.8	-1.4	-2.6	-2.1	-1.5	-1.8	-1.5	...
- interest payment	3.2	2.9	3.0	3.0	3.0	3.0	2.7	2.4	2.2	2.2	2.2	...
- primary deficit	-2.2	0.0	1.1	1.3	1.1	1.6	0.1	0.3	0.7	0.5	0.7	...
- deficit excl. bank recapitalisations	-4.4	-2.9	-1.8	-1.7	-1.8	-1.4						
- primary deficit excl. bank recapitalisations	-1.3	0.0	1.1	1.3	1.1	1.6						

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

1 International Environment

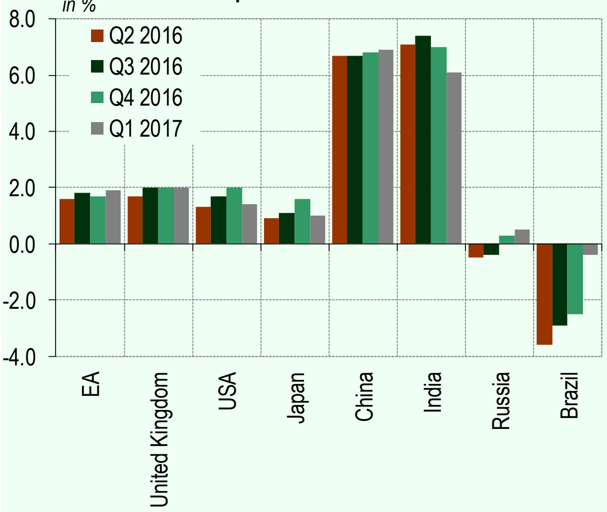
Global economic growth forecasts were again strengthened slightly at the end of the second quarter. There are also signs of rising economic growth in the euro area, where the economic sentiment strengthened significantly after the positive outcome of the French elections, and the situation on the labour market continues to improve. The latest weighted forecasts based on the Consensus forecasts suggest that aggregate growth in Slovenia's main trading partners will be slightly higher in 2017 and 2018, which is maintaining the already favourable outlook for growth in Slovenian exports. The monetary policies of the ECB and the Fed remain divergent, while oil prices in June fell from May to reach their lowest level of the year. The euro strengthened somewhat against the US dollar.

Global economy

GDP growth in selected major economies slowed in the first quarter of this year. Although growth in the US slowed to 1.4%, the slowdown was less than initially estimated, as private consumption and exports were larger than originally expected. Growth also slowed in Japan, primarily as a result of weaker private consumption. Year-on-year growth in GDP in the UK remained at the level of the second half of last year, as growth in private consumption slowed slightly while gross fixed capital formation strengthened. Of the BRIC countries, year-on-year economic growth remained high in China, but declined slightly in India, as a result of the withdrawal of cash from circulation (demonetisation). At the same time there was a sharp slowdown in the year-on-year contraction in economic activity in Brazil, and a continuation of the upward reversal in Russia.

According to the latest forecasts by international institutions, global economic growth will strengthen slightly. Current forecasts for global GDP growth in 2017 range from 2.7% to 3.5%. The IMF and the OECD revised their global economic growth forecasts slightly upwards on their previous forecasts. The OECD's June forecast for 2017 and 2018 envisages that consumer confidence and growth in industrial production, employment and trade flows will contribute to higher global GDP growth. The OECD slightly raised its growth forecasts for China to 6.6% in 2017 and 6.4% in 2018, and is forecasting positive growth in Brazil in 2017, and a rate of 1.6% in 2018. According to the OECD, the advanced economies will continue to record even economic growth. The OECD is forecasting economic growth of 2.1% in 2017 and 2.4% in 2018 for the US, while the IMF has revised its growth

Figure 1.1: Annual GDP growth in important developed and BRIC countries



Source: Eurostat, Tradingeconomics.

forecast for the US downwards, from 2.5% to 2.1% in 2018, owing to the effects of the announced tax reform and reduction in expenditure.

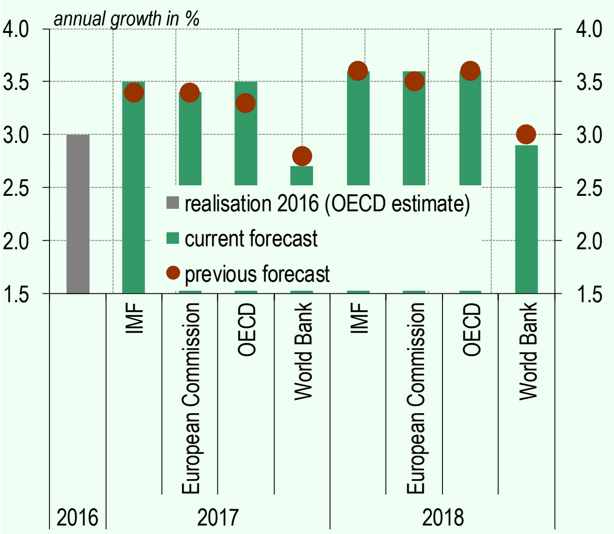
The prevailing risks to the economic outlook remain on the downside, although they are slightly less pronounced than at the beginning of the year. They are related to the future uncertainty of US economic and trade policy, and wider geopolitical tensions. The future decisions of the US administration could have positive or negative consequences. While the adoption of the proposed fiscal package could have a positive effect in raising GDP, measures to strengthen trade protectionism could have adverse consequences for the US and at the global level. The ongoing tightening of global financial conditions owing to the normalisation of the Fed's monetary policy also entails the risk of slower growth in emerging economies, which face internal imbalances and have large US dollar exposures. The geopolitical risks are particularly high in the Middle East and in the Korean peninsula, while relations between Turkey and the EU remain tense. The new US administration is not only introducing additional uncertainty into the realm of politics, but also with regard to security and military issues. The potential downside risks entailed by the economic adjustments in China, the health of the banking sector in Europe and the upcoming Brexit negotiations also remain. The upside risks include an improvement in the global economic climate, the strengthening of trade flows and growth in stock market indices.

Euro area

The economic situation in the euro area is improving. Quarterly economic growth reached 0.6% in the first quarter of 2017, while the year-on-year rate stood at 1.9%. According to seasonally and calendar adjusted data, the largest contribution to year-on-year economic growth came from gross fixed capital formation, which accounted for 1.2 percentage points. The contribution to year-on-year GDP growth made by private consumption stood at 0.9 percentage points, while the contribution made by government consumption was 0.2 percentage points. With import growth outpacing export growth, the contribution made by net exports was negative in the amount of 0.9 percentage points. In terms of sector, the largest contribution to growth was made by private-sector services, at 1 percentage point, followed by industry and public services, which accounted for 0.3 percentage points and 0.2 percentage points respectively, and by construction, which accounted for 0.1 percentage points.

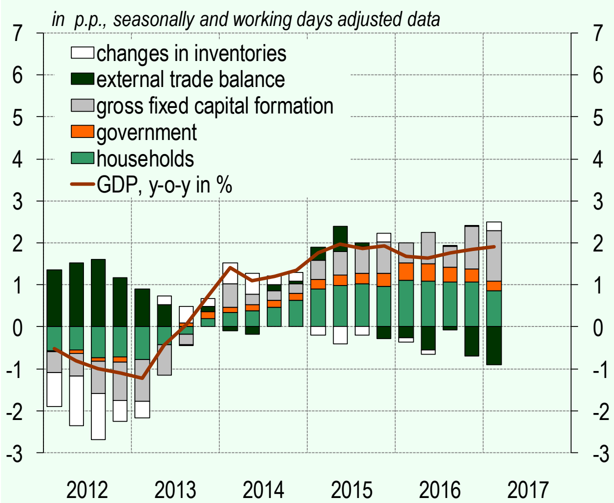
The economic sentiment in the euro area is strengthening. After the positive outcome of the French elections, political risk in the EU and the euro area declined. The credibility of European integration gained new impetus, the most notable positive impact of which was the strengthening of economic sentiment in the euro area and the outlook for private consumption. The economic sentiment in the euro area strengthened markedly in June, in the majority of sectors, and among consumers.

Figure 1.2: Global GDP growth in 2017 and 2018



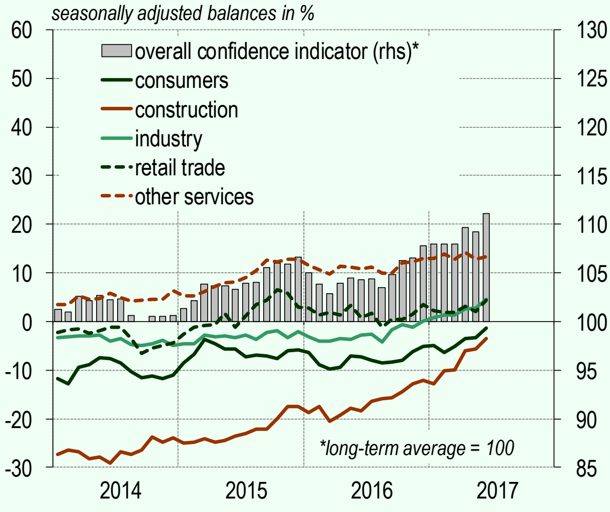
Source: IMF, European Commission, OECD, World Bank.

Figure 1.3: Structure of GDP growth in the euro area – demand side



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.4: Confidence indicators – euro area



Source: European Commission.

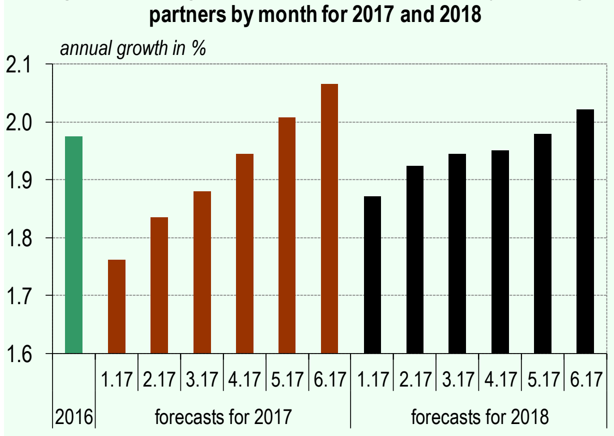
Slovenia's trading partners

The weighted average economic growth forecast for Slovenia's main trading partners was raised again at the end of the second quarter, for both 2017 and 2018. Consensus left its economic growth forecasts for 2017 for Germany and France unchanged in June, at 1.6% and 1.4% respectively, while raising its forecasts for Italy and Austria to 1.1% and 1.8% respectively. Consensus slightly raised its GDP growth forecasts for 2018 for Germany and Italy to 1.7% and 1% respectively, while leaving its forecasts for France and Austria unchanged. Growth in economic activity is also expected in Slovenia's main trading partners in eastern and southern Europe. The economic recovery will continue in Russia: GDP growth is forecast to reach 1.3% in 2017, while the forecast for 2018 remains unchanged at 1.7%. In June Consensus revised its growth forecasts for Croatia slightly downwards for both years, to 2.9% in 2017 and 2.6% in 2018. The favourable forecasts generally remain attributable to growth in household consumption, while the main factors acting to slow further economic growth in individual countries are internal political risks and geopolitical risks.

Euro exchange rate and commodity prices

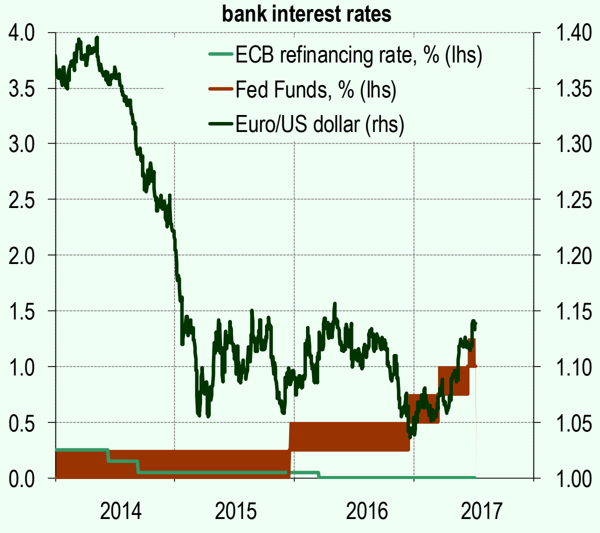
The divergence between the monetary policies of the ECB and the Fed widened again in the second quarter, the Fed raising its key interest rate again at its June meeting. The target range is now 1.00% to 1.25%. The decision is the result of positive data on economic growth and a strengthening labour market. In contrast to the normalisation of monetary policy in the US, the ECB left its key interest rates unchanged in June: the rates on the main refinancing operations, the marginal lending facility and the deposit facility remained unchanged at zero, 0.25% and -0.40% respectively. In its June monetary policy meeting the ECB reiterated its commitment from March to continue monthly securities purchases in the amount of EUR 60 billion until at least the end of December 2017, or longer until inflation approaches its tar-

Figure 1.5: Weighted forecasts for Slovenia's major trading partners by month for 2017 and 2018



Note: Includes trading partners with at least 1% share in Slovenia's total exports of goods in the last 12 months with available data (more than 20 trading partners with a total share of around 90 %). Growth estimates for 2017 and 2018 are weighted with each country's share in total exports of goods.
Source: Consensus Economics, Bank of Slovenia calculations.

Figure 1.6: Euro/US dollar exchange rate and central bank interest rates



Source: ECB, Federal Reserve.

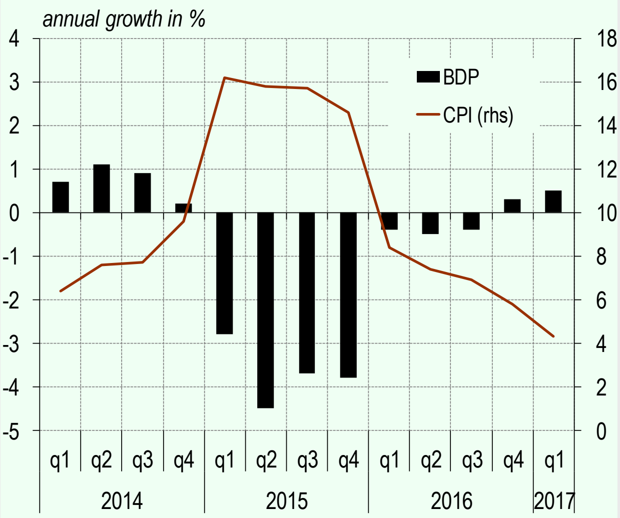
Box 1.1: Situation in the Russian economy and outlook

Russia emerged from recession in the final quarter of 2016, despite the continuation of the international sanctions from 2014. The economic sanctions in connection with the Minsk Accords (restricted access to capital markets, a ban on arms trading, a ban on exports of dual-use goods and restricted access to certain sensitive technologies and services) are currently in force until 31 July 2017, but have now been extended for the next six months. As a result of the international sanctions, the fall in oil prices, shocks on the financial markets and a fall in the domestic currency, economic growth in Russia slowed sharply in 2014, while 2015 saw a contraction of 2.8% in real GDP. The contraction slowed to 0.2% in 2016, and in the final quarter of the year real GDP actually increased in year-on-year terms, growth continuing in the first quarter of 2017. In the wake of the gradual stabilisation of the situation, in late 2016 and early 2017 risks declined in the financial sector in Russia, liquidity improved and capital inflows increased, although they are still down on the period before sanctions.

Measures to support the domestic economy contributed to the stabilisation of inflation and the domestic currency. In the wake of the introduction of sanctions, and as a result of the fall in oil prices and the fall in the ruble, there was a sharp rise in inflation, which forced the central bank to act. It raised the key interest rate, and simultaneously took several measures to support the financial system, primarily to provide liquidity and to secure funding for bank recapitalisations. The financial markets stabilised, and the central bank continued to pursue measures for macroeconomic and financial stability, including measures to stabilise the currency. The ruble fell in the wake of the fall in oil prices, which moved from USD 114 for a barrel of Brent crude in mid-June 2014 to USD 30 in early 2016. The ruble is rising again as oil prices recover, the price of a barrel exceeding USD 54 in early 2017. The ruble averaged 63 to the euro in the first quarter of 2017, still almost half as much again as its average of 2013, before the introduction of international sanctions in 2014. In the wake of the gradual recovery in oil prices, the strengthening of the currency and the slowdown in inflation, which fell from 16.9% in March 2015 to 4.1% in May 2017, its lowest level of the last five years, the Russian central bank has cut the key interest rate three times this year, and it currently stands at 9.0%.

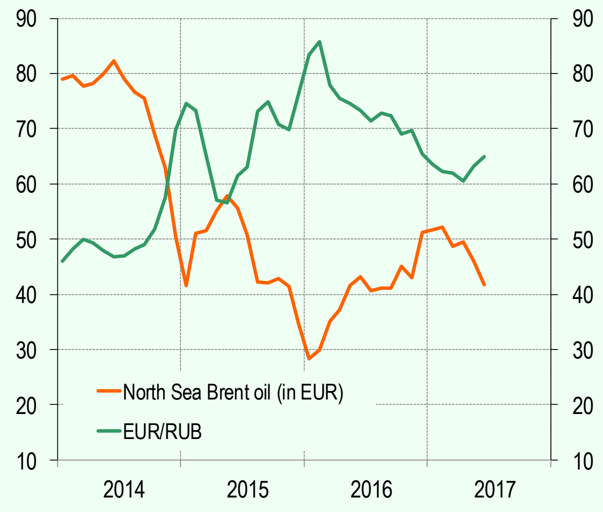
Merchandise trade between Russia and the EU declined sharply between 2014 and 2016 in the wake of the sanctions and the fall in the ruble. The EU runs a trade deficit with Russia, which even in 2011 amounted to EUR 93 billion. According to Eurostat figures, merchandise imports from Russia to the EU declined by just under 35% between the introduction of sanctions in 2014 and 2016 inclusive, while merchandise exports to Russia declined by 30% (in euro terms). Having amounted to EUR 120 billion in 2013, EU exports to Russia amounted to just EUR 72 billion in 2016. Imports from Russia also declined, from EUR 207 billion in 2013 to just EUR 119 billion in 2016. Between 2014 and 2016 imports from Russia fell sharply in the category of mineral fuels, mineral oils and products of their distillation, which accounted for 77.5% of total imports from Russia in 2013, but had declined to 65.7% (in euro terms) of the total by 2016. The significant decline is a reflection of the fall in energy prices on the international market, as imports actually increased in volume terms between 2014 and 2016.[1]

Figure 1: GDP and inflation



Source: Consensus, Tradingeconomics.

Figure 2: Brent prices and EUR/RUB exchange rate



Sources: The Economist, Bloomberg, Bank of Slovenia calculations.

Figure 3: Goods trade balance between EU28 and Russia

Source: Eurostat.

Figure 4: Share of Slovenia's goods trade with Russia

Source: SORS.

The economic growth forecast for Russia for 2017 was raised, albeit with risks on account of the extension of sanctions and the potential for large falls in energy prices. In June Consensus was forecasting economic growth of 1.3% in 2017 and 1.7% in 2018. The rise in the forecasts was attributable to the past recovery in energy prices, which improved the outlook for public finances and the balance of payments via a direct impact on government revenues and export earnings. On the basis of Markit's composite PMI, the stronger economic activity seen in the first quarter of 2017 has continued in the second quarter, as a result of stronger growth in new orders and growth in employment. The unemployment rate fell to 5.3% in April, in line with the favourable developments in the retail sector, which were partly attributable to increased consumer confidence in the wake of the fall in inflation and a rise in real disposable income. Despite the more favourable outlook for GDP, Russia's economic growth remains strongly dependent on energy exports. Energy products still account for around two-thirds of Russia's total exports. There was no significant change in this proportion between 2014 and 2016, which means that the Russian economy has not diversified significantly, despite the sanctions.[2]

The importance of the Russian economy to Slovenia has diminished significantly in recent years, although a positive reversal in export flows has been evident since last September. Slovenia's exports to Russia rose in the years before the introduction of sanctions, and accounted for 4.7% of its total merchandise exports in 2013. By 2016 the figure had declined sharply, to just 3%. The recovery in the ruble towards the end of 2016 was followed by a reversal: exports to Russia over the first four months of this year were up 37% year-on-year in value terms. Pharmaceutical products are prevalent in exports to Russia, accounting for 40% of the total, followed by electrical machinery and equipment and parts thereof, with approximately 14%, while boilers, machinery and mechanical appliances account for 10%. Russia's share of Slovenia's merchandise imports also declined after 2013, from 2% in 2013 to 1.2% during the first four months of this year, albeit with a positive trend since 2016. Mineral fuels, mineral oils and products of their distillation are the prevalent category in Slovenia's imports from Russia.

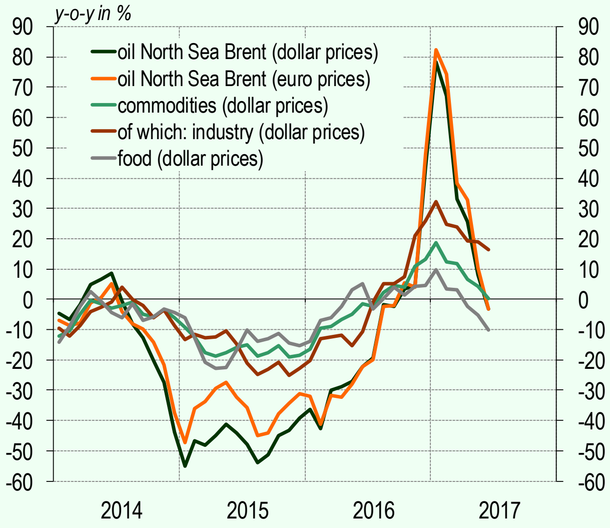
[1] Growth in energy imports from Russia could be curbed in the coming years by the new proposal for US sanctions against Russia of 14 June 2017, which targets the Nord Stream 2 project, whereby the sanctions would hit individual European firms involved in the construction of the pipeline. LNG and other hydrocarbon gases account for approximately a tenth of the EU's total imports of petroleum, refined petroleum products, mineral oils and products of their distillation from Russia.

[2] Despite stabilisation measures, the ruble remains strongly dependent on oil prices. In the wake of a renewed sharp fall in US dollar prices of Brent crude in May and June (down almost 12% on April), the ruble also fell significantly, from 60.6 to the euro in April to 65.1 in June.

get rate. The euro is strengthening despite the divergence in monetary policies. It averaged USD 1.07 in March, but had strengthened to USD 1.12 by June.

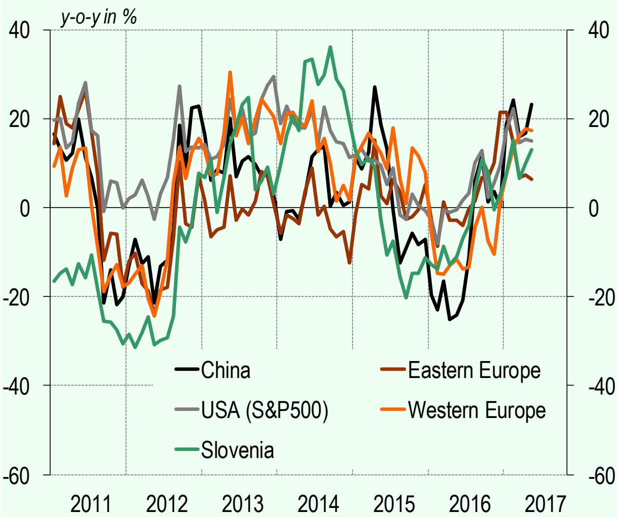
Having fallen in May and June, reaching its lowest value of the year in June, the oil price later strengthened slightly. Oil prices fell because pumping by Opec countries was larger than expected, despite their agree-

Figure 1.7: Commodities



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

Figure 1.8: Stock exchange indices



Source: Bloomberg, Bank of Slovenia caluclations.

ment to reduce production. Production of US shale oil also increased. The price of Brent crude fall to its lowest level of the year of USD 44.9 per barrel in June, primarily on the basis of data showing an increase in stocks of oil, and forecasts that producers from North America and certain Open members would increase production. After moderate growth in the price of Brent crude over the remainder of the month, by mid-July it had stabilised around USD 48 per barrel. Other commodity prices were also down on the beginning of the year. Food prices in June were down a tenth in year-on-year terms.

International capital markets

Foreign share markets continued to rise. The representative share index for Western Europe rose by 9.5% over the first five months of the year, while the US index was up 7.7%. The victory of a pro-European candidate in the French presidential election reduced political risks and uncertainties surrounding further European integration. European investors' confidence is also being strengthened by encouraging economic figures. The latter was confirmed by two members of the Governing Council of the ECB in their statements, although they highlighted that there are not yet any convincing signs of sustained inflation, primarily on account of weak wage growth. The rise in the US index over the last two months was attributable to the release of good corporate results for the first quarter, as turnover and earnings per share both exceeded analysts' expectations. In the first half of June the Fed raised its key interest rate as expected, and announced its plan to reduce the bond portfolio. There is also optimism surrounding the outlook for inflation in the US. According to the president of the Federal Reserve Bank of New York, the continued strengthening of the labour market will eventually bring a rise in wages, and consequently in inflation.

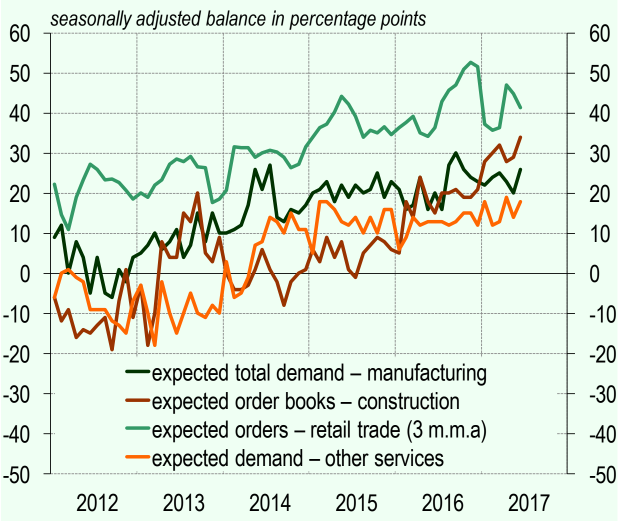
2 Economic Developments

The reestablishment of faster convergence on the more advanced euro area countries is becoming increasingly evident. In the first quarter of this year, economic growth in Slovenia was extremely high at 5.3%, significantly higher than the average across the euro area. However, it remained balanced, as activity in the export sector increased sharply alongside the rapid growth in domestic final consumption and investment. As a result, the contribution made to GDP growth by net trade was strongly positive, in the amount of 0.8 percentage points, while the trade surplus remained wide. The high growth continued in the second quarter, and the outlook for the third quarter is also favourable for the moment: according to surveys at least, corporate activity and revenues are increasing in all sectors, with construction firms anticipating the largest pick-up.

Confidence indicators

The confidence indicators point to continued high economic growth in the second and third quarters. Firms in private-sector services are reporting continuing growth in turnover, which is expected to strengthen again in the third quarter. This is in line with consumer confidence, and consumers' improved assessment of their financial position and the expected economic situation. In June construction confidence reached its highest level since the first quarter of 2008, with the expected orders indicator reaching extreme heights. Manufacturing firms also remain optimistic: the slight decline in the assessment of growth in demand in May was followed by a sharp upturn in June.

Figure 2.1: Expected demand in the next 3 months

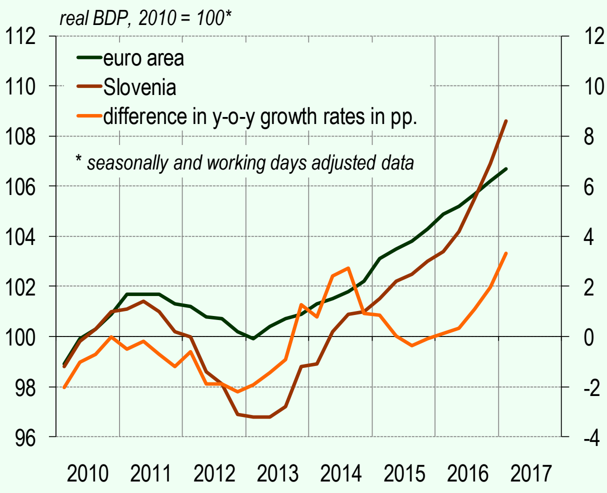


Source: SORS.

GDP

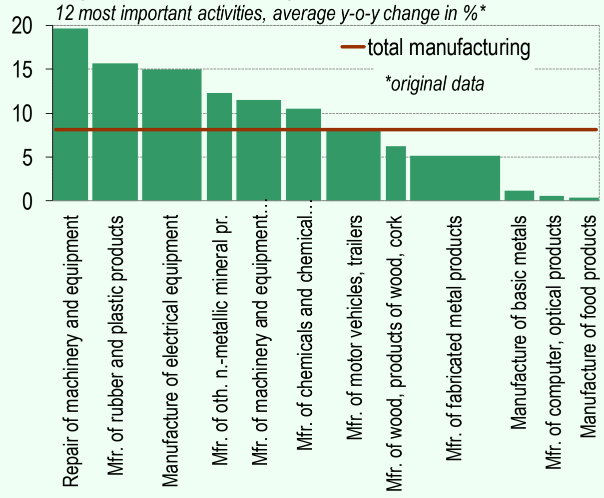
The publication of the national accounts for the first quarter of this year confirmed the additional impetus in economic growth, which had already been suggested by the monthly indicators of activity and confidence. Growth has been increasing since the second quarter of last year. GDP in the first quarter of this year was up 1.5% on the previous quarter, and up 5.3% in year-on-year terms, although it has not yet exceeded its pre-crisis peak. Growth in value-added was higher in all major segments of the private sector, and most notably there was a pronounced reversal in construction. As growth in the euro area did not accelerate, the gap by

Figure 2.2: GDP convergence to euro area average



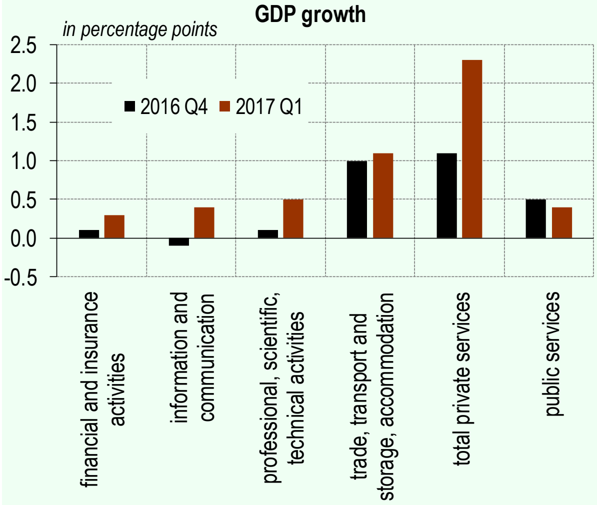
Source: Eurostat, Bank of Slovenia calculations.

Figure 2.3: Manufacturing production: Jan. – Mar. 2017



Source: SORS, Bank of Slovenia calculations. Notes: Width of each column represents a share of activity in total value added in manufacturing in 2015. Pharmaceuticals are not included due to data confidentiality.

Figure 2.4: Contribution of services to annual GDP growth



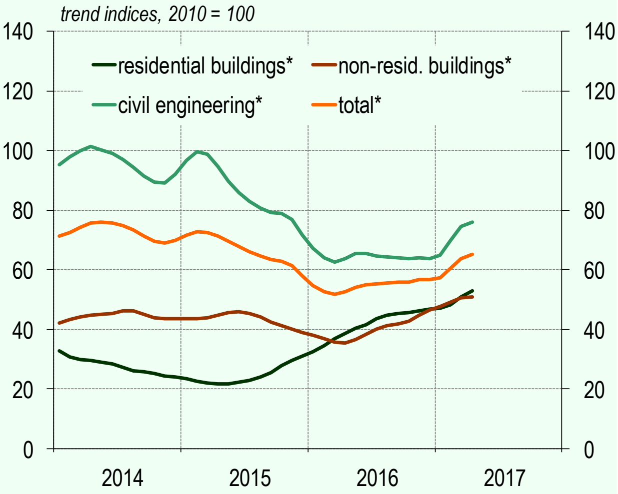
Source: SORS, Bank of Slovenia calculations.

which GDP growth in Slovenia is outperforming the euro area is now 3.3 percentage points, making Slovenia one of the fastest growing economies in the euro area.

Economic growth remains balanced for now, thanks to a competitive export sector. In the first quarter, value-added in manufacturing was up 7.3% in year-on-year terms, supported by strong export demand and an upturn in turnover on the domestic market. Growth was 1.2 percentage points higher than in the final quarter of last year. The acceleration is being driven by the automotive industry, with the launch of Clio production at Revoz, by the wood, chemical and electro industries, and by the manufacture of rubber products, plastic products and other non-metallic mineral products, the last of these in line with the reversal in construction activity. The contribution made to GDP growth by manufacturing was up 0.5 percentage points on the previous quarter at 1.5 percentage points.

The reversal in lending activity, increased investment and high growth in foreign trade are being reflected in higher growth in value-added in private-sector services. In the first quarter, year-on-year growth in total value-added in private-sector services strengthened to 5.3%, up 2.6 percentage points on the final quarter of last year. The largest difference in growth was recorded by information and communication activities, where growth in value-added stood at 9.5%. This was followed by professional, scientific and technical activities, where turnover in investment planning services has been increasing rapidly for several quarters, while marketing services are also strengthening sharply in line with rising domestic demand. The increase in value-added in financial and insurance activities was likely attributable to the increase in bank lending activity. Activity in trade, transportation and storage, and accommodation and food service activities is continuing to strengthen, as merchandise trade, transit and final consumption on the domestic market are all increasing, the last partly as a result of rising numbers of arrivals by non-residents. In the first quarter of the year, the contribution made to GDP growth by private-sector services increased to 2.3 percentage points, up 1.2 percentage points on the end of last year. Public ser-

Figure 2.5: Construction



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

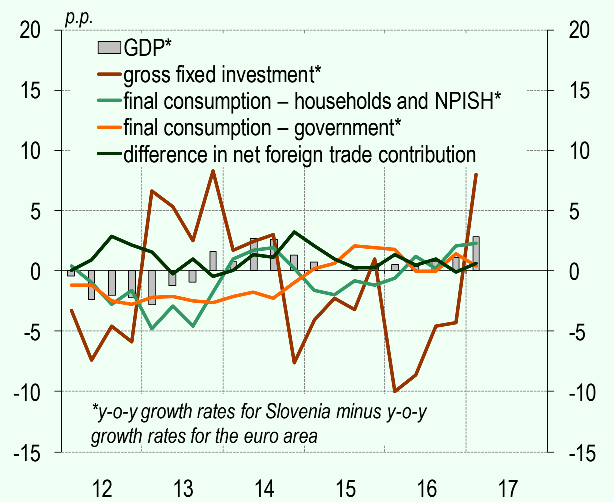
vices are also continuing to contribute to GDP growth; their increased value-added is primarily attributable to high employment growth.

In the first quarter, there was an expected reversal in year-on-year growth in construction activity. Value-added was up 13% in year-on-year terms, which was attributable to ongoing quarterly growth and, more so, to a strong base effect in connection with last year's decline in government investment. Growth in the amount of construction put in place was high in all segments of construction, including civil engineering work, which is probably a sign of the beginning a new cycle of government investment. The crisis in construction reduced economic growth by 0.6 percentage points last year, but the reversal in the first quarter of this year meant that construction contributed 0.5 percentage points to growth. At the same time demand for construction work is rising, as the value of new contracts and the surface area covered by planned construction are increasing, while growth in mortgage loans is having a beneficial impact on the residential real estate market. Value-added in construction is increasing from a low level. It amounted to 4.3% of GDP in the first quarter, only slightly below the euro area average, but still 1.2 percentage points less than its average of the last 20 years.

Aggregate demand

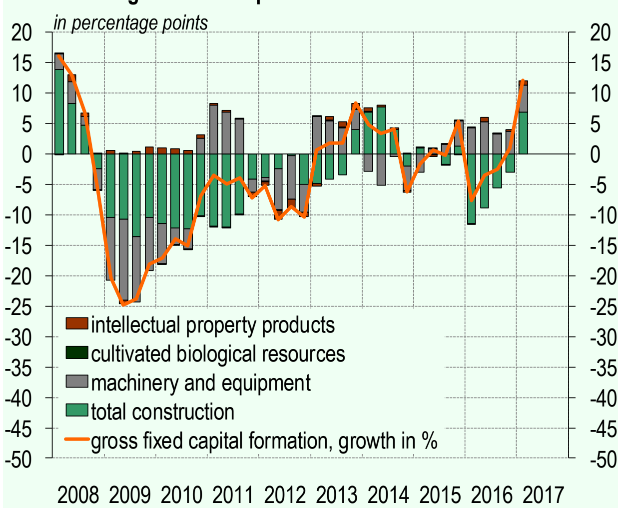
Of the components of aggregate demand, growth in investment and private consumption recorded the largest outperformance of average growth across the euro area in the first quarter. Year-on-year growth in gross fixed capital formation increased to 12%, up 11 percentage points on the previous quarter, and up 8 percentage points on the euro area average. Growth in private consumption also remained high, at 4%, thereby exceeding the euro area average by 2.3 percentage points. Of the main components, only year-on-year growth in final government consumption slowed, albeit largely as a result of a significant base effect in connection with last year's increased expenditure during the refugee crisis. Employment continued to increase in the government sector, while there were also increases in

Figure 2.6: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area – expenditure side*



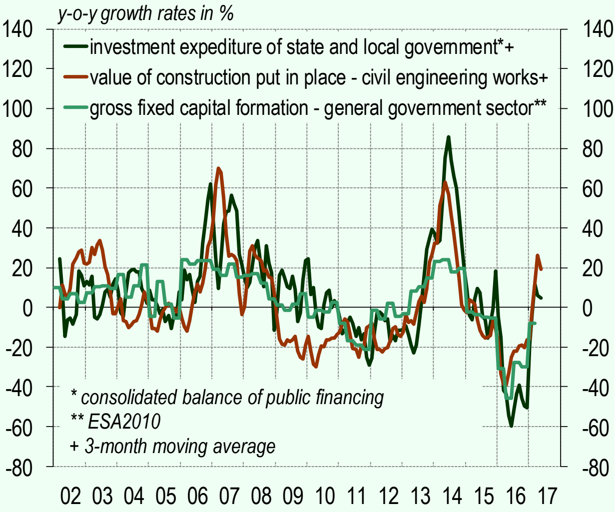
Soures: Eurostat, ECB, Bank of Slovenia calculations.

Figure 2.7: Contributions to volume y-o-y growth in gross fixed capital formation – Slovenia



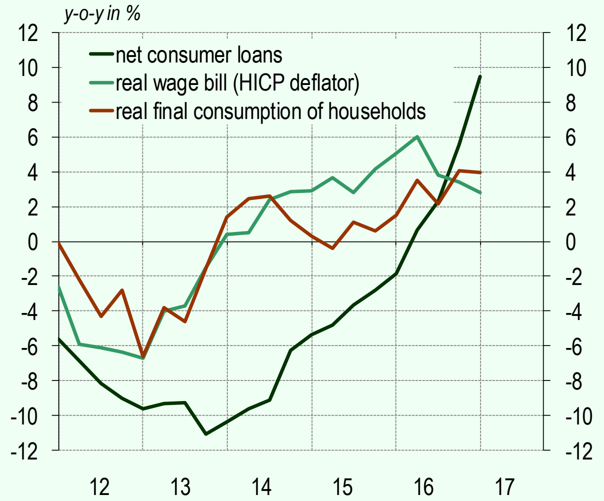
Source: SORS, Bank of Slovenia calculations.

Figure 2.8: Government investment



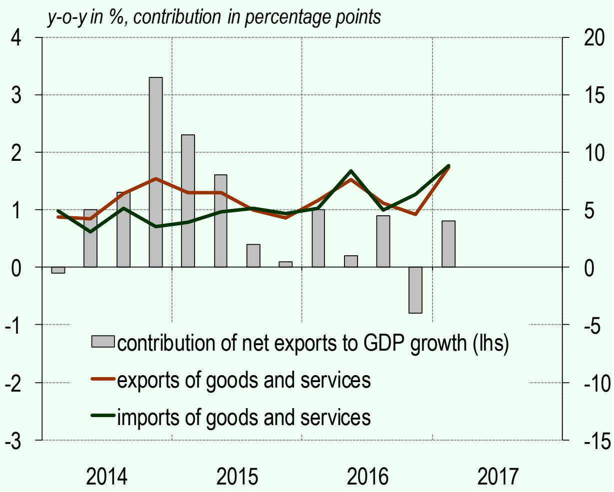
Source: SORS, Ministry of Finance, Bank of Slovenia calculations.

Figure 2.9: Final consumption of households, wage bill and consumer loans



Source: SORS, ECB, Bank of Slovenia calculations.

Figure 2.10: Foreign trade



Source: SORS - national accounts.

social transfers and, to a lesser extent, intermediate consumption.

The new cycle of corporate investment is continuing, which is not yet reducing capacity utilisation. The manufacturing uncertainty indicator is at an extremely low level: firms are profitable, and are expecting further rapid growth in turnover. On average, they also have no financing difficulties. This is providing for relatively rapid year-on-year growth in investment by non-financial corporations, which reached 8.4% in nominal terms in the first quarter. Investment went to diverse areas: transport equipment, machinery, intellectual property products, and expansion of production facilities. Growth in investment in the manufacturing sector nevertheless remains too low to reduce high capacity utilisation, which is being sustained at levels last seen in 2007, when economic growth stood at 7%.

The government sector is already contributing to the reversal in construction investment. Investment in buildings and infrastructure in the first quarter was up a fifth in year-on-year terms. Although the majority of the growth was attributable to a strong base effect owing to last year's decline in government investment, construction investment has been increasing in quarterly terms since the second quarter of last year. In line with the strong demand encouraged by favourable bank financing and increased certainty on the labour market, investment in residential real estate is strengthening. In the first quarter, it was up almost 14% in year-on-year terms. Investment in the construction of commercial real estate and civil engineering work increased even more sharply. The increase of 9% in the amount of construction put in place in the latter segment relative to the final quarter of last year is an indication of the beginning of a new cycle of government investment.[1] Despite this growth, construction investment remains low for now: it amounted to 8.2 % of GDP in the first quarter of this year, down 3.6 percentage points on its average of the last 20 years.

[1] According to ESA 2010 methodology, government gross fixed capital formation in the first quarter was down 8.2% year-on-year in nominal terms. This was attributable to a decline in investment by the BAMC according to this methodology, as it recorded net sales of real estate. According to consolidated fiscal figures, investment expenditure by central and local government in the first quarter was up 10.5% in year-on-year terms.

Year-on-year growth in private consumption remains rapid, encouraged by growth in employment and, to a lesser extent, by increased activity on the part of domestic banks. For the second consecutive quarter, households increased their final consumption by 4%, expenditure on durables again recording the highest growth. According to seasonally adjusted figures, the proportion of private consumption that they account for increased to almost 11%, the highest figure to date. Consumption continued to grow despite rising inflation outpacing wage growth, as employment continued to increase rapidly. Last year the domestic banks also began contributing somewhat to the growth in consumption, and this year have strengthened their net issuance of consumer loans. In the first quarter of this year, year-on-year growth in consumer loans reached 9.5%, up almost 4 percentage points on the final quarter of last year.

The first quarter saw a pronounced increase in merchandise exports, as a result of which the contribution to growth made by net trade was positive again. Volume of merchandise exports was up more than 4% on the final quarter of last year, and by 9% in year-on-year terms. The majority of the increase was attributable to increased demand from the euro area, although growth in turnover was also stronger in other market groups, where the strong recovery in growth in exports to the Russian market continued. Foreign demand increased across a large number of product categories. Sales of electrical equipment, machinery, cars and metals increased sharply. Year-on-year real growth in exports of services remained high, at almost 8%. The increase in investment and domestic final consumption brought an increase in imports, although the effect of the increase in exports was larger, which meant that net trade made a significant contribution to economic growth, in the amount of 0.8 percentage points.

Economic developments in the first quarter

Economic growth is not showing signs of slowing, with domestic demand strengthening slightly more quickly than exports. Nominal growth in turnover in private-sector services other than trade strengthened again in April, to approach 9% in year-on-year terms, as all segments recorded high growth. Developments in construction in April and May were weaker than expected, although the slowdown was temporary, given the optimism

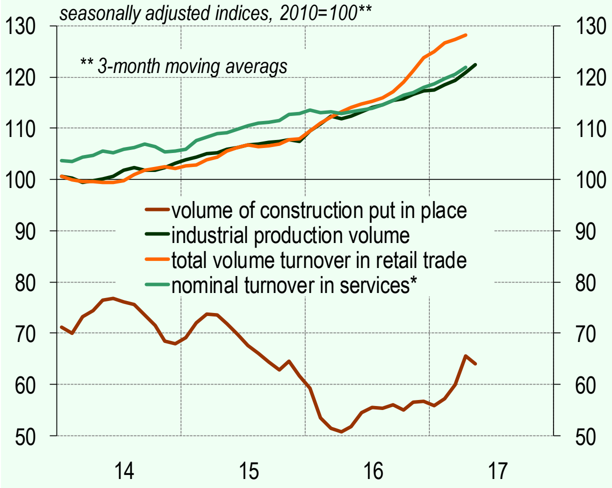
Table 2.1: Economic activity

Economic Activity	12 m. to Apr.16	12 m. to Apr.17	2017 Feb.17	2017 Mar.17	2017 Apr.17	2017 Jan.17	2017 Apr.17
			y-o-y in %			*monthly ++*	
Industrial production: - total *	5.6	7.5	7.6	9.3	7.8	**1.5**	2.9
- manufacturing	6.4	8.5	7.6	10.1	8.0	**1.6**	2.8
Construction: - total **	-15.4	-5.5	21.1	41.5	27.8	**1.5**	17.4
- buildings	-4.8	15.0	25.7	56.2	50.9	**13.7**	9.5
- civil engineering	-19.1	-12.7	21.7	37.1	19.4	**-1.8**	24.4
Trade (volume turnover)							
Total retail trade	0.9	7.8	15.4	13.0	9.6	**4.6**	1.8
Retail trade except automotive fuel	1.9	3.4	0.9	7.5	3.6	**0.6**	1.6
- food, beverages, tobacco	-0.3	-0.2	-1.4	4.7	2.1	**0.4**	1.7
- non-food (except automotive fuel)	3.9	6.9	3.3	10.3	4.2	**0.9**	1.8
Retail trade and repair of motor vehicles	17.4	19.7	15.5	16.7	18.6	**4.8**	4.2
Private sector services * +**	5.1	4.9	7.3	8.2	8.7	**1.9**	2.8
Transport and storage +	3.0	5.9	10.9	13.1	10.6	**2.5**	4.8

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

of construction firms. Growth in industrial production also remains very high, as strong growth in exports has been joined by demand on the domestic market. Only monthly growth in retail turnover stalled, although in May it was still up almost 8% in year-on-year terms. The rapid growth in the domestic market and consequently in import demand is outpacing export growth, at least in value terms.

Figure 2.11: Monthly economic activity indicators



*Note: *Private sector services excluding trade and financial services.*
Source: SORS, Bank of Slovenia calculations.

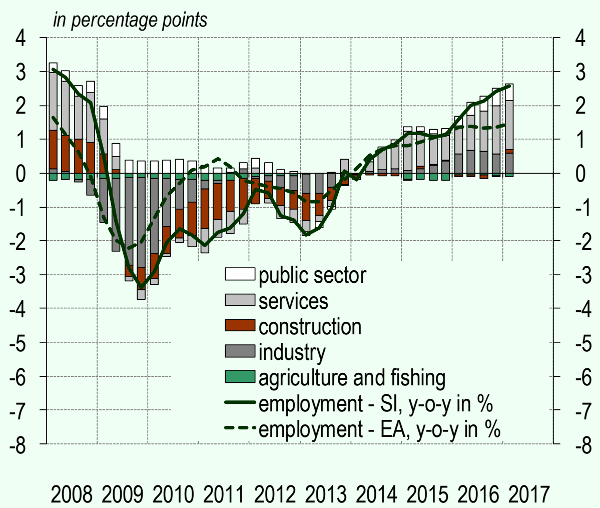
3 Labour Market

Developments on the labour market remained favourable at the beginning of the year. Employment growth strengthened again in the first quarter to 2.6%, the largest contributions to the growth coming from industry, and the combined sector of trade and repair of motor vehicles, transportation and storage, and accommodation and food services. While employment has been growing at an increasing rate, growth in the number of self -employed is slowing. According to the results of various surveys of employment expectations, employment growth is also forecast for the coming months. The fall in the number of unemployed has strengthened further in recent months. Unemployment stood at 84,793 in June, down 15% in year-on-year terms, and at the level of 2009. The fall in unemployment in the first half of the year was attributable to a decline in inflows into unemployment, which was larger than the decline in outflows. The average year-on-year growth in nominal gross wages over the first four months of the year was down on last year, while high employment growth took year-on-year growth in the nominal wage bill to its highest rate of the last nine years. At the same time the rise in inflation meant that average growth in the real wage bill over the first four months of the year was less than last year's average growth.

Employment

The year-on-year rise in employment continued this year. Employment in the first quarter was up 2.6% in year-on-year terms, as the rate of growth exceeded last year's average by just over 0.5 percentage points.[2] The year-on-year rise in the number of employees continued its increase, reaching 3.2% in the first quarter, while the year-on-year rise in the number of self-employed has been slowing, and stood at just 0.1%. Employment in the private sector and in mostly public services[3] was up 2.6% in year-on-year terms, higher than last year's average rise in both cases. Employment in the government sector also rose significantly, by 2.3% in year-on-year terms. The

Figure 3.1: Contributions to employment growth



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

[2] The employment analysis uses quarterly national accounts figures. According to the monthly SORS statistics, growth in the workforce in employment averaged 1.6% last year. The discrepancy is the product of the different methodologies used to monitor employment. The national accounts figures for employment include permanent employees, self-employed and assisting family members in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, and employment at Slovenian diplomatic and consular offices in the rest of the world. The monthly figures only count employees with employment contracts and the self-employed in the workforce in employment.

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

Figure 3.2: Expected employment*

Source: SORS, Bank of Slovenia calculations.

Figure 3.3: Shortage of labour in manufacturing

Source: SORS.

largest contributions to the strengthened employment growth came from trade and repair of motor vehicles, transportation and storage, and accommodation and food services, followed by industry, mostly public services, and professional, scientific and technical activities and administrative and support service activities. The monthly figures, which provide for a more detailed view across individual sectors, show that the largest contributions to growth in the workforce in employment in the first quarter came from manufacturing, administrative and support service activities, and wholesale and retail trade and repair of motor vehicles and motorcycles. A fall in the workforce in employment was recorded by agriculture, forestry and fishing, mining and quarrying, electricity, gas, steam and air conditioning supply, financial and insurance activities, and activities of households as employers, undifferentiated goods- and services-producing activities of households for own use.

The rise in the number of vacancies continued in the first quarter of this year. According to the SURS survey, the number of vacancies stood at 15,362 in the first quarter, the highest figure since measurement began, and was up just over 24% in year-on-year terms.[4] Manufacturing and construction accounted for almost half of the notified vacancies, construction having also recorded the largest year-on-year rise in the number of vacancies. A rise in the number of vacancies was also recorded by the Employment Service (ZRSZ), where employers notified 12,492 vacancies in May. The largest demand was for elementary occupations in manufacturing, sales staff, and drivers of heavy goods vehicles and tractor units.

In line with high economic growth and corporate optimism, the outlook with regard to employment is improving. The employment expectations expressed in the SURS survey improved in all sectors covered by the survey. The highest demand for employment in the summer is expected to come from retail. A similar picture is presented by Manpower, an HR firm, which is forecasting employment growth in the third quarter in all sectors of the economy, most notably in construction, financial and business services, insurance, real estate, and transport, logistics and communications. According to seasonally adjusted figures, the employment forecast is up 5 percentage points on the same period last year, but down on the previous quarter. Another indication of further employment growth came from the Employment Service survey entitled Employment Preview 2017/I, in which employers forecast employment growth of 2% for the second half of 2017. The largest growth in employment is forecast by employers in the sectors of construction, and administrative and support service activities, which includes employment activities. In addition to a seasonal effect, the for-

[4] In April 2013 the Labour Market Regulation Act abolished the mandatory notification of vacancies at the Employment Service for all employers other than the public sector and firms under majority government ownership. Between April 2013 and the end of 2014 the figures were no longer complete, for which reason SORS has conducted independent surveying of vacancies since the first quarter of 2015. The sample framework includes all business entities with at least one employee whose primary registered business activity was in one of Sectors B to S.

Box 3.1: Employment of agency workers by activity

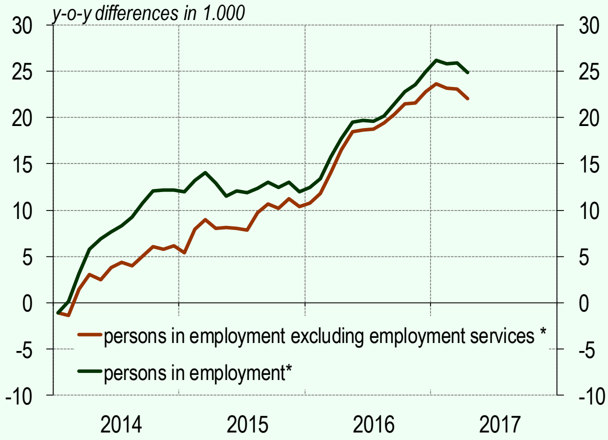
Employment in the "employment activities" group, which includes staffing agencies, has been growing since the end of 2016. Over the first four months of the year the year-on-year growth in the workforce in employment averaged over 18%. Agency workers recruitment strengthened significantly in 2014, when it increased by as much as 91%. Afterwards, the growth slowed down and only began to increase again in the last quarter of 2016.

The growth of agency workers' employment was also recorded by the Ministry of Labour, Family, Social Affairs and Equal Opportunities (MDDSZ). Once a year the staffing agencies are obliged to provide the MDDSZ with a statistical report covering the number and characteristics of posted workers. Last year more than 20,000 workers were posted, which is 3.7% more than in 2015. 57% of agency workers were employed temporarily and 97% were posted to work in Slovenia, with 41% of them in the Central Slovenia region. According to citizenship, 75% of posted workers were Slovenian citizens, while 11% were citizens of Bosnia and Herzegovina. Most of the workers (68% last year) were posted to manufacturing, while some less to professional, scientific and technical activities, and to wholesale and retail trade, repair of motor vehicles and motorcycles.

If the monthly statistics on employment by individual activities is adapted for the MDDSZ data on posted agency workers, the annual growth rates of employment in some activities slightly change. After the agency workers' employment termination, the staffing agencies post workers to work in other activities, which results in unrealistic picture of employment by activities as recorded by SORS.

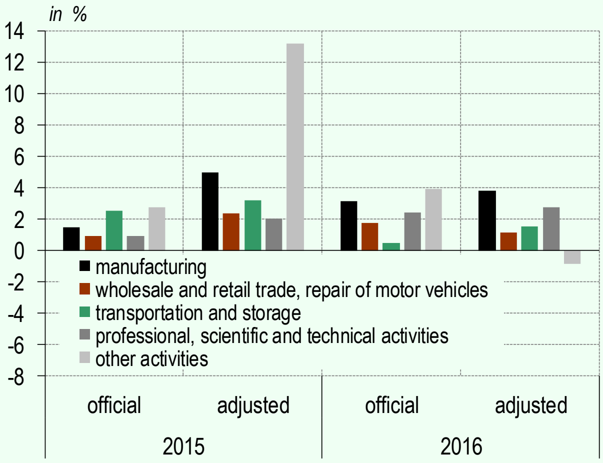
According to adapted data, the employment growth in the group of "other activities" increased exceptionally in 2015, instead of the statistical 3% it increased for as much as 13%. This reflects the small number of employees in this group, for which employment growth was significantly affected by the year-on-year increase in the number of agency workers from the previous 250 to 1,700. In 2016, however, their decrease by around 700 persons brought about a reversal in employment growth, which turned from a high statistical employment growth (4%) into a negative one. In manufacturing, where 12,000 or 13,600 agency workers were posted in the last two years, the year-on-year employment growth calculated on the basis of adjusted data increased from statistical 1.5% to 5.0% in 2015, and from 3.2% to 3.8% in 2016.

Figure 1: Persons in employment



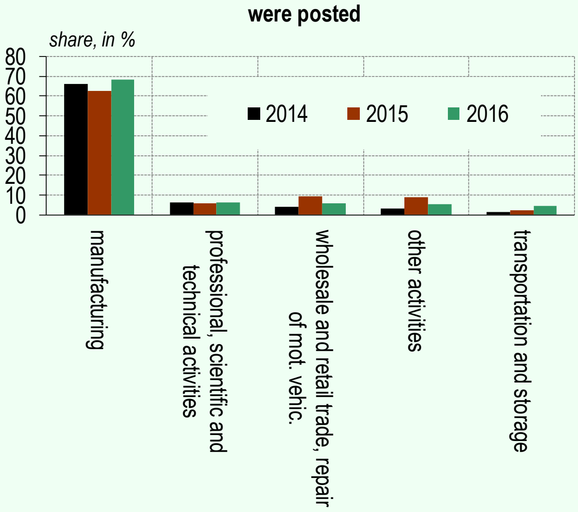
Source: SORS, Bank of Slovenia calculations.
** The number of persons in employment is calculated as the sum of employed and self-employed persons excluding self-employed farmers.*

Figure 2: Growth rates of persons in employment in activities where most agency workers were posted



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

Figure 3: Activities where most agency workers were posted



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

mer is attributable to a burst of construction activity, while the latter is an indication that employers will continue to rely on staffing agencies. Similarly to May, the positions most sought by employers included elementary occupations in manufacturing, drivers of heavy goods vehicles and tractor units, and sales staff.

The structural mismatching on the labour market increased slightly in the second quarter of 2017.[5] The gap between the shortage of skilled workers and the shortage of workers in general, which is one of the indicators of structural mismatching on the labour market, widened slightly, mostly as a result of an increased shortage of skilled workers. Research by the Employment Service also reveals the structural imbalances on the labour market, as the occupations for which there is forecast demand in the second half of the year include many in which there has long been a shortfall, while furthermore more than a third of employers report that they have already faced a shortfall of qualified personnel. There is a particular shortage of technical profiles with specific knowledge, and candidates for poorly paid or physically demanding positions (e.g. drivers of heavy goods vehicles and tractor units, elementary occupations in manufacturing, welders, and military personnel). Almost a third

Table 3.1: Unemployment and employment

	2012	2013	2014	2015	2016	16Q1	16Q2	16Q3	16Q4	17Q1
	in 1,000									
Registered unemployed persons	110.2	119.8	120.1	112.7	103.2	114.8	102.5	97.4	97.9	100.1
Unemployment rate	*in %*									
- LFS	8.9	10.1	9.8	9.0	8.0	8.9	7.8	7.3	8.1	7.8
- registered	12.0	13.1	13.1	12.3	11.2	12.5	11.1	10.6	10.6	10.8
Probability of transition between employ. and unemployment	in %									
- probability to find a job[1]	13.2	13.6	15.4	15.7	18.0	20.6	20.1	16.5	14.8	22.3
- probability to lose a job[2]	2.8	2.8	2.6	2.5	2.3	3.0	1.9	2.0	2.4	2.7
	in 1,000									
Total employment[3]	937.3	926.8	930.9	941.5	960.6	940.0	957.1	971.4	973.8	964.1
	year-on-year growth in %									
Persons in paid employment	-1.3	-2.7	0.5	1.3	2.2	1.6	2.2	2.3	2.7	3.2
Self-employed	0.8	5.8	0.4	0.4	1.4	1.5	1.3	1.4	1.4	0.1
By sectors										
A Agriculture, forestry and fishing	-1.0	0.0	-0.1	-2.4	-0.9	-0.8	-0.8	-0.8	-1.1	-1.2
BCDE Manufacturing, mining and quarrying and other industry	-1.1	-1.9	0.3	0.9	2.8	2.5	3.0	2.9	2.6	2.6
F Construction	-7.5	-7.0	-1.1	0.4	-0.8	-0.5	-0.8	-1.2	-0.5	1.5
GHI Trade, accommodation, transport	-1.2	-1.2	-0.3	1.8	2.7	1.9	2.5	2.9	3.4	3.5
J Information and communication services	2.1	2.3	2.6	3.2	3.0	1.8	2.5	3.6	3.9	2.2
K Financial and insurance activities	-1.7	-2.8	-2.1	-1.2	-1.9	-1.8	-2.2	-1.8	-1.8	-1.8
L Real estate activities	-1.4	0.5	0.9	1.4	0.5	0.0	0.0	0.0	1.9	1.8
MN Professional, technical and other business activities	0.5	-0.1	2.6	3.2	2.9	2.6	2.8	2.7	3.5	3.8
RSTU Other activities	0.2	6.0	3.0	2.8	3.3	1.9	3.3	3.8	4.1	5.2
- mainly private sector (without O..Q)[4]	-1.4	-1.2	0.5	1.2	2.0	1.6	2.0	2.1	2.3	2.6
- mainly public services (O..Q)[4]	1.0	-0.6	0.4	0.8	2.2	1.5	2.1	2.4	2.7	2.6
Total employment[3]	-0.9	-1.1	0.4	1.1	2.0	1.6	2.0	2.1	2.4	2.6

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

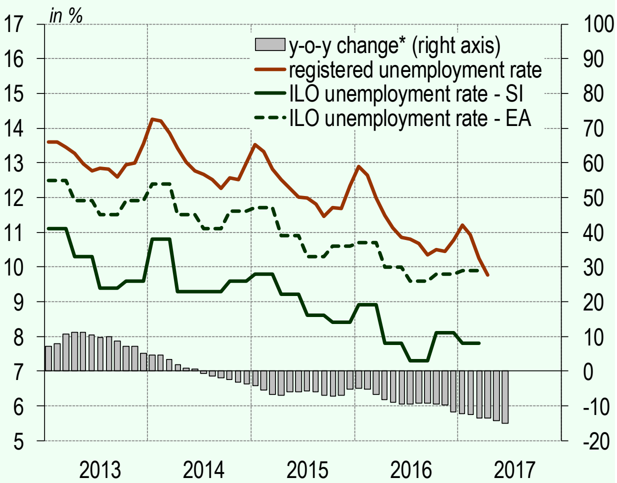
[5] The figure relates solely to manufacturing.

of employers anticipate further difficulties in recruitment in the future.

Unemployment

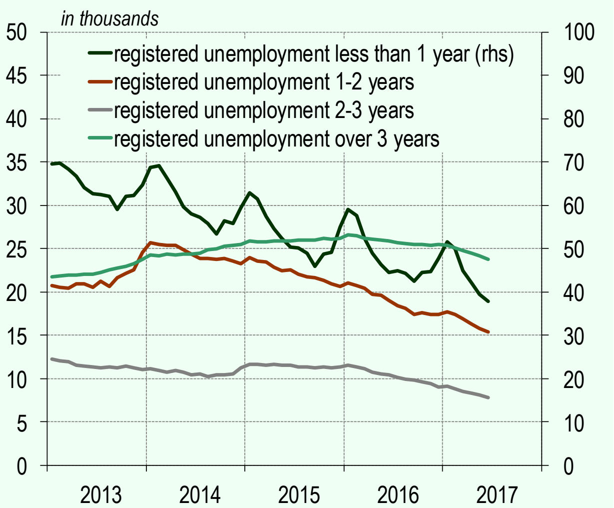
Unemployment is still falling rapidly. Registered unemployment has been falling in year-on-year terms since mid-2014. It stood at 84,793 in June, down 15% in year-on-year terms, and at the level of 2009. The unemployment rates are also falling. The surveyed unemployment rate stood at 7.8% in the first quarter, down just over 1 percentage point in year-on-year terms, while the registered unemployment rate stood at 9.8% in April, down 1.7 percentage points in year-on-year terms. The

Figure 3.4: Unemployment



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

Figure 3.5: Long term unemployment



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

proportions of unemployed people with primary or lower education and with tertiary education remain higher in year-on-year terms, although the number of unemployed in all education groups fell in year-on-year terms. Despite the favourable developments on the labour market, the proportion of long-term unemployed remains above 50% and is still rising, as is the proportion of the long-term unemployed who have been unemployed for more than three years. The number in each category is falling in year-on-year terms. Furthermore, the proportion of unemployed people aged over 50 has been increasing since 2015, while the only age group to record an increase in the number of unemployed was the over 60s.

Over the first six months of the year the number of people newly registering as unemployed was almost 15,000 less than the number of deregistrations. The number of people newly registering as unemployed was down 9.1% on the same period last year, largely as a result of a fall in the number of people registering as unemployed because of the temporary employment termination. At the same time the number of deregistrations was down 4.3% in year-on-year terms, largely as a result of a decline in outflows to employment. The number of new hires over the first four months of the year was up 2.6% in year-on-year terms. New hires in permanent employment recorded higher year-on-year growth than new hires in temporary employment. The proportion of permanent employment also increased, an indication of employers' increased confidence in continuing economic growth.

Wage developments

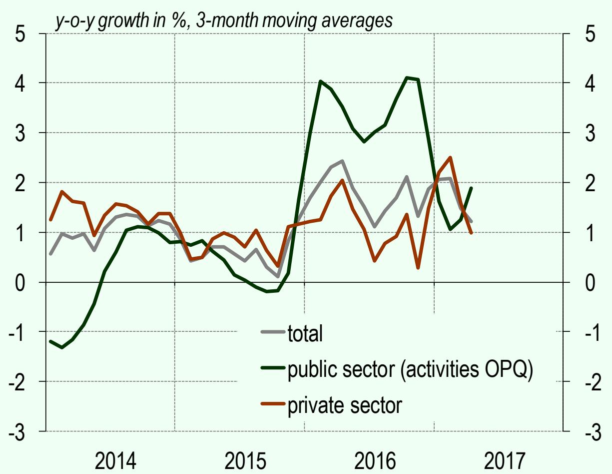
Average year-on-year wage growth over the first four months of the year was less than last year's average. Year-on-year growth in the average nominal gross wage averaged 1.5% over the first four months of the year, less than last year's average of 1.8%. Year-on-year growth was higher in mostly public services (1.7%) than in the private sector (1.4%). Growth in the average wage in the private sector was practically unchanged from last year, while in mostly public services it was down almost a half. The latter is primarily attributable to promotions from the end of 2015 dropping out of the year-on-year calcula-

Table 3.2: Labour costs indicators

	2012	2013	2014	2015	2016	16Q1	16Q2	16Q3	16Q4	17Q1
					in EUR					
Average gross wage	1531	1528	1545	1556	1584	1576	1566	1560	1636	1599
					nominal year-on-year growth, %					
Average net wage	0.4	0.6	0.8	0.4	1.7	2.0	1.3	1.5	1.8	1.9
Average gross wage	0.1	-0.2	1.1	0.7	1.8	2.3	1.5	1.7	1.9	1.5
- mainly private sector (excl. O..Q)[1]	0.9	0.7	1.4	0.8	1.3	1.7	1.1	0.9	1.5	...
- mainly public services (O..Q)[1]	-2.2	-2.3	0.2	0.6	3.3	3.9	2.8	3.7	2.9	...
Average gross wage in manufacturing	2.5	2.8	3.3	2.1	2.1	2.4	1.7	1.5	2.8	2.2
Average real net wage[2]	-2.3	-1.4	0.5	1.2	1.8	2.9	1.7	1.5	1.1	-0.1
Labour costs per hour worked[3]	-0.3	-2.1	1.9	0.9	3.0	0.7	1.5	3.9	5.9	2.7
Labour costs per hour worked in manufacturing[3]	3.0	0.6	3.6	0.5	3.2	0.8	1.1	3.3	7.7	3.4
Gross wage per unit of output[4]	1.9	-0.2	-1.5	-0.5	1.4	1.7	0.8	1.4	1.7	-1.2
Gross wage per unit of output in manufacturing[4]	4.3	1.1	-1.8	1.5	...	-0.6	-2.7	-1.6	0.6	-1.8
Unit labour costs[4,5]	0.8	0.5	-1.3	0.3	1.8	2.0	2.5	1.2	1.3	-1.0
Labour costs per employee[5]	-1.0	0.5	1.3	1.4	2.2	2.6	3.2	1.6	1.5	1.6
Output per employee	-1.8	0.0	2.7	1.2	0.5	0.6	0.7	0.3	0.2	2.7
Output per employee - manufacturing	-1.7	1.7	5.1	0.6	...	3.0	4.5	3.1	2.2	4.1
HICP	2.8	1.9	0.4	-0.8	-0.2	-0.9	-0.4	0.0	0.7	2.0
GDP deflator	0.3	0.9	0.8	1.0	0.6	1.2	0.2	0.2	0.9	1.2

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

Figure 3.6: Nominal gross wages



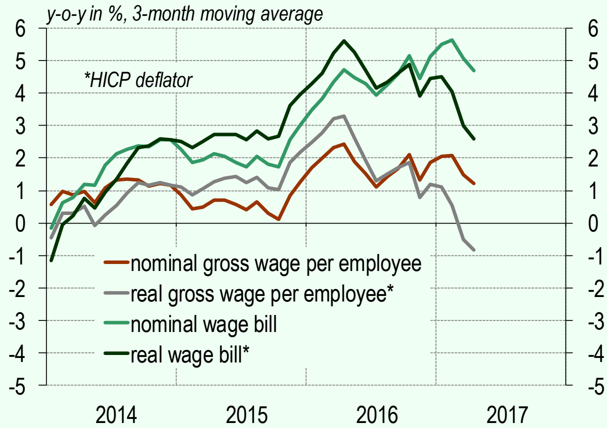
Note: Due to the change in source, series before 2014 were adjusted based on the growth rates of the previous series.
Source: SORS, Bank of Slovenia calculations.

tions. In the private sector nominal gross wages have increased in the majority of segments, while rates of more than 3% have been recorded by mining and quarrying, electricity, gas, steam and air conditioning supply, and water supply, sewerage, waste management and remediation activities.

Growth in employment and wages continues to be reflected in strengthening growth in the nominal wage bill, which over the first four months of the year recorded the highest figure of the last nine years. Year-on-year growth in the nominal wage bill averaged 5% over the first four months of the year, as growth in the private sector averaged 5.1% and growth in mostly public services averaged 4.6%. The faster growth in the nominal wage bill in the private sector is attributable to faster growth in employment. Growth in the real wage bill averaged 3% over the first four months of the year, just under 2 percentage points less than last year, as a result of the rise in inflation across the total economy. January's year-on-year growth in the average nominal gross wage was higher than 4% in the sectors of mining and quarrying, water supply, waste management, and manufacturing.

Last year's growth in the nominal and real wage bill was the highest since 2008. Growth in the nominal wage bill stood at 4.6%, while growth in the real wage bill stood at 4.8%. Growth in the nominal and real wage bills stood at 5.6% and 5.8% respectively in mostly public services, and at 4.2% and 4.4% in the private sector. The main reason that growth was higher in mostly public services than in the private sector was relatively higher wage growth. Growth in the nominal and real wage bills was higher in the private sector in December and January, as a result of extraordinary payments in the private sector and a base effect in mostly public services.

Figure 3.7: Nominal and real total wage bill and average gross wage per employee



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

4 Current Account and Competitiveness Indicators

The current account surplus remains at a high level. In line with the strengthening of domestic final consumption, intermediate consumption and investment, imports of merchandise and services increased sharply last year and, even more so, this year, although exports increased by approximately the same amount at the same time. As a result of the increase in imports, the ongoing widening of the merchandise trade surplus came to an end in the last year. On the other hand, the surplus of trade in services increased further, in particular the surpluses in transport services and construction services. The trade surplus has stood at almost a tenth of GDP for more than a year, although the sharp increase in net outflows of earnings on direct investments have acted to reduce the current account surplus over the last two years.

Slovenia's competitiveness improved slightly in the first half of this year relative to the majority of its main trading partners outside the euro area. In the first quarter, exchange rate developments in particular had a positive impact on euro area countries' competitiveness in certain markets in Asia and Europe, and in the US. There was no significant change in Slovenia's price competitiveness on euro area markets, as higher growth in domestic prices in the first quarter was followed by a renewed fall below the euro area average. Cost competitiveness improved significantly in the first quarter, as domestic unit labour costs declined sharply.

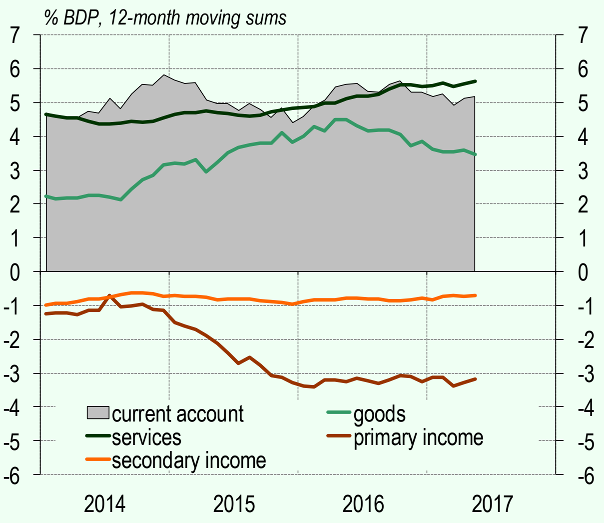
Current account position

The current account surplus remains roughly at its high level of the last three years, albeit with fluctuations. It amounted to 5.2% of GDP over the 12 months to May, down 0.3 percentage points on a year earlier in the wake of simultaneous strong growth in GDP. The surplus amounted to EUR 1,025 million over the first five months of the year, slightly more than in the same period last year. It remains dominated by the surplus of trade in services, which since the beginning of last year has also been the only component that is growing, the sharp increase in the merchandise trade surplus having come to an end. The trade surplus, i.e. the surplus of trade in merchandise and services, thereby remains extremely high, at between 9% and 10% of GDP. The overall current account position has been narrowed over the last two years by the deficit in capital income of almost 4% of GDP.

Merchandise trade

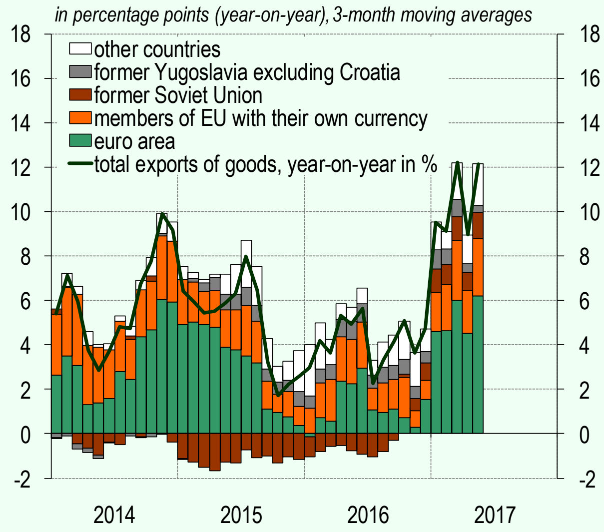
Merchandise exports increased sharply in the early part of the year, although growth in imports was even stronger. Compared with the growth of around 5% seen over the previous three years, when exports were already a notable driver of economic growth, the year-on-year rate leaped to more than 11% during the first five months of this year. Exports amounted to EUR 11.4 billion over the first five months of the year, compared with EUR 10.3 billion a year earlier. In line with the recovery in all components of domestic demand, there was an even larger jump in merchandise imports in the early part of the year: imports amounted to EUR 11.2 billion over the first five months of the year, up 13.5% on the EUR 9.8 billion in the same period last year. Such a large increase was also attributable to a low base, imports having grown at less than 3% over the previous three years when growth

Figure 4.1: Current account components



Source: Bank of Slovenia.

Figure 4.3: Contributions to export growth by country groups



Source: SORS, Bank of Slovenia calculations.

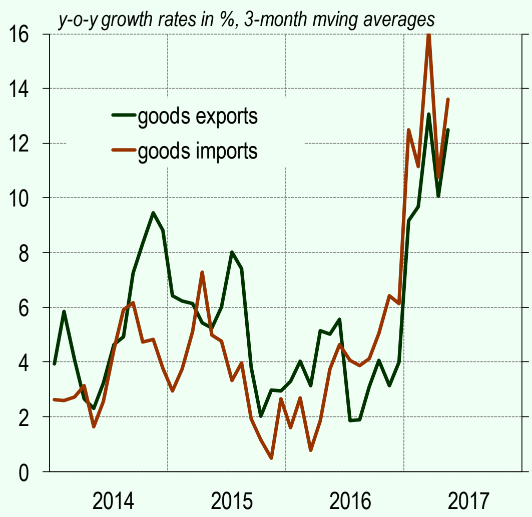
in domestic demand was relatively weak, and having not grown at all for the two years before that, when domestic demand contracted.

The merchandise trade surplus narrowed over the first five months of the year. It amounted to EUR 620 million, compared with EUR 744 million over the same period last year. Following last year's temporary decline, it is increasing sharply again in monthly terms as a result of this year's strengthening of exports, although by May it had not yet reached the heights of the most recent period of sustained low domestic demand. It amounted to 3.5% of GDP over the 12 months to May.

Trade in services

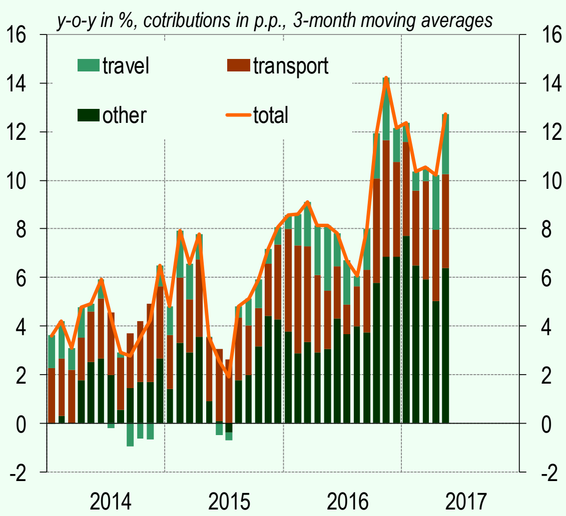
Exports of services have been growing particularly strongly since the beginning of 2015, and gained additional impetus in the second half of last year. Exports of services over the first five months of this year were up 12% in year-on-year terms, compared with growth of around 5% before 2015. Imports grew even more slowly in previous years, but strengthened just over half a year ago, the year-on-year rate of growth over the first five months of this year reaching fully 11%. The surplus of trade in services increased from EUR 822 million over the first five months of last year to EUR 940 over the first five months of this year. It amounted to 5.6% of GDP over the 12 months to May.

Figure 4.2: Goods trade



Source: SORS.

Figure 4.4: Services exports



Source: Bank of Slovenia.

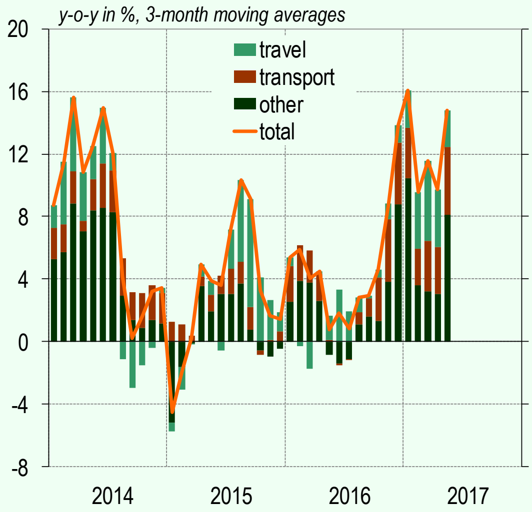
The main factor in the year-on-year increase in the surplus in recent years has been transport. Exports of transport services over the first five months of the year were up 12% in year-on-year terms, taking the surplus in transport services to EUR 411 million. The balance of payments revision significantly reduced the estimated value and dynamics in exports of travel services, which over the first five months of the year were up just 6% in

Table 4.1: Components of the current account

				in 12 months to							
	2014	2015	2016	May 16	May 17	15Q4	16Q1	16Q4	17Q1	May 16	May 17
						in EUR million					
Current account balance	2,179	1,698	2,108	2,167	2,115	416	677	343	561	153	182
1. Goods	1,181	1,476	1,536	1,752	1,413	338	484	227	375	117	75
2. Services	1,697	1,860	2,174	1,997	2,293	485	467	526	507	169	203
2.1. Transport	715	821	932	877	964	210	215	228	241	82	90
2.2. Travel	1,315	1,276	1,337	1,316	1,332	312	311	322	272	104	109
2.3. Other	-333	-237	-94	-196	-4	-38	-59	-24	-6	-17	4
3. Primary income	-428	-1,263	-1,294	-1,275	-1,299	-326	-163	-358	-233	-109	-79
3.1. Labour income	120	201	149	192	143	58	42	36	37	13	13
3.2. Investment income	-694	-1,557	-1,490	-1,565	-1,514	-373	-301	-373	-371	-126	-96
3.3. Other primary income	146	93	46	99	73	-11	95	-21	101	3	5
4. Secondary income	-271	-375	-309	-307	-291	-81	-111	-51	-88	-23	-17
						in % of GDP					
Current account balance	5.8	4.4	5.3	5.5	5.2	4.2	7.3	3.4	5.7	4.5	5.0
1. Goods	3.2	3.8	3.9	4.5	3.5	3.4	5.2	2.2	3.8	3.4	2.1
2. Services	4.5	4.8	5.5	5.1	5.6	4.9	5.1	5.2	5.1	4.9	5.6
2.1. Transport	1.9	2.1	2.3	2.2	2.4	2.1	2.3	2.2	2.4	2.4	2.5
2.2. Travel	3.5	3.3	3.4	3.4	3.3	3.2	3.4	3.2	2.8	3.0	3.0
2.3. Other	-0.9	-0.6	-0.2	-0.5	0.0	-0.4	-0.6	-0.2	-0.1	-0.5	0.1
3. Primary income	-1.1	-3.3	-3.3	-3.3	-3.2	-3.3	-1.8	-3.5	-2.4	-3.2	-2.2
3.1. Labour income	0.3	0.5	0.4	0.5	0.3	0.6	0.5	0.4	0.4	0.4	0.3
3.2. Investment income	-1.9	-4.0	-3.7	-4.0	-3.7	-3.8	-3.3	-3.7	-3.8	-3.7	-2.7
3.3. Other primary income	0.4	0.2	0.1	0.3	0.2	-0.1	1.0	-0.2	1.0	0.1	0.1
4. Secondary income	-0.7	-1.0	-0.8	-0.8	-0.7	-0.8	-1.2	-0.5	-0.9	-0.7	-0.5
						nominal year-on-year growth rates in %					
Export of goods and services	5.6	4.9	5.0	5.2	7.6	3.9	4.2	5.6	12.6	8.5	14.4
Export of goods	5.9	4.7	4.0	4.8	6.8	2.9	3.1	4.0	13.1	7.9	14.0
Export of services	4.5	5.5	9.3	7.1	10.7	8.1	9.1	12.1	10.6	11.3	16.4
Transport	9.4	9.3	10.9	10.2	11.5	10.9	12.9	13.3	12.9	8.0	17.9
Travel	0.8	1.8	4.4	3.4	4.4	2.2	5.7	4.5	1.8	11.4	5.3
Other	4.9	6.5	12.9	8.5	16.4	10.9	9.0	17.1	15.9	14.3	26.2
Import of goods and services	4.4	3.6	4.2	3.0	8.8	2.5	1.2	7.3	15.5	7.2	16.6
Import of goods	3.8	3.6	4.0	2.7	8.8	2.6	0.8	6.1	16.1	8.5	16.9
Import of services	7.7	3.8	5.7	4.7	8.7	1.5	4.1	13.9	11.6	-0.6	14.2
Transport	10.4	4.5	8.3	4.6	13.1	3.0	9.1	17.5	13.7	-6.1	27.9
Travel	5.3	10.4	3.8	12.1	9.4	8.8	-11.3	7.6	38.7	18.7	4.9
Other	7.6	1.3	5.5	2.4	6.9	-0.7	6.1	14.0	5.1	-4.0	12.4

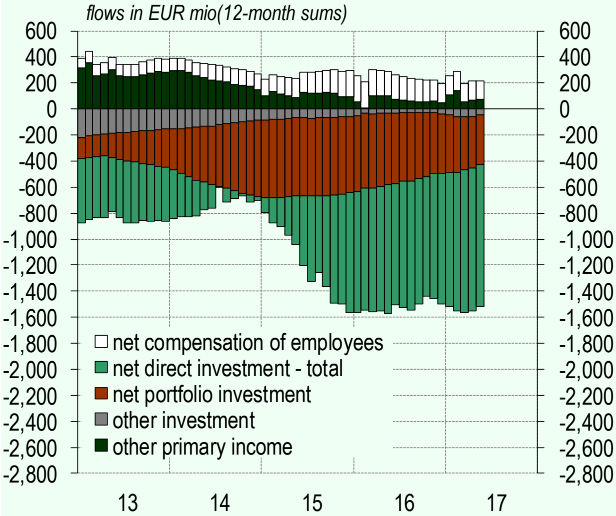
Note: Shares in GDP are calculated on the basis of monthly estimates of GDP.
Source: Bank of Slovenia.

Figure 4.5: Services imports



Source: Bank of Slovenia.

Figure 4.6: Net primary income



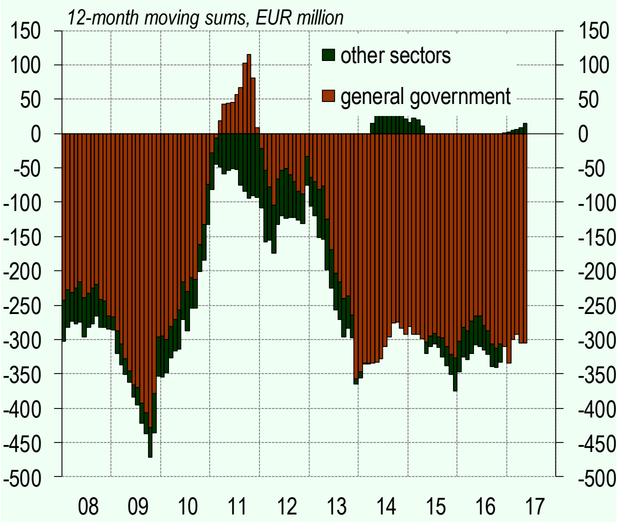
Source: Bank of Slovenia.

year-on-year terms, and were outpaced by imports for the third consecutive year. Travel nevertheless still generates the largest surplus in services, in the amount of EUR 505 million over the first five months of this year, although this has been entirely stable for five years now according to the revised figures. Construction also appeared among the leading exporters of services for the first time last year. Exports of construction services amounted to EUR 155 million over the first five months of the year, generating a surplus of EUR 116 million.

Primary and secondary income

The deficit in primary income amounted to EUR 401 million over the first five months of the year, while the deficit in secondary income amounted to EUR 135 million. The combined deficit was slightly smaller than in the same period last year, while developments in all the main sub-categories have been roughly stable over the last two years. Net inflows of labour income over the preceding 12 months amounted to 0.3% of GDP, while the significantly larger transactions in private-sector current transfers were roughly balanced. The deficit in official current transfers and other primary income amounted to 0.6% of GDP. The largest flows were recorded by capital income, where the deficit over the preceding 12 months amounted to 3.7% of GDP, slightly less than a year earlier, but almost double the relatively stable deficit recorded between 2007 and 2014.

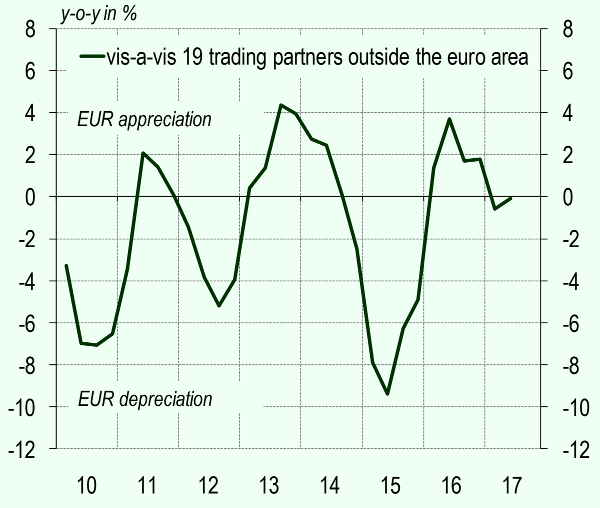
Figure 4.7: Net secondary income



Source: Bank of Slovenia.

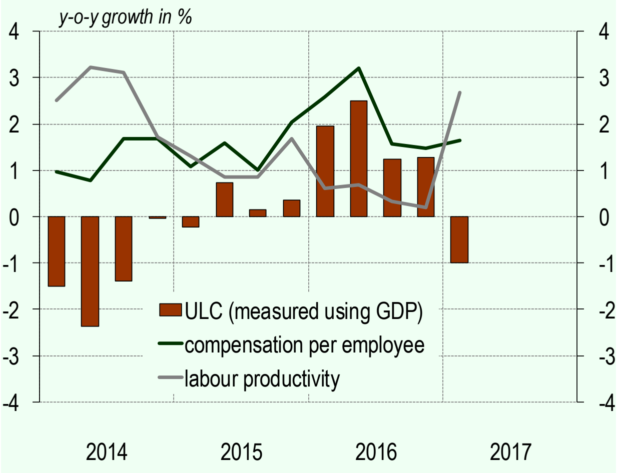
Net outflows of capital income amounted to USD 578 million over the first five months of the year. The breakdown of capital income has changed significantly in recent years. Net interest payments on loans and deposits over the first five months of the year declined to just EUR 11 million, while net interest payments on securities amounted to EUR 134 million, compared with EUR 246 million in the same period two years ago, when they peaked. On the other hand, there was a sharp increase in net outflows of earnings on direct investments, which amounted to EUR 434 million over the first five months of the year, compared with EUR 342 million in the same period last year, having only rarely exceeded EUR 200 million before 2015.

Figure 4.8: Nominal harmonised competitiveness indicator



Source: ECB.

Figure 4.10: Labour productivity, ULC and compensation per employee – total economy, Slovenia



Source: Eurostat, Bank of Slovenia calculations.

Selected competitiveness indicators

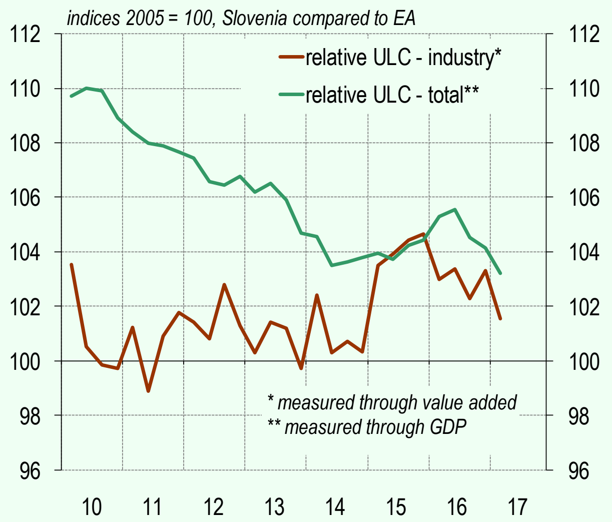
Slovenia's price competitiveness on markets outside the euro area was favourably impacted by the depreciation of the euro in the first quarter. After rising in 2016, Slovenia's nominal harmonised competitiveness indicator, which reflects the movement of the euro against a basket of currencies of major trading partners, declined by 0.6% in year-on-year terms in the first quarter of this year. This was attributable to the euro's fall against the Japanese yen, the US dollar, the Russian ruble, the Hungarian forint and the Croatian kuna. The favourable developments from the perspective of export price competitiveness came to an end after April, as the euro began rising again. Despite the rise in the euro in recent months, its exchange rate against the US dollar still remains down 16% on its average of 2014.

There was no significant change in Slovenia's price competitiveness in the euro area in the first half of this year, as higher growth in domestic prices in the first quarter was followed by a fall below the euro area average. Of the main euro area partners, only Austria recorded faster price growth in the first quarter, while prices in Germany, Italy and France rose by less. Slovenia's harmonised price competitiveness indicator measured against the other euro area countries was up 0.2%

Figure 4.9: Harmonised price competitiveness indicators (based on HICP/CPI deflators)

Source: ECB.

Figure 4.11: Nominal unit labour costs in relative terms



Source: Eurostat, Bank of Slovenia calculations.

Box 4.1: Revised balance of payments for the period 2012—2016

In June this year, the balance of payments and external position was revised for the period between 2012 and 2016. The revisions predominately reflected lower surplus in the current account of the balance of payments, especially for 2016, when it was reduced from EUR 2.7 billion to EUR 2.1 billion, or in terms of percentage in BDP, from 6.8% to 5.3%. Additionally, the net errors and omissions decreased over the entire period, especially in 2016 from EUR -1.4 billion to EUR -0.7 billion.

The major revisions were made for the following items:

Net inflows of labour income: SORS revised data on labour income receipts. The revision was due to substantial asymmetries (especially with Austria). Based on experience with unreliability of data from the Labour Force Survey (LFS), this data source was replaced with an administrative one that includes income tax returns and bilateral data. The 2016 revision was reflected in the shrinkage of the current account surplus for EUR 156 million (a similar level of decrease is characteristic through the years 2012 to 2015).

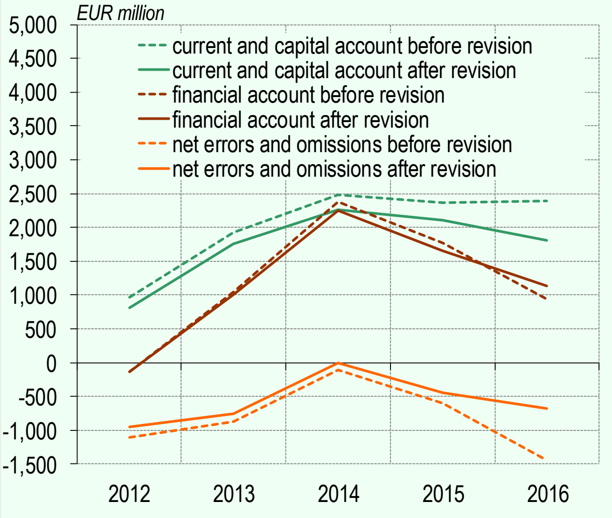
Export of travel services: The average consumption of day-trippers and transit passengers was revised due to a significant decrease in these numbers (source: TU_POTNIKI SORS survey for 2016). According to the 2013 survey, the average consumption of day-trippers was EUR 39, while that of transit passengers was EUR 13.5. According to the 2016 survey, the average consumption of day-trippers is EUR 35 and transit passengers is EUR 11.5. Based on this data, the export of travel services in 2015 was reduced by EUR 159 million, while in 2016 it was reduced by EUR 156 million.

EU transfers: SORS revised the EU transfers from 2013 onwards. The revision excluded from the capital transfers the inaccurately used funds (investments), which the state had to return. Largest amount of inaccurately used funds was in 2014 (EUR 78 million). The aforementioned change has also affected the financial account, namely in neutralization (within other receivables).

Reinvested earnings: Before the revision of reinvested profits within direct investments abroad, the forecast for 2016 included EUR 89 million negative reinvested earnings based on previous estimates. After the revision, the actual data for 2016 shows an increase in reinvested earnings of EUR 19 million. Regarding foreign direct investments in Slovenia, on the basis of the estimates before the 2016 revision, it was projected that foreign owners reinvested EUR 196 million in profits; the reinvested amount after the revision stood at EUR 577 million. The revision of the reinvested earnings affects the current and the financial account, which renders the impact on the net error neutral contributing EUR 273 million to lower surplus of the current account in 2016.

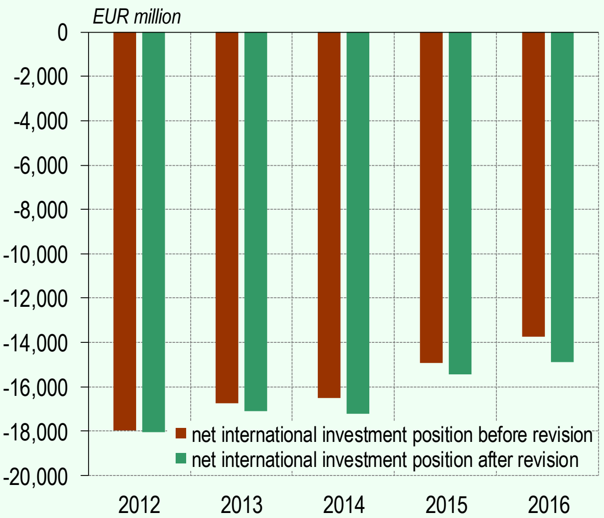
Government debt securities: Between 2012 and 2014 Slovenian government issued bonds denominated in US dollars that were before the revision reported in euros at a fixed rate (source: direct securities reporting). Based on the Eurostat requirement and in accordance with ESA 2010, the value of issued securities after the revision is reported at the current EUR/USD exchange rate and not at a fixed one. As a consequence, transactions in issued securities in 2016 increased by EUR 877 billion (before the revision they stood at -1.6

Figure 1: Balance of payments before and after revision in million EUR



Source: Bank of Slovenia.

Figure 2: Net international investment position before and after revision in million EUR



Source: Bank of Slovenia.

billion EUR and after the revision at -2.5 billion EUR), which represents the actual value of redemptions.

Government derivatives: Concurrently with the revision of the government debt securities, data on the financial derivatives related to securities transactions (currency swaps), whose source is the financial accounts statistics, were also revised. Net transactions in financial derivatives decreased especially in 2016, by EUR 265 million (before the revision it amounted to EUR 50 million).

in year-on-year terms in the first quarter. These developments did not continue in the second quarter, as domestic inflation again slid below the euro area average.

Cost competitiveness against the euro area is continuing to improve. Because the increase in economic growth in the first quarter was not tracked by growth in employment and wages, unit labour costs (ULCs) in the Slovenian economy declined by 1% in year-on-year terms. Growth in average ULCs across the euro area remained positive at the same time. Relative nominal ULCs in the total economy in Slovenia, and particularly in manufacturing, which is more exposed to international competition, further approached the euro area average in the first quarter. An improvement at the level of the total economy has thus been occurring since the third quarter of last year, when the effect of rising wages in the public sector waned, while in manufacturing it has been occurring since the beginning of 2016, when there was an acceleration in growth in value-added.

5 Financing of Non-Financial Corporations, Households and Banks

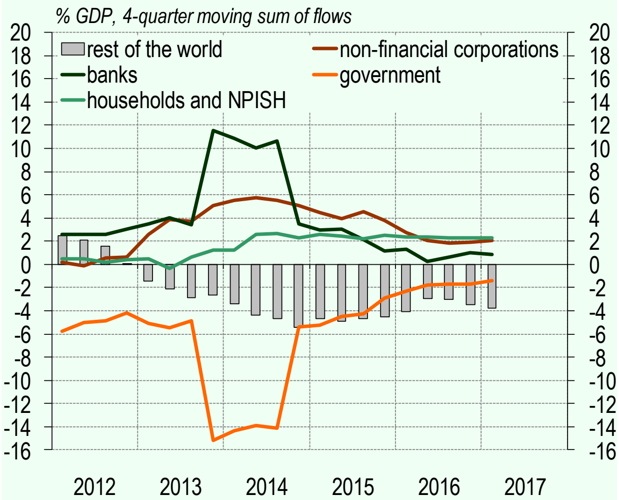
The financial accounts reveal non-financial corporations to have continued the deleveraging process in 2016, and that it is now coming to an end. This is indicated by the increase in bank loans in early 2017, which are gradually complementing internal resources. The outlook on the labour market and the residential real estate market promises sustained growth in household loans in the future. In their investment breakdown non-financial corporations significantly increased trade credits to non-residents, which is coinciding with the improved international environment and increased exports. Bank deposits are increasing markedly, for both non-financial corporations and households. This is increasing the pressure on the sustainability of bank funding from the perspective of maturity matching of assets and liabilities, as sight deposits now account for two-thirds of total liabilities. The banks are intensively reducing their credit operations with the rest non-residents. Contrastingly, the investments in foreign government debt securities are increasing. On the funding side, wholesale funding is being replaced by domestic household deposits and long-term funding from the ECB.

Saving-investment gap by institutional sector

The surplus of saving over investment amounted to 3.7% of GDP in the first quarter of this year, down 0.3 percentage points in year-on-year terms. In the second half of last year and in early 2017 the closing of the saving-investment gap proceeded more slowly than expected. Despite an increase in borrowings via bank loans, net saving by non-financial corporations and households increased slightly in the first quarter. The latter was primarily the result of the ongoing increase in sight deposits, in line with the persistent environment of low returns. In addition, non-financial corporations are further reducing their liabilities from debt securities and other (non-bank) loans. In contrast to debt financing, non-financial corporations are continuing to increase their liabilities from equity. The banks are increasingly limiting their funding from wholesale sources, and on the investment side are focusing more on lending to domestic non-financial corporations and households.

The closing of the saving-investment gap can be expected to pick up pace in the future. Bank lending to non-financial corporations has become positive, while developments on the real estate market and the continuing positive dynamic on the labour market suggest the

Figure 5.1: Saving-investment gap



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

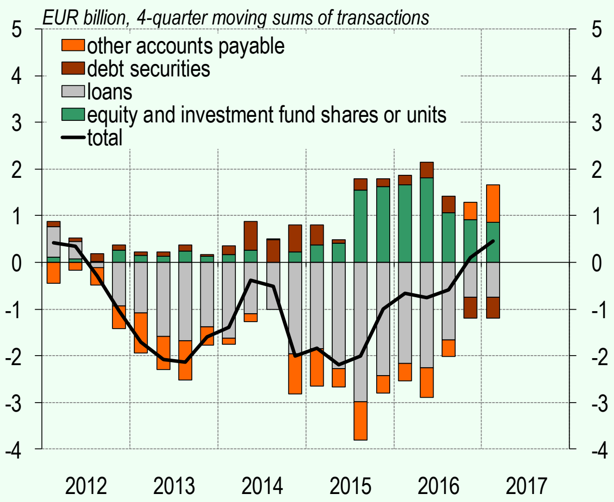
continuation of the lending cycle in the household portfolio.

Financial assets and financing of non-financial corporations

The deficit in non-financial corporations' financial assets relative to liabilities diminished by EUR 0.9 billion in year-on-year terms in the first quarter. This was primarily attributable to the ongoing deleveraging process, which is now slowing and coming to an end after five years. This is evidenced by the quarterly increase in bank loans in the final quarter of last year (EUR 450 million),[6] which continued a ta lesser extent in the first quarter of this year (EUR 40 million), in parallel with a further decline in liabilities from other sources of debt financing (debt securities, business-to-business lending and government loans).

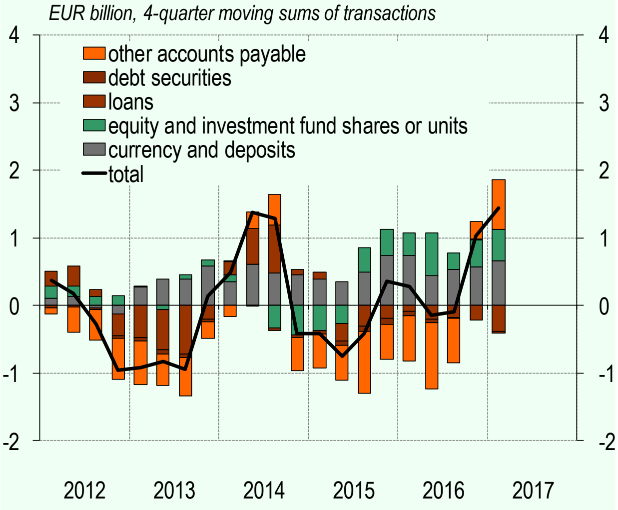
The decline in corporate indebtedness is giving room to increase debt financing. Corporate indebtedness is down 45% on 2012, and amounts to 62% of GDP, significantly less than the average across the euro area (104% of GDP), and less than the threshold of 90% that empirical findings suggest as the limit for the sustainability of corporate debt.[7] The structure of deleveraging is also favourable, as in 2016 it was primarily attributable to re-

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



Source: Bank of Slovenia, non-consolidated data.

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



Source: Bank of Slovenia, non-consolidated data.

valuations. This is evidence of the intensive clean-up of the unhealthy parts of corporate balance sheets, making non-financial corporations more attractive for bank financing.

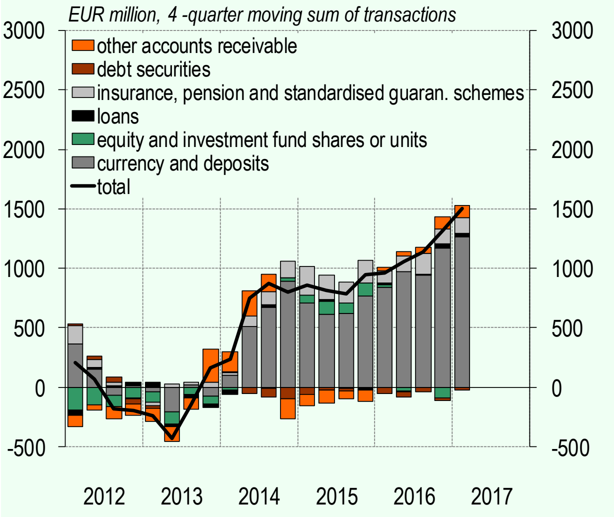
Non-financial corporations' financial assets increased by EUR 1.8 billion in the first quarter of this year. Other accounts receivable (trade credits and advances) account for the largest proportion of non-financial corporations' financial assets, within which there was a pronounced increase (of 6%) in exposures to non-residents in 2016, an indication of more intense involvement in global value chains and the improved external environment. Alongside other accounts receivable, investments in equity account for a significant proportion of financial assets (35%).[8] The trend of growth in assets in the form of currency and deposits continued in the first quarter of this year (they were up 11% in year-on-year terms), which is coinciding with the high profits generated in the previous period.

Household financial assets and financing

The surplus in households' financial assets over liabilities increased by EUR 0.9 billion in the first quar-

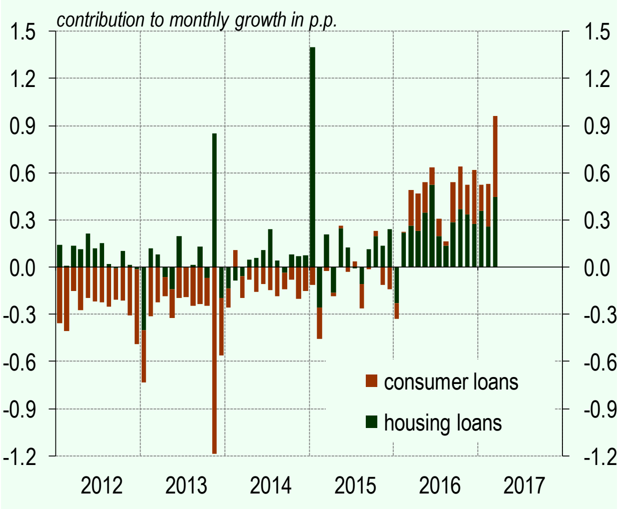
[6] Transactions excluding revaluations.
[7] Chen et al. (2015). Private Sector Deleveraging and Growth Following Busts. IMF WP/15/35.
[8] In the event of any reversal in monetary policy and its adverse impact on asset prices in particular, the latter could indicate a certain sensitivity in the investment structure, and a potential reduction in the capacity to obtain new funding via a decline in collateral values. Experience in the case of the US suggests that the normalisation of monetary policy will not have a pronounced adverse impact on share markets.

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



Sourcee: Bank of Slovenia, non-consolidated data.

Figure 5.5: Loans to households



Source: Bank of Slovenia.

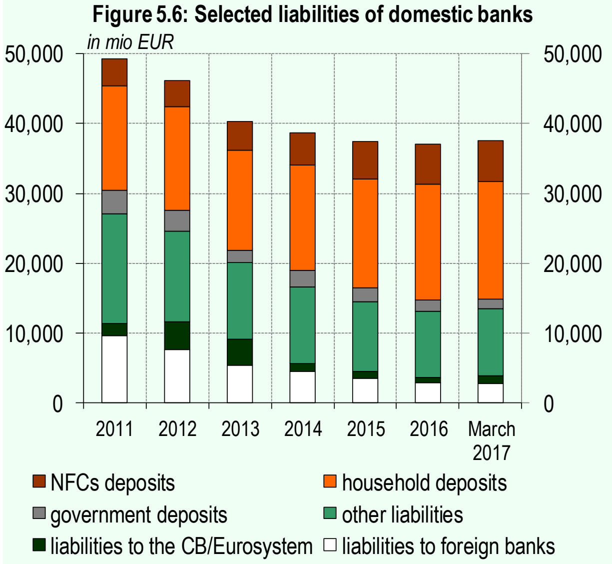
ter of this year. The breakdown of financial transactions reflects the prevailing pitch of monetary policy, and also households' extreme caution with regard to investment. In the last year the low interest rate environment has been reflected in an increase of more than EUR 2 billion in sight deposits and a simultaneous decline of EUR 1 billion in fixed-term deposits, while the caution has been reflected in a decline in investments exposed to market risk, most notably securities. Life insurance and pension insurance instruments, which generally offer higher returns guaranteed schemes, are increasingly the alternative to fixed-term deposits and securities. The increase in investments in this segment is also a result of greater issuance of household loans, as the banks' marketing policies often include the offer of such instruments in exchange for more favourable borrowing terms.

Growth in household loans strengthened sharply in the second half of 2016 and in early 2017. The sustained growth in housing loans is already being reflected on the real estate market, where residential real estate prices rose by 3.3% in 2016, and the number of transactions in real estate rose by 14%. On the basis of these developments, a longer-lasting cycle of growth in housing loans and real estate prices can be expected, as the latter is raising collateral value and consequently the availability of new loans. The pronounced growth in consumer loans that began in mid-2016 continued in late 2016 and early 2017. In both the housing and consumer lending segments, there is an expectation of longer-term impetus in the credit cycle on the basis of better conditions on the labour market, the relatively low household indebtedness compared with the euro area average, the consumer confidence expressed in surveys, and the increasing investment focus of the banks, who are offering households quick and easy access to these forms of financing.

Bank funding and investments

The banks are increasingly limiting their credit operations with non-residents. Credit exposure to non-resident non-financial entities in early 2017 was down 26% in year-on-year terms. Liabilities to foreign banks

Figure 5.6: Selected liabilities of domestic banks



Source: Bank of Slovenia.

Box 5.1: Bank performance during the first five months of 2017

The positive dynamic in year-on-year growth in loans to the non-banking sector is increasing. The importance of deposits by the non-banking sector to bank funding is increasing. The quality of the credit portfolio has improved further. The banks' capital adequacy declined slightly, but remains above the euro area average.

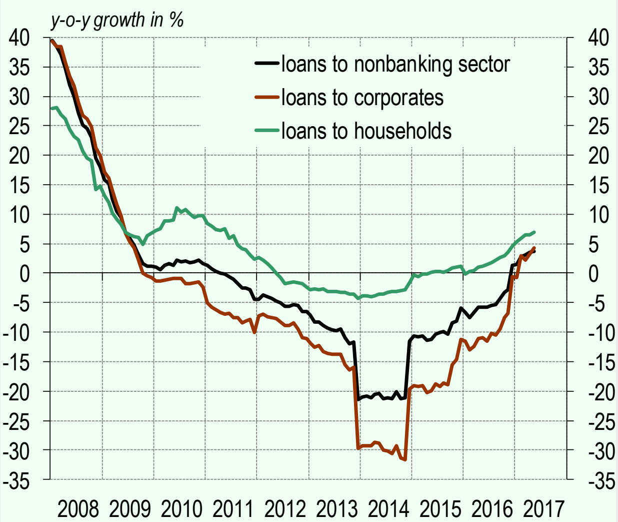
Year-on-year growth in total assets was positive in May for the third consecutive month, at 1.5%. Corporate loans and household loans are both increasing, while the stock of securities and other highly liquid forms of asset on bank balance sheet is being maintained at high levels. On the funding side, the banks reduced their debt on the wholesale markets over the first five months of the year, and saw an increase in deposits by the non-banking sector, which was primarily attributable to the inflow of household deposits.

Growth in loans to the non-banking sector has been positive since last December. The stock of loans to the non-banking sector in May was up 3.7% in year-on-year terms. The main increase over the first five months of the year was recorded by loans to households and non-financial corporations, while loans to the government sector declined. Loans to non-financial corporations have increased by significantly less than household loans in nominal terms this year. After a long period in negative territory, year-on-year growth in loans to non-financial corporations turned positive in February and reached 3.4% by the end of May. Year-on-year growth is highest at the large domestic banks, at 6.0%, and close to 2% at the banks under majority foreign ownership, while it remains negative at the small domestic banks.

Growth in household loans strengthened slightly, reaching 6.9% by the end of May. The small domestic banks recorded the highest growth of 8.7%, while growth at the large domestic banks is slightly above the average across the system. Growth in housing loans has been a fraction over 5% in recent months, and reached 5.2% in May. The domestic banks in particular are recording growth. Growth in consumer loans has been positive since last April, and increased to 11.6%. The increase in consumer lending has coincided with the improvement in the economic situation and the situation on the labour market. While last year the net increase in housing loans strongly exceeded the net increase in consumer loans, this year the net increases have been comparable in nominal terms. The stock of housing loans on bank balance sheet is nevertheless 2.6 times that of consumer loans.

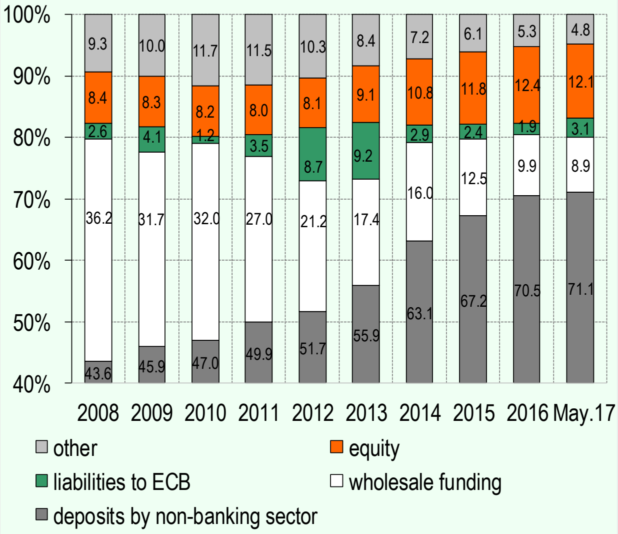
The change in the breakdown of Slovenian banks' funding has continued in 2017. Deposits by the non-banking sector gained further in importance, and accounted for just over 71% of all funding in May 2017. The stock of wholesale funding is declining as expected, albeit more slowly than in previous years, as a large proportion of the debt to the rest of the world has already been repaid. After a reduction in debt to the Eurosystem in previous years, the stock of such liabilities increased in the first half of this year, taking the proportion that they account for to 3.1%. The banks exploited the opportunity to take up funding at a favourable price, and participated in the most recent targeted longer-term refinancing operations (TLTRO II) at the ECB.

Figure 1: Loans to non-banking sector



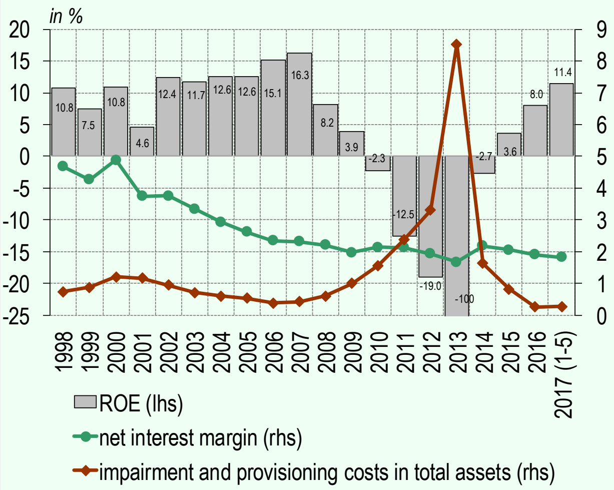
Source: Bank of Slovenia.

Figure 2: Percentage breakdown of



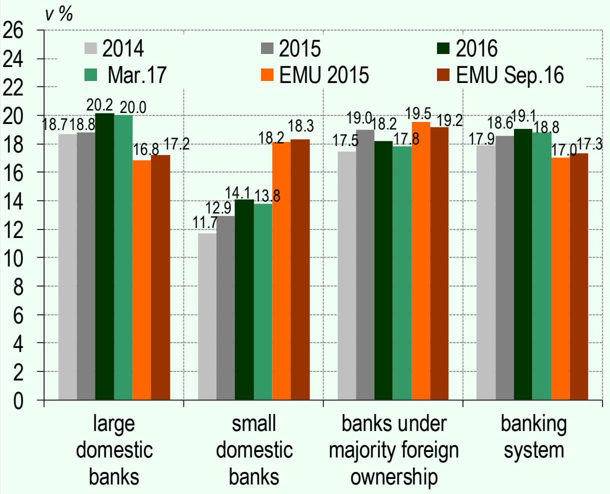
Source: Bank of Slovenia.

Figure 3: ROE, net interest margin on interest-bearing assets and ratio of impairment and provisioning costs to total assets



Source: Bank of Slovenia.

Figure 4: Capital adequacy ratio (CAR) - comparison between EMU and Slovenian banking system



Source: Bank of Slovenia, ECB.

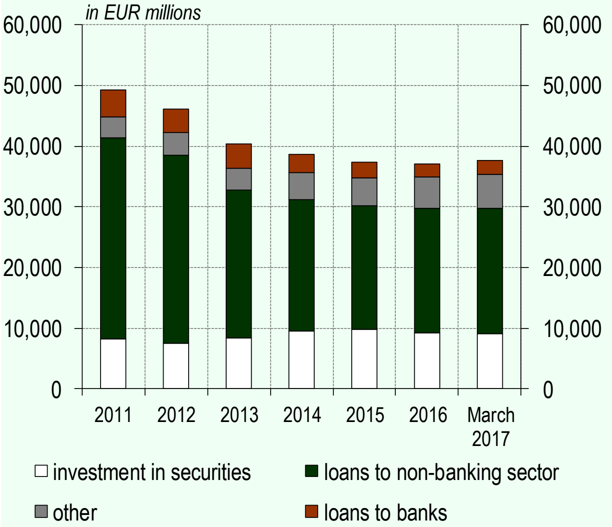
Growth in deposits by the non-banking sector is strengthening further. The year-on-year rate reached 5.8% in May, which was largely attributable to household deposits. Growth in deposits by non-financial corporations remains volatile, albeit at a relatively low level. Growth in household deposits has slowed in the last three months, but remains solid. The year-on-year rate reached 5.7% in May. The traditional behaviour of Slovenian savers and their aversion to alternative investments are expected to continue having a positive impact on growth in household deposits. In the wake of persistently low interest rates, the average maturity of deposits by the non-banking sector is continuing to shorten. The proportion of total deposits accounted for by sight deposits reached 66% in May, up 6.5 percentage points on the same month last year. Given their large excess liquidity and income pressure, the banks have held deposit rates at minimal levels in both the short-term and long-term segments, and thereby below the euro area average.

The quality of the credit portfolio as measured by the NPE ratio in line with the broader EBA definition has been improving in 2017. The NPE ratio stood at 7.7% in May, down 0.8 percentage points on the end of 2016. The stock of NPEs amounted to EUR 3.2 billion, down EUR 305 million on the end of 2016. Although the majority of the decline is attributable to a decline in NPEs to corporates, they still account for two-thirds of the banking system's NPEs. The NPE ratio for corporates stood at 15.3%, down 1.6 percentage points on December 2016. Within the corporate sector, there was a notable improvement over the first five months of the year in the sectors of manufacturing, accommodation and food service activities, construction, and real estate activities. SMEs account for 57% of NPEs to corporates, and have a large concentration of non-performing claims in the real estate activities sector, although even here the NPE ratio is down on the end of 2016.

The banks generated a solid pre-tax profit of EUR 210 million over the first five months of the year. Profit in the banking system was nevertheless down 14% in year-on-year terms, primarily as a result of a decline in gross income. The banking system's gross income was down 5.6% in year-on-year terms, as a result of a decline in net interest income, and a decline in net non-interest income. The contraction in net interest is still large: it stood at 8.4% over the first five months of the year, and 10% when calculated over the preceding 12 months. As a result the net interest margin declined slightly further to 1.84%. As in the same period last year, this year the banks again released net impairments and provisions, in the amount of EUR 15 million. Operating costs remain comparable to the same period last year. The banks have recently generated solid profit, despite the decline in net interest income and gross income.

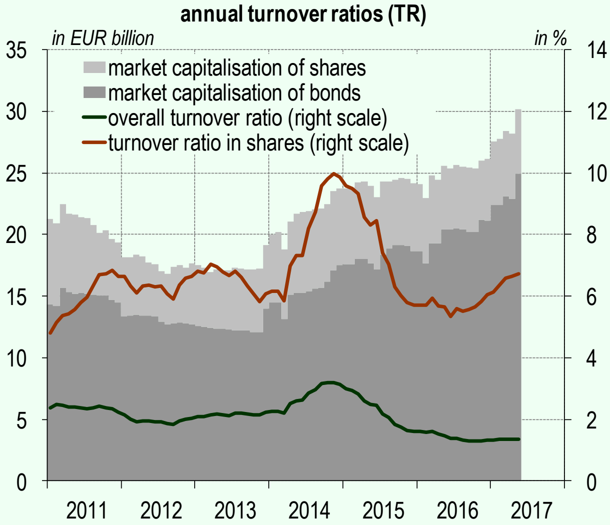
The capital adequacy of the Slovenian banking system declined slightly in the first quarter, but nevertheless remains above the euro area average. The total capital ratio reached 20.6% in March on an individual basis, and 18.8% on a consolidated basis. The decline was attributable to a larger increase in capital requirements than in regulatory capital. In the last few years the banks increased capital adequacy on account of a contraction in lending activity and thus in capital requirements, but in the wake of gradual growth in loans since the end of 2016 capital requirements have been increasing accordingly. The maintenance of capital adequacy in the future will depend on the ability to generate internal capital, particularly in the event of the further strengthening of lending activity. The small domestic banks and savings banks remain the weakest in capital terms. Their capital adequacy declined in the first quarter, and remains significantly below the average for the Slovenian banking system and the comparable average across the euro area.

Figure 5.7: Selected assets of domestic banks



Source: Bank of Slovenia.

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



Source: Ljubljana Stock Exchange (LJSE), Bank of Slovenia calculations.

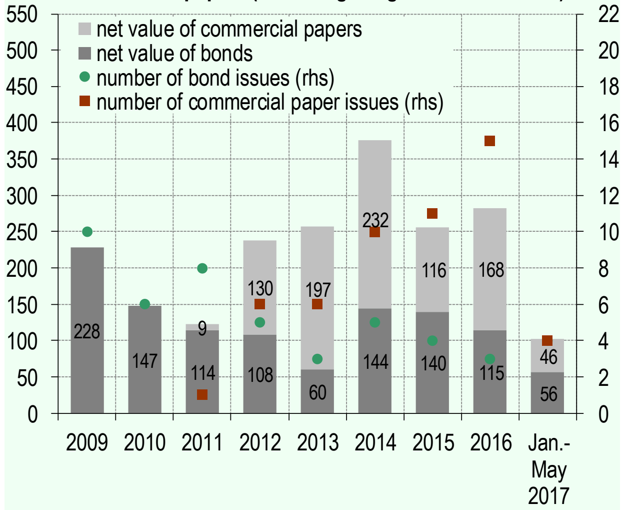
also declined significantly, by 20%. At the same time exposure to securities issued abroad is increasing. The banking system's portfolio of domestic securities declined by EUR 1 billion in 2016, while its portfolio of foreign government debt securities increased. In terms of funding structure, the banks are increasingly paying down debt on the wholesale markets, where interbank loans declined by 20%. The latter is for now not having an impact on domestic intermediation activity. Loans to domestic households have been increasing continuously for two years now, while loans to non-financial corporations in the early part of the year were up 2.5% in year-on-year.

Domestic financial market

Investor sentiment on the domestic stock market remained positive in the second quarter of this year. The SBI TOP rose by 11.2% over the first five months of the year. After an initial leap, the rise in the domestic stock market index slowed in the second quarter, but it has nevertheless outperformed the average across the euro area. The average monthly volume of trading in shares over the first five months of the year was up 28.4% in year-on-year terms at EUR 29.6 million. The concentration of volume remains high: more than 55% of the total volume in shares related to just three issuers listed on the prime market. The market capitalisation of shares increased by 4.8% over the same period to EUR 5.2 billion. The increase in market capitalisation was attributable to investors' positive sentiment, while shares continue to be delisted. The decline in the proportion of the market capitalisation of shares on the Ljubljana Stock Exchange accounted for by non-residents has continued. The proportion accounted for by non-residents declined by 3.2 percentage points over the first five months of the year to 23.4%.

The market capitalisation of bonds increased by 18% over the first five months of the year to EUR 24.9 billion. The increase in market capitalisation was attributable to additional issuance of government bonds for the purpose of restructuring government debt, which envisages the replacement of bonds denominated in US dollars with euro-denominated bonds. The average monthly volume remains modest, at EUR 1.5 million. The concentration of volume of trading in bonds is even higher than that of shares: more than 65% of the total volume related to just three corporate bonds. Issuance of debt securities (quoted and unquoted) by corporations (excluding the government sector) during the first five months of the year was up 50% in year-on-year terms at EUR 102.3 million. Bond issuance increased, having been almost zero in the same period last year. Issuance of commercial paper declined, as a result of the increased interest in issuance of longer-term bonds.

Figure 5.9: Issuance of corporate bonds and commercial papers (excluding the government sector)



Source: KDD, Bank of Slovenia calculations.

6 Public Finances

Slovenia plans a reduction in the general government deficit to 0.8% of GDP this year, 1 percentage point less than last year. The deficit is expected to continue narrowing in the following years, and to then turn into a surplus. The objective of fiscal policy remains a balanced structural position by 2020. Slovenia has been generating a primary fiscal surplus since 2015. The general government deficit declined in the first quarter of this year.

The general government debt increased in the first quarter of this year, but is expected to decline again to stand at 77.0% of GDP at the end of the year. In March and May the government executed further transactions to convert US dollar debt into euro-denominated debt, thereby lengthening the average maturity of its debt and reducing its cost. The borrowing terms remain favourable.

The European Commission's assessment is that Slovenia was compliant with the rules of the Stability and Growth Pact in the last year, but that this year there is a risk of some deviation, followed by a risk of significant deviation from the rules of the Pact next year.

The risks in the fiscal area are related to the upward pressure on expenditure from various interest groups, which has been strengthened by the favourable economic situation, while an electoral period is also approaching. The risks also relate to possible one-off factors, and to the high level of implicit and potential liabilities.

General government deficit

The general government deficit amounted to 1.8% of GDP in 2016, while the general government debt stood at 79.7% of GDP at the end of the year. The deficit narrowed during the first quarter, and is planned to amount to 0.8% of GDP this year according to the Ministry of Finance. In April's update to the Stability Programme the Ministry of Finance outlined its plan for further fiscal consolidation. The deficit is expected to narrow by 1 percentage point to 0.8% of GDP this year. The deficit narrowed during the first quarter, and amounted to 1.4% over the last four quarters. In May the European Commission forecast that the deficit would amount to 1.4% of GDP this year, more than planned by the government, and at the same level as the euro area overall. According to these forecasts, the general government debt in the euro area was forecast to reach 90.3% of GDP by the end of the year, significantly higher than the forecasts for Slovenia.

General government revenues increased in the first quarter as a result of the favourable economic situation, although revenues from the EU budget remained at a low level. General government revenues in the first quarter were up 7.4% in year-on-year terms. Revenues from taxes and contributions were up 7.3% in year-on-year terms, outperforming their growth of the last few years. Employment is strengthening, as are wages to a lesser extent, which is being reflected in solid growth in net social security contributions and revenues from personal income tax. Last year, particularly late in the year,

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

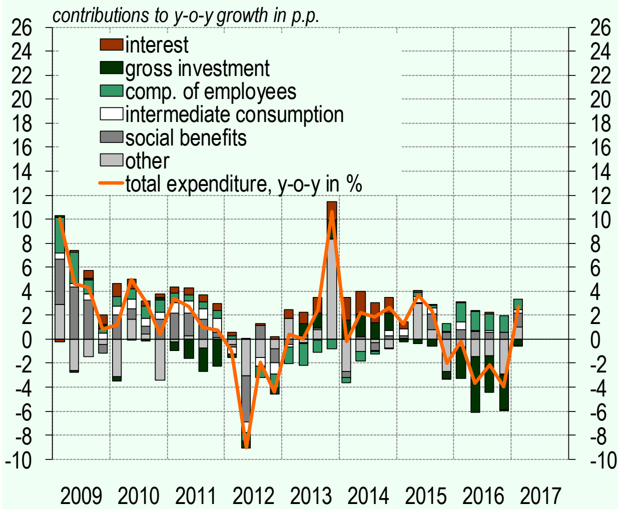
	SORS				2017	Draft Budgetary Plan			Stability Programme				EC	
% GDP	2013	2014	2015	2016	(1)	2016	2017	2018	2017	2018	2019	2020	2017	2018
Revenue	45.2	44.7	45.2	43.6	43.5	42.9	43.0	42.5	43.5	43.7	43.0	42.4	43.4	42.9
Expenditure	60.3	50.1	48.1	45.5	45.4	45.1	44.3	43.3	44.4	43.9	42.8	41.9	44.8	44.0
of which: interest	2.6	3.3	3.3	3.2	3.2	2.8	2.4	2.3	2.4	2.1	2	1.8	3.0	2.8
Net lending (+) / borrowing (-)	-15.1	-5.4	-2.9	-1.8	-1.9	-2.2	-1.3	-0.8	-0.8	-0.2	0.2	0.4	-1.4	-1.2
excl. support to fin. institutions	-5.0	-4.4	-2.9	-1.8	-1.9	-2.2	-1.3	-0.8	-0.8	-0.2	0.2	0.4	-1.4	-1.2
Primary balance	-12.5	-2.1	0.4	1.4	1.3	0.6	1.2	1.5	1.6	1.9	2.2	2.1	1.6	1.6
Structural balance	...	...	...	...	...	-1.5	-0.8	-0.9	-0.6	-0.3	-0.1	0.0	-1.8	-2.3
Debt	71.0	80.9	83.1	79.7	81.4	80.2	78.2	76.5	77	74.3	70.9	67.5	77.8	75.5
Real GDP (growth, %)	-1.1	3.1	2.3	2.5	5.3	2.3	2.9	2.6	3.6	3.2	2.6	2.6	3.3	3.1

Note: For 2017 data from the first quarter is used.
Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2016), Stability Programme (Ministry of Finance, April 2017), European Commission (May 2017).

Figure 6.1: General government revenue

Source: SORS, Bank of Slovenia calculations.

Figure 6.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

and in the first quarter of this year, in the wake of growth in disposable income there was also a significant increase in private consumption, and thus in revenues from indirect taxation. VAT revenues increased by 6.2%. Corporate income tax revenues also continued to increase. Capital transfers declined significantly last year as a result of the slow beginning to the disbursement of funds from the new European financial framework. The decline continued in the first quarter of this year, although the low base meant that it was no longer as pronounced.

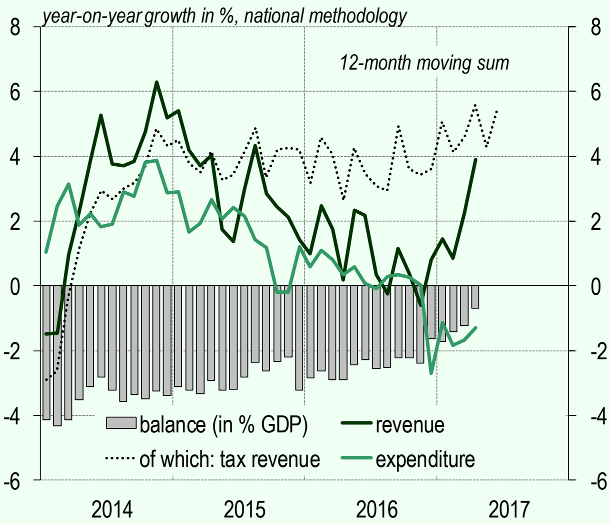
General government expenditure recorded growth in the first quarter, albeit significantly less than government revenues, but there was growth in multiple types of expenditure, which was attributable to the ongoing relaxation of austerity measures. General government expenditure was up 2.7% in year-on-year terms. Expenditure on compensation of employees has continued to grow this year. Having increased by 1.5% last year, employment in the government sector was up 2.3% in year-on-year terms in the first quarter of this year. The average wage in the government sector is also increasing: it was up 0.9% in the first quarter. The increase was primarily attributable to September's rise in the wage scale, and promotions at the end of the year. There was

Box 6.1: Public finance developments according to cash flow methodology

The consolidated general government deficit is narrowing in the favourable economic situation. It amounted to EUR 85 million over the first four months of the year, EUR 360 million narrower in year-on-year terms. The deficit was registered primarily in the state budget (EUR 135 million), while the Health Insurance Institute also recorded a small deficit (EUR 2 million). Local government budgets recorded a surplus position overall (EUR 49 million), up slightly on last year. The state budget recorded a total surplus of EUR 199 million in May and June, up EUR 79 million on the same period last year.

Revenues over the first four months of the year were up 9.0% in year-on-year terms. There was an increase in tax revenues, a reflection of the favourable economic situation, primarily as a result of further improvement in the conditions on the labour market, and also in non-tax revenues. Growth in revenues from taxes and contributions stood at 7.3%, and at 6.9% over the first six months of the year. The highest growth was recorded by corporate income tax, as a result of settlements for the previous year, which are usually paid mainly in April but were deferred to May last year. The high growth in non-tax revenues is attributable to a year-on-year increase in dividend payments, which were paid into the budget in April, and in an even larger sum in May. Revenues from the EU budget were approximately unchanged in year-on-year terms over the first four months of the year, and were down in year-on-year terms over the next two months.

Figure 1: Public finance developments



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

Table 1: Consolidated* general government

	2016	last 12 months to Jan. 17			2016 Jan.-Apr.	2017 Jan.-Apr.	Jan.-Apr.17
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**15,842**	**16,294**	**40.2**	**3.9**	**5,038**	**5,490**	**9.0**
Tax revenue	14,240	14,577	35.9	5.5	4,589	4,926	7.3
- goods and services	5,433	5,569	13.7	4.6	1,703	1,839	8.0
- social security contributions	5,721	5,833	14.4	5.1	1,869	1,981	6.0
- personal income	2,079	2,126	5.2	6.1	709	756	6.7
- corporate income	599	698	1.7	38.1	145	244	67.8
From EU budget	481	485	1.2	-37.1	203	207	2.0
Other	1,121	1,232	3.0	12.5	246	357	45.2
Expenditure	**16,497**	**16,589**	**40.9**	**-1.3**	**5,483**	**5,576**	**1.7**
Current expenditure	7,407	7,480	18.4	4.2	2,553	2,626	2.8
- wages and other personnel expenditure (incl. contributions)	3,785	3,834	9.4	5.8	1,225	1,274	4.0
- purchases of goods, services	2,371	2,393	5.9	2.6	703	725	3.1
- interest	1,074	1,076	2.7	4.0	588	590	0.4
Current transfers	7,700	7,745	19.1	2.1	2,596	2,641	1.7
- transfers to individuals and households	6,496	6,540	16.1	2.0	2,147	2,191	2.0
Capital expenditure, transfers	962	966	2.4	-41.9	174	178	2.5
To EU budget	427	398	1.0	2.7	160	131	-18.4
GG surplus/deficit	**-654**	**-295**	**-0.7**		**-445**	**-85**	

*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.

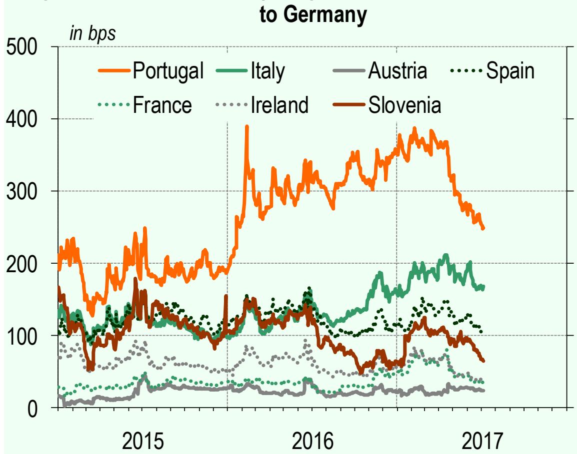
Consolidated general government expenditure over the first four months of the year was up 1.7%, significantly less than the increase in revenues. Expenditure increased in all categories other than subsidies and payments into the EU budget. Expenditure on wages and other expenditure on employees continued to increase, primarily as a result of measures introduced last year and the rise in employment. Expenditure on goods and services and on transfers to individuals and households also increased. Expenditure on sickness benefits is the fastest growing category in latter expenditure category. Over the first four months of the year it was up around 16%, having increased by the same amount last year, and by a tenth in 2015. The favourable situation on the labour market has seen unemployment benefits decline.

also an increase in social security benefits. Pension payments in the first quarter were up 1.6%, as a reflection of the pension rate increase, in the wake of a small rise in the number of pensioners. Growth in sickness benefits was extremely high: it was up a seventh. Investment declined again in the first quarter, primarily as a result of the sale of real estate by the BAMC. Expenditure on intermediate consumption increased slightly, while interest payments declined.

General government debt and government guarantees

The general government debt increased somewhat in the first quarter of this year. It amounted to EUR 32,850 million or 81.4% of GDP at the end of March, up 1.7 GDP percentage points on the end of last year. The increase was primarily the result of issuance of long-term securities in the first quarter. A new 10-year bond was issued in January, and an issue of a 30-year bond was increased. By issuing long-term bonds in March and May the government carried out a debt restructuring, replacing some of its bonds issued in US dollars with euro-denominated bonds. The euro bond issuance more than compensated for the retired bonds in US dollars. Through the debt restructuring the government is reducing its interest expenses and lengthening the maturity of the debt. The debt restructuring operations carried out by the government last year and during the first five months of this year reduced the debt issued in US dollars from its original level of USD 9.25 billion to USD 4.9 billion. In the wake of May's bond replacement, the Ministry of Finance announced that long-term borrowing was completed for this year. As a result of maturing debt principal (mostly in October and May), the debt will decline towards the end of the year, and is forecast to stand at 77% of GDP at the end of the year according to the Ministry of Finance.

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



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

Guarantees declined in the first quarter of this year, primarily as a result of the early repayment of a loan raised by the BAMC. Government guarantees amounted to EUR 6.7 billion or 16.5% of GDP at the end of the first quarter, down EUR 137 million on the end of last year. The largest decline was in guarantees issued under the Regulating Measures of the Republic of Slovenia to Strengthen the Stability of Banks Act in connection with loans and bonds of the BAMC, the BAMC having made partial early repayment of the loan in February. There was also a decline in ordinary guarantees, mostly in those issued to DARS d.d. The guarantees to DARS account for 38% of total guarantees, and still represent the largest proportion of government guarantees issued to a single firm. The required yield on Slovenian government bonds declined slightly in the second quarter. A gradual decline in required yields and spreads in the second quarter was also seen in other euro area countries. The decline with regard to Slovenian long-term bonds came to a temporary end in mid-May, as a result of the transactions to replace bonds denominated in US dollars with euro-denominated bonds. In June Standard and Poor's

Box 6.2: EU financing after Brexit and potential impact on Slovenia

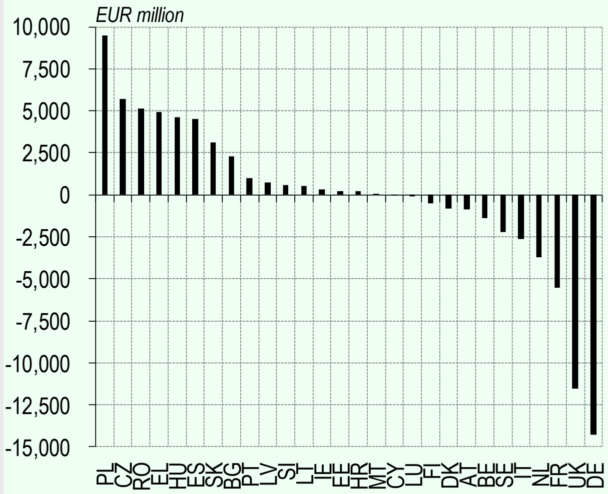
The exit of the UK from the EU will have significant consequences for the EU budget and respectively for the Multi-annual Financial Framework (MFF). The MFF allows the EU to continue to pursue common policies over a period of several years, thereby ensuing predictability for users of EU funds. The MFF sets out the maximum annual funding that the EU can use in various areas. The current financial framework covers a period of seven years, from 2014 to 2020. Each year the EU adopts an annual budget, while the MFF sets the framework for financial planning and financial discipline over the longer term.

The UK is the second-largest contributor to the EU budget, immediately after Germany in terms of net payments into the EU budget according to the European Commission's data for the 2011 to 2015 period. If the UK leaves the EU by mid-2019, i.e. before the end of the current financial framework, and if no extension to the negotiations occurs in accordance with the two-year period from the triggering of Article 50 of the Treaty on European Union, the loss to the EU budget for 2020 will be at minimum just over EUR 8 billion, the size of the UK's average budget contribution between 2013 and 2015. The sum could be even greater, as the UK's net contribution in 2015 amounted to EUR 11.5 billion, or 7.9% of all EU budget expenditure in that year.[1] This is merely 0.1% of EU GDP.[2] Should Brexit happen before the end of 2020, the current financial framework would have to be revised because of the loss of UK contributions, although there are no clear guidelines for such an adjustment to the financial framework.

The impact of Brexit on the EU's public finances will be the permanent loss of the UK's net contribution to the EU budget. This will also have a structural impact on the EU's public finances, as the absolute amount of the EU budget will be reduced. The EU's own resources[3] for the period of 2014 to 2022 are based on the Council Decision of 26 May 2014,[4] according to which the total amount of own resources allocated to the Union to cover annual appropriations for payments can amount up to 1.23% of the total gross national income (GNI) of all EU Member States, whereby the total annual amount of appropriations for commitments may not exceed 1.29% of EU GNI.

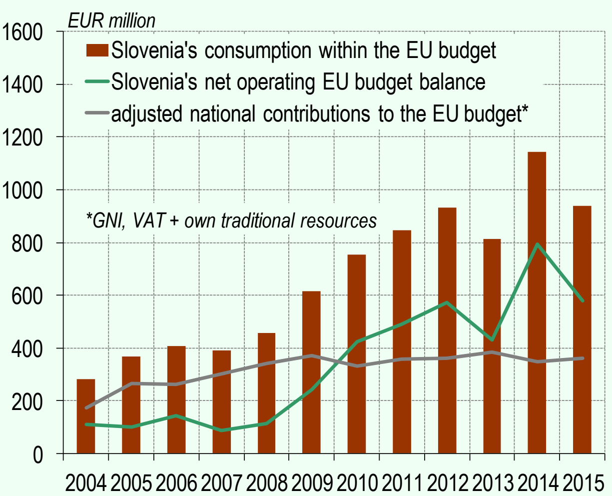
Brexit will affect the dynamics of budget negotiations in the Council of the EU, while there could be an additional structural impact of Brexit in connection with ending of the correction mechanism in favour of the UK. The exit of the UK could lead

Figure 1: Net operational budget balance of EU members with respect to the EU budget, 2015



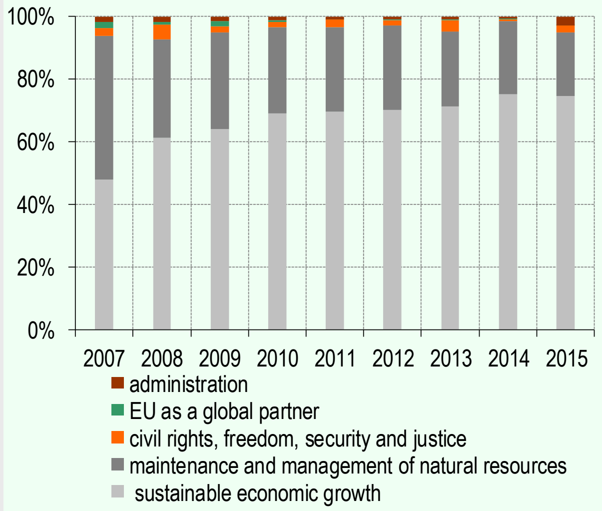
Source: EC, 2017.

Figure 2: Slovenian net budgety balance with respect to EU long-term financial framework



Source: EC.

Figure 3: Slovenia – spending structure for individual programmes in a long-term financial framework



Source: EC, 2017.

to major changes in the system of own resources of Member States.

There are several options for the adjustment of the EU budget because of Brexit. One is that the Member States decide to maintain the current level of budget expenditure by increasing Member States' contributions. Increasing the EU's revenues from traditional own resources and VAT requires the amendment of the Council Decision on the system of own resources,[5] which all Member States approve in accordance with their constitutional rules. Because this could be demanding in political and operational terms, it is more likely that the European Commission will raise the level of national contributions on the basis of GNI, whereby all Member States would have to pay more, and the largest increase would probably fall on the largest contributors to the EU budget, which would entail politically difficult coordination.

A second option is to reduce budget expenditure, and thus national spending from the EU budget. Budget cuts could encompass several programmes, from cohesion and agricultural funding, to programmes for competitiveness and economic growth.

Another potential scenario is a combination of an increase in contributions and a reduction in expenditure, where the distribution of the contribution increases and expenditure cuts would depend on coordination between Member States. The burden of the largest increase in contributions would again probably fall on the largest net contributors to the EU budget.[6]

Slovenia has been a net recipient since joining the EU, having received more from the EU budget since 2004 than it has paid in. Slovenia's positive budget balance has gradually increased, and its annual spending of EU funds averaged in excess of EUR 900 million between 2011 and 2015. Slovenia's largest spending of funds was from the item of "smart and inclusive growth",[7] from where more than 90% of the funding was earmarked for cohesion targets for growth and employment, the remainder going to competitiveness targets for growth and employment. The second largest objective in Slovenia's spending is the conservation of natural resources, which is related to funding from the agricultural and fisheries funds. The proportion of Slovenia's total operational budget spending that they account for has declined in recent years compared with the increase in funding for sustainable economic growth.

In the event that the prevailing decision in the wake of Brexit is to maintain EU expenditure at the same level as before the UK's exit, and to increase national contributions on the basis of GNI, there is likely to be an increase in Slovenia's contribution. In the event that the prevailing decision is to reduce spending, for Slovenia this would entail a loss of funding for individual programmes. The third option of a combination of increased contributions and reduced spending would entail Slovenia having to increase its contribution to the EU budget while also reducing its spending of EU funds. The estimates of by how much Slovenia's contribution would increase and its funding would be reduced depend on the agreement reached in the exit negotiations.

[1] Source: European Commission, 2017.

[2] Source: Eurostat, 2017.

[3] Own resources comprise traditional own resources (customs duties and sugar levies), own resources based on value added tax (VAT), and own resources based on GNI (a standard percentage of the GNI of each Member State is levied for expenditure not covered by the other own resources, to balance EU revenues and expenditure).

[4] Official Journal of the European Union L 168 of 7 June 2014, http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32014D0335&from=EN.

[5] Ibid, pp 107-108.

[6] An increase in national contributions to the EU budget is less acceptable for the Member States that are already major net contributors to the EU budget (most notably Germany, France, the Netherlands, Italy and Sweden). By contrast, budget cuts would be unacceptable for the Member States that are net recipients from the EU budget (Poland, the Czech Republic, Romania, Hungary, Spain, Slovenia and others).

[7] The financial framework 2014-2017 uses slightly different terminology for these budget items than in the previous financial framework.

upgraded Slovenia's long-term debt by one notch from A to A+, which made an additional contribution to the decline in required yields on Slovenian government debt. The required yield on Slovenian government bonds stood at around 1.1% at the end of June, while spread over the German benchmark was close to 68 basis points..

Planned developments in the general government deficit

According to the Ministry of Finance's forecasts, the general government deficit is expected to gradually narrow, reaching 0.8% of GDP this year, while the fiscal position is forecast to be in surplus as of 2019. The deficit in 2016 was smaller than planned, while the macroeconomic situation has been more favourable than previously expected this year, and is expected to remain so in the following years. The nominal general government deficit is therefore narrowing more quickly than previously planned, and a surplus is anticipated in the final two years of the programme period. The primary position was in surplus last year for the second consecutive year, and the surplus is expected to increase this year and in the following years.

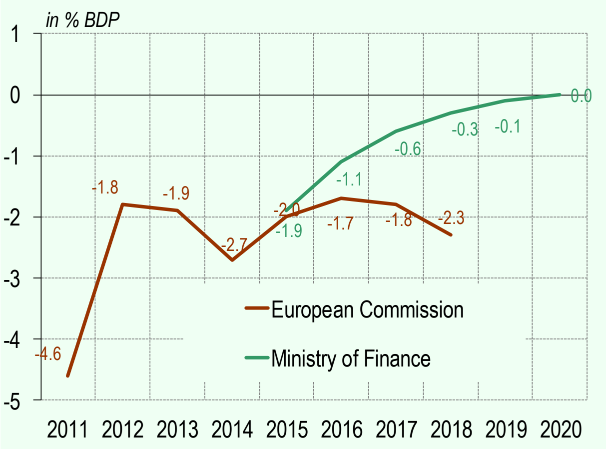
The objective of fiscal policy remains a balanced structural position by 2020. The objective of fiscal policy remained unchanged in April's update to the Stability Programme, namely a balanced structural fiscal position by 2020. The objective is not aligned with the requirements of the Stability and Growth Pact, which for Slovenia envisage a more ambitious medium-term budgetary objective in the amount of a surplus of 0.25% of GDP. The fiscal effort[9] envisaged by the Ministry of Finance is largest in 2017, and smaller in the following years.

The European Commission's assessment is that additional measures are required to ensure convergence to the medium-term objective, which would be in line with the requirements of the Stability and Growth Pact. According to the European Commission's estimates, in 2016 Slovenia complied with the recommended adjustment path towards the medium-term objective. A fiscal effort in the amount of 0.6% of GDP is required of Slovenia this year, and the requirement could be even higher in 2018.[10] The European Commission finds that, in light of the calculations of the structural deficit for Slovenia, there are risks of some deviation from the rules of the Stability and Growth Pact in 2017, and risks of a significant deviation from the rules in 2018. In the European Commission's assessment, Slovenia is meeting the rules with regard to debt reduction. The Fiscal Council established in March also emphasises that the favourable macroeconomic situation demands the consideration of additional structural adjustments in the public finances, and has called for restraint in general government expenditure during the time that economic situation is favourable.

Progress on structural reforms is slow. The government has decided not to introduce a real estate tax during this term, but is still planning to adopt healthcare reform and reform to long-term care. The last two are also included in this year's specific recommendations to Slovenia by the European Commission, which also recommend the adoption of the necessary measures to ensure the long-term sustainability and suitability of the pension system. Work is continuing in the area of changes to the pension system. The government was briefed on the draft of agreed starting points for the overhaul, and at the end of June authorised the labour minister to sign the agreed starting points, which were also adopted by the Economic and Social Council in early July.

The risks in the area of fiscal policy primarily remain related to controlling general government expenditure. The government reached an agreement with the public sector unions and with the FIDES union with regard to public sector pay, although certain groups of employees are not satisfied with their position. Negotiations for carrying out some of the agreed measures

Figure 6.4: Public finance structural balance



Note: Structural balance estimate by the MoF reflects targeted dynamics, while the EC estimate only includes adopted measures.
Source: EC, Ministry of Finance - Stability Programme, April 2017.

[9] The fiscal effort is defined as the change in the structural fiscal position. The structural position is calculated by eliminating cyclical components, one-off effects and other temporary measures from the fiscal position. It amounted to a deficit of 1.7% of GDP in 2016. According to European Commission estimates, Slovenia reduced its structural deficit by 0.4% of GDP in 2016, which is the change in structural position or fiscal effort.
[10] Slovenia has committed itself to improving the structural position at the target pace until the medium-term objective is reached. The pace of convergence is set out by the rules, and may be modified in particular with regard to the economic cycle and the amount of sovereign debt. According to the European Commission's May forecasts, Slovenia is expected to be in a period of normal economic conditions this year (normal economic conditions are defined by an output gap of between -1.5% and +1.5% of potential GDP). Because the debt level is above 60% of GDP, a structural effort of more than 0.5% of GDP is expected, namely 0.6% of GDP.

(elimination of disparities in the wage system) were not completed on time. Pensioners will receive a larger annual bonus this year, and as of October the minimum pension for full years of service will be EUR 500. Further pressure on expenditure comes from the demand for funding for the defence budget, and from uncertainty in connection with the financing of major investment projects, both in terms of the time dimension and the required amount of funding. The reduction of the deficit could be hindered by one-off factors such as BAMC transactions and court judgments.

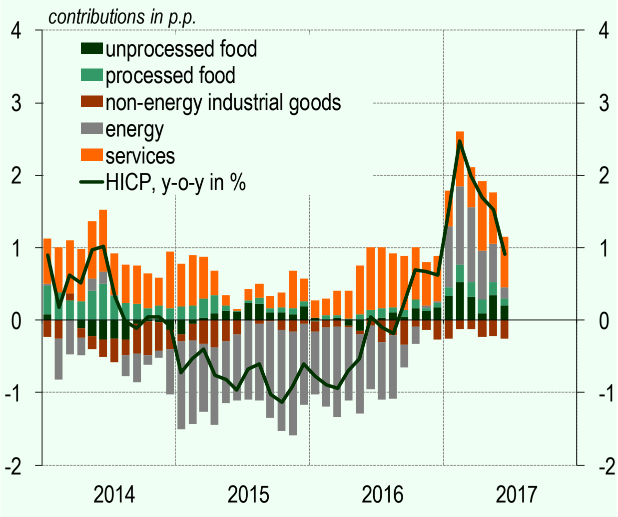
7 Price Developments

Year-on-year inflation fell in the second quarter of this year. In this period there was most notably a fall in certain prices on international markets that had been a significant factor in the rise in inflation in the first quarter. Growth in the harmonised index of consumer prices (HICP) thus stood at 1.4%. Services prices rose, in contrast to headline inflation. This also raised year-on-year growth in core inflation, which remains below the euro area average as a result of the weak pass-through for now of the positive situation in economic activity into price growth.

Structure of price developments

The fall in inflation in the second quarter was followed by a significant change in its structure. Year-on-year price growth as measured by the HICP stood at 1.3%, down 0.7 percentage points on the previous quarter. The decline was entirely the result of a decline of 0.8 percentage points in the contribution made by prices of goods, while the contribution made by services prices increased by 0.2 percentage points. The decline in the former was largely attributable to external factors, as commodity price pressures have diminished and the base effect wanes, while the large rise in food prices on the Mediterranean market seen in the first quarter has also eased. Growth in services prices is largely the result of extraordinary rises in individual prices in the category.

Figure 7.1: Contributions to headline HICP inflation



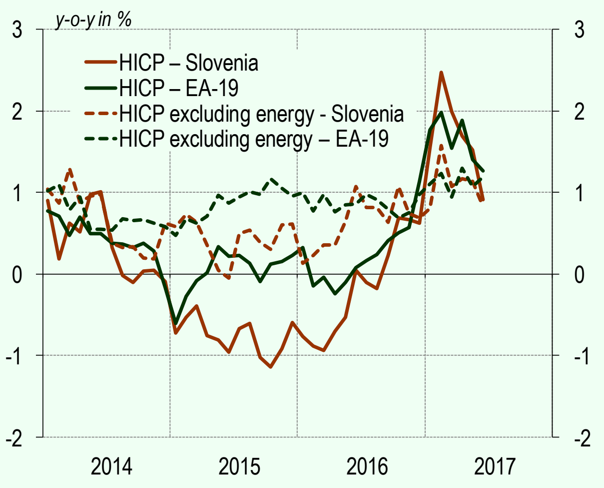
Source: Eurostat, Bank of Slovenia calculations.

Macroeconomic factors

Core inflation rose slightly in the second quarter, but remains slightly below the euro area average. Core inflation as measured by the HICP excluding energy, food, alcohol and tobacco averaged 0.8% in the second quarter, up 0.1 percentage points on the first quarter. This was the result of year-on-year growth in services prices, while year-on-year growth in prices of non-energy industrial goods slowed again. The latter was also a factor in Slovenia's inflation rate being slightly below the euro area average.

Upward pressure on core inflation is strengthening, but there is not yet any major pass-through into final consumer prices. On the demand side, the positive situation on the labour market has continued, and has been followed by relatively high growth in the nominal wage bill and an increase in real household disposable income. Year-on-year growth in real final household consumption is high, and growth in consumer loans is strengthening. Pressures are also higher on the supply side, which is

Figure 7.2: Inflation in Slovenia and the euro area



Source: Eurostat.

being reflected in import prices and producer prices. On the other hand productivity growth outpaced wage growth in the first quarter, which reduced unit labour costs for firms, and increased cost competitiveness is allowing prices to be maintained at current levels.

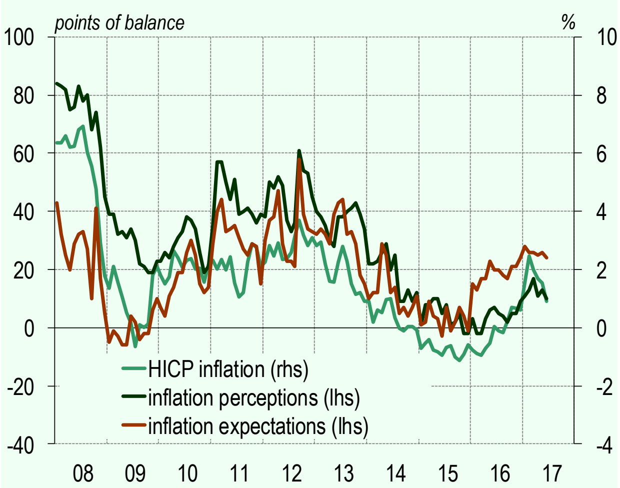
Microeconomic factors

Oil prices on global markets reduced year-on-year growth in energy prices in the second quarter of this year. A barrel of Brent crude averaged USD 45.8 in the second quarter, down almost 10% on its average in the first quarter. The fall in oil prices in the second quarter and the waning base effect brought a fall in prices of refined petroleum products and liquid fuels as excise duties remained unchanged. There were no major changes in other sub-categories of energy prices. Year-on-year growth in energy prices consequently declined by 4.4 percentage points to 3.7%, halving their contribution to inflation to 0.5 percentage points. Owing to the higher weight given to energy prices in the basket of goods and services in Slovenia, the fall was slightly larger than in the euro area overall, where energy prices in the second quarter were down by 3.6%.

The supply-side shock that brought a sharp rise in prices of fresh vegetables in the early part has died away. After strong temporary year-on-year growth in prices of unprocessed food in the first quarter owing to bad weather in the Mediterranean, these prices fell sharply in the second quarter. This was primarily the result of a fall in prices of vegetables, while growth in other sub-categories increased slightly. Year-on-year growth in prices of processed food remained unchanged, as did their structure. Year-on-year growth in prices of unprocessed food across the euro area slowed sharply, while prices of processed food rose. Year-on-year growth in food prices declined by 0.2 percentage points more in Slovenia than across the euro area overall, to stand at 0.9%.

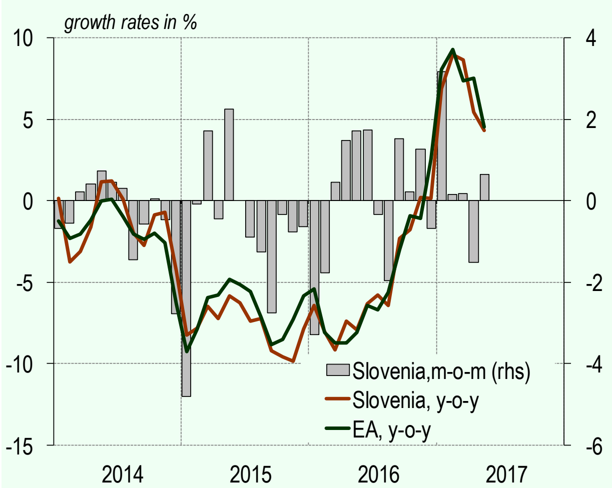
Growth in services prices remains higher than the average across the euro area. Year-on-year growth in services prices increased strongly in the second quarter, which did not seem to be the result of increased demand, but of extraordinary rises in certain services prices. In

Figure 7.3: Inflation, perceptions and expectations



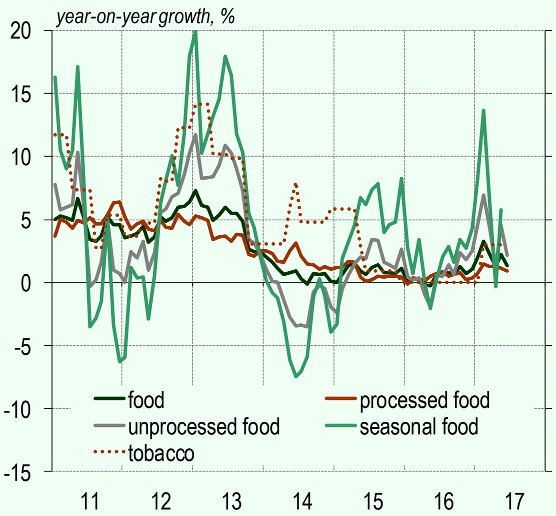
Sources: SORS, Eurostat.

Figure 7.4: Energy prices



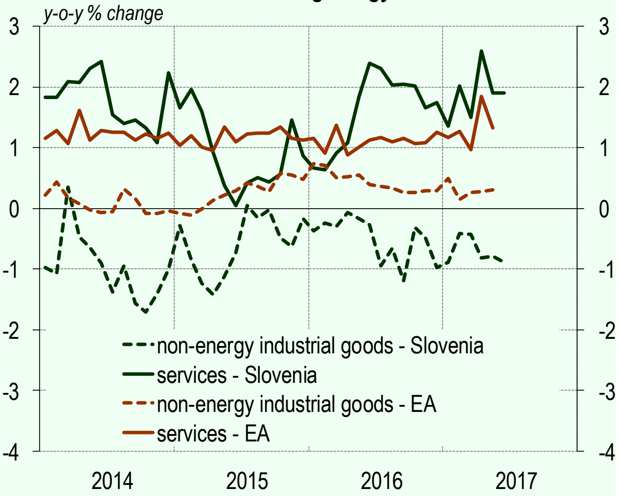
Source: Eurostat, Bank of Slovenia calculations.

Figure 7.5: Food prices



Sources: Eurostat, Bank of Slovenia calculations.

Figure 7.6: Prices of services and industrial goods excluding energy



Source: Eurostat, Bank of Slovenia calculations.

April prices of passenger air transport recorded the highest current growth since the beginning of the measurement of inflation by the HICP. Prices of package holidays also rose slightly at the same time, although this dynamic was expected in line with the Easter and First of May holidays. Subscription fees for radio and television also rose strongly in April, as a result of an increase in the cost of programming rights, as did prices of services in connection with cars. Other marketable services did not record any major rises during this period. Year-on-year growth in services prices increased by the same amount in the euro area overall, but the rate remains higher in Slovenia.

The year-on-year fall in prices of non-energy industrial goods deepened again. Despite the positive situation

Table 7.1: Breakdown of the HICP and price indicators

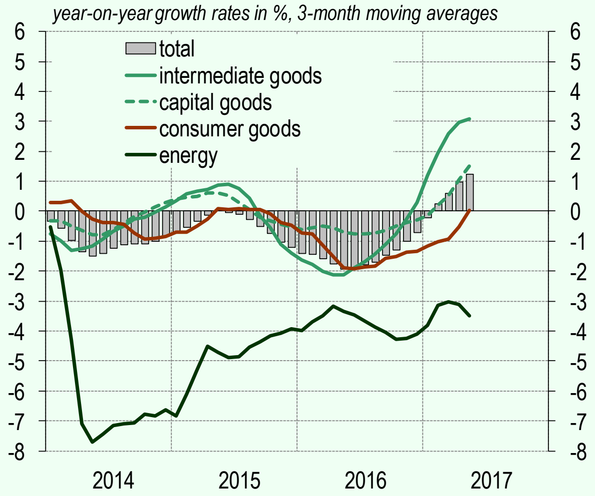
	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2017	2013	2014	2015	2016	2017	16Q1	16Q2	16Q3	16Q4	17Q1	17Q2
HICP	100.0%	1.9	0.4	-0.8	-0.2	1.7	-0.9	-0.4	0.0	0.7	2.0	1.4
Breakdown of HICP:												
Energy	11.9%	1.8	-1.4	-7.8	-5.2	5.9	-7.9	-7.2	-4.9	-0.5	8.1	3.7
Food	22.8%	4.9	0.8	0.9	0.5	2.1	0.2	0.1	0.7	1.0	2.5	1.6
processed	15.4%	3.6	1.8	0.7	0.4	1.2	0.2	0.5	0.7	0.5	1.2	1.2
unprocessed	7.4%	7.7	-1.4	1.4	0.7	3.9	0.4	-0.8	0.9	2.3	5.3	2.5
Other goods	27.8%	-0.8	-1.0	-0.6	-0.5	-0.7	-0.3	-0.2	-0.9	-0.6	-0.6	-0.8
Services	37.4%	2.3	1.8	0.9	1.6	1.9	0.7	1.8	2.1	1.8	1.6	2.2
Core inflation indicators:												
HICP excl. Energy	88.1%	2.0	0.7	0.4	0.6	1.1	0.2	0.7	0.8	0.8	1.2	1.0
HICP excl. energy and unprocessed food	80.7%	1.4	0.9	0.4	0.6	0.8	0.2	0.8	0.7	0.7	0.8	0.9
HICP excl. energy, food, alcohol and tobacco	65.2%	0.9	0.6	0.3	0.7	0.8	0.3	0.9	0.8	0.8	0.7	0.8
Other price indicators:												
Industrial producer prices on domestic market		0.3	-1.1	-0.5	-1.4	0.9*	-1.6	-1.9	-1.5	-0.7	0.6	1.4*
GDP deflator		0.9	0.8	1.0	0.6	...	1.2	0.2	0.2	0.9	1.2	...
Import prices[1]		-1.5	-1.1	-1.4	-2.0	4.7*	-3.5	-3.8	-0.9	-0.1	4.8	4.5*

*Note: * Calculations based on available data for the first two months in the second quarter [1] National accounts figure.*
Source: SORS, Eurostat, Bank of Slovenia calculations.

in the domestic economy, prices of non-energy industrial goods fell, and for the moment are not responding to the growth in domestic demand. Of the actual prices, the largest decline was in year-on-year growth in prices of clothing, whose seasonal dynamic has diminished each year for several consecutive years now. Prices of sports equipment and prices of spare parts for cars also recorded growth of this type. In general prices of motor vehicles remain the largest factor in the negative growth. Across the euro area year-on-year growth in prices of motor vehicles was unchanged in the second quarter, but remains positive, in contrast to Slovenia.

Figure 7.7: Producer prices on domestic market

year-on-year growth rates in %, 3-month moving averages



Source: SORS, Bank of Slovenia calculations.

Industrial producer prices

Year-on-year growth in industrial producer prices on the domestic market continued in the second quarter. After falling for more than three years, industrial producer prices on the domestic market have moved into positive growth this year. The rate reached 1.5% in May. It was primarily evident in prices in the manufacture of basic metals and fabricated metal products, and the manufacturing of computer, electronic and optical products. Because commodity and energy prices on the global market have been falling in current terms in recent months, this is reducing input costs for firms, thereby again easing upward pressures on industrial producer prices.

8 Selected Themes

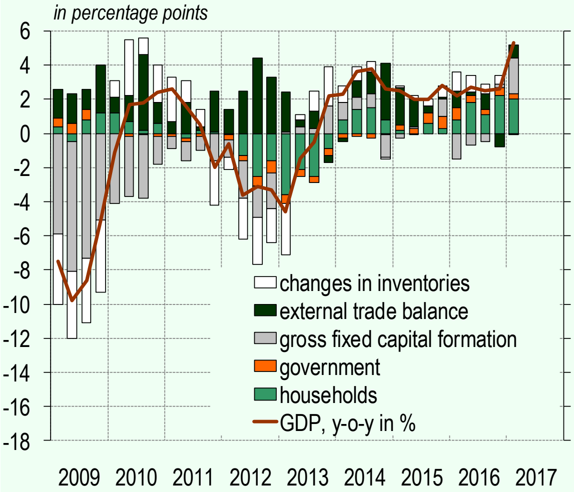
8.1 Estimation of the Phillips curve for Slovenia

After a long-lasting recession, understanding the dynamics of inflation has become a major challenge not only in the euro area, but also globally. Between 2012 and 2016 inflation in Slovenia and across the euro area remained at low levels, irrespective of the recovery in economic activity after 2013. This article tries to offer an insight in the factors behind the unexpectedly low inflation, and to analyse price developments using the Phillips curve framework. The preliminary findings suggest a flattening of the Phillips curve for Slovenia in the 2012 to 2015 period, which is the period of the beginning of the recovery in economic activity, when price growth was absent. The results show that during this period there was a breakdown in the relationship between real variables and inflation, i.e. a diminished response from inflation to certain indicators in the domestic economy. The results of the analysis also suggest the gradual reestablishment of the link after 2015.

The "missing inflation" and the role of foreign and domestic factors driving the Slovenian inflation

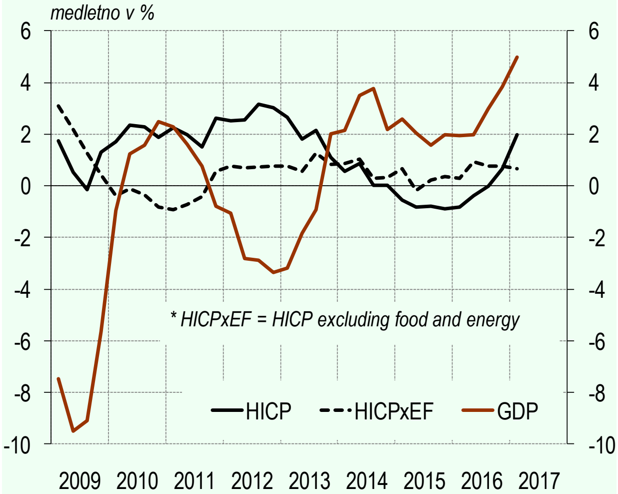
The period between 2012 and 2015 in the euro area became known as the "missing inflation" period, as the economic growth after 2013 was not followed by growth in prices. The divergence in the expected relationship between economic activity and inflation that was common for most of the euro area and was the main reason behind the systematic overprediction of inflation has taken centre stage in political and academic debate. In Slovenia the post-crisis period saw exceptionally low price growth that turned into deflation in 2015. By contrast, Slovenia's real GDP growth rate increased strongly after 2013, making Slovenia one of the fastest-recovering

Figure 8.1.1: Contributions to y-o-y GDP growth – expenditure side



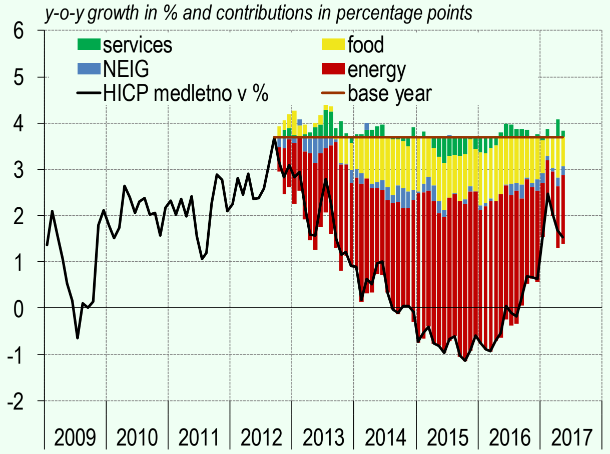
Source: SORS.

Figure 8.1.2: Real GDP, HICP and HICPxEF*



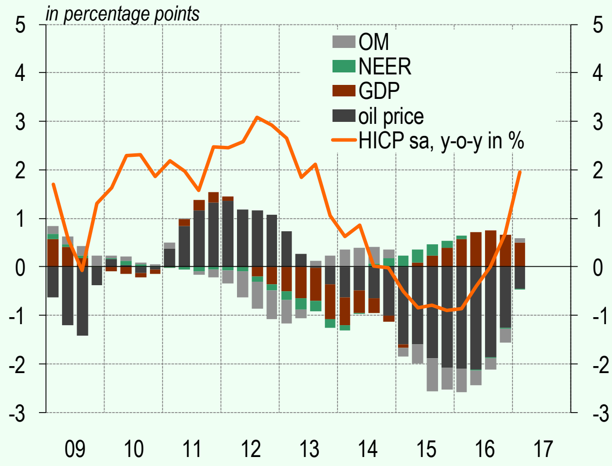
Source: SORS, ECB, Bank of Slovenia calculations.

Figure 8.1.3: Contributions of HICP components to disinflation



Note: black line: annual HICP inflation in %; red line: the peak inflation value; stacked columns: percentage point contributions to decline in HICP inflation compared to base period.
Source: ECB, Bank of Slovenia calculations.

Figure 8.1.4: Historical decomposition of HICP



Note: Shocks do not add up to the y-o-y growth rate since the contributions of the deterministic part are omitted in the figure above.
Source: Bank of Slovenia calculations.

economies in the euro area. The main engine behind the GDP growth in Slovenia between 2012 and 2015 were the above-average net exports (in the beginning as a result of the decline in imports, and later as a result of the recovery in foreign demand and the improved competitiveness of the export sector). In the same time, especially before 2014 however, private consumption saw strongly negative growth as a result of government austerity measures, high economic uncertainty and a sharp deterioration in the labour market conditions (Figure 8.1.1).

The reasons for the missing inflation phenomenon should be looked for in the different roles that foreign and domestic factors played in the period before the financial crisis and in its aftermath. Given that Slovenia is a small, open economy, its price developments are largely under the influence of prices of primary commodities on the global market. Figure 8.1.3 illustrates the contributions to the systematic fall in inflation, as measured by the HICP, after the second half of 2012, when inflation reached a peak in the period after the outbreak of the crisis, which was nonetheless lower than the pre-crisis peak in 2008. The largest contribution to the decrease in inflation in Slovenia came from the fall in energy and food prices, which followed the fall in oil prices and food prices on global markets. Slovenian inflation saw a sharper drop than the average across the euro area in this period. There were two main reasons for this phenomenon. Firstly, the foreign factors, which are an important input factor in the production process, as well as in final consumption, had a larger impact on final prices due to their higher weights in the Slovenian HICP. Additionally, the final consumption in Slovenia declined significantly during the crisis period.

The historical decomposition of inflation in Slovenia[11] confirms the different intensity of impact of domestic and foreign factors in the different periods. Figure 8.1.4 illustrates the contributions made by shocks in individual variables (external, domestic and financial) to inflation developments since 2009. Since we are interested in the price developments in the disinflation period between 2012 and 2015, the interpretation of the results focuses on this period. What we can observe from the historical decomposition of inflation is that the largest contributions to the drop in inflation in 2012 and 2013 came from shocks from the domestic environment, whose impact notably diminished after the first half of 2014, in line with the ongoing economic recovery. In the same time, the shocks on inflation induced by foreign factors begin increasing, which was mostly related to the fall in oil and commodity prices, and inhibited the price growth that was expected to follow the growth in domestic activity. The deflation was thus primarily a result of shocks from the

[11] The historical decomposition of inflation is the result of an estimated vector autoregression model in which the structural shocks are identified by means of Cholesky decomposition. The analysis was conducted on quarterly data for the period between the beginning of 1997 and the first quarter of 2017. The analysis is based on the analysis by Drenkovska and Kočevar in their draft paper *Drivers of domestic inflation and the exchange rate pass-through: the case of Slovenia.*

external environment at a time when global oil and food prices were falling sharply (in 2014 and 2015), as food and energy account for around 35% of Slovenia's HICP.

There are initial signs of the reestablishment of the relationship between inflation and economic growth. The historical decomposition of shocks on inflation also indicates that after 2015 the sensitivity of domestic inflation to changes in the domestic real activity has increased. Concurrently with the reversal of the inflation dynamics since the beginning of 2016, the impact of domestic factors has begun to strengthen, while oil prices shocks to inflation have begun to diminish, particularly in the early part of this year, when the inflation rate reached around 2%, partly due to base effects. The results of the preliminary analysis of the link between domestic inflation and economic activity with the help of a Phillips curve model are presented below.

Analysis of inflation in Slovenia by means of the Phillips curve

The above mentioned disconnect characterised with an economic recovery and an absence of price growth was investigated in a Phillips curve framework adjusted for a small, open economy.[12] The specification of the model thus includes, alongside the variables of economic activity and inflation expectations, variables of imported inflation, that is, foreign factors that exert a significant impact on domestic prices. The model was assessed separately for two different periods: the period between 1995 and 2012, and the period between 1995 and 2015. The longer period encompasses the period of excessive disinflation the euro area and in Slovenia after 2012. This renders the coefficients of the economic variables dependent on the period, and may reveal a different structural relationship between inflation and the cyclical variable in the different length samples.[13] The benchmark specification for the single equation's small open economy Phillips curve with fixed coefficients for small, open economies is as follows:

$$\pi_t = c + \rho\pi_{t-1} + \gamma\pi^e_t + \beta x_t + \delta\pi^f_{t-p} + \varepsilon \qquad (1)$$

where π_t is the annualised quarterly inflation rate seasonally adjusted, π^e_t is the inflation expectations variable, x_t is a real activity measure, π^f_t is the imported inflation variable, and p is an appropriate lag.

In light of the ongoing debate in the literature concerning the notable specification uncertainty of the Phillips curve, we estimate a set of different, but equally valid from economic perspective Phillips curves for Slovenia. In the different specifications we included various variables of economic activity and various estimates of the output gap, several different imported inflation variables (oil prices, imported commodity prices), and a set of different inflation expectations measures (such as measures founded on the SURS survey of consumer opinion of inflation developments (about price trends in the coming/past 12 months), and the average rate of growth in last four quarters). In all specifications there was an inflation inertia variable, or a first lag of the harmonised index of consumer prices.[14]

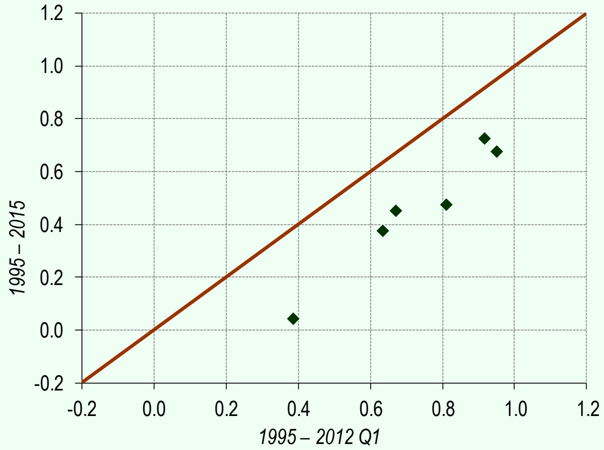
The disconnect between the output indicators and the inflation can be graphically represented through the change in slope of the Phillips curve for Slovenia in the 2012 to 2015 period. The scatterplot in Figure 8.1.5 represents the significant estimated parameters of

[12] The traditional Phillips curve is a single-equation model that describes the historic inverse relation between the unemployment rate and the inflation rate in a particular economy. In this analysis the New Keynesian version of the model is used, where the basic specification of the Phillips curve model is expanded for the purposes of analysing inflation in small, open economies, where the assumption is that growth in consumer prices is determined by factors of economic activity and inflation expectations.

[13] Here we follow the methodological approach developed within the framework of LIFT, the Low Inflation Task Force at the ECB.

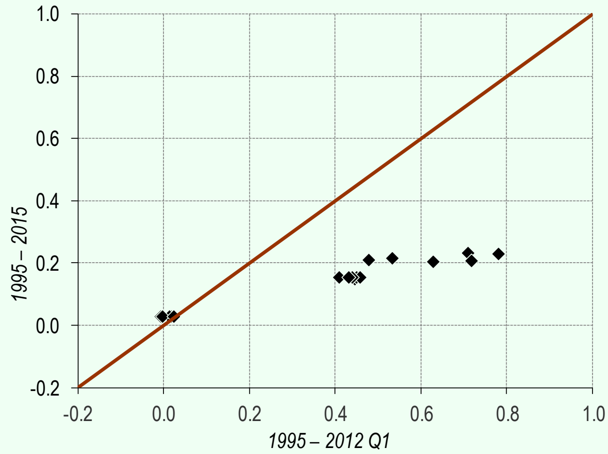
[14] In our specifications we use the seasonally adjusted harmonised index of consumer prices as the measurement of inflation, while real GDP, various estimates of the output gap, employment, the employment gap and similar measurements, which are included in the model with a lag, are used in various specifications as the measurement of economic activity. Only the results containing significant estimates of these variables are presented in the analysis. Measurements on the basis of the SURS survey of price developments in the past and over the next 12 months (the net balance of responses) that most closely approximate the expectations of economic entities are used as the inflation expectations variables. To assess the robustness of the estimates, as an additional measurement of expectations, the model uses the average of the last four year-on-year inflation rates, which represents an approximation of expectations of the movement in inflation on the basis of actual rates in the past (backward looking). An additional assessment of the robustness of the estimates is made by alternately using oil prices on the global market and non-energy commodity prices as imported inflation variables in the model. The significant estimates of parameters of variables in the majority of the specifications are evidence of the right choice of measurements.

Figure 8.1.5: Change in the Phillips curve - real activity estimated coefficients



Note: Non-energy commodity prices index is used as an imported inflation variable. Similar results are obtained when oil price is used as a measure of imported inflation.
Source: Bank of Slovenia calculations.

Figure 8.1.5: Change in the Phillips curve - inflation expectation



Note: Non-energy commodity prices index is used as an imported inflation variable. Similar results are obtained when oil price is used as a measure of imported inflation.
Source: Bank of Slovenia calculations.

economic activity variables obtained through the estimation of several different specifications of the Phillips curve in different time periods: the x-axis represents the estimated parameters for the period up to 2012, while the y-axis represents the estimated parameters for the period that includes the missing inflation. In the diagram, the points lie below the 45-degree red line, which indicates the flattening of the Phillips curve in the period that includes the 2012–2015 phenomenon.[15] The slope of the Phillips curve can broadly be defined as the response of inflation to a change in the economic activity variable. The flattening of the Phillips curve is thus the result of a decline in the responsiveness of inflation to changes in economic variables, i.e. a decline in the values of the significantly significant estimates of economic variables estimated in the various specifications of the model on data including the period of missing inflation.

We observe a flattening of the Phillips curve also in the case of the estimated inflation expectation variables. In the estimation of various specifications of the Phillips curve, we also obtained estimates of the parameters of inflation expectations variables in the two different periods. The analysis depicted in Figure 8.1.6 indicates a flattening of the slope also in the case of inflation expectations during the period of missing inflation. In other words, the estimates of inflation expectations during this period are lower i.e. have less explanatory power with regard to changes in the inflation rate. This applies both to survey-based measures and to measures funded in the observed average inflation rate in the last four years.

The findings on the flattening of the Phillips curve are consistent with findings in other euro area countries. Similar conclusions are reached in analyses done for other countries, for example by Kromphardt and Logeay (2011), Christiano et al. (2014), Murphy (2014), and Gilchrist et al. (2015). However, there is a certain heterogeneity across the EU with respect to the obtained estimation results of the respective Phillips curves, and with respect to the changes in the inflation sensitivity to economic activity variables.[16] In their paper, Gross and Semmler (2017) find that, historically speaking, it seems that inflation in periods of growth reacts more strongly to GDP, while during a deep recession, such as that suffered recently by the euro area, the response of inflation abates. For a robustness check, we also estimated various specifications of the Phillips curve on extended data series through in model that includes interactive terms based on dummy variables for the period of the missing inflation. The basic specification is given by equation 2:

[15] If most of the points were above the line, it would mean that the gradient of the curve had increased, while if the points were on the line or randomly distributed around it, it would mean that there is no indication of a change in gradient.
[16] The results for Germany and France reveal a stable relationship between inflation and real activity, while an increase in the gradient of the Phillips curve was found for Italy and Spain (see Álvarez & Urtasun [2013] and Riggi & Venditti [2015]). The increased sensitivity of inflation to the output gap may be the result of a decline in nominal rigidity, which could be attributable to the implementation of various structural measures (on the labour market, etc.) or the depth of the recession itself.

$$\pi_t = c + \gamma\pi^e_t + \beta x_t + \delta\pi^f_{t-p} + D\gamma\pi^e_t + D\beta x_t + \varepsilon \qquad (2)$$

where π_t is the annualised quarterly inflation rate after the exclusion of seasonal effects (headline and core inflation), π^e_t is the inflation expectations variable, x_t is the economic variable, π^f_t is the imported inflation variable, D is the dummy variable, which has a value of one in the 2012 to 2015 period and a value of zero elsewhere, and p is an appropriate lag. The estimates of the various specifications of this form of the model confirm the unusual response of inflation to real activity in the 2012 to 2015 period, and the flattening of the Phillips curve in this period. In addition, the estimated specifications encompassing the period of the reversal of the inflation dynamics, from 2016 onwards, indicate a gradual restoration of the expected relationship between inflation and economic activity.

The results from the analysis of Slovenian inflation indicate that the formation of consumer prices in Slovenia is heavily influenced by foreign factors, which through sustained adverse shocks caused a prolonged period of lower-than-expected inflation. However, our analysis of domestic inflation using the Phillips curve framework reveals that the period of low inflation after the crisis can also be explained by domestic factors, i.e. a non-linear relationship between inflation and real activity. The coefficients of the economic activity variables may vary depending on the size and duration of the output gap, the level and volatility of inflation, and the level of anchoring of inflation expectations, which are questions for further analysis.

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9 Statistical Appendix

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

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

The concise methodological notes for the statistics in this appendix are given on page 78, while more detailed explanations are given in the appendix to the Bank of Slovenia bulletin.

Table 9.1: Consolidated Balance Sheet of the Monetary Financial Institutions

EUR million	2013	2014	2015	16Q3	16Q4	Mar.17	Apr. 17	May 17
1.1. Claims of the Bank of Slovenia	4,771	7,278	5,410	6,862	6,544	6,735	6,818	6,841
1.2. Claims of other MFIs	5,165	6,680	8,266	7,383	8,113	8,203	8,282	8,393
1. Claims on foreign sectors (foreign assets)	**9,936**	**13,958**	**13,676**	**14,246**	**14,656**	**14,939**	**15,100**	**15,235**
2.1. Claims of the Bank of Slovenia on central government	233	263	2,327	4,219	4,618	4,823	4,937	5,041
2.2.1.1. Loans	1,083	1,149	1,298	1,212	1,506	1,396	1,364	1,243
2.2.1.2. Securities	5,480	6,105	5,814	5,660	4,767	4,633	4,492	4,541
2.2.1. Claims on central government	6,563	7,254	7,112	6,872	6,273	6,029	5,856	5,784
2.2.2.1. Loans	581	671	622	571	576	588	588	581
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	581	671	622	571	576	588	588	581
2.2. Claims of other MFIs on general government	7,144	7,926	7,734	7,443	6,849	6,617	6,445	6,365
2.3.1.1. Loans	14,135	11,213	10,040	8,984	9,259	9,311	9,379	9,337
2.3.1.2. Securities	767	524	462	471	405	410	411	407
2.3.1. Claims on nonfinancial corporations	14,902	11,737	10,502	9,455	9,664	9,720	9,790	9,745
2.3.2. Households and non-profit institutions serving households	8,917	8,762	8,856	8,974	9,154	9,305	9,352	9,413
2.3.3.1. Loans	1,460	1,087	898	789	864	871	871	897
2.3.3.2. Securities	303	408	534	521	547	351	351	351
2.3.3. Claims on nonmonetary financial institutions	1,763	1,495	1,432	1,310	1,411	1,222	1,222	1,248
2.3. Claims of other MFIs on other non-MFIs	25,582	21,995	20,790	19,740	20,228	20,247	20,364	20,406
2. Claims on domestic non-MFIs	**32,959**	**30,183**	**30,850**	**31,402**	**31,696**	**31,686**	**31,746**	**31,812**
3. Remaining assets	**3,670**	**3,771**	**3,119**	**2,354**	**2,168**	**1,890**	**1,752**	**1,772**
Total assets	**46,565**	**47,912**	**47,646**	**48,002**	**48,519**	**48,515**	**48,598**	**48,818**
1.1. Bank of Slovenia	1,054	10	16	0	1,267	531	1,146	414
1.2. Other MFIs	8,241	7,409	5,920	5,152	5,076	4,823	4,666	4,800
1. Obligations to foreign sectors (foreign liabilities)	**9,294**	**7,419**	**5,936**	**5,152**	**6,343**	**5,354**	**5,812**	**5,214**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,189	4,673	4,956	5,023	5,160	5,110	5,160	5,167
2.1.1.2. Overnight deposits at other MFIs	8,832	10,441	13,057	14,787	15,471	16,241	16,285	16,435
2.1.1.3.1. Non-monetary financial institutions	15	44	9	51	69	62	5	23
2.1.1.3.2. Other government sector	28	28	53	73	62	79	78	75
2.1.1.3. Overnight deposits at the Bank of Slovenia	43	71	63	123	131	140	83	98
2.1.1. Banknotes and coins and overnight liabilities	13,065	15,185	18,075	19,933	20,761	21,491	21,528	21,700
2.1.2.1. Deposits at the Bank of Slovenia	-	1	1	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	9,804	9,363	7,837	6,800	6,864	6,561	6,462	6,276
2.1.2. Time deposits	9,804	9,364	7,838	6,800	6,864	6,561	6,462	6,276
2.1.3. Deposits reedemable at notice up to 3 months	209	379	315	474	464	540	571	593
2.1. Banknotes and coins and deposits up to 2 years	23,078	24,929	26,229	27,207	28,089	28,592	28,561	28,568
2.2. Debt securities, units/shares of money market funds and repos	80	42	56	81	102	68	101	95
2. Banknotes and coins and instruments up to 2 years	**23,157**	**24,971**	**26,285**	**27,289**	**28,190**	**28,660**	**28,662**	**28,663**
3. Long-tern financial obligations to non-MFIs	**1,498**	**1,598**	**1,550**	**1,560**	**1,510**	**1,456**	**1,448**	**1,491**
4. Remaining liabilities	**15,783**	**17,229**	**15,378**	**15,590**	**14,083**	**14,581**	**14,235**	**14,956**
5. Excess of inter-MFI liabilities	**-3,168**	**-3,305**	**-1,504**	**-1,589**	**-1,607**	**-1,536**	**-1,558**	**-1,506**
Total liabilities	**46,565**	**47,912**	**47,646**	**48,002**	**48,519**	**48,515**	**48,598**	**48,818**

Table 9.2: Balance Sheet of the Bank of Slovenia

EUR million	2013	2014	2015	16Q3	16Q4	Mar.17	Apr. 17	May 17
1.1. Gold	89	101	100	121	112	119	118	115
1.2. Receivable form IMF	369	392	367	392	361	338	334	328
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	373	3,031	699	1,110	588	317	260	219
1.5. Securities	3,844	3,651	4,141	5,135	5,380	5,859	6,003	6,075
1.6. Other claims	96	103	103	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**4,771**	**7,278**	**5,410**	**6,862**	**6,544**	**6,735**	**6,818**	**6,841**
2.1. Claims on central government	233	263	2,327	4,219	4,618	4,823	4,937	5,041
2.2.1. Loans	3,682	1,098	901	635	714	1,152	1,142	1,150
2.2.2. Other claims	3	3	44	99	99	99	99	99
2.2. Claims on domestic monetary sector	3,685	1,101	946	734	813	1,251	1,241	1,249
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**3,919**	**1,366**	**3,275**	**4,955**	**5,433**	**6,076**	**6,180**	**6,291**
3. Remaining assets	**2,200**	**2,317**	**1,685**	**1,096**	**948**	**725**	**617**	**592**
Total assets	**10,890**	**10,961**	**10,370**	**12,914**	**12,924**	**13,536**	**13,615**	**13,724**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,189**	**4,673**	**4,956**	**5,023**	**5,160**	**5,110**	**5,160**	**5,167**
2.1.1.1.1. Overnight	1,503	1,526	1,634	2,324	2,252	3,009	2,726	2,669
2.1.1.1.2. With agreed maturity	605	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,108	1,526	1,634	2,324	2,252	3,009	2,726	2,669
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,108	1,526	1,634	2,324	2,252	3,009	2,726	2,669
2.1.2.1.1. Overnight	364	2,718	1,730	3,214	1,949	2,660	2,379	3,311
2.1.2.1.2. With agreed maturity	1,350	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,714	2,718	1,730	3,214	1,949	2,660	2,379	3,311
2.1.2.2. Foreign currency	73	94	60	54	78	55	55	52
2.1.2. General government	1,787	2,812	1,789	3,267	2,027	2,715	2,434	3,363
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	17	45	11	51	69	62	5	23
2.1.3. Other domestic sectors	17	45	11	51	69	62	5	23
2.1. Domestic sectors	3,912	4,383	3,434	5,642	4,348	5,786	5,164	6,055
2.2. Foreign sectors	1,054	10	16	0	1,267	531	1,146	414
2. Deposits	**4,966**	**4,393**	**3,450**	**5,642**	**5,615**	**6,317**	**6,310**	**6,469**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**0**	**0**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**241**	**257**	**275**	**270**	**275**	**274**	**271**	**266**
5. Capital and reserves	**1,339**	**1,440**	**1,472**	**1,792**	**1,657**	**1,603**	**1,631**	**1,624**
6. Remaining liabilities	**156**	**197**	**218**	**187**	**218**	**232**	**244**	**198**
Total liabilities	**10,890**	**10,961**	**10,370**	**12,914**	**12,924**	**13,536**	**13,615**	**13,724**

Table 9.3: Balance Sheet of other Monetary Financial Institutions

EUR million	2013	2014	2015	16Q3	16Q4	Mar.17	Apr. 17	May 17
1.1.1. Cash	282	292	294	293	322	305	329	325
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	2,108	1,526	1,634	2,324	2,252	3,009	2,726	2,669
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	2,390	1,818	1,928	2,617	2,574	3,315	3,055	2,994
1.2.1. Loans	2,432	1,719	1,264	1,031	1,031	935	974	981
1.2.2. Debt securities	363	378	245	253	256	265	208	208
1.2.3. Shares and other equity	117	61	62	2	2	2	2	2
1.2. Claims on other MFI's	2,912	2,158	1,572	1,286	1,289	1,202	1,184	1,191
1.3.1. Loans	26,176	22,883	21,714	20,531	21,358	21,470	21,555	21,472
1.3.2. Debt securities	5,702	6,352	6,050	5,979	5,030	4,730	4,622	4,637
1.3.3. Shares and other equity	849	685	759	673	689	664	633	662
1.3. Claims on nonmonetry sectors	32,727	29,920	28,524	27,183	27,077	26,863	26,809	26,771
1. Claims on domestic sectors (domestic assets)	**38,028**	**33,897**	**32,024**	**31,086**	**30,940**	**31,381**	**31,048**	**30,957**
2.1.1. Cash	23	29	34	34	38	35	35	40
2.1.2. Loans	1,697	2,839	2,767	2,092	2,628	2,546	2,540	2,459
2.1.3. Debt securities	372	498	1,027	1,037	1,162	1,157	1,163	1,182
2.1.4 Shares and other equity	559	572	567	567	567	567	567	577
2.1. Claims on foreign monetary sectors	2,651	3,938	4,395	3,731	4,395	4,306	4,305	4,258
2.2.1. Loans	2,530	2,135	1,597	1,290	1,168	1,120	1,104	1,113
2.2.2. Debt securities	1,378	1,878	1,870	1,964	2,154	2,382	2,477	2,631
2.2.3. Shares and other equity	273	329	405	399	396	395	395	391
2.2. Claims on foreign nonmonetary sectors	4,181	4,342	3,871	3,653	3,718	3,897	3,977	4,136
2. Claims on foreign sectors (foreign assets)	**6,833**	**8,279**	**8,266**	**7,383**	**8,113**	**8,203**	**8,282**	**8,393**
3. Remaining assets	**1,455**	**1,399**	**1,314**	**1,138**	**1,125**	**1,065**	**1,074**	**1,063**
Total assets	**46,315**	**43,575**	**41,603**	**39,607**	**40,178**	**40,649**	**40,404**	**40,413**
1.1.1. Deposits, loans from the Bank of Slovenia	3,682	1,098	901	635	714	1,152	1,142	1,150
1.1.2. Deposits, loans from other MFIs	2,440	1,733	1,301	1,080	1,123	986	1,041	1,037
1.1.3. Debt securities issued	150	93	38	14	18	22	17	16
1.1. Laibilities to monetary sectors	6,272	2,924	2,240	1,729	1,855	2,160	2,199	2,202
1.2.1.1. Overnight	8,542	10,129	12,661	14,321	15,038	15,744	15,805	15,970
1.2.1.2. With agreed maturity	12,214	12,481	10,604	9,015	9,061	8,689	8,567	8,377
1.2.1.3. Reedemable at notice	221	449	474	614	615	647	688	700
1.2.1. Deposits in domestic currency	20,977	23,059	23,739	23,950	24,715	25,080	25,060	25,048
1.2.2. Deposits in foreign currency	441	463	599	652	632	652	629	627
1.2.3. Debt securities issued	256	176	84	40	38	24	24	24
1.2. Liabilities to nonmonetary sectors	21,674	23,698	24,422	24,642	25,385	25,757	25,713	25,699
1. Obligations to domestic sectors (domestic liabilities)	**27,946**	**26,622**	**26,661**	**26,371**	**27,240**	**27,917**	**27,913**	**27,901**
2.1.1. Deposits	4,538	3,551	2,578	2,099	2,084	1,954	1,898	1,926
2.1.2. Debt securities issued	1,200	1,344	975	710	710	699	602	602
2.1. Liabilities to foreign monetry sectors	5,738	4,895	3,553	2,809	2,794	2,653	2,500	2,528
2.2.1. Deposits	2,054	2,052	1,954	1,781	1,720	1,662	1,659	1,764
2.2.2. Debt securities issued	32	25	27	23	23	23	23	23
2.2. Liabilities to foreign nonmonetary sectors	2,086	2,077	1,981	1,804	1,743	1,685	1,681	1,787
2. Obligations to foreign sectors (foreign liabilities)	**7,824**	**6,972**	**5,535**	**4,613**	**4,537**	**4,338**	**4,182**	**4,315**
3. Capital and reserves	**3,906**	**4,512**	**4,676**	**4,858**	**4,853**	**4,846**	**4,829**	**4,737**
4. Remaining liabilities	**6,641**	**5,469**	**4,731**	**3,766**	**3,547**	**3,549**	**3,481**	**3,459**
Total liabilities	**46,315**	**43,575**	**41,603**	**39,607**	**40,178**	**40,649**	**40,404**	**40,413**

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

in % on annual level	2012	2013	2014	2015	Mar.17	Apr. 17	May 17
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.75	8.53	8.20	8.01	7.82	7.81	7.86
Households, extended credit	8.65	8.06	8.02	7.84	7.72	7.73	7.73
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.02	5.04	5.01	4.19	4.25	4.17	4.10
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.22	7.21	7.00	5.64	5.67	5.74	5.72
Loans, households, consumption, over 5 years initial rate fixation	7.33	7.19	7.07	5.28	6.07	6.14	6.08
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.78	4.76	4.47	3.82	3.72	3.48	3.22
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	6.74	6.60	5.61	5.41	5.37	5.31
C. loans, households, consumption, over 5 year initial rate fixation	6.93	7.15	6.53	5.58	4.81	4.99	5.40
APRC, Loans to households for consumption	7.70	8.00	8.28	7.42	7.57	7.59	7.58
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.27	3.14	3.18	2.22	2.03	2.02	2.04
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.61	5.54	5.65	3.87	3.39	3.22	3.09
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.48	5.40	5.06	3.16	2.60	2.66	2.53
Loans, households, house purchase, over 10 years initial rate fixation	5.47	5.17	4.87	3.16	2.62	2.74	2.76
C. loans, households, house purchase variabel and up to years initial rate fixation	3.27	3.11	3.16	2.21	2.01	2.00	2.00
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.59	5.90	5.41	2.63	3.45	2.65	2.77
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.38	5.34	5.03	3.04	2.72	2.48	2.38
C. loans, households, house purchase, over 10 years initial rate fixation	5.80	5.71	4.87	3.12	2.60	2.68	2.69
APRC, Loans to households for house purchase	3.63	3.48	3.55	2.85	2.71	2.77	2.78
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.62	5.69	5.11	3.51	3.48	3.65	3.65
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	6.64	6.51	5.96	5.93	5.73	5.06	5.43
Loans, households, other purposes, over 5 years initial rate fixation	5.83	6.42	6.44	7.79	5.58	6.70	5.87
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.39	5.53	5.30	3.45	2.79	2.55	2.55
S.11, extended credit	7.25	7.39	7.28	7.16	7.66	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	5.69	5.55	4.81	3.38	3.11	3.24	3.09
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	6.40	6.44	5.77	3.50	3.26	2.98	3.08
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	6.99	6.57	5.92	4.23	3.32	4.48	4.06
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	6.94	6.28	5.93	5.36	5.01	4.14	4.99
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	6.94	6.70	5.82	4.87	3.32	3.69	3.87
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	8.19	7.58	5.87	3.34	-	2.68	2.63
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	5.22	5.08	4.62	2.49	2.36	2.26	2.28
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	6.04	6.00	5.29	2.57	2.83	2.11	2.33
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	6.35	6.31	5.27	3.06	1.44	2.87	1.58
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	6.77	5.60	5.97	-	2.29	1.87	1.76
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	5.47	5.83	5.46	3.06	1.78	2.31	1.74
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	7.50	6.32	-	-	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	4.21	4.21	3.94	2.61	2.27	1.88	2.14
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	5.66	5.15	4.84	1.87	1.95	1.51	2.41
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	5.70	4.07	4.60	1.00	1.11	-	1.71
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.40	4.49	4.07	-	3.44	2.99	1.31
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	5.95	3.84	4.62	1.79	1.61	1.44	2.26
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	4.81	4.81	2.35	3.56	4.44	-	-
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.20	0.11	0.07	0.03	0.02	0.01	0.01
Deposits, households, agreed maturity up to 1 year	2.31	1.86	0.98	0.28	0.11	0.15	0.10
Deposits, households, agreed maturity over 1 and up to 2 years	4.06	3.46	1.90	0.70	0.32	0.32	0.34
Deposits, households, agreed maturity over 2 years	4.46	3.86	2.33	1.07	0.62	0.70	0.98
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	1.52	1.22	0.82	0.02	0.01	0.01	0.01
Deposits, S.11, agreed maturity up to 1 year	2.73	1.79	1.30	0.06	0.04	0.02	0.05
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.30	0.23	0.13	0.57	0.22	0.20	0.18
Deposits, S.11, agreed maturity over 2 years	2.11	1.58	0.63	1.07	0.24	0.23	0.43
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	4.24	3.47	1.85	0.10	0.02	0.01	0.01
Deposits redeemable at notice, over 3 months notice	4.02	3.08	1.79	0.93	0.04	0.04	0.06

Table 9.5: International investment position

EUR million		2013	2014	2015	16Q2	16Q3	16Q4	17Q1
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,087**	**-17,219**	**-15,441**	**-15,080**	**-15,234**	**-14,900**	**-14,387**
1	**ASSETS**	**33,360**	**39,484**	**42,223**	**42,809**	**42,232**	**42,588**	**43,398**
1.1	**Direct investment**	**6,813**	**6,970**	**7,252**	**7,607**	**7,724**	**7,739**	**7,886**
1.1.1	Equity	3,795	3,769	3,959	4,088	4,148	4,121	4,157
1.1.2	Debt instruments	3,018	3,202	3,293	3,519	3,576	3,618	3,729
1.2	**Portfolio investment**	**11,386**	**12,375**	**14,458**	**15,263**	**15,956**	**16,719**	**17,535**
1.2.1	Equity and investment fund shares	2,755	3,193	3,484	3,378	3,501	3,583	3,840
1.2.2	Debt securities	8,631	9,182	10,974	11,886	12,454	13,135	13,695
1.3	**Financial derivatives**	**89**	**241**	**1,266**	**1,098**	**849**	**1,166**	**924**
1.4	**Other investment**	**14,402**	**19,060**	**18,460**	**18,071**	**16,989**	**16,259**	**16,300**
1.4.1	Other equity	530	629	641	643	645	641	641
1.4.2	Currency and deposits	5,647	10,737	10,301	9,415	8,405	8,153	7,560
1.4.3	Loans	4,181	3,729	3,122	2,971	2,842	2,670	2,596
1.4.4	Insurance, pension and standardized guarantee schemes	131	141	129	140	140	141	145
1.4.5	Trade credit and advances	3,636	3,601	3,737	4,252	4,254	4,038	4,546
1.4.6	Other accounts receivable	277	224	529	651	703	615	813
1.5	**Reserve assets**	**669**	**837**	**787**	**770**	**715**	**705**	**754**
1.5.1	Monetary gold	89	101	100	122	121	112	119
1.5.2	Special drawing rights	220	247	264	204	203	207	207
1.5.3	Reserve position in the IMF	149	145	104	195	189	154	131
1.5.4	Other reserve assets	211	345	320	249	202	232	297
2	**LIABILITIES**	**50,447**	**56,703**	**57,664**	**57,890**	**57,466**	**57,488**	**57,786**
2.1	**Direct investment**	**10,531**	**11,837**	**13,356**	**14,314**	**14,700**	**14,975**	**15,268**
2.1.1	Equity	7,292	8,186	9,804	10,525	10,872	11,542	11,746
2.1.2	Debt instruments	3,240	3,651	3,552	3,789	3,828	3,433	3,522
2.2	**Portfolio investment**	**16,065**	**23,797**	**23,959**	**23,306**	**23,593**	**21,439**	**22,447**
2.2.1	Equity and investment fund shares	811	1,030	1,038	983	1,076	966	1,025
2.2.2	Debt securities	15,254	22,767	22,921	22,323	22,517	20,473	21,422
2.3	**Financial derivatives**	**690**	**247**	**163**	**200**	**163**	**139**	**118**
2.4	**Other investment**	**23,161**	**20,822**	**20,186**	**20,069**	**19,009**	**20,934**	**19,953**
2.4.1	Other equity	23	28	32	36	37	35	36
2.4.2	Currency and deposits	4,165	3,338	2,965	3,189	2,788	4,148	3,309
2.4.3	Loans	14,759	13,128	12,851	12,313	11,821	12,155	11,745
2.4.4	Insurance, pension and standardized guarantee schemes	275	218	221	244	216	213	232
2.4.5	Trade credit and advances	3,527	3,427	3,433	3,575	3,469	3,705	3,889
2.4.6	Other accounts payable	171	425	408	441	410	402	468
2.4.7	Special drawing rights	241	257	275	272	270	275	274

Table 9.6: Gross external debt

EUR million		2013	2014	2015	16Q3	16Q4	17Q1	May 17
	TOTAL (1+2+3+4+5)	**41,632**	**47,212**	**46,627**	**45,318**	**44,805**	**44,861**	**44,570**
1	**GENERAL GOVERNMENT**	**15,434**	**23,317**	**24,824**	**24,377**	**22,953**	**23,668**	**23,540**
1.1	**Short-term, of that**	**73**	**664**	**1,507**	**1,104**	**1,304**	**1,036**	**792**
	Debt securities	45	228	15	22	22	22	55
	Loans	...	157	1,201	813	1,058	828	557
	Trade credit and advances	28	21	35	59	42	35	44
	Other debt liabilities	...	257	257	210	182	151	135
1.2	**Long-term, of that**	**15,361**	**22,654**	**23,316**	**23,274**	**21,649**	**22,632**	**22,748**
	Debt securities	14,073	21,101	21,813	21,748	19,877	20,863	20,978
	Loans	1,281	1,548	1,500	1,523	1,768	1,766	1,768
2	**CENTRAL BANK**	**2,742**	**2,083**	**2,217**	**2,105**	**3,457**	**2,611**	**2,502**
2.1	**Short-term, of that**	**2,500**	**1,826**	**1,942**	**1,835**	**3,182**	**2,337**	**2,236**
	Currency and deposits	2,500	1,825	1,942	1,835	3,182	2,337	2,236
2.2	**Long-term, of that**	**241**	**257**	**275**	**270**	**275**	**274**	**266**
	Special drawing rights (allocations)	241	257	275	270	275	274	266
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**7,519**	**6,591**	**5,195**	**4,193**	**4,117**	**3,940**	**3,990**
3.1	**Short-term**	**893**	**747**	**702**	**730**	**817**	**820**	**980**
	Currency and deposits	707	597	490	522	578	600	691
	Debt securities	58	...	...	...	...	...	...
	Loans	121	144	207	185	221	159	218
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	7	6	5	23	18	61	70
3.2	**Long-term**	**6,626**	**5,844**	**4,493**	**3,463**	**3,300**	**3,120**	**3,011**
	Currency and deposits	958	916	534	432	387	371	387
	Debt securities	837	954	652	293	287	271	239
	Loans	4,800	3,941	3,301	2,735	2,620	2,475	2,380
	Trade credit and advances	3	4	7	3	5	2	4
	Other debt liabilities	29	29	0	1	1	1	1
4	**OTHER SECTORS**	**12,698**	**11,570**	**10,839**	**10,815**	**10,845**	**11,120**	**10,950**
4.1	**Short-term, of that**	**4,039**	**3,947**	**3,976**	**4,269**	**4,245**	**4,557**	**4,486**
	Debt securities	4	5	0	2	2	4	2
	Loans	444	453	487	747	447	514	537
	Trade credit and advances	3,492	3,396	3,385	3,391	3,643	3,833	3,744
	Other debt liabilities	100	94	102	130	153	206	203
4.2	**Long-term, of that**	**8,659**	**7,623**	**6,864**	**6,546**	**6,601**	**6,563**	**6,465**
	Debt securities	238	480	441	451	284	263	263
	Loans	8,113	6,885	6,155	5,818	6,041	6,004	5,906
	Trade credit and advances	4	6	7	16	16	18	17
	Other debt liabilities	304	252	260	260	259	279	278
5	**DIRECT INVESTMENT: intercompany lending**	**3,240**	**3,651**	**3,552**	**3,828**	**3,433**	**3,522**	**3,588**
	NET EXTERNAL DEBT POSITION	**15,443**	**15,559**	**13,754**	**12,228**	**11,730**	**11,024**	**10,500**

Table 9.7: Balance of payments

EUR million	2014	2015	2016	16Q3	16Q4	17Q1	May 2017
I. Current account	**2,179**	**1,698**	**2,108**	**557**	**343**	**561**	**182**
1. Goods	**1,181**	**1,476**	**1,536**	**376**	**227**	**375**	**75**
1.1. Export of goods	**22,961**	**24,039**	**24,991**	**6,119**	**6,407**	**6,857**	**2,396**
Export f.o.b.	22,936	23,940	24,971	6,092	6,393	6,819	2,397
Coverage adjustment	-188	-149	-194	-42	-19	-37	-15
Net export of goods under merchanting	199	231	186	60	26	69	15
Nonmonetary gold	15	17	29	8	7	6	0
1.2. Import of goods	**21,780**	**22,563**	**23,454**	**5,743**	**6,180**	**6,482**	**2,322**
Import c.i.f.	22,580	23,305	24,112	5,891	6,343	6,680	2,391
Coverage adjustment	-160	-115	-5	14	3	-19	-2
Valuation adjustment	-656	-656	-680	-166	-179	-188	-67
Nonmonetary gold	15	30	27	5	12	9	...
2. Services	**1,697**	**1,860**	**2,174**	**655**	**526**	**507**	**203**
2.1. Export of services, of that	**5,558**	**5,866**	**6,410**	**1,812**	**1,699**	**1,514**	**570**
Transport	1,529	1,672	1,854	463	501	486	179
Travel	2,060	2,098	2,190	774	487	438	177
Construction services	277	292	385	108	112	89	34
Telecomm., computer and inform. services	457	519	552	140	154	123	43
Other business services	779	824	929	207	318	264	95
2.2. Import of services, of that	**3,862**	**4,007**	**4,236**	**1,157**	**1,173**	**1,007**	**366**
Transport	814	851	922	220	272	245	89
Travel	745	823	854	356	166	166	68
Construction services	234	120	104	28	37	23	10
Telecomm., computer and inform. services	483	533	509	129	151	117	41
Other business services	1,003	1,024	1,147	266	366	277	108
3. Primary income	**-428**	**-1,263**	**-1,294**	**-379**	**-358**	**-233**	**-79**
3.1. Receipts	**1,093**	**1,345**	**1,436**	**336**	**319**	**435**	**131**
Compensation of employees	235	323	276	63	69	67	24
Investment	368	500	623	176	138	123	59
Other primary income	490	522	537	97	113	244	48
3.2. Expenditure	**1,521**	**2,608**	**2,730**	**715**	**678**	**668**	**210**
Compensation of employees	114	122	127	32	33	30	12
Investment	1,063	2,057	2,113	562	511	495	155
Other primary income	344	429	490	121	134	143	43
4. Secondary income	**-271**	**-375**	**-309**	**-95**	**-51**	**-88**	**-17**
4.1. Receipts	**709**	**733**	**745**	**184**	**217**	**179**	**71**
4.2. Expenditure	**980**	**1,108**	**1,054**	**278**	**267**	**267**	**88**

Table 9.8: Balance of payments – continued

EUR million	2014	2015	2016	16Q3	16Q4	17Q1	May 2017
II. Capital account	**79**	**412**	**-302**	**-54**	**-106**	**-47**	**-18**
1. Nonproduced nofinancial assets	-24	-37	-45	0	-15	3	0
2. Capital transfers	102	449	-257	-54	-91	-50	-18
III. Financial account	**2,251**	**1,658**	**1,129**	**419**	**156**	**414**	**134**
1. Direct investment	**-584**	**-1,269**	**-880**	**-306**	**101**	**-219**	**21**
Assets	155	292	431	55	142	155	16
Equity and reinvested earnings	-45	178	270	60	122	36	-4
Debt instruments	200	114	161	-5	19	119	19
Liabilities	739	1,560	1,311	360	41	374	-5
Equity and reinvested earnings	791	1,785	1,515	347	406	281	-32
Debt instruments	-51	-225	-204	14	-365	92	27
2. Portfolio investment	**-3,968**	**2,929**	**5,079**	**702**	**2,693**	**-329**	**-302**
Assets	426	2,016	2,073	514	817	739	321
Equity and investment fund shares	127	116	-97	8	-53	105	-3
Debt securities	299	1,900	2,171	506	870	634	324
Liabilities	4,394	-914	-3,005	-188	-1,876	1,068	623
Equity and investment fund shares	101	52	48	14	23	15	5
Debt securities	4,293	-966	-3,053	-202	-1,899	1,053	618
3. Financial derivatives	**-51**	**-98**	**-215**	**-33**	**-44**	**-73**	**5**
4. Other investment	**6,765**	**208**	**-2,758**	**106**	**-2,577**	**992**	**408**
4.1. Assets	**4,737**	**-617**	**-2,335**	**-1,079**	**-684**	**6**	**-465**
Other equity	84	10	0	2	-2	0	0
Currency and deposits	5,037	-516	-2,205	-1,020	-282	-579	-525
Loans	-299	-408	-203	-36	-111	-49	27
Insurance, pension and stand. guar. schemes	8	-8	10	0	1	3	...
Trade credits and advances	-16	-5	161	-73	-202	506	-11
Other assets	-77	309	-96	49	-87	125	44
4.2. Liabilities	**-2,028**	**-825**	**423**	**-1,185**	**1,893**	**-987**	**-873**
Other equity	7	11	4	0	0	...	...
Currency and deposits	-831	-400	1,175	-406	1,353	-837	-568
Loans	-1,246	-315	-818	-533	334	-381	-310
Insurance, pension and stand. guar. schemes	-54	3	-8	-28	-3	19	...
Trade credits and advances	-144	-100	137	-171	233	195	-9
Other liabilities	240	-25	-67	-46	-24	18	14
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**89**	**-113**	**-97**	**-50**	**-17**	**43**	**2**
IV. Net errors and omissions	**-6**	**-453**	**-677**	**-84**	**-82**	**-100**	**-30**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1
Domestic sector									
Total	179,597	186,403	187,509	185,949	184,492	182,815	183,621	183,755	188,322
Monetary gold and SDRs	309	348	362	363	312	326	325	320	326
Currency and deposits	37,061	46,009	46,730	46,572	44,219	43,243	43,447	42,676	43,805
Debt securities	18,319	19,804	22,044	22,828	23,894	24,827	26,200	26,103	26,633
Loans	49,970	44,453	41,359	39,625	39,362	38,000	37,278	37,472	37,873
Shares	19,529	20,175	19,369	19,713	19,658	18,670	18,770	18,765	19,582
Other equity	22,483	23,002	23,752	23,304	23,302	23,558	23,690	23,949	24,786
Investment fund shares/units	3,105	3,642	3,686	3,879	3,813	3,838	3,981	4,049	4,269
Insurance and pension schemes	6,541	7,132	7,366	7,406	7,509	7,599	7,713	7,737	7,826
Other	22,279	21,837	22,841	22,258	22,422	22,754	22,217	22,685	23,222
Non-financial corporations									
Total	43,301	41,273	42,283	41,321	41,841	42,101	41,854	42,340	43,699
Currency and deposits	4,646	5,095	5,481	5,816	5,846	5,845	5,998	6,385	6,510
Debt securities	194	184	160	142	167	171	174	127	119
Loans	6,151	6,043	6,035	5,849	6,105	5,862	5,845	5,696	5,809
Shares	4,525	3,063	2,836	2,896	2,861	2,854	2,654	2,665	2,809
Other equity	11,806	11,359	11,770	11,472	11,496	11,746	11,705	11,837	12,203
Investment fund shares/units	108	108	98	99	92	82	87	52	64
Insurance and pension schemes	387	408	458	427	482	470	443	438	476
Other	15,484	15,015	15,444	14,621	14,792	15,070	14,947	15,140	15,709
Monetary financial institutions									
Total	55,703	53,206	50,401	50,657	50,376	50,111	51,286	51,933	52,962
Monetary gold and SDRs	309	348	362	363	312	326	325	320	326
Currency and deposits	7,351	10,358	7,713	7,560	7,225	6,863	7,325	7,168	7,204
Debt securities	12,086	13,226	15,041	15,973	16,893	17,747	18,926	18,971	19,488
Loans	34,556	27,863	25,670	25,179	24,362	23,653	23,290	24,099	24,522
Shares	846	666	651	641	627	597	559	552	531
Other equity	186	314	328	299	285	286	287	285	283
Investment fund shares/units	12	12	10	9	7	6	6	6	6
Insurance and pension schemes	35	37	38	38	38	39	39	38	39
Other	322	382	587	595	625	595	529	495	563
Other financial institutions									
Total	15,225	17,368	17,100	17,134	17,322	17,242	17,570	17,554	18,017
Currency and deposits	1,096	1,316	1,268	1,201	1,340	1,246	1,230	1,256	1,328
Debt securities	5,108	5,634	5,889	6,040	6,174	6,264	6,476	6,431	6,404
Loans	3,624	3,388	3,151	3,033	2,999	2,993	2,876	2,876	2,847
Shares	2,598	3,580	3,387	3,427	3,272	3,183	3,354	3,377	3,607
Other equity	196	640	624	612	606	609	647	625	618
Investment fund shares/units	1,672	1,918	1,924	2,001	1,996	2,034	2,103	2,140	2,248
Insurance and pension schemes	202	218	210	182	205	204	197	188	213
Other	731	675	648	639	729	710	687	661	753
General government									
Total	28,617	36,063	39,141	37,564	35,468	33,502	32,665	31,029	31,674
Currency and deposits	5,985	10,369	12,979	12,358	10,017	9,221	8,684	7,060	7,687
Debt securities	598	507	707	548	532	499	485	447	448
Loans	4,940	6,469	5,809	4,911	5,180	4,763	4,542	4,089	3,914
Shares	9,091	10,128	9,864	10,048	10,253	9,470	9,670	9,828	10,233
Other equity	4,560	4,904	5,153	4,856	4,808	4,819	4,856	4,910	4,889
Investment fund shares/units	163	206	223	244	236	234	233	252	270
Insurance and pension schemes	2	12	32	23	25	22	19	21	14
Other	3,278	3,468	4,375	4,576	4,418	4,475	4,178	4,422	4,219
Households and NPISHs									
Total	36,751	38,492	38,585	39,272	39,486	39,860	40,246	40,898	41,969
Currency and deposits	17,984	18,871	19,290	19,636	19,791	20,069	20,210	20,807	21,077
Debt securities	334	253	247	125	128	146	139	127	174
Loans	700	691	694	653	715	729	725	712	782
Shares	2,469	2,739	2,631	2,701	2,645	2,565	2,533	2,343	2,401
Other equity	5,734	5,785	5,877	6,066	6,108	6,098	6,196	6,291	6,794
Investment fund shares/units	1,151	1,398	1,433	1,528	1,482	1,483	1,552	1,600	1,681
Insurance and pension schemes	5,914	6,457	6,628	6,736	6,759	6,865	7,016	7,053	7,084
Other	2,464	2,298	1,786	1,827	1,858	1,905	1,876	1,966	1,977
Rest of the world									
Total	51,405	58,345	58,052	58,349	58,728	58,632	58,200	57,730	58,002
Monetary gold and SDRs	241	257	270	275	267	272	270	275	274
Currency and deposits	4,293	3,497	2,990	3,167	3,710	3,443	2,972	4,380	3,471
Debt securities	15,572	23,282	23,382	23,331	22,966	22,665	22,902	20,889	21,644
Loans	16,697	15,676	15,481	15,231	14,850	14,656	14,275	14,213	13,947
Shares	3,687	4,556	4,337	4,539	4,886	5,225	5,259	5,160	5,326
Other equity	4,815	5,401	5,825	6,284	6,402	6,482	6,833	7,089	7,288
Investment fund shares/units	28	21	23	25	24	25	26	25	27
Insurance and pension schemes	275	218	217	221	232	244	216	213	232
Other	5,796	5,436	5,527	5,276	5,392	5,621	5,447	5,486	5,792

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1
Domestic sector									
Total	197,674	205,453	204,033	202,665	201,139	199,559	200,522	199,639	203,750
Monetary gold and SDRs	241	257	270	275	267	272	270	275	274
Currency and deposits	35,203	38,457	38,536	39,172	37,577	36,918	37,698	38,354	39,233
Debt securities	25,125	33,538	35,028	34,824	35,000	35,271	36,322	33,513	34,119
Loans	61,027	54,637	51,647	49,845	49,122	47,570	46,505	46,858	47,087
Shares	20,887	22,274	21,242	21,615	22,101	21,498	21,532	21,359	22,151
Other equity	24,199	25,395	26,534	26,608	26,673	27,071	27,529	28,076	29,198
Investment fund shares/units	1,839	2,143	2,181	2,303	2,209	2,220	2,315	2,374	2,481
Insurance and pension schemes	6,684	7,209	7,452	7,498	7,604	7,704	7,790	7,810	7,914
Other	22,468	21,543	21,143	20,526	20,587	21,035	20,560	21,020	21,293
Non-financial corporations									
Total	84,847	82,273	80,415	78,891	79,315	79,039	78,462	78,338	80,309
Debt securities	818	1,088	1,192	1,179	1,223	1,321	1,376	955	1,015
Loans	31,297	28,629	26,779	25,127	25,272	24,586	23,990	23,563	23,730
Shares	14,225	14,233	13,242	13,421	13,649	13,218	13,119	12,762	13,253
Other equity	22,453	23,013	23,980	24,039	24,139	24,475	24,868	25,308	26,413
Other	16,054	15,310	15,221	15,126	15,031	15,438	15,109	15,750	15,897
Monetary financial institutions									
Total	50,512	48,917	46,507	47,006	47,065	46,883	48,277	49,224	50,442
Monetary gold and SDRs	241	257	270	275	267	272	270	275	274
Currency and deposits	33,048	34,122	33,219	34,012	34,673	35,072	36,579	37,528	38,390
Debt securities	1,667	1,666	1,223	1,149	847	820	800	801	781
Loans	10,427	7,073	5,753	5,574	4,970	4,360	4,333	4,330	4,564
Shares	3,866	4,399	4,562	4,539	4,729	4,738	4,721	4,724	4,791
Other equity	823	945	994	1,005	1,029	1,072	1,090	1,091	1,108
Investment fund shares/units	36	37	61	56	66	66	81	99	65
Other	404	419	424	396	484	484	403	375	469
Other financial institutions									
Total	16,069	17,540	17,110	17,001	16,939	16,778	16,873	16,852	17,359
Debt securities	39	136	92	73	73	123	121	118	121
Loans	5,070	4,453	3,991	3,678	3,365	3,143	3,063	2,924	2,870
Shares	1,486	2,174	2,003	2,093	2,233	2,107	2,143	2,154	2,360
Other equity	472	947	971	964	992	1,007	1,049	1,140	1,143
Investment fund shares/units	1,804	2,106	2,120	2,247	2,143	2,154	2,234	2,275	2,416
Insurance and pension schemes	6,684	7,209	7,452	7,498	7,603	7,703	7,790	7,810	7,914
Other	513	516	482	448	530	540	475	431	536
General government									
Total	33,945	44,477	47,747	47,556	45,617	44,600	44,499	42,668	42,936
Currency and deposits	2,155	4,335	5,317	5,160	2,904	1,846	1,120	826	843
Debt securities	22,601	30,647	32,521	32,423	32,857	33,006	34,025	31,639	32,202
Loans	3,448	3,846	4,432	4,738	4,812	4,694	4,303	5,047	4,765
Shares	1,309	1,469	1,435	1,562	1,489	1,435	1,550	1,719	1,747
Other equity	451	491	588	600	513	517	522	537	533
Other	3,981	3,689	3,454	3,074	3,041	3,101	2,980	2,900	2,844
Households and NPISHs									
Total	12,301	12,245	12,254	12,211	12,203	12,260	12,410	12,558	12,705
Loans	10,785	10,637	10,692	10,728	10,702	10,788	10,817	10,994	11,158
Other	1,516	1,608	1,561	1,482	1,500	1,473	1,593	1,564	1,547
Rest of the world									
Total	33,328	39,295	41,527	41,632	42,080	41,888	41,299	41,846	42,573
Monetary gold and SDRs	309	348	362	363	312	326	324	319	325
Currency and deposits	6,151	11,050	11,184	10,567	10,352	9,768	8,721	8,702	8,043
Debt securities	8,767	9,548	10,399	11,335	11,860	12,221	12,779	13,479	14,158
Loans	5,640	5,492	5,192	5,012	5,090	5,085	5,048	4,827	4,733
Shares	2,330	2,457	2,464	2,637	2,444	2,397	2,497	2,566	2,757
Other equity	3,099	3,008	3,043	2,981	3,031	2,968	2,994	2,962	2,877
Investment fund shares/units	1,294	1,520	1,528	1,602	1,628	1,643	1,692	1,700	1,815
Insurance and pension schemes	131	141	131	129	137	140	140	141	145
Other	5,607	5,730	7,224	7,007	7,227	7,340	7,104	7,150	7,721

Table 9.11: Net financial assets

EUR million	2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1
Domestic sector	-18,077	-19,050	-16,524	-16,717	-16,647	-16,744	-16,900	-15,884	-15,428
Non-financial corporations	-41,546	-41,000	-38,133	-37,570	-37,474	-36,938	-36,608	-35,997	-36,609
Monetary financial institutions	5,191	4,289	3,894	3,651	3,311	3,227	3,009	2,709	2,520
Other financial institutions	-844	-172	-10	133	383	465	696	702	658
General government	-5,328	-8,414	-8,606	-9,992	-10,149	-11,097	-11,834	-11,639	-11,262
Households and NPISHs	24,450	26,246	26,331	27,062	27,283	27,599	27,836	28,340	29,265
Rest of the world	18,077	19,051	16,524	16,717	16,647	16,745	16,901	15,884	15,429

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

EUR million	2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1
Domestic sector									
Total	-1,512	3,741	2,045	862	-712	-492	-2,759	-1,691	2,709
Monetary gold and SDRs	-12	12	0	0	-18	-56	-56	-56	0
Currency and deposits	777	8,795	2,624	455	-2,310	-783	-3,261	-3,906	-441
Debt securities	993	646	3,319	3,086	3,726	3,317	3,485	2,863	2,639
Loans	-3,799	-4,658	-3,774	-3,119	-2,244	-2,355	-2,009	-733	-369
Shares	139	-824	-32	181	-79	-521	-513	-353	-80
Other equity	430	201	660	479	496	754	306	485	472
Investment fund shares/units	27	152	211	167	121	71	50	2	37
Insurance and pension schemes	-23	182	192	178	106	110	137	138	128
Other	-44	-766	-1,154	-567	-509	-1,029	-898	-132	323
Non-financial corporations									
Total	132	-412	-417	358	274	-149	-91	1,023	1,445
Currency and deposits	583	456	496	735	736	444	526	570	663
Debt securities	-16	-14	-28	-36	-18	-3	15	-6	-37
Loans	-207	75	-305	-192	-87	-208	-176	-213	-391
Shares	-6	-337	-34	103	55	77	50	-13	33
Other equity	110	-100	387	294	290	561	206	441	452
Investment fund shares/units	-20	-1	-1	-3	-6	-7	-8	-28	-20
Insurance and pension schemes	-41	24	36	23	25	10	-20	2	-10
Other	-271	-516	-967	-565	-722	-1,022	-686	270	754
Monetary financial institutions									
Total	-3,413	-1,546	-1,964	-1,797	-1,132	691	2,095	2,542	3,400
Monetary gold and SDRs	-12	12	0	0	-18	-56	-56	-56	0
Currency and deposits	613	2,936	-2,081	-2,849	-3,339	-1,098	-361	-373	-23
Debt securities	512	791	2,878	2,764	3,544	3,227	3,524	2,847	2,705
Loans	-4,344	-5,251	-3,202	-2,052	-1,453	-1,353	-886	303	817
Shares	-147	-208	79	141	93	-70	-74	-91	-61
Other equity	148	155	122	14	29	26	35	56	38
Investment fund shares/units	-13	-4	-2	-2	-2	-2	-2	-2	-1
Insurance and pension schemes	-1	2	2	1	1	0	0	0	1
Other	-169	22	241	185	14	18	-87	-139	-74
Other financial institutions									
Total	96	-116	-119	35	35	-82	-49	-63	-2
Currency and deposits	-270	158	-136	-133	13	-133	-34	61	-9
Debt securities	305	100	311	313	226	256	221	157	84
Loans	-92	-304	-317	-192	-150	-112	-171	-203	-197
Shares	75	-79	57	49	-92	-132	-104	-59	99
Other equity	13	26	0	15	10	5	10	-35	-28
Investment fund shares/units	74	59	64	31	31	47	38	28	24
Insurance and pension schemes	-24	15	-24	-34	-27	-24	-7	12	7
Other	14	-91	-73	-14	24	11	-2	-24	17
General government									
Total	1,512	5,019	3,758	1,318	-847	-2,007	-5,851	-6,513	-3,640
Currency and deposits	-71	4,356	3,729	1,936	-563	-969	-4,333	-5,331	-2,338
Debt securities	191	-131	180	58	32	-111	-234	-112	-93
Loans	866	821	62	-665	-568	-674	-783	-655	-623
Shares	271	-123	-75	-69	-52	-316	-315	-57	-69
Other equity	147	93	118	118	134	132	20	-7	-30
Investment fund shares/units	4	16	32	26	30	16	-16	-10	-5
Insurance and pension schemes	0	2	5	0	0	-5	-13	-1	-5
Other	103	-17	-293	-86	140	-78	-178	-340	-477
Households and NPISHs									
Total	161	796	787	947	958	1,055	1,137	1,321	1,505
Currency and deposits	-78	889	617	766	842	974	940	1,167	1,266
Debt securities	0	-99	-22	-13	-58	-51	-42	-22	-20
Loans	-23	1	-11	-17	14	-7	7	35	25
Shares	-54	-77	-58	-44	-82	-80	-71	-132	-83
Other equity	13	27	32	38	33	30	35	30	40
Investment fund shares/units	-19	83	119	116	68	18	38	14	39
Insurance and pension schemes	43	138	172	188	107	129	176	126	135
Other	279	-165	-61	-87	35	42	54	101	103
Rest of the world									
Total	-772	3,424	795	-516	-518	322	-1,902	-1,662	-1,583
Monetary gold and SDRs	0	0	0	0	0	0	0	0	0
Currency and deposits	-4,186	-805	-273	-350	371	406	-24	1,198	-252
Debt securities	3,784	4,444	-64	-999	-683	17	-1,645	-2,885	-1,616
Loans	-196	-1,142	-723	-627	-1,470	-1,685	-1,308	-1,028	-948
Shares	54	1,040	634	335	499	672	658	529	356
Other equity	-32	-51	1,024	1,377	1,113	1,098	703	546	552
Investment fund shares/units	2	-11	2	3	2	1	1	0	0
Insurance and pension schemes	39	-54	-11	3	20	29	-2	-8	0
Other	-237	1	207	-258	-372	-216	-285	-13	322

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

EUR million	2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1
Domestic sector									
Total	-2,459	1,704	271	-884	-2,293	-1,646	-3,963	-3,065	1,184
Monetary gold and SDRs	0	0	0	0	0	0	0	0	0
Currency and deposits	-3,988	3,170	1,185	644	-1,061	-224	-805	-828	1,629
Debt securities	5,338	4,602	1,838	338	1,135	1,469	-174	-1,971	-1,193
Loans	-4,031	-5,735	-4,292	-3,472	-3,524	-3,904	-3,298	-1,637	-1,039
Shares	271	172	436	246	277	187	174	269	214
Other equity	247	102	1,666	1,888	1,617	1,812	987	922	924
Investment fund shares/units	-38	39	145	142	59	7	3	-1	24
Insurance and pension schemes	27	121	189	189	139	146	128	120	123
Other	-284	-767	-897	-859	-935	-1,139	-977	60	501
Non-financial corporations									
Total	-1,680	-2,309	-2,149	-1,112	-777	-947	-804	276	613
Debt securities	20	288	122	83	102	162	174	-227	-218
Loans	-1,389	-1,965	-2,989	-2,434	-2,169	-2,256	-1,661	-740	-752
Shares	32	54	275	152	176	137	128	49	3
Other equity	105	171	1,271	1,470	1,488	1,678	945	862	863
Other	-447	-857	-829	-383	-374	-668	-389	333	718
Monetary financial institutions									
Total	-7,302	-2,320	-2,701	-2,282	-1,593	496	1,922	2,291	3,177
Monetary gold and SDRs	0	0	0	0	0	0	0	0	0
Currency and deposits	-4,221	1,002	-554	-146	156	1,887	3,402	3,508	3,689
Debt securities	-627	14	-530	-525	-750	-77	-417	-339	-56
Loans	-2,320	-3,367	-1,542	-1,536	-980	-1,279	-1,006	-826	-399
Shares	-23	114	128	44	52	24	24	17	6
Other equity	0	0	0	0	0	0	0	0	0
Investment fund shares/units	12	0	26	19	31	12	20	43	-1
Other	-122	-82	-230	-138	-102	-71	-100	-112	-63
Other financial institutions									
Total	-162	-635	-186	73	-21	0	-126	-198	-124
Debt securities	-10	1	-52	-72	-72	24	24	42	41
Loans	-350	-694	-750	-461	-174	-241	-309	-348	-380
Shares	56	3	33	51	49	26	22	4	5
Other equity	141	-68	283	305	16	21	39	58	59
Investment fund shares/units	-50	39	119	123	28	-5	-17	-44	26
Insurance and pension schemes	27	121	189	189	139	146	128	120	123
Other	25	-36	-8	-62	-7	30	-13	-30	2
General government									
Total	6,954	7,040	5,373	2,450	55	-1,318	-5,194	-5,846	-3,062
Currency and deposits	232	2,168	1,739	790	-1,216	-2,111	-4,206	-4,336	-2,060
Debt securities	5,956	4,299	2,297	851	1,855	1,360	45	-1,446	-960
Loans	347	395	988	872	-309	-315	-564	-102	-50
Shares	205	0	0	0	0	0	0	200	200
Other equity	0	0	112	112	113	114	3	2	2
Other	214	176	237	-175	-387	-366	-472	-164	-194
Households and NPISHs									
Total	-268	-71	-65	-12	42	122	239	411	580
Loans	-317	-103	1	87	107	187	241	378	542
Other	47	33	-66	-99	-65	-65	-2	33	37
Rest of the world									
Total	175	5,460	2,570	1,229	1,064	1,476	-698	-287	-59
Monetary gold and SDRs	-12	12	0	0	-18	-56	-56	-56	0
Currency and deposits	579	4,821	1,166	-538	-878	-152	-2,480	-1,880	-2,322
Debt securities	-561	488	1,417	1,749	1,909	1,865	2,014	1,949	2,216
Loans	36	-65	-205	-274	-190	-136	-18	-124	-278
Shares	-78	44	166	270	143	-36	-29	-93	62
Other equity	151	48	18	-32	-8	40	22	109	100
Investment fund shares/units	67	102	68	28	64	65	48	2	13
Insurance and pension schemes	-10	8	-8	-8	-13	-8	7	10	6
Other	3	2	-50	34	54	-106	-206	-205	144

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

EUR million	2013	2014	15Q3	15Q4	16Q1	16Q2	16Q3	16Q4	17Q1
Domestic sector	947	2,036	1,775	1,745	1,581	1,154	1,204	1,374	1,524
Non-financial corporations	1,813	1,897	1,733	1,470	1,051	798	713	746	831
Monetary financial institutions	3,889	775	737	485	460	194	173	251	223
Other financial institutions	257	519	67	-38	56	-82	78	135	122
General government	-5,442	-2,021	-1,614	-1,132	-901	-689	-657	-668	-578
Households and NPISHs	429	867	852	960	916	932	898	909	925
Rest of the world	-947	-2,036	-1,775	-1,745	-1,581	-1,154	-1,204	-1,374	-1,524

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

Financial accounts statistics

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

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

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

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

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

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

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