BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

ECONOMIC AND FINANCIAL DEVELOPMENTS

JANUARY 2018

BANKA SLOVENIJE
EVROSISTEM

Title: Economic and Financial Developments
No.: January 2018

Published by: BANKA SLOVENIJE
Slovenska 35
1505 Ljubljana
tel.: 01 47 19 000
fax: 01 25 15 516
e-mail: bsl@bsi.si
http://www.bsi.si/

This publication is also available in Slovene.

ISSN 2385-9776

Table of contents

	Executive Summary	7
1	International Environment	11
2	Economic Developments	17
3	Labour Market	25
4	Current Account and Competitiveness Indicators	33
5	Financial Standing of Non-Financial Corporations, Households and Banks	43
6	Public Finances	53
7	Price Developments	59
8	Statistical Appendix	65

Figures, tables and boxes:

Figures:

Figure 1.1 Economic growth in major developed countries outside the euro area and BRIC 11
Figure 1.2 Growth of global GDP in 2017 and 2018 12
Figure 1.3 Forecasts of GDP growth in BRIC and major developed countries in 2017 and 2018 12
Figure 1.4 Structure of GDP growth in the euro area, expenditure approach 12
Figure 1.5 Structure of GDP growth in the euro area, output approach 13
Figure 1.6 Confidence indicators – euro area 13
Figure 1.7 Weighted monthly forecasts for Slovenia's major trading partners in 2017 and 2018 14
Figure 1.8 Forecasts of GDP growth in the eight largest Slovenian trading partners in 2017 and 2018 14
Figure 1.9 EUR/USD exchange rate and central banks' interest rates 14
Figure 1.10 Oil prices 15
Figure 1.11 Stock exchange indices 15
Figure 1.12 Spreads on 10-year government bonds as compared to Germany with comparable maturity 15
Figure 2.1 Confidence indicators 17
Figure 2.2 Differences in GDP growth between Slovenia and the euro area 18
Figure 2.3 Manufacturing output by technological complexity 18
Figure 2.4 Manufacturing production: Jul. 2017 – Sep. 2017 18
Figure 2.5 Added value in private sector services and sources of demand 19
Figure 2.6 Employment and added value in public services 19
Figure 2.7 Differences between survey activity and value added in construction 19
Figure 2.8 Contributions to y-o-y GDP growth – expenditure side 22
Figure 2.9 Final consumption and confidence of households 22
Figure 2.10 Contributions to volume y-o-y growth in gross fixed capital formation 22
Figure 2.11 Foreign trade 23
Figure 2.12 Composite indicator of economic activity 24
Figure 3.1 Contributions to employment by sector 25
Figure 3.2 Year-on-year change in employment by activity 26
Figure 3.3 Sources of growth in the number of persons in employment 26
Figure 3.4 Job vacancy rate 26
Figure 3.5 Expected employment 27
Figure 3.6 Unemployment 27
Figure 3.7 Contributions to the change in the number of registered unemployed by education 27
Figure 3.8 Labour shortage as a limiting factor 29
Figure 3.9 Growth in nominal wages and productivity 31
Figure 3.10 Nominal and real total wage bill and average gross wage per employee 32
Figure 4.1 Current account components 34
Figure 4.2 Goods trade 34
Figure 4.3 Trade in services balance 34
Figure 4.4 Investments in securities 36
Figure 4.5 Net secondary income 36
Figure 4.6 Nominal harmonised competitiveness indicator (vis-a-vis 19 trading partners outside the euro area) 39
Figure 4.7 Harmonised price competitiveness indicator (based on HICP/CPI deflators) 39
Figure 4.8 Differences in ULC growth between Slovenia and the euro area 42
Figure 5.1 Savings-investment gap 43
Figure 5.2 Maturity breakdown of loans to non-financial corporations 44
Figure 5.3 Financial liabilities of NFCs (S.11) 44
Figure 5.4 NFC investment and retained earnings 44
Figure 5.5 Financial assets of NFCs (S.11) 44
Figure 5.6 Financial investment of households (S.14 in S.15) 47

Figure 5.7	Loans to households	47
Figure 5.8	Selected liabilities of domestic banks	50
Figure 5.9	Selected assets of domestic banks	50
Figure 5.10	Market capitalisation on the LJSE and annual turnover ratios (TR)	51
Figure 5.11	Issuance of corporate bonds and commercial papers (excluding the government sector)	51
Figure 6.1	General government revenues	54
Figure 6.2	General government expenditure excluding support to financial institutions	54
Figure 6.3	Spreads of long-term government bonds over German benchmark	56
Figure 6.4	General government deficit	57
Figure 6.5	Public finance structural balance in Slovenia	57
Figure 7.1	Contributions to headline HICP inflation	59
Figure 7.2	Inflation	59
Figure 7.3	Surveys on business trends and consumer opinion	60
Figure 7.4	Energy prices	60
Figure 7.5	Contributions to energy inflation	61
Figure 7.6	Food prices	61
Figure 7.7	Prices of categories of services	62
Figure 7.8	Services prices and prices of non-energy industrial goods	62
Figure 7.9	Industrial producer prices on the domestic market	63

Tables:

Table 2.1	Economic activity	23
Table 3.1	Unemployment and employment	28
Table 3.2	Labour costs	29
Table 4.1	Current account components	35
Table 6.1	General government deficit and debt in Slovenia, 2012-2019	54
Table 7.1	Structure of the HICP and price indicators	61
Table 8.1	Consolidated balance sheet of monetary financial institutions	66
Table 8.2	Balance sheet of the Bank of Slovenia	67
Table 8.3	Balance sheet of other monetary financial institutions	68
Table 8.4	Interest rates of new loans and deposits in domestic currency to households and nonfinancial corporations	69
Table 8.5	International investment position	70
Table 8.6	Gross external debt	71
Table 8.7	Balance of payments	72
Table 8.8	Balance of payments – continued	73
Table 8.9	Non-consolidated financial assets – outstanding amounts	74
Table 8.10	Non-consolidated liabilities – outstanding amounts	75
Table 8.11	Net financial assets	75
Table 8.12	Non-consolidated transactions in financial assets – four quarter moving sum of flows	76
Table 8.13	Non-consolidated transactions in liabilities – four quarter moving sum of flows	77
Table 8.14	Net financial transactions – four quarter moving sum of flows	77

Boxes:

Box 2.1	Situation on the residential real estate market	20
Box 3.1	Decomposition of growth in compensation of employees	30
Box 4.1	Slovenia’s integration into global production chains	37
Box 4.2	Structure of Slovenian goods exports with regard to labour intensity of products	40
Box 5.1	Analysis of monetary policy transmission in Slovenia	45
Box 5.2	Bank performance	48
Box 6.1	Public finance developments according to cash flow methodology	55

Executive Summary

The economic situation in the international environment is favourable. Forecasts of global economic growth are continuing to be gradually raised, and GDP growth is strengthening in the euro area, where the economic sentiment remains strongly above its long-term average. The conditions for growth in Slovenian exports are also expected to be very good this year as weighted economic growth of Slovenia's major trading partners based on Consensus forecasts for 2018 has increased again. In the final quarter of last year, the divergence between the monetary policies of the ECB and the Fed increased further, while the rise in the euro halted at around USD 1.18 in the second half of the year, slightly below its average between 1999 and 2017. The price of Brent crude is continuing to rise. It approached USD 70 per barrel in the first half of January, its highest level of the last three years, which will also have an impact on global inflation this year.

In the third quarter of last year, the high growth in the Slovenian economy was largely the result of the exploitation of the economic climate in the euro area. The contribution made to GDP growth by the export sector increased to its highest level since 2010, albeit from a significantly higher starting point than after the crisis year of 2009. In the third quarter, the manufacturing sector's turnover on euro area markets was up almost 16% in year-on-year terms. Exports thus compensated for the slowdown in domestic private consumption, and even more for the slowdown in investment. Growth in investment was surprisingly low compared with economic growth, although the slowdown was most probably merely temporary, given that conditions for investment are extremely favourable. A particular highlight is the record operating surplus in the corporate sector, which is continuing to allow firms to finance themselves with internal resources and is reducing the need for bank financing. With rapid employment growth, the situation on the labour market is also providing for faster growth in private consumption than was realised in the third quarter. According to survey data on the economic sentiment and new orders, the economic climate is not letting up.

Although structural imbalances are increasing on the labour market, and growth in demand for labour is outpacing growth in supply, labour availability remains higher than in the pre-crisis years of an overheating economy. In the third quarter of last year, employment growth remained high and was additionally strengthened by foreign workers. Firms again primarily demanded lower-skilled labour, and hiring was predominantly in sectors with below-average pay. Although the proportion of firms facing a shortage of workers increased further, the supply of labour for now remains higher than it was before the crisis. Unemployment according to the broader definition, which includes employees on reduced work hours, was significantly lower at that time than in the third quarter of last year. The increase in wage growth over the first ten months of the year was small, and did not entirely track the rise in inflation. In the wake of the sharp growth in employment, growth in the nominal wage bill increased further, averaging 5.9% over the first ten months of the year, which is strengthening consumer purchasing power.

The structure of employment reflects the structure of the Slovenian economy, which is also being reflected in complexity of Slovenia's goods exports. Last autumn nominal export growth reached its pre-crisis level although the climate in the international environment was less strong than at that time and the actual volume of exports was at a significantly higher level than a decade ago. In the wake of slightly weaker growth in domestic demand and an improvement in the terms of trade, the trade surplus strengthened again, and was approaching fully 10% of GDP over the 12 months to October. Despite the rapid growth in exports and market shares over the last few years, which reflect the improved competitiveness of Slovenian exporters, analysis of the labour intensity of production reveals that exporters in industry have only slightly increased their use of highly skilled labour, and retained their competitive advantage over the EU primarily in sectors with a medium-skilled labour force. Analysis of Slovenia's integration into global production chains further reveals that the *pronounced specialisation in manufacturing with a low share of value-added in exports and the positioning in the lower part of production chains are concentrating Slovenian exports in labour-intensive sectors with relatively low labour costs. The non-price competitiveness and technological intensity of Slovenian exports will thus largely be dependent on the positioning in international production chains. Production in final stages will have a greater share of foreign value-added, although this will not necessarily lead to more significant growth in value-added per employee.*

The fiscal position is improving, as a result of the favourable cycle and a decline in interest payments on general government debt. Growth in general government expenditure remained moderate last year, primarily owing to low government investment as a result of the very weak disbursement of EU funds, which was down significantly on the government's original plans. The financing conditions were also extremely favourable: the current spreads on long-term bonds are merely around 40 basis points over the German benchmarks of comparable maturities. According to Ministry of Finance forecasts, last year's general government deficit was expected to stand at 0.8% of GDP, down just over 1 percentage point on 2016, while the government is forecasting a surplus of 0.4% of GDP for this year. Despite the favourable GDP forecasts and the anticipated high growth in general government revenues, the government must actively endeavour to achieve the planned surplus, as pressures for a more significant rise in expenditures, particularly on wages, have recently strengthened sharply.

After two years of deflation, inflation had risen to 1.9% by December of last year, thereby exceeding the euro area average. All of last year's main movements in headline inflation were primarily caused by movements in global oil prices. The core inflation indicators only increased minimally, and remained between 0.7% and 1.1%, below the euro area average. Core inflation was raised by food prices, while prices of non-energy industrial goods continued to fall, most likely as a result of falling import prices and strong competition in the retail sector. Growth in services prices remained unchanged, despite strong domestic economic activity. Inflation thus remains primarily determined by external factors. In December, consumers' inflation expectations remained significantly above the euro area average, while firms' inflation expectations were comparable to the euro area average.

Main macroeconomic indicators

	2014	2015	2016	17Q1	17Q2	17Q3	2014	2015	2016	17Q1	17Q2	17Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	3.0	2.3	3.1	5.1	4.6	4.5	1.3	2.1	1.8	2.7	1.8	2.3
- industry	4.6	1.4	4.4	6.9	6.5	8.2	2.7	4.0	2.0	3.7	1.0	2.8
- construction	10.5	-1.6	-4.4	13.0	11.4	5.5	-1.0	0.4	1.6	3.8	2.2	2.6
- mainly public sector services	-0.1	1.4	2.9	2.5	2.1	1.4	0.5	0.9	1.3	1.6	1.3	1.5
- mainly private sector services	4.6	2.4	3.2	6.1	5.7	5.4	1.5	2.1	1.8	2.9	1.8	2.5
Domestic expenditure	1.7	1.8	2.9	5.3	3.5	2.4	1.3	2.0	2.3	2.4	1.9	2.3
- general government	-1.2	2.7	2.5	0.9	1.3	1.8	0.7	1.3	1.8	1.2	1.0	1.2
- households and NPISH	1.9	2.1	4.2	3.8	2.8	2.7	0.8	1.8	2.0	1.7	1.7	1.8
- gross capital formation	3.8	0.2	-0.1	14.0	7.5	1.9	3.3	3.4	3.8	5.6	3.1	4.4
- gross fixed capital formation	1.1	-1.6	-3.6	13.0	8.7	6.1	1.9	3.3	4.5	5.6	2.3	4.1
- inventories and valuables, contr. to GDP growth in pp	0.5	0.3	0.7	0.4	-0.1	-0.7	0.3	0.0	-0.1	0.1	0.2	0.1
Labour market												
Employment	0.4	1.2	1.9	2.9	2.8	2.7	0.6	1.0	1.3	1.6	1.6	1.7
- mainly private sector services	0.4	1.4	1.9	2.9	2.9	2.8	0.5	1.0	1.4	1.7	1.8	1.9
- mainly public sector services	0.4	0.8	2.2	3.0	2.5	2.2	1.0	1.0	1.3	1.2	1.1	1.1
Labour costs per employee	1.3	1.4	2.8	1.7	2.5	2.8	1.4	1.4	1.3	1.6	1.6	1.7
- mainly private sector services	2.4	1.6	2.2	1.9	2.4	2.4	1.5	1.5	1.3	1.6	1.6	1.8
- mainly public sector services	-2.1	0.7	5.2	4.2	3.0	2.9	1.1	1.2	1.2	1.5	1.8	1.5
Unit labour costs	-1.9	0.4	1.6	-0.7	0.3	0.8	0.7	0.5	0.9	0.5	1.5	1.1
- industry	-0.9	1.3	0.7	-1.6	-0.2	-2.2	-1.0	-1.8	0.0	-1.1	1.7	0.3
	in %											
LFS unemployment rate	9.8	9.0	8.0	7.8	6.4	6.3	11.7	10.9	10.0	9.9	9.0	...
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP	5.8	4.4	5.2	4.8	5.5	7.1	2.3	0.0	0.0	0.0	0.0	0.0
External trade balance as contr. to GDP growth in pp	1.4	0.6	0.5	0.3	1.5	2.4	0.1	0.1	-0.4	0.3	0.0	0.2
Real export of goods and services	5.7	5.0	6.4	9.8	8.6	12.0	4.7	6.4	3.3	6.2	3.1	4.6
Real import of goods and services	4.1	4.7	6.6	10.8	7.7	10.1	4.9	6.7	4.7	6.0	3.5	4.7
Financing	*in % of GDP*											
Banking system's balance sheet	115.7	107.0	99.2	99.0	96.2	94.5	297.4	281.8	276.3	277.9	272.7	268.4
Loans to NFCs	31.2	26.3	22.5	22.8	22.5	22.2	40.1	38.8	37.9	37.8	37.7	37.2
Loans to households	21.3	21.1	21.1	21.2	21.3	21.4	50.5	49.8	49.5	49.3	49.3	49.3
Inflation	*in %*											
HICP	0.4	-0.8	-0.2	2.0	1.4	1.3	0.4	0.0	0.2	1.8	1.5	1.4
HICP excl. energy, food, alcohol and tobacco	0.6	0.3	0.7	0.7	0.8	0.8	0.8	0.8	0.9	0.8	1.1	1.2
Public finance	*in % of GDP*											
Debt of the general government	80.3	82.6	78.5	80.2	79.8	78.4	91.8	89.9	88.9	89.2	89.0	...
One year net lending/net borrowing of the general government	-5.3	-2.9	-1.9	-1.4	-1.2	-0.8	-2.6	-2.1	-1.5	-1.3	-1.3	...
- interest payment	3.2	3.2	3.0	3.0	2.9	2.9	2.6	2.4	2.2	2.2	2.1	...
balancedeficit	-2.1	0.3	1.2	1.5	1.8	2.1	0.1	0.3	0.6	0.8	0.9	...
- balance excl. bank recapitalisations	-4.4	-2.9	-1.9	-1.4	-1.2	-0.8						
- primary balance excl. bank recapitalisations	-1.1	0.3	1.2	1.5	1.8	2.1						

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

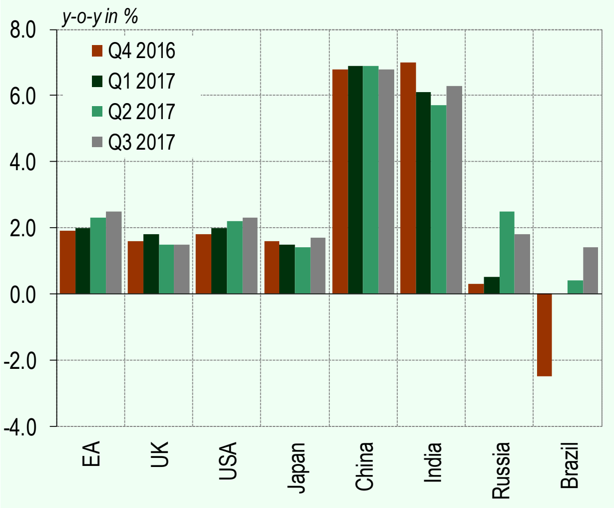
1 International Environment

Global economic growth forecasts were strengthened again at the end of the final quarter of last year. The improvement in the economic situation has continued in the euro area, where the economic sentiment continues to strengthen and remains well above its long-term average. The situation remains favourable for growth in Slovenia's exports. Based on the Consensus forecasts, the weighted average economic growth forecast for Slovenia's main trading partners increased again in the final quarter, for both 2017 and 2018. The divergence between the monetary policies of the ECB and the Fed widened again in the final quarter, while the euro has fluctuated between USD 1.15 and USD 1.20 since August. The price of a barrel of Brent crude strengthened significantly in the second half of last year, reaching USD 70 in the first half of January, the highest figure of the last three years.

Global economy

Economic growth in the majority of large economies outside the euro area strengthened again. Year-on-year economic growth in the US rose again in the third quarter, which was largely attributable to private consumption and private-sector investment. Growth also rose in Japan, primarily as a result of exports, while private consumption declined for the first time in almost two years. Year-on-year growth in the UK remained relatively low. Growth in household consumption, government consumption and investment was up on the previous quarter, while growth in corporate investment slowed. China continues to record the highest growth of the BRIC countries, although its year-on-year economic growth slowed slightly in the third quarter. The slowdown in year-on-year growth in India, which in the previous quarter reached its lowest level of the last three years, came to an end. Growth strengthened again in the third quarter, but was below expectations. Year-on-year economic growth in Brazil re-entered positive territory last year after a long recession. Economic growth in Russia slowed in the third quarter of last year after an economic recovery and increase in year-on-year growth in the previous quarters.

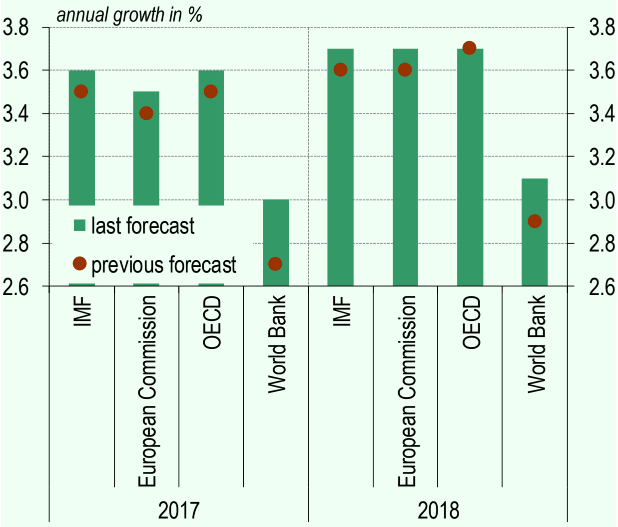
Figure 1.1: Economic growth in major developed countries outside the euro area and BRIC



Source: Tradingeconomics.

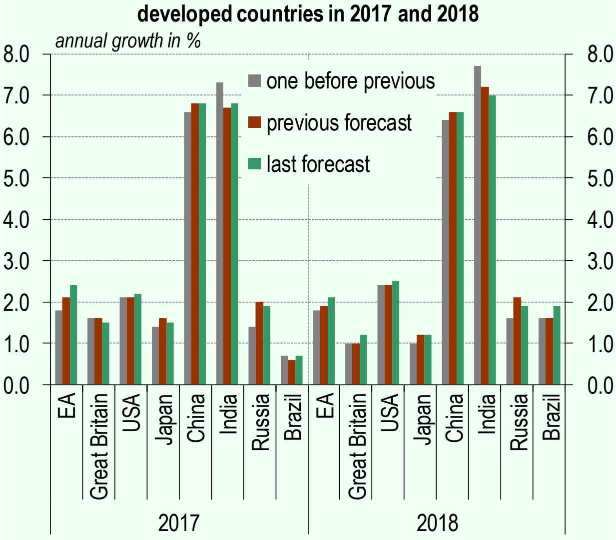
International institutions mostly raised their global economic growth forecasts. Current forecasts range from 2.7% to 3.6% for 2017, and from 2.9% to 3.7% for 2018. The IMF and the OECD raised their growth forecasts for 2017 to 3.6%, up 0.1 percentage points on the previous forecasts. The European Commission also raised its forecast for 2017, to 3.5%. The IMF and the European Commission raised their forecasts for 2018 by 0.1 percentage points, bringing them level with the OECD, which left its forecast at 3.7%. Following on from

Figure 1.2: Growth of global GDP in 2017 and 2018



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

Figure 1.3: Forecasts of GDP growth in BRIC and major developed countries in 2017 and 2018



Source: OECD.

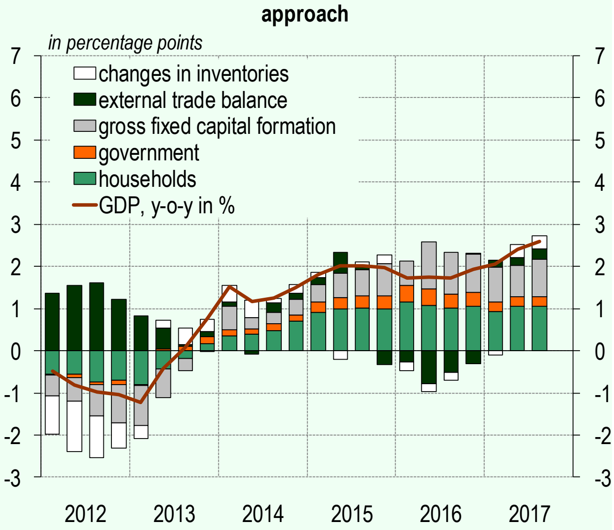
previous rises, the OECD again raised its forecasts for the euro area, to 2.4% for 2017 and 2.1% for 2018. In its January forecasts the World Bank also raised its estimate of global economic growth in 2017 and its forecast for 2018. It cut its UK growth forecast for 2017 to 1.5%, but raised the forecast for 2018 to 1.2%. The OECD also cut its 2017 growth forecast for Japan, to 1.5%, but left its forecast for 2018 unchanged at 1.2%. After previously raising its growth forecast for China to 6.8% for 2017 and 6.6% for 2018, the OECD left its forecasts for the two years unchanged. The OECD raised its forecasts of economic growth in 2017 and 2018 for Brazil and the US, to 0.7% and 1.9%, and 2.2% and 2.5% respectively. The IMF also raised its forecasts for the US, to 2.2% for 2017 and 2.3% for 2018. The OECD cut its economic growth forecasts for Russia to 1.9% for both years, raised its 2017 forecast for India to 6.8% and cut its 2018 forecast to 7.0%.

The prevailing risks to future economic growth remain on the downside. In Europe they are primarily political risks, in connection with the future of Catalonia, the Brexit negotiations, and the unstable situation in Ukraine. Geopolitical risks in the Middle East and the Korean peninsula are still increasing. The external risks still include faster growth in oil prices, which is a result of the unstable geopolitical conditions and the adjustment of excess supply to demand. The renewed appreciation of the euro is also a downside factor for future economic growth. With regard to global financing conditions, the main risk is faster normalisation of the Fed's monetary policy and a rise in interest rates, with a concomitant adjustment in prices of capital. An improvement in the global economic climate with higher forecasts for global GDP growth in the coming years is an upside risk.

Euro area

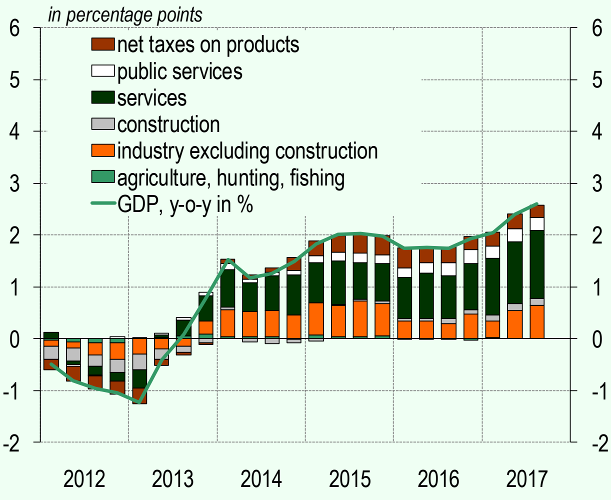
The economic situation in the euro area is continuing to improve. Quarterly economic growth stood at 0.6% in the third quarter of 2017, a similar level to previous quarters. Year-on-year growth stood at 2.6%, up on the previous quarter. According to seasonally and calendar adjusted data, the largest contribution to year-on-year econom-

Figure 1.4: Structure of GDP growth in the euro area, expenditure approach



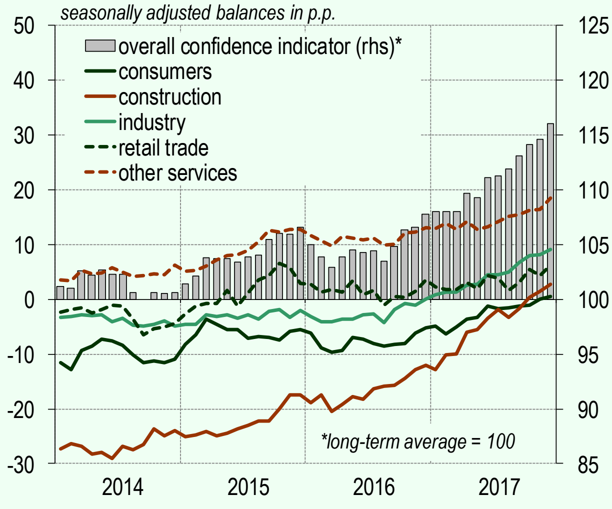
Source: Eurostat, Bank of Slovenia calculations.

Figure 1.5: Structure of GDP growth in the euro area, output approach



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.6: Confidence indicators – euro area



Source: European Commission.

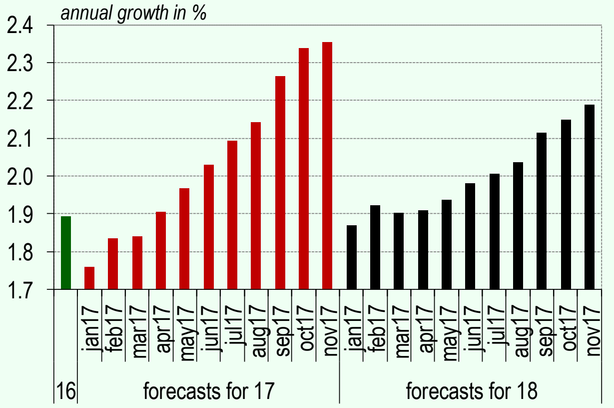
ic growth came from private consumption, which accounted for 1.0 percentage points. This was followed by gross fixed capital formation, which accounted for 0.9 percentage points, while the change in inventories and net trade accounted for 0.3 percentage points. Government consumption accounted for 0.2 percentage points of year-on-year economic growth in the third quarter. According to seasonally and calendar adjusted data, the largest sectoral contribution to year-on-year economic growth came from private-sector services, which accounted for 1.3 percentage points. This was followed by industry (excluding construction), which contributed 0.6 percentage points, public services, with 0.3 percentage points, and net taxes on products, with 0.2 percentage points. The contribution made by construction stood at 0.1 percentage points.

The economic sentiment in the euro area is continuing to strengthen, and remains up on the previous year and well above its long-term average. Having reached its level of the summer of 2007 in September, it continued to rise in the final quarter and reached a new record high in December. Confidence is strengthening in all sectors and among consumers. Industrial production in October was up in monthly terms, taking the year-on-year rate of growth to 3.7%. Monthly activity in the construction sector was broadly unchanged for five months, then declined in October, but the year-on-year rate of growth nevertheless reached 2.2%. Turnover in the retail sector recorded its largest monthly decline of the year in October, but the year-on-year rate growth nevertheless remained positive, at 0.7%. The situation on the labour market remains favourable as unemployment is still falling. The harmonised unemployment rate fell below 9% for the first time since 2009, reaching 8.8% in October. Consumer confidence strengthened sharply in November, having risen at a slower pace in the third quarter than in the first half of the year.

Slovenia's trading partners

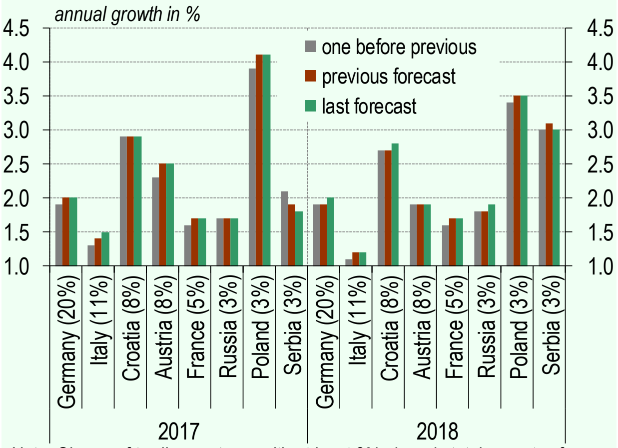
The weighted average economic growth forecast for Slovenia's main trading partners was raised again in the final quarter, for both 2017 and 2018. In the final quarter, Consensus raised its economic growth forecasts for the majority of Slovenia's largest trading partners in terms of their share of goods exports. In October, it raised its forecast for Germany, which is the largest trading partner accounting for just over 20% of total goods exports in the last 12 months, to 2.0% for 2017, and then in November raised its 2018 forecast to 2.0%. For Italy, which accounts for 11% of total goods exports, it raised its 2017 forecast to 1.5%, and left its 2018 forecast unchanged at 1.2% after raising it in October. For Austria, which accounts for 8% of total goods exports, it first raised its 2017 forecast then left it unchanged at 2.5%, and left its 2018 forecast unchanged at 1.9%. After raising its forecasts for France in October, Consensus left its forecasts for both years unchanged at 1.7% in Novem-

Figure 1.7: Weighted monthly forecasts for Slovenia's major trading partners in 2017 and 2018



Note: Trade partners with at least 1% of the total goods exports of Slovenia in the last 12 months with available data up to November 2017 are included (more than 20 trading partners with a total share of 87%. The growth forecasts for the years 2017 and 2018 are weighted with the share of each country in total exports of goods).
Source: Consensus, Bank of Slovenia calculations.

Figure 1.8: Forecasts of GDP growth in the eight largest Slovenian trading partners in 2017 and 2018



Note: Shares of trading partners with at least 3% share in total exports of Slovenia in the last 12 months with available data until November 2017 are found in parentheses.
Source: Consensus, SORS.

ber. Further growth in economic activity is also expected in Slovenia's main trading partners in eastern and south-eastern Europe. For Croatia, which accounts for 8% of total goods exports, the largest figure in this group of countries, Consensus left its 2017 forecast unchanged at 2.9%, and raised its 2018 forecast to 2.8%. The changes in the forecasts for other countries whose share of goods exports is more than 3% varied. Consensus left its economic growth forecast for Russia for 2017 unchanged at 1.7%, but raised its forecast for 2018 to 1.9%. It raised its forecasts for Poland for both years, to 4.1% in 2017 and 3.5% in 2018. It again cut its 2017 economic growth forecast for Serbia, to 1.8%, but raised its forecast for 2018 to 3.1%.

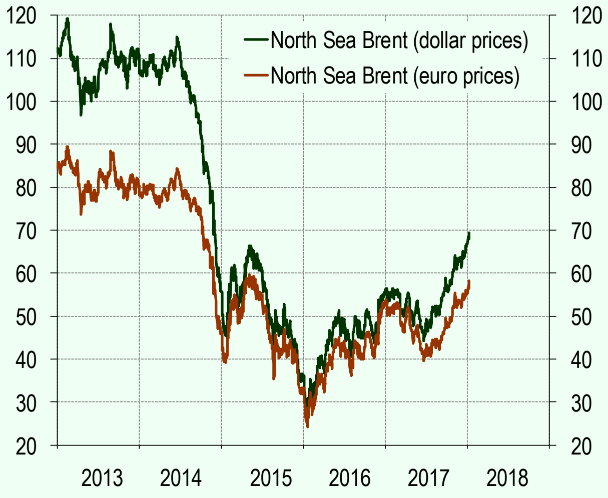
Euro exchange rate and commodity prices

The divergence between the monetary policies of the ECB and the Fed increased further after December's rise in the Fed's key interest rate. The target range for the federal funds rate is now 1.25% to 1.50%. The ECB has left its key interest rates unchanged since December: the rates on the main refinancing operations, the marginal lending facility and the deposit facility are 0.00%, 0.25% and -0.40% respectively. The Governing Council continues to expect the key ECB interest rates to remain at their present levels for an extended period, and for significantly longer than the duration of the net asset purchases. Monthly asset purchases remained at EUR 60 billion until the end of December, but were then reduced to EUR 30 billion in January. They will continue until the end of September 2018, or as long as the Governing Council assesses that inflation has not yet sustainably approached its target rate. Despite the divergence in monetary policies, the euro exchange rate against the US dollar strengthened between December 2016, when it reached its lowest level of many years, and September

Figure 1.9: EUR/USD exchange rate and central banks' interest rates

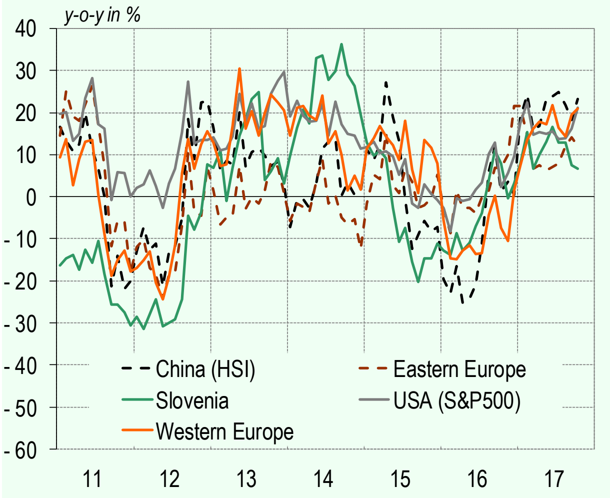
Source: ECB, Federal Reserve.

Figure 1.10: Oil prices



Source: Bloomberg, Bank of Slovenia calculations.

Figure 1.11: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

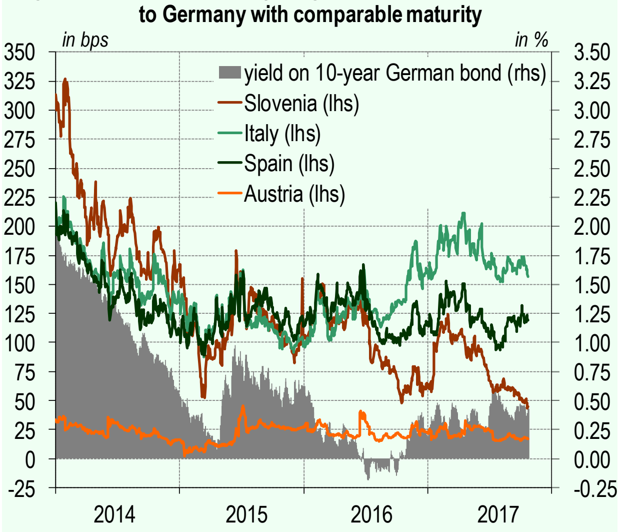
2017, when it reached USD 1.21. Since September, when the monthly appreciation came to an end, the exchange rate has fluctuated between USD 1.15 and USD 1.21, where it remained until mid-January.

Having reached their low of the year in June, oil prices strengthened in the second half of the year. Prices have continued to rise ever since OPEC members, Russia and other producers agreed to cut pumping. At the end of November 2017 the agreement to cut pumping was extended by another nine months, until the end of 2018. The higher oil prices are also related to growing political risks in the majority of producer countries. The largest risks on the supply side are related to instability and unrest in the Middle East. By contrast, demand for oil can be expected to remain strong, despite global efforts to use cleaner fuels, and advances in technology such as electric cars. Having averaged USD 47 in June, the price of a barrel of Brent crude had risen to USD 64 by December. Prices continued to rise in January, reaching USD 70. Other commodity prices also rose again in year-on-year terms, although food prices remain the exception.

International capital markets

The increased investor confidence and the improved expectations with regard to further economic growth in the euro area and beyond are being reflected in growth in share indices, which have reached record highs in the wake of reduced volatility on the stock markets. Additional support for the current trend is coming from the continuation of the loose monetary policy and from the political environment, political risk having declined slightly after the completion of elections in certain countries. The majority of stock indices have already sharply exceeded their highs from the pre-crisis period, which could indicate overheating of the stock markets. Investor confidence in the continuing stock market boom nevertheless remains high.

Figure 1.12: Spreads on 10-year government bonds as compared to Germany with comparable maturity



Source: Bloomberg.

Expectations of a gradual normalisation on the money market are being reflected in the bond market, where the required yields on 10-year government bonds are slowly moving away from negative territory or zero rates. The spreads on euro area government bonds over the German benchmark of the same maturity remain low, for which reason risks in euro area countries remain relatively similar. The ongoing low interest rate environment is having a positive impact in the continuation of favourable government financing via issuance of debt securities. The low interest rate environment is nevertheless encouraging investors (including banks, insurance corporations, etc.) to seek higher returns by investing in bonds with lower credit assessments and higher risks.

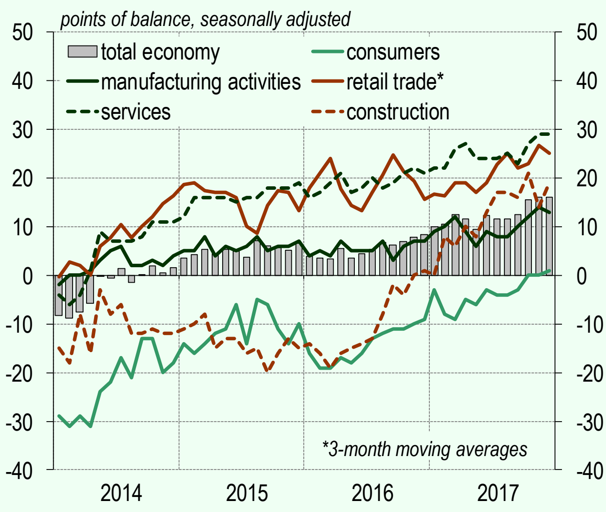
2 Economic Developments

In the third quarter of last year, high economic growth was largely the result of exploitation of positive business climate in the euro area. The contribution made to GDP growth by the export sector increased to its highest level since 2010, albeit from a significantly higher starting point than after the crisis year of 2009, which is indicative of the high external competitiveness of the economy. In the third quarter, manufacturing sector's turnover on euro area markets was up almost 16% in year-on-year terms. The technological complexity of its output is also gradually increasing. Exports thus compensated for the slowdown in domestic private consumption, and even more for the slowdown in investment. Growth in investment was surprisingly low compared with economic growth, although the slowdown was most probably merely temporary, given that conditions for investment are extremely favourable. A particular highlight is the record operating surplus in the corporate sector. With rapid employment growth and indications of faster wage growth, the situation on the labour market is also providing for faster growth in private consumption than was realised in the third quarter. According to survey data on the economic sentiment and new orders, the business activity is not letting up, and high growth is indicated for the end of last year and the early part of this year.

Confidence indicators

In the final quarter of last year, economic growth remained robust according to the confidence indicators, while the demand expectations indicators also suggest that it will remain high in the early part of this year. In the final quarter of last year, economic sentiment assessed by the SORS improved again, while average confidence in the quarter strengthened further in all segments of the private sector. At the end of last year, firms in all sectors covered by the survey assessed demand in the first quarter of this year as very strong, an indication that economic growth will remain high. At the end of last year, consumer confidence was also high. Consumers were optimistic with regard to the state of the national economy this year, and are expecting a further fall in unemployment.

Figure 2.1: Confidence indicators

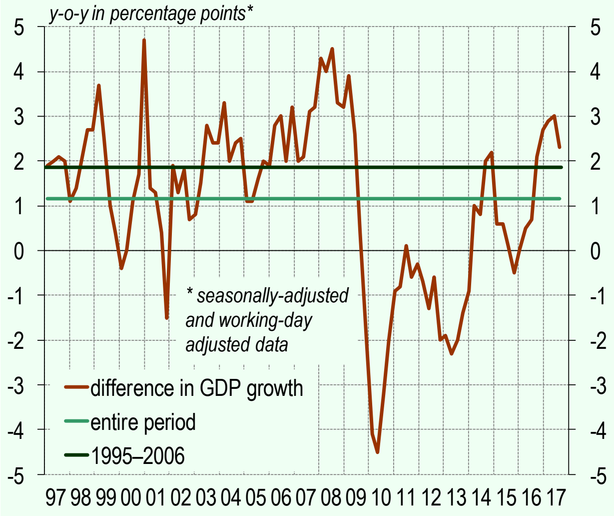


Source: SORS, Bank of Slovenia calculations.

GDP

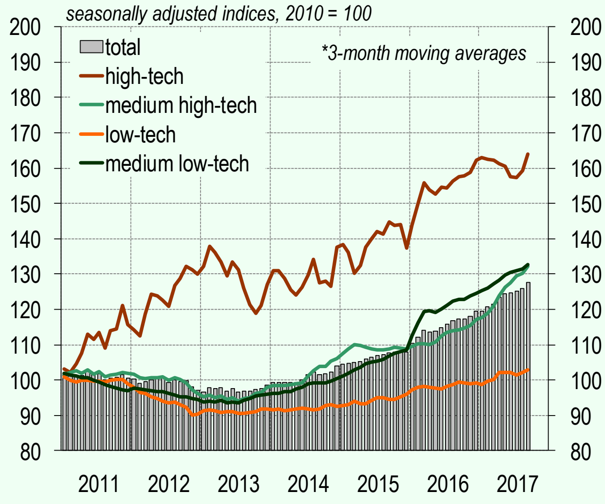
Slovenia's outperformance of average growth across the euro area exceeded 2 percentage points last year. In the third quarter, quarterly GDP growth stood at 1%, thus continuing the gradual decline compared with the

Figure 2.2: Differences in GDP growth between Slovenia and the euro area



Source: SORS, Bank of Slovenia calculations.

Figure 2.3: Manufacturing output by technological complexity

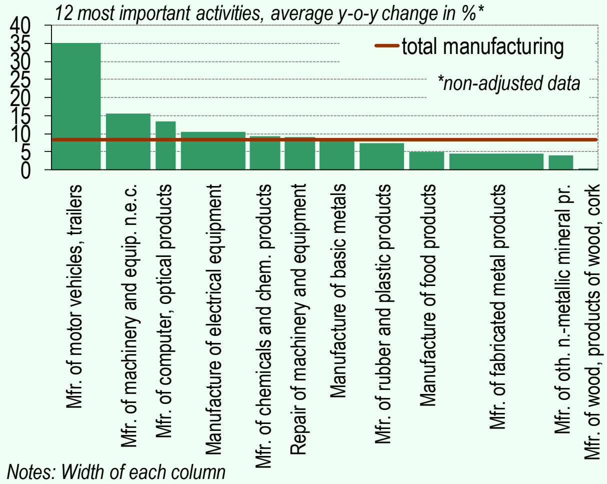


Source: SORS, Bank of Slovenia calculations.

quarterly rates achieved in the second half of 2016. Year-on-year growth nevertheless remained high at 4.5%, or 4.9% after eliminating the effect of the number of working days.[1] This was 2.3 percentage points more than the euro area average. The pace of convergence last year remained less than that seen in the period of unsustainable economic growth in 2007 and 2008. Above all it did not deviate significantly from the long-term average, if the comparison takes account solely of the relatively stable period before the overheating and crisis, thereby eliminating the pronounced fluctuation in activity in the last decade. This indicates that the catch-up with the euro area is sustainable for now. A comparison across economic sectors shows that the catching-up has largely been driven by higher growth in the export sector.

Industry is exploiting the favourable situation on foreign markets and is strengthening its contribution to economic growth. In the third quarter, quarterly growth in value-added in industry remained around 2%. The year-on-year rate exceeded 8%, taking its contribution to GDP growth to 1.8 percentage points, the highest figure since the second quarter of 2010. Firms achieved high growth primarily by exploiting the favourable economic situation in the euro area, where turnover in the third quarter was up almost 16% in year-on-year terms.[2] This was significantly higher than growth in turnover on other foreign markets, while the importance of the domestic market,

Figure 2.4: Manufacturing production: Jul. 2017 – Sep. 2017



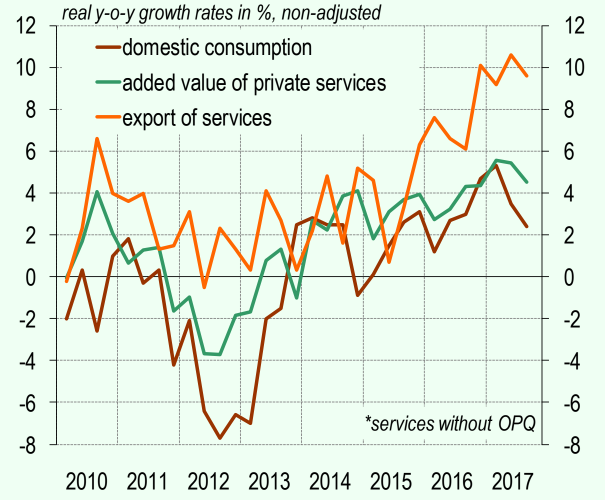
Notes: Width of each column represents the share of activity in total value added in manufacturing in 2016. Pharmaceuticals are not included due to data confidentiality.
Source: SORS, Bank of Slovenia calculations.

where growth in turnover slowed again, declined further in the third quarter. The structural changes in industry are slow but positive; high growth in aggregate output is the result of the strengthening of manufacturing of medium-high technological complexity, while output in high-technology manufacturing also began rising again after a weak second quarter. Output increased in all major sectors of industry, but the main highlight was the car industry, where turnover in the third quarter was up 35% in year-on-year terms.

In the third quarter, growth services activity was relatively high again, while the importance of foreign de-

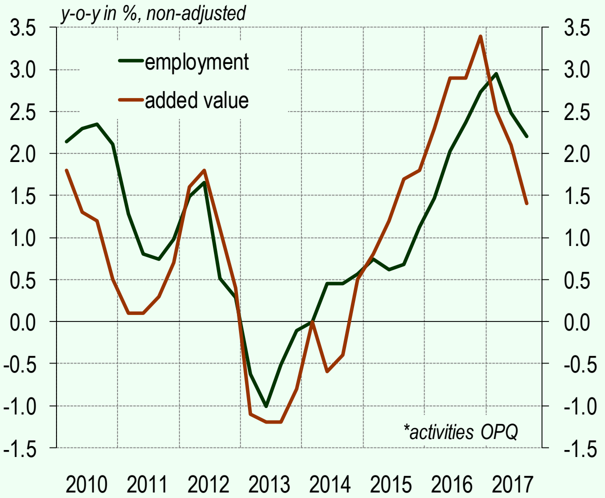
[1] All figures in this section are non-adjusted for season and working days unless stated otherwise.
[2] In the period to the third quarter of last year, the largest increase in turnover on euro area markets recorded by Slovenian firms was in capital goods. In the third quarter, year-on-year growth in turnover of capital goods exceeded 35%.

Figure 2.5: Value added in private sector services* and sources of demand



Source: SORS, Bank of Slovenia calculations.

Figure 2.6: Employment and value added in public services*



Source: SORS, Bank of Slovenia calculations.

mand increased further. Value-added in private-sector services was up 4.5% in year-on-year terms, approximately 1 percentage point less than in the two previous quarters. There was again notable growth in wholesale and retail trade and repair of motor vehicles and motorcycles, transportation and storage, and accommodation and food service activities. With growth in domestic demand slowing again, the maintenance of the relatively high dynamic in services was the result of export growth. This reached high levels in numerous segments of the service sector, from financial services and business services, to transport and tourism. Non-residents again made a significant contribution to growth in aggregate demand: in the third quarter, the number of arrivals and overnight stays

Figure 2.7: Differences between survey activity and value added in construction*

Source: SORS.

by foreign visitors was up more than 15% in year-on-year terms. The most notable negative result in the major private-sector services was recorded by the information and communication sector, where value-added was down in year-on-year terms. According to the SORS, this was a reflection of lower growth in turnover compared with growth in intermediate consumption, most likely as a result of fierce competition in the telecommunications sector. Growth in value-added in public services slowed again, in line with the slowdown in employment growth. The aggregate contribution made to GDP growth by services stood at 2.2 percentage points in the third quarter, 0.5 percentage points less than at the beginning of the year.

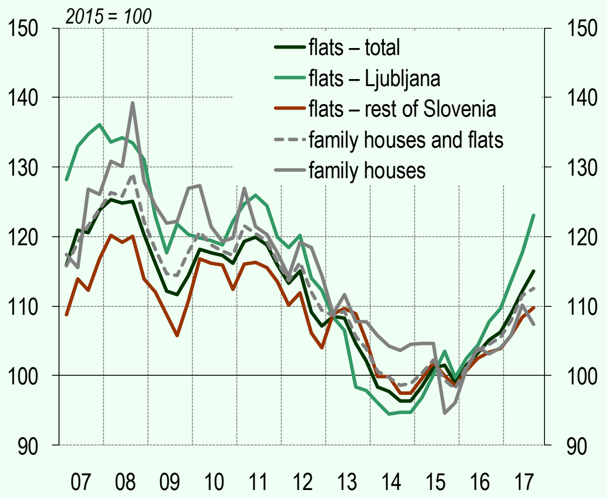
In the third quarter, growth in value-added in construction slowed again, although this is at odds with the survey activity data. A waning base effect and weak quarterly dynamics saw year-on-year growth in value-added in construction slow to 5.5%. At the same time, volume of construction put in place index suggested slightly higher growth, while the SORS survey data was even more favourable, having indicated high confidence and activity in the sector. At the moment, estimates of growth in future demand in construction are rather unreliable, with large variations between the indicators again in this instance. In the third quarter, the number of building permits issued and the corresponding floor space were down in year-on-year terms, although there was simultaneously a significant increase in the value of new con-

Box 2.1: Situation on the residential real estate market

Slovenia has seen a revival in the real estate market in the last two years, which has primarily been reflected in a bounce-back in prices of used housing. The largest rises have been in prices of used housing in Ljubljana. The dynamics in prices of used family houses did not initially track the dynamics in prices of apartments, and has almost caught up with growth in prices of apartments only in the last year. Prices of new-build housing have also begun to track prices of used housing with a small lag. In general the dynamics in prices on the real estate market is reflecting the recovery of the Slovenian economy, albeit with a lag. Ongoing GDP growth is being supported by employment, private consumption, bank loans to households and consumer confidence, which are co-dependent factors. The favourable economic situation is increasing demand for real estate. By contrast, from a supply perspective, investment in construction is not yet catching up with the high demand on the real estate market, despite its increase in the last year. This is also evident in a comparison of the ratio of housing investment to GDP with its long-term average: the long-term average is 3.25% of GDP (fully 4% to 5% of GDP during the period of overheating), while the figure over the last three years has been around 2.1% of GDP (2.2% of GDP in the third quarter of last year).

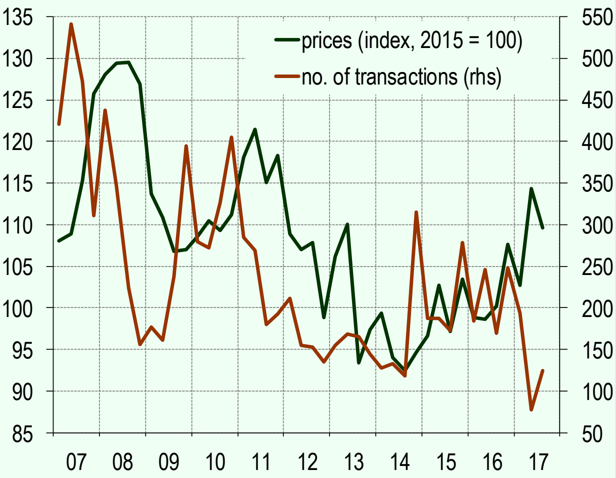
Focusing in more detail on the supply side, it can be concluded from the number of transactions in new-build real estate that the market is still weak, which is confirmed by the low level of investment in residential construction. The number of transactions in new-build real estate is low. According to

Figure 1: Prices of existing residential property



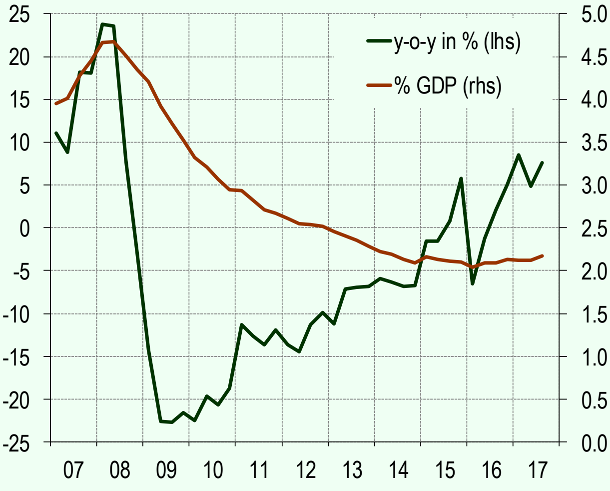
Source: SORS, Bank of Slovenia calculations.

Figure 3: New dwellings – prices and number of transactions



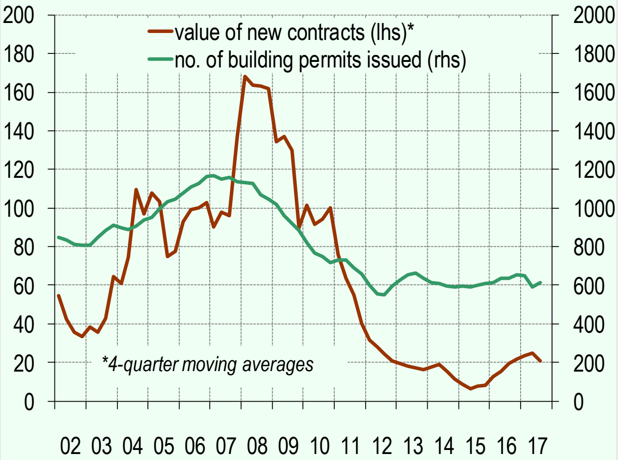
Source: SORS.

Figure 2: Investments in residential buildings



Source: SORS, Bank of Slovenia calculations.

Figure 4: Residential real estate – contracts and building permits

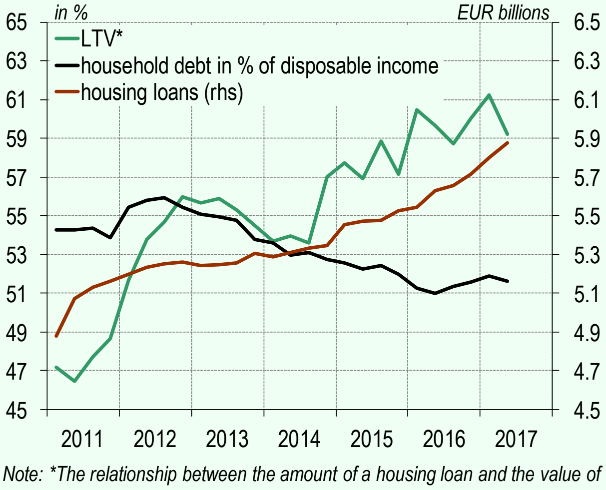


*Note: *Calculation based on seasonally adjusted real index with 2010 as the base year.*
Source: SORS, Bank of Slovenia calculations.

SURS figures, it has ranged from 200 to 300 on a quarterly basis, compared with approximately 400 to 500 in 2007 and 2008. There are not yet any signs of major construction projects that could satisfy the demand for residential real estate. This is confirmed by the figures for the value of new contracts and the number of building permits issued. The index of the value of new contracts for the construction of residential real estate in the third quarter of last year was down 43% on its long-term average, while the number of building permits issued was down around 200.

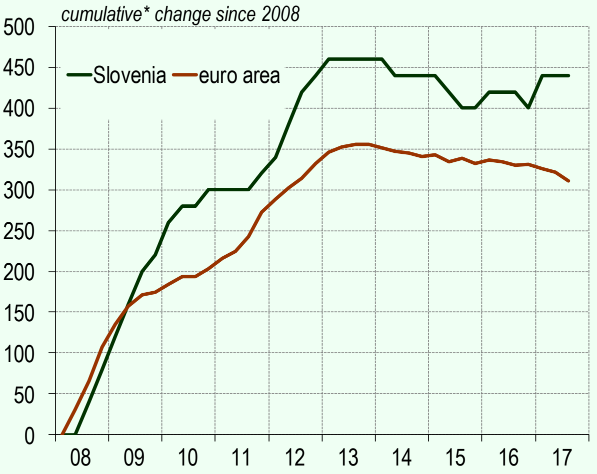
Given the current developments on the real estate market, it is difficult to conclude with certainty that a new real estate bubble is forming as a result of a supply-side bubble, as was the case in the period of the overheating economy in Slovenia, when there was a simultaneous bubble in the construction sector and in demand for real estate in the wake of high growth in loans. The supply of new residential real estate currently remains low, although in the event of the release of a major quantity of new-build real estate or an increase in construction activity, residential real estate prices could even slow slightly in the near future. There is no sign of increased risk to the banking system from developments on the real estate market. In approving new loans the banks are cautious with regard to collateral requirements: the average LTV is close to 60%. Households are financing a large proportion of their real estate purchases with their own resources, thus keeping the LTV below the value recommended by the Bank of Slovenia. Growth in housing loans to households is also stable, and remained just over 5% in 2017, a rate that is not increasing risks in the banking system given the economic cycle in Slovenia. According to the BLS, Slovenian banks have not seen any major changes in credit standards for

Figure 5: Average LTV, indebtedness of households and housing loans



*Note: *The relationship between the amount of a housing loan and the value of the property with which the loan is insured.*
Source: Bank of Slovenia, ECB SDW, SORS.

Figure 6: Credit standards for housing loans to households



*Note: *Cumulative sum of net percentage quarterly changes.*
Source: Bank of Slovenia, ECB SDW, SORS.

housing loans, which thus remain significantly tighter than in 2008. Credit standards for housing loans at Slovenian banks have been significantly tighter than the euro area average since the outbreak of the crisis. The indebtedness of Slovenian households also represents a relatively low risk to the banking system; it remains among the lowest in the euro area, despite the increase in lending.

The slow adjustment of supply to demand could lead to excessive growth in prices, which in the event of the bursting of the real estate bubble could cause a significant fall in real estate prices. This could have a profound impact on the banking sector, and the banks should therefore be diligent in monitoring the market and managing risk during the favourable economic situation and in the wake of increased optimism. It is recommended that the banks continue to maintain adequate credit standards. The Bank of Slovenia conducts detailed monitoring of the dynamic in real estate prices within the framework of financial stability policy and macroprudential policy. Pursuant to the Macroprudential Supervision of the Financial System Act, two macroprudential instruments for the real estate market have been approved and are now in force, in the form of non-binding recommendations to banks. In the event of increased risks to financial stability as a consequence of failure to observe the recommendations, the Bank of Slovenia could introduce a binding macroprudential measure, while in the event of an increase in systemic risks, which could occur despite the observation of the recommended maximum values, it could tighten the parameters of the macroprudential instruments.

tracts, and residential real estate prices continued to rise. In the third quarter, the contribution made to GDP growth by construction stood at 0.3 percentage points, 0.2 percentage points less than at the beginning of the year.

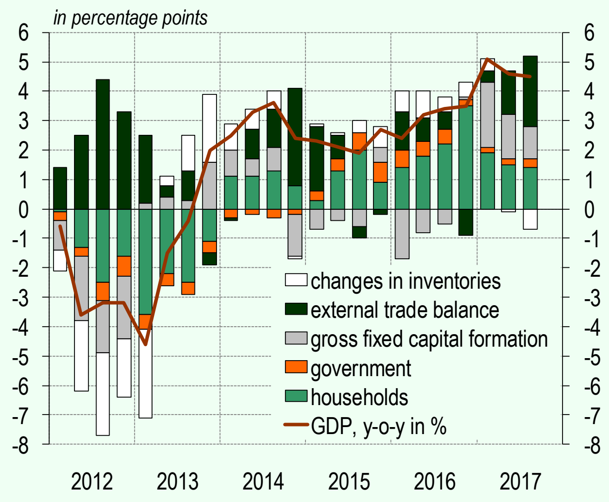
Aggregate demand

In the third quarter, growth in domestic demand slowed further, primarily as a result of weaker growth in investment. Year-on-year growth in domestic consumption stood at 2.4%, down almost 2 percentage points on the beginning of the year. Growth in gross investment slowed to less than 2%, largely as a result of a decline in inventories. In addition, base effect continued to fade, and quarterly growth in gross fixed capital formation was again negative. Investment activity was very low compared with the data on economic sentiment, the financing conditions and demand. Year-on-year growth in final household consumption continued to slow, which was attributable to a high base, while the quarterly dynamic was also weaker than in 2016. Of the main domestic demand aggregates, only final government consumption strengthened in the third quarter. Domestic consumption thus accounted for less than a half of the GDP growth, and high growth in aggregate economic activity was maintained by exports.

In the third quarter of last year, growth in final household consumption did not track the rise in consumer confidence identified by surveys. Consumer confidence was significantly higher in year-on-year terms, while growth in the real wage bill also increased due to fall in inflation, higher growth in nominal wages and a faster rise in employment. Domestic banks also strengthened their consumer lending. Year-on-year growth in final household consumption was nevertheless down just over 1 percentage point on the early part of the year at 2.7%, and down even more significantly on the end of 2016.

In the third quarter, quarterly growth in most types of investment was weak again. This applies to investment in machinery and equipment and to construction investment other than residential construction. These developments were unexpected, and are inconsistent with the high economic growth recorded in this period. They are

Figure 2.8: Contributions to y-o-y GDP growth – expenditure side

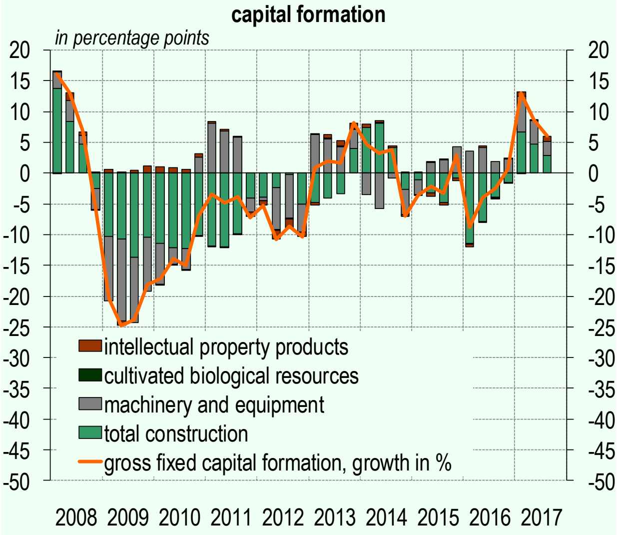


Source: SORS.

Figure 2.9: Final consumption and confidence of households

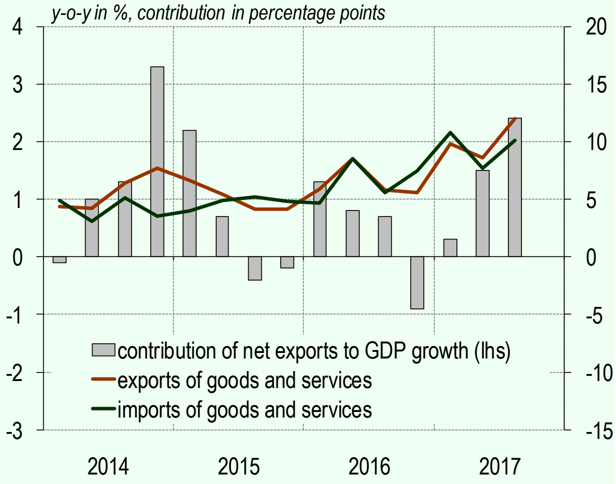
Source: SORS.

Figure 2.10: Contributions to volume y-o-y growth in gross fixed capital formation



Source: SORS, Bank of Slovenia calculations.

Figure 2.11: Foreign trade



Source: SORS – national accounts.

most likely merely temporary, as firms are reporting growth in new orders and favourable financing conditions, while their operating surplus is at a record level.[3] Meanwhile production capacity utilisation in manufacturing reached 85% in 2017, up 4 percentage points on its long-term average. Investment in residential construction recorded a rising quarterly dynamic over the first three quarters of last year, but nevertheless remained small in size, at just 2.2% of GDP.[4] Year-on-year growth in gross fixed capital formation had slowed to just over 6% by the third quarter, down 7 percentage points on the beginning of the year, while its contribution to GDP growth declined from 2.2 percentage points to 1.1 percentage points. The slowdown was attributable both to construction investment and to investment in machinery and equipment.

In the third quarter, the maintenance of high economic growth was the result of dynamics in the export sector. Over the first three quarters of the year, quarterly growth in goods exports was maintained at close to 4%, which raised the year-on-year rate to 12.6%. Growth in exports of services was also high. In the third quarter, growth in imports was outpaced by growth in exports, primarily as a result of lower growth in investment and the corresponding lower growth in import demand for capital goods. The contribution made to GDP growth by net trade consequently reached a high 2.4 percentage points.

Table 2.1: Economic activity

	12 m. to Oct. 16	12 m. to Oct. 17	2017 Aug.	2017 Sep.	2017 Oct.	2017 Jul.	2017 Oct.
			y-o-y in %			*monthly ++*	
Industrial production: - total *	6.8	8.3	8.2	10.0	10.7	1.2	3.1
- manufacturing	7.7	8.9	8.6	11.2	11.1	1.5	3.2
Construction: - total **	-17.7	11.6	7.6	6.9	29.5	-4.0	0.7
- buildings	-2.3	27.4	3.4	10.2	40.5	-3.1	-2.5
- civil engineering	-23.0	5.8	10.0	5.6	25.5	-7.3	1.2
Trade (volume turnover)							
Total retail trade	2.3	9.6	7.5	8.6	2.5	0.3	0.3
Retail trade except automotive fuel	2.8	3.9	2.9	5.0	3.9	0.7	1.0
- food, beverages, tobacco	-0.8	1.3	2.5	2.5	3.8	-0.6	1.1
- non-food (except automotive fuel)	6.3	6.1	3.5	6.9	3.4	1.2	1.2
Retail trade and repair of motor vehicles	20.4	16.9	18.1	14.2	18.4	1.2	5.8
Private sector services * +**	4.7	7.7	6.9	8.1	9.2	2.2	1.0
Transport and storage +	3.5	10.4	11.2	11.4	12.2	2.3	1.6

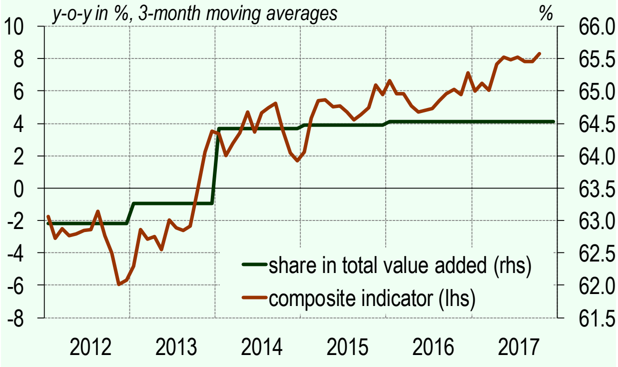
Notes: Data are working days adjusted.
** Volume of industrial production. ** Real value of construction put in place. *** Excluding trade and financial services. + Nominal turnover.*
++: 3-month moving average compared to the corresponding average 3 months earlier. Data are seasonally and working days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

[3] According to non-financial sector accounts, non-financial corporations' one-year gross operating surplus amounted to EUR 8,032 million in the third quarter, up EUR 886 million on its pre-crisis peak in 2008.
[4] In the third quarter, year-on-year growth in investment in residential real estate reached 7.6%, although the actual figure was merely EUR 205 million, down a quarter on the quarterly average between 1995 and Q3 2017. The supply of new-build housing is only gradually tracking the increase in demand, which is being reflected in residential real estate prices. According to SORS figures, they were up 7.9% in year-on-year terms in the third quarter.

Economic developments in the final quarter of 2017

In the final quarter of last year, economic momentum continued. The composite economic growth indicator, which covers sectors accounting for approximately 65% of total value-added in the economy, reveals that activity strengthened further in October. In keeping with the ongoing high growth in exports, year-on-year growth in industrial production increased further, and remained high in November. Growth in turnover in private-sector services other than trade was higher than in September, while growth in turnover in wholesale trade also remained high. After a weaker third quarter, growth in the amount of construction put in place was very high in October, in all segments of construction. Year-on-year growth in the aggregate figure reached almost 30%. After a weaker October, November saw a significant increase in retail turnover.

Figure 2.12: Composite indicator of economic activity



Source: SORS, Bank of Slovenia calculations.
Note: Volume composite indicator includes real index of industrial production, volume of construction put in place, volume of retail sale, nominal value of wholesale and nominal value of sale in majority of other private services. Nominal value of wholesale is deflated by import price index, nominal value of sale in majority of other private services is deflated by services price index and energy price index with 50% weight each.

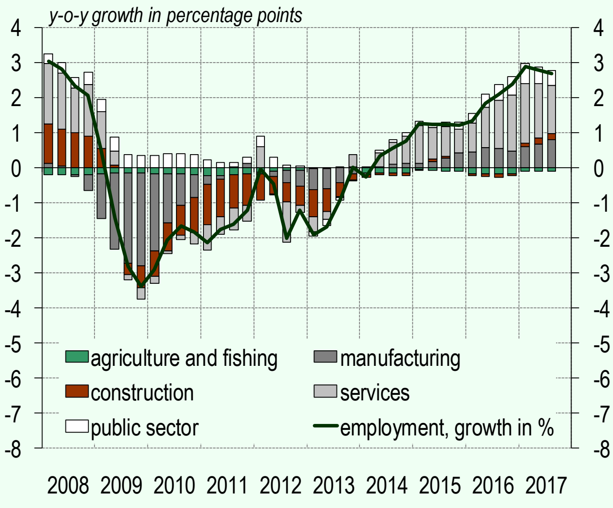
3 Labour market

Employment growth is not letting up. The year-on-year rate stood at 2.7% in the third quarter of 2017, as employment grew faster in the private sector than in mostly public services. Hiring of foreign workers was also up in year-on-year terms, and its contribution to the rise in the workforce in employment strengthened significantly. Employment growth is also expected in the coming months, while most hiring is again expected to involve low-skilled labour. The number of unemployed in November was down almost 15% in year-on-year terms, which was increasingly attributable in the autumn months to a fall in the number of unemployed persons with tertiary education. Structural imbalances in the labour market strengthened in parallel with the fall in unemployment, however the wage growth acceleration was small. Growth in nominal wages thus continues to be outpaced by estimated growth in nominal productivity, and has not entirely tracked higher inflation. In the wake of the sharp growth in employment, growth in the nominal wage bill increased further. It averaged 5.9% over the first ten months of the year, while due to inflation growth in the real wage bill averaged 4.3%.

Employment

The high growth in employment was based primarily on the hiring of low-skilled labour. Employment in the third quarter of 2017 was up 2.7% in year-on-year terms, as the number of employees rose while the number of self-employed fell.[1] At the same time employment grew faster in the private sector (2.8%) than in mostly public services[2] (2.2%). In the private sector employment primarily strengthened in less productive sectors with below-average skilled workers, where the most jobs had been lost during the crisis.[3] A detailed review across individual sectors on the basis of monthly data on the workforce in employment reveals that the largest contribution to average year-on-year growth in the workforce in employment

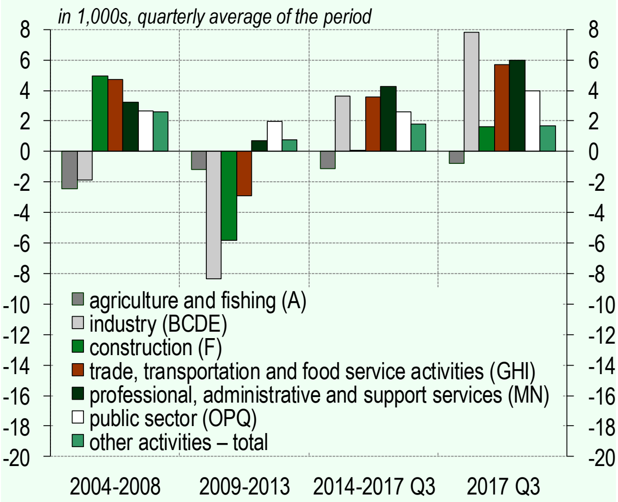
Figure 3.1: Contributions to employment by sector



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

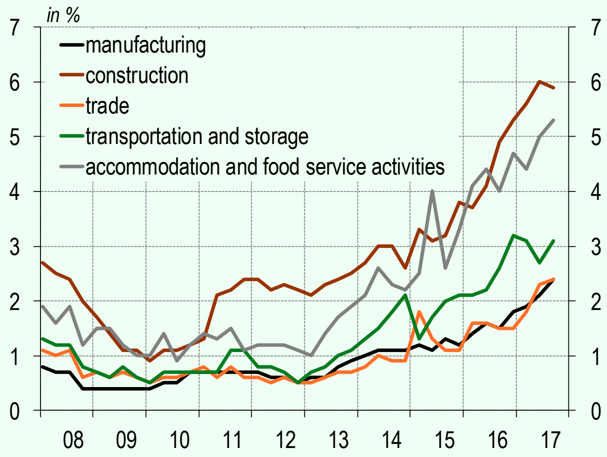
[1] The employment analysis uses quarterly national accounts figures. According to the monthly SORS statistics, year-on-year growth in the workforce in employment averaged 3.5% over the third quarter. The difference derives from the different methodologies for monitoring employment. The national accounts 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. According to the monthly figures, only employees with an employment contract and self-employed persons are classed as workforce in employment.
[2] Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2008).
[3] These are sectors where the proportion of employees with a tertiary education is below the average of the private sector according to the SORS figures for the previous year. The employment structure also has an impact on wage growth, which is discussed in Box 3.1.

Figure 3.2: Year-on-year change in employment by activity



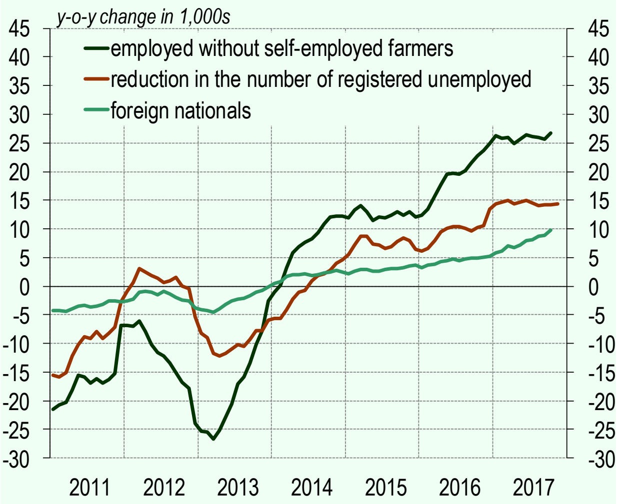
Source: SORS, Bank of Slovenia calculations.

Figure 3.4: Job vacancy rate*



Note: *The job vacancy rate reflects the share of job vacancies in all workplaces together. All workplaces being the sum of vacant and occupied posts.
Source: SORS, Bank of Slovenia calculations.

Figure 3.3: Sources of growth in the number of persons in employment



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

over the first ten months of the year came from manufacturing and from administrative and support service activities. The majority of the year-on-year growth of 9.9% in the workforce in employment in administrative and support service activities was attributable to employment activities, an indication of the widespread use of agency work even in the significantly improved economic situation. The rise in the workforce in employment derived from a fall in unemployment, a rise in the labour force participation rate[4] and the hiring of foreign workers. The contribution made by the latter has been increasing rapidly since the beginning of 2017. Construction and manufacturing employ the most foreign workers.

The number of vacancies rose, while the job vacancy rate also increased in the wake of shortages of labour. According to the non-seasonally-adjusted SORS figures, employers sought 17,211 new employees in the third quarter of last year, up 38.1% in year-on-year terms.[5] More than 40% of the vacancies were notified in manufacturing and construction. As a result of the seasonal nature of the work and the growing shortage of workers, the job vacancy rate was highest in construction and in accommodation and food service activities. The Employment Service is also reporting a rise in the number of vacancies. More than 120,000 vacancies were notified at the Employment Service over the first eleven months of the year, up 21.4% on the same period of 2016. In November employers were most often seeking workers for elementary occupations in manufacturing and drivers of heavy goods vehicles and tractor units, while in terms of the main occupational categories the most vacancies were for professions for non-industrial work.

According to various surveys, firms are expecting further growth in hiring in the coming months. Hiring

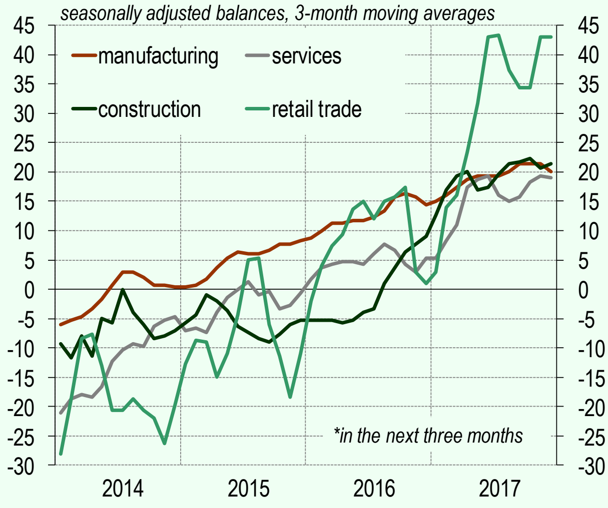
[4] The labour force participation rate for those aged 15 to 64 reached 75.2% in the third quarter of 2017 according to the non-seasonally-adjusted SORS figures, up 3.4 percentage points in year-on-year terms.
[5] In April 2013 the Labour Market Regulation Act abolished the mandatory notification of vacancies at the Employment Service for all employers other than the public sector and firms under majority government ownership. Between April 2013 and the end of 2014 the figures were no longer complete, for which reason the SORS has conducted independent surveying of vacancies since the first quarter of 2015. The sample framework includes all business entities with at least one employee whose primary registered business activity was in one of Sectors B to S.

will strengthen in all sectors covered by the SORS survey. According to the aforementioned survey, firms in the retail sector have had the highest demand for labour since last April. A similar picture for the first quarter of 2018 is also presented by results of a survey by Manpower, an HR firm, according to which 15% of employers are planning to increase hiring. Increased hiring is planned in all the sectors covered by the survey, while firms in the sectors of manufacturing, restaurants and hotels, and transport, logistics and communications all expressed above-average expectations of hiring. High growth in employment in the first half of 2018 is also predicted by the results of the Employment Service survey entitled Employment Preview 2018/I. According to the aforementioned survey, employers are forecast to seek almost 31,000 workers in the first half of this year for reasons of staff replacement and business expansion, while the highest growth in hiring can be expected in construction and in administrative and support service activities. Employers will continue to show most frequent demand for workers in elementary occupations in manufacturing, drivers of heavy goods vehicles and tractor units, and welders.

Unemployment

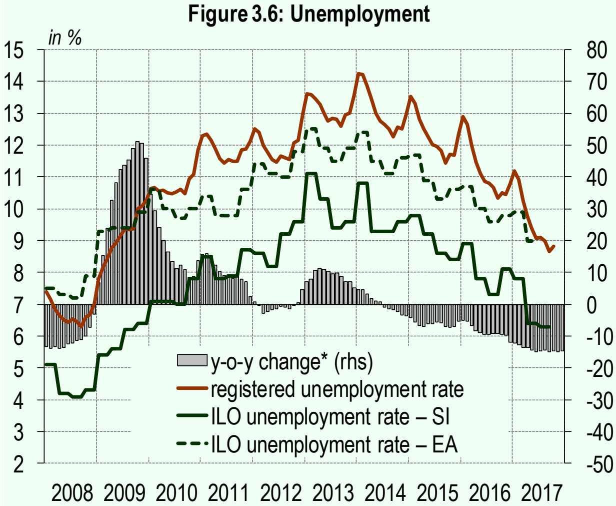
In keeping with the favourable developments on the labour market, unemployment fell to its level of 2009. In December of last year there were 85,060 people registered as unemployed at the Employment Service, down 14.6% in year-on-year terms. The unemployment rates continued to fall throughout 2017. The surveyed unemployment rate fell to 6.3% in the third quarter of last year, while the registered unemployment rate fell to 8.8% in October, its level from 2009. The number of unemployed in October was up slightly on September, as a result of a rise in inflows of first-time jobseekers, but it continued to fall sharply in year-on-year terms. In the autumn months unemployment fell for the fourth consecutive year in all education categories. The largest contribution to the fall came from a fall in the number of unemployed persons with 2-year secondary school or less, while the contribution made by unemployed persons with a tertiary education also began to increase. The number of unemployed

Figure 3.5: Expected employment*



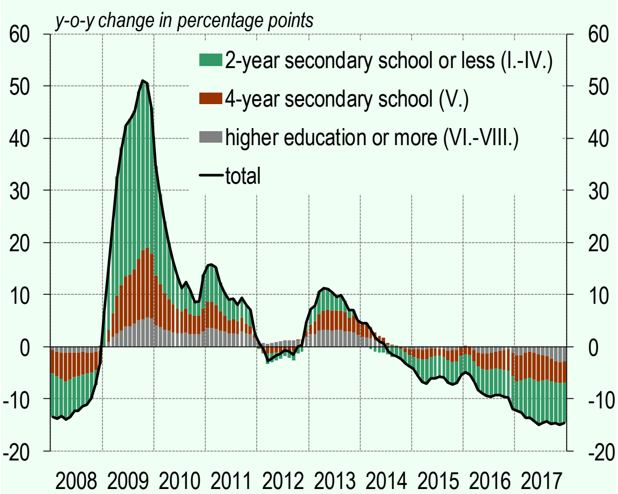
Source: SORS, Bank of Slovenia calculations.

Figure 3.6: Unemployment



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

Figure 3.7: Contributions to the change in the number of registered unemployed by education



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

has been falling in year-on-year terms in all age groups since 2014, other than those aged over 60, as a result of which the proportion of unemployment that the latter account for had reached 8.4% by December of last year, up 4.9 percentage points on 2014. Short-term and long-term unemployment both fell, and since June there has been a faster year-on-year fall in the number of unemployed who have been registered at the Employment Service for more than one year.

Inflows into and outflows from unemployment declined sharply in the first eleven months of 2017. The number of deregistrations at the Employment Service exceeded the number of registrations by 17,462 over the first eleven months of the year. The number of deregistrations was down 6% on the same period of 2016, while the number of people newly registering as unemployed was down 8.7%. The fall in the number of deregistrations was largely attributable to a fall in the number of new hires, while the main factor in the fall in the number of registrations was a fall in the number of those registering as a result of the end of their temporary employment.

In the wake of the rapid growth in employment and the fall in the number of unemployed, the labour shortage is continuing to increase. According to the

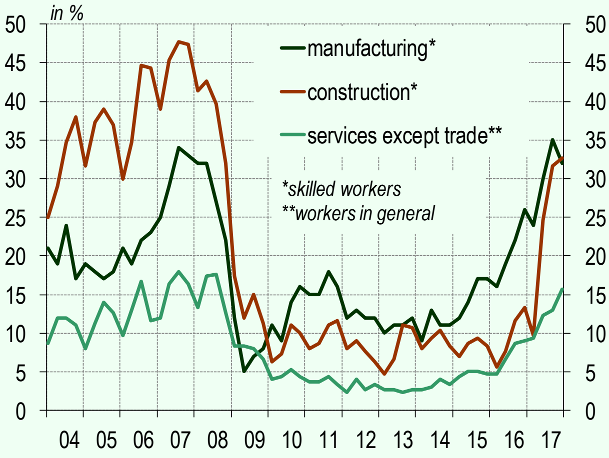
Table 3.1: Unemployment and employment

	2012	2013	2014	2015	2016	16Q3	16Q4	17Q1	17Q2	17Q3
					in 1,000					
Registered unemployed persons	110.2	*119.8*	120.1	112.7	103.2	97.4	97.9	100.1	87.8	83.2
Unemployment rate					*in %*					
- LFS	8.9	10.1	9.8	9.0	8.0	7.3	8.1	7.8	6.4	6.3
- registered	12.0	13.1	13.1	12.3	11.2	10.6	10.6	10.8	9.4	8.9
Probability of transition between employ. and unemployment					*in %*					
- probability to find a job[1]	13.2	13.6	15.4	15.7	18.0	16.5	14.8	22.3	21.0	17.2
- probability to lose a job[2]	2.8	2.8	2.6	2.5	2.3	2.0	2.4	2.7	1.6	1.8
					in 1,000					
Total employment[3]	937.3	926.7	930.0	941.6	959.8	965.6	975.1	968.7	983.5	991.7
					year-on-year growth in %					
Persons in paid employment	-1.3	-2.7	0.5	1.3	2.4	2.6	3.0	3.2	3.2	3.1
Self-employed	0.8	5.8	-0.3	1.1	0.0	-0.1	0.1	1.5	1.2	0.9
By sectors										
A Agriculture, forestry and fishing	-1.0	0.0	-1.7	-0.9	-2.1	-2.1	-2.3	-1.1	-1.1	-1.1
BCDE Manufacturing, mining and quarrying and other industry	-1.1	-1.9	0.3	1.1	2.3	2.5	2.2	2.7	3.0	3.6
F Construction	-7.5	-7.0	-1.1	0.4	-1.0	-1.4	-0.6	1.5	2.4	2.5
GHI Trade, accommodation, transport	-1.2	-1.2	-0.3	1.8	2.4	2.7	3.3	3.6	3.1	2.8
J Information and communication services	2.1	2.3	2.6	3.2	3.6	4.3	5.0	5.0	4.6	2.4
K Financial and insurance activities	-1.7	-2.8	-2.1	-1.2	-1.7	-1.3	-1.8	-1.3	-1.8	-1.8
L Real estate activities	-1.4	0.5	0.9	1.4	4.6	5.6	7.4	5.4	1.8	1.8
MN Professional, technical and other business activities	0.5	-0.1	3.0	2.5	4.0	4.3	4.7	4.6	5.0	4.7
RSTU Other activities	0.2	6.0	3.0	2.8	2.7	3.3	3.5	4.9	3.7	3.4
- mainly private sector (without O..Q)[4]	-1.4	-1.3	0.4	1.4	1.9	2.0	2.3	2.9	2.9	2.8
- mainly public services (O..Q)[4]	1.0	-0.6	0.4	0.8	2.2	2.4	2.7	3.0	2.5	2.2
Total employment[3]	-0.9	-1.1	0.4	1.2	1.9	2.1	2.4	2.9	2.8	2.7

[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, defense, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

SORS survey, last year saw an increased shortage of (skilled) labour in manufacturing, construction and services other than trade. According to the latest figures, the proportion of firms in construction facing a shortage of skilled workers has already exceeded the corresponding proportion in manufacturing. The Employment Service's Employment Preview 2018/I is also reporting increased structural mismatch. According to the survey data, more than 40% of employers faced a shortage of appropriate workers, particularly for elementary occupations in manufacturing, welders, drivers of heavy goods vehicles and tractor units, warehouse workers and officials in distribution and sales, and sales staff.

Figure 3.8: Labour shortage as a limiting factor



Note: The figure shows the percentage of companies in a certain activity, which in the survey as a limiting factor indicated the lack of workers.
Source: SORS, Bank of Slovenia calculations.

Table 3.2: Labour costs

	2012	2013	2014	2015	2016	16Q3	16Q4	17Q1	17Q2	17Q3
					in EUR					
Average gross wage	1531	*1528*	1545	1556	1584	1560	1636	1599	1602	1604
					nominal year-on-year growth, %					
Average net wage	0.4	0.6	0.8	0.4	1.7	1.5	1.8	1.9	2.5	2.9
Average gross wage	0.1	-0.2	1.1	0.7	1.8	1.7	1.9	1.5	2.3	2.8
- mainly private sector (excl. O..Q)[1]	0.9	0.7	1.4	0.8	1.3	0.9	1.5	1.6	2.2	2.6
- mainly public services (O..Q)[1]	-2.2	-2.3	0.2	0.6	3.3	3.7	2.9	1.3	2.8	3.7
Average gross wage in manufacturing	2.5	2.8	3.3	2.1	2.1	1.5	2.8	2.2	2.7	2.8
Average real net wage[2]	-2.3	-1.4	0.5	1.2	1.8	1.5	1.1	-0.1	1.1	1.6
Labour costs per hour worked[3]	-0.4	-2.1	2.0	0.8	3.0	3.7	6.0	2.9	5.2	6.8
Labour costs per hour worked in manufacturing[3]	2.9	0.6	3.7	0.5	3.2	3.0	8.1	3.8	9.3	9.6
Gross wage per unit of output[4]	1.9	-0.1	-1.5	-0.3	0.6	0.4	0.8	-0.7	0.6	1.0
Gross wage per unit of output in manufacturing[4]	4.2	1.2	-1.9	1.6	0.2	-0.1	1.8	-1.7	-0.3	-1.3
Unit labour costs[4,5]	0.8	0.5	-1.2	0.4	1.6	1.1	1.0	-0.4	0.7	1.0
Labour costs per employee[5]	-1.0	0.5	1.3	1.4	2.8	2.4	2.1	1.7	2.5	2.8
Output per employee	-1.8	0.0	2.6	1.0	1.2	1.3	1.1	2.2	1.8	1.8
Output per employee - manufacturing	-1.6	1.5	5.3	0.5	1.8	1.5	1.0	4.0	3.0	4.2
HICP	2.8	1.9	0.4	-0.8	-0.2	0.0	0.7	2.0	1.4	1.3
GDP deflator	0.5	1.6	0.8	1.0	0.9	0.5	1.0	1.1	2.2	2.3

[1] Public administration, defense, compulsory social security, education, health and social work services according to the Standard classification of activities 2008. Wage growth in the public and private sector for 2017 is an estimate.
[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.

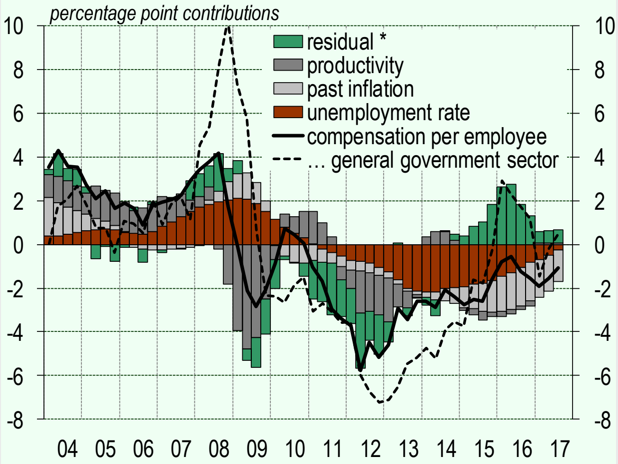
Box 3.1: Decomposition of growth in compensation of employees

Since the beginning of the economic recovery in 2014, employment growth has gradually strengthened, and averaged 2.8% over the first three quarters of 2017, the highest figure since the 3.4% recorded in 2007. At the same time, nominal growth in compensation of employees per employee (hereinafter: compensation per employee), which averaged 2.3% over the first three quarters of the year, is well below its pre-crisis rate of 7.2% recorded in 2008, despite the high growth in economic activity. This box attempts to find the reasons for the slower growth in compensation per employee.

The decomposition of nominal growth in compensation per employee obtained on the basis of the estimated wage Phillips curve and a calculation of the contributions to growth in compensation per employee made by individual factors is illustrated in Figure 1.[1] The explanatory variables included in the model are the lagged value of the dependent variable, real growth in labour productivity, the annual moving average of year-on-year growth in the consumer price index, and the first lag of the surveyed unemployment rate. Comparing the contributions in the pre-crisis period (2004 to 2008) and the period of renewed economic growth (2014 to 2017), it is evident that all of the factors addressed have contributed to the relatively low average growth in compensation per employee over the last three years. The smallest impact came from growth in productivity, which in 2017 already exceeded its long-term average. The fall in unemployment made a positive contribution to growth in compensation per employee in the pre-crisis period, while after the outbreak of the crisis the contribution made by the rising unemployment rate was negative. Since 2014 the renewed fall in the unemployment rate has again been putting upward pressure on compensation per employee, although the contribution made by the unemployment rate is still negative measured in relation to its long-term average. A similar pattern is evident in the impact of inflation, which in 2016 became the main factor holding back growth of compensation per employee owing to deflationary pressures.

Figure 1: Decomposition of compensation per employee growth

deviations from long-term average in y-o-y growth terms in %, percentage point contributions*

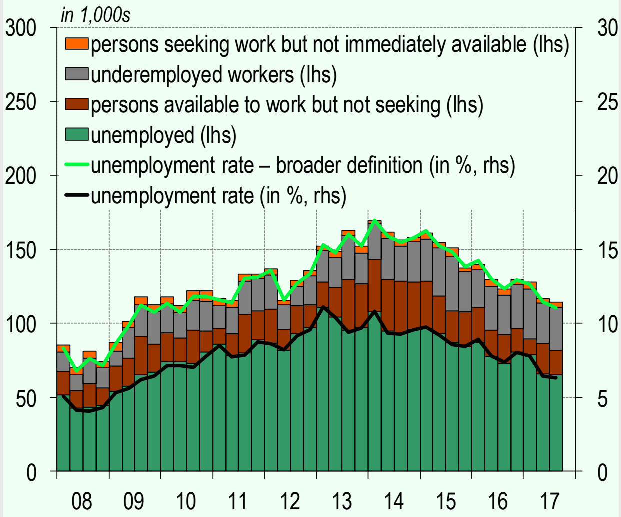


*Note: *The long-term average is calculated based on data from the third quarter of 2002 to the third quarter of 2017.*
Source: Eurostat, Bank of Slovenia calculations.

The residuals in the decomposition reflect the impact of variables not captured in the model, and also to a certain extent the difficulties with the specification of the model.[2] According to the sign of the residuals, it can be concluded that they are strongly correlated with the dynamic in wages in the public sector and with institutional development. A significant proportion of the residuals in the period of 2014 to 2017 can be explained by the relaxation of austerity measures in the public sector. Promotions that public sector workers had been entitled to in the years before the freeze were undertaken in the second quarter of 2014. A larger impact from the relaxation of austerity measures followed in 2016, when wages increased significantly due to January's promotions, while there were subsequent increases as a result of September's rise in the wage scale and promotions at the end of the year. Upward pressure on compensation of employees in 2016 also came from January's change in the definition of the minimum wage. The relaxation of austerity measures was built on in 2017 by the elimination of wage anomalies.

The positive residuals in the period of renewed economic growth could be linked in the private sector to growing structural imbalances on the labour market and to growth in demand for labour outpacing growth in its supply.[3] Given the sustained growth in these factors, the residuals could have been expected to be slightly higher in 2017, and were clearly being reduced by certain other phenomena on the labour market. These can be divided into structural factors and composition factors. The most important structural factors that held back growth in compensation per employee last year include the pronounced increase in the labour force participation rate and increased hiring of foreign workers. The two factors are increasing the supply of labour, which is reducing upward pressure on wages, but both are also accompanied by a composition effect. Both foreign workers and workers who were discouraged from seeking work during the crisis and are now returning to the labour force are being hired most frequently in sectors with below-average pay, which is reducing average compensation per employee in the economy. These structural shifts have been seen in Slovenia since

Figure 2: Available labour force – age group from 15 to 74 years



Source: Eurostat, Bank of Slovenia calculations.

Given that many factors influence growth in compensation per employee via the channel of so-called available labour force, its structure is illustrated in Figure 2. This is a broader indicator of available labour, which in addition to the surveyed unemployed includes under-employed workers and persons who are either not seeking work but are available or are seeking work but are currently not available. Compared with 2008, the unemployment rate in the third quarter of 2017 was significantly higher in terms of the two indicators, which means that the current pressures from the shortage of labour were significantly lower than in the final period before the crisis.[6]

the beginning of 2017. The workforce in employment in sectors with above-average pay recorded average growth of 2.4% over the first three quarters of the year, while growth in the workforce in employment in sectors with below-average pay averaged 4%. In addition to the negative structural shifts, another factor in the lower growth in compensation per employee could be the rise in part-time employment. The wages of part-time employees are usually lower than the wages of workers employed full-time,[4] while underemployed workers also increase the supply of labour.[5]

[1] The methodology for calculating decomposition is described in Macroeconomic Projections for Slovenia, December 2017.

[2] This is a simplified model, whose structure could lead to endogeneity problem.

[3] The gap between the supply of and demand for labour could be measured by the job vacancy rate, which illustrates the ratio of vacancies to total employment positions. The job vacancy rate has been increasing since 2013, and averaged 2.2% over the first three quarters of 2017, up 1.2 percentage points on 2008.

[4] The proportion of total employment accounted for by part-time employment averaged almost 11% over the first three quarters of 2017, up 1.2 percentage points on 2016.

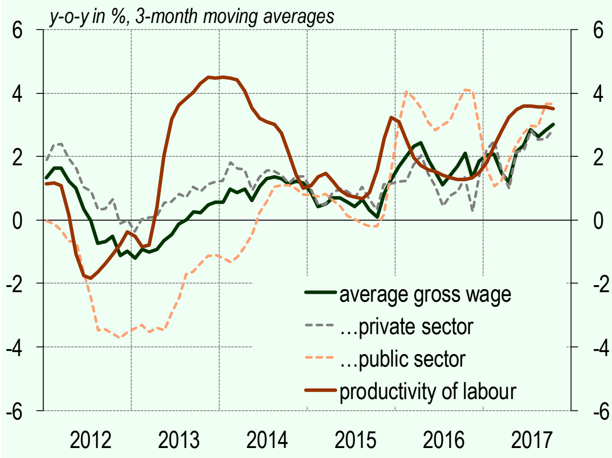
[5] Underemployed workers are workers who would like to work more or in positions more suited to them. Underemployed workers who are employed part time despite their wish to work full time are important from the perspective of available labour force.

[6] The absence of stronger pressures from the contraction in available labour force has additionally been supported by the increasing proportion of underemployed workers among total available labour force.

Wage developments

Growth in the average nominal gross wage strengthened slowly last year. Year-on-year growth in the average gross wage averaged 2.3% over the first ten months of the year, compared with 1.9% over the same period of 2016. Year-on-year growth reached 3.4% in October, largely as a result of an increase in wages other than extraordinary payments, which was partly attributable to an extra working day compared with October 2016. Wage growth is still low compared with the pre-crisis period, and remains below estimated growth in nominal labour productivity. Year-on-year growth in the average wage in the private sector averaged 2.3% over the first ten months of the year, up 1 percentage point on the rate in 2016, although it does not yet fully reflect the rise in inflation, growth in nominal productivity and the fall in unemployment. In the private sector the highest average year-on-year growth in the average nominal gross wage over the first ten months of the year was recorded by profes-

Figure 3.9: Growth in nominal wages and productivity

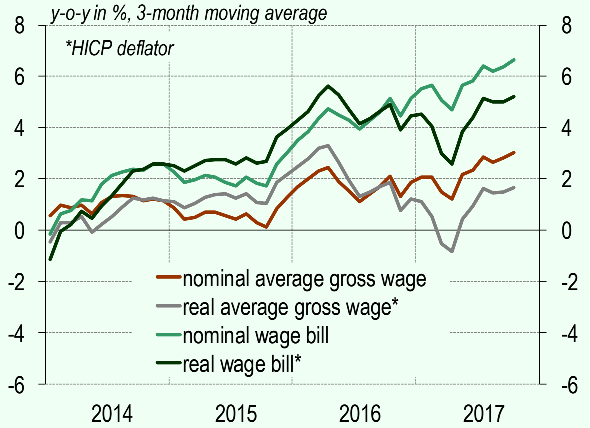


Note: Productivity is estimated as nominal GDP per person in employment, excluding self-employed farmers.
Source: SORS, Bank of Slovenia calculations.

sional, scientific and technical activities, electricity, gas, steam and air conditioning supply, and water supply, sewerage, waste management and remediation activities. Wage growth in public services slowed to 2.7%, as a result of a smaller impact from the relaxation of austerity measures.

While wages and employment rise, the nominal wage bill is continuing to grow. Year-on-year growth in the nominal wage bill averaged 5.9% over the first ten months of the year, up 1.3 percentage points on 2016. As a result of faster growth in employment, the nominal wage bill recorded faster average growth over the first ten months of the year in the private sector (6.2%) than in mostly public services (5.2%). Inflation meant that average year-on-year growth in the real wage bill over the first ten months of the year was 1.6 percentage points less than growth in the nominal wage bill.

Figure 3.10: Nominal and real total wage bill and average gross wage per employee



Note: The weight of wages is calculated as the product of the average gross wage for employees of legal persons who received the wage, and the number of all employees of legal persons.
Source: SORS, Bank of Slovenia calculations.

4 Current Account and Competitiveness Indicators

Last autumn export growth reached its pre-crisis level although economic growth in the international environment was less strong than at that time and the actual volume of exports was at a significantly higher level than a decade ago. Nominal year-on-year growth in goods exports exceeded 20% in October, and growth in exports of services remained high. Both signal the continuing increase in the export sector's market shares. In the wake of slightly weaker growth in domestic demand and an improvement in the terms of trade, the trade surplus strengthened again, and was approaching fully 10% of GDP over the 12 months to October. Over the first ten months of the year, the strengthening current account surplus was also attributable to a smaller deficit in income on securities' investment. This was due to the restructuring of public debt, connected to maturing of government bonds with higher required yields, and bond purchases within the framework of ESCB monetary policy. Over the first ten months of the year, the deficit in income on investments in securities narrowed by EUR 161 million in year-on-year terms to EUR 242 million.

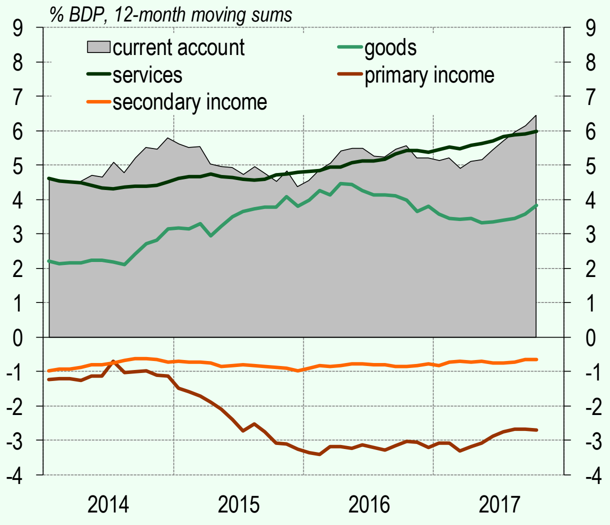
Towards the end of the year, developments in Slovenia's price and cost competitiveness indicators remained more favourable than those across the euro area. Slovenian exporters remained competitive in price terms on the euro area market, although their relative advantage has been gradually reduced by narrowing differences in inflation. Exporters' competitiveness on markets outside the euro area deteriorated in the middle of last year owing to the renewed appreciation of the euro, which had a greater impact on other euro area countries, as a result of which the deterioration in Slovenia's price competitiveness on these markets was less pronounced than the average deterioration across the euro area. Developments in unit labour costs also remained favourable compared with the euro area overall, for which reason Slovenian exporters retained their cost competitiveness, which had improved significantly during the crisis by means of internal devaluation.

Current account

Over the first ten months of the year, the 12-month current account surplus increased notably, as all aggregates contributed to the rise.[1] In October, it stood at 6.5% of GDP, up 1.6 percentage points on March, when it hit its low of the year. The majority of the increase was attributable to a wider trade surplus, as export growth began to outpace import growth in the second half of the year. Alongside the slightly lower growth in domestic consumption, this was also attributable to the terms of trade, which were negative in the early part of the year owing to a rise in commodity prices on global markets, while later in the year their impact on nominal growth in imports declined sharply. At the same time, growth in exports in-

[1] The 12-month current account surplus remained high in November, at 6.3% of GDP. Year-on-year growth in goods exports reached 16%, thus maintaining the outpacing of import growth, which additionally increased the goods trade surplus. Year-on-year growth in exports of services slowed sharply, to less than 3%. The deficit in primary income widened in year-on-year terms at the same time, because of an increase in the deficit in income from direct investment.

Figure 4.1: Current account components



Source: Bank of Slovenia.

creased further, and is significantly outperforming the strength of the international economy. After March, the 12-month deficit in income also diminished. This was attributable to a smaller deficit in income from investments in long-term bonds.

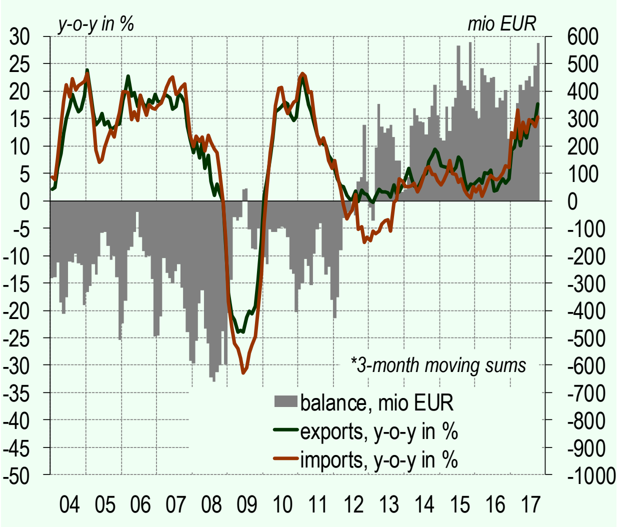
Trade in goods

In the autumn of last year, the export sector recorded growth rates seen in the pre-crisis period, and the goods trade surplus widened again. Nominal year-on-year growth in exports exceeded 20% in October. The contributions made by all three categories of goods according to the BEC classification (capital goods, intermediate goods and consumer goods) were up on the first half of the year. In all three cases, the export dynamic was significantly stronger than growth in domestic demand aggregates in the main export markets. Growth in goods imports was also high, but was outpaced by growth in exports owing to slower growth in private consumption and private-sector investment. Growth in imports has not yet reached its pre-crisis rates, which were a reflection of unsustainably high growth in domestic demand, investment in particular, and led to a large deficit in goods trade. The structure of economic growth was also different over the first three quarters of last year: it was largely based on the export sector, which was reflected in a high goods trade surplus. Over the first ten months of the year, the goods trade surplus amounted to EUR 1,542 million, EUR 98 million more than in the same period of the previous year. Between June and October, it was up EUR 251 million in year-on-year terms.

Trade in services

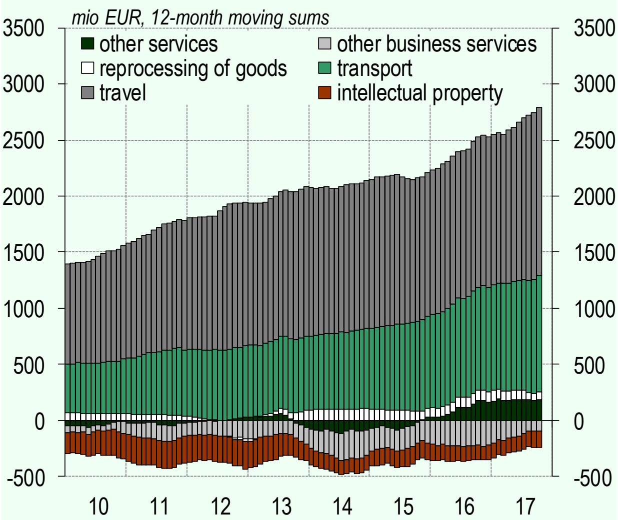
Exports of services are also growing faster than imports, which is widening the already-high surplus of trade in services. Exports of services over the first ten months of the year were up 12.5% in year-on-year terms. Growth in exports of travel services, which account for approximately 35% of total exports of services, was significantly higher than in 2016, and reached almost 9%. The higher growth in revenues has coincided with a sharp

Figure 4.2: Goods trade*



Source: Bank of Slovenia.

Figure 4.3: Trade in services balance



Source: Bank of Slovenia.

rise in the number of arrivals and overnight stays by foreign travellers. Year-on-year growth in exports of transport services, which account for the second-largest proportion of exports of services, was even higher. It approached 14% over the first ten months of the year. Of the more important categories of services, high growth in exports was recorded by other business and construction services, while exports of telecommunications, computer and internet services declined in value terms. Over the first ten months of the year, growth in imports of services exceeded 8%, and was outpaced by growth in exports primarily on account of low estimated growth in imports of travel services. According to current figures, the rate did not exceed 1% over the first ten months of the year. The surplus of trade in services consequently widened by EUR 376 million in year-on-year terms to EUR 2,251 mil-

Table 4.1: Current account components

				in 12 months to							
	2014	2015	2016	Oct.16	Oct.17	16Q2	16Q3	17Q2	17Q3	Oct.16	Oct.17
					in EUR million						
Current account balance	2,179	1,698	2,108	2,229	2,757	530	557	785	899	252	400
1. Goods	1,181	1,476	1,536	1,601	1,634	449	376	440	494	134	250
2. Services	1,697	1,860	2,174	2,181	2,550	526	655	667	778	227	269
2.1. Transport	715	821	932	919	1,041	246	243	263	283	80	105
2.2. Travel	1,315	1,276	1,337	1,340	1,495	286	418	371	495	131	136
2.3. Other	-333	-237	-94	-78	14	-6	-6	33	0	16	28
3. Primary income	-428	-1,263	-1,294	-1,212	-1,155	-393	-379	-242	-315	-94	-110
3.1. Labour income	120	201	149	164	155	40	31	46	33	12	13
3.2. Investment income	-694	-1,557	-1,490	-1,434	-1,365	-429	-387	-305	-312	-104	-115
3.3. Other primary income	146	93	46	57	55	-4	-23	17	-36	-3	-9
4. Secondary income	-271	-375	-309	-341	-271	-53	-95	-80	-58	-14	-9
					in % of BDP						
Current account balance	5.8	4.4	5.2	5.6	6.5	5.1	5.4	7.1	8.1	7.2	10.8
1. Goods	3.1	3.8	3.8	4.0	3.8	4.4	3.6	4.0	4.4	3.9	6.7
2. Services	4.5	4.8	5.4	5.4	6.0	5.1	6.3	6.1	7.0	6.5	7.2
2.1. Transport	1.9	2.1	2.3	2.3	2.4	2.4	2.3	2.4	2.6	2.3	2.8
2.2. Travel	3.5	3.3	3.3	3.3	3.5	2.8	4.0	3.4	4.5	3.8	3.7
2.3. Other	-0.9	-0.6	-0.2	-0.2	0.0	-0.1	-0.1	0.3	0.0	0.5	0.8
3. Primary income	-1.1	-3.3	-3.2	-3.0	-2.7	-3.8	-3.6	-2.2	-2.8	-2.7	-3.0
3.1. Labour income	0.3	0.5	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3	0.3
3.2. Investment income	-1.8	-4.0	-3.7	-3.6	-3.2	-4.2	-3.7	-2.8	-2.8	-3.0	-3.1
3.3. Other primary income	0.4	0.2	0.1	0.1	0.1	0.0	-0.2	0.2	-0.3	-0.1	-0.2
4. Secondary income	-0.7	-1.0	-0.8	-0.9	-0.6	-0.5	-0.9	-0.7	-0.5	-0.4	-0.2
					nominal year-on-year growth rates in %						
Export of goods and services	5.6	4.9	5.0	4.6	12.7	6.0	4.2	11.9	14.1	2.1	19.7
Export of goods	5.9	4.7	4.0	3.6	12.8	5.5	3.1	11.5	14.6	-0.7	21.6
Export of services	4.5	5.5	9.3	8.9	12.3	7.8	8.0	13.5	12.2	13.7	12.7
Transport	9.4	9.3	10.9	11.4	13.4	7.1	10.3	11.6	14.6	16.2	19.4
Travel	0.8	1.8	4.4	4.4	7.8	4.0	3.8	13.2	9.2	9.2	3.4
Other	4.9	6.5	12.9	11.6	15.6	11.9	12.3	15.3	14.3	16.1	15.8
Import of goods and services	4.4	3.6	4.2	3.2	13.0	4.2	3.9	11.6	12.7	2.3	16.0
Import of goods	3.8	3.6	4.0	3.2	13.5	4.6	4.1	12.5	13.5	1.6	17.3
Import of services	7.7	3.8	5.7	3.7	9.8	1.8	3.0	6.5	8.5	6.4	8.8
Transport	10.4	4.5	8.3	7.9	13.7	-0.5	6.3	17.0	12.1	26.0	8.6
Travel	5.3	10.4	3.8	4.1	1.9	18.3	0.5	-8.9	-1.6	5.1	1.6
Other	7.6	1.3	5.5	2.1	11.2	-2.4	3.3	8.3	13.2	0.2	11.1

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

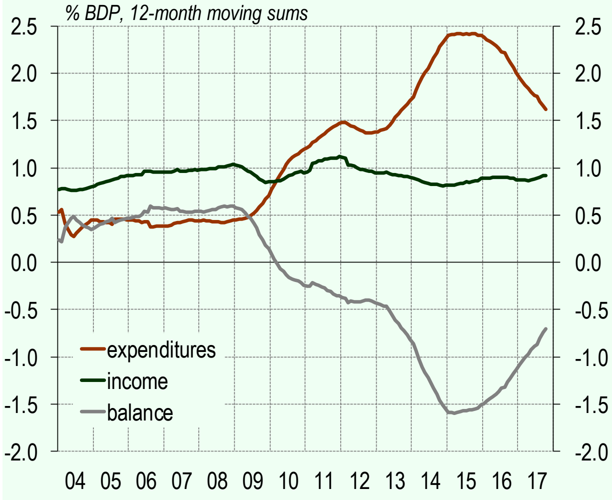
lion, and was the product of surpluses of trade in travel, transport and construction services. At the same time, the deficit in trade in other business services diminished significantly last year.

Primary and secondary income

Over the first ten months of the year, the deficit in primary income declined primarily as a result of a narrowing deficit in income from investments in securities. Interest payments on securities owned by non-residents declined by EUR 119 million in year-on-year terms. This was primarily attributable to a decline in interest payments on debt securities due to the restructuring of public debt, connected to maturing of government bonds with higher required yields, and bond purchases within the framework of ESCB monetary policy. owing to the restructuring of public debt in the wake of the maturity of government bonds with higher required yields and bond purchases within the framework of ESCB monetary policy. At the same time, inflows increased by EUR 42 million, as a result of increased investments in foreign securities by residents. Over the first ten months of the year, the deficit in income on investments in securities narrowed by EUR 161 million in year-on-year terms to EUR 242 million. However, the deficit in income on direct investments increased, by EUR 37 million in year-on-year terms to EUR 837 million. Inflows declined by EUR 82 million, while outflows declined by EUR 45 million, in both cases primarily as a result of lower estimates of reinvested earnings. The surplus in the government sector's primary income was up EUR 30 million, which was largely attributable to flows of grants related to the EU budget. The deficit in other sectors' primary income widened by EUR 21 million, primarily as a result of increased payments of taxes on products. The surplus in labour income remained high, despite the strong hiring of foreign workers. Over the first ten months of the year, the overall deficit in primary income amounted to EUR 891 million, down EUR 139 million in year-on-year terms.

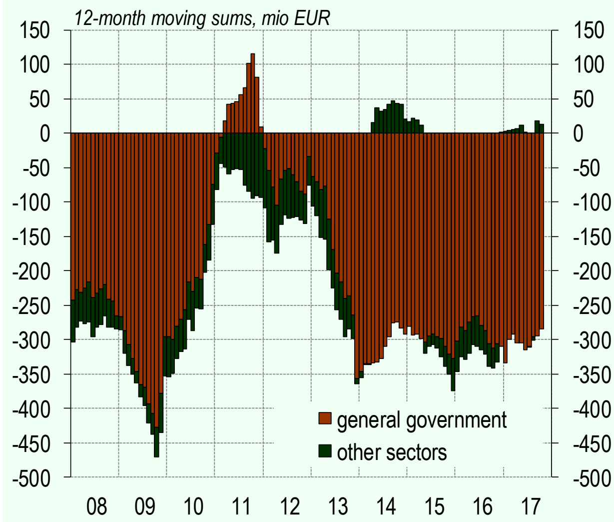
Over the first ten months of last year, the deficit in secondary income also narrowed. The main reason was an increase in inflows to the government sector,

Figure 4.4: Investments in securities



Source: Bank of Slovenia

Figure 4.5: Net secondary income



Source: Bank of Slovenia.

which reduced its deficit in secondary income by EUR 25 million in year-on-year terms to EUR 241 million. At the same time, other sectors moved from deficit to surplus, also as a result of increased inflows. Over the first ten months of the year, the overall deficit in secondary income amounted to EUR 235 million, down EUR 38 million in year-on-year terms.

Selected competitiveness indicators

The rise in the euro in the middle of 2017 launched a renewed deterioration in the competitiveness of Slovenia's exports on markets outside the euro area, which slowed moderately towards the end of the year

Box 4.1: Slovenia's integration into global value chains

International trade has been subject to numerous deep-seated changes over the last two decades. The liberalisation of flows of goods, people and capital means that international trade decreasingly reflects trade in final products, and is increasingly moving towards the exchange of production processes between countries. In connection with such international production chains it is necessary to adjust the traditional understanding and interpretation of official statistics relating to foreign trade.

Figure 1 illustrates a hypothetical example of the components that could make up the official export statistics for Slovenia. Slovenia's total gross exports in the amount of 200 units could consist of 100 units of imported intermediate goods manufactured in previous phases of the production chain. Slovenia's actual exports as measured by value-added (exports of value-added or VAX) would thus be merely 100 units, while the remainder can be defined as double counting, as they would be captured under the exports of country A and also under Slovenia's exports. However, the domestic component of Slovenia's exports could also be higher than the VAX alone. The 100 units of imported intermediate goods used to produce Slovenia's exports could also contain a component of Slovenian intermediate goods that were first exported but were then returned to Slovenia in later phases of production (returned value-added or RVA). The remainder of the imported intermediate goods used in the production of exports is defined as foreign value-added (FVA). All three components thus make up the official statistics for Slovenia's gross exports, where the VAX and RVA figures represent the domestic content of exports.

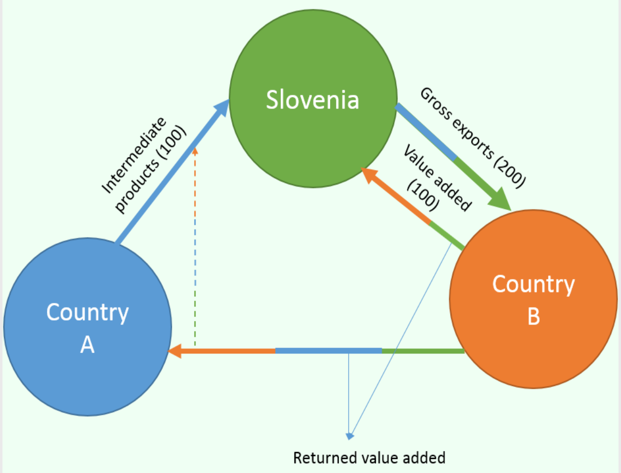
In light of the greater intensity of global production chains, the recent increase in Slovenia's export activity therefore needs to be analysed from the perspective of the actual trade in value-added. This can be done with the help of the world input-output tables (WIOD).[1] The level of integration into global production chains is usually measured as the ratio of FVA to domestic exports. It can be assumed that a higher foreign content of export production indicates a higher level of specialisation in specific production phases and a greater dependence on intermediate goods manufactured within vertical production in other countries. The FVA ratio in Slovenia increased by 7 percentage points between 2004 and 2008 (Figure 2), an indication of the pronounced increase in the integration of the Slovenian economy into global production chains after Slovenia joined the EU.

The value-added exports accounted for approximately 63% of Slovenia's gross exports in 2014. Export statistics expressed in value-added reveal a significantly lower concentration in Slovenian exports than could be concluded from the official trade statistics. While gross exports to the five largest trading partners (Germany, Italy, Austria, Croatia and France) account for approximately half of Slovenia's total exports, their corresponding share of value-added is 10 percentage points lower. By contrast, export exposure to certain other countries as measured by value-added is higher, most notably in the case of the US, where the share rises by 3 percentage points to 5%. This indicates that certain EU trading partners represent an entry point for export markets outside the EU, where Slovenia's value-added is actually absorbed and is not captured in the official statistics.

However, the ratio of exported value-added to total gross exports does not of itself represent a country's export competitiveness, but merely enhanced information about the manner and intensity of its participation in global production chains. Larger countries are usually more self-sufficient when it comes to natural resources, which means that their export production will usually reflect a lower proportion of imported intermediate goods and a larger proportion of domestic value-added in total exports. VAX exceeds 80% in the cases of the US, China and Russia. The proportion of value-added exports also depends on the sectors in which exports are concentrated. It can be expected that the VAX ratio in countries whose export activities are concentrated primarily in agriculture will be higher than in countries focusing on manufacturing, which is more fragmented and therefore to a greater extent depends on intermediate goods. The VAX ratio for Slovenia is in line with the country's relative size, and is comparable to the majority of western industrialised nations, whose exports primarily originate in the manufacturing sector (see Table 1, column 1).

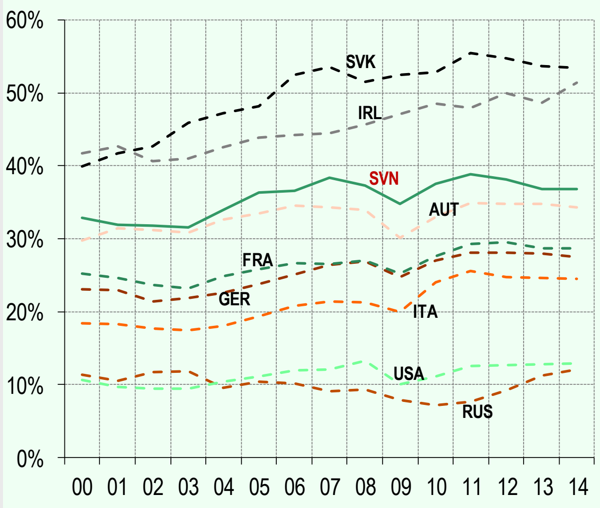
To assess the competitiveness of Slovenia's exports, it is therefore necessary to address exports of value-added within individual manufacturing segments. Johnson and Naguera (2012) have shown that countries with more competitive and technologically intensive exports usually display a comparative advantage in manufacturing, which allows for a higher proportion of domestic value-added in exports. In light of trade in value-added, Slovenia's comparative advantage can therefore be defined as manufacturing segments where the VAX component for the manufacturing segment in question is higher than in other countries. Table 2 reveals that Slovenia exhibits a comparative advantage vis-a-vis the western EU countries[2] and the EU 2004 countries[3] in pharmaceuticals, steel, chemicals, foodstuffs, transport, the automotive industry and computer components. Relative to the global average these segments are in the lower half of manufacturing sectors according to the size of domestic value-added in gross exports, which indicates that Slovenia's export production specialises in relatively more fragmented production processes allowing lower value-added exports. The competitiveness and technological intensity of Slovenia's exports will thus largely be dependent on the vertical positioning of the Slovenian economy within these processes. Production in final stages will have a greater proportion of foreign value-added captured in the larger absolute value of gross domestic exports.

Figure 1: Gross exports and trade in value added



Source: Bank of Slovenia.

Figure 2: Share of foreign value added in gross exports – international comparison



Source: World Input-Output Database, Bank of Slovenia calculations.

Table 1: Gross exports decomposition and relative positioning within global value chains

	Domestic component of exports		Foreign component of exports	
Country position within the GVC	VAX (1)	Returned value added (RVA) (2)	Foreign value added (3)	RVA/(RVA+VAX) (in %) (4)
1. USA (upstream)	80.79	7.06	12.16	8.74
2. DEU	69.77	3.47	26.75	4.98
3. CHN	80.72	3.37	15.91	4.17
4. FRA	71.06	1.69	27.26	2.37
5. NLD	62.59	1.36	36.05	2.17
6. GBR	79.34	1.69	18.97	2.13
7. CAN	74.74	1.46	23.81	1.95
8. JPN	75.43	1.30	23.27	1.72
9. ITA	72.90	1.05	26.05	1.44
10. BEL	53.62	0.73	45.65	1.37
…				
33. ROU	73.11	0.27	26.62	0.37
34. EST	56.45	0.19	43.36	0.33
35. LUX	33.94	0.11	65.96	0.31
36. LTU	64.16	0.18	35.66	0.28
37. SVN	62.54	0.17	37.30	0.27
38. HRV	72.56	0.17	27.27	0.23
39. GRC	69.47	0.15	30.38	0.22
40. BGR	61.75	0.09	38.16	0.15
41. CYP	71.88	0.10	28.02	0.14
42. MLT (downstream)	34.50	0.04	65.46	0.11

Source: World Input-Output Database, Bank of Slovenia calculations.

Table 2: Value added exports and revealed comparative advantages of Slovenia for manufacturing sectors

	VAX share				Comparative advantage	
Production of:	World	Slovenia	EU	EU_2004	EU	EU_2004
Precious metals	0.69	0.52	0.85	0.61	0.62	0.86
Wood excluding furniture	0.69	0.46	0.59	0.48	0.78	0.94
Mineral products	0.65	0.54	0.56	0.56	0.96	0.96
Rubber and plastic products	0.54	0.46	0.52	0.47	0.88	0.98
Paper	0.52	0.34	0.43	0.41	0.80	0.84
Pharmaceutical products	0.50	0.60	0.51	0.51	1.16	1.16
Furniture	0.46	0.47	0.48	0.42	0.99	1.12
Machinery and equipment	0.45	0.41	0.43	0.38	0.94	1.06
Primary metals	0.42	0.34	0.31	0.30	1.11	1.13
Chemical products	0.41	0.33	0.33	0.33	1.02	1.02
Food and tobacco products	0.40	0.37	0.34	0.33	1.10	1.12
Textiles and leather	0.40	0.43	0.39	0.43	1.09	0.99
Electronic equipment	0.39	0.37	0.47	0.33	0.80	1.14
Transport equipment	0.38	0.62	0.33	0.42	1.89	1.46
Computer products	0.37	0.50	0.43	0.23	1.16	2.18
Automotive components	0.34	0.28	0.35	0.25	0.81	1.14

Source: World Input-Output Database, Bank of Slovenia calculations.

Koopman, Wang and Wei (2014) define the ratio of returned value-added (RVA) to exports as the indicator of relative positioning within global production chains. An example is Apple's exports of high-tech products, production of which largely occurs in China. Exports of Apple's final products from the US could contain a significant proportion of Chinese value-added at first sight. But it proves to be much lower, as components of intermediate goods from China contain technology and design from the US that were exported to China in the first phases of production, and were returned to the US in the final phase of production, and thus in accounting sense contributes to domestic GDP. Although the direct proportions of exported domestic value-added are approximately equal in the cases of China and the US, the US's higher position in the production chain will be reflected in a higher proportion of returned value-added in the domestic component of exports (RVA / [RVA+VAX]; Table 1, column 4).

Compared with countries for which data is available at the WIOD, Slovenia's relative position within global trade chains between 2000 and 2014 declined by six places, which places it in the lower part of the production chain. The pronounced specialisation in manufacturing with a lower share of value-added in exports and the relative positioning in the final phases thus indicate the concentration of Slovenia's exports in labour-intensive sectors with relatively low labour costs.

[1] http://www.wiod.org/home.

[2] Austria, Netherlands, Belgium, Luxembourg, France, Germany, Italy, Spain and Portugal.

[3] Czech Republic, Slovakia, Estonia, Latvia, Lithuania, Hungary and Poland.

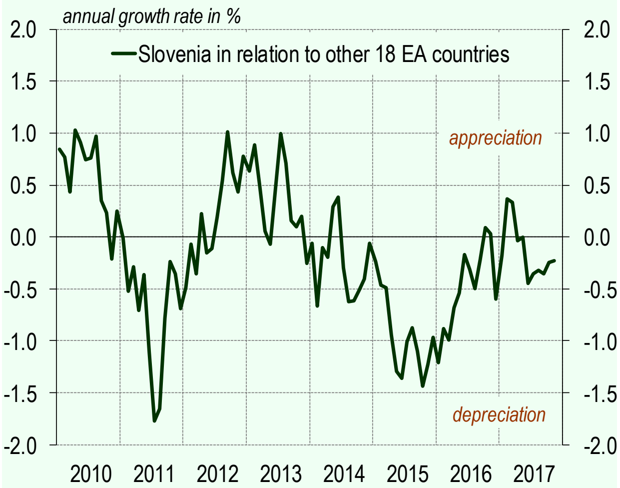
and was slightly less pronounced than the euro area average. The nominal harmonised competitiveness indicator against a basket of 19 major trading partners outside the euro area declined slightly until November, but was nevertheless up 2.6% year-on-year. The year-on-year growth was primarily the result of a rise in the euro against the US dollar, the pound sterling, the Swiss franc, the Turkish lira and the Chinese yuan. Last year's renewed appreciation in the euro saw the indicator reach its highest value of the last three years, although it was down around a tenth on its average of 2009, its peak of the last decade. Owing to regional variations in the structure of trade, the deterioration in the competitiveness of Slovenia's exports on markets outside the euro area was less than the average across the euro area. The proportion of Slovenia's basket accounted for by currencies against which the euro rose last year is less than the euro area average, while the proportion accounted for by currencies against which the euro fell is larger.

Slovenian exporters remain price competitive on euro area markets. With the exception of a small fluctuation in early 2017, last year they were more competitive than the euro area for the fourth consecutive year, although their relative advantage has been gradually reduced by narrowing differences in inflation. After two years of being outpaced, average growth in domestic prices over the first eleven months of last year (1.5% as measured by the HICP) was very similar to average inflation across the euro area (1.6%). The harmonised indicator of price com-

Figure 4.6: Nominal harmonised competitiveness indicator (vis-a-vis 19 trading partners outside the euro area)

Source: ECB, Bank of Slovenia calculations.

Figure 4.7: Harmonised price competitiveness indicator (based on HICP/CPI deflators)



Source: ECB, Bank of Slovenia calculations.

Box 4.2: Structure of Slovenian goods exports with regard to labour intensity of products

Slovenia's goods exports are increasing rapidly, and are significantly outpacing growth in imports of the main trading partners, thereby increasing exporters' market shares in these markets. Although growth in exports is rapid and growth in market shares reflects firms' improved competitiveness, analysis of the labour intensity of production for export reveals only a gradual shift to more intensive use of highly skilled labour, and the concentration of competitive advantage in sectors with a medium-skilled labour force. Such export structure is slowing down the further development of the economy in terms of the creation of higher value-added per employee. Analysis of the structure of Slovenia's goods exports with regard to the labour-intensity of products was undertaken in the case of a group of the five most important economic partners (Germany, Italy, Austria, Croatia and France), which account for almost 53% of Slovenia's total goods exports.

The research methodology for exported goods follows the SITC classification, whereby only the main product categories are included in the research.[1] With regard to previous research (e.g. Peneder, 1999; Landesmann & Stehrer, 2003), exported goods are divided into four categories with regard to the labour-intensity of their production, i.e. with regard to the use of low-skilled, medium-skilled blue-collar, medium-skilled white-collar and high-skilled labour. This demarcation of exported goods indirectly provides information about the quality of manufactured goods on the basis of the quality of the labour used in the process of manufacturing exported goods. Peneder (1999) also states that the employment and use of a specific quality of labour on the one hand reveals technological limitations in the particular market, while on the other hand also displays market opportunities. Moving up the skill ladder of the complexity of production of a particular product can be seen as an upward shift along the production chain, and thus represent an improvement in non-price competitiveness.

To examine Slovenia's export potential in individual product categories, a method using revealed comparative advantage (RCA index), which is derived from the classical theory of international trade (Balassa, 1965), is additionally included in the analysis. The RCA indices can be calculated for Slovenia using the following equation:

$$RCA = \frac{\frac{X_{ij}}{X_{EU28j}}}{\frac{X_i}{X_{EU28}}}$$

where X_{ij} is exports of product *j* by country *i* (Slovenia in this case), X_{EU28j} is exports by a group of countries (the EU28 in this case) of product *j*, X_i is Slovenia's total exports and X_{EU28} is the EU28's total exports. From the data for Slovenia's exports to the group of its five most important trading partners and their comparison with the EU28's total exports it is possible to infer the categories of goods in which Slovenia should have a comparative advantage in production (for a given technological or relative factor abundance). For a value of an RCA index of more than one, it can be concluded that Slovenia has a comparative advantage in the production of product *j*. The reverse is the case for an RCA index of less than one: then Slovenia would have no comparative advantage in the production of product j relative to the EU28.

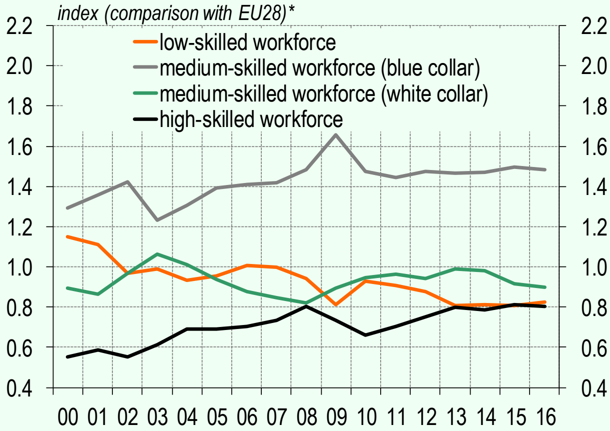
Analysis of exported products categorized by labour-intensity shows only a gradual rise in Slovenia's position on the scale of complexity of export production. In Slovenia's total exports to the group of five trading partners this is primarily evident in a gradual increase in the proportion of exports of products produced using medium-skilled blue-collar labour or high-skilled labour, and a simultaneous decline in the proportion produced using low-skilled labour. The largest contributions to the gradual increase in the proportion of products produced using medium-skilled blue-collar labour from 30.8% in 2000 to 33.4% in 2016 came from exports of road vehicles and electricity. At the same time the increase in the proportion of exports of products produced using high-skilled labour from 9.5% in 2000 to 13.3% in 2016 was largely under the influence of a rise in exports of medicinal and pharmaceutical products and exports of general industrial machinery and equipment. Compared with the EU28's total exports, Slovenia's exports to the group of five trading partners have a larger proportion of products where low-to-medium-skilled labour is used.

Analysis of the sub-periods reveals that the majority of the rise in Slovenia's exports of products produced using medium -skilled blue-collar labour to the group of five trading partners was concentrated in the pre-crisis period (2000 to 2007). At the same time this period saw a gradual structural shift from exports of products produced using medium-skilled white-collar labour to exports of products produced using high-skilled labour. By contrast, the largest contribution to the decline in the proportion of exports accounted for by products whose production uses low-skilled labour from 33.1% in 2000 to 30.7% in 2016 came from a decline in exports of clothing, which was seen throughout the entire observation period and has coincided with the collapse of the textile industry.

Figure 1: Structure of goods exports to a group of five major partners in relation to the labor intensity of production

*Note: *Goods exports excludes oil, petroleum products, gases (natural and industrial) and unclassified goods.*
Source: Comext (Eurostat), Bank of Slovenia calculations.

Figure 3: RCA index of goods exports to a group of five major partners in relation to the labor intensity of production



*Note: *Goods exports excludes oil, petroleum products, gases (natural and industrial) and unclassified goods. Index value over 1 means a comparative advantage.*
Source: Comext (Eurostat), Bank of Slovenia calculations.

Figure 2: Structure of goods exports of EU28 in relation to the labor intensity of production

*Note: *Goods exports excludes oil, petroleum products, gases (natural and industrial) and unclassified goods.*
Source: Comext (Eurostat), Bank of Slovenia calculations.

Figure 4: Structure of goods exports to a group of five major partners in relation to factor intensity of production

*Note: *Goods exports excludes oil, petroleum products, gases (natural and industrial) and unclassified goods.*
Source: Comext (Eurostat), Bank of Slovenia calculations.

The period after the outbreak of the economic crisis (2009 to 2013) saw a gradual movement up the skill ladder of export production, which is evidenced in the simultaneous recovery of the proportion accounted for by exports of products produced using medium-skilled white-collar labour, and the post-crisis rise in exports of products produced using high-skilled labour. The largest positive contribution to this can primarily be ascribed to exports of medical and pharmaceutical products. Since 2014 the changes in all of the observed figures have been relatively small. It should be noted that in terms of absolute market shares, the majority of Slovenia's exports are still based on products whose production predominantly features low-skilled or medium-skilled blue-collar labour. This decomposition of exports is less favourable from the perspective of the contribution to economic development, as the majority of exports are in product categories where a relatively low value-added per product is prevalent.

The above conclusions are also confirmed by analysis of the revealed comparative advantages reported over the entire observation period: the RCA indices in the case of the group of five trading partners show that Slovenia's most evident revealed comparative advantage (relative to the EU28) over the entire observation period was in the production of products using medium-skilled blue-collar labour. The index in this product category was above 1.2 throughout the observation period, and stood at 1.48 in 2016. The largest positive contributions to the index came from exports of electricity and exports of wood and cork (the impact of the glaze storm), which also gained the largest market share in the observation period alongside exports of cars. The decline in the index for the category of products produced using low-skilled labour from 1.15 in 2000 to 0.82 in 2016 is also worthy of note, as is the significant rise in the index for the category of products produced using high-skilled labour from 0.55 in 2000 to 0.80 in 2016. The first category most notably saw a fall in the index for exports of clothing (in line with the fall in the export share), while the largest contribution to the rise in the index for the second category came from exports of medicinal and pharmaceutical products and exports of machinery specialized for particular industries. The results on the basis of the RCA indices are also confirmed by the breakdown of goods exports to the group of five trading partners in terms of the factor intensity of production, where it is evident that Slovenia's exports are dominated by medium- to high-tech products that mostly use low- to medium-skilled labour in the production process.

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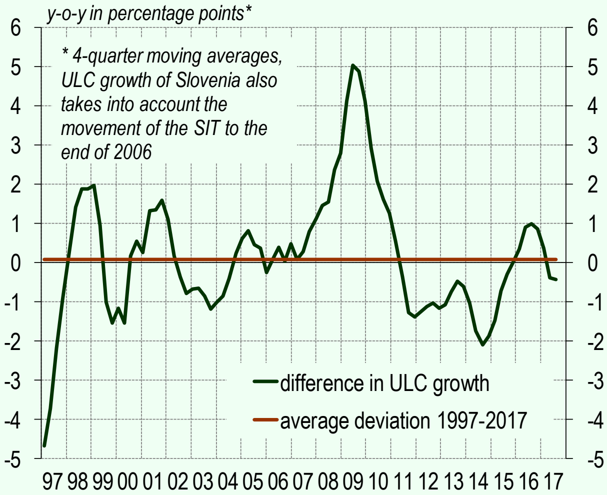
[1] The research excludes oil and refined petroleum products, gas (natural and industrial), and unclassified products.

petitiveness relative to the euro area over the first eleven months of the year was down just 0.1% in year-on-year terms (compared with 0.9% and 0.5% in the same periods of 2015 and 2016).

Developments in the cost competitiveness of the Slovenian economy in the third quarter of 2017 remained more favourable than the average across the euro area.[2] Year-on-year growth in wages continued to outpace growth in productivity in Slovenia and across the euro area. Unit labour costs in Slovenia consequently remained up in year-on-year terms (by 1.0%), while their rise in the euro area was even higher for the fourth consecutive quarter. Exporters thus retained their cost competitiveness on euro area markets, which had improved significantly in the second part of the crisis by means of adjustments in wages and employment to the lower economic activity. Growth in unit labour costs has moved roughly in line with the euro area average in the last two decades. The exception was the period of 2008 to 2010, when domestic growth in unit labour costs significantly exceeded the comparable growth across the euro area. The large gap was the result of several factors, most notably public sector pay reform introduced in 2008 and the high inflation adjustments to wages in the private sector in that year, the sharp decline in GDP in 2009, and the rise in the minimum wage in 2010.

Figure 4.8: Differences in ULC growth between Slovenia and the euro area



Source: Eurostat, Bank of Slovenia calculations.

[2] The methodology for measuring unit labour costs illustrates them as the ratio of nominal growth in wages (compensation per employee) to real growth in labour productivity. As a consequence the relationship between wages and productivity in this section could differ from that illustrated in Section 3.

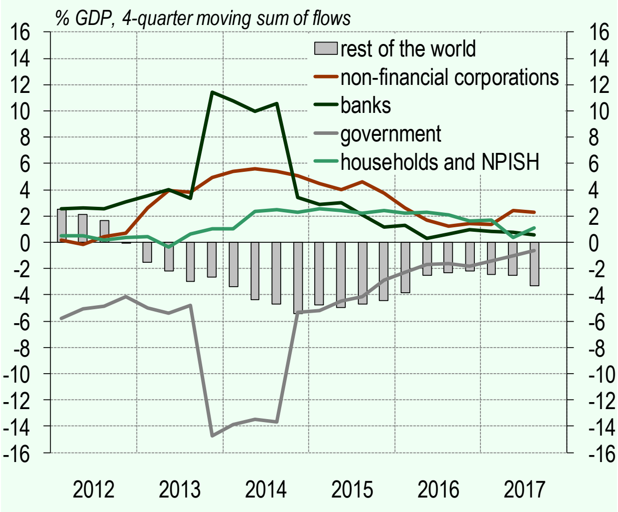
5 Financial Standing of Non-Financial Corporations, Households and Banks

After sharp growth in late 2016, the current increase in new bank loans to non-financial corporations remained relatively low over the first nine months of 2017, while financing from debt securities declined. Non-financial corporations are thus still covering the majority of their investment needs with internal resources and equity. Given the expected growth in domestic consumption, demand for bank financing can also be expected to strengthen, which could support the continuation of the investment cycle in the economy. The banks' credit portfolio is continuing to improve, while the existing LTD ratio suggests surplus capacity that could be converted into longer-term bank lending in the future.

Saving-investment gap by institutional sector

The surplus of saving over investment vis-à-vis the rest of the world amounted to 3.3% of GDP in the third quarter of last year, up 1 percentage point on the same period of the previous year. After closing in 2016, the gap widened again in 2017. Non-financial corporations are still covering the majority of their investment needs from internal resources, while current demand for debt financing remains relatively weak, or is continuing to decline in the case of securities. The widening gap in the household sector was primarily the result of a record increase in bank deposits in the third quarter of last year. The saving-investment gap can be expected to close in the future in the household sector and the non-financial corporations sector. The gap between retained earnings and investment is gradually diminishing, which in the context of the expected increase in investment activity in the coming years suggests a greater need for bank financing. Given the positive outlook on the labour market and the strengthening of private consumption, growth in bank loans can be expected to continue in the household portfolio.

Figure 5.1: Savings-investment gap



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

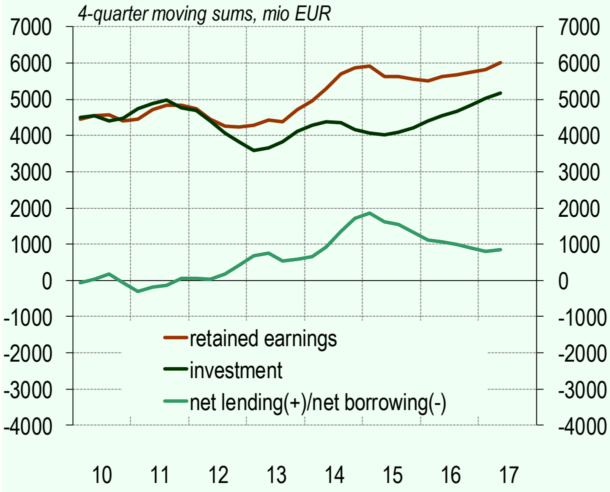
Non-financial corporations

Non-financial corporations' current demand for bank financing is relatively weak, although year-on-year growth is relatively high, primarily as a result of a base effect. Quarterly growth in new bank loans halved to just 0.15% in the third quarter, down 2 percentage points on the final quarter of 2016, when bank lending revived again after several years of deleveraging. Year-on-year growth in corporate loans stood at 7.3% in the

Figure 5.2: Maturity breakdown of loans* to non-financial corporations

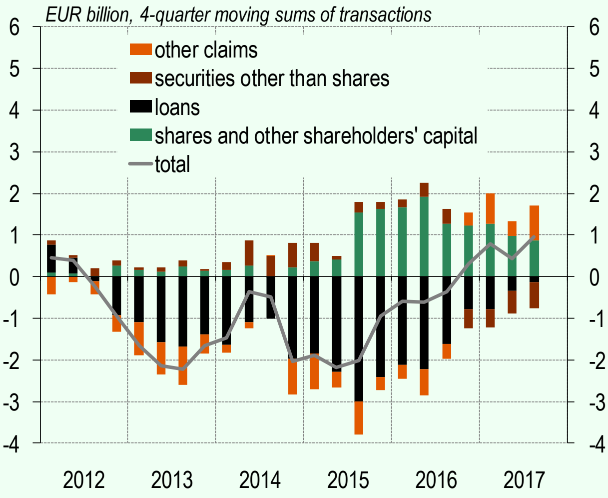
Source: Bank of Slovenia.

Figure 5.4: NFC investment and retained earnings



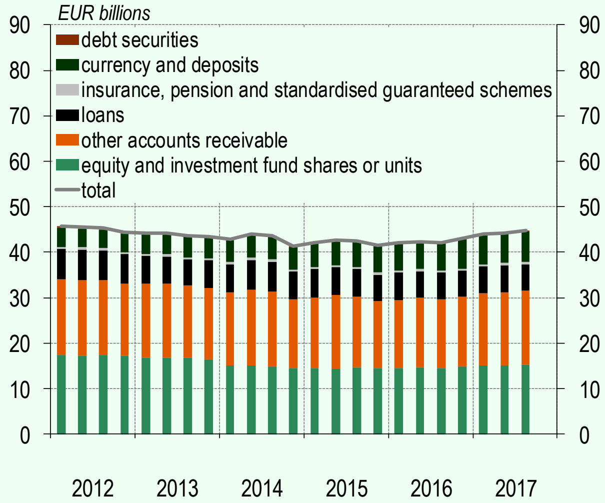
Source: Bank of Slovenia, Eurostat, SORS.

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



Source: Bank of Slovenia, non-consolidated data.

Figure 5.5: Financial assets of NFCs (S.11)



Source: Bank of Slovenia, non-consolidated data.

third quarter, albeit mostly as a result of a base effect. Alongside the weak growth in monthly demand for bank lending, non-financial corporations significantly reduced their financing from debt securities in 2017. Debt of this type in the third quarter of 2017 was down 25% on the same period of the previous year. Non-financial corporations are still able to satisfy the majority of their current investment needs by means of retained earnings. The latter exceeded total corporate investment by more than 15% in 2017. The positive net debt position expressed as a percentage has declined by almost 30 percentage points over the last two years on the basis of growth in investment. In the context of the expected increase in growth in investment in the coming years, corporate demand for bank financing can be expected to intensify. Non-financial corporations' current indebtedness in the form of loans and debt securities is less than 60% of GDP, 40 percentage points less than the average across the euro area, which indicates room for sustained investment growth. However, past experience shows that, alongside the actual amount of debt, the sustainability of investment growth also depends on its coverage by capital, i.e. leverage. The outbreak of the crisis raised corporate leverage by 42 percentage points in 2009, on the basis of a pronounced negative revaluation of equity. Corporate leverage currently stands at 102%, comparable to the average across the euro area.

Box 5.1: Analysis of monetary policy transmission in Slovenia

Slovenia adopted the Euro in 2007 with the full transfer of autonomous monetary policy decisions to the Eurosystem. The Eurosystem monetary policy is essentially formulated in a uniform fashion, and is applied to countries that can differ markedly from the perspective of macroeconomic indicators and the course of the financial and debt crisis. Local autonomous factors of this type can give rise to an environment where the financing conditions at the level of an individual country differ significantly from the monetary policy stance at the level of the euro area as a whole.

Figure 1 illustrates average yields on 10-year government bonds in Slovenia and Germany. At the height of the debt crisis, between 2011 and 2013, the spread between the two countries' government bonds exceeded 400 basis points, an indication of the pronounced impact of autonomous factors on the risk premium for Slovenian bonds and the flight-to-quality in the case of Germany. A similar impact of local factors on the transmission mechanism could also be elucidated from Figure 2, which shows the impaired transmission of monetary policy into the bank financing costs for Slovenian firms compared with the costs of bank financing at the level of the euro area. A pronounced convergence in interest rates and bank financing conditions could be seen after the end of 2013.

However, this turnaround was characterised by coinciding developments relating both to autonomous factors and to changes in monetary policy. The majority of the recovery of the banking system in Slovenia was carried out in 2013, following the structural reforms carried out in 2012. From the perspective of monetary policy the period after 2012 reflects more decisive action on the part of the ECB, within which it is possible to identify the introduction of explicit forward guidance, supported by measures allowing the purchase of government bonds.

The net impact of monetary policy can partly be identified by analysing changes in the yields on 10-year government bonds on the day of the announcement of individual measures by the ECB. Static analysis of this type is based on the assumption that a one-day window is short enough to eliminate the impact of other factors on interest rates, but long enough for market participants to properly adjust to the announced monetary policy path. It is evident from Table 1 that the announcement of unconventional monetary policy measures had the anticipated favourable impact on financing conditions in Slovenia, with an average fall in yields of 7 basis points, and a narrowing of 29 basis points in the spread with euro area core countries.

The more sustained effects of monetary policy are usually analysed within structural vector autoregression (SVAR) models, which can be used to examine the dynamic relationships between output, inflation and monetary policy. Such a representation of the economy usually constitutes a self-sufficient framework for examining the efficacy of monetary policy transmission, as it simultaneously considers the reaction curve of the central bank and the dynamic response of the macroeconomic environment to monetary policy. However, when examining the effects of the common monetary policy on an individual economy in the euro area (e.g. Slovenia), the model needs to be properly augmented. Figures 1 and 2 illustrate the deviation in the financing conditions in Slovenia from those observed across the euro area, and the impact of local factors on the efficacy of the transmission channel. Thus in addition to the usual metric of ECB monetary policy, it is necessary to include the metric of financing conditions for Slovenia in the model. A key role in the adequacy of the model will thus be played by the choice of monetary policy metric. Given the numerous unconventional measures, and the low interest rate environment, the ECB's key interest rates will no longer be fully informative with regard to the monetary policy stance in the euro area.

To this end Hilberstadt and Krippner (2016) propose the use of the metric of effective monetary stimulus (EMS), which represents the integrated difference between the expected path of monetary policy and the long-term neutral interest rate in the economy. The larger the difference, the larger is the deviation in monetary policy from its long-term steady state, i.e. interest rates that would equalise the current output of the economy with its potential output, where negative differences represent an expansionary monetary policy. Empirically such deviations can be estimated as the difference between the interest rate on long-term government bonds, which in accordance with expectations theory encompass the expected path of short-term interest rates, and the long-term forecast of real economic growth. The two categories are available for the euro area and for Slovenia, which allows for the inclusion of the ECB monetary policy metric in the model, alongside the simultaneous consideration of the financing conditions specific to Slovenia. The monetary SVAR model for Slovenia thus contains the following variables: the EMS metric for the euro area, the index of industrial production for Slovenia, the harmonised index of prices for Slovenia, and the EMS metric for Slovenia.[1]

Figure 3 illustrates the 20-month impulse response of industrial production in Slovenia to an unexpected rise in the EMS metric for the euro area (restrictive monetary policy). The expected negative dynamic in industrial production can be identified after six months, with the peak response recorded after one year. However, the response of industrial production over the entire period remains statistically insignificant. In combination with the lagged expected dynamic, this indicates that the common monetary policy had an insignificant impact on Slovenia's real economy between 2007 and 2017.

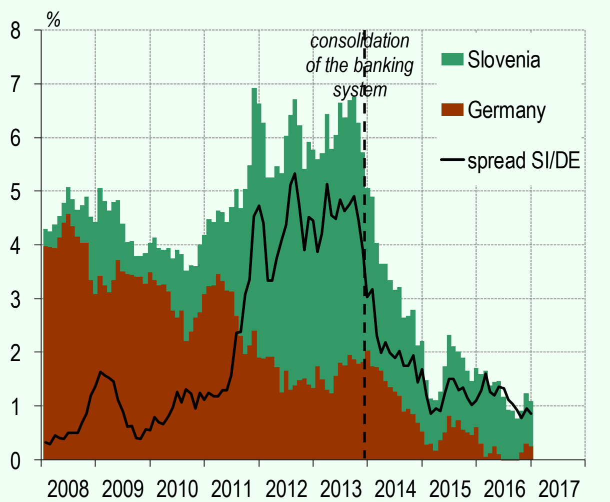
In light of the stronger commitment towards long-lasting expansionary monetary policy notices after 2012, the direction and magnitude of the impact of monetary policy in the individ-

Table 1: One-day change in ten-year government bond yields

Monetary measure	Slovenia	Germany
15/10/2008 Liq. Prov.	-10.2	0.0
07/05/2009 CBPP1	11.0	18.6
10/05/2010 SMP	-16.7	17.0
06/10/2011 CBPP2	5.5	19.7
08/12/2011 LTRO1	-8.2	-15.5
20/02/2012 LTRO2	-20.4	-9.6
06/09/2012 OMT	-11.1	16.1
05/06/2014 TLTRO1	-2.9	0.9
04/09/2014 CBPP3	-5.7	4.7
22/01/2015 EAPP	-14.3	0.2
10/03/2016 TLTRO2	-4.3	0.2

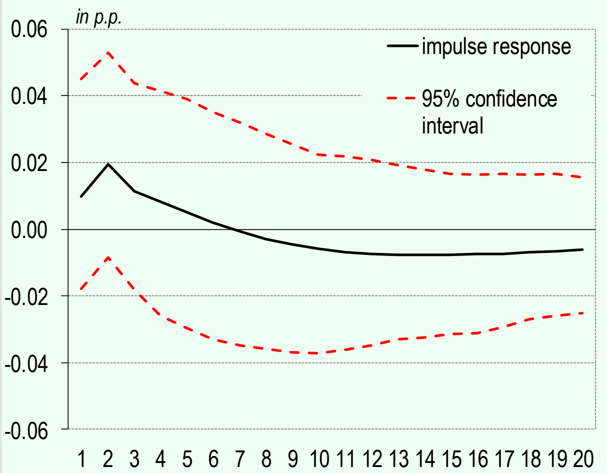
Source: Bloomberg.

Figure 1: Yields of 10-year government bonds



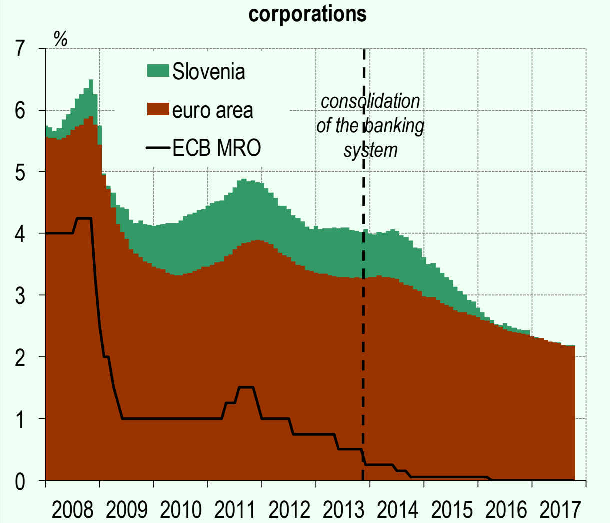
Source: Bloomberg.

Figure 3: Impulse response of industrial production to an unexpected increase in EMS by 100 b.p.



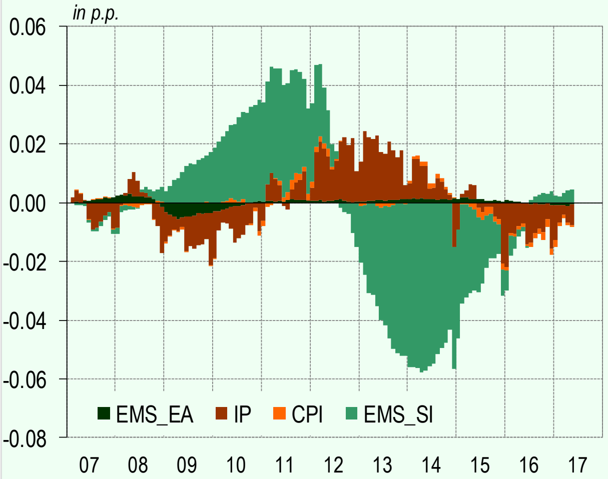
Source: Bank of Slovenia calculations.

Figure 2: Interest rates on new bank loans to non-financial corporations



Source: ECB, Bank of Slovenia.

Figure 4: Model decomposition of the stochastic component for industrial production



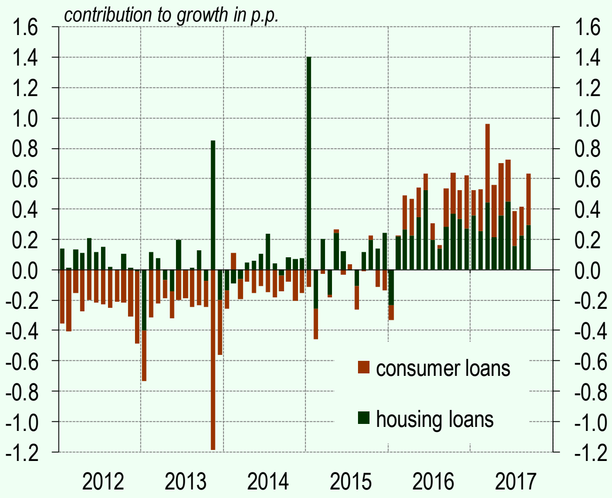
Source: Bank of Slovenia calculations.

ual month of the observation period could also be examined. Figure 4 illustrates the contributions made by variables in the model to the evolution of stochastic component of the time series for industrial production in Slovenia. The blue columns denote the impact of euro area monetary policy. The figure confirms that the more assertive monetarypolicy in the euro area since 2012 has made a positive contribution to growth in industrial production, but that the effect of monetary policy remained negligible and insufficient from the perspective of neutralising the adverse impact of local factors and financing conditions (green columns) from previous years. The results of the analysis illustrate that the efficacy of the monetary policy transmission channel can only be ensured with adequate support of local economic policies in Slovenia.

[1] The identification of monetary shocks within the SVAR model is undertaken on the basis of a Cholesky decomposition of the covariance matrix of residuals, which assumes an ordering of variables from the most exogenous to the economy to the most endogenous.

Non-financial corporations' financial assets increased by 7.5% in the third quarter of 2017. Other accounts receivable (trade credits and advances) account for more than a third of total financial assets, exposure to non-resident non-financial corporations having increased significantly (by 12%). In the context of increased foreign trade, the latter is indicative of non-financial corporations' increasing integration into global production chains (see Box 4.1). The high corporate profits generated in previous periods are being reflected primarily in growth in bank deposits and investments in the equity of other domestic non-financial corporations, which together make up almost half of non-financial corporations' total financial assets.

Figure 5.7: Loans to households

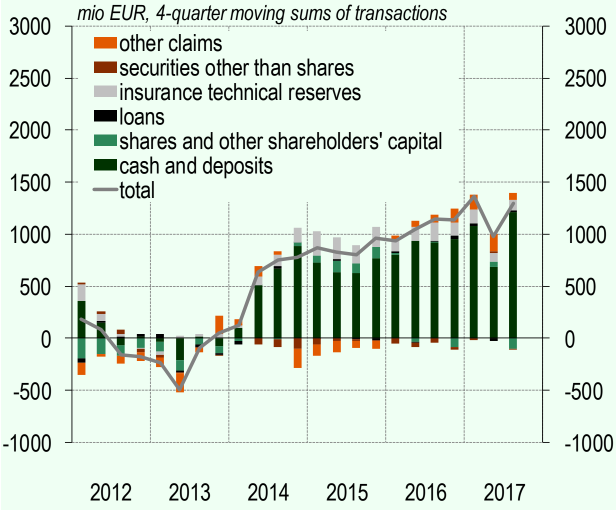


Source: Bank of Slovenia.

Household sector

The household sector's financial assets increased by 5.6% in year-on-year terms. The increase has continued to be driven by bank deposits, which increased by a record EUR 675 million in the third quarter, as the proportion of sight deposits increased to 68%. In contrast to deposits, transactions in equity declined sharply in the third quarter (to EUR 130 million), which was largely compensated for by positive capital revaluations in the amount of EUR 105 million. Investments in equity still account for more than 25% of the household sector's financial assets.

Figure 5.6: Financial investment of households (S.14 in S.15)



Source: Bank of Slovenia, non-consolidated data.

In the wake of positive developments on the labour market, year-on-year growth in bank loans to households strengthened, exceeding 7% in the third quarter of last year. The continuing growth in prices on the real estate market is keeping growth in housing loans above 5%, while consumer loans are strengthening fast, their year-on-year rate of growth exceeding 13% in the third quarter. Given the positive outlook on the labour market, loans to households can be expected to continue growing, particularly on account of higher-yielding consumer loans. This could additionally support growth in private consumption.

Box 5.2: Bank performance

Growth in total assets has been positive since last March, the year-on-year rate reaching 2.1% in October. Total assets increased by EUR 0.46 billion over the first ten months of last year. On the funding side, the increase during this period was attributable to deposits by the non-banking sector, mostly household deposits. On the asset side, growth in loans to households and corporates increased, while the banks reduced their stock of investments in securities. Last year's increase in loans was still less than the increase in deposits, and the banks were able to further fund increased lending activity with deposits by the non-banking sector.

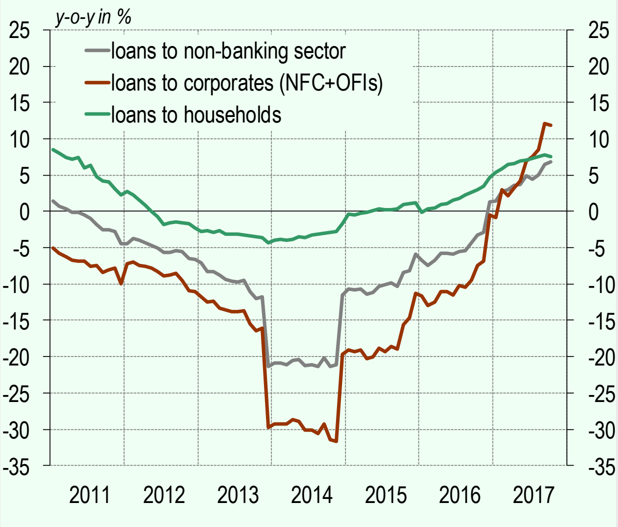
Growth in loans to the non-banking sector strengthened last year, reaching 6.8% in October. The increase was seen in all sectors other than the government sector and non-residents. The largest increases in 2017 were in loans to households and non-financial corporations, which were up EUR 745 million in total. Last year's nominal increase in loans to non-financial corporations was less than the increase in loans to households, while loans to non-financial corporations amount to less than half of household loans.

Year-on-year growth in loans to non-financial corporations increased during 2017, reaching 8.1% at the end of October. This was attributable to a base effect caused by the contraction in loans of this type seen until the end of November 2016. The increase in loans to non-financial corporations amounted to EUR 231 million over the first ten months of the year. During this period there was mainly a net increase in long-term loans to non-financial corporations, year-on-year growth in which reached 8.8% in October. After a long period of contraction in short-term loans to corporates, positive year-on-year growth was seen in October. The banks primarily increased their lending to SMEs last year.

The largest contribution to last year's increase in loans to the non-banking sector came from the banks' household lending activity. Having increased for the majority of the year, year-on-year growth in loans stabilised at 7.5% in the autumn. Loans to households increased by EUR 514 million over the first ten months of the year. Growth in consumer loans strengthened throughout the year, the year-on-year rate reaching 13.8% in October. Growth in housing loans was stable for most of the year, and remained around 5% in the autumn. Last year's net increase in loans of both types was approximately equal in absolute terms. The main demand-side factors were the good economic situation, increased household consumption and the improvement in the situation on the labour market. The increase in consumer loans varied from bank to bank: certain banks are targeting and actively focusing on consumer lending. The maintenance of solid growth in housing loans to households was the result of certain favourable factors, such as low interest rates, low household indebtedness and the revival of the real estate market.

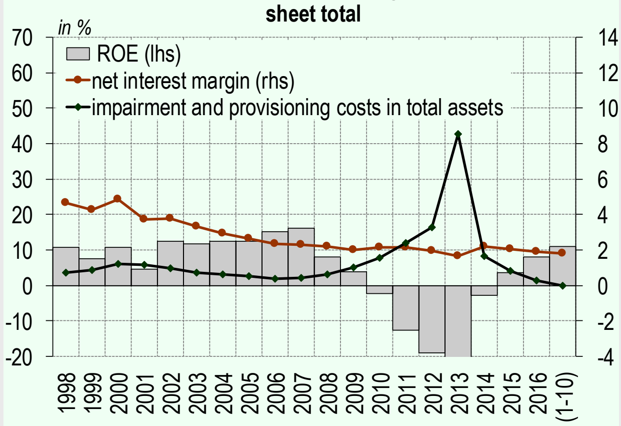
The structure of the Slovenian banking system's funding has continued to change. Deposits by the non-banking sector are strengthening, while the repayment of wholesale funding is continuing, which is contributing to greater stability in funding structure from the perspective of the banks' exposure to volatility on the financial markets. The main factor in the growth in deposits by the non-banking sector was growth in household deposits and deposits by non-financial corporations. Household deposits were the largest factor in the increase in deposits by the non-banking sector over the first ten months of last year, thereby strengthening the proportion of funding that they account for to 46.1%. Household deposits were up 5.9% in year-on-year terms in October. Growth in deposits by the non-financial corporations remained relatively volatile last year, as the year-on-year rate reached a high 9.8% in October. The maturity breakdown of deposits by the non-banking sector continued to change in the direction of an increase in sight deposits. The proportion of sight deposits stood at just over 68% of total deposits by the non-banking sector, and just over 70% of total household deposits. In the wake of the simultaneous lengthening of average maturities on the asset side, maturity mismatch between assets and liabilities is increasing further. The increased risk inherent in this is being mitigated by the fact that the banks have a relatively high proportion of

Figure 1: Year-on-year growth in loans



Source: Bank of Slovenia.

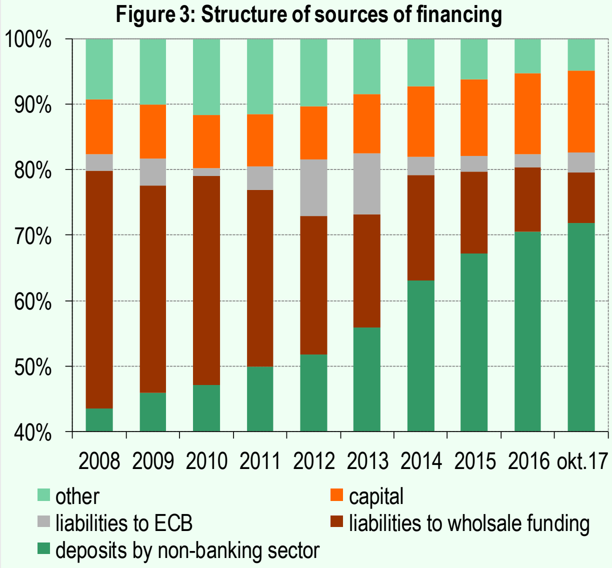
Figure 2: Return on equity, net interest margin on interest-bearing assets and impairment and provisioning expenses on balance sheet total



Note: Indicators calculated on the balance sheet total, or net interest margin on interest-bearing assets are always calculated for the period of the last 12 months. ROE is always calculated cumulatively up to and including the last available data within the year.
Source: Bank of Slovenia.

The banking system's capital adequacy is gradually declining, but remains at a solid level. The total capital ratio stood at 20.2% on an individual basis, and 18.4% on a consolidated basis in the third quarter of 2017. The decline in capital adequacy was the result of growth in capital requirements outpacing growth in regulatory capital. Capital requirements are strengthening on account of the increase in lending activity to corporates and households. The banks are primarily increasing their capital by means of retained earnings and increases in other reserves. The small domestic banks remain the most vulnerable in capital terms: their capital adequacy and leverage remain significantly below the average of the Slovenian banking system. In the wake of the further strengthening of lending and thus growth in capital requirements, downward pressure on capital adequacy can be expected in the future if the banks fail to appropriately adjust the amount of capital.

Figure 3: Structure of sources of financing

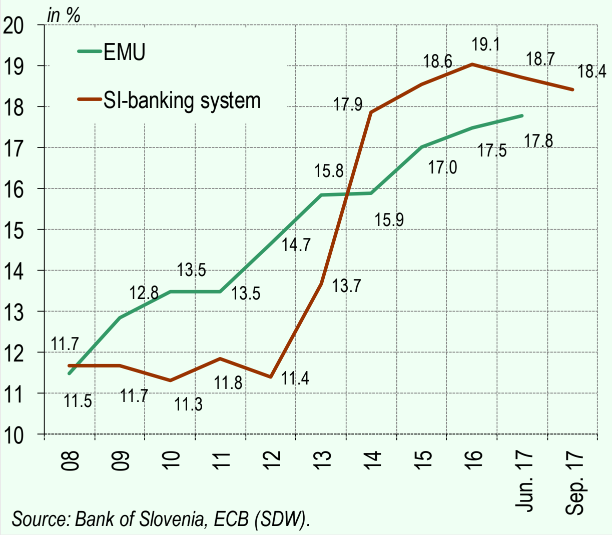


Source: Bank of Slovenia.

liquid assets in the portfolio, and are maintaining high secondary liquidity. In addition, banks with a high proportion of the pool of eligible collateral for ECB operations that is unencumbered (it stands at 69%) can mitigate any adverse consequences of maturity mismatch between assets and liabilities.

The Slovenian banking system generated a pre-tax profit of EUR 418 million over the first ten months of the year. Gross income was down on the same period of the previous year, while profit was up. Gross income over the first ten months of the year was down 4.4% in year-on-year terms. Net interest income and net non-interest income were down in year-on-year terms. The decline in net interest income slowed in 2017, as bank lending activity has gradually increased. By contrast, the maturing of securities issued in the past that are relatively high-yielding is causing the banks to see a faster decline in interest income on such investments. There were no favourable one-off factors in non-interest income over the first ten months of the year, although the banks' net fees and commission, which accounts for the majority of non-interest income, was no longer declining by the autumn. The net interest margin, which had declined for several consecutive years, virtually stabilised in the autumn, and stood at 1.83% over the first ten months of the year. The banking system released impairments and provisions in the total amount of EUR 57 million over the first ten months of last year, having recorded impairment and provisioning costs of EUR 41 million over the same period of the previous year. Operating costs in the aforementioned period were comparable to the same period of the previous year. The banking system's profit was up 15% on the previous year.

Figure 4: Capital adequacy ratio of the Slovenian banking system compared to the EMU – consolidated basis



Source: Bank of Slovenia, ECB (SDW).

Banks

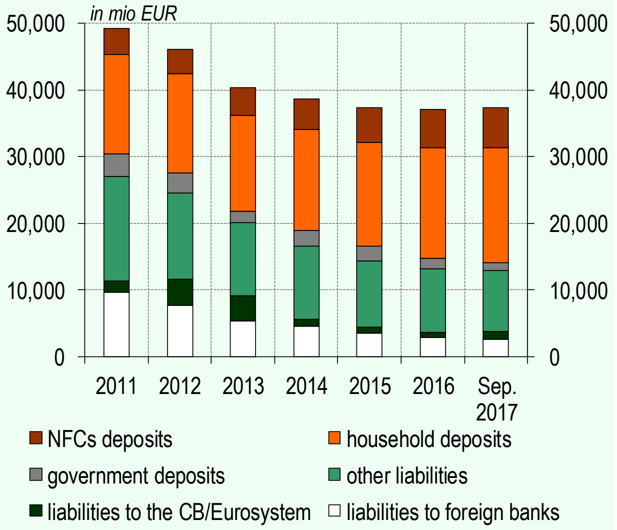
Conditions on the loan supply side are improving, which could provide support for the continuation of the corporate investment cycle. The credit portfolio is continuing to improve: the NPE ratio declined by 1.4 percentage points over the first three quarters of the year to 7.1%, primarily as a result of a pronounced improvement in the portfolio of loans to domestic non-financial corporations and to non-residents. Growth in loans to the non-banking sector, which accounted for 55% of the banks' total assets in the third quarter, is strengthening. While the monthly increase in corporate loans is still relatively low, growth in household loans remains high and is strengthening further. In the latter segment foreign banks are increasingly focusing on more-profitable consumer loans, while the domestic banks are notably focused on housing loans. As the spread between the cost of financing for the non-banking sector and the average across the euro area narrows, the increased availability of bank lending is also evident in the lengthening average maturity of new loans and the increased lending to SMEs. Space for additional lending is also being provided by the low LTD ratio, which is 27 percentage points lower than the average across the euro area.

From the perspective of the supply of loans, there remains risk inherent in the sustainability of the banks' funding structure. The proportion of deposits by the non-banking sector is undergoing a sustained increase, and sight deposits now account for 68% of the banks' total liabilities. Given the requirement to provide adequate liquid assets, the latter could be a limiting factor in providing financial resources of a longer-term nature. Surplus liquidity remains high, which is being reflected in lower demand for interbank funding, both domestic and foreign.

Domestic capital market

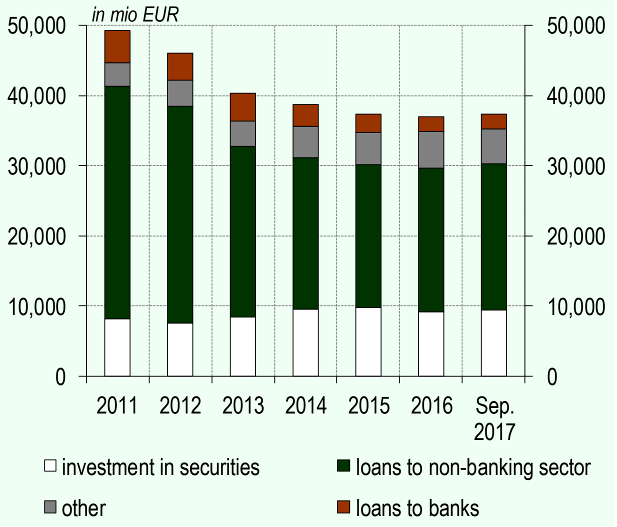
The optimism on foreign stock markets has also been reflected on the domestic stock exchange. The SBI TOP gained 11% over the first ten months of last year. The market capitalisation of shares on the Ljubljana Stock Exchange increased by 4% over this period to EUR 5.2 billion, a reflection of the positive mood on stock markets. As in recent years, there were no new issues of shares on the Ljubljana Stock Exchange during the first ten months of last year, while shares continued to be delisted. The average monthly volume of trading in shares over the first ten months of the year was up 18.1% in year-on-year terms at EUR 32 million. The significant increase in volume and restrained growth in market capitalisation had an impact on the turnover ratio in 2017. Concentration remained unchanged, as shares in five issuers accounted for 80.4% of total volume, although there was a sharp increase in the proportion of total volume accounted for by the most heavily traded share on the stock exchange, which stood at 42%. The

Figure 5.8: Selected liabilities of domestic banks



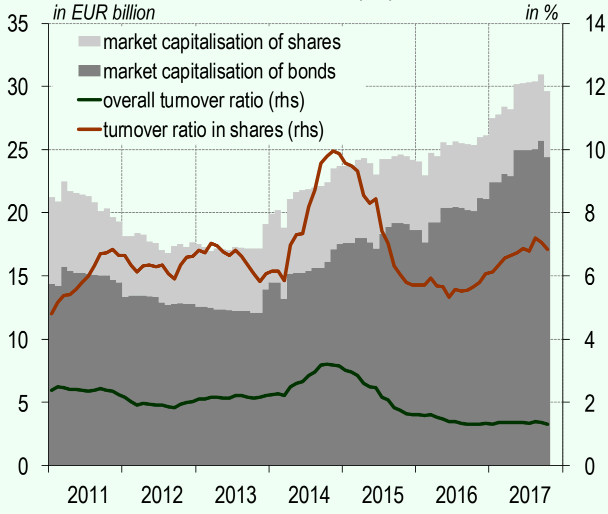
Source: Bank of Slovenia.

Figure 5.9: Selected assets of domestic banks



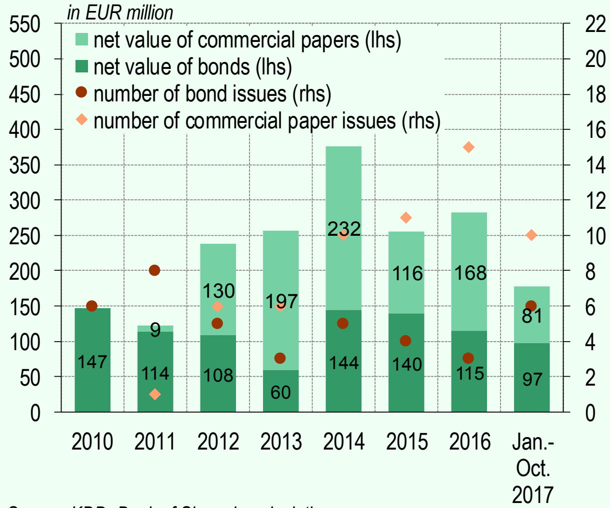
Source: Bank of Slovenia.

Figure 5.10: Market capitalisation on the LJSE and annual turnover ratios (TR)



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

Figure 5.11: Issuance of corporate bonds and commercial papers (excluding the government sector)



Source: KDD, Bank of Slovenia calculations.

proportion of the market capitalisation of shares on the Ljubljana Stock Exchange accounted for by non-residents declined further to reach 22.2% in October.

The domestic market in debt securities saw continued growth in issuance of government bonds in particular.[1] The market capitalisation of bonds increased by 15.6% over the first ten months of the year to EUR 24.4 billion. The increase was primarily attributable to government activity, which increased its existing bond issues and issued a new 10-year bond for the purpose of buying back and replacing US dollar bonds. The rise in market capitalisation did not have any impact on the volume of trading in bonds, as the majority of trading was on the OTC market. The average monthly volume of trading in bonds on the Ljubljana Stock Exchange over the first ten months of the year was down 25.4% in year-on-year terms at EUR 10 million. Five bond issues accounted for the majority of the volume of trading in bonds (81%).

[1] The government issues debt securities on the domestic stock market, which has an impact on market capitalisation, but government borrowing is actually undertaken through the international environment.

6 Public Finances

According to government forecasts, the general government position will move into a surplus this year. The general government deficit was expected to stand at 0.8% of GDP in 2017, while the government is forecasting a surplus of 0.4% of GDP for this year. The improvement in the fiscal position is primarily attributable to the favourable economic developments and the reduction in the interest burden. It is vital to generate budget surpluses in times of favourable economic conditions, while control over government expenditures is a prerequisite for meeting the planned targets.

The situation is also favourable for a reduction in general government debt, which was estimated at around 75% of GDP at the end of 2017. Slovenia issued a 10-year bond in January of this year, and borrowing continues to be undertaken at low interest rates. The spreads on 10-year Slovenian bonds are currently at their lowest level of recent years (around 40 basis points over the benchmark German 10-year bonds).

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 and the upcoming electoral period. The risks also relate to possible one-off factors, to the high level of implicit and potential liabilities, and the potential increase in public investment.

General government deficit

The general government deficit and debt are declining. According to the Ministry of Finance's plans, the general government deficit is expected to have amounted to 0.8% of GDP in 2017, which was also the figure recorded over the 12 months to the end of September 2017. The improvement in fiscal results is largely a consequence of the favourable cyclical situation, although the ratio of interest payments to GDP is also declining. The primary surplus is increasing. According to the European Commission's November forecasts, the general government deficit across the euro area was expected to have amounted to 1.1% of GDP in 2017, while the general government debt was forecast to reach 89.3% of GDP by the end of the year.

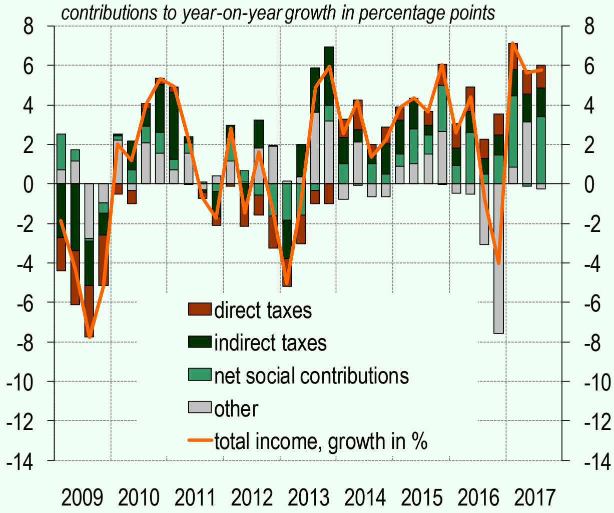
General government revenue growth in the first nine months of the year derived from growth in tax and non-tax revenues, while revenues from the EU budget remained low. General government revenues over the first nine months of the year were up 6.1% in year-on-year terms. All tax revenue sources have strengthened, most notably those related to the labour market. There was above-average growth in revenues for social security (6.6%), while income tax revenues were up just over 5% and revenues from indirect taxes were up around 4%. Corporate income taxes recorded the highest growth, partly as a result of a rise in the rate from 17% to 19% during 2017. Among the non-tax revenue sources, there was an increase in revenues from distributed income of corporations (dividends). Capital transfers (including revenues from the EU budget) were down in year-on-year

Table 6.1: General government deficit and debt in Slovenia, 2014-2020

	SORS				Draft Budgetary Plan			Stability Programme				EC		
% GDP	2014	2015	2016	2017 *	2017	2018	2019	2017	2018	2019	2020	2017	2018	2019
Revenue	44.3	44.9	43.3	42.9	43.2	43.0	...	43.5	43.7	43.0	42.4	42.8	42.5	42.2
Expenditure	49.6	47.7	45.1	43.3	43.9	42.6	...	44.4	43.9	42.8	41.9	43.6	42.5	41.8
of which: interest	3.2	3.2	3.0	2.9	2.6	1.9	...	2.4	2.1	2.0	1.8	2.6	1.9	1.8
Net lending (+) / borrowing (-)	-5.3	-2.9	-1.9	-0.4	-0.8	0.4	0.8	-0.8	-0.2	0.2	0.4	-0.8	0.0	0.4
Primary balance	-2.1	0.3	1.1	2.5	1.9	2.3	...	1.6	1.9	2.2	2.1	1.8	1.9	2.2
Structural balance	...	...	...	...	-0.8	-0.2	...	-0.6	-0.3	-0.1	0.0	-1.6	-1.6	-1.4
Debt	80.3	82.6	78.5	78.4	75.2	71.7	68.0	77.0	74.3	70.9	67.5	76.4	74.1	72.0
Real GDP *(growth, %)*	3.0	2.3	3.1	4.7	4.4	3.9	3.2	3.6	3.2	2.6	2.6	4.7	4.0	3.3

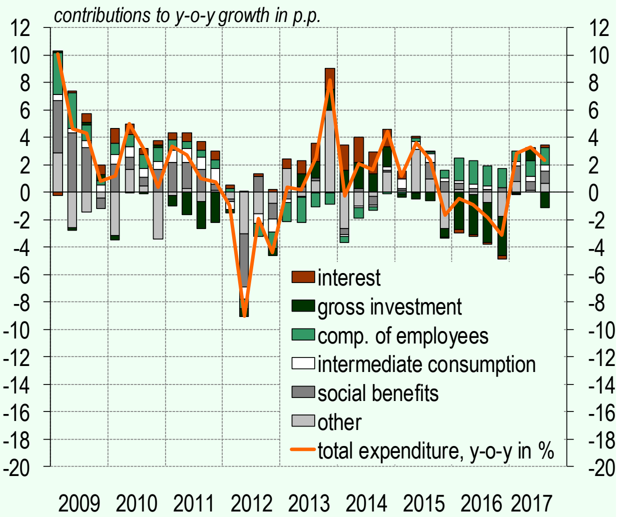
Note: For 2017 data from the first three quarters are used. Debt refers to the end of the third quarter 2017.
Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2017), Stability Programme (Ministry of Finance, April 2017), European Commission (November 2017).

Figure 6.1: General government revenues



Source: SORS, Bank of Slovenia calculations.

Figure 6.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

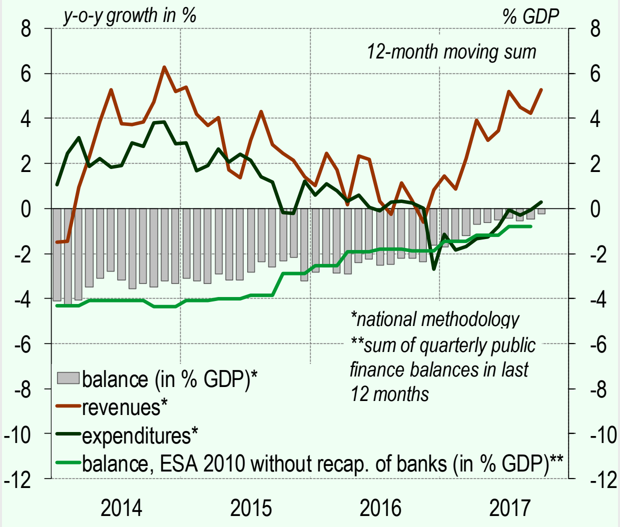
terms in the first quarter of the year, but remained approximately unchanged in year-on-year terms in the second and third quarters.

General government expenditure increased as a result of the relaxation of austerity measures, albeit less than revenues. General government expenditure over the first nine months of the year was up 2.8% in year-on-year terms. There was above-average growth in employee compensation owing to the relaxation of austerity measures (including a rise in the wage scale in September 2016, promotions at the end of the previous year, and a rise in leave allowance and contributions for supplementary collective pension insurance, and also an increase in employment). Employment in the general government sector in the first nine months of the year was up 1.8% in year-on-year terms, while growth in compensation of employees per employee was slightly higher. Growth in pensions was again moderate in 2017: over the first eleven months of the year they were up 1.6% in year-on-year terms, primarily as a result of pension increases. The number of pension claimants rose by around 0.3% in 2017, a similar rise to the previous year. Government investment was down slightly on the previous year, as a result of the modest disbursement of EU funds. Expenditure on intermediate consumption increased.

Box 6.1: Public finance developments according to cash flow methodology

The consolidated general government position was in surplus over the first ten months of 2017. The year-on-year improvement in the general government position in the amount of EUR 557 million was the result of relatively high growth in revenues alongside moderate growth in expenditure. Taxes and social security contributions over the first eleven months of the year were up 6.4% on the previous year. Last year's growth was the highest of the last nine years. Revenues are rising primarily as a result of the strengthening of economic activity, which provided for an improvement in the situation on the labour market, while the increased optimism on the part of businesses and households is also being reflected in growth in domestic demand. The state budget recorded a deficit in the amount of EUR 159 million over the first eleven months of the year. November's deficit was large, higher than that recorded over the first eleven months of the year, on account of transfers to public health institutes that provide secondary and tertiary healthcare to cover their past-due liabilities (in the amount of EUR 135.7 million or 80% of the excess of expenditure over revenues generated in previous years by public services). Local government was in surplus over the first ten months of the year. Investment expenditure by local government was up a tenth, but local government tax revenues

Figure 1: Public finance developments



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

Table 1: Consolidated balance sheet* of public finance

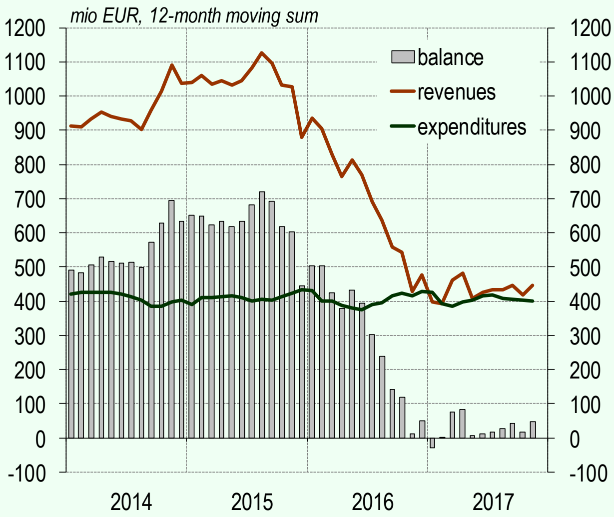
	2016	last 12 months to Oct. 2017			2016 Jan.-Oct.	2017 Jan.-Oct.	Jan.-Oct. 17
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**15,842**	**16,682**	**39.1**	**5.3**	**13,034**	**13,873**	**6.4**
Tax revenue	14,240	14,996	35.1	5.8	11,767	12,522	6.4
- goods and services	5,433	5,653	13.3	4.6	4,512	4,733	4.9
- social security contributions	5,721	6,016	14.1	6.0	4,708	5,003	6.3
- personal income	2,079	2,183	5.1	5.7	1,685	1,789	6.2
- corporate income	599	741	1.7	20.4	511	652	27.6
From EU budget	481	423	1.0	-22.5	339	282	-16.9
Other	1,121	1,262	3.0	11.9	928	1,069	15.2
Expenditure	**16,497**	**16,779**	**39.3**	**0.3**	**13,458**	**13,741**	**2.1**
Current expenditure	7,407	7,506	17.6	1.5	6,117	6,216	1.6
- wages and other personnel expenditure (incl. contributions)	3,785	3,917	9.2	4.4	3,140	3,272	4.2
- purchases of goods, services	2,371	2,474	5.8	4.9	1,837	1,940	5.6
- interest	1,074	977	2.3	-9.3	1,000	903	-9.7
Current transfers	7,700	7,855	18.4	2.7	6,391	6,547	2.4
- transfers to individuals and households	6,496	6,622	15.5	2.3	5,426	5,553	2.3
Capital expenditure, transfers	962	1,015	2.4	-19.4	610	663	8.7
To EU budget	427	402	0.9	-5.1	340	315	-7.4
GG surplus/deficit	**-654**	**-97**	**-0.2**		**-425**	**133**	

*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.

also increased. The Health Insurance Institute recorded a deficit of EUR 5 million over the first eleven months of the year, less than in the same period of the previous year.

Slovenia was a net contributor to the EU budget over the first eleven months of the year. Revenues from the EU budget amounted to EUR 315 million, while contributions were EUR 32 million higher. It is primarily the structural funds (realisation of just under 8% of the planned revenues) and cohesion funds (realisation of just under a fifth of the planned funding) that fell short of the revised plans. The position in the 12 months to November was positive, as revenues from the EU budget into Slovenia's state budget were higher in December of the previous year as usual for that month.. A large increase in disbursement relative to the budget plans is expected in 2018. The figures[1] show that a total of EUR 1.69 billion was allocated from the new financial framework up to November 2017, or 56% of the available EU funding, while refunds from the EU budget were very small.

Figure 2: Flows with the EU budget



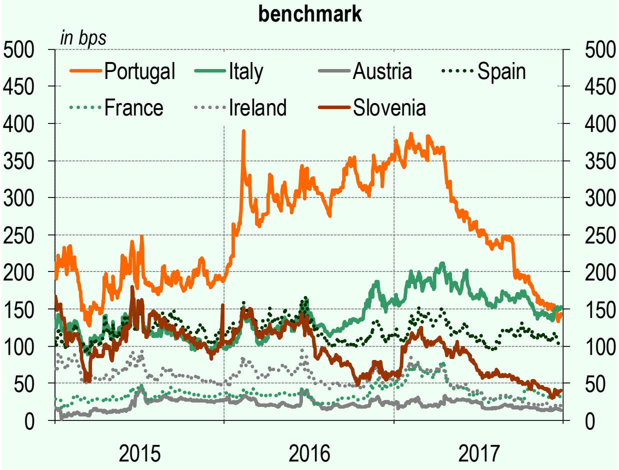
Source: Ministry of Finance, Bank of Slovenia calculations.

[1] Source: Website of the Government Office for Development and European Cohesion Policy (http://www.svrk.gov.si/en/eu_funds_absorption_rate/).

Government debt and guarantees

The ratio of general government debt to GDP declined again last year. General government debt amounted to EUR 33,285 million or 78.4% of GDP at the end of September, while the decline in the final quarter of last year was primarily attributable to the repayment of RS72 bond in the amount of approximately EUR 1.3 billion in October. The general government debt is estimated to have fallen to 75.2% of GDP by the end of 2017 according to the Ministry of Finance. Treasury bill issues recorded negative interest rates last year. Just over EUR 0.6 billion worth of treasury bills were issued during the year, approximately equal to the maturing treasury bill liabilities. A new 10-year euro bond was issued in January of last year, apart that the majority of borrowing was undertaken via increased issues of existing euro bonds and the simultaneous partial replacement of bonds issued in US dollars by euro-denominated bonds. This carried out a debt restructuring in terms of currency and maturity, as a result of which currency risk hedging was also reduced, while liabilities from interest payments also declined. A new reference euro bond in the amount of EUR 1.5 billion was issued in January of this year with a coupon rate of 1%, the lowest interest rate on a Slovenian euro bond to date.

Figure 6.3: Spreads of long-term government bonds over German benchmark



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

Guarantees are continuing to gradually decline. The stock of government guarantees stood at EUR 6.2 billion or 14.7% of GDP at the end of September, down around EUR 0.6 billion on the end of 2016. The fall was the result of the maturing of regular guarantees, most notably guarantees to DARS, SID banka and SDH, and guarantees approved because of the financial and economic crisis. The most notable decline in the latter was recorded by guarantees for BAMC borrowing. Guarantees in the amount of EUR 0.5 million were called in the first eleven months of last year.

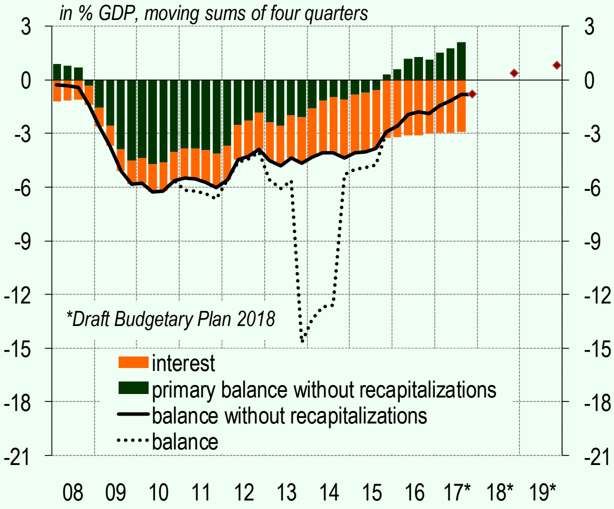
The required yield on Slovenian government bonds declined slightly further in the final quarter of last year. The required yield on 10-year bonds declined for the majority of the year, which was typical of many other EU Member States. The decline was the result of the ECB's ongoing monetary policy stimulus and the improvement in the economic situation. Uncertainty on the financial markets last year mostly came from elections in certain large EU Member States. An improvement in sovereign debt ratings also had a favourable impact on the required yields on Slovenian government bonds during the year. The required yield on Slovenian 10-year government bonds stood at around 0.8% at the end of the year, a spread of just under 40 basis points over the German benchmark.

Planned developments in the general government deficit

The Ministry of Finance is planning a general government surplus of 0.4% of GDP for this year, the first surplus recorded by independent Slovenia. The general government deficit is estimated to have reached 0.8% of GDP in 2017. The position is expected to move from deficit into surplus this year, as a result of the favourable cyclical situation, lower interest payments and the continued application of certain austerity measures. According to the available data (from 1995), Slovenia's best budget position to date was recorded in 2007, when the general government deficit stood at 0.1% of GDP in the overheating economy.

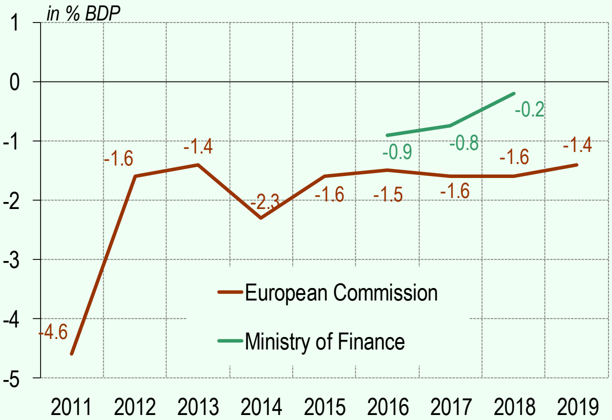
Countries in the preventive arm of the Stability and Growth Pact commit themselves to achieving an appropriate structural fiscal position. Slovenia is supposed to record a structurally balanced fiscal position by 2020. In October's Draft budgetary plan for 2018 the Ministry of Finance stated that Slovenia's medium-term objective was a surplus in the amount of 0.25% of GDP. This aligns Slovenia's medium-term budgetary objective with the requirements of the Stability and Growth Pact. According to European Commission estimates, Slovenia recorded a structural deficit in the amount of 1.6% of GDP in 2017. A fiscal effort[1] in the amount of 0.6% of GDP without deviations is required for 2018.[2] Another important element in decisions on fiscal policy compliance with the requirements of the Stability and Growth

Figure 6.4: General government deficit



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

Figure 6.5: Public finance structural balance in Slovenia



Note: The structural balance, as estimated by the Ministry of Finance, reflects its targeted dynamics, while the European Commission's estimate includes only adopted measures.
Source: European Commission, Ministry of Finance - Draft Budgetary Plan, October 2018.

[1] The fiscal effort metric is the change in the structural position of the general government sector. The structural position is calculated by eliminating cyclical components, one-off effects and other temporary measures from the position of the general government sector.
[2] For Slovenia the plausibility tool indicated that the estimate of the output gap by using the agreed method would be unreliable (with regard to the size of the estimated output gap, the fiscal effort required in 2018 would amount to 1% of GDP). The required fiscal effort for Slovenia was therefore reduced from 1% to 0.6%, albeit without the possibility of applying a deviation clause.

Pact is the expenditure rule, which broadly entails a requirement for growth in general government expenditure to be lower than growth in potential output, which allows for sufficient fiscal consolidation. The rule, which is aligned with the required fiscal effort, means for Slovenia that nominal growth in (corrected) general government expenditure may not exceed 1.5% this year.

There are risks of deviations from the rules of the Stability and Growth Pact in 2018. There are risks of some deviation from the rules according to the Draft budgetary plan, while there are risks of significant deviation from the rules according to the European Commission forecasts. Slovenia was thus included by the European Commission among the countries where there is a risk of non-compliance with the requirements of the Stability and Growth Pact (alongside Belgium, Italy, Austria and Portugal). Additional consolidation measures will most likely be required this year to meet the rules of the pact.

Progress on structural reforms is slow. There was no significant progress in the second half of last year. Coordinated guidelines for overhauling the pension system were drafted by the social partners in July. Negotiations between the coalition partners on a bill for the Healthcare and Health Insurance Act are to begin in the early part of this year. A bill on long-term care completed the public discussion process.

The key is controlling general government expenditure. There are major pressures, most notably in the area of wages, but also in the area of pensions. Negotiations on pay are still in progress, but several strikes have been announced by public-sector workers. There remain unresolved issues with regard to the elimination of wage anomalies for employees above the 26th wage grade, the wage grade placement of positions and titles that are comparable to those of physicians in terms of content, complexity or other circumstances, and the relaxation of the remaining austerity measures in the area of pay. Further pressure on expenditure comes from the demand for more funding for the defence budget, in order to meet commitments. There is also considerable uncertainty surrounding government investment in connection with planned major investment projects, elections, particularly local, and the ability to speed up the disbursement or EU funds. A major surge in government investment alongside a simultaneous increase in growth in private-sector investment could lead to the overheating of the economy. The reduction of the deficit could be hindered by one-off factors (such as court judgments in the past).

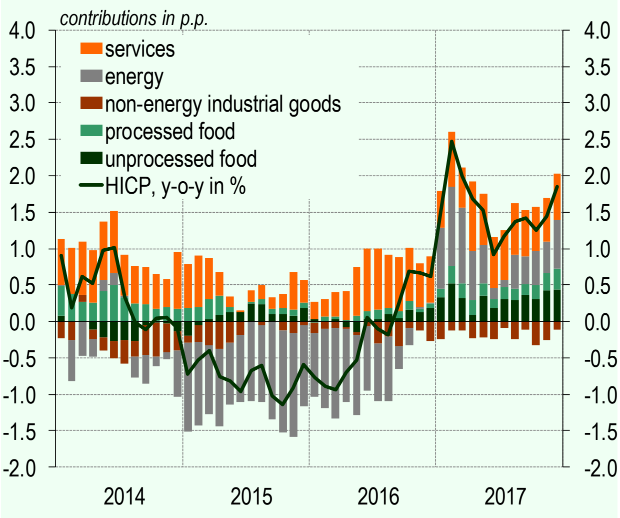
7 Price Developments

After two years of deflation, inflation had risen to 1.9% by December of last year, thereby exceeding the euro area average. All of last year's main impetus was provided by developments in global oil prices, while the core inflation indicators increased only minimally, and remained in the range of 0.7% to 1.1%, all slightly below the euro area averages. Upward pressure came from food prices, while service price inflation remained unchanged. Headline inflation was held down by the fall in prices of non-energy industrial goods, as in all previous years. Inflation thus remains primarily determined by external factors: oil prices exerting upward pressure, while prices in the narrowest tradable segment reducing core inflation. Meanwhile the sharp improvement in the domestic economic situation had by the end of last year not yet been reflected in developments in services prices, which are the most typical component of domestic, i.e. non-tradable, inflation.

Structure of price developments

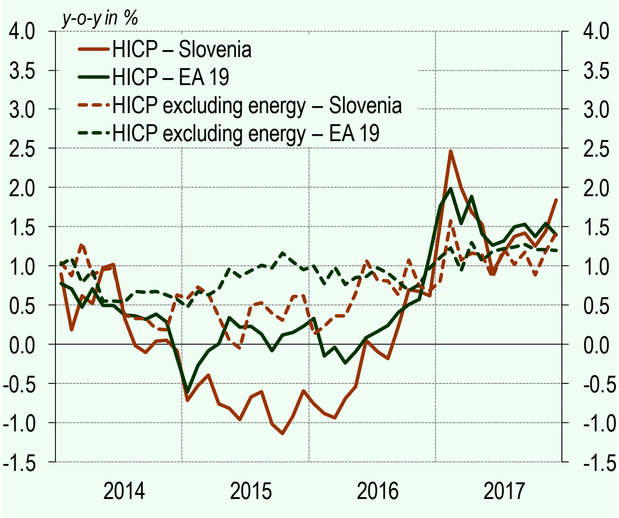
After two years of primarily negative rates, headline inflation as measured by the HICP rose last year to average 1.5%. The reversal was caused by developments in oil prices on global markets, as a result of which the contribution made to headline inflation by energy prices increased to 0.5 percentage points, up 1.3 percentage points on the previous year. The rise in core inflation was

Figure 7.1: Contributions to headline HICP inflation



Source: Eurostat, Bank of Slovenia calculations.

Figure 7.2: Inflation



Source: Eurostat.

merely minimal. This increase was largely attributable to a rise in food prices of 0.4 percentage points, mainly prices of unprocessed food during last year's bad weather conditions, while growth in prices of processed food primarily increased as a result of a rise in excise duties on tobacco products. The contribution made by services prices, which had continued to make the largest contribution to core inflation last year, increased by just 0.1 percentage points.

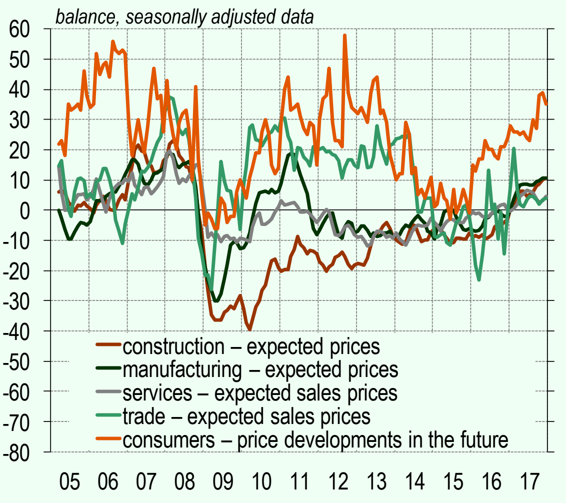
Year-on-year inflation fluctuated sharply on several occasions in 2017 owing to the volatility in oil prices. It jumped to 2.5% in the early part of the year, before slowing again to around 1% by the end of the first half of the year. It rose again in the second half of the year, reaching a new high of 1.9% in December. Inflation across the euro area actually fell slightly in December, albeit solely because of a base effect in prices of refined petroleum products, which will not be realised in Slovenia until January. The fluctuations in core inflation were significantly smaller. After a small rise in mid-2016, core inflation according to the broadest definition (inflation excluding energy prices) averaged 1.1% over the whole of last year, despite the trend of improvement in the domestic situation. Inflation in Slovenia thus remained primarily determined by external factors, despite the strong dynamic in the domestic economy.

Macroeconomic factors

The improvement in the economic situation seen over several years had not yet been reflected in the core inflation indicators by last year. Year-on-year growth in the narrowest indicator remained at just 0.7% last year, unchanged from the previous year. The average across the euro area in the corresponding indicator increased by 0.1 percentage points to 1.0%. Growth in the other two indicators was also lower than the euro area averages. The slower pace of core inflation in Slovenia is exclusively a result of sustained negative growth in prices of non-energy industrial goods, although growth in services prices last year and in the previous year slightly outpaced the average across the euro area, as did growth in food prices last year.

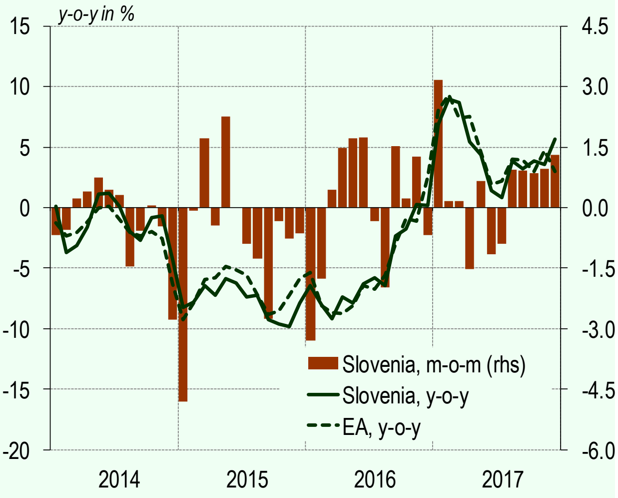
The situation on the domestic demand side last year was very favourable. Employment growth reached almost 3%, while the high unemployment seen in the crisis has been falling sharply for three years now. According to the figures for the first ten months of the year, growth in average wages remained around 3%, yielding real growth of merely around 1.5%, while the employment growth meant that growth in the wage bill was almost 6% in nominal terms and more than 4% in real terms. The national accounts figures for final household consumption revealed a certain slowdown in the first three quarters of the year, but a sharp increase on the previous year. The consumer confidence indicator has been improving since 2016 and reached a record level at the end of last year, while consumers' inflation expectations have also been increasing. The relatively weak impact on inflation to date of this strong dynamic is perhaps partly related to the increased uncertainty owing to the deterioration in the quality of employment and the loosening of social policies.

Figure 7.3: Surveys on business trends and consumer opinion



Source: SORS.

Figure 7.4: Energy prices

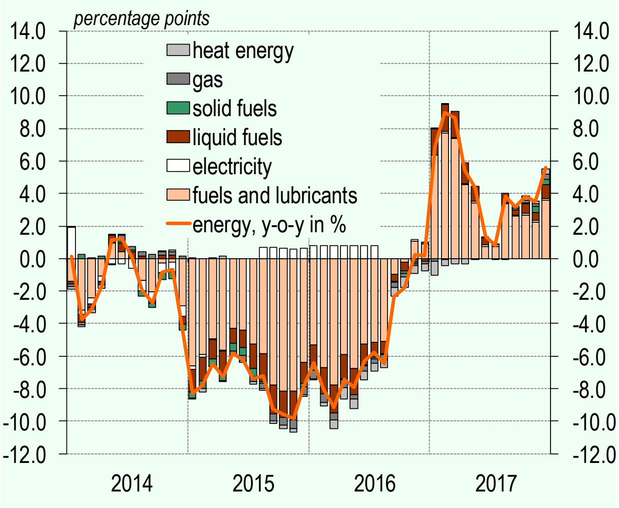


Source: Eurostat, Bank of Slovenia calculations.

Microeconomic factors

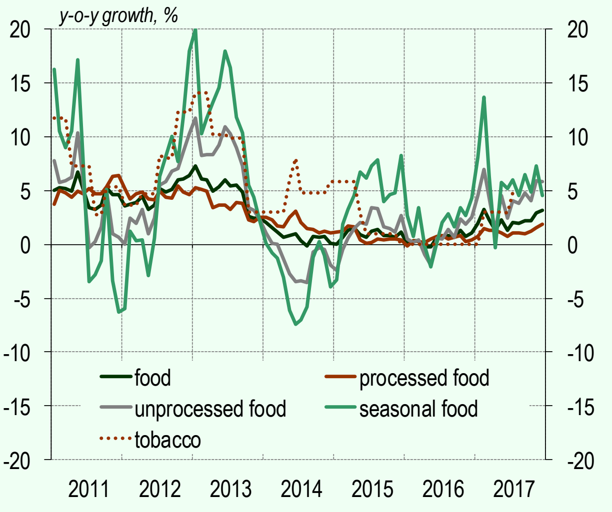
After slowing sharply, growth in energy prices began to rise again in 2016, recording high year-on-year rates in early 2017. There were no additional increases in the first half of last year, but they resumed in the second half of the year despite the appreciation in the euro, and continued undiminished until the end of the year. Year-on-year growth in energy prices had risen to 6% by December. Developments in Slovenian energy prices have mainly been comparable to average developments across the euro area over the last five years. This is particularly the case of prices of automotive motor fuels, which are the main determinant of overall growth in energy prices. Also developments in gas prices in previous years were comparable to those across the euro area, which is to say primarily negative, while growth in Slove-

Figure 7.5: Contributions to energy inflation



Source: ECB.

Figure 7.6: Food prices



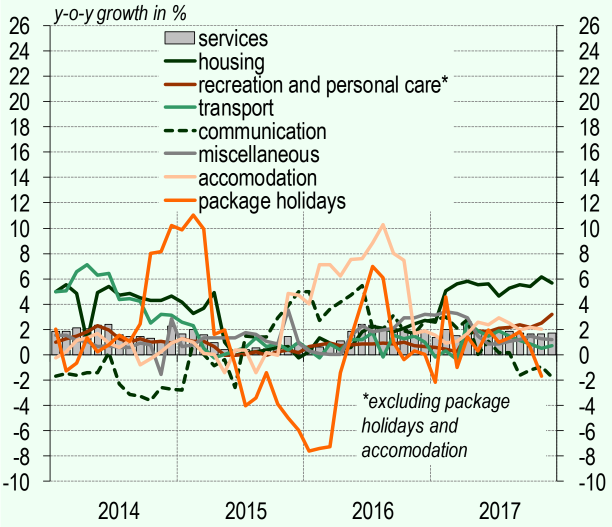
Sources: Eurostat, Bank of Slovenia calculations.

Table 7.1: Structure of the HICP and price indicators

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2017	2013	2014	2015	2016	2017	16Q3	16Q4	17Q1	17Q2	17Q3	17Q4
HICP	*100.0%*	1.9	0.4	-0.8	-0.2	1.6	0.0	0.7	2.0	1.4	1.3	1.5
Breakdown of HICP:												
Energy	*11.9%*	1.8	-1.4	-7.8	-5.2	4.7	-4.9	-0.5	8.1	3.7	2.6	4.3
Food	*22.8%*	4.9	0.8	0.9	0.5	2.2	0.7	1.0	2.5	1.6	2.1	2.8
processed	*15.4%*	3.6	1.8	0.7	0.4	1.2	0.7	0.5	1.2	1.0	1.0	1.5
unprocessed	*7.4%*	7.7	-1.4	1.4	0.7	4.4	0.9	2.3	5.3	2.8	4.2	5.3
Other goods	*27.8%*	-0.8	-1.0	-0.6	-0.5	-0.7	-0.9	-0.6	-0.6	-0.8	-0.5	-0.8
Services	*37.4%*	2.3	1.8	0.9	1.6	1.8	2.1	1.8	1.6	2.1	1.8	1.7
Core inflation indicators:												
HICP excl. Energy	*88.1%*	2.0	0.7	0.4	0.6	1.1	0.8	0.8	1.2	1.0	1.1	1.2
HICP excl. energy and unprocessed food	*80.7%*	1.4	0.9	0.4	0.6	0.8	0.7	0.7	0.8	0.9	0.8	0.8
HICP excl. energy, food, alcohol and tobacco	*65.2%*	0.9	0.6	0.3	0.7	0.7	0.8	0.8	0.7	0.8	0.8	0.6
Other price indicators:												
Industrial producer prices on domestic market		0.3	-1.1	-0.5	-1.4	...	-1.5	-0.7	0.6	1.3	1.5	...
GDP deflator		1.6	0.8	1.0	0.9	...	0.5	1.0	1.1	2.2	2.3	...
Import prices[1]		-1.5	-1.1	-1.4	-2.2	...	-1.6	-0.1	4.4	3.6	2.2	...

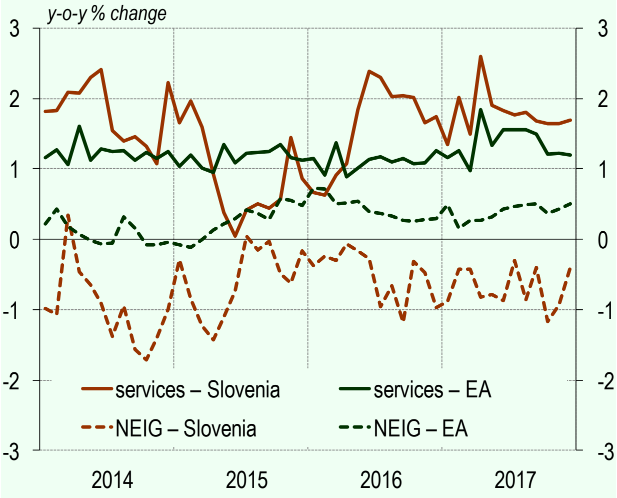
Note: [1] National accounts data.
Source: SORS, Eurostat, Bank of Slovenia calculations.

Figure 7.7: Prices of categories of services



Source: Eurostat, Bank of Slovenia calculations.

Figure 7.8: Services prices and prices of non-energy industrial goods



Source: Eurostat, Bank of Slovenia calculations.

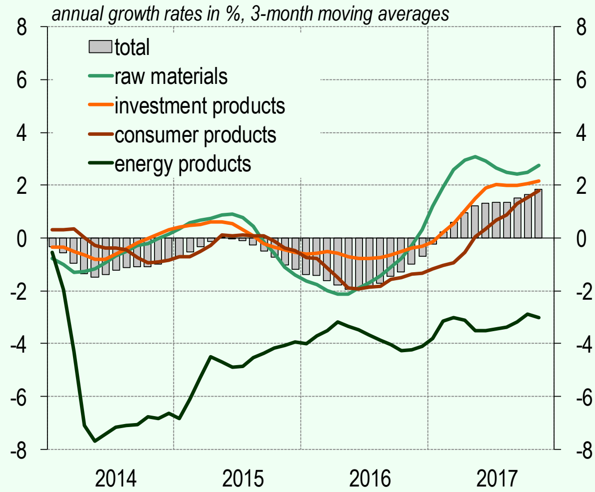
nian prices of heating oil were significantly above the euro area average until last year. Growth in prices of electricity and derived heat was also above-average. After falling for more than two years, prices of gas and, even more so, prices of derived heat increased sharply towards the end of last year in Slovenia.

After three years of almost zero growth, food prices rose significantly last year, the year-on-year rate of growth reaching 3.1% in December. They were driven primarily by a new spike in the always-volatile prices of seasonal fruit and vegetables, which are usually influenced by weather conditions, and a sharp rise in prices of meat, which stood at 7% in December. The two categories together make up the unprocessed food aggregate. Prices of most components of processed food other than milk and dairy products largely remained unchanged last year. This aggregate was primarily affected by a two-step rise in excise duties on tobacco products, in February and July. This government action had significantly contributed to growth in Slovenian food prices in the past, most recently in 2014 before last year's new interventions. It is telling that last year's sharp rise in food prices in Slovenia only very slightly outpaced the euro area as a whole, thereby making a distinction with similar European cycles in the past, when the rise in Slovenian food prices was sharply above the average.

Year-on-year growth in services prices last year remained slightly below 2% without any major fluctuations. It thus continued to outpace the average growth in services prices across the euro area, albeit by less than previously, as growth across the euro area strengthened slightly. The current dynamic in prices in Slovenia actually slowed towards the end of the year, although certain larger rises are expected in early 2018. The main upward pressure in last year's developments came from strong growth in rents, which in Slovenia are predominantly controlled, and growth in prices of certain categories of municipal services, namely refuse disposal and sewerage. Meanwhile growth in prices of market services was mostly very restrained. The high growth in prices of telecommunications services seen over the two previous years turned negative last year. There is great volatility in the influential category of prices in the tourism sector. Prices of accommodation services have risen sharply in the high season during the last two years, but have fallen again in the winter to record low year-on-year rates of growth. Growth in prices at catering establishments has also increased, albeit moderately. The large fluctuations in prices of air transport raised overall services prices in the first half of last year, and reduced them in the second half of the year.

Core inflation is being kept low by negative growth in prices of non-energy industrial goods. The non-energy industrial goods growth rate has been consistently and significantly outpaced by the comparable indicator for the euro area over the past nine years. There was no change in this respect also last year. It is surprising that during the above-average severe crisis in Slovenia it was not the service prices that saw the largest slowdown, but rather the inflation of this typically tradable segment, which may be related to the ongoing deepening of market competition in Slovenian retail sector. Year-on-year growth in prices of clothing and footwear fluctuated sharply towards the end of 2017 as a result of unstable seasonal changes, but there were no other major notable developments. Average growth in prices of clothing and footwear over the year was slightly higher than in previous years, while growth in prices of new cars also increased. However, the aggregate car prices continued to fall overall, as a result of a fall in prices of used cars.

Figure 7.9: Industrial producer prices on the domestic market



Source: SORS, Bank of Slovenia calculations.

Industrial producer prices

Industrial producer prices rose significantly last year after falling for three years. Year-on-year growth in industrial producer prices on the domestic market had risen to 2.1% by November. Growth in prices of consumer goods stood at the same rate in November, having overtaken the corresponding average across the euro area. In line with growth in prices on global markets, the largest rises were in prices in the production of commodities, while growth in prices of capital goods was also above-average. In the consumer goods category, food and beverage prices were virtually the only category to record growth last year in Slovenia and across the euro area, and it was only in November that prices of other products rose sharply in Slovenia. This is at least part of the explanation for last year's unchanged dynamic in retail prices of industrial goods (HICP), both in Slovenia and across the euro area.

8 Statistical Appendix

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

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

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

Table 8.1: Consolidated balance sheet of monetary financial institutions

EUR million	2014	2015	2016	17Q1	17Q2	Sep.17	Okt.17	Nov.17
1.1. Claims of the Bank of Slovenia	7,278	5,410	6,544	6,735	6,882	7,240	7,276	7,247
1.2. Claims of other MFIs	8,279	8,266	8,100	8,203	8,417	8,373	8,484	8,693
1. Claims on foreign sectors (foreign assets)	**15,557**	**13,676**	**14,643**	**14,939**	**15,299**	**15,613**	**15,760**	**15,939**
2.1. Claims of the Bank of Slovenia on central government	263	2,327	4,618	4,823	5,173	5,600	5,781	6,041
2.2.1.1. Loans	1,149	1,298	1,506	1,396	1,184	951	972	969
2.2.1.2. Securities	6,105	5,814	4,767	4,633	4,515	4,541	4,164	4,145
2.2.1. Claims on central government	7,254	7,112	6,273	6,029	5,699	5,491	5,136	5,114
2.2.2.1. Loans	671	622	579	588	573	559	556	550
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	671	622	579	588	573	559	556	550
2.2. Claims of other MFIs on general government	7,926	7,734	6,852	6,617	6,272	6,051	5,691	5,664
2.3.1.1. Loans	11,213	10,040	9,306	9,311	9,398	9,418	9,427	9,373
2.3.1.2. Securities	524	462	405	410	403	398	352	343
2.3.1. Claims on nonfinancial corporations	11,737	10,502	9,711	9,720	9,800	9,816	9,780	9,716
2.3.2. Households and non-profit institutions serving households	8,762	8,856	9,154	9,305	9,447	9,604	9,660	9,699
2.3.3.1. Loans	1,087	898	865	871	904	1,150	1,160	1,153
2.3.3.2. Securities	408	534	543	351	350	395	398	395
2.3.3. Claims on nonmonetary financial institutions	1,495	1,432	1,408	1,222	1,254	1,545	1,558	1,548
2.3. Claims of other MFIs on other non-MFIs	21,995	20,790	20,272	20,247	20,502	20,965	20,997	20,963
2. Claims on domestic non-MFIs	**30,183**	**30,850**	**31,743**	**31,686**	**31,947**	**32,616**	**32,469**	**32,668**
3. Remaining assets	**3,765**	**3,119**	**2,192**	**1,881**	**1,710**	**1,434**	**1,447**	**1,451**
Total assets	**49,505**	**47,646**	**48,578**	**48,506**	**48,956**	**49,663**	**49,676**	**50,058**
1.1. Bank of Slovenia	10	16	1,267	531	478	52	718	912
1.2. Other MFIs	7,409	5,920	5,094	4,823	4,744	4,500	4,479	4,425
1. Obligations to foreign sectors (foreign liabilities)	**7,419**	**5,936**	**6,362**	**5,354**	**5,222**	**4,552**	**5,197**	**5,337**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,673	4,956	5,160	5,110	5,216	5,248	5,265	5,255
2.1.1.2. Overnight deposits at other MFIs	10,441	13,057	15,471	16,241	16,475	17,195	17,210	17,452
2.1.1.3.1. Non-monetary financial institutions	44	9	69	62	22	19	11	10
2.1.1.3.2. Other government sector	28	53	62	79	127	114	113	111
2.1.1.3. Overnight deposits at the Bank of Slovenia	71	63	131	140	149	134	124	121
2.1.1. Banknotes and coins and overnight liabilities	15,185	18,075	20,761	21,491	21,839	22,577	22,600	22,828
2.1.2.1. Deposits at the Bank of Slovenia	1	1	0	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	9,363	7,837	6,864	6,561	6,198	6,031	6,105	6,082
2.1.2. Time deposits	9,365	7,838	6,864	6,561	6,198	6,031	6,105	6,082
2.1.3. Deposits reedemable at notice up to 3 months	379	315	464	540	591	556	588	596
2.1. Banknotes and coins and deposits up to 2 years	24,929	26,229	28,089	28,592	28,628	29,164	29,293	29,506
2.2. Debt securities, units/shares of money market funds and repos	42	56	102	68	76	82	80	76
2. Banknotes and coins and instruments up to 2 years	**24,971**	**26,285**	**28,190**	**28,660**	**28,704**	**29,246**	**29,373**	**29,583**
3. Long-term financial obligations to non-MFIs (without central government)	**1,598**	**1,550**	**1,510**	**1,456**	**1,500**	**1,500**	**1,525**	**1,549**
4. Remaining liabilities	**17,229**	**15,378**	**14,100**	**14,572**	**15,022**	**15,701**	**14,924**	**14,946**
5. Excess of inter-MFI liabilities	**-1,712**	**-1,504**	**-1,584**	**-1,536**	**-1,492**	**-1,336**	**-1,342**	**-1,356**
Total liabilities	**49,505**	**47,646**	**48,578**	**48,506**	**48,956**	**49,663**	**49,676**	**50,058**

Table 8.2: Balance sheet of the Bank of Slovenia

EUR million	2014	2015	2016	17Q1	17Q2	Sep.17	Oct.17	Nov.17
1.1. Gold	101	100	112	119	111	111	112	110
1.2. Receivable form IMF	392	367	361	338	324	351	354	350
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	3,031	699	588	317	247	326	238	242
1.5. Securities	3,651	4,141	5,380	5,859	6,096	6,350	6,470	6,441
1.6. Other claims	103	103	103	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**7,278**	**5,410**	**6,544**	**6,735**	**6,882**	**7,240**	**7,276**	**7,247**
2.1. Claims on central government	263	2,327	4,618	4,823	5,173	5,600	5,781	6,041
2.2.1. Loans	1,098	901	714	1,152	1,150	1,161	1,150	1,142
2.2.2. Other claims	3	44	99	99	99	97	97	99
2.2. Claims on domestic monetary sector	1,101	946	813	1,251	1,248	1,257	1,246	1,240
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**1,366**	**3,275**	**5,433**	**6,076**	**6,424**	**6,860**	**7,029**	**7,283**
3. Remaining assets	**2,317**	**1,685**	**973**	**716**	**524**	**262**	**248**	**245**
Total assets	**10,961**	**10,370**	**12,950**	**13,527**	**13,829**	**14,362**	**14,553**	**14,775**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,673**	**4,956**	**5,160**	**5,110**	**5,216**	**5,248**	**5,265**	**5,255**
2.1.1.1.1. Overnight	1,526	1,634	2,252	3,009	2,482	2,484	2,753	2,893
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,526	1,634	2,252	3,009	2,482	2,484	2,753	2,893
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,526	1,634	2,252	3,009	2,482	2,484	2,753	2,893
2.1.2.1.1. Overnight	2,718	1,730	1,949	2,660	3,538	4,368	3,416	3,210
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	2,718	1,730	1,949	2,660	3,538	4,368	3,416	3,210
2.1.2.2. Foreign currency	94	60	78	55	51	49	56	55
2.1.2. General government	2,812	1,789	2,027	2,715	3,589	4,417	3,472	3,265
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	45	11	69	62	22	19	11	10
2.1.3. Other domestic sectors	45	11	69	62	22	19	11	10
2.1. Domestic sectors	4,383	3,434	4,348	5,786	6,093	6,920	6,236	6,168
2.2. Foreign sectors	10	16	1,267	531	478	52	718	912
2. Deposits	**4,394**	**3,450**	**5,615**	**6,317**	**6,571**	**6,972**	**6,954**	**7,080**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**257**	**275**	**275**	**274**	**263**	**258**	**261**	**258**
5. Capital and reserves	**1,440**	**1,472**	**1,691**	**1,603**	**1,606**	**1,691**	**1,756**	**1,785**
6. Remaining liabilities	**197**	**218**	**209**	**223**	**173**	**193**	**318**	**397**
Total liabilities	**10,961**	**10,370**	**12,950**	**13,527**	**13,829**	**14,362**	**14,553**	**14,775**

Table 8.3: Balance sheet of other monetary financial institutions

EUR million	**2014**	**2015**	**2016**	**17Q1**	**17Q2**	**Sep.17**	**Oct.17**	**Nov.17**
1.1.1. Cash	292	294	322	305	329	314	356	345
1.1.2. Accounts and deposits at the Bank of Slovenia, other cl	1,526	1,634	2,252	3,009	2,482	2,484	2,753	2,893
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,818	1,928	2,574	3,315	2,812	2,799	3,109	3,238
1.2.1. Loans	1,719	1,264	1,061	935	950	882	879	857
1.2.2. Debt securities	378	245	256	265	116	71	71	71
1.2.3. Shares and other equity	61	62	2	2	2	2	2	2
1.2. Claims on other MFI's	2,158	1,572	1,319	1,202	1,068	956	952	931
1.3.1. Loans	22,883	21,714	21,410	21,470	21,506	21,682	21,775	21,744
1.3.2. Debt securities	6,352	6,050	5,030	4,730	4,608	4,633	4,209	4,189
1.3.3. Shares and other equity	685	759	685	664	660	701	705	694
1.3. Claims on nonmonetry sectors	29,920	28,524	27,125	26,863	26,774	27,016	26,689	26,626
1. Claims on domestic sectors (domestic assets)	**33,897**	**32,024**	**31,018**	**31,381**	**30,654**	**30,770**	**30,749**	**30,795**
2.1.1. Cash	29	34	38	35	45	38	33	35
2.1.2. Loans	2,839	2,767	2,628	2,546	2,315	2,169	2,236	2,249
2.1.3. Debt securities	498	1,027	1,165	1,157	1,231	1,304	1,309	1,381
2.1.4 Shares and other equity	572	567	567	567	577	579	579	579
2.1. Claims on foreign monetary sectors	3,937	4,395	4,398	4,306	4,168	4,090	4,157	4,243
2.2.1. Loans	2,135	1,597	1,155	1,120	1,094	1,050	1,061	1,039
2.2.2. Debt securities	1,878	1,870	2,151	2,382	2,764	2,916	2,948	3,098
2.2.3. Shares and other equity	329	405	396	395	391	317	317	312
2.2. Claims on foreign nonmonetary sectors	4,342	3,871	3,701	3,897	4,249	4,283	4,327	4,449
2. Claims on foreign sectors (foreign assets)	**8,279**	**8,266**	**8,100**	**8,203**	**8,417**	**8,373**	**8,484**	**8,693**
3. Remaining assets	**1,399**	**1,314**	**1,074**	**1,065**	**1,142**	**1,034**	**1,071**	**1,050**
Total assets	**43,575**	**41,603**	**40,191**	**40,649**	**40,213**	**40,177**	**40,304**	**40,538**
1.1.1. Deposits, loans from the Bank of Slovenia	1,098	901	714	1,152	1,150	1,161	1,150	1,142
1.1.2. Deposits, loans from other MFIs	1,733	1,301	1,123	986	1,003	947	960	912
1.1.3. Debt securities issued	93	38	18	22	16	16	16	14
1.1. Laibilities to monetary sectors	2,925	2,240	1,855	2,160	2,169	2,123	2,125	2,067
1.2.1.1. Overnight	10,129	12,661	15,038	15,744	15,983	16,750	16,784	17,037
1.2.1.2. With agreed maturity	12,481	10,604	9,076	8,689	8,284	7,954	8,017	8,032
1.2.1.3. Reedemable at notice	449	474	615	647	678	645	690	707
1.2.1. Deposits in domestic currency	23,058	23,739	24,729	25,080	24,945	25,348	25,491	25,776
1.2.2. Deposits in foreign currency	463	599	632	652	638	604	597	605
1.2.3. Debt securities issued	176	84	38	24	22	24	24	21
1.2. Liabilities to nonmonetary sectors	23,697	24,422	25,400	25,757	25,605	25,975	26,112	26,403
1. Obligations to domestic sectors (domestic liabilities)	**26,622**	**26,661**	**27,254**	**27,917**	**27,773**	**28,098**	**28,237**	**28,470**
2.1.1. Deposits	3,551	2,578	2,084	1,954	1,856	1,845	1,811	1,742
2.1.2. Debt securities issued	1,344	975	710	699	602	328	328	328
2.1. Liabilities to foreign monetry sectors	4,895	3,553	2,794	2,653	2,458	2,173	2,138	2,070
2.2.1. Deposits	2,052	1,954	1,738	1,662	1,778	1,819	1,832	1,848
2.2.2. Debt securities issued	25	27	23	23	23	23	23	23
2.2. Liabilities to foreign nonmonetary sectors	2,077	1,981	1,761	1,685	1,800	1,841	1,855	1,870
2. Obligations to foreign sectors (foreign liabilities)	**6,972**	**5,535**	**4,555**	**4,338**	**4,259**	**4,014**	**3,993**	**3,940**
3. Capital and reserves	**4,512**	**4,676**	**4,841**	**4,846**	**4,719**	**4,827**	**4,882**	**4,902**
4. Remaining liabilities	**5,469**	**4,731**	**3,540**	**3,549**	**3,462**	**3,238**	**3,192**	**3,226**
Total liabilities	**43,575**	**41,603**	**40,191**	**40,649**	**40,213**	**40,177**	**40,304**	**40,538**

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

in % on annual level	2013	2014	2015	2016	Sep.17	Oct.17	Nov.17
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.53	8.20	8.01	7.84	7.85	7.85	7.85
Households, extended credit	8.06	8.02	7.84	7.73	7.75	7.74	7.76
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.04	5.01	4.19	4.23	4.31	4.32	4.40
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.21	7.00	5.64	5.66	5.74	5.67	5.78
Loans, households, consumption, over 5 years initial rate fixation	7.19	7.07	5.28	6.12	6.18	6.09	6.18
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.76	4.47	3.82	3.47	3.65	3.42	3.54
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.74	6.60	5.61	5.27	5.49	4.36	4.48
C. loans, households, consumption, over 5 year initial rate fixation	7.15	6.53	5.58	5.05	5.18	5.80	4.82
APRC, Loans to households for consumption	8.00	8.28	7.42	7.55	7.59	7.46	7.57
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.14	3.18	2.22	2.04	2.01	2.01	1.99
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.54	5.65	3.87	3.58	3.49	2.88	3.31
Loans, households, house purchase, over 5 and up to 10 years initial rate fixatio	5.40	5.06	3.16	2.49	2.68	2.64	2.51
Loans, households, house purchase, over 10 years initial rate fixation	5.17	4.87	3.16	2.56	2.91	2.91	2.94
C. loans, households, house purchase variabel and up to years initial rate fixatio	3.11	3.16	2.21	2.02	1.97	1.98	1.96
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixati	5.90	5.41	2.63	2.12	2.55	2.61	2.08
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixa	5.34	5.03	3.04	2.38	2.38	2.50	2.28
C. loans, households, house purchase, over 10 years initial rate fixation	5.71	4.87	3.12	2.53	2.84	2.87	2.89
APRC, Loans to households for house purchase	3.48	3.55	2.85	2.58	2.82	2.79	2.71
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.69	5.11	3.51	3.49	3.58	3.59	3.58
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	6.51	5.96	5.93	5.28	5.18	5.03	5.35
Loans, households, other purposes, over 5 years initial rate fixation	6.42	6.44	7.79	5.92	6.22	6.32	5.36
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.53	5.30	3.45	2.81	2.42	2.36	2.40
S.11, extended credit	7.39	7.28	7.16	6.70	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixatic	5.55	4.81	3.38	2.74	2.78	2.68	2.69
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate	6.44	5.77	3.50	3.31	2.98	2.83	2.94
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	6.57	5.92	4.23	4.52	3.89	4.07	3.51
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	6.28	5.93	5.36	4.57	4.27	4.86	4.43
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixatio	6.70	5.82	4.87	4.56	5.09	4.73	4.67
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	7.58	5.87	3.34	2.92	3.45	3.87	3.12
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initia	5.08	4.62	2.49	2.19	2.00	2.28	2.07
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 yea	6.00	5.29	2.57	2.49	2.29	2.12	2.16
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial	6.31	5.27	3.06	1.21	1.66	3.10	2.44
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial	5.60	5.97	-	1.70	-	-	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initia	5.83	5.46	3.06	1.94	1.96	1.96	1.50
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixatio	7.50	6.32	-	2.10	2.57	-	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	4.21	3.94	2.61	2.61	2.87	2.60	2.59
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixa	5.15	4.84	1.87	2.35	1.87	2.36	2.30
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	4.07	4.60	1.00	-	1.00	-	0.80
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.49	4.07	-	1.06	1.71	1.56	-
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	3.84	4.62	1.79	1.92	1.65	2.73	1.85
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	4.81	2.35	3.56	2.23	1.69	-	1.26
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.11	0.07	0.03	0.02	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	1.86	0.98	0.28	0.23	0.14	0.13	0.13
Deposits, households, agreed maturity over 1 and up to 2 years	3.46	1.90	0.70	0.44	0.34	0.48	0.52
Deposits, households, agreed maturity over 2 years	3.86	2.33	1.07	0.72	0.90	0.81	0.78
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	1.22	0.82	0.02	0.01	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	1.79	1.30	0.06	0.05	0.08	0.02	0.05
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.23	0.13	0.57	0.20	0.17	0.16	0.22
Deposits, S.11, agreed maturity over 2 years	1.58	0.63	1.07	0.49	2.03	0.35	0.46
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	3.47	1.85	0.10	0.02	0.01	0.01	0.01
Deposits redeemable at notice, over 3 months notice	3.08	1.79	0.93	0.55	0.02	0.64	0.61

Table 8.5: International investment position

EUR million		2014	2015	16Q3	16Q4	17Q1	17Q2	17Q3
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,219**	**-15,441**	**-15,234**	**-14,900**	**-14,356**	**-13,840**	**-13,281**
1	**ASSETS**	**39,558**	**42,223**	**42,232**	**42,232**	**42,588**	**43,341**	**43,570**
1.1	**Direct investment**	**6,970**	**7,252**	**7,724**	**7,724**	**7,739**	**7,886**	**8,066**
1.1.1	Equity	3,769	3,959	4,148	4,148	4,121	4,157	4,171
1.1.2	Debt instruments	3,202	3,293	3,576	3,576	3,618	3,729	3,895
1.2	**Portfolio investment**	**12,375**	**14,458**	**15,956**	**15,956**	**16,719**	**17,539**	**18,292**
1.2.1	Equity and investment fund shares	3,193	3,484	3,501	3,501	3,583	3,840	3,824
1.2.2	Debt securities	9,182	10,974	12,454	12,454	13,135	13,699	14,468
1.3	**Financial derivatives**	**241**	**1,266**	**849**	**849**	**1,166**	**924**	**937**
1.4	**Other investment**	**19,135**	**18,460**	**16,989**	**16,989**	**16,259**	**16,239**	**15,524**
1.4.1	Other equity	629	641	645	645	641	641	640
1.4.2	Currency and deposits	10,737	10,301	8,405	8,405	8,153	7,488	6,749
1.4.3	Loans	3,729	3,122	2,842	2,842	2,670	2,596	2,582
1.4.4	Insurance, pension and standardized guarantee schemes	141	129	140	140	141	145	145
1.4.5	Trade credit and advances	3,601	3,737	4,254	4,254	4,038	4,557	4,681
1.4.6	Other accounts receivable	298	529	703	703	615	813	728
1.5	**Reserve assets**	**837**	**787**	**715**	**715**	**705**	**754**	**751**
1.5.1	Monetary gold	101	100	121	121	112	119	111
1.5.2	Special drawing rights	247	264	203	203	207	207	199
1.5.3	Reserve position in the IMF	145	104	189	189	154	131	126
1.5.4	Other reserve assets	345	320	202	202	232	297	315
2	**LIABILITIES**	**56,777**	**57,664**	**57,466**	**57,488**	**57,771**	**57,433**	**56,503**
2.1	**Direct investment**	**11,837**	**13,356**	**14,700**	**14,975**	**15,261**	**15,305**	**15,685**
2.1.1	Equity	8,186	9,804	10,872	11,542	11,740	11,718	11,959
2.1.2	Debt instruments	3,651	3,552	3,828	3,433	3,521	3,587	3,726
2.2	**Portfolio investment**	**23,797**	**23,959**	**23,593**	**21,439**	**22,447**	**22,573**	**22,463**
2.2.1	Equity and investment fund shares	1,030	1,038	1,076	966	1,025	1,066	1,058
2.2.2	Debt securities	22,767	22,921	22,517	20,473	21,422	21,507	21,406
2.3	**Financial derivatives**	**247**	**163**	**163**	**139**	**118**	**103**	**100**
2.4	**Other investment**	**20,896**	**20,186**	**19,009**	**20,934**	**19,945**	**19,452**	**18,256**
2.4.1	Other equity	28	32	37	35	36	36	2
2.4.2	Currency and deposits	3,338	2,965	2,788	4,148	3,309	3,374	2,971
2.4.3	Loans	13,128	12,851	11,821	12,155	11,735	11,202	10,537
2.4.4	Insurance, pension and standardized guarantee schemes	218	221	216	213	232	224	226
2.4.5	Trade credit and advances	3,427	3,433	3,469	3,705	3,891	3,911	3,878
2.4.6	Other accounts payable	500	408	410	402	468	442	384
2.4.7	Special drawing rights	257	275	270	275	274	263	258

Table 8.6: Gross external debt

EUR million		2014	2015	2016	17Q1	17Q2	17Q3	Nov. 17
	TOTAL (1+2+3+4+5)	**47,286**	**46,627**	**44,805**	**44,852**	**44,543**	**43,503**	**43,468**
1	**GENERAL GOVERNMENT**	**23,392**	**24,824**	**22,953**	**23,668**	**23,455**	**23,296**	**22,207**
1.1	**Short-term, of that**	**738**	**1,507**	**1,304**	**1,036**	**740**	**538**	**491**
	Debt securities	228	15	22	22	55	65	75
	Loans	157	1,201	1,058	828	509	312	276
	Trade credit and advances	21	35	42	35	47	47	36
	Other debt liabilities	331	257	182	151	129	115	104
1.2	**Long-term, of that**	**22,654**	**23,316**	**21,649**	**22,632**	**22,715**	**22,759**	**21,717**
	Debt securities	21,101	21,813	19,877	20,863	20,966	21,014	19,971
	Loans	1,548	1,500	1,768	1,766	1,746	1,742	1,744
2	**CENTRAL BANK**	**2,083**	**2,217**	**3,457**	**2,611**	**2,592**	**2,134**	**2,960**
2.1	**Short-term, of that**	**1,826**	**1,942**	**3,182**	**2,337**	**2,329**	**1,875**	**2,703**
	Currency and deposits	1,825	1,942	3,182	2,337	2,329	1,875	2,703
2.2	**Long-term, of that**	**257**	**275**	**275**	**274**	**263**	**258**	**258**
	Special drawing rights (allocations)	257	275	275	274	263	258	258
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**6,591**	**5,195**	**4,117**	**3,940**	**3,944**	**3,870**	**3,854**
3.1	**Short-term**	**747**	**702**	**817**	**820**	**983**	**1,043**	**1,075**
	Currency and deposits	597	490	578	600	666	771	729
	Debt securities	…	…	…	…	…	…	…
	Loans	144	207	221	159	238	210	192
	Trade credit and advances	…	…	…	…	…	…	…
	Other debt liabilities	6	5	18	61	79	62	154
3.2	**Long-term**	**5,844**	**4,493**	**3,300**	**3,120**	**2,961**	**2,826**	**2,779**
	Currency and deposits	916	534	387	371	380	325	313
	Debt securities	954	652	287	271	235	169	169
	Loans	3,941	3,301	2,620	2,475	2,343	2,329	2,294
	Trade credit and advances	4	7	5	2	3	3	3
	Other debt liabilities	29	0	1	1	0	0	0
4	**OTHER SECTORS**	**11,570**	**10,839**	**10,845**	**11,112**	**10,964**	**10,475**	**10,730**
4.1	**Short-term, of that**	**3,947**	**3,976**	**4,245**	**4,556**	**4,580**	**4,353**	**4,629**
	Debt securities	5	0	2	4	2	2	2
	Loans	453	487	447	514	550	379	372
	Trade credit and advances	3,396	3,385	3,643	3,833	3,841	3,811	4,084
	Other debt liabilities	94	102	153	206	186	161	171
4.2	**Long-term, of that**	**7,623**	**6,864**	**6,601**	**6,556**	**6,385**	**6,123**	**6,101**
	Debt securities	480	441	284	263	282	265	360
	Loans	6,885	6,155	6,041	5,994	5,815	5,565	5,447
	Trade credit and advances	6	7	16	21	19	23	23
	Other debt liabilities	252	260	259	279	269	270	270
5	**DIRECT INVESTMENT: intercompany lending**	**3,651**	**3,552**	**3,433**	**3,521**	**3,587**	**3,728**	**3,716**
	NET EXTERNAL DEBT POSITION	**15,559**	**13,754**	**11,730**	**10,999**	**10,202**	**9,651**	**9,476**

Table 8.7: Balance of payments

EUR million	2014	2015	2016	17Q1	17Q2	17Q3	Nov.2017
I. Current account	**2,179**	**1,698**	**2,108**	**583**	**785**	**872**	**50**
1. Goods	**1,181**	**1,476**	**1,536**	**359**	**440**	**484**	**74**
1.1. Export of goods	**22,961**	**24,039**	**24,991**	**6,868**	**7,135**	**7,019**	**2,580**
Export f.o.b.	22,936	23,940	24,971	6,829	7,090	6,961	2,576
Coverage adjustment	-188	-149	-194	-36	-8	-7	-10
Net export of goods under merchanting	199	231	186	69	45	61	14
Nonmonetary gold	15	17	29	6	8	3	0
1.2. Import of goods	**21,780**	**22,563**	**23,454**	**6,509**	**6,695**	**6,535**	**2,506**
Import c.i.f.	22,580	23,305	24,112	6,702	6,865	6,696	2,579
Coverage adjustment	-160	-115	-5	-14	14	20	0
Valuation adjustment	-656	-656	-680	-189	-194	-189	-73
Nonmonetary gold	15	30	27	9	10	7	0
2. Services	**1,697**	**1,860**	**2,174**	**536**	**667**	**762**	**136**
2.1. Export of services, of that	**5,558**	**5,866**	**6,410**	**1,528**	**1,736**	**2,034**	**551**
Transport	1,529	1,672	1,854	486	513	530	188
Travel	2,060	2,098	2,190	451	565	846	149
Construction services	277	292	385	89	103	120	35
Telecomm., computer and inform. services	457	519	552	123	137	136	44
Other business services	779	824	929	264	293	289	95
2.2. Import of services, of that	**3,862**	**4,007**	**4,236**	**992**	**1,069**	**1,272**	**415**
Transport	814	851	922	245	250	247	94
Travel	745	823	854	150	194	368	53
Construction services	234	120	104	23	25	36	14
Telecomm., computer and inform. services	483	533	509	117	126	137	40
Other business services	1,003	1,024	1,147	277	310	305	128
3. Primary income	**-428**	**-1,263**	**-1,294**	**-224**	**-242**	**-316**	**-145**
3.1. Receipts	**1,093**	**1,345**	**1,436**	**436**	**384**	**314**	**122**
Compensation of employees	235	323	276	68	84	70	25
Investment	368	500	623	123	157	149	44
Other primary income	490	522	537	244	143	95	52
3.2. Expenditure	**1,521**	**2,608**	**2,730**	**660**	**626**	**630**	**266**
Compensation of employees	114	122	127	29	38	36	12
Investment	1,063	2,057	2,113	487	462	462	203
Other primary income	344	429	490	143	126	132	51
4. Secondary income	**-271**	**-375**	**-309**	**-88**	**-80**	**-58**	**-15**
4.1. Receipts	**709**	**733**	**745**	**179**	**201**	**200**	**72**
4.2. Expenditure	**980**	**1,108**	**1,054**	**267**	**281**	**258**	**87**

Table 8.8: Balance of payments – continued

EUR million	2014	2015	2016	17Q1	17Q2	17Q3	Nov.2017
II. Capital account	**79**	**412**	**-302**	**-46**	**-65**	**-58**	**-16**
1. Nonproduced nofinancial assets	-24	-37	-45	3	2	11	-1
2. Capital transfers	102	449	-257	-49	-67	-69	-15
III. Financial account	**2,251**	**1,658**	**1,129**	**403**	**647**	**468**	**-87**
1. Direct investment	**-584**	**-1,269**	**-880**	**-206**	**124**	**-214**	**-187**
Assets	155	292	431	158	210	44	-106
Equity and reinvested earnings	-45	178	270	39	12	42	-49
Debt instruments	200	114	161	119	198	2	-57
Liabilities	739	1,560	1,311	364	86	257	81
Equity and reinvested earnings	791	1,785	1,515	272	24	257	66
Debt instruments	-51	-225	-204	92	62	1	14
2. Portfolio investment	**-3,968**	**2,929**	**5,079**	**-330**	**522**	**659**	**420**
Assets	426	2,016	2,073	738	877	586	207
Equity and investment fund shares	127	116	-97	105	43	41	40
Debt securities	299	1,900	2,171	633	833	545	167
Liabilities	4,394	-914	-3,005	1,068	354	-72	-213
Equity and investment fund shares	101	52	48	15	15	-9	7
Debt securities	4,293	-966	-3,053	1,053	339	-63	-220
3. Financial derivatives	**-51**	**-98**	**-215**	**-73**	**-117**	**-25**	**4**
4. Other investment	**6,765**	**208**	**-2,758**	**969**	**84**	**23**	**-288**
4.1. Assets	**4,799**	**-692**	**-2,335**	**-31**	**-332**	**-1,144**	**-24**
Other equity	84	10	0	0	0	0	-1
Currency and deposits	5,037	-516	-2,205	-626	-460	-1,292	-3
Loans	-299	-408	-203	-49	7	-40	-17
Insurance, pension and stand. guar. schemes	8	-8	10	3	-1	3	...
Trade credits and advances	-16	-5	161	517	161	113	0
Other assets	-14	235	-96	125	-39	72	-4
4.2. Liabilities	**-1,966**	**-900**	**423**	**-1,000**	**-417**	**-1,167**	**264**
Other equity	7	11	4	0	0	...	...
Currency and deposits	-831	-400	1,175	-837	78	-393	167
Loans	-1,246	-315	-818	-391	-506	-692	-107
Insurance, pension and stand. guar. schemes	-54	3	-8	19	-8	2	...
Trade credits and advances	-144	-100	137	191	53	-57	130
Other liabilities	302	-99	-67	18	-34	-28	74
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**89**	**-113**	**-97**	**43**	**33**	**25**	**-36**
IV. Net errors and omissions	**-6**	**-453**	**-677**	**-134**	**-74**	**-346**	**-121**

Table 8.9: Non-consolidated financial assets – outstanding amounts

EUR million	2014	2015	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Domestic sector								
Total	186,215	185,902	182,795	183,704	184,478	188,222	188,252	189,983
Monetary gold and SDRs	348	363	326	325	320	326	310	348
Currency and deposits	46,009	46,593	43,249	43,461	42,485	43,603	43,125	43,377
Debt securities	19,804	22,828	24,827	26,200	26,103	26,642	27,487	28,304
Loans	44,453	39,625	38,061	37,340	37,557	37,926	37,559	37,534
Shares	20,175	19,713	18,670	18,770	18,765	19,582	19,599	19,638
Other equity	23,002	23,304	23,558	23,687	24,753	24,786	24,993	25,303
Investment fund shares/units	3,642	3,879	3,838	3,981	4,049	4,269	4,248	4,368
Insurance and pension schemes	7,132	7,406	7,599	7,713	7,737	7,826	7,884	8,026
Other	21,649	22,190	22,667	22,226	22,710	23,261	23,046	23,085
Non-financial corporations								
Total	41,390	41,473	42,362	42,117	43,018	44,014	44,225	44,684
Currency and deposits	5,095	5,826	5,854	6,007	6,399	6,524	6,447	6,637
Debt securities	184	142	171	174	127	119	114	114
Loans	6,043	5,849	5,923	5,908	5,781	5,851	5,904	5,821
Shares	3,063	2,896	2,854	2,654	2,665	2,809	2,717	2,605
Other equity	11,359	11,472	11,746	11,705	12,185	12,203	12,380	12,621
Investment fund shares/units	108	99	82	87	52	64	63	68
Insurance and pension schemes	408	427	470	443	438	476	488	491
Other	15,132	14,763	15,262	15,139	15,371	15,966	16,111	16,328
Monetary financial institutions								
Total	53,206	50,657	50,111	51,286	51,929	52,962	52,971	53,596
Monetary gold and SDRs	348	363	326	325	320	326	310	348
Currency and deposits	10,358	7,560	6,863	7,325	7,168	7,204	6,283	5,910
Debt securities	13,226	15,973	17,747	18,926	18,971	19,488	20,314	21,149
Loans	27,863	25,179	23,653	23,290	24,099	24,522	24,487	24,579
Shares	666	641	597	559	552	531	707	716
Other equity	314	299	286	287	282	283	302	341
Investment fund shares/units	12	9	6	6	6	6	6	6
Insurance and pension schemes	37	38	39	39	38	39	41	41
Other	382	595	595	529	495	563	522	508
Other financial institutions								
Total	17,368	17,134	17,242	17,570	17,554	18,017	17,872	17,831
Currency and deposits	1,316	1,201	1,246	1,230	1,256	1,328	1,286	1,169
Debt securities	5,634	6,040	6,264	6,476	6,431	6,404	6,413	6,429
Loans	3,388	3,033	2,993	2,876	2,876	2,847	2,798	2,801
Shares	3,580	3,427	3,183	3,354	3,377	3,607	3,531	3,588
Other equity	640	612	609	647	625	618	642	634
Investment fund shares/units	1,918	2,001	2,034	2,103	2,140	2,248	2,213	2,267
Insurance and pension schemes	218	182	204	197	188	213	221	211
Other	675	639	710	687	661	753	769	734
General government								
Total	35,645	37,229	33,110	32,315	30,661	31,309	31,237	31,163
Currency and deposits	10,369	12,358	9,221	8,684	7,060	7,687	8,374	8,251
Debt securities	507	548	499	485	447	448	453	418
Loans	6,469	4,911	4,763	4,542	4,089	3,924	3,624	3,544
Shares	10,128	10,048	9,470	9,670	9,828	10,233	10,221	10,338
Other equity	4,904	4,856	4,819	4,853	4,906	4,889	4,835	4,918
Investment fund shares/units	206	244	234	233	252	270	274	284
Insurance and pension schemes	12	23	22	19	21	14	14	17
Other	3,049	4,241	4,083	3,830	4,058	3,844	3,442	3,393
Households and NPISHs								
Total	38,605	39,409	39,969	40,416	41,316	41,920	41,947	42,708
Currency and deposits	18,871	19,647	20,065	20,215	20,602	20,860	20,736	21,411
Debt securities	253	125	146	139	127	183	192	195
Loans	691	653	729	725	712	782	746	788
Shares	2,739	2,701	2,565	2,533	2,343	2,401	2,423	2,392
Other equity	5,785	6,066	6,098	6,196	6,755	6,794	6,834	6,789
Investment fund shares/units	1,398	1,528	1,483	1,552	1,600	1,681	1,692	1,744
Insurance and pension schemes	6,457	6,736	6,865	7,016	7,053	7,084	7,121	7,266
Other	2,412	1,953	2,018	2,040	2,125	2,135	2,203	2,122
Rest of the world								
Total	58,303	58,422	58,803	58,460	58,175	58,245	57,950	57,179
Monetary gold and SDRs	257	275	272	270	275	274	264	259
Currency and deposits	3,497	3,167	3,443	2,972	4,380	3,471	3,619	3,198
Debt securities	23,282	23,331	22,665	22,902	20,889	21,644	21,842	21,834
Loans	15,676	15,304	14,787	14,434	14,403	14,069	13,504	12,823
Shares	4,556	4,539	5,225	5,259	5,160	5,326	5,176	5,198
Other equity	5,401	6,284	6,482	6,893	7,288	7,388	7,439	7,839
Investment fund shares/units	21	25	25	26	25	27	27	28
Insurance and pension schemes	218	221	244	216	213	232	224	226
Other	5,394	5,276	5,660	5,489	5,541	5,813	5,856	5,774

Table 8.10: Non-consolidated liabilities – outstanding amounts

EUR million	2014	2015	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Domestic sector								
Total	205,223	202,621	199,551	200,691	200,802	203,911	203,671	205,052
Monetary gold and SDRs	257	275	272	270	275	274	264	259
Currency and deposits	38,457	39,165	36,911	37,691	38,353	39,232	39,650	40,451
Debt securities	33,538	34,824	35,271	36,322	33,513	34,128	34,456	34,702
Loans	54,637	49,917	47,702	46,663	47,048	47,220	46,268	45,666
Shares	22,274	21,615	21,498	21,532	21,359	22,151	21,877	21,849
Other equity	25,395	26,608	27,071	27,589	29,083	29,298	29,512	30,183
Investment fund shares/units	2,143	2,303	2,220	2,315	2,374	2,481	2,443	2,517
Insurance and pension schemes	7,209	7,498	7,704	7,790	7,810	7,914	7,964	8,105
Other	21,313	20,417	20,903	20,519	20,987	21,213	21,237	21,320
Non-financial corporations								
Total	81,790	78,492	78,757	78,233	78,966	79,987	79,699	80,019
Debt securities	1,088	1,179	1,321	1,376	955	1,015	1,045	1,023
Loans	28,629	25,199	24,732	24,133	23,634	23,745	23,421	23,250
Shares	14,233	13,421	13,218	13,119	12,762	13,253	13,125	12,847
Other equity	23,013	24,039	24,475	24,928	26,319	26,513	26,725	27,431
Other	14,827	14,654	15,011	14,676	15,297	15,460	15,383	15,468
Monetary financial institutions								
Total	48,917	47,006	46,883	48,277	49,224	50,442	50,400	50,974
Monetary gold and SDRs	257	275	272	270	275	274	264	259
Currency and deposits	34,122	34,012	35,072	36,579	37,528	38,390	38,809	39,608
Debt securities	1,666	1,149	820	800	801	781	675	392
Loans	7,073	5,574	4,360	4,333	4,330	4,564	4,393	4,349
Shares	4,399	4,539	4,738	4,721	4,724	4,791	4,662	4,777
Other equity	945	1,005	1,072	1,090	1,091	1,108	1,103	1,122
Investment fund shares/units	37	56	66	81	99	65	74	80
Other	419	396	484	403	375	469	421	387
Other financial institutions								
Total	17,540	17,001	16,778	16,873	16,848	17,359	17,223	17,344
Debt securities	136	73	123	121	118	121	128	128
Loans	4,453	3,678	3,143	3,063	2,924	2,870	2,837	2,715
Shares	2,174	2,093	2,107	2,143	2,154	2,360	2,285	2,388
Other equity	947	964	1,007	1,049	1,137	1,143	1,145	1,092
Investment fund shares/units	2,106	2,247	2,154	2,234	2,275	2,416	2,369	2,438
Insurance and pension schemes	7,209	7,498	7,703	7,790	7,810	7,914	7,964	8,105
Other	516	448	540	475	431	536	495	478
General government								
Total	44,665	47,816	44,804	44,748	43,032	43,244	43,305	43,395
Currency and deposits	4,335	5,152	1,839	1,112	825	842	841	843
Debt securities	30,647	32,423	33,006	34,025	31,639	32,211	32,608	33,159
Loans	3,846	4,738	4,694	4,303	5,122	4,838	4,240	3,783
Shares	1,469	1,562	1,435	1,550	1,719	1,747	1,805	1,838
Other equity	491	600	517	522	537	533	540	538
Other	3,878	3,341	3,313	3,236	3,191	3,072	3,272	3,234
Households and NPISHs								
Total	12,311	12,306	12,329	12,560	12,732	12,879	13,044	13,319
Loans	10,637	10,728	10,774	10,832	11,039	11,203	11,378	11,567
Other	1,674	1,578	1,556	1,728	1,693	1,676	1,667	1,752
Rest of the world								
Total	39,295	41,702	42,046	41,472	41,851	42,556	42,530	42,110
Monetary gold and SDRs	348	363	326	324	319	325	310	348
Currency and deposits	11,050	10,595	9,781	8,742	8,512	7,842	7,094	6,124
Debt securities	9,548	11,335	12,221	12,779	13,479	14,158	14,872	15,436
Loans	5,492	5,012	5,146	5,110	4,912	4,776	4,795	4,691
Shares	2,457	2,637	2,397	2,497	2,566	2,757	2,899	2,987
Other equity	3,008	2,981	2,968	2,992	2,957	2,877	2,920	2,959
Investment fund shares/units	1,520	1,602	1,643	1,692	1,700	1,815	1,831	1,879
Insurance and pension schemes	141	129	140	140	141	145	144	148
Other	5,730	7,049	7,425	7,196	7,264	7,861	7,666	7,539

Table 8.11: Net financial assets

EUR million	2014	2015	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Domestic sector	-19,008	-16,719	-16,756	-16,987	-16,324	-15,689	-15,420	-15,069
Non-financial corporations	-40,399	-37,019	-36,395	-36,116	-35,948	-35,973	-35,474	-35,335
Monetary financial institutions	4,289	3,651	3,227	3,009	2,706	2,520	2,571	2,622
Other financial institutions	-172	133	465	696	706	658	649	487
General government	-9,021	-10,587	-11,694	-12,433	-12,372	-11,935	-12,068	-12,232
Households and NPISHs	26,294	27,103	27,640	27,856	28,584	29,041	28,903	29,389
Rest of the world	19,009	16,719	16,757	16,988	16,324	15,689	15,420	15,069

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

EUR million	2014	2015	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Domestic sector								
Total	3,656	1,000	-514	-2,758	-1,867	2,640	4,536	5,213
Monetary gold and SDRs	12	0	-56	-56	-56	0	0	43
Currency and deposits	8,795	470	-808	-3,268	-4,118	-625	-57	6
Debt securities	646	3,086	3,317	3,485	2,863	2,648	2,834	2,395
Loans	-4,658	-3,120	-2,356	-2,010	-707	-340	697	1,131
Shares	-824	181	-521	-513	-353	-80	216	264
Other equity	201	474	761	311	492	479	288	109
Investment fund shares/units	152	167	71	50	2	37	83	142
Insurance and pension schemes	182	178	110	137	138	128	109	152
Other	-850	-437	-1,033	-895	-128	393	367	972
Non-financial corporations								
Total	-424	393	-135	-75	1,067	1,495	1,657	2,170
Currency and deposits	456	744	453	536	575	668	602	630
Debt securities	-14	-36	-3	15	-6	-37	-45	-47
Loans	75	-192	-208	-176	-187	-365	-4	-88
Shares	-337	103	77	50	-13	33	59	124
Other equity	-100	294	573	218	453	464	267	231
Investment fund shares/units	-1	-3	-7	-8	-28	-20	-19	-13
Insurance and pension schemes	24	23	10	-20	2	-10	10	31
Other	-528	-539	-1,030	-691	271	761	787	1,301
Monetary financial institutions								
Total	-1,546	-1,797	690	2,094	2,542	3,400	3,686	2,822
Monetary gold and SDRs	12	0	-56	-56	-56	0	0	43
Currency and deposits	2,936	-2,849	-1,098	-361	-373	-23	-539	-1,358
Debt securities	791	2,764	3,227	3,524	2,847	2,705	2,832	2,526
Loans	-5,251	-2,052	-1,353	-886	303	817	1,511	1,680
Shares	-208	141	-70	-74	-91	-61	-25	-23
Other equity	155	14	26	35	56	38	36	61
Investment fund shares/units	-4	-2	-2	-2	-2	-1	0	-1
Insurance and pension schemes	2	1	0	0	0	1	2	2
Other	22	185	17	-87	-140	-74	-130	-108
Other financial institutions								
Total	-116	35	-82	-49	-63	-2	-16	-104
Currency and deposits	158	-133	-133	-34	61	-9	41	-56
Debt securities	100	313	256	221	157	84	74	-35
Loans	-304	-192	-112	-171	-203	-197	-221	-81
Shares	-79	49	-132	-104	-59	99	61	48
Other equity	26	15	5	10	-35	-28	-26	-46
Investment fund shares/units	59	31	47	38	28	24	14	41
Insurance and pension schemes	15	-34	-24	-7	12	7	16	13
Other	-91	-14	11	-2	-24	17	26	13
General government								
Total	4,964	1,405	-2,030	-5,877	-6,549	-3,619	-1,768	-973
Currency and deposits	4,356	1,936	-969	-4,333	-5,331	-2,338	-844	-419
Debt securities	-131	58	-111	-234	-112	-93	-43	-54
Loans	821	-666	-676	-784	-655	-620	-564	-402
Shares	-123	-69	-316	-315	-57	-69	194	195
Other equity	93	113	128	13	-12	-35	-35	-33
Investment fund shares/units	16	26	16	-16	-10	-5	11	27
Insurance and pension schemes	2	0	-5	-13	-1	-5	-2	5
Other	-71	7	-96	-195	-371	-455	-485	-291
Households and NPISHs								
Total	778	964	1,043	1,148	1,137	1,366	977	1,298
Currency and deposits	889	771	940	924	950	1,077	683	1,209
Debt securities	-99	-13	-51	-42	-22	-11	16	4
Loans	1	-17	-7	7	35	25	-25	22
Shares	-77	-44	-80	-71	-132	-83	-72	-81
Other equity	27	38	30	35	30	40	46	-104
Investment fund shares/units	83	116	18	38	14	39	78	89
Insurance and pension schemes	138	188	129	176	126	135	83	101
Other	-183	-76	64	81	135	143	169	57
Rest of the world								
Total	3,384	-426	493	-1,607	-1,359	-1,230	-411	-407
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-805	-350	406	-24	1,198	-252	176	244
Debt securities	4,444	-999	17	-1,645	-2,885	-1,616	-474	-314
Loans	-1,142	-595	-1,655	-1,249	-1,019	-939	-1,284	-1,650
Shares	1,040	335	692	718	619	491	281	224
Other equity	-51	1,377	1,188	852	775	826	711	707
Investment fund shares/units	-11	3	1	1	0	0	-2	-2
Insurance and pension schemes	-54	3	29	-2	-8	0	-20	10
Other	-38	-200	-186	-258	-38	257	201	372

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

EUR million	2014	2015	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Domestic sector								
Total	1,605	-728	-1,508	-3,686	-2,738	1,639	3,486	3,804
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,170	637	-232	-812	-822	1,635	2,777	2,813
Debt securities	4,602	338	1,469	-174	-1,971	-1,184	-412	-769
Loans	-5,735	-3,442	-3,875	-3,241	-1,628	-1,027	-420	-229
Shares	172	246	207	234	359	349	397	374
Other equity	102	1,883	1,898	1,132	1,149	1,197	859	711
Investment fund shares/units	39	142	7	3	-1	24	16	43
Insurance and pension schemes	121	189	146	128	120	123	86	156
Other	-866	-721	-1,128	-955	54	521	182	704
Non-financial corporations								
Total	-2,339	-1,057	-808	-572	485	933	655	1,214
Debt securities	288	83	162	174	-227	-218	-275	-314
Loans	-1,965	-2,404	-2,217	-1,622	-778	-787	-341	-128
Shares	54	152	157	188	139	138	187	163
Other equity	171	1,466	1,763	1,080	1,081	1,127	797	717
Other	-887	-354	-674	-392	272	673	287	775
Monetary financial institutions								
Total	-2,320	-2,282	496	1,922	2,291	3,177	3,549	2,616
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	1,002	-146	1,887	3,402	3,508	3,689	3,771	3,075
Debt securities	14	-525	-77	-417	-339	-56	-153	-402
Loans	-3,367	-1,536	-1,279	-1,006	-826	-399	38	21
Shares	114	44	24	24	17	6	5	4
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	0	19	12	20	43	-1	8	-1
Other	-82	-138	-71	-100	-112	-63	-119	-82
Other financial institutions								
Total	-635	73	0	-117	-189	-115	-188	-131
Debt securities	1	-72	24	24	42	41	-1	3
Loans	-694	-461	-241	-309	-348	-380	-300	-334
Shares	3	51	26	22	4	5	5	7
Other equity	-68	305	21	48	67	68	62	-6
Investment fund shares/units	39	123	-5	-17	-44	26	8	45
Insurance and pension schemes	121	189	146	128	120	123	86	156
Other	-36	-62	30	-13	-30	2	-48	-2
General government								
Total	6,970	2,522	-1,348	-5,221	-5,819	-3,026	-1,345	-717
Currency and deposits	2,168	783	-2,118	-4,213	-4,330	-2,054	-994	-262
Debt securities	4,299	851	1,360	45	-1,446	-951	17	-57
Loans	395	872	-315	-564	-102	-52	-530	-596
Shares	0	0	0	0	200	200	200	200
Other equity	0	112	113	3	2	2	1	0
Other	107	-96	-389	-491	-143	-172	-38	-2
Households and NPISHs								
Total	-71	17	152	303	493	670	814	822
Loans	-103	87	177	260	426	590	713	808
Other	32	-70	-25	42	67	80	101	15
Rest of the world								
Total	5,435	1,301	1,487	-680	-487	-230	640	1,002
Monetary gold and SDRs	12	0	-56	-56	-56	0	0	43
Currency and deposits	4,821	-517	-170	-2,479	-2,098	-2,512	-2,658	-2,563
Debt securities	488	1,749	1,865	2,014	1,949	2,216	2,772	2,850
Loans	-65	-274	-136	-18	-98	-252	-167	-290
Shares	44	270	-36	-29	-93	62	100	114
Other equity	48	-32	52	31	117	108	140	105
Investment fund shares/units	102	28	65	48	2	13	65	97
Insurance and pension schemes	8	-8	-8	7	10	6	3	6
Other	-23	85	-91	-198	-220	130	385	641

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

EUR million	2014	2015	16Q2	16Q3	16Q4	17Q1	17Q2	17Q3
Domestic sector	2,051	1,728	994	927	872	1,001	1,051	1,410
Non-financial corporations	1,915	1,450	672	497	581	561	1,002	956
Monetary financial institutions	775	485	194	172	250	223	137	207
Other financial institutions	519	-38	-82	69	126	113	172	27
General government	-2,006	-1,117	-681	-656	-731	-593	-423	-256
Households and NPISHs	849	947	891	845	644	696	164	475
Rest of the world	-2,051	-1,728	-994	-927	-872	-1,001	-1,051	-1,410

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.