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## Executive Summary

*International institutions are still mostly assessing the global economic outlook as favourable, although the risks to growth in global trade have increased significantly in recent months because of growing protectionism. At the same time, the first quarter saw a slight slowdown in economic growth in certain major economies, including the euro area. However, the situation in the euro area remains stable and favourable for now: after previously declining, the economic sentiment indicator remained high in the second quarter, and is signalling a continuation of solid economic growth. The monetary policies of the ECB and the Fed remain highly divergent. At its June meeting, the Fed again raised its key interest rate while the ECB announced the gradual scale-back of net bond purchases within the framework of the APP, while simultaneously maintaining the current interest rate levels at least through the summer of 2019. This was one of the reasons for the additional fall in the euro exchange rate against the US dollar, which approached USD 1.15 in June, the lowest this year. At the same time inflation pressures strengthened again on international commodity markets, as commodity prices in June were up significantly, compared to the previous year.*

*Economic growth in Slovenia slowed in the first quarter, and was largely driven by domestic demand factors. A slowdown in the current rate of growth and a strong base effect reduced year-on-year GDP growth from 6.0% in the final quarter of last year to a still-high 4.6%. Growth in foreign demand slowed, and with it growth in industrial production and certain services. At the same time, the build-up of inventories brought increased growth in domestic demand. This was also attributable to sustained growth in private consumption, as the factors strengthening household purchasing power remained favourable. All types of investment continued to increase, and there was particularly encouraging growth in investment in intellectual property products, which could contribute to an increase in the productive efficiency of the economy. Growth in exports slowed more sharply than growth in imports, taking the contribution made by net trade into negative territory for the first time in a long time. The available figures for the second quarter suggest the continuation of more moderate economic growth, with the positive impulses prevalingly coming from the domestic environment.*

*The change in the structure of economic growth has not yet been reflected in the current account surplus, while the positive saving-investment gap is also yet to indicate any changes in the funding of this growth. The former remained highly positive at 7.5% of GDP over the 12 months to April, which was largely attributable to the maintenance of the external competitiveness of the economy, which was reflected in a continuing solid growth in exports, and to the narrowing of the deficit in capital income. In the 12 months to the first quarter, the saving-investment gap was also highly positive, although the investment cycle and growth in household consumption are continuing. This was attributable to the current surplus in government financing, slower growth in household lending, and a change in the pattern of corporate financing. Firms are increasingly relying on internal resources and intra-sectoral financial resources while the proportion of their financial structure accounted for by bank financing is undergoing a sustained decline.*

*In an environment of high economic growth, higher inflation and firms' increasing problems with labour shortages, wage growth is strengthening, and the first signs of a slowdown in employment growth have appeared. Nominal year-on-year growth in the average gross wage increased to 4.6% in April, up almost 2 percentage points on a year earlier. Wage growth increased in the majority of sectors facing the largest labour shortages. Although year-on-year growth in employment reached 3.0% in the first quarter, the monthly figures for the workforce in employment and the decline in employers' employment expectations are already indicating a slowdown. In this situation, consumer purchasing power is increasing rapidly: real year-on-year growth in the wage bill averaged 6.1% over the first four months of the year.*

*The general government position moved into surplus in the 12 months to March. According to the Ministry of Finance forecasts in April's supplement to the Stability Programme, which was drawn up under the assumption of no changes in policy, the surplus is forecast to reach 0.4% of GDP this year. According to these forecasts, the general government position will also fluctuate around this level over the next two years. Slovenia would nevertheless not be meeting the requirements of the Stability and Growth Pact, as it would be failing to have the structural deficit converge on the target with sufficient speed. Generating budget surpluses of the right size is vital in the current favourable economic situation. The key is to avoid measures that would cause a deterioration in the structural fiscal position, as general government debt remains high.*

*Inflation is strengthening, and is embracing more and more price categories. The rate reached 2.3% in June, and continued to outpace the euro area average, which rose to 2.0%. The jump in inflation in Slovenia was primarily the result of higher energy prices caused by rises in oil prices on the global market, but price growth was also driven by consistently high contributions of services prices. Core inflation also strengthened as a consequence, as the ongoing robust growth in private consumption brought by high consumer confidence and rising consumer purchasing power is already allowing retailers to raise prices more significantly. Domestic cost pressures, most notably higher wage growth, have perhaps also begun to contribute to the rise in core inflation, although a more precise assessment will only be possible with the release of the national accounts for the second quarter of this year. The proportion of prices falling or recording growth of less than 1.0% has declined further this year, an indication of the spread of inflation across the basket of prices in the HICP.*

\* \* \*

*There are signs of possible excessive growth of the residential real estate prices. According to SURS figures, overall residential real estate prices in the first quarter were up more than 13% in year-on-year terms, while new-build prices increased for over a quarter. This further approached the imbalanced high levels seen in the pre-crisis period. The model assessment, which has slightly less reporting value owing to the short nature of the time series, suggests that the current level of residential real estate prices is still in line with supply and demand factors. However, the dynamic in certain indicators is perhaps already suggesting possible excessive growth of the residential real estate prices, most notably the indicator of the real amount of construction put in place, which is displaying a similar dynamic to that recorded during the creation of the real estate bubble before the crisis. The actual level of the indicator is nevertheless still significantly lower than in 2005, which could indicate that price corrections as a result of new supply cannot be expected in the short term.*

**Main macroeconomic indicators**

	2015	2016	2017	17Q3	17Q4	18Q1	2015	2016	2017	17Q3	17Q4	18Q1
	<b>Slovenia</b>						<b>euro area</b>					
<b>Economic developments</b>	<b>y-o-y growth rates in %</b>											
GDP	2.3	3.1	5.0	4.5	6.0	4.6	2.1	1.8	2.4	2.5	2.6	2.2
- industry	1.4	4.4	7.9	8.2	10.3	6.4	3.8	1.9	3.0	3.2	4.1	2.5
- construction	-1.6	-4.4	11.4	5.6	16.2	12.0	0.7	1.3	3.0	2.9	3.3	3.1
- mainly public sector services	1.4	2.9	2.0	1.2	2.5	1.8	0.9	1.4	1.3	1.4	1.2	1.4
- mainly private sector services	2.4	3.2	6.0	5.5	7.1	5.0	2.2	1.8	2.7	2.9	2.9	2.4
Domestic expenditure	1.8	2.9	4.1	2.9	4.5	5.3	2.0	2.3	1.9	1.8	1.4	1.9
- general government	2.7	2.5	2.3	1.7	5.6	0.6	1.3	1.8	1.2	1.3	1.3	1.4
- households and NPISH	2.1	4.2	3.2	3.0	3.2	3.4	1.8	2.0	1.6	1.8	1.3	1.7
- gross capital formation	0.2	-0.1	8.4	3.8	7.7	14.7	3.4	3.5	3.4	2.2	1.8	2.6
- gross fixed capital formation	-1.6	-3.6	10.3	7.4	11.9	9.1	3.3	4.6	3.2	2.3	2.4	3.7
- inventories and valuables, contr. to GDP growth in pp	0.3	0.7	-0.3	-0.6	-0.8	1.3	0.0	-0.2	0.1	0.0	-0.2	-0.2
<b>Labour market</b>	<b>in %</b>											
Employment	1.2	1.9	2.8	2.7	2.7	3.0	1.0	1.4	1.6	1.7	1.6	1.4
- mainly private sector services	1.4	1.9	2.9	2.8	2.9	3.2	1.0	1.3	1.7	1.8	1.7	1.5
- mainly public sector services	0.8	2.2	2.5	2.2	2.2	2.2	1.1	1.4	1.3	1.2	1.3	1.1
Labour costs per employee	1.4	2.8	2.8	2.8	4.0	3.6	1.5	1.2	1.6	1.6	1.7	2.0
- mainly private sector services	1.6	2.2	2.7	2.4	4.1	3.8	1.6	1.2	1.6	1.7	1.8	2.1
- mainly public sector services	0.7	5.2	3.0	2.9	3.0	3.4	1.2	1.2	1.6	1.6	1.6	1.7
Unit labour costs, nominal*	0.4	1.6	0.6	1.0	0.8	2.1	0.4	0.8	0.8	0.8	0.7	1.2
Unit labour costs, real**	-0.6	0.7	-1.4	-1.3	-1.4	-0.1	-1.0	0.0	-0.3	-0.5	-0.4	-0.1
LFS unemployment rate	9.0	8.0	6.6	6.3	5.8	5.9	10.9	10.0	9.1	8.7	8.7	8.9
<b>Foreign trade</b>	<b>y-o-y growth rates in %</b>											
Current account balance as % of GDP	4.5	5.5	7.1	9.0	5.9	8.1	3.2	3.6	3.5	4.6	4.5	2.9
External trade balance as contr. to GDP growth in pp	0.6	0.5	1.3	1.9	1.7	-0.2	0.1	-0.4	0.6	0.9	1.3	0.5
Real export of goods and services	5.0	6.4	10.6	11.9	12.3	7.4	6.4	3.3	5.3	5.3	6.2	3.7
Real import of goods and services	4.7	6.6	10.1	10.7	11.1	8.7	6.7	4.6	4.3	3.8	3.8	3.0
<b>Financing</b>	<b>in % of GDP</b>											
Banking system's balance sheet	107.0	99.2	93.3	94.5	93.3	91.2	281.7	276.7	261.4	268.4	261.4	261.4
Loans to NFCs	26.3	22.5	21.7	22.2	21.7	21.3	38.8	37.9	37.0	37.1	37.0	37.0
Loans to households	21.1	21.1	21.4	21.4	21.4	21.3	49.8	49.6	49.5	49.5	49.5	49.3
<b>Inflation</b>	<b>in %</b>											
HICP	-0.8	-0.2	1.6	1.3	1.5	1.5	0.0	0.2	1.5	1.4	1.4	1.3
HICP excl. energy, food, alcohol and tobacco	0.3	0.7	0.7	0.8	0.6	0.8	0.8	0.9	1.0	1.2	0.9	1.0
<b>Public finance</b>	<b>in % of GDP</b>											
Debt of the general government	82.6	78.6	73.6	78.5	73.6	75.1	89.9	89.0	86.7	88.1	86.7	...
One year net lending/net borrowing of the general government	-2.9	-1.9	0.0	-0.5	0.0	0.4	-2.0	-1.5	-0.9	-1.0	-0.9	...
- interest payment	3.2	3.0	2.5	2.6	2.5	2.4	2.3	2.1	2.0	2.0	2.0	...
- primary balance	0.4	1.1	2.5	2.1	2.5	2.8	0.3	0.6	1.1	1.0	1.1	...

Note: Data is not seasonally and working days adjusted.

\* Nominal unit labour costs are the ratio of nominal compensation per employee to real labour productivity.

\*\* Real unit labour costs are the ratio of nominal compensation per employee to nominal labour productivity.

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

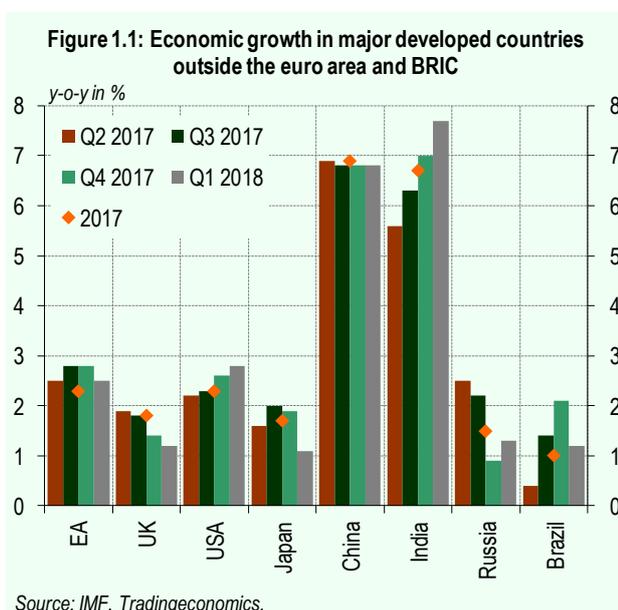


# 1 | International Environment

International institutions' medium-term outlooks mostly remain favourable and unchanged, although growth slowed slightly in certain major global economies in the first quarter, and the risks to global trade have increased. According to international institutions, increasing trade disputes and protectionist measures could in particular have an adverse impact on future growth in global trade. GDP growth in the euro area also slowed slightly in the first quarter. At the same time, there was also a slight decline in economic sentiment, although it remained well above its long-term average. The monetary policies of the ECB and the Fed remain highly divergent. At its June meeting the Fed again raised its key interest rate, while the ECB announced the gradual scale-back of net bond purchases within the framework of the APP, and the maintenance of interest rate levels at least through the summer of 2019. The euro exchange rate approached USD 1.15 in June, its low of the year. The price of Brent crude remained high in June.

## Global economy

**Economic growth strengthened in the first quarter in the US, Russia and India, and remained high in China, but slowed in other major economies.** The trend of



solid economic growth continued in the US, where GDP was up 2.8% in year-on-year terms. While economic growth remained high and stable in China, the highest growth among the BRIC countries was recorded by India, primarily as a result of strengthened investment. After two years of contraction, Russia recorded its sixth consecutive quarter of growth, with a rate of 1.3%. Economic growth in Brazil slowed slightly as a result of weaker growth in investment and exports and a large contraction in government consumption, while there was a similar slowdown in Japan. GDP growth in the UK is continuing to slow, as a result of weaker growth in household consumption, investment and exports. The rate in the first quarter of this year was the lowest since the second quarter of 2012.

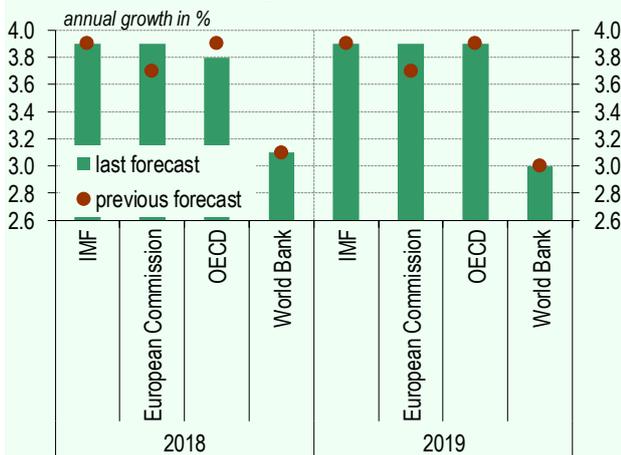
**International institutions mostly left their global economic growth forecasts for 2018 and 2019 unchanged.** They currently range from 3.8% to 3.9%, with the exception of the World Bank, which is forecasting

lower growth. The OECD revised its growth forecast for 2018 downwards by 0.1 percentage points, while the European Commission revised its forecast upwards by 0.2 percentage points. With the exception of the European Commission, the institutions' forecasts for 2019 remained unchanged. The World Bank left its global economic growth forecast for 2019 unchanged at 3%, while the forecasts of the other three institutions were aligned at 3.9%. The OECD left its medium-term forecasts for countries that saw a slight rise in economic growth in the previous quarter unchanged, with the exception of India, where GDP growth is expected to exceed the 7%-mark this year and next year. Economic growth in China is expected to slow moderately as a result of weaker growth in exports and investment, but is forecast to remain stable

at over 6%. The Russian economy is also expected to continue strengthening, albeit at relatively low rates of growth. The uncertainty surrounding the outcome of the Brexit negotiations means that economic growth in the UK is expected to be weak over the medium term. After previously raising its growth forecasts for Japan and Brazil, the OECD revised its latest forecasts for each downwards for 2018 and upwards for 2019.

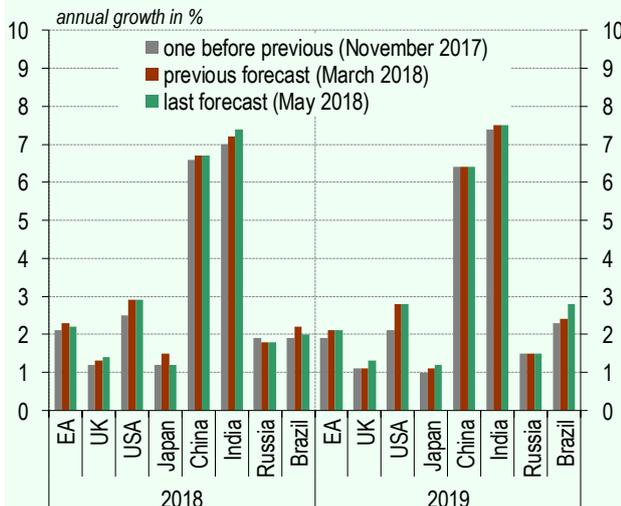
**The risks of lower global economic growth are increasing.** The increasing risks of weaker growth in global trade consist of trade barriers and the rising number of protectionist measures. The likelihood of reduced investment and weaker production efficiency is consequently increasing, which could have an adverse impact on potential growth. There are also political risks present in Europe, primarily in connection with the newly elected Italian government. There are significant geopolitical tensions in Europe, associated with bad relations between Russia and the West, and the Brexit negotiations. Significant tensions also remain in the Middle East. The tightening of global financing conditions, due to the normalisation of monetary policy in the US, could also be an adverse factor in future economic growth.

**Figure 1.2: Global GDP growth forecasts for 2018 and 2019**



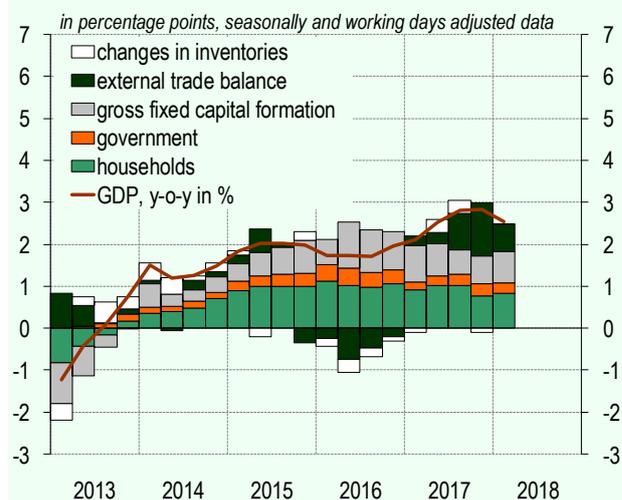
Note: Included forecasts are the following: IMF (April 2018, January 2018), European Commission (May 2018, November 2017), OECD (May 2018, March 2018), World Bank (June 2018, January 2018).  
Source: IMF, European Commission, OECD, World Bank.

**Figure 1.3: Countries of GDP growth in major developed countries and BRIC in 2018 and 2019**



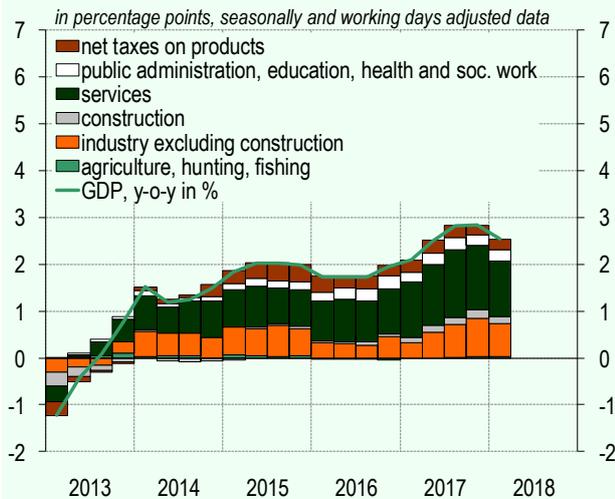
Source: OECD.

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



Source: Eurostat, Bank of Slovenia calculations.

**Figure 1.5: Structure of GDP growth in the euro area, production side**



Source: Eurostat, Bank of Slovenia calculations.

year-on-year rate stood at 2.5%. The largest contributions to GDP growth on the expenditure side came from private consumption, at 0.8 percentage points, and gross investment, at 0.7 percentage points. Having made the largest contribution to GDP growth in the final quarter of last year at 1.3 percentage points, net trade stood at 0.6 percentage points in the first quarter of this year. Government consumption contributed 0.3 percentage points to GDP growth. On the output side, the largest contribution to GDP growth came from services, at 1.2 percentage points, followed by industry, with 0.7 percentage points. The contributions made by public services, construction and net taxes on products remained at 0.2 percentage points.

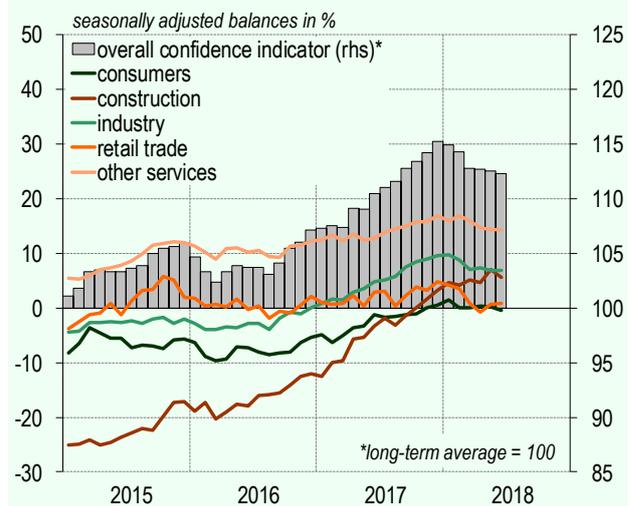
**Survey indicators of confidence and activity remained high in June, albeit down on the beginning of the year.** Composite PMI increased slightly in June, having fallen in May to its lowest level of the last year and a half. Growth in manufacturing activity, as measured by survey data, slowed at the end of the second quarter, while activity in services strengthened slightly. Confidence in the euro area economy remained at a slightly lower level than at the beginning of the year. It is down in industry, retail and other services, but improved significantly in construction, where the confidence indicator has reached one of its highest levels to date. The economic sentiment indicator remained significantly above its long-term average, and points to continuing growth in GDP.

**Figure 1.6: Purchasing Managers' Index (PMI) – euro area**



Note: Dashed lines represent the value of the last observation.  
Source: Markit.

**Figure 1.7: Confidence indicators – euro area**



Source: Eurostat.

## Slovenia's trading partners

**The weighted economic growth forecast for Slovenia's main trading partners has gradually reduced.** In June Consensus revised its forecasts for 2018 downwards for the majority of Slovenia's largest trading partners. Despite a slight slowdown in year-on-year economic growth in Germany in the first quarter of this year, the forecast for 2018 remains optimistic at 2.1%, while economic growth is expected to continue in 2019 at the slightly lower rate of 1.8%. Despite the first quarter year-on-year economic growth reaching expectations, Consensus lowered its growth forecast for Italy to 1.3% for this

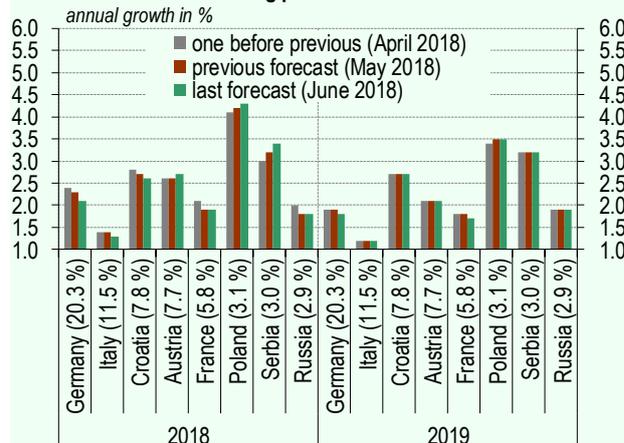
**Figure 1.8: Weighted monthly forecasts of economic growth for Slovenia's major trading partners for 2018 and 2019**



Note: Trade partners with at least 1% of total goods exports of Slovenia in the last twelve months are included (April 2017 – March 2018; 23 trading partners with a total share of 88%). The growth forecasts for the years 2018 and 2019 are weighted with the share of each country in the total exports of goods. For 2017 the weighted outcome is shown. For China, IMF data is used (WEO, April 2018).

Source: SORS, Consensus, IMF, Bank of Slovenia calculations.

**Figure 1.9: Forecasts of GDP growth in the eight largest Slovenian trading partners for 2018 and 2019**



Opomba: Shares of the eight largest trading partners in total goods exports of Slovenia in the last twelve months (April 2017 – March 2018) are found in parentheses.

Source: Consensus, SORS.

year, while holding its forecast for 2019 at 1.2%. Consensus also slightly lowered this year's forecast for Croatia to 2.6%, while leaving its 2019 forecast unchanged at 2.7%. This year's forecasts for Poland and Serbia, which each account for 3% of Slovenia's total exports, were revised upwards from the previous forecasts. Consensus revised its forecast for Poland upwards by 0.1 percentage points to 4.3%, and its forecast for Serbia by 0.2 percentage points to 3.4%.

### Euro exchange rate and commodity prices

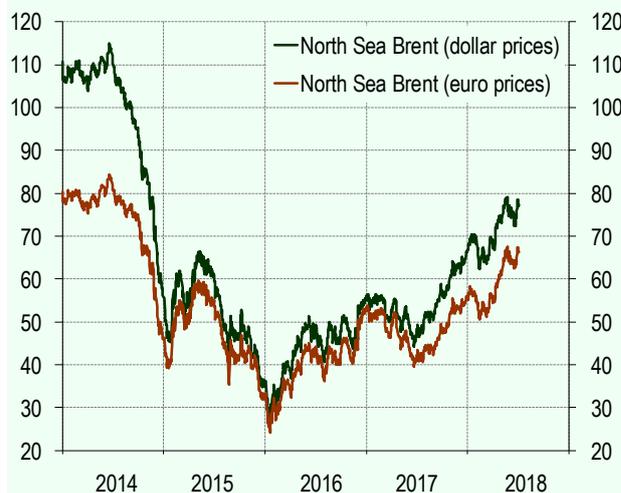
At its June meeting the Fed again raised its key interest rate, while the ECB left interest rates unchanged, but will gradually scale back its net bond purchases in the APP. The target range for the federal funds rate is now 1.75% to 2.0%, having been raised by 0.25 percentage points. While the Fed is planning two further rate rises this year, in June the ECB announced the maintenance of the current level of interest rates at least through the summer of 2019, if the inflation expectations are realised. A decision was taken to gradually scale back net bond purchases. Net securities purchases will be cut by half in September, to a monthly volume of EUR 15 billion, and will end at the end of the year. The policy of reinvesting the principal of maturing bonds will continue for some time after the end. The euro exchange rate against the US dollar stood at around USD 1.20 in the early part of the second quarter, before falling below

**Figure 1.10: EUR/USD exchange rate and central banks' interest rates**



Source: ECB, Federal Reserve.

**Figure 1.11: Oil prices**



Source: Bloomberg, Bank of Slovenia calculations.

this mark in May and approaching USD 1.15 in June. It thereby reached its low of this year.

**Oil prices remained high in June.** In May, the price of a barrel of Brent crude approached its level of November 2014, at USD 80. Due to the anticipated agreement between oil cartel Opec and other producer countries on a temporary rise in output, oil prices in mid-June fell. By the end of June however, prices rose again due to expectations of a stronger output rise. Other commodity prices were also up in year-on-year terms.

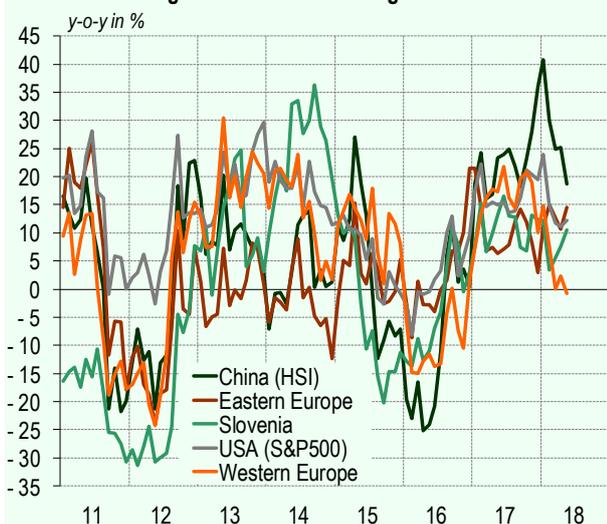
### International capital markets

**The announcement of protectionist measures by the US and political uncertainties in Europe had an impact on developments on stock exchanges in the second half of the second quarter.** The stock market index in the US gained 5.6% between April and 20 June, while the benchmark stock market index for western Europe (SXXE) gained 2.4% over the same period. In both cases the gains were smaller than in the previous quarter. The expectations of the US and China reaching an agreement with regard to protectionist measures rose during this period. This did not happen, as the US announced the introduction of additional tariffs in June, which had an adverse impact on stock markets in the first half of the month. The rise in political uncertainty originating in Italy and Spain in late May had an adverse impact on growth in share prices in the second quarter. The ad-

verse impact continued in June. The rise in political uncertainty came after the Italian president temporarily prevented the formation of a government by Eurosceptic parties, while Spain was expected to see the early replacement of the prime minister because of a corruption scandal.

**The increased political uncertainty in the euro area brought a spike in the spreads of Italian and Spanish 10-year government bonds over the German benchmark bond.** The ECB's anticipated confirmation that it would end net securities purchases as of the end of 2018 – provided that the data is confirming the medium-term inflation outlook – did not have a significant impact on developments on the bond markets. The required yield on 10-year German government bonds declined slightly after the announcement.

Figure 1.12: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.



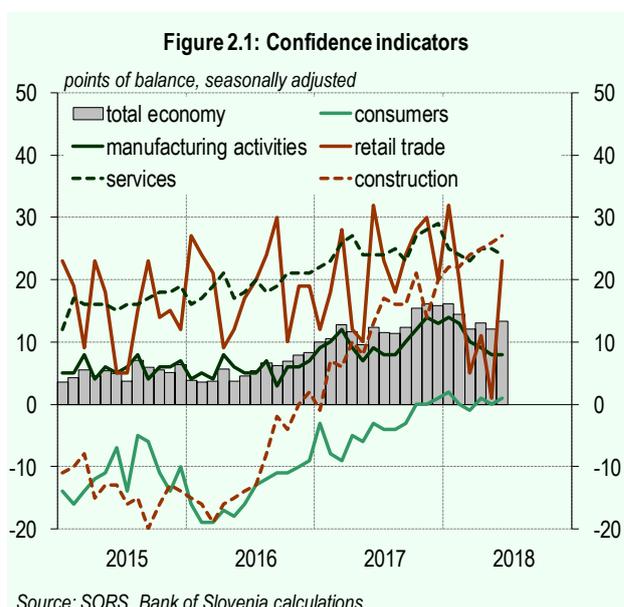
## 2 | Economic Developments

*Economic growth in Slovenia slowed in the first quarter, and was largely driven by domestic demand factors. A slowdown in the current rate of growth and a strong base effect reduced year-on-year GDP growth to a still-high 4.6%. Growth of foreign demand slowed down, and with it growth in industrial production and certain services. At the same time the build-up of inventories brought increased growth of domestic demand. This was also attributable to sustained growth in private consumption, as the factors strengthening household purchasing power remained favourable. All types of investment continued to increase, and there was particularly encouraging growth of investment in intellectual property, which could contribute to increases in the productive efficiency of the economy. Growth of exports decreased more sharply than growth of imports, taking the contribution made by net trade into negative territory for the first time in a long time. The available figures for the second quarter suggest the continuation of more moderate economic growth, with positive impulses coming prevalingly from the domestic environment.*

### Confidence indicators and performance limiting factors

**Confidence in the Slovenian economy remained high in the second quarter.** Optimism in the manufacturing sector was down slightly on the first quarter, but remained high compared with its long-term average. The proportion of firms facing insufficient demand in the second quarter was even slightly lower than in the first quarter. Manufacturing firms remained relatively optimistic in June with regard to demand over the next three months, despite some deterioration in the international environment. Of the sectors strongly tied to the domestic market, construction was notable for the rise in the confidence indicator to its highest level to date. Construction firms assessed demand in June as very strong, while almost half of them reported problems with labour shortages. In private-sector services there was a marked volatility in the retail confidence indicator, which is not unusual. By June

it had returned to above its average from last year. There were no significant changes with regard to other private-sector services. Consumers also remained optimistic.



## GDP

**Economic growth in the first quarter of this year slowed, but remained significantly above the euro area average.** The quarterly rate declined from 1.9% to 0.6%, while the year-on-year rate slowed from 6% to 4.6% according to unadjusted figures. This included a significant impact from the fall in the number of business days, which reduced year-on-year growth by 0.4 percentage points. Growth slowed in all major sectors, with approximately equal declines in the contribution to GDP growth by value-added in industry and private-sector services. The contribution made by construction was also smaller. It should be noted that GDP growth in the final

quarter of last year was unexpectedly high, and the slowdown in the current rate of growth in the first quarter of this year is not so marked when compared with the average of the first three quarters of 2017. Economic growth in the first quarter remained approximately double the euro area average.

**Growth in value-added in industry slowed in the first quarter as a result of weaker foreign demand.** Turnover on foreign markets was down from the final quarter of last year in all the broad economic categories other than capital goods.<sup>1</sup> The slowdown was particularly notable on markets outside the euro area, where year-on-year growth decreased to just 2.6%. In contrast to the rest of

Figure 2.2: GDP of Slovenia and the euro area



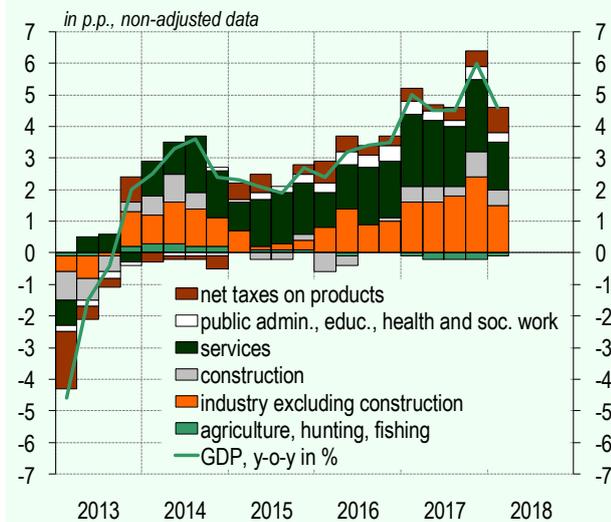
Source: Eurostat.

Figure 2.4: Value added – Industry



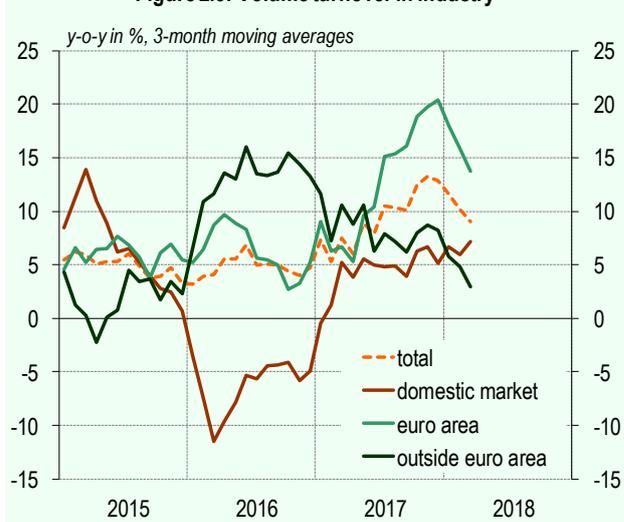
Source: Eurostat.

Figure 2.3: Structure of GDP growth in Slovenia, production side



Source: SORS.

Figure 2.5: Volume turnover in industry



Source: SORS, Bank of Slovenia calculations.

<sup>1</sup> The broad economic categories are capital goods, intermediate goods and consumer goods.

the world, growth in turnover on the domestic market increased significantly. Capital goods were again the standout in this case, in keeping with the continuation of the investment cycle. Given that industry generates the vast majority of its turnover on foreign markets, year-on-year growth of value-added in industry decreased by 3.8 percentage points on the final quarter of last year according to unadjusted figures, but to a still-high 7.2%. The difference was smaller if the figures allowing for the number of working days are used. A base effect also had an adverse impact on year-on-year growth in value-added.

**There was also a moderate slowdown in growth in services, while the dynamics varied considerably between individual categories of services.** Year-on-year growth in value-added in private-sector services stood at 3.7% in the first quarter, down 1.4 percentage points from the final quarter of last year. The difference is smaller if the difference in working days is allowed for. The slowdown was mostly the result of lower growth in exports, which was reflected in lower growth in turnover in tourism, transportation and storage. There was a surprising fall in turnover in retail trade excluding motor vehicles, given that consumer purchasing power continued to strengthen as wages and employment grew. By contrast, year-on-year growth in real turnover strengthened significantly in professional, scientific and technical activities, and in information and communication. The decline in year-on-year growth in value-added in public services was not related to employment growth, as the rate remained at its level of the second half of last year.

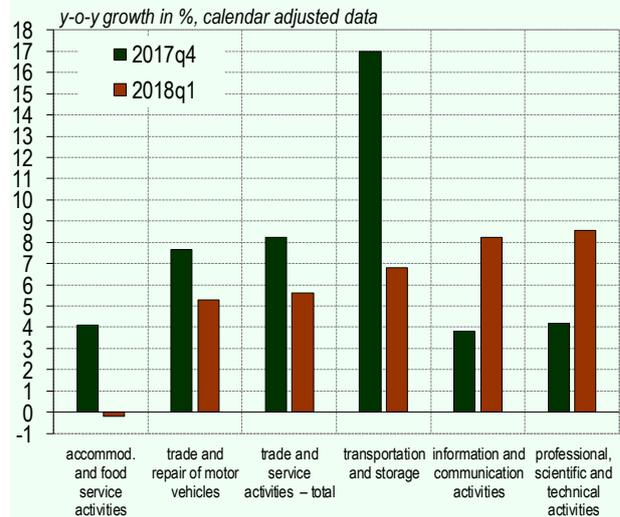
**Growth in construction activity remained high in the first quarter, despite adverse weather conditions.** Year-on-year growth in value-added was down more than 4 percentage points from the end of last year, but remained high in all sectors of construction, and significantly above the euro area average. In this case there was also a significant impact from the difference in the number of working days. Construction firms mainly cited bad weather and labour shortages as limiting factors in the first quarter, while assessing the strength of demand more optimistically than a year earlier. Their optimism was confirmed by the number of building permits issued and the corresponding area of buildings, which were rela-

**Figure 2.6: Value added in predominantly private services**



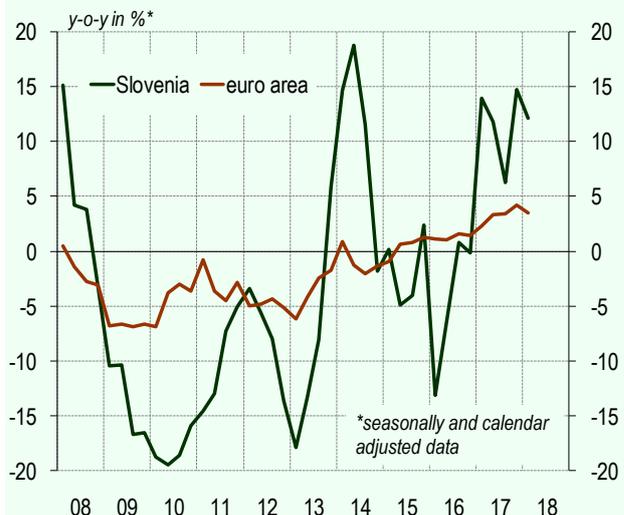
Source: Eurostat, Bank of Slovenia calculations.

**Figure 2.7: Sales volume in private services**



Source: SORS, Bank of Slovenia calculations.

**Figure 2.8: Value added – Construction**



Source: Eurostat.

**Box 2.1: Alignment of growth in residential real estate prices with supply and demand factors**

Residential real estate prices on the domestic market have been rising since the end of 2014, recording their highest year-on-year growth of the post-crisis period in the first quarter of this year. Although growth in residential real estate prices is outpacing economic growth, model assessments suggest that they are still aligned with supply and demand fundamentals on the real estate market. Certain individual indicators are nevertheless displaying a similar dynamic to 2004, which reflects the beginning of the overheating housing market seen in the pre-crisis period.

The economic boom is supporting developments on the residential real estate market. In line with economic growth, the surveyed unemployment rate stood at just 5.9% in the first quarter of 2018, while growth in household purchasing power as measured by growth in the real wage bill has been increasing further this year. Household indebtedness was 45% of the GDP at the end of 2017 one of the lowest among euro area countries.<sup>1</sup> Potential demand for residential real estate therefore remains strong. Business trends in construction have also improved sharply. The trend of increase in the construction confidence indicator, which began in 2014, has continued this year (see Figure 1). Construction firms are no longer citing major limiting factors in performance, other than labour shortages, at least according to the SURS surveyed indicators. The number of newly issued building permits for residential real estate is high, and investment in residential construction is also gradually increasing. The demand factors will thus be tracked very gradually by the supply of new-build residential real estate.

Residential real estate prices recorded their highest year-on-year growth of the post-crisis period in the first quarter of this year. The rate stood at 13.4%, equivalent to a real increase of 12%.<sup>2</sup> Despite the rapid price rises, the nominal level of residential real estate prices in the first quarter of 2018 was still 6.3% down on the average level of prices from 2008,<sup>3</sup> but was already 0.3% up on the average level from 2007. Compared with average prices from 2014, when the lowest prices of the last decade were recorded, the current prices are up 22.2% in nominal terms, an indication of the sharp and significant rises in the recent period.

Growth in residential real estate prices has recently outpaced GDP growth again. Year-on-year growth in prices of used housing reached 11.2% in the first quarter, while according to seasonally adjusted figures the real increase in GDP stood at 5.0%, which means that growth in prices of residen-

tial real estate outpaced GDP growth by 6.2 percentage points in real terms (Figure 2). In the case of overall year-on-year growth in residential real estate, the gap stands at 6.9 percentage points.

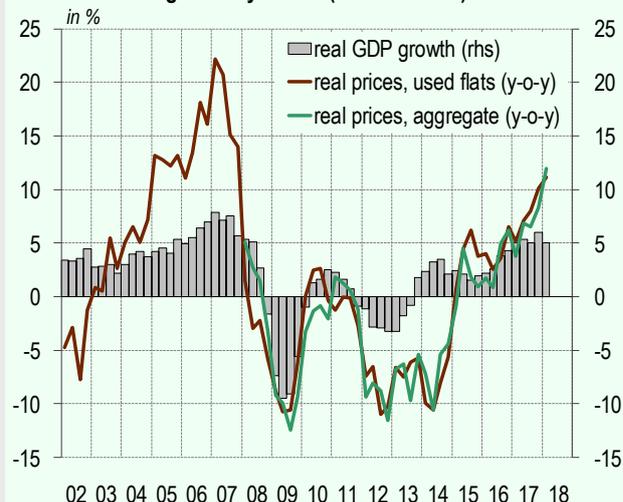
Long-term high growth in residential real estate prices could be a source of potential macroeconomic and financial imbalances. Real estate is a store of value, and has value as collateral, and thus has a significant impact on consumption and the credit cycle. It is therefore vital for any excessive price growth to be identified sufficiently early. A composite indicator of alignment of prices with supply and demand fundamentals<sup>4</sup> has been used to assess the overvaluation or undervaluation of residential real estate prices.

**Figure 1: Business tendencies in construction in Slovenia**



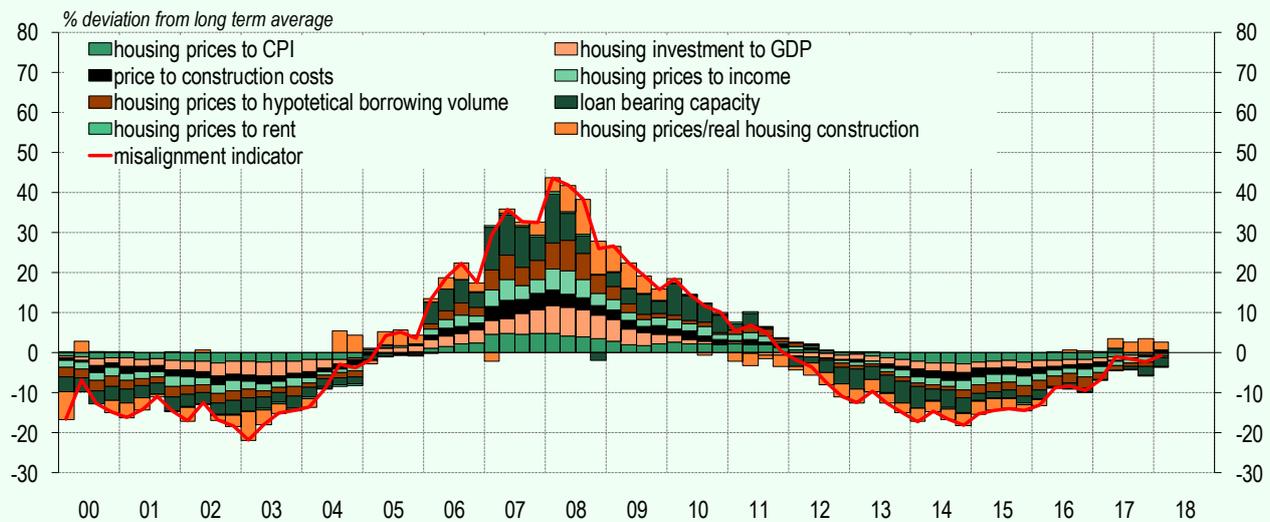
Source: SORS.

**Figure 2: Residential real estate prices and GDP growth dynamics (HICP deflated)**



Source: SORS, Bank of Slovenia calculations.

**Figure 3: Slovene housing price misalignments with fundamentals**



Source: Bank of Slovenia calculations.

Based on the composite indicator, residential real estate prices in Slovenia are currently still aligned with supply and demand fundamentals.<sup>5</sup> A retrospective view, at least on the basis of the model assessment, reveals clear overvaluation between the second quarter of 2005 and the peak in 2008, when prices deviated significantly from the long-term trends from the perspective of supply and demand. The crisis that followed hit valuations hard, and the estimated undervaluation was already significant by the final quarter of 2014. According to the composite indicator, residential real estate prices in the first quarter of this year were still aligned with the long-term balances of supply and demand on the real estate market. However, the dynamic of certain indicators is already showing early signs of excessive price growth, most notably the indicator of the real value of construction works, which is displaying a similar dynamic to that recorded during the creation of the real estate bubble before the crisis. The actual level of the indicator is nevertheless still significantly lower than in 2005, which could indicate that price corrections as a result of new supply cannot be expected in the short term.

<sup>1</sup> At the end of 2017, the debt ratio, defined here as the ratio of household debt to household disposable income, was lowest in Slovenia compared with other euro area countries for which data is available, namely Austria (84.8%), Belgium (105.9%), Germany (84.9%), Spain (99.8%), Finland (115.7%), France (92.0%), Greece (88.1%), Ireland (140.5%), Italy (61.3%), Netherlands (221.6%) and Portugal (101.1%). Source: ECB.

<sup>2</sup> Deflated by the HICP index.

<sup>3</sup> Residential real estate prices peaked in 2008.

<sup>4</sup> The composite misalignment indicator for Slovenia was compiled by Damjanović and Lenarčič (2015), who based their methodology on Martin Schneider's paper entitled *Are Recent Increases of Residential Property Prices in Vienna and Austria Justified by Fundamentals?* published in 2013. For the purposes of this analysis, another indicator has been added to the original set of indicators: the ratio of residential real estate prices to the amount of construction put in place.

<sup>5</sup> The findings are in line with the ECB's calculations for EU countries on the basis of four different valuation methods: price-to-rent ratio, price-to-income ratio, the asset-pricing approach and a Bayesian estimated inverted demand model. See: European Systemic Risk Board, 2018.

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**Figure 2.9: Issued building permits and corresponding floor area**



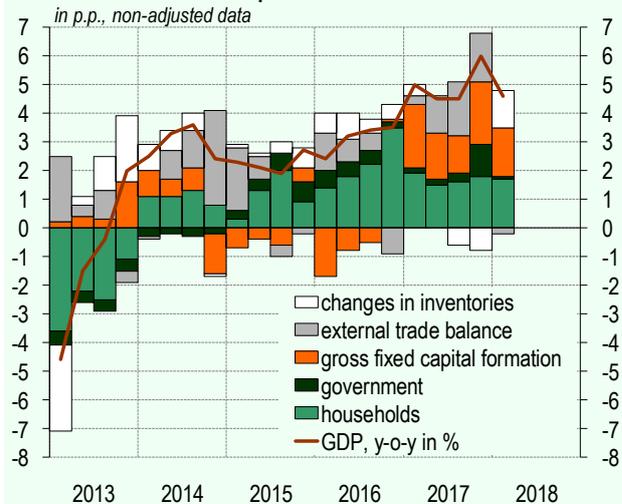
Source: SORS, Bank of Slovenia calculations.

tively high in the first quarter. The situation on the residential real estate market was again attractive to investors, as prices of new housing in the first quarter were up 27% in year-on-year terms, demand remained strong, and bank financing conditions remained favourable. Of the indicators of demand for construction work, the only less favourable year-on-year change was recorded by the value of new contracts, which was negative.

## Aggregate demand

**Growth in domestic consumption was high in the first quarter, primarily as a result of the build-up of inventories.** The year-on-year rate exceeded 5%, up from the final quarter of last year. The faster growth was the result of the build-up of inventories, which contributed 1.3 percentage points to GDP growth, having recorded a negative contribution last year. According to SORS data, the first quarter mostly saw an increase in inventories on the input side in manufacturing. Growth in final consumption declined significantly below last year's average, as a result of weaker growth in government spending after a significant jump in the final quarter of last year. This was likely attributable to growth in intermediate consumption. By contrast, growth in household consumption remained strong and comparable to last year's in terms of pace and contribution to GDP growth. The investment cycle also continued, in which construction investment continued to play a more prominent role among the various types of investment.

**Figure 2.10: Structure of GDP growth in Slovenia, expenditure side**



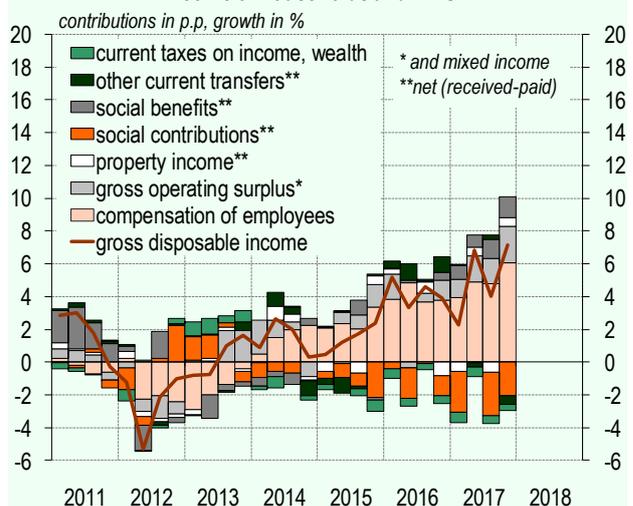
Source: SORS.

**Figure 2.11: Household and NPISH final consumption expenditure for Slovenia and the euro area**



Source: Eurostat.

**Figure 2.12: Contributions to y-o-y growth of gross disposable income of households and NPISH**



Source: SORS, Bank of Slovenia calculations.

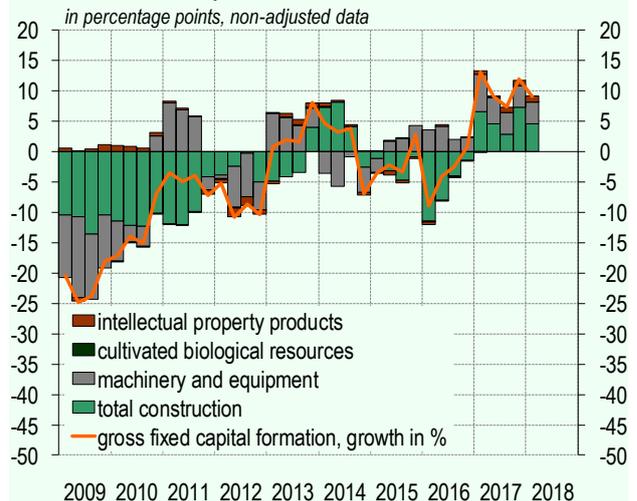
**There has been no let-up in growth in private consumption.** The year-on-year rate reached 3.4% in the first quarter, taking its contribution to GDP growth to 1.7 percentage points. However, there have been changes in its structure, as it seems that the crisis gap in the consumption of durables has been filled, thereby reducing the rate of growth in this segment. This was accompanied by increased growth of expenditure on services, most notably on recreational services and personal services according to SURS data. The robust growth in private consumption was expected, as the wage bill, small sector earnings and social security benefits are all increasing, while consumer confidence also remains high.

**All categories of investment continued to record growth in the first quarter, with construction investment remaining prominent.** Year-on-year growth in investment stood at 9.1%, down slightly from last year, as the current rate of growth slowed relative to the final quarter of last year, while the base in construction investment was also high. Construction investment nevertheless continued to record the highest growth, the rate standing at almost 13% in the first quarter. This was mostly attributable to an increase in investment in non-residential buildings and structures, where the government is also becoming more active. The slowdown in growth of investment in residential construction is surprising, as demand for housing remains strong. The conclusion must be that the decline is likely to be merely temporary. Firms are

responding to the high capacity utilisation by investing in machinery and equipment, which in the first quarter was up 7.5% in year-on-year terms. Investment in intellectual property<sup>2</sup> is also accelerating since the third quarter of last year, and the continuation of these dynamics could gradually improve the technological complexity of the economy.

**The net contribution of foreign trade was negative in the first quarter as a result of weaker growth in foreign demand and the build-up of inventories via imports.** Year-on-year growth in total exports slowed from its level of last year, although it remains relatively high at 7.4% according to the unadjusted figures, despite the

**Figure 2.14: Contributions to volume y-o-y growth in gross fixed capital formation – Slovenia**



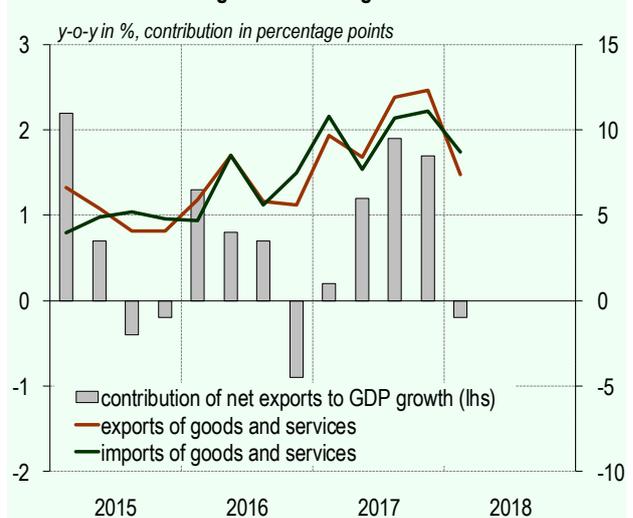
Source: SORS, Bank of Slovenia calculations.

**Figure 2.13: Gross fixed capital formation for Slovenia and the euro area**



Source: Eurostat.

**Figure 2.15: Foreign trade**



Source: SORS – national accounts.

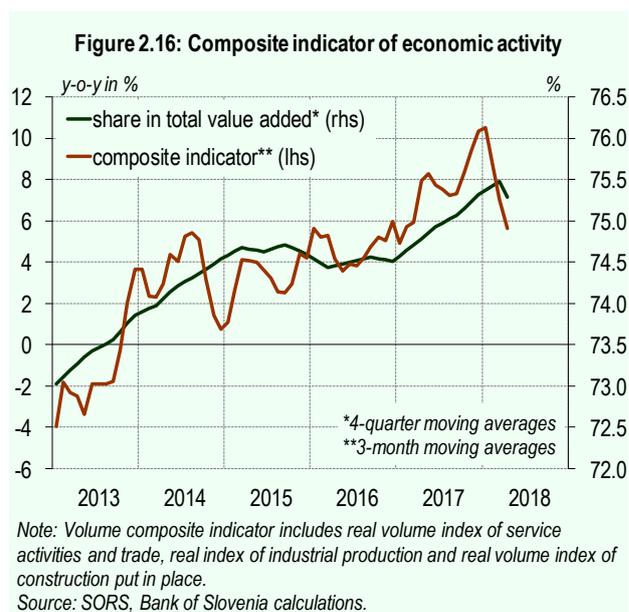
<sup>2</sup> These investments broadly consist of investment in research and development and investment in software and databases.

weaker growth in foreign demand and a base effect. The decline in aggregate growth in merchandise exports was largely attributable to a slowdown of growth of exports of motor cars and electrical machinery and appliances. The strongest factors reducing overall growth of exports of services were slowdowns of growth of turnover from travel services and turnover from construction services. The contraction of exports of telecommunications, computer and information services deepened at the same time. Growth of merchandise imports also slowed, albeit by less, as firms increased their inventories in the first quarter according to SURS data. Year-on-year growth of imports of services remained at the level of the final quarter of last year. The contribution made to GDP growth by net trade was negative for the first time since the final quarter of 2016, at -0.2 percentage points.

## Economic developments in the second quarter of 2018

Year-on-year growth in economic activity remains relatively high as a result of a strong carry-over effect, while the current rates of growth remained relatively weak in April. The exception was construction,

where activity was up almost 10% on March, albeit without any rise in residential construction. Year-on-year growth in industrial production and in turnover in private-sector services remained high, although the monthly dynamics were weak. Higher growth in consumption was indicated for May, as growth in retail turnover recorded its highest level in the first five months of the year.



**Table 2.1: Economic activity – volume indices of production**

	12 m. to Apr.17	12 m. to Apr.18	2017 Feb.	2018 Mar.	2018 Apr.	2017 Jan.	2018 Apr.
	<i>y-o-y in %**</i>					<i>monthly***</i>	
<b>Industrial production - total</b>	7.6	8.9	6.9	6.1	6.9	<b>2.6</b>	-0.4
Manufacturing	8.4	9.7	7.4	6.4	7.4	<b>3.0</b>	-0.8
<b>Construction - total</b>	-5.5	16.4	6.6	-1.8	12.4	<b>14.0</b>	-6.7
Non-residential buildings	7.2	16.1	10.5	-0.2	13.7	<b>33.1</b>	-9.7
Residential buildings	62.9	47.5	59.7	19.0	6.3	<b>10.9</b>	-11.2
Civil engineering	-12.8	13.7	-1.0	-5.5	12.6	<b>12.9</b>	-6.8
<b>Trade and service activities* - total</b>	5.5	6.6	3.7	5.7	5.6	<b>2.6</b>	0.0
Wholesale and retail trade and repair of motor vehicles and motorcycles	17.3	13.9	12.0	12.1	16.2	<b>3.7</b>	3.5
Retail trade, except of motor vehicles and motorcycles	4.7	3.3	-1.8	-0.1	0.0	<b>1.4</b>	-1.6
<b>Other private sector services</b>	4.9	6.4	4.4	4.1	6.9	<b>3.6</b>	-0.1
Transport and storage	8.6	11.0	4.5	7.1	4.6	<b>2.8</b>	-3.0
Accommodation and food service activities	9.4	3.7	-2.2	-0.6	2.6	<b>0.8</b>	-1.2
Information and communication	-1.1	4.5	8.0	11.5	0.6	<b>1.3</b>	1.5
Professional, scientific and technical activities	1.4	4.1	7.4	6.3	17.3	<b>9.1</b>	2.0

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

## 3 | Labour Market

*Despite a slowdown in the increase in the labour force participation rate, year-on-year growth in employment remained high in the first quarter at 3%, although the monthly figures for the workforce in employment are perhaps already indicating the anticipated slowdown. Employment continued to strengthen more notably in labour-intensive sectors, which further deepened the structural imbalances on the labour market. According to SORS survey data, these have already exceeded their pre-crisis levels. Due to labour shortages employers have increasingly sought workers from abroad, and the positive employment expectations have now deteriorated slightly. The number of unemployed fell in the first half of the year, to end June down 42% on its peak in the early part of 2014. The unemployment rates also fell: the surveyed rate stood at 5.9% in the first quarter, while the registered rate stood at 8.3% in April. In the wake of a rapid fall in unemployment and rising structural imbalances, nominal growth in the average gross wage strengthened in April. At 4.6% it was up just under 2 percentage points on last year, and the rate was higher in sectors with high vacancy rates. In parallel with growth in employment and wages, nominal growth in the wage bill strengthened, to average 7.8% over the first four months of the year, while inflation meant that real growth stood at 6.1%.*

### Employment

**Year-on-year growth in employment remained high in the first quarter.**<sup>1</sup> At 3%, the overall rate exceeded employment growth in 2017. The rate was higher in the private sector (3.2%) than in mostly public services (2.2%).<sup>2</sup> The number of employees grew faster in year-on-year terms than the number of self-employed, and the proportion of total employment accounted for by the latter has been declining since 2014. The largest contribution to

employment growth continued to come from labour-intensive sectors with low value-added per employee, most notably industry, the combined sector of wholesale and retail trade and repair of motor vehicles, transportation and storage, and accommodation and food services, and the combined sector of professional, scientific and technical activities and administrative and support service activities. There was also an increase in the contribution made by construction, where year-on-year employment growth reached 5.7%.

<sup>1</sup> Given the different methodologies of monitoring and the different data sources, employment differs according to the figures from quarterly national accounts, the quarterly figures from the Labour Force Survey, and the monthly registry figures. The national accounts figures for employment from the statistical register of the workforce in employment (the SRDAP) include permanent employees, self-employed and assisting family members in private farming, self-employed in other household activities, student work and other forms of temporary employment, employment in sea and coastal transport on Slovenian vessels, and employment at Slovenian diplomatic and consular offices in the rest of the world. The quarterly figures for the workforce in employment from the Labour Force Survey include persons who performed work of any kind in return for payment (in cash or kind) or family gain in the week before the survey was conducted. The workforce in employment also includes employees and self-employed persons who were absent from work in the week before the survey was conducted, and employees on lay-offs, persons on maternity leave and unpaid family workers. According to the monthly figures, only employees with an employment contract and self-employed persons are classed as workforce in employment, the figures being taken from the SRDAP.

<sup>2</sup> Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2008).

**Figure 3.1: Employed and self-employed**



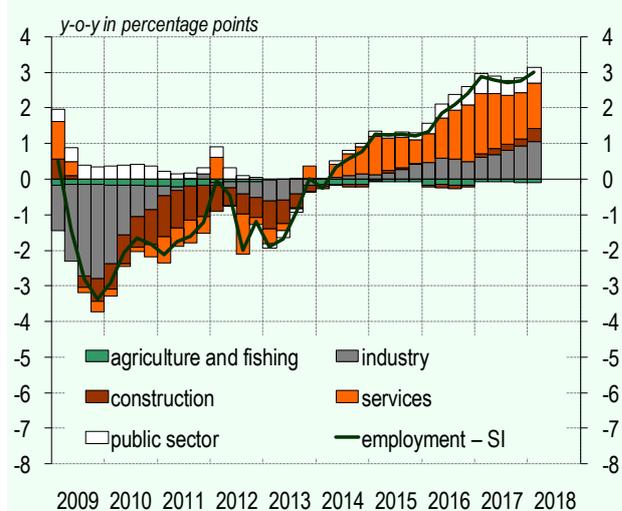
Source: SORS, Bank of Slovenia calculations.

The labour force participation rate rose in year-on-year terms, although the rise was less than last year. According to SORS survey data, a decline of 0.8% in the working age population aged 15 to 64 years in the first quarter was accompanied by a rise in the labour force participation rate, which exceeded 74%. It was up 1.1 percentage points in year-on-year terms, a smaller increase than last year, and a slowdown in growth was evident in all age groups. The largest increase was recorded by the 55 to 64 age group, where the labour force participation rate reached 46.7%, up 11.4 percentage points on five years ago, when the pension reform entered into force.<sup>3</sup> The 55 to 64 age group also recorded the largest increase in the employment rate.

After a record high in January, the figures for the workforce in employment are perhaps already indicating the anticipated slowdown in employment growth. According to monthly registry figures, the year-on-year growth in the workforce in employment stood at 3.2% in April, having slowed over the first four months of the year. The largest growth rates were recorded in transportation and storage and in manufacturing, while growth in administrative and support service activities, which includes employment activities, saw a significant slowdown over the first four months of the year.

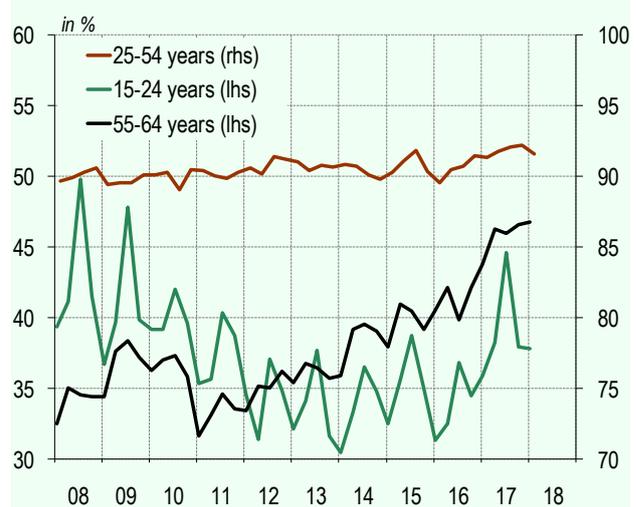
In the wake of high employment growth, firms are increasingly facing labour shortages, and the struc-

**Figure 3.2: Contributions to employment growth**



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

**Figure 3.3: Participation rate by age group**



Source: SORS, Bank of Slovenia calculations.

tural imbalances on the labour market are already larger than in 2008. According to SORS survey data, the proportion of firms facing a shortage of (skilled) labour increased in all sectors covered by the survey and exceeded its pre-crisis level. A shortage of skilled labour was reported by 36% of manufacturing firms in the second quarter, and by 43% of construction firms in June. The increase in the figure in the construction sector is the result of the increase in construction activity and seasonal developments. Similar findings of increasing structural imbalances were reported in *Employment Preview 2018/I*, a survey conducted twice a year by the Employment Service. According to the survey, a shortage of suit-

<sup>3</sup> Despite the growth, the labour force participation rate in the 55 to 64 age group was among the lowest in the euro area. In the final quarter of last year, it was a quarter lower than the euro area average, and only Luxembourg recorded a lower rate.

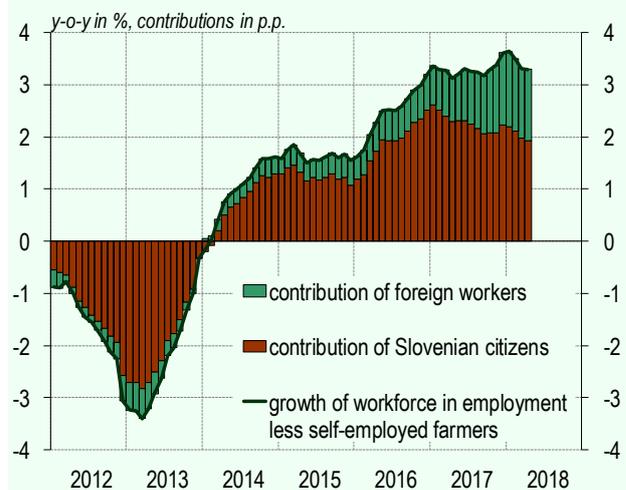
able workers is already faced by 45.7% of firms or by 68.8% of firms classed as large employers, who are reporting that often no candidates apply to advertised vacancies or no candidate satisfies the criteria of the vacancy owing to a lack of working experience, qualifications and professional expertise. In response to the shortage of suitable workers, employers are most frequently extending the search period, failing to employ anybody at all, or seeking workers abroad. The positions where difficulties are most often faced are for drivers of heavy goods vehicles and tractor units, sales staff, welders, and elementary occupations in manufacturing.

**Due to the increasing shortage of skilled labour firms are continuing to seek workers abroad.** According to *Employment Preview 2018/1*, some 28% of employers faced with a shortage of skilled staff have responded to recruitment difficulties by seeking foreign workers. The number of foreign workers has been rising in year-on-year terms since 2014. In the wake of the labour shortage, their contribution to overall growth in the workforce in employment excluding self-employed farmers began increasing significantly last year. In Slovenia it is mainly workers from countries outside the EU that are being hired: they accounted for more than 81% of the foreign labour force in April of this year. Manufacturing, construction, transportation and storage, and administrative and

support service activities accounted for 79% of employees from countries outside the EU. The proportion of employees from EU Member States accounted for by the aforementioned sectors was smaller, at 62%.

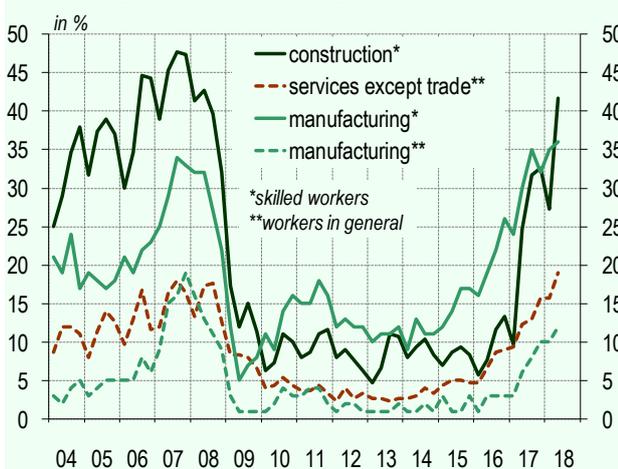
**Employers notified almost 20,000 vacancies in the first quarter.** According to the SORS survey data, employers sought 19,539 employees in the first quarter, up more than 27.2% in year-on-year terms.<sup>4</sup> Mostly public services accounted for just 5.7% of the vacancies, while in the private sector the largest numbers of vacancies were in construction and manufacturing. The rapid rise in

**Figure 3.5: Contribution of foreign workers to growth of workforce in employment**



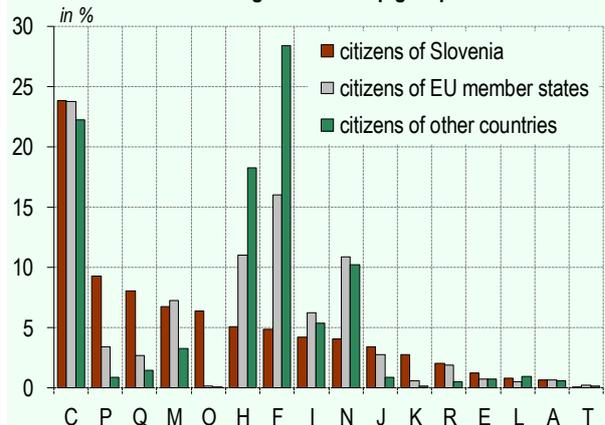
Source: SORS, Bank of Slovenia calculations.

**Figure 3.4: 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.

**Figure 3.6: Share of persons in employment by activity according to citizenship groups**



Note: The shares of each citizenship group do not sum to 100% due to lack of confidentiality data on the number of persons in employment by groups of citizenship in activities B, D, G and S.

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

<sup>4</sup> 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.

the number of vacancies relative to occupied posts brought a sharp increase in the job vacancy rate, which reached 2.5% overall according to seasonally adjusted figures, as construction recorded the highest rate of 6.2%. According to Employment Service figures, the number of notified vacancies rose further in the spring, and in May remained highest in construction and manu-

facturing. In terms of the main categories of occupation, the most frequently sought positions were in construction, architecture, surveying and planning.

**Firms are expecting further growth in hiring, although the employment outlook has declined.** According to seasonally adjusted SORS survey data, the outlook in all sectors covered by the survey remains high, although

**Table 3.1: Demography, unemployment and employment**

	2013	2014	2015	2016	2017	17Q1	17Q2	17Q3	17Q4	18Q1
	<i>in 1000</i>									
<b>Working age population<sup>1</sup></b>	1404	1397	1383	1371	1362	1366	1362	1362	1359	1355
	<i>v %</i>									
<b>Labour market participation rate<sup>2</sup></b>	70.6	71.0	71.8	71.7	74.2	73.1	73.9	75.2	74.7	74.2
<b>Employment rate<sup>3</sup></b>	63.3	63.9	65.2	65.9	69.3	67.3	69.1	70.4	70.3	69.7
	<i>in 1000</i>									
<b>Registered unemployed persons</b>	119.8	120.1	112.7	103.2	88.6	100.1	87.8	83.2	83.5	84.9
<b>Unemployment rate</b>	<i>in %</i>									
- LFS	10.1	9.8	9.0	8.0	6.6	7.8	6.4	6.3	5.8	5.9
- registered	13.1	13.1	12.3	11.2	9.5	10.8	9.4	8.9	8.9	9.0
<b>Probability of transition between employ. and unemployment</b>	<i>in %</i>									
- probability to find a job <sup>4</sup>	13.6	15.4	15.7	18.0	19.2	22.3	21.0	17.2	16.2	23.6
- probability to lose a job <sup>5</sup>	2.8	2.6	2.5	2.3	2.1	2.7	1.6	1.8	2.2	2.3
	<i>in 1000</i>									
<b>Total employment<sup>6</sup></b>	926.7	930.0	941.6	959.8	986.5	968.7	983.5	991.7	1001.9	997.9
	<i>year-on-year growth rates in %</i>									
Persons in paid employment	-2.7	0.5	1.3	2.4	3.2	3.2	3.2	3.1	3.2	3.6
Self-employed	5.8	-0.3	1.1	0.0	1.1	1.5	1.2	0.9	0.8	0.5
<b>By sectors</b>										
A Agriculture, forestry and fishing	0.0	-1.7	-0.9	-2.1	-1.1	-1.1	-1.1	-1.1	-1.2	-1.4
BCDE Manufacturing, mining and quarrying and other industry	-1.9	0.3	1.1	2.3	3.3	2.7	3.0	3.6	4.1	4.7
F Construction	-7.0	-1.1	0.4	-1.0	2.5	1.5	2.4	2.5	3.3	5.7
GHI Trade, accommodation, transport	-1.2	-0.3	1.8	2.4	3.0	3.6	3.1	2.8	2.6	2.8
J Information and communication services	2.3	2.6	3.2	3.6	3.6	5.0	4.6	2.4	2.4	3.4
K Financial and insurance activities	-2.8	-2.1	-1.2	-1.7	-1.7	-1.3	-1.8	-1.8	-1.8	-1.8
L Real estate activities	0.5	0.9	1.4	4.6	2.6	5.4	1.8	1.8	1.7	1.7
MN Professional, technical and other business activities	-0.1	3.0	2.5	4.0	4.6	4.6	5.0	4.7	4.2	3.6
RSTU Other activities	6.0	3.0	2.8	2.7	3.8	4.9	3.7	3.4	3.1	3.4
- mainly private sector (without OPQ) <sup>7</sup>	-1.3	0.4	1.4	1.9	2.9	2.9	2.9	2.8	2.9	3.2
- mainly public services (OPQ) <sup>7</sup>	-0.6	0.4	0.8	2.2	2.5	3.0	2.5	2.2	2.2	2.2
<b>Total employment<sup>6</sup></b>	-1.1	0.4	1.2	1.9	2.8	2.9	2.8	2.7	2.7	3.0

<sup>1</sup> Working age population comprises all persons aged 15 to 64 years according to the Labour Force Survey (LFS) data.

<sup>2</sup> Labour force participation rate represents the labour force as a percentage of the working age population according to the LFS data.

<sup>3</sup> Employment rate represents persons in employment as a percentage of the working age population according to the LFS data.

<sup>4</sup> 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.

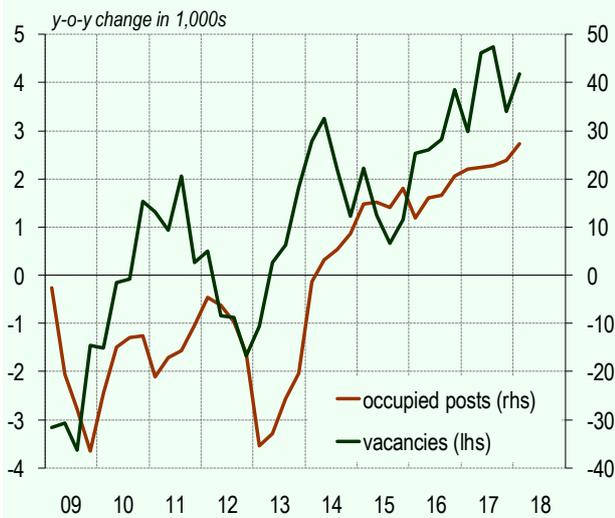
<sup>5</sup> Newly registered unemployed due to a job loss as a share of total employment. Calculation is based on Employment Service of Slovenia's data and registered data of total employment. The higher the indicator's value, the higher chance of losing a job.

<sup>6</sup> Employed and self-employed persons.

<sup>7</sup> Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.

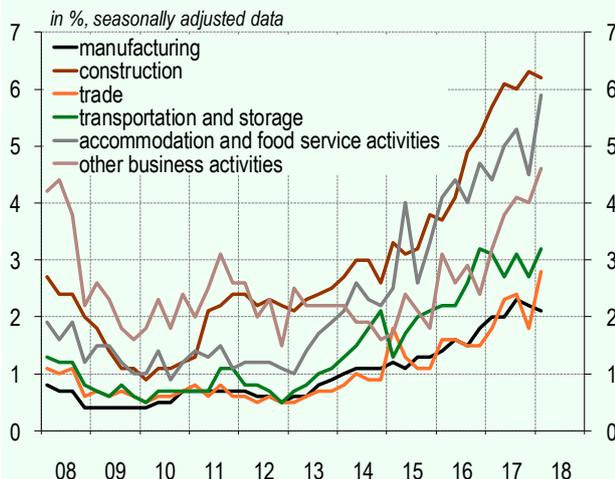
Source: SORS, Employment Service of Slovenia, Bank of Slovenia calculations.

**Figure 3.7: Vacancies and occupied posts**



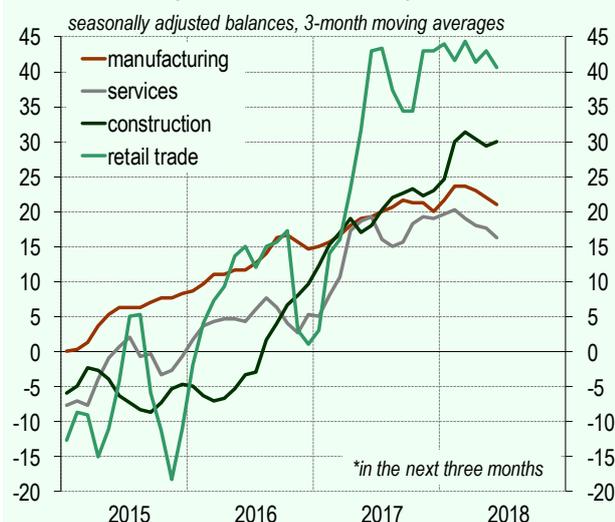
Source: SORS, Bank of Slovenia calculations.

**Figure 3.8: 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 3.9: Expected employment\***



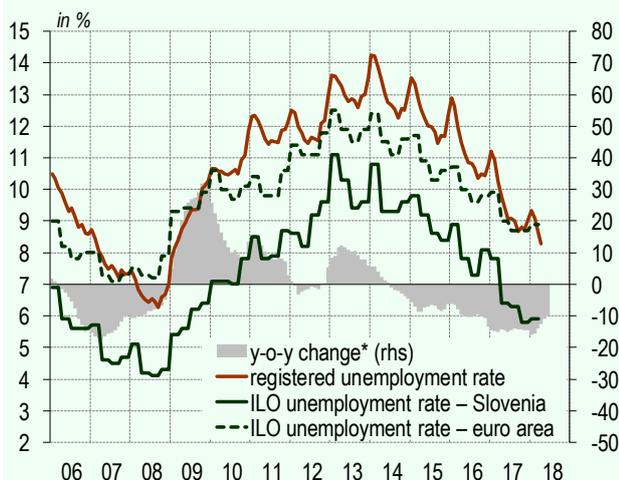
Source: SORS, Bank of Slovenia calculations.

there was a decline at the monthly level in June. The retail and construction sectors are forecast to strengthen their recruitment most over the next three months. Figures from Manpower, an HR firm, also indicate a similar decline in employment expectations in the third quarter of this year. Approximately 11% of employers are still expecting to recruit over the next three months: according to seasonally adjusted figures this is the weakest employment forecast in the last two years. Despite the slight decline in employment opportunities, they remain positive in all sectors covered by the survey. The highest growth in employment continues to be expected by employers in the sector of transport, logistics and communications, while the weakest forecast comes from the restaurants and hotels sector. According to *Employment Preview 2018/I*, employment is forecast to increase by 31,200 or 3% in the second half of the year. In line with the considerable optimism in the forecasts with regard to demand for their products and services, the highest growth in employment is expected by firms surveyed in the sectors of construction, administrative and support service activities, and real estate activities. The most-sought occupations remain elementary occupations in manufacturing, drivers of heavy goods vehicles and tractor units, and sales staff.

## Unemployment

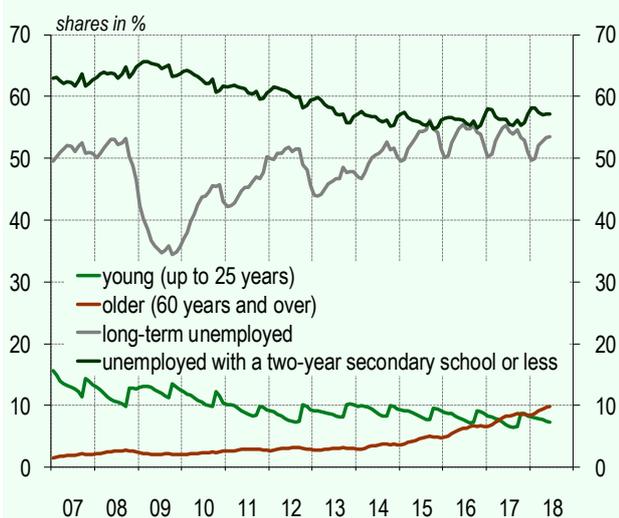
**Unemployment continued to fall rapidly in the second quarter of this year.** There were 74,988 people registered as unemployed by the Employment Service at the end of June, down 11.6% in year-on-year terms and down 42% on the peak in early 2014. In the wake of a simultaneous increase in the labour force according to the monthly registry data, the registered unemployment rate also declined to stand at 8.3% in April. A similar fall was evident in the survey figures. The surveyed unemployment rate was down almost 2 percentage points in year-on-year terms at 5.9% in the first quarter, while the harmonised unemployment rate had fallen to 5.5% by May. There was also a slight change in the structure of registered unemployment over the first half of the year. The long-term unemployed accounted for more than half of the total, but the proportion was down in year-on-year terms. In terms of the age breakdown, the average pro-

**Figure 3.10: Unemployment**



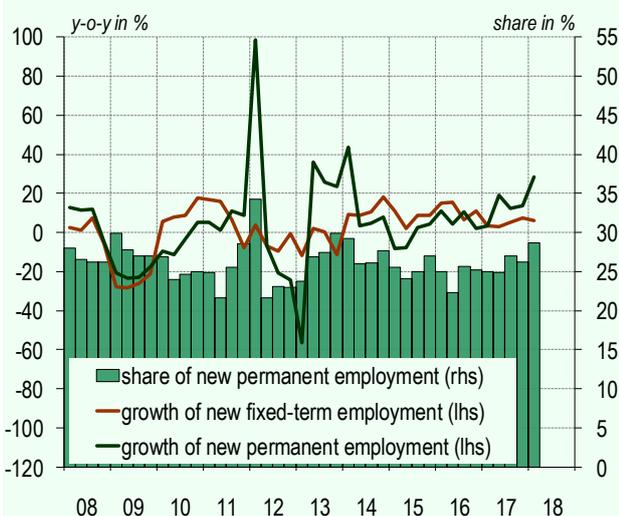
Note: \*Number of registered unemployed persons, y-o-y change in 1,000s.  
Source: Employment Service of Slovenia, SORS, Bank of Slovenia calculations.

**Figure 3.11: Structure of registered unemployment**



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

**Figure 3.12: New permanent and fixed-term employment**



Source: SORS, Bank of Slovenia calculations.

portion of unemployment accounted for by older people over the first half of the year was up in year-on-year terms, and stood at almost 10% in June. The qualifications breakdown simultaneously deteriorated, as the proportion with two years of secondary school or lower qualifications increased.

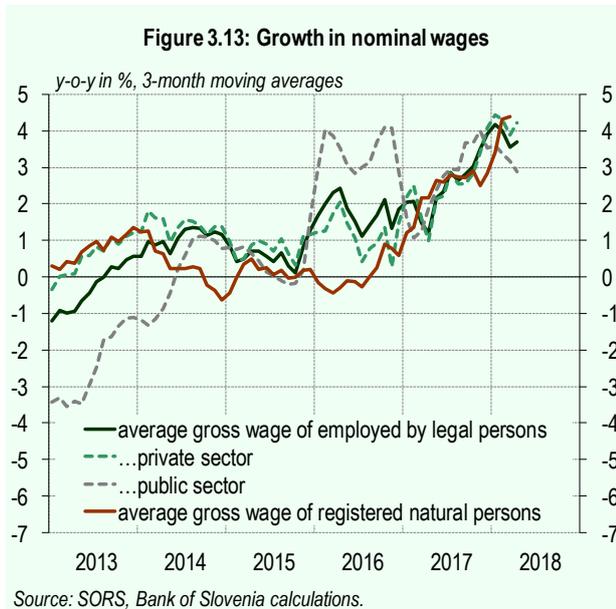
**The number of people newly registering as unemployed in the first half of the year was 10,072 less than the number of deregistrations.** The number of deregistrations in the first half of the year was down 15.2% in year-on-year terms, while the number of registrations was down by 9%. Those whose temporary employment was coming to an end accounted for 59.8% of the registrations, while redundancies and bankruptcies accounted for 13%. More than three-quarters of the deregistrations moved into either employment or self-employment, while 9.3% became inactive. According to monthly SORS figures, the number of new hires in the first three months of the year was up 11.7% in year-on-year terms. Growth in the number of new hires for permanent positions was four times higher than growth in the number of new hires for temporary positions, as a result of which the proportion of new hires accounted for by permanent employment increased by just under 4 percentage points to average almost 29% over the first three months of the year.

## Wage developments

**In the wake of high economic growth, rising inflation and increasing labour shortages, nominal growth in the average gross wage strengthened significantly in April.** The rate reached 4.6% in April, the highest figure since August 2010, and up almost 2 percentage points on last year. Growth in wages clear of extraordinary payments accounted for more than 90% of the high growth, although the additional working day compared with April 2017 was also a factor. In mostly public services wage growth remained at last year's level at 2.8%, while wage growth in the private sector increased to 5.5%, up almost 3 percentage points on last year. Wage growth was highest in wholesale and retail trade, repair of vehicles and motorcycles, agriculture, forestry and fishing, construc-

tion, mining and quarrying, and administrative and support service activities, and in the majority of cases wages have grown fastest in year-on-year terms this year in sectors that recorded high job vacancy rates in the first quarter. Labour shortages have had an impact on workers' bargaining power, which this year has been reflected in

increased trade union activity, and a rise in the wages of employees covered by collective agreements. The increase in gross wages of employees covered by collective contracts and employed by legal persons that are not budget users averaged 4.2% over the first four months of the year, while the wages of employees on individual



**Table 3.2: Labour costs**

	2013	2014	2015	2016	2017	17Q1	17Q2	17Q3	17Q4	18Q1
	<i>in EUR</i>									
<b>Average gross wage</b>	1528	1545	1556	1584	1626	1599	1602	1604	1701	1656
	<i>nominal year-on-year growth, %</i>									
<b>Average net wage</b>	0.6	0.8	0.4	1.7	3.1	1.9	2.5	2.9	4.9	3.1
<b>Average gross wage</b>	-0.2	1.1	0.7	1.8	2.7	1.5	2.3	2.8	3.9	3.6
- mainly private sector (excl. O..Q) <sup>1</sup>	0.7	1.4	0.8	1.3	2.6	1.6	2.2	2.6	4.1	3.9
- mainly public services (O..Q) <sup>1</sup>	-2.3	0.2	0.6	3.3	2.8	1.3	2.8	3.7	3.5	3.2
<b>Average gross wage in manufacturing</b>	2.8	3.3	2.1	2.1	3.2	2.2	2.7	2.8	5.0	4.2
<b>Average real net wage<sup>2</sup></b>	-1.4	0.5	1.2	1.8	1.5	-0.1	1.1	1.6	3.3	1.6
	<i>year-on-year growth, %</i>									
<b>Unit labour costs,<sup>3,4</sup> nominal</b>	0.5	-1.2	0.4	1.6	0.6	-0.3	0.8	1.0	0.8	2.1
<b>Unit labour costs,<sup>3,4</sup> real</b>	-1.0	-2.0	-0.6	0.7	-1.4	-1.4	-1.4	-1.3	-1.4	-0.1
<b>Labour costs per employee,<sup>4</sup> nominal</b>	0.5	1.3	1.4	2.8	2.8	1.7	2.5	2.8	4.0	3.6
<b>Labour productivity, nominal</b>	1.6	3.4	2.0	2.1	4.2	3.2	3.9	4.1	5.4	3.7
<b>Labour productivity, real</b>	0.0	2.6	1.0	1.2	2.2	2.1	1.7	1.7	3.1	1.5
<b>HICP</b>	1.9	0.4	-0.8	-0.2	1.6	2.0	1.4	1.3	1.5	1.5
<b>GDP deflator</b>	1.6	0.8	1.0	0.9	2.0	1.1	2.2	2.3	2.2	2.2

<sup>1</sup> 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.

<sup>2</sup> HICP deflator.

<sup>3</sup> Unit of output for the total economy is defined as real GDP per person employed (based on national accounts).

<sup>4</sup> Labour costs calculated on the basis of employee compensation (national accounts).

Source: SORS, Bank of Slovenia calculations.

contracts fell by 0.6%. An even higher year-on-year average wage growth over the first quarter was recorded by registered natural persons, at 4.4%.

**Because of the high growth in employment and wages, growth in the nominal wage bill also strengthened, reaching the highest figure since 2008 over the first four months of the year.** The rate averaged 7.8% over the first four months of the year, and was higher in the private sector (9%), as a result of higher growth in employment and wages, than in mostly public services (5.3%). Inflation meant that growth in the real wage bill was slightly lower, and averaged 6.1% over the first four months of the year, more than in 2008.

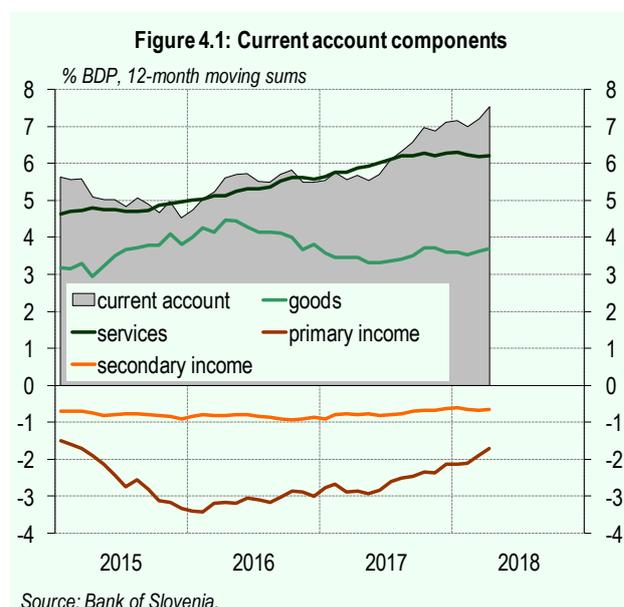
# 4 | Current Account and Competitiveness Indicators

The current account surplus widened further in March and April, reaching a new high. After last year's highly dynamic growth in merchandise exports, in recent months this pace has slowed slightly in line with the slow-down of European economic activity, but was offset by a discontinuation of the previously even higher growth of imports, albeit most likely only temporarily. In the last three years the ongoing increase in the trade surplus was mainly been attributable solely to services, transport services in particular, although the sharp increase in exports of construction services in recent years should also be noted. The decline in expenditure on interest on securities has also been a significant factor in the increase in the overall current account surplus.

Slovenia remains among the euro area countries where developments in price and cost competitiveness are most favourable. The slight deterioration in the price competitiveness indicator measured against 37 trading partners continued from the end of last year into the first quarter, but was again one of the smallest in the euro area. The ongoing appreciation of the euro brought a slight deterioration in the position of Slovenian exporters on the markets of 19 major trading partners outside the euro area, and there was also a slight deterioration against euro area partners due to their prices rising more slowly than in Slovenia. Despite this the developments in price competitiveness remained more favourable than in the long-term average. The developments in cost competitiveness as measured by unit labour costs also remained favourable, as wage growth remained within the bounds of the growth of labour productivity.

## Current account

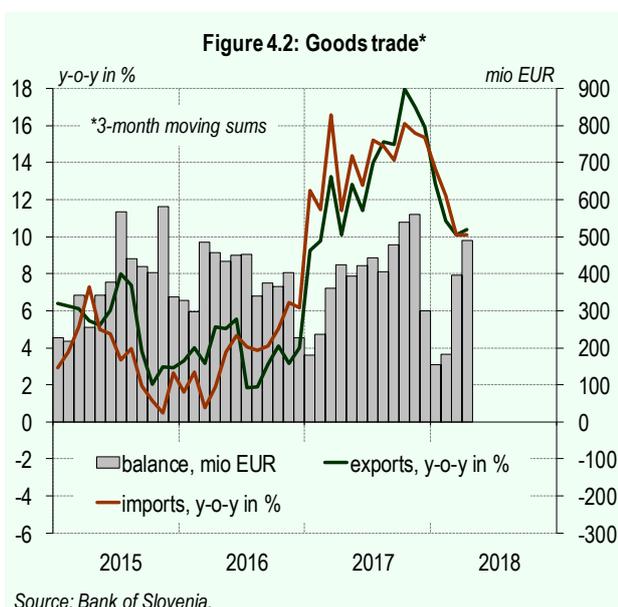
**The current account surplus widened further in March and April, reaching a new high.** After increasing sharply in the second half of last year, the 12-month moving surplus increased further to EUR 3,324 million or 7.5% of GDP in April, while the trade surplus reached 9.9% of GDP. This is the largest overall surplus of the last six years during which the current account position has been markedly positive. It decreased slightly at the turn of the year as a result of a slowdown from last year's very dynamic growth of merchandise exports, and then widened again with a slackening in the growth of imports, which was most likely temporary. In the last three years



the ongoing increase of the trade surplus has mainly been attributable solely to services, transport services in particular. The sharp decline of expenditure on interest on securities has also been a significant factor in the increase in the overall current account surplus over the last two years.

## Merchandise trade

The merchandise trade surplus narrowed slightly at the turn of the year as a result of a slowdown in the growth of exports, before widening again as growth of imports stalled. The 12-month moving surplus reached EUR 1,627 million in April, up 14% on a year earlier. Slovenia's merchandise trade has been in surplus since mid-2012, and has maintained approximately the current level of between 3% and 4% of GDP since mid-2014, with minor fluctuations. A major factor in these developments was the almost complete stagnation in imports, following the introduction of restrictions on domestic income and government spending in 2011, which remained in place until the end of 2015. Exports also grew at a relatively slow pace in this period. Growth in both aggregates then increased sharply in 2017, when merchandise exports rose by 13.9%, while the preceding recovery of domestic demand lifted imports by 14.7%. This high dynamic slowed down in the first four months of this year, although the year-on-year rates of growth in both aggregates remained at 11%. According to national

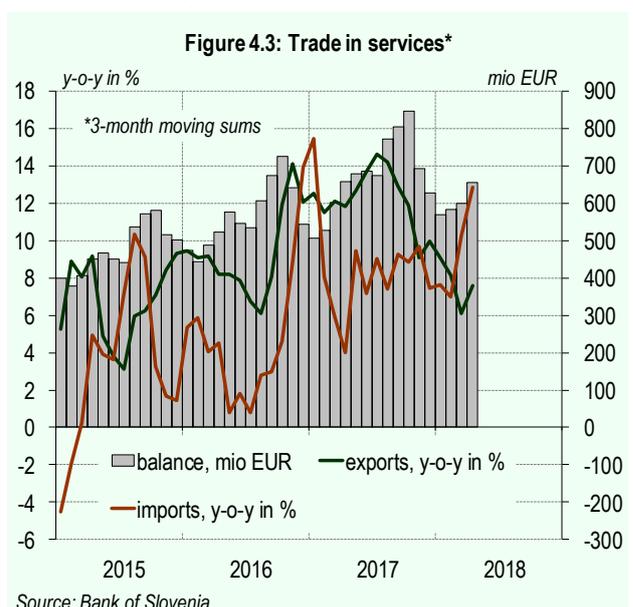


accounts figures, real year-on-year growth in the first quarter of this year stood at 7.7% for exports and 9.2% for imports.

## Trade in services

The growth of the surplus of trade in services came to an end in the early months of this year, albeit at a high level of around 6% of GDP. The surplus had been widening consistently since 2010, having stood at around 3% of GDP for a number of years previously. The 12-month moving surplus reached EUR 2,743 million in April, up 13% on a year earlier. Imports of services increased by 7.6% last year and exports by 12.1%. Year-on-year growth in exports slowed to an average of 8.4% in the first four months of this year, while growth in imports increased to 12.0%, primarily as a result of a large increase in the item of technical and other business services.

The surplus of trade in services continues to be primarily determined by travel and transport services. The 12-month moving surplus in travel services amounted to EUR 1,544 in April, up 11% from a year earlier, while the surplus in transport services amounted to EUR 1,189 million, up 25% from a year earlier. The latter was primarily attributable to the year-on-year growth of 18% of exports of transport services in the first four months of this year, while exports of travel services actually declined slightly during this off-season period. In any



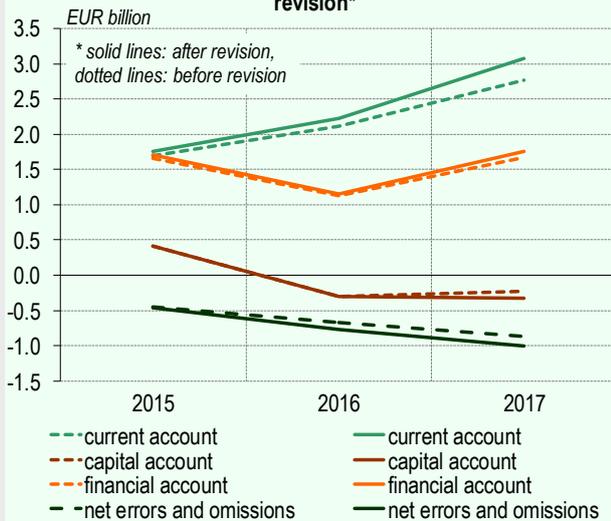
**Box 4.1: Revision to the balance of payments in the 2015 to 2017 period**

A revision of data on the balance of payments and the international investment position for 2015 to 2017 was conducted in June 2018.

The changes made mostly led to increases in the current account surplus in each year (of EUR 62 million in 2015, EUR 116 million in 2016 and EUR 307 million in 2017). In 2017, when the greatest change was made in the figures, the largest increases in the current account surplus came as a result of:

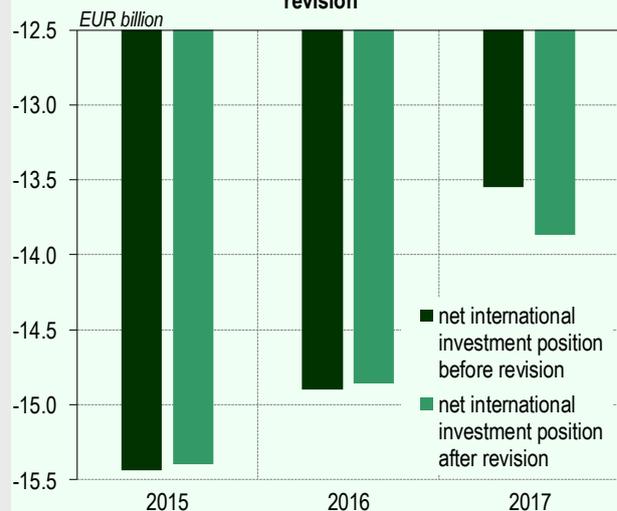
- changes in reinvested earnings and paid dividends on direct investments (EUR 130 million, of which the largest change was in reinvested earnings of Slovenian outward investments, at EUR 81 million),
- changes in the surplus of trade in services in the amount of EUR 153 million (of which EUR 85 million related to an increase in exports of research and development services, and EUR 44 million to exports of travel services),
- changes in the final figures for labour income (an increase in inflows of EUR 61 million),
- changes in connection with the introduction of an assessment of reinvested earnings from holdings of investment funds (EUR 16 million).

**Figure 1: Balance of payments before and after revision\***



Source: Bank of Slovenia.

**Figure 2: Net international investment position before and after revision**



Source: Bank of Slovenia.

case both exports and surplus of transport services have grown significantly faster in recent years than the corresponding categories of travel services. The only other slightly larger contribution to the overall services surplus in the last two years has come from construction services, with exports of EUR 434 million and a surplus of EUR 302 million in the 12 months to April, but with growth now already slowing down. Other categories of services have a neutral or negative contribution.

**Primary and secondary income**

**Net inflows of labour income have slowly increased in recent years.** They amounted to EUR 223 million in the 12 months to April, and were up 21% on last year as inflows grew faster than outflows. The net position in private current transfers, accruing from much larger and in recent years also growing gross flows, is merely insignificantly negative, and is broadly unchanged this year. The balance of even larger gross flows of other, primarily government current transfers and income, was negative over the 12 months to April in the amount of EUR 197 million.

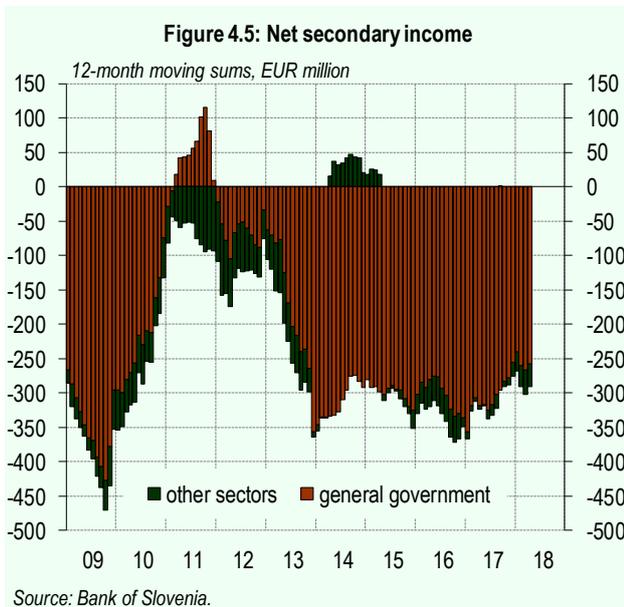
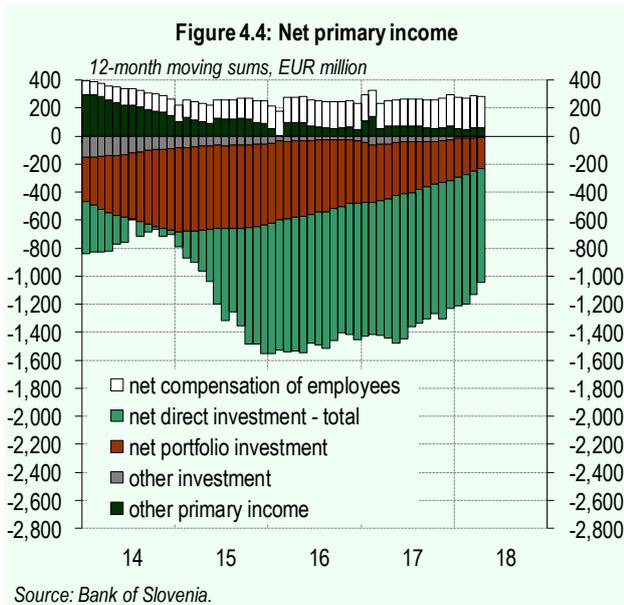
The 12-month moving total of net outflows of capital income was down 28% at EUR 1,039 million. The main contribution to this sum over the last two years has come from net outflows of earnings from direct investments, which amounted to EUR 814 million over the 12 months to April. While net outflows of interest on loans and deposits have declined to almost zero this year, net outflows of interest on securities have in particular declined

very sharply over the last two years, partly as a result of the successful restructuring of government debt to lower interest rates and partly as a result of the purchase of Slovenian government bonds by domestic entities within the framework of ECB programmes. The 12-month total of outflows of interest on securities declined to just EUR 222 million by April of this year, having amounted EUR 600 million three years ago. The Bank of Slovenia,

**Table 4.1: Current account components**

	in 12 months to										
	2015	2016	2017	apr.17	apr.18	16Q4	17Q1	17Q4	18Q1	Apr.17	Apr.18
	<i>in EUR million</i>										
<b>Current account balance</b>	1,760	2,224	3,077	2,342	3,324	372	764	660	858	257	410
<b>1. Goods</b>	1,476	1,536	1,561	1,423	1,627	227	362	299	396	151	183
<b>2. Services</b>	1,930	2,251	2,719	2,425	2,743	544	602	627	599	252	279
2.1. Transport	821	932	1,073	954	1,189	228	240	291	330	79	104
2.2. Travel	1,276	1,337	1,552	1,388	1,544	322	313	364	306	145	144
2.3. Other	-167	-18	93	83	11	-6	49	-27	-37	28	31
<b>3. Primary income</b>	-1,294	-1,215	-926	-1,182	-755	-340	-112	-226	-23	-113	-32
3.1. Labour income	159	187	223	184	223	44	48	71	48	19	19
3.2. Investment income	-1,546	-1,448	-1,222	-1,437	-1,039	-363	-261	-288	-163	-140	-56
3.3. Other income	93	46	72	71	60	-21	101	-9	92	8	5
<b>4. Secondary income</b>	-352	-349	-276	-324	-291	-59	-88	-41	-114	-33	-21
	<i>in % of GDP</i>										
<b>Current account balance</b>	4.5	5.5	7.1	5.7	7.5	3.6	7.7	5.9	8.1	7.2	10.8
<b>1. Goods</b>	3.8	3.8	3.6	3.5	3.7	2.2	3.7	2.7	3.7	4.2	4.8
<b>2. Services</b>	5.0	5.6	6.3	5.9	6.2	5.2	6.1	5.6	5.7	7.0	7.3
2.1. Transport	2.1	2.3	2.5	2.3	2.7	2.2	2.4	2.6	3.1	2.2	2.7
2.2. Travel	3.3	3.3	3.6	3.4	3.5	3.1	3.2	3.2	2.9	4.0	3.8
2.3. Other	-0.4	0.0	0.2	0.2	0.0	-0.1	0.5	-0.2	-0.4	0.8	0.8
<b>3. Primary income</b>	-3.3	-3.0	-2.1	-2.9	-1.7	-3.3	-1.1	-2.0	-0.2	-3.2	-0.8
3.1. Labour income	0.4	0.5	0.5	0.4	0.5	0.4	0.5	0.6	0.5	0.5	0.5
3.2. Investment income	-4.0	-3.6	-2.8	-3.5	-2.4	-3.5	-2.6	-2.6	-1.5	-3.9	-1.5
3.3. Other income	0.2	0.1	0.2	0.2	0.1	-0.2	1.0	-0.1	0.9	0.2	0.1
<b>4. Secondary income</b>	-0.9	-0.9	-0.6	-0.8	-0.7	-0.6	-0.9	-0.4	-1.1	-0.9	-0.5
	<i>nominal year-on-year growth rates in %</i>										
<b>Export of goods and services</b>	5.1	5.0	13.5	7.2	13.1	5.6	13.0	14.7	9.4	7.1	13.9
Export of goods	4.7	4.0	13.9	6.3	13.7	4.0	13.2	15.9	10.1	5.4	13.8
Export of services	6.8	9.3	12.1	10.8	10.8	12.1	12.1	9.9	6.1	14.1	14.4
Transport	9.3	10.9	13.2	10.5	15.7	13.4	12.3	14.9	17.4	3.8	19.1
Travel	1.8	4.4	11.1	6.4	7.3	4.5	7.7	9.6	-0.8	25.6	0.1
Other	10.0	12.8	12.3	15.1	10.2	16.8	15.5	6.8	2.3	12.8	24.1
<b>Import of goods and services</b>	3.6	4.2	13.6	7.9	13.1	7.3	15.1	14.1	10.1	5.2	13.8
Import of goods	3.6	4.0	14.7	8.3	13.7	6.1	16.6	15.3	10.1	5.3	13.3
Import of services	3.8	5.7	7.6	6.1	9.5	13.9	5.9	7.4	10.2	4.1	17.2
Transport	4.5	8.3	11.2	10.2	6.8	17.6	13.4	4.6	-2.6	11.5	6.5
Travel	10.4	3.8	3.3	7.1	1.2	7.6	25.6	2.5	2.5	-12.0	2.4
Other	1.3	5.5	7.7	4.2	13.5	14.1	-1.1	9.6	17.9	7.1	25.7

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



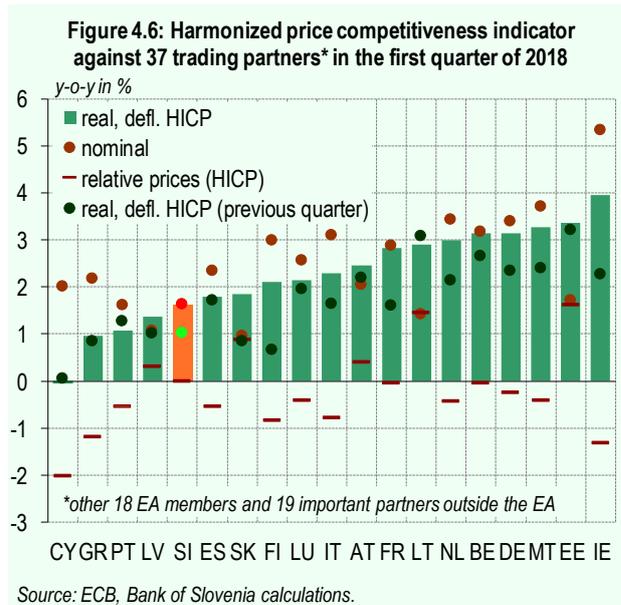
banks and non-banks were net recipients in this position, while the net outflows of the government sector despite their decline still amounted to EUR 597 million.

## Selected competitiveness indicators

The slight deterioration at the end of last year in the price competitiveness indicators of the Slovenian economy continued in the first quarter, but was again one of the smallest in the euro area.<sup>1</sup> Developments in relation to 37 trading partners were more favourable for exporters in only four euro area countries, mostly as a

<sup>1</sup> Price competitiveness is measured by the harmonised competitiveness indicator deflated by the consumer price index (HICP).

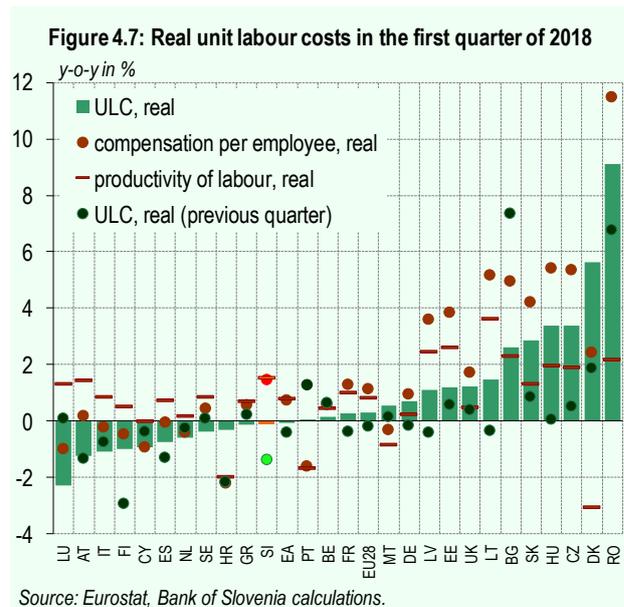
<sup>2</sup> Relative prices are domestic prices compared with prices of trading partners.



result of more favourable ratios in relative prices, while the appreciation of the euro adversely impacted their economies slightly more than it impacted Slovenia's.<sup>2</sup> The Slovenian price competitiveness indicator measured against 37 trading partners, which was up 1.6% in year-on-year terms, was on this occasion impacted only by exchange rate developments, as developments in domestic prices were similar to those in the partner countries. The indicator on the markets of 19 major trading partners outside the euro area remains more favourable than its long-term average, despite having deteriorated slightly for the third consecutive quarter (it was up 3.8% in year-on-year terms), albeit again by less than the average across euro area countries. Export competitiveness deteriorated slightly also against the euro area market, by 0.2% in year-on-year terms, as domestic price growth has since the end of last year remained above the euro area average.

Similarly to the average across the euro area, year-on-year growth of compensation of employees in the first quarter remained within the bounds of the increase in labour productivity and did not generate pressure on the cost competitiveness of the economy. Last year's trend of decline in real unit labour costs did however slow down, and they remained virtually unchanged in year-on-year comparison (down 0.1%, compared with a decline of 1.4% a year earlier). After two

years of a significantly larger contribution to the favourable developments coming from the tradable sector, in the first quarter of this year the effort was relatively evenly spread between the tradable and non-tradable sectors. The largest declines in real unit labour costs were recorded in construction, information and communication, and real estate activities, in the first as a result of high productivity growth and in the others as a result of a real decline in wages. Similarly to Slovenia, real unit labour costs also stagnated in the euro area overall (down 0.1%), while in the EU they rose slightly (by 0.3%). It was the new member states in particular that recorded considerably higher wage growth than Slovenia and one that significantly outpaced growth of labour productivity. With the maintenance of a favourable ratio between costs per employee and value added per employee, Slovenia remains among the EU member states with more favourable developments in real unit labour costs. The only decline relative to last year was in the difference in the pace of decline compared with EU competitors.

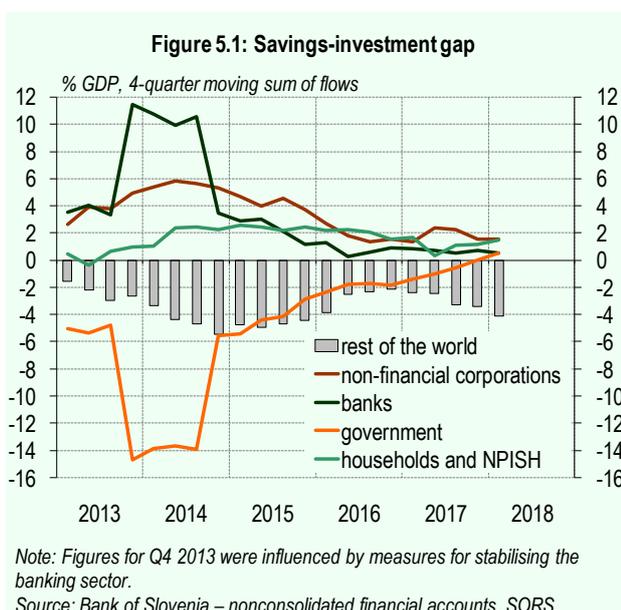


# 5 | Financial Standing of Non-Financial Corporations, Households and Banks

Despite robust economic growth, strong employment and the continuation of the investment cycle, the financial gap is again opening slightly. Weak bank lending to firms is an indication of the increasingly prevalent patterns of corporate financing that have become evident since 2012. Firms are increasingly relying on internal resources and intra-sectoral financial resources, while the proportion of their financial structure accounted for by bank financing is undergoing a sustained decline. Although residential real estate prices are rising rapidly, and demand on the housing market remains strong, growth in household loans declined slightly in the first quarter of this year. The gradual scale-back of net bond purchases in the APP is not yet having an impact on the cost and availability of bank financing in Slovenia.

## Saving-investment gap by institutional sector

The net financial position of non-financial corporations is increasingly reflecting the longer-term shifts in the structure of their financing. The financial deficit



vis-à-vis the banking sector as measured by the difference between assets and liabilities in the first quarter of this year narrowed by 16% in year-on-year terms. This was a result of the year-on-year increase of 6.8% in non-financial corporations' bank deposits on one side, and weak growth in bank loans on the other side. In contrast to the financing provided by the banking sector, the financial deficit is increasing vis-à-vis other non-financial corporations and households, which increasingly represent a source of financing for the corporate sector's investments. As in the case of non-financial corporations, the financial gap of the household sector again widened in the first quarter on the basis of further growth in bank deposits, and slightly more moderate growth in bank loans compared with the previous period. The closing of the financial gap in the banking sector is a reflection of developments in the domestic non-financial sector. In the wake of weak growth in loans, the decline in the gap was most pronounced vis-à-vis domestic non-financial corporations, while the gap vis-à-vis the rest of the world is increasing. The domestic institutional sectors' total sur-

plus of saving over investment vis-à-vis the rest of the world exceeded 4% of GDP in the first quarter, up 1.6 percentage points in year-on-year terms.

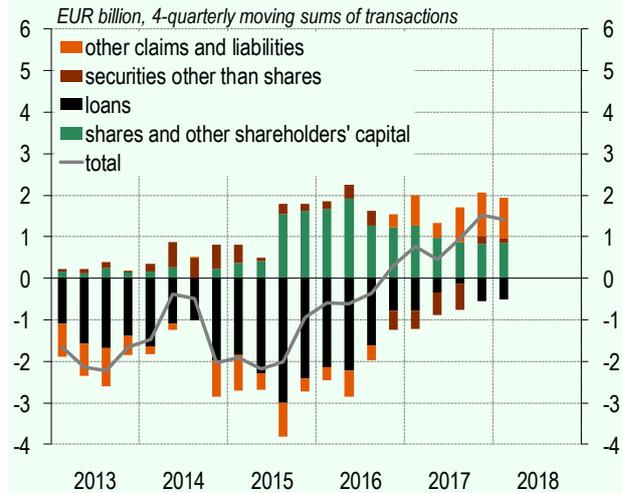
## Financial assets and financing of non-financial corporations

**Non-financial corporations are relying less and less on bank financing.** Growth in bank lending to corporates in the first quarter of this year was weaker than last year. The proportion of non-financial corporations' total liabilities accounted for by bank financing currently stands at 6%, down more than 15 percentage points on 2009. Non-financial corporations are meeting large part of their investment needs via retained earnings, which are increasing in parallel with investment, and at the end of 2017 reached their highest level of the last 10 years. Of the external sources, more than two-thirds of non-financial corporations' external financial liabilities consisted of financing by other non-financial corporations, households and the rest of the world, mostly in the form of trade credits and equity. In addition to the aforementioned intrasectoral claims, the largest proportion of non-financial corporations' financial assets consists of low-risk investments, in particular bank deposits, growth in which is continuing this year.

## Financial assets and financing of households

**Growth in household lending has slowed slightly this year, and is down significantly on the pre-crisis level.** Year-on-year growth in household loans<sup>1</sup> stood at 6% in March, down 1 percentage point on last September, when growth recorded its highest rate since 2012. Credit activity nevertheless remains relatively robust, with growth of 11.5% in consumer loans and 3.9% in housing loans, while overall growth remains 1 percentage point higher than the euro area average. Bank deposits account for approximately 50% of households' financial assets, or EUR 22 billion. These increased by more than EUR 1 billion in the first quarter of this year. Investments in shares and other equity increased by just under

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



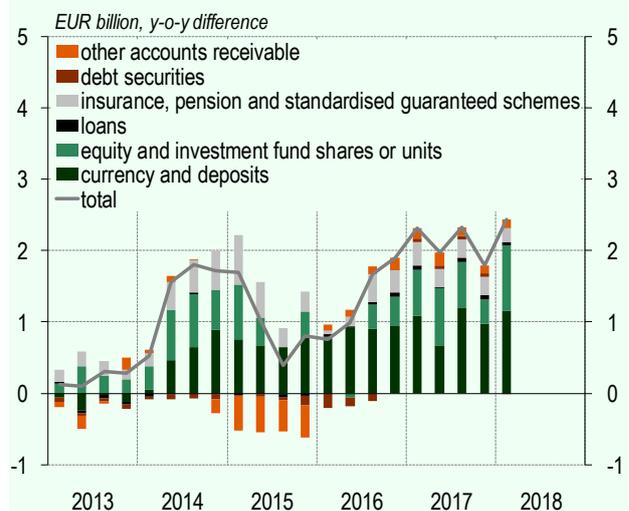
Source: Bank of Slovenia, unconsolidated data.

**Figure 5.3: NFC investment and retained earnings**



Source: Bank of Slovenia, Eurostat, SORS.

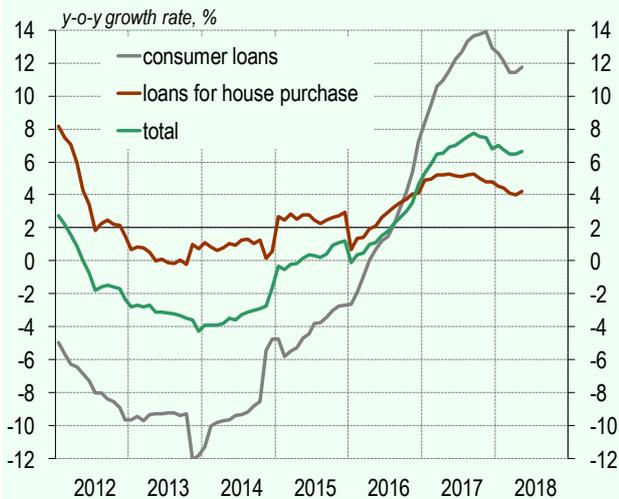
**Figure 5.4: Financial assets of households (S.14 and S.15)**



Source: Bank of Slovenia, non-consolidated data.

<sup>1</sup> Gross loans according to the statistical definition, to allow for a direct international comparison.

**Figure 5.5: Loans to households**



Source: Bank of Slovenia.

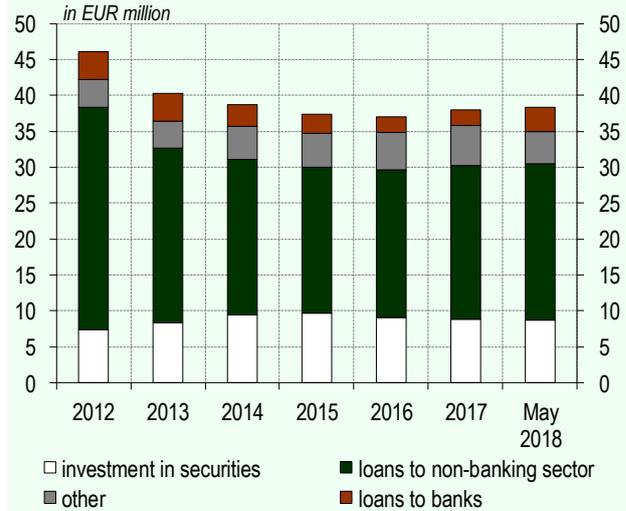
EUR 1 billion, which was mainly attributable to positive revaluations as a result of the ongoing positive trends on capital markets. Investments in pension funds and in life insurance and non-life insurance are continuing to increase. These investments were up approximately 3% in year-on-year terms, whereby new inflows accounted for two-thirds of the increase, and revaluations for the remaining third.

## Financial assets and financing of banks

**The gradual scale-back of net bond purchases in the APP is not yet having a visible impact on the cost of bank financing.** Although the volume of monthly purchases in the APP will be further reduced in September, and pressures are arising on debt markets, interest rates on bank loans remained unchanged in the first quarter of this year. In addition to low financing costs, the positive outlook with regard to the supply of bank loans suggests further improvements in the quality of the credit portfolio. The NPE ratio declined to 5.4% in the first quarter of this year. A slightly higher NPE ratio of 11.6% can be seen in the non-financial corporations segment, but it is declining and according to Bank of Slovenia survey figures<sup>2</sup> it is not having an adverse impact on the availability of bank financing for non-financial corporations. Loans to the private sector account for the largest proportion of the banking sector's financial assets, and the figure has been in-

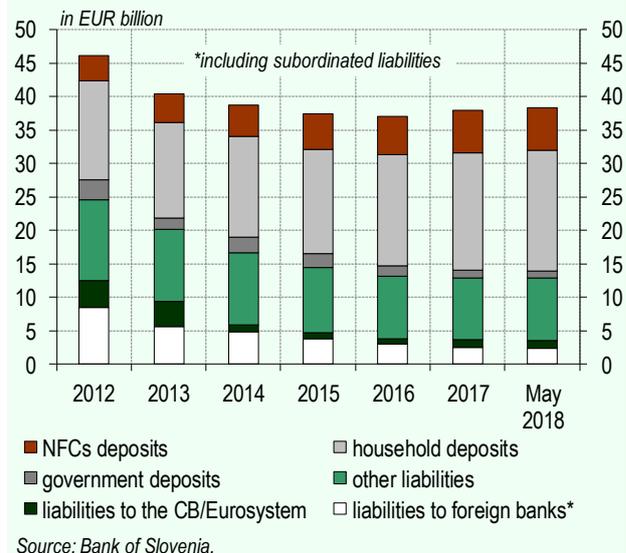
<sup>2</sup> Bank of Slovenia, 2017, Survey on Access to Financing.

**Figure 5.6: Selected assets of domestic banks**



Source: Bank of Slovenia.

**Figure 5.7: Selected liabilities of domestic banks**



Source: Bank of Slovenia.

creasing since 2015, particularly as a result of growth in household loans. In contrast, the banks are reducing their exposure from debt securities, particularly those of issuers in the government sector. From the perspective of the banking sector's liabilities, deposits by the non-banking sector were again up in year-on-year terms in the first quarter of this year, by 4.2%, with sight deposits accounting for 50% of the banking system's total funding. Funding from other sources is declining, most notably in relation to foreign wholesale markets.

**Box 5.1: Bank performance**

The moderate growth in total assets continued in May. Growth in lending activity remained solid, primarily as a result of growth in household loans, while growth in corporate loans slowed further. Growth in deposits by the non-banking sector, household deposits in particular, remains stable and relatively high. The rise in the banks' profitability was attributable to an improvement in developments in net interest income, higher non-interest income and the release of impairments and provisions. The quality of the banks' credit portfolio is continuing to improve. The capital standing of the Slovenian banking system remains appropriate, and capital adequacy has improved slightly this year.

The banking system's total assets increased by EUR 378 million over the first five months of the year to reach EUR 38.3 billion. Year-on-year growth increased by 0.5 percentage points in May to 2.5%, but remains within the framework achieved in the second half of last year. The largest factor in the growth on the funding side was household deposits, which recorded a larger increase than total liabilities. On the investment side, the main increase was recorded by loans to the non-banking sector (NBS) and to banks, while investments in securities declined.

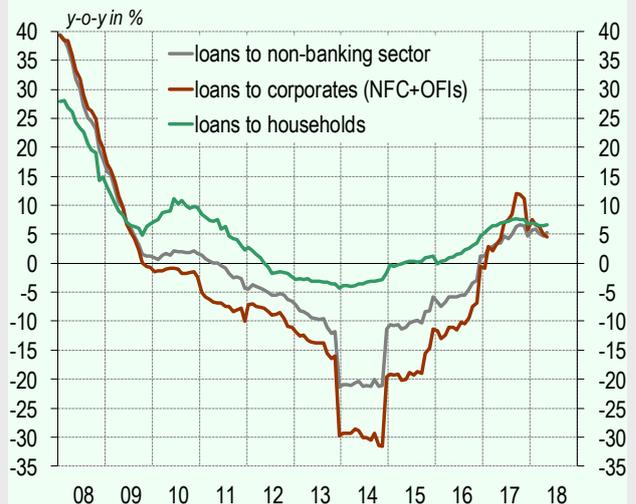
Year-on-year growth in loans to the NBS stood at 5.3% at the end of May. Loans to non-financial corporations have seen a very moderate increase of EUR 106 million this year, or just over a quarter of the increase in total assets. Year-on-year growth in loans to non-financial corporations stood at 2.3% at the end of May, having slowed to a level comparable to the end of last year. The rate was relatively low, despite an easing of credit standards and rising demand. There are several factors in the banks' relatively weak corporate lending activity, including good corporate performance, which is generating high operating surpluses: non-financial corporations still hold EUR 6.5 billion in bank deposits, mostly sight deposits.

Growth in household loans has been relatively stable for several months now, and stood at 6.7% in May. The increase of EUR 260 million in household loans was significantly larger than the increase in loans to non-financial corporations. Year-on-year growth in housing loans was similar to previous months, at just over 4%. The relatively high growth in consumer loans has also been maintained, at 11.7% in May. Certain banks that last year were notable for very high growth in consumer loans have seen more moderate growth this year. The banks under majority foreign ownership were prevalent among the banks recording high or rising growth last

year, while this year consumer loans have also increased at the domestic banks. Further growth in consumer loans while maturities lengthen could in the future increase the banks' exposure to new risks in the event of a reversal in the economic cycle.

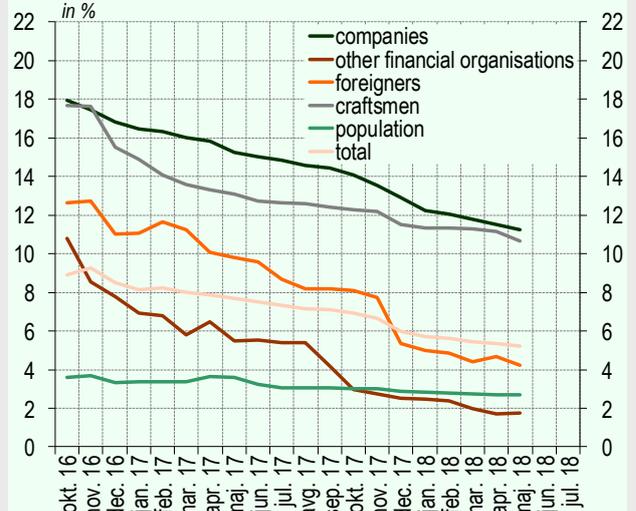
The banks' non-performing exposures (NPEs) declined to EUR 2.2 billion in May, taking the NPE ratio down to 5.2%. Exposures to non-financial corporations account for the majority of the NPEs (EUR 1.5 billion), and this client segment also has the highest NPE ratio, at 11.2%. Forborne exposures account for the largest part of the NPEs to non-financial corporations, while only EUR 426 million are still more than 90 days in arrears. The wholesale and retail trade sector rec-

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



Source: Bank of Slovenia.

**Figure 2: Share of NPEs by client groups**



Source: Bank of Slovenia.

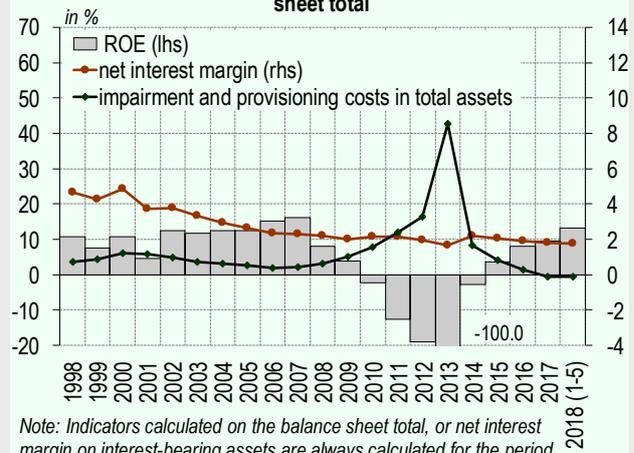
ords the largest NPEs, at EUR 501 million, and the quality of this segment of the portfolio is also among the worst, with an NPE ratio of 20.1%.

Deposits by the NBS are still increasing, while the banks' net repayments of debt have continued on the wholesale markets. Deposits by the NBS were up 5.1% in year-on-year terms in May, primarily as a result of an increase in household deposits, whose growth has strengthened again this year, reaching 6.2% in May. The increase in deposits by the NBS exceeded the increase in loans, for which reason the banks had no need to increase funding from other sources. The small interest rate spread between sight deposits and fixed-term deposits is continuing to discourage savers from fixing their savings, for which reason sight deposits are still growing. They accounted for 70.5% of total deposits by the NBS in May, equivalent to more than half of the banking system's total assets.

The banks' favourable liquidity position is evidenced in the large proportion of highly liquid assets. The proportion of total assets accounted for by highly liquid assets, which include the banks' claims against the central bank and claims in the form of sight deposits at banks, exceeded 11%. The proportion accounted for by secondary liquidity remains stable at the same time, at 19.5% in May. In addition, the high proportion of the pool of eligible collateral at the Eurosystem that is free allows the banks to access additional funding in the event of increased liquidity needs.

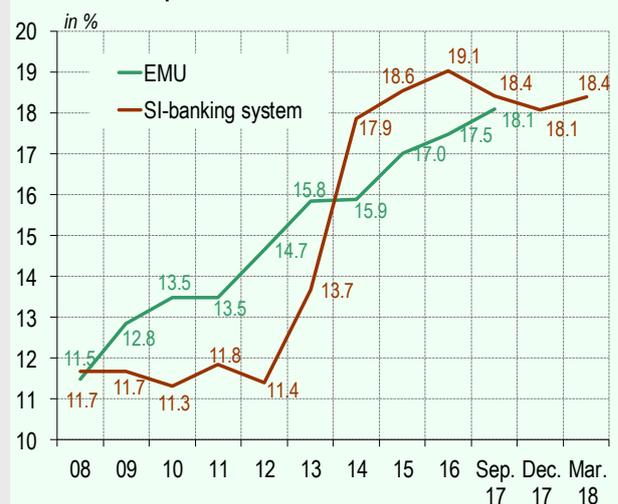
The banking system's pre-tax profit over the first five months of the year amounted to EUR 251 million, up almost a fifth on the same period last year. Interest income and interest expenses are both continuing to decline. However, May saw an end of the trend of decline in net interest income (year-on-year growth over the first five months of the year stood at 0.1%). The favourable impact of credit growth on the rise in interest income increased over the first five months of the year, and is gradually having a more significant impact on positive growth in net interest income. The banks' net non-interest income increased sharply, by 20%, as a result of one-off factors at certain banks. The most stable part of non-interest income, net fees and commission, is also growing, at 1.8% in year-on-year terms. The net interest margin over the first five months of the year was down 0.04 percentage points on the same period last year at 1.78%. The banks' operating costs remain comparable to last year (down 0.1%). The banking system recorded a net release of impairments and provisions over the first five months of the year, in the total amount of EUR 14.7 million. All the banks have operated at a profit.

**Figure 3: 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.

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



Source: Bank of Slovenia, ECB (SDW).

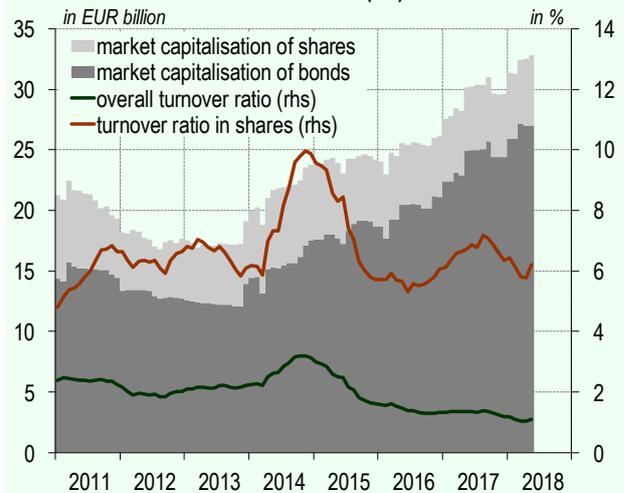
The capital standing of the Slovenian banking system remains appropriate. After declining last year, capital adequacy improved in the first quarter of this year. The total capital ratio reached 20.2% on an individual basis, and 18.4% on a consolidated basis. The improvement in capital adequacy was the result of growth in regulatory capital outpacing growth in capital requirements. Growth in capital requirement slowed slightly, but household and corporate lending activity remains the main source of the growth. The banks increased their regulatory capital in the first quarter via retained earnings and, to a lesser extent, recapitalisations. There was a recapitalisation of small domestic banks, which slightly improved their capital position. Their capital adequacy and leverage nevertheless remain significantly worse than the average of the Slovenian banking system and the euro area average.

## Domestic financial market

The main feature of developments on the domestic stock market in the second quarter of this year was the expectation of takeovers announced of listed and unlisted firms. The SBI TOP gained 9.3% over the first five months of the year, and the moderate rise continued in the first half of June, when the index gained an additional point. Following confirmation of the takeover of a white goods firm, the volume of trading more than doubled in May to EUR 51.1 million, which had a favourable impact on the turnover ratio. The monthly volume of trading in shares averaged EUR 29 million over the first five months of the year, down slightly on the average of EUR 30 million over the same period last year. Four other firms were confirmed as potential takeover targets during this period. Two of them are listed directly on the domestic stock market, which is additionally encouraging developments on it. The takeover activity has not yet been reflected in the proportion of domestic shares under foreign ownership, which in May was down 1.2 percentage points in year-on-year terms at 22.2%.

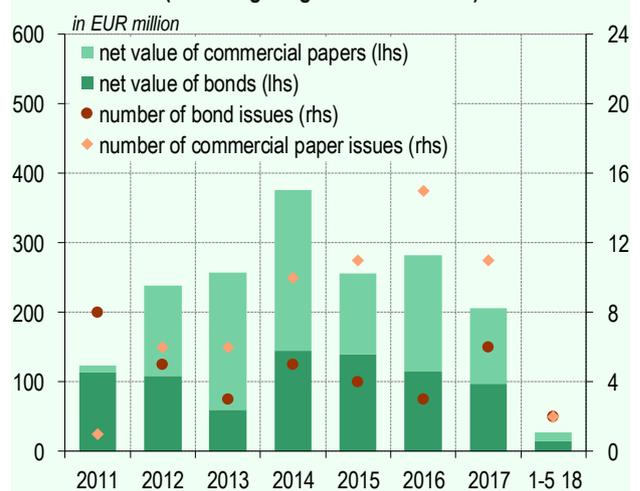
The market capitalisation of bonds increased by 10.8% over the first five months of the year to end May at EUR 27 billion. This was attributable to a new issue of 10-year government bonds and additional issuance of other government bonds during the first three months of the year, while there were no major changes in April and May. Issuance of bonds and other debt securities by other sectors declined during the first five months of the year. Economic operators excluding the government sector issued debt securities in the amount of EUR 27 million during this period, compared with EUR 102 million over the same period last year. The number of issues halved. The total volume of trading in bonds on the Ljubljana Stock Exchange over the first five months of the year was down 9% in year-on-year terms at EUR 7 million.

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



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

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



Source: KDD, Bank of Slovenia calculations.

## 6 | Public Finances

*The general government position moved into surplus in the 12 months to March. According to the Ministry of Finance plans from April's update of the Stability Programme, which was prepared under a no-policy-change scenario, the surplus is expected to reach 0.4% of GDP this year. According to these plans, the general government position will fluctuate around this level also over the next two years; Slovenia would thus fail to meet the requirements of the Stability and Growth Pact. Generating budget surpluses of the appropriate size is vital in the current favourable economic situation. It is important to avoid measures that would cause a deterioration in the structural fiscal position, as general government debt remains high.*

*It stood at 75.1% of GDP at the end of March, and is expected to decline to 69.3% of GDP by the end of the year. The government increased net borrowing in the first quarter, and the debt declined particularly in May as a result of maturing bonds. Borrowing terms remain favourable, and treasury bills have continued to be issued at negative interest rates.*

*The risks in the fiscal area relate to the ability of maintaining the right fiscal policy stance in a favourable economic environment in the context of various upward pressures on expenditure, where the framework for the action of fiscal policy consists of domestic legislation on the fiscal rule and the Stability and Growth Pact. There are also risks from potential one-off factors and high level of implicit and contingent liabilities.*

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### General government deficit

**The general government position moved into surplus in the 12 months to March.** It stood at 0.4% of GDP. Growth in general government revenues is continuing to outpace growth in general government expenditure. According to the Ministry of Finance plans, which were prepared under a no-policy-change scenario, the surplus is forecast to reach 0.4% of GDP this year, while the European Commission forecast is similar. The main factors in the improvement in the position remain the favourable cycle and the reduction in the interest burden. The general government debt amounted to 75.1% of GDP at the end of the first quarter, and is expected to decline to 69.3% of GDP by the end of the year.

**General government revenues are continuing to record solid growth, tax revenues in particular.** General government revenues in the first quarter were up 6.1% in year-on-year terms. Growth in tax revenues was even higher, at 7.7%, and outpaced growth in GDP. There was rapid growth both in direct taxes on personal and corporate income (7.8%), and indirect taxes on products (7.7%), while net social security contributions recorded slightly slower growth of 4.3%. The high employment growth and strengthening wage growth are both having a favourable impact on tax revenues, while growth in private consumption remains also high, and thus growth in taxes on consumption. Non-tax revenues, which include

**Table 6.1: General government deficit and debt in Slovenia, 2014–2021**

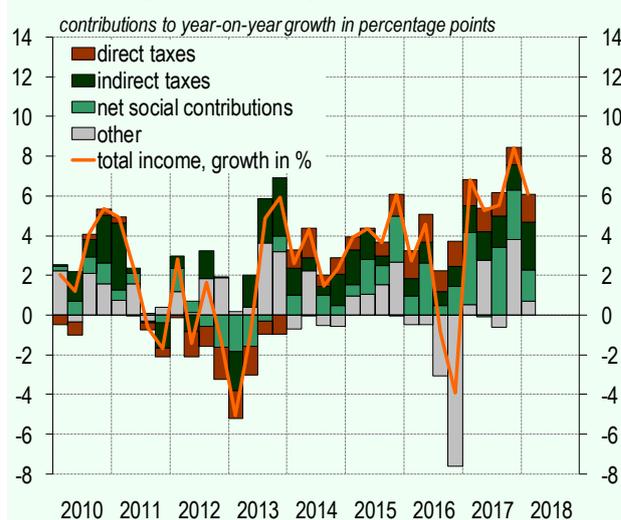
	<u>SORS</u>					<u>Draft Budgetary Plan</u>			<u>Stability Programme</u>				<u>EC</u>	
	2014	2015	2016	2017	18Q1	2017	2018	2019	2018	2019	2020	2021	2018	2019
% GDP														
<b>Revenue</b>	44.3	44.9	43.3	43.1	43.3	43.2	43.0	...	42.3	41.7	40.8	39.8	42.3	41.8
<b>Expenditure</b>	49.9	47.7	45.3	43.1	42.7	43.9	42.6	...	41.9	41.5	40.2	38.9	41.8	41.5
of which: interest	3.2	3.2	3.0	2.5	2.2	2.6	1.9	...	2.0	1.7	1.6	1.5	2.0	1.7
<b>Net lending (+) / borrowing (-)</b>	-5.5	-2.9	-1.9	0.0	0.6	-0.8	0.4	0.8	0.4	0.2	0.6	0.9	0.5	0.4
<b>Primary balance</b>	-2.3	0.4	1.1	2.5	2.7	1.9	2.3	...	2.4	1.9	2.2	2.3	2.5	2.0
<b>Structural balance</b>	...	...	...	...	...	-0.8	-0.2	...	-0.5	-1.0	-0.7	-0.2	-1.1	-1.5
<b>Debt</b>	80.3	82.6	78.6	73.6	75.1	75.2	71.7	68.0	69.3	65.2	61.5	58.3	69.3	65.1
<b>Real GDP (growth, %)</b>	3.0	2.3	3.1	5.0	4.6	4.4	3.9	3.2	5.1	3.8	3.2	3.0	4.7	3.6

Source: SORS (realization), Draft Budgetary Plan (Ministry of Finance, October 2017), Stability Programme (Ministry of Finance, April 2018), European Commission (May 2018).

property income and capital revenue, were down slightly in year-on-year terms in the first quarter.

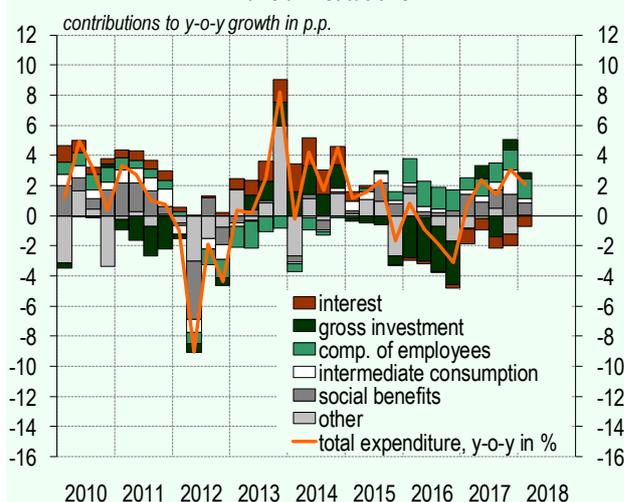
**Growth in general government expenditure remains lower than growth in revenues, with compensation of employees and investment recording the fastest growth.** General government expenditure was up 2.1% in year-on-year terms. There was above-average growth of 4.9% in the compensation of employees, owing to the relaxation of austerity measures (most notably the relaxation of premiums for supplementary collective pension insurance, promotions, the elimination of wage anomalies up to the 26<sup>th</sup> wage grade inclusive, while there was also an increase in employment). Employment in the general government sector in the first quarter of the year was up 2.0% in year-on-year terms. Government investment also strengthened over the same period, by 9.6%. Social benefits were up 2.0%, as growth in pensions, which account for the largest proportion, strengthened, largely as a result of a pension increase, while the number of pensioners maintained a slow increase. The high growth in sick pay slowed slightly, while transfers to the unemployed have declined. Intermediate consumption grew slightly faster than overall government expenditure, while interest payments in particular declined.

**Figure 6.1: General government revenues**



Source: SORS, Bank of Slovenia calculations.

**Figure 6.2: General government expenditure excluding support to financial institutions**



Vir: SORS, preračuni Banka Slovenije.

### Box 6.1: Public finance developments according to cash flow methodology

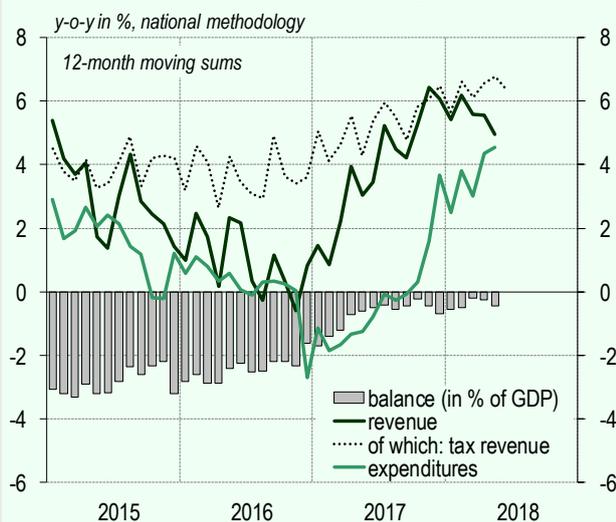
The consolidated general government position over the first five months of the year was a larger surplus than in the same period last year. The improvement in the position was primarily the result of developments in the state budget. Surpluses

were also disclosed by the Health Insurance Institute and local government budgets, although the latter's was smaller than last year.

A surplus of EUR 51 million or 0.1% of GDP is planned in the state budget approved for this year. In mid-June the government temporarily suspended the execution of expenditures from this year's state budget in integrated items, whereby proposers of financial plans may only give commitments for which mandatory funding is explicitly set out by law. Following the adoption of the Act Amending the Social Assistance Benefits Act, unplanned additional commitments in the estimated amount of EUR 50 million were incurred, which the government will include in the budget. The funds will also be obtained via reallocation from other items within the framework of potential savings.

On the revenue side, the main increase during the first five months of the year was in taxes and social security contributions, while inflows from the EU budget were also up in year-on-year terms as a result of high inflows in April. By contrast, there was a decline in non-tax revenues as a result of a fall in

**Figure 1: Public finance developments**



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

**Table 1: Consolidated balance sheet\* of public finance**

	2017	last 12 months to May 18		2017	2018	Jan.-May 18	
	EUR millions	% GDP	y-o-y, %	Jan.-May	Jan.-May	y-o-y growth, %	
<b>Revenue</b>	<b>16,803</b>	<b>17,164</b>	<b>38.7</b>	<b>4.9</b>	<b>6,943</b>	<b>7,304</b>	<b>5.2</b>
Tax revenue	15,162	15,578	35.1	6.8	6,156	6,572	6.8
- goods and services	5,723	5,789	13.0	5.1	2,280	2,346	2.9
- social security contributions	6,092	6,286	14.2	7.4	2,480	2,673	7.8
- personal income	2,197	2,298	5.2	7.3	928	1,028	10.9
- corporate income	766	811	1.8	21.4	345	390	12.9
From EU budget	391	458	1.0	14.0	220	287	30.2
Other	1,250	1,128	2.5	-17.2	566	444	-21.5
<b>Expenditure</b>	<b>17,102</b>	<b>17,364</b>	<b>39.1</b>	<b>4.5</b>	<b>6,904</b>	<b>7,165</b>	<b>3.8</b>
Current expenditure	7,733	7,809	17.6	4.4	3,217	3,293	2.4
- wages and other personnel expenditure (incl. contributions)	3,938	3,994	9.0	4.0	1,584	1,640	3.5
- purchases of goods, services	2,627	2,687	6.1	11.9	931	991	6.4
- interest	985	931	2.1	-12.6	657	603	-8.2
Current transfers	7,913	8,028	18.1	3.7	3,281	3,396	3.5
- transfers to individuals and households	6,665	6,747	15.2	2.9	2,744	2,826	3.0
Capital expenditure, transfers	1,078	1,118	2.5	13.3	242	282	16.8
To EU budget	378	408	0.9	1.6	164	194	18.2
<b>GG surplus/deficit</b>	<b>-299</b>	<b>-199</b>	<b>-0.4</b>	<b>39</b>	<b>138</b>		

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.

dividends, which had been high in the same period last year because of dividend payments by financial corporations and the Bank of Slovenia's surplus of revenues over expenses, which this year have not been paid or have seen a decline in revenues. Revenues from taxes and contributions were up 6.4% in year-on-year terms by June. The rise in revenues was facilitated by the favourable economic situation, which has been reflected in an ongoing improvement in the situation on the labour market, growth in domestic demand and good corporate performance. Growth in taxes related to the wage bill was faster than growth in taxes on consumption. Expenditure over the first five months of the year was up 3.8% in year-on-year terms. The main increases were in transfers to

individuals and households (most notably pensions), expenditure on goods and services, employees' wages and contributions and investments, while there was a decline in interest payments. The balance of transactions with the EU budget over the first five months of the year was a surplus of EUR 93 million, more than in the same period last year.<sup>1</sup>

<sup>1</sup> Decisions were issued to grant funding for various projects in the amount of EUR 1.92 billion from the new financial framework over the first five months of the year, equivalent to 63% of the available funding earmarked for Slovenia in the seven-year financial framework. Refunds from the EU budget amounted to just over EUR 247 million. Source: [http://www.svrk.gov.si/en/eu\\_funds\\_absorption\\_rate/](http://www.svrk.gov.si/en/eu_funds_absorption_rate/).

## General government debt and government guarantees

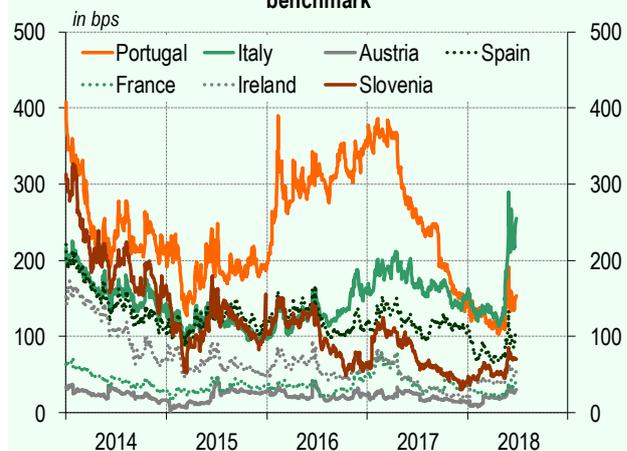
**The general government debt was up somewhat at the end of the first quarter.** It amounted to EUR 32,997 million or 75.1% of GDP, up EUR 1.1 billion on the end of last year. The government sector primarily increased its debt in the first quarter through issuance of euro bonds, a new bond having been issued in January, while in March there was an increase in issues of existing euro bonds and a simultaneous reduction of debt in US dollars. The government is reducing US-dollar-denominated debt for the third consecutive year, and through these transactions is reducing the interest payment burden and extending the average maturity of the debt. In the second quarter borrowing was undertaken solely via issuance of treasury bills, which are still recording negative interest rates on the market at issue, although demand is nevertheless significantly outstripping supply. A large amount of debt was falling due for repayment in May, when two bonds matured, a US-dollar-denominated bond accounting for the larger amount. Bond repayments again reduced general government deficit in the second quarter. According to the Stability Programme forecast, the general government debt is expected to decline to 69.3% of GDP by the end of the year.

**The stock of Slovenian government sureties and guarantees is continuing to decline.** They amounted to EUR 6,179 million or 14.1% of GDP at the end of the first quarter, down around EUR 76 million on the end of last

year. The majority of the decline was attributable to a decline in guarantees to DARS and the BAMC, the two firms having settled some of their debt. Guarantees deriving from the EFSF declined at the same time. The decline in the BAMC's debt slightly reduced the proportion of guarantees included in the general government debt, which amounted to 3.9% of GDP, and comprised liabilities to the EFSF in addition to liabilities to the BAMC. According to state budget figures, no guarantees were called during the first three months of the year, and repayments of guarantees amounted to just over EUR 1 billion.

**The required yield on 10-year Slovenian government bonds – like those of other euro area periphery countries – rose in late May as a result of the increase in political uncertainty in Italy.** In addition to the political

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



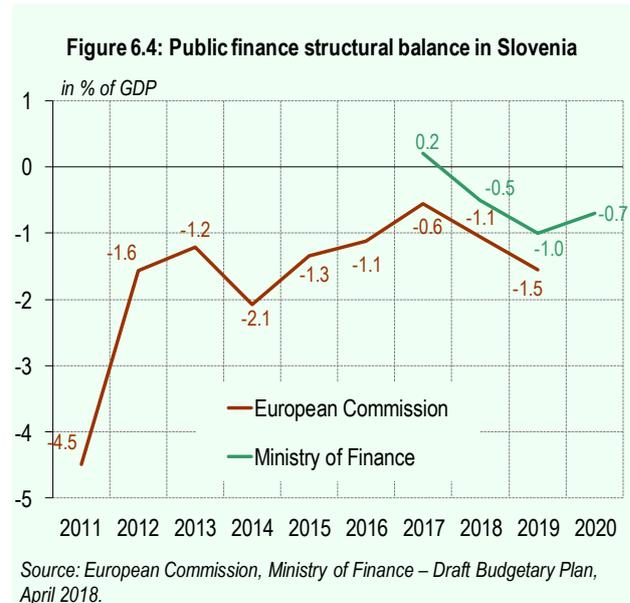
Note: Spread is calculated as the difference between the yield of a 10-year government bond and the yield of a reference German bond on a daily basis and is used as a measure of a country's credit risk. Source: Bloomberg, Bank of Slovenia calculations.

uncertainty in Italy that accompanied the formation of a new government, there were some other uncertainties in the rest of the world in the second quarter. They were most notably in connection with changes in US foreign trade policy and the lack of agreement over the approach to addressing migration pressures in Germany. A more favourable impact on bond yields came from the ECB's commitment to maintain interest rates unchanged at least until the summer of 2019, and the upgrading of the outlook for Slovenia's long-term debt at one of the rating agencies, Standard and Poor's. Despite rising in the second quarter, the required yield and the spreads over the German benchmark bond remain low, which is in line with the ECB's monetary policy stimulus, now in place for a long time.

## Planned developments in the general government position

**The cyclical situation requires the generation of surpluses.** The generation of surpluses will continue to be the result of the favourable cyclical situation and reduced interest payments. Budget surpluses were planned in April's update to the Stability Programme (which was prepared under a no-policy change scenario), but they do not meet the requirements of the Stability and Growth Pact or Slovenia's own fiscal rules. In good economic times it is necessary to generate sufficient reserves for the future reversal in the cycle.

**Slovenia improved its structural fiscal position last year, but the medium-term fiscal objective has not yet been met, which necessitates the continuation of structural measures.** European Commission estimates suggest that last year Slovenia achieved its most favourable structural position to date (during the period for which the data is available), and the same conclusion was reached by the Fiscal Council. The currently available estimates show that Slovenia still did not reach its medium-term fiscal objective, which is currently set as a



structural surplus in the amount of 0.25% of GDP. This means that further structural improvement in the public finances is required.

**Controlling general government expenditure remains the key.** The government has not managed to reach agreement with the public sector unions with regard to wage policy for this year and the following years.<sup>1</sup> Further pressure on expenditure is coming from other requirements, such as for increased funding for the defence budget. In addition, the upward pressure on general government expenditure owing to demographic changes will gradually strengthen.<sup>2</sup> There is also considerable uncertainty surrounding government investment in connection with planned major investment projects, the local elections, and the ability to speed up the disbursement of EU funds. A deterioration in the structural position in public finances could be brought by a reduction in the tax burden, unless compensated for by other measures. One-off factors (such as court judgments in the past) could also have an adverse impact.

<sup>1</sup> 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.

<sup>2</sup> According to the European Commission's 2018 Ageing Report, under the baseline scenario general government expenditure in Slovenia over the 2016 to 2070 period will rise by 6.3% of GDP because of the ageing population (compared with 1.1% of GDP in the euro area overall), largely as a result of pensions (3.9% of GDP).



# 7 | Price Developments

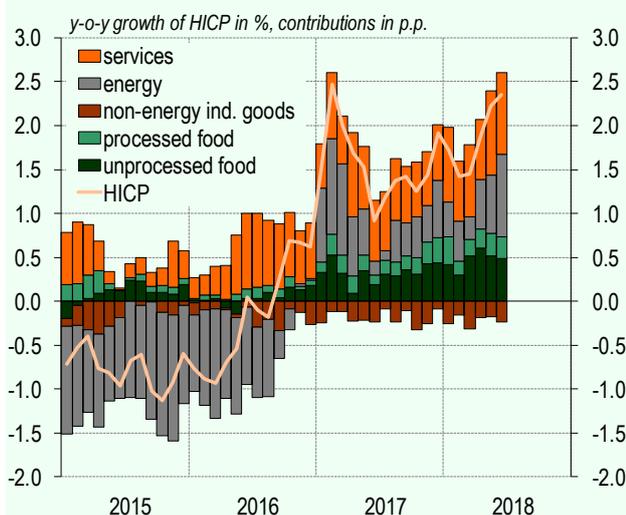
The rising inflation trend since the second half of last year slowed merely temporarily in the early part of this year, as inflation reached 2.3% by June, averaging 2.1% over the second quarter. The rate has thus outpaced the euro area average, which stood at 1.7% in the second quarter. The sharp jump in inflation in Slovenia was primarily the result of higher energy prices caused by rises in oil prices on the global market, but price growth was also driven by consistently high contributions by services prices. Core inflation also strengthened as a consequence, as the rise in all three indicators reflects the opportunity for price rises enabled by the ongoing robust growth in private consumption supported by high consumer confidence and rising consumer purchasing power. The proportion of prices falling or recording growth of less than 1% has declined further this year, an indication of the spread of inflation across the basket of prices in the HICP.

## Structure of inflation

There was a slight change in the structure of inflation in the second quarter relative to the first quarter, as growth in prices spread further across the HICP basket. Inflation as measured by the HICP reached its highest level of the year in June, at 2.3%, and the average

rate over the second quarter was 0.6 percentage points up on the first quarter. The rise in inflation was primarily attributable to energy prices, whose contribution was up 0.4 percentage points on the previous quarter. There were also increases of 0.1 percentage points on the previous quarter in the contribution made by prices of unpro-

Figure 7.1: Contributions to headline HICP inflation – Slovenia



Source: Eurostat, Bank of Slovenia calculations.

Figure 7.2: Share of products in HICP with an annual growth rate of less than 1 percent



Source: SORS, Bank of Slovenia calculations.

cessed food and the contribution made by services prices, which has been consistently high since the beginning of the year (averaging 0.8 percentage points over the first half of the year). By contrast, the contribution made by prices of non-energy industrial goods remained unchanged in negative territory (in the amount of 0.2 percentage points). To a certain extent the change in the structure of inflation tracked changes in the structure of inflation across the euro area, which was also the result of increases in the contributions made by energy prices and prices of unprocessed food, while the contribution by services prices was lower. Inflation in Slovenia has become more widespread: the proportion of prices falling or recording growth of less than 1% is declining.

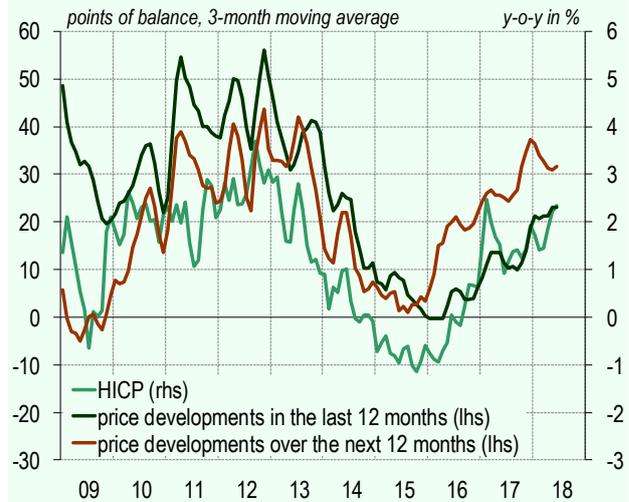
### Macroeconomic factors and core inflation indicators

**Growth in private consumption remains robust, and is increasing the opportunities for price rises.** Higher consumer purchasing power and strong private consumption, supported by high consumer confidence and the buoyant labour market, have begun to be reflected in pronounced and widespread growth in services prices and a gradual rise in core inflation. Consumers' short-term inflation expectations also remain relatively high. This indicator is down slightly on the beginning of the year, but remains 9 percentage points above its long-term average.

**Cost pressures from the rest of the world are increasing, while growth in domestic wages has also accelerated.** Commodity price pressures on the global market are again becoming more pronounced. The highest growth in May and June was in oil prices, where growth in euro oil prices increased further as a result of the fall in the euro. In domestic environment, the elevated nominal wage growth is increasing firms' costs, although developments in unit labour costs remained favourable at least in the first quarter, and are not thought to have caused any cost pressures on consumer prices.

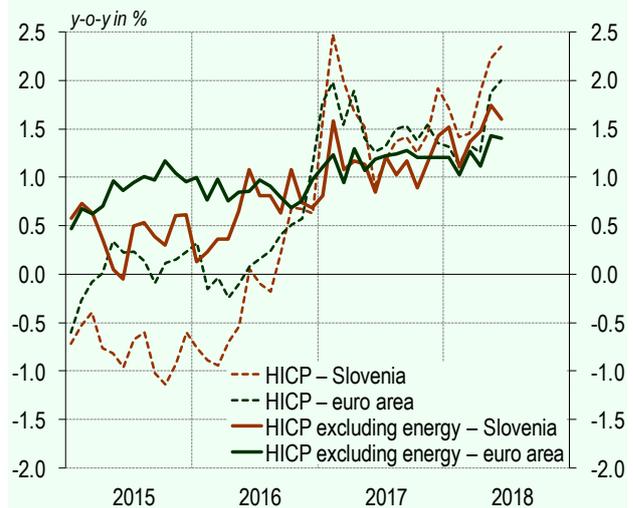
**Growth in the core inflation indicator excluding energy prices is still outpacing the comparable indicator in the euro area overall, which is primarily a reflection**

**Figure 7.3: Inflation, perceptions and expectations**



Source: SORS, Eurostat.

**Figure 7.4: Inflation in Slovenia and the euro area**



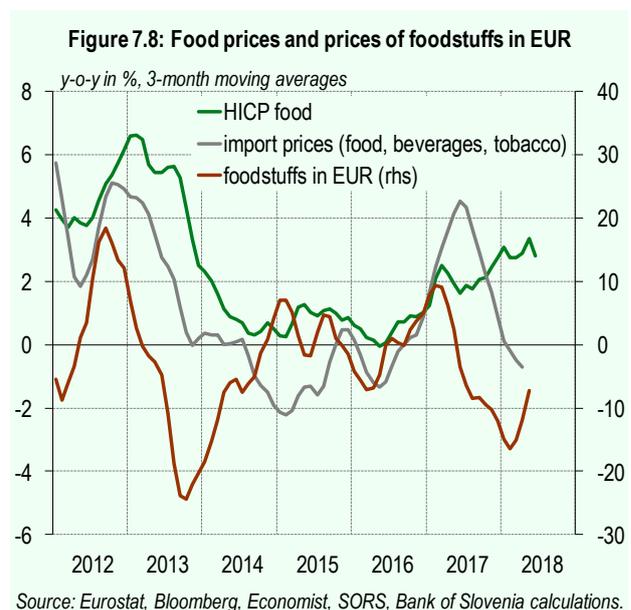
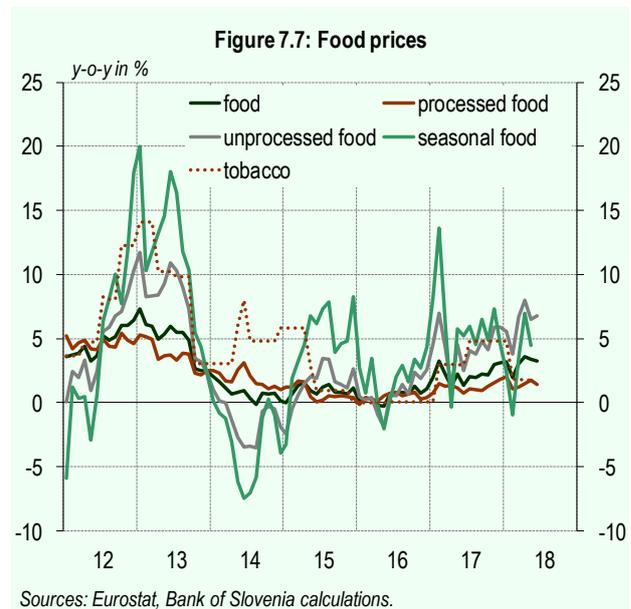
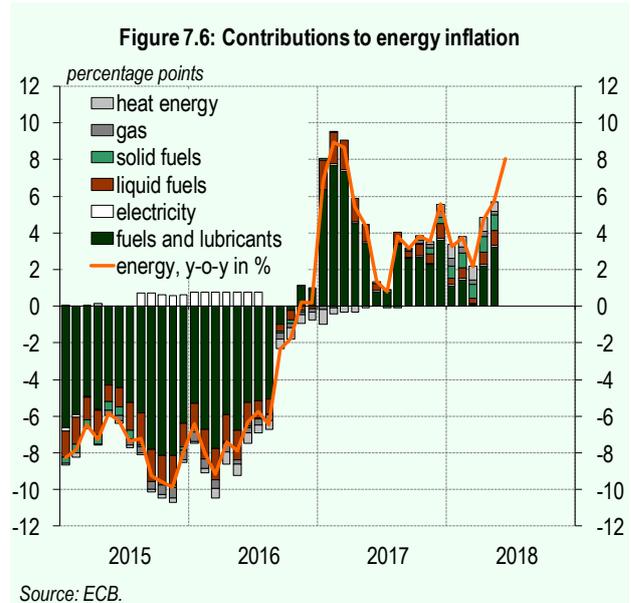
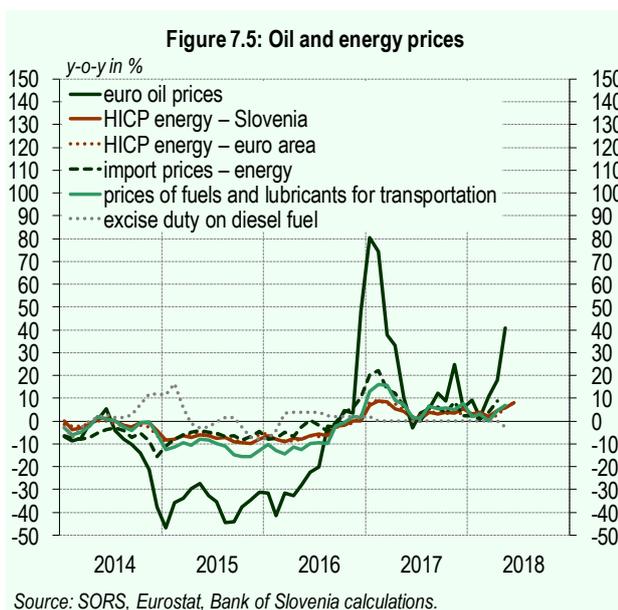
Source: Eurostat.

**of the unusually high growth in meat prices in Slovenia.** Growth in the broadest indicator averaged 1.6% over the second quarter, up 0.3 percentage points on the beginning of the year, and 0.1 percentage points more than the euro area average. Growth in the narrower core inflation indicator, which excludes energy and unprocessed food, has been outpaced by the comparable indicator in the euro area overall for more than a year now, while growth in the narrowest indicator, which measures inflation excluding energy, food, alcohol and tobacco, reached the euro area average in the second quarter, at 1.0%. Euro area average was down 0.1 percentage points on the previous quarter.

## Microeconomic factors

**Higher energy prices are the main factor in the rise in inflation in the second quarter.** A barrel of Brent crude averaged USD 62.4 in the second quarter, up almost 15% on the first quarter. Year-on-year growth in energy prices reached 6.1% in the second quarter, up 3.1 percentage points on the previous quarter. The largest factors in the rise were prices of motor fuels and heating oil. In May the government passed a measure to cut excise duties on regulated fuels (95-octane unleaded petrol and diesel). Given the proportion of the retail prices of petrol and diesel accounted for by excise duties, which is around 36% and 31% respectively, it is estimated that May's cut in excise duties slowed growth in retail prices of these refined petroleum products by approximately 2 percentage points.

**Year-on-year growth in food prices is continuing to outpace the euro area average, which is attributable to developments in prices of unprocessed food.** Growth in prices of unprocessed food averaged 7.1% in the second quarter, up 1.7 percentage points on the previous quarter. Within the category, growth in meat prices has been high since last November, as prices of all types of meat have risen, poultry in particular. Alongside meat, prices of fish and fruit are also recording high growth in the unprocessed food category. After falling in the first quarter, vegetable prices resumed growth. The rate reached 1.7% in May, up 11 percentage points on its



**Table 7.1: Structure of the HICP and price indicators**

	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
		2018	2014	2015	2016	2017	1H18*	17Q1	17Q2	17Q3	17Q4	18Q1
<b>HICP</b>	100.0%	0.4	-0.8	-0.2	1.6	1.8	2.0	1.4	1.3	1.5	1.5	2.1
<b>Breakdown of HICP:</b>												
<b>Energy</b>	11.8%	-1.4	-7.8	-5.2	4.7	4.6	8.1	3.7	2.6	4.3	3.0	6.1
<b>Food</b>	22.9%	0.8	0.9	0.5	2.2	3.1	2.5	1.6	2.1	2.8	2.7	3.4
processed	15.1%	1.8	0.7	0.4	1.2	1.5	1.2	1.0	1.0	1.5	1.4	1.5
unprocessed	7.8%	-1.4	1.4	0.7	4.4	6.2	5.3	2.8	4.2	5.3	5.3	7.1
<b>Other goods</b>	28.4%	-1.0	-0.6	-0.5	-0.7	-0.8	-0.6	-0.8	-0.5	-0.8	-0.8	-0.7
<b>Services</b>	36.9%	1.8	0.9	1.6	1.8	2.2	1.6	2.1	1.8	1.7	2.1	2.3
<b>Core inflation indicators:</b>												
<b>HICP excl. energy</b>	88.2%	0.7	0.4	0.6	1.1	...	1.2	1.0	1.1	1.2	1.3	...
<b>HICP excl. energy and unprocessed food</b>	80.4%	0.9	0.4	0.6	0.8	...	0.8	0.9	0.8	0.8	0.9	...
<b>HICP excl. energy, food, alcohol and tobacco</b>	65.3%	0.6	0.3	0.7	0.7	...	0.7	0.8	0.8	0.6	0.8	...
<b>Other price indicators:</b>												
<b>Industrial producer prices on domestic market</b>		-1.1	-0.5	-1.4	1.3	...	0.6	1.3	1.5	1.9	2.1	...
<b>GDP deflator</b>		0.8	1.0	0.9	2.0	...	1.1	2.2	2.3	2.2	2.2	...
<b>Import prices<sup>1</sup></b>		-1.1	-1.4	-2.2	3.0	...	4.4	3.6	2.2	2.0	0.2	...

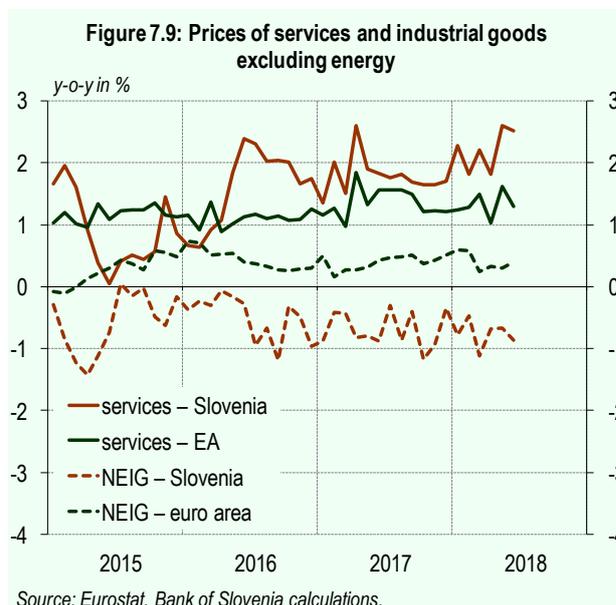
Note: \* The June figure is Bank of Slovenia's estimate. <sup>1</sup> National accounts data.  
Source: SORS, Eurostat, Bank of Slovenia calculations.

average in the first quarter. Prices of processed food also rose during the same period; the rate of 1.5% in the second quarter was still outpaced by the euro area average, which stood at 2.8%. The growth was attributable to all of the larger sub-categories of processed food, such as bread and cereals, milk, cheese and eggs, and alcohol and tobacco.

**The robust growth in services prices, which averaged 2.3% over the second quarter, is a reflection of strong domestic demand.** Year-on-year growth in services prices jumped in May, and remained at a similar level in June, thereby strengthening the average rate over the second quarter to 0.2 percentage points more than the rate in the first quarter and 0.6 percentage points more than in the second half of last year. All sub-categories contributed to the high growth in services prices in the second quarter, most notably package holidays. Prices of the latter fell by 5.5% in the first quarter, but were up 5.1% in May, thereby contributing 0.7 percentage points to May's inflation in services prices. A relatively high contribution also came from prices of telephone and internet services, and prices of health insurance. By contrast, year-on-year growth in prices of public services slowed

during the same period, which is to a great extent a reflection of a slowdown in growth in services prices in culture, recreation and sport. Growth in services prices across the euro area has slowed since the beginning of the year, and averaged 1.3% in the second quarter, down 0.8 percentage points on the previous quarter.

**Prices of non-energy industrial goods remain the only price category making a negative contribution to inflation.** The year-on-year fall in these prices slowed



**Box 7.1: Factors in developments in prices of non-energy industrial goods**

The price category of non-energy industrial goods is the second largest in the HICP, and accounts for almost 30% of the consumer basket. In a small, open economy, the dynamics in this category are basically tradable, in the sense that they are largely affected by impulses from the rest of the world, which can also be significantly modified by domestic factors. Together with services prices they therefore make up the narrowest indicator of core (endogenous) inflation. Developments in prices of non-energy industrial goods and the factors that affect them are the subject of numerous analyses by economic institutions, particularly research into their dynamics after the crisis, i.e. in the period since 2009.

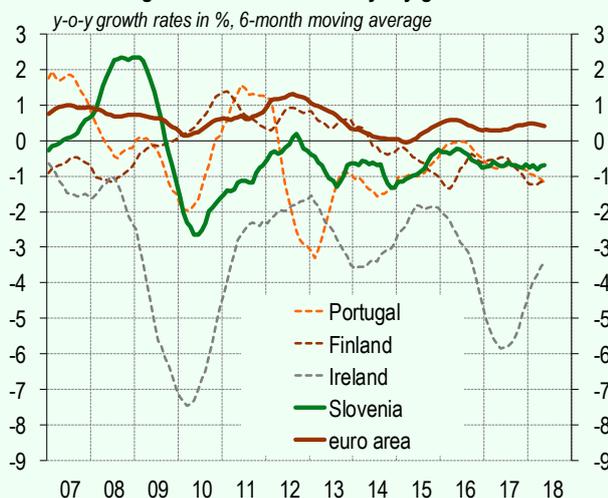
In Slovenia prices of non-energy industrial goods have been falling for just under a decade, which is comparable to only a few other euro area countries. Year-on-year growth in prices of non-energy industrial goods has been consistently negative in recent years in Ireland, Portugal and Finland, while average growth in prices of non-energy industrial goods in the euro area overall has been positive, albeit just above zero. The highest inflation in non-energy industrial goods was recorded by Austria, Germany, Belgium and Luxembourg, where the rate exceeded 1% on average last year (Figure 1). Below the focus will primarily be on differences in the inflation rates in non-energy industrial goods between Slovenia and the euro area, and on the factors that affect developments in these prices.

The difference in the developments in prices of non-energy industrial goods between Slovenia and the euro area overall reflects the differing dynamics in prices in three sub-categories of goods, namely durables, semi-durables and

non-durables. By isolating the trend/cyclical component<sup>1</sup> of the index of prices in each sub-category, we can observe a pronounced long-term falling trend in prices of durables and, to a lesser extent, semi-durables in Slovenia, compared with a stable level in the euro area overall. At the same time average developments in Slovenian prices of non-durables over the last decade were very similar to those of the euro area overall (Figures 2 and 3).

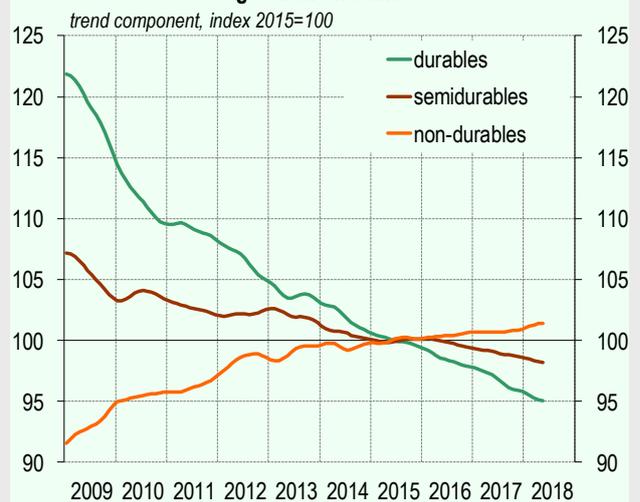
One of the main reasons for the great divergence between the price dynamics of durables in Slovenia and in the euro area overall is the differing structures of the sub-category. The average weight of car prices, which is the largest component in prices of durables, between 2009 and 2018 was 4.7% in Slovenia, and just 3.6% in the euro area overall. The larger

**Figure 1: Non-energy industrial goods prices – countries with highest and lowest annual y-o-y growth rates**



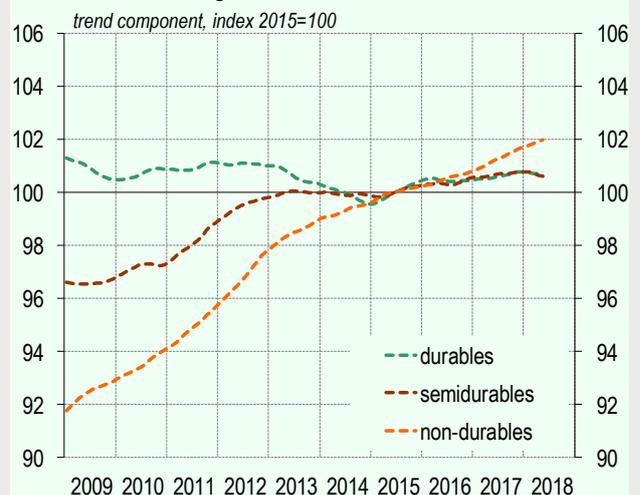
Source: SORS, Eurostat, Bank of Slovenia calculations.

**Figure 2: Prices of durable, semidurable and non-durable goods in Slovenia**



Source: Eurostat, Bank of Slovenia calculations.

**Figure 3: Prices of durable, semidurable and non-durable goods in the euro area**



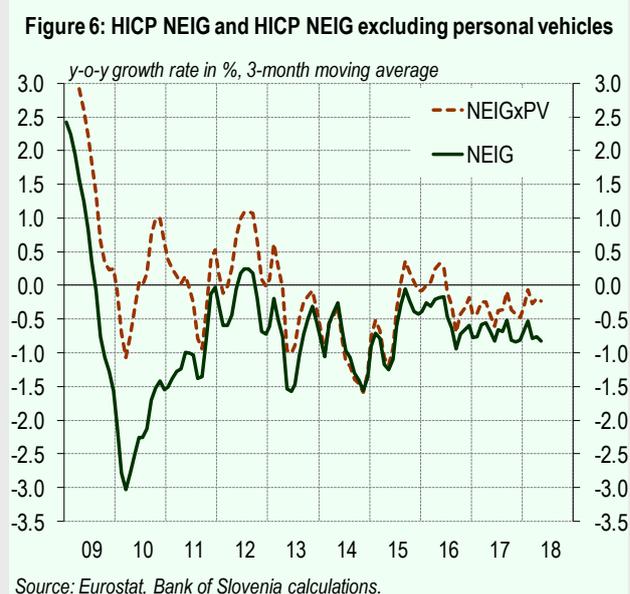
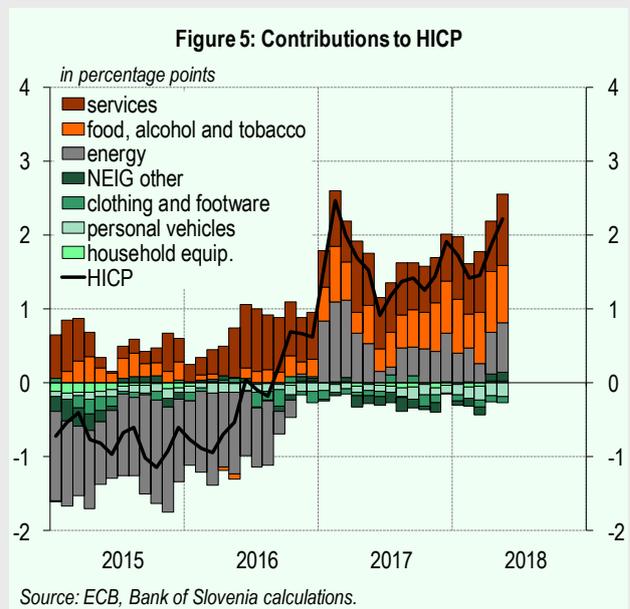
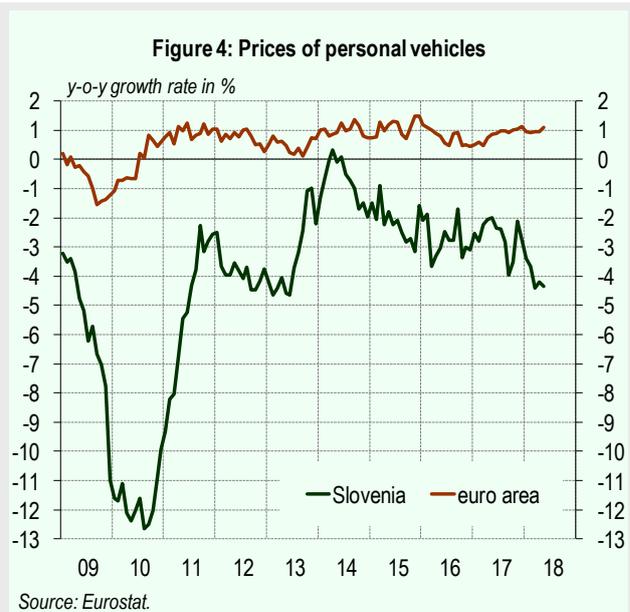
Source: Eurostat, Bank of Slovenia calculations.

weight causes a larger response in headline inflation to developments in prices in this sub-category. Larger weights for car prices are also typical of other countries (Portugal and Ireland) that like Slovenia recorded long-term negative growth in prices of non-energy industrial goods.

Developments in car prices have also been highly divergent between euro area countries: they have risen in some countries, have fallen consistently in others, and have undergone an upward reversal since the crisis in still others, which has resulted in the maintenance of low year-on-year growth in the euro area average at a level of around 1% ever since the second half of 2010 (Figure 4). The heterogeneity of developments in car prices between countries could also be partly explained by the different sources used by the statistical offices in different countries.<sup>2</sup> However, cars are not the only price sub-category of non-energy industrial goods that has systematically made negative contributions to inflation in Slovenia (Figure 5). This is also evident from Figure 6, which illustrates the low, mostly negative, growth in prices of non-energy industrial goods excluding the sub-category of cars.<sup>3</sup>

Given that prices of durable non-energy industrial goods made the largest negative contribution to the sustained fall in prices of non-energy industrial goods, and given the finding by the ECB that consumption of durables moves procyclically (ECB, 2010), the causes of the low rates of growth in prices of non-energy industrial goods in the last decade could also be found in domestic real developments in the post-crisis period. According to IMAD, retail prices of non-energy industrial goods respond relatively strongly to changes in the output gap (IMAD, 2017), while Slovenia was among the euro area countries that were hit hardest by the crisis (Fernandez, 2014) and suffered a negative output gap, which was well below the euro area average. It is therefore reasonable to expect that in the wake of the closing of the output gap price pressures stemming from increased demand will be reflected in a rise in retailers' margins, and consequently in higher prices of non-energy industrial goods, which might also be affected by domestic cost pressures, wage pressures in particular.

Conversely, there are factors that could prevent excessive rises in prices of producers and retailers, such as globalisation and increasing use of technology, which raises competition on markets of non-energy industrial goods. Slovenia's gradual opening to trade certainly reduced prices of industrial goods (and food) throughout the transition period, while competition on the market of durables has increased again following the crisis or since 2010, as found by IMAD and illustrated by Figure 2.<sup>4</sup> Like the bricks-and-mortar market, competition



is also increasing in online shopping, where consumers closely monitor product prices. The rising proportion of online purchases is an additional factor reducing retailers' margins, as online purchases entail pressure on retailers to lower prices (Ciccarelli & Osbat, 2017).

A brief review of the factors affecting the formation of and developments in prices of non-energy industrial goods indicates the possibility of rises in these prices in the coming years, although growth will most likely be rather gradual. The price pressures brought by increased demand from households and higher growth in commodity prices on global markets could at least be partly neutralised by the continued increase in competition and changes in consumer habits as a result of increasing online shopping.

<sup>1</sup> The long-term trend or trend/cyclical component of the sub-categories within prices of non-energy industrial goods for the period between 2001 and the latest data was isolated by means of an X12 procedure.

<sup>2</sup> Analysis of various methods for capturing prices of cars in individual countries is in progress at Eurostat, which should identify the reasons for the large differences in the movement in these indices within the euro area.

<sup>3</sup> In contrast to the euro area, in Slovenia prices in the other two largest sub-categories in the non-energy industrial goods aggregate (clothing and footwear, and household equipment) have mostly fallen in recent years.

<sup>4</sup> IMAD argument for the increase in competition is based on the increased concentration of retailers as measured by the HHI.

References:

- Ciccarelli, M. & Osbat, C (2017). Low inflation in the euro area: Causes and consequences, Occasional Paper Series 181, European Central Bank.
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**Box 7.2: Methodological differences in the measurement of inflation with HICP and CPI**

The monitoring of inflation in Slovenia is sometimes hindered by occasional major gaps between the figures disclosed by the European harmonised index of consumer prices (HICP) and the figures disclosed by the "national" consumer price index (CPI). For example, the year-on-year growth of HICP was 1.9% in April of this year, while the CPI measure showed 1.5%, a difference of 0.4 percentage points. Major gaps had also appeared in previous years. The year-on-year growth of HICP outpaced that of CPI by 0.5 percentage points in October and November 2012, and by 0.6 percentage points in February 2011, while it was 0.4 percentage points lower between September and November 2015. The trajectory of the gap is very unstable.

The discrepancies between the two measures of inflation are caused by differences in weighting. For the calculation of weights in HICP, the Statistical Office uses national accounts figures on the breakdown of spending by residents and non-residents on the territory of Slovenia (domestic concept), as opposed to the calculation of weights in CPI, for which it uses data of the household consumption survey, which measures the spending of residents at home and abroad (national concept).

The distinction between the two approaches is best seen in the category of Hotels and restaurants, whose weight this year is 10.83% in the structure of HICP, compared with 5.85% in CPI. The positive gap amounts to 4.98 percentage points, or even 5.46 percentage points for the group without Canteens. The gap between the domestic and national approaches is perhaps also a factor in the higher weight (by 1.05 percentage points) of Motor fuels in HICP, which because of the large fluctuations in these prices often has an even bigger impact on the aggregate gap between HICP and CPI.

The gap is not caused only by the differing structures of the price baskets in the domestic and national approach. This factor cannot explain the higher weight (by 1.45 percentage points) assigned to Miscellaneous goods and services in HICP. Taking away Insurance, the gap grows to even 3.23 percentage points, and is distributed across virtually all other components of the category, which covers mostly services serving the resident population domestically.

Figure 1 illustrates the contribution of the four most pronounced components to the overall differences in

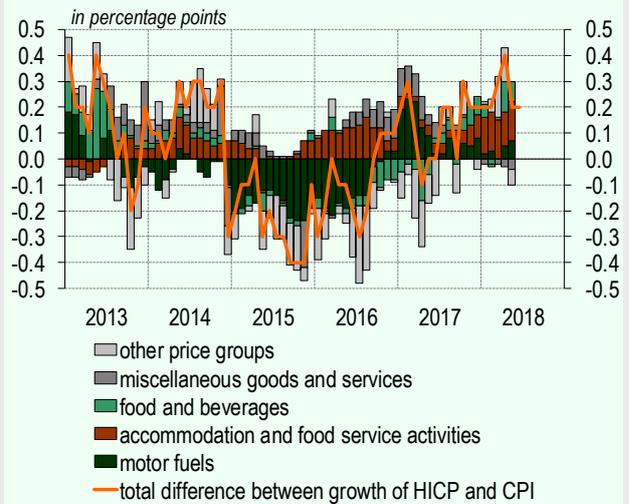
year-on-year figures between HICP and CPI. The residual contribution of the other price categories is also shown. A positive contribution denotes a larger impact on HICP than on CPI. This occurs in the case of positive rates of growth in price categories whose weights are larger in HICP than in CPI, and in the case of negative rates of growth in price categories whose weights are smaller in HICP than in CPI. A negative contribution entails the opposite. Three sharp one-off shocks in the category Miscellaneous goods and services between December 2013 and November 2015 were caused by extremely large turns in the prices of Health insurance.

Figure 2 illustrates the overall differences between the year-on-year growth rates of HICP and CPI, and contributions to the differences by two selected aggregates of components: (a) an aggregate of two components whose different weights probably reflect most strongly the difference between the domestic and national approaches, and (b) an aggregate of the joint contribution of the ten most influential components in 2018, not excluding the two above mentioned components. All the other components contribute to the unexplained part of the overall gaps, while the lack of complete precision in the calculation is also a factor.

To summarise, the gap between inflation as measured by HICP and that measured by CPI does have some prepondering individual determinants, whose impact is, however, often concealed by other factors distributed across the entire price structure. The difference in weights is typically positive in the services category and typically negative in the goods category, which means that increases in the growth of the prices of services that outpace those in the prices of goods increase the gap between overall HICP and CPI growth. It must nevertheless be noted that the composition of the two major price categories is highly heterogeneous, as a result of which the strong acceleration in the prices of services in May, due to its structure, actually significantly reduced the gap. The predicta-

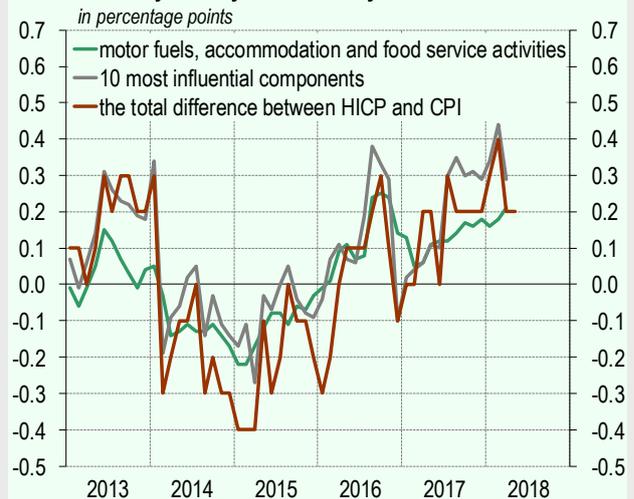
slightly to average 0.7% over the second quarter. During the same period the average rate across the euro area slowed but remained in positive territory at 0.3%, down 0.2 percentage points on the previous quarter. The negative growth in prices of non-energy industrial goods was attributable to falls in prices of clothing and footwear and car prices.

**Figure 1: Contributions of price groups to differences in year-on-year inflation measured by HICP and CPI**



Source: SORS, Bank of Slovenia calculations.

**Figure 2: Aggregated contributions to the differences in year-on-year inflation by HICP and CPI**



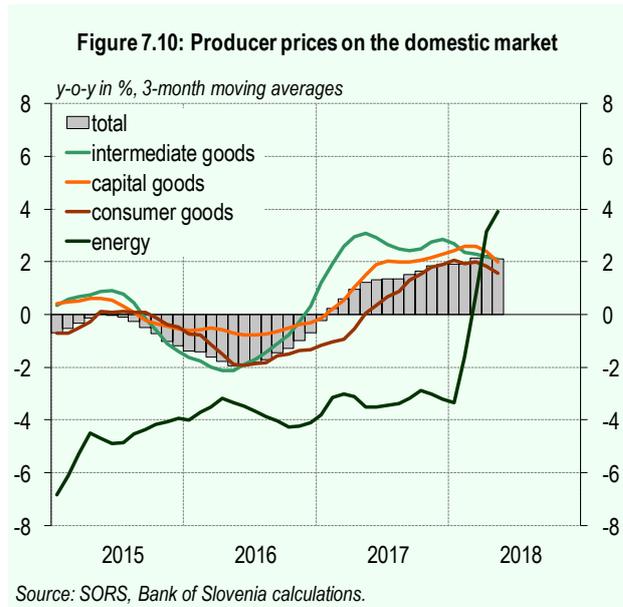
Source: SORS, Bank of Slovenia calculations.

bility of the gap between the two measures of inflation is very limited.

## Industrial producer prices

**Industrial producer prices on the domestic market are continuing to rise in year-on-year terms.** The most evident rises in recent months have been in energy prices. Year-on-year growth in energy prices turned positive after January, and had reached 4% by May. Growth in other categories of goods has slowed slightly since the beginning of the year. The sectors recording the highest average growth in prices of goods or services over the first five months of this year are the metal industry, mining

and quarrying, and pharmaceuticals, while the fall in prices in the water supply sector remained sharp. The latter have been falling since June 2016.





## 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.*

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**Table 8.1: Consolidated balance sheet of monetary financial institutions**

<i>EUR million</i>	2014	2015	2016	17Q3	17Q4	Mar. 18	Apr. 18	May 18
1.1. Claims of the Bank of Slovenia	7,278	5,410	6,544	7,240	7,143	6,854	7,208	6,964
1.2. Claims of other MFIs	8,279	8,266	8,100	8,373	8,504	8,645	8,559	8,923
<b>1. Claims on foreign sectors (foreign assets)</b>	<b>15,557</b>	<b>13,676</b>	<b>14,643</b>	<b>15,613</b>	<b>15,647</b>	<b>15,499</b>	<b>15,768</b>	<b>15,887</b>
2.1. Claims of the Bank of Slovenia on central government	263	2,327	4,618	5,600	6,247	6,471	6,524	6,600
2.2.1.1. Loans	1,149	1,298	1,506	951	1,425	1,344	1,313	1,311
2.2.1.2. Securities	6,105	5,814	4,767	4,541	3,744	3,583	3,547	3,593
2.2.1. Claims on central government	7,254	7,112	6,273	5,491	5,170	4,927	4,859	4,904
2.2.2.1. Loans	671	622	579	559	571	563	568	565
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	671	622	579	559	571	563	568	565
2.2. Claims of other MFIs on general government	7,926	7,734	6,852	6,051	5,740	5,491	5,428	5,469
2.3.1.1. Loans	11,213	10,040	9,306	9,418	9,311	9,281	9,316	9,263
2.3.1.2. Securities	524	462	405	398	334	317	313	319
2.3.1. Claims on nonfinancial corporations	11,737	10,502	9,711	9,816	9,645	9,598	9,628	9,582
2.3.2. Households and non-profit institutions serving households	8,762	8,856	9,154	9,604	9,735	9,860	9,905	9,996
2.3.3.1. Loans	1,087	898	865	1,150	1,171	1,130	1,084	1,089
2.3.3.2. Securities	408	534	543	395	395	398	463	527
2.3.3. Claims on nonmonetary financial institutions	1,495	1,432	1,408	1,545	1,566	1,528	1,547	1,616
2.3. Claims of other MFIs on other non-MFIs	21,995	20,790	20,272	20,965	20,946	20,986	21,080	21,194
<b>2. Claims on domestic non-MFIs</b>	<b>30,183</b>	<b>30,850</b>	<b>31,743</b>	<b>32,616</b>	<b>32,934</b>	<b>32,947</b>	<b>33,032</b>	<b>33,263</b>
<b>3. Remaining assets</b>	<b>3,765</b>	<b>3,119</b>	<b>2,192</b>	<b>1,434</b>	<b>1,461</b>	<b>1,375</b>	<b>1,305</b>	<b>1,340</b>
<b>Total assets</b>	<b>49,505</b>	<b>47,646</b>	<b>48,578</b>	<b>49,663</b>	<b>50,042</b>	<b>49,821</b>	<b>50,104</b>	<b>50,489</b>
1.1. Bank of Slovenia	10	16	1,267	52	1,506	199	39	356
1.2. Other MFIs	7,409	5,920	5,094	4,500	4,436	4,215	4,157	4,168
<b>1. Obligations to foreign sectors (foreign liabilities)</b>	<b>7,419</b>	<b>5,936</b>	<b>6,362</b>	<b>4,552</b>	<b>5,943</b>	<b>4,413</b>	<b>4,196</b>	<b>4,524</b>
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,673	4,956	5,160	5,248	5,371	5,333	5,354	5,378
2.1.1.2. Overnight deposits at other MFIs	10,441	13,057	15,471	17,195	17,727	18,140	18,316	18,531
2.1.1.3.1. Non-monetary financial institutions	44	9	69	19	11	11	11	209
2.1.1.3.2. Other government sector	28	53	62	114	107	100	102	108
2.1.1.3. Overnight deposits at the Bank of Slovenia	71	63	131	134	118	110	113	316
2.1.1. Banknotes and coins and overnight liabilities	15,185	18,075	20,761	22,577	23,216	23,583	23,783	24,226
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	6,031	6,127	6,001	5,963	5,897
2.1.2. Time deposits	9,365	7,838	6,864	6,031	6,127	6,001	5,963	5,897
2.1.3. Deposits redeemable at notice up to 3 months	379	315	464	556	473	573	518	588
2.1. Banknotes and coins and deposits up to 2 years	24,929	26,229	28,089	29,164	29,816	30,157	30,264	30,711
2.2. Debt securities, units/shares of money market funds and repos	42	56	102	82	55	57	57	57
<b>2. Banknotes and coins and instruments up to 2 years</b>	<b>24,971</b>	<b>26,285</b>	<b>28,190</b>	<b>29,246</b>	<b>29,871</b>	<b>30,214</b>	<b>30,322</b>	<b>30,768</b>
<b>3. Long-term financial obligations to non-MFIs</b>	<b>1,598</b>	<b>1,550</b>	<b>1,510</b>	<b>1,500</b>	<b>1,524</b>	<b>1,420</b>	<b>1,414</b>	<b>1,411</b>
<b>4. Remaining liabilities</b>	<b>17,229</b>	<b>15,378</b>	<b>14,100</b>	<b>15,701</b>	<b>14,035</b>	<b>14,946</b>	<b>15,356</b>	<b>14,858</b>
<b>5. Excess of inter-MFI liabilities</b>	<b>-1,712</b>	<b>-1,504</b>	<b>-1,584</b>	<b>-1,336</b>	<b>-1,330</b>	<b>-1,172</b>	<b>-1,183</b>	<b>-1,072</b>
<b>Total liabilities</b>	<b>49,505</b>	<b>47,646</b>	<b>48,578</b>	<b>49,663</b>	<b>50,042</b>	<b>49,821</b>	<b>50,104</b>	<b>50,489</b>

**Table 8.2: Balance sheet of the Bank of Slovenia**

<i>EUR million</i>	2014	2015	2016	17Q3	17Q4	Mar.18	Apr.18	May 18
1.1. Gold	101	100	112	111	111	110	111	114
1.2. Receivable from IMF	392	367	361	351	338	328	330	336
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	3,031	699	588	326	233	236	557	223
1.5. Securities	3,651	4,141	5,380	6,350	6,359	6,078	6,107	6,188
1.6. Other claims	103	103	103	103	103	103	103	103
<b>1. Claims on foreign sectors (foreign assets)</b>	<b>7,278</b>	<b>5,410</b>	<b>6,544</b>	<b>7,240</b>	<b>7,143</b>	<b>6,854</b>	<b>7,208</b>	<b>6,964</b>
2.1. Claims on central government	263	2,327	4,618	5,600	6,247	6,471	6,524	6,600
2.2.1. Loans	1,098	901	714	1,161	1,142	1,142	1,142	1,142
2.2.2. Other claims	3	44	99	97	98	98	97	97
2.2. Claims on domestic monetary sector	1,101	946	813	1,257	1,240	1,239	1,239	1,239
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
<b>2. Claims on domestic sectors (domestic assets)</b>	<b>1,366</b>	<b>3,275</b>	<b>5,433</b>	<b>6,860</b>	<b>7,489</b>	<b>7,712</b>	<b>7,765</b>	<b>7,840</b>
<b>3. Remaining assets</b>	<b>2,317</b>	<b>1,685</b>	<b>973</b>	<b>262</b>	<b>279</b>	<b>265</b>	<b>229</b>	<b>249</b>
<b>Total assets</b>	<b>10,961</b>	<b>10,370</b>	<b>12,950</b>	<b>14,362</b>	<b>14,911</b>	<b>14,831</b>	<b>15,202</b>	<b>15,054</b>
<b>1. Banknotes and coins (ECB key from 1.1.2007 on)</b>	<b>4,673</b>	<b>4,956</b>	<b>5,160</b>	<b>5,248</b>	<b>5,371</b>	<b>5,333</b>	<b>5,354</b>	<b>5,378</b>
2.1.1.1.1. Overnight	1,526	1,634	2,252	2,484	2,939	2,914	2,989	2,852
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,526	1,634	2,252	2,484	2,939	2,914	2,989	2,852
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,526	1,634	2,252	2,484	2,939	2,914	2,989	2,852
2.1.2.1.1. Overnight	2,718	1,730	1,949	4,368	2,521	3,531	3,876	3,260
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	2,718	1,730	1,949	4,368	2,521	3,531	3,876	3,260
2.1.2.2. Foreign currency	94	60	78	49	56	52	54	7
2.1.2. General government	2,812	1,789	2,027	4,417	2,577	3,582	3,929	3,267
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	45	11	69	19	11	11	11	209
2.1.3. Other domestic sectors	45	11	69	19	11	11	11	209
2.1. Domestic sectors	4,383	3,434	4,348	6,920	5,527	6,507	6,929	6,327
2.2. Foreign sectors	10	16	1,267	52	1,506	199	39	356
<b>2. Deposits</b>	<b>4,394</b>	<b>3,450</b>	<b>5,615</b>	<b>6,972</b>	<b>7,033</b>	<b>6,705</b>	<b>6,968</b>	<b>6,683</b>
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
<b>3. Issued securities</b>	<b>-</b>							
<b>4. SDR allocation</b>	<b>257</b>	<b>275</b>	<b>275</b>	<b>258</b>	<b>256</b>	<b>255</b>	<b>257</b>	<b>261</b>
<b>5. Capital and reserves</b>	<b>1,515</b>	<b>1,533</b>	<b>1,748</b>	<b>1,769</b>	<b>1,883</b>	<b>1,837</b>	<b>1,773</b>	<b>1,807</b>
<b>6. Remaining liabilities</b>	<b>122</b>	<b>157</b>	<b>152</b>	<b>114</b>	<b>367</b>	<b>701</b>	<b>849</b>	<b>923</b>
<b>Total liabilities</b>	<b>10,961</b>	<b>10,370</b>	<b>12,950</b>	<b>14,362</b>	<b>14,911</b>	<b>14,831</b>	<b>15,202</b>	<b>15,054</b>

**Table 8.3: Balance sheet of other monetary financial institutions**

<i>EUR million</i>	2014	2015	2016	17Q3	17Q4	Mar. 18	Apr. 18	May 18
1.1.1. Cash	292	294	322	314	355	357	402	359
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,526	1,634	2,252	2,484	2,939	2,914	2,989	2,852
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
<b>1.1. Claims on Bank of Slovenia</b>	<b>1,818</b>	<b>1,928</b>	<b>2,574</b>	<b>2,799</b>	<b>3,294</b>	<b>3,270</b>	<b>3,391</b>	<b>3,211</b>
1.2.1. Loans	1,719	1,264	1,061	882	873	898	904	886
1.2.2. Debt securities	378	245	256	71	71	72	62	62
1.2.3. Shares and other equity	61	62	2	2	2	1	1	1
<b>1.2. Claims on other MFI's</b>	<b>2,158</b>	<b>1,572</b>	<b>1,319</b>	<b>956</b>	<b>947</b>	<b>971</b>	<b>966</b>	<b>948</b>
1.3.1. Loans	22,883	21,714	21,410	21,682	22,213	22,178	22,185	22,224
1.3.2. Debt securities	6,352	6,050	5,030	4,633	3,775	3,618	3,580	3,627
1.3.3. Shares and other equity	685	759	685	701	698	680	743	812
<b>1.3. Claims on nonmonetary sectors</b>	<b>29,920</b>	<b>28,524</b>	<b>27,125</b>	<b>27,016</b>	<b>26,687</b>	<b>26,477</b>	<b>26,508</b>	<b>26,662</b>
<b>1. Claims on domestic sectors (domestic assets)</b>	<b>33,897</b>	<b>32,024</b>	<b>31,018</b>	<b>30,770</b>	<b>30,927</b>	<b>30,718</b>	<b>30,865</b>	<b>30,822</b>
2.1.1. Cash	29	34	38	38	35	37	37	46
2.1.2. Loans	2,839	2,767	2,628	2,169	2,154	2,360	2,189	2,421
2.1.3. Debt securities	498	1,027	1,165	1,304	1,333	1,375	1,421	1,401
2.1.4. Shares and other equity	572	567	567	579	579	579	579	579
<b>2.1. Claims on foreign monetary sectors</b>	<b>3,937</b>	<b>4,395</b>	<b>4,398</b>	<b>4,090</b>	<b>4,100</b>	<b>4,350</b>	<b>4,226</b>	<b>4,446</b>
2.2.1. Loans	2,135	1,597	1,155	1,050	899	824	859	884
2.2.2. Debt securities	1,878	1,870	2,151	2,916	3,190	3,157	3,165	3,287
2.2.3. Shares and other equity	329	405	396	317	314	313	310	305
<b>2.2. Claims on foreign nonmonetary sectors</b>	<b>4,342</b>	<b>3,871</b>	<b>3,701</b>	<b>4,283</b>	<b>4,404</b>	<b>4,294</b>	<b>4,333</b>	<b>4,476</b>
<b>2. Claims on foreign sectors (foreign assets)</b>	<b>8,279</b>	<b>8,266</b>	<b>8,100</b>	<b>8,373</b>	<b>8,504</b>	<b>8,645</b>	<b>8,559</b>	<b>8,923</b>
<b>3. Remaining assets</b>	<b>1,399</b>	<b>1,314</b>	<b>1,074</b>	<b>1,034</b>	<b>1,015</b>	<b>805</b>	<b>702</b>	<b>696</b>
<b>Total assets</b>	<b>43,575</b>	<b>41,603</b>	<b>40,191</b>	<b>40,177</b>	<b>40,447</b>	<b>40,168</b>	<b>40,126</b>	<b>40,441</b>
1.1.1. Deposits, loans from the Bank of Slovenia	1,098	901	714	1,161	1,142	1,142	1,142	1,142
1.1.2. Deposits, loans from other MFIs	1,733	1,301	1,123	947	962	977	964	938
1.1.3. Debt securities issued	93	38	18	16	12	10	-	-
<b>1.1. Liabilities to monetary sectors</b>	<b>2,925</b>	<b>2,240</b>	<b>1,855</b>	<b>2,123</b>	<b>2,115</b>	<b>2,129</b>	<b>2,105</b>	<b>2,079</b>
1.2.1.1. Overnight	10,129	12,661	15,038	16,750	17,287	17,684	17,850	18,046
1.2.1.2. With agreed maturity	12,481	10,604	9,076	7,954	8,125	7,823	7,771	7,702
1.2.1.3. Redeemable at notice	449	474	615	645	548	638	573	679
<b>1.2.1. Deposits in domestic currency</b>	<b>23,058</b>	<b>23,739</b>	<b>24,729</b>	<b>25,348</b>	<b>25,960</b>	<b>26,144</b>	<b>26,194</b>	<b>26,427</b>
1.2.2. Deposits in foreign currency	463	599	632	604	593	598	619	636
1.2.3. Debt securities issued	176	84	38	24	15	15	15	15
<b>1.2. Liabilities to nonmonetary sectors</b>	<b>23,697</b>	<b>24,422</b>	<b>25,400</b>	<b>25,975</b>	<b>26,569</b>	<b>26,758</b>	<b>26,828</b>	<b>27,078</b>
<b>1. Obligations to domestic sectors (domestic liabilities)</b>	<b>26,622</b>	<b>26,661</b>	<b>27,254</b>	<b>28,098</b>	<b>28,683</b>	<b>28,887</b>	<b>28,933</b>	<b>29,158</b>
2.1.1. Deposits	3,551	2,578	2,084	1,845	1,627	1,594	1,611	1,575
2.1.2. Debt securities issued	1,344	975	710	328	327	327	327	326
<b>2.1. Liabilities to foreign monetary sectors</b>	<b>4,895</b>	<b>3,553</b>	<b>2,794</b>	<b>2,173</b>	<b>1,954</b>	<b>1,920</b>	<b>1,937</b>	<b>1,902</b>
2.2.1. Deposits	2,052	1,954	1,738	1,819	1,975	1,787	1,712	1,757
2.2.2. Debt securities issued	25	27	23	23	22	22	22	22
<b>2.2. Liabilities to foreign nonmonetary sectors</b>	<b>2,077</b>	<b>1,981</b>	<b>1,761</b>	<b>1,841</b>	<b>1,997</b>	<b>1,809</b>	<b>1,735</b>	<b>1,780</b>
<b>2. Obligations to foreign sectors (foreign liabilities)</b>	<b>6,972</b>	<b>5,535</b>	<b>4,555</b>	<b>4,014</b>	<b>3,952</b>	<b>3,730</b>	<b>3,672</b>	<b>3,682</b>
<b>3. Capital and reserves</b>	<b>4,512</b>	<b>4,676</b>	<b>4,841</b>	<b>4,827</b>	<b>4,904</b>	<b>4,970</b>	<b>5,000</b>	<b>4,948</b>
<b>4. Remaining liabilities</b>	<b>5,469</b>	<b>4,731</b>	<b>3,540</b>	<b>3,238</b>	<b>2,908</b>	<b>2,581</b>	<b>2,522</b>	<b>2,653</b>
<b>Total liabilities</b>	<b>43,575</b>	<b>41,603</b>	<b>40,191</b>	<b>40,177</b>	<b>40,447</b>	<b>40,168</b>	<b>40,126</b>	<b>40,441</b>

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

<i>in % on annual level</i>	2014	2015	2016	2017	Mar.18	Apr.18	May 18
<b>1. Interest rates of new loans</b>							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.20	8.01	7.84	7.85	7.83	7.81	7.82
Households, extended credit	8.02	7.84	7.73	7.75	7.77	7.77	7.77
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.01	4.19	4.23	4.44	4.50	4.53	4.55
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.00	5.64	5.66	5.92	5.83	5.92	5.88
Loans, households, consumption, over 5 years initial rate fixation	7.07	5.28	6.12	6.20	6.22	6.31	6.33
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.47	3.82	3.47	3.69	3.53	3.60	3.90
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	5.61	5.27	4.89	5.09	5.11	5.15
C. loans, households, consumption, over 5 year initial rate fixation	6.53	5.58	5.05	5.19	5.15	4.98	4.90
APRC, Loans to households for consumption	8.28	7.42	7.55	7.73	7.60	7.53	7.58
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.18	2.22	2.04	1.99	1.98	1.95	1.91
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.65	3.87	3.58	2.75	2.94	2.95	2.92
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.06	3.16	2.49	2.65	2.56	2.58	2.63
Loans, households, house purchase, over 10 years initial rate fixation	4.87	3.16	2.56	2.91	2.92	2.91	2.98
C. loans, households, house purchase variabel and up to years initial rate fixation	3.16	2.21	2.02	1.99	1.98	1.95	1.91
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.41	2.63	2.12	2.38	2.54	2.38	2.82
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.03	3.04	2.38	2.34	2.36	2.38	2.36
C. loans, households, house purchase, over 10 years initial rate fixation	4.87	3.12	2.53	2.85	2.88	2.86	2.93
APRC, Loans to households for house purchase	3.55	2.85	2.58	2.77	2.79	2.78	2.77
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.11	3.51	3.49	3.58	4.19	4.24	3.77
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.96	5.93	5.28	5.30	4.97	5.25	5.54
Loans, households, other purposes, over 5 years initial rate fixation	6.44	7.79	5.92	5.35	4.84	6.52	6.27
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.30	3.45	2.81	2.41	2.23	2.23	2.30
S.11, extended credit	7.28	7.16	6.70	-	-	0.00	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	4.81	3.38	2.74	2.69	2.76	2.85	2.87
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	5.77	3.50	3.31	2.89	2.70	2.83	2.84
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	5.92	4.23	4.52	3.98	3.83	4.47	3.99
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	5.93	5.36	4.57	4.03	4.30	5.44	4.51
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	5.82	4.87	4.56	3.51	3.13	4.37	4.39
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	5.87	3.34	2.92	2.22	3.73	-	2.90
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	4.62	2.49	2.19	1.89	2.45	2.04	2.10
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	5.29	2.57	2.49	2.09	2.15	2.09	2.14
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	5.27	3.06	1.21	1.94	1.79	3.64	1.61
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	5.97	-	1.70	-	-	-	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	5.46	3.06	1.94	2.57	1.99	-	2.02
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	6.32	-	2.10	-	2.32	-	3.14
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	3.94	2.61	2.61	2.23	2.01	2.35	2.07
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	4.84	1.87	2.35	1.58	1.56	1.75	1.72
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	4.60	1.00	-	-	2.02	4.40	1.56
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.07	-	1.06	1.15	-	1.97	1.88
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	4.62	1.79	1.92	-	-	1.37	1.79
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	2.35	3.56	2.23	1.88	-	-	-
<b>2. Interest rates of new deposits</b>							
2.1. Households deposits							
Households, overnight deposits	0.07	0.03	0.02	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.98	0.28	0.23	0.14	0.16	0.16	0.16
Deposits, households, agreed maturity over 1 and up to 2 years	1.90	0.70	0.44	0.51	0.52	0.44	0.30
Deposits, households, agreed maturity over 2 years	2.33	1.07	0.72	0.69	0.56	0.83	0.73
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.82	0.02	0.01	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	1.30	0.06	0.05	0.04	0.07	0.02	0.04
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.13	0.57	0.20	0.12	0.17	0.21	0.16
Deposits, S.11, agreed maturity over 2 years	0.63	1.07	0.49	0.26	0.39	0.36	0.28
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	1.85	0.10	0.02	0.00	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	1.79	0.93	0.55	0.52	0.83	0.59	0.67

**Table 8.5: International investment position**

<i>EUR million</i>		2014	2015	2016	17Q2	17Q3	17Q4	18Q1
	<b>NET INTERNATIONAL INVESTMENT POSITION (1-2)</b>	<b>-17,219</b>	<b>-15,399</b>	<b>-14,858</b>	<b>-14,045</b>	<b>-13,716</b>	<b>-13,869</b>	<b>-13,001</b>
<b>1</b>	<b>ASSETS</b>	<b>39,558</b>	<b>42,265</b>	<b>42,657</b>	<b>43,643</b>	<b>43,147</b>	<b>43,466</b>	<b>43,854</b>
1.1	<b>Direct investment</b>	<b>6,970</b>	<b>7,252</b>	<b>7,767</b>	<b>8,183</b>	<b>8,358</b>	<b>8,267</b>	<b>8,429</b>
1.1.1	Equity	3,769	3,959	4,149	4,288	4,378	4,287	4,318
1.1.2	Debt instruments	3,202	3,293	3,618	3,895	3,980	3,979	4,111
1.2	<b>Portfolio investment</b>	<b>12,375</b>	<b>14,458</b>	<b>16,719</b>	<b>18,277</b>	<b>18,992</b>	<b>19,662</b>	<b>19,335</b>
1.2.1	Equity and investment fund shares	3,193	3,484	3,584	3,809	3,917	4,086	4,074
1.2.2	Debt securities	9,182	10,974	13,135	14,468	15,075	15,575	15,261
1.3	<b>Financial derivatives</b>	<b>241</b>	<b>1,266</b>	<b>1,166</b>	<b>619</b>	<b>414</b>	<b>322</b>	<b>326</b>
1.4	<b>Other investment</b>	<b>19,135</b>	<b>18,502</b>	<b>16,300</b>	<b>15,815</b>	<b>14,617</b>	<b>14,473</b>	<b>15,048</b>
1.4.1	Other equity	629	641	642	609	609	652	652
1.4.2	Currency and deposits	10,737	10,301	8,153	7,026	5,748	5,929	6,066
1.4.3	Loans	3,729	3,122	2,670	2,569	2,538	2,390	2,343
1.4.4	Insurance, pension and standardized guarantee schemes	141	129	141	144	148	148	148
1.4.5	Trade credit and advances	3,601	3,737	4,038	4,691	4,809	4,617	5,041
1.4.6	Other accounts receivable	298	571	656	775	765	738	801
1.5	<b>Reserve assets</b>	<b>837</b>	<b>787</b>	<b>705</b>	<b>751</b>	<b>766</b>	<b>743</b>	<b>716</b>
1.5.1	Monetary gold	101	100	112	111	111	111	110
1.5.2	Special drawing rights	247	264	207	199	237	235	234
1.5.3	Reserve position in the IMF	145	104	154	126	114	103	94
1.5.4	Other reserve assets	345	320	232	315	304	294	278
<b>2</b>	<b>LIABILITIES</b>	<b>56,777</b>	<b>57,664</b>	<b>57,515</b>	<b>57,688</b>	<b>56,863</b>	<b>57,335</b>	<b>56,855</b>
2.1	<b>Direct investment</b>	<b>11,837</b>	<b>13,356</b>	<b>14,996</b>	<b>15,482</b>	<b>15,827</b>	<b>16,032</b>	<b>15,966</b>
2.1.1	Equity	8,186	9,804	11,563	11,895	12,099	12,320	12,213
2.1.2	Debt instruments	3,651	3,552	3,433	3,587	3,728	3,713	3,753
2.2	<b>Portfolio investment</b>	<b>23,797</b>	<b>23,959</b>	<b>21,439</b>	<b>22,606</b>	<b>22,572</b>	<b>21,200</b>	<b>22,193</b>
2.2.1	Equity and investment fund shares	1,030	1,038	966	1,066	1,058	1,085	1,101
2.2.2	Debt securities	22,767	22,921	20,473	21,540	21,514	20,115	21,093
2.3	<b>Financial derivatives</b>	<b>247</b>	<b>163</b>	<b>139</b>	<b>103</b>	<b>99</b>	<b>81</b>	<b>75</b>
2.4	<b>Other investment</b>	<b>20,896</b>	<b>20,186</b>	<b>20,941</b>	<b>19,498</b>	<b>18,365</b>	<b>20,023</b>	<b>18,621</b>
2.4.1	Other equity	28	32	36	54	54	37	37
2.4.2	Currency and deposits	3,338	2,965	4,148	3,336	2,916	4,556	3,310
2.4.3	Loans	13,128	12,851	12,155	11,267	10,604	10,336	10,088
2.4.4	Insurance, pension and standardized guarantee schemes	218	221	213	224	226	219	219
2.4.5	Trade credit and advances	3,427	3,433	3,711	3,911	3,923	4,156	4,237
2.4.6	Other accounts payable	500	408	402	441	384	462	475
2.4.7	Special drawing rights	257	275	275	263	258	256	255

**Table 8.6: Gross external debt**

<i>EUR million</i>	2014	2015	2016	17Q3	17Q4	18Q1	Apr. 18
<b>TOTAL (1+2+3+4+5)</b>	<b>47,286</b>	<b>46,627</b>	<b>44,810</b>	<b>43,553</b>	<b>43,813</b>	<b>43,429</b>	<b>43,200</b>
<b>1 GENERAL GOVERNMENT</b>	<b>23,392</b>	<b>24,824</b>	<b>22,953</b>	<b>23,296</b>	<b>21,769</b>	<b>22,533</b>	<b>22,331</b>
<b>1.1 Short-term, of that</b>	<b>738</b>	<b>1,507</b>	<b>1,304</b>	<b>538</b>	<b>481</b>	<b>279</b>	<b>317</b>
Debt securities	228	15	22	65	75	80	95
Loans	157	1,201	1,058	312	273	80	103
Trade credit and advances	21	35	42	47	35	33	39
Other debt liabilities	331	257	182	115	98	86	80
<b>1.2 Long-term, of that</b>	<b>22,654</b>	<b>23,316</b>	<b>21,649</b>	<b>22,759</b>	<b>21,288</b>	<b>22,253</b>	<b>22,015</b>
Debt securities	21,101	21,813	19,877	21,014	19,517	20,489	20,249
Loans	1,548	1,500	1,768	1,742	1,769	1,765	1,766
<b>2 CENTRAL BANK</b>	<b>2,083</b>	<b>2,217</b>	<b>3,457</b>	<b>2,078</b>	<b>3,820</b>	<b>2,722</b>	<b>2,704</b>
<b>2.1 Short-term, of that</b>	<b>1,826</b>	<b>1,942</b>	<b>3,182</b>	<b>1,820</b>	<b>3,564</b>	<b>2,468</b>	<b>2,447</b>
Currency and deposits	1,825	1,942	3,182	1,820	3,564	2,468	2,447
<b>2.2 Long-term, of that</b>	<b>257</b>	<b>275</b>	<b>275</b>	<b>258</b>	<b>256</b>	<b>255</b>	<b>257</b>
Special drawing rights (allocations)	257	275	275	258	256	255	257
<b>3 DEPOSIT TAKING CORPORATIONS, except the Central Bank</b>	<b>6,591</b>	<b>5,195</b>	<b>4,117</b>	<b>3,870</b>	<b>3,782</b>	<b>3,625</b>	<b>3,539</b>
<b>3.1 Short-term</b>	<b>747</b>	<b>702</b>	<b>817</b>	<b>1,043</b>	<b>1,058</b>	<b>961</b>	<b>876</b>
Currency and deposits	597	490	578	771	765	644	616
Debt securities	...	...	...	...	...	...	...
Loans	144	207	221	210	200	194	204
Trade credit and advances	...	...	...	...	...	...	...
Other debt liabilities	6	5	18	62	92	123	56
<b>3.2 Long-term</b>	<b>5,844</b>	<b>4,493</b>	<b>3,300</b>	<b>2,826</b>	<b>2,724</b>	<b>2,664</b>	<b>2,664</b>
Currency and deposits	916	534	387	325	227	198	198
Debt securities	954	652	287	169	168	167	167
Loans	3,941	3,301	2,620	2,329	2,323	2,295	2,296
Trade credit and advances	4	7	5	3	6	3	3
Other debt liabilities	29	0	1	0	1	2	1
<b>4 OTHER SECTORS</b>	<b>11,570</b>	<b>10,839</b>	<b>10,851</b>	<b>10,581</b>	<b>10,729</b>	<b>10,796</b>	<b>10,815</b>
<b>4.1 Short-term, of that</b>	<b>3,947</b>	<b>3,976</b>	<b>4,250</b>	<b>4,408</b>	<b>4,593</b>	<b>4,711</b>	<b>4,677</b>
Debt securities	5	0	2	2	0	0	0
Loans	453	487	447	396	281	318	324
Trade credit and advances	3,396	3,385	3,649	3,850	4,090	4,176	4,146
Other debt liabilities	94	102	153	160	222	217	207
<b>4.2 Long-term, of that</b>	<b>7,623</b>	<b>6,864</b>	<b>6,600</b>	<b>6,173</b>	<b>6,135</b>	<b>6,084</b>	<b>6,138</b>
Debt securities	480	441	284	265	355	357	358
Loans	6,885	6,155	6,041	5,615	5,490	5,437	5,484
Trade credit and advances	6	7	16	23	26	25	26
Other debt liabilities	252	260	259	270	265	265	271
<b>5 DIRECT INVESTMENT: intercompany lending</b>	<b>3,651</b>	<b>3,552</b>	<b>3,433</b>	<b>3,728</b>	<b>3,713</b>	<b>3,753</b>	<b>3,810</b>
<b>NET EXTERNAL DEBT POSITION</b>	<b>15,559</b>	<b>13,712</b>	<b>11,694</b>	<b>9,724</b>	<b>9,694</b>	<b>8,945</b>	<b>8,729</b>

**Table 8.7: Balance of payments**

<i>EUR million</i>	2015	2016	2017	17Q3	17Q4	18Q1	Apr. 18
<b>I. Current account</b>	<b>1,760</b>	<b>2,224</b>	<b>3,077</b>	<b>1,001</b>	<b>660</b>	<b>858</b>	<b>410</b>
<b>1. Goods</b>	<b>1,476</b>	<b>1,536</b>	<b>1,561</b>	<b>479</b>	<b>299</b>	<b>396</b>	<b>183</b>
<b>1.1. Export of goods</b>	<b>24,039</b>	<b>24,991</b>	<b>28,462</b>	<b>7,035</b>	<b>7,428</b>	<b>7,562</b>	<b>2,507</b>
Export f.o.b.	23,940	24,971	28,265	6,977	7,369	7,565	2,490
Coverage adjustment	-149	-194	-51	-7	2	-53	-1
Net export of goods under merchandising	231	186	228	61	53	46	17
Nonmonetary gold	17	29	20	3	4	3	0
<b>1.2. Import of goods</b>	<b>22,563</b>	<b>23,454</b>	<b>26,901</b>	<b>6,556</b>	<b>7,128</b>	<b>7,166</b>	<b>2,324</b>
Import c.i.f.	23,305	24,112	27,606	6,721	7,304	7,357	2,381
Coverage adjustment	-115	-5	36	16	21	1	10
Valuation adjustment	-656	-680	-778	-189	-206	-207	-67
Nonmonetary gold	30	27	37	8	9	15	0
<b>2. Services</b>	<b>1,930</b>	<b>2,251</b>	<b>2,719</b>	<b>804</b>	<b>627</b>	<b>599</b>	<b>279</b>
<b>2.1. Export of services, of that</b>	<b>5,936</b>	<b>6,487</b>	<b>7,275</b>	<b>2,069</b>	<b>1,888</b>	<b>1,652</b>	<b>672</b>
Transport	1,672	1,854	2,099	529	576	568	188
Travel	2,098	2,190	2,434	860	534	460	204
Construction services	292	385	431	120	119	91	33
Telecomm., computer and inform. services	519	552	543	135	150	111	45
Other business services	894	1,006	1,289	311	382	297	149
<b>2.2. Import of services, of that</b>	<b>4,007</b>	<b>4,236</b>	<b>4,556</b>	<b>1,265</b>	<b>1,261</b>	<b>1,053</b>	<b>393</b>
Transport	851	922	1,025	246	285	238	83
Travel	823	854	882	368	170	154	60
Construction services	120	104	125	36	41	26	10
Telecomm., computer and inform. services	533	509	514	137	136	118	41
Other business services	1,024	1,147	1,281	305	418	313	136
<b>3. Primary income</b>	<b>-1,294</b>	<b>-1,215</b>	<b>-926</b>	<b>-220</b>	<b>-226</b>	<b>-23</b>	<b>-32</b>
<b>3.1. Receipts</b>	<b>1,314</b>	<b>1,487</b>	<b>1,669</b>	<b>365</b>	<b>417</b>	<b>466</b>	<b>127</b>
Compensation of employees	281	314	364	83	108	81	33
Investment	511	636	695	187	181	152	52
Other primary income	522	537	610	95	127	232	42
<b>3.2. Expenditure</b>	<b>2,608</b>	<b>2,702</b>	<b>2,596</b>	<b>586</b>	<b>643</b>	<b>488</b>	<b>159</b>
Compensation of employees	122	128	141	36	37	33	14
Investment	2,057	2,084	1,917	417	469	315	108
Other primary income	429	490	538	132	136	140	37
<b>4. Secondary income</b>	<b>-352</b>	<b>-349</b>	<b>-276</b>	<b>-62</b>	<b>-41</b>	<b>-114</b>	<b>-21</b>
<b>4.1. Receipts</b>	<b>735</b>	<b>724</b>	<b>838</b>	<b>207</b>	<b>241</b>	<b>191</b>	<b>78</b>
<b>4.2. Expenditure</b>	<b>1,087</b>	<b>1,073</b>	<b>1,115</b>	<b>269</b>	<b>282</b>	<b>305</b>	<b>99</b>

**Table 8.8: Balance of payments – continued**

<i>EUR million</i>	2015	2016	2017	17Q3	17Q4	18Q1	Apr. 18
<b>II. Capital account</b>	<b>412</b>	<b>-303</b>	<b>-324</b>	<b>-59</b>	<b>-59</b>	<b>-41</b>	<b>-8</b>
1. Nonproduced nonfinancial assets	-37	-45	-76	10	4	12	9
2. Capital transfers	449	-258	-248	-69	-63	-52	-17
<b>III. Financial account</b>	<b>1,710</b>	<b>1,153</b>	<b>1,754</b>	<b>608</b>	<b>103</b>	<b>696</b>	<b>277</b>
<b>1. Direct investment</b>	<b>-1,269</b>	<b>-864</b>	<b>-414</b>	<b>-101</b>	<b>-211</b>	<b>31</b>	<b>6</b>
Assets	292	434	551	96	16	221	-21
Equity and reinvested earnings	178	273	212	90	-1	51	-3
Debt instruments	114	161	339	5	17	169	-18
Liabilities	1,560	1,298	966	196	226	190	-27
Equity and reinvested earnings	1,785	1,503	843	203	250	134	-27
Debt instruments	-225	-205	123	-7	-24	56	0
<b>2. Portfolio investment</b>	<b>2,940</b>	<b>5,094</b>	<b>2,958</b>	<b>662</b>	<b>2,095</b>	<b>-1,334</b>	<b>314</b>
Assets	2,026	2,089	2,819	590	606	-123	162
Equity and investment fund shares	127	-82	280	45	78	99	-2
Debt securities	1,900	2,171	2,539	545	528	-222	164
Liabilities	-914	-3,005	-139	-72	-1,489	1,210	-152
Equity and investment fund shares	52	48	39	-9	18	-1	-3
Debt securities	-966	-3,053	-178	-63	-1,508	1,211	-149
<b>3. Financial derivatives</b>	<b>-98</b>	<b>-216</b>	<b>-248</b>	<b>-24</b>	<b>-33</b>	<b>6</b>	<b>-1</b>
<b>4. Other investment</b>	<b>250</b>	<b>-2,764</b>	<b>-630</b>	<b>45</b>	<b>-1,737</b>	<b>2,004</b>	<b>-36</b>
<b>4.1. Assets</b>	<b>-650</b>	<b>-2,340</b>	<b>-1,584</b>	<b>-1,143</b>	<b>-69</b>	<b>642</b>	<b>-139</b>
Other equity	10	0	-1	0	0	1	1
Currency and deposits	-516	-2,205	-2,190	-1,290	186	150	8
Loans	-408	-203	-115	-38	-35	-21	7
Insurance, pension and stand. guar. schemes	-8	10	5	3	0	...	...
Trade credits and advances	-5	156	599	110	-189	446	-48
Other assets	277	-97	119	73	-31	66	-107
<b>4.2. Liabilities</b>	<b>-900</b>	<b>423</b>	<b>-954</b>	<b>-1,187</b>	<b>1,668</b>	<b>-1,362</b>	<b>-104</b>
Other equity	11	4	20	...	0	0	0
Currency and deposits	-400	1,175	438	-410	1,644	-1,239	-55
Loans	-315	-818	-1,854	-695	-262	-245	49
Insurance, pension and stand. guar. schemes	3	-8	5	2	-8	...	...
Trade credits and advances	-100	137	410	-57	223	111	-27
Other liabilities	-99	-67	26	-28	70	11	-70
Special drawing rights (SDR)	0	0	0	0	0	0	0
<b>5. Reserve assets</b>	<b>-113</b>	<b>-97</b>	<b>89</b>	<b>25</b>	<b>-12</b>	<b>-12</b>	<b>-6</b>
<b>IV. Net errors and omissions</b>	<b>-462</b>	<b>-768</b>	<b>-999</b>	<b>-334</b>	<b>-498</b>	<b>-122</b>	<b>-125</b>

**Table 8.9: Non-consolidated financial assets – outstanding amounts**

<i>EUR million</i>	2014	2015	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
<b>Domestic sector</b>								
Total	186,320	185,991	184,620	188,334	188,401	190,200	190,354	194,003
Monetary gold and SDRs	348	363	320	326	310	348	346	344
Currency and deposits	46,009	46,593	42,485	43,603	43,125	43,377	42,857	44,120
Debt securities	19,804	22,828	26,103	26,642	27,487	28,304	28,482	28,107
Loans	44,453	39,625	37,557	37,926	37,559	37,534	37,725	37,705
Shares	20,175	19,713	18,765	19,582	19,599	19,638	19,566	19,972
Other equity	23,002	23,304	24,753	24,786	24,993	25,303	25,478	27,221
Investment fund shares/units	3,642	3,879	4,049	4,269	4,248	4,368	4,540	4,539
Insurance and pension schemes	7,132	7,406	7,737	7,826	7,884	8,026	8,003	8,035
Other	21,754	22,279	22,852	23,373	23,196	23,302	23,358	23,960
<b>Non-financial corporations</b>								
Total	41,495	41,562	43,154	44,144	44,369	44,807	45,338	46,821
Currency and deposits	5,095	5,826	6,399	6,524	6,447	6,637	7,144	7,059
Debt securities	184	142	127	119	114	114	109	113
Loans	6,043	5,849	5,781	5,851	5,904	5,821	5,753	5,941
Shares	3,063	2,896	2,665	2,809	2,717	2,605	2,507	2,520
Other equity	11,359	11,472	12,185	12,203	12,380	12,621	12,713	13,534
Investment fund shares/units	108	99	52	64	63	68	67	69
Insurance and pension schemes	408	427	438	476	488	491	444	476
Other	15,237	14,852	15,507	16,096	16,255	16,452	16,602	17,108
<b>Monetary financial institutions</b>								
Total	53,206	50,657	51,929	52,962	52,971	53,596	54,397	54,213
Monetary gold and SDRs	348	363	320	326	310	348	346	344
Currency and deposits	10,358	7,560	7,168	7,204	6,283	5,910	6,249	6,375
Debt securities	13,226	15,973	18,971	19,488	20,314	21,149	21,263	21,016
Loans	27,863	25,179	24,099	24,522	24,487	24,579	24,915	24,707
Shares	666	641	552	531	707	716	729	750
Other equity	314	299	282	283	302	341	351	419
Investment fund shares/units	12	9	6	6	6	6	5	5
Insurance and pension schemes	37	38	38	39	41	41	40	41
Other	382	595	495	563	522	508	498	557
<b>Other financial institutions</b>								
Total	17,368	17,134	17,554	18,017	17,872	17,831	18,155	18,249
Currency and deposits	1,316	1,201	1,256	1,328	1,286	1,169	1,163	1,208
Debt securities	5,634	6,040	6,431	6,404	6,413	6,429	6,520	6,388
Loans	3,388	3,033	2,876	2,847	2,798	2,801	2,859	2,859
Shares	3,580	3,427	3,377	3,607	3,531	3,588	3,688	3,743
Other equity	640	612	625	618	642	634	686	692
Investment fund shares/units	1,918	2,001	2,140	2,248	2,213	2,267	2,354	2,370
Insurance and pension schemes	218	182	188	213	221	211	199	226
Other	675	639	661	753	769	734	685	763
<b>General government</b>								
Total	35,645	37,229	30,676	31,309	31,255	31,225	29,367	30,385
Currency and deposits	10,369	12,358	7,060	7,687	8,374	8,251	6,726	7,462
Debt securities	507	548	447	448	453	418	416	411
Loans	6,469	4,911	4,089	3,924	3,624	3,544	3,427	3,365
Shares	10,128	10,048	9,828	10,233	10,221	10,338	10,230	10,563
Other equity	4,904	4,856	4,906	4,889	4,835	4,918	4,915	4,973
Investment fund shares/units	206	244	252	270	274	284	296	300
Insurance and pension schemes	12	23	21	14	14	17	16	21
Other	3,049	4,241	4,073	3,843	3,459	3,455	3,342	3,290
<b>Households and NPISHs</b>								
Total	38,605	39,409	41,306	41,902	41,935	42,740	43,098	44,335
Currency and deposits	18,871	19,647	20,602	20,860	20,736	21,411	21,575	22,017
Debt securities	253	125	127	183	192	195	174	179
Loans	691	653	712	782	746	788	771	833
Shares	2,739	2,701	2,343	2,401	2,423	2,392	2,412	2,396
Other equity	5,785	6,066	6,755	6,794	6,834	6,789	6,813	7,602
Investment fund shares/units	1,398	1,528	1,600	1,681	1,692	1,744	1,818	1,796
Insurance and pension schemes	6,457	6,736	7,053	7,084	7,121	7,266	7,304	7,271
Other	2,412	1,953	2,115	2,117	2,191	2,154	2,231	2,242
<b>Rest of the world</b>								
Total	58,303	58,422	58,175	58,255	57,960	57,129	57,766	57,338
Monetary gold and SDRs	257	275	275	274	264	259	257	255
Currency and deposits	3,497	3,167	4,380	3,471	3,619	3,198	4,853	3,510
Debt securities	23,282	23,331	20,889	21,644	21,842	21,834	20,555	21,299
Loans	15,676	15,304	14,403	14,069	13,504	12,823	12,507	12,244
Shares	4,556	4,539	5,160	5,326	5,176	5,198	5,275	5,339
Other equity	5,401	6,284	7,288	7,388	7,439	7,779	7,931	8,158
Investment fund shares/units	21	25	25	27	27	28	29	28
Insurance and pension schemes	218	221	213	232	224	226	219	246
Other	5,394	5,276	5,541	5,823	5,866	5,784	6,141	6,258

**Table 8.10: Non-consolidated liabilities – outstanding amounts**

<i>EUR million</i>	2014	2015	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
<b>Domestic sector</b>								
Total	205,328	202,710	200,945	204,033	203,841	205,217	205,396	208,739
Monetary gold and SDRs	257	275	275	274	264	259	257	255
Currency and deposits	38,457	39,165	38,353	39,232	39,650	40,451	41,411	41,264
Debt securities	33,538	34,824	33,513	34,128	34,456	34,702	33,041	33,774
Loans	54,637	49,917	47,048	47,220	46,268	45,666	45,654	45,497
Shares	22,274	21,615	21,359	22,151	21,877	21,849	21,781	22,248
Other equity	25,395	26,608	29,083	29,298	29,512	30,123	30,463	32,542
Investment fund shares/units	2,143	2,303	2,374	2,481	2,443	2,517	2,572	2,540
Insurance and pension schemes	7,209	7,498	7,810	7,914	7,964	8,105	8,074	8,133
Other	21,419	20,506	21,130	21,335	21,406	21,545	22,144	22,486
<b>Non-financial corporations</b>								
Total	81,769	78,467	78,943	79,956	79,683	79,926	80,517	82,819
Debt securities	1,088	1,179	955	1,015	1,045	1,023	1,010	1,033
Loans	28,608	25,175	23,611	23,722	23,399	23,229	22,719	22,683
Shares	14,233	13,421	12,762	13,253	13,125	12,847	12,810	13,141
Other equity	23,013	24,039	26,319	26,513	26,725	27,371	27,583	29,506
Other	14,827	14,654	15,297	15,452	15,389	15,456	16,395	16,456
<b>Monetary financial institutions</b>								
Total	48,917	47,006	49,224	50,442	50,400	50,974	51,935	51,904
Monetary gold and SDRs	257	275	275	274	264	259	257	255
Currency and deposits	34,122	34,012	37,528	38,390	38,809	39,608	40,521	40,415
Debt securities	1,666	1,149	801	781	675	392	377	377
Loans	7,073	5,574	4,330	4,564	4,393	4,349	4,349	4,348
Shares	4,399	4,539	4,724	4,791	4,662	4,777	4,875	4,838
Other equity	945	1,005	1,091	1,108	1,103	1,122	1,104	1,116
Investment fund shares/units	37	56	99	65	74	80	55	57
Other	419	396	375	469	421	387	397	499
<b>Other financial institutions</b>								
Total	17,540	17,001	16,848	17,359	17,223	17,344	17,508	17,809
Debt securities	136	73	118	121	128	128	113	113
Loans	4,453	3,678	2,924	2,870	2,837	2,715	2,664	2,674
Shares	2,174	2,093	2,154	2,360	2,285	2,388	2,463	2,539
Other equity	947	964	1,137	1,143	1,145	1,092	1,225	1,334
Investment fund shares/units	2,106	2,247	2,275	2,416	2,369	2,438	2,518	2,483
Insurance and pension schemes	7,209	7,498	7,810	7,914	7,964	8,105	8,074	8,132
Other	516	448	431	536	495	478	449	534
<b>General government</b>								
Total	44,791	47,929	43,181	43,390	43,469	43,584	41,998	42,580
Currency and deposits	4,335	5,152	825	842	841	843	890	849
Debt securities	30,647	32,423	31,639	32,211	32,608	33,159	31,540	32,252
Loans	3,867	4,762	5,144	4,860	4,262	3,805	4,228	3,958
Shares	1,469	1,562	1,719	1,747	1,805	1,838	1,633	1,730
Other equity	491	600	537	533	540	538	550	586
Other	3,983	3,430	3,317	3,196	3,414	3,401	3,158	3,205
<b>Households and NPISHs</b>								
Total	12,311	12,306	12,748	12,886	13,066	13,389	13,437	13,628
Loans	10,637	10,728	11,039	11,203	11,378	11,567	11,693	11,835
Other	1,674	1,578	1,709	1,683	1,688	1,821	1,744	1,793
<b>Rest of the world</b>								
Total	39,295	41,702	41,850	42,555	42,521	42,112	42,725	42,602
Monetary gold and SDRs	348	363	319	325	310	348	345	344
Currency and deposits	11,050	10,595	8,512	7,842	7,094	6,124	6,300	6,366
Debt securities	9,548	11,335	13,479	14,158	14,872	15,436	15,996	15,632
Loans	5,492	5,012	4,912	4,776	4,795	4,691	4,578	4,452
Shares	2,457	2,637	2,566	2,757	2,899	2,987	3,060	3,063
Other equity	3,008	2,981	2,957	2,877	2,920	2,959	2,947	2,837
Investment fund shares/units	1,520	1,602	1,700	1,815	1,831	1,879	1,996	2,027
Insurance and pension schemes	141	129	141	145	144	148	148	148
Other	5,730	7,049	7,263	7,861	7,656	7,541	7,355	7,732

**Table 8.11: Net financial assets**

<i>EUR million</i>	2014	2015	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
Domestic sector	-19,008	-16,719	-16,325	-15,699	-15,439	-15,017	-15,042	-14,736
Non-financial corporations	-40,273	-36,906	-35,789	-35,812	-35,314	-35,118	-35,179	-35,998
Monetary financial institutions	4,289	3,651	2,706	2,520	2,571	2,622	2,462	2,309
Other financial institutions	-172	133	706	658	649	487	647	440
General government	-9,147	-10,700	-12,506	-12,082	-12,214	-12,359	-12,632	-12,195
Households and NPISHs	26,294	27,103	28,558	29,017	28,870	29,351	29,660	30,708
Rest of the world	19,009	16,719	16,325	15,700	15,439	15,017	15,042	14,736

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

EUR million	2014	2015	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
<b>Domestic sector</b>								
Total	3,733	984	-1,814	2,608	4,540	5,286	5,385	4,796
Monetary gold and SDRs	12	0	-56	0	0	43	43	43
Currency and deposits	8,795	470	-4,118	-625	-57	6	547	684
Debt securities	646	3,086	2,863	2,648	2,834	2,395	2,369	1,442
Loans	-4,658	-3,120	-707	-340	697	1,132	923	765
Shares	-824	181	-353	-81	216	263	92	117
Other equity	201	474	492	479	288	109	61	133
Investment fund shares/units	152	167	2	37	83	142	242	280
Insurance and pension schemes	182	178	138	128	109	152	146	153
Other	-773	-453	-75	362	370	1,044	963	1,178
<b>Non-financial corporations</b>								
Total	-347	377	1,114	1,483	1,662	2,153	2,029	2,006
Currency and deposits	456	744	575	668	602	630	769	563
Debt securities	-14	-36	-6	-37	-45	-47	-18	-14
Loans	75	-192	-187	-365	-4	-88	-64	64
Shares	-337	103	-13	33	59	124	73	53
Other equity	-100	294	453	464	267	231	136	201
Investment fund shares/units	-1	-3	-28	-20	-19	-13	3	0
Insurance and pension schemes	24	23	2	-10	10	31	6	-3
Other	-451	-556	319	750	793	1,284	1,125	1,142
<b>Monetary financial institutions</b>								
Total	-1,546	-1,797	2,542	3,400	3,686	2,822	2,840	1,690
Monetary gold and SDRs	12	0	-56	0	0	43	43	43
Currency and deposits	2,936	-2,849	-373	-23	-539	-1,358	-821	-743
Debt securities	791	2,764	2,847	2,705	2,832	2,526	2,403	1,565
Loans	-5,251	-2,052	303	817	1,511	1,680	1,263	875
Shares	-208	141	-91	-61	-25	-23	-24	-4
Other equity	155	14	56	38	36	61	46	46
Investment fund shares/units	-4	-2	-2	-1	0	-1	-1	-1
Insurance and pension schemes	2	1	0	1	2	2	2	2
Other	22	185	-140	-74	-130	-108	-71	-93
<b>Other financial institutions</b>								
Total	-116	35	-63	-2	-16	-104	92	62
Currency and deposits	158	-133	61	-9	41	-56	-92	-121
Debt securities	100	313	157	84	74	-35	10	-66
Loans	-304	-192	-203	-197	-221	-81	29	48
Shares	-79	49	-59	99	61	48	44	70
Other equity	26	15	-35	-28	-26	-46	-9	5
Investment fund shares/units	59	31	28	24	14	41	105	132
Insurance and pension schemes	15	-34	12	7	16	13	11	12
Other	-91	-14	-24	17	26	13	-7	-20
<b>General government</b>								
Total	4,964	1,405	-6,534	-3,625	-1,764	-923	-828	-439
Currency and deposits	4,356	1,936	-5,331	-2,338	-844	-419	-318	-208
Debt securities	-131	58	-112	-93	-43	-54	-26	-23
Loans	821	-666	-655	-620	-564	-401	-323	-284
Shares	-123	-69	-57	-69	193	195	1	-5
Other equity	93	113	-12	-35	-35	-33	-5	-5
Investment fund shares/units	16	26	-10	-5	11	27	23	35
Insurance and pension schemes	2	0	-1	-5	-2	5	0	7
Other	-71	7	-356	-460	-480	-242	-180	43
<b>Households and NPISHs</b>								
Total	778	964	1,127	1,352	971	1,337	1,251	1,477
Currency and deposits	889	771	950	1,077	683	1,209	1,009	1,192
Debt securities	-99	-13	-22	-11	16	4	-1	-20
Loans	1	-17	35	25	-25	22	18	62
Shares	-77	-44	-132	-83	-72	-81	-2	3
Other equity	27	38	30	40	46	-104	-107	-114
Investment fund shares/units	83	116	14	39	78	89	111	114
Insurance and pension schemes	138	188	126	135	83	101	127	135
Other	-183	-76	125	129	162	97	96	106
<b>Rest of the world</b>								
Total	3,384	-426	-1,359	-1,221	-401	-397	-48	-702
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-805	-350	1,198	-252	176	244	509	74
Debt securities	4,444	-999	-2,885	-1,616	-474	-314	45	-33
Loans	-1,142	-595	-1,019	-939	-1,284	-1,650	-2,052	-1,998
Shares	1,040	335	619	491	281	224	256	190
Other equity	-51	1,377	775	826	711	707	583	569
Investment fund shares/units	-11	3	0	0	-2	-2	-1	-1
Insurance and pension schemes	-54	3	-8	0	-20	10	5	13
Other	-38	-200	-38	267	211	382	607	484

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

<i>EUR million</i>	2014	2015	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
<b>Domestic sector</b>								
Total	1,682	-744	-2,685	1,618	3,511	3,885	3,920	2,996
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	3,170	637	-822	1,635	2,777	2,813	3,181	2,161
Debt securities	4,602	338	-1,971	-1,184	-412	-769	-152	-154
Loans	-5,735	-3,442	-1,628	-1,027	-420	-228	-985	-1,118
Shares	172	246	359	348	396	373	218	173
Other equity	102	1,883	1,149	1,197	859	711	625	678
Investment fund shares/units	39	142	-1	24	16	43	29	64
Insurance and pension schemes	121	189	120	123	86	156	146	163
Other	-789	-737	108	500	208	785	858	1,028
<b>Non-financial corporations</b>								
Total	-2,345	-1,061	487	926	662	1,204	1,350	1,319
Debt securities	288	83	-227	-218	-275	-314	93	47
Loans	-1,971	-2,407	-777	-785	-340	-126	-562	-517
Shares	54	152	139	138	186	163	212	168
Other equity	171	1,466	1,081	1,127	797	717	628	689
Other	-887	-354	272	665	293	763	980	931
<b>Monetary financial institutions</b>								
Total	-2,320	-2,282	2,291	3,177	3,549	2,616	2,655	1,508
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	1,002	-146	3,508	3,689	3,771	3,075	3,101	2,139
Debt securities	14	-525	-339	-56	-153	-402	-418	-401
Loans	-3,367	-1,536	-826	-399	38	21	27	-207
Shares	114	44	17	6	5	4	4	4
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	0	19	43	-1	8	-1	-44	-8
Other	-82	-138	-112	-63	-119	-81	-15	-20
<b>Other financial institutions</b>								
Total	-635	73	-189	-115	-188	-131	-19	15
Debt securities	1	-72	42	41	-1	3	-8	-8
Loans	-694	-461	-348	-380	-300	-334	-251	-201
Shares	3	51	4	5	5	7	2	0
Other equity	-68	305	67	68	62	-6	-3	-11
Investment fund shares/units	39	123	-44	26	8	45	74	72
Insurance and pension schemes	121	189	120	123	86	156	146	163
Other	-36	-62	-30	2	-49	-2	22	1
<b>General government</b>								
Total	7,053	2,509	-5,782	-3,042	-1,337	-684	-818	-666
Currency and deposits	2,168	783	-4,330	-2,054	-994	-262	80	22
Debt securities	4,299	851	-1,446	-951	17	-57	181	208
Loans	401	875	-103	-53	-531	-597	-918	-904
Shares	0	0	200	200	200	200	0	0
Other equity	0	112	2	2	1	0	0	0
Other	184	-112	-105	-186	-29	33	-161	9
<b>Households and NPISHs</b>								
Total	-71	17	509	672	825	880	750	819
Loans	-103	87	426	590	713	808	718	711
Other	32	-70	83	82	113	72	32	108
<b>Rest of the world</b>								
Total	5,435	1,301	-488	-230	628	1,003	1,417	1,098
Monetary gold and SDRs	12	0	-56	0	0	43	43	43
Currency and deposits	4,821	-517	-2,098	-2,512	-2,658	-2,563	-2,125	-1,403
Debt securities	488	1,749	1,949	2,216	2,772	2,850	2,565	1,563
Loans	-65	-274	-98	-252	-167	-290	-144	-115
Shares	44	270	-93	62	100	114	129	134
Other equity	48	-32	117	108	140	105	18	24
Investment fund shares/units	102	28	2	13	65	97	211	215
Insurance and pension schemes	8	-8	10	6	3	6	5	3
Other	-23	85	-221	129	373	642	712	633

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

<i>EUR million</i>	2014	2015	16Q4	17Q1	17Q2	17Q3	17Q4	18Q1
Domestic sector	2,051	1,728	871	990	1,028	1,400	1,465	1,800
Non-financial corporations	1,998	1,437	628	557	1,001	949	679	687
Monetary financial institutions	775	485	250	223	137	206	185	182
Other financial institutions	519	-38	126	113	173	27	111	47
General government	-2,089	-1,104	-752	-583	-427	-239	-10	227
Households and NPISHs	849	947	618	680	146	457	501	659
Rest of the world	-2,051	-1,728	-871	-990	-1,028	-1,400	-1,465	-1,800

## 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 do-

mestic 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.