BANKA SLOVENIJE

BANK OF SLOVENIA

EUROSYSTEM

ECONOMIC AND FINANCIAL DEVELOPMENTS

JANUARY 2019

BANKA SLOVENIJE
EVROSISTEM

Title: Economic and Financial Developments
No.: January 2019

Published by: BANKA SLOVENIJE
Slovenska 35
1505 Ljubljana
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http://www.bsi.si/

This publication is also available in Slovene.

ISSN 2385-9784

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Executive Summary

The international environment is becoming less encouraging for Slovenia's export sector. For several months now survey indicators have been pointing to a slowdown in global expansion, and forecasts for this year's global economic growth have also been lowered. Growth in the euro area is continuing to slow: in December the PMI fell to its lowest value of the last four years, while the economic sentiment is also less optimistic. The changing situation is being reflected in a reduced estimate for the weighted forecast of economic growth in Slovenia's main trading partners, which nevertheless suggests that conditions will remain relatively solid for the export sector. In the wake of major divergence between the monetary policies of the ECB and the Fed, and the increased economic activity in the US, the euro has fluctuated mostly below the mark of USD 1.15 over the last three months, its low of the last year and a half, although this is benefitting the price competitiveness of euro area exporters. Inflationary pressures in the international environment have eased over the last three months, as oil prices and other commodity prices fell sharply.

Despite the uncertainties in the international environment, economic growth in Slovenia continues to strongly outpace the euro area average. Year-on-year GDP growth again approached 5% in the third quarter of last year, albeit without any major signs of imbalances occurring. The high contribution made to GDP growth by construction investment was in line with the government investment cycle, while the weaker dynamic in merchandise exports was in line with the lower growth in the euro area, Germany in particular. The contribution made to GDP growth by net trade was nevertheless very large, as growth in imports declined by even more. This was partly attributable to surprisingly weak private consumption, which could at least partly be related to the decline in consumer confidence and lower real growth in wages. The structure of investment growth continued to deteriorate in the third quarter from the perspective of increasing the output potential of the economy. The current dynamic in investment in machinery and equipment was weak again, although the conditions for investment remained good. Investment is most likely being held back mainly by the increased uncertainty in the international environment. Judging by the last available confidence and activity indicators, the economy remained fairly favourable in the final quarter of last year. Growth is likely to have remained high in construction and certain private-sector services.

In the wake of the high economic growth, the proportion of firms facing a shortage of qualified labour is increasing, but employment growth nevertheless remains high. It was again close to 3% in the third quarter of last year, while employment forecasts also remain positive. The surveyed unemployment rate had fallen to 5% by the third quarter of last year, which is not yet giving rise to any wage pressures that would weaken the external competitiveness of the economy. Wage growth averaged 3.4% over the first ten months of last year, up 1 percentage point in year-on-year terms, although the dynamic in real unit labour costs remains better than in the EU overall, particularly compared with other newer Member States.

Slovenia's balance of payments remains strong, despite a decline in the current account surplus. The current account surplus over the 12 months to November amounted to 7.3% of GDP, down 0.4 percentage points on its peak in August. The decline was attributable to a stagnation in goods exports in September, and a sharp increase in imports in October. The export developments did not remain weak in October and November: year-on-year growth in goods exports strengthened to nearly 10%, primarily as a result of increased sales on euro area markets. Year-on-year growth in goods imports temporarily strengthened to almost 20% in October (its structure indicates increased imports of intermediate *goods and consumer goods), before falling to below 9% in November. The surplus of trade in services continued to strengthen, largely as a result of high exports of travel services. The year-on-year reduction in the deficit in primary income slowed last year, as a result of an increase in the deficit in estimated reinvested earnings, which is indicative of increased reinvestment at firms in Slovenia under foreign ownership.*

As price pressures from the rest of the world eased, inflation as measured by the HICP fell sharply in December. It stood at 1.4%, down 0.7 percentage points on November, and 0.2 percentage points less than in the euro area overall. The fall in oil prices and other commodity prices on global markets meant that the previous large influence of external factors eased off towards the end of the year, and domestic factors began to prevail, in line with the Bank of Slovenia's expectations. This is primarily being evidenced in growth in services prices, which accounted for the majority of headline inflation in December. The prevalence of domestic factors is also being reflected in core inflation excluding energy and food prices, which stood at 1.3% at the end of last year.

The fiscal position is continuing to improve, as a result of the favourable cyclical situation, and a decline in interest expenditure. The general government sector recorded a surplus in the amount of 0.7% of GDP over the 12 months to September of last year, while the government debt stood at 71.0% of GDP at the end of last September. Growth in general government revenues remained solid, primarily as a result of increased tax revenues, while growth in expenditure also strengthened further, as a result of increased investment. According to the latest government estimates, the general government surplus is expected to have reached 0.8% of GDP by the end of the year, while the government debt is expected to have fallen to around 70% of GDP. The public finances are expected to have been in structural balance, which is not expected to be the case this year; according to the government's plans, the structural position is forecast to deteriorate, while growth in expenditure is forecast to be higher than prescribed by the fiscal rules. Similarly to the last two years, this year is again expected to see a reduction in the interest burden, while the economic situation is forecast to remain favourable.

* * *

To mitigate the adverse consequences of demographic changes and to prevent the brain drain, Slovenia needs, among other things, an economic advance into creating higher value-added. Given the current structure of the economy there seems to be a shortage of medium-qualified labour, which employers compensate by hiring foreign nationals. Despite the net emigration of Slovenian citizens, the hiring of foreign nationals since 2015 has kept net immigration positive, where the average qualifications and professional skills of foreign workers are weaker than those of domestic workers. By contrast, there is an outward migratory flow among people with tertiary qualifications, which in itself entails a loss of potential to the country after years of investing in their education. We assess that one reason, among others, for this situation is that the structure of the Slovenian economy is largely comprised of activities with relatively low value-added per employee. Failing to transition towards creating higher added value and take direct measures for retention of the highly qualified workers may result in productivity growth insufficient for a swifter catch-up process with the more advanced economies, and a more adverse impact of population ageing.

Main macroeconomic indicators

	2015	2016	2017	18Q1	18Q2	18Q3	2015	2016	2017	18Q1	18Q2	18Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	2.3	3.1	4.9	4.7	4.0	4.8	2.1	2.0	2.4	2.1	2.3	1.6
- industry	1.0	4.6	7.7	6.0	5.2	3.1	3.6	3.4	3.1	2.1	3.0	0.8
- construction	-1.5	-3.7	8.5	11.8	11.1	17.9	0.8	1.5	3.2	3.3	4.2	3.8
- mainly public sector services	0.9	2.3	1.6	2.1	2.3	1.8	0.8	1.3	1.1	1.3	1.2	1.0
- mainly private sector services	2.6	3.3	6.0	5.1	4.6	5.2	2.2	2.0	2.6	2.4	2.6	1.8
Domestic expenditure	1.9	2.9	3.9	6.1	3.5	3.5	2.4	2.4	1.7	1.6	1.6	2.0
- general government	2.4	2.7	0.5	1.2	4.9	2.5	1.3	1.8	1.2	0.9	1.1	1.0
- households and NPISH	2.3	3.9	1.9	3.7	1.6	0.0	1.8	2.0	1.6	1.7	1.3	1.0
- gross capital formation	0.1	0.0	13.2	16.4	7.2	13.4	5.1	4.2	2.4	2.0	3.1	5.6
- gross fixed capital formation	-1.6	-3.7	10.7	10.7	10.7	12.0	4.9	4.0	2.6	3.0	3.4	3.5
- inventories and valuables, contr. to GDP growth in pp	0.3	0.7	0.6	1.4	-0.5	0.5	0.0	0.1	0.0	-0.2	-0.1	0.5
Labour market												
Employment	1.3	1.8	2.9	3.3	3.0	2.8	1.0	1.4	1.6	1.5	1.6	1.3
- mainly private sector services	1.4	1.7	3.0	3.6	3.2	3.0	1.0	1.4	1.7	1.6	1.7	1.4
- mainly public sector services	0.8	2.2	2.6	2.2	2.1	1.9	1.1	1.4	1.3	1.2	1.2	1.1
Labour costs per employee	1.3	3.0	3.2	3.9	4.6	3.2	1.4	1.2	1.6	2.0	2.2	2.5
- mainly private sector services	1.5	2.4	3.2	3.8	4.7	3.4	1.5	1.2	1.6	2.0	2.3	2.5
- mainly public sector services	0.7	5.2	3.1	3.8	4.2	3.8	1.1	1.3	1.5	2.0	2.1	2.3
Unit labour costs, nominal*	0.3	1.8	1.2	2.4	3.6	1.3	0.3	0.6	0.8	1.4	1.5	2.1
Unit labour costs, real**	-0.7	1.0	-0.3	0.0	0.8	-1.2	-1.1	-0.2	-0.3	0.0	0.2	0.7
	in %											
LFS unemployment rate	9.0	8.0	6.6	5.9	5.2	5.0	10.9	10.0	9.1	8.9	8.2	7.8
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	4.5	5.5	7.2	6.8	7.4	7.4	2.9	3.2	3.2	3.4	3.6	3.3
External trade balance as contr. to GDP growth in pp	0.6	0.5	1.3	-0.8	0.8	1.7	-0.2	-0.4	0.8	0.5	0.8	-0.2
Real export of goods and services	5.0	6.4	10.7	8.4	9.1	5.7	6.6	3.0	5.2	3.1	4.4	2.7
Real import of goods and services	4.7	6.6	10.3	10.6	9.2	4.3	7.7	4.2	3.9	2.2	3.1	3.7
Financing	*in % of GDP*											
Banking system's balance sheet	106.9	99.3	93.9	91.8	91.0	89.3	281.3	275.7	260.7	260.6	260.9	258.9
Loans to NFCs	26.3	22.6	21.8	21.4	21.0	20.8	38.7	37.8	36.9	36.9	36.7	36.6
Loans to households	21.1	21.1	21.5	21.5	21.5	21.6	49.7	49.4	49.4	49.1	49.0	49.1
Inflation	*in %*											
HICP	-0.8	-0.2	1.6	1.5	2.1	2.1	0.0	0.2	1.5	1.3	1.7	2.1
HICP excl. energy, food, alcohol and tobacco	0.3	0.7	0.7	0.8	1.0	1.1	0.8	0.9	1.0	1.0	0.9	1.0
Public finance	*in % of GDP*											
Debt of the general government	82.6	78.7	74.1	75.5	72.7	71.0	89.9	89.1	86.8	86.9	86.3	...
One year net lending/net borrowing of the general government***	-2.8	-1.9	0.1	0.5	0.6	0.7	-2.0	-1.6	-1.0	-0.8	-0.5	...
*- interest payment****	3.2	3.0	2.5	2.4	2.3	2.2	2.3	2.1	2.0	1.9	1.9	...
*- primary balance****	0.4	1.1	2.6	2.9	2.9	2.9	0.3	0.6	1.0	1.2	1.4	...

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.*
**** 4-quarter moving sum.*
Source: SORS, Eurostat, Bank of Slovenia, ECB, Ministry of Finance, Bank of Slovenia calculations.

1 International Environment

Despite the increasing risk in the international environment, global economic growth is thought to have remained solid in the final quarter of last year, although certain survey indicators have been suggesting a slowdown for some months now. Forecasts for this year's growth have also been lowered slightly. According to the ECB, global trade is forecast to slow this year, as the global economic cycle is moving into a mature phase, and the impact of trade tensions is increasing, particularly those between the US and China. Growth in the euro area is continuing to slow: in December the composite PMI fell to its lowest value of the last four years, while the economic sentiment is also less optimistic. The less encouraging international situation has already been reflected in the weighted economic growth forecast for Slovenia's main trading partners. The divergence between the monetary policies of the ECB and the Fed increased again: in its December meeting the Fed again raised its key interest rate, while although the ECB announced the end of net bond purchases under the APP, there will be no change in interest rates for some time yet. The euro has mostly fluctuated below the mark of USD 1.15 over the last three months, its low of the last year and a half. After falling for three months, oil prices rose slightly in early January. The price of a barrel of Brent crude stood at more than USD 60 in mid-January, still down almost 30% on early October.

Global economy

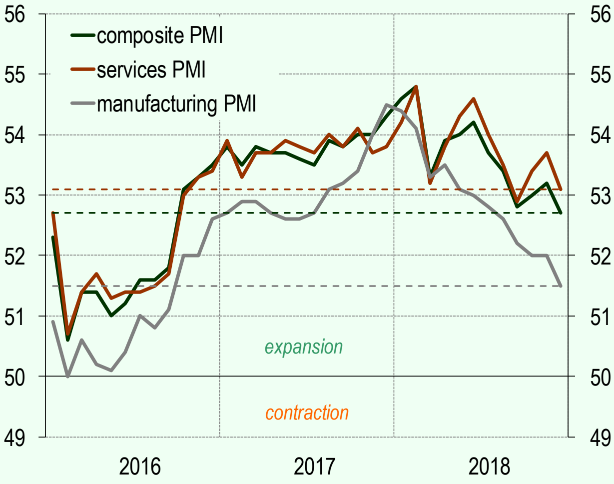
The third quarter of last year saw economic growth strengthen in the US, the UK and Brazil only, while it slowed in other major economies. The trend of relatively high economic growth continued in the US, where GDP in the third quarter of last year was up 3% in year-on-year terms. Year-on-year economic growth in India was down 1.1 percentage points in the third quarter of last year. China also saw a slowdown in year-on-year economic growth: the rate stood at 6.5%, down 0.3 percentage points on a year earlier, and the lowest rate since the first quarter of 2009. Further evidence of the slowdown in growth in China came from its composite PMI, which measures activity in the manufacturing sector: after more than two years, in December it moved into the zone indicating declining activity. Year-on-year economic growth in the euro area was also down for the fourth consecutive quarter. Quarterly growth stood at just 0.2%, the lowest rate of the last four years. Year-on-year growth in the UK strengthened to 1.5%, as the quarterly rate rose to 0.6%, the highest figure for almost two years. This was primarily attributable to increased household consumption and higher growth in exports. Owing to natural disasters, falling exports and a lower business investment, the Japanese economy contracted by 0.6% between the second and third quarters of last year, which was double the initial estimate, the largest quarterly contraction in the last four years, while economic activity was unchanged in year-on-year terms. After increasing in the first half of last year, year-on-year economic growth in Russia again slowed slightly in the third quarter to 1.5%, down 0.7 percentage points on a year earlier.

The survey confidence indicators indicate a slowdown in the global economic climate. Having risen slightly in October and November, in December the JPMorgan composite PMI reached its lowest level since September 2016. The slowdown in growth in manufacturing continued in the final quarter of last year, while activity in services again slowed slightly in December after recording higher growth in October and November.

The majority of international institutions are forecasting slightly lower global growth for 2018 and 2019 than in their previous projections. Global growth is forecast at 3.7% for 2018, and slightly less for this year, at an average of 3.6%. The IMF is forecasting that global economic growth will be unchanged from last year, while the OECD and the European Commission are forecasting slightly lower growth, in the amount of 3.5%. The OECD left its forecasts for countries that saw a slight increase in economic growth in the third quarter of last year unchanged, but revised its forecasts for most other countries downwards. Compared with last year, economic growth is forecast to strengthen in 2019 solely in the UK and Japan, by 0.1 percentage points, and in Brazil, by approximately 1 percentage point.

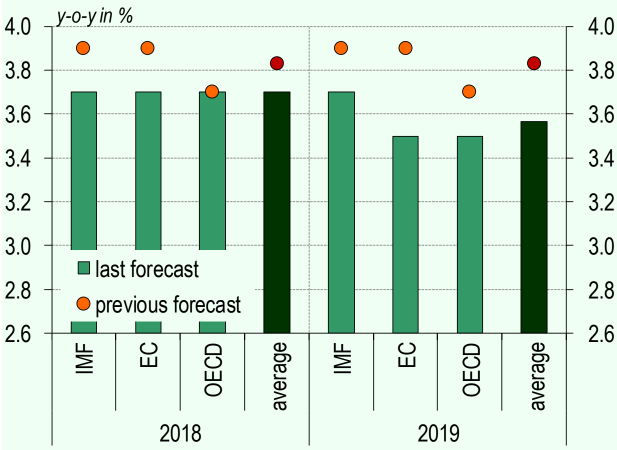
The risks in the international environment are increasing. The risks of weaker growth are being increased by the trade dispute between the US and China, despite December's adoption of a three-month truce in the trade war, and by the rising number of protectionist measures. In Europe the main issues are political ten-

Figure 1.2: JPMorgan Purchasing Managers' Index (PMI) – global



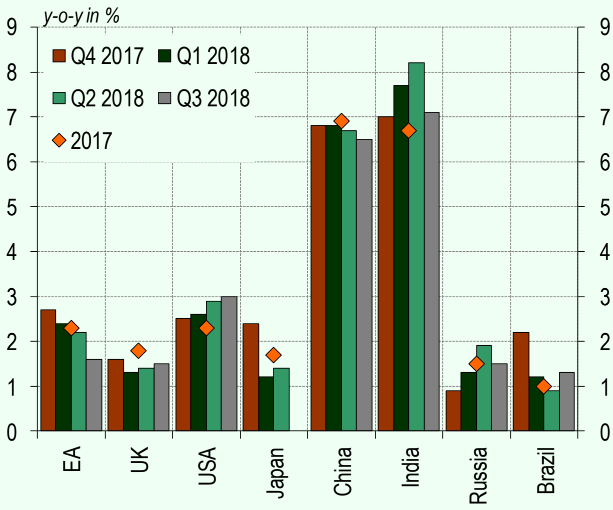
Note: Dashed line represents the value of the last observation.
Source: Bloomberg.

Figure 1.3: Global GDP growth forecasts for 2018 and 2019



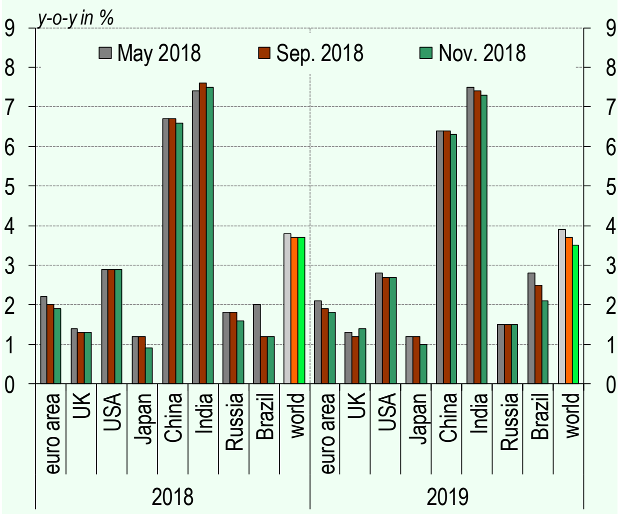
Note: Included forecasts are the following: IMF (October 2018, July 2018), European Commission (November 2018, May 2018), OECD (November 2018, September 2018).
Source: IMF, European Commission (EC), OECD.

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



Source: IMF, Tradingeconomics.

Figure 1.4: OECD forecasts of GDP growth in major developed countries and BRIC for 2018 and 2019



Source: OECD Economic Outlook.

sions in connection with the protests in France, and the uncertainty with regard to the outcome of Brexit. Another negative factor in future economic growth is the tightening of monetary policy in the US, which is leading to a deterioration in financing conditions for certain developing countries in particular.

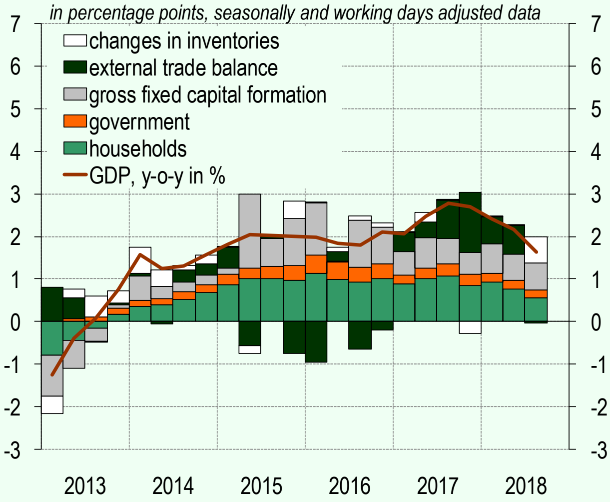
Euro area

Year-on-year economic growth in the euro area again slowed slightly in the third quarter of last year. It stood at 1.6%, its lowest figure of the last four years, and was down 1.2 percentage points on its peak in the third quarter of 2017. The slowdown was primarily attributable to weaker growth in foreign demand, and the resulting negative contribution to GDP growth by net trade. On the expenditure side, there were broadly equal contributions to year-on-year GDP growth from changes in inventories, gross fixed capital formation and private consumption, although the contribution of the last was down slightly on previous quarters. On the output side, weaker growth in foreign demand was reflected in lower growth in value-added in industry. The contribution by industry declined by 0.7 percentage points over the 12 months to the third quarter of last year, thus reaching its lowest figure of the last five years. In terms of sector, the largest contribution to economic growth was again made by services, at 1 percentage point, although this figure was also down on the previous quarter.

The survey indicators of confidence and activity suggest a slowdown in economic growth in the final quarter of last year. The composite PMI declined significantly in the final quarter of last year, primarily as a result of a slowdown in growth in services, thus reaching its lowest figure of the last four years. Manufacturing continued to record slow growth at end of last year, recording the lowest figure of the last three years, at least according to the PMI. Economic sentiment in the euro area declined in the final quarter of 2018, but nevertheless remained above its long-term average. The main declines were in confidence in industry and in consumer confidence, while confidence remained high in the construction sector.

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

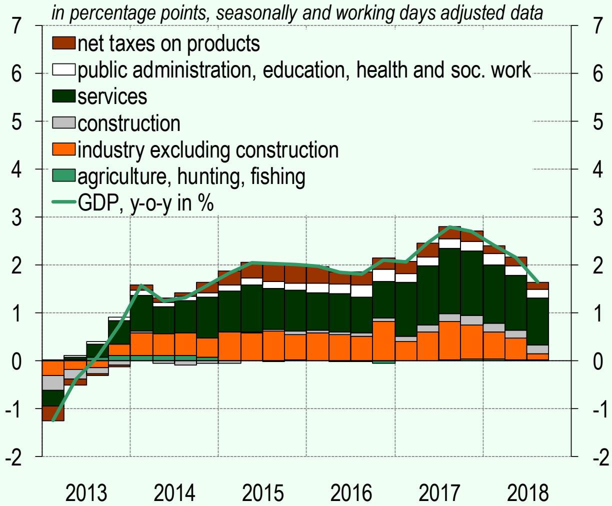
in percentage points, seasonally and working days adjusted data



Source: Eurostat, Bank of Slovenia calculations.

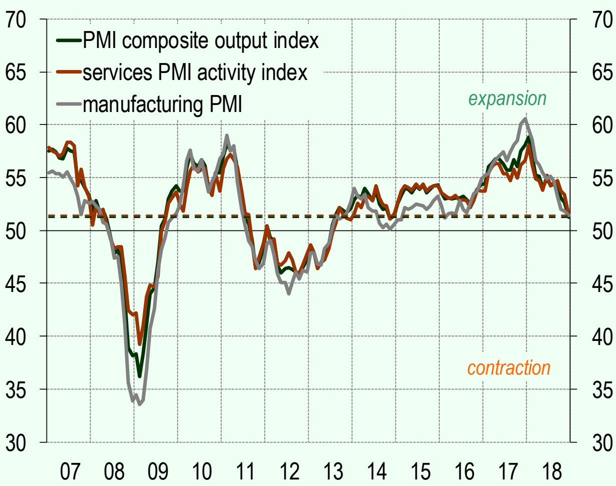
Figure 1.6: Structure of GDP growth in the euro area, production side

in percentage points, seasonally and working days adjusted data



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.7: Purchasing Managers' Index (PMI) – euro area



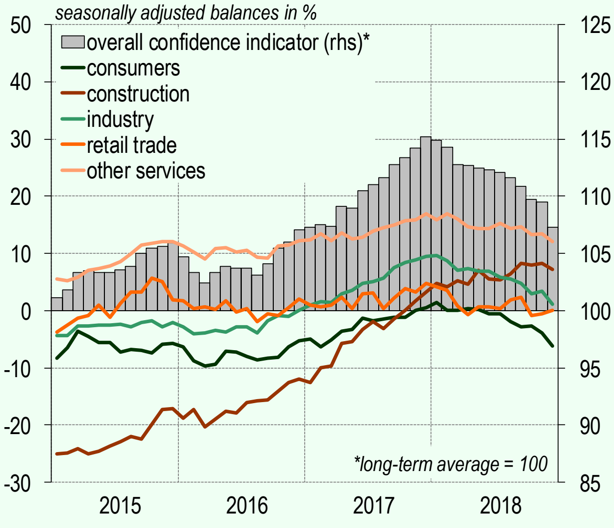
Note: Dashed line represents the value of the last observation.
Source: IHS Markit.

Economic growth in the euro area is forecast to remain solid this year, albeit slightly lower. The majority of international institutions left their forecasts for 2018 and 2019 more or less unchanged. GDP growth is estimated to have been 2% last year, and is forecast at 1.8% this year. Slightly lower economic growth is being forecast by the OECD and the ECB. According to the ECB forecasts, the monetary policy stimulus, the improved conditions on the labour market, the stronger balance sheets in the private sector and expansionary fiscal policy will have a favourable impact on GDP over the medium term. Economic growth is nevertheless expected to be slowed by growing labour shortages in certain countries, and slightly less favourable financing conditions.

Slovenia's trading partners

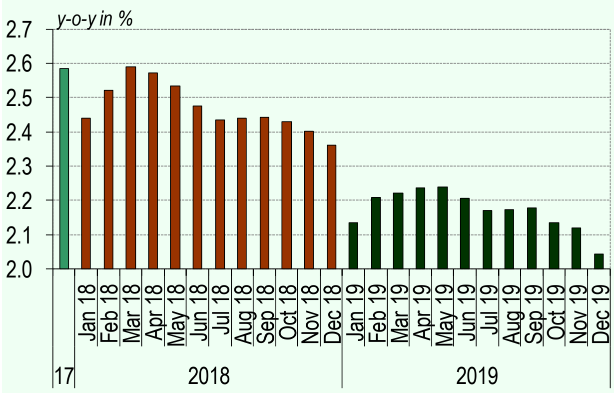
The weighted economic growth forecast for Slovenia's main trading partners remains relatively favourable, despite a reduction. The forecast for 2019 began to be reduced in the second half of 2018, but by the end of the year it was not significantly lower than it had been in January of last year. In December Consensus revised its forecasts for this year downwards for the majority of Slovenia's largest trading partners. Consensus is forecasting economic growth of 1.6% for 2018 and 1.5% for this year in Germany, down 0.3 percentage points on its forecasts from the beginning of last year. The downward revision is attributable to the quarterly contraction of 0.2% in the German economy in the third quarter of last year,

Figure 1.8: Confidence indicators – euro area



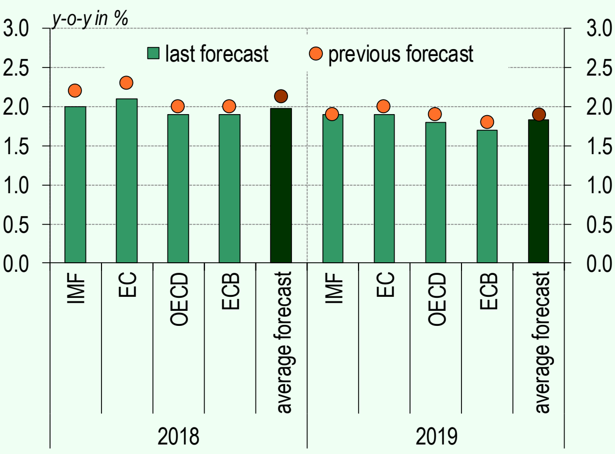
Source: Eurostat.

Figure 1.10: Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2018 and 2019



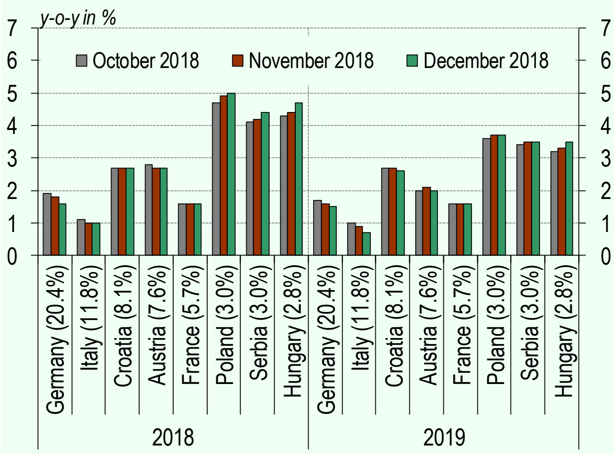
Note: Trade partners with at least 1% of total goods exports of Slovenia in the last twelve months are included (October 2017 – September 2018; 22 trading partners with a total share of 87.6 %). The growth forecasts for the years 2018 and 2019 are weighted with the share of each country in the total exports of goods. For 2017 the weighted outcome is shown. For China, IMF data is used. Source: SORS, Consensus, IMF, Bank of Slovenia calculations.

Figure 1.9: Euro area GDP growth forecasts for 2018 and 2019



Note: Included forecasts are the following: IMF (October 2018, July 2018), European Commission (November 2018, May 2018), OECD (November 2018, September 2018), ECB (December 2018, September 2018).
Source: IMF, European Commission (EC), OECD, ECB.

Figure 1.11: Forecasts of GDP growth in the eight largest Slovenian trading partners for 2018 and 2019



Note: Shares of the trading partners in total goods exports of Slovenia in the last twelve months (October 2017 – September 2018) are found in parentheses.
Source: Consensus Forecasts, SORS.

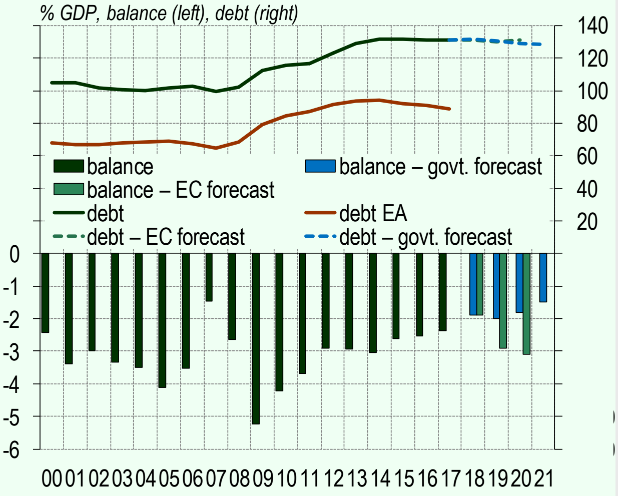
Box 1.1: Italy's fiscal position

As measured by the ratio of government debt to GDP, Italy is the second most indebted country in the euro area, after Greece. Italy's debt is also significantly above the average debt of euro area countries (see Figure 1). Its already high debt increased further during the economic and financial crisis, and has only been reduced insignificantly since 2014, while the reduction in the euro area average was more pronounced. The government sector has been in deficit for more than 20 years now. The primary balance has been positive during this time, with the exception of 2009. Interest expenditure is therefore the key factor in the generation of the deficit. In recent years, also due to the ECB's monetary policy stimulus, interest expenditure has gradually declined, and is now less than 4% of GDP. Interest expenditure, which economic growth has not been able to compensate for, has also made the largest contribution to the average annual growth in debt over the last 20 years, as illustrated by the contribution to growth in debt by the snowball effect (see Figure 4). This effect has been much more pronounced in Italy than in the euro area, although the average increase in debt was similar, at close to 1% of GDP each year.

Under December's amendments to the budget, Italy is planning a slightly more neutral fiscal policy than had originally been envisaged by the new government. During the crisis Italy pursued a neutral and occasionally procyclical (restrictive) fiscal policy, as the changes in the structural balance (yellow points in Figure 2) were mostly positive (restrictive fiscal policy) or close to zero (neutral fiscal policy). Given its high debt level, Italy did not have fiscal space for expansive measures during this period, as the financial markets would most likely have responded by raising the required yields on the debt. According to the European Commission's November forecasts, which took account of the Italian government's October budget plans, in the period of the weak but positive economic growth that has been forecast, fiscal policy would remain procyclical (expansionary) in the future (red points labelled '19 and '20 in Figure 2). However, such policy stance could be problematic from the perspective of the long-term debt sustainability. The government plans amended in December envisage a more neutral fiscal policy in the 2019 to 2021 period (green points in Figure 2).

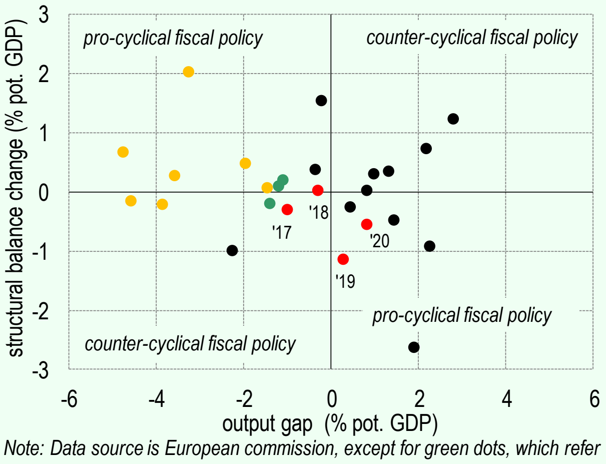
The post-election political developments in Italy brought a rise in the required yields on Italian government bonds. The spreads over the benchmark German bonds increased to close to 300 basis points towards the end of the year. The required yield on Italian 10-year government bonds temporarily exceeded 3.5% in November, having been around 2.0% at the beginning of the year (see Figure 3). The governing coalition, which was formed at the end of May 2018, originally planned a relatively expansionary fiscal policy, which led to a rise in required yields on Italy's sovereign debt. At the same time, the projections of real economic growth were cut during the year, and according to the Consensus forecasts are now a little below 1.0% for the next two years, while inflation is also forecast at just over 1%. The larger gap between the required yield and nominal economic growth is increasing the contribution to debt by the snowball effect. After its autumn review of Italy's budget plans, the European Commission suggested to initiate the excessive deficit procedure against Italy because of its failure to comply with the Stability and

Figure 1: Government balance and debt in Italy



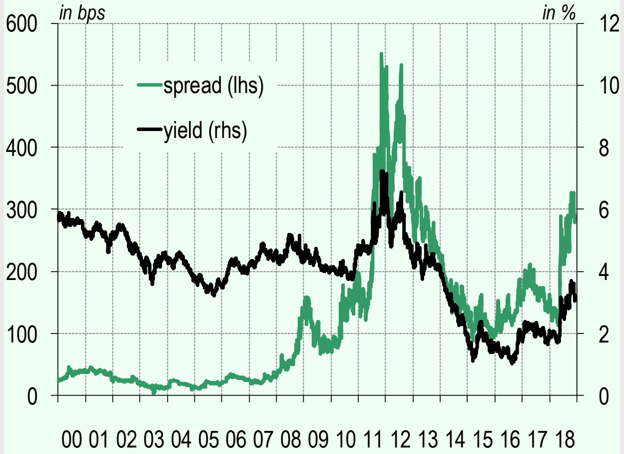
Source: European commission, November 2018, Draft Budgetary Plan for Italy, December 2018.

Figure 2: Fiscal policy stance and economic cycle in Italy from 1998 to 2021



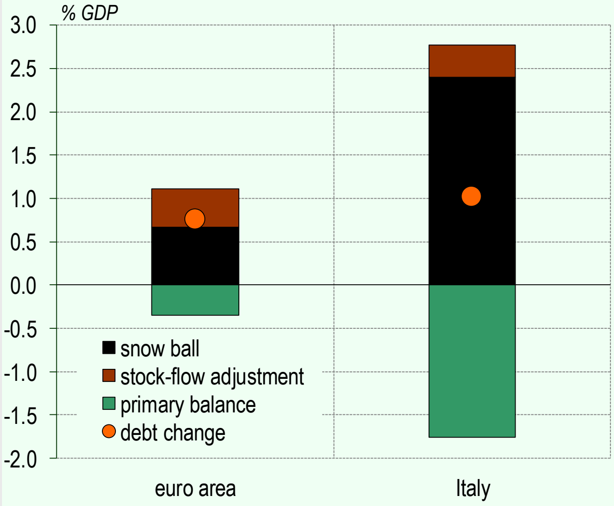
Note: Data source is European commission, except for green dots, which refer to Italian government plan for the period 2019−2021.
Source: European commission, November 2018, Draft Budgetary Plan for Italy, December 2018.

Figure 3: Yield and spread of long-term Italian government bond 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 credit risk.
Source: Bloomberg, Bank of Slovenia calculations.

Figure 4: Sources of average debt change in the period 1999–2018



Source: European commission, November 2018.

Growth Pact's debt reduction rules, having failed to reduce its debt quickly enough towards the benchmark value of 60% of GDP in 2016 and 2017. According to the European Commission's November estimates, debt reduction would again not be quick enough in 2018 and 2019. In December Italy sent the European Commission a new draft budget for 2019 (covering the period to 2021), which has a more neutral path, in response to which the European Commission assessed that opening an excessive deficit procedure against Italy would no longer be necessary.

In the longer term the debt could also be raised by the costs of an ageing population, as plans are being made in Italy for measures that partly overturn the effects of the most recent pension reforms. According to the European Commission's estimates, expenditure related to the population ageing in Italy in 2016 was above the EU average, and by 2045 is forecast to have increased more than the EU average. Over the longer period to 2070, the costs of population ageing would fall, primarily as a result of the diminishing size of pensioners and the complete changeover to a new approach to calculating pension payments. According to the Italian finance ministry's estimates, pension payments would nevertheless be higher than the level that is sustainable in the long run. Any relaxation of the retirement conditions would further increase the pressure on the debt.

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Report from the Commission: Italy. Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union. European Commission, November 2018.

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European Economic Forecast. Autumn 2018. European Commission, November 2018.

Consensus Forecasts. Consensus Economics Inc, November 2018.

which in the opinion of analysts was the result of trade wars and issues in the German car industry caused by new emissions tests. The ifo business climate index for Germany declined slightly in the final quarter of last year, as there were deteriorations in the current business situation and the business outlook of firms in manufacturing and services. The composite PMI for Germany has also declined markedly in the last three months, and in December reached its lowest level of the last four years. After being lowered in October, Consensus's forecasts for

Italy for both years were revised downwards again in December. It is forecasting growth of 1% in 2018 and even lower growth of 0.7% in 2019. This year's forecast for Croatia was lowered for the first time at the end of last year, to 2.6%. The forecast for Austria remains virtually unchanged. After a downward revision in October, it left its forecasts for France for both years unchanged at 1.6%. It again raised the forecasts for both years for Poland, Serbia and Hungary. It is forecasting economic growth this year of 3.7% in Poland, and 3.5% in Serbia and Hungary.

Euro exchange rate and commodity prices

At its December meeting the Fed again raised its key interest rate, while the ECB left interest rates unchanged, but ended its net bond purchases under the APP. The Fed raised its key interest rate for the fourth time in December of last year, by 0.25 percentage points, to a range of 2.25% to 2.50%. The Fed is planning two more interest rate hikes this year and one in 2020, while by contrast the ECB has announced the retention of zero rates at least over the summer of 2019, or as long as necessary to meet its inflation expectations. The ECB has brought its programme of net bond purchases to an end, but it intends to reinvest the principal of maturing securities in full for the longer term. Having fluctuated above the mark of USD 1.15 in early October, the euro has mostly been below this mark in the last three months.

Oil prices remain down significantly in year-on-year terms, despite a small upturn at the beginning of this year. The price of a barrel of Brent crude passed USD 85 in early October, but then lost almost 40% of its value by the end of December, falling below USD 55. This was attributable to the surplus supply of oil caused by high production in the US and an increase in production by certain producer countries in the context of the anticipated tougher US sanctions against Iran. Opec members and certain non-members agreed to cut production at the December meeting, which has already led to a rise in oil prices in the early part of this year. Another factor in the price rises was expectations of progress in the trade talks between the US and China. Oil prices passed USD 60

Figure 1.12: EUR/USD exchange rate and central banks' interest rates

Source: ECB, Federal Reserve.

Figure 1.13: Oil prices

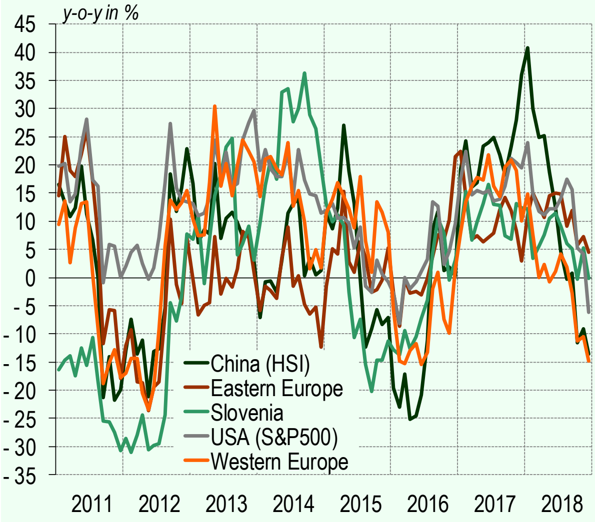
Source: Bloomberg, Bank of Slovenia calculations.

per barrel in mid-January, which is still down approximately 13% in year-on-year terms. Other commodity prices were mostly down in December, industrial commodities recording the largest year-on-year fall of 9%, while food prices were down 2.2%.

International capital markets

The selling pressure on European exchanges strengthened in the final quarter of last year, while large losses were also recorded on the US exchanges. The representative share index for western Europe (SXXE) and the S&P 500 in the US both lost almost 14% in the final quarter of last year. In the wake of December's price falls, individual European exchanges were close to bear territory.[1] The S&P 500 was also close to this mark. The selling pressure strengthened on European exchanges as a result of the continued uncertainty surrounding Brexit, and the coordination of the Italian budget for the upcoming year with the European Commission. Uncertainty was increased at the global level by speculation about the actual impact of increased protectionist measures, particularly between the US and China, and about the cooling of global economic activity.

Figure 1.14: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

[1] A bear market is said to exist when the main share index of a particular stock exchange is down more than 20% on its most recent peak, and the negative trend persists for several months at least.

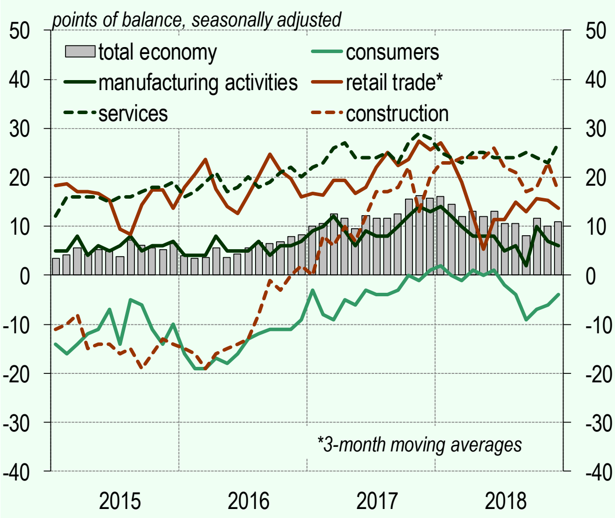
2 Economic Developments

In the third quarter of last year, economic growth was stronger than expected, while its structure was also different than expected. GDP was up by 1.3% in quarterly terms, and by 4.8% in year-on-year terms. High contribution to GDP growth by construction investment was in line with the government investment cycle, while weaker dynamic in merchandise exports was in line with lower economic growth in the euro area, Germany in particular, and a strong base effect. The contribution to GDP growth by net trade was nevertheless very large, as growth in imports declined even more sharply. This was partly attributable to surprisingly weak private consumption, which could be related at least in part to the decline in consumer confidence and lower real growth in wages. Although economic growth was high, the structure of investment growth continued to deteriorate in the third quarter from the perspective of increasing the output potential of the economy. The current dynamic in investment in machinery and equipment was weak again, although production capacity utilisation in manufacturing remained high, and merchandise exports increased in year-on-year terms. The financing conditions also remained favourable. One factor that is most likely holding back investment is the increased uncertainty in the international environment. According to the monthly confidence and activity indicators, economic situation remained favourable in the final quarter of last year. Growth is likely to have remained high in construction and certain private-sector services.

Confidence indicators

According to the confidence indicators, economic conditions remained favourable in the final quarter of last year. According to SORS figures, the average economic sentiment indicator was up 1.2 percentage points on the third quarter, which brought an end to last year's series of falls in economic optimism, at least temporarily. The upward correction has coincided with an increase in consumer confidence at the end of the year. The manufacturing confidence indicator did decline slightly in November and December, but at quarterly level there was an upturn in estimates of demand. Retail confidence remained significantly above last year's low reached in

Figure 2.1: Confidence indicators



Source: SORS, Bank of Slovenia calculations.

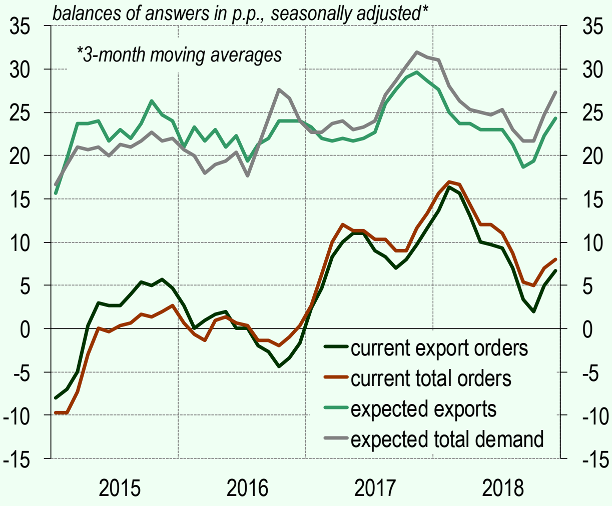
May, as firms again assessed their short-term growth in sales as relatively strong. At the same time firms in other private-sector services remained highly optimistic, and are citing further favourable growth in demand. Despite a decline compared with the first half of the year, confidence also remained high in the construction sector, where firms are expecting further growth in orders in the first quarter of this year, albeit at slower rates than in the last two years.

GDP – output side

In the third quarter of last year, economic growth in Slovenia strengthened, in contrast to developments in the euro area overall. Quarterly growth reached 1.3%, which was higher than expected, and significantly above the euro area average of just 0.2%. The rise was attributable to increased activity in construction and in certain private-sector services. Despite weak growth in merchandise exports in September, quarterly growth in value-added in the export sector also remained solid. Year-on-year GDP growth also remained significantly higher than the euro area average, having strengthened to 4.8%, or 5.0% according to seasonally adjusted and calendar-adjusted figures. Growth in activity was again significantly higher than the euro area average in the construction sector in particular, and also in private-sector services compared with the first half of the year.

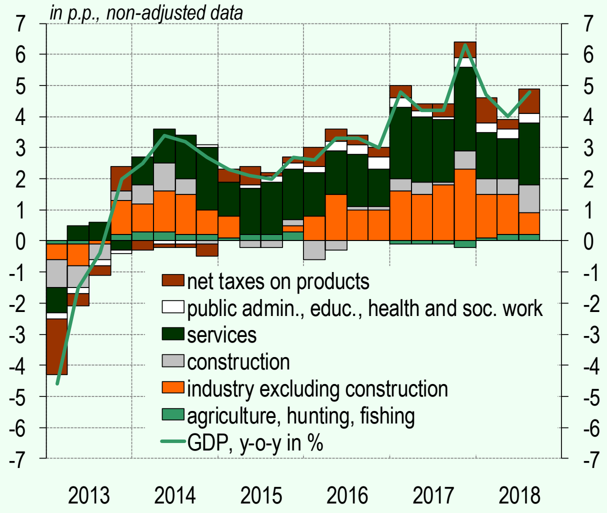
Growth in value-added in manufacturing slowed, on account of less supportive international environment and a base effect. Value-added was up a still-solid 0.5% on the second quarter, although this rate is slow compared with the average of the last three years. The year-on-year rate of growth slowed to 3.7%, down 5.0 percentage points on the third quarter of 2017. The slowdown has coincided with a significant slowdown in growth in foreign demand, as measured by manufacturing turnover on foreign markets. Year-on-year growth in turnover on euro area markets slowed from 7.7% in the second quarter to just 1.3% in the third quarter, and a slowdown was also seen in other foreign markets. The monthly output indices show the slowdown to have been relatively broad, although it was particularly notable in the car industry, the

Figure 2.2: Business tendency in manufacturing



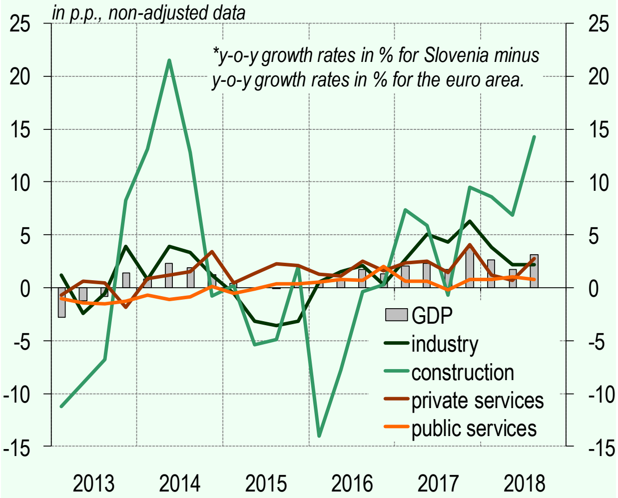
Source: SORS, Bank of Slovenia calculations.

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



Source: SORS.

Figure 2.4: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, production side*



Source: Eurostat, Bank of Slovenia calculations.

Box 2.1: Comparison of selected macroeconomic indicators between Slovenia and the euro area

In 2018 the economic climate in Slovenia was more favourable than in the euro area overall, with the exception of the third quarter. Confidence declined in the majority of sectors, particularly in the early months of the year, but was nevertheless higher than the euro area average. The exception was construction, where confidence reached a record high last year. After several years of being below the euro area average, household confidence was also higher for the majority of last year. Particularly noteworthy was the improvement at the end of the year, when the indicator again surpassed the euro area average.

Activity in the Slovenian economy has been growing faster than the euro area average for the last two years. The gap was most pronounced in the final quarter of 2017 and the third quarter of last year, when year-on-year economic growth in Slovenia stood at 5.0%, while growth in the euro area had slowed to 1.6% (see Figure 2). Compared with the euro area, Slovenia is notable for its growth in gross fixed capital formation over the last seven quarters, which was attributable partly to the continuation of the private-sector investment cycle, and partly to the new government investment cycle. According to seasonally adjusted and calendar-adjusted figures, gross fixed capital formation in Slovenia in the third quarter of last year was up 12.2% in year-on-year terms and 1.8% in quarterly terms, while in the euro area overall its was up approximately 4% in year-on-year terms and 0.7% in quarterly terms. In the third quarter the ratio of investment to GDP was still down 4.1 percentage points on its long-term average in Slovenia, but by just 0.2 percentage points in the euro area overall.[1] According to the latest figures available, growth in final government consumption in Slovenia outpaced the euro area overall last year, as employment rose faster. Its average growth over the previous ten years had been lower than in the euro area overall, primarily as a result of a large decline in 2012 to 2014 caused by the austerity measures then in force. Given the better situation on the labour market, growth in final household consumption should be significantly outpacing that in the euro area overall, but slightly surprisingly it was actually just under 1 percentage point lower in the third quarter. GDP in the third quarter of last year was up 7.1% on its pre-crisis peak in Slovenia, compared with 7.0% in the euro area overall.

Despite the faster dynamic in recent years, compared with the euro area overall the real wage bill is still reflecting the consequences of the crisis. The real wage bill in the third quarter of last year was up 4.6% on its pre-crisis peak, 3.8 percentage points less than in the euro area overall. The rate of growth has been outpacing the euro area average since the second quarter of 2015, primarily as a result of faster employment growth.

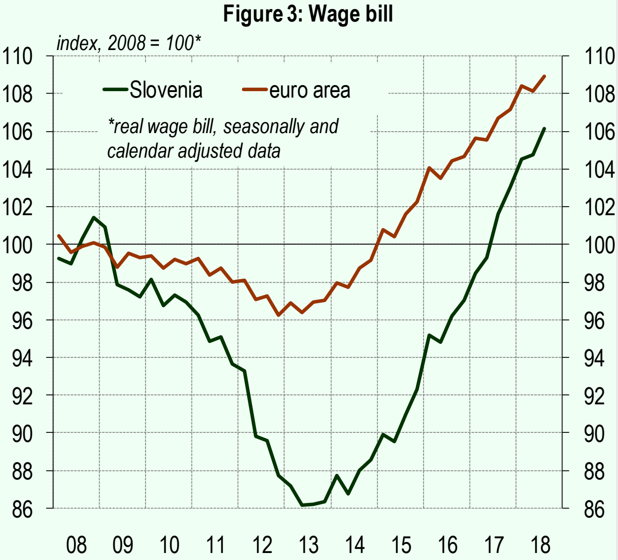
Figure 2: GDP of Slovenia and the euro area

Source: Eurostat.

Figure 1: Economic sentiment indicator

Source: Eurostat, survey data.

Figure 3: Wage bill



Source: Eurostat, Bank of Slovenia calculations.

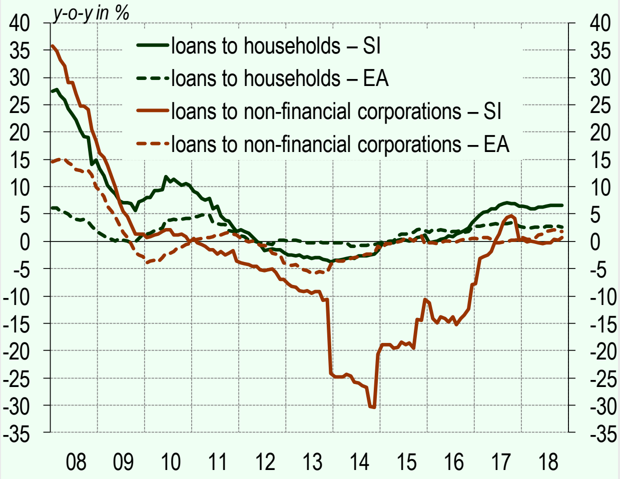
Growth in unit labour costs in Slovenia nevertheless remains within the bounds of maintaining cost competitiveness, as the dynamic in real unit labour costs in the first three quarters of last year was more favourable than the comparable dynamic in the euro area overall.[2]

Growth in loans to the private sector overtook the rate in the euro area overall in the second half of 2017.[3] Year-on-year growth in household loans was faster for the second consecutive year. This was primarily attributable to the high year-on-year growth in consumer loans.[4] Year-on-year growth in loans to non-financial corporations was faster in the second half of 2017, but declined moving into 2018, and then reached stagnation level as measured on a gross basis. Interest rates on corporate loans were higher than in the euro area overall, and were higher on average than in 2017.[5] Interest rates on housing loans were also higher, while there were no major differences in the interest rates on consumer loans. Year-on-year growth in gross loans to corporates and households reached 3.7% in Slovenia in November of last year, compared with 2.3% in the euro area overall.

After several years of rising debt and deterioration in the general government balance, Slovenia's position has been improved by the stronger economic activity in recent years, the favourable financing conditions and debt restructuring. Higher economic growth meant that the reduction in the ratio of debt to GDP in Slovenia was larger than in the euro area overall. Debt amounted to 72.7% of GDP in the second quarter of last year, compared with 86.3% of GDP in the euro area overall.

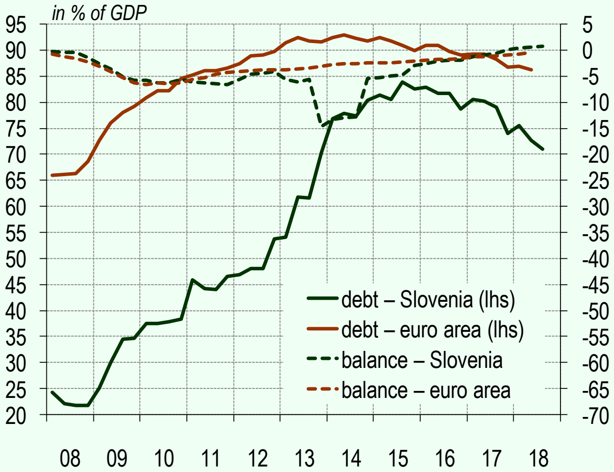
The gaps in inflation between Slovenia and the euro area were again small last year. Inflation in Slovenia as measured by the HICP slightly outpaced inflation in the euro area overall in early 2018, on account of the stronger impact of higher energy prices caused by rises in oil prices on global markets and faster growth in prices of unprocessed food. The gap was insignificant overall in the second half of the year, as the impact of faster growth in these two price categories was less pronounced. At the same time growth in services prices in Slovenia remained higher, while prices of non-energy industrial goods continued to fall, in contrast to the euro area overall.

Figure 4: MFI loans to households and non-financial corporations



Note: Loans on a gross basis - statistical definition.
Source: ECB.

Figure 5: General government's fiscal position



Note: Widening of the quarterly deficit in Slovenia in Q1 2011, Q1 2013 and Q4 2013 was due to bank recapitalisations.
Source: Eurostat.

Figure 6: Inflation measured with HICP

Source: Eurostat, Bank of Slovenia calculations.

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[1] Average, 1995 to 2018.

[2] The methodology for measuring unit labour costs discloses them as the ratio of compensation per employee (simplified to wages) to labour productivity, both according to the national accounts figures. A GDP deflator is used to estimate real growth in compensation per employee (wages).

[3] Refers to loans on a gross basis, according to the statistical definition.

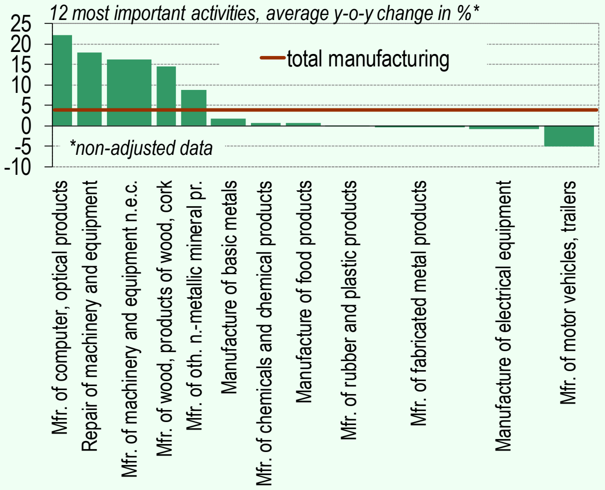
[4] The highlighted growth in consumer loans does not yet constitute a major risk to financial stability, but it could be realised in the event of a sharp reversal in the economic cycle. See also: Financial Stability Review, December 2018, Bank of Slovenia.

[5] Interest rates on new loans to non-financial corporations (1 to 5 years).

metals industry and in the manufacture of electrical equipment. The Slovenian car industry is feeling the consequences of weaker demand in the European and Chinese markets, and of tightened environmental legislation in Germany. There is also a strong base effect, which is mostly related to the launch of a new model production line at Revoz in May 2017. It is hard to say whether supply-side factors are already acting to reduce aggregate output, as employment growth remained very high in the third quarter, and last year's production capacity utilisation was broadly unchanged from 2017.

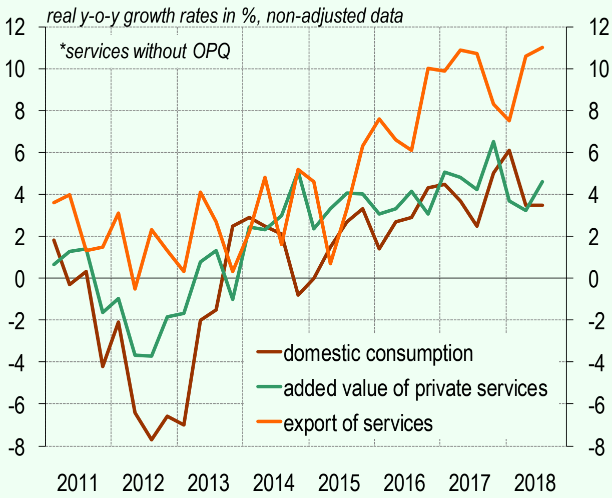
Growth in value-added increased in private-sector services, but was slightly weaker than in the second quarter in public services. Quarterly growth in private-sector services reached 1.2% in the third quarter, up 0.7 percentage points on the second quarter. The year-on-year rate of growth thus also strengthened, to 4.6%. The majority of service segments saw higher growth in value-added. This can be attributed to increased exports of services, an increase in non-residents' spending on the domestic market (which is indicative of growth in private consumption according to the domestic concept), and stronger business-to-business links.[1] Meanwhile, resi-

Figure 2.5: Manufacturing production: Jul.– Sep. 2018



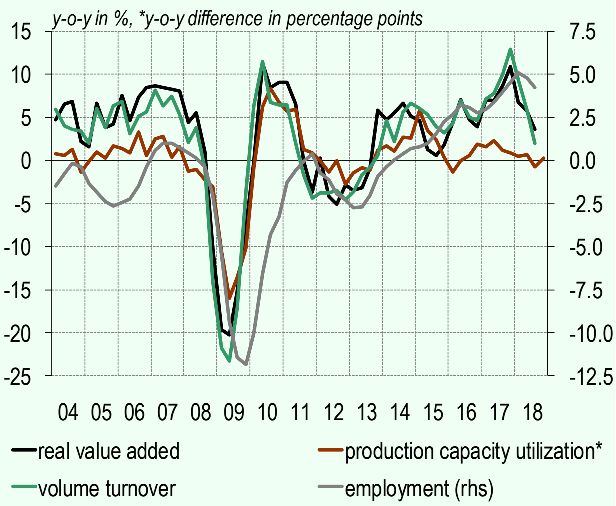
Notes: Width of each column represents a share of activity in total value added in manufacturing in 2017. Pharmaceuticals are not included due to data confidentiality. Source: SORS, Bank of Slovenia calculations.

Figure 2.7: Added value in private sector services* and sources of demand



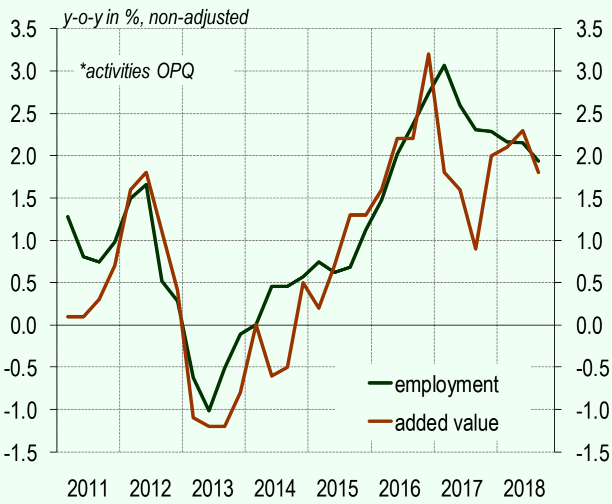
Source: SORS, Bank of Slovenia calculations.

Figure 2.6: Selected indicators for manufacturing activities



Source: SORS, Bank of Slovenia calculations.

Figure 2.8: Employment and added value in public services*



Source: SORS, Bank of Slovenia calculations.

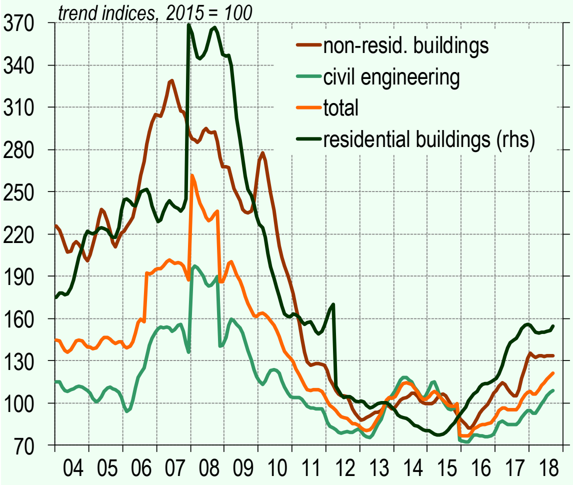
[1] According to SORS information, the reversal in year-on-year growth in value-added in financial and insurance activities from -6.5% in the second quarter to 9.4% in the third quarter was the result of the release of provisions at insurers.

dents' private consumption declined in quarterly terms, and was unchanged in year-on-year terms. Growth in intermediate consumption by the government sector was also weaker than in the first and second quarters. Year-on-year growth in value-added in public services stood at 1.8%, down 0.5 percentage points on the second quarter. The decline has coincided with slightly weaker growth in employment.

Growth in value-added in construction was largely driven by the electoral cycle last year. Year-on-year growth in value-added approached 18% in the third quarter. This is comparable to the previous peak in the second quarter of 2014, which was also related to the public investment cycle, which itself was related to the elections and the improved disbursement of EU funds. Further evidence comes from the monthly indicators of the amount of construction put in place, according to which the sole trend of increasing activity over the first nine months of the year was in civil engineering work, where year-on-year growth reached almost 30% in the third quarter. Even higher year-on-year growth was recorded in the construction of non-residential buildings, although in this case it was merely a carry-over effect, as this segment displayed a trend of stagnation in activity, at least over the first nine months of the year. After more than two years of exceptionally high growth, the monthly growth rates in the construction of residential buildings turned negative, and the actual level of activity was low compared with its long-term average. The increase in the supply of new-build housing will remain relatively small, and is unlikely to curb the rise in residential real estate prices. These prices again rose significantly in the third quarter, although the number of transactions was down in year-on-year terms for the fifth consecutive quarter.

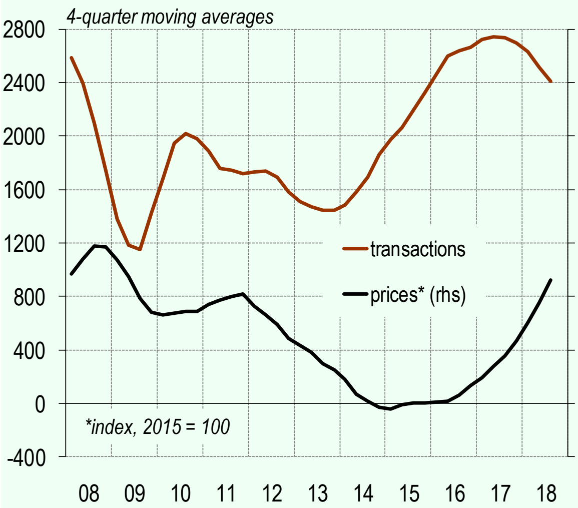
Last year's developments in the value of contracts in construction are not indicative of any further increase in growth in demand for construction work. The aggregate real value of contracts began to stagnate last year in line with the stagnation in the value of contracts in civil engineering work, which is attributable to the ending of investment related to the electoral cycle. The value of contracts in the construction of non-residential buildings declined in the third quarter, which is perhaps

Figure 2.9: Construction



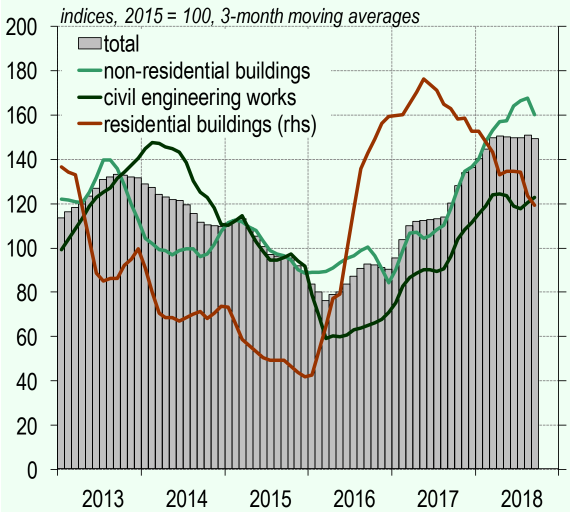
Note: *Real value of construction put in place.
Source: SORS.

Figure 2.10: Housing prices and number of transactions



Source: SORS, Bank of Slovenia calculations.

Figure 2.11: Real value of contracts in construction



Source: SORS, Bank of Slovenia calculations.

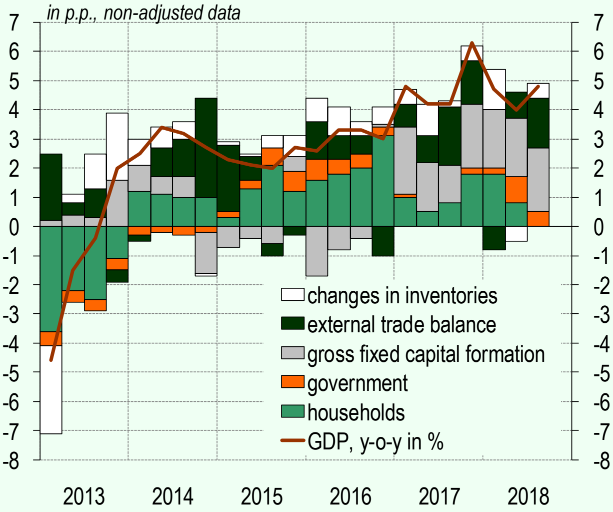
indicative of the weaker dynamic in investment in production and retail premises. The value of contracts in the construction of residential buildings continued to decline, despite the rise in prices, the favourable financial situation, and the persistent relatively high demand.

GDP – expenditure side

In the third quarter of last year, growth in domestic demand was largely conditioned by government spending. Year-on-year growth in domestic demand remained unchanged from the second quarter at 3.5%, but its structure changed again. After declining for three consecutive quarters in quarterly terms, final household consumption in the third quarter of last year was unchanged in year-on-year terms. The growth in aggregate final consumption, as illustrated in the national accounts, was driven solely by government expenditure, the increase in which was less pronounced, as there were no major payments for goods and services as there had been in the second quarter. Gross fixed capital formation did strengthen, albeit primarily as a result of government investment. The contribution to GDP growth by changes in inventories was also positive. Compared with the euro area overall, gross fixed capital formation is notable for its seven consecutive quarters of growth, which coincided with the current government investment cycle.

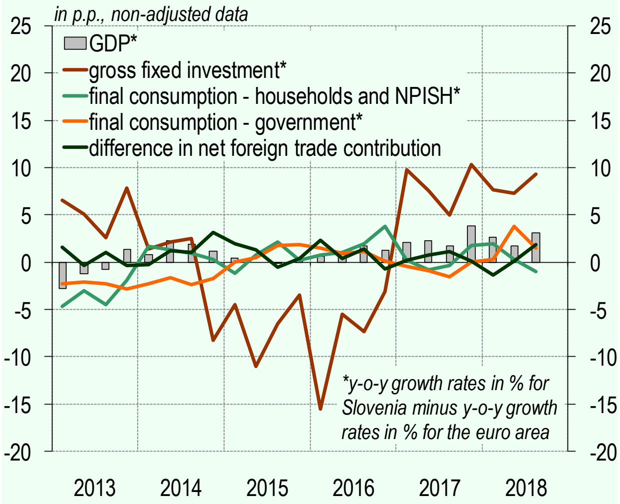
In the third quarter, final household consumption according to the national concept (which solely includes residents) was no longer supporting year-on-year economic growth. Its quarterly rate of growth was negative for the third consecutive quarter, while its contribution to year-on-year GDP growth had become neutral by the third quarter. This coincided with the decline in survey consumer confidence, while real growth in net wages also declined significantly during this period. By contrast, year-on-year growth in final household consumption according to the domestic concept strengthened to 2.2% in the third quarter, which could be attributed to the rapid growth in the hiring of foreign nationals and the sharp increase in arrivals of foreign guests during the holiday season.

Figure 2.12: Structure of GDP growth in Slovenia, expenditure side



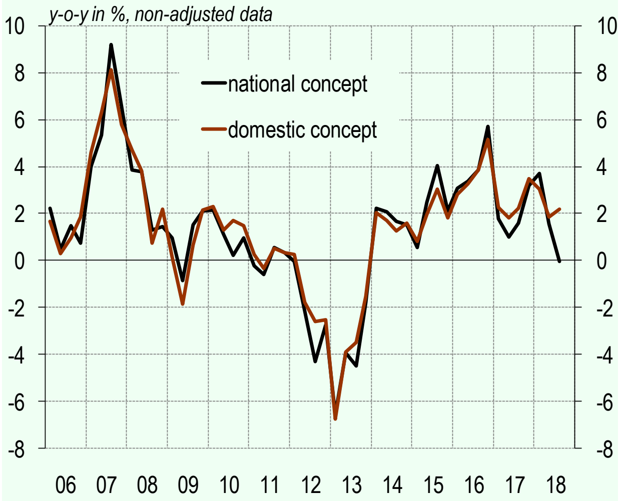
Source: SORS.

Figure 2.13: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*



Source: Eurostat, ECB, Bank of Slovenia calculations.

Figure 2.14: Final consumption of households according to domestic and national concept

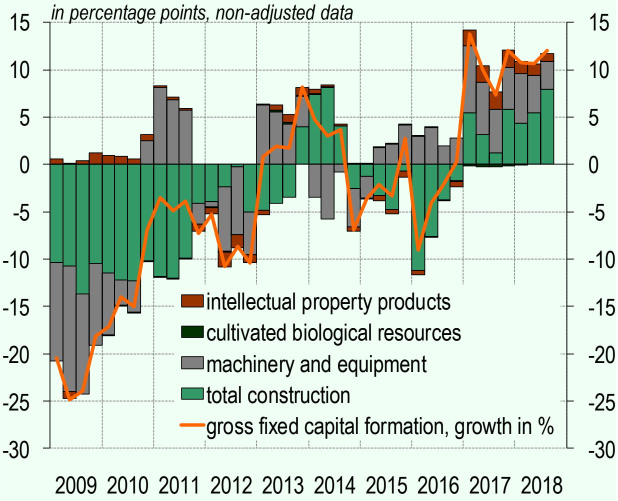


Source: SORS, Bank of Slovenia calculations.

In the third quarter, investment was the main source of GDP growth, although its structure deteriorated from the perspective of the output potential of the economy. Gross fixed capital formation accounted for 2.2 percentage points of year-on-year GDP growth. The majority of this contribution derived from stronger investment in non-residential construction, which is usually associated primarily with the government sector. At the same time, growth in investment in residential construction remained relatively weak. For the second consecutive quarter, the quarterly rate of growth in investment in machinery and equipment was unfavourable from the perspective of increasing the output potential of the economy, which could already be a sign that the increased uncertainty in the international environment is having an adverse impact on investment decisions by the export sector. In the third quarter, other major investment factors were still favourable as production capacity utilisation in manufacturing and private-sector services excluding trade remained high, financing conditions favourable, and exports up in year-on-year terms.

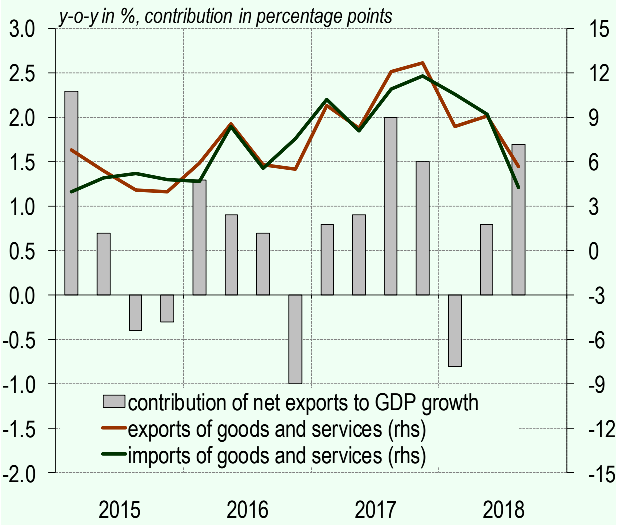
In the third quarter of last year, the large contribution to GDP growth by net trade was a reflection of the weakness of domestic final and intermediate consumption, and strong growth in exports of services. The contribution stood at 1.7 percentage points, the highest figure for a year. Aggregate real imports were down in quarterly terms, while aggregate real exports increased slightly, as exports of services continued to record rapid growth. The quarterly dynamic in merchandise trade was negative on both the import and export sides. Weaker growth in foreign demand and a strong base effect saw year-on-year growth in aggregate exports slow to 5.7%, down 6.4 percentage points on a year earlier. The slowdown in growth in imports was slightly sharper, partly as a result of lower growth in industrial production, and partly as a result of weaker growth in domestic final consumption. By contrast, growth in imports of capital goods remained stronger than a year earlier.

Figure 2.15: Contributions to volume y-o-y growth in gross fixed capital formation – Slovenia



Source: SORS, Bank of Slovenia calculations.

Figure 2.16: Foreign trade



Source: SORS - national accounts.

Economic developments in the final quarter of 2018

According to the available monthly indicators of activity, economic growth in the final quarter of last year was driven primarily by domestic factors. The monthly rate of growth in industrial production remained weak, in line with the slowdown in the European economic activity. In the context of a strong base effect, which is particularly pronounced in the car industry, year-on-year growth in industrial production declined to just 2.5% in November according to calendar-adjusted figures. Year-on-year growth in the amount of construction put in place remained high in October, and was primarily driven by

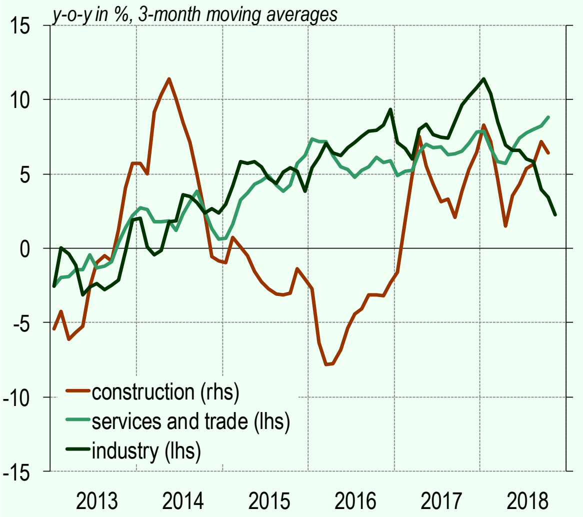
Table 2.1: Economic activity – volume indices of production

	12 m. to Oct. 17	12 m. to Oct. 18	2018 Sep.	2018 Oct.	2018 Nov.	2018 Jul.	2018 Oct.
			*y-o-y in %***			*monthly****	
Industrial production - total	8.1	6.8	0.5	3.7	2.5	0.6	0.6
Manufacturing	8.7	7.4	0.6	4.1	2.7	0.9	0.5
Construction - total	11.8	21.8	26.9	18.3	...	10.2	6.1
Non-residential buildings	22.5	21.9	36.1	4.7	...	6.1	-3.2
Residential buildings	49.3	19.4	4.9	5.2	...	3.0	5.2
Civil engineering	5.8	22.2	26.8	24.3	...	11.6	8.0
Trade and service activities* - total	6.2	7.6	8.7	10.0	...	2.8	2.4
Wholesale and retail trade and repair of motor vehicles and motorcycles	15.0	14.2	4.9	5.0	...	6.1	-4.2
Retail trade, except of motor vehicles and motorcycles	5.8	2.7	3.7	8.9	...	2.5	3.0
Other private sector services	5.2	8.0	10.5	9.9	...	2.3	2.7
Transport and storage	11.2	9.8	14.0	10.7	...	2.5	5.1
Accommodation and food service activities	6.9	2.8	5.9	4.5	...	3.4	1.6
Information and communication	0.7	5.7	6.6	7.4	...	1.5	1.2
Professional, scientific and technical activities	-0.2	11.8	17.9	14.9	...	2.5	0.7

*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.

strong activity in the civil engineering segment, which is in line with the continuation of the government investment cycle. At the same time, growth in turnover in private-sector services increased again. Turnover in October was up 2.0% on September, as the year-on-year rate of growth strengthened to 10.0%. Growth was high in the majority of the main service segments, most notably professional, scientific and technical activities, where growth of almost 15% coincided with high growth in construction activity.

Figure 2.17: Monthly indicators of economic activity



Source: SORS, Bank of Slovenia calculations.

3 Labour Market

Year-on-year employment growth remained high in the third quarter of last year, at 2.8%. Given the structural imbalances on the labour market, employers are increasingly facing shortages of qualified labour, which they are addressing through overtime, outsourcing, refusal of orders, and employee retraining. According to survey indicators, the employment outlook for the early months of this year remains positive. In the wake of the ongoing fall in unemployment, the unemployment rates are continuing to fall. The registered unemployment rate stood at 7.9% in October of last year, while the surveyed rate stood at 5% in the third quarter. The fall in unemployment and the good results for firms saw growth in gross wages increase slightly over the first ten months of last year. Nominal growth in gross wages was just over 1 percentage point higher than in the same period of the previous year. In real terms growth was just over 0.5 percentage points higher than in the same period of the previous year, but only because of the higher growth in the beginning of the year.

Employment

Employment growth remains high; in October the largest contribution to the year-on-year increase in the workforce in employment again came from sectors with below-average wages.[1] Year-on-year employment growth in the third quarter of last year stood at 2.8%, down slightly on the first half of the year, and was more than 1 percentage point higher in the private sector than in mostly public services.[2] The largest contribution to employment growth came from industry, while the contribution of the construction sector recorded the largest increase. A similar picture is presented by the monthly figures, according to which year-on-year growth in the workforce in employment excluding self-employed farmers has been around 3% for six months now. Sectors with below-average wages accounted for more than three-quarters of the year-on-year increase in the workforce in employment, manufacturing again recording the largest contribution. The contribution by administrative and support service activities was negative in October for the fifth consecutive month, primarily owing to a year-on-year fall in employment activities, which includes staffing agen-

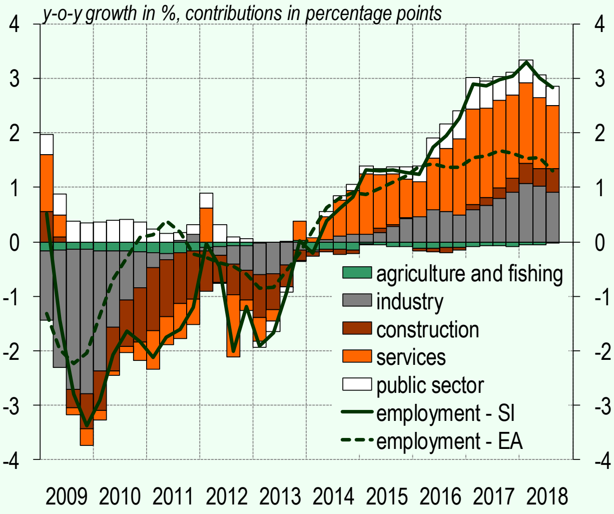
[1] Given the different methodologies of monitoring and the different data sources, employment differs according to the figures from quarterly national accounts, the quarterly figures from the Labour Force Survey, and the monthly registry figures. The national accounts figures for employment from the statistical register of the workforce in employment (the SRDAP) include permanent employees, self-employed and unpaid family workers 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 pay (whether in cash or in kind), profit 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.
[2] Public administration and defence, education, human health and social work activities (Sectors O, P and Q under the SKD 2008).

cies. This could be a sign of increasing direct hiring at firms, or an indication that firms have already reached the allowable quota of staffing agency employees.

The strong demand for labour is being reflected in a rising employment rate, which has already exceeded its pre-crisis level. According to SORS survey data, the number of vacancies in the third quarter was up 15.9% in year-on-year terms.[3] Of the total of 19,955 vacancies, most were notified in manufacturing, construction, and wholesale and retail trade, repair of motor vehicles and motorcycles. In line with the increase in construction activity, the job vacancy rate was highest in construction, which also saw the largest year-on-year increase. According to Employment Service figures, employers notified 9,309 vacancies in December of last year, up 16% on a year earlier. The highest demand was for workers in elementary occupations in manufacturing, drivers of heavy goods vehicles and tractor units, and bricklayers. Given the high demand for labour, the employment rate is also increasing, reaching 71.9% in the third quarter of 2018, just under 2 percentage points above its pre-crisis peak in the third quarter of 2008.

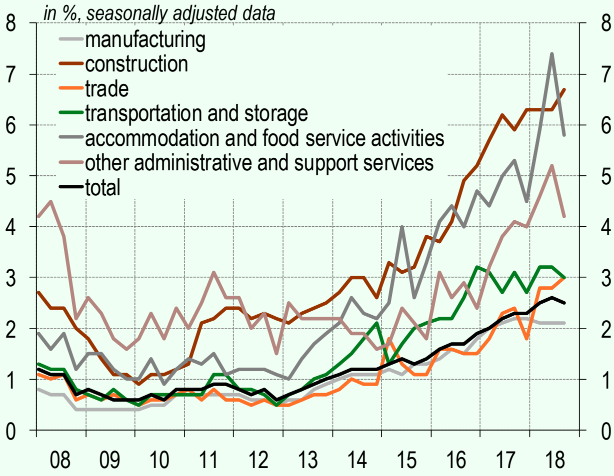
Structural imbalances are increasingly evident on the labour market. According to the Employment Preview survey conducted by the Employment Service in October and November 2018, almost half of all employers are facing a shortage of suitable workers, as do fully 70% of large enterprises. Employers are mostly having difficulties in recruiting workers to do low-paid, physically demanding occupations and in positions with an adverse work schedule, but it is also difficult to find candidates for technical professions requiring occupation-specific knowledge. Almost half of all employers that had difficulties in recruiting stated that there had been cases of no candidate applying for an advertised position, while the skills shortages mostly relate to work experience, education level and occupation-specific knowledge. Given the shortage of suitable candidates, employers have extended the recruitment process, have sought workers abroad[4], and

Figure 3.1: Contributions to employment growth



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

Figure 3.2: Vacancy rate*



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

have lowered the criteria for hiring or have even failed to employ anyone. The most common approaches taken by employers in mitigating the difficulties in recruiting suitable workers are increases in overtime, outsourcing, the refusal of orders and employee retraining, while higher pay and other benefits are only offered rarely.

The employment outlook for the first half of this year remains favourable, while employment expectations are highest in construction. According to the Employment Service survey, employers are expecting employ-

[3] 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.
[4] The contribution to the year-on-year increase in the workforce in employment excluding self-employed farmers by foreign citizens was already more than 56% in October.

ment to increase by 2.8% in the first half of this year, mostly on account of replacement, but also partly as a result of job creation. The highest employment growth is projected in construction and in administrative and support service activities, which includes staffing agencies. The occupations most in demand will remain those requiring medium or low skill levels, namely drivers of heavy goods vehicles and tractor units, workers for elementary occupations in manufacturing, and sales staff. Just under half of all employers believe that they will have difficulties in recruiting suitable workers in the future. Further evidence of the high expectations for employment growth in the first quarter of this year comes from a survey by ManpowerGroup and from SORS survey data.

Table 3.1: Demography, unemployment and employment

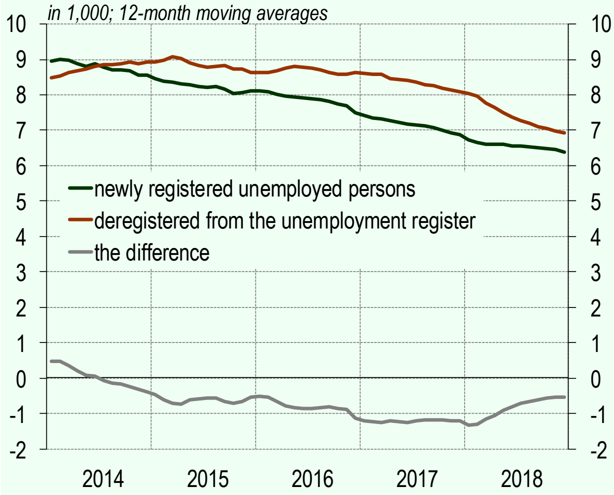
	2013	2014	2015	2016	2017	17Q3	17Q4	18Q1	18Q2	18Q3
						in 1,000				
Working age population[1]	1,404	1,397	1,383	1,371	1,362	1,362	1,359	1,355	1,356	1,348
						in %				
Labour market participation rate[2]	70.6	71.0	71.8	71.7	74.2	75.2	74.7	74.2	75.1	75.8
Employment rate[3]	63.3	63.9	65.2	65.9	69.3	70.4	70.3	69.7	71.1	71.9
						in 1,000				
Registered unemployed persons	119.8	120.1	112.7	103.2	88.6	83.2	83.5	84.9	76.7	75.3
Unemployment rate						*in %*				
- LFS	10.1	9.8	9.0	8.0	6.6	6.3	5.8	5.9	5.2	5.0
- registered	13.1	13.1	12.3	11.2	9.5	8.9	8.9	9.0	8.1	7.9
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	13.6	15.4	15.7	18.0	19.2	17.2	16.2	23.6	21.4	16.9
- probability to lose a job[5]	2.8	2.6	2.5	2.3	2.1	1.8	2.2	2.3	1.5	1.7
						in 1.000				
Total employment[6]	927	930	943	960	988	994	1,004	1,001	1,014	1,022
						year-on-year growth rates in %				
Persons in paid employment	-2.7	0.6	1.4	2.2	3.3	3.3	3.4	3.8	3.5	3.3
Self-employed	5.8	-0.3	1.1	0.3	1.6	1.6	1.5	1.2	0.9	0.9
By sectors										
A Agriculture, forestry and fishing	0.0	-1.7	-0.8	-1.4	-1.0	-0.9	-1.1	-0.7	-0.7	-0.3
BCDE Manufacturing, mining and quarrying and other industry	-1.9	0.3	1.1	2.3	3.3	3.5	4.0	4.7	4.5	4.0
F Construction	-7.0	-1.1	0.4	-1.0	2.6	2.8	3.8	6.0	5.2	6.4
GHI Trade, accommodation, transport	-1.2	-0.3	1.8	2.4	3.4	3.2	3.2	3.4	3.1	3.0
J Information and communication services	2.3	2.6	3.2	3.6	3.9	3.1	3.1	4.1	4.0	3.7
K Financial and insurance activities	-2.8	-2.1	-1.2	-1.7	-1.6	-1.8	-1.4	-1.4	-0.9	-0.9
L Real estate activities	0.5	0.9	1.4	4.6	7.9	8.8	8.6	6.7	6.6	4.8
MN Professional, technical and other business activities	-0.1	3.3	3.0	2.5	5.0	5.5	4.6	3.8	2.7	2.1
RSTU Other activities	6.0	3.0	2.8	2.7	3.4	2.9	2.9	3.1	3.6	3.1
- mainly private sector (without OPQ)[7]	-1.3	0.4	1.4	1.7	3.0	3.1	3.2	3.6	3.2	3.0
- mainly public services (OPQ)[7]	-0.6	0.4	0.8	2.2	2.6	2.3	2.3	2.2	2.1	1.9
Total employment[6]	-1.1	0.4	1.3	1.8	2.9	3.0	3.0	3.3	3.0	2.8

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

Figure 3.3: The share of employers who encountered a shortage of qualified staff

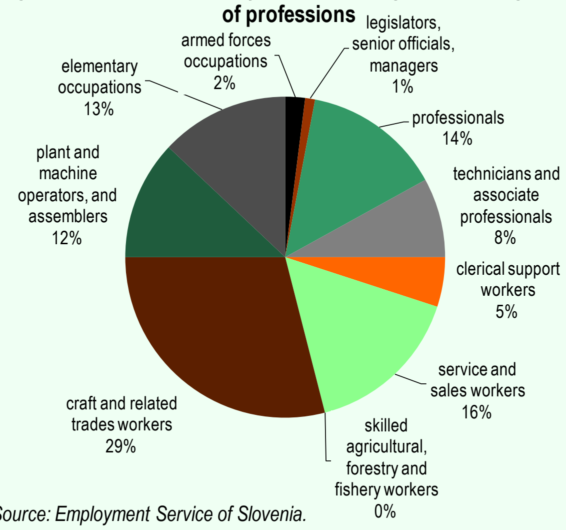
Source: Employment Service of Slovenia, Bank of Slovenia calculations.

Figure 3.5: Newly registered unemployed persons and deregistered from the unemployment register



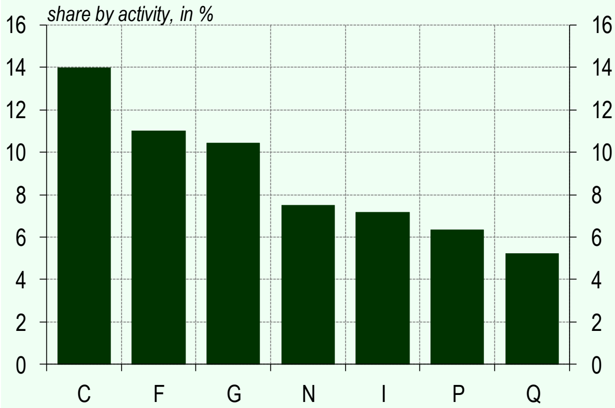
Source: Employment Service of Slovenia, Bank of Slovenia calculations.

Figure 3.4: Expected employment according to the main groups of professions



Source: Employment Service of Slovenia.
Note: The main groups of professions are consistent with the SKP-08 classification.

Figure 3.6: Newly registered unemployed persons by activities



Note: The figure covers the period from January to December 2018 and shows activities with the highest shares of newly registered unemployed persons. Interpretation of activities: C: Manufacturing; F: Construction; G: Wholesale and retail trade, repair of motor vehicles and motorcycles; N: Administrative and support service activities; I: Accommodation and food service activities; P: Education; Q: Human health and social work activites.
Source: Employment Service of Slovenia, Bank of Slovenia calculations.

The highest seasonally adjusted employment expectations were reported by construction and manufacturing in the ManpowerGroup survey, and by retail and construction in the SORS survey.

Unemployment

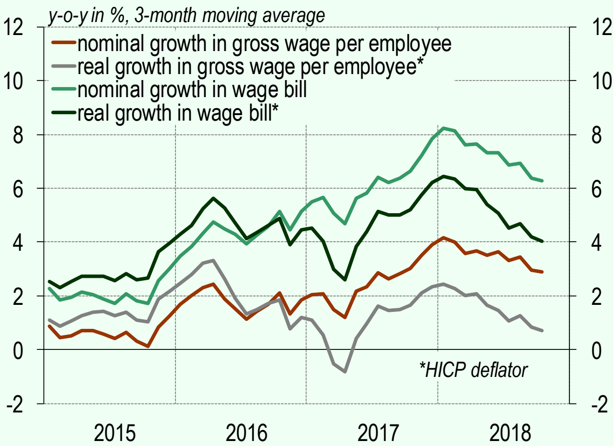
Unemployment fell sharply last year. It averaged 78,474 over the year, down 11.5% on 2017. Unemployment in December recorded a seasonal increase relative to the previous month as temporary employment contracts came to an end. There were 78,534 registered unemployed in December, down 7.7% in year-on-year terms. The number of people newly registering as unemployed was down 7% on 2017, as redundancies and bankruptcies recorded the largest falls. There were notable falls in the number of newly registered unemployed persons in construction and manufacturing, but these two sectors still recorded the highest figures. The number of deregistrated from the unemployment register last year was down 14.3% on 2017. Hiring of the unemployed is slowing: outflows to employment were down 10.3% in year-on-year terms. In the wake of rising employment and falling unemployment, the unemployment rates are continuing to fall. The surveyed unemployment rate stood at 5% in the third quarter of last year, while the registered unemployment rate stood at 7.9% in October.

Wage developments

Year-on-year growth in the average gross wage strengthened in October of last year, as a result of an increase in the private sector, while growth in mostly public services remained low. The average gross wage in October was up 3.4% in year-on-year terms. Growth in the private sector stood at 4.7%, and in our assessment was driven by the ongoing fall in unemployment and by good corporate performance, although it was partly attributable to there being one more working day. Growth in the average gross wage in mostly public services stood at just 0.5%, a reflection of the year-on-year fall in wages in human health and social work activities, and low wage growth in education. Among the major sectors, the highest year-on-year growth in the average gross wage was recorded by information and communication, at more than 8%. Inflation saw real growth in the average gross wage slow over the year, to stand at just 0.4% in the third quarter. In mostly public services the rate was negative for the second consecutive month.

The elevated year-on-year wage growth over the first ten months of last year brought a year-on-year strengthening in growth in the gross wage bill. The rate stood at 7.1%, up more than 1 percentage point on the same period of the previous year. The rate was higher in the private sector (8.2%), as a result of higher

Figure 3.7: Total wage bill and average gross wage per employee



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

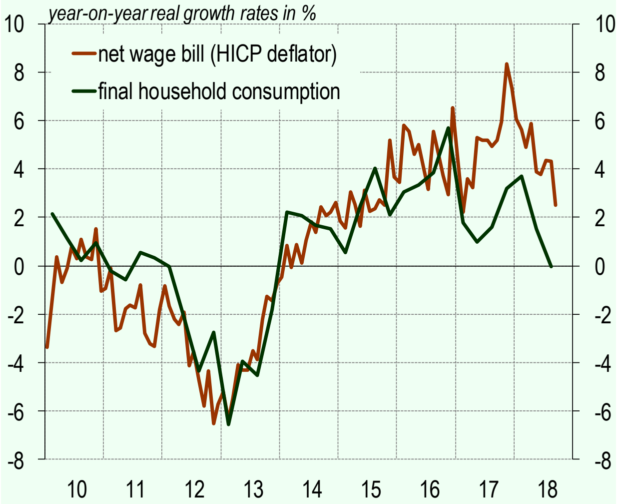
Table 3.2: Labour costs

	2013	2014	2015	2016	2017	17Q3	17Q4	18Q1	18Q2	18Q3
					in EUR					
Average gross wage	1,528	1,545	1,556	1,584	1,626	1,604	1,701	1,656	1,660	1,651
					y-o-y growth in %, nominal					
Average net wage	0.6	0.8	0.4	1.7	3.1	2.9	4.9	3.1	3.1	2.5
Average gross wage	-0.2	1.1	0.7	1.8	2.7	2.8	3.9	3.6	3.6	3.0
- mainly private sector (excl. O..Q)[1]	0.7	1.4	0.8	1.3	2.6	2.6	4.1	3.9	4.1	3.5
- mainly public services (O..Q)[1]	-2.3	0.2	0.6	3.3	2.8	3.7	3.5	3.2	3.0	2.2
Average gross wage in manufacturing	2.8	3.3	2.1	2.1	3.2	2.8	5.0	4.2	4.1	4.1
Average real net wage[2]	-1.4	0.5	1.2	1.8	1.5	1.6	3.3	1.6	0.9	0.4
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	0.5	-1.2	0.3	1.8	1.2	1.9	1.2	2.4	3.6	1.3
Unit labour costs,[3,4] real	-1.0	-2.0	-0.7	1.0	-0.3	-0.1	-0.4	0.0	0.8	-1.2
Labour costs per employee,[4] nominal	0.5	1.3	1.3	3.0	3.2	3.2	4.4	3.9	4.6	3.2
Labour productivity, nominal	1.6	3.4	2.0	2.0	3.5	3.2	4.7	3.8	3.7	4.5
Labour productivity, real	0.0	2.5	1.0	1.3	1.9	1.2	3.1	1.4	1.0	2.0
HICP	1.9	0.4	-0.8	-0.2	1.6	1.3	1.5	1.5	2.1	2.1
GDP deflator	1.6	0.8	1.0	0.8	1.6	2.0	1.6	2.4	2.7	2.5

[1] Public administration, defense, compulsory social security, education, health and social work services according to the Standard classification of activities 2008. Wage growth in the public and private sector for 2017 is an estimate.
[2] HICP deflator.
[3] Unit of output for the total economy is defined as real GDP per person employed (based on national accounts).
[4] Labour costs calculated on the basis of employee compensation (national accounts).
Source: SORS, Bank of Slovenia calculations.

growth in employment and wages, than in mostly public services (4.5%). Real growth in the wage bill over the first ten months of last year stood at 5.0%, just over 0.5 percentage points more than in the same period of 2017, albeit primarily on account of the first four months of the year, as growth later slowed significantly and was mostly down on the previous year. Real growth in the net wage bill has outpaced real growth in household consumption for two years now.

Figure 3.8: Net wage bill and final household consumption



Source: SORS, Bank of Slovenia calculations.

4 Current Account and Competitiveness Indicators

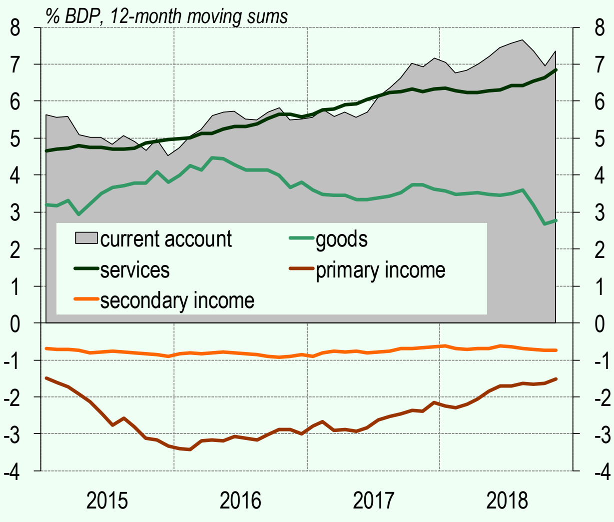
Stagnation in merchandise exports in September and sharp increase in imports in October brought reduction in the current account surplus. Nevertheless, surplus over the 12 months to November remained high, at 7.3% of GDP. Weak export developments in September did not continue in October and November: nominal year-on-year growth in merchandise exports strengthened to close to 10%, despite a high base. The majority of the increase in growth was attributable to higher turnover in the euro area. Year-on-year growth in merchandise imports strengthened to almost 20% in October because of increased imports of intermediate goods and consumer goods, before falling to below 9% in November. In contrast to merchandise trade, surplus of trade in services continued to strengthen, largely because of high exports of travel services. The year-on-year reduction in the deficit in primary income slowed last year because of an increase in the deficit in estimated reinvested earnings. This was attributable to increased reinvestment at firms in Slovenia under foreign ownership.

The external competitiveness of the Slovenian economy remains favourable. The depreciation of the euro and the rise in domestic prices comparable to those in trading partners had a positive impact on price competitiveness in the third quarter of last year. The price competitiveness indicator measured against 37 trading partners remained similar to its level in the first half of the year and a year earlier, and was thus more favourable than its long-term average and than in more than half of the euro area countries. The cost competitiveness of the economy measured by the real unit labour costs improved in the third quarter of last year. After a break of half a year, wage growth in Slovenia is again being outpaced by labour productivity growth, while it is outpacing productivity growth in the euro area overall and in the EU overall.

12-month current account position

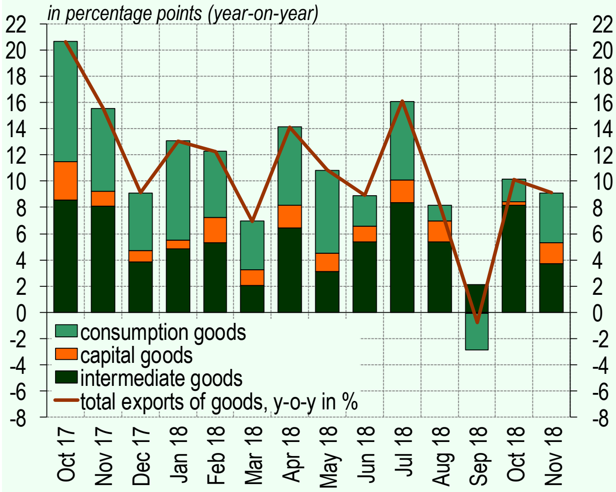
The 12-month current account surplus remains high, despite a narrowing in the merchandise trade surplus. It amounted to 7.3% of GDP in November, 0.4 percentage points less than in August, when it peaked. The merchandise trade surplus in September and October declined by EUR 390 million in total in year-on-year terms because of a year-on-year stagnation in exports in September, and a sharp increase in growth in imports in October. The 12-month merchandise trade surplus thus narrowed to 2.8% of GDP. The surpluses of trade in transport and construction services and in travel services continued to increase, taking the aggregate surplus in trade in services over the 12 months to November to 6.8% of GDP. The deficit in primary income over the 12 months to November of last year amounted to 1.5% of GDP, down 0.9 percentage points in year-on-year terms, although its narrowing slowed in the second half of the year as a result of an increase in the estimated deficit in reinvested earnings. The deficit in secondary income remained low and stable as a ratio to GDP.

Figure 4.1: Current account components



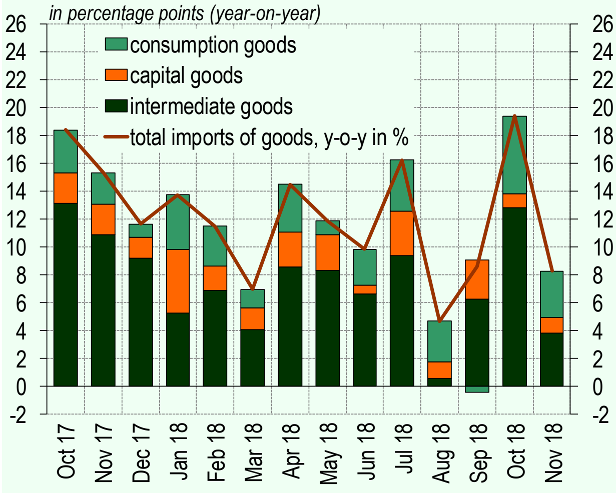
Source: Bank of Slovenia.

Figure 4.2: Contributions of main BEC groups to nominal export growth



Source: SORS, Bank of Slovenia calculations.

Figure 4.3: Contributions of main BEC groups to nominal import growth



Source: SORS, Bank of Slovenia calculations.

Merchandise trade

After a weak September, nominal growth in merchandise exports increased in October, but the temporary jump in merchandise imports was even stronger. The improvement in the export dynamic had previously been signalled by surveys of manufacturing firms, and was confirmed by balance of payments figures, according to which year-on-year growth in merchandise exports strengthened from just 0.8% in September to close to 10% in October and November. Higher growth in exports was most evident in respect of products of the pharmaceutical, metals and electro industries, and also in the car industry in November. The pick-up in October was primarily attributable to stronger sales on euro area markets, and was followed in November by a jump in sales on markets of EU Member States outside the euro area. Less expected was the rise in imports in October: the year-on-year rate of growth reached almost 20% because of an increase in imports of intermediate goods and consumer goods, although a slowdown to less than 9% followed in November. The contribution of oil and refined petroleum products, year-on-year rises in the prices of which had had a strong impact on imports in September and October, declined significantly in November as oil prices fell on global markets. Merchandise exports over the first eleven months of the year were up 9.8% in nominal year-on-year terms, while the increase in imports was 1.8 percentage points larger, primarily because of stronger growth in September and October. The merchandise trade surplus over the first eleven months of the year stood at EUR 1.2 billion, down EUR 300 million in year-on-year terms.

Trade in services

Exports of services are increasing significantly faster than imports, and the trade surplus is continuing to widen. Year-on-year growth in exports of services was also high in the autumn months, as exports of travel services continued to record high growth that began in May

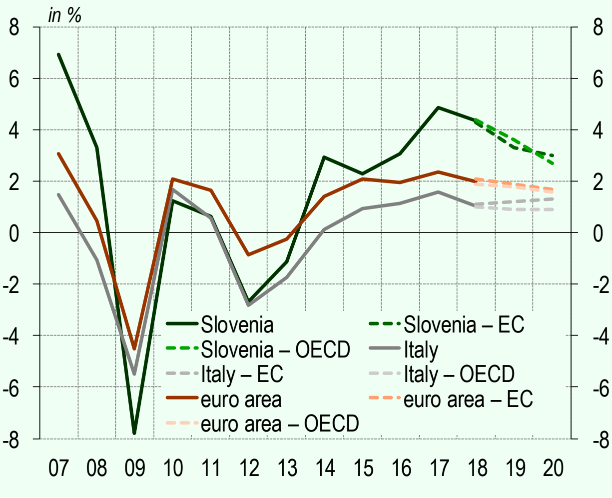
Box 4.1: Macroeconomic position of Italy and its importance for Slovenia's exports

Italy is facing low economic growth, which is expected to continue over the medium term. The growth problems are long-term: Italy's GDP in the third quarter of last year was still down 5.0% on its pre-crisis peak, compared with the overall increase of 7.0% in the euro area. Growth was again weak in 2018. Year-on-year growth in the Italian economy stood at 0.7% in the third quarter, down 0.6 percentage points on the previous quarter and down 1.1 percentage points in year-on-year terms. The main factors in the slowdown were weak growth in private consumption and gross investment, and a negative contribution by net trade. The harmonised unemployment rate, which had fallen over the preceding year to 10.5%, remained above its long-term average and above the euro area average. In line with the weaker economic growth, year-on-year employment growth also declined, and stood at just 0.2% in the third quarter of last year. Employment reached 25.3 million last year, and approached the pre-crisis figure, although labour productivity as measured by GDP per employee remains below its pre-crisis level. Productivity growth in the period of renewed economic growth since 2014 remains very weak, at just 0.2%.

The indebtedness of Italy's private non-financial sector is not problematic when compared with the euro area average, but its public finance position is much more uncertain. The debt of Italy's private non-financial sector amounted to 112.3% of GDP in the second quarter of last year, compared with 164.7% of GDP in the euro area overall. The debt of households and NPISHs amounted to 41.1% of GDP, compared with 57.8% of GDP in the euro area overall. The indebtedness of non-financial corporations in Italy is also significantly below the euro area average. It amounted to 71.2% of GDP in the second quarter of last year, compared with 106.9% of GDP in the euro area overall. The general government debt is high, and in the wake of the weak economic growth in the last five years has now exceeded 130% of GDP, although the general government deficit has been diminishing since the final quarter of 2009. The 12-month general government deficit amounted to 1.8% of GDP at the end of the second quarter of last year. Italy's public finance position is uncertain, as spreads on Italian government bonds over the German benchmark rose sharply again last year after falling in 2017.[1]

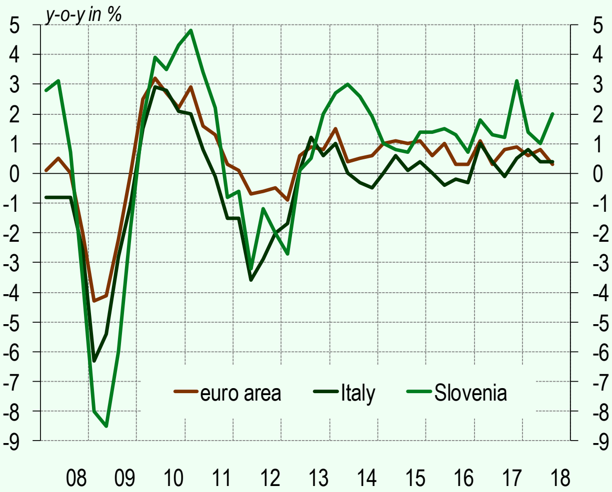
Slovenia's current account balance with Italy has moved from a large deficit to a small surplus over the last decade. The

Figure 1: Economic growth and forecasts for 2018, 2019 and 2020



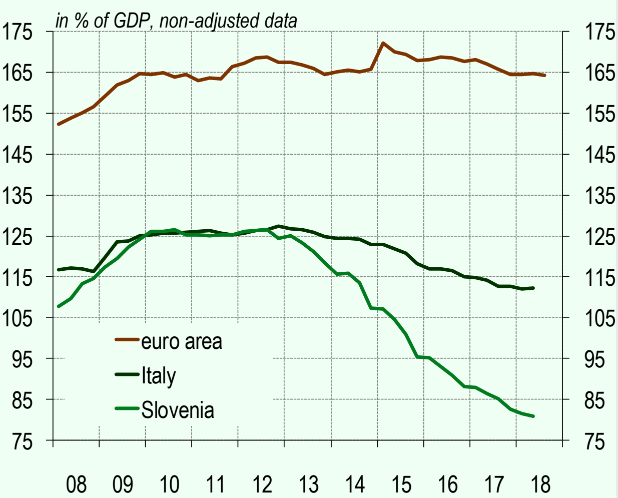
Source: Eurostat, European Commission forecasts (November 2018) and OECD forecasts (November 2018).

Figure 2: Labour productivity



Note: Real labour productivity per person, not seasonally adjusted data.
Source: Eurostat.

Figure 3: Debt of the private non-financial sector

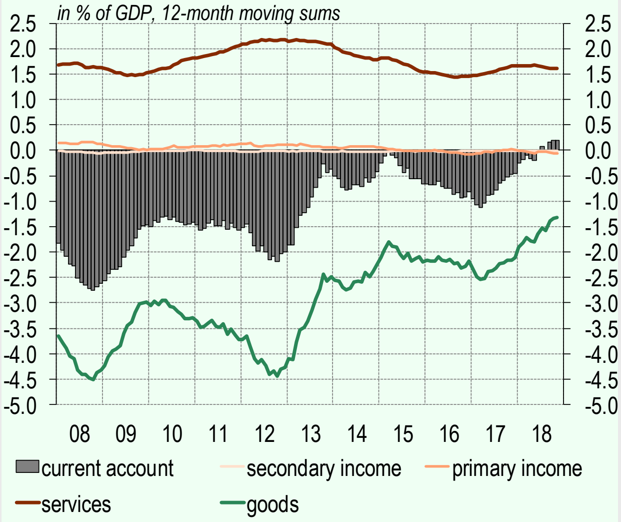


Note: Debt of non-financial corporations, households and NPISH.
Source: ECB SDW, Eurostat.

current account deficit with Italy before the crisis, which stood at EUR 1 billion or 2.7% of GDP, was the product of strong merchandise imports. A notable change came in 2013, when the deficit was sharply reduced by a decline in merchandise imports from Italy as a result of weak final consumption and low investment levels in Slovenia. For this reason the aggregate current account deficit with Italy narrowed by just over four-fifths in 2013. It narrowed further last year, and moved into surplus at the end of the year. It amounted to 0.2% of GDP in the 12 months to November. This was attributable to growth in exports to Italy outpacing imports, which was the result of growth in exports of road vehicles, and in particular a recent increase in re-exports of oil and refined petroleum products.

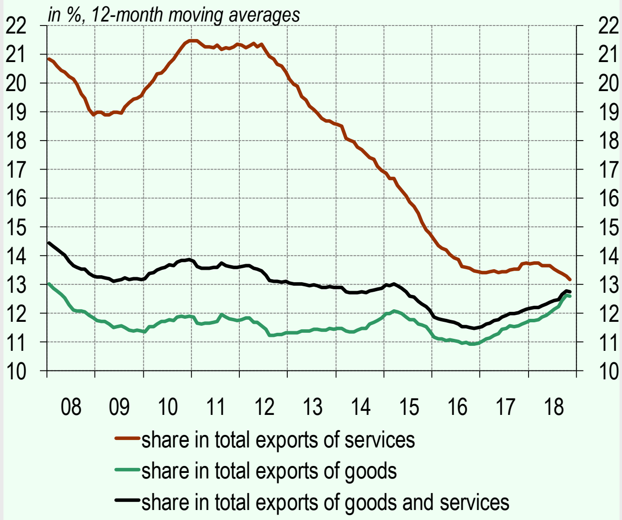
Italy's importance for Slovenia's exports has diminished over the last decade, but Italy nevertheless remains its second most important trading partner. Italy accounted for just over 14% of Slovenia's exports of goods and services at the beginning of 2008, but just over ten years later the figure had fallen by 2 percentage points. The main reason is weaker growth in exports of services compared with aggregate exports to other countries. There has been a particular decline in Italy's share of exports of travel services since 2012, which is attributable to the significantly lower relative growth in Italian wages[2] and the corresponding below-average growth in arrivals of Italian tourists.[3] Italy's share of Slovenia's exports of transport services also declined to a lesser extent over the same period. The figure was down just under 1 percentage point on 2008. Exports of services to Italy over the 12 months to November of last year were up only EUR 100 million on their pre-crisis peak. Italy's share of Slovenia's total merchandise exports is more stable: it has been gradually increasing since the end of 2016, and had gone a long way to approaching its pre-crisis level by the end of 2018. Merchandise exports to Italy over the 12 months to November of last year were up approximately EUR 1.5 billion on their pre-crisis peak. Exports of industrial supplies are prevalent in the breakdown[4], in which exports of processed goods are prominent. Exports of transport equipment have also increased in the post-crisis period, cars in particular. Another highlight is rising exports of fuels and lubricants, which were up approximately EUR 520 million or 305% on 2008.

Figure 4: Slovenia's current account balance with Italy



Source: Bank of Slovenia.

Figure 5: Share of Italy in Slovenia's total exports



Source: Bank of Slovenia.

[1] See also Box 1.1 on page 15.

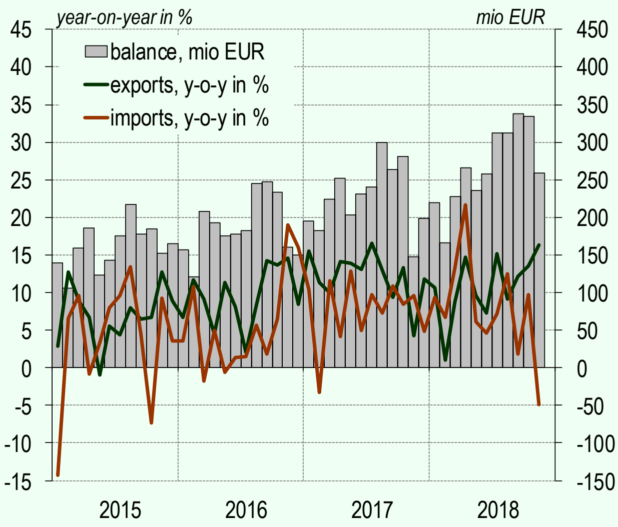
[2] Comparison of nominal growth in compensation per employee in Italy and the euro area overall.

[3] Comparison of growth in arrivals of Italian tourists with arrivals of tourists from other countries.

[4] The BEC classification is used.

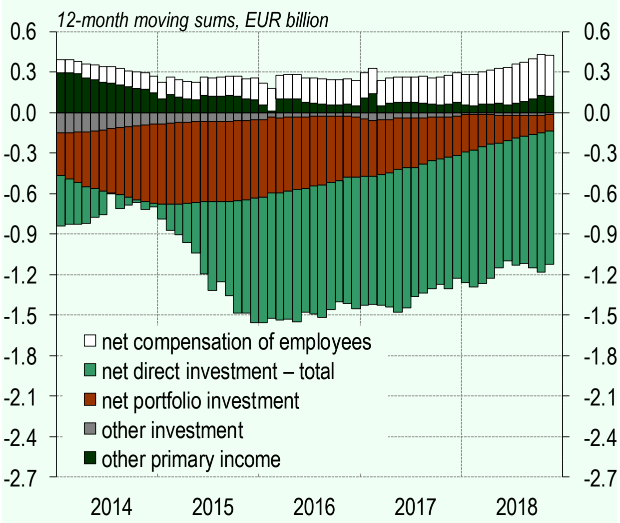
of last year. Consequently, tourism was the main engine of the high nominal growth in aggregate exports of services during this period, the year-on-year rate exceeding 16% in November. The high growth in exports of construction services also continued. After weak growth in September, growth in exports of transport services strengthened again in October and November, in line with merchandise exports. Over the first eleven months of the year, exports of telecommunications, computer and information services were down in year-on-year terms, while growth in other business services was less than the average.[1] In autumn, growth in imports of services remained lower than growth in exports. It was actually negative in November, primarily because of a year-on-year decline in imports of transport and business services, and relatively low growth in imports of travel services. At the same time, imports of construction services continued to grow, in line with the government investment cycle.[2] Over the first eleven months of the year, imports of services were up 7.7% in year-on-year terms, while exports were up 10.9%. The surplus of trade in services consequently widened by EUR 408 million to approach EUR 3 billion.

Figure 4.4: Trade in services



Source: Bank of Slovenia.

Figure 4.5: Net primary income



Source: Bank of Slovenia.

Primary and secondary income

The reduction in the deficit in primary income slowed, as a result of an increase in the deficit in estimated reinvested earnings. Over the first eleven months of the year, the deficit in primary income amounted to EUR 640 million, down EUR 234 million in year-on-year terms. The surplus in labour income increased by EUR 79 million to EUR 279 million, despite the sharp increase in the hiring of foreign workers.[3] At the same time, the deficit in capital income narrowed by EUR 105 million in year-on-year terms to EUR 1,043 million, as the deficit in income from investments in securities continued to narrow. This is mostly a result of the positive consequences of bond purchases within the framework of ECB monetary policy[4] and the restructuring of public debt. The surplus in income from portfolio investments in equity was also up in year-on-year terms. The estimated deficit in reinvested earnings over the same period widened by EUR 157 million in year-on-year terms to EUR 439 million. Most notably there was a significant increase in reinvested earnings at firms in Slovenia under foreign ownership. One highlight among other

[1] Travel services and transport services each accounted for more than 30% of total exports of services last year, and other business services for 17%. They were followed by telecommunications, computer and information services, with approximately 7%, and construction services, with approximately 6%. The proportions accounted for by other categories of services were very small.
[2] The breakdown of imports of services is more broadly distributed than the breakdown of exports. Last year, the largest proportion of approximately 30% was accounted for by other business services, followed by transport services with just over 20%, travel services with 19%, and telecommunications, computer and information services with approximately 10%.
[3] See also Selected theme 8.1 on page 65.
[4] These are the consequences of the implementation of the APP, within the framework of which the Bank of Slovenia ceased making net purchases of securities at the end of 2018.

Table 4.1: Current account components

	in 12 months to										
	2015	2016	2017	Nov.17	Nov.18	17Q2	17Q3	18Q2	18Q3	Nov.17	Nov.18
					in EUR million						
Current account balance	1,760	2,224	3,077	2,957	3,359	653	1,001	968	1,027	57	252
1. Goods	1,476	1,536	1,561	1,597	1,262	421	479	431	383	51	90
2. Services	1,930	2,251	2,719	2,670	3,127	686	804	759	962	147	259
2.1. Transport	821	932	1,073	1,054	1,346	261	282	346	337	95	115
2.2. Travel	1,276	1,337	1,552	1,538	1,703	383	492	396	591	98	112
2.3. Other	-167	-18	93	77	78	42	30	17	34	-46	33
3. Primary income	-1,294	-1,215	-926	-1,022	-693	-368	-220	-167	-210	-122	-73
3.1. Labour income	159	187	223	214	303	57	47	96	72	24	24
3.2. Investment income	-1,546	-1,448	-1,222	-1,296	-1,117	-442	-231	-274	-287	-147	-92
3.3. Other income	93	46	72	59	122	17	-37	11	4	2	-5
4. Secondary income	-352	-349	-276	-288	-338	-86	-62	-55	-108	-19	-24
					in % GDP						
Current account balance	4.5	5.5	7.2	6.9	7.3	6.0	9.1	8.3	8.7	1.5	6.4
1. Goods	3.8	3.8	3.6	3.7	2.8	3.8	4.4	3.7	3.2	1.4	2.3
2. Services	5.0	5.6	6.3	6.2	6.8	6.3	7.3	6.5	8.1	3.9	6.5
2.1. Transport	2.1	2.3	2.5	2.5	2.9	2.4	2.6	3.0	2.9	2.5	2.9
2.2. Travel	3.3	3.3	3.6	3.6	3.7	3.5	4.5	3.4	5.0	2.6	2.8
2.3. Other	-0.4	0.0	0.2	0.2	0.2	0.4	0.3	0.1	0.3	-1.2	0.8
3. Primary income	-3.3	-3.0	-2.2	-2.4	-1.5	-3.4	-2.0	-1.4	-1.8	-3.2	-1.8
3.1. Labour income	0.4	0.5	0.5	0.5	0.7	0.5	0.4	0.8	0.6	0.6	0.6
3.2. Investment income	-4.0	-3.6	-2.8	-3.0	-2.4	-4.0	-2.1	-2.3	-2.4	-3.9	-2.3
3.3. Other income	0.2	0.1	0.2	0.1	0.3	0.2	-0.3	0.1	0.0	0.0	-0.1
4. Secondary income	-0.9	-0.9	-0.6	-0.7	-0.7	-0.8	-0.6	-0.5	-0.9	-0.5	-0.6
					nominal y-o-y growth rates in %						
Export of goods and services	5.1	5.0	13.5	13.4	10.1	11.9	14.5	11.2	9.2	13.5	10.9
Export of goods	4.7	4.0	13.9	13.8	9.8	11.4	15.0	11.3	8.3	15.8	9.7
Export of services	6.8	9.3	12.1	11.9	11.0	13.7	12.9	10.5	12.1	4.3	16.3
Transport	9.3	10.9	13.2	12.6	14.4	11.1	14.2	17.4	10.5	10.4	9.2
Travel	1.8	4.4	11.1	10.4	11.7	15.6	11.1	8.4	19.6	11.7	10.7
Other	10.0	12.8	12.3	12.7	7.7	14.1	14.3	7.1	3.8	-4.7	26.2
Import of goods and services	3.6	4.2	13.6	13.3	11.0	12.0	13.3	11.7	9.9	14.8	6.4
Import of goods	3.6	4.0	14.7	14.1	11.7	12.8	14.2	11.9	10.4	15.7	8.3
Import of services	3.8	5.7	7.6	8.6	7.4	7.2	9.3	10.4	7.2	9.6	-4.9
Transport	4.5	8.3	11.2	11.5	0.7	16.7	11.9	1.6	0.2	-0.5	-2.1
Travel	10.4	3.8	3.3	3.5	13.6	-8.8	3.4	18.5	18.7	5.4	4.5
Other	1.3	5.5	7.7	9.3	7.9	9.6	11.9	11.4	3.4	14.7	-7.8

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

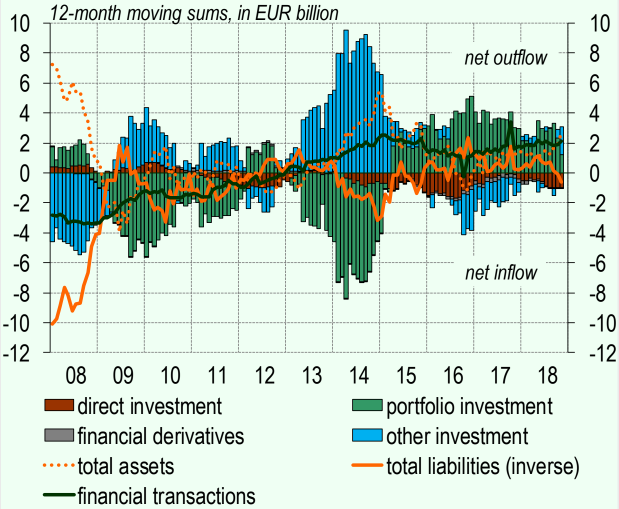
Box 4.2: Disposal of the financial account surplus

The robust surplus in the financial account of the balance of payments, through which the Slovenian economy is a net financer of the rest of the world, has been maintained for the sixth consecutive year. It amounted to EUR 2.1 billion over the 12 months to November 2018, or around 5% of GDP.[1] The surplus was associated primarily with an increase in Slovenia's financial assets in the rest of the world, while liabilities to the rest of the world increased merely by just over EUR 600 million during the period in question. The sectoral breakdown shows that the main factor in the net outflow of capital[2] was the government sector's financial transactions, while the breakdown of outflows by instrument reveals that, in contrast to the last four years, the largest contribution came from transactions in other investments, primarily currency and deposits.[3] The net outflow of other investments in the 12 months to November amounted to around EUR 2 billion. At the total economy's level, there were significant developments during this period also in portfolio investments, which had accounted for the majority of the net outflows over the previous four years, and in direct investment. Portfolio investments continued to record a net outflow last year (in the amount of EUR 1.2 billion), while direct investments recorded a net inflow. The gap by which the increase in foreign direct investments in Slovenia exceeds the increase in residents' direct investments in the rest of the world strengthened again over the recent period to reach approximately EUR 1 billion.

The private sector's net outflow of capital came to an end last year, as a result of strengthened inflows into non-financial corporations in the form of direct investment, diminishing investment by financial corporations[4] in the rest of the world, and the privatisation of one of the domestic systemically important banks. In the 12 months to November 2018 the private sector recorded a modest net inflow of capital in the amount of EUR 60 million, which is a significant reversal with regard to the year before, when the private sector's 12-month net financial outflow amounted to EUR 2.5 billion. During this period[5] the private sector's net outflow of securities declined by EUR 1.5 billion[6], while its net inflow of direct investments strengthened by almost EUR 1 billion. Capital has flowed into Slovenia over the last 12 months, as it has for a number of years now, primarily via foreign net direct investments, while last year there was also a notable inflow via privatisation revenue. Capital primarily flowed to the rest of the world via net investments in bonds and loan repayments, which are down significantly on the 2011 to 2016 period, when the private sector was very intensively deleveraging.

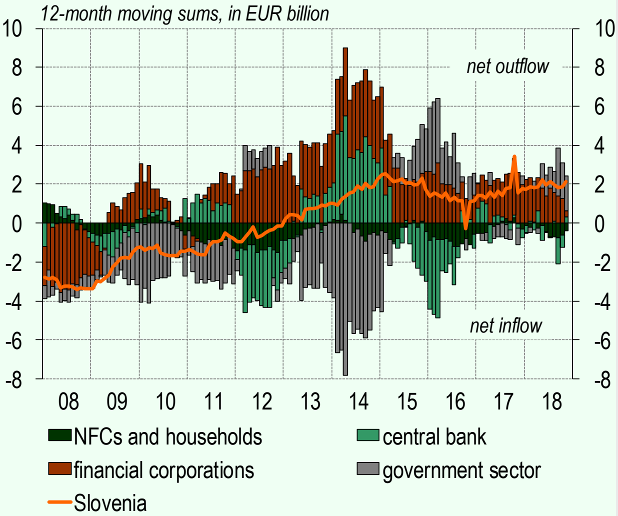
Non-financial corporations and households recorded a net capital inflow from the rest of the world in the total amount of around EUR 400 million over the last 12 months to November. The highlight of non-financial corporations' net financial inflow over the last 12 months was a stronger net inflow of direct investment in the amount of around EUR 900 million, while their overall net inflow position vis-à-vis the rest of the world was slightly mitigated by ongoing loan repayments (around EUR 300 million), an increase in deposits in the rest of the world (by around EUR 100 million) and non-residents' portfolio withdrawal from the ownership of non-financial corporations[7] (over EUR 90 million). Non-financial corporations have also increased their trade credits in the last two years, approximately in line with the increase in their foreign trade.[8]

Figure 1: Financial transactions of the balance of payments



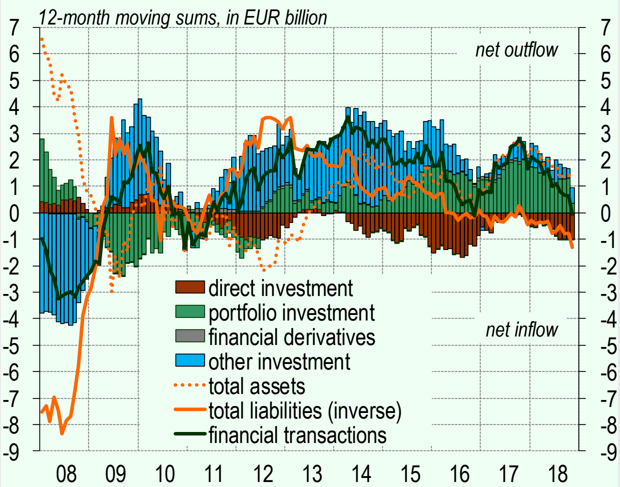
Source: Bank of Slovenia.

Figure 2: Sectoral structure of financial transactions with ROW



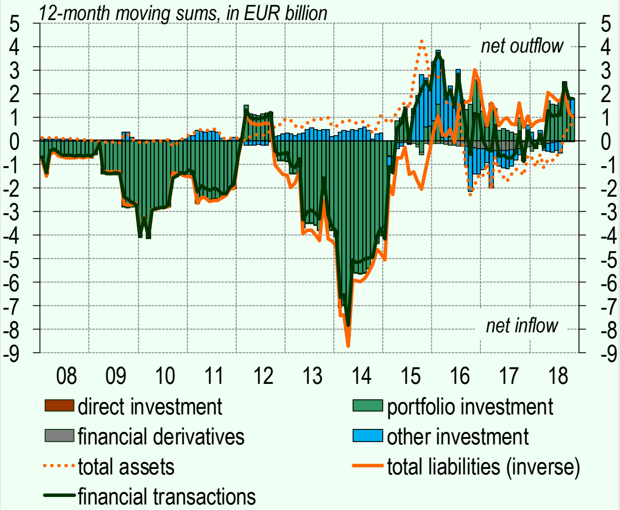
Source: Bank of Slovenia.

Figure 3: Financial transactions of private sector*



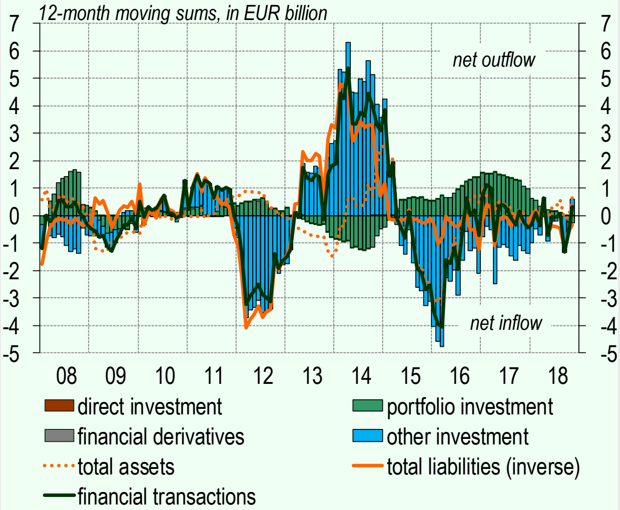
Note: *All sectors except Government and Central bank (S.13 and S.121).
Source: Bank of Slovenia.

Figure 4: Financial transactions of Government



Source: Bank of Slovenia.

Figure 5: Financial transactions of Central bank



Source: Bank of Slovenia.

Having always recorded very modest financial flows with the rest of the world in statistical terms, households were net recipients of financial assets in the amount of just EUR 80 million over the last year.

In contrast to non-financial corporations and households, financial corporations' new assets in the rest of the world exceeded their liabilities for the eighth consecutive year, although the gap is narrowing rapidly. Their net outflow of financial assets over the preceding 12 months amounted to just over EUR 300 million in November of last year, down significantly on its one-year peak in autumn 2017 (of close to EUR 2.6 billion). As a result of a simultaneous increase in liabilities and a decline in assets in the form of securities, the increase in financial corporations' net portfolio investments in the rest of the world over the last 12 months was just EUR 250 million, significantly less than in the last few years, when it ranged between EUR 1 billion and EUR 2 billion. An important factor in this decline was an increase in liabilities to foreign portfolio investors at the end of last year as a result of the sale of one of the banks in the amount of more than EUR 600 million. This brought an end to the long-term trend of decline in the liabilities of banks and other financial corporations to the rest of the world, while their assets in the rest of the world are continuing to increase, albeit at declining pace. They increased by EUR 0.5 billion over the 12 months to November. The majority of the increase consisted of investments in bonds, which is most likely related to their higher yields in comparison with interest rates on deposits. Financial corporations' other investments continued to record a net outflow, primarily as a result of net loans granted to the rest of the world in the amount of around EUR 200 million.[9]

In the last year the government sector increased its net financial outflow of capital, which over the 12 months to November 2018 amounted to EUR 1.8 billion, half of the one-year record figure recorded in early 2016.[10] Its claims against the rest of the world increased by EUR 0.7 billion during this period, while it reduced its liabilities by even more, namely by just over EUR 1 billion. The reduction in liabilities was primarily attributable to foreign portfolio investors, while the main factor in the increase in its claims was long-term deposits in the rest of the world. The government sector placed financial assets in accounts in the rest of the world, which in our assessment is partly related to the high liquidity in the domestic banking sector.

The central bank's financial transactions with the rest of the world over the last two years have been virtually in balance. A structural highlight in 2018 was the decline in purchases of debt securities, which had previously been increased sharply (between 2015 and 2017) by the asset purchase programme (APP), part of the ECB's monetary policy .

[1] The current account surplus amounts to more than 7% of GDP, and the difference between them is attributable to net errors and omissions of more than EUR 1 billion, which illustrates the difference between the recorded balances of real transactions and financial transactions, and mostly derives from the non-identification of net claims against the rest of the world.

[2] The financial account position is the difference between the changes in assets and the changes in liabilities; if the increase in assets exceeds the increase in liabilities, a net financial outflow is recorded, or in the opposite case a net financial inflow is recorded.

[3] Other investments include, alongside currency and deposits, other equity, loans, trade credits and advances, other accounts payable/receivable, and insurance, pension and standardised guarantee schemes. More evident but significantly lower net outflows than those from currency and deposits were recorded by loans, primarily as a result of further deleveraging by the private sector, and by trade credits.

[4] Financial corporations (S.12) excluding the central bank (S.121).
[5] In the last 12 months to November 2018 relative to the 12-month period before that.
[6] This is largely a consequence of the banks' diminishing portfolio investments, and the privatisation of one bank in particular.
[7] Decline in liabilities to the rest of the world from equities.
[8] The strengthening was on both sides: non-financial corporations increased their lending to the rest of the world, and simultaneously received more credits from the rest of the world.
[9] Just under a quarter of the amount consisted of loan repayments, while the remainder consisted of an increase in loans granted to the rest of the world. Loan repayments in the recent period have been entirely negligible compared with the amounts from previous years, when the commercial banks in particular were making intensive debt repayments to the rest of the world.
[10] The record 12-month net outflow from the government sector in early 2016 was primarily attributable to an exceptional increase in financial assets in the form of currency and deposits, and a simultaneous decline in liabilities to foreign portfolio investors.

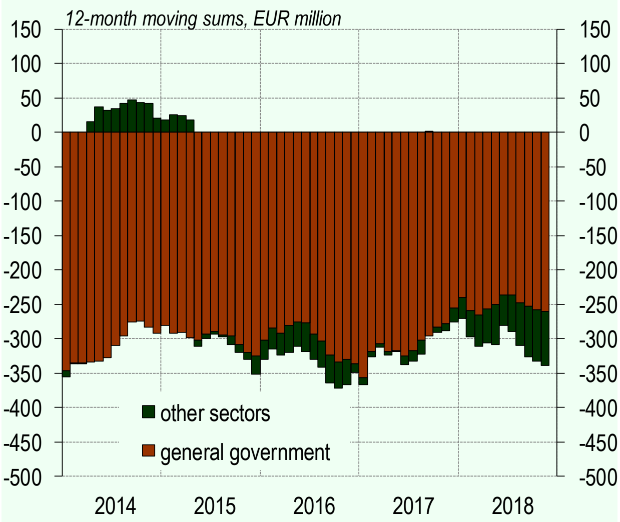
primary income is taxes on products, particularly VAT refunds, where the deficit narrowed vis-à-vis the government sector and vis-à-vis other sectors on aggregate.[5] Over the first eleven months of last year, the surplus in other primary income consequently widened by EUR 50 million to EUR 124 million.

Despite last year's increase, the deficit in secondary income remains less than 1% of GDP. Over the first eleven months of the year, the deficit widened by EUR 62 million in year-on-year terms to EUR 331 million. The government sector's deficit in secondary income remained stable at EUR 256 million, while that of other sectors on aggregate increased. The increase in other sectors' aggregate deficit was evident in taxes on income and wealth, and in social security contributions, while there was also a sharp decline in the surplus in other various current transfers.

Selected competitiveness indicators

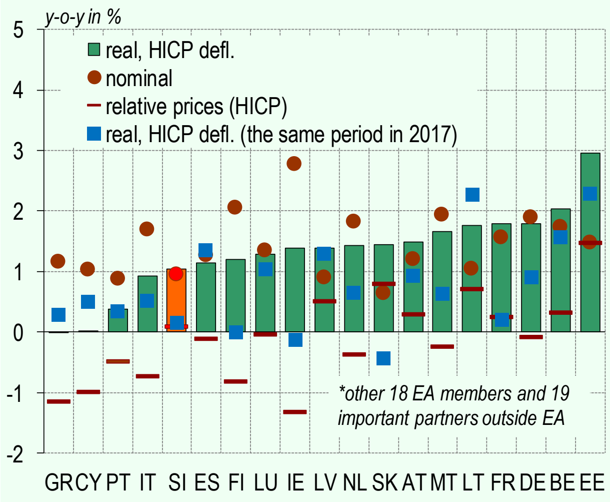
The depreciation in the euro since the second quarter of last year has continued to gradually mitigate the previous deterioration in the price competitiveness of the Slovenian economy.[6] The price competitiveness indicator measured against 37 trading partners in the third quarter was similar to a year earlier, and its year-on-year increase (of just 0.3%) was smaller (more favourable) than in the early part of the year, when it was notably affected by the euro's appreciation against the majority of major global currencies. The rate of growth has continued to slow since the second quarter, primarily as a result of favourable exchange rate developments. Domestic prices rose at similar pace to those in partner countries in the third quarter of last year. In the majority of euro area countries the changes in the indicator over the observation period were less favourable, for the third consecutive year now (see Figure 4.7). Similarly to the previous year, developments over the first three quarters of last year

Figure 4.6: Net secondary income



Source: Bank of Slovenia.

Figure 4.7: Harmonized price competitiveness indicator against 37 trading partners* in the first three quarters of 2018



Source: ECB, Bank of Slovenia calculations.

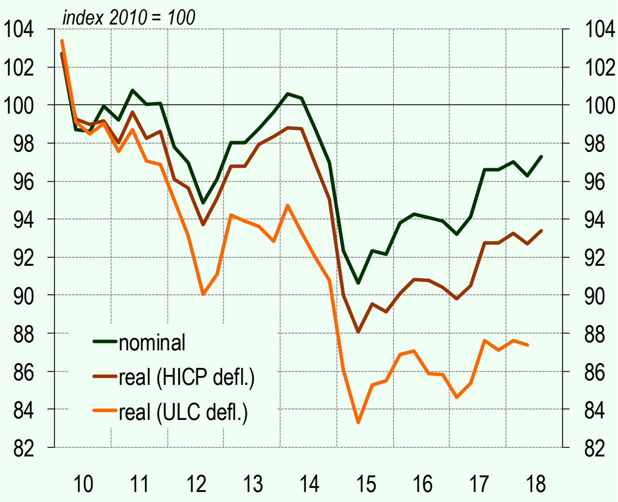
[5] The figures for taxes on products are not completely reliable, as they do not distinguish between residents and non-residents.
[6] Price competitiveness is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP).

were more favourable for exporters in just four euro area countries, where they were encouraged by more favourable ratios in relative prices,[7] while the appreciation of the euro[8] impacted their economies slightly more adversely than it did Slovenia's .

The competitive position of exporters in the euro area overall has remained virtually unchanged for the last three years, while in 19 trading partners outside the euro area it fluctuated last year around the elevated level attained in the second half of 2017. Year-on-year growth in domestic prices as measured by the HICP in the third quarter was exactly the same as price growth in the euro area overall (2.1%), as a result of which the price competitiveness indicator in this market remained unchanged in year-on-year terms. Over the first three quarters of 2018 it also remained close to its level of a year earlier (up just 0.2%), and thus below its long-term average. Year-on-year growth in the price competitiveness indicator against 19 major partners outside the euro area was just slightly positive (0.7%) in the third quarter of last year, and was thus notably lower than in the two previous quarters, which again ranked Slovenia among the top half of euro area countries seeing favourable developments. The decisive impact on the value of the indicator again came from exchange rate developments, as year-on-year inflation in the third quarter in Slovenia was similar to that in the partners.

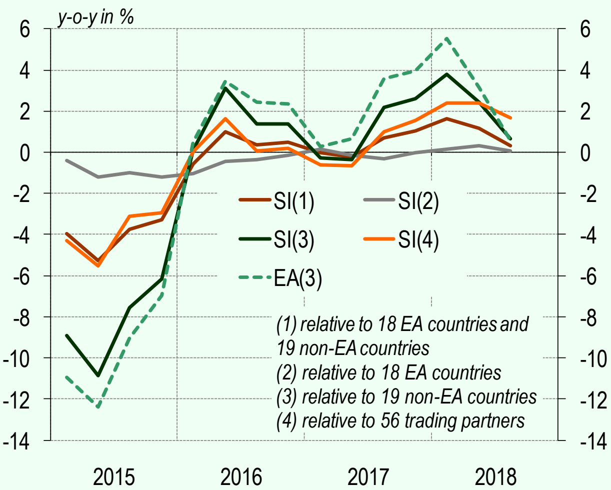
Since mid-2017 the price competitiveness indicator measured against the broadest 56-member group of trading partners, which includes Turkey and Russia, has been gradually increasing. It strengthened again in the third quarter of last year, taking the year-on-year growth rate to around 2%. This is primarily related to large changes in the exchange rates of the Turkish lira and the Russian ruble, which reached their peak depreciation in the third quarter of last year. The euro appreciated by fully 60% against the Turkish lira over the 12 months to the third quarter of 2018, and by 10% against the Russian ruble. Slovenia exports relatively little goods and services to the two economies (Russia accounts for

Figure 4.9: Harmonized indicators of Slovenian external competitiveness against 37 trading partners



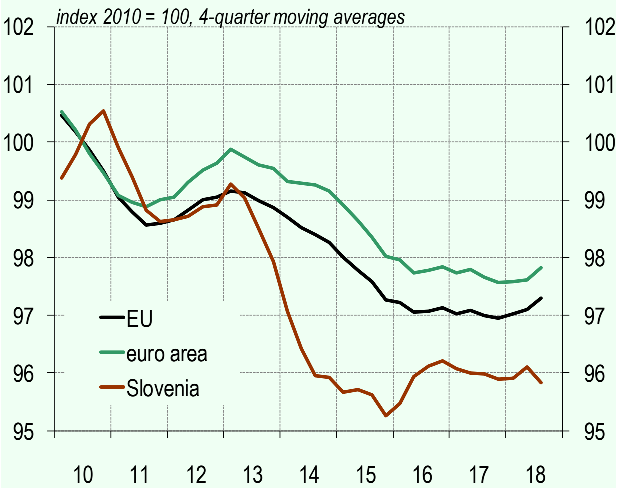
Source: ECB.

Figure 4.8: Harmonized price competitiveness indicator (HICP / CPI deflator)



Source: ECB.

Figure 4.10: Real unit labour costs



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

[7] Relative prices are domestic prices compared with prices of trading partners.
[8] It is illustrated in Figure 4.7 by the nominal competitiveness indicator.

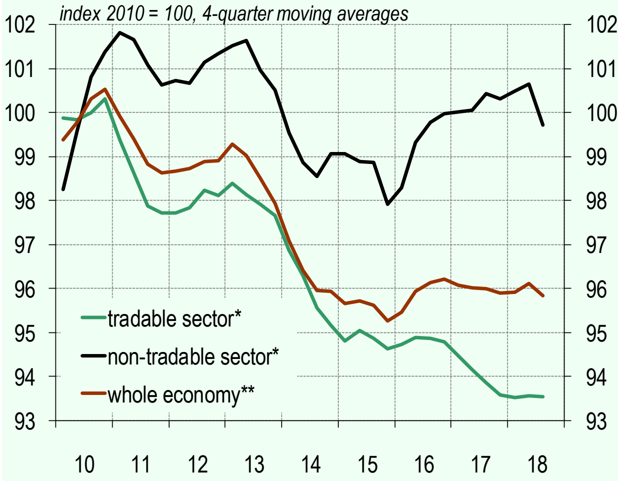
2.5% of its total exports, and Turkey for less than 1%), but competes with their exporters not only on the domestic markets, but also in third markets. Consequently this could lead to a reduction in the competitiveness of specific segments of Slovenia's exports.

Real unit labour costs have been maintained at a similar level for just over two years now, with minor fluctuations. They declined slightly in the third quarter of last year, as productivity growth outpaced wage growth by 1.2 percentage points.[9] Over the first three quarters of the year real unit labour costs remained at their level from a year earlier, albeit with minor fluctuations during the year, which was very similar to the level from mid-2016. The figures in the euro area overall and in the EU overall have also not surpassed this level, although they have been gradually rising in the recent period (see Figure 4.10). They strengthened year-on-year by just under 1% in the third quarter in both zones, and their overall increases over the first three quarters of last year were around 0.5%.

Since the crisis real unit labour costs have increased by significantly more in the non-tradable sector than in the tradable.[10] They have been consistently declining in the latter since 2010, while in the non-tradable sector they have undergone a gradual increase since 2016, albeit with large fluctuations (see Figure 4.11). Real unit labour costs are up around 6% on the pre-crisis year of 2007 in the non-tradable sector, and up just over 3% in the tradable sector. In manufacturing, which is the most export-oriented sector, they are approximately at their pre-crisis level (down 0.5%). Real unit labour costs in the non-tradable sector in the third quarter were down 3.8% in year-on-year terms, while in the tradable sector they were unchanged in year-on-year terms for the third consecutive quarter.

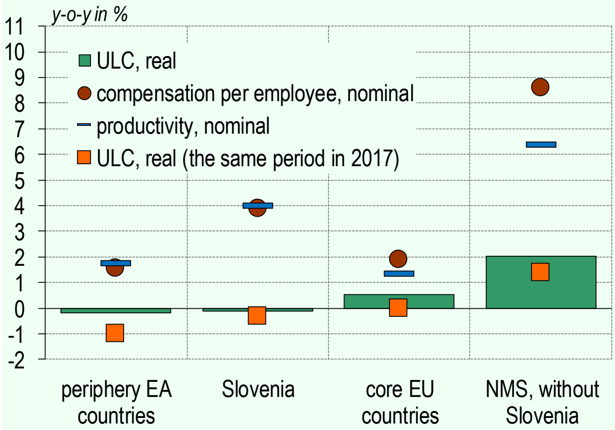
Slovenia deviated from the euro area average and the overall EU average in the third quarter of last year with significantly higher growth in labour productivity. Nominal labour productivity was up 4.5% in year-on-year terms in Slovenia, while the increases in the euro area and the EU overall did not exceed 2.0%. At the same time nominal growth in compensation per employee in Slovenia (3.3%) exceeded the rates in the euro area and the EU overall merely by around 0.5 percentage points. These developments in cost competitiveness, together with the depreciation of the euro seen since the second quarter of last year, are maintaining the external competitiveness of Slovenian exporters. Other newer EU Member States are continuing to record significantly high-

Figure 4.11: Real unit labour costs, Slovenia



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

Figure 4.12: Real unit labour costs in first three quarters of 2018



Note: Core EU countries are Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Sweden and United Kingdom, periphery EA countries are Cyprus, Greece, Ireland, Italy, Malta, Portugal and Spain, new EU member states (NMS) are Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania and Slovakia.
Source: Eurostat, Bank of Slovenia calculations.

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

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

er wage growth than Slovenia. Nominal wage growth in these Member States was close to 9% over the first three quarters of last year, and exceeded labour productivity growth by 2 percentage points (see Figure 4.12). By contrast, the gap by which wage growth outpaced productivity growth in the core Member States was just 0.5 percentage points, while cost competitiveness in the euro area periphery countries recorded a similar improvement as Slovenia last year.[11]

[11] For the definition of various groups of EU Member States, see the note in Figure 4.12.

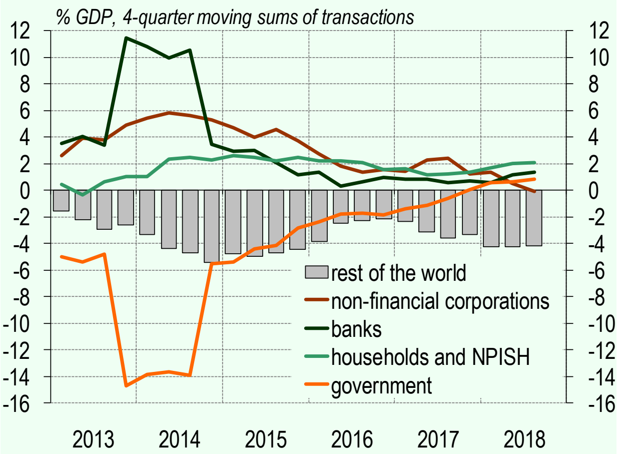
5 Financial Standing of Non-Financial Corporations, Households and Banks

Analysis of the unconsolidated financial accounts reveals that Slovenian economy is still saving more than it invests overall. Corporate indebtedness is low by European standards, and their financing continues to be largely intra-sectoral. The increase in retained earnings and equity has been followed, with a lag, by growth in corporate investment activity, while non-financial corporations' saving-investment gap became slightly negative for the first time since 2011, at least according to the financial accounts. The household sector continued to see an increase in disposable income in the third quarter of last year, while its indebtedness remained low. Household assets continued to increase faster than household liabilities. The trend of gradual repayment of debt in the rest of the world and the simultaneous increase in liabilities from household deposits and deposits by non-financial corporations continued at the domestic banks.

Saving-investment gap by institutional sector

Saving is continuing to significantly exceed investment at the level of the total economy. Non-financial corporations' financing is still primarily proceeding intra-sectorally on the basis of growth in equity and trade credits, while bank loans[1] account for a diminishing proportion of non-financial corporations' total liabilities. The favourable macroeconomic developments and high retained earnings have not yet been fully transferred into growth in corporate investment. Non-financial corporations' 12-month saving-investment gap as measured by the financial accounts nevertheless gradually declined in 2018, and became slightly negative in the third quarter, which could be indicative of an increased need for corporate debt financing. By contrast, growth in net financial assets in the household sector remained pronounced, while other factors in the increase in the gap vis-à-vis the rest of the world were government saving, and the continuation of the trend of domestic banks' debt repayments on foreign wholesale markets.

Figure 5.1: Savings-investment gap



*Note: *The difference between the financial and the current account surplus amounts to over 2% of GDP and originates mainly from errors and omissions of 1 bln EUR in the form of unidentified net claims to the rest of the world.*
Source: Bank of Slovenia, SORS.

[1] Loans are taken from the financial accounts, and are valued under the ESA 2010 methodology, and accordingly their values and/or dynamics may differ from those disclosed in Box 5.1.

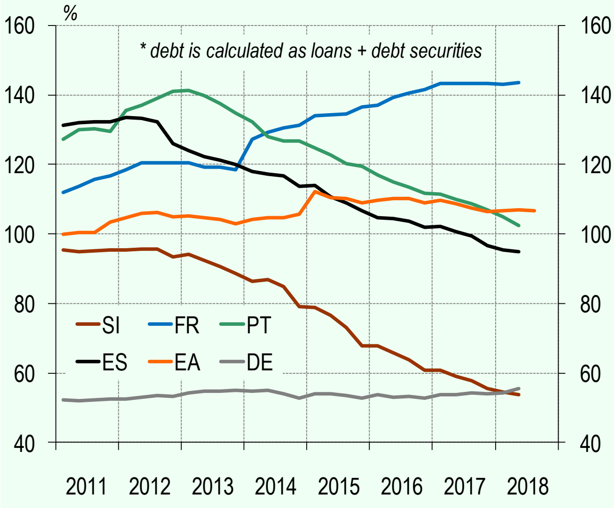
Financial assets and financing of non-financial corporations

Non-financial corporations in Slovenia are increasing their retained earnings and equity, which is being reflected in low corporate indebtedness and in an increase in their financial assets. Their financial assets amounted to EUR 47.7 billion in the third quarter, up around EUR 2.7 billion in year-on-year terms. The largest increase was recorded by claims from trade credits, in the amount of just over EUR 1 billion, while currency and deposits, and shares and other equity recorded a total increase of EUR 1.5 billion. Non-financial corporations' financing continues to primarily proceed via equity, borrowing from other sectors, and trade credits. Non-financial corporations' liabilities from shares and other equity in the third quarter were up in year-on-year terms (by EUR 2.4 billion), as was the stock of trade credits (by EUR 1.2 billion), which now accounts for 15% of non-financial corporations' total liabilities. Although non-financial corporations' borrowing terms at Slovenian banks remain favourable, they are not pursuing this type of financing to a significant degree.

Financial assets and financing of households

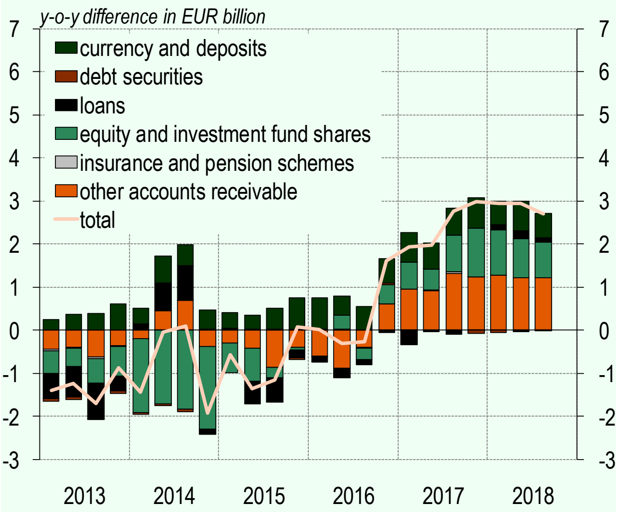
The positive macroeconomic developments are continuing to produce an increase in the stock of households' financial assets, although their aversion to high risk is preventing their financial liabilities from growing faster than assets. Households' financial assets in the third quarter were up EUR 2.7 billion in year-on-year terms. The largest increases were in currency and bank deposits (EUR 1.2 billion) and shares and other equity (EUR 1 billion), which account for the largest proportions of their total financial assets. The year-on-year increase in assets in the form of shares and other equity was almost entirely the result of revaluations in late 2017. The stock of households' financial liabilities is also increasing, at a slightly slower rate: they were up almost EUR 800 million in year-on-year terms. The year-on-year increase in long-term loans, which account for 80% of households' total financial liabilities, remains robust, and fluctuated around EUR 700 million last year.[2]

Figure 5.2: Cross country comparison of firms' debt to GDP ratio*



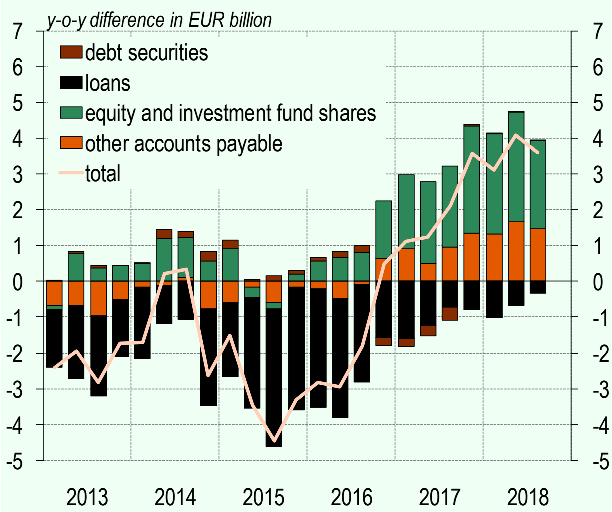
Source: ECB.

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



Source: Bank of Slovenia.

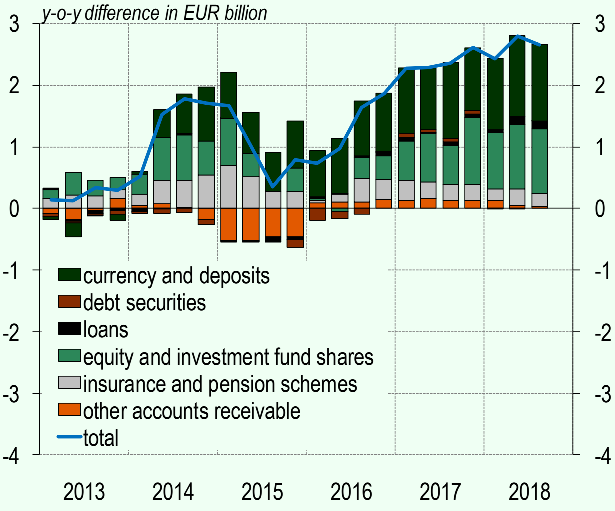
Figure 5.4: Financial liabilities of NFCs (S.11)



Source: Bank of Slovenia.

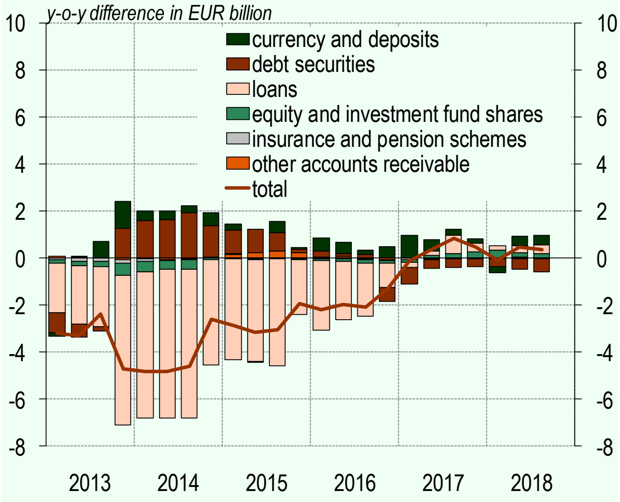
[2] Short-term loans in the third quarter were up just EUR 10 million in year-on-year terms.

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



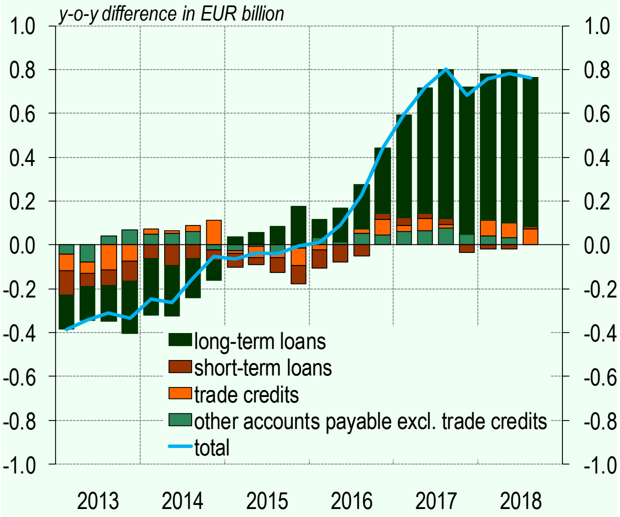
Source: Bank of Slovenia.

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



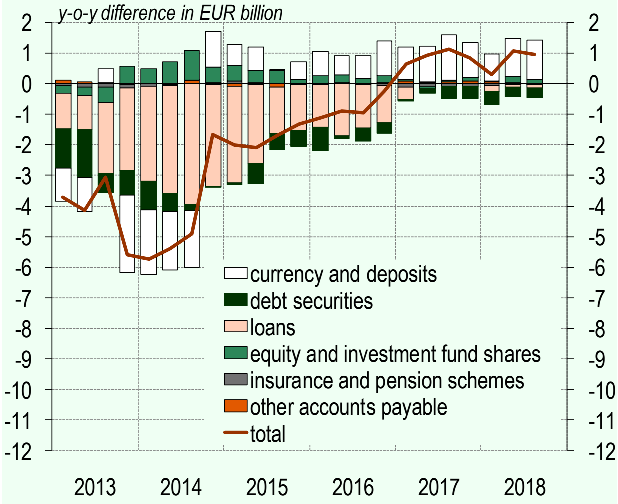
Source: Bank of Slovenia.

Figure 5.6: Financial liabilities of households (S.14)



Source: Bank of Slovenia.

Figure 5.8: Financial liabilities of banks and money-market funds (S.122 and S.123)



Source: Bank of Slovenia.

Financial assets and financing of banks

The trend of gradual repayment of debt in the rest of the world and the increase in liabilities from household deposits and deposits by non-financial corporations continued at the domestic banks in the third quarter of last year. The domestic banks' gradual repayment of debt to the rest of the world continued last year, albeit to a significantly smaller extent than in previous years. The banks' liabilities to the rest of the world in the third quarter were down a further EUR 500 million on the previous year. By contrast, the increase in household deposits and deposits by non-financial corporations continued. Household deposits in the third quarter of last year were up around EUR 1 billion in year-on-year terms, while deposits by non-financial corporations increased by around EUR 500 million over the same period. The stock of government deposits at domestic banks remained virtually unchanged in year-on-year terms, while the banks' liabilities to the central bank declined by EUR 160 million. On the asset side, the banks increased their claims from loans and deposits over the last year (by almost EUR 400 million each), and to a lesser extent increased their holdings of shares and other equity, while their bond holdings declined by almost EUR 600 million. There was a decline of EUR 1 billion in holdings of domestic government bonds, and an increase of more than EUR 500 million in holdings of foreign debt securities.

Box 5.1: Bank performance

Growth in the balance sheet total had declined slightly by the end of November of last year. Growth in deposits by the non-banking sector is continuing to outpace growth in total assets. The largest contribution to the increase in deposits last year came from households. Lending activity strengthened slightly last year, largely as a result of household loans. Bank lending activity to non-financial corporations is far behind household lending in terms of both growth and absolute amount. The banks' profitability improved further as a result of favourable developments in income, the maintenance of moderate operating costs and a net release of impairments and provisions. The quality of the banks' credit portfolio improved further. The banking system's capital adequacy remained at a solid level, despite a decline in the third quarter of last year.

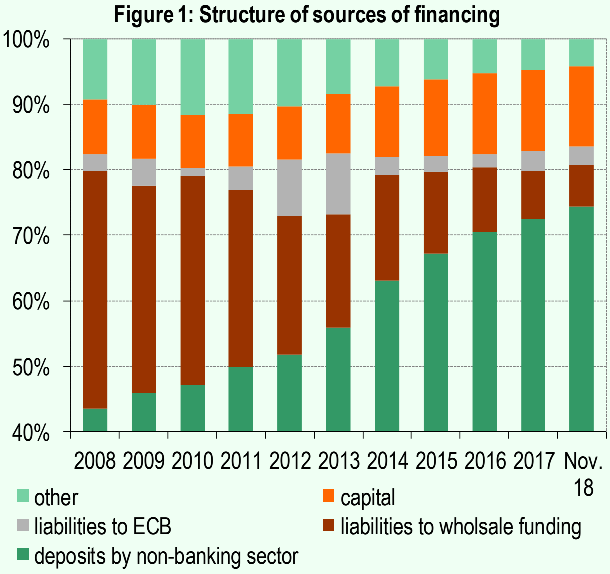
Year-on-year growth in the balance sheet total had slowed to 1.9% by the end of November. The balance sheet total increased by EUR 562 million over November to stand at EUR 38.5 billion. The main increases on the asset side were in loans to the non-banking sector and liquid assets, while the stock of securities on bank balance sheets was comparable to that at the end of 2017. On the funding side, the increase in deposits by the non-banking sector and the banks' repayments on the wholesale markets continued.

Deposits by the non-banking sector are continuing to increase, and accounted of 74% of total funding in November 2018. They increased by EUR 1.1 billion over the first eleven months of last year, primarily as a result of an increase in household deposits. Year-on-year growth in household deposits slowed slightly in the final quarter of last year, reaching 6.4% in November. Growth in deposits by non-financial corporations also slowed. Given the favourable economic situation, non-financial corporations are earmarking their profits more for current operations, financial restructuring and investment than for saving. The increase in deposits by the non-banking sector is sufficing to fund the increase in loans. Because the banks have no need for additional funding, they have not borrowed from the Eurosystem for a long time now, and are continuing to reduce their liabilities on wholesale markets. The relative proportion of sight deposits is still increasing, albeit more slowly than in previous years. In November sight deposits accounted for 72% of total deposits by the non-banking sector, and 53% of total liabilities. The banking system's liquidity position nevertheless remains favourable: highly liquid assets account for 11% of the balance sheet total, while secondary liquidity remains stable at a fifth of the balance sheet total. The liquidity coverage ratio remains well above the regulatory requirement.

Year-on-year growth in loans to the non-banking sector stood at 6.1% in November. The main increase was again recorded by household loans, year-on-year growth in which remained stable at 7.1%. The stock of household loans on bank balance sheets reached just over EUR 10 billion in November, almost EUR 1.5 billion more than the stock of loans to non-financial corporations. Year-on-year growth in consumer loans stood at 11.7% in November, while growth in housing loans stood at 4.7%. Year-on-year growth in loans to non-financial corporations remains moderately stable: it stood at 3.1% in November.

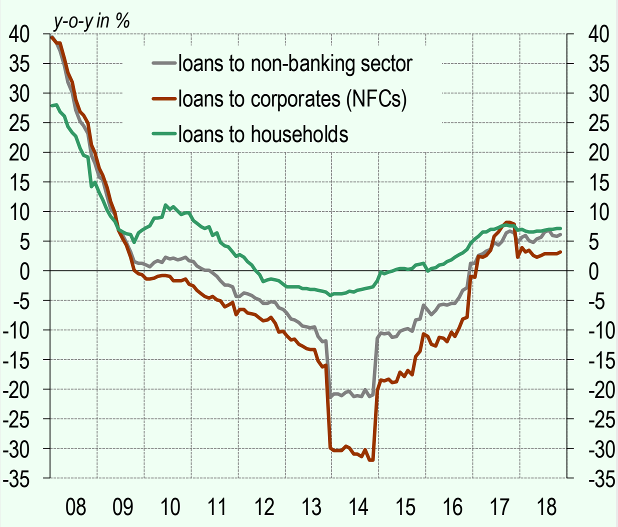
The quality of the credit portfolio is continuing to improve. The NPE ratio declined to 4.2% in November, equivalent to NPEs of EUR 1.8 billion. The reduction in NPEs in the first eleven months of last year was fastest in the non-financial corporations sector, although the quality of this segment of the portfolio remains lowest. NPEs to non-financial corporations declined by

Figure 1: Structure of sources of financing



Source: Bank of Slovenia.

Figure 2: Growth of loans to the non-banking sector



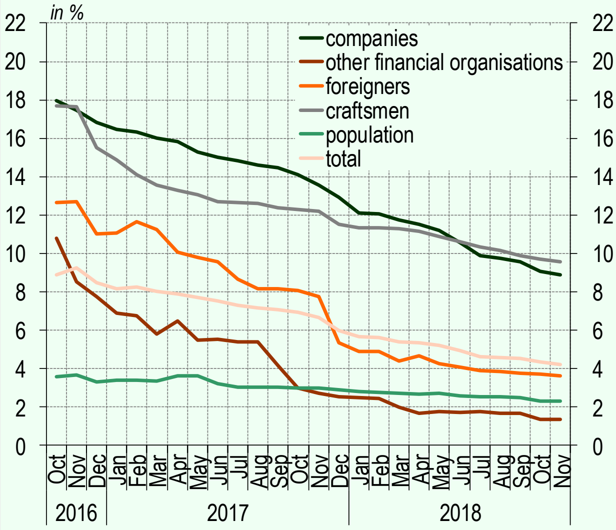
Source: Bank of Slovenia.

EUR 517 to EUR 1.2 billion in 2018, but the NPE ratio nevertheless remains high at 8.9%. The NPE ratios in real estate activities (21.0%), construction (17.9%) and wholesale and retail trade (16.6%) are significantly above the average for the non-financial corporations sector, although these sectors also recorded significant declines in both the stock and ratio. These three sectors accounted for 61% of all NPEs to non-financial corporations. The banking sector's exposure to households increased by 6.8% over the first eleven months of last year, while NPEs in this segment declined by 14.6% to EUR 249 million. The NPE ratio in the household segment is 2.3%; it is slightly lower for housing loans than for consumer loans (2.3% compared with 2.9%).

The banking system's pre-tax profit increased again to amount to EUR 502 million over the first eleven months of the year, up 18% on the same period of the previous year. The factors in the increase in profit remain the same as in previous months: positive growth in net interest income, a solid increase in non-interest income, unchanged operating costs, and the net release of impairments and provisions. The banking system's gross income over the first eleven months of last year was up 5.5% on the same period of the previous year. Year-on-year growth in net interest income reached 3.3% in November, as a result of an increase in interest income and a further decline in interest expenses. The net interest margin stabilised (at 1.84%) in the wake of the growth in net interest income. Net non-interest income was up 8.8% on the previous year, although the banks recorded a relatively small increase in income from net fees and commission (0.5%). Operating costs were down slightly on the previous year (0.7%). The net release of impairments and provisions continued in November. It amounted to EUR 55 million over the first eleven months of the year, and produced the second consecutive year of net releases.

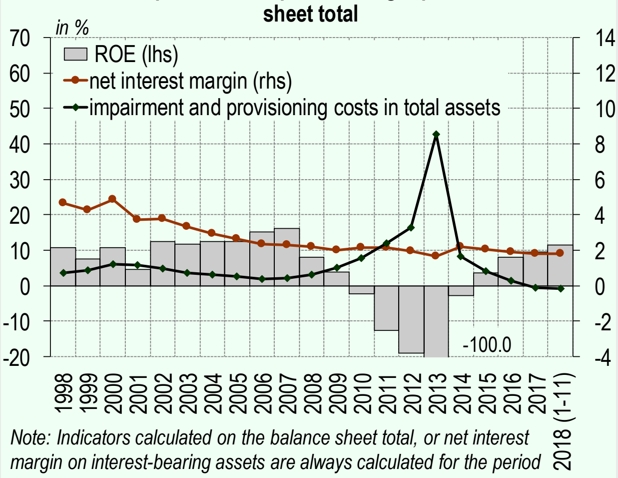
After increasing in the first half of 2018, the banking system's capital adequacy declined in the third quarter to its level from the end of 2017. The total capital ratio reached 19.8% on an individual basis, and 18.1% on a consolidated basis. The decline in capital adequacy was the result of a decline in equity (retained earnings) at one of the banks caused by dividend payments. Having increased since the beginning of 2017, primarily as a result of the strengthening of lending activity, the banking system's capital requirements remained unchanged in the third quarter of 2018. There is considerable variation between the banks. The small domestic banks are notable for their weaker capital position: their capital adequacy and leverage are lower than the averages across the banking system. Capital adequacy is also gradually declining at certain banks under majority foreign ownership, in particular those where lending activity is higher.

Figure 3: Share of NPEs by client groups



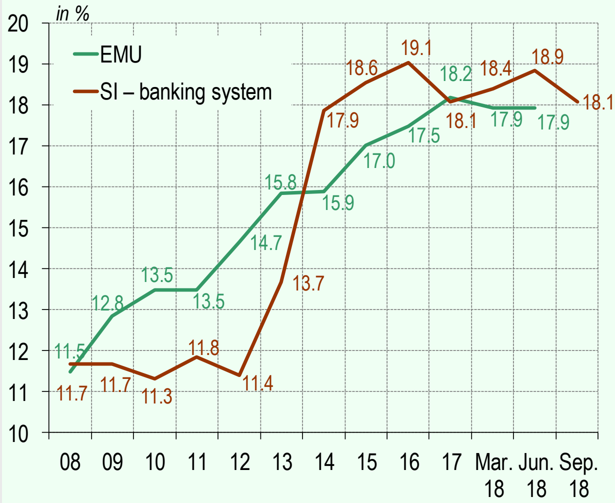
Source: Bank of Slovenia.

Figure 4: 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 5: Capital adequacy ratio of the Slovenian banking system compared to the EMU – consolidated basis

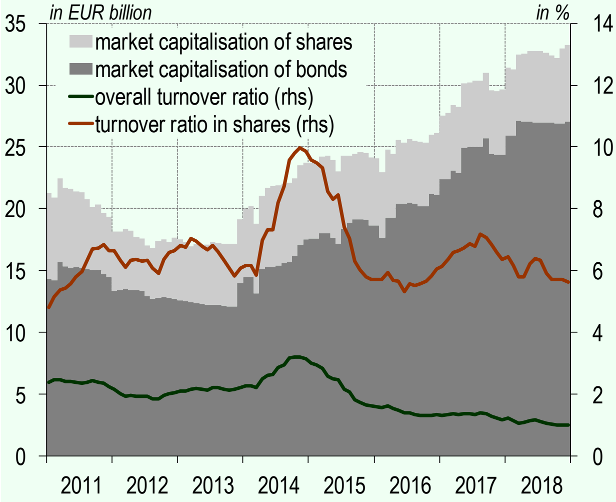


Source: Bank of Slovenia, ECB (SDW).

Domestic financial market

The selling pressure on the Ljubljana Stock Exchange that began in the third quarter continued in the final quarter of last year. Share prices fell overall on the Ljubljana Stock Exchange in the final quarter of this year, as the SBI TOP fell by 3.8%. The market capitalisation of shares reached EUR 6.3 billion, up almost EUR 1 billion on September. This was attributable to the listing of NLBR shares on the organised market. New share listings on the exchange also had a positive impact on the volume of trading in shares, which amounted to EUR 71 million in the final quarter of last year, up 6.6% in year-on-year terms. Despite increased M&A activity, which had a positive impact on developments in the first half of the year, and the issue of new shares in November, the average monthly volume of trading in shares in 2018 (EUR 26 million) remained below the average in 2017 (EUR 28 million). M&A activity and new share issues brought a short-term reduction in the high concentration of volume in individual shares, while the proportion accounted for by non-residents increased from 22% to 30% over the course of one year.

Figure 5.9: Market capitalisation on the LJSE and annual turnover ratios (TR)



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

The market capitalisation of debt securities was unchanged in the final quarter of last year. It remained at EUR 27 billion. There were no major bond issues on the Ljubljana Stock Exchange, although the volume of trading in bonds in the final quarter was up in year-on-year terms, at just over EUR 1 million. There were no major issues of debt securities during the period in question.

6 Price Developments

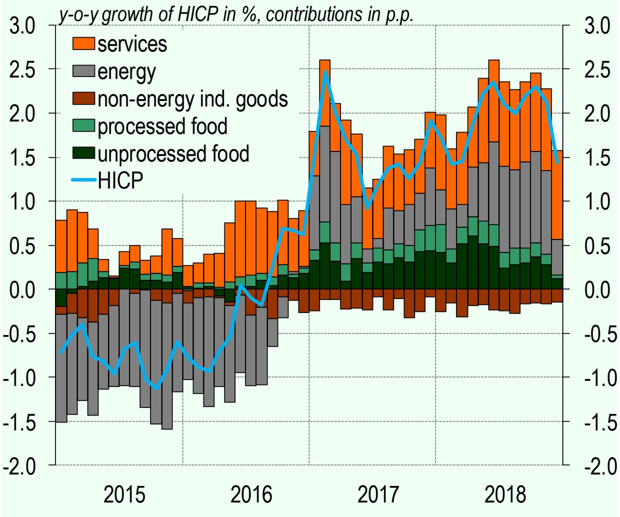
Inflation in Slovenia averaged 1.9% last year, 0.3 percentage points more than in the previous year, and slightly above the euro area average. The main factors in price developments in the first quarter were rises in food prices and energy prices, while by the end of the year there had been a significant increase in the contribution of services prices, which strongly outpaced growth in services prices in the euro area average for the whole of the year. The impact of external factors faded at the end of the year, and inflation was largely driven by domestic factors. Core inflation as measured by the narrowest indicator (excluding energy and food) stood at 1.3% in December, thus approaching the headline inflation rate of 1.4%.

Structure of price developments and core inflation indicators

There was a major change in the structure of inflation in December. Average year-on-year inflation in the final quarter as measured by the HICP was down on the previous quarter. The main factor was services prices, which accounted for 0.9 percentage points of average inflation last year. The next largest contribution after services prices came from energy prices, whose contribution averaged 0.7 percentage points, although it halved in December. The contribution of food prices also declined sharply in December, primarily as a result of developments in prices of unprocessed food, growth in which was unusually high until the middle of last year. The contribution of food prices thus declined from 0.7 percentage points in the first half of the year to just 0.2 percentage points in December. The contribution to inflation of non-energy industrial goods was negative for the whole year.

The core inflation indicators diverged towards the end of the year. The narrowest core inflation indicator, which excludes the impact of energy prices and food prices, was 0.4 percentage points higher on average in the final quarter of last year than in the first quarter. The narrowest inflation indicator stood at 1.2%, and outpaced the euro area average, which stood at 1.0% in the same period. The gap derives primarily from growth in services prices, which has strongly outpaced the euro area aver-

Figure 6.1: Contributions to headline HICP inflation – Slovenia



Source: Eurostat, Bank of Slovenia calculations.

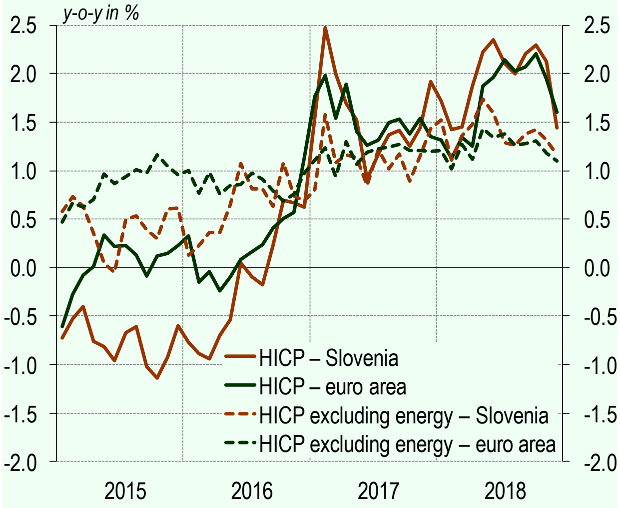
age for the whole year. The average year-on-year fall in prices of non-energy industrial goods in the final quarter also slowed by 0.2 percentage points. The averages in the final quarter of the two other core inflation indicators (inflation excluding energy prices, and inflation excluding energy prices and prices of unprocessed food) remained unchanged from the previous quarter, although the slowdown in growth in food prices was reflected in slower year -on-year growth in the broadest indicator in December.

Drivers of inflation

Pressures from commodity prices have declined significantly. Growth in commodity prices has turned negative in recent months. Prices of all commodities on the global market were down in year-on-year terms; the largest fall was recorded by oil prices, which have a direct impact on prices of motor fuels and thus on headline consumer inflation. After falling sharply in November, the price of a barrel of Brent crude fell further in December, reaching USD 53.4 by the end of the year. There was also a slowdown in growth in Slovenia's import prices in the final quarter (figures available to November), in line with the developments in commodity prices. The exception was import prices of consumer durables, which in the upcoming period could have an impact on prices of non-energy industrial goods on the domestic market.

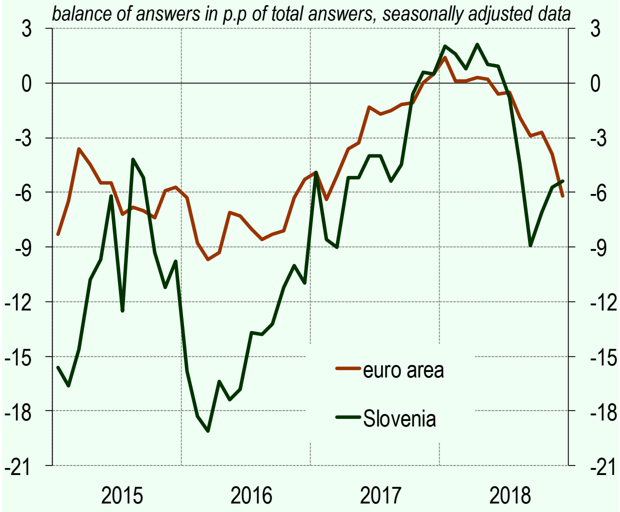
The past robust economic growth is already being reflected to a certain extent, at least in the narrowest core inflation indicator. The responding indicators of wage growth and growth in household disposable income were strongest in the two years leading up to the beginning of last year. According to the national accounts figures, growth in private consumption according to the domestic concept, which includes non-residents' consumption, again strengthened slightly in the third quarter of last year, albeit solely because of a strong increase in non-residents' consumption. Year-on-year growth in average wages was higher than a year earlier, but gradually slowed during the year. Consumer confidence strengthened slightly at the end of the year, but was still at a lower level than in the first half of the year. Given the persistently high employment growth, the expected strengthen-

Figure 6.2: Headline and core inflation in Slovenia and the euro area



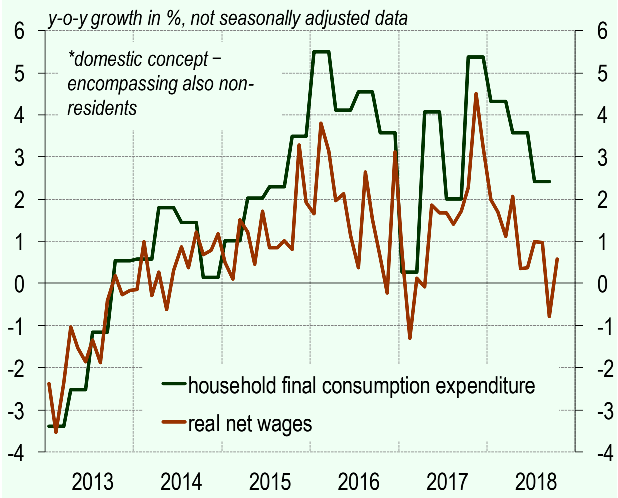
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.3: Consumer confidence indicator



Source: Eurostat.

Figue 6.4: Household final consumption expenditure* and real net wages



Source: SORS, Bank of Slovenia calculations.

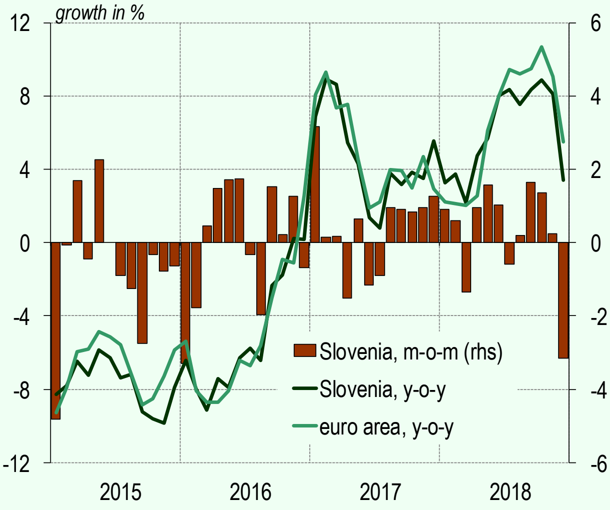
ing of wage growth and the fall in headline inflation under the influence of external factors, the situation is ripe for higher real growth in household disposable income, and consequently for increased private consumption and further rises in core inflation.

Price developments by sub-category

In the wake of primarily positive monthly changes, last year energy prices recorded accelerating year-on-year growth, but at the end of the year the fall in oil prices on global markets sharply reduced the year-on-year rate of growth. Year-on-year growth in energy prices in Slovenia was comparable to the euro area average; the growth was primarily driven by rising prices of motor fuels. When global oil prices fell by almost 30% over the last two months of the year, year-on-year growth in prices of motor fuels entered negative territory in December. By contrast, last year the contribution of other energy prices strengthened sharply compared with 2017. The contribution of prices of liquid and solid fuels and of heat energy increased significantly, as did the contribution of electricity prices in the final quarter of the year.

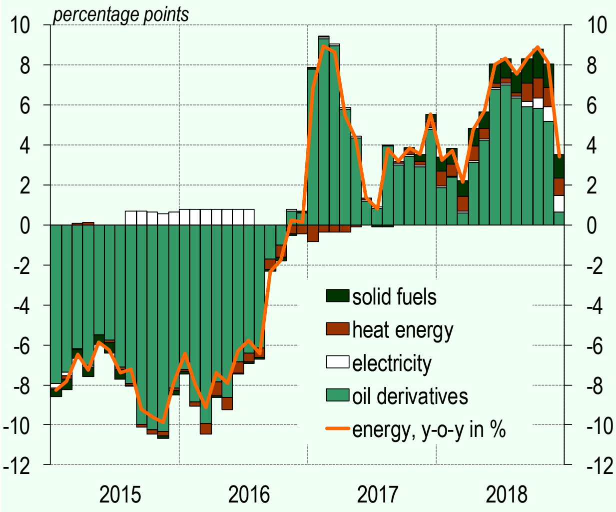
Year-on-year growth in food prices in the first half of the year was at its highest since 2014, but the rate slowed in the second half of the year. Year-on-year growth in food prices averaged more than 3% in the first half of the year. The high growth was driven primarily by relatively high year-on-year growth in prices of meat and fruit, which meant that the contribution of prices of unprocessed food was double that of prices of processed food. After recording rising year-on-year growth for two years, prices of meat and fruit normalised in the second half of the year. In the wake of a simultaneous slowdown in year-on-year growth in prices of processed food, year-on-year growth in aggregate food prices declined relative to the first half of the year, and stood at just 0.6% in December. Prices of processed food were a minor factor in the decline, as prices in the sub-categories of milk, cheese, eggs, oil and fats, and sugar actually fell in year-on-year terms in December, but the main factor in December's decline was lower year-on-year growth in prices of meat. Before declining in December, growth in prices of meat

Figure 6.5: Energy prices in Slovenia and the euro area



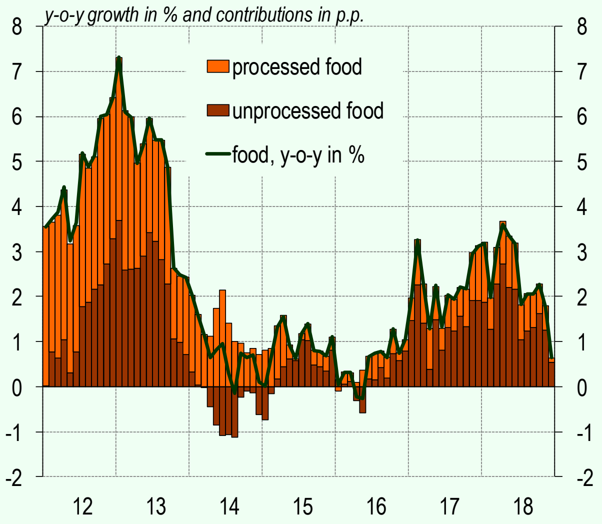
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.6: Contributions to energy inflation



Source: ECB.

Figure 6.7: Food prices

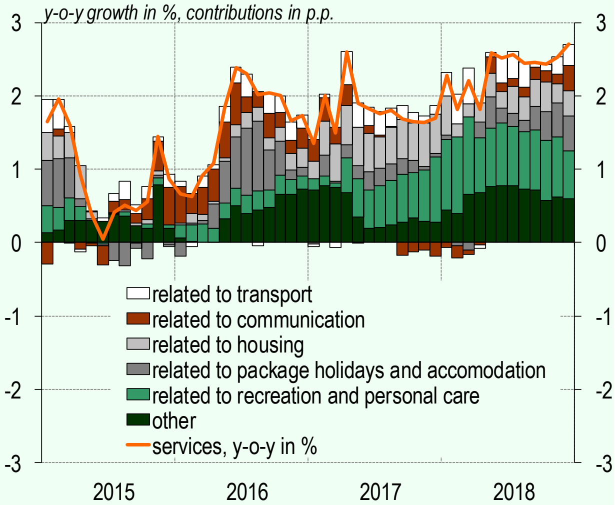


Source: Eurostat, Bank of Slovenia calculations.

had sharply outpaced average growth in euro area. Year-on-year growth in food prices in the euro area average did not undergo a similar decline in December, and at 1.8% significantly outpaced the rate in Slovenia.

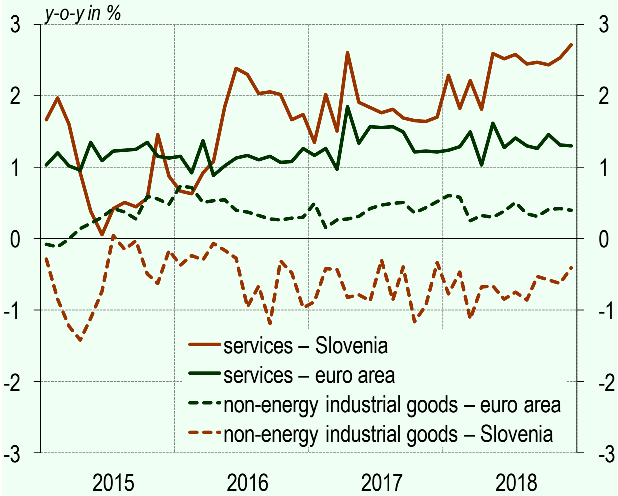
Year-on-year growth in services prices continued to strengthen last year, and widened the gap by which it outpaces the euro area average. Service inflation gradually increased last year, the year-on-year rate reaching 2.7% in December, the highest figure since 2013. The main upward pressure last year came from higher growth in prices of restaurant and hotel services, and also from growth in telephone and internet services and prices of package holidays in the second half of the year. In addition to higher food prices, the higher growth in prices of restaurant services was most likely a reflection of increased labour costs, as growth in the average gross wage in the accommodation and food service activities during the first ten months of last year strongly outpaced

Figure 6.8: Contributions to growth in services prices



Source: Eurostat, Bank of Slovenia calculations.

Figure 6.9: Prices of services and industrial goods excluding energy in Slovenia and the euro area



Source: Eurostat, Bank of Slovenia calculations.

Table 6.1: 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	17Q3	17Q4	18Q1	18Q2	18Q3	18Q4
HICP	*100.0%*	0.4	-0.8	-0.2	1.6	1.9	1.3	1.5	1.5	2.1	2.1	2.0
Breakdown of HICP:												
Energy	*11.8%*	-1.4	-7.8	-5.2	4.7	6.0	2.6	4.3	3.0	6.2	8.1	6.8
Food	*22.9%*	0.8	0.9	0.5	2.2	2.4	2.1	2.8	2.7	3.4	2.0	1.6
processed	*15.1%*	1.8	0.7	0.4	1.2	1.2	1.0	1.5	1.4	1.6	1.2	0.7
unprocessed	*7.8%*	-1.4	1.4	0.7	4.4	4.8	4.2	5.3	5.3	6.9	3.5	3.3
Other goods	*28.4%*	-1.0	-0.6	-0.5	-0.7	-0.7	-0.5	-0.8	-0.8	-0.7	-0.7	-0.5
Services	*36.9%*	1.8	0.9	1.6	1.8	2.4	1.8	1.7	2.1	2.3	2.5	2.6
Core inflation indicators:												
HICP excl. energy	*88.2%*	0.7	0.4	0.6	1.1	1.4	1.1	1.2	1.3	1.6	1.3	1.3
HICP excl. energy and unprocessed food	*80.4%*	0.9	0.4	0.6	0.8	1.1	0.8	0.8	0.9	1.1	1.1	1.1
HICP excl. energy, food, alcohol and tobacco	*65.3%*	0.6	0.3	0.7	0.7	1.0	0.8	0.6	0.8	1.0	1.1	1.2
Other price indicators:												
Industrial producer prices on domestic market		-1.1	-0.5	-1.4	1.3	...	1.5	1.9	2.1	2.0	2.2	...
GDP deflator		0.8	1.0	0.8	1.6	...	2.0	1.6	2.4	2.7	2.5	...
Import prices[1]		-1.1	-1.4	-2.2	3.0	...	2.2	2.0	0.1	2.2	4.1	...

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

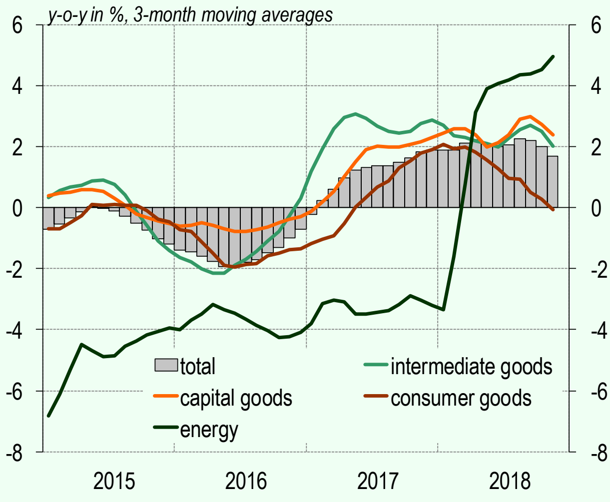
average wage growth in the total economy, and demand for these services was also strong. Growth in prices of services relating to dwelling, financial services, and transport services slowed compared with 2017. Prices of transport services were highly volatile last year, owing to large fluctuations in prices of air transport. Growth in aggregate services prices consistently outpaced the euro area average, which was around 1.3% throughout the year. In the wake of the jump in services price inflation in Slovenia, the gap thus widened again in the second half of the year, reaching 1.4 percentage points in December.

Growth in prices of non-energy industrial goods has remained negative for almost a decade now. The fall in prices of non-energy industrial goods averaged approximately 0.7% last year. This was still below the euro area average, where year-on-year growth in prices of non-energy industrial goods remained around 0.4%. Growth in prices of household appliances made a positive contribution to growth, while prices of cars, clothing and footwear, and audio-visual, photographic and information processing equipment fell faster than in the previous year. At 0.5%, December's year-on-year fall was slightly smaller than the average over the year, primarily as a result of a smaller fall in prices of clothing and footwear and prices of cars.

Industrial producer prices

Growth in industrial producer prices on the domestic market fluctuated around 2% last year, comparable to consumer inflation. Year-on-year growth in industrial producer prices remained above 2% over the first ten months of the year, but then declined to 1.7% in November. The dynamic closely tracked commodity prices, which account for just under half of the value of sales in the index. Growth in industrial producer prices of commodities on the domestic market slowed slightly in the final quarter of last year, primarily under the influence of import prices of commodities and energy products. This was also a factor in the ongoing slowdown in growth in prices of consumer goods. Year-on-year growth in prices of consumer goods slowed over the entire year, in the wake of negative year-on-year growth in import prices of consumer goods.

Figure 6.10: Producer prices on the domestic market



Source: SORS, Bank of Slovenia calculations.

7 Public Finances

The general government sector recorded a surplus in the amount of 0.7% of GDP over the 12 months to September 2018. Growth in revenues, tax revenues in particular, remained solid. Year-on-year growth in expenditure continued to strengthen; the largest contribution to this in the third quarter came from an increase in expenditure on investment conditioned by the electoral cycle. According to the latest government estimates, the general government surplus is expected to have reached 0.8% of GDP by the end of the year. According to these estimates, the public finances were in structural balance last year. According to government plans, the structural position is expected to deteriorate this year and growth in expenditure is expected to be higher than prescribed by the fiscal rules. In the current economic situation, the planned nominal general government surplus does not comply with the fiscal rules.

The general government debt stood at 71.0% of GDP at the end of September of last year, and is expected to have declined to around 70% of GDP by the end of the year. The decline is expected to continue this year. Economic growth has the key role in reducing the ratio of debt to GDP. The borrowing terms remain favourable, and are supporting fiscal consolidation.

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, given that the general government debt remains high. The framework for the functioning 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 amount of implicit and contingent liabilities.

General government balance

The general government surplus strengthened over the first three quarters of 2018, albeit at a slower pace. After a small surplus was recorded in 2017, the first during the period in which data according to the ESA 2010 methodology has been available (i.e. since 1995), the surplus over the 12 months to September 2018 increased to 0.7% of GDP. Year-on-year growth in revenues fluctuated around 6.5% in all quarters, while growth in expenditure gradually increased, and in the third quarter was only just under 1 percentage point less than growth in revenues. According to the latest estimates from December's Draft Budgetary Plan for 2019, the surplus in 2018 is thought to have amounted to 0.8% of GDP.[1] Alongside the favourable cyclical situation, the improvement in the position was also attributable to a decline in the interest burden, which last year accounted for the majority of the increase in the surplus. According to the European Commission's November forecasts, the

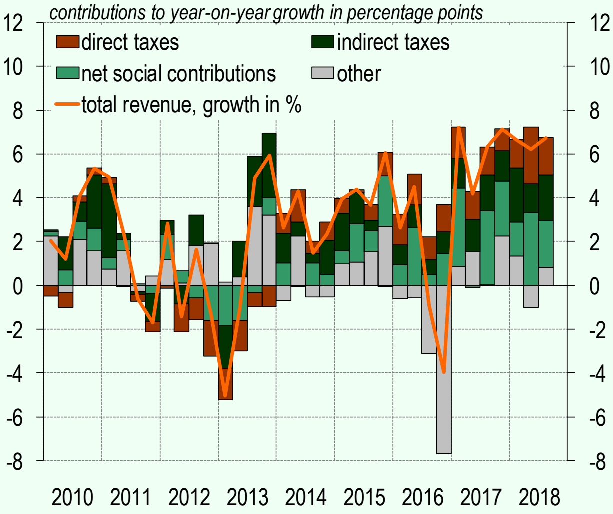
[1] In mid-October the government submitted its Draft Budgetary Plan under a no-policy-change scenario to the European Commission, in line with the timetable. On 6 December the government was briefed on the Draft Budgetary Plan that include a policy change scenario. The final version is expected to be confirmed by the government together with the revision of state budget for 2019, and submitted to the European Commission at that time.

Table 7.1: General government deficit and debt in Slovenia, 2014–2021

	SORS					Draft Budgetary Plan				Stability Programme				EC		
						Dec. 18 **		Oct. 18								
% GDP	2014	2015	2016	2017	Q1-Q3 18	2018	2019	2018	2019	2018	2019	2020	2021	2018	2019	2020
Revenue	44.4	44.9	43.4	43.2	42.9	43.3	42.9	42.9	42.4	42.3	41.7	40.8	39.8	42.7	42.2	41.3
Expenditure	49.9	47.7	45.3	43.2	42.1	42.5	42.5	42.4	42.2	41.9	41.5	40.2	38.9	42.2	41.8	41.1
of which: interest	3.2	3.2	3.0	2.5	2.1	2.0	1.7	2.0	1.7	2.0	1.7	1.6	1.5	2.0	1.7	1.6
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.1	0.8	0.8	0.4	0.5	0.2	0.4	0.2	0.6	0.9	0.5	0.4	0.2
Primary balance	-2.3	0.4	1.1	2.6	2.8	2.8	2.1	2.5	1.8	2.4	1.9	2.2	2.3	2.4	2.1	1.8
Structural balance	...	...	...	...	...	0.0	-0.6	-0.2	-0.9	-0.5	-1.0	-0.7	-0.2	-0.8	-1.0	-1.0
Debt *	80.4	82.6	78.7	74.1	71.0	70.3	66.6	70.3	66.6	69.3	65.2	61.5	58.3	70.2	66.3	62.6
Real GDP (growth, %)	3.0	2.3	3.1	4.9	4.5	4.4	3.7	4.4	3.7	5.1	3.8	3.2	3.0	4.3	3.3	3.0

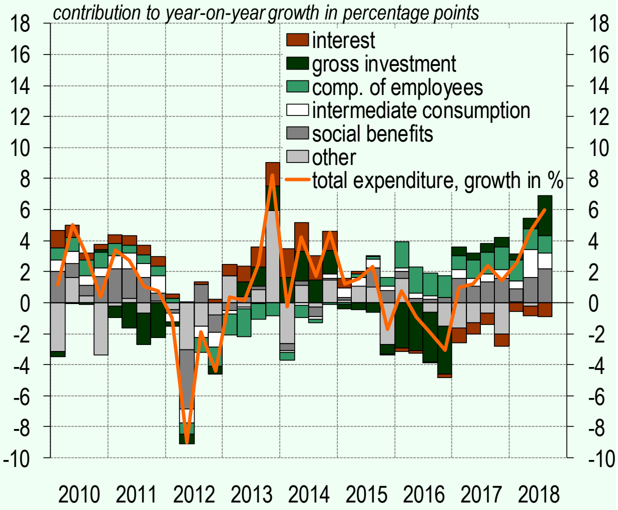
*Note: *Debt refers to the end of the third quarter 2018. **This refers to the proposal, which Government took note of on the 6th December 2018 meeting and has yet to be finalised.*
Source: SORS (realisation), Draft Budgetary Plan (Ministry of Finance, October and December 2018), Stability Programme (Ministry of Finance, April 2018), European Commission (November 2018).

Figure 7.1: General government revenue



Source: SORS, Bank of Slovenia calculations.

Figure 7.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

general government deficit in the euro area was expected to have amounted to 0.6% of GDP in 2018, while the general government debt was forecast to reach 86.9% of GDP by the end of the year.

Growth in general government revenues remains solid, but lower than growth in economic activity. General government revenue in the first nine months of the year was up 6.5% in year-on-year terms. Growth is strengthening in all major tax categories, most notably direct taxes, which were up over a tenth. In addition to high growth in personal income tax revenues, the buoyant labour market is also being reflected in 7% growth in net social security contributions. Indirect taxes are growing more slowly than GDP, as is nominal growth in household consumption. Revenues from excise duties are lower, owing to a cut in excise duties on fuels. Property income in the first three quarters of the year was down significantly on the same period of the previous year, as certain dividends were paid later last year.[2]

General government expenditure grew more slowly than general government revenues in the first three quarters of the year, despite a rise in its year-on-year growth. General government expenditure over the first nine months of the year was up 4.4% in year-on-year

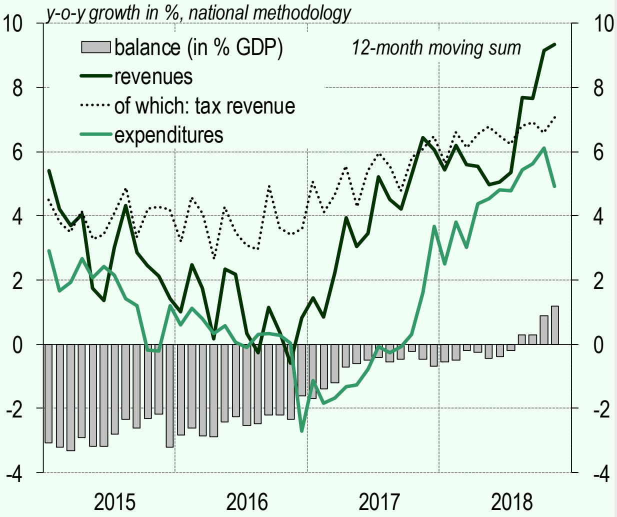
[2] It was only in October that NLB paid its dividend into the budget (i.e. it will be included in the figures for the final quarter). It was significantly higher than in previous years, and included profits from previous years. Under ESA 2010 rules, it is partly considered a superdividend, which is not counted as revenue.

Box 7.1: Public finance developments according to the cash flow methodology

The consolidated general government surplus over the first eleven months of 2018 amounted to EUR 785 million, or 1.9% of estimated GDP. The position was still in deficit in the same period of the previous year. The improvement in the fiscal position is attributable to the favourable economic situation and, even more so, to one-off factors. These include (i) the receipt of part of the withheld funds from the EU budget for the past financial framework (EUR 168.2 million in August 2018), (ii) the inflow of NLB's current and retained profits (EUR 270.6 million in October 2018), and (iii) a transfer to public healthcare institutes providing secondary and tertiary health services for covering their past-due liabilities in the previous year (EUR 135.7 million in November 2017). These three factors account for almost 70% of the year-on-year improvement. All four government sub-sectors recorded a surplus, although the state budget accounted for the majority.

Consolidated general government revenues over the first eleven months of the year were up approximately a tenth in year-on-year terms, while growth in expenditure was just under a half of this. Growth in tax revenues remained solid, and was slightly higher than in the previous year. Tax revenues over the first eleven months of the year were up 7%. The highest growth was in direct taxes, both personal income tax and corporate income tax. The significant increase in non-tax revenues and revenues from the EU budget is primarily the result of the payment of dividends by NLB and the receipt

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 Nov. 18			2017 Jan.-Nov.	2018 Jan.-Nov.	Jan.-Nov.18
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**16,803**	**18,346**	**40.1**	**9.3**	**15,278**	**16,821**	**10.1**
Tax revenue	15,162	16,134	35.3	7.1	13,810	14,782	7.0
- goods and services	5,723	5,984	13.1	5.0	5,249	5,510	5.0
- social security contributions	6,092	6,500	14.2	7.3	5,518	5,926	7.4
- personal income	2,197	2,420	5.3	10.3	1,979	2,202	11.3
- corporate income	766	832	1.8	10.4	709	775	9.3
From EU budget	391	668	1.5	52.6	311	587	88.9
Other	1,250	1,544	3.4	21.4	1,157	1,452	25.4
Expenditure	**17,102**	**17,809**	**39.0**	**4.9**	**15,329**	**16,036**	**4.6**
Current expenditure	7,733	7,849	17.2	2.4	6,988	7,104	1.7
- wages and other personnel expenditure (incl. contributions)	3,938	4,124	9.0	5.4	3,589	3,775	5.2
- purchases of goods, services	2,627	2,631	5.8	0.2	2,300	2,305	0.2
- interest	985	868	1.9	-11.9	980	863	-12.0
Current transfers	7,913	8,177	17.9	3.7	7,208	7,471	3.7
- transfers to individuals and households	6,665	6,915	15.1	4.2	6,093	6,344	4.1
Capital expenditure, transfers	1,078	1,356	3.0	31.6	786	1,065	35.5
To EU budget	378	427	0.9	6.9	347	396	14.0
GG surplus/deficit	**-299**	**537**	**1.2**		**-51**	**785**	

*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.

of a portion of the withheld funds from the EU budget. Growth in consolidated general government expenditure was lower than growth in revenues. Interest payments fell in year-on-year terms, while expenditure on goods and services remained approximately at its level of the previous year. Investment expenditure and transfers were significantly higher, also on account of the local elections in November. Investment spending was the main reason for the year-on-year decline in the local government budget surplus. The Health Insurance Institute disclosed a surplus of EUR 26 million over the first eleven months of the year, compared with a small deficit in the same period of the previous year. The improvement in the position of the health sub-sector is a reflection of the buoyancy of the labour market, which has been reflected in high growth in social security contributions, including healthcare contributions. There has also been an increase in transfers from the state budget to the Health Insurance Institute intended for wages for interns and specialists in healthcare.

terms. Growth in investment was notably higher than the average (at 18.6%), the year-on-year rate reaching more than a third in the third quarter. Compensation of employees was up 4.9%, with the number of employees higher by 2%. There was an increase in the average compensation of employees per employee as a result of the relaxation of austerity measures (including premiums for supplementary collective pension insurance, and the elimination of wage anomalies up to the 26th wage grade inclusive, while civil service promotions also had an impact on growth). Social benefits were up 3.8%. Pension payments, which account for the largest proportion, increased by 3.5%, primarily as a result of regular and extraordinary pension increases, while the rise in the number of pensioners remained low. Sick pay continues to record high growth, despite a slowdown. Unemployment benefits are declining in the favourable economic situation. Interest payments are continuing to decline, and account for a significant portion of the improvement in the fiscal position.

General government debt and government guarantees

The general government debt declined in the third quarter of 2018, and is expected to have declined further by the end of the year. The general government debt amounted to EUR 32,157 million or 71.0% of GDP at the end of the third quarter, down just over EUR 150 million on the end of the second quarter. According to December's estimates from the government's Draft Budget Plan for 2019, it is expected to have reached 70.3% of GDP by the end of the year. The government's borrowing in the final quarter of 2018 came in only in October via a treasury bill issue in the amount of EUR 80 million, again at negative interest rates. The amount of treasury bills and loans maturing during this period was lower than the new borrowing. In line with the financing programme for the 2019 state budget adopted in December, the borrowing requirement for the implementation of the budget for 2019 (still on the basis of the budget adopted in autumn 2017) is EUR 2.1 billion. However, this is likely to change slightly after the adoption of the supplementary budget, which is planned early this year.[3] Borrowing in the amount of EUR 1.5 billion was already undertaken in January via the issue of a new 10-year bond. The government plans to use some of the proceeds of the partial privatisation of NLB (up to EUR 603 million) for debt reduction.

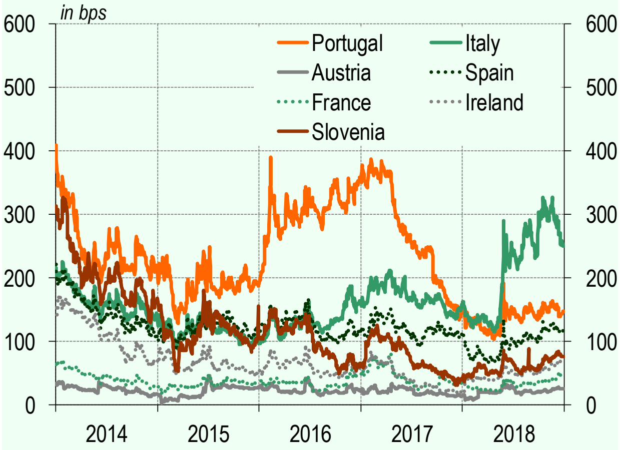
The stock of government guarantees declined again. Guarantees have been gradually declining since 2015, and the stock amounted to EUR 5,907 million or 13% of GDP at the end of the third quarter of 2018, down EUR 94 million on the previous quarter. The largest decline came from the repayment of liabilities by DARS and the BAMC. The decline in the BAMC's liabilities also reduced the stock of guarantees included in the general government debt, which amounted to 3.6% of GDP at the end of September. EUR 3 million was earmarked in the budget for 2018 for guarantees called. No payments had been made by the end of November, while refunds to the budget from previously paid guarantees amounted to EUR 2 million.

The required yield on Slovenian 10-year government bonds rose slightly in the final quarter of last year. As in other periphery countries, this was primarily attributable

[3] The amount does not cover potential additional borrowing for repaying debt principal maturing in 2020 and 2021.

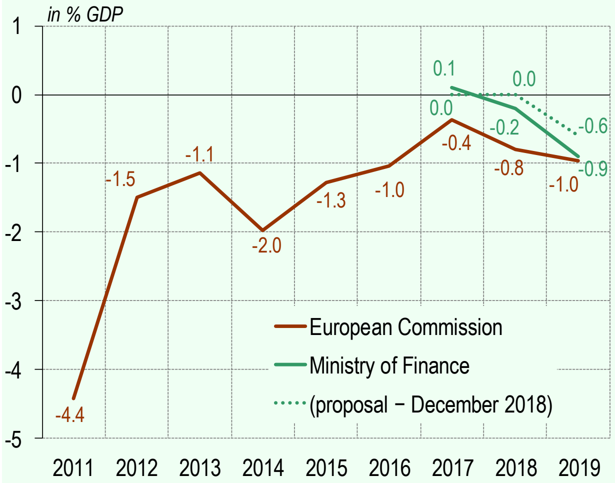
to the deterioration in relations between the European Commission and the Italian government with regard to the fiscal rules, and the trade tensions between the US and China. The required yield on Slovenian 10-year government bonds averaged 1% in December, while the spread over the German benchmark bond averaged 79 basis points. The required yield was at a similar level in the early part of last year and on average over the year, while the spreads at the end of the year were approximately double those at the beginning of the last year, which entails an increase in the risk premium. The risk premium also increased in other countries. The required yield and spreads are still low, which is a reflection of the ECB's monetary policy stimulus and the favourable economic situation, and are contributing to fiscal consolidation. With the gradual easing of stimulative monetary policy measures and a slowdown in economic growth, the positive impact on the public finances could diminish in the future.

Figure 7.3: 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.

Figure 7.4: Public finance structural balance in Slovenia



Source: European Commission (Nov.18), Ministry of Finance – Draft Budgetary Plan (Oct.18.), proposal of Draft Budgetary Plan (Dec.18).

Planned developments in general government balance and debt

The general government sector is expected to disclose a surplus again in 2019, but it will not be sufficient according to estimates. The cyclical situation is expected to remain favourable, and interest payments will decline again. According to the latest estimates (from the Draft Budgetary Plan from early December 2018), the surplus is thought to have amounted to 0.8% of GDP in 2018, and is expected to reach 0.4% of GDP in 2019.[4] The Fiscal Council's assessment is that the surplus in 2019 should be higher than planned.

According to certain estimates, Slovenia's structural general government position was approximately in balance in 2017 and 2018, but is expected to deteriorate in 2019. Slovenia's medium-term objective is currently defined as a structural surplus in the amount of 0.25% of GDP.[5] According to estimates from the latest Draft Budgetary Plan, Slovenia attained this objective in the last two years, while the latest European Commission estimates suggest a structural deficit last year in the amount of 0.8% of GDP.[6] The Draft Budgetary Plan for 2019 envisages a structural deterioration in the public finances. During its assessment of the October Draft, the European Commission identified the risk of a significant deviation from the rules of the Stability and Growth Pact. At the same time, when reviewing the Ordinance amend-

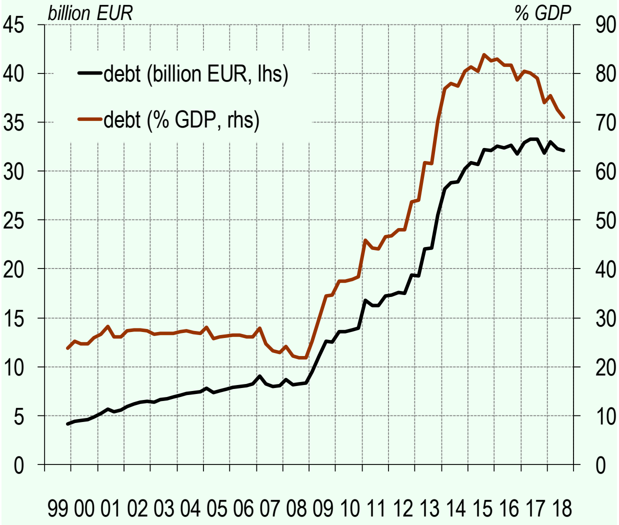
[4] In the Stability Programme drawn up under a no-policy-change scenario in April 2018, which was prepared by the previous government on the basis of the macroeconomic assumptions then in place, a surplus was also forecast for 2020 and 2021.
[5] The medium-term fiscal objective is determined every three years, which would entail its possible change in the spring of 2019. The Fiscal Council has announced that in the future it could be cut by up to 0.25% of GDP.
[6] In November the European Commission estimated the general government surplus in 2018 at 0.5% of GDP, while according to the latest estimates by the Ministry of Finance it is thought to have amounted to 0.8% of GDP. The estimated output gap, on which the assessment of the structural position is based, could change significantly over time.

ing the ordinance on the framework for the preparation of the general government budget for the 2018 to 2020 period, the Fiscal Council assessed that expansionary fiscal policy that was outlined also in December's Draft Budgetary plan would not be appropriate in 2019. It would entail further departure from the attainment of medium-term sustainability in the public finances.

In the fiscal area the risks relate primarily to control of expenditure, both in the short term and in the long term. On one hand, the government and the public sector trade unions have signed strike deals and a wage agreement, although the wage policy is again a short-term arrangement.[7] This year, in addition to the regular pension increase, an extraordinary increase is envisaged at the end of the year, which will depend on economic growth in 2018, and the annual pensioners' bonus will also be higher. In the area of social transfers, in the beginning of the year certain restrictions still in place in the area of family benefits (e.g. parental allowances) were relaxed, while cash social assistance and income support remain at the level established in the second half of 2018. The upward pressure on general government expenditure will be further strengthened by demographic changes in the future. There is considerable uncertainty with regard to government investment, which, having increased in 2018 before the local elections, remains high and is dependent on major investment projects and the ability to speed up the disbursement of EU funds. Factors of a one-off nature could also have an adverse impact on the public finances (as did court judgments in the past, for example).

The reduction in the debt, which in a few years could fall below the reference value of 60% of GDP, is primarily being facilitated by the projected economic growth. Privatisation proceeds will also have a positive impact on the reduction. The ratio of debt to GDP has been gradually declining since 2016, and the reduction is in accordance with the recommendations of the Stability and Growth Pact and is planned to continue in the future. However, Slovenia is not using the good economic situation to create sufficient reserves for a future reversal in the economic cycle. Structural reforms (pensions, healthcare, long-term care) must be carried out to ensure a reduction that is sustainable in the long run. A significantly higher level of debt compared with the period before the last economic and financial crisis is a disadvantageous starting point for fiscal policy in the resolution of any future crises.

Figure 7.5: Government debt



Source: SORS.

[7] The agreements covered rises in wages (with exemptions for physicians, officials and directors) and bonuses, and certain other areas. The following measures will have an impact on wage growth in 2019: (i) a general rise in wages by one wage grade for all civil servants (with the aforementioned exemptions) from January, (ii) an additional rise in November by one wage grade for employees in positions higher than the 26th wage grade (other than the exemptions), (iii) a rise in wages by one wage grade for individual positions (e.g. in September for class teachers, in November for nurses in intensive care and midwives in maternity wards), and (iv) a rise in certain bonuses (e.g. for night work, for work on Sundays, for work on holidays and for split shift) from September. Another wage rise of a further wage grade will be carried out in 2020 for positions that require a doctorate, a master's degree or a specialisation (other than the aforementioned exemptions), while the constraints with regard to payments for ordinary on-the-job performance and for increased workload will be removed from the middle of the year. In all years wage growth will also be affected by civil service promotions, which will be permanently switched from April to December. Other measures include the expansion of the career range for individual positions, the preparation of standards and norms in the area of healthcare and social work, jubilee benefits and termination benefits.

8 Selected Themes

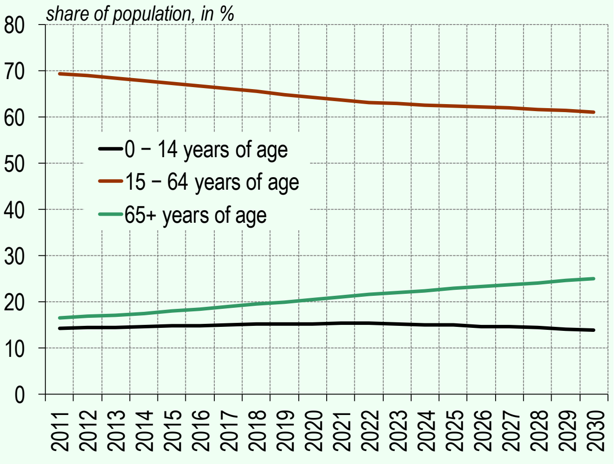
8.1 Migration developments in Slovenia

Slovenia's ageing population and the imbalance between supply of and demand for labour mean that migratory flows are becoming increasingly important to the Slovenian labour market. Given the great need for hiring and the shortage of qualified domestic labour, employers are more frequently hiring foreign citizens, as a result of which net immigration has again been positive since 2015. Demand for labour is strongest in labour-intensive sectors, which mostly employ medium-skilled workers. At the same time net immigration among the population group with tertiary education level has been negative since 2012, which represents a high cost to the state after years of funding the education of these individuals. To stem the brain drain, Slovenia needs a jump in the level of value-added created in the economy.

Demographic changes are adversely affecting the labour market

Demographic changes in Slovenia are reducing available labour, which according to forecasts is expected to continue declining in the future. According to the available data, the share of population in the 15-to-64 age group, which constitutes the core of the working population, declined between 2011 and 2017. The share accounted for by pupils and students also declined, while the share accounted for by pensioners increased. According to the EUROPOP projections from 2015, the share of the 15-to-64 age group is also forecast to decline most in the future. The projections also predict a sustained increase in the share of over 65s. By 2030 the share of total population in the 15-to-64 age group will have declined to 61% (from 66% in 2017), while the share of over 65s is forecast to have risen to 25% (from 19% in 2017).

Figure 8.1.1: Age structure of the population with included projections



Note: The time series after 2017 includes the EUROPOP population projections data from 2015.
Source: SORS, Bank of Slovenia calculations.

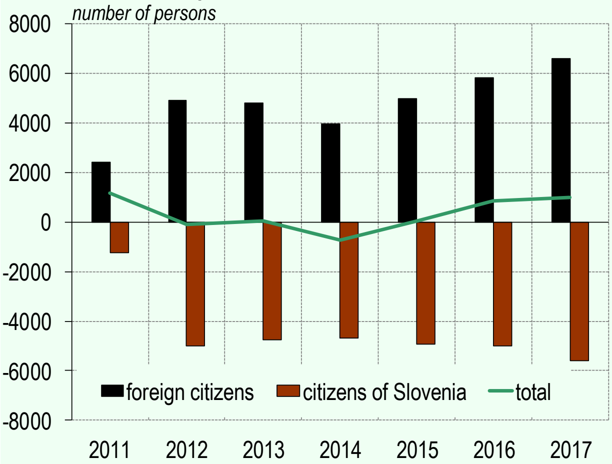
In the wake of increasing hiring of foreign citizens, net immigration has again become positive since 2015

Given the high economic growth, and employers' consequent increased demand for labour, the effects of demographic changes and structural imbalances have recently become more and more pronounced on

the Slovenian labour market. The structural imbalances are evident in survey indicators, which reveal a growing shortage of desirable profiles among job candidates. Recently employers have increasingly compensated for the labour shortage by hiring foreign citizens, which is being reflected in a rise in the number of permanent and temporary residence permits held by foreign citizens. According to the Ministry of the Interior, there were more than 148,000 valid permits in December of last year, up just over 23,000 on December 2017. More than half of them have been issued to citizens of Bosnia and Herzegovina, followed by Kosovo, Serbia and Macedonia. Migration is also important because of the expected demographic challenges, which are forecast to have an adverse impact on economic growth and on the long-term sustainability of the public finances.[1]

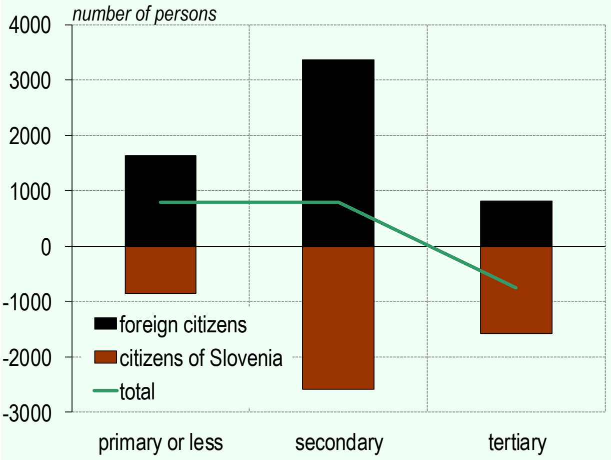
Although there has been net emigration of Slovenian citizens since 2011, net immigration has been positive and rising since 2015 owing to the renewed intensive hiring of foreign citizens.[2] Immigrants are primarily foreign citizens: they accounted for 83% of the total in 2017, up just under 6 percentage points on 2011. Slovenian citizens accounted for 54% of emigrants in 2017, up 18 percentage points on 2011. Net immigration in 2017 was highest among young people aged 15 to 24, while those aged over 60 recorded the largest emigration. There was positive net immigration among those with secondary or lower education level, and net emigration among those with tertiary education level. This is in line with the survey results, which show that employers have the highest demand for medium-skilled labour. There is net emigration of Slovenian citizens in all age groups and at all education levels. Net immigration is highest among

Figure 8.1.2: Changes in net migration over the period from 2011 to 2017



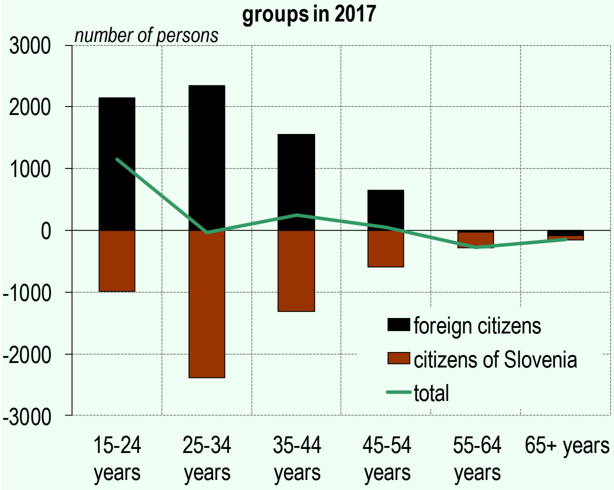
Note: Net migration is calculated as the difference between the number of immigrants and the number of emigrants by the group of citizenship.
Source: SORS, Bank of Slovenia calculations.

Figure 8.1.3: Net migration by citizenship and educational level in 2017



Note: Net migration is calculated as the difference between the number of immigrants and the number of emigrants by the group of citizenship.
Source: SORS, Bank of Slovenia calculations.

Figure 8.1.4: Net migration by citizenship and age groups in 2017



Note: Net migration is calculated as the difference between the number of immigrants and the number of emigrants by the group of citizenship.
Source: SORS, Bank of Slovenia calculations.

[1] The old age dependency ratio will become less favourable, and the increasing share of older workers is expected to have an adverse impact on economic growth, among whom analysts find a decline in productivity particularly after the age of 50 (Aiyar et al., 2016). Slovenia began formulating its migration policy in 1991, while its most recent decade-long strategy of economic migration was issued in 2010. The strategy highlights three main objectives: (i) providing for immigration that will mitigate the impact of the decline in the working age population and the active population and reduce short-term imbalances on the labour market, (ii) encouraging immigration that will increase innovation and entrepreneurship, maintain or promote the competitiveness of the economy, and increase human resources, and (iii) providing for work experience in the rest of the world for domestic labour and reducing the brain drain by encouraging the circulation of professionals.

[2] The analysis in this paragraph relates to migrants aged over 15. The data is available for the period of 2011 to 2017.

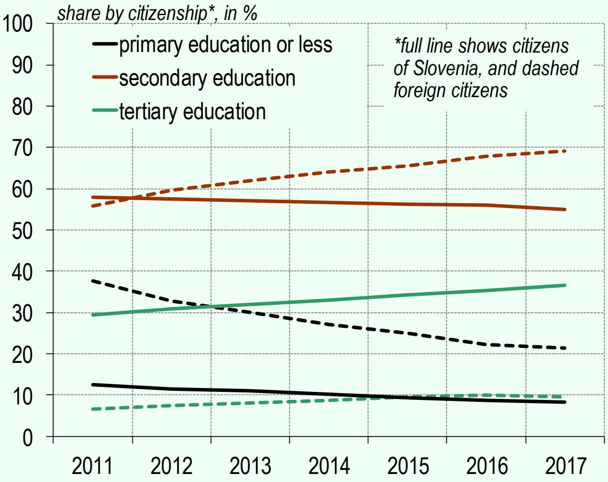
those who are active participants in the labour force, where the high proportion of foreign citizens who are employed is indicative of economic migration, while the net emigration among the inactive population is indicative of the migration of students and first-time jobseekers, where Slovenian citizens prevail.

The education level breakdown of the active population of foreign citizens reflects the structure of the Slovenian economy

The education level breakdown of the active population, both Slovenian and foreign citizens, is improving, although the average education level of domestic workers remains better. The education level breakdown of the active population, both Slovenian and foreign citizens, improved between 2011 and 2017. Among foreign citizens and Slovenian citizens alike there was a decline in the share of the population with primary education level or less. The share of Slovenian citizens with secondary education level declined and the share with tertiary education level increased, while the shares of both increased among foreign citizens. In December 2017 almost 70% of the foreign citizens who were active participants in the labour force had secondary education level, while approximately a fifth had primary or lower education level, and a tenth had tertiary education level. In the same year the education level breakdown among Slovenian citizens who were active participants in the labour force was better: 55% had secondary education level, less than a tenth had primary or lower education level, and 37% had tertiary education level.

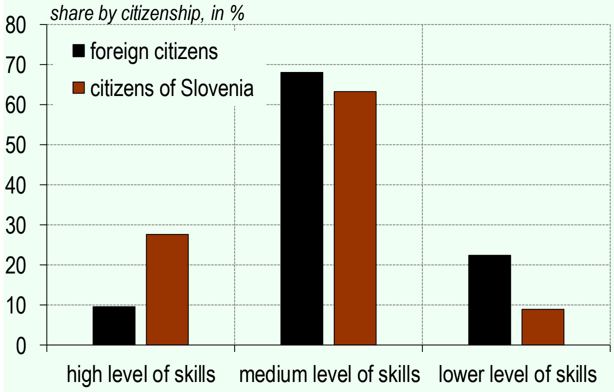
The differences in the education level breakdown of Slovenian and foreign citizens are also reflected in the breakdown of the active population by occupation.[3] At the end of 2017 the majority of the active population of Slovenian and foreign citizens were employed in occupations requiring at least Skill Level 2 under the ISCO-08 classification.[4] The significant differences between the Slovenian and foreign citizens are evident in the proportion of other occupations requiring the highest and lowest skill levels. While occupations requiring the highest skills (Skill Levels 3 and 4) account for less than a tenth of the foreign citizens who are active participants in the labour force, almost a third of Slovenian citizens are employed in such occupations. These occupations include legislators, senior officials, managers, and professionals. By contrast, less than a tenth of Slovenian citizens are employed in occupations with the lowest skills (Skill Level 1, elementary occupations), while more than a fifth of foreign citizens are employed in this category.

Figure 8.1.5: Persons in employment by citizenship and highest educational attainment



Note: The data refer to the share in December of each year.
Source: SORS, Bank of Slovenia calculations.

Figure 8.1.6: Persons in employment by citizenship and occupational skills



Note: Data refer to December 2017. The level of skills is defined according to the standard classification of occupations SKP-08. The high level of skills covers occupations with the required skill level 4 or skill level 3, the medium level of skills covers occupations with at least skill level 2, and lower level of skills covers occupations with the required skill level 1.
Source: SORS, Bank of Slovenia calculations.

[3] The analysis excludes military occupations, as they are not represented among foreign citizens.
[4] The category includes clerical, sales, and services occupations, occupations in agriculture, forestry, and fisheries, non-industrial occupations, plant and machine operators, and craft and related trades workers.

On average in 2017 more than half of foreign citizens were employed in construction, manufacturing, and transportation and storage. These sectors accounted for almost 60% of GDP growth in the same year, and more than a third of all employees. Manufacturing accounted for the largest proportion of employees. The three occupations with the highest proportion of foreign citizens are drivers and operators of transport equipment and mobile machinery, construction workers, and metal workers. These three occupation categories account for almost a half of all foreign citizens actively participating in the labour force.

Brain drain

While employers are compensating for the shortage of Slovenian medium-skilled labour by hiring foreign citizens, those with tertiary education level are emigrating. Despite the net emigration of Slovenian citizens, the hiring of foreign citizens since 2015 has kept net immigration positive, where the average education level and occupational breakdown of foreign citizens actively participating in the labour force are weaker than those of domestic workers. By contrast, the best-educated segment of the domestic population are seeking opportunities for employment or study abroad, as there is net emigration among those with tertiary education level. This entails a loss of potential to the country after years of investing in their education. The assessment is that there are many factors in the background to the net emigration of the highly skilled, including the structure of the Slovenian economy, with its large proportion of sectors with relatively low value-added per employee. Without a leap into the generation of higher value-added, and direct action to retain the best-qualified in the domestic economy, future growth in productivity could be too slow to allow for faster catch-up with more advanced countries, and the effects of the ageing population would be more significant.[5]

References:

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Strategy of Economic Migration for the 2010 to 2020 Period. Available online (in Slovene) at http://www.mddsz.gov.si/fileadmin/mddsz.gov.si/pageuploads/dokumenti__pdf/Strategija_ekonomskih_migracij-2010-2020.pdf

Statistics for residence permits. Available on the Ministry of the Interior website (in Slovene): http://www.mnz.gov.si/si/mnz_za_vas/tujci_v_sloveniji/statistika/

[5] The conclusions of this analysis are in line with the conclusions of analysis of low productivity growth presented in Box 2.2. of the October 2018 Economic and Financial Developments, analysis of the impact of employment structure on growth in average wages presented in Box 3.1 of the April 2018 Economic and Financial Developments, and analysis of Slovenia's integration into global value chains presented in Box 4.1 of the January 2018 Economic and Financial Developments.

8.2 Calculation of unit capital costs in Slovenia and comparison with other euro area countries

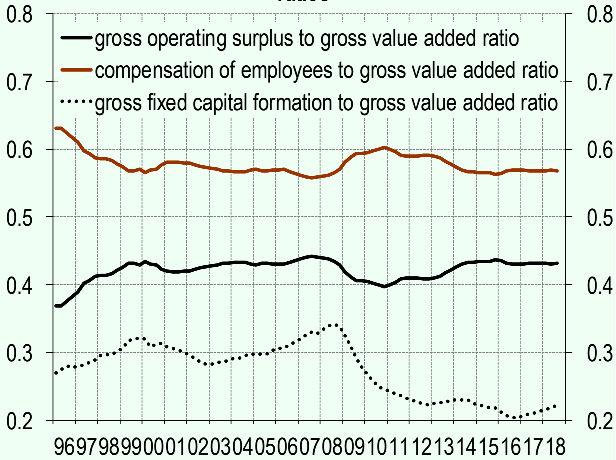
Basic analysis of external competitiveness most often relates to the monitoring of prices through exchange rate and inflation, while monitoring costs relates to the relationship between labour costs and labour productivity. This approach is not sufficient, as it neglects the aspect of the cost-effectiveness of capital. To cover this area, we have tried in brief analysis to augment the analytical toolkit by constructing a unit capital costs (UKC) indicator for Slovenia. The calculations show that real UKC in Slovenia increased throughout the pre-crisis period of Q1 of 1996 to Q3 of 2008, which was typical of the less advanced euro area countries, which include the newer Member States and the periphery countries. During and after the financial crisis, capital productivity in Slovenia and thereby its competitiveness compared with other euro area countries improved, and approached the dynamics of the more advanced countries such as Germany and Austria.

Arguments for using UKC methodology

The concept of competitiveness encompasses more than just economic policy measures aimed at managing labour costs. Economic policy proposals with regard to competitiveness often relate to improving the relationship between productivity and labour costs, and encompass numerous proposals for reforming the labour market.[1] Felipe and Kumar (2011) highlight one of the key problems with regard to adjustments in the competitiveness of economies: Kaldor's paradox. In his analysis of the post-war period, Kaldor (1978) finds that countries with the highest rates of growth in unit labour costs (ULC) also experience the highest economic growth. He states that strictly limiting and tying wage growth to growth in labour productivity via the ULC indicator could be an over-simplification, and that there is no concrete empirical evidence that a policy of limiting wage growth relative to labour productivity would increase real GDP and social wellbeing in the long run. Fagerberg (1996) provided empirical confirmation of Kaldor's paradox for 12 industrialised countries for the later period of 1978 to 1994. We will approach this unexplained gap by introducing monitoring of competitiveness via the other factor of production, namely capital. Alongside labour, capital also entails a cost in the production process.

The UKC indicator allows for the extension of analysis of competitiveness to the monitoring of the cost-effectiveness of capital. ULC focuses solely on the dynamic of labour costs versus labour productivity in the production process in a particular economy. The ratio of compensation of employees to gross value added in Slovenia ranges from 55% to 60% (see Figure 8.2.1).[2] The ULC indicator therefore captures just a limited spectrum of the factors in the competitiveness of the production process, and for a better understanding of the competitiveness of a particular economy it might therefore be

Figure 8.2.1: Compensation of employees, gross operating surplus and gross fixed capital formation to gross value added ratios*



*Note: *All time series are depicted as 4-quarter moving averages.*
Source: Eurostat, Bank of Slovenia calculations.

[1] This is a broad definition of labour market reform, and not just institutional arrangements. Among the reforms that could impact labour productivity in the economy might be changes in education, improvements in technology, and reorganisation of work.
[2] The ratio mostly stands at between 55% and 65% in the most advanced euro area countries, and ranges from 40% to 55% in the newer and peripheral countries of the euro area.

reasonable to introduce an indicator of the effectiveness of capital per unit of production (unit capital costs or UKC), as this also captures the dynamic of capital in the production process, which in Slovenia accounts for the remaining 40% to 45%, and is defined as the ratio of gross operating surplus to gross value added.

The UKC indicator measures the effectiveness of capital relative to the value added created. The UKC indicator is taken from the methodology of Kumar and Felipe (2011):[3]

$$UKC_n = \frac{r_n}{prod_K}$$

$$= \frac{r_n}{(VA_r/K)} = \frac{r_r P}{(VA_r/K)} = P\frac{r_r K}{VA_r}$$

where the variable UKC_n represents nominal unit capital costs, and $prod_k$ represents capital productivity. The UKC indicator is therefore defined as the price (profitability) of capital relative to the productivity of capital, which is defined as value added per unit of capital,

$$prod_K = VA_r/K$$

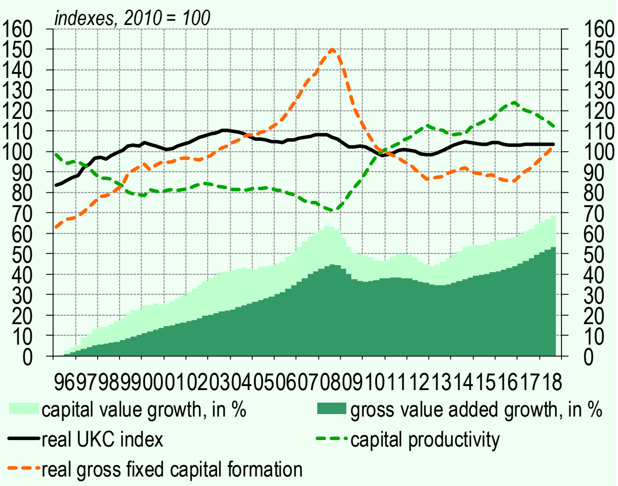
The variable VA_r represents real gross value added. K is the real capital stock, r_n is the *ex post* nominal profitability of capital calculated as the ratio of gross operating surplus to gross fixed capital formation, while P is the aggregate deflator of gross fixed capital formation.[4] To obtain real UKC, it is expressed in the real values of the denominator and numerator as follows:

$$UKC_r = \frac{r_r K}{VA_r}$$

UKC, comparison with ULC, and possible implications for economic policy

Understanding the UKC indicator also requires analysis of its components. Before we focus on a comparison of UKC with ULC, let us first look at the dynamics of the UKC index and its components in the case of Slovenia. Figure 8.2.2 illustrates the dynamics in the real UKC_r index over the observation period. The index increased most during the first years of the transition. The figure also illustrates growth in gross value added (VA_r) and capital stock ($r_r K$), and the dynamic in capital productivity ($prod_K = VA_r/K$). It is interesting that capital productivity before the financial crisis was mostly relatively low, and actually declined during the overheating of the Slovenian economy, and it was only after the outbreak of the financial crisis that it improved again, which could be indicative of greater caution on the part of investors, a higher required output effect with regard to capital invested, and the unsustainable growth in construction investment in the years of the overheating economy before the crisis (Delakorda, 2011).[5] The unsustainable growth in invest-

Figure 8.2.2: UKC index and its component dynamics for Slovenia*



*Note: *All time series are depicted as 4-quarter moving averages.*
Source: Eurostat, Bank of Slovenia calculations.

[3] The derivation of UKC indicator proceeds from the simplified equation in the national accounts, where nominal gross value added is the sum of the contributions of labour and capital, where $VA_n = w_n L + r_n K$. For more on the derivation, see Kumar and Felipe (2011).

[4] The data required for calculating UKC include real gross value added and the price deflator of gross fixed capital formation P. Both are available directly in the Eurostat database. Other components of UKC need to be calculated. The dynamics in real capital stock K are approximated with real gross fixed capital formation. Average real profitability r_r is defined as the *ex post* nominal profitability r_n and is adjusted for inflation with the deflator for gross fixed capital P. Nominal profitability r_n is defined as the ratio of nominal operating surplus to nominal gross fixed capital formation. Nominal operating surplus is defined as the difference between nominal gross value added and nominal compensation of employees. All data is before seasonal adjustment. UKC is expressed as an index with a base year of 2010, and is disclosed as four-quarter moving averages.

[5] Aggregate investment in equipment and in buildings and structures accounted for 80% of total investment in the period before the overheating in the euro area and in Slovenia. Investment in buildings and structures in Slovenia accounted for slightly more than 50% of total investment, and investment in equipment for approximately 30%. Investment in buildings and structures increased significantly in Slovenia during the period of overheating, by around 5 percentage points as a ratio to GDP (Delakorda, 2011).

ment in the period of the overheating economy and the subsequent sharp decline in investment to the level of the early years of the 21st century are even more evident in real gross fixed capital formation (*K*). The increase in capital productivity ($prod_K$) consequently contributed to a decline in real UKC after the outbreak of the financial crisis, and thereby to an increase in the competitiveness of capital as a production factor relative to the pre-crisis period.

Comparing UKC with ULC makes it easier to position it within competitiveness theory. To obtain a better picture of the dynamics in UKC, we compare it with ULC, and then make a comparison of the two indicators in Slovenia with comparable indicators in other euro area countries. Figure 8.2.3 illustrates that the dynamics of the two indices in Slovenia differ slightly, but their longer-term trends are nevertheless relatively stable and aligned. The first period of divergence is the result of Slovenia's convergence with the EU in 2004 and later with the euro area in 2007, as meeting the Maastricht criteria limited wage growth among other things. Real ULC in Slovenia declined by around 5 percentage points between 2000 and 2007, while real UKC increased by around 7 percentage points over the same period. There was notably a reform of public sector pay in 2008, which contributed to a sudden increase in wages. Real ULC consequently increased by almost 7 percentage points between the beginning of 2007 and the beginning of 2009, while real UKC was already responding to the outbreak of the global financial crisis during this period and declined by around 6 percentage points. The level of the two indices thus equalised again.

Developments in UKC over the observation period varied considerably between euro area countries. A similar trend in UKC and ULC over the entire observation period (Q1 of 1997 to Q2 of 2018) is evident for the more advanced euro area countries. By contrast, the countries that were hit hardest by the financial crisis (such as Greece, Ireland, Cyprus, Portugal and Spain) saw a significant decline in ULC, which is consequently reflected in the divergence of the two indices after 2011 and 2012, i.e. at the height of the debt crisis in certain European countries. This means that competitiveness on the basis of labour costs in these countries improved, but the effectiveness of capital did not. To a slightly smaller extent, a similar pattern is also evident in Slovenia after 2012 (the second period of divergence in the two indices), when the Fiscal Balance Act (ZUJF) was adopted. With the gradual abolition of austerity measures (in particular measures to limit wage growth), in recent years the gap between the two indices has again narrowed slightly, as growth in real UKC has ceased, while real ULC is also being maintained at the previous level.

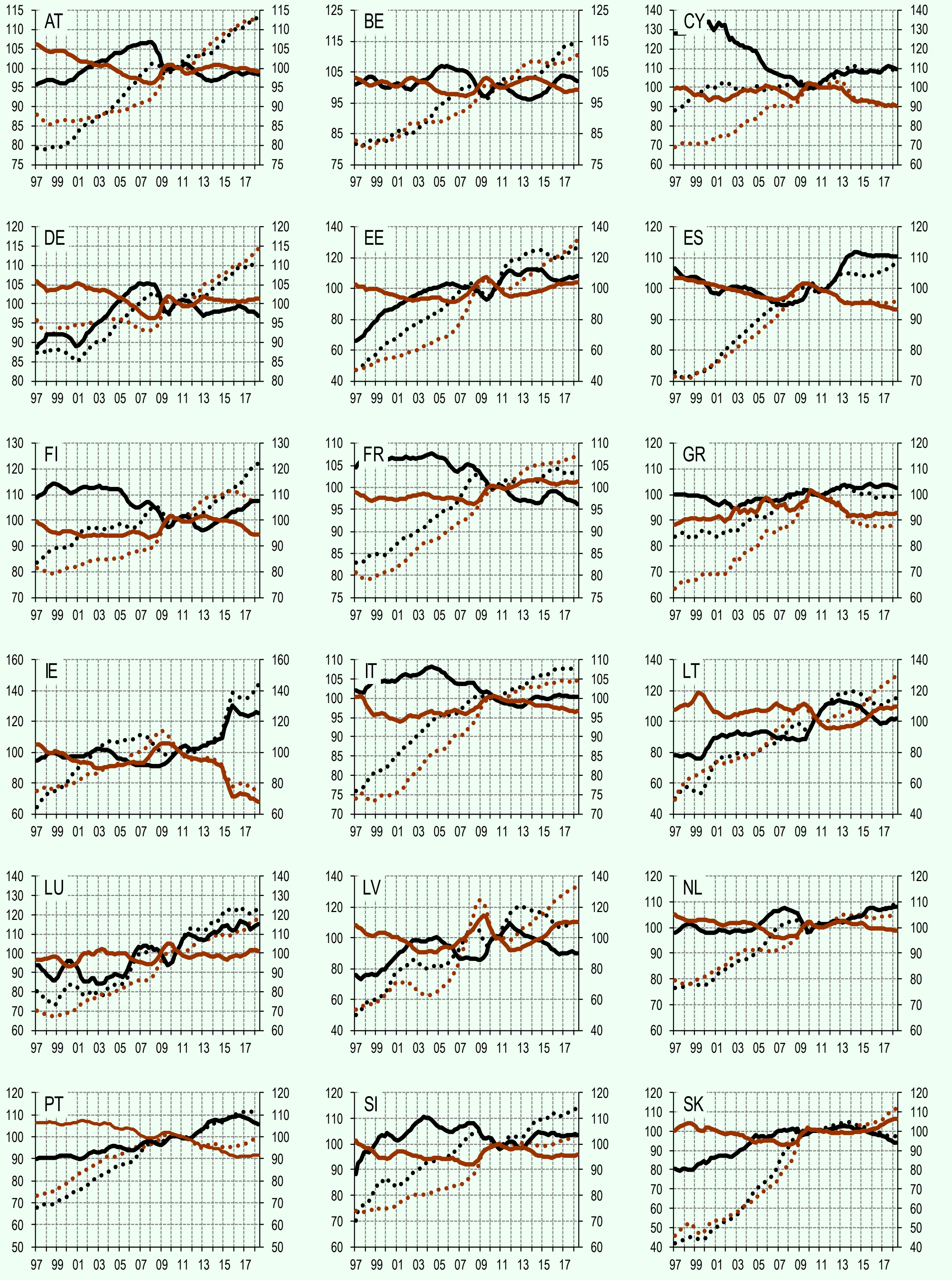
The competitiveness of capital in Slovenia was lower in the pre-crisis period, and improved significantly during the crisis. The increase in real UKC in Slovenia over the entire observation period (Q1 of 1997 to Q2 of 2018) was among the highest in the euro area (15.3 percentage points, compared with an average increase of 9.8 percentage points in the euro area overall), although this increase derived primarily from the first period of the transition and from the period of the overheating of the Slovenian economy, when real UKC increased by 18.9 percentage points. In the period that also encompasses the financial crisis (Q3 of 2008 to Q2 of 2018),

Table 8.2.1: UKC index growth across countries in different periods*

country	EE	IE	LT	LU	PT	SI	LV	SK	NL	DE	ES	GR	AT	BE	FI	IT	FR	CY	unweighted average
										in percentage points									
1997Q1–2018Q2	42.1	30.9	24.3	21.1	15.8	15.3	14.5	13.3	10.1	8.3	3.8	2.7	2.5	1.0	-1.2	-1.4	-8.4	-18.5	9.8
1997Q1−2008Q3	32.8	-3.5	11.1	8.2	6.7	18.9	10.6	20.1	8.0	15.5	-10.8	0.3	8.7	-0.1	-4.2	1.3	-0.5	-24.4	5.5
2008Q3−2018Q2	9.3	34.4	13.2	13.0	9.1	-3.6	3.9	-6.8	2.1	-7.2	14.6	2.4	-6.2	1.1	3.0	-2.8	-7.9	5.9	4.3

*Note: *In the case of Slovenia the period of 1997Q1-2008Q3 contains the periods of transition, euro area acceptance and overheating. The period of 2008Q3-2018Q2 represents the period of financial crisis and the recovery period. The third quarter of 2008 was arbitrarily selected as the starting point of the financial crisis in Slovenia, as at that point of time the last positive year-on-year GDP growth was recorded.*
Source: Eurostat, Bank of Slovenia calculations.

Figure 8.2.3: Comparison of nominal (dashed line) and real (full line) UKC (black) and ULC (red) indexes (2010 = 100) across countries in the period of 1997Q1–2018Q2*



*Note: *All time series are depicted as 4-quarter moving averages.*
Source: Eurostat, Bank of Slovenia calculations.

real UKC actually declined by 3.6 percentage points, an indication of a more competitive dynamics. It is thus approaching the dynamics seen in the more advanced countries, such as Germany, Austria and France, while the competitiveness of capital according to the dynamics in real UKC is continuing to deteriorate in Ireland and Spain in particular.

Conclusion

If the ULC indicator represents the competitiveness of the economy via labour costs, then the UKC indicator could represent the competitiveness of the economy via capital costs. In brief analysis we have tried to present a new aspect to monitoring the competitiveness of economies by means of the implementation of a UKC indicator. We have thereby tried to enhance the toolkit for monitoring competitiveness. Monitoring the two indicators could provide a more comprehensive view of the dynamics in the competitiveness of the economy. We have shown that the dynamics in the two indices (UKC and ULC) are relatively similar in the majority of euro area countries, and divergence between the two arose primarily in the countries that were hit hardest by the crisis and were consequently subject to more extensive structural reforms. We additionally find that the competitiveness of capital in Slovenia deteriorated relative to more advanced countries in the pre-crisis period, and then improved during the crisis on the basis of an increase in capital productivity.

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9 Statistical Appendix

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

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

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

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2015	2016	2017	18Q1	18Q2	Sep.18	Oct.18	Nov.18
1.1. Claims of the Bank of Slovenia	5,410	6,544	7,143	6,854	7,395	7,055	7,138	7,888
1.2. Claims of other MFIs	8,266	8,100	8,504	8,645	8,743	8,515	8,526	8,418
1. Claims on foreign sectors (foreign assets)	**13,676**	**14,643**	**15,647**	**15,499**	**16,138**	**15,570**	**15,665**	**16,306**
2.1. Claims of the Bank of Slovenia on central government	2,327	4,618	6,247	6,471	6,791	7,041	7,059	7,088
2.2.1.1. Loans	1,298	1,506	1,425	1,344	1,245	1,222	1,203	1,196
2.2.1.2. Securities	5,814	4,767	3,744	3,583	3,667	3,609	3,701	3,743
2.2.1. Claims on central government	7,112	6,273	5,170	4,927	4,912	4,831	4,905	4,939
2.2.2.1. Loans	622	579	571	563	564	554	559	558
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	622	579	571	563	564	554	559	558
2.2. Claims of other MFIs on general government	7,734	6,852	5,740	5,491	5,476	5,385	5,463	5,497
2.3.1.1. Loans	10,040	9,306	9,311	9,281	9,299	9,322	9,328	9,304
2.3.1.2. Securities	462	405	334	317	327	325	328	324
2.3.1. Claims on nonfinancial corporations	10,502	9,711	9,645	9,598	9,627	9,647	9,656	9,628
2.3.2. Households and non-profit institutions serving households	8,856	9,154	9,735	9,860	10,033	10,231	10,296	10,339
2.3.3.1. Loans	898	865	1,171	1,130	1,084	1,069	1,068	1,072
2.3.3.2. Securities	534	543	395	398	527	524	429	430
2.3.3. Claims on nonmonetary financial institutions	1,432	1,408	1,566	1,528	1,611	1,593	1,497	1,503
2.3. Claims of other MFIs on other non-MFIs	20,790	20,272	20,946	20,986	21,271	21,472	21,450	21,470
2. Claims on domestic non-MFIs	**30,850**	**31,743**	**32,934**	**32,947**	**33,537**	**33,898**	**33,972**	**34,055**
3. Remaining assets	**3,119**	**2,192**	**1,461**	**1,375**	**1,396**	**1,375**	**1,489**	**1,422**
Total assets	**47,646**	**48,578**	**50,042**	**49,821**	**51,072**	**50,843**	**51,125**	**51,783**
1.1. Bank of Slovenia	16	1,267	1,506	199	78	111	91	52
1.2. Other MFIs	5,920	5,094	4,436	4,215	4,275	3,844	3,811	3,937
1. Obligations to foreign sectors (foreign liabilities)	**5,936**	**6,362**	**5,943**	**4,413**	**4,353**	**3,956**	**3,903**	**3,989**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,956	5,160	5,371	5,333	5,425	5,487	5,510	5,529
2.1.1.2. Overnight deposits at other MFIs	13,057	15,471	17,727	18,140	18,695	19,187	19,214	19,461
2.1.1.3.1. Non-monetary financial institutions	9	69	11	11	252	71	68	80
2.1.1.3.2. Other government sector	53	62	107	100	101	112	104	107
2.1.1.3. Overnight deposits at the Bank of Slovenia	63	131	118	110	353	183	171	186
2.1.1. Banknotes and coins and overnight liabilities	18,075	20,761	23,216	23,583	24,473	24,856	24,895	25,177
2.1.2.1. Deposits at the Bank of Slovenia	1	0	0	0	0	0	0	0
2.1.2.2. Deposits at other MFIs	7,837	6,864	6,127	6,001	5,824	5,748	5,803	5,686
2.1.2. Time deposits	7,838	6,864	6,127	6,001	5,824	5,748	5,803	5,686
2.1.3. Deposits reedemable at notice up to 3 months	315	464	473	573	578	539	550	565
2.1. Banknotes and coins and deposits up to 2 years	26,229	28,089	29,816	30,157	30,875	31,143	31,249	31,427
2.2. Debt securities, units/shares of money market funds and repos	56	102	55	57	59	65	67	70
2. Banknotes and coins and instruments up to 2 years	**26,285**	**28,190**	**29,871**	**30,214**	**30,934**	**31,207**	**31,316**	**31,497**
3. Long-tern financial obligations to non-MFIs	**1,550**	**1,510**	**1,524**	**1,420**	**1,397**	**1,349**	**1,334**	**1,321**
4. Remaining liabilities	**15,378**	**14,100**	**14,035**	**14,946**	**15,485**	**15,268**	**15,517**	**15,940**
5. Excess of inter-MFI liabilities	**-1,504**	**-1,584**	**-1,330**	**-1,172**	**-1,098**	**-937**	**-943**	**-964**
Total liabilities	**47,646**	**48,578**	**50,042**	**49,821**	**51,072**	**50,843**	**51,125**	**51,783**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2015	2016	2017	18Q1	18Q2	Sep.18	Oct.18	Nov.18
1.1. Gold	100	112	111	110	110	104	110	110
1.2. Receivable form IMF	367	361	338	328	335	355	358	359
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	699	588	233	236	668	210	385	1,204
1.5. Securities	4,141	5,380	6,359	6,078	6,179	6,282	6,182	6,113
1.6. Other claims	103	103	103	103	103	103	103	103
1. Claims on foreign sectors (foreign assets)	**5,410**	**6,544**	**7,143**	**6,854**	**7,395**	**7,055**	**7,138**	**7,888**
2.1. Claims on central government	2,327	4,618	6,247	6,471	6,791	7,041	7,059	7,088
2.2.1. Loans	901	714	1,142	1,142	1,122	1,102	1,102	1,102
2.2.2. Other claims	44	99	98	98	97	1	1	1
2.2. Claims on domestic monetary sector	946	813	1,240	1,239	1,218	1,103	1,103	1,103
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**3,275**	**5,433**	**7,489**	**7,712**	**8,011**	**8,146**	**8,164**	**8,192**
3. Remaining assets	**1,685**	**973**	**279**	**265**	**252**	**265**	**270**	**269**
Total assets	**10,370**	**12,950**	**14,911**	**14,831**	**15,658**	**15,465**	**15,572**	**16,349**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,956**	**5,160**	**5,371**	**5,333**	**5,425**	**5,487**	**5,510**	**5,529**
2.1.1.1.1. Overnight	1,634	2,252	2,939	2,914	2,982	3,158	2,701	2,964
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,634	2,252	2,939	2,914	2,982	3,158	2,701	2,964
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,634	2,252	2,939	2,914	2,982	3,158	2,701	2,964
2.1.2.1.1. Overnight	1,730	1,949	2,521	3,531	3,749	3,181	3,595	4,046
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,730	1,949	2,521	3,531	3,749	3,181	3,595	4,046
2.1.2.2. Foreign currency	60	78	56	52	4	5	4	4
2.1.2. General government	1,789	2,027	2,577	3,582	3,754	3,186	3,599	4,051
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	11	69	11	11	252	71	68	80
2.1.3. Other domestic sectors	11	69	11	11	252	71	68	80
2.1. Domestic sectors	3,434	4,348	5,527	6,507	6,987	6,414	6,368	7,095
2.2. Foreign sectors	16	1,267	1,506	199	78	111	91	52
2. Deposits	**3,450**	**5,615**	**7,033**	**6,705**	**7,065**	**6,525**	**6,459**	**7,147**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**275**	**256**	**255**	**261**	**260**	**262**	**263**
5. Capital and reserves	**1,533**	**1,748**	**1,883**	**1,837**	**1,903**	**1,838**	**1,831**	**1,844**
6. Remaining liabilities	**157**	**152**	**367**	**701**	**1,004**	**1,355**	**1,510**	**1,567**
Total liabilities	**10,370**	**12,950**	**14,911**	**14,831**	**15,658**	**15,465**	**15,572**	**16,349**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2015	2016	2017	18Q1	18Q2	Sep.18	Oct.18	Nov.18
1.1.1. Cash	294	322	355	357	344	347	389	371
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,634	2,252	2,939	2,914	2,982	3,158	2,701	2,964
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,928	2,574	3,294	3,270	3,325	3,505	3,090	3,335
1.2.1. Loans	1,264	1,061	873	898	910	901	912	939
1.2.2. Debt securities	245	256	71	72	62	-	-	-
1.2.3. Shares and other equity	62	2	2	1	1	1	1	1
1.2. Claims on other MFI's	1,572	1,319	947	971	973	902	913	939
1.3.1. Loans	21,714	21,410	22,213	22,178	22,225	22,399	22,455	22,470
1.3.2. Debt securities	6,050	5,030	3,775	3,618	3,710	3,650	3,739	3,781
1.3.3. Shares and other equity	759	685	698	680	812	808	719	716
1.3. Claims on nonmonetry sectors	28,524	27,125	26,687	26,477	26,746	26,857	26,913	26,967
1. Claims on domestic sectors (domestic assets)	**32,024**	**31,018**	**30,927**	**30,718**	**31,044**	**31,264**	**30,916**	**31,241**
2.1.1. Cash	34	38	35	37	50	41	38	39
2.1.2. Loans	2,767	2,628	2,154	2,360	2,290	1,882	1,879	1,862
2.1.3. Debt securities	1,027	1,165	1,333	1,375	1,389	1,396	1,366	1,305
2.1.4 Shares and other equity	567	567	579	579	579	578	578	578
2.1. Claims on foreign monetary sectors	4,395	4,398	4,100	4,350	4,307	3,898	3,861	3,784
2.2.1. Loans	1,597	1,155	899	824	931	980	1,015	1,017
2.2.2. Debt securities	1,870	2,151	3,190	3,157	3,198	3,330	3,343	3,310
2.2.3. Shares and other equity	405	396	314	313	306	308	307	307
2.2. Claims on foreign nonmonetary sectors	3,871	3,701	4,404	4,294	4,436	4,617	4,665	4,634
2. Claims on foreign sectors (foreign assets)	**8,266**	**8,100**	**8,504**	**8,645**	**8,743**	**8,515**	**8,526**	**8,418**
3. Remaining assets	**1,314**	**1,074**	**1,015**	**805**	**734**	**709**	**819**	**744**
Total assets	**41,603**	**40,191**	**40,447**	**40,168**	**40,521**	**40,488**	**40,261**	**40,403**
1.1.1. Deposits, loans from the Bank of Slovenia	901	714	1,142	1,142	1,121	1,102	1,102	1,102
1.1.2. Deposits, loans from other MFIs	1,301	1,123	962	977	980	983	1,002	1,006
1.1.3. Debt securities issued	38	18	12	10	-	-	-	-
1.1. Laibilities to monetary sectors	2,240	1,855	2,115	2,129	2,101	2,085	2,103	2,107
1.2.1.1. Overnight	12,661	15,038	17,287	17,684	18,216	18,693	18,741	18,975
1.2.1.2. With agreed maturity	10,604	9,076	8,125	7,823	7,598	7,561	7,598	7,498
1.2.1.3. Reedemable at notice	474	615	548	638	650	637	659	673
1.2.1. Deposits in domestic currency	23,739	24,729	25,960	26,144	26,464	26,891	26,999	27,146
1.2.2. Deposits in foreign currency	599	632	593	598	605	624	608	618
1.2.3. Debt securities issued	84	38	15	15	15	15	15	15
1.2. Liabilities to nonmonetary sectors	24,422	25,400	26,569	26,758	27,083	27,530	27,621	27,779
1. Obligations to domestic sectors (domestic liabilities)	**26,661**	**27,254**	**28,683**	**28,887**	**29,184**	**29,615**	**29,725**	**29,886**
2.1.1. Deposits	2,578	2,084	1,627	1,594	1,655	1,606	1,598	1,604
2.1.2. Debt securities issued	975	710	327	327	326	36	36	36
2.1. Liabilities to foreign monetry sectors	3,553	2,794	1,954	1,920	1,982	1,642	1,635	1,640
2.2.1. Deposits	1,954	1,738	1,975	1,787	1,785	1,694	1,668	1,664
2.2.2. Debt securities issued	27	23	22	22	22	22	22	22
2.2. Liabilities to foreign nonmonetary sectors	1,981	1,761	1,997	1,809	1,807	1,716	1,690	1,686
2. Obligations to foreign sectors (foreign liabilities)	**5,535**	**4,555**	**3,952**	**3,730**	**3,789**	**3,358**	**3,324**	**3,326**
3. Capital and reserves	**4,676**	**4,841**	**4,904**	**4,970**	**5,014**	**5,045**	**4,798**	**4,840**
4. Remaining liabilities	**4,731**	**3,540**	**2,908**	**2,581**	**2,534**	**2,470**	**2,414**	**2,351**
Total liabilities	**41,603**	**40,191**	**40,447**	**40,168**	**40,521**	**40,488**	**40,261**	**40,403**

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

in % on annual level	2014	2015	2016	2017	Sep.17	Oct.18	Nov.18
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.20	8.01	7.84	7.85	7.80	7.81	7.82
Households, extended credit	8.02	7.84	7.73	7.75	7.65	7.63	7.63
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.01	4.19	4.23	4.44	4.52	4.54	4.59
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.00	5.64	5.66	5.92	5.95	5.95	5.98
Loans, households, consumption, over 5 years initial rate fixation	7.07	5.28	6.12	6.20	6.29	6.22	6.26
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.47	3.82	3.47	3.69	3.53	3.54	3.51
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	5.61	5.27	4.89	5.25	5.30	5.25
C. loans, households, consumption, over 5 year initial rate fixation	6.53	5.58	5.05	5.19	4.85	4.99	5.02
APRC, Loans to households for consumption	8.28	7.42	7.55	7.73	7.65	7.65	7.67
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.18	2.22	2.04	1.99	1.87	1.88	1.88
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.65	3.87	3.58	2.75	3.03	2.83	3.00
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.06	3.16	2.49	2.65	2.69	2.66	2.71
Loans, households, house purchase, over 10 years initial rate fixation	4.87	3.16	2.56	2.91	2.96	2.90	2.97
C. loans, households, house purchase variabel and up to years initial rate fixation	3.16	2.21	2.02	1.99	1.87	1.89	1.88
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.41	2.63	2.12	2.38	2.51	2.52	2.57
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.03	3.04	2.38	2.34	2.48	2.65	2.51
C. loans, households, house purchase, over 10 years initial rate fixation	4.87	3.12	2.53	2.85	2.91	2.84	2.91
APRC, Loans to households for house purchase	3.55	2.85	2.58	2.77	2.78	2.74	2.73
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.11	3.51	3.49	3.58	3.88	4.35	4.20
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.96	5.93	5.28	5.30	4.96	4.97	4.85
Loans, households, other purposes, over 5 years initial rate fixation	6.44	7.79	5.92	5.35	6.50	6.24	6.75
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.30	3.45	2.81	2.41	2.11	2.03	2.06
S.11, extended credit	7.28	7.16	6.70	-	-	-	-
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	2.57	2.68	2.72
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	2.93	2.90	2.99
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	4.20	3.83	3.86
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	4.13	4.60	3.89
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	4.81	4.94	5.80
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	5.87	3.34	2.92	2.22	2.94	3.40	3.36
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	2.12	2.00	1.87
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	1.81	2.19	2.04
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	1.50	2.52	2.69
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	-	4.59	-	-
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	1.74	1.76	2.27
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	6.32	-	2.10	-	-	2.05	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	3.94	2.61	2.61	2.23	2.42	2.19	2.31
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	1.24	2.10	2.21
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	4.60	1.00	-	-	4.59	4.11	0.80
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.07	-	1.06	1.15	-	1.36	1.21
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	4.62	1.79	1.92	-	1.26	2.20	2.43
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	2.35	3.56	2.23	1.88	3.91	-	1.31
2. Interest rates of new deposits							
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	0.17
Deposits, households, agreed maturity over 1 and up to 2 years	1.90	0.70	0.44	0.51	0.30	0.39	0.48
Deposits, households, agreed maturity over 2 years	2.33	1.07	0.72	0.69	0.91	0.90	0.90
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	0.04	0.03	0.05
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.13	0.57	0.20	0.12	0.14	0.16	0.29
Deposits, S.11, agreed maturity over 2 years	0.63	1.07	0.49	0.26	0.22	0.24	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	0.50	0.58	1.27

Table 9.5: International investment position

EUR million		2014	2015	2016	2017	18Q1	18Q2	18Q3
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-17,219**	**-15,399**	**-14,858**	**-13,869**	**-13,560**	**-12,956**	**-12,265**
1	**ASSETS**	**39,558**	**42,265**	**42,657**	**43,466**	**43,769**	**44,490**	**44,682**
1.1	**Direct investment**	**6,970**	**7,252**	**7,767**	**8,267**	**8,506**	**8,404**	**8,458**
1.1.1	Equity	3,769	3,959	4,149	4,287	4,372	4,351	4,521
1.1.2	Debt instruments	3,202	3,293	3,618	3,979	4,134	4,053	3,938
1.2	**Portfolio investment**	**12,375**	**14,458**	**16,719**	**19,662**	**19,335**	**19,703**	**20,127**
1.2.1	Equity and investment fund shares	3,193	3,484	3,584	4,086	4,074	4,180	4,297
1.2.2	Debt securities	9,182	10,974	13,135	15,575	15,261	15,523	15,829
1.3	**Financial derivatives**	**241**	**1,266**	**1,166**	**322**	**133**	**268**	**270**
1.4	**Other investment**	**19,135**	**18,502**	**16,300**	**14,473**	**15,079**	**15,399**	**15,046**
1.4.1	Other equity	629	641	642	652	652	655	656
1.4.2	Currency and deposits	10,737	10,301	8,153	5,929	6,057	6,145	5,807
1.4.3	Loans	3,729	3,122	2,670	2,390	2,343	2,433	2,485
1.4.4	Insurance, pension and standardized guarantee schemes	141	129	141	148	148	149	149
1.4.5	Trade credit and advances	3,601	3,737	4,038	4,617	5,063	5,190	5,305
1.4.6	Other accounts receivable	298	571	656	738	816	827	644
1.5	**Reserve assets**	**837**	**787**	**705**	**743**	**716**	**715**	**781**
1.5.1	Monetary gold	101	100	112	111	110	110	104
1.5.2	Special drawing rights	247	264	207	235	234	240	239
1.5.3	Reserve position in the IMF	145	104	154	103	94	96	116
1.5.4	Other reserve assets	345	320	232	294	278	270	321
2	**LIABILITIES**	**56,777**	**57,664**	**57,515**	**57,335**	**57,328**	**57,445**	**56,948**
2.1	**Direct investment**	**11,837**	**13,356**	**14,996**	**16,032**	**16,381**	**16,515**	**17,031**
2.1.1	Equity	8,186	9,804	11,563	12,320	12,587	12,669	13,153
2.1.2	Debt instruments	3,651	3,552	3,433	3,713	3,794	3,847	3,878
2.2	**Portfolio investment**	**23,797**	**23,959**	**21,439**	**21,200**	**22,193**	**21,204**	**20,410**
2.2.1	Equity and investment fund shares	1,030	1,038	966	1,085	1,101	1,079	974
2.2.2	Debt securities	22,767	22,921	20,473	20,115	21,093	20,125	19,436
2.3	**Financial derivatives**	**247**	**163**	**139**	**81**	**79**	**91**	**82**
2.4	**Other investment**	**20,896**	**20,186**	**20,941**	**20,023**	**18,676**	**19,635**	**19,425**
2.4.1	Other equity	28	32	36	37	37	37	37
2.4.2	Currency and deposits	3,338	2,965	4,148	4,556	3,310	3,578	3,865
2.4.3	Loans	13,128	12,851	12,155	10,336	10,097	10,288	10,250
2.4.4	Insurance, pension and standardized guarantee schemes	218	221	213	219	246	266	252
2.4.5	Trade credit and advances	3,427	3,433	3,711	4,156	4,259	4,508	4,377
2.4.6	Other accounts payable	500	408	402	462	472	697	369
2.4.7	Special drawing rights	257	275	275	256	255	261	260

Table 9.6: Gross external debt

EUR million	2015	2016	2017	18Q1	18Q2	18Q3	Nov.18
TOTAL (1+2+3+4+5)	**46,627**	**44,810**	**43,813**	**43,525**	**43,552**	**42,680**	**42,645**
1 GENERAL GOVERNMENT	**24,824**	**22,953**	**21,769**	**22,533**	**21,668**	**21,087**	**20,899**
1.1 Short-term, of that	**1,507**	**1,304**	**481**	**279**	**444**	**432**	**498**
Debt securities	15	22	75	80	115	115	90
Loans	1,201	1,058	273	80	218	208	314
Trade credit and advances	35	42	35	33	40	46	36
Other debt liabilities	257	182	98	86	71	63	58
1.2 Long-term, of that	**23,316**	**21,649**	**21,288**	**22,253**	**21,224**	**20,656**	**20,402**
Debt securities	21,813	19,877	19,517	20,489	19,482	18,917	18,662
Loans	1,500	1,768	1,769	1,765	1,742	1,738	1,739
2 CENTRAL BANK	**2,217**	**3,457**	**3,820**	**2,722**	**2,937**	**3,316**	**3,436**
2.1 Short-term, of that	**1,942**	**3,182**	**3,564**	**2,468**	**2,677**	**3,055**	**3,173**
Currency and deposits	1,942	3,182	3,564	2,468	2,677	3,055	3,173
2.2 Long-term, of that	**275**	**275**	**256**	**255**	**261**	**260**	**263**
Special drawing rights (allocations)	275	275	256	255	261	260	263
3 DEPOSIT TAKING CORPORATIONS, except the Central Bank	**5,195**	**4,117**	**3,782**	**3,625**	**3,664**	**3,373**	**3,353**
3.1 Short-term	**702**	**817**	**1,058**	**961**	**1,027**	**935**	**921**
Currency and deposits	490	578	765	644	720	644	650
Debt securities	...	...	...	...	...	...	...
Loans	207	221	200	194	237	258	236
Trade credit and advances	...	...	...	...	...	...	...
Other debt liabilities	5	18	92	123	70	32	35
3.2 Long-term	**4,493**	**3,300**	**2,724**	**2,664**	**2,636**	**2,438**	**2,432**
Currency and deposits	534	387	227	198	181	166	161
Debt securities	652	287	168	167	166	48	48
Loans	3,301	2,620	2,323	2,295	2,283	2,218	2,217
Trade credit and advances	7	5	6	3	5	4	4
Other debt liabilities	0	1	1	2	1	3	2
4 OTHER SECTORS	**10,839**	**10,851**	**10,729**	**10,851**	**11,436**	**11,016**	**10,990**
4.1 Short-term, of that	**3,976**	**4,250**	**4,593**	**4,732**	**5,237**	**4,950**	**5,083**
Debt securities	0	2	0	0	2	2	0
Loans	487	447	281	320	294	423	444
Trade credit and advances	3,385	3,649	4,090	4,198	4,437	4,308	4,445
Other debt liabilities	102	153	222	215	504	217	195
4.2 Long-term, of that	**6,864**	**6,600**	**6,135**	**6,118**	**6,200**	**6,066**	**5,907**
Debt securities	441	284	355	357	359	354	352
Loans	6,155	6,041	5,490	5,445	5,496	5,380	5,230
Trade credit and advances	7	16	26	25	27	25	23
Other debt liabilities	260	259	265	291	317	306	302
5 DIRECT INVESTMENT: intercompany lending	**3,552**	**3,433**	**3,713**	**3,794**	**3,847**	**3,889**	**3,967**
NET EXTERNAL DEBT POSITION	**13,712**	**11,694**	**9,694**	**8,987**	**8,520**	**7,748**	**6,367**

Table 9.7: Balance of payments

EUR million	2015	2016	2017	18Q1	18Q2	18Q3	Nov.18
I. Current account	**1,760**	**2,224**	**3,077**	**679**	**968**	**1,027**	**252**
1. Goods	**1,476**	**1,536**	**1,561**	**331**	**431**	**383**	**90**
1.1. Export of goods	**24,039**	**24,991**	**28,462**	**7,546**	**7,939**	**7,620**	**2,825**
Export f.o.b.	23,940	24,971	28,265	7,549	7,878	7,501	2,797
Coverage adjustment	-149	-194	-51	-54	9	33	-10
Net export of goods under merchanting	231	186	228	46	48	77	38
Nonmonetary gold	17	29	20	5	4	10	0
1.2. Import of goods	**22,563**	**23,454**	**26,901**	**7,215**	**7,508**	**7,237**	**2,735**
Import c.i.f.	23,305	24,112	27,606	7,404	7,703	7,387	2,803
Coverage adjustment	-115	-5	36	5	17	42	11
Valuation adjustment	-656	-680	-778	-209	-217	-209	-79
Nonmonetary gold	30	27	37	15	5	16	...
2. Services	**1,930**	**2,251**	**2,719**	**613**	**759**	**962**	**259**
2.1. Export of services, of that	**5,936**	**6,487**	**7,275**	**1,664**	**1,946**	**2,319**	**655**
Transport	1,672	1,854	2,099	570	599	584	207
Travel	2,098	2,190	2,434	470	625	1,029	169
Construction services	292	385	431	92	109	143	55
Telecomm., computer and inform. services	519	552	543	111	131	135	46
Other business services	894	1,006	1,289	295	349	300	125
2.2. Import of services, of that	**4,007**	**4,236**	**4,556**	**1,050**	**1,187**	**1,356**	**396**
Transport	851	922	1,025	238	254	247	92
Travel	823	854	882	157	230	437	57
Construction services	120	104	125	26	39	43	16
Telecomm., computer and inform. services	533	509	514	118	114	134	43
Other business services	1,024	1,147	1,281	314	371	313	106
3. Primary income	**-1,294**	**-1,215**	**-926**	**-143**	**-167**	**-210**	**-73**
3.1. Receipts	**1,314**	**1,487**	**1,669**	**508**	**478**	**440**	**145**
Compensation of employees	281	314	364	98	138	113	38
Investment	511	636	695	178	198	190	58
Other primary income	522	537	610	232	142	137	50
3.2. Expenditure	**2,608**	**2,702**	**2,596**	**651**	**645**	**651**	**218**
Compensation of employees	122	128	141	36	41	40	14
Investment	2,057	2,084	1,917	475	472	477	149
Other primary income	429	490	538	140	131	133	55
4. Secondary income	**-352**	**-349**	**-276**	**-122**	**-55**	**-108**	**-24**
4.1. Receipts	**735**	**724**	**838**	**192**	**221**	**187**	**73**
4.2. Expenditure	**1,087**	**1,073**	**1,115**	**314**	**276**	**295**	**98**

Table 9.8: Balance of payments – continued

EUR million	2015	2016	2017	18Q1	18Q2	18Q3	Nov.18
II. Capital account	**412**	**-303**	**-324**	**-40**	**-33**	**-26**	**-7**
1. Nonproduced nofinancial assets	-37	-45	-76	12	15	17	2
2. Capital transfers	449	-258	-248	-52	-48	-43	-9
III. Financial account	**1,710**	**1,153**	**1,754**	**528**	**718**	**464**	**238**
1. Direct investment	**-1,269**	**-864**	**-414**	**-119**	**-169**	**-505**	**-144**
Assets	292	434	551	246	-87	3	-28
Equity and reinvested earnings	178	273	212	77	-29	186	14
Debt instruments	114	161	339	169	-58	-183	-42
Liabilities	1,560	1,298	966	364	82	508	116
Equity and reinvested earnings	1,785	1,503	843	284	95	528	66
Debt instruments	-225	-205	123	80	-13	-20	49
2. Portfolio investment	**2,940**	**5,094**	**2,958**	**-1,335**	**1,542**	**986**	**-677**
Assets	2,026	2,089	2,819	-124	304	418	-115
Equity and investment fund shares	127	-82	280	97	19	10	-25
Debt securities	1,900	2,171	2,539	-222	285	409	-90
Liabilities	-914	-3,005	-139	1,210	-1,238	-568	562
Equity and investment fund shares	52	48	39	-1	-106	-2	646
Debt securities	-966	-3,053	-178	1,211	-1,132	-566	-84
3. Financial derivatives	**-98**	**-216**	**-248**	**-6**	**-12**	**-7**	**-2**
4. Other investment	**250**	**-2,764**	**-630**	**1,999**	**-620**	**-81**	**1,051**
4.1. Assets	**-650**	**-2,340**	**-1,584**	**673**	**259**	**-461**	**1,054**
Other equity	10	0	-1	1	1	0	-1
Currency and deposits	-516	-2,205	-2,190	142	66	-353	1,005
Loans	-408	-203	-115	-7	92	53	7
Insurance, pension and stand. guar. schemes	-8	10	5	1	1	-1	...
Trade credits and advances	-5	156	599	449	95	48	30
Other assets	277	-97	119	87	5	-208	13
4.2. Liabilities	**-900**	**423**	**-954**	**-1,326**	**879**	**-380**	**3**
Other equity	11	4	20	0	0	0	0
Currency and deposits	-400	1,175	438	-1,239	255	287	3
Loans	-315	-818	-1,854	-237	131	-119	-5
Insurance, pension and stand. guar. schemes	3	-8	5	27	21	-14	...
Trade credits and advances	-100	137	410	112	244	-197	53
Other liabilities	-99	-67	26	11	227	-337	-48
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-113**	**-97**	**89**	**-12**	**-22**	**70**	**10**
IV. Net errors and omissions	**-462**	**-768**	**-999**	**-111**	**-217**	**-537**	**-7**

Table 9.9: Non-consolidated financial assets – outstanding amounts

EUR million	2015	2016	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
Domestic sectors – total								
Total	185,986	184,624	188,846	190,464	192,086	194,345	197,252	197,475
Monetary gold and SDRs	363	320	310	348	346	344	349	344
Currency and deposits	46,593	42,485	43,444	43,417	42,892	44,132	45,064	44,685
Debt securities	22,828	26,103	27,487	28,304	28,482	28,107	28,738	29,121
Loans	39,625	37,557	37,546	37,545	37,748	37,705	37,829	37,902
Shares	19,713	18,765	19,599	19,638	19,566	19,972	20,528	20,079
Other equity	23,304	24,753	24,993	25,303	26,978	27,221	27,341	27,462
Investment fund shares/units	3,879	4,049	4,248	4,368	4,540	4,539	4,654	4,653
Insurance and pension schemes	7,406	7,737	7,884	8,026	8,003	8,035	8,163	8,223
Other	22,274	22,856	23,334	23,513	23,531	24,290	24,586	25,007
Non-financial corporations								
Total	41,559	43,159	44,478	45,007	46,148	47,095	47,423	47,696
Currency and deposits	5,826	6,399	6,447	6,637	7,107	7,080	7,141	7,217
Debt securities	142	127	114	114	109	113	139	167
Loans	5,849	5,781	5,891	5,832	5,776	5,964	6,059	5,921
Shares	2,896	2,665	2,717	2,605	2,507	2,520	2,560	2,480
Other equity	11,472	12,185	12,380	12,621	13,463	13,534	13,441	13,577
Investment fund shares/units	99	52	63	68	67	69	63	63
Insurance and pension schemes	427	438	488	491	444	476	473	465
Other	14,849	15,512	16,377	16,640	16,675	17,337	17,546	17,806
Monetary financial institutions								
Total	50,657	51,929	52,971	53,596	54,397	54,189	55,272	55,050
Monetary gold and SDRs	363	320	310	348	346	344	349	344
Currency and deposits	7,560	7,168	6,283	5,910	6,249	6,375	6,814	6,154
Debt securities	15,973	18,971	20,314	21,149	21,263	21,016	21,557	21,843
Loans	25,179	24,099	24,487	24,579	24,915	24,683	24,741	24,919
Shares	641	552	707	716	729	750	748	749
Other equity	299	282	302	341	351	419	470	469
Investment fund shares/units	9	6	6	6	5	5	3	3
Insurance and pension schemes	38	38	41	41	40	41	41	41
Other	595	495	522	508	498	557	549	527
Other financial institutions								
Total	17,134	17,554	17,872	17,831	18,155	18,249	18,786	18,597
Currency and deposits	1,201	1,256	1,286	1,169	1,163	1,208	1,380	1,252
Debt securities	6,040	6,431	6,413	6,429	6,520	6,388	6,425	6,468
Loans	3,033	2,876	2,798	2,801	2,859	2,859	2,850	2,849
Shares	3,427	3,377	3,531	3,588	3,688	3,743	3,989	3,940
Other equity	612	625	642	634	686	692	659	654
Investment fund shares/units	2,001	2,140	2,213	2,267	2,354	2,370	2,430	2,369
Insurance and pension schemes	182	188	221	211	199	226	239	222
Other	639	661	769	734	685	763	814	842
General government								
Total	37,227	30,676	31,271	31,248	29,467	30,485	30,684	30,730
Currency and deposits	12,358	7,060	8,374	8,251	6,726	7,462	7,332	7,429
Debt securities	548	447	453	418	416	411	431	437
Loans	4,911	4,089	3,624	3,544	3,427	3,365	3,310	3,299
Shares	10,048	9,828	10,221	10,338	10,230	10,563	10,754	10,512
Other equity	4,856	4,906	4,835	4,918	4,915	4,973	5,089	5,088
Investment fund shares/units	244	252	274	284	296	300	311	320
Insurance and pension schemes	23	21	14	17	16	21	11	16
Other	4,239	4,073	3,475	3,478	3,442	3,390	3,445	3,629
Households and NPISHs								
Total	39,409	41,306	42,254	42,781	43,919	44,326	45,088	45,402
Currency and deposits	19,647	20,602	21,055	21,452	21,646	22,008	22,397	22,633
Debt securities	125	127	192	195	174	179	187	206
Loans	653	712	746	788	771	833	868	913
Shares	2,701	2,343	2,423	2,392	2,412	2,396	2,477	2,398
Other equity	6,066	6,755	6,834	6,789	7,563	7,602	7,681	7,674
Investment fund shares/units	1,528	1,600	1,692	1,744	1,818	1,796	1,847	1,898
Insurance and pension schemes	6,736	7,053	7,121	7,266	7,304	7,271	7,399	7,479
Other	1,953	2,115	2,191	2,154	2,231	2,242	2,232	2,202
Rest of the world								
Total	58,422	58,175	58,169	57,420	58,075	57,688	58,038	57,500
Monetary gold and SDRs	275	275	264	259	257	255	261	261
Currency and deposits	3,167	4,380	3,577	3,136	4,771	3,510	3,809	4,184
Debt securities	23,331	20,889	21,842	21,834	20,555	21,299	20,438	19,744
Loans	15,304	14,403	13,550	12,946	12,591	12,368	12,568	12,597
Shares	4,539	5,160	5,176	5,198	5,275	5,339	5,395	5,459
Other equity	6,284	7,288	7,574	7,874	8,114	8,178	8,233	8,384
Investment fund shares/units	25	25	27	28	29	28	30	31
Insurance and pension schemes	221	213	224	226	219	246	266	252
Other	5,276	5,541	5,936	5,919	6,266	6,465	7,037	6,588

Table 9.10: Non-consolidated liabilities – outstanding amounts

EUR million	2015	2016	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
Domestic sectors − total								
Total	202,705	200,949	204,118	205,607	207,425	209,203	211,812	211,187
Monetary gold and SDRs	275	275	264	259	257	255	261	261
Currency and deposits	39,165	38,353	39,650	40,451	41,409	41,261	42,474	42,743
Debt securities	34,824	33,513	34,456	34,702	33,041	33,774	33,291	32,595
Loans	49,917	47,048	46,314	45,789	45,737	45,597	45,752	45,972
Shares	21,615	21,359	21,877	21,849	21,781	22,248	22,785	22,308
Other equity	26,608	29,083	29,647	30,218	32,146	32,562	32,768	32,894
Investment fund shares/units	2,303	2,374	2,443	2,517	2,572	2,540	2,611	2,648
Insurance and pension schemes	7,498	7,810	7,964	8,105	8,074	8,133	8,280	8,326
Other	20,501	21,135	21,503	21,717	22,408	22,833	23,590	23,440
Non-financial corporations								
Total	78,466	78,943	79,970	80,332	82,529	83,243	84,060	83,939
Debt securities	1,179	955	1,045	1,023	1,010	1,033	1,060	1,046
Loans	25,175	23,611	23,464	23,382	22,821	22,777	22,795	23,052
Shares	13,421	12,762	13,125	12,847	12,810	13,141	13,464	13,032
Other equity	24,039	26,319	26,860	27,466	29,266	29,526	29,595	29,729
Other	14,652	15,297	15,476	15,614	16,622	16,765	17,145	17,080
Monetary financial institutions								
Total	47,006	49,224	50,400	50,974	51,935	51,904	53,098	52,999
Monetary gold and SDRs	275	275	264	259	257	255	261	261
Currency and deposits	34,012	37,528	38,809	39,608	40,521	40,415	41,628	41,898
Debt securities	1,149	801	675	392	377	377	367	75
Loans	5,574	4,330	4,393	4,349	4,349	4,348	4,306	4,219
Shares	4,539	4,724	4,662	4,777	4,875	4,838	4,896	4,935
Other equity	1,005	1,091	1,103	1,122	1,104	1,116	1,155	1,174
Investment fund shares/units	56	99	74	80	55	57	60	65
Other	396	375	421	387	397	499	425	372
Other financial institutions								
Total	17,001	16,848	17,223	17,344	17,508	17,809	18,444	18,054
Debt securities	73	118	128	128	113	113	115	114
Loans	3,678	2,924	2,837	2,715	2,664	2,674	2,649	2,596
Shares	2,093	2,154	2,285	2,388	2,463	2,539	2,618	2,572
Other equity	964	1,137	1,145	1,092	1,225	1,334	1,426	1,384
Investment fund shares/units	2,247	2,275	2,369	2,438	2,518	2,483	2,551	2,583
Insurance and pension schemes	7,498	7,810	7,964	8,105	8,074	8,132	8,280	8,326
Other	448	431	495	478	449	534	805	478
General government								
Total	47,926	43,186	43,480	43,599	42,034	42,615	42,395	42,076
Currency and deposits	5,152	825	841	843	888	847	845	845
Debt securities	32,423	31,639	32,608	33,159	31,540	32,252	31,749	31,359
Loans	4,762	5,144	4,262	3,806	4,229	3,958	3,966	3,877
Shares	1,562	1,719	1,805	1,838	1,633	1,730	1,807	1,768
Other equity	600	537	540	538	550	586	592	607
Other	3,427	3,322	3,425	3,415	3,195	3,242	3,437	3,618
Households and NPISHs								
Total	12,306	12,748	13,046	13,358	13,418	13,632	13,814	14,118
Loans	10,728	11,039	11,358	11,536	11,674	11,839	12,036	12,227
Other	1,578	1,709	1,688	1,821	1,744	1,793	1,778	1,891
Rest of the world								
Total	41,702	41,850	42,897	42,277	42,736	42,829	43,478	43,787
Monetary gold and SDRs	363	319	310	348	345	344	349	343
Currency and deposits	10,595	8,512	7,372	6,102	6,254	6,380	6,399	6,127
Debt securities	11,335	13,479	14,872	15,436	15,996	15,632	15,885	16,270
Loans	5,012	4,912	4,782	4,703	4,601	4,476	4,645	4,526
Shares	2,637	2,566	2,899	2,987	3,060	3,063	3,139	3,230
Other equity	2,981	2,957	2,920	2,959	2,947	2,837	2,806	2,952
Investment fund shares/units	1,602	1,700	1,831	1,879	1,996	2,027	2,073	2,035
Insurance and pension schemes	129	141	144	148	148	148	149	149
Other	7,049	7,263	7,767	7,716	7,388	7,923	8,033	8,156

Table 9.11: Net financial assets

EUR million	2015	2016	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
Domestic sectors − total	-16,719	-16,325	-15,272	-15,143	-15,339	-14,858	-14,560	-13,712
Non-financial corporations	-36,907	-35,784	-35,492	-35,325	-36,382	-36,148	-36,637	-36,243
Monetary financial institutions	3,651	2,706	2,571	2,622	2,462	2,285	2,174	2,051
Other financial institutions	133	706	649	487	647	440	341	542
General government	-10,699	-12,510	-12,209	-12,351	-12,567	-12,130	-11,712	-11,345
Households and NPISHs	27,103	28,558	29,209	29,423	30,501	30,694	31,274	31,283
Rest of the world	16,719	16,325	15,273	15,143	15,339	14,859	14,561	13,712

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

EUR million	2015	2016	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
Domestic sectors − total								
Total	979	-1,805	4,860	5,376	5,575	5,162	6,238	5,433
Monetary gold and SDRs	0	-56	0	43	43	43	43	1
Currency and deposits	470	-4,118	251	35	571	804	1,759	1,349
Debt securities	3,086	2,863	2,834	2,395	2,369	1,442	1,158	1,104
Loans	-3,120	-707	697	1,144	961	823	1,172	1,201
Shares	181	-353	175	223	51	76	170	-123
Other equity	474	492	288	131	82	154	138	418
Investment fund shares/units	167	2	83	142	242	280	255	166
Insurance and pension schemes	178	138	109	152	146	153	187	165
Other	-458	-66	423	1,111	1,111	1,385	1,356	1,151
Non-financial corporations								
Total	374	1,122	1,697	2,229	2,101	2,199	2,167	2,014
Currency and deposits	744	575	602	630	732	584	711	599
Debt securities	-36	-6	-45	-47	-18	-14	18	47
Loans	-192	-187	-4	-76	-26	106	157	158
Shares	103	-13	59	124	73	53	27	-15
Other equity	294	453	267	253	159	223	161	312
Investment fund shares/units	-3	-28	-19	-13	3	0	-2	-7
Insurance and pension schemes	23	2	10	31	6	-3	-18	-19
Other	-558	326	827	1,326	1,173	1,250	1,114	939
Monetary financial institutions								
Total	-1,797	2,542	3,686	2,822	2,840	1,706	2,798	2,126
Monetary gold and SDRs	0	-56	0	43	43	43	43	1
Currency and deposits	-2,849	-373	-539	-1,358	-821	-743	562	252
Debt securities	2,764	2,847	2,832	2,526	2,403	1,565	1,230	928
Loans	-2,052	303	1,511	1,680	1,263	891	919	947
Shares	141	-91	-25	-23	-24	-4	-14	-22
Other equity	14	56	36	61	46	46	101	60
Investment fund shares/units	-2	-2	0	-1	-1	-1	-1	0
Insurance and pension schemes	1	0	2	2	2	2	1	0
Other	185	-140	-130	-108	-71	-93	-43	-41
Other financial institutions								
Total	35	-63	-16	-104	92	62	589	421
Currency and deposits	-133	61	41	-56	-92	-121	110	93
Debt securities	313	157	74	-35	10	-66	-41	104
Loans	-192	-203	-221	-81	29	48	122	93
Shares	49	-59	61	48	44	70	192	41
Other equity	15	-35	-26	-46	-9	5	-12	-6
Investment fund shares/units	31	28	14	41	105	132	146	81
Insurance and pension schemes	-34	12	16	13	11	12	18	11
Other	-14	-24	26	13	-7	-20	53	2
General government								
Total	1,403	-6,532	-1,786	-939	-770	-381	-1,026	-805
Currency and deposits	1,936	-5,331	-844	-419	-318	-208	-1,044	-839
Debt securities	58	-112	-43	-54	-26	-23	-20	26
Loans	-666	-655	-564	-401	-323	-284	-160	-133
Shares	-69	-57	153	155	-39	-45	-36	-122
Other equity	113	-12	-35	-33	-6	-6	3	32
Investment fund shares/units	26	-10	11	27	23	35	23	16
Insurance and pension schemes	0	-1	-2	5	0	7	-3	-1
Other	5	-354	-462	-217	-80	143	211	215
Households and NPISHs								
Total	964	1,127	1,280	1,367	1,312	1,576	1,709	1,677
Currency and deposits	771	950	991	1,239	1,069	1,291	1,420	1,243
Debt securities	-13	-22	16	4	-1	-20	-29	-1
Loans	-17	35	-25	22	18	62	133	136
Shares	-44	-132	-72	-81	-2	3	2	-6
Other equity	38	30	46	-104	-107	-114	-115	20
Investment fund shares/units	116	14	78	89	111	114	89	75
Insurance and pension schemes	188	126	83	101	127	135	189	174
Other	-76	125	162	97	96	106	21	36
Rest of the world								
Total	-426	-1,359	-398	-476	-11	-546	-842	-68
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-350	1,198	135	182	427	12	158	964
Debt securities	-999	-2,885	-474	-314	45	-33	-1,452	-1,890
Loans	-595	-1,019	-1,305	-1,665	-2,026	-1,909	-1,215	-585
Shares	335	619	261	204	236	255	86	315
Other equity	1,377	775	791	724	617	514	551	615
Investment fund shares/units	3	0	-2	-2	-1	-1	0	1
Insurance and pension schemes	3	-8	-20	10	5	13	42	26
Other	-200	-38	216	385	686	604	987	487

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

EUR million	2015	2016	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
Domestic sectors − total								
Total	-749	-2,675	3,547	3,870	4,131	3,300	4,349	3,618
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	637	-822	2,777	2,813	3,179	2,159	2,849	2,275
Debt securities	338	-1,971	-412	-769	-152	-154	-1,335	-1,816
Loans	-3,442	-1,628	-442	-243	-959	-1,029	-109	567
Shares	246	359	336	313	158	198	146	114
Other equity	1,883	1,149	939	728	658	621	695	889
Investment fund shares/units	142	-1	16	43	29	64	72	20
Insurance and pension schemes	189	120	86	156	146	163	224	190
Other	-742	117	245	829	1,072	1,278	1,807	1,379
Non-financial corporations								
Total	-1,062	488	745	1,219	1,567	1,596	1,943	2,060
Debt securities	83	-227	-275	-314	93	47	21	11
Loans	-2,407	-777	-340	-108	-513	-440	-294	-20
Shares	152	139	166	143	192	233	148	117
Other equity	1,466	1,081	877	707	635	606	595	737
Other	-356	273	317	791	1,162	1,149	1,472	1,214
Monetary financial institutions								
Total	-2,282	2,291	3,509	2,576	2,615	1,468	2,343	1,696
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-146	3,508	3,771	3,075	3,101	2,139	2,834	2,269
Debt securities	-525	-339	-153	-402	-418	-401	-306	-316
Loans	-1,536	-826	38	21	27	-207	-85	-131
Shares	44	17	-35	-37	-36	-36	-3	-3
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	19	43	8	-1	-44	-8	-14	-14
Other	-138	-112	-119	-81	-15	-20	-83	-109
Other financial institutions								
Total	73	-189	-188	-104	8	42	540	237
Debt securities	-72	42	-1	3	-8	-8	-14	-13
Loans	-461	-348	-300	-334	-251	-201	-171	-95
Shares	51	4	5	7	2	0	0	0
Other equity	305	67	62	21	24	15	100	122
Investment fund shares/units	123	-44	8	45	74	72	86	34
Insurance and pension schemes	189	120	86	156	146	163	224	189
Other	-62	-30	-49	-2	22	1	314	-1
General government								
Total	2,506	-5,775	-1,323	-666	-787	-636	-1,306	-1,183
Currency and deposits	783	-4,330	-994	-262	78	20	15	6
Debt securities	851	-1,446	17	-57	181	208	-1,036	-1,498
Loans	875	-103	-531	-596	-917	-904	-298	72
Shares	0	200	200	200	0	0	0	0
Other equity	112	2	1	0	0	0	0	30
Other	-115	-98	-16	49	-129	40	14	207
Households and NPISHs								
Total	17	509	804	846	728	830	829	809
Loans	87	426	692	774	696	722	740	741
Other	-70	83	113	72	32	108	89	68
Rest of the world								
Total	1,301	-488	916	1,030	1,434	1,316	1,046	1,747
Monetary gold and SDRs	0	-56	0	43	43	43	43	1
Currency and deposits	-517	-2,098	-2,391	-2,596	-2,182	-1,343	-931	38
Debt securities	1,749	1,949	2,772	2,850	2,565	1,563	1,040	1,030
Loans	-274	-98	-167	-278	-106	-57	66	50
Shares	270	-93	100	114	129	134	110	78
Other equity	-32	117	140	127	41	47	-7	145
Investment fund shares/units	28	2	65	97	211	215	183	147
Insurance and pension schemes	-8	10	3	6	5	3	5	1
Other	85	-221	394	667	726	711	537	258

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

EUR million	2015	2016	17Q2	17Q3	17Q4	18Q1	18Q2	18Q3
Domestic sectors − total	1,728	871	1,314	1,506	1,444	1,862	1,889	1,815
Non-financial corporations	1,436	634	952	1,011	534	603	224	-46
Monetary financial institutions	485	250	177	247	225	238	455	430
Other financial institutions	-38	126	173	1	84	20	50	184
General government	-1,103	-758	-463	-272	17	255	280	378
Households and NPISHs	947	618	475	520	584	746	881	869
Rest of the world	-1,728	-871	-1,314	-1,506	-1,444	-1,862	-1,889	-1,815

METHODOLOGICAL NOTE

International economic relations

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

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

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

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

Statistics of financial institutions and markets

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

The features of the methodology are as follows:

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

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

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

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

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

Financial accounts statistics

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

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

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

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

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

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

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