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Executive Summary

The available figures for the first quarter of this year point to continued weak economic growth in the euro area. The economic sentiment declined again in March, while the manufacturing PMI reached its lowest level in almost six years. The monthly activity indicators were not promising in January, as industrial production and construction activity were both down in year-on-year terms. At the same time headline inflation was down significantly on last year. The ECB has already responded to the less favourable economic situation: in early March it announced a new series of TLRTOs beginning in September, and signalled that interest rates would be left unchanged until the end of 2019. Following the fall in the euro (on 28 March it was down 9.5% against the US dollar in year-on-year terms), the euro price of a barrel of Brent crude was up fully 7.8% in year-on-year terms at the end of March.

According to the economic sentiment indicators, economic growth in Slovenia may have slowed slightly in the first quarter of this year, although the situation remained significantly better than in the euro area overall. The economic sentiment in March remained down on the beginning of the year, but unchanged from February; firms' assessments of short-term growth in demand suggest a further slowdown in growth in foreign demand while the situation on the domestic market remains solid. These assessments were not yet entirely reflected in the activity indicators in January. After declining in December, industrial production in January was up 5.7% in year-on-year terms. In the wake of a deterioration in European industry in the first quarter, manufacturing firms' surprisingly low assessment of uncertainty in the economic situation was a positive. Growth in turnover in services in January was also up on December. Year-on-year growth in construction activity slowed after the local elections, and remained relatively low in January at 4.3%. Year-on-year growth in the composite activity indicator, which captures the aforementioned economic sectors, increased to 6.0% in January, slightly above the average of the final quarter of last year.

The situation on the labour market remains favourable from the perspective of continuing growth in demand on the domestic market, although at the same time it suggests the possibility of a deterioration in cost competitiveness. Year-on-year growth in persons in employment remains high, despite the structural imbalances on the labour market. Year-on-year growth in persons in employment excluding self-employed farmers stood at 3.1% in January, as the hiring of foreign nationals accounted for almost two-thirds of the growth. The number of vacancies remains high, although the survey indicators of employment expectations declined slightly. Year-on-year growth in the overall gross average wage rose to 4.2% in January, primarily as a result of the entry into force of an agreement on wage growth in the public sector and the resulting year-on-year rise of more than 10% in the average gross wage in public administration. Wage growth stood at 3.7% in the private sector. Higher wage growth in a context of slower economic growth and low productivity growth could lead to a deterioration in cost competitiveness, if such developments were significantly at odds with those in trading partners.

Slovenia's external position on the brink of a shift into a period of lower economic growth is significantly better than it was a decade ago. Weaker growth in foreign demand and the continuing buoyancy of the domestic market are reducing the merchandise trade surplus, although for now this is being compensated for by high growth in exports of services, while the deficit in capital income is also significantly smaller on account of past debt repayment and debt restructuring. The 12-month current account surplus again exceeded 7% of GDP in January. The surplus in domestic saving over investment is reducing the negative net international financial position, which stood at 26.7% of GDP at the end of last *year, 23.3 percentage points less than in 2012, when the largest deficit was recorded. There has also been a significant decline in the net external debt: it was down 9 percentage points last year alone at 13.8% of GDP. Only the government sector has been a net borrower from the rest of the world over the last two years.*

Inflation rose to 1.6% in March, still down 0.3 percentage points on last year's average rate. After falling in January, following a fall in oil prices on global markets at the end of last year, energy prices in March were already reflecting the renewed strengthening of euro oil prices. Year-on-year food price inflation was still slowing, as a result of a small year-on-year rise in processed food prices and a year-on-year fall in unprocessed food prices. The influence of external factors remains weaker compared with last year, while the pressures from the domestic environment are strengthening. Given the higher nominal growth in labour costs on the supply side, and increased purchasing power on the demand side, service price inflation remained high in March at 2.8%, while year-on-year growth in prices of non-energy industrial goods stood at around zero for the third consecutive month. The narrowest core inflation indicator has consequently risen significantly this year. It stood at 1.6% in March, the highest figure since 2009. The figure in the euro area overall stood at 1.1% in February.

The general government sector recorded a surplus in the amount of 0.7% of GDP last year, which was attributable to the favourable cyclical situation and a decline in interest payments. The general government debt declined to 70.1% of GDP. The structural position was close to balance, according to government estimates. In the draft budget plan for 2019, the government is forecasting a surplus of 0.6% of GDP, but the Fiscal Council and the European Commission are warning of the plans' failure to comply with fiscal rules and a possible deterioration in the structural balance. The ratio of general government debt to GDP is below the euro area average, although it is still forecast to exceed the reference value of 60% even after this year's reduction. This entails significantly less room for the government to act counter-cyclically in the event of a deterioration in the economic situation like just over a decade ago.

* * *

Cost competitiveness of the Slovenian economy remained solid in 2018, while technological progress has been slow. Wages again moved largely in line with productivity in 2018, which meant that growth in real unit labour costs was very low, and below the averages in the euro area and in the EU overall. At the same time the euro exchange rate did not bring any significant deterioration in price competitiveness, and domestic inflation did not deviate significantly from the euro area average. But there was also no significant change in the technological complexity of merchandise exports. According to a survey of financing conducted by the Bank of Slovenia at the end of last year, it is difficult to expect any major changes even in the medium term, as the proportion of firms intending to invest in research and development is expected to remain more or less unchanged from its level between 2016 and 2018. Labour-extensive economic growth and insufficient focus on research and development are weak signs for Slovenia's ability to jump into creating higher value-added, and thereby to close the gap with more advanced European countries.

Main macroeconomic indicators

	2016	2017	2018	18Q2	18Q3	18Q4	2016	2017	2018	18Q2	18Q3	18Q4
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	3.1	4.9	4.5	4.1	5.0	4.1	2.0	2.4	1.8	2.3	1.6	1.3
- industry	4.6	7.7	4.0	4.9	2.9	2.5	3.5	3.1	1.4	3.0	0.7	-0.1
- construction	-3.7	8.5	12.7	11.1	18.2	9.5	1.5	3.1	3.5	3.9	3.4	3.5
- mainly public sector services	2.3	1.6	2.1	2.3	1.8	2.1	1.3	1.1	1.1	1.2	1.0	1.1
- mainly private sector services	3.3	6.0	5.0	4.7	5.5	4.6	2.0	2.7	2.0	2.6	1.8	1.3
Domestic expenditure	2.9	3.9	4.6	3.8	5.0	3.7	2.4	1.7	1.7	1.6	2.0	1.6
- general government	2.7	0.5	2.6	4.9	2.6	1.5	1.8	1.1	1.0	1.1	0.9	1.2
- households and NPISH	3.9	1.9	2.2	1.9	1.3	2.1	2.0	1.6	1.3	1.3	0.9	1.2
- gross capital formation	0.0	13.2	12.6	7.7	16.9	10.0	4.3	2.4	3.4	2.8	5.8	3.3
- gross fixed capital formation	-3.7	10.7	10.6	10.3	13.8	8.3	4.0	2.6	3.0	3.3	3.3	2.6
- inventories and valuables, contr. to GDP growth in pp	0.7	0.6	0.6	-0.3	0.9	0.4	0.1	0.0	0.1	-0.1	0.5	0.1
Labour market												
Employment	1.8	2.9	3.0	3.0	2.8	2.8	1.4	1.6	1.5	1.6	1.4	1.3
- mainly private sector services	1.7	3.0	3.2	3.2	3.0	3.1	1.4	1.7	1.6	1.7	1.5	1.3
- mainly public sector services	2.2	2.6	2.0	2.1	1.9	1.8	1.4	1.3	1.2	1.3	1.2	1.1
Labour costs per employee	3.0	3.2	4.0	4.6	3.2	4.1	1.2	1.6	2.2	2.2	2.5	2.2
- mainly private sector services	2.4	3.2	4.0	4.7	3.4	4.1	1.2	1.7	2.3	2.3	2.6	2.1
- mainly public sector services	5.2	3.1	3.8	4.2	3.8	3.8	1.3	1.4	2.1	1.9	2.4	2.3
Unit labour costs, nominal*	1.8	1.2	2.5	3.5	1.1	2.8	0.6	0.8	1.9	1.5	2.3	2.1
Unit labour costs, real**	1.0	-0.3	0.2	0.7	-1.4	1.3	-0.2	-0.3	0.5	0.2	0.9	0.6
	in %											
LFS unemployment rate	8.0	6.6	5.1	5.2	5.0	4.4	10.0	9.1	...	8.2	7.8	...
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	5.5	7.2	7.0	7.4	7.2	7.0	3.2	3.2	3.0	3.6	3.3	3.0
External trade balance as contr. to GDP growth in pp	0.5	1.3	0.3	0.6	0.5	0.7	-0.4	0.8	0.2	0.8	-0.2	-0.2
Real export of goods and services	6.4	10.7	7.2	8.6	5.4	6.8	3.0	5.2	3.0	4.4	2.8	1.8
Real import of goods and services	6.6	10.3	7.7	8.9	5.5	6.6	4.2	3.9	2.9	3.1	3.7	2.5
Financing	*in % of GDP*											
Banking system's balance sheet	99.3	93.9	88.3	91.0	89.2	88.3	275.7	260.7	256.7	260.9	259.0	256.7
Loans to NFCs	22.6	21.8	20.5	21.0	20.8	20.5	37.8	36.9	36.5	36.7	36.6	36.5
Loans to households	21.1	21.5	21.7	21.5	21.5	21.7	49.4	49.4	49.1	49.0	49.1	49.1
Inflation	*in %*											
HICP	-0.2	1.6	1.9	2.1	2.1	2.0	0.2	1.5	1.8	1.7	2.1	1.9
HICP excl. energy, food, alcohol and tobacco	0.7	0.7	1.0	1.0	1.1	1.2	0.8	1.0	1.0	1.0	1.0	1.0
Public finance	*in % of GDP*											
Debt of the general government	78.7	74.1	70.1	72.6	71.1	70.1	89.1	86.8	...	86.3	86.2	...
One year net lending/net borrowing of the general government***	-1.9	0.0	0.7	0.4	0.5	0.7	-1.6	-1.0	...	-0.5	-0.4	...
*- interest payment****	3.0	2.5	2.0	2.2	2.1	2.0	2.1	2.0	...	1.9	1.9	...
*- primary balance****	1.1	2.5	2.6	2.6	2.6	2.6	0.6	1.0	...	1.4	1.5	...

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.

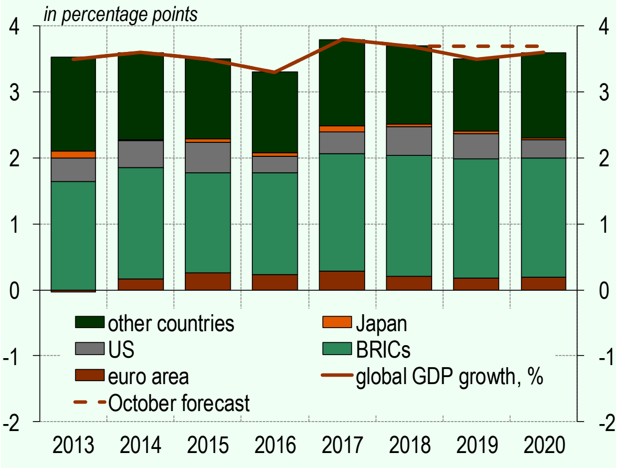
1 International Environment

Global economic growth only slowed slightly last year, despite weaker growth in certain economies in Europe and Asia, while growth in global trade was down significantly on average growth in 2017. Survey indicators suggest a further slowdown in growth in the euro area: the economic sentiment indicator has continued to decline this year, while the manufacturing PMI is also down, having reached its lowest level in almost six years in March. International institutions have revised their forecasts for this year's economic growth in the euro area sharply downwards, although the outlook for 2020 is slightly better. According to ECB estimates, GDP growth in the euro area is forecast to strengthen to average 1.6% over the coming years, as a result of reduced uncertainty in the international environment, positive policy effects, and a buoyant labour market. The ECB has already responded to the less favourable economic situation: in early March it announced a new series of TLTROs beginning in September, and signalled that interest rates would be left unchanged at least until the end of 2019. Having mostly fluctuated below the mark of USD 1.15 over the last five months, the euro has fallen a little further since the beginning of the year. The oil price has risen over a quarter so far this year. The price of a barrel of Brent crude stood at just over USD 67 at the end of March, only slightly down on a year earlier.

Global economy

Global economic growth in 2018 remained above its average over the last decade. According to the latest IMF estimates, it stood at 3.7% last year, just 0.1 percentage points less than in the previous year. Only the US saw economic growth strengthen during the year, while growth slowed in the euro area and China, and in most other major economies in the final quarter of last year. Economic growth in China stood at 6.4% in the final quarter, down 0.4 percentage points on the first quarter, and the lowest rate since the global financial crisis. China's overall growth rate of 6.6% in 2018 was its lowest in almost three decades, as a result of the trade dispute with the US and weaker growth in domestic demand. Year-on-year economic growth in India slowed by another

Figure 1.1: Contributions to growth in global GDP by country



Note: IMF forecasts are used (January 2019, October 2018).
The 2017 weights were used to calculate contributions for 2019 and 2020.
Source: IMF, Bank of Slovenia calculations.

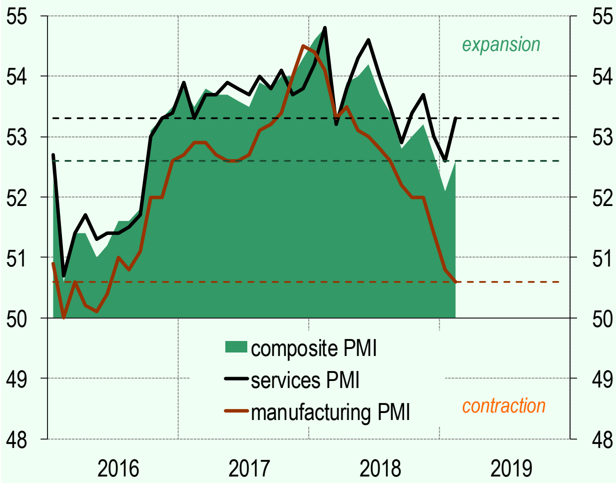
1.1 percentage points in the final quarter of last year, primarily as a result of weak consumer demand and government spending. Year-on-year economic growth in the euro area slowed sharply: it stood at 1.1% in the final quarter, down 1.6 percentage points on a year earlier. After picking up in the first three quarters of last year, year-on-year economic growth in the UK slowed again in the final quarter, as a result of negative contributions by net trade and gross capital formation.

The PMI is pointing to a further slowdown in global economic growth in the early part of this year. In January the JP Morgan global composite PMI reached its lowest level since September 2016, before stabilising in February of this year, albeit solely as a result of higher growth in services activity. Given the uncertainty in international trade, the global manufacturing PMI is continuing to decline sharply, reaching its lowest level since June 2016 in February.

International institutions are forecasting slightly lower global growth for 2019 and 2020 than in their previous projections. According to the IMF forecasts, economic growth is expected to stand at 3.5% this year, and 3.6% in 2020. The OECD is also forecasting slightly higher growth in 2020, compared with 3.3% this year. The OECD has revised this year's forecasts for all major economies downwards, and is forecasting significantly lower growth in the euro area in particular. There were major downward revisions for Germany, by just under 1 percentage point to 0.7%, and Italy, by 1.1 percentage points to -0.2%. Economic growth in the US is forecast to slow slightly this year and next year, as a result of the gradual unwinding of the fiscal stimulus. Owing to the growing uncertainty surrounding Brexit and the slowdown in the euro area, economic growth is expected to remain weak in the UK, at slightly less than 1% in 2019 and 2020. Compared with 2018, economic growth is forecast to strengthen in the BRIC countries this year, with the exception of China, which is forecast by the OECD to see growth slow to 6% in 2020 as a result of increased uncertainty in international trade.

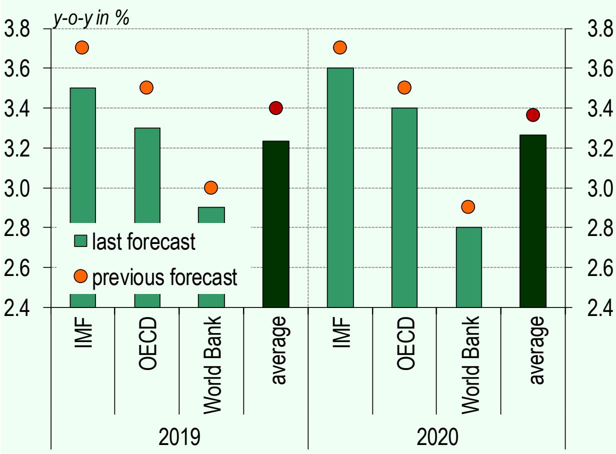
The downside risks to global economic growth are increasing. There are growing risks to global economic growth from worsening trade disputes, despite the ongoing negotiations between the US and China, and a sharper slowdown in the Chinese economy. In Europe there is still uncertainty surrounding the Brexit negotiations, while the risk of import tariffs on European cars and car parts being introduced by the US is increasing, which in the opinion of the OECD would hit the European economy particularly hard, as road vehicles account for around 10% of its total merchandise exports to the US. A pause in the tightening of monetary policy in major economies has helped to stabilise global financial conditions, which deteriorated in the autumn of last year.

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 2019 and 2020



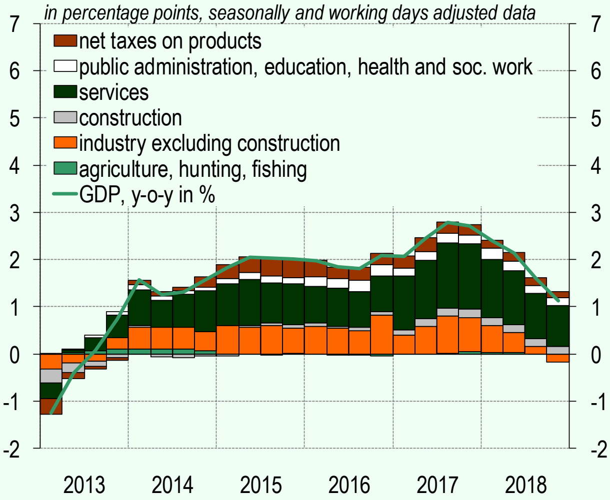
Note: Included forecasts are the following: IMF (January 2019, October 2018), OECD (March 2019, November 2018), World Bank (January 2019, June 2018).
Source: IMF, OECD, World Bank.

Euro area

Economic growth in the euro area slowed sharply in the second half of 2018. Year-on-year GDP growth in the euro area stood at 1.1% in the final quarter of last year, down 1.7 percentage points on its peak in the third quarter of 2017. The slowdown in the second half of the year was primarily attributable to the negative contribution by net trade, as a result of weaker growth in foreign demand. The contribution by private consumption was also down slightly on the first half of the year. On the output side, the main factor in the slowdown in growth in the final quarter was a decline in value-added in manufacturing, caused by weaker growth in foreign demand and certain temporary factors. In terms of sector, the largest contribution to economic growth was again made by services, at 0.9 percentage points, although this figure was also down on the previous quarter.

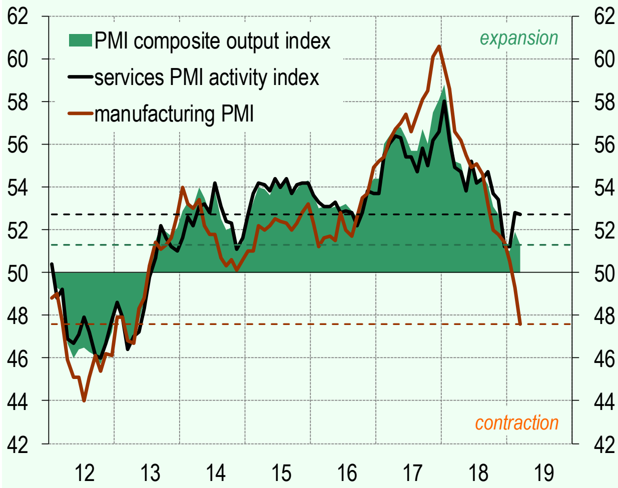
Survey indicators suggest a further slowdown in growth in the euro area in the early part of this year. The composite PMI stabilised in the first quarter, as a result of slightly higher growth in services, although it fell below 50 in the manufacturing sector, which is indicative of contraction, for the first time since 2013. This is attributable to weaker demand caused by uncertainty in international trade, difficulties in the car industry, and political tensions. After declining sharply in the final months of 2018, the economic sentiment in the euro area has declined further this year, and is now approaching

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



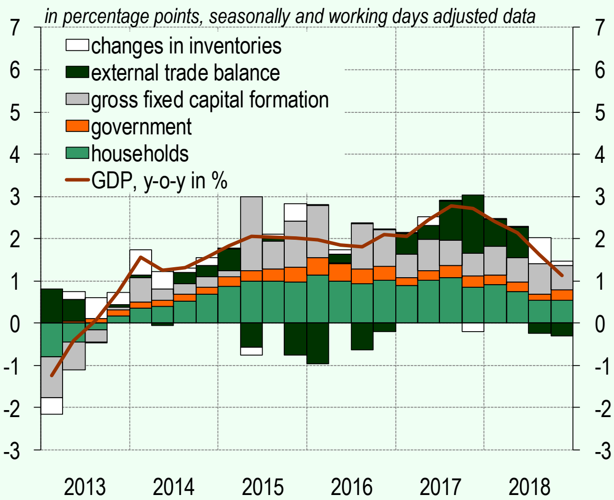
Source: Eurostat, Bank of Slovenia calculations.

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



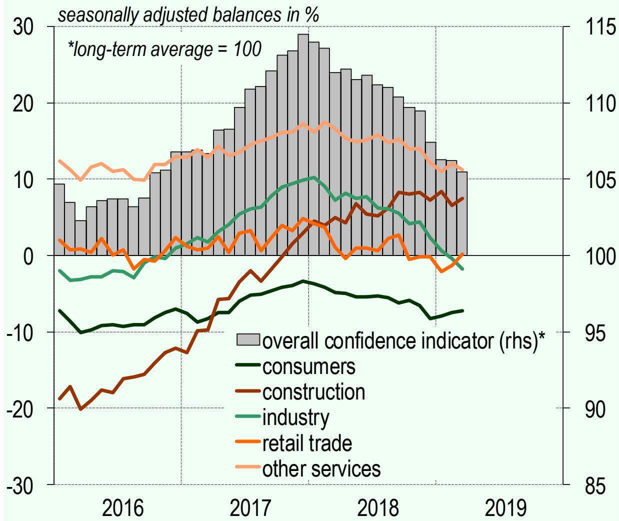
Note: Dashed line represents the value of the last observation.
Source: IHS Markit.

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



Source: Eurostat, Bank of Slovenia calculations.

Figure 1.7: Confidence indicators – euro area

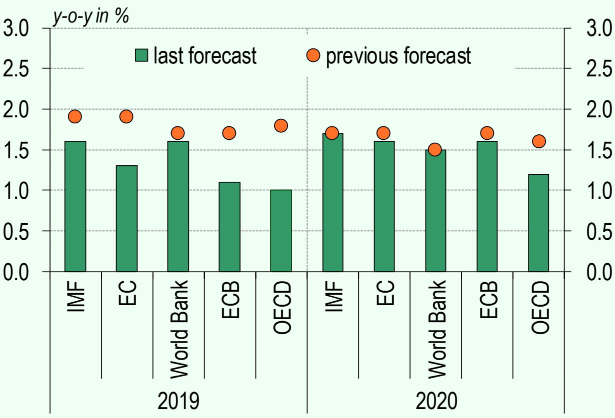


Source: Eurostat.

the levels seen in late 2016. There was a significant decline in confidence in industry, while confidence improved slightly in retail and in other services, and remained high in construction.

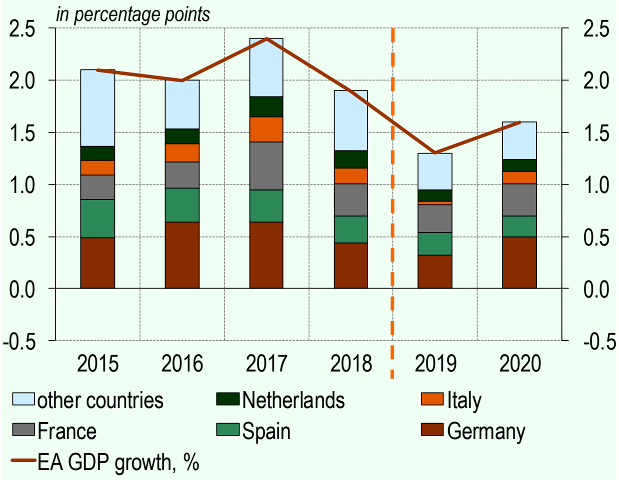
Economic growth in the euro area is expected to slow sharply this year. The majority of international institutions have revised their forecasts for 2019 downwards, although the situation is expected to be slightly better in 2020. GDP growth is forecast at just over 1% this year, and slightly higher in 2020, at an average of 1.5%. The ECB sharply reduced its forecast for this year's economic growth in the euro area by 0.6 percentage points to 1.1%. This was attributable to the increased uncertainty in the international environment, and the adverse domestic factors in some euro area countries. As a result of monetary policy stimulus, wage rises, the recovery of foreign demand and fiscal easing, economic growth is forecast to strengthen to 1.6% in 2020, before easing to 1.5% in 2021.

Figure 1.8: Euro area GDP growth forecasts for 2019 and 2020



Note: Included forecasts are the following: IMF (January 2019, October 2018), European Commission (February 2019, November 2018), World Bank (January 2019, June 2018), ECB (March 2019, December 2018), OECD (March 2019, November 2018).
Source: IMF, European Commission (EC), World Bank, ECB, OECD.

Figure 1.9: Contribution by Member States to GDP growth in the euro area

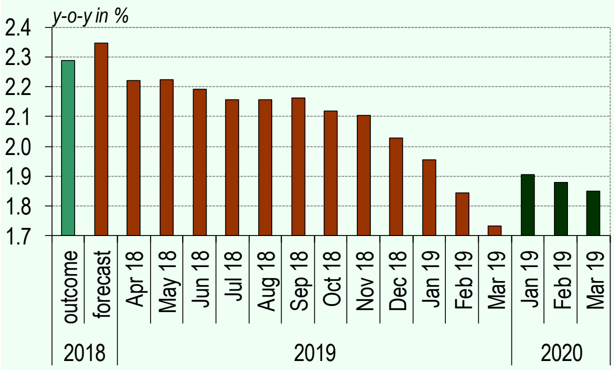


Note: The 2017 weights were used to calculate contributions for 2019 and 2020.
Source: European Commission, Eurostat, Bank of Slovenia calculations.

Slovenia's trading partners

The weighted economic growth forecast for Slovenia's main trading partners for 2019 has declined significantly. Consensus revised its forecasts for 2019 for most of the major partners downwards, most notably Germany and Italy, but the situation is expected to be slightly better in 2020. It is forecasting growth in Germany of just 1% this year, down 0.5 percentage points on its December forecasts, and slightly higher growth of 1.5% in 2020. This is attributable to weaker activity in the second half of 2018, which was primarily the result of a contraction in industrial production. Industrial production was down again in year-on-year terms in January, by 3.4%, and according to the manufacturing PMI, which in March reached its lowest level since 2012, the contraction in activity has continued. Consensus lowered its economic growth forecasts for Italy, which slipped into recession in the second half of last year, to just 0.1% for this year and 0.6% in 2020. Given the increased uncertainty in the international environment, it also lowered this year's forecast for France, which recorded growth of 0.9% in the final quarter of last year, the lowest figure since the third

Figure 1.10: Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2019 and 2020



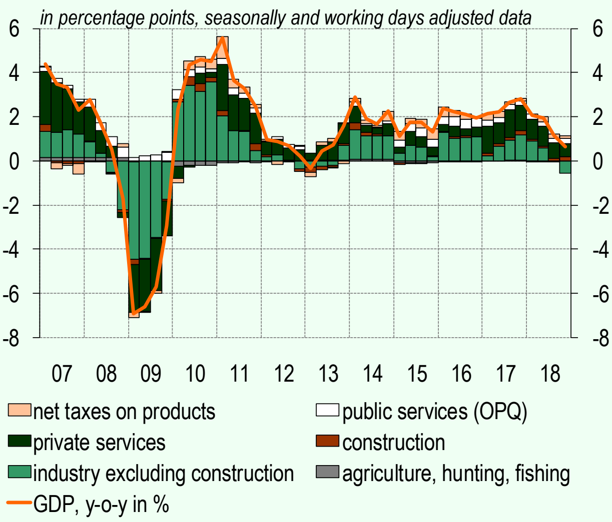
Note: Trade partners with at least 1% of total goods exports of Slovenia in the last twelve months are included (January 2018 – December 2018; 22 trading partners with a total share of 87.7 %). The growth forecasts for the years 2019 and 2020 are weighted with the share of each country in the total exports of goods. For 2018 the weighted outcome and the December weighted forecast are shown. For China, IMF data is used.
Source: SORS, Consensus, IMF, Bank of Slovenia calculations.

Box 1.1: Macroeconomic position of Germany and its importance for Slovenia's exports

Economic growth in Germany slowed last year. Year-on-year GDP growth slowed from an average of 2% between 2014 and 2017 to 1.4% in 2018. Growth slowed in the second half of the year in particular, which was primarily attributable to the negative contribution by net trade, as a result of weaker growth in Germany's exports. The contribution by private consumption was also down slightly on 2017, despite the further fall in the harmonised unemployment rate to 3.3%, and a sharper increase in wage growth in the last year. On the output side, the majority of the decline in GDP growth was attributable to a decline in value-added in manufacturing in the second half of the year as a result of weaker growth in demand on the European and Chinese markets, and difficulties in the German car industry because of new emissions testing. The slowdown in Germany's economy growth has continued this year, as evidenced by the renewed decline in the economic sentiment indicator, while the manufacturing PMI also points to a further contraction. This year's economic growth forecasts have also been significantly reduced, owing to the increased uncertainty. The OECD is now forecasting GDP growth of just 0.7% this year, down 0.9 percentage points on its November forecast. Growth is forecast to strengthen to 1.1% in 2020, but even this figure has been revised downwards. These developments are worsening the outlook for growth in Slovenia's exports, given that Germany accounts for around 20% of its total merchandise exports.[1]

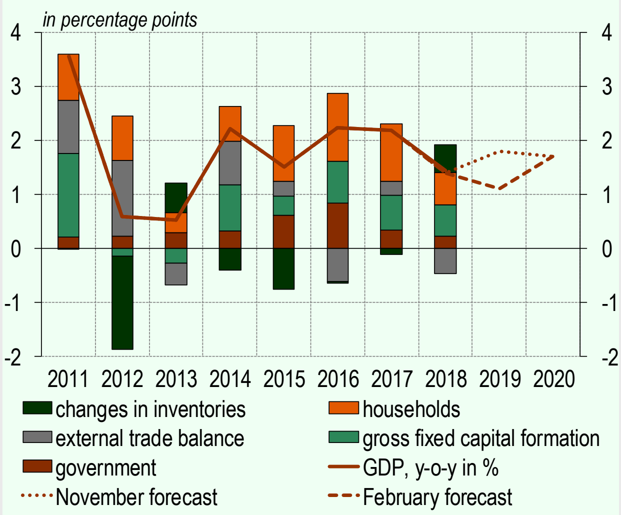
The increase in Slovenia's current account surplus with Germany over the last decade has mainly been driven by a sharp reversal in the merchandise trade balance. Slovenia's deficit in merchandise trade with Germany narrowed sharply back in 2009, when there was a sharp decline in imports of capital goods that was reflected in turning of the investment cycle in Slovenia.[2] The government austerity measures in 2012 and the resulting significant decline in final consumption brought a decline in imports of consumer goods, which led to a merchandise trade surplus. While 2008 saw a merchandise trade deficit in the amount of EUR 0.5 billion, over the 12 months to January of this year there was a surplus of EUR 0.8 billion. The surplus of trade in services has also increased sharply over the last three years, primarily as a result of increasing exports of transport services, and partly as a result of rising exports of construction services and travel services in recent years.[3] Exports of transport services were up EUR 0.2 billion or 85% on 2008. The merchandise trade surplus over the 12 months to January of this year amounted to EUR 0.6 billion, double the

Figure 2: Structure of GDP growth in Germany, production side



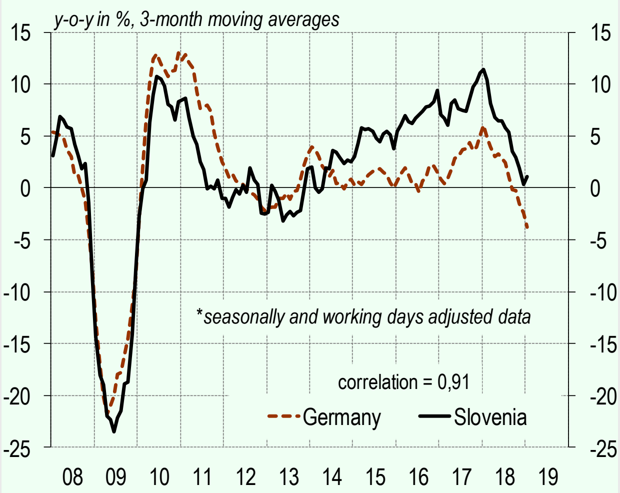
Source: Eurostat, Bank of Slovenia calculations.

Figure 1: Structure of GDP growth in Germany – demand side



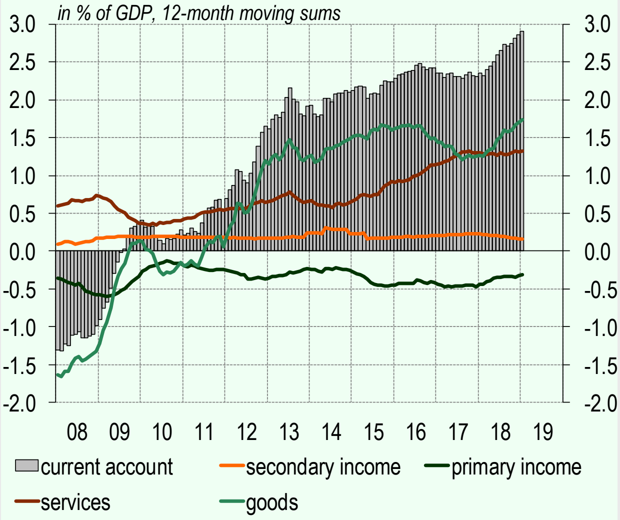
Source: Eurostat, Bank of Slovenia calculations, European Commission forecasts.

Figure 3: Industrial production*



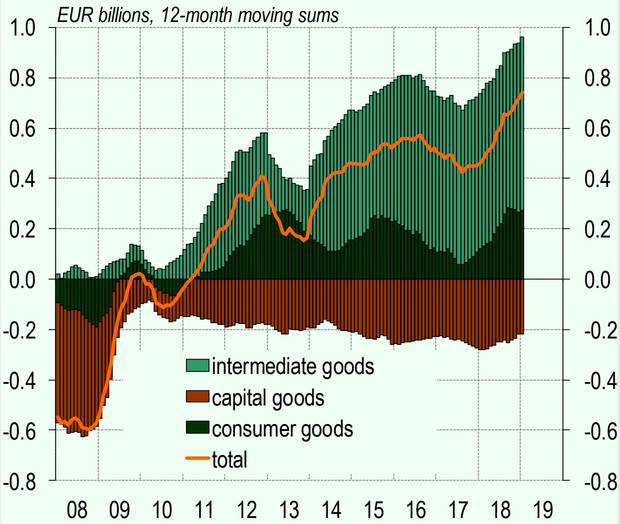
Note: The correlation coefficient is calculated for the period 1998−2019.
Source: Eurostat.

Figure 4: Slovenia's current account balance with Germany



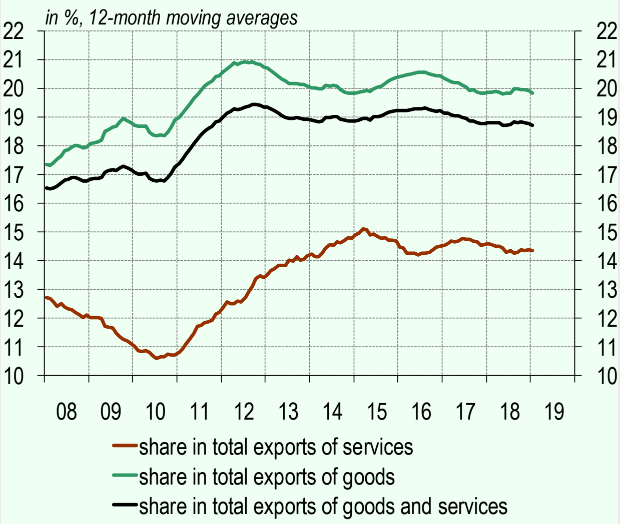
Source: Bank of Slovenia.

Figure 5: Goods trade balance between Slovenia and Germany



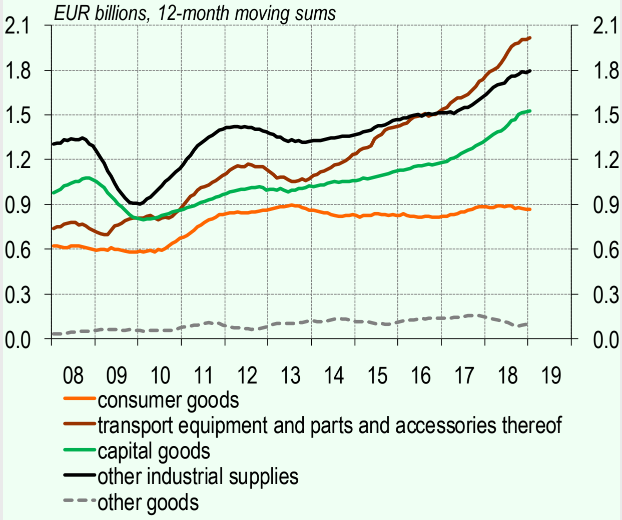
Source: SORS, Bank of Slovenia calculations.

Figure 6: Share of Germany in Slovenia's total exports



Source: Bank of Slovenia.

Figure 7: Export of goods to Germany according to BEC classification



Source: SORS, Bank of Slovenia calculations.

figure in 2008. The contributions by merchandise trade and trade in services led to a rising current account surplus, which widened further last year, and amounted to EUR 1.3 billion or 2.9% of GDP over the 12 months to January of this year.

Intermediate goods for use in German industry are prevalent in merchandise exports to Germany, accounting for almost two-thirds of the total. Growth in merchandise exports to Germany slowed slightly in the second half of 2018 in the wake of the deterioration in German industry, mainly as a result of slower growth in exports of intermediate goods, but remained above its average of the last decade. Merchandise exports to Germany over the 12 months to January of this year were up EUR 2.5 billion or 64% on their pre-crisis peak, primarily as a result of stronger exports of transport equipment, most notably exports of parts and accessories. Exports of transport equipment over the 12 months to January of this year were up EUR 1.3 billion or 177% on 2008. The main increase was in exports of passenger motor vehicles, which were up 261%, while exports of car parts and accessories were up 140%. Another highlight was the rising exports of other industrial goods, in particular processed goods for the needs of industrial production. Exports of capital goods have also increased, while exports of consumer goods have remained around EUR 0.9 billion over the last seven years.

[1] Initial estimates on the basis of quarterly figures show that the elasticity of Slovenia's real merchandise exports to Germany relative to real GDP growth in Germany ranges from 1.8% to 2.5%.

[2] The BEC classification is used. Methodological differences mean that the merchandise trade balance according to balance of payments figures differs from merchandise trade according to SORS figures. For an explanation, see the October 2018 Economic and Financial Developments, Box 4.1 on page 35.

[3] Growth in arrivals and overnight stays by German travellers has outpaced growth in arrivals and overnight stays by travellers from other countries over the last two years.

quarter of 2016. Only Poland and Hungary saw their forecasts for both years revised upwards. Growth of 3.8% this year and 3.4% in 2020 is forecast for Poland, 0.2 percentage points higher than the previous forecasts.

Euro exchange rate and commodity prices

The ECB announced a new series of TLTROs, and signalled that interest rates would be left at zero at least until the end of 2019. In the autumn the central banks of the euro area will embark on the third series of targeted longer-term refinancing operations, with favourable loans aimed at maintaining expansionary lending terms. The Fed meanwhile is planning a pause in its interest rate hikes. The key interest rate thus remains unchanged in the interval between 2.25% and 2.50%. The euro has gradually fallen against the US dollar since the beginning of the year, and is now down 9.5% on its position a year ago. The fall in the euro is attributable to the widening gap between the monetary policies of the Fed and the ECB, and the weaker growth in the euro area. The euro exchange rate stood at USD 1.12 on 28 March.

Oil prices have risen significantly since December. The price of North Sea Brent crude has gained just over 25% since the beginning of the year, reaching USD 67 per barrel on 28 March, down just over 2% on a year earlier. The rising prices reflect a decline in oil supply caused by reduced production in OPEC countries, the US sanctions against Iran and Venezuela, and a fall in stocks of crude in the US. Other commodity prices were down in year-on-year terms in the early part of this year, industrial commodities and food recording the largest falls of 12.4% and 5.6% respectively.

International capital markets

The sharp correction that hit stock markets across the world in the final months of last year was followed by a recovery in share indices in the first two months of this year, which continued in March. The representative share index for western Europe (SXXE) and the S&P 500 in the US gained 10% and 11% respectively in the first two months of the year, which was not

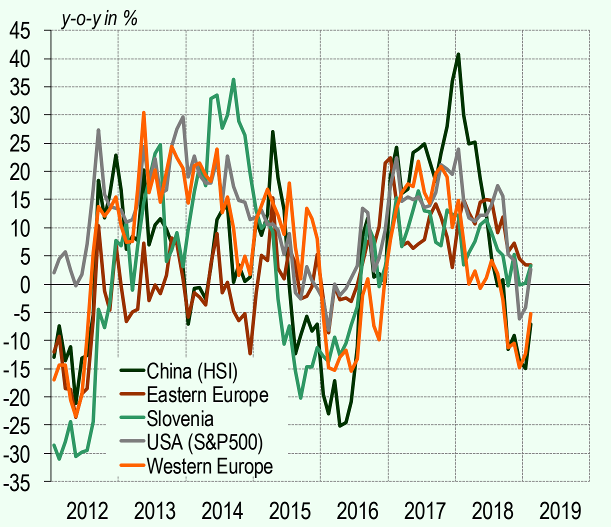
Figure 1.11: EUR/USD exchange rate and central banks' interest rates

Source: ECB, Federal Reserve.

Figure 1.12: Oil prices

Source: Bloomberg, Bank of Slovenia calculations.

Figure 1.13: Stock exchange indices



Source: Bloomberg, Bank of Slovenia calculations.

enough to cover the losses from the final quarter of last year. The recovery in share markets was attributable to optimism about a trade accord between the US and China, while the likelihood of a no-deal Brexit also diminished recently, as the expectation is for an extension and additional negotiations with the EU27. Consequently the difficulties with the cooling euro area economy remained in the background, partly as a result of the ECB's announcement that it would resume cheap long-term lending to European banks.

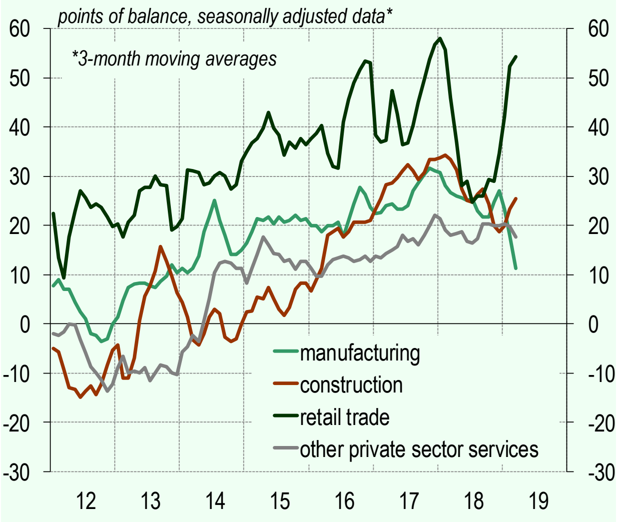
2 Economic Developments

The monthly confidence and activity indicators for the early part of this year point to somewhat lower but still solid economic growth. The economic sentiment in March remained down on the beginning of the year, but unchanged from February. Firms' assessments of short-term demand prospects suggest a further slowdown in growth in foreign demand, while the situation on the domestic market should remain strong. These assessments were not yet entirely reflected in the activity indicators in January. After declining in December, industrial production in January was up 5.7% in year-on-year terms. Given the deterioration in European industry, manufacturing firms' assessment of the uncertainty in the economic situation, which remained low, at least in the first quarter, was a positive surprise. Growth in turnover in services in January was also up on December, and was only slightly below last year's average. Growth in construction activity slowed as expected in the period following the local elections, and remained relatively low in January at 4.3%. Year-on-year growth in the composite activity indicator, which captures the aforementioned economic sectors, increased to 6.0% in January, slightly above the average of the final quarter of last year. The economic situation thus remained significantly better than the euro area average.

Confidence indicators

The economic sentiment remained unchanged in March, while firms' assessments point to the continuation of relatively fast growth in sales on the domestic market, and a deterioration in the export sector. This year the confidence indicators are either increasing or holding at high levels in the sectors primarily dependent on the domestic market, while manufacturing firms are considerably more cautious. Firms in construction and private-sector services other than retail assess current demand as relatively strong, and also remain reasonably optimistic with regard to growth in demand in the second quarter of this year. Retail firms are even more optimistic: after falling last year, the sales expectations indicator has now approached its highest value since the

Figure 2.1: Expected demand in the next three months



Source: SORS, Bank of Slovenia calculations.

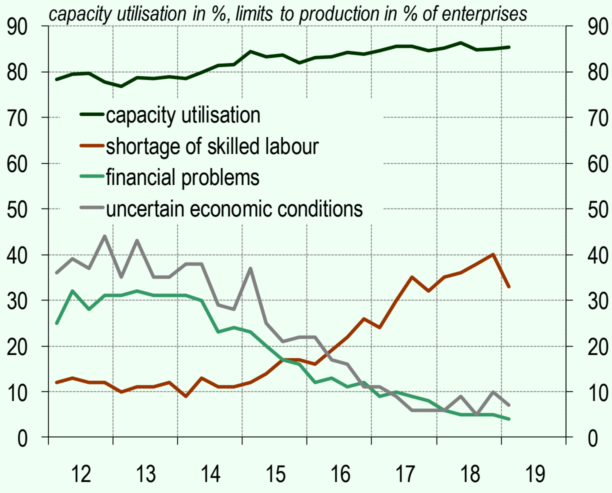
end of 2017. The picture is different for manufacturing firms. They reported a fall in current orders in March, and again significantly downgraded their assessment of new orders in the next three months as the overall demand expectations indicator declined in March to its lowest level since July 2013. On the other hand, the proportion of manufacturing firms assessing the economic situation as uncertain was a surprise, having remained low in the first quarter at least. Production capacity utilisation also remains very high. In contrast to retail confidence, consumer confidence has declined slightly this year, but has nevertheless remained significantly above its long-term average.

GDP – output side

Economic growth in Slovenia slowed in the final quarter of last year, but remained high compared with the euro area. After adjustment for seasonal and calendar effects, quarterly GDP growth slowed to 0.8%, down 0.5 percentage points on the previous quarter, but still 0.6 percentage points higher than the overall euro area average. Year-on-year GDP growth also declined slightly in the final quarter of last year, under the influence of a strong base effect. According to the raw figures, it stood at 4.1%, 2.8 percentage points higher than the euro area average. Year-on-year growth in value-added remained high compared with the euro area in all sectors, albeit with a significantly smaller gap in the construction sector than in the previous quarters of 2018. Growth in value-added in industry outpaced the euro area average by 2.6 percentage points, again significantly less than in 2017.

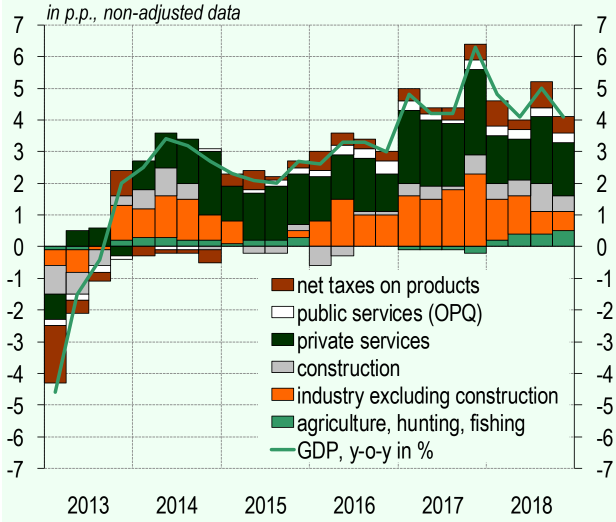
Year-on-year growth in value-added in industry declined again in the final quarter of last year, as certain segments even saw a contraction in output. Growth in value-added in industry stood at just 2.5%, down 7.3 percentage points on a year earlier, when it reached its peak of the current cycle. Alongside the specifics of the production cycle at domestic car maker, the decline was also the result of a deterioration in the international environment, which was most strongly reflected in lower growth in turnover on euro area markets. The year-on-year rate

Figure 2.2: Business tendency in manufacturing – capacity utilisation and limits to production



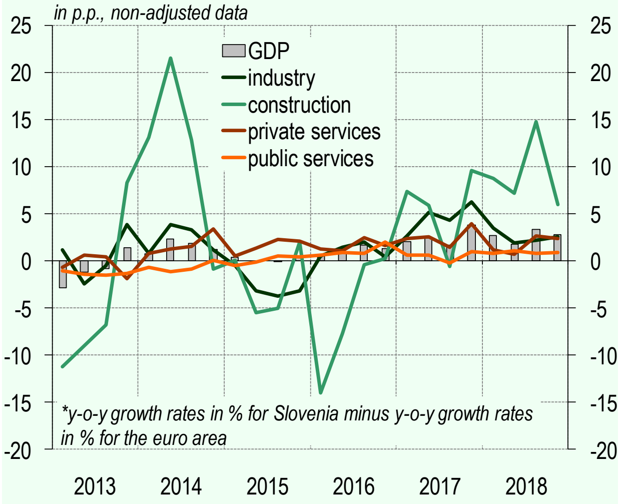
Source: SORS.

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*



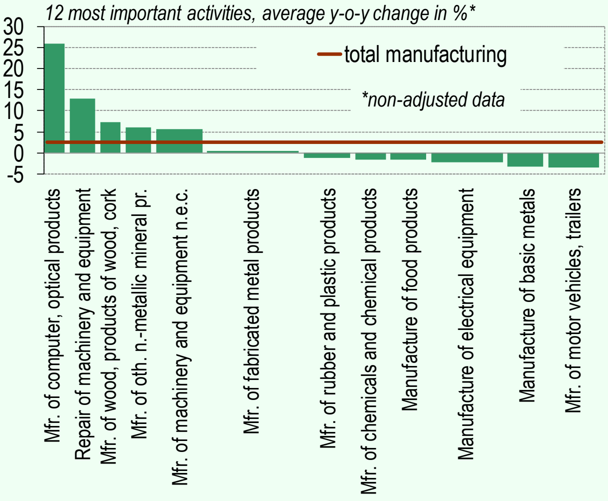
Source: Eurostat, Bank of Slovenia calculations.

stood at just 0.5% in the final quarter of last year, having exceeded 20% a year earlier. Last year saw a sharp slowdown in growth in production of medium-high and medium-low technological complexity, which includes cars, machinery, chemicals, metals and electrical appliances. By contrast, growth in low-tech production remained solid, as the wood industry and the manufacture of beverages continued to record high growth, as did growth in high-tech production, where growth remained elevated in the manufacture of computer, electronic and optical equipment. According to export figures, the situation also remained favourable in the pharmaceuticals industry.

Compared with industry, the slowdown in growth in value-added in services was significantly smaller last year. Value-added in private-sector services in the final quarter of last year was up 4.1% in year-on-year terms, as growth in the second half of the year strengthened relative to the first half in line with the increased growth in exports of services. At the same time, domestic factors remained reasonably favourable: growth in overall domestic consumption remained relatively high at the end of last year. The contribution to GDP growth by private-sector services nevertheless declined last year. It stood at 1.7 percentage points, down 0.6 percentage points on 2017. Looking at the developments in real turnover in the major service sectors, the main slowdown was in growth in the transportation and storage sector, which has coincided with lower growth in merchandise exports. By contrast, growth in retail turnover remained high last year, and turnover in tourism increased sharply, while in line with the boost in construction activity there was also increased turnover in professional, scientific and technical activities. Growth in value-added in public services remained around 2% in the final quarter of last year.

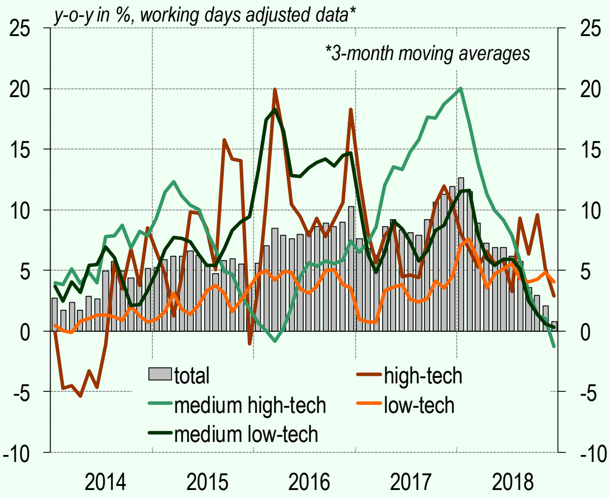
In the final quarter of last year, growth in value-added in construction slowed, but remained the highest of all the major sectors. The slowdown was attributable to the gradual completion of construction work in the civil engineering segment in connection with last year's electoral cycle, a sharp decline of growth in the construction of non-residential buildings, and stagnation in the construction of residential buildings. Year-on-year growth in

Figure 2.5: Manufacturing production: Oct. – Dec. 2018



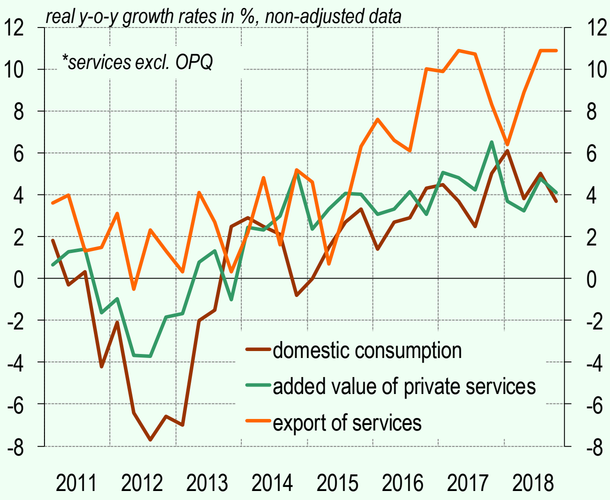
Note: Width of each column represents a share of activity in total value added in manufacturing in 2017. Pharmaceuticals are not included due to data confidentiality. Source: SORS, Bank of Slovenia calculations.

Figure 2.6: Production in manufacturing according to technological intensity



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.

value-added in construction nevertheless stood at 9.5% in the final quarter of last year. This is down a half on the third quarter, when it reached its highest rate since the second quarter of 2014. The peak of growth in 2014 was also connected with the electoral cycle.

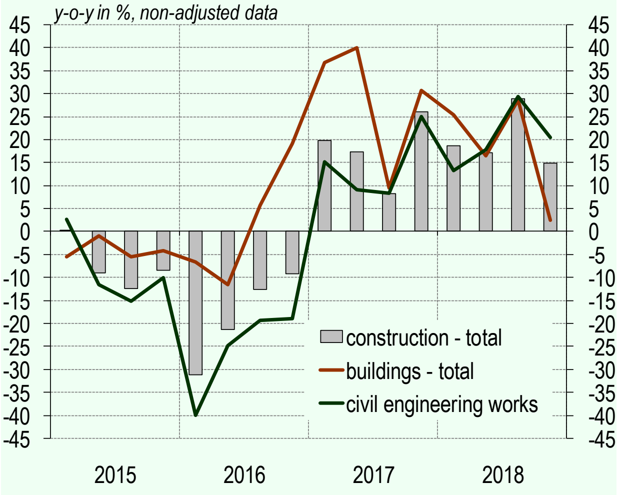
GDP – expenditure side

The final quarter of last year saw strengthened growth in private consumption and slightly weaker growth in investment. Quarterly growth in private consumption stood at 1.4% after adjustment for seasonal and calendar effects, the highest rate of the year, while in gross fixed capital formation it stood at 0.6%, the lowest rate of the year. Quarterly growth in aggregate domestic demand stood at 1.2%, comparable with the third quarter. According to the raw figures, year-on-year growth in aggregate domestic demand declined in the final quarter, partly on account of the high base, but remained relatively high at 3.7%. Growth in private consumption strengthened to 2.1%, while growth in final government consumption slowed to 1.5%. Growth in gross fixed capital formation also declined, to 8.2%, its lowest rate since the third quarter of 2017. Investment nevertheless remained the main engine of growth in aggregate domestic demand, compared with the euro area average.

Growth in private consumption was again significantly outpaced by growth in the wage bill last year, while households again increased their saving rate. Growth in private consumption strengthened late in the year as employment growth remained high, and consumer confidence and real wage growth rose slightly. It stood at 2.2% over the year as a whole, up 0.3 percentage points on 2017. At the same time real growth in the wage bill reached 5.3% last year according to national accounts figures, up 0.4 percentage points on 2017. The household saving rate reached 15.3%, up 1.1 percentage points on 2017.

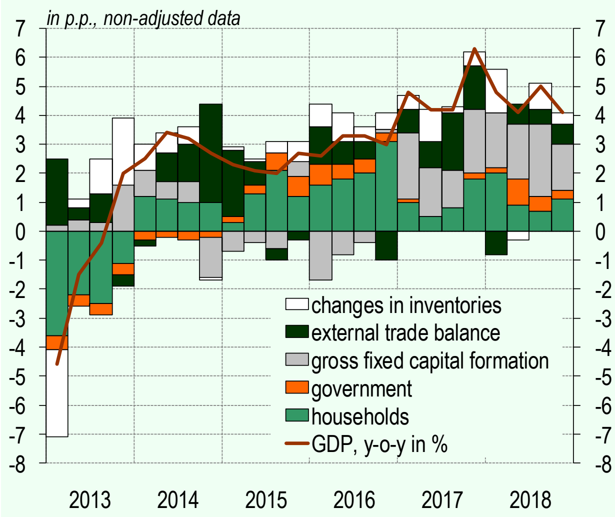
Growth in investment slowed in the final quarter, in the background of which were several factors. Investment into machinery and equipment was down 1% in quarterly terms, taking the year-on-year rate of growth to 4.9%, the lowest figure in the current investment cycle.

Figure 2.8: Volume of construction put in place



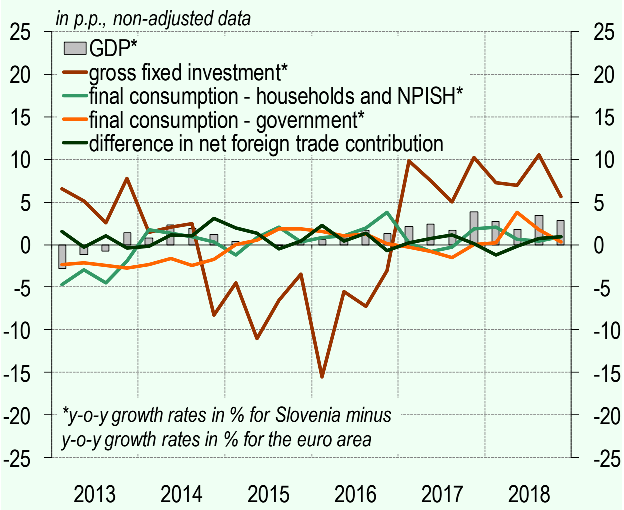
Source: SORS, Bank of Slovenia calculations.

Figure 2.9: Structure of GDP growth in Slovenia, expenditure side



Source: SORS.

Figure 2.10: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*

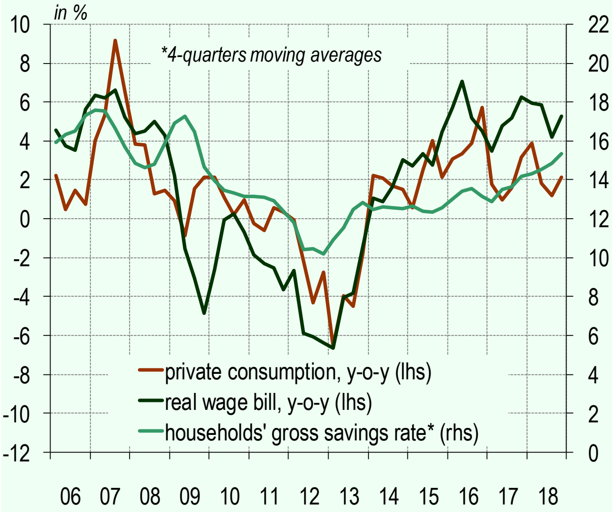


Source: Eurostat, ECB, Bank of Slovenia calculations.

Two factors in the slower growth were weaker growth in foreign demand and increased uncertainty in the international environment, while the financing conditions remained favourable, and production capacity utilisation high. Quarterly growth in non-residential construction investment also slowed, which coincided with the period after autumn's local elections. Their year-on-year rate of growth stood at 12.3%, down 8.6 percentage points on the third quarter. Investment in residential construction strengthened slightly last year. It was up 6.1% in year-on-year terms in the final quarter, the highest rate of growth in the new investment cycle. The indication is that the earlier rise in the number of building permits and the value of new contracts for residential construction is gradually being realised. Although gross fixed capital formation was up more than 10% last year for the second consecutive year, it remained low as a ratio to GDP. It stood at 19.6%, 1.4 percentage points below the euro area average.

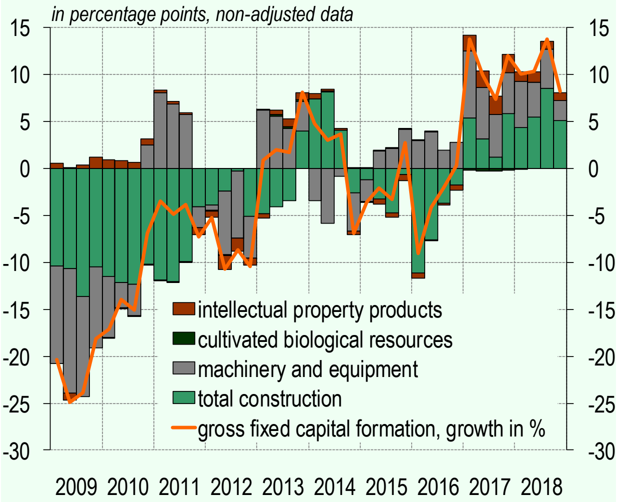
The contribution to GDP growth by net trade declined last year, as a result of lower growth in exports and stronger domestic investing. After a weak third quarter, the quarterly rate of real growth in total exports strengthened to 3.0% in the final quarter, raising the year-on-year rate of growth to 6.8%. Growth within the year was nevertheless lower than in 2017, the situation in the international environment having become less encouraging for merchandise exports. Given the decline in growth in industrial production and gross fixed capital formation in the EU, growth in exports of intermediate goods and capital goods slowed, while after August the situation in the car industry was hit by falling car sales. Real growth in merchandise exports stood at 6.7% last year, down 4.3 percentage points on 2017. Real growth in exports of services stood at 9.3% last year, and thus remained at a comparable level to 2017, as exports of travel services and of construction and miscellaneous business services picked up in the second half of the year. Last year's real growth in imports was also down on 2017, albeit only because of lower growth in imports of intermediate goods caused by the smaller increase in industrial production. At the same time imports of capital goods strengthened notably. Last year's growth in imports of services remained comparable to that in 2017, following a sharp decline in

Figure 2.11: Households' savings and consumption



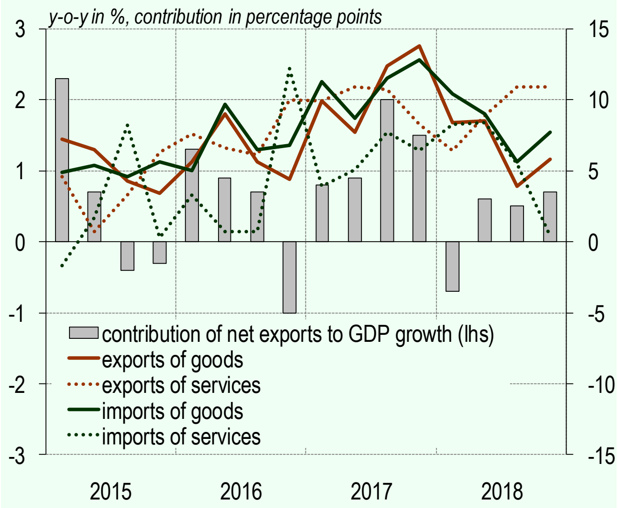
Source: SORS, ECB, Bank of Slovenia calculations.

Figure 2.12: Contributions to volume y-o-y growth in gross fixed capital formation



Source: SORS, Bank of Slovenia calculations.

Figure 2.13: Foreign trade



Source: SORS – national accounts.

the second half of the year. Real growth in aggregate imports and exports reached 7.8% and 7.2% respectively last year, reducing the contribution to GDP growth by net trade to 0.3 percentage points, down 1 percentage point on 2017.

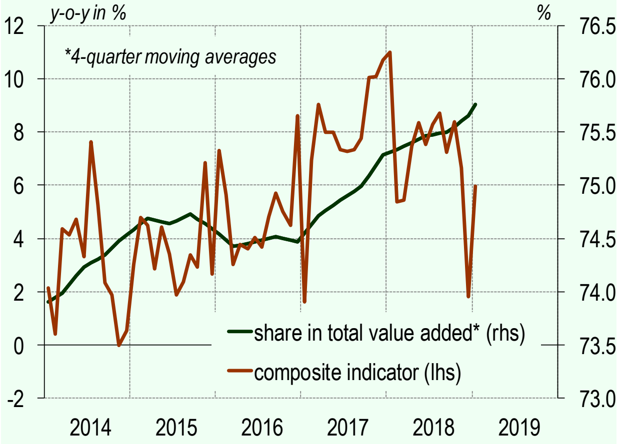
Economic developments in the first quarter of this year

The composite economic activity indicator points to economic growth remaining solid in the early part of this year. The indicator, which captures sectors accounting for around 75% of aggregate value-added, was up 6.0% in year-on-year terms in January. This was 4.2 percentage points more than in December. The largest factor in the increase was the increase in industrial production, and growth in turnover in private-sector services was also slightly stronger, while year-on-year growth in construction activity remained relatively low. Growth in the composite indicator in January was slightly above the average over the final quarter of last year, but was down 1.2 percentage points on the average over last year.

After falling in December, industrial production strengthened in January. Year-on-year growth in industrial production reached 5.7%, albeit with significant variations between the product categories. Growth in production of intermediate goods was low, at just 2.0%, which was primarily attributable to the ongoing unfavourable situation in German industry with renewed fall in output in January. Contrary to expectations, production of capital goods strengthened to 7.4%, despite a high base. The sharpest rise in growth was recorded by production of consumer goods, which jumped to 12.5%. The likelihood is that this is merely a temporary spike, as the figures for merchandise exports reveal an unusual increase in exports of pharmaceutical products to Switzerland.

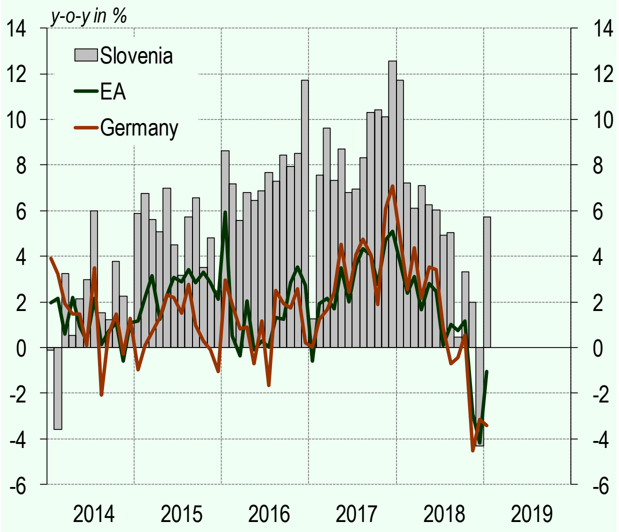
Turnover in private-sector services also strengthened relative to December, although the rate of growth was down slightly on last year's average. Year-on-year growth stood at 6.9% in January, up 1.4 percentage points on December. The increase was mainly attributable to stronger growth in turnover in the transportation

Figure 2.14: Composite indicator of economic activity



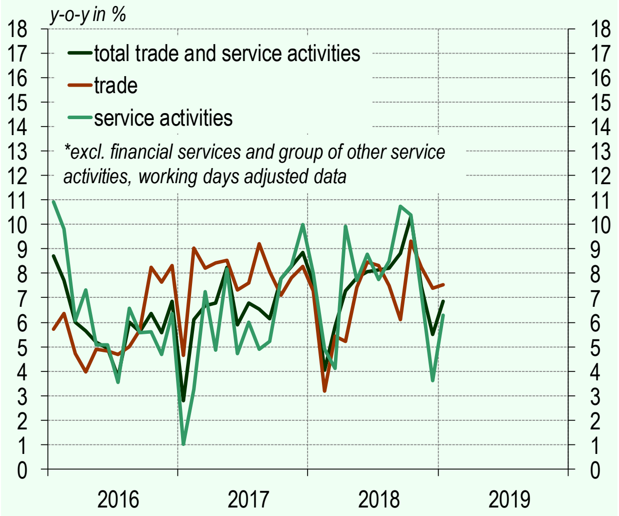
Note: Volume composite indicator includes real volume index of service activities and trade, real index of industrial production and real volume index of construction put in place.
Source: SORS, Bank of Slovenia calculations.

Figure 2.15: Industrial production volume



Source: Eurostat, Bank of Slovenia calculations.

Figure 2.16: Volume turnover in trade and other private sector services*

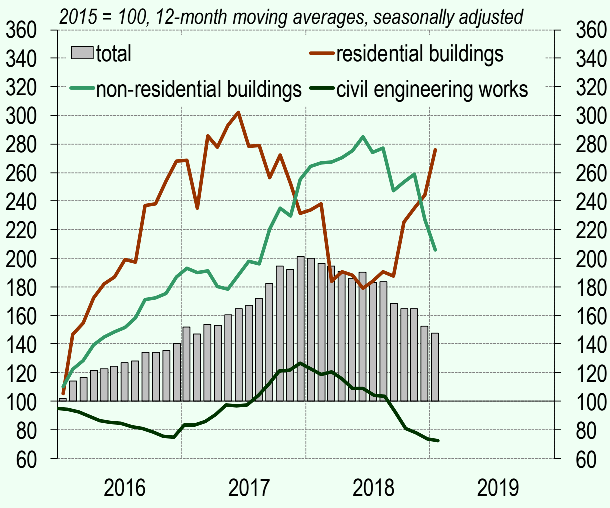


Source: SORS, Bank of Slovenia calculations.

and storage sector, which coincided with growth in merchandise exports and industrial production. Turnover in professional, scientific and technical activities and in information and communication activities also strengthened relative to December, while growth in wholesale and retail trade remained relatively high. The increase in activity in private-sector services nevertheless remained slower than last year, particularly compared with the middle of the year; the worsening situation in the international environment has brought lower growth in turnover in transportation and storage, while growth in activity in professional, scientific and technical activities is gradually slowing together with construction, and turnover in employment activities in January was down in year-on-year terms for the third consecutive month. The last of these could be a sign of a slowdown in growth in demand for labour from employers, which would be expected in a situation of lower economic growth.

After declining in December, year-on-year growth in the amount of construction put in place remained relatively low in January. It stood at 4.3%, and was being maintained solely by civil engineering work, where the increase in activity slowed again. The value of new contracts for civil engineering work also declined last year, which is worsening the outlook for this year's

Figure 2.17: Real value of new contracts in construction



Source: SORS, Bank of Slovenia calculations.

growth. Aggregate activity in the construction of buildings was down in year-on-year terms for the second consecutive month, although this should at least be temporary as far as residential construction is concerned, as the value of new contracts in residential construction has risen again in recent months, while residential real estate prices are also attractive for investors, having risen more than 18% last year. Future growth in activity in construction of non-residential buildings is less reliable, the number of issued building permits and the value of new con-

Table 2.1: Economic activity – volume indices of production

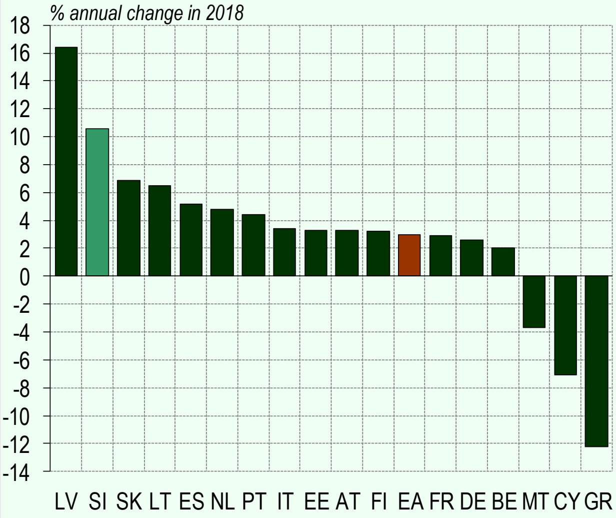
	12 m. to Jan. 18	12 m. to Jan. 19	2018 Nov.	2018 Dec.	2019 Jan.	2018 Oct.	2019 Jan.
			*y-o-y in %***			*monthly****	
Industrial production - total	9.2	4.1	2.0	-4.3	5.7	0.4	0.8
Manufacturing	10.0	4.5	2.1	-4.0	6.2	0.3	1.2
Construction - total	21.6	16.7	19.5	4.3	4.3	6.1	-0.5
Non-residential buildings	24.2	15.1	10.6	-10.4	0.0	-2.0	5.2
Residential buildings	53.3	5.8	-6.5	2.3	-7.9	4.9	0.3
Civil engineering	18.4	18.5	25.4	9.6	6.7	7.9	0.2
Trade and service activities* - total	7.2	7.4	7.5	5.5	6.9	2.3	0.8
Wholesale and retail trade and repair of motor vehicles and motorcycles	14.3	11.6	5.1	1.1	7.3	-4.1	-0.7
Retail trade, except of motor vehicles and motorcycles	5.2	3.6	6.0	7.7	7.3	3.0	2.5
Other private sector services	6.6	7.5	7.2	3.6	6.3	2.6	0.2
Transport and storage	12.3	7.3	6.1	1.3	5.3	4.6	-1.1
Accommodation and food service activities	7.7	4.8	5.1	5.8	4.0	1.3	-0.1
Information and communication	2.9	6.4	6.5	5.1	9.1	1.6	1.4
Professional, scientific and technical activities	0.9	13.4	13.7	9.5	12.0	1.3	2.2

*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.

Box 2.1: Economic growth in Slovenia compared with other euro area countries in 2018

Slovenia had the third-highest GDP growth in the euro area last year, primarily as a result of high growth in investment. It recorded growth of 4.5%, 2.7 percentage points more than euro area average, behind only Latvia and Malta. A carry-over effect played a significant role in this high growth, but the slowdown in growth during the year was more gradual than in most other euro area countries. Of the components of aggregate demand, there was notable growth in gross fixed capital formation of 10.6%, the second-highest rate in the euro area. This was largely attributable to high growth in construction investment, in line with the electoral cycle and the increased utilisation of EU funds, while growth in investment in machinery and equipment slowed last year, as a result of the increased uncertainty in the international environment. Although growth in exports slowed significantly relative to the previous year, at 7.2% it was still the second-highest in the euro area, outpacing the euro area average by 4.2 percentage points. On the other hand, the favourable domestic situation meant that growth in imports outpaced growth in exports. It reached 7.7%, the highest rate in the euro area. The contribution to GDP growth by net trade nevertheless remained positive, at 0.3 percentage points, slightly above the euro area average. Growth in private consumption was again relatively low last year compared with the situation on the labour market. At 2.2%, it outpaced the euro area average by 0.9 percentage points, although the weaker growth in the euro area was primarily the result of low growth in Germany, France and Italy. Growth in final government consumption stood at 2.6%, the fourth-highest rate in the euro area.

Figure 1: Gross-fixed capital formation in euro area member states



Source: Eurostat, Bank of Slovenia calculations.

tracts in this segment having declined slightly last year. Construction activity in the euro area was down 0.7% in year-on-year terms in January.

3 Labour Market

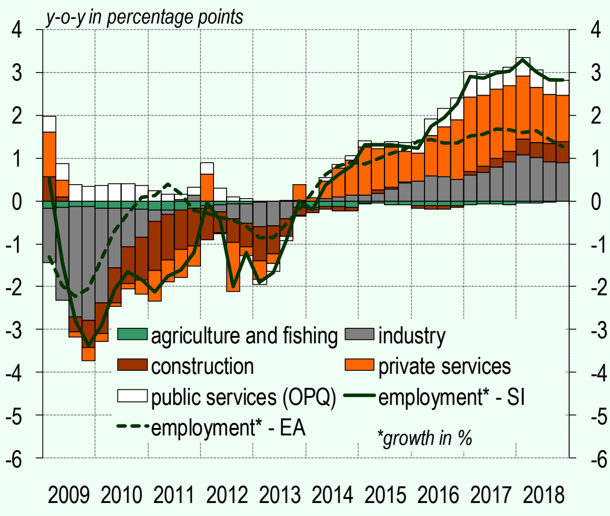
The structural imbalances on the labour market are still not strongly hampering employment: the year-on-year rise in the persons in employment excluding self-employed farmers remained high in January at 3.1%, although foreign citizens accounted for almost two-thirds of new hires. Unemployment also continued to fall over the first two months of the year. The number of vacancies remains high, although the survey indicators of employment expectations show signs of a slowdown. Year-on-year growth in the overall gross average wage rose to 4.2% in January, primarily as a result of the entry into force of an agreement on wage growth in the public sector and the resulting year-on-year rise of more than 10% in the average gross wage in public administration. Wage growth stood at 3.7% in the mostly private sector.

Employment

Growth in employment remained high last year, and comparable to the previous year.[1] It stood at 3%, although the year-on-year rates slowed from quarter to quarter. At 3.2%, growth in employment in the private sector was higher than in mostly public services,[2] where it stood at 2.0%. The largest increases in the contribution to employment growth relative to the previous year were seen in industry, which accounted for a third of aggregate growth, and construction. Last year's employment growth was attributable to a rise in the employment rate, and to the hiring of foreign citizens. The employment rate averaged 71.1% last year, up almost 2 percentage points in year-on-year terms, as the share of both unemployed and inactive persons in the working age population fell relative to the previous year. Among the inactive persons, there were especially fewer persons who are not looking for work. According to the monthly figures, growth in employment remained high in January, at 3.1% in year-on-year terms, comparable to the average of last year's year-on-year rates. Foreign citizens accounted for 63% of the overall year-on-year increase in the persons in employment excluding self-employed farmers in January, and now make up a tenth of the persons in employment.

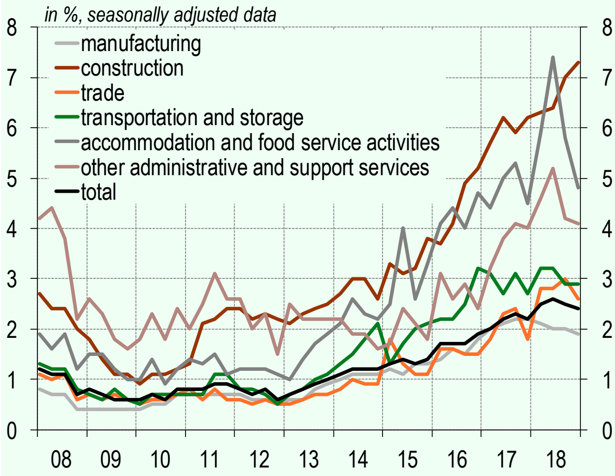
[1] Differing methodologies and data sources mean that the employment figures vary. The national accounts figures for employment from the statistical register of the persons in employment (the SRDAP) include permanent employees, self-employed and unpaid family workers in private farming, self-employed 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 persons 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 persons 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 persons 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).

Figure 3.1: Contributions to employment growth



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

Figure 3.2: Vacancy rate*

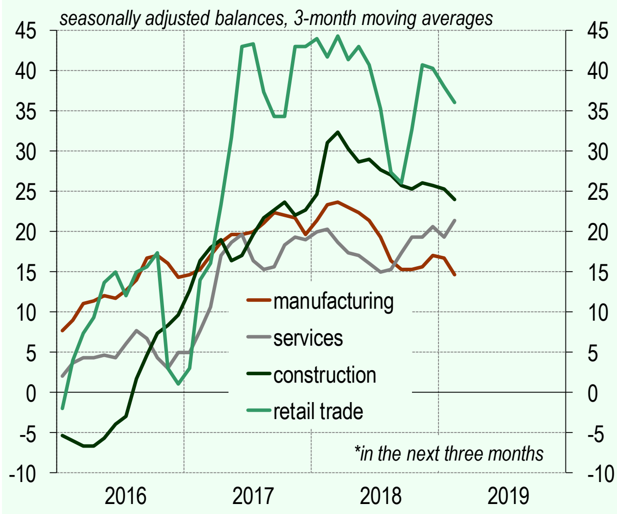


Note: *The vacancy rate reflects the share of job vacancies in all posts combined, all posts being the sum of vacant and occupied posts.
Source: SORS, Bank of Slovenia calculations.

Demand for labour remained high over the first two months of the year, and was primarily evident in low-skilled and medium-skilled occupations. The vacancy rate, which reflects structural imbalances on the labour market, remains at historically high levels, and was highest in construction in the final quarter of last year.[3] More than 19,000 vacancies were notified last year, up 18.6% on the previous year. The largest demand for workers notified by employers at the Employment Service in February of this year was for bricklayers, drivers of heavy goods vehicles and tractor units, and elementary occupations in manufacturing. According to a survey by PwC, eight out of ten directors in Slovenia have concerns about the availability of skilled workers. Among the reasons that they highlight for it being harder to hire suitable labour is a lack of skilled workers and changes in industry requirements as far as skills are concerned, which they most often address by retraining current employees and developing their skills and knowledge.

Employment expectations are showing signs of a slowdown. More than half of the directors in the PwC survey stated that they are expecting to hire employees this year. Employment growth is still being reflected in surveys by the SORS and by ManpowerGroup, which are however showing signs of a slowdown. According to the SORS survey, employment expectations remain at historically high levels, although recently they have declined in all the sectors covered (manufacturing, construction, retail), with the exception of services. A similar picture is painted by the ManpowerGroup survey, which for the second quarter of this year shows the weakest employment forecast of the last two years according to seasonally adjusted figures, although it remains stable. Employers are expecting increased employment in the majority of sectors covered by the analysis, most notably in manufacturing, and in transport, logistics, and communications. Employment expectations in the majority of sectors are

Figure 3.3: Expected employment*



Source: SORS, Bank of Slovenia calculations.

[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.

lower than in the previous quarter, where employers in construction reported the largest decline in employment opportunities.

Unemployment

The slow fall in unemployment continued in the early part of this year. The number of registered unemployed stood at 80,755 in February, down 5.8% on a year earlier. The number of people newly registering as unemployed during the first two months of the year was up in year-on-year terms, and also outpaced the number of

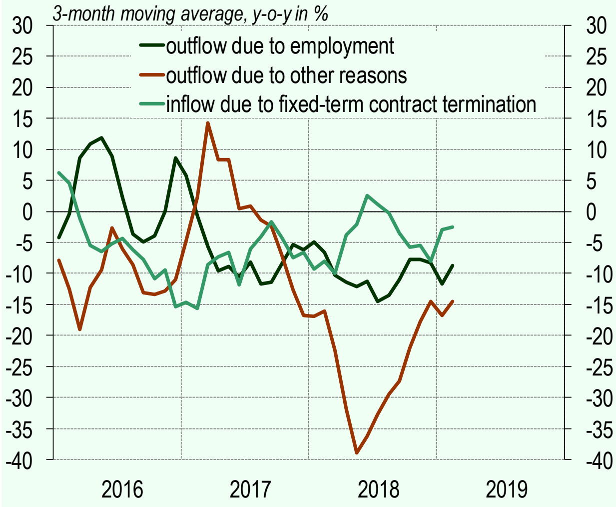
Table 3.1: Demography, unemployment and employment

	2014	2015	2016	2017	2018	17Q4	18Q1	18Q2	18Q3	18Q4
						in 1,000				
Working age population[1]	1,397	1,383	1,371	1,362	1,352	1,359	1,355	1,356	1,348	1,349
						in %				
Activity rate[2]	71.0	71.8	71.7	74.2	75.1	74.7	74.2	75.1	75.8	75.2
Employment rate[3]	63.9	65.2	65.9	69.3	71.1	70.3	69.7	71.1	71.9	71.8
						in 1,000				
Registered unemployed persons	120.1	112.7	103.2	88.6	78.5	83.5	84.9	76.7	75.3	77.0
Unemployment rate						*in %*				
- LFS	9.8	9.0	8.0	6.6	5.1	5.8	5.9	5.2	5.0	4.4
- registered	13.1	12.3	11.2	9.5	8.3	8.9	9.0	8.1	7.9	8.0
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	15.4	15.7	18.0	19.2	19.5	16.2	23.6	21.4	16.9	16.2
- probability to lose a job[5]	2.6	2.5	2.3	2.1	1.9	2.2	2.3	1.5	1.7	2.0
						in 1.000				
Total employment[6]	930	943	960	988	1,017	1,004	1,001	1,014	1,022	1,033
						year-on-year growth rates in %				
Persons in paid employment	0.6	1.4	2.2	3.3	3.5	3.4	3.8	3.5	3.3	3.3
Self-employed	-0.3	1.1	0.3	1.6	1.0	1.5	1.2	0.9	0.9	0.9
By sectors										
A Agriculture, forestry and fishing	-1.7	-0.8	-1.4	-1.0	-0.4	-1.1	-0.7	-0.7	-0.3	0.0
BCDE Manufacturing, mining and quarrying and other industry	0.3	1.1	2.3	3.3	4.3	4.0	4.7	4.5	4.0	3.9
F Construction	-1.1	0.4	-1.0	2.6	6.3	3.8	6.0	5.2	6.4	7.5
GHI Trade, accommodation, transport	-0.3	1.8	2.4	3.4	3.1	3.2	3.4	3.1	3.0	3.0
J Information and communication services	2.6	3.2	3.6	3.9	3.9	3.1	4.1	4.0	3.7	4.0
K Financial and insurance activities	-2.1	-1.2	-1.7	-1.6	-1.1	-1.4	-1.4	-0.9	-0.9	-1.4
L Real estate activities	0.9	1.4	4.6	7.9	5.3	8.6	6.7	6.6	4.8	3.2
MN Professional, technical and other business activities	3.3	3.0	2.5	5.0	2.6	4.6	3.8	2.7	2.1	1.7
RSTU Other activities	3.0	2.8	2.7	3.4	3.1	2.9	3.1	3.6	3.1	2.5
- mainly private sector (without OPQ)[7]	0.4	1.4	1.7	3.0	3.2	3.2	3.6	3.2	3.0	3.1
- mainly public services (OPQ)[7]	0.4	0.8	2.2	2.6	2.0	2.3	2.2	2.1	1.9	1.8
Total employment[6]	0.4	1.3	1.8	2.9	3.0	3.0	3.3	3.0	2.8	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.

people deregistering. That the number of people deregistering after being hired has been falling in year-on-year terms for two years now is further evidence of the growing structural imbalances on the labour market. The number during the first two months of the year was down 7.8% in year-on-year terms. The registered unemployment rate stood at 8.6% in January, down 0.7 percentage points in year-on-year terms, while the surveyed unemployment rate stood at just 4.4% in the final quarter of last year, the lowest figure since the final quarter of 2008.

Figure 3.4: Selected inflows to and outflows from registered unemployment



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

Wage developments

Growth in the average gross wage in January was higher in mostly public services than in the private sector. Year-on-year nominal growth in the average gross wage stood at 4.2% in January, up just under 1 percentage point on last year's average. The sector of public administration, defence, and compulsory social security recorded a year-on-year increase of more than 10%, on account of promotions and an agreement on public sector wage growth. With the education sector and the human health and social work activities sector also recording above-average growth in the average gross wage in January, year-on-year growth in the average gross wage in mostly public services was higher than in the private sector (6.3% versus 3.7%). Growth in wages

Table 3.2: Labour costs

	2014	2015	2016	2017	2018	17Q4	18Q1	18Q2	18Q3	18Q4
					in EUR					
Average gross wage	1,545	1,556	1,584	1,626	1,681	1,701	1,656	1,660	1,651	1,757
					y-o-y growth in %, nominal					
Average net wage	0.8	0.4	1.7	3.1	2.9	4.9	3.1	3.1	2.5	2.9
Average gross wage	1.1	0.7	1.8	2.7	3.4	3.9	3.6	3.6	3.0	3.3
- mainly private sector (excl. O..Q)[1]	1.4	0.8	1.3	2.6	3.9	4.1	3.9	4.1	3.5	4.2
- mainly public services (O..Q)[1]	0.2	0.6	3.3	2.8	2.4	3.5	3.2	3.0	2.2	1.3
Average gross wage in manufacturing	3.3	2.1	2.1	3.2	4.0	5.0	4.2	4.1	4.1	3.5
Average real net wage[2]	0.5	1.2	1.8	1.5	1.0	3.3	1.6	0.9	0.4	1.0
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	-1.2	0.3	1.8	1.2	2.5	1.2	2.4	3.5	1.1	2.8
Unit labour costs,[3,4] real	-2.0	-0.7	1.0	-0.3	0.2	-0.4	0.0	0.7	-1.4	1.3
Labour costs per employee,[4] nominal	1.3	1.3	3.0	3.2	4.0	4.4	3.9	4.6	3.2	4.1
Labour productivity, nominal	3.4	2.0	2.0	3.5	3.8	4.7	3.9	3.8	4.7	2.7
Labour productivity, real	2.5	1.0	1.3	1.9	1.5	3.1	1.4	1.1	2.1	1.2
HICP	0.4	-0.8	-0.2	1.6	1.9	1.5	1.5	2.1	2.1	2.0
GDP deflator	0.8	1.0	0.8	1.6	2.3	1.6	2.4	2.7	2.5	1.5

[1] Public administration, defence, 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.

covered by collective agreements is also strengthening, which is most likely a sign of the realisation of commitments under collective agreements, which were renewed in several sectors at the end of last year. Year-on-year growth in the average gross wage of employees covered by collective agreements at legal entities that are not budget spending units stood at 4.3% in January, significantly higher than growth in the wages of employees on individual contracts, which stood at 0.2%. Falling inflation meant that the increase in real growth in the average gross wage was even larger than that in nominal growth, the former standing at 3.0%.

Given the high growth in the average gross wage in mostly public services, growth in the gross wage bill also strengthened in January. Year-on-year nominal growth in the gross wage bill stood at 7.6% in January, up 0.6 percentage points on last year's average, but still down on the previous year. Thanks to the very high year-on-year growth in the average gross wage in mostly public services, year-on-year growth in the gross wage bill was also higher in January, at 7.6%, the highest figure since October 2016, while growth in the private sector stood at 7.8%. Real year-on-year growth in the gross wage bill stood at 6.4% in January.

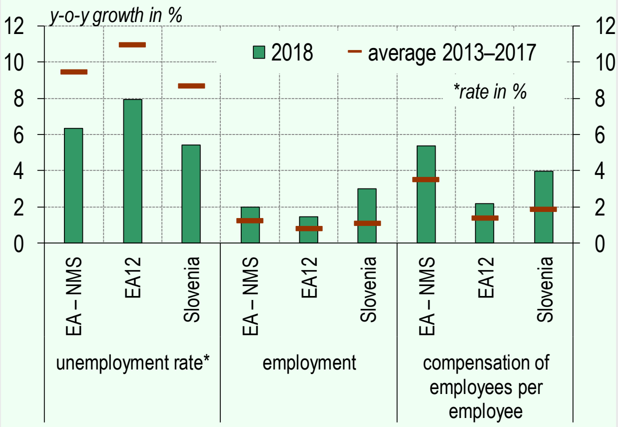
Figure 3.5: Average gross wage per employee

Notes: The dots represent data points for January 2019 without moving averages. Industry O: Public administration and defence, compulsory social security.
Source: SORS, Bank of Slovenia calculations.

Box 3.1: Labour market situation in Slovenia compared with other euro area countries in 2018

Slovenia had one of the highest rates of employment growth in the euro area last year. Employment increased by 1.5% in the euro area overall last year, although the year-on-year rates slowed from quarter to quarter. Employment growth was highest in the smaller countries, only four of which recorded higher rates than Slovenia. The lowest employment growth was recorded by Italy and France, where it was below 1%. In recent years employment growth in the countries that joined the euro area most recently has been higher on average than in the other countries.[1] This is partly attributable to a catch-up effect, as the newer countries suffered greater falls in employment at the outbreak of the crisis. Growth in compensation per employee in the newer euro area countries has also outpaced the others in recent years. Last year the rate stood at 5.4% in the newer countries, just over 3 percentage points higher, and was highest in the Baltic states, at more than 7.5%, while Slovenia recorded a rate of 4%. The surveyed unemployment rate averaged 8.2% in the euro area overall last year, still above its pre-crisis level. Despite falling in recent years, the rate remains above 15% in Greece and Spain, while it is now lower than the pre-crisis level in Belgium, Germany, Malta, Portugal and Slovakia. The unemployment rate stood at 5.1% in Slovenia, less than 1 percentage point above its pre-crisis level.

Figure 1: Labour market in the euro area



Notes: EA – NMS (EA – new member states): Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, Slovenia; EA12: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain. The average unemployment rate is calculated within an individual group of countries as an unweighted average. The calculations include the available data up to the last quarter of 2018.
Source: Eurostat, Bank of Slovenia calculations.

[1] The newer euro area countries comprise Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, and Slovenia.

4 Current Account and Competitiveness Indicators

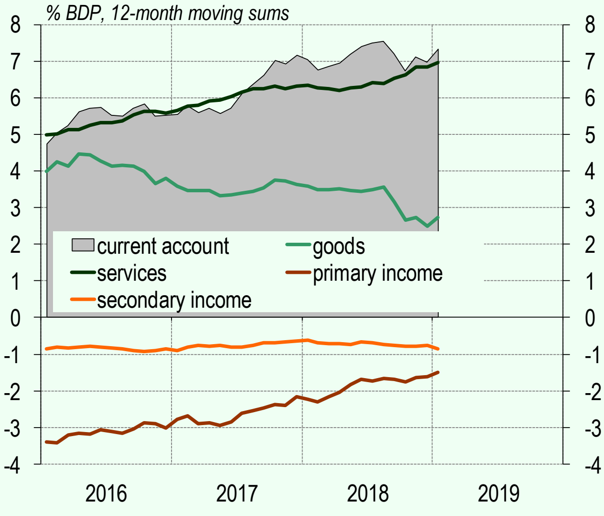
After narrowing significantly in the final months of last year, the merchandise trade surplus widened again in January, but was considerably smaller than a year earlier. Merchandise exports are continuing to record solid growth, but growth in imports has slowed. At the same time the surplus of trade in services continued to widen in the period to January, even though there was a slowdown in the previously very strong growth of exports of transport services. The trade surplus (in goods and services), which is indicative of the gap between GDP and domestic consumption, therefore remained at the high level of the last three years, and amounted to 9.7% of GDP over the 12 months to January. The most notable development in the other parts of the current account was a sharp slowdown in the narrowing of the deficit in income on investments in securities. The current account surplus remained at slightly above 7% of GDP in January.

Price and exchange rate developments had a favourable impact on the competitiveness of the Slovenian economy in the final quarter of last year. Cost pressures strengthened slightly, pushing growth in real unit labour costs above the euro area average, even in manufacturing, which is the sector most exposed to international competition. There was no significant change in Slovenia's external competitiveness overall in 2018, as evidenced by the almost unchanged breakdown of the technological complexity of merchandise exports, not to mention the harmonised competitiveness indicators and real unit labour costs.

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 January, down slightly on six months earlier, but still up 0.3 percentage points than a year earlier. The trade surplus amounted to 9.7% of GDP, and remained relatively stable at its level of the last three years. The merchandise trade surplus has slowly declined over this period, and slightly more quickly in recent months, the 12-month surplus standing at 2.7% of GDP in January. The surplus of trade in services has continued to widen sharply at the same time, and reached 7.0% of GDP in January. Another factor in the

Figure 4.1: Current account components



Source: Bank of Slovenia.

increase in the current account surplus since 2015 has been the narrowing deficit in capital income caused by the sharp decline in outflows of income on investments in securities. These outflows declined again last year, albeit less than in previous years, and the deficit in capital income now stands at around 2.6% of GDP.

Merchandise trade

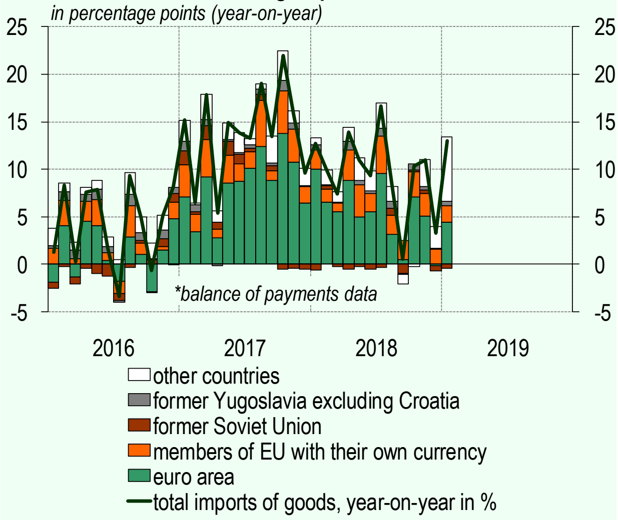
After narrowing significantly in the final months of last year, the merchandise trade surplus widened again January as exports picked up. After a major slowdown over the final four months of 2018, year-on-year growth in nominal exports declined to just 6%, but then hit 13% again in January. A similarly unexpected upward reversal was seen in the industrial production

Table 4.1: Current account components

				in 12 months to							
	2016	2017	2018	Jan.18	Jan.19	17Q3	17Q4	18Q3	18Q4	Jan.18	Jan.19
						in EUR million					
Current account balance	2,224	3,077	3,203	3,047	3,383	1,001	660	982	596	232	411
1. Goods	1,536	1,561	1,149	1,547	1,259	479	299	370	22	74	184
2. Services	2,251	2,719	3,147	2,740	3,207	804	627	966	818	217	276
2.1. Transport	932	1,073	1,366	1,105	1,365	282	291	338	351	106	105
2.2. Travel	1,337	1,552	1,715	1,550	1,727	492	364	592	415	112	124
2.3. Other	-18	93	65	85	115	30	-27	36	52	-2	48
3. Primary income	-1,215	-926	-740	-968	-686	-220	-226	-241	-198	-35	20
3.1. Labour income	187	223	303	228	303	47	71	72	72	21	21
3.2. Investment income	-1,448	-1,222	-1,190	-1,252	-1,184	-231	-288	-299	-302	-103	-97
3.3. Other income	46	72	147	56	195	-37	-9	-14	33	47	96
4. Secondary income	-349	-276	-353	-272	-397	-62	-41	-113	-47	-24	-69
						in % GDP					
Current account balance	5.5	7.2	7.0	7.0	7.3	9.1	5.9	8.3	5.0	6.6	11.0
1. Goods	3.8	3.6	2.5	3.6	2.7	4.4	2.7	3.1	0.2	2.1	4.9
2. Services	5.6	6.3	6.8	6.3	7.0	7.3	5.6	8.2	6.9	6.1	7.4
2.1. Transport	2.3	2.5	3.0	2.6	3.0	2.6	2.6	2.9	3.0	3.0	2.8
2.2. Travel	3.3	3.6	3.7	3.6	3.7	4.5	3.3	5.0	3.5	3.2	3.3
2.3. Other	0.0	0.2	0.1	0.2	0.2	0.3	-0.2	0.3	0.4	-0.1	1.3
3. Primary income	-3.0	-2.2	-1.6	-2.2	-1.5	-2.0	-2.0	-2.0	-1.7	-1.0	0.5
3.1. Labour income	0.5	0.5	0.7	0.5	0.7	0.4	0.6	0.6	0.6	0.6	0.6
3.2. Investment income	-3.6	-2.8	-2.6	-2.9	-2.6	-2.1	-2.6	-2.5	-2.6	-2.9	-2.6
3.3. Other income	0.1	0.2	0.3	0.1	0.4	-0.3	-0.1	-0.1	0.3	1.3	2.6
4. Secondary income	-0.9	-0.6	-0.8	-0.6	-0.9	-0.6	-0.4	-1.0	-0.4	-0.7	-1.8
						nominal y-o-y growth rates in %					
Export of goods and services	5.0	13.5	9.6	13.3	9.7	14.5	14.7	9.0	9.2	12.2	12.7
Export of goods	4.0	13.9	9.4	13.7	9.5	15.0	15.9	8.2	8.5	12.7	13.0
Export of services	9.3	12.1	10.3	11.8	10.4	12.9	9.9	12.0	12.3	10.1	11.3
Transport	10.9	13.2	13.7	13.7	12.4	14.2	14.9	10.7	9.7	20.3	3.8
Travel	4.4	11.1	11.6	10.4	12.2	11.1	9.6	19.7	10.9	-0.2	8.3
Other	12.8	12.3	6.6	11.6	7.3	14.3	6.8	3.4	15.2	10.8	20.3
Import of goods and services	4.2	13.6	10.9	13.1	10.4	13.3	14.1	9.8	11.3	13.4	7.7
Import of goods	4.0	14.7	11.5	14.2	11.1	14.2	15.3	10.4	12.7	14.0	8.7
Import of services	5.7	7.6	7.0	7.5	6.4	9.3	7.4	6.8	3.3	9.6	0.4
Transport	8.3	11.2	-0.6	10.1	0.3	11.9	4.6	0.4	-1.7	-1.9	11.0
Travel	3.8	3.3	13.5	2.5	13.5	3.4	2.5	18.7	4.5	4.2	4.6
Other	5.5	7.7	7.8	8.3	6.4	11.9	9.6	2.5	4.7	16.0	-4.5

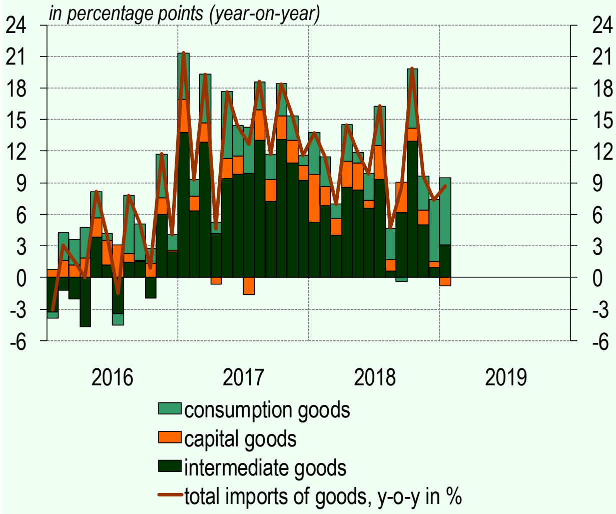
Note: Shares in GDP are calculated on the basis of monthly estimates of GDP.
Source: Bank of Slovenia.

Figure 4.2: Contributions to goods import* growth by country groups



Source: SORS, Bank of Slovenia calculations.

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



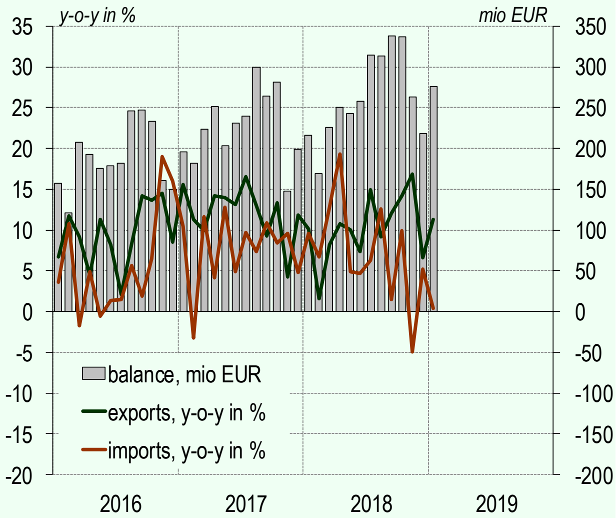
Source: SORS, Bank of Slovenia calculations.

indices. A major factor in the growth in both cases was pharmaceuticals and exports of pharmaceutical products, most notably to Switzerland, while in other segments there was no such strengthened dynamic. Smoothing out the volatility, year-on-year growth in exports is slowly declining from its peaks of late 2017, largely as a result of a slowdown in growth in exports to euro area countries. The current rate of growth nevertheless remained solidly positive in January. Year-on-year growth in merchandise imports slowly declined last year. The merchandise trade surplus recorded by the balance of payments since 2013 therefore widened again in January, having significantly narrowed at the end of last year. The 12-month surplus in January was nevertheless down significantly in year-on-year terms, by EUR 288 million, at EUR 1,259 million.

Trade in services

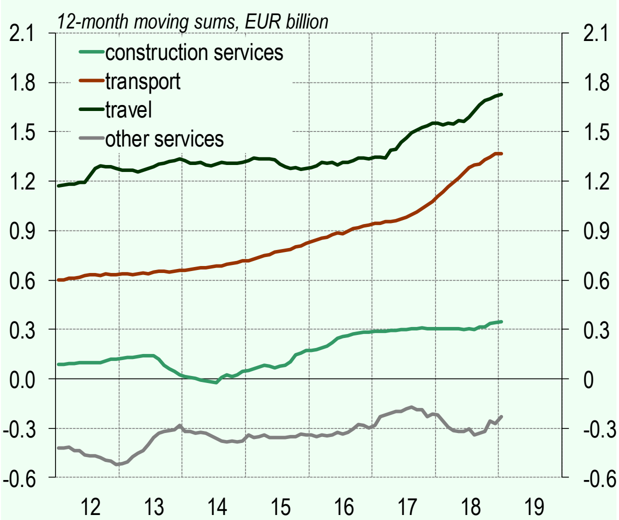
Exports of services are continuing to grow more quickly than imports. In line with the dynamic in Slovenian industry, and perhaps even more so with the economic situation in Slovenia's central European hinterland, there was a standstill in the extremely strong year-on-year growth in exports of transport services, which stood at just 4% in January. The 12-month surplus of trade in transport services has stabilised, and amounted to EUR 1,365 million in January. The sharp growth in exports of travel services has been maintained for two years now. Given the much weaker growth on the import

Figure 4.4: Trade in services



Source: Bank of Slovenia.

Figure 4.5: Trade in services balance



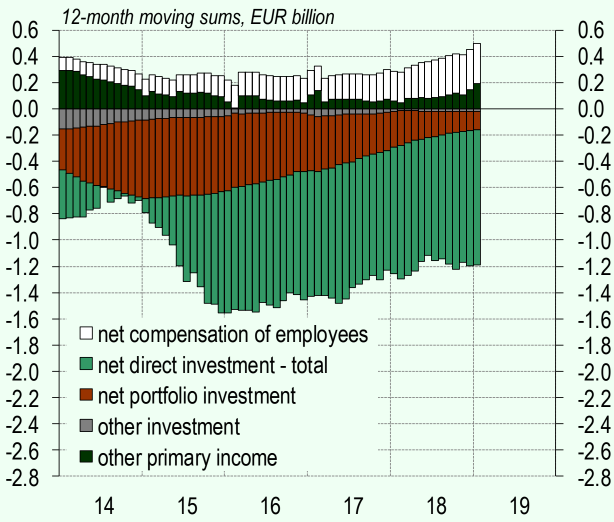
Source: Bank of Slovenia.

side, this powered even faster growth in the surplus, the 12-month total reaching EUR 1,727 million in January. Exports of construction services and the corresponding surplus of trade have also strengthened in the last three months. The 12-month surplus had reached EUR 348 million by January. The contribution to the overall position by other services was small, and largely negative. Growth in aggregate exports of services has also slowed in recent months, primarily as a result of the slowdown in growth in exports of transport services. Because the slowdown in growth in aggregate imports of services was even greater, the aggregate surplus of trade in services was still increasing by January. The 12-month surplus amounted to EUR 3,207 million in January, having widened by EUR 467 million in year-on-year terms.

Primary and secondary income

The deficit in primary income is continuing to narrow, as a result of a widening surplus in labour income and a narrowing deficit in income on investments in securities. The 12-month aggregate deficit in primary income amounted to EUR 686 million in January, having narrowed by EUR 282 million in year-on-year terms. The surplus in labour income increased by EUR 75 million to EUR 303 million, which was attributable to last year's significant increase on the inflow side, which had begun

Figure 4.6: Net primary income



Source: Bank of Slovenia.

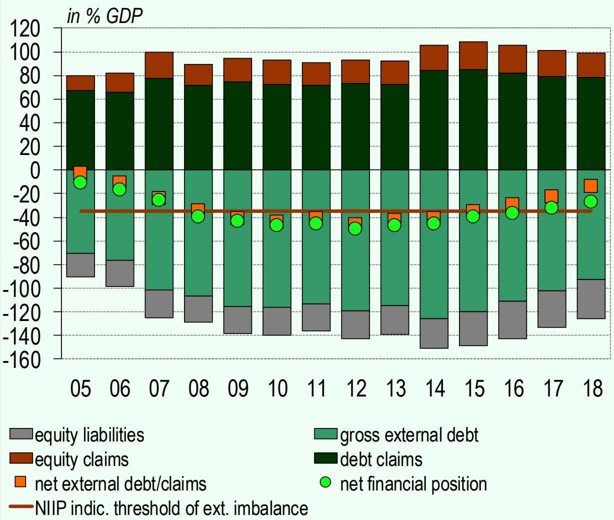
Box 4.1: Slovenia's net international investment position and external debt

For the sixth consecutive year the Slovenian economy is acting as a current net financer of the rest of the world, with a surplus of domestic saving over investment, and is thereby gradually improving its net international investment position.[1] The position has been negative since 2003, and slightly exceeds the net external debt. The gap averaged around EUR 2 billion over the observation period, but has widened in the last three years, and approached EUR 6 billion at the end of last year.[2] Debt instruments nevertheless continue to account for the majority of all claims and liabilities vis-à-vis the rest of the world (around three-quarters).

Slovenia disclosed a net debtor position against the rest of the world in the amount of EUR 12.3 billion or 26.7% of GDP at the end of 2018. For the second consecutive year this was inside the indicative threshold for external imbalance set by the European Commission, at -35% of GDP, which Slovenia had transgressed since the outbreak of the crisis. The euro area discloses a significantly smaller debtor position against the rest of the world in the amount of around 5% of GDP,[3] and Slovenia is somewhere near the middle of the distribution of EU Member States.[4]

Last year's further improvement in Slovenia's net debtor position was attributable to a significantly larger increase in the stock of residents' assets in the rest of the world (EUR 2.0 billion) than in the stock of liabilities (EUR 0.4 billion). The breakdown by instrument reveals that the largest increase in the stock of assets was in other investment, in the amount of EUR 1.8 billion, primarily currency and deposits.[5] On the liability side the highlights were a decline of EUR 1 billion in liabili-

Figure 1: Breakdown of the net financial position



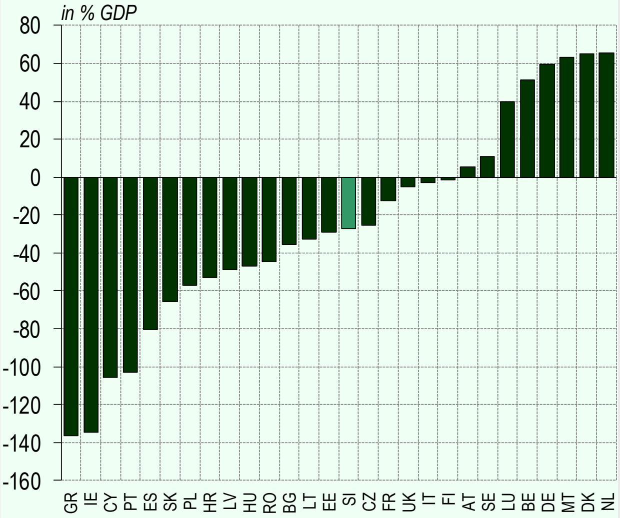
Source: Bank of Slovenia.

ties to foreign portfolio investors in Slovenian bonds and an increase in liabilities from non-residents' inward FDI in the amount of EUR 1.3 billion. Slovenia's largest negative net international investment position remains that in direct investments (in the amount of EUR 8.8 billion). This deficit is increasing from year to year as a result of the sale of holdings in domestic firms, new investment projects in Slovenia by non-residents, and the ever-slower increase in Slovenia's outward investments. Slovenia is also maintaining a negative net position in other investment (in the amount of EUR 3.2 billion), although it is significantly smaller than it was at the outbreak of the crisis, primarily as a result of the repayment of loans by the private sector and also increased net outflows of currency and deposits into accounts in the rest of the world. Slovenia's net debtor position in portfolio investments also improved for the fourth consecutive year, primarily as a result of a decline in government's liabilities to foreign portfolio investors and an increase in the holdings of foreign securities of the central bank and financial corporations. It was negative in the amount of just EUR 1.3 billion at the end of 2018.

Since 2014, i.e. after the major repayments of debt to the rest of the world by banks, only non-financial corporations and the government sector still hold net liabilities to the rest of the world. The government has gradually improved its net debtor position over the last four years, but nevertheless remains the largest net debtor, with net liabilities in the amount of EUR 14.9 billion. At the end of last year the private sector's net liabilities amounted to just EUR 2 billion, up EUR 1 billion on a year earlier, but significantly less than at the outbreak of the crisis at the end of 2008, when they amounted to EUR 15 billion. Last year's small deterioration in the position was attributable to strengthened inflows into non-financial corporations in the form of direct investment, slower investment by financial corporations in the rest of the world, and the privatisation of one of the domestic systemically important banks. Within the private sector, banks and other financial corporations[6] and households are net creditors of the rest of the world in an aggregate amount that is similar to that from a year earlier (more than EUR 9 billion), while non-financial corporations further slightly deepened their negative net position last year (to EUR 11.4 billion), as a result of increased inflows of direct investment.

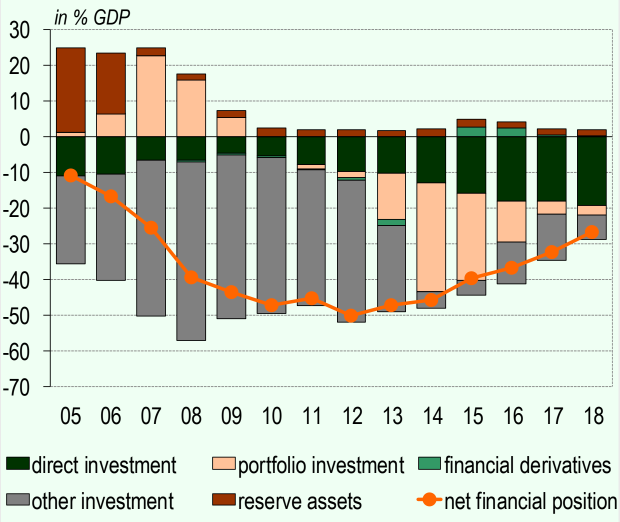
Slovenia's gross external debt,[7] which includes the majority of all of the economy's liabilities to the rest of the world, has been declining since 2015 inclusive, and last year stood at EUR 42.5 billion or 92.5% of GDP. It narrowed by EUR 1.3 billion or 9.4 GDP percentage points over the year. Similarly to the last four years, the sole decline was in long-

Figure 2: Net financial position of EU countries in Q3 2018



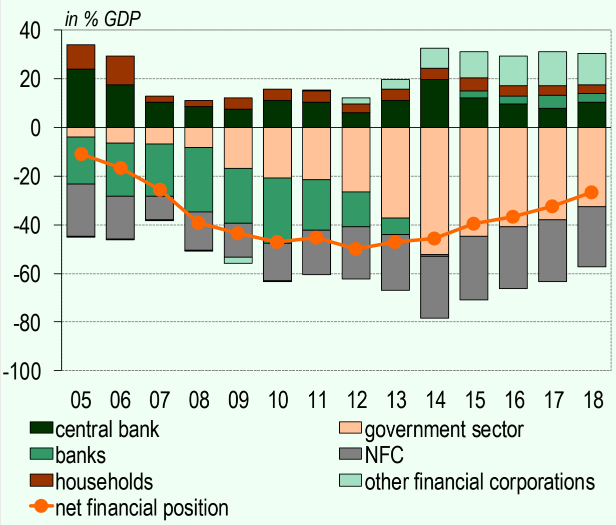
Source: Eurostat.

Figure 3: Net financial position's breakdown by instruments



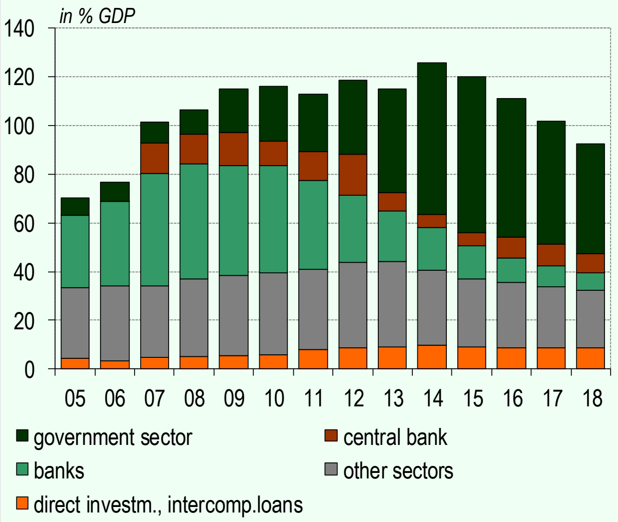
Source: Bank of Slovenia.

Figure 4: Net financial position's breakdown by sectors



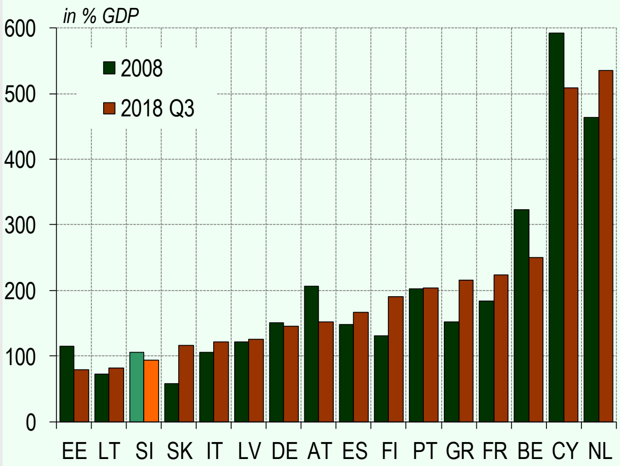
Source: Bank of Slovenia.

Figure 5: Sectoral breakdown of gross external debt



Source: Bank of Slovenia.

Figure 6: Gross external debt of EA countries



Note: Data is available only for EA countries. For Ireland (730 % GDP), Malta (772 % GDP) and Luxembourg (6494 % GDP) it is not shown in the figure.
Source: ECB.

term debt, which accounts for around three-quarters of the total, if loans between affiliates are excluded. The government sector accounts for approximately half of all liabilities to the rest of the world in the form of debt, while non-financial corporations, households and various financial institutions account for just over a third. The remainder is split equally between the central bank and the banks. All sectors other than the central bank have gradually reduced debt over the last three years.

In the breakdown of debt in terms of guarantee, the trend of decline in public debt and debt covered by public guarantee, which makes up two-thirds of Slovenia's gross external debt, continued last year. Private debt has remained at the level of around EUR 15 billion over the last four years, although there has been a decline in loan liabilities, and an increase in debt in the form of trade credits.

Gross debt claims against the rest of the world[8] increased last year for the fifth consecutive year, to reach EUR 36.1 billion or 78.6% of GDP at the end of the year. The net external debt[9] declined for the fifth consecutive year, as gross liabilities to the rest of the world declined and gross claims increased. It amounted to EUR 6.4 billion or 13.8% of GDP at the end of the year. Only the government sector remains a net borrower from the rest of the world over the last two years, in the amount of EUR 16 billion. The private sector remained a net creditor of the rest of the world for the fourth consecutive year, as the net creditor position of banks (seen since 2014) has been joined by other sectors over the last two years. The largest net creditors of the rest of the world in debt instruments remained the central bank and banks, which at the end of last year held roughly equal shares in the aggregate net claims against the rest of the world in the amount of around EUR 9 billion.

Slovenia ranks as one of the less indebted countries in the euro area according to gross external debt, but lies in the middle according to net debt.

[1] The net international investment position is the statistical illustration of the difference between the stock of residents' financial claims against the rest of the world and the stock of residents' financial liabilities to the rest of the world in value terms (on a specific date, usually at the end of the quarter or the end of the year). If residents' claims against the rest of the world exceed their liabilities to the rest of the world, the country's net international investment position against the rest of the world is positive (the country is a creditor nation), and in the opposite case the country is a debtor nation.
[2] The difference between the net international investment position and the net external debt originates in the segment of equity assets (claims) and liabilities.
[3] The euro area includes some countries that are major global financial centres; the ECB data relates to the end of the third quarter of 2018.
[4] The largest positive net international investment positions in the EU, those in excess of 50% of GDP, are disclosed by the Netherlands, Denmark, Malta, Germany and Belgium, while the largest debtor nations where the negative net position is more than 100% of GDP are the euro area countries that suffered the worst debt crises (Greece, Ireland, Cyprus and Portugal).
[5] 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.
[6] Together they make up the financial corporations sector (S.12) excluding the central bank (S.121).
[7] The gross external debt is the total amount of debt liabilities that residents hold vis-à-vis non-residents, and includes the principal and the accrued interest on principal. It is a stock of debt on a specific date, usually the end of the quarter or the end of the year. The financial instruments of the gross external debt are debt securities, trade credits, loans, currency and deposits, and other debt liabilities.
[8] Gross debt claims against the rest of the world are the total amount of debt claims that residents hold vis-à-vis non-residents on a specific date.
[9] The net external debt is the difference between all debt financial liabilities and claims vis-à-vis the rest of the world.

to slow by the second half of the year. Outflows of labour income, which amount to just over a third of the inflows, are also increasing, albeit more slowly. At the same time the 12-month deficit in capital income narrowed by EUR 68 million to stand at EUR 1,184 million in January. The net outflow of earnings on direct investments, which are the largest component of the aggregate, increased by EUR 63 million to EUR 1,029 million, as a result of the slightly larger increase in non-residents' gross earnings, which amounted to EUR 1,251 million over the 12-month period. Meanwhile the net deficit in income on investments in securities has continued to narrow, by EUR 133 million in year-on-year terms to stand at just EUR 142 million (compared with fully EUR 600 million four years ago). Government sector outflows declined to EUR 510 million, and broadly stabilised at this level at the end of last year, while the net inflows of other domestic sectors were positive, and are slowly increasing. Meanwhile net outflows of interest on loans and deposits have been insignificant over the last three years.

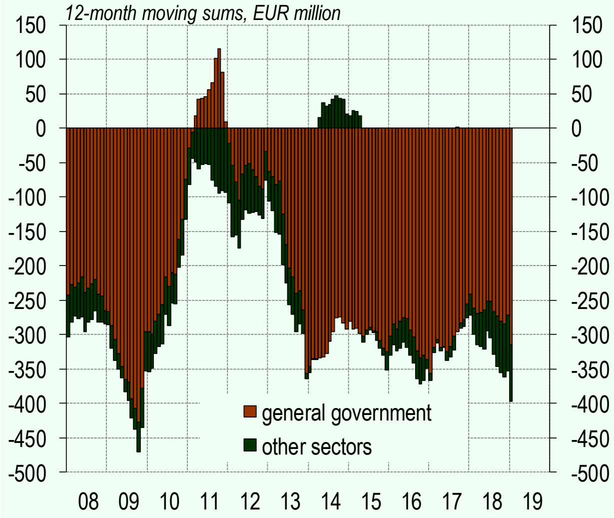
The deficit in secondary income widened last year, the 12-month deficit reaching EUR 397 million by January. The government sector deficit widened by EUR 74 million, to amount to EUR 315 million over the 12 months to January. The deficit of other sectors is much smaller, but more than doubled last year to EUR 82 million.

Selected competitiveness indicators

In the second half of last year exchange rate developments brought an improvement in the price competitiveness of the Slovenian economy, which last year was again among the best performers in the euro area.[1] Price competitiveness improved in the second half of the year, primarily as a result of favourable exchange rate developments, as domestic prices grew at a similar pace to those in trading partners. There was no significant overall deterioration in price competitiveness developments in 2018, which were among the best in the euro area for the third consecutive year, and they also remained favourable from the perspective of the long-term average. Last year's developments were more favourable for exporters in just six euro area countries, where they were encouraged by more favourable ratios in relative prices,[2] while the rise in the euro exchange rate[3] impacted their economies slightly more adversely than it did Slovenia's (see Figure 4.8).

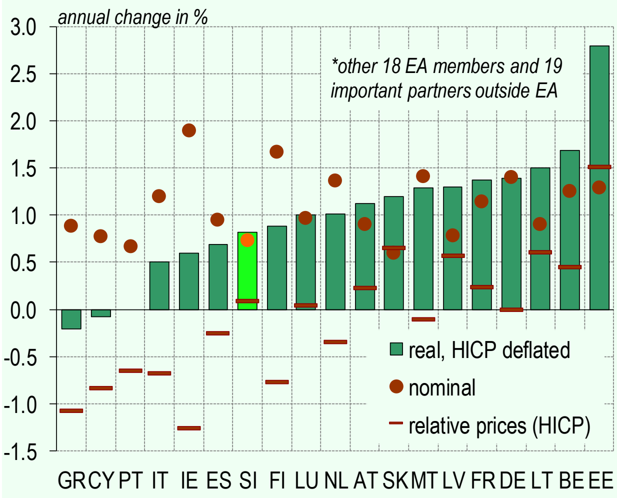
There was no significant change in the price competitiveness of Slovenian exporters relative to euro area partners last year. The favourable position of the previous three years was maintained, when growth in domestic prices as measured by the HICP did not outpace average euro area inflation. In 2018 the price competitiveness

Figure 4.7: Net secondary income



Source: Bank of Slovenia.

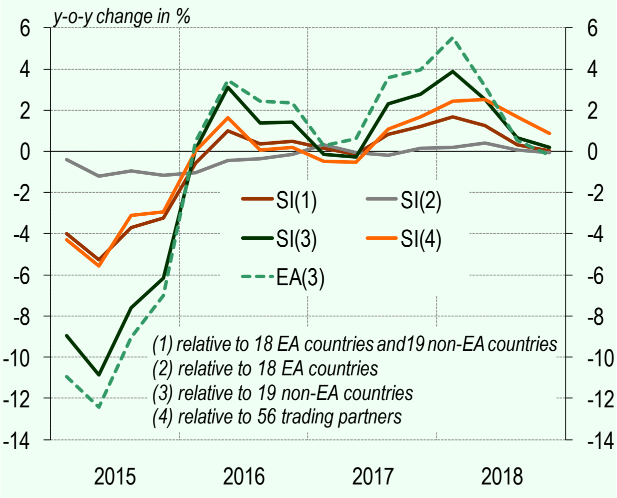
Figure 4.8: Harmonized price competitiveness indicator against 37 trading partners* in 2018



Source: ECB, Bank of Slovenia calculations.

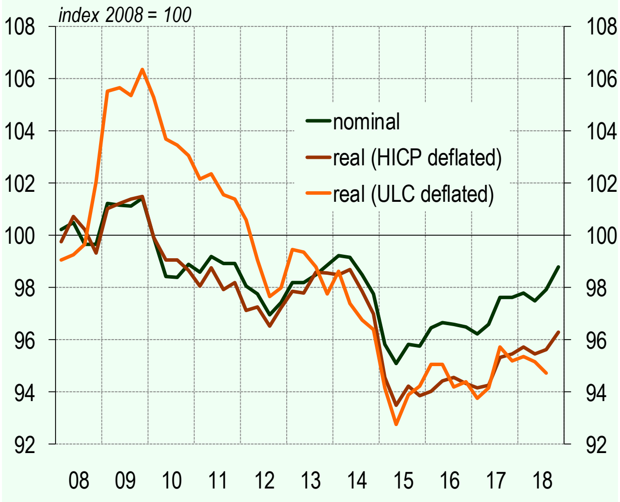
[1] Price competitiveness is measured by the ECB's harmonised competitiveness indicator deflated by the consumer price index (HICP). Unless stated otherwise, it is in relation to 37 trading partners.
[2] Relative prices are domestic prices compared with prices of trading partners.
[3] It is illustrated in Figure 4.8 by the nominal harmonised competitiveness indicator.

Figure 4.9: Harmonized price competitiveness indicator (HICP / CPI deflator)



Source: ECB.

Figure 4.10: Harmonized indicators of Slovenian external competitiveness against 37 trading partners

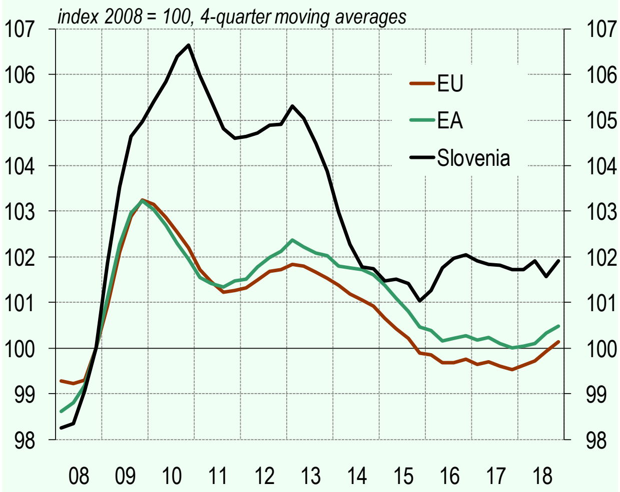


Source: ECB.

indicator in this market stayed close to its level of the previous year. The relatively favourable developments continued also in the final quarter of last year, when year-on-year growth in domestic prices was only 0.1 percentage points higher than euro area inflation.

Price competitiveness against 19 partners outside the euro area deteriorated slightly last year for the third consecutive year, but remained better than its average during the period after Slovenia joined the EU. Under the influence of adverse exchange rate developments from the beginning of the year, the deterioration in the indicator against this group of partners averaged 1.8% over the year, while the deterioration in the euro area average was even 0.5 percentage points higher. The decisive impact on the value of the indicator again came from the euro exchange rate, as year-on-year inflation in Slovenia last year (and in the final quarter) was similar to that in the partners. Developments in the price competitiveness indicator improved during the year. Developments late in the year in the majority of the other euro area countries were nevertheless slightly more favourable. This is linked to the structure of Slovenia's foreign trade: the proportion accounted for by currencies against which the euro depreciated in the second half of the year is less than the euro area average, while the proportion accounted for by currencies against which the euro appreciated is larger.[4]

Figure 4.11: Real unit labour costs



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

Similarly to 2017, there were no major imbalances last year between growth in labour costs and growth in labour productivity,[5] although cost pressures did strengthen slightly towards the end of the year. Growth in compensation per employee remained roughly within the bounds of productivity growth last year (it outpaced it by just 0.2 percentage points), and thus growth in real unit labour costs remained below the euro area

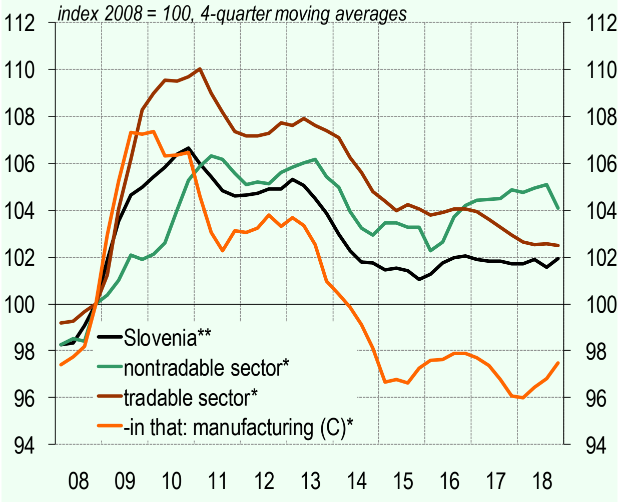
[4] The euro depreciated against the US dollar, the Swiss franc and the Japanese yen, while appreciating against the Russian ruble, the Turkish lira, the Polish zloty, the Czech koruna and the Hungarian forint.
[5] The methodology for measuring unit labour costs discloses them as the ratio of compensation 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.

average and the overall EU average (0.5% and 0.6% respectively; see Figure 4.11). Cost pressures did strengthen slightly in the final quarter, as year-on-year growth in compensation per employee outpaced productivity growth by 1.3 percentage points according to initial estimates, even in manufacturing (by 2.7 percentage points), which is the sector most exposed to international competition. Real unit labour costs in manufacturing rose for the third consecutive quarter, and were up 1.5% overall last year. This growth was attributable both to slower growth in labour productivity and to strengthened wage growth. Despite recent developments, real unit labour costs in manufacturing are not yet higher than their pre-crisis level, having mostly fallen in the previous years (see Figure 4.12). In contrast to the two previous years, last year's continuation of the relatively favourable cost developments was attributable to the non-tradable sector,[6] in particular the boost in activity in construction and in financial and insurance activities.

Last year Slovenia saw slower growth in labour productivity and faster wage growth, as did the euro area and the EU overall. Despite the slowdown, real productivity growth in Slovenia (at 1.5%) outpaced the averages in the euro area (0.3%) and the EU (0.6%). At the same time real growth in compensation per employee[7] in Slovenia, at 1.6%, exceeded the euro area and the EU averages by just 0.8 percentage points and 0.4 percentage points respectively. These developments in real unit labour costs are for the moment preserving the relatively favourable position of Slovenian exporters. Other newer EU Member States are continuing to record significantly higher levels of wage growth than Slovenia, which are outpacing productivity growth by even more. Real wage growth in this group of countries exceeded 5% last year, outpacing labour productivity growth by 2 percentage points[8] (see Figure 4.13).

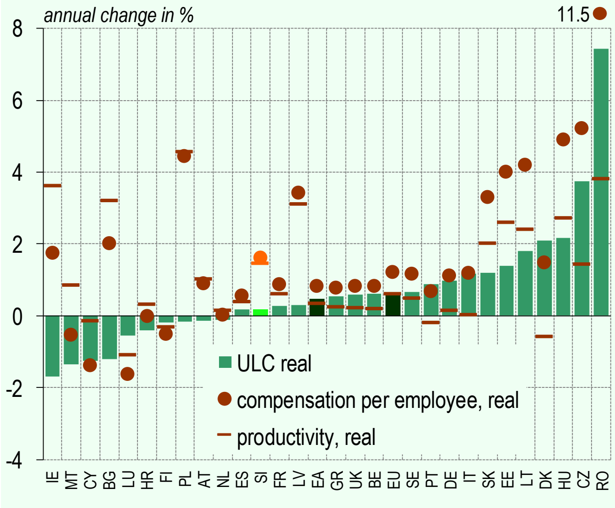
The external competitiveness of the Slovenian economy remained solid last year, but technological progress stayed slow. The proportion of exports accounted for by high-tech products remained unchanged at 12.6%, while the proportion accounted for by low-tech products declined only fractionally, to 16.5%. The proportion of high-tech exports in Slovenia remains below the EU average (19.8%). It is also behind the average proportion of high-tech exports in the newer Member States (15.1%, see Figure 4.15), even though the average nominal annual growth in this segment over the last decade (6.4%) was slightly higher than the comparable average growth

Figure 4.12: Real unit labour costs, Slovenia



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

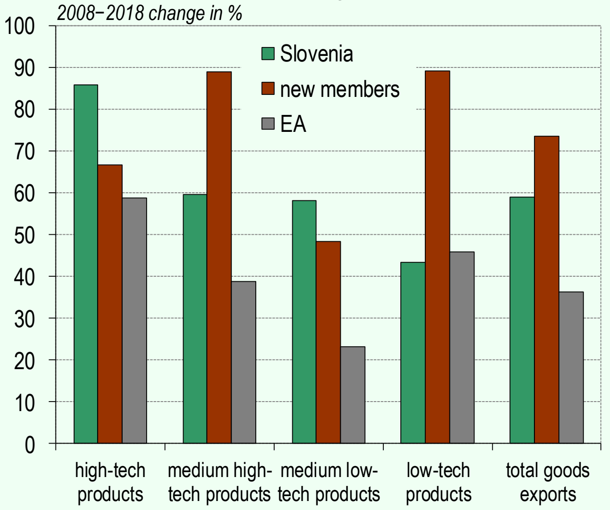
Figure 4.13: Real unit labour costs in 2018



Note: For Croatia and Poland data for the first three quarters of 2018.
Source: Eurostat, Bank of Slovenia calculations.

[6] 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 sectors under the SKD 2008.
[7] Under the methodology for measuring unit labour costs, the deflator used to calculate real growth in compensation per employee is the same as that used to calculate real growth in productivity, i.e. the GDP deflator.
[8] Data for the first three quarters of the year; there is no data yet for the final quarter for Poland and Croatia.

Figure 4.14: Increase of goods exports in terms of technological intensity



Source: Eurostat, Bank of Slovenia calculations.

Figure 4.15: Share of high-tech products in total goods exports

Source: Eurostat, Bank of Slovenia calculations.

in the newer Member States and in the EU overall (by 1.2 percentage points and 2.1 percentage points respectively).[9]

[9] The new Member States are the countries that joined the EU on or after 1 May 2004 (Slovenia, Slovakia, Poland, Malta, Hungary, Lithuania, Latvia, Estonia, Czech Republic, Cyprus, Romania, Bulgaria, Croatia).

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

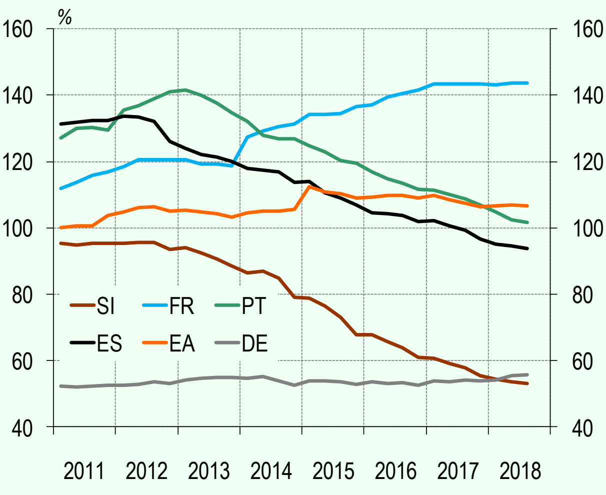
Non-financial corporations are still relying primarily on internal financial resources, although their demand for bank loans and leasing increased slightly in 2018. The increase in loans at non-financial corporations was nevertheless significantly smaller than that at households, as the buoyant labour market and the revived real estate market are driving a robust household credit cycle. Corporate and household indebtedness expressed as a ratio to GDP remain low, and well below the euro area average. At the same time there was a further improvement in the quality of the loan portfolio in 2018, and access to bank financing can be expected to further improve in the future. The financial standing of non-financial corporations, households and banks remains favourable from the perspective of macroeconomic stability.

Financial assets and financing of non-financial corporations

Slovenian firms are still mostly using internal resources to finance their increased investment and production. Corporate indebtedness as a ratio to GDP is therefore continuing to decline, and reached 53% in the third quarter of last year, which is around 50 percentage points less than the euro area average. However, the long-term falling trend in leverage at Slovenian firms, as defined by the ratio of debt to equity financing, came to an end in 2018.

Last year's end to the reduction in firms' leverage is being reflected in their slightly increased demand for bank loans and leasing, although there was also an increase in the proportion of firms that did not seek external financing.[1] Despite the increased demand for bank loans, year-on-year growth in loans to non-financial corporations remains moderate, and stood at just 1.9% in January of this year. The early part of the year also saw a slowdown in growth in corporate deposits, which in January were up just 2.8% in year-on-year terms (compared with 12.6% a year earlier).

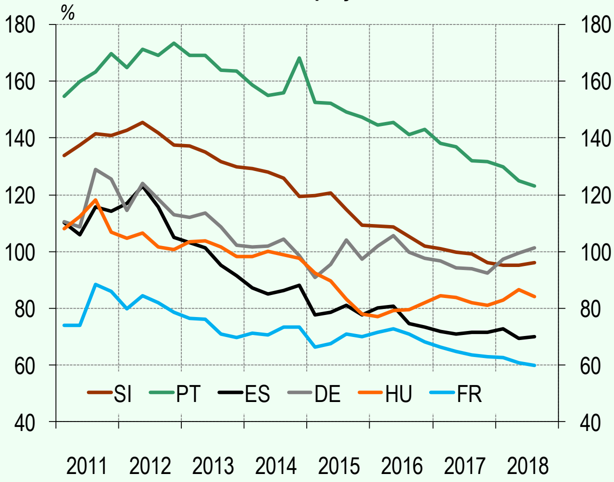
Figure 5.1: Cross country comparison of firms' debt to GDP ratio*



*Note: *Debt is calculated as loans+debt securities.*
Source: ECB, Bank of Slovenia calculations.

[1] Survey on access to finance of enterprises 2018 (2019), Bank of Slovenia.

Figure 5.2: Cross country comparison of NFCs debt* to equity ratio



*Note: *Securities other than shares, loans and other accounts payable.*
Source: ECB, Bank of Slovenia calculations.

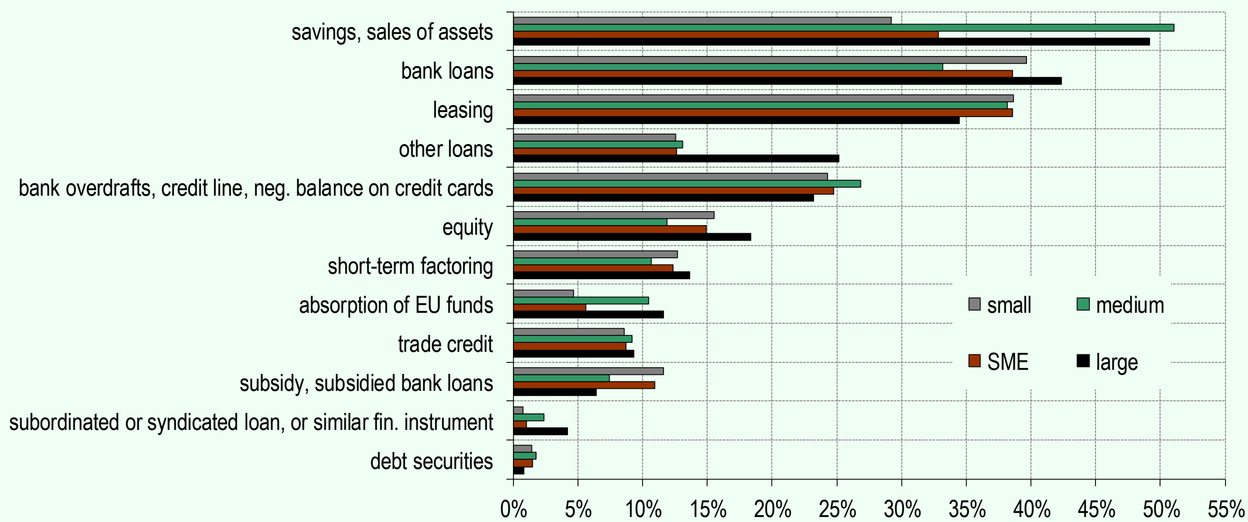
The structure of financing was similar at large enterprises and SMEs, except that large enterprises are making more use of internal resources. According to the latest survey on the access to finance of enterprises, firms also rank bank loans and leasing operations among the more important sources of financing, while to a lesser extent firms, irrespective of size, are also financing themselves with equity and bank overdrafts, and with negative balances in credit lines and on cards. Compared with the euro area overall, firms in Slovenia are financing themselves slightly more with retained earnings and bank loans, while firms in the euro area overall are relying to a slightly greater extent on trade credits.

The purpose of use of external financing does not vary significantly according to the type of firm. According to the survey on the access to finance of enterprises, SMEs that sought external financing in 2018 are earmarking the same proportion of the funds obtained for investment purposes (32%) and current operations (32%). Similar figures are seen at large enterprises (31% and 33% respectively). SMEs are earmarking the remaining funds for research and development and for expansion of turnover.

All firms in the survey report that the situation in financing is continuing to improve, and access to finance was one of the least significant limiting factors for their performance. For the majority of large enterprises and SMEs, the price terms of financing improved last year (interest rates and other financing charges fell), although SMEs report that the trend of worsening surety requirements and other conditions continued in 2018. All firms expect access to external financing to get no worse in the future. Firms across the euro area have similar expectations. Irrespective of size, firms intend to invest primarily in machinery and equipment in the future, and slightly less in expansion of turnover, real estate, and research and development.[2]

According to the latest figures, non-financial corporations' negative net financial position in the third quarter of last year amounted to EUR 36.2 billion, having

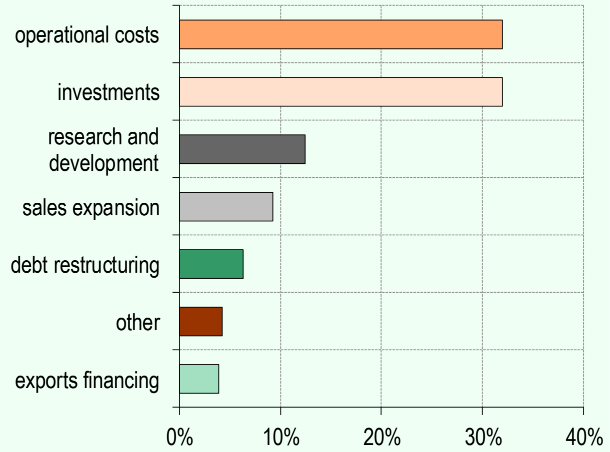
Figure 5.3: Financing sources of the enterprises



Source: Survey on access to finance of enterprises 2018, Bank of Slovenia.

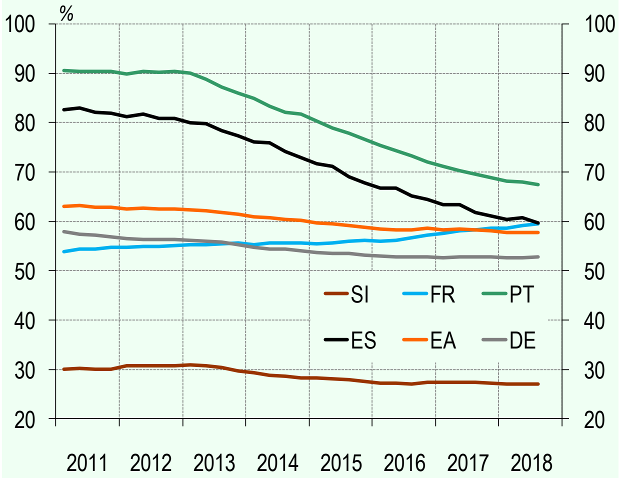
[2] The proportion of firms intending to invest in research and development in the next five years was unchanged last year relative to the previous year, and is most likely reflected in the stagnation in the technological complexity of Slovenia's exports.

Figure 5.4: The purpose of using external sources of financing* – SME



Note: *The percentage of affirmative answers according to the type of use; companies can choose more answers.
Source: Survey on access to finance of enterprises 2018, Bank of Slovenia.

Figure 5.5: Cross country comparison of household indebtedness*



Note: *Indebtedness is calculated as debt (loans+debt securities) over GDP.
Source: ECB, Bank of Slovenia calculations.

deepened by EUR 0.9 billion in year-on-year terms. Non-financial corporations disclosed in the third quarter of last year that their financial assets had increased in year-on-year terms (by EUR 2.7 billion), primarily as a result of increases in deposits, equity and trade credits. Their financial liabilities were up slightly more in year-on-year terms (by EUR 3.6 billion), albeit almost entirely as a result of growth in equity and trade credits.

Financial assets and financing of households and banks

Bank loans and household deposits are undergoing a sustained increase. The latest monthly figures for growth in household loans and deposits show that the positive trends from 2018 have continued. While the year-on-year increase in household deposits was still slightly less than the increase in loans, year-on-year growth in household deposits in the early part of this year has already overtaken growth in loans, and stood at 7.3% in January. Year-on-year growth in household loans stood at 6.9% in January of this year,[3] which suggests that the developments seen in the third quarter of last year, when household financial liabilities increased by 5.8% or EUR 763 million in year-on-year terms,[4] have continued. There had nevertheless been no increase in household indebtedness by the third quarter of last year. Their net financial position in the third quarter was positive in the amount of almost EUR 30.9 billion,[5] while the ratio of their gross debt to GDP remains almost unchanged, and very low compared with the euro area average.

The quality of the banking sector portfolio is continuing to improve, and loans to the banking sector and liabilities to banks are declining. Banks' NPEs are continuing to fall, the NPE ratio reaching 3.9% in January. Liabilities to banks were down 6.7% in year-on-year terms. According to the monthly figures from bank balance sheets, loans to the banking sector declined significantly towards the end of 2018, and the trend continued in January, as the year-on-year decline in loans to the banking sector reached 28.3%, the highest figure of the last two years. According to the latest figures, in the third quarter of last year the banks' net financial position was positive in the amount of EUR 1.4 billion, down EUR 593 million in year-on-year terms.[6]

Domestic financial market

After a pessimistic end to last year, a slightly more optimistic mood has returned to the Ljubljana Stock Exchange. The SBI TOP gained 4.8% over the first two

[3] Year-on-year growth in consumer loans stood at 12.5% in January, while growth in housing loans stood at 5.0%.
[4] Source: Financial accounts.
[5] The net positive financial position of households in the third quarter of 2018 was up 6.5% in year-on-year terms.
[6] Banks, savings banks and money-market funds (S.122 + S.123).

Box 5.1: Bank performance

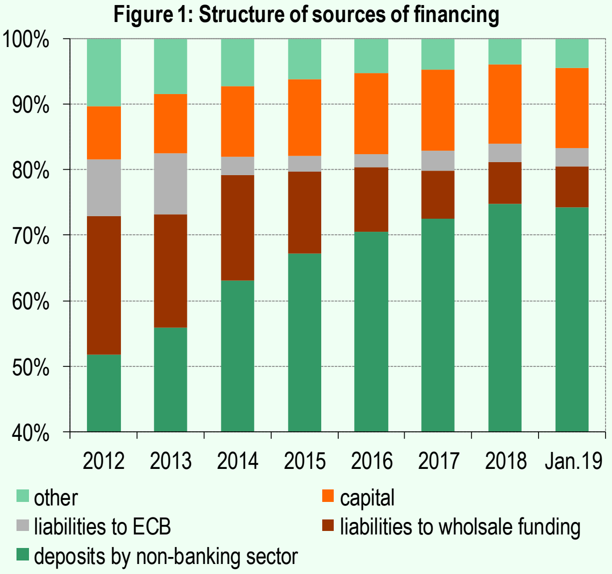
Growth in the balance sheet total increased slightly at the end of last year and in January. Growth in deposits by the non-banking sector and loans to the non-banking sector is outpacing growth in the balance sheet total. Last year the main factor in the increase in bank lending activity was household loans, and lending to non-financial corporations is still being outpaced by household lending. Lending to the non-banking sector slowed in the late part of last year and the early part of this year. The banks' profitability improved last year, as a result of an increase in income, the maintenance of moderate operating costs and, for the second consecutive year, a net release of impairments and provisions. The banks were profitable in January, at a level similar to last January. The net interest margin remains low compared with its long-term average.

Year-on-year growth in the balance sheet total had increased to 2.5% by the end of the month. The balance sheet total increased by EUR 831 million last year to EUR 38.8 billion, which on the funding side was attributable to deposits by the non-banking sector, and on the asset side was attributable to loans to the non-banking sector and an increase in the banks' holdings of the most liquid assets. Loans were a factor in January's increase on the asset side of the balance sheet, while deposits by the non-banking sector declined, driven by a decline in deposits by non-financial corporations.

The banks are continuing to increase their funding via deposits by the non-banking sector, which accounted for almost three-quarters of total funding at the end of January 2019. Last year's increase in deposits by the non-banking sector was double the increase in loans to the non-banking sector, which means that the banks were able to fund their lending activity through these resources alone. The main factor in the increase in deposits by the non-banking sector was household deposits, which were up 7.3% in year-on-year terms after January's large increase. Growth in deposits by non-financial corporations slowed sharply in late 2018 and the early part of this year, as they have earmarked their earnings for financing current liabilities and investments, and less for saving at banks. The extremely low deposit interest rates mean that sight deposits by the non-banking sector are continuing to increase, and they accounted for 72.4% of total deposits by the non-banking sector at the end of January. The increase in long-term loans to the non-banking sector and sight deposits by the non-banking sector is increasing the maturity mismatch between assets and liabilities. However, the banking system is maintaining a good liquidity position. The banks increased their holdings of the most liquid forms of asset last year (i.e. assets at the central bank and sight deposits at banks), and also increased secondary liquidity to a total of 32% of the balance sheet total. They then maintained this figure in the early part of this year.

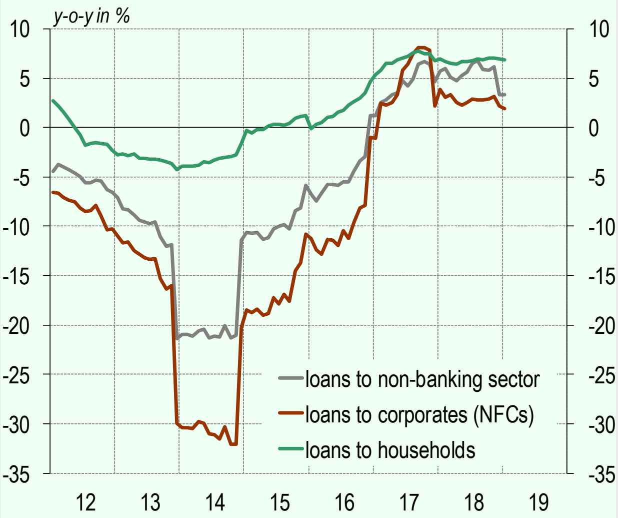
Growth in loans to the non-banking sector was positive last year for the third consecutive year, the year-on-year rate reaching 3.3% in December. Growth in loans to non-financial corporations mostly held at between 2% and 3% last year. Despite firms' favourable access to financing at banks, and the improvement in their financial position compared with several years ago, growth in bank loans remains low relative to economic growth, mainly because of changes in the way that firms are financing themselves, as internal financial re-

Figure 1: Structure of sources of financing



Source: Bank of Slovenia.

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



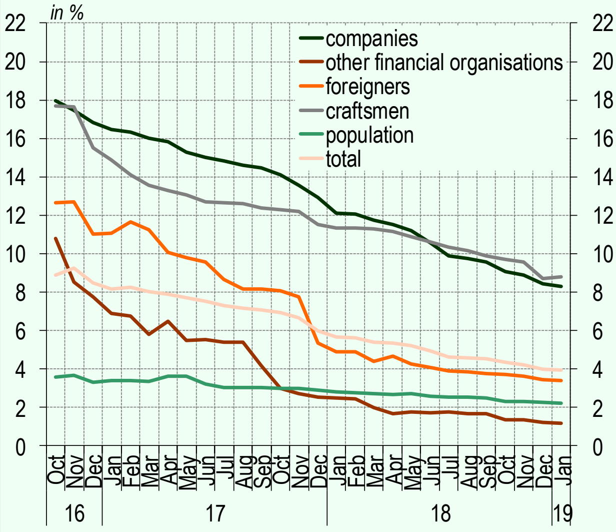
Source: Bank of Slovenia.

sources and trade credits have gained in importance. Year-on-year growth in loans to non-financial corporations slowed slightly to 1.9% in January, despite a solid increase in loans. Household loans recorded year-on-year growth of 7% in December, and were the largest factor in last year's increase in loans to the non-banking sector. Growth in housing loans and consumer loans alike remained stable last year, at 11.8% and 4.7% respectively. The persistence of the high growth in consumer loans was attributable to the buoyant economy, the improvement in the labour market and high consumer confidence, and the banks' increased focus on lending of this type. Growth in housing loans in 2018 was comparable to that in 2017. Year-on-year growth in loans to households stood at 6.9% in January, which broke down into growth of 12.4% in consumer loans, and 5.0% in housing loans.

The NPE ratio had declined to 4.0% by the end of 2018, and fell further to 3.9% in January. The NPL ratio is slightly higher, at 5.6%. The fastest improvement in the last year was in the quality of the non-financial corporations portfolio, although its NPE ratio remains the highest, at 8.3%. There were rapid falls in NPEs to SMEs in 2017 and 2018, but the 9.8% NPE ratio in this segment remains above-average relative to the non-financial corporations portfolio and to other client portfolios. In the wake of the rapid rise in lending, the quality of the household portfolio is continuing to increase: the NPE ratio fell further to 2.3% in January.

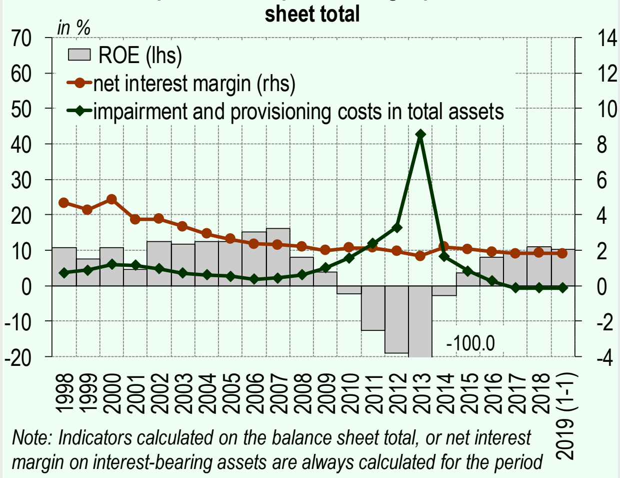
The banking system's pre-tax profit increased again to amount to EUR 532 million last year, up 20% on the previous year. This was attributable to several factors that were prevalent for most of the year: positive growth in net interest income from May, a solid increase in non-interest income, which was also the result of favourable one-off effects and revaluation at certain banks, unchanged operating costs and, for the second consecutive year, a net release of impairments and provisions. The banking system's gross income last year was up 7.4% on the previous year. Year-on-year growth in net interest income reached 3.3% at the end of the year, 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, but remains low relative to its long-term average. Net non-interest income was up 14% on the previous year, which was again largely attributable to one-off developments, while the banks saw an increase of less than 1% in net fees and commission last year. Operating costs were down on the previous year, by 0.6%. There was a net release of impairments and provisions for the second consecutive year. The developments seen last

Figure 3: Share of NPEs by client groups



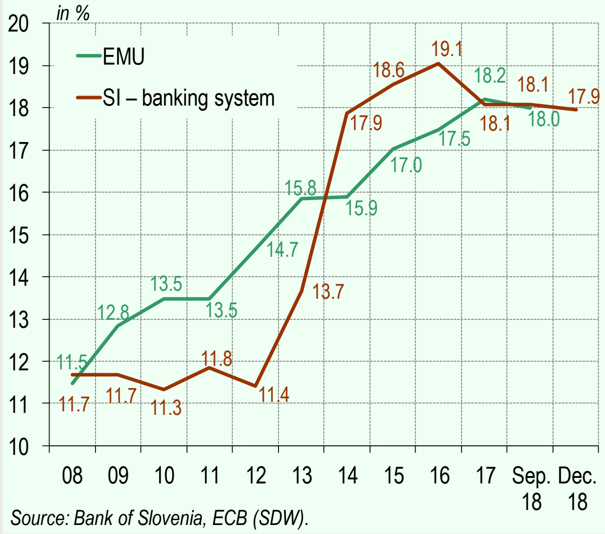
Source: Bank of Slovenia.

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).

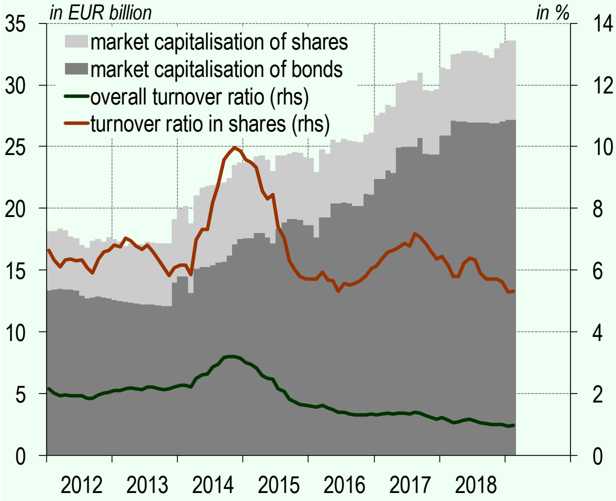
year (positive growth in net interest income and net non-interest income, net release of impairments and provisions) continued in January, while operating costs increased slightly. The banking system's pre-tax profit amounted to EUR 40 million in January, up 6.8% on last January.

The banking system remained well-capitalised in 2018. The total capital ratio at the end of December remained unchanged from September on an individual basis at 19.8%, while on a consolidated basis it declined to 17.9%, primarily as a result of an increase in capital requirements for exposures to corporates and households, and a simultaneous decline in regulatory capital. The banks met their capital requirements with the highest quality forms of capital: Tier 2 capital accounted for just 1.9% of total own funds at the end of 2018. There remained considerable variation in the capital positions of individual banks. Despite recapitalisations in 2018, the small domestic banks and savings banks are notable for the lowest capital ratios and leverage ratios. Capital ratios are also gradually declining at banks that are lending more to the non-banking sector, who are therefore failing to properly adjust their regulatory capital in the wake of increased capital requirements.

months of this year, and the positive mood continued in March. The market capitalisation of shares in February was up 3.2% or EUR 6.6 billion on December. The volume of trading in shares amounted to EUR 37.8 million over the first two months of the year, down 16.1% on the previous year. Given the lack of M&A activity, the volume of trading in shares could be expected to remain below-average for the rest of the year, compared with last year, when a number of takeover bids were to the fore and NLB shares were listed in November. Non-residents held 29.5% of domestic shares in February, down 0.5 percentage points on December.

The market capitalisation of debt securities stood at EUR 27.1 billion at the end of February, and was mostly unchanged over the first two months of the year. The Slovenian government issued a 10-year government bond with a nominal value of EUR 1.5 billion to replace an 11-year government bond that matured in February. There were no other major bond issues on the Ljubljana Stock Exchange. The volume of trading in bonds was negligible at EUR 0.5 million, albeit up 41.8% in year-on-year terms. Trading via the MTS Slovenia platform amounted to EUR 2.2 billion over the first two months of the year, up 31.4% in year-on-year terms, as bonds with an original maturity of more than 10 years generated most volume.

Figure 5.6: Market capitalisation on the LJSE and annual turnover ratios (TR)



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

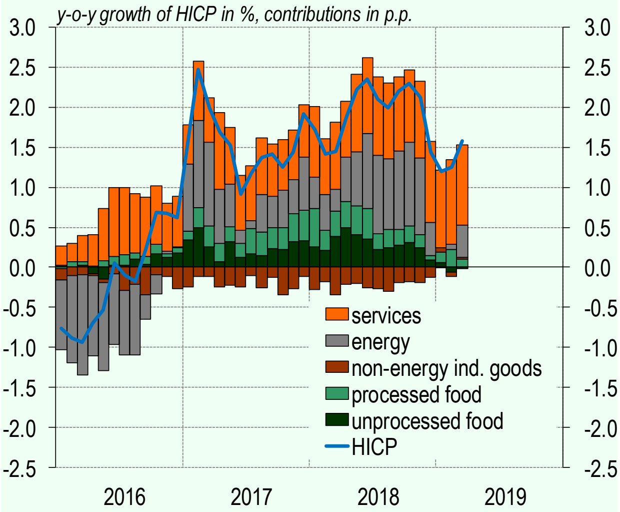
6 Price Developments

Inflation rose to 1.6% in March, still down 0.3 percentage points on last year's average rate. After falling in January, following a fall in oil prices on global markets at the end of last year, energy prices in March were already reflecting the renewed strengthening of euro oil prices. Year-on-year food price inflation was still slowing, as a result of a small year-on-year rise in processed food prices and a year-on-year fall in unprocessed food prices. The influence of external factors remains weaker compared with last year, while the pressures from the domestic environment are strengthening. Given the higher nominal growth in labour costs on the supply side, and increased purchasing power on the demand side, services price inflation remained high in March at 2.8%, while year-on-year growth in prices of non-energy industrial goods stood at around zero for the third consecutive month. The narrowest core inflation indicator has consequently risen significantly this year. It stood at 1.6% in March, the highest figure since 2009.

Price developments in March

In the wake of year-on-year rises in euro oil prices, energy price inflation strengthened in March, and with it headline inflation. Year-on-year inflation as measured by the HICP rose to 1.6%, up 0.4 percentage points on the average over the first two months of this year. The rise was attributable to energy prices, which in March were up 3.6% in year-on-year terms, after a significant decline in the contribution of energy prices during the first two months of the year. The largest contribution to inflation again came from services prices, which recorded year-on-year growth of 2.8%, while there was an insignificant contribution by food prices, as prices of processed food rose by 0.6% in year-on-year terms while prices of unprocessed fell by 0.5%. As in the two previous months, year-on-year growth in prices of non-energy industrial goods remained around zero in March, which alongside the high service price inflation brought a rise in core inflation. The narrowest core inflation indicator stood at 1.6% in March, its highest level since 2009.

Figure 6.1: Contributions to headline HICP inflation



Source: Eurostat, Bank of Slovenia calculations.

Structure of price developments and core inflation indicators

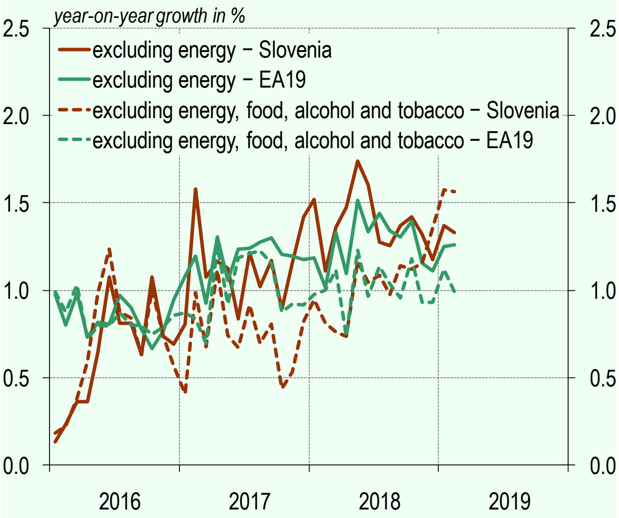
Inflation was driven by services prices during the first two months of the year. Year-on-year inflation averaged 1.2% over the first two months of the year, down 0.7 percentage points on the final quarter of last year. The fall was the result of a change in the structure of price developments, as the contribution to headline annual inflation by energy prices declined by 0.7 percentage points to zero. There were also negligible contributions by prices of unprocessed food and non-energy industrial goods, the contribution by the former having declined since the final quarter of last year, while the contribution by the latter increased. Meanwhile the contribution to year-on-year inflation by prices of processed food was similar to that in the final quarter of last year, at 0.2 percentage points. The remaining inflation was caused by services inflation, whose contribution averaged 1 percentage point over the first two months of the year, up 0.1 percentage points on the final quarter of last year.

In the wake of the higher year-on-year growth in services prices and prices of non-energy industrial goods, there was a pronounced jump in the narrowest core inflation indicator. The narrowest core inflation indicator, which excludes the impact of energy, food, alcohol and tobacco, averaged 1.6% over the first two months of the year, up 0.4 percentage points on the final quarter of last year. The gap thus widened with the euro area, where the indicator stood at 1.1%. Core inflation excluding energy and unprocessed food rose by 0.3 percentage points to 1.4% in Slovenia, but remained unchanged in the euro area at 1.2%, while the broadest indicator (inflation excluding energy prices) rose by just under 0.5 percentage points in both Slovenia and the euro area, to 1.4% and 1.3% respectively.

Drivers of inflation and inflation expectations

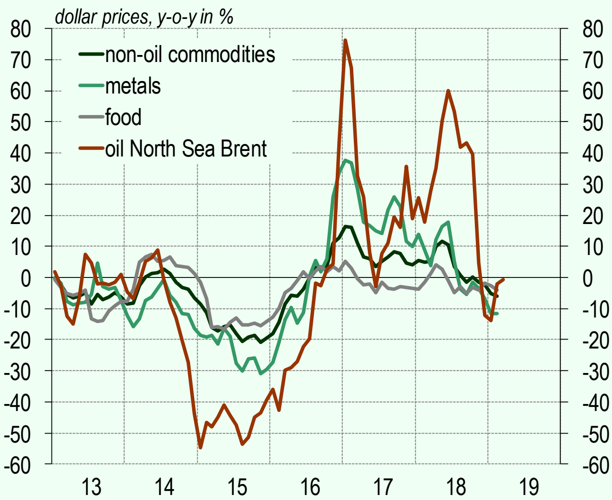
Commodity prices are slowly stabilising in year-on-year terms, while domestic cost pressures are strengthening. Average primary commodity prices on global markets during the first two months of the year were down further in year-on-year terms, as metals and oil recorded the largest price falls. However, their positive monthly growth means that they are slowly stabilising in year-on-year terms. Thus the price of Brent crude averaged USD 66.10 per barrel in March, up 17% on December. The euro's depreciation against the US dollar meant that year-on-year growth in euro oil prices was positive by February, and stood at 8.5% in March. Year-on-year growth in import commodity prices in Slovenia continued to slow in parallel with the year-on-year fall in commodity prices, while import prices of consumer goods have been falling in year-on-year terms since the beginning of last year. This is in contrast to producer prices on the domestic market, as prices of consumer goods are rising again

Figure 6.2: Core inflation



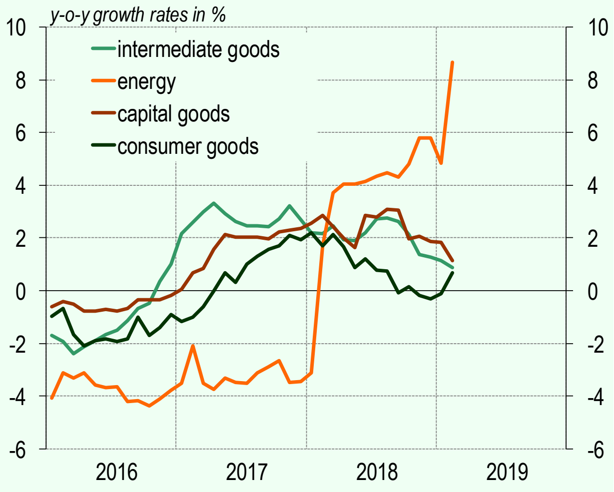
Source: Eurostat, Bank of Slovenia calculations.

Figure 6.3: Commodities



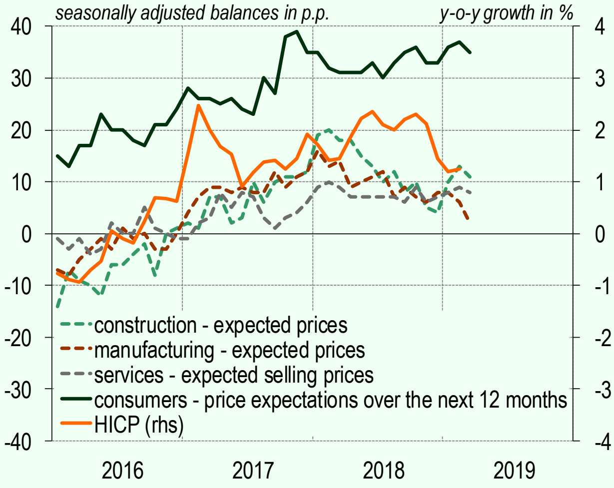
Source: ECB, Bloomberg, Bank of Slovenia calcuations.

Figure 6.4: Producer prices on domestic market



Source: SORS, Bank of Slovenia calculations.

Figure 6.5: Price expectations



Note: Retail trade is excluded due to high volatility of data.
Source: SORS, Bank of Slovenia calculations.

in year-on-year terms, while energy prices have additionally picked up pace. At the same time nominal unit labour costs increased by 2.5% last year, driven by higher wage growth and high employment growth, and judging by January's high wage growth, they can be expected to have risen again in the first quarter of this year.[1]

The increase in purchasing power and resulting stronger demand are being reflected in rising core inflation. In the wake of last year's sustained nominal growth in the average wage and in employment, nominal growth in the gross wage bill exceeded 7% according to the national accounts figures. Growth in final household consumption strengthened as a result, while the largest price rises were recorded by the mostly non-tradable service sector.

Despite the notable fall in year-on-year inflation, there was no easing of consumers' inflation expectations, while firms that are primarily dependent on the domestic market are also anticipating further growth in selling prices. According to a consumer survey, the percentage of consumers in the first quarter expecting prices to rise at the same rate or faster over the next 12 months was up on the previous quarter. At the same time, according to a survey of business tendencies, the first quarter also saw a rise in the proportion of firms in construction and services that are expecting higher selling prices in the next three months. The equivalent figure for manufacturing firms fell, as growth in foreign demand slowed sharply in the first quarter, at least according to survey data.

Price developments by sub-category[2]

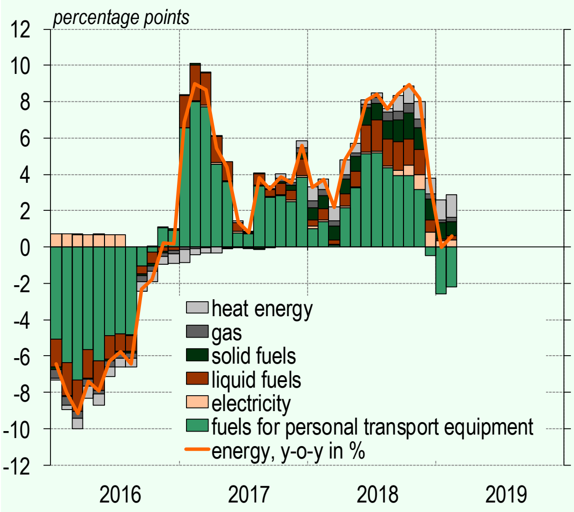
Year-on-year growth in energy prices reached its lowest level since 2016, under the influence of lower global oil prices. Energy prices were up just 0.3% in year-on-year terms, as average prices of fuels for personal transport equipment over the first two months of the year were down 5.1% in year-on-year terms. Other energy prices made positive contributions to energy price inflation, most notably prices of heat energy and solid fuels. Year-on-year growth in energy prices in the euro area reached 3.1% over the same period, thereby widening the gap between energy price inflation in Slovenia and

[1] Nominal unit labour costs are calculated as the ratio of nominal compensation per employee to real labour productivity.
[2] Eurostat, which calculates special aggregates of the HICP from detailed data on price developments, switched in 2019 to aggregation on the basis of the five-digit European Classification of Individual Consumption according to Purpose (ECOICOP). This provides for more detailed classification of individual price indices among the aggregates of energy, services, non-energy industrial goods, processed food and unprocessed food. With the introduction of the new aggregation, the indices of all separate aggregates were revised for the period as of January 2017, while the data before 2017 remains unchanged, and is based on the calculation under the four-digit Classification of Individual Consumption by Purpose (COICOP). In the case of the Slovenian data, the change in classification did not have a significant impact on the special aggregates of energy, services or non-energy industrial goods. The food aggregate also remains unchanged, but there were discernible changes in the processed food and unprocessed food aggregates.

the euro area. The difference in growth rates was mostly due to lower year-on-year growth in prices of fuels for personal transport equipment and gas prices in Slovenia.

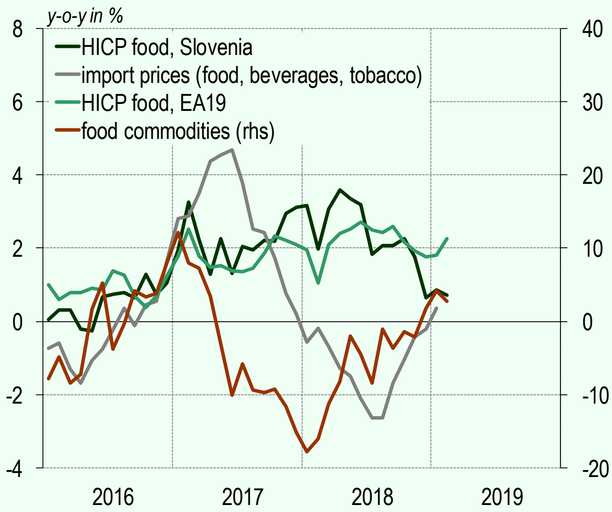
Food price inflation has been slowing since last spring, the year-on-year rate reaching just 0.7% in February. In parallel with the fall in food commodity prices and import food prices, year-on-year growth in food prices in Slovenia began slowing from April of last year. The slowdown can primarily be attributed to lower growth in unprocessed food prices, as growth in prices of processed food has recovered since December's fall. Meanwhile growth in unprocessed food prices continued its downward trend, and moved into negative territory in February. The 1% year-on-year fall is largely the result of lower prices of fresh or chilled fruit, which is related to a base effect, and perhaps also to last year's good harvest. February's strengthened growth in processed food prices was largely attributable to a rise in potatoes prices

Figure 6.6: Contributions to energy inflation



Source: ECB.

Figure 6.7: Food prices and prices of food commodities in EUR



Source: Eurostat, Bloomberg, Economist, SORS, Bank of Slovenia calculations.

Table 6.1: Structure of the HICP and price indicators

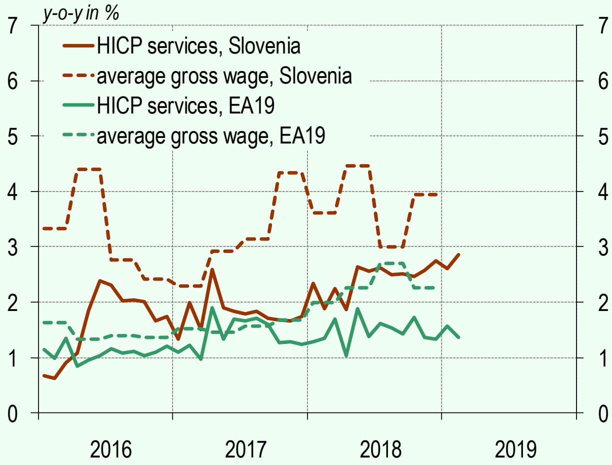
	weight	average year-on-year growth, %					year-on-year growth in quarter, %					
	2019	2014	2015	2016	2017	2018	17Q4	18Q1	18Q2	18Q3	18Q4	19Q1
HICP	*100.0%*	0.4	-0.8	-0.2	1.6	1.9	1.5	1.5	2.1	2.1	2.0	1.3
Breakdown of HICP:												
Energy	*12.1%*	-1.4	-7.8	-5.2	4.7	6.0	4.3	3.1	6.2	8.1	6.9	1.4
Food	*22.2%*	0.8	0.9	0.5	2.2	2.4	2.8	2.7	3.4	2.0	1.6	0.6
processed	*18.1%*	1.8	0.7	0.4	1.4	1.4	1.8	1.9	1.9	1.1	0.8	0.8
unprocessed	*4.2%*	-1.4	1.4	0.7	5.7	6.6	6.4	6.5	9.4	5.6	4.8	0.0
Other goods	*28.4%*	-1.0	-0.6	-0.5	-0.7	-0.8	-0.9	-0.9	-0.8	-0.8	-0.6	0.0
Services	*37.3%*	1.8	0.9	1.6	1.8	2.4	1.7	2.2	2.4	2.5	2.6	2.7
Core inflation indicators:												
HICP excl. energy	*87.9%*	0.7	0.4	0.6	1.1	1.4	1.2	1.3	1.6	1.3	1.3	1.3
HICP excl. energy and unprocessed food	*83.7%*	0.9	0.4	0.6	0.9	1.1	0.9	1.1	1.2	1.1	1.1	1.4
HICP excl. energy, food, alcohol and tobacco	*65.7%*	0.6	0.3	0.7	0.7	1.0	0.6	0.8	1.0	1.1	1.2	1.6
Other price indicators:												
Industrial producer prices on domestic market		-1.1	-0.5	-1.4	1.3	1.9	1.9	2.1	2.0	2.2	1.4	...
GDP deflator		0.8	1.0	0.8	1.6	2.3	1.6	2.4	2.7	2.5	1.5	...
Import prices[1]		-1.1	-1.4	-2.2	3.0	2.7	2.0	0.5	2.5	4.2	3.4	...

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

caused by last year's poor harvest.[3] Food price inflation remained around 2% in the euro area, thus widening the gap with Slovenia.

There was a sharp rise in services prices in the wake of rapid growth in the wage bill. Services prices recorded faster year-on-year growth in the early part of this year than last year, the rate reaching 2.9% in February. The rises in public sector wages agreed last year additionally pushed growth in prices of public services. The early part of the year saw price rises in child care services, television and radio licence fees and subscriptions, and cultural services, and further rises have been forecast for the coming months. Of the marketable services, there were sharp rises during the first two months of the year in prices of wired telephone services, while the year-on-year rises in prices of restaurants and hotels, telephone and internet services, and package holidays continued to make the largest contributions to services inflation, in keeping with the high demand for these services and the rise in labour costs. In the euro area, the slower rate of nominal growth in unit labour costs and nominal wage growth was reflected in services inflation of 1.4% in February, half the level seen in Slovenia.

Figure 6.8: Services prices and average gross wage growth



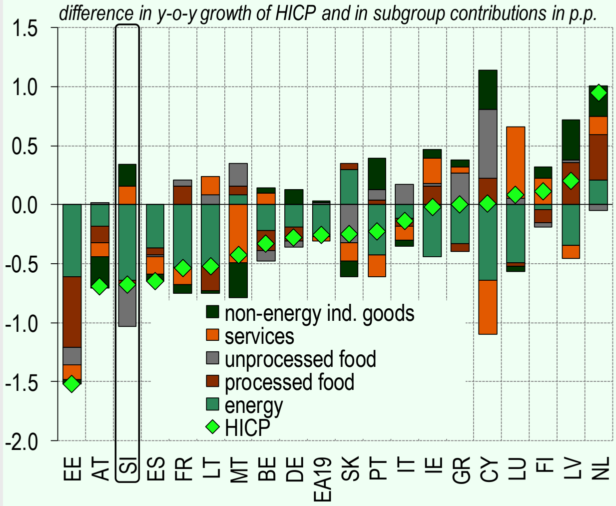
Note: Average wage is measured by gross wages and salaries of employees per employee according to the national accounts.
Source: Eurostat, Bank of Slovenia calculations.

Average prices of non-energy industrial goods over the first two months of the year were unchanged in year-on-year terms. Prices of non-energy industrial goods fell overall last year for the ninth consecutive year,

Box 6.1: Inflation in Slovenia compared with other euro area countries

Year-on-year inflation in the euro area fell further in the early part of this year. Year-on-year inflation as measured by the HICP during the first two months of this year was down on last year in the majority of euro area countries. Inflation in the euro area averaged 1.4% in January, down 0.4 percentage points on last year's average, before reaching 1.5% in February. The fall in most euro area countries was primarily attributable to a decline in the contribution by energy prices, which followed the sharp fall in global oil prices in the final months of last year. Inflation in Slovenia, which slightly outpaced the euro area inflation last year, had fallen behind the euro area by December, as external drivers had a greater impact, and the gap exceeded 0.2 percentage points in February. The vast majority of price sub-categories made smaller contributions to inflation than in the euro area. The exception was services, whose contribution strengthened in the wake of this year's price rises, and in February was the third highest in the euro area. Pressures from the domestic environment were reflected in a rise in core inflation indicators; the narrowest indicator, which excludes energy, food, alcohol and tobacco from the headline index, rose significantly above the euro area average during the first two months of this year. It stood at 1.6% in February, among the highest in the euro area.

Figure 1: Comparison of February inflation with the average of 2018

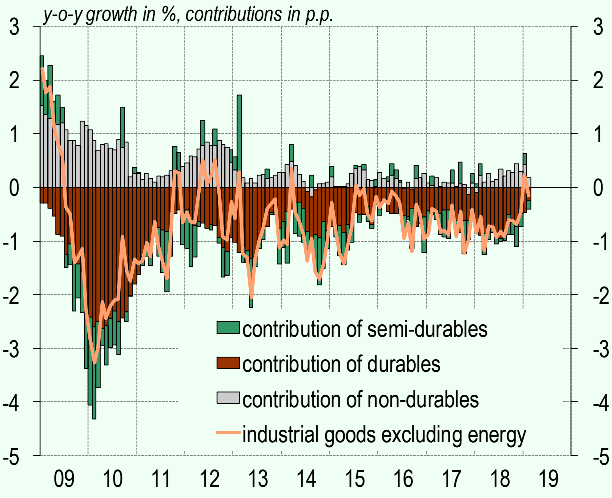


Source: Eurostat, Bank of Slovenia calculations.

[3] The rises in potatoes prices in Slovenia and in the euro area (average prices over the first two months of this year were up 18% in year-on-year terms, compared with growth of less than 2% last year) were the result of a smaller harvest caused by last year's unfavourable weather conditions. In Slovenia total potato yield was down 5% on 2017.

primarily as a result of a sustained fall in prices of consumer durables. Year-on-year growth in prices of non-energy industrial goods during the first two months of this year strengthened relative to last year, largely as a result of a smaller fall in prices of consumer durables and January's positive year-on-year growth in prices of semi-durables. However, within the categories there was considerable heterogeneity: January's year-on-year growth of 0.6% in prices of semi-durable industrial goods was driven by rises in prices of garments and footwear for men, and sports equipment, while garments for women and children fell in price. In the category of durables, prices of second-hand motor cars continued to fall, while prices of new motor cars were unchanged in year-on-year terms.

Figure 6.9: Prices of industrial goods excluding energy



Source: Eurostat, SORS, Bank of Slovenia calculations.

7 Public Finances

The general government sector recorded a surplus in the amount of 0.7% of GDP in 2018. Growth in revenues remained high in the buoyant economy, and declining interest payments were again an important factor in the increase in the surplus. Growth in expenditure strengthened significantly last year, most notably investment, which was driven by the electoral cycle and the increased utilisation of EU funds. The general government debt stood at 70.1% of GDP at the end of last year. The decline in the ratio of debt to GDP was attributable to the primary surplus and a snowball effect, while there was no decline in the nominal debt.

In its update of the Draft budgetary plan, taking account of the revised state budget, the government is planning a surplus of 0.6% of GDP for this year. The Fiscal Council and the European Commission are of the opinion that the plan is at risk of non compliance with fiscal rules. According to the government's latest estimates, the structural position, which was close to balance last year, is forecast to worsen this year. Slovenia's ratio of general government debt to GDP is below the euro area average (the general government balance position is also more favourable), although it is still forecast to exceed the reference value of 60% even after this year's reduction. This means less room for the government to act counter-cyclically in the event of a deterioration in the economic situation compared to just over a decade ago. The keys to sustainable public finances are controlling growth in expenditure, and only taking measures that do not weaken the fiscal position. The framework for the functioning of fiscal policy consists of domestic legislation on the fiscal rule and the Stability and Growth Pact.

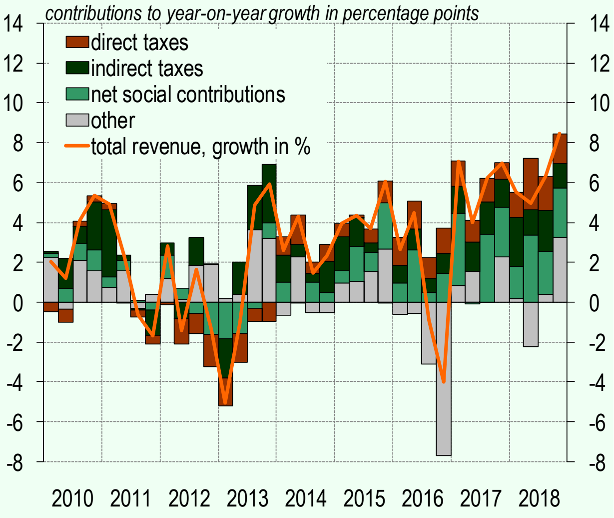
General government balance

The general government sector recorded a surplus in 2018, but despite an improvement in the overall balance relative to the previous year, the structural position remained approximately unchanged according to the provisional figures. Following a balanced position in 2017, a surplus of 0.7% of GDP was recorded in 2018. Year-on-year growth in general government revenues stood at 6.3%, while growth in expenditure was 1.6 percentage points lower. The improvement in the position was attributable to the favourable cyclical position and a further decline in the interest payment burden. The surplus was generated at central government level, while local government recorded a small deficit (of 0.1% of GDP) and the social security funds were in balance.

Growth in general government revenues remained solid last year, primarily on account of the booming economy. They were up 6.3% in 2018. The key remained the buoyant labour market, which in addition to consumer confidence also drove the growth in taxes and social security contributions. All taxes other than excise duties were up, most notably direct taxes. Corporate income tax revenues were up approximately a tenth, while personal income tax revenues were up slightly more. The buoyant labour market is also being reflected in 7% growth in net social security contributions. Growth in indirect taxes was slightly lower, partly on account of lower revenues from excise duties, which was partly attributable to cuts in excise duties on petrol. Revenues from property income, which include dividends, were up in year-on-year terms, thanks to the improved performance of government-owned firms. The partial privatisation of Slovenia's largest bank in the final quarter of last year will have an adverse impact on these revenues in the future.[1]

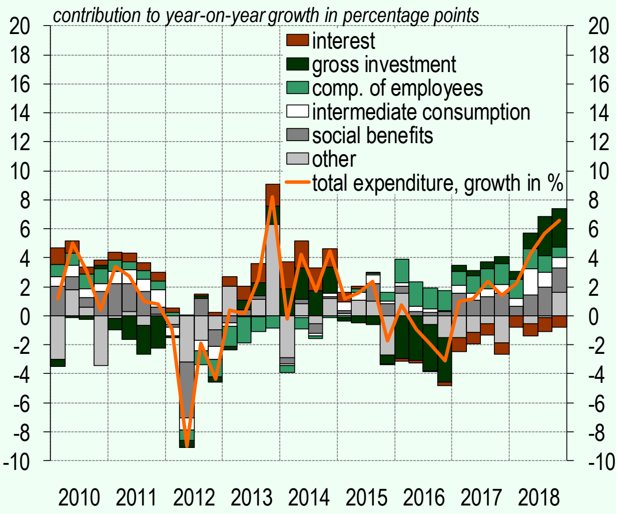
Last year general government expenditure recorded its highest growth of the last five years, and growth in government investment was particularly high. General government expenditure was up 4.7% in year-on-year terms. There was above-average growth (24.9%) in government investment, although as a ratio to GDP they are still lower than its long-term average. Compensation of employees was up 4.4%, as the number of employees increased by 1.9%. There was an increase in the average compensation per employee as a result of the relaxation of austerity measures. These related to 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 3.6%, as pension payments, which account for the largest proportion, rec-

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.

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

	SORS					Draft Budgetary Plan		Stability Programme				EC		
% GDP	**2014**	**2015**	**2016**	**2017**	**2018**	**2018**	**2019**	**2018**	**2019**	**2020**	**2021**	**2018**	**2019**	**2020**
Revenue	44.4	44.9	43.4	43.2	43.0	43.4	43	42.3	41.7	40.8	39.8	43.4	42.8	...
Expenditure	49.9	47.7	45.3	43.2	42.3	42.6	42.5	41.9	41.5	40.2	38.9	42.6	42.1	...
of which: interest	3.2	3.2	3.0	2.5	2.0	2.0	1.6	2.0	1.7	1.6	1.5	2.0	1.6	...
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.0	0.7	0.8	0.6	0.4	0.2	0.6	0.9	0.8	0.7	...
Primary balance	-2.3	0.4	1.1	2.5	2.6	2.8	2.2	2.4	1.9	2.2	2.3	2.8	2.3	...
Structural balance	...	...	...	...	...	0.1	-0.4	-0.5	-1.0	-0.7	-0.2	-0.5	-0.6	...
Debt *	80.4	82.6	78.7	74.1	70.1	70.3	66.0	69.3	65.2	61.5	58.3	69.9	66.2	...
Real GDP (growth, %)	3.0	2.3	3.1	4.9	4.5	4.4	3.7	5.1	3.8	3.2	3.0	4.4	3.1	2.8

*Note: *Debt refers to the end of the year.*
Source: SORS (realisation), Draft Budgetary Plan (Ministry of Finance, January 2019), Stability Programme (Ministry of Finance, April 2018), European Commission (February 2019).

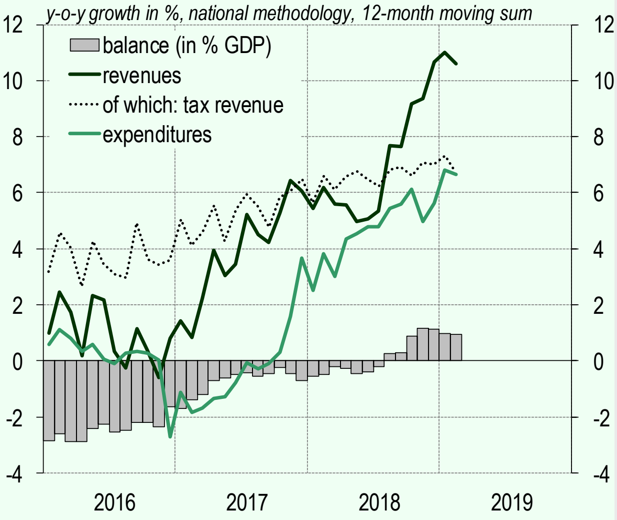
[1] The sale of a 10% holding in Slovenia's largest bank (up to 25% plus one share) and the sale of another government-owned bank are planned for this year.

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

The general government sector recorded a consolidated surplus in the amount of 1% of GDP over the 12 months to February. There was a deficit over the first two months of this year, which was larger than in the same period last year. Developments in the state budget are having the largest impact on the balance. The revised state budget adopted in March envisages a surplus in the amount of EUR 194 million this year, compared with the figure of EUR 537 million recorded last year thanks to a significant contribution from one-off factors on the revenue side (high dividend payments, receipt of the remaining EU funds from the old financial framework). The other three government sub-sectors recorded a surplus during the first two months of the year.

Consolidated general government revenues continued to record solid growth over the first two months of the year, while growth in expenditure increased and outpaced growth in revenues. On the revenue side the growth was attributable to taxes and social security contributions, which were up 6.4% in year-on-year terms, while non-tax revenues and revenues from the EU budget were down. There were several factors in the increase in year-on-year growth in expenditure during the first two months of the year. The increased growth was partly attributable to the above-average contributions to the EU budget in the early part of the year, while year-on-year growth in expenditure on investment remained high, and growth in wages and transfers to households and individuals

Figure 1: Public finance developments



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

Table 1: Consolidated balance sheet* of public finance

	2018	last 12 months to Feb. 19			2018 Jan.-Feb.	2019 Jan.-Feb.	Jan.-Feb.19
	EUR millions		*% GDP*	*y-o-y, %*	*EUR millions*		*y-o-y, %*
Revenue	**18,593**	**18,753**	**40.5**	**10.6**	**2,788**	**2,949**	**5.7**
Tax revenue	16,225	16,393	35.4	6.7	2,621	2,789	6.4
- goods and services	5,989	6,050	13.1	5.3	974	1,034	6.2
- social security contributions	6,550	6,638	14.3	7.7	1,051	1,139	8.4
- personal income	2,447	2,482	5.4	11.2	401	435	8.6
- corporate income	846	859	1.9	7.0	116	130	11.9
From EU budget	796	788	1.7	107.3	37	28	-23.4
Other	1,572	1,573	3.4	29.2	131	132	0.8
Expenditure	**18,067**	**18,311**	**39.5**	**6.6**	**2,831**	**3,075**	**8.6**
Current expenditure	7,967	8,038	17.4	3.7	1,266	1,337	5.6
- wages and other personnel expenditure (incl. contributions)	4,168	4,219	9.1	6.6	651	702	7.9
- purchases of goods, services	2,633	2,660	5.7	1.2	355	382	7.7
- interest	868	864	1.9	-12.0	242	237	-1.8
Current transfers	8,235	8,305	17.9	4.6	1,390	1,460	5.0
- transfers to individuals and households	6,925	6,996	15.1	4.5	1,114	1,184	6.3
Capital expenditure, transfers	1,431	1,467	3.2	37.2	80	115	44.2
To EU budget	433	501	1.1	24.2	95	163	71.4
GG surplus/deficit	**526**	**442**	**1.0**		**-42**	**-127**	

*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.

increased in February. The first was caused by rises in wages for civil servants on the basis of an agreement between the government and the trade unions, while the second was caused by regular pension increases and higher transfers brought by changes in legislation. Interest is continuing to fall in year-on-year terms, a reflection of the favourable situation on the financial markets and the active management of the government debt. The balance of transactions with the EU budget was negative over the first two months of the year.

orded similar growth, primarily as a result of pension increases, while the rise in the number of pensioners remained low. Sick pay continues to record high growth. Unemployment benefits are declining in the buoyant economy. The ratio of interest payments to GDP declined for the second consecutive year, by 0.5% of GDP, and again made a significant contribution to the improvement in the fiscal balance.

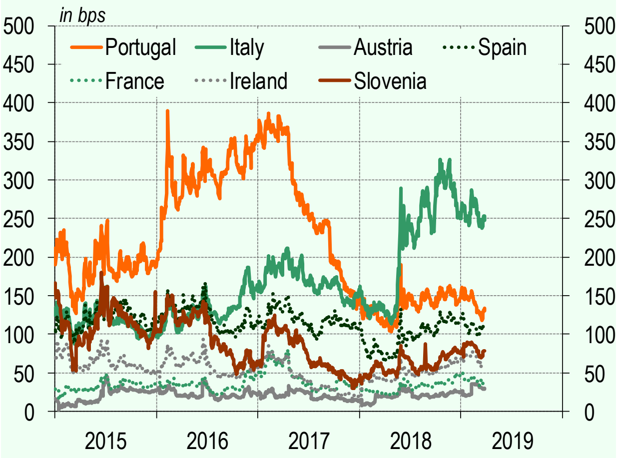
General government debt and government guarantees

The general government debt as a ratio to GDP declined for the third consecutive year to reach 70.1% by the end of last year. The debt was higher in nominal terms, and amounted to EUR 32,230 million at the end of the year, up EUR 371 million on the end of 2017. Similarly to the previous year, last year the main factors in the decline of close to 4 GDP percentage points in the debt ratio were again the snowball effect and the primary surplus. The wider the gap between nominal GDP growth and the implicit interest rate on government debt, the larger is the snowball effect. It accounted for 2.8 percentage points of the decline in the ratio of debt to GDP last year, while the primary surplus similarly accounted for 2.6 percentage points. Deficit debt adjustments acted to increase the debt last year, and mostly related to the early government borrowing for the repayment of debt principal maturing in subsequent years. The early borrowing was undertaken because of favourable financing conditions.

The stock of guarantees declined for the third consecutive year, even in nominal terms. Government guarantees amounted to EUR 5.8 billion or 12.7% of GDP at the end of last year, down from EUR 6.3 billion or 14.5% of GDP at the end of the previous year. There was a notable decline in guarantees approved for the BAMC and DARS, who repaid their debts. The reduction in debt at the BAMC is also gradually reducing the debt under guarantee, which is included in the general government debt. The latter amounted to 3.5% of GDP at the end of the year. No government guarantee was called last year, while repayments of previously called guarantees by original debtors amounted to just under EUR 3 million.

The required yield on Slovenian 10-year government bonds fell towards the end of the first quarter of this

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.

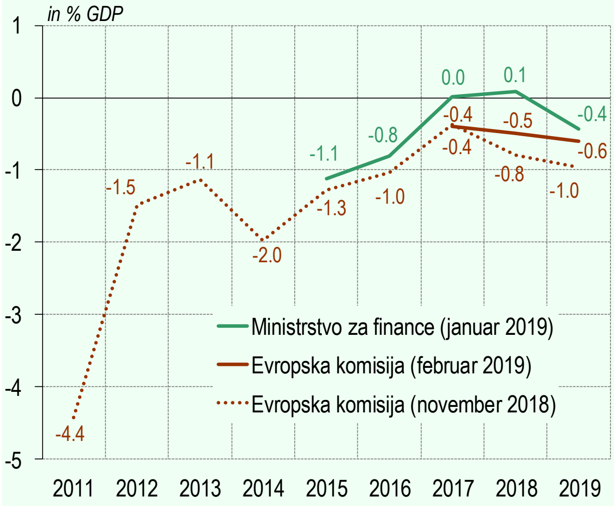
Table 7.2: Contributions of components to change in general government debt

in % of GDP	2013	2014	2015	2016	2017	2018
debt	70.4	80.4	82.6	78.7	74.1	70.1
debt change	**16.6**	**10.0**	**2.2**	**-3.9**	**-4.6**	**-3.9**
of which: primary balance	12.1	2.3	-0.4	-1.1	-2.5	-2.6
difference of interest-growth ("snowball")	2.3	0.7	0.6	0.0	-2.3	-2.8
deficit-debt adjustment	2.2	7.0	2.0	-2.8	0.3	1.5

Source: SORS, Bank of Slovenia calculations.

year. January's issuance of government bonds caused slightly higher yields at the beginning of the year, after that they began to fall, primarily on account of the continuation of the ECB's expansionary policy, as confirmed at its March meeting. The required yield on Slovenian 10-year government bonds fell below 0.8% after the aforementioned meeting, while the spread over the German benchmark bond stood at around 70 basis points. The low required yields and spreads, which are reducing the interest payment burden are a consequence of the ECB's monetary policy stimulus and the favourable economic situation.

Figure 7.4: Public finance structural balance in Slovenia



Source: European Commission, Ministry of Finance – Draft Budgetary Plan.

Planned developments in general government balance and debt

The general government sector is forecast to record another surplus this year, albeit smaller than last year, and it is also expected to be too small to comply with fiscal rules. The cyclical situation is expected to remain favourable, and interest payments will decline again. According to the latest estimates (from January's Draft budgetary plan), this year's surplus is forecast at 0.6% of GDP. The government will outline a longer-term forecast in April in the Stability Programme. The assessment of the Fiscal Council and the European Commission is that the surplus in 2019 should be higher than planned, in order to comply with the fiscal rules.

According to Ministry of Finance estimates, Slovenia's structural general government position was in balance in 2017 and 2018, but is forecast to deteriorate this year. Slovenia's medium-term fiscal objective is currently defined as a structural surplus in the amount of 0.25% of GDP.[2] January's Draft budgetary plan is forecasting a structural deficit in the amount of 0.4% of GDP this year, while the European Commission is forecasting it to be slightly larger. During its assessment of January's update to Draft budgetary plan, the European Commission identified the risk of a significant deviation from the rules of the Stability and Growth Pact. A warning about the budget plans' failure to comply with fiscal rules was also given by the Fiscal Council, which is of the opinion that an expansionary fiscal policy would not be appropriate in 2019, as it would represent moving away from the medium-term sustainability of the public finances.

Given that the general government debt is still relatively high, the key remains controlling growth in expenditure, while potential government measures on the revenue side should not weaken the sustainability of the public finances. Thanks to an agreement between the government and the public sector trade unions, growth in expenditure on wages will increase this year.[3] In addition to the regular pension increase at the end of the year, an extraordinary increase is envisaged for this year, and the annual pensioners' bonus will also be raised. In the area of social transfers, at the beginning of

[2] The medium-term objective is determined every three years, which entails a possible change in the spring of 2019. The Ministry of Finance has announced that it could be revised from +0.25% of GDP to -0.25% of GDP.

[3] The following wage and bonus rises have been agreed for this year (excluding physicians, officials and directors): (i) a general rise in wages by one wage grade for all civil servants (with the aforementioned exemptions) was undertaken in 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 shared working hours) 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.

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 remains large uncertainty with regard to government investment, which 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 government has also proposed changes in the area of taxation (an easing of the personal income tax burden, higher taxes on corporate income and capital gains), which are likely to be financed in part by less reliable sources of revenue (e.g. the fight against the grey economy). Changes are also planned in the area of pensions and the labour market, while March's signing of an agreement between the government coalition and an opposition party could also have an impact on the public finances (implementation depends on a preliminary assessment of the financial sustainability of the measure in question).

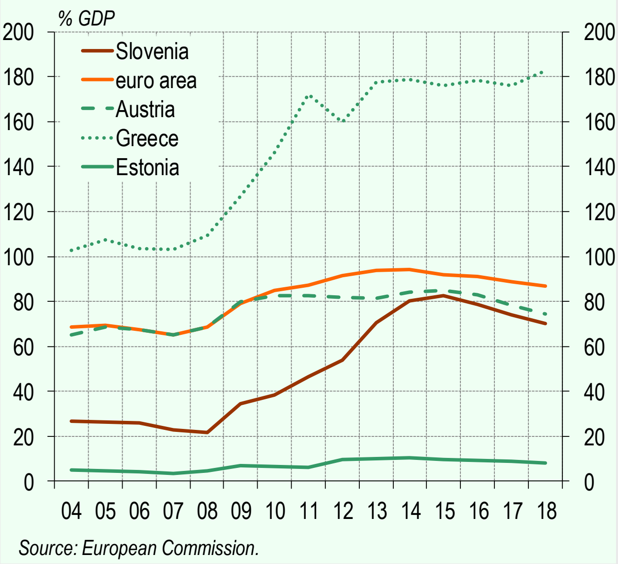
The ratio of debt to GDP is expected to decline again this year. According to government plans, it should fall to 66% of GDP by the end of the year, in line with fiscal rules. The reduction in the ratio of debt to GDP is primarily being facilitated by economic growth expectations, but privatisation proceeds will also have a positive impact. Debt rose sharply in Slovenia during the most recent crisis, causing a significant deterioration in the government's capacity to manage economic cycles and to face the structural issues in the public finances, which over the long term are primarily related to the rapidly aging population. Consequently reducing the debt during a time of economic boom and implementation of structural reforms are of key importance to Slovenia.

Box 7.2: General government balance and debt in Slovenia compared with other euro area countries

Slovenia recorded a more favourable general government balance position last year than the euro area overall, although nine euro area countries recorded a surplus. According to the European Commission's November forecasts, the euro area was expected to have recorded a general government deficit of 0.6% of GDP in 2018. This was largely attributable to deficits in certain larger euro area countries (Spain, France, Italy), while by contrast Germany and the Netherlands recorded surpluses alongside Slovenia. The position improved in the majority of countries, primarily as a result of the favourable economic cycle and reduced interest payment burden, as in Slovenia.

Slovenia's ratio of government debt to GDP is below the average for the euro area overall. Both figures have been gradually falling in recent years, but the decline in Slovenia's has been more pronounced thanks to higher GDP growth. There are extremely large variations in the debt figures of different euro area countries. Estonia is the least indebted, while the most indebted are Greece and Italy, where pursuing a sustainable fiscal policy is of key importance, as the financial markets react quickly to countries with high debt by raising required yields when there is any sign of an expansionary fiscal policy. In terms of the level of debt, Slovenia is closest to Austria in the euro area, where debt increased during the most recent economic crisis, while the last three years have seen economic growth and the decline in the interest payment burden act to reduce debt in both countries.

Figure 1: Government debt



Source: European Commission.

8 Statistical Appendix

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

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

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

Table 8.1: Consolidated balance sheet of monetary financial institutions

EUR million	2015	2016	2017	18Q2	18Q3	Dec.18	Jan.19	Feb.19
1.1. Claims of the Bank of Slovenia	5,410	6,544	7,143	7,395	7,055	8,168	9,367	7,509
1.2. Claims of other MFIs	8,266	8,100	8,504	8,743	8,515	8,280	8,185	8,442
1. Claims on foreign sectors (foreign assets)	**13,676**	**14,643**	**15,647**	**16,138**	**15,570**	**16,448**	**17,552**	**15,950**
2.1. Claims of the Bank of Slovenia on central government	2,327	4,618	6,247	6,791	7,041	7,165	7,256	7,023
2.2.1.1. Loans	1,298	1,506	1,425	1,245	1,222	1,174	1,171	1,159
2.2.1.2. Securities	5,814	4,767	3,744	3,667	3,609	3,763	3,809	3,646
2.2.1. Claims on central government	7,112	6,273	5,170	4,912	4,831	4,937	4,980	4,805
2.2.2.1. Loans	622	579	571	564	554	580	588	587
2.2.2.2. Securities	0	0	0	0	0	0	0	0
2.2.2. Claims on other general government	622	579	571	564	554	580	588	587
2.2. Claims of other MFIs on general government	7,734	6,852	5,740	5,476	5,385	5,517	5,569	5,392
2.3.1.1. Loans	10,040	9,306	9,311	9,307	9,322	9,178	9,345	9,356
2.3.1.2. Securities	462	405	334	327	325	319	320	320
2.3.1. Claims on nonfinancial corporations	10,502	9,711	9,645	9,635	9,647	9,496	9,665	9,676
2.3.2. Households and non-profit institutions serving households	8,856	9,154	9,735	10,033	10,231	10,370	10,397	10,426
2.3.3.1. Loans	898	865	1,171	1,084	1,069	1,070	1,070	1,056
2.3.3.2. Securities	534	543	395	527	524	432	433	433
2.3.3. Claims on nonmonetary financial institutions	1,432	1,408	1,566	1,611	1,594	1,502	1,503	1,490
2.3. Claims of other MFIs on other non-MFIs	20,790	20,272	20,946	21,279	21,472	21,369	21,565	21,592
2. Claims on domestic non-MFIs	**30,850**	**31,743**	**32,934**	**33,545**	**33,898**	**34,050**	**34,390**	**34,007**
3. Remaining assets	**3,119**	**2,192**	**1,461**	**1,396**	**1,375**	**1,439**	**1,578**	**1,588**
Total assets	**47,646**	**48,578**	**50,042**	**51,080**	**50,843**	**51,937**	**53,519**	**51,546**
1.1. Bank of Slovenia	16	1,267	1,506	78	111	63	36	52
1.2. Other MFIs	5,920	5,094	4,436	4,275	3,844	3,911	3,879	3,942
1. Obligations to foreign sectors (foreign liabilities)	**5,936**	**6,362**	**5,943**	**4,353**	**3,956**	**3,973**	**3,915**	**3,994**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	4,956	5,160	5,371	5,425	5,487	5,655	5,462	5,475
2.1.1.2. Overnight deposits at other MFIs	13,057	15,471	17,727	18,695	19,187	19,877	19,828	20,066
2.1.1.3.1. Non-monetary financial institutions	9	69	11	252	71	76	109	362
2.1.1.3.2. Other government sector	53	62	107	101	112	100	110	115
2.1.1.3. Overnight deposits at the Bank of Slovenia	63	131	118	353	183	176	220	477
2.1.1. Banknotes and coins and overnight liabilities	18,075	20,761	23,216	24,473	24,856	25,708	25,510	26,018
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	5,824	5,748	5,727	5,738	5,724
2.1.2. Time deposits	7,838	6,864	6,127	5,824	5,748	5,727	5,738	5,724
2.1.3. Deposits reedemable at notice up to 3 months	315	464	473	578	539	492	540	636
2.1. Banknotes and coins and deposits up to 2 years	26,229	28,089	29,816	30,875	31,143	31,927	31,787	32,377
2.2. Debt securities, units/shares of money market funds and repos	56	102	55	59	65	78	77	77
2. Banknotes and coins and instruments up to 2 years	**26,285**	**28,190**	**29,871**	**30,934**	**31,207**	**32,006**	**31,864**	**32,454**
3. Long-tern financial obligations to non-MFIs	**1,550**	**1,510**	**1,524**	**1,397**	**1,349**	**1,314**	**1,332**	**1,328**
4. Remaining liabilities	**15,378**	**14,100**	**14,035**	**15,485**	**15,268**	**15,636**	**17,296**	**14,978**
5. Excess of inter-MFI liabilities	**-1,504**	**-1,584**	**-1,330**	**-1,090**	**-937**	**-992**	**-887**	**-1,207**
Total liabilities	**47,646**	**48,578**	**50,042**	**51,080**	**50,843**	**51,937**	**53,519**	**51,546**

Table 8.2: Balance sheet of the Bank of Slovenia

EUR million	2015	2016	2017	18Q2	18Q3	Dec.18	Jan.19	Feb.19
1.1. Gold	100	112	111	110	104	115	118	118
1.2. Receivable form IMF	367	361	338	335	355	372	372	367
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	699	588	233	668	210	1,464	2,570	673
1.5. Securities	4,141	5,380	6,359	6,179	6,282	6,114	6,201	6,245
1.6. Other claims	103	103	103	103	103	103	105	106
1. Claims on foreign sectors (foreign assets)	**5,410**	**6,544**	**7,143**	**7,395**	**7,055**	**8,168**	**9,367**	**7,509**
2.1. Claims on central government	2,327	4,618	6,247	6,791	7,041	7,165	7,256	7,023
2.2.1. Loans	901	714	1,142	1,122	1,102	1,102	1,102	1,102
2.2.2. Other claims	44	99	98	97	1	3	3	3
2.2. Claims on domestic monetary sector	946	813	1,240	1,218	1,103	1,105	1,105	1,104
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**	**8,011**	**8,146**	**8,271**	**8,363**	**8,129**
3. Remaining assets	**1,685**	**973**	**279**	**252**	**265**	**274**	**276**	**370**
Total assets	**10,370**	**12,950**	**14,911**	**15,658**	**15,465**	**16,713**	**18,005**	**16,008**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**4,956**	**5,160**	**5,371**	**5,425**	**5,487**	**5,655**	**5,462**	**5,475**
2.1.1.1.1. Overnight	1,634	2,252	2,939	2,982	3,158	3,391	3,384	3,538
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	1,634	2,252	2,939	2,982	3,158	3,391	3,384	3,538
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	1,634	2,252	2,939	2,982	3,158	3,391	3,384	3,538
2.1.2.1.1. Overnight	1,730	1,949	2,521	3,749	3,181	3,704	4,844	2,261
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,730	1,949	2,521	3,749	3,181	3,704	4,844	2,261
2.1.2.2. Foreign currency	60	78	56	4	5	5	5	7
2.1.2. General government	1,789	2,027	2,577	3,754	3,186	3,708	4,849	2,267
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	11	69	11	252	71	76	109	362
2.1.3. Other domestic sectors	11	69	11	252	71	76	109	362
2.1. Domestic sectors	3,434	4,348	5,527	6,987	6,414	7,176	8,342	6,168
2.2. Foreign sectors	16	1,267	1,506	78	111	63	36	52
2. Deposits	**3,450**	**5,615**	**7,033**	**7,065**	**6,525**	**7,238**	**8,377**	**6,220**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**275**	**256**	**261**	**260**	**262**	**263**	**264**
5. Capital and reserves	**1,533**	**1,748**	**1,883**	**1,903**	**1,838**	**1,909**	**2,031**	**2,070**
6. Remaining liabilities	**157**	**152**	**367**	**1,004**	**1,355**	**1,649**	**1,871**	**1,979**
Total liabilities	**10,370**	**12,950**	**14,911**	**15,658**	**15,465**	**16,713**	**18,005**	**16,008**

Table 8.3: Balance sheet of other monetary financial institutions

EUR million	2015	2016	2017	18Q2	18Q3	Dec.18	Jan.19	Feb.19
1.1.1. Cash	294	322	355	344	347	425	374	366
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	1,634	2,252	2,939	2,982	3,158	3,391	3,384	3,538
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	1,928	2,574	3,294	3,325	3,505	3,817	3,758	3,905
1.2.1. Loans	1,264	1,061	873	910	901	865	846	824
1.2.2. Debt securities	245	256	71	62	-	18	17	17
1.2.3. Shares and other equity	62	2	2	1	1	1	0	0
1.2. Claims on other MFI's	1,572	1,319	947	973	902	884	863	842
1.3.1. Loans	21,714	21,410	22,213	22,233	22,399	22,371	22,572	22,586
1.3.2. Debt securities	6,050	5,030	3,775	3,710	3,650	3,797	3,843	3,679
1.3.3. Shares and other equity	759	685	698	812	808	717	718	719
1.3. Claims on nonmonetry sectors	28,524	27,125	26,687	26,754	26,857	26,885	27,134	26,984
1. Claims on domestic sectors (domestic assets)	**32,024**	**31,018**	**30,927**	**31,052**	**31,264**	**31,586**	**31,755**	**31,730**
2.1.1. Cash	34	38	35	50	41	35	34	42
2.1.2. Loans	2,767	2,628	2,154	2,290	1,882	1,681	1,641	1,828
2.1.3. Debt securities	1,027	1,165	1,333	1,389	1,396	1,311	1,285	1,311
2.1.4 Shares and other equity	567	567	579	579	578	578	578	578
2.1. Claims on foreign monetary sectors	4,395	4,398	4,100	4,307	3,898	3,605	3,537	3,759
2.2.1. Loans	1,597	1,155	899	931	980	1,023	1,038	1,041
2.2.2. Debt securities	1,870	2,151	3,190	3,198	3,330	3,346	3,311	3,343
2.2.3. Shares and other equity	405	396	314	306	308	306	299	299
2.2. Claims on foreign nonmonetary sectors	3,871	3,701	4,404	4,436	4,617	4,675	4,648	4,683
2. Claims on foreign sectors (foreign assets)	**8,266**	**8,100**	**8,504**	**8,743**	**8,515**	**8,280**	**8,185**	**8,442**
3. Remaining assets	**1,314**	**1,074**	**1,015**	**726**	**709**	**764**	**896**	**1,045**
Total assets	**41,603**	**40,191**	**40,447**	**40,521**	**40,488**	**40,630**	**40,836**	**41,217**
1.1.1. Deposits, loans from the Bank of Slovenia	901	714	1,142	1,121	1,102	1,102	1,102	1,102
1.1.2. Deposits, loans from other MFIs	1,301	1,123	962	980	983	931	910	888
1.1.3. Debt securities issued	38	18	12	-	-	75	75	-
1.1. Laibilities to monetary sectors	2,240	1,855	2,115	2,101	2,085	2,108	2,086	1,990
1.2.1.1. Overnight	12,661	15,038	17,287	18,216	18,693	19,396	19,348	19,577
1.2.1.2. With agreed maturity	10,604	9,076	8,125	7,598	7,561	7,477	7,490	7,614
1.2.1.3. Reedemable at notice	474	615	548	650	637	561	643	745
1.2.1. Deposits in domestic currency	23,739	24,729	25,960	26,464	26,891	27,434	27,481	27,936
1.2.2. Deposits in foreign currency	599	632	593	605	624	626	601	610
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	27,083	27,530	28,075	28,097	28,562
1. Obligations to domestic sectors (domestic liabilities)	**26,661**	**27,254**	**28,683**	**29,184**	**29,615**	**30,183**	**30,183**	**30,551**
2.1.1. Deposits	2,578	2,084	1,627	1,655	1,606	1,549	1,523	1,513
2.1.2. Debt securities issued	975	710	327	326	36	36	36	111
2.1. Liabilities to foreign monetry sectors	3,553	2,794	1,954	1,982	1,642	1,585	1,559	1,623
2.2.1. Deposits	1,954	1,738	1,975	1,785	1,694	1,693	1,687	1,679
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	1,807	1,716	1,715	1,709	1,701
2. Obligations to foreign sectors (foreign liabilities)	**5,535**	**4,555**	**3,952**	**3,789**	**3,358**	**3,300**	**3,268**	**3,324**
3. Capital and reserves	**4,676**	**4,841**	**4,904**	**5,014**	**5,045**	**4,884**	**4,917**	**4,975**
4. Remaining liabilities	**4,731**	**3,540**	**2,908**	**2,534**	**2,470**	**2,263**	**2,467**	**2,366**
Total liabilities	**41,603**	**40,191**	**40,447**	**40,521**	**40,488**	**40,630**	**40,836**	**41,217**

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

in % on annual level	2014	2015	2016	2017	Dec.18	Jan.19	Feb.19
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.20	8.01	7.84	7.85	7.81	7.79	7.77
Households, extended credit	8.02	7.84	7.73	7.75	7.63	7.61	7.62
Loans, households, consumption, floating and up to 1 year initial rate fixation	5.01	4.19	4.23	4.44	4.65	4.55	4.51
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	7.00	5.64	5.66	5.92	6.04	6.08	6.02
Loans, households, consumption, over 5 years initial rate fixation	7.07	5.28	6.12	6.20	6.29	6.28	6.26
C. loans, households, consumption, floating and up to 1 year initial rate fixation	4.47	3.82	3.47	3.69	3.74	3.81	3.81
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	6.60	5.61	5.27	4.89	5.12	5.33	4.74
C. loans, households, consumption, over 5 year initial rate fixation	6.53	5.58	5.05	5.19	5.06	5.47	5.19
APRC, Loans to households for consumption	8.28	7.42	7.55	7.73	7.64	7.87	7.75
Loans, households, house purchase, floating and up to 1 year initial rate fixation	3.18	2.22	2.04	1.99	1.89	1.92	1.92
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.65	3.87	3.58	2.75	3.22	3.23	3.03
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.06	3.16	2.49	2.65	2.74	2.81	2.72
Loans, households, house purchase, over 10 years initial rate fixation	4.87	3.16	2.56	2.91	2.95	2.92	2.93
C. loans, households, house purchase variabel and up to years initial rate fixation	3.16	2.21	2.02	1.99	1.87	1.91	1.91
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	5.41	2.63	2.12	2.38	2.87	2.41	2.52
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	5.03	3.04	2.38	2.34	2.56	2.58	2.65
C. loans, households, house purchase, over 10 years initial rate fixation	4.87	3.12	2.53	2.85	2.89	2.89	2.86
APRC, Loans to households for house purchase	3.55	2.85	2.58	2.77	2.75	2.74	2.75
Loans, households, other purposes, floating and up to 1 year initial rate fixation	5.11	3.51	3.49	3.58	3.68	4.50	4.25
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.96	5.93	5.28	5.30	4.78	5.29	5.11
Loans, households, other purposes, over 5 years initial rate fixation	6.44	7.79	5.92	5.35	6.80	6.93	6.67
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	5.30	3.45	2.81	2.41	2.22	2.19	2.18
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	2.30	2.83	2.68
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	2.49	2.65	2.81
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	5.92	4.23	4.52	3.98	3.72	3.90	3.48
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	4.24	4.68	5.15
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	4.16	4.38	4.37
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	5.87	3.34	2.92	2.22	4.25	5.76	5.33
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	2.06	1.64	1.85
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	5.29	2.57	2.49	2.09	2.11	2.04	2.08
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	1.91	2.50	2.47
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	-	1.31	0.98	1.11
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	1.11	2.58
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	6.32	-	2.10	-	-	2.66	-
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	3.94	2.61	2.61	2.23	1.85	1.30	1.54
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	1.76	2.09	1.75
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	4.60	1.00	-	-	0.75	-	-
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	4.07	-	1.06	1.15	-	-	1.28
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	4.62	1.79	1.92	-	1.47	0.92	1.67
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	2.35	3.56	2.23	1.88	2.04	-	-
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	0.17	0.16	0.18
Deposits, households, agreed maturity over 1 and up to 2 years	1.90	0.70	0.44	0.51	0.54	0.50	0.50
Deposits, households, agreed maturity over 2 years	2.33	1.07	0.72	0.69	0.89	0.76	0.75
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	0.00	0.04	0.04
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.13	0.57	0.20	0.12	0.19	0.16	0.15
Deposits, S.11, agreed maturity over 2 years	0.63	1.07	0.49	0.26	0.19	0.13	0.19
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	0.89	1.01	0.84

Table 8.5: International investment position

EUR million		2015	2016	2017	18Q1	18Q2	18Q3	18Q4
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-15,399**	**-14,858**	**-13,869**	**-13,537**	**-12,887**	**-12,032**	**-12,277**
1	**ASSETS**	**42,265**	**42,657**	**43,466**	**43,788**	**44,503**	**44,856**	**45,467**
1.1	**Direct investment**	**7,252**	**7,767**	**8,267**	**8,507**	**8,406**	**8,598**	**8,541**
1.1.1	Equity	3,959	4,149	4,287	4,373	4,353	4,522	4,550
1.1.2	Debt instruments	3,293	3,618	3,979	4,134	4,053	4,077	3,992
1.2	**Portfolio investment**	**14,458**	**16,719**	**19,662**	**19,335**	**19,703**	**20,127**	**19,568**
1.2.1	Equity and investment fund shares	3,484	3,584	4,086	4,073	4,179	4,296	3,874
1.2.2	Debt securities	10,974	13,135	15,575	15,262	15,524	15,830	15,694
1.3	**Financial derivatives**	**1,266**	**1,166**	**322**	**133**	**268**	**259**	**254**
1.4	**Other investment**	**18,502**	**16,300**	**14,473**	**15,098**	**15,410**	**15,091**	**16,288**
1.4.1	Other equity	641	642	652	669	668	670	662
1.4.2	Currency and deposits	10,301	8,153	5,929	6,056	6,142	5,798	7,290
1.4.3	Loans	3,122	2,670	2,390	2,345	2,434	2,490	2,545
1.4.4	Insurance, pension and standardized guarantee schemes	129	141	148	148	149	149	149
1.4.5	Trade credit and advances	3,737	4,038	4,617	5,063	5,190	5,326	5,008
1.4.6	Other accounts receivable	571	656	738	817	827	658	633
1.5	**Reserve assets**	**787**	**705**	**743**	**716**	**715**	**781**	**816**
1.5.1	Monetary gold	100	112	111	110	110	104	115
1.5.2	Special drawing rights	264	207	235	234	240	239	242
1.5.3	Reserve position in the IMF	104	154	103	94	96	116	131
1.5.4	Other reserve assets	320	232	294	278	270	321	329
2	**LIABILITIES**	**57,664**	**57,515**	**57,335**	**57,325**	**57,390**	**56,888**	**57,744**
2.1	**Direct investment**	**13,356**	**14,996**	**16,032**	**16,401**	**16,526**	**17,060**	**17,327**
2.1.1	Equity	9,804	11,563	12,320	12,603	12,678	13,168	13,366
2.1.2	Debt instruments	3,552	3,433	3,713	3,799	3,847	3,892	3,962
2.2	**Portfolio investment**	**23,959**	**21,439**	**21,200**	**22,193**	**21,204**	**20,410**	**20,867**
2.2.1	Equity and investment fund shares	1,038	966	1,085	1,101	1,079	974	1,751
2.2.2	Debt securities	22,921	20,473	20,115	21,093	20,125	19,436	19,116
2.3	**Financial derivatives**	**163**	**139**	**81**	**79**	**91**	**81**	**105**
2.4	**Other investment**	**20,186**	**20,941**	**20,023**	**18,652**	**19,569**	**19,338**	**19,445**
2.4.1	Other equity	32	36	37	37	37	37	39
2.4.2	Currency and deposits	2,965	4,148	4,556	3,286	3,530	3,794	4,126
2.4.3	Loans	12,851	12,155	10,336	10,097	10,271	10,225	9,862
2.4.4	Insurance, pension and standardized guarantee schemes	221	213	219	246	266	252	252
2.4.5	Trade credit and advances	3,433	3,711	4,156	4,259	4,507	4,399	4,553
2.4.6	Other accounts payable	408	402	462	473	697	369	349
2.4.7	Special drawing rights	275	275	256	255	261	260	262

Table 8.6: Gross external debt

EUR million		2015	2016	2017	18Q2	18Q3	18Q4	Jan.19
	TOTAL (1+2+3+4+5)	**46,627**	**44,810**	**43,813**	**43,504**	**42,628**	**42,483**	**43,658**
1	**GENERAL GOVERNMENT**	**24,824**	**22,953**	**21,769**	**21,668**	**21,087**	**20,726**	**22,197**
1.1	**Short-term, of that**	**1,507**	**1,304**	**481**	**444**	**432**	**413**	**327**
	Debt securities	15	22	75	115	115	85	85
	Loans	1,201	1,058	273	218	208	236	153
	Trade credit and advances	35	42	35	40	46	35	33
	Other debt liabilities	257	182	98	71	63	56	56
1.2	**Long-term, of that**	**23,316**	**21,649**	**21,288**	**21,224**	**20,656**	**20,314**	**21,870**
	Debt securities	21,813	19,877	19,517	19,482	18,917	18,602	20,158
	Loans	1,500	1,768	1,769	1,742	1,738	1,709	1,710
2	**CENTRAL BANK**	**2,217**	**3,457**	**3,820**	**2,890**	**3,245**	**3,561**	**3,544**
2.1	**Short-term, of that**	**1,942**	**3,182**	**3,564**	**2,629**	**2,984**	**3,299**	**3,281**
	Currency and deposits	1,942	3,182	3,564	2,629	2,984	3,299	3,281
2.2	**Long-term, of that**	**275**	**275**	**256**	**261**	**260**	**262**	**263**
	Special drawing rights (allocations)	275	275	256	261	260	262	263
3	**DEPOSIT TAKING CORPORATIONS, except the Central Bank**	**5,195**	**4,117**	**3,782**	**3,664**	**3,373**	**3,344**	**3,430**
3.1	**Short-term**	**702**	**817**	**1,058**	**1,027**	**935**	**927**	**1,019**
	Currency and deposits	490	578	765	720	644	669	624
	Debt securities	...	...	...	...	...	...	...
	Loans	207	221	200	237	258	251	265
	Trade credit and advances	...	...	...	...	...	...	...
	Other debt liabilities	5	18	92	70	32	7	130
3.2	**Long-term**	**4,493**	**3,300**	**2,724**	**2,636**	**2,438**	**2,418**	**2,411**
	Currency and deposits	534	387	227	181	166	159	156
	Debt securities	652	287	168	166	48	88	90
	Loans	3,301	2,620	2,323	2,283	2,218	2,162	2,160
	Trade credit and advances	7	5	6	5	4	7	5
	Other debt liabilities	0	1	1	1	3	1	1
4	**OTHER SECTORS**	**10,839**	**10,851**	**10,729**	**11,435**	**11,032**	**10,890**	**10,554**
4.1	**Short-term, of that**	**3,976**	**4,250**	**4,593**	**5,236**	**4,965**	**5,080**	**4,798**
	Debt securities	0	2	0	2	2	1	1
	Loans	487	447	281	294	424	361	376
	Trade credit and advances	3,385	3,649	4,090	4,435	4,322	4,484	4,196
	Other debt liabilities	102	153	222	504	217	234	225
4.2	**Long-term, of that**	**6,864**	**6,600**	**6,135**	**6,200**	**6,067**	**5,810**	**5,756**
	Debt securities	441	284	355	359	354	340	340
	Loans	6,155	6,041	5,490	5,496	5,380	5,143	5,089
	Trade credit and advances	7	16	26	27	26	25	25
	Other debt liabilities	260	259	265	317	306	302	303
5	**DIRECT INVESTMENT: intercompany lending**	**3,552**	**3,433**	**3,713**	**3,847**	**3,892**	**3,962**	**3,933**
	NET EXTERNAL DEBT POSITION	**13,712**	**11,694**	**9,694**	**8,469**	**7,520**	**6,356**	**5,913**

Table 8.7: Balance of payments

EUR million	2016	2017	2018	18Q2	18Q3	18Q4	Jan.19
I. Current account	**2,224**	**3,077**	**3,203**	**946**	**982**	**596**	**411**
1. Goods	**1,536**	**1,561**	**1,149**	**429**	**370**	**22**	**184**
1.1. Export of goods	**24,991**	**28,462**	**31,147**	**7,938**	**7,608**	**8,057**	**2,702**
Export f.o.b.	24,971	28,265	30,870	7,878	7,492	7,954	2,708
Coverage adjustment	-194	-51	15	9	30	31	-23
Net export of goods under merchanting	186	228	241	48	77	69	18
Nonmonetary gold	29	20	21	4	10	2	0
1.2. Import of goods	**23,454**	**26,901**	**29,998**	**7,509**	**7,238**	**8,035**	**2,518**
Import c.i.f.	24,112	27,606	30,706	7,704	7,388	8,209	2,587
Coverage adjustment	-5	36	113	17	43	49	5
Valuation adjustment	-680	-778	-867	-217	-209	-232	-73
Nonmonetary gold	27	37	45	5	16	9	...
2. Services	**2,251**	**2,719**	**3,147**	**751**	**966**	**818**	**276**
2.1. Export of services, of that	**6,487**	**7,275**	**8,024**	**1,926**	**2,317**	**2,120**	**604**
Transport	1,854	2,099	2,385	599	585	631	187
Travel	2,190	2,434	2,716	625	1,029	592	174
Construction services	385	431	502	109	143	158	40
Telecomm., computer and inform. services	552	543	541	131	135	163	38
Other business services	1,006	1,289	1,349	328	301	426	122
2.2. Import of services, of that	**4,236**	**4,556**	**4,877**	**1,175**	**1,351**	**1,302**	**327**
Transport	922	1,025	1,019	254	247	280	82
Travel	854	882	1,001	230	437	177	51
Construction services	104	125	163	39	43	55	10
Telecomm., computer and inform. services	509	514	510	115	134	144	34
Other business services	1,147	1,281	1,425	372	314	425	82
3. Primary income	**-1,215**	**-926**	**-740**	**-167**	**-241**	**-198**	**20**
3.1. Receipts	**1,487**	**1,669**	**1,520**	**391**	**324**	**370**	**207**
Compensation of employees	314	364	462	138	113	113	34
Investment	636	695	707	188	180	170	56
Other primary income	537	610	351	65	32	87	117
3.2. Expenditure	**2,702**	**2,596**	**2,260**	**558**	**565**	**568**	**188**
Compensation of employees	128	141	159	41	40	41	13
Investment	2,084	1,917	1,897	473	479	473	153
Other primary income	490	538	204	44	46	54	21
4. Secondary income	**-349**	**-276**	**-353**	**-66**	**-113**	**-47**	**-69**
4.1. Receipts	**724**	**838**	**837**	**209**	**179**	**261**	**62**
4.2. Expenditure	**1,073**	**1,115**	**1,190**	**275**	**292**	**308**	**131**

Table 8.8: Balance of payments – continued

EUR million	2016	2017	2018	18Q2	18Q3	18Q4	Jan.19
II. Capital account	**-303**	**-324**	**-210**	**-32**	**-25**	**-113**	**-14**
1. Nonproduced nofinancial assets	-45	-76	-33	15	17	-77	10
2. Capital transfers	-258	-248	-176	-47	-42	-36	-23
III. Financial account	**1,153**	**1,754**	**2,108**	**755**	**496**	**334**	**398**
1. Direct investment	**-864**	**-414**	**-1,132**	**-158**	**-498**	**-329**	**14**
Assets	434	551	151	-86	5	-15	80
Equity and reinvested earnings	273	212	281	-28	186	45	-24
Debt instruments	161	339	-130	-58	-180	-60	104
Liabilities	1,298	966	1,284	72	503	315	66
Equity and reinvested earnings	1,503	843	1,158	89	523	237	91
Debt instruments	-205	123	125	-17	-20	78	-26
2. Portfolio investment	**5,094**	**2,958**	**706**	**1,542**	**986**	**-487**	**-1,519**
Assets	2,089	2,819	451	304	418	-146	-49
Equity and investment fund shares	-82	280	86	19	10	-40	-26
Debt securities	2,171	2,539	365	285	409	-106	-22
Liabilities	-3,005	-139	-255	-1,238	-568	341	1,471
Equity and investment fund shares	48	39	540	-106	-2	649	0
Debt securities	-3,053	-178	-795	-1,132	-566	-308	1,471
3. Financial derivatives	**-216**	**-248**	**-27**	**-12**	**-7**	**-2**	**1**
4. Other investment	**-2,764**	**-630**	**2,510**	**-594**	**-56**	**1,137**	**1,875**
4.1. Assets	**-2,340**	**-1,584**	**1,747**	**260**	**-463**	**1,276**	**1,548**
Other equity	0	-1	-1	1	0	-3	-1
Currency and deposits	-2,205	-2,190	1,356	66	-353	1,501	1,105
Loans	-203	-115	201	92	48	68	33
Insurance, pension and stand. guar. schemes	10	5	2	1	-1	...	...
Trade credits and advances	156	599	325	95	49	-268	173
Other assets	-97	119	-136	6	-206	-22	238
4.2. Liabilities	**423**	**-954**	**-763**	**854**	**-408**	**140**	**-327**
Other equity	4	20	2	0	0	2	0
Currency and deposits	1,175	438	-433	232	264	335	-64
Loans	-818	-1,854	-582	131	-119	-358	-104
Insurance, pension and stand. guar. schemes	-8	5	34	21	-14	...	...
Trade credits and advances	137	410	336	243	-202	183	-275
Other liabilities	-67	26	-121	227	-337	-22	117
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-97**	**89**	**52**	**-22**	**70**	**16**	**27**
IV. Net errors and omissions	**-768**	**-999**	**-885**	**-159**	**-461**	**-149**	**0**

Table 8.9: 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 8.10: 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 8.11: 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 8.12: 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 8.13: 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 8.14: 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.