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Executive Summary

At the end of last year, global economic conditions seemed to have improved, while there are signs of easing tensions in global trade. Assessment of the situation in the euro area is less reliable at present: the PMI and confidence indicators in the final quarter of last year were down on the third quarter on average, but picked up slightly at the end of the year. Growth in wages and employment remains solid, particularly compared with the indicators of economic activity, which supports this year's GDP growth and its structure expectations given in the ECB's December projections. Economic activity will be supported by accommodative monetary policy from the central banks of the euro area. Weaker euro will continue to take some pressure off euro area exporters. However, there is little possibility of more decisive countercyclical fiscal policy across the euro area, as the fiscal space is very limited under current fiscal rules, particularly in light of the need for further consolidation in certain large euro area countries.

According to the latest monthly activity and confidence indicators, the economic situation in Slovenia was not particularly encouraging in the final quarter of last year. Industrial activity remained more robust than the euro area average, although year-on-year growth in activity was barely above 1% in November, and for the most part was based merely on increased output in the automotive and pharmaceutical industries. The weak growth in foreign demand is increasingly being reflected in real turnover in private-sector services, which in October was actually down on a year earlier. There was a noteworthy decline of almost 5% in turnover in transportation and storage, albeit partly on account of the bankruptcy of the domestic airline. At the same time, activity in construction remained weak, as local government's investment cycle had ended. The economic sentiment declined again in the final quarter of last year, but there may be signs of a possible stabilisation in foreign demand. This is suggested by a survey among manufacturing firms, conducted by the SORS, and the latest forecasts for this year's economic growth in Slovenia's trading partners.

As in the euro area, the situation also remains favourable in the Slovenian labour market, given the slowdown in the international environment and in the domestic economic activity, but structural imbalances are becoming increasingly evident. Employment growth is still declining, but remains high relative to GDP growth. The fall in unemployment is slowing, partly because of its structure, as well as the weakening economy. A rise in the number of older and long-term unemployed people means that structure is worse than it was a decade ago, which is reducing the possibility for further falls in the unemployment rate. Labour costs are continuing to rise. Over the first ten months of last year, nominal growth in the average gross wage averaged 4.3%, up almost 1 percentage point in year-on-year terms. Because labour productivity is stagnating at the same time, cost pressures are growing more quickly than the euro area average, which is being reflected in higher core inflation and a weakened dynamic in certain competitiveness indicators. On the other hand, growth in private consumption is also higher for this reason.

The current account surplus widened last year, despite the tensions in international trade and robust domestic private consumption. It exceeded EUR 3.0 billion over the 12 months to November, the highest figure to date according to the current balance of payments data. The main reason was the ongoing increase in the surplus of trade in services, despite a sharp slowdown in exports in the second half of the year. The merchandise trade surplus also widened slightly. The declining growth in foreign demand saw growth in merchandise exports slow sharply – exports in November were actually down in year-on-year terms – but weak investment and low growth in industrial production brought an even sharper slowdown in growth in imports of capital goods and intermediate goods.

In 2019, inflation was notably higher than the euro area average. As measured by the HICP it averaged 1.7% over the year, close to its level over the last three years, and 0.5 percentage points above the euro area average. Its structure changed significantly as domestic inflationary pressures strengthened, while external pressures weakened considerably in line with developments in oil prices. Inflation was thus mainly driven by domestic components. Rising wage growth led to an increase in unit labour costs, and also strengthened domestic private consumption, which was a major factor in higher service price inflation. After falling for a long period, prices of non-energy industrial goods rose slightly, although competition is limiting the rate of growth. Growth in the narrowest core inflation indicator reached 1.9%, 0.9 percentage points above the euro area average. Given the strength of domestic inflationary pressures, the level and the structure of inflation do not deviate significantly from other comparable euro area countries.

Despite the weaker economy, the general government position remains in surplus. Growth in revenues over the first three quarters of last year remained relatively high, at 5.9%. This was partly attributable to the still-buoyant labour market, and higher capital income, while the tax break on annual leave allowance had a negative impact on revenues. Growth in expenditure was slightly lower than growth in revenues, and was driven primarily by social security benefits, employee compensation and, in the first half of the year, relatively high government investment. The interest burden declined for the fourth consecutive year. According to the Ministry of Finance's estimates, the general government surplus in 2019 is expected to have remained at the level of the previous year, namely 0.8% of GDP. This January, government issued a 10-year bond at EUR 1.5 billion with 0.275% coupon rate, the lowest rate so far. Issuing conditions were favourable also from the international perspective taking into account comparable countries. Nevertheless, planning and conducting of fiscal policy remains challenging as available data for last year's fourth quarter show some weakening of domestic economic conditions, while uncertainties in the international environment remain elevated.

Main macroeconomic indicators

	2016	2017	2018	19Q1	19Q2	19Q3	2016	2017	2018	19Q1	19Q2	19Q3
	Slovenia						*euro area*					
Economic developments	*y-o-y growth rates in %*											
GDP	3.1	4.8	4.1	3.3	2.5	2.3	1.9	2.5	1.9	1.3	1.1	1.5
- industry	4.7	7.7	3.6	2.5	3.4	3.5	2.9	3.4	1.8	-0.4	-1.5	-0.4
- construction	-3.4	8.3	8.0	14.9	7.5	-2.3	1.9	2.4	3.4	5.0	2.9	3.7
- mainly public sector services	2.3	2.1	1.6	1.7	1.5	1.8	1.6	1.6	1.0	0.9	1.1	1.2
- mainly private sector services	3.3	5.8	4.5	3.7	2.8	2.5	1.9	2.8	2.2	1.3	1.1	1.5
Domestic expenditure	3.0	4.2	4.7	2.3	2.1	3.8	2.4	2.2	1.6	1.4	2.5	1.5
- general government	2.5	0.3	3.2	3.9	1.0	1.8	1.9	1.3	1.1	1.3	1.4	1.8
- households and NPISH	4.4	2.3	3.4	2.4	3.7	4.3	2.0	1.7	1.4	0.8	1.3	1.6
- gross capital formation	-0.5	13.8	9.6	0.7	-0.7	4.4	4.0	4.3	2.5	3.1	6.5	0.9
- gross fixed capital formation	-3.7	10.4	9.4	10.0	6.9	1.2	4.0	3.5	2.3	4.1	8.5	3.7
- inventories and valuables, contr. to GDP growth in pp	0.6	0.7	0.2	-1.7	-1.5	0.7	0.0	0.2	0.0	-0.2	-0.4	-0.6
Labour market												
Employment	1.8	3.0	3.2	2.9	2.6	2.3	1.3	1.6	1.5	1.4	1.2	0.9
- mainly private sector services	1.7	3.1	3.4	3.1	2.8	2.4	1.3	1.8	1.6	1.4	1.1	0.9
- mainly public sector services	2.1	2.5	2.1	1.6	1.5	1.7	1.3	1.1	1.3	1.3	1.4	1.2
Labour costs per employee	3.1	3.0	3.9	4.3	5.7	4.5	1.3	1.7	2.2	2.3	2.2	2.5
- mainly private sector services	2.5	3.0	4.1	3.8	5.4	4.1	1.3	1.7	2.3	2.3	2.1	2.4
- mainly public sector services	5.2	3.1	3.5	4.1	4.9	5.7	1.4	1.8	2.0	2.1	2.5	2.6
Unit labour costs, nominal*	1.8	1.2	3.0	3.9	5.9	4.5	0.7	0.7	1.8	2.4	2.3	1.9
Unit labour costs, real**	1.0	-0.3	0.8	1.5	3.0	1.9	-0.1	-0.2	0.5	0.8	0.6	0.3
	in %											
LFS unemployment rate	8.0	6.6	5.1	4.8	4.2	4.8	10.0	9.1	8.2	8.1	7.5	7.3
Foreign trade	*y-o-y growth rates in %*											
Current account balance as % of GDP***	4.8	6.1	5.7	5.5	5.8	5.7	3.3	3.1	3.1	3.0	2.7	2.9
External trade balance as contr. to GDP growth in pp	0.4	1.0	-0.2	1.2	0.5	-1.2	-0.4	0.5	0.4	-0.1	-1.3	0.1
Real export of goods and services	6.5	10.8	6.6	4.9	5.0	4.5	2.9	5.5	3.3	2.7	1.8	2.7
Real import of goods and services	6.7	10.7	7.7	3.9	4.9	6.7	4.1	5.0	2.7	3.2	5.1	2.8
Financing	*in % of GDP*											
Banking system's balance sheet	99.3	94.0	88.6	88.8	88.9	88.3	275.9	260.8	256.8	265.6	268.7	273.0
Loans to NFCs	22.5	21.8	20.6	20.5	20.2	20.3	37.8	36.9	36.5	36.4	36.6	36.5
Loans to households	21.1	21.5	21.8	21.7	21.8	21.9	49.5	49.4	49.1	49.0	49.1	49.2
Inflation	*in %*											
HICP	-0.2	1.6	1.9	1.3	1.7	2.1	0.2	1.5	1.8	1.4	1.4	1.0
HICP excl. energy, food, alcohol and tobacco	0.7	0.7	1.0	1.6	1.8	2.3	0.8	1.0	1.0	1.0	1.1	0.9
Public finance	*in % of GDP*											
Debt of the general government	78.7	74.1	70.4	68.1	67.7	68.1	90.0	87.8	85.9	86.5	86.4	...
One year net lending/net borrowing of the general government***	-1.9	0.0	0.8	0.6	0.6	0.9	-1.4	-0.9	-0.5	-0.6	-0.7	...
*- interest payment****	3.0	2.5	2.0	1.9	1.8	1.7	2.1	1.9	1.8	1.8	1.8	...
*- primary balance****	1.1	2.5	2.8	2.5	2.4	2.6	0.7	1.0	1.3	1.2	1.0	...

Notes: 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.

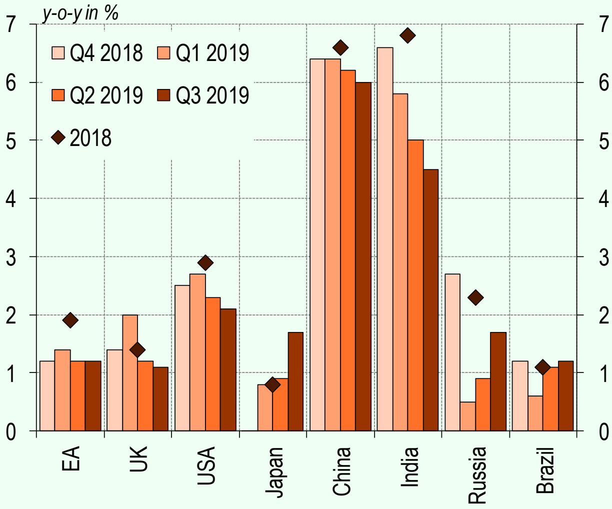
1 International Environment

Judging by the PMIs, the global economic situation improved slightly in the final quarter of last year, while the risks to global economic growth are also likely to have eased slightly. However, the World Bank has cut its global growth forecast for this year to just 2.5%. After declining in the lead-in to the final quarter of last year, the confidence indicators and the PMIs for the euro area had risen a little by the end of the year. According to the ECB's latest projections, euro area GDP is thought to have increased by 1.2% last year. Growth is forecast to be even lower this year, at 1.1%, and to remain weak, albeit slightly higher, over the medium term, where this is primarily contingent on the international trade situation stabilising. The outlook for this year's growth in foreign demand for Slovenian products has stabilised in recent months, but is down significantly on the beginning of 2019. Amid the low economic growth in the euro area, the euro gradually slid against the US dollar in 2019. The price of Brent crude rose at the end of the year: it stood at USD 64.5 in mid-January, close to its average in 2019.

Global economy

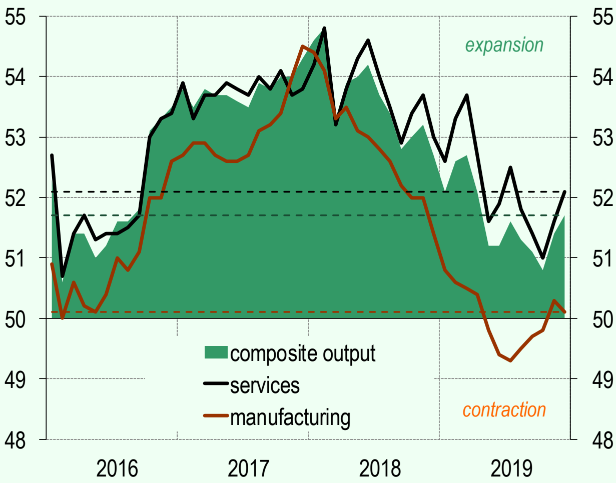
Economic growth in a number of major global economies slowed again in the third quarter of last year. Japan was alone among the major advanced economies in seeing economic growth strengthen in the third quarter: the rate stood at 1.8%, up 0.8 percentage points on the second quarter, albeit most likely as a result largely of renovations made after natural disasters. Year-on-year economic growth in the US stood at 2.1% in the third quarter of last year, down fully 1 percentage point in year-on-year terms, as a result of the continuing decline in growth in investment and trade. The UK also saw lower economic growth: the year-on-year rate of 1.1% was its lowest figure since the first quarter of 2018. In the BRIC countries, economic growth slowed again in the third quarter of last year in India and China, but picked up in Russia to 1.7%, up 0.8 percentage points on the second quarter. Year-on-year economic growth in India was down for the fifth consecutive quarter, as a result of a decline in industrial production and exports, and weaker growth in investment. It stood at 4.5% in the third quarter, down 2.5 percentage points in year-on-year terms. The Chinese economy expanded by 6.0% in year-on-year terms in the third quarter, 0.5 percentage points less than in the

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



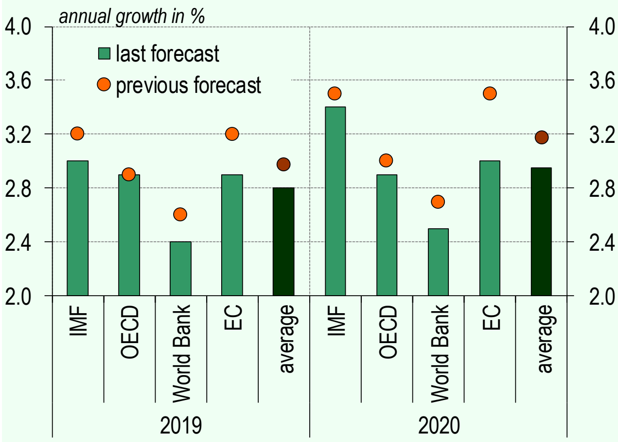
Source: IMF, Tradingeconomics.

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



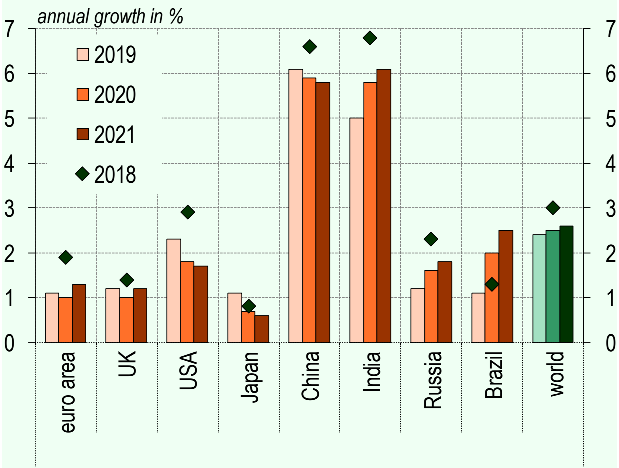
Note: Included forecasts are the following: IMF (October 2019, July 2019), OECD (November 2019, September 2019), World Bank (January 2020, June 2019), European Commission (November 2019, May 2019).
Source: IMF, OECD, World Bank, European Commission.

third quarter of 2018. The main reason for the slowdown is the tensions in international trade.

The global PMI suggests a slight improvement in the economic situation at the end of last year. The JP Morgan global composite PMI rose in the final quarter of last year. The contraction in manufacturing activity – at least according to the PMI – came to an end after six months. At the same time there was an uptick in the services PMI at the global level at the end of the year. The partial trade deal between the US and China and the growing likelihood of an orderly Brexit are thought to have reduced uncertainty in international trade.

Global economic growth is forecast to remain relatively low over the medium term. The World Bank is forecasting global economic growth to strengthen to around 2.7% over the medium term. As a result of low growth in investment and trade, economic growth is thought to have slowed last year in advanced and developing economies alike, although the pace of the slowdown is likely to be dependent on each country's exposure to the external environment. Economic growth is forecast to be slower than in 2019 in all major advanced economies, most notably in the US, although a significant slowdown is also forecast for Japan. Economic growth in China is forecast to slow from 6.1% in 2019 to 5.9% in 2020. It is forecast to slow again slightly in 2021, on account of the aging population, the sustained high level of debt, and the economic rebalancing process. Economic growth is

Figure 1.4: Medium-term forecasts of GDP growth in major developed countries and BRIC



Note: The World Bank forecasts are used (January 2020). For United Kingdom, the OECD forecast is used (November 2019).
Source: World Bank, OECD.

forecast to strengthen compared with last year in the other BRIC countries: it is forecast at 2% in Brazil, up 0.9 percentage points on last year, and at 5.8% in India, up 0.8 percentage points on last year.

Euro area

The euro area saw stagnating economic growth last year. Quarterly economic growth reached 0.2% in the third quarter for the second consecutive quarter, while the year-on-year rate stood at 1.2%, where it has remained since the final quarter of 2018. The contribution to GDP growth by domestic demand was down 0.2 percentage

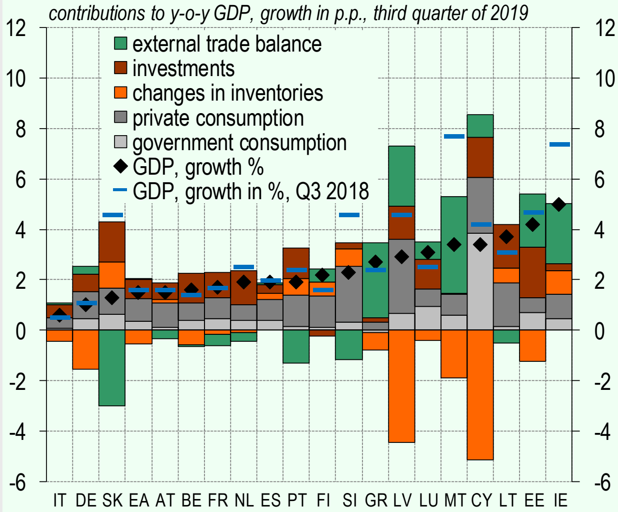
Box 1.1: Illustration of differences in economic growth between euro area countries in the third quarter of 2019

There remain great differences in the economic performance of euro area countries. The gap between the weakest euro area economy (Italy) and the euro area country with the highest growth (Ireland) in the third quarter of 2019 was at its narrowest point in recent years (4.4 percentage points, according to original figures), but the mean growth rate did not reflect the actual situation in the vast majority of euro area economies. In the group of below-average growth was four countries and again Italy (0.6%) and Germany (1.0%), which are among the largest economies in the euro area. By contrast, 15 euro area countries had above-average growth, most notably the less advanced economies and Ireland. Taking account of higher weights for the stronger economies, year-on-year growth in the euro area stood at 1.5%,[1] 0.4 percentage points more than in the second quarter of 2019, but 0.1 percentage points less than in the third quarter of 2018.[2] Economic growth is slowing in the majority of euro area countries. The largest slowdowns were seen in Malta, Slovakia, Ireland, Slovenia and Latvia. However, Slovenia's rate of 2.3% still put it in the top half.

There was also great variation between euro area countries in terms of the structure of economic growth, not just its magnitude. Gross fixed capital formation made the largest contribution to aggregate growth in Estonia, followed by Lithuania and Slovakia. After rising sharply in the second quarter (primarily as a result of a low basis), growth in investment in Ireland was minimal. All countries recorded a year-on-year increase in investment, other than Malta, where the rate was unchanged from the third quarter of 2018, and Finland, where there was a slight decline. The contribution to GDP growth in Slovenia stood at 0.2 percentage points, one of the lowest figures. Slovenia was also ranked in the lower half in terms of the contribution by government expenditure, which was 0.1 percentage points less than the euro area average. Greece was the sole country to record a decline in government expenditure in the third quarter. By far the largest contribution to GDP growth by government expenditure came in Cyprus, at 3.9 percentage points, followed by Luxembourg, with 1.0 percentage points. Similarly to the second quarter, growth in private consumption increased again in all euro area countries in the third quarter. Slovenia's contribution to GDP growth of 2.2 percentage points placed it level with Cyprus, and behind only Latvia. It was 1.3 percentage points higher than average contribution to GDP growth by private consumption in the euro area. Greece recorded the lowest figure. The contributions by inventories and by net trade also saw considerable variation between euro area countries.

Figure 1: Economic growth in euro area members states

contributions to y-o-y GDP, growth in p.p., third quarter of 2019



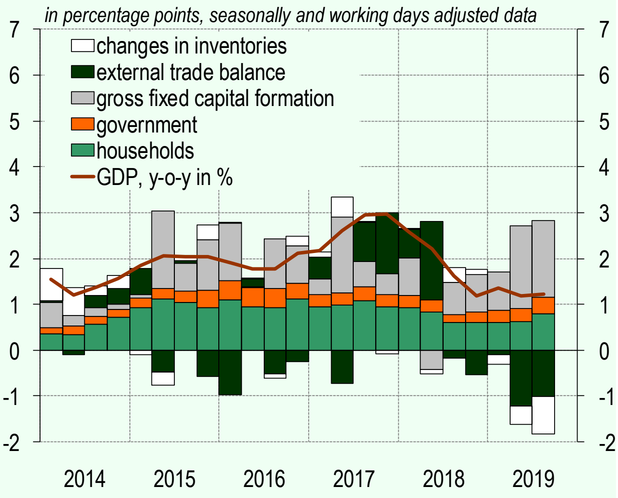
Source: ECB, Eurostat.

[1] Economic growth in the euro area stood at 1.2% in the third quarter of last year, according to seasonally and calendar adjusted figures.
[2] The structure of GDP and growth rates have been revised for the second quarter of 2019 in the majority of countries, for which reason the figures in this publication differ from those published in the October 2019 issue of Economic and Financial Developments.

points on the second quarter, but this was compensated for by a smaller negative contribution by net trade. The main factor for the decline in growth in domestic demand – although its year-on-year rate stood at 2.3%, comparable to the rate in the second quarter – were changes in inventories. They slowed year-on-year GDP growth by fully 0.8 percentage points. The largest contributions to year-on-year GDP growth continued to come from private consumption, at 0.8 percentage points, and gross fixed capital formation, at fully 1.7 percentage points. The contribution by the latter had increased sharply in the second quarter, to reach its highest figure since the second quarter of 2017, as a result of an extremely sharp rise in investment in research and development.[1]

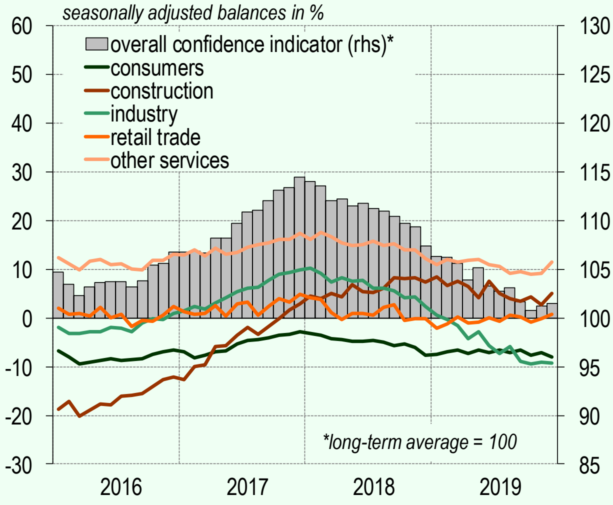
[1] Investment in research and development in the euro area has been rising sharply since 2015. This is largely attributable to a pronounced increase in Ireland and the Netherlands, which is at least partly related to the performance of multinationals.

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



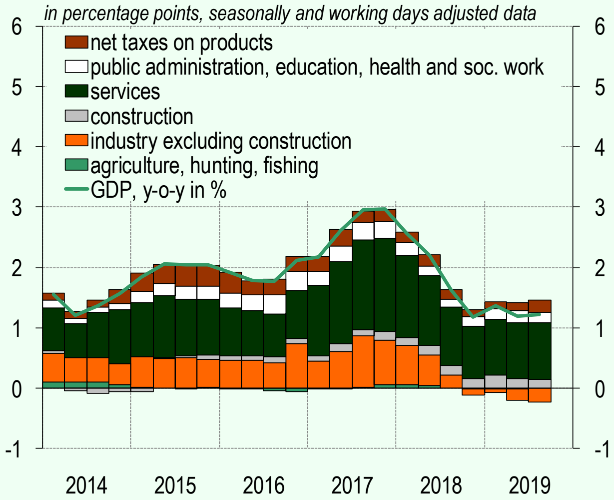
Source: Eurostat, Bank of Slovenia calculations.

Figure 1.8: Confidence indicators – euro area



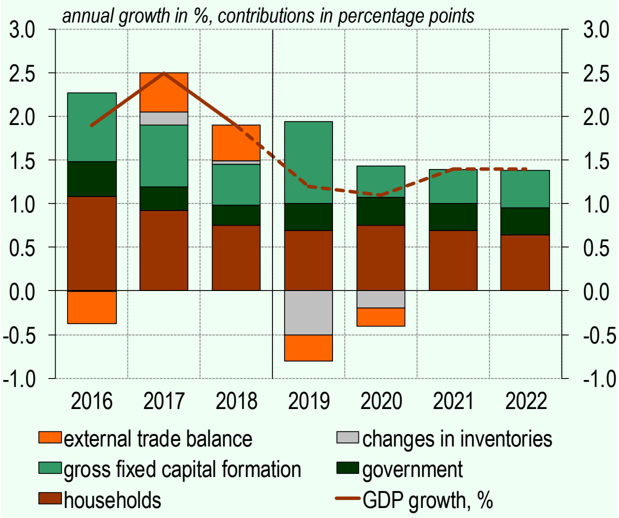
Source: Eurostat.

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



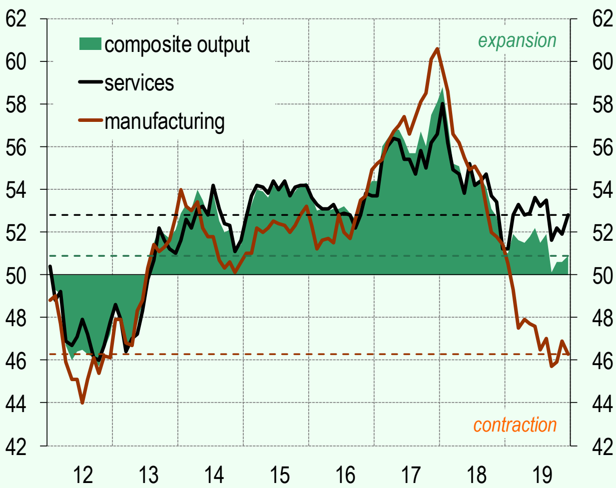
Source: Eurostat, Bank of Slovenia calculations.

Figure 1.9: Euro area GDP growth forecasts



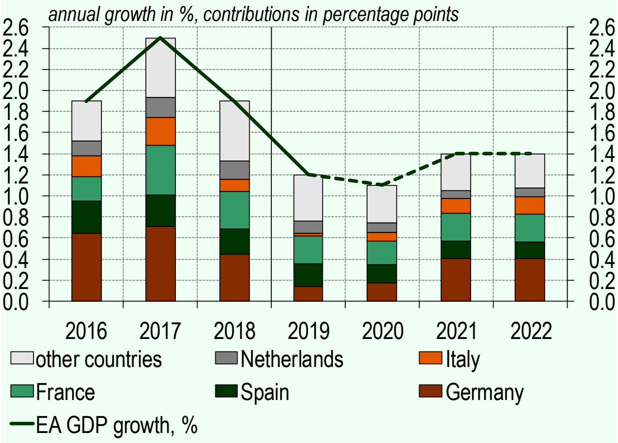
Source: ECB MPE (December 2019), Eurostat, Bank of Slovenia calculations.

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



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

Figure 1.10: Contribution by Member States to GDP growth in the euro area



Note: The 2018 weights were used to calculate contributions for 2019, 2020 and 2021.
Source: ECB MPE (December 2019), European Commission, Eurostat, Bank of Slovenia calculations.

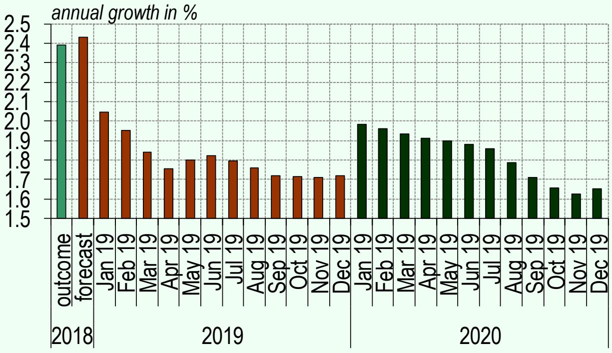
The economic sentiment in the euro area improved slightly towards the end of last year. After declining going into the final quarter of last year, the composite PMI had strengthened slightly by December, as the decline in the manufacturing PMI came to an end, while services activity is thought to have strengthened slightly at the same time. The confidence indicators were also slightly more favourable at the end of the year, which suggests a minor improvement in the economic sentiment. There were rises in the retail, services and construction confidence indicators, while the decline in the industry and consumer confidence indicators came to an end. According to the European Commission's survey indicators, the decline in employment expectations in sectors tied primarily to domestic demand also came to an end.

Economic growth in the euro area is expected to remain low over the medium term. According to the ECB's December projections, GDP in the euro area is thought to have grown by 1.2% last year. Growth is forecast to be even lower this year, at 1.1%, and to strengthen to 1.4% over the medium term, although this remains primarily contingent on a recovery in foreign demand. Robust wage growth amid a further fall in unemployment is expected to continue driving private consumption and housing investment, while exports are forecast to recover as a result of the gradual stabilisation of the situation in the external environment and the anticipated fall in the euro. The anticipated stabilisation in the international environment is forecast to have a positive impact on investment decisions by firms

Slovenia's trading partners

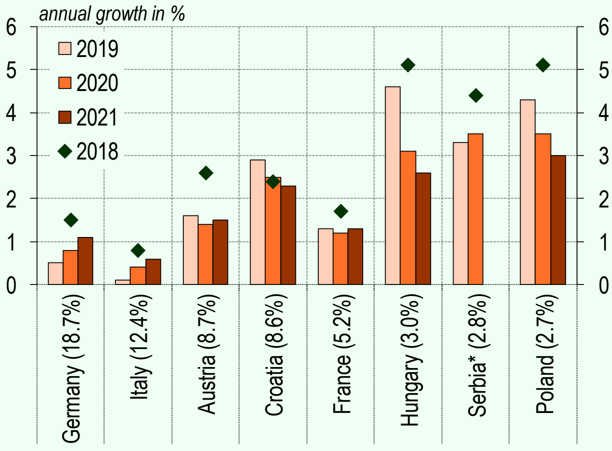
The weighted economic growth forecast for Slovenia's main trading partners remains relatively low. The outlook for this year's growth in foreign demand for Slovenian products stabilised in the final quarter of last year, but is down significantly on last January, primarily as a result of the lower forecasts for growth in Germany. There was a rise in the chances of the uncertain situation in industry affecting economic activity in the countries of central and south-eastern Europe, which are largely dependent on foreign demand, but were still recording robust growth until the third quarter of last year. According to Consensus, economic growth in Germany is forecast to strengthen to 0.9% this year, up 0.4 percentage points on last year. GDP in Germany in the third quarter of last year was up only 0.1% on the previous quarter, and by 0.5% in year-on-year terms. The situation is thought to have been slightly worse in the final months of 2019, as the composite PMI fell below the 50 mark going into the final quarter of last year, as a result of a sharp decline in the services PMI. Consensus also sharply reduced its forecast for this year's economic growth in Austria, by 0.6 percentage points to 1.2%. It is forecasting growth of just 0.4% in Italy this year, down 0.3 percentage points on its forecasts from the beginning

Figure 1.11: Weighted monthly forecasts of GDP growth for Slovenia's major trading partners for 2019 and 2020



Note: All Slovenian trade partners are included: countries with at least 1% of total Slovenian exports of goods and services in the last twelve months (December 2018–November 2019; 21 trading partners with a total share of 86.2%) and all the other countries as a difference of up to 100%. The growth forecasts for 2019 and 2020 are weighted with the share of each country in the total exports of Slovenia, for other countries the global growth forecast is used. For 2018 the weighted outcome and the December weighted forecast are shown.
Source: SORS, Consensus, Bank of Slovenia calculations.

Figure 1.12: Medium-term forecasts of GDP growth in the eight largest Slovenian trading partners



*Note: Shares of the trading partners in total Slovenian exports of goods and services in the last twelve months (December 2018–November 2019) are found in parentheses. *Data for 2021 is not available.*
Source: Consensus, SORS.

of last year, contingent on the stabilisation of trade and political tensions. The largest downward revision made by Consensus compared with last January was in its forecast for Slovakia, which it cut by just under 1 percentage point to 2.4%. The only upward revisions in growth forecasts for 2020 were for Poland, where growth is forecast at 3.4%, up 0.2 percentage points, and Hungary, where growth is forecast at 3.3%, up 0.6 percentage points. Economic growth in both countries is forecast to be down on 2019, by 0.8 and 1.6 percentage points respectively.

Euro exchange rate and commodity prices

ECB monetary policy remains accommodative. The December meeting of the Governing Council brought no change in the monetary policy stance: the ECB will hold its key interest rates at or below existing levels until inflation converges on its target, while net asset purchases will also continue. The Fed left its key interest rate unchanged in the interval between 1.50% and 1.75%. Given the weaker state of the euro area economy compared with the US, the high geopolitical risks and the spreads in interest rates, the euro gradually slid against the US dollar in 2019. The exchange rate stood at USD 1.11 on 13 January 2020, down 3.5% on a year earlier.

There was a rise in oil prices, but they are no higher than last year's average level. Brent crude has risen by just over a tenth since the beginning of last October. The price moved past USD 69 per barrel at the turn of the year, but had fallen to last year's average level by mid-January. The recent rises are attributable to the extension of the agreement between Opec members and certain non-members to limit pumping, a temporary truce in the trade war between the US and China, rising tensions in the Middle East, and a strong base effect.

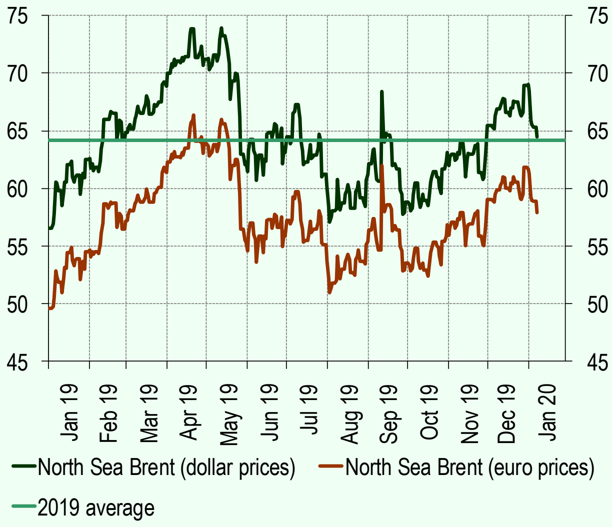
International capital markets

Stock markets continued to rise in the final quarter of 2019. Uncertainties related to the cooling global economy and other risks that have been present on international

Figure 1.13: EUR/USD exchange rate and central banks' interest rates

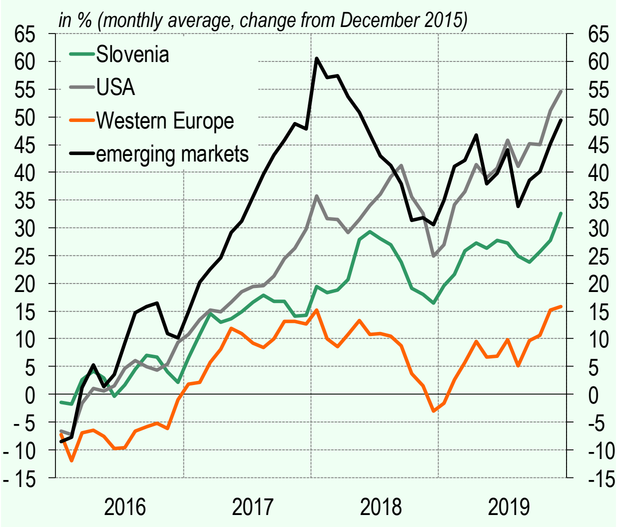
Source: ECB, Federal Reserve.

Figure 1.14: Oil prices



Source: Bloomberg, Bank of Slovenia calculations.

Figure 1.15: Stock exchange indices

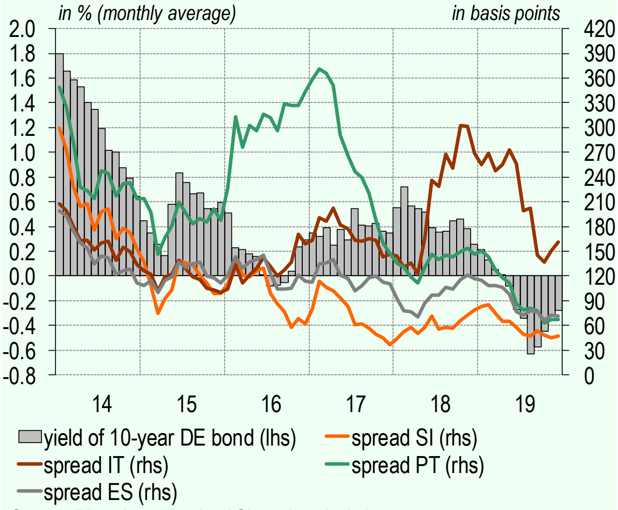


Source: Bloomberg, Bank of Slovenia calculations.

markets for some time (e.g. the global trade situation, geopolitical tensions) eased somewhat in the final quarter. At the end of the third quarter central banks responded to the worsening economic situation by easing monetary policy once again, which further reduced interest rates and raised share valuations on the markets. The stock market in the US gained another 8.5% in the final quarter of 2019, while the representative share index for western Europe rose by 5.1%.

The debt securities market normalised slightly in the final quarter of 2019, but the required yields remain negative on certain 10-year government bonds. The required yields on 10-year German government bonds rose from -0.6% to -0.2% in the final quarter, while there was no significant change in the spreads in the majority of euro area countries over the same period.

Figure 1.16: Spreads on selected 10-year government bonds as compared to Germany



Source: Bloomberg, Bank od Slovenia calculations.

2 Economic Developments

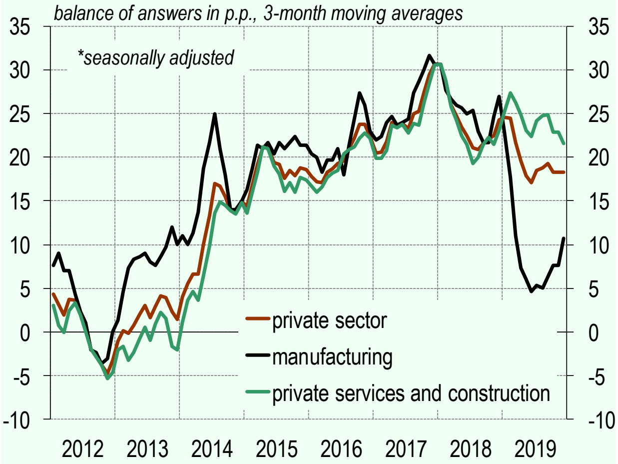
Economic growth in Slovenia slowed again in the third quarter of last year, but the situation remained relatively favourable given the international environment. Year-on-year GDP growth stood at 2.3% according to original figures, 0.8 percentage points more than in the euro area overall. The higher growth was largely based on more robust private consumption, which can mostly be tied to the rapid growth in the real wage bill, and on solid growth in value-added in industry, which was primarily driven by pharmaceuticals. Investment was weaker than in the euro area overall for the second consecutive quarter. This was partly attributable to the ending of the government investment cycle that accompanied the 2018 elections, and most likely also to the greater importance of the export sector in Slovenia, and thus the greater hit to firms' investment decisions from the situation in the international environment.

The monthly activity and confidence indicators available for the final quarter of last year are not particularly encouraging. The main factor remains the uncertainty in the international environment, which is depressing activity in manufacturing and in certain private-sector services. Industrial production was merely up just over 1% in year-on-year terms in November, while turnover in transportation and storage in October was down almost 5% in year-on-year terms, albeit partly on account of the bankruptcy of the domestic airline. The contraction in construction activity continued at the same time. The economic sentiment declined again in the final quarter of last year. There are signs of the possible stabilisation of foreign demand, at least in the short term: in December manufacturing firms were significantly more optimistic in their assessment of demand expectations over the next three months than at the end of the first half of last year, at least according to SORS survey data.

Confidence indicators

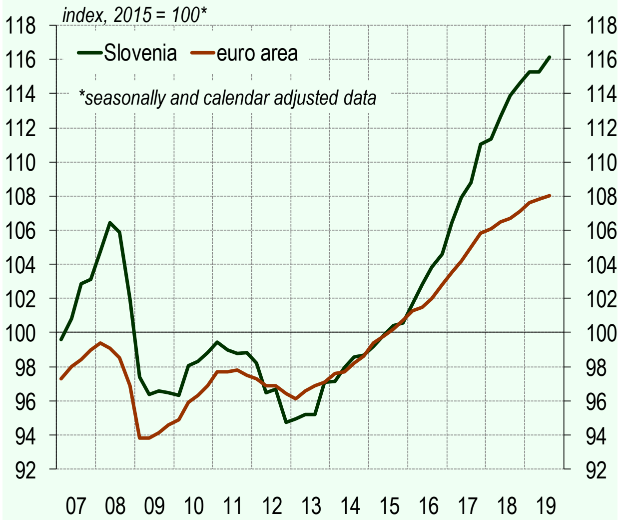
The economic sentiment indicator declined again in the final quarter of last year. This continued the trend of decline seen since the end of 2017, the indicator reaching its lowest quarterly level since 2014. All sectors are witnessing declining optimism, but year-on-year decline in the confidence indicator in the final quarter was most evident in construction. According to the confidence indicators published by the SORS, firms' assessments of order books in the final quarter were relatively weak, particularly in manufacturing and construction. The assessments of demand in services were also less optimistic than in the first half of the year, particularly in retail. Firms did become slightly more optimistic on aggregate in their assessments of future demand. This was notably true of manufacturing firms, whose order books indicator stood 13 percentage points higher in December than last year's low of June. Consumers also reported a decline in confidence in the final quarter of last year, even though the labour market remains buoyant.

Figure 2.1: Expected demand in the next three months*



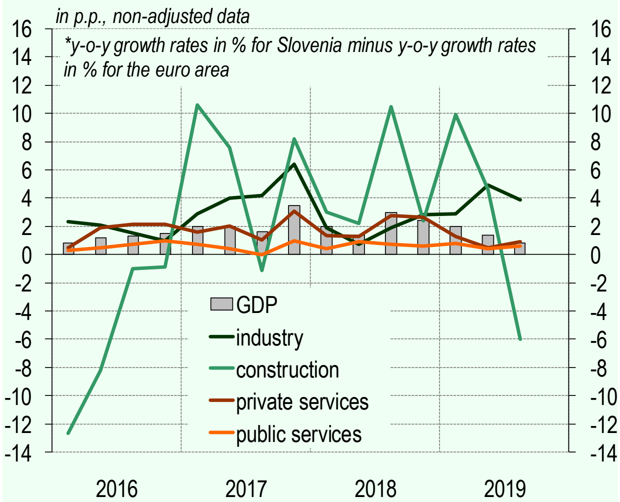
Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Bank of Slovenia calculations.

Figure 2.2: GDP of Slovenia and the euro area



Source: SORS, Eurostat.

Figure 2.3: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, production side*



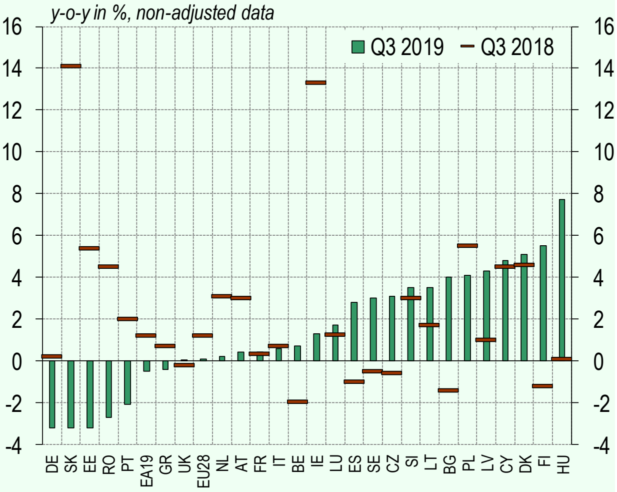
Source: Eurostat, Bank of Slovenia calculations.

GDP – output side

Economic growth in Slovenia is continuing to slow, and its structure differs from the euro area overall. Current SORS figures indicate that after stagnating in the second quarter of last year, GDP increased by 0.8% in current terms in the third quarter, although the year-on-year rate of growth declined again. It stood at 2.3% according to original figures, and 2.0% according to seasonally adjusted and calendar-adjusted figures. This is still better than the euro area average, although the gap is narrowing. According to original figures, economic growth in Slovenia was 3.0 percentage points higher than the euro area average in the third quarter of 2018, but just 0.8 percentage points higher in the third quarter of last year. Over the period of one year there was a notable slowdown in growth in value-added in private-sector services, while the third quarter of last year also saw a significant decline in construction activity in particular. Industry is continuing to surprise: growth in value-added in industry actually increased, despite the crisis in industry across the euro area, where value-added has been declining since the final quarter of 2018. The contribution to year-on-year GDP growth by industry stood at 0.8 percentage points in Slovenia in the third quarter of last year, while in the euro area overall the figure was negative.

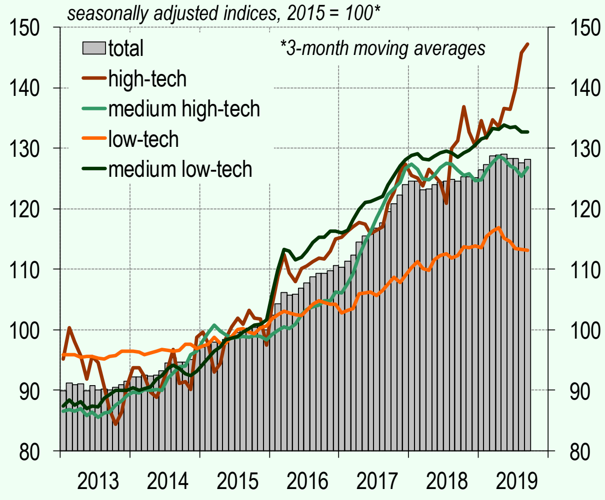
Growth in value-added in industry is robust, particularly compared with the situation in German industry, but is not especially noteworthy among EU Member States. Quarterly growth in value-added averaged around 0.8% during the first three quarters of last year, and actually exceeded 1% in manufacturing. In both instances it slightly surpassed its performance in 2018. In the third quarter, year-on-year growth in value-added strengthened to 3.5% in industry and 4.5% in manufacturing, according to original figures. This is very solid compared with Germany or Slovakia, but is not unusual in European terms. The situation in industry varies markedly between EU Member States. A third were facing a fall in value-added in the third quarter of last year, while a quar-

Figure 2.4: Value added – industry



Note: Data for Malta not available.
Source: Eurostat, Bank of Slovenia calculations.

Figure 2.5: Production in manufacturing according to technological intensity

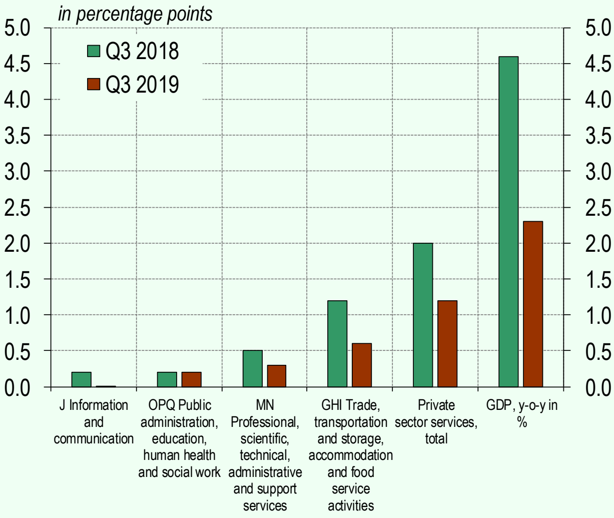


Source: SORS, Bank of Slovenia calculations.

ter actually outperformed Slovenia. The situation in different sectors of industry also varied considerably within Slovenia. Growth in output remained robust in the high-tech sectors, where the central role is played by pharmaceuticals, while the lower-tech sectors saw stagnation or even a fall in output in the second half of the year.[1] Eight of the 21 manufacturing sectors recorded a year-on-year decline in output in the third quarter, while growth ranged from -7.4% in the manufacture of leather and related products to 18.9% in the repair and installation of machinery and equipment.

Growth in aggregate value-added in services has slowed significantly over the last year, despite the increase in private consumption. The increase in activity continued over the first three quarters of last year, although the quarterly rates of growth in value-added were lower on average than in 2018. Year-on-year growth in value-added remained solid at 2.7% in the third quarter, albeit 1.3 percentage points down on a year earlier, while its contribution to GDP growth stood at 1.4 percentage points, down 0.8 percentage points in year-on-year terms.[2] The monthly indicators of turnover for the third

Figure 2.6: Contribution of services to GDP growth



Source: SORS, Bank of Slovenia calculations.

quarter show a worsening situation in trade in motor vehicles, as the number of first-time registrations of motor vehicles fell. Growth in activity in transportation and storage slowed further in line with the cooling international environment, and real growth in turnover in the third quarter was down significantly on a year earlier. Growth in turnover in accommodation and food service activities

[1] According to SORS figures, the quarterly rates of growth in the monthly index of industrial production during the first three quarters of last year differed significantly from the quarterly rates of growth in value-added in industry. After recording high growth in the first quarter, industrial production as measured by the monthly index began to decline, while growth in value-added continued.

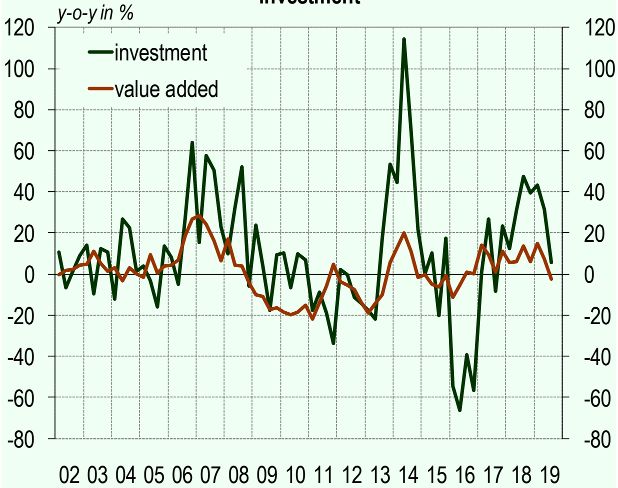
[2] The slowdown in year-on-year growth in value-added in private-sector services was slightly more pronounced than in services on aggregate, and amounted to 1.8 percentage points. As situation in international environment deteriorated, while domestic private consumption remained robust, this could largely be attributed to private-sector services' greater dependence on foreign demand than a decade ago. The proportion of turnover in private-sector services accounted for by foreign markets amounted to 13% in 2008 according to closing accounts figures, and to 27% in 2018.

was also down slightly on a year earlier. In light of the balance of payments figures for exports of travel services, the latter can only be tied to lower growth in spending by foreign visitors; year-on-year growth in domestic private consumption was a high 4.3% in the third quarter of last year.

Aggregate construction activity declined after the end of the investment cycle that accompanied the previous year's elections, but residential construction is continuing to strengthen. After falling for two consecutive quarters in quarterly terms, value-added in construction was also down in year-on-year terms in the third quarter, by 2.3%. This was partly attributable to a base effect, construction activity having increased sharply in the third quarter of 2018. The indices of the amount of construction put in place suggest a decline in activity in civil engineering work and the construction of non-residential buildings. While the latter is partly attributable to declining investment by firms, the slowdown in civil engineering work is the result of the completion of projects associated with the previous year's elections. The year-on-year growth in the construction of residential buildings seen since the final quarter of 2015 continued. According to the indices of the amount of construction put in place published by the SORS, the proportion of aggregate construction activity accounted for by residential construction remains relatively small, at around 10%. This is approximately 5 percentage points more than at the end of 2015, but still 4 percentage points less than in 2008.

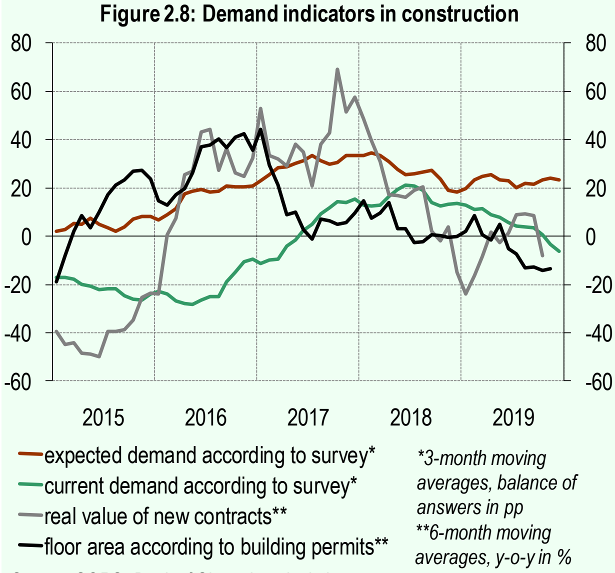
The majority of the indicators of demand for construction work suggest a continuation of weaker construction activity. The value of new contracts increased in year-on-year terms in the third quarter for the second consecutive quarter, but this was followed in October by a decline in the aggregate value. Assessments of demand on the basis of the number of building permits issued and corresponding building floor space are also relatively unpromising. An SORS survey also points to a fall in demand among construction firms at the end of last year, although they remained relatively optimistic in their assessments of order book expectations.

Figure 2.7: Value added in construction and public construction investment



Source: SORS, Ministry of finance – consolidated public finance budgetary accounts, Bank of Slovenia calculations.

Figure 2.8: Demand indicators in construction

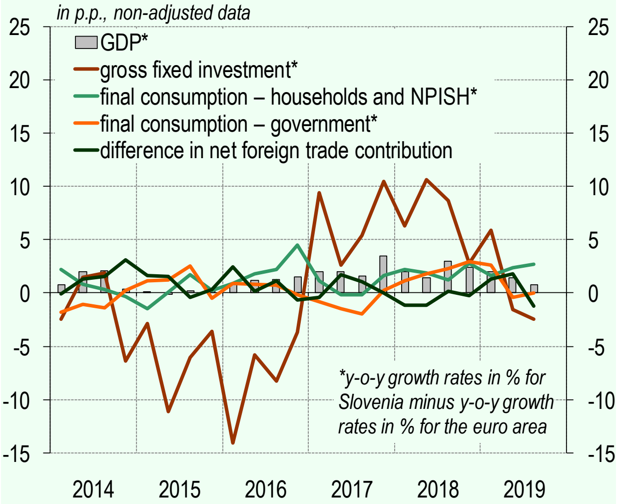


Source: SORS, Bank of Slovenia calculations.

GDP – expenditure side

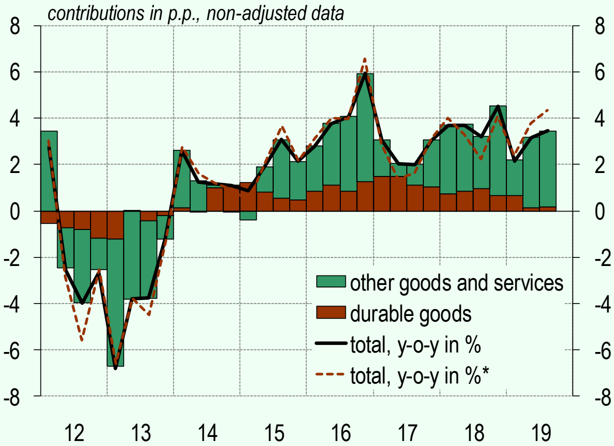
Growth in domestic demand strengthened in the third quarter of last year, but remained below its average of 2018. The year-on-year rate stood at 3.8% according to original figures, 1 percentage point less than in 2018. There have also been considerable changes in its structure. Growth in private consumption was high, in keeping with the buoyant labour market, while growth in gross fixed capital formation slowed sharply, and growth in final government consumption was also down on a year earlier. Growth in investment was below the euro area average in the third quarter for the second consecutive quarter, while growth in government expenditure slowed to the

Figure 2.9: Differences in y-o-y growth rates of GDP components between Slovenia and the euro area, expenditure side*



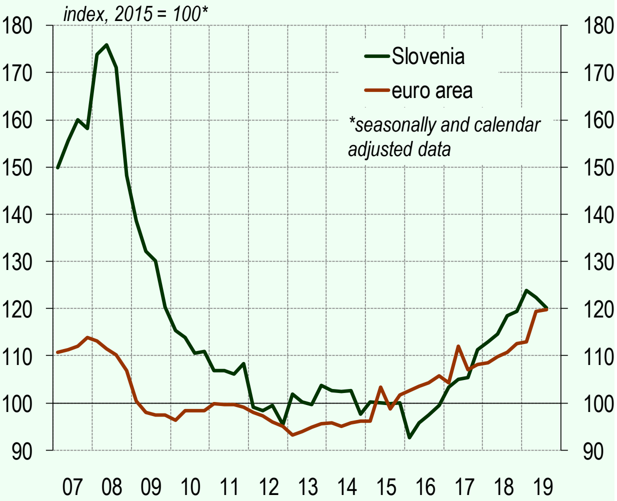
Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 2.10: Structure of growth in private consumption according to domestic concept



*Notes: Growth rates may differ from officially published data due to rounding, *national concept.*
Source: SORS, Bank of Slovenia calculations.

Figure 2.11: Gross fixed capital formation for Slovenia and the euro area



Source: SORS, Eurostat.

level of the euro area average. The only component of domestic demand to strengthen was private consumption, year-on-year growth in which outpaced the euro area average by 2.7 percentage points in the third quarter.

Private consumption is becoming the most important factor in economic growth. Measured according to the national concept,[3] growth in private consumption strengthened to 4.3% in the third quarter of last year, 0.9 percentage points above its average in 2018, while it accounted for 2.2 percentage points of the GDP growth of 2.3%. These developments are tied to the situation on the labour market, which is allowing for fast wage growth in the context of a low unemployment rate, while household purchasing power is also being strengthened by an increase in social security benefits. One feature of private consumption in the second and third quarters of last year was the very weak year-on-year growth in spending on consumer durables, which merely averaged around 1.5%, approximately 8 percentage points less than in the previous year. According to the monthly indices of retail turnover, households notably reduced their spending or slowed their increase in spending on cars, furniture and household appliances.

Investment developments are getting weaker. Gross fixed capital formation in the third quarter of last year was down more than 3% on the first quarter. Year-on-year growth in gross fixed capital formation stood at just 1.2%, down 8.8 percentage points on the beginning of the year. This was mainly attributable to construction investment, which actually contracted in the third quarter, while there was also a strong base effect in connection with its increase in the third quarter of 2018. Construction investment was up almost 18% in year-on-year terms in the early part of the year, but was merely unchanged in year-on-

[3] Household expenditure on final consumption according to the national concept is equal to expenditure according to the domestic concept, plus direct purchases by resident households in the rest of the world, minus direct purchases by non-resident households in the domestic market.

year terms by the third quarter. The change was largely related to government investment. Year-on-year growth in investment in machinery and equipment was also weak in the third quarter, at just 1.6%, albeit mostly as a result of a contraction in investment in transport equipment. This was down almost 7% in year-on-year terms. Investment in other machinery and equipment accounts for approximately 75% of aggregate investment in machinery and equipment, and has also seen a sharp slowdown over the last year. Its year-on-year rate of growth stood at 4.3% in the third quarter of last year, approximately at the level of the increase in merchandise exports. Growth in investment in other machinery and equipment has significantly been more aligned with export developments since 2016 than in previous periods.

Real export growth remained positive over the first three quarters of last year, albeit weaker than in 2018. Merchandise exports retained a positive quarterly dynamic over the first three quarters of the year but was weaker than in the previous year, and no longer stood out from the euro area average. Year-on-year growth remained solid in the third quarter at 4.2%, according to seasonally adjusted and calendar-adjusted figures, although approximately half of the growth was attributable to a carry-over effect. The weaker economic growth in the international environment is also having a significant impact on services exports, where last year's quarterly growth rates were actually lower than for merchandise; year-on-year growth had slowed to 3.8% by the third quarter, according to the adjusted figures. By contrast, growth in imports strengthened over the first three quarters of the year. Growth in merchandise imports was particularly high in the third quarter. Given the expenditure breakdown of GDP, the higher growth can be attributed solely to strengthened private consumption.

Figure 2.12: Exports of goods and services

Source: Eurostat.

Table 2.1: Economic activity – volume indices of production

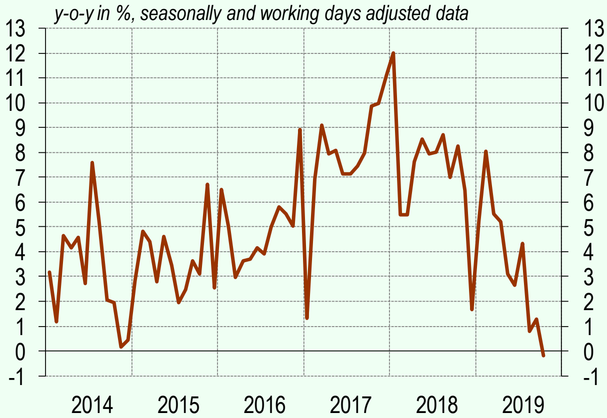
	12 m. to Oct. 18	12 m. to Oct. 19	2019 Aug.	2019 Sep.	2019 Oct.	2019 Jul.	2019 Oct.
			y-o-y in % **			monthly***	
Industrial production – total	6.9	2.6	-0.2	2.0	2.6	-0.2	-0.6
Manufacturing	7.5	2.9	0.4	2.7	3.6	-0.4	-0.1
Construction – total	21.8	6.2	-7.8	-7.9	-4.0	-6.2	-4.9
Non-residential buildings	22.3	0.1	-2.8	-19.9	-5.3	-14.2	-8.0
Residential buildings	19.3	9.0	16.5	12.9	-1.0	-15.2	6.8
Civil engineering	22.1	8.1	-11.6	-5.2	-3.4	-2.4	-6.4
Trade and service activities* – total	7.8	3.9	2.2	1.9	-1.4	0.4	-0.1
Wholesale and retail trade and repair of motor vehicles and motorcycles	14.2	2.8	-7.7	6.6	3.6	0.2	-1.3
Retail trade, except of motor vehicles and motorcycles	2.7	5.0	2.5	2.3	-2.8	-0.8	-1.1
Other private sector services	8.3	3.0	2.5	0.3	-1.8	0.7	-0.1
Transport and storage	9.6	3.8	3.7	-2.5	-4.9	2.2	-1.9
Accommodation and food service activities	4.8	5.2	4.4	3.9	5.9	-0.3	2.1
Information and communication	5.8	1.6	1.8	-2.8	-2.7	0.4	-0.5
Professional, scientific and technical activities	12.0	7.4	7.2	8.9	5.8	0.5	3.1

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

Economics developments in the fourth quarter of 2019

The beginning of the final quarter of last year was not encouraging from the perspective of economic activity. The weakness of the international economic environment brought a further slowdown in growth in activity in numerous export-oriented sectors in Slovenia. Industrial production in November was down almost 2% on January, according to the seasonally and calendar-adjusted figures. Year-on-year growth in industrial production stood at just 1.3%, according to the calendar-adjusted figures. According to the original figures, output was down in year-on-year terms in the majority of sectors, most notably the metals, machinery and chemical industries, but aggregate growth in output remained positive, primarily as a result of increased output of motor vehicles, pharmaceutical products and electrical appliances. The situation in manufacturing remains better than the euro area average. October's figure for turnover in private-sector services was even less encouraging: it was down 1.4% in year-on-year terms. The renewed decline in real turnover in transportation and storage was noteworthy; it could be attributed in part to the bankruptcy of the domestic airline. The decline in turnover in employment services again stood out: it was down 28% in year-on-year terms. The construction sector also remained weak, partly on account of the bad weather in November.

Figure 2.13: Composite indicator of economic activity



Note: Volume composite indicator includes volume index of service activities and trade, real index of industrial production and real index of construction put in place. These activities generate more than 75% of value added in the Slovene economy.
Source: SORS, Bank of Slovenia calculations.

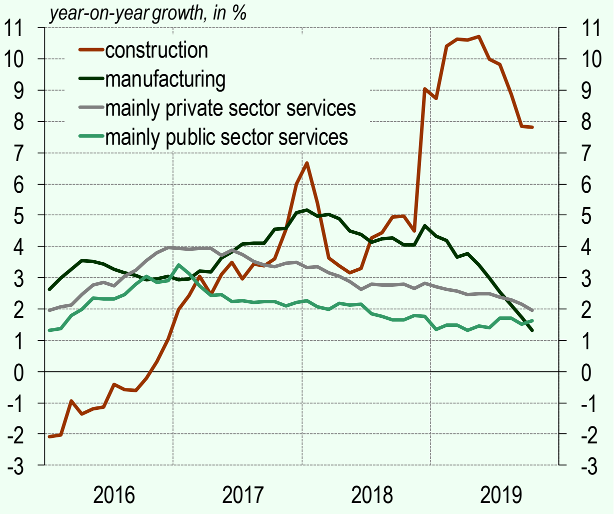
3 Labour Market

The situation on the labour market remains positive while employment and wages continue to grow and unemployment falls. Amid structural imbalances and falling demand for labour, year-on-year employment growth slowed further in the early part of the final quarter of last year, while similar developments are expected to continue in the first half of this year. Unemployment is thus continuing to fall at a diminishing pace, which alongside the aforementioned factors is also attributable to its structure, where difficult-to-employ groups are prevalent. The relatively favourable developments on the labour market, particularly given the cooling international environment and domestic output picture, are also being reflected in year-on-year nominal growth in the average gross wage, which over the first ten months of last year was up almost 1 percentage point on its average in the previous year. With wage growth in mostly public services outpacing the private sector in October, growth in the wage bill remained higher in the former.

Employment

Despite slowing, year-on-year employment growth remains high compared with other euro area countries.[1] According to national accounts figures, it stood at 2.3% in the third quarter, down 0.3 percentage points on the previous quarter. This is still significantly higher than the euro area average of 0.9%. According to the monthly figures, the slowdown in employment growth continued in the final quarter: year-on-year growth in the persons in employment excluding self-employed farmers remained high in October at 2.2%, but the figure was the lowest of the year. Year-on-year growth in the persons in employment in October remained higher in the private sector than in mostly public services.[2] Growth in the per-

Figure 3.1: Year-on-year growth in the number of persons in employment

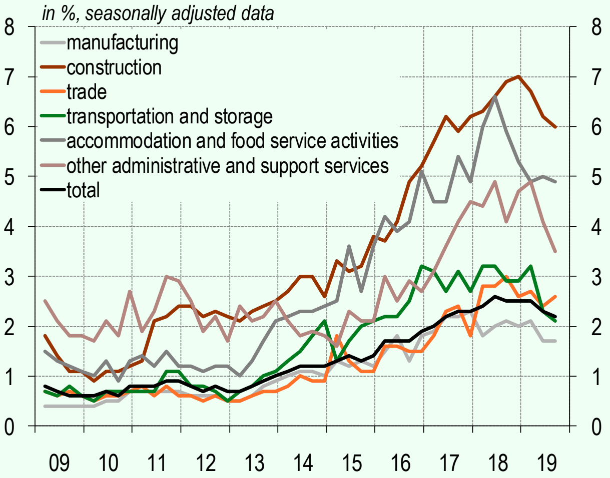


Source: SORS, Bank of Slovenia calculations.

[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.

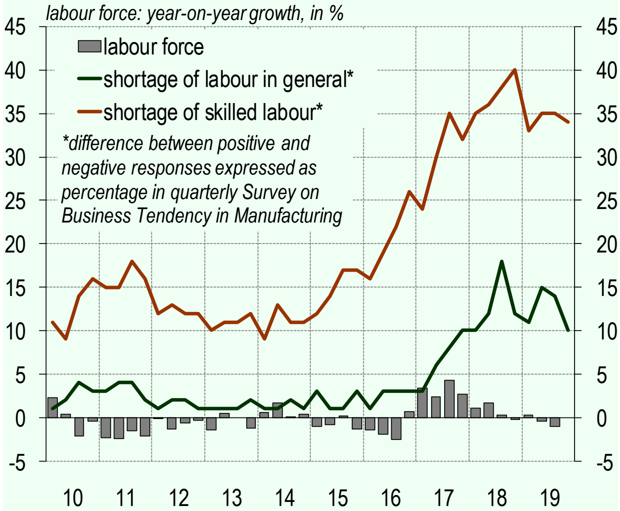
[2] Public administration and defence, education, human health and social work activities (Sectors O, P, and Q under the SKD 2008).

Figure 3.2: Vacancy rate*



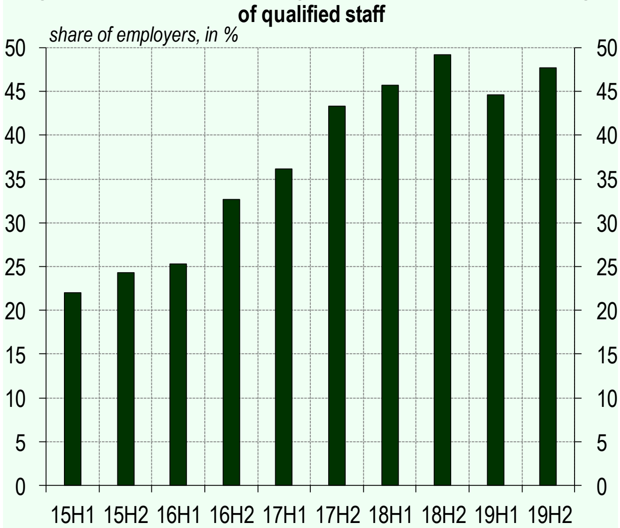
*Note: *The vacancy rate reflects the share of job vacancies in all posts combined, all posts being the sum of vacant and occupied posts.*
Source: SORS, Bank of Slovenia calculations.

Figure 3.3: Labour shortage and labour force



Source: SORS, Bank of Slovenia calculations.

Figure 3.4: The share of employers who encountered a shortage of qualified staff



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

sons in employment continued to slow in manufacturing, which drove the majority of the post-crisis rise in employment, and was again highest in construction, where the year-on-year rate stood at 7.8%. Year-on-year growth in the number of occupied jobs is slowing in line with these developments, while the number of vacancies in the third quarter was down in year-on-year terms for the second consecutive quarter. The vacancy rate is also declining in year-on-year terms, and stood at 2.2% in the third quarter. Despite falling, the number of vacancies and the vacancy rate are still high in historical terms; the latter remains highest in construction. The gradual decline in year-on-year employment growth and in the number of vacancies and vacancy rate is indicative that demand for labour is diminishing.

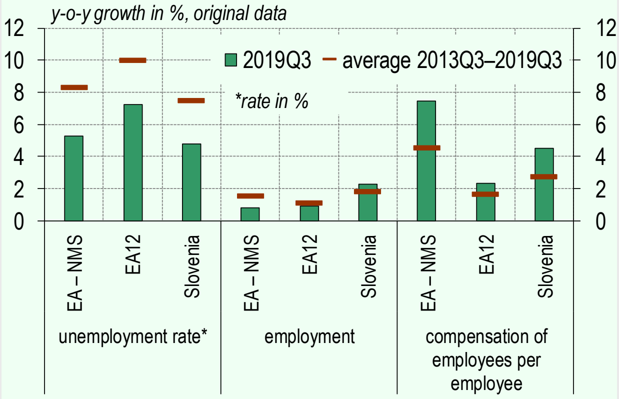
The structural imbalances on the labour market stopped increasing last year, but remained large. According to a survey by the Employment Office, almost half of employers were facing a shortage of qualified labour in the second half of last year, while the largest shortages were in drivers of heavy goods vehicles and tractors, welders, and cooks. The share of employers facing a shortage of qualified staff remained high last year, albeit less than in the previous year. Job candidates mostly lacked experience, suitable educational qualifications or occupation-specific knowledge. Firms mostly addressed their hiring problems through overtime and by recruiting abroad, but also resorted to outsourcing, rejecting orders, and retraining. Foreign nationals accounted for almost 70% of the average year-on-year increase in the persons in employment excluding self-employed farmers over the first ten months of last year. Just under half of employers are expecting to continue having problems in finding qualified labour.

According to survey indicators of employment expectations, the slowdown in employment growth will continue this year. The seasonally adjusted figures for employment expectations over the next three months from the SORS survey remain highest in retail, and lowest in manufacturing. Surveys by the Employment Office and by ManpowerGroup for the first half and the first quarter of the year, respectively, point to a slowdown in employment growth; ManpowerGroup's forecast based

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

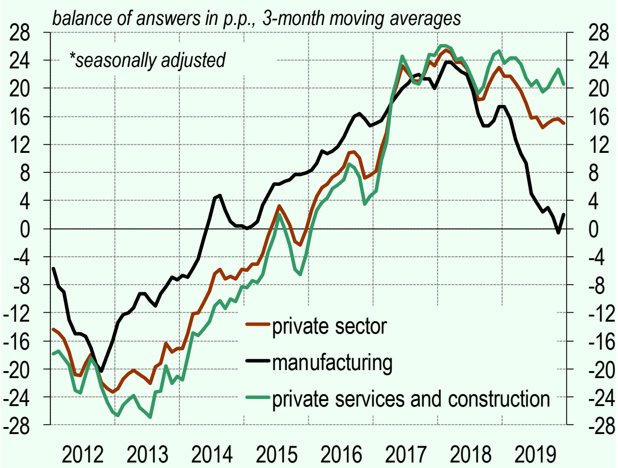
The labour markets of euro area countries remain in a good position relative to the cooling economic climate, and are continuing to support growth in private consumption. Employment has been rising in year-on-year terms since 2014, although the rate of growth in the third quarter of last year was just 0.9%, the lowest figure of the last four years. Despite slowing, employment growth remains broadly based across different countries and different sectors. The surveyed unemployment rate is continuing to fall, in line with the ongoing employment growth. It stood at 7.3% across the euro area in the third quarter, although there are considerable variations from country to country. The vacancy rate averaged 2.2% in the third quarter, also up slightly on a year earlier. According to the available figures, it was highest in Belgium, Germany and the Netherlands, while the largest year-on-year increase came in Latvia. The largest decline was recorded by Slovenia, where it was at the level of the euro area average. The highest rates in the private sector were in construction and services. The solid labour markets in euro area countries are also being supported by year-on-year nominal growth in compensation per employee, which increased to 2.5% in the third quarter of last year, the highest figure since the second quarter of 2010.

Figure 1: Labour market in the euro area



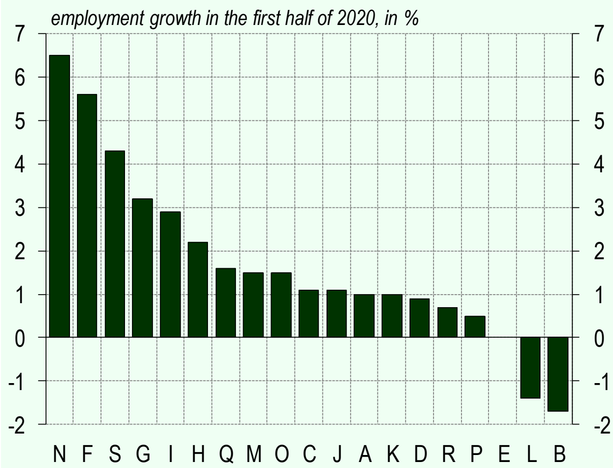
Notes: EA – NMS (EA – new member states): Cyprus, Estonia, Latvia, Lithuania, Malta, Slovakia, Slovenia; EA12: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain. The average unemployment rate is calculated within an individual group of countries as an unweighted average. The calculations include the available data up to the third quarter of 2019. Red dashes show the average in the period of renewed economic growth in the EA.
Source: Eurostat, Bank of Slovenia calculations.

Figure 3.5: Expected employment in the next three months*



Note: The aggregate measures are calculated by taking into account value added shares.
Source: SORS, Bank of Slovenia calculations.

Figure 3.6: Employment growth forecasts by activities



Note: The employment growth forecast shows the relationship between employment in the second half of 2019 and expected employment in the first half of 2020.
Source: Employment Service of Slovenia, Bank of Slovenia calculations.

on seasonally adjusted figures is the lowest of the last three years. The surveys suggest that employment growth in construction will remain prevalent in the first half of this year.

Unemployment

The The number of registered unemployed is continuing to fall, but at a diminishing pace. Unemployment averaged 74,000 last year, down 5.5% on the previous year. Inflows into and outflows from unemployment both declined last year relative to the previous year. The main decline in the latter was in new hires, while the main

Table 3.1: Demography, unemployment and employment

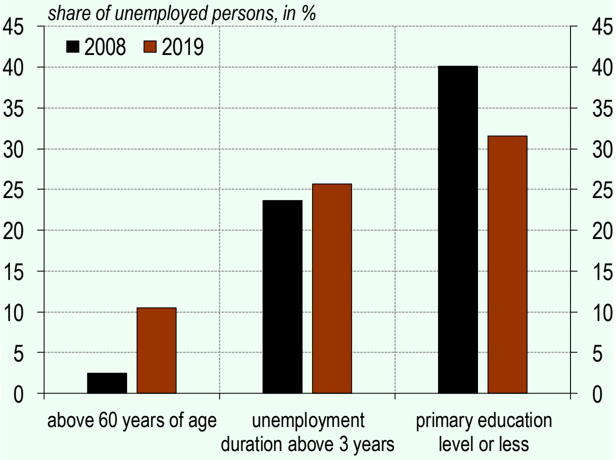
	2014	2015	2016	2017	2018	18Q3	18Q4	19Q1	19Q2	19Q3
						in 1,000				
Working age population[1]	1,397	1,383	1,371	1,362	1,352	1,348	1,349	1,351	1,349	1,347
						in %				
Activity rate[2]	71.0	71.8	71.7	74.2	75.1	75.8	75.2	75.0	75.7	75.7
Employment rate[3]	63.9	65.2	65.9	69.3	71.1	71.9	71.8	71.3	72.5	72.1
						in 1,000				
Registered unemployed persons	120.1	112.7	103.2	88.6	78.5	75.3	77.0	80.0	72.2	71.1
Unemployment rate						*in %*				
- LFS	9.8	9.0	8.0	6.6	5.1	5.0	4.4	4.8	4.2	4.8
- registered	13.1	12.3	11.2	9.5	8.3	7.9	8.0	8.3	7.5	7.4
Probability of transition between employ. and unemployment						*in %*				
- probability to find a job[4]	15.4	15.7	18.0	19.2	19.5	16.9	16.2	23.1	19.9	16.4
- probability to lose a job[5]	2.6	2.5	2.3	2.1	1.9	1.7	2.0	2.2	1.4	1.6
						in 1.000				
Total employment[6]	932	944	961	989	1,021	1,028	1,035	1,032	1,044	1,051
						year-on-year growth rates in %				
Persons in paid employment	0.6	1.3	2.2	3.3	3.3	3.0	3.3	3.3	3.0	2.7
Self-employed	-0.3	1.2	0.2	1.6	2.5	2.5	2.4	1.0	0.9	0.7
By sectors										
A Agriculture, forestry and fishing	-1.7	-0.9	-1.3	-1.0	-0.5	-0.5	-0.4	-0.7	-1.1	-1.5
BCDE Manufacturing, mining and quarrying and other industry	0.3	1.7	2.5	3.1	4.3	4.0	4.0	3.9	3.2	2.4
F Construction	-1.1	0.5	-0.8	2.3	6.5	6.6	7.5	9.3	8.9	7.3
GHI Trade, accommodation, transport	-0.2	1.7	2.5	3.5	3.5	3.5	3.6	3.6	3.3	3.0
J Information and communication services	2.6	2.9	4.1	3.4	4.6	4.4	4.6	3.9	3.5	4.2
K Financial and insurance activities	-2.1	-2.8	-2.0	-1.5	-0.9	-0.9	-0.9	-1.4	-0.5	-0.5
L Real estate activities	0.9	1.4	4.6	7.9	6.5	6.5	4.8	3.1	1.5	1.5
MN Professional, technical and other business activities	3.3	2.6	1.9	5.7	3.0	1.5	2.6	1.2	1.0	1.0
RSTU Other activities	3.0	2.7	2.7	3.5	3.4	3.1	3.0	2.5	3.0	3.5
- mainly private sector (without OPQ)[7]	0.4	1.4	1.7	3.1	3.4	3.1	3.4	3.1	2.8	2.4
- mainly public services (OPQ)[7]	0.4	0.8	2.1	2.5	2.1	2.0	1.9	1.6	1.5	1.7
Total employment[6]	0.4	1.3	1.8	3.0	3.2	2.9	3.1	2.9	2.6	2.3

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.

decline in the former came from first-time jobseekers and from those whose temporary employment came to an end. The fall in the unemployment rate is also slowing, which is attributable to the structure of unemployment and the slowdown in employment growth. The registered unemployment rate stood at 7.4% in October, down 0.5 percentage points on a year earlier.

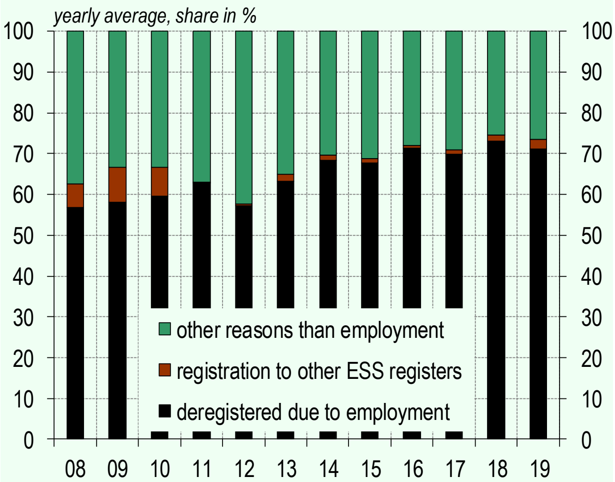
The structure of unemployment is limiting any faster fall in the number of unemployed: there is higher representation of more vulnerable groups who are more difficult to employ. Compared with 2008, when it averaged 63,000, its lowest figure since Slovenia's independence, unemployment was up just 11,000 or 17.3% last year. The structure in 2019 is worse than in 2008, with a higher share of over 60s and long-term unemployed, while the share with primarily qualifications or less is lower. The last is most likely the result of changes in the structure of the population at large, as there is a smaller share of people whose qualifications are no higher than primary level. The structure of unemployment is thus increasingly acting as a constraint on its fall, and is deepening the structural imbalances on the labour market, which is also being reflected in outflows to employment. These were down 8.6% on 2018. In addition to structure, the lower outflows from unemployment to employment might also be attributable to lower demand for labour as the economy cools.

Figure 3.7: Comparison of the registered unemployment structure



Note: The figure presents shares of the most vulnerable groups of unemployed persons in the average of 2008 and 2019.
Source: Employment Service of Slovenia, Bank of Slovenia calculations.

Figure 3.8: Deregistered from the unemployment register



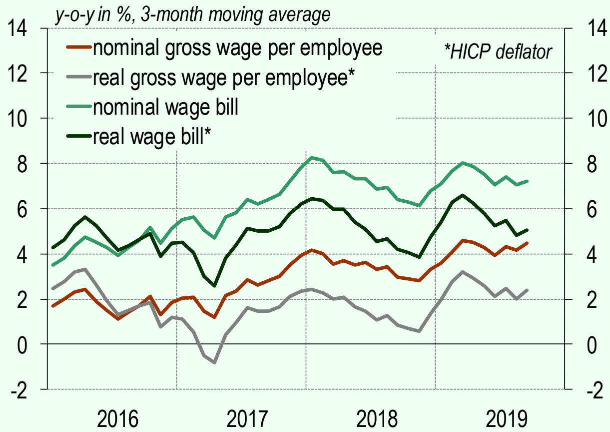
Note: The figure shows the structure of deregistrations from the unemployment register in the average of a year.
Source: Employment Service of Slovenia, Bank of Slovenia calculations.

Wage developments

Year-on-year nominal growth in average gross wage averaged just under 1 percentage point more over the first ten months of last year than in the same period of the previous year. The rate stood at 3.9% in October, and was highest in mostly public services, where it averaged 6.7%. Growth increased slightly further in September and October in the sectors of human health and social work, and education, most likely as a result of the agreement signed between the government and the public sector trade unions at the end of 2018, which set out a rise in certain bonuses for September (e.g. for night work, Sunday work, work on holidays, and shared work hours) and a pay rise of one wage grade for individual positions (e.g. class teachers). Year-on-year nominal growth in the average gross wage in the private sector stood at 3.0% in October, below its average of 2018, and one of last year's lowest figures.

The higher growth in the average gross wage means that year-on-year growth in the wage bill in mostly public services continues to outpace growth in the private sector. Growth in the total wage bill stood at 6.1% in October, equal to last year's lowest rate. The figure of 8.2% in mostly public services was the highest of the year, while the figure of 5.4% in the private sector was the lowest. Year-on-year real growth in the wage bill stood at 4.6% in October, as the slight fall in inflation narrowed the gap between the nominal and real rates compared with the previous month.

Figure 3.9: Nominal and real total wage bill and average gross wage per employee



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

Table 3.2: Labour costs

	2014	2015	2016	2017	2018	18Q3	18Q4	19Q1	19Q2	19Q3
					in EUR					
Average gross wage	1,545	1,556	1,584	1,626	1,681	1,651	1,757	1,732	1,726	1,725
					y-o-y growth in %, nominal					
Average net wage	0.8	0.4	1.7	3.1	2.9	2.5	2.9	3.9	3.3	3.8
Average gross wage	1.1	0.7	1.8	2.7	3.4	3.0	3.3	4.6	3.9	4.5
- mainly private sector (excl. OPQ)[1]	1.4	0.8	1.3	2.6	3.9	3.5	4.2	4.1	3.2	4.0
- mainly public services (OPQ)[1]	0.2	0.6	3.3	2.8	2.4	2.2	1.3	6.4	6.1	6.0
Average gross wage in manufacturing	3.3	2.1	2.1	3.2	4.0	4.1	3.5	3.6	3.5	3.9
Average real net wage[2]	0.5	1.2	1.8	1.5	1.0	0.4	1.0	2.5	1.5	1.7
					y-o-y growth in %					
Unit labour costs,[3,4] nominal	-1.1	0.6	1.8	1.2	3.0	1.7	3.1	3.9	5.9	4.5
Unit labour costs,[3,4] real	-1.5	-0.4	1.0	-0.3	0.8	-0.7	1.2	1.5	3.0	1.9
Labour costs per employee,[4] nominal	1.2	1.5	3.1	3.0	3.9	3.5	3.8	4.3	5.7	4.5
Labour productivity, nominal	2.8	1.9	2.1	3.4	3.2	4.2	2.6	2.8	2.7	2.5
Labour productivity, real	2.3	0.9	1.3	1.8	0.9	1.7	0.7	0.4	-0.1	0.0
HICP	0.4	-0.8	-0.2	1.6	1.9	2.1	2.0	1.3	1.7	2.1
GDP deflator	0.5	1.0	0.8	1.6	2.2	2.5	1.9	2.4	2.8	2.5

[1] Public administration, defence, compulsory social security, education, health and social work services according to the Standard classification of activities 2008.
[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.

4 | Current Account and Competitiveness Indicators

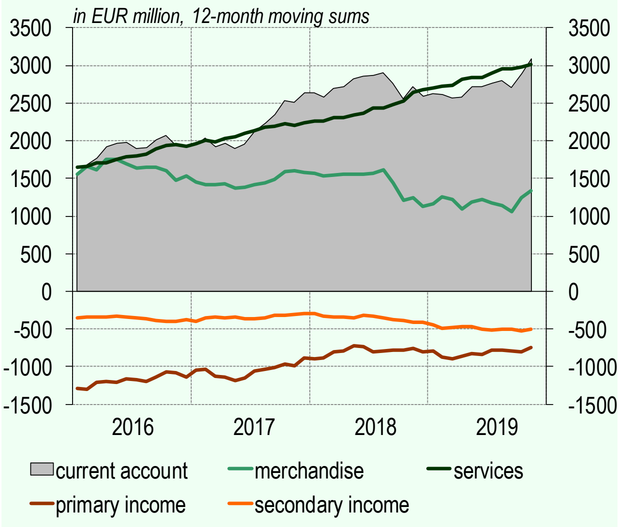
The current account surplus widened last year, despite the tensions in international trade. It exceeded EUR 3.0 billion over the 12 months to November, the highest figure to date according to the current balance of payments data. The main reason was the ongoing increase in the surplus of trade in services, despite a sharp slowdown in exports in the second half of the year. Slightly surprisingly, the merchandise trade surplus also widened despite robust domestic private consumption. The declining growth in foreign demand saw growth in merchandise exports slow sharply, but the slowdown in growth in imports of capital goods and intermediate goods was even sharper. The deficit in primary income over the 12 months to November remained stable, while the deficit in secondary income widened, albeit primarily as a result of specific transactions with the EU budget.

Rising inflation brought an end to the gentle improvement in the price competitiveness of the Slovenian economy in the third quarter of last year. This remained close to its level of a year earlier, while in the majority of euro area countries it improved significantly under the influence of favourable exchange rate and inflation developments. Cost pressures as measured by growth in real unit labour costs eased slightly, but remained significantly higher than in the euro area overall, and were again among the least favourable in all European countries.

Current account position

According to the currently available balance of payments figures, November's 12-month current account surplus was the largest to date. It amounted to EUR 3,094 million, EUR 374 million more than in November 2018, and EUR 188 million more than the previous peak in August 2018. It reached 6.5% of estimated GDP. The main reason was the increase in the 12-month surplus of trade in services, despite weaker growth in exports of services in the second half of the year. Slightly surprisingly, there was also a smaller increase in the merchandise trade surplus, where the significant slowdown in nominal growth in exports in the difficult conditions on

Figure 4.1: Current account components



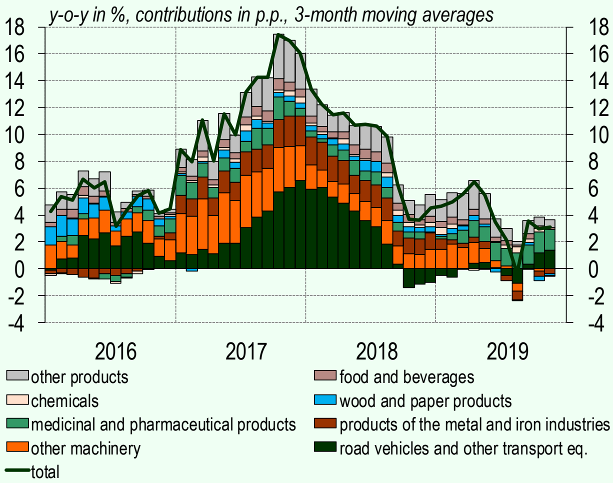
Source: Bank of Slovenia, SORS.

international markets was compensated for by an even stronger slowdown in imports of capital goods and intermediate goods. The 12-month deficit in primary income remained stable, while the deficit in secondary income widened, although in this case it was mainly the impact of certain transactions between the state budget and the EU budget.

Merchandise trade

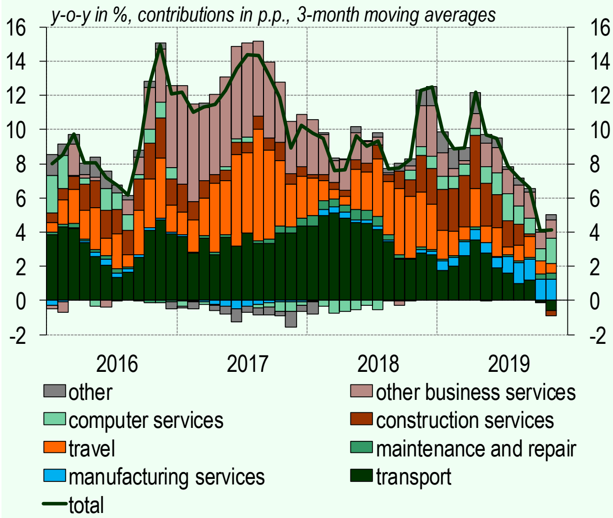
Nominal growth in merchandise exports slowed sharply in 2019 for the second consecutive year, but growth in imports was even lower. After strengthening in September, primarily as a result of a rise in exports of road vehicles and other transport equipment, nominal merchandise exports were merely unchanged in year-on-year terms in October, before declining sharply again in November as a result of a fall in sales on euro area markets, most notably Italy and Germany. The main negative contribution came from exports of miscellaneous machinery and equipment.[1] This was one of the main factors in the year-on-year decline in growth in adjusted merchandise exports in the second half of last year.[2] By contrast, the contribution by exports of medical and pharmaceutical products strengthened compared with the first half of the year, while exports of road vehicles and other transport equipment were also up in year-on-year terms. In comparison to 2018, nominal growth in merchandise imports slowed even more sharply, because of slower growth in imports of intermediate goods and capital goods, despite the maintenance of robust private consumption. With growth in exports outpacing growth in imports, the merchandise trade surplus widened. It amounted to EUR 1,426 million over the first eleven months of the year, up EUR 202 million in year-on-year terms.

Figure 4.2: Growth structure of adjusted merchandise export*



*Note: *Excluding exports of medicinal and pharmaceutical products to Switzerland, oil and petroleum products, electric energy and gass.*
Source: SORS, Bank of Slovenia calculations.

Figure 4.3: Services exports



Source: Bank of Slovenia.

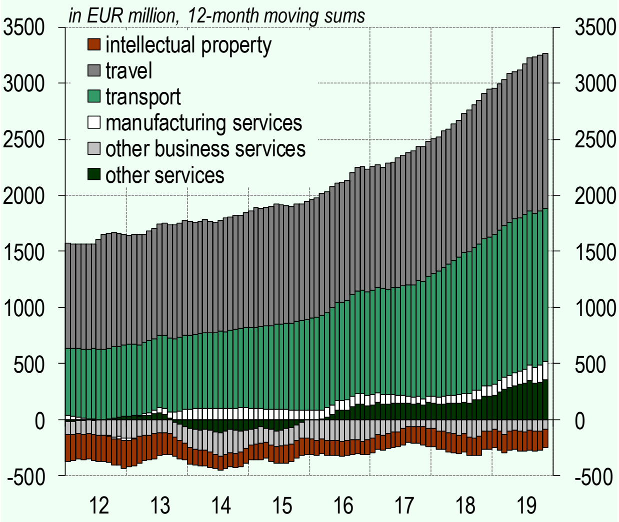
Trade in services

Last year, nominal growth in imports of services slowed more than growth in exports, because of which the surplus of trade in services continued to widen. Year-on-year growth in exports of services slowed sharply in the second half of 2019. This was primarily attributable to lower year-on-year growth in exports of

[1] The category of miscellaneous machinery and equipment includes electrical machinery and equipment, industrial machinery, machinery for special types of industry, engines and drives, metal processing machinery and office equipment.

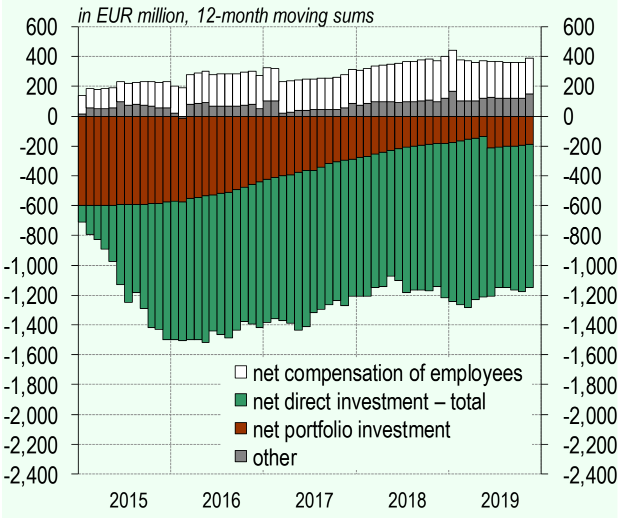
[2] Adjusted merchandise exports exclude exports of medical and pharmaceuticals products to Switzerland, and exports of petroleum and refined petroleum products, electricity and gas. The exclusion of exports of medical and pharmaceutical products to Switzerland makes it easier to compare the SORS figures with the balance of payments figures, while the exclusion of petroleum, refined petroleum products, electricity and gas from merchandise exports eliminates a major share of re-exports, which usually contain little value-added. This indicator is thus a more accurate metric of manufacturing performance on foreign markets.

Figure 4.4: Trade in services balance



Source: Bank of Slovenia.

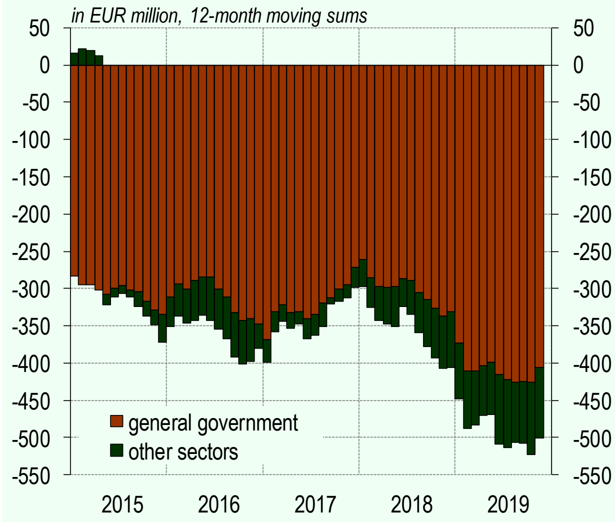
Figure 4.5: Net primary income



Source: Bank of Slovenia.

transport services, which was well into negative territory in November. This has coincided with weaker merchandise trade, and the collapse of the national airline. Previously very high, the contribution to aggregate growth in exports of services by construction services also declined sharply over the autumn, while the contribution by travel services was also lower according to current estimates, partly as a result of the bad weather in November. Aggregate growth in services imports also slowed sharply in the second half of last year, primarily as a result of lower estimates for imports of travel services[3] and weaker growth in imports of transport services. Imports of services actually declined in year-on-year terms in October and November. Imports of services over the first eleven months of the year were up 4.1% in year-on-year terms, while exports of services were up 7.3%. The surplus of trade in services thus widened by EUR 336 million to EUR 2,826 million.

Figure 4.6: Net secondary income



Source: Bank of Slovenia.

Primary and secondary income

The deficit in primary income narrowed slightly over the first eleven months of last year. It amounted to EUR 666 million, down EUR 56 million in year-on-year terms. The extensive hiring of foreign workers reduced the surplus in labour income by EUR 42 million to EUR 212 million, but the deficit in capital income narrowed and the surplus in other primary income widened at the same time. The deficit in capital income over the first eleven months of the year amounted to EUR 1,027 million, EUR 56 million narrower in year-on-year terms. The decline was mostly the result of a lower estimate for the deficit in reinvested earnings. There was a small increase in the deficit in income from investments in securities, primarily as a result of a wider deficit in income from portfolio investments, while interest payments on debt securities continued to decline. The last of these

[3] The SORS survey of holiday travel by residents shows a significant decline in households' spending on travel abroad in the third quarter of last year compared with the same period of the previous year. There is a high likelihood of the data for imports of travel services being revised. This is also the case of the data for merchandise imports and exports.

Table 4.1: Current account components

				in 12 months to							
	2016	**2017**	**2018**	**Nov. 18**	**Nov. 19**	**18Q2**	**18Q3**	**19Q2**	**19Q3**	**Nov. 18**	**Nov. 19**
						in EUR million					
Current account balance	1,942	2,635	2,593	2,720	3,094	699	800	852	782	183	387
1. Goods	1,536	1,579	1,128	1,245	1,331	427	371	434	202	91	175
2. Services	1,925	2,241	2,678	2,644	3,014	642	803	748	916	226	264
2.1. Transport	922	1,071	1,328	1,314	1,365	333	331	347	337	112	106
2.2. Travel	1,094	1,201	1,315	1,297	1,383	310	440	325	518	80	74
3. Primary income	-1,139	-886	-807	-762	-751	-296	-254	-232	-216	-98	-40
3.1. Labour income	222	229	282	279	239	84	60	54	58	27	27
3.2. Investment income	-1,444	-1,226	-1,230	-1,156	-1,174	-401	-299	-332	-256	-119	-90
3.3. Other income	83	110	141	115	184	21	-15	46	-19	-7	23
4. Secondary income	-381	-299	-406	-407	-500	-73	-120	-98	-119	-35	-12
						in % GDP					
Current account balance	4.8	6.1	5.7	6.0	6.5	6.1	6.8	7.0	6.3	4.6	9.4
1. Goods	3.8	3.7	2.5	2.7	2.8	3.7	3.1	3.6	1.6	2.3	4.2
2. Services	4.8	5.2	5.9	5.8	6.3	5.6	6.8	6.2	7.4	5.7	6.4
2.1. Transport	2.3	2.5	2.9	2.9	2.9	2.9	2.8	2.9	2.7	2.8	2.6
2.2. Travel	2.7	2.8	2.9	2.8	2.9	2.7	3.7	2.7	4.2	2.0	1.8
3. Primary income	-2.8	-2.1	-1.8	-1.7	-1.6	-2.6	-2.2	-1.9	-1.7	-2.5	-1.0
3.1. Labour income	0.6	0.5	0.6	0.6	0.5	0.7	0.5	0.4	0.5	0.7	0.7
3.2. Investment income	-3.6	-2.9	-2.7	-2.5	-2.5	-3.5	-2.5	-2.7	-2.1	-3.0	-2.2
3.3. Other income	0.2	0.3	0.3	0.3	0.4	0.2	-0.1	0.4	-0.2	-0.2	0.6
4. Secondary income	-0.9	-0.7	-0.9	-0.9	-1.0	-0.6	-1.0	-0.8	-1.0	-0.9	-0.3
						nominal y-o-y growth rates in %					
Export of goods and services	5.0	13.6	9.3	9.8	4.0	10.8	8.0	5.5	3.8	11.9	-2.3
Export of goods	4.0	14.0	9.3	9.8	3.2	11.2	8.1	4.6	3.0	10.8	-4.0
Export of services	9.4	12.1	9.3	9.7	7.3	9.1	7.8	9.5	6.6	17.3	5.5
Transport	11.2	12.9	12.5	13.6	4.2	15.6	9.8	6.3	4.7	9.5	-4.6
Travel	5.0	11.1	7.2	7.3	2.8	6.6	8.8	5.0	2.8	10.4	-3.5
Other	12.6	12.5	8.8	9.1	14.1	6.2	4.7	16.3	13.6	28.7	18.1
Import of goods and services	4.3	14.0	10.5	10.8	3.2	11.3	9.1	4.9	5.0	7.5	-6.4
Import of goods	4.0	14.7	11.5	11.8	3.0	11.8	10.3	4.7	5.5	9.6	-7.2
Import of services	6.3	10.3	4.7	5.3	4.0	8.2	3.2	6.0	2.5	-4.6	-0.6
Transport	8.4	9.6	0.1	1.5	4.5	3.1	0.7	9.0	8.4	0.9	-3.1
Travel	6.0	12.4	5.1	6.3	-0.7	10.3	6.3	5.1	-8.7	-0.7	0.2
Other	5.6	9.6	6.2	6.2	6.1	9.2	1.6	5.3	10.1	-7.8	0.0

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

was the result of Slovenia's sound macroeconomic position and the accommodative monetary policy in the Eurosystem, and is being reflected in falling interest payments on public debt. The surplus in other primary income widened, reaching EUR 149 million over the first eleven months of the year. This was primarily attributable to increased inflows of EU subsidies.

The deficit in secondary income widened last year for the second consecutive year. It amounted to EUR 493 million over the first eleven months of the year, up EUR 94 million in year-on-year terms. The increase was attributable to an increased deficit in secondary income in the government sector, which continues to be driven wider by increased payments into the EU budget from VAT and gross national income. These payments amounted to EUR 414 million over the first eleven months of the year, up EUR 100 million in year-on-year terms. Other sectors saw only a small year-on-year increase in their deficit in secondary income over the first eleven months of the year, at EUR 20 million.

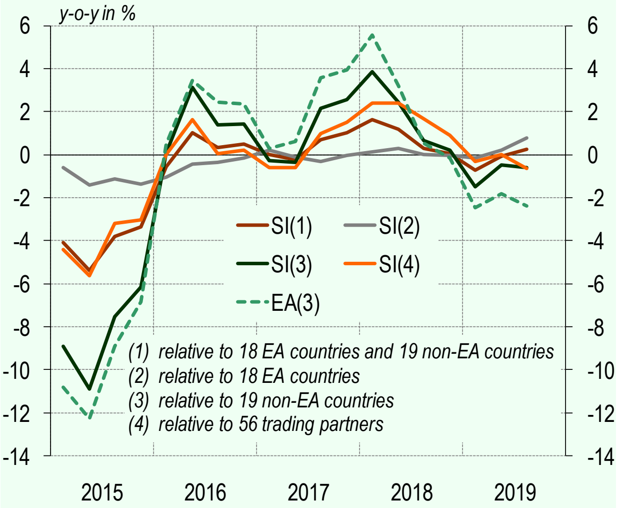
Selected competitiveness indicators

Rising inflation brought an end in the third quarter of last year to the gentle improvement in the price competitiveness of the Slovenian economy seen in the first half of the year. This remained close to its level of a year earlier (0.2%, see Figure 4.7), but Slovenia was again among the worst-performing countries in the euro area. In the majority of euro area countries, price competitiveness relative to 37 trading partners improved significantly under the influence of favourable exchange rate and inflation developments compared with the previous year. Only in the Baltic states, the Netherlands and Slovakia were developments in price competitiveness less favourable to exporters, primarily on account of increases in relative prices.[4] Slovenia's position over the first nine months of last year was slightly more favourable than in the same period of the previous year (-0.2%), but this nevertheless left it at the tail end of the euro area countries.

There was a further deterioration in the price competitiveness of Slovenian exporters relative to euro area partners. Domestic inflation as measured by the HICP stood at 2.1% in the third quarter of last year, well above the euro area average (1.0%). This brought a deterioration in the price competitiveness indicator, which increased by 0.8% in year-on-year terms, having remained unchanged from the previous year in the first half of the year.

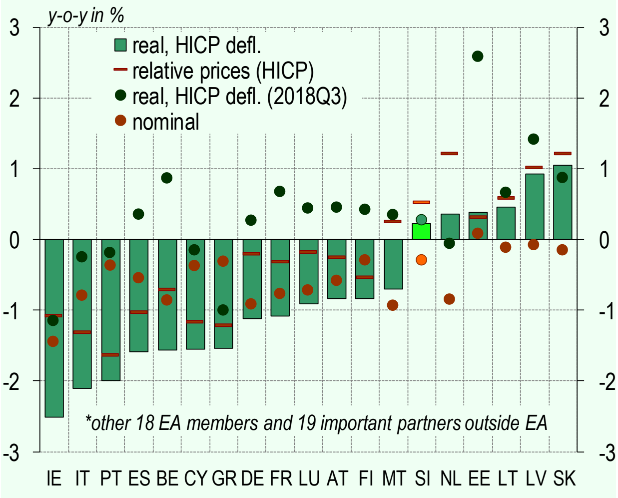
By contrast, the competitive position relative to partners outside the euro area remained better than a year earlier. The euro's further depreciation against the majority of major global currencies brought an improvement in Slovenia and in other euro area countries. In

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



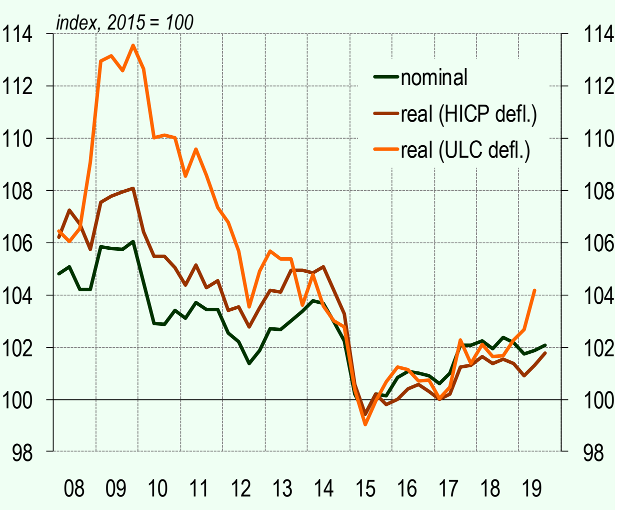
Source: ECB.

Figure 4.7: Harmonized price competitiveness indicator against 37 trading partners* in the third quarter of 2019



Source: ECB, Bank of Slovenia calculations.

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



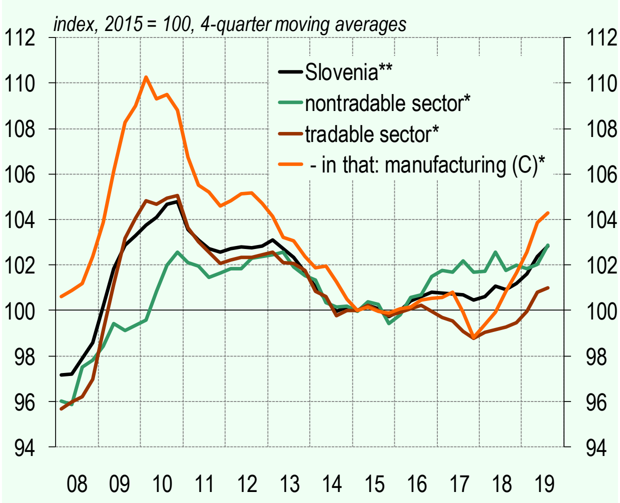
Source: ECB.

[4] Relative prices are domestic prices compared with prices of trading partners.

Slovenia the year-on-year improvement in the third quarter remained unchanged from the previous quarter (-0.6%), while the developments in the majority of other euro area countries were even more favourable, as the price competitiveness indicator for the euro area declined by 2.4% over the same period (see Figure 4.8). The less favourable developments in Slovenia's indicator can primarily be attributed to the dynamics in relative prices vis-à-vis trading partners,[5] and partly to the geographical structure of foreign trade.[6]

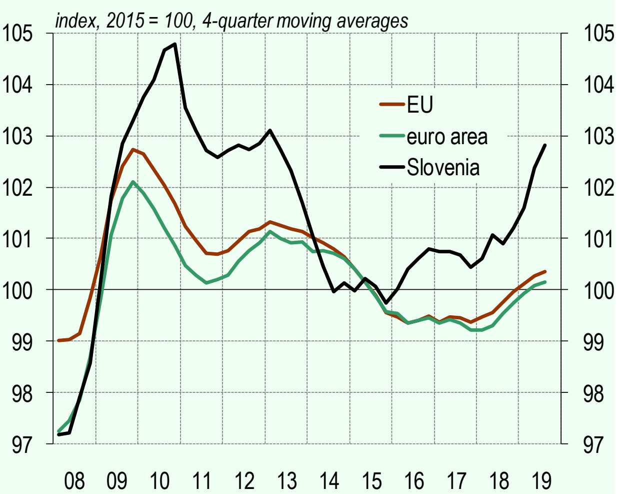
Cost pressures on competitiveness eased slightly, but remained significantly higher than in the euro area overall.[7] Year-on-year growth in real unit labour costs (RULCs) in Slovenia slowed slightly in the third quarter of last year, but at 1.9% it was significantly higher than the average rates in the euro area and the EU (0.3%, see Figure 4.10). After just over a year growth was again driven primarily by the non-tradable sector,[8] while the rate slowed significantly in the tradable sector - most notably (from 3.4% to 0.8%) in manufacturing. The latter is the most exposed sector to international competition and for the first time in a year and a half it did not outpace the comparable rates across the euro area and the EU.

Figure 4.11: Real unit labour costs, Slovenia



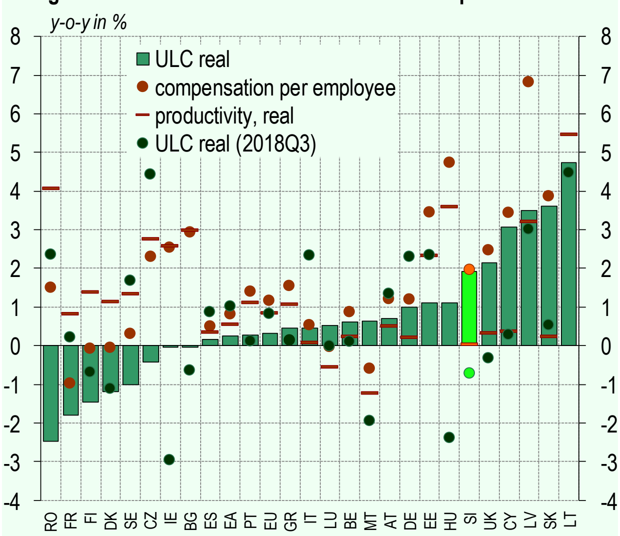
*Note: *Calculations based on value added. **GDP based calculation.*
Source: Eurostat, Bank of Slovenia calculations.

Figure 4.10: Real unit labour costs



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

Figure 4.12: Real unit labour costs in the third quarter of 2019



Source: Eurostat, Bank of Slovenia calculations.

[5] Slovenia's relative prices vis-à-vis 19 partners outside the euro area were 0.1% higher in year-on-year terms in the third quarter, while the euro area's relative prices were 0.9% lower over the same period.

[6] The proportion of Slovenia's basket accounted for by currencies against which the euro depreciated is less than the euro area average, while the proportion accounted for by currencies against which the euro appreciated is larger. The euro depreciated against the US dollar, the Swiss franc, the Japanese yen, the Russian ruble, the Chinese yuan, the Croatian kuna and the Turkish lira, while appreciating against the pound sterling, the Polish zloty and the Hungarian forint.

[7] 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.

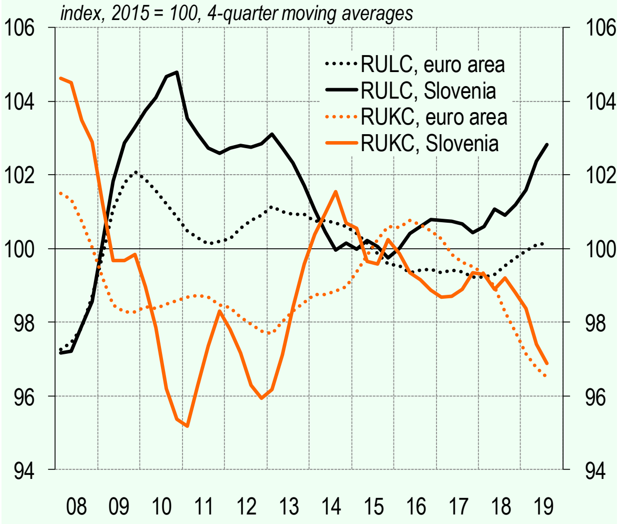
[8] It was particularly notable in construction, financial services and real estate activities. In construction the main factor was a significant fall in productivity, while in real estate activities it was above-average wage growth, and in financial services it was a combination of the two.

Growth in RULCs in the total tradable sector in Slovenia over the first nine months of last year (2.1%) nevertheless outpaced growth in the tradable sector in the euro area (1.0%) and the whole EU (0.6%).[9]

The rise in RULCs in the third quarter of last year was the result of stagnating productivity and above-average wage growth. Productivity growth was low in the euro area (0.6%) and the EU (0.8%), but nevertheless outpaced Slovenia, where the growth was zero. At the same time the real growth in compensation per employee[10] in Slovenia (2.0%) once again outpaced the euro area and the EU averages, by 1.1 percentage points and 0.8 percentage points, respectively. These developments in RULCs were again among the worst in the EU, other than two of the Baltic states, Slovakia and Cyprus (see Figure 4.12).

Given the rising growth in unit labour costs, space is being created in Slovenia for investment that could increase capital. Firms are nevertheless staying cautious when it comes to new investment, as the situation in the international environment remains highly uncertain.

Figure 4.13: Real UKC and ULC



Source: Eurostat, Bank of Slovenia calculations.

The increasing disparity between the developments in ULCs and UCCs[11] is attributable to increased hiring, particularly in labour-intensive sectors, and to wage growth. Similar developments in RULCs and RUCCs to those in Slovenia are seen in the euro area overall (see Figure 4.13).

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[9] The tradable sector consists of agriculture (A), industry (B to E), trade, accommodation, food services 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.

[10] 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.

[11] Real unit capital costs. The methodology is explained in January 2019 issue of Economic and Financial Developments.

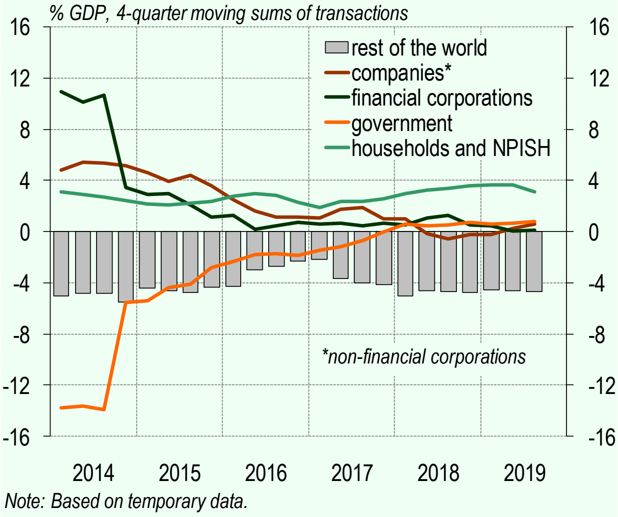
5 Financial Standing of Non-Financial Corporations, Households and Banks

The saving-investment gap was again heavily marked by developments in the household sector in the third quarter. Together with significant positive revaluations in households' existing financial assets, the persistently strong economy is spilling over into higher household income, and household assets are therefore continuing to increase faster than household liabilities. Growth in the latter remains solid, albeit significantly slower than before the crisis. At the beginning of the year it seemed that non-financial corporations might begin significantly increasing their investing, but over the next two quarters this did not happen, which meant that growth in financial assets remained broadly the same as growth in liabilities. Given the uncertainty in the international environment, non-financial corporations are being cautious in their investing, despite their low debt levels. Similarly to non-financial corporations, the saving-investment gap for banks remains relatively closed, but positive. The banks are continuing the trend of gradually strengthening their lending to households and non-financial corporations, while seeing an increase in their liabilities to the two sectors from deposits.

Saving-investment gap by institutional sector

The net financial position of the domestic institutional sectors in the third quarter of last year, expressed as a ratio to GDP, was unchanged from a year earlier.[1] Aggregate saving exceeded aggregate investment by 4.7% of GDP, primarily as a result of the continuing pronounced growth in the household sector's net financial assets, although the other three institutional sectors also recorded a small surplus of saving over investment. Despite the perception that the non-financial institutions might begin significantly increasing their investing at the be-

Figure 5.1: Savings-investment gap



Note: Based on temporary data.
Source: Bank of Slovenia, SORS.

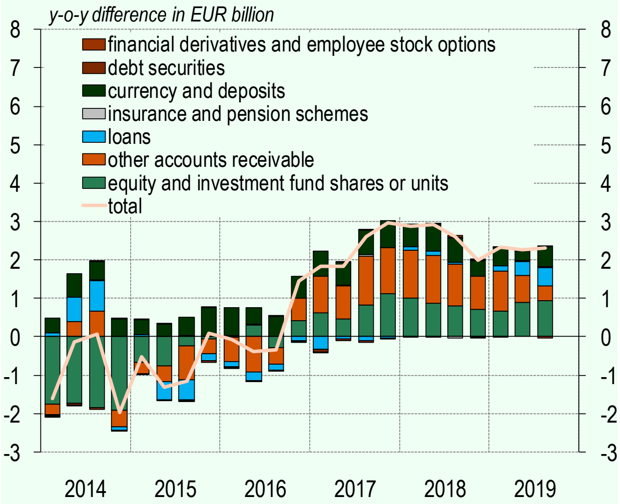
[1] A benchmark revision to the financial accounts was made last year, the purpose of which was to reduce inconsistencies between the financial and non-financial accounts in the household sector. Households' financial transactions were adjusted for the period of the last 12 years, which resulted in cumulative increases of approximately EUR 2.0 billion in households' claims against domestic sectors, and EUR 4.3 billion in their claims against the rest of the world. The aforementioned changes also impacted stocks and transactions in the sectors of non-financial corporations and the rest of the world, and were coordinated with the revision to the balance of payments. In addition, in line with methodological recommendations, the banks' liabilities from loans raised at the central bank, at banks and in the rest of the world were transferred to liabilities from deposits as part of the revision to the financial accounts. The financial accounts up to the third quarter of 2019 were available by 14 January 2020.

ginning of the year, the growth of the financial assets remained broadly the same as growth in liabilities, as the non-financial institutions continue to stay cautious due to high uncertainty in the international environment.

Financial assets and financing of non-financial corporations

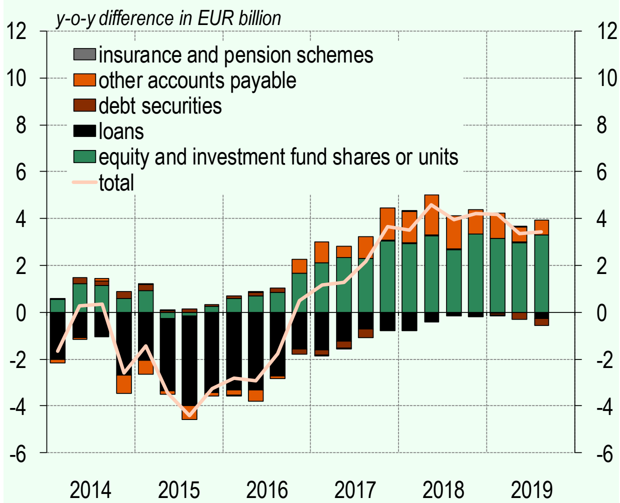
Year-on-year growth in non-financial corporations' assets and liabilities slowed slightly last year. Their financial assets in the third quarter were up EUR 2.3 billion on the previous year, most notably in the items of equity and investment fund shares, currency and deposits, and other accounts receivable. Revaluations of existing assets, equity in particular, accounted for more than a half of the increase. Business-to-business loans are strengthening significantly again after several years, and were up almost EUR 0.5 billion in year-on-year terms. Non-financial corporations' financial assets in the rest of the world are still undergoing a sustained increase,[2] and in the third quarter were up almost EUR 900 million in year-on-year terms.[3] On the liability side, non-financial corporations saw a notable increase in their liabilities in the form of equity and investment fund shares (up EUR 3.3 billion in year-on-year terms), similarly to the last three years, and also to a lesser extent in the form of trade credits and other accounts payable (more than EUR 600 million in total).[4] At the same time they saw a decline in liabilities in the form of loans and debt securities (each by just under EUR 300 million). Similarly to the asset side, the majority of the overall increase in the stock was the result of revaluations of existing liabilities, almost exclusively in the equity item.

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



Note: Based on temporary data.
Source: Bank of Slovenia.

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



Note: Based on temporary data.
Source: Bank of Slovenia.

Financial assets and financing of households

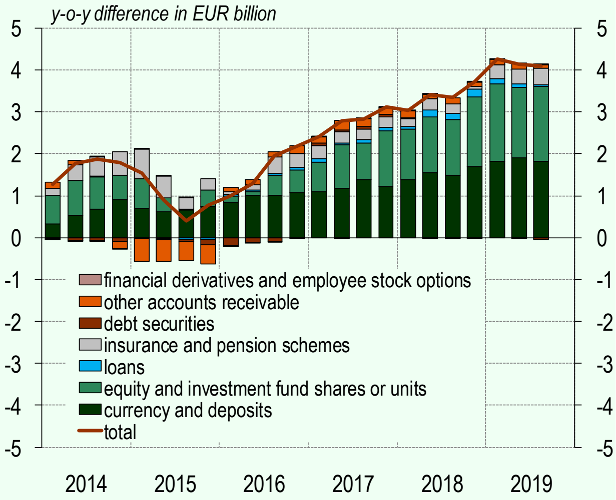
Households' financial assets are continuing to increase significantly faster than their liabilities. Again, the increase in households' assets was mainly driven by revaluations of existing assets, while the continuing good macroeconomic situation was also a factor. Household financial assets were up EUR 4.2 billion in year-on-year terms in the third quarter, as all three of the largest items continued to strengthen, namely bank deposits, equity and investment fund shares, and insurance and pension schemes. The largest increases were again in the stock of currency and deposits, and of equity, as has traditionally been the case, each by around EUR 1.8 billion in year-on-year terms. Positive revaluations accounted for

[2] The trend has been evident for as long as the data has been available, but has become more pronounced in the last four years.

[3] The largest increases in non-financial corporations' exposure to the rest of the world were in the form of loans granted (around EUR 400 million) and trade credits (over EUR 200 million).

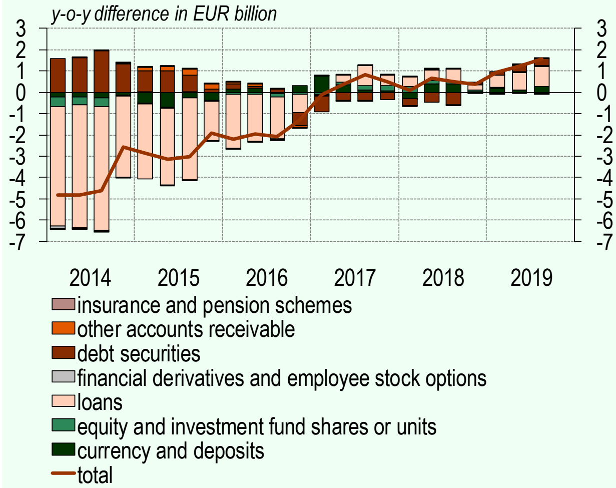
[4] They also increased their liabilities to the rest of the world in these items, by EUR 660 million and EUR 360 million respectively.

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



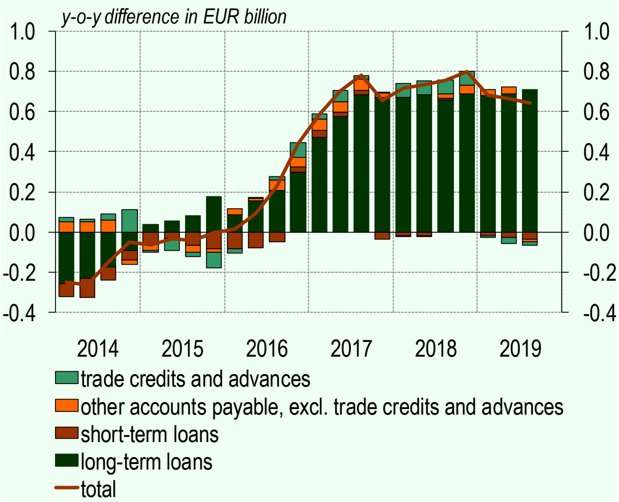
Note: Based on temporary data.
Source: Bank of Slovenia.

Figure 5.6: Financial assets of banks and money-market funds (S.122 and S.123)



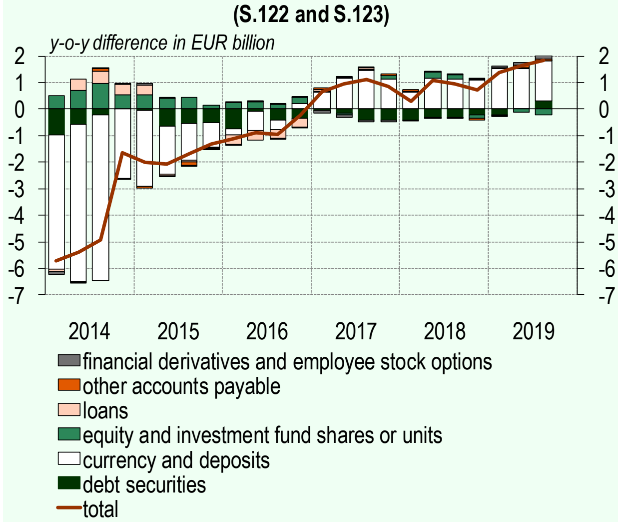
Note: Based on temporary data.
Source: Bank of Slovenia.

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



Note: Based on temporary data.
Source: Bank of Slovenia.

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



Note: Based on temporary data.
Source: Bank of Slovenia.

almost the entire increase in equity, and not actual new investments by households. Insurance and pension schemes also increased, by EUR 400 million, but the revaluation effect was significantly less pronounced. The proportions of all three household asset classes remain stable. On the liability side, there is still robust growth in long-term loans, which make up the majority of household liabilities. Their year-on-year increase amounted to around EUR 700 million.

Financial assets and funding of banks

The increase in the banks' financial assets and liabilities strengthened again in the third quarter of last year. Their assets were up EUR 1.5 billion in year-on-year terms, the largest increase since 2011. This was attributable primarily to increased lending activity, which was up EUR 900 million in year-on-year terms in the third quarter, and partly to an increase in investments in debt securities and in currency and deposits (each were up around EUR 300 million in year-on-year terms).[5] The banks' financial liabilities also increased at a similar pace

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

Box 5.1: Bank performance in 2019

Growth in the balance sheet total increased last year. The main factor on the funding side was deposits by the non-banking sector, household deposits in particular. Growth in loans was similar to the growth in the balance sheet total. Year-on-year growth in housing loans in November was up on the previous month, and year-on-year growth in consumer loans remained high. The quality of the credit portfolio is still improving. Bank profitability was above-average over the first eleven months of the year, but the anticipated economic slowdown and low interest rates mean that the conditions for generating income are likely to worsen. The banking system's liquidity position remains favourable, and the banks remain well-capitalised.

Year-on-year growth in the balance sheet total had increased to 6.2% by November, up 4 percentage points on the end of the previous year. The balance sheet total increased by EUR 2.1 billion over the first eleven months of the year. The banking system's balance sheet total has exceeded EUR 40 billion since the middle of last year. It reached EUR 40.9 billion in November. The largest increases on the funding side came from deposits by the non-banking sector, households in particular, issued debt securities, and equity, driven by the banks' high profits. The main factor on the investment side was loans to the non-banking sector, most notably to corporates and to households. The banks' most-liquid investments in the form of claims against the central bank and sight deposits at banks increased by EUR 5.2 billion last year, while they still held EUR 8.9 billion in securities in November.

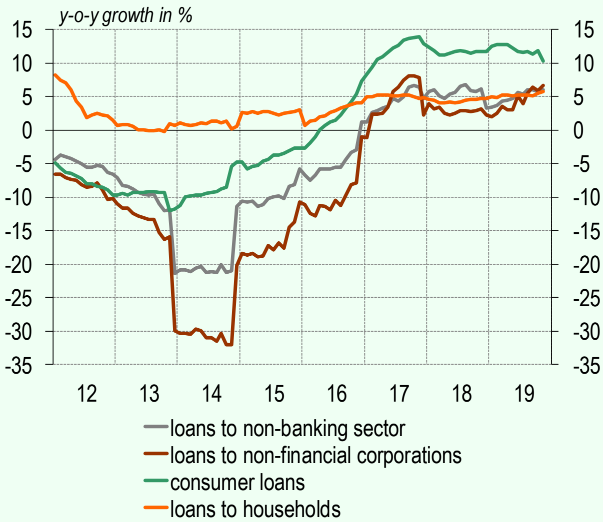
Year-on-year growth in loans to the non-banking sector had strengthened to 6.0% by November. Lending to corporates and households alike increased, but in contrast to previous years the increase in corporate loans exceeded the increase in household loans. Large transactions at certain banks saw year-on-year growth in corporate loans increase in the middle of last year, and the rate rose further, reaching 6.6% in November. Future growth in corporate loans will continue to be affected by the improved financial position of non-financial corporations relative to previous years, i.e. low indebtedness, high profits and high liquidity, and by the economic situation at home and abroad.

Growth in household loans was relatively stable in 2019. The year-on-year rate stood at 6.5% in November. After strengthening in October, year-on-year growth in housing loans increased slightly further in November, to 5.8%. The net monthly increase in housing loans in both October (EUR 45 million) and November (EUR 38 million) exceeded the average monthly increase over the first nine months of last year (EUR 28 million). Year-on-year growth in consumer loans stood at 10.3% in November (down from 11.9% in October), having averaged 12.2% over the first nine months of the year. After October's above-average increase in consumer loans (EUR 51 million), the stock of consumer loans declined by EUR 15 million in November. The average monthly increase over the first nine months of last year amounted to EUR 24 million, and in previous years the monthly increase in consumer loans at the end of the year was usually lower than the average over the year. The Bank of Slovenia's assessment is that the developments in household loans in recent months have partly been characterized by the entry into force of the Regulation on macroprudential restrictions on household lending in November. We would like to emphasize that it is premature to draw any comprehensive conclusions about the effects of the measure.

On the investment side there was also notable growth in loans to non-residents, which stood at 25% in November, primarily as a result of cross-border financing of mainly foreign non-financial corporations by certain banks. These investments are relatively small at system level: they accounted for 2.6% of the balance sheet total in November.

The banks are primarily funding their investment activity via deposits by the non-banking sector, while their dependence on other funding is low. Growth in deposits was relatively high and stable over the first ten months of 2019, the year-on-year rate averaging 6.3%. The rate then hit 7.4% in November as a result of an increase in deposits by non-residents at one

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



Source: Bank of Slovenia.

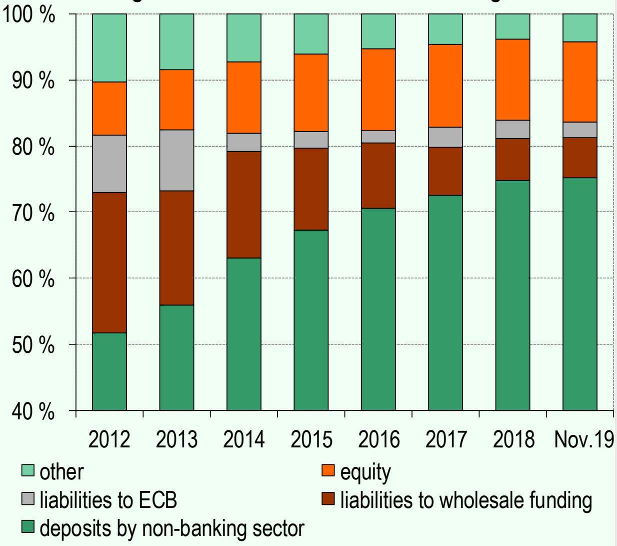
bank. The banks also paid down debt to banks in the rest of the world in 2019, while borrowing in the form of issued debt securities increased, mostly in the second half of the year. Year-on-year growth in household deposits has been strengthening since 2014, and reached 7.6% in November 2019. Unemployment rate is low, growth in the wage bill is outpacing growth in private consumption, and the financial position of households is thus improving, which is laying the foundation for increased saving. Year-on-year growth in corporate deposits has been slowing since mid-2018, and reached 2.4% in November, although non-financial corporations still hold EUR 6.8 billion of deposits at banks. Low interest rates on deposits are deterring savers from fixing deposits at banks, which means that it is primarily sight deposits that are increasing: they now account for 73.4% of total deposits by the non-banking sector.

The banking system's liquidity position remains good, although there is considerable variation from bank to bank. The stock of primary and secondary liquidity at the level of the banking system remains high and relatively stable, while at 329% the liquidity coverage ratio is well above the regulatory level.

The NPE ratio had declined to 2.5% by November. Although the NPE ratio for corporate exposures is still among the highest for any customer segment at 4.9%, there has been success in reducing it in respect of SMEs (6.4%) and large enterprises (3.9%) alike. The favourable influence of the macroeconomic environment and the maintenance of the banks' credit standards vis-à-vis corporates are being reflected in the small inflow of NPEs from new transactions. Only 2.9% of September's total stock of NPEs to corporates came from transactions concluded in the preceding three years. The quality of the household portfolio remains good: the NPE ratios are stable for consumer loans (2.6%) and falling for housing loans (2.0%).

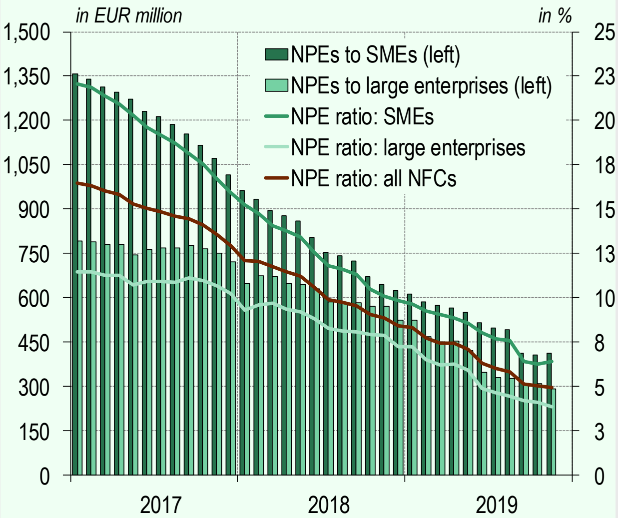
The banking system's pre-tax profit over the first eleven months of the year increased to EUR 584 million. The high profit was attributable to developments on the income side, and also to the net release of impairments and provisions. Net non-interest income was up more than a fifth on the previous year, primarily as a result of favourable shifts and one-off developments in the first half of the year (most notably revaluations and realised dividend income). At 5.9%, year-on-year growth in net fees and commission outpaced average growth in the balance sheet total. Growth in net interest income stood at 2.4% in November, up slightly on previous months, as a result of higher growth in loans and the consequent increase in interest income. The net interest margin

Figure 2: Structure of sources of financing



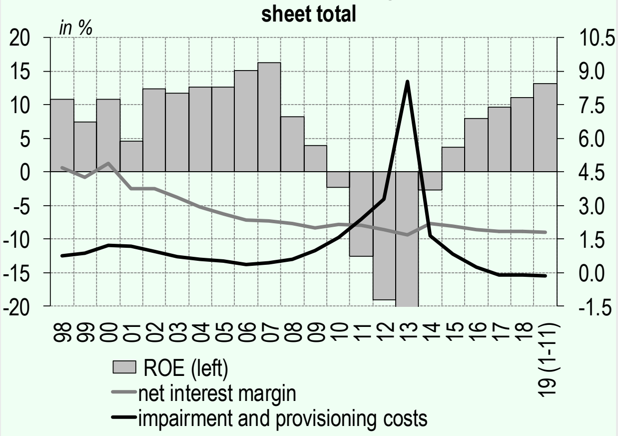
Source: Bank of Slovenia.

Figure 3: Share of NPE by size of enterprises



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

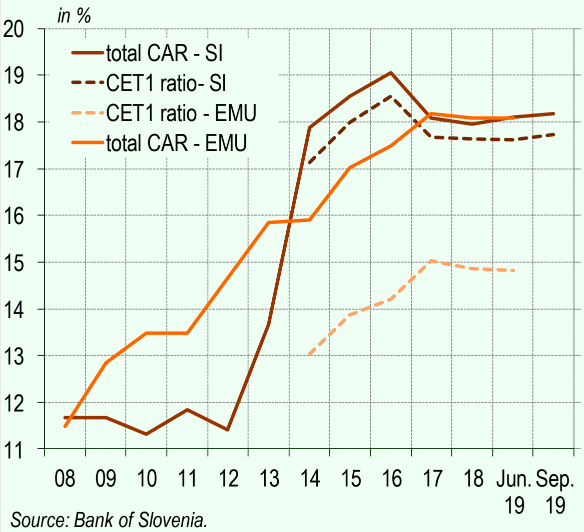


Note: The indicators net interest margin on interest-bearing assets and the ratio of impairment and provisioning costs to total assets are calculated over the preceding 12 months. ROE is calculated during the year on a cumulative basis up to the most recent data available.
Source: Bank of Slovenia.

declined over the first eleven months of the year, and stood at 1.81% in November for the preceding 12 months. Growth in operating costs outpaced average growth in the balance sheet total. The banking system continued to see a net release of impairments and provisions over the first eleven months of the year. It was the dominant factor at just over a third of the banks, particularly the largest, and was an important component of the banking system's high profitability.

The banking system's capital position remained good in the third quarter of 2019. The total capital ratio increased to 19.9% on an individual basis, and 18.2% on a consolidated basis. The Slovenian banking system's total capital ratio is comparable to the euro area average, while its CET1 ratio is almost 3 percentage points higher at 17.7%. The banks saw an increase in common equity Tier 1 capital in 2019 in the form of retained earnings and other reserves, and an increase in Tier 2 capital in the form of issued bonds. The increase in risk-weighted assets was primarily driven by growth in lending, although at 4.5% their year-on-year growth in the third quarter was down on a year earlier. There remain significant differences in the banks' capital positions. The small domestic banks and savings banks improved their capital adequacy via recapitalisations, but their leverage ratio remains down a half on the average across the system.

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



Source: Bank of Slovenia.

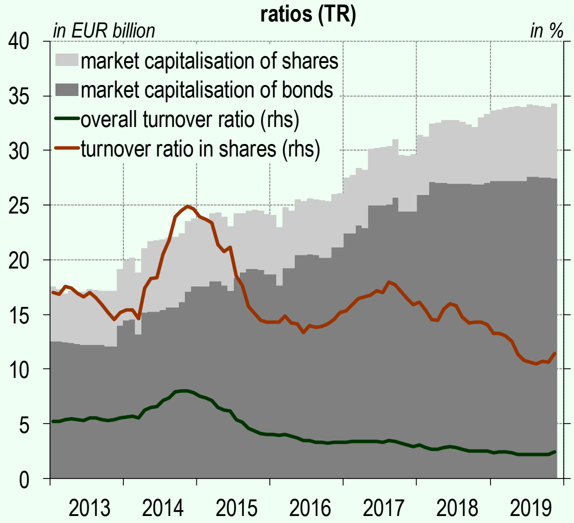
over the observation period (EUR 1.8 billion in year-on-year terms), mostly as a result of an increase in holdings of currency and deposits by non-financial corporations and households, and partly as a result of renewed growth in issued debt securities. Their liabilities to the rest of the world increased slightly over the last year (by EUR 1.2 billion), but remain significantly less than before the crisis; the main increase was in liabilities from equity.

Domastic financial market

The domestic stock market saw an increase in volume in October and November, together with a increase in the stock market index, which continued in December. The monthly volume of trading in shares averaged EUR 34 million in October and November, up 66.4% in year-on-year terms. The increased demand for shares was not broadly based, but was instead driven solely by demand for shares of a single issuer, which is further indication of the lack of development in the domestic capital market. This also had an impact on the SBI TOP share index, which gained 4.8% overall in October and November. This increase continued into December. Despite the increase in trading in marketable shares, the average monthly volume over the first eleven months of 2019 was down 5% in year-on-year terms at EUR 25 million. The proportion of the market capitalisation of domestic shares held by non-residents stood at 30% in November, up 1.1 percentage points in year-on-year terms.

Financing via issuance of debt securities on the Ljubljana Stock Exchange primarily remains the domain of the government sector. Issuance of debt securities by other sectors nevertheless increased over the first eleven months of 2019, as a result of two issues of su-

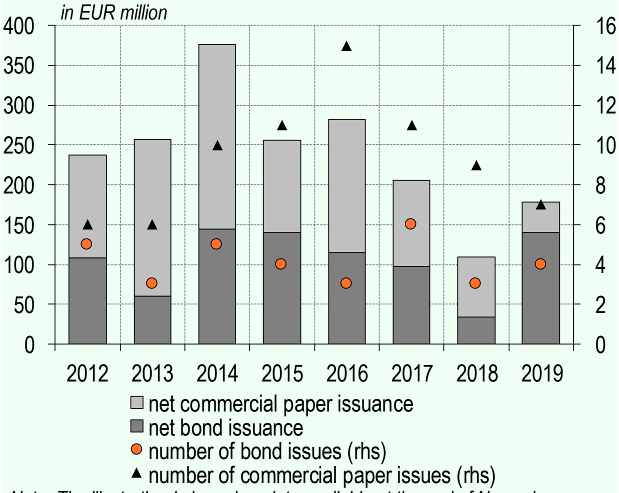
Figure 5.8: Market capitalisation on the LJSE and annual turnover ratios (TR)



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

bordinated bonds by the banking sector for the purposes of optimising capital structure. Issuance of debt securities by non-financial corporations has been declining for a number of years now. It amounted to EUR 42 million over the first eleven months of the year, down almost a half in year-on-year terms. The majority of the issuance was in the form of commercial paper (EUR 38 million).

Figure 5.9: Issuance of debt securities (excluding general goverment sector)



Note: The illustration is based on data available at the end of November.
Source: KDD.

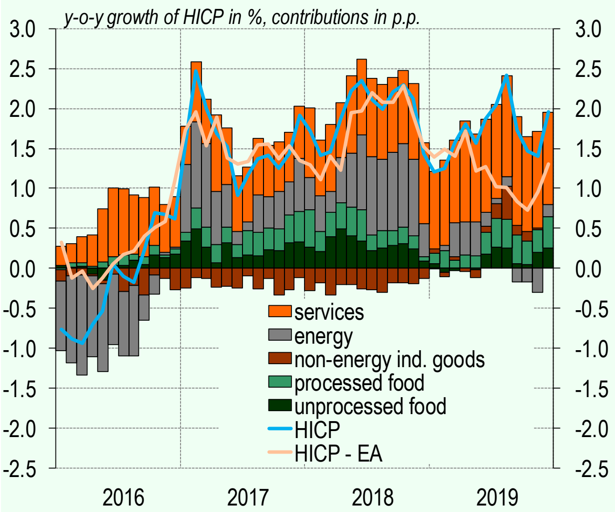
6 Price Developments

Inflation as measured by the HICP averaged 1.7% last year, close to its level over the last three years, and significantly above the euro area average of 1.2%. There was a significant change in the structure of headline inflation as domestic inflationary pressures strengthened and the external inflation environment weakened. In line with developments in oil prices, the contribution by energy prices declined by 0.6 percentage points to 0.1 percentage points, its lowest figure of the last three years. Inflation was thus mainly driven by domestic components last year, under the influence of the buoyant domestic market. Rising wage growth led to an increase in unit labour costs, and also strengthened domestic demand, which was a major factor in services inflation. After falling for a long period, prices of non-energy industrial goods rose slightly, although the price growth continues to be limited by competition. The rise in domestic components of inflation saw growth in the narrowest core inflation indicator reach 1.9%, 0.9 percentage points above the euro area average.

Structure of price developments and core inflation indicators

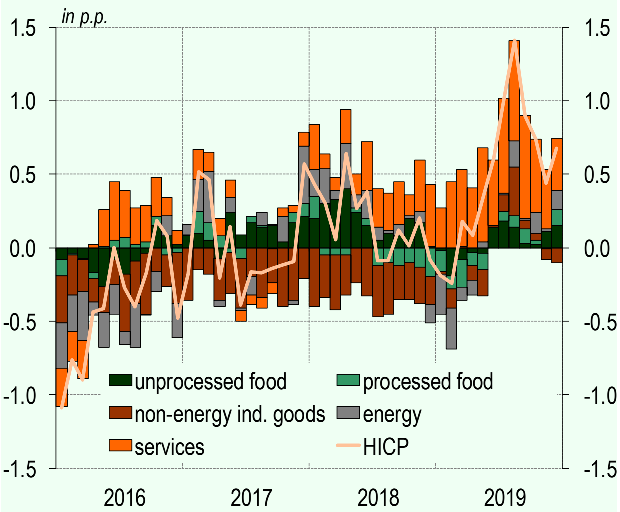
While While fluctuating sharply on several occasions, inflation averaged 1.7% last year, thereby remaining at the level of the last three years. There was a significant change in the structure of inflation compared with the preceding two years, as the contribution made by components largely dependent on external factors declined. Energy prices accounted for just 0.1 percentage points of headline inflation, 0.6 percentage points less than in 2018. The contribution by food prices also declined, but remained relatively high at 0.4 percentage po-

Figure 6.1: Contributions to headline HICP inflation – Slovenia



Source: Eurostat, Bank of Slovenia calculations.

Figure 6.2: Difference in inflation between Slovenia and the euro area



Source: Eurostat, Bank of Slovenia calculations.

ints. Amid strengthening inflationary pressures in the domestic environment, the contribution by domestic components of the consumer basket increased by 0.6 percentage points last year. Prices of non-energy industrial goods rose by 0.3% after a lengthy fall, while services prices rose by 3.1%. With external price pressures diminishing, and a favourable dynamic in the domestic environment, services inflation became the main driver of headline inflation last year and the main factor in the gap between inflation in Slovenia and the euro area average of 1.2%.

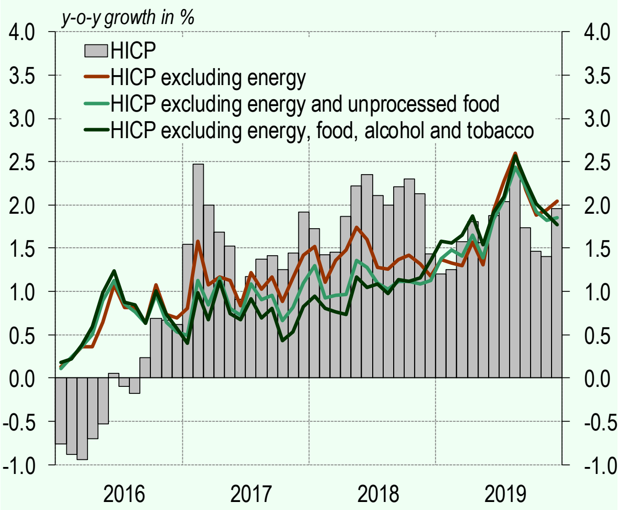
The core inflation indicators rose significantly, and well above the euro area averages. The narrowest core inflation indicator, which excludes energy, food, alcohol and tobacco from headline inflation, almost doubled last year to average 1.9% over the year. The largest factor in the increase was last year's reversal in prices of non-energy industrial goods. Core inflation excluding energy and core inflation excluding energy and unprocessed food meanwhile both stood at 1.8%. Weaker domestic inflationary pressures saw core inflation in the euro area overall remain practically unchanged, as the narrowest indicator stood at 1% for the third consecutive year while the two broader indicators stood at 1.2%.

Drivers of inflation

Last year's stronger domestic inflationary pressures stemmed from the higher unit labour costs. The rise in unit labour costs over the first three quarters of the year was driven both by the year-on-year stagnation in labour productivity, and by higher growth in average compensation per employee, which was partly attributable to a rise in the minimum wage and higher pay in the public sector. The rise in unit labour costs was reflected in increased domestic price pressures as measured by the GDP deflator.[1] Firms mitigated the high cost pressures by reducing unit profits, which were still making a positive contribution to growth in the GDP deflator in 2018. The contribution by unit profits was negative overall during the first three quarters of last year, when domestic price pressures began rising, and the profit margin also declined sharply.

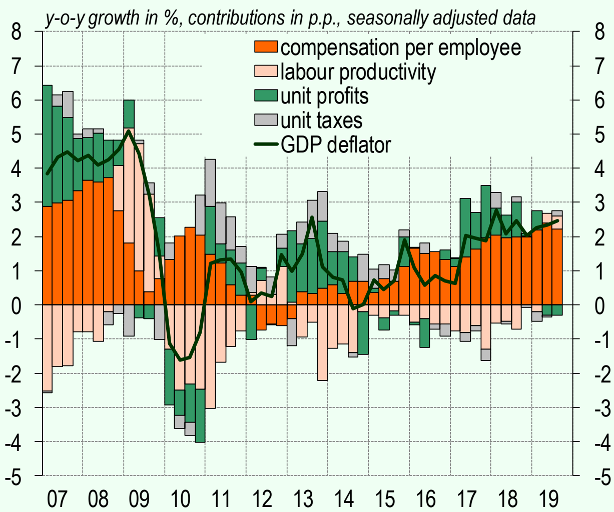
External price pressures eased last year under the influence of falling oil prices. Price pressures from the external environment pass through into domestic consumer price inflation via import prices. These have been falling in year-on-year terms since the middle of last year, largely on account of lower import prices of energy and

Figure 6.3: Measures of core inflation



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 6.4: Domestic price pressures



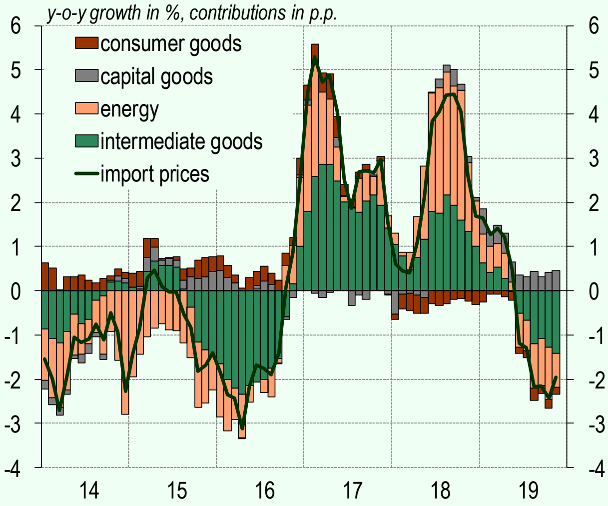
Source: SORS – national accounts, Eurostat, Bank of Slovenia calculations.

[1] The GDP deflator measures changes in prices of all goods and services produced in the domestic economy and sold at home or abroad. Under the income approach, GDP can be divided into compensation of employees, gross operating surplus and mixed income, and taxes on production and imports less subsidies. Because the GDP deflator measures the price of total value-added per unit of output, it can be expressed as the sum of unit labour costs, unit profits, and unit net indirect taxes. Unit labour costs can then be expressed as the ratio of compensation per employee to labour productivity, where labour productivity is expressed as real GDP per employee. Because the calculation uses seasonally adjusted figures for individual GDP components that do not sum to seasonally adjusted GDP, the calculated GDP deflator differs from the deflator determined directly as the ratio of seasonally adjusted nominal GDP to real GDP.

other commodities, thanks to the year-on-year fall in global oil prices. Year-on-year growth in euro prices of oil on global primary commodity markets slowed over the first eleven months of the year. The price of a barrel of Brent crude reached EUR 59.3 in December, taking the year-on-year rate of growth in oil prices to 20% amid a strong base effect. Last year also saw a significant fall in prices of non-food agricultural products on global markets, while there was a sharp rise in food prices in the second half of the year.

Growth in producer prices remains robust. Year-on-year growth in industrial producer prices on the domestic market remained relatively high last year, at around 2%. The growth was attributable to year-on-year rises in energy prices (electricity, gas and steam), and also to rises in prices of consumer goods in the second half of the year. Meanwhile industrial producer prices on the foreign market fell, in line with the international economic slowdown. Producer prices of services rose by even more than prices of industrial goods on the domestic market: year-on-year growth averaged 2.6% over the first three quarters of last year.

Figure 6.5: External price pressures – import prices

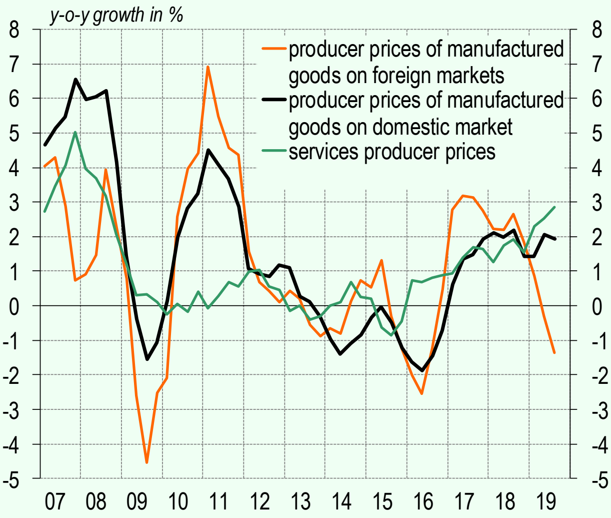


Source: SORS, Bank of Slovenia calculations.

Price developments by subcategory

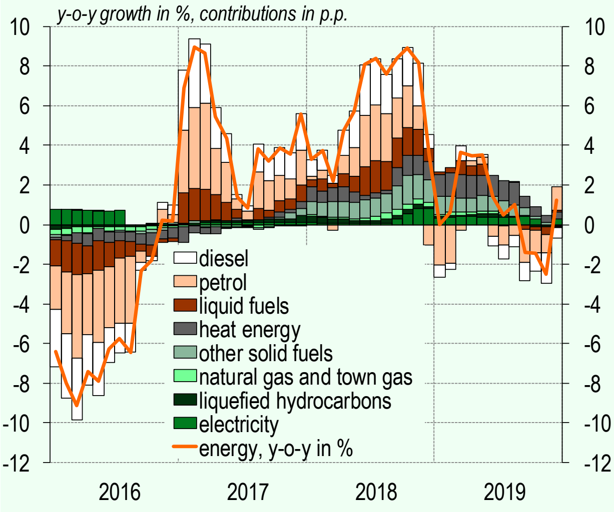
The low growth in energy prices was the result of developments in oil prices on global markets. Year-on-year growth in energy prices averaged 0.8% last year, down significantly on the preceding two years. The rate slowed throughout the first eleven months of the year, turning negative by the autumn, but then hit 1.2% in December as a result of a strong base effect. Last year's relatively low growth in energy prices was a reflection of falling motor fuel prices, which account for almost half of total energy prices in the consumer basket; they fell by more than 2% amid the slow dynamic in euro oil prices. Other energy prices rose meanwhile. The highest growth of 14.6% was recorded by prices of heat energy. Growth in energy prices averaged 1.2% in the euro area, and continued to outpace growth of energy prices in Slovenia.

Figure 6.6: Producer prices



Source: SORS, Bank of Slovenia calculations.

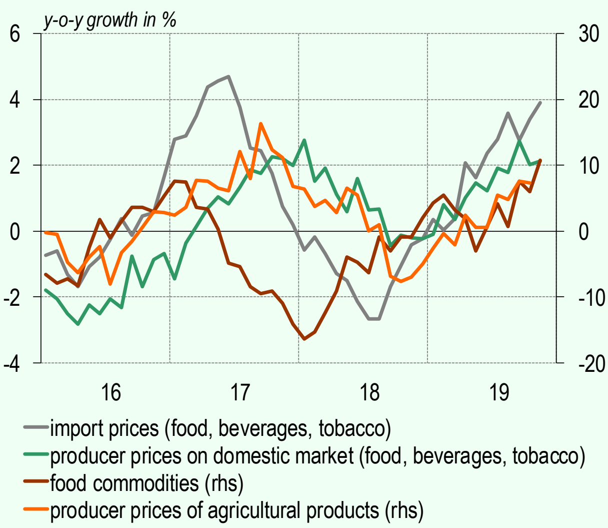
Figure 6.7: Contributions to energy inflation



Source: Eurostat, SORS, Bank of Slovenia calculations.

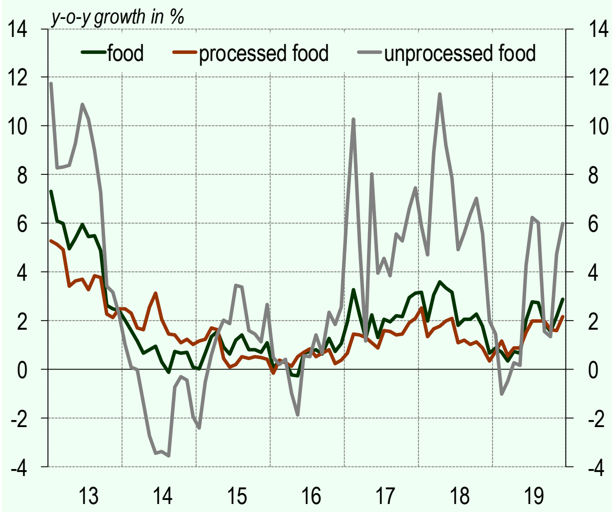
Year-on-year food price inflation rose last year in parallel with the rise in import food prices and producer prices on the domestic market, reaching 2.9% in December. Growth in prices of unprocessed food averaged 2.5% last year. The high volatility was attributable to fluctuations in growth in prices of fresh fruit and vegetables, which is highly dependent on weather conditions. Towards the end of the year the largest factors in aggregate growth were the year-on-year rises in prices of fresh fruit and meat. A base effect meant that the main year-on-year rises were in poultry and pork prices, while pork prices were also driven upwards by year-on-year rises on global markets and at domestic producers during the spread of African swine fever. Prices of processed meat rose in parallel, and were a factor in December's increase in year-on-year growth in prices of processed food.[2]

Figure 6.8: Food prices and prices of food commodities in EUR



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

Figure 6.9: Food prices



Source: Eurostat, 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	2015	2016	2017	2018	2019	18Q3	18Q4	19Q1	19Q2	19Q3	19Q4
HICP	*100.0%*	-0.8	-0.2	1.6	1.9	1.7	2.1	2.0	1.3	1.7	2.1	1.6
Breakdown of HICP:												
Energy	*12.1%*	-7.8	-5.2	4.7	6.0	0.8	8.1	6.9	1.4	2.8	0.0	-0.9
Food	*22.2%*	0.9	0.5	2.2	2.4	1.6	2.0	1.6	0.6	1.1	2.5	2.2
processed	*18.1%*	0.7	0.4	1.4	1.4	1.4	1.1	0.8	0.8	1.1	2.0	1.8
unprocessed	*4.2%*	1.4	0.7	5.7	6.6	2.5	5.6	4.8	0.0	1.6	4.6	4.1
Other goods	*28.4%*	-0.6	-0.5	-0.7	-0.8	0.3	-0.8	-0.6	0.1	-0.1	0.9	0.4
Services	*37.3%*	0.9	1.6	1.8	2.4	3.1	2.5	2.6	2.8	3.2	3.4	3.1
Core inflation indicators:												
HICP excl. energy	*87.9%*	0.4	0.6	1.1	1.4	1.8	1.3	1.3	1.3	1.6	2.3	2.0
HICP excl. energy and unprocessed food	*83.7%*	0.4	0.6	0.9	1.1	1.8	1.1	1.1	1.4	1.6	2.2	1.9
HICP excl. energy, food, alcohol and tobacco	*65.7%*	0.3	0.7	0.7	1.0	1.9	1.1	1.2	1.6	1.8	2.3	1.9
Other price indicators:												
Industrial producer prices on domestic market		-0.5	-1.4	1.3	1.9	...	2.2	1.4	1.4	2.1	1.9	...
GDP deflator		1.0	0.8	1.6	2.2	...	2.5	1.9	2.4	2.8	2.5	...
Import prices[1]		-1.4	-2.2	3.0	2.6	...	4.0	3.0	1.4	-0.1	-1.4	...

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

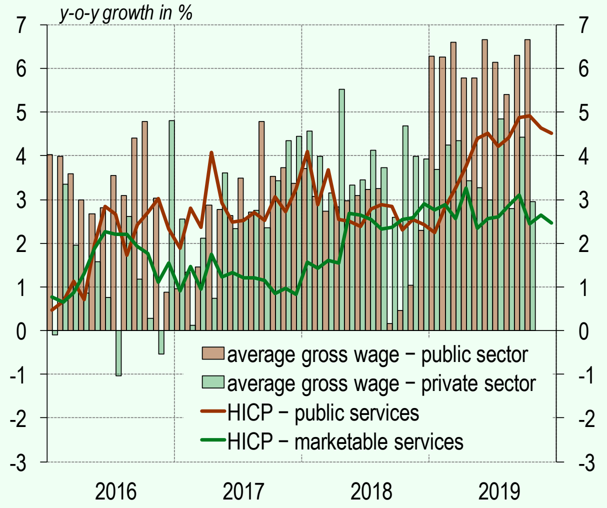
[2] Pork prices at agricultural producers in Slovenia were up 25% in year-on-year terms in December, but the pass-through of higher global and domestic pork prices into consumer prices of processed meat will most likely be largely realised this year.

Growth in the latter averaged 1.4% last year, the year-on-year rate peaking in December at 2.2%. Food price inflation averaged 1.8% in the euro area, outpacing growth in Slovenia by 0.2 percentage points. The gap was primarily generated by lower growth in prices of processed and unprocessed food in Slovenia in the first half of the year.

Last year's rise in unit labour costs was followed by a rise in services price inflation, which was more pronounced at providers of public services. Year-on-year growth in services prices averaged 3.1% last year, outpacing the euro area average by 1.6 percentage points as a result of stronger domestic inflationary pressures. Prices of public services, which rose by 4%, accounted for over a third of the high services price inflation. Among the public services, the highest year-on-year growth was recorded in refuse collection and letter handling services. Services providers often justified their price rises by higher labour costs and rises in other costs related to service provision. Prices of market services rose by 2.7%, slightly more slowly than the prices of public services, thanks to greater competition. The largest price rises were in legal services and accountancy (16.5%, as a result of a rise in attorneys' tariff), wired telephone services (10.3%), and private health insurance (7.8%, as a result of higher supplementary health insurance premiums). Year-on-year growth in services prices stood at 3.1% in December, and further rises can be expected in the early part of this year, in the wake of a renewed rise in the minimum wage and the exclusion of bonuses from its definition.

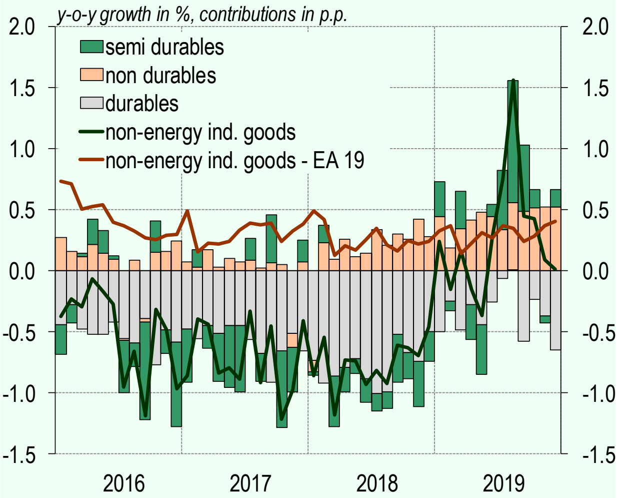
Last year saw a reversal in growth in prices of non-energy industrial goods. The latter was still significantly behind the euro area average in 2018, having been negative for almost a decade, but then increased slightly last year as year-on-year growth in prices of non-durables and semi-durables strengthened and the fall in prices of durables slowed. The growth was supported by rising labour costs and growth in industrial producer prices on the domestic market, but the weakening price pressures from the external environment and the high level of competition meant that prices of non-energy industrial goods still only rose by 0.3%, the same as the euro area average.[3] Prices of non-durables rose faster than in the euro area overall; their year-on-year growth has been increasing since the beginning of 2018, and reached 1.9% last December, while in the euro area the rate has been slowing since the middle of last year.

Figure 6.10: Services inflation and average gross wage



Source: Eurostat, SORS, Bank of Slovenia calculations.

Figure 6.11: Contributions to growth in prices of non-energy industrial goods



Source: Eurostat, SORS, Bank of Slovenia calculations.

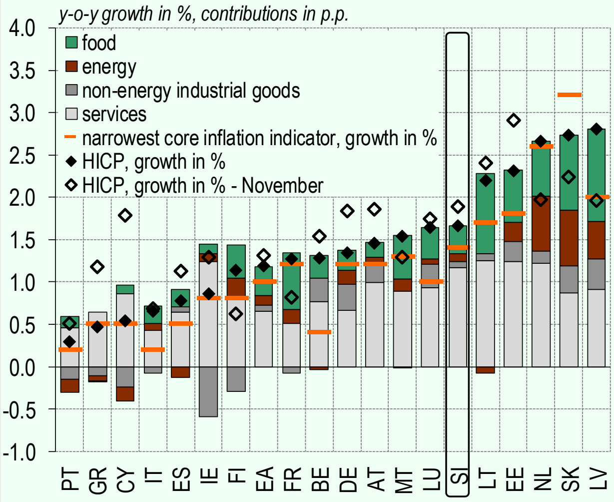
[3] Despite the reversal in aggregate price growth, it was largely the result of irregular growth in prices of clothing and footwear in the summer. These prices display a strong and unstable seasonal behaviour, and are thus extremely volatile. Prices of non-energy industrial goods, excluding clothing and footwear, did not rise at all last year on average.

Box 6.1: Price developments in euro area countries

Year-on-year inflation in the euro area averaged 1.2% over the first eleven months of last year, 0.6 percentage points less than in 2018. The slowdown was primarily the result of a decline in the contribution to headline inflation by energy and food prices. Services prices and prices of non-energy industrial goods are continuing to rise at their rates of previous years. Core inflation thus remains low, at 1.0%.

The highest inflation rates are being recorded by the Baltic states, Slovenia, Slovakia and the Netherlands. Inflation rose sharply in the Netherlands last year, primarily as a result of a high contribution by services prices, while inflation in the Baltic states is higher than 2% for the third consecutive year. All components of inflation in the Baltic states are outpacing the euro area average, driven primarily by domestic factors. Core inflation is also very high as a result. By contrast, the vast majority of the countries that were hit hardest by the debt crisis and faced weak domestic demand are seeing low inflation. These include Portugal, Greece, Cyprus, Italy and Spain. A common factor in these countries is a low or even negative contribution to headline inflation by prices of non-energy industrial goods, which is also reducing core inflation. Given the strength of domestic inflationary pressures in Slovenia, the level and the structure of inflation do not deviate significantly from other comparable euro area countries.

Figure 1: Average inflation over the first eleven months of 2019



Source: ECB, Eurostat, Bank of Slovenia calculations.

7 Public Finances

According to the Ministry of Finance's estimates, the general government surplus in 2019 is expected to have remained at the level of the previous year, namely 0.8% of GDP. Growth in revenues over the first three quarters of last year remained favourable, at 5.9%. This was partly attributable to the still-buoyant labour market, and higher capital transfers revenue, while the easing of the tax burden on annual leave allowance had a negative impact on revenues. Growth in expenditure was slightly lower than growth in revenues, and was driven primarily by social benefits, compensation of employees and, in the first half of the year, relatively high government investment. The interest burden declined for the fourth consecutive year. General government debt stood at 68.1% of GDP at the end of September, and thus remained down on the end of the previous year.

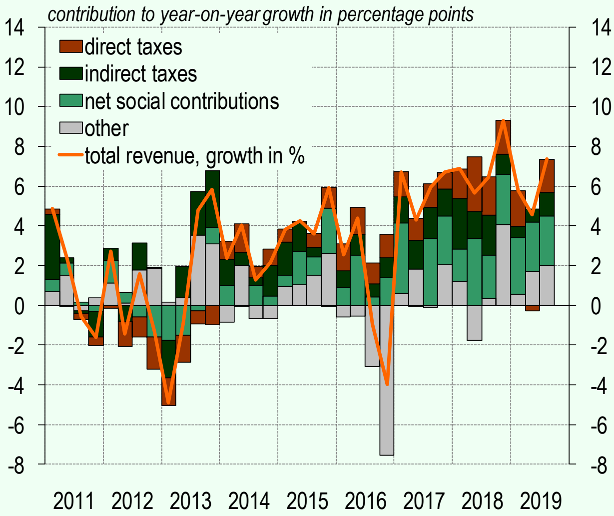
The general government sector is forecast to maintain surpluses this year and in the following years, despite the enactment of a variety of tax changes, changes in pensions, and changes in the area of the labour market. Slovenia's general government debt is declining, but remains above the benchmark of 60% of GDP. Addressing adverse demographic developments also remains challenging from the perspective of its future evolution. The macroeconomic risks to economic growth require caution in the planning and pursuit of fiscal policy.

General government balance

The general government sector was in surplus over the first three quarters of 2019, as growth in general government revenues slightly outpaced growth in expenditure. The surplus amounted to 0.7% of GDP over the first nine months of the year, up 0.2 percentage points on the same period of the previous year. General government revenues increased by a little more than expenditure. The Ministry of Finance estimates that the surplus over the whole of 2019 was the same as in the previous year, i.e. 0.8% of GDP. With the interest burden continuing to fall, both in nominal terms and as a ratio to GDP, the primary surplus is thought to have remained above 2.0% of GDP for the third consecutive year.

General government revenues grew solidly over the first three quarters of the year, primarily because the labour market remained buoyant. Revenues over the first nine months of the year were up 5.9% in year-on-year terms. The buoyant labour market allowed for further

Figure 7.1: General government revenue



Source: SORS, Bank of Slovenia calculations.

Table 7.1: General government deficit and debt in Slovenia, 2014–2022

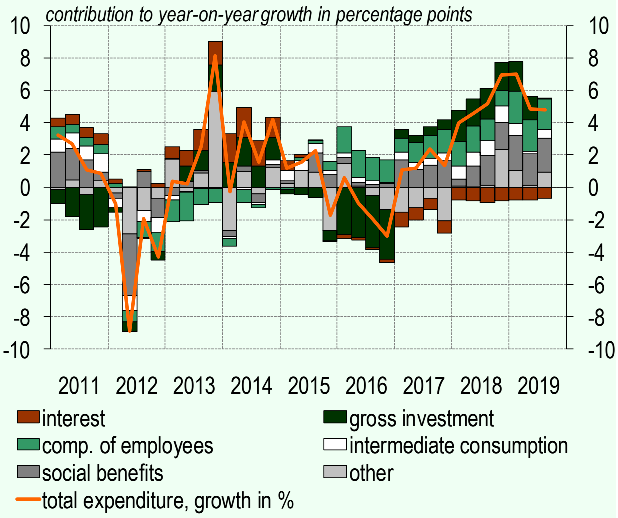
	SORS						Draft Budgetary Plan		Stability Programme				EC		
% GDP	2014	2015	2016	2017	2018	Q1-Q3 19	2019	2020	2019	2020	2021	2022	2019	2020	2021
Revenue	45.3	45.9	44.3	44.0	44.3	44.1	44.5	43.9	43.2	42.6	41.8	41.3	44.0	43.6	43.3
Expenditure	50.8	48.7	46.2	44.1	43.5	43.4	43.7	43.0	42.2	41.6	40.7	40.2	43.6	43.1	42.8
of which: interest	3.2	3.2	3.0	2.5	2.0	1.6	1.6	1.5	1.6	1.5	1.3	1.2	1.6	1.5	1.4
Net lending (+) / borrowing (-)	-5.5	-2.8	-1.9	0.0	0.8	0.7	0.8	0.9	0.9	1.0	1.1	1.2	0.5	0.5	0.6
Primary balance	-2.3	0.4	1.1	2.5	2.8	2.3	2.4	2.4	2.6	2.4	2.4	2.3	2.1	2.0	2.0
Structural balance	...	...	...	...	...	...	0.1	0.1	-0.1	-0.2	-0.1	0.1	-1.0	-0.9	-0.7
Debt *	80.3	82.6	78.7	74.1	70.4	68.1	66.3	62.1	65.4	61.3	57.9	54.7	66.7	63.1	59.5
Real GDP (growth, %)	2.8	2.2	3.1	4.8	4.1	2.7	2.8	3.0	3.4	3.1	2.8	2.7	2.6	2.7	2.7

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

growth in revenues from the wage bill, in particular net social security contributions (7.4%), while easing of tax burden on annual leave allowance meant that the increase in personal income tax was lower, at just 2.5%. The easing of tax burden on annual leave allowance reduced revenues by around 0.2% of GDP last year on an annualised basis. Growth in indirect taxes was low, despite strengthening private consumption. Year-on-year growth in indirect taxes in the third quarter was slightly higher, but the overall increase over the first three quarters of the year was just 2.4%. Excise duties were down slightly in year-on-year terms, while growth in VAT revenues was lower than in the preceding two years, at 3.7%. Capital transfers were double their level from a year earlier.

General government expenditure over the first nine months of last year increased by slightly less than revenues. The increase was driven in all quarters by social benefits, compensation of employees and, particularly in the first half of the year, government investment. General government expenditure was up 5.5% in year-on-year terms. The major category of expenditure recording the highest growth was government investment, which slowed significantly in the third quarter, primarily in reflection of lower investment expenditure in local government. Growth in compensation of employees stood at around 7.5% in all quarters. While year-on-year employment growth in the government sector was stable at 1.3%, the average wage increased by just over 6%. Social benefits recorded their largest increase of the last decade, driven

Figure 7.2: General government expenditure excluding support to financial institutions



Source: SORS, Bank of Slovenia calculations.

by the abolition of austerity measures from previous years and by the adoption of various new measures (e.g. an increase in cash social assistance). Interest payments declined in year-on-year terms for the fourth consecutive year. Growth in primary expenditure (i.e. government expenditure excluding interest) reached 6.6%.

General government debt and government guarantees

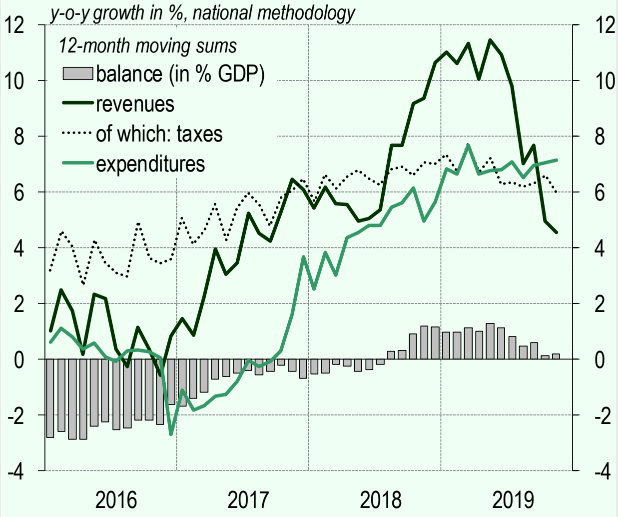
The general government debt remains below 70% of GDP. It stood at EUR 32,390 million or 68.1% of GDP at the end of the third quarter, up slightly on the previous

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

The consolidated general government surplus over the first eleven months of 2019 amounted to EUR 346 million, down EUR 434 million in year-on-year terms. The larger surplus in 2018 was primarily attributable to revenue of a one-off nature, such as funds received from the EU budget for the previous financial framework (2007 to 2013), and high non-tax revenue from dividend payments, which also included retained earnings from previous years. The state budget accounted for the majority of the consolidated surplus. The local government surplus increased: year-on-year growth in expenditure was low, as a result of a decline in investment expenditure and expenditure on goods and services.

Growth in consolidated general government revenue slowed significantly last year in the absence of the aforementioned one-off revenues. Growth in revenues from taxes and social security contributions remained solid, at 5.9% over the first eleven months of the year. This was nevertheless slightly lower than in the preceding two years. This was attributable to the easing of the tax burden on annual leave allowance, which meant that growth in personal income tax revenues was relatively low. While the year-on-year decline in excise duty revenues slowed, growth in taxes of goods and services was also low. The largest increase was in corporate income tax revenues, which was a reflection of tax settlements for the previous year and an increase in current tax prepayments.

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 Nov. 19			2018 Jan.–Nov.	2019 Jan.–Nov.	Jan.–Nov. 19
	EUR millions		% GDP	y-o-y, %	EUR millions		y-o-y, %
Revenue	**18,594**	**19,184**	**40.1**	**4.5**	**16,825**	**17,415**	**3.5**
Tax revenue	16,225	17,101	35.7	6.0	14,782	15,657	5.9
- goods and services	5,989	6,140	12.8	2.6	5,510	5,660	2.7
- social security contributions	6,550	6,981	14.6	7.4	5,926	6,357	7.3
- personal income	2,447	2,547	5.3	5.2	2,202	2,302	4.5
- corporate income	846	988	2.1	18.7	775	917	18.3
From EU budget	796	748	1.6	12.1	587	539	-8.2
Other	1,572	1,335	2.8	-13.8	1,456	1,219	-16.3
Expenditure	**18,068**	**19,093**	**39.9**	**7.2**	**16,045**	**17,069**	**6.4**
Current expenditure	7,966	8,326	17.4	6.0	7,113	7,473	5.1
- wages and other personnel expenditure (incl. contributions)	4,168	4,470	9.3	8.1	3,787	4,088	8.0
- purchases of goods, services	2,634	2,762	5.8	5.1	2,302	2,431	5.6
- interest	868	783	1.6	-9.8	863	778	-9.8
Current transfers	8,237	8,713	18.2	6.6	7,471	7,948	6.4
- transfers to individuals and households	6,926	7,302	15.3	5.6	6,343	6,720	5.9
Capital expenditure, transfers	1,432	1,529	3.2	12.7	1,065	1,163	9.2
To EU budget	433	524	1.1	22.7	396	486	22.9
GG surplus/deficit	**526**	**92**	**0.2**		**780**	**346**	

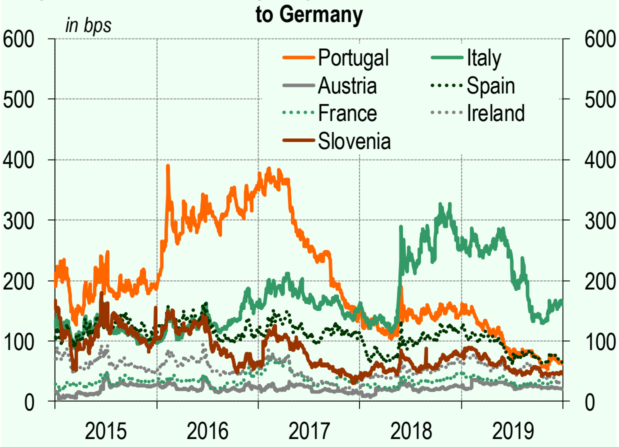
*Note: *Consolidated accounts of the state budget, local government budgets, pension and health fund on cash accounting principle.*
Source: Ministry of Finance, Bank of Slovenia calculations.

Year-on-year growth in expenditure outpaced revenues. Investment expenditure recorded high growth, although the rate has been slowing since the middle of the year. Labour costs rose by approximately 8%, largely as a result of pay increases agreed between the government and the trade unions. The state budget recorded a surplus of EUR 50 million against the EU budget over the first eleven months of the year. Revenues and expenditure alike were up on the previous year, while the surplus was slightly larger in year-on-year terms (after the exclusion of one-off revenue from the EU budget in 2018). Interest payments are continuing to decline in year-on-year terms.

quarter, primarily as a result of additional issuance of RS81 10-year bonds. The debt has been close to EUR 32 billion in nominal terms since 2015, but its ratio to GDP has been declining. The majority of government borrowing last year was undertaken via January's RS81 bond issue in the amount of EUR 1.5 billion, and an increase of EUR 350 million in the same bond issue in July. Maturing bonds amounted to approximately EUR 2.3 billion. The government completed its issuance of treasury bills in October. Just under EUR 1.2 billion of treasury bills of various maturities were issued last year, while approximately the same amount of bills matured. All were issued at negative interest rates close to the rate on the ECB's deposit facility, in the range of -0.37% to -0.51%. The government borrowed EUR 1.5 billion in the early part of this January by issuing a new 10-year bond with a coupon rate of 0.275%, the lowest interest rate on a 10-year bond to date. This borrowing was also favourable from the perspective of bond issues by comparable countries at the beginning of the year, and is continuing to help reduce the interest payment burden.

Guarantees are down approximately a half over the last five years, and are still declining. They amounted to EUR 5.4 billion or 11.5% of GDP at the end of the third quarter, down a half on the end of 2014. The largest part of the decline in guarantees during the first nine months of last year was related to the settlement of liabilities by DARS and the BAMC in the amount of just under EUR 300 million. A portion of guarantees is included in the government debt (guarantees for the BAMC and for the EFSF), and amounted to 3.1% of GDP at the end of September. Just under EUR 1 million of guarantees were called and repaid during the first eleven months of last year, according to the state budget figures. The stock of guarantees could in future be affected by loans raised for financing major infrastructure projects (roadbuilding on the third development axis, and a second track for the Divača-Koper railway), and guarantees approved for measures planned as part of housing policy. The maximum volume of guarantees that could come from these two sources would be around EUR 1.3 billion over several years, although the legislative framework for the housing policy has not yet been adopted.

Figure 7.3: Spreads on 10-year government bonds as compared to Germany



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

The required yield on 10-year Slovenian government bonds was stable in the final quarter of last year, and remains moderately positive. The required yield on 10-year Slovenian government bonds turned positive again in October. It held at close to 0.1% during the last quarter of last year, moving in line with the required yield on the German benchmark bond, which was in negative territory during the final quarter (averaging -0.4%). The spreads on 10-year Slovenian bonds over the German benchmark were thus stable in the final quarter, averaging 47 basis points.

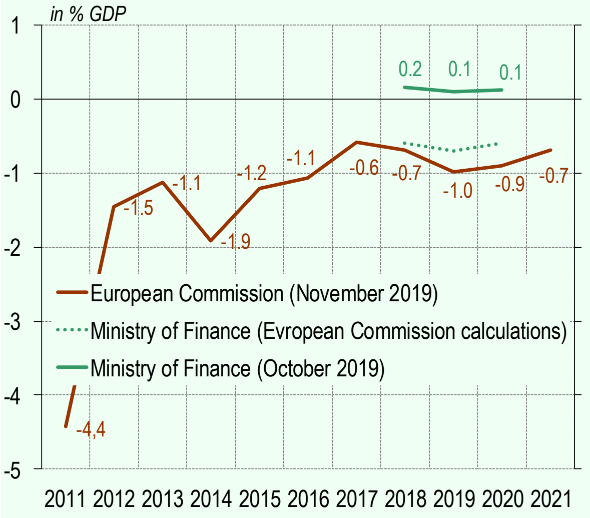
Planned developments in general government balance and debt

The government is planning to maintain a fiscal surplus this year and next year. Slovenia first achieved a general government surplus in 2018, in the amount of 0.8% of GDP. According to the estimates from October's Draft budgetary plan for 2020, the surplus remained the same last year. The government plans are indicating a slightly higher surplus this year and next year. Lower interest payments will remain a factor in the improvement in the fiscal position, albeit significantly less than in the last few years. The plans are exposed to risks, including those inherent in the macroeconomic environment.

Changes in taxes, the pension system and the labour market will all have an impact on the public finances this year. The early part of this year saw further easing of the tax burden on labour income (a rise in tax bands, a rise in allowances, cuts in tax rates in the second and third income tax bands), which will only be partly compensated for by increased taxation of capital (a rise in the tax rate on capital income such as dividends and interest, the enforcement of a minimum effective tax rate in corporate income tax). The remaining tax shortfall should be covered by measures to improve the effectiveness of tax collection (combating tax evasion and fraud). The changes in the area of pensions aim to increase involvement in work and to ensure a decent income in old age, including higher pension income while continuing work after reaching retirement age, and a higher pension accrual rate. Alongside this year's rise in the minimum cash assistance for unemployment, the labour market measures also include changes to the required period of employment to receive benefits and the period for which benefits can be received.

Estimates of the structural fiscal position by the Ministry of Finance and the European Commission differ, although this year's structural position is forecast to remain unchanged from last year. While the Ministry of Finance estimates that Slovenia met the medium-term fiscal objective[1] within the permissible deviations in 2018

Figure 7.4: Public finance structural balance in Slovenia



Source: European Commission, Ministry of Finance.

and 2019, and will achieve it this year again, the European Commission estimates that Slovenia is still missing the objective and must converge on it at the requisite pace.

The general government debt is expected to decline as a ratio to GDP, and is forecast to reach 62.1% of GDP by the end of the year. The general government debt is also forecast to decline in nominal terms this year, having remained at approximately EUR 32 billion over the last four years. The debt could potentially be further reduced in the future by revenue from the privatisation of Abanka and the second part of the privatisation process at NLB, and by government surpluses. Economic growth is another factor reducing the ratio of debt to GDP. Reducing the debt remains a key task of fiscal policy, as in this way the government can prepare for any adverse economic shocks that lie ahead. The key to sustainable debt reduction is addressing the demographic pressures on the public finances as soon as possible. Drawing up deep-seated changes to pensions, healthcare and long-term social care remains in the government's plans.

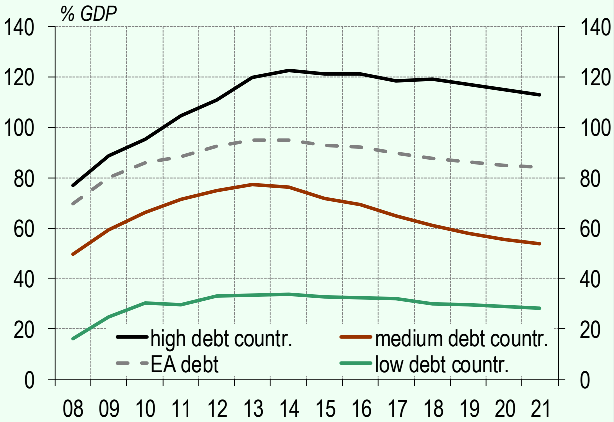
[1] Medium-term objective is determined as the appropriate level of the structural fiscal position. A structural surplus of 0.25% of GDP was required for 2019, and the medium-term objective for the 2020 to 2022 period is a structural deficit of the same size.

Box 7.2: Fiscal space in the euro area

The fiscal position of euro area countries improved in previous years, and following Spain's exit in 2019 no euro area country is currently undergoing the excessive deficit procedure. According to European Commission estimates, the euro area recorded a general government deficit of 0.8% of GDP last year, and no country had a deficit of more than 3% of GDP. Amid slowing economic growth, the question of whether countries have enough manoeuvring room for possible fiscal stimulus measures (fiscal space) has become pressing. Under the rules of the Stability and Growth Pact, a deficit of less than 3% of GDP does not necessarily entail the availability of fiscal space. Fiscal rules with regard to the structural fiscal position also need to be met, namely the medium-term budgetary objective.[1] Under the rules of the Stability and Growth Pact, only when the latter objective has been surpassed and debt is at a sustainable level the country has fiscal space available for expansionary fiscal measures.

According to the EU's existing fiscal rules, euro area countries did not have fiscal space available for the first few years of the 2008 to 2018 period, as they were mostly undergoing the excessive deficit procedure, i.e. they were running deficits of more than 3% of GDP. The deficits later narrowed.[2] Certain countries also began to reach their medium-term structural objectives, thus beginning to create fiscal space, although it was relatively small, and never exceeded 1% of potential nominal GDP on aggregate on an annual basis in the euro area. At the same time, in the countries where the medium-term objective was not met, there was a need for consolidation, which also never exceeded 1% of potential GDP on aggregate on an annual basis in the euro area. The potential fiscal space and the need for fiscal consolidation measures thereby roughly equalised. Since 2018 the European Commission judges that there are a few countries that have fiscal space for a potential expansionary fiscal policy. However, the fiscal space is relatively small (no more than 0.5% of the potential GDP of the euro area on average in a particular year), and is concentrated mostly in Germany. At the same time, several countries (including Spain, France and Italy) need to carry out consolidation measures to move their structural balances towards their medium-term objectives. The possibilities for countercyclical fiscal policy at the level of the euro area are thus very narrow.[3]

Figure 1: Average debt of high, medium and low indebted countries in euro area



Note: Highly indebted countries include countries with debt not below 80% of GDP by 2021. Medium indebted countries are countries with debt approaching or below 60% of GDP. Low indebted countries have debt below 60% of GDP.
Source: European Commission, November 2019, Bank of Slovenia calculations.

In addition to an appropriate structural position, the level of general government debt is also important when planning more-pronounced, longer-term fiscal policy measures. The key is for heavily indebted countries to reduce debt, which is easier to achieve in periods of high economic growth. The level of debt that is sustainable in the long term and that will provide space for countercyclical fiscal policy measures mostly likely varies from country to country; smaller countries and countries with higher debt levels are usually more sensitive to economic and financial shocks. For example, debt in the euro area increased by an average of just under 30 GDP percentage points during the last economic crisis, and in the majority of cases the rise was more pronounced in countries that had higher debt levels before the crisis. The ratio of debt to GDP has been gradually declining on average in the euro area since 2015, but mostly as a result of strong economic growth, as debt has actually increased slightly in nominal terms over this period.

[1] For more, see the July 2019 issue of Economic and Financial Developments.

[2] Only three EU countries have never been in the excessive deficit procedure: Sweden, Estonia and Luxembourg.

[3] Also, it is necessary to take account of the uncertainty in estimates of the output gap and thus structural balances, and consequently of the fiscal space, as there are frequent revisions to these estimates.

8 Selected Themes

8.1 Methodology for calculating the effective exchange rate for Slovenia

This analysis sets out the calculation of the effective exchange rate for Slovenia, and compares it with various international institutions, and also defines narrower regional effective exchange rate indices. The advantage of economy-specific effective exchange rates is that they are tailored to the geographical breakdown of the individual economy's foreign trade. The calculations reveal that Slovenia's international competitiveness has in general deteriorated slightly over the last three years. The economy has nevertheless succeeded in maintaining a stable competitive position in certain regions, which works to the benefit of exporters. A certain measure of caution is required in the interpretation of competitiveness indicators, as price and cost are not the only factors in competitiveness.

Methodology for calculating the effective exchange rate[1]

The analysis focuses on the calculation of effective exchange rates for Slovenia by taking account of the methodologies of various international institutions, such as the European Commission, the IMF, the ECB and the BIS. Narrower regional effective exchange rate indices are also defined, which reflect a more detailed picture of the Slovenian economy's international competitiveness, and make it easier to explain the relatively solid growth in Slovenia's exports during the global economic slowdown since 2017.

The effective exchange rate is defined as a statistical index that describes the value of the domestic currency relative to the value of a basket of foreign currencies, and is considered one of the most important indicators of the international competitiveness of a particular economy. The nominal effective exchange rate is calculated on the basis of the weighted average of a basket of foreign currencies, where the weights are determined on the basis of the volume of the domestic economy's trade with individual foreign trading partners. The nominal effective exchange rate *(NEER)* is described as a weighted geometric mean:

$$NEER = \prod_{i=1}^{N} \left(e_{i,SI}^{t}\right)^{w_i}$$

where $e_{i,SI}^{t}$ is the bilateral exchange rate between trading partner *i* and Slovenia, and w_i is the weight of trading partner *i*, which depends on the size of imports and exports between the Slovenian economy and trading partner *i*. The calculation of the real effective exchange

[1] The detailed results and methodological notes will be published in a Bank of Slovenia paper entitled Calculation Methodology of Effective Exchange Rates in Slovenia.

rate (*REER*) takes account of the price and cost aspects between the domestic economy and the rest of the world[2]

$$REER = \prod_{i=1}^{N} \left(\frac{d_{SI}^{t} e_{i,\,SI}^{t}}{d_{i}^{t}} \right)^{w_i}$$

where d^t_{SI}/d^t_i is defined as relative inflation or relative costs (e.g. ULCs) between the Slovenian economy and trading partner *i*.

Different international institutions' effective exchange rates may move in different ways. There are several reasons. The most significant methodological factors include the choice of trading partners and economic sectors, the updating frequency of individual components of the index (e.g. weights), and the choice of deflators, which come into consideration in the calculation of the real indices. Significant differences in the dynamics of effective exchange rates can also originate in the method for weighting imports and exports. The majority of the latest literature upholds the methodology of double weighting of exports, which also takes account of the effect of third markets.[3] This means that the calculation of the effective exchange rate index takes account of the fact that exporters to foreign markets face domestic producers there and also exporters from third countries. The effect of the third market represents an additional aspect of competition for the domestic economy. There are other methodologies in addition to this one, such as bilateral trade weighting, global trade weighting, and the development of a theoretical general equilibrium model.[4]

Similarly to the effective exchange rates of international institutions, the Bank of Slovenia's effective exchange rates are based on the double export weighting methodology. The choice of trading partners taken into account in the calculation of effective exchange rates is based on the size of the Slovenian economy's imports and exports in the bilateral relationship with the foreign partners, and also depends in part on the availability of the data necessary for calculating the indices.[5] The data for complete merchandise and services trade is taken from the balance of payments database.[6] The data on exchange rates, inflation (HICP) and unit labour costs (ULCs) is taken from publicly available databases.[7]

Interpreting the movement of an effective exchange rate is simple. An increase in the value of the effective exchange rate index is indicative of a greater likelihood of the loss of the domestic economy's international competitiveness. By contrast, a fall in the value is indicative of an improvement in the competitive position. This simplicity of interpretation also has its limitations, as the calculation itself does not capture other (institutional and structural) non-price and non-cost factors, which can also have an impact on the competitiveness of the economy. The major limitations include the fact that the calculation of the effective exchange rate index assumes only one (aggregate) type of product, which is differentiated solely geographically; it does not take account of different products, their qualities, or the complexity of the production processes.[8]

[2] The price deflators most commonly used in the literature are the HICP, the producer price index (PPI) and the GDP deflator. From the cost perspective, use is made of unit labour costs, either for the total economy (ULCs) or solely for manufacturing (ULCM).

[3] Bayoumi and Jayanthi (2005), Buldorini, Makrydakis and Thimann (2002), Klau and Fung (2006), Schmitz, De Clercq, Fidora, Lauro and Pinheiro (2012), Turner and Van't Dack (1993), Zanello and Desruelle (1997).

[4] For more on the various calculation methodologies, see Turner and Van't Dack (1993).

[5] Ukraine and Belarus were omitted from the analysis because of a lack of robust time series, particularly for exchange rates and inflation. Given the need for automation and consistency in the calculation of effective exchange rates, the time series to approximate the Serbian dinar was regressed using Serbian macroeconomic data and the exchange rates of Serbia's largest trading partners. A similar process was used to obtain approximations for inflation in Bosnia and Herzegovina, Montenegro and Kosovo. The explanatory power (R squared) of the regressions is over 95%.

[6] The data for aggregate merchandise and services trade (imports and exports of merchandise and services in all economic sectors) is also used by the European Commission. In calculating the weight of the effective exchange rate, the ECB and the BIS solely take account of the data for manufacturing imports and exports, while the IMF takes account of the import and export sectors in manufacturing, services and non-energy commodities.

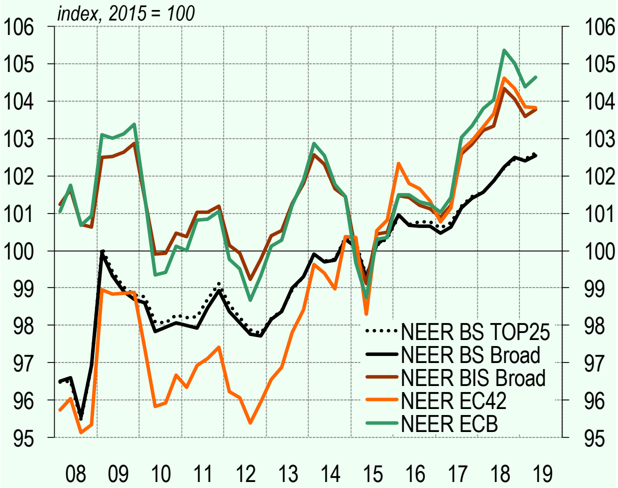
[7] Eurostat, ECB, IMF, BIS, European Commission and Bank of Slovenia.

[8] Armington (1969).

Results

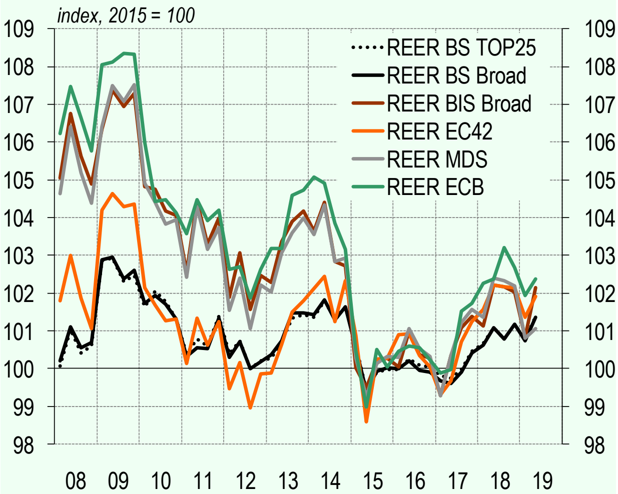
The Bank of Slovenia's effective exchange rates vis-à-vis a wide set of trading partners present the general picture of the price competitiveness of the Slovenian economy[9] and allow for a comparison with other countries and foreign institutions (BS Broad,[10] BS TOP25[11]). At the end of the period of overheating, which coincided with the outbreak of the financial crisis, Slovenia was faced with the decreasing competitiveness of its economy. This was attributable to the relatively strong euro, and in particular to high domestic inflation compared with the rest of the world (see Figures 8.1.1 and 8.1.2, which illustrate the movement in nominal and real interest rates for Slovenia, deflated by the HICP, across various institutions). The exceptionally accommodative euro area monetary policy between the crisis and the period of extremely low inflation then gradually improved the competitive position of the Slovenian economy. The stronger depreciation in the currencies of some of Slovenia's major trading partners has again slightly weakened competitiveness over the last three years, but it remains relatively favourable in a long-term perspective. It is evident from Figures 8.1.1 and 8.1.2 that the Bank of Slovenia's effective exchange rate methodology is closest to the European Commission methodology, as the correlation in the dynamics of the indices is just over 90%. The correlation is lower with the ECB, BIS and IMF indices (averaging just over 60%).[12]

Figure 8.1.1: Nominal effective exchange rate (NEER) for Slovenia



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, Bank of Slovenia calculation.

Figure 8.1.2: Real effective exchange rate (REER) for Slovenia, HICP deflator



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, Bank of Slovenia calculations.

[9] The limited availability of data for unit labour costs in individual countries (data is lacking for Serbia, Russia, Bosnia and Herzegovina, China, Montenegro, Kosovo, Ukraine, Brazil, Indonesia and the US) means that comprehensive comparative analysis of economy-specific effective exchange rates with various institutions and across various regions is subsequently provided only at the level of nominal effective exchange rates and at the level of real effective exchange rates deflated by the HICP. Cost competitiveness is therefore analysed at the end, in a set limited to European countries.

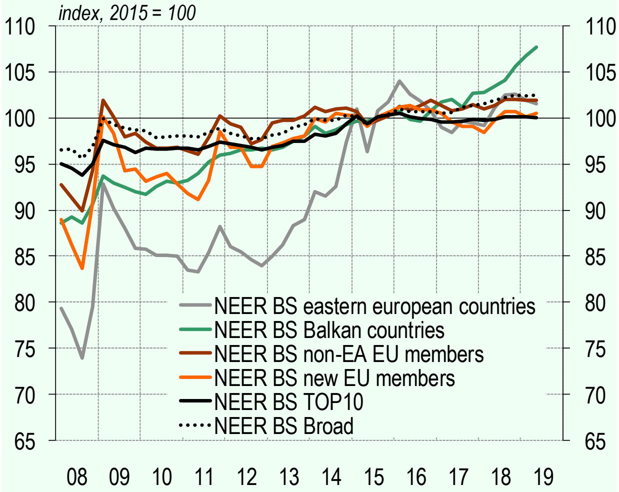
[10] There are 39 trading partners that make up the BS Broad index: Austria (AT), Bosnia and Herzegovina (BA), Belgium (BE), Bulgaria (BG), Brazil (BR), Cyprus (CY), the Czech Republic (CZ), Denmark (DK), Estonia (EE), Finland (FI), France (FR), Greece (GR), Croatia (HR), India (IN), Ireland (IE), Italy (IT), Japan (JP), China (CN), Kosovo (XK), Latvia (LV), Lithuania (LT), Luxembourg (LU), Hungary (HU), Malta (MT), Germany (DE), the Netherlands (NL), Poland (PL), Portugal (PT), Romania (RO), Russia (RU), North Macedonia (MK), Slovakia (SK), Serbia (RS), Spain (ES), Sweden (SE), Switzerland (CH), Turkey (TR), the UK (UK) and the US (US).

[11] There are 25 trading partners that make up the BS TOP25 index: Austria (AT), Bosnia and Herzegovina (BA), Belgium (BE), Bulgaria (BG), the Czech Republic (CZ), Denmark (DK), France (FR), Croatia (HR), Italy (IT), China (CN), Hungary (HU), Germany (DE), the Netherlands (NL), Poland (PL), Romania (RO), Russia (RU), North Macedonia (MK), Slovakia (SK), Serbia (RS), Spain (ES), Sweden (SE), Switzerland (CH), Turkey (TR), the UK (UK) and the US (US).

[12] The correlation coefficient between the BS Broad and BS TOP25 indices is 99%.

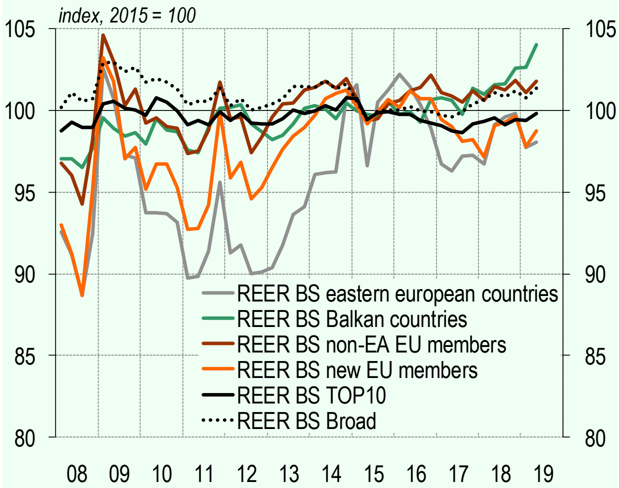
The information value of Slovenia-specific effective exchange rates relative to the broad set of trading partners is being supplemented by the development of regional effective exchange rates.[13] Figures 8.1.3 and 8.1.4 illustrate the regional (nominal and real[14]) effective exchange rate indices. Price competitiveness relative to the countries of the Balkans[15] deteriorated gradually throughout the observation period, and slightly more markedly over the last three years (See Figure 8.1.4). The main factors were the significant depreciations in the Turkish lira and the Romanian leu, and the rise in relative inflation vis-à-vis Croatia and Bosnia and Herzegovina.[16] The competitiveness of the Slovenian economy relative to the other Balkan countries has remained stable over the last three years, and has actually improved here and there (e.g. relative to Serbia). The competitive position of Slovenian exporters improved relative to eastern European countries[17] and newer EU Member States[18] during the post-crisis period, and remained reasonably stable (unchanged) relative to EU Member States outside the euro area.[19] This was primarily the result of a fall in relative inflation vis-à-vis the majority of trading partners, while the bilateral ratios of exchange rates remained more or less unchanged vis-à-vis trading partners outside the euro area over the same period. In recent years the real effective exchange rate relative to the TOP10 grouping,[20] which reflects the competitiveness of the Slovenian economy relative to its ten largest trading partners, has also been stable.

Figure 8.1.3: Regional nominal effective exchange rate (NEER) for Slovenia



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, Bank of Slovenia calculations.

Figure 8.1.4: Regional real effective exchange rate (REER) for Slovenia, HICP deflator



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, Bank of Slovenia calculations.

[13] The borders between regional indices are not strictly defined. Some may partly overlap, as certain trading partners appear in multiple regional effective exchange rate indices.

[14] Solely real effective exchange rates deflated by the HICP, because of limited data availability (see Footnote 9).

[15] The Bank of Slovenia index of Balkan countries covers Bosnia and Herzegovina (BA), Bulgaria (BG), Montenegro (ME), Greece (GR), Croatia (HR), Kosovo (XK), Romania (RO), North Macedonia (MK), Serbia (RS) and Turkey (TR).

[16] Relative inflation is defined as the ratio between Slovenia's HICP and that of Croatia or Bosnia and Herzegovina.

[17] The Bank of Slovenia index of eastern European countries covers the Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Poland (PL), Russia (RU) and Slovakia (SK).

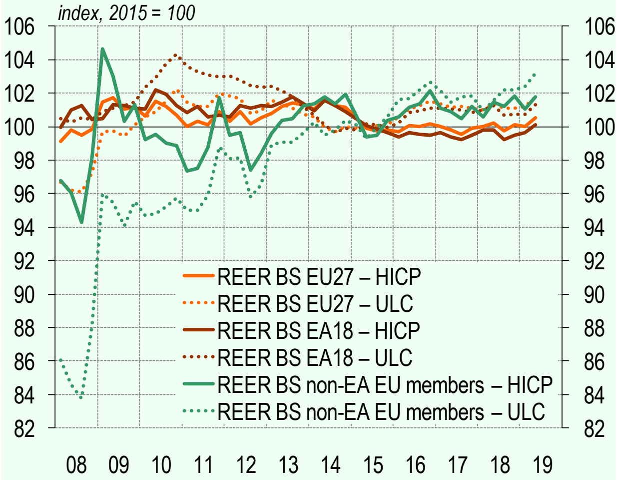
[18] The Bank of Slovenia index of newer EU Member States covers the Czech Republic (CZ), Estonia (EE), Hungary (HU), Latvia (LV), Lithuania (LT), Poland (PL) and Slovakia (SK).

[19] The Bank of Slovenia index of EU Member States outside the euro area covers Bulgaria (BG), the Czech Republic (CZ), Denmark (DK), Croatia (HR), Hungary (HU), Poland (PL), Romania (RO), Sweden (SE) and the UK (UK).

[20] The Bank of Slovenia TOP10 index covers Austria (AT), Bosnia and Herzegovina (BA), France (FR), Croatia (HR), Italy (IT), Hungary (HU), Germany (DE), the Netherlands (NL), Russia (RU) and Serbia (RS).

Cost dynamics are also a major factor in the international competitiveness of firms. Unit labour costs (ULCs) are used most often as an approximation in the literature. Because they are available for a limited set of countries only,[21] the analysis of Slovenia's cost competitiveness is relatively narrow, and focuses solely on European countries. Figure 8.1.5 illustrates the movement in Slovenia's two real effective exchange rates (price-based and cost-based) relative to a basket of three different groups of European countries: the entire EU (EU27), the euro area (EA18) and EU Member States outside the euro area. The price competitiveness of the Slovenian economy relative to euro area countries and EU Member States has remained stable in recent years, while its cost competitiveness has deteriorated slightly, as a result of an increase in relative unit labour costs. It deteriorated most relative to EU Member States outside the euro area, as the largest increases in relative labour costs in the last two years have been vis-à-vis Croatia, Denmark and Sweden.

Figure 8.1.5: Real effective exchange rate (REER) for Slovenia against EU partners, HICP and ULC deflator



Source: Bank of Slovenia, Eurostat, ECB, EC, BIS, IMF, Bank of Slovenia calculations.

Conclusion

The various effective exchange rate indices for Slovenia developed for the purpose of showing a general and regional picture of the competitiveness of the Slovenian economy provide for additional understanding. The calculations reveal that Slovenia's international competitiveness has in general deteriorated slightly over the last three years. The economy has nevertheless succeeded in maintaining a stable price competition position in certain regions, such as eastern European countries, newer EU Member States and EU Member States outside the euro area, which works to the benefit of exporters.

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[21] See Footnote 9.

9 Statistical Appendix

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

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

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

Table 9.1: Consolidated balance sheet of monetary financial institutions

EUR million	2016	2017	2018	19Q1	19Q2	Sep.19	Oct.19	Nov.19
1.1. Claims of the Bank of Slovenia	6,544	7,143	8,168	7,179	7,605	8,292	9,365	9,664
1.2. Claims of other MFIs	8,100	8,504	8,279	8,486	8,689	8,714	8,665	8,546
1. Claims on foreign sectors (foreign assets)	**14,643**	**15,647**	**16,447**	**15,664**	**16,294**	**17,006**	**18,030**	**18,210**
2.1. Claims of the Bank of Slovenia on central government	4,618	6,247	7,165	7,152	7,606	7,791	7,819	7,817
2.2.1.1. Loans	1,506	1,425	1,174	1,129	1,136	1,099	1,076	1,076
2.2.1.2. Securities	4,767	3,744	3,763	3,690	3,922	3,938	3,883	3,852
2.2.1. Claims on central government	6,273	5,170	4,937	4,819	5,058	5,037	4,959	4,928
2.2.2.1. Loans	579	571	580	583	577	574	573	577
2.2.2.2. Securities	0	0	-	-	-	-	-	-
2.2.2. Claims on other general government	579	571	580	583	577	574	573	577
2.2. Claims of other MFIs on general government	6,852	5,740	5,517	5,401	5,635	5,611	5,531	5,505
2.3.1.1. Loans	9,306	9,311	9,177	9,361	9,457	9,540	9,544	9,586
2.3.1.2. Securities	405	334	319	320	292	328	325	296
2.3.1. Claims on nonfinancial corporations	9,711	9,645	9,497	9,681	9,749	9,868	9,869	9,882
2.3.2. Households and non-profit institutions serving households	9,154	9,735	10,370	10,507	10,642	10,833	10,950	10,978
2.3.3.1. Loans	865	1,171	1,070	1,052	1,084	1,074	1,067	1,068
2.3.3.2. Securities	543	395	432	434	413	413	413	413
2.3.3. Claims on nonmonetary financial institutions	1,408	1,566	1,502	1,486	1,496	1,486	1,479	1,481
2.3. Claims of other MFIs on other non-MFIs	20,272	20,946	21,369	21,673	21,887	22,187	22,298	22,341
2. Claims on domestic non-MFIs	**31,743**	**32,934**	**34,050**	**34,226**	**35,128**	**35,589**	**35,648**	**35,663**
3. Remaining assets	**2,192**	**1,461**	**1,477**	**1,584**	**1,656**	**1,653**	**1,678**	**1,624**
Total assets	**48,578**	**50,042**	**51,974**	**51,475**	**53,078**	**54,248**	**55,356**	**55,496**
1.1. Bank of Slovenia	1,267	1,506	63	29	127	144	171	121
1.2. Other MFIs	5,094	4,436	3,986	3,922	4,155	4,094	4,085	4,206
1. Obligations to foreign sectors (foreign liabilities)	**6,362**	**5,943**	**4,049**	**3,951**	**4,282**	**4,237**	**4,255**	**4,327**
2.1.1.1. Banknotes and coins (after 1.1.2007 ECB key)	5,160	5,371	5,655	5,499	5,604	5,669	5,695	5,725
2.1.1.2. Overnight deposits at other MFIs	15,471	17,727	19,877	20,153	20,570	21,131	21,026	21,348
2.1.1.3.1. Non-monetary financial institutions	69	11	76	351	374	315	321	327
2.1.1.3.2. Other government sector	62	107	100	108	109	124	129	129
2.1.1.3. Overnight deposits at the Bank of Slovenia	131	118	176	459	483	439	450	456
2.1.1. Banknotes and coins and overnight liabilities	20,761	23,216	25,708	26,111	26,657	27,239	27,171	27,528
2.1.2.1. Deposits at the Bank of Slovenia	-	-	-	-	-	-	-	-
2.1.2.2. Deposits at other MFIs	6,864	6,127	5,727	5,721	5,718	5,658	5,725	5,662
2.1.2. Time deposits	6,864	6,127	5,727	5,721	5,718	5,658	5,725	5,662
2.1.3. Deposits reedemable at notice up to 3 months	464	473	492	630	675	650	693	662
2.1. Banknotes and coins and deposits up to 2 years	28,089	29,816	31,927	32,463	33,050	33,548	33,589	33,851
2.2. Debt securities, units/shares of money market funds and repos	102	55	78	60	59	56	53	54
2. Banknotes and coins and instruments up to 2 years	**28,190**	**29,871**	**32,006**	**32,523**	**33,109**	**33,603**	**33,642**	**33,905**
3. Long-tern financial obligations to non-MFIs	**1,510**	**1,524**	**1,314**	**1,338**	**1,319**	**1,322**	**1,362**	**1,282**
4. Remaining liabilities	**14,100**	**14,035**	**15,675**	**14,913**	**15,725**	**16,512**	**17,425**	**17,290**
5. Excess of inter-MFI liabilities	**-1,584**	**-1,330**	**-1,069**	**-1,249**	**-1,357**	**-1,427**	**-1,328**	**-1,308**
Total liabilities	**48,578**	**50,042**	**51,974**	**51,475**	**53,078**	**54,248**	**55,356**	**55,496**

Table 9.2: Balance sheet of the Bank of Slovenia

EUR million	2016	2017	2018	19Q1	19Q2	Sep.19	Oct.19	Nov.19
1.1. Gold	112	111	115	118	127	139	138	135
1.2. Receivable form IMF	361	338	372	370	379	386	383	386
1.3. Foreign cash	0	0	0	0	0	0	0	0
1.4. Loans, deposits	588	233	1,464	370	613	1,174	2,323	2,657
1.5. Securities	5,380	6,359	6,114	6,211	6,367	6,463	6,387	6,346
1.6. Other claims	103	103	103	110	120	130	134	139
1. Claims on foreign sectors (foreign assets)	**6,544**	**7,143**	**8,168**	**7,179**	**7,605**	**8,292**	**9,365**	**9,664**
2.1. Claims on central government	4,618	6,247	7,165	7,152	7,606	7,791	7,819	7,817
2.2.1. Loans	714	1,142	1,102	1,052	1,052	982	982	982
2.2.2. Other claims	99	98	3	3	3	51	50	50
2.2. Claims on domestic monetary sector	813	1,240	1,105	1,055	1,055	1,032	1,032	1,032
2.3. Claims on other domestic sectors	2	2	2	2	2	2	2	2
2. Claims on domestic sectors (domestic assets)	**5,433**	**7,489**	**8,271**	**8,209**	**8,663**	**8,825**	**8,853**	**8,850**
3. Remaining assets	**973**	**279**	**314**	**384**	**372**	**343**	**355**	**355**
Total assets	**12,950**	**14,911**	**16,753**	**15,772**	**16,640**	**17,461**	**18,573**	**18,869**
1. Banknotes and coins (ECB key from 1.1.2007 on)	**5,160**	**5,371**	**5,655**	**5,499**	**5,604**	**5,669**	**5,695**	**5,725**
2.1.1.1.1. Overnight	2,252	2,939	3,391	3,385	3,056	2,990	3,119	3,653
2.1.1.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.1.1. Domestic currency	2,252	2,939	3,391	3,385	3,056	2,990	3,119	3,653
2.1.1.2. Foreign currency	-	-	-	-	-	-	-	-
2.1.1. Other MFIs	2,252	2,939	3,391	3,385	3,056	2,990	3,119	3,653
2.1.2.1.1. Overnight	1,949	2,521	3,704	1,899	2,107	2,312	3,229	2,969
2.1.2.1.2. With agreed maturity	-	-	-	-	-	-	-	-
2.1.2.1. In domestic currency	1,949	2,521	3,704	1,899	2,107	2,312	3,229	2,969
2.1.2.2. Foreign currency	78	56	5	6	5	5	6	6
2.1.2. General government	2,027	2,577	3,708	1,904	2,111	2,317	3,235	2,975
2.1.3.1. Non-financial corporations	-	-	-	-	-	-	-	-
2.1.3.2. Non-monetary financial institutions	69	11	76	351	374	315	321	327
2.1.3. Other domestic sectors	69	11	76	351	374	315	321	327
2.1. Domestic sectors	4,348	5,527	7,176	5,641	5,541	5,621	6,675	6,955
2.2. Foreign sectors	1,267	1,506	63	29	127	144	171	121
2. Deposits	**5,615**	**7,033**	**7,238**	**5,670**	**5,667**	**5,765**	**6,845**	**7,076**
3.1. Domestic currency	-	-	-	-	-	-	-	-
3.2. Foreign currency	-	-	-	-	-	-	-	-
3. Issued securities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
4. SDR allocation	**275**	**256**	**262**	**267**	**264**	**270**	**268**	**270**
5. Capital and reserves	**1,748**	**1,883**	**1,945**	**2,275**	**2,733**	**3,021**	**2,920**	**2,888**
6. Remaining liabilities	**152**	**367**	**1,653**	**2,061**	**2,371**	**2,736**	**2,845**	**2,911**
Total liabilities	**12,950**	**14,911**	**16,753**	**15,772**	**16,640**	**17,461**	**18,573**	**18,869**

Table 9.3: Balance sheet of other monetary financial institutions

EUR million	2016	2017	2018	19Q1	19Q2	Sep.19	Oct.19	Nov.19
1.1.1. Cash	322	355	425	352	364	397	403	363
1.1.2. Accounts and deposits at the Bank of Slovenia, other claims	2,252	2,939	3,391	3,385	3,056	2,990	3,119	3,653
1.1.3. Securities of the Bank of Slovenia	-	-	-	-	-	-	-	-
1.1. Claims on Bank of Slovenia	2,574	3,294	3,817	3,737	3,419	3,387	3,522	4,016
1.2.1. Loans	1,061	873	865	804	848	811	797	784
1.2.2. Debt securities	256	71	18	17	97	93	94	94
1.2.3. Shares and other equity	2	2	1	0	0	0	0	0
1.2. Claims on other MFI's	1,319	947	883	822	946	904	891	878
1.3.1. Loans	21,410	22,213	22,371	22,630	22,896	23,120	23,210	23,286
1.3.2. Debt securities	5,030	3,775	3,797	3,724	3,917	3,969	3,909	3,875
1.3.3. Shares and other equity	685	698	717	720	710	710	711	685
1.3. Claims on nonmonetry sectors	27,125	26,687	26,885	27,075	27,522	27,798	27,829	27,846
1. Claims on domestic sectors (domestic assets)	**31,018**	**30,927**	**31,585**	**31,633**	**31,887**	**32,090**	**32,243**	**32,741**
2.1.1. Cash	38	35	35	36	52	45	45	40
2.1.2. Loans	2,628	2,154	1,681	1,859	1,998	2,022	1,982	1,891
2.1.3. Debt securities	1,165	1,333	1,311	1,345	1,392	1,361	1,372	1,385
2.1.4 Shares and other equity	567	579	578	578	578	578	578	578
2.1. Claims on foreign monetary sectors	4,398	4,100	3,605	3,819	4,020	4,006	3,976	3,894
2.2.1. Loans	1,155	899	1,023	1,035	1,129	1,180	1,162	1,153
2.2.2. Debt securities	2,151	3,190	3,346	3,330	3,240	3,226	3,225	3,197
2.2.3. Shares and other equity	396	314	305	301	300	302	302	302
2.2. Claims on foreign nonmonetary sectors	3,701	4,404	4,674	4,667	4,669	4,707	4,689	4,652
2. Claims on foreign sectors (foreign assets)	**8,100**	**8,504**	**8,279**	**8,486**	**8,689**	**8,714**	**8,665**	**8,546**
3. Remaining assets	**1,074**	**1,015**	**762**	**1,123**	**1,248**	**1,252**	**1,225**	**1,133**
Total assets	**40,191**	**40,447**	**40,626**	**41,242**	**41,824**	**42,056**	**42,133**	**42,420**
1.1.1. Deposits, loans from the Bank of Slovenia	714	1,142	1,102	1,052	1,052	982	982	982
1.1.2. Deposits, loans from other MFIs	1,123	962	931	911	977	925	946	909
1.1.3. Debt securities issued	18	12	-	-	15	15	16	16
1.1. Laibilities to monetary sectors	1,855	2,115	2,033	1,963	2,043	1,921	1,944	1,906
1.2.1.1. Overnight	15,038	17,287	19,396	19,649	20,022	20,592	20,523	20,824
1.2.1.2. With agreed maturity	9,076	8,125	7,477	7,590	7,480	7,372	7,444	7,363
1.2.1.3. Reedemable at notice	615	548	561	740	754	739	805	781
1.2.1. Deposits in domestic currency	24,729	25,960	27,434	27,979	28,257	28,703	28,772	28,968
1.2.2. Deposits in foreign currency	632	593	626	620	662	660	623	637
1.2.3. Debt securities issued	38	15	15	15	31	30	69	69
1.2. Liabilities to nonmonetary sectors	25,400	26,569	28,075	28,614	28,950	29,393	29,464	29,675
1. Obligations to domestic sectors (domestic liabilities)	**27,254**	**28,683**	**30,108**	**30,577**	**30,993**	**31,315**	**31,408**	**31,581**
2.1.1. Deposits	2,084	1,627	1,550	1,503	1,545	1,531	1,502	1,152
2.1.2. Debt securities issued	710	327	111	111	310	310	309	428
2.1. Liabilities to foreign monetry sectors	2,794	1,954	1,660	1,613	1,854	1,841	1,812	1,581
2.2.1. Deposits	1,738	1,975	1,693	1,667	1,626	1,580	1,550	1,903
2.2.2. Debt securities issued	23	22	22	22	35	35	85	85
2.2. Liabilities to foreign nonmonetary sectors	1,761	1,997	1,715	1,688	1,662	1,614	1,634	1,988
2. Obligations to foreign sectors (foreign liabilities)	**4,555**	**3,952**	**3,375**	**3,302**	**3,516**	**3,455**	**3,446**	**3,569**
3. Capital and reserves	**4,841**	**4,904**	**4,886**	**4,995**	**4,965**	**5,055**	**5,072**	**5,093**
4. Remaining liabilities	**3,540**	**2,908**	**2,256**	**2,368**	**2,350**	**2,231**	**2,206**	**2,178**
Total liabilities	**40,191**	**40,447**	**40,626**	**41,242**	**41,824**	**42,056**	**42,133**	**42,420**

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

in % on annual level	2015	2016	2017	2018	Sep.19	Oct.19	Nov.19
1. Interest rates of new loans							
1.1. Loans to households							
Households, revolving loans and overdrafts	8.01	7.84	7.85	7.81	7.76	7.77	7.77
Households, extended credit	7.84	7.73	7.75	7.63	7.56	7.57	7.53
Loans, households, consumption, floating and up to 1 year initial rate fixation	4.19	4.23	4.44	4.65	4.57	4.73	4.61
Loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.64	5.66	5.92	6.04	5.88	6.02	6.03
Loans, households, consumption, over 5 years initial rate fixation	5.28	6.12	6.20	6.29	6.20	6.19	6.23
C. loans, households, consumption, floating and up to 1 year initial rate fixation	3.82	3.47	3.69	3.74	3.48	3.65	2.98
C. loans, households, consumption, over 1 and up to 5 years initial rate fixation	5.61	5.27	4.89	5.11	4.63	5.38	4.80
C. loans, households, consumption, over 5 year initial rate fixation	5.58	5.05	5.19	5.06	4.97	4.88	5.86
APRC, Loans to households for consumption	7.42	7.55	7.73	7.64	7.68	7.69	7.76
Loans, households, house purchase, floating and up to 1 year initial rate fixation	2.22	2.04	1.99	1.89	1.84	1.83	1.83
Loans, households, house purchase, over 1 and up to 5 years initial rate fixation	3.87	3.58	2.75	3.22	2.70	2.86	2.54
Loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.16	2.49	2.65	2.74	2.62	2.51	2.50
Loans, households, house purchase, over 10 years initial rate fixation	3.16	2.56	2.91	2.95	2.81	2.76	2.71
C. loans, households, house purchase variabel and up to years initial rate fixation	2.21	2.02	1.99	1.87	1.84	1.93	1.85
C. loans, households, house purchase, over 1 and up to 5 years initial rate fixation	2.63	2.12	2.38	3.01	3.05	2.88	2.46
C. loans, households, house purchase, over 5 and up to 10 years initial rate fixation	3.04	2.38	2.34	2.56	2.39	2.44	2.26
C. loans, households, house purchase, over 10 years initial rate fixation	3.12	2.53	2.85	2.89	2.76	2.82	2.68
APRC, Loans to households for house purchase	2.85	2.58	2.77	2.75	2.57	2.55	2.53
Loans, households, other purposes, floating and up to 1 year initial rate fixation	3.51	3.49	3.58	3.68	4.42	4.09	4.17
Loans, households, other purposes, over 1 and up to 5 years initial rate fixation	5.93	5.28	5.30	4.78	4.42	4.79	4.96
Loans, households, other purposes, over 5 years initial rate fixation	7.79	5.92	5.35	6.73	6.56	6.66	6.88
1.2. Loans to nonfinancial corporations (S.11)							
S.11, bank overdraft	3.45	2.81	2.41	2.22	2.13	2.11	2.10
S.11, extended credit	7.16	6.70	-	-	-	-	-
Loans, S.11, up to EUR 0,25 million, floating and up to 3 months initial rate fixation	3.38	2.74	2.69	2.32	2.51	2.59	2.76
Loans, S.11, up to EUR 0,25 million, over 3 months and up to 1 year initial rate fixation	3.50	3.31	2.89	2.50	2.30	2.92	2.76
Loans, S.11, up to EUR 0,25 million, over 1 and up to 3 years initial rate fixation	4.23	4.52	3.98	3.72	3.08	3.35	3.49
Loans, S.11, up to EUR 0,25 million, over 3 and up to 5 years initial rate fixation	5.36	4.57	4.03	4.24	4.34	4.37	4.26
Loans, S.11, up to EUR 0,25 million, over 5 and up to 10 years initial rate fixation	4.87	4.56	3.51	4.16	4.67	4.67	4.09
Loans, S.11, up to EUR 0,25 million, over 10 years initial rate fixation	3.34	2.92	2.22	4.25	-	4.36	4.21
Loans, S.11, over EUR 0,25 and up to 1 million, floating and up to 3 months initial rate fixation	2.49	2.19	1.89	2.04	1.75	1.69	1.50
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 months and up to 1 year initial rate fixation	2.57	2.49	2.09	2.09	1.88	2.11	2.24
Loans, S.11, over EUR 0,25 and up to 1 million, over 1 and up to 3 years initial rate fixation	3.06	1.21	1.94	1.87	2.25	3.56	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 3 and up to 5 years initial rate fixation	-	1.70	-	1.31	-	1.92	1.66
Loans, S.11, over EUR 0,25 and up to 1 million, over 5 and up to 10 years initial rate fixation	3.06	1.94	2.57	1.74	0.00	1.51	-
Loans, S.11, over EUR 0,25 and up to 1 million, over 10 years initial rate fixation	-	2.10	-	-	2.38	-	2.84
Loans, S.11, over EUR 1 million, floating and up to 3 months initial rate fixation	2.61	2.61	2.23	1.85	1.09	1.70	1.21
Loans, S.11, over EUR 1 million, over 3 months and up to 1 year initial rate fixation	1.87	2.35	1.58	1.76	2.27	2.06	3.06
Loans, S.11, over EUR 1 million, over 1 and up to 3 years initial rate fixation	1.00	-	-	0.75	3.56	2.32	3.66
Loans, S.11, over EUR 1 million, over 3 and up to 5 years initial rate fixation	-	1.06	1.15	-	-	-	1.15
Loans, S.11, over EUR 1 million, over 5 and up to 10 years initial rate fixation	1.79	1.92	-	1.47	1.30	1.63	1.38
Loans, S.11, over EUR 1 million, over 10 years initial rate fixation	3.56	2.23	1.88	2.04	1.31	0.98	-
2. Interest rates of new deposits							
2.1. Households deposits							
Households, overnight deposits	0.03	0.02	0.01	0.01	0.01	0.01	0.01
Deposits, households, agreed maturity up to 1 year	0.28	0.23	0.14	0.17	0.16	0.16	0.17
Deposits, households, agreed maturity over 1 and up to 2 years	0.70	0.44	0.51	0.54	0.28	0.32	0.30
Deposits, households, agreed maturity over 2 years	1.07	0.72	0.69	0.89	0.68	0.69	1.04
2.2. Deposits of nonfinancial corporations (S.11)							
S.11, overnight deposits	0.02	0.01	0.00	0.00	0.00	0.00	0.00
Deposits, S.11, agreed maturity up to 1 year	0.06	0.05	0.04	0.00	0.01	0.02	0.03
Deposits, S.11, agreed maturity over 1 and up to 2 years	0.57	0.20	0.12	0.19	0.11	0.10	0.05
Deposits, S.11, agreed maturity over 2 years	1.07	0.49	0.26	0.19	0.19	0.22	0.34
2.3. Deposits redeemable at notice of households and nonfinancial sector together							
Deposits redeemable at notice, up to 3 months notice	0.10	0.02	0.00	0.00	0.00	0.00	0.00
Deposits redeemable at notice, over 3 months notice	0.93	0.55	0.52	0.89	0.75	0.84	0.89

Table 9.5: International investment position

EUR million		2015	2016	2017	18Q4	19Q1	19Q2	19Q3
	NET INTERNATIONAL INVESTMENT POSITION (1-2)	**-12,115**	**-11,646**	**-10,421**	**-8,670**	**-8,440**	**-9,076**	**-8,498**
1	**ASSETS**	**45,069**	**45,352**	**46,563**	**49,244**	**51,271**	**53,069**	**54,856**
1.1	**Direct investment**	**7,252**	**7,767**	**8,328**	**8,780**	**9,263**	**9,166**	**9,280**
1.1.1	Equity	3,959	4,149	4,345	4,709	4,752	4,736	4,790
1.1.2	Debt instruments	3,293	3,618	3,984	4,071	4,510	4,430	4,490
1.2	**Portfolio investment**	**15,522**	**17,632**	**20,649**	**20,611**	**21,505**	**21,807**	**22,277**
1.2.1	Equity and investment fund shares	4,366	4,430	5,017	4,842	5,231	5,298	5,538
1.2.2	Debt securities	11,156	13,202	15,632	15,769	16,274	16,509	16,739
1.3	**Financial derivatives**	**1,266**	**1,086**	**302**	**384**	**293**	**505**	**511**
1.4	**Other investment**	**20,243**	**18,161**	**16,540**	**18,653**	**19,352**	**20,684**	**21,871**
1.4.1	Other equity	1,160	1,195	1,279	1,341	1,391	1,408	1,423
1.4.2	Currency and deposits	11,371	9,296	7,187	8,785	8,833	9,926	11,003
1.4.3	Loans	3,122	2,670	2,391	2,545	2,631	2,947	3,006
1.4.4	Insurance, pension and standardized guarantee schemes	129	141	148	141	149	151	153
1.4.5	Trade credit and advances	3,890	4,202	4,801	5,206	5,702	5,623	5,632
1.4.6	Other accounts receivable	571	656	734	636	646	630	657
1.5	**Reserve assets**	**787**	**705**	**743**	**816**	**858**	**906**	**917**
1.5.1	Monetary gold	100	112	111	115	118	127	139
1.5.2	Special drawing rights	264	207	235	242	246	243	249
1.5.3	Reserve position in the IMF	104	154	103	131	125	136	138
1.5.4	Other reserve assets	320	232	294	329	369	400	390
2	**LIABILITIES**	**57,184**	**56,998**	**56,984**	**57,913**	**59,710**	**62,145**	**63,354**
2.1	**Direct investment**	**13,356**	**14,996**	**16,316**	**17,870**	**18,720**	**18,760**	**19,133**
2.1.1	Equity	9,804	11,563	12,590	13,803	14,550	14,711	14,874
2.1.2	Debt instruments	3,552	3,433	3,726	4,067	4,170	4,050	4,259
2.2	**Portfolio investment**	**23,959**	**21,439**	**21,200**	**20,867**	**21,055**	**21,696**	**22,235**
2.2.1	Equity and investment fund shares	1,038	966	1,085	1,751	1,778	1,883	1,802
2.2.2	Debt securities	22,921	20,473	20,115	19,116	19,277	19,813	20,433
2.3	**Financial derivatives**	**163**	**139**	**81**	**217**	**931**	**1,836**	**1,872**
2.4	**Other investment**	**19,707**	**20,424**	**19,388**	**18,960**	**19,005**	**19,853**	**20,115**
2.4.1	Other equity	32	36	37	44	44	43	43
2.4.2	Currency and deposits	2,277	3,413	3,747	3,226	3,336	3,765	4,089
2.4.3	Loans	12,851	12,155	10,337	9,986	9,884	10,034	10,052
2.4.4	Insurance, pension and standardized guarantee schemes	221	213	219	228	268	289	299
2.4.5	Trade credit and advances	3,433	3,711	4,161	4,602	4,596	4,702	4,678
2.4.6	Other accounts payable	617	620	631	612	610	756	692
2.4.7	Special drawing rights	275	275	256	262	267	264	270

Table 9.6: Gross external debt

EUR million	2016	2017	2018	19Q1	19Q2	19Q3	Nov. 19
TOTAL (1+2+3+4+5)	**44,293**	**43,191**	**42,099**	**42,408**	**43,673**	**44,795**	**44,693**
1 GENERAL GOVERNMENT	**23,171**	**21,940**	**21,045**	**21,058**	**21,894**	**22,788**	**22,206**
1.1 Short-term, of that	**1,522**	**652**	**732**	**607**	**883**	**1,137**	**981**
Debt securities	22	75	85	105	66	69	42
Loans	1,058	273	336	239	432	717	596
Trade credit and advances	42	35	35	34	45	41	33
Other debt liabilities	400	269	276	229	341	310	310
1.2 Long-term, of that	**21,649**	**21,288**	**20,314**	**20,451**	**21,011**	**21,651**	**21,225**
Debt securities	19,877	19,517	18,602	18,743	19,332	19,990	19,570
Loans	1,768	1,769	1,709	1,705	1,669	1,659	1,650
2 CENTRAL BANK	**2,722**	**3,011**	**2,661**	**2,824**	**3,292**	**3,659**	**3,827**
2.1 Short-term, of that	**2,447**	**2,755**	**2,399**	**2,558**	**3,028**	**3,389**	**3,557**
Currency and deposits	2,447	2,755	2,399	2,558	3,028	3,389	3,557
2.2 Long-term, of that	**275**	**256**	**262**	**267**	**264**	**270**	**270**
Special drawing rights (allocations)	275	256	262	267	264	270	270
3 DEPOSIT TAKING CORPORATIONS, except the Central Bank	**4,117**	**3,782**	**3,344**	**3,305**	**3,430**	**3,299**	**3,426**
3.1 Short-term	**817**	**1,058**	**927**	**907**	**993**	**941**	**930**
Currency and deposits	578	765	669	622	621	599	614
Debt securities	...	...	...	...	...	...	...
Loans	221	200	251	235	288	297	245
Trade credit and advances	...	...	...	...	...	...	...
Other debt liabilities	18	92	7	50	85	45	72
3.2 Long-term	**3,300**	**2,724**	**2,418**	**2,398**	**2,436**	**2,359**	**2,496**
Currency and deposits	387	227	159	156	116	101	98
Debt securities	287	168	88	89	187	145	308
Loans	2,620	2,323	2,162	2,144	2,131	2,110	2,087
Trade credit and advances	5	6	7	3	1	2	1
Other debt liabilities	1	1	1	6	1	1	1
4 OTHER SECTORS	**10,851**	**10,731**	**10,982**	**11,049**	**11,008**	**10,775**	**10,960**
4.1 Short-term, of that	**4,250**	**4,596**	**5,182**	**5,255**	**5,348**	**5,258**	**5,377**
Debt securities	2	0	1	1	3	3	2
Loans	447	281	375	460	458	374	357
Trade credit and advances	3,649	4,094	4,540	4,540	4,631	4,618	4,738
Other debt liabilities	153	220	267	254	256	263	280
4.2 Long-term, of that	**6,600**	**6,135**	**5,800**	**5,795**	**5,660**	**5,517**	**5,583**
Debt securities	284	355	340	339	226	226	278
Loans	6,041	5,490	5,154	5,102	5,058	4,898	4,913
Trade credit and advances	16	26	17	17	17	22	22
Other debt liabilities	259	264	289	337	359	371	371
5 DIRECT INVESTMENT: intercompany lending	**3,433**	**3,726**	**4,067**	**4,170**	**4,050**	**4,273**	**4,274**
NET EXTERNAL DEBT POSITION	**9,803**	**7,572**	**4,131**	**2,814**	**2,564**	**2,216**	**1,518**

Table 9.7: Balance of payments

EUR million	2016	2017	2018	19Q1	19Q2	19Q3	Nov. 19
I. Current account	**1,942**	**2,635**	**2,593**	**667**	**852**	**782**	**387**
1. Goods	**1,536**	**1,579**	**1,128**	**417**	**434**	**202**	**175**
1.1. Export of goods	**24,991**	**28,478**	**31,133**	**7,982**	**8,295**	**7,833**	**2,744**
Export f.o.b.	24,971	28,265	30,858	8,238	8,567	8,303	2,936
Coverage adjustment	-194	-36	18	-336	-393	-576	-231
Net export of goods under merchanting	186	229	237	76	114	97	38
Nonmonetary gold	29	20	21	5	6	9	0
1.2. Import of goods	**23,454**	**26,899**	**30,005**	**7,565**	**7,860**	**7,631**	**2,568**
Import c.i.f.	24,112	27,606	30,706	8,097	8,709	8,401	2,848
Coverage adjustment	-5	34	120	-322	-627	-553	-206
Valuation adjustment	-680	-778	-867	-219	-227	-220	-74
Nonmonetary gold	27	37	45	9	5	4	0
2. Services	**1,925**	**2,241**	**2,678**	**586**	**748**	**916**	**264**
2.1. Export of services, of that	**6,501**	**7,288**	**7,963**	**1,798**	**2,100**	**2,436**	**686**
Transport	1,839	2,076	2,335	600	622	601	195
Travel	2,271	2,523	2,704	486	669	1,041	159
Construction services	374	422	497	141	145	145	55
Telecomm., computer and inform. services	552	544	540	122	155	156	67
Other business services	970	1,248	1,341	293	348	330	140
2.2. Import of services, of that	**4,575**	**5,047**	**5,285**	**1,212**	**1,352**	**1,520**	**422**
Transport	917	1,005	1,007	257	275	263	89
Travel	1,176	1,322	1,389	247	343	523	85
Construction services	104	126	177	38	46	48	22
Telecomm., computer and inform. services	528	539	543	130	143	143	47
Other business services	1,147	1,324	1,442	354	374	355	110
3. Primary income	**-1,139**	**-886**	**-807**	**-121**	**-232**	**-216**	**-40**
3.1. Receipts	**1,259**	**1,374**	**1,592**	**418**	**400**	**324**	**139**
Compensation of employees	355	378	454	87	107	109	44
Investment	637	703	792	176	197	190	57
Other primary income	267	293	345	155	96	24	39
3.2. Expenditure	**2,398**	**2,260**	**2,399**	**539**	**632**	**540**	**179**
Compensation of employees	132	149	173	42	53	51	17
Investment	2,081	1,929	2,022	436	530	446	147
Other primary income	184	182	204	61	49	43	16
4. Secondary income	**-381**	**-299**	**-406**	**-215**	**-98**	**-119**	**-12**
4.1. Receipts	**713**	**828**	**789**	**182**	**185**	**200**	**73**
4.2. Expenditure	**1,094**	**1,127**	**1,196**	**397**	**283**	**319**	**86**

Table 9.8: Balance of payments – continued

EUR million	2016	2017	2018	19Q1	19Q2	19Q3	Nov. 19
II. Capital account	**-303**	**-324**	**-225**	**-21**	**-6**	**-27**	**30**
1. Nonproduced nofinancial assets	-45	-76	-47	30	39	1	28
2. Capital transfers	-258	-248	-178	-51	-45	-28	2
III. Financial account	**1,187**	**2,088**	**2,527**	**605**	**379**	**532**	**200**
1. Direct investment	**-864**	**-495**	**-933**	**-440**	**-131**	**-129**	**-21**
Assets	434	570	362	415	-86	45	51
Equity and reinvested earnings	273	230	432	6	-16	54	24
Debt instruments	161	340	-70	409	-70	-10	27
Liabilities	1,298	1,065	1,295	855	45	174	71
Equity and reinvested earnings	1,503	932	1,075	743	156	172	53
Debt instruments	-205	133	220	112	-110	2	19
2. Portfolio investment	**5,023**	**2,987**	**750**	**548**	**-108**	**-125**	**-22**
Assets	2,018	2,848	498	294	47	205	44
Equity and investment fund shares	-91	330	123	-26	-8	114	0
Debt securities	2,109	2,518	375	321	56	91	45
Liabilities	-3,005	-138	-252	-254	155	330	66
Equity and investment fund shares	48	39	543	-15	99	-1	0
Debt securities	-3,053	-178	-795	-239	56	332	66
3. Financial derivatives	**-270**	**-185**	**-86**	**-184**	**5**	**-8**	**2**
4. Other investment	**-2,606**	**-308**	**2,743**	**659**	**569**	**828**	**255**
4.1. Assets	**-2,221**	**-1,381**	**2,031**	**698**	**1,413**	**1,002**	**449**
Other equity	35	72	68	45	15	12	3
Currency and deposits	-2,132	-2,076	1,590	19	1,144	1,082	397
Loans	-203	-115	207	51	324	53	14
Insurance, pension and stand. guar. schemes	10	5	-7	8	1	1	...
Trade credits and advances	167	615	303	569	-61	-144	-7
Other assets	-97	118	-130	6	-10	-2	42
4.2. Liabilities	**385**	**-1,073**	**-713**	**38**	**843**	**174**	**194**
Other equity	4	20	2	0	-1	0	0
Currency and deposits	1,128	365	-524	110	425	322	29
Loans	-818	-1,853	-490	-109	145	57	37
Insurance, pension and stand. guar. schemes	-8	5	20	40	13	9	...
Trade credits and advances	137	411	331	2	116	-141	110
Other liabilities	-57	-21	-52	-5	144	-72	18
Special drawing reights (SDR)	0	0	0	0	0	0	0
5. Reserve assets	**-97**	**89**	**52**	**21**	**44**	**-33**	**-15**
IV. Net errors and omissions	**-452**	**-223**	**158**	**-41**	**-467**	**-223**	**-218**

Table 9.9: Non-consolidated financial assets – outstanding amounts

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	189,465	197,532	203,472	203,830	207,347	209,795	214,093	217,616
Monetary gold and SDRs	320	346	349	344	356	364	370	389
Currency and deposits	45,867	46,776	49,233	48,979	51,961	50,933	52,392	54,012
Debt securities	26,146	28,530	28,774	29,130	29,251	29,447	30,493	31,071
Loans	36,087	35,974	36,273	36,431	36,342	36,912	37,529	37,743
Shares	19,358	20,218	21,261	20,829	19,566	19,777	19,688	19,604
Other equity	26,826	29,327	29,784	29,861	32,284	33,011	33,800	34,255
Investment fund shares/units	4,198	4,703	4,838	4,841	4,466	5,064	5,187	5,525
Insurance and pension schemes	7,737	8,003	8,163	8,222	8,073	8,357	8,557	8,646
Other	22,927	23,655	24,795	25,193	25,048	25,929	26,077	26,371
Non-financial corporations								
Total	42,210	45,188	46,363	46,542	47,178	48,388	48,637	48,862
Currency and deposits	6,399	7,107	7,141	7,273	7,528	7,551	7,392	7,803
Debt securities	127	109	121	121	112	107	143	122
Loans	5,536	5,510	5,745	5,599	5,490	5,818	6,100	6,078
Shares	2,665	2,507	2,560	2,480	2,475	2,366	2,346	2,302
Other equity	11,940	13,193	13,138	13,266	13,956	13,930	14,117	14,244
Investment fund shares/units	52	67	63	63	58	199	202	211
Insurance and pension schemes	438	444	473	465	442	469	496	476
Other	15,053	16,251	17,121	17,275	17,117	17,948	17,841	17,625
Monetary financial institutions								
Total	51,932	54,397	55,436	55,178	56,595	56,115	57,545	58,657
Monetary gold and SDRs	320	346	349	344	356	364	370	389
Currency and deposits	8,671	8,067	8,631	7,938	9,327	8,481	8,656	9,090
Debt securities	18,971	21,263	21,557	21,843	21,894	21,897	22,756	23,129
Loans	22,596	23,097	23,152	23,363	23,362	23,647	23,989	24,293
Shares	552	729	748	749	771	772	743	719
Other equity	282	351	406	405	383	375	370	371
Investment fund shares/units	6	5	3	3	3	14	25	35
Insurance and pension schemes	38	40	41	41	41	41	41	41
Other	497	498	549	491	457	525	595	591
Other financial institutions								
Total	17,548	18,151	18,781	18,592	18,414	19,142	19,451	19,726
Currency and deposits	1,256	1,163	1,380	1,252	1,188	1,401	1,454	1,375
Debt securities	6,431	6,520	6,425	6,468	6,601	6,749	6,908	7,119
Loans	2,876	2,859	2,850	2,849	2,864	2,843	2,761	2,717
Shares	3,377	3,688	3,989	3,940	3,684	3,815	3,818	3,873
Other equity	625	686	659	654	857	855	912	909
Investment fund shares/units	2,140	2,354	2,430	2,369	2,208	2,385	2,438	2,608
Insurance and pension schemes	188	199	239	222	204	221	227	224
Other	655	681	809	838	809	873	932	900
General government								
Total	31,350	30,251	31,456	31,491	31,857	31,538	32,871	34,226
Currency and deposits	7,060	6,726	7,332	7,399	8,475	7,427	8,213	8,781
Debt securities	447	416	431	437	421	461	466	484
Loans	4,122	3,467	3,354	3,397	3,398	3,366	3,427	3,404
Shares	9,828	10,230	10,754	10,512	9,527	9,731	9,644	9,586
Other equity	5,563	5,706	5,846	5,758	6,009	6,619	7,082	7,353
Investment fund shares/units	252	296	311	320	297	331	337	372
Insurance and pension schemes	21	16	11	16	23	18	25	26
Other	4,057	3,396	3,417	3,652	3,706	3,584	3,677	4,220
Households and NPISHs								
Total	46,425	49,545	51,435	52,027	53,303	54,612	55,589	56,145
Currency and deposits	22,481	23,713	24,750	25,118	25,441	26,072	26,676	26,962
Debt securities	171	222	241	260	222	234	220	217
Loans	957	1,041	1,171	1,223	1,227	1,239	1,253	1,252
Shares	2,936	3,065	3,209	3,148	3,109	3,092	3,137	3,124
Other equity	8,417	9,391	9,735	9,777	11,080	11,233	11,319	11,377
Investment fund shares/units	1,748	1,981	2,031	2,086	1,900	2,135	2,185	2,299
Insurance and pension schemes	7,053	7,304	7,399	7,478	7,363	7,608	7,766	7,879
Other	2,663	2,830	2,900	2,936	2,960	2,999	3,032	3,035
Rest of the world								
Total	57,783	57,659	57,683	56,993	58,567	59,892	62,246	65,296
Monetary gold and SDRs	275	257	261	261	263	267	264	270
Currency and deposits	6,273	6,292	5,159	5,359	5,650	5,676	6,086	6,343
Debt securities	20,889	20,555	20,438	19,744	19,516	19,451	20,113	20,734
Loans	11,806	10,309	10,332	10,419	10,345	10,202	10,405	10,628
Shares	5,160	5,275	5,395	5,459	6,428	6,672	6,826	6,759
Other equity	7,594	8,451	8,755	8,944	9,201	9,439	9,431	9,551
Investment fund shares/units	25	29	30	31	29	32	33	38
Insurance and pension schemes	213	219	266	252	228	268	289	299
Other	5,547	6,274	7,046	6,526	6,906	7,885	8,798	10,675

Table 9.10: Non-consolidated liabilities – outstanding amounts

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	201,939	208,574	213,280	212,582	216,921	218,604	223,416	227,957
Monetary gold and SDRs	275	257	261	261	263	267	264	270
Currency and deposits	42,484	45,557	46,580	46,751	48,450	47,370	48,125	48,995
Debt securities	33,513	33,041	33,291	32,595	32,629	32,317	33,775	34,699
Loans	42,949	41,637	41,907	42,217	41,864	42,172	42,628	43,003
Shares	21,359	21,781	22,785	22,308	22,332	22,587	22,611	22,408
Other equity	30,047	33,274	33,985	34,062	36,788	37,687	38,414	38,947
Investment fund shares/units	2,374	2,572	2,611	2,648	2,396	2,629	2,692	2,848
Insurance and pension schemes	7,810	8,074	8,280	8,326	8,161	8,475	8,695	8,792
Other	21,129	22,381	23,580	23,414	24,038	25,098	26,211	27,995
Non-financial corporations								
Total	79,254	82,894	84,881	84,619	87,103	88,105	88,250	88,045
Debt securities	955	1,010	1,060	1,046	977	970	763	759
Loans	23,606	22,825	23,030	23,225	22,661	22,956	23,059	22,963
Shares	12,762	12,810	13,464	13,032	13,174	13,088	13,195	13,028
Other equity	26,625	29,603	30,117	30,288	32,581	33,178	33,355	33,601
Other	15,307	16,646	17,209	17,028	17,710	17,913	17,876	17,693
Monetary financial institutions								
Total	49,882	52,727	53,857	53,671	55,284	54,836	56,364	57,435
Monetary gold and SDRs	275	257	261	261	263	267	264	270
Currency and deposits	41,659	44,669	45,734	45,906	47,534	46,483	47,273	48,124
Debt securities	801	377	367	75	148	152	397	393
Loans	199	201	200	211	218	229	217	217
Shares	4,724	4,875	4,896	4,935	4,744	4,812	4,771	4,740
Other equity	1,749	1,896	1,914	1,845	1,957	2,289	2,746	3,035
Investment fund shares/units	99	55	60	65	79	74	61	57
Other	375	397	425	372	340	531	636	599
Other financial institutions								
Total	16,848	17,508	18,380	17,991	17,801	18,533	18,868	19,133
Debt securities	118	113	115	114	113	114	145	146
Loans	2,924	2,664	2,649	2,596	2,558	2,498	2,531	2,570
Shares	2,154	2,463	2,618	2,572	2,682	2,914	2,813	2,806
Other equity	1,137	1,225	1,362	1,321	1,511	1,430	1,515	1,510
Investment fund shares/units	2,275	2,518	2,551	2,583	2,317	2,555	2,631	2,791
Insurance and pension schemes	7,810	8,074	8,280	8,326	8,161	8,475	8,694	8,792
Other	431	449	805	478	459	547	538	516
General government								
Total	43,206	42,055	42,413	42,211	42,551	42,865	45,516	48,616
Currency and deposits	825	888	845	845	916	888	852	868
Debt securities	31,639	31,540	31,749	31,359	31,390	31,081	32,469	33,401
Loans	5,180	4,273	4,010	3,982	4,069	3,993	4,141	4,386
Shares	1,719	1,633	1,807	1,768	1,732	1,774	1,832	1,834
Other equity	537	550	592	607	738	791	798	801
Other	3,306	3,172	3,410	3,648	3,706	4,338	5,423	7,326
Households and NPISHs								
Total	12,748	13,391	13,749	14,091	14,181	14,265	14,417	14,728
Loans	11,039	11,674	12,019	12,203	12,358	12,496	12,679	12,867
Other	1,709	1,716	1,731	1,888	1,823	1,769	1,738	1,861
Rest of the world								
Total	45,309	46,617	47,874	48,241	48,993	51,083	52,923	54,954
Monetary gold and SDRs	319	345	349	343	356	364	370	388
Currency and deposits	9,656	7,512	7,813	7,587	9,161	9,238	10,353	11,359
Debt securities	13,523	16,044	15,921	16,279	16,138	16,582	16,831	17,106
Loans	4,945	4,645	4,697	4,632	4,823	4,942	5,306	5,368
Shares	3,159	3,712	3,872	3,980	3,663	3,862	3,903	3,955
Other equity	4,373	4,504	4,555	4,744	4,697	4,763	4,818	4,859
Investment fund shares/units	1,849	2,159	2,256	2,223	2,099	2,467	2,528	2,715
Insurance and pension schemes	141	148	149	149	141	149	151	153
Other	7,345	7,548	8,261	8,304	7,916	8,716	8,664	9,051

Table 9.11: Net financial assets

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector	-12,473	-11,042	-9,808	-8,752	-9,574	-8,809	-9,323	-10,341
Non-financial corporations	-37,044	-37,706	-38,517	-38,078	-39,925	-39,717	-39,613	-39,183
Monetary financial institutions	2,050	1,670	1,580	1,508	1,311	1,279	1,181	1,223
Other financial institutions	700	643	401	601	613	609	582	593
General government	-11,856	-11,803	-10,957	-10,720	-10,694	-11,327	-12,645	-14,390
Households and NPISHs	33,677	36,155	37,686	37,937	39,121	40,347	41,171	41,417
Rest of the world	12,474	11,042	9,808	8,752	9,574	8,810	9,323	10,341

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

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	-1,577	6,050	6,688	5,997	7,737	4,692	5,085	6,471
Monetary gold and SDRs	-56	43	43	1	1	1	1	1
Currency and deposits	-4,199	1,074	1,899	1,593	5,143	2,626	3,106	4,966
Debt securities	2,866	2,373	1,160	1,077	1,030	1,047	885	546
Loans	-495	652	1,209	1,325	826	1,214	1,727	1,729
Shares	-315	111	236	-58	-863	-1,441	-1,760	-1,536
Other equity	583	223	302	565	532	423	379	204
Investment fund shares/units	11	256	272	184	101	6	40	198
Insurance and pension schemes	138	146	187	165	165	203	249	245
Other	-111	1,171	1,380	1,145	802	612	456	118
Non-financial corporations								
Total	1,010	2,087	2,150	1,939	1,398	1,523	1,250	985
Currency and deposits	575	732	711	654	428	470	255	527
Debt securities	-6	-18	15	16	21	16	14	-7
Loans	-201	-51	135	135	44	196	335	368
Shares	-13	73	27	-15	41	-164	-226	-226
Other equity	438	134	132	283	245	185	267	145
Investment fund shares/units	-28	3	-2	-7	-5	-4	0	4
Insurance and pension schemes	2	6	-18	-19	-8	-6	23	10
Other	244	1,208	1,149	891	632	830	582	166
Monetary financial institutions								
Total	2,542	2,840	2,795	2,120	2,523	1,612	1,500	2,434
Monetary gold and SDRs	-56	43	43	1	1	1	1	1
Currency and deposits	-575	-505	536	224	1,251	230	26	1,135
Debt securities	2,847	2,403	1,230	928	837	660	504	185
Loans	504	947	942	1,005	528	808	1,088	1,174
Shares	-91	-24	-14	-22	-13	-22	-51	-43
Other equity	56	46	101	60	23	16	-62	-62
Investment fund shares/units	-2	-1	-1	0	1	11	22	30
Insurance and pension schemes	0	2	1	0	1	0	0	0
Other	-140	-71	-43	-77	-106	-92	-27	14
Other financial institutions								
Total	-62	94	590	422	272	170	-70	313
Currency and deposits	61	-92	110	93	36	186	46	117
Debt securities	157	10	-41	104	137	298	309	329
Loans	-203	29	122	93	38	25	-48	-47
Shares	-59	44	192	41	-8	-324	-399	-277
Other equity	-35	-9	-12	-6	9	5	48	38
Investment fund shares/units	28	105	146	81	36	-23	-19	103
Insurance and pension schemes	12	11	18	11	4	-5	-12	3
Other	-23	-5	54	3	18	9	5	47
General government								
Total	-6,524	-791	-1,090	-837	1,008	-1,103	-63	507
Currency and deposits	-5,331	-318	-1,044	-869	1,731	-59	866	1,367
Debt securities	-112	-26	-20	26	11	46	33	40
Loans	-647	-315	-152	-74	18	49	251	185
Shares	-57	-39	-39	-127	-929	-933	-1,040	-953
Other equity	-12	-6	2	9	19	55	31	25
Investment fund shares/units	-10	23	23	16	22	6	9	31
Insurance and pension schemes	-1	0	-3	-1	-2	-13	4	-1
Other	-354	-109	143	183	139	-253	-219	-188
Households and NPISHs								
Total	1,457	1,819	2,243	2,353	2,536	2,490	2,467	2,233
Currency and deposits	1,071	1,257	1,585	1,491	1,698	1,799	1,913	1,820
Debt securities	-19	4	-24	4	23	28	26	-1
Loans	51	43	161	165	198	136	100	49
Shares	-93	57	71	65	46	2	-44	-37
Other equity	137	59	78	217	236	163	95	59
Investment fund shares/units	24	126	106	93	47	17	29	30
Insurance and pension schemes	126	127	189	173	170	228	234	234
Other	161	147	77	144	118	118	115	78
Rest of the world								
Total	-1,236	58	-607	-12	518	762	1,541	2,474
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	478	63	68	727	-647	728	923	974
Debt securities	-2,885	45	-1,423	-1,861	-581	-2,256	-1,377	-679
Loans	-346	-1,724	-1,155	-448	-236	-175	-78	48
Shares	687	273	94	314	860	1,323	1,601	1,381
Other equity	875	705	766	820	781	788	636	464
Investment fund shares/units	0	-1	0	1	0	0	0	-1
Insurance and pension schemes	-8	5	42	26	20	33	26	48
Other	-36	692	1,000	408	321	320	-191	239

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

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector								
Total	-2,506	4,254	4,623	3,879	5,566	2,576	2,905	4,243
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	-1,696	3,205	2,766	2,134	2,847	1,864	1,511	2,187
Debt securities	-1,971	-152	-1,305	-1,787	154	-2,007	-1,082	-342
Loans	-753	-973	-27	762	347	600	1,064	1,130
Shares	427	195	151	107	-99	-94	-126	-113
Other equity	1,250	747	910	1,072	944	924	745	563
Investment fund shares/units	-1	29	72	20	5	-33	-7	26
Insurance and pension schemes	120	146	224	189	191	236	275	291
Other	118	1,058	1,832	1,380	1,175	1,087	525	501
Non-financial corporations								
Total	548	1,673	2,208	2,202	1,490	1,628	1,146	707
Debt securities	-227	93	21	11	-12	-31	-268	-263
Loans	-787	-510	-282	-3	-139	-5	287	13
Shares	139	202	135	101	11	15	14	29
Other equity	1,151	710	790	920	825	797	695	560
Other	273	1,179	1,543	1,172	805	853	417	368
Monetary financial institutions								
Total	2,359	2,642	2,362	1,705	2,356	1,424	1,475	2,359
Monetary gold and SDRs	0	0	0	0	0	0	0	0
Currency and deposits	2,634	3,127	2,751	2,128	2,824	1,829	1,510	2,168
Debt securities	-339	-418	-306	-316	-229	-228	26	317
Loans	48	1	-2	9	17	28	18	6
Shares	85	-9	15	6	-110	-112	-143	-143
Other equity	0	0	0	0	0	0	0	0
Investment fund shares/units	43	-44	-14	-14	25	18	14	5
Other	-112	-15	-83	-109	-171	-111	51	6
Other financial institutions								
Total	-159	21	560	257	192	144	-74	334
Debt securities	42	-8	-14	-13	1	1	33	33
Loans	-348	-251	-171	-95	-89	-148	-106	-28
Shares	4	2	0	0	0	2	2	1
Other equity	97	37	120	142	109	117	40	3
Investment fund shares/units	-44	74	86	34	-20	-51	-21	21
Insurance and pension schemes	120	146	224	189	191	237	273	291
Other	-30	22	314	-1	-1	-13	-296	11
General government								
Total	-5,763	-782	-1,283	-1,085	675	-1,381	-385	134
Currency and deposits	-4,330	78	15	6	23	34	1	17
Debt securities	-1,446	181	-1,007	-1,469	395	-1,749	-873	-429
Loans	-93	-908	-294	136	-198	-1	138	411
Shares	200	0	0	0	0	0	0	0
Other equity	2	0	0	10	10	10	10	0
Other	-97	-132	3	232	445	326	339	136
Households and NPISHs								
Total	509	700	777	801	852	760	743	708
Loans	426	696	722	715	755	726	729	728
Other	83	5	55	85	97	34	14	-20
Rest of the world								
Total	-307	1,853	1,458	2,106	2,690	2,877	3,721	4,703
Monetary gold and SDRs	-56	43	43	1	1	1	1	1
Currency and deposits	-2,025	-2,068	-799	186	1,650	1,491	2,518	3,754
Debt securities	1,952	2,570	1,042	1,003	295	798	590	208
Loans	-88	-98	81	115	242	439	585	647
Shares	-55	189	179	149	96	-23	-32	-42
Other equity	208	182	158	313	369	287	271	106
Investment fund shares/units	12	226	200	164	96	40	48	172
Insurance and pension schemes	10	5	5	1	-7	0	0	2
Other	-265	804	548	174	-52	-156	-260	-145

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

mio EUR	2016	2017	18Q2	18Q3	18Q4	19Q1	19Q2	19Q3
Domestic sector	929	1,795	2,065	2,118	2,171	2,116	2,180	2,229
Non-financial corporations	462	414	-58	-263	-92	-106	104	278
Monetary financial institutions	182	198	433	415	166	188	25	75
Other financial institutions	97	73	30	165	80	26	5	-22
General government	-761	-9	193	248	333	278	322	373
Households and NPISHs	948	1,119	1,467	1,553	1,684	1,730	1,724	1,525
Rest of the world	-929	-1,795	-2,065	-2,118	-2,171	-2,116	-2,180	-2,229

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.